



ADVANCED ALPHA
ADVISERS

ART Strategy

Advanced Alpha Advisers

February 2026

for Qualified Eligible Persons (QEPs)



Disclaimer

The risk of loss in trading commodity futures and options contracts can be substantial. You should, therefore, carefully consider whether such trading is suitable for you in light of your circumstances and financial resources. Past performance is not necessarily indicative of future results. Advanced Alpha Advisers does not guarantee the accuracy of the data presented in this document.

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Our Story



Part 1

Our team spent 12 years running a short-term, trend-following futures trading model, which allowed **clients to profit from volatile or trending conditions** in futures markets.

Part 2

However, as a long vol strategy, it could sometimes ‘bleed’ during slow or sideways markets. As such, clients asked if there was a way of transitioning it to a **volatility neutral strategy** that generated more **consistent returns**.

Part 3

This led to the idea of pairing the long volatility, trend following model with a short volatility, option selling strategy. This negative factor correlation combines to create a **stable return schedule that can generate positive returns across many market conditions**.



Our Team



Konstantin Rybakov

Head of Quantitative Strategy

- 11 years' experience building and trading quantitative, short-term, trading models.
- Master's degree in Applied Mathematics and Physics from the Moscow Institute of Physics and Technology and Computer Science Award. Published papers in Machine Learning.
- Interests include tennis, jogging and jumping into freezing rivers.



James Montlake

Portfolio Manager

- Responsible for the options portion of the strategy.
- Experienced options trader and commodity swaps broker, having previously run a UK Government project to set up a hedging market for primary tea producers.
- Interests include snowboarding, guitar and craft tea.



Dennis Rivera

Managing Member

- Founded Advanced Alpha Advisers. Responsible for business operations, distribution and compliance.
- Over 30 years of derivatives trading experience including as member of the New York Cotton Exchange and working at boutique hedge funds.
- Interests include Formula 1, baseball and two beautiful grandchildren.

ART Strategy



Advanced Alpha Adviser's innovation is to use its short-term, trend-following trading algorithms as a means of hedging short option positions.

Most strategies can be categorized as either long volatility or short volatility

For 12 years our team ran a classic short-term, trend following futures trading model. This is classed as 'long volatility'. It makes money when futures markets are volatile or 'trending'. However, when futures markets are range bound or 'sawtoothed' for extended periods, the strategy can struggle.

Option selling is the opposite

Option selling is 'short volatility'. It does well in range bound or 'sawtoothed' markets. The less the price moves, the more the strategy tends to profit. However, it can make losses during a market crash.

By adding a 'long volatility' and 'short volatility' strategy together, we were able to offset the main risks from each component, without compromising their profitability.



Two Components



Trend Following Algorithms

These are trading programs that automatically buy futures contracts when they recognize a pattern of rising prices and sell when they recognize a pattern of falling prices. They are applied to a range of liquid futures markets including equities, currencies, commodities and rates. In our case the algorithms have a short-term holding period, the typical trade will last no more than one or two days.



Past performance is not necessarily indicative of future results. There is always a risk of loss.

Option Selling Strategy

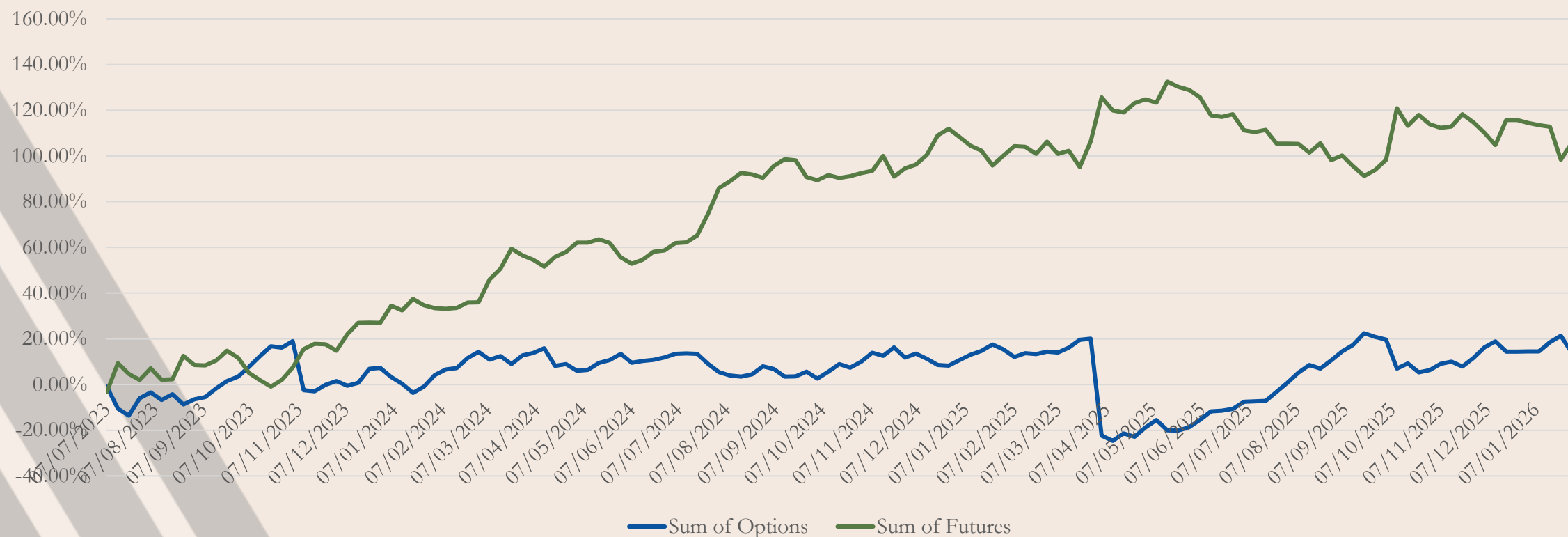
We sell options contracts on the same underlying futures as those traded via the algorithms. The duration of the selected options is short, with one week until expiry. In certain markets, selling short-term options has been shown to be highly profitable, due to the volatility risk premium (the fact that the perception of volatility is often higher than realized volatility). We sell mainly far out-of-the-money strangles (high strike call and low strike put) to take advantage of the volatility skew.

Two Components



These two components offset one another. If there is a significant loss in one component, there tends to be a profit in the other. The chart below shows this relationship in action. This is hypothetical data derived by splitting the performance of the futures and options components traded inside a fund, sub-advised by AAA. This data is presented net of fees.

Options vs Futures Performance



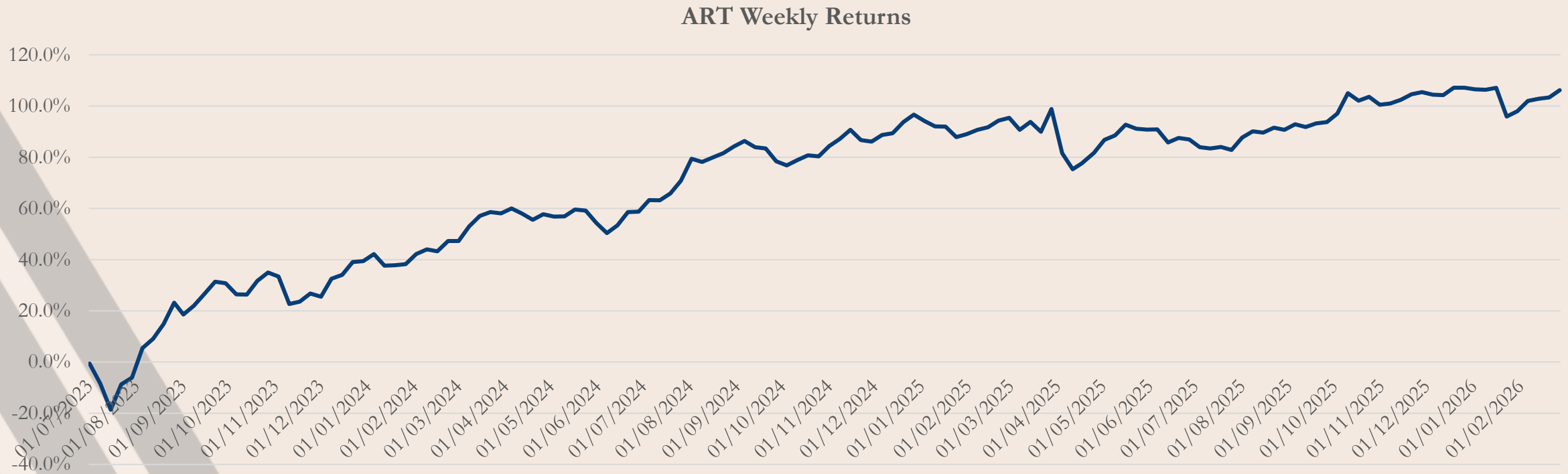
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Balanced Portfolio



Putting the futures and options strategies together balances out the overall portfolio and usually results in lower risk and lower volatility.



This is weekly data extracted from a fund sub-advised by AAA. It does not reflect the performance of a standalone account. This data reflects the performance of the ART Strategy after fees. Trading futures involves substantial risk of loss and is not suitable for all investors. Past performance is not indicative of future results. There can be no guarantee that the investor will recover the capital invested.



Where Does the Profit Come From?



Profit comes from the fact that both components of the strategy have a positive return expectation. For the futures component this comes from the documented existence of short-term momentum in public markets; and for the options this comes from the Volatility Risk Premium.

The Volatility Risk Premium is the observation that, in some markets, certain options tend to be priced consistently higher than their present value at expiry, even factoring in the bid-ask spread. There are several reasons for this:

1

Most people would rather be long options than short options - because the maximum loss is limited when you buy an option, but unlimited when you sell an option.

2

Some institutions *must* buy options. Such as asset managers who are naturally long stocks or bonds (only applies to puts).

3

The volatility curve, i.e., out-the-money options are priced relatively higher than at-the-money options, particularly for equity indices. This is partly because volatility is observed to be higher when markets are falling and because holders of stock tend to purchase insurance against significant market downturns.

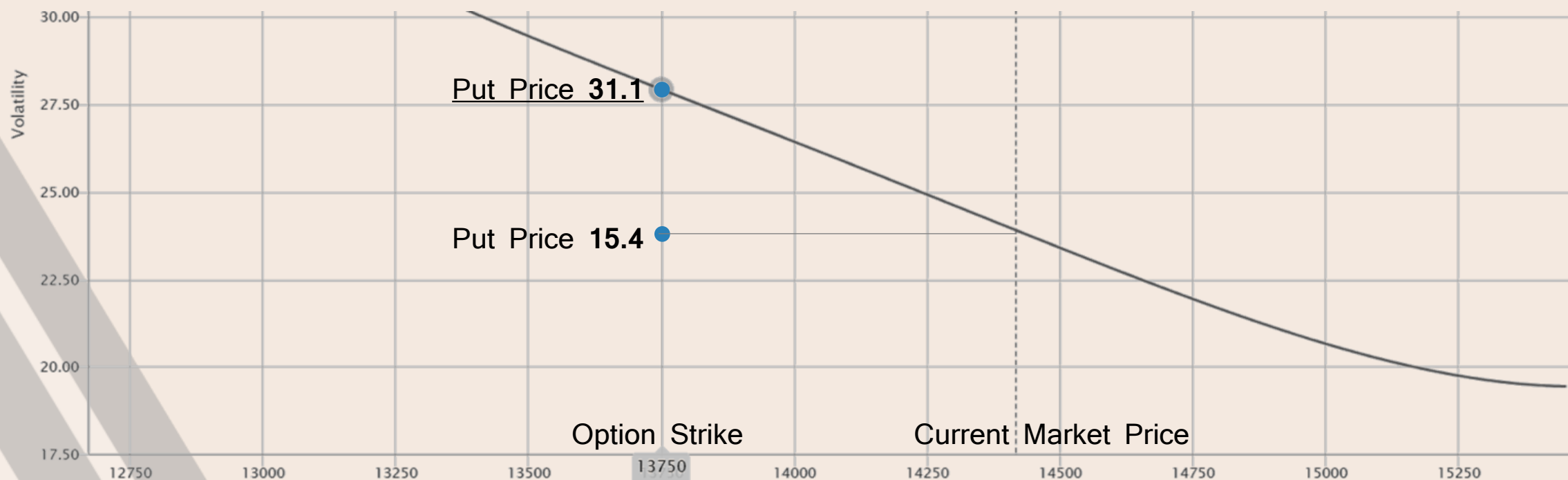
4

Retail traders have been increasingly buying options as a way of making highly leveraged, short-term bets on the direction of the stock market.

Where Does the Profit Come From?



Example: Below is the volatility curve for the E-Mini Nasdaq 100 option with one week to expiry. This is shown to highlight the fact that lower strikes are often priced relatively higher for equity indices. We will sell this higher priced put and hedge it with the trend following algorithm. If the market falls, the algorithms usually build up a short position thereby hedging the risk of the put expiring in-the-money. If the market doesn't fall to 13,750 the option will expire worthless, and we keep the premium.



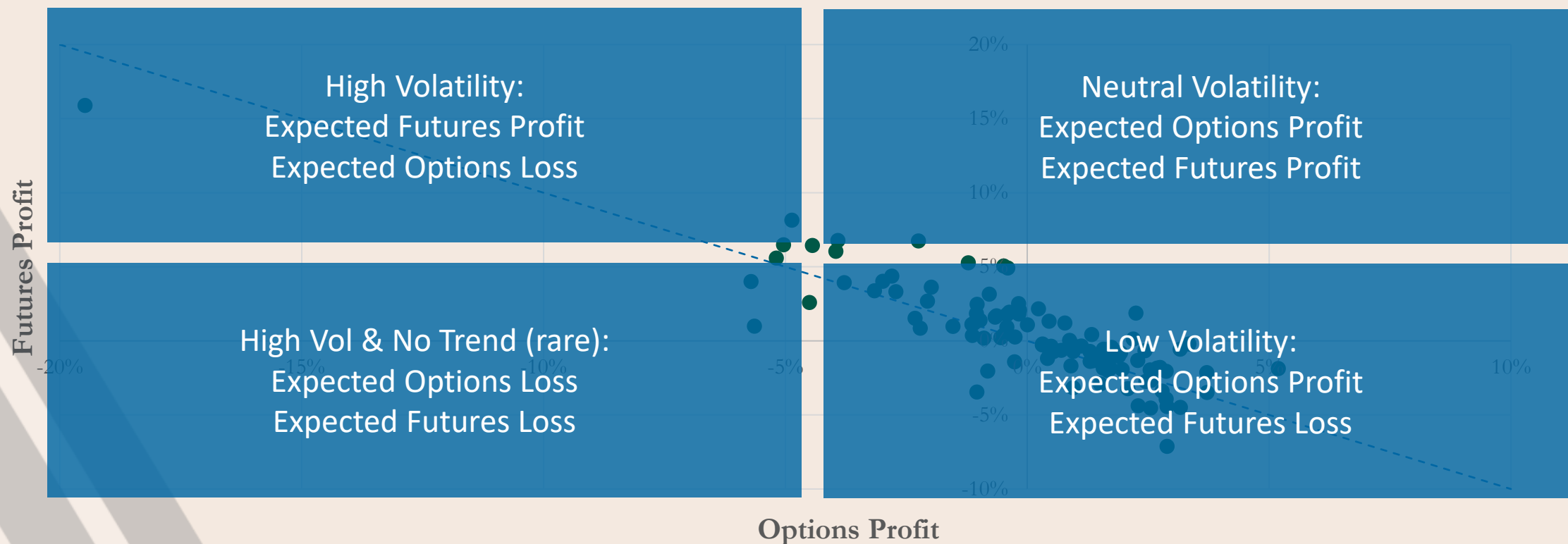
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Using Algos to Hedge Options



The strategy is constructed around the idea that when volatility is low, the futures component may make a loss, but this should be offset by profit from the options. Equally, when volatility is high, the options component may make a loss, but this should be offset by profit from the futures. And when volatility is neutral, both components can make a profit.



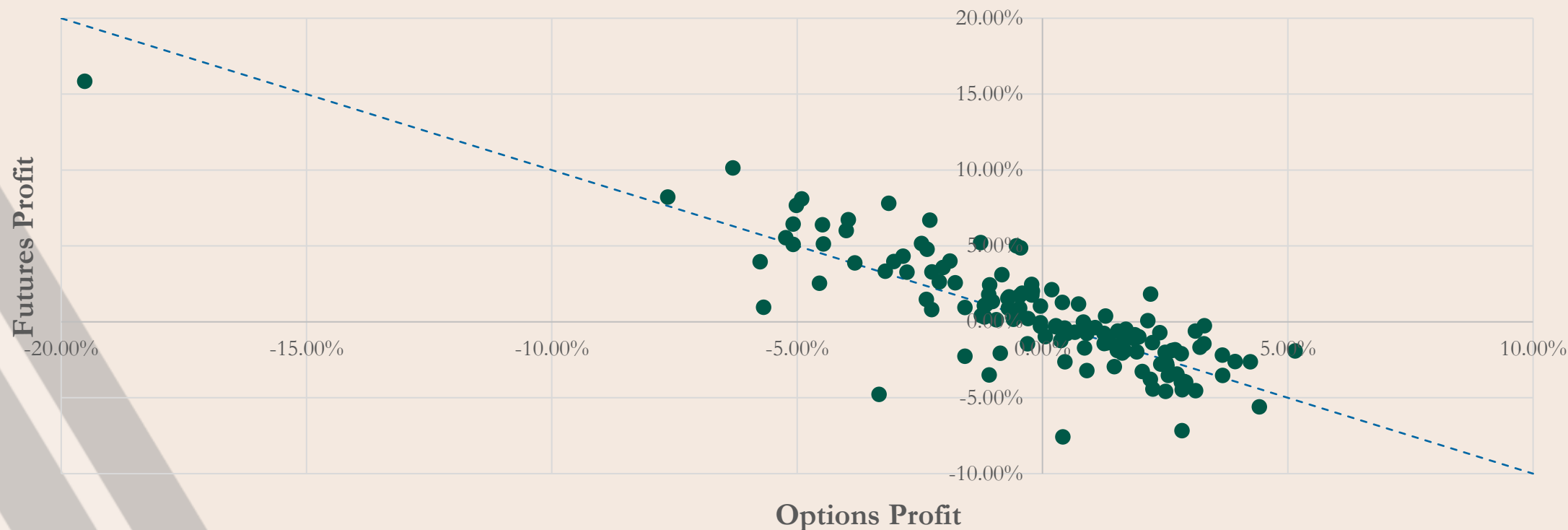
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Using Algos to Hedge Options



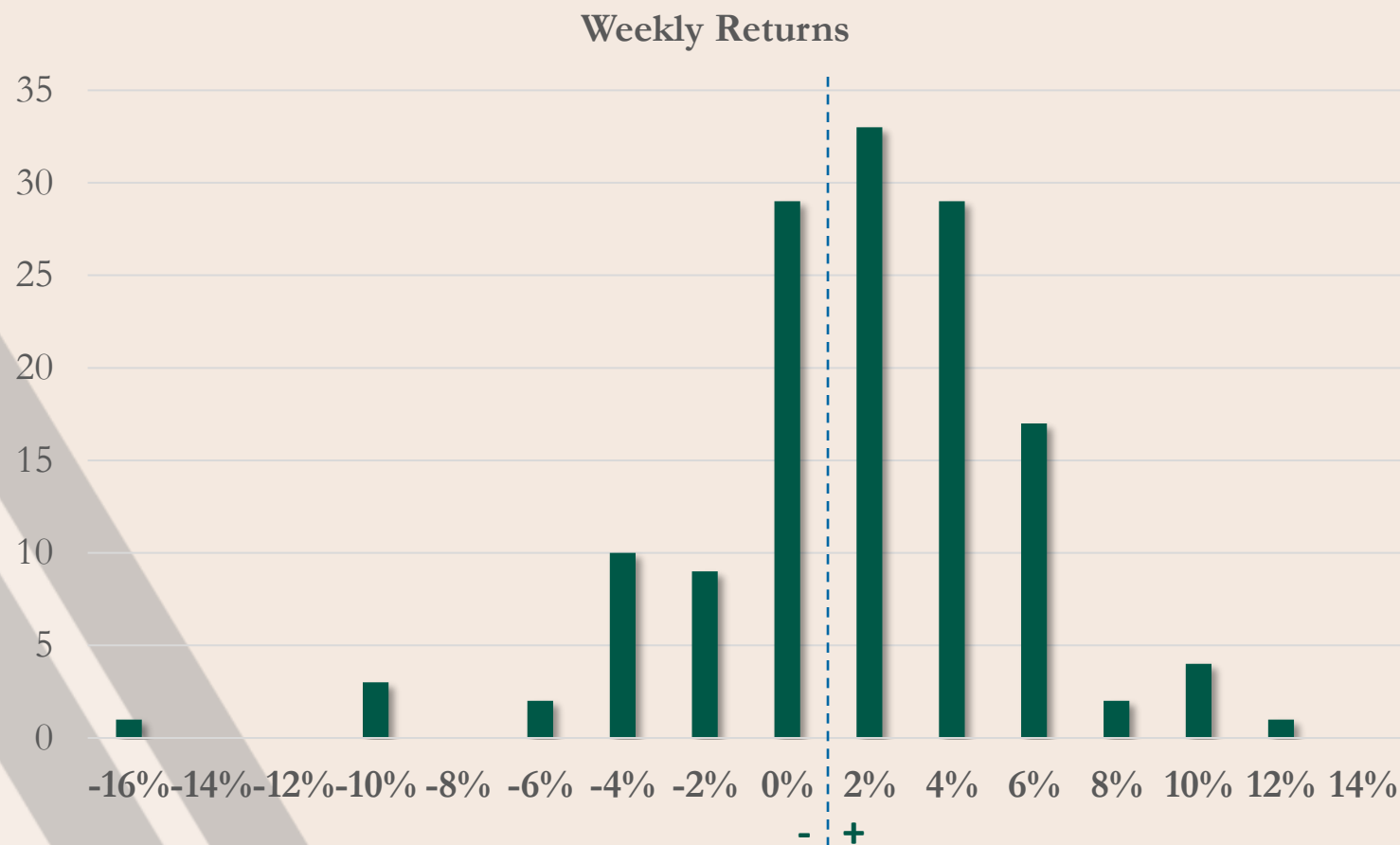
Below is the live weekly performance from one of our instruments (Japanese Yen). We can see that when one component makes a loss, this is often offset by profit from the other component. In roughly 60% of weeks the profit from one component is greater than the loss from the other. This leads to positive overall performance. This is hypothetical data derived by splitting the performance of the futures and options components traded inside a fund, sub-advised by AAA. This data is presented net of fees.



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Weekly Distribution

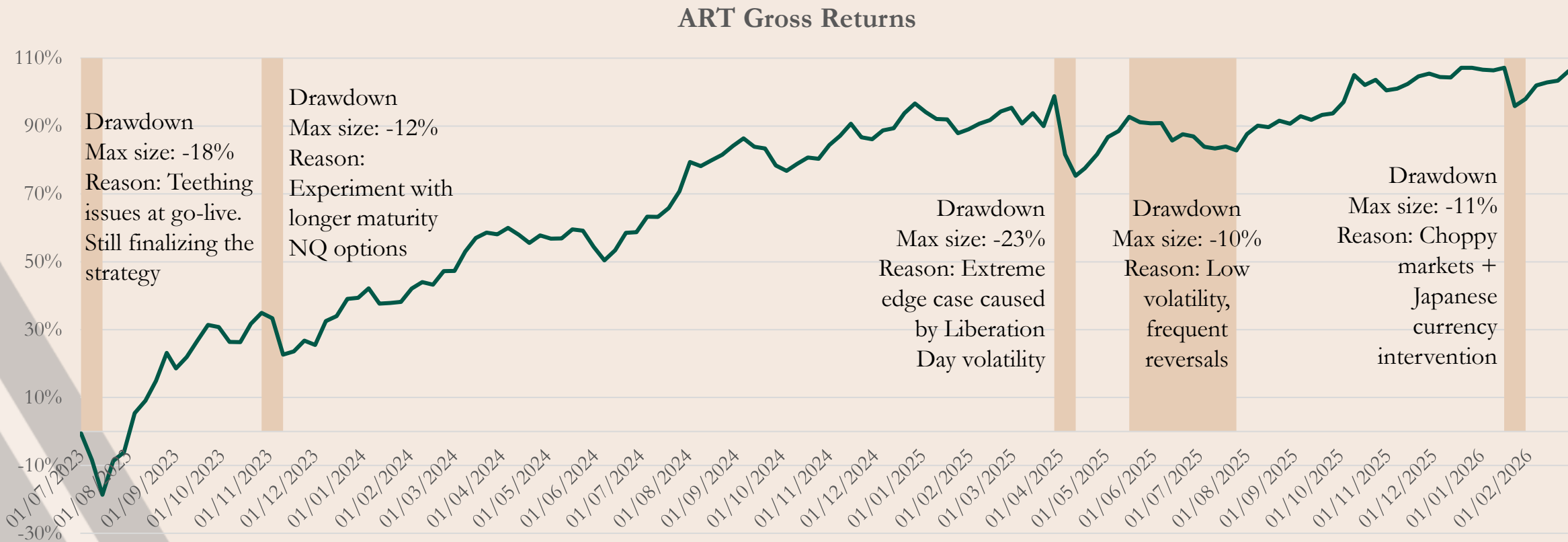


Winning Weeks	62.6%
Losing Weeks	37.4%
Average Winner	+2.97%
Average Loser	-2.88%
Mean	+0.76%
Median	+1.01%
Skew	-0.91
Kurtosis	3.43

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Drawdown Analysis



We learn something from every drawdown and often make changes to the model to increase future resilience.

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Risk Management

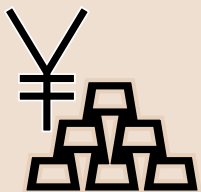


Risk	Impact	Mitigation
<u>Market risk</u> ○ significant market movement ○ gap risk	Mark to Market loss in options position	○ Trend following futures algorithm, active 24 hours, profits from trend thereby offsetting options loss ○ Diversification in portfolio to limit the impact of one individual market ○ Long gamma crisis strategy caps the maximum loss at 20%
<u>Operational Risk</u> ○ algorithmic trading and execution risk ○ platform access and market data	A disruption to market access could prevent the algorithms from effectively hedging price risk	○ Multiple accounts and systems that can be used to access the trading account ○ multiple sources of market data ○ sophisticated, in-house pre and post trade controls ○ proprietary algorithms hosted on AWS servers with business continuity failovers available
<u>Staff Risk</u> ○ manual execution mistakes ○ key man risk	Traders can make mistakes during manual execution, or, could no longer be available to trade the strategy	○ Shared desk positions allow multiple people to check each trade ○ Each component of the strategy is understood and overseen by multiple people

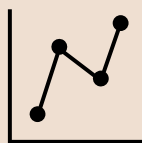
Portfolio Construction



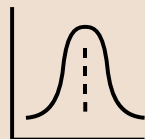
Since the same or similar opportunities exist in multiple markets, we can diversify the risk without diminishing the returns. The portfolio is therefore made up of:



Multiple underlying markets including equity indices, currencies, rates and commodities



Variations on the core strategy, some favoring trending and some favoring stable markets



Additional algorithms designed to protect against extreme events, e.g., long VIX

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Ecosystem



MAREX

Broker



Fund Administrator

RICHEY
MAY & CO

Auditor

Ogier

Legal Counsel



Regulator

Compliance Supervisors

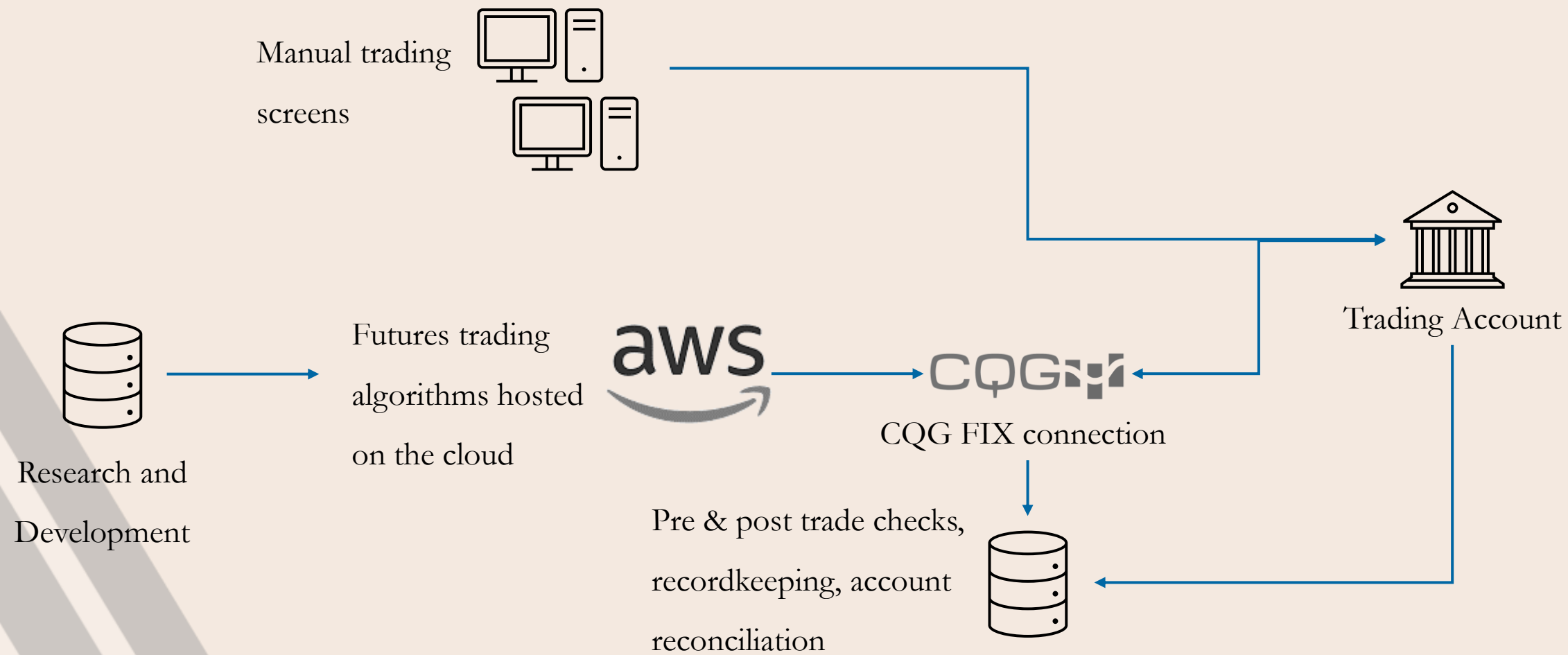
Compliance Advisors



Co-investors, Support Team,
Client Advisors



Systems Architecture



Advisory Board



Eric Golberg

Manager of Hedge Fund
Team at Nippon Life



Ulf Nofelt

Investment Advisor to large
Commercial and Financial
Institutions



David Rondeau

Managing Director at Large
Family Office

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Quantitative Solutions



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