MEMORANDUM

To: Use of Derivatives by Registered Investment Companies and Business Development Companies Proposal File

From: Jamie Lynn Walter
Senior Counsel, Division of Investment Management

Date: May 4, 2016

Re: Meeting with Representatives of Campbell & Company, LP ("Campbell"), Millburn Ridgefield Corporation ("Millburn") and Welton Investment Partners, LLC ("Welton")

On May 3, 2016, Diane Blizzard (Associate Director, Division of Investment Management ("IM")), Brian McLaughlin Johnson (Senior Special Counsel, IM), Penelope Saltzman (Senior Special Counsel, IM), Thoreau Bartmann (Branch Chief, IM), Jamie Lynn Walter (Senior Counsel, IM), Adam Bolter (Senior Counsel, IM), Sirimal Mukerjee (Senior Counsel, IM), John Cook (Senior Special Counsel, Division of Economic and Risk Analysis ("DERA")), Yue Tang (Economist, DERA) and Jae Hyun Cho (Economist, DERA) met with the following representatives from Campbell, Millburn and Welton:

- Grant Smith, Co-Chief Executive Officer and Director of Research, Millburn
- Steven Felsenthal, General Counsel and Chief Compliance Officer, Millburn
- Douglas Bry, Senior Strategist, Welton
- Kevin Cole, Deputy Chief Research Officer, Campbell
- Tom Lloyd, General Counsel, Campbell

Among other things, the participants discussed the Commission's proposal on the use of derivatives by registered investment companies and business development companies. Information provided by Campbell, Millburn and Welton in connection with this meeting is set forth in Annex A.

Annex A

Proposed Rule 18f-4
Discussion Document

May 3, 2016

Campbell & Company
2850 Quarry lake Drive
Baltimore, MD 21209

Millburn Ridgefield Corporation
411 West Putnam Avenue
Greenwich, CT 06830

Welton Investment Partners
Eastwood Building
San Carlos Between 5th & 6th
P.O. Box 6147
Carmel, California 93921

Outline

- Benefits of Managed Futures
- Quantifying Risk
- Managed Futures in 40 Act Funds
- Our Suggestions on Proposed Rule 18f-4
- Questions

WHO WE ARE

CAMPBELL, MILLBURN AND WELTON

- **Campbell & Company** is a pioneer in absolute return investment management founded in 1972. The firm maintains a discipline to developing systematic investment strategies driven by the scientific analysis of technical, macro and econometric data across global financial and commodity markets. Campbell seeks to generate attractive absolute and risk-adjusted returns across a broad range of market conditions through systematic investment in a diversified portfolio of futures, forwards and equities. Campbell currently manages approximately $5 billion in assets for institutional and private investors across the globe. Our team consists of 134 individuals, located in our headquarters in Baltimore, MD, and our office in New York.

- **Millburn Ridgefield Corporation** is a Delaware corporation operating in Greenwich, Connecticut, organized in May 1982 to manage discretionary accounts in the futures and forward markets. In February 1977, Millburn launched a private investment vehicle to facilitate investment by multiple investors in Millburn's diversified managed futures strategy. As of April 1, 2016, Millburn was directing the trading of approximately $1.4 billion of client and proprietary capital in the futures and forward markets; and had approximately $1.55 billion total assets under management. Millburn is the corporate successor to a futures trading and advisory organization that has been continuously managing assets in the currency and futures markets using quantitative, systematic techniques since 1971.

- **Welton Investment Partners®** is a multi-strategy investment manager specializing in scientific, quantitatively-driven alternative investment programs. The firm's proprietary investment research is focused on delivering diversifying, non-correlated investment returns to measurably enhance the performance of our clients' broader investment portfolios. Welton serves institutions, private banks, and private wealth investors around the world, with offices in California and New York.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Benefits of Managed Futures

Source of Lowly Correlated Returns

Portfolios are constructed using the principles of modern portfolio theory to generate:

- Good risk adjusted returns with low volatility.
- Returns that have a low correlation to traditional stock and bond investments.

Portfolio Diversifier

Significant academic research supports the inclusion of Managed Futures to diversify an overall investment portfolio (Chart 1).

No Long Bias

Offers the opportunity to go short using futures contracts – investors can profit from up or down moves.

Compared to the S&P 500

- Less Volatile with Better Historic Returns (Charts 2 & 3).
- Diversification During Stock Market Downturns (Charts 4 & 5).

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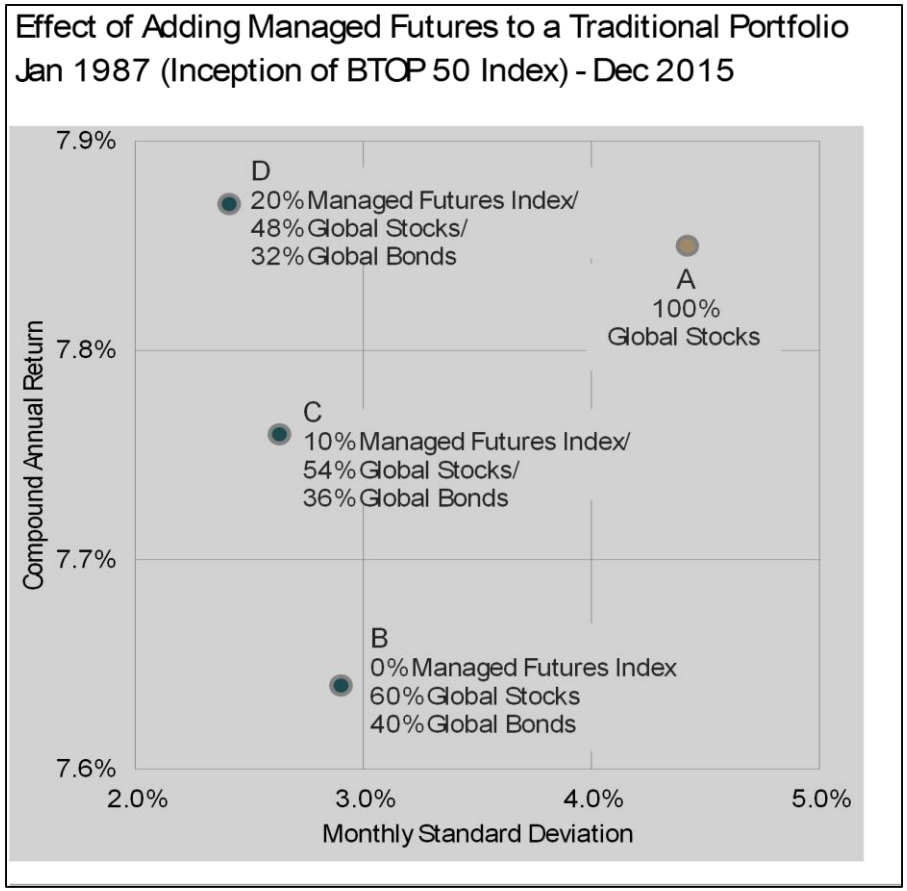
Benefits of Managed Futures

Diversification Benefits of Low Correlation

Chart 1



	A	B	C	D
	100% Global Stocks	60% Global Stocks/ 40 % Global Bonds	54% Global Stocks/ 35 % Global Bonds/ 10 % Managed	48% Global Stocks/ 32 % Global Bonds/ 20 % Managed
Annualized ROR	7.85%	7.64%	7.76%	7.87%
Annualized Stdev	15.33%	10.05%	9.13%	8.35%
Sharpe Ratio (2% rfr)	0.38	0.56	0.63	0.7
Largest Drawdown	-53.65%	-32.44%	-28.29%	-24.02%
No. of Losing Years	8	8	8	7
Average Losing Year	-14.48%	-6.12%	-4.88%	-4.17%
Years Losing > 5%	6	4	3	2
Best Year	33.76%	26.22%	25.15%	25.46%
Worst Year	-40.33%	-19.84%	-16.50%	-13.16%
Value of $1,000	$8,948	$8,449	$8,741	$8,996

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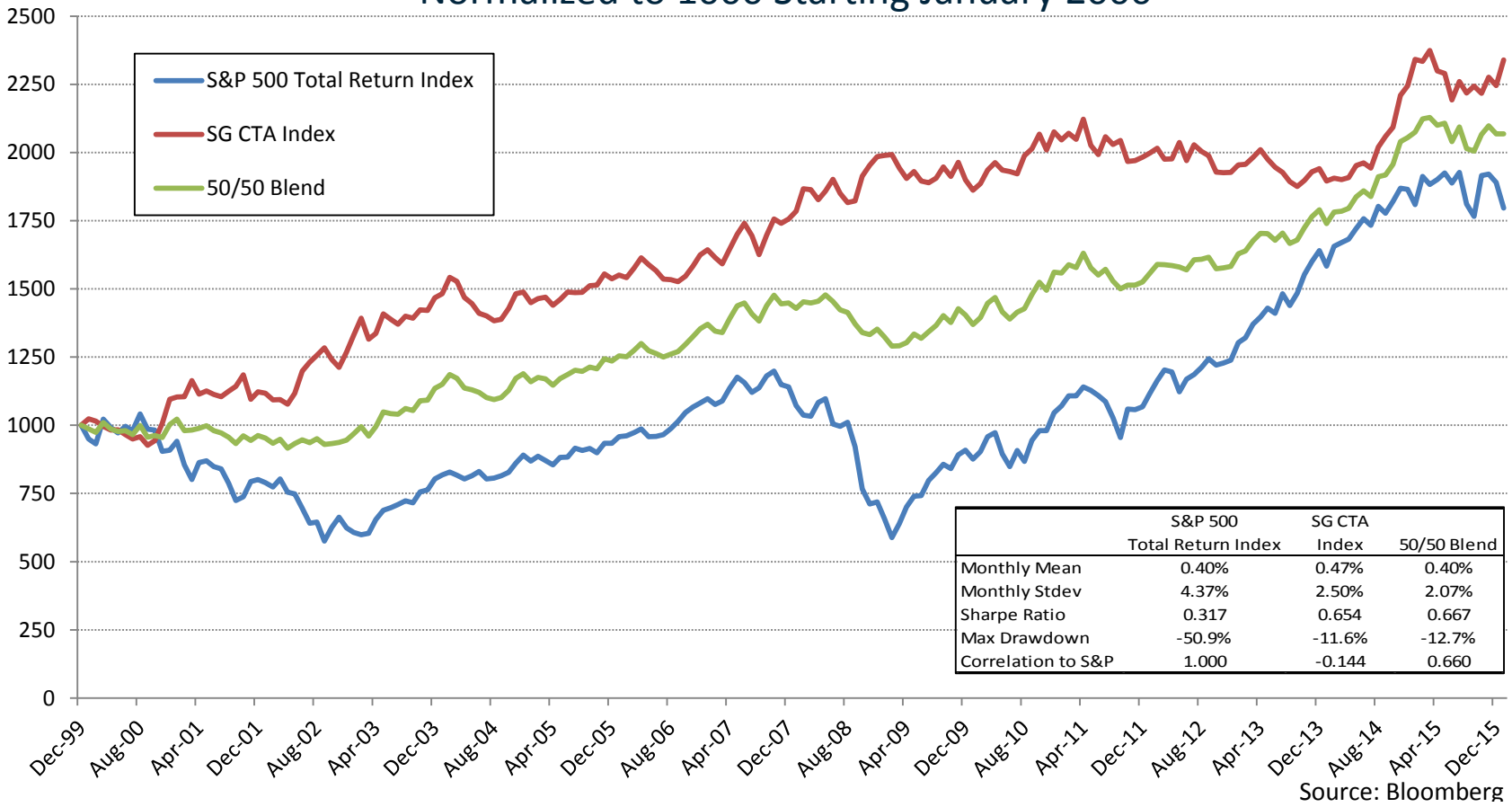
Benefits of Managed Futures

Lower Volatility and Better Historic Returns than S&P 500

Chart 2 - S&P Total Return Index and SG CTA Index
Normalized to 1000 Starting January 2000



	S&P 500 Total Return Index	SG CTA Index	50/50 Blend
Monthly Mean	0.40%	0.47%	0.40%
Monthly Stdev	4.37%	2.50%	2.07%
Sharpe Ratio	0.317	0.654	0.667
Max Drawdown	-50.9%	-11.6%	-12.7%
Correlation to S&P	1.000	-0.144	0.660

Source: Bloomberg

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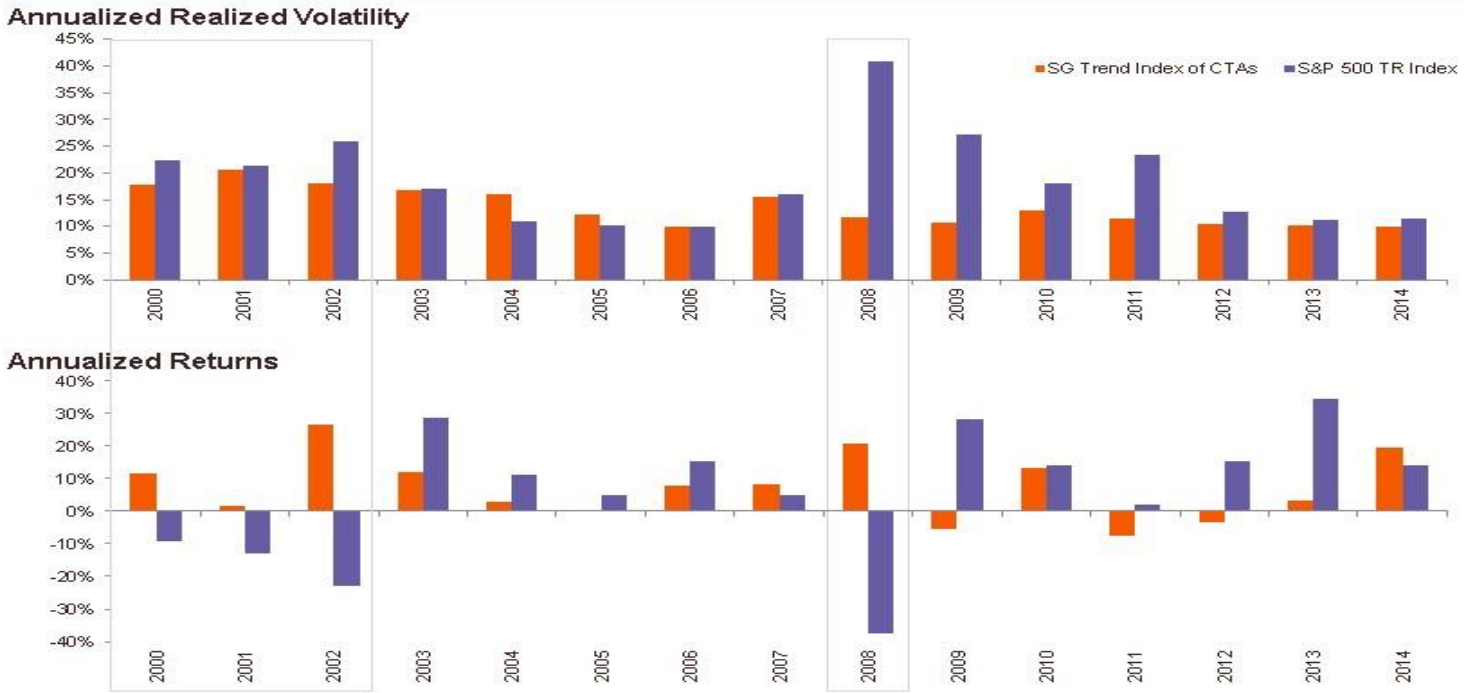
Benefits of Managed Futures

Lower Volatility and Better Historic Returns than S&P 500

Chart 3

Alts Offer Valuable, Diversifying Choice For Investors

Example: Managed Futures Strategies



Source: Derived in part from Bloomberg data. Annualized returns and volatility from January 2000 to December 2015 using daily data. The SG Trend Index is designed to track the largest 10 (by AUM) CTAs and be representative of the managed futures trend-following space. Data is not limited to managers of managed futures registered funds.

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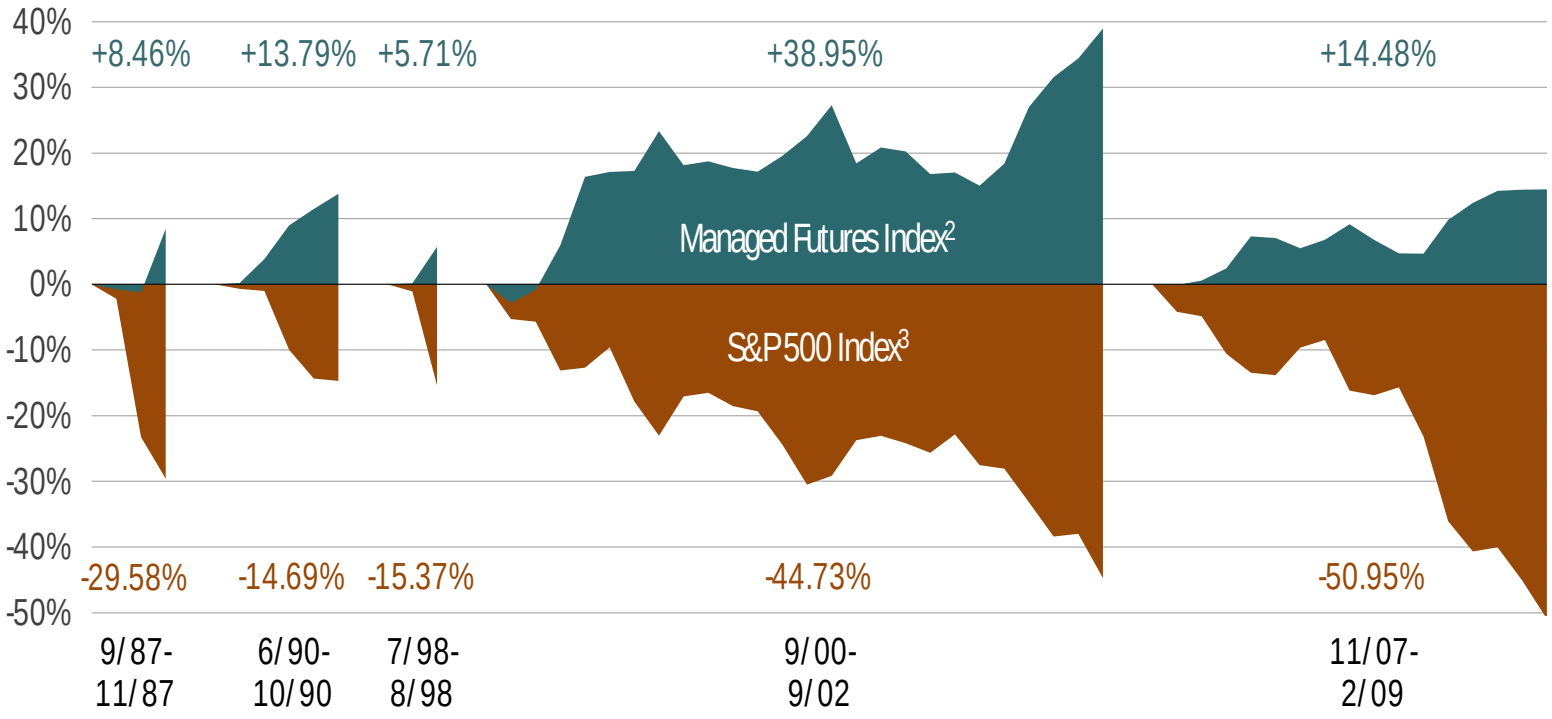
Benefits of Managed Futures

Diversification During Stock Market Downturns

Chart 4

Managed Futures During Worst 5 Drawdowns of S&P 500 Index

Jan 1987 (Inception of BTOP 50 Index) - Dec 2015



Source: eVestment

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Benefits of Managed Futures

Diversification During Stock Market Downturns

Chart 5

Period	Event	S&P500[3]	Managed Futures[2]	Difference
Fourth Quarter 1987	Black Monday- Global Stock Markets Crash	-22.5%	16.9%	39.4%
Fourth Quarter 2008	Bear Market U.S. Equities led by Financials	-21.9%	9.1%	31.0%
Third Quarter 2002	WorldCom Scandal	-17.3%	9.4%	26.7%
Third Quarter 2001	Terrorist Attacks on World Trade Center & Pentagon	-14.7%	4.1%	18.8%
Third Quarter 2011	European Sovereign Debt Crisis / Global Growth Fears	-13.9%	1.6%	15.5%
Third Quarter 1990	Iraq Invades Kuwait	-13.7%	11.2%	24.9%
Second Quarter 2002	Continuing Aftermath of Technology Bubble Bursting	-13.4%	8.5%	21.9%
First Quarter 2001	Bear Market in U.S. Equities led by Technology	-11.9%	6.0%	17.9%
Second Quarter 2010	Sovereign Debt Crisis	-11.4%	-1.9%	9.5%
First Quarter 2009	Continuing Bear Market U.S. Equities led by Financials	-11.0%	-1.8%	9.2%
Third Quarter 1998	Russia Defaults on Debt / LTCM Crisis	-9.9%	10.6%	20.5%
First Quarter 2008	Credit Crisis / Commodity Prices Rally	-9.4%	6.4%	15.8%
Third Quarter 2008	Credit Crisis / Government-Sponsored Bailout of Banks	-8.4%	-4.1%	4.3%
Fourth Quarter 2000	DotCom Bubble Bursts	-7.8%	19.8%	27.6%
Third Quarter 2015	China Induced Turmoil	-6.4%	2.3%	8.7%

[2,3] Please refer to detailed footnotes at the end of this presentation for more detail

Source: eVestment

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Managed Futures in 40 Act Funds

Market Presence

- There are now sixty 40 Act Funds with $26B invested that are primarily Managed Futures Funds (See Chart 6).

Regulatory Oversight

- Managed Futures is an investment offered by Commodity Trading Advisors (CTAs) and Commodity Pool Operators (CPOs).
- Typically trades a diverse mix of global futures contracts under the regulatory authority of the CFTC, NFA and (in 40 Act Funds) the SEC.

Sectors Traded

- Investment Sectors traded include stock indexes, currencies, interest rates, and commodities (metals. energies, grains, meats, softs).

Derivative Utilization

- Managed Futures Portfolios typically allocate 10-30% of assets to support trading in derivatives, primarily exchange traded futures contracts approved by the CFTC.

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Managed Futures in 40 Act Funds

A Large and Growing Asset Class

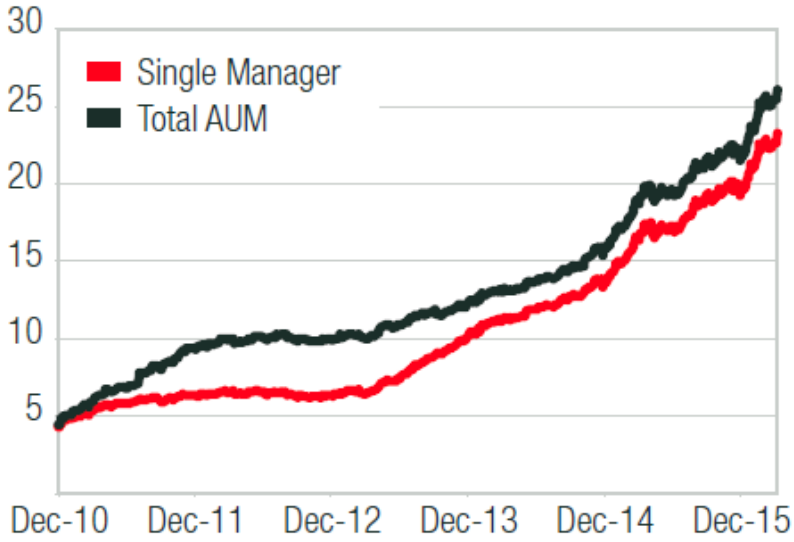
Chart 6

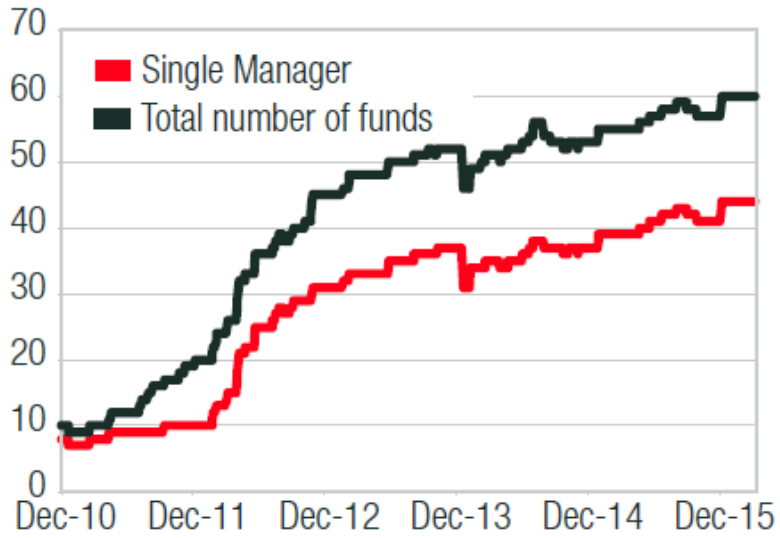
Single-Manager vs. Multi-Manager CTA Mutual Funds

	# of managers	%	Assets, $Mil	%
Single Manager	44	73.3%	23,235	89.2%
Multi-Manager	16	26.7%	2,807	10.8%
Total	60	100.0%	26,042	100.0%

Source: SG CIB, Bloomberg

Growth history of CTA Mutual Funds





Source: SG CIB, Bloomberg

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Managed Futures in 40 Act Funds

Key Differences from Other Assets Classes

- **Different use of derivatives**
  - Typically 10-30% of assets as collateral to support futures/forward trading.
  - 70-90% of assets in cash equivalents such as T-Bills or other short-term fixed income securities – available to meet margin calls if needed.
  - Trade in very liquid derivative instruments.

- **Different investment objectives**
  - Portfolios typically designed to be risk reducing.

- **Different margin account structure**
  - Futures margin is a good faith deposit/ performance bond.
  - Stock margin is a loan to increase leverage and creates a senior security.

Quantifying Risk

Margin or Notional Value to Quantify Leverage?

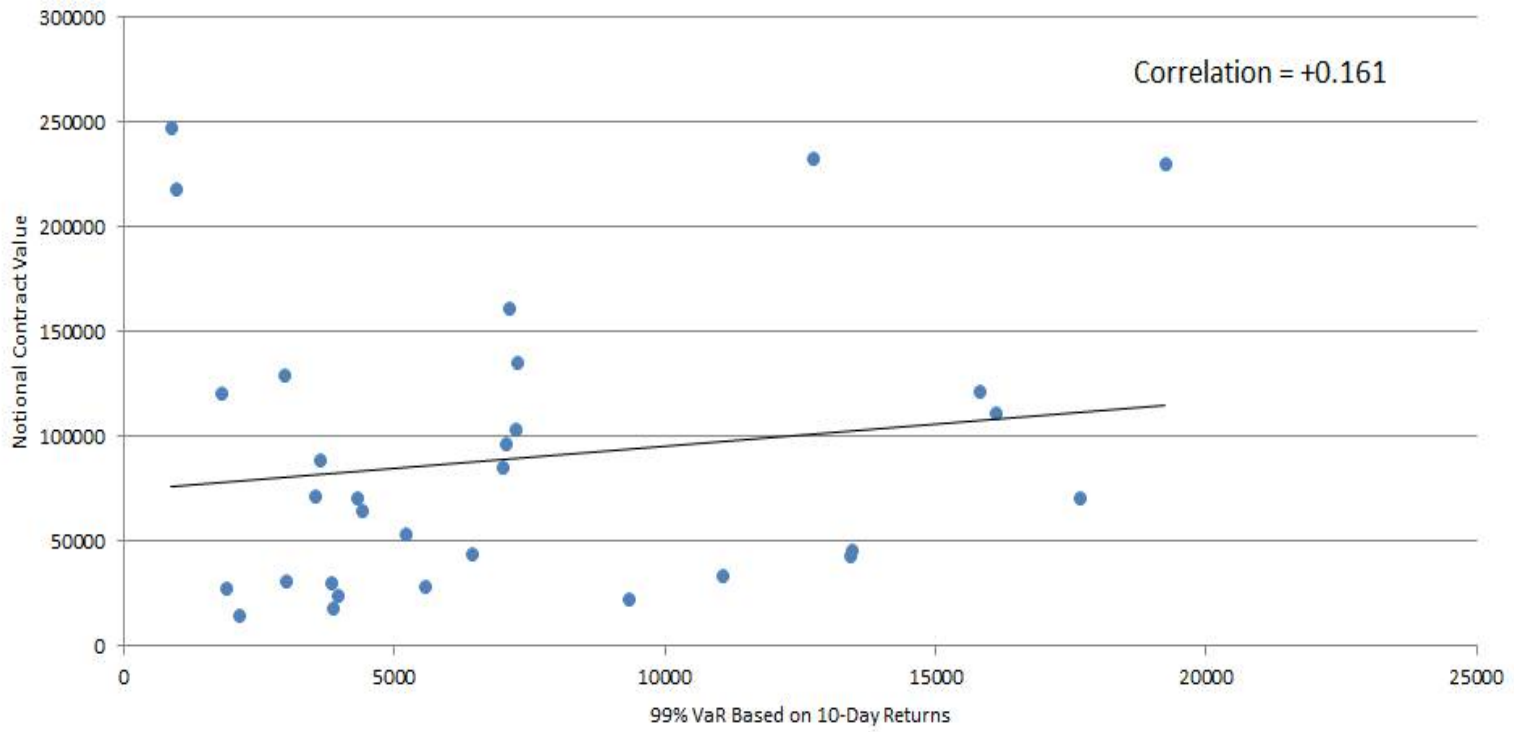
Margin is a Better Way to Quantify Risk and Regulate Leverage than Notional Value

- Notional value has a weak relationship to VaR based risk measures (Chart 7).
- Futures (Derivatives) Margin has a strong relationship to VaR based risk measures (Chart 8).
- Notional Value can actually decrease while risk, as measured by margin, increases (Chart 9).
- Using Notional Value to regulate leverage would have the unintended consequence of increasing concentration in derivatives that offer the most risk at the lowest notional value.

Quantifying Risk

Notional Value Has a Weak Relationship to VaR Based Risk Measures

Chart 7 Notional Value v VaR



Note: Based on 31 liquid futures markets traded on US exchanges (13 Commodity, 11 FX, 5 Fixed Income, 2 Equity Index), measured on 01/31/2016.
VaR measure is a proxy, computed on 3-years of data using the formula: Var10 = percentile(abs(rollingSum(diff(CtrValue),10)),0.99)

Source: Bloomberg, Campbell & Company, LP

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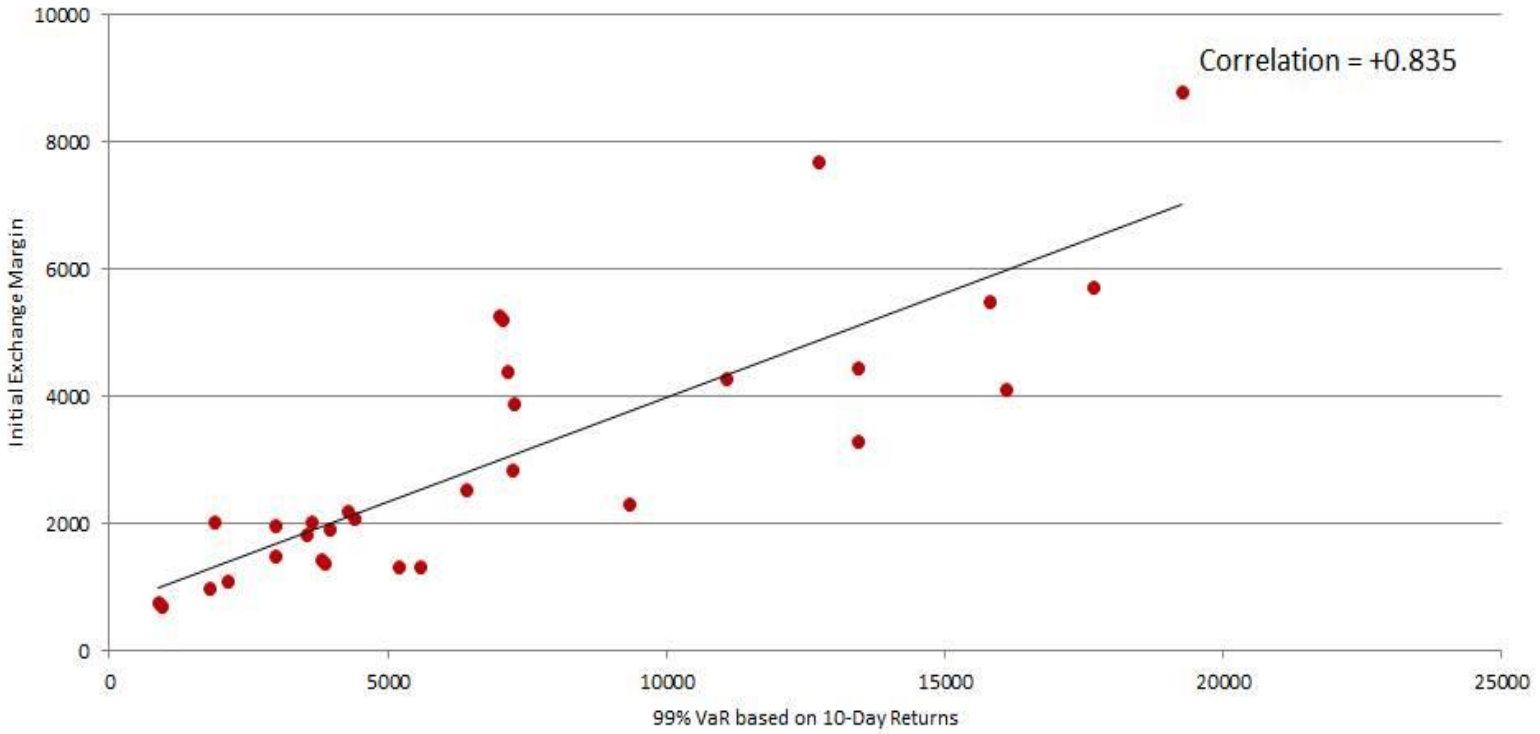
Quantifying Risk

Exchange Margins Have a Strong Relationship to VaR Based Risk Measures

Chart 8 Exchange Margin v VaR



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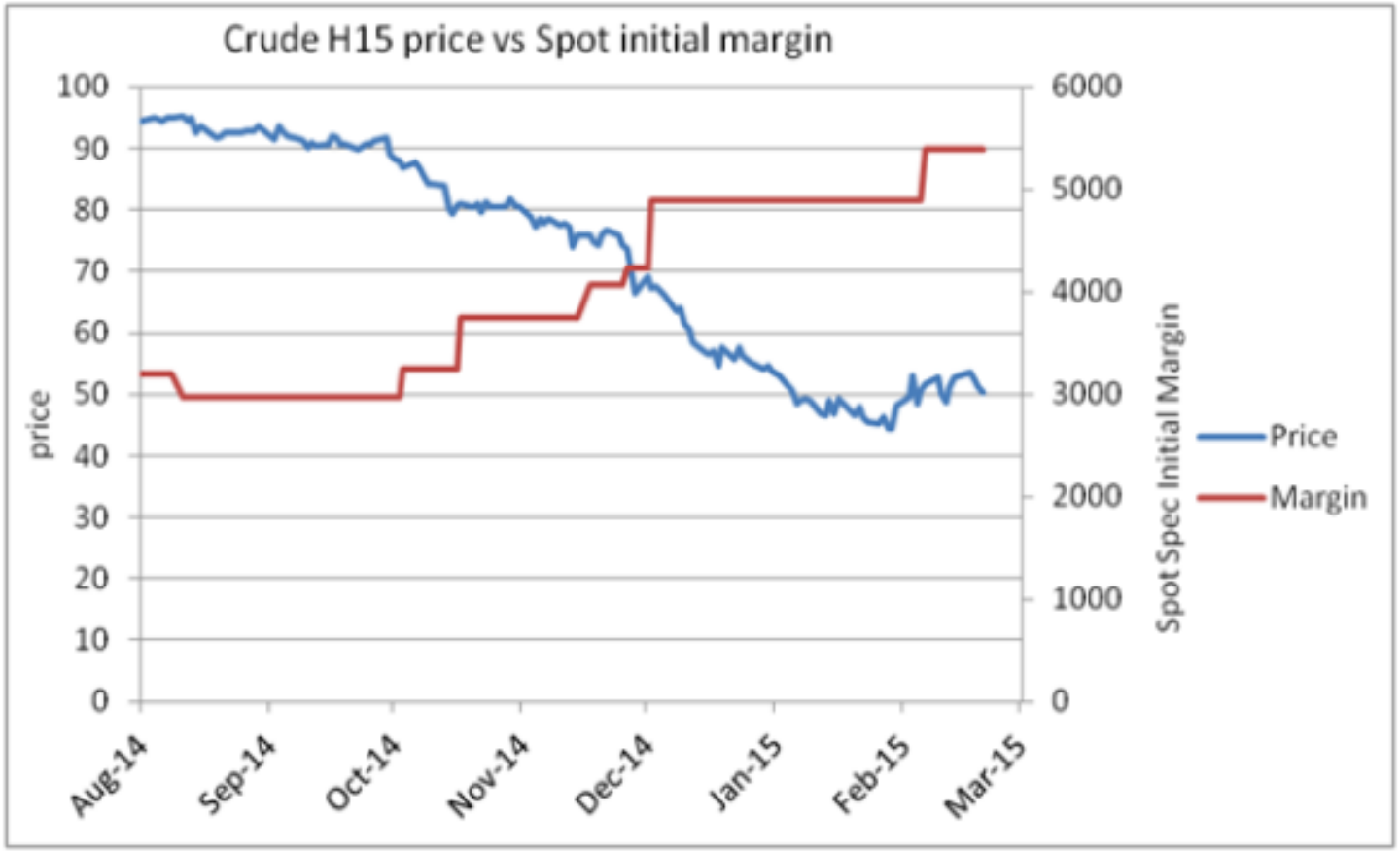
VaR measure is a proxy, computed on 3-years of data using the formula: Var10 = percentile(abs(rollingSum(diff(CtrValue),10)),0.99)

Source: Bloomberg, Campbell & Company, LP

Quantifying Risk

Exchange Margins are Responsive to Market Conditions

Chart 9 Notional Value v Margin in Crude Oil



Source: CME Group data derived by Millburn

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Quantifying Risk
Margin or Notional?

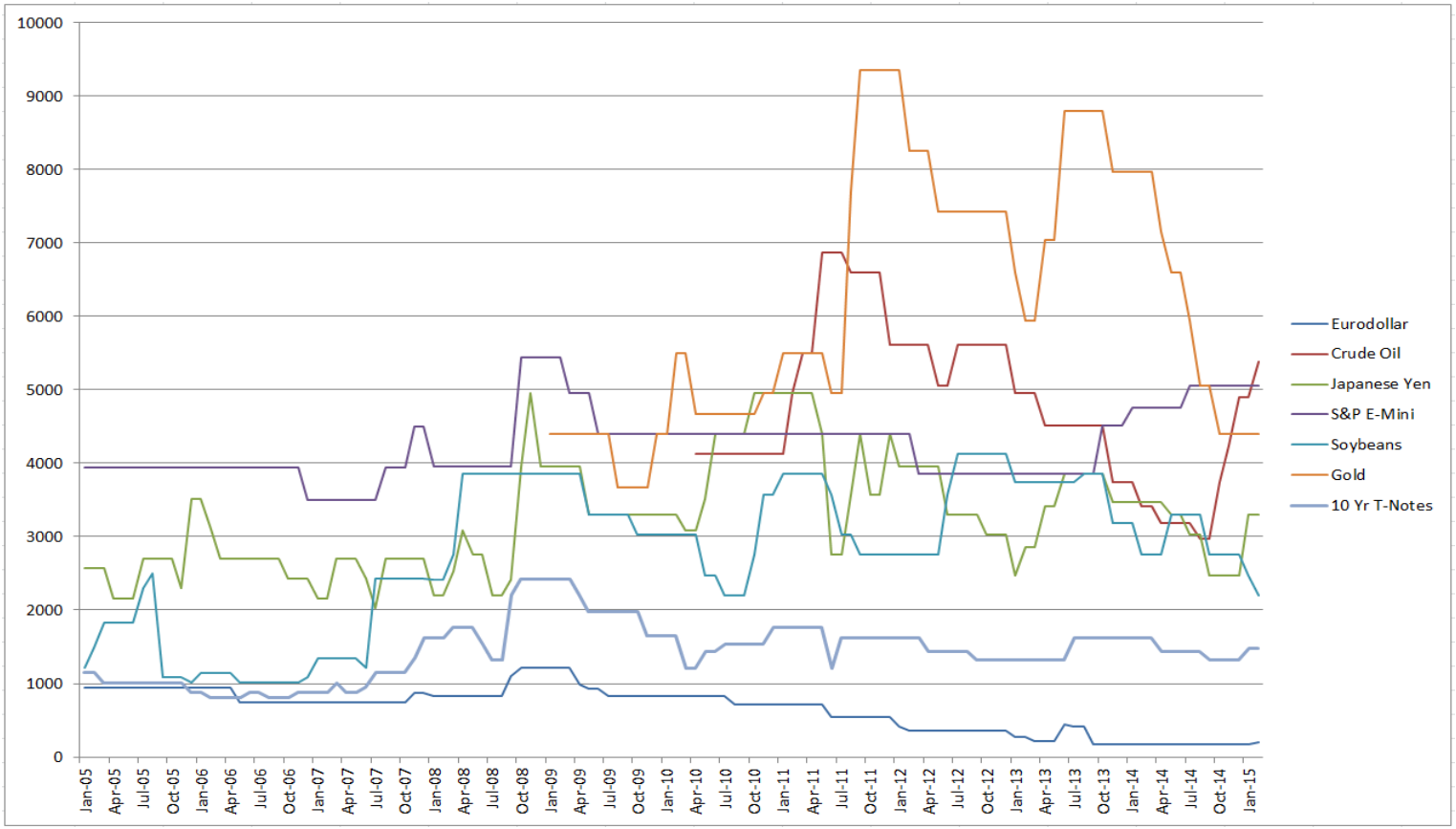
Margin is an Effective Measure of Risk and a Good Metric for Regulating Leverage

- Set independently by exchanges and counterparties based on years of experience to avoid margin calls.
- Easy to monitor, regulate and examine.
- Dynamic and quick to respond to increased volatility and changes in risk (Chart 4):
  - Exchanges can increase on short notice & require that new margin be met.
  - Increase in margin causes reduction of exposure as positions are reduced to meet new margin levels.
- Has worked well for decades under the aegis of the CFTC and the futures exchanges.
- CFTC and NFA are currently promulgating rules for margin for uncleared SWAPs.
- Avoids ambiguities of different ways to measure VaR.

Quantifying Risk

Margin is Dynamic & Quickly Responds to Increased Volatility and Changes in Risk

Chart 4 Changes in Margin for 7 Futures Contracts



Source: CME Group

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Our Suggestions on Proposed Rule 18f-4
Notional Limits are Unnecessary

- Mark-to-Market segregation of margin has been successful, particularly for managed futures strategies.

- Addition of Risk-Based Coverage Amount will strengthen funds' ability to meet margin under stressed conditions.

- Notional limits may have the unintended consequence of increasing exposure to derivatives with high volatility and low notional value, and at the same time reduce diversification.

Our Suggestions on Proposed Rule 18f-4

2-3x Margin Rule

2-3x Margin Rule

We propose that if the SEC feels the need to go beyond the Risk-Based Coverage Amount, that you consider requiring 40 Act Funds that trade derivatives to maintain 2-3x of the exchange set initial margin:

- 1x or more held in custodial account at FCM (qualified custodian).
- An additional 1-2x margin (which would include any excess over the 1x margin already deposited in custodial accounts) be held as segregated liquid assets (cash, cash equivalents and other highly liquid investments).

Our Suggestions on Proposed Rule 18f-4
Margin Rule as one option

One rule may not fit all

- We recognize that the margin rule we are proposing may not be workable for all funds that use derivatives.

Complementary (and/or) rule structure

- For funds who may not fit within the margin rule the option of adhering to an adjusted notional limit, as has been proposed by other market participants, could be an option.

Our Suggestions on Proposed Rule 18f-4
Benefits of 2-3x Margin Rule

More Effective than Notional Measures of Risk

- Notional value has a weak relationship to VaR based risk measures.
- Futures (Derivatives) Margin has a strong relationship to VaR based risk measures.
- Notional Value can actually decrease while risk, as measured by margin, increases.

Allows for Diversification, Mitigating Concentration Risk

- Notional approach would unintentionally reduce diversification and increase risk and speculation by causing concentration in the highest risk contracts.

Sets Absolute Cap on Leverage

- 2-3x total means that no more than 1/2-1/3 of a fund could be used for margin.

Provides Liquidity

- Provides a significant cushion available to meet margin calls or customer redemptions.
- Would require a fund to maintain significant reserves.

QUESTIONS
&
DISCUSSION

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Footnotes

2 For purposes of this discussion, we have used the Barclay BTOP 50 Index as a proxy for the performance and statistical data representing the managed futures investment strategy. We believe this is an appropriate representation of the strategy, as the BTOP 50 is an investable index that seeks to replicate the overall composition of the managed futures industry. 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 advisor programs represent, in aggregate, no less than 50% of the investable assets of the Barclay Commodity Trading Advisor Universe. For 2015, there were 20 funds in the Barclay BTOP50 Index. Source: eVestment. The performance of the BTOP 50 Index is not the performance of any individual managed futures strategy; and the performance of any such strategy may vary substantially from the performance of this Index.

3 For purposes of this discussion, we have used the S&P 500 Index as a proxy for the performance of equities markets generally and statistical data representing the equities markets. We believe this is an appropriate representation of the performance of the equities markets generally and that mutual funds tracking the performance of this particular index are included in many typical investment portfolios. S&P 500 Index is an unmanaged, capitalization weighted benchmark index that includes the stocks of 500 large capitalization companies in major industries. This total return index includes net dividends and is calculated by adding an indexed dividend return to the index price change for a given time period. Source: eVestment.

General Disclosures

The views expressed in this material are subject to change at any time based on market or other conditions. These views are not intended to be a forecast of future events, or investment advice.

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