Understanding the Benefits of Managed Futures

361 CAPITAL®

In 2015, markets experienced much uncertainty and change. An increase in volatility as measured by the CBOE Volatility Index (VIX), interest rates that were pushed higher by the Federal Reserve after a long anticipatory period, and a number of geopolitical and macroeconomic factors weighed heavily on markets. Investors have yet to see any relief in 2016, as markets continue to be roiled by volatility.

In times such as these, investors should consider anchoring portfolios with investments that serve as true diversifiers, such as managed futures. Such strategies seek to dampen overall portfolio risk, and generate positive returns regardless of market direction. Here are three reasons why Managed Futures makes sense today.

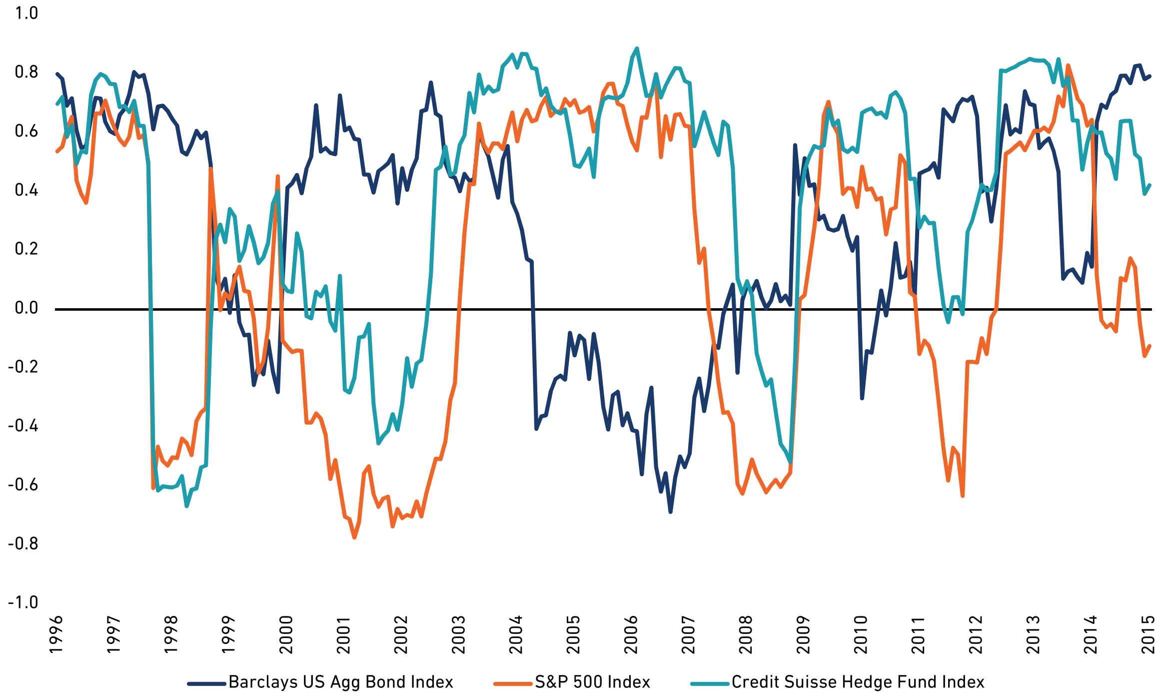
#1 Portfolio Diversification

Managed futures funds have proven to be uncorrelated to stocks and bonds, as well as other alternative asset classes, over time, thus offering true diversification to a portfolio. In fact, of all the alternative mutual fund categories, the managed futures category has provided the greatest correlation benefit over the last five years (a period chosen to correspond with the growth in alternative mutual funds). Low correlations with other assets means that when included in a diversified portfolio, managed futures funds should reduce overall volatility. Reducing volatility is important because of its positive effect on compounding and the fact that investors are more likely to stay the course when they don't have to suffer large swings in performance.

KEY TAKEAWAYS

- Managed futures funds have proven to be uncorrelated to stocks and bonds, thus offering true diversification
- Managed futures strategies have the potential to protect capital during volatile or downward-trending markets
- Counter-trend funds see opportunities when noise, fear and greed are present in the market and seek to profit from these emotions

Rolling 1-Year Correlations with Credit Suisse Managed Futures Index



Source: Morningstar Direct (12/1996-12/2015)

03/2011 -02/2016	Morningstar Managed Futures	Morningstar Long/Short Equity	Morningstar Market Neutral	Morningstar Multi-alternative	S&P 500	Barclays US Agg Bond
Morningstar Managed Futures	1.00	–	–	–	–	–
Morningstar Long/Short Equity	0.02	1.00	–	–	–	–
Morningstar Market Neutral	0.07	0.79	1.00	–	–	–
Morningstar Multialternative	0.26	0.91	0.77	1.00	–	–
S&P 500	-0.01	0.98	0.77	0.89	1.00	–
Barclays US Agg Bond	0.39	-0.20	-0.02	0.11	-0.19	1.00

…managed futures strategies have the potential to protect capital during volatile or downward-trending markets.

#2 Downside Risk Management and Added Source of Returns

Due to the ability of trend following managed futures strategies to short asset classes experiencing downward trends, and the ability of counter trend strategies to generate positive returns regardless of market direction, managed futures strategies have the potential to protect capital during volatile or downward-trending markets.

In fact, data shows that during five of the most painful market routs—the 1998 Russian debt crisis, the 2000 technology bubble, the terrorist attacks of September 11, 2001, the financial crisis of 2007-2008 and Brexit of June 2016—managed futures strategies not only provided downside risk management, but generated meaningfully positive returns.

Index	The Russian Crisis 1998-08-01 to 1998-09-30	The Dot Com Bubble 2000-04-01 to 2002-09-30	The World Trade Center Attacks 2001-09-01 to 2001-09-30	The Global Financial Crisis 2007-06-01 to 2009-02-28	Brexit 2016-06-01 to 2016-06-30
MSCI World NR Index	-11.83	-46.80	-8.82	-51.88	-1.12
S&P 500 Index	-8.98	-43.75	-8.08	-50.00	0.26
Credit Suisse Managed Futures Index	17.50	32.61	3.65	19.50	4.19

Past performance does not guarantee future results. The MSCI World NR and S&P 500 are unmanaged indices whose performance is not affected by management fees, operating expenses, transaction costs, and taxes. You cannot invest directly in an index. The Credit Suisse Managed Futures is an index of hedge funds following managed futures strategies. Fund performance is net of all fees. Unlike the securities in the MSCI and S&P indices, hedge fund shares are not publically traded. Hedge funds are not subject to certain investment restrictions that apply to registered mutual funds. The historical performance of the Credit Suisse Managed Futures Index does not represent or indicate the past or future performance of any 361 Capital mutual fund.

#3 Harvesting Fear and Uncertainty in the Market

As alluded to previously, many managed futures funds follow market trends. That means that managers purchase assets that are trending higher while shorting securities that are trending lower.

In our case, we purposefully and tactically buck market trends by utilizing a proprietary model that is distinctly counter-trend. We see opportunities when noise, fear and greed are present in the market and seek to profit from these emotions by capturing the appropriate inflection points.

Trend + Counter-Trend = A Great Pairing

If you already understand the benefits of allocating portfolio assets to a traditional managed futures strategy that moves in tandem with market trends, then you'll grasp the benefits of a counter-trend managed futures strategy. Counter-trend seeks to sell short-term over-bought levels while concurrently buying short-term over-sold levels. This allows counter-trend strategies to thrive amid volatile markets regardless of their direction and react quickly to market inflection points. Importantly, counter-trend strategies are not the opposite of trend following. Rather, they are indifferent to longer term trends. While there is no one fixed recipe for allocating to managed futures strategies, using both trend following and counter trend as a pairing strategy has been additive to portfolio performance historically.

For more:
Call 866.361.1720 or visit 361capital.com.

Related Funds:

361 Global Managed Futures Strategy Fund (AGFZX)

361 Managed Futures Strategy Fund (AMFZX)

About 361 Capital

361 Capital is a leading boutique asset manager focused on alternative and behavioral-based equity solutions that seek to deliver meaningful alpha, manage risk and offer diversification potential to investor portfolios. Founded in 2001, we offer a suite of investment products including Long/Short Equity, Managed Futures, Macro, as well as Small, Mid and Large Cap Equity.

Investing involves risk, including possible loss of principal. Futures prices may be very volatile. The small margin required for futures contracts magnifies the effect of market volatility and allows the loss from a contract potentially to exceed the Fund's initial investment. With short contracts, the loss is theoretically unlimited since the appreciation of the underlying asset also is theoretically unlimited. Fund assets not invested in futures are invested primarily in investment-grade bonds. Bond prices generally fall when interest rates rise. Frequent trading by the Fund may reduce returns and increase the number of taxable transactions. Concentration of its portfolio in relatively few issuers may make the Fund more volatile than a diversified fund.

The Barclays Capital Aggregate Bond Index is a broad bond index covering most U.S. traded bonds and some foreign bonds traded in the U.S.

The S&P 500® Index is a commonly recognized, market capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

The Credit Suisse Hedge Fund Index is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index uses the Credit Suisse Hedge Fund Database, which tracks approximately 8,000 funds and consists only of funds with a minimum of $50 million under management, a 12-month track record, and audited financial statements.

The MSCI World Index is a free float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index includes reinvestments of dividends, net of foreign withholding taxes.

The Credit Suisse Managed Futures Index is a subset of the Credit Suisse Hedge Fund IndexSM that measures the aggregate performance of dedicated short bias funds. Managed futures funds (often referred to as CTAs or Commodity Trading Advisors) typically focus on investing in listed bond, equity, commodity futures and currency markets, globally.

Morningstar Managed Futures Category is defined as registered funds that primarily trade liquid global futures, options, swaps, and foreign exchange contracts, both listed and over-the-counter. More than 60% of the fund's exposure is invested through derivative securities. These funds obtain exposure primarily through derivatives; the holdings are largely cash instruments.

Morningstar Long/Short Equity Category Average is defined as registered funds with long-short portfolios that hold sizable stakes in both long and short positions in equities and related derivatives. At least 75% of the assets are in equity securities or derivatives.

Morningstar Market Neutral Category is defined as registered funds attempt to reduce systematic risk created by factors such as exposures to sectors, market-cap ranges, investment styles, currencies, and/or countries. They try to achieve this by matching short positions within each area against long positions. These strategies are often managed as beta-neutral, dollar-neutral, or sector-neutral.

Morningstar Multialternative Category is defined as registered funds that offer investors exposure to several different alternative investment tactics. Funds in this category have a majority of their assets exposed to alternative strategies.

The views expressed are those of the authors at the time created. These views are subject to change at any time based on market and other conditions, and 361 Capital disclaims any responsibility to update such views. No forecasts can be guaranteed. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any 361 Capital portfolio.

This 361 Capital article is not intended to provide investment advice. This paper should not be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by 361 Capital or any third-party. You are solely responsible for determining whether any investment, investment strategy, security or related transaction is appropriate for you based on your personal investment objectives, financial circumstances and risk tolerance. You should consult your legal or tax professional regarding your specific situation.

Data and other materials appearing that are provided by third-parties are believed by 361 Capital to be obtained from reliable sources, but 361 Capital cannot guarantee and is not responsible for their accuracy, timeliness, completeness, or suitability for use.

The 361 Funds are distributed by IMST Distributors, LLC.
August 2016