

# TRADEX FIRST FUND

*January 2014*

TRADE **X** GLOBAL ADVISORS



35 Mason Street, 4<sup>th</sup> Floor  
Greenwich, CT 06830

Tel: 203.863.1500  
Fax: 203.863.2007

marketing@thetradexgroup.com  
www.thetradexgroup.com

# INTRO TO TRADEX GLOBAL ADVISORS & JEFF KONG

2

Tradex has partnered with senior mortgage specialist, Jeff Kong, to launch the Tradex FIRST (Fixed Income Rate Strategies & Trading) Fund. The Tradex Group, founded in 1998 and headquartered in Greenwich, Connecticut, has managed Hedge Funds, Fund of Hedge Funds and Fund of Managed Accounts portfolios primarily for institutional clients. Tradex Global Advisors ("Tradex") is owned and managed by Jeffrey Trongone, Michael Beattie and Richard Travia.

Jeff Kong has joined the Tradex FIRST Fund as a Senior Partner. Jeff Kong and Tradex have had a successful business relationship for ten years. Jeff is one of the most senior prepayment specialists in the mortgage industry, with 20+ years of successful mortgage derivative investing. Jeff previously managed the \$1 billion SSH Fund at SPM. During his 10yr tenure, the fund produced an annualized 23.2% return and ranked as the #1 Large Hedge Fund by Bloomberg Markets.

Tradex focuses on identifying and analyzing, both from an investment and operational perspective, unique hedge fund strategies that either demonstrate quality and sustainable risk-adjusted returns or offer unique, asymmetric return opportunities. We tend to find the most value and specialize in the analysis of niche, alpha producing hedge fund strategies. Tradex has extensive hedge fund investment experience and a unique perspective, having made more than 500 hedge fund allocations. The firm's global macro view and its location in the hedge fund corridor help to facilitate information flow. The team's familiarity with and understanding of many different trading strategies allow them to recognize and differentiate quality, sustainable and alpha-centric hedge fund strategies and traders from their beta-driven counterparts.

"Tradex focuses its core competency on partnering with both internal and external traders via strategy-specific vehicles. The opportunity to partner with a senior mortgage professional like Jeff Kong, whom I've known for 12 years, is extremely exciting and opportunistic."

- Michael Beattie, Chief Investment Officer

"Tradex has always been looking for an opportunity to run its own multi-strategy mortgage vehicle that combines several complementary strategies, and we now have the talent to fill that need."

- Richard Travia, Director of Research

## JEFF KONG

- Premier mortgage prepayment arbitrageur
- Deep relationships with trading desks
- Strong performance across market cycles
- Agency and Non-agency experience
- Mortgage structuring experience
- Pioneered new and innovative analytical techniques
- Managed \$1+bln AUM in HFs with industry-leading performance
- Sterling professional and personal reputation

## TRADEX GLOBAL ADVISORS

- Highly experienced HF advisory group
- 15 year track record
- Premier macro shop, with FX team now managing internal assets only
- 500+ HF investments made across all strategies and asset classes globally
- Transparent process, investor friendly
- Strong institutional focus and experience
- Deep relationships with large investors and top-tier service providers
- Sterling professional and personal reputation

## FIRM PHILOSOPHY

Tradex has always identified unique, hedge fund opportunities and strategies in order to produce alpha-centric returns. The Tradex team requires that its traders stay focused and utilize appropriate and respectful levels of leverage and risk at all times. As a general rule, Tradex attempts to capture 75% of the upside of any trade, while limiting downside to approximately 25% of the worst case scenario. The Tradex team has more than a decade of experience in allocation and monitoring of mortgage-focused strategies, and has a firm belief that transparency, liquidity and risk management are key principals in any strategy it manages.

## FUND PHILOSOPHY

Structural and short-term dislocations in fixed income will always exist, predominately in the mortgage market, which can be exploited by talented, experienced and nimble investment managers. It is possible to express a view using multiple mortgage products, and the team expects to implement its views in the most efficient and asymmetric structure available. The multi-strategy, opportunistic approach allows for diversified exposure to alpha-oriented trades, rather than using beta-driven and high-leverage strategies.

## TRADEX GLOBAL'S KEY PRINCIPALS



# U.S. MORTGAGE MARKET COMPOSITION

5

- Mortgages are one of the largest U.S. Bond sectors at approximately \$8.1 trillion
- Mortgages can offer different alpha generating opportunities than most traditional and alternative investments



## FIRST Fund



- The Fund is a liquid, actively managed fixed-income/mortgage strategy
- The strategy targets strong risk-adjusted returns while offering attractive returns under varying interest rate and macroeconomic conditions

## Primary Investments



- Focus on Agency and Non-Agency MBS, such as:
  - IO / Inverse IO / IOS / PO
  - TBA / Pass-Throughs
  - Opportunistic Exposure (MSRs & Credit)

## Primary Hedges



- US Treasury & Agency debt instruments, options and derivatives
- Agency MBS TBAs
- Interest rate swaps & swaptions, options and futures contracts

## Leverage



- The Fund will use leverage prudently and strategically
- The Fund's Leverage Policy will remove leverage in rallying markets (ie. as spreads tighten) and seek to increase leverage opportunistically (ie. as spreads widen)
- Core leverage will not exceed 50% of maximum available leverage

Target robust, risk-adjusted returns with limited volatility and low correlation to traditional and alternative investments across market cycles

Invest in fixed income / mortgage securities using hedged, relative-value and mean-reversion based investment strategies that can extract alpha from the market



The strategy is designed to take advantage of today's environment and to be flexible enough to take advantage of future opportunities as they arise:

## ECONOMIC FUNDAMENTALS:

Steep yield curve and low funding rates  
Gradual employment gains  
Improving residential real estate  
Low economic growth

## FIXED INCOME MARKET TECHNICALS:

Manipulated rate levels and volatility  
Capacity constraints in mortgage lending industry  
Lack of sponsorship from traditional mortgage investors  
Evolving mortgage products

## CORE STRATEGIES:

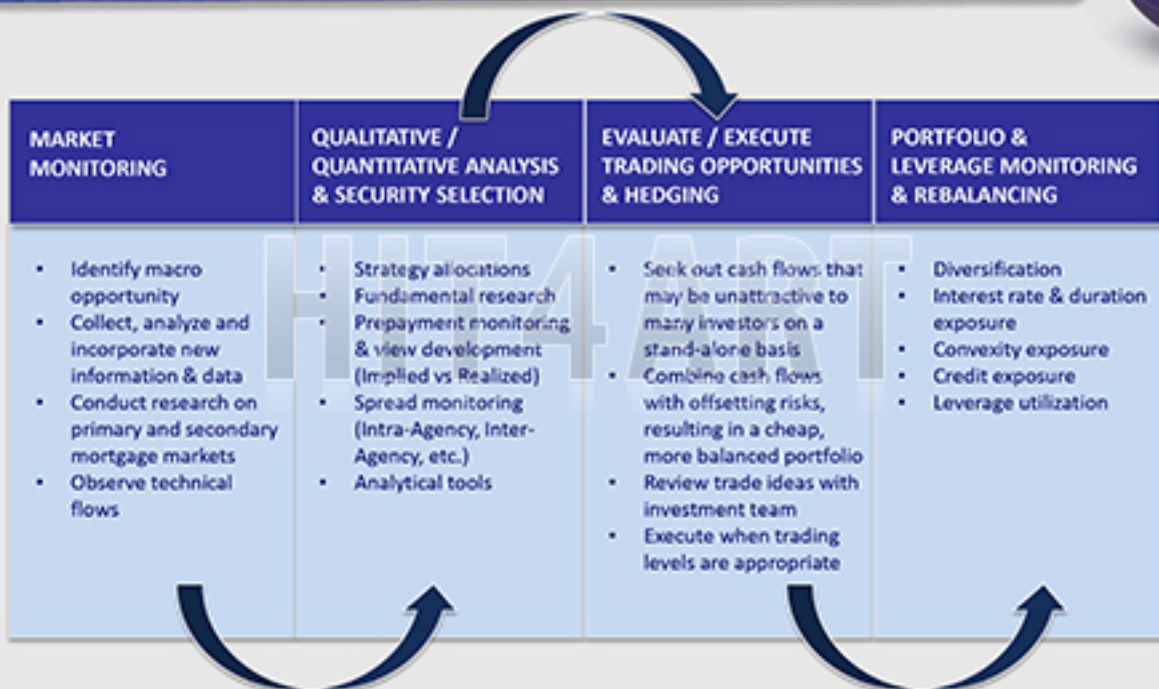
1. Prepayment Arbitrage
2. Relative Value Agency Trading

## FUTURE OPPORTUNITIES:

1. Mortgage Credit
2. 1st Loss Opportunities
3. Master Servicing Rights

## TAKEAWAY:

The fixed income / mortgage market continues to evolve. The Fed is in the process of exiting the MBS market and the private sector will once again dictate prices.



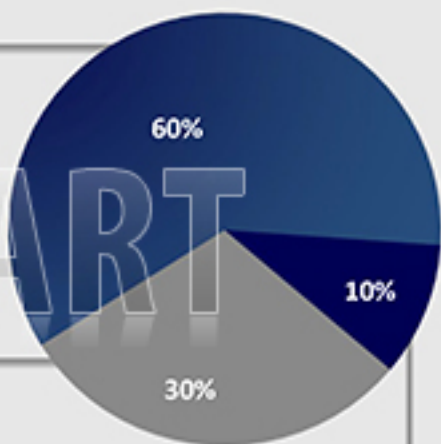
## CORE – Prepayment Arbitrage

- » Forward Curve
- » Call-Protected Securities
- » Interest-Rate Sensitive Securities
- » Volatility Arbitrage
- » Specified Pool Payups
- » Master Servicing Rights

## CORE - Relative Value Agency Trading

- » Mortgage Basis
- » Volatility Arbitrage
- » Forward vs. Cash market
- » Coupon Swaps
- » Inter-agency Swaps

Opportunistic



# IMPACT OF INTEREST RATES ON PREPAYMENTS

11



IOs will generally *increase* in value since there is more expected future cash flow

POs will generally *decrease* in value since POs are purchased at discounts to par and the payment is now received further in the future



IOs will generally *decrease* in value since there is less future cash flow

POs will generally *increase* in value since cash is returned at par more quickly.

The Tradex F.I.R.S.T. Fund is designed to profit from rising interest rates while producing attractive returns in a stable rate environment

- The global credit crisis has resulted in a macro environment where interest rates are historically low and asymmetrically skewed toward higher future rates
- Typical rising interest rate protection strategies have a negative carry associated with them and are expensive
- Interest-Only MBS generally appreciate in a rising interest rate markets
- IOs not only have a positive carry, but also offer superior yields relative to many other fixed income products

The team has decades of experience exploiting arbitrage opportunities between implied and realized prepayment speeds

## Prepayment Arbitrage Example

CPR	5 CPR	10 CPR	15 CPR	20 CPR	25 CPR	30 CPR	35 CPR
YIELD	52.2%	45.5%	38.5%	31.2%	23.5%	15.2%	6.1%
WAL	11.10	7.48	5.41	4.14	3.30	2.70	2.26

Actual: 10 CPR, 15 CPR, 20 CPR, 25 CPR  
Market Expected: 30 CPR, 35 CPR

- The example shown above predicted a much higher CPR at purchase than actually occurred which enabled some to achieve a yield of approximately 45% on this security
- By carefully studying borrower characteristics, a more accurate prepayment prediction can be formulated than the general market
- Certain types of mortgage derivatives, like IO, IIO (Inverse IO), and PO, are very effective instruments to express your mortgage prepayment views
- During the crisis, the scenario shown above shared similar upside characteristics of the celebrated short ABX trade, but without the sizable negative carry of shorting ABX

\*CPR stands for constant prepayment rate. WAL stands for weighted average life.

# WHY MASTER SERVICING RIGHTS (MSRs)

13

- Insured / senior cash flows – no credit risk
- Similar risk characteristics to an IO security
- Basel III rules will force banks to indiscriminately sell MSRs
- Inefficient marketplace for the opportunity
- Interest rate exposure can be hedged
- Attractive double-digit yields can be achieved with prepayment specialists
- Large capacity pool to choose from
- Opportunity to create customized pools



# AGENCY MBS RELATIVE VALUE ARBITRAGE

14

Exploiting the yield spread between agency MBS and the Treasury market

Strong risk-adjusted returns

Low to negative correlation with other asset classes

RISK/RETURNS		CORRELATION MATRIX										
Sharpe Ratio	Sharpe Ratio		MBS TBA	Fixed Income Aggregate	Dow Jones Industrials	RFAI Composite	MSCI Emerging Mkts	MSCI World	NASDAQ	Russell 2000 Equity	S&P 500	Treasuries
2.04	2.91	MBS TBA	1	0.86	-0.26	0.01	-0.16	-0.19	-0.24	-0.23	-0.26	0.77
1.53	2.40	Fixed Income Aggregate	0.86	1	-0.42	0.05	-0.3	-0.34	-0.4	-0.38	-0.42	0.97
0.79	1.04	Dow Jones Industrials	-0.26	-0.42	1	-0.04	0.55	0.74	0.93	0.92	0.98	-0.46
1.20	2.74	RFAI Composite	0.01	0.05	-0.04	1	0.04	0.01	-0.04	-0.06	-0.04	0.05
0.97	1.36	MSCI Emerging Mkts	-0.16	-0.3	0.55	0.04	1	0.68	0.54	0.52	0.55	-0.34
0.60	0.79	MSCI World	-0.19	-0.34	0.74	0.01	0.68	1	0.71	0.69	0.74	-0.37
0.80	1.06	NASDAQ	-0.24	-0.4	0.93	-0.04	0.54	0.71	1	0.96	0.96	-0.43
0.50	0.71	Russell 2000 Equity	-0.23	-0.38	0.92	-0.06	0.52	0.69	0.96	1	0.95	-0.42
0.67	0.88	S&P 500	-0.26	-0.42	0.98	-0.04	0.55	0.74	0.96	0.95	1	-0.46
0.62	0.97	Treasuries	0.77	0.97	-0.46	0.05	-0.34	-0.37	-0.43	-0.43	-0.46	1

## STRATEGIC VALUE PROPOSITION

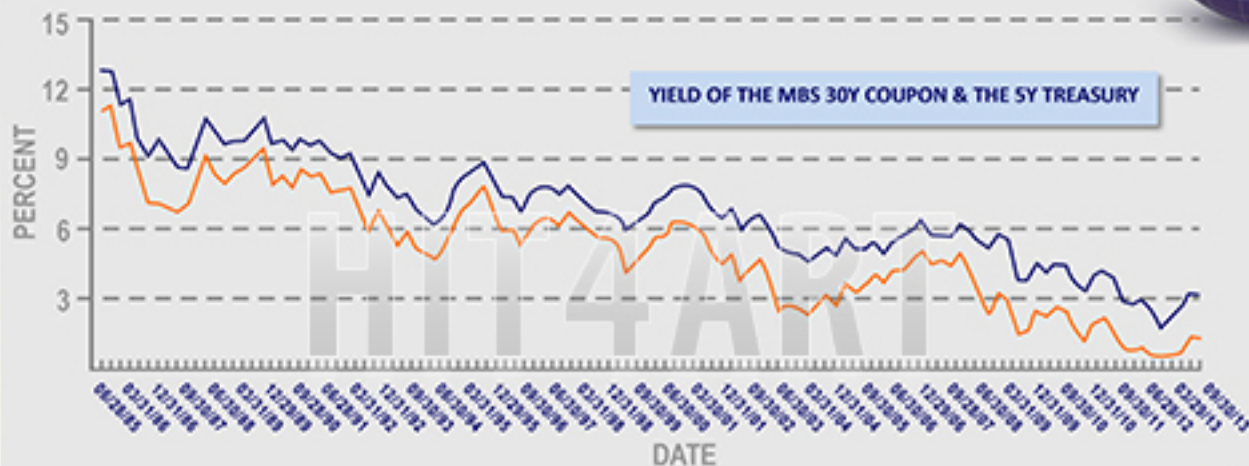
- Attractive yield spreads
- Highly liquid
- No credit risk

## TAKEAWAY

- Agency MBS TBA asset class provides strong risk-adjusted yields uncorrelated to other market sectors
- Actively managed Long/Short Relative Value strategies built around agency MBS TBAs have desirable performance characteristics

# MORTGAGE SPREADS TIGHTEN WHEN RATES RISE

15



Each of the major bear markets in the last 30 years have seen mortgage spread tightening.

- Agency mortgages are fundamentally a "yield product"; they yield more than treasuries
- On the margin over the intermediate term, investors reach for yield to buffer their downside losses as rates rise
- Rising rates tend to benefit mortgage indices more than treasury indices on a duration adjusted basis because of the natural slowdown in prepayments
- Impacting premium holdings in a positive way
- This fundamental dynamic mirrors the Prepayment Arbitrage core strategy, allowing the Fund to perform well in a rising rate environment

## Conservative approach matched with robust risk management

## PROPRIETARY METHODS &amp; VALUATION TOOLS

- OAS based valuation
- VAR based risk metrics
- Risk analytics

## MONITORING &amp; HEDGED RISK EXPOSURES

- Ensure moderate leverage
- Maintain strong liquidity profile
- Maintain cash minimums
- Monitor duration, curve, mortgage spread and volatility exposures

## SCENARIO ANALYSIS &amp; STRESS TESTING

- Simulate volatile environments
- Simulate shifts in interest rates
- Measure shocks to the portfolio

### Jeff Kong

#### Senior Partner

- Mr. Kong is the Senior Partner and Founder of the Tradex FIRST Fund. Prior to joining Tradex, Mr. Kong was a Portfolio Manager at Passport Capital for the M1 Fund. Mr. Kong joined Passport from Structured Portfolio Management, where, from 2000 to 2010, he managed the approximately \$1B flagship SPM mortgage fund, Structured Servicing Holdings (SSH), which annualized at +23.2% during his tenure as Portfolio Manager. SSH ranked as the #1 Large Hedge Fund by Bloomberg Markets in 2010 and ranked #8 in Barron's 2009 Top 100 Hedge Fund List. Previously, Mr. Kong served as a director at Donaldson, Lufkin & Jenrette for whom he was a market-maker in mortgage-backed securities. Before DLJ, he was a vice president at Greenwich Capital Markets, first working on mortgage-backed securities modeling and structuring, and later trading MBS derivatives and CMOs. Earlier, Mr. Kong worked as a senior analyst at Citibank. Mr. Kong graduated from the University of Florida with a Bachelor's degree in Finance and Management.

### Will Mitchell

#### Analyst

- Mr. Mitchell is an analyst for the Tradex FIRST Fund and the Tradex RV Advantage Fund. Prior to joining Tradex, Mr. Mitchell was a Vice President and Senior Fixed Income Portfolio Analyst at Citizens Financial Group. Mr. Mitchell joined Citizens from Citigroup, where he was a Yield Book/Quantitative Analyst. Mr. Mitchell has considerable experience in MBS valuation, Yield Book and has high level programming capabilities. Mr. Mitchell graduated from SUNY Brockport with a Bachelor's degree in Finance and has an MBA from the University of Rochester.

## Richard Travia

### *Risk Officer*

- Mr. Travia serves as the Risk Officer of the Tradex FIRST Fund. Mr. Travia is also a founding Partner of Tradex Global Advisors, and serves as Director of Research and Chief Compliance Officer for the firm. Mr. Travia has discretionary authority to de-risk the portfolios, if necessary. Besides monitoring the risk in the Funds, he is a key member of the Tradex investment team and is integral in all firm-wide strategy, investment, allocation and risk management decisions. He manages the hedge fund manager and strategy due diligence process, including selection and monitoring, while overseeing the R&D for Tradex's systematic models. Mr. Travia helped build and launch Tradex's proprietary ranking models that aid in manager identification and selection. Prior to co-founding Tradex Global Advisors, Mr. Travia worked with Mr. Beattie as the lead analyst for the Select Access Family of Funds. Mr. Travia was a member of the Investment Committee and focused on strategy, risk, investment and allocation decisions. Mr. Travia graduated from Villanova University with a Bachelor's Degree in Economics and currently serves as a Senator on the University Senate.

## TBD

### *Credit Trader*

### **Jeffrey Trongone**

#### ***Partner & President***

- Mr. Trongone is a Partner and the President of Tradex Global Advisors. He is responsible for commercial activities of the firm as well as relationships with investors. Prior to joining Tradex, Mr. Trongone founded and was CEO of Malbec Partners, an alternative investment company inside of BNP Paribas having multiple hedge fund investment teams, extensive risk management capabilities and a disciplined business infrastructure. Prior to Malbec Partners, he was Managing Director and CFO of Fischer Francis Trees & Watts, a boutique fixed income asset manager affiliated with BNP Paribas. Mr. Trongone was Chief Operating Officer for Third Point LLC, a multi-billion event-driven hedge fund, responsible for all non-investment activities and risk management. Prior to that, Mr. Trongone was Managing Director, CFO and a member of the Executive Committee of JP Morgan's asset management business. Mr. Trongone began his career at KPMG. He is a Certified Public Accountant and graduated from Forcham University with a Bachelor's Degree in Accounting.

### **Michael Beattie, Partner & Chief Investment Officer**

- Mr. Beattie is a founding Partner and the Chief Investment Officer of Tradex Global Advisors, directing all investment activities. Mr. Beattie has substantial institutional trading and private investment management experience, including prior to co-founding Tradex Global Advisors, the co-management of the Select Access Family of Funds from 2002-2004. From 1987 to 2001, Mr. Beattie was a partner with Virgo, a \$100 Million manufacturing company where he was responsible for strategic development and design, as well as for managing the company's receivables book and structuring a factoring credit facility with CIT. Mr. Beattie has been a successful private investor for more than 30 years, investing in hedge funds since 1998, managing family fund of hedge funds investment vehicles as well as making direct investments in various asset classes. Mr. Beattie is a graduate of State University of New York.

## Jeff Kong Net Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2000			-0.90%	4.40%	2.90%	0.30%	1.20%	0.80%	3.50%	1.70%	2.80%	-1.10%	16.57%
2001	5.40%	0.00%	4.50%	0.80%	1.50%	-0.20%	-1.00%	0.80%	1.50%	3.10%	9.20%	2.80%	31.84%
2002	-0.30%	0.90%	2.90%	1.10%	1.80%	1.00%	2.20%	1.90%	6.80%	0.00%	1.30%	5.70%	28.15%
2003	3.10%	3.20%	0.40%	-1.20%	1.30%	1.90%	-2.40%	-2.30%	1.9%	0.30%	-1.90%	2.20%	12.76%
2004	2.90%	1.60%	0.80%	-1.60%	-0.20%	1.00%	-1.10%	1.70%	1.10%	0.20%	-0.70%	0.50%	6.28%
2005	-2.20%	2.00%	1.10%	0.50%	1.20%	0.40%	1.90%	0.00%	-0.30%	3.10%	0.20%	0.20%	8.30%
2006	-0.20%	0.80%	1.50%	0.20%	1.60%	1.00%	-0.60%	1.10%	0.50%	1.60%	0.60%	2.30%	10.87%
2007	0.50%	1.00%	1.90%	1.00%	0.70%	0.40%	-2.70%	1.50%	2.30%	5.90%	0.10%	8.10%	22.28%
2008	7.40%	6.10%	-1.80%	3.30%	2.10%	0.60%	4.60%	0.40%	-14.40%	6.70%	-23.80%	8.20%	-6.11%
2009	11.70%	5.30%	5.70%	9.20%	12.80%	5.20%	11.90%	6.70%	6.70%	6.00%	3.10%	4.80%	135.07%
2010	2.07%	2.26%	2.08%	2.28%	5.28%								14.73%
2011										-0.30%	1.00%	1.60%	2.31%
2012	0.40%	1.60%	1.90%	1.30%	0.40%	0.90%	1.50%	1.50%	1.40%	0.90%	-0.60%	1.10%	12.99%
2013	1.80%	0.00%	-1.20%	-5.40%	-8.50%	-2.80%							-15.38%

INVESTMENT VEHICLE	Tradex FIRST Fund
Minimum Investment	\$1,000,000 USD
Redemption Terms	Monthly with 90 Day's Notice
Subscription Terms	Monthly
Management Fee	1.5%
Incentive Fee (Annual Crystallization)	20%
Side Pockets	None
Auditor	BDO USA, LLP
Administrator	SS&C Technologies Inc.
Prime Broker / Custodian	JP Morgan

This document does not constitute an offer to sell or a solicitation of an offer to buy the Fund described herein. No such offer or solicitation will be made prior to the delivery of a definitive offering memorandum and other materials relating to the matters herein. Before making an investment decision with respect to Trades Short-Biased High Portfolio, potential investors are advised to read carefully the offering memorandum and the related subscription documents, and to consult with their tax, legal and financial advisors. This document contains a preliminary summary of the purpose and principal business terms of Trades Global Short-Biased High Yield Portfolio; this summary does not purport to be complete and is qualified in its entirety by reference to the more detailed discussions contained in the private offering memorandum. Trades Global Advisors, LLC has the ability in its sole discretion to change the materials and information herein. This document is being provided to you on a confidential basis solely to assist you in deciding whether or not to proceed with a further investigation in Trades Global. Accordingly, this document may not be reproduced in whole or part, and may not be delivered to any person without the consent of Trades Global Advisors, LLC.

- **Trading Risk:** All securities investments risk the loss of capital. We believe that the Fund trading program and research techniques will moderate this risk through a careful selection of securities. The Fund may use certain trading techniques such as trading in put and call options and other derivatives, distressed securities, short sales and forward contracts, and the use of substantial amounts of leverage and margin, which practices may increase the adverse impact to which the Fund may be subject. The Fund's portfolio may not be diversified by industry.
- **Limited Operating History:** The Funds have no operating history. The predecessor Fund managed by the Trading Advisor achieved results that may have been influenced by material market or economic conditions. There can neither be any guarantee that similar conditions will be present, nor any guarantee that similar results can be achieved. The results shown are net returns based on a 1.5% management fee and a 20% incentive allocation. Performance returns assume an initial capital investment was made at the inception date of the fund with no further capital contributions or capital withdrawals having been made by the investor after the inception date of the fund. As a result, actual performance returns may have differed from reported performance returns. THERE CAN BE NO ASSURANCE THAT TRADEX GLOBAL ADVISORS' TRADING OBJECTIVE WILL BE ACHIEVED OR THAT INVESTORS WILL NOT INCUR LOSSES. THE TRADING PROGRAM ENTAILS A HIGH DEGREE OF RISK.
- **Business Dependent Upon Key Individuals:** The success of the Fund is expected to be significantly dependent upon the involvement and efforts of Michael Beattie and Richard Travis, as well as their Trading Advisor.
- **Incentive Allocation/Performance Fees:** The allocation of 20% of net capital appreciation to the Investment Manager may create an incentive for it to take positions which are riskier than would otherwise be the case.
- **Valuation:** The valuation of securities for which market quotations are not readily available will be determined by management and not by an independent valuation source.
- **Absence of Regulatory Oversight:** None of the Funds are registered as an investment company under the Investment Company Act of 1933, as amended, and, accordingly, the provisions of the 1940 Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities held in custody to be individually segregated and require the relationship between the advisor and the investment company) are not applicable.
- **Indefiniteness:** The Funds' organizational documents contain broad indemnification provisions in favor of management.
- **Limited Liquidity:** An investment in the Fund is suitable only for sophisticated investors who have no need for current liquidity. There will be no secondary market for interests in the Funds. The Fund may invest in illiquid securities.
- **In-Kind Distributions:** It is possible that investors will receive distributions "in-kind" rather than in cash.
- **Projected Payout:** Projected payout is calculated by the Sub-Advisor and is derived from a good faith estimate of the potential gains over the life of the strategy (which is undefined and may never be realized), vis-à-vis the costs to carry the underlying investments and the potential losses associated therewith. As such, actual results could differ materially from the projected payout range.
- **\* The Track Record for Trader 1 from Mar 2000 - May 2000 represents the net results of the Manager with an MBS firm where he served as Portfolio Manager. The Track Record for Trader 1 from Oct 2011 - June 2013 represents the net results of the Manager with a different MBS firm where he also served as Portfolio Manager. The Track Record for Trader 2 from Mar 2009 - Apr 2011 represents the net results of the Manager with an MBS firm where he served as Portfolio Manager. The Track Record for Trader 2 from Jan 2012 - May 2013 represents the net results of the Manager with a different MBS firm where he also served as Portfolio Manager. Past performance does not guarantee or indicate future results and no representation is made that an investor will, or is likely to, achieve similar results to those shown. A Trades managed account will be managed using a similar investment objective and process as that of the prior funds. Performance information with respect to the prior funds contained herein was provided to Trades Global Advisors by the Portfolio Managers and are believed to be reliable, but we cannot guarantee its accuracy or completeness. The predecessor Funds managed by the Portfolio Managers achieved results that may have been influenced by material market or economic conditions. There can neither be any guarantee that similar conditions will be present, nor any guarantee that similar results can be achieved. The results shown are net returns based on a 2% management fee and a 20% incentive allocation. Performance returns assume an initial capital investment was made at the inception date of the fund with no further capital contributions or capital withdrawals having been made by the investor after the inception date of the fund. As a result, actual performance returns may have differed from reported performance returns. THERE CAN BE NO ASSURANCE THAT TRADEX GLOBAL ADVISORS' TRADING OBJECTIVE WILL BE ACHIEVED OR THAT INVESTORS WILL NOT INCUR LOSSES. THE TRADING PROGRAM MAY ENTAIL A HIGH DEGREE OF RISK.**