



## **Interview with Mike Rasmussen, COO and Partner of Capricorn Asset Management**

*Eurekahedge*

Capricorn is an established currency manager with a global client base that includes banks, asset allocators, institutions, investment funds and high net worth individuals. The company has more than 50 years of experience within the investment advisory arena, currently advising over US\$250 million in client assets. Since 1999 Capricorn has produced superior risk-adjusted returns in its 'pure alpha' strategies managing an additional US\$75 million, trading high liquid currencies as managed accounts and offshore funds for individual and institutional clients

Mike Rasmussen is an accomplished professional with over ten years' experience in operations and marketing, and is skilled in business development and implementing procedures to maintain an efficient operational process. A graduate from the University of Greenwich in London, Mike holds a BA (hons) in business studies with a major in business economics.

**1. The currency markets, like most other asset classes, have seen harsh swings over recent months. However, Eurekahedge research shows that currency-investing managers have returned a healthy (compared to most other strategies) 5.6% for the first ten months of 2008. How do the returns of your fund compare against the industry average?**

Our Capricorn FXG10 SPC Fund was launched in March this year, and despite harsh market conditions, the fund has produced annualised returns exceeding 17%. These results are clearly above the industry average for currency managers, and what is equally impressive is standard deviation of the returns at 8%.

**2. There are well over 200 pure currency-investing funds within the hedge fund space. What competitive advantage would investors in your fund have over those investing in other funds with a similar focus?**

We believe that the competitive advantage of our currency fund lies in the methodology and not the strategy. The fund's focus is to capture returns utilising 'carry' trading opportunities, which is clearly not a unique strategy. Our fund can be differentiated by our philosophy in producing risk-adjusted returns, and the importance we place on our risk controls. Therefore, it is the strict controls inherent within our methodology and the dynamic hedging strategy we implement, which we interpret as being unique.

**3. Tell us a little about your investment philosophy and your strategy – do you aim to exploit short-term directional trends in the currency markets, or are you a long-term player? Could you walk us through an example of the kind of trades that have worked well for you over recent months?**

At Capricorn we offer three currency programmes with different trading strategies. The Capricorn FXG10 SPC Fund is our latest offering, which is traded over the long term using fundamental views to build the portfolio. Positions are entered and managed using technical analysis, and risk is controlled with options using volatility analysis. For example, the portfolio is built around 'long carry' positions to earn the yield, however the positions are dynamically hedged by up to 80% to control risk. This is done by seeking mispriced options during periods of higher volatility.

**4. What are the different currencies that you invest in? And on what basis do you determine your allocation to each of the different currencies/currency pairs?**

The currencies that we invest in are the higher yielding NZD and AUD against the lower yielding JPY, USD and CHF. Up until recently we also traded GBP, however the volatility it added to the portfolio could not be justified by the yield it contributed. The allocation of the different currency pairs is determined by a 'LIBOR Index' that analyses the interest rate differentials, and a 'Volatility Index' used to control risk.



**5. Could you tell us about the qualitative and/or quantitative research that you perform on the broad markets or economies before taking positions in the currency markets? Do you rely on any electronic models for your research or analysis?**

When building up the portfolio, we definitely analyse a longer term macro view of the broader markets. Our research is not confined to the currency pairs that we trade, but on fundamental analysis across multiple asset classes. Our investment process when entering and managing positions utilises quantitative research, analysing the technical levels and implied volatility of the currency pairs we trade. Models are used for this analysis, however positions are still executed on discretionary views.

**6. On an average, how many positions do you hold at any point in time? What is the usual holding period that you observe, and how often do you review each of your positions?**

The portfolio is built around three positions on average, which is held over the long term to earn the yield as long as the risk can be managed. Positions are actively reviewed during periods of high volatility, otherwise should the portfolio trade within its volatility targets then the positions are reviewed monthly.

**7. Do you use leverage in order to optimise your fund's returns? If so, how much?**

Positions can be leveraged up to four times to optimise returns, however since each position is hedged by unto 80% then on a portfolio level leverage is just over one.

**8. Could you shed some light on the risk management principles that you have in place, in order to safeguard your fund's investments?**

The portfolio is protected via a dynamic hedging strategy utilising options as well as spot FX trades. Our fundamental risk management principle is to limit the currency fluctuation and isolate the yield earning 'carry' component of the trade.

**9. Which classes of investors, according to you, is your fund ideal for? And, what are the types of investors that have shown interest in your fund so far?**

The fund was seeded by a Swiss-based family office, which demanded a low volatility product with a robust risk management process. Subsequent interest has come from investors with similar 'capital protection' risk profile.

**10. How do you see the currency markets trending over the medium to long term, once the underlying markets have reached a state of normalcy, and the stress across the credit markets has eased?**

Over the medium to long term, we believe that the currency markets will trade within a broader range, even after the stress of the credit markets have eased. In our opinion we are in the tail end of a market downtrend and before a new trend can be established in the market cycle, we will experience a period of range-bound trading.

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