

Oxeye FTSE 100 Option Strategies

Performance Comment to October 2008 and Outlook

The recent weakness in the FTSE 100 index, combined with soaring implied volatility [Chart 1], has led to large losses in our various strategies. The leveraged and uninsured strategy (passive) has been the hardest hit falling 45% year to date. The downside insured version has fallen 22%. Our best performer has been the Futures and Options Strategy (active) which is -7.5 % ytd and the strategy employed in the Oxeye Growth Fund \$ share class -9.4% ytd [Chart 2].

Chart 1 FTSE 100 IV vs FTSE 100 Index

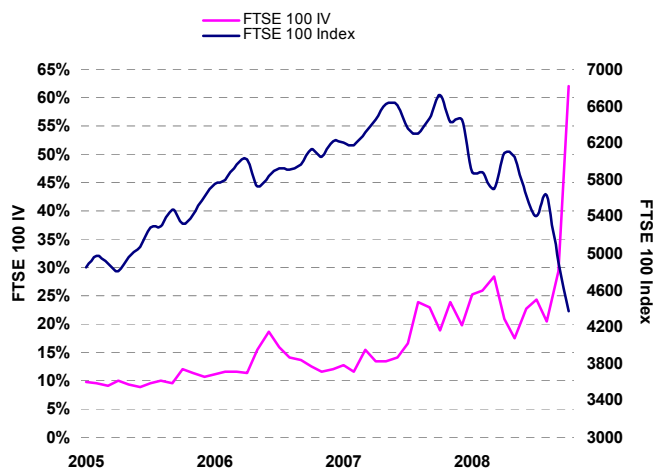


Chart 2 Oxeye Cumulative Performance

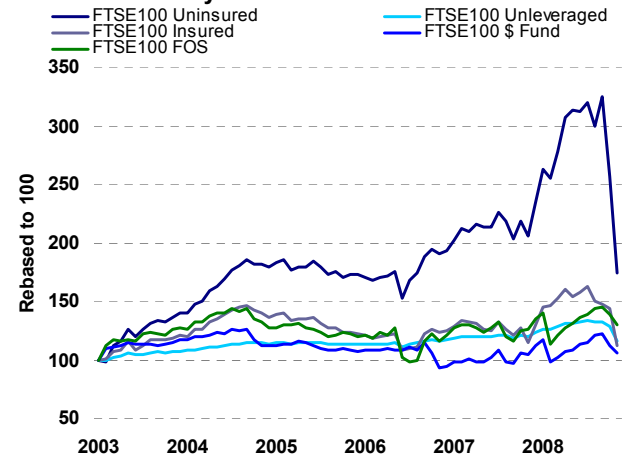
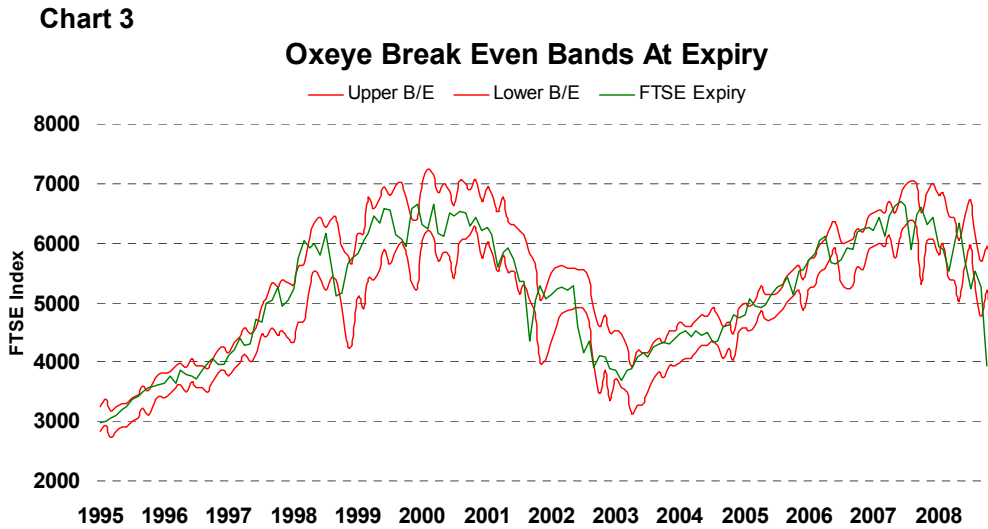


Table 1 illustrates how the main damage has been inflicted in the last 3 months.

Table 1

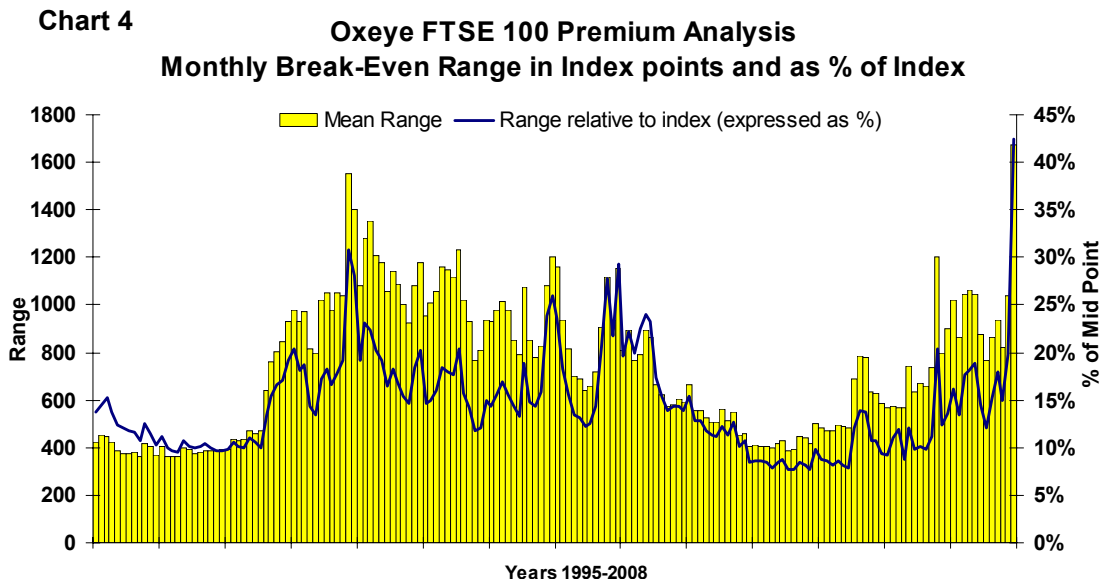
Year	\$ Class Fund	F-100 Insured	F-100 Unleveraged	F-100 Uninsured	Fut & Opts Strategy
2003	17.24%	19.37%	7.61%	40.26%	26.46%
2004	-4.05%	15.61%	6.22%	30.06%	0.93%
2005	-3.93%	-12.59%	-0.81%	-6.55%	-5.68%
2006	-8.68%	6.41%	4.11%	18.41%	5.73%
2007	18.44%	12.53%	7.23%	30.38%	10.05%
YTD	-9.40%	-22.31%	-8.13%	-33.78%	-7.47%
3 mths	-12.89%	-24.15%	-12.16%	-46.38%	-10.90%
Total Cumulative	5.90%	12.21%	16.28%	74.28%	29.63%

The Oxeye F100 passive strategy's performance is generated from selling volatility and managing the open risk in a systematic way. This creates a static break-even range which, if not breached, results in profits. But a break of the range can lead to losses [Chart 3]. In the FOS and Growth Fund active strategies a 'value' approach is used; the index's range is statistically forecast and options are only written if that range can be comfortably straddled for sufficiently good value.



If options struck inside the range are too cheap to sell then the strategy buys them. Hence the strategy adheres to one of the first principles of investment: buy low and sell high. In this manner we attempt to reduce the speculative nature of option trading and apply value analysis with the aim of creating a robust investment process.

This latter 'active' approach has recently outperformed the 'passive' approach as a result of being largely 'vega neutral' during the market decline. 'Vega neutral' means not losing money from the mark-up in option prices during periods of rising volatility. In **Chart 4** the spike in implied volatility over September and October is evident. In effect implied volatility recorded its highest level since we started the strategies in 1997- by some margin (see the blue line 42 % vs 30% in 1998 and 2002).



A quick look at Oxeye's past performance will show that the passive strategies lose money during such volatility spikes, but normally recover fairly rapidly in the following 6 to 9 months. However the

value approach followed by the active strategy theoretically allows the portfolio to be profitable in such sell-offs by being long of long-duration put options, which appreciate as the index falls and implied volatility rises. And although September and October were losing months, this was mainly due to unrealised losses from the dramatic rise in implied volatility.

Table 2

Date	IV% Move	Draw Down	9 Month Post Performance
Feb-08	100%	10%	177%
Sep-01	98%	57%	221%
Jul-02	129%	80%	522%
May-06	77%	25%	90%
Aug-07	85%	14%	64%
Oct-08	285%	108%	

Outlook

For the F100 strategy the volatility rise in October 2008 was greater than that of 2002. As can be seen the 9 month post performance at that time was +522%. We would therefore expect, once the market settles into a range and the range holds, to recoup losses over the course of 2009. Positions being written for the passive strategies reflect the widest break-even range (see yellow bars in **Chart 4**) since we started the strategy in 1997. Because of the high premium income on offer, we have reduced the leverage by shortening the duration from 3 to 2 months, which in turn lowers the overall risk (and initial margin) by 33%. A 7.5x leveraged uninsured account can expect to write a monthly income of some 20% per month gross (17% for downside insured accounts). The break-even range is +/-17.5 % on the index, currently 4000 ie 4700 to 3300.

The FOS active strategy (which includes the Oxeye Growth Fund \$ class) is writing some 11% or so which provides a range of 3000 to 5000 approximately. This strategy has the flexibility to insure both upside or downside if the need arises.

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