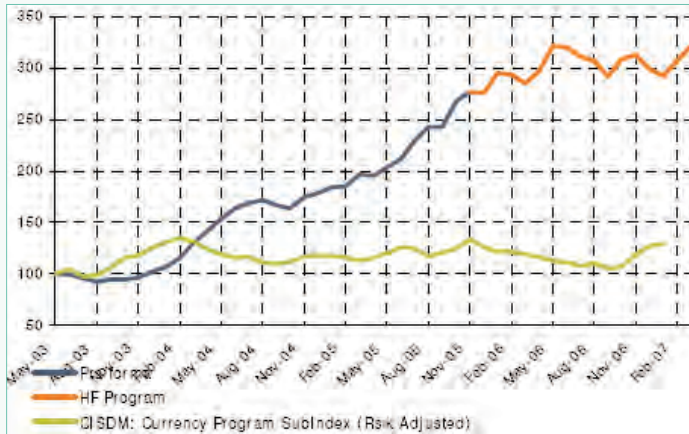


## CURRENCY TRADING

## Overlay Asset Management High Frequency Program



**Focus:** The high frequency investment strategies applied in this program aim to take advantage of the short-term volatility that exists intra-day in currency markets, irrespective of whether individual currency pairs are exhibiting trends or not. This program is designed to extract value from the currency market micro structure where short-term opportunities generated from transaction flows can be analysed and exploited

**Fund's strengths:** The strategy is purely model-driven; diversification is achieved by the application of a number of sub-models (based on short-term technical indicators), each providing high frequency trading signals on an intra-day basis, across a limited number of highly liquid currency pairs. The re-engineering of several popular technical indicators, augmented with probabilistic attributes are used to determine the likelihood of emerging trends or turning points

**Fund's weakness:** High frequency models "fatigue" faster than their long-term strategy counterparts

**Opportunities:** The strategy uses short-term technical indicators such as Commodity Channel Index (CCI), Slow Stochastic and ADX on hourly data set combined with a proprietary algorithm that is able to select and adapt the optimal parameters suited to the prevailing market conditions; source of non-correlated returns

**Threats:** Models need to be frequently reviewed so that they stay adaptive (entails depth of analysis and extensive research) which is investment intensive

### Risk

☐ = low ☐ = low/moderate ☐ = moderate ☐ = moderate to high ☐ = high

What is the major risk for the high frequency strategy? A failure in renewing the process and models

On avg. percentage of trades that are positive? since inception, the strategy gets 49.86% positive daily returns, which is in line with industry average

Models ability to isolate, capture, and execute trades to optimise profits: ☐☐☐☐☐

Speed of execution trades: High. Trades are made via electronic platforms

Inherent proprietary model based risk is: ☐☐☐☐☐

Risk posed by human interference: ☐☐☐☐☐

And with what consequences: human interference has some impacts on slippage

Ability to implement disciplined and stringently executed risk management: ☐☐☐☐☐

Leverage related risk: Average exposure/capital is 1.6

Risk posed by managed accounts - i.e. ability to manage separate account pari pasu if they are identical: ☐☐☐☐☐

Key man risk: ☐☐☐☐☐

### Performance Parameters

☐ = insufficient ☐ = adequate ☐ = satisfactory ☐ = good ☐ = outstanding

Annual cost of commissions and brokerage paid as a % of avg. annual net performance: 1%

Cost of slippage as a % of avg. annual net performance: On a long-term basis, it has no impact on returns

Fund's ability to provide diversification with other currency strategies: ☐☐☐☐☐

When introduced in a conservative portfolio: ☐☐☐☐☐

When introduced in a balanced portfolio: ☐☐☐☐☐

When introduced in an aggressive portfolio: ☐☐☐☐☐

### Outlook

↑ upside potential ↗ upside to range bound ↔ range bound ↘ range bound to down ↓ downside

Barriers to entry: high start up and maintenance costs; know how - practitioners with strong skills in finance and mathematics

Scope for a currency high frequency fund: long-term investor looking for uncorrelated source of alpha

Threat posed by competition: moderate

Ability of the fund to consistently deliver returns:

Over next 3 months: range bound

Next 12 months: upside to range bound

Next 3 years: ↑

Under what circumstances does the fund tend to outperform? short term opportunities generated from transaction flows can be analysed and exploited

Under what circumstances does the fund tends to underperform? short term sharp moves in volatility

Ability to deliver uncorrelated returns to other asset classes: low with respect to hedge funds and negative with respect to the S&P500

### Investment Insights

Fund is targeted at: institutional investors, pension funds, hnw

Targeted returns: 25%-30% annualised

Fees: 2% management / 20% of net new profits

Fund's base and other currencies it is available in: USD (On demand in EUR and GBP)

Liquidity provided: weekly

Fund complexity for an investor: moderate

Transparency provided to investor: fairly high

Reg. with: OAM is regulated with the "Autorité des Marchés Français" (AMF)

Awards: Nominated currency manager of the year from 2003 to 2006 by Global Pension. Ranked TOP 3 performers of Parker currency Index in February 2007