

Performance Report

The Cambridge Strategy: Extended Markets Alpha Programme

May 2010

Performance Data (%) (Gross of fees)

	Current Month	QTD	YTD	1 Year	3 Years (pa)	5 Years (pa)	Since Inception (pa)
Extended Markets Alpha Programme	0.63	0.35	0.96	-5.35	4.23	5.37	11.32

Performance Commentary:

The Extended Markets Alpha Programme generated a positive return of 0.63% (gross of fees) in May. However, May was an extremely volatile and challenging month for the Programme. It has returned 0.96% (gross of fees) for the year to date.

Risk aversion was the dominant theme in currency markets during May, primarily driven by the Eurozone debt issue. The aid package provided to Greece by the European Union and International Monetary Fund did little to change market sentiment and matters were further exacerbated when one of Spain's largest regional lenders was bailed out by the Spanish Central Bank. Furthermore, the interbank funding market once again showed signs of stress with lending rates rising sharply during the month. In May the US Federal Reserve Bank continued its approach of keeping interest rates low, and this approach was also maintained by the central bank in the UK, Japan and Euro area.

The key global currency movements during May were the strengthening of the US Dollar versus the various currencies, driven by the rise in risk aversion, and the weakening of the Euro, driven by the Eurozone debt issues. The Programme entered May slightly short of risk seeking currencies; however, the size of the positions was modest, reflecting a decline in our Risk Adjusted trade Size (RATS) prior to May. This decline in the RATS was an effective safeguard in mitigating losses during the month.

Long exposures to the Norwegian Krone, Mexican Peso and Polish Zloty were the three worst performing positions during the month. However, losses were also generated more broadly, particularly in the Latin American component of the Programme, and in many instances we were stopped out of trading positions. Whilst the causal factors for declines in each currency varied, in most instances the common factor was risk aversion. The Systematic Fundamental Strategy was also a negative contributor for the month, which is in line with expectations as this strategy tends to underperform in volatile environments.

These losses were offset by broad gains in a number of positions, particularly in the G-10 markets. The key gains came from long positions in the US Dollar versus the Euro, British Pound and the New Zealand and Australian Dollars. Smaller gains were generated in a number of markets where the Programme's move to a more risk averse positioning during the month added value.

The Programme continues to be broadly positioned for a risk averse environment (and various positions have been removed from the Programme where stop losses and take profits have been triggered). The risk exposures of individual positions remains modest reflecting the heightened volatility the currency markets are currently experiencing (which continues to feed through to our RATS). While May saw a significant rise in our Global Volatility indicator in the early stages of the month, it stabilised towards the end of the month and we continue to maintain a modest exposure to the Systematic Fundamental Strategy.

Summary Statistics

(Period: Inception – May 2010)

Annualised Return	11.3%	Annualised Risk (Standard Deviation)	7.2%
3 Year Annualised Return	4.2%	3 Year Annualised Risk (Standard Deviation).....	6.4%
Sharpe Ratio	1.2	Months Positive (%)	71%
CS Character	3.2	CS Ratio	3.7
Positive Trading Days	60%	Negative Trading Days.....	40%
Annualised Standard Deviation (Daily Obs)	6.7%	Skewness	1.9
Maximum Daily Loss.....	-1.9%	Kurtosis.....	5.0
(May 2010)		Days to Recovery.....	n/a
Maximum Daily Loss.....	-1.3%	Negative Trading Days.....	38%
Positive Trading Days	62%	Average Negative Day Return	-0.5%
Average Positive Day Return.....	0.4%		

Monthly Performance Data (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-0.97	1.74	-0.14	-0.28	0.63								1.0
2009	6.09	0.71	-2.53	0.50	1.01	-1.55	0.40	0.70	-0.66	-3.66	-1.70	0.11	-0.9
2008	-0.30	-1.28	0.52	1.43	-0.47	-0.47	1.26	0.21	-0.52	1.40	2.49	0.53	4.8
2007	-0.07	-0.14	0.67	1.15	0.16	0.47	0.26	0.03	6.10	-0.33	1.63	-0.30	9.9
2006	0.56	1.44	0.53	1.01	-0.48	0.00	0.69	-0.03	-0.03	0.84	0.27	1.00	5.9
2005	1.19	2.64	0.84	0.01	2.24	0.56	2.54	0.55	1.11	1.00	-0.01	0.51	13.9
2004				0.71	4.38	0.06	1.41	1.78	7.64	8.67	7.86	1.66	39.3

Notes on performance: The performance data quoted relates to the equal weighted average of the managed accounts invested via the Extended Markets Alpha Programme (US\$ performance, Gross of all fees, excluding cash income). Source: The Cambridge Strategy (Asset Management) Limited. The risk free rate and minimum acceptable rate of return is US\$ LIBOR (1 month). Returns and statistics are calculated on the basis of monthly returns. Inception: April 2004.

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