Alternative Analysis:
Jaguar Investments Limited

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Jaguar Investments are only available to Qualified Eligible Persons ("QEP")as that term is defined by CFTC regulation 4.7

After receiving the top overall spot in our Semi-Annual Managed Futures Rankings[1], and the number one ranking for three other categories, we thought Jaguar Investments Limited needed a deeper evaluation in our Alternative Analysis series.

THE ESSENTIALS

Jaguar Investments Limited
www.jaguarinvest.com
AUM: $110.5 mm, founded '02
Programs: Ultro, Aegir*
QEP Investors only

We almost didn't know where to start introducing Jaguar Investments Limited, because of their multitude of unique attributes. For starters, Jaguar has both a systematic program and a discretionary program. Then consider their overhead support are professionals that have more than 30 plus years in senior commodity trading roles at large banks. These founders, Tony and Colin (who we'll introduce soon) provide the business and the insight to let their traders find the returns, do the trading, while they worry about growing the business. Then consider one of the traders has traveled extensively through North and South America gathering a deep understanding of the physical supply chain of commodities.

Did we forget to say one of Jaguar's programs received the top overall spot in our Semi-Annual Managed Futures Rankings[1], and had the number one ranking for three of our ranking categories (Risk Control, Risk Adjusted, and Managers with less than $100 AUM)[1]. Combine that with their British charm, a name like Jaguar, and they're at the top of our list for our next installment of our Alternative Analysis whitepaper.

Note, the blue quoted text is from a May (digital) sit down with Tony Coote and Colin O'Neill over the next few pages.

The Formation of Jaguar Investments Limited

The idea of Jaguar came from the two owners, Tony Coote and Colin O'Neill, back in 2002. After decades of experience working for large banking institutions that focus on the commodity markets, they thought that they could provide customers with a better value on commodity-focused investment strategies without all the overhead that comes with a large company.

> *"Having worked for a few of the commodity-focused London banks, we became tired of the internal politics, along with the ever-increasing distractions away from the client and trading focus. We decided to set up on our own strategy in order to be able to provide clients with a personal service for their commodity investments. This also allowed us time to follow the activity taking place in the markets, without the distractions of working inside a large institution. There is less red-tape to cut through in the decision making process."*

TONY'S BACKGROUND

Mr. Coote has been actively trading commodity markets since 1983. He began his career at Johnson Matthey, before moving to N.M Rothschild and Sons as a bullion trader in 1986. Mr. Coote became senior trader, running the gold trading operation and chairing the London Gold Fix before he set his sights on developing and managing their Foreign Exchange trading operation. In 1995 Mr. Coote joined Mr. O'Neill at J.P Morgan with a specific responsibility for Aluminum and Nickel trading. In late 1996, he moved to Standard Bank where he

[1]RCM's Semi Annual Managed Futures Rankings last Updated February 2016.

*The Ultro & Aegir programs are available to QEPs only was responsible for global Aluminum and Nickel trading and also responsible for building the banks' commodity client base. Mr. Coote co-founded Jaguar Investments in 2002.

COLIN'S BACKGROUND

Mr. O'Neill has been actively trading commodity markets since 1986. He began his career at N.M Rothschild and Sons as a bullion trader, initially trading silver before transitioning to work on the fledgling bullion options desk. After 7 years, Mr. O'Neill then moved to J.P Morgan to work with the bullion forwards and options team before moving to run the base metals trading desk with responsibility for futures and options trading across all industrial metals. He was also responsible for market-making the banks' commodity warrants and commodity-basket trading. In late 1996, he moved to Standard Bank where he was responsible for global base metals trading. Mr. O'Neill co-founded Jaguar Investments in 2002.

Making the right selection...

Shortly after starting Jaguar, the two set out to find the best models and trading managers in the business. Finding the right model and the right managers is no easy task, and their early years saw a couple of trading managers come and go. But the pair stuck to their guns and continued searching, finally finding Iain Dockerill, the current manager of the Ultro program*, and then Jagjit Manhas, currently managing the Aegir program*. Finding two skilled traders with unique strategies led to the current uniqueness of the firm. Where most Managed Futures firms typically have a flagship program and a couple of other smaller programs that are either leveraged versions or slightly changed version of the flagship – Jaguar has two completely distinct programs.

So to really get to know Jaguar, you need to get to know the programs – and the professionals who oversee them.

**The Ultro & Aegir programs are available to QEPs only*

THE ULTRO PROGRAM*

There's no better place to start in talking about the Ultro program than its manager, Iain Dockerill. Here's Iain's background:

> *"Beginning on the floor of the London Metal Exchange in 1988, Iain Dockerill worked for a major ring dealing member as a ring trader that was eventually acquired by Barclays Capital. There, he continued to be a key member of their commodity team, working on OTC pricing and working directly with the corporate clients. This is where he was presented with the opportunity to travel extensively through North and South America advising and executing hedging strategies and then managing the subsequent risk assumed by the bank. After gaining a thorough understanding of the physical supply chain and its effects on future markets, Iain moved to Sucden Financial in 1998 as a prop trader, managing his own account. Mr. Dockerill then moved to two more firms before joining Jaguar in 2013."*

The Ultro program currently holds the top rankings for Risk Control and Risk Adjusted Performance categories in our Semi-Annual Rankings[1], and has grown directly from Iain's experience in managing commodity risk for the past 30 years while advising physical metal clients on their hedging structures; meaning, if you haven't caught on yet, Iain and the Ultro program trade exclusively in the industrial & precious metals markets.

> *"The strategy focuses primarily on the industrial metal markets and aims to exploit price differentials both within and between these markets. The strategy does not rely on outright price movement to produce returns but instead uses arbitrage (of LME and CME COMEX), forward curve trades / calendar spreads and Inter-commodity spreads."*

But as they say, all that experience doesn't mean a thing if you can't put the ball in the basket. And

[1]RCM's Semi Annual Managed Futures Rankings last Updated February 2016.

you don't become one of the top ranked commodity hedge funds out there just based on experience[1]. You do it with a near 8% annual compound RoR and max drawdown of just -2.02% (since 2012), all while never recording a negative calendar year [*Past Performance is Not Necessarily Indicative of Future Results*]. So how exactly does the strategy work? How has Iain managed to provide those sort of returns?

> *"There are very few managers focusing on the metals sector, and none to our knowledge that are looking to exploit relative-value opportunities without getting involved in physical delivery. Ultro exclusively trades spreads in London versus New York Copper, - or more specifically LME Copper vs COMEX Copper - based on market fundamentals like supply, demand and production gleaned from relationships and contacts at large industrial metal producers and consumers. And Ultro takes into account the entire curve of the copper spread, which allows it to be more creative in its approach vs others focused on just two parts of the curve. This shows in times of unprecedented volatility, where ULTRO is able to withstand extreme price shocks because of a) no outright price risk, and b) the long/short nature of the portfolio structure leads to inherent hedges that are able to offset significant volatility."*

All of the trading ideas and expression come from Mr. Dockerill and performance is reliant for better or worse on his decision making alone. So how is a discretionary program operating in one of the most volatile spaces around (physical commodities) able to find those kind of returns while at the same time providing one of the lowest drawdowns we've seen in the Managed Futures space? It has something to do with the combination of manager freedom and risk management oversight, according to Jaguar:

> *"We independently monitor the risk on each trade while letting Iain have the freedom to manage the overall strategy. It works because it allows the portfolio manager a good deal of freedom to manage their strategies and lay out the best way to capture their vision of where prices (or more correctly, the interrelation between prices) are headed; while at the same time allowing for a sudden reversal of fortune in any of the futures markets in which the portfolio is active to not injure the long term performance too badly."*

Spread trading is either an investors best friend or their worst nightmare. Spreads can give investors a sense of protection since they are always long and short positions. Or it can absolutely destroy a program, and more than one trader has gone to his grave due to a severe unexpected dislocation in the spread market. How has Ultro only had a -2.02% drawdown?

> *"We run a very disciplined and conservative risk management system for all of our open spread positions. I can tell you that we value the portfolio at the end of each day and each individual leg of the spread positions is taken as a worst case scenario, should there be an adverse move in the underlying markets or any one leg of the spread. Basically, we're not treating them as spreads. We're cognizant of the legs making up the spread and treating them, from a risk standpoint, as directional positions."*

What Sets you apart?

As we briefly mentioned, the Ultro program isn't a trend following program, but instead a specialized professional trader focusing on an uber-concentrated niche market. Unlike traditional Managed Futures products which seek infrequent but large outlier gains, Jaguar looks for small, but consistent gains in the commodity markets.

> *"We are not necessarily looking for a major event, catastrophic or otherwise, but rather the strategies look to gather many more profitable up days, generally relatively small, while always being mindful of protecting the downside risks. Rather than looking for the baseball "Home Run" we tend to look for the cricket "quick singles" with an occasional "boundary" thrown in."*

We have no idea what that last bit about boundaries means (we'll have to touch up on our Cricket), but it's important to remember that the return drivers are coming from the skill of the metal's trader (Iain), while the decision to go for base hits (or quick singles in Cricket terminology) come from the management company. In that light, the Ultro program is more akin to how a large bank's market making group might trade rather than a traditional managed futures program.

DRAWDOWNS

This is where we would typically ask about their worst year and what circumstances led to such performance; but since the Ultro program hasn't recorded a negative annual performance since inception [*Past Performance is Not Necessarily Indicative of Future Results*], we had to settle for explanation of their lowest positive year and longest drawdown which has stretched from May 2015 through the present:

"The worst year to date for Ultro was 2015 (+2.52%). This was largely due to fewer opportunities and the main reason for this was the uncertainty surrounding some of the larger trade houses in the commodity (mainly metals) industry. The recent longish streak between new equity highs (even though it's just -2% below new highs) was a result of 3 small losses in late 2015 due to a number of well publicized problems within some of the larger trade houses in the metals industry, notably financial and credit concerns with Glencore, Noble Resources & Trafigura."

Pros and Cons

There's no denying the Ultro program has thus far proved to be able to manage risk and record some notable returns. If we're nitpicking , the program is still young and possibly hasn't yet been tested by a severe shock in the metals market. Being completely discretionary has been smooth sailing so far, but because performance is completely dependent on the actions and skills of the manager, there's always the possibility of a mismatch between the manager's take on the market and what the market actually does. If there was a surprise issue at the LME or COMEX (producer or consumer trying to squeeze the market), for example, the skill of Iain may not be enough to produce gains or protect against losses.

The other potential issue with a discretionary program such as Ultro is large margins. On a typical spread trading program, the long and short trade typically net the margin. However, the CME and LME don't have netting margin rules, so Ultro's trade margins could reach as high as 30%, meaning an investor will have to outlay a similar amount of cash to trade this program as some other programs with higher target returns and volatility.

But despite all of that, the Ultro program sits at the top of Managed Futures Rankings[1] and with good reason. The Ultro program doesn't compete with other managers out there, finding its own returns through Iain and the metal markets. Our only critique is that performance is dependent on the trader and you'll never know if something is missed until it's too late, but a track record of 4 years proves they've passed the three-year threshold many investors use as criteria. Overall, we see the Ultro program appealing to those looking for long-term investment that aren't looking for the traditional systematic trend following strategy.

[1]RCM's Semi Annual Managed Futures Rankings last Updated February 2016.

THE AEGIR PROGRAM*

We often hear people refer to programs specifically by the manager names – instead of the program names, and Jaguar is the exception to the rule. Ultro and Aegir couldn't be more different. While the Ultro program is discretionary, Aegir is systematic. While Ultro focuses exclusively in metals, Aegir trades energy markets. While Ultro's average holding period is one to three months, the Aegir holding period is typically much shorter.

When we first saw the word Aegir, we had a hard time pronouncing it (Pro-tip the e is silent). What exactly is an Aegir anyway? From Tony and Colin:

AEGIR:

Myth, Norse; a sea-jotunn associated with the ocean

This is what we found when we googled the Aegir…

If that guy can't trade energies, nobody can.

Let's start with the man behind the model, Jagjit Manhas. To say that Jagjit is a software Engineer would be putting it lightly. He's done work with the British Ministry of Defense and worked for a company that would later be bought by Hewlett Packard, before turning to the finance side of engineering in 2008. Tony and Colin brought him and his Aegir strategy on last year.

JAGJIT MANHAS:

> *"In 2008, Jagjit joined Oak Capital Management, model where he transitioned into a quantitative trader role, developing, testing and executing alpha generating quantitative strategies in the energy futures space. Manhas also built and developed new models using artificial intelligence methods and incorporated genetic programming. In 2011, Jagjit took his models to a couple of small brokers briefly, before choosing Jaguar as the right fit in 2015."*

The Model

While we like to think the Aegir model is like the artificial intelligence in Will Smith's "I, Robot," it's more about learning pattern recognition than possibly destroying the world. There is a natural evolution in the program based on its machine learning/ pattern recognition strategy. It applies this learning to the energy markets in a systematic way, expressing trades as both commodity and inter-commodity spreads:

> *"When we talk about price inefficiencies, we are looking for spread prices that have either broken a particular recent band, or maybe are "overstretched" within the band. This could be due to a rational market move, or as happens in many cases, one leg, or side of a spread, moving ahead of another part of the curve faster, so the model will look at this inefficiency and place the trade on the expectation that either the "slower" leg will catch up, or the "faster" will fall back into line."*

> *"The strategy focuses primarily on the crude oil*

and related product markets and aims to exploit price differentials both within and between these markets. The strategy does not rely on outright price movement to produce returns."

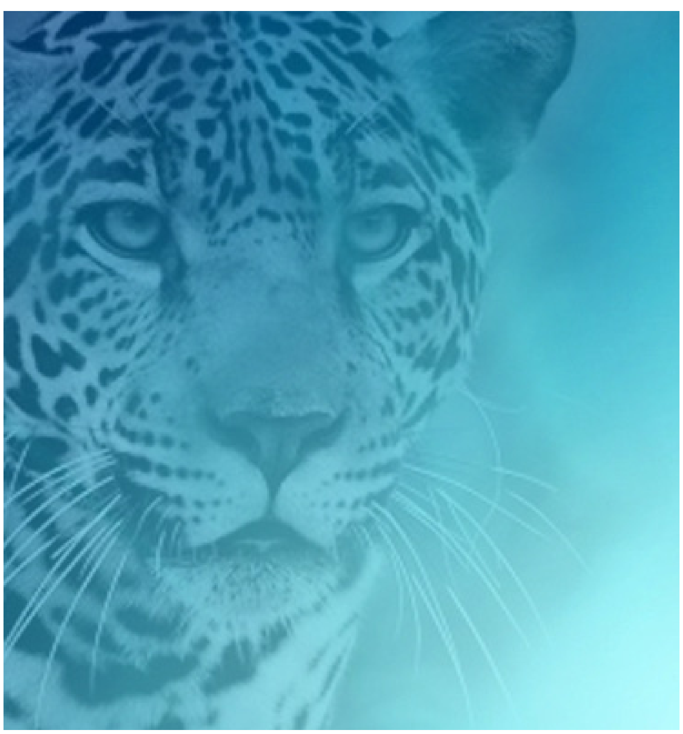
"The strategy aims to target stable and consistent returns by employing one or more of the following:

- *Arbitrage of ICE and CME NYMEX*
- *Forward curve trades / calendar spreads*
- *Inter-commodity spreads*

So we're talking December versus March Brent Oil, Brent Oil versus WTI, or Brent Oil versus RBOB. You can see from the examples, that Brent Oil is always the 'anchor' market of the spread. And it's worth remembering that while it's systematic, it does not rely on fundamental market data to find returns, but artificial intelligence to find price inefficiencies.

INTRA-DAY

Unlike long-term trend following systematic programs, Aegir is almost always in and out of the markets on the same day, equating to a very short-term strategy. This design is meant to minimize any potential risk if the markets move overnight. Some investors see this as a safety mechanism and some see this as a negative, as it doesn't allow them to capture the large swings that have been happening in the energy markets as of late, but it seems to be working for Aegir.



PERFORMANCE

Because Aegir's trade holding period is generally intra-day, it's not the type of program where you can expect to see major daily gains or losses, but rather a small accumulation of smaller returns, that add up to larger returns at month's end. Keeping with baseball references, it's more about hitting singles and walks, to drive in runs, rather than a 3-run home run in the 8th to take the lead. Jagjit has been trading this model since 2012, but only began trading with Jaguar in the summer of 2015. Still, it seems the computer pattern learning is working, with solid performance statistics.

"The Aegir strategy uses an evolving model within its decision making process and the Comp RoR of this program is +22%, Total Return at 22%, with a max drawdown of -6.31%."

[*Past Performance is Not Necessarily Indicative of Future Results*]

DRAWDOWNS

Tony and Colin may have found the two programs that have some of the lowest maximum drawdowns we've seen in the industry. Again, this is when we typically would ask what happened in their max drawdown, but their max depth drawdown only lasted two months in 2013. Instead, we asked Tony and Colin to describe the worst performing year.

"The worst year for Aegir was also 2015 (+8.28%), for much the same reasons, but also it is probably relevant to mention that there was a transitional process between the portfolio manager leaving his previous employer to join Jaguar during the first half. It is also worthwhile pointing out that in

each case both strategies' worst years still show positive returns."

[*Past Performance is Not Necessarily Indicative of Future Results*]

As we described before, Aegir is the type of program that records small returns that build, which means that if the program is stuck losing, it can take a little longer than usual to get out of the drawdown. For instance, it took Aegir roughly a year to get out of its longest drawdown.

"For AEGIR, the longest period was from Feb13 to Feb14. This was a result of a contract specification change by one of the exchanges in Mar13 which caught the portfolio off-guard. Notably this was before the strategy came to Jaguar and we have since implemented tighter risk management processes that should ensure this type of event doesn't have such a large impact should it happen in the future."

CRITICAL EYE

Aegir shares the same critique we have of the Ultro program, in that while it's not discretionary, the returns rely solely on one programmer. Machine learning and pattern recognition has come a long way in the past decade, but firms like Google and other tech companies have hundreds of PhD's in a room tweaking models looking for inefficiencies, whereas the Aegir program is one programmer.

Like any algorithmic/systematic strategy, there are times when external factors (war, strike, refinery outage) may take place that the "robot" is unaware of and orders maybe actioned before the "controller" can explain what has taken place. As always with all trades executed by the strategy, there are pre-defined stop-loss levels placed, which if the trade was wrong, would be triggered and there may be a succession of small loss-making trades before "normality" is resumed. But the overall percentage of winning to losing trades in this program would suggest that these trades are only a small part of the strategy's P&L performance.

Overall Comments

We're not going to lie, it's rather difficult to find something wrong with both of Jaguar's programs. What's not to like about large returns with small drawdowns, laser focus for both programs on the one thing they do well, and decades of experience in the management suite on the investor's side controlling the risk.

But if we had to pinpoint something as less than ideal, it would be the journey taken to find these programs. It hasn't been all positive returns and rainbows for Jaguar since their inception. They cut their teeth from 2002 to 2012 trying to find the right mix of traders/products that investors wanted for their portfolios, but were unable to access through traditional managed futures programs. At the same, Jaguar was trying to find managers they knew they could trust and work closely with, to provide the returns and the risk control both Ultro and Aegir has been able to exemplify. Were they due to find these guys, or lucky, or skillful in finding portfolio managers able to provide the returns and the risk control both Ultro and Aegir has been able to exemplify. And does it even matter?

As previously stated, both these programs have unique ways of finding returns in the commodity markets. For some, it's just what they're looking for in the portfolio, and for others, it's too much exposure to one person's experience or another person's model.

They are sure to have larger drawdowns in the future – nobody can keep it that low forever. But overall, we think Jaguar has a couple of potential long term winners with Ultro and Aegir; which is a view shared by other investors and allocators as both programs are breaking out of the "emerging manager" phase, as they have now broken through the $100 million mark collectively.

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[1]RCM's Semi Annual Managed Futures Rankings last Updated February 2016.

WHAT WE DO

We build great Managed Futures portfolios with clients looking to access the managed futures space in a meaningful way. That's been our specialty for more than a decade, with our experienced team up to the challenge of finding unique managers to fit unique needs.

For Investors

Research & Educate

We believe education means more than just a glossy brochure showing how managed futures is non-correlated to the stock market. We believe it means ongoing analysis of what's happening now, not just what happened over the past decade; and we provide daily research and commentary via our popular 'Attain Alternatives' blog covering all things alternative investments, as well as periodic whitepapers digging deeper into topics, guest posts by fund managers, and more.

Scout Talent

You can think of us as talent scouts, helping investors scour the world of alternative investment opportunities in an effort to identify those with robust, consistent performance, sophisticated risk management processes, and well-developed operational infrastructure. This selection is done through our proprietary filtering algorithm before performing one-on-one meetings and "real-time due diligence" where we analyze daily trading.

Tailor Portfolios

Armed with a menu of talented managers, we then provide customized portfolio and strategy advice to better generate target returns and protect principal while meeting the diversification, return, and risk needs of investors ranging from high net worth individuals to pension funds. Clients invest in these portfolios by opening a brokerage account with us, where we earn a portion of the trade-by-trade costs and fees paid to the portfolio managers you enlist. There are never any add-on, portfolio-level fees for our services.

Make It Easier

We make the actual investment part, with the paperwork and funding and all the rest, as easy as possible. We do this by eschewing a 'one size fits all' approach in favor of a consultative approach where we work with clients to find solutions that work for them in terms of structuring the investment. These include vanilla individual futures accounts, to the creation of 'Funds of One' or direct access to managers. The choice of clearing firms considers the investor's requirements for credit rating, balance sheet, and more; while consideration is given to smart collateral options via T-Bills, Notes, Corp. Debt, & Stocks.

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