

HEDGE FUNDS

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REVIEW

Hedge Funds Review 2009 European Performance Awards

Best Foreign Exchange Hedge Fund

WINNER — Cambridge Strategy Asian Markets Alpha Programme (Cambridge Strategy (Asset Management))

The Asian Markets Alpha Programme aims to profit from short and medium term moves in the Asian market currency pairs. To do this the fund uses a systematic approach, designed to perform across diverse market environments.

The process combines two types of trading strategies: systematic technical and systematic fundamental. The systematic technical strategy uses a series of proprietary trading algorithms operating over eight time frames ranging from four-hourly timeframes to weekly. The algorithms combine trend continuation and trend reversal signals.

The systematic fundamental strategy reflects a predetermined set of positions designed to reflect market views on the relative attractiveness of Asian currencies versus the US dollar. Assets are allocated to the systematic fundamental strategy based on a proprietary measure of volatility in the global currency markets (in highly volatile markets the allocation is reduced and when volatility is low the allocation is increased).

The management company, Cambridge Strategy (Asset Management), believes long-term success comes through successful mitigation of downside returns with risk controlled at the portfolio, strategy and individual trade levels. While a daily value at risk (VAR) limit is enforced at the aggregate portfolio and sub-strategy level, a further layer of risk mitigation is incorporated within each separate strategy.

For the systematic technical strategy each trade is given a risk allocation based on our assessment of the appropriate risk adjusted trade size (RATS). The RATS is set weekly using a proprietary methodology and profit and loss levels are set for each position prior to trade execution to further limit downside risk.

Within the systematic fundamental strategy, the aggregate net US dollar exposure is maintained at zero.

“These strategies are negatively correlated; the systematic fundamental strategy is positively correlated to low volatility environments, while the systematic technical strategy is positively correlated to high and rising volatility. Given the high levels of volatility we experienced in 2008, not unsurprisingly, the latter strategy dominated returns. Importantly, our focus on ‘tail risk’ and in particular downside risk management greatly reduced the realised volatility of our programme, especially when compared with other market participants,” says Derek Doupe, director of marketing.

Cambridge Strategy (Asset Management) is a London based asset management company that has been managing money since 2004. It focuses on the world’s currency markets and has developed three proprietary actively traded currency programmes.

One of these is The Asian Markets Alpha Programme. “The fund was launched due to client demand. Historically, the firm has made its programmes available only via managed accounts, however, by early 2008, there was sufficient demand from individuals to make the launch of the fund viable in a commingled vehicle,” explains Doupe.

The Cambridge Strategy focuses on tail risk and in particular downside risk management reducing the volatility inherent in the approaches taken by competitors. For clients the benefits of this approach is evidenced in the fund’s historical distribution of returns that is highly skewed to the right with significantly less downside risk than a normal distribution.

FUNDAMENTALS OF CAMBRIDGE STRATEGY ASIAN MARKETS ALPHA PROGRAMME

Full name of fund:	Cambridge Strategy Asian Markets Alpha Programme
Name of portfolio manager:	Russell Thompson
Name of investment/management company:	Cambridge Strategy (Asset Management)
Contact information:	Derek Doupe (+44 (0)20 7659 9840; derek.doupe@thecambridgestrategy.com)
Launch date:	February 1, 2006
Portfolio size:	\$220 million (December 31, 2008)
Strategy:	systematic trading
Average annualised return:	18%
Average annualised volatility:	14% (based on daily observations)
Share classes:	US dollar, euro, and sterling
Administrator:	AIS Fund Administration
Auditor:	KPMG
Prime broker:	Citibank
Custodian:	JP Morgan
Domicile:	Cayman Islands
Management fee:	2%
Performance fee:	20% with a high watermark
Minimum investment:	\$250,000 or equivalent
Redemption period:	monthly with seven days notice