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	-4.00	-4.00	-4.00	2.42	4.26	-	11.40

Monthly Review:

The year began with investors shifting flows from the emerging markets into equities and currencies in the developed countries as they worried that inflationary pressure and rising rates could curb growth. Volatility whipsawed during the month as currency and equity markets were buffeted by news flow over the Eurozone crisis, US economic data, and growing concerns about inflation in emerging markets.

January began positively for equities and risky assets as US and European data revealed that manufacturing was stronger than expected in December. Safe assets such as gold eased from recent highs. The rally only lasted a few days before the focus switched to Europe, where yields for government bonds rose on concern about the outcome of pending bond auctions and the ability of policymakers to tackle the problems. Inflationary pressure in emerging economies was highlighted by rate hikes from central banks in Thailand, South Korea and China. Risk aversion and the VIX eased as European policy-makers seemed more pro-active and the auctions by Spain, Portugal and the European Financial Stability Fund, aided by an AAA rating from S&P, were successful. This helped the Euro reverse earlier losses. It ended January with its second month of gains against the US Dollar, propelled higher towards month-end by a rise in Eurozone inflation and expectations that the ECB could hike rates earlier than the US. The US Dollar weakened against most developed market currencies over the month with the DXY index down 0.3%.

Emerging market equities and currencies were weakened as money flowed out of them into the developed markets, where equities were spurred on by positive remarks from Federal Reserve Chairman Ben Bernanke on the 14th, noting that the risk of US deflation had eased. Risk aversion re-emerged at month-end due to political tension in the Middle East. Despite the turbulence, developed market equities and some G10 currencies still eked out a positive month. Commodities also fared well as crude in New York ended January at a 2-year high. The MSCI Emerging Markets Index sank 2.7% for the month while the S&P 500 added 2.4%.

Performance Commentary:

The Programme performed poorly as the year began, declining 4% over the month. Throughout the course of the month the model slashed its risk exposures sharply, helping staunch our losses. The month was challenging as the Asian currency markets failed to track clear long-term trends and whipsawed instead between gains and losses. The model had increased risk towards the end of December in anticipation of continued appreciation in Asian currencies against the US Dollar. The ensuing volatility translated this into portfolio losses. In this first part of the month, the Programme was hurt particularly in its long positions in the Singapore Dollar and Indonesian Rupiah against the US Dollar.

This trend reversed as appetites for the US Dollar waned as worries about the Eurozone eased, which led to greater demand for the Euro against the US Dollar. The shift in sentiment towards the Eurozone hurt us as the model was positioned long Asian currencies against the US Dollar and the Euro. The euro's strength dwarfed that of the Asian currencies, which led to losses. Nervousness soon re-emerged in markets due to geo-political tension in the Middle East as civil unrest in Egypt began on the 25th. This buoyed oil prices and fueled further concern about inflation, already cause for concern in Asia as investors fretted about the potential for error by policymakers struggling with the trade-off between inflation and growth.
Long positions in the Philippine Peso and Thai Baht detracted while long positions in the Taiwan Dollar against the US Dollar and the US Dollar against the Japanese Yen were positive contributors.

The model's long position in the Chinese Yuan against the US Dollar also detracted slightly from performance as the exchange rate failed to move much in spite of President Hu Jintao's state visit to Washington. The Yuan hit a 17-year high before breaking four consecutive months of gains to decline 0.5% in January. The model has retained the trade as the trend of appreciation appears likely to continue this year.

The model began the month running towards the higher end of our historical leverage, with the Risk-Adjusted Trade Size in the top quartile of our historical experience. The sharp drawdowns early in January prompted the model to reduce the amount of risk per trade and total leverage dramatically. Our tail risk indicators increased rapidly again as they factored in the decline in performance. Our risk management system shielded the Programme from further losses by reducing risk rapidly.

Outlook:

The model has retained its long bias in Asian currencies but it has been selective. Long-standing positions that were long the Indonesian Rupiah have been eliminated, whilst a long in the Thai Baht against the US Dollar has been switched to a short in the Baht in the wake of a break in the trend of appreciation it has seen since late 2010. In recent days the model has been increasing risk steadily.

Summary Statistics:

(*Period: Inception – January 2011*)

Annualised Return 11.4%
3 Year Annualised Return 4.3%
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) 7.3%
3 Year Annualised Risk (Standard Deviation) 5.8%
Months Positive (%) 73%
CS Ratio 3.4
Negative Trading Days 47%
Skewness 1.1
Kurtosis 4.6

(January 2011)

Maximum Daily Loss .... -1.0%
Positive Trading Days 24%
Average Positive Day Return 0.4%

Days to Recovery .... na
Negative Trading Days 76%
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.