



NETWORK | 2015

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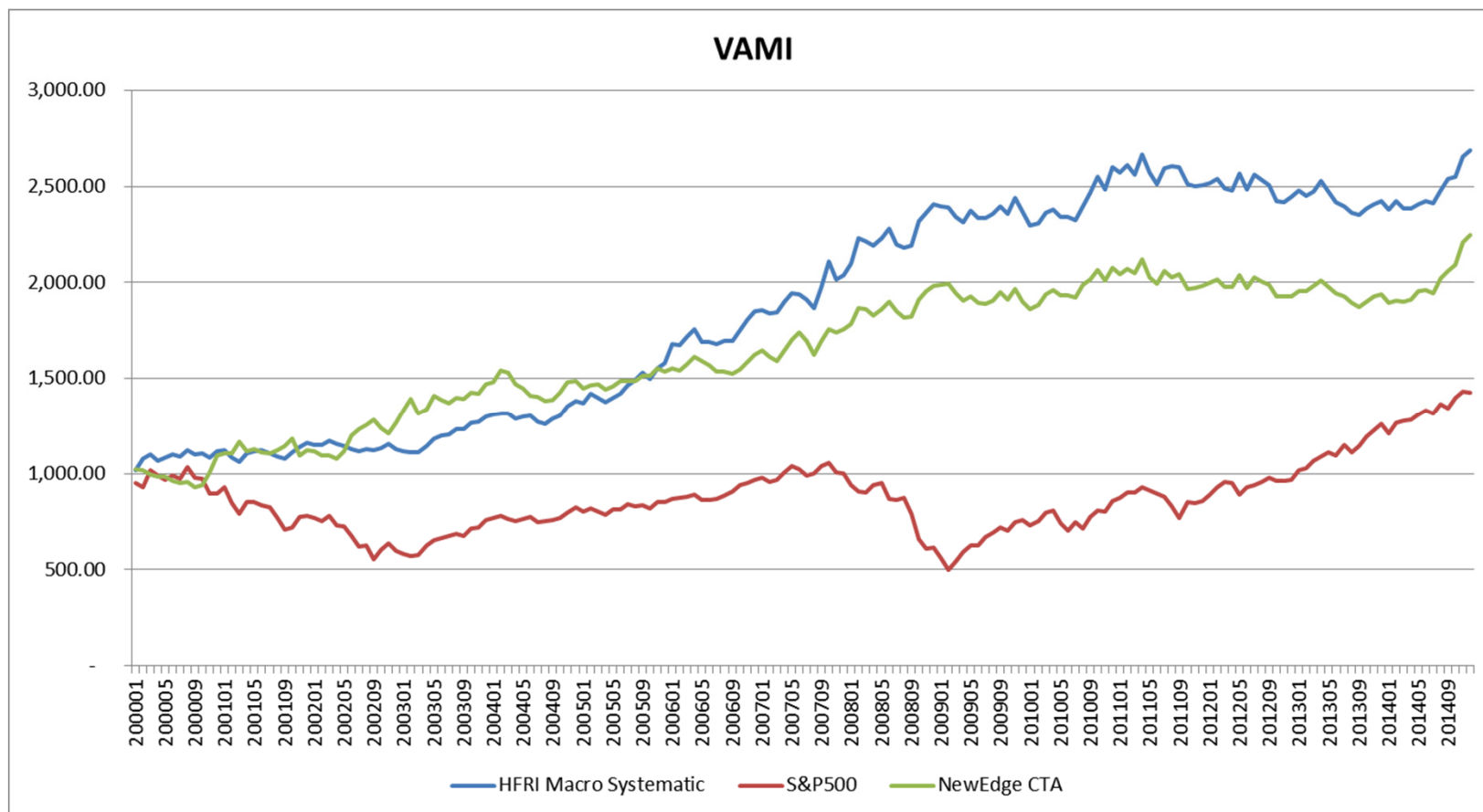
Managed Futures and CTA's - Where are We and What's Next?

A few thoughts and reflections

By Dmitri Alexeev, Ph.D.

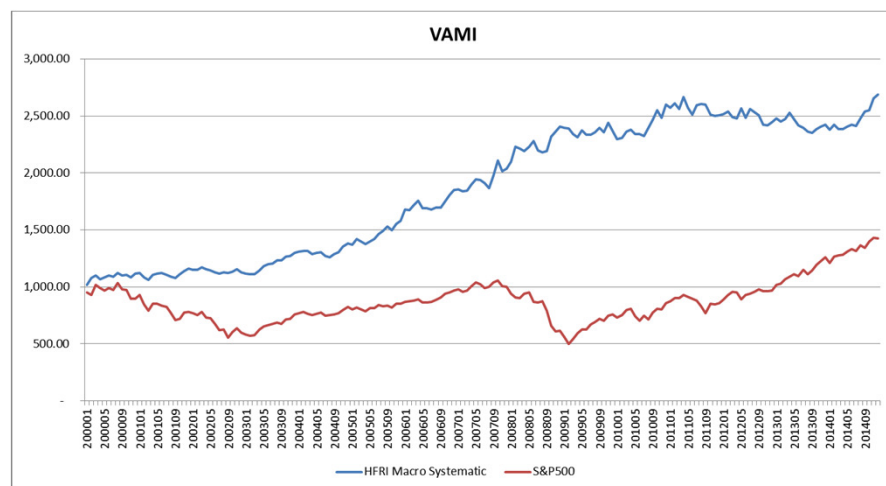
Founder, Baker's Lake Consulting, LLC

Performance Comparison of CTAs and Equities Over Past 15 Years



Data Sources: Hedge Fund Research, Inc, Standard and Poor's, NewEdge

Performance Comparison of CTAs and Equities



With proper Due Diligence and Investment Processes:

- CTAs are traditionally a very good diversifier to equity portfolios
- Good as stand-alone investments
- Long term CTAs performance is impressive
- Drawdowns happen but recover strongly

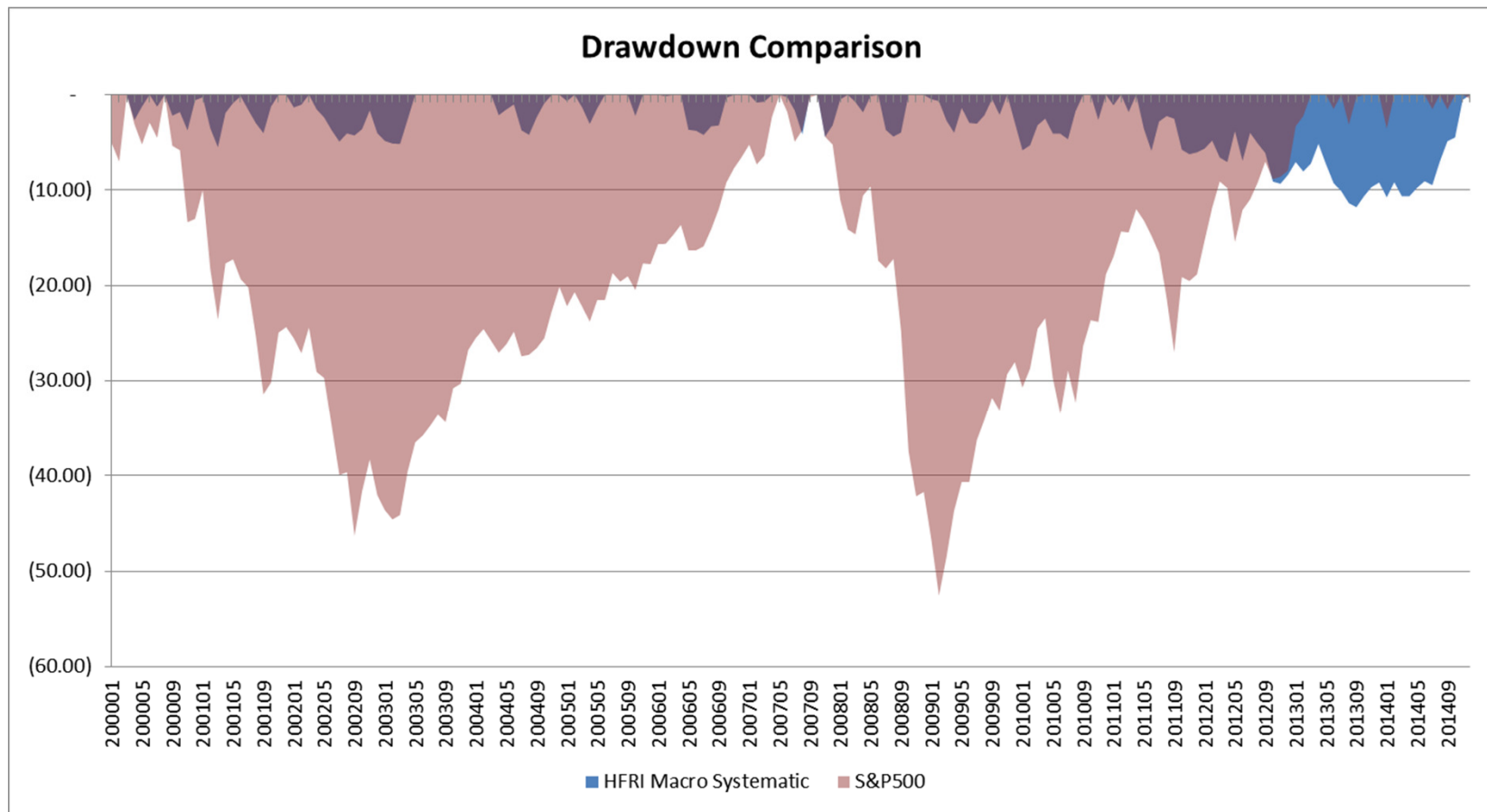
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Comparative Statistics

	SP500	HFRI MS
Annualized Return	2.39	6.82
Annualized StD	15.27	7.66
One Year	13.28	11.07
Two Year	46.81	10.10
Three Year	66.49	7.33
Five Year	87.77	13.63
% Profitable	59%	58%
Best Month	10.77	6.49
Worst Month	-16.94	-4.41
Best 12-Month	4.31	4.12
Worst 12-Month	-3.56	-1.69
Avg Positive Month	3.10	2.08
Avg Negative Month	-3.81	-1.49
Sharpe Ratio (o%)	0.07	0.26
Sortino Ratio (o%)	0.09	0.55
Upside Dev (o%)	2.42	1.50
Downside Dev (o%)	3.29	1.05
Upside Potential (o%)	0.94	1.99
Hist VaR (95%)	-8.02	-2.91
Hist CVaR (95%)	-10.09	-3.48

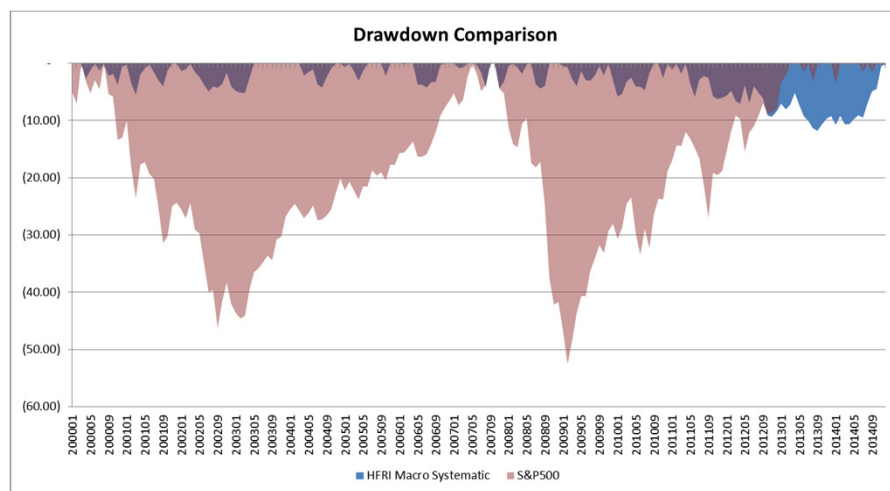


Drawdown Comparison of CTAs and Equities



Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Standard and Poor's

Drawdown Comparison of CTAs and Equities



While the most recent CTA drawdown is unprecedented in depth and length, it is still:

- Only a small fraction of massive equity drawdowns
- Nowhere as long as recent equity drawdowns
- CTAs consecutive losing periods are nowhere as dramatic as those of equities
- CTAs recover faster even from the worst drawdowns

Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Standard and Poor's

Comparative Drawdown Statistics

Drawdown Analysis SP&500

Depth	Length	Recovery	Start	End
-52.56	65	49	Nov-07	Mar-13
-46.28	81	56	Sep-00	May-07
-7.00	3	1	Jan-00	Mar-00

Consecutive Losing Periods S&P500

Run-down	Length	Start	End
-30.14	3	Sep-08	Nov-08
-20.55	4	Apr-02	Jul-02
-18.62	2	Jan-09	Feb-09

Drawdown Analysis HFRI Macro Systematic

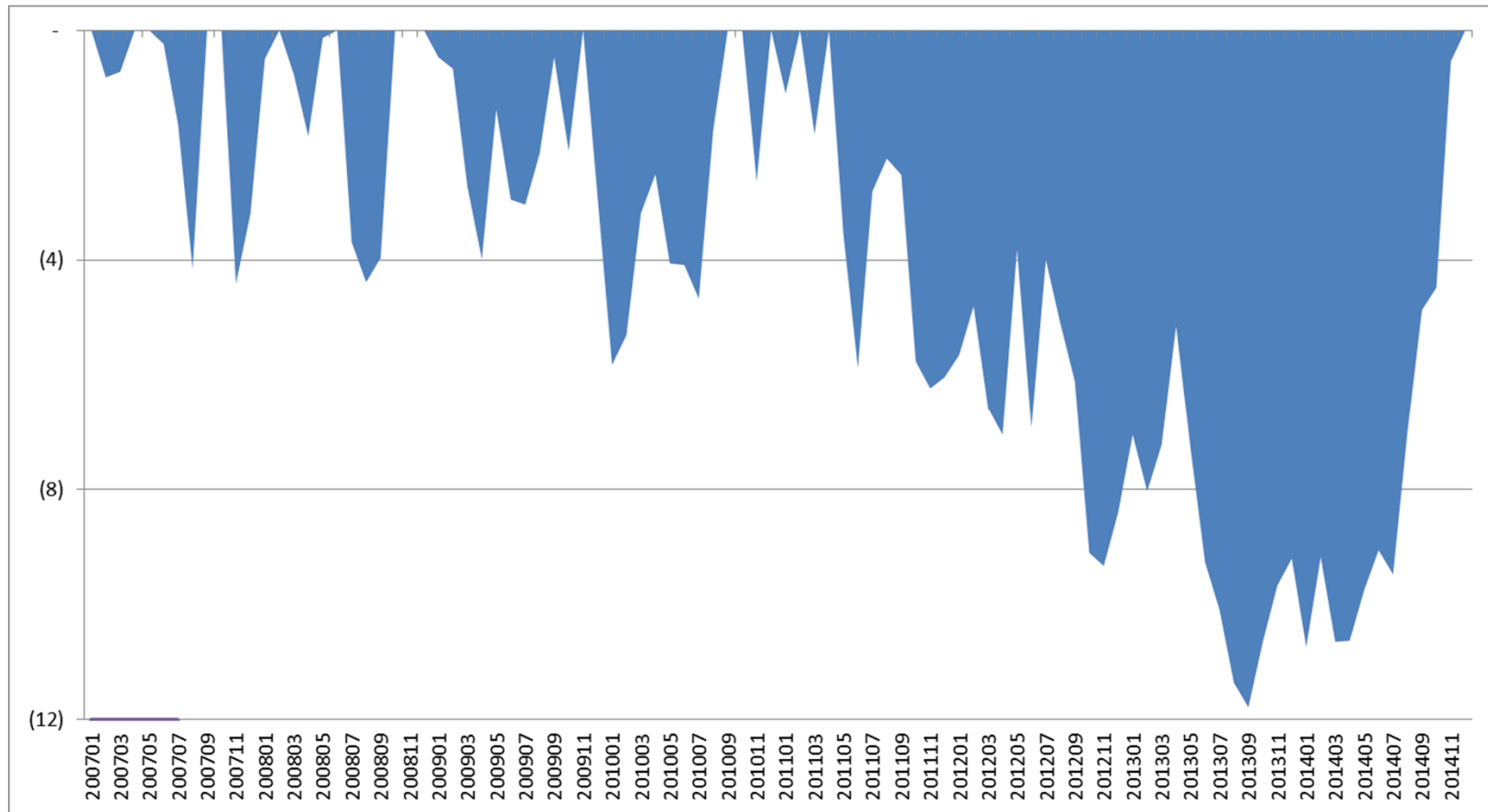
Depth	Length	Recovery	Start	End
-11.79	44	15	May-11	Dec-14
-5.82	10	8	Dec-09	Sep-10
-5.50	15	8	Sep-00	Nov-01

Consecutive Losing Periods HFRI Macro Systematic

Run-down	Length	Start	End
-5.82	2	Dec-09	Jan-10
-5.25	2	Feb-01	Mar-01
-4.91	4	Apr-02	Jul-02

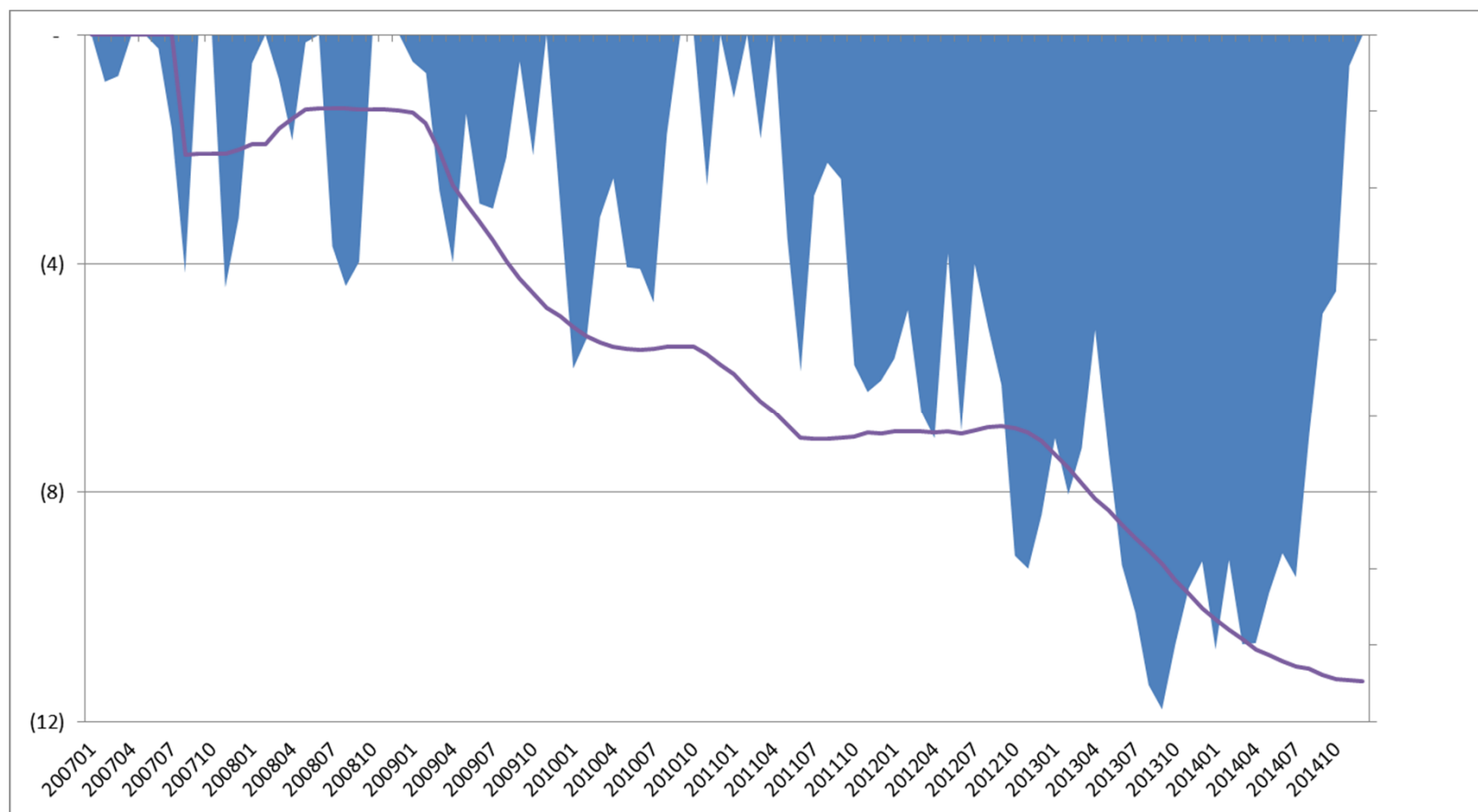


Focus on Recent Drawdown



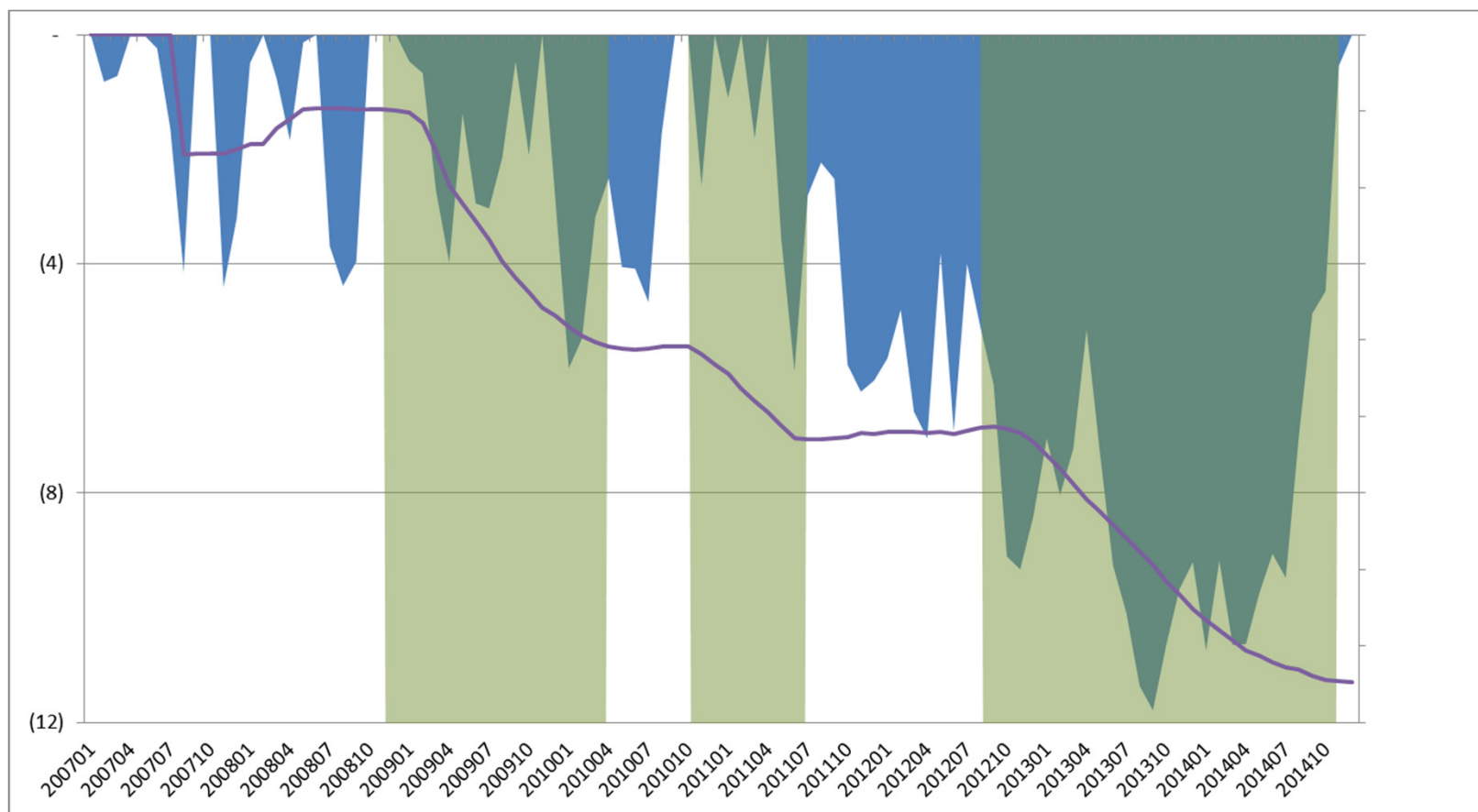
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Focus on Drawdown – Smoothing or Averaging?



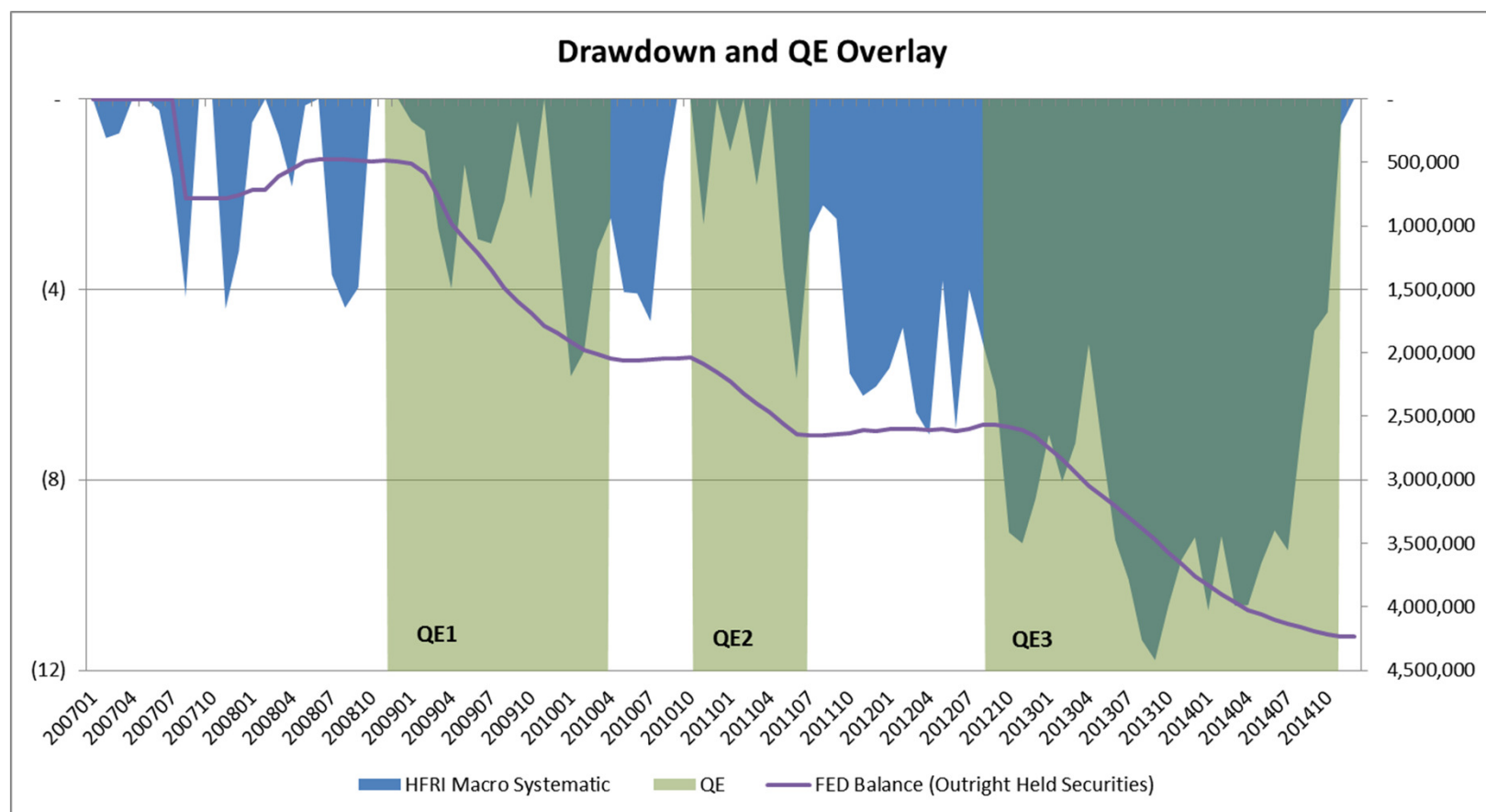
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Focus on Drawdown – Pressure Areas?



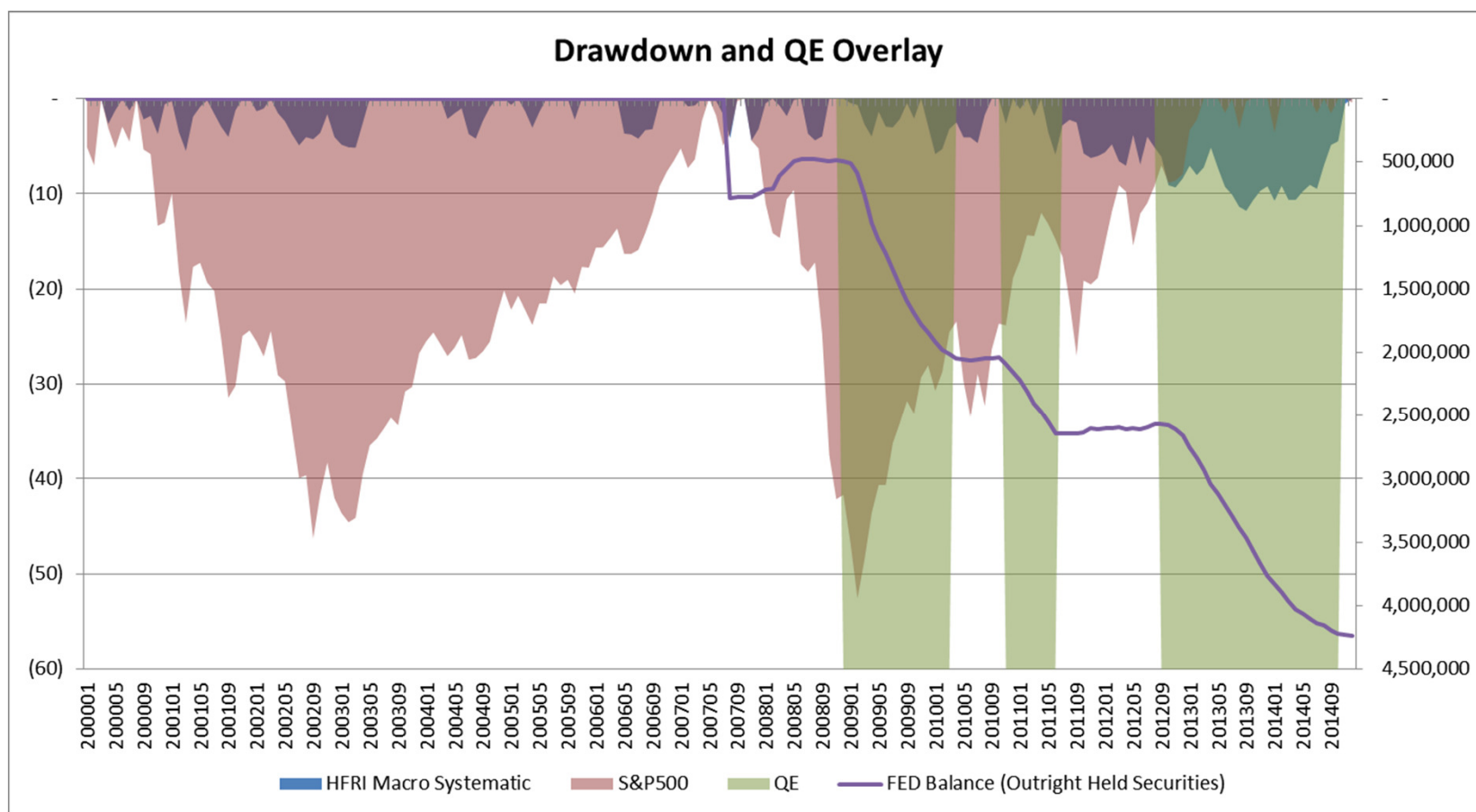
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Focus on Drawdown – Calling Things by Their Name



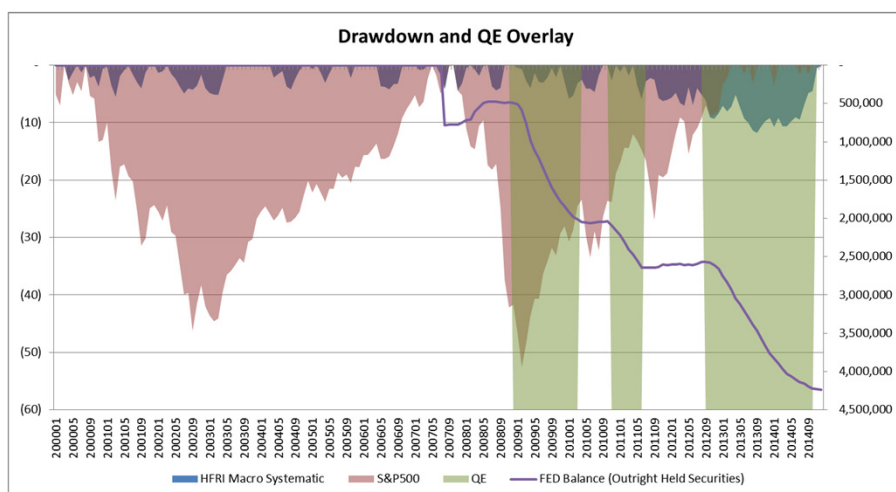
Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Federal Reserve

CTA Drawdown and QE – Bigger Picture



Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Federal Reserve, Standard and Poor's

CTA Drawdown and QE – Bigger Picture



- There is strong correlation between depths of the drawdowns and FED Balance Sheet amount
- Equities benefit in months of active QE and suffer otherwise
- CTAs do the opposite – suffer when QE is on and do well when QE is off
- Simple statistical test of average returns being the same with QE on and off leads to rejection of this hypothesis at 5% level for both SP500 and HFRI MS

Comparative Drawdown Statistics Jan 2008 – Dec 2014

		HFRI MS	SP500
QE ON	Avg Return	(0.00)	1.59
	St Deviation	1.98	3.82
QE Off	Avg Return	0.88	(1.00)
	St Deviation	2.46	5.82
Corr. of CTA Drawdown & FED Balance			(0.67)
Corr. Of Equity Drawdown & FED Balance			0.65
Simple Hypothesis Testing			
	n1	50	50
	n2	34	34
	Z	1.74	(2.28)
	P-value	0.04	0.01

Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Federal Reserve, Standard and Poor's

Use of Models to Construct Portfolios of CTAs



- It is possible to identify reliable, predictive return characteristics
- These characteristics describe distinct return patterns: Opportunistic and Risk-Averse
- Opportunistic profiles deliver strongest upside potential, have higher volatility, but also suffer from deeper drawdowns and downside
- Risk-Averse profiles deliver less volatility but higher risk-adjusted returns, have shallower drawdowns but fall behind in good times
- Profiles are dynamic, calculated monthly, and do not depend on a single factor (such as volatility or strategy)
- Using active management to select the best profile depending on environment delivers the best of both worlds



Example: Using MFA 2015 List of Managers

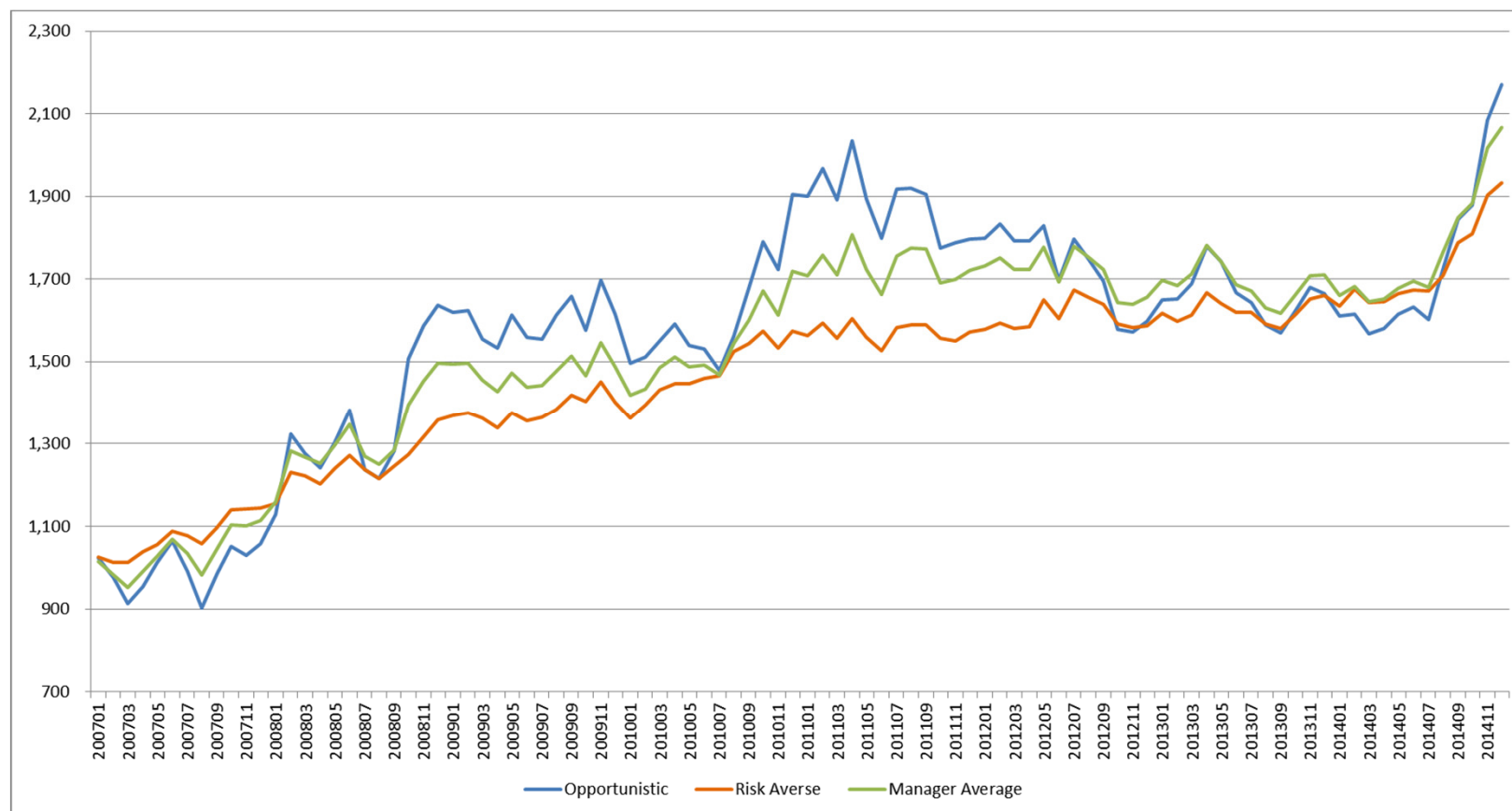
Fund Name	Firm Name
Aggressive Program	Covenant Capital Management, LLC
AlphaQuest Original	Quest Partners, LLC
Altis Global Futures Portfolio - Composite	Altis Partners (Jersey) Limited
Amplitude Sinfonie USD A	Amplitude Capital AG
Aspect Diversified Fund Limited	Aspect Capital Limited
Beach Horizon Composite	Beach Horizon LLP
Blackwater Global Onshore Fund, LLC	Blackwater Capital Management, LLC
Campbell Managed Futures	Campbell & Company, LP
CCP Quantitative Fund Aristarchus Class	Cantab Capital Partners LLP
Cyril Systematic USD Fund	John Locke Investments SA
D'Best Futures Fund L.P.	Dunn Capital Management, LLC.
Dominion Sapphire Program	Dominion Capital Management, Inc.
Drury Diversified Trend-Following Program	Drury Capital Inc.
Eagle Global Ltd. (Composite)	Eagle Trading Systems, Inc.
Eagle Quantitative Macro	Eagle Trading Systems, Inc.
Eckhardt Futures L.P.	Eckhardt Trading Company
FORT Global Contrarian LP	Fort, Inc.
FORT Global Diversified, L.P.	Fort, Inc.
Kaiser Trading Fund	Kaiser Trading Group
Key Trends Program	KeyQuant
Lyxor Epsilon - Class A USD	Lyxor Asset Management
Mulvaney Global Markets Fund	Mulvaney Capital Management Limited
Original Program	Covenant Capital Management, LLC
PGR Mayfair Investment Programme	PGR Capital LLP
QIM Global Program	Quantitative Investment Management LLC
Quantica Managed Futures	Quantica Capital AG
Rabar Diversified Program	Rabar Market Research, Inc.
SMN Diversified Futures Fund	SMN Investment Services GmbH
Transtrend Diversified Trend Program - Enhanced ...	Transtrend B.V.
Welton Global Directional Portfolio	Welton Investment Partners LLC
Winton Evolution Fund Class F USD	Winton Capital Management
Winton Futures Fund Class B USD	Winton Capital Management

Selection Procedure

Using HFR Database MFA Network 2015 List and Advanced Search:

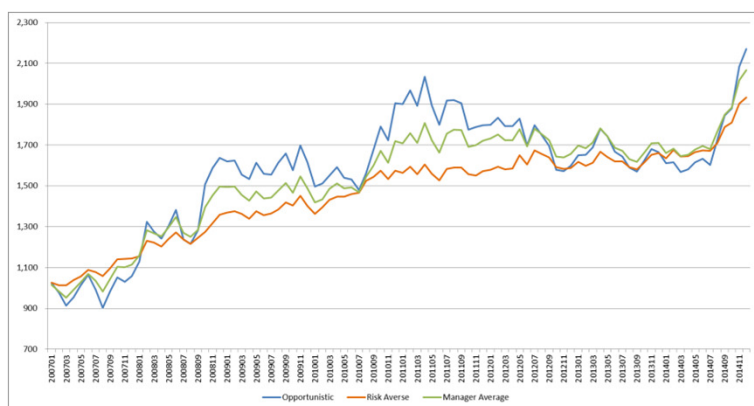
- Select Strategy: Macro
- Select Sub-strategy: Systematic Diversified
- Track Record of at least 60 months
- AUM of at least \$50M
- Keep USD denominated funds (majority)
- Remove few duplicate or levered share classes
- The remaining 31 funds are processed with Baker's Lake proprietary methodology to build two distinct portfolios each month: Opportunistic and Defensive

Distinct Return Profiles in Action



Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc

Distinct Return Profiles in Action

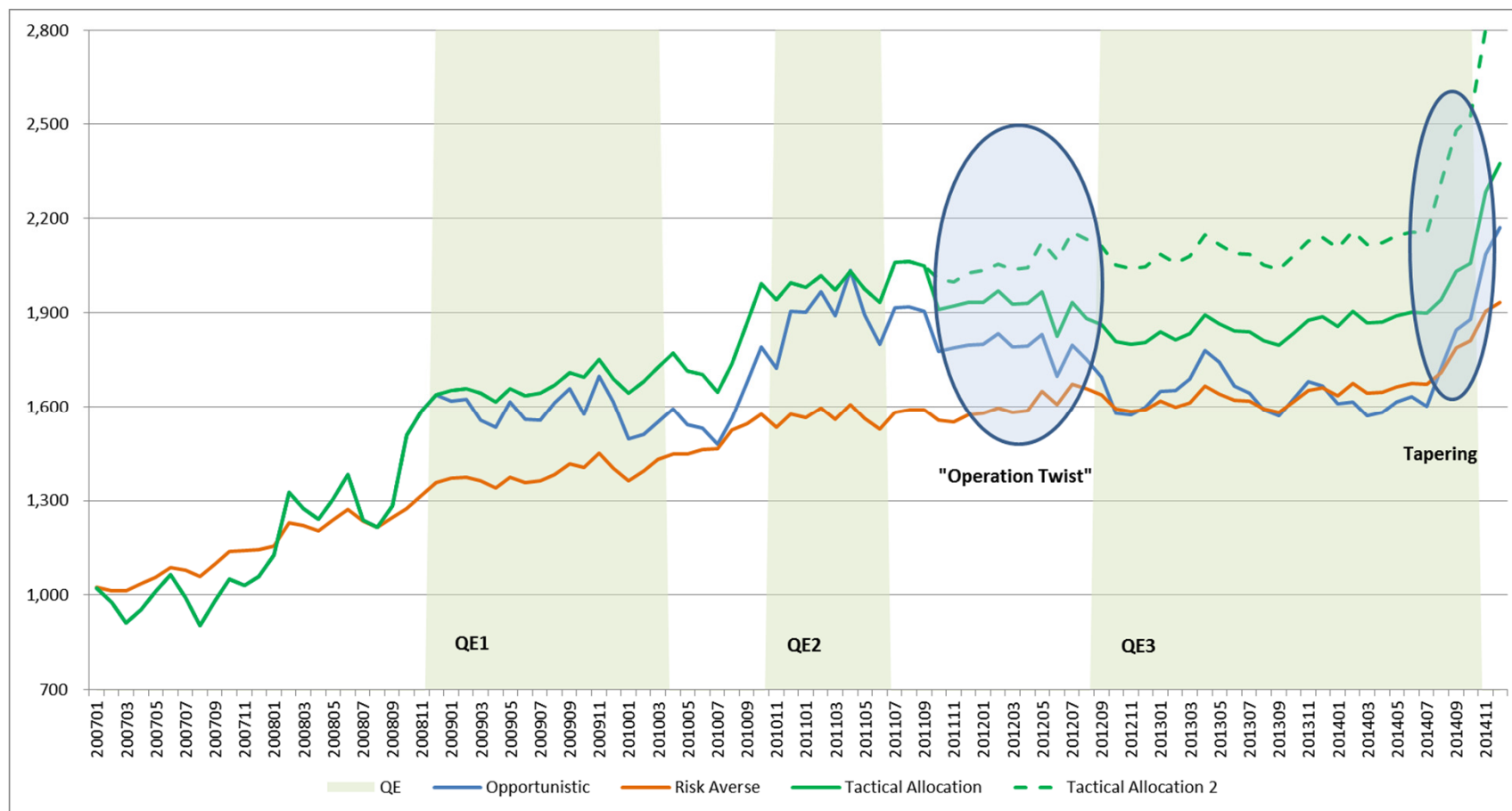


- Opportunistic managers “charge” up but often forced to “retreat” significantly
- Risk-Averse keep pushing forward, but at slower pace
- Both profiles are good for long term investments
- There is enough room for tactical maneuvering to take advantage of the best properties of both types

Opportunistic Profile					Risk Averse Profile				
Performance Summary					Performance Summary				
Annualized Return				10.17	Annualized Return				8.59
Annualized StD				18.05	Annualized StD				7.37
Sharpe Ratio (o%)				0.18	Sharpe Ratio (o%)				0.33
Sortino Ratio (o%)				0.38	Sortino Ratio (o%)				0.80
Drawdown Analysis					Drawdown Analysis				
Depth	Length	Recovery	Start	End	Depth	Length	Recovery	Start	End
-22.87	43	8	May-11	Nov-14	-6.12	7	5	Dec-09	Jun-10
-15.22	7	5	Jul-07	Jan-08	-5.47	19	5	Aug-12	Feb-14
-12.88	11	3	Dec-09	Oct-10	-4.86	13	11	May-11	May-12
Consecutive Profitable Periods					Consecutive Profitable Periods				
Run-up	Length		Start	End	Run-up	Length		Start	End
35.51	5		Aug-14	Dec-14	16.21	6		Sep-07	Feb-08
34.63	4		Sep-08	Dec-08	15.76	5		Aug-14	Dec-14
28.61	3		Dec-07	Feb-08	15.50	9		Feb-10	Oct-10

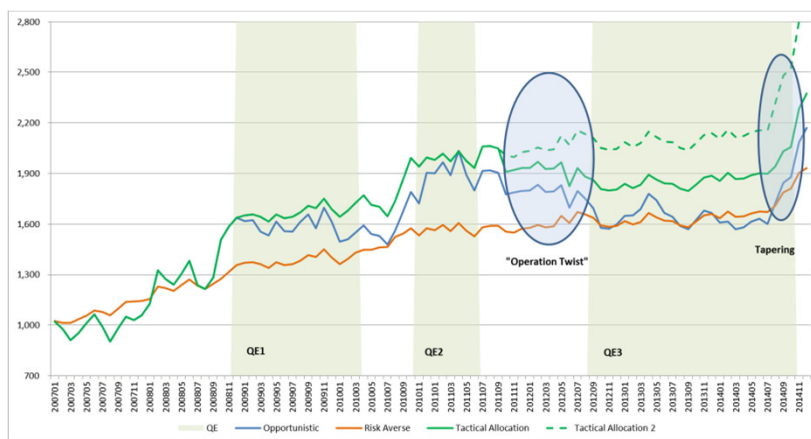
Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc

Tactical Allocation Between the Profiles



Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Federal Reserve

Tactical Allocation Between the Profiles



- Favorable environments (no QE) – follow the Opportunities
- Unfavorable environments (QE on) – stick to Risk Averse strategies
- Taking into consideration Operation Twist (unfavorable) and Tapering (favorable) improves results even further
- While quantitative models are not a substitute for a rigorous investment approach and due diligence, they are a great source of ideas and reference points

Performance Summary	Opportunistic	Risk Averse	Tactical	Tactical 2
Annualized Return	10.17	8.59	11.42	14.32
Annualized StD	18.05	7.37	15.60	15.34
Sharpe Ratio (0%)	0.18	0.33	0.22	0.27
Sortino Ratio (0%)	0.38	0.80	0.41	0.54

Data Sources: Baker's Lake Consulting, Hedge Fund Research, Inc, Federal Reserve



Managed Futures and CTA's - Where are We and What's Next?

- The CTA industry has gracefully recovered from one of the worst drawdowns in its history
- Rumors of Trend-Following Death are greatly exaggerated
- Despite difficulties in macro-economic and geo-political environments, CTAs continue to be a valuable asset class for either stand-alone or diversifying allocation
- Many experts can help investors achieve their goals by providing expert knowledge, models, manager selection, due-diligence, and assisting in establishing a rigorous investment approach
- There is a large variety of products and investment vehicles to satisfy investor's needs

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- dbSelect
- Hedge Fund Research, Inc
- MFA 2015 Network Organizers
- All of the attendees





About Baker's Lake Consulting, LLC

Baker's Lake designs solutions (software, systems, research tools and portfolio construction methods) for alternative investors, funds of funds, consultants, hedge funds, and managed accounts platforms. It is a new enterprise formed in September 2014 by Dmitri Alexeev, Ph.D. Dmitri has over 15 years of experience in financial markets covering a wide range of expertise in equity research, investable hedge fund index design, alternative portfolio construction, risk and portfolio management and system design.



Starting as Equity Research Analyst, moving on as Managing Director of Quantitative Research and Systems, eventually growing to Chief Investment Officer, Dmitri has at each stage of his career created tools, applications, and solutions for the tasks at hand. Equity Portfolio Management system, implementation of HFRX Investable Hedge Fund Index methodology, a complete build-up of Managed Accounts Infrastructure responsible for 100+ accounts with close to 10,000 positions processed daily and almost \$5B AUM are among the major achievements, with each new step bringing a new level of sophistication and efficiency. This progressive hands-on experience is one of the main sources of our solutions success and reliability.

For more information please visit www.bakerslake.com or contact dmitri@bakerslake.com.

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