

Mixed Performance for Estlander & Partners Strategies in August

Stockholm (HedgeNordic) – The family of Estlander & Partners (E&P) strategies posted mixed performance in August, with the firm's Presto strategy topping the list of the best-performing Nordic commodity trading advisers (CTAs) in August.

E&P currently manages approximately \$381 million in assets under management through investment programs Estlander & Partners Freedom, Estlander & Partners Alpha Trend, and separate customized mandates. All the firm's programs represent systematic CTAs designed to capitalize on fluctuations in global asset prices and changes in risk appetite. The performance of the Freedom strategy and Alpha Trend strategy has been shadowing the broader trend-following industry, which recorded two consecutive down years as measured by the HFRX Macro/CTA Index.

Estlander & Partners Alpha Trend, a medium-term systematic trend-following strategy, returned a negative 0.96% in August, widening the year-to-date loss to a disturbing 9.73%. Meanwhile, the Freedom strategy, E&P's most diversified program that combines the investment models employed in the firm's other programs, gained 1.16% in August, reducing the CTA's year-to-date loss to 1.61%. Should the Freedom strategy fail to crawl into positive territory by the end of the year, the strategy will score a hat-trick of down years.

Meanwhile, Estlander & Partners Presto, which follows a systematic short-term trading approach in liquid futures and forward markets globally, recorded a gain of 5.15% in August, extending the year-to-date return to 7.22%. This follows a gain of 4.64% in 2016, when the broader CTA industry lost 2.93%.

Despite the underwhelming performance experienced by most trend-followers, including the CTAs under the umbrella of E&P, the feature that the returns of trend-followers tend to move independently of other markets continues to make these vehicles valuable to institutional investors. At the end of the day, institutional investors may well be ready to tolerate dismal returns as long as trend-followers help them build diversified and crisis-proof investment portfolios. One can simply look at the performance figures reported by Estlander & Partners strategies for the year of 2008 to grasp the benefits of investing in CTAs. For instance, the Freedom strategy gained 30.96% net of fees in 2008, while Alpha Trend returned an even more impressive figure of 37.87%.

Although the global trend-following industry was among the biggest beneficiaries of investor inflows in 2016 at the expense of traditional mutual funds and other hedge fund categories, the poor performance of 2015, 2016, and 2017 will likely sour investor appetite. Indeed, the role of trend-followers in providing diversification and uncorrelated returns is well recognized, but CTAs may experience a declining role in return chasers' portfolios should poor performance persist.

A fresh letter to investors issued by Estlander & Partners writes that "many risk assets are becoming progressively inflated" and "there will be little valuation cushion when the next recession hits." Moreover, E&P anticipates that "all kinds of bad economic decisions are going to be made and capital is going to get misallocated" as no one can price risk anymore, reflected by the minimal yield difference between European junk bonds and US Treasuries. An eventual correction in the valuations of risk assets will surely benefit trend-following managers like E&P.