CTA Pioneer Comes Back to the Front

Stockholm (HedgeNordic) – Most Nordic hedge funds were not spared from the coronavirus-fuelled sell-off that tanked global markets in March. Some funds, however, shone during last month's market turmoil. The three vehicles managed by Finnish systematic manager Estlander & Partners posted solid performance last month and year-to-date.

Estlander & Partners Alpha Trend, the asset manager's flagship vehicle that employs a pure trend-following strategy, gained 6.2 percent last month and 8.4 percent in the first quarter. This vehicle was the fifth best performing member of the Nordic Hedge Index in the first quarter. This is not the first time Alpha Trend performs well in extreme risk-off environments. The longest-living member of the Nordic Hedge Index gained about 38 percent in 2008.

Whereas trend-followers as a group performed well in March, there was a wide dispersion of performance. There are two main reasons why Estlander & Partners Alpha Trend was among last month's top performers among trend-followers, according to Martin Estlander *(pictured)*, the founder of Estlander & Partners. First, "Alpha Trend is more short-term and more reactive than the average trend-following CTA," explains Estlander. "The fund has an average holding period of about 30 days, which is about half of the average holding period for the average CTA." Second, "Alpha Trend is more selective and does not jump on all moves."

"The pure trend-following strategy employed by Alpha Trend has been modified to use fundamental filtering of positions," points out Estlander. "We engage in even more selective trading than before, which we believe is very important in this era of material central bank intervention," he emphasizes. "Alpha Trend is a traditional trend-following strategy and very straightforward in that it seeks directional moves, but just uses stronger filtering." The fund only tries to trade when the likelihood of a successful trade is high. In March, "Alpha Trend filtered out quite a few trades" that could have dragged down the performance. The fund was up 8.4 percent in the first quarter and gained an additional 0.9 percent month-to-date.

Alpha Trend's Sister Funds

In addition to Alpha Trend, Estlander & Partners manages two other funds: **Estlander & Partners Freedom** and **Glacies**. "Our other two funds, Freedom and Glacies, are slightly different," says Estlander. "Freedom, for example, relies on four investment styles, two of which are designed to perform well in normal risk-on environments and the other two are designed to perform in risk-off environments," he tells HedgeNordic. Freedom is dubbed "risk parity 2.0" at Estlander & Partners, a vehicle designed to do well in most environments. According to Estlander, "risk parity 2.0 looks more for risk scenarios as opposed to historical risk in traditional risk parity vehicles." The more recently-launched fund, Glacies, relies on a set of five – instead of four – different investment styles and represents a multiple risk-premia fund.

Estlander & Partners Freedom gained 4.3 percent in March and was up 3.8 percent in the first quarter, whereas Estlander & Partners Glacies advanced 3.3 percent last month. Glacies returned a cumulative 13.4 percent since launching in February last year after gaining 4.6 percent in 2020. Estlander finds two main reasons for the strong performance of the two vehicles so far in 2020. "The first reason involves the balance between styles designed to perform either in risk-on or risk-off environments," explains Estlander. "The second reason relates to our risk management."

"Achilles" Risk Management

The three funds at Estlander & Partners rely on a so-called "Achilles" risk management, "which is a methodology that involves the simulation of a large number of events into the future," according to Estlander. "We calculate ten in the power of 84 different combinations of market moves for all the different instruments and strategies," he points out. The computer that landed humans on the moon about 50 years ago would perform a daily set of computations in seven years, says Estlander, in an attempt to quantify the processing power required to perform these computations. "With these computations, we simulate to make sure our portfolios are designed to cope with different situations."

In March, the "Achilles" risk management led to a quick scaling down of the risk-on models. "The strategies designed for risk-on environments were very quickly reduced and the models performing in difficult periods started to pay off," explains Estlander. Whereas the complexity and computational power behind these strategies are high, the underlying concept "is actually quite simple," reckons Estlander. The strong performance stems from a "mix of different strategies that work well for different environments," he adds. "And then making sure and be prepared that the risk exposure to the risk-on strategies is reduced when markets turn nasty."

Commenting on the outlook for CTAs going forward, Estlander and his team "are quite bullish on the strategy." According to Estlander, who started Estlander & Partners in 1991, "every time there has been a material change in the environment, markets have been favourable for CTAs." Estlander sees "a lot of challenges coming along," which could create long-lasting trends for the Estlander & Partner funds and its peers.