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IF DISCIPLINE WAS EASY, EVERYONE WOULD HAVE IT

In the world of investments, it can be difficult to remain disciplined. As many have observed, markets can become euphoric and the excitement surrounding an individual position, strategy or asset class can often take on a life of its own. When an asset train is running, it is hard to be the only one left in the station. No less than John Maynard Keynes bemoaned a similar phenomenon when he supposedly quipped that "the market can remain irrational longer than you can remain solvent."[1] And, Nassim Taleb highlighted a similar concept when he noted "[i]t has been more profitable for us to bind together in the wrong direction than to be alone in the right one."[2] Very often, however, the discipline to remain true to your conviction pays off in time.

In today's market, anything labeled "equities" or "high yield" seems to be the hot hand. The S&P 500, for example, is up 26.3% since January 2011.[3] And the ML High Yield Master II is up 22.9% since January 2011.[4] Perhaps more notably, with interest rates effectively pegged at zero, there seems to be a new income-oriented offering every time you turn around. Since January 2012 , for example, there have been 21 income-oriented closed-end mutual funds launched, gathering over USD 11 Billion in assets.

Since managed futures tend to perform best during periods of heightened volatility and extended trends, the asset class has faced significant headwinds for the past few years. Since the beginning of 2011, for example, the BTOP 50 Index has lost 4.5%. Adding to the difficulty for managed futures is the efforts of the world's central banks to intervene boldly and frequently in market affairs. As a result, persistent trends have been less frequent and less pronounced. Instead, traders have been treated to markets that are "range-bound and whipsaw dominated"[5] – a challenging prescription indeed for those looking to benefit from pronounced trends.

Against this backdrop, the non-correlation of managed futures has become a challenging attribute to defend. "Who in their right mind," a financial advisor will ask, "wants to be non-correlated with an asset class that is ripping?" While the question appears fair at first glance, it fails to account for a long enough timeframe. And, the job of a responsible financial advisor, we remind her, often rests on being disciplined, even when a client might not be self-regulating. In this vein, today might represent the right time to own the managed futures asset class.

Besides, if discipline was easy, everyone would have it!

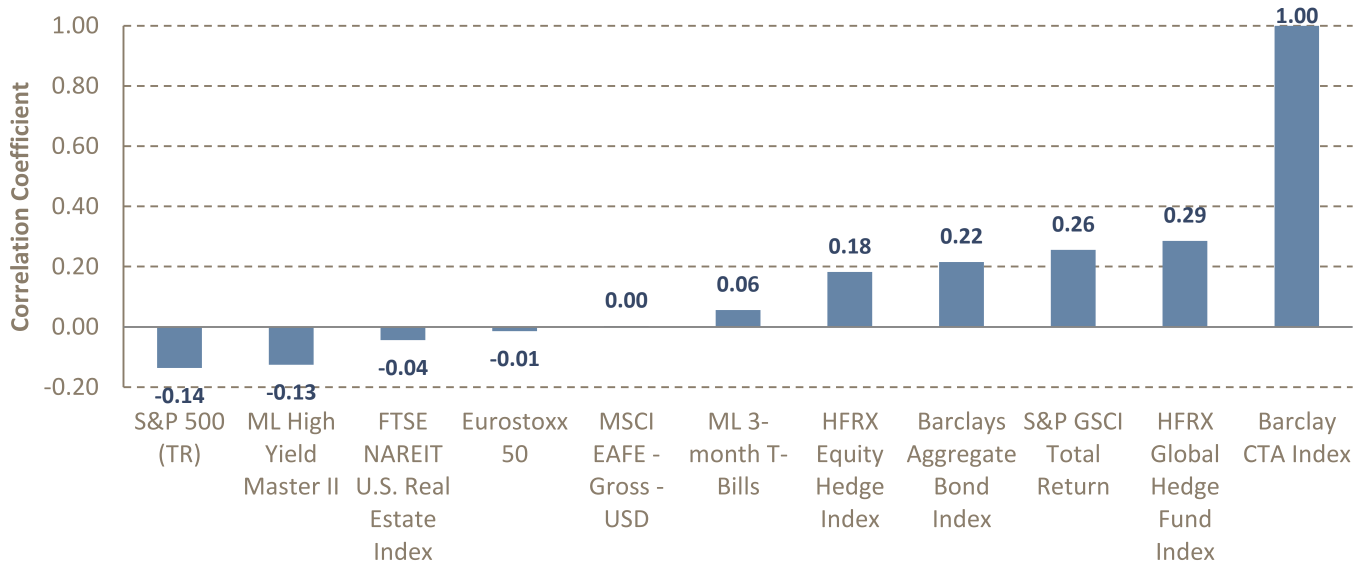
[1] There is some dispute as to whether Keynes actually uttered these words. *See*, *e.g.* http://quoteinvestigator.com/2011/08/09/remain-solvent.
[2] Nassim Nicholas Taleb, Black Swan: The Impact of the Highly Improbable.
[3] Unless otherwise noted, all data are current through February 28, 2013.
[4] As measured by the BofA Merrill Lynch High Yield II Master Index.
[5] Morgan Stanley Smith Barney, *Managed Futures – Why Now?*, September 2012 at 2.

The potential benefits of managed futures are well documented by now, and are best understood in two parts. The first potential benefit of adding a managed futures allocation to a traditional portfolio was best captured by Ibbotson Associates, who observed that

"[t]he correlation numbers demonstrate that managed futures have relatively low correlation with both stocks and bonds. This indicates that managed futures can potentially reduce the risk and enhance return for portfolios consisting of traditional stock and bond investments."[6]

Figure 1 illustrates the correlation of managed futures with other major asset classes during the period January 2000 through January 2013. As the chart shows, the historical correlation benefits of managed futures have not been limited solely to equities. In fact, when compared to nine different asset classes, managed futures have displayed no correlation coefficient greater than 0.3 or less than -0.2.[7]

Figure 1. Historical Correlation of CTA Programs (January 2000 – January 2013)



Correlation alone does not tell the entire story. A more dynamic understanding of the potential benefits of the asset class can be told from observing the performance of managed futures in times of market stress. For example, during periods of equity drawdowns, where stocks move from a peak to a subsequent low, managed futures have rewarded those investors disciplined enough to hold the asset class. In fact, as Figures 2 and 3 illustrate, during the six biggest drawdowns in the S&P500 since 1980, while equities lost 28.9% on average, the Barclay CTA Index enjoyed an average return of 15%. In fact, many investors were first drawn to the asset class after its performance during the financial crisis. In the equities drawdown from November 2007 through February 2009, for example, the S&P500 lost 50.95% of its value in the throes of global market turmoil. During that same period, the Barclay CTA Index and the BTOP 50 Index returned 16.07% and 14.47%, respectively.

[6] Ibbotson Associates, "Managed Futures and Asset Allocation: August 2006" at 12.
[7] A definition of correlation coefficient is provided in the "Definitions" section at the end of this brochure.

Figure 2. S&P 500 Drawdown Analysis

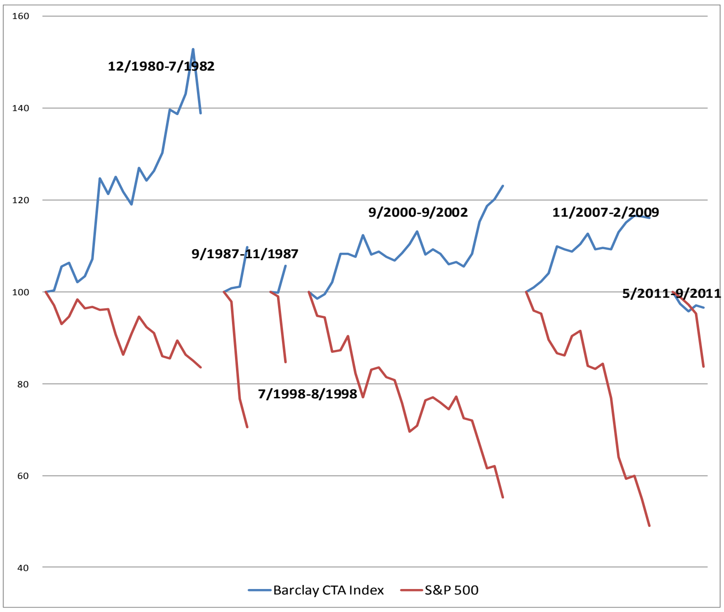


Figure 3. Drawdown Analysis Statistics

Barclay CTA	S&P 500
12/1980 - 7/1982	
38.84%	-16.51%
9/1987 - 11/1987	
9.74%	-29.58%
7/1998 - 8/1998	
5.61%	-15.38%
9/2000 - 9/2002	
23.05%	-44.73%
11/2007 - 2/2009	
16.07%	-50.95%
5/2011 - 9/2011	
-3.47%	-16.26%

While past performance is not necessarily indicative of future returns, when combined with a portfolio of high yield assets, managed futures have historically displayed similar benefits. As Figure 1 shows, managed futures enjoyed a correlation coefficient of -0.13 with high yield for the period January 2000 thru January 2013. Notably, during periods of drawdown for high yield, the inclusion of managed futures within a portfolio would have rewarded an investor. As Figures 4 and 5 illustrate, during the six biggest drawdowns in high yield since September 1986, while high yield suffered a loss of 13.53% on average, the Barclay CTA Index and the BTOP 50 Index enjoyed average returns of 7.64% and 6.95%, respectively.

Figure 4. CTA Returns During Largest US High Yield Drawdowns

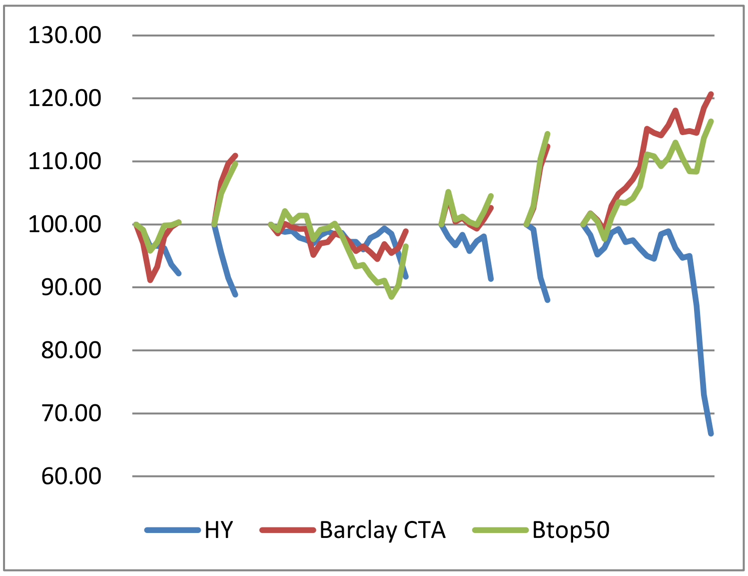


Figure 5. Drawdown Analysis Statistics

Barclay CTA	ML HY Master II
7/1990 - 10/1990	
10.9%	-11.2%
7/1998 - 10/1998	
8.4%	-6.8%
8/2000 - 11/2000	
2.1%	-7.7%
2/2001 - 9/2001	
2.6%	-8.7%
5/2002 - 9/2002	
13.7%	-10.5%
5/2008 - 11/2008	
4.3%	-32.5%

Of course, the potential benefits of managed futures extend beyond the diversification effect the asset class has on a traditional portfolio. As one study noted, "[a]lthough managed futures has often produced outstanding returns during dislocation and crisis events, it must be emphasized that managed futures are not and should not be viewed as a portfolio hedge, but rather as a source of liquid transparent return that is typically not correlated to traditional or other alternative investments."[8] In fact, that same study noted that many of the approaches taken by managed futures managers "tend to exploit the sustained capital flows across asset classes that typically take place as markets move back into equilibrium after prolonged imbalances."[9]

At the end of the day, investors should always think twice before throwing caution to the wind in the pursuit of returns. "Moderation" and "balance" remain the watchwords. And, there is no doubt that sticking with an asset class that feels sleepy requires a strong will and can test any investor's patience. The disciplined investor would be wise to remember, however, that – at least in the past – a managed futures allocation has rewarded that patience when capital flows turn.

Besides, "missing a train is only painful if you run after it!"[10]

[8] Ryan Abrams, Ranjan Bhaduri and Elizabeth Flores, *Lintner Revisited: The Benefits of Managed Futures 25 Years Later* (CME Group, 2009) at 4.
[9] *Id.* at 9.
[10] Nassim Nicholas Taleb, Black Swan: The Impact of the Highly Improbable.

DEFINITIONS:

Correlation Coefficient: The correlation coefficient, r, indicates both the strength and direction of the relationship between the independent and dependent variables. Values of r range from -1.0, a strong negative relationship, to +1.0, a strong positive relationship. When r=0, there is no relationship between variables x and y.

Maximum Drawdown: Measure of risk (also known as Worst Historical Loss) that illustrates the largest peak-to-valley decline, based on simulated monthly rates of return, during a given time period. The Worst Historical Loss depicted in this presentation is not the maximum loss that can occur in an individual's managed account. There is no guarantee that managed futures or any particular investment will meet its intended objective; accordingly, investors could lose a substantial portion, or even all, of their investment.

INDEX DESCRIPTIONS:

The **S&P 500® Total Return Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned Index includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500® focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. Total return provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend. Source: standardandpoors.com.

The **FTSE NAREIT US Real Estate Index** provides investors with a comprehensive REIT performance benchmark that spans the commercial real estate space across the US economy. Source: PerTrac

The **BofA Merrill Lynch US High Yield Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings). In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the Eurobond and U.S. domestic bond markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. DRD-eligible and defaulted securities are excluded from the Index. Source: PerTrac

The **MSCI® EAFE® Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of February 2013 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Source: msci.com.

The **3-Month T-Bill Rate** describes a short-term debt obligation backed by the U.S. government with a maturity of 3 months. Source: Treasury.gov

The **HFRX® Equity Hedge Index** seeks to replicate equity hedge strategies that maintain positions, both long and short, in primarily equity and equity derivative securities. Hedge Fund Research, Inc. utilizes a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the Hedge Fund Universe. Source: hedgefundresearch.com.

The **HFRX® Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. Hedge Fund Research, Inc. utilizes a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the Hedge Fund Universe. Source: hedgefundresearch.com.

The **Barclays Capital U.S. Aggregate Bond Index** covers the USD-denominated, investment grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The index was created in 1986, with index history backfilled to January 1, 1976. Source: barcap.com.

The **S&P GSCI® Total Return Index** is widely recognized as a leading measure of general price movements and inflation in the world economy. It provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets, and is designed to be a "tradable" index. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets. Source: standardandpoors.com.

The **Barclay CTA Index** is a leading industry benchmark of representative performance of commodity trading advisors. There are 582 programs included in the calculation of the Barclay CTA Index for the year 2013. The index is unweighted and rebalanced at the beginning of each year. To qualify for inclusion in the index, an advisor must have four years of prior performance history. Additional programs introduced by qualified advisors are not added to the index until after their second year. Source: barclayhedge.com

The **Barclay BTOP50 Index® ("BTOP50")** seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50. In each calendar year the selected trading advisors represent, in aggregate, no less than 50% of the investable assets of the Barclay CTA Universe. To be included in the BTOP50, the following criteria must be met:

• Program must be open for investment.
• Manager must be willing to provide daily returns.
• Program must have at least two years of trading activity.
• Program's advisor must have at least three years of operating history.

The BTOP50's portfolio will be equally weighted among the selected programs at the beginning of each calendar year and will be rebalanced annually. The index does not encompass the whole universe of CTAs. For 2013, there are 20 funds in the index. The CTAs that comprise the index have submitted their information voluntarily. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Managed Futures programs in the Barclay BTOP50 Index® may be subject to leverage risk, volatility, and risk of loss that may magnify with the use of leverage. Source: barclayhedge.com.

Asset classes have different investment objectives, costs and expenses, liquidity profiles, safety, guarantees/insurance, volatility, and tax advantages/disadvantages. The performance of any index presented does not represent the performance of any particular product. The performance of the indices noted above does not include fund expenses, such as service fees, sponsor fees, fund organizational and operating fees, the fund operating expenses, etc. Investors are not able to invest directly in the above indices.

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