

CADC 2010



October 14-15, 2010 | **Mont-Tremblant, Québec**

Statistical Backdrop of Managed Futures
By: Ranjan Bhaduri, PhD CFA CAIA

This presentation is solely for informational and discussion purposes only. These materials do not constitute an offer to sell or the solicitation of an offer to buy or sell interests in any financial instrument or any product. Any offer for any investment product will be made solely by a confidential offering memorandum. Information contained herein is confidential and may not be reproduced in any format.

Liquidity

“Liquidity is the first line of Defense.”

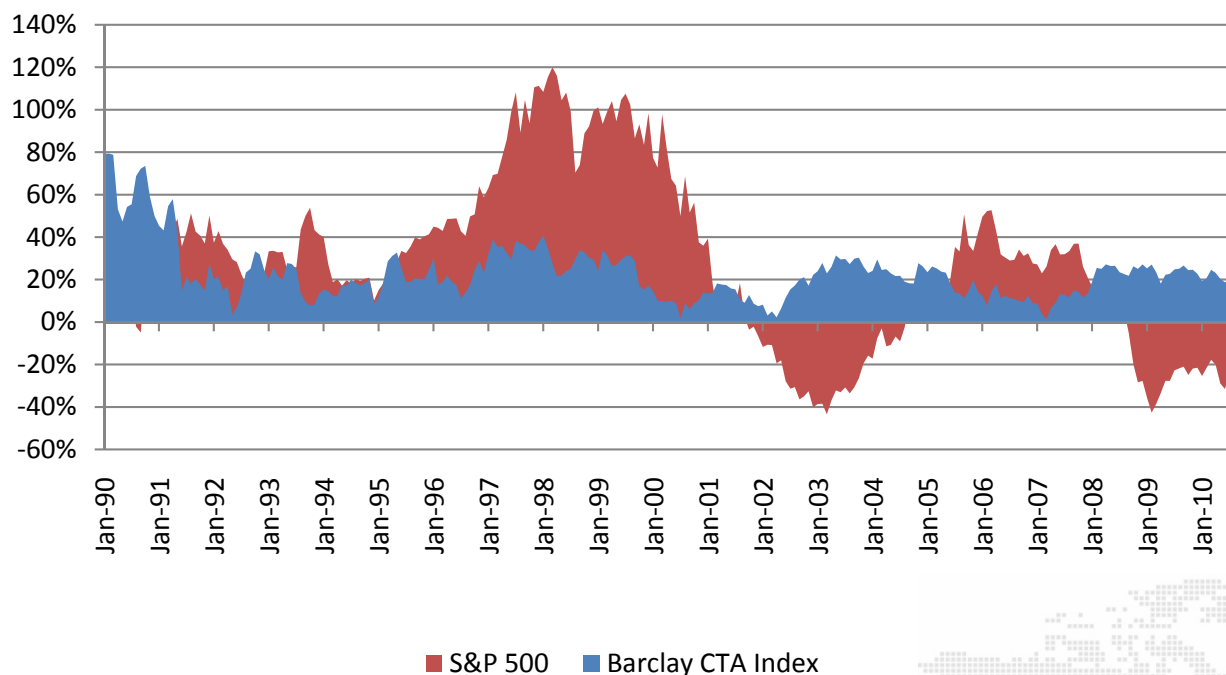
- Daniel MacDonald, CFA, Portfolio Manager, Alternative Investments
Ontario Teachers Pension Plan



Managed Futures Risk Management

3 -Year Rolling Returns: Various Traditional and Alternative Indices, January 1990 – August 2010

3 Year Rolling Window Return: Barclay CTA Index vs. S&P 500



	Barclay CTA Index
Maximum	79.43%
Average	22.89%
Minimum	1.50%
Negative Returns	0

Source: AlphaMetrix Alternative Investment Advisors, CME Group, Bloomberg
Past results are not necessarily indicative of future results.

FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

This presentation is solely for informational and discussion purposes only. These materials do not constitute an offer to sell or the solicitation of an offer to buy or sell interests in any financial instrument or any product. Any offer for any investment product will be made solely by a confidential offering memorandum. Information contained herein is confidential and may not be reproduced in any format. 3

Managed Futures Risk Management

3 -Year Rolling Returns: Various Traditional and Alternative Indices, January 1993 – August 2010

	S&P 500 Index	Barclays Bond Composite Global Index	S&P Goldman Sachs Commodity Total Return Index	HFR Equity Hedge Index	HFRI Fund Weighted Index	Barclay CTA Index	Barclay BTOP50 Index
Number of 3 Year Rolling Negative Periods (out of n = 212)	59	0	68	19	5	0	0

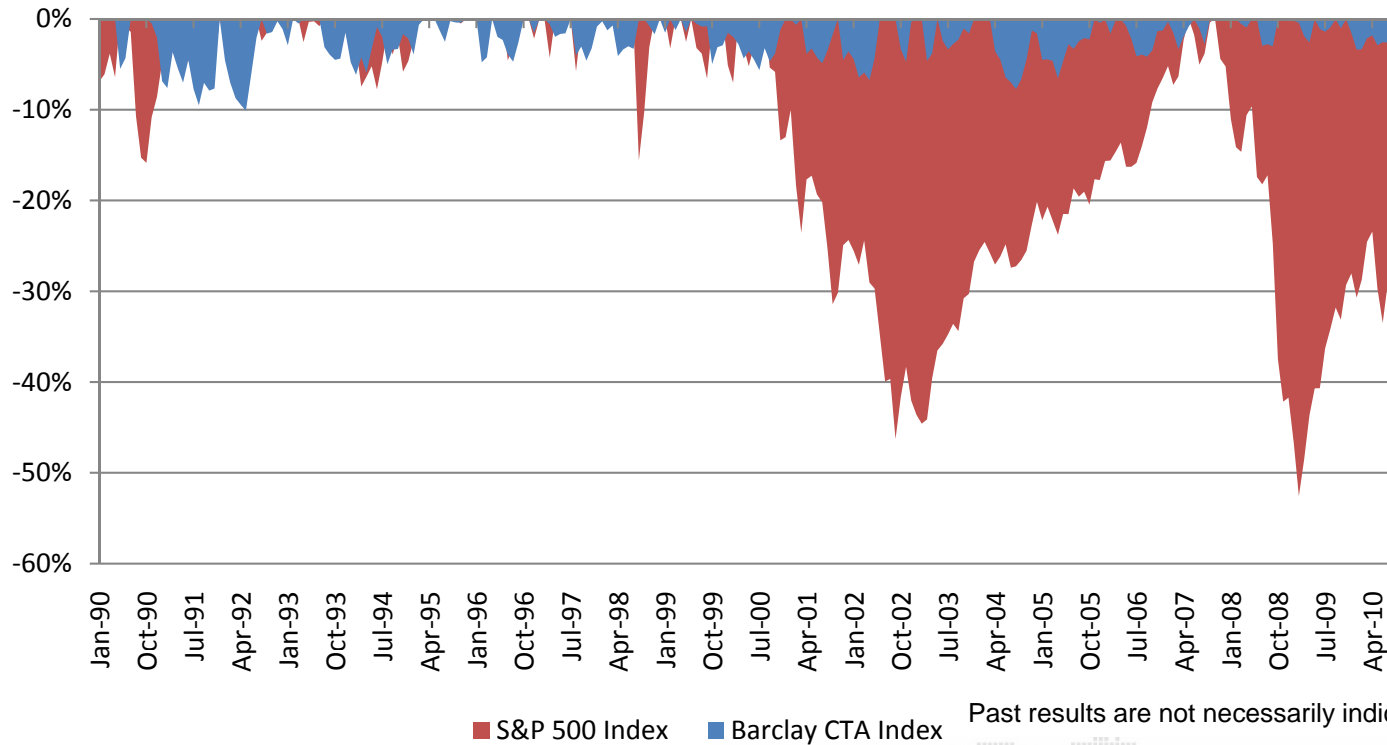
*Barclays Bond Composite Global Index did not report returns for Sep 2008 and Oct 2008

Source: AlphaMetrix Alternative Investment Advisors, CME Group, Bloomberg

FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

Managed Futures Risk Management

**Drawdowns of S&P 500 and Barclay CTA Index
January 1990 - August 2010**



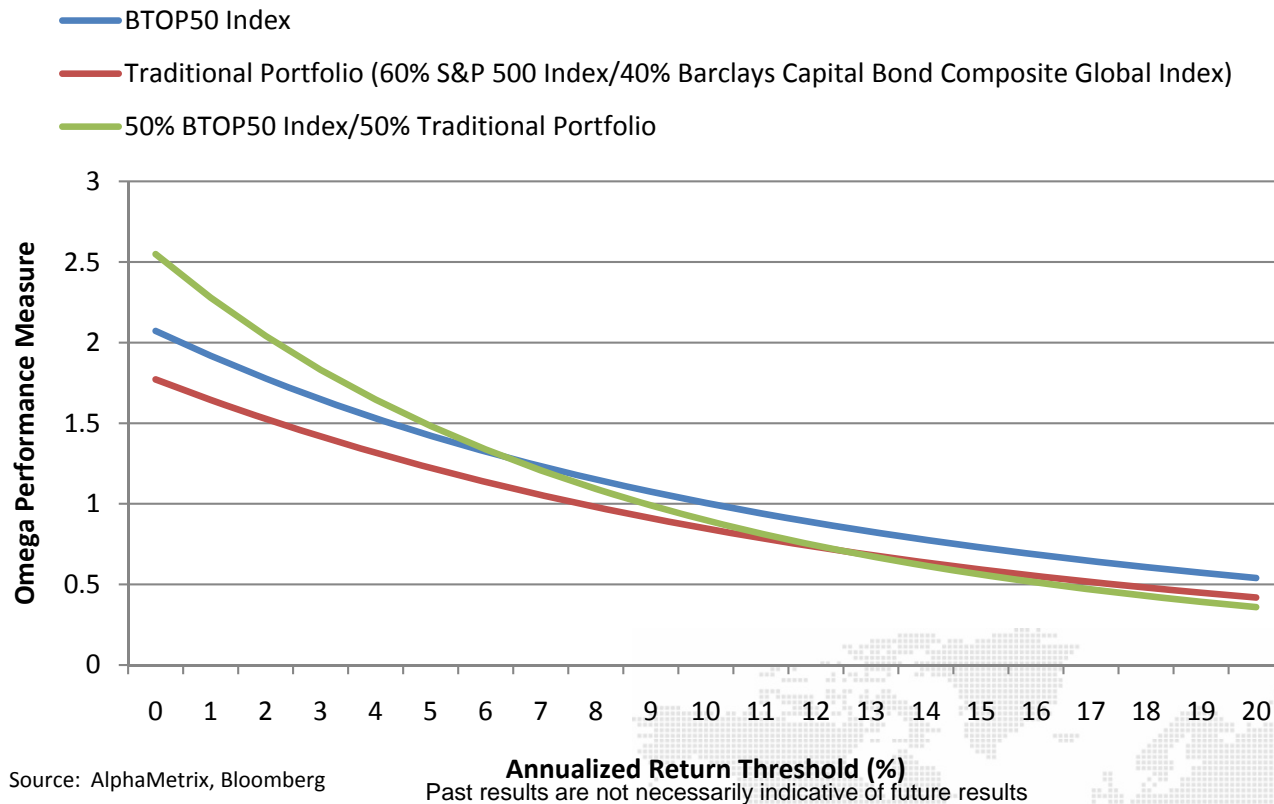
Past results are not necessarily indicative of future results.

- CTAs generally employ active risk management which typically includes disciplined adherence to well-defined stop-loss limits
- Managed futures programs also have the ability to go long, short, or neutral which also may help CTAs to recover more quickly from drawdowns by generating returns in falling markets
- Indices of managed products are not indicative of the performance of any individual account.

FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

The Case for Diversification: Omega Functions

Omega Graph: BTOP 50 Index and Traditional Portfolio of Equities and Fixed Income, January 1987 – August 2010



FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

This presentation is solely for informational and discussion purposes only. These materials do not constitute an offer to sell or the solicitation of an offer to buy or sell interests in any financial instrument or any product. Any offer for any investment product will be made solely by a confidential offering memorandum. Information contained herein is confidential and may not be reproduced in any format.

The Case for Diversification: Correlations

Managed futures have potential to show low correlation to broader market indices (Jan 1990 – Aug 2010)

	S&P 500 Index	Barclays Capital Bond Composite Global Index	S&P Goldman Sachs Commodity Total Return Index	HFR Equity Hedge Index	HFRI Fund Weighted Index	Barclay BTOP50 Index	Barclay CTA Index
S&P 500 Index	1.00						
Barclays Capital Bond Composite Global Index	0.15	1.00					
S&P Goldman Sachs Commodity Total Return Index	0.12	0.05	1.00				
HFRI Fund Weighted Index	0.72	0.07	0.32	1.00			
HFR Equity Hedge Index	0.73	0.06	0.27	0.95	1.00		
Barclay BTOP50 Index	-0.12	0.26	0.14	-0.04	-0.04	1.00	
Barclay CTA Index	-0.12	0.20	0.18	0.00	-0.01	0.92	1.00

*Barclays Bond Composite Global Index did not report returns for Sep 2008 and Oct 2008

Source: AlphaMetrix Alternative Investment Advisors, Bloomberg. Indices of managed products are not indicative of the performance of any individual account. Past results are not necessarily indicative of future results.

FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

This presentation is solely for informational and discussion purposes only. These materials do not constitute an offer to sell or the solicitation of an offer to buy or sell interests in any financial instrument or any product. Any offer for any investment product will be made solely by a confidential offering memorandum. Information contained herein is confidential and may not be reproduced in any format. 7

Managed Futures – Performance During Equity Market Drawdowns

Performance of the Barclay CTA Index during 15 Worst Quarters of S&P 500 Index Performance				
Period	Event	S&P 500 Index	Barclay BTOP 50 Index	Difference
Fourth Quarter 1987	Black Monday - Global Stock Markets Crash	-23.23%	16.88%	40.11%
Fourth Quarter 2008	Bear Market in U.S. Equities led by Financials	-22.56%	8.73%	31.29%
Third Quarter 2002	WorldCom Scandal	-17.63%	9.41%	27.05%
Third Quarter 2001	Terrorist Attacks on World Trade Center and Pentagon	-14.99%	4.12%	19.10%
Third Quarter 1990	Iraq Invades Kuwait	-14.52%	11.22%	25.74%
Second Quarter 2002	Continuing Aftermath of Technology Bubble Bursting	-13.73%	8.52%	22.26%
First Quarter 2001	Bear Market in U.S. Equities led by Technology	-12.11%	5.97%	18.08%
Second Quarter 2010	European Sovereign Debt Crisis, "Flash Crash" in U.S. Equities	-11.86%	-1.92%	9.94%
Third Quarter 1998	Russia Defaults on Debt, LTCM Crisis	-10.30%	10.54%	20.84%
First Quarter 2008	Credit Crisis, Commodity Prices Rally	-9.92%	5.91%	15.83%
Third Quarter 2008	Credit Crisis, Government-Sponsored Bailout of Banks	-8.88%	-3.71%	5.17%
Fourth Quarter 2000	DotCom Bubble Bursts	-8.09%	19.78%	27.87%
Third Quarter 1999	Anxiety during Run Up to Y2K	-6.56%	-0.67%	5.89%
First Quarter 1994	Federal Reserve Begins Increasing Interest Rates	-4.43%	-2.10%	2.33%
Fourth Quarter 2007	Credit Crisis, Subprime Mortgage Losses	-3.82%	3.02%	6.84%

Source: AlphaMetrix Alternative Investment Advisors, Bloomberg

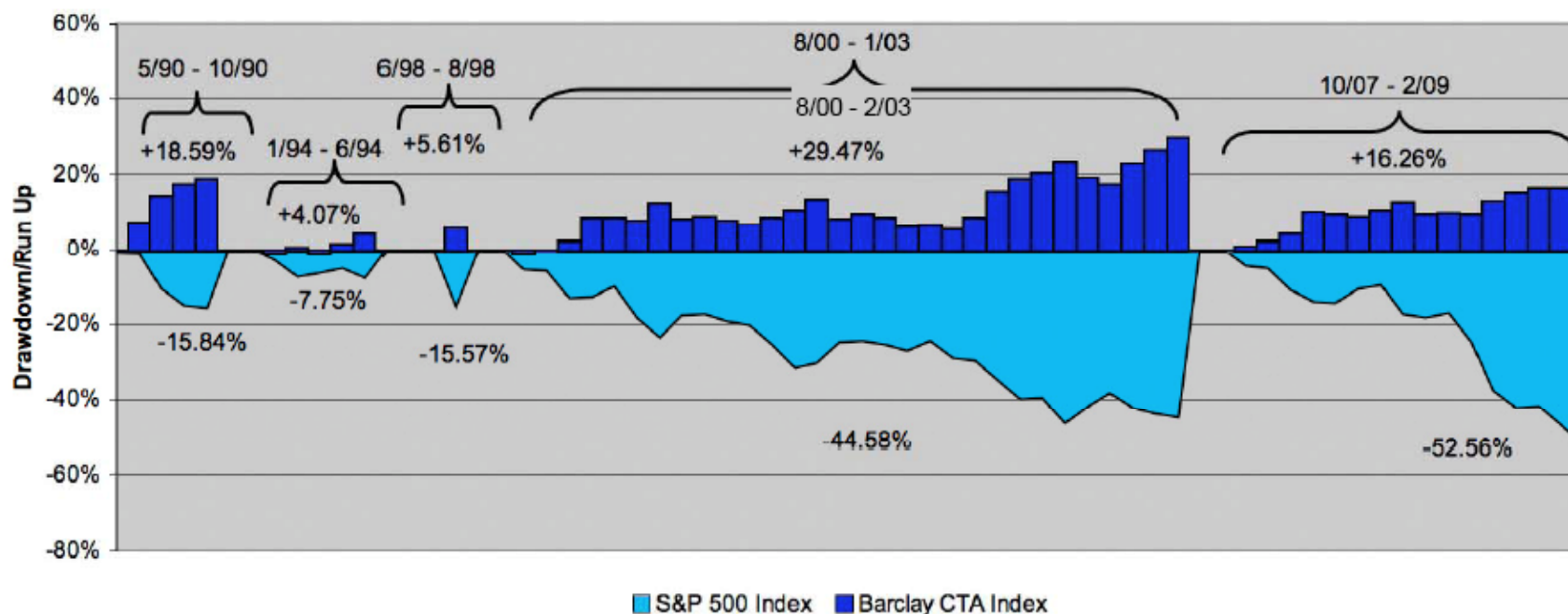
- Indices of managed products are not indicative of the performance of any individual account. Past results are not necessarily indicative of future results.

FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

This presentation is solely for informational and discussion purposes only. These materials do not constitute an offer to sell or the solicitation of an offer to buy or sell interests in any financial instrument or any product. Any offer for any investment product will be made solely by a confidential offering memorandum. Information contained herein is confidential and may not be reproduced in any format. 8

Managed Futures – Performance During Equity Market Drawdowns

Performance of the Barclay CTA Index during the Worst 5 S&P 500 Drawdowns since 1990



- While not a hedge, managed futures has historically tended to perform well during periods that have been difficult for equities and many other hedge fund strategies.
- This effect may possibly enhance the benefits from diversification managed futures offer by potentially contributing to an investor's portfolio during periods that may be difficult for other investments

FUTURES TRADING IS SPECULATIVE, AND INVESTORS CAN LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT. MEASURES THAT PROFILE RISK AND REWARD SUCH AS STANDARD DEVIATION, MAX DRAW DOWN AND THE SHARPE RATIO MAY MATERIALLY UNDERSTATE TRUE RISK BECAUSE FUTURES TRADING IS SUBJECT TO A "RISK OF RUIN" WHICH IS NOT REFLECTED IN SUCH STATISTICS. COMPARISONS OF ACTIVELY MANAGED PRODUCTS TO PASSIVE FINANCIAL INDICES INVOLVE MATERIAL INHERENT LIMITATIONS.

Presentation based on some Recent Research

Abrams, Ryan and Ranjan Bhaduri and Elizabeth Flores. “Lintner Revisited: The Benefits of Managed Futures 25 Years Later” CME Group, 2009.

Bhaduri, R. “Liquidity Alpha” <http://allaboutalpha.com/blog/2007/11/27/alternative-viewpoints-liquidity-alpha/> (November 27, 2007).

Bhaduri, R.. “The Truth about Hedge Funds.” Benefits & Pensions Monitor, (May 2007).

Bhaduri, R. and Art, C. “Liquidity Buckets, Liquidity Performance Indices, Liquidity Duration, and their Application to Hedge Funds.” Alternative Investment Quarterly, July 2008.

Bhaduri, R., and B. Kaneshige. “Risk Management – Taming the Tail.” Benefits & Pensions Monitor, (December 2005).

Bhaduri, R. and G. Meissner. “Modeling non-normal CDO returns with the Omega Function”, chapter 7 of The Definitive Guide to CDOs - Market, Application, Valuation, and Hedging. RISK Books. (July 2008).

Bhaduri, R., G. Meissner and J. Youn. “Hedging Liquidity Risk.” Journal of Alternative Investments, (Winter 2007).

Bhaduri R., and N. Whelan. “The Value of Liquidity” Wilmott Magazine, (January 2008).

Whelan, N. and Bhaduri, R. “The Value of Liquidity and Option Timing from a Simple Game.” Alternative Intelligence Quotient, (October 2009).

Appendix

Index Definitions:

S&P 500 Index - Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays Bond Composite Global Index, the successor to the Lehman Brothers Aggregate Bond Index, which includes U.S. government, corporate and mortgage-backed securities with maturities up to 30 years.

S&P Goldman Sachs Commodity Index TR - The S&P GSCI is calculated primarily on a world production weighted basis, and is comprised of the principal physical commodities that are the subject of active, liquid futures markets. The weight of each commodity in the index is determined by the average quantity of production as per the last five years of available data. The production weights are designed to reflect the relative significance of each of the constituent commodities in the world economy while preserving the tradability of the index.

The Barclay BTOP50 Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The largest investable trading advisor programs, as measured by assets under management (determined as of the beginning of each year), are selected for inclusion in the BTOP50.

The Barclay CTA Index is unweighted and rebalanced at the beginning of each year. For 2010, it is currently comprised of 533 programs.

The HFRI Fund Weighted Index is an equally-weighted index of more than 2000 hedge funds which have at least \$50 million in assets under management or have been actively trading for at least 12 months.

The HFRI Equity Hedge Total Return Index is an equally-weighted index of equity hedge strategies which trade both long and short in primarily equity and derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50 percent exposure to equities, both long and short.

Important Disclaimers

This information has been prepared for circulation to persons who, if they are US citizens or residents, are or would be classified as Accredited Investors under Regulation D under the US Securities Act 1933. This information has been prepared by AlphaMetrix, LLC for certain Relationship Managers, Registered Representatives and their qualified investors and potential investors. It is a confidential communication to, and solely for the use of such persons. Accordingly, this information may not be redistributed by the recipient to any non-qualified person. The information may be subject to verification or amendment and has been supplied for "information purposes" only. No representation or warranty is made, whether expressly or implied, AlphaMetrix LLC ("AlphaMetrix") or their Directors, affiliates, or employees, as to the accuracy or completeness of the information provided. **PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** An investor may lose all or substantially all of its investment. This summary does not constitute legal, tax, investment or any other advice. AlphaMetrix strongly recommends that an investment in the Fund be made only after consultation with a prospective investor's financial, legal and tax advisors. This information is neither an offer to sell nor a solicitation of any offer to buy any interest in a financial instrument or participate in any trading strategy sponsored or offered by AlphaMetrix. Any such offer, if made, would be made only by way of the Confidential Offering Memorandum and only in jurisdictions in which such an offer would be lawful. Any decision to invest should be made only on the basis of consideration of all of the Confidential Offering Memorandums. Such Confidential Offering Memorandum contains important information concerning risk factors and other material aspects of such financial instrument or trading strategy and must be read carefully before a decision to invest is made. This information must be accompanied by or preceded by the Confidential Offering Memorandum. Any person making an investment in the Fund must be able to bear the risks involved and must meet the Fund's suitability requirements. The Fund may not be suitable for certain investors and an investment in the Fund will not constitute a complete investment program. No assurance can be given that the Fund's investment objective will be achieved. Among the risks which AlphaMetrix wish to call to the particular attention of persons receiving this brochure are the following:

The Fund is speculative and involves a substantial risk of loss.

The Fund's performance may be volatile.

Redemptions may be made only infrequently and only if an investor provides prior written notice of its desire to redeem well in advance of the intended redemption date.

The Fund is highly illiquid.

There is no secondary market for the units in the Fund and none is expected to develop.

There are restrictions on transferring units in the Fund.

The Fund's fees and expenses are significant. Trading profits must be greater than such fees and expenses to avoid loss of capital.

The Fund is not required to provide periodic pricing or valuation information to investors with respect to their individual investments.

There may involve complex tax structures and delays in distributing important tax information.

The Fund is not subject to the same regulatory requirements as U.S. mutual funds.

Trades executed for the Fund will take place on non-U.S. and U.S. markets.

The Fund may be subject to conflicts of interest.

An investment in the Fund involves risk, including the risk of losing all or substantially all of your investment in the Fund. AlphaMetrix has not independently verified the accuracy or completeness of the information set forth in this presentation. These materials and the presentations of which they are a part, and the summaries contained herein, do not purport to be complete, and are qualified in their entirety by reference to the more detailed discussion contained in the Confidential Offering Memorandum.

POTOMAC PORTFOLIOS LLC

CADC 2010
October 14, 2010

This presentation shall not constitute an offer or solicitation of an offer to make an investment in any of the investment products managed by Potomac Portfolios LLC. Such offer or invitation will only be made once the recipient has been given an opportunity to consider a private placement memorandum or disclosure document containing such information as may be required by applicable law.

Further distribution of this presentation is prohibited without the expressed written consent of Potomac Portfolios, LLC.

Risk Disclosure Statement

INVESTMENTS IN PRODUCTS SPONSORED OR ADVISED BY POTOMAC PORTFOLIOS, LLC ("POTOMAC") ARE SPECULATIVE SECURITIES AND INVOLVE TRADING IN COMMODITIES. THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. INVESTORS SHOULD THEREFORE CAREFULLY STUDY THE CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM OR DISCLOSURE DOCUMENT FOR EACH PRODUCT OFFERED OR ADVISED BY POTOMAC BEFORE INVESTING, INCLUDING THE DESCRIPTION OF THE PRINCIPAL ASSOCIATED RISK FACTORS.

THE COMMODITY FUTURES TRADING COMMISSION HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN PRODUCTS OFFERED OR ADVISED BY POTOMAC. NOR HAS THE COMMISSION PASSED ON THE ADEQUACY OR ACCURACY OF ANY PRIVATE PLACEMENT MEMORANDUM OR DISCLOSURE DOCUMENT ASSOCIATED WITH POTOMAC'S PRODUCTS.

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.

COMMODITY INTERESTS ARE SUITABLE ONLY FOR SOPHISTICATED INVESTORS FOR WHOM AN INVESTMENT DOES NOT CONSTITUTE A COMPLETE INVESTMENT PROGRAM AND WHO FULLY UNDERSTAND AND ARE WILLING TO ASSUME THE RISKS INVOLVED.

PAST PERFORMANCE OF POTOMAC PRODUCTS, INCLUDING THE PAST PERFORMANCES OF TRADING ADVISORS SELECTED BY POTOMAC, IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Managed Futures

“Changing landscapes in managed futures are offering new directions for portfolio diversification.”

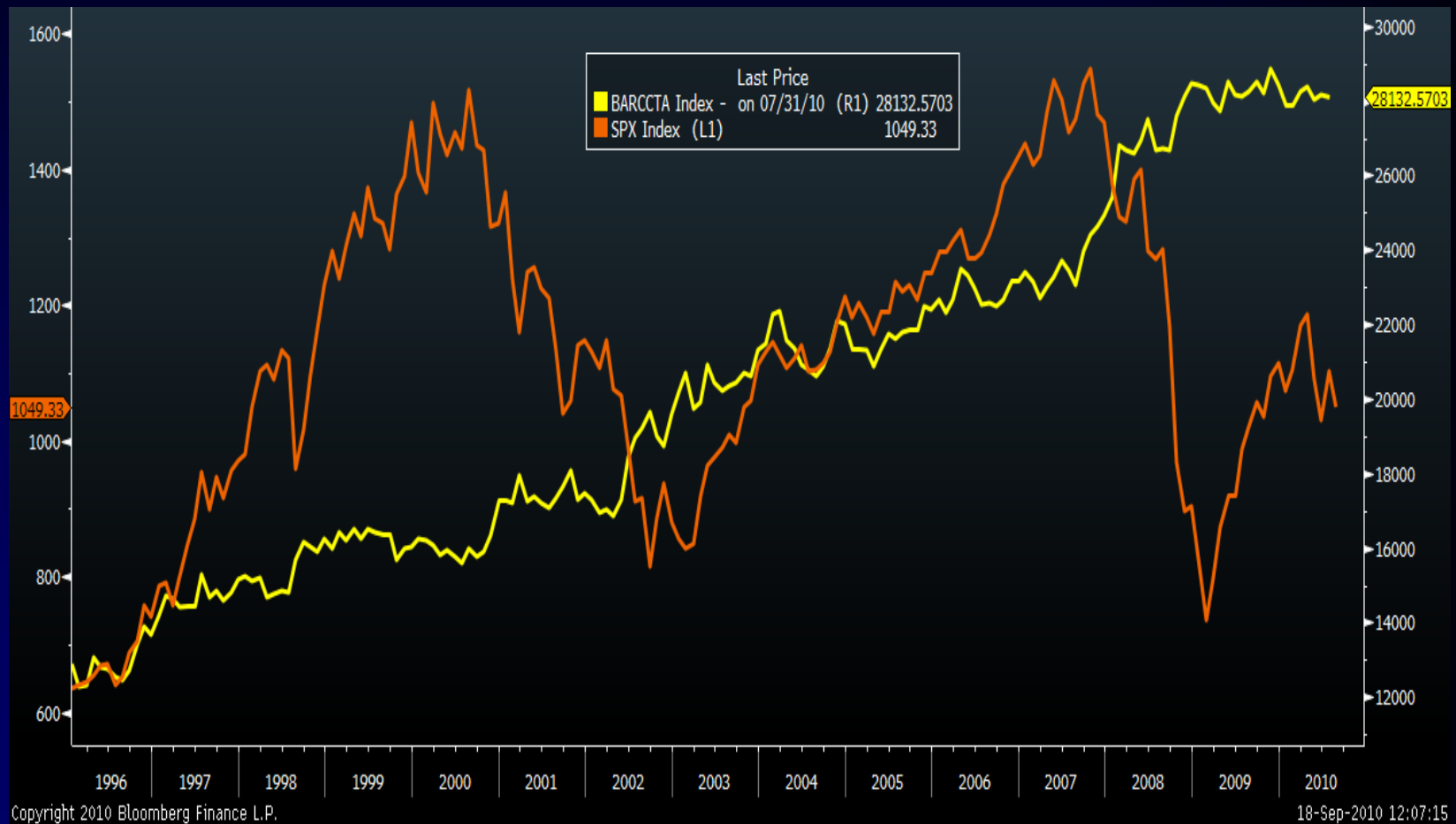
---Thomas Lott, President, Potomac Portfolios LLC

- Industry Performance
- Market Segmentation
- Portfolio Construction
- The Buy Decision
 - Economic Justification
 - Value Proposition
 - Safeguards for Investors
 - People!

Industry Performance (Monthly: Jan 1998 - Aug 2010)

Stocks (SP500)

Managed Futures (Barclay CTA Index)

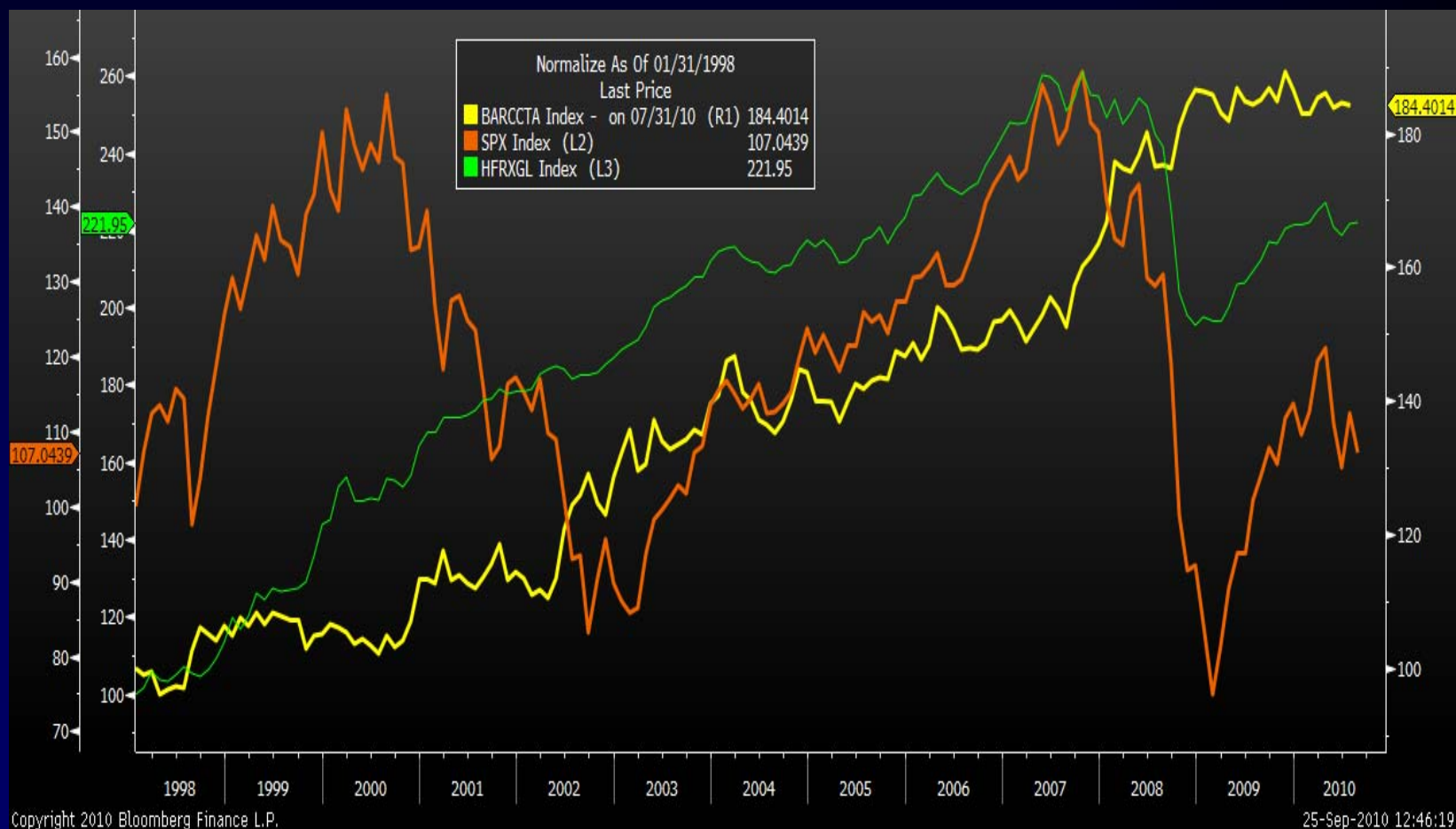


Industry Performance (Monthly: Jan 1998 - Aug 2010)

Stocks (SP500)

Managed Futures (Barclay CTA Index)

Hedge Funds (HFRX Global Hedge Fund Index)



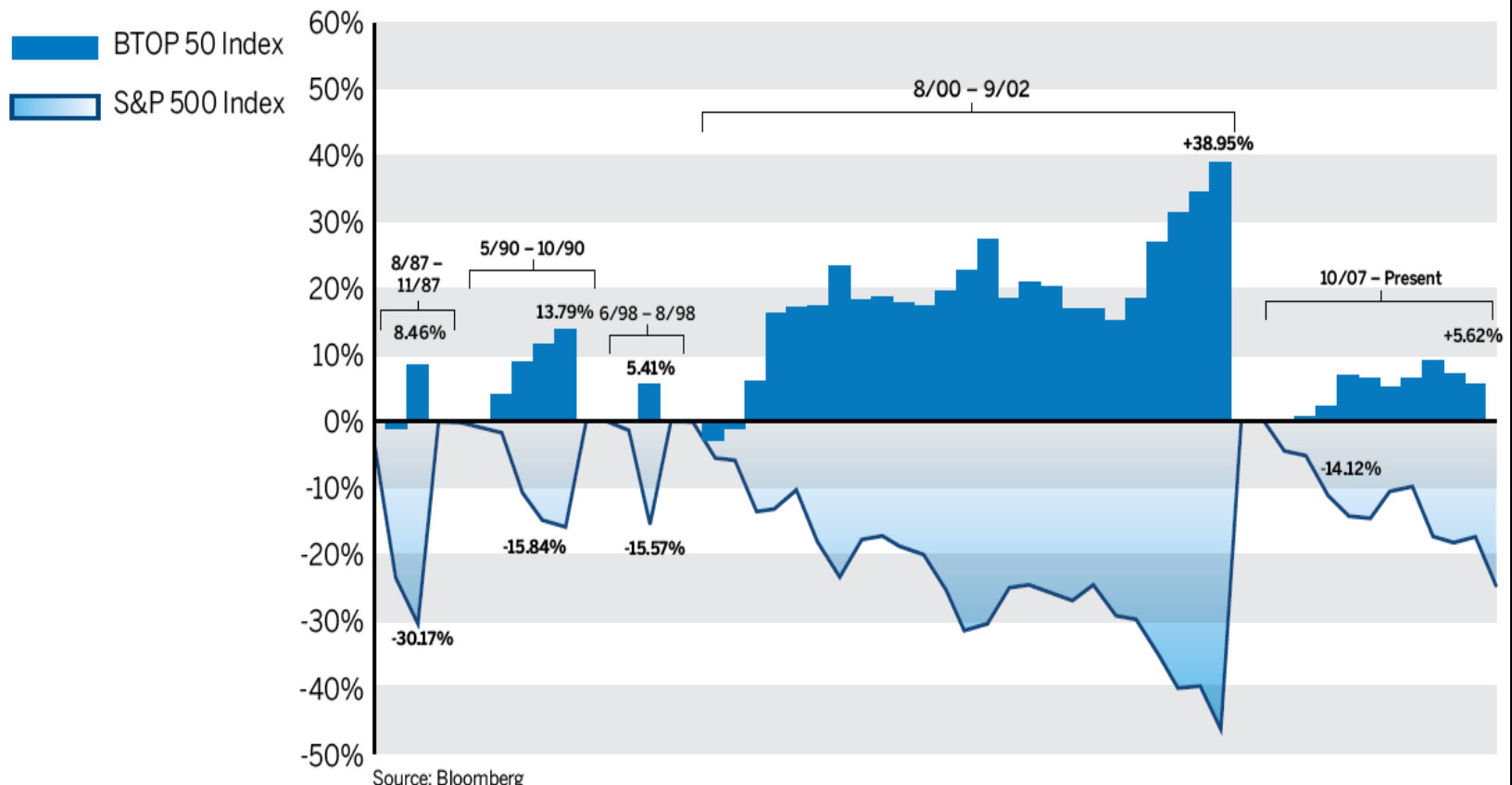
Periods of Systemic Stress

Managed Futures vs. SP500

Lintner Revisited: The Benefits of Managed Futures 25 Years Later

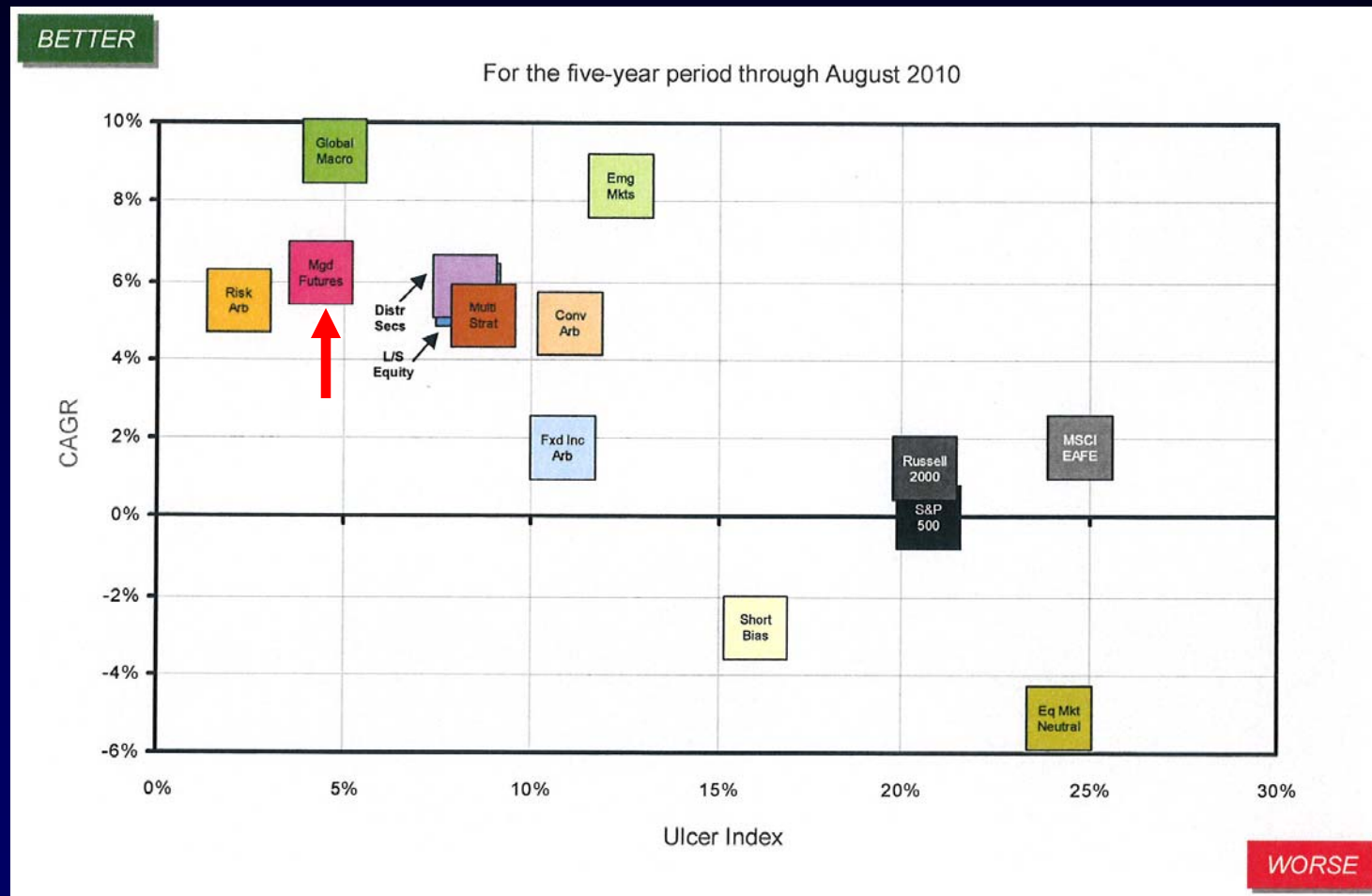
EXHIBIT 4:

BTOP 50 vs. S&P 500 During S&P 500's Worst Five Drawdowns Since 1987

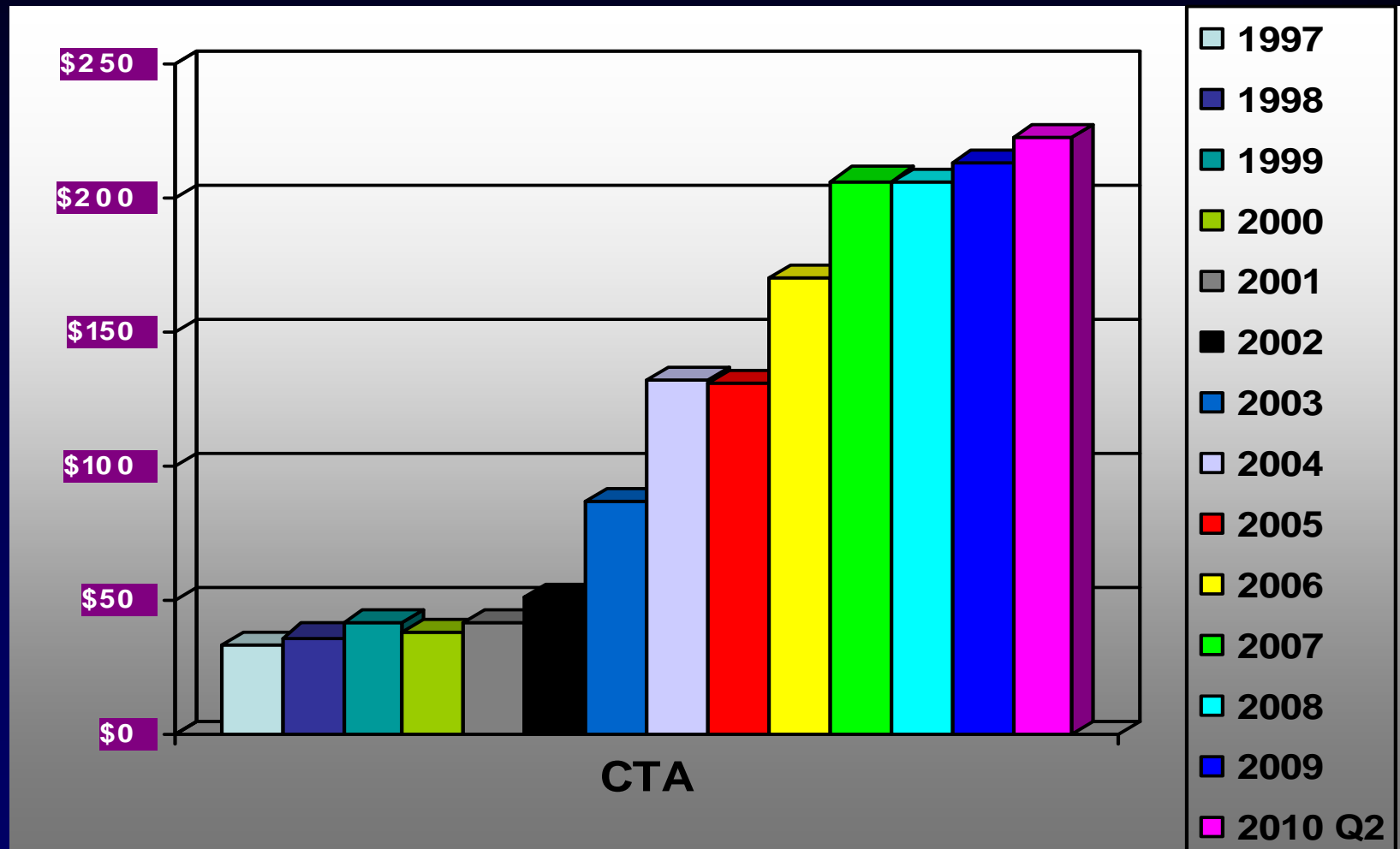


Frontier of Hedge Fund Efficiency

Ulcer Index

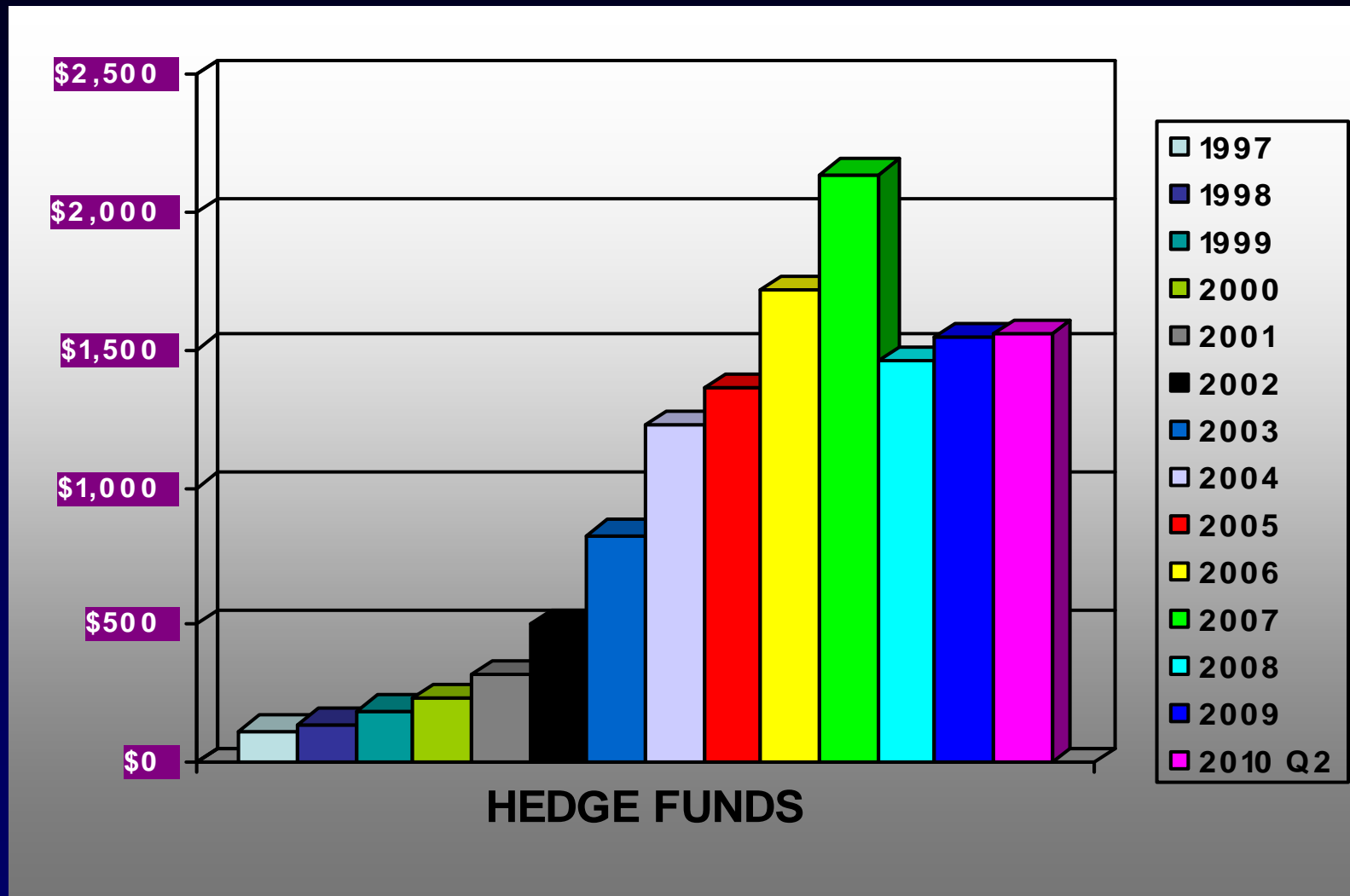


Funds Under Management - CTA Managed Futures (\$ billions)



Funds Under Management – Hedge Funds

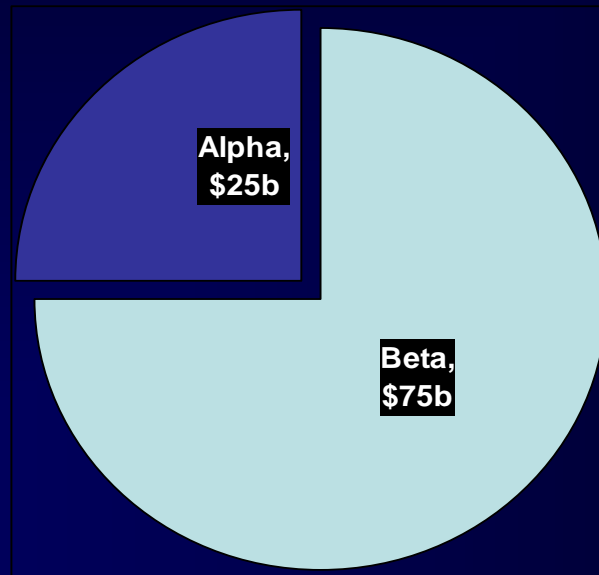
Hedge Funds (\$ billions)



Market Segmentation: CTA Pre-2000

Alpha vs. Beta Trading Strategies

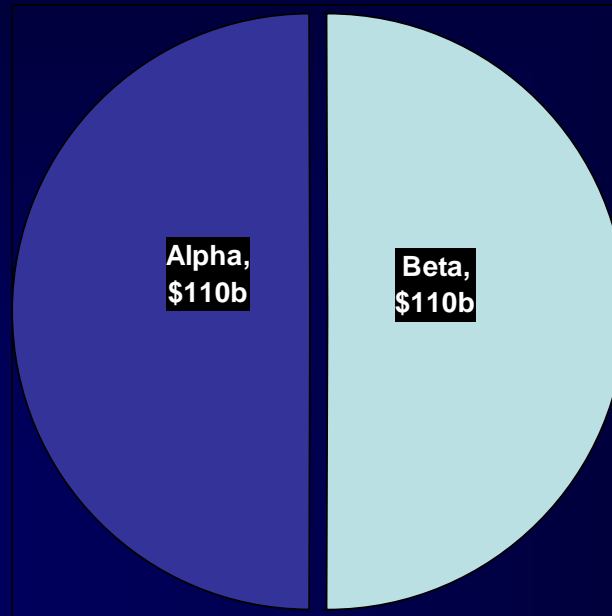
Alpha (25%) vs. Beta (75%)
\$50 - \$100 Billion



Market Segmentation: 2010

Alpha vs. Beta Trading Strategies

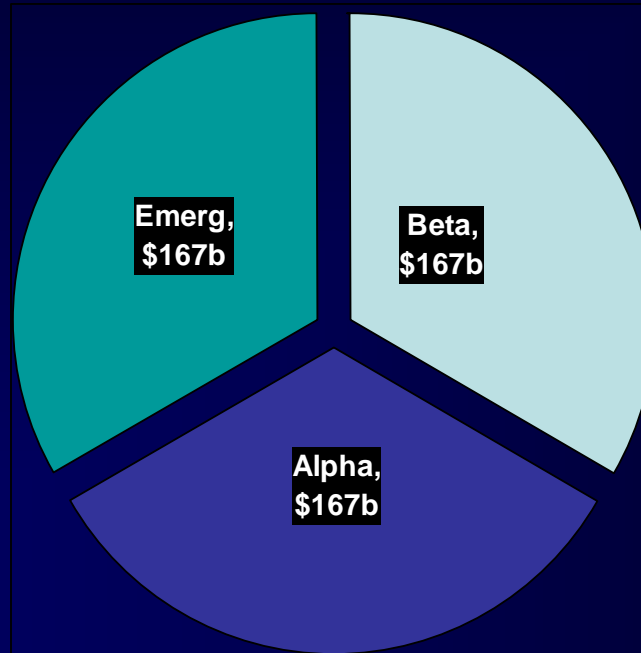
Alpha (50%) vs. Beta (50%)
\$220 Billion



Market Segmentation: 2015-2020

Alpha vs. Beta vs. Emerging Strategies

Alpha (1/3) vs. Beta (1/3)
vs. Emerging (1/3)
\$500 Billion



Portfolio Construction - Beta vs. Alpha

Beta: Trend Following Strategies

- Beta Selection

- 1 Abraham Trading Company
- 2 Aspect Capital LTD
- 3 Chesapeake Capital Corporation
- 4 Eclipse Capital Management
- 5 Graham Capital Management, L.P
- 6 Millburn Ridgefield Corporation
- 7 Rotella Capital Management, Inc.
- 8 Transtrend, B.V.
- 9 Welton Investment Corporation
- 10 Winton Capital Management, LTD

Beta correlations are high (Jan 2005 – Aug 2010)

Correlation Matrix (pair wise = 62%)

%	BETA 1	BETA 2	BETA 3	BETA 4	BETA 5	BETA 6	BETA 7	BETA 8	BETA 9	BETA 10
BETA 1	100	57	48	55	51	55	36	47	49	62
BETA 2	57	100	75	76	74	87	63	76	70	77
BETA 3	48	75	100	53	55	81	68	61	67	59
BETA 4	55	76	53	100	72	70	50	69	59	56
BETA 5	51	74	55	72	100	76	53	74	66	58
BETA 6	55	87	81	70	76	100	59	74	69	63
BETA 7	36	63	68	50	53	59	100	55	64	61
BETA 8	47	76	61	69	74	55	55	100	73	67
BETA 9	49	70	67	59	66	64	64	73	100	69
BETA 10	62	77	59	56	58	61	61	67	69	100
AVG	40	73	63	62	64	68	57	66	65	64

Beta portfolios can be volatile (Jan 2005 - Aug 2010)

Aggregating trend following strategies



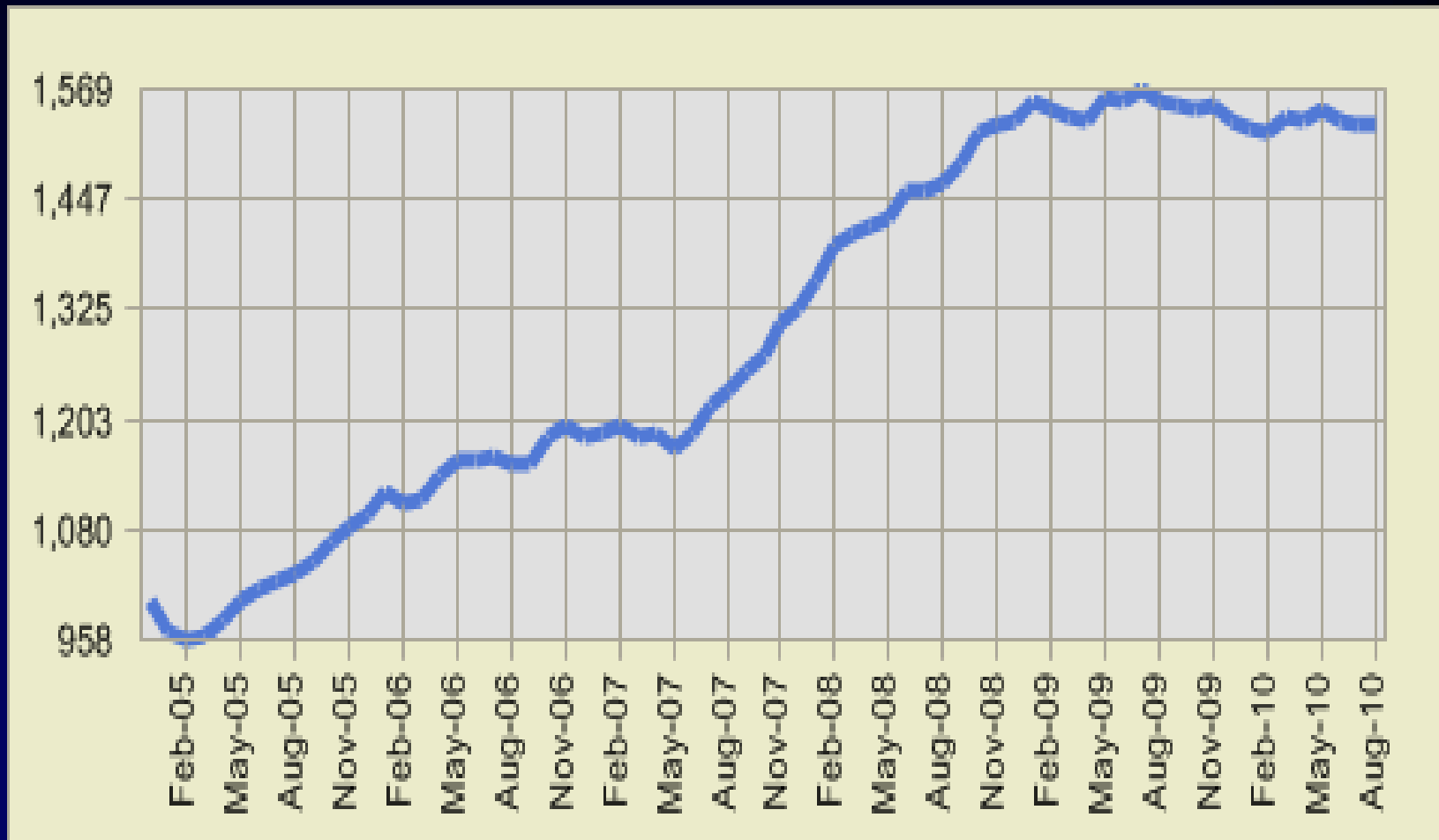
Alpha correlations are low (Jan 2005 - Aug 2010)

Correlation Matrix (pair wise = 8%)

%	ALPHA 1	ALPHA 2	ALPHA 3	ALPHA 4	ALPHA 5	ALPHA 6	ALPHA 7	ALPHA 8	ALPHA 9	ALPHA 10
ALPHA 1	100	20	3	-14	22	14	32	11	-9	-20
ALPHA 2	20	100	17	-4	31	59	19	32	7	-15
ALPHA 3	3	17	100	5	8	-1	-14	33	9	22
ALPHA 4	-14	-4	5	100	9	2	11	28	-9	-8
ALPHA 5	22	31	8	9	100	23	22	33	-18	-5
ALPHA 6	14	59	-1	2	23	100	23	23	-3	25
ALPHA 7	32	19	-14	11	22	23	100	28	-23	3
ALPHA 8	11	32	33	28	33	23	28	100	-29	11
ALPHA 9	-9	7	9	-9	-18	-3	-23	-29	100	24
ALPHA 10	-10	-15	22	-8	-5	25	3	11	24	100
AVG	6	15	7	2	11	15	9	15	-5	3

Alpha portfolios can be less volatile (Jan 2005 - Aug 2010)

Aggregating Alpha Strategies



Alpha portfolios can be less volatile (Jan 2005 - Aug 2010)

Aggregating Alpha Strategies (pair wise = 32%)



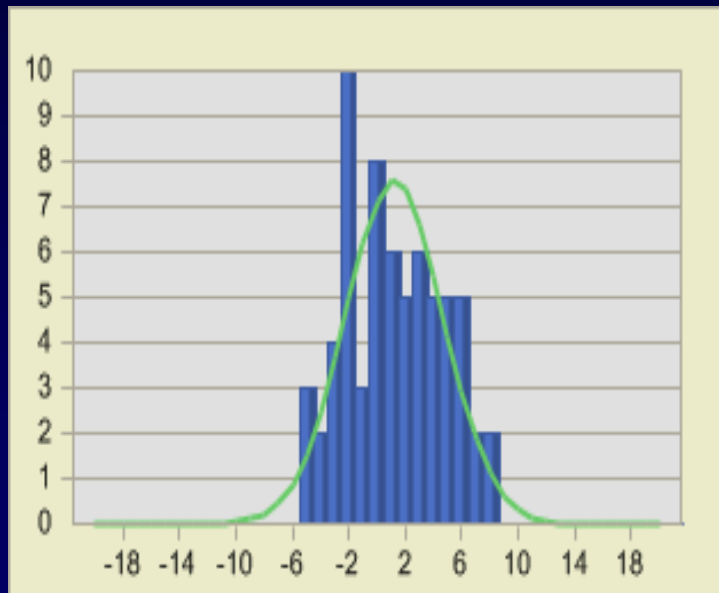
Portfolio Construction - Analytics

Monthly Distribution of Portfolio Returns

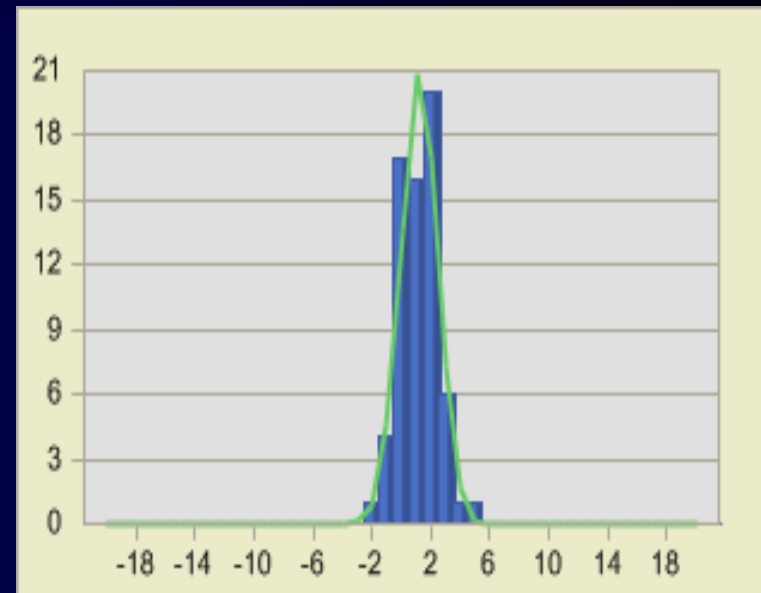
Without Cash Efficiency

Jan 2005 - Aug 2010

Beta: Trend Following

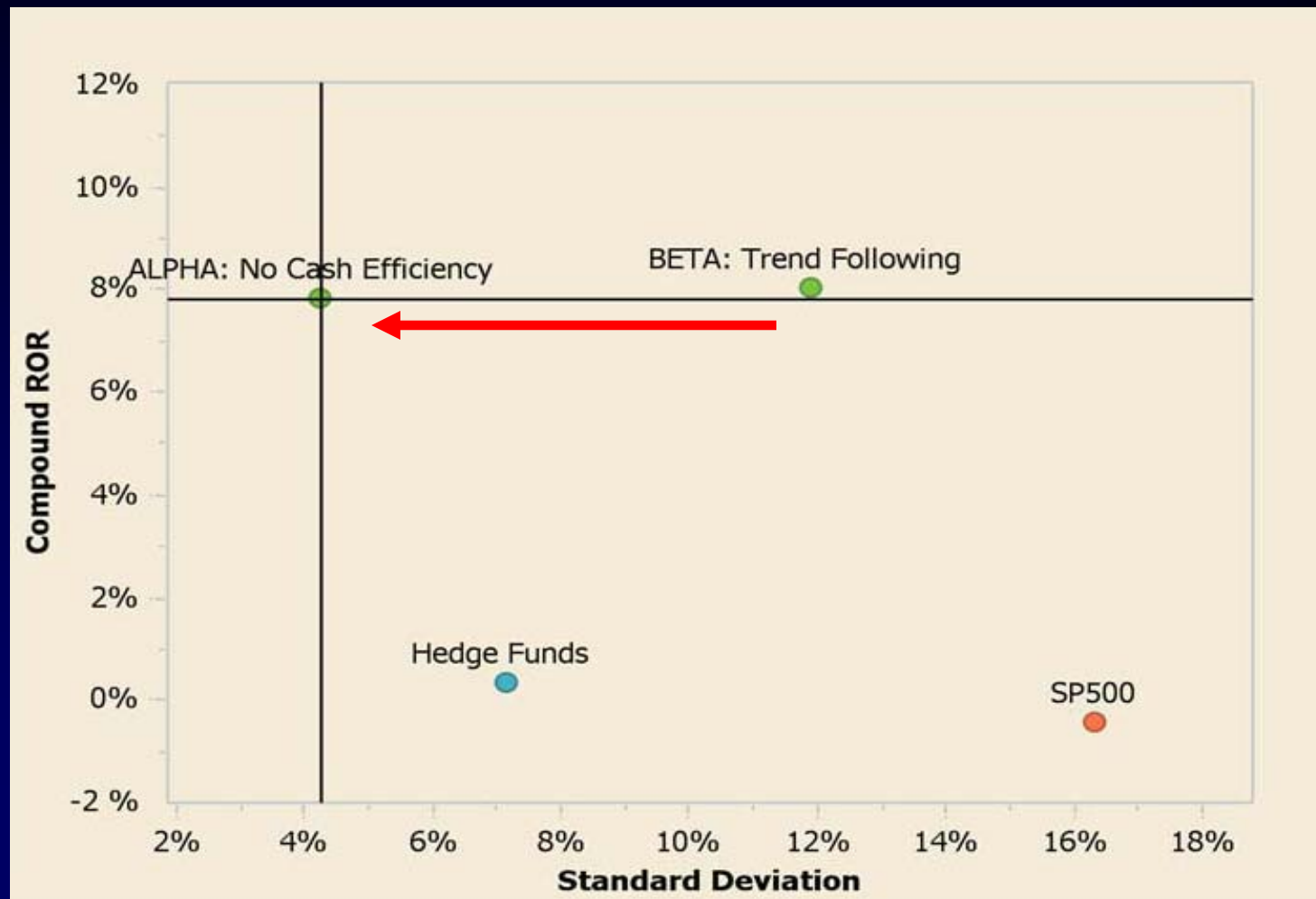


Alpha: Potomac's Approach



Implications for Portfolio Construction

Alpha vs. Beta vs. Benchmarks (Jan 2005 - Aug 2010)



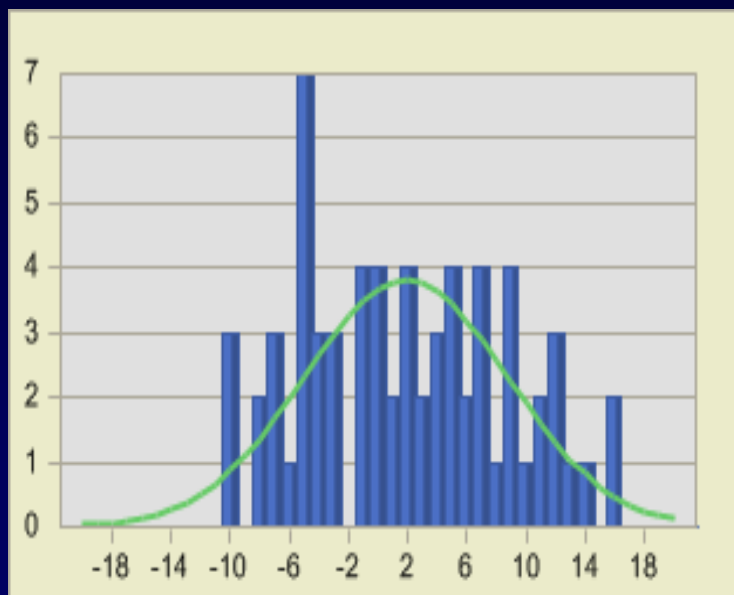
Portfolio Construction - Analytics

Monthly Distribution of Portfolio Returns

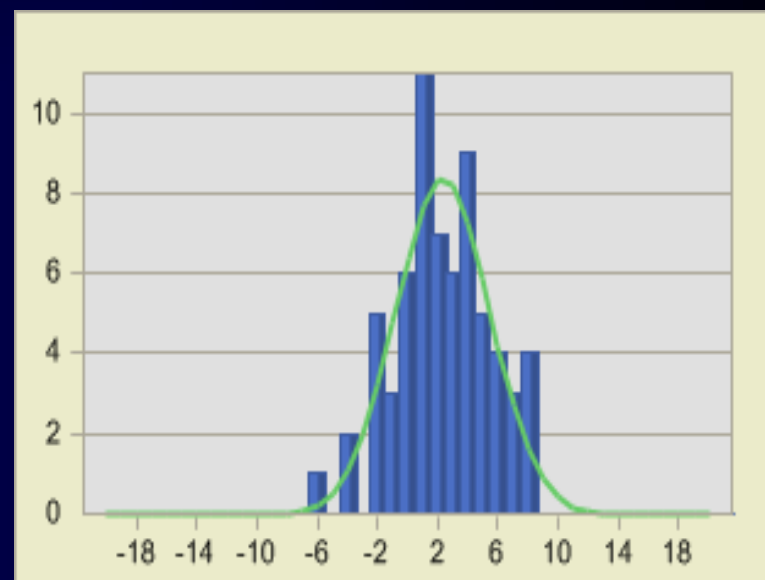
Adding Cash Efficiency

Jan 2005 - Aug 2010

Beta: Trend Following

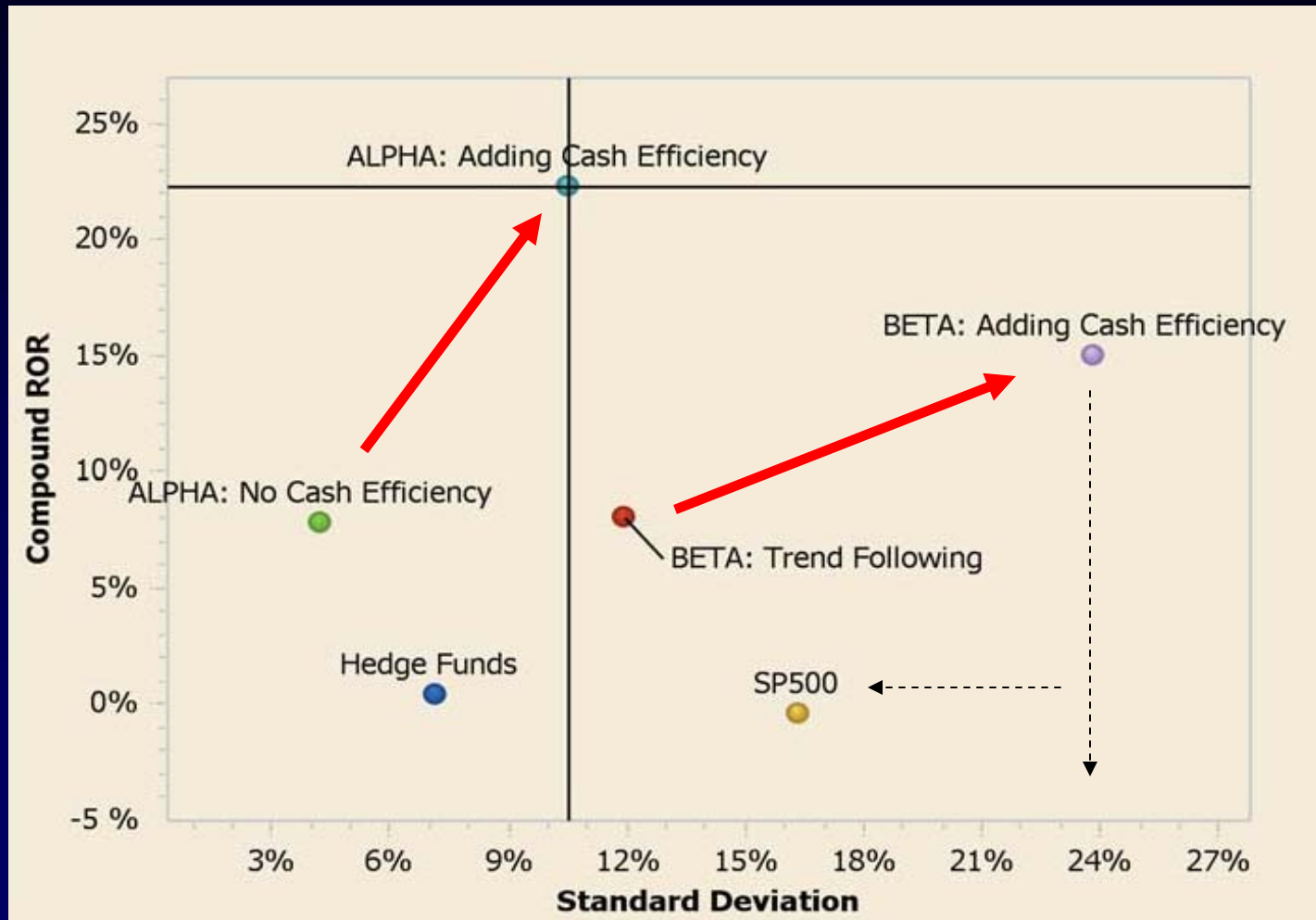


Alpha: Potomac's Approach



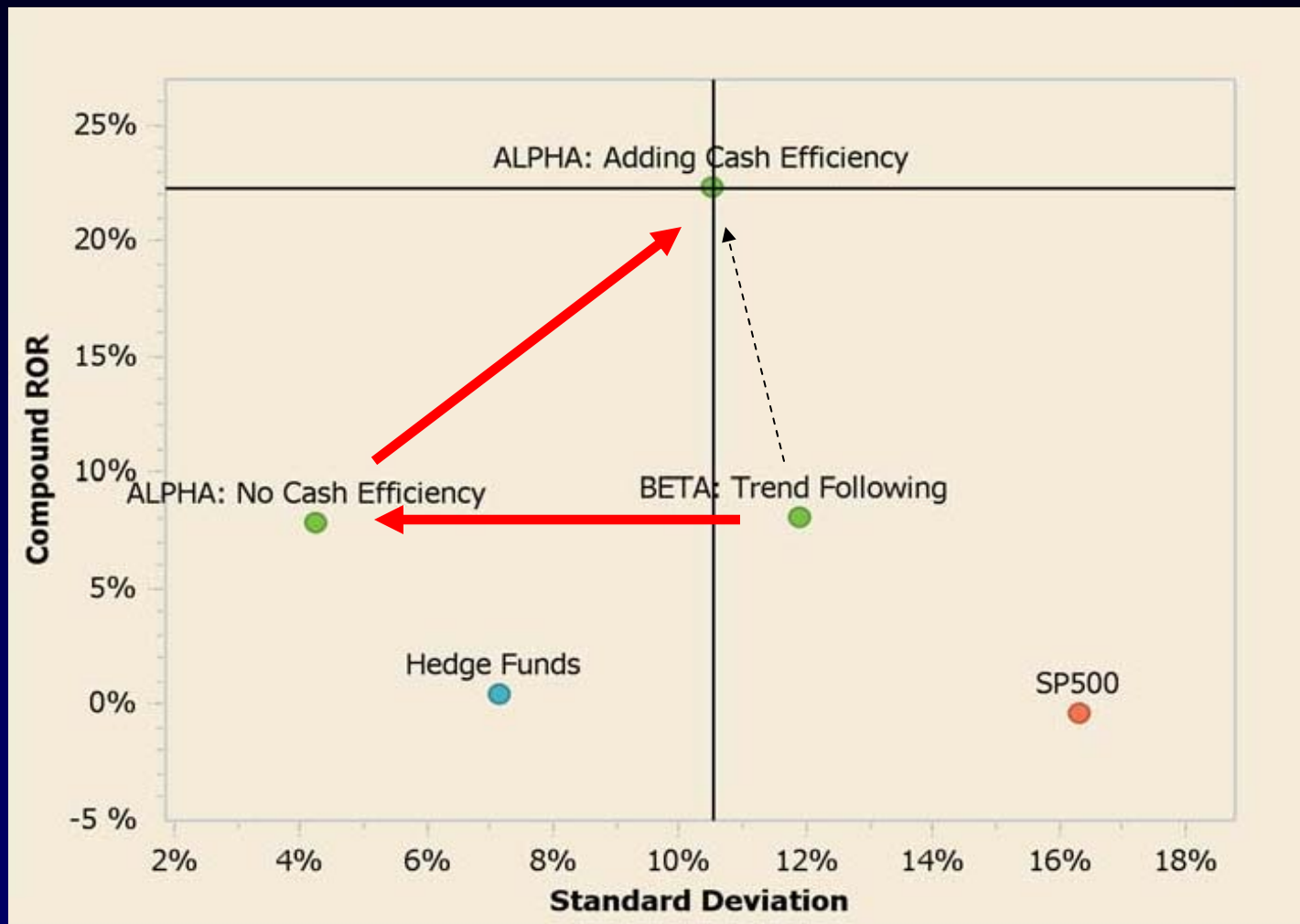
Implications for Portfolio Construction

Alpha vs. Beta vs. Benchmarks (Jan 2005 - Aug 2010)



Implications for Portfolio Construction

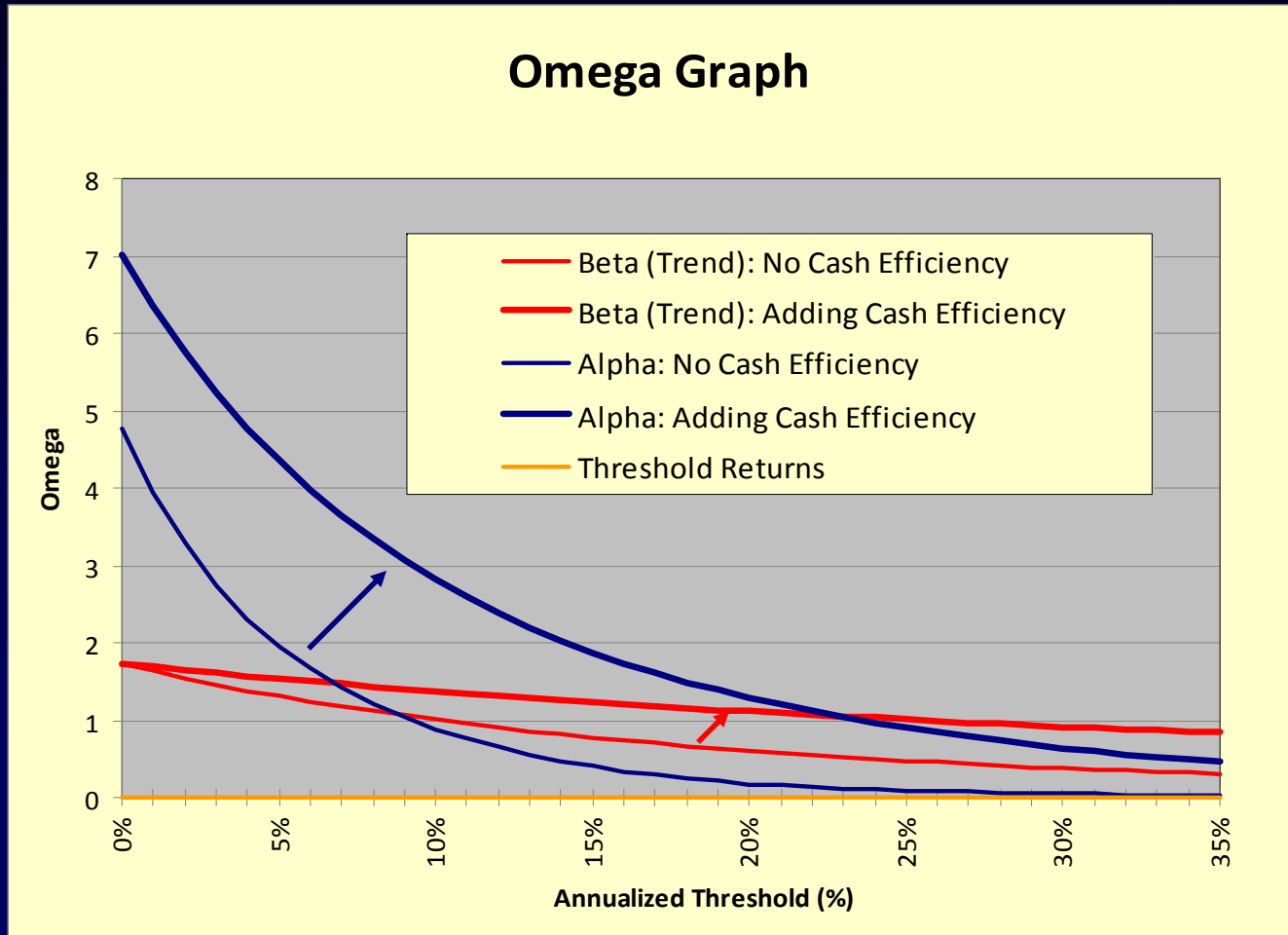
Alpha vs. Beta vs. Benchmarks (Jan 2005 - Aug 2010)



Portfolio Construction - Analytics

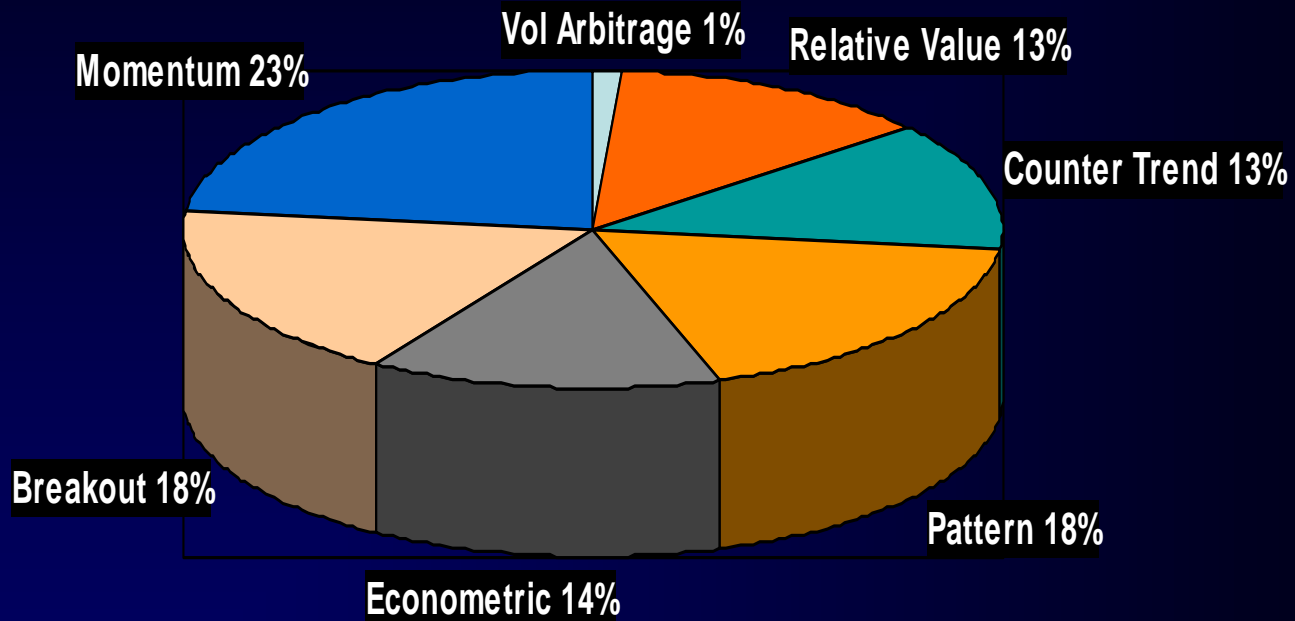
Omega Curves: Alpha Portfolios = Higher Probability of Achieving Threshold Returns

Cash Efficiency: Alpha Portfolios = More Receptive to Concepts of Cash Efficiency



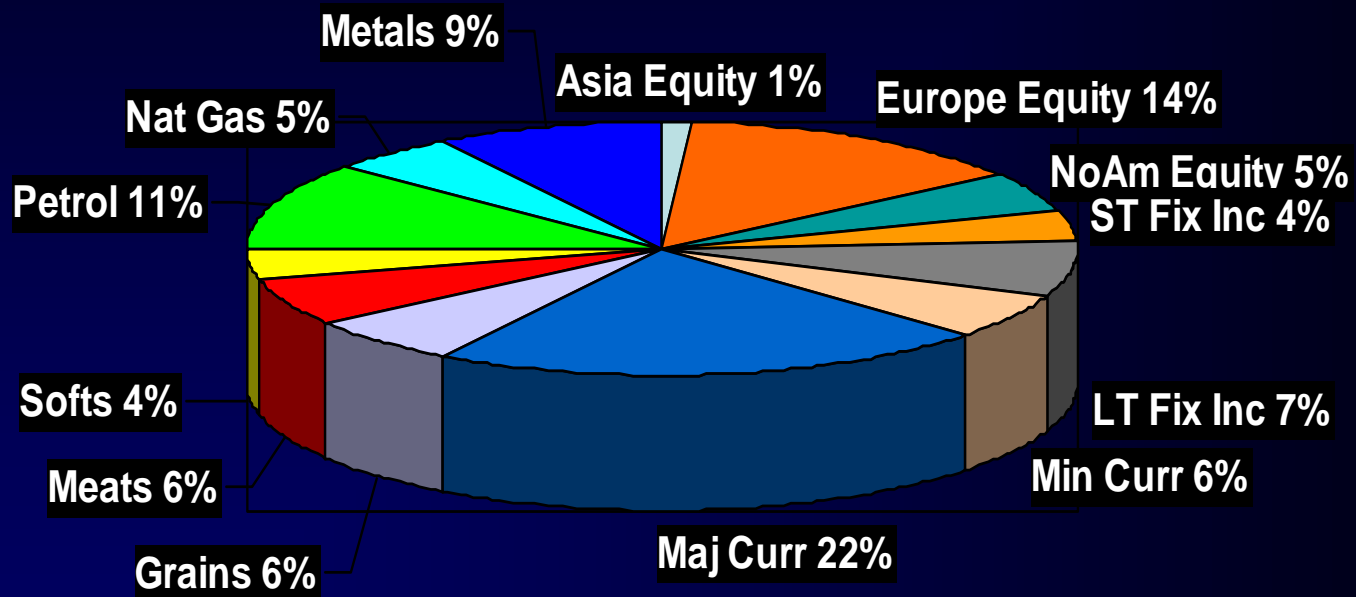
Alpha Diversification

I. Across Strategies



Alpha Diversification

II. Across Sectors



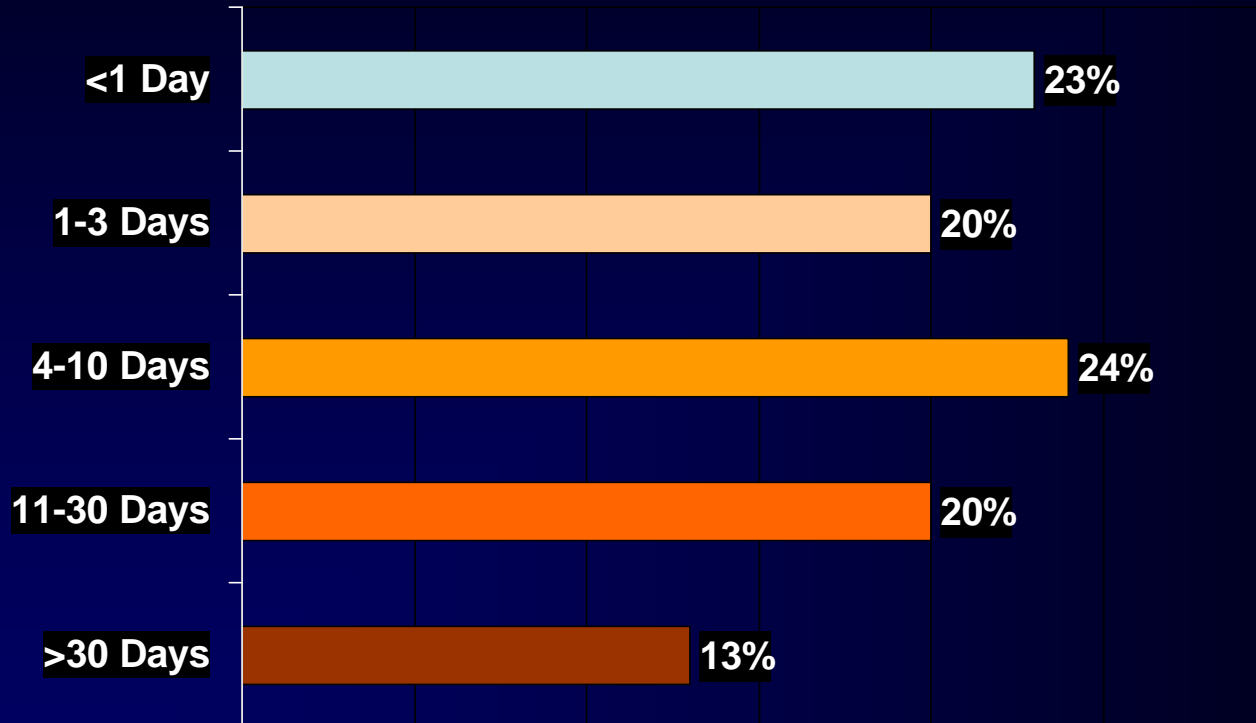
Alpha Diversification

III. Across Instruments (160)

- **Agriculture (16)**
 - Meats (3)
 - Softs (6)
 - Grains (7)
- **Currencies (44)**
 - Major Markets (27)
 - Emerging Markets (17)
- **Energy (7)**
 - Power (2)
 - Natural Gas (1)
 - Petroleum (4)
- **Stock & Other Indices (43)**
 - European Union (22)
 - Asia Pacific (9)
 - North America (8)
 - Africa (1)
 - Emerging, Commodity (3)
- **Interest Rates (40)**
 - European Union (22)
 - North America (11)
 - Asia Pacific (7)
- **Metals (10)**
 - Industrial (6)
 - Precious (4)

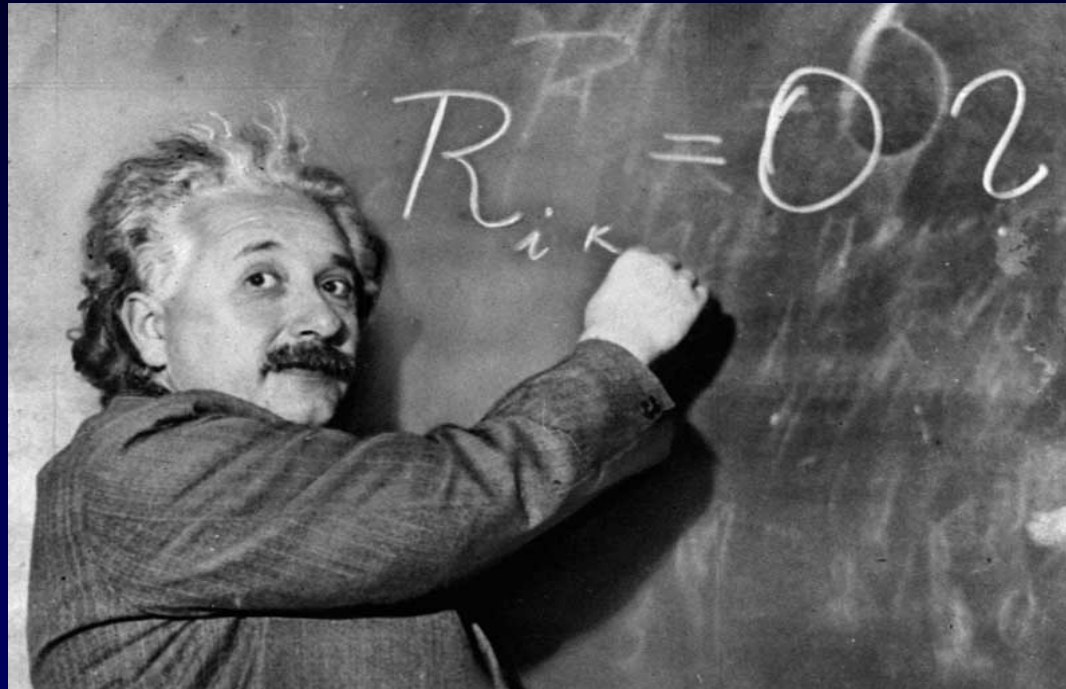
Alpha Diversification

IV. Across Trade Duration



Alpha Diversification

V. Manager Mentalities



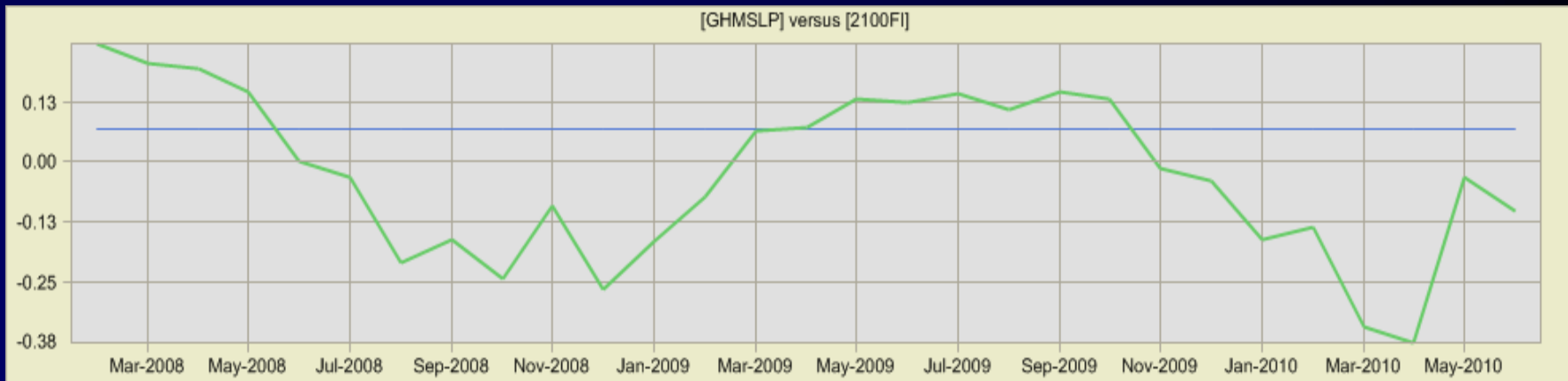
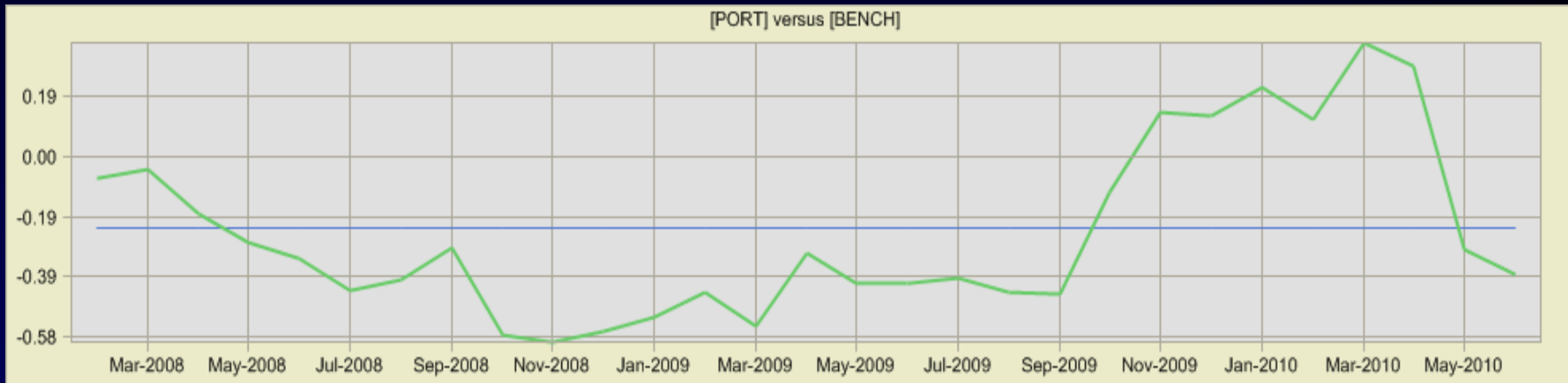
--- Albert Einstein, 1879-1955

Alpha Diversification: Example

Garrison Hill Multi-Strategy vs. 2100 Xenon Fixed Income

Both Managers > SP500; at 1/3rd of SP500 Volatility

50/50 Allocation: -0.23% Correlation with SP500; 0.07% Correlation with Each Other



Bottom Line

Team Effort: It's the people that make the difference

Mosaic: Potomac + Managers + AlphaMetrix



For Further Information

Contact...

Thomas Lott, President
Potomac Portfolios, LLC
5185 MacArthur Blvd, N.W.
Suite 220
Washington, DC 20016

Tel: 202-237-8878

Web: www.PotomacPortfolios.com

[Click on Managed Futures/Additional Articles/CADC 2010 Presentation](#)

Email: Info@PotomacPortfolios.com or TomLott@PotomacPortfolios.com

Manager Reporting: Research@PotomacPortfolios.com



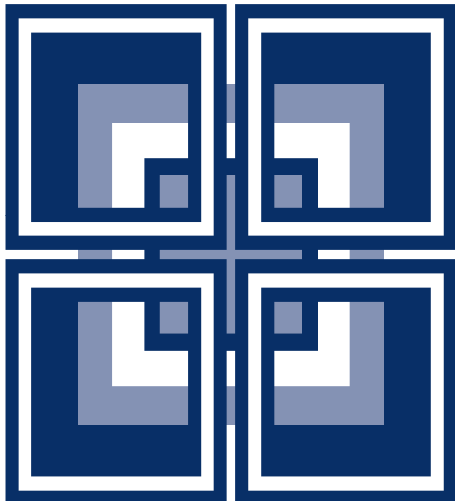
Fixed Income Trading Opportunities in a Zero Interest Rate Environment

October 2010

Presentation by:

Jay Feuerstein
Chief Executive Officer/Chief Investment Officer
2100 Xenon Group, LLC

Overview



The Current Landscape

I

Scenario 1: Interest Rates Remain Static

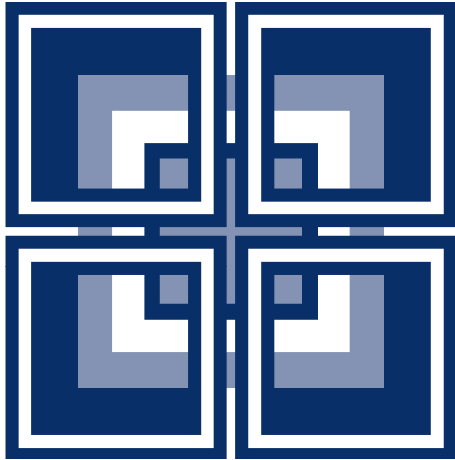
II

Scenario 2: Interest Rates Fall

III

Scenario 3: Interest Rates Rise

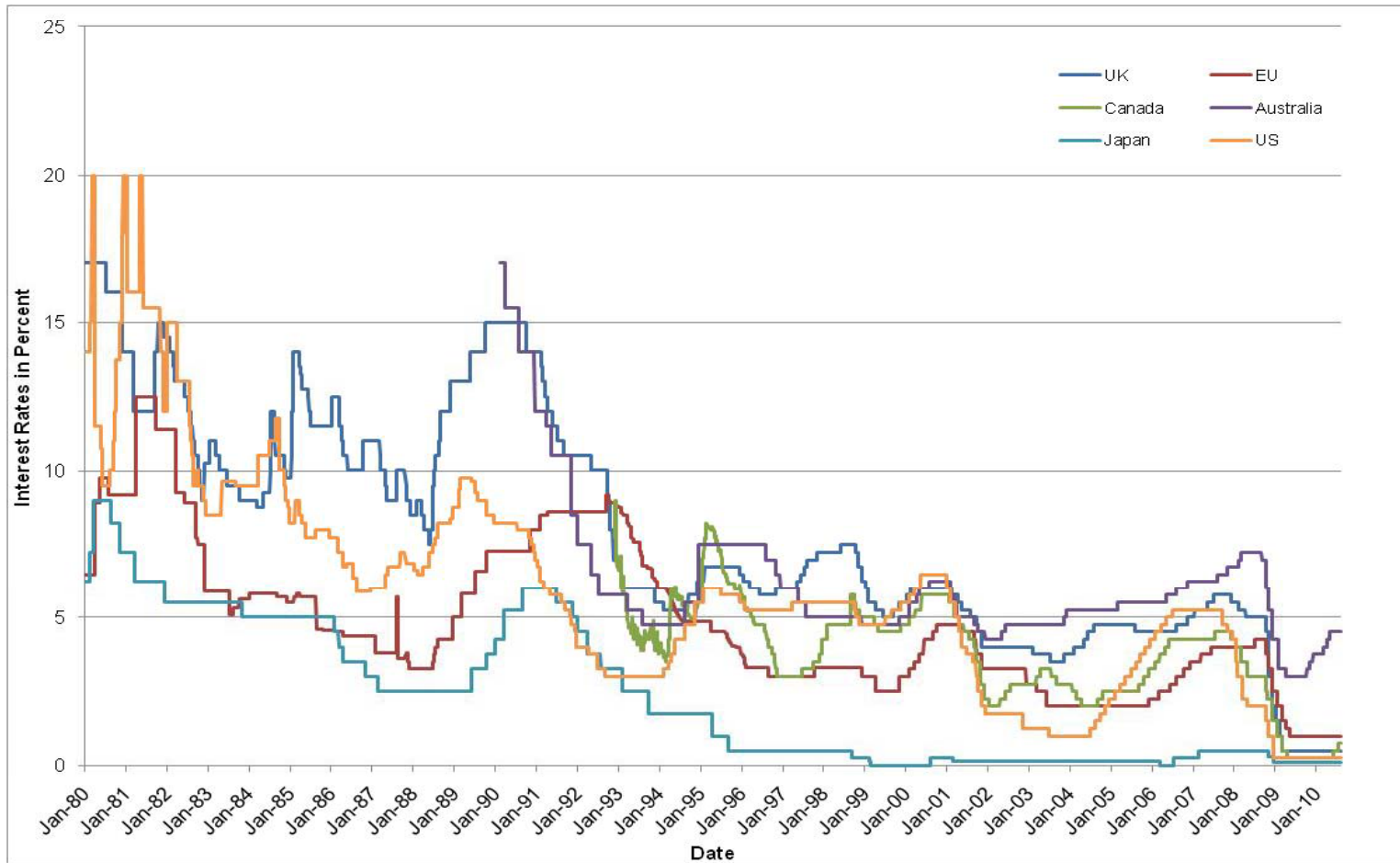
IV



The Current Landscape: Historic Levels of Low Rates

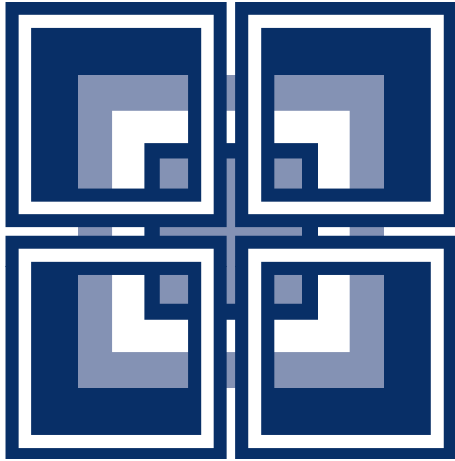
Central banks across the globe have universally pushed rates to their lowest levels in history

Central Bank Policy Rates: 1980 to Present



Source: Bloomberg. Data as of 8/10

FOR DISCUSSION PURPOSES ONLY – NOT APPROVED FOR PUBLIC DISTRIBUTION.



Scenario 1: Interest Rates Remain Static

Today we are in a historically steep yield curve, with carry yielding over 3.7% per annum

Carry Benefit From Holding Futures



Source: Bloomberg. Data as of 8/10

Developed market financial futures are margined at less than 5% of equity, providing huge gains over cash in a flat rate environment through convergence

March 2011 Long Bond

Futures Contract Value	Initial Margin Per Contract	Carry Per Contract	Annualized Return on Margin	Annualized Return on 20% Margin
129,468.75	3,375	4,116	190.9%	24.9%



Futures Price	Cash Price	Conversion Factor	Futures Price Factor	Gross Basis		
129 15/32	143 1/32	1.0741	139 2/32	3 31/32		
Today	Delivery Date	Coupon of Cheapest	Repo Rate	Coupon Income	Financing Costs	Total Carry \$100 par
8/13/2010	3/31/2011	6.75%	0.15%	4.25	0.14	\$4.12

These results are estimates and are subject to restatement. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. This material is for investment professional use only and is not intended for public distribution.

FOR DISCUSSION PURPOSES ONLY – NOT APPROVED FOR PUBLIC DISTRIBUTION.

The payment for this uncertainty has added nearly 70 basis points per annum over carry since 1998 in the US

3 month Long 10Y Futures Strategy

Contract	3 Months to Expiration			At Expiration			Outperformance of Long Futures in excess of Carry	
	Basis to the Cheapest to Deliver	Carry on the Cheapest to Deliver	Basis Net of Carry 3m to Expiration	Basis	Carry on the Cheapest to Deliver	Basis Net of Carry at Expiration	32nds	ann return (bp)
Jun-98	13.4	11.2	2.1	1.3	1.3	0	2.1	24.8
Sep-98	11	4.1	6.9	-0.7	0.2	-0.9	7.8	94.7
Dec-98	7	3.8	3.2	2.2	0.8	1.4	1.8	21.7
Mar-99	6.2	6.3	-0.1	2.2	0.7	1.5	-1.6	-19.6
Jun-99	18.4	13	5.3	2.5	1.5	1	4.3	51.1
Sep-99	17.1	12.9	4.2	0.4	1.1	-0.7	4.9	59.3
Dec-99	14.1	13	1	0.4	0.9	-0.6	1.6	19.2
Mar-00	7.9	0.6	7.4	-0.2	-0.2	0	7.3	104
Jun-00	5.3	-4	9.3	3	-0.8	3.8	5.5	77.7
Sep-00	2	-9	11	-0.5	-0.9	0.4	10.6	149.8
Dec-00	1.9	-7	9	7.7	-0.9	8.7	0.3	3.7
Mar-01	-2.5	-6.6	4.1	-0.3	0.4	-0.7	4.8	57.9
Jun-01	10.8	6.9	3.8	8.5	1.5	7	-3.2	-38.9
Sep-01	32.3	20.4	11.9	5.3	1.9	3.5	8.5	100.8
Dec-01	46.9	36.8	10.1	4.7	5	-0.3	10.4	118
Mar-02	53.1	40.4	12.7	4.1	3.7	0.3	12.3	142.8
Jun-02	47.4	35.7	11.7	5.9	3.2	2.7	9	110.9
Sep-02	51	41.4	9.7	8.9	4.4	4.5	5.2	57.5
Dec-02	40	36.5	3.5	7	4.9	2.1	1.5	16
Mar-03	49.6	44.9	4.7	4.6	4.9	-0.3	5	52.9
Jun-03	50.1	44.8	5.3	4.2	5.1	-0.8	6.1	66.6
Sep-03	44.7	42.4	2.2	4.9	4.9	0.1	2.2	23
Dec-03	56.2	42.8	13.4	5.1	5.6	-0.5	13.9	161.2
Mar-04	43.1	36.7	6.4	3	3.2	-0.2	6.6	78.1
Jun-04	39.2	35.5	3.7	4.8	3.2	1.6	2.1	24.5
Sep-04	40	31.8	8.2	2.4	2.5	-0.1	8.4	100.5
Dec-04	27.9	27.4	0.5	2.4	2.3	0.1	0.4	4.4
Mar-05	23.6	23	0.5	2.6	2.6	-0.1	0.6	7.5
Jun-05	21.5	20.2	1.3	2.4	3	-0.6	1.9	23.8
Sep-05	15.9	15.5	0.4	2.4	2.1	0.3	0	0.4
Dec-05	7	6.3	0.8	1.4	0.4	1	-0.2	-2.4
Mar-06	4	3	1	0.1	-0.2	0.3	0.7	9.6
Jun-06	-3.1	-3.2	0.1	-0.2	-0.5	0.3	-0.2	-2.1
Sep-06	-4.3	-8.5	4.2	0	-0.9	0.9	3.3	46.1
Dec-06	-3.3	-5.8	2.5	0.3	-0.8	1.1	1.4	18.7
Mar-07	-4.3	-6	1.7	-0.5	-0.6	0.1	1.6	20.8
Jun-07	-5.8	-7.9	2.1	-0.6	-0.4	-0.1	2.2	29.5
Sep-07	5.9	-0.1	6	0.4	0.2	0.3	5.8	74.9
Dec-07	6.2	2.5	3.7	1.1	0.9	0.2	3.5	45
Mar-08	12.7	7.8	4.8	10.6	3.1	7.5	-2.7	-33.1
Jun-08	56.4	31.8	24.6	5.3	2.9	2.4	22.2	240.5
Sep-08	35.9	25.5	10.4	2.8	3.4	-0.5	10.9	127.4
Dec-08	36	28.6	7.5	4.9	5.3	-0.4	7.9	92.1
Mar-09	83.2	36	47.2	6.9	3.1	3.8	43.4	542.5
Jun-09	43.7	43.2	0.5	3.6	3.5	0.1	0.4	5
Sep-09	47.8	42.6	5.2	-7.8	3.5	-11.3	16.5	206.25
Dec-09	47	41.5	5.5	0.4	3.8	-3.4	8.9	111.25
Mar-10	27.5	22.9	4.6	2.5	1.8	0.7	3.9	48.75
Jun-10	40.6	37.9	2.7	2.9	3.2	-0.3	3	37.5
Average Annualized outperformance over long 10 year cash in bps								67.60

Note: this assumes that you buy 10 year futures 3m to expiry and roll them at first notice

Source: 2100 Xenon, Bloomberg. Data as of 8/10 . These results are estimates and are subject to restatement. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. This material is for investment professional use only and is not intended for public distribution.

Through convergence, a typical futures investor could make upwards of 25% on their cash

March 2011 Long Bond

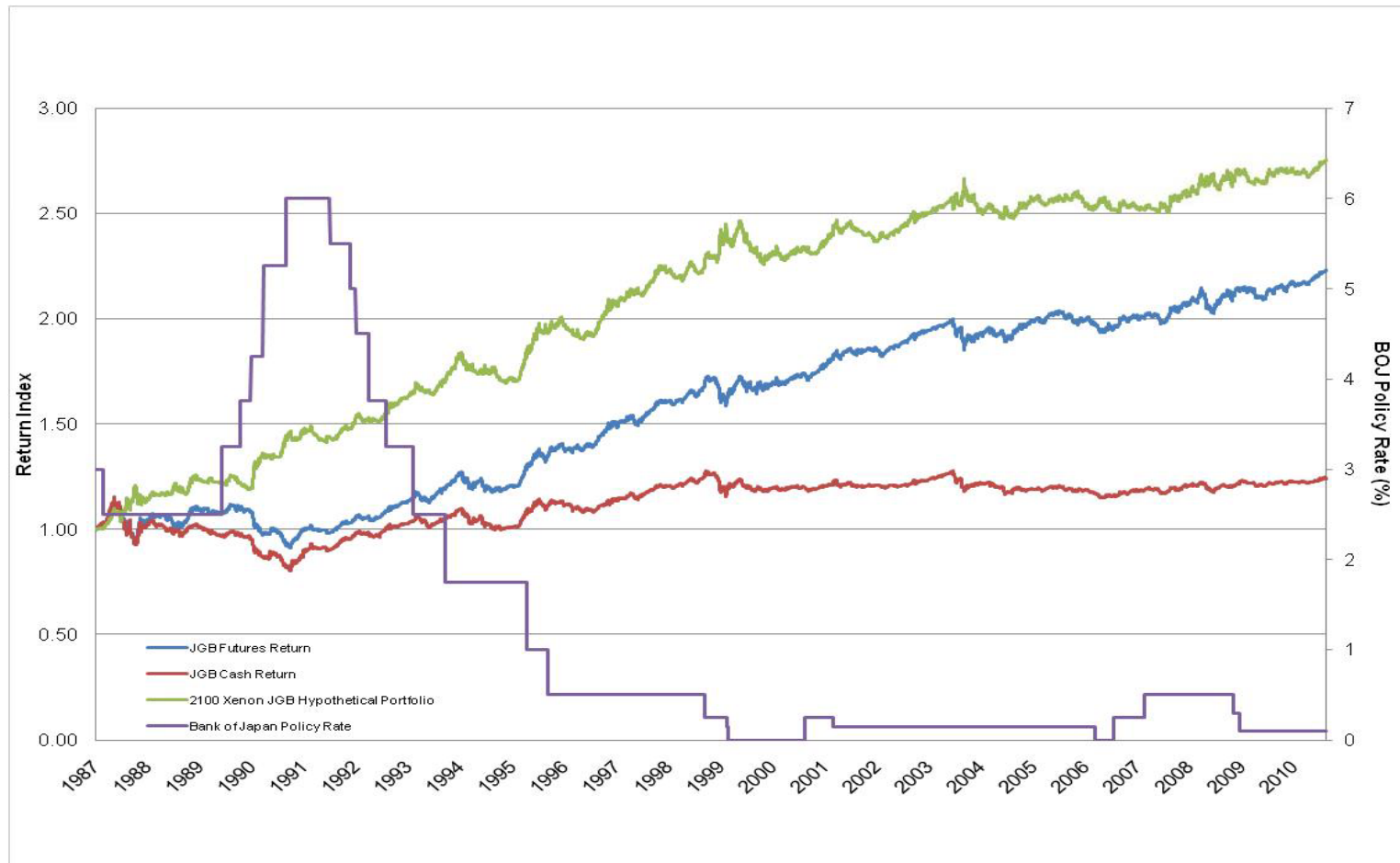
Futures Contract Value	Initial Margin Per Contract	Possible Net of Carry Convergence	Carry Per Contract	Annualized Return on Margin	Annualized Return on 20% Margin
129,468.75	3,375	875	4,116	190.9%	24.9%

These results are estimates and are subject to restatement. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. This material is for investment professional use only and is not intended for public distribution.

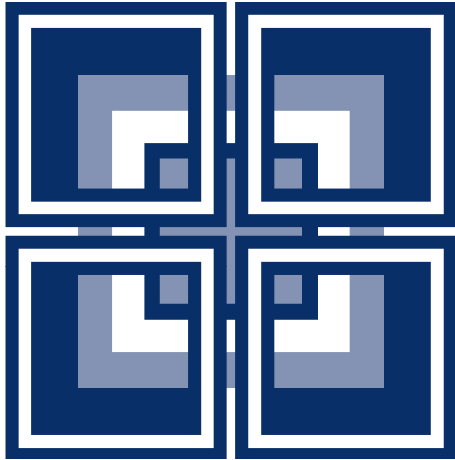
FOR DISCUSSION PURPOSES ONLY – NOT APPROVED FOR PUBLIC DISTRIBUTION.

This is not just a US phenomenon. In Japan, rolling long futures positions outperformed cash while short rates remained flat

Government 10Y Yields: 1989 to Present



Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS



Scenario 2: Interest Rates Fall

If rates fall, fixed income futures strategies will outperform cash investments based on basis convergence, current longs, and leverage

- The long futures position will be paid the carry as well as the delivery option price
- Carry is equivalent to a long cash investment due to negative implied repo rates, but without the need for cash (10 year futures run at 4% margin to equity)
- Currently, most momentum strategies have a long bias, thus poised to capitalize from this scenario

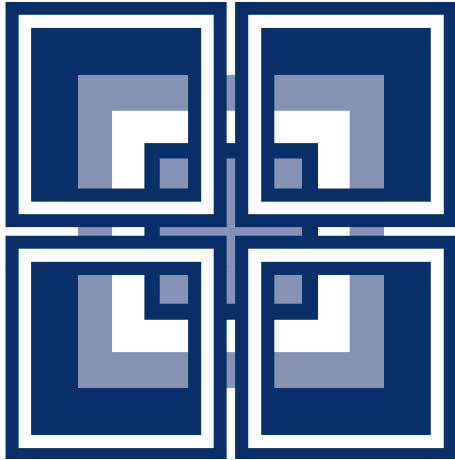
If rates fall, gains are realized on the capital appreciation as well as the convergence made in the flat scenario

March 2011 Long Bond

Futures Contract Value	Initial Margin Per Contract	Possible Net of Carry Convergence	Carry Per Contract	Annualized Return on Margin	Annualized Return on 20% Margin
129,468.75	3,375	875	4,116	190.9%	24.9%

These results are estimates and are subject to restatement. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. This material is for investment professional use only and is not intended for public distribution.

FOR DISCUSSION PURPOSES ONLY – NOT APPROVED FOR PUBLIC DISTRIBUTION.

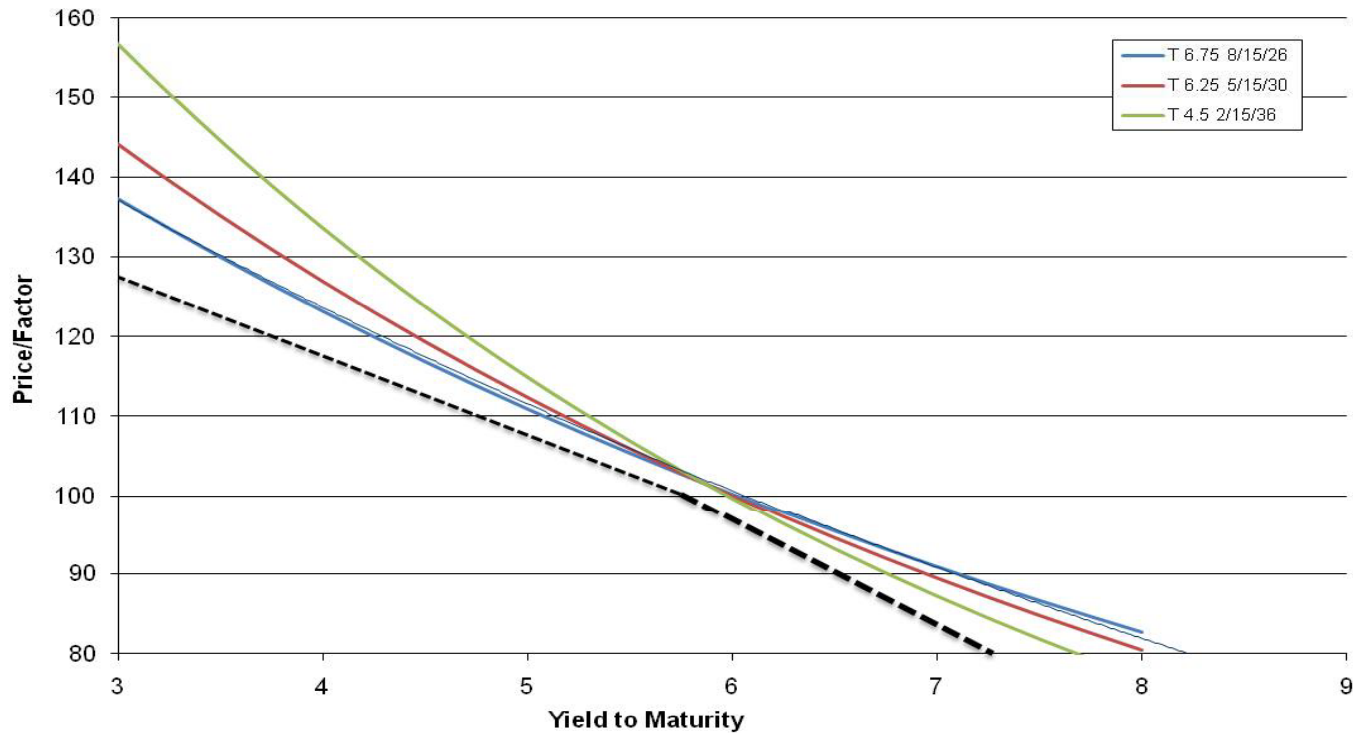


Scenario 3: Interest Rates Rise

Futures are negatively convex instruments so as rates rise they fall faster, outperforming the cash

Futures Price Profile Given Deliverable Basket

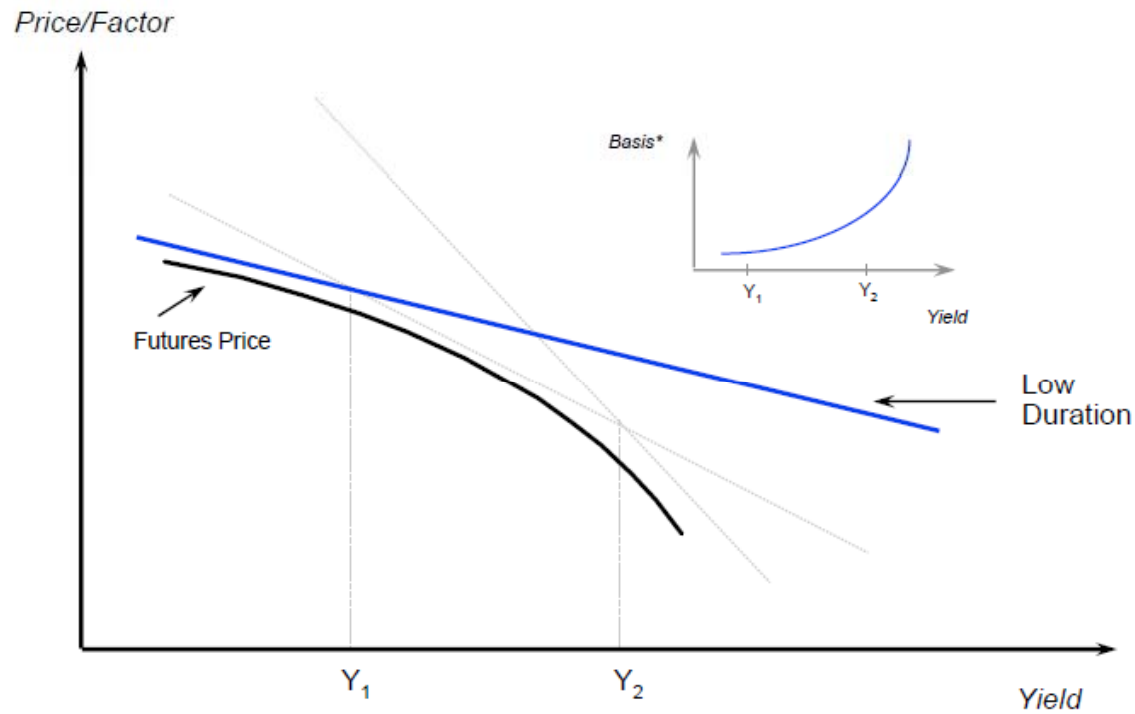
US 30Y Future Pricing Profile



Source: Bloomberg. Data as of 8/10

Today the deliverable bond has the lowest possible duration. This creates the greatest number of possible bond switches as rates rise

Futures Price Profile Given Deliverable Basket



* Basis = Price - Factor x Futures

Disclosures

These materials have been provided to you for informational purposes only and do not constitute an offer or solicitation for the purchase or sale of any security. This presentation is not a complete summary of the terms of the services offered by 2100 Xenon Group LLC (the “Investment Manager” or “2100 Xenon”) or the background information of persons associated with the Investment Manager, and is qualified in its entirety by, and must be read in conjunction with, more detailed information regarding the Investment Manager and its investment programs and products (together, the “Investment Programs”), including but not limited to its Disclosure Document available upon request to 2100 Xenon.

There can be no assurance nor should it be assumed that future investment performance will conform to any performance examples set forth in this presentation. The investment results and portfolio compositions set forth in this presentation are provided for illustrative purposes only and are not indicative of the future investment results and portfolio compositions of the investment programs conducted by the Investment Manager. The composition and size of, and risks associated with, the Investment Programs may differ substantially from those examples set forth in this presentation. There can be no assurance that future investments will perform in accordance with the investments described in this presentation or that the investments will be able to avoid losses. **Past performance is not indicative of future results.**

This presentation contains statements which constitute forward-looking statements. These statements include statements regarding the intent, belief or current expectations of the Investment Manager with respect to, among other things: (i) the diversification of the Investment Programs; (ii) the ability to identify investment opportunities; and (iii) the performance of the Investment Manager. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors.

The Investment Programs are speculative, may involve substantial risk and may not be suitable for all investors - please consider the charges, risks, expenses and investment objectives carefully before investing. Investments in the futures and commodity markets can be volatile and carry certain risks; such risks may result in greater price volatility. Certain of the Investment Manager’s products may only be offered to institutional investors and high net worth individuals.

The presentation is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person. **The presentation is for intermediary use only and has not been approved for public distribution.**

Garrison Hill Capital Management Inc.



Garrison Hill Multi-Strategy LP I (Fundamental Global Macro)

STRICTLY PRIVATE AND CONFIDENTIAL



Introduction to Garrison Hill Capital Management Inc.

- Garrison Hill Capital Management Inc. (Garrison Hill) is a ‘macro’ focused wealth management firm located in Toronto, Canada.
- Garrison Hill helps clients understand the global events that will impact their ability to preserve and grow wealth for future generations.
- Garrison Hill was founded in 2006, prior to the start of the financial crisis, and has provided its clients with positive returns, capital preservation, and low volatility through its flagship Fund, as well as its discretionary managed accounts.

Fund Overview – Risk and Return Goals & Comparative Performance

- The Fund has an absolute return target of 10-15% annually, irrespective of market conditions.
- The Fund targets a volatility of approximately one-half the major equities indices (~10%)
- Since inception the Fund has provided positive returns, with low volatility and virtually no correlation to the major equity indices

	Total Return	Volatility
Garrison Hill	+14%	6%
S&P/TSX	-9%	19%
S&P 500	-25%	20%
Scotia Cdn Hedge Fund Index	+1%	11%

Note: All data is approximated as at August 31, 2010. Inception of Fund as at March 2007.

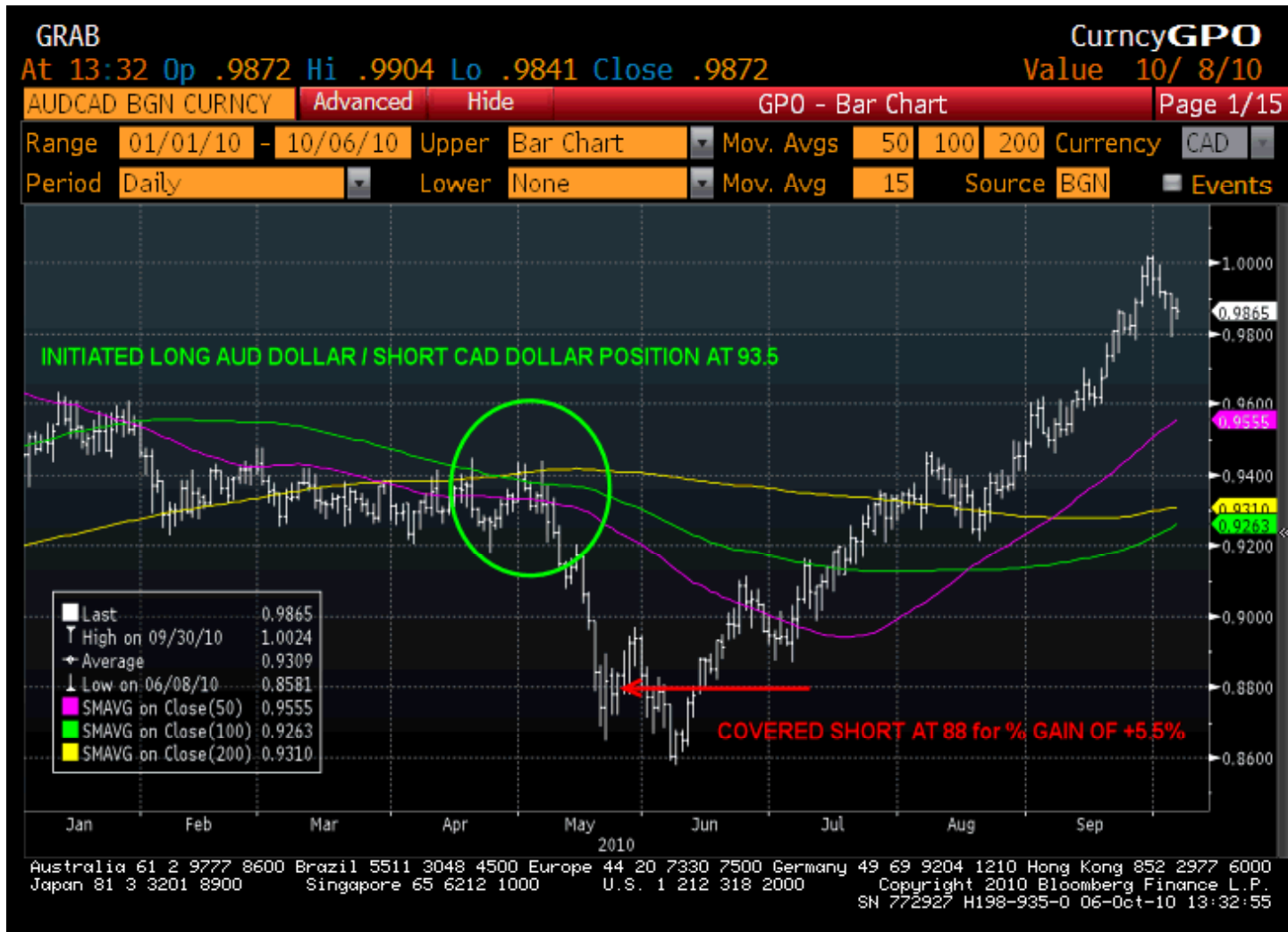
Fund Overview – Investment Strategies

- The Fund is actively managed and uses long and short strategies in a broad range of asset classes such as currencies, commodities, fixed income, and equities in order to achieve its investment objective.
- The Fund may utilize a variety of instruments to achieve the exposure including exchange traded products such as equity and futures or over-the-counter derivative products such as foreign exchange forwards or credit default swaps.
- The Fund will generally be carrying several investment themes/positions across various asset classes and instruments.
- **The goal of the Fund is ultimately to create investable ideas from the rapidly changing ‘macro’ events.**

Fund Overview – AUD/CAD Currency Example

- In April/May, we believed that the Canadian dollar would outperform the Australian dollar in anticipation of the Bank of Canada stepping up the pace of interest rate hikes relative to the Reserve Bank of Australia
- RBA was further ahead in the rate hiking cycle than BOC (RBA had raised rates 1.75% while BOC was still at 0.25%)
- Narrowing of short term interest rate differentials should see the Canadian dollar outperform the Australian dollar.
- Analysis of Canadian economic data, Bank of Canada language suggested further rate hikes. Our prediction earlier in the year was that the BoC would raise rates 1.00%-1.25%

Fund Overview –AUD/CAD Currency Example



Fund Overview – AUD/CAD Currency Example

- Fund achieved a 5.5% gain on the position on a notional position representing 20% of the Funds assets for a total Fund gain of +1.1%
- Trade developed very quickly and has since reversed due to sluggishness in US data which affects Canada directly and continued strength in Australian economy due to strong Chinese growth.
- There will be opportunity to enter the trade from either side depending on our judgment of market conditions, economic conditions and probably policy action.
- Alternative we can choose to ‘do nothing’
- We used currency futures to create this position but we could have used the spot market, forward markets (OTC derivatives) or options (OTC)

Fund Overview – Bullish Gold Examples

- In 2009 we reversed our prior bearish position on Gold due to favorable supply/demand dynamics, our view of increasing monetary intervention and uncertain investing environment
- We predicted \$1300 gold would be achieved in short order and chose to express this position two general ways.
- Direct gold equity investments and investment in the Gold futures
- Our reasons for buying gold equities was that they were ‘cheap’ if one assumed a gold price of greater than \$1000 for several years and the stocks had numerous catalysts which would still cause the prices to move higher (i.e. takeover, financing, reserve additions) even without gold rallying.

Fund Overview – Equity Options Structure on Osisko Mining Corporation

- We were convinced on the fundamentals of Osisko Mining Corporation (OSK: TSX). OSK has a \$5 billion market cap. 1-2 million shares average daily volume.
- At the time the stock was trading at \$8 and we entered into the following transaction
 - Sold 3000 October 7.00 PUTS
 - Bought 1500 October 10.00 CALLS
 - Sold 1500 October 11.00 CALLS
- This is a bullish strategy with capped upside, financed by the sale of puts so that it had ‘positive carry’

Fund Overview – Equity Options Structure on Osisko Mining Corporation



Fund Overview – Equity Options Structure on Osisko Mining Corporation

- Made +200K (max profit) on the transaction.
- Trades were done in the ‘upstairs market’ meaning that Garrison Hill executed with a Broker that used their own capital and then put the trade up through the MX.
- Much of the Canadian market for larger sized trades requires a Broker to commit capital, unlike the US where there is deeper liquidity.

Summary – Global Macro

- “Alpha” is generated by the careful analysis and consideration of changing economic, political and market conditions.
- We will try to anticipate changes in the value of many markets and can use long/short or relative value strategies to capture the profit.
- **Fundamental global macro investors are on the forefront of economic thinking as it is a requirement to produce returns.**

Contact Information

Garrison Hill Capital Management Inc.

Thomson Building

Suite 440, 65 Queen Street West

Toronto, Ontario M5H 2M5

www.ghcm.ca

For further information please contact:

Michael Yhip, President & Chief Investment Officer

Tel. (416) 203-2212

Fax (416) 361-6181

Email michael@ghcm.ca

Brett Baker, Analyst

Tel. (416) 203-2212

Fax (416) 361-6181

Email bbaker@ghcm.ca

Disclaimer

Garrison Hill provides investment advisory services through Garrison Hill Multi-Strategy LP I (the “Fund”) the Garrison Hill European Crisis Fund, and through separately managed discretionary portfolios. The material presented herein is for informational purposes only and should not be construed as providing investment advice or an offer to sell to units in the Fund(s). Important information about the Fund(s) is contained in Fund constating agreements and Offering Memorandum and should be read carefully before investing. Past performance is not indicative of future results.