



Fusion LIBOR+ 800

SEB Prime Solutions UCITS platform

KIRILL ILINSKI, FOUNDER AND CIO, FUSION ASSET MANAGEMENT LLP

Fusion LIBOR+ 800 is a currency UCITS fund open to professional and retail investors, offering daily liquidity and targeting returns of 8% over LIBOR with 4.5% volatility. It is a systematic FX strategy trading spot G10 currencies only, capitalising on the largest and most liquid of the global markets. This emphasis on liquidity means LIBOR+ is ideally suited for UCITS purposes.

The underlying strategy has a two year track record, as the LIBOR+ range has been offered to investors since 2009 in fund format and on a managed account basis.

Genesis of the idea

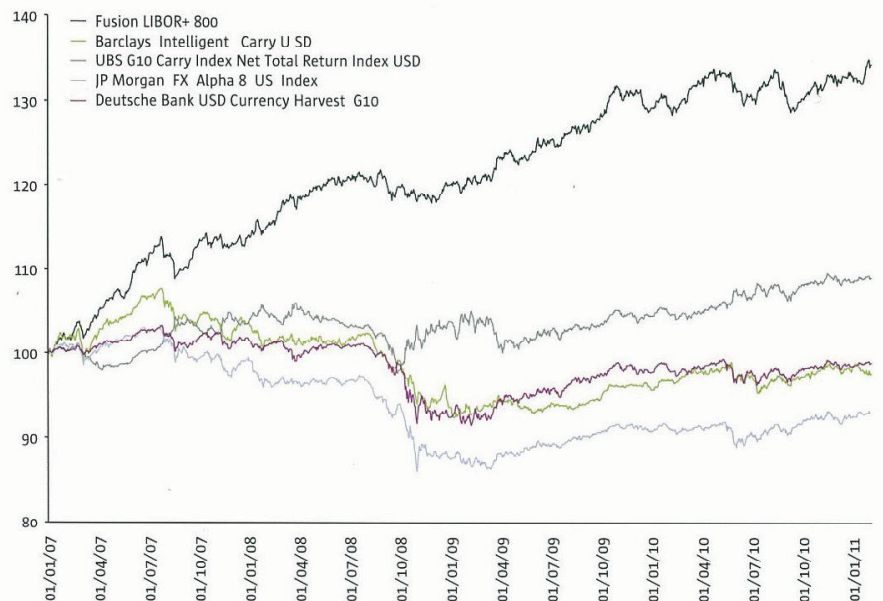
Since founding Fusion in 2004, we have always striven to attract the best talent and now I am leading a six-strong investment team and several dedicated R&D units. One of our key objectives is to always be protective of our investors' downside and, thus, we established our name through work on defensive strategies, particularly in the long volatility space. Fusion Long Volatility has consistently performed well since its inception in 2006, being ranked in the top 5% of multi-strategy funds by Bloomberg in both September and October of 2008, and again in May 2010.

In early 2008, with our Fusion Long Volatility being cash rich and interest rates falling so much, we started receiving negative interest on our cash. Our aim was to come up with a true cash product and combine it with the best elements of carry to create the best possible mechanism for managing the reserves. We analysed carry strategies, how they work (and how they don't!), and utilised our tried and tested volatility forecasting systems to come up with Fusion LIBOR+. Product development is at the core of everything we do, and is an ongoing and collaborative process, so it is logical that our currency strategy was borne out of our existing products.

The LIBOR+ range launched at the start of 2009 and in that year it was the best performing strategy on a risk-adjusted basis of all competing similar strategies from leading investment banks according to Bloomberg. LIBOR+ 450, which targets returns of

Fig.1 Fusion LIBOR+ 800 index versus competing carry indices

Source: Bloomberg



4.5% over LIBOR with 2.5% volatility and tracks the Fusion LIBOR+ 450 index, was the first of the range to launch and exceeded expectations by ending 2009 at 6.68%. LIBOR+ 800 was introduced later for clients seeking higher returns.

So, how does LIBOR+ work and why is it unique?

Intelligent carry

The LIBOR+ system looks at all G10 currencies every day, analysing all 45 cross-combinations of these currencies to create a buy or sell signal for each based on FX momentum and interest rates. These results are then overlaid with volatility filtering to determine the size of the whole portfolio. Carry strategies tend to suffer during times of increased volatility and risk aversion, but our ability to forecast volatility helps us to scale down our exposure and minimise drawdowns.

As the strategy trades only spot G10 currencies there is minimal credit risk. With daily liquidity and a high level of transparency through our LIBOR+ indices on Bloomberg, we offer a simple and effective way to manage cash balances and maximise returns.

For the majority of the time, the strategy is in carry regime, so we are long currencies with high interest rates. The system is carry-biased to take advantage of the well-established benefits of forward arbitrage. However, it can also go into anti-carry regime (i.e. long protective strategies and short currencies with high interest rates). This happens relatively rarely but is a crucial component of LIBOR+, affording us a lot more flexibility than traditional carry strategies.

The LIBOR+ system is a work in progress in the sense that we are always analysing and testing, searching for ways to improve it. However, in reality, we have very rarely adapted it or overridden it. Besides, there is always a discretionary element anyway; the investment team analyse the data produced by the system before the portfolio manager executes his daily trades.

Performance in 2009 was outstanding, but naturally last year was a challenging year for momentum-based strategies with rates being so low. Despite that, our LIBOR+ 800 index (which is

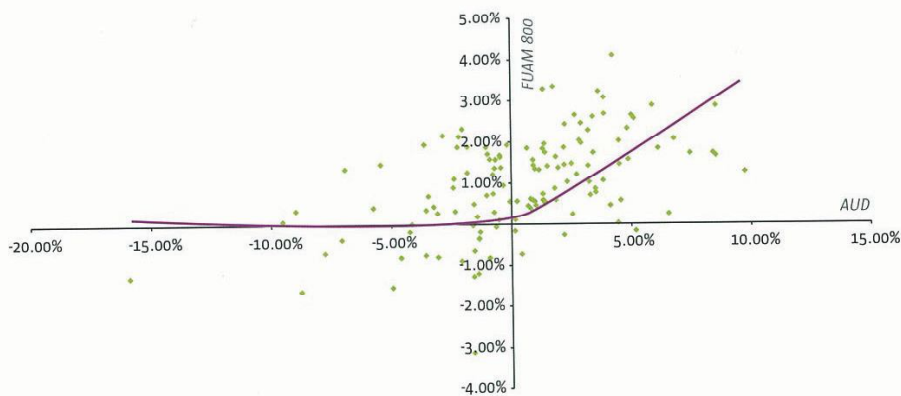
Table 1 Correlation of LIBOR+ 800 Index with major asset classes

Source: Bloomberg

	FUSION LIBOR+ 800	S&P 500	MSCI	VIX	GSCI	BONDS
Fusion LIBOR+ 800	100%	-	-	-	-	-
S&P500 Index	-4%	100%	-	-	-	-
MSCI World	8%	95%	100%	-	-	-
VIX Index	-9%	-64%	-59%	100%	-	-
S&P GSCI	-1%	-16%	-17%	16%	100%	-
JPMorgan Bond Index	28%	0%	12%	-3%	-9%	100%

Fig.2 Fusion LIBOR+ 800 index versus AUD

Source: Bloomberg



the index our UCITS fund is tracking) finished the year up more than 2% and was number two after UBS, which runs multiple carry indices.

UCITS wrapper

Launching our LIBOR+ product within UCITS brings our intelligent carry strategy to a huge new market of potential investors: both institutional clients, who are attracted by the regulatory benefits of UCITS, and retail investors who have the opportunity to invest with us for the first time.

The fund has a number of benefits for institutional clients; it provides an excellent way to manage cash balances while at the same time constituting a high-yielding FX component within the investment portfolio. It is also a great diversification component as it is uncorrelated to almost all other asset classes. The retail share class, with a minimum investment of \$10,000, allows individual investors to also reap these same rewards.

There are relatively few currency strategies within the UCITS universe, so it was a logical step for us to choose LIBOR+ as the first Fusion product to launch in this way. We have proved to be correct, as interest has been high from both institutional and retail investors, since we launched the fund in December.

Our UCITS fund is on the SEB Prime Solutions platform, managed by the Swedish banking group SEB (Skandinaviska Enskilda Banken). We chose it because of the bank's strong reputation across Europe and its excellent track record in working with funds and funds of funds. SEB developed a one-stop shop approach for their UCITS platform to enable quick fund launches and effective ongoing management.

We appreciate that UCITS funds are attractive to a variety of investors because of their regulated and transparent nature. They are excellent vehicles to provide clients with an extra level of confidence in their investment, and launching a UCITS fund ourselves has opened us up to a new tranche of investors in both the institutional and retail spheres.

The fund is regulated by the CSSF and domiciled in Luxembourg, one of the top destinations for regulated funds. SEB Fund Services S.A. is located in Luxembourg and is responsible for compliance with all the legal, regulatory and risk requirements of UCITS.

The currency and volatility expertise we have developed over the last seven years puts Fusion in the ideal position to move into advisory services. Since 2009, we have introduced and executed hedge overlay services and FX liquidity hedging services for funds of funds and other institutional clients. We also always continue to build on our core products: Fusion Long Volatility and LIBOR+. Both are now available in multiple formats including managed accounts, and I am personally delighted to introduce the first UCITS fund to our growing product line. **THFJ**

ABOUT THE AUTHOR

KIRILL ILINKSI

Kirill Ilinksi is founder and CIO of Fusion Asset Management LLP, an independent investment manager established in 2004 and regulated by the FSA. The firm specialises in providing portfolio management and advisory services for institutional and private investors.

KEY DETAILS

Fund name SEB Prime Solutions-Fusion LIBOR+ 800 Currency UCITS Fund
Management company SEB Fund Services S.A.
Investment manager Fusion Asset Management LLP
Domicile Luxembourg
Regulator CSSF
Status Open
Inception date 17th December 2010

STRATEGY

Kind of fund UCITS
Strategy group G10 FX
Region Global
Asset class Currencies

PARTICULARS

Bloomberg ticker - SEB Prime Solutions-Fusion LIBOR+ 800 Currency UCITS Fund SFLCIUA LX
Bloomberg ticker - Fusion LIBOR+ 800 Index FUAMLIB8
Domicile Luxembourg
Liquidity Daily
NAV calculation Daily
Min investment - institutional 100,000
Min investment - retail 10,000
Fund currency USD
Share classes USD, EUR

FEES

Entry fee 0%
Exit fee 0%
Management fee - institutional share classes 1% p.a.
Management fee - retail share classes 1.5% p.a.
Performance fee <O/N LIBOR 0%
Performance fee >O/N LIBOR 10% (semi annually)
High watermark Yes (institutional share classes only)

ANALYSIS

Current YTD 1.23%
Annualised return 14.76%
Annualised volatility 4%
Sharpe ratio 3.5
Correlation to S&P 500 10%

SERVICE PROVIDERS

Administrator European Fund Administration S.A.
Custodian Skandinaviska Enskilda Banken S.A.
Auditor PwC