

Why Smart Money Invests in Managed futures

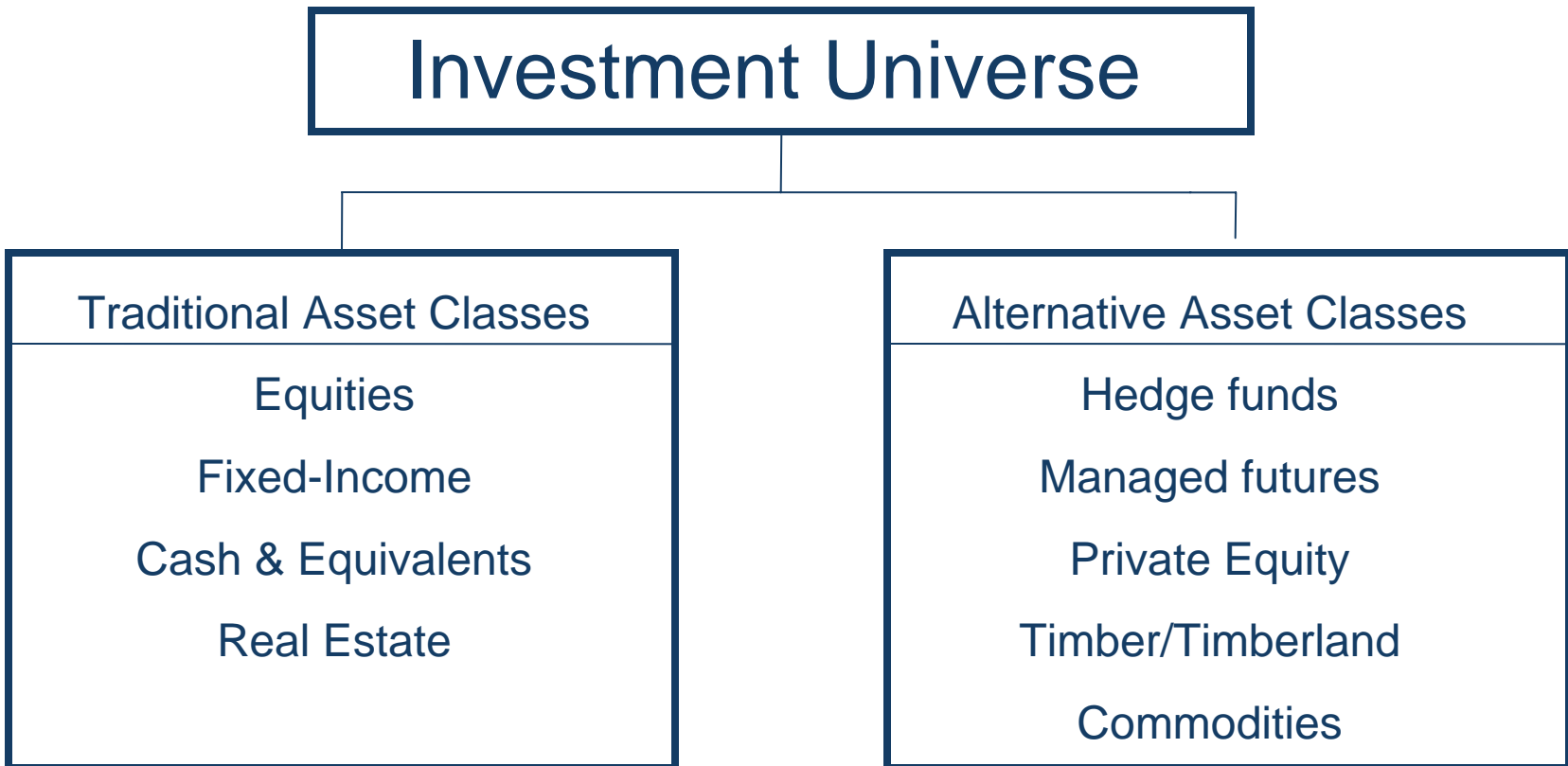
10 Compelling reasons to consider Managed Futures

David Lerman
July/August, 2009

10 Compelling Reasons for Managed Futures

1. Diversity beyond the traditional asset classes of stocks/bonds/cash
2. Reduces overall portfolio volatility (zig/zag theory)
3. Potential to increase returns along with reduction in volatility
4. Returns can be generated in any kind of economic environment and bull and bear markets
5. Performance during major stock market declines has been remarkable
6. Many successful pension plan sponsors have long utilized Managed futures to generate alpha
7. Typical CTA /Pool Operator has wide variety of global futures products that are the most transparent and liquid instruments in existence
8. CTA/CPO community is regulated and they trade mostly on regulated futures exchanges throughout the world.
9.and these exchanges have sophisticated risk management in the form of clearing houses
10. Overall, the growth of the industry has been exceptional...giving further credence to managed futures as excellent addition to any asset allocation strategy

Investment Universe-Variou Asset Classes



Various Managed Futures Benchmarks

Managed Futures Indexes (Actively Managed):

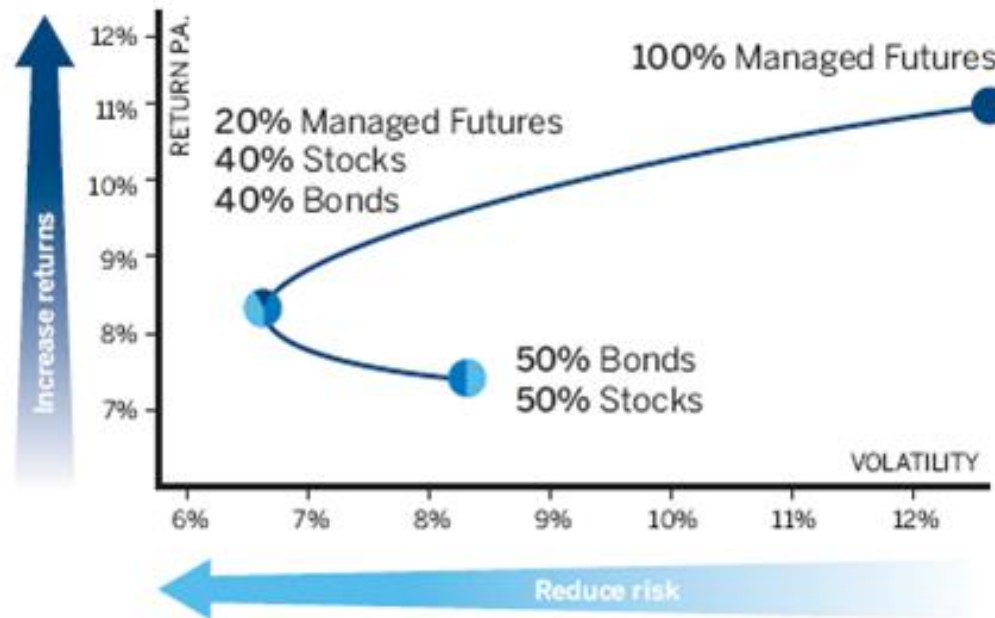
- Barclay CTA Index
 - MLM (Mount Lucas Management) Index
 - CISDM Managed Futures Benchmark Series
-

Commodity Market Indexes (Passive):

- Goldman Sachs Commodity Index (GSCI)
- Dow Jones-AIG Commodity Index (DJ-AIGCI)
- Reuters-CRB Total Return Index

Efficient Frontier—with managed futures allocation

OPTIMUM PORTFOLIO MIX (01/1987 – 02/2008)*



*1) Managed futures: CASAM CISDM CTA Equal Weighted;
2) Stocks: MSCI World;
3) Bonds: JP Morgan Government Bond Global;
Source: Bloomberg

Managed futures and potential to lower overall risk

Correlation of Selected Asset Classes

	Managed futures	Bonds	U.S. Stocks
Managed futures	1.00	0.30	-0.23
Bonds	0.30	1.00	-0.29
U.S. stocks	-0.23	-0.29	1.00

Sources: BarclayHedge. Ltd
Based on 10 years ending 12/31/2007

Diversification Benefits

Portfolio performance 1995-2005 ...

	Annualized Returns	Annualized Std Dev	Sharpe Ratio	Max Drawdown
50% S&P 500, 50% Lehman Gov/Corp	9.68%	7.77%	0.74	-16.07%
40% S&P 500, 40% Lehman Gov/Corp, 20% S&P/GSCI	10.26%	7.51%	0.85	-13.91%
40% S&P 500, 40% Lehman Gov/Corp, 20% DJ-AIG	9.78%	7.03%	0.84	-11.85%

Portfolio performance 2001-2005 ...

	Annualized Returns	Annualized Std Dev	Sharpe Ratio	Max Drawdown
50% S&P 500, 50% Lehman Gov/Corp	3.67%	7.06%	0.22	-14.63%
40% S&P 500, 40% Lehman Gov/Corp, 20% S&P/GSCI	5.33%	7.05%	0.45	-12.90%
40% S&P 500, 40% Lehman Gov/Corp, 20% DJ-AIG	5.09%	6.60%	0.45	-11.72%

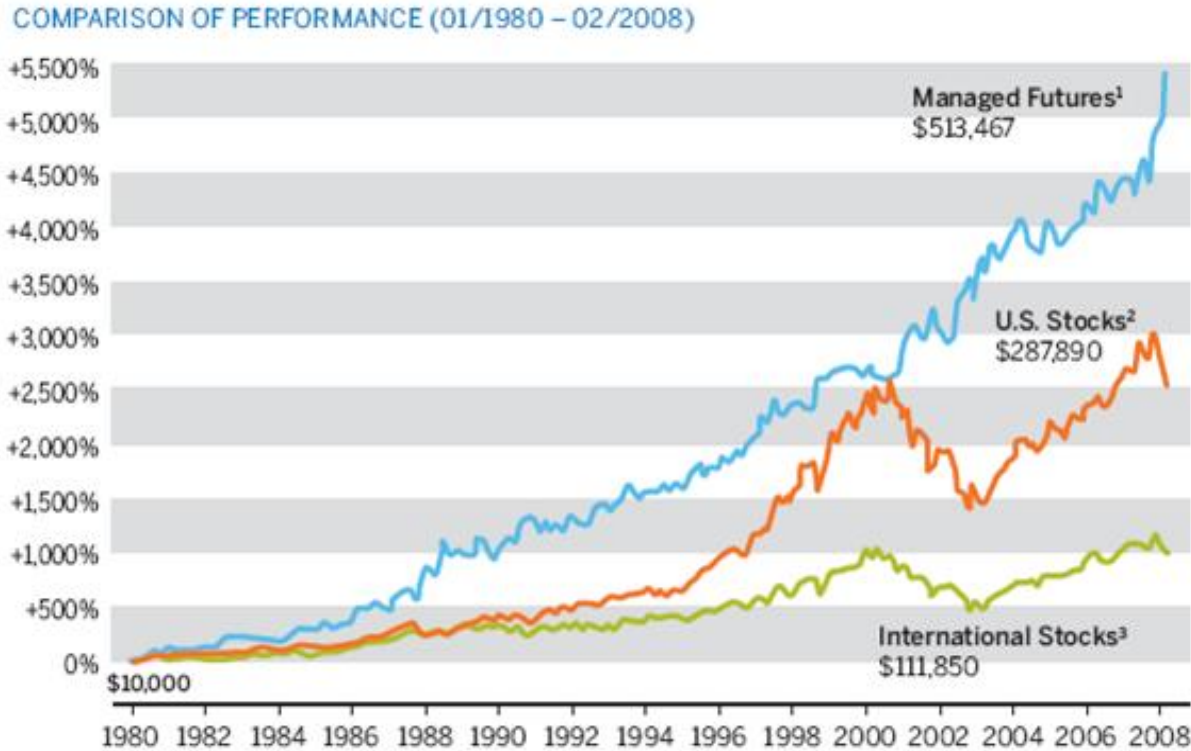
Source: "The Benefits of Commodity Investment: 2006 Update, Center for International Securities and Derivatives Markets, August 2006"

10 Compelling Reasons for Managed Futures

- Managed futures performance vs. other asset benchmarks over time (including major secular bull market of 80s and 90s, the crash of 87 and several bear markets)

<u>Benchmark</u>	<u>Returns</u> <u>1980 – 2008</u>
Managed Futures Funds	+12.8%
S & P 500	+10.7%
World Stocks (MSCI EAFE)	+ 9.5%
Money Market inst. (T-bills)	+ 5.6%

Performance Comparison: Stocks vs International stocks vs Managed futures



1) Managed futures: CASAM CISDM CTA Equal Weighted; 2) U.S. stocks: S&P 500 Total Return; 3) International stocks: MSCI World; Source: Bloomberg; All material is property of MSCI. Use and duplication subject to contract with MSCI.

10 Compelling Reasons for Managed Futures

- Managed futures performance during severe declines in S&P 500

Managed futures vs. other asset classes during the 2008 market rout

Benchmark	2008 Performance
Managed Futures Funds	+18.33%
Managed Futures CTAs	+14.11%
S & P 500	- 38.49%
Hedge funds	- 19.07%
World Stocks	- 43.07%
Real Estate	- 43.12%

Sources: Credit Suisse Tremont Managed Futures index, Barclay's CTA index, CME Group, Credit Suisse Tremont Hedge fund index, MSCI world index
Dow Jones Wilshire Real Estate Index

10 Compelling Reasons for Managed Futures

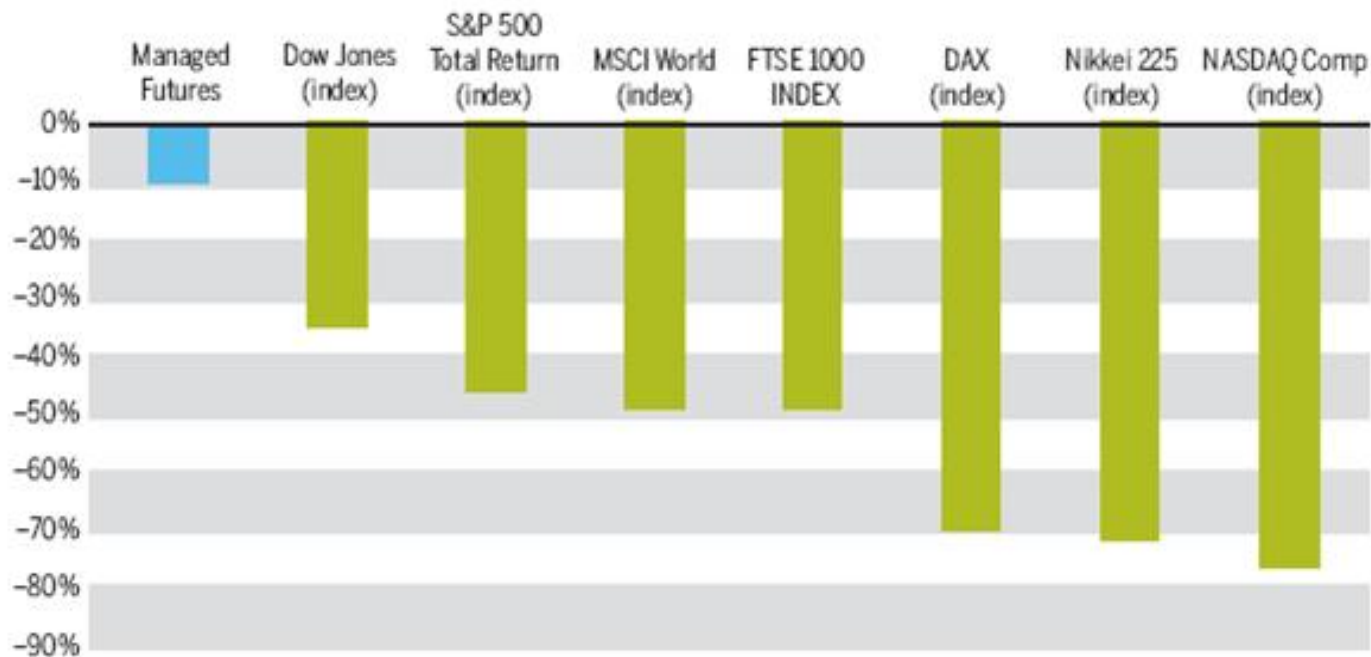
Managed futures performance during severe declines in S&P 500

Managed futures performance during the worst stock market declines in recent history:

Event	S&P 500	BTOP 50 Index
Crash of 87	-23.23 %	+ 16.88%
Terrorist attacks WTC 9/11	-14.99%	+ 4.12%
Iraq invades Kuwait 1990	-14.52%	+ 11.22%
1998 Russian defaults/LTCM	-10.30%	+ 10.54%
Tech bubble bursts 2000	- 8.09%	+ 19.78%

More on Risk: Worst Drawdowns of various markets

WORST DRAWDOWNS IN COMPARISON



Managed futures: CASAM CISDM CTA Equal Weighted; Time scale: 11/1990 - 02/2008; Source: Bloomberg

10 Compelling Reasons for Managed Futures

Returns in general....those that can overcome their fears of investing in futures, either directly or via Managed futures sometimes have very high expectations of returns given the nature of the investment.

Lets look at returns from several perspectives...

Long term returns of S&P 500	10-13% over past 75 years
Long term returns of bonds	4-6 % over past 75 years
Long term returns of T-bills	under 3 %
Berkshire Hathaway return since Inception of partnership by Warren Buffett	21%
Long term returns of the very best Hedge funds	25-35%

The Variety of Global Futures Products- A partial list

Foreign Exchange

Aussie Dollar
British Pound
Canadian Dollar
Chinese Renmimbi
Euro FX
Japanese Yen
New Zealand Dollar
Swiss Franc

Interest Rate

Eurodollar
10-yr Treasury Notes
30-yr Treasury Notes
Euroyen
30-day fed funds

Metals

Gold
Platinum
Copper
Silver

Energy

Crude Oil
Natural Gas
Gasoline

Commodities

Corn
Oats
Soybeans
Wheat
Pork Bellies
Lean Hogs
Lumber
SP GSCI

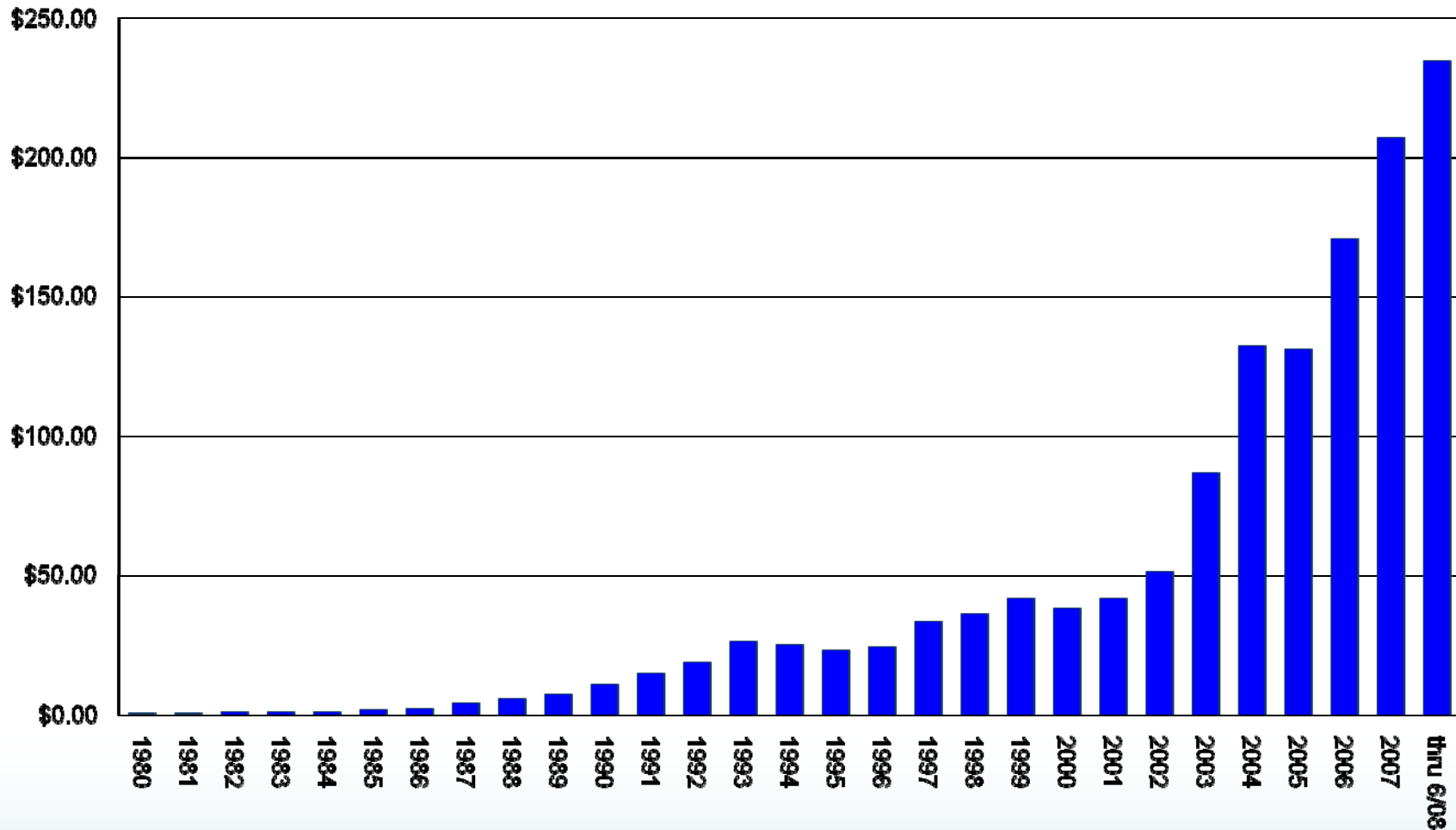
Equities

MSCI EAFE & Emerging Markets
S&P 500, S&P 400, S&P 600
Bovespa, CAC-40, DAX
EuroStoxx, Hang Seng, Nikkei 225

By broadly diversifying across global markets,
Managed futures can simultaneously profit from
Price changes in stocks, bond, currency and money
Markets, as well as from diverse commodity markets
Having virtually no correlation to traditional asset classes

Growth of Assets of Managed Futures Industry

Growth (billions) since 1980



Resources/Contacts

In addition, the CME Group website has a Managed Futures Resource Center. For more information, visit the URL below.

I can be contacted at 312-648-3721 or at
David.lerman@cmegroup.com

<http://www.cmegroup.com/education/managed-futures-resource-center.html>

Disclaimer

The information herein is taken from sources believed to be reliable. However, it is intended for purposes of information and education only and is not guaranteed by CME Group as to accuracy, completeness, nor any trading result, and does not constitute trading advice or constitute a solicitation of the purchase or sale of any futures, options or other derivatives products. The Rules and Regulations of CME Group should be consulted as the authoritative source on all current contract specifications and regulations.