

CFTC Risk Disclosure Statement

THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS.

IN SOME CASES, MANAGED COMMODITY ACCOUNTS ARE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY FEES. IT MAY BE NECESSARY FOR THOSE ACCOUNTS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THE DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF THE PRINCIPAL RISK FACTORS AND EACH FEE TO BE CHARGED TO YOUR ACCOUNT BY THE COMMODITY TRADING ADVISOR ("CTA").

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QUESTIONS OR COMMENTS: PLEASE EMAIL CLIENTSERVICES@ALTAVRA.COM OR CALL 1-800-998-7870.

For up-to-date performance information on 90+ managed accounts, please access the alternative investment database*.

To access the database:

1. Request a pin number at altavra.com.
2. After you receive your pin number, you can access the database at portfolio.altavra.com.
3. In the database, click on "List of Programs" at the top of the page to view all of the programs in the database.

*PLEASE NOTE: There is no fee to access the database. This is not a trial access. The pin number does not expire.

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Arborvitae Capital Management

Program Description: Uncovered Option Strategy

The objective of this strategy is to achieve capital appreciation through the speculative trading of options on futures contracts. This objective can entail a comparatively high level of risk. ACM currently engages in the strategy of selling or “writing” put and call options on stock index futures, metals and energies in the Options Program. ACM may trade any commodity future and option contracts on any United States exchange.

ACM uses a systematic approach to trading, in that it relies heavily on a program of selling or “writing” out of the money options. ACM may also, from time to time; purchase options to reduce risk exposure (see Credit Spread Strategy). The implementation of the program each month depends on two proprietary formulas. They determine the strike prices and maturity periods of the initial option positions, which are written for each month’s expiration. Considerations are also given to technical and fundamental conditions in order to give the best risk/reward possible in ACM opinion.

Option contracts are written at a sufficient distance out of the money to allow, in most cases, for the options to expire worthless.

Program Description: Credit Spread Strategy

An alternative option writing strategy is the *credit spread*, which involves selling an option (see uncovered option strategy) but also includes purchasing another less expensive option. When writing a credit spread the writer is “credited” the difference between the premiums collected from writing the option, less the cost of the option purchased. Unlike writing uncovered options, where the potential for unlimited loss exists, option credit spread risk is absolutely limited to the difference between the strike prices of the options written and purchased, plus commissions and fees. Any loss would be further reduced by the amount of the credit received. While the option credit spread clearly offers the advantage of limited risk, the writer must sacrifice some of their potential profit in exchange for acquiring a limit to the risk. *ACM seldom initiates a credit spread, but instead uses the credit spread strategy to reduce risk and margin on uncovered option positions.*

:: S&P Call Credit Spreads

An S&P futures credit spread involves selling an option at a greater premium than the cost of the option that is purchased, thereby creating a credit to the trader writing the spread. A call credit spread consists of writing a call and buying another call, which has a higher strike price and therefore is cheaper than the one written. If a call spread is not closed prior to expiration, then upon expiration, the strategy will be profitable if the underlying S&P 500 futures price is below the strike price of the call that was sold. If the S&P 500 futures price rises above the strike price of the written call at expiration, the strategy will produce a loss. Thus, the profitability of a trading strategy that focuses on credit spreads on the S&P 500 futures contract depends upon the underlying price movement of the S&P 500 futures contract. In credit spreads, the loss is limited to the amount of the difference between the strike prices of the two options in the spread. For example, if a call

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with a strike price of 600 is written and a call with a strike price of 625 is purchased, the maximum loss on the spread is 25 points, minus the original credit of the spread. If the spread was originally put on for a credit of 5 points, the maximum profit generated, assuming the spread expires worthless, would be $5 \times \$250$ (cash value of each full point in an S&P option contract) = \$1,250. On the other hand, the maximum possible loss is $25 \times \$250 = \$6,250$ minus the original \$1,250 credit, or \$5,000, plus commissions and fees.

:: S&P Put Credit Spreads

A put spread on the S&P 500 future involves writing a put and buying another put which has a lower strike price and is therefore cheaper than the one sold. If the spread is not closed out prior to expiration, the strategy will be profitable if the S&P 500 futures price is above the strike price of the put written when the spread expires. If the futures price of the index is below the strike price of the put when the put that was written expires, the strategy will produce a loss. The loss will be limited to the amount of the difference between the strike prices of the two options in the spread. For example, if a put with a strike price of 850 is written and a put with a price of 825 is purchased, the maximum loss on the spread is 25 points, minus the original credit on the spread. If this spread were originally put on for a credit of 5 points, the maximum possible loss is $25 \times \$250 = \$6,250$ minus the original \$1,250 credit, or \$5,000 plus commissions and fees. The maximum profit potential would be calculated the same as described in the previous paragraph.

Both the call and put examples given above are hypothetical and for illustration purposes only. The actual difference between strike prices actually used by ACM may be greater or less than the ones in the example.

Please Note: Options and option credit spreads can be liquidated before expiration with either a profit or loss, based on market movement.

Management Information: Ruben Zagagi

Ruben Zagagi is the President of ACM, Inc. Mr. Zagagi is directly responsible for all trading and money management decisions made by ACM. Performance of accounts managed by Mr. Zagagi can be found in the disclosure document.

Mr. Zagagi received an MBA in Finance and Accounting from the University of Tennessee in 1989. Prior to entering the trading and management business, Mr. Zagagi was involved in IT and financial management consulting. Mr. Zagagi has worked for IBM, whose line of business is information technology consulting, since February 2001 in the capacity of a managing consultant. In that capacity, Mr. Zagagi managed IT projects in various industries. Mr. Zagagi has been trading since 1981 and has done extensive research in the development of proprietary formulas for use in the trading of options on futures. Mr. Zagagi has been registered with ACM as an associated person since June 2, 2008 and as a principal since May 29, 2008. Mr. Zagagi's trading results in his proprietary accounts can be found on page 21.

The descriptions above are from the manager's disclosure document.

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