

Appendix A: Glossary

Average Recovery Time (ART)

This is the average time in a recovery from a drawdown measured from the low point of the drawdown to a new peak. If a trading program is in an on-going drawdown, for purposes of calculating the ART we assume that the current drawdown is over.

Barclay Index

The Barclay CTA Index measures the composite performance of established programs. For purposes of this index, an established trading program is a trading program that has four years or more documented performance history. Once a trading program passes this four-year hurdle, its subsequent performance is included in this unweighted index. The Barclay Index does not represent an actual portfolio, which could be invested in, and therefore the index performance results should be deemed to be hypothetical in nature and of comparative value only.

Barclay Ratio

This ratio was developed by BarclayHedge, Ltd. In simplest terms the Barclay Ratio is equal to the trend of the VAMI divided by the standard deviation of the monthly returns. Although similar in certain respects to the Sharpe Ratio, it has a much higher correlation with percentage of profitable 12-month time windows than any other reward/risk ratio.

Compound Annual Return

This is the rate of return which, if compounded over the years covered by the performance history, would yield the cumulative gain or loss actually achieved by the trading program during that period.

Distribution of Monthly Returns

This report displays the number of months in which a trading program's monthly performance historically has fallen within varying performance increments.

Drawdown Report

A drawdown is defined as a loss of equity from a peak to valley in a single month or period of consecutive months. The Drawdown Report presents data on the percentage drawdowns during the trading program's performance history ranked in order of magnitude of loss.

Depth: Percentage loss from peak to valley

Length: Duration of drawdown in months from peak to valley

Recovery: Number of months from valley to new high

Start Date: Month in which peak occurs.

End Date: Month in which valley occurs.

Efficiency Index

This is a ratio calculated by dividing the annual return by the annualized monthly standard deviation.

Hurdle Rate

The appreciation in fund performance that must be achieved before the investment manager may take a performance (incentive) fee.

High Watermark

A requirement that the fund must recoup any prior losses before the investment manager may take a performance (incentive) fee. In addition to performance losses, prior losses may include any combination of fees that the investment manager charges, such as management and administrative fees.

Lock-up

A time period during which a new investor in a fund may not withdraw any capital committed to the fund.

Program Category

Inclusion of a trading program in any particular sector is based on information contained in the trading program's disclosure documents, discussion with the trading program, and the opinion of BarclayHedge, Ltd. Since the categorization of market focus and trading styles is subject to change and is of necessity subjective in nature, BarclayHedge, Ltd. does not take any responsibility for including or failing to include a trading program in a particular sector.

Redemptions

The time period in which an investor in a fund may withdraw his or her capital from the fund. For example, quarterly redemption allows an investor to withdraw capital every quarter

Sharpe Ratio

The Sharpe Ratio is equal to compound annual rate of return minus rate of return on a risk-free investment divided by the annualized monthly standard deviation.

Sterling Ratio

This ratio is also a comparison of historical reward and risk and was developed by Deane Sterling Jones. The Sterling Ratio is equal to the average annual rate of return for the past three calendar years divided by the average of the maximum annual drawdown in each of those three years plus 10%.

Style Analysis

The general idea of Style Analysis is to attempt to explain, or understand, the return stream of a given fund in terms of a set of asset classes (or style factors). Specifically, for a set of n asset classes, to try and find a corresponding set of n fixed weights (or percentages). These weights are then applied to the returns of their respective asset classes, with the hope that their sum closely approximates the

returns of the given fund, for each data-period in succession and over the range of data periods as a whole. At the same time, it is desired that the composition determined by the analysis reflect the actual style of the target fund.

Time Windows

This tabular analysis summarizes the best, worst and average performance for the trading program during time windows of varying lengths. For example, three-month time windows measure performance in all rolling three-month time periods (e.g., months one through three, two through four, etc.).

Value-Added Monthly Index (VAMI)

VAMI is defined as the growth in value of an average \$1000 investment. VAMI is calculated by multiplying $(1 + \text{current monthly ROR}) \times (\text{previous monthly VAMI})$. VAMI assumes the reinvestment of all profits and interest income. Incentive and Management Fees have been deducted.

Appendix E: Formulas for Barclay MAP Statistics

Total Return

$(\text{Final VAMI} / \text{Initial VAMI} - 1) \quad (\times 100 \text{ for } \%)$

Example: Initial VAMI = 1000, Final VAMI = 2000

Total return = $((2000/1000) - 1) = 2 - 1 = 1$ or 100%

Compound Annual Return

$((\text{Final VAMI} / \text{Initial VAMI})^{(1 / \text{number of years})} - 1) \quad (\times 100 \text{ for } \%)$

If you don't have an even number of years, use $(12 / \text{number of months})$ or $(4 / \text{number of quarters})$

Example: Initial VAMI = 1000, Final VAMI = 4000, No. of years = 2

Cpd. Ann. ROR = $((4000 / 1000)^{(1/2)}) - 1$

Cpd. Ann. ROR = $4^{1/2} - 1 = 2 - 1 = 1$ or 100%

Note: \wedge = raised to the power of

Raising a number to the $1/2$ power is the same as taking the square root.

Standard Deviation of Monthly Returns

Each monthly rate of return = $((\text{VAMI at end of month} / \text{VAMI at beginning of month}) - 1)$

Standard deviation = $\text{SQRT} ((\text{Sum}(\text{monthly ROR} - \text{average monthly ROR})^2) / \# \text{ of months})$

Note: You are finding the square root of the sum of the squares of the differences.

Annualized Standard Deviation of Monthly / Quarterly Return

(Std. Dev. of Monthly ROR) X SQRT (12) or (Std. Dev. of Quarterly ROR) X SQRT (4)

Note: *Multiplying monthly Standard Deviation by the SQRT (12) is an industry standard method of approximating annualized Standard Deviations of Monthly Returns.*

Sharpe Ratio

(Compound Annual ROR - risk free ROR (calculated from T-bills)) / Annualized Std. Dev. of Mo. ROR or Annualized Std. Dev. of Quarterly ROR

Sterling Ratio

Compound Annual ROR for the past three years / (Average Annual Maximum Drawdown + 10%)

Barclay Ratio

Trend / Standard deviation of detrended VAMI's

Example: First calculate the linear regression trend of the VAMI's including the initial point. This is the numerator. Next remove the trend from the VAMI's (detrended VAMI = original VAMI - (slope X month number + intercept)). Take the Standard Deviation of these detrended VAMI's.

Efficiency Ratio

(Compound Annual Return / Annualized Std. Dev. Mo. ROR.)

Worst Drawdown

Drawdown = (1 - Valley VAMI / Peak VAMI) (X 100 for %)

Example: Peak VAMI = 2000, Valley VAMI = 1500

Drawdown = 1 - 1500/2000 = .25 or 25%

Note: *A drawdown is the Peak-to-Valley rate of return and is actually the negative, since in a drawdown the ROR is by definition negative.*

Average Recovery

The average time in a drawdown as measured from the previous peak to a new peak (New high ground). If the program is still in a drawdown, the calculation assumes that the drawdown is over.

Average Annual Return

(Sum ROR for each calendar year in program history)/(number of calendar years in program history)

Example: ABC program Start Date: Oct. 1995 End Date Aug. 1998 (Sum ROR 1996, ROR 1997)/2