

The Cambridge Strategy Emerging Markets Alpha Programme: The Cambridge Strategy (Asset Management)

Tenth European Performance Awards 2010

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Best Foreign Exchange Hedge Fund: Winner

Emerging markets have seen considerable investor interest over the past two years as, in many cases, their economies have better weathered the financial crisis than those of the developed markets. Portfolio managers of the fund have been finding considerable opportunities in these markets.

The Cambridge Strategy launched in 2004 and focuses on the world's currency markets, having developed three proprietary actively traded currency strategies. Collectively the principals of the Cambridge Strategy – Russell Thompson, former AIG head trader of Asian Markets; Peter Henricks, former chief executive of Alliance Australia, and Edward Baker, former chief investment officer of emerging markets at AllianceBernstein – have 79 years of experience in the investment management industry.

The Emerging Markets Alpha Programme aims to profit from short- and medium-term moves in currency pairs in the developing markets.

The fund uses a systematic approach designed to perform across diverse market environments. This process combines two types of trading strategies: systematic technical and systematic fundamental.

Thompson is the portfolio manager of the Cambridge Strategy Emerging Markets Alpha Programme. The systematic technical strategy uses a series of proprietary trading algorithms operating over eight timeframes 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 emerging markets' currencies versus the US dollar.

Assets are allocated to the 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.

Thompson believes the Cambridge Strategy approach has three major strengths that will allow for repeatable and sustainable generation of absolute returns.

The first is a series of proprietary algorithms identifying trades in trending and non-trending markets. This allows systematic alpha generation in different market conditions.

Second is the group's money management and foreign exchange experience. While the trades are generated by the proprietary system, they are transacted by the portfolio manager during each time zone's business day. This initiation of trades greatly moderates event risk and allows for pro-active position management.

The third strength is risk management. The fund uses an extremely disciplined system. Each trade is allocated an identical amount of risk capital. Risk assigned is a function of 'ruin strategy', a methodology that proactively adjusts the risk capital based on how the model is performing on a risk adjusted basis.

The process is being continually developed. The fund has an ongoing research programme to keep its alpha generation signals current, strengthen risk management systems and to address any potential weaknesses in the process.

Launched in February 2008 the fund targets 18% returns. However, it has achieved an annualised return above target of 22.4% to the end of March 2010. For the first three months of 2010 the strategy returned a healthy 13.2%.

Fund facts: The Cambridge Strategy Emerging Markets Alpha Programme

Full name of fund: The Cambridge Strategy Emerging Markets Alpha Programme

Name of portfolio manager: Russell Thompson

Name of investment/management company: The Cambridge Strategy (Asset Management) Limited

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Launch date: February 1, 2008

Assets under management: \$95 million (at December 31, 2009)

Annualised return: 22.4% (at March 31, 2010)

Annualised volatility: 7% (at March 31, 2010)

Sharpe ratio: 3.0

Strategy: systematic technical and systematic fundamental

Share classes: US dollar, euro, and sterling

Management fee: 2%

Performance fee: 20% with a high watermark

Minimum investment: fund \$250,000 (managed account \$10 million)

Redemption/liquidity terms: monthly with seven days' notice

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