



DRAFT - January 2014

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## Overview – Atorus

- ✓ The investment strategy is scalable, highly liquid, and transparent which aims to minimize volatility and generate consistent returns.
- ✓ Atorus is headquartered in Weston, MA as a Registered Investment Advisor in the state of Massachusetts.
- ✓ Atorus is in its pre-launch phase, targeting an initial capital raise of \$100m for a launch date of March 1<sup>st</sup>, 2014.

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# Founding Partners

The Founding Partners of Atorus met in 2006, when they began collaborating on research and development of what are now the underlying insights of the Atorus trading methodology.

Diverse backgrounds and experience combined with complementary skill sets is the foundation for creating, developing, and growing the Atorus trading methodology into a global, leadership-driven asset management business.

**Michael J. Fowler** – Partner & Chief Investment Officer (*trading, position level analysis and quantitative systems development*).

Michael's career has been focused on understanding the nuances of complex financial systems and other markets. In 2007 Michael was the Co-Founder and Senior Portfolio Manager at Red Dot Trading, LLC, where in cooperation with Joshua, he was responsible for the day to day trading of a sector specific core listed-equity book. Prior to this, he was the Director of Structured Products & Finance at The Geneva Group in New York where he was responsible for developing financial structures to provide bank-regulatory capital relief solutions given Basel II risk re-weightings. Michael also focused on project and acquisition financings primarily in the infrastructure, real estate and energy industries, including the acquisition of London City Airport by various European banks. He began his financial career at the age of 14 as a runner for the American Stock Exchange and at the age of 16 was hired by the hedge fund MHG Capital as an equity and equity derivatives trader. Michael is an avid ultra marathoner who runs 50 and 100 mile+ races.

**Joshua L. Levy** – Partner & Chief Operating Officer (*quantitative systems development and implementation, operations and trading*). Joshua has largely focused on understanding what makes companies grow and prosper and bringing simplicity and systematic thinking to complex processes. In 2007, Joshua co-founded Red Dot Trading, LLC with partner Michael Fowler, where they both traded the core-equity book. Prior to founding Red Dot Trading, LLC, Joshua was the Director of Private Investments at MUUS Asset Management, a Connecticut-based private equity firm, where he was responsible for the operational restructuring and management of portfolio companies in the real estate, automotive, and energy industries. With MUUS Asset Management, he completed the successful turnaround of Sol Incorporated from bankruptcy to 2x revenue, strong profitability, and positioning for acquisition. Prior to MUUS Asset Management, Joshua worked at Alvarez & Marsal Europe in both Stockholm, Sweden and London, England where he focused on advising distressed international companies and their debt restructurings. In 1996, he founded Creative Ideas International, a consumer goods distribution and marketing firm in Eastern Europe, which he then sold to a NYSE listed company in 2001. Recognized as a global operations and turnaround expert, Joshua has served since 2004 as a Board Member of Round Hill Capital LLC, a \$4 billion global real estate investor / asset manager. He holds an MBA from the MIT Sloan School of Management and a BA from Vanderbilt University. Joshua is an enthusiastic ice hockey goalie and has played for teams in the USA, Poland and Norway.

# Investment Strategy



*Atorus is a global multi-strategy fund with a systematic bias that hinges on Price Movement and Volatility.*

## **HOW?**

- The Fund invests in 350+ positions across two main asset classes: global macro instruments and listed equities.
- Each position is systematically chosen to **minimize** correlation risk taking into account **volatility, randomness, low correlation** and **asset class diversification** to deliver profits for investors in up and down markets.
- The effective 'neutrality' of the *overall* portfolio dampens the volatility of returns month-on-month.
- *Within* the portfolio, directional bets are taken on individual positions via systematic trade management -irrespective of portfolio considerations.
- Atorus cuts beta on losing positions and lets winners run by incrementally 'pyramiding' up.
- Atorus targets a Profit Factor\* of 2.5X and a Win Ratio\*\* of > 40%. *The magnitude of winners more than offsets losers.*
- Systematic *Trade management* on individual long and short positions is driven by analysis of TIME and VOLATILITY.
- Returns therefore take a 'stair step' profile, with incremental gains, targeting 11.2% in positive calendar quarters and -4.7% in down calendar quarters, with 85% positive rolling yearly returns.

\* Profit Factor: The ratio of the avg. realized gain on a profitable trade divided by the average realized loss on a losing trade.

\*\* Win/Loss Ratio: The percentage of profitable trades.

# Investment Methodology

The Atorus investment methodology utilizes 3 discrete investment modules.



**Directional Bias of Individual Positions & Timing**



**Portfolio Construction**



**Risk Control**

# Investment Methodology

## Portfolio Construction

- Systematic portfolio construction screens for assets with low intra-portfolio correlation.
- The goal is to *maximize randomness / minimize basis and attribution risk / maximize outsized price persistence* and construct a portfolio to *mitigate correlation risk*.
- Portfolio positions are diversified by Region, Asset Class, Directional Bias and Volatility State.
- The two main components of the portfolio: “Global Macro” and “Listed Equities” balance returns across global volatility states.
  - When markets are ‘moving,’ i.e. high volatility, the importance of the contribution from listed equities will be equal to that of the Global Macro book. When volatility is low, the Listed Equity book positions will make a larger contribution to the portfolio.
- Global Macro Instruments > FX, G20 Rates, Equity Index Futures, ETFs
- Listed Equities from G7 and BRIC countries, of which there must be;
  - ✓ Minimum market cap of \$10billion+
  - ✓ Average daily turnover of \$50million/day

>>Correlation determines investment opportunities but does not affect the individual direction of any position.

# Investment Methodology

## Directional Bias of Individual Positions & Timing

- Determining the directional bias and profiting from 'large' movements, whether long or short, is the foundation of the strategy.
- Subjective factors are removed in favour of Atorus' disciplined, systematic approach.
- Proprietary calculations of changes in realized volatility and price movement alter the **timing** of entry and exit.
  - Volatility scales. *As volatility increases our perspective is tightened*, allowing for a quick reaction on the directionality of an individual position.
  - This protects the Atorus portfolio against a common event where an increase of a stock price of 20% – 30% which took 6 months to achieve is not lost in 30 days.
  - *In simple terms, if realized volatility is not changing, portfolio positions are maintained so as not to sell at the bottom and buy at the top of mini trends.*

## Directional Bias of Individual Positions & Timing (cont.)

- Trajectory and momentum of asset prices accurately reflect the fundamentals; often one year ahead.
- Atorus does not establish any arbitrary targeted net directional bias for the portfolio or for any subsector of the portfolio.
- Portfolio bias is generated by the aggregate of our individual position bias rather than any defined targets – if Atorus is expressing a particular net directional bias, it is likely we are experiencing *outsized profits* across multiple positions.
- Key Points:
  - ✓ Mean reversion is against the ethos of our strategy. The mean has the most 'noise'.
  - ✓ No moving averages or technical analysis.
  - ✓ Keep losers small and winners big.
  - ✓ Time is always a variable.
  - ✓ No 'trend' following.
  - ✓ Low turnover of positions.

### Atorus Proprietary Research

**“Volatility Scales.” Changes in realized volatility alter the speed at which the price of a security can change.**

*In 14,363 daily observations of the S&P500, which includes The Cuban Missile Crisis, Inflation of the 1970s, S&L Crisis, LTCM, 9/11, Tech Crash, and the Financial Crisis, our predicted volatility in the next period is only exceeded 177 times or 1.23% of the time, with no clustering of these outcomes. When exceeded, the average error is only 26% more than the prediction.*

# Investment Methodology

## Risk Control

Risk control is achieved by systematically managing:

- **Entry/ Exit Points:**
  - Minimum of 5 days entry 'smoothing the noise' > beneficial relative to targeted hold period.
- **Leverage:**
  - Never used at the inception of a trade, on an individual position basis.
  - Anticipated average net leverage of 2.2 X (can be tailored for each investor)
- **Position Sizing:**
  - Designed to limit downside risk
  - No human discretion.
  - Realized volatility of security determines the size of an allocation.
  - Calculated for potential maximum targeted impact loss and a balanced positive impact from winners to NAV.
  - Position sizing increases as winners are leveraged in declining notional amounts at target price levels informed by realized volatility.
  - 5% soft maximum position size.

# Investment Methodology

## Risk Control (cont.)

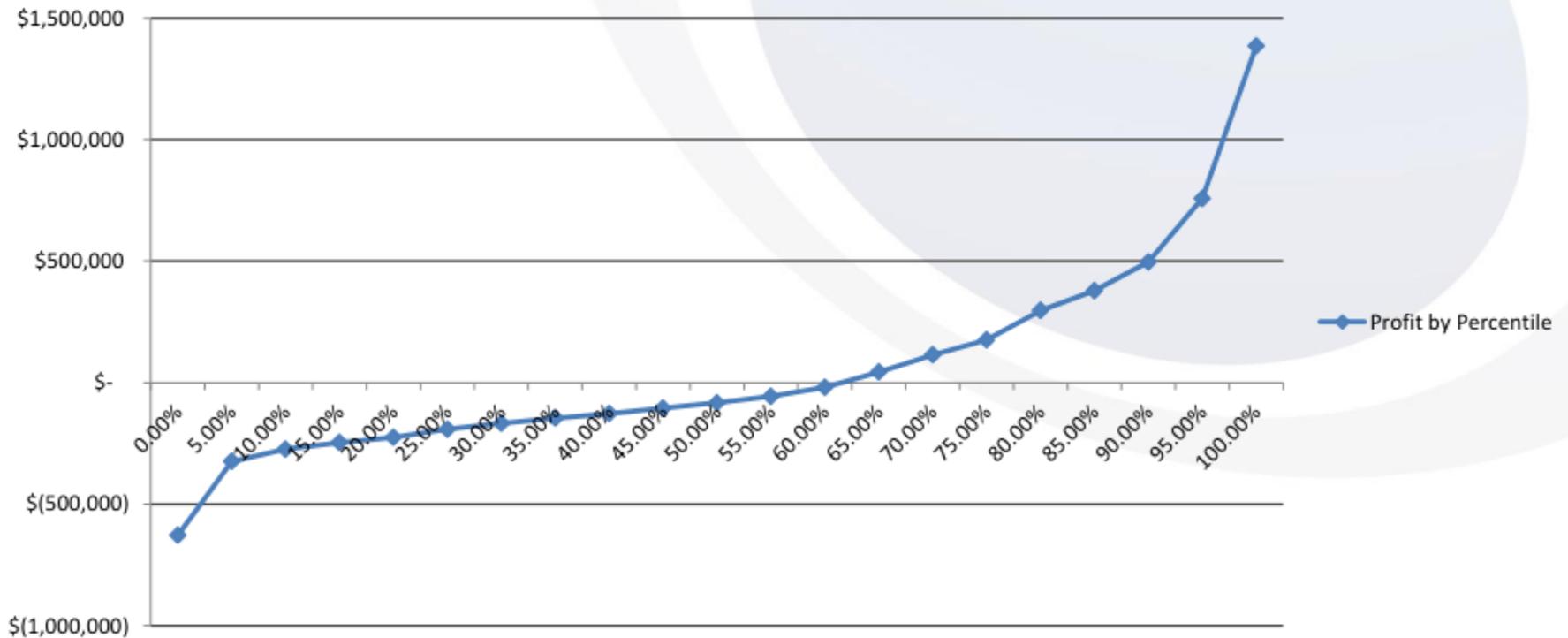
- Average Hold period is 30 days for losing trades, 6 months for winners (can be multiple years).
  - Alpha is generated on moves of 20-30 X average realized vol, which generally does not occur over short time intervals.
  - The Fund does not dollar cost average its positions and losers are closed swiftly.
- 
- Risk Control is designed to enhance winners and minimize losers.
  - Portfolio Construction and Directional Bias of Individual Positions and Timing are designed to mitigate downside volatility.

# Key Differentiating Factors

- ✓ Cohesiveness; The Partners have worked and traded together since 2007. Their backgrounds, experiences and strengths are different & complimentary.
- ✓ The managers have a deep understandings of complex systems and trading. They have BOTH respect for market forces and dedication to discipline, order, and operational excellence.
- ✓ A unique investment approach combines three discrete investment modules; portfolio construction, the directional bias of individual positions and timing, and strict and methodical risk control.
- ✓ Measurement of return is on an absolute basis. Our focus is on our Win/Loss Ratio and Profit Factor.
- ✓ No risk of style drift.
- ✓ Focus on consistency of returns with minimized monthly volatility; 'Stairstep' return profile.
- ✓ Customizable strategy can be tailored to specific regions, sectors, and risk profiles.

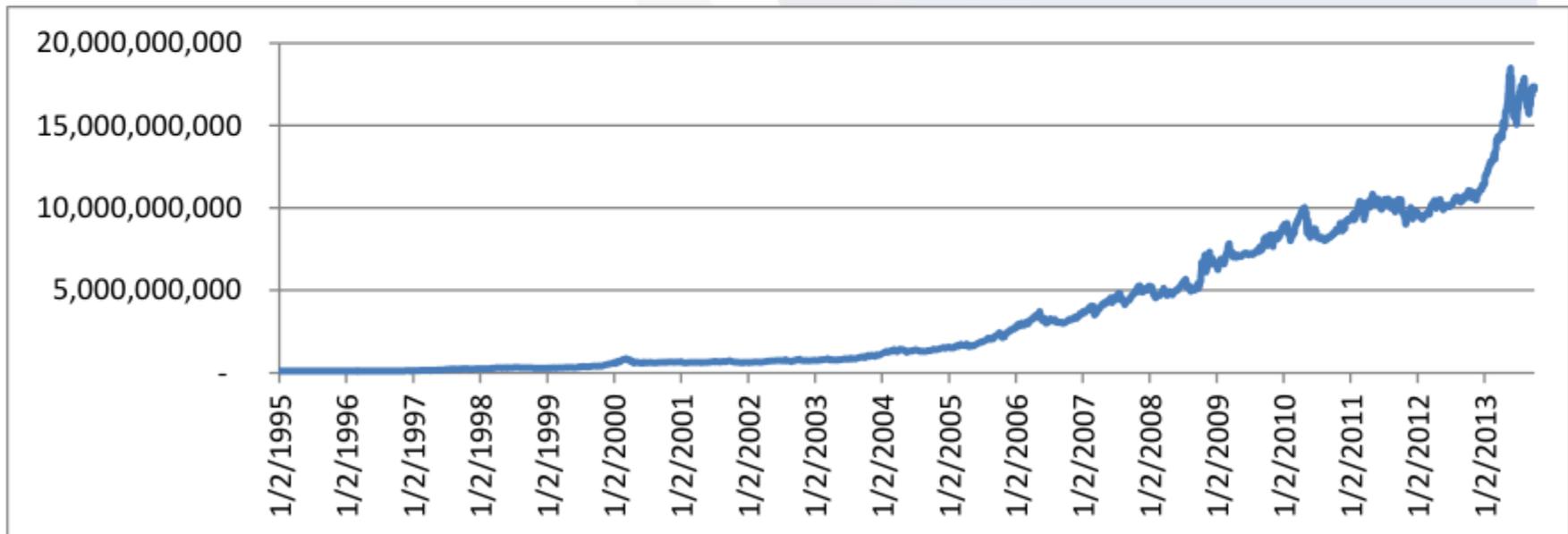
# Track Record

- The team managed a \$50million (avg. notional risk of \$100MM) portfolio for a European Bank from September 2011 to June 2013.
  - ✓ Sector specific mandate experienced low correlation to broader markets even during market declines.
  - ✓ Track record is non-portable as it is derived from a managed account and part of a broader portfolio.
  - ✓ Win ratio of 38% achieved.
  - ✓ Realized profit factor of 2.25X
  - ✓ Generated positive returns on months with large market drawdowns (September 2011, May 2012)



# Track Record (cont.)

- With Global mandate, over 400+ positions, backtested results
  - ✓ 85% positive rolling yearly returns
  - ✓ Low drawdowns
  - ✓ Largest positive position accounts for less than 3% of total P/L
  - ✓ Positive returns in market declines, by design, while still maximizing upside
  - ✓ IRR of 31% gross returns
  - ✓ Following charts display (1) Fund dollar NAV with initial capital of \$100MM and (2) percentile distribution of rolling yearly returns



# Contact Information



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