CTA-space oddities

Stockholm (HedgeNordic – Teaser) – Generally speaking, there are two oddities in investor behavior with regards to CTAs and hedge funds, especially among larger investors. The first oddity has to do with size, expressed as Assets under Management (AuM). In general, large AuM is perceived as good, while small AuM is perceived as bad. The consequence of this perception is that managers with large AuM become larger. Managers with small AuM do not. Other qualities, like expected performance, play a secondary role.

Is this rational? From a strict risk/return perspective, it is not. A growing number of academic studies, as well as research from various providers within the alternative investment management industry, arrive at the same conclusion: large AuM is positively correlated with past performance (relative to peer groups), and negatively correlated to future performance. Simply put, , their best days are behind them. Are there exceptions to this? Of course! But the focus on a few very large managers that have recently performed well obscures the fact that smaller and younger managers have – on average – a better risk-adjusted performance than their larger peers. So why do some investors continue to favor already very large managers? The arguments put forth are not convincing, and can be summarized as follows:

You can read the full article on pages 37-39 in the Special Report on CTA & Macro Strategies 2016.

Picture: (c) iurii—shutterstock.com