



## **RISK REWARD MANAGEMENT** **Commodity Trading Advisors**

### **DISCLOSURE DOCUMENT**

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THIS DOCUMENT SHOULD BE READ BY ALL PROSPECTIVE CLIENTS WHO WISH TO ENGAGE RISK REWARD MANAGEMENT AS THEIR COMMODITY TRADING ADVISOR. IT PROVIDES IMPORTANT INFORMATION ABOUT COMMODITY TRADING AND ABOUT RISK REWARD MANAGEMENT AND ITS PRINCIPALS. THE INFORMATION AND OPINIONS CONTAINED HEREIN ARE SUBJECT TO CHANGE OR REVISION SUBSEQUENT TO THE DATE OF THE DISCLOSURE DOCUMENT.

#### **RISK DISCLOSURE STATEMENT**

THE RISK OF LOSS IN TRADING COMMODITIES CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. IN CONSIDERING WHETHER TO TRADE OR TO AUTHORIZE SOMEONE ELSE TO TRADE FOR YOU, YOU SHOULD BE AWARE OF THE FOLLOWING:

IF YOU PURCHASE A COMMODITY OPTION YOU MAY SUSTAIN A TOTAL LOSS OF THE PREMIUM AND OF ALL TRANSACTION COSTS. IF YOU PURCHASE OR SELL A COMMODITY FUTURE OR SELL A COMMODITY OPTION. YOU MAY SUSTAIN A TOTAL LOSS OF THE INITIAL MARGIN FUNDS AND ANY ADDITIONAL FUNDS THAT YOU DEPOSIT WITH YOUR BROKER TO ESTABLISH OR MAINTAIN YOUR POSITION. IF THE MARKET MOVES AGAINST YOUR POSITION, YOU MAY BE CALLED UPON BY YOUR BROKER TO DEPOSIT A SUBSTANTIAL AMOUNT OF ADDITIONAL MARGIN FUNDS, ON SHORT NOTICE, IN ORDER TO MAINTAIN YOUR POSITION. IF YOU DO NOT PROVIDE THE REQUIRED FUNDS WITHIN THE PRESCRIBED TIME, YOUR POSITION MAY BE LIQUIDATED AT A LOSS, AND YOU WILL BE LIABLE FOR ANY RESULTING DEFICIT IN YOUR ACCOUNT. UNDER CERTAIN MARKET CONDITIONS, YOU MAY FIND IT DIFFICULT OR IMPOSSIBLE TO LIQUIDATE A POSITION. THIS CAN OCCUR, FOR EXAMPLE, WHEN THE MARKET MAKES A "LIMIT MOVE." THE PLACEMENT OF CONTINGENT ORDERS BY YOU OR YOUR TRADING ADVISOR, SUCH AS A "STOP-LOSS" OR "STOP-LIMIT" ORDER, WILL NOT NECESSARILY LIMIT YOUR LOSSES TO THE INTENDED AMOUNTS, SINCE MARKET CONDITIONS MAY MAKE IT IMPOSSIBLE TO EXECUTE SUCH ORDERS.

A "SPREAD" POSITION MAY NOT BE LESS RISKY THAN A SIMPLE "LONG" OR "SHORT" POSITION. THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS. IN SOME CASES, MANAGED COMMODITY ACCOUNTS ARE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY FEES. IT MAY BE NECESSARY FOR THOSE ACCOUNTS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THIS DISCLOSURE DOCUMENT CONTAINS AT [PAGE 7](#), A COMPLETE DESCRIPTION OF EACH FEE TO BE CHARGED TO YOUR ACCOUNT BY THE COMMODITY TRADING ADVISOR. THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ASPECTS OF THE COMMODITY MARKETS. YOU SHOULD THEREFORE CAREFULLY STUDY THIS DISCLOSURE DOCUMENT AND COMMODITY TRADING BEFORE YOU TRADE, INCLUDING THE DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, AT [PAGE 4](#). YOU SHOULD ALSO BE AWARE THAT THE COMMODITY TRADING ADVISOR MAY ENGAGE IN TRADING FOREIGN FUTURES OR OPTION CONTRACTS. TRANSACTIONS ON MARKETS LOCATED OUTSIDE THE UNITED STATES, INCLUDING MARKETS FORMALLY LINKED TO A UNITED STATES MARKET, MAY BE SUBJECT TO REGULATIONS WHICH OFFER DIFFERENT OR DIMINISHED PROTECTION. FURTHER, UNITED STATES REGULATORY AUTHORITIES MAY BE UNABLE TO COMPEL THE ENFORCEMENT OF THE RULES OF REGULATORY AUTHORITIES OR MARKETS IN NON UNITED STATES JURISDICTIONS WHERE YOUR TRANSACTIONS MAY BE EFFECTED. BEFORE YOU TRADE YOU SHOULD INQUIRE ABOUT ANY RULES RELEVANT TO YOUR PARTICULAR CONTEMPLATED TRANSACTIONS AND ASK THE FIRM WITH WHICH YOU INTEND TO TRADE FOR DETAILS ABOUT THE TYPES OF REDRESS AVAILABLE IN BOTH YOUR LOCAL AND OTHER RELEVANT JURISDICTIONS.

THIS COMMODITY TRADING ADVISOR IS PROHIBITED BY LAW FROM ACCEPTING FUNDS IN THE TRADING ADVISOR'S NAME FROM A CLIENT FOR TRADING COMMODITY INTERESTS. YOU MUST PLACE ALL FUNDS FOR TRADING IN THIS TRADING PROGRAM DIRECTLY WITH A FUTURES COMMISSION MERCHANT/BANK.

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### I. INTRODUCTION

Risk Reward Management (“RRM”), a proprietorship company with offices at B3/1301, L & T South City, Arakere Mico Layout, Bannerghatta Road, Bangalore 560076, Karnataka State, India was established in January 1996 as a Forex advisory company under the approval granted by The Reserve Bank of India, Exchange Control Dept, Central Office, Mumbai. RRM’s telephone numbers are International : + 91 (80) 41509081 Local : +(080) 41509081.

Risk Reward Management currently functions as a Commodity Trading Advisor and has been exempted from CTA Registration under Rule 4.14(a)(8) of the CFTC Regulations, for which a Notice of claim for exemption from CTA registration had been filed on August 09, 2004 with the National Futures Association, Chicago, USA which acts as a regulatory authority for such activities on behalf of the CFTC.

RRM also follows a Code of Conduct (based on the guidelines of the Association Cambiste Internationale), the aim being the manner and spirit in which such business shall be conducted in order to maintain its reputation for high standards of professionalism, integrity and ethical conduct. Observance of such regulations/code of conduct in no way imply that the Commodity Futures Trading Commission (“CFTC”), the Securities and Exchange Commission (“SEC”) or the National Futures Association (“NFA”) have endorsed RRM’s qualifications to provide the advisory services described herein. This Disclosure Document is delivered to prospective clients in accordance with Rule 4.31 under the CE Act.

### II. TRADING PHILOSOPHY AND METHODS OF RRM

Commodity traders generally rely on either fundamental or technical analysis, or a combination of both techniques, in making trading decisions. Fundamental analysis looks at factors external to the trading market such as general economic factors, anticipated world events, supply and demand factors in order to predict future prices. A technical trading method, in contrast, normally generates buy and sell signals based upon a study of actual daily, weekly and monthly price fluctuations, volume variations, momentum indicators etc utilizing charts and/or computers for analysis. RRM’s managed account program seek client’s stable capital appreciation through a disciplined approach with extensive use of technical analysis, money management techniques and an emphasis on capital preservation.

The RRM program is a proprietary trading strategy that primarily utilizes effective technical methods of analysis to name a few like The Elliott wave, Gann, Japanese Candlesticks, Fibonacci ratios to arrive at a confluence of time, price and pattern. The program could be characterized as a system that identifies and incorporates trend and countertrend strategies to trade the Intermediate and Primary degree waves of highly liquid market instruments. The CTA reserves the right to override the system at any time as it deems fit or as warranted due to adverse market conditions, and there will be occasions when no trades/positions are taken due to highly congested/corrective or uncertain market phases.

To summarise, the program utilizes technical and judgmental trading techniques that generates buy and sell signals coupled with effective money management. RRM believes that this money management method utilized on a diversified portfolio of contracts and systems is the most effective way to control the risk of trading futures. The asset allocation process is a dynamic process that requires constant review and hence assets are reallocated on a periodic basis as the CTA deems it necessary.

The Program will target an acceptable drawdown and attempt to generate optimum returns based on the investor’s investment objectives and size of the investor’s account. However, no representation is being made and no guarantee is given that the objectives of RRM’s trading strategies will be achieved or that the results achieved will be consistent with or similar to past trading results achieved by RRM and its principals or affiliates.

### III. THE PRINCIPALS

[1] Mr. Ronnie A Mehta, 48, is the Sole Proprietor and Trading Principal of Risk Reward Management. He is also an ex-banker with 16 years of distinguished service to his credit with an International Bank of repute (The Bank of Tokyo-Mitsubishi, Ltd) out of which the last nine years were as Head of Treasury. During his tenure with the Bank, he received extensive training (treasury) at their overseas centres in Singapore, London and Frankfurt which contributed to his good fortune and recognition as the head of one of the most active and profitable trading desks in India during the period 1985-1993. His views on the Foreign Exchange Markets which were updated on the Banks home page on the global Reuters network won considerable recognition and following for the accuracy of his forecasts. Additionally, he had also been imparting such knowledge (technical analysis of Markets) on an honorary basis to some of the leading Banks/Institutions in India, to name a few like Bankers Training College (Reserve Bank of India), State Bank of India (India's largest public sector bank), Sir Pochkhanawalla's Bankers Training College (Central Bank of India & Dena Bank).

The culmination of his illustrious banking career led to the formation of a forex trading advisory company in 1996 namely "Risk Reward Management", which was granted the approval to provide such consultancy services to NRI's and foreigners by the Reserve Bank of India, Exchange Control Dept, Central Office, Mumbai. As a result of such permission the company has been providing forex advisory services to a selective number of clients who were NRI's, Foreigners and Overseas Investment Banking Institutions of repute.

Even to this day Mr. Mehta continues to add value to the company not only by his name, reputation and experience of more than 20 years in the international markets, but his increased awareness to the importance of customer service whilst maintaining the highest standards of professionalism and ethics. By using a disciplined trading approach with a strong emphasis on risk and money management, he has been offering valuable investment advice to a varied clientele using technical analysis and a systematic, rigorous and disciplined trading plan to enable his customers maximize the potential of the worlds largest and most liquid markets.

[2] Mrs. Rukhshana R. Mehta, 41, has a Masters Degree in Commerce (M.com-specialization in Management) and is also a Diploma holder in Business Management (DBM), Human Resources Management (DHRM), and International Trade Management (DITM). She has also cleared her CAIIB (I) Banking exams.

She has to her credit 17 years of banking experience with the Bank of Tokyo-Mitsubishi Ltd, Mumbai in the field of Back-office operations, Treasury and Trade finance. The last position held by her was Sr. Manager Trade Finance & Treasury Back-office. During her tenure with the bank she has attended several training seminars conducted by Bankers training college, Dow Jones Telerate, Fedai, Indian Merchants Chambers etc. She will act as a consultant overlooking the sales, customer support and administrative functions of the company.

### IV. RISK REWARD MANAGEMENT COMPANY PROTECTION CLAUSE

The profitability of an account will be determined solely by the success of the CTA's trading strategy. Commodity Interest trading is a zero sum, risk-transferring activity in which, by definition, for every gain there is an equal and corresponding loss (plus the cost of transaction and advisory/performance fees). Regardless of past performance, there is no guarantee that the strategies used by the CTA will be successful or will not incur losses. Risk Reward Management nor any of its Principals, employees or affiliates shall in any way be personally liable to the client or to any other parties in connection with any orders for the purchase, sale, spread or trading of any commodity futures or forex on behalf of the client or for any other actions taken by them in connection with the management of an account which is not the result of fraud or willful, wanton or reckless misconduct on the part of the CTA. All purchases, sales, spreads and trades made in furtherance of the Investment Advisory Agreement and all expenses and losses of the account shall be for the account of and at risk of the client.

### V. THE FUTURES COMMISSION MERCHANT

Each client of RRM must select a Futures Commission Merchant ("FCM"), which will hold all client funds and through which trades will be cleared. The client is directly responsible for making payment to his FCM for all margins, brokerage commissions and fees, option premiums and other transaction costs incurred in connection with transactions effected for the client's account pursuant to instructions provided by RRM.

RRM will execute its clients trades through a registered futures commission merchant / Bank.

Since RRM anticipates managing multiple client accounts through the FCM / Bank, some of them may require RRM to register as an IB in order to facilitate efficient accounting, clearance of trades and back office functions through the usage of the money managers module.

RRM is not acting as and will not act as an agent for any domestic or overseas funds, foreign financial services company, FCM or Bank. RRM and its principal have no affiliation or business arrangement, directly or indirectly, with any broker, introducing broker or principal thereof, whereby RRM or its principal may benefit, directly or indirectly, from the maintenance of a client's account with any broker, introducing broker or Bank except that RRM will receive its performance fees by direct debit to the clients account held at the FCM / Bank pursuant to its agreement with the clients in order to facilitate timely payment of dues to the CTA.

## VI. PRINCIPAL RISK FACTORS

### [a] Absence of Regulation in OTC Transactions(Off-exchange).

Foreign Currency Exchange rates are basically traded in the off-exchange, also called the over-the-counter (OTC) market. A retail customer trades directly with a counterparty and there is no exchange or central clearing house to support the transaction. Off-exchange trading is subject to limited regulatory oversight. RRM will engage in over-the-counter ("OTC") transactions. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with OTC transactions.

### [b] The risks of trading in the Forex Market.

Although every investment involves some risk, the risk of loss in trading off-exchange forex contracts can be substantial. Therefore, if you are considering participating in this market, you should understand some of the risks associated with this product so you can make an informed decision before investing. Off-exchange foreign currency trading carries a high level of risk and may not be suitable for all customers. The only funds that should ever be used to speculate in foreign currency trading, or any type of highly speculative investment, are funds that represent risk capital – i.e., funds you can afford to lose without affecting your financial situation. The other reasons why forex trading may or may not be an appropriate investment for you are highlighted below.

#### *(i) The market could move against you*

No one can predict with certainty which way exchange rates will go, and the forex market is volatile. Fluctuations in the foreign exchange rate between the time you place the trade and the time you close it out will affect the price of your forex contract and the potential profit and losses relating to it.

#### *(ii) You could lose your entire investment*

You will be required to deposit an amount of money (often referred to as a "security deposit" or "margin") with your forex dealer/FCM in order to buy or sell an off-exchange forex contract. A relatively small amount of money can enable you to hold a forex position worth many times the account value. This is referred to as leverage or gearing. The smaller the deposit in relation to the underlying value of the contract, the greater the leverage. If the price moves in an unfavorable direction, high leverage can produce large losses in relation to your initial deposit. In fact, even a small move against your position may result in a large loss, including the loss of your entire deposit. Depending on your agreement with your dealer/FCM, you may also be required to pay additional losses.

#### *(iii) You are relying on the dealer/FCM's creditworthiness and reputation*

Retail off-exchange forex trades are not guaranteed by a clearing organization. Furthermore, funds that you have deposited to trade forex contracts are not insured and do not receive a priority in bankruptcy. Even customer funds deposited by a dealer in an FDIC-insured bank account are not fully protected if the dealer goes bankrupt.

#### *(iv) There is no central marketplace*

Unlike regulated futures exchanges, in the retail off-exchange forex market there is no central marketplace. The forex dealer/FCM determines the execution price, so you are relying on the dealer's integrity for a fair price.

#### *(v) The trading system could break down*

If your CTA is using an Internet-based or other electronic system to place trades, some part of the system could fail. In the event of a system failure, it is possible that, for a certain time period, he may not be able to enter new orders, execute existing orders, or modify or cancel orders that were previously entered. A system failure may also result in loss of orders or order priority.

#### *(vi) You could be a victim of fraud*

As with any investment, you should protect yourself from fraud. Beware of investment schemes that promise significant returns with little or no risk. You should take a close and cautious look at the investment offer itself and continue to monitor any investment you do make.

#### *(vii) Who regulates off-exchange foreign currency trading?*

The CFTC has some regulatory authority over retail off-exchange forex markets. The Commodity Exchange Act (CEA) allows the sale of OTC forex futures and options to retail customers if, and only if, the counterparty (the person on the other side of the transaction) is a regulated entity. These regulated entities include the following:

- \_ financial institutions, such as banks and savings associations,
- \_ registered broker-dealers and certain of their affiliates,
- \_ registered futures commission merchants (FCMs) and certain of their affiliates,
- \_ certain insurance companies and their regulated affiliates
- \_ financial holding companies, and
- \_ investment bank holding companies.

Under the CEA, the CFTC has the authority to shut down any unregulated entity that acts as a counterparty to forex futures or options transactions with retail customers. The CFTC also has the authority to take action against registered FCMs and their affiliates for violating the anti-fraud and anti-manipulation provisions of the CEA in connection with OTC forex transactions involving retail customers, but the CFTC cannot adopt rules to regulate these transactions.

### [c] Counterparty Risk.

The client will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes, which could subject the client to substantial losses. In an effort to mitigate such risks, RRM will attempt to limit its transactions to counterparties, which are established, well-capitalized and creditworthy.

### [d] Commodity Futures Trading is Volatile.

Commodity interest prices are highly volatile. Price movements for commodity interests are influenced by, among other things: changing supply and demand relationships, weather, agricultural, trade, fiscal, monetary, exchange control programs and

policies of governments, United States and foreign political and economic events and policies, changes in national and international interest rates and rates of inflation, currency devaluations and revaluations, and emotions of the marketplace. Financial instrument contract prices are influenced primarily by changes in interest rates. Currency contract prices are influenced by, among other things: political events (including restrictions on local exchanges or markets, limitations on foreign investment in a country or on investment by residents of a country in other countries and restrictions on currency flows), changes in balances of payments and trade, United States and foreign rates of inflation, international trade restrictions, and currency devaluations and revaluations. Metals contract prices can be affected by all such factors and by the effects of production. In addition, governments from time to time intervene, directly and by regulation, in certain markets – particularly those in currencies, interest rates and gold. Such intervention is often intended to influence prices directly. A client is also subject to the risk of the failure of any of the exchanges on which RRM trades or of their clearinghouses. None of these factors can be controlled by RRM and no assurance can be given that the Advisor will engage in profitable trades for a client or that a client will not incur substantial losses.

**[e] Commodity Trading Is Highly Leveraged.**

The low margin deposits normally required in commodity interests trading (typically between 2% and 20% of the value of the contract purchased or sold) permit an extremely high degree of leverage. Accordingly, a relatively small price movement in a contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 10% of the price of a futures contract is deposited as margin, a 10% decrease in the price of the contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. A decrease of more than 10% would result in a loss of more than the total margin deposit. Thus, like other leveraged investments, any trade may result in losses in excess of the amount invested. When the market value of a particular open position changes to a point where the margin on deposit in a client's account does not satisfy the applicable maintenance margin requirement imposed by the client's FCM, the client, and not RRM, will receive a margin call from the FCM. If the client does not satisfy the margin call within a reasonable time (which may be as brief as a few hours), the FCM will close out the client's position. Trading in the currency forward and interbank markets does not require margin, but generally does require the extension of credit by a participant to its counterpart. To the extent a client's trading will be conducted with and through the currency forward trading desk of an FCM, the client will be able to take advantage of the FCM's credit lines with interbank market participants. An FCM may require margin or good faith deposits.

**[f] Commodity Trading May Be Illiquid.**

Most United States commodity exchanges limit fluctuations in certain commodity interest prices during a single day by imposing what are known as "daily price fluctuation limits" or "daily limits." Once the price of a particular contract has increased or decreased by an amount equal to the daily limit, positions in the contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Contract prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent RRM from promptly liquidating unfavorable positions and subject a client to substantial losses which could exceed the margin initially committed to such trades. While daily limits may reduce or effectively eliminate the liquidity of a particular market, they do not limit ultimate losses, and may in fact substantially increase losses because they may prevent the liquidation of unfavorable positions. In addition, even if contract prices have not moved the daily limit, trades may not be able to be executed at favorable prices if little trading in the contracts involved is taking place. Under some rare circumstances, a client might be required to make or take delivery of the commodity underlying a particular contract if the position cannot be liquidated prior to its expiration date. It is also possible that an exchange or the Commodity Futures Trading Commission ("CFTC") could suspend or limit trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. Similarly, trading in options on a particular futures contract may become restricted if trading in the underlying futures contract has become restricted. From time to time the Advisor trades in certain non-United States markets, which may be substantially more prone to periods of illiquidity than United States markets, due to a variety of factors.

**[g] Possible Effects of Speculative Position Limits.**

The CFTC and the United States commodities exchanges have established limits referred to as "speculative position limits" on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. All accounts owned or managed by RRM will be combined for speculative position limit purposes. RRM could be required to liquidate positions held for its clients accounts in order to comply with such limits. Any such liquidation could result in substantial losses to clients.

**[h] Trading Of Commodity Options Involves Certain Risks.**

Options on certain futures contracts and options on certain physical commodities have been approved by the CFTC for trading on United States exchanges. Each such option is a right, purchased for a certain price, to either buy or sell the underlying futures contract or physical commodity during a certain period of time for a fixed price. RRM may engage in the trading of options for the account of a client. Although successful option trading requires many of the same skills as does successful futures contract trading, the risks involved are somewhat different. For example, if RRM, on behalf of a client, buys an option (either to sell or buy a futures contract or commodity), the client will be required to pay a "premium" representing the market value of the option. Unless the price of the futures contract or commodity underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the client may lose the entire amount of the premium. Conversely, if RRM, on behalf of a client, sells an option (either to sell or buy a futures contract or commodity), the client will be credited with the premium but will have to deposit margin with the client's FCM due to the client's contingent liability to deliver or accept the futures contract or commodity underlying the option in the event the option is exercised. Traders who sell options are subject to the entire loss which occurs in the underlying futures contract or commodity (less any premium received). The ability to trade in or exercise options may be restricted in the event that trading in the underlying futures contract or commodity becomes restricted.

**[i] Trading on Foreign Commodity Exchanges.**

RRM may trade on commodity exchanges located outside the United States. Trading on such markets is not regulated by any United States government agency and may involve certain risks not applicable to trading on domestic exchanges (US). Some foreign exchanges, in contrast to domestic exchanges (US), are "principal's markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a futures contract and not of an exchange or clearing corporation. In some foreign markets, trades which in the United States could only be executed on a regulated exchange are executed off exchange in privately negotiated transactions. In some cases, the brokers through whom RRM deals may in effect take the opposite side of trades made for RRM. In addition, unless RRM hedges itself against fluctuations in exchange rates between the United States dollar and the currencies in which trading is done on foreign exchanges, any profits RRM might realize in such trading could be eliminated as a result of adverse changes in exchange rates and RRM could even incur losses as a result of such changes.

**[j] A Client's FCM May Fail.**

Under CFTC regulations, FCMs are required to maintain client's assets in a segregated account. If a client's FCM fails to do so, the client may be subject to a risk of loss of his funds on deposit with his FCM in the event of its bankruptcy. In addition, under certain circumstances, such as the inability of another client of the FCM or the FCM itself to satisfy substantial deficiencies in such other client's account, a client may be subject to a risk of loss of his funds on deposit with his FCM, even if such funds are properly segregated. In the case of any such bankruptcy or client loss, a client might recover, even in respect of property specifically traceable to the client, only a pro rata share of all property available for distribution to all of the FCM's clients.

**[k] A Client Will Pay Substantial Fees and Expenses Regardless of Whether Any Profits Are Realized.**

A client is subject to substantial brokerage commissions and other transaction costs and substantial management fees and/or performance fees. Accordingly, a client's account will have to earn substantial trading profits and/or interest income to avoid depletion of the client's funds due to such commissions, costs and fees. A client, and not RRM, is directly responsible for paying to the client's FCM or IB, as appropriate, all margins, option premiums, brokerage commissions, fees, other transaction costs and expenses incurred in connection with transactions effected for the client's account by RRM. The Advisor considers the interests of its clients paramount and intends to manage all accounts to further the interests of its clients. Nevertheless, no assurance can be given by RRM as to any minimum or maximum number of transactions which will be entered into for a client's account during any period for which the account is managed by the Advisor. Further, because RRM's performance fees will generally be paid on a quarterly basis, the Advisor could receive a performance fee for a calendar quarter even though its trading on an annual basis and/or over the entire term of the account was unprofitable. Once a performance fee is paid, RRM retains the fee regardless of its subsequent performance, but no new performance fee will be paid by a client to the Advisor until the client's account recoups any previous losses. A client is responsible for bearing any and all expenses, losses and fees incurred as a result of maintaining and having the Advisor trade the client's account. In the Client Agreement (will be provided separately), a client agrees to indemnify and hold harmless the Advisor, its Principals and its employees, affiliates and agents in this regard.

**[l] No Restrictions or Limitations on Trading.**

No restrictions or limitations on trading have been established by RRM in connection with the Pinnacle Commodity Program except those restrictions or limitations which are imposed by applicable federal, state and local laws, the rules and regulations of the CFTC, NFA and various exchanges. Notwithstanding the foregoing, the Advisor has no expectation of violating speculative position limits of the exchanges.

**[m] The Advisor Has Limited Experience Managing Accounts.**

The Principal has limited experience in managing commodity interest trading for client accounts since the same was being provided in the form of advisory services. As such, the Hypothetical Results mentioned in this document are the actual records of such advisory and have been duly audited by an independent Chartered Accountants firm who also verify the authenticity of the trade recommendations with respect to the date and time on which they were made.

## **VII. THE TRADING PROGRAM**

**+ Pinnacle Commodity Program +**

RRM will use this Trading Program to manage client assets of NRI's, Foreigners, OCB's, FII's, Investment Banks/Houses etc with the exception of US persons or entity. The program operates within a framework of strict money-management and risk-control parameters and follows a technical methodology to determine the price at which trading positions are established or liquidated. Our research enables us to create efficient portfolios by diversifying among asset categories with low to negative co-relations. This program will also be managed on a discretionary basis.

- Minimum required investment *USD.100,000.00*
- Minimum Lock-in period *12 months.*
- Markets Traded  
*Commodity Groups not limited to but will include (a) Forex = Euro, Chf, Jpy, Gbp, Cad. (b) Indices = E-mini S&P 500, E-mini Nasdaq 100, Usd Index. (c) Metals = Comex Gold (100 oz) futures. (d) Interest Rate = 30 Yr Treasury Bond*

*Futures, 10 Yr Treasury Notes. (e) Futures = E-mini Euro Fx, E-mini JapYen Fx [Research on commodity group (d) Interest Rate is still going on and hence may not be utilized currently as a trading vehicle.]*

- **Methodology**  
*Disciplined trading approach using technical and judgmental analysis coupled with effective money management. The CTA will enter a trade only when there is a confluence of various technical factors and the market offers a low risk opportunity with the probability of winning being high, despite which the client may observe more losing trades (with small losses) and a few winning trades (with larger profits) which is generally the case with most successful strategies. There will be periods when there may be no positions taken at all (example: uncertain market conditions) as a part of capital preservation techniques.*
- **Approx. Commitment of assets to margin**      *35-50% of available equity but will be Exchange determined.*
- **Overall Stop-loss Limit**                              *25% of initial equity.*

## VIII. FEES

### [a] Annual Management Fee :

RRM clients will pay an Annual Management Fee of 0.5% upfront on the initial investment made and subsequently on the "Year End Equity" as per the account statement. Year end equity shall mean the equity reflected in the account statement after a period of one year from the date of account activation and subsequently shall mean the equity balance at such yearly time intervals thereafter.

### [b] Performance Fee:

RRM's performance fee shall be 20% of "Net Asset Value" at the end of each quarter. End of each quarter for this purpose shall mean 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> Sept and 31<sup>st</sup> Dec.

Whilst computing the performance fees the "Net Asset Value" shall mean the beginning balance plus (a) the net realized trading profits and losses for the period, plus (b) the net floating trading profits and losses for the period, minus (c) any net realized trading losses carried forward from previous periods that have not been recouped, plus (d) any fees paid to the CTA, clients withdrawal of profits earned, brokerage/commissions charged by the FCM or exchanges and interest paid on rollover of positions, minus (e) any new capital infusion, interest received on rollover of positions, interest earned if any, on unutilized capital. If the account experiences a loss after a performance fee payment, the CTA will retain such payment but will receive no further performance fees until the account has subsequent profits.

### [c] Fee Payment:

Following the end of each quarter, RRM will present a bill to the clients FCM for full payment of all fees due. Performance fees will be paid to the Advisor by the clients FCM from the funds in the client's account, for which a client must execute an authorization in accordance with the terms of the Managed Account Agreement. If the Advisor has not received payment within fifteen (15) days of invoicing, the client will be notified, with a copy to his FCM. If the payment has still not been received within ten (10) days after notice date, the Advisor reserves the right to liquidate all positions in the account and will have no liability for losses. When an account closes, the client authorizes the FCM to pay any fees due from the account upon receipt by such party of a billing statement from the Advisor. A copy of the final billing statement will be sent to the client by the Advisor.

## IX. FEES BASED ON NOMINAL ACCOUNT SIZE/PARTIALLY FUNDED ACCOUNTS

The Nominal Account Size is the total account size established by the customer and the CTA upon which the CTA will base its trading decisions. The Nominal Account Size may be different than the actual funds on deposit in the client's account. Risk Reward Management does not accept Partially Funded Accounts at this point in time.

## X. CONFLICT OF INTEREST

### Futures Commission Merchant :

A commodity trading advisor (CTA) who earns commissions has an incentive to generate commissions by more frequent trading, which could be in conflict with his responsibility as a CTA to pursue a profitable trading strategy without regard to commission generation. This will not be the case with RRM since we do not have any agreement/arrangement to receive any commissions from the FCM/Bank which fact can be verified with them. Some FCM/Bank's require the CTA to register with them as an IB in order to facilitate the advisor with a money managers module which would have the ability to do a block deal, watch the total exposure, margin, live statements, accounting etc in one single package.

### Multiple Accounts :

The Advisor and its principal may actively solicit and manage other client accounts. RRM anticipates using a money managers platform wherein a block deal can be done whereby proportional allocation of the trade will be as per the clients equity in the account. Hence we do not see any conflict of interest in such an arrangement which ensures equitable distribution of profit and loss in relation to the account equity of a client.

### Proprietary Trading :

The principals of RRM currently trade commodity interests for their own personal accounts. Therefore, there could be a conflict of interest between the individual client's interest and the principals interest. In addition, the Principals will not be subject to

management or performance fees to which the Advisors clients are subject. Accordingly, the Principals proprietary accounts may produce trading results which are different from those experienced by its clients. RRM will not include personal accounts with client accounts. RRM clients may be permitted to inspect the proprietary trading records of the Principals at a mutually convenient time and place.

## XI. LITIGATION

There have been no material administrative, civil or criminal proceedings, pending, on appeal or concluded against the Advisor or its principals during the five years preceding the date of this Disclosure Document.

## XII. COMMODITY TRADING BY THE ADVISOR

The Principals trade commodity interests for their own personal account. Their account may or may not use the same methods being employed to trade client accounts. See, "Conflicts of Interest." RRM clients may be permitted to inspect the proprietary trading records of the Principals at a mutually convenient time and place.

## XIII. PERFORMANCE OF THE OFFERED TRADING PROGRAM

Trading has not commenced for this program and hence does not have any performance history.

## XIV. HYPOTHETICAL RESULTS

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

THE ADVISOR HAS LIMITED EXPERIENCE IN TRADING ACTUAL ACCOUNTS FOR ITSELF OR FOR CUSTOMERS. SINCE THERE ARE LIMITED ACTUAL TRADING RESULTS TO COMPARE TO THE HYPOTHETICAL PERFORMANCE RESULTS, CUSTOMERS SHOULD BE PARTICULARLY WARY OF PLACING UNDUE RELIANCE ON THESE HYPOTHETICAL PERFORMANCE RESULTS.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

### CAPSULE PERFORMANCE TABLE (%)

MONTH	2004	2005
January	0.22	7.00
February	6.86	---
March	0.50	2.91
April	1.66	1.33
May	0.10	---
June	---	---
July	7.62	3.74
August	---	---
September	1.30	-6.02
October	---	-0.60
November	4.40	8.26
December	4.66	-0.60
Annual or YTD Rate of Return (compounded)	30.47	16.36
Sharpe Ratio	2.78	1.22
Largest Monthly Drawdown	Nil	6.02
Worst peak-to-valley drawdown	Nil	6.58

## NOTES TO PERFORMANCE CAPSULE:

All performance information has been calculated on an accrual basis of accounting in accordance with generally accepted accounting principles:

The ROR for the period has been computed on a compounded monthly basis. Rate of return (ROR) represents gross realized trading gain (loss), plus or minus changes in unrealized gain (loss), plus interest income and minus brokerage commissions, advisory fees and withdrawals. Except as described below, the rate of return figures have been calculated in accordance with Rule 4.35 – CFTC Regulations, i.e., the rate of return is based on the difference between the Beginning Net Asset Value (BNAV) at the beginning of the month (or year, as the case may be) and the Ending Net Asset Value (ENAV) on the last day of that month (or year). The ENAV for the period, represents the BNAV plus or minus additions, withdrawals, redemption and net performance.

### Important Foot Notes:

[1] Since these are hypothetical results we have calculated the ENAV on closed positions for the period due to which certain months show a dash (-) in the above table which reflect an open position being carried or no position taken whatsoever during the month, as the case may be. The above results have not accounted for any brokerage, commissions or advisory fees.

[2] The hypothetical results (based on 100k account size) are computed from actual trade recommendations made by us in certain non co-related assets like currencies (Spot Fx min 100k lot size), E-mini indices (Single futures contract) and precious metal futures (Single futures contract) without the use of any leverage whatsoever.

[3] The above table which is based upon actual trade recommendations made by us, give the investor a guideline of what is achievable in relation to capital invested, leverage used etc.

[4] The Hypothetical Results mentioned in this document are the outcome of the trade recommendations which have been duly audited by an independent Chartered Accountants firm with respect to the date and time on which they were made, as a copy of the same was simultaneously e-mailed to the firm for record purposes.

[5] Annual Rate of Return: Represents the cumulative compounded rate of return for each year or portion thereof. It assumes a continuous investment and is computed by applying successively the respective Monthly Rate of Return for each month beginning with the first month presented in each period and represents the net percentage change since the beginning of the period presented.

[6] Sharpe Ratio: The Sharpe ratio which was created by Prof. William Sharpe is a measure of the risk adjusted return of an investement and is a widely used measure of trading performance. The ratio is constructed of trading returns divided by the standard deviation (a measure of risk) of returns. As per industry consensus, a sharpe ratio >1 is considered good, >2 is considered very good and a ratio >3 is outstanding.

[7] Largest monthly Drawdown: Represents the largest loss experienced by the Advisor in any calendar month expressed as a percentage of beginning net asset value.

[8] Worst Peak-to-Valley Monthly Drawdown: Represents the greatest cumulative percentage decline in month-end net asset value due to losses sustained by the account during any period in which the initial month-end net asset value is not equaled or exceeded by a subsequent month-end net asset value.