

TRAITS Long/Short European Equity Shadow Hedge Fund Summary of Current Performance on Live Daily Data

Timberpost Ltd
8 July 2008

Introduction

This bulletin summarises the current performance of TRAITS, a fully automated hedge fund management system developed by Timberpost Ltd. A shadow ("paper trading") portfolio powered by the latest version of TRAITS has been running live since early March 2008. This portfolio is currently showing an annualised return of +23%, which would rank it 6th out of 200 peer funds according to the latest performance data on real European Long/Short Equity hedge funds published by *EuroHedge* magazine.

Background

Timberpost Ltd harnesses world-renowned expertise in machine learning and artificial intelligence to develop novel, highly-automated hedge fund products. The company was founded in 2005 and is based in Edinburgh, Scotland. Its first product, called TRAITS, is now ready for market. TRAITS is a computer program that makes daily trading decisions for a long/short equity hedge fund in an entirely automated way. Among its many unique features, TRAITS learns continually and rapidly adapts to changing market conditions. Further details on the technology behind TRAITS are provided in the *Technology* section of this bulletin.

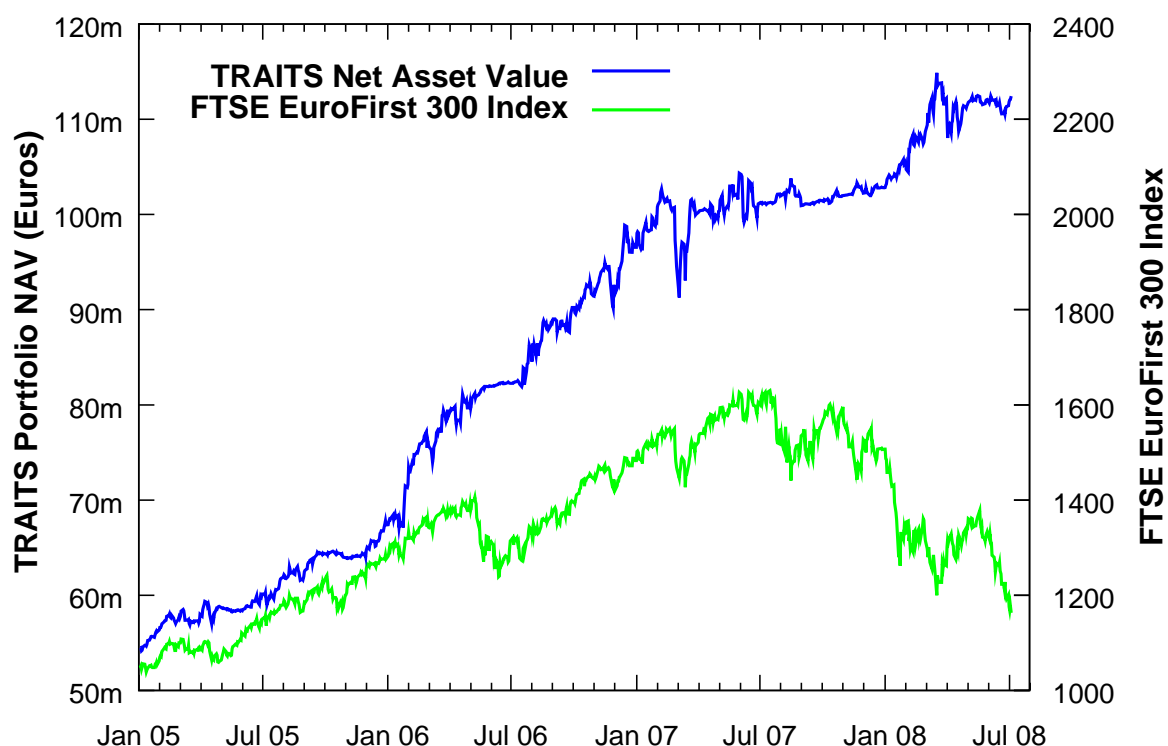
Live Run

The current version of TRAITS (version 2.0) was released in February 2008, and a "paper trading" portfolio powered by this version has been running live since 11 March 2008. The live run involves updating the system on a daily basis with live data and sending the daily trading decisions and limit orders to selected third parties for inspection and validation. The entire live run process is completely automated, and trading decisions are sent out before the markets open each morning.

For performance analysis, the portfolio is benchmarked against the FTSE EuroFirst 300 index. The live run performance figures reflect the performance of a real portfolio as closely as possible, taking into account factors such as transaction costs, stock borrowing costs, dividends (received on long positions and paid on short positions), interest on uncommitted cash, currency conversion for non-Euro denominated transactions, etc. The trading parameters used in the live run are conservative; e.g. the maximum allowed leverage is 2 (although typically it is much less than this), and trade sizes are capped.

To initiate the live run, TRAITS was trained on historical data up to 31 December 2004, and optimised for its performance over the period 1 January 2001 to 31 December 2004 (the *in-sample* period). TRAITS was then allowed to continue managing the portfolio from 1 January 2005 onwards (the *out-of-sample* period); it was not tuned to this data and had, in fact, never seen data from the out-of-sample period before. From 11 March 2008 onwards (the *live run* period) TRAITS has been running automatically before the markets open each morning, extracting daily data for the previous trading day from data providers, running its learning process, generating new trade orders and limit levels, composing a spreadsheet detailing these orders and a summary of current holdings etc., and emailing this spreadsheet to selected third parties in the UK and US for inspection and validation purposes.

Current Performance



Period	TRAITS return ¹	Benchmark return ^{1,2}	TRAITS Sharpe Ratio ³
Summary figures			
Out-of-sample period (1-Jan-05 to 4-Jul-08)	+106.37%	+10.97%	1.97
Annualised return for out-of-sample period	+22.97%	+3.02%	1.97
Live run period (11-Mar-08 to 4-Jul-08)	+1.29%	-8.35%	n/a
Annual figures			
2005	+23.74%	+22.33%	2.94
2006	+43.22%	+15.68%	3.64
2007	+6.50%	+1.62%	0.21
2008 year-to-date	+9.35%	-22.83%	1.61
Monthly figures			
Jun 2008	+0.32%	-11.45%	n/a
May 2008	+0.14%	-1.49%	n/a
Apr 2008	+1.53%	+4.53%	n/a
3, 6 and 12-monthly figures			
Last 3 months	+3.59%	-12.49%	n/a
Last 6 months	+7.95%	-20.23%	1.34
Last 12 months	+11.19%	-27.76%	0.98

¹ Figures in bold indicate which of TRAITS or Benchmark produced the better return in that period

² Benchmark is FTSE EuroFirst 300 Index

³ Sharpe Ratio only calculated for periods of 6 months or longer

Comparison to Peer Group

The June 2008 issue of *EuroHedge* magazine presents performance data for 200 hedge funds in the European Long Short Equity category (using performance data up to end of May 2008). Over the out-of-sample period of 1 January 2005 to 31 May 2008, the TRAITS live run shows an annualised return of +23.45%, which places it **6th out of the 200 funds** according to the *EuroHedge* data. Looking at more recent performance only, the TRAITS 2008 year-to-date performance (to 31 May 2008) is +8.62%, which places it **18th out of the 200 EuroHedge** funds.

Technology

TRAITS uses techniques of biologically-inspired computing and artificial immune systems to enable it to learn continually. It tracks very large numbers of potential technical trading strategies, but strategies are only trusted once they have offered a sufficient number of good decisions and have avoided making bad decisions despite having had the opportunity to do so. This evidence-based approach to continual learning sets TRAITS apart from other automated financial systems. TRAITS combines this stock-level continual learning system with a portfolio-level system that provides risk control for the portfolio as a whole, and monitors the market for early warning of changing conditions.

Outlook

Timberpost is currently in discussion with groups in the UK and US for establishing a real fund to be powered by TRAITS. In the longer term, in addition to ongoing enhancements to the system, Timberpost plans to apply the technology behind TRAITS to power funds in different markets and comprising different asset classes.

Contact

For further information visit <http://www.timberpost.com> or contact Peter Ross (Chief Executive Officer), peter.ross@timberpost.com, or Tim Taylor (Chief Technical Officer), tim.taylor@timberpost.com.

