Managed Futures and Trend Following CTAs

— Ten Reasons to Invest in 2024

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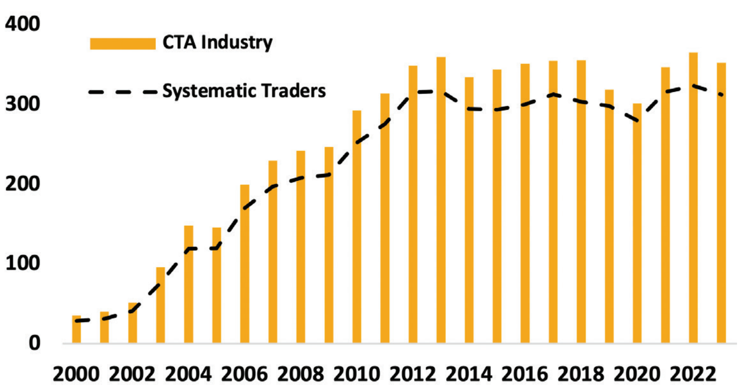
This document is intended for advisors to support the assessment of investment suitability for investors. Investors are expected to consult their advisor to determine suitability for their investment objectives and portfolio.

What are Trend Followers, CTAs, and Managed Futures?

An industry of professional regulated money managers known as "Commodity Trading Advisors" ("CTAs") mainly employ rules-based (systematic) trend-following strategies on commodity and financial futures. "Managed Futures" is broadly used to classify the asset class, while "Trend-Following" (a strategy) and CTAs (a professional registration) are often referenced as over 90% of CTA assets are invested in systematic strategies in which a majority of the risk is in price-based trend-following.

TABLE 1 **ESTIMATED ASSETS UNDER MANAGEMENT (AUM) IN BILLIONS**



Source: Barclay Hedge, CTA Industry Assets Under Management as of December 31st, 2023.

Trend-following CTAs have extensive history, some manager track records date back to the early 1970s[1]. The BTOP50 index ("BTOP50") is an index of the largest 21 CTA funds and has live performance dating back to 1987. A common benchmark for CTA performance, it will be used alongside the below (see end for index benchmark definitions) for comparative analysis:

- **S&P 500 Equities Index ("S&P 500")**
- **TSX 60 Equities Index ("TSX 60")**
- **MSCI World Equities Index ("MSCI World")**
- **Bloomberg US Aggregate Bond Index ("BB AGG")**
- **Goldman Sachs Commodity Index ("GSCI TR")**
- **The FTSE EPRA/NAREIT Global Real Estate Index ("NAREIT")**

[1] Campbell and Company and Dunn Capital have live continuous track records dating back to the 1970s, see "Following the Trend Players"

Why should you consider adding CTAs to your portfolio? The following are ten reasons.

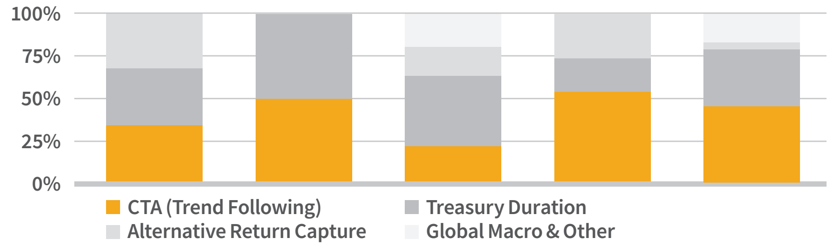
01 Portfolio Value Recognized by Institutions, Core of Asset Class Allocation

Sovereign wealth plans and pensions have used CTAs for decades. Recently many pensions have moved away from traditional "Hedge Fund" portfolios and created more specific "Risk Mitigation" and "Crisis Risk Offset" portfolios, often 10-20% of the portfolio (see Table 2[2]). CTAs often make up the biggest allocation within these portfolios

TABLE 2 TREND FOLLOWING CTAS MAKE UP 5-10% OF THE ENTIRE PORTFOLIO AT MANY MAJOR PENSION PLANS

Institutional Investor	SJCERA	ERSRI	HIERS	IL SURS	CalSTRS
Total Plan AUM (USD):	3.2bn	10.5bn	18bn	24bn	312.2bn
Launch:	JAN-16	MAY-17	APR-17	DEC-19	JAN-16
Portfolio Name:	Crisis Risk Offset	Crisis Protection Class	Diversifying Strategies	Crisis Risk Offset	Risk Mitigating Strategies
% of Total Portfolio:	15%	10%	25%	19%	10%

Trend Following CTAs are the largest component of these portfolios.



Source: "Institutional Use of Commodities & CTAs". Auspice, published November 30th, 2021.

02 Inflation Protection

Trend following strategies historically have been one of the top performing strategies in inflationary regimes[3]. In decades where CPI has averaged above 2%, CTA performance has been strong. CTAs focused on commodity futures (versus financial futures) may provide even greater inflation protection[4].

TABLE 3 CTA PERFORMANCE AND CPI BY DECADE

	1987-1990	1990-1999	2000-2009	2010-2019	2020-2023
Average CPI	4.4	2.9	2.5	1.7	4.5
BTOP50 Annualized Return	23.22%	9.41%	6.36%	0.78%	6.79%

Source: Auspice & Bloomberg, as of December 31st, 2023. You cannot invest directly into an index.

[2] SJCERA" represents the San Joaquin Country Employees' Retirement Association, "ERSRI" represents the Employees' Retirement System of Rhode Island, "HIERS" represents the State of Hawaii Employees' Retirement System, "IL SURS" represents the State Universities Retirement System of Illinois, "CalSTRS" represented the California State Teachers' Retirement System.
[3] "The Best Strategies for Inflationary Times" (Man Group and Duke University).
[4] "The Best Strategies for Inflationary Times" (Man Group and Duke University).

03 Diversification Beyond Traditional Asset Classes

CTAs historically have had a low correlation to traditional asset classes whereas hedge funds and other alternative investments tend to have a much higher correlation to traditional asset classes[5].

TABLE 4 CORRELATION OF THE BTOP50 TO STOCKS, BONDS, COMMODITIES, AND REAL ESTATE

JAN 1987 - DEC 2023	S&P500	TSX 60	MSCI World	BB AGG	GSCI TR	NAREIT
BTOP50	-0.04	0.01	-0.02	0.09	0.11	0.00

Source: Auspice & Bloomberg, as of December 31st, 2023. You cannot invest directly into an index.

04 CTAs Historically Delivered Performance During Equity Market Selloffs – "Crisis Alpha"

In the 15 worst quarters for equities (S&P500) CTAs have provided positive performance. The commitment to trend, regardless of direction, and thus the ability to short sell and provide "crisis alpha" (positive returns during equity corrections) may provide timely portfolio benefits.

TABLE 5 PERFORMANCE OF THE BTOP50 DURING THE WORST 15 QUARTERS OF S&P 500 PERFORMANCE

Quarter	Event	S&P500	BTOP50	Difference
4Q 1987	Black Monday - Global Stock Market Crash	-23.23%	16.88%	40.11%
4Q 2008	Global Financial Crisis Led By Financials	-22.56%	9.14%	31.70%
1Q 2020	COVID-10 Breakout	-20.00%	-2.24%	17.76%
3Q 2002	WorldCom Scandal	-17.63%	9.41%	27.04%
2Q 2022	Russia/Ukraine War / Inflation Surge	-16.45%	6.66%	23.11%
3Q 2001	9/11 Terrorist Attacks	-14.99%	4.12%	19.11%
3Q 1990	Iraq Invades Kuwait	-14.52%	11.22%	25.74%
3Q 2011	European Sovereign Debt Crisis	-14.33%	1.63%	15.96%
4Q 2018	Global Growth Slowdown	-13.97%	-2.05%	11.92%
2Q 2002	Aftermath of Tech Bubble	-13.67%	8.52%	22.19%
1Q 2001	Bear Market in Equities Led By Tech	-12.11%	5.97%	18.08%
2Q 2010	Sovereign Debt Crisis	-11.86%	-1.94%	9.92%
1Q 2009	Global Financial Crisis Led By Financials	-11.67%	-1.75%	9.92%
3Q 1998	Russia Debt Default & LTCM Crisis	-10.30%	10.57%	20.87%
1Q 2008	Credit Crisis, Commodity Prices Rally	-9.92%	6.43%	16.35%
Average		**-15.15%**	**5.50%**	**20.65%**

Source: Auspice & Bloomberg, as of December 31st, 2023. You cannot invest directly into an index.

05 Returns Enhancements

CTAs have outperformed many traditional asset classes including many of the benchmark equity indices.

TABLE 6 PERFORMANCE OF THE BTOP50, STOCKS, BONDS, COMMODITIES, AND REAL ESTATE

JAN 1987 – DEC 2023	BTOP50	S&P 500	TSX 60	MSCI World	BB AGG	GSCI TR	NAREIT
Annualized Return	6.94%	8.39%	5.93%	6.08%	5.36%	3.73%	6.10%

Source: Auspice & Bloomberg, as of December 31st, 2023. You cannot invest directly into an index.

[5] "What are You Invested In. Why?" (Auspice)

06 Risk Management and Capital Preservation

CTAs historically have had a lower maximum drawdown than other traditional asset classes. A core edge described by many is systematic risk-management which may lead to stronger capital preservation.

TABLE 7 MAX DRAWDOWN OF THE BTOP50, STOCKS, BONDS, COMMODITIES, AND REAL ESTATE

JAN 1987 – DEC 2023	BTOP50	S&P 500	TSX 60	MSCI World	BB AGG	GSCI TR	NAREIT
Max Drawdown	-16.11%	-52.56%	-49.78%	-55.37%	-17.18%	-87.22%	-67.20%

Source: Auspice & Bloomberg, as of December 31st, 2023. You cannot invest directly into an index.

07 Cash Efficiency

Futures contracts are very cash efficient and some CTAs (such as Auspice) average less than 10% margin to equity[6]. This means that for every $100 invested, on average less than $10 is required to gain the desired futures positions, and the remainder can be invested in cash or other investments. With Canadian and US short term interest rates over 4% (as of December 2023) this is a unique, significant benefit to futures-based funds. For investors who utilize managed accounts, platforms, and swaps, CTAs may be an ideal solution for "portable alpha", "overlays" and "return stacking"[7].

08 Liquidity and Transparency

Many alternatives are only available with quarterly, yearly, or even longer liquidity structures. CTAs offer monthly and sometimes daily liquidity alongside a high level of transparency.

09 Portfolio Improvements

An allocation to CTAs may improve portfolio returns across key metrics. Notable potential benefits include higher annualized portfolio returns and higher risk-adjusted returns (Sharpe) alongside reductions in volatility, maximum drawdown (peak to trough pullback) and negative skew (downside volatility).

TABLE 8 PORTFOLIO BENEFITS OF ADDING A 10% CTA ALLOCATION

Portfolio JAN 1987 – DEC 2023	Annualized Return	Cumulative Return	Volatility	Sharpe	Skew	Max Drawdown
60/40 Equity / Bond	6.19%	823.40%	9.51%	0.71	-0.57	-33.82%
54/36/10 Equity / Bond / CTA	6.36%	879.63%	8.56%	0.80	-0.49	-29.51%
Change Analysis	**+2.70%**	**+6.80%**	**-10.00%**	**+12.20%**	**+14.20%**	**-12.70%**

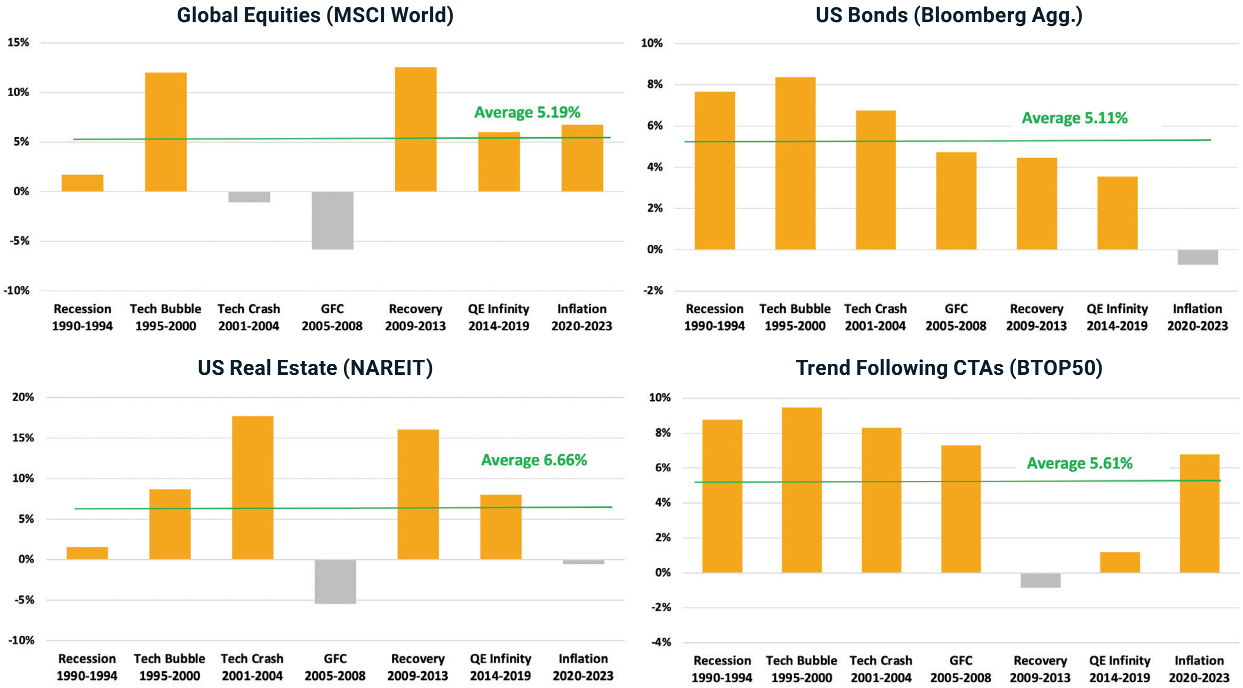
Source: Auspice & Bloomberg, as of December 31st, 2023. Note: This is a hypothetical example, for illustration purposes only. You cannot invest directly into an index. For the purposes of this example, MSCI World used for Equity, BB AGG used for Bond, BTOP50 used for CTA. Yearly Rebalancing is used for all portfolios. Investing in CTAs is associated with risks, always see key risks from prospectus or offering documents. Past results not necessarily indicative of future results.

[6]See Chart 7, Auspice Diversified Trust Commentary + Fund Profile, December 2023.
[7]"Returns Stacking What, Why, Where, and How" (Auspice) and "Return Stacking™: Strategies For Overcoming a Low Return Environment" (ReSolve)

10 Back to "Normal" —Strong Forward Outlook

Many strategies have periods of strong returns alongside periods of less favorable returns, depending on the macro regime. After two periods of poor returns, both which can be characterized as having below average inflation, volatility, and interest rates alongside quantitative easing, it appears (as per Table 9) that the current more "normal" environment (no quantitative-easing) is favorable for trend-following CTAs.

TABLE 9 REGIME PERFORMANCE; ANNUALIZED PERFORMANCE OF EQUITIES, BONDS, REAL ESTATE, AND CTAS



Source: Auspice & Bloomberg, as of December 31st, 2023. You cannot invest directly into an index.
"GFC" refers to the Global Financial Crisis. "QE" refers to Quantitative Easing."

Conclusion

Lastly, as mentioned in the introduction, trend-following CTAs generally have extensive history, with some manager track records dating back to the early 1970s! It's important to note, however, that the BTOP50 benchmark CTA index does not include any replication or CTA "beta" products (often ETFs), typically offered by banks and other platforms. Like any investment, in selecting a CTA fund investment, risk management should be a top consideration. Due to structural limitations, replicator and alike CTA ETFs may be more concentrated in positions and may not have as comprehensive risk management as institutional CTA fund managers. It may be advisable to select from a fund manager with an established team and risk management that has demonstrated results over multiple cycles.

IMPORTANT DISCLAIMERS, DEFINITIONS, AND NOTES

Definitions

1. The S&P500 is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Price Return data is used (not including dividends).

2. The (MSCI) World Index, Morgan Stanley Capital International, is designed to measure equity market performance large and mid-cap equity performance across 23 developed markets countries, covering approximately 85% of the free float-adjusted market capitalization in each. This index offers a broad global equity benchmark, without emerging markets exposure.

3. The S&P/TSX60 Index is a stock market index of 60 large companies listed on the Toronto Stock Exchange. Maintained by the Canadian S&P Index Committee, a unit of Standard & Poor's, it exposes the investor to nine industry sectors. Combined with the S&P/TSX Completion Index it forms the S&P/TSX Composite Index.

4. The BTOP50 Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50. In each calendar year the selected trading advisors represent, in aggregate, no less than 50% of the investable assets of the Barclay CTA Universe.

5. The Bloomberg Barclay Aggregate Bond Index (BB AGG), is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

6. The S&P Goldman Sachs Commodity Total Return Index (S&P GSCI TR) is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The S&P GSCI TR Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy and includes collateral return.

7. The FTSE EPRA/NAREIT Global Real Estate Index is a free-float adjusted, market capitalization-weighted index designed to track the performance of listed real estate companies in both developed and emerging countries worldwide. Constituents of the Index are screened on liquidity, size and revenue.

8. The US Consumer Price Index (CPI) is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.

SOURCES

1. Barclay Hedge CTA Industry Assets Under Management
2. "Following the Trend Players"
3. "Institutional Use of Commodities & CTAs"
4. "The Best Strategies for Inflationary Times"
5. "What Are You Invested In. Why?"
6. Auspice Diversified Program Commentary & Portfolio Facts December 2023
7. "Return Stacking - What, Why, Where, and How"

   "Return Stacking™": Strategies For Overcoming a Low Return Environment"