RCM Alternatives:
Whitepaper

Managed Futures /Global Macro 2017 Strategy Review

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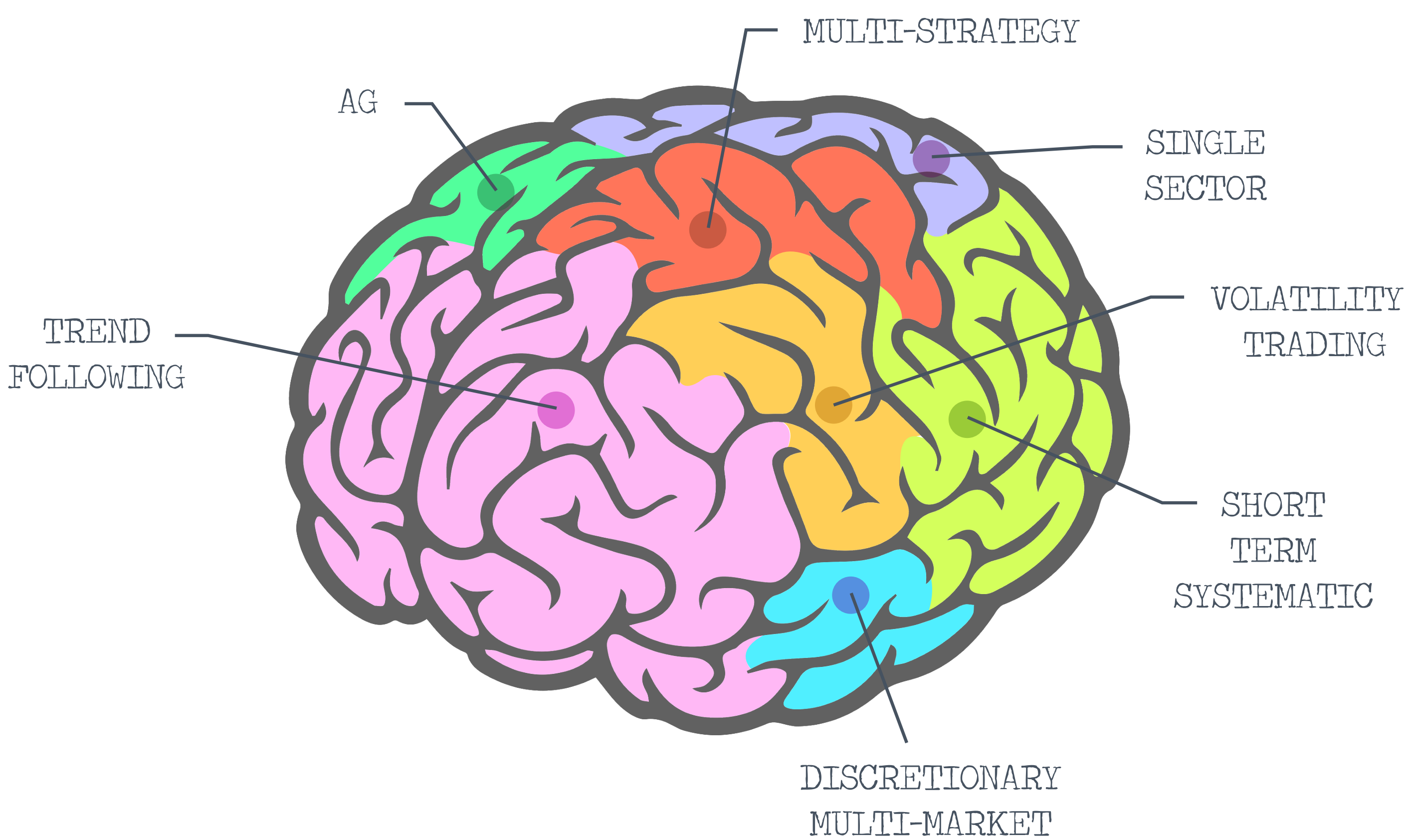
If any year is a case study of the importance of manager selection and strategy diversification within the managed futures and global macro space, it's 2017. The majority of managers in the space were unable to capture meaningful gains, with the SocGen CTA Index (the top 20 managers in the space) finishing up just 2.48% on the year – a sort of 'could have been worse' but surely 'could have been better' type of year – but there were pockets of strong strategy type and manager specific performance. We've talked before about an index not necessarily representing the entire asset class, and 2017 seemed to show that there were many more managers well ahead or behind that average than clustered around it.

What types of strategies found success, and where was there the most diversion amongst members of a strategy group? Without further ado, our 2017 Strategy Review.

Volatility Trading:

VIX and Volatility investment strategies have gone from a growing sector to an explosion of interest in just a few short years. Money is flooding into volatility trading (whether it's under the managed futures umbrella or not), with billions of dollars invested in VIX strategies via Hedge Funds, VIX Futures, and ETPs. To help this new money into the space understand what exactly they are trading, we published a whitepaper this year covering all the moving parts in VIX trading that many might not be aware of. We also sat down with Cboe's Director of Education, Russell Rhoads, and three professional managers on how they use VIX Futures and Options to manage millions. There's some good stuff in there.

Programs like Certeza, Pearl, and Goldenwise use VIX Futures to capture returns based on the VIX futures curve, arbitrage opportunities, and relative values



between assets. Certeza - Omni was up roughly 4.5% in 2017, Pearl Capital – Hedged VIX (QEP) was up 10.23%, and Goldenwise Multi-Strat Fund was up 8%. You can listen to the managers themselves about how they approach the market in one of our most recent webinars.

Assets are coming into these volatility traders despite them being a relatively new idea to the Managed Futures space, in part because they are nimble enough in their AUM, and partly because these types of strategies perform unlike most other CTAs, which is appealing considering the Managed Futures' recently sideways performance.

On the more traditional volatility trading side (ie: option selling), managers did about as well as you would expect with not a down month in the S&P 500 in 2017, with names such as Aleph Strategies – Options up 17%, LJM, Buckingham, Global Sigma, HiProb, and more finding success.

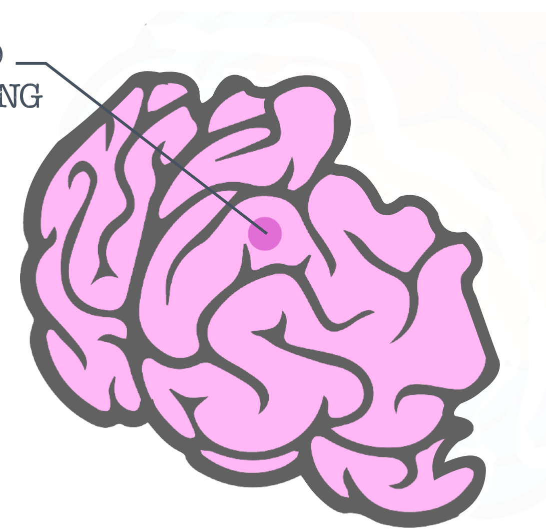
Performance: Great

Trend Following:

Well look at that. There were actually some notable futures trends in 2017: a 54% uptrend in Palladium, two separate 25% and 40% drops in the meats, a consistent downtrend in the U.S. Dollar, a 32% uptrend in Copper, and at the end of the year, WTI hitting $60 a barrel for the first time in two and a half years. From afar – that should have been plenty to fuel many managed futures programs returns, but the devil's in the details, as always, and it's important to understand that even if a program trades a market like Palladium, it's only a portion of what they trade, and isn't going to bet the house on a single market moving. What trend followers really need is multiple big trends throughout the year and overall volatility expansion (of the directional variety). Given that backdrop, and the fact that as of August 2017, 89% of the futures markets experienced volatility contraction, with the average volatility across those markets dropping -17%, you can see that could have been a difficult year for pure trend following strategies.

Exhibit A of the dispersion amongst trend followers: the SocGen Trend Index was up +2.41%, just under the overall CTA Index, while the SocGen Trend Following Indicator, which is essentially its own trend following model, was down -14%.

Beyond that, there were three camps. One, the double-digit gains folks, with programs such as DUNN Capital's World Monetary Program (QEP) up 14.79%, Chesapeake's mutual fund up 11.25%, and Altis – Global Futures Portfolio up 16%. Two, the small single digit gain folks with programs like Winton, Graham,



Campbell, and Man AHL. And three, those like Abraham and Mulvaney moderately in the red. Some of this dispersion is just the target volatility of each program, some is the difference in fee structures, and some is the portfolio selection. The trick, is knowing which of those factors will be important next year.

Performance: Average (with a curiously large dispersion)

Agriculture:

Meat based strategies were somewhat winners amongst Ag Trading programs in 2017. As mentioned before, meats had a huge sell off at the beginning of the year, and spent the rest of the year recovering. November proved to be another quick sell off, in which established managers like Wharton Capital – Agricultural Futures (QEP) able to capitalize alongside newcomers like Sector Arc.

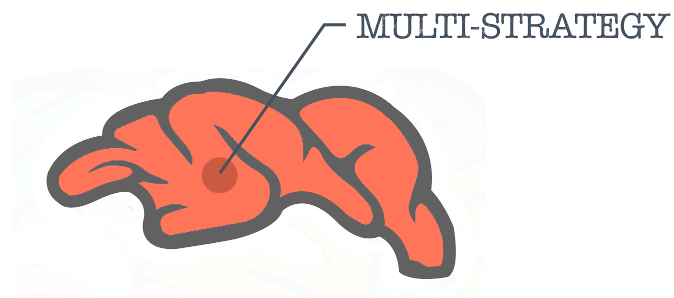
In grains, fundamental/discretionary based agricultural CTA's continued to struggle as they had in previous years. The problem – an inconsistent volatility pattern, with the trading range in corn about half of what it was in 2016, the wheat trading range roughly the same, and Soybeans roughly twice the trading range. Some Ag managers also mentioned the use of GMO's is producing great crops and removing some of the uncertainty in yields, perhaps causing markets to be priced more efficiently.

On the flip side of that equation, the crop reports from the USDA, which don't always jive with what's seen in the fundamental tea leaves – i.e. a June report which contradicted reports of less corn and more beans; causing losses for some managers. Finally, China is always a wild card that can unexpectedly push the markets, but they remained quiet in relation to grains in 2017.

Performance: Below Average

Multi-Strategy:

There's no other way to say it: Multi-Strategy programs struggled in 2017. The culprit, as you might expect, was



the lack of volatility across all markets, and especially financial markets. While that helped some parts of the multi-strat basket, not everyone has stepped up to the plate to add that negative skew into their portfolios. Other standards in the multi-strat basket such as the carry trade were flat to down, while mean reversion strategies meant to offset the lack of trends suffered from just enough trend to hurt them, but not enough trend to benefit the trend models (think of the slowly climbing S&P as the prime example).

Three notable Multi Strat performances included Quest – AlphaQuest Original – AQO (QEP) (-12%), QMS – Diversified Global Macro (QEP) (-11%), and Revolution – Alpha (QEP) (-6%)~. The secret, of course, was to just have a big part of your 'other strategies' be long equities, as Catalyst's Milburn Hedged Strategy Fund A (QEP) program figured out (+14%).

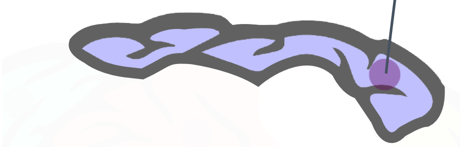
Performance : Poor

(Note: Multi-strategy as we define it within the managed futures space differs from the multi-strat hedge fund category that's raised a lot of assets. Multistrat hedge funds typically employ multiple hedge fund strategies, such as long/short equity, merger arbitrage, equity market neutral, risk parity, and more – within a single fund. While multi-strat managed futures programs similarly spread their investments across many strategies, but limit those strategies to models working on exchange traded futures markets (so no credit lines or convertible bond). Managed futures based Multi-strategy programs typically have a trend following base, with other non-correlated strategies such as short term, mean reversion, or currency carry added to their portfolio of models to perform during flat to losing periods in trend following. Generally speaking, these strategies will usually do well, but underperform Trend Following when Trend

Following does well, and are designed to outperform when trend following is not).

Single Sector:

Single Sector Strategies are probably the most non-Managed Futures Managed Futures sector. They focus on one sector, or one market with a niche into how they look to find returns – like just S&P, Copper, or Energy traders. It's for this reason, some single sector programs don't even consider themselves Managed Futures. Of the single sector managers we track, most of them look for returns in the energy markets. For



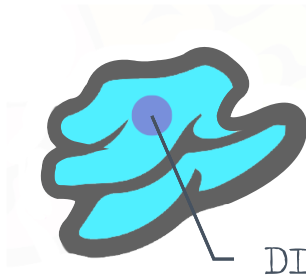
instance, we've written a whitepaper looking at the mechanics behind Jaguar's two single sector programs. Jaguar's energy programs struggled with consolidating volatility in spreads for majority of the year. Another newly launched single sector energy program we're high on, Cayler – Energy Program (QEP), made early gains in the year, but the impact three major hurricanes (at one time) had on the market stripped away a big portion of its returns.

What will be interesting as we head into 2018, is the emergence of single sector Bitcoin Futures funds. This time next year, we could be talking about a whole new set of programs and the variety of performance in a year where just about everyone is aware of crytpocurrencies. We can't wait to see how Bitcoin shapes up within futures focused alternative investment funds.

Performance: Poor

Discretionary Global Macro:

This type of strategy has certainly fallen out of favor with many allocators, as witnessed by Paul Tudor Jones closing his Discretionary Fund and Brevan Howard seeing a decrease of more than $10 Billion since 2016. But, maybe this is exactly the time to pay attention to these funds?



Think of these strategies like we think about the functions of the left and right side of the brain. if all the other strategies are left brained (analytical and objective) based on the way they trade using a systematic approach, Discretionary is right brained (intuitive, thoughtful, and subjective) using their experience to make decisions on where the markets will be in the future (along with analytics and objective risk controls).

Problem is, the subjective half of the trading world didn't see much success in 2017, behind – you guessed it – compressed volatility levels and the lack of opportunities. Why allocators get frustrated is there were opportunities – like Bitcoin or Palladium – but it seems discretionary managers are still fighting the last war, looking to sell what - in their opinion - must be a coming market sell off from all-time highs.

Among managers we follow, Three Rock Capital – Global Macro has been able to buck the poor performance trend in this sector in recent years, but wasn't able to follow suit in 2017, down -6%. Another discretionary trader (although utilizing systematic pieces as well) Sunrise Capital – Evolution (QEP) was able to put a return of +6.32% in its third year of trading, up 37% over the past two years.

Performance: Mixed to Poor

Short Term Systematic:

The Short Term side of the Managed Futures brain typically reacts the same way as trend followers, just on much shorter time span. We're talking momentum trades grabbing days to weeks long moves, versus weeks to months long moves. With trend following, it's akin to remembering important dates like your wedding anniversary or your friends 60th birthday party, whereas short term trading is a lot more like remembering your dentist appointment next week or your dinner plans this weekend with your friends.

2017 saw many short term traders trying to survive a sort of death by a thousand cuts environment, with many false breakouts causing small losses. But that's not to say some managers didn't buck the trend. Emerging Managers CTS and Eamon were both up double digits in their second years of trading, while veteran QIM – Global Program finished up 7%, after a 16% 2016. Meanwhile, Degraves – Global Diversified (QEP) was down a respectable -6.30% after battling lower levels than that throughout the year.

The difference in performance across the short terms systematic space appears to come from the ability to filter signals depending on market opportunity, or more correctly - the lack thereof. But it's difficult to identify that sort of ability without specific trade level due diligence first. There's always going to be winners and losers in the space, but it's important to know which managers have a nuanced understanding of not just the markets, but the opportunity set available on the short term scale.

Performance: Below Average

Overview:

Managed Futures and Global Macro continues to evolve away from a pure trend following/crisis period performance profile – adding more short volatility and market structure trades to the mix then we've ever seen, not to mention outright long equities exposure.

The question now, is what happens when volatility returns? We understand the desire and the need for managers to survive these times, but wonder out loud what they are sacrificing on the other side of the equation.

Look for our Managed Futures 2018 Outlook coming soon, with a deeper look at the statistics behind the overall market environment in the year ahead. Sign Up to receive the 2018 Outlook and all of our other research and education here.

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For Investors

Research & Educate

We believe education means more than just a glossy brochure showing how managed futures is non-correlated to the stock market. We believe it means ongoing analysis of what's happening now, not just what happened over the past decade; and we provide daily research and commentary via our popular 'Attain Alternatives' blog covering all things alternative investments, as well as periodic whitepapers digging deeper into topics, guest posts by fund managers, and more.

Scout Talent

You can think of us as talent scouts, helping investors scour the world of alternative investment opportunities in an effort to identify those with robust, consistent performance, sophisticated risk management processes, and well-developed operational infrastructure. This selection is done through our proprietary filtering algorithm before performing one-on-one meetings and "real-time due diligence" where we analyze daily trading.

Tailor Portfolios

Armed with a menu of talented managers, we then provide customized portfolio and strategy advice to better generate target returns and protect principal while meeting the diversification, return, and risk needs of investors ranging from high net worth individuals to pension funds. Clients invest in these portfolios by opening a brokerage account with us, where we earn a portion of the trade-by-trade costs and fees paid to the portfolio managers you enlist. There are never any add-on, portfolio-level fees for our services.

Make It Easier

We make the actual investment part, with the paperwork and funding and all the rest, as easy as possible. We do this by eschewing a 'one size fits all' approach in favor of a consultative approach where we work with clients to find solutions that work for them in terms of structuring the investment. These include vanilla individual futures accounts, to the creation of 'Funds of One' or direct access to managers. The choice of clearing firms considers the investor's requirements for credit rating, balance sheet, and more; while consideration is given to smart collateral options via T-Bills, Notes, Corp. Debt, & Stocks.

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