The Cambridge Strategy

Performance Report: Asian Markets Alpha Programme

Performance Data (%) (Gross of fees):

	Current Month	QTD	YTD	1 Year	3 Years (pa)	5 Years (pa)	Since Inception (pa)
Asian Markets Alpha Programme	0.15	-3.86	-3.86	2.27	4.72	-	11.24

Monthly Review:

The themes of high oil prices, inflationary pressures and geopolitics dominated markets in February. Global equities were very strong in the first half of the month and rose to their highest level since mid-2008. The emerging markets were weaker, however, as investors worried about the growing inflation pressures and potential central bank action. Emerging markets sagged, especially in the Middle East and North Africa where investors shunned assets. Elsewhere data revealed growth and inflation were robust – with CPI in Indonesia and Poland higher than expected, and jumps in India and South Korea. China raised rates and reserve ratio requirements as its PMI Index remained robust. Currencies in the EMEA region and parts of Asia gained, but the Korean Won, Colombian Peso and Taiwan Dollar tumbled. February was most challenging towards month-end as crude in New York surged through $100 for the first time in 2 years, the VIX spiked, and investors fretted that high oil prices could hurt global growth. Sentiment was roiled by concerns that escalating violence in Libya could disrupt oil supplies. Equities tumbled, US Treasuries rallied and gold climbed, as did the Swiss Franc, Yen and Euro. Nevertheless US equities had their third positive month, bolstered by strong data including a drop in the unemployment rate to 8.9% and consumer confidence that was better than expected. European equities also closed the month with a gain of 2.3%, buoyed by earnings from firms such as Bayer AG that were better than expected. The US Dollar DXY Index was resilient but tumbled to a three-month low as investors anticipated that monetary policy would stay loose. In contrast the Euro was boosted by strong data, only to give up those gains after weak GDP figures and remarks from Jean-Claude Trichet that were less than hawkish than expected. However, hawkish remarks from several ECB members helped buoy it to a climb of 0.7% against the US Dollar by month-end. Investors continued rotating funds into developed markets as the MSCI All Country World Index rose 2.3% and the MSCI Emerging Markets Index fell 4.2%.

Performance Commentary:

The Programme had modest gross returns of 0.15% in February. The model began the month benefiting from the risk-on environment, only to reduce exposures and surrender some gains mid-month due to rising risk aversion and oil price spikes that were driven by concerns over the political turmoil in Libya and the Middle East. A long position in the Euro against the New Zealand dollar worked in our favour as the latter was the worst performer in the G-10. New Zealand's economic recovery was jeopardised by the earthquake in Christchurch, which put greater pressure on the central bank to cut rates. This position was aided by the hawkish remarks from the European Central Bank indicating that rates could soon rise in an attempt to dampen inflation. Trades in the Australian Dollar and Euro against the Japanese Yen also boosted performance, as the Yen was dented by Japan's considerable dependence on oil imports and lacklustre economic data. A long position in the Euro against the Malaysian Ringgit and Taiwan Dollar also added to profits. Some of our most profitable positions were long the Chinese Yuan against the US Dollar and long the US Dollar against the Malaysian Ringgit. A long position in the Philippine Peso also added to performance, although it did decline slightly towards the end of February in line with the rest of the region when the US Dollar bounced. A long position in the Korean Won detracted as the Won spiked as the month wore on, only to drop towards the end of February. A long position in the Taiwan Dollar also hurt us as it dropped 2.5% against the US Dollar, with its tumble exacerbated by a sharp sell-off of 8% in the Taiwan 50 Index. The Indian Rupee proved choppy over February and this also undermined performance as we had retained a long position in the Rupee against the US Dollar.

Outlook:

The model has reduced its exposures due to uncertainty about the turmoil in the Middle East and its impact on oil prices. It retains a modest long in Asian currencies against the US Dollar. If trends continue developing as they have in recent weeks and sentiment in markets retain a semblance of calm, Asian currencies appear likely to continue strengthening as inflationary pressures are still high on the agenda for central banks expected to hike rates and continue relying on currency appreciation.

Summary Statistics:

(Period: Inception – February 2011)

Annualised Return 11.2%
3 Year Annualised Return 4.7%
Sharpe Ratio 1.2
CS Character 2.8
Positive Trading Days 53%
Annualised Standard Deviation (Daily Obs) 10.2%
Maximum Daily Loss .... -2.0%

Annualised Risk (Standard Deviation) 7.2%
3 Year Annualised Risk (Standard Deviation) 5.8%
Months Positive (%) 73%
CS Ratio 3.4
Negative Trading Days 47%
Skewness 1.2
Kurtosis 4.7

(February 2011)

Maximum Daily Loss .... -0.9%
Positive Trading Days 65%
Average Positive Day Return 0.2%

Days to Recovery .... na
Negative Trading Days 35%
Average Negative Day Return .... -0.4%

Monthly Performance Data(%):

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-4.00												**-4.0**
2010	0.97	0.30	2.73	0.02	0.93	-1.81	-0.20	-0.09	3.76	-0.77	-2.05	3.88	**7.7**
2009	2.02	0.94	-1.29	0.25	-1.47	0.33	0.33	-0.44	1.18	0.68	1.91	-1.25	**3.2**
2008	1.58	-1.18	0.82	0.83	-2.57	1.08	1.27	0.30	2.55	2.44	0.41	0.21	**7.9**
2007	0.40	-0.53	1.63	3.04	1.61	1.55	0.33	4.48	9.81	3.61	4.14	-0.33	**33.6**
2006		1.24	1.01	3.13	-2.33	0.42	2.05	0.37	-0.61	2.51	0.06	3.30	**11.6**

Notes on performance: The performance data quoted relates to the equal weighted average of the managed accounts invested via the Asian 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: February 2006.

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