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Absolute Returns AND Risk Management – FEBRUARY 2016

Those of you who know us well may recall that we write ad-hoc market reports whenever we feel that we have something interesting to say (or possibly when we just want to vent some spleen at a market issue that is irking us). These reports are never desperately cerebral or highfalutin (much like their author) – but rather they are written in a way that is both easy and quick to read. Hopefully.

Nevertheless, and despite my best efforts, there is always the very real risk that many readers never make it to the always pertinent conclusion of the piece – even if it is only on the second page. So I thought I'd write this paper in reverse; start with the conclusion and then explain. That way you will hopefully get the message even if you don't want to read the waffle.

Conclusion:

- **Commodity markets may have fallen in recent months and years but they remain volatile and therefore continue to present trading opportunities. Ignoring the commodity space because the price of oil has fallen is short-sighted and unpropitious.**

- **Nobody (and I mean nobody) knows whether commodity prices are going to fall further or bounce.**
  "Those who claim to foresee the future are lying, even if by chance they are later proved right.'"
  Vince Cable, UK Business Secretary, 2010-2015

- **Therefore any investment into commodities needs to be made via a manager that**
  a) understands the nuances of the markets and
  b) has minimal exposure (preferably none) to outright prices.

- **The four portfolio managers at Jaguar Investments have over 100 years trading experience between them and offer two commodity investment strategies that have no outright price exposure.**

These two strategies – which aim to capture short to medium-term spread and arbitrage opportunities – have disciplined risk processes that aim to ensure relatively low volatility and contained drawdown. The two strategies have a combined AUM of $100m+ and have both been trading live since January 2012. They both offer daily liquidity, full transparency and have low margin requirements (average 10-15%). Instruments are all exchange-traded and exchange-cleared using major exchanges in the UK and US. There is no OTC exposure, nor any exposure to commodity currencies, commodity equities or commodity ETFs.

A list of metrics and comparison with benchmark indices is shown on page 2. The data and statistical analysis shown are based on monthly returns in the 49 month period: 1st January 2012 to 31st January 2016 and for ULTRO and AEGIR are net of trading costs and management and performance fees.

ULTRO = Jaguar ULTRO Strategy
AEGIR = Jaguar AEGIR Strategy
GSCITR = S&P GSCI Total Return Index
BarCTA = BarclayHedge CTA Index (Formerly Calyon/Newedge CTA Index)

	Annualised Compound Rate of Return
AEGIR	**+23.25%**
S&P500	+11.71%
ULTRO	**+8.50%**
BarCTA	+4.11%
GSCITR	-19.08%

	Annualised Volatility
ULTRO	**5.34%**
BarCTA	7.42%
S&P500	11.04%
AEGIR	**11.40%**
GSCITR	18.97%

	Sharpe Ratio
AEGIR	**1.90**
ULTRO	**1.56**
S&P500	1.06
BarCTA	0.58
GSCITR	-1.01

	Maximum Drawdown
ULTRO	**-2.02%**
AEGIR	**-6.31%**
BarCTA	-7.93%
S&P500	-8.88%
GSCITR	-61.15%

	Worst 12m Rolling Return
ULTRO	**+0.56%**
AEGIR	**+0.39%**
S&P500	-2.73%
BarCTA	-5.66%
GSCITR	-42.69%

	Calmar Ratio
AEGIR	**+5.74**
ULTRO	**+5.16**
S&P500	+2.06
BarCTA	+0.14
GSCITR	-0.10

	Best Month
AEGIR	**+15.62%**
GSCITR	+11.06%
S&P500	+8.30%
ULTRO	**+7.60%**
BarCTA	+5.61%

	Worst Month
ULTRO	**-2.02%**
BarCTA	-4.23%
AEGIR	**-5.90%**
S&P500	-6.27%
GSCITR	-14.10%

	%age Up Months
AEGIR	**82%**
ULTRO	**67%**
S&P500	67%
BarCTA	57%
GSCITR	41%

Key metrics of a portfolio invested 50% each into ULTRO and AEGIR

Annualised Compound RoReturn	Annualised Volatility	Sharpe Ratio	Maximum Drawdown	Worst 12m Rolling Return	%age Up Months	Best Month	Worst Month
+15.85	6.41%	2.34	-3.35%	+2.76%	82%	+7.44%	-3.35%

The clear message from the tables above is that while long-only commodity indices have experienced a dreadful few years, you shouldn't write off the commodity space because the price of oil has slumped. Commodity markets have provided (and continue to provide) significant opportunities for active managers who know what they're doing. Indeed, our two strategies have out-performed not just the GSCITR but also the S&P500 and the Barclayhedge CTA Index over the same period.

"Every great and deep difficulty bears in itself its own solution.
It forces us to change our thinking in order to find it."
Niels Bohr, Physicist,(1885-1962)

We believe that the last five to ten years have seen significant and irreversible change in financial markets, including commodity markets. Fully electronic exchanges, algorithmic and high-frequency trading and increased regulation are now set against a background of (artificially) low/negative interest rates and ongoing political machinations regarding currency weakness. The transfer of economic power from West to East remains volatile, as does civil unrest across the MENA region and other emerging markets. Event risk remains extremely high and consequently trade duration is getting shorter. The "risk on – risk off" mentality is leading to large, often unfathomable moves on a daily, if not hourly, basis.

Despite this environment, the global hunt for yield should not require the sacrifice of disciplined risk management. Instead of chasing the next junk bond, we would suggest investing with a proven risk manager who can provide solid returns by focusing on markets they know best – even if those markets include commodities!

Notes

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