Revolution Annual Onsite – 11/9/15 – Michael Mundt, Rob Olson, Jeff Perini, Geoffrey Dix, Mike Helmstetter, TP, TR (Chad Dougherty, operations analyst, was not in the office that day)

We conducted the HAMF annual onsite of Revolution in their Denver, CO office. There were no outstanding issues at the time of the visit. The team is now settled into the office space in downtown Denver and a number of small renovations had been completed since the prior onsite. Our discussion focused on 1) changes in firm AUM and 2) additional 40 act products. Firm AUM is down from $516mm at the end of 2014 to $415 as of 10/31/15. AUM for the Alpha program has increased from $169mm at the end of 2014 to $234mm as of 10/31/15. A notable change over the last year was Dunn Capital moving their $90mm allocation from the Mosaic program into the Alpha program, however this switch did not reset the high water mark as Dunn kept their loss carryforwards. The Mosaic program is now approximately 20% below its high water mark, while the Alpha program is within 5% of a new high. Another event that occurred in 2015 was the departure of Jim Curley (IR/marketing); the team noted that they will be interviewing potential replacements at the Context event in Miami this February. Regarding recent asset flows, Mundt said that “40 act is the only place they are seeing inflows” and they continue to see small outflows from partners that operate traditional products in the U.S. and Europe. Mundt previously noted that they did not intend to offer the Alpha program in full for other 40 act accounts, but that is no longer the case. Given the downturn in performance for the Mosaic program, Dunn’s loss carryforwards and the increase 40 act accounts the firm will be much more reliant on management fees in the near term. No follow up items were identified during the visit.

40 ACT FUNDS

In addition to Hatteras, Revolution’s 40 act relationships include:

* Abbey Capital Futures Strategy I (ABYIX)
  + One of 9 managers, fund has grown to $280mm since launching in June 2014
  + 1.99% expense ratio, flat fee to managers with no incentive fees hidden by swaps
  + Revolution runs a customized blended Alpha/Mosaic strategy, mostly Alpha focused
* Grant Park Managed Futures Strategy I (GPFIX)
  + One of 6 managers, $50mm fund, uses swap to pay incentive fees, full Alpha program
* Grant Park Absolute Return I (GPHIX)
  + Market neutral stock index strategy, seeded in April 2015 with $2mm, pays flat fee
  + This strategy is completely separate from Alpha and Mosaic
* PENDING NEW ACCOUNT: Steben Managed Futures Strategy I (SKLIX)
  + Steben is switching to no swap, no incentive fee structure and is looking to add Revolution to the 3-4 manager line up as others exit that won’t work for a flat fee
  + Mundt estimates that the allocation could be $15-$20mm
  + Revolution will run full Alpha program

OFFICE SPACE

Revolution moved into their new downtown office location in the fall of 2014 and now appear fully moved in with all renovations completed (e.g. office dividers), new furniture and new signage. The new space appears appeared adequate for a firm of their size, but offers little room for expansion which is not anticipated. The location is better location for new/prospective clients relative to the previous location. Revolution signed 5 year lease for the new office (4 years remaining). The team seems to be overall pleased with the space, except for minor issues with the building management and the need for continued repairs to a built in German made coffee maker installed by the previous tenant.

PERFORMANCE

The models’ target correlations continue to meet expectations (End of day model targets 0.5 correlation to the Newedge CTA and has realized 0.43 correlation over the last 3 years; Intraday model targets 0.2 correlation to the Newedge CTA and has realized 0.21 correlation over the last 3 years). YTD 2015 performance has been driven by gains in the end of day model and smaller losses in the intraday model, in comparison to 2014 when the intraday model drove gains while the end of day model was flat.

RESEARCH

Revolution has conducted a number of research projects in 2015 and continues to view the Alpha program as near optimal. In June, the number of markets traded in the program was reduced, eliminating some of the less liquid markets. This change is consistent with their focus on trading cost reduction as an opportunity to improve performance (since the model setup is near optimal). The team also conducted research to evaluate whether customizing the model mix for each market sector would be additive and the results proved that it is not. The negative result to this research project supports the programs current setup where all models trade all sectors. As discussed in previous quarterly calls, they continue to work on moving the end of day system into intraday architecture, which could have a material impact on trading cost reduction and simplify the mechanics of the program.