



FUSION
ASSET
MANAGEMENT

FUSION VOLATILITY FUND

March 2010

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Fusion Relative Value Credit Fund performance: These USD denominated share class figures are net of manager's fees and costs. They have been prepared by GlobeOp Financial Services (Cayman) Limited, the administrator of the Fusion Relative Value Credit Fund Limited, the shares of which are listed at the Irish Stock Exchange. Inception date - 16 December 2004, resignation of Fusion as investment manager - 31 October 2006. The past performance is not a reliable indicator of future results.

Fusion Volatility Fund performance (slide 5): These USD denominated share class figures are net of manager's fees and costs. They have been prepared by Citi Hedge Fund Services (Ireland), Limited, the administrator of Fusion Volatility Fund, the shares of which are listed at the Irish Stock Exchange. The past performance is not a reliable indicator of future results.

Performance of the strategy as a subportfolio of Plexus Fund Limited (slide 5): These USD denominated share class figures are estimates and are net of manager's fees. They have been prepared by Plexus Partners LLP in conjunction with Fusion Asset Management LLP, based on valuations provided by Citi Hedge Fund Services (Ireland), Limited, the administrator of the Plexus Fund Limited. Their accuracy is not guaranteed, though they have been prepared on what is regarded as a reasonable basis. They may be based on information which is provisional or incomplete, obtained from unverified third party sources, and/or reflect particular judgments and opinions as to how a particular asset or liability should be valued. Strategy inception date 1 May 2007. The past performance is not a reliable indicator of future results.

Fund Overview

Absolute return, pure long optionality investment strategy, designed to deliver consistent positive returns during periods of market stress and corrections

- ❑ Negatively correlated exposure to underlying asset classes
- ❑ Valuable addition to a diversified investment portfolio
- ❑ Protective component with strictly limited downside
- ❑ Experienced Investment Manager - Fusion Asset Management LLP (Fusion)
 - ▶ 5 year track record of quality positive returns in various market regimes
 - ▶ Expertise in systematic trading strategies across major asset classes
 - ▶ Strong emphasis on capital preservation
- ❑ Strategy has been run successfully since May 2007, delivering 8.5% in 2007 and 12.5% in 2008

Available in leverage fund format and as a managed account on HFR hedge fund platform

Investment Strategy

- ❑ Long option positions across a diversified portfolio of Equities, FX, Commodities and Fixed Income

- ❑ True long volatility exposure long implied volatility / volatility of volatility
 - long realised volatility
 - long crash protection

- ❑ Proprietary quantitative techniques and models are used for forecast of volatility regimes from daily to monthly horizons

- ❑ Trade construction focuses on sourcing cheapest relative volatility to give maximum protection with minimal cost – approach varies by asset class

- ❑ Proprietary Automated Trading Platform developed to run large series of positions and delta-hedging strategies for optimal intra-day trading algorithms

Historical Performance

Fusion Volatility Strategy*

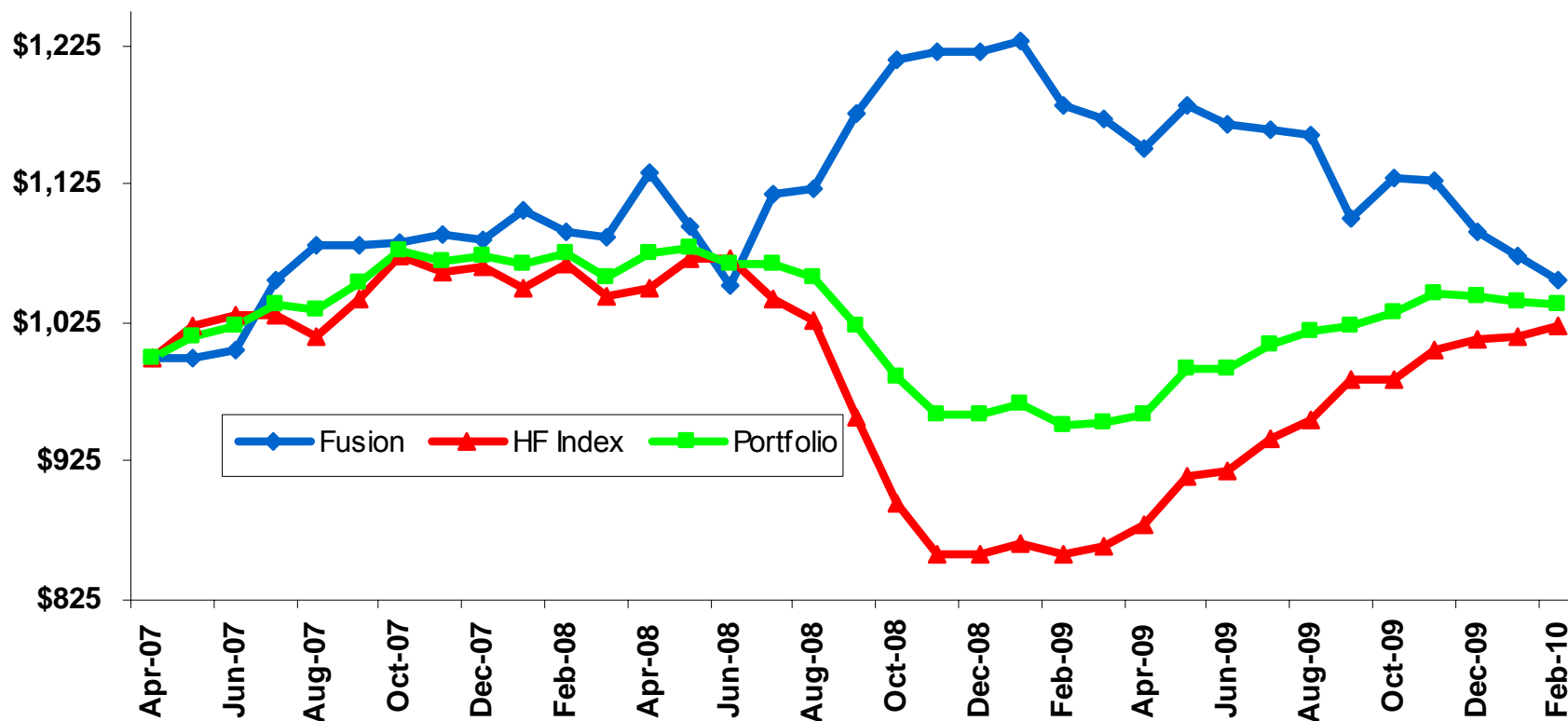
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-1.64%	-1.75%											-3.36%
2009	0.57%	-3.71%	-0.80%	-1.89%	2.71%	-1.19%	-0.15%	-0.28%	-5.26%	2.69%	-0.25%	-3.14%	-10.47%
2008	1.90%	-1.36%	-0.43%	4.28%	-3.30%	-3.90%	6.25%	0.35%	4.72%	3.45%	0.33%	0.10%	12.51%
2007					-0.04%	0.62%	5.06%	2.33%	0.04%	0.21%	0.51%	-0.38%	8.54%
LTD													5.67%

* refer to Disclaimer on page 1

Valuable addition to portfolio of alternatives

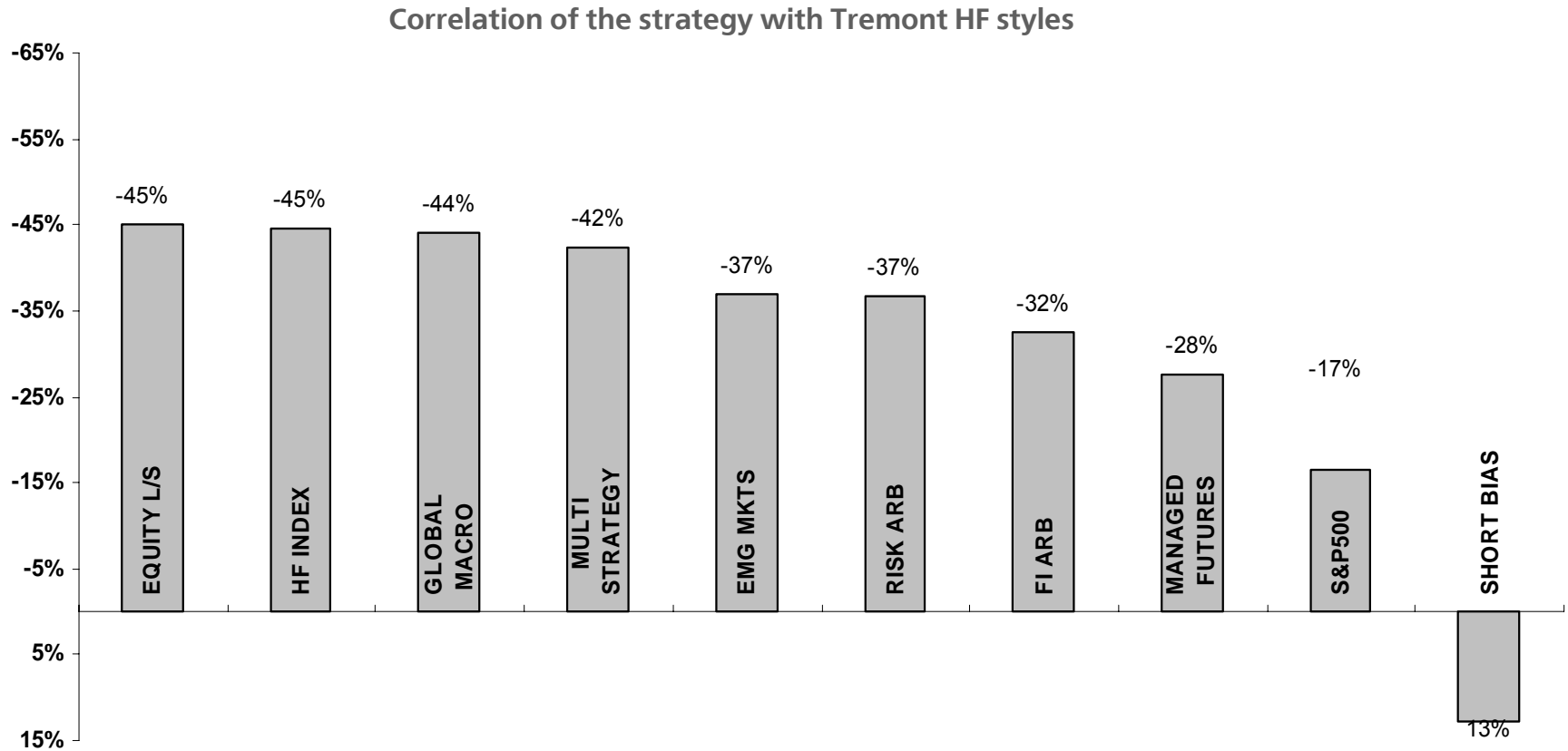
Attractive absolute return

Performance of strategy vs. Tremont HF index and optimized portfolio(70% Tremont /30% Fusion)



Valuable addition to portfolio of alternatives

- Significant anti correlation with majority of HF styles



Forecasting Volatility – Backbone of Investment Process

Decision Making Pillars

Quantitative Models

- ❑ **Non-Parametric Statistical models**
 - ▶ Based on optimised choice of non-linear transformation of time series
 - ▶ Stable performance superior to parametric models (ARCH / GARCH etc.)
- ❑ **Non-Linear Cluster analysis**
 - ▶ Efficient algorithm based on Computational learning theory
 - ▶ Extracting information from high-dimensional and multi-scale market data
- ❑ **Technical Models**
 - ▶ Trend Duration analysis
 - ▶ Range / Trend analysis
 - ▶ Multi-scale time analysis

Supporting Models

- ❑ **Sentiment / Positioning**
 - ▶ Market Positioning
 - ▶ Sentiment based behavioural model
- ❑ **Cross-asset pricing models**
 - ▶ Equity / Credit and FX / Credit Market Model
 - ▶ Risk Premium / Risk Aversion

Models Performance

Deep understanding of quantitative models' biases is the key to successful volatility forecast

	Non-Parametric Statistical	Non-Linear Cluster Analysis	Technical Model
Performs Better for	Risky Assets EM FX, Equities, Commodities	Risky Assets EM FX, Equities, Commodities	Non-Risky Assets G10 FX, FI
Response Time	Longer	Longer	Shorter
Dependence on volatility regime	Strong	Strong / Medium	Medium

Non-Parametric Statistical Forecasting

- ❑ Returns are not Gaussian
 - ▶ Probability distributions of returns have “fat tails”
 - ▶ “Volatility clustering”: high volatility follows high volatility
- ❑ Standard statistical estimators do not work for these returns
- ❑ IF it is possible to find non-linear transformation $F(\bullet)$ so that returns R_t are transformed into W_t , uncorrelated Gaussian variables

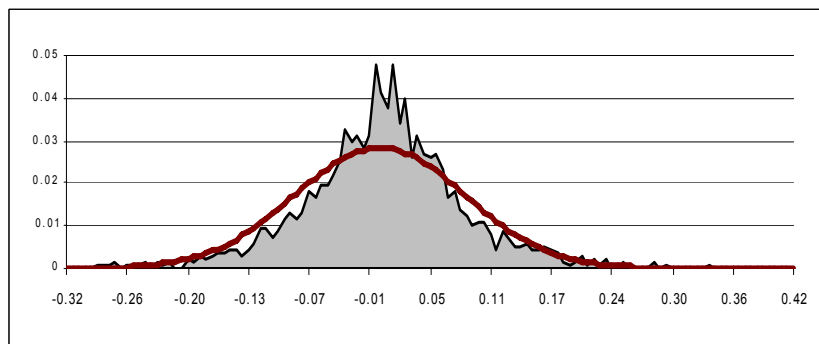
$$W_t = \frac{R_t}{F(R_t, R_{t-1}, R_{t-2}, \dots, R_{t-n})}$$

THEN

- Only Gaussian series have to be analysed

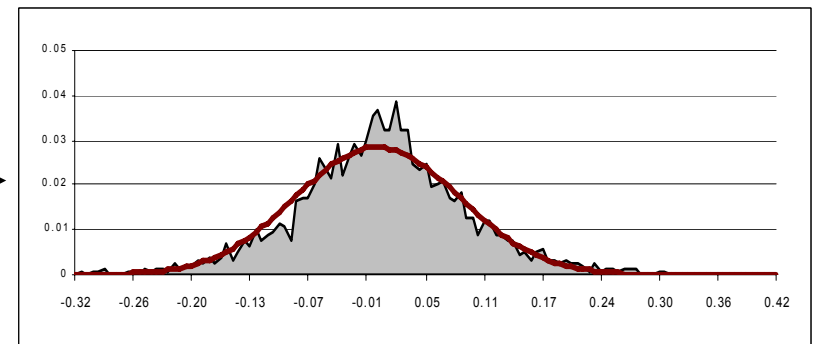
$F(R_t, R_{t-1}, R_{t-2}, \dots, R_{t-n})$ is the volatility estimate. If it exceeds a certain volatility threshold the period is “fast”

Historical Distribution of Returns



$F(\bullet)$ →

Distribution of Transformed Series



Source: Bloomberg, Fusion Asset Management

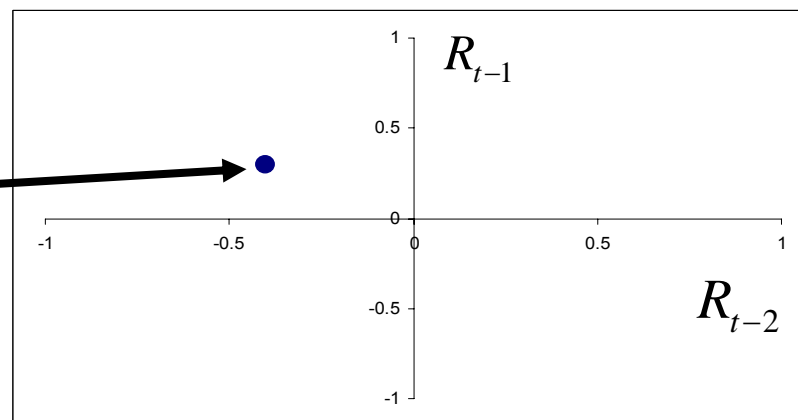
No Parameters => No Calibration => Low Sensitivity to Sampling => Stable Performance

Non-Linear Cluster Analysis

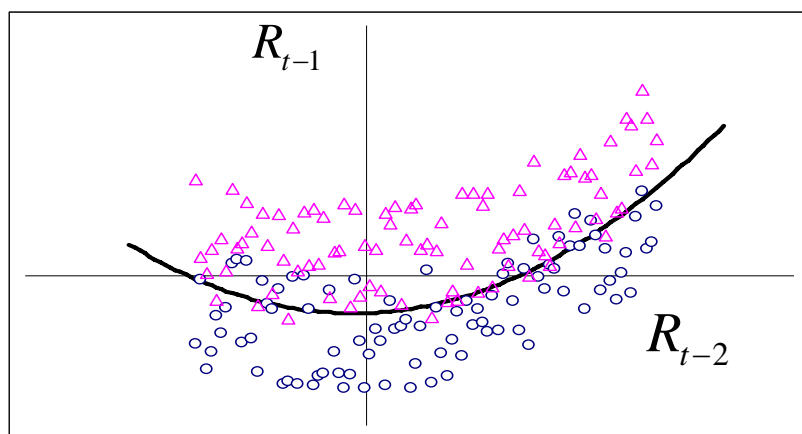
Volatility Follows Volatility => Volatility Clustering => Non-Linear Cluster Analysis

Return histories $(R_{t-1}, R_{t-2}, \dots, R_{t-n})$
 are points in n -dimensional space

$$(R_{t-1}, R_{t-2})$$



Separation of “fast” and “slow” clusters



Point is labelled as “fast” if the next period has higher than average realised volatility and labelled as “slow” otherwise

IF

“fast” points in n -dimensional space can be separated from “slow” point by some non-linear boundary

THEN

history of realised variances has predictive power for future realised

System can handle large n =dimensions => long volatility memory (**ARCH / GARCH CANNOT !!!**)
 Not suffering from “dimensionality curse” and local minima as Decision Trees and Neural Networks

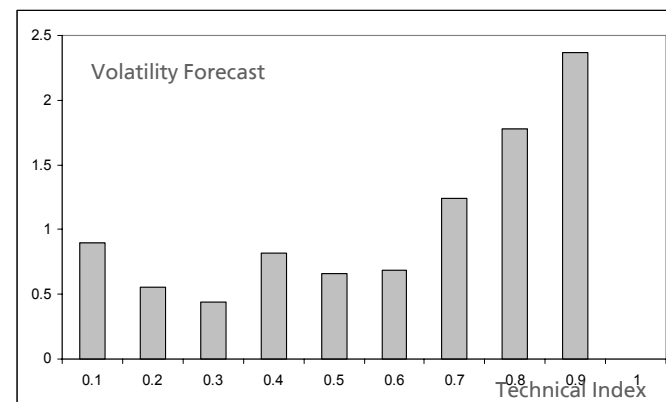
Technical Models

- ▣ **Price-derived indicators**
 - ▶ Trends / Ranges
 - ▶ Gaps
- ▣ **and time / volatility-driven indicators**
 - ▶ Volatility scaling with time
 - ▶ Volatility of volatility ranges
- ▣ **analysed separately to identify "fast" (1) or "slow" (0) periods**
- ▣ **Output of indicators is combined into Technical Index**
 - ▶ Weight of each particular indicator is defined dynamically by its performance
 - ▶ Index is distributed between 0 and 1
- ▣ **Technical Index value is compared with a threshold to forecast next volatility regime for the next period**

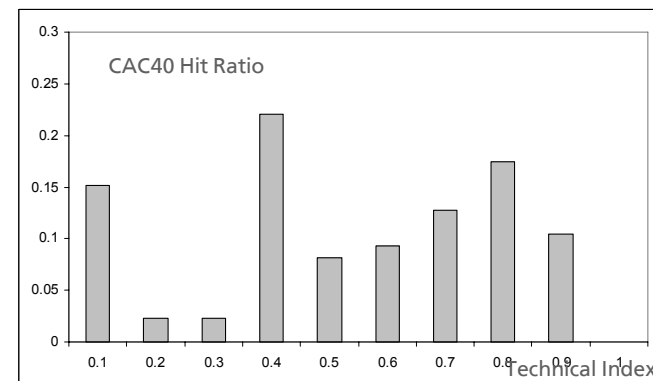
Advantage

- ▶ Intuitive nature of indicators - **NOT BLACK BOX!**
- ▶ Robust selection
- ▶ Parameters consistency across assets

CAC40 Fast Performance Ratio* vs. Technical Index



CAC40 Hit Ratio** vs. Technical Index

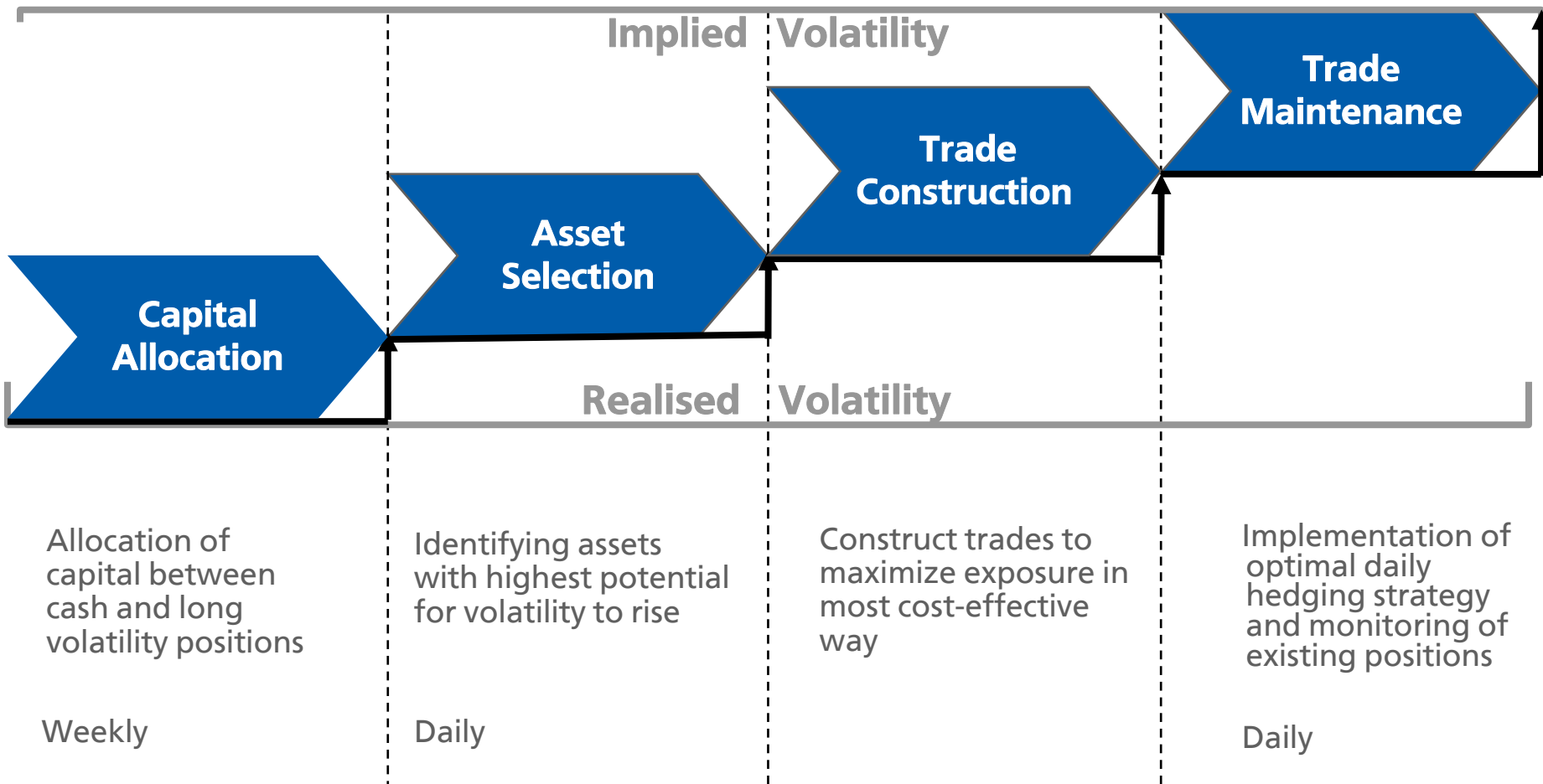


* **Performance Ratio** is ratio of conditional variance of model output to total variance. 150% ratio means that average "fast" periods of the system is 150% higher than average variance.

** **Hit Ratio** is ratio of true signals from the model to total number of signals. 50% Hit Ratio for fast periods means that system predicts "fast" days with 50% probability.

Investment Process

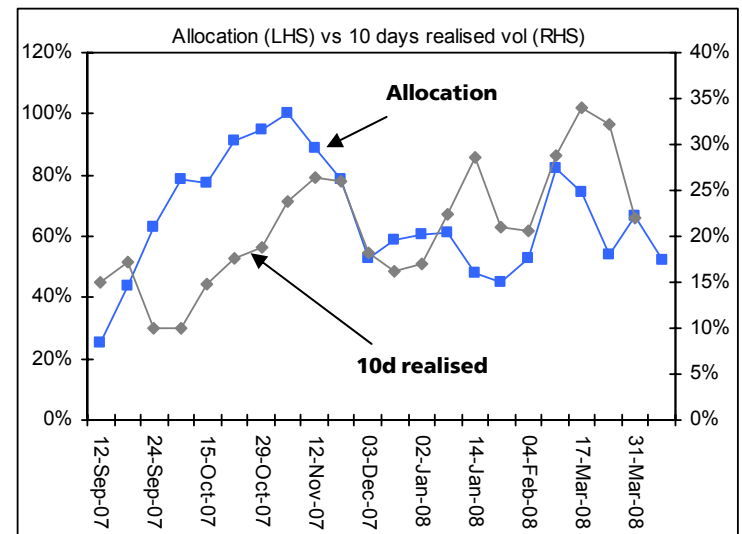
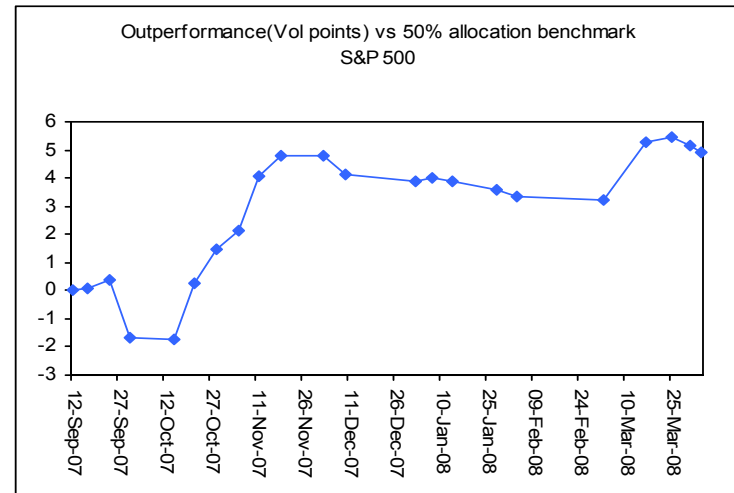
Quantitative approach based on models with proven robustness for different time frames and wide selection of assets



Capital Allocation

Objective: Decide on how much long volatility exposure to have in portfolio

- Minimum of 25% of Risk Capital allocated at all times
- Analysis of forecasts for weekly, monthly and quarterly time horizons across all underlying assets using two different distinct sets of models
 1. **Quantitative models** – Non-Linear Statistical Model, Non-Linear Cluster Analysis, Technical Model – volatility forecasting based on historical time series analysis of data for each asset
 2. **Supporting Models** – Market Sentiment / Positioning Indicators – show predictive power for future levels of realised volatility without using any asset price data input
- Capital Allocation decision is arrived at by combining the forecasts from both Quantitative and Supporting Models



Asset Selection

- Objective:** Choose assets with highest potential for volatility to rise via screening process consisting of combination of quantitative and fundamental research techniques
- ❑ Investment universe consists of assets for which models demonstrate robust historical performance and predictive powers
 - ❑ Quantitative models derive daily estimates of weekly and monthly volatility forecasts and select assets with highest estimates
 - ▶ Non-Parametric Statistical Model
 - ▶ Non-Linear Cluster Analysis
 - ▶ Technical Model
 - ❑ Search for correlation anomalies between different assets with same risks – within and between asset classes
 - ❑ Additional screening based on sell-side research for long volatility trade ideas and filtering them through quantitative models

Trade Example

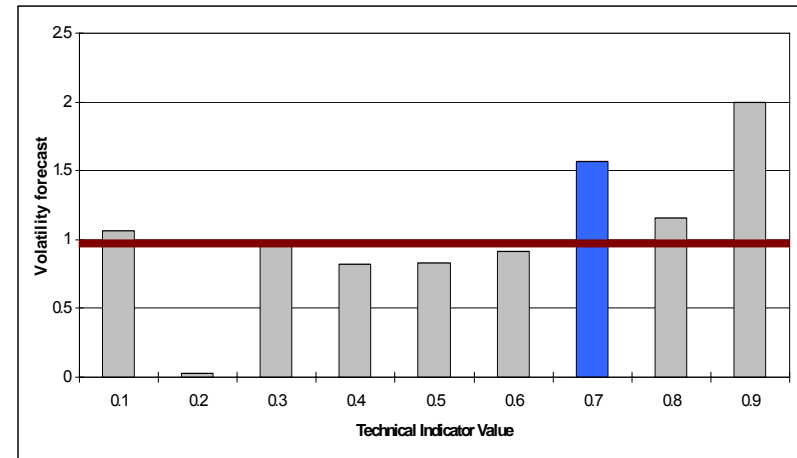
Catalyst

- ❑ Technical Model forecasts potential spike in realised volatility of BUND futures for 1 week to 1 month horizon
- ❑ Range / Trend analysis indicated possibility of spot breakout

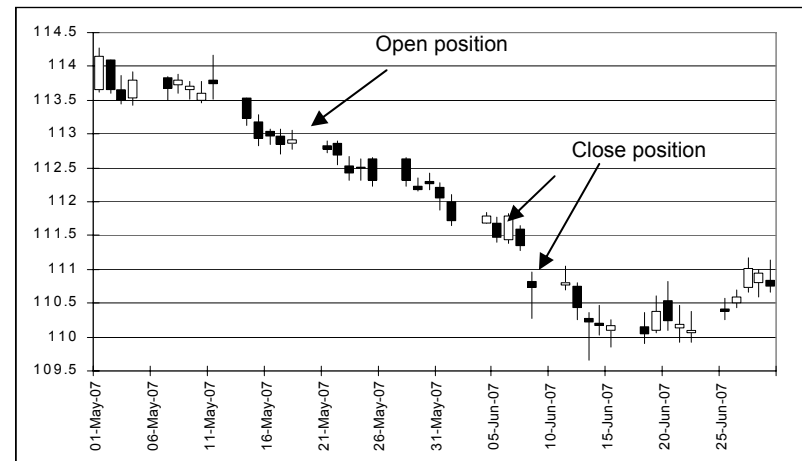
Trade

- ❑ Long 1 month straddle on BUND futures on 18 May 2007
- ❑ Maximum Gamma
- ❑ Cheapest point on volatility surface
- ❑ Potential for additional volatility pickup due to steep smile
- ❑ Spot started to move sharply lower from 25 May 2007. Position was closed on 5,6,8 June 2007 during three "fast" days
- ❑ Gamma and Vega contributed to 6% return over 10 days period

Volatility forecast vs. Technical Index value for BUND Futures



BUND Futures price chart



Trade Construction

Objective: Create exposure in selected assets in most effective way to maximise exposure with minimal costs

- ❑ Construction varies by asset class
- ❑ Exploit dynamics of volatility surfaces
- ❑ Shape of forward curve will affect choice of strike and maturities
- ❑ Utilise hidden correlations to enhance long convexity in positioning
- ❑ Filter out assets with overpriced implied versus realised volatility premium
- ❑ Optimise balance of low carry, positive volatility slide and minimise potential downside to the trade

Trade Example

- ❑ Two of the Quantitative Models predict volatility spike for TRY and BRL currencies on weekly and monthly time horizons
- ❑ Term structure of volatility is flat for both currency pairs
- ❑ Forward curves very upward sloping versus USD due to interest rate differentials => expensive to buy ATM options

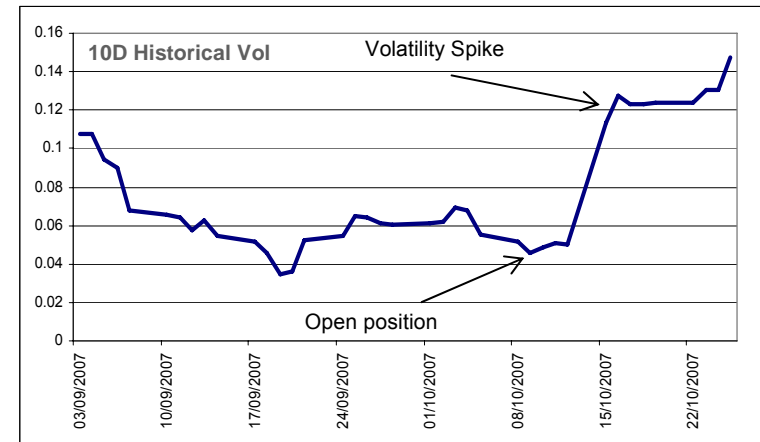
Trade:

- ❑ Long volatility position on TRY / BRL cross currency
 - ▶ Long idiosyncratic moves on both currencies
 - ▶ Forward curves cancel each other and minimise carry
 - ▶ Volatility downside is protected through embedded correlation exposure within structure
 - ▶ Difference in time zones makes intraday volatility higher than close-to-close volatility from which options implied volatility is priced

Trade Example – Continued

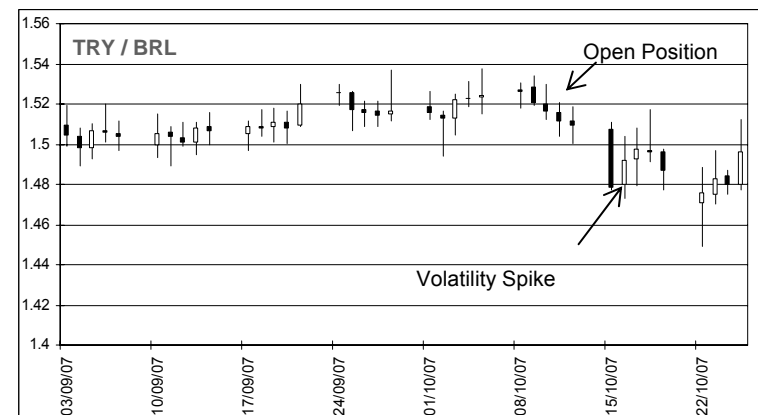
- ❑ 10 Oct 2007: enter position in TRY / BRL
1year ATM forward option with implied volatility at 10.5%
- ❑ Both currencies moved on 19-22 Oct 2007
- ❑ TRY volatility outperformed
- ❑ Cross currency moved sharply with a spike in implied volatility to 13%
- ❑ Gamma and Vega contributed to 5% return over two weeks period

10 days realised volatility for TRY / BRL



Source: Bloomberg, Fusion Asset Management LLP

TRY / BRL Cross Rate from 3 Sep 2007 to 25 Oct 2007



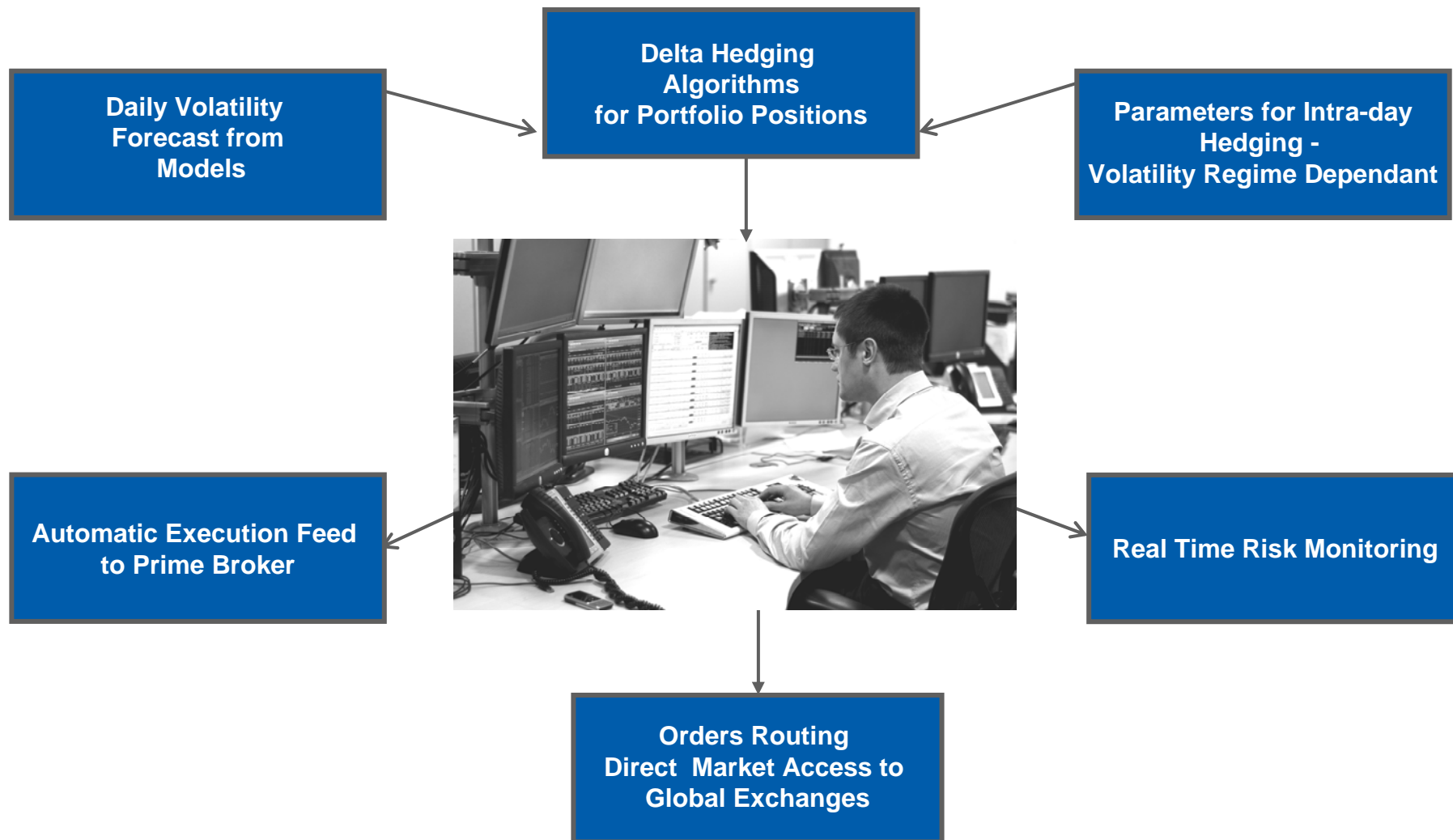
Source: Bloomberg

Trade Maintenance

Objective: Optimize Delta hedging and timing of exit of positions

- ❑ State-of-the art Automated Trading Platform used to implement real-time hedging strategy
- ❑ Daily estimates for high-to-low and close-to-close realised volatility derived from
 - ▶ Non-Parametric Statistical Model
 - ▶ Non-Linear Cluster Analysis
 - ▶ Technical Model
- ❑ Data releases and economic calendar are overlaid on quantitative forecast to account for positive event risk
- ❑ Hedging parameters selected to maximise intraday hedging performance with systems actively monitored by the portfolio manager
- ❑ Positions exited if there is change in Capital Allocation or in medium term volatility forecast

Integrated Risk Management and Execution Management



Portfolio Construction and Risk Management

- ❑ Minimum of 25% of Risk Capital allocated at all times
- ❑ Invested across at least 2 asset classes
- ❑ Total premium invested limited to between 8% and 30% of NAV
- ❑ Premium of any one asset cannot exceed 15%
- ❑ Risk Limits
 - ▶ Vega positive
 - ▶ Gamma positive
 - ▶ Crash Protection
 - ▶ Theta will not exceed 0.2% per day of NAV
 - ▶ Monthly volatility of returns expected to be +/-0.75% in normal market environment

Portfolio Construction and Risk Management

Example of Summary Exposure (August 2008) as % NAV

	Vega	Gamma	Theta	CS1(-10%)*	CS2(-20%)**
TOTAL	1.98%	59.00%	-0.06%	12.03%	34.95%
G10 EQUITY	0.25%	3.14%	-0.015%	1.10%	3.71%
EM EQUITY	0.19%	1.87%	-0.019%	1.50%	5.08%
EM FX	0.98%	14.97%	-0.009%	5.46%	14.69%
FIXED INCOME	0.56%	39.02%	-0.013%	3.97%	11.47%

*CS1 – underlying price daily move in equities -10 %, in FX and FI - 5%

**CS2 – underlying price daily move in equities - 20%, in FX and FI -10%

- ❑ Capital allocated is 55% of NAV
- ❑ 8 underlying positions, diversified across 4 asset classes
- ❑ Geographical diversification
- ❑ July-August 2007 type scenario is +8%
- ❑ 9/11 type event is +12%(Gamma) + 9% (Vega)

Summary

- ❑ Compelling addition to a portfolio
 - ▶ Uncorrelated returns versus underlying markets
 - ▶ Strong performance during volatility spikes
 - ▶ Minimal cost in normal market environment
 - ▶ Guaranteed to capture crash event
 - ▶ Capital gains preserved by active gamma trading

- ❑ Valuable as protection for all times especially in mature bull markets

- ❑ Years of trading experience, proprietary research and infrastructure development

Fusion Asset Management

- ❑ **Experienced Manager**
 - ▶ 5 year track record of quality positive returns in various market regimes
 - ▶ Expertise in systematic trading strategies across major asset classes
 - ▶ Strong emphasis on capital preservation

- ❑ **Balanced Team**
 - ▶ Diverse risk management and trading experience
 - ▶ Continuous in product innovation
 - ▶ Strong academic background

- ❑ **Robust Infrastructure**
 - ▶ Proprietary automated trading and operation software
 - ▶ Ongoing investment in systems development
 - ▶ Dedicated IT and R&D team

Brief History of Fusion Asset Management

Fusion Asset Management LLP was set up in May 2004 with Kirill Ilinski being one of 3 founding partners

December 2004 – October 2006: the firm managed the Fusion Credit Relative Value Fund, achieving a return of 16.7% with 2.5% drawdown over the period

Since November 2006 Fusion has been providing investment management services to Plexus Partners LLP, trading quantitative credit and cross-asset volatility strategies

December 2006: Fusion opened a Moscow office to enhance its research and operational capabilities and to offer advisory services to Russian corporate clients



Since May 2007 Fusion has been managing a new multi-asset volatility product

The Fusion Volatility Fund launched in July 2008

Fusion volatility strategy delivered 12.5% net performance in 2008; Fund performance was ranked in first 5% of multi-strategy funds in crisis months of September-October 2009

January 2009: Fusion launched Cash Management Program targeting return of Libor+450 with daily liquidity

April 2009: Fusion executed its first hedge overlay program for a multi-billion European Fund of Funds. Fusion Hedge Overlay is designed to provide institutional investors with an opportunity to outsource tactical hedges

Strong and balanced team of experienced investment professionals with proven track record

Fusion Products & Services

Investment Products

- ❑ **Fusion Volatility Strategy** - Absolute return, long-only options strategy, investing across all major asset classes and designed to deliver consistent positive returns during periods of market stress and corrections
 - ▶ Two years track record, achieving total return of +18.2% after fees
 - ▶ Valuable addition to diversified investment portfolio
 - ▶ Available as investment in the fund or as managed account

- ❑ **Fusion Cash Management Program** - Systematic cash management strategy designed to deliver consistent positive return with target LIBOR+450 and 2-3% annualised volatility
 - ▶ Fusion manages its cash reserves in the program since January 2009, total return +4.4%
 - ▶ Strategy trades only in G10 currencies, offers daily liquidity and provides full transparency
 - ▶ Available as managed account or investment in a share class of the fund

Advisory Services

In its advisory capacity Fusion uses its investment talent, research and experience to provide our clients with advice in construction of tailor-made portfolios, specialized hedging strategies and complex specialty financing transactions

- ❑ **Fusion Hedge Overlay Program** – Outsourcing investors' tactical portfolio hedging to an experienced asset manager with a proven track record in managing complex risks
 - ▶ Program is run for large Fund of Hedge Funds since April 2009
 - ▶ Option to utilise Fusion Cash Management Program for unencumbered cash
 - ▶ Available as investment in a share class of the fund

Robust Operations Infrastructure

- ❑ Established operations infrastructure tested in all market environments
- ❑ Smooth workflow between Investment Team, Operations, Risk Management and Product Control
- ❑ Integrated front-to-back office system supporting execution and settlement process

External Book-keeping and Valuation

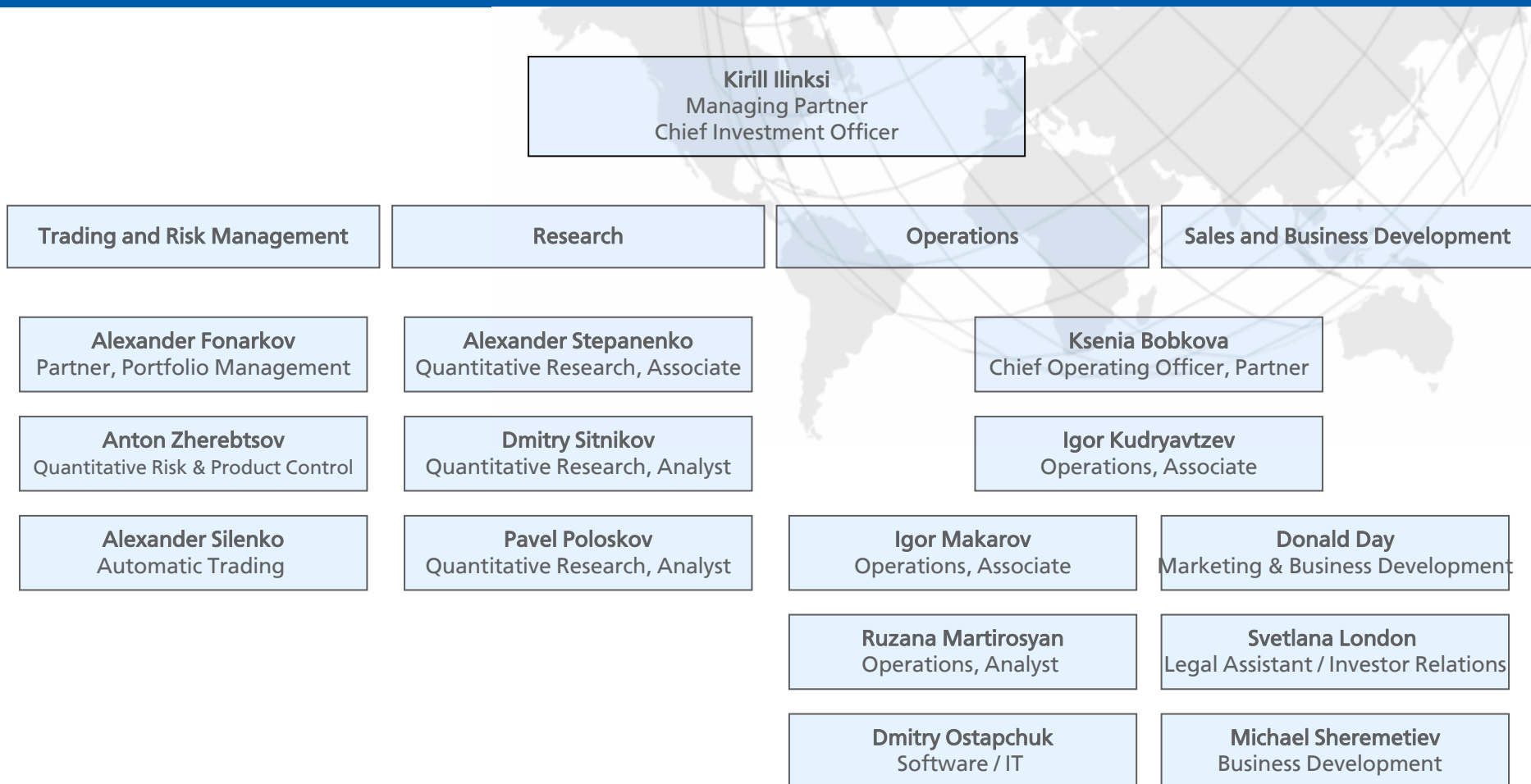
- ▶ Daily cash reconciliation between Prime Broker and Administrator
- ▶ Weekly position reconciliation between Prime Broker and Administrator
- ▶ Independent Net Asset Value (NAV) calculation by Administrator
- ▶ NAV reconciliation between Administrator and Manager
- ▶ NAV reported to investors directly by Administrator

Internal Trade processing

- ▶ Programmed electronic execution of orders
- ▶ Automatic feed of trading information to trade capture system
- ▶ Automatic uploads of the trades into risk management system
- ▶ Same day trade matching
- ▶ Next day cash and position with Prime Broker reconciliation
- ▶ Intraday monitoring of risk limits by Risk and Product Control

- ❑ Experienced Operations Team
- ❑ Continuous investment in people, their professional growth
- ❑ Stable team, low turnover

Fusion: Organisational Chart



Fusion Management Team



Kirill Ilinski, Founding Partner and Chief Investment Officer of Fusion Asset Management. From 2000 to 2004, he worked as a Vice President in Equity Derivatives at JP Morgan Chase in London. There he co-founded the Debt-Equity Relative Value Group whilst trading equity and credit derivatives. From 1994 to 2000, Kirill was a Research Fellow at the University of Birmingham. In 1997, he studied Financial Management at the Institute of Finance and Economics, St. Petersburg. Kirill graduated from Leningrad University with MSc in Physics in 1992. Kirill has a PhD in Mathematical Physics awarded in 1994 by the Mathematical Institute of the Russian Academy of Sciences.



Alexander Fonarkov, Partner, joined Fusion in 2007 from JPMorgan, London where he was Executive Director in charge of Russia & CEEMA equities trading. He started his career in finance in 1995, moving to Regent Fund Management Group in 1996. He moved to Robert Fleming in Moscow in 1999 to run local trading and later was transferred to London as a senior equity trader (JPMorgan, London, 2001-2007). Alexander graduated from the Moscow Institute for Physics and Technology in 1997 with an MSc in Physics.



Ksenia Bobkova, Partner, Chief Operating Officer, overseeing business infrastructure, compliance and legal matters. Ksenia is also the primary contact for marketing and business development. Ksenia has been with the firm as a partner from its foundation. Prior to joining the firm, Ksenia worked at the international law firm Allen & Overy LLP (Banking). She graduated from Edinburgh University, LLB (Hons) in 1998. Ksenia is a solicitor (2003) and an attorney in state of New York (2001).



Anton Zhrebtsov, Head of Quantitative Risk and Product Control. Anton joined Fusion in 2004, after internship at JPMorgan Debt-Equity Relative Value Group. He was instrumental in building Fusion quantitative trading infrastructure, as well as developing and implementing several quantitative trading strategies, including components of credit relative value strategy, long volatility and the cash management strategy. Anton graduated from Leningrad University with MSc in Physics in 2004.

Fusion Management Team



Igor Kudryavtsev, Head of Moscow operations, responsible for business development and systems implementation. Igor joined Fusion Group in 2006 and became General Director of Moscow operations in 2008. In 2000-2006 he was Head of Marketing and Business Development for the supermarket chain “Stolitsa” OJSC (Moscow). In 1996-2000 Igor worked as a General Director and Chief Financial Officer of wholesale distributor “Sladkaya Radost” Llc. Igor started his carrier as a software engineer at MP Architecture of Scheme and systems Analysis (ASSA) in 1993. Igor graduated with MSc in Physics (1993) from the Moscow Institute of Physics and Technology.



Igor Makarov, Head of Middle Office. Igor has many years of experience in planning and setting up business processes for a variety of service providers and trading firms. Prior to Fusion Asset Management Igor worked as a senior business analyst in CBOSS company (2004 – 2007), financial products specialist at DeltaBank (2003 – 2004) and Bank Austria Creditanstalt (1999 – 2000). Igor graduated from the Physics Department of Moscow State University in 2002 with MSc in Physics.



Dmitry Ostapchuk, Head of IT and Application Development. Dmitry has extensive experience in developing and maintaining software applications for a wide range of multi-user trading environments with complex middle- and back-office functions. He worked as a Head of IT in several retail trading companies, including ZAO “Rezerv”(1994-1998) and supermarket chain “Stolitsa” OJSC (1998-2006). Dmitry graduated with MSc in Physics (1991) from the Moscow Institute of Physics and Technology.

Kirill Ilinski

Founding Partner and Chief Investment Officer of Fusion Asset Management LLP

Graduated from Leningrad University (1992) with a MSc in Physics and received a PhD in Mathematical Physics from Mathematical Institute of Russian Academy of Sciences (1994)

Research Fellow at School of Physics of Birmingham University (1994 - 2000) with a break in 1997 when he studied Financial Management at the Institute of Finance and Economics, St. Petersburg

- ▶ Published more than 40 papers on various subject in physics, mathematics and economics

His interest in application of methods of theoretical physics to financial modelling resulted in developing gauge theory approach to non-equilibrium asset pricing (1997)

- ▶ Monograph “Physics of Finance. Gauge Modelling in Non-Equilibrium Pricing” by Wiley & Sons (2000)

Joined Equity Derivative Group of Chase Manhattan in London (later JPMorgan Chase) as a quant in 2000 and later moved to proprietary trading in derivatives on European indices, Equities and Credit

Introduced Credit Risk Reversal, the Market Model for relative Credit/Equity Volatility pricing and hedging which corrected short-comings of structural Merton-style debt-equity models

- ▶ Created a range of credit “bear” products for funds and bank loan portfolios
- ▶ Co-founded JPMorgan Debt-Equity Relative Value Group
- ▶ Strategy became landmark in Debt-Equity trading and was acknowledged as one of JPMorgan’s achievements for IFR “Derivatives House Of the Year” 2003 award

Left JPMorgan Chase in 2004 to setup Fusion Asset Management LLP

Fund Structure

Name	Fusion Volatility Fund
Investment Manager	Fusion Asset Management LLP
Jurisdiction of Fund	Cayman Islands
Regulation of Investment Manager	Authorized and regulated by the Financial Services Authority
Minimum Investment	\$100K
Subscription/Redemption	Monthly
Management Fees	2% pa monthly
Performance fees	20% performance semi-annually, with high watermark
Redemption Gate	Discretionary 25% of Fund's NAV monthly
Redemption penalty	0-6 months 2% fee, 6-12 months 1% fee
Capital Structure	Class A1 – USD, Class A2 – EUR
Listing of Class A	Irish Stock Exchange
Reporting	Monthly Investor Reports / Annual Audited Financial Statements
Prime Broker	UBS AG
Administrator	Citi Hedge Fund Services (Ireland), Limited
Legal Adviser	Dechert LLP / Walkers
Auditor	E&Y

Contact Details

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Additional information can be requested from

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Trade Examples

Trade Example – ING Groep

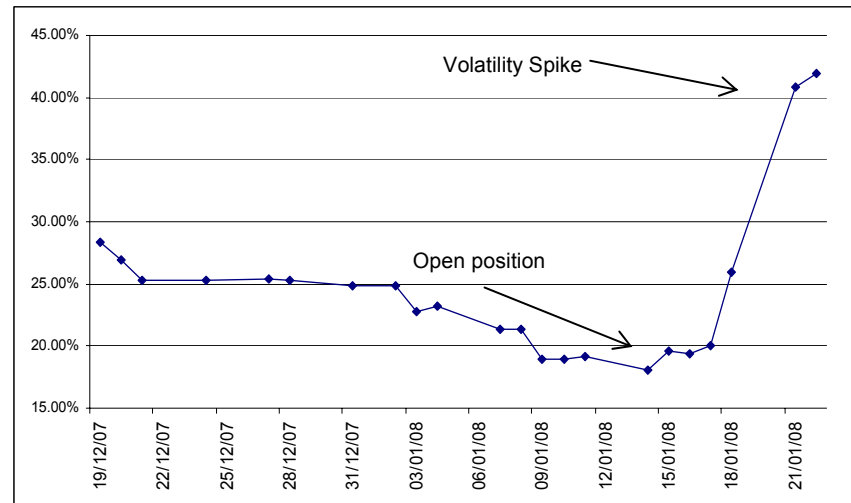
Catalyst

- ❑ 15 Jan 2008: Technical model forecast volatility spike on monthly horizon
- ❑ 16 Jan 2008: Cluster Analysis model predicts volatility spike on weekly horizon

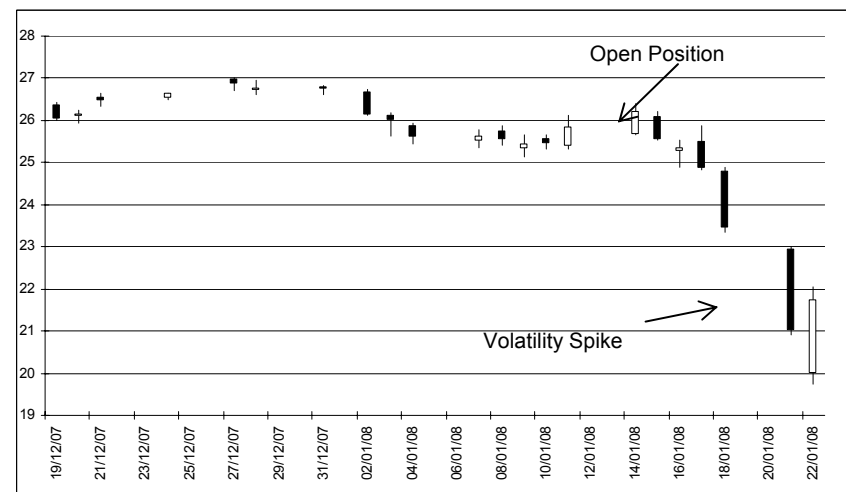
Trade

- ❑ Long 9 months 25 delta calls
Steep skew:
 - partially protects against declining volatility in case of upside move
 - provides positive slide
- ❑ Stock experiences sharp sell off accompanied by rise in implied and realised volatilities
- ❑ Position exited on the 21st of Jan. Gamma and Vega contributed to 19% return over 5 days holding period

30 days realised volatility for ING



ING stock price 19 Dec 2007 to 22 Jan 2008



Source: Bloomberg

Trade Example – Bund future

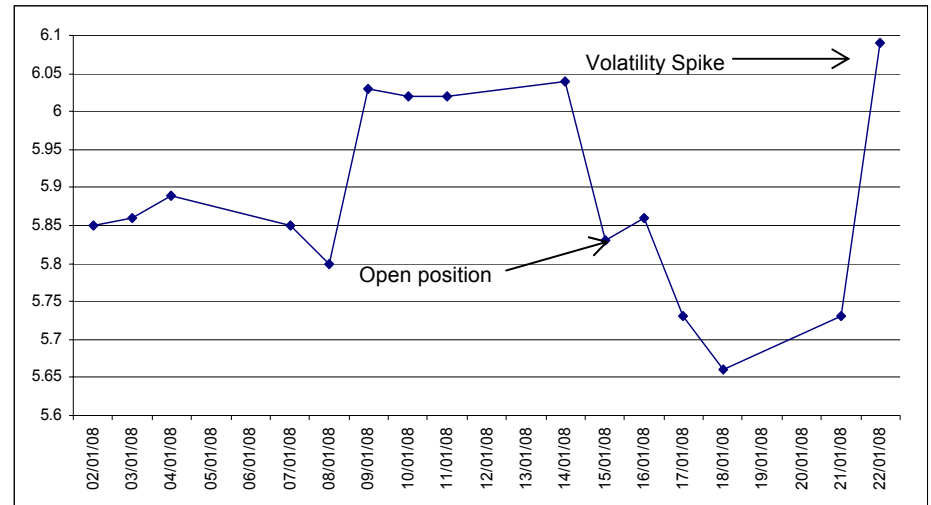
Catalyst

- 15 Jan 2008: Cluster Analysis model forecast volatility spike on weekly time horizon

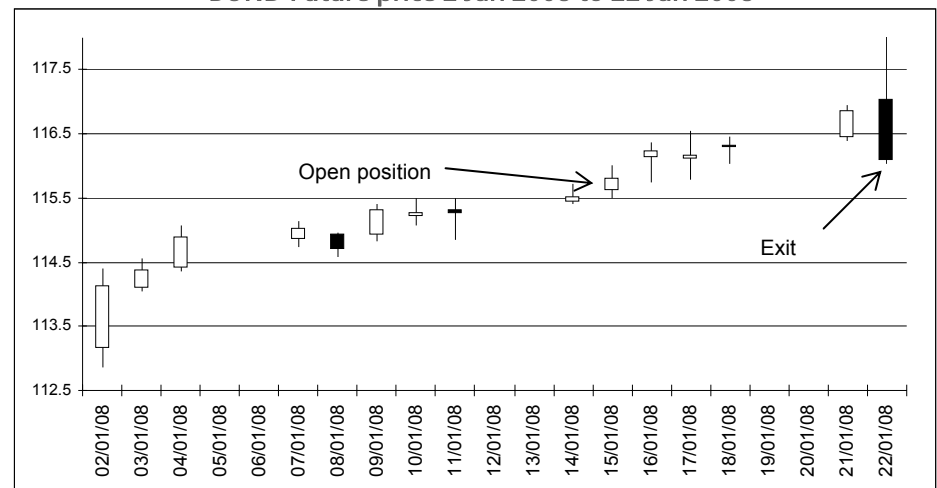
Trade

- Long 3 months 114.5/116.5 strikes strangles
- Close-to-close volatility dips but high-to-low volatility remains elevated.
- Gamma trading based on daily forecast to cover time decay and earn profit
- Volatility picks up on 21 Jan accompanied by rise in implied volatility
- Position exited on the 21 and 22 Jan 2008. Gamma and Vega contributed to 16% return over 7 days holding period

30 day realised volatility for BUND Future



BUND Future price 2 Jan 2008 to 22 Jan 2008



Trade Example – Israeli Shekel

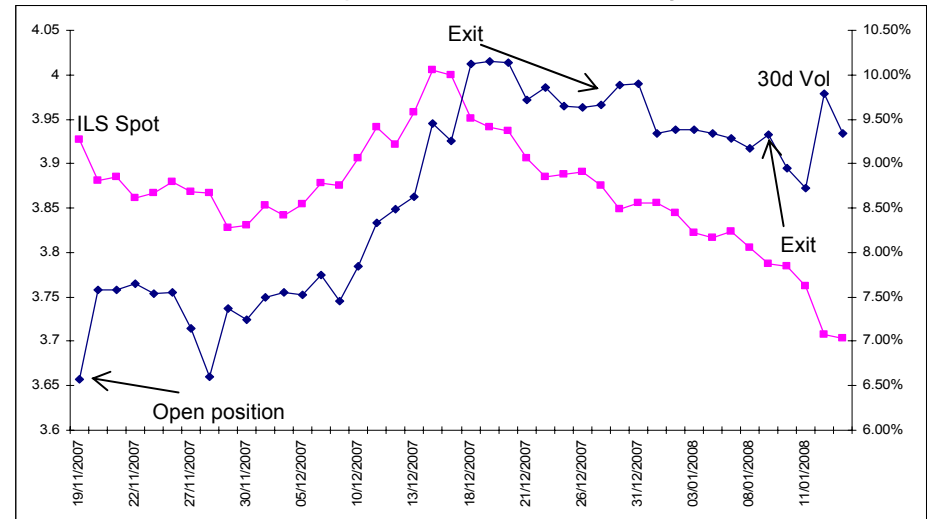
Catalyst

- 12 Nov 2007: Non-parametric statistical model forecast volatility spike on weekly time horizon
- 20 Nov 2007: technical model predicts spike in volatility on monthly horizon

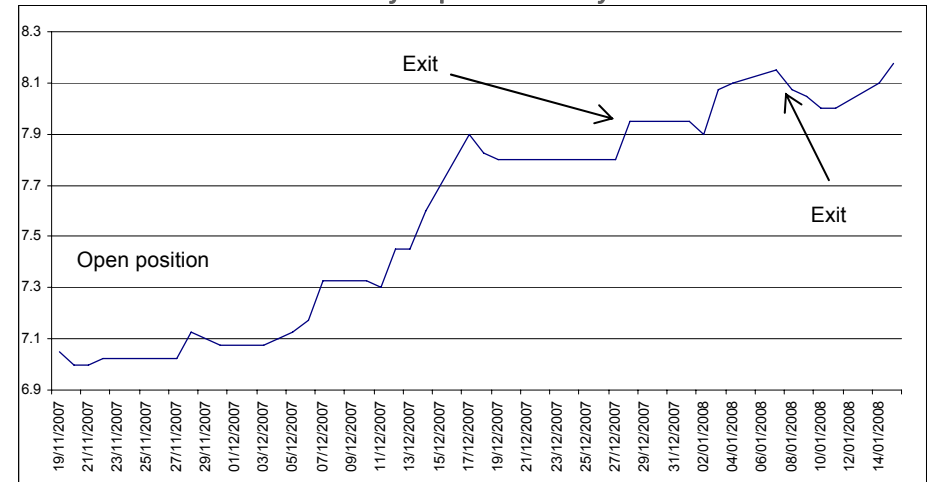
Trade

- Cheapest point on volatility surface is at the money forward - long 1 year straddle
- Realized and implied volatility pick up with spot rallying
- Position exited on 28 Dec 2007 and 9 Jan 2008. Gamma and Vega contributed to 8% return over 2 month holding period

ILS spot vs 30d realised volatility



ILS 1y implied volatility



Source: Bloomberg

Trade Example – Coffee future

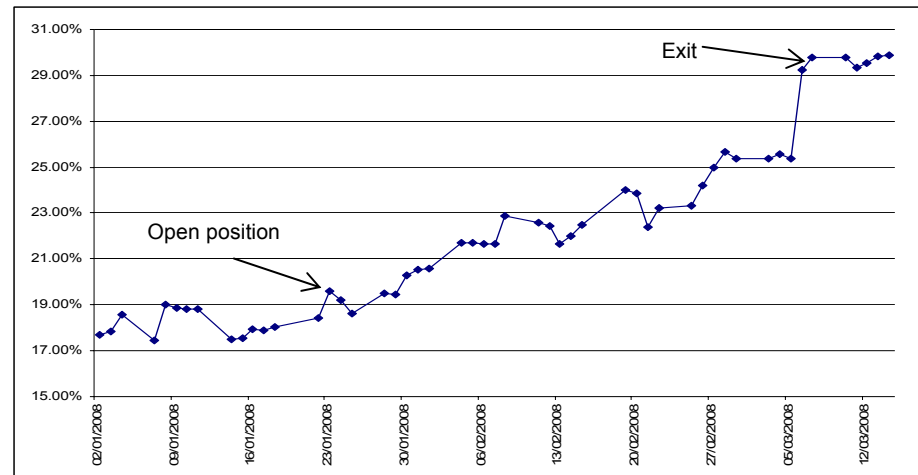
Catalyst

- ❑ 23 Jan 2008: Technical Model predicts volatility rise on monthly horizon
- ❑ 25 Jan 2008: Cluster Analysis model forecast volatility spike on weekly time horizon

Trade

- ❑ Long 3 months at-the-money straddles at implied volatility of 24%
- ❑ Market starts to trend up with gradual increase in realised volatility. Intraday delta hedging successfully covers time decay
- ❑ Week of 3 March Coffee futures experience sharp sell off which allows to capitalize on both spikes in realised and implied volatilities
- ❑ Position exited on 7 March. Gamma and Vega contributed to 13% return over 6 weeks holding period

30 days realised volatility for Coffee C Mar 08 Future



Coffee C Mar08 future price 2 Jan 2008 to 15 Mar 2008

