From: Michael Fowler <[redacted]>
To: [redacted]>
Subject: ATorus Daily Portfolio Report 3/4 & 3/5
Date: Thu, 06 Mar 2014 17:37:14 +0000
Attachments: Atorus_BacktestNAV_030514.pdf; Atorus_BacktestNAV_030414.pdf

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Lesley,

Please see attached the Daily Portfolio Reports for 3/4 & 3/5.

Daily Commentary

The market moves of the 3/3 & 3/4 provides us a good opportunity to highlight some of the key elements of our methodology.

March 3rd was one of the rare instances (125 of 14,000+ occurrences) when daily volatility exceeded 2.9x the previous average in a few of our positions, mostly concentrated in Europe. Our analysis (from 1900 to current) has held consistent even during well known perceived market 'doom days.' For example no changes in volatility exceeded our estimated max in 1929 and 2008. Perhaps more importantly we have found no clustering of these errors.

Of course volatility does oscillate but since we recalculate volatility after every period, we quickly catch up to any excess vol that was "unconditional."

For example, as at March 3rd while market commentators and headlines point to events around Ukraine to explain the drop, we are frankly agnostic to the cause given our assumption that market price is an outcome of overlapping sets of probabilities associated with events, assumptions, problems, and opportunities. Therefore, trying to analyze the reasons and be correct consistently is a Herculean task of dubious outcome.

We point out the Cuban Missile Crisis as a case in point. In this period, there were no instances of exceeding our typical volatility. This is quite surprising to us, as one would think that if the world had even a 1% chance to end (significantly above the stochastic probability) the market vol would potentially behave "unconditionally." It didn't, and we confess to not know why.

We are well aware of what we don't know. We assume, and it is an assumption, that the distribution of vol scaling exponents is rather constant and coupled with our risk parameters and timing model mitigates the impact of these errors in the aggregate.

Furthermore, if the change in volatility persists you can be sure that our risk levers (timing, position sizing, directionality etc.) adjust accordingly. Not at the immediate moment of the change (we never get the top or the bottom), but in reasonable time such that we consistently generate a solid IRR.

March 3rd was for some markets (Germany specifically), an usually large move given current level of realized vol. While many of those securities gave back some MTM gains, by design we did not over react in anyway nor doubt our methodology. We hope the above explains why.

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Best Regards,

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