



## Ermitage Global Dynamic Trading Fund aims to profit from volatility as markets enter new paradigm

31<sup>st</sup> October 2009



2009 has been a challenging time for investors. Analysts maintain wildly different views on the likely path of global growth, unemployment, consumer spending power, inflation and other factors affecting investor sentiment and asset pricing.

The diversity of views is quite literally off the scale, with bulls and bears able to find ample statistics and factors to support their thesis, but with contradictory outcomes. The Bank of America Merrill Lynch Global Fund Managers Survey in August noted that optimism for the global economy had risen to its highest level in nearly six years, with portfolio managers putting their cash back into equity markets.

However, at a time when further inflows are being seen across the major markets, committing capital to long only investments could leave investors seriously exposed if markets move significantly down, as we expect they will. With the current cycle poised to move into a new phase, Ermitage anticipates this environment will be highly supportive for Macro / CTA strategies in general - and the firm's **Global Dynamic Trading Fund** ('The Fund') in particular. In the event that markets fall, Macro / CTA strategies can offer strong risk adjusted investment performance and a level of 'portfolio insurance' through their historical low to negative correlation to equity and bond markets.

Ermitage expects that the trend volatility we are currently seeing to herald key inflection points in November 2009 that will determine a new beginning of significant new trends. We believe this will provide a highly positive environment for the Fund, which aims to identify and benefit from distinct trends in global equity, currency, bond and commodity markets, irrespective of their direction. Already we are beginning to see higher levels of trend volatility and the first signs of new trends emerging.

Managed by Elliot Refson, the Global Dynamic Trading Fund is a wholly discretionary managed futures hedge fund, with the added advantage of remaining in cash if buy signal strength is weak. Originally conceived as an internal overlay vehicle to hedge against key trend changes in major markets and currencies, the Fund's strategy has delivered an average annual return of 26% since the first trades were placed in October 2007 to September 2009\*. Interest from clients resulted in the launch of the Fund in 2008, which has since grown to be part of a \$170m trading programme.

The Fund has a discretionary strategy which differentiates between trending and ranging markets and is highly adaptive to market conditions. Ideas are generated by Ermitage's proprietary technical analysis using leading indicators, trading solely in the most liquid exchange traded futures contracts. Since trading began the Fund has shown a low correlation to equity and bond markets as well as to its trend following, systematic and macro peers. Despite extreme market volatility and whipsawing over the last 12 months the Fund has gained +9.9%, whilst the MSCI World Index is down -5.5% (Oct 2008 – Sept 2009)\*. The Fund is concurrently used by its different investors to provide absolute returns, a portfolio hedge and as a beta overlay.

**Elliot Refson**, Portfolio Manager, said:

*"We believe that in the short to medium term, following months of ranging activity many asset classes are entering a period where they are likely to experience large price swings. In this kind of environment, we would expect the Fund's technically-based strategy to perform well compared to both a fundamental value-based strategy and the diversified approach taken by many CTA's. The Fund moves to cash if signal strength is weak, which helps to reduce the likelihood of being whipped around in adverse market conditions - often the Achilles heel of trading strategies that must have a diversified portfolio of investments at all times.*



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### Elliot Refson, Portfolio Manager (continued):

*"The S&P500, Euro Stoxx and FTSE are approaching key resistance levels moving into key mid November timings, from which we expect a reversal of the shorter term uptrends and a resumption of declines in a continuation of the ongoing longer term bear market. We believe the Nikkei is rolling over having failed at its key resistance area and will likely lead the way lower. These developments are likely to have major ramifications across the board that will offer significant opportunity to CTA's in general and the Global Dynamic Trading Fund in particular."*

### Ian Cadby, Investment Trading Director and Ermitage Group CEO commented:

*"Time cycle analysis is one of the key factors that we believe differentiates the Global Dynamic Trading Fund from other 'classic' CTA's. Rather than trading off purely lagging, stochastic indicators, we focus on forecasting time cycles and base our trading on leading indicators. We believe that all markets - stocks, futures, financials and currencies - move in time cycles. Each market has an individual cycle profile, which consists of dominant cycles in multiple time frames - monthly, weekly, daily, and intra-day - that visibly and consistently affect prices. Awareness of the longer-term cycles helps anticipate trends and trend reversals, whilst an appreciation of the shorter-term cycles increases your ability to buy bottoms and sell tops in the direction of trend and at trend reversals."*

The Cayman registered Fund offers fortnightly liquidity and is available in Dollar, Sterling and Euro classes with minimum initial investment \$100,000 (or currency equivalent).

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\* Source: Ermitage Group and Bloomberg

The investment programme of the Ermitage Global Dynamic Trading Fund (The "Fund") has been actively running since October 2007 as an overlay allocation (the "Overlay allocation") for Ermitage Global Wealth Management Strategies Fund Limited. The monthly performance figures prior to August 2008, relate to the performance of the Overlay allocation. Performance from 31 August 2008 to 28 February 2009 relate to the Ermitage SPC Global Dynamic Trading Fund Segregated Portfolio. All performance figures quoted are net of a performance fee and an annual management fee. Past performance of the Overlay Allocation is not indicative nor a guarantee of future returns of the Fund.