# A New Danish Fund Does What It Says on the Tin…

Stockholm (HedgeNordic) – The Nordics have a new fund that does what it says on the tin. **Calculo Evolution Fund** is a Commodity Trading Advisor, or CTA, that just happens to… trade commodities!

The portfolio manager behind the fund, Philip Engel Carlsson *(pictured)*, started trading commodities in 2004 at Saxo Bank and even got a chance to trade commodities on the floor of NYBOT in New York before those went fully electronic. "A super cool experience," Carlsson tells us, "and an important lesson to appreciate how commodity markets really work." Following Saxo Bank, Philip went into Power trading, by joining NEAS Energy – later to form his own software savvy power trading company with physical power trading across Europe. Neas Energy acquired the company in 2012 to integrate the software.

**Necessary Ingredients for New Launch**

This impressive background procured Carlsson all the ingredients to set up his own fund: a fundamental understanding of commodities, some tech savviness and ability to code combined with a strong interest in machine learning. Add a partnership with two individuals from the Danish VC world and a heavyweight board and the package was sealed.

"No platform trading commodities could do what I wanted it to do, so we built our own," Carlsson says. "I had a very good idea of how to trade commodity markets, and how to put together a portfolio of commodities. All we had to do was to add data over it.

Such a strategy is a rare breed in Denmark, an otherwise equity-, and (even more so) fixed income-heavy market. "A Danish market for a commodity trader is basically non-existent. There is a lot of education to be done along the way," Carlsson says, describing his home market. "We do feel tailwind, though, from investors wanting to diversify away from long-only fixed income and equity markets".

**Calculo Shines as Peer CTAs Struggle**

Most CTAs had a tough year in the office during 2018. The CTA sub-index to the Nordic Hedge Index, which Calculo is a constituent of, gave up 5.5% in what was the poorest year since the inception of the index. Looking beyond the Nordic shores, the broader global Barclay CTA index only performed marginally better, losing 3%. For Calculo though, the story was very different, as the fund recorded a positive return of 7.3% since the fund picked up trading in August 2018.

"I can't be entirely sure of course what the other CTAs do, but the larger ones seldom have a pure commodity focus and they certainly got hit when they were wrong-footed on equities. The shorter holding period we have surely also comes into play," Carlsson explains. "When equities fell against the trend in October, for instance, we made very nice profits. And we did so with very low risk, due to the prudent margin usage."

The fund applies a basic, signal driven, fully systematic and strictly rule-based trend-following strategy, and utilises machine learning elements for better understanding, and profiting from trends. "We'd have the machine learning components, for instance, cut trends into smaller trends which helps minimise false signals, and thus mistrades. It is particularly helpful when markets go sideways, or are very choppy."

Carlsson emphasises that the model is not optimised for each signal, market or product class, as that involves the risk of over-optimization. One area he believes Calculo is particularly strong at, and makes good use of machine learning, is taking profits on trending markets. "While we'd typically buy into a position once at a time, and seldom scale in, on exit it may be different. Machine learning helps identify "profit takers" and start to take money off the table even when the trend is still intact, but momentum comes down and the trend weakens, for instance." Many more traditional CTAs would often give up on some of the profits on their books, as stops could be quite far away from market prices in trending markets. A sharp reversal could, therefore, wipe out much of the gain.

**Risk Management, Diversifiers, and Hunting Grounds**

The systematic approach, while strictly monitored by the portfolio managers, does not cater for discretionary overrides in trading. "Risk management however is a hugely important aspect when trading commodities. I cannot specify a concrete scenario, but we have a mandate from the risk management side to liquidate positions and de-risk."

The average holding period of three to four days is short compared to many of the household brands in the trend-following CTA space. Calculo currently trades around 17 markets across metals, energies, agriculturals and softs, such as coffee, sugar or cocoa.

Commodities are widely seen as a good diversifier to traditional portfolios. Often though, investors rely on long-only exposure, if allocated to commodities at all. At times, also, equity beta comes through the back door in what investors believe to be a commodity play, when they are invested in sectors such as mining or oil and gas drilling, through stocks.

"Commodities are especially good when it comes to developing trends, or break out signals. And the ability to ride trends up or down just doubles opportunities." Carlsson gets excited and is clearly in his element. "A very regional event, like a hurricane in the Gulf of Mexico, could have global consequences on the price of crude. A rainy or particularly dry period in some areas of the world can shift prices on agricultural markets with global impact."

One of the beauties in commodity markets, Carlsson highlights, is "the large ones trade across the globe, and around the clock. That minimises the chance of surprises in the morning."

Many CTAs boast with the number of markets and various contracts they trade and carry the claim to be active on 100, 130 or 160 markets as a quality seal. We find evidence that CTAs are currently re-considering this feature and reducing the numbers as a result. Carlsson sees no value in over-diversifying: "The seventeen markets we currently trade are the largest, and most liquid ones and we do not put too much focus on more exotic, illiquid markets or OTC for the time being. "There are huge opportunities in the commodity space, many investors don't realise yet," concludes Carlsson, upbeat.