



HOW HAS POTOMAC MODIFIED PERFORMANCE DATA TO ALIGN AND COMPLY WITH THE SEC MARKETING RULE?

1 How has Potomac's track record been built since 1987?

Since Potomac's founding in 1987, our track record has been built—at least in part—on the reliance of representative accounts. This process entailed identifying an account whose performance was representative of all Potomac accounts that were managed using a specific strategy. The reason we used representative accounts was because all accounts, with few exceptions, were traded in the same omnibus account for that strategy. Each month we would take a handful of clients and run their performance reports and statements. We would maintain their performance results so that we could build a continuous track record. We believe this process was fair and the SEC historically was accepting of this process. In fact, this process had been through three examinations by the SEC staff, and we stand by the process and our results.

2 What does the new Marketing Rule say about representative accounts?

In short, section (d)(4) of the new Marketing Rule prohibits the use of a representative account in an advertisement unless the exclusion of the related portfolios would not result in performance results that are materially higher than if all the related portfolios had been included in a composite with the representative account.

While we do not have any reason to believe that any of our representative accounts performed materially better than other related portfolios, we are not 100% confident we maintain all the records to support this position prior to 2000.

For example, we have account statements for the appropriate representative clients going back to 1987 but cannot say with absolute certainty that we possess the statements for every single account in that strategy. Prior to 2000, we only retained a sample of representative account statements. The rule changed, so we are changing to continue our compliance as described more fully below.

3 Do you have composite performance?

Potomac started to claim compliance with GIPS® with data starting in 2002 (and were recently able to extend this back to 2000). However, to communicate the value of our long standing and continuous track record we previously chose to report BOTH representative and composite performance separately.

4 How will Potomac's performance advertising change?

Because of the new rule we have made the tough decision to modify our performance advertising to only include composite performance with the inception date that our verifiers agreed upon.

The 1-,3-,5-, and 10-year performance figures and other included periods will not materially change since the representative account performance is typically similar to the composite account performance. However, the inception performance will obviously change since the inception dates have changed.

5 What changes will be made to the fact sheet?

All performance related material will now reflect the both the gross and 2.5% net composite performance only. The disclosures have also been adjusted to reflect the same.

QUESTIONS?

Call 888-768-6622 or visit potomacfund.com