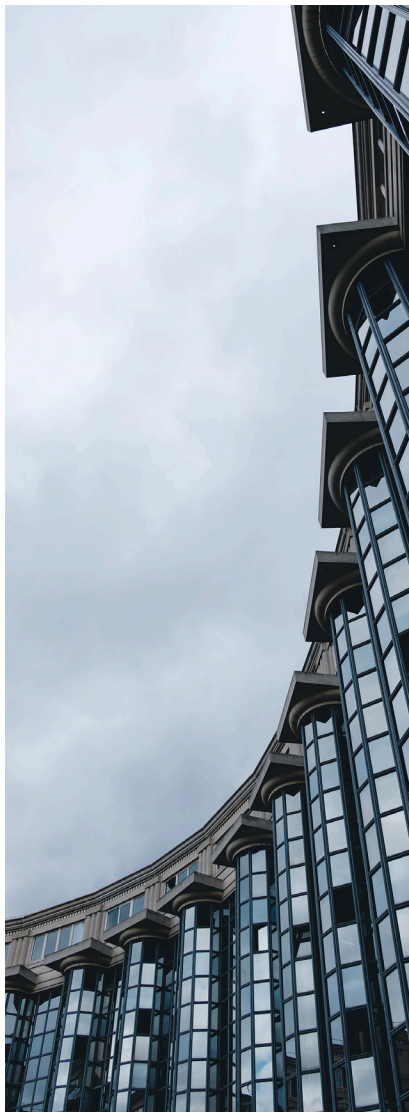


# An Introduction to Managed Futures

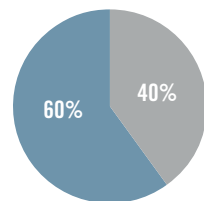
Also known as “trend” investing, managed futures are an alternative investment that can offer a unique source of returns to complement a traditional stock and bond portfolio.



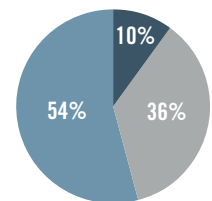
Managed futures strategies trade in a broad spectrum of global futures contracts across major stock, bond, currency, interest rate, and commodity markets. They attempt to profit from price momentum in markets that have trended in the same direction for a period of time, either up or down. Historically, managed futures have generated long-term absolute returns independent of overall market direction, providing a differentiated source and pattern of returns when compared to traditional stock and bond portfolios, which often profit from rising markets. These non-correlated trend strategies may offer enhanced diversification benefits to an investment portfolio.

## POTENTIAL FOR HIGHER RETURNS AND LOWER VOLATILITY

Traditional Balanced Portfolio



Alternative Enhanced Portfolio



Return (Annualized)	Max Drawdown	Standard Deviation (Annualized)	Sharpe Ratio (Annualized)	Beta
5.92	-35.84%	8.95	0.51	0.59
6.01	-31.10%	8.09	0.56	0.52

■ 60% S&P 500® Index/40% Bloomberg Barclays US Aggregate Bond Index  
■ 54% S&P 500® Index/36% Bloomberg Barclays US Aggregate Bond Index/10% SG Trend Index

## Futures Contracts Explained

Futures contracts are known as derivatives. Their value is *derived* from the underlying asset (i.e., a stock index, government bond, currency, or commodity), that will be delivered at a specified time and specified price in the future. These contracts are an agreement between two parties to buy or sell an underlying asset paid for at today's price. If you are buying a future, you are said to be going "long" the asset. If you are selling, you are said to be going "short" the asset. The parties involved typically don't exchange the asset, but rather, the difference in the future price of the asset at maturity. Futures contracts have become an important vehicle to hedge and manage risk from price changes efficiently. And, while it sounds complicated, it's important to note that futures contracts are traded on large, regulated exchanges and are highly transparent and liquid. Managed futures funds, in particular, tend to hold significant cash reserves in U.S. Treasuries.

### TREND FOLLOWING BASICS

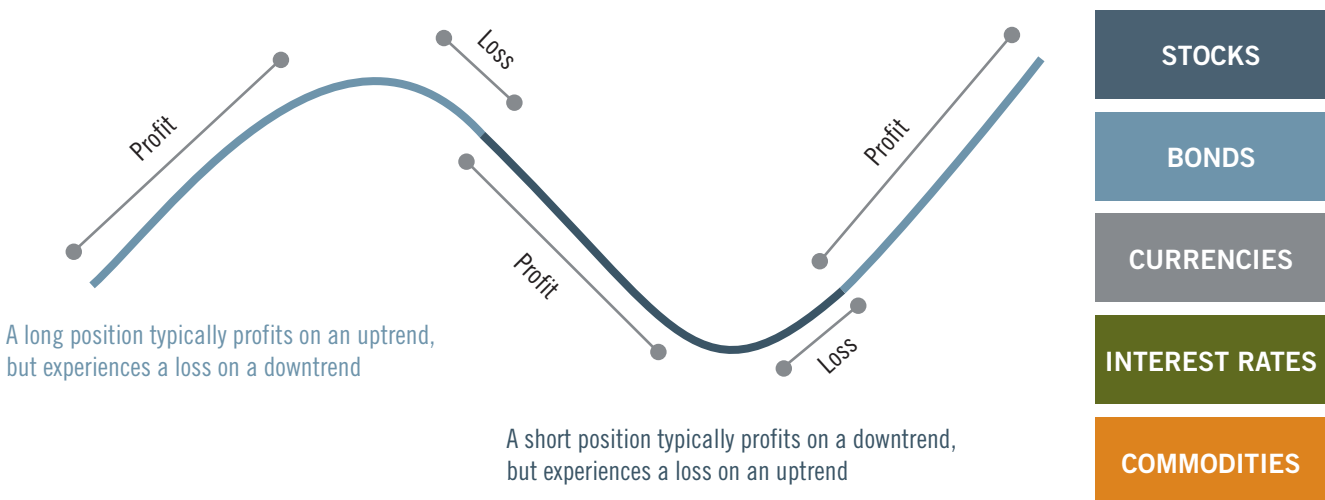


Chart for illustrative purposes only.

## Trend Strategies Defined

Trend strategies have the flexibility to capture momentum, going long in markets that are trending higher and short in markets that are trending lower, with the expectation that price movements continue their direction. Well-documented behavioral biases like anchoring, confirmation bias, and herding, as well as risk management models drive trending markets. Trend investors focus on what the market is doing, not what the market may do. The typical trend investor acts on short-, medium- and long-term quantitative signals of how various markets may play out. They use a systematic, rules-based approach eliminating human emotion from the decision making process of when to buy, hold, or sell. Said differently, they use a quantitative process based on technical analysis.

### PERSISTENT BIASES

**Anchoring** – relying on historical data and underreacting to new information, which manifests in slower price movements both up and down.

**Confirmation Bias** – investors tend to look for information that confirms their views and beliefs, leading them to buy assets that are trending up and selling assets that have declined.

**Herding** – after prices trend in a direction for a period of time, investors tend to jump on the bandwagon.

**Risk Management** – risk management models will sell in down markets and buy in up markets as risk budgets get breached, causing trends to persist.

## Key Features of Trend Strategies

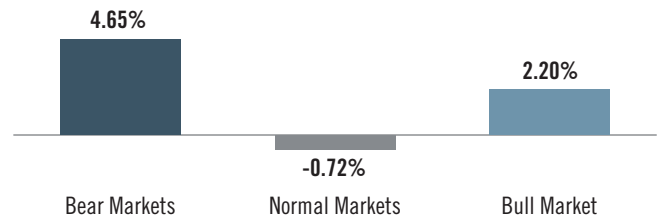
<b>Unconstrained &amp; Agnostic</b>	Can go either long or short any market or asset class
<b>Diversified</b>	Trade a global mix of equities, fixed income, currencies, and commodities
<b>Systematic</b>	Mitigate potential biases in human decision-making
<b>Liquid</b>	Generally, trade liquid asset classes (e.g., futures contracts)
<b>Trading Oriented</b>	Can vary across short-, medium-, and long-term holding periods
<b>Technical Analysis</b>	Primarily price-based inputs
<b>Data Driven</b>	Researchers from diverse, mathematics-intensive fields (physics, engineering, and statistics)

## The Price of Admission

Trend strategies, like most investment approaches, have periods when they tend to work and periods when they struggle. Generally speaking, trend strategies have performed best when markets experience steadily rising or falling prices. On the flip side, they have tended to underperform in range-bound markets with no major price trends or when markets have exhibited choppy price action or significant price reversals. However, the low-correlation nature of managed futures strategies has historically provided much needed diversification to a traditional investment portfolio.

### TREND STRATEGIES IN BULL AND BEAR MARKETS

Average Quarterly Returns: July 2000 – June 2020



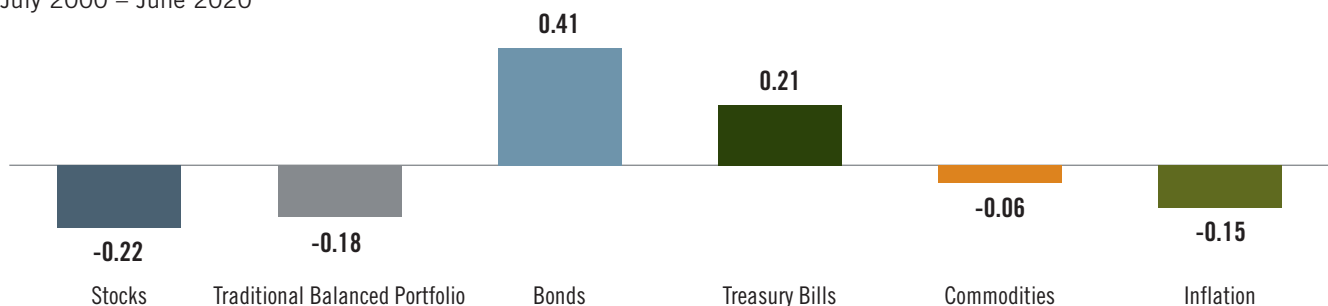
**Past performance is not indicative of future results.** Source: Morningstar Direct and Virtus Performance & Analytics. Trend strategies performance represented by the SG Trend Index using the average of quarterly cumulative returns. Bear markets represented by the worst 25% of the S&P 500® Index's quarterly performance, bull markets by the best 25% and normal markets by the middle 50% of quarterly returns.

## The Benefits of Managed Futures Strategies

**A Differentiated Source and Pattern of Returns** – Managed futures strategies have historically provided attractive returns relative to stock and bond markets, over time. The historically low correlation to traditional stocks and bonds has the potential to provide much needed diversification, especially in difficult markets.

### HISTORICALLY LOW CORRELATION OF MANAGED FUTURES

July 2000 – June 2020



**Past performance is not indicative of future results.** Source: Morningstar Direct and Virtus Performance & Analytics. Stocks: S&P 500® Index, Traditional Balanced Portfolio: 60/40 S&P 500 Index/Bloomberg Barclays US Aggregate Bond Index, Bonds: Bloomberg Barclays US Aggregate Bond Index, Treasury Bills: Bloomberg Barclays US 1-3 Month Treasury Bill Index, Commodities: S&P Goldman Sachs Commodity Index, Inflation: U.S. Consumer Price Index. See page 6 for glossary and index definitions.

**Opportunity to Perform in Diverse Markets** – Managed futures strategies have the flexibility to broadly invest across global markets, making it possible to profit from changes in stock, bond, interest rate, currency, and diverse commodity markets. There are inherently more investable themes with the ability to take long and short positions in markets that may be positively or negatively impacted by geopolitical events, economic cycles, and investor sentiment.

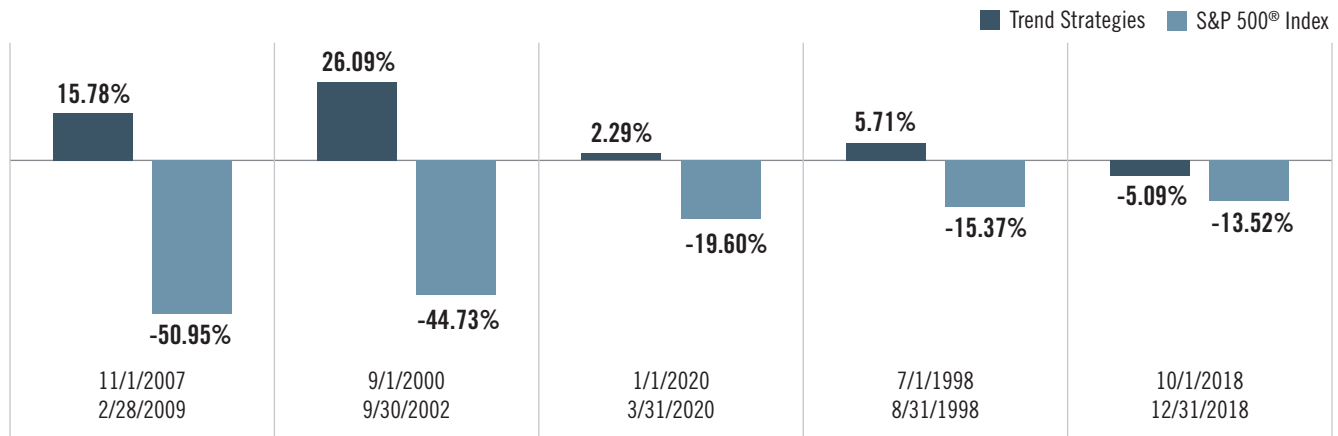
**A Potential Hedge for Traditional Portfolios** – The historical performance of managed futures during equity market crises is a key differentiator. An absolute return focus has historically produced “crisis alpha.”

**AN EXPANDED TOOL KIT**

Traditional 60/40 Portfolio	Quant Futures/Trend Strategies
U.S. Equities ↑	Global Equities ↑↓
U.S. Bonds ↑	Global Bonds ↑↓
	Global FX ↑↓
	Global Interest Rates ↑↓
	Commodities ↑↓
<b>Two Investable Themes</b>	<b>Ten Investable Themes</b>

**POTENTIAL FOR DIVERSIFICATION IN TOUGH MARKETS**

Performance of Trend Strategies During Largest S&P 500® Index Drawdowns



**Past performance is not indicative of future results.** Source: Morningstar Direct and Virtus Performance & Analytics. Time periods reflect the five largest S&P 500® Index drawdowns using peak to trough performance. Trend Strategies performance during periods represented are annualized for periods longer than 12 months and cumulative for periods shorter than 12 months. Trend Strategies represented by the BTOP50 Index for 1998 drawdown period and the SG Trend Index for the other listed periods. See page 6 for glossary and index definitions.

## Who is FORT Investment Management?

FORT (Financial Opportunities in Research and Trading) is an alternative investment management firm founded in 1993 committed to quantitative investment strategies. The firm has offices in the Washington, D.C. area and New York City and manages over \$5 billion on behalf of institutional investors globally, including pensions, endowments, foundations, sovereign wealth funds, and high net worth individuals. FORT's investment philosophy rests on a deep understanding of market behavior combined with robust statistics and seeks to produce systematic methods of capturing a wide variety of market inefficiencies.



## The FORT Advantage

The FORT Trend strategy is systematic and seeks to profit from both positive and negative price trends across a broad spectrum of global futures markets. The strategy adapts to new information and allocates risk across models, markets, and duration/speeds dynamically, based on the market environment.

FORT believes market cycles have persistent imperfections driven by human behavior. The typical holding period is between two to 10 weeks. The emphasis is on the most liquid global markets, including stock and bond indexes, currencies, interest rates, and commodities—with robust diversification across asset classes. FORT's investment universe spans over 40 markets and more than 60 different futures contracts. It employs over 80 different quantitative models structured to be unbiased in their assessment of price direction and flexible to take long or short positions.

The objective is to try to provide attractive returns with low correlation, beta, and volatility to traditional equity markets, over a full market cycle.

### FORT INVESTMENT PHILOSOPHY

<b>Systematic</b> <ul style="list-style-type: none"> <li>Fully systematic</li> <li>No manual intervention or discretionary overlay to the model*</li> </ul>	<b>Uncorrelated</b> <ul style="list-style-type: none"> <li>Proprietary signal generation</li> <li>Seeks to have low correlation with equity markets</li> </ul>
<b>Adaptive</b> <ul style="list-style-type: none"> <li>Model shifts risk and speed (i.e., holding period) based on market environment</li> <li>Seeks to exploit persistent imperfections driven by human behavior</li> </ul>	<b>Liquid</b> <ul style="list-style-type: none"> <li>Emphasis on the most liquid global markets</li> <li>Focused on equity indices, FX, bonds, interest rates and commodities</li> </ul>

\*Limited manual intervention is required from time to time regarding execution and in extraordinary market circumstances.

### FORT'S INVESTMENT UNIVERSE

	UNITED KINGDOM	NORTH AMERICA	EUROPE	ASIA & AUSTRALIA	COMMODITIES
	<b>United Kingdom</b>	<b>United States</b>	<b>Eurozone</b>	<b>Japan</b>	<b>Metals</b>
	Long Gilt	5-year Note	German 2-year Schatz	10-year Bond	Copper
	Short Sterling 3-month	10-year Note	German 5-year Bobl	Nikkei Index	Gold
	FTSE 100 Index	U.S. Long Bond	German 10-year Bund	TOPIX Index	Silver
	Pound/USD	Eurodollar 3-month	Euribor 3-month	<b>Australia</b>	<b>Energy</b>
		S&P 500® Index	DAX Index	SPI 200 Index	Gasoil
■ Interest Rates		S&P 400 Midcap Index	Euro STOXX 50 Index	<b>Other</b>	Brent Crude
■ Bonds		Nasdaq Index	CAC 40 Index	MSCI Taiwan Index	Crude Oil
■ Currencies		Dow Index	Euro/USD	Hang Seng Index	Heating Oil
■ Equity Indices		Russell 2000® Index	<b>Switzerland</b>		Natural Gas
■ Commodities & Emerging Markets		<b>Canada</b>	Swiss Franc/USD		RBOB Unleaded
		TSX 60 Index			

To learn more, please contact us at 800-243-4361 or visit [virtus.com](http://virtus.com).



### IMPORTANT RISK CONSIDERATIONS

**Quantitative Model:** Investments selected using quantitative models may perform differently from the market as a whole or from their expected performance. There can be no assurance that use of a quantitative model will enable the fund to achieve positive returns or outperform the market. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **Commodity-linked Instruments:** Commodity-linked instruments may experience a return different than the commodity they attempt to track and may also be exposed to counterparty risk. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **Leverage:** When a fund leverages its portfolio by certain types of transactions or instruments, including derivatives, the fund may liquidate positions at an unfavorable time, and the fund's volatility may increase. **Short Sales:** The fund may engage in short sales, and may experience a loss if the price of a borrowed security increases before the date on which the fund replaces the security. **Portfolio Turnover:** The fund's principal investment strategies will result in a consistently high portfolio turnover rate. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when fund shares are held in a taxable account. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

### Glossary

**Beta** is a quantitative measure of the volatility of a given portfolio relative to the overall market. Higher beta suggests higher volatility. Beta can also refer to relative volatility to a portfolio's stated benchmark. **Correlation:** A measure that determines the degree to which two variables' movements are associated. The correlation will vary from -1 to +1. A -1 indicates perfect negative correlation and +1 indicates perfect positive correlation. **Maximum Drawdown** measures the peak-to-trough decline during a specific record period of an investment, fund, or commodity. A drawdown is usually quoted as the percentage between the peak and the trough. **Sharpe Ratio** measures the efficiency, or excess return per unit of risk, of a manager's returns. It is calculated by taking the portfolio's annualized return, minus the annualized risk-free rate (typically the 30-Day T-Bill return), divided by the portfolio's annualized standard deviation. The greater the Sharpe Ratio, the better the portfolio's risk adjusted return. **Standard Deviation** measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

### Index Definitions

The **Bloomberg Barclays US Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Bloomberg Barclays US Treasury Bill 1-3 Month Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. 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. The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The **FTSE Nareit All Equity REITs Index** is a free-float market capitalization-weighted index measuring equity tax-qualified real estate investment trusts, which meet minimum size and liquidity criteria, that are listed on the New York Stock Exchange, the American Stock Exchange and the Nasdaq National Market System. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The **S&P GSCI® Index** is designed to reflect the performance of a production-weighted basket of physical commodities. The index is calculated on a total return basis with dividends reinvested. The **SG Trend Index** is designed to represent the performance of the 10 largest Trend Following CTA programs in the managed futures space. To qualify for inclusion in the index, a program must be open to new investment, report returns on a daily basis, be an industry recognized trend follower as determined at the discretion of the SG Index Committee, and must exhibit significant correlation to trend following peers and the SG Trend Indicator. The index is equally weighted, and rebalanced and reconstituted annually. All indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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