DUE DILIGENCE QUESTIONNAIRE
FCI-Credit Premium Program (FCI-CPP)

For a copy of the disclosure document, please contact Financial Commodity Investments at 462 Herndon Parkway, Suite 205 Herndon, Virginia 20170 or call (703) 435-2777.

GENERAL QUESTIONS

1. Manager(s) Background

Craig B. Kendall is the sole principal of FCI, an affiliate of Financial Investments, Inc. He became a registered principal of FCI with the CFTC on January 9, 2006, and became registered as an associated person ("AP") of FCI on January 31, 2006, and with such registrations terminating on March 8, 2009. Mr. Kendall re-registered as a principal of FCI with the CFTC on May 1, 2009, and became registered as an AP of FCI on May 12, 2009. (Mr. Kendall's gap in registration is the result of a restructuring with FCI's affiliate, Financial Investments, Inc.)

Mr. Kendall is solely responsible for all money management, trade execution, and risk management of all transactions executed on behalf of FCI. Biographic information regarding Mr. Kendall is set forth below.

Mr. Kendall is the owner and manager of Kendall & Company, CPA, and Financial Investments, Inc. ("FII"). He is a CPA licensed in the Commonwealth of Virginia.

Mr. Kendall has operated, Kendall & Company since 1993, a Herndon, Virginia based CPA firm, tailoring its services to entrepreneurial business needing comprehensive CPA and Chief Financial Officer, "CFO Services for Hire."

In 1997, Mr. Kendall founded FII. FII is an investment firm that has been an NFA member since July 15, 2003; has been registered with the CFTC as a CTA since February 4, 2009; was registered with the CFTC as an introducing broker ("IB") from July 2003 to August 2006, and is registered as an investment advisor with the Commonwealth of Virginia. FII advises clients in the acquisition of or investment in securities or other instruments. Until 2009, FII operated as a registered commodity pool operator and hedge fund that traded a portion of its assets pursuant to FCI's Option Selling Strategy. Mr. Kendall has been listed as a principal and registered AP of FII since July 25, 2003.

Mr. Kendall was registered as an associated person of Traders Edge, an introducing broker, from January to July 2003 but never did any actual business with the firm.
Mr. Kendall, served as the Controller and Chief Financial Officer ("CFO") of Renex Corp., a Woodbridge, Virginia electronic manufacturer firm from January 1987 until forming Kendall & Company.

Mr. Kendall graduated from Washington & Lee University in 1978. He received his CPA license from Maryland in 1981 and from Virginia in 1991.

Mr. Kendall received his Series 6, 63, 65 and 3 Securities Licenses in 2001 and currently maintains his license as a Registered Investment Advisor.
His business experience includes over twenty (20) years in the finance, accounting and investment banking industry.

2. Who owns the company?

Craig B. Kendall is the sole owner of the company.

3. What is your capacity to manage in US$ terms?

Our capacity to manage would be about $150 million for this particular strategy.

4. Do you accept managed accounts? If yes, what is the minimum amount?

Yes, we do accept managed accounts. The minimum investment is $50,000.

5. Was there any disciplinary action against the firm in the last 5 years?

Neither FCI nor any of its principals have been the subject of any administrative, civil, or criminal action, whether appending, on appeal, or concluded, within the preceding five (5) years that FCI would deem material for purposes of Part 4 of the Regulations of the CFTC, except as follows:

In March 2010, the Commodity Futures Trading Commission (CFTC) filed a complaint in the U.S. District Court for the Eastern District of Virginia charging FII with repeatedly failing to distribute and file its commodity pool's annual reports in a timely manner for the years 2004 through 2006. FII and the CFTC settled this matter May 2010 for a civil monetary penalty of one-hundred and thirty thousand dollars ($130,000).
On February 10, 2011, NFA issued a Complaint charging FCI and Kendall with using deceptive and misleading promotional material and failing to supervise. The Complaint also charged FCI with using promotional material which was required to be pre-approved by NFA prior to first use but was not. The NFA and FCI settled this matter in May 2011 for a fine of fifty thousand dollars ($50,000) and the agreement to have all promotional material reviewed by the NFA prior to first use for two years.

6. Is there any pending litigation against the firm in the last 5 years?

No.

STRATEGY / APPROACH

7. Define your Fund/program

Financial Commodity Investments ("FCI") utilizes a strategy that does not attempt to forecast market direction. Our trading strategy is to sell far out-of-the-money options which have little probability of going in-the-money. An investor may successfully predict the long term direction of the market but may be stopped out by short term market movements, only to then watch the market move in his favour. In order to avoid such short term gyrations, we sell way out-of-the-money options which have very small odds of going in-the-money. Profits are derived when the price of the options that have been written (sold) declines such that the options can be purchased for amounts less than the price at which those options were initially sold. Profits are also realized when options expire worthless, providing full profit on the option premium sold (after commission and other fees). Losses are derived when the price of the options that have been written (sold) increases such that the options sold cost more to buy back than they were initially sold. FCI's primary trading philosophy is for profits to be made when the value of options are reduced as a function of time, rather than a function of market directions. Although we attempt to take advantage of time decay, a short option position that is not hedged has theoretically unlimited risk of loss, and you should be comfortable with this before investing in an option selling program. Thus, as a potential investor, you should be aware of this risk of loss and know that you may lose more than your initial investment.

Similar to FCI's Option Selling Strategy program, the primary trading strategy of FCI - CPP will be to sell, on behalf of a client, options on futures contracts.

However, FCI - CPP is different from the Option Selling Strategy program because FCI - CPP may sell options that are likely to be closer to the expiration date, ranging from four (4) days to ninety (90) days from expiration, [versus thirty (30) to forty-five (45) days from expiration for the Option Selling Strategy program], and (b) closer to being "in the money". The program also utilizes more of a vertical credit and calendar spread strategy, thus reducing per trade capital requirements. When premium collection transactions become unprofitable contracts, offsetting futures contracts or options are purchased as a hedge to limit further contract losses. The net effect is that FCI - CPP targets higher returns with additional contracts being executed. There is an increased likelihood of the strike price being met on options written versus the portfolio of options written in the Option Selling Strategy program. Furthermore, FCI – CPP is more progressive with its rolling forward, exiting out of option contracts, and with the rolling further out as a hedge to limit contract losses. FCI – CPP will also utilize directional future trades from time to time. This will occur when underlying futures appear to be over extended in either an over or under valued status in relation to historical values of an underlying commodity. Finally, FCI – CPP program will utilize larger margin account balances with capital requirements targeted at a range of 40% to 60% of the total account balance.

8. <u>What is your edge (competitive advantage/inefficiency)?</u>

Most investors buy options in anticipation of a movement in underlying market direction with expectations of big things happening. Our strategy is unique because contrary to what most people would consider prudent, we don't buy options – instead we sell options. Moreover, with today's volatile markets, this strategy works to our advantage. Nevertheless, the selling of options, can work to our disadvantage. Although FCI has stop-loss targets for each trade, the use of a stop-loss order does not guarantee limited losses. Although FCI does utilize stop-loss orders and has pre-determined stop-losses, losses to covered short options can still exceed past our pre-determined stop-loss parameters due to slippage, market timing, and open interest factors. Our advantage lies in our ability to identify and utilize option volatility and theta to our benefit. By selling over-valued and out of the money options, we are able to collect and maintain option premium, in most instances.

9. <u>Why do you make money (economic rationale)?</u>

Options are a wasting asset, their value declines over time. As an option approaches its expiration date without being in the money, its time value declines since the probability of that option being profitable (in the money) is reduced. Also, the time decay of an option begins to accelerate in the last 30 days before expiration, provided the option is not in the money. This is exactly how we profit. Most of the options we sell expire worthless providing full profit on the option premium collected. Sometimes, the value of the option declines even if the futures price moves against us and that's because the time decay of the option is at play. Positions that are opened as a calendar or horizontal option spread have predetermined profits and losses calculated. The net profit is the difference between the premium received on the sale of the higher priced option, less the premium paid on the lower priced option, before transaction fees and costs. However, with the chance of making money comes the chance of losing money, and losses can and will occur; a short option position that is not hedged has theoretically unlimited risk of loss, and you should be comfortable with this before investing in an option selling program. Moreover, hedged positions still have risk of loss, thus even if we're using hedging, the risk of loss from option selling still exists. If volatility increases after we've sold a credit spread or uncovered option, the short option position will move against us, and losses will occur.

10. What are the strengths/ weaknesses of your investment strategy?

The main strengths of our investment strategy are with the statistical advantages of selling options, and FCI's ability to utilize volatility. The main weakness is not getting orders filled when opening positions at the predetermined price.

The benefits and drawbacks of option selling strategy are summarized briefly below:

Benefits	Drawbacks
Percentages in your favor	Unlimited risk if not covered
Profit taking may not require a closing transaction (if it expires)	Limited profit potential
Time is on your side	Slow moving
No need to guess market direction	
Perfect timing not necessary	

11. What makes your strategy different from those of other managers?

Our strategy not only works in trending markets but also in volatile, neutral, inconsistent markets that have no market direction and this makes our strategy different from those of other managers. Moreover, we take an integrated portfolio approach which utilizes option positions on eight to ten most liquid commodities and derivative contracts and thereby achieving sufficient degree of diversification. This diversification not only reduces portfolio volatility but also provides incremental profit opportunities.

12. What are the general characteristics of your trading method?

☑ Systematic mechanical
☑ Discretionary
☑ Chart patterns
☑ Fundamental

❑ Multiple systems
❑ Neural Networks
❑ Computerised
❑ Manual

❑ Contrarian
❑ Counter trend
❑ Trend following
❑ Seasonal cycles

☑Short term (less then one week)
☑ Medium term (1 to 3 weeks)
☑ Long term (3 weeks+)

❑ Outright trading
☑ Spreads
❑ Arbitrage

☑ Options
❑ Interbank

❑ Others - please specify:

13. The following list comprises the types of data generally used in most trading models. Indicate by checking the appropriate boxes which types best represent those utilized in your trading system (please mark):

☑Daily Prices (Open, High, Low, or Close)
☑ Volume
☑ Intra-Day price data (price movements within the day)
☑ Open Interest
☑ Psychology - Market sentiment - Bullish Consensus
☑ Fundamental Data - Supply and Demand decisions, Micro/Macro Economic statistics

❑ Others - please specify:

14. Listed below are a number of techniques used in Systems Development. Of those listed, check the characteristics which best describe the techniques used in your program

☑ Moving averages of prices, or multiple averages (including exponential, weighted average - single or multiple)
☑ Chart patterns (head and shoulders, triangles, flags etc.) on bar charts
❑ Momentum

- ❑ Oscillators
- ❑ Point and figure charts
- ☑ Probability models
- ☑ Penetration identification
- ☑ Overbought / oversold
- ☑ Cyclic analysis
- ☑ Seasonal analysis
- ☑ Fundamental or economic analysis
- ❑ Arbitrage
- ☑Spreads
- ☑ Trend following
- ☑ Counter-trend
- ☑ Reversal
- ❑ Artificial intelligence
- ❑ Others - please specify:

15. <u>Does the system(s) rely on proprietary indicators or do you use non-proprietary indicators like Gann, Stochastics, Moving Averages, RSI, Elliott Wave?</u>

    We rely not only on proprietary indicators but also non-proprietary indicators like Gann, Stochastics, Moving Averages, RSI, Elliott Wave etc.

16. <u>Does your success depend on a few key people or could the company proceed if certain people would not be with your organisation anymore?</u>

    Although we employee key personnel, our value proposition lies with our unique investment strategy, disciplined investment approach and consistent monitoring of markets allowing us to capitalize on key markets.

17. <u>Within the general framework of your system, is there room for judgmental decision making? If so, comment briefly?</u>

    Yes. There is room for judgmental decision making. Once, we get a pointer to trade a particular market, we use discretion to decide which expiration month and what strike prices to select for the option trades.

18. <u>Why are you able to make money also in the future?</u>

    Opportunities will continue to present themselves for FCI with CPP, and we shall take advantage of any opportunities that arise in the future. With the opportunity for profits from trading, however, one must remember there is a risk of loss as well. FCI will strive to minimize losses to not more than 5% of account equity on any one trade, but no guarantee of this can be made.

Although FCI does utilize stop-loss orders and has pre-determined stop-losses, losses to covered short options can still exceed past our pre-determined stop-loss parameters due to slippage, market timing, and open interest factors.

19. Since when do you run your strategy? Any interruptions? If yes why?

On a proprietary basis since May 2006; client accounts since January 2009. Mr. Kendall's gap in registration between March 8, 2009 and May 12, 2009 was the result of a restructuring with FCI's affiliate, Financial Investments, Inc.

20. Where did you learn what you do today? Did you have any mentors?

We have studied and reviewed extensive material from numerous S&P Option Seller investors. Max Ansbacher of AIM is our mentor.

21. Which sectors do you trade?

- ☐ Fixed Income
- ☐ Equity
- ☐ Currency
- ☑ Commodity

22. Which markets do you trade? Which one do you avoid intentionally and why?

We trade the most liquid markets with above normal volatility i.e.: Energies, Grains and Oilseeds, Precious Metals, Softs, Currencies, Interest Rates.

Illiquid markets are generally dropped from consideration. However, we occasionally trade the less liquid markets such as live cattle if the market presents us with a good opportunity. Generally, we avoid illiquid markets like pork bellies, lumber, milk, etc; as there is hardly any open interest in those commodities.

23. What instruments do you use?

- ☐ Underlying
- ☑ Options
- ☐ Futures
- ☐ Swaps
- ☐ OTC
- ☐ Funds

24. Are all instruments you trade for your portfolio publicly listed and quoted? If not, name them:

Yes

25. What are the inputs for your decision making?

- ☑ Market Price

- ☑ News
- ☑ Information
- ☑ Research
- ☑ Fundamental and Technical Analysis

26. What role do computers play in your approach?

- ☑ Choosing markets
- ☐ Entry points
- ☐ Exit points
- ☐ Timing
- ☑ Asset Allocation
- ☑ Risk Management
- ☑ Market information
- ☑ Data Analysis

27. Do you use always the same parameter(s) to analyze a trade / market?

No. We analyze each trade on a case by case basis.

28. Which market environment factors are favorable/unfavorable for you strategy?

High volatility environment is favorable for our strategy. A one-to-two day extreme spike in volatility would be unfavorable.

29. Do you trade equity or fixed portfolio size?

No

30. How do you enter a new account into the market (please mark)?

Wait for equity dip ❑
New Signals only ☑
Enter all current positions ❑
Others: ______________________________

31. How many systems or strategies do you use in your program?

We use just one strategy – Credit Premium Program.

32. Do you ever add on to an existing position?

Yes.

33. Do you exit on the same system you used to generate your initial entry? If not, how does your exiting strategy differ?

Yes

34. What types of orders do you use?

☑ Open
☑ Writing option spreads
☑ Stops
☑ Market
❑ Stop Close Only

35. How many years have you back tested each system?

FCI began back-testing the CPP strategy parameters in 2011.

36. When was the last time the system(s) and program(s) were reviewed or materially changed? What caused this to happen and what have been the results since the changes were fully implemented?

We monitor our system and program on a continuous basis. It has been modified and refined so as to improve our historical win rate. Moreover, we have incorporated tighter contingent stop loss parameters into the program and have enhanced internal reporting and monitoring systems.

37. Do you use the same parameters for every commodity? If not, why and how are you doing it?

No. We choose the commodities based on its underlying volatility, liquidity and price movement.

38. Do large accounts outperform small accounts or vice versa? If yes why?

The number of lots traded per account are dependent upon the size of the account's funding. Smaller accounts receive a smaller number of lots than larger accounts receive. Since all available equity is not invested at one time, and performance is based on a percentage of the entire portfolio, performance may vary slightly. This is not due to an account size being larger or smaller, but due to how much of the performance is based on margin required versus total investable assets.

39. Which markets do you believe your methods of trading perform best in?

❑ Bull Trends
❑ Bear Trends
❑ Congestion zones
☑ The same in all 3 markets
❑ Bull and Bear, but not congestion zones

40. What do you estimate your average holding period is (specify days, weeks, months)?

Between 20 & 30 days.

41. What is the trading frequency (stated as the number of round turns per million per year) and commissions as the percent of equity (state commission rate the percentages based upon)?

Average of 5,000 round turns per million, per year. Commission as a percent of equity is a maximum of approximately 15-20%.

42. How does your trading system adapt to changes in volatility?

Performs best when volatility is at a premium. Returns can be enhanced when underlying trades within a price range over an extended period of time moves in our favour.

43. Do you intend to implement any major changes during the next six (6) months? Your answer to this question should include changes in systems, trading programs, markets traded, instruments traded and amount of assets under management?

No

44. What other factors influence your ability to make money?

We see opportunities to make money even during extremely low volatility of liquid commodities.

RELATIONSHIPS

45. Where do you get the information you need for your approach/strategy?

Trade Station, OptionVue, Option Volatility Software, Genesis Trade Navigator, Think or Swim, Real time underlying commodity pricing, Commitment of Trader's Reports, and external forecast demand and research reports.

46. What is the role of brokers or similar institutions in your approach? List the sources:

Brokers on the floors of the exchanges fill the orders we are placing on behalf of our clients: Lind Waldock, MF Global, Fox, Man, Prudential, and Vision. Introducing brokers (IBs) offer our strategy to their clients/prospects.

47. Who is your prime broker(s)? Could an investor clear through another of his choice?

Our prime broker is MF Global. Yes, the investor can clear through another broker of his choice.

48. How does your approach differ from the other managers in the same area?

Our approach differs from the other managers because we are not a trend following system.

49. Who are the six main competitors in your sector/area?

There are a number of CTAs who execute a similar options selling strategy. The six main competitors would be:
Ace Investment Strategists
Ascendant Asset Advisors
Cervino
Clarke Capital
Crescent Bay
LJM Partners

50. Do you have any soft dollar agreements? If yes what services does it include?

No, we do not have any soft dollar agreements.

51. What are the information systems you are using?

Dell Desktop and Laptops, Windows 7.

52. What percentage of importance would you allocate to the following factors within trading methodology (out of a hundred percent)?

☑ Technical tools	20 %
☑ Fundamental tools	30 %
☑ Discretion based on experience	50 %

53. Do any of the firm's principals have other business involvements, and if so, how much of the professional time is devoted to them?

Yes, Craig Kendall has other business involvements. He is the owner and manager of Financial Investments Inc and Kendall & Company, CPA's. He devotes a total of about less than 10% of his time to the entities mentioned above.

54. Do you have any affiliations with Brokers or FCMs? If yes, please explain.

No.

55. <u>At what brokerage firms are you currently approved?</u>

MF Global, Peregrine Financial Group (PFG), Vision, and other major FCMs.

56. <u>Do you utilize exchange for physicals (EFP) within your trading? If yes for which exchanges?</u>

No. As of May 2011, FCI does not utilize exchange for physicals (EFP) within its trading. However, FCI may trade in physical or cash commodities for immediate or deferred delivery, including specifically gold bullion, as well as futures, options, swaps, and forward contracts when it believes that cash markets offer comparable or superior market liquidity or ability to execute transactions at a single price.

See the CPP Disclosure Document.

RISK MANAGEMENT

57. <u>Who manages the risk for your firm?</u>

Financial Commodity Investment's 'Trading and Investments' Division is responsible for accessing and managing the risk for the firm.

58. <u>What determines risk in your strategy?</u>

A short option on commodities carries the same risks as a futures contract with one exception: the option on a futures contract will generally move slower than a futures position depending on how far out-of-the-money the option we sold is. This gives a trader more time and latitude to exit should the market move against his option. However, there is still theoretically unlimited risk to selling uncovered options and the risk of option spreads may also not be limited.

59. <u>How do you measure and manage risk?</u>

Due to the volatile nature of trading futures and options on futures markets, FCI adheres to strict money management principals to increase the opportunity of success of the trading program. Position exposure and the potential percentage loss that the portfolio may incur in unfavorable market moves are continuously monitored. Volatility models are used to determine position size adjustments to maintain the programs maximum exposure limits. An increase of the volatility model may cause a position size reduction in any particular market.

Position exposure limits are the total equity risked in any one market, and is generally between 0.5% and 5.0% of the total equity. However, FII and FCI would like to bring to your attention that there are substantial risks involved in trading futures and options on futures. The high degree of leverage that is often attainable in commodity trading can work against you as well as for you. The volatile nature of the futures and high degree of leverage used in commodities may result in clients losing more than their original investment. Please consider carefully whether futures or options are appropriate for your financial situation.

60. Is the risk calculated for each investment?

Yes, we do have pre-determined stop-loss amounts. However, the use of a stop-loss order does not guarantee limited losses. Although FCI does utilize stop-loss orders and has pre-determined stop-losses, losses to uncovered short options are theoretically unlimited.

61. Describe the firm’s overall risk management principles and approach?

We manage risk on three levels; sector, account, and position. (1) Sector – Currently we allow the following sectors and portfolio-percentage-compositions: Energies 30%, Precious Metals 22.5%, Currencies 20%, Softs 12.5%, Grains/Seeds 7.5%, and Interest Rates 7.5%. (2) Account – In the CPP program we employ 40% - 60% margining. (3) Position – We exit a losing option position when the amount of capital required to buy back the position equals three to five times the amount for which it was sold. Ongoing monitoring of option positions is applied. When a position is going against us, and the cost to buy it back is two times the purchase price, increased monitoring commences. When this position reaches three times the purchase price, enhanced monitoring and analysis commence; and a decision to close or maintain the position is made. By the time the five-times point has been reached (if not sooner), the position has been closed.

62. How is the portfolio hedged?

Initial option positions within the portfolio will be hedged using either vertical or horizontal spreads, with the width determined by risk/reward assessments performed prior to entry.

63. Under what principle is overall portfolio risk controlled?

One of the money management principles we strictly follow is to avoid overtrading. Moreover, we quickly cut things off once the losses start to reach about 35-45% of the total portfolio value. Moreover, risk is also mitigated through the use of diversification of the portfolio and weekly internal reports to monitor our positions and to exit losing contracts. Parameters are based on a function of premium and time decay existing on a contract.

Nevertheless, losses cannot be guaranteed to be limited to any amount. There are substantial risks involved in trading futures and forex transactions, including the risk of losing more money than your initial investment.

64. What determines the leverage used?

CPP accounts are subject to risk based margin requirements typical of an options seller. Since, we are volatility sellers, volatility of the underlying contract determines the leverage used. Hedging enhances available leverage by providing a degree of protection against adverse movements, thereby limiting the loss to a predetermined level. This layer of protection reduces margin requirements and margin calls to maintain the position.

There are substantial risks involved, including the risk of losing more money than your initial investment.

65. Does the firm impose limits on the amount of margin committed to different markets, sectors, or portfolios?

Yes. We impose limits on the amount of margins committed to any given commodity at a maximum of 15% of total equity. We also try to maintain a margin/equity ratio of about 40% with a maximum of 60%.

66. How does the firm react if the volume and/or open interest of a market in which a position is held are suddenly reduced significantly?

FCI keeps a close eye on the volume and the open interest of all the markets it trades in. The decision taken by the firm with regards to the positions held when the above two variables are suddenly reduced significantly depends on how close the market price is to the strike price and how many days remain before expiration. If it is too close to the strike price or there are too many days left before expiration, we would decide to exit the position. We prepare a Daily Status Report to monitor our positions and to support our decision making in exiting contracts.

67. Does adding or reducing a position in one market ever influence the size of positions held in other markets? If yes, please explain.

Yes, adding or reducing a position in one market might influence the size of the positions held in other correlated markets. A good example would be corn and soybeans since they tend to move in tandem.

68. What are the external events that could cause a major loss for your program?

Events like 9/11 where the markets are closed for a number of days could cause a sizeable loss for the program.

We will try to limit risk to no more than 5% of account equity on any one trade, but if all positions are correlated to the US Dollar, for example, and move against us, we may experience large losses in the currencies.

When investing in a program the utilizes option selling and that takes advantage of the leverage in currency futures, losses can be greater than the initial amount deposited with your CTA, and you should be aware of this.

69. Is there an event inherent to your approach that could cause a major loss?

It is in our opinion that a major loss should not be sustained under most circumstances. However, any black swan type events could cause major moves in many, if not all, positions.

70. What is the maximum single position in your portfolio?

Maximum single position in the portfolio would be 10-15% of total equity.

71. How much do you risk per trade in % of equity?

About 1-2%

72. Do you place stops?

FCI has pre-determined stop-loss amounts. However, the use of a stop-loss order does not guarantee limited losses. Although FCI does utilize stop-loss orders and has pre-determined stop-losses, losses to uncovered short options are theoretically unlimited. All the positions are monitored continuously and we get out of the position if the situation warrants so.

73. Do you stay out of the market completely? If yes, why and when?

We stay out of the markets when we don't clearly understand the fundamentals and aren't able to gauge price movements with some level of accuracy.

74. What is the required margin to equity ratio?

We maintain the margin to equity ratio at about 40% with a maximum of 60%.

75. Do you employ leverage? If yes, why, how much and how often over time?

Yes. It varies over different commodities.

77. Are "higher leverage" and "lower leverage" versions of the same program offered? If yes, please explain how they are structured?

No. We offer just one program.

78. What is the typical breakdown of your portfolio?

Energies – 30%
Grains and Oilseeds – 7.5%
Metals – 22.5%
Softs – 12.5%
Interest Rates – 7.5%

Currencies – 20%
Equity Indices – 0%

79. How do you calculate the correlation between each investment in the portfolio?

We calculate the correlation between investments by studying the historical price behavior between different commodities and using the R-Square test.

80. Are you analyzing historical or temporary correlation between investments and does such analysis influence your portfolio design? If yes, please explain. Do you determine position limits for such correlating groups?

We analyze correlations between different investments on a case to case basis. For example, the correlations between crude oil and natural gas or between soybeans and corn may be required, but not quite so between Soybeans and Coffee. Moreover, we make sure that we do not overweigh a particular sector.

81. What is your average cash position? Max/min?

Average Cash position – 60%
Max – 90%
Min – 35%

82. What is your diversification policy?

We try to diversify the portfolio among a minimum of four-six commodities at any point in time. We also impose limits on margins committed to any given commodity at a maximum of 15% of the total equity. This helps us in not overweighing any particular market.

83. Are there a minimum number of markets in which the firm always holds positions in order to achieve a minimal portfolio diversification effect?

No

84. Do you have a risk objective?

Risk tolerance is set so that there is no target drawdown greater than 10% in any one month.

85. Largest decline in history, date and reasons for it?

Our largest drawdown was in August 2011 for -15.91%. After S&P cut the debt rating of the US, the equity markets fell sharply. Since most of the commodities follow the equity markets, they moved down sharply as well. Gold and Bonds, on the other hand, being risk-averse trades, moved up sharply. Our losses were mounted because we had Puts on Crude Oil and Calls on Gold and Bonds.

86. How have your losses occurred? (be precise as possible)

Underlying commodity trended towards our option strike prices. We exited contracts prior to expiration so as to preserve capital and minimize losses.

87. What have you changed since those losses occurred?

We grew to be more prudent money managers. We document not only the winning trades but also the losing trades and the reasons for the losses. This acts as a learning mechanism for us within the firm. Moreover, we incorporated greater discipline in executing contingent stop loss parameters.

88. What do you estimate is your maximum potential decline?

It is FCI's goal to not sustain losses greater than approximately 10% in any single month. However, this is only a goal, and losses can be greater than 10% in any single month.

89. What are you doing in such a case?

We let our profits run and take steps to curtail our losses if the markets start moving against us by a sizeable amount.

90. At what percent drawdown would the firm either stop trading or recommend that an account be closed?

More than 50% drawdown.

91. Would power, phone or computer breakdown affect your trading? What are your contingency plans for such an event?

Loss of power / phone or computer breakdown would temporarily affect our trading. We have a disaster recovery plan in place.

92. On a scale of 1 to 5 (1 being the low risk peer investment and 5 being a risky manager/investment in your area) where do you place yourself?

We would place ourselves at number 3.

93. Do you trade counterparty currency or commodity forwards?

No. FCI does not as of July 2011 trade counterparty currency or commodity forwards. However, FCI may trade in physical or cash commodities for immediate or deferred delivery, including specifically gold bullion, as well as futures, options, swaps, and forward contracts when it believes that cash markets offer comparable or superior market liquidity or ability to execute transactions at a single price.

Please refer to the Disclosure Documents for OSS.

94. Do you trade on emerging markets? If yes, please describe the markets.

No

95. Does the firm trade on exchanges that are open outside local office hours?

No

LIQUIDITY

96. Has there been a liquidity problem with the vehicles you use in the past? What could create one in the future?

No

97. How long would it take you to liquidate the entire portfolio?

It would take about 1 to 3 business days to liquidate the entire portfolio.

98. Do you have a lock-up in your strategy/fund?

No

99. How frequently can I invest in FCI?

On a daily basis.

100. What is the redemption frequency?

On a daily basis.

101. Is there any redemption notice period?

No

102. Does FCI distribute income in any form (eg. Dividends)?

No

PERFORMANCE

103. What is your performance objective with what level of risk?

Our performance objective is a minimum annual return of 15% to the clients after all the fees.

104. What percentage of your performance comes from an index (beta) and what from your own value added (alpha)?

The correlation of this program to the S&P is next to zero. Hence, 100% of our performance is alpha, our own value added.

105. What excessive monthly return (positive or negative) would surprise you?

A monthly positive return of more than 15% and a drawdown of more than 10% would surprise us.

106. When was the last time you were audited by a Regulatory Body?

March 2010.

107. How many assets in US$ do you have under management?

As of December 31, 2011, we estimate that FCI has about $26,384,200 in assets under management. This does include nominal assets; i.e. notional funding amounts.

108. What was the rate of return for the previous month?

Our rate of return for the month of December 2011 was 3.64% net of fees.

FEES & NAV

109. What is your fee structure?

Our fee structure is the standard: “1 and 25”, a 1% management fees based on assets under management, and 25% incentive fee based on new profits. See question 111 below for more information.

110. What is the maximum Commission per round-turn that you will accept an account?

The maximum commission per round turn that we will accept for an account is $25.

111. When are the fees debited to the fund?

FCI will be pre-paid monthly a non-refundable management fee of one percent per annum (.083% per month) of the Net Assets (as defined herein) of the client's account prior to the commencement of trading at each calendar month (the "Management Fee(s)").

Net Assets shall mean an account's total assets, including any notional equity declared, less total liabilities, determined in accordance with Generally Accepted Accounting Principles. Net Assets will include the sum of all cash and any unrealized profit or loss on open positions. All open positions shall be valued at their then market value which means, with respect to open commodity positions, the settlement price determined by the exchanges on which such positions are maintained. If there are no trades on the date of the calculation due to the operation of the daily price fluctuation limits or due to closing of the exchange on which positions are maintained, the contract will be valued at the settlement price as determined by the exchange on the first subsequent day on which the position could be liquidated. With respect to an open position in the forex market, the price is determined by getting then current dealer quotes with respect to such positions.

Management fees, in months that additions are made to client's account shall be time-weighted based on the day of the month in which funds are traded.

FCI will also debit a monthly incentive fee of 25% of net trading profits at the end of the month.

Net Trading Profits is equal to the excess of an account's Net Assets at the end of the calendar month over its Net Assets at the end of the highest previous month or its Net Assets on the date trading commences, whichever is higher – (i.e., the "high-water mark") and as further adjusted to eliminate the effect on the account's Net Assets resulting from new capital contributions or capital withdrawals, if any, made during the period, whether the assets are held separately or in a margin account. Losses attributable to capital withdrawals shall not be carried forward.

Net Trading Profits shall be net of all accrued or payable brokerage commissions, fees and other expenses and shall include interest or other income not directly related to trading activity. The Incentive Fees calculation also includes, in part, unrealized appreciation on open positions. Such appreciation may never be realized by a client. For example, if at the end of a month the client's account had unrealized profits on open positions, FCI may receive an Incentive Fee based on such unrealized profits. Following such payments, those open positions might, due to adverse market conditions, be closed out at no profit or a loss; nevertheless if a client's account incurs a loss after an Incentive Fee has been paid, such Incentive Fee will not be rebated and FCI will retain the fee, but no further Incentive Fee will be made in subsequent months until the account again has Net Trading Profits. If an account closes out before the end of a month, the closing date will be deemed the end of the month for purposes of calculating such Incentive Fee.

Because FCI receives Incentive Fees, it may be inclined to trade in a more speculative manner than if it received only a percentage-of-assets fee. Incentive Fees and Management Fees are calculated by FCI and paid directly out of a client's account, unless FCI and the client have otherwise made a different arrangement. Upon calculation by FCI, FCI is authorized by the client to deduct the fees directly from the client's account.

The Client's monthly Management Fee is based on the total nominal account value, which includes notional funds in addition to actual net assets. Therefore, a two percent (1%) annual fee based on a fully-funded account will equal a four percent (2%) annual fee based on an account funded only as to fifty percent (50%) of its fully-funded size.
FCI may, at its discretion, share a portion of its fees with certain parties (who are appropriately registered under the Commodity Exchange Act ("CEA") or are exempt therefrom) portions of the fees that FCI earns as compensation for the introduction of clients' accounts. Such parties must be registered with the CFTC as an IB or as an FCM. The IB or FCM may remit some or all of its compensation to certain of its employees who are registered as associated persons.

112. Do you have a hurdle rate or benchmark? If yes what is it?

No, we do not have a hurdle rate. Our benchmark is our Proprietary Peer Group Index.

113. Do you have a high water mark?

Yes

114. Do you have any administrative fees?

No

115. Do you have any set-up fees?

No

116. Do you have any redemption fees?

No

117. Do you have any sales fees?

No

118. Do you have any other fees?

No

119. Who are the following parties for your products:

- Advisor: Financial Commodity Investments Inc (FCI)
- Prime Broker: MF Global
- Other Brokers: Peregrine Financial Group (PFG)
- Legal Advisor on-shore: Ruddy Law Firm
- Legal Advisor off-shore: N/A

ORGANIZATION

120. Describe your corporate culture?

The corporate culture at FII is very professional. We at FII ascribe and instil upon the employees professionalism, integrity, quality of work, fiduciary responsibly and relentless pursuit of excellence.

121. How are you structured (research, trading and back office)? Number of people?

Craig Kendall (Owner / President) is supported by seven employees, and a board of advisors.

122. List all names of key employees and their responsibility:

Craig B. Kendall – Trading, Programming, Marketing and Business Development, Research and Development, Reporting

Gaurav Gupta – Trading, Programming, Research and Development, Administration, Reporting

Jamie Walters – Trading, Programming, Research and Development, Administration, Reporting

Melanie Martin – Administration, Reporting

123. Does the firm (or principals thereof) hold the following regulatory registrations:

a) CTA ☑ Yes ☐ No Name: Financial Commodity Investments
NFA Number: 0364738

b) CFTC ☑ Yes ☐ No Name: Number:

c) SFA ☐ Yes ☐ No Name: Number:

d) SEC ☑ Yes ☐ No Name: Financial Investments Inc
IARD CRD Number 119611

e) NFA ☑ Yes ☐ No Name: Financial Investments Inc
NFA Number 0325968

124. Please list your attorney of the company?

Attorney – Ruddy Law Firm

125. Who does the marketing for your activities (internal & external)?

Internal

126. Describe your current research projects?

We are currently researching how to better utilize Commitments of Trader Data from CFTC. We are also researching opportunities in FOREX (foreign currencies), the market in which participants are able to buy, sell, exchange and speculate on currencies. No formal decisions have been made with respect to future products.

127. What is your annual research budget? How much has your firm invested in research since inception?

We do not have a defined annual research budget.

128. Have you published any research/academic papers? If yes, give details.

No

FINAL QUESTIONS

129. Do you have any written comments, updates, reports?

All the reports are available on the website.

130. How much of your net wealth in percentage is invested in your strategy?

About 15% of net wealth of Craig B Kendall is invested in this strategy.

131. Do you have a side trading account? If yes why?

No

132. If you had to allocate some of your personal funds, to whom would you entrust them?

We would invest some in foreign exchange.

133. Do other multi-manager funds have money with you?

No

Disclaimer: *Financial Investments Inc (FII), Financial Investments LP (FILP) and Financial Commodity Investments (FCI) would like to bring to your attention that there are substantial risks involved in trading futures and options on futures. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The volatile nature of the futures and high degree of leverage used in commodities may result in clients losing more than their original investment. Please consider carefully whether futures or options are appropriate to your financial situation. Only risk capital should be used when trading futures and options. Past results are not necessarily indicative or a guarantee of future results. In no event should the content of this questionnaire be construed as an express or an implied promise or guarantee by or from FII, FILP, or FCI that you will profit or that losses can or will be limited in any manner whatsoever.*