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# Round Table Discussion: Managed Futures/CTA

# Editor´s Note...

## Sitting at a  Table and Other old Normals...

The trading year is not over, so knock on wood, but 2022 is set to go down as a banner year for the CTA space as a whole. Geopolitical events rattling financial markets, rising inflation, central bank rate hikes, and energy transition were just some of the factors that brought volatility to the markets, creating an ideal hunting ground for systematic, trend-following strategies.

There was plenty to talk about then at HedgeNordic's CTA round table. After two years of hosting the event in digital format, it was a treat to once again gather CTA managers from the Nordics and beyond in flesh and blood around a physical table.





Joining us for this year's event were Jeremy Taylor (ISAM), Razvan Remsing (Aspect Capital), Patrik Säfvenblad (Volt Capital), Martin Källström (Lynx), Harold de Boer (Transtrend) and Mikael Stenbom (RPM), Christoph Junge, a first-time CTA investor from Danish pension fund Velliv also travelled to Stockholm to join in the discussion.

While many equity and fixed income strategies, even in the hedge fund space, are still digesting the punches they had blown to their stomach, managed futures are feasting at the set table.

Many managers are telling us that in near unprecedented manners, they were able to generate positive returns across all asset classes and timelines year to date. Trend-followers enjoyed gains in commodities, especially the energy sector, but also currencies, and equities. Even in the fixed-income space, where many had predicted it not possible for CTAs to make money in an environment of falling bond prices, there were profits for grabs for those who had done their homework.

Managed futures once again made the case that they should be a part of every well-diversified, institutional portfolio. Trend-followers offered tail hedge, diversification, crisis alpha (a term not popular with everyone around the table), but should also be seen as a performance engine and as being able to deliver positive returns in any market environment.

The last time the stars aligned in a similar way was in 2008, following the great financial crisis and the fallout of the Lehman Brothers collapse. The years to follow though, with few exceptions, were a period of drought. Central banks artificially pushing down interest rates and flooding markets with unlimited amounts of cheap, readily available cash created a playing field offering little opportunities for most managed futures strategies.

There was optimism in the room though. In contrast to 2008, the events in 2022 (and indeed, some time running up to this year's moves) may provide a more long-term return to normality. While there will continue to be leaner years and fatter years ahead, the setting is promising for the CTA space. The macroeconomic environment, geopolitical uncertainties as well as the likelihood of central banks moving at different paces and directions in their efforts to combat inflation are promising to be a suitable habitat for systematic trend-followers.

Topics we addressed included "The Return to Normality," "The Old Guard" where we consider what type of manager excelled in 2022, "First-Time Investors," "Customization and ESG," the question of "Can One Trend Follow a Trend-Follower?" The discussion also covers "Performance Dispersion and Evolution," and "Expectations Going Forward."

We hope you enjoy reading through this summary of the round table discussion.

**KAMRAN GHALITSCHI**
PUBLISHER, HEDGENORDIC

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# PARTICIPANTS:

## THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, ON NOVEMBER 17TH 2022

### Jeremy Taylor, Ph.D.

Deputy CIO

Jeremy Taylor is a member of the ISAM Systematic Trend Investment Committee. Since joining ISAM in 2012, Jeremy has worked closely with the CIO to deliver an ongoing program of improvements to the strategy.

Prior to ISAM, Jeremy was a Senior Quantitative Analyst at Man AHL, where he worked on a range of projects including developing and implementing new trading models and portfolio construction techniques. He also spent some time working in their commodities team focusing on models tailored towards agricultural, metal and energy markets.

Jeremy graduated from the University of Cambridge with a degree in Natural Sciences and a PhD in Physics.

### Mikael Stenbom

Chief Executive Officer

Mr. Stenbom is a founding partner of RPM and serves as the company's CEO.

Stenbom holds an MBA from Stockholm School of Economics and is a graduate from the Royal Swedish Naval Academy.

Previous positions include RM Råvarumäklarna AB, CEO, Scandinavian Strategy Development AB, CEO and OM Group, Marketing Director

### Patrik Säfvenblad

Chief Investment Officer

Patrik Säfvenblad is the Chief Investment Officer of Stockholm-based Volt Capital Management, a Stockholm-based alternative investment manager.

He was previously Chief Investment Officer at Harmonic Capital Partners LLP, a London-based systematic macro hedge fund. Before this, he was the Head of Hedge Fund Research at DnB NOR Asset Management.

Before joining DnB NOR in 2007, Patrik was the Head of Portfolio Management at RPM Risk and Portfolio Management AB. Before joining RPM in 2000, Patrik was an Assistant Professor of Finance at the Stockholm School of Economics. Patrik has a Ph.D. in Finance and an M. Sc. in Finance from the Stockholm School of Economics.

### Martin Källström

Senior Managing Director and Partner

Martin Källström is a Partner, Senior Managing Director and member of the Executive Management Team at Lynx Asset Management.

He is a co-opted member of the Investment Committee and is a registered Principal for Lynx with the CFTC/ NFA.

Before joining Lynx in September 2018, Martin worked for The First Swedish National Pension Fund (AP1) for 11 years as Head of Alternative Investments. At AP1 he successfully built a team and managed a USD 10 bn portfolio of hedge funds, private equity, real estate, infrastructure and farmland investments.

Prior to joining AP1, Martin created and headed the investment and actuarial consulting business for Aon in the Nordics and was a member of the global investment practice committee. He started his career as an actuary with Watson Wyatt and holds a MSc in Finance from Stockholm University.

### Christoph Junge

Head of Alternatives

Christoph Junge is Head of Alternatives at Velliv, Denmark's third-largest commercial pension company.

He is a Chartered Alternative Investment Analyst and has 20 years of experience from the financial industry in both Denmark and Germany.

Junge has worked with Asset Allocation, Manager Selection as well as investment advice in, among others, Nordea, Tryg and Jyske Bank.

### Harold de Boer

Head of R&D

Harold is the architect of Transtrend's Diversified Trend Program, responsible for R&D, portfolio management and trading.

Harold was born and raised on a dairy farm in Drenthe. From a young age, he has been intrigued by linking mathematics to the real world around us. In the final phase of his studies, while working on the project that would later become Transtrend, he became fascinated by the concept of leptokurtosis — or 'fat tails' — in probability distributions, a topic which has inspired him throughout his career.

Harold's approach to markets is best described as a combination of a farmer's common sense and mathematics, never losing sight of the underlying fundamentals.

# PARTICIPANTS:

## THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, ON NOVEMBER 17TH 2022

Razvan Remsing

Director of Investment Solutions

aspect capital

Razvan joined Aspect Capital, the $10bn systematic investment manager, in July 2010 and is Director of Investment Solutions. Razvan is a member of Aspect's Product Design Group and attends Investment Committee meetings.

Razvan and his team are an integral part of the product development and research functions at Aspect and they provide quantitative expertise to Aspect's clients on investment process and the development of new product ideas.

Razvan's primary responsibility is client engagement on matters relating to strategies, products, performance and research.

Kamran Ghalitschi

Publisher

HEDGENORDIC

Kamran Ghalitschi is the founder and publisher of HedgeNordic, a media dedicated to bring news research and analysis to an audience of Nordic financial industry professionals.

Kamran started his finance career in 1994 and worked in several positions as equity and options broker, in wealth management as well as in various marketing and sales roles for brokerage services and hedge funds.

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Participants, left to right: Kamran Ghalitschi (HedgeNordic), Jeremy Taylor (ISAM), Jason Sher (ISAM), Razvan Remsing (Aspect Capital), Christoph Junge (Velliv), Patrik Säfvenblad (Volt), Harold de Boer (Transtrend), Mikael Stenbom (RPM), Martin Källström (Lynx), Keith Jarvis (Aspect Capital), André Honig (Transtrend)

# ROUND TABLE DISCUSSION

## MANAGED FUTURES

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM ON NOVEMBER 17TH 2021. ALL REFERENCES TO DATES, TIMELINES, PERFORMANCES, NEWS AND EVENTS ARE TO BE SEEN FROM THAT POINT IN TIME.

### RETURN TO NORMALITY

**After a decade of anemic performance, trend-following CTA managers are enjoying a banner year in 2022 amidst turmoil for traditional asset classes and portfolios. Although by no means guaranteed, CTA managers have proven time and time again that their strategies can provide positive performance in difficult and crisis times for traditional markets.**

In 2020, Velliv's Head of Alternatives Christoph Junge co-authored a paper on alternative investments during times of crisis, in which he found that "CTAs as a group has been the only asset class in our study that consistently performed in each crisis since 1980." After performing well throughout the market sell-offs of 2000-2002, 2008, and the first quarter of 2020, CTAs came to the rescue yet again in a year when both stocks and bonds simultaneously incurred losses in the face of inflation and monetary policy tightening. "CTAs had a bad period behind at the time we published the paper in 2020, but from looking at data, we found no reason to believe that CTAs cannot perform in a rising interest-rate environment," says Junge.

The 2010s were characterized by a set of macroeconomic forces in the wake of the Great Financial Crisis that created an unfruitful environment for persistent price trends and for the trend-followers seeking to capture those trends. In 2022, macroeconomic and market volatility has been on the rise due to high inflation persistence, a rapid and aggressive shift in central banks' policies, and the unexpected Russian invasion of Ukraine. "2022 has been all about a big lack of equilibrium across regions and asset classes. The journey from a lack of equilibrium to steady-state creates trends," Razvan Remsing from Aspect Capital explains the strong performance of CTAs in 2022.

"On a global level, we had a lot of multi-decade themes that have been thrust into reverse," he elaborates. "While they may have started this year or already last year – we see deglobalization in supply chains, the return of inflation, the renormalization of interest rates, and big dislocations within energy markets with Europe at

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>
> **Razvan Remsing**

Patrik Säfvenblad, Volt Capital



Christoph Junge, Velliv and Harold de Boer, Transtrend

the center of it, all having ramifications globally." This journey to a "new equilibrium" has created a divergent set of persistent price trends. "This explains why a lot of the trend-following CTAs are having one of their best years," says Remsing.

Patrik Säfvenblad of Swedish Volt Capital Management agrees with Remsing, saying that "in market by market, we are adjusting to a new normal." According to Säfvenblad, "the same thing is happening as in 2020 when a new normal post-pandemic generated a wave of new big trends. This period has been a single story of us moving to a new normal, but whether we are still far from this new normal or are now stopping at the new normal is hard to tell." Säfvenblad goes on to emphasize that the beauty of trend-following lies in the ability to capture these multi-year trends that happen once every six to seven years. "Whenever CTAs are doing well, it's one thing happening and this one thing is that investors across different markets are adjusting to a new normal."

Lynx Asset Management's Martin Källström adds that "one of the most important developments happening right now is the pull back from the stimulative central

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> Patrik Säfvenblad

banking policies and that support that we have seen for so long," he elaborates. "As inflation is a threat, taking away monetary stimulus means removing the safety net that investors have become so dependent upon," explains Källström, who has the role of steering Lynx Asset Management alongside founder Svante Bergström. "We built our strategy to capitalize on cognitive and emotional biases, which have had an increasing influence on investor behavior for maybe a year and a half since inflation started to be a threat."

Although Harold de Boer of Transtrend agrees that there is one big driving trend in markets in the form of returning inflation, he observes that "this driver is going through different phases, manifesting itself in a different way in different markets in different phases of the trend." According to de Boer, "this results in increased diversification for trend-followers, as well as healthy dispersion among trend followers." The market environment in China, for instance, has been a case in point. "One can notice this divergence by looking at China, which is a very special macroeconomic environment that is quite different to the West," corroborates Remsing. "China has been a very bearish place for commodities, whereas globally the commodity space has been more bullish. But ultimately trend-followers saw a lot of divergent opportunities."

RPM founder Mikael Stenbom says that "in this new regime, we are going back to an environment that looked

> "We have what one can possibly call the normal regime with trends coming and going, and markets going up, down or sideways."
>
> **Mikael Stenbom**

more like the period before the great financial crisis." Back in the 2000s, "we have what one can possibly call the normal regime with trends coming and going, and markets going up, down or sideways," according to Stenbom. "That environment was then replaced by the great financial crisis regime where you had explosive movements both in terms of volatility and directional price moves compressed over a year and a half. After a decade of what one might call the central bank regime, we are starting to see some similar patterns from the pre-financial crisis environment evolving."

While 2022 has so far been a banner year for trend-following CTAs, Jeremy Taylor from ISAM considers that 2022 is not that instructive of a year for looking at the CTA universe. "It has obviously been a great year for reminding people of why CTAs are useful in a portfolio, but I actually don't think it's that instructive a year for looking at what drives and differentiates CTAs," argues Taylor. "There have been some strong trends across sectors, but they have actually been quite concentrated and quite easily accessible trends, so almost everyone has done well." Taylor suggests looking further back to 2021 and 2020 to get a more informed perspective on how trend-following managers work.

In 2020, for instance, some of the faster trend-followers performed well in the volatility of the first half of the year triggered by the coronavirus pandemic. "The second half of 2020 was more commodities heavy, and the year 2021 was more of an environment where alternative managers had a good time," according to Taylor. "2022 is a great year, but I don't think it's that an interesting of a year."

And yet, 2022 has offered some interesting episodes for trend followers. Trend-following vehicles, for instance, acted as a better diversifier than bonds in a period of turmoil, partly because of short positions betting on falling bond prices. "One of the most compelling aspects of the year when it comes to the return attribution is what we have experienced in fixed income," says Källström. "By successfully shorting bonds early in the year, we have delivered strong returns in an asset class that some doubted whether trend-following could perform in a bear market," he elaborates. "It is very important for us to have a year like this."

## THE OLD GUARD

Another interesting aspect within the trend-following universe in 2022 has been the stronger performance of larger, more mature trend-following managers relative to their younger peers. "Larger and more mature managers, the guys who were leading the pack ten or twenty years ago and are still around, have outperformed. On average, they have performed better than small, emerging or evolving managers," says Stenbom from RPM, the

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>
> **Christoph Junge**

Stockholm-based CTA specialist that runs a fund of CTA funds. "One explanation behind that might be that the big profitable trends have manifested themselves mainly in very liquid, large deep markets," he explains. "And larger managers typically have more difficulty generating sizeable profits in smaller, less liquid markets, as their size prohibits them from allocating significant capital there."

"We know there was a time before QE," affirms Harold de Boer from Rotterdam-based Transtrend, one of the pioneers in active systematic trading with over 30 years of experience. "Many newer strategies seem to be optimized for the post-financial crisis environment. These are falling aboard now," he continues. "We are dealing with a regime shift at the moment, and the strategies that have been too much optimized for one single environment are running into a problem. The ones that are less optimized and open for change are at an advantage."

"The relatively better performance of more mature managers is partly due to the fact that we have seen some of the old days coming back, but it is actually more because we are aware the world is changing," explains Säfvenblad, who has been in the industry since 2000. "No one has seen the current environment before, that is a unique environment, and 2020 was a unique environment, but it is the experience of doing this for many years that helps you handle the unknown future environments," he emphasizes. "When investing in a static product that does not take the changing world into account and does not incorporate experience into the program, you might be up for a bad surprise."

## FIRST-TIME INVESTORS

There are strong reasons to consider trend-following as a strategic part of a diversified asset allocation, so how should first-time CTA investors approach the selection process? A first and essential step in this process is understanding why CTAs do what they do, why trend-following works, and how it can improve diversification, risk control, and returns in a broader portfolio. "Doing that homework is very important," argues Säfvenblad. "If you haven't done that homework and suddenly see a P&L number that is out of the ordinary on the positive or negative side, you are going to be questioning your initial analysis and decision. That's when you are going to be walking away from the portfolio benefits of a CTA allocation before it has done its job."

Velliv, the third largest commercial pension fund in Denmark with about $40 billion under management, made its first pure CTA investment in the first half of 2022 just in time for this allocation to show its benefits. Christoph Junge, who completed a study on the performance of alternative investments during times of crisis, has been the main proponent for Velliv's allocation to CTAs. "I first came across CTAs when I was working as a private banker during the financial crisis, when I was looking for a strategy that can protect investor portfolios in those types of market scenarios," recalls Junge.

As the Head of Alternatives at Velliv, Junge's research convinced him to allocate a small portion of its alternatives portfolio to CTAs. The selection started with a traditional request for proposal (RFP) process. "We got about 50 responses and after some number-crunching, we divided the group into two, a Beta bucket and the Alpha bucket," says Junge.

"The Beta bucket is comprised of traditional trend-followers running cheap products, typically with a fixed management fee and no performance fee," he explains. The Alpha bucket, meanwhile, is comprised of trend-following managers that were more focused on alternative markets and that combine trend-following with additional overlays in the portfolio such as macro or discretionary elements. Velliv first allocated to a Beta manager to get quick and cost-efficient exposure before looking into the Alpha bucket. The Danish pension fund currently has exposure to three CTA vehicles and is currently working on the fourth, which is expected to go live before year-end.

## CUSTOMIZATION AND ESG

As a first-time investor in the CTA space, Velliv initially considered the option of allocating to a tailor-made program from a manager of funds of CTAs. "The extra layer of fees was really the argument against this option," explains Junge. "We are a big organization and we felt that we can build the portfolio on our own," he adds. "As a somewhat bigger investor we are able to allocate sizeable tickets to the underlying managers, so we could also negotiate lower fees."

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RPM Risk & Portfolio Management, a CTA specialist that runs a multi-manager vehicle of younger and evolving CTA managers, had been in the business of providing tailor-made portfolios for larger institutions until a few years ago. Some managers do, however, continue to receive investor interest in customized CTA exposure.


Razvan Remsing, Aspect Capital

"Rather than put everything in one big program, we at Aspect have found that in different geographies across different client types, some investors wanted to allocate to more individual building blocks," says Remsing. "By asking clients how much exposure to traditional markets or alternative markets they want, or how much exposure to macro models they should have, we are able to create a more bespoke blend that better fits in their portfolio like a Tetris block," he elaborates. "While all modular type programs share the same trend architecture in terms of research process and share the same DNA, the output becomes a bit more differentiated."

Swedish Volt Capital Management, meanwhile, had a completely different experience with investor interest in customization. "We can do all kinds of things in terms of customization in our customer accounts. We can do a certain level of commodity exposure or increase exposure to faster or slower models, for instance. No one wanted that," says Säfvenblad. "Everyone opted for the plain vanilla option at ten percent volatility," he adds. "Being flexible in offering something tailor-made and useful to investors is important. But we were surprised to see that no one was interested in customization."
Källström and his team at Lynx have somewhat of a similar experience with customized solutions. "We have very interesting discussions with investors, but many of them are ending up in our flagship program, which balances the objectives of achieving attractive risk-adjusted returns while at the same time protecting and diversifying traditional portfolios. While we could easily adjust this balance to an individual investor's specific needs, apparently most share common goals," explains Källström.

Velliv, meanwhile, would only opt for customization in its CTA investments for ESG reasons, intervenes Junge. "We are not trading coal, for instance, and if a strategy trades coal, we either have to go for customization or we cannot invest," he elaborates. With commodities viewed as inherently challenging from an ESG point of view, how should one approach ESG investing in the managed futures space, particularly in commodities, asks Junge.

"Futures contracts are not an investment in wheat, coal, or any other commodities. Futures contracts are there to transfer risks," explains Harold de Boer. "When we buy a futures contract, there is absolutely no capital transferred to the participant that sells the contract. In fact, both participants deposit margin at the central clearing house. The one holding futures contracts has in no way control over the production. Futures contracts are designed to transfer price risk; nothing more than that. The role of investors is to participate in carrying risk and hopefully receive a premium for that," he elaborates. "If you are discussing excluding coal contracts, I wouldn't even consider that an ESG decision. The ongoing energy transition away from fossil to clean sources comes with huge risks and these risks have to be carried. They can be transferred most efficiently by futures contracts, so trading coal futures contracts can be seen as participating in this change," argues de Boer.

Martin Källström, meanwhile, views asset managers' participation in futures markets as a means of contributing to the liquidity of that market, which ends up becoming better from a functionality point of view. "Do we want the coal market to be a good functioning market," asks Källström. "We have come to the conclusion that we would rather support other energy markets, such as natural gas, to help enable a good energy transition process," he argues.


Martin Källström, Lynx

"What we have seen for many years is an institutionalization of CTA buyers. Strategic allocators are dominating the total capital managed by CTAs today."

**Martin Källström**

## TACTICAL OR STRATEGIC: CAN ONE TREND FOLLOW A TREND-FOLLOWER?

While Velliv's first-time allocation to CTAs can be viewed as a well-timed tactical investment, Junge considers the CTA allocation as part of the pension fund's long-term strategic asset allocation. "What we have seen for many years is an institutionalization of CTA buyers. Strategic allocators are dominating the total capital managed by CTAs today," observes Martin Källström. "Tactical buyers such as retail investors and wealth managers have largely stayed away from the CTA universe for quite some time. Interestingly, this type of buyer is again actively looking at CTAs," he continues. "We are seeing the strategic investors taking some profits to get back to their targets, while the smaller tactical investors are increasing their allocations. However, we think this will all settle in the new year as investors reflect back on 2022 and consider whether their asset allocation is optimal to meet their long-term objectives."

"The industry has seen both inflows and outflows. The inflows have mostly come from strategic buyers and some tactical ones, but strategic buyers have started to increase allocations," notes Remsing. "With inflation playing through markets for over a year now, it has been a slow-moving train wreck. Some of the investors that had decided to position for a rising yield environment came to the conclusion that trend-following is a good place to go," he says to explain the increasing interest in CTAs among strategic investors. "There is a big misconception out there, and the biggest question we get asked is, have we missed it? But, just because we have had a very fruitful environment with highly dislocated moves, it does not mean we cannot go through a number of years where trading opportunities for CTAs are above average," says Remsing.

"You can't really trend follow a trend follower," argues Remsing. But can anyone? Christoph Junge was considering research into defining a regime-switching model that would help identify a trendy or non-trendy environment and asked the experienced group of managers for their thoughts.

> "There is definitely the potential there for us to find diversification. And diversification is ultimately what most of us work with as our primary tool for trying to improve our strategies and returns."
>
> **Jeremy Taylor**

Jeremy Taylor, ISAM

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Mikael Stenbom, RPM

"I am very skeptical of the ability to time trend," considers Jeremy Taylor. "Ultimately all of us in the room, if we could time trend, we would probably have done that inside our own strategies," he elaborates. "Instead, one can perhaps look at opportunities for diversification in this market environment. That is probably more promising as we start to see more varied responses from governments and central banks in different geographies as each faces their own challenges," suggests Taylor. "There is definitely the potential there for us to find diversification. And diversification is ultimately what most of us work with as our primary tool for trying to improve our strategies and returns."

"The purpose of trend-following within a portfolio is not its standalone input on the P&L, but rather to offer protection to the long exposure to equities and bonds in periods of stress," explains Säfvenblad. "Perhaps you are going to be able to time the allocation to this strategy somewhat, but you are not buying into trend-following for its individual alpha but for the correlation benefits to the portfolio," he elaborates. "You risk hurting your correlation-based protection by timing trend-following." Following the CTA industry's anemic performance in the 2010s, investors' question about the ability to time entry and exit to trend-followers seems legit and well-considered. Persistent price trends may have been few and far between in an environment where central banks suppressed macroeconomic and, correspondingly, financial market volatility, but should we expect the same going forward?

## EXPECTATIONS GOING FORWARD

Mikael Stenbom considers that trend-following managers "need to explain to investors the reasons why the CTA industry did not perform for so many years." One such reason was central bank activity through outright interventions in markets. There were lots of other reasons why CTAs did not perform, according to Stenbom. "But looking forward, with the big changes on the macro level that we are facing, it is hard to argue that CTAs will go back to the situation that we experienced between 2011 and 2019," argues the founder of RPM.
"The impact of climate change on agricultural markets,

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the energy transition, the change of stance from central banks, the de-globalization or regionalization of the global economy, all point to what appears to be an environment with a lot of opportunities for CTAs going forward," says Stenbom. "No one knows what will happen in the future, but this is an interesting environment for us," agrees Källström. "The main driver for a fruitful environment going forward should be the pullback of central banks," he argues.

Volt's Patrik Säfvenblad expects the next five years to roughly resemble the most recent five-year period. "We are going to have some dry spells and we are going to have some great periods," says Säfvenblad. "There are obviously a lot of things happening in the world, which is creating an environment fruitful for near-term performance," he continues. "This year has really shown the long-term quality of the CTA trend-following space rather than its ability to capture just this particular event. What will happen tomorrow is anyone's guess. But the outlook for the next five years is pretty optimistic."

## PERFORMANCE DISPERSION AND EVOLUTION

Despite the market environment being fertile for trend-followers, one should still expect performance dispersion among trend-following CTAs. The dispersion in recent returns confirms that trend-following is not a

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>
> **Harold de Boer**

"generic" strategy and manager selection is important. "There was too much the idea that it would be helpful to see trend following as a factor," observes Transtrend's Harold de Boer. But dispersion among CTA managers is essential, argues de Boer. "With smaller dispersion of CTA performances, the performance of the whole industry comes down. One is explained by the other. CTAs have to make choices and when different market participants make different choices, the CTA market as a whole gets better."

"The CTA universe does well when all of us make different choices every time, that is what makes us strong. Biodiversity is also something that we should want in this industry," emphasizes de Boer. "When we make different choices, we pick up the good ideas, the new ones and we put on the right positions," he continues. "Through research and innovation, all of us should make different concept choices that are reflecting what is happening in this changing world. This development is very healthy for the industry and investors."

Trend-followers, therefore, need to continuously adapt their investment processes to the current and future market environments, all while minimizing the likelihood of over-fitting models to a specific market environment. "CTAs are always developing and should always be undergoing a disciplined development process that adapts to a constantly changing world," argues Stenbom. And yet, "there are only so many things you can do," emphasizes Razvan Remsing of Aspect Capital. Remsing and his team, for instance, are focusing their efforts on improving the resiliency, robustness and responsiveness of their trend-following models and also by expanding the breadth of markets. "If you can get your hands on more independent yet liquid ways to interact with the capital markets, that's a win," says Remsing. "It gives you more chances to extract trends sensibly. For us, the main focus has been finding access to more idiosyncratic markets in a liquid, safe way. Ultimately if you can access things that move, but you can't actually interact with them in a way that is prudent, then that becomes a problem."

Lynx Asset Management, meanwhile, puts a lot of effort and time into portfolio construction and model development, according to Källström. "Many of us here at the table are developing new models. We at Lynx have a turnover in our portfolio of about ten percent, which means about five new models every year are coming into the portfolio," says Källström. With the addition of new models comes the challenge of assessing the performance of these in-sample-optimized models compared to out-of-sample models that have been running for 20 years in some cases. "We have spent a lot of time and research on assessing forward-looking expected returns for models and especially the delicate task of comparing in- and out-of-sample returns. We are fully aware of the risk that new models could potentially be overfitted to historical data, so we focus closely on maximizing forecast reliability and robustness using relatively sophisticated statistical techniques."

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# Nordic **Insights**

## HEDGENORDIC ROUND TABLE DISCUSSIONS

The HedgeNordic series of round table discussions titled "Nordic Insights" aim to bring together industry professionals and experts in their field in a vivid discussion. The setup allows to look at and discuss a specific topic within the financial industry from various different angles, and hear of different opinions and approaches. The group would typically consist of a colourful mix of representatives from the financial industry. The combination of having a relatively small, intimate group of individuals for the discussion behind closed doors in combination with a wide circulation to a relevant audience in the Nordic region through a summary of the discussion in a convenient read-up paper combines the best of the two worlds of professional and personal relationship building and broad communication and branding.

The size of the group and format chosen, combining a casual lunch followed by the actual work session and discussion give an excellent opportunity to network and get to know the participants and organisations behind them in both a more personal and professional manner.

The Round Table Discussion is hosted without audience, behind closed doors. The moderated discussion will evolve around topics pre-defined in collaboration with the participants prior to the event. To insure a dynamic and lively discussion the specific questions that will be discussed are not disclosed prior to the get together.











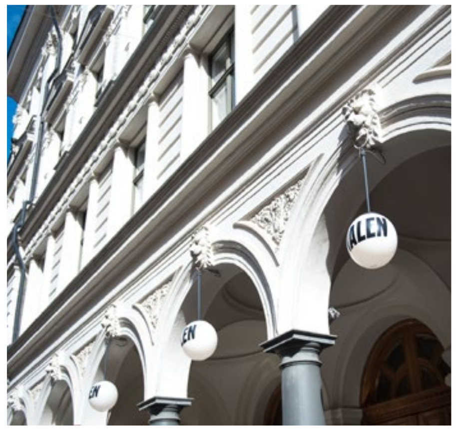





“Your single access point to the Nordic Hedge Fund Industry!”

## Publisher

Nordic Business Media AB
BOX 7285
SE-103 89 Stockholm, Sweden
Corporate Number: 556838-6170
VAT Number: SE-556838617001

Direct: +46 (0) 8 5333 8688
Mobile: +46 (0) 706566688

email: kamran@hedgenordic.com

**Photographer:** The awesome Binniam Halid

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HedgeNordic is the leading media covering the Nordic alternative investment and hedge fund universe. The website brings daily news, research, analysis and background that is relevant to Nordic hedge fund professionals and those who take an interest in the region.

HedgeNordic publishes monthly, quarterly and annual reports on recent developments in her core market as well as special, indepth reports on “hot topics”.

HedgeNordic also calculates and publishes the Nordic Hedge Index (NHX) and is host to the Nordic Hedge Award and organizes round tables, seminars and other events for investment professionals.

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