



BARON POINT FINANCIAL

Baron Point Financial LLC
The Seagram Building
375 Park Avenue
New York, New York 10152
Tel +1 212 248 2733
Fax +1 212 504 3101
info@baronpoint.com
www.baronpoint.com

Baron Point Research
Diversified Algorithmic Fixed Income Alternatives (“DAFI”)
Basis for DAFI and Our Knowledge and Efficacy Implementing the Risk Parity
April 17, 2022

Baron Point issue research describing current intermediate term trends and topics we find interesting. This research is intended to complement the regular Monthly Fact Sheets which include our monthly return updates.

A summary table of contents is shown below. **If you have any comments please feel free to email us at info@baronpoint.com or call +1 (212) 248-2733 x701.**

Table of Contents

Introduction 2
DAFI sired by S&P Trend Following and Risk Control Indices 2
Knowledge and Efficacy Implementing DAFI..... 3
Liquidity..... 4
DAFI is a Risk Parity 4
Conclusion 6
Disclaimer 6

Notices: The information contained herein is derived from sources believed to be reliable but for which the Asset Manager, Baron Point Financial JSC (“Baron Point”) does not provide any warranty of accuracy or completeness. Investing in an alternative investment such as a Hedge Fund is very risky and should be done as part of a diversified investment approach. Investors may lose their entire investment. The Hedge Fund’s profitability is dependent upon the fund managers’ ability to execute the strategy and no assurance can be given that it will be able to locate investment opportunities or correctly exploit price trends. Baron Point offers no tax advice and investors should consult their own tax advisors prior to investing. This information must be read in conjunction with the Fund’s Confidential Private Placement Memorandum. Past performance is not a guarantee of future results. These disclaimers apply to every page of this document.



Baron Point Research
Diversified Algorithmic Fixed Income Alternatives ("DAFI")
Basis for DAFI and Our Knowledge and Efficacy Implementing the Risk Parity
April 17, 2022



Daffy Duck © Warner Bros Inc. 1981. All Rights Reserved.



Diversified Algorithmic Fixed Income Alternatives (“DAFI”) Basis for DAFI and Our Knowledge and Efficacy Implementing the Risk Parity

By Baron Point Financial

Introduction

The DAFI Investment Process & Methodology Overview research issued January 4, 2022, shows that DAFI maintains two major trend following components:

1. Rules-based Indexes; and
2. Long Asset Classes.

The **Rules-based Indexes** are well defined and known on Wall Street derivatives desks since 2004. They are particularly well documented in the white papers issued by **Standard & Poor’s (“S&P”)** that are available on request from us, or independently over the internet. Namely the white papers regarding:

- a) S&P Diversified Trends Indicator (“S&P DTI”);
- b) S&P Commodity Trends Indicator (“S&P CTI”); and
- c) S&P Financial Trends Indicator (“S&P FTI”).

DAFI Components
Rules-based Indexes
ALT™ (Formerly S&P DTI®)
CTI® (Formerly S&P CTI®)
Crude Oil FI Index™
Long Asset Classes
U.S. Treasury Note Futures (5-year or 2-year)
U.S. Treasury Bond Futures (30-year)
S&P 500 / Nasdaq 100 Index Futures
Gold Futures

One commodity that is applied with differing rules in the Rules-based component is crude oil. Due to the significant level of continuous consumption, limited reserves, and oil cartel controls, and because crude oil is subject to rapid price increases in the event of perceived or actual shortages, when the strategy calls for a short position in the Crude Oil FI Index™, the system instead maintains a neutral or “flat” holding and does not sell.

DAFI sired by S&P Trend Following and Risk Control Indices

As background, the components of Rules-based Indexes in DAFI have been utilized by S&P Global as investable indices since January 2004. As indicated above, many of the major Wall Street and international banks’ derivatives desks understand how to trade these components in a multitude of securities forms, i.e., swaps, equity derivatives, call options for principal protection (premium paid with less collateral/leverage), fully collateralized principal protected notes (zero coupon at 100% collateralized), structured bonds, Moody’s rated fixed income notes and debentures with a coupon, etc.

The Rules-based Indexes and the Long Asset Classes of DAFI, have all been investable since 2004, and their data streams go back as far as the early 1980s. Specifically, the Rules-based Indexes have a real-track record since January 2004 to present as S&P began computing and distributing these long/short strategies as investable indices in 2004. Approximately US\$ 6 billion



is indexed against the Rules-based Indexes, globally, via S&P indices and in other forms of branding and packaging.

Knowledge and Efficacy Implementing DAFI

Our team has deep experience with the Rules-based Indexes components, as well as trading each of the Long Asset Classes. As noted on the tombstones below, our team has worked with a major Bank on an exclusive basis, and with many equity derivatives trading desk that trade these long/short strategies at firms such as Goldman Sachs, RBS, UOB, et al. As would be suggested, we have also worked on assignment with Victor Sperandeo, DAFI's designer, for many years.

The Investment Advisor successfully led the working group under review by the **Bank of Thailand, Financial Institution Controller ("BOT")** when the Investment Advisor petitioned and received approval from the BOT to include the components of DAFI in fixed income structures.

Moreover, the Investment Advisor was the exclusive distributor for the **Royal Bank of Scotland (RBS)** for equity derivatives, including components of DAFI (Trader Vic Indices) for Thailand.

The BOT approval led to embedding these strategies in securities, including a Moody's A3 rated fixed income notes, in an offering named "Khun Luang Baron Bonds".

According to Euroclear Bank, Singapore the security, which earned a first-time A3 Moody's Bond Rating, was the first-ever corporate bankruptcy remote vehicle that issued globally registered Thai corporate bonds linked to an alternative investment return stream.

Asset Allocation

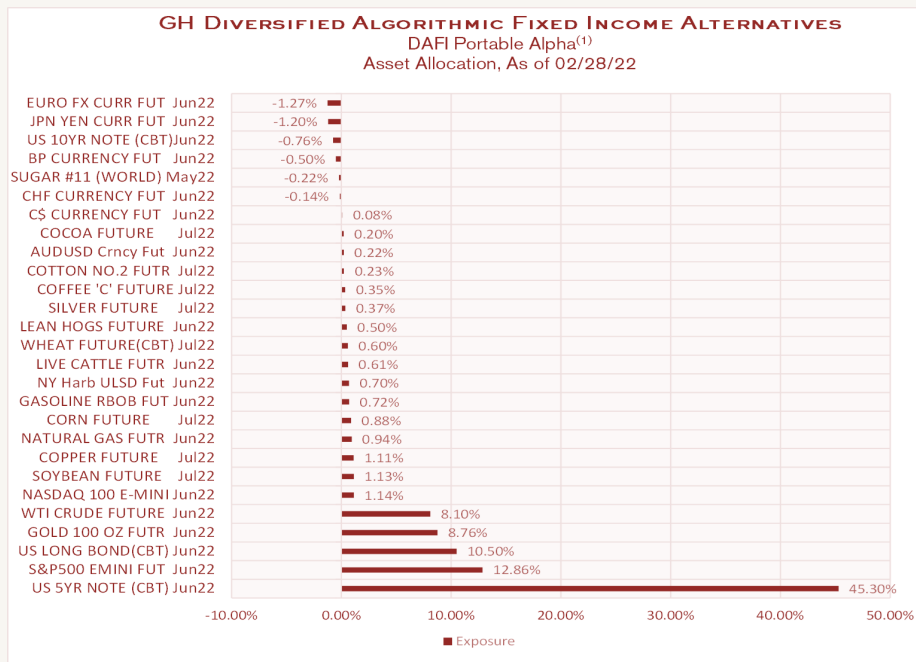
The allocation of market exposure to each component of DAFI is based on principles of diversification with the objective of measuring/reflecting the

Innovation with Alternative Investment Return Streams and Exclusive with Major Bank

Success at the Central Bank of Thailand's Financial Institution Control Group

฿ 3,300,000,000
Exclusive provider of derivatives linked alternative strategies. Earned Bank of Thailand 1st time approval for Intitutional Investor portfolios
 2010 - 2014

BANK OF THAILAND
Led working group with BOT Financial Institution Controller. Successfully petitioned for the inclusion of alternative investment return streams inclusion into securities offerings
 2011





global economic environment in a trend following long/short system which is rules basis.

Allocations to each component of DAFI are fixed (although certain rules-based index components themselves are designed to vary their individual exposure levels to a certain degree).

DAFI's deconstructed components are rebalanced monthly, as per below for a US\$ 100 million portfolio (i.e., 10% cash or investment grade bonds collateralizing the US\$ 100 million USD). The histogram provided demonstrate its exposure as of February 28, 2022.

Liquidity

The first generation of DAFI can support up to US\$3 to US\$5 billion of notional exposure, as is, and likely more as the S&P GSCI attracts more of a following in a secular trending environment for commodities.

The first allocation adjustment that may be needed is when DAFI crosses the US\$ 3 to 5 billion range, and that is simple enough, by extending the number of days to rebalance. This change is a very common technique for mutual funds as their assets grow. Stated differently, at a certain threshold, DAFI may necessitate being executed over a multi-day period, so as not to attract parasites seeking to front-run order flow.

Additionally, at US\$ 10 billion DAFI will likely require an adjustment to its weightings in the "Softs" i.e., sugar, cocoa, cotton (all 1%) and Coffee 1.5%. Most likely a reduction to 75 to 90% of the current weightings may occur. An additional reductions in the softs could happen at US\$ 25 billion providing scalability up to US\$ 50 billion.

As a side note, the Softs add "diversification" and slightly lower the volatility but do *very little* for the performance characteristics of DAFI.

DAFI is a Risk Parity

DAFI is implemented as a risk parity. Simply by using different amounts of incremental leverage and risk control, DAFI is transformed from a strategy that has the volatility characteristics similar to that of the investment-grade fixed income

DAFI Stable Growth Components	Exposure Level (%)
U.S. Treasury Note Futures (5-year or 2-year)	100
U.S. Treasury Bond Futures (30-year)	20
S&P 500 Index Futures	30
Gold Futures	20
Long Asset Classes	170%
ALT™ (Formerly S&P DTI®)	50
CTI® (Formerly S&P CTI®)	15
Crude Oil FI Index™	0-15
Rules-based Indexes	65-80%
Total	235-250%

Barclay's Agg, to a strategy that competes very well with risk classes such as the S&P 500 or GSCI, but with very low correlation to both of these risk indices.

DAFI Stable Growth class, for example, will typically have a gross notional exposure of 250% of capital as outlined in the table above.



For the Stable Growth application, DAFI's Rules-based Index components will typically be assigned a 65 - 80% allocation, with the balance of 170% being allocated to "all" Long Asset Classes for more market exposure and diversification.

This varied combination provides exposure to U.S. index, interest rate, and commodity futures across the commodity complex. Commodity sectors include energy, grains, precious metals, livestock, industrial metal, and softs as well as financials such as currencies, stock index and interest-rate futures. Some components are pure volatility influencers, like the soft commodities for example.

Regarding risk-classes, such as the S&P 500 and S&P GSCI, with additional exposure along the risk parity continuum for DAFI, the strategy is capable of matching up well, and with the more aggressively allocated DAFI, it presents the opportunity to possibly outperform while presenting:

- Unique potential to more accurately **capture** the net effects of ***GDP*** (*Gross Domestic Product*) and trends in prices, on a non-leveraged and leveraged basis;
- Historically it ***exploits movements*** in the **real global economy**, quickly. The other measuring mechanisms, Barclays Agg. Bond, S&P 500, and S&P GSCI are measuring a single asset class as a proxy for the economy. With DAFI, we are trading the actual price movement of global consumption, **long and short**, and with leverage, it can be a non-correlated proxy for economic price trends;
- R is less than 0.40 for leveraged forms of DAFI, therefore, there is weak to **no correlation** to the S&P 500 and S&P GSCI;
- **Superior potential aggressive return stream**, as indicated by the dramatic historical outperformance, versus other risk classes, such as the S&P 500 Index (Total Return) and the S&P Goldman Sachs Commodity Index (Total Return);
- Tremendous potential depth and liquidity in the markets that are traded; and
- ***Institutional scalability***, supporting approximately US\$ 10 billion of funding with little if any change in the application of the strategy.



Conclusion

In closing, we understand that for allocators exposure to macro strategies can be difficult. Many macro strategies tend to be discretionary, and some employ plunging techniques which generally means a large drawdown or two, otherwise, others that are systematic have somewhat unpredictable volatility characteristics and are therefore difficult for allocators to take a full position, even though these strategies may have merit.

DAFI is a potential way for an allocator to access macro exposure in a risk parity continuum where volatility can be as well-behaved as investment-grade fixed income, without the credit risk, or as aggressive as a risk index, but with more potentially more predictable volatility characteristics and better returns.

Thanks for reading,



James P. Coppola III
Chairman
Baron Point Financial LLC

If you would like to discuss anything in this paper or any other topic, email us at info@baronpoint.com or call +1 212 248 2733.

Disclaimer

Strategies in these materials may have track records in other vehicles implementing those strategies at Greenwood Hayden Legacy Partners LLC, or otherwise. GH Diversified Algorithmic Fixed Income Alternatives, Portable Alpha ("DAFI") return profile from December 9, 2021, to present is Reviewed and based on a real-time, live, trading account - funded and trading with capital of approximately US\$ 50 million. Despite its historical existence, there is not necessarily a correlation (or non-correlation) between DAFI and the Barclays Agg. DAFI is a synthetic functioning representation of volatility and, historically, DAFI behaves similarly to the Barclays Agg. However, these are not similar securities, either in composition or element of credit risk, and other risks. Any historical composite of prior performance of different asset class exposures and rules-based methodologies, such as DAFI, is subject to several material inherent limitations, including that the compositing process was done with the benefit of hindsight. See "Certain Risk Factors" in the Separate Account Management Agreement and any Supplement in respect to DAFI (together, the "Memorandum") and to any securities associated with this material. The information set out in this material should be read in conjunction with, and is qualified in its entirety by, the full text of the Memorandum, incorporated by reference to this material as are all other investment strategies, documents and agreements referred to herein for important risk factors and disclosures, and other information on the methodology used and assumptions made in preparing this statistical review.

The U.S. Commodity Futures Trading Commission requires the following legend: THE RESULTS FROM JANUARY 31, 2004, TO DECEMBER 8, 2021, ARE BASED ON SIMULATED OR HYPOTHETICAL PERFORMANCE RESULTS THAT HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE THE RESULTS SHOWN IN AN ACTUAL PERFORMANCE RECORD, THESE RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, BECAUSE THESE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THESE RESULTS MAY HAVE UNDER- OR OVER-COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED OR HYPOTHETICAL 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 BEING SHOWN.