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Sunrise Study Affirms Diversification Benefits of Managed Futures Strategies

SAN DIEGO, September 25, 2012 – **Sunrise Capital Partners** released a study today updating, affirming, and expanding the seminal academic work that first identified and quantified the significant diversification benefits managed futures strategies bring to portfolios of hedge funds and traditional financial assets.

In the paper: "Revisiting Kat's Managed Futures and Hedge Funds: A Match Made in Heaven," **Thomas Rollinger**, Sunrise's Director of New Strategies Development, confirms that adding managed futures strategies to portfolios reduces tail risk and volatility. The research extends the time period to include the seven years originally considered by Dr. Harry M. Kat, June 1994 through May 2001, plus 3.5 years prior to Kat's study, and all subsequent months through December 2011.

"We find that Dr. Kat's observations continue to hold true," concludes Rollinger. "During the subsequent 10.5 years, a highly volatile period that included separate market drawdowns of 36% and 56%, managed futures have continued to provide more effective and more valuable diversification for portfolios of stocks and bonds than have hedge funds."

Managed futures strategies are professionally managed investment portfolios that may contain commodities, equity index, fixed income, and currency futures, also options, forwards, and swap contracts. They are similar to hedge funds in that they can hold long or short positions in an investment and can be used to execute complex strategies designed for total return, hedging, risk management, or other objectives.

In his groundbreaking study, distributed as a working paper in 2002 and published in the *Journal of Investment Management* in 2004, Kat found that managed futures supplied a significant diversification benefit to traditional portfolios of stocks and bonds as well as to portfolios of traditional financial investments further diversified by the inclusion of hedge funds.

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"We find that allocating to managed futures allows investors to achieve a very substantial degree of overall risk reduction at limited costs," Kat wrote. "Apart from their lower expected return, managed futures appear to be more effective diversifiers than hedge funds. Adding managed futures to a portfolio of stocks and bonds will reduce that portfolio's standard deviation more and quicker than hedge funds will, and without the undesirable side effects of skew and kurtosis. Overall portfolio standard deviation can be reduced further by combining both hedge funds and managed futures with stocks and bonds."

Skew and kurtosis are important but often overlooked measures of portfolio risk. Many investors and their advisers focus exclusively on mean returns and the variability of returns in evaluating an investment. This can be short sighted the studies' findings suggest.

"As Marc Odo notes in his working paper, 'Skewness and Kurtosis,' in a theoretical world, where investment returns are assumed to be normally distributed, focusing only on the relationship of returns to volatility may suffice," explains Rollinger. "However, we know that market returns and more importantly in this case, alternative investment returns, are rarely normally distributed. Standard measures of risk did not seem to prepare investors for the extreme nature of the two bear markets of the first decade of the 2000s."

The importance of Kat's original work and of Rollinger's extension of it is to identify the methods and tools that enable investors to better manage for the true risks inherent in asset-class and strategy return patterns.

Under the extended time frame, Rollinger's study found that the beneficial effects first identified by Kat have persisted through the full run of both bear markets.

"As the contribution to alternatives increases, all four moments of the return distribution benefit," Rollinger concludes. "Mean return increases. Standard deviation decreases. Skewness increases. Kurtosis decreases."

Copies of Rollinger's paper are available to investors and advisers from Sunrise Capital Partners, **info@sunrisecapital.com**, (877) 456-8911, or from the company's website, **www.sunrisecapital.com**.

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FOR MORE INFORMATION about Sunrise Capital Partners, please contact either Marty Ehrlich or Matt Waz at **info@sunrisecapital.com**, (877) 456-8911, or visit **www.sunrisecapital.com**

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