<http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHtmlSection1?SectionID=4413862-680198-1208945&SessionID=5LklHCJwqZtdn47>

*Eric R. Nelson*

Mr. Nelson is Senior Portfolio Manager at FX Concepts. He specializes in the inter-bank market and is a member of FX Concepts’ Investment Committee. Mr. Nelson works closely with Mr. Taylor and Mr. Clark, providing daily analysis of market conditions and trade positions.

Mr. Nelson has been involved with the foreign exchange markets since 1973, and the beginning of the floating exchange rate regime. Internationally known and respected, he has been featured in several articles on currency exposure management. He joined FX Concepts in 1988. He had previously been Foreign Exchange Planning Director for Eastman Kodak Company, where he managed US$1.5bn of currency exposure. While still with Eastman Kodak (from 1979 to 1988), he was a subscriber to FX Concepts’ Advisory Service. From 1973 to 1979, Mr. Nelson was a Vice President and foreign exchange trader at Bankers Trust Company in New York City.

Mr. Nelson is a graduate of St. Lawrence University with a BS in Mathematics and German Literature.

*Ryan O’Grady*

Mr. O’Grady has been the Director of Investment Research since 1999. He joined FX Concepts in 1992 as an Assistant Trader reporting to Eric Nelson. Mr. O’Grady was promoted to Foreign Exchange Manager/ Trader in 1993 and served in this capacity until 1995 when he became the Manager of New Model Research.

Prior to joining FX Concepts, Mr. O’Grady worked in the fixed income department of Neuberger & Berman, where he assisted in the development of a currency management system. He had previously worked at Standard Chartered Bank as a proprietary trader, focusing on emerging market currencies.

Mr. O’Grady is a graduate of Johns Hopkins University. He has also completed an MS in Statistics and Operations Research at New York University.

*Hugh Tilney*

Hugh Tilney is a member of the Board of Directors and Chairman of the Management Committee at FX Concepts. As Chief Operating Officer all financial, legal, and regulatory functions of the company report to him including the firm’s overseas operations.

Mr. Tilney joined FX Concepts in 1993 following a 28-year career in the insurance industry, both in the United States and the UK.

Mr. Tilney was educated in the UK and France.

**FX CONCEPTS INVESTMENT STRATEGY AND TRADING PROGRAM**

FX Concepts uses various systematic strategies for its two principal trading programs: the Developed Markets Currency Program and the Global Currency Program. FX Concepts will periodically adjust the allocation of Currency Series trading capital to these and other programs as new trading programs are added.

**Developed Markets Currency Program**

*Program Description*

The Developed Markets Currency Program, or the DMC program, is an alternative investment strategy that produces superior risk adjusted returns by trading a diversified portfolio of developed market currencies in the interbank foreign exchange market. The DMC program has a continuous track record dating back to May 1988. Below is a summary of the program’s investment process.

*Investment Process – Quantitative & Qualitative Elements*

Since its inception in 1988, the investment process and performance of the DMC program has been largely governed by a “Trend Module.” “Carry” and “Options” Models were added in the first quarter of 2002 to improve the durability of the program’s investment process and returns. The core of the investment process has always been quantitatively and systematically driven by FX Concepts’ proprietary trading systems.

*The Trend Module*

In this module, price action is the primary determinant in forecasting foreign exchange movements. Foreign exchange rate movements are composed of three major components:

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|  | 1. |  | Trends. Trend following analysis, the most technical component of FX Concepts’ process, identifies the underlying trends of the currency markets. |

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|  | 2. |  | Cycles. Cycle analysis identifies the time period/life span of a trend, i.e., when trends are likely to begin and end. |

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|  | 3. |  | Volatility. The volatility component of the analysis relates to a risk management concept. In effect, the system uses volatility as a measure for gauging the probability of forecasting profitable trades and consequently determining the appropriate size of positions. |

As a result of periodic optimizations, the relative weighting of the currency pairs and the choice of currency pairs varies over time. Generally, a client’s portfolio is constructed in a way that allows for a balanced representation of the major currency blocs of the developed markets. The current DMC portfolio includes eight currency pairs. 55% of the portfolio is allocated to trading US dollar denominated currency pairs. 45% of the portfolio is allocated to non-US dollar currency pairs. Long and short positions may be taken.

*The Carry Module*

This module creates a currency basket and proposed positions using a dynamic risk allocation system that identifies high and low interest currencies. The positions are calculated based on a proprietary measure of the market’s risk appetite. For example, when the market is risk-seeking, the risk allocation is at the maximum; on the other hand, when the market turns cautious, the positions are reversed. This conditional strategy greatly enhances the return-risk trade-off of the DMC program.

*The Options Module*

The options module takes advantage of the phenomenon that hedgers pay a premium to insure against currency risks by employing an intelligent short volatility strategy. This module is designed to negatively correlate with the trend module by selling options positions against the underlying trend position. As a result, the strategy adds returns, controls risk and diversifies returns by generating returns when other strategies suffer.

**Global Currency Program**

*The Premise*

A manager with a dynamic allocation system and a naïve modeling strategy should outperform a manager with a dynamic modeling system and a naïve allocation strategy.

The Global Currency Program, or the GCP, represents FX Concepts’ latest achievement in its attempt to extract maximum gains from the foreign exchange market. For years, systematic currency managers have focused their research efforts exclusively on improving their currency modeling techniques. FX Concepts believes that the reservoir of untapped or undiscovered techniques that could improve the forecasting of

individual currencies is limited. Although it is still important to have models that are profitable over the long term, the fastest route to improved consistency of return through research is not through efforts to build the perfect model. Instead, FX Concepts’ recent research effort has centered on the following goals:

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|  | 1. |  | identify currencies with the greatest profit potential; and then |

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|  | 2. |  | dynamically allocate capital to the best opportunities. |

Many currency managers claim that it is impossible to determine which model signals will be the most profitable or which currencies will be “hot” over any given period of time. FX Concepts’ research has proven that this can be done and its impact on improving the consistency of returns can be significant. It is more important to get the allocation right than to fine tune the model. A manager with a dynamic allocation system and a proven, time tested strategy should outperform a manager with a dynamic modeling system and a naïve allocation strategy. FX Concepts has both.

*The System:*

Based upon a statistical analysis of foreign exchange price data and short term interest rates, the GCP investment approach is purely systematic. Its implementation consists of three steps:

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| --- | --- | --- | --- |
|  | 1. |  | individual currency forecasting; |

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|  | 2. |  | lensing; and |

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|  | 3. |  | portfolio construction. |

First, the system formulates individual forecasts of currencies based solely on the price action of each currency. Second, those individual forecasts are then reconciled with one another during the lensing stage. This stage can also be described as a cross market modeling process where forecasts from individual currency models are revised based upon an analysis of other related currencies and interest rate differentials. The foreign exchange universe is a giant, interconnected “web” of relationships. FX Concepts’ system searches the web empirically for all significant relationships, whether they are simple currency pairs, *e.g.*, USD/JPY, or complex relationships such as the Singapore dollar versus a basket of Singapore’s major trading partners. These relationships are analyzed simultaneously to create robust future predictions for all currencies in the web. The third and final stage of the process is the construction of a portfolio where the capital is dynamically allocated based on return/risk forecasts and a portfolio volatility analysis. The key to FX Concepts’ approach is in treating currencies as separate asset classes. Utilizing multiple layers of statistical modeling techniques, FX Concepts develops expected return and risk forecasts for each “asset class”. Then, using mean variance optimization techniques, FX Concepts builds a portfolio that maximizes return per unit of risk.

It should be noted that the optimization routine, which builds the portfolio of currency positions, is subject to several constraints—all aimed to further contain risk within boundaries. First, the notional position size for individual currencies is limited to a specified percentage of the underlying assets of the program. This percentage is higher for more liquid currencies and lower for more exotic currencies. In addition, the maximum amount of risk the optimizer is allowed to allocate across the entire portfolio is constrained to a fixed amount. Moreover, the overall leverage of the portfolio is limited.

FX Concepts’ risk measuring techniques are “GARCH” like in that they are based on the theory that volatility has memory. FX Concepts adds additional forecasting techniques to account for the non-normal distribution of currencies, particularly in the case of currencies of less developed countries. The system also includes market liquidity analysis to account for the changing costs of entering/exiting a position in each currency. Several of FX Concepts’ interbank counterparties are polled daily for bid/offer spreads, both spot and forward, in the currencies FX Concepts trades.

This entire quantitative process is run on a daily basis.