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# Disclaimer

## Off-Shore Feeder Fund

## Inception Date: October 2010

This document does not constitute an offer to sell or a solicitation of an offer to buy the Fund described herein. No such offer or solicitation will be made prior to the delivery of a definitive offering memorandum and other materials relating to the matters herein. Before making an investment decision with respect to Alphea Fund Ltd (hereafter "the Fund"), potential investors are advised to read carefully the offering memorandum and the related subscription documents, and to consult with their tax, legal and financial advisors. This document contains a preliminary summary of the purpose and principal business terms of the Fund; this summary does not purport to be complete and is qualified in its entirety by reference to the more detailed discussions contained in the private offering memorandum. The Fund has the ability in its sole discretion to change the materials and information herein. This document is provided to you on a confidential basis, solely to assist you in deciding whether or not to perform further due diligence on the Fund. Accordingly, this document may not be reproduced in whole or part, and may not be delivered to any person without the consent of the Fund.

# Executive Summary

**Definition & Mission**

**Alphea** Ltd is a BVI incorporated open-ended feeder and marketing fund that invests excusively into the Systematic Trading Fund SPC Ltd ("STF") managed out of Lugano, Switzerland. STF is a managed futures fund that employs a systematic, multi-time frame trend-following strategy. STF applies active filtering techniques in an attempt to avoid trades with adverse risk/reward returns, reduce draw-downs and to show consistent profits over a medium-term horizon. It **targets an annualised RoR of 15-20% with annulised volatility of 10-15%.**

**State-of-the-Art Execution + High Free Cash Levels**

The fund uses high-frequency market data which generates model driven orders that are executed via an automated trading platform. Execution services are rendered by Morgan Stanley Ag Zurich, which also acts as STF's custodian. As the fund operates a low-leverage base class, the average capital requirements rarely exceed 20% of AUM. Importantly, **any free cash will not be invested in credit-risk mark-to-market products. Non-euro-denominated realized trading profits (mostly USD) will be hedged back into Euros**.

**Robust Risk Management**

**Risk Management** is divided into three categories:

- **Correlation Risk**: Asset class allocation depends on an equally-weighted set of poorly-correlated futures contracts with pre-defined position limits based on volatility and proprietary risk management systems.
- **Market Risk**: hard-coded 6% maximum monthly draw-down limit will trigger book closing for the month. Due to the liquidity of the future contracts the **portfolio can be unwound in minutes with minimal slippage.**
- **Position Risk**: open interest & market spreads are monitored constantly. Rising slippage and a decrease in volume/open interest will lower the weighting of that asset class or result in the asset class being removed entirely.

**Monthly Liquidity**

Alphea does not employ gates or require lock-ups, resulting in a straightforward redemption process of monthly liquidity with 15 day notice. . Morgan Stanley AG – Zurich acts as a custodian bank handling the Fund's cash in excess of portfolio financing and margin needs. NAV is produced monthly by independent fund administrator Circle Partners NV and audited annually by KPMG.

**Market Uncorrelated + Low-Leverage Model**

**Portfolio ddiversification** is achieved through a **60/40 equity & commodity** mix and their widely uncorrelated range of sub-asset classes (**13 equity-index future and 20 commodity futures**) with **two** different **time horizons**: **hourly & daily**. **This allows the fund to generate a consistent short-term positive PnL skew.**

Fund **leverage**, determined by quant-signal-driven parameters, can range from zero (no signal) to 6x (all signals on both time frames (max portfolio exposure): has never happened) with a **monthly average of 3x . These leverage levels lie in the industry's low-end range.**

# Bios and Contacts

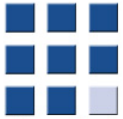
Mr. I. **Rebesco, STF's Fund Manager,** graduated with a PhD in Economics from the S. Anna School of Advanced Studies, Pisa where he was a Visiting Lecturer for Economics and Finance from 2002-2003. In addition, he has a Masters in Quantitative Finance from the Venice International University. He previously worked for Intesa-BCI Bank (Suisse) where he was in charge of asset allocation and risk management for Alternative Investments (Hedge Funds and Structural Notes), and in a hedge fund were he was running the quant desk dedicated to the development and implementation of systematic strategies.

Mr. A. **Badò, STF's Fund Operation**, graduated with a BA degree from "La Sapienza" University of Rome, qualifying as a registered auditor. His previous experience include five years as a European equity banking analyst and equity derivative specialist salesman at IMI-S.Paolo London based banking group. He then moved to Milan where he spent five years as the head of European equity derivatives at Intesa-BCI and Monte dei Paschi di Siena's banking group. In addition, he worked for a macro hedge fund as a global equity derivative portfolio manager.

Mr. D. **Scribano, STF's Fund Manager;** graduated from the University of Pisa in Economics. Subsequently, he attended a two-year course qualifying him as a Financial Analyst by the Associazione Italiana Analisti Finanziari (AIAF). Prior to starting STF he worked as an independent trader primarily modeling and trading a trend-following system for a hedge fund, were he headed up a quant desk dedicated to the development and implementation of systematic strategies.

Mr. P. **Fietje, Alphea's Fund Director**; graduated from the London School of Economics and IESE Business School. Previously, Patrick was a cash equity/proprietary trader at Goldman Sachs in the industrial sector, where he quickly established himself as a senior trader with strong ties to his hedge fund clients. In 2004 he joined Lehman Brothers International, first as a senior financials trader, then head of banks trading where he further expanded his knowledge of electronic trading and derivatives. Patrick joined Euronova Capital Partners in 2007 as a founding partner of its new large cap fund which in March of 2008 was spun out to form CGP Capital Partners, a European equity large-cap long/short fund.

# Business Structure Chart



Alphea Fund Ltd (BVI):
STF Feeder Fund & Marketing Vehicle

Blue Capital SA (CH):
STF Investment Manager

Auditor:
KPMG N.V.

STF
Systematic Trading Fund
SPC Ltd (BVI)

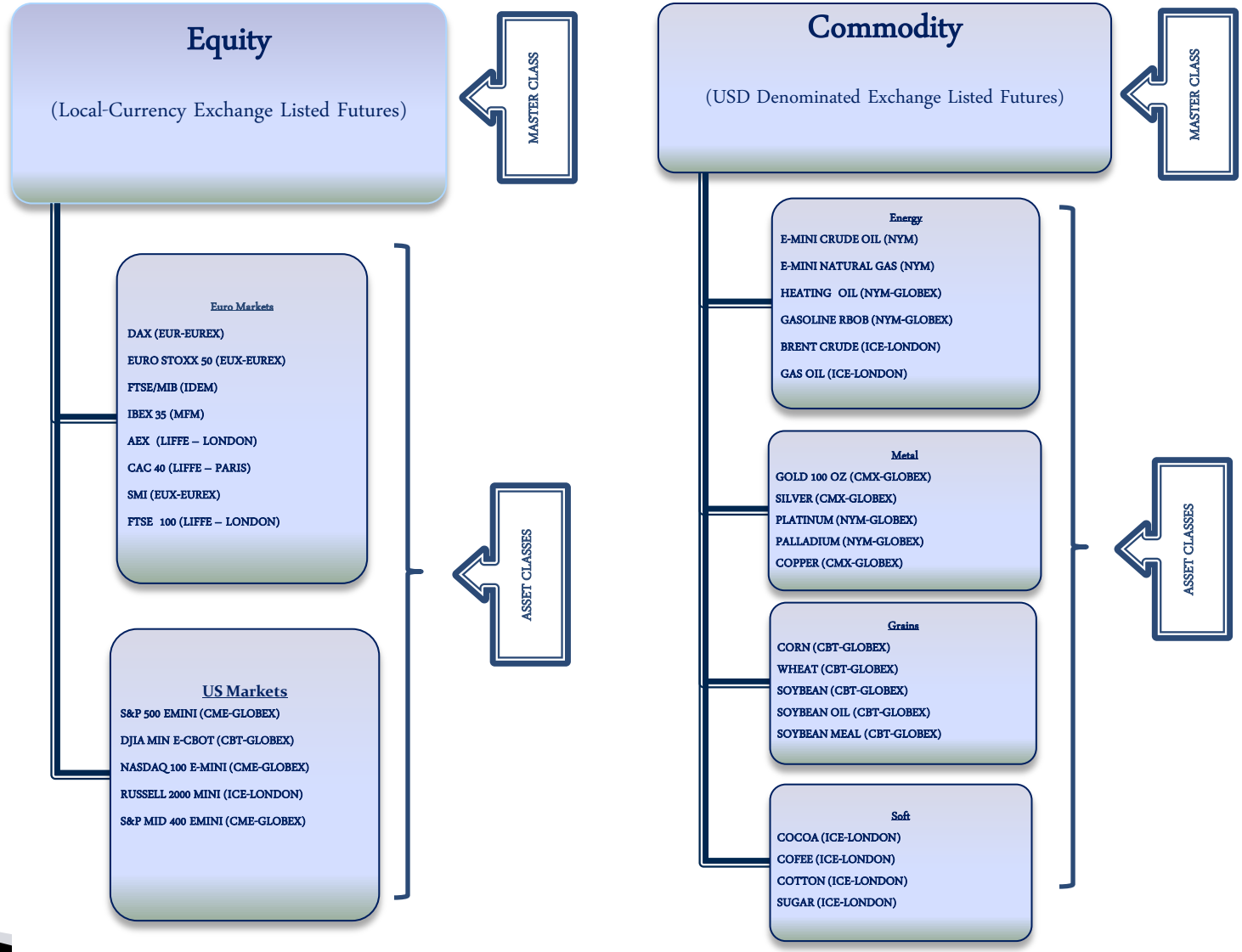
Broker:
Morgan Stanley AG
Zurich (CH) & Goldman
Int London

Administrator:
Circle Partners B.V

Depositary Bank:
ABN Amro Bank N.V

Custodian:
Morgan Stanley AG
Zurich (CH)

# Investment Universe



# Trading Signals


STF employs a pattern recognition algorithm that triggers the opening (simple & double-sizing) of trading positions. Along with Simple Moving Average (SMA) and Moving Average Convergence/Divergence (MACD) indicators, the model uses two proprietary market signals:

- Dynamic Support and Resistance Indicator ("**DSRI**", blue-buy/red-sell dashes) flags levels that give entry and exit points. **When a resistance level (blue) is breached from below, a long position will be entered and a set of support levels responsible for stop-loss and stop-and-reverse orders will be automatically generated and dynamically changed depending on the investment horizon. The opposite occurs for short orders which are entered when support levels (red) are breached.**

- The Trend Strength Indicator ("**TSI**", lower bar graph) measures a trend's persistence and indicates exit points only. Once a determined threshold has been reached any open positions will be halved due to the higher probability of a significant trend reversal. Importantly, all open positions will be closed out when the indicator reaches a critical predefined ratio at the top of the statistical range indicating that the trend may have touched a local maximum.

**BUY** blue resistance breached

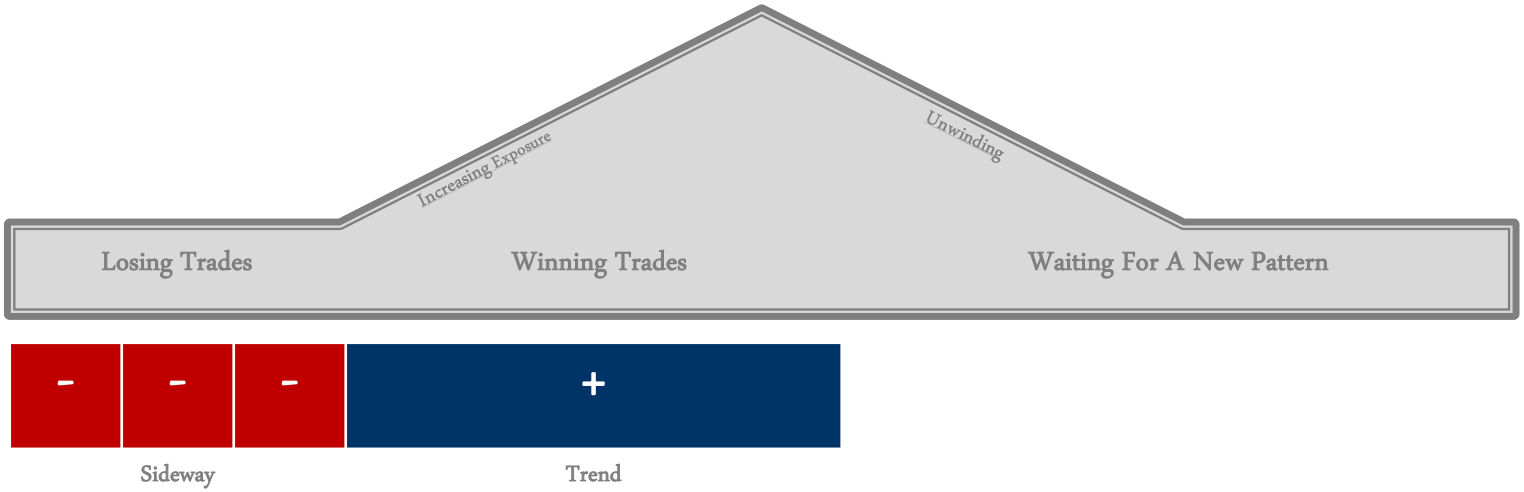
**SELL** red support breached

# Trading Rules

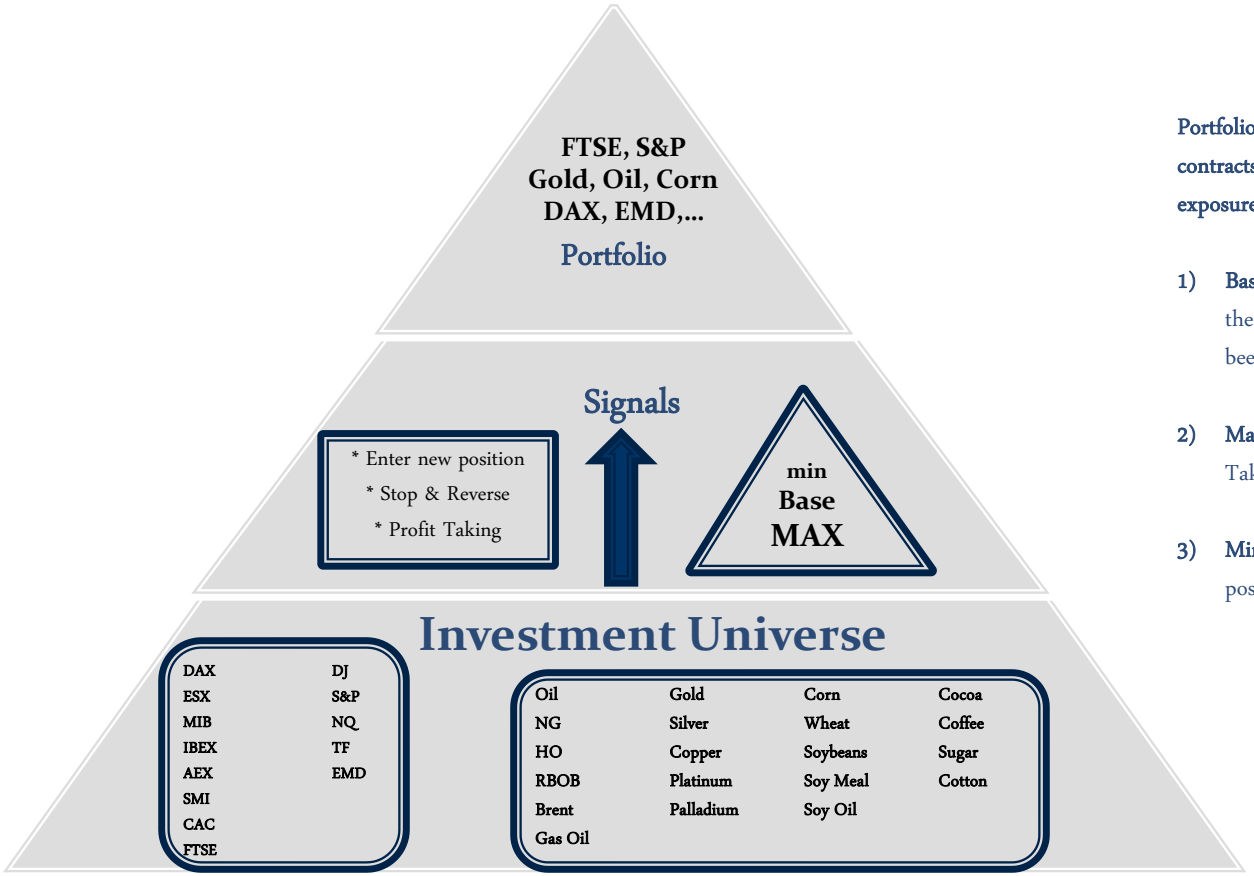
- The funds **framework** is designed to generate consistent, positive returns. In the **filtering phase** the model monitors pattern evolution but takes no action until a **trigger point** is realized at which point the trade is entered. The **doubled sizing of a position is triggered** after a pre-defined number of patterns are completed on a winning trade.

- **Case 1** - When a **pattern completion** occurs on a single asset class a profit-taking signal is generated: which signals a **half-position closing** at a level at least equal to its market volatility threshold. The remaining position will comply with a **dynamic stop-loss order in accordance with its time frame**. Only when a parameterized pattern (trigger point) is recognized will the model reinitiate trading in that asset class.

- **Case 2** – When the market trades tightly inside a channel, trading positions can incur losses when a trigger point is reached. If that is the case the **position will be stopped-out and reversed if the exit point < entry point (if exit > entry the position will simply be closed) for a number of times until the notional contract size is be doubled.** Once a trend has started, a profit taking level is a fine tuned according to its particular strength (pyramiding). **Increasing contract notional as well as unwinding positions are governed by a proprietary algorithm that may differ among classes and markets**. It is function of a proprietary risk constraint policy.



# Portfolio Setting: A Bottom-Up Approach




**Portfolio construction depends on the signals that select contracts** from the Investment Universe. **Pre-determined exposure sizes center around three possible citeria**:

1) **Base**: the number of lots (i.e. future contracts) traded when the model enters a new position after a trigger point has been reached.

2) **Max**: the number of lots when the model double sizes. Taking profit at this stage implies a going back to 1) Base.

3) **Min**: number of lots after profit taking occurs with a base position exposure

# Asset Allocation

60% Equity
40% Commodity
Uncorrelated Asset Classes

Portfolio diversification is achieved by **allocating portfolio risk among different asset classes** (equity indexes, commodity futures) **within their own master class universe** (equity, commodity) **and time frames** (hourly, daily). The master class risk weighting is currently set at around **60-40%**. The Fund's proprietary analysis is used to calculate those risks in order to determine the best ratio between profitability and draw downs for each asset class, independently from each other. This is justified by the **lack of correlation amongst asset classes** (page 13). Realistically, the correlation among asset class is a complex phenomenon because **markets tend to be uncorrelated in trading ranges and highly correlated in trending phases**.

Equally-Weighted Asset Class Allocation Among Futures

**Proprietary analysis shows that an equally-weighted allocation is the most efficient way to reduce the impact of incorrect loss-making signals & reducing the probability of missing profitable market trends. The allocation process amongst time frames is also run on an equally-weighted basis.** Hourly and daily time frames tend to show positive correlation with market volatility thus improving the model's global diversification. Accordingly, **each asset class will be equally-weighted in the local base currency of its future contract.**

# Correlation Analysis

Daily Time Frame

| | Equity | Energy | Metal | Grains | Soft |
|---|---|---|---|---|---|
| Equity | 1 | -0.0064 | 0.0245 | 0.0439 | -0.0127 |
| Energy | | 1 | 0.0591 | -0.0256 | 0.0252 |
| Metal | | | 1 | 0.0115 | 0.0029 |
| Grains | | | | 1 | 0.0166 |
| Soft | | | | | 1 |

Hourly Time Frame

| | Equity | Energy | Metal | Grains | Soft |
|---|---|---|---|---|---|
| Equity | 1 | 0.0135 | -0.014 | 0.014 | -0.0215 |
| Energy | | 1 | -0.0121 | 0.0092 | 0.0083 |
| Metal | | | 1 | 0.0751 | 0.0104 |
| Grains | | | | 1 | 0.0012 |
| Soft | | | | | 1 |

Both Time Frames

| | Equity | Energy | Metal | Grains | Soft |
|---|---|---|---|---|---|
| Equity | 1 | -0.0028 | 0.0411 | 0.041 | -0.234 |
| Energy | | 1 | 0.0085 | -0.0203 | 0.0246 |
| Metal | | | 1 | 0.0618 | 0.0069 |
| Grains | | | | 1 | 0.0142 |
| Soft | | | | | 1 |

Cross-correlation among asset classes confirms that a **short term multi time frame strategy is a good diversification tool**. The above tables display correlation coefficients among asset classes and time frames. No correlation coefficient is statistically far away from zero except for those with time frames among asset classes (main diagonal of the cross-correlation matrix) and between the two time frames of the total portfolio, whose correlation coefficient estimate is equal to 0.1165. In any all cases the **data shows a very weak or virtually non-existent cross-asset correlation** .

Time Frame Cross-Correlations Hourly

| Daily | Equity | Energy | Metal | Grains | Soft |
|---|---|---|---|---|---|
| Equity | 0.1083 | -0.0285 | 0.0509 | 0.034 | 0.0154 |
| Energy | 0.0113 | 0.0944 | 0.006 | -0.0276 | 0.0055 |
| Metal | 0.0498 | -0.027 | 0.1512 | 0.0395 | -0.023 |
| Grains | 0.0045 | 0.0023 | 0.0038 | 0.1786 | 0.0101 |
| Soft | -0.305 | 0.015 | 0.0115 | 0.007 | 0.1833 |

# Risk Management Framework

## Correlation Risk

Multi-product widely uncorrelated asset class portfolio

Multi time frame trading strategy which can double total portfolio exposure to a maximum of 66 listed-future contracts: 26 equity and 40 commodity listed-future contracts

## Market Risk

Lower than industry average leverage ratio

Proprietary asset class allocation process

Pre-defined position limits (number of future contracts)

Early book closing may be used to avoid end-of-month crowded and volatile trading session

A hard coded 6% monthly drawdown limit

## Position Risk

Open interest & spread monitoring

Liquidity ratio and market efficiency policies

# Terms and Conditions

| | | |
|---|---|---|
| Master Fund Name | Systematic Trading Fund SPC Ltd | |
| Feeder Fund Name | Alphea Fund Ltd (self-managed fund) | |
| Feeder Fund Jurisdiction | British Virgin Islands | |
| Master Fund Investment Manager Company | Blue Capital SA (CH) | |
| Administrator/Registrar/Transfer Agent | Circle Investment Support Services B.V. | |
| Depositary Bank | ABN Amro Guernsey Ltd. | |
| Custodian | Morgan Stanley AG Zurich (CH) | |
| Execution Broker | Morgan Stanley AG Zurich (CH), Goldman Sachs Intl (London) | |
| Auditor | KPMG Accountants N.V. | |
| Management Fee | 2% annual (paid monthly) | |
| Performance Fee | 20% with absolute High Water Mark (paid quaterly) | |
| Segregated Portfolios | None | |
| Share Classes | EUR class that invests in Class B EUR of the Master Fund | |
| Subscription | Monthly (to be received 7 business days before the Dealing Day) | |
| Lock-in Period | None | |
| Redemption | Monthly with 15 calendar days notice | |
| Redemption Payout | After NAV calculation by Administrator | |
| Redemption NAV | NAV of Month Valuation Day | |
| Minimum Investment | 100 000 EUR | |
| Minimum Addition and Redemption | 25 000 EUR | |
| Master Fund Bloomberg Ticker | Class EUR | STFLSBE VI |
| Fund ISIN Code | Class EUR | VGG0223M1059 |