J8 Capital Management LLP

Enhancing traditional investment portfolios using J8's liquid alternative strategy

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In our continuous quest towards excellence, we carried out a thorough analysis of the liquid alternatives industry. The results demonstrate that we continue to progress on the path to become a top performing liquid alternative solution. Our analysis also shows that an allocation to J8 can potentially improve traditionally diversified investment portfolios significantly by seeking to reduce portfolio volatility and enhancing portfolio returns.

The J8 Global Absolute Return Strategy (J8 GARS) trades only the most liquid exchange traded instruments. As a systematic program, J8 GARS utilizes trend-following, carry, term-structure arbitrage, and inventory basis signals in a risk-weighted diversified portfolio to systematically generate returns which are managed to a target volatility. Enhancing the tactical risk-premia signals to traditional liquid alternative beta trend-following signals stabilizes our returns, reduces drawdown severity and shortens recovery periods.

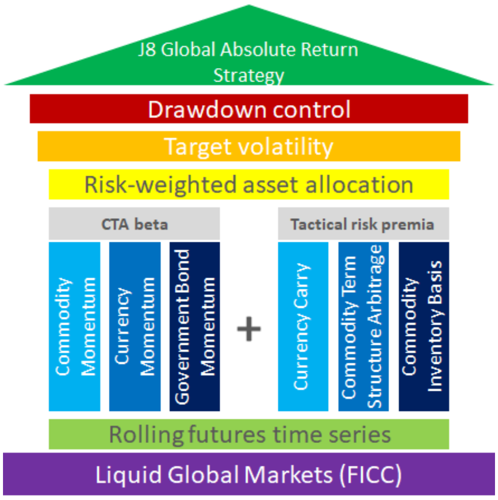

Figure 1: Illustration of the J8 Global Absolute Return Strategy (J8 GARS)

As such, J8 GARS seeks to preserve capital and diversify investor portfolios. We constantly conduct research on return drivers and markets to further develop and improve our signal engine and the incumbent robustness of our strategy.

Investors appreciate transparency and ease of access. The J8 GARS has an absolute minimum of $3 million. The program can be accessed through a separate managed account (SMA), with the availability of notional funding if required, and the ability to have full transparency on the trading. Most of the larger liquid alternatives programs have much higher minimums, or come in a fully funded fund format, or may have capacity constraints that drag performance. The J8 GARS offers an attractive alternatives solution: nimble, robust, performance driven, and with ease of access.

Below we first show the value proposition of liquid alternatives and how they seek to preserve capital and long-term performance. We then demonstrate how J8 GARS compares to benchmark indices or other liquid alternatives. Additionally, we focus on how an allocation to J8 GARS can improve the risk-adjusted returns of traditional 40/60 or 20/80 bond/equity portfolios.

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Why are liquid alternatives relevant?

The value proposition of liquid alternative investments includes profitability over an entire business cycle: portfolio protection may result from directional trading long and short positions in rising or falling markets, and through portfolio diversification from uncorrelated returns with other asset classes. Often, liquid alternatives have lumpy return streams. Liquid alternatives trade exchange listed futures and options. They are highly liquid and offer portable alpha as overlay. Most liquid alternatives are systematic. Systematic investment strategies offer the advantage of having a repeatable investment process which reduces behavioural bias and operational risk. These systematic strategies are supported and derived from testing with long and deep data histories. Current most innovative systems are constructed by marrying data science with modern portfolio theory.

The graph below shows how liquid alternatives add value to an investor's portfolio. We use CTAs as an example for liquid alternatives. We see that liquid alternatives can generate long term positive returns and may offer portfolio protection during significant market down turns. Also, liquid alternatives tend to have shorter, and less severe drawdown phases, than traditional "buy-and-hold" equity investments. The linear trend line suggests that currently may be an optimal time to invest in this asset class.

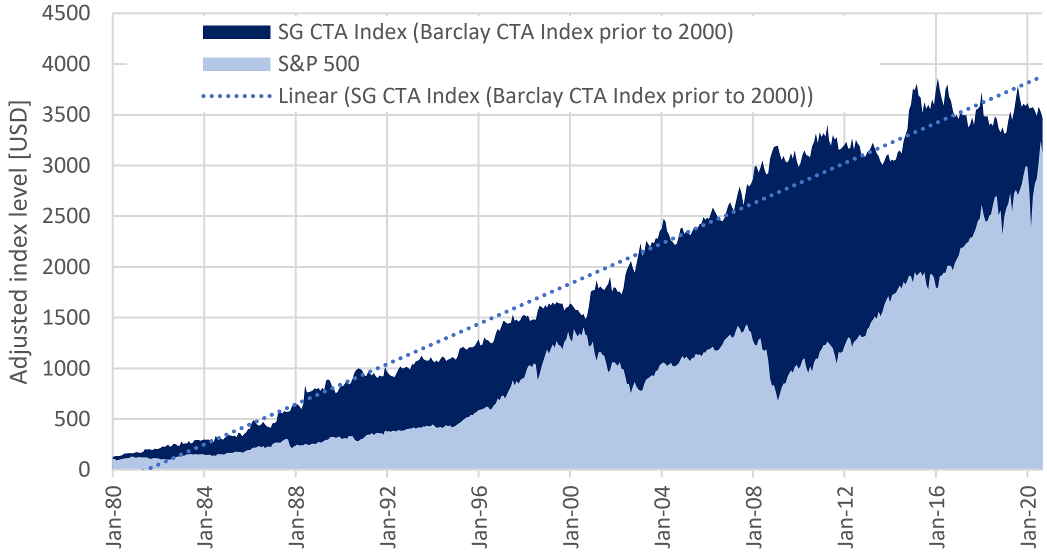

Figure 2: Performance of the SG CTA Index in comparison to the S&P 500 Index since January 1980.

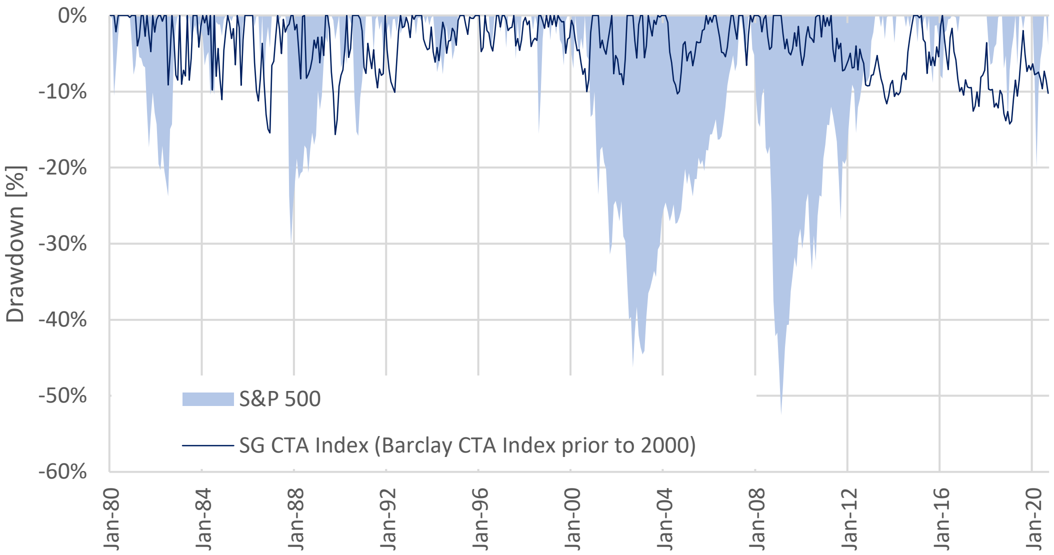

Figure 3: Drawdowns of the SG CTA Index in comparison to the S&P 500 Index since January 1980.

How J8 compares with the wider systematic industry

We also compare our J8 GARS with popular benchmark indices for liquid alternatives. We use the SG CTA Index as a proxy for CTAs, for trend-followers the SG Trend Index, and for short-term traders the SG Short Term Trader Index. J8 GARS displays superior performance versus each of those benchmarks. Further validating the robustness or our strategy, our risk-adjusted returns are higher, our drawdowns are lower, and in 55% to 60% of months our returns were better than the benchmark indices.

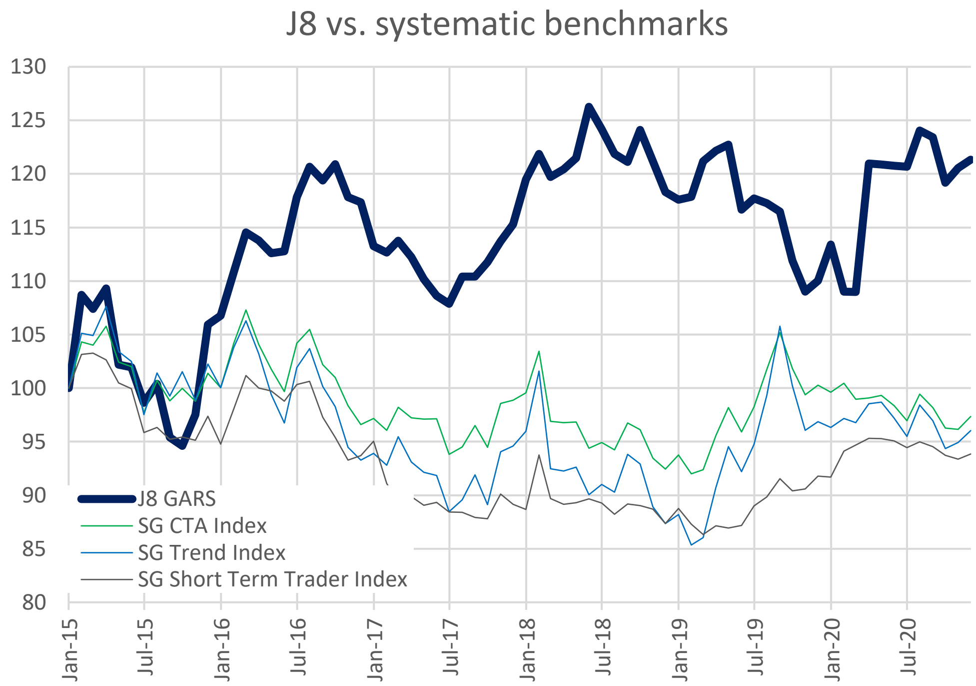

Figure 4: J8 GARS performance in comparison to liquid alternatives benchmark indices.

Since 1st January 2015	J8 GARS	Systematic benchmarks: SG CTA Index	SG Trend Index	SG Short Term Trader Index
Year-to-Date	7.00%	-2.29%	-0.29%	2.35%
Total Return (since Jan15)	21.34%	-2.65%	-3.96%	-6.14%
Annualized Return	3.32%	-0.45%	-0.68%	-1.07%
Annualized Volatility	10.25%	8.09%	10.82%	6.01%
Return / Volatility	0.32	-0.06	-0.06	-0.18
Maximum Drawdown	-13.69%	-14.26%	-20.70%	-16.40%
Return / Drawdown	0.24	-0.03	-0.03	-0.06
Positive months [%]	48.61%	48.61%	48.61%	44.44%
Best month	10.99%	4.52%	6.52%	5.73%
Worst month	-6.51%	-6.33%	-8.96%	-4.34%
Months where J8 > X [%]		55.56%	58.33%	55.56%

Table 1: Performance statistics of J8 GARS in comparison to liquid alternatives benchmark indices.

Improvement of risk-adjusted returns

Adding J8 GARS to a traditional bond/equity portfolio provides robustness and creates a more efficient asset allocation. We analyse the change in the Efficiency Frontier as we increase the allocation to J8 GARS while decreasing the allocation to a traditional bond/equity portfolio. The traditional portfolio trades 40% bonds and 60% equities. Due to the low interest rate environment, many traditional portfolios have shifted to a 20/80 bond/equity allocation. We analyse both. In practice, exposure to J8 GARS can be achieved as an unfunded overlay to a fully funded bond/equity portfolio.

In this analysis, we use the Bloomberg Barclays Aggregate Bond Index (formerly the Lehman Aggregate), the S&P 500 Index and the J8 GARS extrapolation of hypothetical returns of actual data utilizing the current model from January 1991.

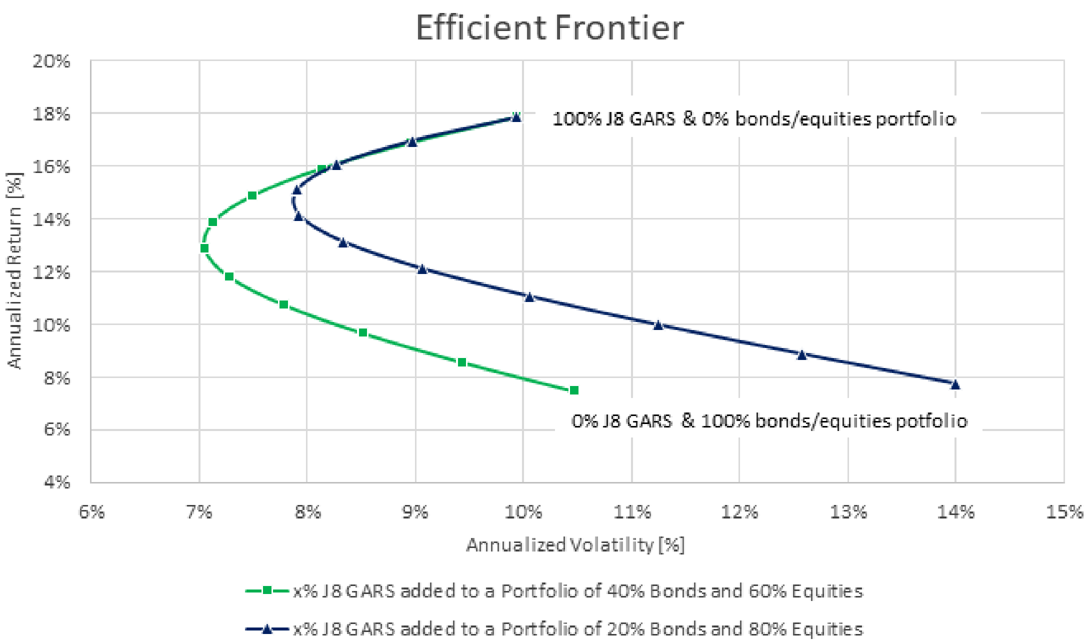

Figure 4: Change in the efficient frontier when J8 GARS is added to a traditional portfolio.

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