Managed Futures An Introduction

Learn about managed futures and why adding managed futures to a balanced portfolio may decrease portfolio risk while enhancing overall performance.

Explore managed futures investment strategies

Discover the potential benefits of managed futures

Examine ways to access managed futures funds

About Steben & Company

Steben & Company is a leading alternative asset manager. We specialize in multi-manager products including fund of hedge funds and managed futures strategies. Our investment philosophy is defined by high conviction, actively managed exposures with a focus on more liquid, lower beta strategies. Our funds are designed to provide investors with the potential benefits of diversification and absolute returns regardless of market direction.

We seek to employ a repeatable investment process that incorporates rigorous due diligence, manager selection, portfolio construction and ongoing risk monitoring. Through our unique combination of resources and capabilities, Steben offers financial advisors and investors distinguished investment opportunities that have traditionally been limited to institutional investors.

Steben is an alternative investments innovator with 30 years of continuous operating experience.

The views in this material are intended to assist the reader in understanding various managed futures investment strategies and do not constitute investment or tax advice (please consult your tax professional). Managed futures have different characteristics from traditional equity investments and traditional mutual funds. Our review is intended to provide a general overview and some specific attributes associated with investing in a managed futures fund structure. The views in this material were those of Steben & Company as of the date of publication. Please refer to the Risks of Managed Futures Investing as well as the Glossary for important disclosures.

What are Alternative Investments?

Alternative investments can refer to asset classes or strategies. Generally speaking, they are investments outside of long-only positions in traditional asset classes such as stocks, bonds and cash. Many alternatives have a low correlation to traditional assets and may provide investors with the benefits of diversification.

What are Managed Futures?

Managed futures are a category of alternative investments. Richard Donchian, who is considered to be the creator of the managed futures industry and is credited with developing a systematic approach to futures money management, started the first public managed futures fund in 1949. Since then, managed futures have developed into an established alternative asset class.

Managed futures are pooled investment funds that use professional money managers called “commodity trading advisors” or “CTAs” to trade in the futures markets. Futures contracts are liquid, are priced on a daily basis, and represent more than 200 global markets. Trading advisors buy and sell futures and forward contracts in an attempt to profit regardless of market direction.

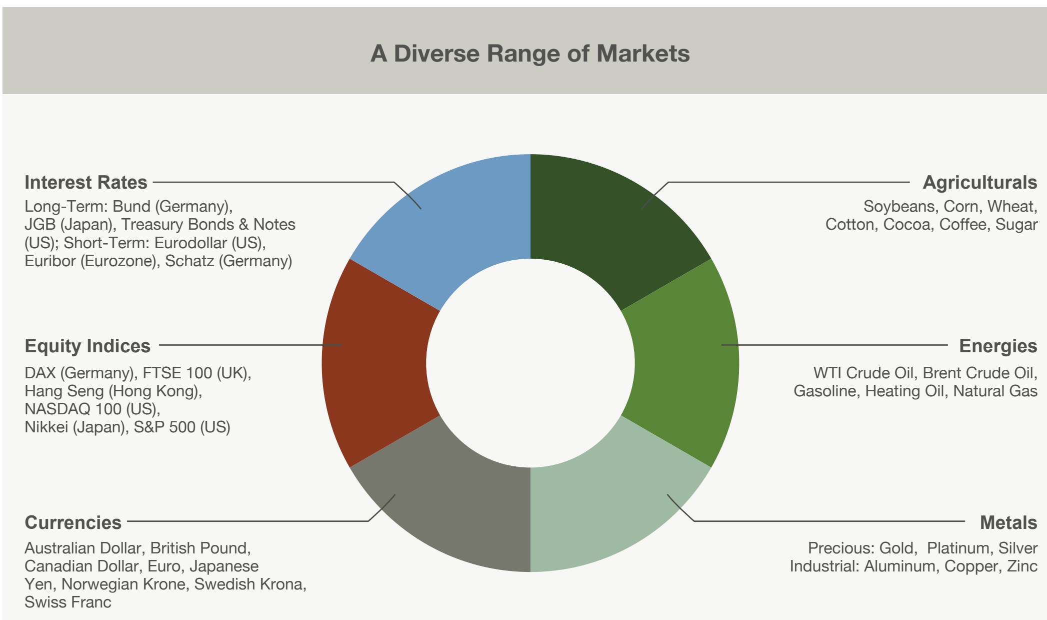
Historically, managed futures have generated long term absolute returns that behave independently (in a non-correlated fashion) from those of stocks, bonds and other investment classes. Non-correlated strategies can bring added diversification benefits to an investment portfolio, possibly helping it better weather market downturns.

Let’s take a closer look…

Broad Diversification Opportunities

Futures are highly flexible and liquid financial instruments traded on regulated financial and commodity markets around the world. By broadly diversifying across global markets, managed futures can profit from price changes in equity, bond, currency and diverse commodity markets.

Trading advisors can take either long or short positions in futures markets including interest rates, equity indices, currencies, agriculturals, energies and metals. These markets are impacted, positively or negatively, by factors including geopolitical events, the economic cycle and investor sentiment. By accessing a diverse range of markets, trading advisors can potentially take advantage of worldwide price trends.

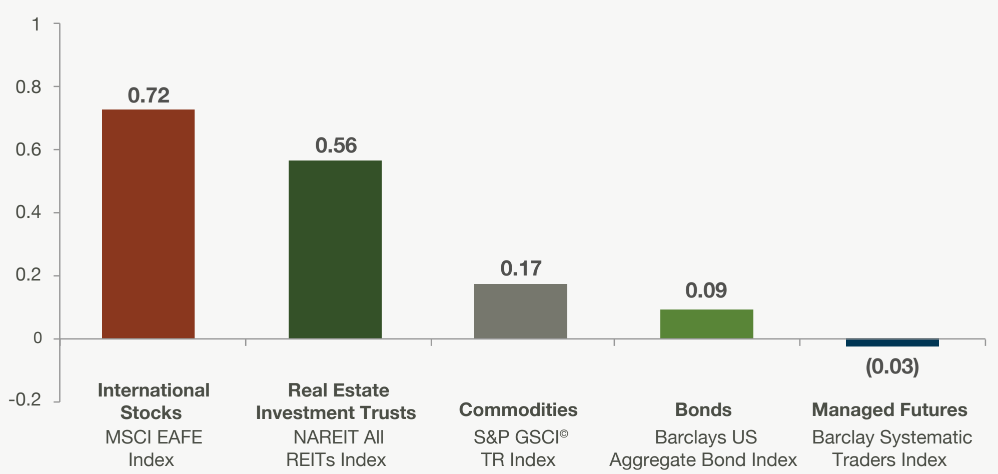


The above chart is for illustrative purposes only.

Potential to Lower Overall Portfolio Risk

Adding managed futures to a balanced portfolio may decrease portfolio volatility. Risk reduction is possible because managed futures trade across a wide range of global markets with long or short positions, leading to returns that have no meaningful long-term correlation to traditional asset classes (such as equities and bonds). Furthermore, managed futures tend to have historically performed well during difficult economic or market conditions for equities, providing downside protection in many portfolios.

Historical Correlation to S&P 500 TR Index
January 1987 – December 2018



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. HISTORICALLY LOW CORRELATION LEVELS MAY NOT CONTINUE IN THE FUTURE. Index definitions can be found in the Glossary. It is not possible to invest directly into an index.

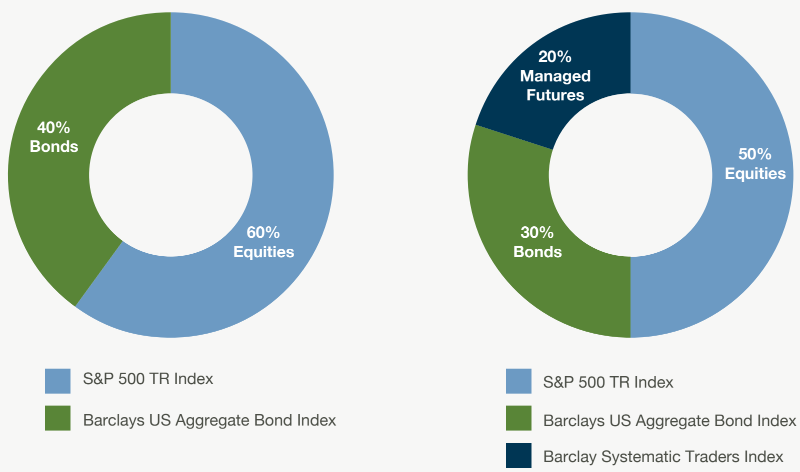
Opportunity to Enhance Overall Portfolio Risk-Adjusted Returns

While managed futures can decrease portfolio risk, they can also enhance overall risk-adjusted performance. The chart below illustrates that adding managed futures to a traditional portfolio improves overall investment quality.

Modern Portfolio Theory states that adding assets to a diversified portfolio that have correlations of less than one with each other can decrease portfolio risk. This diversification can increase the Sharpe ratio for a portfolio.

The Sharpe ratio is a measure for calculating risk-adjusted return, which is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return.

Historical Impact of Adding a 20% Allocation to Managed Futures
January 1987 – December 2018



Since 1987	Annualized Return	Max Drawdown	Standard Deviation	Sharpe
60/40 Portfolio	8.71%	-32.54%	9.14%	0.60
50/30/20 Portfolio	8.61%	-25.14%	7.98%	0.66

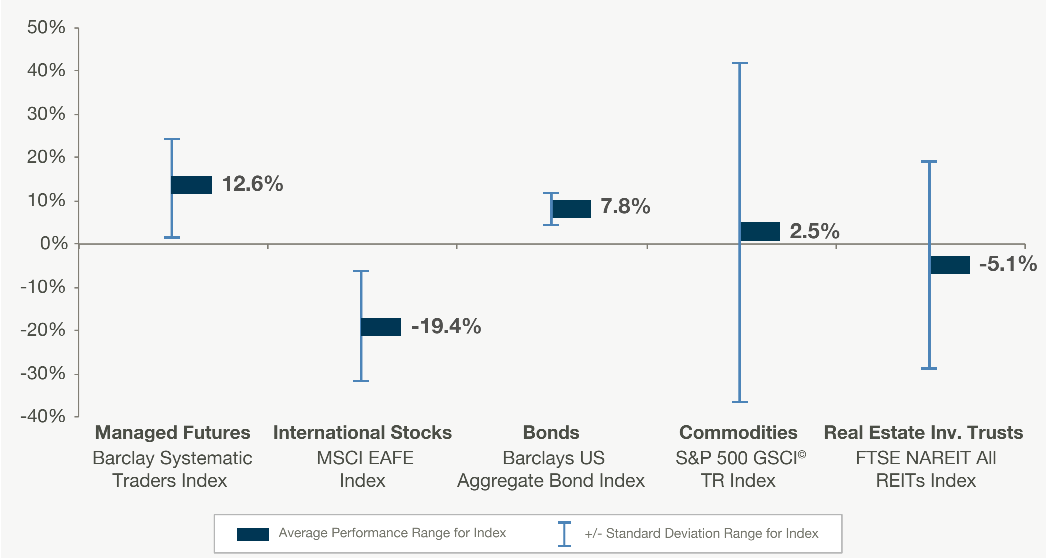
PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. DIVERSIFICATION DOES NOT ASSURE A PROFIT OR GUARANTEE A LOSS. Calculated using month-end data. Rebalanced monthly. Source: Bloomberg. See Glossary for index definitions.

Potential for Diversification in Tough Times

One of the most compelling reasons managed futures have garnered so much interest is their potential non-correlation benefits, particularly during challenging periods for equities.

The chart below shows the average performance for various asset classes during negative 12-month periods for the S&P 500 Total Return Index from January 1987 through December 2018.

Average Performance During Negative 12-Month Periods for S&P 500 TR (with +/- 1 Standard Deviation Bounds)
January 1987 – December 2018

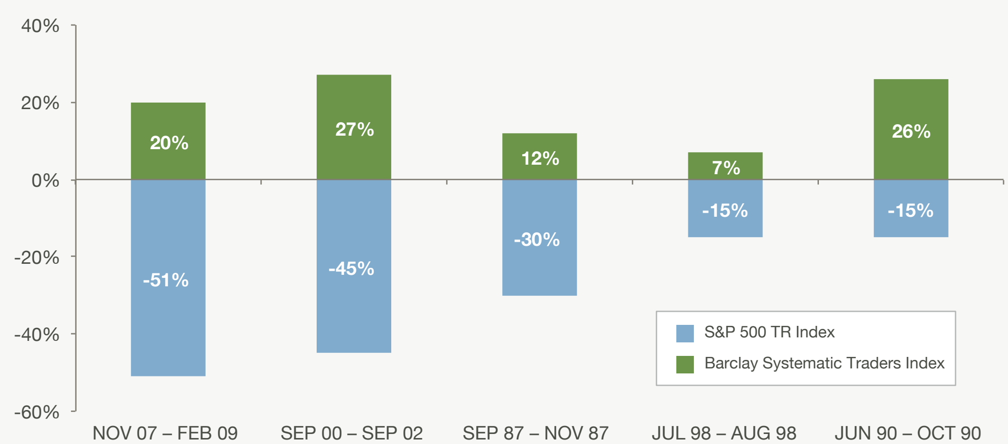


PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. DIVERSIFICATION DOES NOT ASSURE A PROFIT OR GUARANTEE A LOSS. Different time periods could produce different results. Returns are cumulative and are calculated using month-end data. Source: Bloomberg. See Glossary for index definitions.

Opportunities in a Variety of Economic Environments

Managed futures trading advisors can generate profit (or loss) in any market cycle due to their ability to go long (buy) futures positions in anticipation of rising markets or go short (sell) futures positions in anticipation of falling markets. Managed futures have performed well relative to traditional asset classes during challenging market environments due to non-correlation and absolute return potential, regardless of market direction.

5 Worst Episodes of Equity Performance
January 1987 – December 2018



Source: Bloomberg

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. DIVERSIFICATION DOES NOT ASSURE A PROFIT OR GUARANTEE A LOSS. Different time periods could produce different results. Calculated using month-end data. See Glossary for detailed index information. It is not possible to invest directly in an index.

Trading Advisor Selection is Paramount

Adding managed futures to a balanced portfolio may decrease portfolio volatility while providing the potential for attractive returns, which is entirely dependent on trading advisor skill. Therefore, the most important factor when investing in managed futures is trading advisor selection.

Over the last three decades, assets in managed futures have grown tremendously. According to BarclayHedge, there were more than 540 CTA programs in the managed futures industry with over $350 billion in assets under management at year-end 2018.

With so many managed futures trading advisors implementing unique investment systems and strategies, evaluating and categorizing them is not easy. There is also a large dispersion of returns across trading advisors. The implications of picking the wrong trading advisor may have a detrimental long-term affect on an investment portfolio.

Detailed trading advisor research and selection is commonly called “due diligence” and typically encompasses the following:

- Reviewing the Trading Advisor’s Organizational Structure and Personnel
- Assessing the Investment Process and Portfolio Construction
- Analyzing Historical Performance and Risk/Return Metrics

While many professional and institutional investors have the expertise and experience to conduct this level of in-depth research, most individual investors do not. Therefore, investors may seek out professional assistance when deciding which trading advisor or type of managed futures strategy may be appropriate.

Accessing Managed Futures Strategies

There are a number of ways investors can gain access to managed futures:

Mutual Funds vs. Private Funds

Mutual funds can provide non-accredited investors access to the diversification benefits of managed futures with the convenience of lower minimum investments, daily liquidity and 1099 tax reporting. However, certain constraints and restrictions on performance fee payments may create a negative selection bias in trading advisor quality. The end result may be that the mutual fund does not realize the performance potential of the same strategies in a traditional private fund.

Private funds are limited to investors that meet certain standards and often have high minimum investment requirements of $1 million or more. As a result, a direct investment in a private fund is usually only made by institutional and qualified investors. Because of the high minimum investment requirements, it may be difficult for investors to diversify across multiple trading advisors and strategies.

Single vs. Multi-Advisor Funds

Some managed futures funds are limited to a single trading advisor, while multi-advisor funds invest through multiple trading advisors. Multi-advisor funds offer the potential diversification benefits of investing in a variety of managed futures strategies with a variety of trading advisors. They may also have lower investment minimums than private, single advisor funds, making them more accessible. In addition, multi-advisor funds often have professional sponsors who conduct extensive research and due diligence on trading advisors. Both single and multi-advisor funds may be structured as private funds or mutual funds.

Multi-Advisor Funds: A Closer Look

A managed futures multi-advisor fund is an investment vehicle that pools investor assets together and invests across multiple trading advisors. These types of funds may be structured as mutual funds or as private funds. Multi-advisor funds provide investors a potentially lower minimum investment to access a professionally selected and managed portfolio of trading advisors. The sponsor of the multi-advisor fund is responsible for due diligence, trading advisor selection, portfolio construction, risk management, ongoing monitoring and rebalancing.

A multi-advisor fund will still seek to deliver absolute returns and diversification from stocks and bonds with reduced volatility. In some cases, the pooling of investor money may allow a multi-advisor fund to access trading advisors unavailable to most individual investors due to high investment minimums or high investor qualification standards.

Some multi-advisor funds are still subject to the performance fees of the underlying trading advisors in which they are invested.

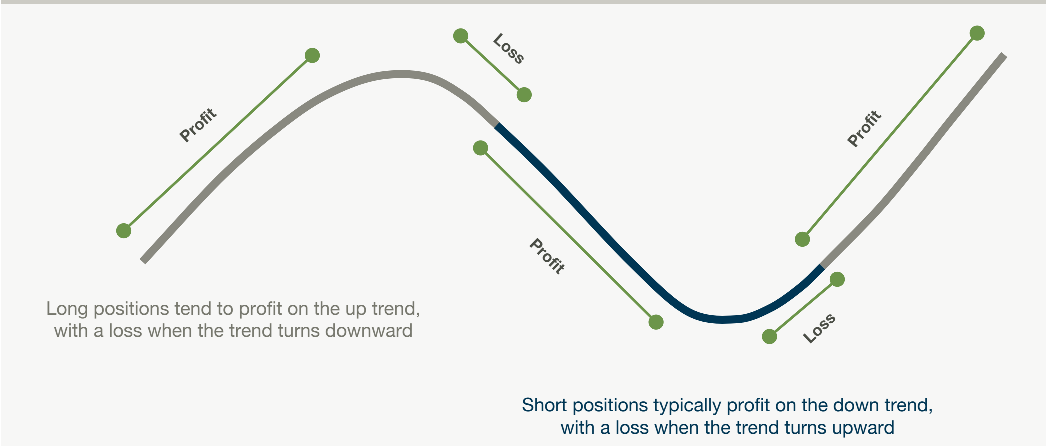
Managed Futures Strategies

While each trading advisor employs its unique investment strategy, the majority fall into one of two categories: the major group is known as trend following, while the other is comprised of non-trend strategies.

Trend Following Strategies

Many trading advisors utilize the concept of trend following, where they seek to identify sustained price trends, regardless of the direction the market is moving. In general, trend followers are more likely to trade profitably when market prices move in a continuous direction, up or down, for sustained periods of time, and they are more likely to incur losses when market prices are erratic and frequently change direction over shorter periods of time. Different trading advisors may seek to exploit short term, medium term or long term price trends.

Trend Following Strategies | Basics



Non-Trend Strategies

Some trading advisors utilize non-trend strategies that may result in a profit (or loss) in the absence of trends. These strategies include (but are not limited to):

- Carry
- Mean Reversion
- Pattern Recognition

Systematic vs. Discretionary Trading

Systematic traders use proprietary computer models to trade in a diverse range of global futures markets. Trades are determined by a rules-based system.

Discretionary trading is decision-based, where the trader determines the trades.

Where Do Managed Futures Fit In Your Portfolio?

Adding managed futures to a balanced portfolio may decrease portfolio volatility while providing the potential for absolute returns. Managed futures are not for everyone, but they can be a strategic addition to the portfolios of certain qualified investors through private funds as well as retail investors through mutual funds.

Accessing information on managed futures and trading advisor programs can be difficult. However, it is important to determine if a trading advisor's strategy fits your investment objective and risk tolerance. By conducting the appropriate amount of research, or by investing with a sponsor that actively manages a multi-advisor fund (the sponsor performs due diligence, trading advisor allocation and portfolio construction, and ongoing monitoring), managed futures can provide a viable alternative investment for investors looking to diversify their portfolios and potentially enhance risk-adjusted returns.

If you think managed futures strategies might make sense for your portfolio, talk with your financial advisor about what role these strategies might play and where they might fit in your asset allocation strategy.

Risks of Managed Futures Investing

Managed futures involve special risks and considerations. Each fund's investment program is speculative and involves risks inherent in an investment in securities, as well as specific risks associated with the use of leverage, short sales, options, futures, derivatives, junk bonds, emerging markets, illiquid securities and limited regulatory oversight.

Alternative investment products, including managed futures involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not always required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, may not be not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. Alternative investment performance can be volatile. An investor could lose all or a substantial amount of his or her investment.

Often, alternative investment fund managers have total trading authority over their funds or accounts; the use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. There is often no secondary market for an investor's interest in alternative investments, and none is expected to develop. There may be restrictions on transferring interests in any alternative investment. Alternative investment products often execute a substantial portion of their trades on non-US exchanges. Investing in foreign markets may entail risks that differ from those associated with investments in US markets. Additionally, alternative investments often entail commodity trading, which involves substantial risk of loss.

Glossary

This glossary is intended as a reference for commonly used investment terms but does not contain all relevant terms nor all possible definitions of any individual term. You may wish to contact your investment professional for additional information. The information set forth was obtained from sources believed to be reliable, but we do not guarantee its accuracy or completeness.

Alpha: A measure of risk-adjusted performance. A higher alpha indicates a security has performed better than expected with its given beta (or volatility.) See Beta.

Alternative Investment: An investment product other than traditional investments such as stocks, bonds, cash or property.

Asset Class: Category of different investment types, such as stocks, bonds, real estate, cash, etc.

Barclay Systematic Traders Index: An equal weighted composite of managed futures programs whose approach is at least 95% systematic. In 2019, there are 394 systematic programs included in the index. The performance of the index is net of management and incentive fees.

Managed futures investments are subject to risks, including illiquidity, lack of a secondary market, and the volatility of the underlying commodities or futures markets traded by a particular program.

Barclays US Aggregate Bond Index*: Provides a measure of the performance of the US investment grade bond market, which includes investment grade US Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1 year remaining to maturity. In addition, the securities must be denominated in US dollars and must be fixed rate, nonconvertible and taxable.

Bond investments are subject to risks, including: interest rate risk, call risk, credit risk and reinvestment risk. Bonds rated below investment grade may have speculative characteristics and present additional risks.

Bear Market (Bear/Bearish): A market condition in which prices of securities are falling.

Beta: Measures a fund's sensitivity to market movements by comparing a fund's excess return (over a benchmark) to the market's excess return. By definition, the beta of the market is 1.00. For example, a beta that is lower than 1.00 would normally indicate that a fund's excess return is expected to be above the market's excess return in a down year and below in an up year. However, beta cannot predict a fund's future performance.

Bull Market (Bull/Bullish): A market condition in which prices of securities are rising.

Closed-End Fund: A continuously offered registered investment company that is not a mutual fund or an exchange traded fund. They are publicly offered, but not listed on a securities exchange.

Compound Return: The rate of return, usually expressed as a percentage, that represents the cumulative effect that a series of gains or losses have on an original amount of capital over a period of time. Compound returns are usually expressed in annual terms, meaning that the percentage number that is reported represents the annualized rate at which capital has compounded over time.

Correlation: A measure of the degree to which two variables relate to each other.

Derivative: A contract whose value depends upon the price of an underlying commodity, security or index.

Diversification: A portfolio strategy designed to reduce exposure to risk by combining a variety of investments. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

Drawdown: The peak-to-trough decline during a specific period of an investment, fund or commodity. A drawdown is usually quoted as the percentage between the peak and the trough.

Due Diligence: An investigation or audit of a potential investment. Due diligence serves to confirm all material facts both prior to an investment and on an ongoing basis after investing.

Exchange Traded Fund (ETF): ETFs combine features of an index fund and a stock traded on a major exchange.

Futures Contract: Futures contracts are standardized contracts traded on domestic or foreign future exchanges which call for the future delivery of specified quantities of a physical commodity or financial asset on a specified date. Futures contracts may be settled by physical delivery or cash settlement.

Hedge Fund: A managed portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). Most hedge funds are often set up as private investment partnerships that are open to a limited number of investors and require a very large initial minimum investment. Investments in hedge funds are illiquid as they sometimes require investors keep their money in the fund for at least one year.

Interest Rate Future: A financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. It is a particular type of interest rate derivative.

Junk Bond: High-yield or non-investment grade bond. Junk bonds are fixed-income instruments that carry a rating of 'BB' or lower by Standard & Poor's, or 'Ba' or below by Moody's. Junk bonds are so called because of their higher default risk in relation to investment-grade bonds.

K-1: A tax document used to report the incomes, losses and dividends of a business's partners or S corporation's shareholders. Rather than being a financial summary for the entire group, the Schedule K-1 document is prepared for each partner or shareholder individually.

Leverage: The use of various financial instruments or borrowed capital, such as margin, to increase the risk and potential return of an investment.

Liquidity: The ability to convert an asset to cash quickly. Also known as "marketability."

Lock Up: A hard lock up would prevent an investor from withdrawing capital from a fund before the expiration of the lock up period. Soft lock ups allow for a withdrawal upon payment of penalty prior to the expiration of a lock up period.

Long: A position that will profit from an increase in a security's price.

Managed Futures: A form of alternative investment that takes long and short positions in futures contracts, currency forward contracts, government securities, and options on futures contracts. Managed futures are operated by licensed Commodity Trading Advisors, or CTAs, who are regulated in the United States by the Commodity Futures Trading Commission and the National Futures Association, or NFA.

Management Fee: A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise. It can also include other items such as investor relations expenses and the administration costs of the fund.

Momentum: The rate of increase or decrease of a security's price or volume. The idea of momentum in securities is that their price may be more likely to keep moving in the same direction than to change direction. In technical analysis, momentum is used to help identify trend lines.

Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE Index)*: A capitalization-weighted index that is designed to measure the investment returns of developed economies outside of North America. The Index includes publicly traded stocks from 21 countries.

International investments may involve risk of capital loss from unfavorable fluctuations in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Mutual Fund: An investment vehicle that is made up of a pool of capital collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets.

National Association of Real Estate Investment Trusts All REITs Index (NAREIT All REITs Index)*: An unmanaged total return index designed to measure the growth and performance of the real estate investment trust (REIT industry. The index includes all REITs currently trading on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange.

REITs are subject to risks similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

Option: The right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given stock, commodity, currency, index, or debt instrument, at a specified price (the strike price) during a specified period of time.

Position: A commitment, either long or short, in the market.

Private Placement: Sale of an entire issue of a security to a small group of investors who undertake not to resell it within a specified period. In the US, if the sale is made to less than 35 investors, it is exempt from Securities and Exchange Commission (SEC) registration requirements.

Return/Risk Ratio: A simple calculation meant to illustrate the amount of return achieved per unit of risk. It is derived by dividing the average annual return by the standard deviation of an investment. A higher number tends to signify a better return/risk relationship, whereas a lower number may be seen as unfavorable.

Securities and Exchange Commission (SEC): Established by Congress to help protect investors, administers the Securities Act of 1933, the Securities Exchange Act of 1934, as well as the Investment Company Act, among others.

Short: A position that will profit from a decrease in a security's price.

Standard Deviation: Measures the dispersal or uncertainty in a random variable (in this case, investment returns). It measures the degree of variation of returns around the mean (average) return. The higher the volatility of the investment returns, the higher the standard deviation will be.

Standard & Poor's 500 Total Return Index (S&P 500 TR Index)*: The 500 stocks in the S&P 500 are chosen by Standard and Poor's based on market size, industry representation, liquidity and stability. The stocks in the S&P 500 are not the 500 largest companies; rather the Index is designed to be a leading indicator of US equities and is meant to reflect the risk/return characteristics of the large cap universe.

US equity index investments are subject to risks, including price fluctuations in response to news on companies, industries, government policies and the general economic environment.

S&P GSCI® Total Return Index (S&P GSCI® TR Index)*: A composite index of commodity sector returns representing a broadly diversified, unleveraged, long-only investment in commodity futures. The returns are calculated on a fully collateralized basis with full reinvestment.

Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Transparency: The extent to which investors have ready access to view the portfolio holdings of a fund.

Volatility: The relative rate at which the price of a security moves up and down.

Warrant: Long-term certificate issued by a firm giving the holder the right to purchase its securities at a stipulated price (exercise price) in the future. Warrants are negotiable instruments that usually serve to enhance the marketability of corporate bonds or preferred stock.

Yield: The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

*One cannot invest directly in an index.

Before investing, you should carefully consider the Fund's investment objectives, risks, charges and expenses. For a prospectus that contains this and other information about the Fund, please contact Steben & Company at 800.726.3400 or info@steben.com. Please read the prospectus carefully before you invest.

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