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True Partner Capital

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The future ain’t what it used to be… observations on an uncertain world

True Partner Capital

Suite 2902-03, 29/F,
The Gateway Tower 2,
Harbour City, 25 Canton Road,
Kowloon, Hong Kong

111 West Jackson boulevard,
Suite 1700, Chicago,
60604, USA

www.truepartnercapital.com

Being a True Partner

The future ain't what it used to be... observations on an uncertain world

Review and Outlook

Happy new year! A common sentiment, both in the personal space as in the financial markets, has been the relief that *'at least 2020 is over with'.* But writing this article with the unprecedented events in Washington DC in the background, and grim new records still being set by Covid-19, one quickly realizes that a year is just a convention for classifying time and a new demarcation does not change the underlying situation. But it is nevertheless an opportunity to reflect, to take stock and look forward with fresh eyes. What can we learn from 2020? What should we expect in 2021?

Looking back at 2020, indeed it has been an extraordinary year in many respects. Before we turn to focus on financial markets, we should first acknowledge the human tragedy of the year. Covid-19 has claimed close to 2 million lives and there have been well over 90 million confirmed cases of the virus. As virus numbers continue to escalate in many parts of the world we are acutely aware that some readers will be going through this as we write. We extend our deepest sympathies to all those who have lost loved ones or who are suffering with the lingering effects of the virus and wish all our readers good health and happy times in the year ahead.

Turning to markets, it is natural that many of us will most readily recall the stressful times of 2020. However, looking at the calendar year as a whole, it is striking that the MSCI World[1] had an unusually high +14% return, as the risk off move move in mid-Q1 – which saw a 33% drawdown – gave way to an even more aggressive resumption of the bull market from late March onwards.

2020 has again been a reminder that tail events may be infrequent, but they do occur, and can have big effects. However, timing them is the tricky part. The bull market years before 2008 were full of warnings about the rapid expansion in credit and risks in the housing market, while the excesses of the dotcom bubble were also widely commented on. And even the Covid-19 pandemic did not come fully out of leftfield. While the last truly global pandemic was outside of living memory for most, it was

1 Throughout this document, MSCI World refers to the MSCI World Total Return Hedged to US Dollars (source: Bloomberg).

not an unknown risk. Indeed, in September 2019 the World Health Organisation published a major report, warning of the kind of tragic scenario which came to fore.[2] There are always a plethora of risks to worry about and markets often seem to ignore them. But frequently enough to matter, some of these risks grow and become too big to ignore. Preparedness can yield big gains.

From a market perspective, tail events are never the same but they surely often rhyme, with common risk-off reactions including a flight to "safe", liquid assets, a reduction in notional exposures (as the perceived risk exposure rises), an increase in the liquidity premium as well as risk premia in general, rising correlations and last but not least significantly higher volatility. Common risk models that focus on short-term measures of risk, or which allow low probability tails to remain unhedged (or even unacknowledged), often lead investors to have to make large adjustments in positions in short spaces of time just when markets are already moving in unusual ways. These were all seen again in Q1.

While things moved quickly, moves were not instantaneous – as in previous tail events, prices only really adjust significantly when people start (or cease) to transact, and market microstructure and positioning become important factors. Markets initially traded Covid-19 as a series of somewhat independent local events, but the interconnected nature of global supply chains and investors meant it then had a global impact that was more about capital market and supply linkages than the severity of cases in the domestic market. Time lags in reactions created trading opportunities.

Each crisis also tends to create new "never before" moments. Often these unprecedented moves are centered around over-reliance by some investors on structures that are short volatility and liquidity but manage to show good results for the last crisis. For those with dry powder, the inevitable unwinds can create trading opportunities, as they did in Q1. Sometimes, central bank support provides a lifeline, as it did in parts of the fixed income market in March. But sometimes it doesn't, as for those who were short certain tail risks in equity variance. We are already seeing some market new niche products that worked in 2020 but embed similar short tails.

Moves in 2020 were faster than in 2008

The combined speed and magnitude of the moves in Q1 and Q2 was unusual, with the S&P 500 moving from high to low in 23 days (a 34% loss) and reaching a new all-time high by early September. The Nasdaq-100, which closed 2020 with one of its highest ever annual returns (+49%), was back at a new all-time high by early June. In the 2008 financial crisis, it took well over a year for the S&P 500 to go from peak to trough (Oct 2007 to March 2009), and it did not recover its losses until 2012. Both periods are a reminder that markets

can change their perception of "risk" very quickly and do so in highly interconnected ways. In 2008/09 there were multiple periods of rapid losses, each creating stress and opportunities. In 2020 the stress and equity drawdown were concentrated in one period. As is typical in stressful periods, we found attractive trading opportunities and were pleased to deliver strong returns for our investors in Q1. Without the huge and rapid policy response, we believe markets would have looked more like 2008, which would likely have meant even more opportunities.

As in 2008, liquidity was a concern in some markets, though not in our areas of focus: our preferred habitat of short-term index options is one of the few places where liquidity tends to remain strong, and we saw this again in Q1, with our ability to transact unimpaired while the available opportunities increased. As we have discussed with many of our readers in the past, this is one reason we like our product set. At

2 "A World at Risk: annual report on global preparedness for health emergencies", World Health Organisation Global Preparedness Monitoring Board, September 2019 https://apps.who.int/gpmb/assets/annual_report/GPMB_Annual_Report_English.pdf. The report warns of the theoretical risks of "high-impact respiratory pathogens… spread by respiratory droplets… [and which can] move rapidly across multiple geographies" the same time, we also observed evaporating liquidity in longer-dated and more complex OTC option instruments where there are fewer natural buyers and sellers and buyside participants are often warehousing risks that banks either cannot or do not wish to hold. Outside of option markets, there were plenty of signs of liquidity constraints in credit and even major government bond markets until the huge central bank interventions.

Looking ahead

As we look ahead into 2021, what are the challenges and opportunities? While our strategy is quantitatively-driven and we are not macro traders, the overall environment is nevertheless an important backdrop. We would like to share our observations and the implications for volatility.

As others have argued elsewhere, we believe that one essential quest in 2021 will be the search for properly diversifying assets. For those tasked with macro asset allocation, both absolute value and diversification look harder to find in a world where central bank induced liquidity appears to be the tide that lifts all boats. Despite falling earnings in 2020, many equity markets are at new all-time highs. That makes the need for diversifiers appear stronger than ever.

Valuation arguments often seem to be based on something else being more expensive, namely, government bonds. High equity P/Es do seem more sustainable if long-term real interest rates remain negative. But on the flipside, if bonds yields rise, that would seem to undermine the case for abnormally high P/Es. The increased interlinkage between equity and bond valuations could lead to positive, rather than negative, correlations between equities and bonds in equity sell-offs. We are increasingly hearing in our investor conversations agreement with GMO's eloquent argument that investors should rethink the role of government bonds in their portfolios[3]. We will return to this below.

Staying with equities, multiple expansion is of course just bringing forward future returns. Either equity returns will be low or there needs to be strong future earnings growth. If markets are correct in pricing real interest rates to remain negative for decades to come, it suggests economic growth will be disappointing long-term. That may make it difficult for EPS growth to drive future equity returns. Alternatively, if fiscal spending and reforms have the hoped-for effects in boosting economic growth, presumably the neutral rate of interest will once again become positive. That would mean central banks will no longer need to provide as much stimulus, and long-term projected future earnings should once again be discounted relative to those that are closer to hand. That could impact the growth trade and associated multiple expansion that has so boosted equity markets in recent years. The brief, but violent rotation on 9 November following the positive news on the Pfizer vaccine is an example of this dynamic. It is worth asking whether it is good or bad for P/E ratios if fiscal spending boosts growth and leads to higher rates? Uncertainty could drive interesting volatility around economic data surprises in 2021.

Echoes of 1999?

Perhaps inevitably given the size of stimulus in 2020, some excess liquidity seems to have found its way into risk asset prices – indeed this is one of the intentions of QE, through "wealth effects" and the "portfolio rebalancing" channel. However, there are signs of over-exuberance, with recent months having seen turbo-charged gains in some areas. It is hard to explain the fundamentals behind the ~300% rise in Bitcoin since September (an additional $500 billion in market cap and a 4x rise vs gold) and the doubling of Tesla since mid-November (an additional $400 billion in market cap). MicroStrategy issuing convertible bonds at a sub-1% yield to make a leveraged Bitcoin investment is another harbinger of the times.[4] The over 240 SPAC IPOs in 2020 offer a pointed reminder of the pre-2008 vintage of SPACs which, euphemistically speaking, did not end well. At the same time, FOMO (Fear Of Missing Out) is undoubtedly pressuring sceptics to get on board the "this time it's different" bandwagon.

As others have noted, it is hard not to be reminded of the exuberance of 1999 and early 2000.[5] As then, we are seeing high retail participation and new technologies making it easier and cheaper for small investors to trade. That era is often remembered as one in which companies with no realistic business model were overvalued by retail hype. Clearly, there were some IPOs with shall we say "optimistic" business models (readers may remember

3 See https://www.gmo.com/asia/research-library/2q-2020-gmo-quarterly-letter/
4 See https://www.microstrategy.com/en/company/company-videos/microstrategy-completes-650-million-offering-of-convertible-senior-notes
5 Indeed, we note that one well respected asset manager has recently launched a product based on the prediction of a TMT unwind similar to that seen from 2000-02

Suite 2902-03, 29/F, The Gateway Tower 2,
25 Canton Road, Kowloon, Hong Kong

Pets.com, which went bust within 12 months of its successful IPO…) But a large part of the boom was over-excitement about fundamentally good companies that were just bid up way too high. To give an example, in late 1999/early 2000, Cisco doubled in value, adding $300bn in market cap in four months as markets anticipated future brilliance. Since then Cisco has had a 4-fold increase in revenues and a 5-fold increase in profits (more than 2x faster growth than US GDP for 20 years) – a huge fundamental success. But markets had priced in even more. Cisco stock fell 90% from its peak and its share price has still not recovered its March 2000 levels.

At the same time as this exuberance, occasional headlines remind that not everything is going up. Signs of distress are rising in commercial real estate[6], while it was recently noted that some luxury apartments and retail properties in Manhattan have been valued at only half their value just a few years ago.[7] After the 2008 crisis and the sharp market recovery of 2009, European periphery debt problems became a major focus in 2010. Will some of the underlying issues remaining from the Covid-crisis escalate over the next 1-2 years?

But will risk assets broadly reverse soon? From a cyclical perspective, once vaccines are rolled out, economic activity will surely increase, and jobs in affected sectors will start to come back. With savings high amongst the better-off, as and when economies reopen, there would seem to be ample room for higher consumer spending, which some analysts expect to drive a rise in meaningful rise in inflation. Central banks may ignore that and keep short-term rates low, allowing yield curves to steepen, and we have already seen a rise in breakeven inflation rates. Higher growth usually is good for markets and so many strategists are advocating holding on. With many equity markets higher than pre-Covid-19 levels, a large part of the recovery must be priced in – but how much?

The pace of reopening could yet disappoint. Social distancing and other protective measures may also need to remain for some time, limiting capacity levels. Thus far, vaccine roll outs are also taking longer than hoped as the logistical challenge of rapidly producing and delivering millions upon millions of doses proves as difficult as one might think. For all the economic benefits of the policy support in 2020, much has been based on loans, not grants. For many companies, Covid-19 has simply meant productive assets lying idle, saved from bankruptcy by increased borrowing. Repaying borrowing will be a drag on future earnings and some companies may learn the hard way there is a difference between liquidity and solvency.

Worryingly, Covid-19 itself seems to be trying to outpace the amazing speed of human ingenuity in virus fighting. Recent mutations have resulted in much more infectious strains that are pushing healthcare systems in some countries to their limits. While the UK has so far been the worst hit by this, it is of note that the UK is also one of very few countries that routinely screens test results to identify such mutations. If mutations occur elsewhere, they may not be identified so quickly. More infectious strains require a faster response to be contained. Indeed, Brisbane recently announced a lockdown on the back of a single case of this new variant. The need to react in such ways means the cost of containment could remain high. Net, there are various ways the pace of the return to normal could be disappointing slow.

Diversification is harder to find

Ultimately, with cash yields generally zero or negative, investors have to buy something. As another acronym claims, “There Is No Alternative” (to equities). Returning to the asset allocation dilemma, ultra-low government bond yields mean lower expected portfolio returns for many and a less well hedged portfolio. That means there is pressure to take more risk elsewhere, at the same time as there is less room to do so.

One popular answer to this seems to be to reduce government bonds, hold on to risk assets, take more liquidity risk, and look for diversification elsewhere. While there are arguments both ways, it’s easy to see the case for reducing government bonds. Many such bonds offer negative yields and did little in Q1. Indeed, being long Japanese, German or Swiss bonds – places where rates were already negative entering the sell-off– lost money in March. Negative carry and no diversification is a difficult mix.

6 “Distress looms over U.S. commercial real estate in 2021”, Marketwatch, 13 December 2020; https://www.marketwatch.com/story/distress-looms-over-u-s-commercial-real-estate-in-2021-11607801514;
7 “Billionaires’ Row Condo Records 51% Resale Loss in Luxury Glut”, Bloomberg, January 8, 2021 https://www.bloomberg.com/news/articles/2021-01-08/billionaires-row-condo-records-51-resale-loss-in-luxury-glut; “Ho, ho — oh, no! Values of troubled Manhattan retail properties sink 53%”, Marketwatch, December 8, 2020; https://www.marketwatch.com/story/ho-hooh-no-values-of-troubled-manhattan-retail-properties-sink-53-11607478010

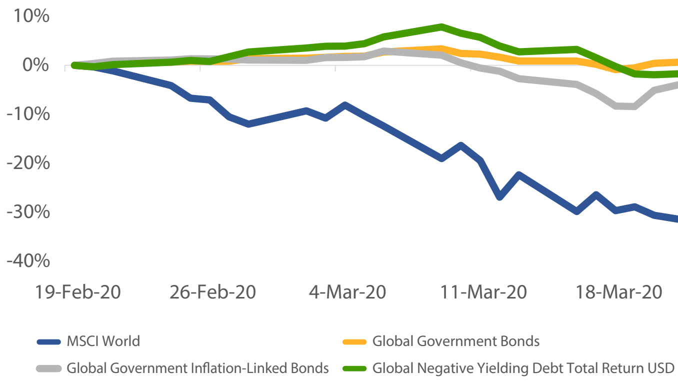
Even long-term US Treasuries, which had strong returns in Q1 overall, were a somewhat unreliable hedge in the heat of the equity sell-off, impacted by heavy positioning which caused significant volatility. Taking the TLT ETF (which holds 20y+ Treasuries) as a proxy, long-term US Treasuries were down slightly from 19th Feb (the peak of the S&P 500) through 18th March – a period over which the S&P 500 was down 29% and the Fed had already cut rates dramatically. That's not usually the kind of behavior one expects from a hedging asset.

Will Treasury yields go lower in a big risk off move? Probably. But it will be hard to repeat the returns of Q1. The Fed has been pretty clear it doesn't like the idea of negative rates and a flat yield curve causes problems for the banking system, which profits from borrowing short and lending long. Policymakers seem likely to try to find different tools. Researchers at the BIS recently noted that the diversification benefits of Treasuries had already been declining for some time. It's also worth recalling, as the BIS highlighted, that the negative equity/bond correlation markets have become used to is not a fixed phenomenon: looking over the long-term, equities and bonds have had long periods of positive correlations in the past.[8]

Moves in recent months also highlight the risk of capital loss in bonds. Following Biden's election win and the narrowly Democratic Senate, the US 10-year yield has decisively cleared the 1% mark. With the Fed committed to making up for past under-inflation to achieve its "average" target level, that means targeting above 2% inflation for some period. So we could see heavy borrowing, a dovish Fed and rising inflation all at the same time. Already in 2020 some in Europe were arguing for central banks to simply write off government bonds, effectively directly printing to finance spending. Net, there are various reasons a negative real yield doesn't seem particularly attractive.

Inflation-linked bonds are not a panacea either as inflation expectations tend to drop during major risk off moves. Looking from the peak to the trough of the S&P 500 drawdown in Q1, US inflation linked government bonds had a marginally negative total return. The global equivalent index was down -2.4%, or -6.5% without a USD hedge. Inflation linked bonds were also losers during the worst parts of the 2008 crash.[9]

Equities and Bonds during the Equity Drawdown



From our perspective as equity option traders, the correlations between equities and bonds will be particularly interesting to watch as a potential catalyst. Readers will recall the "taper tantrum" of 2013, when US bond yields rose by 100bps in less than two months, while equities sold off, a period that created attractive opportunities for our strategy. The chance of a meaningful sell off in fixed income triggering a simultaneous sell off in equities seems higher than for some time.

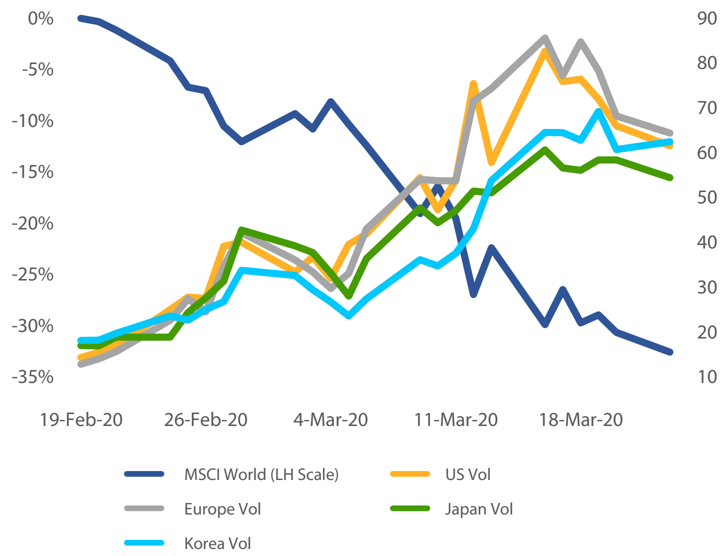
If not fixed income, where to find diversification? Hedge funds in aggregate generally had a good 2020, but only some offered diversification in Q1. Leaving aside for a moment our own funds (which did well), the speed of the change in markets in 2020 benefited certain tail risk strategies (also 2008 winners) that had been long far out of the money options. We give due credit to those macro managers who correctly anticipated the rapid Fed response. Perhaps they can identify the policy toolkit for next time too. On the other hand, the moves caught out some strategies that had been good diversifiers in 2008, such as some longer-term trend followers. Alternative risk premia generally behaved like risk premia, rather than diversifiers. Bitcoin, sometimes now touted as a hedge, was down 35% in Q1. Investors may wish to consider a portfolio approach, with different kinds of tools. With increased central bank intervention in markets, we believe it is important to think about which markets can move, and how quickly to take profits. Post financial crisis reforms helped reduce stress in money markets vs. the 2008 experience. What is still free to move in the next crisis?

8 Avalos, Fernando and Xia, Dora, "US Treasuries and equity sell-offs: is the hedge faltering?", BIS Quarterly Review, 7 December 2020
9 Indices used are the Bloomberg Barclays US Government Inflation-Linked All Maturities Total Return Index and the Bloomberg Barclays Global Inflation Linked Index Hedged USD and its unhedged equivalent. Source: Bloomberg

Equity volatility remains highly sensitive to risk sentiment

Thinking about our own opportunity set, equity volatility is one of the few “risk off” barometers that exceeded 2008 levels in 2020, with the rapid changes in markets leading to a spike in the VIX slightly beyond that seen after the collapse of Lehman, albeit the reversal was also faster. Equities, being at the bottom of the capital structure, are leveraged to marginal perceptions of change, and remain one of the last places policymakers intervene. It seems to us that equities are perhaps the markets most “free” to express changes in risk sentiment where large numbers of market participants can trade in large size. In short, in a macro shock, equity products remain the fastest and easiest way to adjust risk.

Equity Implied Volatility during the Equity Drawdown[10]



Q1 policy interventions were bigger and faster than in 2008, leading markets to turn positive more quickly, but in the moment equity volatility offered attractive diversification opportunities. That led to profits for tail risk managers and attractive relative value opportunities for our strategies. We were particularly pleased that our funds were able to monetise gains quickly and delivered positive returns in not only the worst week for the S&P 500 (the week ending 20th March, which was our best week of 2020) but also (in smaller size) during the rebound the following week.

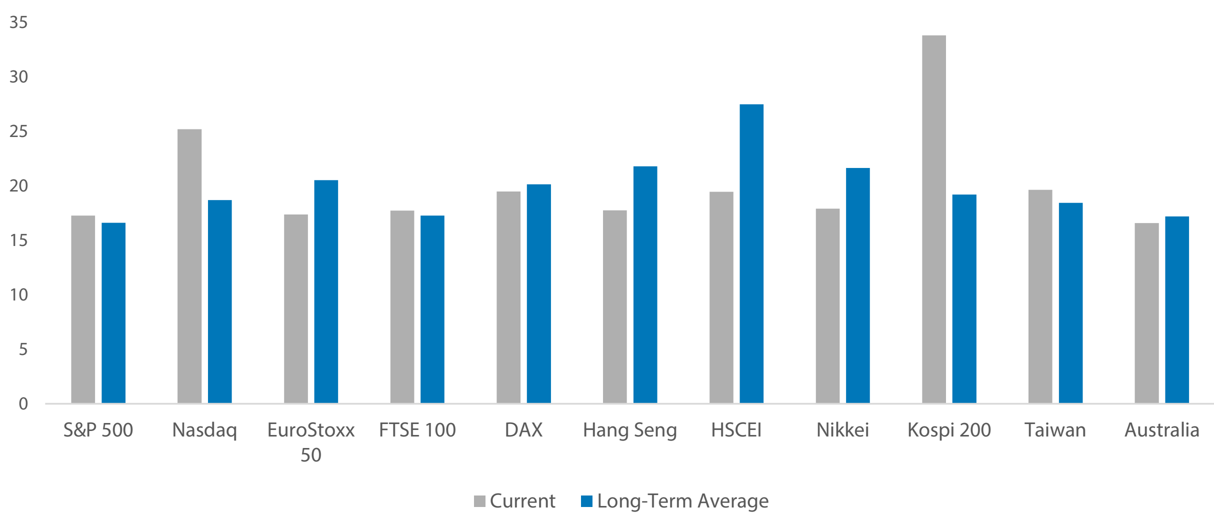
If asset allocators do substitute liquid government bonds for less liquid corporate or private credit, and perhaps some public equity for private equity, that will leave public equities as even more the liquid asset in which portfolio risk changes can most easily and quickly be effected. In March, the large discounts to NAV for some corporate credit ETFs suggested that equity markets are now even being used to adjust exposures in non-equity asset classes (as some policymakers have also noted). The discounts to NAV are also a reminder of the clearing prices of credit during periods when cash instruments are seeing little volume, and prices can seem steady but are not always tradable. We think that means equity volatility will continue to be vulnerable to spikes on surprises in newsflow and changes in positioning. Perhaps more so. Market microstructure effects remain. That should lead to continued attractive relative value opportunities in risk-off periods and leaves us confident in our own continued opportunity set in such periods of stress.

But what of higher implied volatility levels? Implied volatility has retreated significantly since March, to such an extent that even if you had managed to go long the VIX ETF in late February – i.e. before the main part of the equity sell off – you would have been down substantially through end-2020. However, volatility remains above end-2019 levels.

As we pointed out in our letter in January 2020, end-2019 levels were unusually low. Volatility generally remains below end-2018 levels, and substantially below in some markets. Current levels of 30-day implied volatility are closer to longer-term averages, with some dispersion across markets. A number of indices have implied volatility below long-term average (and median) levels, while others are higher. The spikes of 2020 are a reminder as to why there is typically a premium for implied volatility over realised volatility. As with levels of volatility, there is dispersion in premia too. Net, implied volatility is not necessarily “expensive”, though also not necessarily “cheap”. As always, looking across markets tells a more nuanced picture than the VIX.

10 US Vol = VIX Index; Europe Vol = VStoxx Index; Japan Vol = Nikkei Stock Average Volatility Index; Korea Vol = Kospi 200 Volatility Index (source: Bloomberg)

30-Day Implied Volatility vs Long-Term Average (2006 to present)[11]



If hopes are realised, vaccines will be rolled out smoothly, the virus will recede, jobs will return and the economy will recover, fast enough to pay back all the 2020 borrowing and deliver EPS growth, but not so fast as to create inflation concerns and higher borrowing costs. In that Goldilocks scenario, markets could drift higher, realised volatility may drift lower and implied volatility will likely follow at a lag. That could be a good environment for our short book, but one that may be more challenging for our longs. It could be difficult for an outright long volatility bias, though this can still offer a useful portfolio function.

Clearly, many things could also upset this picture. Most worryingly, perhaps a Covid mutation will occur that resists the vaccines, or simply one that is missed until it has spread globally. If the UK variant had emerged elsewhere, would it have been caught and travel restricted in time? Maybe markets start to worry more about debt levels for companies whose assets are lying idle, credit spreads widen and more bankruptcies occur. Maybe offices and bricks and mortar retail are permanently impaired, along with the "safe" credit instruments dependent on their rents. Perhaps climate change will result in a new property driven financial crisis, as a Harvard Business School lecturer recent argued.[12] Most simply, loss of momentum and a shift in sentiment could see exuberance in certain markets reverse, triggering broader position unwinds as speculators face margin calls. With recent exuberance about crypto-assets, a sustained reversal there may have wider implications for positioning than in the past. As discussed above, we believe the increased interdependence of fixed income and equities could exacerbate any shocks.

Perhaps most likely, markets at different times face slightly different versions of these stories and ones in between, with new events that are currently off the radar. That will create both long and short opportunities, in volatility and in other strategies. We are thus happy to have a relative value approach, and to be conscious of net vega and theta exposures, as we strive to achieve a mix of Q1 and Q2 returns and avoid the partial giveback of gains we saw in the latter half of 2020.

We would be surprised if even relatively smooth sailing is not punctuated by occasional volatility spikes, as these are a typical feature of even bull markets, and have generated much of our returns during the last decade – a period when equities have, from a long-run perspective, delivered substantially above-average returns. As we look forward, we are therefore optimistic regarding the opportunity set, and our ability to deliver for our investors. We wish to thank all our clients for their continued support and look forward to our continued partnership with you in the year ahead.

11 Sources: Bloomberg, True Partner. Data from Jan 2006 or earliest available through 12 Jan 2021.
12 "Are we on the verge of another financial crisis?" Harvard Business Review, 18 December 2020 https://hbr.org/2020/12/are-we-on-the-verge-of-another-financial-crisis

About the authors

Mr. Govert Heijboer, Co-CIO of True Partner, has been active as a market maker trading in the European and Asian derivatives markets as well as positional trading since 2003. Govert started as a trader/researcher at Saen Options in Amsterdam and rose to become the director of derivatives trading and a member of the executive team in 2007. In 2008 he moved to Hong Kong to set up and assume responsibility for all trading activities in the new Saen Options Hong Kong branch office. Govert holds a PhD in Management Science and an MSc in Applied Physics from the University of Twente, Netherlands. He is a founding partner and has worked on the launch of the True Partner Fund since March 2010.

Mr. Tobias Hekster, Co-CIO of True Partner, has been actively trading for the past 21 years in various different roles in several markets across the globe. Starting at IMC in 1998 as a pit trader in Amsterdam, Tobias has established the off-floor arbitrage desk, headed the Chicago office in the transition from floor trading to electronic trading and set up the Asian volatility arbitrage desk in Hong Kong. Tobias holds an MSc in Economics from University of Groningen, Netherlands. Next to his role as Senior Strategist, he taught as an Adjunct Associate Professor at the Chinese University of Hong Kong and as an Adjunct Professor of Financial Practice at National Taiwan University.

Mr. Robert Kavanagh, CFA, Head of Investment Solutions of True Partner, has been in the hedge fund industry since 2004 and joined True Partner in 2019. Prior to joining True Partner he was an Executive Director at Goldman Sachs Asset Management where he spent 15 years within the Alternative Investments & Manager Selection (AIMS) group. Robert has extensive experience investing in hedge funds and working with a wide range of hedge fund investors. Robert is a CFA charterholder and holds a First Class (Honours) BSc in Philosophy and Politics from the University of Bristol, UK, where he was awarded a Social Sciences Scholarship.

About True Partner Capital

True Partner Capital is a team of former market makers and IT specialists that have been working together for more than 15 years.

Their combined expertise on trading, execution and risk management as well as the proprietary trading technology, allows the team to identify and capitalize on trading opportunities.

Addresses:

True Partner Advisor Hong Kong Ltd.
Suite 2902-03, 29/F, The Gateway Tower 2,
Harbour City, 25 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong

Tel: +852 3845 5900

True Partner Capital USA Holding, Inc.
111 West Jackson boulevard,
Suite 1700, Chicago,
60604, USA

Tel: +1 312 675 6128

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Certain information contained in this document contains: forward-looking statements" which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. Forward looking information is subject to inherent uncertainties and qualifications and could be based on numerous assumptions. Forward looking information is provided for illustrative purposes only and is not intended to serve as, and must not be relied upon by any investor as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability.

Performance Methodology: Past performance is not an indicator of future performance. Annualized Returns or Performance figures for True Partner Fund are based on Class B shares and are shown on a net basis after the deduction of a 2% management fees and a 20% performance fee, trading related and other expenses that an investor would have or actually paid.

The indexes' performances do not reflect the deduction of transaction costs, management fees, or other costs which would reduce returns. References to market or composite indexes, benchmarks or other measures of relative market performance (indexes) over a specified period of time are provided for your information only and do not imply that a portfolio will achieve similar returns, volatility or other results. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which may change over time. Indexes are used as performance benchmarks only, as True Partner does not attempt to replicate an index. The composition of the indexes is not necessarily similar to accounts managed by True Partner. The prior performance of the indexes will not be predictive of the future performance of accounts managed by True Partner. An investor may not invest directly in an index.