Innovating During Good and Bad Times

Stockholm (HedgeNordic) – Many quant-focused strategies and managers struggled to varying degrees in last year's coronavirus-convulsed market environment. Especially in the systematic macro space, many a manager was battling with dwindling performance and pressure on assets under management. "One should expect even good investments to perform horribly from time to time," quant pioneer Renaissance Technologies wrote in a rare letter to clients discussing its underwhelming 2020 performance. Whereas its Medallion hedge fund, only available to employees and a select group of others, advanced 76 percent in 2020, its three funds open to outsiders incurred losses between 20 percent and 30 percent in 2020.

The struggle of quant-focused models was broad-based across the industry, not limited to a few. In a survey conducted by data provider Refinitiv last year, about 72 percent of managers using a quantitative model-based investing style indicated that the coronavirus pandemic had hurt their models. Swedish fundamentals-based systematic manager Informed Portfolio Management (IPM) has not been spared by the punitive market environment of last year either, as market prices seemingly detached from fundamentals. IPM's flagship strategy, the IPM Systematic Macro Program, ended 2020 down 3.4 percent after gaining almost 9 percent in the last two months of the year.

Whilst IPM's flagship macro strategy continued its path to recovery during the latter part of 2020, behind the scenes, the IPM team was busy researching several areas to complement and diversify the product, including a systematic commodities program and several short-term strategies to capitalize on the increasingly volatile markets. Relying on its systematic and fundamental framework, Informed Portfolio Management (IPM) has added a systematic program solely focusing on commodities.

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Launched in the first month of 2021, the IPM Systematic Commodities Program relies on a predominantly relative-value investing approach seeking to capture commodity price drivers across

18 of the most liquid instruments across the energy, agricultural, base, and precious metals sectors. “With the increased quantity and higher granularity of data, we believe the commodity price drivers lend themselves very well to quantitative modelling,” argues Mattias Sundbom, who is heading commodities research at IPM. “While supply certainly can be impacted by idiosyncratic events, over the longer term, it is grounded in macroeconomic fundamentals.”

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Informed Portfolio Management (IPM) will also soon launch a series of shorter-term strategies that can benefit from the increasingly volatile market environment. The systematic asset manager’s macro data-focused strategies rely on a wide variety of macro indicators to capitalize on reactions and counter-reactions to economic data and price events, whereas price data-focused strategies look for deterministic trends and significant deviations from the mean.

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Further research is in progress to introduce another set of intraday strategies seeking to capture intraday price anomalies over 15-to-30-minute investment horizons. “The shorter-term strategies are designed to complement our approach with the aim to capture opportunities during periods when markets are more driven by sentiment than fundamentals, making our strategy more resilient,” says Arne Hassel *(pictured)*, CEO of IPM.