

# Newsletter

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## General Market Review April 2007

### **Economic Review**

Analysts expected the CPI (Consumer Price Index) to rise 0.4% in April, boosted by an increase in gasoline prices (an average of \$2.89 per gallon in April, versus an average of \$2.61 per gallon in March). The rising gas prices have had a significant impact on consumer sentiment, as have reports of rising food prices. In addition, April's employment report was less welcoming than in recent months. Limiting the downside, however, is likely to be continued advances in the stock market. These combined factors have resulted in a decrease in the University of Michigan Sentiment Index to 87.1 in April, compared to 88.4 in March. Analysts also predicted housing starts to soften in April, with a forecast of 1450k of privately owned new homes from 1518k. The inventory overhang in the housing market will likely preclude a recovery in home construction in the foreseeable future.

Industrial production is likely to advance a modest 0.2% in April. Analysts expect utilities output to rebound following March's 7% decline, which was a result of unseasonably warm weather. Manufacturing output should be little changed, as increases in auto production are likely to be offset by declines in manufacturing hours worked.

Sources: CS Research & Analytics

## Absolute Invest Ltd.

### **Portfolio Description**

Absolute Invest. is an investment company, which invests in a variety of absolute return-oriented management styles. These investment strategies are focussing on globally diversified and industrialized financial markets. The investment company was established to respond to investors who desire an attractive, well-diversified portfolio of alternative investments in US Dollar values, which can be actively allocated across different investment styles and strategies throughout the universe of alternative investments.

### Investment Performance as of April 30, 2007

		Monthly Return	Year to Date Return	Inception*) To Date (Nov 2000)	Average Annual Return	Annual Standard Deviation	Sharpe Ratio
Absolute Invest NAV (USD)	338.28	0.30%	7.97%	51.50%	6.69%	5.68%	0.23
Share price (USD)	330.00	2.48%	16.81%	40.03%	5.29%	7.92%	Neg.
S&P 500 Index (USD)	1482.37	4.33%	4.52%	3.50%	0.54%	13.75%	Neg.

Past performance is no guarantee of future results. Performance figures are estimated net of management and performance fees and are subject to change.

\*) Absolute Invest has paid out CHF 9 (= US\$ 7.36 or ca. 2.70 %) on June 30, 2004 due to a par value repayment. This Special Dividend is not included in the above numbers.

### Investment Review

#### Absolutissimo / Conferre

Absolutissimo returned +.72% for the month of April, while Conferre gained +1.5% for the same period. Currently, Pool 1 and Pool 2 are up +2.7% and +5.5% (respectively) year to date. We experienced no outsized gains during the month and the short side held us back. The fund was also hurt by our large cash position.

#### Pool 1 highlights

Performance leaders for the month include Steelhead, Defiance and Penta, up +4.0%, +2.8% and +2.7%, respectively. Steelhead's performance was earned on the back of strong gains in the positions AK Steel and Charter.

Defiance's performance was earned on the long side with positions in Terex, Cummins, Nabors and Caterpillar. The fund is currently long companies expected to benefit from the global infrastructure boom, and short companies servicing the domestic consumer. Detractors to performance include Compass, down 4.9%, and Nightwatch, down 1.8%. Compass, our short biased fund, continues to struggle as the market remains relatively strong.

#### Pool 2 highlights

The largest positive contributor came from our position in Airtricity, a wind farm developer. The position was up +30.4% in April after the company marked up the shares in accordance with a procedure to price gray market shares. We worked through their assumptions and feel that the valuation is within a reasonable price. It is worth mentioning that the expected valuation for the joint venture of the US division is \$1.5b. The firm also announced two new projects under development, including a 400–600 megawatt farm in Portugal and another in Sweden. These farms were not in the pipeline when we got into the name. The firm currently has 455 MW of wind projects in operation, with a total project development pipeline exceeding 10,000 MW (1400 MW is expected to be operational by early 2009). Valuations in alternative energy continue to remain quite high. The largest detractors to performance include our positions in the Radian Group, down 23.7%, Level 3, down 8.9%, and K Wah, down 7.8%. The Radian Group released earnings during the month that failed to surprise on the downside. The bulls are still hopeful that the company will manage to sell off more troublesome subsidiaries, and that the decline in second liens will ultimately lead to organic growth in mortgage insurance. More recent news since month end is the announcement that Fitch is requiring Radian to inject capital into its Financial Guarantee business in order to maintain its rating. Negatively impacting the stock is the news that Copyright, 2007 Cadogan Management, LLC the merger with MTG is largely a done deal at this point, following the affirmative votes by both groups of shareholders. Level 3's stock price declined after the firm released earnings. We believe the fundamental story remains intact; however, there are

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some questions regarding slowing organic growth, which the management team anticipated along with the timing of certain integration expenses. The aforementioned issues likely pushed the inflection point back one quarter or two, but the company remains on target to achieve positive free cash flow in 2008. The management team is projecting \$180 to \$200 million in second quarter 2007 EBITDA, at which time we should begin to see approximately \$40 million per quarter EBITDA growth. K Wah was down on very little news. During the month, we continued to build our position in the Quantum Corp. We also added to our positions in Emperor Intl. Holdings, as well as PMA Capital Corp. Finally, we established a new position in the Radian Group via CDS.

Source: Cadogan Management, LLC

#### Cheyne CDO I Fund

The student loan business was the latest to become subject to private equity interest as Sallie Mae (SLM) accepted a bid from a buyout group led by JC Flowers and Co. It was previously thought that the financials sector was insulated from private equity approaches because of its funding needs and reliance on credit ratings. SLM is definitely somewhat unique in that the US government guarantees approximately 80% of its loans and most of its funding can be obtained via the securitisation market (which is not as dependent on credit rating). However the rest of the sector has come under renewed speculation and we have seen names like CIT widen in sympathy. The Fund's exposure to SLM was very limited and we reduced our small position as soon as the deal was announced.

The US tech sector remains one of the most active for private equity firms. First Data and Freescale have been subject to bids recently and we thought it prudent to remove Electronic Data Systems from the portfolio. Having done this at around 65bp we have since seen spreads widen to as much as 120bp, although no actual bid has yet emerged.

The US lodging and gaming sector has also been the subject of private equity bids in the past. Hilton Hotels has sold some of its hotels as part of its asset light strategy, which makes it less attractive to LBO firms. Despite this, it remains a popular releveraging candidate and we removed the final part of our position from the portfolio as short covering pushed the name inside of 100. Subsequently it announced the removal of "poison pill" provisions from the company bylaws. This would have allowed management to issue preferred stock in the event of a buyout attempt, effectively allowing them to block such a move. This was interpreted as implying that the company was more open to a takeover and spreads widened.

We continue to look for names that we think offer good relative value, especially where management has shown a propensity for more cautious use of their balance sheets. For this reason we initiated a position in Fresenius, a German hospitals company. The major shareholder (61%) is a family charity which we think insulates it against private equity approaches. The company has been acquisitive but has been good at using cash flow to delever. We think that at 90-100bp it offers good value. We also opened a position in Goodyear Tire. We think that the management is committed to reducing leverage and in fact has subsequently announced equity issuance to recapitalise the balance sheet. The company has also stated that market conditions are picking up, having contracted recently, which bodes well from an operational standpoint.

We remain active in Asian credits. We removed SK Telecom, the incumbent Korean operator which, despite having a strong balance sheet, trades too tight given the macro risk associated with it. We also reduced PCCW, a Hong Kong-based TMT company. We think that there could be noise surrounding the name as Richard Li has been rumoured to be dumping his stake. We continue to add to our position in Itochu, the Japanese trading company. We are very comfortable with the risk even though it has had a decent rally in the past few weeks.

Source: Cheyne Capital Management Ltd.

CQS Directional Opportunities Fund

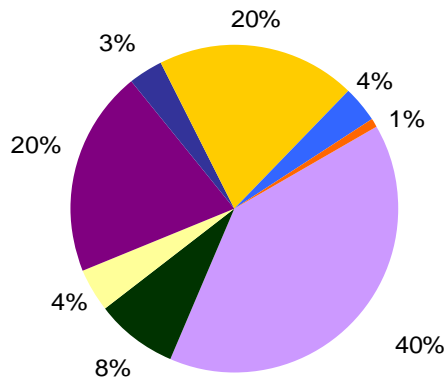
We are pleased to report the CQS Directional Opportunities Fund produced a net return of +2.16% in April for its investors. Profits were made across all portfolios with the largest returns being generated in our equity positions.

In ABS we were able to profit from our long positions in ABX indices. Our long credit positions bounced back from their weaker performance in March to produce good returns in April. Notable sectors included US motor corporations and energy infrastructure finance both of which added meaningful profits in the month of April.

In our equity positions a number of our long positions generated strong returns with particularly pleasing contributions from our telecoms and pharmaceuticals positions.

Source: CQS Cayman LP

**Strategy Allocation as of April 30, 2007**



- Absolute Europe
- Collateralised Debt Obligation
- Convertible Arbitrage
- Equity Market Oriented L/S
- Event Driven/Merger Arbitrage
- Global Macro
- Multi strategy
- Short Biased

Bloomberg	ABSU SW <equity>
Swiss security number	1'138'774

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