



MLM Commodity Index™ Long/Neutral

Commodities: Should You Always be Long?

November 2009

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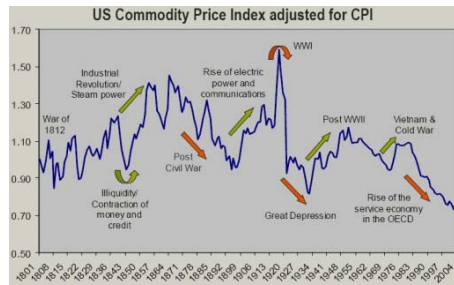
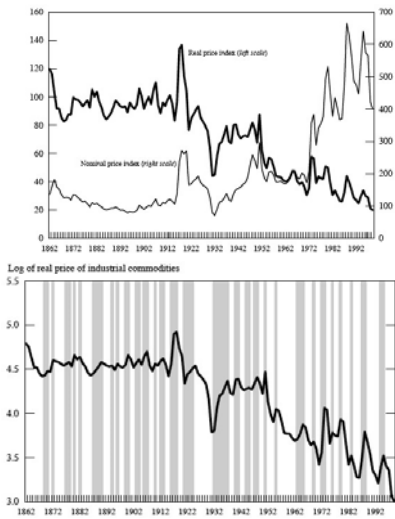


Reasons for Always Being Long Commodities

- Price goes up over time
- Backwardation
- Diversification

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Do Prices Go Up? History Says No.

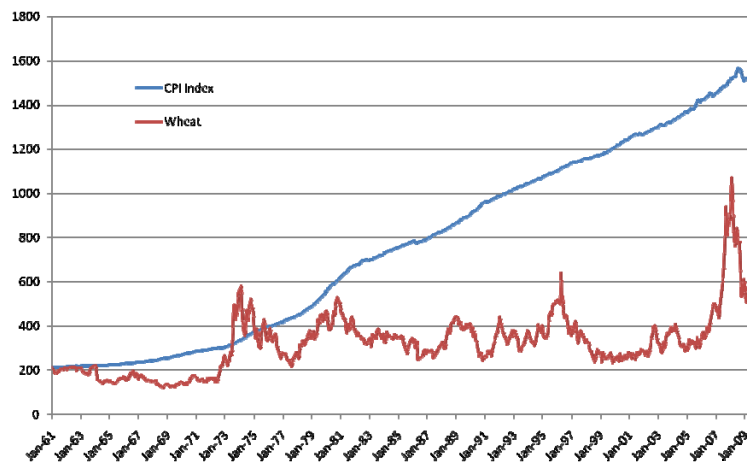


Source: Mount Lucas Management

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Wheat vs. Inflation



Source: Mount Lucas Management

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My Favorite – The Price of Light

| Date | Source | Cents Per 1,000 Lumens | |
|------|---------------------------------|------------------------|------------------------|
| | | Current Prices | Real Prices (1800=100) |
| 1800 | Tallow/Sperm Oil/Whale Oil | 40.293 | 100.000 |
| 1818 | Tallow/Sperm Oil/Whale Oil | 40.873 | 100.114 |
| 1827 | Tallow/Sperm Oil/Whale Oil | 18.632 | 58.186 |
| 1830 | Tallow/Sperm Oil/Whale Oil | 18.315 | 61.835 |
| 1835 | Tallow/Sperm Oil/Whale Oil | 40.392 | 138.745 |
| 1840 | Tallow/Sperm Oil/Whale Oil | 36.943 | 145.888 |
| 1850 | Tallow/Sperm Oil/Whale Oil | 23.199 | 92.490 |
| 1855 | Oil Lamps/Gas Lamps/Kerosene | 29.777 | 107.298 |
| 1860 | Other Oils/Kerosene/Early lamps | 10.963 | 41.083 |
| 1870 | Other Oils/Kerosene/Early lamps | 4.036 | 9.634 |
| 1880 | Other Oils/Kerosene/Early lamps | 5.035 | 15.340 |
| 1883 | Edison carbon lamp | 9.228 | 28.581 |
| 1890 | Edison carbon lamp | 1.573 | 5.410 |
| 1900 | Filament lamp | 2.692 | 9.987 |
| 1910 | Filament lamp | 1.384 | 4.550 |
| 1916 | Filament lamp | 0.346 | 0.997 |
| 1920 | Filament lamp | 0.630 | 0.984 |
| 1930 | Filament lamp | 0.509 | 0.954 |
| 1940 | Filament lamp | 0.323 | 0.720 |
| 1950 | Filament lamp | 0.241 | 0.314 |
| 1960 | Filament lamp | 0.207 | 0.219 |
| 1970 | Filament lamp | 0.175 | 0.142 |
| 1980 | Filament lamp | 0.447 | 0.170 |
| 1990 | Filament lamp | 0.600 | 0.144 |
| 1992 | Compact Fluorescent bulb | 0.124 | 0.029 |

Source: Nordhaus, William D. 1998. *Do Real-Output and Real-Wage Measures Capture Reality? The History of Lighting Suggests Not*. New Haven: Cowles Foundation For Research In Economics At Yale University

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Backwardation – GSCI Spot vs. Excess Return

Rebased to 1992

Source: Mount Lucas Management

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Gets Worse – Only Works if Weighted Correctly

- Average excess returns of individual commodity futures contracts are indistinguishable from zero¹
- A Commodity futures portfolio can have equity-like returns if it achieves high enough diversification return¹
- A Commodity futures portfolio can achieve this by skewing portfolio exposures toward markets likely to have positive roll and/or spot returns in the future¹
- The challenge for investors is identifying those markets and there is no evidence that the situation will persist¹
- Rebalancing is important¹

¹ "The Strategic and Tactical Value of Commodity Futures" with Claude Erb and Campbell R. Harvey, *Financial Analysts Journal*, 62:2, March/April, 69-97. (P91) (Prev W77)



Diversification

- 2008 GSCI Total Return: -46.5%
- 2008 S&P 500 Total Return: -37.0%



What to Do?

- There is a lot of volatility and you would like to participate - it has real economic impact
- Economics suggests that those who adjust exposure earn returns



The Economics of Futures Markets

- Hedgers use futures markets to hedge exposure
- Investor capital assumes the risk – in essence insures the business
- Finance 101 tells us that the business does not lower risk for free, and that investor capital will demand a return
- How do we measure the premium?



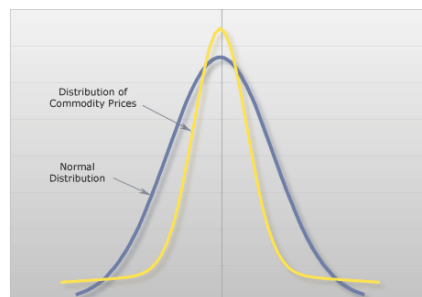
Building a Price Based Index

- Requirements
 - Measures the economic return of the activity
 - The return can be earned in the marketplace by replicating the Index
 - Free of manager skill – or passive
 - Robust



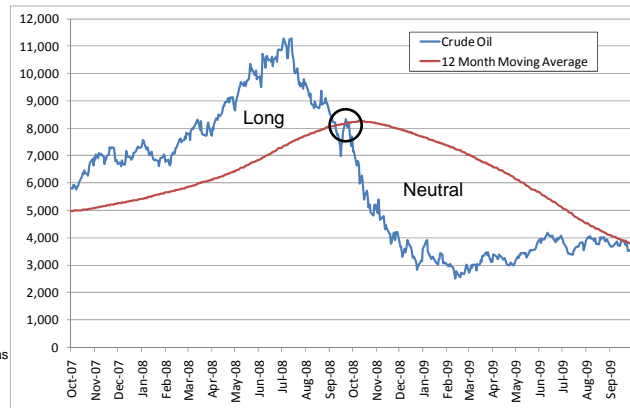
Momentum in Commodity Futures

- There is a consistent departure from statistical normality in the return distributions of most futures markets
- “Fat Tails”
- Departures from normality are a sign of major price trends in commodities extending over weeks and even months



Simple Trend Following Algorithm

- The MLM Commodity Index uses a simple trend-following algorithm that signals the inception of possible large price trends



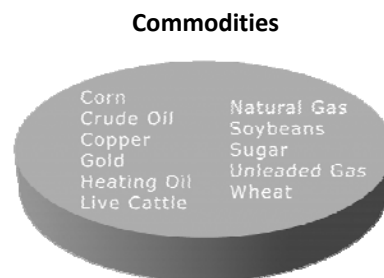
Source: Mount Lucas Management

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Product Overview – MLM Commodity Index™ Long/Neutral

- **Common Characteristics**
 - 11 commodity markets
 - Equal-weighted
 - Rebalanced monthly
 - Unleveraged
 - Transparent
- **MLM Commodity Index L/N™**
 - Long/Neutral



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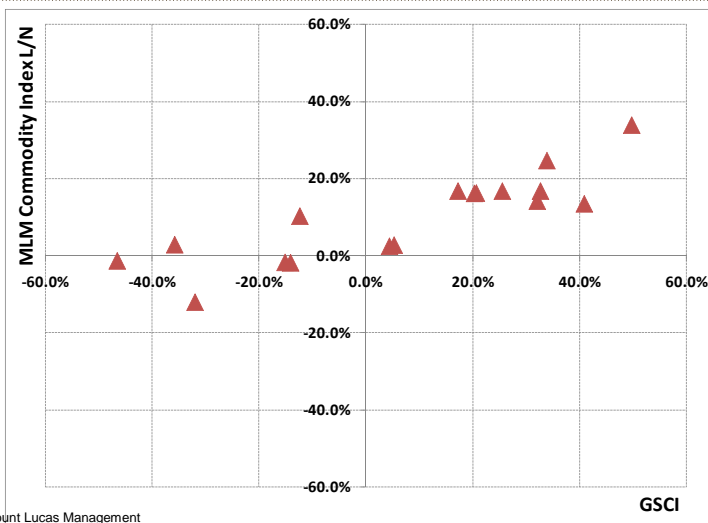
Results - Performance Summary through 9/30/09

| Period Ending 9/30/09 | MLM Commodity Index™ L/N | S&P 500 | DJ UBS Commodity Index | GSCI |
|--|--------------------------|---------|------------------------|---------|
| YTD | 2.75% | 19.25% | 9.06% | 4.68% |
| 1 year | 2.96% | -6.92% | -23.71% | -44.52% |
| 3 year | 5.81% | -5.44% | -4.91% | -10.80% |
| 5 year | 5.79% | 1.01% | -0.70% | -6.71% |
| 10 year | 9.47% | -0.16% | 6.33% | 4.50% |
| Standard Dev. (10 yr.) | 11.03% | 16.24% | 17.46% | 25.37% |
| Max Drawdown | -20.33% | -50.96% | -54.26% | -67.64% |
| Correlation to S&P 500 | 0.00 | 1.00 | 0.24 | 0.17 |
| Correlation to MLM Commodity Index L/N | 1.00 | 0.00 | 0.73 | 0.71 |

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15 Past performance is not indicative of future results.

Annual Return Plots – Upside Capture



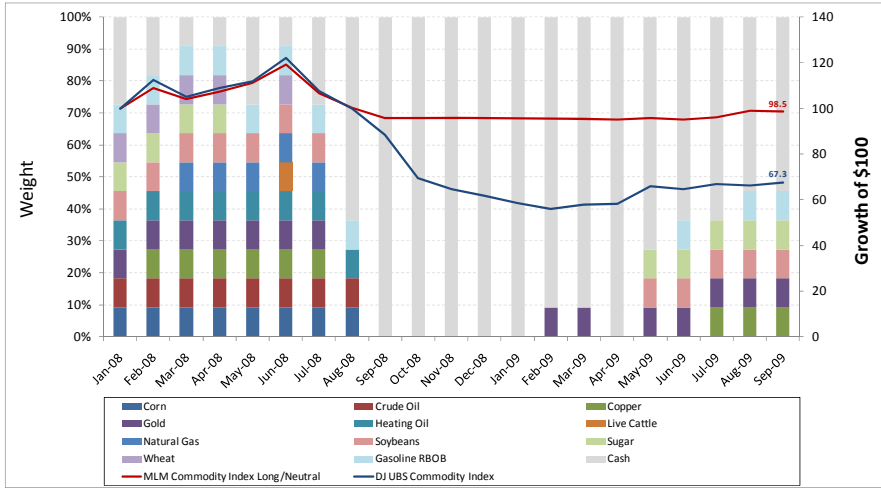
Source: Mount Lucas Management

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Summary

Allocation and returns since January 2008



Source : Bloomberg, MLM. Data as of 30th June 2009. Returns are in USD.

Appendix

MLM Commodity Index™ L/N Results

| | MLM Commodity Index™ L/N | S&P 500 | DJ UBS Commodity Index | GSCI |
|------|--------------------------|---------------|------------------------|--------|
| 1992 | 2.4% | 7.7% | 3.7% | 4.4% |
| 1993 | 10.2% | 10.0% | -1.1% | -12.3% |
| 1994 | 2.7% | 1.3% | 16.6% | 5.3% |
| 1995 | 16.1% | 37.4% | 15.2% | 20.4% |
| 1996 | 24.6% | 23.1% | 23.2% | 33.9% |
| 1997 | -1.9% | 33.3% | -3.4% | -14.1% |
| 1998 | 2.8% | 28.6% | -27.0% | -35.8% |
| 1999 | 13.4% | 21.0% | 24.4% | 40.9% |
| 2000 | 33.8% | -9.1% | 31.8% | 49.8% |
| 2001 | -12.1% | -11.9% | -19.5% | -31.9% |
| 2002 | 14.1% | -22.1% | 25.9% | 32.1% |
| 2003 | 16.2% | 28.7% | 24.0% | 20.7% |
| 2004 | 16.7% | 10.9% | 9.2% | 17.3% |
| 2005 | 16.7% | 4.9% | 21.4% | 25.6% |
| 2006 | -1.8% | 15.8% | 2.1% | -15.1% |
| 2007 | 16.7% | 5.5% | 16.2% | 32.7% |
| 2008 | -1.4% | -37.0% | -35.7% | -46.5% |

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Firm Overview

Timothy J. Rudderow, President – Tim was a co-founder of Mount Lucas in 1986 with Frank Vannerson. Tim presently serves as the firm's president, overseeing all of its activities. He has been in the investment business for more than twenty years, beginning in the late 1970s at Commodities Corporation where he worked with Frank on the grain markets and on the design and management of technical trading systems. Tim holds a B.A. in Mathematics from Rutgers University and an M.B.A. in Management Analysis from Drexel University.

Raymond E. Ix, Jr. Senior Vice-President – Ray joined Mount Lucas in 1992. He plans and directs Mount Lucas Management's marketing and client service efforts. Prior to Mount Lucas, he was employed by Little Brook Corporation, where he implemented technical trading systems operated by the firm. Before joining Little Brook, Ray was the Fixed Income Administrative Manager at Delaware Management Company. He received a B.S. in Accounting from Saint Joseph's University in 1986.

Roger E. Alcaly, Principal – Roger has been involved in equity investing and leveraged acquisitions for more than 20 years. He was a partner at Kellner, DiLeo & Co., has served in the Carter Administration and worked at the Federal Reserve Bank of New York, and was an Assistant Professor of Economics at Columbia University. He holds a B.A. from Amherst College and a Ph.D. in Economics from Princeton University and is the author of *The New Economy: What it is, How it Happened, and Why it is Likely to Last*, which was published by Farrar, Straus and Giroux in June 2003.

Paul R. DeRosa, Principal – Paul has been in the investment business for more than twenty-five years with a broad specialization in fixed income markets. He began his career in Citibank's bond trading division and later became the bank's chief proprietary bond trader and, subsequently, head of its financial derivatives and capital markets businesses in North America. He also worked at E.F. Hutton Co. as co-head of bond trading and was a co-founder of Eastbridge Holdings Inc., a bond and currency trading company. Paul received a B.A. in Economics from Hobart College and a Ph.D. in Economics from Columbia University.

Jerry Prior, Director of Technology and Quantitative Futures – Jerry joined Mount Lucas in 1997. He manages the firm's investment technology platforms and conducts derivative research as it pertains to futures modeling. He has more than twelve years of experience working on and supporting the trading operation, as well as development, implementation, and oversight of the firm's proprietary models, including the MLM Index.

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