

Riverplus Fund

A long-short equity and vega fund

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In a Nutshell

Riverplus Fund

- **Investment Strategy:**
Riverplus Fund is a long-short equity fund, including long and short positions in Vega and Gamma risks. The investment advisor is lambda Capital Group.
- **Investment Style:**
Riverplus Fund engages in highly active trading and hedging mostly in liquid instruments such as stocks, futures, listed options, and warrants.
- **Regulation:**
The Riverplus Fund is regulated as a mutual fund under the Mutual Funds Law (2009 Revision) of the Cayman Islands.

lambda CAPITAL GROUP

- **Founders:**
lambda Capital Group was formed in 2009 by Daniel Baltensperger, Simon Biner, Lorenzo Grosso, Gregor Klomp, and Markus Leippold.
- **Team:**
The team, which currently consists of four people, has an impressive and long track record in equity, futures, and derivatives trading. Our two traders combine trading experience and complementary skills of more than 40 years.
- **Regulation:**
lambda Capital Group is regulated by the SRO.
- **Mandate:**
lambda Capital Group exclusively advises Riverplus Management Company and manages/advises no other trading positions.

The Case for lambda CAPITAL GROUP

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People with Proven Track Record and Commitment

- Four founding partners with a proven and strong track record in industry and academia.
- More than fifteen years of constructive and successful teamwork at different top-rated financial institutions.
- Founding partners are renowned investment bankers.
- Strong network with ultra-high-net-worth individuals.

Fund Style and Performance Generation

- Combining experience with market know-how and scientific approaches.
- Performance generation with equity and derivative based strategies.
- Flexible fund strategy in terms of market exposure, style, and investment horizon.

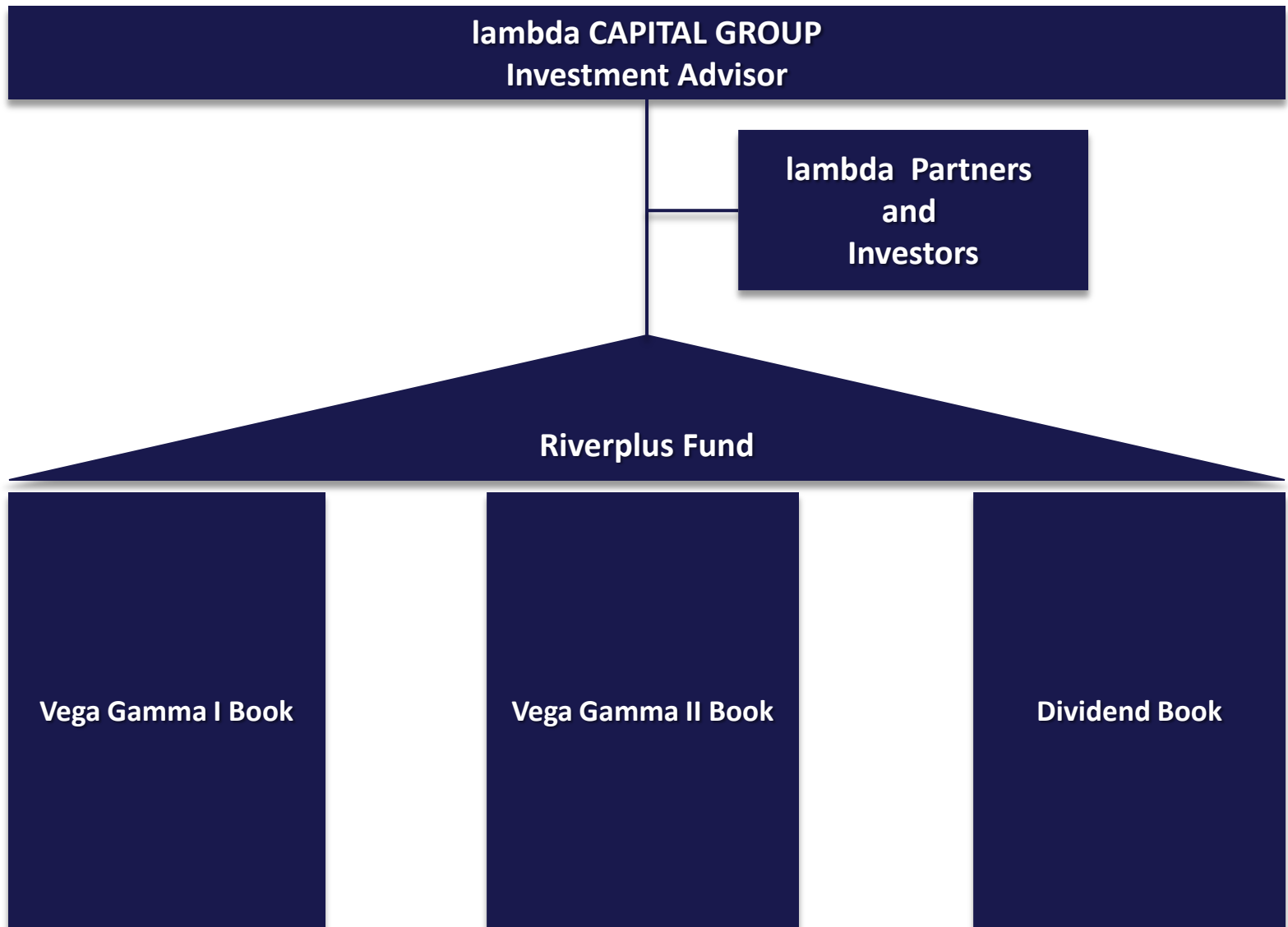
Sustainable Edge and Long Term View

- Our entrepreneurial culture and commitment are paramount to the firm.
- Partners invest a substantial portion of their wealth alongside our clients, illustrating the dedication and spirit of the firm.
- Considerable attention is devoted to a high-end IT infrastructure to guarantee operational efficiency and compliance.

Our Approach

- **Investment Philosophy** – Using our skills and experience, we build up strategies combining equities and derivatives with a focus on delta, gamma, and volatility exposures. We are highly active traders. By engaging in intraday trading, our objective is to provide both absolute return and limited downside risk.
- **Trading Philosophy** – Disciplined focus on asymmetric trades where anticipated gains exceed losses by sticking to a strict stop-loss regime. Our trading style does not require an excessive amount of financing leverage. Financing leverage is disclosed to investors and reported to the prime broker.
- **Risk Philosophy** – Using state-of-the-art methods, we perform a thorough analysis of marginal portfolio risk contributions and aggregate risks on a portfolio level. We also use quantitative methods to identify opportunities and to further optimize our trading strategies.
- **Unique Combination of Know How** – We combine not only high-level trading experience, but we also have access and make use of state-of-the-art academic research in risk management and trading strategies for effective marginal risk/return decisions. However, we believe in the KISS-principle: *Keep it sophisticatedly simple.*

Riverplus Fund: The Trading Books



Trading Book: Vega and Gamma I

Main Theme

The **Vega Gamma I Book** is a large portfolio with a Swiss focus, but with a large capacity. The management of such a book requires not only skill and experience, but also the appropriate IT infrastructure, as it is characterized by a high turnover. The Vega and Gamma Book may also have a delta exposure from time to time.

Instruments

- Equity
- Warrants
- Eurex Options (> 95%)
- OTC Options (< 5%)
- Variance swaps
- Futures
- Equity swaps

Investment Horizon

- Up to three months

Return Generators

- Exploiting irregular patterns in the volatility surface
- Reaping the variance risk premia
- Exploiting dispersion opportunities

Risk Drivers

- Gap risk
- Liquidity
- IT infrastructure

Resources for Investment Ideas

- Skills and experience
- Market prices
- Historical implied volatility surfaces
- Pricing model
- Industry analysis
- Analyst forecasts
- Economic outlooks
- Proprietary database

Execution Responsibility

- Gregor Klomp
- Simon Biner(2nd line)

Risk Allocation

~ 40% of the fund's total risk exposure.

Trading Book: Vega and Gamma II

Main Theme

The **Vega Gamma II Book** takes positions not only in the Swiss market but also in the large European markets such as Germany, Italy, France, and Great Britain. It tries to exploit arbitrage opportunities surrounding, e.g., take over situation, special dividend payouts, share buyback through 2nd line, issue of free put options, issues of CBs, capital increases, right trading. Contrary to the Vega Gamma I Book, this book has a longer term focus, is based on specific stories, and is not subject to active gamma hedging.

Instruments

- Equity
- Eurex options
- Warrants
- OTC options
- Futures

Investment Horizon

- Up to twelve months

Return Generators

- Exploiting dispersion opportunities
- Playing variance risk
- Earning surprises
- Political uncertainty

Risk Drivers

- Unexpected changes in take over plans
- Tax treatments
- Gap risk
- Changes in company valuation
- Economic outlook

Resources for Investment Ideas

- Skills and experience
- Corporate news
- Analyst information

Execution Responsibility

- Simon Biner
- Gregor Klomp (2nd line)

Risk Allocation

~ 40% of the fund's total risk exposure.

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Trading Book: Dividend

Main Theme

The **Dividend Book** has only exposure to dividend risk and, hence, it has a low correlation to all other books. With this book, we exploit the structural long-dividend overhang due to the market for structured products.

Instruments

- Eurex Options
- OTC Options
- Dividend Swaps
- Dividend Futures

Investment Horizon

- Up to one year

Return Generators

- Mid-term buy and hold exposure in dividend

Risk Drivers

- Unexpected shifts in dividend dates and dividend payments
- Tax treatment
- Changes in dividend policy

Resources for Investment Ideas

- Skills and experience
- Market prices from option market and dividend swap market
- Analyst forecasts
- Own dividend curve

Execution Responsibility

- Gregor Klomp
- Simon Biner (2nd line)

Risk Allocation

~0 -10% of the fund's total risk exposure, depending on the market situation.

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Our Risk Management Approach

We think of risk in three broad categories:

1. **Investment Risk** – market and related risks associated with the overall fund or with specific parts.
2. **Operational Risk** – risks associated with the operating environment of the fund, including middle- and back-office functions such as trade processing, accounting, administration, valuation, and reporting.
3. **Strategic Risk** – risks associated with a fund that are not directly related to market movements, such as failure of reaching our strategic milestones.



Risk Management Process

Each risk category is embedded into a continuously monitoring risk management process with clearly defined responsibilities. To this end, we implement three organisational bodies, which meet regularly:

1. **Investment and Strategy Meeting (ISM)**
2. **Risk and Operations Meeting (ROM)**
3. **The Morning Meeting (TMM)**

Risk Communication Structure

Investment and Strategy Meeting (ISM)

- **Participants:**
Simon Biner (CIO); Markus Leippold (CRO)
- **Content:**
Defining maximum draw down of the different trading books; Review of previous trading week in terms of P&L, risk limit usage, and total risk exposure; Addressing potential issues related to the strategic risk of the fund.
- **Frequency:**
Weekly

Risk and Operations Meeting (ROM)

- **Participants:**
Markus Leippold (CRO); Lorenzo Grosso (COO)
- **Content:**
Review of all risk positions and P&L reports; Checking risk limits and margin requirements; Checking trade settlements; Cash management; Discussing potential operational adjustments and improvements in the IT infrastructure.
- **Frequency:**
Weekly

The Morning Meeting (TMM)

- **Participants:**
All
- **Content:**
Review of previous trading day; Sharing market opinion, own views, and latest news; Market, client, and broker activities.
- **Frequency:**
Daily, before the start of the trading day

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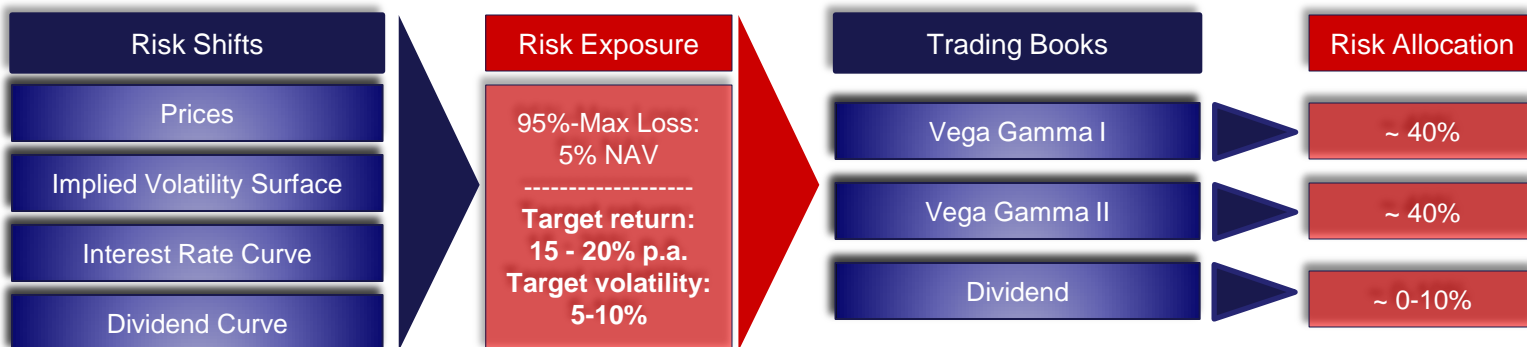
Risk Allocation Process

Hedge Fund Level

- We allow for a monthly max drawdown of 5% of the NAV using risk factor shocks based on a 95% confidence level.
- Based on the total max drawdown, we decide on the risk allocation for each trading book.

Trading Book Level

- On a portfolio level, we use position limits as well as stress tests across different risk dimensions.
- Based on carefully constructed series of shocks, we stress-test each trading book based on statistical and historical scenarios



- The risk limits as well as the position limits are tracked online. If limits are breached, immediate action is taken under the joint responsibility of the CRO and the CIO.

Trader Level

- All positions are transparent and communicated to all traders at any time.
- For each portfolio strategy, positions within the risk limits are taken based on a consensus of all traders.
- In case of divergence of opinions, the CIO decides.

Risk Measurement: Market Risk

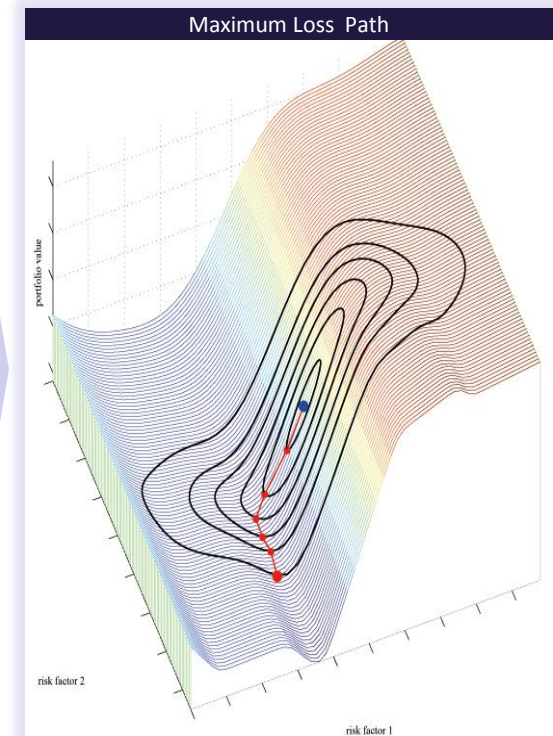
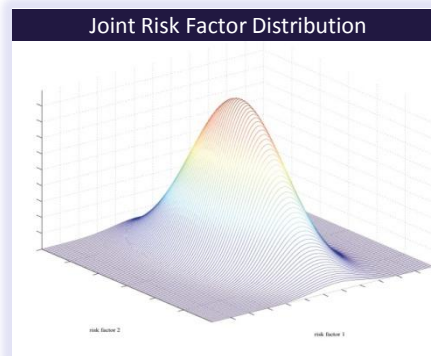
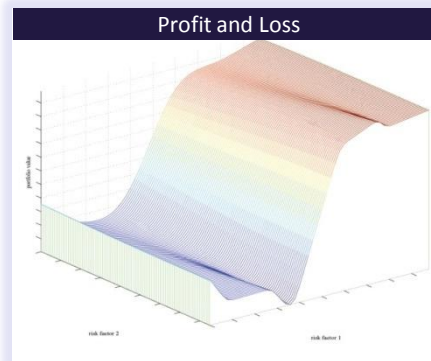
Calculation of Max Loss Figures

- For our risk allocation process, we use Max Loss as our (weakly coherent) risk measure, which is a methodology to determine the worst case scenario under historical market conditions, without ignoring correlations among risk factors.
- In technical terms, this risk measure is defined as the maximum loss that can occur over some holding period, if the risk factors are restricted to a “trust region”, which is defined as a closed subset of all realizable scenarios.
- The trust region is determined by the confidence level at which the Max Loss is calculated.

2-Dimensional Example

To clarify the Max-Loss calculation, we consider a simple option portfolio and two risk factors (e.g., the underlying price and its volatility):

1. We first calculate the profit and loss of the portfolio along its risk dimensions.
2. Based on a historical analysis, we identify the joint distribution of the risk factors.
3. Given today's state, we combine the information from our P&L surface and the risk factor distribution to derive the maximum loss at a given confidence level.



Underlying Parameters

Parameter	Specification
Fund jurisdiction	Cayman Islands
Legal form	Company LLC
Fund structure	Single fund, open-end
Investments	Listed securities, listed equity options, futures, OTC options, forwards, swaps, other derivatives
Leverage	Via Prime Broker, financial leverage up to 2.5 of NAV
Total volume	CHF 23m AUM per November 29, 2013
Valor/ISIN	10263523/KYG759421053
Portfolio activity	50 - 100 trades per day
Fee	20% Performance fee, 2% Management fee
High-Water mark	yes
Equalisation	yes (credit/contingent redemption method)
Investment advisor	Lambda Capital Group AG
Investment manager	Riverplus Management Company
Prime broker/Custodian	Credit Suisse
Minimum investment	US\$ 100'000 equivalent in CHF
Share Class	CHF
Liquidity	Monthly subscription with 5-day notice, Monthly redemption, end of month with 30-day notice
Auditor	KPMG

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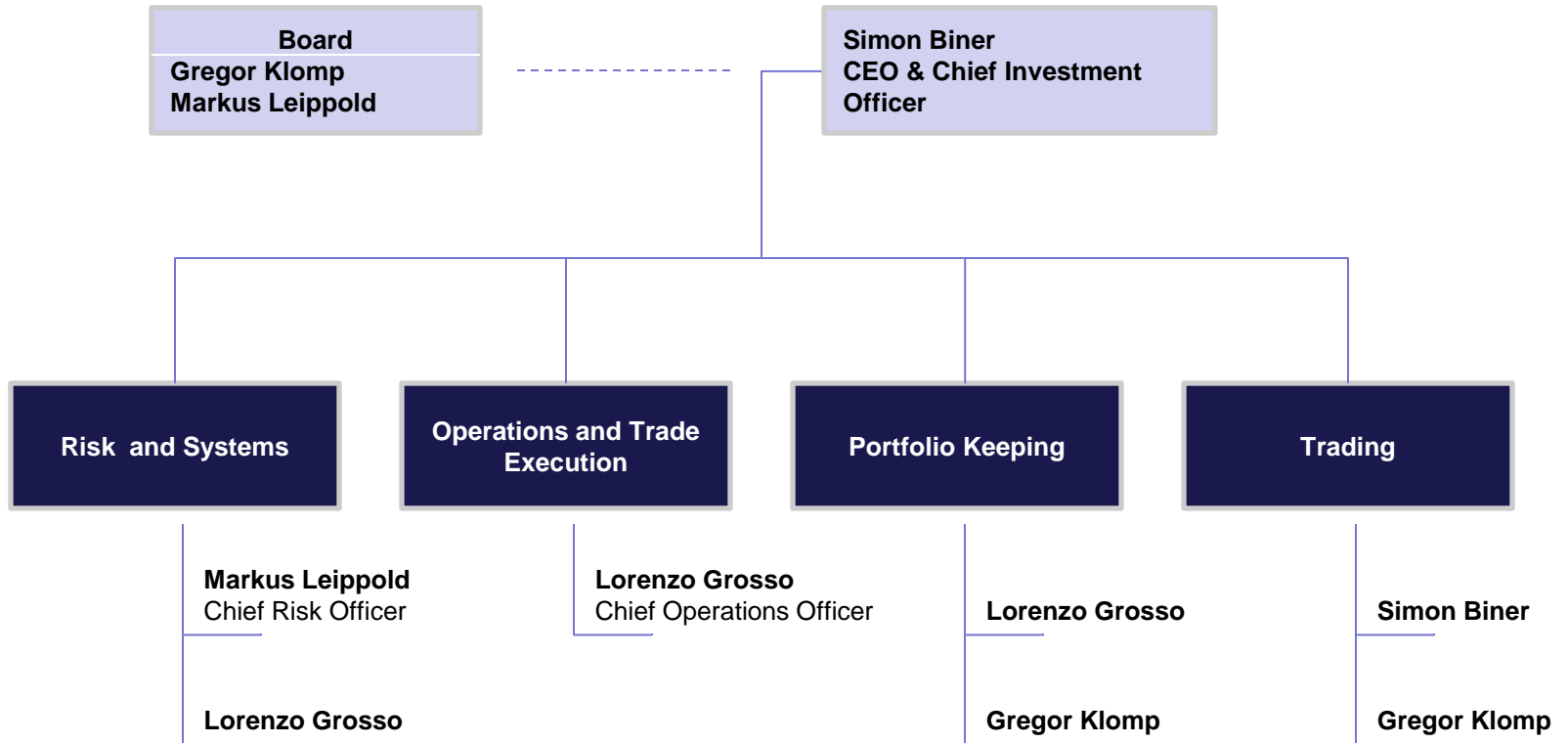
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Organizational Chart: Lambda Capital Group AG



Partner Biographies

Simon Biner (1970) started as an equity derivatives trader in 1990 at UBS Zurich, where from 1995 to 1998 he headed the trading team for exchange-traded warrants. In 1998, Simon became a member of the senior management at Zurich Cantonalbank (ZKB) with the responsibility to build up the trading platform for equity derivatives from scratch. Within a short time period, Simon and his team became market leader in the Swiss equity derivatives market. In 2006, Simon and his team joined forces with Deutsche Bank. As managing director and head of GME Switzerland, he was responsible for building up Deutsche Bank's business in cash equity, equity derivatives, exotic options, and structured products. Again, they became market leader in the Swiss market within a few months. In 2008, Simon and his colleagues decided to build up lambda Capital Group to start their own business.

Lorenzo Grosso (1979) serves as Chief Operations Officer of the lambda Capital Group. He holds a degree from KV Business School, Zurich. From 2000 to 2006, he has been working in the Sales Equity Derivatives department at Zurich Cantonalbank (ZKB). Prior to joining lambda Capital group as founding partner, Lorenzo has been working in the Sales Equity Derivatives department at Deutsche Bank in Zurich from 2006 to February 2009.

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Partner Biographies

Gregor Klomp (1972) joined UBS Zurich in 1992 and began trading equity derivatives in 1994. In 1998, Gregor and Simon moved to Zurich Cantonalbank (ZKB) to build up and manage the equity derivatives trading business. While working at ZKB, Gregor was responsible for an equity portfolio exceeding CHF 1 billion during one and a half years. In September 2006, Gregor moved to Deutsche Bank as a managing director to build up and manage together with Simon the Swiss equity derivatives trading business. Prior to becoming a founding partner of lambda Capital Group, Gregor was responsible for the Swiss equity and equity derivative trading business at Deutsche Bank.

Markus Leippold (1970) is a professor at the University of Zurich, where he holds the Chair in Financial Engineering. Before moving back to Zurich, Markus was an associate professor in quantitative finance at Imperial College Business School, London, and at the London Graduate School in Mathematical Finance. In 2005, he was a visiting professor at the Federal Reserve Bank in New York. Prior to going back to academia in 2002 as assistant professor at the Swiss Banking Institute of the University of Zurich, Markus spent three years in industry, working for Sungard, Trading and Risk Management Systems, and Zurich Cantonalbank. He obtained his PhD in economics from the University of St. Gallen, Switzerland, in 1999. Markus has published in top academic journals and some of his work was awarded with best paper prizes from the European Financial Management Association, Inquire Europe, RISK Magazine, and the German Finance Association.

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Legal Structure

DIRECTORY

Riverplus Fund

Registered Office:

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Investment Manager:

Riverplus Management Company
(100% owned by lambda Capital Group)
PO Box 309, Ugland House,
Grand Cayman KY1-1104
Cayman Islands

Administrator:

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall,
Cricket Square,
Grand Cayman KY1-1102
Cayman Islands

Legal Advisors:

to the Fund as to matters of Cayman Islands law:
Maples and Calder
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Regulation

Registered with PolyReg
Allg. Selbstregulierungs-Verein
Florastrasse 44
8008 Zürich
Switzerland

Directors of the Fund:

Brian Burkholder
John Hamrock

Investment Advisor:

lambda CAPITAL GROUP AG
Rämistrasse 2
8001 Zürich
Switzerland

Prime Broker and Custodian:

Credit Suisse Securities (Europe)
Limited
One Cabot Square
London E14 4QA
England

Auditors:

KPMG
P.O. Box 493
Century Yard, Cricket Square
Grand Cayman, KY1-1106
Cayman Islands

Legal Advisors:

to the Investment Advisor:
Kellerhals und Schubiger
Rämistrasse 5
Postfach
8024 Zürich
Switzerland



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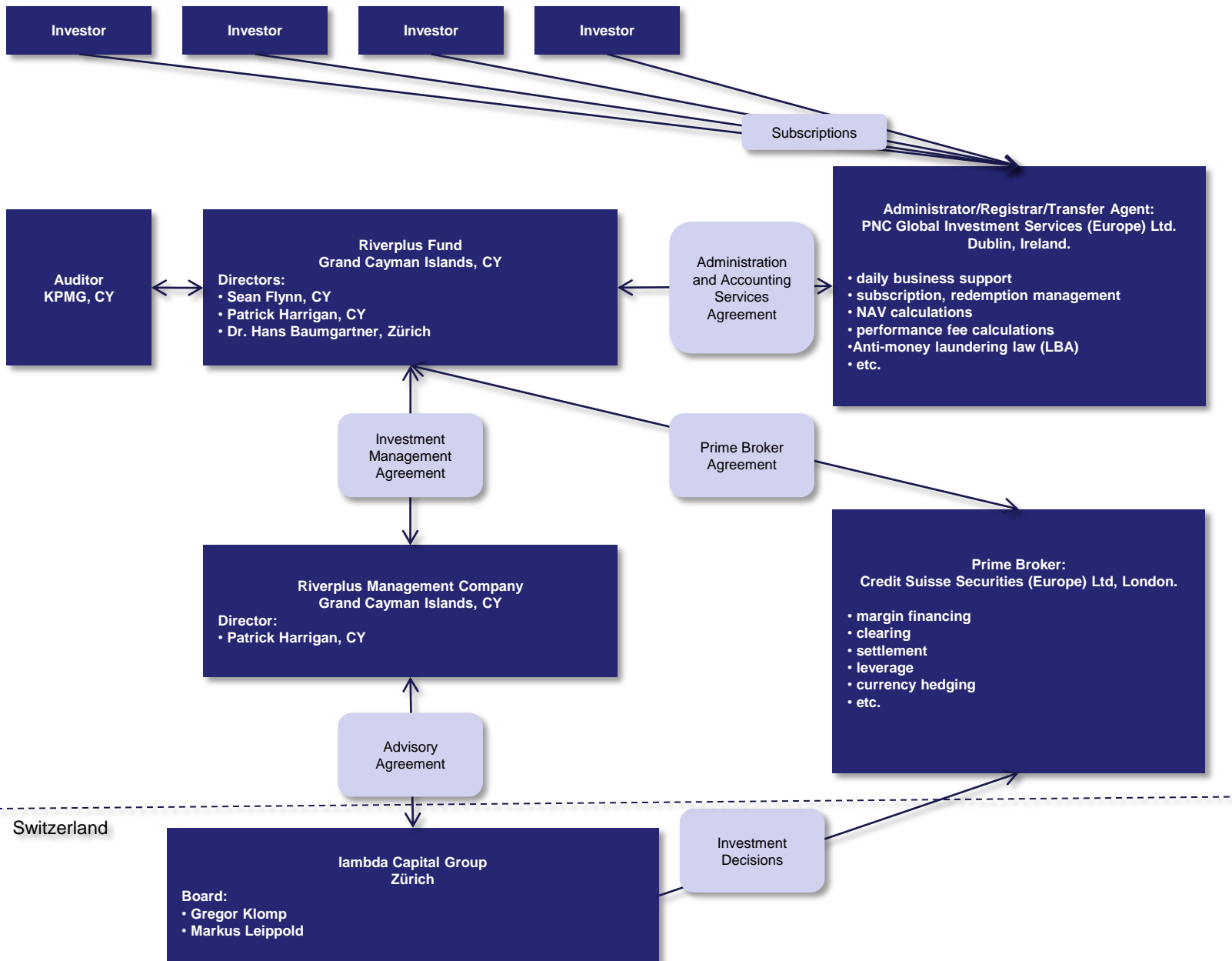
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Fund Structure



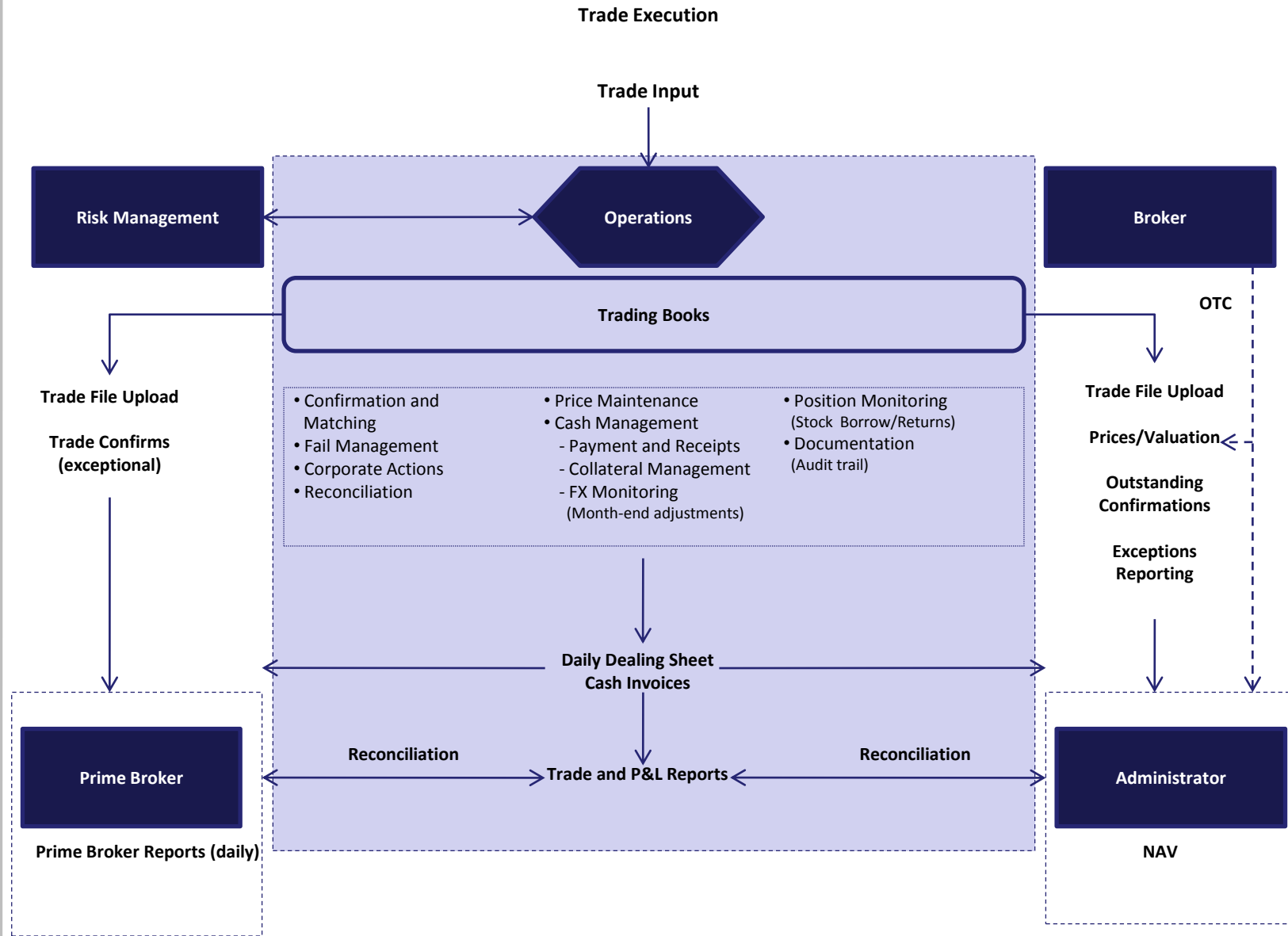
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Operational Flow



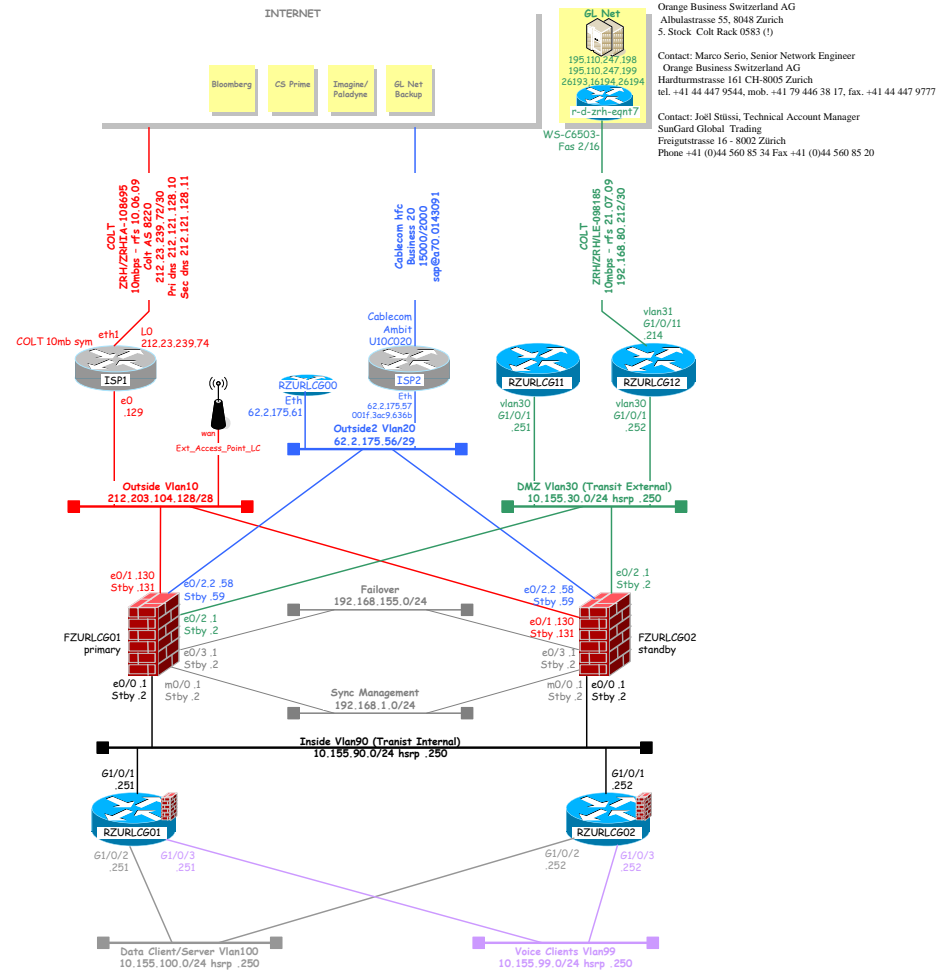
Network Layouts

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