Return Stacked®
Portfolio Solutions

The Advisor's Guide to Client Conversations about Managed Futures

Why This Conversation Matters

When both stocks and bonds experience extended drawdowns, like they did in 2022, investors need more than just traditional diversification.

They need strategies that can profit from market stress.

Managed futures trend following is one of the few strategies that has historically done just that.

This guide gives you clear, simple ways to explain it.

What Are Managed Futures?

Managed futures are a rules-based strategy that buys what's trending up and sells short what's trending down, across dozens of global markets: stock indices, bond indices, currencies, and commodities.

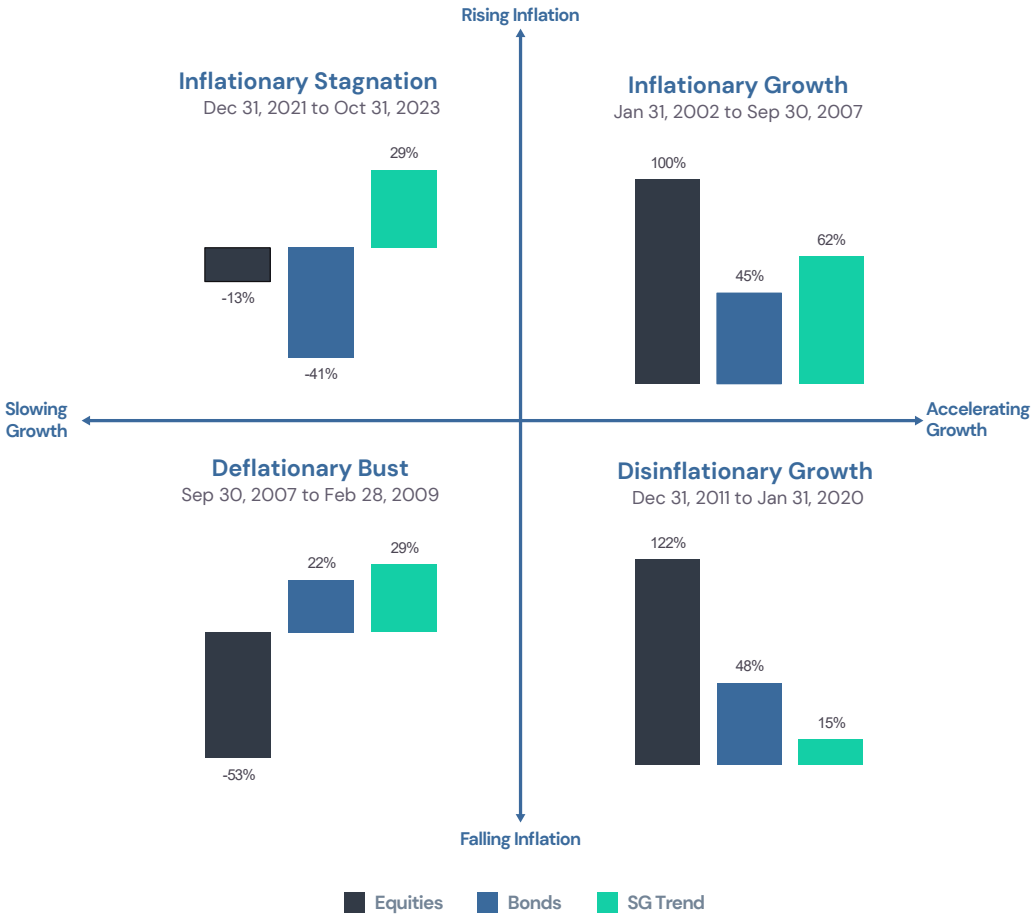
It's not forecasting the future based on economic data. It's reacting to recent price trends with the expectation they will continue in the very short term.

"It doesn't look into the future, it reacts to the recent past to find useful trends"

Because it can profit from both sustained rising and falling markets, its primary driver is not economic growth, but sustained market momentum across dozens of global markets and asset classes. This creates the potential for a truly different return source from stocks and bonds.

As Figure 1 shows, this has historically allowed the strategy to perform well when traditional assets tend to struggle most.

Figure 1. Trend Following Performance During the Different Economic Regimes Versus Stocks and Bonds



Source: CSI Data, Bloomberg and ReSolve Asset Management SEZC. Analysis by ReSolve Asset Management SEZC. Equities is MSCI All Country World Index ("ACWI"), Bonds is iShares 20+ Year Treasury Bond ETF (TLT) extended by ICE U.S. Treasury 20+ Year Bond Index Total Return (ICET20X2), SG Trend is the Société Générale Trend Index ("NEIXCTAT"). You cannot invest in an index. Please see glossary at the end of this presentation for index definitions. Returns are gross of taxes. Returns assume the reinvestment of all distributions. Past performance is not indicative of future results.

Key Analogy:
A Self-Adjusting Shock Absorber

Think of managed futures as a self-adjusting shock absorber for your portfolio.

When traditional assets hit rough terrain – like inflation shocks or interest rate spikes – managed futures don't just absorb the impact. They are designed to react to the new trend, potentially helping to smooth out the ride for the total portfolio.

How to Talk to Clients About Managed Futures

"I don't understand how this works."

Managed Futures is a disciplined strategy that buys into markets that are trending up and sells short markets that are trending down. The aim is to benefit from sustained price moves, not economic predictions.

"Isn't this risky?"

It can be volatile on its own, yes. But because it often moves differently from your other investments, adding it to a traditional stock/bond portfolio has historically reduced total portfolio risk, especially during major downturns.

"It didn't do well during the last bull market."

Right, and that's expected. In fact, that's precisely why we want it: it marches to the beat of its own drum. And, historically, has really earned its keep when you need it most. But by stacking it on top of your portfolio we can still benefit even when the strategy experiences modest returns.

"Isn't this just market timing?"

Actually, it's the opposite. Market timing tries to predict tops and bottoms. This strategy follows pre-set rules and reacts to trends already in place. It removes emotion and guesswork.

Quick-Reference Bullet Points for Conversations

1. **A Diversifier That Has Shown Up:**
   "This strategy has historically performed well during major stock and bond drawdowns. It's built to dynamically react to changing market environments."
2. **Reacts, Doesn't Predict:**
   "It's not about guessing. It simply follows trends already in place, removing emotion from the equation."
3. **Truly Different Return Source:**
   "This doesn't rely on a growing economy. It profits from price momentum – up or down – across global markets."
4. **A Portfolio Shock Absorber:**
   "It's not guaranteed, but it's built to respond during stress and has historically helped cushion portfolios."
5. **Stackable Without Sacrifice:**
   "We can add this strategy on top of your core allocations using return stacking. That means diversification without giving up your main investments."

Managing Trend Underperformance with Return Stacking

Since the early 1980s, markets have mostly been in a disinflationary boom environment - periods of falling inflation and rising growth - where trend strategies typically lag equities and bonds (see Figure 1).

To solve for the pain of underperformance, stacking trend-following *on top* of core equity and bond exposures allows investors to capture the full upside of traditional portfolios while simultaneously introducing trend's potential diversification benefits.

This turns the allocation question from
"what do I give up?" to
"how much resilience could I add?"

Conclusion

Managed futures are often misunderstood, but they are a powerful tool for building more resilient portfolios. With return stacking, the path from a fragile portfolio to a more durable one can be gradual, rational, and aligned with a client's core goals.

Glossary

MSCI All Country World Index is a comprehensive global equity index that measures the performance of large- and mid-cap stocks across developed and emerging markets worldwide.

ICE U.S. Treasury 20+ Year Bond Index is the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than 20 years. It includes fixed-rate, U.S. dollar-denominated Treasury bonds with maturities exceeding 20 years, excluding inflation-linked securities, floating rate notes, and Treasury bills.

U.S. Treasuries are one of the safest investments as they are backed by the full faith and credit of the U.S. government. They are divided into three primary categories: Treasury Bills, Treasury Bonds, and Treasury Notes.

Société Générale Trend Index is designed to track the largest trend following commodity trading advisors ("CTAs") in the managed futures space net of underlying fees. The index does not represent the entire universe of all CTAs. Actual rates of return may be significantly different and more volatile than those of the index.

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