Managed Futures

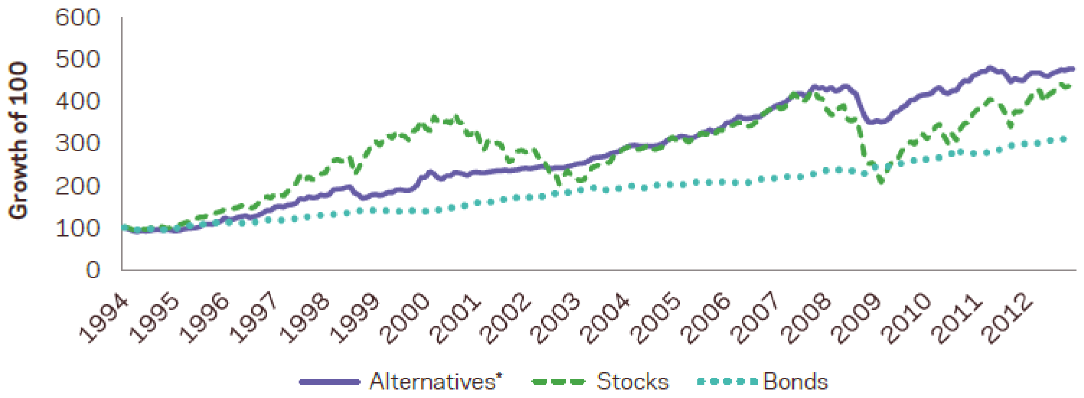
INVESTMENT STRATEGY

ALLODIUM® INVESTMENT CONSULTANTS

"Managed futures" are alternative investment strategies that invest in equities, fixed income, currencies, and commodities and seek to exploit trends that will generate returns that have little correlation to equity, fixed income, and long only commodities markets. It was one of the few investment styles that performed well during the market crash of 2008 when both stocks and bonds suffered.

Comparison of Growth:
Alternatives, Stocks and Bonds (Jan. 1994–Dec. 2012)

Alternatives Have Been Less Sensitive to Large Stock-and Bond-Market Returns



*Past performance does not guarantee future performance. Alternatives are represented by the Dow Jones Credit Suisse Hedge Fund Index; stocks are represented by the S&P 500 Index, and bonds by the Barclays U.S. Aggregate Bond Index. Sources: Datastream, Dow Jones Credit Suisse, AQR. Source: Adapted with permission from AQR Capital Management, LLC, Investor Guide Style Premia Alternative Strategy.

Why "Low Correlation" Is Important

Many investors, especially those focused on the long-term, understand that the goal is not simply to maximize return, but to reduce risk. The easiest way to improve your odds towards these goals is through diversification.

If a portfolio holds several investments that each react in the same way, this "diversification" isn't doing much to reduce risk. Instead, a key to diversification is to blend assets that do not all move in the same direction at the same time. A measurement for this is "correlation." A correlation score of 1 means the two assets move in unison, a score of 0 means the assets move independently of one another, and a score of -1 means the two assets move directly opposite to one another.

Correlation between Asset Class and U.S. Large Cap Equities

Asset Class	U.S. Large Cap Equities
U.S. Large Cap Equities	—
U.S. Small Cap Equities	0.77
Int'l Large Cap Equities	0.81
Emerging Market Equities	0.72
Taxable Bonds	(0.01)
International Bonds	(0.03)
Diversified Alternatives	0.54
Managed Futures	**(0.08)**
Hedged Equities	0.74
MLPs	0.36
Commodities	0.31
REITs	0.51

Source: LPL Research, FactSet, Morningstar, Standard & Poor's, Russell, MSCI, Barclays 05/14/15

Continued on reverse side

How Do They Work?

The primary driver of most managed futures strategies involves trend-following or momentum investing; that is, buying assets that are rising and selling assets that are declining. These strategies are applied to exchange-traded futures contracts on various commodities, equity indices, currencies and/or government bonds. Investments into these contacts are made systematically, meaning they are selected based on objective criteria and are not chosen based on a manager's best guess as to which assets will outperform.

Tendency to Work Well in Strong Up & Strong Down Markets

Managed futures tend to perform best in markets with persistent trends in one direction or another. In bear markets, managed futures strategies often position themselves short as markets begin to decline and can profit if markets continue to fall. Similarly, in bull markets, managed futures strategies often position themselves long as markets begin to rise and can profit if the rise continues. Keep in mind, these "markets" may include everything from the stock and bond markets of Germany and Brazil, to commodity prices on corn and oil, and to currency rates on the Euro and Yen.

Obviously, managed futures strategies have risk and do not always work well. They generally perform poorly when markets are range-bound and without dominant trends. They also tend to suffer when trends abruptly reverse. Furthermore, managed futures funds require high turnover and substantial trading costs which result in higher management fees than traditional asset classes.

Conclusion

As a percentage of an overall asset allocation, managed futures have been shown to improve diversification and reduce downside risk, while still providing attractive returns. Because of these factors, we believe there is a compelling case to use them as part of our client's investment strategy and they can help them meet their objectives over the long run.