25 Questions **Every Investor Should Know** About

Red Rock Capital

Commodity Long-Short Program

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The Commodity Long-Short Program utilizes a unique, quantitative pattern recognition strategy that is designed to capture long or short directional "volatility bursts" in physical commodity futures (no financials). The patterns are not visible to the naked eye. Positions are generated in both counter-trend and trending environments. The average holding period of a trade is 9 days.

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

Commodity Long-Short 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 manager's education, career and trading background?

Thomas Rollinger: A 19-year industry veteran, Mr. 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 previously co-developed & co-managed with Ed Thorp was successful enough to gain mention in two best-selling books (The Quants and Hedge Fund Market Wizards). Rollinger is Chief Investment Officer for Red Rock and closely monitors both their Systematic Global Macro and Commodity Long-Short programs. 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 'Sharper' Ratio and A Comparison of CTA Indexes in 2013.

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.

Scott Hoffman: Mr. Hoffman, also a 19-year industry veteran, graduated Cum Laude with a Bachelor of Science degree in Electrical Engineering from Brigham Young University. After college 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 with one of the early iterations of their now Systematic Global Macro program. For Red Rock, Mr. Hoffman acts as Chief Technology Officer and oversees the diligent implementation of the firm's two strategies using highly sophisticated software. He remains active in the research areas of risk and investment performance measurement as well as trading model development. His publications include Sortino Ratio: A Better Measure of Risk (2013) and A Comparison of CTA Indexes (2013), 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 Trading Level)

7.) Do you accept notional funding?

Yes

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

2% & 20%, 1% & 25%, or 0% & 30%

9.) What is your program's capacity?

A very extensive quantitative analysis that we performed (using Trading Cost Analysis – TCA) suggests it is in the range of $175 million - $200 million

10.) When did you start trading this program?

September 2013.

11.) What type of accounts do you manage?

High net worth individuals, family offices, and commodity pools primarily.

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

Tangible / physical commodity futures markets are predictably inefficient. Supply & demand shocks are common and they regularly exhibit various degrees of disequilibrium as producers, consumers, and speculators each attempt to maximize their gains and limit their risks.

Our Commodity Long-Short strategy is designed to identify patterns of market behavior that signal an opportune time to initiate positions with the aim of capturing profitable, directional volatility in these markets as they try to find their true price. The patterns are not visible to the naked eye and can be counter-trend or with the trend. The average holding period of a trade is 9 days and the returns of the strategy exhibit no correlation to stocks, bonds, HFs, and a very low 0.23 to trend-following CTAs.

Thomas N. Rollinger

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

Discretion and a fundamental understanding of how commodity futures work played a very important role in the research & development of the methodology. However, to attain maximum efficiency with the implementation of the strategy, we use a streamlined, systematic approach. Every trade is examined & closely monitored by the Chief Investment Officer, Tom Rollinger, to assure the desired strategy is being implemented per our intentions.

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

9 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 CLS program patiently waits for an opportune moment to capture directional volatility in commodity futures markets. When a few or more commodity markets are displaying this behavior according to our definitions, the strategy efficiently captures alpha and makes impressive returns. A lack of meaningful directional volatility across a very diversified universe of 29 commodity futures would be a challenging environment for the strategy.

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

Average margin-to-equity has been 10.18% since our inception. The max has been 19.58%. An average trade lasts 9 days in duration.


Scott T. Hoffman

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

- New positions only get a small 12 – 15 bps risk allocation. Individual market risk normally increases as we gain open-trade equity. This is expected and planned for and is part of our edge that has historically given us very competitive performance.

- An increase in volatility against a new multiple markets, both domestic and foreign.

- position without any open-trade equity almost always results in the strategy's stop-loss orders being triggered with a small-to-moderate loss. In effect, risk control on individual markets is intrinsic to our systems.

- Total portfolio risk is what matters most – not individual position risk. We adjust and monitor portfolio risk-to-stops closely each day. Decades of quantitative strategy research & development (and over 11 years of live performance) give us high confidence in the range of values we can expect given the particular level of daily portfolio volatility that we've subjectively chosen to target.

- We do not offer a look 'under the hood' to see how we specifically monitor and manage individual and portfolio level risk as we consider this integral to our trading strategy's edge and therefore proprietary.

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

The CLS program patiently waits for an opportune moment to capture directional volatility in commodity futures markets. When a few or more commodity markets are displaying this behavior according to our definitions, the strategy efficiently captures alpha and makes good returns on capital invested. If, however, there were either several markets exhibiting this behavior at once – or a few exhibiting the behavior in an extreme manner (think: energies in Q4 of 2014) – then the strategy really thrives.

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

The largest drawdown has been 6.08%. 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 CLS program and we expect regular drawdowns of reasonably-sized magnitude given our particular historical compounded annual growth rate.

22.) What are your investment goals?

The investment goals with the CLS program are to maximize risk-adjusted returns for investors while providing a return stream that is uncorrelated to major asset classes such as stocks, bonds, and real estate. Additionally, CLS's return stream will be lowly correlated to all other CTAs including diversified, trend-based, discretionary, and short-term ones.

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

- To start, we essentially created our own sector: Systematic supply / demand pattern recognition, diversified, long and short commodities – with both counter-trend and trend-based components.
- Besides CLS's absolute return prospects, correlation to other CTAs is very low – and non-existent to hedge fund strategies. For investors who already have other CTA investments, CLS could complement their portfolio nicely.
- Pure commodities exposure. Due to their size, most large CTAs focus entirely too much on financial futures, and don't offer investors much exposure to the actual 'commodity' markets. Our strategy goes back to the basics in this regard. It is a pure commodities play for investors.
- Significant alpha produced from short trades. Both in decades of simulation, plus in our live trading thus far, our short trades are nearly as profitable as our long trades, on average. This is very unique within the CTA space. Most well-known CTAs have made most of their money on the "Long" side.
- CLS's returns have exhibited very high amounts of positive asymmetry (positive "skewness" translates to upside, not downside, surprises; investors generally prefer higher skew).
- 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. (Author Jack Schwager called Ed Thorp the best risk-adjusted trader ever.)

- Our two principals are respected industry-thought leaders, having published four cutting-edge, quantitative & analytical research papers in the past 40 months.

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

Our live trading performance with CLS certainly suggests we have a strong edge. As financial engineers and students of the markets, we do prefer, however, to approach the markets with humility and respect. That being said, CLS is single-best strategy that we have ever developed or traded. Its ability to tightly manage risk and then exploit regular inefficiencies in commodities markets has produced award-winning performance. And with a combined almost 40 years experience in the futures markets, the two principals of Red Rock are experts at Trading Cost Analysis (TCA) and optimization. Cutting-edge price, volume, and market fill data reports are closely tracked & analyzed to help assure the Commodity Long-Short program is maximizing alpha and minimizing costs upon implementation.

As a firm, our edge is derived from our staunch dedication to doing things our own way and to prioritizing our operational efficiency. Our edge is also in our ability to ascertain what points are most important to focus on 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.stops, how we adjust stops and how we view risk individually and on a portfolio wide basis. The summation of all these various pieces of our risk management is what we call our portfolio exposure reduction algorithm.

Disclaimer

The information contained in this report is intended for informational purposes only. While the information and statistics given are believed to be complete and accurate, we cannot guarantee their completeness or accuracy. RCM Alternatives has not undertaken to verify the completeness or accuracy of any of the information and statistics provided by third parties.

As past performance does not guarantee future results, these results may have no bearing on, and may not be indicative of, any individual returns realized through participation in this or any other investment. The risk of loss in trading commodity futures, whether on one's own or through a managed account, can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market.
Any specific investment or investment service contained or referred to in this report may not be suitable for all investors. You should not rely on any of the information as a substitute for the exercise of your own skill and judgment in making such a decision on the appropriateness of such investments. Finally, the ability to withstand losses and to adhere to a particular trading program in spite of trading losses are material points which can adversely affect investor performance.

We recommend investors visit the Commodity Futures Trading Commission ("CFTC") website at the following address before trading: http://www.cftc.gov/cftc/cftcbeforetrade.htm

Managed futures accounts can subject to substantial charges for management and advisory fees. The numbers within this website include all such fees, but it may be necessary for those accounts that are subject to these charges to make substantial trading profits in the future to avoid depletion or exhaustion of their assets.

Investors interested in investing with a managed futures program (excepting those programs which are offered exclusively to qualified eligible persons as that term is defined by CFTC regulation 4.7) will be required to receive and sign off on a disclosure document in compliance with certain CFT rules The disclosure documents contains a complete description of the principal risk factors and each fee to be charged to your account by the CTA, as well as the composite performance of accounts under the CTA's management over at least the most recent five years. Investor interested in investing in any of the programs on this website are urged to carefully read these disclosure documents, including, but not limited to the performance information, before investing in any such programs.

Those investors who are qualified eligible persons as that term is defined by CFTC regulation 4.7 and interested in investing in a program exempt from having to provide a disclosure document and considered by the regulations to be sophisticated enough to understand the risks and be able to interpret the accuracy and completeness of any performance information on their own.

RCM Alternatives receives a portion of the commodity brokerage commissions you pay in connection with your futures trading and/or a portion of the interest income (if any) earned on an account's assets. CTAs may also pay Attain a portion of the fees they receive from accounts introduced to them by RCM Alternatives.

RCM Alternatives

WHAT WE DO

We build great Managed Futures portfolios with clients looking to access the managed futures space in a meaningful way. That's been our specialty for more than a decade, with our experienced team up to the challenge of finding unique managers to fit unique needs.

For Investors

Research & Educate

We believe education means more than just a glossy brochure showing how managed futures is non-correlated to the stock market. We believe it means ongoing analysis of what's happening now, not just what happened over the past decade; and we provide daily research and commentary via our popular 'Attain Alternatives' blog covering all things alternative investments, as well as periodic whitepapers digging deeper into topics, guest posts by fund managers, and more.

Scout Talent

You can think of us as talent scouts, helping investors scour the world of alternative investment opportunities in an effort to identify those with robust, consistent performance, sophisticated risk management processes, and well-developed operational infrastructure. This selection is done through our proprietary filtering algorithm before performing one-on-one meetings and "real-time due diligence" where we analyze daily trading.

Tailor Portfolios

Armed with a menu of talented managers, we then provide customized portfolio and strategy advice to better generate target returns and protect principal while meeting the diversification, return, and risk needs of investors ranging from high net worth individuals to pension funds. Clients invest in these portfolios by opening a brokerage account with us, where we earn a portion of the trade-by-trade costs and fees paid to the portfolio managers you enlist. There are never any add-on, portfolio-level fees for our services.

Make It Easier

We make the actual investment part, with the paperwork and funding and all the rest, as easy as possible. We do this by eschewing a 'one size fits all' approach in favor of a consultative approach where we work with clients to find solutions that work for them in terms of structuring the investment. These include vanilla individual futures accounts, to the creation of 'Funds of One' or direct access to managers. The choice of clearing firms considers the investor's requirements for credit rating, balance sheet, and more; while consideration is given to smart collateral options via T-Bills, Notes, Corp. Debt, & Stocks.

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