



Conquest Risk Aversion Paper – September 2013 Update

We originally published our analysis of the relationship between market risk appetite and hedge fund performance in October of 2005. At the time, our statistical and fundamental research indicated that risk had become oversold. Our thesis was that a rise in risk aversion would prove unfavorable for hedge funds. Since its release, we have updated the study every few months to keep the analysis current but have not materially changed the content.

The uniformity of losses across hedge fund strategies during 2008 and stronger hedge fund performance during 2009 would seem to confirm the analysis of our original study: that most hedge fund strategies are extremely sensitive to systemic risk. However, with more than seven years since the Conquest Risk Aversion Index's release, we also have the luxury of conducting some empirical analysis. By comparing the relationships between risk appetite and hedge fund returns both before and after the publication of the index, we can determine whether the Conquest Risk Aversion Index has been an effective tool for analyzing hedge fund returns. We present the in-sample and out-of-sample results in Table 1.

Figure A: Comparison of In-Sample and Out-of-Sample Results of the Conquest Risk Aversion Index

Index	In-Sample			Out-of-Sample			Relationship to Risk Aversion	Wider?
	Risk-Seeking Daily Return	Risk-Averse Daily Return	Spread	Risk-Seeking Daily Return	Risk-Averse Daily Return	Spread		
HFRX Indices								
Global Hedge Fund	0.033%	(0.096%)	0.129%	0.037%	(0.092%)	0.129%	SAME	YES
Equal Weighted Strategies	0.027%	(0.075%)	0.101%	0.032%	(0.075%)	0.107%	SAME	YES
Convertible Arbitrage	0.005%	(0.122%)	0.126%	0.042%	(0.151%)	0.194%	SAME	YES
Distressed Securities	0.048%	(0.080%)	0.129%	0.013%	(0.078%)	0.091%	SAME	
Equity Hedge	0.039%	(0.115%)	0.153%	0.043%	(0.120%)	0.163%	SAME	YES
Equity Market Neutral	(0.006%)	(0.010%)	0.004%	0.003%	(0.012%)	0.015%	SAME	YES
Event Driven	0.049%	(0.074%)	0.122%	0.044%	(0.084%)	0.128%	SAME	YES
Macro	0.036%	(0.129%)	0.165%	0.020%	(0.054%)	0.074%	SAME	
Merger Arbitrage	0.019%	(0.004%)	0.023%	0.032%	(0.024%)	0.056%	SAME	YES
Relative Value Arbitrage	0.020%	(0.068%)	0.088%	0.046%	(0.106%)	0.153%	SAME	YES
July 2004 to September 2005								
Absolute Return	0.017%	(0.074%)	0.092%	0.010%	(0.036%)	0.046%	SAME	
Market Directional	0.035%	(0.101%)	0.136%	0.057%	(0.141%)	0.199%	SAME	YES
January 1997 to September 2005								
	Risk-Seeking Monthly Return	Risk-Averse Monthly Return	Spread	Risk-Seeking Monthly Return	Risk-Averse Monthly Return	Spread		
Credit Suisse Indices								
Hedge Fund Index	1.15%	0.06%	1.08%	0.98%	(1.01%)	1.99%	SAME	YES
Convertible Arbitrage	0.85%	0.43%	0.42%	1.22%	(1.59%)	2.81%	SAME	YES
Dedicated Short Bias	(0.94%)	2.03%	(2.97%)	(1.93%)	2.43%	(4.36%)	SAME	YES
Emerging Markets	1.60%	(1.23%)	2.83%	1.33%	(1.71%)	3.04%	SAME	YES
Equity Market Neutral	0.77%	1.01%	(0.24%)	0.00%	(0.21%)	0.21%		
Event Driven	1.30%	(0.16%)	1.47%	1.12%	(1.12%)	2.24%	SAME	YES
Distressed	1.44%	(0.15%)	1.59%	0.97%	(0.76%)	1.73%	SAME	YES
ED: Multi-Strategy	1.25%	(0.20%)	1.46%	1.22%	(1.37%)	2.59%	SAME	YES
Risk Arbitrage	0.77%	0.09%	0.68%	0.63%	(0.34%)	0.97%	SAME	YES
Fixed Income Arbitrage	0.62%	0.01%	0.61%	0.89%	(1.16%)	2.04%	SAME	YES
Global Macro	1.25%	0.60%	0.65%	0.89%	0.00%	0.88%	SAME	YES
Long/Short Equity	1.46%	0.03%	1.43%	1.23%	(1.60%)	2.83%	SAME	YES
Multi-Strategy	0.89%	0.53%	0.36%	1.06%	(1.01%)	2.06%	SAME	YES
Managed Futures	0.25%	1.59%	(1.34%)	0.43%	(0.25%)	0.68%		
Other								
Conquest MFS	0.71%	2.75%	(2.03%)	(0.07%)	1.79%	(1.87%)	SAME	
BTOP50 Index	0.36%	1.38%	(1.03%)	0.24%	0.16%	0.08%		
Newedge CTA Index	0.38%	1.41%	(1.03%)	0.33%	0.00%	0.33%		



The results reinforce the validity of the index. Nearly all of the analyzed hedge fund strategies exhibit the same relationship to market risk appetite in the “live” period as they did in the “testing” period. In fact, the disparity between risk-averse and risk-seeking returns is actually larger in the out-of-sample period for the majority of these indices.

The only indices that have exhibited a different relationship to risk aversion were one of the equity market neutral indices, whose spreads were among the narrowest to begin with, and the managed futures indices, which have all performed better in risk-seeking environments over the past several years.

Although the managed futures result sounds a bit curious, it is actually expected. Over the past decade, there is tangible evidence of a style drift among trend-following CTAs. Whereas these managers used to be more correlated to medium-term breakouts, they are now more correlated to longer-term strategies. As this paper demonstrates, long-term trend-following strategies actually perform better in risk-seeking periods when returns are examined across a daily time horizon. Trend-followers have also become significantly more correlated to hedge funds over this same period.

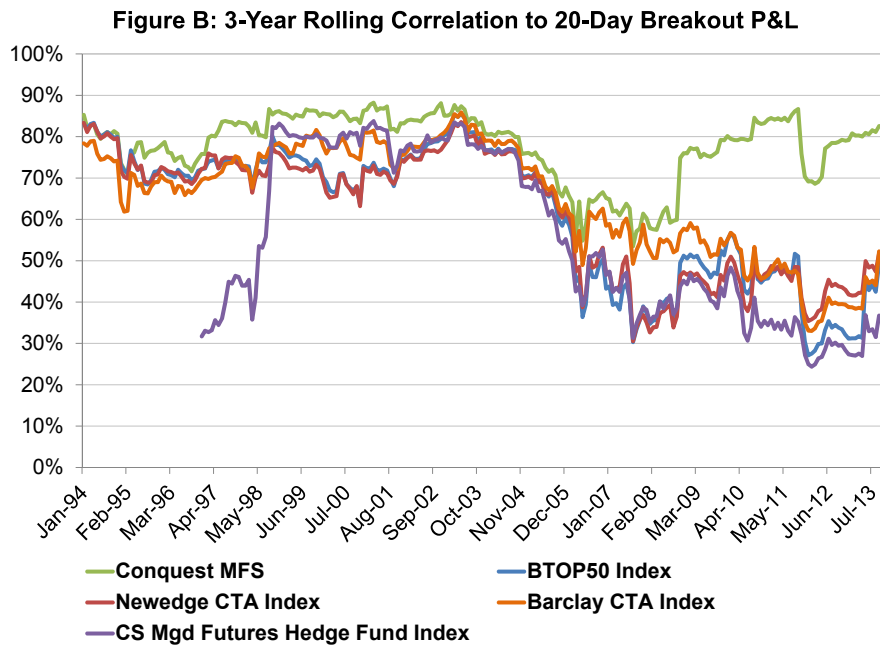




Figure C: 3-Year Rolling Correlation to 150-Day Breakout P&L

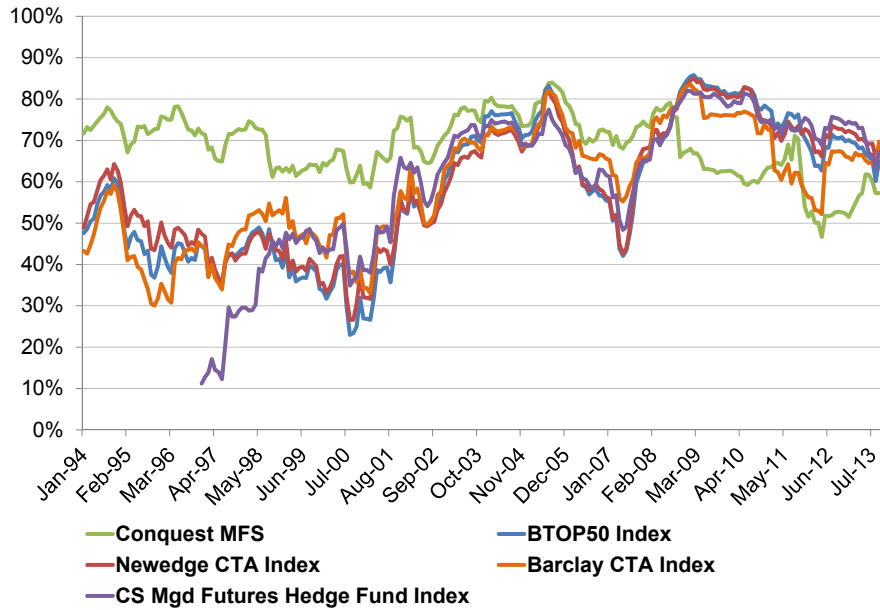
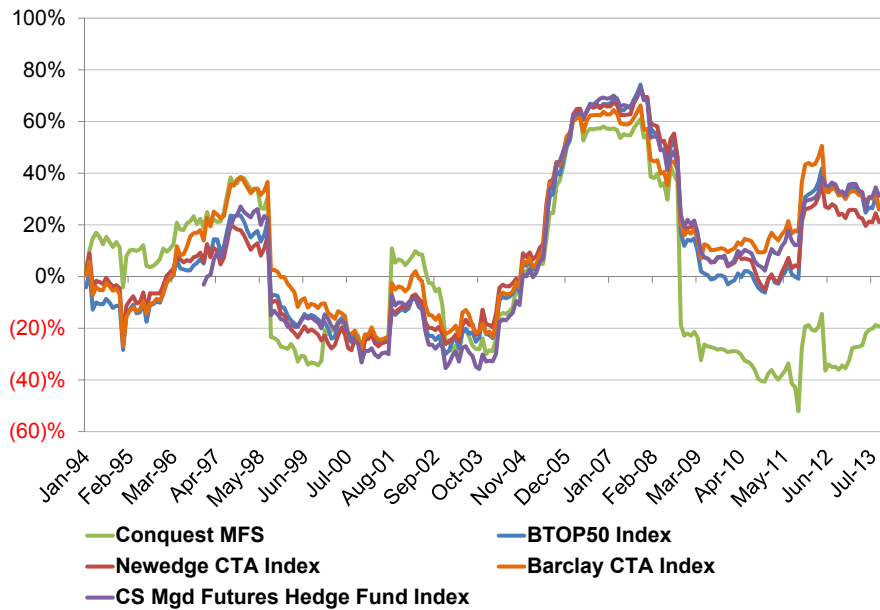


Figure D: 3-Year Rolling Correlation to HFRI Composite Index



This analysis is contradictory to the supposition that CTAs are long-volatility plays, as most CTAs are long-term trend-followers. As we discussed in our November 2009 market letter, we find that strategies that are commonly considered to be effective defensive strategies are less attractive for one of three reasons:



1. The relationship to the change in market risk appetite is not stable but rather dependent on another factor
2. The strategy does not provide a meaningful degree of downside protection
3. Their weaker absolute returns create drag on a portfolio

The one exception to these caveats is a strategy that has a conditional long relationship to volatility. In this vein, we believe that Conquest Managed Futures Select and Conquest Macro can be beneficial additions to existing alternative asset portfolios.

Conquest Managed Futures Select is a transparent strategy designed to provide access to the return properties of trend-following across a variety of time horizons. Originally designed as a fee-appropriate proxy for the CTA space, it has maintained the fidelity to its principal mandate even as style drift has been a defining characteristic of CTA managers. Consequently, while it is still 70% correlated to the major CTA indices, the strategy has maintained the return skew that was characteristic of trend-followers until the past ten years, performing better in risk aversion than during risk-seeking periods.

Figure E: Performance of MFS vs. Managed Futures Indices
Monthly Returns from June 2004 to September 2013

Conquest MFS	Total Return	# of Months	Average	Standard Deviation	Information Ratio	MFS Correlation
Risk-Averse	42.81%	26	1.65%	6.34%	0.90	
Risk-Seeking	(1.36)%	86	(0.02)%	3.70%	(0.01)	
Aggregate	41.45%	112	0.37%	4.48%	0.29	

Credit Suisse Managed Futures	Total Return	# of Months	Average	Standard Deviation	Information Ratio	MFS Correlation
Risk-Averse	(9.64)%	26	(0.37)%	3.31%	(0.39)	66.50%
Risk-Seeking	41.89%	86	0.49%	3.09%	0.55	69.46%
Aggregate	32.25%	112	0.29%	3.15%	0.32	63.64%

Newedge CTA Index	Total Return	# of Months	Average	Standard Deviation	Information Ratio	MFS Correlation
Risk-Averse	(1.97)%	26	(0.08)%	2.37%	(0.11)	74.86%
Risk-Seeking	30.39%	86	0.35%	2.00%	0.61	74.88%
Aggregate	28.42%	112	0.25%	2.09%	0.42	71.13%

Barclay CTA Index	Total Return	# of Months	Average	Standard Deviation	Information Ratio	MFS Correlation
Risk-Averse	4.26%	26	0.16%	1.92%	0.29	74.09%
Risk-Seeking	24.67%	86	0.29%	1.57%	0.63	79.16%
Aggregate	28.92%	112	0.26%	1.65%	0.54	74.73%

BTOP50 Index	Total Return	# of Months	Average	Standard Deviation	Information Ratio	MFS Correlation
Risk-Averse	1.89%	26	0.07%	1.99%	0.13	75.50%
Risk-Seeking	23.41%	86	0.27%	1.71%	0.55	72.46%
Aggregate	25.30%	112	0.23%	1.77%	0.44	70.58%

Conquest Macro uses a blend of short-term trend-following and long-volatility systems to capture profits during periods of volatility expansion, periods the Risk Aversion Index typically characterizes as risk-averse. Conquest Macro supplements these systems with counter-trend and risk capture components to capture profits during periods of diminished or declining volatility.



Since its inception in 1999, the strategy has delivered superior risk-averse performance with limited aggregate downside performance during risk-seeking months. Although it has been shown that the strategy performs best during flights-to-quality, Conquest Macro's diminished losses during risk-seeking periods distinguishes it from short-selling and other traditional defensive strategies.

Although we believe that the macro environment is still precarious, we concede that market behavior can diverge from fundamentals for an extended period, particularly when liquidity has been injected into the marketplace at such a breakneck speed. With the timing of the next mass correction uncertain but the specter of such an event still looming over the market, reducing sensitivity to market risk regime is perhaps even more essential.

Figure F: Conquest Macro Composite Performance from May 1999 to September 2013*

Conquest Macro Performance	Total P&L	# of Months	Average ROR	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	118.44%	40	2.96%	4.76%	2.16	AVERSE
Risk-Seeking	(25.37)%	133	(0.19)%	5.65%	(0.12)	
All Months	93.07%	173	0.54%	5.61%	0.33	

*Conquest Macro results from inception to June 2001 represent the track record of Enterprise Asset Management, LLC, of which Marc Malek was co-principal. From January 1, 2006, full funding of all accounts is assumed and all accounts are assumed to earn the same fees (2% management fee and 20% incentive fee). Rate of return for October 2002 includes one account that began trading October 1, 2002. Because this account was not fully invested on October 1, 2002, the rate of return for this account differs from the existing accounts. If this account had been excluded from the rate of return calculation, the rate of return would have been (1.60)%. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

An investment in the Fund entails a significant degree of risk and is suitable only for persons who can bear the economic risk of loss of their investment, who have limited need for liquidity in their investment and who are either sophisticated persons in connection with financial and business matters or are represented by such a person. The short-term performance of the Fund's investments may fluctuate significantly. The Fund is, therefore, not suitable for short-term investments. Certain risk factors are further explained in the Confidential Offering Memorandum for the Fund, which should be carefully considered by prospective investors before making an investment in the Fund.



Does a Change in Risk Regime Spell Trouble for Hedge Funds?¹

¹The authors of this paper are principals and employees of Conquest Capital Group LLC. Conquest and its affiliates manage approximately \$317 million (as of October 1, 2013) in an array of systematic CTA alpha and beta products. Conquest investment professionals collectively have over 30 years of trading experience building and managing trading businesses of some of the world's premier investment firms. For further information regarding Conquest Capital Group LLC, please refer to the Conquest website at <http://www.conquestcg.com>.

Nothing in this paper is intended to constitute investment advice and no investment fund or program is offered hereby. Certain performance information and returns herein are hypothetical. Hypothetical returns have certain inherent limitations. Unlike an actual performance record simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown.



Abstract

The risk-adjusted returns since inception of most hedge fund indices have been enhanced by a favorable environment and could be susceptible to a decrease in market risk appetite. However, this vulnerability is not uniform; managed futures strategies have proven more robust than other hedge fund strategies, yielding positive returns under both risk-seeking and risk-averse conditions.

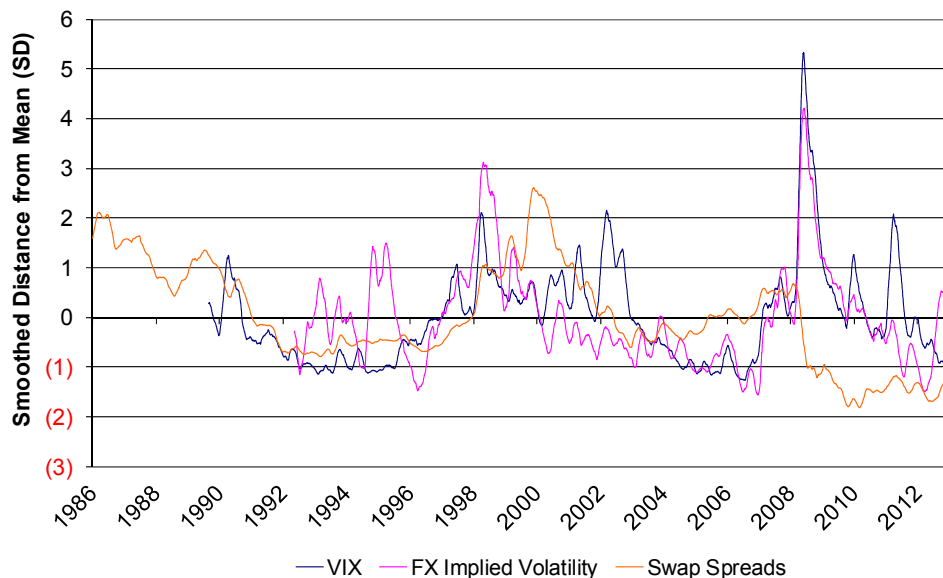
Risk-averse periods tend to cluster. Therefore, the current state of market risk appetite provides information about the future state of market risk appetite. These effects in combination mean that it is possible to enhance portfolio performance by combining a measure of risk aversion with allocations to the managed futures space.

Explaining Hedge Fund Returns

The development of a number of daily, sector-specific hedge fund indices in 2002, most notably those created by HFR and Credit Suisse, has dramatically increased the granularity with which the hedge fund space can be analyzed. These indices painted a rosy picture of hedge fund behavior, with the vast majority of these indices exhibiting positive returns.

However, nearly all of these indices do not report returns before October 2002. Consequently, these returns could be more indicative of a favorable environment than of the long-term strength of a particular class of strategies. In particular, the declining risk premia from 2003 to 2005, evidenced in the form of tighter spreads and cheaper options (see Figure 1), suggested that there might be a relationship between market risk tolerance and hedge fund performance.

**Figure 1: Risk Aversion Indicators Through September 2013:
The Indicators are Largely Below Historical Average Levels**





Measuring Risk Appetite: The Conquest Risk Aversion Index

Market risk appetite can be measured by the level of compensation market participants require in order to assume risk. We identified five prominent characteristics of risk-averse market environments and selected metrics for each risk factor:

1. Reduced Liquidity – Swap Spreads

Wider swap spreads indicate a “flight-to-quality,” wherein the most liquid and creditworthy securities witness a relative increase in value due to increased demand.

2. Increased Credit Risk – Corporate Bond Spreads

Domestic credit spreads reflect the market’s appetite for riskier corporate debt as compared to “risk-free” government debt. Wider spreads indicate that investors are less willing to assume default risk.

3. Increased Emerging Market Event Risk – Emerging Market Bond Spreads

Whereas domestic credit spreads reflect risk premia for lesser-quality domestic debt, emerging market credit spreads reflect investors’ willingness to assume the risk of default or reduced stability in more speculative regions of the world.

4. FX Volatility – FX Implied Volatility

FX Implied Volatility is used to gauge confidence in exchange rate expectations. The demand for greater compensation by option writers indicates a lessened willingness to assume exchange rate risk.

5. Equity Volatility – VIX

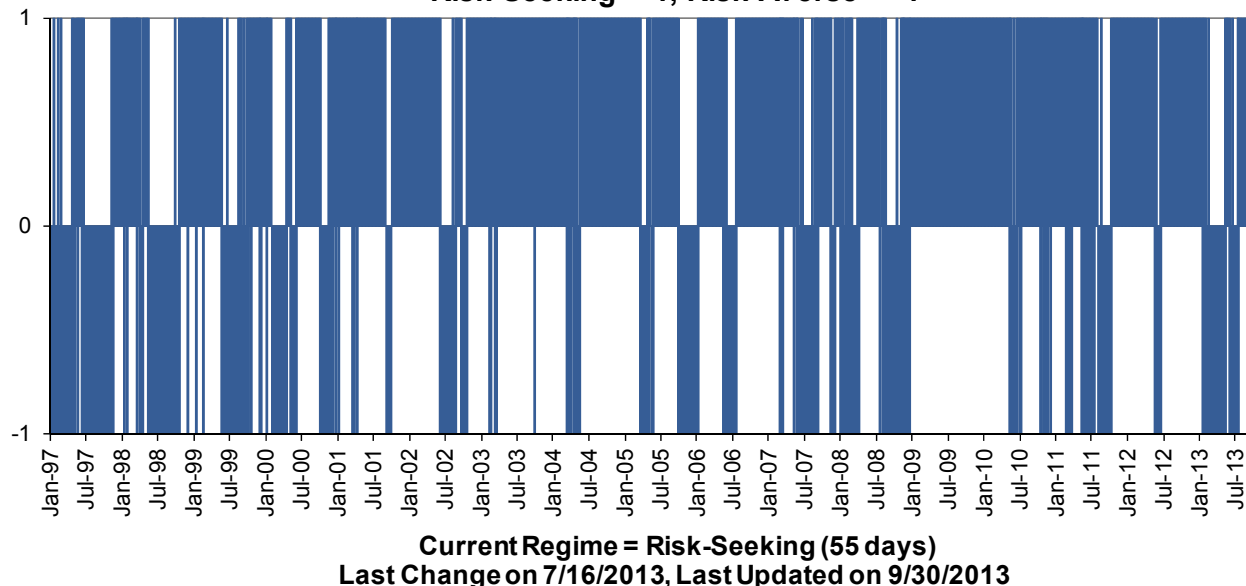
Domestic equity volatility is similarly indicative of option writers’ confidence in the level of valuation of the equity of domestic corporations.

We calculate a risk aversion score for each indicator based on its level relative to that specific indicator’s recent history. If an indicator is above a certain threshold it is considered to be in risk-averse mode.

The Conquest Risk Aversion index is a composite based on the status of all five indicators, which indicates whether the global environment is risk-averse or risk-seeking. The index itself is binary: if *at least two* indicators are risk-averse, the index deems the prevailing environment risk-averse. Otherwise, the risk regime is considered risk-seeking. The historic levels of the Conquest Risk Aversion Index are shown in Figure 2.



Figure 2: Conquest Daily Risk Aversion Index
Risk-Seeking = 1, Risk-Averse = -1



Risk Appetite Was Above Average until the Middle of 2007

Figure 2 suggests that the market generally is in risk-seeking mode. The descriptive data, shown in Figure 3, confirm this assessment. However, Figure 2 also indicates that the levels of the index can diverge significantly from their historical norms. Examining the Conquest Risk Aversion Index from January 2003 through June 2007, we see that 202 of the 1,170 days, or 17.3%, have been categorized as risk-averse. The frequency in this period was well below the 28.8% average we have seen since index inception.

Figure 3: Recent Levels of the Conquest Risk Aversion Index vs. Its Historical Performance
From January 2, 1997 to September 30, 2013

	Since Index Inception	From Inception to December 31, 2002	From January 1, 2003 to June 30, 2007	From July 1, 2007 to December 31, 2008	From January 1, 2009 to September 30, 2013
Total Days	4357	1560	1170	392	1235
Regime Changes	125	44	25	26	31
Risk-Averse Days	1256	630	202	178	246
Percent Risk-Averse	28.8%	40.4%	17.3%	45.4%	19.9%
Average RA Run Length	10.0	14.3	8.1	6.8	7.9
Risk-Seeking Days	3101	930	968	214	989
Percent Risk-Seeking	71.2%	59.6%	82.7%	54.6%	80.1%
Average RS Run Length	24.8	21.1	38.7	8.2	31.9
Percent Risk-Averse over Cycle			30.5%		26.1%

Volatility and spreads have historically been cyclical, as is apparent from Figure 1. Thus, we would generally expect that a risk-seeking period, one with below average volatility and spreads, will eventually be succeeded by a period of risk aversion, characterized by above-average volatility and spreads. As Figure 1 shows, volatility has certainly fulfilled this pattern, having



spiked above its historical averages during the recent market dislocations and returned to normal and even below normal levels during the recovery.

The level of risk appetite in the markets has been similarly divided, albeit that the aggregate level of risk aversion has actually been significantly lower since July 2007. From July 2007 to December 2008, approximately 45% of days were ranked as risk-averse. In contrast, only 19.9% of the days have been risk-averse since January 2009. Despite perceptions of turmoil based on a rather broad range of headlines, this most recent period has been extraordinarily risk-seeking with only 10 months among the past 57 tipping to the risk-averse categorization.

Examining Historical Performance across the Hedge Fund Space

We analyzed the risk-adjusted performance of twelve of HFR's daily indices under different market risk regimes. The key metric by which we evaluated the indices was the Information Ratio, which is simply the annualized return divided by the annualized volatility.

We used the Information Ratio as our basis for comparison because its calculation is dependent only on the performance of the asset; it is insensitive to external factors such as risk-free rates of return. This insensitivity was essential because different hedge fund sectors have different volatilities and rates of return. Consequently, adding other variables could have skewed the results.

Our findings were unambiguous: **all 12¹ indices performed significantly better under risk-seeking regimes.** In fact, even the most defensive strategy, the HFRX Equity Market Neutral index, exhibited this return distribution. These results are documented in Appendix 1.

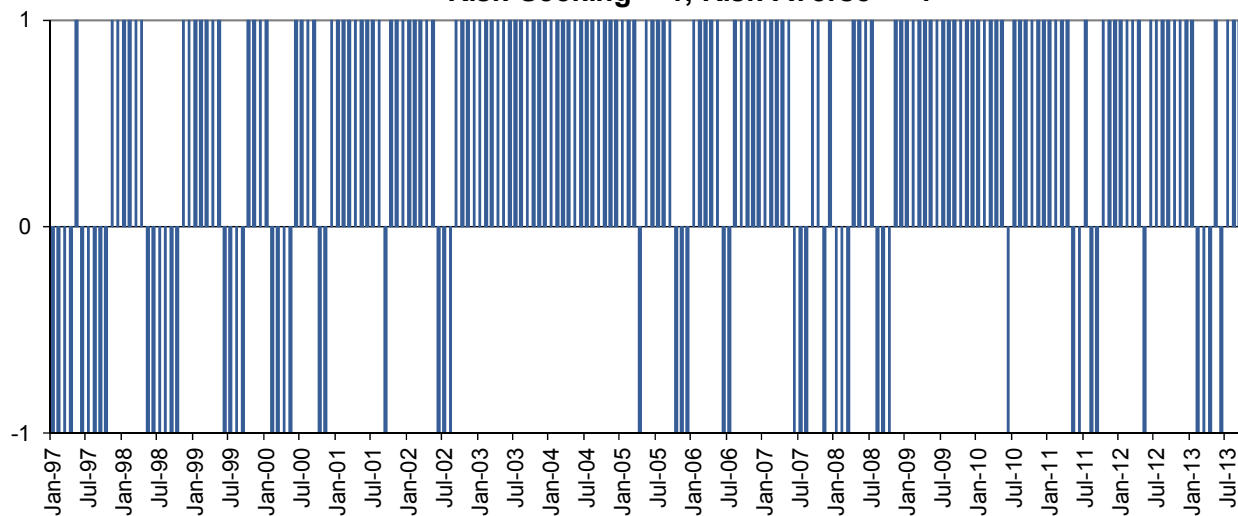
Our results suggest that the high level of risk appetite witnessed from 2003 to mid-2007 may explain why hedge fund strategies performed better during that period than might be expected under more representative conditions. We therefore sought to reexamine the space's returns over the life of our risk aversion index. Given the relatively short history of daily indices, we were forced to turn to monthly indices to test this hypothesis. Utilizing monthly indices also has the advantage of more accurately representing a minimal investment horizon.

To transform the Conquest Risk Aversion Index into a monthly indicator, we defined a month as risk-averse if more than half of the days were risk-averse. We found the frequency of risk-averse months to be quite similar to that of risk-averse days; 55 out of the 201 months (27.4%) were categorized as risk-averse, whereas 28.8% of the days were similarly categorized. The monthly index is shown in Figure 4.

¹ Our original analysis included the S&P Equity Long/Short Index and domestic and ex-US sub-indices. However, as of April 1, 2006 Standard and Poor's has opted to not publish daily returns for these indices, instead publishing weekly numbers. Furthermore, S&P stopped publishing daily returns for all of its other hedge fund indices with the exception of the S&P Managed Futures Index on June 30, 2006. Consequently, the S&P Indices have been removed from our analysis, although we believe that this does not compromise the breadth of our study inasmuch as the types of strategies captured by the S&P indices are still represented among the indices analyzed.



**Figure 4: Conquest Monthly Risk Aversion Index
Risk-Seeking = 1, Risk-Averse = -1**



**Current Regime = Risk-Seeking (3 months)
Last Changed July 2013, Last Updated for September 2013**

Having devised a monthly index, we segregated the performance of each index by risk appetite regime much as we had done with the daily indices. The results are shown in Appendix 2.

Our findings were conclusive. The hedge fund space as a whole, represented by the Credit Suisse Hedge Fund Index, performed **significantly** better under risk-seeking regimes than under risk-averse regimes. In fact, the index was not profitable in risk-averse regimes. Similarly, every hedge fund index performed markedly better under risk-seeking regimes with three exceptions: the Dedicated Short Bias Index, the Managed Futures Index, and the Equity Market Neutral Index exhibited stronger performance under risk-averse regimes.

That the Dedicated Short Bias Index performed better in risk-averse regimes is not surprising as the components of that index are designed to have negative correlations to the long equity exposure embedded in many other hedge fund products. Furthermore, a consequence of this negative correlation is that the Dedicated Short Index exhibits the lowest Information Ratio overall.

The stronger performance of the managed futures space in risk-averse periods seemed slightly counter-intuitive because the

**Figure 5: Analysis of MFS Performance vs. Other Managed Futures Indices
Monthly Returns from January 1997 to September 2013**

Conquest Managed Futures Select	Total Return	# of Months	Average Return	Standard Deviation	Info Ratio	Info Ratio Multiple
Averse	127.27%	55	2.31%	5.34%	1.50	5.22
Seeking	48.28%	146	0.33%	3.98%	0.29	
Aggregate	175.55%	201	0.87%	4.47%	0.68	

BTOP50 Index	Total Return	# of Months	Average Return	Standard Deviation	Info Ratio	Info Ratio Multiple
Averse	45.52%	55	0.83%	2.51%	1.14	2.61
Seeking	44.01%	146	0.30%	2.39%	0.44	
Aggregate	89.53%	201	0.45%	2.43%	0.64	

CS Hedge Fund Index Managed Futures	Total Return	# of Months	Average Return	Standard Deviation	Info Ratio	Info Ratio Multiple
Averse	41.37%	55	0.75%	3.67%	0.71	1.97
Seeking	49.07%	146	0.34%	3.24%	0.36	
Aggregate	90.44%	201	0.45%	3.36%	0.46	



managed futures space is almost entirely trend-following strategies. It might logically be surmised that longer-term trend-following strategies would do better in risk-seeking periods because these periods are more frequent and longer lasting. However, the improvement in performance between risk-seeking and risk-averse regimes was visible across the space. Specifically, the Barclay BTOP50 Index and the Credit Suisse Managed Futures index both show similar differences in performance between the two regimes, as both indices exhibited risk-averse Information Ratios roughly one-and-a-half to two-and-a-half times their risk-seeking Information Ratios.

The change in bias of the Equity Market Neutral Index to a preference of risk-averse regimes is due to the sudden marking down to zero of assets tied to the Bernard Madoff scandal. The large index markdown came during November 2008, a month rated as risk-seeking by the Conquest Risk Aversion Index.

Examining Trend-Following Performance Using Conquest Managed Futures Select

The opacity of proprietary managers limits the ability to analyze index returns with sufficient detail to determine which aspects of the strategies are profitable. However, Conquest Managed Futures Select, our proxy for the managed futures space, boasts nearly an 80% correlation to both the Barclay CTA and Newedge CTA Indices since 1997.

Comparing MFS to the Credit Suisse Managed Futures Index and the BTOP50 Index produced similar results; MFS has also exhibited about a 75% monthly correlation to each of these indices since 1997. We separated the MFS monthly returns in the same manner as we had the returns of the BTOP50 and Credit Suisse indices. The partitioned returns are shown in Figure 5. The results were quite striking; not only does MFS outperform both of the indices overall, as measured by the non-compounded Information Ratio, but its performance improvement during risk-averse months was markedly higher while its risk-seeking periods were still largely in line with the indices.

The aforementioned correlations extend to daily returns, as well. MFS was originally created to replicate the now-defunct S&P Managed Futures Index.¹ Over its testing period and after its inception, MFS maintained a nearly 90% correlation to this index. Since its inception in June 2004, MFS has also maintained a daily correlation of about 70% to the Newedge CTA Index, which also reports daily returns. This daily fidelity makes it possible to analyze these returns on a more granular level, further identifying the return characteristics of trend-following strategies.

As noted before, the majority of the larger CTAs are long-term trend-followers. However, trend-following strategies can be operated across of a breadth of horizons. Although trend-following strategies across differing time horizons follow the same basic principle, their return characteristics need not be similar. Specifically when considered over daily time horizons, the length of the trend measured dictates the strategy's relationship to volatility.

¹ The S&P Managed Futures Index was discontinued on December 31st 2007.



We thus further analyzed MFS' performance by time horizon, examining returns under both daily and monthly measurement periods. These results, shown in Figure 6, illustrate the importance of both trade horizon and observation period in evaluating performance.

Figure 6: MFS Performance Versus Conquest Risk Aversion Index Segregated By Trade Horizon Since January 1997

Daily Returns from January 2, 1997 to September 30, 2013

Conquest Managed Futures Select					
	Total Return	# of Days	Average Return	SD of Daily Returns	Information Ratio
Risk-Averse	113.45%	1256	0.090%	1.227%	1.19
Risk-Seeking	38.22%	3101	0.012%	0.787%	0.25
Aggregate	151.67%	4357	0.035%	0.936%	0.60

MFS Short-Horizon Systems (< 20 Days)					
	Total Return	# of Days	Average Return	SD of Daily Returns	Information Ratio
Risk-Averse	60.24%	1256	0.048%	0.494%	1.57
Risk-Seeking	(24.99%)	3101	(0.008%)	0.327%	(0.40)
Aggregate	35.25%	4357	0.008%	0.383%	0.34

MFS Medium-Horizon Systems (20-60 Days)					
	Total Return	# of Days	Average Return	SD of Daily Returns	Information Ratio
Risk-Averse	41.76%	1256	0.033%	0.424%	1.26
Risk-Seeking	(8.24%)	3101	(0.003%)	0.278%	(0.15)
Aggregate	33.51%	4357	0.008%	0.327%	0.38

MFS Long-Horizon System (> 60 Days)					
	Total Return	# of Days	Average Return	SD of Daily Returns	Information Ratio
Risk-Averse	11.46%	1256	0.009%	0.499%	0.29
Risk-Seeking	71.45%	3101	0.023%	0.388%	0.96
Aggregate	82.91%	4357	0.019%	0.423%	0.73

Monthly Returns from January 1997 to September 2013

Conquest Managed Futures Select					
	Total Return	# of Months	Average Return	Standard Deviation	Information Ratio
Risk-Averse	116.82%	55	2.124%	5.357%	1.37
Risk-Seeking	34.83%	146	0.239%	3.958%	0.21
Aggregate	151.65%	201	0.754%	4.451%	0.59

MFS Short-Horizon Systems (< 20 Days)					
	Total Return	# of Months	Average Return	Standard Deviation	Information Ratio
Risk-Averse	48.31%	55	0.878%	2.069%	1.47
Risk-Seeking	(12.86%)	146	(0.088%)	1.525%	(0.20)
Aggregate	35.44%	201	0.176%	1.740%	0.35

MFS Medium-Horizon Systems (20-60 Days)					
	Total Return	# of Months	Average Return	Standard Deviation	Information Ratio
Risk-Averse	40.81%	55	0.742%	1.902%	1.35
Risk-Seeking	(7.64%)	146	(0.052%)	1.364%	(0.13)
Aggregate	33.17%	201	0.165%	1.565%	0.37

MFS Long-Horizon System (> 60 Days)					
	Total Return	# of Months	Average Return	Standard Deviation	Information Ratio
Risk-Averse	27.70%	55	0.504%	2.273%	0.77
Risk-Seeking	55.34%	146	0.379%	1.867%	0.70
Aggregate	83.04%	201	0.413%	1.981%	0.72

All returns presented are gross returns.

Information Ratio is defined as the annualized, non-compounded returns divided by the annualized volatility (Sharpe Ratio without the risk-free rate).

Total P/L refers to the sum of the non-compounded returns.

Short-Term Systems are More Robust under the Daily Microscope

Examining the source of this change in return character by separating MFS returns not only by risk regime but also by trade horizon reveals that time horizon has a large effect on distribution of a trend-following strategy's returns. Using a daily evaluation period rather than monthly, we find that the short-term and medium-term baskets exhibited significantly better performance under risk-averse regimes than under risk-seeking regimes. In contrast, the long-term systems performed dramatically better during risk-seeking regimes.

We thus see a different relationship between market risk appetite and expected returns: whereas our monthly analysis shows that long-term trend-follower returns are somewhat indifferent to risk regime, the daily analysis demonstrates that long-term trend-followers perform significantly better in risk-seeking environments. That risk

Figure 7: Comparison of MFS and Indices vs. Conquest Risk Aversion Index Actual Index Performance

MFS Actual Results from June 2004 on and hypotheticals beforehand From January 3, 2000 to September 30, 2013

Conquest Managed Futures Select					
	Total P/L	# of days	Average Daily P/L	SD of Daily Returns	Information Ratio
Risk-Averse	73.07%	842	0.087%	1.298%	1.08
Risk-Seeking	31.65%	2735	0.012%	0.800%	0.23
Aggregate	104.71%	3577	0.029%	0.942%	0.50

Newedge CTA Index					
	Total P/L	# of days	Average Daily P/L	SD of Daily Returns	Information Ratio
Risk-Averse	0.94%	842	0.001%	0.601%	0.03
Risk-Seeking	66.69%	2735	0.024%	0.487%	0.81
Aggregate	67.63%	3577	0.019%	0.516%	0.59

Information Ratio defined as the annualized, noncumulative P/L divided by annualized standard deviation of the P/L (Sharpe Ratio without risk-free rate)



appetite preference changes with measurement horizon suggested that trade horizon might have a strong relationship to return robustness. In particular, we found that strategies focused on shorter time horizons might be better able to cope with changes in risk regime.

These results stand in sharp contrast to the results of the analysis using monthly observations, wherein managed futures strategies performed well regardless of trade horizon. However, this discrepancy is not shocking; periods of risk aversion tend to be shorter on average than risk-seeking periods. Consequently, longer-horizon systems are more likely to absorb short-term counter-trend movements without reversing their positions. This disparity is consistent with our analysis of the Newedge CTA Index, shown in Figure 7, during risk-seeking periods.

Trading Strategies that Capitalize on the Conquest Risk Aversion Index

These return characteristics of CTAs and Conquest MFS indicate that there are a number of ways to improve portfolio performance by accounting for market risk aversion. On the most basic level, awareness of the relationship between market risk appetite and hedge fund returns would suggest incorporating some CTA exposure into the portfolio. However, a passive allocation strategy is not the only possible solution; because the Conquest Risk Aversion Index exhibits a serial correlation of about 85%, it is possible to execute tactical asset allocation strategies using current risk appetite as a predictor of future regimes. Below are three strategies that explore different methods for using trend-following exposure to improve portfolio performance.

Strategy 1: Optimizing Portfolio Performance by Incorporating Managed Futures Strategies

There is a significant body of literature suggesting that adding managed futures to both hedge fund and general portfolios improves performance (see Appendix 4). We tested this assertion by running two-security optimizations in which the Credit Suisse Hedge Fund Index was paired with two popular trend-following indices, as well as Conquest Managed Futures Select. The optimized portfolios are shown in Figure 8, with risk appetite determined on a monthly basis.



Figure 8: Optimized Portfolios Blending Managed Futures with Credit Suisse Hedge Fund Index From January 1997 to September 2013

Credit Suisse Hedge Fund Index Alone	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight
Risk-Averse	(23.33%)	55	(0.42%)	2.77%	(0.53)	100.0%
Risk-Seeking	155.66%	146	1.07%	1.48%	2.50	100.0%
Aggregate	132.33%	201	0.66%	2.02%	1.13	100.0%

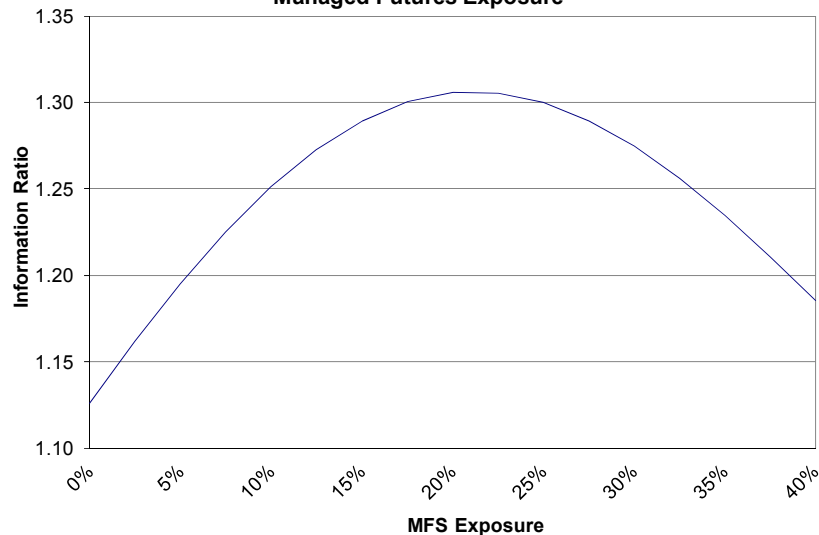
Credit Suisse Hedge Fund Index with Conquest MFS	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight	Conquest MFS Weight
Risk-Averse	8.52%	55	0.15%	2.30%	0.23	78.9%	21.1%
Risk-Seeking	132.95%	146	0.91%	1.63%	1.93	78.9%	21.1%
Aggregate	141.47%	201	0.70%	1.87%	1.31	78.9%	21.1%

Credit Suisse Hedge Fund Index with Credit Suisse Managed Futures Index	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight	Credit Suisse Managed Futures Index Weight
Risk-Averse	(14.61%)	55	(0.27%)	2.45%	(0.38)	86.5%	13.5%
Risk-Seeking	141.29%	146	0.97%	1.49%	2.24	86.5%	13.5%
Aggregate	126.68%	201	0.63%	1.88%	1.16	86.5%	13.5%

Index with Newedge CTA Index	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight	Newedge CTA Index Weight
Risk-Averse	(4.75%)	55	(0.09%)	2.12%	(0.14)	71.7%	28.3%
Risk-Seeking	126.35%	146	0.87%	1.44%	2.08	71.7%	28.3%
Aggregate	121.60%	201	0.60%	1.70%	1.23	71.7%	28.3%

The portfolios affirm the conclusions drawn from our risk appetite analysis, namely that there are benefits of incorporating managed futures exposure into existing hedge fund portfolios. Specifically, there is strong evidence that rotating 10-30% of the assets into trend-following or managed futures vehicles improves risk-adjusted performance in a non-negligible manner. We further document this effect in Figure 9, which plots performance against managed futures allocation.

Figure 9: Performance as a Function of Managed Futures Exposure





Significantly, Figure 9 illustrates that realizing benefits from managed futures exposure does not entail a massive rotation of assets. **Even a smaller allocation of assets to managed futures would have non-negligibly improved performance.**

Strategy 2: Entry and Exit Timing Based on the Conquest Risk Aversion Index

The Conquest Risk Aversion Index on the last day of the month can be used to predict risk appetite for the following month, with a high degree of confidence. The risk aversion score of the last day of a month accurately predicted the next month's risk aversion score about 83% of the time.

Using this predictive method of risk-aversion scoring, we re-evaluated the various Credit Suisse indices. Our results, shown in Appendix 3, were quite clear; although the predictive error tended to narrow the spread in performance between different risk regimes, **every index but two performed better under the same risk regime regardless of whether we evaluated risk aversion using the retrospective or predictive method.** The first exception is the Credit Suisse Managed Futures Index, while the second was the Equity Market Neutral Index, caused again by the aforementioned unexpected markdown of a constituent fund. Furthermore, the spread between the risk-averse and risk-seeking Information Ratios of each index remained significant with the exception of the Credit Suisse Dedicated Short Index and the Managed Futures Index.

After validating our predictor, we determined optimal allocations for each risk regime and re-weighted the portfolio according to the expected risk regime monthly, every month. We optimized for performance to illustrate the incremental benefits of incorporating these asset classes into a hedge fund portfolio. The performance of these optimal strategies is juxtaposed to the performance of our basic allocation strategy (Strategy 1) in Figure 10.

Figure 10: Optimized Portfolios Blending Managed Futures with Credit Suisse Hedge Fund Index From January 1997 to September 2013

Credit Suisse Alone	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight
Risk-Averse	(23.33%)	55	(0.424%)	2.772%	(0.53)	100.0%
Risk-Seeking	155.66%	146	1.066%	1.477%	2.50	100.0%
Aggregate	132.33%	201	0.658%	2.025%	1.13	100.0%

Optimized for Performance (Maximal Information Ratio)

Allocation Strategy Optimized for Performance	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight	Conquest Managed Futures Select Weight
Risk-Averse	8.52%	55	0.155%	2.304%	0.23	78.9%	21.1%
Risk-Seeking	132.95%	146	0.911%	1.634%	1.93	78.9%	21.1%
Aggregate	141.47%	201	0.704%	1.867%	1.31	78.9%	21.1%

Predictive Strategy Optimized for Performance	Total Return	# of Months	Average	Standard Deviation	Information Ratio	Credit Suisse Weight	Conquest Managed Futures Select Weight
Risk-Averse	27.20%	64	0.425%	2.404%	0.61	67.2%	32.8%
Risk-Seeking	124.20%	137	0.907%	1.514%	2.07	96.8%	3.2%
Aggregate	151.40%	201	0.753%	1.852%	1.41	87.3%	12.7%



As illustrated above, adding a timing element to the allocation strategy palpably improves returns. This improvement manifests itself not just in the performance of the strategy but also in the performance of the strategy under each specific regime. The actual composition of the optimal portfolios is not surprising either; the optimal portfolios under risk-seeking regimes are heavily-weighted toward the Credit Suisse Hedge Fund Index, whereas the optimal risk-averse portfolios are more concentrated in managed futures.

Strategy 3: Dynamic Risk Aversion Hedging Using Managed Futures

We realize that Strategy 2 has practical constraints on implementation. Although one can trade this strategy by varying the MFS allocation, doing so will create some variance in portfolio leverage. Also, the recommended MFS proportion may be too large for many diversified portfolios. Furthermore, this strategy assumes that it is possible to re-enter and exit positions on a monthly basis. This assumption may not accurately reflect the constraints of one's holdings.

Consequently, we developed a strategy that incorporates the benefits of risk aversion timing using a more simplistic weighting model. Specifically, we assumed that the existing portfolio, represented by the Credit Suisse Hedge Fund Index, would be held constant and the only exposure that would be varied would be that to the managed futures space. This exposure would be toggled through entering and exiting an MFS position on a monthly basis.

The entry and exit mechanism is simple:

- If the Predictive Monthly Risk Aversion Index predicts a risk-averse month, a fixed-size MFS position is added to the portfolio.
- If the Predictive Monthly Risk Aversion Index predicts a risk-seeking month, the MFS position is set to zero.

We examined the results over a number of scenarios, varying the risk-averse MFS weight between 0% and 25%. Our results are shown in Figure 11.



Figure 11: Optimized Portfolios Blending Managed Futures with Credit Suisse Hedge Fund Index
From January 1997 to September 2013

Risk Regime Determined by Predictive Method

Assumes Static 100% Leverage Allocation to Credit Suisse Hedge Fund Index

Risk-Averse MFS Weight*	Maximum Portfolio Leverage**	Average Portfolio Leverage	Risk-Averse Information Ratio	Risk-Seeking Information Ratio	Information Ratio	Information Ratio Spread***
0.00%	100.00%	100.00%	0.13	2.07	1.13	1.94
5.00%	105.00%	101.59%	0.21	2.07	1.16	1.87
10.00%	110.00%	103.18%	0.28	2.07	1.20	1.79
15.00%	115.00%	104.77%	0.34	2.07	1.22	1.73
20.00%	120.00%	106.36%	0.41	2.07	1.24	1.66
25.00%	125.00%	107.95%	0.46	2.07	1.25	1.61

*MFS allocation is 0 under risk-seeking regimes

**Portfolio Leverage is relative to the current portfolio allocation

***Information Ratio Spread = (Risk-Seeking Information Ratio - Risk-Averse Information Ratio)

These results are very much in line with what was suggested by the optimized strategy; hedging risk aversion exposure by dynamically incorporating a managed futures product produces tangible improvements in performance. This improvement occurs in two forms:

- The overall Information Ratio of the portfolio improves as the amount of risk-averse managed futures exposure is increased.
- The spread between risk-averse and risk-seeking performance decreases as risk-averse managed futures exposure is increased.

Finally, these tests illustrate that the hedging allocation need not be large to extract pronounced benefits; **even a 5% conditional allocation to MFS improves risk-averse performance by more than 50%.**

Conclusion

There is a strong relationship between market risk appetite and hedge fund performance, with hedge funds performing significantly better under risk-seeking regimes. Incorporating this information into allocation strategies creates opportunities to both improve overall performance regardless of market risk preferences and hedge out some of the endemic risk.



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All third party data, including the returns of the indices presented herein, has been obtained from publicly available sources which are believed to be reliable. Conquest does not guarantee and makes no representation as to the accuracy of such data.

Performance Information

Conquest Macro results from May 1999 to June 2001 represent the track record of Enterprise Asset Management, LLC. of which Marc Malek was co-principal. From January 1, 2006, full funding of all accounts is assumed and all accounts are assumed to earn the same fees (2% management fee and 20% incentive fee). Rate of return for October 2002 includes one account that began trading October 1, 2002. Because this account was not fully invested on October 1, 2002, the rate of return for this account differs from the existing accounts. If this account had been excluded from the rate of return calculation, the rate of return would have been (1.60)%. Unless otherwise indicated, results of Conquest Macro are shown net of a 2% management fee and 20% incentive fee.

Conquest MFS results, unless otherwise indicated, are shown net of a 1% management fee and no performance fee. Returns prior to June 2004 are hypothetical.

Limitations of Hypothetical Performance and Underlying Assumptions

This material includes illustrative return information that is hypothetical. Hypothetical performance is not necessarily indicative of future results. The actual past results of an investment under the assumptions upon which the hypothetical returns are presented might well have been different.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE



RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

Disclosures With Respect to Historical Returns

The historical returns were obtained using systems different from those currently used by, and trading different markets than those currently traded by, Conquest Macro Fund or Conquest MFS Fund. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.



Appendix 1: HFRX Index Performance Versus Conquest Risk Aversion Index
Actual Index Performance from Inception until September 30, 2013

Since April 2003

HFRX Global Hedge Fund Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(55.31%)	598	(0.09%)	0.38%	(3.97)	SEEKING
Risk-Seeking	74.11%	2049	0.04%	0.17%	3.33	
Aggregate	18.80%	2647	0.01%	0.24%	0.47	

HFRX Equal-Weighted Strategies Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(45.09%)	598	(0.08%)	0.30%	(4.10)	SEEKING
Risk-Seeking	61.80%	2049	0.03%	0.12%	3.93	
Aggregate	16.70%	2647	0.01%	0.18%	0.56	

HFRX Convertible Arbitrage Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(88.80%)	598	(0.15%)	0.69%	(3.46)	SEEKING
Risk-Seeking	65.02%	2049	0.03%	0.28%	1.83	
Aggregate	(23.79%)	2647	(0.01%)	0.42%	(0.35)	

HFRX Distressed Securities Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(46.71%)	598	(0.08%)	0.27%	(4.59)	SEEKING
Risk-Seeking	47.20%	2049	0.02%	0.23%	1.64	
Aggregate	0.49%	2647	0.00%	0.24%	0.01	

HFRX Equity Hedge Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(71.72%)	598	(0.12%)	0.61%	(3.18)	SEEKING
Risk-Seeking	85.18%	2049	0.04%	0.33%	2.05	
Aggregate	13.47%	2647	0.01%	0.41%	0.20	

HFRX Equity Market Neutral Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(7.04%)	598	(0.01%)	0.35%	(0.54)	SEEKING
Risk-Seeking	0.82%	2049	0.00%	0.23%	0.03	
Aggregate	(6.21%)	2647	(0.00%)	0.26%	(0.14)	

HFRX Event Driven Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(49.50%)	598	(0.08%)	0.46%	(2.88)	SEEKING
Risk-Seeking	93.59%	2049	0.05%	0.22%	3.31	
Aggregate	44.09%	2647	0.02%	0.30%	0.90	

HFRX Macro Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(36.21%)	598	(0.06%)	0.57%	(1.72)	SEEKING
Risk-Seeking	50.12%	2049	0.02%	0.36%	1.09	
Aggregate	13.91%	2647	0.01%	0.42%	0.20	

HFRX Merger Arbitrage Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(13.08%)	598	(0.02%)	0.50%	(0.70)	SEEKING
Risk-Seeking	58.08%	2049	0.03%	0.19%	2.44	
Aggregate	45.00%	2647	0.02%	0.29%	0.94	

HFRX Value Arbitrage Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(61.60%)	598	(0.10%)	0.43%	(3.87)	SEEKING
Risk-Seeking	79.97%	2049	0.04%	0.21%	3.04	
Aggregate	18.37%	2647	0.01%	0.28%	0.40	

Since July 2004

HFRX Absolute Return Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(22.04%)	577	(0.04%)	0.22%	(2.80)	SEEKING
Risk-Seeking	19.54%	1755	0.01%	0.14%	1.29	
Aggregate	(2.50%)	2332	(0.00%)	0.16%	(0.11)	

HFRX Market Directional Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(80.20%)	577	(0.14%)	0.66%	(3.38)	SEEKING
Risk-Seeking	94.19%	1755	0.05%	0.30%	2.84	
Aggregate	13.99%	2332	0.01%	0.43%	0.22	

Information Ratio defined as the annualized, noncumulative P&L divided by annualized standard deviation of the P&L (Sharpe Ratio without risk-free rate)
 Total P/L is total non-compounded return



**Appendix 2: Performance of Indices and Index Proxies Versus Conquest Monthly Risk Aversion Index
Regime Determined in Hindsight
Performance from January 1997 to September 2013**

Credit Suisse Hedge Fund Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(23.33%)	55	(0.42%)	2.77%	(0.53)	
Risk-Seeking	155.66%	146	1.07%	1.48%	2.50	SEEKING
Aggregate	132.33%	201	0.66%	2.02%	1.13	
Credit Suisse Hedge Fund Index Convertible Arbitrage	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(26.94%)	55	(0.49%)	2.98%	(0.57)	
Risk-Seeking	150.30%	146	1.03%	1.36%	2.63	SEEKING
Aggregate	123.36%	201	0.61%	2.05%	1.04	
Credit Suisse Hedge Fund Index Dedicated Short Bias	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	121.52%	55	2.21%	5.84%	1.31	AVERSE
Risk-Seeking	(207.57%)	146	(1.42%)	4.15%	(1.19)	
Aggregate	(86.05%)	201	(0.43%)	4.94%	(0.30)	
Credit Suisse Hedge Fund Index Emerging Markets	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(79.67%)	55	(1.45%)	5.38%	(0.93)	
Risk-Seeking	214.19%	146	1.47%	2.85%	1.78	SEEKING
Aggregate	134.52%	201	0.67%	3.92%	0.59	
Credit Suisse Hedge Fund Index Equity Market Neutral	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	24.99%	55	0.45%	1.28%	1.23	AVERSE
Risk-Seeking	57.81%	146	0.40%	3.58%	0.38	
Aggregate	82.80%	201	0.41%	3.12%	0.46	
Credit Suisse Hedge Fund Index Event Driven	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(33.03%)	55	(0.60%)	2.56%	(0.81)	
Risk-Seeking	176.95%	146	1.21%	1.20%	3.49	SEEKING
Aggregate	143.92%	201	0.72%	1.86%	1.33	
Credit Suisse Hedge Fund Index Event Driven Distressed	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(23.28%)	55	(0.42%)	2.55%	(0.57)	
Risk-Seeking	177.21%	146	1.21%	1.30%	3.23	SEEKING
Aggregate	153.95%	201	0.77%	1.86%	1.41	
Credit Suisse Hedge Fund Index Event Driven Multi-Strategy	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(40.21%)	55	(0.73%)	2.77%	(0.92)	
Risk-Seeking	180.96%	146	1.24%	1.32%	3.24	SEEKING
Aggregate	140.75%	201	0.70%	2.03%	1.20	
Credit Suisse Hedge Fund Index Event Driven Risk Arbitrage	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(5.74%)	55	(0.10%)	1.60%	(0.23)	
Risk-Seeking	102.03%	146	0.70%	0.97%	2.49	SEEKING
Aggregate	96.29%	201	0.48%	1.23%	1.35	
Credit Suisse Hedge Fund Index Fixed Income Arbitrage	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(28.59%)	55	(0.52%)	2.60%	(0.69)	
Risk-Seeking	109.44%	146	0.75%	1.00%	2.59	SEEKING
Aggregate	80.85%	201	0.40%	1.70%	0.82	
Credit Suisse Hedge Fund Index Global Macro	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	18.05%	55	0.33%	3.61%	0.32	
Risk-Seeking	156.90%	146	1.07%	1.76%	2.11	SEEKING
Aggregate	174.95%	201	0.87%	2.43%	1.24	
Credit Suisse Hedge Fund Index Long/Short Equity	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(39.25%)	55	(0.71%)	3.75%	(0.66)	
Risk-Seeking	196.37%	146	1.35%	2.28%	2.04	SEEKING
Aggregate	157.12%	201	0.78%	2.90%	0.93	
Credit Suisse Hedge Fund Index Managed Futures	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	41.37%	55	0.75%	3.67%	0.71	AVERSE
Risk-Seeking	49.07%	146	0.34%	3.24%	0.36	
Aggregate	90.44%	201	0.45%	3.36%	0.46	
Credit Suisse Hedge Fund Index Multi-Strategy	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(9.42%)	55	(0.17%)	1.97%	(0.30)	
Risk-Seeking	141.72%	146	0.97%	1.09%	3.09	SEEKING
Aggregate	132.30%	201	0.66%	1.47%	1.55	

Information Ratio defined as the annualized, non-compounded P&L divided by annualized standard deviation of the P&L (Sharpe Ratio without risk-free rate)
Total P/L is total non-compounded return



Appendix 3: Performance of Indices and Index Proxies Versus Conquest Monthly Risk Aversion Index
Regime Predicted by Regime on Last Trading Day of Prior Month
Performance from January 1997 to September 2013

Credit Suisse Hedge Fund Index	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	7.60%	64	0.12%	2.74%	0.15	
Risk-Seeking	124.73%	137	0.91%	1.53%	2.06	SEEKING
Aggregate	132.33%	201	0.66%	2.02%	1.13	
Credit Suisse Hedge Fund Index Convertible Arbitrage	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(14.22%)	64	(0.22%)	2.85%	(0.27)	
Risk-Seeking	137.58%	137	1.00%	1.38%	2.52	SEEKING
Aggregate	123.36%	201	0.61%	2.05%	1.04	
Credit Suisse Hedge Fund Index Dedicated Short Bias	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(11.74%)	64	(0.18%)	5.66%	(0.11)	AVERSE
Risk-Seeking	(74.31%)	137	(0.54%)	4.58%	(0.41)	
Aggregate	(86.05%)	201	(0.43%)	4.94%	(0.30)	
Credit Suisse Hedge Fund Index Emerging Markets	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(16.06%)	64	(0.25%)	5.03%	(0.17)	
Risk-Seeking	150.58%	137	1.10%	3.21%	1.18	SEEKING
Aggregate	134.52%	201	0.67%	3.92%	0.59	
Credit Suisse Hedge Fund Index Equity Market Neutral	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	3.10%	64	0.05%	5.28%	0.03	
Risk-Seeking	79.70%	137	0.58%	1.12%	1.81	SEEKING
Aggregate	82.80%	201	0.41%	3.12%	0.46	
Credit Suisse Hedge Fund Index Event Driven	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	6.91%	64	0.11%	2.48%	0.15	
Risk-Seeking	137.01%	137	1.00%	1.42%	2.44	SEEKING
Aggregate	143.92%	201	0.72%	1.86%	1.33	
Credit Suisse Hedge Fund Index Event Driven Distressed	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	10.43%	64	0.16%	2.51%	0.23	
Risk-Seeking	143.52%	137	1.05%	1.42%	2.56	SEEKING
Aggregate	153.95%	201	0.77%	1.88%	1.41	
Credit Suisse Hedge Fund Index Event Driven Multi-Strategy	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	4.35%	64	0.07%	2.66%	0.09	
Risk-Seeking	136.40%	137	1.00%	1.58%	2.19	SEEKING
Aggregate	140.75%	201	0.70%	2.03%	1.20	
Credit Suisse Hedge Fund Index Event Driven Risk Arbitrage	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	19.60%	64	0.31%	1.50%	0.71	
Risk-Seeking	76.69%	137	0.56%	1.07%	1.81	SEEKING
Aggregate	96.29%	201	0.48%	1.23%	1.35	
Credit Suisse Hedge Fund Index Fixed Income Arbitrage	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	(26.71%)	64	(0.42%)	2.58%	(0.56)	
Risk-Seeking	107.56%	137	0.79%	0.83%	3.29	SEEKING
Aggregate	80.85%	201	0.40%	1.70%	0.82	
Credit Suisse Hedge Fund Index Global Macro	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	20.70%	64	0.32%	3.40%	0.33	
Risk-Seeking	154.25%	137	1.13%	1.76%	2.22	SEEKING
Aggregate	174.95%	201	0.87%	2.43%	1.24	
Credit Suisse Hedge Fund Index Long/Short Equity	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	30.06%	64	0.47%	3.66%	0.44	
Risk-Seeking	127.06%	137	0.93%	2.47%	1.30	SEEKING
Aggregate	157.12%	201	0.78%	2.90%	0.93	
Credit Suisse Hedge Fund Index Managed Futures	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	9.22%	64	0.14%	3.79%	0.13	
Risk-Seeking	81.22%	137	0.59%	3.15%	0.65	SEEKING
Aggregate	90.44%	201	0.45%	3.36%	0.46	
Credit Suisse Hedge Fund Index Multi-Strategy	Total P/L	# of Months	Average Monthly P/L	SD of Monthly Returns	Information Ratio	Dominant Regime
Risk-Averse	13.95%	64	0.22%	1.98%	0.38	
Risk-Seeking	118.35%	137	0.86%	1.12%	2.68	SEEKING
Aggregate	132.30%	201	0.66%	1.47%	1.55	

Information Ratio defined as the annualized, non-compounded P&L divided by annualized standard deviation of the P&L (Sharpe Ratio without risk-free rate)
 Total P/L is total non-compounded return



Appendix 4: Selected References

There are a number of papers in which the benefits of incorporating managed futures into a portfolio are explored. Some of these papers include:

- CISDM Research Department; “The Benefits of Managed Futures 2005 Update”; 2005
- Thomas Schneeweis, Richard Spurgin, Mark Potter; “Managed Futures and Hedge Fund Investment for Downside Equity Risk Management”; 1996
- Richard Spurgin; “Some Thoughts on the Source of Return to Managed Futures”
- Timothy Lee, Marc Malek, Jeffrey Nash, Jeffrey Rose; “The Beta of Managed Futures”; 2005