



QUAESTA CAPITAL
your currency specialist

FX markets - from a funds perspective

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QUAESTA CAPITAL

Investment manager with exclusive focus on Foreign Exchange

Products & Services

FX alpha programs

FX-MMP: Fund of FX managed accounts

v-Pro: FX volatility program

vTrader: Algorithmic intraweek spot strategy

Currency overlay & FX advisory

Active and passive currency hedging for institutional clients

Employees

14

Foundation

spring 2005

Offices

Pfäffikon (Switzerland) and Frankfurt (Germany)

Regulators

Swiss Federal Banking Commission and BaFin

AuM

> 1.1 bln EUR

v-Pro is our long/short FX volatility program



- **Relative and absolute value strategies**

This strategy takes advantage of the shape of volatility surfaces. Spreads in various volatility matrixes and currencies are traded. Also volatility is bought or sold outright if prices do not properly reflect market environment.

- **Time decay strategies**

This strategy takes positions to earn time decay, usually via exotic options with a limited downside. The portfolio is constructed to perform in sideways markets.

- **Carry trades via options**

This strategy enters into positions with a clear risk/return profile. As a result the disadvantage of low liquidity in hectic markets can be avoided.

- **Directional Trades**

This strategy takes long only positions in options via low delta contracts to profit from directional moves in spot. Risk is limited to the premium paid.

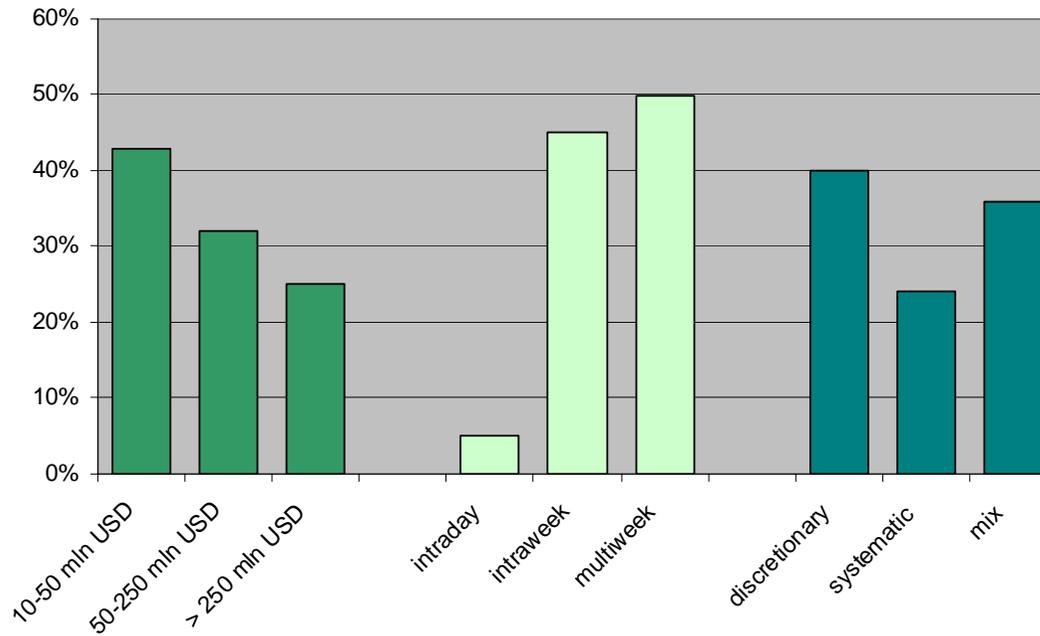
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Return
2008	1.02%	0.54%	0.33%	1.70%	2.75%	0.58%	0.61%	0.80%	2.64%	1.65%			13.32%
2007							1.21%	1.53%	1.67%	0.99%	3.55%	0.40%	9.69%

The proprietary FX Manager Database – the heart of our multi-manager program



- **Over 200 FX single managers and programs**
- **Quantitative information, i.e. program performance and statistics**
- **Qualitative information, i.e. due diligence data, manager presentations, office visit reports, internal and external ratings**
- **Statistical analyses and comparisons of programs**

Over 40% of the FX managers globally manage less than USD 50ml AuM



- Circa **250 FX Funds** ~ 150 bln USD AUM
- Only 5% use intraday strategies
- Pretty equally split between discretionary, systematic and mixed trading styles

Were FX Funds heavily affected by recent market turmoil?

Example: EUR/HUF Sep-Oct 2008:



- We did not observe extreme positive or negative performance distribution in pure FX funds.
- This indicates that the majority of the FX managers did not have significant positions in currencies like HUF, ISK or RUB.
- We suspect Global macro, multi-strategy and fixed-income funds used FX to express their macro-economic view on these countries. FX as the most liquid instrument was the smartest tool to hedge their existing exposure e.g. in bonds.

Immediate reactions in turbulent times

- **Deleveraging**
Why: managers use risk-adjusted positioning
- **Higher transaction costs**
bid-offer spreads in spot ,forwards and options
- **Overall net positions smaller during Aug/Sep/Oct**
FX funds were mainly long USD, JPY and CHF, short EUR and AUD
- **Massive redemptions in carry based strategies**
- **Increased interest in G10 strategies**
liquid, uncorrelated returns, hedging

Actual manager positioning of our FX multi-manager program the FX-MMP

Currency	Position ¹	Diff. to prev. Day ¹	USD Quote ²	EUR Quote	³ Long		Short		Flat
					over 50 %	10% to 50 %	10% to 50 %	over 50 %	- 10 % to 10 %
CHF	3.42	0.11	1.2093	1.5340	1	1	0	1	7
NOK	2.97	-1.99	7.0812	8.9825	0	1	0	0	4
AUD	1.38	2.65	0.6438	1.9705	0	1	0	0	10
AED	1.17	-0.78	3.6733	4.6595	0	1	0	0	0
JPY	1.09	1.38	93.2850	118.3320	1	4	2	1	3
CNO	0.90	-2.43	6.8834	8.7316	0	1	0	0	3
CAD	0.64	3.53	1.2513	1.5873	0	0	0	0	10
PEN	0.61	-0.32	3.1130	3.9488	0	1	0	0	2
ZAR	-0.41	0.28	10.2900	13.0529	0	0	0	1	5
MXN	-0.49	0.30	13.5650	17.2072	0	0	0	1	6
PHO	-0.49	0.47	49.5385	62.8396	0	0	0	1	2
INO	-0.90	0.60	50.2000	63.6787	0	0	0	1	3
GBP	-1.33	-0.27	1.4866	0.8533	1	0	0	2	8
EUR	-1.79	2.44	1.2685	1.0000	6	1	1	2	1
SEK	-2.50	-6.54	8.2101	10.4145	0	0	0	1	4
USD	-3.81	-0.95	1.0000	1.2685	2	2	4	3	0

¹ Basis for calculation: FX-MMP fund investment scaled to 100 Mio. USD

² EUR, GBP, AUD and NZD are indirectly quoted

³ 0 % to 24 % 25% to 50 % over 50 % of Fund Managers with significant positions

FX alpha programs offer uncorrelated returns to traditional investments

	Quaesta FX-MMP	Parker FX Index	S & P 500	REX Bond Index
October 08	+ 3.38%	+ 2.53%	- 14.70%	+ 1.80%
Last 3 months	+ 7.55%	+ 2.22%	- 23.50%	+ 4.80%
YtD	+ 11.74%	+ 4.57%	- 34.00%	+ 6.68%

Pure FX funds - from a regulators point of view

- **Highly liquid instrument base** (at least in G10 currencies)
- **No toxic assets/structured products** → no reval-headaches
- **Liquidity providers** on CME, EBS Prime and other ETN's
- **Different trading styles** should avoid extreme positioning

FX manager challenges

- What could be done to avoid settlement problems as experienced with Lehman?
- FX markets is the most efficient market - now we are facing lower efficiency due to credit issues. How can we solve that?
- Prime Brokerage – Quo vadis?
- Financial markets overall: back to more rational markets and less volatility
- Very positive: Market/ technical systems did work at any time and clients' hedging requirements could be satisfied

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