HED FUTURES FUND

PREPARED FOR PROFESSIONAL INVESTORS AS OF 31 DECEMBER 2014

BACKGROUND

Drake Howell runs a trading program designed by our sister company HED Capital using the latest methods from behavioural finance. HED measures the ebb and flow of feedback in the markets to determine when to go with the crowd and when to stand against it, as shown in two HED website videos. This provides entry and exit signals which Drake Howell then manages by adding dynamic risk management and diversified asset allocation.

TRADE ENTRY

Trade entry signals combine two methods:

1. Measuring shifts in mood as they happen shows us the condition of the market through indicators of whether it is trending or range-trading or aimless. When these indicators show an extreme of optimism or pessimism, it means a current price move is likely to end or that a new move will start.
2. Scanning the markets for any crowd-driven cycles that develop, which show when price peaks and troughs will occur. These cycles come and go but they provide warning of impending trend change.

The first method provides a constant reading of the market temperature while the second warns of upcoming high or low points. Combining the two provides a reliable way to identify places to enter trades in the main equity, bond, currency and commodity markets. Sometimes they can provide exits too but usually we need the rules in the next box:-

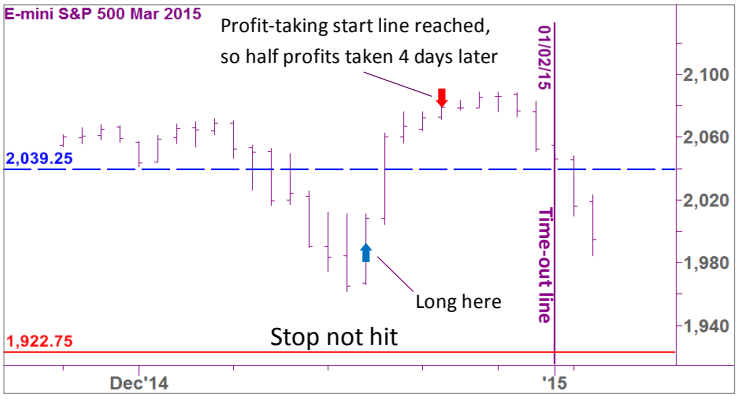
TRADE & RISK MANAGEMENT

Each trade is 'boxed' with a set of exit conditions, calculated from a fixed level of risk and the recent volatility of that market.

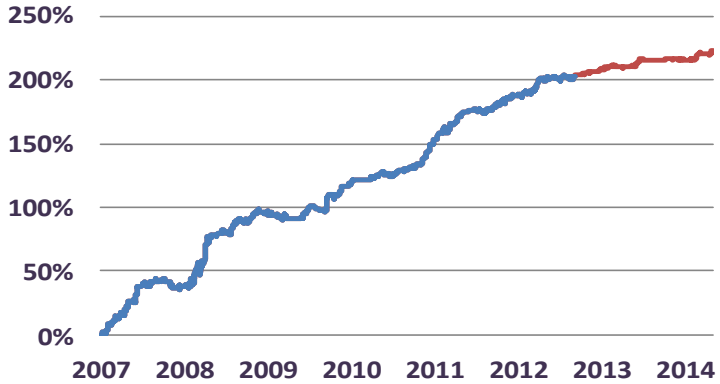
1. Trade size derives from recent volatility, using long-run S&P volatility as a baseline. Higher volatility means smaller positions and vice versa.
2. Stops are placed to restrict risk to 1% of capital per trade. Bigger positions have closer stops, smaller ones more distant. There are position limits and limits to exposure by asset type.
3. Partial profits are taken when the price has moved favourably by 2 days' worth of recent volatility. When prices touch this level a clock starts running that exits half the trade after 4 more days. This innovation allows profits to build in an incipient new trend, while avoiding many early reactions.
4. Trades are 'timed-out' after a few weeks. This reflects the effective shelf-life of the signals, clears the portfolio for new trades and makes the program quickly adaptive to general conditions.

EXAMPLE

The program generated a long trade in S&P futures, shown by the blue arrow. The recent contract volatility fixed the position size and a stop was placed at the red line to limit any losses to 1% of the portfolio. A profit level was then calculated, shown at the blue dotted line, which when reached, started a clock to trigger the exit of half the position four days later. The half remaining was left with a closer stop and 'timed out' at the purple vertical line 8 days later for a 3% profit.



PROGRAM PERFORMANCE AUG 2007—DEC 2014



PERFORMANCE

This chart shows daily marked-to-market results of all HED program trades since August 2007. Total profits have been 223% or just over 30% per annum without compounding and before charging any fees for management or incentive. Compounding magnifies returns, as shown in another chart elsewhere in this information summary.

The largest monthly drawdown has been 4.8% and the largest high-low drawdown was 10.1% in 2008, the next two largest being 6.8% and 5.1%. The first five years contained only S&P trades (in blue) widening to include bond, commodity, currency and non-US stock markets in May 2012 (in red). Both versions run separately and the results are shown on the HED site under performance.

The HED program is carefully conceived and has produced profitable trading ideas in the past but there are still many risks in investing in any fund or managed account that uses it. Please read the 'risks' section in the relevant documents before considering your investment.