

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").

THE REGULATIONS OF THE COMMODITY FUTURES TRADING COMMISSION ("CFTC") REQUIRE THAT PROSPECTIVE CUSTOMERS OF A CTA RECEIVE A DISCLOSURE DOCUMENT WHEN THEY ARE SOLICITED TO ENTER INTO AN AGREEMENT WHEREBY THE CTA WILL DIRECT OR GUIDE THE CLIENT'S COMMODITY INTEREST TRADING AND THAT CERTAIN RISK FACTORS BE HIGHLIGHTED. THIS DOCUMENT IS READILY ACCESSIBLE AT THIS SITE. THIS BRIEF STATEMENT CANNOT DISCLOSE ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE COMMODITY MARKETS. THEREFORE, YOU SHOULD PROCEED DIRECTLY TO THE DISCLOSURE DOCUMENT AND STUDY IT CAREFULLY TO DETERMINE WHETHER SUCH TRADING IS APPROPRIATE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. YOU ARE ENCOURAGED TO ACCESS THE DISCLOSURE DOCUMENT BY CLICKING THE LINKS PROVIDED AT [FORMS.ALTAVRA.COM](https://forms.altavra.com). YOU WILL NOT INCUR ANY ADDITIONAL CHARGES BY ACCESSING THE DISCLOSURE DOCUMENT. YOU MAY ALSO REQUEST DELIVERY OF A HARD COPY OF THE DISCLOSURE DOCUMENT AT [FORMSBYMAIL.ALTAVRA.COM](https://formsbymail.altavra.com), WHICH WILL ALSO BE PROVIDED TO YOU AT NO ADDITIONAL COST. THE CFTC HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN ANY OF THESE TRADING PROGRAMS NOR ON THE ADEQUACY OR ACCURACY OF ANY OF THESE DISCLOSURE DOCUMENTS.

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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Frequently Asked Questions

What are Managed Futures?

The term "Managed Futures" refers to a 30-year old industry made up of professional money managers who are known as "commodity trading advisors" (CTA's).

Managed futures are the systematic or discretionary trading of futures contracts by professional CTA's who trade in global futures and options markets, as either buyers or sellers of contracts representing real assets. These real underlying assets include, but are not limited to gold, silver, wheat, corn, coffee, sugar, oil, heating oil, government bonds, equity market indices and currencies. The CTA makes all trading decisions on behalf of the client through a revocable limited power of attorney.

What is a CTA?

A CTA is a Commodity Trading Advisor. A CTA is an individual or organization which, for compensation or profit, advises others as to the value of or the advisability of buying or selling futures contracts or commodity options. Providing advice indirectly includes exercising trading authority over a customer's account as well as giving advice through written publications or other media.

Why invest in Managed Futures?

Over the long-term, managed futures have provided valuable diversification to a traditional portfolio of equities and bonds. Managed futures have been shown to provide returns with little or no relationship to the timing and magnitude of the returns associated with traditional securities.

What is the minimum investment needed to open a managed futures account?

Managed futures programs have different minimum investment requirements. Usually, the amount is what the advisor and brokerage firm consider is needed to achieve account diversification. Minimum account size may also be affected by whether the managed account program is designed to serve individual investors or institutional/corporate clients. In managed futures, minimum investments can start as low as \$10,000, but more typically \$25,000 or more per managed account. ALTAVRA, does offer managed forex accounts starting as low as \$5,000 per managed account.

What are the restrictions on withdrawing funds from a managed futures account?

In a private managed account, typically, the only restriction is that you do not make withdrawals below the minimum required investment. You will be free to withdraw all funds after liquidation of any open positions, unless the account agreement you have signed stipulates otherwise. You may request liquidation of open positions at any time through a revocation of trading authority. If you have accumulated any profits in the account, you are allowed to withdraw them or leave the money available for reinvestment.

How do I check the status of my account?

You will receive a detailed statement each time a trade is entered into or exited. You can choose to have these statements sent to you by either email or U.S. mail. Your account is also accessible online at any time.

How do Managed Futures compare to stocks and bonds?

Generally speaking, because managed futures have little correlation to stock and bond markets, it is quite difficult to make a comparison. It may be common practice for investors to dissect the individual elements of their portfolio and expect them to compete with one another over every time period. However, effective and prudent asset allocation would suggest that:

- ∴ Managed futures should not be looked at in isolation from the rest of the portfolio, nor should they be examined in relation to the stock market.
- ∴ It is very important to have a balanced approach toward investing, to understand the rationale behind allocating portions of assets to different investment classes, styles or instruments, and to always keep the long-term goals in mind.
- ∴ Different instruments within a portfolio should complement each other, not compete with each other. It is important to remember that different investments derive profitability from a variety of economic and market scenarios, and that investments will not all perform well at the same time. Otherwise, all investments would make money together and all would lose money together.

How are Managed Futures used in an investment portfolio?

With prudent allocation, managed futures may help reduce the overall risk of a portfolio. In our opinion, a prudent investor should ensure that at least a portion of their portfolio is allocated to an alternative asset that has the potential to perform well when other portions of the portfolio may be underperforming.

Other potential benefits of managed futures may include:

- ∴ Historically competitive returns over the longer term
- ∴ Returns independent of traditional stock and bond markets
- ∴ Access to global markets
- ∴ The unique implementation of traditional and non-traditional trading styles
- ∴ Potential exposure to as many as one hundred and fifty markets globally
- ∴ Liquidity and no lock-ups. The contracts in which the CTA's trade typically have a high degree of liquidity.

If suitable to a client's objectives, devoting five to fifteen percent of a typical portfolio to alternative investments has been shown to increase returns and lower volatility. Because alternative investments may not react in the same way as stocks and bonds to market conditions, they can be used to diversify investments across different asset classes, resulting in less

volatility and less risk. The other attractive feature of the ALTAVRA Managed Futures product is that there are no lock-up of funds or penalties for early withdrawals.

How can diversification through using managed futures help reduce risk?

During times of market volatility or declining stock and bond markets, managed futures may be an important part of your portfolio. The ALTAVRA blended portfolios are customized structured products, which over time are designed to provide investors with exposure to a set of strategies with little correlation to the stock and bond markets. In the event of a major, sustained downturn of the equity or fixed income markets, managed futures may potentially provide some protection for a client's overall portfolio. Increasingly sophisticated institutional investors such as pension funds, endowments, foundations, and family offices are allocating larger portions of their portfolios away from equity and fixed income into alternative investments. Managed futures are a sub-class of alternative investments.

Is a managed futures account appropriate as a short-term investment?

Quite simply, no. Futures investing is a speculative and tends to be cyclical. Additionally, even the most successful professional traders experience periods of flat returns or even draw-downs. Consequently, losses will be incurred for those trading periods. In our opinion, the wise investor will remain steadfast in his/her investment plan and not close the account prematurely in order to allow the account to potentially recover from those temporary losses in equity. It would not be a wise investment strategy to open an account that you do not intend to maintain for at least three to five years.

Who regulates Commodity Trading Advisors?

Commodity Trading Advisors are regulated by the Commodity Futures Trading Commission (CFTC) and by the National Futures Association (NFA), the congressionally authorized self-regulatory organization of the futures industry. All trading advisors must be registered with the CFTC and those who manage customer accounts must be members of the NFA. Advisors' Disclosure Documents are required to be submitted to the NFA for review in advance of distribution to prospective investors. On an ongoing basis, the NFA audits Disclosure Documents (particularly performance information), promotional materials, and trading activities. Many CTA's update their performance data on a monthly basis. Violations of CFTC or NFA rules can result in financial penalties, suspension or complete cessation of trading privileges and other penalties.

What are the costs, and how do CTA's get paid?

There are basically three types of charges involved when a managed account is handled by a CTA. An annual management fee usually between 1–2 % of the value of your account is charged for the overseeing of the trading in your account. Normally this fee is charged in monthly, for example a 2% annual fee would result in a 0.1667% monthly charge being applied to the account. Most CTA's also charge a performance incentive fee which typically runs from 15% – 25% of the cumulative net trading profits calculated at the end of each quarter. The net trading profits are the combined total of profits and losses from trading. If the manager has not generated a new net profit in the account, the incentive fee is not

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charged during that period. Other costs associated with a managed futures account include brokerage costs, exchange and regulatory association fees. **ALTAVRA does NOT charge a load, upfront or initial fee on any account.**

How much money should I invest in Managed Futures and how do I open an account?

We recommend that the amount of money you invest be based on your own financial goals and risk tolerance. This should usually be approximately 5% to 20% of your overall portfolio. Only risk capital should be used in managed futures or any speculative investment. Before opening an account you must be supplied with a copy of the CTA's Disclosure Document. Read it carefully and go over any questions you have with your broker before you invest. After your questions have been answered and you feel this type of investment is appropriate for you, we will assist you in completing the account opening forms and CTA management agreements.

Are there any tax benefits to investing in Managed Futures?

Yes. According to the Tax Act of 1981, short-term profits (held for less than one year) in commodities are treated as 60% long term and 40% short term. On the other hand, short-term trading profits in stocks are treated as 100% short term. For individual investors in higher tax brackets, this tax treatment can mean saving as much as 30% on taxes on short-term gains on commodities versus stocks. ALTAVRA strongly recommends that you should discuss taxation with an independent qualified tax advisor.

Are Managed Futures suitable for all investors?

Managed futures are not appropriate for everyone. A determination must be made as to a particular investor's suitability. The investor should be provided with all of the necessary information to make sure he or she understands both the risks and possible rewards of this type of investment. In addition to having the required risk capital, an investor needs to have realistic expectations about returns on investment and tolerance to draw-downs that may occur with managed futures products. The risk of loss always exists in futures trading no matter how skilled a trader an individual CTA may be.

What is the top mistake that investors make with managed futures?

The top mistake is probably jumping around from manager to manager frequently. This doesn't mean that you necessarily have to stick with one manager, but running from draw-downs and/or chasing profits is, in our opinion, not the best idea when investing in managed futures. ALTAVRA strongly recommends approaching your investment in managed futures with a three to five year holding period.

Why is the CTA's Disclosure Document so important?

CTA's and CPO's (Commodity Pool operators) are required to file disclosure documents with the NFA. The basic disclosure requirements are intended to ensure that potential investors will be apprised of material facts regarding managed investments and advisors so that they can make an informed decision about a particular investment or advisory

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service before committing their funds. The CFTC in November 1997 delegated to the NFA the authority and responsibility to conduct the reviews of disclosure documents of both CTA's and CPO's required to be filed with the commission.

Only upon satisfactory review of the disclosure documents and subsequent approval by the NFA can a CTA or CPO offer his disclosure document to the public for consideration. Disclosure documents provide biographical information on the CTA and generally reviews the trading style and account management philosophy of the CTA as it applies to that particular program. The document will also contain a review of the trading program along with a list of all fees, potential conflict of interest issues, and a description of the CTA's risk management methodology.

Performance records are also reviewed showing the net trading results after costs have been deducted.

Have there been any performance comparison studies between self-directed traders and CTA's?

There are some individual investors who are highly successful in directing their own futures trading if they have the knowledge, experience and resources to do so. However the vast majority of self directed investors have struggled in their efforts to become successful in futures trading. Studies indicate that as many as nine out of ten self directed traders lose money. When it comes to managed futures, of the 119 funds and pools in the Managed Account Reports Fund/Pool Qualified Universe Index that traded from January 1990 through October 1996, 81% were profitable over the full time period. (Source: MAR)

How does an investor interpret a track record in judging the performance of a CTA?

Investors should take particular note of the managers performance record. However, this in itself should not be the sole reason for choosing a specific CTA. As mentioned above, the disclosure document spells out an advisors philosophy and trading style. This should be reviewed along with the track record in making your decision. Track records are important and should show performance tables, spanning several years or more. A strong performance over a short period of time may be nothing more than good fortune. However, positive performance over a long period of time especially in markets that have experienced bull bear and flat trading ranges speak volumes about a CTA's trading abilities.

Track record components to take careful note of:

- ∴ Length of the trading program: Good fortune or sustainable investing?
- ∴ Worst peak to valley drawdown: Could your account be profitable assuming worst entry?
- ∴ Assets under management: Has the manager significant assets under management?

What is correlation?

Correlation indicates the strength and direction of a relationship between two investments. Correlation is measured by calculating the correlation coefficient. The correlation coefficient will always be a number between -1.0 to +1.0. A negative correlation coefficient (closer to -1.0) indicates a negative relationship, in that as one investment goes up, the

other would tend to go down. A positive correlation coefficient (closer to +1.0) indicates a positive relationship, in that as one investment goes up, the other would tend to go up also. If the correlation coefficient is close to zero, this would indicate that there is no correlation or very little relationship between the two investments. The general idea of portfolio theory is to combine multiple investments with as close to a zero-correlation as possible (essentially combining investments that are not related to one another).

What is a front end load fee?

A commission or sales fee charged by the broker at the time of the initial purchase for an investment. The broker who charges front end load fees have the investor to read and sign a break even analysis.

ALTAVRA does NOT charge a load, upfront or initial fee on any account.

What is Notional Funding?

Notional funding is the term used for funding an account below its nominal, or face value. Anyone who has been involved in futures, options or foreign exchange knows that an account with a nominal value of \$1,000,000 does not necessarily mean that there is \$1,000,000 cash in the account. Accounts may be funded for less than the \$1,000,000 as long as the cash deposited meets the margin requirements set by the exchange or the futures commission merchant. The difference between the nominal value and the cash actually deposited is called notional funding.

To illustrate, let's assume that a commodity trading advisor has a minimum nominal amount of \$1,000,000, and the margin requirement is \$50,000. The investor can either deposit \$1,000,000 to fully fund that minimum investment requirement or, alternatively, can invest only a portion of the \$1,000,000, as long as that meets the \$50,000 margin requirement. Assuming that the investor decides to fund the \$1,000,000 account with \$100,000. This means that the investor is using leverage of 10X - $10 \times \$100,000 = \$1,000,000$, the minimum investment. The difference between the nominal value (\$1,000,000) and the cash deposited (\$100,000) is \$900,000. The \$900,000 is referred to as notional funding.

Investors are interested in using notional funding because the notionally funded amount (in this case, the \$900,000) is not borrowed or deposited. The cash (\$100,000) is a good faith deposit for the full value of the account. In other words, the \$100,000 trades as if it were \$1,000,000, even though the investor only deposited \$100,000 and is not paying interest or has not otherwise borrowed the remaining \$900,000. If the account is doing well, the investor earns money on the full \$1,000,000 — even though he only funded the account with \$100,000. If the account is not doing well, however, the investor is responsible for the amount lost, regardless of the cash the investor originally deposited.

For example, assume that the account has a profitable year, and the CTA reports profits of 20 percent ($\$1,000,000 \times 0.20 = \$200,000$) for the fully funded account. The account that was only funded with \$100,000 also had \$200,000 in gains — but the investor's profit percentage was 200 percent, because the investor earned \$200,000 on a \$100,000 investment.

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Investors must be aware, however, that this is a double-edged sword. If the account has a drawdown, the investor will suffer a significantly larger percentage decline than the fully funded account. If the example above suffered a 20-percent drawdown for the fully funded account, the notionally funded account would have a 200-percent drawdown. In such a situation, the investor would not only have lost his initial \$100,000 investment, but an additional \$100,000 on top of it. Furthermore, to keep the account open, the investor would have to deposit at least enough cash to cover the margin requirement. In this regard, notional funding significantly increases the volatility of an account. Investors must ensure that they understand how much leverage the CTA is using and the consequences such leverage might entail.

What is Total Return?

The total percentage return of an investment over a specified period, calculated by expressing the difference between the investment's initial price and final price as a percentage of the initial price.

What is Compound Annual Return?

This is the rate of return which, if compounded over the years covered by the performance history, would yield the cumulative gain or loss actually achieved by the trading program during that period.

What is Average Annual Return?

A percentage figure used when reporting the historical return such as a three, five or ten year average returns for a CTA program.

What is Monthly Standard Deviation?

Each monthly rate of return = $((\text{VAMI at end of month} / \text{VAMI at beginning of month}) - 1)$

Standard deviation = $\text{SQRT} ((\text{Sum}(\text{monthly ROR} - \text{average monthly ROR})^2) / \# \text{ of months})$

What is the Sharpe Ratio?

The Sharpe ratio is a measure of risk-adjusted performance that indicates the level of excess return per unit of risk. In the calculation of Sharpe ratio, excess return is the return over and above the short-term risk free rate of return and this figure is divided by the risk, which is represented by the annualized volatility or standard deviation.

In summary the Sharpe Ratio is equal to compound annual rate of return minus rate of return on a risk-free investment divided by the annualized monthly standard deviation. The greater the Sharpe ratio the greater the risk-adjusted return. As calculated on the individual reports the Sharpe ratio is calculated as follows; $(\text{Compound Annual ROR} - \text{risk free ROR (calculated from T-bills)}) / \text{Annualized Std. Dev. of Mo. ROR or Annualized Std. Dev. of Quarterly ROR}$

What is the Downside Deviation?

A value representing the potential loss that may arise from risk as measured against a minimum acceptable return. Downside deviation aims to isolate the negative portion of volatility.

What is a Drawdown?

An investment is said to be in a drawdown when its price falls below its last peak. The drawdown percentage drop in the price of an investment from its last peak price. The period between the peak level and the trough is called the length of the drawdown period between the trough and the recapturing of the peak is called the recovery. The worst or maximum drawdown represents the greatest peak to trough decline over the life of an investment. The drawdown report presents data on the percentage drawdown's during the trading program's performance history ranked in order of magnitude of loss.

- :: Depth: Percentage loss from peak to valley
- :: Length: Duration of drawdown in months from peak to valley
- :: Recovery: Number of months from valley to new high
- :: Start Date: Month in which peak occurs.
- :: End Date: Month in which valley occurs.

What is WDD or Worst drawdown as calculated by Barclays?

Drawdown = $(1 - \text{Valley VAMI} / \text{Peak VAMI}) \times 100$ for %

Example: Peak VAMI = 2000, Valley VAMI = 1500

Drawdown = $1 - 1500/2000 = .25$ or 25%

What is Average Recovery Time?

The average time in a drawdown as measured from the previous peak to a new peak (New high ground). If the program is still in a drawdown, the calculation assumes that the drawdown is over.

What is VAMI?

A Value Added Monthly Index (VAMI) table, is the industry standard for evaluating the performance of investment managers. It indicates the value a manager has added to an investment via a cumulative index and because it excludes non-trading expenses such as tax, it can be used to compare investment managers around the world. The column headed "VAMI" within a table shows how an initial \$1000 investment has grown over time.

All other questions

Please email your question to clientservices@altavra.com or for an immediate assistance, call 1-800-998-7870 or +1-561-829-8291 (if outside the U.S.).

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