GLOBAL VOLATILITY SUMMIT 2013

May 2013 Newsletter

2014 Event Details

Date. Plans are already underway to secure a convenient date for the 2014 event!

Please continue to check the website updates and newsletters. (www.globalvolatilitysummit.com).

2013 Event Recap

The fourth annual Global Volatility Summit ("GVS") took place on February 25th in New York City. Ten volatility and tail hedge managers hosted an audience of over 350 people.

Keynote speaker. Sal Khan, founder of The Khan Academy and author of *The One World Schoolhouse* gave an insightful presentation on using technology to innovate the way education is provided across the globe.

Special Guest Speaker. Mike Edleson followed up to his 2012 GVS talk about the decision to implement a tail hedge, with an informative discussion on implementation of a tail hedge and how to identify the right managers for your mandate. Mr. Edleson's presentation is available on the GVS website.

Managers. The following managers participated:

Blue Mountain Capital
Capstone Investment Advisors
Fortress Investment Group
Forty4 Fund
Ionic Capital Management
JD Capital Management
Parallax Fund
PIMCO

2013 April research piece

The GVS is an evolving community of managers, investors, and industry experts. We rely on the feedback and guidance of this community to shape the event and line-up of speakers each year. Plans are already underway for the 2014 event, so please let us know if you have any feedback on this year's event or topics you would like covered at next year's event.

As you are probably aware, the primary goal of the GVS is to educate the investment community about volatility and the roles it can play in institutional investment portfolios. Across the spectrum of asset classes and global markets, there is usually something interesting occurring which creates opportunities for volatility managers. While the equity markets have been on an upward trajectory for most of the year with little realized volatility, commodity markets dominated headlines in April. Gold fell 15% in two trading days, causing a jump in realized and implied volatility of historical magnitude.

With equity markets so elevated, hedging for an unforeseen event is becoming a topic of interest amongst investors. John-Mark Piampiano of Pine River Capital Management has shared a piece on basis risk across global equity indices, explaining why investors should consider adapting their portfolio hedges.

Cheers,
Global Volatility Summit

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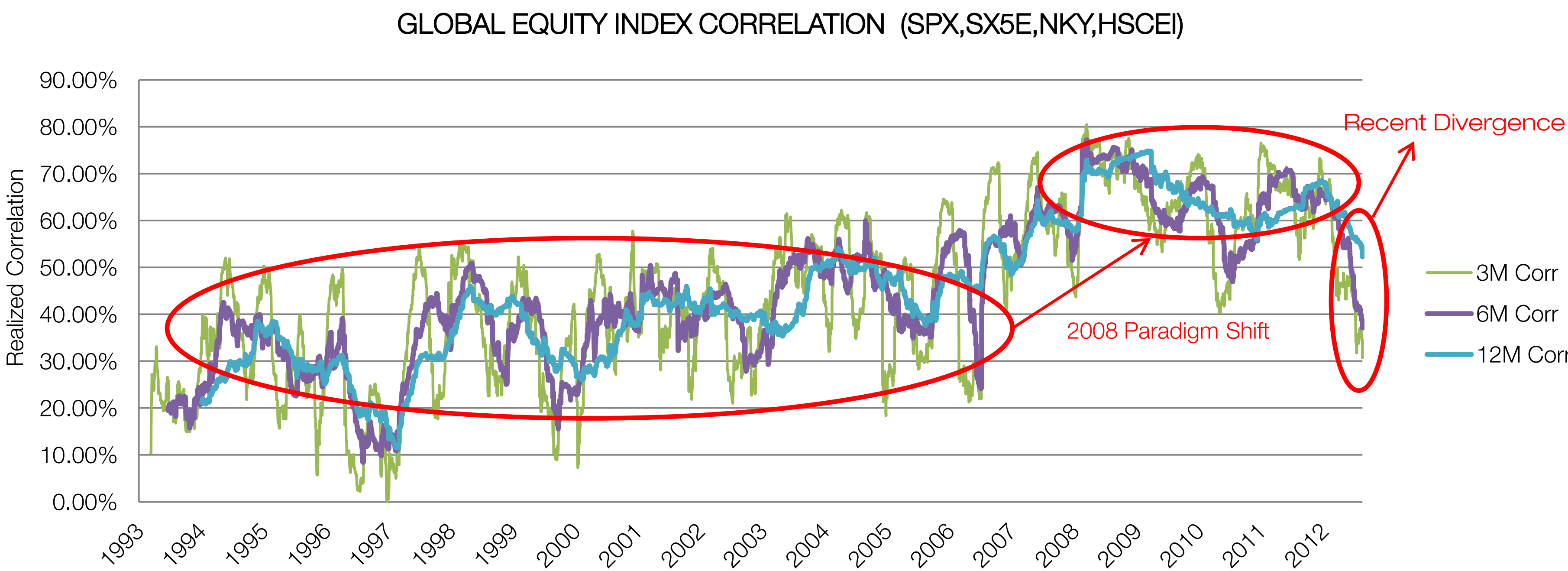
Basis Risk is Back

From 1994 to 2007, the daily correlation between global equity indices averaged 38%. The 2008 financial crisis coincided with a radical shift in the interrelationship between global equity markets, with the daily correlation between global equity indices rising precipitously, averaging 64% from 2008 to 2012. To some extent this shift was driven by the fact that global central bank policy actions were highly correlated during this period, with most central banks acting in concert to inject liquidity into financial markets.

This shift had profound implication for portfolio hedging: As global risk assets moved in virtual lockstep, it increased probability that a portfolio hedge in one market could protect the value of risk assets in another market or geography. Basis risk between the hedge and the risk portfolio became immaterial, incentivizing hedgers to quarter the globe in search of the cheapest possible options without regard to asset class or geography.

Recently global equity correlation has fallen rapidly, in part because of the rapid shift in BOJ policy *relative to other central banks*. The magnitude of the resulting divergence in equity markets has been remarkable, with Japanese equities outperforming global equities by 45% over the past six months. Clearly basis risk is back and it is imperative that portfolio hedgers weigh the possibility that we may be entering a new global asset correlation regime and prepare to adapt their hedging strategies if the recent divergence is persistent.

Basis Risk is Back



Source: Bloomberg, Pine River