

# Passion Palette of a CTA Pioneer

Stockholm (HedgeNordic) – Finnish men are not famed nor do they have a worldwide reputation for being very outspoken about their emotions, and expressing them in many words and vivid colors. This is also a rare breed among sober and cool, systematic, traders in the Managed Futures space. What stands out therefore, when reading interviews or listening to podcasts with Martin Estlander, the founding partner of Finnish CTA Estlander & Partners, is how passionate and emotional he is about financial markets, quantitative models and mathematical problems. And this becomes even more evident when talking to him in person.

Traders in niche sectors or geographies that are able to acquire an edge over time and be successful are a rare group. The challenge is multiplied in case of a Managed Futures fund manager. CTAs are truly playing with, and most of the time against, the big boys. In futures and FX markets, you are competing with the brightest and sharpest traders not just around the corner – but in the world. On the other end of your trade are hungry wolves at the top of their game, highly skilled and trained and extremely motivated and focused on success. Many may have near endless resources of capital, research and technology available, in a global arena that spins 24/7 and is dictated by cruel but honest numbers. Martin Estlander describes the challenge like this: “What we really like and enjoy, what I love about the job is staying on top of the very exciting problem to solve of how to keep on being efficient on capital markets.”

## Tracing foundations of a CTA

Estlander & Rönnlund, as the company was then called, was one of the pioneers in the European CTA space and traces back to 1991, when Martin Estlander and Kaj Rönnlund started trading and market making in options. It was not until later, Martin Estlander with academic degrees in computer sciences and economics started experimenting with building more long term, stable models to efficiently trade futures markets and discovering trend following as a strategy. At the time they were unaware that such a thing as a Managed Futures Industry even existed. Yet they were laying the foundation of what was to become one of the major players in the Nordic CTA space.

It would take more than ten years until Estlander & Rönnlund focused entirely on the CTA models that started picking up more and more attention. The option trading and market-making was decreased until it evaporated away. It was not always clear that setting up a fund business and accepting outside money would be the path the firm would take. In the beginning, the drive was much more to prop-trade their own money. At the very beginning a no more romantic objective than to finance the studies of the founders was the main driver. “Initially there was never any thought of trading external money. But it so started happening, in particular when we came across an early partner, Commodities Corporation of Princeton, New Jersey. We then noticed there was capacity in the market and identified a big need for these kind of uncorrelated investments among allocators. The business model, being able to make fees on external assets, of course was also attractive”, Martin Estlander remembers.

The option background is still deep rooted in E&P and Estlander believes it very much defines how the asset manager works today. He sees modelling as a way to understand and explain mathematically why trend following makes money for investors. While the options trading is no longer part of the business, it remains an important driver in the research work. “We finally have a complete explanation as to why these type of trend following models actually do work when you can define the environment mathematically”, Martin Estlander explains.

## Repatriating to Finland

After being situated in Stockholm, Frankfurt and later Dublin with the funds and management company, a change in legislation made it possible also for commodity funds to be regulated, domiciled and marketed out of Finland. After more than ten years abroad, the decision to repatriate back to their home country Finland was taken in 2000. "That decision then became very easy", Estlander remembers. "Finland is - of course - the best place to live and raise a family in the world", Estlander claims with a chuckle. "Besides that there is good business environment, a very high level of education with good universities with an abundance of skilled talent and an open, innovative culture. There is a lot going for opening shop in Finland."



Martin Estlander

The major flip side Estlander sees in being located in Finland is the limited access to institutional investors. Vaasa, the firm's head quarter, or Helsinki typically do not tend to be on highly frequented travel paths of due diligence and investment teams. Asset raising therefore requires a lot more effort, research and discipline and passion to be successful. Estlander & Partners acknowledges the company might have become an entirely different beast if they had pursued a more conventional path and domiciled in a financial hub such as London. "With some likelihood we would have been bigger today and be managing more assets. We may have been exposed to more or different types of investors or in more general terms been more attractive to institutional investors earlier. We may have ran into different people, be it on the development side or in research who knows, we may have lost or never attracted the right people that made Estlander & Partners great in the first place. Maybe we would have become part of a larger organization. But there are many advantages of being away from the buzz in the street. It is easier to think differently and walk your own path being a smaller outfit under your own control in a smaller city."

There was never any regret though in taking the decision to move back, or at a later stage stay, in Finland and Martin Estlander today identifies that step as one of the major milestones in defining the companies' history.

## Helsinki vs. Stockholm

Finland, and Helsinki as its dominant financial hotspot, though, never quite managed to establish itself as breeding ground for successful managers building sustainable track records and businesses in numbers and it was Stockholm that became the center of the hedge fund community in the Nordics. In part it may be owed to the success of Brummer & Partners that Sweden became the more prosperous and fertile ground for hedge fund managers to emerge in greater numbers in neighboring Sweden.

"Brummer has done a fantastic job. Putting together so many diversified and successful strategies under one roof is an excellent business strategy to pursue. But it is definitely not easy. Brummer had sufficient investors around them and was successful in its own original strategy, Zenit, and then attracted other people and successful management teams to join. It does take the right environment, the right people, and loyal and committed investors. Simply put, you need enough of an industry around you and a good entrepreneur leading the way to be successful. "Certainly becoming a major

hub is more difficult for a smaller market such as Helsinki and Finland. “ Estlander & Partners, too, have looked into expanding their fund range. Today, the company runs two trend following programs, (one short term and one systematic commodity fund) and one asset allocation fund. The business therefore is still focused and evolves around the core trend following products.

### **Passion in Finance**

One of the major strengths Estlander identifies, being a Finnish company, is the team Estlander & Partners managed to put together. “I am very proud of the team, it consists of people of both experience and highest academic standards. I Also feel very proud of the values driven corporate culture, the strength of which shows in a very low turnover of key people. Part of that is owed to the flat hierarchies and open and direct business culture we treasure in Finland. Gathering the right people around you, as business partners, investors but most notably employees and keeping them loyal and motivated can only be done by passion” Estlander is convinced.

“You can always motivate people to do what you ask them to do by bribing them with money. If you really want to bring out the best in people though, really want them to think along, you’ve got to inspire them. For that, you have to be inspired deep down in yourself This is where the culture plays a central role. It takes that passion to meet big convictions and strong commitment to the whole big process. You must be convinced you will stick to the masterplan even in hard times. The conviction must be there while in a drawdown, miles away from high water marks and the possibility of making performance fees. The world moves in cycles, which becomes evident when you look back 50 - 60 years and more, so you truly need to be in it for the long run. Therefore it is so essential to choose to do what you really like.”