The Emergence of Liquid Alternatives and the Case for Managed Futures Mutual Funds

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Liquid Alternatives:
A NEW TYPE OF ALTERNATIVE INVESTMENT

THE PAST FEW YEARS have witnessed the emergence of a new asset class that can be broadly characterized as "Liquid Alternatives." Simply described, Liquid Alternatives provide access to alternative investment strategies via more traditional structures such as mutual funds or exchange-traded funds ("ETFs"). Over the course of the past five years alone, assets under management in Liquid Alternatives have grown more than five-fold, crossing the $250 billion mark at the end of 2011 (see Figure 1 below[1]).

GROWTH OF "LIQUID ALTERNATIVES"

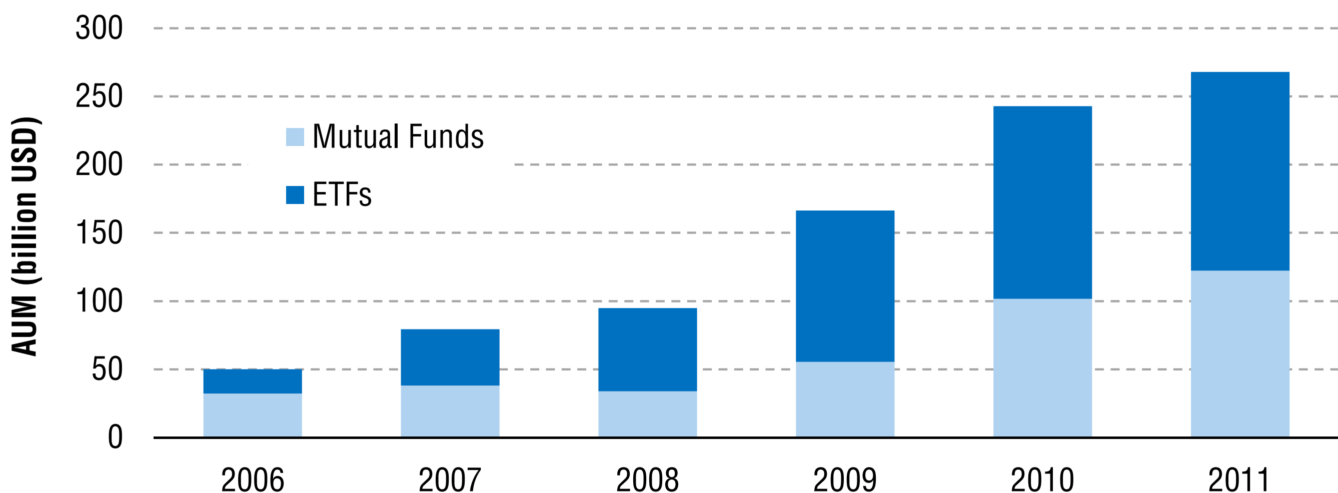

Figure 1

A large portion of this $250 billion in assets is comprised of long-only commodity index ETFs (which by the end of 2011 had amassed roughly $104 billion in assets[2]). The balance is split among investment vehicles that engage in a variety of strategies, including duration-hedged bond funds, market-neutral and long/short equity programs, absolute return hedge fund and replication funds, and more exotic investment opportunities such as short-biased leveraged ETFs. With an estimated $2 trillion in assets allocated to hedge funds globally, many believe that the Liquid Alternative space is poised for substantial growth. In

1 Source: Morningstar.

2 Source: Morningstar.

fact, in a recent study by McKinsey & Co., it is estimated that alternative mutual funds will account for 13% of all mutual funds by assets as of 2015, up from their prior estimate of 7%.

Given the heightened interest in hedge fund strategies, an increasing number of these strategies have recently emerged in the form of mutual fund vehicles. When setting out to convert a hedge fund strategy into a registered, public, daily-priced, liquid vehicle, a number of hurdles present themselves, including:

1. Has the strategy been altered materially in order to make it "fit" inside a mutual fund or ETF structure?
2. Can the strategy's portfolio be reliably priced on a daily basis?
3. Are the financial instruments used to implement the strategy liquid enough to support true daily liquidity required by mutual fund and ETF products?
4. Does the portfolio management team have experience successfully managing the strategy previously as a private placement, and do they have the infrastructure to manage to the daily guidelines required by a mutual fund?

Many of the mainstream hedge fund strategies are unable to fully satisfy these criteria. Private equity, distressed debt, and real estate strategies are inherently illiquid. Most actively managed fixed-income hedge fund strategies involve utilizing substantial amounts of leverage and trading complex over-the-counter derivatives and assets with limited secondary market liquidity. While liquid, a significant number of equity-heavy event-driven and fundamental long/short strategies tend to rely substantially on short sales of securities and leverage, an investment strategy that is difficult to implement within the mutual fund format. As a result, many strategies are altered dramatically to conform to a daily liquidity vehicle. In addition, given the rapid growth within this asset class, many providers are inexperienced managing the strategy or offering a product which would not be competitive as a limited partnership.

These factors have hindered the launch and proliferation of mutual funds by major hedge fund industry players. There are, however, exceptions, including certain mutual funds that follow some variation of the managed futures strategy. This specific type of Liquid Alternative is explored in further detail throughout the remainder of this paper.

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Managed Futures
MUTUAL FUNDS

1. Managed Futures – A Brief Overview

Within the hedge fund universe, the term "Managed Futures" generally refers to the range of hedge fund strategies that use quantitative analysis and advanced technology to generate and systematically execute trades, primarily in the global futures markets. The main principle underlying this investment approach may be summarized by a quote attributed to Mark Twain long before the computer era: "History doesn't repeat itself, but it does rhyme."

Managed futures managers study market history and attempt to discover, through persistent research, repetitive patterns in the global futures markets that may be predicted and thus exploited. The most common and perhaps well-known managed futures strategy is "trend following," in which quantitative techniques are used to identify trends in the financial and commodity markets with the objective of profiting from "following" these trends.

While managed futures strategies have been popular since the 1970s, the industry materially expanded and matured during the last decade, propelled by advances in fast information processing, electronic trade execution, and the availability of both real-time and historical data. As of the end of the first quarter of 2012, the size of the industry is estimated to be approximately $328 billion.[3] Managed futures mutual fund vehicles now account for $7.5 billion of this total, and this particular segment of the industry has become the fastest-growing source of managed futures assets.[4]

2. Fitting Managed Futures into a Mutual Fund Structure

Having established a basic understanding of managed futures strategies, the following analyzes how they fare when measured against three of the major barriers to entry to the mutual fund space as outlined in Section I:

a **Reliable daily pricing:**
Managed futures programs typically execute their strategy through exchange-traded futures contracts and currency forwards. Daily or even real-time pricing for both of these instruments is available from exchanges and/or banks, with very tight bid-ask spreads, making them a good indicator of the instruments' actual liquidation value. The use of futures contracts and currency forwards therefore makes managed futures strategies compatible with daily portfolio pricing requirements mandated by the mutual fund industry.

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3 Source: Barclays Trading Group.

4 Source: Morningstar.

b **Portfolio liquidity:**
The futures markets are generally very liquid, as demonstrated by comparing the liquidity of certain futures markets (i.e., US 10 year bonds, S&P 500, natural gas, wheat, orange juice and lumber) with the liquidity of securities widely perceived to be liquid (i.e., US large cap stocks) in Figure 2 below. A comparison based on the daily trading volume of each indicates that certain liquid futures contracts have a significant liquidity advantage over stocks. Less liquid – but still mainstream – futures contracts such as lumber and orange juice, on the other hand, have liquidity that is on par with Dow Jones constituents. Since a typical managed futures strategy invests across dozens (and sometimes hundreds) of futures markets, one can conclude that the expected portfolio liquidity for typical managed futures products should generally be quite high. Therefore, the strategy is indeed compatible with mutual fund liquidity requirements.

c **Compatibility with the constraints of mutual fund regulation:**
Managed futures strategies take market risks primarily by investing in well-regulated, liquid and daily-priced global futures markets, which fits well within the constraints dictated by the mutual fund framework. As a result, the regulatory framework allows managed futures managers to execute their strategy in a way that is substantially similar to their sister hedge fund products, thereby maintaining the integrity of the strategy's trading program within the mutual fund format.

Three barriers to mutual fund space entry are reliable daily pricing, portfolio liquidity and compatibility with mutual fund regulations.

TRADING VOLUME OF FUTURES VS. US LARGE CAP STOCKS

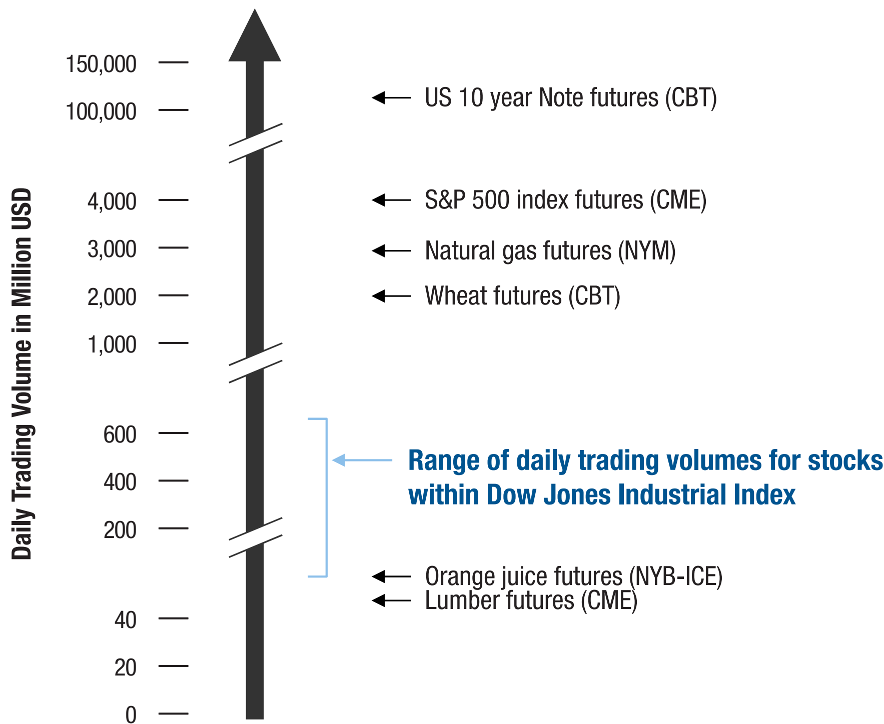

Figure 2

Having successfully navigated through three of the major barriers to entry into the mutual fund world, managed futures strategies emerge as a suitable candidate for Liquid Alternatives investors looking to gain access to alternative investments through mutual fund structures. Not surprisingly, over the past two years, many well-established managed futures managers have sought to participate in single or multi-manager mutual fund products.

This structural suitability, combined with the strategy's potential to produce returns that are uncorrelated to most traditional asset classes[5], has led to impressive growth in the managed futures mutual fund industry. Managed futures mutual fund assets have grown from $244 million five years ago to $7.5 billion in 2011 as previously noted (see Figure 3 below). The number of individual products offered in the space is above thirty as of the end of the first quarter of 2012.[6] We view this as a welcome and overdue development for managed futures investors, especially those who, for a variety of reasons (including client suitability and liquidity), have historically been unwilling or unable to participate in the strategy through private placement hedge fund vehicles.

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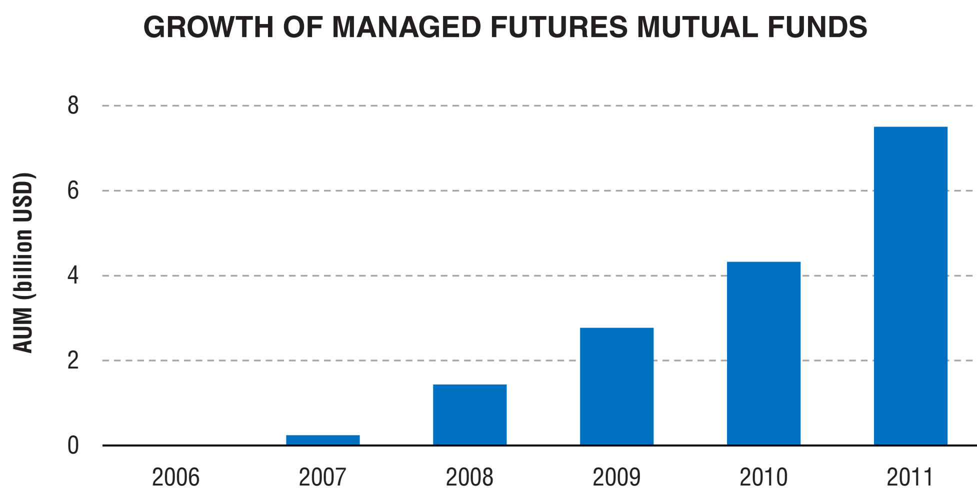

Figure 3

While managed futures products have been used by private fund investors for decades, they are still relatively new to the mutual fund community. Recognizing this fact, the following sections look to focus on two topics of practical importance for investors in the space:

a. Are all managed futures mutual fund products essentially similar or can they be separated into distinct categories?

b. Is there a rational and practical way to guide investors through the product selection process?

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5 A good primer on Managed Futures is provided by CME, see http://www.cmegroup.com/education/managed-futures-resource-center.html

6 Source: Morningstar.

Three Types of **MANAGED FUTURES MUTUAL FUNDS**

In today's marketplace, there are three main types of managed futures mutual fund products:

1. Passive index tracking funds;[7]
2. Actively managed single-manager funds; and
3. Actively managed multi-manager funds.

The table below highlights some of the principle differences between these three types of vehicles. Given that the most prominent passive index-tracking funds are those designed to track S&P's Diversified Trends Indicator ("DTI"), DTI-tracking funds are used as a proxy when describing passive index-tracking vehicles.

DTI-tracking funds*	Single manager funds	Active managed multi-manager funds
Strategy: Match the performance of S&P DTI, a rules-based, passively managed index whose rules are publicly available from S&P.	**Strategy:** Active research-driven managed futures strategy developed by a single managed futures manager.	**Strategy:** Active due diligence and portfolio construction effort by the mutual fund manager; ongoing research effort by multiple underlying managed futures managers.
Crude private placement analog: Simplistic, investable hedge fund "beta" index.	**Crude private placement analog:** Single-manager managed futures funds.	**Crude private placement analog:** Multi-manager managed futures fund of funds.
Diversification: 24 markets; static asset allocation; equities, short-term interest rates, and non-US bonds are excluded.	**Diversification:** Typically 50-150 markets; dynamic asset allocation; all asset classes are typically included.	**Diversification:** Usually over 150 markets across all underlying programs; dynamic allocation of capital across programs and asset classes; all asset classes are typically included.
Risk management: Passive; trading occurs on a monthly basis.	**Risk management:** Active; trading typically occurs multiple times per day.	**Risk management:** Active on two levels: (1) the fund level and (2) underlying program level; trading typically occurs multiple times per day.

** used as a proxy for passive index tracking funds*

7 There are also a small number of ETFs that follow a very similar strategy.

1. DTI-Tracking Funds

DTI-tracking products were the first to be launched in the managed futures mutual fund space. This "first-in-line" advantage combined with their perceived low level of fees led to their proliferation among the early adopters of the structure. Of the nearly $7.5 billion of managed futures mutual fund assets, almost half falls into the DTI-tracking category. Unfortunately, the historical performance of these products has significantly underperformed industry benchmarks. DTI-tracking funds have lagged behind both managed futures indices (as illustrated by Figure 4 below) and single and multi-manager "active" managed futures mutual fund products launched over the past two to three years.[8]

One may argue that this underperformance can be attributed partly to certain fundamental drawbacks inherent in the DTI investment approach: simplicity, insufficient diversification, and passive management. We believe that successfully capturing trend following opportunities is a difficult task and requires a deep commitment to research and innovation. Tom Hanks' famous rant in "League of Their Own" about baseball "it's supposed to be hard…the hard is what makes it great" could also be applied to managed futures investing. Historically, the secret of many private funds' advantage over long-only traditional investments has, to some extent, been their continuous innovation and ability to adapt to ever-changing market conditions. In contrast, the passive, rules-based DTI approach is by design resistant to innovation and, in our view, is therefore less likely to result in premier results despite its low fee structure.

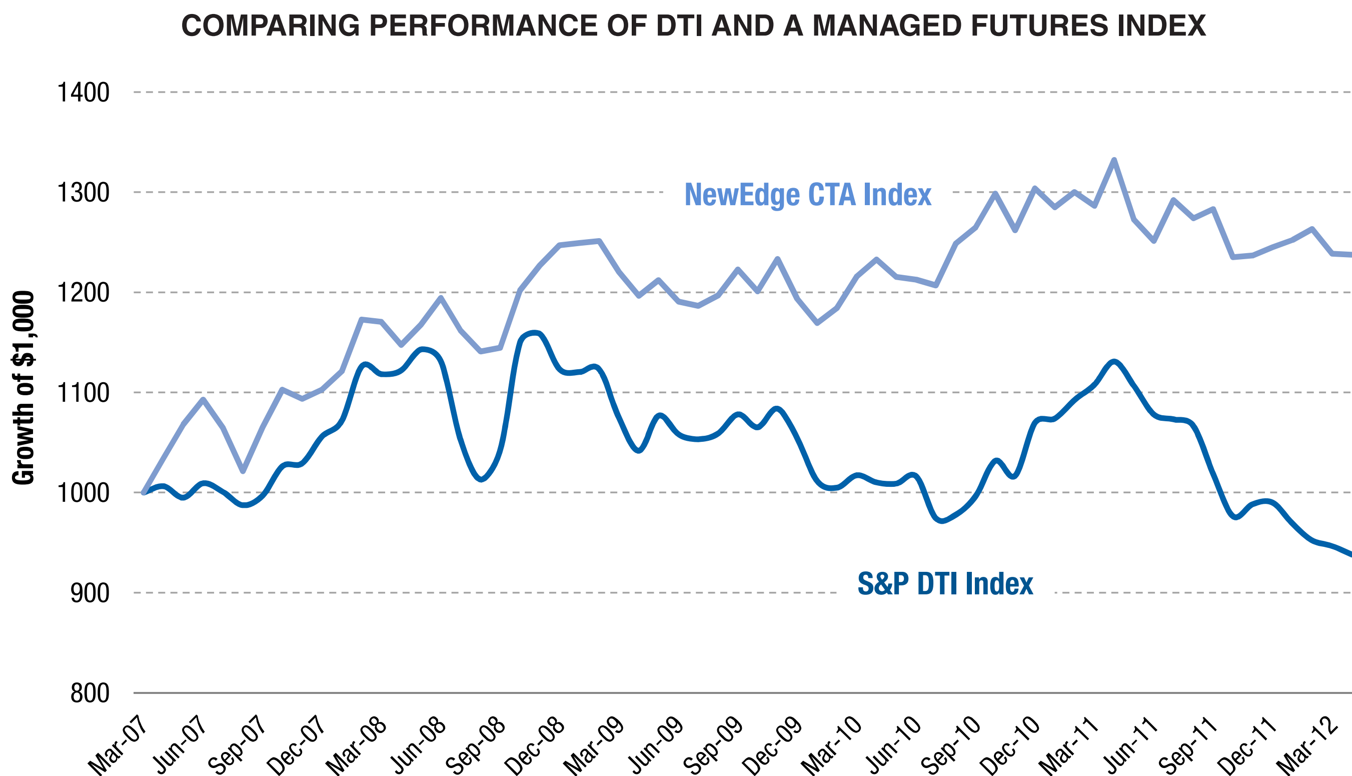

Figure 4

8 Source: Bloomberg.

2. Actively Managed Products – A Comparison Between Single vs. Multi-Manager Funds

"Should I choose a single or multi-manager product?" is the first question an investor is faced with when looking to allocate capital to an actively managed mutual fund product.

The decision is usually made by finding the right balance between an investor's desire for (1) diversification and access to a wide range of sources of return and (2) lower all-in fees and better transparency into the investment strategy itself. Whereas diversification is generally best achieved by investing in multi-manager products, single-manager offerings typically boast lower fees and expenses.

For managed futures mutual funds in particular, this choice is somewhat facilitated by the relatively limited options available in the single-manager space. Most of the single-manager products currently on the market are managed by well-known firms, though they tend not to be historically known for their expertise in the managed futures space specifically. As a result, not only are the track records of these single-manager mutual funds short, there are also typically no readily available hedge fund track records with which to compare them. Conversely, while the live track record of multi-manager mutual funds is also relatively short, the underlying managers in which these funds invest tend to be leaders in the managed futures industry with track records, in many cases, well over a decade.

Relative to the widely diversified multi-manager products that proliferate the hedge fund of funds industry, multi-manager managed futures mutual funds tend to be comparatively well-defined in terms of their underlying investment strategy (e.g. trend following). This characteristic makes these products particularly well-suited for use as asset allocation building blocks for investors looking to gain access to a particular managed futures style while reducing idiosyncratic risks associated with investing in a single manager program.

Due to the additional diversification benefits and the track record length of the underlying managers, we believe that multi-manager products should be the preferred option for most investors looking to allocate capital to the managed futures space (as it is currently constructed). A discussion of single versus multi-manager managed futures mutual fund products would however not be complete without a discussion of the respective fees and expenses associated with each type of product.

Managed futures mutual funds can be viewed as hedge fund products packaged into the legal structure of a mutual fund. The hedge fund industry, having achieved a certain level of maturity in its fee structure, typically charges management fees ranging between 1% and 2% per annum and incentive fees ranging between 20% to 25%[9] on investments in single-manager private placement vehicles. Multi-manager, private placement hedge fund vehicles typically charge management fees ranging between 1.5% and 2% per annum[10] in addition to the fees charged by the underlying managers.

In both the single and multi-manager setup, investors – private placement and mutual fund alike - also pay costs associated with trading, custody, administration, audit, and legal. The magnitude of these costs depends on a multitude of factors, including the fund size and trading volume.

9 The given range is merely an indication of what constitutes a competitive fee structure in the space; one can find multiple exceptions with higher and lower management and incentive fees.

10 Bloomberg.

While these fees and expenses may seem high in comparison to mutual fund standards, they are broadly consistent with hedge fund standards and can therefore be viewed as "fair and competitive". That said, achieving a full understanding of the fees and expenses associated with a given product from reading its disclosure statements and "fine print" is always recommended.

The disclosures are relatively straightforward for those mutual fund structures that gain access to the managed futures activity directly through their wholly owned subsidiaries. Within these structures, fees and expenses are explicitly disclosed to the investor in the prospectus, including those associated with the managed futures trading activity (trading, administration, etc). In most cases, these fees and expenses would be considered "fair and competitive" as per the definition outlined above.

Disclosure pertaining to fees and expenses tends to be less transparent and all-encompassing for mutual funds that gain access to managed futures activity indirectly, either through a total-return swap with a third party, a third-party managed account platform or through an investment in a commingled third-party fund. In such instances, obtaining full disclosure of the fee and expense load is difficult (and sometimes impossible) given the lack of transparency into the products' underlying investment structure. Indeed, in some cases these underlying fees, costs and expenses are not disclosed. Of course, lack of transparency does not mean that such fees and expenses have not been incurred, but only that they are clouded by a certain level of opaqueness resulting from investing via third-party platforms. Unfortunately, under current mutual fund disclosure rules and/or practices, a full and complete comparison of the actual costs and expenses borne by a fund investor are often not possible.

We believe that fee and expense transparency is of paramount importance in order to enable investors to make educated investment decisions. It is, therefore, our hope that a standardized approach to disclosure of all underlying fees and expenses associated with managed futures mutual funds will be adopted.

Due to the diversification benefits and track record of the underlying managers, multi-manager products should be the preferred option for new managed futures investors.

Choosing a Managed Futures **MUTUAL FUND PRODUCT**

We believe that it is wise for an investor who has made the decision to invest in a managed futures mutual fund vehicle to consider the following when researching managed futures mutual fund products:

a Ensure that the firm behind the mutual fund offering, specifically its portfolio management team, has a solid level of prior experience in managing similar products in a private placement format.

This essentially implies focusing on well-established, alternative asset management firms launching or managing mutual fund products as opposed to investing in mutual fund firms attempting to opportunistically enter into the alternative investments space.

b Focus on the way in which the mutual fund gains access to the managed futures strategy.

As described previously, there are multiple ways that a mutual fund vehicle can access a managed futures strategy. These differ primarily in the cost of gaining such access and in the amount of transparency and control over futures positions that the mutual fund retains. Having complete transparency, full control, and a low cost of access are important ingredients to successful fund management. All three can be achieved when the mutual fund vehicle invests through its own, proprietary managed account platform, thus giving an edge to firms that have invested sufficient time and resources to build such a platform. Conversely, accessing managed futures programs via total return swaps or via third-party managed account platforms (as some mutual funds do) may be less optimal from an investor's perspective as it (a) reduces transparency into the underlying futures positions (which negatively affects risk monitoring capabilities at the mutual fund level), (b) adds an additional layer of cost and (c) may result in less transparency as to the nature and amount of underlying fees and expenses.

c Understand the strategic asset allocation of the product.

Investors tend to buy managed futures – and other alternative products - with the expectation that they will play a specific role in their portfolios. In the case of managed futures, high correlation to managed futures trend-following-heavy indices is generally expected. Asset allocation decisions are often made by using those indices as proxies. It may come as a surprise that some managed futures mutual funds are not structured to be highly correlated to mainstream managed futures indices even though they may market themselves as "managed futures" products. Understanding the strategic asset allocation of each product is therefore recommended prior to making allocation decisions involving these products.

Given the dynamic nature of markets our belief is that an active, research based, innovative approach to executing the managed strategy is preferred.

Summary

Assets invested into "liquid alternatives", offered via mutual funds and ETFs, have increased five-fold over the past five years. Future growth estimates by industry experts remain robust.

Some alternative strategies, when considering daily pricing requirements, underlying market liquidity, and regulatory constraints, are better suited for a daily liquidity format than others. Managed futures, cash efficiently executed via global futures markets and currency forwards, is such a strategy. Currently investors have a choice between three approaches within the mutual fund space – index tracking, active single manager funds, and active multi-manager funds. Given the dynamic nature of markets, our belief is that an active, research based, innovative approach to executing the managed strategy is preferred. Furthermore, given that trading opportunities vary across time horizons, asset classes, and geographies, investors may be well-served to consider a multi-manager approach managed by a deeply resourced and experienced team.

Disclosures

Messrs. William Marr and Alexander Rudin are principals of Ramius Trading Strategies, LLC (the "Advisor"), which is the investment advisor of Ramius Trading Strategies Manager Futures Fund (the "RTS Fund"). The RTS Fund seeks to achieve positive absolute returns in both rising and falling equity markets with an annualized level of volatility that is generally lower than the historic level of volatility experienced by the S&P 500 Index.

The RTS Fund pursues its investment objective by allocating its assets using two principal investment strategies: a "managed futures" strategy and a "fixed income" strategy. The managed futures strategy is intended to capture returns tied to global macroeconomic trends in the commodity futures (including financial futures) markets, and the fixed income strategy is intended to generate interest income and capital appreciation to add diversification to the returns generated by the Fund's portfolio.

You should consider the RTS Fund's investment objectives, risks, charges and expenses carefully before investing. For a prospectus, or summary prospectus that contains this and other information about the RTS Fund call 1.877.6RAMIUS (1.877.672.6487) or visit www.ramiusmutualfunds.com. Please read the prospectus or summary prospectus carefully prior to investing.

The investment return will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. The most recent month-end data can be found by calling 1.877.672.6487. Performance reflects a fee waiver currently in effect. In the absence of such waiver, total return would be reduced. A redemption fee of 1.00% will be imposed on redemptions of RTS Fund shares owned less than 30 days.

The RTS Fund intends to achieve exposure to the commodity and financial futures markets primarily by investing by investing up to 25% of its total assets in a wholly-owned and controlled subsidiary formed under the laws of the Cayman Islands (the "Subsidiary"). The Subsidiary is advised by the Advisor and has the same investment objective as the RTS Fund. The Subsidiary invests the majority of its assets in limited liability companies or other business entities (each a "Trading Entity" and collectively the "Trading Entities"), the trading of each of which is managed on a discretionary basis by a different third-party commodity trading advisor (a "Trading Advisor") pursuant to such Trading Advisor's commodity-related investment program (a "managed futures program"). Each Trading Entity is wholly owned by the Subsidiary and thus indirectly wholly owned by the RTS Fund. The Advisor expects that each Trading Entity will pay its Trading Advisor both a management fee based on the Trading Entity's investment exposure (which the Advisor expects will exceed the Trading Entity's total assets) and a performance fee calculated as a percentage of the Trading Entity's profits.

To qualify for the tax treatment available to regulated investment companies under the Internal Revenue Code of 1986, as amended (the "Code"), the RTS Fund must derive at least 90% of its gross income for each taxable year from sources treated as "qualifying income" under the Code. Income derived from direct investments in commodities is not qualifying income. The Internal Revenue Service (the "IRS") has issued a revenue ruling and private letter rulings. However, these rulings apply only to the taxpayers that requested them and may not be used or cited as precedent. The RTS Fund has not received and does not intend to seek such a ruling from the IRS. Rather, the RTS Fund intends to take the position that income from the RTS Fund's investment in commodity index-linked notes and in the Subsidiary will constitute qualifying income for these purposes, but this tax treatment is not entirely clear. Moreover, the tax treatment of the RTS Fund's investment in commodity index-linked notes or of the RTS Fund's investment in the Subsidiary may be adversely affected by future legislation, Treasury regulations or guidance issued by the IRS. If income derived by the RTS Fund does not constitute "qualifying income," the RTS Fund will most likely not qualify as a regulated investment company under the Code; in that case, the RTS Fund would be subject to U.S. federal income tax at regular corporate rates on its taxable income, including its net capital gain, even if distributed to shareholders. Distributions out of earnings and profits would be taxed to shareholders as dividend income. The Advisor may also consider potentially liquidating the RTS Fund.

The investment processes used could fail to achieve the RTS Fund's investment objective and cause your investment to lose value. Accordingly, the RTS Fund should be considered a speculative investment entailing a high degree of risk and is not suitable for all investors. The RTS Fund is new and has a limited history of operations. The use of derivatives can be highly volatile, illiquid and difficult to manage. Derivatives involve greater risks than the underlying obligations because in addition to general market risks, they are subject to illiquidity risk, counterparty risk, credit risk, pricing risk and leveraging risk. The use of derivatives including futures and forward contracts, and ETFs may reduce returns and/or increase volatility. The RTS Fund will invest a percentage of its assets in derivatives, such as futures and options contracts. The use of such derivatives may expose the RTS Fund to additional risks that it would not be subject to if it invested directly in the securities and commodities underlying those derivatives. The RTS Fund may experience losses that exceed losses experienced by funds that do not use futures contracts. There may be an imperfect correlation between the changes in market value of the securities held by the RTS Fund and the prices of futures. Although futures contracts are generally liquid instruments, under certain market conditions there may not always be a liquid ordinary market for a futures contract. As a result, the RTS Fund may be unable to close out its futures contracts at a time which is advantageous. Trading restrictions or limitations may be imposed by an exchange, and government regulations may restrict trading in futures contracts. Over-the-counter transactions are subject to little, if any, regulation and may be subject to the risk of counterparty default. A portion of the RTS Fund's assets may be used to trade OTC commodity interest contracts, such as forward contracts and other commodities or spot contracts. A substantial portion of the trades of the global macro programs, if any, are expected to take place on markets or exchanges outside the United States. Short sales are speculative transactions and involve special risks, including that the fund's losses are potentially unlimited. The RTS Fund may take short positions, directly and indirectly through the Subsidiary, in derivatives. If a derivative in which the RTS Fund has a short position increases in price, the underlying RTS Fund may have to cover its short position at a higher price than the short sale price, resulting in a loss. The RTS Fund is non-diversified, meaning it may invest a relatively high percentage of its assets in a limited number of positions making it more vulnerable to changes in the market value of a single position.

Foreign investments present additional risks due to currency fluctuations, economic and political factors, lower liquidity and other factors. The RTS Fund's indirect and direct exposure to foreign currencies subjects the RTS Fund to the risk that those currencies will decline in value relative to the U.S. Dollar, or, in the case of short positions, that the U.S. Dollar will decline in value relative to the currency that the RTS Fund is short. Currency rates in foreign countries may fluctuate significantly over short periods of time for a many reasons, including changes in interest rates and the imposition of currency controls or other political developments in the U.S. or abroad. In addition, the RTS Fund may incur transaction costs in connection with conversions between various currencies.

Some foreign markets present additional risk, because they are not subject to the same degree of regulation as their U.S. counterparts. Trading on foreign exchanges is subject to the risks presented by, among other things, exchange controls, expropriation, increased tax burdens and exposure to local economic declines and political instability. An adverse development with respect to any of these variables could reduce the profit or increase the loss earned on trades in the affected international markets. International trading activities are subject to foreign exchange risk. The RTS Fund may employ leverage and may invest in leveraged instruments. The more the RTS Fund invests in leveraged instruments, the more this leverage will magnify any gains or losses on those investments. The value of your investment in the RTS Fund will likely fluctuate with changes in interest rates. Typically, a rise in interest rates causes a decline in the value of fixed income securities owned by the RTS Fund. In general, the market price of debt securities with longer maturities will increase or decrease more in response to changes in interest rates than shorter-term securities. Other risk factors include credit risk (the debtor may default) and prepayment risk (the debtor may pay its obligation early, reducing the amount of interest payments). These risks could affect the value of a particular investment by the RTS Fund possibly causing the RTS Fund's share price and total return to be reduced and fluctuate more than other types of investments. To respond to adverse market, economic, political or other conditions, the RTS Fund may invest 100% of its total assets, without limitation, in high-quality short-term debt securities and money market instruments. The RTS Fund's annual portfolio turnover rate may vary greatly from year to year. Frequent trading may result in transaction costs, which could detract from the RTS Fund's performance and potential tax consequences. ETF shares may, at times, trade at a premium or discount to their net asset values and may not replicate exactly the performance of the benchmark index it seeks to track and may involve duplication of advisory fees and certain other expenses. ETFs may be held to maturity, but unlike bonds there are no periodic interest payments and principal is not protected.

The RTS Fund will be indirectly exposed to the risks associated with the Subsidiary's and the Trading Entities' respective investments. The Subsidiary and the Trading Entities are not registered under the Investment Company Act of 1940, as amended (the "1940 Act") and, unless otherwise noted in the RTS Fund's prospectus, are not subject to all of the investor protections of the 1940 Act. Changes in the laws of the United States, the U.S. states or the Cayman Islands, under which the RTS Fund, the Trading Entities and the Subsidiary are organized and operated, as applicable, could prevent the RTS Fund, the Subsidiary or the Trading Entities from operating as described in the RTS Fund's prospectus and could negatively affect the RTS Fund and its shareholders. In addition, the Cayman Islands currently does not impose any income, corporate, capital gain or withholding taxes on the Subsidiary. If this were to change and the Subsidiary were required to pay Cayman Island taxes, the investment returns of the RTS Fund would be adversely affected. The Subsidiary concentrates its investments in the commodity futures markets, which have historically experienced substantial price volatility. This concentration subjects the RTS Fund to greater risk of loss as a result of adverse economic, business or other developments than if the Subsidiary's investments were diversified across different sectors and markets. The performance-based fees paid to the Trading Advisors may create an incentive for the Trading Advisors to make investments that are riskier or more speculative than those they might have made in the absence of such performance-based fees. A Trading Advisor with positive performance may receive performance-based compensation from the Trading Entity, which will be borne indirectly by the RTS Fund, even if the RTS Fund's overall returns are negative.

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