



# GLOBAL VOLATILITY SUMMIT 2013

September 2012 Newsletter

## 2013 Event Details

Date. February 25<sup>th</sup>, 2013

Details. A one day summit to educate investors on the universe of volatility funds and tail hedging managers and discuss the market environment.

Please continue to check the website for updates on the 2013 Global Volatility Summit

[www.globalvolatilitysummit.com](http://www.globalvolatilitysummit.com)

## 2012 Event Recap

Keynote speakers. General Stanley McChrystal gave an insightful presentation on volatility in the Middle East, and The Honorable Rahm Emanuel (Mayor of Chicago) was interviewed by Charlie Rose and discussed the current volatility seen in politics.

Attendees. The 2012 event was a huge success with over 360 attendees including 15 hedge funds in the volatility and tail hedging space, the world's largest pension funds, insurance companies, endowments and foundations.

Questions? Please contact  
[info@globalvolatilitysummit.com](mailto:info@globalvolatilitysummit.com)

The Global Volatility Summit remains dedicated to educating investors on the space and providing you with thoughtful and timely updates from Volatility and Tail Hedging managers. On the whole, performance for volatility managers in August was unremarkable given the lack of realized volatility. Volatility managers overall are looking forward to a more volatile Fall with several global events on the horizon (Europe, US election, etc.) likely to create higher realized volatility. We are in the beginning stages of planning next year's Global Volatility Summit for late February, keep your eyes peeled for event and registration details in the next few weeks.

We asked *Andrew Wong & David Dredge, Co-Chief Investment Officers of the Convex Strategies Group at Fortress Investment Group* to share their outlook for tail hedging in 2012.

Cheers,  
Global Volatility Summit

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## Challenges and Opportunities in Tail Risk Hedging Part II

In our previous piece from March of 2012, we briefly discussed the challenges of managing the cost of both negatively correlated and tail-risk positions in a post-2008 regime, which has made vanilla listed option strategies less efficient than they once were.

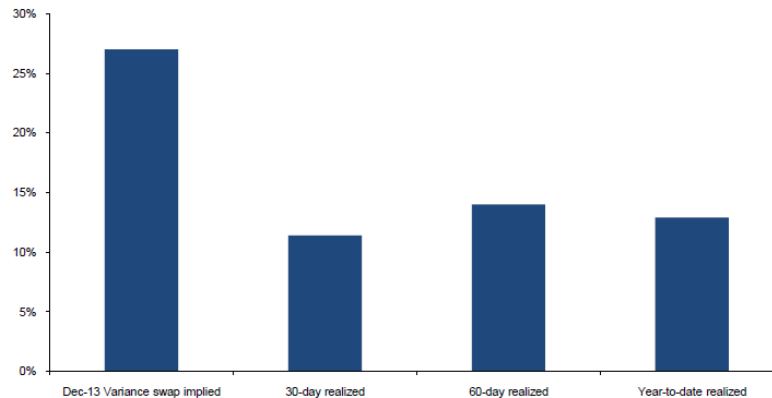
Revisiting this situation today, we find that again some of the more familiar ways to construct negatively correlating portfolios continue to be challenged (as others have indeed noted). For example, in trying to hedge a global risk-off environment, S&P Index variance remains challenged by the high implied volatility cost. As shown on the graph below, as of September 2012, a December 2013 variance swap has an implied volatility strike of 27. However, the recent realized volatility of the SPX has been as low as 8% (for 10 days), with levels of 14% (for 60 days); since the start of 2012, SPX realized volatility has been 13%.

In the current environment, the cost of ownership of this type of position is clearly very substantial, particularly when one might want to tightly contain this potential cost.



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## S&P 500 December 2013 Variance Swap Implied & Realized Volatility

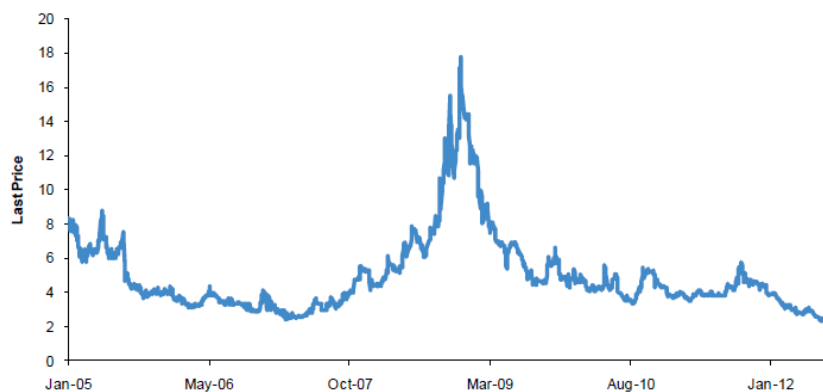


Source: Convex Strategies Group estimates based on Bloomberg data, as of September 2012.

Focusing only on the most common markets and instruments where indeed hedging demand outstrips natural supply (e.g., VIX, EURO STOXX and EURUSD currency volatility), may not necessarily be the most effective approach.

Indeed, the space of global volatility markets is much more diverse, varied, and often more attractive than the “benchmark” markets garnering most of the attention. For example, the graph below plots the price of 1-year Chinese Renminbi (“CNY”) currency implied volatility. Current levels, driven by structured products, have recently reached new lows, surpassing pre-crisis levels of even the ultra-low volatility period from 2005 to early 2007. The potential asymmetry is evidenced by the graph below. This is but a single example of a space where we believe there continues to be attractive opportunities, but which also presents possible problems due to the complexity of the Asian structured product market.

## 1-Year Chinese Renminbi (“CNY”) Implied Volatility



Source: Bloomberg data, as of September 13, 2012.

Andrew Wong & David Dredge  
Co-Chief Investment Officers, Convex Strategies Group



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## Fortress Investment Group LLC

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