

The Tide is Turning

Stockholm (HedgeNordic) – Trend-followers as a group experienced a challenging asset-raising environment in recent years. The tide is turning this year. According to eVestment, CTA trend-followers and other managed futures funds enjoyed net inflows in six out of the first seven months of this year. Swedish quant firm Lynx Asset Management, which manages the oldest running hedge fund in Sweden – systematic trend-following fund **Lynx**, has also attracted strong capital flows this year.

Total assets under management in the Lynx program, a broadly diversified managed futures strategy powering the Lynx Fund, were about SEK 55.2 billion at the mid-point of 2021, up from SEK 42.6 billion at the end of last year. The increase was mostly “as a result of significant inflows during the first half of the year,” according to the firm’s half-yearly report. Net inflows for the first half of 2021 reached a “higher than normal” \$1.2 billion, according to Martin Källström (*pictured*), partner and senior managing director of Lynx.

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“What I can say is that very little of that capital comes from Nordic institutional investors,” Källström tells AMWatch. “A major part comes from sophisticated US institutions, investors that have built risk mitigation strategies where a section has been developed to protect an often far too equity-dominated portfolio,” he continues. Both U.S. and Nordic institutional investors are looking to diversify their portfolios, with each group taking different routes to achieve diversification.

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“US institutions allocate more to hedge funds and at this stage, they seem to look more actively for diversification in ways that differ to what the Nordic ones are doing,” Källström tells AMWatch. “There has been a large focus on private markets here in the last few years and they’re good assets to have in a portfolio, but they don’t have the same diversifying characteristics,” he emphasizes. “A lot of illiquid alternative investments share too many common risks with equities. We believe hedge funds can offer something else.”

The positive investor sentiment towards trend-following strategies appears to reflect investor expectations about the future market environment. “Many institutions have had fantastic returns for some time from a general market risk but they are worried about how resilient their portfolio will be when the party is over. The low interest rates have severely impacted the conditions to diversify a traditional portfolio made up of equities and bonds,” Källström tells AMWatch. “This, alongside the fact that many investors think the environment will be beneficial for trend-following managers going forward, are the biggest motives we hear from our investors.”