

AI-Assisted Commodity Fund Defying the Crowd

Stockholm (HedgeNordic) – Whereas trend-followers were among the biggest casualties of the brutal October sell-off in equity markets, a Danish trend-following commodity fund marched forward to produce gains for the third consecutive month since launching in August of this year. Artificial intelligence-assisted Calculo Evolution Fund returned 6.6 percent during this turbulent period for most trend-followers.

In an interview with HedgeNordic, portfolio manager and CEO Philip Engel Carlsson (*pictured*) describes the systematic model behind Calculo Evolution Fund, explains the reasons the fund successfully navigated the October turmoil and shares his views on the future of artificial intelligence in the asset management industry.

Artificial Intelligence-Assisted Trend-Following Strategy

Calculo Evolution Fund is a trend-following commodity fund that acts on trading signals automatically generated daily by a rules-based algorithm designed by ex-commodity research and software company Calculo Capital, now authorised as a manager of alternative funds. The fund, managed by Philip Engel Carlsson together with former venture capitalists Kenneth Grunow and Lars Jensen out of the Charlottenlund region of Denmark, exclusively focuses on the most liquid commodities, ranging from energy, metals, and agricultural commodities to softs such as coffee, cocoa, sugar and others.

Carlsson, with around 14 years of experience in commodities, says “our approach is based on our extensive knowledge about the way commodities markets are technically traded – our knowledge is the core of the systematic approach. This is not a strategy based on optimization and big data crunching; it is based on our trading approach incorporated into a rules-based system.” Calculo Capital, founded as a commodity research and software company in 2011, spent two years developing the investment approach used by Calculo Evolution Fund. “Calculo built a unique trading platform that represents the cornerstone of the company,” underlines Carlsson.

In addition to using a pre-defined set of rules to identify trading signals, Calculo Evolution Fund also uses artificial intelligence to handle the positions already in the portfolio. “Artificial intelligence assists the fund in better adapting to the ever-changing markets,” Carlsson says about the role of AI in the fund’s strategy. “As time series analysis proves to be challenging when trying to estimate the future path in financial markets, Calculo uses AI to navigate better once the positions are already in the portfolio – but not as a parameter in selecting the signals.” Calculo Evolution Fund does not use artificial intelligence and machine learning to predict market movements tomorrow or two weeks ahead; instead, the fund uses “data to find patterns that signal a weakening in the foundation of our portfolio.” “This combination of static rules and artificial intelligence is what makes our strategy unique.”

Calculo Coming Out Without Bruises from October Turmoil

Calculo Evolution Fund shined during the market turmoil of October when Nordic trend-following CTA funds tumbled 2.5 percent, and Nordic hedge funds fell 2.0 percent. Philip Engel Carlsson puts forward two reasons that contributed to the outperformance. “The pure commodity focus is one reason why Calculo Evolution Fund outperformed peers,” Carlsson tells HedgeNordic. “Most of the

other Nordic CTA funds apply a cross-asset model, and are, therefore, affected by the stock market," he adds. More interestingly, however, "the adaptive artificial intelligence-assisted approach on when to exit (either take profit or cut loss) made a huge impact. The strategy allows little room for bad trades and therefore does not incur large losses per trade or position."

Whereas the viability of trend following has been questioned time and time again, Carlsson reckons trend-followers are here to stay. "Trend following will stand its ground," says the portfolio manager. "It all depends on the holding period, market timing and how adaptive a manager is." Discussing the emergence of artificial intelligence-assisted funds, Carlsson believes the impact of the increasing number of AI-powered funds joining the scene is difficult to predict, but "generally speaking, financial markets are hard to predict using AI or traditional analysis." In the end, everything comes down to who designs and manages AI-powered funds and "their agility and creativity in how to create alpha."