Can Market Neutral be Commoditised?

Stockholm (HedgeNordic) – During his recent trip to Stockholm, Frédéric Hoogveld, Head of Investment Specialists, Index and Smart Beta at Amundi, met with HedgeNordic to introduce a new market neutral strategy. We took this opportunity to find out if an index and smart beta manager can really generate the type of alpha a true market neutral strategy offers.

“I think that this ETF can become a serious competitor to other hedge funds, particularly as we propose daily liquidity,” starts Hoogveld. “In any case, we have already met with a strong demand for the product. Since we launched last November, we have raised over €500 million for the strategy.”

The method behind the product draws on the science behind factor investing, with a “neutralised” market exposure. “The strategy has a long leg and a short leg,” explains Hoogveld. “The long leg is basically a multi-factor index, with six of the most commonly used factor premia: value, quality, momentum, low-volatility, carry and dividends. The short leg consists in shorting the Stoxx Europe 600 Futures Roll EUR Excess Return index.”

The devil, as always, is in the details. “We find that this index future is a very efficient way to implement the short leg, as it is the most liquid future available for trading the broad European market,” Hoogveld continues. “Some market neutral strategies hedge out their market exposure by shorting single stocks, which makes it is difficult to propose daily liquidity and costly as some stocks may be expensive to short. Another reason we like to work with this particular index provider is that due to the liquidity of the Stoxx Europe 600 Futures Roll EUR Excess Return index we can perform a beta adjustment on a weekly basis. Our clients want our beta exposure to be neutral on a continuous basis, and we can provide that transparently and cost-effectively.”

“While hedge funds are sometimes by nature somewhat opaque, by definition an index is transparent,” argues Hoogveld. “Every Friday, the index provider resets the short leg exposure to match the beta adjusted long leg exposure to ensure that our beta-adjusted exposure is zero every Friday night. This way, we avoid having a short leg that drifts away and generates an unwanted market exposure.”

The argument of cost is indeed one that clients are sensitive to. “If you buy a hedge fund, the TER can be at least 150 bps or even 200,” Hoogveld estimates. “With this strategy, the costs are an order of magnitude cheaper. We are effectively commoditising a long/short strategy that some asset managers are charging very high fees for.” However, when cost is an argument, index providers also propose similar products which compete with those offered by large asset managers such as Amundi. “As an asset manager, we believe we can add value in general, but especially at the discretionary level. Products index providers offer, can be cheaper, but they are purely systematic, whereas we can tailor make strategies to fit certain needs.” In this case, the strategy is currently being offered as a standardised ETF.

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