

CTAs more than just a tail risk hedge - Bornemann

Stockholm (HedgeNordic) - In a recent interview with Citywire, Hans-Olov Bornemann (*pictured*), who is heading the quant team behind the SEB Asset Selection Fund, explained why CTAs are more than just a tail risk hedge and that the strategy has fared well also in upward sloping markets.

“CTAs do perform very well in volatile markets, or more specifically in negative equity markets. They provide a tail risk hedge, as people refer to. But CTAs can also perform in upward sloping markets, like they did in 2014 and in the beginning of 2015 where we had a very benign market environment and still CTAs managed to perform well”, Bornemann says commenting on when CTAs tend to deliver outsized returns.

Currently, the models that Bornemann run in the SEB Asset Selection managed futures fund point to continued equity market strength.

“What the model is saying today is that we are going to see a continuation of the positive trend in the equity market, but we are also building up bond exposure, a return to more of a quantitative easing type of environment, at least for the near term future. The model is also pointing to a stronger dollar to some extent”.

Over the past 1.5 years, Bornemann points to equities and fixed income markets as having provided for the most significant positive contributions. In the case of fixed income markets, Bornemann says that they have offered good returns over the last 10 years but has seen less trendiness as of late given the pick-up in interest rates “which has caused the model to, at times, be short interest rates”.

Responding to a question on how to think when allocating to CTAs, by many viewed as too complicated to invest their money in, Bornemann says that CTAs play an important role for the balance of a portfolio.

“The reason I am saying that is that CTAs have the possibility to protect the portfolio in very negative markets. Looking back at CTA returns since 1980, the strategy has been able to provide positive returns in the 6 largest equity market drawdowns. You won’t find many investments that have been able to do that”, Bornemann concludes.

See link below for full interview:

<http://citywireselector.com/news/aa-rated-quant-head-ctas-are-not-just-for-volatile-markets/a1021849?ref=citywire-global-latest-news-list>