

**DISCLOSURE DOCUMENT**

**OF**

**JOHN J. LOTHIAN & COMPANY, INC.**

**AN ILLINOIS CORPORATION REGISTERED WITH THE  
COMMODITY FUTURES TRADING COMMISSION AS A  
COMMODITY TRADING ADVISOR**

**JANUARY 1, 2011**

**THE COMMODITY FUTURES TRADING COMMISSION HAS NOT PASSED  
UPON THE MERITS OF PARTICIPATING IN THIS TRADING PROGRAM  
NOR HAS THE COMMISSION PASSED ON THE ADEQUACY OR ACCURACY  
OF THIS DISCLOSURE DOCUMENT.**

**THE DATE OF THIS DISCLOSURE DOCUMENT IS JANUARY 1, 2011 AND  
THIS DISCLOSURE DOCUMENT MAY NOT BE UTILIZED AFTER  
SEPTEMBER 30, 2011.**

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***RISK DISCLOSURE STATEMENT***

THE RISK OF LOSS IN TRADING COMMODITY INTERESTS 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 FUTURES CONTRACT OR SELL A COMMODITY OPTION OR ENGAGE IN OFF-EXCHANGE FOREIGN CURRENCY TRADING YOU MAY SUSTAIN A TOTAL LOSS OF THE INITIAL MARGIN FUNDS OR SECURITY DEPOSIT 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 REQUESTED 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 INTEREST 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 15 & 16, 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 INTEREST MARKETS. YOU SHOULD THEREFORE CAREFULLY STUDY THIS DISCLOSURE DOCUMENT AND COMMODITY INTEREST TRADING BEFORE YOU TRADE, INCLUDING THE DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, AT PAGE 16, 17, 18, & 19.

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 OR RETAIL FOREIGN EXCHANGE DEALER, AS APPLICABLE.

***RISK DISCLOSURE STATEMENT, Continued***

YOU SHOULD ALSO BE AWARE THAT THIS COMMODITY TRADING ADVISOR MAY ENGAGE IN TRADING FOREIGN FUTURES OR OPTIONS 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.

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## **John J. Lothian & Company, Inc. – The Company**

### ***Overview***

John J. Lothian & Company, Inc. (“JL”) is an Illinois, United States-based Commodity Trading Advisor serving individual and institutional clients with a range of managed futures programs. JL through its John Lothian News division also publishes the John Lothian Newsletter, Environmental Markets Newsletter and John Lothian Newsletter – Metals Edition, JLN Managed Futures Edition, JLN Options, JLN Interest Rates and JLN FX and is building an integrated wiki to complement them. MarketsWiki.com, located at [www.marketswiki.com](http://www.marketswiki.com), is an online open source knowledge base launched on January 11, 2008. In February of 2011, JL launched MarketsReformwiki, located at [www.marketsreformwiki.com](http://www.marketsreformwiki.com), as a hybrid news and online database of information related to the global markets regulatory reform efforts. The John Lothian Newsletter is a daily email news briefing about the global futures, derivatives and securities industries. The Environmental Markets Newsletter similarly covers the growing environmental related trading markets. JLN – Metals Edition is a daily email newsletter, a comprehensive aggregation of news and commentary about the metals markets. The newsletter focuses on activities in the futures markets, the physical trade and the companies that participate in either or both. JLN Options, JLN FX and JLN Interest Rates are weekly email newsletters modeled after the John Lothian Newsletter. JLN Managed Futures Edition is a monthly email newsletter.

JL managed futures programs deal in a limited number of futures and options markets while allowing investors a choice of programs with minimum investment requirements as low as \$15,000.

JL’s address of record is 550 Swain Avenue, Elmhurst, IL 60126 and its phone number is 312-203-5515. During regular business hours, JL’s Principal John J. Lothian, works from the offices of The Price Futures Group, Inc. at 141 West Jackson Blvd., Suite 1340A, Chicago, IL 60604. His Price Group telephone number is 312-264-4350 and his toll-free number is 1-800-713-0215. The Price Group’s fax number is 312-264-4399. The main Price Group phone number is 312-264-4300.

### ***History and Registrations***

JL, an Illinois corporation, was established in 2003 and became registered with the U.S. Commodity Futures Trading Commission as a Commodity Trading Advisor and a member of the National Futures Association in February of 2004. JL began trading client assets as of December 1, 2004.

JL in November 2004 acquired rights to the managed futures programs of Defender Capital Management, Inc. (Defender), which began managing client assets in June of 1998. In 2006, JL acquired the exclusive intellectual property rights for the trading strategies Defender trading programs. The Defender managed futures programs acquired by JL are named “Maple Sugar” and “Big ED.” JL has contracted with Jon Matte,

**John J. Lothian & Company, Inc. – The Company**

***History and Registrations, Continued***

formerly of Defender, to receive Big ED and Maple Sugar trading signals, position sizing, and trade management and money management instructions.

JJL's Maple Sugar program trades No. 11 World Sugar futures and options on ICE Futures US, formerly the New York Board of Trade. It also trades Canadian Dollar futures and options on the International Monetary Market of the Chicago Mercantile Exchange ("CME"), part of the CME Group. JJL's Big ED program trades Eurodollar futures and options on the CME.

The two programs employ a directional trading methodology developed to generate trade signals, and incorporate risk management techniques to provide insurance against a shifting market. JJL plans to develop additional managed futures programs through internal and external sources.

John J. Lothian is the sole owner of John J. Lothian & Company, Inc.

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***Principals & Staff***

**John J. Lothian**

John J. Lothian is President and CEO of John J. Lothian & Company, Inc., a Commodity Trading Advisor, newsletter publisher and consulting firm. He is the sole Principal of the CTA and became registered as Principal and an Associated Person of JJJ effective as of February of 2004. In addition to running JJJ, he is also the President of the Electronic Trading Division of The Price Futures Group, Inc., an Introducing Broker. Mr. Lothian joined The Price Group in October of 1997. He is also the editor and publisher of the John Lothian Newsletter and publisher of the Environmental Markets Newsletter and JLN – Metals Edition, . JLN Managed Futures Edition, JLN Options and JLN Interest Rates and JLN FX. Additionally, Mr. Lothian since February of 2000 has been registered as an associated person in a sales and marketing role with Price Asset Management, a recommending Commodity Trading Advisor and Commodity Pool Operator,

Prior to establishing JJJ and joining The Price Group, Mr. Lothian was a Principal and part owner of The Frazier Associates, Inc., an Introducing Broker, from September 1993 to December 1997. Mr. Lothian was also briefly registered as an Associated Person with futures commission merchant First Options of Chicago, Inc. from July 1993 to September 1993 during a transition to create The Frazier Associates. Mr. Lothian has also been an account executive with U.S. Futures & Options Company, Inc., a now-defunct firm CBOT member firm and Introducing Broker owned by the late John H. (Bud) Frazier from November of 1992 to July of 1993.

He was also an account executive with Gerald, Inc., a former Chicago-based Futures Commission Merchant during June of 1990 to October of 1992.

Mr. Lothian is a former member of the MidAmerica Commodity Exchange and traded on its trading floor for his own account during September 1989 to June 1990. He was also a proprietary trader with a trading group affiliated with futures commission merchant LIT America, Inc. from January 1989 to June 1989. Additionally, Mr. Lothian worked for futures commission merchant First American Discount Corp (“FADC”) (July 1985 to December 1988), during its early years in the 1980s and was part of a broker and trader training program taught by the late former CBOT Chairman and FADC founder William Mallers, Sr. FADC is now part of M F Global. Mr. Lothian was registered with FADC from May 1988 to January 1989. During June to August of 1989 Mr. Lothian was not employed, awaiting approval of his purchase of a MidAmerica Commodity Exchange membership. From May to June of 1985 Mr. Lothian was unemployed.

Mr. Lothian began his post collegiate employment (July 1984 to April 1985) as a news reporter for Commodity News Services, a news wire service then owned by Knight-Ridder.

Mr. Lothian is a 1983 graduate of Purdue University in West Lafayette, Indiana. He holds a Bachelor of Science in General Management, with a concentration in Finance and a Bachelor of Arts in Mass Communications with a concentration in Journalism.

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Mr. Lothian is active in his community as a volunteer and serves as a Scoutmaster of Troop 117 of Boy Scouts of American in Elmhurst, IL. Additionally, he served as Chairman of the Potawatomi Trails District of Three Fires Council of Boy Scouts of America and a member of the Executive Council of Three Fires Council from 2007 to 2010.

Performance data for JJJ managed futures programs is located on pages 23 and 24.

### **John J. Lothian & Company, Inc. – The Company**

#### **Litigation**

There have never been any administrative, civil or criminal actions against JJJ or its principal.

#### **Conflicts of Interest**

Mr. John J. Lothian is a registered futures broker and receives compensation from commissions and fees generated by trading activity, including on some accounts that JJJ manages. Mr. Lothian only receives commissions on trading accounts introduced to M F Global by Mr. Lothian's employer, The Price Futures Group, Inc. Mr. Lothian may also earn fees derived from the "give up" of trades of JJJ managed accounts to FCM's other than M F Global. Mr. Lothian may earn up to 40 percent of gross commissions generated by managed account trades, but the net percentage of these fees and commissions paid to Mr. Lothian will vary depending on a number of factors, including volume, clearing rate, commission rates, operations cost, staffing costs and paid commission trails. The commissions paid to Mr. Lothian create an incentive to overtrade accounts he manages.

Because Mr. Lothian is paid an incentive fee on new monthly trading profits earned by the account, this could encourage him to take greater short-term risks in an attempt to earn an outsized incentive fee.

John J. Lothian & Company, Inc. does not participate in commissions on any accounts.

## ***Investment Philosophy & Methodology – JLL/Defender Programs***

### **Investment Philosophy**

John J. Lothian & Company, Inc.'s market philosophy is based on the idea that futures prices are efficient and effective tools for identifying aggregate market psychology, behavior and trends. Those identified trends can be exploited for profits.

The specific philosophy of JLL's programs is to attempt to capture sustained market motion through the identification of simple and basic market behaviors. JLL's trading programs may participate in rising or falling market motion. They do not have a directional bias or try to predict future market direction. JLL believes there are investment return opportunities in participating in price movements identified by JLL's rules based methodology.

### **Trading Method**

The JLL trading method is unique in the managed futures industry. The programs were not created from fitting indicators to historical data; rather by examining markets and trading from a higher perspective. The first overview analysis generated a few basic ideas and goals, which were distilled to produce a generalized set of rules. The end result is a systematic core method that attempts to follow along with the market's behavior.

The core system attempts to take advantage of trending markets by reacting to what is happening. It does not predict future market direction or try to precisely time an entry point. Instead, the method assumes that the market is in, or will be entering, a congestion period when a position is initiated. Maximum loss calculations are predetermined prior to the opening of a position and assume normal market conditions. Stops are used with all positions to protect against losses and to lock in profits if a trade moves decisively and triggers the appropriate rules. It should be noted, that due to adverse market conditions, stop orders may not be executed at the stop price, which may not limit losses.

The rules relax if a sizeable trend develops, which allows for intra-trend chop without reversing too quickly. The system uses a small set of arithmetic moving indicators as a way to consistently exit, initiate and size positions. Aside from those indicators, all of the system's decisions and rules are "if-then" constructions rather than mathematical expressions.

### **Potential Investment Benefits**

An investment with John J. Lothian & Company and JLL managed futures programs may provide several potential benefits, including:

- Ability to profit in rising or declining markets
- A systematic and disciplined trading methodology
- May improve risk/reward profile when added to an equity and fixed income portfolio
- Liquidity

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- Potential to earn competitive returns

Any prospective client should carefully read the Principal Risk Factors on pages 21, 22, 23 and 24 for a discussion of the potential risks of an investment with JLL.

### **Risk Management**

The highest level of JLL managed futures program's risk philosophy is that the proper control of risk is not simply the most important part of a trading program; it is the reason for a trading program's existence. Profit largely takes care of itself. It is the way that risk and loss are managed that determines the success and survival of any trading program.

In an ongoing analysis of many different trading programs and traders' behavior over time, one of the most valuable lessons learned is that there is a striking difference between risk management and loss management. Loss management involves trying to avoid losing trades, and analyzing a program's behavior based on how much money it has lost over time (or through historical testing). Risk management, on the other hand, involves determining how often and how much a program SHOULD lose, and analyzing a program's behavior or historical test results based on how much it might have lost on each trade, regardless of the actual outcome.

Loss management, if carefully done, may delay an unavoidable collapse and shutdown of a trading program, but it will happen nonetheless. Risk management cannot guarantee a program's safety, but it can remove the inevitability of it, improve performance over time, and at the very worst provide a predetermined means to shut down a failing program before it has unrecoverable losses.

JLL's programs employ the following risk management rules and guidelines:

Keep the win-loss ration relatively even. High probability systems have an inherently high instability despite their outward appearance to the contrary. It requires a lot from the world, the market and the trading program to create constantly optimal conditions for profit. Moreover, a program that is already purportedly 95% accurate has very little room to improve on its typical returns.

JLL's program's choice is to trade a method that can be steadily profitable over time even when it only wins half the time. That leaves plenty of room for even better results when things go better than expected, and provides flexibility to handle substandard market conditions for a longer period of time. The ability to withstand an unusually extended period of bad market behavior is critical for long-term survival.

The method's trading philosophy considers all trades to be losers when they are established. Because of that assumption, stops are tighter against the market, rather than giving a trade more of a chance to retrace before heading in the "right" direction. We are also unaffected emotionally as traders by the loss because it was calculated at the start, so when losses to occur they are planned events rather than frightening events. This attitude spawns additional healthy practices, such as always measuring a trade's worth not by

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where the market is right now, but instead by where the exit stop resides, regardless of the degree of profit or loss currently in the market or the stop.

Risk per trade is predetermined. As each new trade's entry point is identified, we also mechanically calculate the maximum normal loss point for the trade, and place a stop into the market when the trade is established. The maximum stop point is determined not by dollar value, but by the relative recent price activity in the market. Fixed-distance stops do not reflect current markets conditions, so we do not use them.

Position size is adjusted to keep the maximum loss stop under a fixed risk ceiling. Based on the amount of money to be lost per contract, each account's trading volume is adjusted on each trade so that it trades as many contracts as possible while still remaining under a percentage loss. As volatility and danger in the market increases, we reduce the number of contracts traded. As the market narrows, we trade more. If the market's behavior grows too erratic, rules can trigger to keep the program out of the market until the volatility returns to a more normal level.

Monitoring system performance is done on a qualitative as well as a quantitative level. As each trade progresses and closes, we keep a close eye on whether the method is behaving as expected. We expect losses and gains to be both within a normal range, and we expect the system to win and lose according to specific templates. Risk management therefore encompasses not only trade-by-trade results, but also the system's performance as a whole against a behavioral benchmark.

The risk levels of specific programs may be found in their respective sections of this disclosure document.

### **Proprietary Trading Policy**

JJL's principal may trade futures for his own accounts and for the accounts of his clients in his role as a broker, and in doing so may take positions opposite to those held by clients or may be competing with clients for positions in the marketplace. Records of this trading will not be available for inspection by clients. Such trading may create conflicts of interest on behalf of one or more such persons in respect of their obligations to clients.

Because JJL and its principal may trade for their own accounts at the same time they are involved in trading activities on behalf of JJL clients, prospective clients should be aware that — as a result of a neutral allocation system, testing a new trading system, trading their proprietary accounts more aggressively or other actions — such persons may from time to time take positions in their proprietary accounts which are opposite, or ahead of, the positions taken for clients.

Any accounts John J. Lothian & Company, Inc. has an investment in will be available for public inspection.

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### **Program Modification**

JJL continues to conduct research and evaluate program performance on an ongoing basis. If a market presents a new class of phenomena, a rule may be added or updated to incorporate the latest insight. While the basic trading methodology is intended not to change, the potential benefits of employing more than one investment methodology, or in varying combinations, is a subject of continual testing, review and evaluation.

JJL research may suggest the introduction of alternative trading methodologies with respect to particular contracts; this may occur, for example, when the testing of a different methodology has indicated that its use might have resulted in improved historical performance. In addition, risk management research and program analysis may suggest modifications regarding the relative weighting among various contracts, modifying the style and/or timing used by a program to trade a particular contract, the addition or deletion of a contract traded by a program, or a change in the position size in relation to account equity.

All cash in JJL's futures programs is available for trading, although the amounts committed to margin will vary from time to time. As capital in each JJL program increases, JJL may vary the weighting at its discretion as market conditions, liquidity, position limit considerations and other factors warrant. You will generally not be informed of such changes.

### **Margin-to-Equity and Drawdown Limits**

JJL will not establish positions in the market that would send a fully funded account's margin to equity ("M-E") ratio over 25%. JJL's programs normal M-E ratio should be between 9-17%, depending on the specific trade and the balance of an account. The average trade should be closer to 11%. The M-E ratio is calculated as the margin required to maintain an open position, divided by the nominal (full, including any notional funding) value of the account.

If drawdowns, or losses experienced over time, become too high during normal system activity, then the program has ceased to be effective and will be discontinued. Therefore, if a peak-to-valley drawdown exceeds 40% of a fully funded accounts balance, JJL will bring trading to a halt as soon as is reasonably possible, and will initiate no new trades.

### **Discretionary Aspects**

JJL at its sole discretion may override trading signals and may at times use discretion in applying its method, which may affect performance positively or negatively. This could occur, for example, when JJL determines that markets are illiquid or erratic, such as may occur cyclically during holiday seasons, or on the basis of irregularly occurring market events. Such subjective aspects in JJL's application the trading program also include the determination of position size in relation to account equity, timing of commencement of trading an account, the investment of assets associated with additions, redemptions, and reallocations, futures contracts used and contract months traded and effective trade execution.

## ***Account Procedures***

### **Program Availability**

Individually managed accounts may only invest in Maple Sugar or Big ED at the sole discretion of JJL. Fund or pooled accounts may invest in either program. Pursuant to JJL's Anti-Money Laundering Procedures, JJL requires that investors must provide us with a confirmation of their identity, as well as other relevant information, before an account can be opened, or an advisory agreement can be entered into with JJL. Maple Sugar has a minimum account size of \$35,000 and Big ED or \$15,000. Notionally funded accounts are also accepted on an account-by-account basis.

### **Opening an Account**

In order for JJL to manage an account for a client, a client must:

1. Complete and return to JJL the New Client Forms;
2. Provide confirmation of client identity;
3. Complete all documents required by the FCM, Introducing Broker and or Account Executive;
4. Deposit Funds with the FCM;

After JJL is given authority to manage an account, JJL will begin trading either on the next new trade entry or prior to that point if a more favorable price can be obtained on the entry of the current trade.

### **Brokerage Arrangements**

Each client must select the Futures Commission Merchant ("FCM") and, if applicable, the Introducing Broker that will maintain and service the account. Clients of JJL may select their choice of any FCM with which to maintain their accounts, subject to JJL's approval.

JJL will consider the financial terms the customer has negotiated and operational hurdles presented by each brokerage firm in deciding whether to accept an account.

JJL reserves the right to reject any FCM or IB requested by a client for any reason, including; the belief that its execution and or back office service is not satisfactory or the commission or fees charged to a client are not satisfactory. Also, the ability and willingness to enter into "give-up" agreements, business reputation, and prior business relationships are considered.

To provide more efficient execution of clients' orders, JJL may place orders for execution through an executing broker, which will later "give up" such orders to a client's FCM. JJL can make no assurances that the use of an executing broker will lead to more efficient executions and, accordingly, does not assume any financial liability for losses or errors caused by the executing broker. Clients pay all "give up" fees. JJL's Principal and/or its employees may be compensated in part by "give up" fees in connection with their roles as brokers with The Price Group. See Conflicts of Interest for more information about broker compensation.

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The FCM, and not JLL, will have custody of your funds and will furnish you with confirmations of all transactions in your account, monthly statements showing information about trading activities in your account, and other accounts statement customarily furnished by the FCM to its customers. The furnishing of such reports shall be the sole responsibility of the FCM, and JLL, is not required to furnish these reports to you. You must authorize the FCM to forward to JLL copies of all confirmations, statements, or reports sent by the FCM to you.

You are responsible for negotiating the commissions charged to your account by your broker. Fees are deducted directly from your brokerage account. You authorize the FCM to remit directly to JLL payment of JLL's incentive and management fees.

### **Switching Between Programs**

A client may at any time request that their account balance be transferred from one JLL program to another. Upon receiving and confirming the request in writing, JLL will exit any existing positions in the current program in an orderly manner. Positions in the new program will be initiated either on the next new trade entry or prior to that point if a more favorable price can be obtained on the entry of the current trade.

### **Withdrawal of Capital**

A client should view the funds placed at JLL as a long-term investment with the objective of seeking capital appreciation over time. It is recommended clients notify JLL in the event it wishes to withdraw funds. Clients may not reduce the funding level below the minimum starting balance and continue to trade, unless he or she has completed the necessary notional funding forms. After a partial withdrawal the number of contracts will be adjusted on the next trade to conform to the new funding level.

If an account has lost money, such that the account has incurred a "carry-forward loss," then the amount of the carry-forward loss will be reduced in direct proportion to the amount withdrawn. For example, if the funding level is reduced by 20%, then the carry-forward loss will be reduced by 20%. The Advisory Fee & Other Expenses section provides more details about the carry-forward loss.

If a client wishes to discontinue JLL's trading of their account, he or she should notify JLL immediately in writing. Clients may use any form of writing to notify JLL (email, postal mail or fax), but the termination request will not be considered received until an acknowledgement is returned to the client. JLL will not be held responsible for delays or errors in transmission of termination notifications, no matter what the medium. It is suggested that the client contacts JLL by phone to confirm receipt of the termination request.

JLL, upon the receipt of the request, will ensure that no new positions are taken for that account. Any existing positions will be offset in a reasonable and orderly manner. Once offset, the firm will calculate any fees due and generate an invoice if needed. Any outstanding fees must be sent to JLL before the account can be closed at the client's FCM.

### ***Advisory Fees & Other Expenses***

In compensation for its trading services, JLL charges two kinds of fees; management fees and incentive fees. The management fee is assessed regardless of the performance of the account. The incentive fee is assessed only against accumulated profits as described below.

#### **Management Fee**

JLL charges a management fee of one sixth of one percent (2% annually) on the account's month end assets before the deduction of current management and incentive fees. Net assets are defined as the total assets of the account, including all cash and cash equivalents, accrued interest, the amount of notional or committed funds (if any), the market value of all open futures interest positions, and all other assets of the account, less accrued commissions payable. The initial management fee will be prorated from the date of the first trade.

#### **Incentive Fee**

JLL charges an incentive fee in the amount of 20% of each month's Trading Profits, as described below. JLL will invoice the account each month, if the accrued incentive fee is positive.

Trading Profits during a calendar month are determined as follows:

1. Add, the net of profits and losses resulting from all commodity trades closed during such month;
2. Plus, the net of any profits and losses resulting from all trades open as of the end of such month;
3. Plus, the net of any accrued interest from the FCM, T-Bill purchases or other sources;
4. Minus, any profits and losses carried forward on open commodity trades from the preceding month;
5. Minus, the account's "carryforward loss" (as described below), if any, as of the beginning of the month.

Carryforward loss is considered to be a net negative result for a given month. Net losses to an account are carried forward to subsequent months until that loss has been reclaimed by positive results.

JLL will reduce the carryforward loss in the same proportion as any withdrawal of notional funds by the client. For example, if the notional funding level is reduced by 20%, then the carryforward loss will be reduced by 20%.

JLL, or an authorized accounting agent, will invoice the client's FCM for monthly fees. JLL will not invoice the client directly. The FCM shall be authorized to pay JLL directly

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from the account, per the monthly invoice. The client agrees to assure payment to JLL of applicable fees within ten business days after the invoice is submitted to the FCM.

### **Give-Up Fees**

If an account is held at an FCM other than JLL's broker, it may be subject to a "give-up" fee. This fee typically averages around \$3 per round turn, per contract.

### **Third Party Fees**

Each time a trade is taken, a fee is assessed by the broker per contract traded. These fees include commissions, exchange fees for various kinds of services, and fees imposed by regulatory agencies. JLL does not control any aspect of these fees, with the exception accounts placed with The Price Group. Also, we reserve the right to reject accounts from an FCM or IB if the commission rate exceeds what we consider to be a reasonable level

The minimum investment size and account fee structure for each JLL program are subject to the sole discretion of JLL. An account is not considered open and fees are not assessed until the date of the first trade.

## ***Principal Risk Factors***

In addition to the risks disclosed at the beginning of this Disclosure Document, prospective clients should consider the following risks before opening an account with JLL.

### **Trading of Commodity Interests is Speculative and Volatile**

Prices in any and all commodity futures markets can be highly volatile. Price movements of commodity futures contracts are influenced by, among other things, changing supply and demand relationships, governmental trade programs and policies, and national and international political and economic events. Financial instrument and foreign currency futures prices are influenced by, among other things, interest rates, changes in balances of payments and trade, domestic and international rates of inflation, international trade restrictions and currency devaluations and revaluations. The advisor has no control over these factors. No assurance can be given that JLL's speculative trading will result in profitable trades or that JLL will not incur substantial losses to client accounts. Past performance is not necessarily indicative of future results. In fact, JLL believes that past performance should never be the sole factor used to determine the suitability of a method, nor its likely performance in the future.

### **Futures trading is Highly Leveraged**

The low margin deposits normally required in commodity interest trading (typically between 2% and 15% of the value of the contract) permit an extremely high degree of leverage. Accordingly, a relatively small price movement may result in immediate and substantial losses to the investor. Like other leveraged investments, any trade may result in losses in excess of the amount invested.

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JJL estimates that under normal conditions and system function, between 9% and 15% of an account's notional funding level will be committed to margin.

### **Markets may be illiquid**

Some 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 limit." The existence of daily limits may reduce liquidity or effectively curtail trading in particular markets. Once the price of a particular contract has increased by the daily limit, it is likely that no new long positions may be added or existing short positions liquidated. Conversely, once the price of a particular contract has decreased by the daily limit, it is likely that no new short positions may be added or existing longs liquidated.

Contract prices in various commodities have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent JJL from promptly liquidating unfavorable positions and subject clients to substantial losses which could exceed the margin initially committed to such trades. Daily limits may reduce liquidity, but they do not limit ultimate losses, as such limits only apply on a day-to-day basis. In addition, even if contract prices have not moved the daily limit, JJL may not be able to execute trades at favorable prices if there is only light trading in the contracts involved.

As part of its emergency powers, an exchange or the CFTC can suspend limit trading in a particular contract, or immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

### **Trading of Commodity Options involves Certain Risks**

Options on futures contracts have been approved by the CFTC for trading on U.S. exchanges. Each option is a right, purchased for a certain price (premium), to either buy or sell the underlying futures contract during a certain period of time for a fixed price. JJL may engage in the trading of options for any of its trading programs.

Although successful option trading requires many of the same skills as do successful futures contract trading, the risks involved are somewhat different. For example, if JJL on behalf of a customer buys an option (either to sell or buy a futures contract or commodity), the customer 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 customer may lose the entire amount of the premium. Conversely, if JJL, on behalf of a customer, sells an option (either to sell or buy a futures contract or commodity), the customer will be credited with the premium but will have to deposit margin with the customer's FCM due to the customer's contingent liability to deliver or accept the futures contract 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 premium received). The ability to trade in or exercise options may be restricted in the event that trading in the underlying futures contract becomes restricted.

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### **Failure of Brokerage Firm or Futures Exchange**

Brokerages are required by the CFTC to maintain customers' assets in a segregated account. If the broker holding a client's account fails to do so, the deposited funds may not be fully protected in the event of the broker's bankruptcy. In addition, substantial losses by another client at the brokerage may place the deposited funds at risk of loss. In the case of any such bankruptcy or customer loss, the client may recover none or only a pro rata share of all property available for distribution to all of the broker's customers. This includes any property specifically traceable to the client, such as US Treasury bills or securities.

In the event of the bankruptcy of an exchange or an affiliated clearing house, you may experience a loss of funds deposited through your broker as margin with the exchange or affiliated clearing house, a loss of unrealized profits on your open positions, and the loss of funds owed to you as realized profits on your closed positions. Such a bankruptcy may also cause a substantial delay before you could obtain the return of funds owed to you by a broker who was a member of such an exchange or affiliated clearing house.

### **Concentration Risk**

Both JIL programs, Maple Sugar and Big ED, trade only one or two markets. This concentration in a narrow group of markets represents a concentration risk as opposed to programs that trade a wide cross section of futures contracts. In Big ED, execution concentration risk is reduced by trading 2 or 3 different contract months.

### **Trading on Futures Exchanges outside the United States; Currency Risk**

JIL engages in trading on futures exchanges outside the United States in some situations. Trading on such exchanges is not regulated by any US government agency and may involve certain risks not acceptable to trading on US exchanges. The extent and nature of regulations intended to protect customer funds and enhance market stability and solvency may vary considerably among the countries where such exchanges and clearing houses are located. You should consult with your FCM or introducing broker to understand these and other risk associated with trading on non-US exchanges.

### **Special Disclosure for Notionally-Funded Accounts**

A notional account trades as if its balance were greater than the actual liquid value of the account. If a prospective client is considering a notional-funded account for JIL to manage, he or she must read the following additional disclosure:

Note: JIL highly recommends that all clients, fully funded and notional, consult account statements received from their FCM.

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You should request your Commodity Trading Advisor to advise you of the amount of cash or other assets (actual funds) which should be deposited to the advisor's trading program for your account to be considered "fully-funded." This is the amount upon which the Commodity Trading Advisor will determine the number of contracts traded in your account and should be an amount sufficient to make it unlikely that any further cash deposits would be required from you over the course of your participation in the Commodity Trading Advisor's program.

You are reminded that the account size you have agreed to in writing (the "nominal" or "notional" account size) is not the maximum possible loss that your account may experience.

For management fee purposes, notional accounts are charged on the net assets, defined as the total assets of the account, including all cash and cash equivalents, accrued interest, the amount of notional or committed funds (if any), the market value of all open futures interest positions, and all other assets of the account, less accrued commissions payable.

Additions of cash and net positive performance to your account will decrease your leverage, while withdrawals of cash and negative net performance will increase your leverage.

It is important for clients to be aware that the CTA fees will impact notionally funded accounts more significantly on a percentage basis versus fully funded accounts. For example, if a client chose to fund a notional account at 50% of its fully funded level, the CTA management fee of 2% of the fully funded level will end up being 4% of the notional account equity.

You should consult with your Futures Commission Merchant in order to determine the actual activity in your account, including profits, losses and current cash equity balance. To the extent that the equity in your account is at any time less than the nominal account size you should be aware of the following:

1. Although your gains and losses, fees and commissions measured in dollars will be the same, they will be greater when expressed as a percentage of account equity.
2. You may receive more frequent and larger margin calls.
3. The funding matrix below may be used to convert the rates-of-return (RORs) in the program section to the corresponding RORs for particular funding levels.

### **Funding Matrix for Notionally-Funded Accounts**

The Matrix below enables a prospective customer to complete any indicated fully funded rate-of-return (ROR) to an equivalent ROR at various funding levels. For example, if the Actual Rate of Return is 20%, and the Fund Level is 75%, then the rate of return experienced by the account is 26.67%.

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Actual Rate of Return	Rates of Return Based on Various Funding Levels (%)				
20.00	20.00	26.67	40.00	60.00	80.00
10.00	10.00	13.33	20.00	30.00	40.00
5.00	5.00	6.67	10.00	15.00	20.00
0.00	0.00	0.00	0.00	0.00	0.00
-5.00	-5.00	-6.67	-10.00	-15.00	-20.00
-10.00	-10.00	-13.33	-20.00	-30.00	-40.00
-20.00	-20.00	-26.67	-40.00	-60.00	-80.00
	100.00	75.00	50.00	33.00	25.00

**Funding Level %**

### Privacy Policy

John J. Lothian & Company, Inc. is providing this statement of our Privacy Policy to help you understand how we protect the privacy of financial and other non-public information about you.

#### Information we collect

We collect non-public information from you from the following sources:

- Information we receive from you on the advisory agreement and other documents you complete in connection with authorizing John J. Lothian & Company, Inc. to direct trading in your account

#### Categories of Information We Disclose

We do not disclose any non-public personal information about our clients or our former clients to anyone, except as permitted by law.

#### Confidentiality and Security

We restrict access to non-public personal information about our clients to those employees who need to know that information in order to provide service to you. We maintain physical and procedural safeguards that comply with federal standards to safeguard your non-public personal information.

## ***Investment Programs & Performance***

### **Maple Sugar**



#### **Program Description – Smaller, Uncorrelated Markets Program**

Markets Traded: Sugar #11, Canadian Dollar

JJL's Maple Sugar program trades futures contracts on two markets: Canadian Dollar and Sugar #11. The Sugar #11 contract is based upon the price of raw cane sugar grown throughout the world and is traded at the ICE Futures US, formerly the New York Board of Trade. The world's sugar supply circles the globe and includes such growing nations as Thailand, Zimbabwe, Brazil and the United States.

The price of the Sugar #11 contract is affected by a host of factors, including geopolitical strife, climate conditions, global ethanol production and local infrastructure in growing nations.

Maple Sugar trades Canadian Dollar futures on the Chicago Mercantile Exchange. The program trades both the Canadian Dollar futures quoted in U.S. dollars per Canadian Dollar and the CME's FX Micro Canadian Dollar futures which trade in Canadian Dollars per U.S. dollar. The FX Micro Canadian Dollar futures are 1/10 the size of the traditional full-sized contract and allow JJL to better manage position size risk during more volatile market conditions.

The Canadian Dollar contract trades on the Chicago Mercantile Exchange and is quoted in U.S. dollars per Canadian dollar.

The contract's price is ever-changing; global events, domestic and international economic conditions and the price of other currencies constantly direct and redirect the market.

The two markets were chosen because they fulfilled a few simple requirements. First, when the program was created, the two markets were not correlated fundamentally. Second, the markets behave differently, which stresses different strengths within JJL's program's core trading method. Third, the small contract size in each market made it possible to offer the program with a small account minimum of \$35,000.

The program is also inherently more conservative than other offerings by JJL, as it only risks 4.75% of an account's capital at any one time. The Maple Sugar program spreads its risk across two dynamic markets, providing a better distribution of risk and return than single market trading programs.

***Past Performance Is Not Necessarily Indicative of Future Results***

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### *Investment Programs*

#### **Big ED**



#### **Program Description – Single Market, Short-Term Interest Rate Program**

##### **Market Trade: Eurodollars**

JJL's Big ED program trades the Eurodollar contracts on the Chicago Mercantile Exchange at the CME Group. Eurodollars are U.S. Dollar deposits in commercial banks outside the U.S. that are often used as a benchmark interest rate for corporate funding.

The Big ED program seeks to profit from short- to intermediate-term trends as interest rates fluctuate, while minimizing losses during periods of market volatility. It is designed as an aggressive program and sets its per-trade risk ceiling at 6%, which is higher than the Maple Sugar program. The minimum account size for Big ED is \$15,000.

The single-market focus and the higher risk level create a more potent program that – given normal market circumstances – should produce larger gains along with the anticipated larger draw-downs than Maple Sugar.

*Past Performance Is Not Necessarily Indicative of Future Results*

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### Performance History – Maple Sugar



Name of the CTA: John J. Lothian & Company, Inc.

Name of Trading Program: Maple Sugar

Inception of Trading by CTA: December 2004

Inception of Trading in Offered Program: December 2004

Number of accounts currently traded pursuant to the program as of January 1, 2011: 4

Total Nominal assets under management as of January 1, 2011: \$ 353,702.76

Total Nominal assets trader pursuant to the program as of January 1, 2011: \$210,471.43

Largest Monthly Drawdown: -5.69 (August 2007)

Worst peak-to-valley draw-down: -15.70 (June 2006 to November 2007)

Number of profitable accounts that have opened and closed: 1

Range of returns experienced profitable accounts: +36.66%

Number of losing accounts that have opened and closed: 1

Range of returns experienced by unprofitable accounts: -2.63%

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Month	2006	2007	2008	2009	2010
January	-2.32%	1.13%	-1.57%	-1.01%	-0.90%
February	2.05%	-2.92%	-0.40%	-1.96%	2.74%
March	0.98%	-1.62%	1.66%	-2.33%	-2.35%
April	12.85%	1.71%	3.14%	-1.76%	-3.74%
May	4.05%	-4.91%	-1.18%	0.00%	10.37%
June	1.94%	0.65%	-0.74%	0.00%	3.10%
July	-4.83%	-0.11%	1.58%	0.00%	2.75%
August	-1.22%	-5.69%	6.58%	-0.77%	-3.13%
September	1.97%	-1.17%	2.49%	0.00%	1.26%
October	2.37%	-1.13%	1.61%	0.00%	3.53%
November	-3.89%	-1.33%	0.00%	2.72%	1.92%
December	4.65%	7.39%	0.76%	-1.49%	-0.17%
Annual	18.94%	-8.29%	14.56%	-6.50%	15.63%

*Past Performance Is Not Necessarily Indicative of Future Results*

## Disclosure Document: 24

### Performance History – Big ED



Name of the CTA: John J. Lothian & Company, Inc.

Name of Trading Program: Big ED

Inception of Trading by CTA: December 2004

Inception of Trading in Offered Program: December 2004

Number of accounts currently traded pursuant to the program as of January 1, 2011: 4

Total Nominal assets under management as of January 1, 2011: \$353,702.76

Total Nominal assets trader pursuant to the program as of January 1, 2011: \$143,231.33

Largest Monthly Drawdown: -11.33% (April 2006)

Worst peak-to-valley draw-down: -23.84 (April 2008 to December 2010)

Number of profitable accounts that have opened and closed: 1

Range of returns experienced profitable accounts: +5.06%

Number of losing accounts that have opened and closed: 3

Range of returns experienced by unprofitable accounts: -7.70% to -14.75%

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Month	2006	2007	2008	2009	2010
January	-2.00%	1.65%	23.80%	2.34%	-6.15%
February	0.52%	6.88%	-3.79%	0.54%	0.35%
March	-8.21%	-4.41%	-2.17%	-2.34%	0.00%
April	-11.33%	4.36%	9.37%	-0.05%	0.00%
May	3.62%	3.56%	-2.59%	-0.68%	-4.25%
June	2.73%	0.81%	0.01%	1.77%	1.46%
July	-3.85%	-0.96%	-4.76%	-0.05%	3.79%
August	-2.04%	1.71%	-3.10%	0.00%	-5.46%
September	0.91%	2.01%	-3.28%	0.00%	-5.21%
October	3.91%	-9.78%	-0.03%	0.00%	2.18%
November	-4.13%	-1.50%	-0.08%	0.00%	-1.21%
December	5.97%	-3.16%	-0.36%	7.94%	-6.45%
Annual	-14.36%	0.05%	10.30%	9.52%	-19.66%

*Past Performance Is Not Necessarily Indicative of Future Results*

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### **Glossary**

The following works or phrases may help review our programs and their performance. If additional questions arise, please do not hesitate to contact JLL. Contact information may be found on the front of this document.

**Assets Under Management** in a program is the aggregate amount of total equity, including “notional” equity under management, unless otherwise noted.

**Closed Accounts** is the number of accounts directed by JLL pursuant to the investment program shown which have closed in the period indicated.

**Drawdown** is accumulated losses experienced by all accounts or trading program over a specified period.

**Largest monthly drawdown** is the worst loss experienced by all accounts traded in a specific program over a specified period.

**Open Accounts** is the number of accounts directed by JLL pursuant to the investment program shown as the date indicated.

**Worst peak-to-valley drawdown** is the greatest cumulative percentage decline in month-end asset value for all accounts traded due to losses during a period in which the initial month-end asset value is not equaled or exceeded by a subsequent month-end net asset value.

**Monthly Rate of Return** (only accounts traded method) OAT method calculates the monthly ROR in the conventional manner of dividing the net performance by the beginning nominal asset value, except that accounts that traded for only part of the month or witnessed "material" additions/withdrawals during the months would be excluded from the calculations.