GLOBAL VOLATILITY SUMMIT 2012

January 25th, 2012 Newsletter

Event Details

Date. March 6, 2012

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

Location. Skylight Studio in Soho in New York City.

Event Update

Keynote speakers. We are excited to report that General Stanley McChrystal and The Honorable Rahm Emanuel (Mayor of Chicago) will be speaking at the event.

Managers. The following managers will be speaking at the event.

36 South Capital Advisors
Acorn Derivatives Management Corp.
Alphabet Partners
Amundi Asset Management
ArrowGrass Capital Partners
Blue Mountain Capital
Capstone Investment Advisors
Fortress Investment Group
III Associates
JD Capital Management
Man Group
Parallax Fund
Pine River Capital Management
Vulpes Investment Management

Registration. Space is limited, please visit the website to sign up as soon as possible.

Agenda and speakers. Please continue to check the website for event details and tentative agenda.

Questions? Please contact info@globalvolatilitysummit.com

The goal of the Global Volatility Summit ("GVS") is to educate investors about investing in volatility. With the approach of the third annual GVS, we felt it was appropriate to launch a newsletter continuing this mission. Leading up to GVS, we have asked industry experts to discuss their thoughts and opinions on the volatility universe. This past year we have seen an uptick in interest in various strategies available in the volatility space, namely in relative value and tail risk, and we are keen to ensure investors are kept abreast of the most recent developments in all relevant strategies. We believe there is a volatility strategy that can be a suitable component of every investor's portfolio. That said, a concerted effort from the volatility community is required to continue to educate investors so they are aware of the pitfalls and benefits of various strategies available to them.

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

We would like to discuss the following challenge:

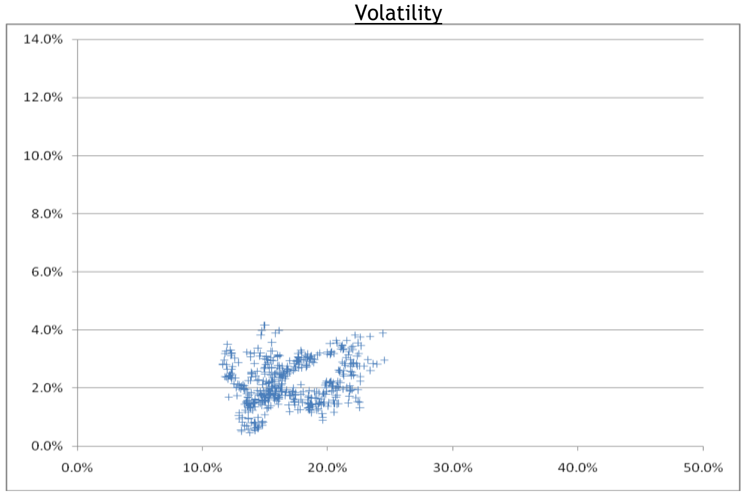
In a world with great need to manage tail-risk, how can this be achieved where the regimes of skew and correlation may have changed substantially?

As an example, the top graph to the right shows where implied skew and implied at-the-money volatilities (3 month maturities) in the Nikkei 225 Equity Index were in the pre-crisis 2005-2006 period. Implied vols remained between 12 and 25%, while skew was almost always below 4%. The strategy of buying short-dated out-of-the-money puts, and rolling them periodically was reasonably efficient.

However, post crisis, and using 2011 as an example, skew and volatility levels remain more elevated, increasing the cost and reducing the asymmetry of the simple rolling-put strategy. Indeed the regime of skew appears to have changed materially. If the strategy needs to be rolled at higher vols and skews in the upper-right hand section of the scatter graph to the right (for example in the third quarter of 2011), then the effect is compounded further. The shift may have occurred due to changes in the structured product market, or perhaps market perceptions of downside risk, or perhaps increased demand from new market participants. Possibly all three factors have been relevant.

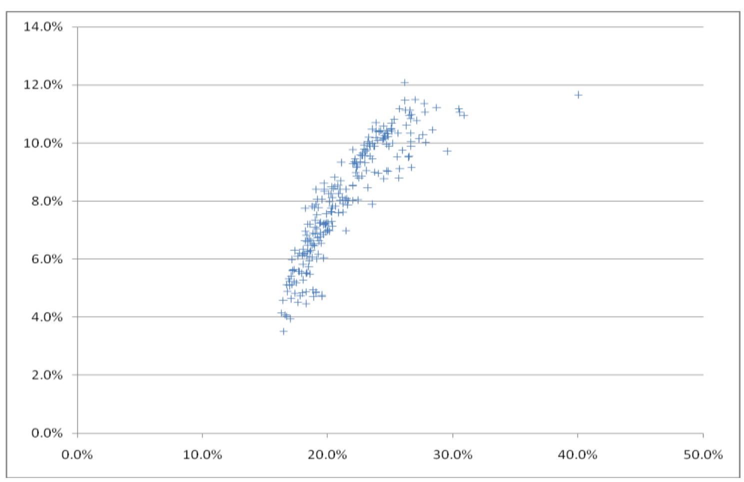
Andrew Wong & David Dredge
Co-Chief Investment Officers, Convex Strategies Group
Fortress Investment Group LLC

2005-2006 : Nikkei 225 Index 3 month Implied Skew vs. At-the-money Volatility



Data Source: Credit Suisse

2011 : Nikkei 225 Index 3 month Implied Skew vs. At-the-money Volatility



Data Source: Credit Suisse