**3/26/12 – Revolution Capital Management Intro Call**

Michael Mundt (R&D) and Jim Curly (IR) of Revolution

Ty Powers and Kristina Labermeier of Hatteras Funds

AUM: $900M (Alpha Program: $15M)

Revolution runs three programs: Mosaic (short term, zero correlation to trend following), Global Stock Index (short term, index based, zero correlation to trend following) and Alpha. The program we are interested in is Revolution’s Alpha program which is a systematic, fully-diversified (trading in all four asset classes: stock index, foreign currency, fixed income and commodities), short- to medium-term program that utilizes a multi-strategy pattern-recognition methodology. It targets a long-term correlation of 0.5 to trend-following indices. Annual volatility is targeted to approximately 12%-15%.

The program is expected to do well when trends are moderate. It is expected to do no worse than trend followers in a down market and better than trend followers in an up market. The most challenging markets for the program will be during correlation spikes and volatility spikes.

**Key Takeaways/Assessment/Next Steps:**

On the surface, Revolution appears to be an institutional quality firm, with seasoned professionals. The Alpha program has a good track record going back to 2007 (see below). The program could provide a nice complement to the current relatively conservative profiles of the short/intermediate term and fixed income strategies we currently have in the Managed Futures portfolio. We recommend moving forward in the due diligence process and scheduling an onsite visit to dig further into their process and risk management.

**Investment Process**

As a firm, Revolution has two different types of models: positively correlated to trend following and negatively correlated to trend following. There are 45 models total, with 100 sub-models (sub-models reflect different time series). The Alpha program uses models that have positive correlation to trend following. The program currently has 7-8 models; many of the models included as ‘positive correlation’ models are highly correlated between one another so a significant number of models are not required for adequate diversification within the Alpha program. Differences between the models in the Alpha program include time series, inputs (different indicator types), and trend bias and counter-trend (for risk management). None of the models “ride the trend.” They are looking for price corrections and opportune times to get into or out of the trend. The Alpha program trades 34 markets, but could go up to 50, if required for capacity reasons.

Revolution continually works on improving models and adding time scales. They are currently in the process of rolling out intra-day trading models. These models are being tested in the Mosaic program currently and are expected to be active in the Alpha program starting June/July 2012. The intra-day models are meant to address the following issues: mitigate negative skew, provide additional protection on the downside (when markets are trending down), improve year-over-year consistency.

With regard to negative skew, Revolution believes that their negative skew is a result of low correlation. The Alpha program doesn’t ride momentum, therefore has low correlation, which results in negative skew. If the calculations are done on a daily basis and a period longer than 30 days, skew approaches zero.

**Risk Management**

Revolution has a separate risk presentation, which typically takes an hour. We did not cover this material on the call, rather saving the discussion for either a dedicated call or discussion during an on-site visit.

Generally, risk is managed through dynamic de-leveraging. All models have the same set of exposure bounds, relative to model strengths and margin to equity. There is no firm maximum margin to equity, but it may spike as high as 25% a few times a year, average has been around 8%.

Allocations between markets are static, with each getting a slice of total AUM, and each with its own risk allocation. They will not be invested in all markets at all times. If the program is not invested in all markets, margin to equity will be lower; risk is not shifted to other markets.

**Performance**

