

ALLIED WORLD ASSURANCE CO HOLDINGS LTD

Form 10-Q

November 10, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended: September 30, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-32938**

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**

*(Exact Name of Registrant as Specified in Its Charter)*

**Bermuda**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**98-0481737**

*(I.R.S. Employer  
Identification No.)*

**27 Richmond Road, Pembroke HM 08, Bermuda**

*(Address of Principal Executive Offices and Zip Code)*

**(441) 278-5400**

*(Registrant's Telephone Number, Including Area Code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

*(Do not check if a smaller reporting company)*

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of outstanding common shares, par value \$0.03 per share, of Allied World Assurance Company Holdings, Ltd as of November 3, 2008 was 49,022,495.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

as of September 30, 2008 and December 31, 2007

(Expressed in thousands of United States dollars, except share and per share amounts)

	As of September 30, 2008	As of December 31, 2007
<b>ASSETS:</b>		
Fixed maturity investments available for sale, at fair value (amortized cost: 2008: \$5,440,019; 2007: \$5,595,943)	\$ 5,433,260	\$ 5,707,143
Other invested assets available for sale, at fair value (cost: 2008: \$81,262; 2007: \$291,458)	71,528	322,144
Other invested assets, at fair value	167,674	
Total investments	5,672,462	6,029,287
Cash and cash equivalents	744,245	202,582
Restricted cash	47,689	67,886
Securities lending collateral	48,815	147,241
Insurance balances receivable	359,921	304,499
Prepaid reinsurance	166,161	163,836
Reinsurance recoverable	777,283	682,765
Accrued investment income	49,641	55,763
Deferred acquisition costs	117,348	108,295
Goodwill and other intangible assets	19,837	3,920
Balances receivable on sale of investments	36,264	84,998
Net deferred tax assets	10,198	4,881
Other assets	52,387	43,155
Total assets	\$ 8,102,251	\$ 7,899,108
<b>LIABILITIES:</b>		
Reserve for losses and loss expenses	\$ 4,198,761	\$ 3,919,772
Unearned premiums	880,211	811,083
Unearned ceding commissions	28,172	28,831
Reinsurance balances payable	79,592	67,175
Securities lending payable	48,815	147,241
Balances due on purchase of investments	68,681	141,462
Senior notes	498,767	498,682
Accounts payable and accrued liabilities	26,424	45,020
Total liabilities	\$ 5,829,423	\$ 5,659,266
<b>SHAREHOLDERS EQUITY:</b>		
	1,471	1,462

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Common shares, par value \$0.03 per share, issued and outstanding 2008:

49,022,495 shares and 2007: 48,741,927 shares

Additional paid-in capital	1,307,185	1,281,832
Retained earnings	983,947	820,334
Accumulated other comprehensive income: net unrealized (losses) gains on investments, net of tax	(19,775)	136,214
Total shareholders' equity	2,272,828	2,239,842
Total liabilities and shareholders' equity	\$ 8,102,251	\$ 7,899,108

See accompanying notes to the unaudited condensed consolidated financial statements.

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME**

for the three and nine months ended September 30, 2008 and 2007  
(Expressed in thousands of United States dollars, except share and per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES:</b>				
Gross premiums written	\$ 290,981	\$ 276,253	\$ 1,134,638	\$ 1,245,208
Premiums ceded	(57,078)	(56,956)	(253,913)	(281,480)
Net premiums written	233,903	219,297	880,725	963,728
Change in unearned premiums	38,070	64,362	(66,804)	(90,384)
Net premiums earned	271,973	283,659	813,921	873,344
Net investment income	76,916	76,133	226,192	222,718
Net realized investment losses	(151,876)	(4,196)	(152,804)	(12,161)
	197,013	355,596	887,309	1,083,901
<b>EXPENSES:</b>				
Net losses and loss expenses	176,010	173,246	497,591	515,466
Acquisition costs	28,615	29,198	81,720	90,266
General and administrative expenses	40,794	36,050	130,445	103,685
Interest expense	9,515	9,481	28,538	28,337
Foreign exchange gain	(2,728)	(976)	(2,651)	(412)
	252,206	246,999	735,643	737,342
(Loss) income before income taxes	(55,193)	108,597	151,666	346,559
Income tax (recovery) expense	(8,826)	(362)	(12,117)	392
<b>NET (LOSS) INCOME</b>	<b>(46,367)</b>	<b>108,959</b>	<b>163,783</b>	<b>346,167</b>
Other comprehensive (loss) gain				
Unrealized (losses) gains on investments arising during the period net of applicable deferred income tax recovery (expense) for three months 2008: \$2,359; 2007: (\$2,637); and nine months 2008: \$2,601; 2007: (\$4,929)	(183,081)	84,384	(243,047)	44,292
Reclassification adjustment for net realized losses included in net (loss) income	124,258	4,196	113,320	12,161
Other comprehensive (loss) gain	(58,823)	88,580	(129,727)	56,453
<b>COMPREHENSIVE (LOSS) INCOME</b>	<b>\$ (105,190)</b>	<b>\$ 197,539</b>	<b>\$ 34,056</b>	<b>\$ 402,620</b>

PER SHARE DATA

Basic (loss) earnings per share	\$ (0.95)	\$ 1.80	\$ 3.37	\$ 5.73
Diluted (loss) earnings per share	\$ (0.95)	\$ 1.72	\$ 3.22	\$ 5.51
Weighted average common shares outstanding	49,007,389	60,413,019	48,547,839	60,381,867
Weighted average common shares and common share equivalents outstanding	49,007,389	63,250,024	50,869,098	62,808,186
Dividends declared per share	\$ 0.18	\$ 0.15	\$ 0.54	\$ 0.45

See accompanying notes to the unaudited condensed consolidated financial statements.

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

for the nine months ended September 30, 2008 and 2007

(Expressed in thousands of United States dollars)

	<b>Share Capital</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Retained Earnings</b>	<b>Total</b>
December 31, 2007	\$ 1,462	\$ 1,281,832	\$ 136,214	\$ 820,334	\$ 2,239,842
Cumulative effect adjustment upon adoption of FAS 159			(26,262)	26,262	
Net income				163,783	163,783
Dividends				(26,432)	(26,432)
Other comprehensive loss			(129,727)		(129,727)
Stock compensation	9	25,353			25,362
September 30, 2008	\$ 1,471	\$ 1,307,185	\$ (19,775)	\$ 983,947	\$ 2,272,828

	<b>Share Capital</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total</b>
December 31, 2006	\$ 1,809	\$ 1,822,607	\$ 6,464	\$ 389,204	\$ 2,220,084
Net income				346,167	346,167
Dividends				(27,174)	(27,174)
Other comprehensive income			56,453		56,453
Stock compensation	3	17,242			17,245
September 30, 2007	\$ 1,812	\$ 1,839,849	\$ 62,917	\$ 708,197	\$ 2,612,775

See accompanying notes to the unaudited condensed consolidated financial statements.



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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

for the nine months ended September 30, 2008 and 2007

(Expressed in thousands of United States dollars)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$ 163,783	\$ 346,167
Adjustments to reconcile net income to cash provided by operating activities:		
Net realized losses (gains) on sales of investments	1,016	(25,544)
Impairment charges for other-than-temporary impairments on investments	112,304	37,705
Change in fair value of hedge fund investments	39,484	
Amortization of premiums net of accrual of discounts on fixed maturities	(9,917)	(3,072)
Amortization and depreciation of fixed assets	6,957	6,335
Amortization of discount and expenses on senior notes	341	316
Stock compensation expense	20,980	17,333
Insurance balances receivable	(55,422)	(15,809)
Prepaid reinsurance	(2,325)	(19,232)
Reinsurance recoverable	(94,518)	14,707
Accrued investment income	6,122	6,889
Deferred acquisition costs	(9,053)	(23,606)
Net deferred tax assets	(2,716)	1,433
Other assets	(8,442)	(1,965)
Reserve for losses and loss expenses	278,989	194,965
Unearned premiums	69,128	109,616
Unearned ceding commissions	(659)	6,908
Reinsurance balances payable	12,417	(24,218)
Accounts payable and accrued liabilities	(18,595)	(10,117)
 Net cash provided by operating activities	 509,874	 618,811
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Purchases of fixed maturity investments	(3,544,183)	(3,244,366)
Purchases of other invested assets	(39,855)	(124,828)
Sales of fixed maturity investments	3,593,861	2,584,697
Sales of other invested assets	76,574	69,836
Net cash used for acquisition	(44,052)	
Changes in securities lending collateral received	98,426	(490,744)
Purchase of fixed assets	(6,333)	(7,066)
Change in restricted cash	20,197	91,320
 Net cash provided by (used in) investing activities	 154,635	 (1,120,611)
<b>CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES:</b>		
Dividends paid	(26,432)	(27,174)
Proceeds from the exercise of stock options	3,765	580
Changes in securities lending collateral	(98,426)	490,744

Net cash (used in) provided by financing activities	(121,093)	464,150
Effect of exchange rate changes on foreign currency cash	(1,753)	695
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	541,663	(36,955)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	202,582	366,817
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 744,245	\$ 329,862
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 6,162	\$ 2,824
Cash paid for interest expense	37,500	38,021
Supplemental disclosure of non-cash flow information:		
Change in balance receivable on sale of investments	48,734	8,594
Change in balance payable on purchase of investments	(72,781)	123,482

See accompanying notes to the unaudited condensed consolidated financial statements.

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### **1. GENERAL**

Allied World Assurance Company Holdings, Ltd ( Holdings ) was incorporated in Bermuda on November 13, 2001. Holdings, through its wholly-owned subsidiaries (collectively, the Company ), provides property and casualty insurance and reinsurance on a worldwide basis through operations in Bermuda, the United States, Ireland, Switzerland and the United Kingdom.

### **2. BASIS OF PREPARATION AND CONSOLIDATION**

These unaudited condensed consolidated financial statements include the accounts of Holdings and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and with Article 10 of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments that are normal and recurring in nature and necessary for a fair presentation of financial position and results of operations as of the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates reflected in the Company s financial statements include, but are not limited to:

The premium estimates for certain reinsurance agreements,

Recoverability of deferred acquisition costs,

The reserve for losses and loss expenses,

Valuation of ceded reinsurance recoverables,

Valuation of financial instruments, and

Determination of other-than-temporary impairment of investments.

Intercompany accounts and transactions have been eliminated on consolidation, and all entities meeting consolidation requirements have been included in the consolidation. Certain immaterial reclassifications in the unaudited condensed consolidated statements of cash flows have been made to the prior period s amounts to conform to the current period s presentation.

These unaudited condensed consolidated financial statements, including these notes, should be read in conjunction with the Company s audited consolidated financials statements, and related notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

### **3. NEW ACCOUNTING PRONOUNCEMENTS**

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( FAS ) No. 159 The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ( FAS 159 ). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with the FASB s long-term measurement objectives for accounting for financial instruments. The fair value option permits all entities to choose to measure eligible items at fair value at specified election dates. An entity shall record unrealized gains and losses on items for which the fair value option has been elected through net income in the statement of operations at each subsequent reporting date. The Company adopted FAS 159 as of January 1, 2008. See Note 7 Fair Value of Financial Instruments regarding the Company s

adoption of FAS 159.

In September 2006, the FASB issued FAS No. 157 Fair Value Measurements ( FAS 157 ). This statement defines fair value,

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establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In October 2008, the FASB issued FASB Staff Position 157-3

Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ( FSP 157-3 ). FSP 157-3 clarifies the application of FAS 157 in a market that is not active. The determination of whether a market is not active requires significant judgment including whether individual transactions are forced liquidations or distressed sales, whether observable inputs require significant adjustment based on unobservable data and whether broker or pricing service quotes are determinative of fair value. FSP 157-3 was effective upon issuance and is applicable to the unaudited condensed consolidated balance sheet as of September 30, 2008. The Company adopted FAS 157 as of January 1, 2008. See Note 7 Fair Value of Financial Instruments regarding the Company's adoption of FAS 157.

In December 2007, the FASB issued FAS No. 141(R) Business Combinations ( FAS 141(R) ). FAS 141(R) replaces FAS No. 141 Business Combinations ( FAS 141 ), but retains the fundamental requirements in FAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. FAS 141(R) also requires acquisition-related costs to be recognized separately from the acquisition, requires assets acquired and liabilities assumed arising from contractual contingencies to be recognized at their acquisition-date fair values and requires goodwill to be recognized as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for calendar year-end companies).

In December 2007, the FASB issued FAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( FAS 160 ). FAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FAS 160 requires consolidated net income to be reported at the amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement also establishes a method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and for changes in a parent's ownership interest in a subsidiary that does result in deconsolidation. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for calendar year-end companies). The presentation and disclosure requirements of FAS 160 shall be applied retrospectively for all periods presented.

In March 2008, the FASB issued FAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ( FAS 161 ). FAS 161 requires enhanced interim and annual disclosures about an entity's derivative and hedging activities including how and why the entity uses derivative instruments, how the entity accounts for its derivatives under FAS Statement No. 133 ( Accounting for Derivative Instruments and Hedging Activities ), and how derivative instruments and related hedged items affect the entity's financial position, financial performance and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 (January 1, 2009 for calendar year-end companies). The Company is currently evaluating the provisions of FAS 161 and its potential impact on future financial statements.

In May 2008, the FASB issued FAS No. 162 The Hierarchy of Generally Accepted Accounting Principles ( FAS 162 ). FAS 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements of entities that are presented in conformity with U.S. GAAP. The current U.S. GAAP hierarchy is found in auditing literature and is focused on the auditor rather than the entity. FAS 162 shall be effective 60 days after the SEC's approval of the Public Accounting Oversight Board amendments to AU Section 411 *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not anticipate any impact on future financial statements due to the adoption of FAS 162.

In May 2008, the FASB issued FAS No. 163 Accounting for Financial Guarantee Insurance Contracts an Interpretation of FASB Statement No. 60 ( FAS 163 ). FAS 163 clarifies how FAS 60 Accounting and Reporting by Insurance Enterprises applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim liabilities. FAS 163 also requires expanded disclosures about financial guarantee insurance contracts. FAS 163 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009 for calendar year-end companies), and interim periods within those fiscal years. The Company currently does not provide financial guarantee insurance, and as such does not anticipate any impact on future financial statements due to the adoption of FAS 163.

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In November 2007, Allied World Assurance Holdings (U.S.) Inc. entered into an agreement to purchase all of the outstanding stock of Finial Insurance Company (formerly known as Converium Insurance (North America) Inc.) from Finial Reinsurance Company, an affiliate of Berkshire Hathaway Inc. Finial Insurance Company was renamed Allied World Reinsurance Company, is currently licensed to write insurance and reinsurance in 50 states and the District of Columbia and has been used to launch the Company's reinsurance operations in the United States. This transaction closed on February 29, 2008 for a purchase price of \$12,000, the Finial Insurance Company's policyholders' surplus of \$47,082, an adjustment for the difference between the fair values of investments acquired under U.S. GAAP and statutory reporting of \$300 and direct expenses of \$387. The total purchase price of \$59,769 was paid in cash with available capital. As a part of the acquisition, the Company recorded \$12,000 of intangible assets with indefinite lives for the value of the insurance and reinsurance licenses acquired. The remaining assets and liabilities acquired were principally comprised of bonds, at fair value, of \$31,690, cash of \$15,330, other assets of \$1,176, deferred tax liabilities of \$4,344 and a reserve for losses and loss expenses of \$104,914, of which 100% were recorded as reinsurance recoverable as the entire reserve for losses and loss expenses is ceded to National Indemnity Company, an affiliate of Berkshire Hathaway Inc. The Company also recognized goodwill of \$3,917 related to this acquisition, which is included in goodwill and other intangible assets in the unaudited condensed consolidated balance sheets.

For additional acquisition information, please refer to Note 13 regarding the acquisition of Darwin Professional Underwriters, Inc.

**5. INVESTMENTS**

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of total investments by category as of September 30, 2008 and December 31, 2007 are as follows:

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
September 30, 2008				
U.S. government and government agencies	\$ 1,778,853	\$ 44,029	\$ (366)	\$ 1,822,516
Non-U.S. government and government agencies	121,001	7,389	(9)	128,381
Corporate	1,260,158	4,712	(16,146)	1,248,724
States, municipalities and political subdivisions	56,903	61		56,964
Mortgage backed	2,115,265	12,601	(58,793)	2,069,073
Asset backed	107,839	18	(255)	107,602
Total fixed maturity investments, available for sale	5,440,019	68,810	(75,569)	5,433,260
Hedge funds	167,674			167,674
Global high-yield bond fund	81,262		(9,734)	71,528
	\$ 5,688,955	\$ 68,810	\$ (85,303)	\$ 5,672,462
December 31, 2007				
U.S. government and government agencies	\$ 1,987,577	\$ 65,653	\$ (6)	\$ 2,053,224
Non-U.S. government and government agencies	100,440	18,694	(291)	118,843
Corporate	1,248,338	10,114	(5,835)	1,252,617
Mortgage backed	2,095,561	22,880	(902)	2,117,539
Asset backed	164,027	897	(4)	164,920
	5,595,943	118,238	(7,038)	5,707,143

Total fixed maturity investments, available for sale

Hedge funds	215,173	27,250	(988)	241,435
Global high-yield bond fund	75,125	4,424		79,549
Other invested asset	1,160			1,160
	\$ 5,887,401	\$ 149,912	\$ (8,026)	\$ 6,029,287

Due to the adoption of FAS 159 as of January 1, 2008, the Company's investment in hedge funds is included in other invested assets, at fair value on the unaudited condensed consolidated balance sheet. As of September 30, 2008, the Company's investment in the global high-yield bond fund is included in other invested assets available for sale, at fair value on the unaudited condensed consolidated balance sheet. As of December 31, 2007, the Company's investment in hedge funds, the global high-yield bond