



25 Questions
Every Investor Should
Know About

Red Rock Capital

The Systematic Global Macro Program was designed to capture the high-value payoff portion of globally trending markets by blending the benefits of both momentum and probability theory. The Program has three distinct aspects: Market Profiling, Alpha Generation, and Phase Discrimination. The Program is completely quantitative, systematic, and adaptable. Long and short positions are tactically implemented and managed on a globally diverse portfolio of liquid futures markets. It is Red Rock's aim, through the disciplined application of their Systematic Global Macro Program, to produce as high as possible risk-adjusted returns for themselves and their investors – returns that are uncorrelated to the performance of major asset classes like stocks, bonds, & real estate.

1.) What is the name of the program/ programs and who are the listed Principals?

Systematic Global Macro Program
Thomas N. Rollinger and Scott T. Hoffman

2.) Can you provide us with some details of your corporate background?

See answer to question 4.

3.) Who are the Principals with trading authority?

Thomas N. Rollinger and Scott T. Hoffman

4.) Can you provide details on the principal and/or managers' education, career and trading background?

Thomas Rollinger: An 18-year industry veteran, Thomas Rollinger honed his skills under quantitative hedge fund legend, Edward O. Thorp (*Market Wizards* author Jack Schwager recently called Dr. Thorp the greatest of all time). The strategy Rollinger co-developed & co-managed with Edward Thorp was successful enough to gain mention in two best-selling books (*The Quants* and *Hedge Fund Market Wizards*). Considered a thought leader in the futures industry, Mr. Rollinger published the highly acclaimed 37-page white paper *Revisiting Kat's Managed Futures & Hedge Funds* in 2012 and co-authored both *Sortino Ratio: A Better Measure of Risk* and *A*

Comparison of CTA Indexes in 2013. Previously he was a consultant to two top CTAs and he inspired the creation of an industry-leading trading system design software package.

Earlier in his career, Mr. Rollinger founded and operated a systematic futures investment fund and worked for original "Turtle" Tom Shanks of Hawksbill Capital Management. After graduating college in Michigan, Mr. Rollinger became a U.S. Marine Corps Officer. He served as a 1st Lieutenant in command of a 42-man infantry platoon and was selected to be promoted to the rank of Captain before resigning his commission. He holds a finance degree with a minor in economics and is a Certified Hedge Fund Professional (CHP) Level 1 Charter Holder.

Mr. Hoffman, an 18-year managed futures industry veteran, graduated Cum Laude with a Bachelor of Science degree in Electrical Engineering from Brigham Young University in April 1987. During the 1990s, Mr. Hoffman began applying his engineering domain expertise in the areas of statistics, mathematics, and model development to the financial markets. In April 2003, after several years of successful proprietary trading, Mr. Hoffman founded Red Rock Capital Management, Inc., a quantitative Commodity Trading Advisor (CTA) and Commodity Pool Operator (CPO). Early in his trading career, Mr. Hoffman participated in a CTA Star Search Challenge and earned a \$1 million allocation as a result of his top performance. Since then, Red Rock Capital's

outstanding performance has earned the firm multiple awards from BarclayHedge. Mr. Hoffman, active in the research areas of risk and investment performance measurement as well as trading model development, deploys his technical skills and expertise in developing and analyzing sophisticated algorithmic execution models that minimize transaction costs for Red Rock Capital's quantitative strategies. His publications include *Sortino: A 'Sharper' Ratio* and *A Comparison of CTA Indexes*, both of which he co-authored with Mr. Rollinger.

5.) Which firm calculates your performance numbers?

CTA Services

6.) What is the minimum investment for your program?

\$500,000 (nominal)

7.) Do you accept notional funding?

Yes.

8.) What is your management and incentive fee structure?

Historically 1% & 20% but fees are somewhat negotiable given sizable enough interest.

9.) What is your program's capacity?

Our research in this area suggests it is upward of \$4 billion with our current portfolio.

10.) When did you start trading this program?

September 2003.

11.) What type of accounts do you manage?

HNW individuals, family offices, CPO funds, etc.



Thomas N. Rollinger

12.) Can you give a brief description of your program?

The Systematic Global Macro Program was designed to capture the high-value payoff portion of globally trending markets by blending the benefits of both momentum and probability theory. The Program has three distinct aspects: Market Profiling, Alpha Generation, and Phase Discrimination.

The Program is completely quantitative, systematic, and adaptable. Long and short positions are tactically implemented and managed on a globally diverse portfolio of liquid futures markets.

13.) Do you have a systematic or discretionary approach to the market and what are your program goals?

Implementation of the Systematic Global Macro program is completely systematic. Discretion played a very important role in

the research & development that went into creating the strategy.

14.) What is the average holding period for each trade?

85 days.

15.) Do you trade options within your program? If yes, please describe the types of options traded and how options risk is monitored.

No.

16.) Are there any liquidity constraints in the markets you trade?

Yes - markets have to meet minimum (proprietary) levels of liquidity & stay under a maximum allowed execution cost in order to be included in our tradable universe.

17.) In what types of market environments does your trading program do well and / or struggle?

The Program is designed to generate alpha through capturing directional - i.e. "good" - volatility embedded in globally diversified, multi-directional, and sustained price trends.

18.) What is the standard range of margin to equity usage for the program and how long do you hold the average trade?

10% average margin to equity.

19.) How do you manage risk/reward and what metrics are employed?

We utilize a proprietary and quantitative "market profiling" technique to identify and categorize current market conditions into four phases. To maximize risk / reward we minimize the amount of time we are exposed to 3 of



Scott T. Hoffman

the 4 phases. Additional analytic methods implemented by the Program on a continuous basis include probabilistic asymmetrical directional targeting and portfolio cross-sectional analysis.

20.) What are the optimal market conditions for your strategy?

When there as many strong, sustained price trends - both long and short - occurring in our universe of 70+ globally diversified futures markets as possible.

21.) Describe your worst drawdown to date, how did it happen and what actions have been taken (if any) to prevent similar drawdowns?

Largest drawdown was 17.75% that occurred over 10 years ago during the 2004-2005 timeframe. During that period, the markets in our universe predominantly exhibited non-

directional volatility. However, the drawdown was well within our expectations and one could expect similar drawdowns in the future. Active risk-management is in place on multiple levels with our Program, but, as evidenced by our +49% performance in 2008, we manage the Program at an internal “heat” level where we expect regular drawdowns of reasonably-sized magnitude.

22.) What are your investment goals?

It is our aim, through the disciplined application of our Systematic Global Macro Program, to produce as high as possible risk-adjusted returns for ourselves and our investors – returns that are not correlated with – or dependent upon – the performance of major asset classes like stocks, bonds, & real estate.

23.) What makes your program unique and different from other managers in your sector?

We have a thorough, quantitative analysis that we’ve shared with many of our top peers – comparing our risk-adjusted performance to them. The data for the study was compiled from multiple industry databases. The analysis shows that our risk-adjusted performance has been better than approximately 90% of those more well-known peers, over the past 12 years since our program’s inception. Furthermore, we received positive feedback from a handful of those top competitors who we compared ourselves to – commending us on our analysis.

A full 50% exposure to physical commodities markets (many peers have 70-85% exposure to financials nowadays).

Equal 50/50 potential exposure to both long and short trades (several large, well-known CTAs appear to be favoring the long side of the markets).

Our Program’s returns have exhibited very high

amounts of positive asymmetry (high / positive “skewness” translates to upside surprises; investors generally prefer higher skew).

The Program is designed to extract the most efficient & valuable part of global trends (our peers will likely get in trends sooner - and stay in them longer - than us).

The two principals of the firm maintain significant personal investments in the Program.

Our Chief Investment Officer, Thomas Rollinger, received a highly valuable hands-on education in quantitative trading strategy development & risk management from a world-class mentor, Dr. Edward O. Thorp.

Our two principals are respected industry-thought leaders, having published two cutting-edge, quantitative & analytical research papers in the past 10 months.

24.) Do you feel you have an edge if so what is it?

As financial engineers we prefer to approach the markets with humility and respect. That being said, our over 12-year, net-of-fees track record suggests that we do indeed maintain an edge over the market and most of our peers. Our edge likely lies in our ability to ascertain on what points are most important to focus when analyzing markets, investor behavior, and large amounts of data.

25.) What is the one piece of advice that you would give to a new start-up CTA?

Stay humble and have great respect for the unknown.

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