



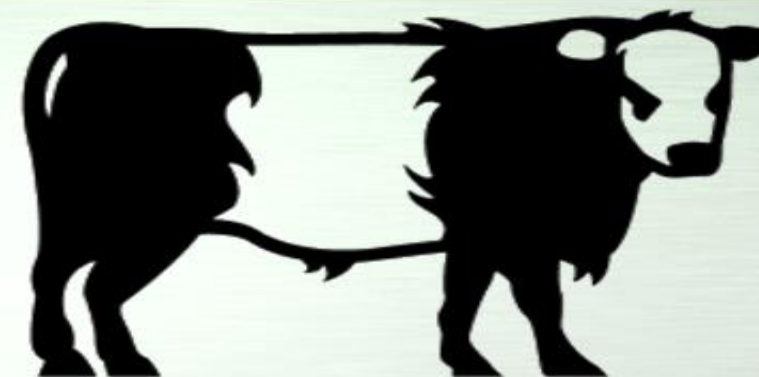
Arcadia Asset
Management, L.L.C.

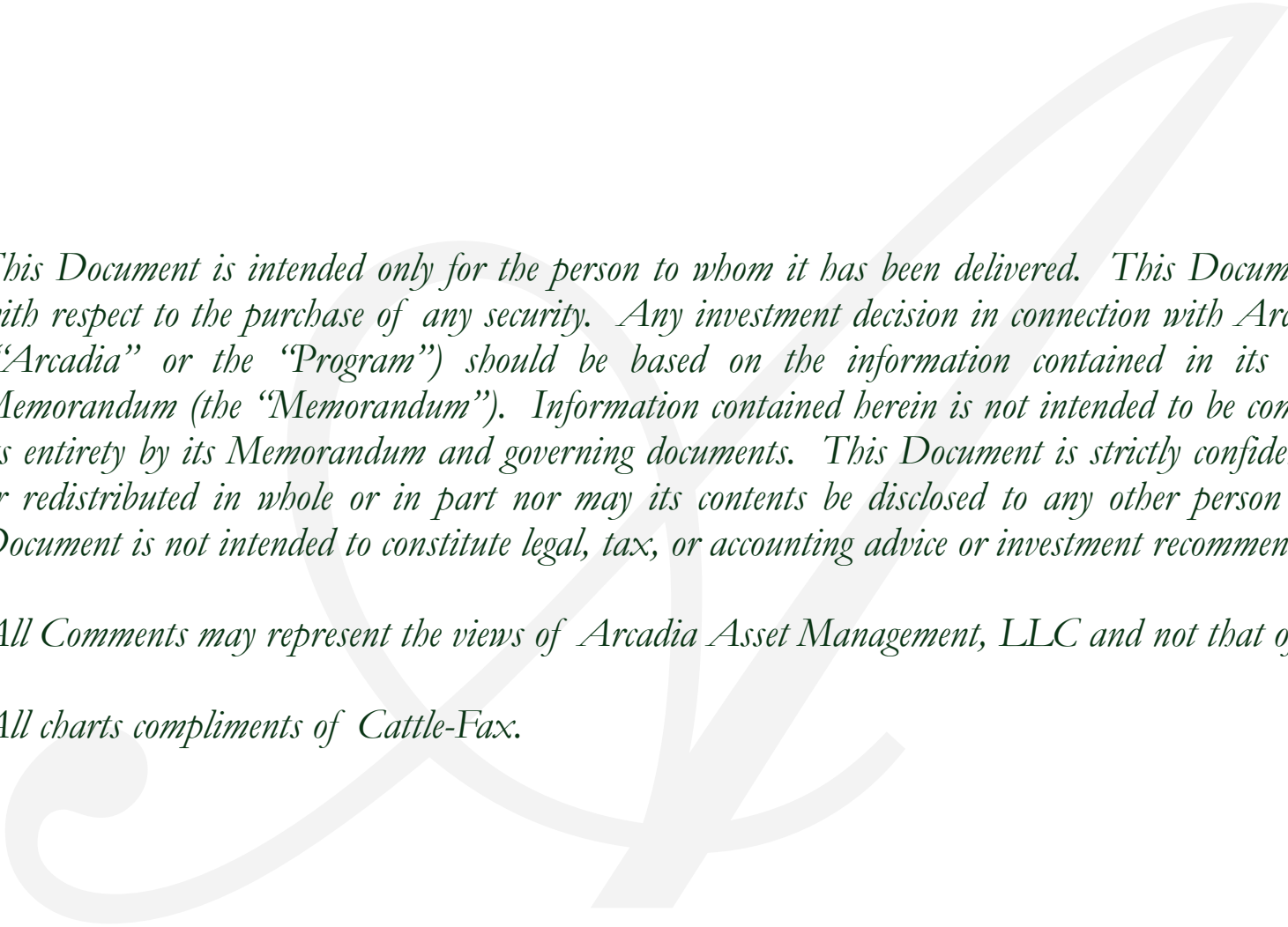
2018 Agricultural Commodity Futures Conference



**A Different Animal: Futures Contract Design, Hedging Effectiveness, and
Transparency in Thinly Traded Cash Markets for Cattle and Hogs**

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All charts compliments of Cattle-Fax.

Executive Summary and Outline

✍ **First multi-year expansion in the cow herd since early 1990's**

- ✍ Many in room have never witnessed an expansion (including myself).
- ✍ What does this mean to trading dynamics, board structure and long participation?
- ✍ Who is the commercial long?

✍ **Today's risk taker on the long side is a "different animal" of sorts**

- Said long trades by 'appointment' and is transparent in their maneuvering.

✍ **Participation by "traditional" fundamental discretionary trader is perhaps in a decline.**

- ✍ Lost execution advantage and barriers to entry for execution are high.
 - ✍ How do we incentivize traditional risk taker to come back?

✍ **Both cattle feeder and beef buyer are reducing/eliminating signals.**

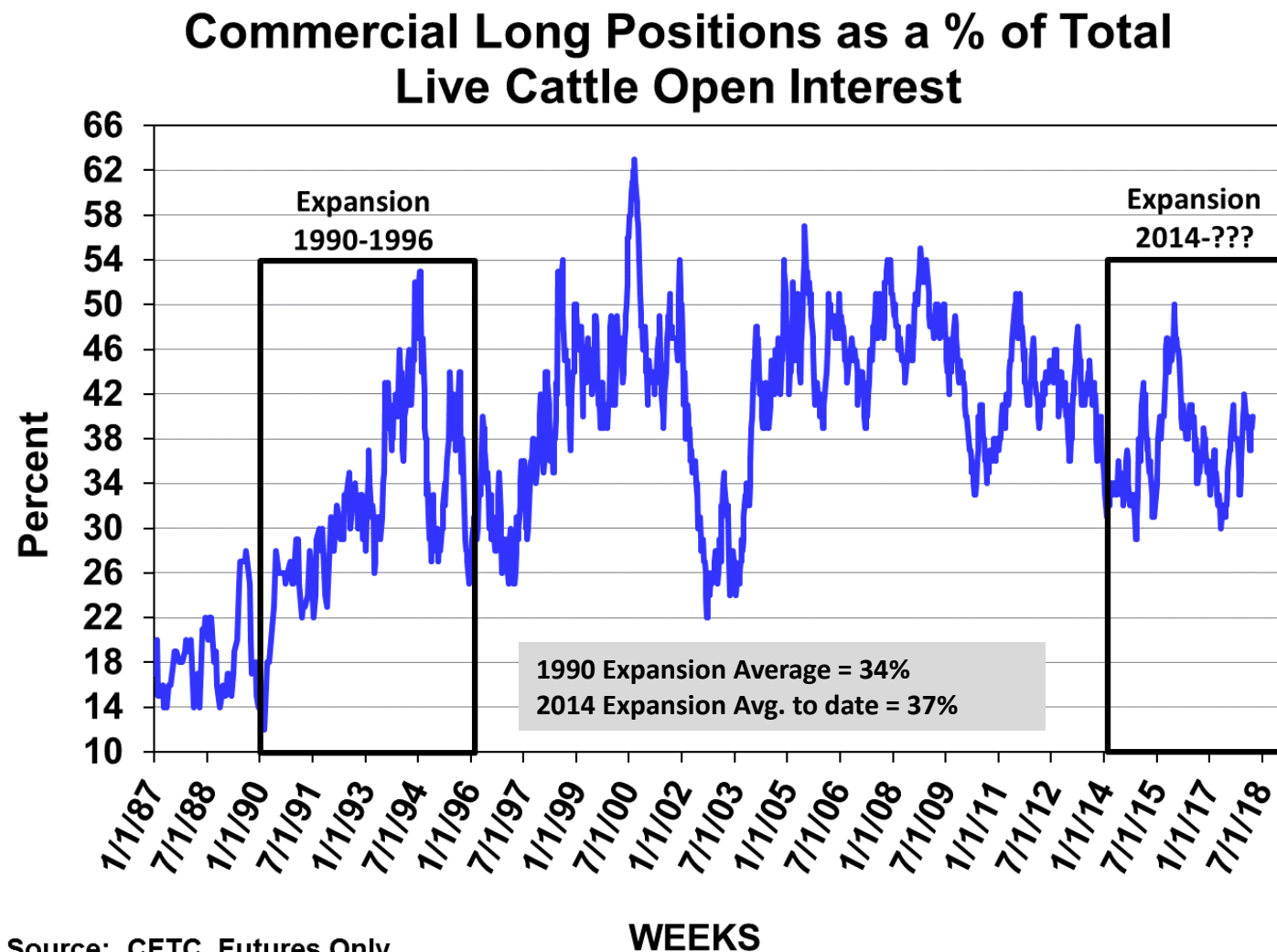
- ✍ Less negotiated trade of both cattle and beef.

✍ **Is a utilitarian approach the answer?**

- ✍ The industry has proven to come together on other issues.



What does Expansion look like from a positioning standpoint?



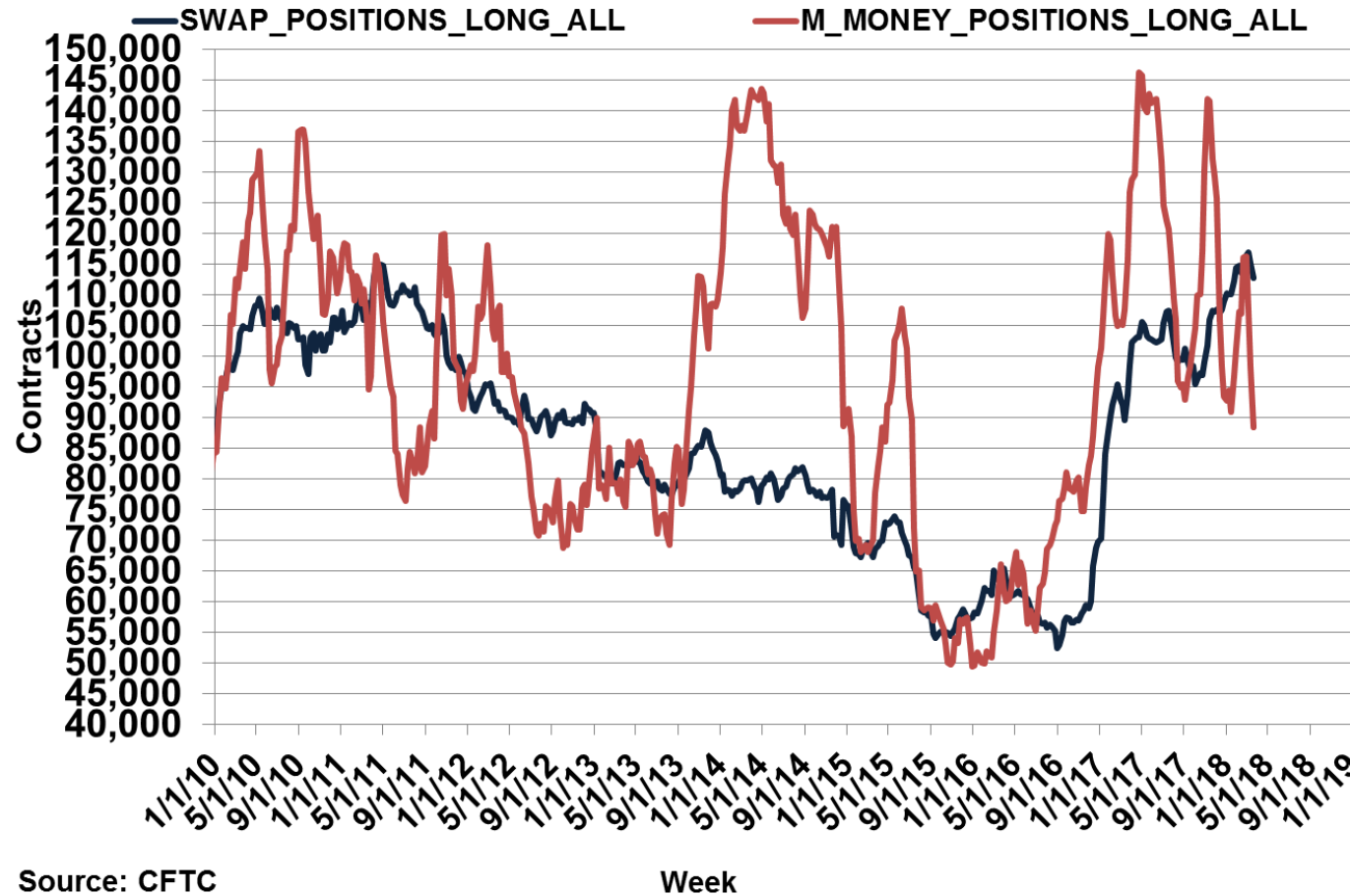
Source: CFTC, Futures Only

Past results are not indicative of future results.

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Index and Managed Money Longs

Disaggregated COT Swap Long Position and Managed Money Long Position

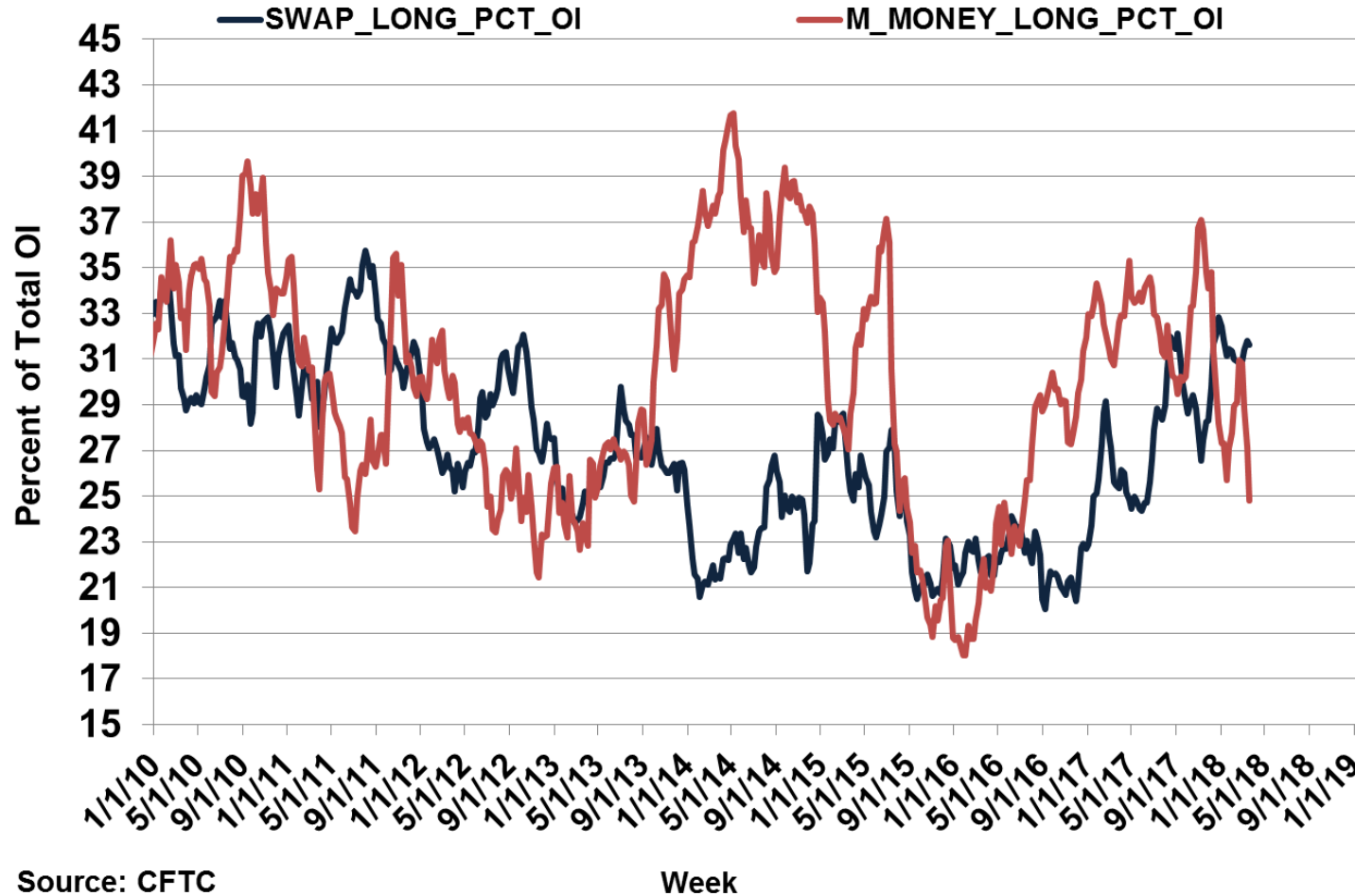


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Index and Managed Money Longs Another View

Disaggregated COT Swap Long Position and Managed Money Long Position Percent of Total OI



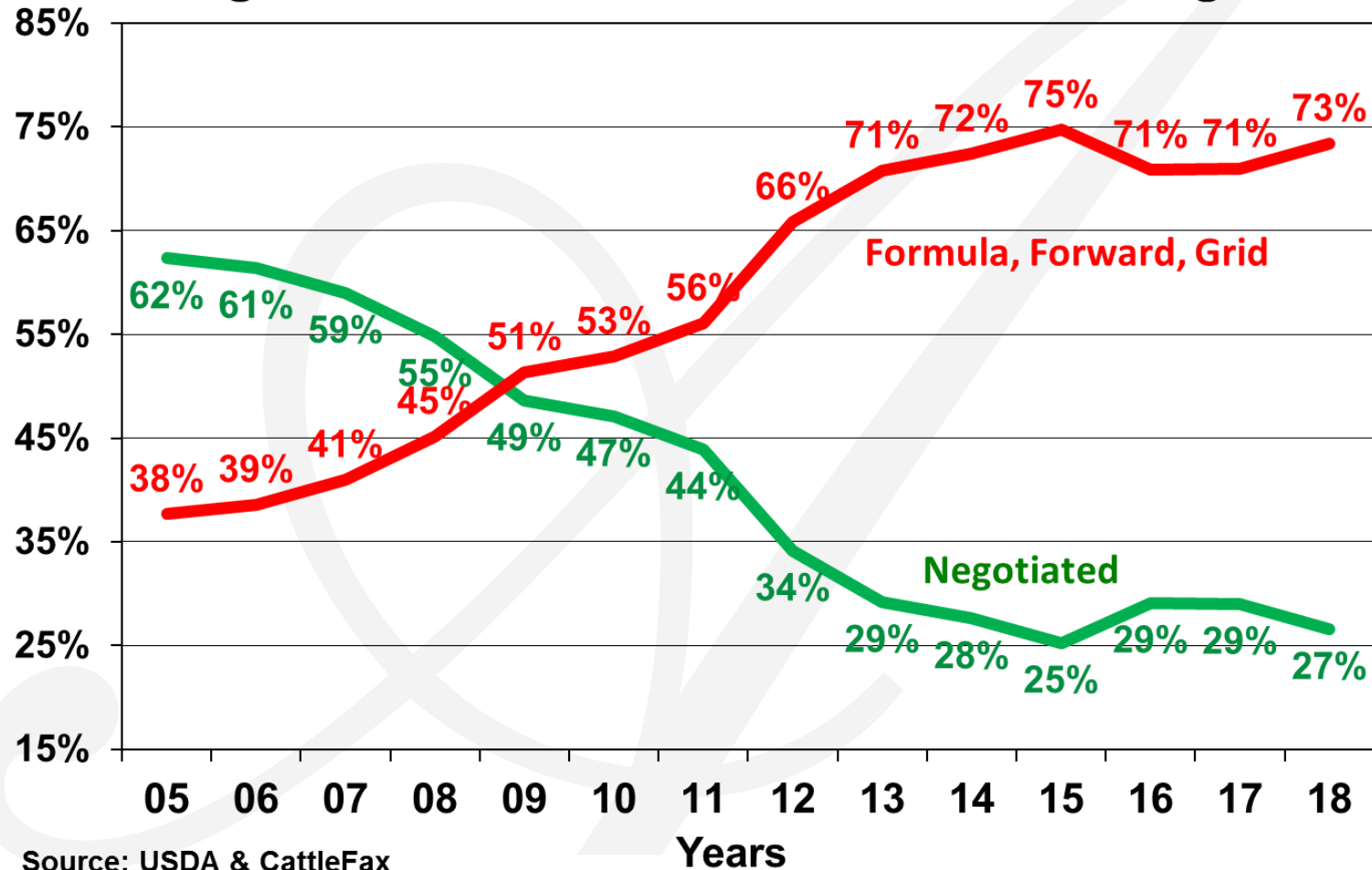
Source: CFTC

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Cattle Feeder has Been Decreasing Signals

Negotiated Cash vs Alternative Marketings



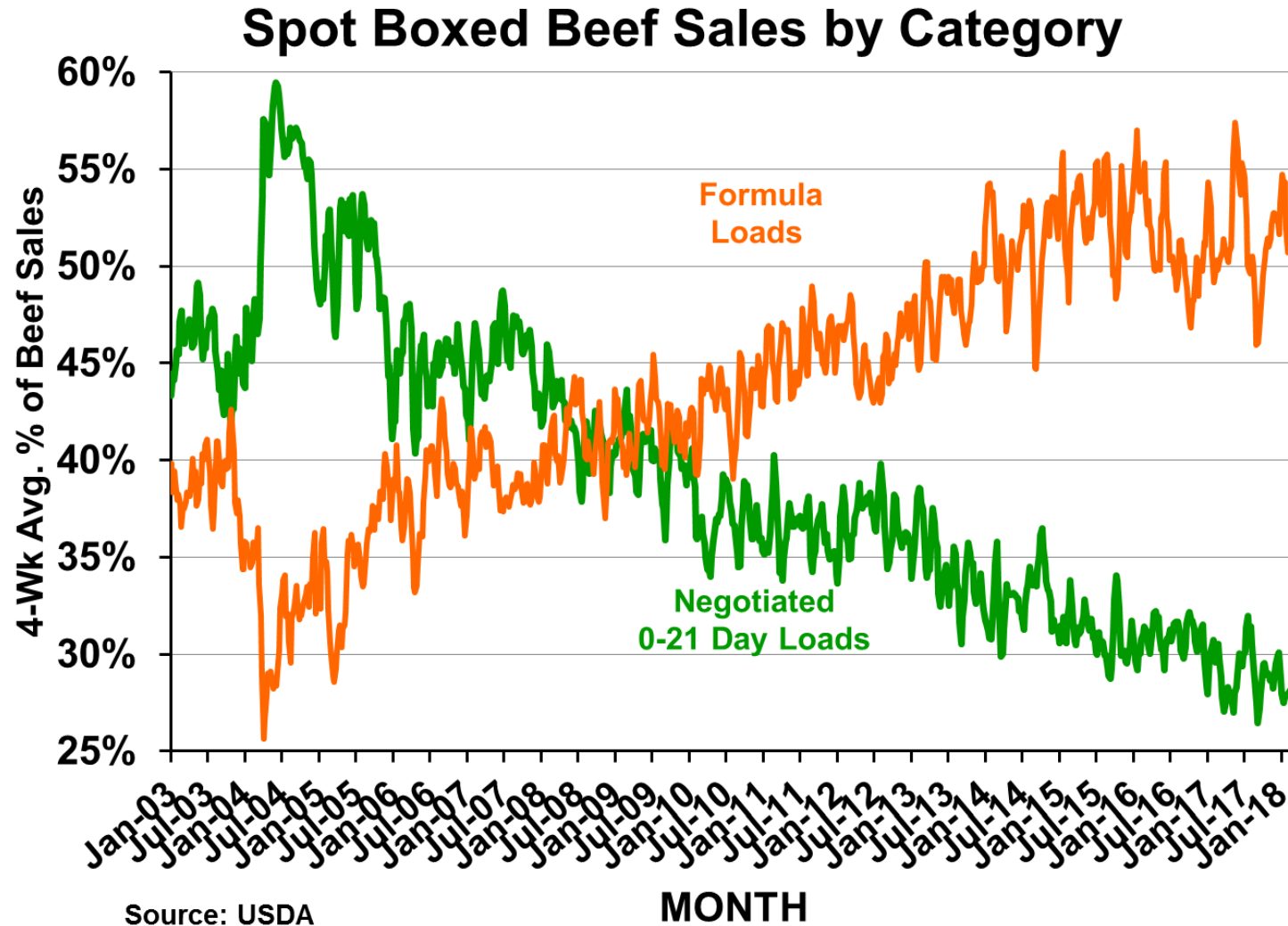
Source: USDA & CattleFax

*USDA 5-Area: TX,OK,NM,KS,NE,CO,IA,MN

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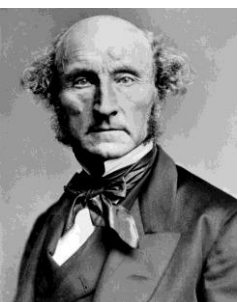
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Beef Buyer has Been Eliminating Signals Too

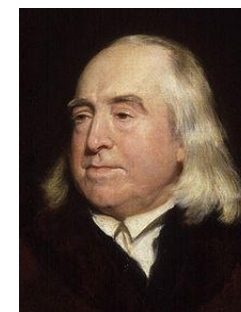


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A Utilitarian Approach



✓ If this is truly an “issue” and “crisis” the industry must come together like it does with other “issues” and “crises.”

✓ We have a template and “mental algorithm” of working together.

✓ Enviro, ELD’s, Disease, Trade.

✓ Perhaps this is temporary as many participants have never seen expansion?

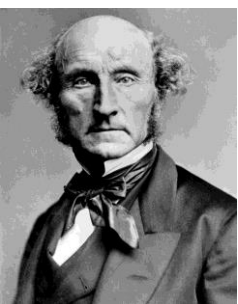
✓ Just exited two decades PLUS of “less numbers coming”

✓ All communication today is a discussion of more numbers to come.

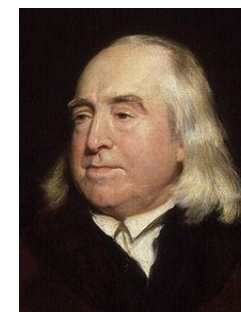
✓ Conceivably the market and fundamental discretionary traders are *starved for fundamental inputs*.

✓ Only means to *potentially* recapture these participants is to offer edge, which is dually beneficial to commercial and speculator.

✓ This comes at a small and quantifiable cost to producers that is easily offset by an unquantifiable greater good of functioning markets, smooth risk management and reduced/muted volatility.



A Utilitarian Approach Cont.



✓ The speculator and the beef buyer takes its signals from the producer.

- ✓ Notice how the Beef Buyer (Commercial long) has shifted its procurement model to the way producers sell.
- ✓ Market participants need to “take one for the team” (Utilitarian Approach) on a small variable sample in a frequent and transparent environment similar or equal to something like the Fed Cattle Exchange.
 - ✓ All Participants- Producers (commercial shorts) and beef buyers (commercial longs).
 - ✓ Need to create additional transparency in the beef market via similar platform?
 - ✓ Participants can’t be worried about 1-2/cwt as we are missing the “forest through the trees.” Is that cost really 2.00/cwt? Or is there a greater benefit to that personal ‘cost.’
- ✓ Increasing the transparency of cash trade in both cattle and beef will grant the producer edge, but give the discretionary fundamental trader inputs to take on risk. Must be a constant input with reasonable size.
 - ✓ Additionally, this might incentivize the commercial long to wade into the water with larger size to offset the fragmented nature of the “by appointment” long of today.

Questions?



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