Arkham Capital
High-Yield Investment Thesis

The election of Donald Trump as President, together with Republican control of Congress, will be a catalyst for certain sectors of the U.S. economy that stand to benefit the most from a renewed focus on economic growth. Much of this growth will be spurred by fiscal policy, tax reform, and the rollback of the Affordable Care Act ("ACA"). Further easing of regulatory pressure for businesses and a continued shift towards energy independence will facilitate healthier operating environments for even some of the most stressed and distressed securities.

Our fund's objective will be to invest in high yield securities rated Ba1/BB+ or lower with an ultimate goal to maximize the portfolio's total returns via both price appreciation and fixed income. Specifically, we will seek to take advantage of market inefficiencies to find bargain-priced opportunities trading at distressed or near distressed levels across large, medium, and small-cap companies. Focusing on the lower echelons of credit ratings, our fund's strategy will identify low dollar priced bond investments in overly leveraged, obscure, or out-of-favor companies that we judge to be fundamentally sound and may also benefit from near term credit-supportive catalysts. Such catalysts could include, but are not limited to, M&A, corporate restructuring, political or regulatory developments, or the use of capital markets or alternative financings to extend upcoming debt maturities. We seek bond investment opportunities with durations in the short-to-medium term range (i.e., less than 10 years).

With this focus in mind, our investment process will balance the following three steps to maximize returns:

Step One: Security selection will follow a top-down approach, beginning with a thorough analysis of the following four sectors, which, for their own idiosyncratic reasons, we believe will be subject to significant positive catalysts: Energy, Telecommunications, Healthcare, and Retail.

Step Two: We will subsequently conduct in-depth quantitative and qualitative analyses of the fundamental operating performance of a select subgroup of companies within each industry, focusing particularly closely on the company's ability to generate cash in order service its debt obligations and meet upcoming maturities. Through this analysis process, we will seek to invest in "upward bound" companies, where we can capture both higher yields and price appreciation.

Step Three: We will construct a minimally diversified portfolio. Despite carrying a relatively high beta, the portfolio will be set up to maximize gains over the short duration of its three month investment horizon. We will target 12 to 16 issues on our approved list and have 4 to 6 securities in the portfolio at any one time. We prefer to purchase bonds with issue sizes ranging from $250 million and higher market value outstanding in order to ensure adequate liquidity when trading. We will not restrict ourselves to a defined holding period, but instead for each position we will incorporate both a stop-loss strategy to minimize capital losses on the downside, as well as price or spread targets to monetize gains on the upside.

Trading decisions will be based on the following factors:

1. A bond's credit spread tightens with no fundamental change in the company, such that the relative value implies that the bond has become too rich compared to peers.
2. Significant negative events occur in the fundamentals of the company, such as unexpectedly

3. When the bond reaches our price target, we will review the issue and decide whether to continue to hold the security or trade out of it.

We will track the portfolio’s performance versus the Bank of America Merrill Lynch High Yield Corporate Bond Index.