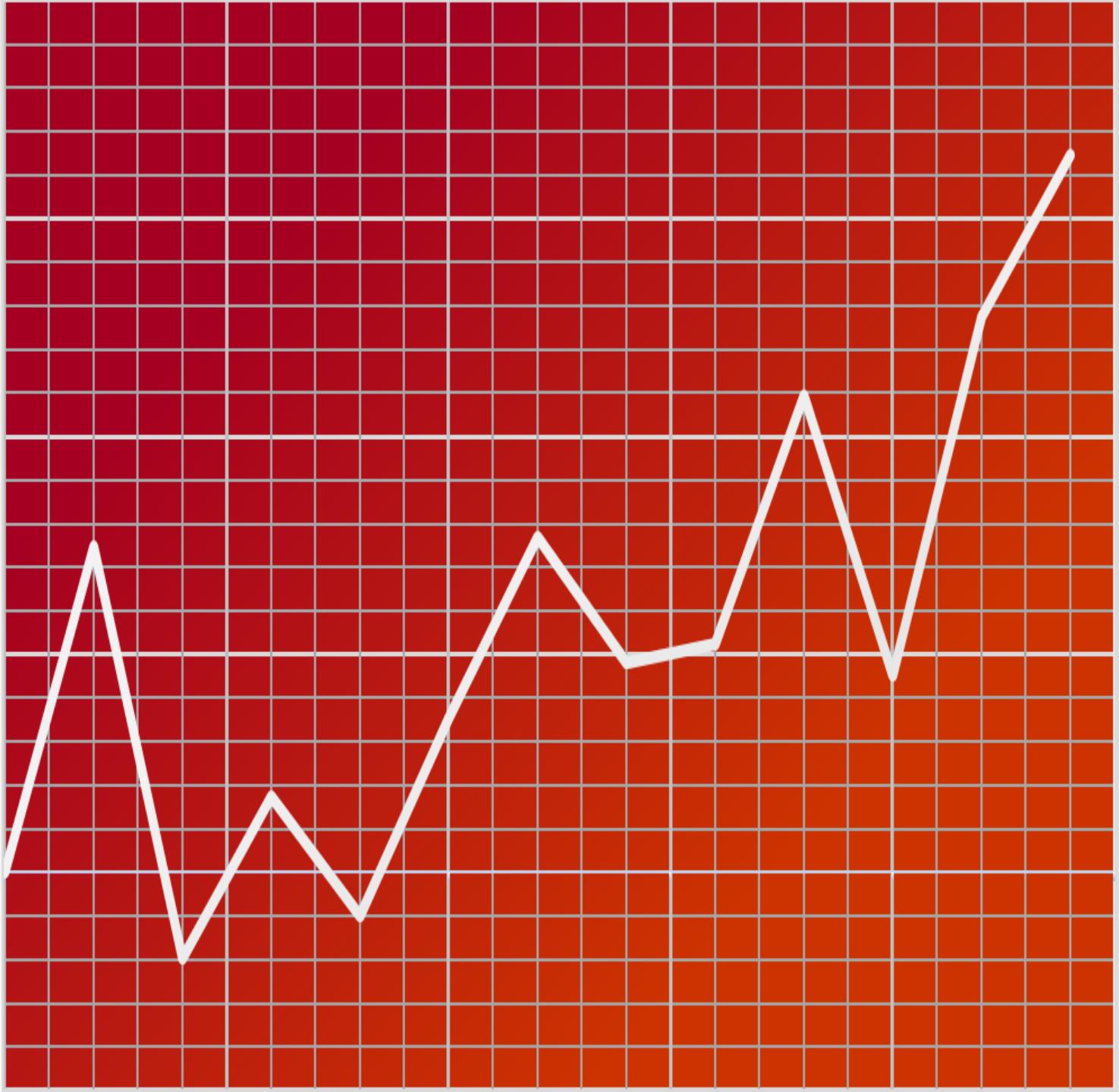


Managed Futures

What they are and how to invest in them

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Background on Managed Futures

- A type of quant strategy, managed futures employs trend-following across asset classes. Trend-following is also referred to as “momentum” investing. Also called CTAs since managed futures strategies must be managed by NFA-registered commodity-trading advisors (“CTAs”), hence why you often see these terms used interchangeably.
- Momentum investing contrasts with the more familiar “value” investing that seeks to buy low and sell high. In contrast, momentum investors seek positions in securities that have moved in one direction for a period of time – either up or down. They join the trend, taking long positions in assets that are going up in price, and short positions in assets whose prices are declining.
- Momentum investors use quantitative signals to define when securities are trending. Often, these signals compare the current (spot) price of an asset to the trailing (historical) moving average of the price. If the spot price is above the moving averages, then the security is in an uptrend, and vice versa.
- The choices that managers make for which securities to include and which trend signals to follow can cause performance to vary quite a bit among managed futures managers.
- For most investors, a 5–15% allocation to managed futures may offer a good balance of diversification and volatility. Over the long term, the volatility of most managed futures strategies will be closer to that of equities than that of core bonds, and this size of allocation generally may be enough to “move the needle” positively in most portfolio allocations.

Why Invest in Managed Futures?

- Two common approaches for trading managed futures are the market-neutral strategy and the trend-following strategy.
- Managed futures are alternative investments consisting of a portfolio of futures contracts that are actively managed by professionals.
- Managed futures strategies have a unique profile relative to other potential investments, including:
 - Long-term positive historical returns of a similar magnitude to equities;
 - Very low correlations to equities and other global asset classes;
 - Strong historical performance during equity bear markets.
- As a result, an allocation to managed futures can have a powerful impact on broader portfolios by potentially increasing returns, reducing risk and mitigating drawdowns.

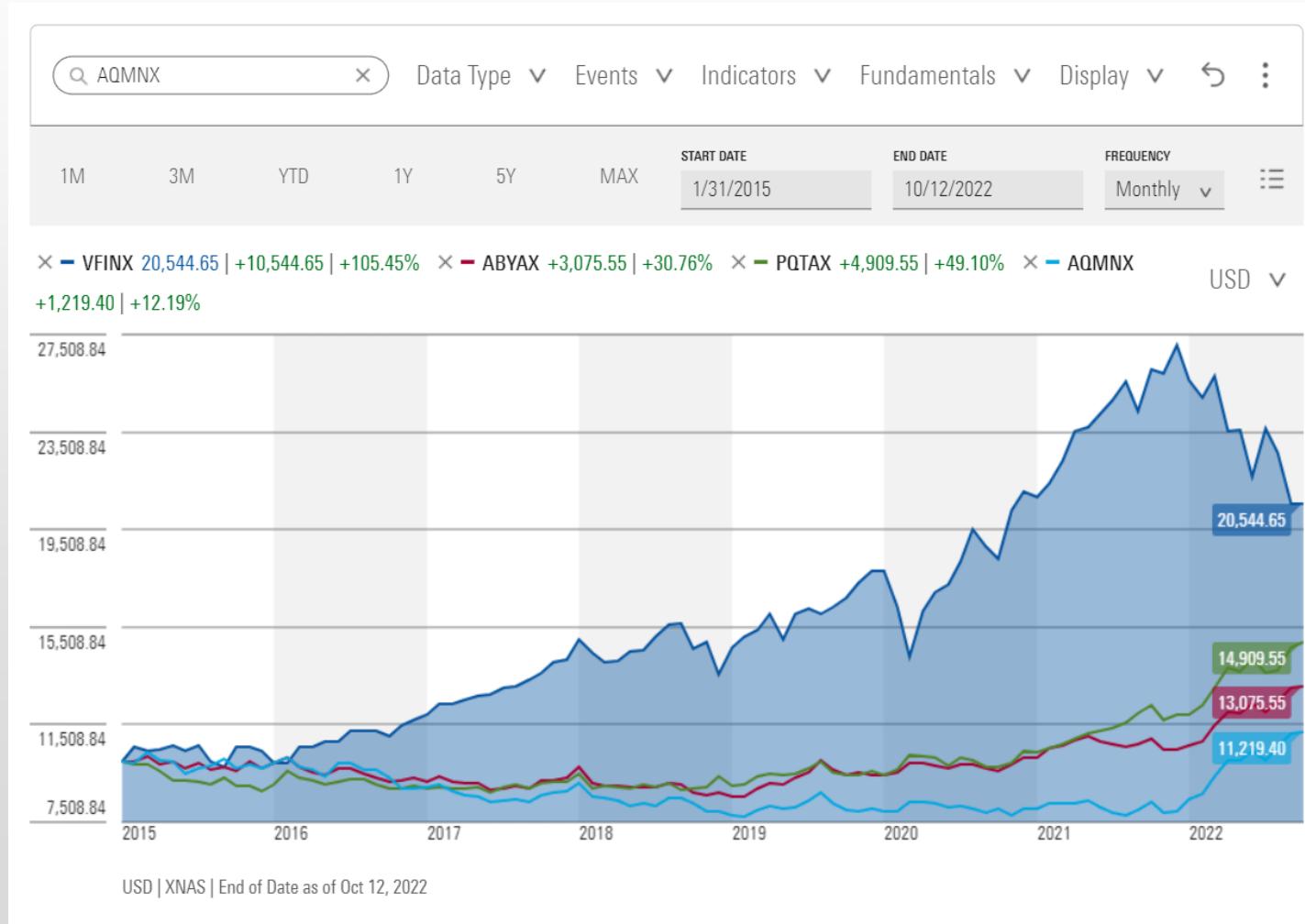
Managed Futures Candidates

- With recent SEC rule changes around the use of leverage and derivatives, managed futures are now available via mutual funds and ETFs, democratizing what were previously hedge funds.
- No longer are the fees the 2/20 rule of hedge funds.
- A little research provided the following candidates.

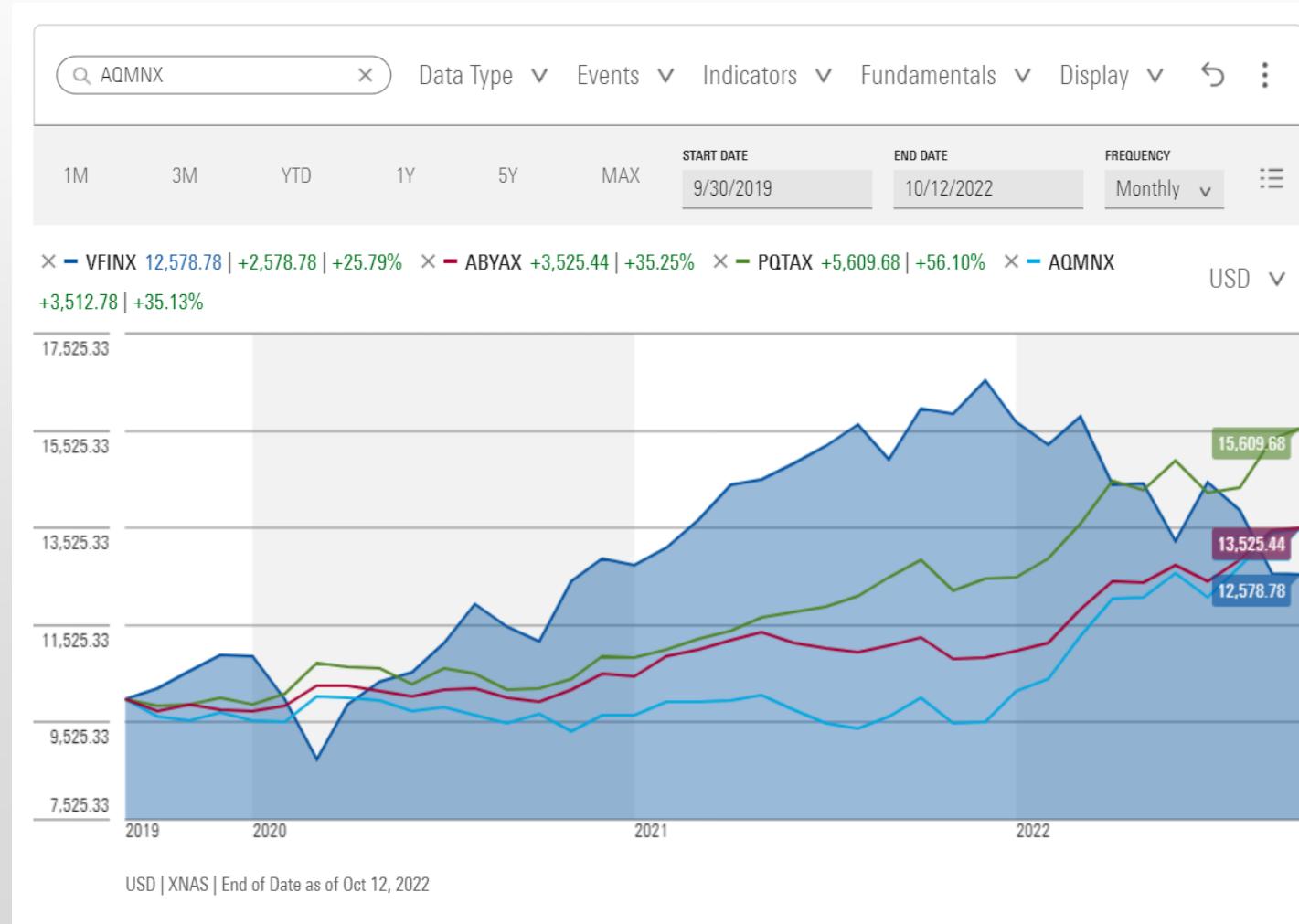
Exchanged Traded Fund	
Symbol	Name
DBMF	iMGP DBi Managed Futures Strategy ETF
CTA	Simplify Managed Futures Strategy ETF
FMF	First Trust Managed Future Strategy ETF
WTMF	WisdomTree Managed Futures Strategy ETF
KMLM	KFA Mount Lucas Strategy ETF

Mutual Fund	
Symbol	Name
AQMNX	AQR Managed Futures Strategy Fund
PQTAX	PIMCO TRENDS Managed Futures Strat A
AMFAX	AlphaSimplex Mgd Futs Strat A
ABYAX	Abbey Capital Futures Strategy
AHLAX	American Beacon AHL Mgd Futs Strat A

Relative Performance - Long Term



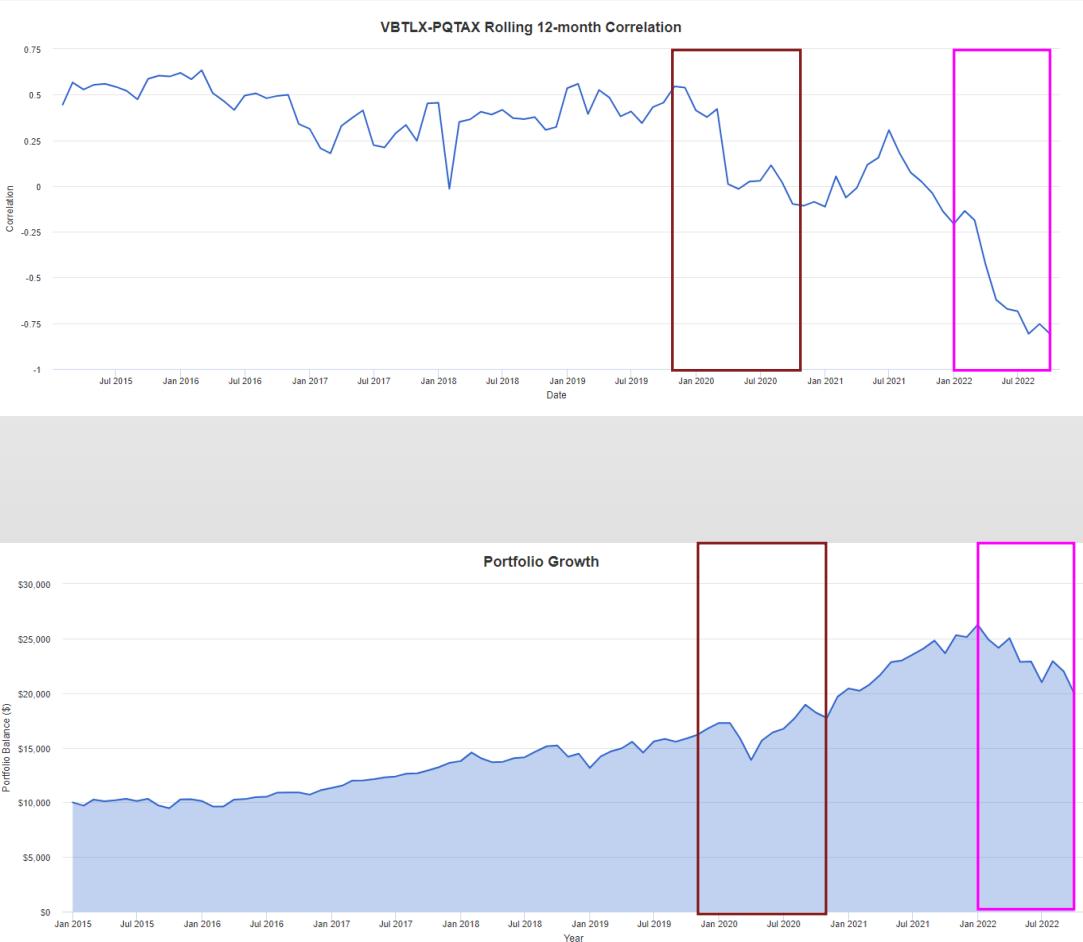
Relative Performance – Short Term



Correlation Results

Name	Ticker	VFINX	VBTLX	ABYAX	PQTAX	AQMNX	Annualized Return	Daily Standard Deviation	Monthly Standard Deviation	Annualized Standard Deviation
Vanguard 500 Index Investor	VFINX	1.00	0.26	-0.08	-0.29	-0.27	9.39%	1.16%	4.46%	15.44%
Vanguard Total Bond Market Index Adm	VBTLX	0.26	1.00	-0.09	-0.13	-0.21	0.72%	0.27%	1.22%	4.22%
Abbey Capital Futures Strategy A	ABYAX	-0.08	-0.09	1.00	0.76	0.84	5.92%	0.55%	2.57%	8.89%
PIMCO TRENDS Managed Futures Strat A	PQTAX	-0.29	-0.13	0.76	1.00	0.72	6.09%	0.61%	2.66%	9.20%
AQR Managed Futures Strategy N	AQMNX	-0.27	-0.21	0.84	0.72	1.00	3.56%	0.63%	3.07%	10.63%

Timeline Correlation



Recommendations for Portfolio Monitoring

- Review different asset categories for inclusion in the portfolio.
- Be sure to determine asset correlations to make sure we have a good balance of positive and negative correlations.
- Should try to limit portfolio to 15-20 items to avoid complexity issues.
- Portfolio turnover should be benchmarked to make sure we do not do have too much churn in the asset classes – replacement vs deletion question.
- Should consider using some of the AAII tools we have available. I particularly like the new A+ Investor tool.