Systematic Global Macro
Strategy Description

The Fund pursues a rule based, directional, absolute return strategy. The Fund seeks above average long term growth, with low correlation to stocks and bonds but with a volatility and maximum drawdown potentially lower than traditional stand alone stock market investment. The Fund calls it strategy "Systematic Global Macro".

1 Global Macro

1.1 Definition

The Global Macro hedge fund strategy can be defined as dynamic global asset allocation. Global Macro hedge fund managers have the ability to take positions in any instrument in any market throughout the world. Asset allocation is the most important determinant of profit in any portfolio and the ability to switch assets from one market to another means that the Fund should be well placed to reap profits from many different sectors as the potential arises. Generally, a Global Macro hedge fund will invest to take advantage of trends in broad economic sectors (such as currencies, bonds, or stock indices) and the Fund is no exception.

The Fund invests almost wholly through futures or forward contracts traded on regulated world exchanges from North America and Europe to the Far East and the Southern Hemisphere. The Fund may also invest in currency and other markets using OTC contracts with individual counterparties and will do so only where there is insufficient liquidity or lack of suitable instruments on regulated exchanges. The Fund's potential portfolio consists of stock indices, bonds, notes and interest rates, currencies, metals (precious and industrial), grains, energy, meats, soft commodities and various other instruments such as carbon emission futures and volatility and commodity indices.

Diversification over many asset classes should enable the Fund to benefit from whatever sustained trends occur in each market segment. While it is undoubtedly true that correlation between asset classes (positive or negative) tends to strengthen in periods of crisis, in more normal times the benefit of wide diversification is that more opportunities will present themselves and profit can be sought in one or more upwardly trending asset classes at times when trends are not evident in other asset classes. In general, this can lead to a smoother and greater return on equity than investment in any single asset class such as stocks.

1.2 Long Only Investment

The Fund takes long only positions, except in currency pairs where to be short one of the pair is to be long the other and vice versa.

Most Global Macro funds stress that they trade both long and short, the idea being that it should be possible to profit in any market condition and that trading short can help to add diversification and smooth the investment returns. There are, however, downsides to trading short using a systematic long term trend following strategy and in our opinion these outweigh the real or perceived advantages.

In back tests of many long term trend following systems we have found that typically short only investment produces just 10% to 20% of the CAGR produced by long only tests and yet uses equal margin and often entails far greater draw down.

Investing short can often produce considerable profit in periods of extreme market stress but the often short, sharp nature of price declines makes such moves difficult to profit from on a consistent basis and by definition the potential profit on a short trade is limited whereas the downside is theoretically unlimited. The reverse applies to long only investing.

Combining long and short investment in a back test can often produce a smoother equity curve for a given test period but does not always add to the returns ("CAGR" or Compound Annual Growth Rate) produced by a long only strategy. We would rather devote risk capital and margin to long only investment which produces a better risk reward ratio. Additionally, given the great variety of futures which have become available over the past twenty years, there are usually some upwardly trending instruments in almost any market environment. During a bear market in stocks for instance, profits are usually to be had in long positions in bonds, notes and bills. Investors seek security in high grade fixed income securities at the same time as central governments reduce interest rates to ameliorate the crisis.

The following Table shows a back tested simulation of a strategy very similar to that employed by the Fund commencing in 1990 and using a very widely based portfolio similar to that of the Fund. Assumptions include realistic provision for commission and slippage on trades executed, management fees of 2% per annum, performance fees of 20% of "new" profits (with a high water mark) and general fund expenses of 1 % per annum.

	CAGR%	Sharpe	Max DD	Std Dev
Invest Long and Short	11.74%	0.81	-21.6%	15.08
Invest Long Only	19.00%	1.21	-17.5%	15.44
Invest Short Only	0.97%	0.15	-34.9%	10.06

As can be seen, for this particular strategy during this particular test period and using this particular portfolio, trading long only reaped considerable advantages in terms of a greater reward for a very similar annualized standard deviation of monthly returns. The average margin to equity ratio of the long only system was also some 20% less than that on the combined long/short test.

Those experienced in research and back testing will be very aware that conclusions should not be drawn on too narrow a basis and that countless tests need to be run over different time periods, using different systems, portfolios, parameters and assumptions.

In terms of strategies similar to that employed by the Fund however, holding short positions is very much less profitable than taking long positions and the effect is exaggerated by employing a very wide portfolio combined with stringent risk management provisions. Risk management restricts the number of positions which can be held and taking very much less profitable short positions reduces the number of more profitable long positions which can be accommodated. Removing risk controls narrows the difference between long only and long/short tests but takes portfolio and sector risk to unacceptable levels.

1.3 Investment in the Futures Markets

Investing in futures is often thought by the general public to be a zero sum game: one player's profit represents another's loss. Some have questioned how therefore a participant can hope to profit in the long term. The answer is by adopting a well researched and well designed rule based investment system.

Others participants must still lose over time for the Fund to succeed. An often quoted theory breaks down market participants in terms of what they expect to "gain": not everyone expects financial profit from their participation. Farmers and producers or refiners of raw materials use the futures markets to "hedge" their production. As a class, they are not investing for profit and they expect to pay a "premium" to other participants in the markets (such as long term investors) in order to transfer some of the risks associated with their day to day production business.

2 "Systematic" and "Discretionary" Fund Management.

2.1 Discretionary Fund Management

Discretionary fund managers apply judgment and intuition in making every investment decision. In order to arrive at a decision, they may well consult price charts and other "Technical Analysis" but their decisions are primarily based on "Fundamental Analysis" of factors extrinsic to the markets, such as supply and demand, general economic conditions, government actions, industry conditions and corporate management. A certain gut feeling is sometimes involved in discretionary fund management and this can lead to the emotional balance and decision making capacity of the manager being unduly affected by irrational optimism as markets rise and exaggerated pessimism during a market downturn.

The Fund does not engage in Fundamental Analysis and does not make discretionary investment decisions.

2.2 Systematic Fund Management

2.2.1 Definition

The Fund is managed on a systematic basis.

Systematic fund management employs quantitative, mechanical, non-emotional trading rules based on mathematical models of market behavior, often concentrating on price alone. Systematic fund managers ignore news, weather, politics and other "fundamental" factors except as they are reflected in market prices. System output consists of precise buy and sell orders, including quantities to buy and sell, and markets to trade

Discretion used in the management of the Fund consists of decisions as to portfolio composition and the making of changes to the systems employed, based on thorough and empirical ongoing research over time. Discretion is also exercised in the timing of rolling over futures contracts from one delivery month to the next and in the choice of which contract months to include for optimal profitability. Judgment is exercised on order execution .to ensure that orders are processed at times of maximum liquidity and minimum bid/offer spreads.

2.2.2 Research and Back Testing

One very significant advantage of systematic fund management is the ability to test strategies on historic market data – something that is not possible with a discretionary approach to investing.

Management uses futures and forward market data stretching back in some cases as far as the 1920s to run tests on many different mechanical systems and investment ideas. It is important to test systems over long periods of time and over many instruments in order to arrive at statistically valid conclusions. Back testing enables management to see how a given system would have performed in all types of market conditions – bull and bear markets and dull, flat, sideways markets.

The Fund's managers have conducted thousands of hours of intensive research and back testing over the past decade. The managers believe that continual research is the key to success in ever changing market conditions. Back testing reveals that certain trend following strategies and parameters, which were once highly successful, have become less so with time, as increased participation in the markets has created greater "noise". Management believes that diligent, cautious adaptation of current systems will be necessary to continue to profit from the methodology in the future.

Ongoing research is also vital in ancillary areas such as portfolio composition, and which contract delivery months to use. Careful study can help to maximize profitable backwardation and minimize costly contango on rolling long positions.

There is no "perfect" system but it is certainly possible to construct a relatively simple strategy or set of systems which are likely to prove robust and profitable well into the future. Many with less experience fear the conscious or accidental fitting of a system to the data, thus arriving at a method which looks good on past results but fails to hold up in future investment. Some degree of hindsight is inevitable in system design but keeping a system down to relatively few parameters, ensuring that it works on a very wide range of markets over many differing time periods, and using historic data stretching back as far as available is the most effective means of avoiding or minimizing the curve fitting trap.

3 Implementation of Strategy

3.1 Long Term Trend Following

The Fund's strategy is a directional one – the Fund takes long term positions in markets which its systems expect to trend strongly in its favor over time. In contrast to proponents of the efficient market hypothesis, management believe that sustained trends are evidenced in markets as participants take time to fully adjust to changing fundamental factors in world economies. Fundamental shifts do not occur instantaneously and often take considerable time to unfold. Such adjustments often take time to filter through to market participants and one consequence is the relative ease with which robust and elegantly simple trend following strategies can be designed to profit from the resultant trends.

A trend following strategy involves initiating a position in a trending market, holding that position while the trend lasts and liquidating positions either when a stop loss is hit or when the Fund's systems perceive that a trend has ended. Trend following is often summarized as "running your profits and cutting your losses". It sounds simple enough (and conceptually it is) but it takes some years of intensive research and practical investment experience to fully understand the methodology.

The managers favor a very long term, slow moving investment strategy. An average profitable position is held for 6 months but some positions can be held for two years or more. Long term systems tend to be more durable over time and are cost effective in terms of slippage and commissions – the slower the turnover of the portfolio and the fewer contracts you need to buy the less vulnerable you are to the frictional costs of investment. Short term systems in general have a much shorter shelf life – they seem to be less stable and are often fitted to more specific market situations and thus need constant change over time in order to maintain profitability. Short term systems involve far greater portfolio turnover and are thus subject to proportionately greater costs.

Trends are highly likely to remain a feature of markets and the Fund is confident in its ability to continue to profit from its long term trend following strategy, especially given thorough on-going research and development.

3.2 Statistical Edge

A trend following strategy allows for the possibility that a majority of positions will be unprofitable. The methodology anticipates that relatively fewer large profits will more than offset more numerous but smaller losses, by successfully identifying and following major trends while rigorously cutting losses short. A successful trend following strategy is not about being "right" in taking any individual position – it is about designing a system with a statistical edge to be worked out over time. It is about following the system come what may and accepting frequent losses as an inevitable part of investment, confident that over the long term the carefully researched statistical edge will achieve the desired return.

Trend following is not about "forecasting" or "prediction". A system calculates the entry and exit points and the position might prove a profitable or not. Provided losses are cut short and some or all of the profits are allowed to run, then at the aggregate level and over the course of time, a well designed trend following strategy is likely to prove significantly profitable.

4 How Trend Following Systems Work

4.1 The Basics

At the most basic level, a quantitative trend following system must define:

- When to enter a position
- How much (how many contracts) to buy.
- When to exit a position.

The rest of this section will expand on the topic and will give some specific details

4.2 Entry and Exit Signals

The Fund uses precise mechanical rules to determine its entry and exit points.

The precise entry and exit rules determine when a trend (as defined by the system parameters) is likely to have commenced and when the trend is likely to have ended.

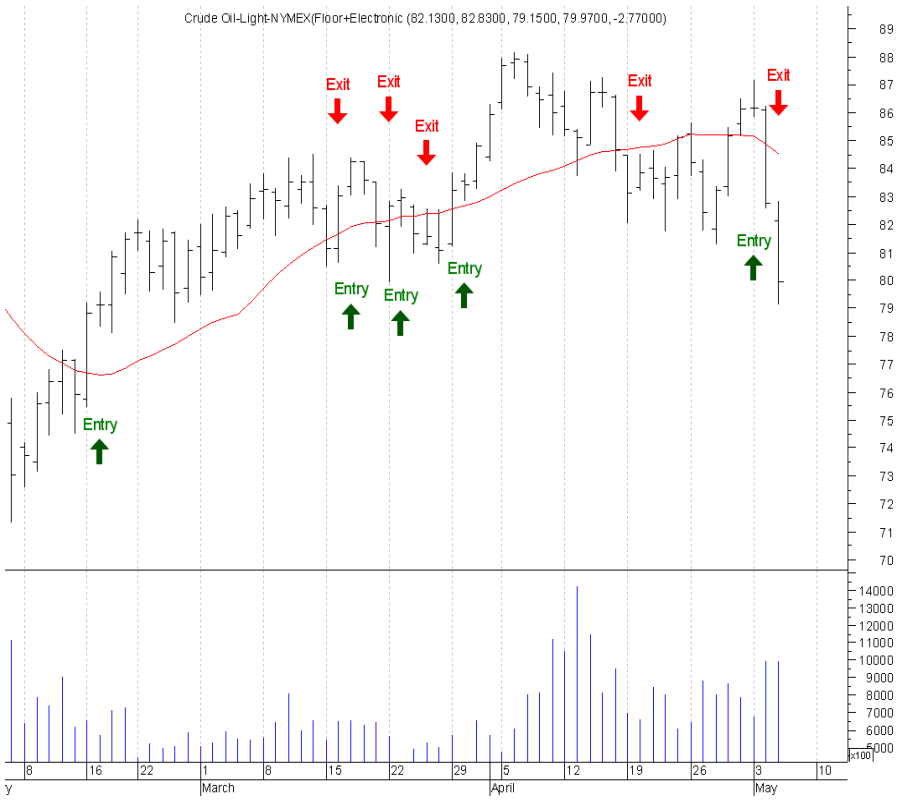
Entry and Exit signals are based on mathematically derived technical indicators. It is only after the event that a trend can be seen – by inspecting the charts. A manager must decide in advance what length or lengths of trend he is aiming to profit from and must design algorithms to capture or follow such trends. The use of relatively limited data in a technical indicator (20 day's closing prices for instance) will ensure that the indicator follows market prices relatively closely and will result in chasing shorter term trends and a comparatively swift turnover of positions. Extending the number of days used in the calculation out to 300 days (by way of example) will result in the system following much longer term trends – the system will be slower moving with far less turnover.

The following example gives Entry and Exit Rules for a mechanical system of extreme simplicity:

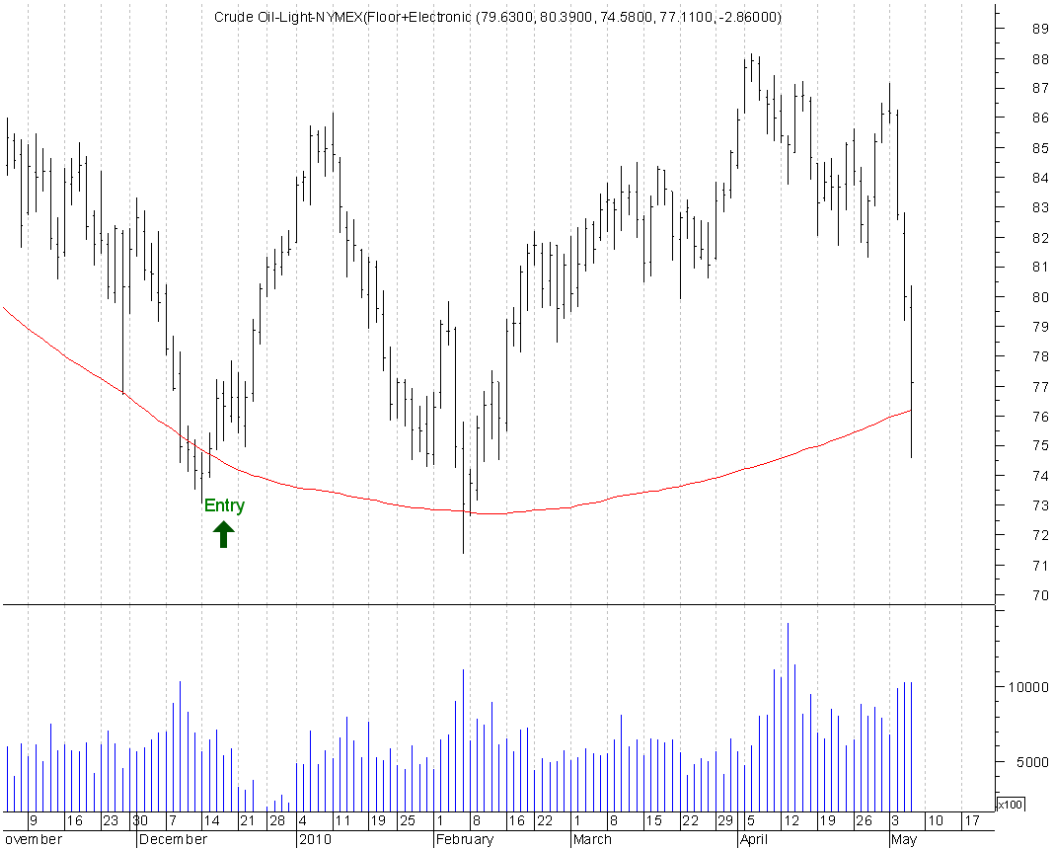
Entry Rule:
Enter a Long position at the market open tomorrow if today's close is above the Moving Average.

Exit Rule:
Exit the Long position at the market open tomorrow if today's close is below the Moving Average.

The illustration on the next page shows the trades which would have been executed by this basic system in Crude Oil futures if the Moving Average had been calculated using closing prices for a 20 day period. Note the relatively high turnover of positions during February through to May 2010 – this is a relatively "fast" system aiming to catch relatively short term trends.


Crude Oil-Light-NYMEX(Floor+Electronic (82.1300, 82.8300, 79.1500, 79.9700, -2.77000)
Exit
Exit
Exit
Exit
Exit
Entry
Entry
Entry
Entry
Entry
89
88
87
86
85
84
83
82
81
80
79
78
77
76
75
74
73
72
71
70
14000
13000
12000
11000
10000
9000
8000
7000
6000
5000
x100
8
16
22
1
8
15
22
29
5
12
19
26
3
10
y
March
April
May

The following chart illustrates exactly the same rules but uses a much longer term 300 day period in the calculation of the moving average. Note that extending the period of calculation reduces the number of trades during this period to a single continuing position:



The Fund aims to profit from very long term moves in an attempt to avoid short term market noise. The aim is to reduce the frictional cost of trading and to follow broad economic themes as they play themselves out in the markets in the form of long term trends.

4.3 Volatility Based Stops

The Fund employs additional exit points in the form of wide volatility based stops for each position (established at initiation) determining when to cut a loss short and operating in conjunction with position sizing rules. These are in addition to the Exit Signals (examples of which were described above) which attempt to define the end of the trend.

Many trend following systems (such as a dual moving average crossover) can not by their very nature establish a fixed exit level at the outset of a trade and hence additional stop loss rules are necessary both for position sizing purposes ("how much to buy") and for capital preservation (to enable the Fund to "cut its losses" when a trade goes against it).

Note that the example set out below is by way of demonstration of the technique only and does not reflect the actual calculation used by the Fund to set its stop levels.

Volatility stops are often based on some multiple of the recent daily trading range of the

instrument in question. A Fund manager might reasonably assume that if he were to set his stop loss point for a long position at some multiple of the recent average daily trading range below his initial buying price, he would have a good chance of remaining outside the short term noise of the market. He would have the advantage of a wide protective stop which gives him every chance of running his profits (if the trade goes in his favor) but which would equally contain his loss if the position goes against him.

A commonly used calculation of the day's trading range is the True Range. The True Range is a measure of volatility which indicates the range of price movement in a single day and is the greatest of:

- The current high minus the current low
- The current high minus the previous close
- The previous close minus the current low

The last two entries account for price gaps where the entire day's prices do not overlap the previous day's close. The True Range is then averaged over a number of days (20 by way of example) to arrive at the Average True Range (or ATR for short). A stop or pre-defined exit point can then be calculated for a long position by deducting from the entry price some multiple of the Average True Range.

Let us assume that an investor calculates his stop using a multiple of 5 times the 20 day ATR of the relevant instrument and that his system signals a long entry in June NYMEX Crude Oil to be taken on 6th May 2010. Prior to the market open, the system calculates 5 times the ATR at $10.62. Assuming an entry price of $80, the protective stop would be set at $69.38 (calculated as follows - $80 – $10.62).

A further advantage of the volatility based stop is the ability to size positions equally over different markets with reference to individual market volatility. At initiation of a trade, a fund manager risks the same fixed percentage of his fund's equity on Corn as on Crude Oil, Gold or any other position.

4.4 How Much to Trade – Fixed Fractional Position Sizing

The Fund's mechanical strategy includes fixed fractional position sizing to limit initial risk from any single trade to around 1% of the total capital value of the Fund and to equalize the position size in different markets at initiation in terms of relative volatility.

Note that the examples set out below are by way of demonstration only.

Let us assume that a fund's assets under management are $100,000,000 and that a new long position is to be taken on 6th May 2010 in the June 2010 Crude Oil contract on NYMEX, at an expected price of $80 per barrel (around the previous day's closing level). The protective stop will be set at $69.38 per barrel of Crude Oil (calculated as above).

One Crude Oil contract bought on the NYMEX exchange represents 1,000 barrels of Crude Oil. For every $1 increase or decrease in the price per barrel of June Crude Oil, the investor will gain or lose $1,000. If the investor buys one June contract at $80 and sets his stop loss at $69.38, the investor stands to lose $10.62 per barrel for a total loss on one contract of $10,620 if the position goes against him and is exited at the stop level. If, at the initiation of the trade, the investor wishes to risk 1% of his total portfolio value, then he must take the dollar value of that 1% and divide it by the total dollar risk per contract to arrive at the number of contracts to buy.

On a portfolio value of $100,000,000 a 1% risk of $1,000,000 is divided by the per contract risk of $10,620 to arrive at a position of 94 contracts (1,000,000 / 10,620 = 94 contracts rounded down to the nearest whole contract).

Let us assume that a new long position has also been signaled for 6th May in the three month forward contract for LME Nickel. On 5th May, the three month forward for Nickel closed at US$21,925 per tonne and 5 times the 20n day ATR is calculated at $4,835. The LME contract for metal is for 6 tonnes, so for every one dollar movement in the price per tonne, an investor gains or loses $6. An investor's predicted risk per contract at an assumed entry price of US$ 21,925 and a stop of $17,090 is therefore $29,010 ($21,925- $17,090 *$6).

The investor wishes to risk the same fixed percentage of his portfolio value on a position in Nickel as he risks in Crude Oil and therefore buys 34 three month forward contracts on the LME calculated as follows: ($100,000,000 x 0.01) / $29,010 = 34 rounded down to the nearest whole contract.

Fast markets, gap openings and liquidity constraints mean that it will not always be possible to execute a stop loss at the intended level but the hope is that the exit can (on average) be executed near enough the stop loss level to achieve the desired protection for the portfolio.

4.5 Monitoring Liquidity

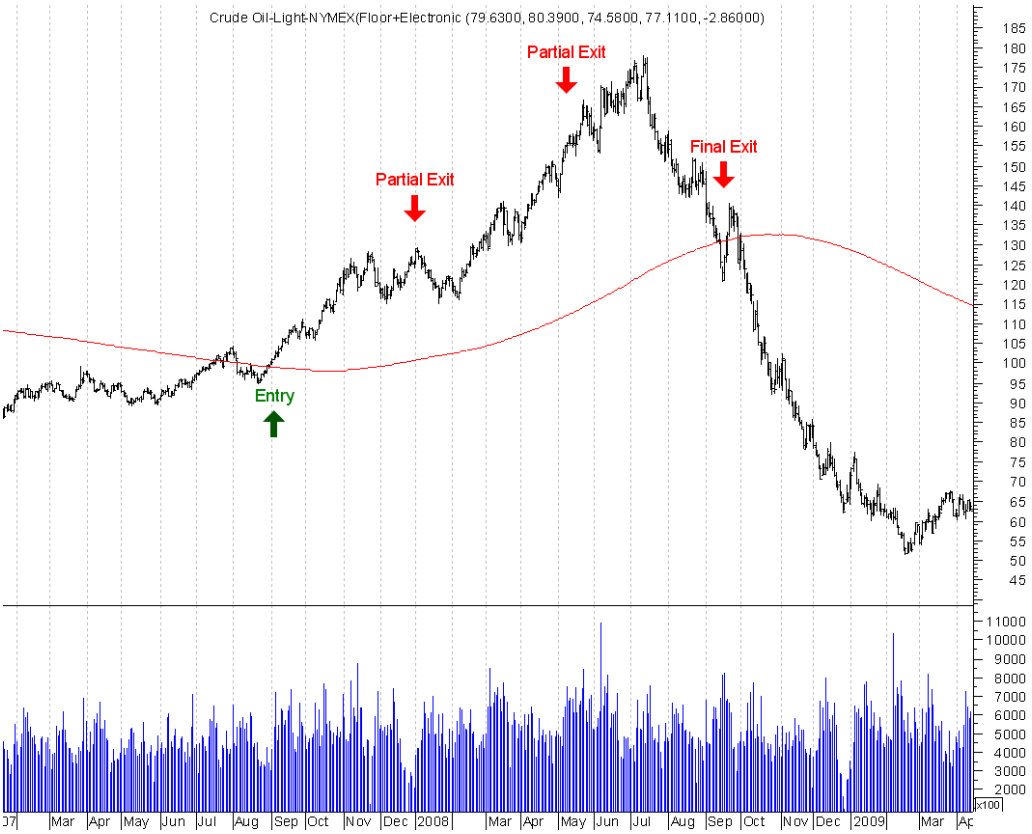
The Fund's pre-determined stop level is almost invariable at a considerable distance from the entry price and thus the number of contracts necessary to fill a position (in accordance with the fixed fractional position sizing strategy) is relatively limited. The system monitors liquidity by calculating the 5 day moving average of daily volume in a given market and aims to ensure, under normal circumstances, that the number of contracts traded on any given day by the Fund amounts to a small percentage of average daily volume.

Given the breadth of markets covered and the very high liquidity of many of those markets, the Managers do not expect position limits to impinge significantly on performance.

4.6 Profit Taking

Although risk at entry is limited to 1% of the overall portfolio value, as a trend unfolds a position can assume an undue percentage of the overall portfolio risk. The Fund therefore implements systematic rules to take partial profit on positions where a trend has been especially profitable. This has the effect of helping to control overall and individual position risk, reducing draw down and smoothing the equity curve without diminishing returns. Both in back testing and in actual trading, the Fund's managers have generally found that taking profits along the way is more comfortable to live with and helpful in controlling risk.

The chart below shows how a profit taking system might operate. As the trend in Crude Oil moves strongly upwards after initiation of the trade in September 2007 (using the same basic 300 day moving average system outlined above) a percentage of the original position is exited in December 2007 and again in May 2008. The remainder of the position is exited in September 2008 as energy prices collapse in the unfolding economic crisis.



The back test results set out in the table below are based on exactly the same parameters and assumptions as those used in "Long Only Investing" above – again employing a strategy and a portfolio very similar to that used by the Fund. This time the tests demonstrate long only investing with and without profit taking:

Take Profits?	CAGR%	Sharpe	Max DD	Std Dev
True	19.00%	1.09	17.5%	15.44
False	17.13%	0.67	25.6%	18.04

As it happens, taking profits with this particular strategy using this particular portfolio, parameters and timeframe (and using the same 1% fixed fractional position sizing for both tests) increases the return and reduces the maximum drawdown as well as resulting in lower volatility and a higher Sharp ratio. Seasoned analysts will be aware that different strategies and parameters will often produce very different results. Profit taking however does very often indicate the possibility of less volatile risk adjusted returns and that is the route preferred by the Fund.

4.7 Managing Overall Portfolio Risk

The Fund manages overall portfolio risk in a number of different and complementary ways. At the basic level, we have already seen above how individual position risk is mitigated 1) by risking no more than a fixed percentage of the Fund's capital on the initiation of a trade and 2) by taking partial profits as a trend develops to prevent any one position from assuming too large a part of the Fund's overall market exposure. We will now proceed to indicate the methods used by the Fund to control overall portfolio risk – the combined risk of all open positions.

4.7.1 Leverage

The use of moderate leverage is an essential part of the Fund's strategy. Modest leverage can greatly enhance a system's returns while excess leverage leads swiftly to ruin. Investing on a leveraged basis is almost a pre-requisite for effective volatility based position sizing and enables the Fund to profit from price movement in low volatility instruments such as short term interest rate futures.

Take the example of the three month Eurodollar contract trading on the Chicago Mercantile Exchange – one of the world's most liquid futures contracts. One contract represents a Eurodollar Time Deposit having a principal value of USD $1,000,000 with a three-month maturity. The capital value of a short term time deposit does not vary greatly in the short term as interest rates change – at least compared to the much greater price movements for long term bonds. If no leverage were used (IE if the Fund were to invest on a fully collateralized basis) the Fund would have to put down $ 1,000,000 for every contract purchased and the investor holding the contract to maturity would simply expect to receive the then current interest rate on Eurodollars for the three month period – an unexciting investment.

Our simple example system would have received a buy signal for the Eurodollar contract to go long on 12th October 2007 as can be seen from the chart below:

Price movement on interest rate contracts is expressed in terms of percentages of par value of 100 and for each one full point percentage move in price on the Eurodollar contract, the investor gains or loses US$ 2,500 per contract.

Our back adjusted Eurodollar contract shows a close of 93.88 on 11th October 2007 and a volatility based stop of 93.30 for a risk of $1,450 per contract (0.58 x $2,500= $1,450). To risk $1,000,000 (1% of his portfolio value) an investor would need to purchase 689 contracts ($1,000,000 / $1,450 = 689 rounded down to the nearest whole contract).

If no leverage were used (IE if the investor were to invest on a fully collateralized basis), a purchaser would need to put down $689 million dollars in cash to purchase 689contracts ($1,000,000 nominal value per contract x 689) – nearly 7 times the total value of assets under management. At the time of writing, the minimum margin required by the CME on the spot Eurodollar contract is around $1,000, so by using the inherent leverage of the futures markets, the investor needs only put down an initial margin of $689,000 to secure this position. Benefitting from price movement in very low volatility instruments would not be practicable without the use of leverage.

Margin requirements on normally very low volatility instruments such as short term interest rate futures are very small. By contrast, margins on often highly volatile instruments such as Crude Oil or Stock Indices can be up to 10% or more of the nominal value of the contract.

Over use of margin is to court disaster. The Fund manages its leverage from a margin perspective and does not generally use more than 25% of the Fund's AUM as margin. The average margin usage is expected to remain very modest at around 15%. In other words, the Fund's average leverage is relatively low.

4.7.2 Sector Risk

It is important to ensure that the Fund does not have too much exposure to any one market or economic sector, since different instruments within a sector tend to be closely correlated.

The Fund aims to limit its risk to around 10% per sector and defines sectors as: stock indices, bonds, notes and interest rates, currencies, metals, grains, energy, meats, soft commodities and other.

Sector risk is assessed by means of the pre-determined stop loss level set at initiation for each position and is calculated by totaling the risk to stop level of each position within a given sector.

Sector risk can increase above 10% per sector in strongly trending markets but no new position will be taken if sector limits are or would be breached by the taking of the position. Profit taking and monthly re-allocation of the portfolio help to maintain sector risk at target levels. Slippage, fast markets and gaps can however result in positions being exited at worse than expected levels.

4.7.3 Overall Portfolio Risk

Overall portfolio risk is targeted at 36% of the Fund's assets under management. No new positions are taken unless existing risk, coupled with new position risk, is at or below 36%. Risk is assessed in relation to each position's fixed exit point although fast markets, gaps and slippage can result in an exit at a worse level than that reflected in the planned stop level.

As mentioned above, as the risk on positions rise in line with a successfully developing trend, a profit taking mechanism operates at certain levels to reduce the risk on individual positions, consequently reducing overall portfolio risk. Again, the monthly re-allocation of the portfolio helps to keep total portfolio risk within targeted levels: at the end of each month positions are ranked and re-rated in accordance with proprietary filters, leading very often to positions being exited and risk being brought well within targeted levels.

4.7.4 Maintaining Average Portfolio Risk

The managers aim to keep overall average portfolio risk as constant as possible around the 36% level by means of maintaining a very large potential portfolio As positions exit and trends end there are likely to be other candidates to take their place. With over 100 different instruments in the potential portfolio, covering a very wide range of sectors, there are usually new trends to be found as existing trends reverse.

Back testing suggests that keeping average portfolio risk as constant as possible around the desired maximum risk level increases the annual rate of return without increasing maximum drawdown. To accept too much risk is to court disaster; to accept too little risk yields disappointing returns. The managers aim to keep a constant and optimal balance.

4.7.5 Filters

Measures are taken to limit whipsaw trades (where a position may be entered and exited with undue frequency as markets gyrate around the system's entry and exit levels) and to ensure that positions are only taken in line with the very long term trend.

Profit taking and stop loss exits can take place at any time during the month but portfolio re-allocation takes place only at monthly intervals, at which stage positions will be entered or exited in accordance with relative performance and trend indicators. Positions will be exited at the monthly re-allocation where the Fund's systems suggest that the trend for that instrument may have ended or where the position is underperforming other instruments in the Fund's total potential portfolio. New positions will be entered at the monthly re-allocation (subject of course to the Fund's risk management rules) where a particular instrument is showing relative outperformance and is trending in accordance with the systems definition.

The wide, volatility based stops employed by the Fund also help to ensure that whipsaw trades are minimized and that a position has a good chance of running with the long term trend without being stopped out.

5 Is the Strategy Unique?

The managers make no claim to "uniqueness" for their strategy. They firmly believe however that their own particular implementation of very long term trend following over a very wide range of asset classes is both robust and effective and should provide excellent potential for long term capital growth within the Fund. The long experience and maturity of the team provide balance and stability in a world where all too often greed, over leverage and lack of extended research lead to the collapse of investment strategies pursued by a younger generation who have yet to learn the lessons harshly meted out by repeated market cycles of boom and bust.

The managers believe that certain aspects of their strategy do combine to distinguish the Fund very clearly from many other trend followers. Few trade such a very broad portfolio, few trade long only positions, few aim for constant portfolio heat and partial profit taking. Monthly dealing in new positions and monthly re-assessment of the markets also distinguishes the Fund from many of its competitors as does the very long term nature of the trends the Fund aims to profit from. While "trend following" itself is far from unique, the Fund's particular implementation probably is.

The Fund's Managers fervently believe in their strategy which has stood up to rigorous back testing and actual implementation in the markets. They are committed to continued research and development to maintain the success of the product. At the same time it must be recognized that the future will always differ from the past and that past success is no guarantee of future performance.

6 What is the Best Environment for the Fund?

Smoothly trending markets provide the best environment for the Fund while choppy, sideways movement leads to a greater number of whipsaw trades and losses. Trend reversals lead to a fall in the value of account equity. If such reversals prove temporary and the Fund is able to retain the majority of its positions in accordance with its system's rules, then account equity will often be recovered quickly. If such trend reversals herald the start of a prolonged period of sideways or downward movement, the period of decline may prove lengthier as the system awaits the development of new up-trends in one or more of the markets contained in its very widely based portfolio.

7 The Investor's Role

It is essential that an investor understands and appreciates the nature of the investment and shares the confidence of the managers, during periods of drawdown, that new trends will take the Fund to new equity highs in due course. Patience and confidence are the essential ingredients to success in holding an investment of this nature. The trade-off for attractive long-term investment returns is short-term volatility.

It may sound a surprising statement to make but the character, confidence and determination of the investor himself can very often be a determining factor in whether a profit or loss is achieved on any given investment. All too often an investor will purchase his holding after a sharp period of out performance and sell out during a period of heavy underperformance. This can very often lead to an investor losing money in even the most successful of Funds – the fund manager's track record may be excellent but many of his investors will inevitably lose money by unfortunate timing.

Although few investors have the temperament to do it, the best time to buy into the Fund is during a drawdown. No investor will be able to consistently pick the "top" or "bottom" of any investment or market but he should at least do his best to look at historic periods of out and underperformance and attempt to pick his entry and exits points by comparing the current performance of a fund in relation to its historic "run ups" and "draw downs". He should try to avoid buying at the top and selling at the bottom.

Many investors lose by failing to fully understand and accept a strategy and its implications. Most successful investment strategies (including that of the Fund) go through periods of high volatility and drawdown (as well as periods of smooth profitability). An investor must accept the rough with the smooth to achieve the long term returns.

As with so many investments, an investment in the Fund should be looked on as a long term holding. The Fund employs a strategy which has been shown to have a positive statistical edge which must be worked over time. An investment in the Fund should not be considered unless an investor is confident that he has the capacity and fortitude to allow his investment to work over a five to ten year period.