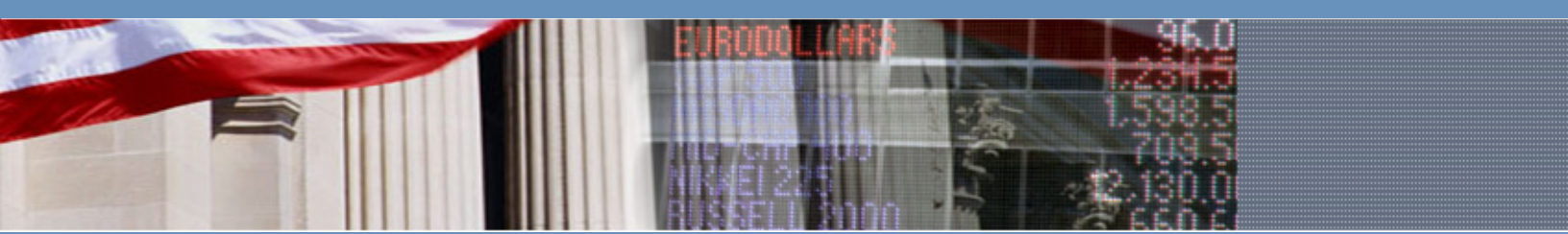




**PRICE** Asset Management

Alternative Investments Group



## MANAGED FUTURES

The Benefits of Global Diversification

# Table of Contents

Benefits of Managed Futures	Page 1
Managed Futures Comparison	Page 2
Global Diversification	Page 3
Performance Comparison	Page 4
Structure and Opportunities	Page 5

This brochure is neither an offering document nor a solicitation. Investing in managed futures is speculative, involves a high degree of risk, and is not suitable for all investors.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.



# Managed Futures: Portfolio Diversification Opportunities

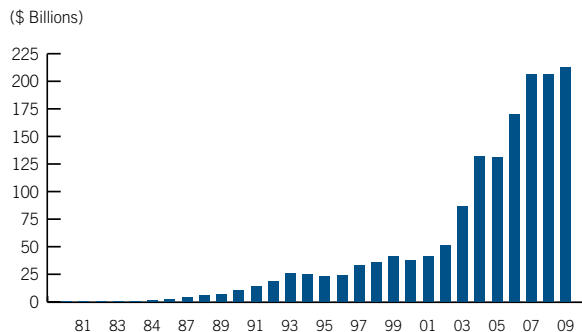
## Introduction

Managed futures is an industry term describing professional money managers (trading advisors) that manage assets on behalf of their clients. Using a broad spectrum of global markets, they implement their proprietary systems to take positions based on expected profit potential. Managed futures are highly flexible instruments allowing professional money managers the opportunity to profit from both rising and falling markets. Client's assets can be managed through either an individual managed account or through an investment pool.

Managed futures investments have been used by investment management professionals for more than 30 years. Increasingly, institutional investors are using them as an integral component of a well diversified portfolio. The growth in managed futures over the last 5 years has been significant. In 2004, assets under management were approximately \$132 billion. By the end of the 3rd quarter of 2009, assets under management were approximately \$213 billion (see chart below).

## Growth of Managed Futures

(January, 1980 - September, 2009)



\*Source: BarclayHedge, LTD

## Benefits of Managed Futures

By their very nature, managed futures provide a diversified investment opportunity for both institutional and individual investors. Academic research and evidence demonstrates the potential benefit of incorporating managed futures into a traditional stock and bond portfolio. These potential benefits include:

- Lower overall portfolio risk
- Enhance overall portfolio returns
- Broaden diversification opportunities
- Opportunity to profit in a variety of economic environments.



## Managed Futures Compared to Stocks & Bonds

### Non-Correlation

Managed futures typically perform well during adverse market and economic conditions. Although futures trading may be highly volatile and risky as a stand alone investment, a professionally managed account included in a traditional stock and bond portfolio can reduce risk and improve performance.

The table to the right compares the correlations between managed futures, domestic bonds and domestic stocks.

### Correlation Analysis

(January, 1980 Through December, 2009)

	Managed Futures	U.S. Stocks	U.S. Bonds
Managed Futures	1.00	-0.10	0.12
U.S. Stocks		1.00	0.22
U.S. Bonds			1.00

### Historical Research

Modern Portfolio Theory, introduced by Nobel Prize-Winning economist Harry Markowitz with his paper "Portfolio Selection" in the 1952 Journal of Finance, showed how to measure the risk of various securities and how to combine them in a portfolio to get the maximum return for a given risk.

The concept of Modern Portfolio Theory was further advanced by the work of Harvard professor Dr. John Lintner in his 1983 study, "The Potential Role of Managed Commodity-Financial Futures Accounts in Portfolios of Stocks and Bonds".

His conclusions stated, "...The combined portfolios of stocks (or stocks and bonds) after including judicious investments in appropriately selected sub-portfolios of investments in managed futures accounts...show substantially less risk at every possible level of expected return than portfolios of stocks (or stocks and bonds) alone".

### Market Direction

Another way to evaluate the relationship between managed futures and stocks is to consider the frequency with which they move, or do not move, in the same direction. The pie chart below shows the time period from January, 1980 through December, 2009. In nearly 50% of those months managed futures moved in an opposite direction from stocks.

### Direction of Monthly Returns

(January, 1980 Through December, 2009)

62 Months = 17% Both Down      172 Months = 48% Opposite Directions



126 Months = 35% Both Up

Source: Managed Futures - CASAM CISDM CTA Equal Weighted Index; U.S. Stocks - S&P 500 Index; U.S. Bonds - Barclays Aggregate Bond Index.  
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## Global Diversification

### The Ability to Profit in Virtually Any Economic Environment

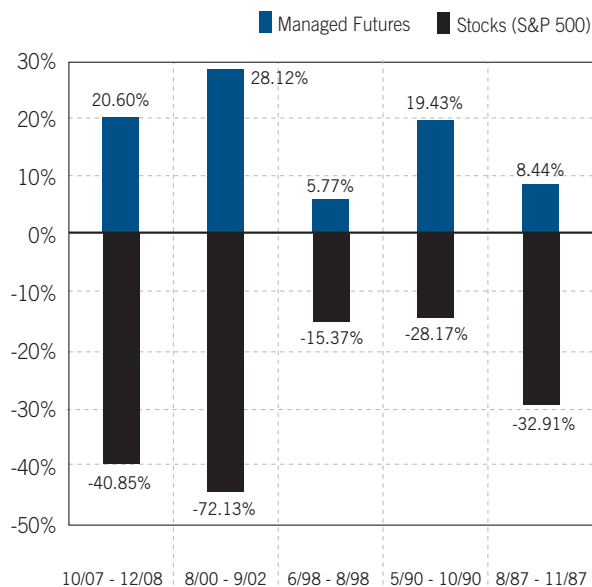
In addition to improving overall portfolio returns, managed futures have the potential to perform well in a variety of economic climates, including inflation and periods of down stock markets.

One reason for this is that managed futures trading advisors have the ability to take advantage of price trends in either direction. For example, during periods of inflation, commodities such as gold, silver, oil, and grains tend to do well.

### Managed Futures vs. Stocks During Stock Market Drawdowns

(January, 1980 Through December, 2009)

The chart below shows the comparison between the performance of managed futures and stocks during the five worst declines in U.S. Stocks. This chart demonstrates the historical non-correlation between these two asset classes for the stated period of time.



### Manager Skill & Global Markets

Managed futures strategies encompass a range of trading approaches utilizing global futures, options and interbank markets. These strategies rely primarily on the managed futures trading advisors skill to extract performance independently from broad market movements. By capturing profits in both rising and falling markets, these strategies may provide valuable diversification and attractive returns that are often uncorrelated to the stock and bond markets.

The substantial growth of futures exchanges globally provide trading advisors with the opportunity for profit potential and risk reduction among a broad range of non-correlated markets. Diversification within the portfolio is both geographic, and by product.

The futures markets are highly efficient for trading advisors that also benefit potential investors. Some of the efficiencies include:

- Use of leverage
- Lower transaction costs
- Market liquidity
- Opportunity in rising, falling, or trendless markets
- Inherent return in the market.

Source: Managed Futures - CASAM CISDM CTA Equal Weighted Index; U.S. Stocks - S&P 500 Index.

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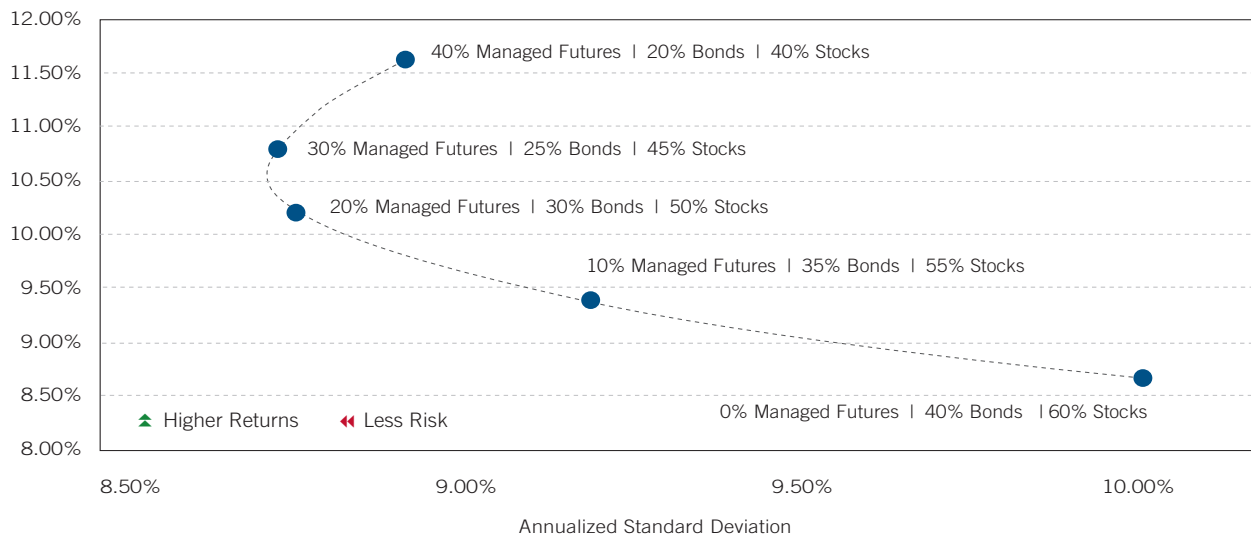


## Balanced Performance

### The Effect of Diversifying a Traditional Portfolio into Managed Futures

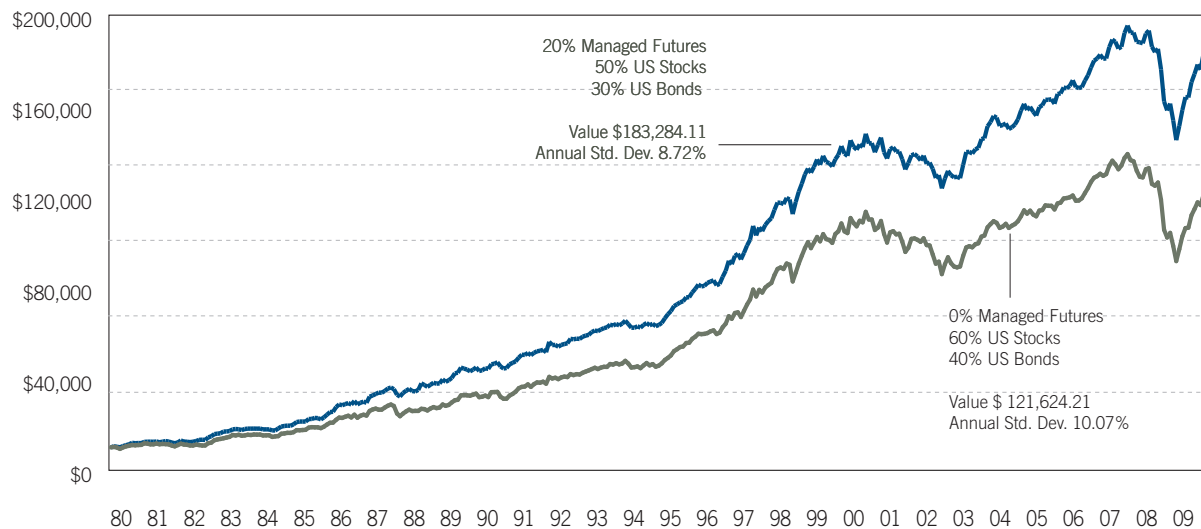
(January, 1980 Through December, 2009)

Compounded Annual Returns



### Value of Initial \$10,000 Portfolio with a 20% Allocation to Managed Futures versus a Traditional Stock and Bond Portfolio

(January, 1980 Through December, 2009)



Source: Managed Futures - CASAM CISDM CTA Equal Weighted Index; U.S. Stocks - S&P 500 Index; U.S. Bonds - Barclays Aggregate Bond Index.

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## Investment Opportunities

### Investing in Managed Futures

There are several ways to invest in managed futures, all of which can be customized to meet investor needs. Some considerations to the type of structure that best meets an investor's needs might include; single or multiple trading advisors, product liquidity, and trading portfolio diversification (sector specific or fully diversified).

Separately Managed Accounts – can be customized for institutional investors or high net-worth individuals. Usually, a substantial capital investment is required for the trading advisor to properly trade a fully diversified trading portfolio based on their trading methodology.

### Industry Participants

There are several types of industry participants in the managed futures sector.

- Commodity Trading Advisors (CTAs) are responsible for the actual trading decisions and activity of a managed futures account.
- Commodity Pool Operators (CPOs) assemble public funds or private pools, usually in the form of limited partnerships, and select one or more trading advisors.
- Futures Commission Merchants (FCMs) are the brokerage firms that execute and clear CTA-directed trades on various exchanges.

Private Pools – which are usually in the form of a limited partnership or limited liability company combines money from several investors to invest in the trading portfolio. Minimum investments can be as low as \$10,000 and can range as high as \$1 million. These pools provide monthly or quarterly liquidity to investors.

Public pools – provide an opportunity for the small investor to participate in an investment vehicle that gives them exposure in an trading strategy once reserved for large investors. The regulatory oversight is more stringent than private pools and public funds follow strict disclosure requirements.

Managed futures advisors and investors benefit from the structural efficiencies of the futures markets. Liquid markets facilitate entering and exiting market positions. Other key efficiencies include:

- Use of leverage
- Minimized transaction costs
- Liquidity/rapid execution
- Opportunity in rising, falling, or trendless markets
- Value capture in the market.



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## MANAGED FUTURES

### The Benefits of Global Diversification

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