



CAPITAL MANAGEMENT LP

# QMS Diversified Global Macro

PERFORMANCE UPDATE OCTOBER 2011

## Strategy Overview

The QMS Diversified Global Macro strategy is a quantitative, systematic, long-short investment program, well-diversified across asset classes, conceptual investing themes, modelling approaches, and trading time-horizons. The strategy currently trades in highly liquid global futures and forwards, including equity indices, sovereign rates/bonds, commodities, and currencies. Over the medium to long term, the strategy is expected to provide returns that are substantially uncorrelated to the macro asset classes in which it trades. The strategy seeks to generate consistent alpha by applying sophisticated statistical techniques and rigorous economic insight to global markets. QMS believes substantial value is recognized by *combining* lower-frequency fundamental economic views with higher frequency trades driven by market-based signals. A fundamental understanding of the economic environment most suitable for each model facilitates systematic tactical allocation among the various styles of investing employed. Strict risk management is embedded in the portfolio optimization process and is managed at the individual model level, the thematic level, and the portfolio level.

## October Portfolio Commentary

QMS's Diversified Global Macro Strategy returned **+2.89% gross** and **+2.17% net** in October, leaving year to date returns at **+6.89% gross** and **+4.18% net**.

October presented a very challenging month for many Managed Futures strategies, with most diversified industry Macro and CTA indices showing large negative returns (Newedge CTA: -3.74%, DJ Credit Suisse Core Managed Futures: -5.07%, HFRX Macro/CTA: -1.99%, HFRX Macro Systematic CTA: -4.84%). Pure trend following strategies appeared to perform the worst, as the very sharp equity and commodity recovery caught many managers offside (the Newedge Trend indicator returned -12.79% in October alone). QMS's portfolio performed very well in October, largely on the strength of fundamental macro models; themes such as value, capital flows, and monetary policy dominated more technical factors across asset classes. Directional trend following models indeed underperformed in equities, fixed-income, and commodities, but the portfolio automatically reduced the risk allocation to these factors mid-month, on bottom-up model feedback of a poor trend-following environment. Despite the losing performance of directional technical models, relative value technical models were flat for the month. At the asset class level, equity strategies were a drag on performance, while commodities, currencies, and fixed-income all contributing position returns. Currency models were the largest positive contributors to the monthly performance.

## Account Specifications

|                          |  |
|--------------------------|--|
| <b>Strategy</b>          | Global Macro   |
| <b>Style</b>             | Systematic, Long-Short   |
| <b>Asset Classes</b>     | Global currencies<br>Sovereign rates/bonds<br>Global equity indices<br>Commodities       |
| <b>Instruments</b>       | Futures, Forwards  |
| <b>Futures Exchanges</b> | BMF CBT CME CMX EOE<br>EUX HKG ICE LIF MFM<br>MIL MSE NYB NYF NYM<br>OSE SFE SSE TFX TSE |

## CONTACT INFORMATION

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## Account Performance: percent return, non-compounded

| <u>Gross of Fees:</u> | Jan  | Feb  | Mar    | Apr  | May  | Jun  | Jul  | Aug    | Sep    | Oct  | Nov    | Dec  | YTD  |
|-----------------------|------|------|--------|------|------|------|------|--------|--------|------|--------|------|------|
| 2010                  |      |      |        |      |      | 1.99 | 1.13 | 3.45   | 2.59   | 1.47 | (3.22) | 0.84 | 8.25 |
| 2011                  | 0.59 | 2.67 | (4.46) | 3.79 | 1.26 | 0.79 | 4.74 | (3.02) | (2.36) | 2.89 |        |      | 6.89 |
| <u>Net of Fees:</u>   | Jan  | Feb  | Mar    | Apr  | May  | Jun  | Jul  | Aug    | Sep    | Oct  | Nov    | Dec  | YTD  |
| 2010                  |      |      |        |      |      | 1.46 | 0.77 | 2.63   | 1.94   | 1.05 | (2.71) | 0.54 | 5.67 |
| 2011                  | 0.34 | 2.00 | (3.70) | 2.90 | 0.87 | 0.50 | 3.66 | (2.55) | (2.02) | 2.17 |        |      | 4.18 |

Performance through February 2011 is pro-forma, based on actual trading of QMS Capital's primary managed account, scaled to 15% ex-ante annual volatility, and intended for illustration purposes only. Returns shown are non-compounded, based on a constant notional. Performance inception of June 2010 corresponds to commencement of QMS's diversified strategy, risk-balanced among equity, rates/bonds, and currencies (live trading began two weeks earlier, at low risk and implemented unequally across asset classes). March-April 2011 performance is pro forma, based on a paper traded portfolio. May-August 2011 performance numbers are derived from a live track record on the dbSelect Managed futures platform, where performance may vary slightly from dbSelect reports, due to transaction costs and month-end differences in exchange settlement prices. Performance numbers from September 2011 onward are derived from a blended composite of QMS's managed accounts. All performance numbers are unaudited and have been computed by QMS Capital Management LP. Excepting March-April 2011, the returns shown are derived from actual trading but do not represent the return of any client of QMS, and QMS makes no representation as to the accuracy of such numbers. Net returns include a pro-forma management fee of 2% and performance fees of 20%, subject to high water mark and applied annually (calendar year).

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