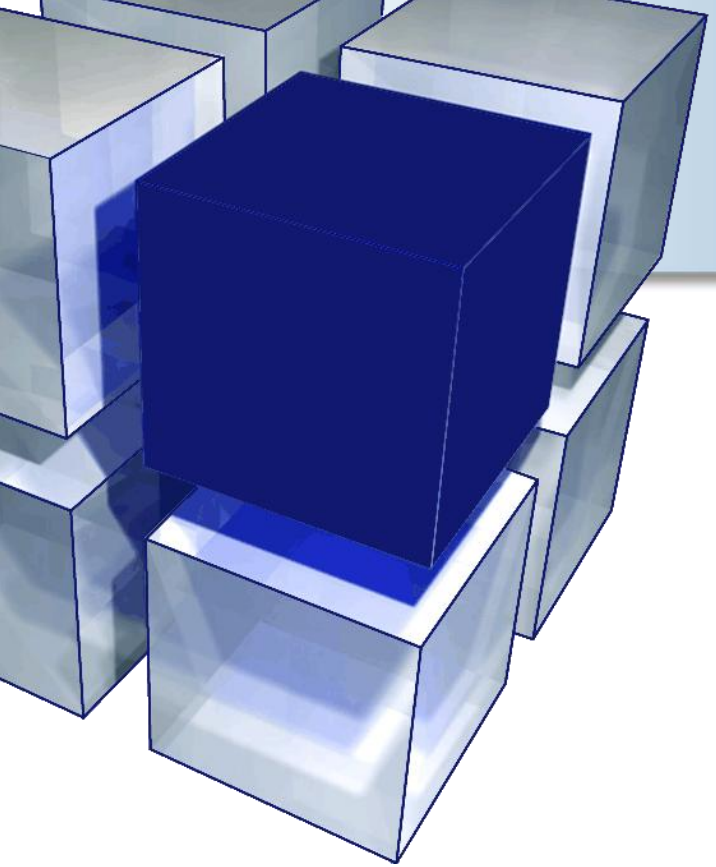
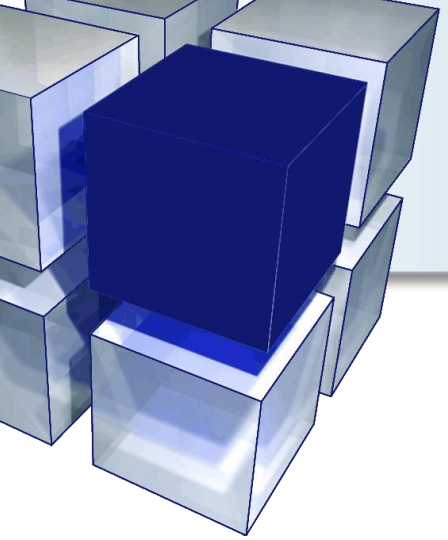


# Single Strategy
## *Statistical Arbitrage*

# AlphaSquare
## Systematic Equity Trading

## General Presentation



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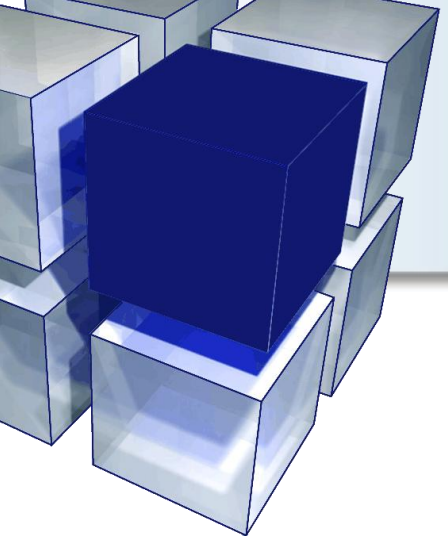


# Contents

# Summary

**Experience**

- Since 2001, Finaltis has achieved strong risk-adjusted absolute returns

**Robustness**

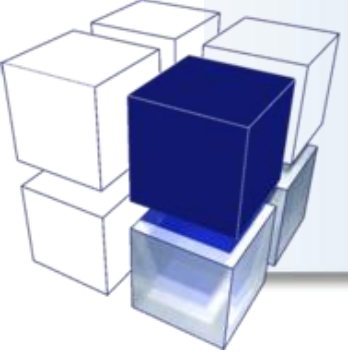
- AlphaSquare targets double-digit performance, uncorrelated to main asset classes:
  - Through uncorrelated complementary relative value strategies
  - Risk is managed on a real time basis

**Liquidity**

- AlphaSquare only invests in liquid assets

**Transparency**

- AlphaSquare fund is safe and transparent
  - Asset Management Company regulated by the *Autorité des Marchés Financiers* (France)
  - Weekly subscription and redemption (notice period: 5 days)



# I. Finaltis, at a glance

## *Experienced in managing risk*

**Philosophy**

- We manage risk to deliver absolute returns:
  - We define an « absolute » risk level with our investors in terms of max drawdown
  - We eschew certain market risks (illiquidity), human flaws (emotions, frauds, errors, …) or operational risks (unstable infrastructure)
  - We target the highest achievable performance within the pre-defined absolute risk framework

**Means**

- We use a number of means to deliver returns within our absolute risk framework:
  - Liquid assets only
  - Quantitative and systematic approach
  - Diversification across instruments, markets and strategies
  - Real time risk monitoring
  - Dynamic allocation across instruments, markets and strategies

# I. Finaltis, at a glance

## *Experienced at managing through risks*

**Experience**

- We are experienced:
  - Finaltis was established in 2001 by its principals
  - QuantiMix - the longest-standing Finaltis fund – has been successfully implementing our philosophy since 2002
  - Principals and senior PMs have +15 years industry experience on average
  - Principals and PMs have between 5 to 15 years of joint experience as teams

**Legitimacy**

- We are established:
  - Finaltis is an Asset Management Company regulated by the *Autorité des Marchés Financiers* in France
  - BNP Paribas has been a shareholder since 2007, alongside Finaltis principals; BNP Paribas has been one of the largest fund investors since 2006
  - Finaltis and its funds have been singled out on numerous occasions (MorningStar « Stars », EuroHedge Awards, …)
    - In 2008, Finaltis was awarded the «***TREMPLIN de la Gestion Alternative***»
      in France (Liffe Euronext/Multiratings) as
      the most innovative asset management firm

# I. Finaltis, at a glance
## *AlphaSquare Fund Managers*

- A Quantitative Analyst with trading experience

Rémy Croisille (dob: 24/02/64): Rémy has a strong mathematical background. He is a graduate in mathematics from the Ecole Normale Supérieure d'Ulm (among top academic institutions in France) and holds post graduate degrees in mathematics and financial statistics (DEA). He also taught mathematics for over 10 years at various universities. Before joining Finaltis in May 2005, Rémy created a statistical arbitrage fund and developed a credit equity model for Equalt (Calyon). Previously, he was head of Alternative Risk Transfer at Banque C.P.R and worked in the fixed income quantitative research teams of BNP Paribas.

- A Trader with modeling experience

Lewis Smith (dob: 29/12/69): Lewis has a strong trading background (since 1994) at Bank of America (formerly Nations Bank), and Banque C.P.R in convertible bonds, equities derivative products (listed rights and options), both as a market maker and a proprietary trader. He also worked at Equalt (Calyon), where he managed a statistical arbitrage European Equity Fund. He coordinated the trading and risk management systems and implemented STP (Straight Through Processing). Lewis holds a BSc Honours degree in Economics and Statistics from Bristol University.

# II. Investment Strategy

## *Orders of magnitude*

**Positions**

- A European equity market neutral fund with a net target of 15% pa and 10% annualised volatility
- The portfolio permanently holds around 600 positions
- On average each position contributes +0.03% =(15%/0.8+2%)/600

**Trading**

- The daily turn-over is 10% of the position and leverage is about 3.3 (long + short)
- On average positions are renewed every 10 days (10 = 1/10%)
- The Assets are traded every 3 days (3 = 1/ (10%*3.33)) or 85 times per year (85=255/3)
- AlphaSquare seeks a 0.24% return = (15%/0.8+2%)/85 per year and per euro traded

# II. Investment Strategy

## *Large and liquid European Stocks only*

### Market Cap Breakdown of AlphaSquare Portfolio(*)

| | N° of Stocks | % of Total |
|---|---|---|
| < 400 M € | 3 | 0.5% |
| 400 M - 1 Bn € | 91 | 16% |
| 1 Bn - 3 Bn € | 208 | 36% |
| > 3 Bn € | 274 | 47.5% |
| Total | 576 | 100% |

(*) Snapshot as of October 2009

Sources: Finaltis

**Market Cap**

**> 1 Bn € for 83% of stocks in the Fund**

### Liquidity Breakdown of AlphaSquare Portfolio (*)

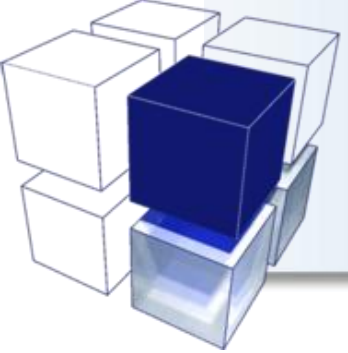
| 3 Month Average | N° of Stocks | % of Total |
|---|---|---|
| < 2.5 M€ | 171 | 14% |
| 2.5 - 10 M€ | 108 | 34% |
| 10 - 50 M€ | 195 | 34% |
| > 50 M€ | 102 | 18% |
| Total | 576 | 100% |

(*) Snapshot as of October 2009

Sources: Finaltis

**Average Liquidity**

**> 2.5 M € per day for 86% of stocks in the Fund**



# II. Investment Strategy

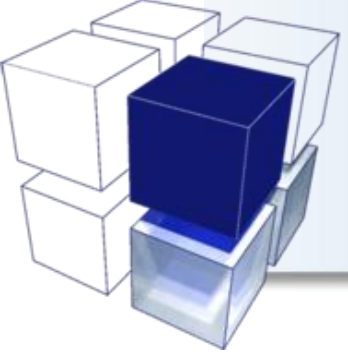
## *Building a market neutral portfolio with spreads*

### Spreads

- AlphaSquare trades spreads between European equities built into market neutral baskets
- Each spread is composed of a long position and a short position, equal in nominal terms (1 M € thereafter)
- The long and the short positions can contain between 1 and several hundred equities

### Pros & Cons

- Advantages of trading market neutral spreads:
  - Spreads tend not to be correlated to indices or to stocks
  - The number of underlyings is virtually unlimited
  - An ad hoc construction of the spreads enables us to have the expected dynamics
- Disadvantages of trading market neutral spreads:
  - Each position variation leads to the simultaneous execution of at least 2 and possibly hundreds of buy and sell orders

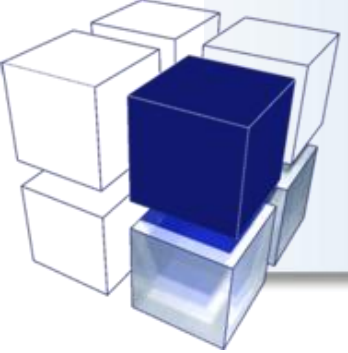


# II. Investment Strategy

## *Blending contrarian and non contrarian strategies*

**Blending strategies**

- AlphaSquare builds a portfolio blending **contrarian** and **non-contrarian** strategies on spreads
- The construction method of the spreads in the contrarian and the non contrarian strategies is **different**
- The spreads obtained in the contrarian and the non contrarian strategies are different in their structure and their behaviour. The resulting strategies are mutually diversifying



# III. Contrarian strategy on spreads

## *Mean-Reversion – Simplified Examples*

**Definition**

- A contrarian strategy on spreads is a **strategy which consists in buying the spread when it falls and selling it when it rises** in order to benefit from a return to the mean
- The spreads built for the contrarian strategy are spreads containing stocks that belong to the same sector and have a strong economic similarity
- The spreads built for the contrarian strategy are spreads containing few stocks (from 2 to 5) comparable to pair trading

# III. Contrarian strategy on spreads

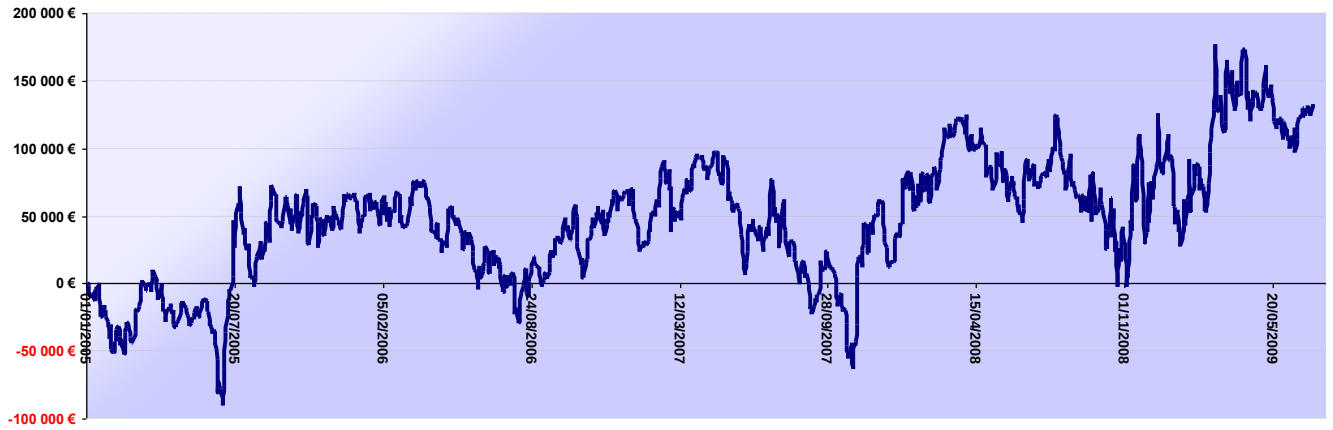
## *Mean-Reversion – Defining the underlying*

**Oscillation**

Example: The spread Total vs Royal Dutch Shell

- One long position of 1 Million € on TOTAL
- One short-sale position of 1 Million € on ROYAL DUTCH SHELL
- The daily P&L is reinvested daily

**Market close value of the spread**




Sources: Finaltis

- The value of this portfolio oscillates around 0, the model aims to exploit these oscillations

# III. Contrarian strategy on spreads

## *Mean-Reversion – Scaling in and out*

**Trading Strategy**

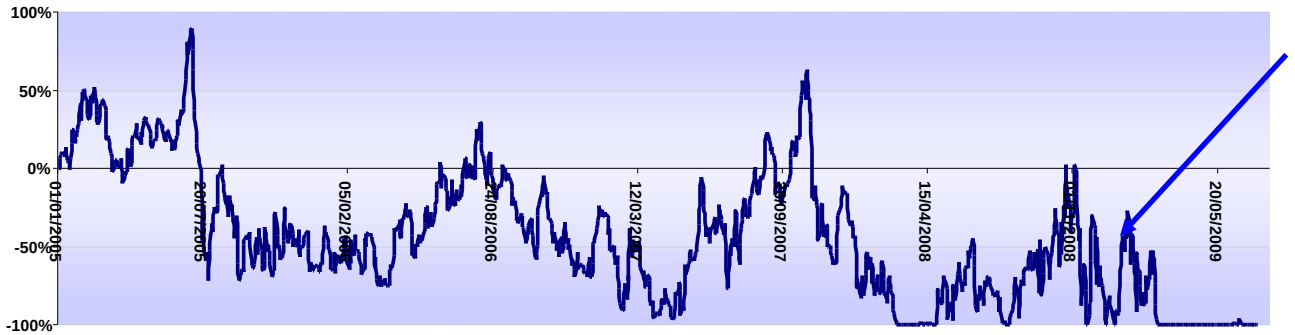
Example: The spread Total vs Royal Dutch Shell

- The value V of the spread is calculated daily and positions are adjusted such that :

$$\begin{cases} -V/(100\,000) \text{ if } -100\,000 < V < +100\,000 \\ -1 \text{ if } V > +100\,000 \\ 1 \text{ if } V < -100\,000 \end{cases}$$

- For example, on the 07/01/2009, V=56 776 €, we are short 56.776% of the spread which translates into a long position of 567 760 € on SHELL financed by a short sale for an equal amount of TOTAL

**Position held by AlphaSquare TOTAL vs ROYAL DUTCH SHELL spread**




Sources: Finaltis

# III. Contrarian strategy on spreads

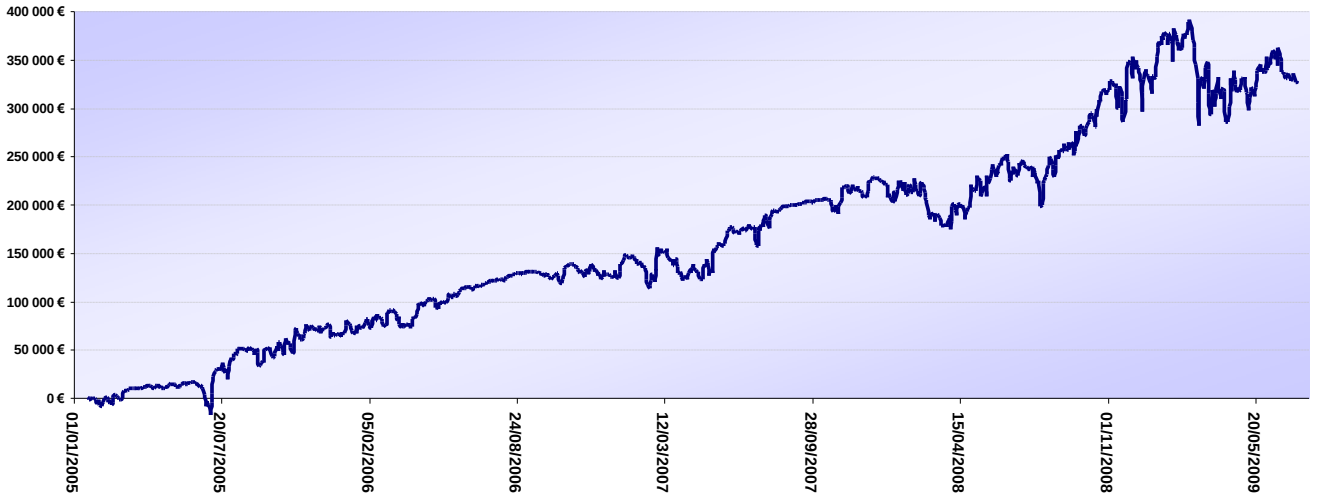
## *Mean-Reversion – Resulting P&L*

**Resulting P&L**

Example: The spread Total vs Royal Dutch Shell

- The trading P&L of the previously described strategy:

**P&L of the spread trading strategy TOTAL vs ROYAL DUTCH SHELL**




Sources: Finaltis

- The dynamic trading strategy on the spread exploited the oscillations to generate P&L.

# IV. Non Contrarian strategy on spreads

## *Style-Momentum – a Customised Underlying*

**Definition**

- A non contrarian strategy on spreads is a strategy which consists in **buying the underlying when it rises and selling when it falls** in order to exploit the trend
- The spreads constructed by AlphaSquare for the non contrarian strategy are spreads containing stocks with opposed characteristics with regards to one of the fundamental analysis themes
- The spreads constructed for the non contrarian strategy are spreads containing many stocks, typically several hundreds
- Example: the spread of the 200 largest European capitalizations against the 200 smallest (among those with at least 400 Millions Euros)

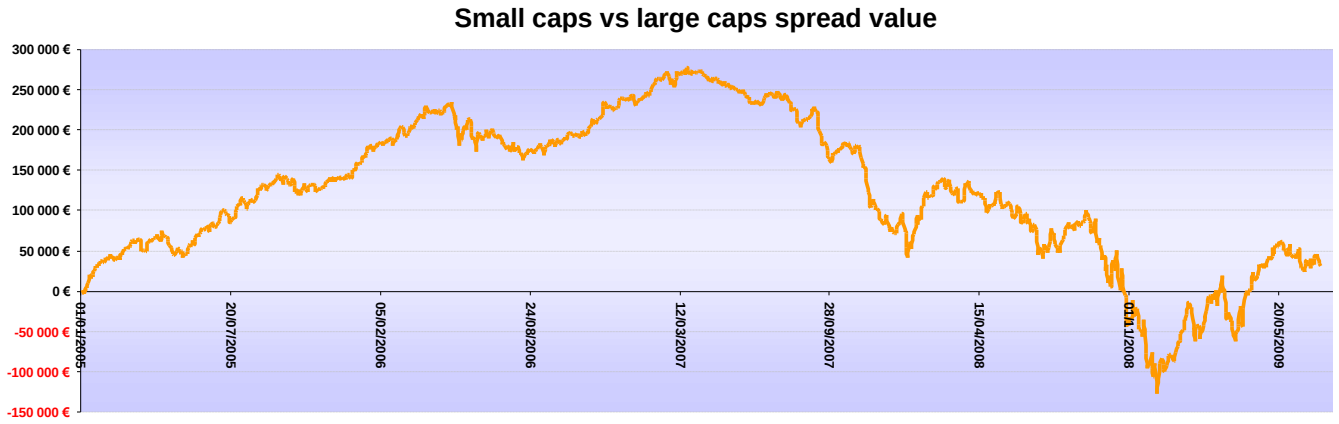
# IV. Non Contrarian strategy on spreads

## *Style-Momentum – Examining the underlying*

Example: The spread Small vs Large Caps

**Trends**

- One long position of 1 Million € evenly distributed across the 200 smallest European capitalizations
- One short position of 1 Million € evenly distributed across the 200 largest European capitalizations
- The daily P&L is reinvested every night




Sources: Finaltis

- The value of such a portfolio exhibits trends lasting several months

# IV. Non Contrarian strategy on spreads

## *Style-Momentum – Example of a position taking algorithm*

**Trading strategy**

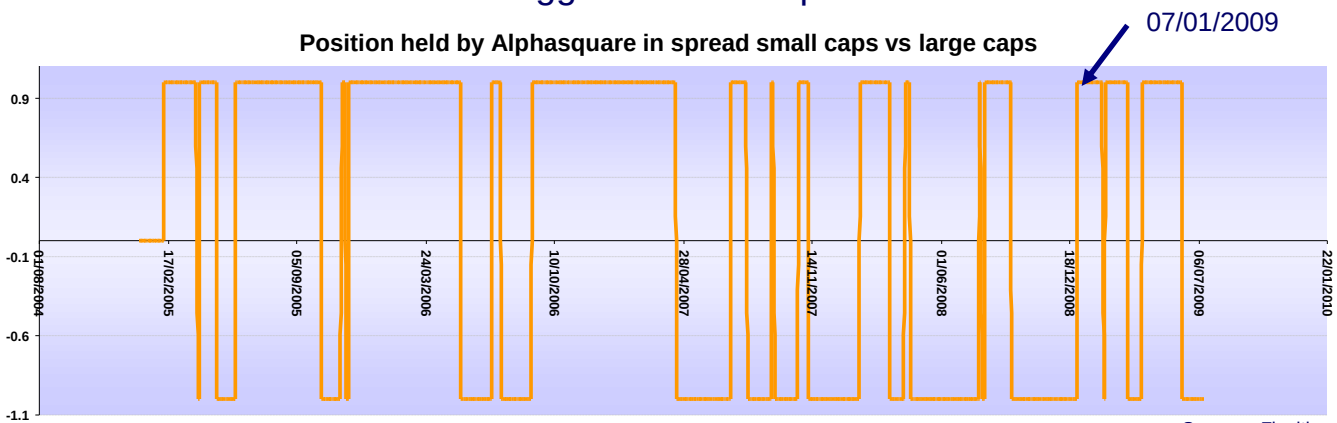
Example: The spread Small vs Large Caps

- Every night, we evaluate the value V of the spread and we calculate the 10d and 30d moving averages and we adjust our positions so that we hold :

  { -1 if MM (10) < MM (30)

  { 1 if MM (30) < MM (10)

- For example, on the 07/01/2009, MM(30)=62 259€ et MM(10)=74 411€, we are thus long 100% the spread. This leads us to have a long position of 5000 € on each of the 200 small capitalizations financed with a short sale for an equal amount on each of the 200 biggest market capitalizations.




Sources: Finaltis

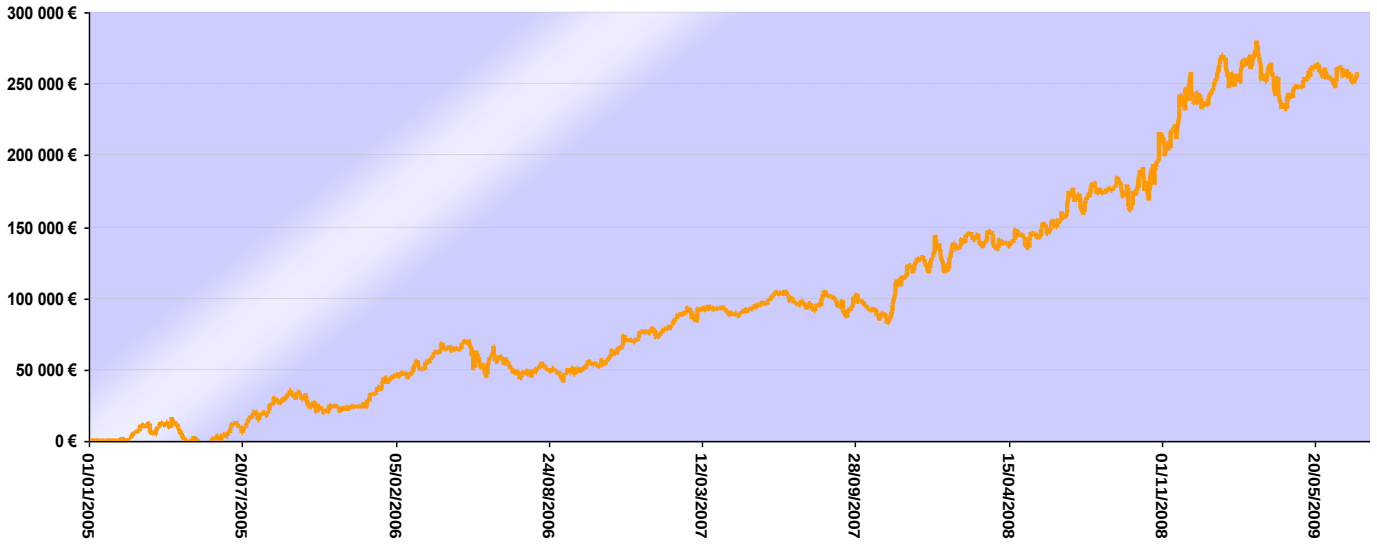
# IV. Non Contrarian strategy on spreads

## *Style-Momentum – the resulting P&L*

**Resulting P&L**

Example: The spread Small vs Large Caps

**P&L of the elementary spread trading strategy small caps vs large caps**




Sources: Finaltis

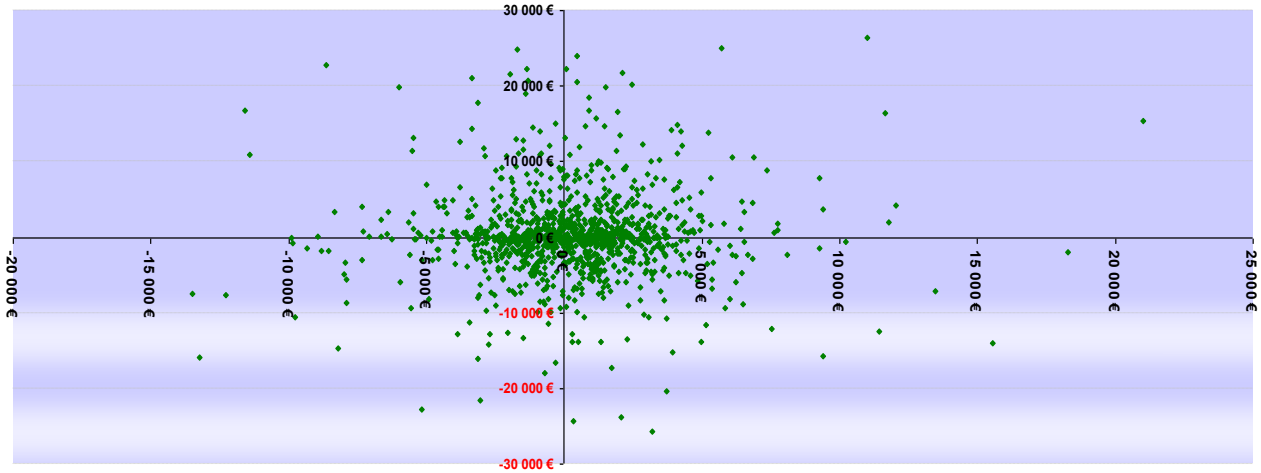
- The dynamic trading strategy on the spread “small cap vs large cap” exploited the trends to generate P&L

# V. Blending and diversification

## Correlation

- The resulting P&L series from the previously described examples on spreads are uncorrelated.

PLOTS OF THE P&L VARIATIONS OF THE CONTRARIAN STRATEGY
VERSUS THE P&L VARIATIONSOF THE NON CONTRARIAN STRATEGY .




Sources: Finaltis

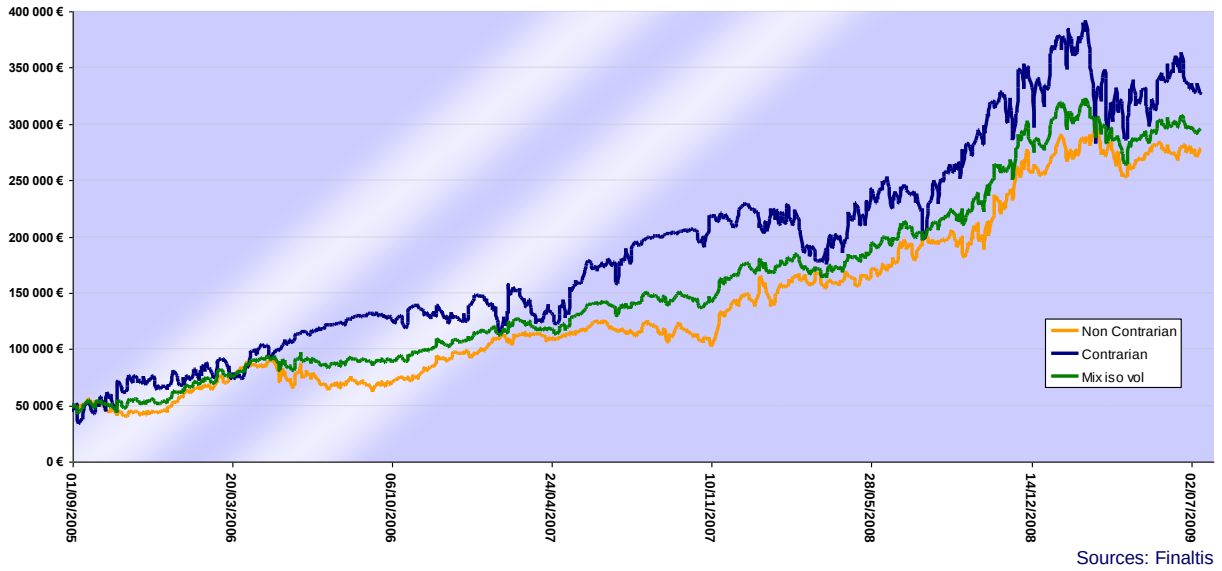
- The correlation measure obtained is 3%

- The two trading strategies are naturally complementary

# V. Blending and diversification

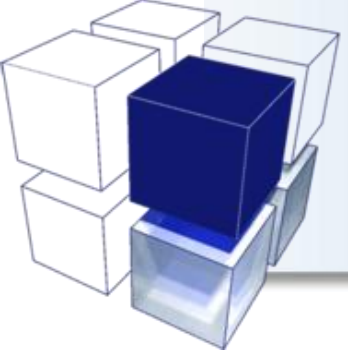
## Mix of strategies

- From the observation of the correlation, we can imagine how even a naive iso-vol blend will smooth the result:




Sources: Finaltis

- In practice: AlphaSquare mixes a huge number of contrarian strategies on spreads with a few non contrarian strategies on spreads



# V. Blending and diversification

## *AlphaSquare combines truly mutually diversifying strategies*

| Strategies | Benefits From | Suffers From |
|---|---|---|
| **Contrarian Strategy** | ▸ Reversals<br>▸ Convergence<br>▸ Volatility | ▸ Equity trends<br>▸ Low volatility |
| **Non Contrarian Strategy** | ▸ Equity trends<br>▸ Low volatility | ▸ Reversals<br>▸ Convergence<br>▸ Volatility |

▸ In practice: Allocation between contrarian and non contrarian strategies is dynamically adjusted in accordance with the above mentioned parameters

# VI. Trading

## *Reducing friction is key*

- High turnover levels and use of leverage combined with poor slippage control can easily eradicate profits from a potentially healthy back-test

- Empirical slippage measurement:

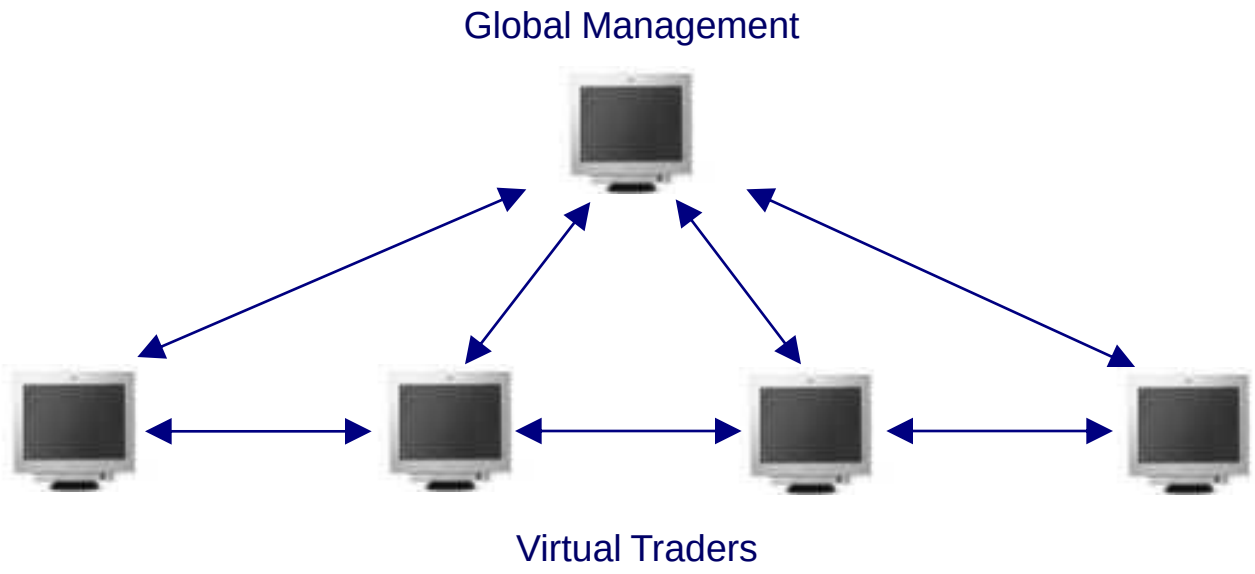
  slippage (bps) = (back-tested P&L – realised P&L) € / volume (€)

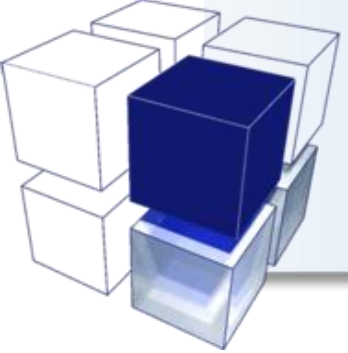
  shortfall — per € traded

  - The result of this calculation over a 12 month period is around 10 bps as measured against a close-price back-test
  - Translating the per € transaction costs into per NAV costs
  - per NAV monthly cost = (per € cost) X daily turnover X leverage X 20 days
  - Example: 10 bps X 10% X 3 X 20 = 0.60% per month

# VI. Trading
## *A virtual trading room*

- Virtual trading room composed of > 50 traders enables slippage to be minimized. Orders are sent in small amounts and frequent intervals
  - Orders sent by virtual traders take into account all previous executions
  - On-going position adjustment to maintain the market neutral position
  - A virtual position manager gives an overall real time summary of all positions, deltas, P&L and execution data

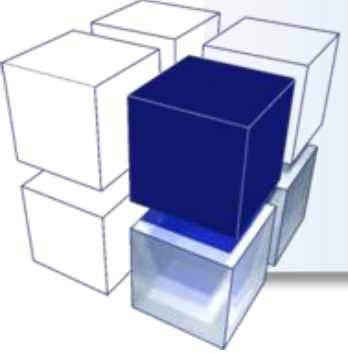




# VI. Trading

## *From trading experience to automation*

- Automated trading rules imitate the behaviour of experienced traders:
  - The trading engine takes into account the important events of a trading day (earnings announcements, economic numbers etc.)
  - Systematization of experience supplemented by automation combines the best of both worlds
  - STP (Straight Through Processing) reduces operational risk to a minimum
  - Automatic trading style combined with in-house trading algorithms and Direct Market Access leads to very low brokerage fees



# VII. Risk Management & Control

## *Embedded into fund management systems*

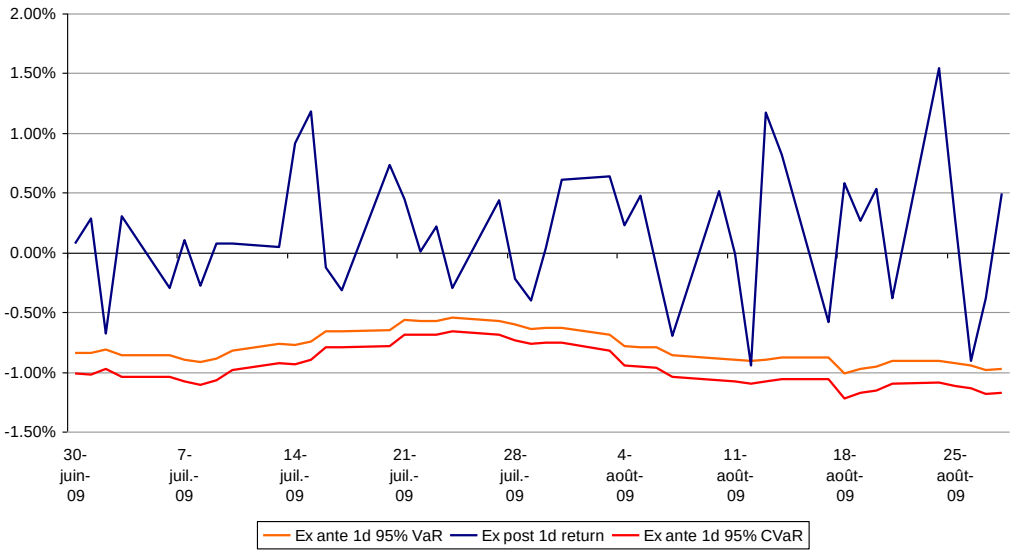
- Real time control by the virtual head of desk of the model:
  - Real time executions are fed directly into the global monitoring system
  - Problems will be instantly detected by the fund managers via visual and audible alarms from the global monitor
  - A functional model: it eliminates human emotion in risk control while remaining flexible despite its automation by allowing the fund managers to take informed decisions
  - Daily comparisons between the realised and the back-tested P&L

# VII. Risk Management & Control

## *Independent Risk Control*

- Risk control by Finaltis using proprietary tools:
  - Daily reconciliation with prime broker (principally positions)
  - Daily risk reporting is done internally by the risk department (once all positions are validated)
  - Implementation of independent real time monitoring: VaR, leverage, exposure and the necessary liquidity to cover the positions are based on real time positions and prices

**Example of internal reporting**




Sources: Finaltis

# VIII. The story so far

## *Superior returns since inception*

### AlphaSquare 01/09/2005 – 30/09/2009

| | AlphaSquare | HFRX Market Neutral | Eonia |
|---|---|---|---|
| Sept. 05 | -2.05% | -0.65% | 0.17% |
| Oct. 05 | 3.13% | -0.41% | 0.16% |
| Nov. 05 | 0.30% | 1.64% | 0.19% |
| Dec. 05 | -3.49% | 0.34% | 0.19% |
| Jan. 06 | 1.35% | 0.17% | 0.21% |
| Feb. 06 | 0.00% | 0.15% | 0.18% |
| Mar. 06 | 0.15% | 0.53% | 0.22% |
| Apr. 06 | -2.35% | 1.31% | 0.20% |
| May 06 | 6.36% | -0.08% | 0.24% |
| June 06 | 4.09% | 0.92% | 0.22% |
| Juil 06 | 0.89% | -0.44% | 0.24% |
| Aug. 06 | 1.98% | -0.54% | 0.26% |
| Sept. 06 | 0.77% | 1.32% | 0.24% |
| Oct. 06 | -0.43% | 0.97% | 0.29% |
| Nov. 06 | 0.18% | -0.53% | 0.28% |
| Dec. 06 | -2.68% | 0.91% | 0.28% |
| Janv. 07 | 3.93% | 2.45% | 0.33% |
| Feb. 07 | 3.47% | 0.87% | 0.28% |
| Mar. 07 | -2.26% | 1.20% | 0.31% |
| Apr. 07 | 0.26% | 0.97% | 0.33% |
| May 07 | 1.00% | 0.06% | 0.33% |
| June 07 | -1.59% | 0.94% | 0.32% |
| Juil 07 | -2.82% | -0.42% | 0.36% |
| Aug. 07 | 4.66% | -2.17% | 0.35% |
| Sept. 07 | -5.77% | -1.73% | 0.31% |
| Oct. 07 | -1.17% | 0.16% | 0.36% |
| Nov. 07 | -4.09% | 0.15% | 0.34% |
| Dec. 07 | -2.05% | 0.67% | 0.33% |
| Jan. 08 | 6.24% | -2.75% | 0.35% |
| Feb. 08 | 2.22% | 0.79% | 0.33% |
| Mar. 08 | -3.02% | 2.05% | 0.35% |
| Apr. 08 | 6.66% | 1.03% | 0.33% |
| May 08 | 0.91% | 0.23% | 0.33% |
| June 08 | -4.04% | 1.02% | 0.34% |
| Juil 08 | 2.20% | -0.03% | 0.36% |
| Aug. 08 | 5.61% | -1.91% | 0.35% |
| Sept. 08 | -2.75% | -0.24% | 0.38% |
| Oct. 08 | 0.03% | 0.20% | 0.33% |
| Nov. 08 | -0.71% | 0.69% | 0.25% |
| Dec. 08 | 3.00% | -1.66% | 0.23% |
| Jan. 09 | 0.35% | -0.46% | 0.16% |
| Feb. 09 | -2.48% | -0.95% | 0.10% |
| Mar. 09 | -1.76% | -1.56% | 0.09% |
| Apr. 09 | 9.85% | -1.45% | 0.07% |
| May 09 | 1.51% | 1.44% | 0.13% |
| June 09 | 1.64% | -0.97% | 0.12% |
| Juil 09 | 2.60% | -1.11% | 0.09% |
| Aug. 09 | 3.52% | -0.41% | 0.06% |
| Sept. 09 | 2.58% | -1.43% | 0.06% |
| **Cumulated Performance** | **39.56%** | **0.95%** | **12.83%** |

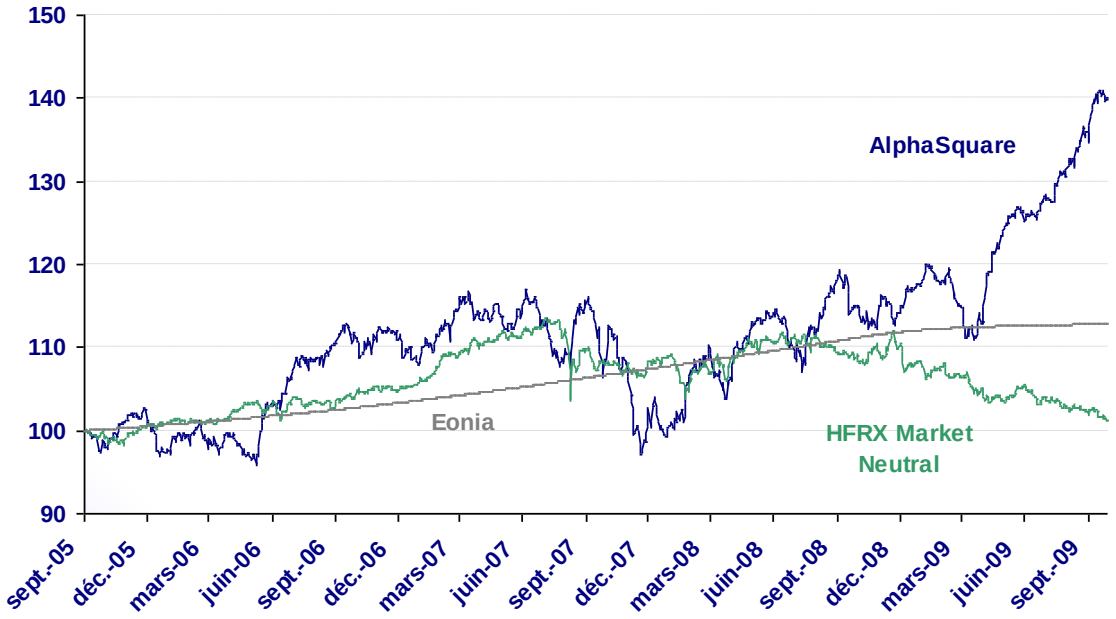
Sources: HFR / Finaltis

# VIII. The story so far

## *Superior returns since inception*

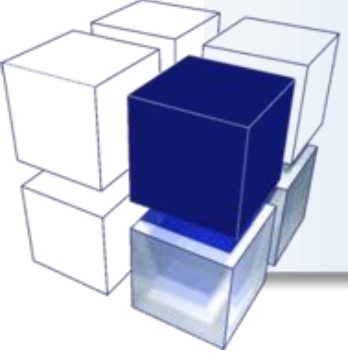
**AlphaSquare**

**01/09/2005 –28/08/2009**




| | Ann. Return | Volatility | Max. Drawdown | Correlation |
|---|---|---|---|---|
| AlphaSquare | +8.51% | 10% | -14.9% | |
| HFRX Market Neutral | 0.23% | 5% | -11.1% | 0.06 |
| DJ Stoxx 600 | -4.03% | 24% | -60.5% | 0.25 |

Sources: Bloomberg / HFR / Finaltis



# IX. Conclusion

## *Summary*

**Experience**

- A complementary team cumulating more than 25 years experience in trading and modelling
  - An extensive knowledge of the markets
  - In depth modelling skills

**Liquidity**

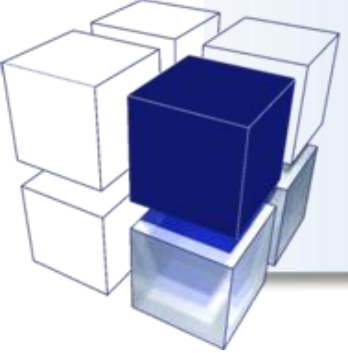
- A liquid, secured and diversified investment universe

**Strategy**

- A pure contrarian mean reversion model blended with naturally uncorrelated non contrarian strategies
- An automated and efficient trading system
  - Creation of a virtual trading desk
  - Efficient trading and successful reduction of slippage

**Risk Control**

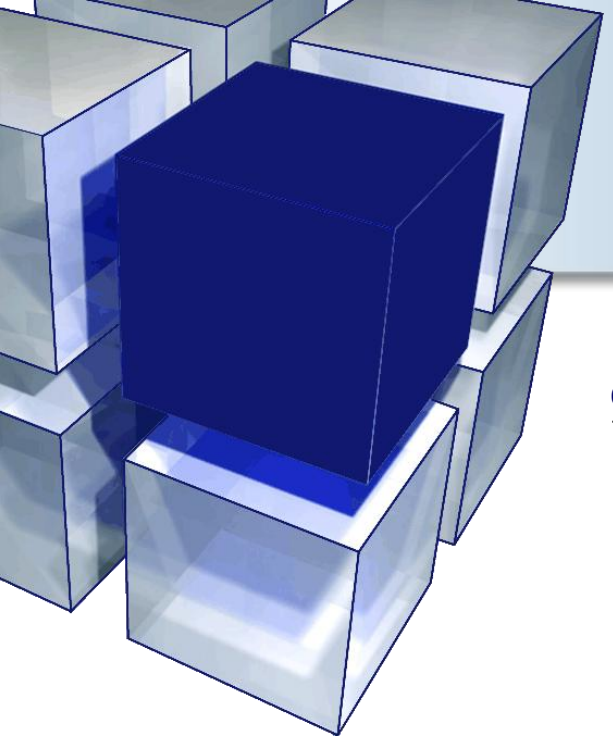
- Multi level efficient risk management
  - Sophisticated risk management included in the model
  - Daily monitoring by the managers
  - Independent controls by the Risk Control team



# IX. Conclusion

## *AlphaSquare at a glance*

| | |
|---|---|
| **Legal Structure** | **Irish QIF listed on the Irish Stock Exchange** |
| **Sedol Code** | **B0JJYK5 (€) / B0JJYL6 ($)** |
| **Bloomberg Ticker** | **FASETEU ID (€) / FASETUS ID ($)** |
| **Code ISIN** | **IE00B0JJYK53 (€) / IE00B0JJYL60 ($)** |
| **Asset Manager** | **Finaltis SA** |
| **Administrator** | **PNC Global Investment Servicing** |
| **Depositary Bank** | **PNC International Bank Limited** |
| **Auditor** | **KPMG** |
| **Prime Broker** | **Morgan Stanley** |
| **Targeted returns** | **15% annualized** |
| **Expected drawdown risk** | **15% maximum** |
| **Annualized volatility** | **10% (targeted)** |
| **NAV calculation** | **Weekly** |
| **Subs. / Red. Cycle** | **Weekly (with 5 days notice)** |
| **Management fees** | **2% per year** |
| **Performance fees** | **20% of performance (with high-watermark)** |



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