

MAAP June Review

July 2, 2009

During June, MAAP gave back a portion of the gains earned during a very strong May, as the commodity markets experienced minor corrections. Corrections in grains, metals, and currencies more than offset a gain in energy. In addition, a small positive gain was achieved in the partial (10% of maximum) long position taken in the S&P 500 very late in the month.

Our research continues to point to a resumption of the secular (long-term) commodity bull market and for a cyclical advance in equities, both fueled by the massive injections of liquidity beginning in mid-September 2008. In addition, the stronger relative economic conditions in the developing world should be an important factor driving commodity prices higher. While we believe that commodities have emerged from a significant base, equities still appear to be completing a basing process.

New Risk Management Process

In the past six months we have alluded to our ongoing research targeting an improvement in our risk management, and in particular, our management of leverage. We have completed that work and will now include this process in our management of the overall leverage of our three physical commodity sectors. The commodity sectors have contributed the greatest gains in the past decade and also the majority of the volatility in the MAAP portfolio. Our basic decision making will continue to be discretionary, using both fundamental and technical/quantitative information. However, we will overlay those decisions with a systematic process to determine maximum leverage in the commodity sectors. If our system turns negative and we have maximum long positions in the commodity sectors, we will be required to reduce leverage by half. We could lower our leverage further but will continue to use discretion in that decision. Further discussion of the rationale for partial systematic, and partial discretion follows below.

The process we will employ is one which we have used informally for several years in our equity strategies to assist in identifying major tops and bottoms. The system is straightforward and not subject to interpretation. It will assign positive or negative points to each of the twelve commodity markets traded in MAAP. The point system is based on where the daily price is in relationship to average prices for that market over different time periods. A composite point level is then computed for the twelve commodity markets. If the composite reading for the twelve markets drops below the predetermined minimum level, leverage must be reduced to a maximum of 50 percent of our potential leverage on the long side. Leverage on commodity long positions can only be brought back to maximum when the portfolio point system rises to a predetermined positive level.

The system is designed to be long-term, with infrequent signals. During the 17 years that MAAP has been traded, from 1992 through mid-2009, there were only seven negative signals. Three of those would have avoided significant commodity market declines, while two signals would have added minimal value, and two would have modestly reduced upside gains as commodity prices continued to rise. This highlights the fact that no system or approach is without its limitations. It is precisely for this reason that we will employ it to reduce, rather than to eliminate, discretionary positions. However, the long-term nature of the approach should avoid the problem of frequent whipsaws that many systematic traders are subjected to.

As a further confirmation of our fundamental view that commodity markets have resumed their secular bull market, this risk management system signaled a new uptrend reading in early April. Since the commodity bull market commenced early in this decade, the system gave three positive signals lasting

on average approximately 15 months each. While we believe the addition of this risk management process should assist in avoiding major declines like the second half of 2008, it is important to understand that MAAP will still be subject to significant monthly volatility. In order to participate in major long-term trends, the investor must be willing to accept a degree of volatility. In summary we believe that with the addition of our new risk process we have enhanced the reward to risk opportunity that MAAP will generate for investors.

Markets

Commodity markets and developing country stock markets appear to reflect the relative strength of developing economies and their relatively greater demand for commodities. Focusing only on the U.S., Europe, and Japan would fail to identify the relative importance developing country economies will have on commodity demand growth now and in the years ahead. This is also an important factor in the debate over future inflation rates. While there is an excess of end user production capacity (e.g. auto assembly plants), and labor, raw materials will quickly return to tight supply conditions as the global economy recovers. Therefore the U.S., and other economies, should experience much higher rates of producer price inflation than consumer price inflation. With this in mind, investments such as MAAP, with exposure to currencies, precious metals, and industrial commodities, should benefit more from price trends than investments which are linked to the consumer price index (e.g. U.S. Treasury Tips).

An important inflection point should be occurring in the next several weeks for the both the U.S. economy and equity markets. Based on prior cycles, the expansive monetary and fiscal stimulus initiated in September of 2008 should begin to have a positive impact in both the economy and equity prices, as well as for commodity prices. Admittedly, this recession has had very unique characteristics, but the excessive degree of stimulus should begin to be apparent in renewed economic growth. As stated earlier, it is our conclusion that we are in the early stages of a resumption of the secular commodity bull market and the late stages of a U.S. equity market base.

Past results are not necessarily indicative of future performance. Actual trading for 3X-6X commenced on 7/8/92 and 2X-4X commenced on 10/15/92. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. For a complete disclosure document of AIS Futures Management LLC's MAAP Program, contact AIS Futures Management LLC, 187 Danbury Rd. Wilton, CT 06897 (203) 563-1180.