**Investment Philosophy**

We undertake a short term, systematic approach to trading. We use volatility, momentum, price signals and pattern recognition to take short term long or short positions in up to 50 different futures and currency markets. We are primarily driven by momentum and mean reversion metrics in our trading model.

•The Fund seeks to employ a program designed to consistently produce superior, absolute risk-adjusted returns regardless of the overall direction of individual markets or asset classes.

•Provide our clients with transparency, uncorrelated returns to asset classes, and quality risk adjusted returns.

**Investment Process**

•Centurion Short Term Trading Fund (the “Fund”) seeks to capitalize on short term (intraday) gains through the systematic trading of the global futures markets.

•Our edge is identifying and capitalizing on observed market behavior which persists through time while overlaying comprehensive risk management.

•The portfolio consists of highly liquid global futures contracts including equity indices, commodities, interest rates and foreign exchange.

•Strives to generate high risk adjusted returns while maintaining virtually no correlation to both traditional and other alternative asset classes.

•Stringent risk controls to limit daily, weekly and monthly drawdowns while maintaining adequate exposures to meet our performance objectives.

•Strategies begin with a hypothesis based on observed market behavior and are rigorously verified though:

−Modeling and back testing the idea

−In-sample testing to confirm hypothesis and optimize model

−Out-of-sample testing to confirm in-sample results and reduce over fitting

•If results are consistent both in and out of sample, strategy is added to portfolio

•New strategies are introduced at lower allocations until live results confirm testing

•Constantly adapting and revising core trading strategies with on going research

•Strategies applied to 52 of the most liquid global futures and foreign exchange markets

•Strategies are weighted based on market volatility, portfolio correlation and performance

•Volatility is measured on an individual market basis using daily ranges

•Holding periods range from intraday to 2 days with an average hold of 6 hours

•Research is based on observed market behavior using a team approach. Traders, researchers and programmers work closely to improve, enhance and create strategies

•Performance drivers include determining market environment, strict risk management techniques, allocation overlays and execution

•The portfolio consists of more than 75 independent momentum and mean-reversion trading strategies

•Individual strategies are weighted using various allocation variables, including but not limited to correlation and volatility

•Idea generation is trading driven, not based on data mining

•A team concept is emphasized throughout the research process; traders work closely with research and programmers

•Multiple steps are taken to avoid curve-fitting and to discover robust, consistent strategies

―Individual strategies must be logical, practical and explainable

―Models are based on logical price patterns

―Ideas are tested on in-sample and out-of-sample data

―Access to out-of-sample data is limited to ensure integrity of the strategy

―Ideas are generalized and must be robust across all asset classes

•Strategies are developed and tested using proprietary software

•Strategies are monitored in real-time to ensure performance meets expectations

•Current research database includes more than 50 diversified global futures and inter bank foreign exchange markets

•With market environments changing, our research/idea generation is dynamic and adapts to avoid stagnation

•Strict statistical measures need to be met before a strategy is added to the portfolio

Stefan Behling developed the company’s trading methodology.

78 Models inside the system.

Same system applied to all models.

Price and momentum determine trade entry.

Entry and exit signals determined by same program.

Trading methodology the same for all markets.

System can be neutral, but not designed to be that way. No long or short bias.

System is projected to constantly evolve with ongoing, market driven research.

Our aim is to further refine existing systems.

No fundamental data is used.

Exits and Entries are determined by market price action, are processed by proprietary statistical models to determine when we have a competitive advantage in the market to profit from.

Our trading methodology is driven by pattern recognition and mean reversion analytical metrics.

Moving Average 20%

Breakout Systems 35%

Pattern Recognition 35%

Regression Analysis 5%

Oscillators 5%

Market price action is processed by proprietary statistical models to determine when we have a competitive advantage in the market to profit from:-

Moving Averages

Pattern Recognition

Momentum Oscillators

Support and Resistance

Overbought / Oversold Indicators

Spread Relationships – Currently researching, not in program today

Broadly speaking, we are committed to short term trading as a means of generating alpha. We believe that trading technology and the increasingly rapid dissemination of market moving data to more and more market players is making longer term buy and hold decisions less and less attractive. We believe we can exploit short term market trends to generate non-correlated returns. At the same time, we believe the short term nature of our trading models means we will have less volatility than longer term trend followers like CTAs and certain fundamentally driven global macro funds.

We also believe that investment ideas and strategies are best sourced from trading desks, and not from theoretical views of the markets.

Trading methodology is based on observed market behaviour. Only minor changes have been made to the hypothetical portfolio such as removing specific markets and strategies from the portfolio to smooth out performance. Research and strategy development is ongoing.

The strengths of our trading methodology are the process we use to create our ideas. They are based off of repeated market observation that is then formulated into a specific quantitative formula. These ideas can therefore be explained logically and do not constitute data mining. The ideas are also strengthened by the research team because all ideas are explained to the committee and its legitimacy and methods for improvement are debated. We also have a Chinese wall established so as not to burn the out of sample data which also prevents researchers from “fitting” results to both in and out of sample data. The major weakness would be that history does not repeat or the patterns stop performing. We believe that having traders on the desk and a team of experienced market professionals will keep us ahead of this curve so we can adapt our ideas to the ever changing market place.

With banks exiting proprietary trading, we don’t feel that futures markets will be “more competitive” over the next few years. To the contrary, we feel that there will be less capital to arbitrage away short term pricing discrepancies and this should be favourable for our style of investing.

average number of round-turns traded per $1million per year: 6000

average number of round-turns traded per $1million per year: 300 trades each year per market.

Based on actual trading from August 1, 2012 through June 30, 2014: 57% Winning/43% Losing.

trading frequency remains constant across both profitable and unprofitable periods. However, our system will reduce allocations to markets that have been unprofitable for an extended period of time.

average annual commission: 2%. This does not vary significantly.

M/E

Based on live trading data January 13, 2013 to June 30, 2014 for 2X product:

Highest: 7.61%

Lowest: 0%

Average: 2.54%

50% of our positions are flat by the close thus limiting our overnight margin requirements.

Research is the key driver to the success of our firm. Research is ongoing, always looking for ways to improve our currently portfolio, trading methodology, and implement new diversified strategies or trading techniques. Trading methodology is improved by implementing feedback from traders, researchers, and market observations.

24 hour trading out of Brookfield, Wisconsin, 1-2 traders on each shift. Trader functions include: trading, monitoring execution, creating and improving current execution algorithms, monitor and track slippage, maintain broker relationships, and research/strategy development. Trade breaks are identified, reconciled, and resolved next day.

•Order execution is fully automated using proprietary and third-party algorithms (FCM)

•All markets and sectors have strict position limits based on individual market liquidity, individual market volatility (daily average range), and overall portfolio exposure

•Trades are “crossed” when possible to minimize trading and execution costs. Market Impact is continuously monitored in real-time

•All trades have strict stop-loss levels and a time based exit

•Holding periods range from intraday to 2 days with an average hold of 6 hours

―48 % of trades are intraday

―57 % of trades are profitable, and

―76 % of months are positive

•Execution and slippage are monitored real time

•Trading is monitored continuously with a 24hr staff

•Traders are actively involved in idea generation

**Risk Management**

•The team implements proprietary risk management controls and models to effectively define and control risk including multi-dimensional applications.

•Risk is monitored real time and all strategies have strict stop loss, profit taking and time based exits

•Risk is managed and ultimately mitigated by the following:

―Internal circuit breakers—trading is halted in the E-mini S&P if it moves 3% in a 5-second period

―Strict stop loss levels on all trades and time exits

―Backup platform for all trading infrastructure

―Continuous human oversight of automated trading systems

•Real-time reporting of market impact and execution costs

•Risk is constantly monitored by market, sector, and overall portfolio exposure

•Trading is briefly paused during specific economic announcements while models continue to run; trading in interest rate markets is paused from 8:29-8:31 a.m. EST during the US non-farm payroll announcement

•Robust operational risk management

―Clear separation of trading from portfolio management and risk control

―Trade compliance and trade reconciliation

―Leverage, liquidity and counterparty risk monitoring

•Position limits

•Internal performance circuit breakers: Daily (3% loss) and monthly (10% loss)

Proprietary Research Software de-allocates certain strategies based upon negative performance. This may affect the number of trades triggered in each sector but the overall commitment to trading the sectors remains the same.

We liquidate all positions if the program is down 10% during any one month period or down 3% in a given day. In this case we override the system and go flat. In circumstances similar to 9/11, trading would be halted to evaluate the event’s impact on our models. This decision will only be made by the portfolio manager.

Risk is managed on 3 levels; Strategy, Portfolio, and through Research/Methodology.

Strategy:

Positions are sized using average daily market volatility. This allows for equalizing risk across markets.

Increasing market volatility will lead to smaller positions thus keeping risk per trade relatively constant.

All strategies include strict stop loss and profit taking levels, and time exits.

Automated trading with 24-hour human oversight.

Portfolio:

Allocation rules are applied on the market and strategy level allowing for minor adjusts to position sizing.

Example: Position size is reduced to underperforming markets and strategies based on a rolling Sharpe ratio.

Allocation rules limit number of trades and total risk. The risk cap will limit the total position for a market, sector and portfolio so that the expected losses if all positions are stopped out will not exceed the limits.

Daily Risk is capped by market, sector, and portfolio.

Maximum daily market risk = 0.36%

Maximum daily sector risk = 1.00%

Maximum daily portfolio risk = 2.70%

Allocation rules and methodology significantly reduce tail risk and extended drawdowns.

Research and Methodology:

Research is an ongoing team effort and driven by observed market behavior.

Proprietary research platform and signal generator.

Continually improving and creating new strategies.

Emphasis on minimizing the frequency and magnitude of drawdowns at both the strategy and portfolio level.

Attention is given to the distribution of daily and monthly returns.

Internal daily (-3%) and monthly (-10%) circuit breakers.

Stops are calculated based on last 10 days average volatility.

Stops are adjusted daily but on new positions only.

Stop methods: price and volatility

If a stop is reached the entire position is closed.

percentage of risk invested in any single market (at 1x)

Highest: 35 bpts

Lowest: 0bpt

Average: 10bpts

Based on market volatility and historical performance measures.

Maximum daily market risk = 0.36%

Maximum daily sector risk = 1.00%

Maximum daily portfolio risk = 2.70%

We are actively reviewing our correlation cap and delayed entry rules which will reduce the chances of a large correlated trade and minimize our position when false breakouts occur in low volatility environments. (from bad environment comment)