The Cambridge Strategy

Performance Report: Extended Markets Alpha Programme

Performance Data (%) (Gross of fees):

	Current Month	QTD	YTD	1 Year	3 Years (pa)	5 Years (pa)	Since Inception (pa)
Extended Markets Alpha Programme	**-0.15**	**-2.17**	**-2.17**	**-11.98**	**-2.17**	**1.01**	**7.99**

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. Markets in the Middle East and North Africa were particularly weak given the political turmoil in that region. 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 added a modest gross return of 0.15% in February. The model kept exposures relatively light with no significant bias. Our key profitable positions in the G-10 part of the portfolio were long the Canadian Dollar and Norwegian Krone against the US Dollar and long the Norwegian Krone against the Euro. Both the Canadian Dollar and Norwegian Krone vied with each other to be the best-performing currency in G-10 as investors picked up positions to gain exposure to the surge in oil prices. The Canadian Dollar jumped to a three-year high by the end of February as robust economic data including fourth-quarter GDP figures stoked expectations of more rate rises from the country's central bank. The Norwegian Krone gained nearly 2% against the Euro by the end of February, buoyed too by data showing unemployment at levels that were lower than expected. A position in the Euro against the US Dollar detracted from performance as both currencies bounced around and the currency pair responded to the changes in language by ECB policymakers, mixed US economic data and changing levels of risk aversion. The model added to its long in the Euro against the US Dollar as the common currency rallied. Some of the losses in this position reflect discretionary trading and hedging. In the Asian portion of the portfolio, the positions in the Chinese Yuan, Singapore Dollar, Malaysian Ringgit and Indonesian Rupiah were profitable as the Korean Won, Taiwan Dollar and Thai Baht detracted. The Won spiked in the first part of the month only to give up its gains and tumble against the US Dollar by the end of February as risk aversion and worries over the high oil price took hold. The Taiwan Dollar also dented performance as it slid 2.5% against the US Dollar and slipped further with a sell-off in the Taiwan 50 Index. In Latin America, a long in the Chilean Peso against the US Dollar added to returns as the Peso returned to levels it last saw when the Chilean authorities announced a $12 billion intervention program. A long in the US Dollar against the Colombian Peso performed well as the Peso slipped. A long position in the Ruble against the US Dollar also augmented performance as the Ruble benefited from investors' demand for currencies benefiting from the strength in oil.

Outlook:

The model has fared well with a modest gain in recent weeks and it has increased leverage slightly. 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 significant and central banks are expected to hike rates.

Summary Statistics:

(Period: Inception – February 2011)

Annualised Return	8.0%	Annualised Risk (Standard Deviation)	7.5%
3 Year Annualised Return	-2.2%	3 Year Annualised Risk (Standard Deviation)	6.5%
Sharpe Ratio	0.7	Months Positive (%)	66%
CS Character	3.2	CS Ratio	2.3
Positive Trading Days	59%	Negative Trading Days	41%
Annualised Standard Deviation (Daily Obs)	7.1%	Skewness	1.5
Maximum Daily Loss	-2.4%	Kurtosis	4.4

(February 2011)

Maximum Daily Loss	-1.1%	Days to Recovery	na
Positive Trading Days	45%	Negative Trading Days	55%
Average Positive Day Return	0.5%	Average Negative Day Return	-0.4%

Monthly Performance Data (%):

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-2.32	0.15											**-2.2**
2010	-0.97	1.74	-0.14	-0.28	0.63	-3.55	-1.04	-1.49	-0.01	-4.25	-1.44	1.20	**-9.3**
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.