4/25/12, 9am-12pm MT

On-site meeting with Revolution

Rob Olson (Principal), Mark Chapin (Principal), Michael Mundt (Principal) and Jim Curley of Revolution

Bob Murphy, Ty Powers and Kristina Labermeier of Hatteras Funds

**Key takeaways/assessment/next steps**: Revolution’s numbers appear very solid, team is impressive and the strategy has a 5 year track record. This trading strategy could provide a nice complement (some trend exposure) to current relatively conservative profiles of the managed futures UFT funds. Recommend progressing in the due diligence process, completing research report, and scheduling on-site visit by Co-PM.

Revolution is a CTA that manages $953M (trading value). The firm was founded at the end of 2004 by the three principals, all from engineering backgrounds. The firm consists of five people: Mark Chapin, Principal, is focused on R&D, models and trading infrastructure; Michael Mundt, Principal, is focused on risk management, portfolio construction and marketing; Rob Olson, Principal, is focused on operations and development; Geoff Dix and Jeff Perini are both software developers. Jim Curley is an independent consultant, responsible for marketing the Revolution programs. He is an associated person of Revolution, but not a full time employee, he has no other clients. All systems were created by Revolution.

Revolution has a strategic partnership with Dunn Capital, but this relationship only extends to the Mosaic program, and does not impact Alpha. Mr. Mundt described the relationship as a ‘licensing agreement’ for Mosaic, which Revolution entered into in an effort to raise assets at the outset of the firm. Dunn has no ownership in Revolution. Revolution handles the technicals of that program while Dunn handles back-office and some marketing. Revolution handles the back-office for Alpha independently.

We spent the majority of the meeting going through Revolution’s risk presentation which outlines their views on risk and potential risk management tools as well as comparisons to the general trend following model and other competitors. Revolution developed the presentation in response to their largest draw down, which was in January 2010. They determined that January 2010 was not caused by an outlier day or market, but just day after day losses, which prompted research on how to control draw down, and look at systems that can minimize fat tails. They determined that the program needs a balance between trend and counter-trend systems in order to limit downside (which will also limit upside).

The Alpha program uses risk-based de-leveraging, which uses a proprietary measure of short-term (about a week) cross-market correlations. As short-term correlations rise beyond a pre-defined threshold, position sizes are reduced by a commensurate amount. This is meant to keep risk constant as correlations risk and fall. The systems do not like high correlations, high vol or panic situations. If there is persistence in any of these situations, the systems will de-lever. Exposure may be taken down to a minimum of 50%. This risk management does not help performance, but rather minimizes ups and downs.

Revolution has been researching additional ways to manage risk and is in the process of rolling out an intra-day system, after 4 years of research. The intra-day system is meant to help on both the upside and downside. It is not correlated to trend following and is negatively correlated to their current models. It is not high-frequency trading. The holding period may be hours up to one day, trading 12-16 times per day. They anticipate rolling this system into the Alpha program in late 3rd quarter, early 4th quarter of this year and expect it to be up to a 25-30% allocation.