



# RCM Alternatives: Whitepaper

## Specialty Strategies

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It's fairly common for "trend following" and "managed futures" to be used interchangeably. But there are many more strategies out there beyond the standard approach – a variety of approaches that we call Specialty Strategies. Specialty strategies include short-term, options, and spread traders.

## Short-Term Systematic Traders

The cousin to the multi-market systematic trend follower, the short-term systematic program will also look to latch onto a "trend" in an effort to make a profit. The difference here has to do with timeframe, and how that impacts their trend identification, length of trade, and performance during volatile times. Unlike longer-term trend followers, short-term systematic traders may believe an hours-long move is enough to represent a trend, allowing them to take advantage of market moves that are much shorter in duration. One man's noise is another's treasure in the minds of short term traders. This, theoretically, gives them an edge over traditional programs, which must see an extended move in order to turn a profit, as the short term traders can theoretically capitalize on rapid bursts of movement within a choppy move. But there is never a guarantee that the program will be in sync with the jumps taking place, and as is the case with most strategies, timing really is everything here.

### Types of Short-Term Traders

The category "short term" is used as a catchall to categorize programs that are in the market very short periods of time (minutes to hours), slightly longer (hours to days), and on the upper end of the spectrum days to a week. Notice we did not mention the hyperactive short-term traders called high frequency strategies that are in market for seconds and can make millions of very small bets each day.

These strategies have had varying amounts of success over the past few years for proprietary traders from Chicago to New York; however, they have not infiltrated the CTA space. The amount of technology and knowledge required to stay competitive in HFT

is the trading equivalent of an arms race that most money managers want to stay as far away from as possible.

What types of shorter-term traders can we expect to invest with? First, there are day trading strategies. A day trading system is defined by a single characteristic: that it will NOT hold a position overnight, with all positions covered by the end of the trading day. This appeals to many investors who don't like the prospect of something happening in China causing the US market to open down -5% against their open position. It also means there is no margin needed for holding positions, which equates to lower minimum investment amounts.

Day trading systems usually focus on a single market, and that market is usually one of the high volume, high liquidity markets such as Emini S&P futures, 30 year Bond futures, and Euro Stoxx. They are often thought of as the high frequency trading outlined above, but in reality are no more active than most other trading – with about 12-18 trades per month.

Generally speaking, day trading systems identify a short term trend during the trading day, get in line with that trend, and look for the market to close at or near the high/low in that direction in order to be profitable. Range bound markets usually result in no trades for day traders, while whipsaw markets which see prices up 0.5%, back down -0.5%, and finishing the day around even (for example) usually cause losses. Some CTAs that use primarily day trading strategies include The close cousin of day trading is short-term momentum strategies. These systems use the same entry methodology as day trading

systems but rather than closing out the trade at the end of the session these strategies will hold the trade for a period of 1 to 3 days looking to catch the follow through in the market. Some CTAs use momentum strategies in conjunction with mean reversion strategies that try to call tops and bottoms in the market. These types of systems hold positions up to several days, and again operate mainly on highly liquid markets like the stock index futures, bond futures, and more recently a limited commodity and currency markets.

The general approach of mean reverting strategies (also known as swing traders) is to ride market "swings" for a few days, then exit or reverse the position and ride the swing the other way. This ability to 'book profits' after a few days allows them to not require long term trends to be successful – a benefit when traditional long volatility programs struggle during range bound markets. And their ability to hold positions a few days allows for them not to be dependent on the market closing at or near its high or low of the day as day trading systems usually require to be successful. One downside to swing systems is their propensity to get caught "out of phase." Whereas a day trading system has a new canvas every day on which to operate, a swing system's trade today can be affected by whether it went long or short yesterday, and tomorrow's trade affected by what happens today, and so on. This can create a scenario where losing trades beget losing trades until the phase is over with an extended move in one direction. Despite the above, swing systems have become the most popular type of trading systems – merging the single market, low minimum, fixed risk characteristics of day trading systems with the more room to operate and "let profits run multiple days" characteristics of trend following systems.

## Spread Traders

Spread Trading is the simultaneous purchase and sale of something very similar, economically speaking. In commodity markets, that usually means buying one contract month of a market while selling another contract month of the same market. For example, buying July 2013 Corn futures and selling December 2013 Corn futures is a spread trade. Depending on

whether you buy or sell the spread - the goal of a spread trade is for the difference between the two sides of the trade to either get further apart or closer together. In our example above, you would want either July Corn rising faster than December Corn does, or December Corn falling faster than July Corn. This example represents what is called a "calendar spread," but there are many more spread trade categories that managers will use.

One of the biggest appeals of spread trading is that it can reduce risk, with the potential for losses on one side of a spread trade to be hedged by gains on the other side. Another benefit is that the margins for holding a spread trade are usually much less than the margin required for putting on an outright position (because of the offsetting positions). That being said, this doesn't mean that spreads have no risk - the two sides of the trade can and will go in completely opposite directions from time to time, which can cause substantial losses.

Overall, spread trading is one of the truly unique investment strategies to managed futures providing a level of diversification even traditional non-correlated strategies such as trend following cannot due to spread trader's reliance on the relationship between two different versions of the same instrument, not the directional movement of that instrument. While not everyone will admit it, I would bet more people than not have woken up in the middle of the night thinking they've found the perfect way to guarantee they don't lose money trading futures - by going long and short simultaneously and locking in any difference.

It takes a while to explain to these people that the positions would be offset simultaneously, resulting in neither a gain nor a loss. But all is not lost with this idea of not caring whether the market goes up or goes down, for while you can't be long and short the same market simultaneously, you can buy and sell NEARLY the same market simultaneously. Using our example, buying July 2013 Corn futures and selling December 2013 Corn futures in what is known as a spread trade puts you both long and



short nearly the same market, Corn Futures. Turns out spread trading is more than just an interesting aspect of futures markets, with approximately 20% of the managers on RCM's expanded watchlist (recommended plus programs undergoing due diligence) incorporating spread trading in one fashion or another. In addition, the top performer on the recommended list in 2012 – Global Ag – is a long time spread trader.

## What is Spread Trading?

Depending on whether you buy or sell the spread - the goal of a spread trade is for the difference between the two sides of the trade to either get further apart or closer together. In our example above, you would want either July Corn rising faster than December Corn does, or December Corn falling faster than July Corn.

Doing a spread with different contract months of the same market is called a Calendar Spread, which are really a phenomenon unique to futures markets, as the same futures market (like Corn) has many different contracts based on when in the future they expire. (Corn has different contracts which expire in March, May, July, September, and December each year). There is no such mechanism in the stock market. For example, you can't buy the July IBM stock and sell the December IBM stock - there is only the stock and whatever price it is trading at.

There are other types of spreads which buy and sell different markets simultaneously. Some of these are in markets very closely related - such as buying Soybeans and selling Soybean Oil (the crush spread) or buying Crude Oil and selling Gasoline (the crack spread). Other spreads may be in less obviously related markets like Corn and Cattle (the cattle eat the corn), or Two Year Note futures and 30 year bond futures. Any time you hear about the Yield Curve on the news, that is really the spread price between different interest rate products. One thing to remember, when you are buying and selling something simultaneously, you are doing twice the number of trades as someone who is just buying or just selling. Meaning that there can be twice as much in fees and commissions.

## The Benefits of Spread Trading

One of the biggest appeals of spread trading is the perception that it can reduce risk, with the potential for losses on one side of a spread trade hedged by gains on the other side. Fueling this perception is the fact that the margins for holding a spread trade are usually much less than the margin required for putting on an outright position. But this isn't to say spreads have no risk, as the two sides of the trade can and will go in completely opposite directions from time to time causing substantial losses. And we actually heard three separate managers (Kevin Jamali of Auctos, Jim Green of Rosetta, and Emil Van Essen of his self named CTA) comment on the perceived lower risk in spreads – saying that the low margins mask what can be a much riskier market than the outright futures. Kevin Jamali of Auctos may have said it best:

*“...we believe Margin Requirements are a bit optimistic in Spread markets due to an arguably higher Kurtosis in the returns of calendar spreads compared to outrights.”*

Emil Van Essen of Emil Van Essen noted several other factors making spread trading attractive to a trading program, including

*“...spread prices exhibiting more consistent behavior... and spreads being able to trade on factors such as term, shape of curve, rolls, and seasonality not always influencing the outrights.”*

Another benefit of spread trading is the ability to create synthetic positions and markets. John Roe, the manager of Roe Capital put it quite nicely in saying the following:

*Spread trading offers...the advantage of entering a synthetic position, one not possible to achieve [via] an outright position in the futures. [And] the mechanics of a spread offer the benefit of reducing beta while not putting you delta neutral. I can leg into a short term position and [then] take*

*advantage of market volatility by legging out of my position when it benefits the constituent parts of my trade, assuming the overall position and price activity allow for it. In short, spreads allow you to leverage into a position which would have taken much more risk to get into via an outright position and yet offer the same leverage benefit of that outright position should the trade work out. Of course it is possible to lose money on all legs of such a position, but the goal is to reduce risk, maintain alpha and therefore profit.*

Along those same lines, Jim Green of Rosetta mentions the advantages of each trade being a two sided trade, where:

*"...by evaluating both sides of the trade,[we] are able to trade around the core position by "lifting one side" and or allowing the flexibility to exit one side temporarily. Example: Currently short near term Cattle due to worldwide supply issue forcing near term liquidation and long far dated cattle because a hot summer resulted in a poor birth rate; [but can exit either side of the trade if either of those conditions don't pan out, while leaving the other side with exposure to the other fundamental factor]*

Finally, spread prices can offer an alternate source of return when the underlying components are locked in a trading range. Consider the following chart comparing the 2010 YTD percent gain/loss for Crude Oil futures on a backadjusted basis with the percent gain/loss for the December 2011/December 2010 Crude Oil futures spread price (the difference between the Dec 11 and Dec 10 prices).

You can see that while Crude prices have been range bound most of the year, oscillating between up 20% on the year and down -20%; the spread price has seen movement more than 20 times that amount – selling off over 60% to start the year, then rallying up 554% from the low point. This graph alone should help explain the appeal of spread trading to many managers and their investors.

[Quick note - In Europe - Spread Trading means something completely different, with it being another name for spread betting. Spread betting is essentially how mainly UK citizens can go short stock, indices, etc., as tax and other laws make it prohibitive to short stocks as we do here in the US. Spread betting should not be confused with spread trading as we are discussing it here, as they are completely different.]

## Spread Trading CTAs

Attain has four programs on its recommended list which specialize in spreads exclusively, and follows another four programs which incorporate spreads into their models.

**Emil van Essen Spread Trading:** One of the more unique spread trading stories, the Emil Van Essen program looks to exploit volume inflows and outflows around when the very large long only commodity tracking ETFs and other funds roll their futures contracts. With such institutional money always long, they have to always exit (sell) the nearer month contract (resulting in sell volume), and enter (buy) the further out contract (resulting in buy volume). Van Essen positions accounts to profit from this, more often than not being short the nearer month, and long the further out month (they are currently short March '13 Sugar and long May '13 Sugar, for example). Of course, it isn't as easy as it sounds, with the trick being exactly when to get into and out of these 'Roll Arbitrage' positions. That timing, not the fact that they engage the market in this way, is what gives Van Essen their edge, in their opinion. And it has been an edge, with just five losing months out of 34 since the beginning of 2008 and positive returns in 2009 when nearly all managed futures programs which don't sell options struggled.

For more, see our [Managed Futures Spotlight: Emil Van Essen Spread Trading](#)

**Auctos Capital Management Global Diversified:** Auctos Capital Management considers itself an

“opportunistic strategy” in that they run 9 unique fully automated systems across different time frames, strategies, and markets. System hold times can range from the 40 day average out to 250 days, the strategies look at 70 global markets, and the strategy diversification ranges from pattern recognition to volatility breakout to calendar spreading (our interest here). As it relates to spread trading, approximately 1/3rd of their risk capital is budgeted to spread trading, which they view as a possible return generator during times of range bound price action.

**Global Ag, LLC:** This fundamental discretionary Agriculture trader uses spreads enough to be mentioned here. Head trader David Skudder explains his program by telling you that he does not rely on technical analysis nor charting for trading decisions, but rather on the information flow that he and his team compile on a daily basis. That information flow consists of analysis ranging from crop reports to import/export activities to currency movements. From their perspective, they are trying to identify any changing fundamental(s) that may provide or alter a view on price direction.

They will utilize spreads on both futures and options when they feel that type of trade gives them the best chance of success given their anticipated direction. Risk is constantly evaluated in their program and positions may last less than 1 day or for weeks. How is this going for Global Ag? Pretty well... to the tune of being ahead over 200% since inception.

## Conclusion

The unique benefits of spread trading, and the recent performance of some of the spread traders sure have an appeal. But what is most appealing in our opinion about spread trading is the ability to open up another ‘dimension’ of sorts. While you may be diversified in your current portfolio between a discretionary trader, long volatility multi-market manager, and short volatility option selling program – each of those require directional movement (or lack thereof in the case of option selling) to see success. Spread trading opens up a new ‘dimension’ in which there doesn’t

necessarily need to be large direction moves (or no directional moves) for profits. Just refer back to the Crude chart above to see the differences in opportunities between the two ‘dimensions’ in Crude. And spread trading can open up even more ‘dimensions’ in terms of creating new synthetic markets such as long Gold/Short Silver and so on.

While different sorts of spreading (think merger arbitrage) exist in markets around the world, the ease with which one can do various spread trading techniques (be it calendar spreads in the same market such as Emil Van Essen, or cross market spreads in related markets the likes of which Rosetta does) in the futures markets appears unique to us.

Given this uniqueness, the fact that spread traders on average use very little margin; and that these managers are generally affordable (minimums as low as \$250K); we’re recommending to all of our clients to have some spread trading exposure in their portfolios.

If you’ve met Emil van Essen in person, you know that he boasts a love for trading so palpable that it’s hard not to be entranced. That passion for the markets derives its roots from his upbringing in Canada. van Essen was always bright, and as a boy, he made money running paper routes, ultimately attempting to grow those small wages by investing in rare coins. As fate would have it, the man running the coin shop he frequented was a commodity trader, and introduced the young van Essen to the world of commodities trading he’d eventually make his home in.

## CTA SPOTLIGHT: EMIL VAN ESSEN

### The Manager

Van Essen eventually left the paper route behind in pursuit of a degree in advanced mathematics at the University of Waterloo, and when offered a position with Prudential Securities, he left to blaze his own trail, applying his quantitative prowess to become one of the youngest brokers to qualify for Vice-Presidency at the firm. His chase of systematic excellence continued through positions with Scotia Bank and the Bank of Montreal. But deep down, van Essen knew that the numbers he loved were not all that would be required to really gain an edge in the markets. Yes, quantitative strategies could be effective, but could they really replace human judgment? His years of watching the markets from every angle led him to believe that the ideas we trade on should come from the market, and the numbers validate those ideas.

As van Essen puts it, *"I think we've been very research focused- we have a good team of analysts... we're very quant minded, but on the other hand, when you trade spreads, you really have to know the market. It changes fast, you have to be adaptable, so you really have to understand the market you're in, and I think a lot of people who are too systematic aren't able to adapt fast enough to the changing markets. In chess an average computer teamed up with an average chess player can beat the best human or best chess playing computer; I think this analogy has merit in trading."*

He also understood the value of building a strong team, explaining, *"Used to be you'd have a one man CTA starting out- maybe one or two people in their house sort of trading and becoming a CTA. That's really no longer possible, or it's difficult, because institutions want all kinds of rules, separation of duties, etc. You really need to have a big infrastructure... just to get started."*

Armed with ideas, beliefs, and models, van Essen has built a stellar team around himself, with two

### Assets Under Management

\$360 Million

### Founded

2007

### Location

Chicago, IL

### Minimum Investment

\$5,000,000 (QEP Only)



new acquisitions over the past year really adding to the dynamic staff already in place. Russ Rausch, formerly of Trading Technologies, has joined EvE as the COO, alongside Nick Hatzopoulos, who boasts his own noteworthy career in trading, risk management, and technology development, was also recently hired as the Chief Risk Officer. The three are working hand in hand to help further improve already strong operations and risk management.

### The Trading

EvE is best classified as a spread trading managed futures program operating across 20 different futures markets, a variety of timeframes, and defined risk management parameters, relying on quantitative data to filter what are ultimately discretionary trades. As a quick refresher, let's review how spread trading works and what makes it different from outright futures trading. Spread Trading is the simultaneous purchase and sale of something very similar, economically speaking. In commodity markets, that usually means buying one commodity while selling a similar one (buying Soybeans and selling Soymeal – known as an inter-commodity spread, for example), or buying and

selling the same commodity in different contract months (buying July 2011 Corn futures and selling December 2011 Corn futures, for example – known as a calendar or intra-commodity spread). Depending on whether you buy or sell the spread, the goal of a spread trade is for the difference between the two sides of the trade to either get further apart or closer together. In our example above, you would want either July Corn rising faster than December Corn does, or December Corn falling faster than July Corn. Traditionally, a CTA trying to get into spread trading will attempt a pretty vanilla spread strategy- perhaps even similar to the one above.

This was not the case with EvE.

EvE got its start as van Essen watched the growing influence of index funds and commodity ETFs on commodity futures markets. Commodity ETFs, typically providing long-only exposure to commodity markets for retail investors, have surged in popularity over the past several years, with [AUM of around \\$300 billion by most recent reports](#). They typically use futures contracts to gain such exposure, and due to monthly nature of futures contracts, would find themselves needing to “roll” or purchase a contract further into the future than the one they were holding.

As the assets in these vehicles grew, van Essen believed they presented a significant trading opportunity. If a manager could time their positions properly he thought they could take advantage of of the published roll strategies of these long only commodity funds. But it wasn't enough to consider the impact of the long only fund rolls; van Essen knew that other speculators would try to trade the roll periods for profit.

*“I looked at how we could take advantage of their behavior and their size. We were looking at how they rolled their positions and also how a lot of participants were (legally) front running the roll of the index funds by trying to get in front of that whole wall of money. Essentially, we were [front running] the front runners.”* No, he doesn't mean any ACTUAL front running (that would be illegal), but he

certainly paints a vivid picture of the intentions they had. The idea was certainly exciting, and drove the development of the program, but van Essen realized that if he wanted to stay in the game, he'd have to develop a research process that closely tracked the price action changes in the spread markets caused by all the market participants including changes in long only roll strategies.

*“Of course, the index funds are getting smarter and changing their roll strategy. If you don't adapt with their changes, you're going to start losing money. We find people that are too simplistic- don't understand the spread market and what's going on, they start losing money, whereas we build models that sort of measure the changing roll strategies, and that allows us to adapt very quickly.”*

Initial performance was promising in the programs first year in 2007, but EvE wanted to diversify the strategy and reduce volatility, and in 2008, they deleveraged the program and introduced calendar spread trades outside of the roll period. It was this strategy expansion that really gave EvE an edge in terms of program distinction. As Rausch explains,

*“With accurate spread market data, proprietary spread modeling software, and spread market trading experience EvE had the tools to go beyond the roll period and look at the entire term structure of multiple commodity markets to identify trading opportunities very quickly.”*

This allowed the strategy to have more trading opportunities that were not as dependent on certain market conditions and individual markets. A lot of spread traders focus on a market or sector and a certain part of the term structure, but looking at many markets and many spread combinations helps EvE to have the ammo to find the trades with the risk-reward characteristics they like in various market conditions.

*“Although the roll arbitrage strategy was historically successful as a stand-alone strategy, we believed that expanding into a multi-model strategy would potentially reduce risk and improve risk adjusted*



*returns. We also wanted to take advantage of our modeling and research capabilities to look outside of the roll periods and find trading opportunities throughout the term structures. We found that we could trade spread price trends similar to the ways outright markets are traded. For example the spread may be long-term trending, mean reverting, etc. In addition, we identified dislocation and convergence opportunities across commodity term structures. We have also evolved from trading strictly term structure or intra-market trades to relative value or inter-market spreads."*

However, there's no rest for the wicked, and the EvE team continued to research and expand their trading models. One of the more unique contributions in recent years has been the development of a unique hedge overlay in 2010. This was initially an attempt at reduce volatility and drawdowns, but wound up being more valuable. *"Since many program positions are short spreads or bear spreads, abnormally rapid increases in the front month outright contract will typically have a negative impact on our spread positions,"* they explain. An example we often use with clients is to imagine another Katrina-like storm hitting the Oil and Gas infrastructure of the Gulf coast. You can see a scenario where the immediate production of say, Gasoline, would be hindered because of shut down refineries, roads, canals, rivers, and so on due to the storm damage. In such a scenario, the front month Gas contract could rise significantly (nobody can get to the Gas...) while the back month contracts would likely fall (less of the commodity being used today would mean more available tomorrow). Such an event, while unlikely to happen, is a significant threat to the types of positions EvE puts on.

*"Accordingly, we use a small long position in the outright to offset our potentially negative spread position,"* they elaborate. *"The hedge overlay was successfully utilized in 2010 and 2011 on a discretionary basis. In addition to providing downside risk protection, we found the hedge was sometimes even profitable from the outright move."*

Program evolution proceeded throughout 2011, with the implementation of a systematic approach to the hedge overlay and the introduction of interest rate yield curve trading and inter-market spreads. In 2012, they are investigating the use of options on futures as another tool to help minimize and hedge risk in certain areas of the portfolio. In other words, the program that started out as a commodity futures roll strategy has evolved to offer unique, but still diversified, managed futures exposure.

## Risk Management

The way the EvE program has evolved is certainly interesting, but their quest for a higher alpha generating program has not been blinded by a drive for performance; risk management has played a central role in every nuanced tweak of the trading, and continues to be the centerpiece of all the work the team does. In many ways, a large component of their overall risk management is derived from their ongoing research.

*"We have always made it a priority to learn from our market experiences and to find trading opportunities by watching markets closely,"* he states.

*"We constantly conduct research to improve our understanding of the current market environment and how it affects our investment strategy."*

They attribute much of their research success and innovation to the quality of their team, but also to their process. Extensive analysis of the behavior of spreads in all possible scenarios paired with experience and insight keep them perpetually searching out new solutions and improvements. But that's not the full extent of their overall risk management. Positions are often hedged using futures and potentially options to prepare for a potential sudden run-up in price. Positions are sized according to open interest, liquidity, recent volatility and the risk adjusted return of the model. While they evaluate risk using a garden variety of standard statistics, it is how they filter and act upon that risk that makes their structure unique.

As van Essen explains,

"We've put a risk structure in place that does everything from tell us what the quantity of contracts we can trade in any instrument based on liquidity [is], what our max drawdown is, what we have to do if we hit our max drawdown, how much risk we're allowed to take over our whole portfolio, how we measure that risk, how much margin are we allowed to use, and what happens if we exceed our margin limits, and we have exact rules on how we deal with every scenario that comes up."

What kinds of scenarios does this internal risk management protocol apply to? If the program were to exceed margin to equity limits, for instance, their risk management committee will have three days to bring the portfolio down to an acceptable amount of risk. If the intra-month drawdown exceeds 15%, similar steps are taken. Even the way the trades are placed, in some ways, manages risk. Beyond reacting to extremes like these, data is sourced from multiple providers, cycled through their modeling software, subjected to statistical analysis and signal evaluation, and sent off to the research department for further evaluation, before finally being considered holistically by the portfolio manager for actual execution of the trade- or not. In many ways, the EvE team sees this as a part of their advantage- their trading is still mathematically guided, but because sometimes the world throws curveballs a model can't anticipate, having the human element of research involved gives them the ability to be more nimble than a traditional systematic program.

As far as risk management per trade is concerned, unlike many trend followers, which may use a series of stops to govern exits, the program sets a dollar risk amounts per spread as a guideline. While the margin-to-equity and intra-month drawdown guidelines act as overall portfolio limits, they allow for maneuverability among the individual spread positions. The per spread loss amounts help to identify stress and opportunity points at the spread position level. But there have been structural changes to the program as a whole, including some pretty substantial deleveraging in terms of how many positions the program entered into per signal. How substantial? The current position

Fig. 2 EvE's Performance Chart

	6 Month Window	12 Month Window	24 Month Window	36 Month Window
<b>Highest Return</b>	<b>64.58%</b>	<b>112.95%</b>	<b>174.60%</b>	<b>232.77%</b>
<b>Average Return</b>	<b>14.90%</b>	<b>34.18%</b>	<b>77.73%</b>	<b>129.40%</b>
<b>Lowest Return</b>	<b>-26.11%</b>	<b>2.85%</b>	<b>24.20%</b>	<b>51.02%</b>

*Past performance is not necessarily indicative of future results.*

sizing is just 1/3 of what it used to be, meaning they are now trading 1 spread for the same trades where they would've traded 3 spreads in the past. The position sizing uses \$100k units sizes (ex: 1 spread per \$100k) and historical risk adjusted returns to determine the number of spreads to trade per \$100k. Markets with a higher return / risk ratio will receive a higher number of units per \$100k. For example, after deleveraging EvE will take 1 spread per \$100k in Natural Gas, while potentially doing up to 6 spreads per \$100k in Coffee. Natural Gas is historically been more volatile than coffee. Without deleveraging EvE, would've taken 3 NG's per \$100k units and 18 Coffee spreads, all other things considered equal. This position size decrease has also resulted in lower margin usage. EvE would have margin requirements 30% to 40% of the nominal account value in the past – and now runs closer to 10% to 20%.

## Performance

EvE's performance, in some ways, has been rather storybook, which is why we put off talking about it until now in this piece. We don't advise chasing performance, as past performance is not necessarily indicative of future results, but that's really what all this talk about research, models and risk management comes back to- the performance it generates. For us, the element that most stands out when analyzing the overall performance of the program is the consistency we've seen out of EvE. Futures trading is complex and presents the risk of substantial losses, which is part

of the reason that EvE is only available to Qualified Eligible Participants, but we've been impressed by the returns they've posted. If you look at every 6, 12, 24 and 36 month period in the program's history, over 93% of the 132 timeframes have been profitable. Only 9 of the periods generated losses, and each of those were 6 month timeframes- which we don't even recommend as a minimum holding time for a managed futures investment.

There's definitely been some volatility accompanying that performance, though- particularly in the earlier

days. A max drawdown of over -36% is nothing to snuff at, and there is always the risk that a program will exceed such losses in the future- particularly since spread trades can and will turn against you on occasion in a meaningful way. However, to be fair, if we do a pro-forma adjustment to the EvE actual results to lower the past monthly results to reflect the current position sizing employed by EvE, the drawdown in the pro forma would be just -15.69%, so volatility has certainly decreased.

## Disclaimer

The information contained in this report is intended for informational purposes only. While the information and statistics given are believed to be complete and accurate, we cannot guarantee their completeness or accuracy. RCM Alternatives has not undertaken to verify the completeness or accuracy of any of the information and statistics provided by third parties.

As past performance does not guarantee future results, these results may have no bearing on, and may not be indicative of, any individual returns realized through participation in this or any other investment. The risk of loss in trading commodity futures, whether on one's own or through a managed account, can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market.

Any specific investment or investment service contained or referred to in this report may not be suitable for all investors. You should not rely on any of the information as a substitute for the exercise of your own skill and judgment in making such a decision on the appropriateness of such investments. Finally, the ability to withstand losses and to adhere to a particular trading program in spite of trading losses are material points which can adversely affect investor performance.

We recommend investors visit the Commodity Futures Trading Commission ("CFTC") website at the following address before trading: <http://www.cftc.gov/cftc/cftcbeforetrade.htm>

Managed futures accounts can subject to substantial charges for management and advisory fees. The numbers within this website include all such fees, but it may be necessary for those accounts that are subject to these charges to make substantial trading profits in the future to avoid depletion or exhaustion of their assets.

Investors interested in investing with a managed futures program (excepting those programs which are offered exclusively to qualified eligible persons as that term is defined by CFTC regulation 4.7) will be required to receive and sign off on a disclosure document in compliance with certain CFT rules. The disclosure documents contains a complete description of the principal risk factors and each fee to be charged to your account by the CTA, as well as the composite performance of accounts under the CTA's management over at least the most recent five years. Investor interested in investing in any of the programs on this website are urged to carefully read these disclosure documents, including, but not limited to the performance information, before investing in any such programs.

Those investors who are qualified eligible persons as that term is defined by CFTC regulation 4.7 and interested in investing in a program exempt from having to provide a disclosure document and considered by the regulations to be sophisticated enough to understand the risks and be able to interpret the accuracy and completeness of any performance information on their own.

RCM Alternatives receives a portion of the commodity brokerage commissions you pay in connection with your futures trading and/or a portion of the interest income (if any) earned on an account's assets. CTAs may also pay Attain a portion of the fees they receive from accounts introduced to them by RCM Alternatives.





# WHAT WE DO

We build great Managed Futures portfolios with clients looking to access the managed futures space in a meaningful way. That's been our specialty for more than a decade, with our experienced team up to the challenge of finding unique managers to fit unique needs.

## For Investors



### Research & Educate

We believe education means more than just a glossy brochure showing how managed futures is non-correlated to the stock market. We believe it means ongoing analysis of what's happening now, not just what happened over the past decade; and we provide daily research and commentary via our popular 'Attain Alternatives' blog covering all things alternative investments, as well as periodic whitepapers digging deeper into topics, guest posts by fund managers, and more.



### Scout Talent

You can think of us as talent scouts, helping investors scour the world of alternative investment opportunities in an effort to identify those with robust, consistent performance, sophisticated risk management processes, and well-developed operational infrastructure. This selection is done through our proprietary filtering algorithm before performing one-on-one meetings and "real-time due diligence" where we analyze daily trading.



### Tailor Portfolios

Armed with a menu of talented managers, we then provide customized portfolio and strategy advice to better generate target returns and protect principal while meeting the diversification, return, and risk needs of investors ranging from high net worth individuals to pension funds. Clients invest in these portfolios by opening a brokerage account with us, where we earn a portion of the trade-by-trade costs and fees paid to the portfolio managers you enlist. There are never any add-on, portfolio-level fees for our services.




### Make It Easier

We make the actual investment part, with the paperwork and funding and all the rest, as easy as possible. We do this by eschewing a 'one size fits all' approach in favor of a consultative approach where we work with clients to find solutions that work for them in terms of structuring the investment. These include vanilla individual futures accounts, to the creation of 'Funds of One' or direct access to managers. The choice of clearing firms considers the investor's requirements for credit rating, balance sheet, and more; while consideration is given to smart collateral options via T-Bills, Notes, Corp. Debt, & Stocks.

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You should fully understand the risks associated with trading futures, options and retail off-exchange foreign currency transactions ("Forex") before making any trades. Trading futures, options, and Forex involves substantial risk of loss and is not suitable for all investors. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge, and financial resources. You may lose all or more than your initial investment. Past performance is not necessarily indicative of future results.

RCM Alternatives is a registered dba of Reliance Capital Markets II LLC.





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