

A²ML

A new direction for financial solutions

MEGALIO VISION FUND

*Removing Human Emotion through
100% Systematic Trading*

Proven success even in volatile markets

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Megalio Vision Fund Strategy Overview Document

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STRATEGY OVERVIEW

High Yield Algorithmic Futures Trading software strategy designed to deliver consistent returns in any economic climate.

SYNOPSIS

High yield Algorithmic trading on the DAX Futures Market – Continual opportunities arise within the Futures Market with a mechanical trading method; providing **MEGALIO VISION FUND** investors with a high return of investment. The strategy's simulated trading history shows consistent returns in excess of 100% per annum from this systematic trading approach.

PROPOSAL SUMMARY

MEGALIO VISION FUND'S new systematic trading strategy is at the leading edge of the automated trading industry and has been designed and developed over many years by an experienced and expert team of specialists working in the heart of the software industry specialising with a pure focus on creating and building Algorithmic Trading software. The team have spent over 14 years in the development stages, continually identifying superior market trading opportunities with a view to delivering over 100% NET returns to investors per annum.

The underlying philosophy is to preserve capital and manage risk. If that is done well, profits are a natural reward.

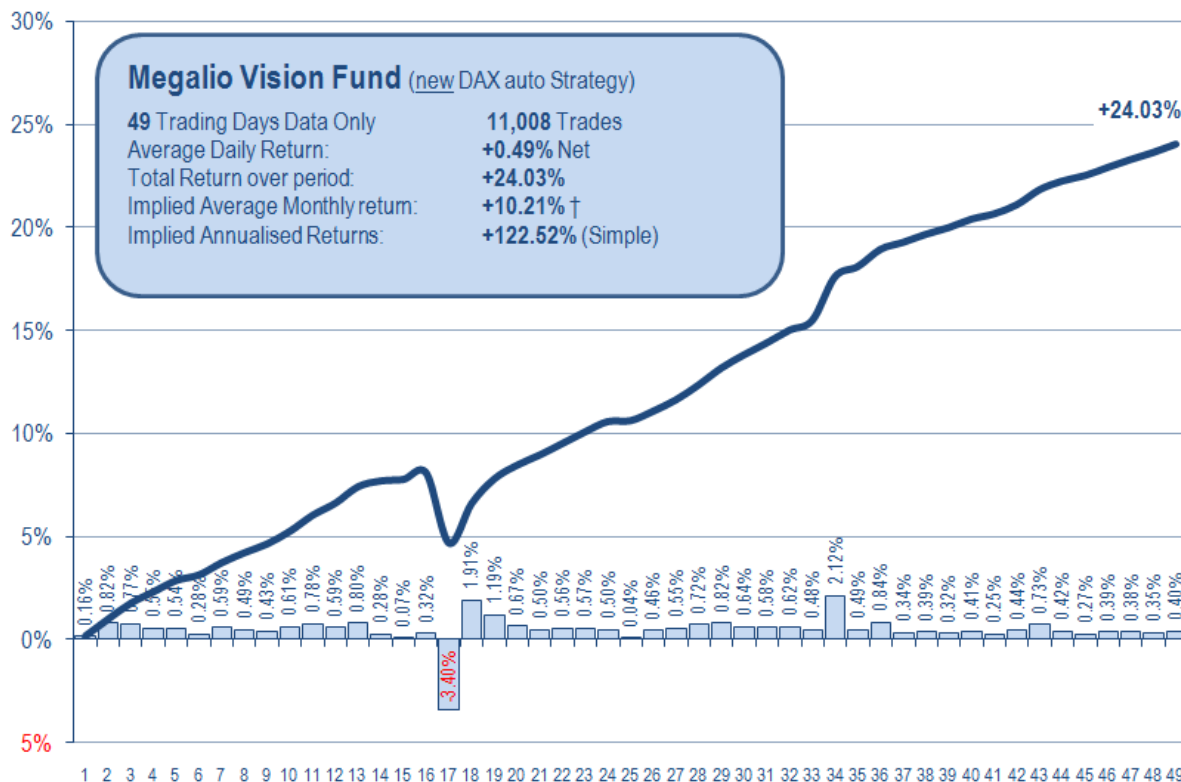
The experience provided by our specialist team of developers range from roles in Financial Planning, SITM super trader status, mathematician specialising in finance, software engineering background, Prime Broker (Interactive Brokers) Commercial Tool Partner & Programming Consultant and the creation of proprietary trading robots systems and programs.

Although the strategy is primarily designed to be a 100% automated and systematic in approach to trading the markets, given the varying characteristics of the underlying DAX market the strategy is able to employ additional methodologies where necessary and depending upon circumstances:

- Ordinarily, fully automatic trading is done by the proprietary trading robot when markets are wildly swinging with clear micro-trends (oscillations greater than break even) however;
- A combination of robotic and manual trading can be used when micro-trends are not well defined
- Software assisted manual trading can also be used on sideways moving markets

It is important to note that the experienced management team (and the track record of returns shown) have employed the same **strong risk controls** regardless of the trading method used – i.e. the risk parameters and money management principles are the same.

HISTORICAL RETURNS OVER 49 TRADING DAYS



IMPORTANT NOTE: This chart shows the results of actual trading returns via a SIM account. † We have assumed 250 trading days per annum when showing monthly & annualised returns. No physical AUM were funded although actual statements were generated to show the physical effects of likely slippage on trade size and activity.

RISK MANAGEMENT

- 100% monitoring by the trading team at all times on all open positions on a tick-by-tick basis.
- The use of sophisticated software to make decisions and directly interact with the Exchange, thousands of times faster than a human can.
- The use of software to eliminate the human factors from trading i.e. the effect of greed and fear.
- Automatic placement of 'stop losses' as soon as the purchase order is completed with every single trade.
- Using appropriate hardware:
 - Several broadband internet lines from independent suppliers and independent media (cable, ADSL, wireless) to prevent drop outs and data blips
 - 4+ hours of unbreakable power back up for the trading room to prevent issues if there is a power out
 - State of the art computer system - processors with a total of 32 cores, 10 monitoring screens, 48 GB RAM, 5 TB storage
- Using the absolute minimum exposure needed to achieve well defined daily targets of 0.5%. Once the target is achieved, trading stops and no further risk is taken for the day.
- Taking tiny profits at extreme high frequency – average time a position is held for is 2 minutes. This also limits the potential loss.
- Only the DAX indices futures instrument is traded. This ensures a focused approach and provides a high level of familiarity with the behaviour of the DAX market.

MEGALIO VISION FUND Traded Instrument	DAX Index Futures	
Trading Fund	1,000,000	
Delta (€/€/contract)	25	
Margin: Intraday initial & intraday maintenance*	8,500	7,000
	Min	Max
Average range of Exposure (No. of Contracts)	10	50
Maximum Exposure (See Note †)		64
Average Range of Stop Loss distance	3	5
Max Stop loss distance		10
Average Size of Useable Microtrend ‡	10	25
1/year extreme instant price change ‡		150
Average Loss due to Stop Loss	790	6,450
Average Gain per trend	2,460	31,050
Maximum 1/Year Potential Loss (if uncontrolled**)		375,600
Extreme Margin Exposure		775,000
Average Trade Expectancy over 1000 trades***	19%	480%

* Set by SPAN algorithm. Standard Portfolio Analysis algorithm was developed by CME and CBOE and generally accepted as standard around the world. It is used by clearing houses to calculate initial and maintenance margin requirements. Brokers usually multiply its results by a safety factor to obtain the margining figures that they charge to their clients. The SPAN system has an important function in protecting clearing houses and brokers however; our strategy uses it to predict margining requirements, and to protect the Fund. Our software contains a special case implementation of the SPAN algorithm that is narrowed down to stocks, futures and options only and it gives us the opportunity to set our own safety margins.

** Probability of maximum loss is influenced by the following factors:

- 1 whether a position is open at the time of the extreme instant price change
- 2 whether the change of margin requirements would cause a forced close out - staying at or below Max Exposure can eliminate this scenario
- 3 whether the instant price change would be part of a trend or just an isolated phenomenon

This refers to uncontrolled slippage that conventional stop loss orders allow. Since our systems do not use such orders this is a theoretical maximum loss for the sake of analysis only. Actual portfolio exposure will be smaller.

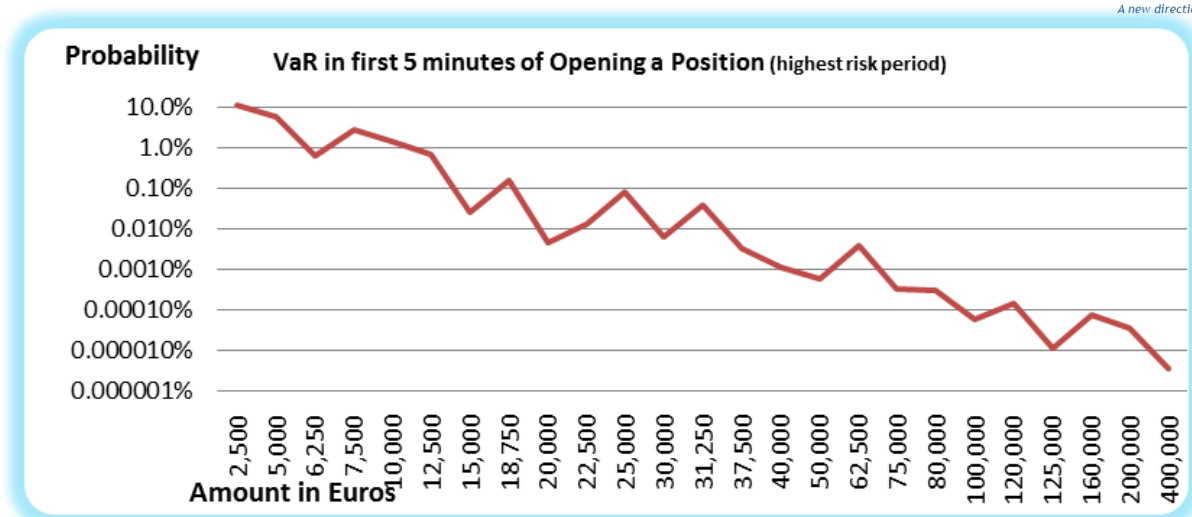
*** Based on SIM statistics our expected performance is between 19% and 480% profit for each thousand trades. Such a result might take a few days or several months to achieve depending on market conditions.

† Each contract requires on average EUR 15,500 margin. Changes in volatility affect this figure, the higher the volatility the higher the margin requirements.

‡ Every now and then, perhaps once a year, there is a market movement where the market jumps 120-150 points in either direction from one tick to another without warning. Usually it comes back close to previous levels within seconds, but the movement is enough to trigger conventional stop loss orders and cause a devastating slippage. To combat this eventuality our systems use synthetic stop loss orders that are immune to uncontrolled slippage. Such extreme movements can also trigger extraordinary margin calls that if not met can have the same effect as conventional stop loss orders executed right at the extreme price. To protect against this our systems always limit Fund exposure so that the Fund can ride through extreme situations with sufficient reserves.

‡ In our practice a "Usable Microtrend" is a trend that continues beyond the number of points needed in favour in order to break even against brokerage and slippage. (On the DAX 1 point = EUR 25 but our model calculates every DAX 1 point as a EUR 1 move) Our team sets the program to stay out of the market if the micro trends make less than 10 points of oscillation and when a trend moves 25 points our team prepares for profit taking.

VaR PROBABILITY OF LOSS AND AMOUNT OF PROBABLE LOSS



Interpretation

The above chart indicates the probability of a certain amount of loss in any given trade. Our automated trading systems have 1% chance of losing approximately \$6,250 Euros in a trade. This risk period only lasts for the first 5 minutes of a trade, at which point the trade has established its course and risk will minimise. The emphasis of this chart is not only the minimal risk exposure we have per trade, but also the reduction of risk after a trade has entered as the trade matures. The algorithms customised for this trading strategy allow us to control the risk to a high degree prior to entering the trade and then during the trade itself.

INNOVATIVE FEATURES USED for TRADING

Dynamic Trailing Orders

Any suitable order (MKT, LMT, STP, STPLMT, LIT, MIT, etc.) can be turned into an intelligent market “stalking” order by applying our unique proprietary algorithm to tie the order’s price and other parameters, to indicators.

The strategy’s unique algorithm has a facility to tie the trailing stop distance to any indicator value. Recommended indicators are: MACD, trend strength, volatility, volume, or unrealized P&L related indicators, as well as Dynamic Term MACDs

Dynamic Term MA (DTMA)

Often finding the right term for a moving average is difficult, especially on markets that change their characteristics very fast. For example DAX Futures may be placid and uneventful for several hours. The real action for the day may come with an abrupt change of volume/volatility that may last only a few minutes. Day traders may completely miss their opportunities if they tune their MAs and MACDs to average volatility.

Dynamic Term MA work best when controlled by volume, volatility or unrealised P&L indicators.

Dynamic Term MACD

DTMACDs are Calculated out of two DTMAs that may be controlled by a common indicator, or separate ones.

Dynamic Time Constant Low Pass Filters (DLPF)

Algorithmic low pass filters are analogues in their signal processing function to tone (treble cut) controls on audio equipment.

They smooth out the input signal – in this case market data – by suppressing their high frequency constituent i.e. the intra-day noise.

DLPFs whilst analogous to moving averages in their function, provide less delay than the MAs with the same smoothing effect. The time constant can be configured as a function of any indicator.

Graphic Input Facilities

The easiest way to define response functions to multiple inputs.

Example:

Our strategy seeks automated control of the term of a DTMA as a function of volatility and unrealised P&L. The aim is to increase the smoothing effect when volatility increases, and decrease the term as unrealised profit grows in order to let the DTMA controlled trailing stop lock in profits at the optimal time of market reversal.

Our specialist trading team's graphic input facilities allow our experienced traders to draw the response functions on the screen (with mouse or digitizer pad) and the program will automatically read values from the input chart.

3D Data Visualisation

The strategy's Proprietary software provides dimensional charts that turn vast amounts of data into easily discernible meaningful information. This simplifies extremely complex data analysis into an easy to read "pictures" without any loss of content. The Point-and-Click feature provides access to every single bit of information on request without cluttering the mind with information that is of no interest.

MEGALIO VISION FUND DAX AUTOMATED TRADING STRATEGY 'KEY PERSON' OVERVIEW:

The experience of the Investment Management and Trading team is hugely important and consists of:

- Top-Down Professional Investment Manager with over 33 years in finance
- Bottom-Up Mathematician specialising in finance;
 - Software engineering background
 - Financial planning and financial markets industry experience
 - Financial and engineering software development for 25 years
- Prime Broker (Interactive Brokers*) Commercial Tool Partner and Programming Consultant
- Combined over 27 plus years experience within the Trading and Futures Market
- 14 years in Software development
- Considerable Proprietary Investment Trading experience

Further information regarding the management team is available upon request

* *Interactive Brokers (IB) is a low cost provider of trade execution and clearing services for individuals, advisors, proprietary trading groups, brokers, and hedge funds. IB's premier technology provides direct market access to stocks, options, futures, forex, bonds and funds on over 80 market destinations around the world from a single IB Universal account. IB charges competitive commissions and margin rates. Visit <http://www.interactivebrokers.com/mkt/commtool> for more information.*

Risk Warning

Past results are not necessarily indicative of future results

There can be no assurance that **Megalio Vision Fund** investment objectives will be achieved. The proposed automated trading strategy portfolio can go down as well as up. This document is issued by **Alternative Asset Management Limited** which is regulated by the FSA. **Megalio Vision Fund** DAX Auto systematic trading strategy is offered via an investment in the **Alternative Vision Fund Limited** which currently has one strategy only. The **Megalio Vision Fund** DAX Auto systematic trading strategy may also be offered via 'managed accounts' ("IMA"). More details are available upon request. Prospective investors should consult with their own professional advisors about the specific **High Risks** associated with financial futures trading. Trading in Futures is high risk. Consequently, this document is only made available to Professional Investors, intermediate Customers and market Counterparties as defined by the FSA and to persons falling within the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes)(Exemptions) Order 2001. Decisions regarding making an investment in the **Megalio Vision Fund (Alternative Vision Fund Limited)** should be made by experienced professionals only. No person should rely on this document in any way for accuracy of any numbers, financial statements or forecasts and or legal content. Investors must seek their own independent legal and investment advice before making any decision on making an investment involving **High Risk** automated algo futures trading.

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