



25 Questions  
**Every Investor Should**  
**Know** About

**Emil van Essen**

*Spread, Long-Short, Long-Short Accelerated  
& Multistrategy Programs*

The Emil van Essen Spread Trading Program seeks non-correlated alpha through the spread and relative value trading of exchange-listed futures and options contracts. The program primarily trades commodities through calendar spreads. Outright commodities, as well as inter-commodity, interest rate, and equity volatility spreads are also included.

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

*Emil van Essen Spread Trading Program*

*Emil van Essen Long-Short Commodity Trading Program*

*Emil van Essen Long-Short Commodity Trading Program – Accelerated*

*Emil van Essen Multistrategy Trading Program*

Principals: Emil Van Essen, Dennis Callahan, Russ Rausch, John Farley

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

Emil van Essen is the CEO and CIO of Emil van Essen (EvE). He determines the strategic direction of the firm and focuses on strategy development, research, and trading. Mr. van Essen has over 25 years of trading and quantitative modeling experience. In 1997, Mr. van Essen became a registered CTA and began hedging CTA Portfolios for a large family office in Chicago. In late 2006, Mr. van Essen launched the Spread Trading Program, which is the company's flagship program.

**3.) Who are the Principals with trading authority?**

Emil van Essen

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

Emil van Essen has over 25 years of investment experience in Canada and the United States. He

attended Waterloo University and was recruited away by Prudential-Bache in 1986 to develop trading strategies to attract institutional clients. In less than two years, Emil was inducted into the prestigious President's club at Prudential-Bache. Emil left Prudential-Bache to join Scotia McLeod in 1990 where he continued to grow his institutional following. In 1992, Bank of Montreal (BMO) hired Emil to start a quantitative proprietary desk. BMO then asked Emil to move to Chicago in 1993 to become the first Director of Managed Futures. Emil decided to leave BMO in 1995 to pursue his trading model development at local brokerages. In 2001, Emil and a partner formed the brokerage firm, Vankar Trading, where their value proposition was model and technology development. In 2006, Emil began the development of the Spread Trading Program that was launched in December 2006. In 2010 he sold his interest in Vankar Trading to his partner in order to focus on his efforts on the CTA. Emil, as CEO and CIO, focuses his time on the strategic direction of the firm, research and trading.

**5.) Which firm calculates your performance numbers?**

NAV Consulting

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

*EvE Spread Trading Program:* \$5M

*EvE Long-Short Commodity Trading Program:* \$1M

*EvE Long-Short Commodity Trading Program – Accelerated:* \$200K

*EvE Multistrategy Trading Program:* \$4M

## 7.) Do you accept notional funding?

Yes

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

2% Management Fee and 20% Incentive Fee

## 9.) What is your program's capacity?

*EvE Spread Trading Program:* \$700M

*EvE Long-Short Commodity Trading Program:* \$700M

*EvE Long-Short Commodity Trading Program - Accelerated:* \$300M

*EvE Multistrategy Commodity Trading Program:* \$1.2B

## 10.) When did you start trading this program?

*EvE Spread Trading Program:* December 2006

*EvE Long-Short Commodity Trading Program:* June 2013

*EvE Long-Short Commodity Trading Program – Accelerated:* May 2014

*EvE Multistrategy Trading Program:* May 2014

## 11.) What type of accounts do you manage?

QEP Managed Accounts, there is also an onshore fund vehicle investable through RCM

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

### The Emil van Essen Spread Trading Program (STP)

The EvE STP seeks non-correlated alpha through the spread and relative value trading of exchange-listed futures and options contracts. The program primarily trades commodities through calendar spreads, outright positions, as well as inter-commodity, interest rate, and

equity volatility spreads. Quantitative research and significant discretion are used with the goal of generating strong returns in various market environments. The program typically has a low to negative correlation to benchmarks including CTA, commodity and stock indices with a track record dating back to December 2006.

### The Emil van Essen Long-Short Commodity Trading Program (LSCP)

The EvE LSCP is a short to medium-term systematic program with a discretionary overlay that trades outright positions on 13 exchange-listed commodity futures contracts. The program uses multiple trend models on both outright and calendar spread data and analyzes historical spread levels to generate daily trade signals. Trade signal generation is fully systematic; however, the Program Manager (PM) will at times exercise discretion regarding where in the term structure the trade signal will be executed and to overweight or underweight positions based on inter-commodity relationships. The program has a deleveraging component that will systematically reduce position sizes at the portfolio level after periods of rapid gains. The program is designed to generate returns that have a low to negative correlation to most CTA and commodity programs.

### The Emil van Essen Long-Short Commodity Trading Program – Accelerated (LSCP-A)

The EvE LSCP-Accelerated is a short to medium-term systematic program with a discretionary overlay that trades outright positions on 13 exchange-listed commodity futures contracts. The program uses multiple trend models on both outright and calendar spread data and analyzes historical spread levels to generate daily trade signals. Trade signal generation is fully systematic; however, the PM will at times exercise discretion regarding where in the term structure the trade signal will be executed and to overweight or underweight positions based on inter-commodity relationships. The program has a deleveraging component that will systematically reduce position sizes at the portfolio level after periods

of rapid gains. The program is designed to generate returns that have a low to negative correlation to most CTA and commodity programs including our EVE Spread Trading Program. Compared to the standard LSCP, the Accelerated program will typically have higher leverage and larger relative position sizing based on the lower threshold required to take on a position. The deleveraging and leveraging component of the LSCP would not have as large of an impact in the Accelerated Program because of this factor. However, it will still add value by reducing the size of the positions in the portfolio after large run ups in performance.

### The Emil van Essen Multistrategy Trading Program

The Multistrategy Program (MSP) is an approximate 50/50 combination of the Spread Trading Program (STP) and the Long-Short Commodity Program (LSCP). STP seeks non-correlated alpha through the spread and relative value trading of exchange-listed futures and options that are primarily commodity contracts. Quantitative research and significant discretion are used in trade selection and execution. The LSCP is a short to medium-term systematic program with a discretionary overlay that trades outright positions on 13 exchange-listed commodity futures contracts. The program uses multiple trend models on both outright and calendar spread data and analyzes historical spread levels to generate daily trade signals. The MSP is designed to generate returns that have a low to negative correlation to most CTA and commodity programs.

#### 13.) Do you have a systematic or discretionary approach to the market?

**EvE Spread Trading Program:** Approximately 65% Quantitative Research and modeling, 35% Discretionary



Emil Van Essen, CEO and CIO

**EvE Long-Short Commodity Trading Program:** 90% Systematic, 10% Discretionary

**EvE Long-Short Commodity Trading Program - Accelerated:** 90% Systematic, 10% Discretionary

**EvE Multi-Strategy Trading Program:** 25% Discretionary, 40% Systematic, 35% Quantitative research

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

**EvE Spread Trading Program:** 30 Days

**EvE Long-Short Commodity Trading Program:** 3-6 Days

**EvE Long-Short Commodity Trading Program - Accelerated:** 3-6 Days

**EvE Multistrategy Trading Program:** 15 days

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

**EvE Spread Trading Program:** Options are used for the purpose of hedging some spread positions and for alpha generation. Additionally, option positions may be used to replicate futures spread positions when there is an economic or risk benefit to using options. Calendar spread options in the energy sector make up the majority of options traded.

**EvE Long-Short Commodity Trading Program:**

Options are not traded.

**EvE Long-Short Commodity Trading Program – Accelerated:** Options are not traded.

**EvE Multi-Strategy Trading Program:** The program has an allocation of 50% to the EvE Spread Trading Program and 50% to the EvE Long-Short Commodity Trading Program. The program will utilize options in the same fashion that the EvE Spread Trading Program does.

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

Yes, the **EvE Spread Trading Program** trades a wide variety of markets with varying levels of liquidity. For all markets and their prospective trades, there is a pre-trade liquidity determination that is made to ensure sufficient liquidity.

**The EvE Long-Short and Long-Short-Accelerated Programs** trade only outright futures contracts in the front or second contract month. Liquidity in the 13 markets that we trade is currently sufficient.

**The EvE Multistrategy Trading Program** has an allocation of 50% to the EvE Spread Trading Program and 50% to the EvE Long-Short Commodity Trading Program, and, therefore, has the same aforementioned liquidity constraints for each program component.

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

The EvE Spread Trading Program has traditionally performed well in various market environments, but struggled at times during periods of extreme upward or downward price movements. Choppy or steady trending markets tend to exhibit the best market environments for our programs. Extreme market dislocations caused by extreme upward or downward moves do pose great opportunities for our programs; however, they also pose the greatest risk.

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

**EvE Spread Trading Program:**

Highest- 41.11% (prior to deleveraging in 2008)

Highest since deleveraging- 27.09%

Lowest- 2%

Average- approximately 11%.

**EvE Long-Short Commodity Trading Program:**

Highest- 22.74%

Lowest- 0%

Average-4.00%

**EvE Long-Short Commodity Trading Program - Accelerated:**

Highest- 27.86%

Lowest- 0%

Average- 7.50%

**EvE Multi-Strategy Trading Program**

Highest- 24.65

Lowest- 2.02%

Average- 7.70%

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

**Pre-Trade:**

- Spread position limits per market
- Trade theme, P&L expectancy and hedging analysis
- Final trade selection, sizing, potential hedging strategy, and market entry plan

- Hedge positions can include outright futures, options on futures, and calendar spread options (CSOs)

### Monitoring:

- Real-time position evaluation and P&L tracking
- Scenario analysis
- Historical VAR analysis
- Market spread position limits
- Portfolio margin-to-equity limit of 25%
- Portfolio 10% intra-month loss level—Risk Management Committee meets to effectuate course of action.
- Portfolio intra-month loss level of 15% – risk cannot be added

### Risk Management Committee (RMC)

The RMC includes the CEO/CIO, COO/CCO, and Portfolio Manager. The purpose of the RMC is to ensure compliance with internally established risk levels and to provide a course of action if the portfolio levels are exceeded.

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

**The EvE Spread Trading Program** historically has performed best in bearish commodity market conditions and would perform well in a congested, two-way trading market. Performance has been mixed in a bullish commodity market.

**The EvE Long-Short Commodity Program** is based on performance since inception, and has performed well in all market environments, it performs particularly well in steady trending markets either up or down.

**The EvE Multistrategy Trading Program** seems to perform well in a variety of market conditions. We consider this program to have the best risk-adjusted return overall, as it blends the non-correlated strategies of Long Short and Spread Trading together, which tends to smooth out returns. Due to the correlation within the portfolio, we should be able to perform well in all market environments.

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

**EvE Spread Trading Program:** Our worst trading experience resulted in our largest cumulative drawdown of 36.21% in the third quarter of 2007. This drawdown occurred when several markets experienced abnormally rapid and exponential front month price increases at the same time. This caused losses in our bear spread positions with those contracts. To compound matters, we utilized much higher leverage at that time. Since then we have made several adjustments to our strategy in an attempt to reduce volatility and decrease overall risk.

The second largest drawdown that we have had in the program started in January of 2012 and we are approximately 6% off the high-water mark as of January 2016. While the duration of the drawdown has been a bit out of sample, the level of the drawdown has remained within our risk metrics, and our overall annualized return from inception to date is currently in excess of 15%. We believe our biggest asset to anyone's portfolio is our low to negative correlation to traditional investment vehicles and strategy types. While our returns have been below our expectations for the past few years, we have remained uncorrelated to many benchmarks.

#### Other risk notes:

1. In January 2008, we adopted a new methodology for entering and exiting positions that resulted in approximately a 1/3 reduction in our effective leverage.
2. In the first half of 2008, we added two additional sub-strategies.
3. In August 2008, we reduced position sizing by approximately one half.
4. In 2010, we started hedging spread positions. We have increased the number of markets traded increasing the diversification within the overall portfolio.

5. Added position limits by market.
6. Introduced maximum margin-to-equity and intra-month drawdown levels.
7. Introduced options and calendar spread options in 2012.
8. Amended risk protocols that were determined to be detrimental to our program from 2012-2014

**EvE Long-Short Commodity Program:** The largest monthly drawdown was -6.13% in May 2014.

**EvE Long-Short Commodity Program - Accelerated:** The largest monthly drawdown was -4.59% in May 2014.

**EvE Multistrategy Program:** The largest monthly drawdown was -3.58% in May 2014.

## 22.) What are your investment goals?

### Overall Goal:

To provide truly non-correlated alpha.

### Program Goals:

**EvE Spread Trading Program:** Objectives are net returns above 15%, 12% annualized volatility, and a Sharpe ratio above 1.

**Long-Short Commodity Trading Program:** Objectives are net returns above 10%, 10% annualized volatility, and a Sharpe ratio of 1.

**Long-Short Commodity Trading Program - Accelerated:** Objectives are net returns above 10%, 10% annualized volatility, and a Sharpe ratio of 1.

**EvE Multistrategy Trading Program:** Objectives are net returns above 12.50%, 8% annualized volatility, and a Sharpe of greater than 1

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

All our programs seek non-correlated alpha through the trading of exchange-listed futures and options contracts. We feel that the niche nature of strategies is derived from the type of non-traditional research methodologies that we employ, how the art of discretion is overlaid on quantitative modeling, our institutionally-vetted operations, and our ability to continuously evolve both in business and strategy. We do not simply claim to be non-correlated; our track records continue to define this for us. We will continue to focus on out-of-the-box thinking and modeling techniques that will continue to drive our nontraditional approach to term structure analysis and seek to continuously add value to our clients' portfolios building strong relationships built upon ethics and performance.

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

**EvE Spread Trading Program:** The combination of commodity spread trading experience combined with spread data modeling experience. Term structure and inter-market spread trading of commodities and interest rates includes a number of complexities, execution challenges and rapidly changing market dynamics. We believe our years of discretionary trading experience in the investment process is an advantage. Additionally, we believe our proprietary spread databases and models give us a distinct advantage over other investment opportunities.

**EvE Long-Short Commodity Programs:** Our knowledge and use of spread movements and their predictive quality for outright price movements.

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

To not only ensure the validity and robustness of your trading models, but to also thoroughly understand trading itself and the markets you are participating in.

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