

## 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	-2.32	-2.32	-2.32	-10.58	-2.64	1.26	8.06

#### 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 14<sup>th</sup>, 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 fell 2.3% in January. Markets proved challenging due to the whipsawing of the US Dollar as investors changed their assessments of the severity of the Eurozone sovereign debt crisis, the growing problem with inflation and its implications for interest rate policy, as well as the evolving character of the US recovery. Performance was undermined by the sudden change in risk sentiment late in January when Egypt was hit by political turbulence. The Programme benefited from long positions in the Swedish Krona as it proved to be the strongest G10 currency in January. Towards month-end the Krona hit a 10-year high against the Euro, and was favoured for the strength of the country's public finances and buoyant economic data, with the Riksbank predicting GDP growth of 4.4% this year. Longs in the Krona against the US Dollar and Australian Dollar were among the model's best-performing positions. The Australian Dollar trended lower in January, hurt by weak economic data, outflows and concerns over the economic impact of the floods in Queensland. A long position in the Rouble against the US Dollar also fared well. The Rouble has trended higher in recent weeks as investors bet on rising inflationary pressure, fuelled by hot money inflows and high oil prices. This trend also reflects expectations of rate hikes to come from the central bank. The model reduced exposures in long positions in Asian currencies such as the Indonesian Rupiah, Taiwan Dollar and Indian Rupee against the US Dollar. Positions long the Euro against the US Dollar, long the Czech Koruna against the Euro and long the Egyptian Pound against the US Dollar were among the Programme's worst detractors. The Euro swung wildly too, hitting a four-month low against the US Dollar mid-month only to rebound days later. The model cut back exposures in regions such as Latin America and Europe as it responded to sharp swings in the US Dollar. Towards month-end it reacted to the sell-off in the US Dollar by increasing exposures.

#### Outlook:

Swings in currency markets at present are being driven in large part by the continued whipsawing of the US Dollar, which reflects a variety of issues facing policymakers around the world as they struggle to come to grips with the ongoing imbalances.

#### Summary Statistics:

(Period: Inception – January 2011)

Annualised Return .....	8.1%	Annualised Risk (Standard Deviation).....	7.6%
3 Year Annualised Return .....	-2.6%	3 Year Annualised Risk (Standard Deviation).....	6.6%
Sharpe Ratio .....	0.7	Months Positive (%) .....	65%
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.....	4.3
(January 2011)			
Maximum Daily Loss .....	-2.0%	Days to Recovery.....	na
Positive Trading Days .....	58%	Negative Trading Days .....	48%
Average Positive Day Return .....	0.6%	Average Negative Day Return .....	-0.8%

#### Monthly Performance Data (%):

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2011</b>	-2.32												<b>-2.3</b>
<b>2010</b>	-0.97	1.74	-0.14	-0.28	0.63	-3.55	-1.04	-1.49	-0.01	-4.25	-1.44	1.20	<b>-9.3</b>
<b>2009</b>	6.09	0.71	-2.53	0.50	1.01	-1.55	0.40	0.70	-0.66	-3.66	-1.70	0.11	<b>-0.9</b>
<b>2008</b>	-0.30	-1.28	0.52	1.43	-0.47	-0.47	1.26	0.21	-0.52	1.40	2.49	0.53	<b>4.8</b>
<b>2007</b>	-0.07	-0.14	0.67	1.15	0.16	0.47	0.26	0.03	6.10	-0.33	1.63	-0.30	<b>9.9</b>
<b>2006</b>	0.56	1.44	0.53	1.01	-0.48	0.00	0.69	-0.03	-0.03	0.84	0.27	1.00	<b>5.9</b>
<b>2005</b>	1.19	2.64	0.84	0.01	2.24	0.56	2.54	0.55	1.11	1.00	-0.01	0.51	<b>13.9</b>
<b>2004</b>				0.71	4.38	0.06	1.41	1.78	7.64	8.67	7.86	1.66	<b>39.3</b>

*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.

*Disclaimer:* This material has been approved by The Cambridge Strategy (Asset Management) Limited (Address: Berger House, 36-38 Berkeley Square, London, W1J 5AE, United Kingdom). Past performance should not be taken as a guide to future performance. You are advised that The Cambridge Strategy (Asset Management) Limited is unable to provide advice as to tax consequences of a particular investment or investment strategy and you are advised to seek professional advice in this respect. This document is not a solicitation or instruction to invest. It is provided for information purposes only. The Cambridge Strategy (Asset Management) Limited is authorised and regulated by the Financial Services Authority (UK).