BARCLAY MANAGED FUNDS REPORT

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• REPRINT •

BARCLAY FUND REVIEW

Conquest Capital LLC

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Richard Silver and Marc Malek, Conquest Capital LLC

Conquest Capital, an affiliate of Camelot Partners, is managed by Marc Malek, the former head of Global FX Exotic Derivatives for UBS, and Richard Silver, the former head of Global FX Proprietary Trading for UBS. Camelot Partners currently manages $230 million in four funds and a managed account, $80 million of which is managed by Conquest Capital.

Conquest Capital's trading philosophy can be summed up in three key principles: Recurrent patterns can be profitably exploited in highly liquid markets; systematic, disciplined trading is superior to non-systematic trading as a way to exploit these patterns; and extensive human trading experience is necessary to design and trade a superior program. Conquest Capital therefore believes that there are two critical elements to its success: the experience and judgment of its principals and the quality of its trading programs.

Managing Partners

Mr. Malek and Mr. Silver worked together at UBS prior to founding Conquest Capital. Rich Silver is a graduate of Wharton and began his career as a floor trader on the PHLX and the CME for O'Connor and Associates, a premier derivatives boutique in Chicago, eventually becoming one of the lead portfolio managers in the currency derivatives business. In 1990, he joined Bankers Trust where, as co-head of FX derivatives, he merged disparate operations in New York, Tokyo, and London into a global portfolio and seamless trading operation. From Bankers Trust, Silver was hired in 1993 to build a similar operation at the Union Bank of Switzerland, and by 1997 commanded one of the largest and most profitable currency option portfolios in the world.

Marc Malek started his career in 1992 at Salomon Brothers in New York as a financial analyst in the Financial Strategy Group. From Salomon, he was hired in 1993 to KB Currency Advisors ("KB"), a $400 million hedge fund and financial advisory firm. For the next two years, Malek traded currency options and worked on developing proprietary trading programs. He joined UBS in 1995, where he was the worldwide head of the Exotic FX Derivatives Group; and by the time he left the bank in 1998, held the post of Executive Director in charge of FX Proprietary Trading in Europe. Malek graduated with Honors from Caltech with a BS in

At a Glance:
Conquest Macro Fund

Total Firm Assets:	$230 million
Strategy Assets:	$80 million
No. of Employees	7

Account Information

Minimum Investment:	$250,000
Margin/Equity Ratio:	15%
Roundturns/$million/year:	5500

Performance Analysis

Start Date:	May, 1999
Total Return:	78.9%
Compound Annual Return:	18.57 %
Worst Drawdown:	10.77%
Sharpe Ratio:	0.68
% of Winning Months:	56.10%
Average gain:	5.84 %
% of Losing Months:	43.90%
Average loss:	-3.79 %

Correlations

Barclay CTA Index:	+0.64
S&P 500:	-0.06
U.S. T-Bonds:	+0.10
World Bonds:	+0.16
EAFE:	+0.02

Annual Returns Past 4 Years

1999 (partial)	-2.34%	2001	2.21%
2000	43.35%	2002 YTD	25.09%

Past results are not necessarily indicative of future performance.

Results from inception to June 2001 are based on the record of Marc Malek, as principal of Enterprise Asset Management, LLC.

Engineering and Applied Science, and holds a BA in Mathematics from Reed College. While at Caltech, he did extensive research on Neural Networks and Decision Support Systems, and was awarded a grant from the Pentagon through the Caltech Summer Undergraduate Research Fellowship to conduct research on computer-based decision systems.

The partners have built and managed proprietary trading businesses in foreign exchange and derivatives markets in the U.S., Europe, and Asia, which have generated over $200 million in annual revenues and employed 120 people globally.

A free exchange of ideas and information has developed from the partners' long experience working together. This open communication enables Conquest Capital to incorporate the insights gleaned from the principals' years of trading experience.

The Program

The Conquest trading program is based on three broadly defined trading models: short-term opportunistic, medium-term trend following, and short-term counter-trend. The models' positions are completely independent of each other (the average correlation between the models' returns is .20), and their weights are carefully balanced to provide the best risk-adjusted portfolio returns.

While the models look for different opportunities across different time frames, the common thread is their use of underlying volatility as an indicator for trade entry. All of the models enter positions after a period of contracting volatility, and benefit from its subsequent expansion. "As price consolidates around a point and volatility comes off, it usually means the market is positioning for a move. We have found that the biggest and most violent portion of a price move occurs directly after this period of relative quiet, during the first portion of its breakout," says Marc Malek. "In addition, entering positions at low-vol minimizes the risk of being knocked out of the trade by market noise. This strategy allows the Conquest program to replicate a long option portfolio, and thereby provides insurance to portfolios in shock environments or in times of general market uncertainty."

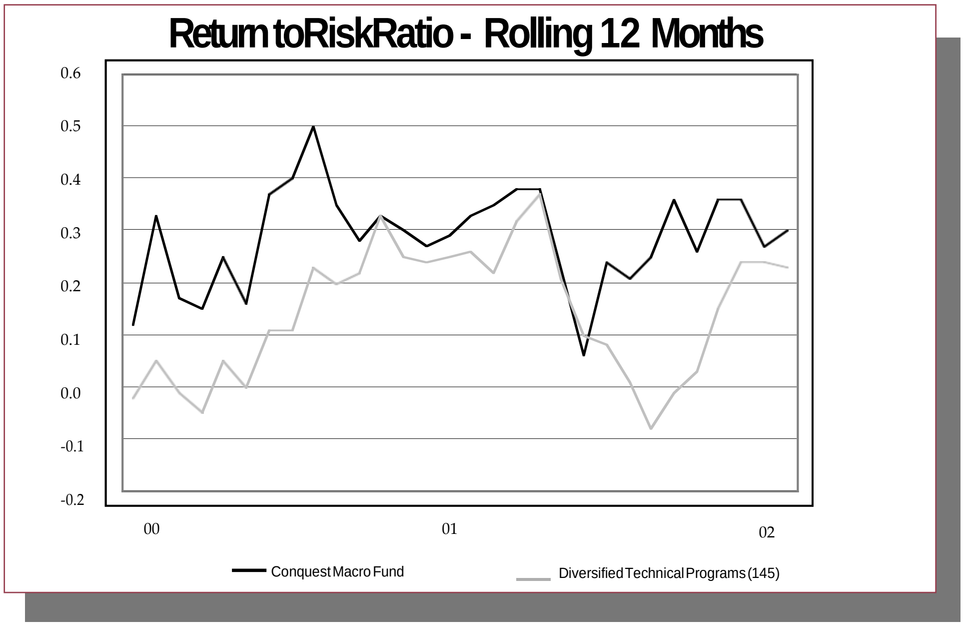

Figure 1

"As price consolidates around a point and volatility comes off, it usually means the market is positioning for a move. We have found that the biggest and most violent portion of a price move occurs directly after this period of relative quiet, during the first portion of its breakout..."

- Marc Malek

"It's important to realize that the trading program is not a substitute for experienced human judgment," says Rich Silver. "The program can do nothing on its own. Experienced traders need to review and monitor the program and are interposed between the program and actually executing orders. The program is a tool to enable us to do our jobs more efficiently and to force us to maintain the discipline that is key to successful trading."

Malek concurs, "The program distills years of our experience trading a wide variety of markets. As we continually improve our own trading skills, we continually improve the program."

Controlling Risk

"Limiting losses is key to superior long-term returns," says Malek. Conquest uses a number of strategies to control risk. First, Conquest trades only in highly liquid markets. In addition, Conquest trades a wide variety of markets, including over 30 foreign exchange and futures markets. The foreign exchange portfolio consists of ten major currencies and currency crosses. The futures portfolio consists of the most liquid fixed-income, energy, metal, and stock index futures, half of which are traded on international exchanges. Besides decreasing overall portfolio volatility, international diversification allows Conquest to mitigate the risk of news-driven price shocks by being able to take offsetting positions in any market sector at any time.

Finally, Conquest firmly controls risk by running tight stops on all positions at all times. As Malek explains, "The programs are designed to calculate stop losses for every position, and we make sure they are executed."

Volatility

While Conquest wins slightly less often than it loses (about 42% of trades are winners), profitable trades are more than twice the P&L of losing trades. Every so often Conquest sees many of its bets win in a big way, usually when several markets have simultaneous violent moves to new equilibria. Conquest runs a long volatility strategy, unlike many funds, such as mortgage funds and relative value funds, which are implicitly short volatility. As a result, Conquest is positioned to benefit from a dramatic expansion in volatility; and when this occurs, Conquest achieves outsized returns. This tends to make the return stream more volatile.

Malek doesn't think this is a bad thing. "This is the kind of volatility we like. Investors shouldn't care about upside volatility as long as we can control downside volatility and have proven an ability to take money off the table and guard our profits, another advantage of our short-term focus. If you really want to look at risk in the CTA world, you should focus on downside volatility, or even better, look at a program's propensity for drawdown (the classic problem of CTAs after they see big profits). Measuring return on a risk-adjusted basis is valuable, but only if you are looking at a true representation of risk."

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>
> ***- Rich Silver***

Peer Group Comparison

In Figure 1 (previous page) we compare the rolling 12-month risk-adjusted returns for Conquest with those of its peer group, which consists of 145 diversified technical CTA programs. Risk-adjusted returns are calculated by dividing the 12-month rolling average of the monthly returns by the 12-month rolling average of the standard deviation. Since its inception in May 1999, Conquest has exceeded the risk-adjusted return averages generated by its peer group, oftentimes by very significant margins, in all but two of the thirty time-periods. Additionally, Conquest has never had a losing 12-month period. Its worst absolute 12-month rolling return since inception was positive 2.21%, while its best absolute 12-month period return equaled 43.4%.

The risk-adjusted comparison is even more impressive taking into account Conquest's low average 15.5% margin-to-equity ratio, which allows it to scale up its absolute returns based on investor preferences without any borrowing costs. In addition to its main program, Conquest offers a three times leveraged program based on the same investment strategy. ◊

This reprint is provided as a courtesy from the Barclay Managed Funds Report. Conquest Capital, the trading advisor to the Conquest Funds is wholly owned by Camelot Partners. For more information on the Conquest Funds, please contact us directly:

Conquest Macro Funds:

- Single Leverage Onshore
- 3X Leverage Onshore
- Single Leverage Offshore
- 3X Leverage Offshore

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