2017 A Year of Change

Why Allocate to CTA managers?

A shift from monetary policy to fiscal policy in the United States will bring uncertainty to the equity markets and bonds markets. Portfolios that traditionally have been long equity and long bonds should see a paradigm shift in the coming twenty-four months. The long-term conundrum of bond vs equities is ever increasing and 2016 saw a peak in correlation between the two asset classes, so if they are no longer acting as a hedge for one another and both rise and fall in tandem, then how else can managers reduce risk and control volatility?

As a whole the weight average of hedge funds disappointed in 2008; most people who allocate to hedge funds / absolute return are happy to give away upside performance in a rising market but want their allocation to this asset class to perform or at least not lose money during a prolonged dislocation. Managed Futures / CTA's stood out as a positive performer during this time. We recognise key points as to why we should allocate to managed futures.
Pension Plan Sponsors, Endowments and Foundations have been allocating to Manged Futures for the last thirty years. Principal Asset Allocation has a strategic long term asset allocation to Managed Futures. Over the coming business cycle, we believe that this asset class will allow our investors to have a low drawdown, combined with an improved risk vs return.

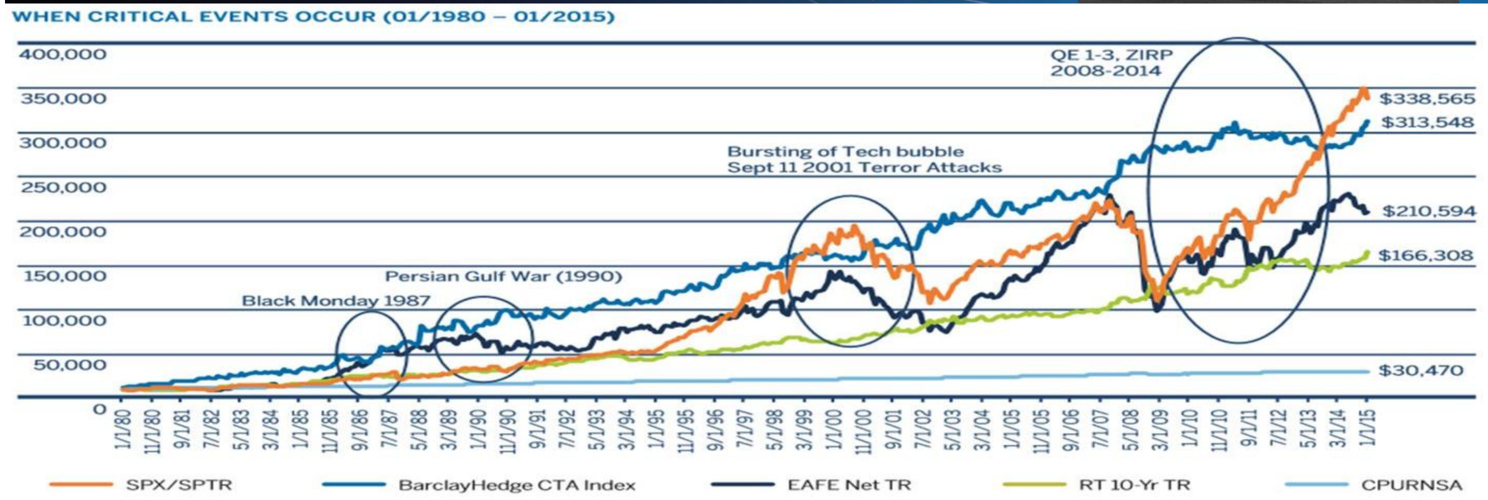
It's important to understand where we are in the economic cycle and adjust weighting accordingly.

Here We Recognise Key Points As To Why We Should Allocate To Managed Futures

1. They have historically had a low correlation to both equity and bond markets; since 1996, monthly return correlation of Managed Futures to equities is –11% and to bonds is +28% and during periods of market dislocation, demonstrating that they provide a good hedge against traditional long bond and equity portfolios.

2. The strategy reduces a traditional multi asset portfolio volatility. Typically, as one asset class goes up, some other asset class goes down. Due to the allocation to over 80 individual instruments globally, Managed Futures being able to go long or short will invest across a broad spectrum with the goal of achieving solid long-term returns.

3. Performance can be generated by Managed Futures in bull and bear markets, boasting solid long-term track records despite economic downturns. Typically, they do so with less volatility and smaller drawdowns, compared with equities over the long term. The chart below highlights that the drawdowns are less dramatic.



* Data Source: BarclayHedge, MSCI Inc, Ryan Labs Inc & Bloomberg

MANSARD CAPITAL MANAGEMENT + PRINCIPAL ASSET ALLOCATION

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