# Three Rock Capital Management

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## Monthly Performance

| Global Macro Program | Monthly Return | Year to Date | Since Inception |
|---|---|---|---|
| September 2016 | -2.90% | 2.19% | 76.11% |

## Performance Record (%)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 2.63 | 2.08 | -1.04 | -0.18 | 0.20 | 0.76 | 0.98 | -0.25 | -2.90 | | | | **2.19** |
| 2015 | 5.05 | 2.36 | 4.15 | 1.17 | 2.75 | -3.98 | -0.17 | 0.14 | -2.08 | 2.93 | 0.09 | 1.12 | **13.98** |
| 2014 | -1.43 | -1.69 | -1.42 | -1.43 | -1.02 | -0.34 | -0.46 | 0.88 | 5.68 | 3.67 | 5.47 | 0.30 | **8.09** |
| 2013 | 2.85 | 0.14 | -1.16 | 0.55 | 0.45 | 1.84 | -0.80 | 1.41 | -0.69 | -1.36 | 2.19 | 0.68 | **6.15** |
| 2012 | 1.36 | 2.07 | 1.99 | -1.12 | 1.91 | -0.61 | 1.98 | 0.98 | 0.30 | -1.92 | 1.82 | 0.02 | **9.03** |
| 2011 | -4.33 | -1.06 | 2.20 | 4.25 | -3.75 | -3.22 | 1.18 | 0.43 | -0.78 | 2.79 | 0.01 | 2.96 | **0.24** |
| 2010 | -0.76 | 3.97 | 4.79 | 2.51 | 1.81 | -3.01 | 0.27 | 2.33 | 6.30 | 2.73 | 2.52 | 2.96 | **29.44** |
| 2009 | -4.32 | 4.36 | 3.68 | -3.14 | 8.00 | -7.19 | -1.53 | -7.42 | -0.20 | 3.34 | 1.14 | -2.54 | **-6.85** |

From January 2009 to November 2012 Three Rock Capital Management traded as Anark Capital Ltd. The firm has been regulated by the Central Bank of Ireland since December 2012 and has been registered with the CFTC and a member of the NFA since January 2013. The performance record from January 2009 to December 2014 has been reviewed by KPMG. The performance record from January 2015 to December 2015 has been reviewed by Arthur Bell. Performance data is net of management and incentive fees. The current fee structure is 1% management fee & 20% incentive fee. Past Performance is not necessarily indicative of future results.

## Commentary

While the market environment in September, characterised by volatile short term price action but little ultimate direction, was challenging for our approach, we are disappointed with the outcome.

We were guilty of over-interpreting the significance of policy developments, particularly in Japan. We felt the Bank of Japan acted radically on September 21st but the market shrugged. Specifically, in committing to overshoot their inflation target (alone amongst major central banks) the BOJ loosened policy in forward guidance terms. Secondly, in pegging 10yr yields at 'around 0%' the BOJ commits to buy as many JGBs as the market wishes to sell at that yield, thereby ceding control over the size of its balance sheet. Ben Bernanke maintains that by facilitating 10yr government borrowing indefinitely at 0%, the BOJ is introducing 'some elements of monetary finance….so called helicopter money'. The BOJ is likely to ease policy further within this updated framework in the months ahead, but for now at least the market is unenthused by the prospect. Unless that changes, the Yen will stay firm and Japanese equities subdued.

Ahead of the Fed meeting on September 21st we felt (based on FOMC member commentary) that the probability of a hike in the fed funds target was greater than the 20% priced in. As it turned out, three of ten members voted to hike and the accompanying statement suggested a close call. At the same time expectations for policy tightening in 2017, 2018 and 'the longer term' were scaled back aggressively (see table below).

### Table 1: FOMC Projections for Federal Funds Rate

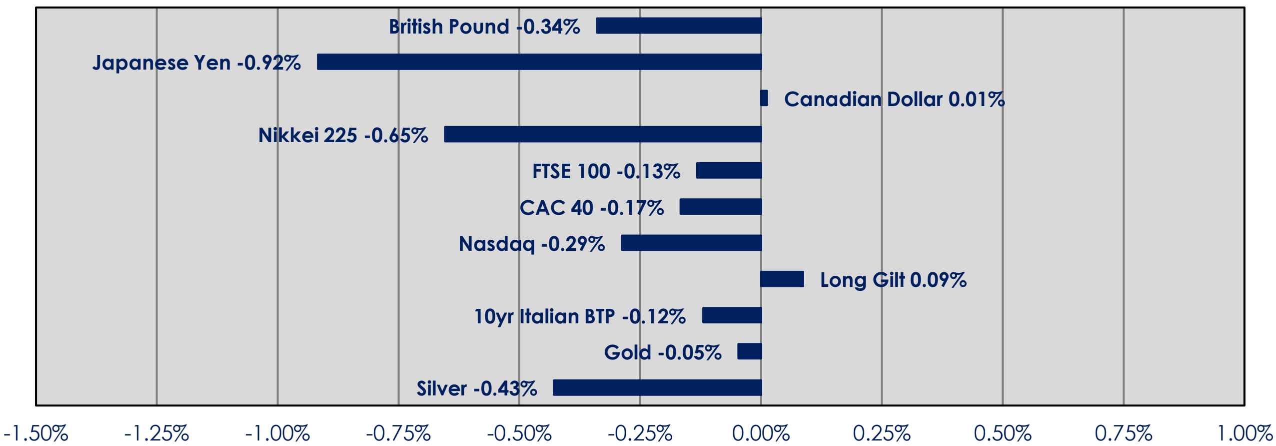
| | Fed Funds Target | End 2016 | End 2017 | End 2018 | Longer Term |
|---|---|---|---|---|---|
| **Sep 2015** | 0.00 - 0.25 | 1.40 | 2.60 | 3.40 | 3.50 |
| **Jun 2016** | 0.25 - 0.50 | 0.90 | 1.60 | 2.40 | 3.00 |
| **Sep 2016** | 0.25 - 0.50 | 0.60 | 1.10 | 1.90 | 2.90 |

Source: Federal Reserve

The implication of the scaling back in longer term projections is that the FOMC views current policy as less accommodative than previously. Fed funds rose 25bp between the Sep 2015 and Sep 2016 meetings but the degree of accommodation shrunk an additional 60bp. Ultimately these changes are dovish because fewer hikes are required to reach the neutral rate yet at the same time a hike appears imminent. We suspect this conflict between the very short term policy trajectory and longer term destination is contributing to the directionless, choppy market conditions we have been presented with recently.

Going into October we are somewhat agnostic on currency markets and precious metals with the exception of the British pound which we expect to continue to weaken. In recent days, the governing Conservative Party in the UK has indicated, in a Brexit context, that immigration is its top priority. This is likely motivated by what they see as an opportunity to decisively take control of the middle ground of domestic politics while the Labour Party moves to the left. The obvious implication is that leaving the EU single market has now become the working assumption. The pound is weakening to new post-Brexit lows and we see little reason for the direction of travel to change.

## Monthly Return by Contract




## Correlations

| S&P 500 | MSCI World | JP Morgan Global Bond Index | S&P GS Commodity Index | HFR Global Hedge Fund Index | HFR Macro / CTA Index | Newedge CTA Index |
|---|---|---|---|---|---|---|
| 0.07 | 0.11 | 0.01 | 0.11 | 0.20 | 0.27 | 0.29 |

## Fee Structure and other Information

**Management Fee:** 1%
**Performance Fee:** 20%
**Minimum Managed Account :** $1 mio
**Average Margin to Equity Ratio (since 2013):** 2.7%
**Benchmark Index: HFRX Macro / CTA YTD:** -1.15%

**Executing FCM:** RJ O'Brien
**Administrator**: HedgeFacts LLP
**Legal:** Greenberg Traurig LLP
**Bloomberg:** TRCGMCP ID
**AUM:** $69.38 mio