

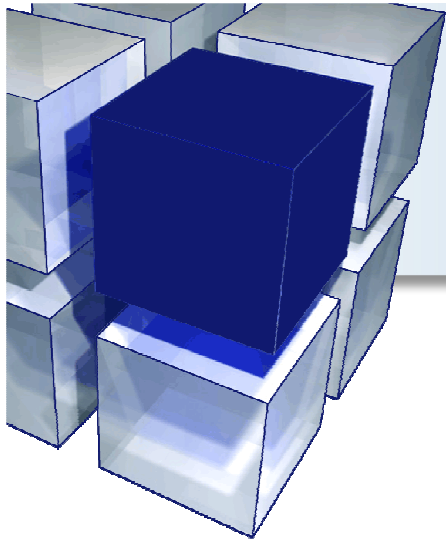


Single Strategy
Statistical Arbitrage

AlphaSquare

Systematic Equity Trading

General Presentation



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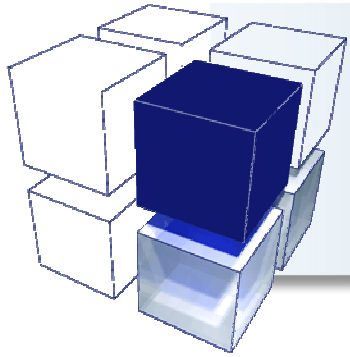
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Contents

Summary	4
I. Finaltis, at a glance	5
II. Investment Strategy	8
III. Contrarian strategy on spreads	12
IV. Non contrarian strategy on spreads	16
V. Blending and diversification	20
VI. Trading	22
VII. Risk management and control	25
VIII. The story so far	27
IX. Conclusion	30
Contacts	32



Summary

Experience

- ▶ Since 2001, Finaltis has achieved absolute returns by managing risks

Robustness

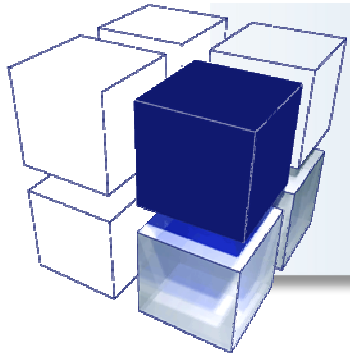
- ▶ AlphaSquare targets a double-digit performance, uncorrelated to main markets, by implementing:
 - Uncorrelated complementary relative value strategies
 - Risks monitoring on a real time basis
 - Dynamic asset allocation

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

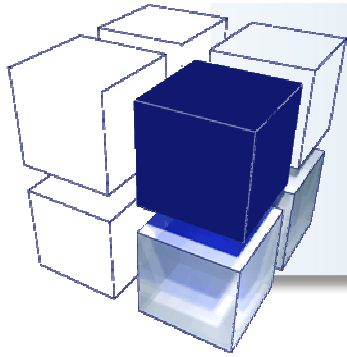
Experienced in managing risk

Our Philosophy

- ▶ We manage risk to deliver absolute returns:
 - We define an « absolute » risk level with our investors, the maximum drawdown
 - We eschew some market risks (illiquidity), human flaws (emotions, frauds, errors, ...) or operational risks (unstable infrastructure)
 - We monitor the risks we take
 - We target the highest achievable performance within the pre-defined absolute risk framework

Our Means

- ▶ We use a number of means to deliver returns within our absolute risk framework:
 - Liquid assets only
 - Quantitative and systematic approaches
 - 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

Our Experience

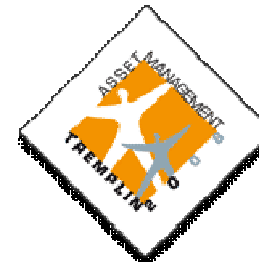
► We are experienced:

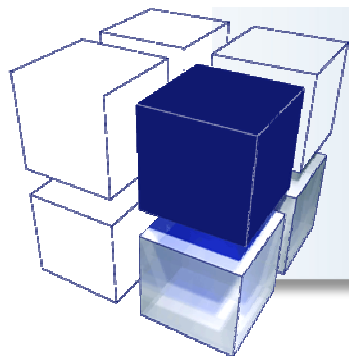
- Finaltis was established in 2001 by its principals
- QuantiMix - the longest-standing Finaltis fund – has been successfully implementing our philosophy since 2002.
- Principals and senior PMs have +15 years of industry experience on average
- Principals and PMs have between 5 to 15 years of joint experience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

Our 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 «**TREMLIN 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

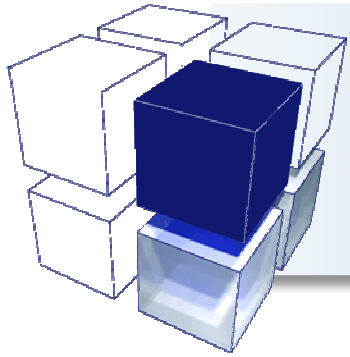


Rémy Croisille (dob: 24/02/64): Rémy has a strong mathematical background. He is a graduate in mathematics from the Ecole Normale Supérieure d'Ulm (among top academic institutions in France) and holds post graduate degrees in mathematics and financial statistics (DEA). He also taught mathematics for 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 research teams of BNP Paribas.

► A Trader with modelling 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

Facts and figures

Positions

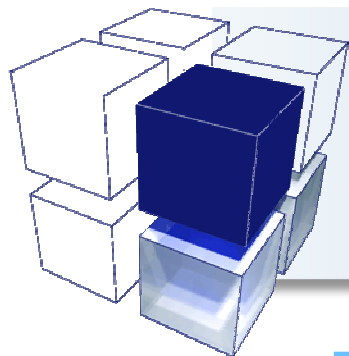
- ▶ AlphaSquare is a market neutral fund on European stocks which has an annualised **targeted performance of 15%** (with a **volatility of 10%**).
- ▶ The AlphaSquare portfolio permanently has **500 Stocks** positions.

- ▶ AlphaSquare seeks a 0.03% (3bps) return ($=15\%/500$) per year and by position

Trading

- ▶ The AlphaSquare portfolio has a daily **turn-over of 10%** and a **leverage** of about **3.3** (long + short).
- ▶ AlphaSquare trades its assets in 10 days ($10 = 1/10\%$).
- ▶ AlphaSquare trades its net assets in 3 days ($3 = 1/(10\%*3.33)$). In other words, within one year it « **rotates 85 times its net assets** » ($85=255/3$)

- ▶ AlphaSquare seeks a 0.18% return ($=15\%/85$) per year and per euro traded!!



II. Investment Strategy

Large and liquid European Stocks only

Market Cap Breakdown of Portfolio

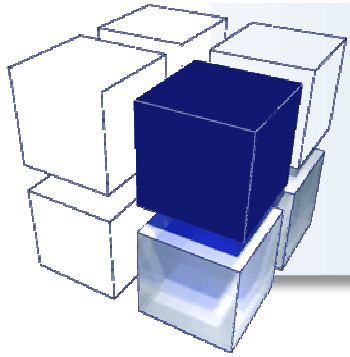
	N° of Stocks	% of Total
< 400 M €	5	1%
400 M - 1 Bn €	73	16%
1 Bn - 3 Bn €	136	29%
> 3 Bn €	252	54%
Total	463	100%

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

Liquidity Breakdown of Portfolio

3 Month Average	N° of Stocks	% of Total
< 5 M€	80	17%
5 - 10 M€	54	12%
10 - 50 M€	119	25%
> 50 M€	213	46%
Total	466	100%

Average Liquidity
> 10 M € per day for 71% of
stocks in the Fund



II. Investment Strategy

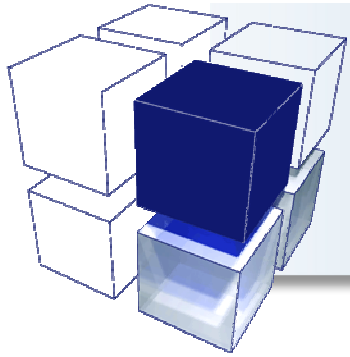
Building a market neutral portfolio with spreads

Spreads

- ▶ AlphaSquare trades spreads between European equities gathered into market neutral baskets.
- ▶ Each spread is composed of a long position and a short position, equal in value to an arbitrary unit (1 M € thereafter).
- ▶ The long and the short positions each contain from 1 to several hundreds of stocks.

Pros & Cons

- ▶ Advantages of trading market neutral spreads:
 - Spreads tend not to be correlated to indices or to stocks.
 - The number of spreads 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 between 2 to hundreds of orders.

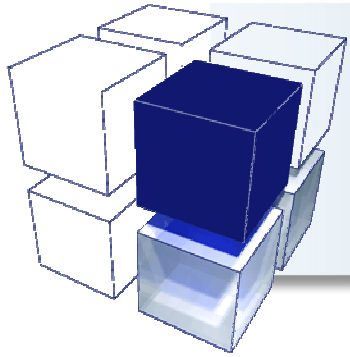


II. Investment Strategy

Blended contrarian and non contrarian strategies

Blended strategies

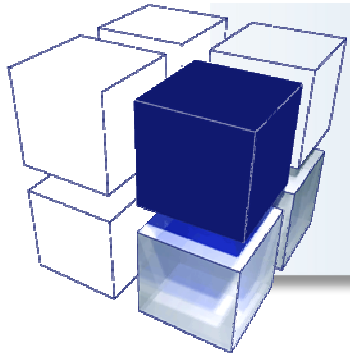
- ▶ AlphaSquare builds a portfolio blending **contrarian** and **non contrarian strategies** on spreads.
- ▶ The construction methods of the spreads in the contrarian and the non contrarian strategies are different.
- ▶ The spreads obtained in the contrarian and the non contrarian strategies are different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



III. Contrarian strategy on spreads

Definition

- ▶ A contrarian strategy on spreads is a **strategy which consists in buying the spread when it lowers and selling it when it rises** in order to benefit from a reversal of the trend.
- ▶ The spreads built by AlphaSquare for the contrarian strategy are spreads containing stocks that belong to a same sector and have a strong economic similarity.
- ▶ The spreads built for the contrarian strategy are spreads containing a few stocks (from 2 to 5).



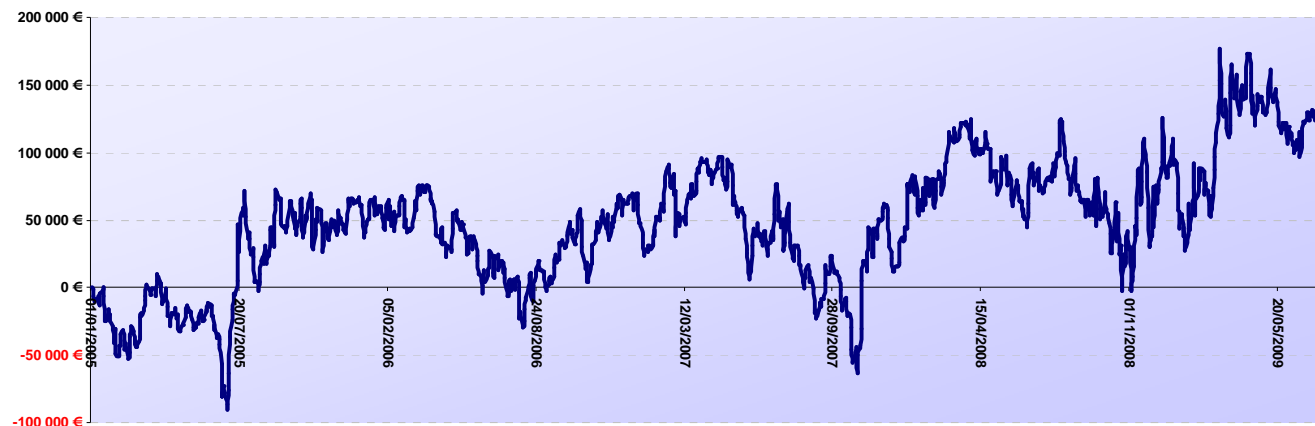
III. Contrarian strategy on spreads

Oscillation

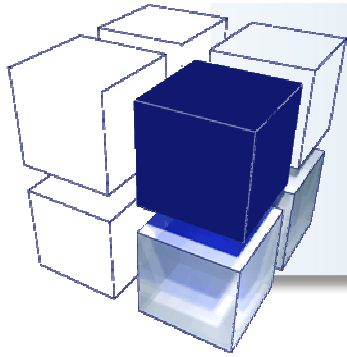
Example: The spread Total vs Royal Dutch Shell

- ▶ One long position of 1 Million € on TOTAL,
- ▶ One short-sale position of 1 Million € on ROYAL DUTCH SHELL.
- ▶ The daily P&L is cashed in every night.

Market close value of the spread



- ▶ The value of this portfolio oscillates around 0. AlphaSquare will take advantage of this behaviour.



III. Contrarian strategy on spreads

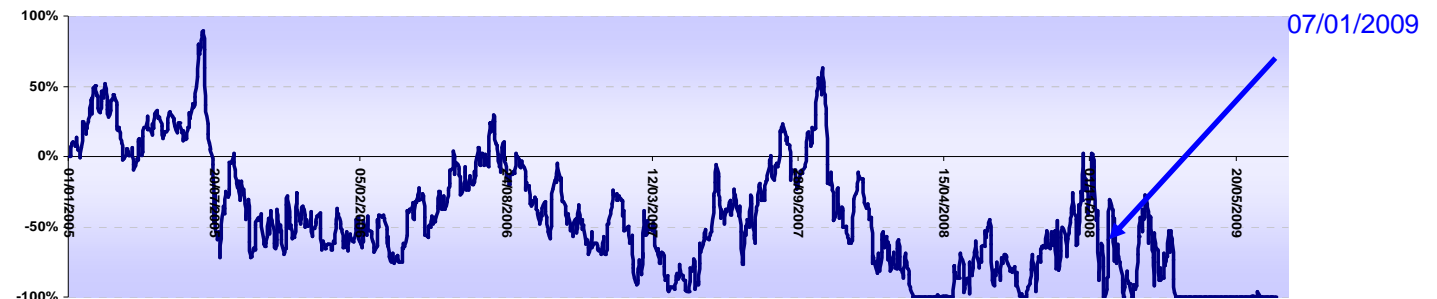
Trading Strategy

Example: The spread Total vs Royal Dutch Shell

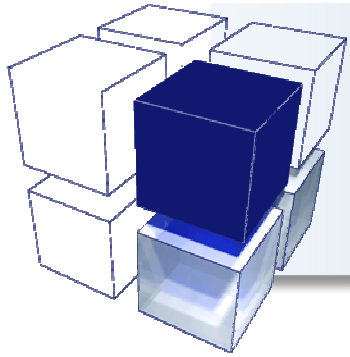
- Every night, the value V of the spread is calculated and positions are adjusted so that :

$$\left\{ \begin{array}{l} -V/(100.000) \text{ if } -100.000 < V < 100.000 \\ -1 \text{ if } V > 100.000 \\ 1 \text{ if } V < -100.000 \end{array} \right.$$
- For example, on the 07/01/2009, $V=56\,776\text{ €}$, we thus are short of 56.776% of the spread. This, in detail, leads us to have a long position of 567\,760 € on SHELL, financed by a short sale for an equal amount on TOTAL

Position hold by AlphaSquare TOTAL vs ROYAL DUTCH SHELL spread



► We notice a high turn over of the positions.



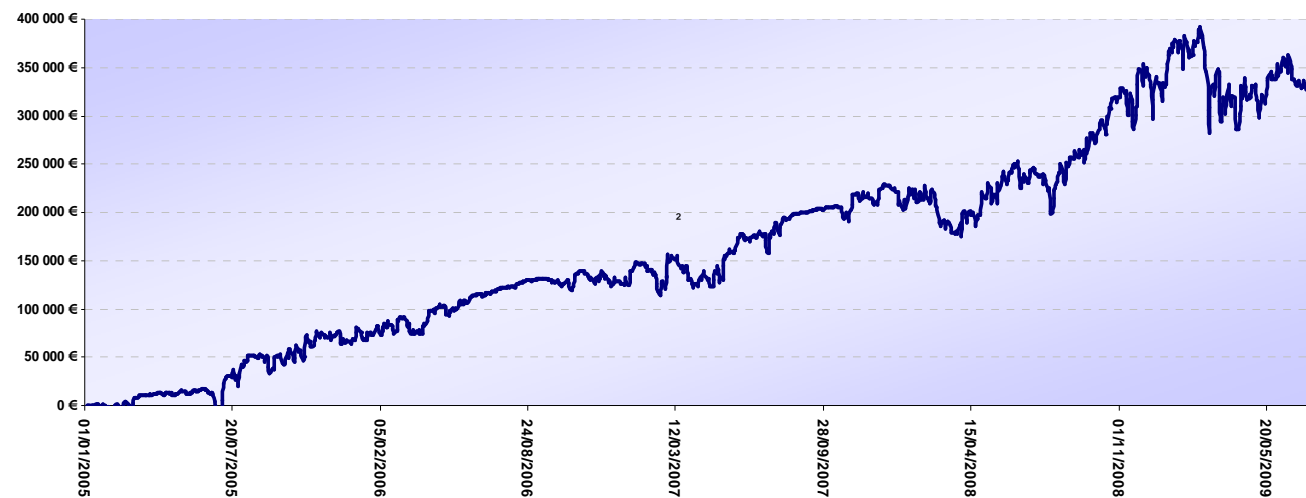
III. Contrarian strategy on spreads

Resulting P&L

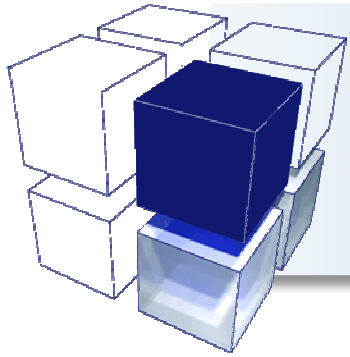
Example: The spread Total vs Royal Dutch Shell

- The P&L (before fees) of the previously described strategy is:

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



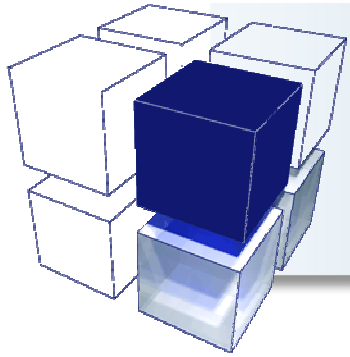
- The dynamic trading strategy on the spread exploited the oscillations to generate P&L.



IV. Non Contrarian strategy on spreads

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 benefit from trends.
- ▶ 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 more than 400 Millions Euros).



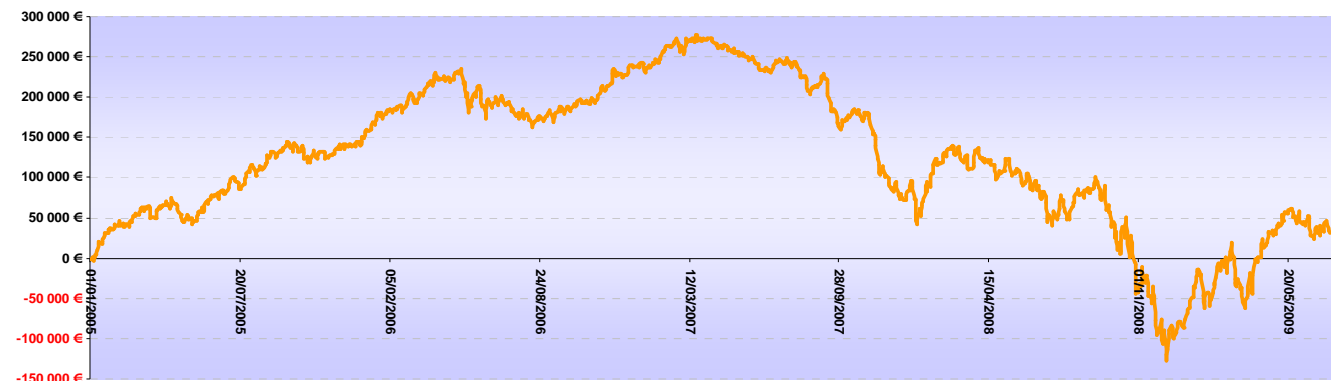
IV. Non Contrarian strategy on spreads

Trends

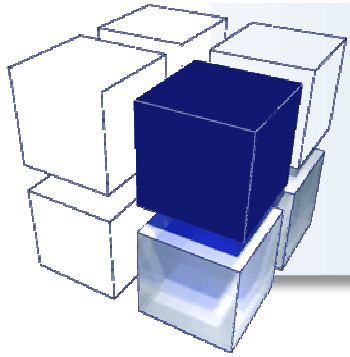
Example: The spread Small vs Large Caps

- ▶ One long position of 1 Million € evenly distributed on the 200 smallest European capitalization
- ▶ One short-sale position of 1 Million € evenly distributed on the 200 biggest European capitalization
- ▶ The daily P&L is cashed in every night.

Small caps vs big caps spread value



- ▶ The value of such a portfolio has trends sustained over several months.



IV. Non Contrarian strategy on spreads

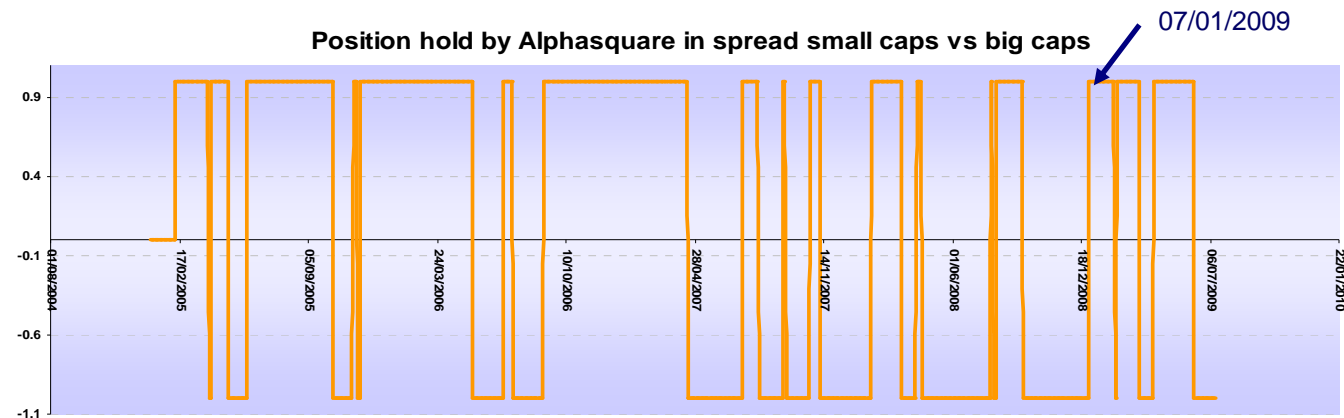
Trading strategy

Example: The spread Small vs Large Caps

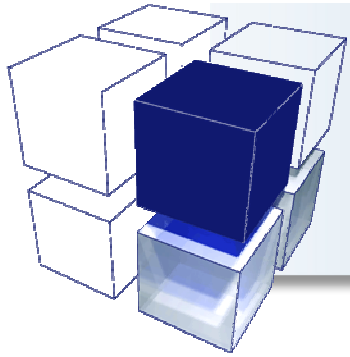
- Every night, we evaluate the value V of the spread and we calculate the 10d and 30d moving averages and we adjust our positions so that we hold :

$$\begin{cases} -1 & \text{if } MM(10) < MM(30) \\ 1 & \text{if } MM(30) < MM(10) \end{cases}$$

- For example, on the 07/01/2009, $MM(30)=62.259 \text{ €}$ et $MM(10)=74.411 \text{ €}$, we are thus long 100% the spread. This, in detail, leads us to have a long position of 5.000 € on each of the 200 small capitalizations financed with a short sale for an equal amount on each of the 200 biggest market capitalizations.



► We notice a small turn over of the positions.

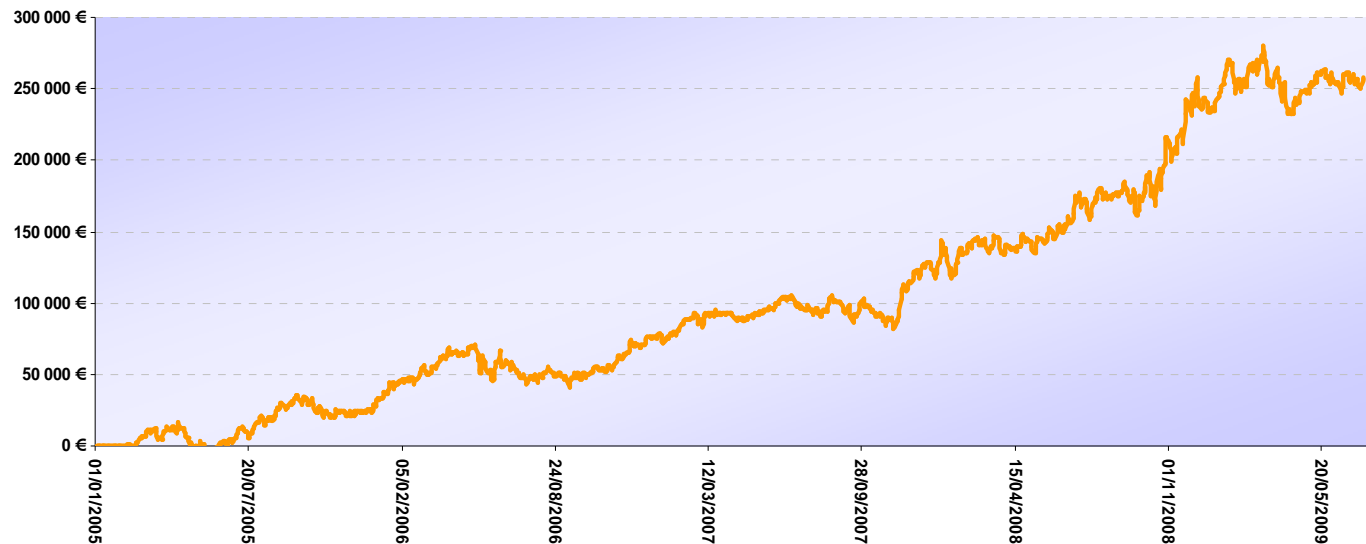


IV. Non Contrarian strategy on spreads

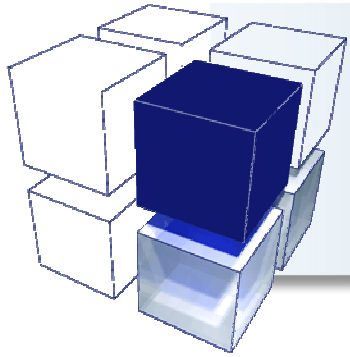
Resulting P&L

Example: The spread Small vs Large Caps

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



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

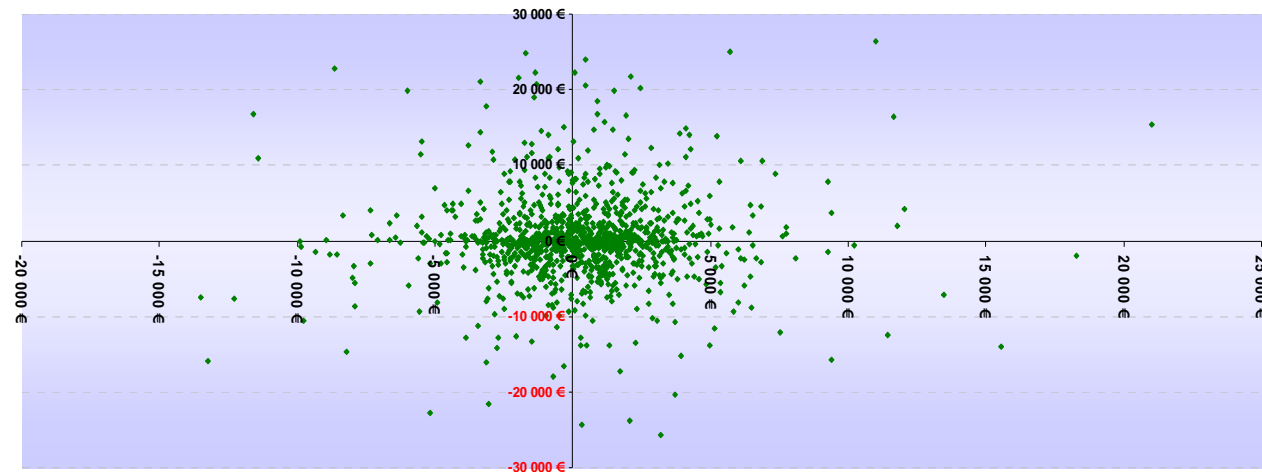


V. Blending and diversification

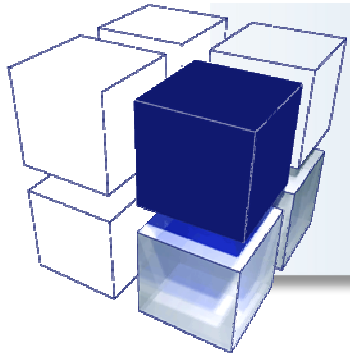
Correlation

- ▶ The resulting two P&L from the previously described strategies on spreads are uncorrelated.

LOTS OF THE P&L VARIATIONS OF THE CONTRARIAN STRATEGY
VERSUS THE P&L VARIATIONS OF THE NON CONTRARIAN STRATEGY .



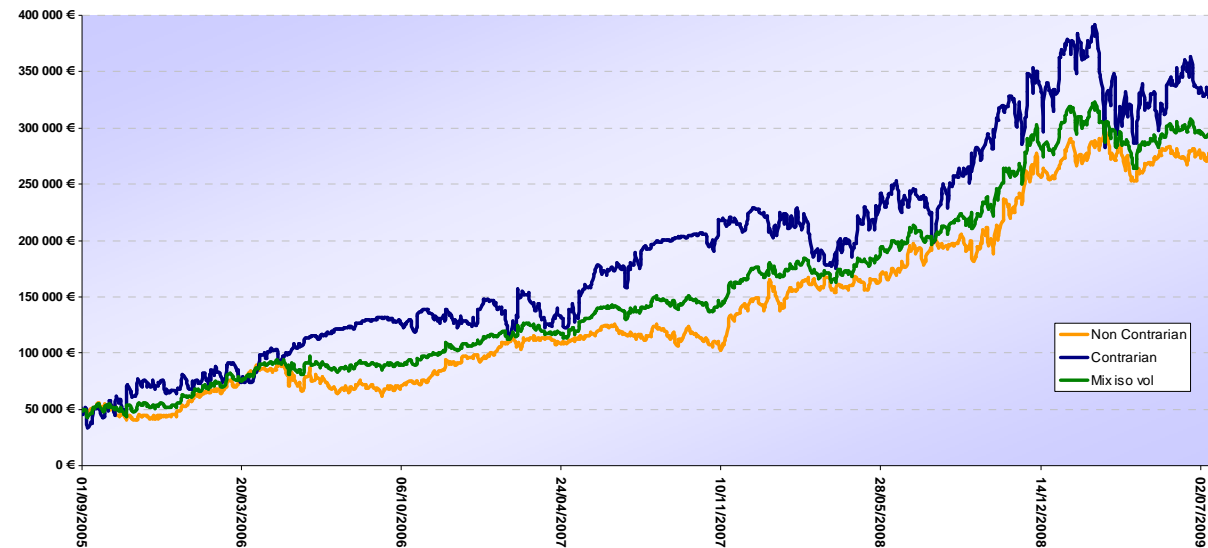
- ▶ The correlation measure obtained is: 3%.
- ▶ The two trading strategies are naturally complementary



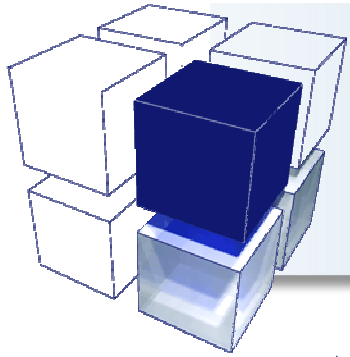
V. Blending and diversification

Mix of strategies

- From the observation of the correlation, we can easily understand that even a naive iso-vol mix will smoother the result.



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



VI. Trading

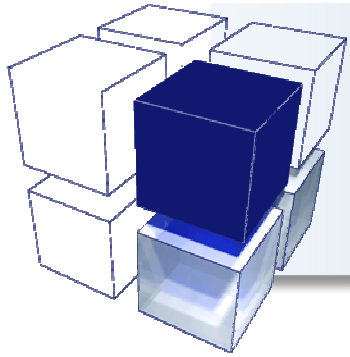
Reducing friction is key

- ▶ 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:

$$\text{slippage (bps)} = \underbrace{(\text{back-tested P\&L} - \text{realised P\&L}) \text{ €}}_{\text{shortfall}} / \underbrace{\text{volume (€)}}_{\text{per € traded}}$$

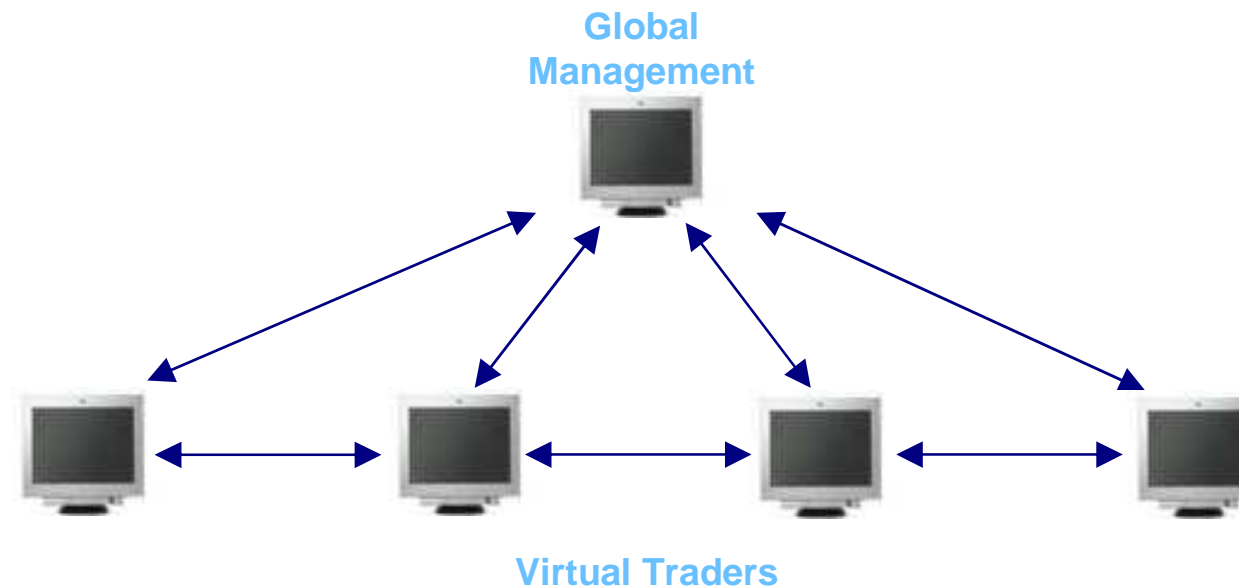
- The result of this calculation over a 12 month period around 10 bps as measured against a close-price back-test
- Translating the per € transaction costs into per NAV costs
- per NAV monthly cost = (per € cost) X daily turnover X leverage X 20 days
- Example: 10bps X 15% X 4 X 20 = 1.20% per month
- A net performance target of 15% p.a. implies average monthly gross returns of 1.58%

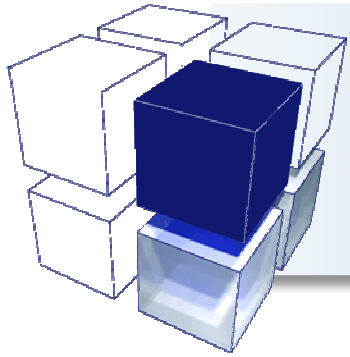


VI. Trading

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

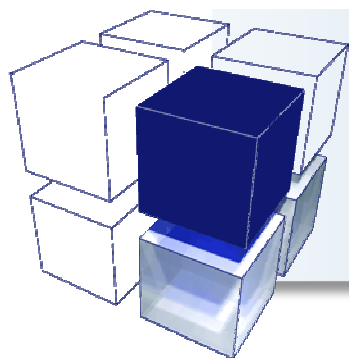




VI. Trading

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

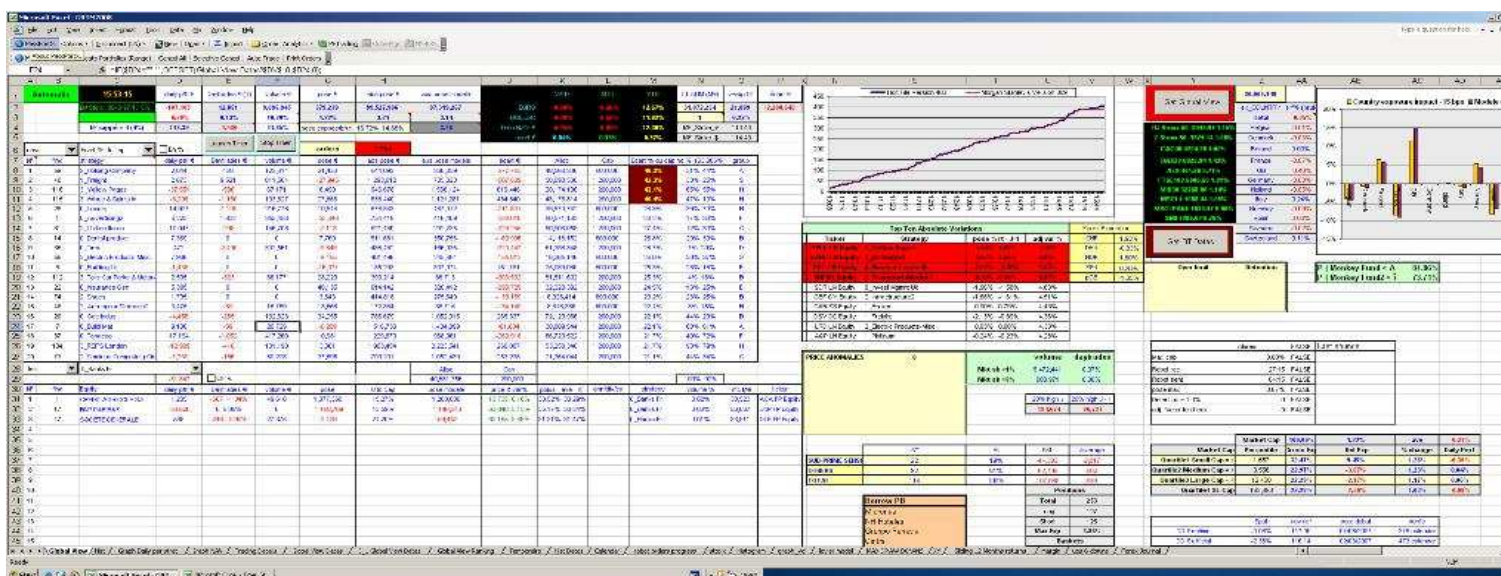


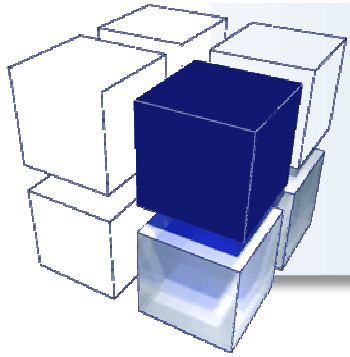
VII. Risk Management & Control

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



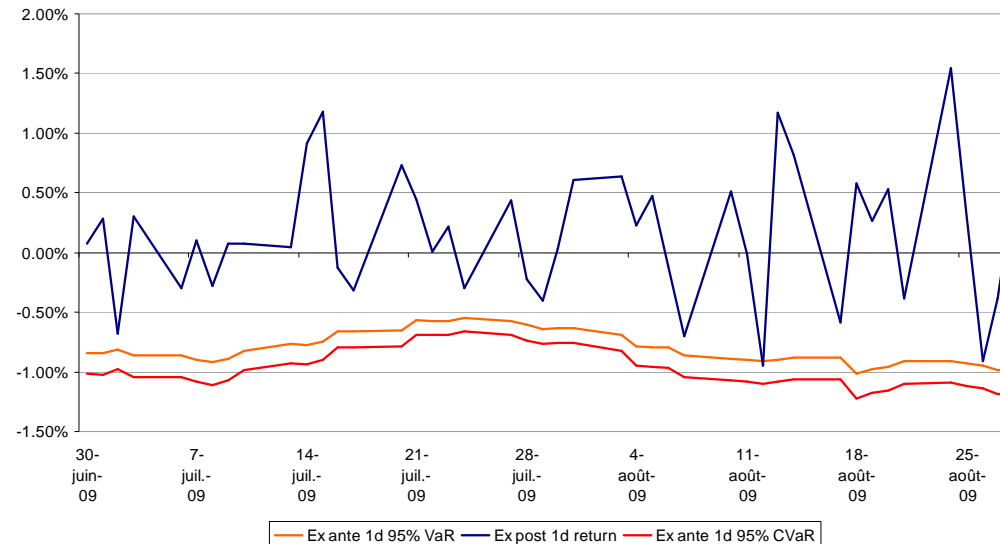


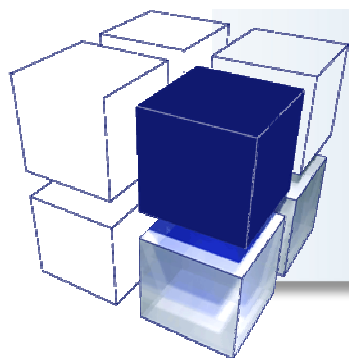
VII. Risk Management & Control

Independent Risk Control

- ▶ Risk control by Finaltis using proprietary and prime broker's 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





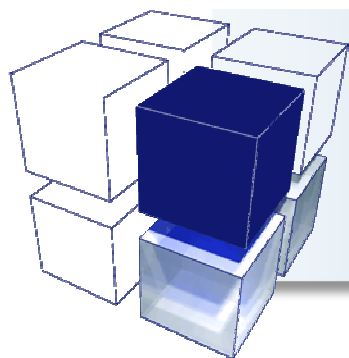
VIII. The story so far

Superior returns since inception

AlphaSquare 01/09/2005 –28/08/2009

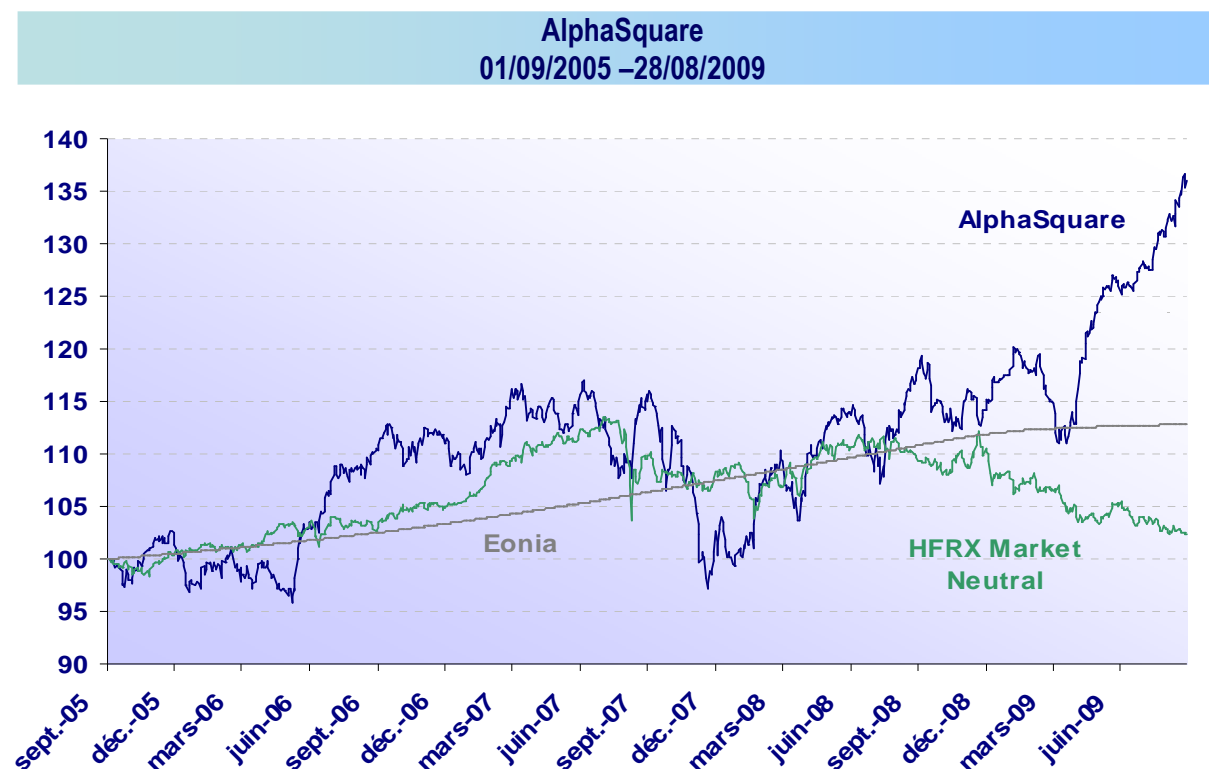
	Performance	HFRX Market Neutral	Eonia		Performance	HFRX Market Neutral	Eonia
Sept. 05	-2.05%	-0.65%	0.17%	Oct. 07	-1.17%	0.16%	0.36%
Oct. 05	3.13%	-0.41%	0.16%	Nov. 07	-4.09%	0.15%	0.34%
Nov. 05	0.30%	1.64%	0.19%	Dec. 07	-2.05%	0.67%	0.33%
Dec. 05	-3.49%	0.34%	0.19%	Jan. 08	6.24%	-2.75%	0.35%
Jan. 06	1.35%	0.17%	0.21%	Feb. 08	2.22%	0.79%	0.33%
Feb. 06	0.00%	0.15%	0.18%	Mar. 08	-3.02%	2.05%	0.35%
Mar. 06	0.15%	0.53%	0.22%	Apr. 08	6.66%	1.03%	0.33%
Apr. 06	-2.35%	1.31%	0.20%	May 08	0.91%	0.23%	0.33%
May 06	6.36%	-0.08%	0.24%	June 08	-4.04%	1.02%	0.34%
June 06	4.09%	0.92%	0.22%	Jul 08	2.20%	-0.03%	0.36%
Jul 06	0.89%	-0.44%	0.24%	Aug. 08	5.61%	-1.91%	0.35%
Aug. 06	1.98%	-0.54%	0.26%	Sept. 08	-2.75%	-0.24%	0.38%
Sept. 06	0.77%	1.32%	0.24%	Oct. 08	0.03%	0.20%	0.33%
Oct. 06	-0.43%	0.97%	0.29%	Nov. 08	-0.71%	0.69%	0.25%
Nov. 06	0.18%	-0.53%	0.28%	Dec. 08	3.00%	-1.66%	0.23%
Dec. 06	-2.68%	0.91%	0.28%	Jan. 09	0.35%	-0.46%	0.16%
Janv. 07	3.93%	2.45%	0.33%	Feb. 09	-2.48%	-0.95%	0.10%
Feb. 07	3.47%	0.87%	0.28%	Mar. 09	-1.76%	-1.56%	0.09%
Mar. 07	-2.26%	1.20%	0.31%	Apr. 09	9.85%	-1.45%	0.07%
Apr. 07	0.26%	0.97%	0.33%	May 09	1.51%	1.44%	0.13%
May 07	1.00%	0.06%	0.33%	June 09	1.64%	-0.97%	0.12%
June 07	-1.59%	0.94%	0.32%	Jul 09	2.60%	-1.11%	0.09%
Jul 07	-2.82%	-0.42%	0.36%	Aug. 09	3.52%	-0.41%	0.06%
Aug. 07	4.66%	-2.17%	0.35%				
Sept. 07	-5.77%	-1.73%	0.31%	Cumulated	36.05%	2.41%	12.79%
				Performance			

Sources: MSCI / Finaltis



VIII. The story so far

Superior returns since inception

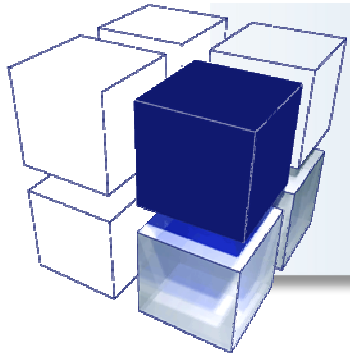


Daily data analysis

	Annualized Performance	Volatility	Max. Drawdown	Correlation
Performance				
AlphaSquare	+8.02%	9%	-17.0%	1.00
HFRX Market Neutral	+0.60%	6%	-9.9%	0.06
DJ Europe Stoxx 600	-3.88%	32%	-60.5%	0.25

Low correlation

Sources: MSCI / Finaltis

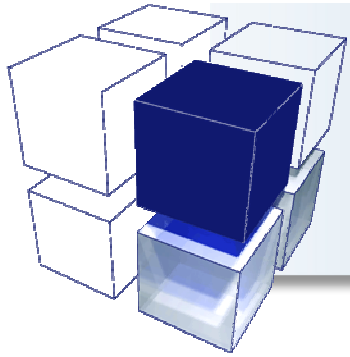


VIII. The story so far

AlphaSquare combines truly mutually diversifying strategies

Strategies	Capture:	Suffer from:
Contrarian Strategy	<ul style="list-style-type: none"> ▶ Reversals ▶ Convergence ▶ Volatility 	<ul style="list-style-type: none"> ▶ Equity trends ▶ Low volatility
Non Contrarian Strategy	<ul style="list-style-type: none"> ▶ Equity trends 	<ul style="list-style-type: none"> ▶ Convergence

- ▶ In practice: Allocation between contrarian and non contrarian strategy is dynamically modified depending on the market signals



IX. Conclusion

Summary

Experience

- ▶ A complementary team cumulating 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

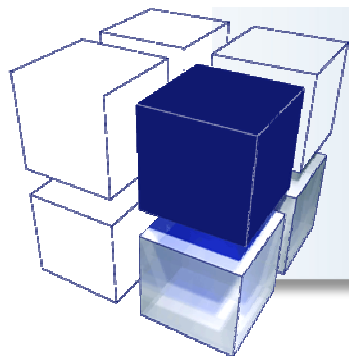
Strategy

- ▶ 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 and the prime broker



IX. Conclusion

AlphaSquare at a glance

▶ Legal Structure	Irish QIF listed on the Irish Stock Exchange
▶ Sedol Code	B0JJYK5 (€) / B0JJYL6 (\$)
▶ Bloomberg Ticker	FASETU 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
▶ Cumulated drawdown risk	12% 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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