



The Facts about Managed Futures



WHAT ARE MANAGED FUTURES?

- Managed futures are investments run by professional money managers, who actively trade commodity interests using futures contracts, commodity options, and swaps. A manager uses these products to take both long and short positions across some or all market sectors such as fixed income, stock indices, currencies, and commodities, with the goal of maximizing returns from market cycles.

- Investors, including individuals, pension funds, foundations, and university endowments have about \$337 billion invested in managed futures. Investors may invest in a managed futures strategy through a managed account, a commodity pool, or a managed futures mutual fund.



WHAT ROLE DO THEY PLAY?

- Managed futures strategies serve as diversification tools and are a valuable component of a broader investment portfolio. Generally, managed futures strategies have exhibited very low correlation to traditional investments.¹ Businesses and commodity producers use futures, options and swaps markets for energy, metals and agricultural commodities such as oil, gold, soy and wheat to hedge their price and inflation risks.

- During periods when stocks have underperformed, managed futures strategies have added diversity by outperforming stocks. During the crisis in 2008, for example, the compounded return for managed futures was a positive 18.33%² while the S&P 500 Index finished down, -37.00%³. During the “lost decade” of stocks, 2000 – 2009, managed futures earned an annualized return of 6.76%, while the S&P suffered an annualized loss of -0.95%⁴ and the NASDAQ suffered an annualized loss of -5.67%⁵



ARE THEY REGULATED?

- Yes, Commodity Trading Advisors (CTAs) and Commodity Pool Operators (CPOs) who advise or offer managed futures investment strategies are regulated by the Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA) and are subject to quarterly regulatory reporting (e.g., Forms CPO-PQR, CTA-PR and Rule 2-46) and regulatory examinations or audits. Publicly offered funds are subject to extensive regulation by the U.S. Securities and Exchange Commission (SEC).

- Many CPOs that have privately-offered commodity pools are also registered as investment advisers with the SEC.
- Retail or “public” commodity pools are regulated by the CFTC, NFA, SEC, Financial Industry Regulatory Authority (FINRA) and state regulators. They are among the most heavily regulated financial products.



WHAT FEES ARE CHARGED AND DISCLOSED TO INVESTORS?

- Regulations require extensive disclosure of all costs at the time of the initial investment and periodically thereafter. Fees charged by managed futures funds are clearly and prominently disclosed in the funds’ disclosure document, as well as in monthly account statements received by investors. All performance reported by managed futures funds is required to be reported net of all fees and expenses. These disclosures are mandated by CFTC and NFA rules.
- Privately-offered managed futures pools are actively managed by CPOs and/or CTAs and usually charge fees similar to hedge funds – typically, a 2% management fee and a 20% performance fee on any gains. These

pools are only available to sophisticated investors with substantial net worth and institutional investors such as pension funds and endowments.⁶

- Public managed futures pools are actively managed by CPOs and may carry fees higher than private pools because the start-up and operating costs are greater. CPOs of public pools rely on selling agents and financial advisors to provide retail investors with access and educate them on the strategy, costs, and risks of the investment. The costs of pools are also driven by transaction and exchange fees, advisor or sub-advisor fees and compliance costs resulting from multiple levels of regulation.

¹For the period 1/1/2000 – 9/30/2013, the correlation between managed futures and the S&P 500 is - 0.11. For the same period, the correlation between managed futures and the NASDAQ is - 0.14. (Credit Suisse/Tremont Managed Futures Index to the S&P Total Return Index and NASDAQ Composite).

²Credit Suisse/Tremont Managed Futures Index

³S&P Total Return Index

⁴S&P Total Return Index

⁵NASDAQ Composite

⁶CFTC definition of qualified eligible persons, SEC definition of accredited investor