

Managed Futures: A Unique Asset Class

WHAT ARE MANAGED FUTURES?

Managed futures are products advised by professional money managers known as Commodity Trading Advisors (CTAs). Investor assets in managed futures have grown significantly, from just over \$20 billion in 1994 to more than \$200 billion by the end of 2007.

Typically, CTAs concern themselves with projecting price trends across a variety of markets, through an analysis of historical price trends. This flagship managed futures strategy is known as systematic trendfollowing. Based on their projections of future prices, systematic trendfollowing CTAs invest long (if they project prices will rise) or short (if they project prices will fall) in futures, forwards, and other derivatives contracts across many global markets. Some CTAs may also follow a fundamental approach, which focuses on fundamental factors rather than a quantitative analysis of price trend data.

FEATURES AND BENEFITS

Portfolio Diversification — The primary benefit of adding a managed futures component to a well-diversified portfolio is that it can further optimize your diversification strategy — with the potential to enhance your total portfolio returns.

Opportunity for Reduced Portfolio Volatility — Although futures markets can be quite volatile on a stand alone basis, adding a managed futures component to a diversified investment portfolio may actually help decrease volatility in a portfolio as a whole.

The risk reduction in the portfolio is possible because of the historically low correlation between performance of managed futures with performance of stocks and bonds. Since managed futures generally

do not reflect the fluctuations of other asset types, they may complement a portfolio of traditional stock and bond investments. One caveat to keep in mind, however, is that past performance is not indicative of future results. This historically low correlation may not continue in the future.

Potential to Profit in Both Rising and Falling Markets — Because managed futures trading advisors seek to take advantage of price trends in either direction, it is possible for managed futures to show gains in economic environments when other investments such as stocks and bonds are declining in value.

Access to Global Markets — The establishment of global futures exchanges and the accompanying increase in actively traded contract offerings give trading managers the ability to diversify portfolios by geography as well as by product. Managed futures can participate in more than 150 markets worldwide, including currencies, stock indexes, interest rates, agricultural products, precious and nonferrous metals, and energy products.

RISKS OF INVESTING IN MANAGED FUTURES FUNDS

Highly Speculative — Investing in managed futures is highly speculative and it is impossible to predict long-term or short-term performance. An investor must be prepared to lose all or a substantial amount of their total investment.

Manager Risk — The managed futures fund manager has complete trading authority for the fund. Most single managed futures funds are founded by an individual or partners. If the founder or key person leaves the fund, the underlying source of returns may be negatively impacted.



RBC Wealth Management®

Managed Futures: A Unique Asset Class, continued

Lack of Liquidity — Managed futures funds are subject to restrictions on transferability and resale. Most managed futures funds restrict liquidity to monthly intervals. Managed futures funds also typically require a ‘redemption notice’, often as early as 2 weeks in advance of the desired redemption date.

Leverage — One of the most salient features that distinguish managed futures funds from other pooled investment vehicles is the ability to leverage assets. Because the amount of margin funds necessary to be deposited in order to enter into a futures, forward, option, or swap contract position is typically about 2% to 10% of the total value of the contract, managed futures are able to hold positions in the fund’s account with face values equal to several times the fund’s net assets. Whatever the method of leverage, the impact on the fund is similar. Leverage can provide higher yields and potentially higher returns for managed futures fund investors, but it also increases overall risk and the volatility of the investment.

Taxes — Investors in managed futures funds may realize taxable gains and losses in the year in which they occur, which may result in high tax inefficiency. Proper consideration should be given to the tax implications of investing in managed futures funds, especially for investors in a high tax bracket and investors using a taxable account. Rather than a 1099, managed futures funds produce annual tax information on Forms K-1 that are typically issued later than 1099s. Neither RBC Wealth Management nor your Financial Advisor can offer tax, legal, or accounting advice, so you should consult your tax or legal advisor.

Higher Fees — Managed futures typically charge higher fees than more traditional investments, ranging from four to ten percent. Nearly half of the fee is paid to the brokerage firm offering the product. In addition, the fund manager can receive up to 25 percent of profits as a bonus. However, that incentive bonus usually does not apply until profits exceed costs.

ARE MANAGED FUTURES RIGHT FOR YOU?

Call your RBC Wealth Management® Financial Advisor today if you have questions about the potential advantages and risks of managed futures. He or she can help you determine if adding them to your investment portfolio would be appropriate for you. If you agree that they might enhance your diversification strategy, he or she can also help you choose managed futures products that are a good fit with your investment objectives, timeframe, and risk tolerance.

Investors should consider the investment objectives, risks, charges, and expenses of a fund carefully before investing. Prospectuses containing this and other information about the fund are available by contacting your RBC Wealth Management Financial Advisor. Please read the prospectus carefully before investing to make sure that the fund is appropriate for your goals and risk tolerance. Historical fund performance does not guarantee the same results in the future. Principal value, share prices, and investment returns fluctuate with market conditions. Your investment may be worth more or less than your original cost when you redeem your shares.

RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs.

© 2011 RBC Capital Markets, LLC. All rights reserved.