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January 2019

CTA Models & Innovations and new Markets

Where has Crisis Alpha Gone?

Performance: Manager and Investor View

Round Table Discussion: Managed Futures / CTA 2018

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Editor´s Note...

CTAs are Getting Ready to Rock – In a Hard Place

On November 27th 2018, HedgeNordic hosted its annual CTA roundtable in Stockholm. This was already the sixth year running we had the privilege of hosting this event, which has become a fixed point in our agenda.

We were, again, extremely pleased with the lineup of managers we were able to gather around the lunch table overlooking Stockholm's harbor to discuss the status of the CTA space. We welcomed Gernot Heitzinger (SMN), Douglas Greenig (Florin Court), Kathryn Kaminski (AlphaSimplex), Martin Källström (Lynx), Matthew Sargaison (MAN AHL), Martin Alm (OPM) - Hans-Olov Bornemann (SEB Asset Selection), Razvan Remsing (Aspect Capital), Alexander Mende (RPM), Jeremy Taylor (ISAM) and Harold de Boer (Transtrend)to the discussion, which was moderated by Jonathan Furelid.

2018 was yet another difficult year for CTAs to master. A look back at the year and how most CTAs handled the markets offered an abundance of topics to talk about.

2018 saw three crisis months with falling equity prices along with, partially historic, surges and spikes in volatility. As a whole, CTAs were only able to provide downside protection and generate returns in December - too late, of course, for our gathering in late November to be considered.

In the other two months we saw broad and vicious sell-offs in equity markets (in February and October), CTAs at large could not position themselves to deliver the famed crisis alpha - which is well explained in this paper.

Analyzing these two occurrences, which was an important anchor point in our discussion, it was evident the events that led to CTAs being wrong-footed in February and October of 2018 had very different triggers.

Other topics included performance and markets, the dynamics of models, new contracts such as Bitcoin, artificial intelligence and machine learning, client communication, replication of "cheap trend," how AuM may affect performance and the research agenda.

One sentiment some of the participants shared was how 2018 "smelt" like the year 2007, just before financial markets melted down, with directional volatility allowing CTA managers to position themselves and consequently profit from such price movements. 2008 is remembered for the sharp declines in equity markets– but that year also acts as a showcase example of how CTAs do provide crisis alpha in such environments.

The notion was that going into 2019, especially with rising trade war tensions between China and the United States, the slowdown in Chinese growth, the partial shutdown in US government, growing recession fears, Brexit, and many more headline stories painting a bleak picture, equity and fixed income markets may well be set up for (sharp) corrections from the high ground they have climbed to.

And indeed, at the time of our discussion at the end of November 2018, the changes in global markets had shifted trend signals to a net short positioning across many different assets - something we had not seen at this magnitude since 2007.

We could well be set up for an environment Baron Rothschild, an 18th-century British nobleman and member of the Rothschild banking family, described as having "blood in the streets." And indeed, this could turn out to be a prosperous territory for CTA managers, once again.

While CTAs are getting ready to rock in such an environment, it will be a hard place to be for most other asset classes, and ultimately investors,to generate returns.

If, however, 2019 turns out to be another good year for financial markets and CTAs continue being whipsawed by phony signals and not been given clear, directional movements – the case for CTAs and their merits will undoubtedly be questioned.

One wonders what to hope for...

KAMRAN GHALITSCHI
CEO & PUBLISHER HEDGENORDIC

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PARTICIPANTS:

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, NOVEMBER 27TH 2018

Razvan Remsing

Head of Investment Solutions

aspect capital

Razvan Remsing joined Aspect Capital in July 2010 and is Head of Investment Solutions. Razvan's team is integral in the product development and research process at Aspect, and also provides quantitative expertise to Aspect's clients on its investment process and the development of new product ideas.

Prior to Aspect Capital, he worked at Skybound Capital where was responsible for manager research, portfolio construction and risk management. From 2007 to 2009 he worked at Clear Horizon Capital, a contrarian equity long-short fund based in Cape Town. From 2004 to 2007, Razvan worked at PeregrineQuant (now Vunani Fund Managers) in Cape Town.

Razvan graduated with distinctions in Mathematics, Applied Mathematics and Physics from Rhodes University. He holds a BSc (Hons) in Theoretical Physics from Wits University and was awarded an MSc in Financial Mathematics from the University of Cape Town and is a CFA Charter holder.

Martin Källström

Senior Managing Director and Partner

LYNX

After having started his career as an actuary at Watson Wyatt, Martin later created and headed the investment and actuarial consulting business for Aon in the Nordics for three years.

Prior to 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 a USD 10 bn portfolio of Hedge Funds, Private Equity and Real Assets. Martin has been voted best hedge fund allocator in Europe 2015 and 2017 by Institutional Investors and has been voted onto the list of top 40 under 40 rising stars of hedge funds 2013, 2014 and 2015. Martin Källström holds a MSc in Finance and is educated in behavioral psychology at Stockholm University.

Kathryn Kaminski, Ph.D., CAIA

Chief Research Strategist, Portfolio Manager

AlphaSimplex

As Chief Research Strategist at AlphaSimplex, Dr. Kaminski conducts applied research, leads strategic research initiatives, focuses on portfolio construction and risk management, and product development. Kaminski is a member of the Investment Committee. She also serves as a co-portfolio manager for the AlphaSimplex Managed Futures Strategy.

Kaminski joined AlphaSimplex in 2018 after being a visiting scientist at the MIT Laboratory for Financial Engineering. Prior, she held portfolio management positions as director, investment strategies at Campbell and Company and as a senior investment analyst at RPM, a CTA fund of funds.

Kaminski co-authored the book Trend Following with Managed Futures: The Search for Crisis Alpha (2014). Kaminski has taught at the MIT Sloan School of Management, the Stockholm School of Economics and the Swedish Royal Institute of Technology.

Kaminski earned a S.B. in Electrical Engineering and Ph.D. in Operations Research from MIT.

Matthew Sargaison

Co-CEO and acting CIO

Man AHL

Matthew Sargaison is Co-Chief Executive Officer of Man AHL, acting Chief Investment Officer, and a member of the Man Group Executive Committee.

Matthew was previously Man AHL's Chief Investment Officer, with overall responsibility for investment management and research from 2012 and 2017, as well as Chief Risk Officer between 2009 and 2012. Before joining Man AHL in 2009, he spent 13 years working at Deutsche Bank, Barclays Capital and UBS.

Matthew originally worked for Man AHL from 1992 to 1995 as a trading system researcher and institutional product designer. Matthew holds a degree in Mathematics from the University of Cambridge and a Master's Degree in advanced computer science from the University of Sheffield.

Dr. Douglas Greenig

CEO and CIO

FLORIN COURT CAPITAL

Doug Greenig has 25 years of experience in portfolio management and trading. From 2012 to 2014, he was Chief Risk Officer of Man/AHL and also headed the Portfolio Management Group, beginning in 2013. Doug was jointly responsible (with the CIO) for the evaluation and approval of all investment strategies and trading systems. Prior to AHL, Doug was a Managing Director working as a quantitative portfolio manager at the Fortress Investment Group beginning in 2006. From 2001 to 2006, Doug was Head of Agency Mortgage Trading at RBS Greenwich Capital. He also managed a proprietary trading desk at the firm. From 1993 to 1999, Doug worked at Goldman Sachs in New York, as a fixed-income proprietary trader. Prior to Goldman, Doug was a Senior Consultant at BARRA.

Doug earned a Ph.D. and an M.S. in Mathematics from the University of California at Berkeley in 1993. He graduated from Princeton University in 1986 with an A.B. in Economics, Summa Cum Laude. He was awarded the Wilson Prize for his thesis, which influenced Fischer Black's late work on general equilibrium theory. Doug taught Portfolio and Risk Management at the Courant Institute at NYU in 2010.

Jeremy Taylor

Deputy Chief Investment Officer

ISAM

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.

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THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, NOVEMBER 27TH 2018

Martin Alm

Portfolio Manager

OPM Optimized Portfolio Management

Martin Alm is the portfolio manager of Fund of Hedge Funds at Optimized Portfolio Management Stockholm and has been there since January 2006. During this time Martin has also been part of the company's management team. Prior to OPM he was CFO at the Swedish fund administrator Wahlstedt Sageryd. Martin received a Master of Science in Finance from Stockholm School of Economics in 2003.

Alexander Mende

PhD, Senior Investment Analyst, RPM Risk & Portfolio Management AB

RPM investments DIFFERENT MOVES.

Alexander Mende is a Senior Investment Analyst at RPM Risk & Portfolio Management AB in Stockholm, Sweden, where his responsibilities include portfolio management, quant and macro research, manager screening and selection.

Before joining RPM in 2005, Alexander studied economics at the Leibniz University Hannover, Germany, where he attained his diploma in 2001 and his doctorate (PhD) in 2004. His research interests include foreign exchange trading, international finance, portfolio management, and alternative investments, in particular managed futures. His work can be found in journals such as the Journal of International Money and Finance, the Journal of Financial Markets, and International Finance. Before his academic career Alexander was a banker at the NORD/LB in Hannover, where he was born in 1972.

Hans-Olov Bornemann

Head of Global Quant Team
Senior Portfolio Manager

SEB

Hans-Olov Bornemann joined SEB in June 2003 and founded the Global Quant Team in October 2003. Prior to joining SEB, Hans-Olov was Managing Director and head of Deutsche Bank´s successful Nordic Equities Business (2000-2003), an institutional team consisting of 60 professionals.

Leading up to that, he had a career as top ranked (e.g. Affärsvärlden, 1999) capital goods analyst at Deutsche Bank (1995-2000) and S.G. Warburg (1993-1995), (S.G. Warburg is today part of UBS) and was simultaneously head of Nordic equity research. During 1991-1993, he was an equity analyst at Hägglöf & Ponsbach, a Swedish broker.

In 1999, Bornemann was ranked Sweden´s best analyst across all sectors by the Swedish business magazine, Affärsvärlden. He carries a Master of Science degree in business administration and economics from Stockholm School of Economics (including an exchange year at Darden Graduate School of Business Administration, University of Virginia, USA).

Gernot Heitzinger

CEO

smn

Gernot Heitzinger, CEO, is responsible for the Portfolio Management activities and Client Relations of SMN. He started his career in banking at the equity trading desk of an Austrian bank, changed into asset management as an equity fund manager.

In 1998, Heitzinger became CIO of an Austrian Pension Fund until he took over a management role at INVESCO, US based asset management company. In 2004 he joined the management board of SMN.

Harold de Boer

Managing Director

transtrend

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

Harold was born and raised on a dairy farm in Drenthe. And 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.

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Participants, left to right in front row: Jason Sher (ISAM), Gernot Heitzinger (SMN), Douglas Greenig (Florin Court), Jonathan Furelid (HedgeNordic), Kathryn Kaminski (AlphaSimplex), Martin Källström (Lynx), Matthew Sargaison (MAN AHL), Martin Alm (OPM) - back row: Hans-Olov Bornemann (SEB), Keith Jarvis (Aspect Capital), Razvan Remsing (Aspect Capital), Alexander Mende (RPM), Jeremy Taylor (ISAM), Eugeniu Guzun (HedgeNordic), André Honig (Transtrend), Harold de Boer (Transtrend)

ROUND TABLE DISCUSSION

MANAGED FUTURES & CTA

November 27th 2018, Stockholm

On November 27 2018, Hedgenordic hosted its annual CTA roundtable in Stockholm, including some of the world's most distinguished managers within the field of systematic futures trading. Also present at the discussion were local CTA multi managers allocating to the strategy. The purpose of the discussion was to shed light on the recent difficult environment for CTAs and highlight what the challenges have been and what to expect going forward. Other topics included client needs, innovation, trends in the industry and much more.

2018 has been another challenging year for the CTA industry. However, allocators still see the need for CTAs as a portfolio diversifier, while at the same time the space itself has become more diversified in terms of strategies and contracts traded. There is a challenge for CTA managers in so far as institutions increasingly insource trend following strategies, trying to extract the momentum risk premia more cheaply.

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On CTA Performance

Commenting on CTA performance and its role in an institutional portfolio, Martin Källström, until recently Head of Alternatives at Swedish buffer pension fund AP1 and now a managing director and partner of the Swedish CTA Lynx, says:

"While I was at AP1, we had a strong view that this particular strategy had a role to play in a portfolio context. That role and purpose has not changed despite that the realized returns during the last five years on a standalone basis has underperformed long term return expectations. Most other asset classes have outperformed long term return expectations, and diversification is the key here. During my time at AP1 we actually increased the exposure to trend following as we believed that we are late cycle and having diversifying elements therefore makes more sense. CTAs make a very compelling case here.

The way we approached the strategy from an allocation perspective was that we used it as an overlay to the overall hedge fund portfolio, rather than seeing it as part of that portfolio. We implemented the exposure through the use of total return swap structures. Trying to answer the question of why the strategy has not performed lately is obviously very difficult. I think you can point to several factors, but in reality it is about trendless markets. It has not been a good market environment for the strategy."

Martin Alm, who allocates to CTAs as part of OPM's fund of hedge funds, adds that CTAs have become a much more diversified asset class, creating more options from an allocation standpoint.

"The change that I have seen over the last few years is that CTAs have become more than just trend following strategies. There are more short term strategies today and the trend programs have become more sophisticated. Managers are increasingly trading outside the standard instruments, such as using OTC-markets. From my perspective, it gives me more to choose from and provides for more diversification, as you can get away from the high correlation inherent in the strategy.


Jonathan Furelid - HedgeNordic


Alexander Mende, RPM

Looking at performance on a manager level, there is a wide dispersion in year-to-date numbers, but overall it has been a challenging environment for the industry. 2014 was a good year, but since then performance has been on a downward slope. Hopefully that is going to turn around. Markets won't stay trendless forever, but obviously trends need to be longer in order to build decent annualized returns over time."

Alexander Mende, who runs a multi-manager fund focusing exclusively on CTAs at RPM, agrees that dispersion has been high this year both between managers within the same strategy as well as across different sub-strategies.

"At RPM, we have always applied something called strategy balancing, allocating across different strategies within the CTA universe. This year, the best performing strategy is short-term trading, but even within that subset there has been wide dispersion. Our best manager is up by 24 percent whereas the worst performing one is down 19 percent. The year has offered diversification in terms of different approaches, look-back periods and instruments traded. From an allocator standpoint, it has not been happy times, but interesting times!"

Razvan Remsing, too, sees the dispersions across the various CTA strategies.

"The CTA landscape has been quite varied. It matters which markets you trade, how fast you go and how relative your views are. We found that, across the products we have at the firm, there has been that broad dispersion of opportunities. So in trend following, in a nutshell, the more traditional the markets traded, the more challenging it has been. Actually, I think there have been a lot of trends this year, but there have been a lot of reversals, too. It's about how the different strategies can handle rapid changes in volatility."

On CTA performance and markets - the manager view

Asking managers about the elephant in the room, we invited them to provide their view on the lackluster performance numbers over the last three years. Razvan Remsing from London-based Aspect Capital was first out highlighting the lack of sustainable trends and the difficulties experienced in traditional markets.

"The exotic CTAs out there have done a bit better, but that's in relative terms to more traditional CTAs. In absolute terms, performance is disappointing."

Douglas Greenig

For us this period has been an opportunity to engage with our clients, to revisit why they've invested, revisit the utility, and potentially be able to offer alternatives within the strategies we have, but also reassure them that actually, this is one of those things where trend itself has been difficult. Performance has been within the lower end of expectations for us, but not outside – certainly not unprecedentedly bad behavior. But you have to go back probably to pre-financial crisis to find these episodes of volatility."

Douglas Greenig of Florin Court, a manager within the family of funds of Sweden's Brummer & Partners, who trade more non-traditional, exotic markets, acknowledges that the environment for CTAs trading these markets has been somewhat easier over the year but that the tone of the market has shifted.

"On the whole it's been a bit easier in our sphere. The exotic CTAs out there have done a bit better, but that's in relative terms to more traditional CTAs. In absolute terms, performance is disappointing. Some of this comes from the fact that exotic instruments sometimes end up being correlated to the standard developed market instruments, for example, petro-chemicals as related to oil. And as we've seen, oil has been in a very sharp reversal recently. It's a very interesting environment. There have been trends, but there have been kurtotic reversals too, as we saw in February, and we saw in October there is something a little different about the tone of the market. For much of my career, before I was a systematic trader, I was a prop trader. And everything seemed to be happening faster and faster. Information would be incorporated into the price so quickly. Now the people I know in the space are frustrated because the prices are relatively non-responsive to information. Think about what happened in October: The trigger in some sense for a lot of the trouble was the breakout to the upside of U.S. treasury yields. But the information on that had been around for months. There's nothing really new happening. And lots of people were frustrated with their treasury shorts, such as discretionary traders.

There is something a little different about the markets these days in the way they respond to information. I'm not sure the reason for this is passive investing, but there is something interesting going on.

Harold de Boer of Dutch trend following CTA Transtrend believes that, maybe counterintuitively, more information available for investors does not translate into more information coming into the markets. Which might explain why more information does not mean quicker market reactions these days.

"Nowadays, due to the internet and access to all kinds of new information, more information is available to everyone. One would think that this means that more information enters the market, but that's really not the case. People just cannot process that much information – they have to make a selection. The problem is that investors tend to make the same selection. In the past, with less information available, Canadian bond traders focused on information that was relevant for Canadian bonds, grain traders focused on information relevant for grains, etcetera. That way, the relevant information entered different markets. Nowadays, however, many investors focus on the same information irrespective of which markets they are trading, effectively sending less relevant information to the market. This undermines the fundamental basis of technical analysis, which assumes that price moves reflect the information of informed investors. And it also affects the correlation structure between markets. Both consequences have an adverse effect on diversified technical investment strategies.

As an example, consider the developments in Turkey in August '18. What sparked the large move in the Turkish lira was the Financial Times saying that European banks could be particularly impacted by the ongoing depreciation of the lira, and all of a sudden that was the story of the week. Markets reacted strongly, although the Turkey-related problems were nothing new. Now, it suddenly also had knock-on effects on other emerging markets like in South Africa and South America."

Kathryn Kaminski of U.S.-based CTA AlphaSimplex comes back to the discussion on diversification, and how smaller markets have been less diversifying this year.

"As we all know, market trends can occur in many different shapes, sizes, and places. Over the long run, the

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addition of new and more esoteric markets can provide diversification and the potential for unique opportunities, but depending on where you have your risk allocated -- to smaller or larger markets -- this can also create return dispersion across managers. In 2018, smaller more unique market trends were somewhat more difficult than trends in some of the larger markets. In a recent article that we wrote on this topic *("CTA Market Size Factor: Bigger was better in 2018," Kaminski 2019)*, we found that smaller, more idiosyncratic trends did not help in a particularly difficult year for trend following.

Similar to the divide between smaller markets and bigger markets, there were a few particular themes this year that resonate with a divided view. Markets seem to have been at an inflection point, bouncing back and forth between old and new trends. The global economy seems to be trying to decide if this is the beginning of the end or the end of a new beginning. This perspective resonates across multiple aspects of global markets: rising vs. falling interest rates, rising equity markets vs. recessionary pressures, global vs. national policy, and the U.S. vs. the rest of the world.


Kathryn Kaminski, AlphaSimplex

2018 was certainly a challenging year for equity markets. To me, 2018 seems a little too much like 2007. The changes in global markets have shifted trend signals to a net short view across many different asset classes. This is something we have not seen at this magnitude since 2007. The shift was so interesting to us that we wrote a paper entitled "Short is the New Long" (Kaminski 2019) discussing the changes in positioning and the similarities to what we saw in markets in 2007. Given the difficulties in 2018, trend following positioning has pivoted substantially. These strategies are poised for something different going into 2019.

> "To me, 2018 seems a little too much like 2007. The changes in global markets have shifted trend signals to a net short view across many different asset classes. This is something we have not seen at this magnitude since 2007."
>
> Kathryn Kaminski


Matthew Sargaison, MAN AHL

> "The issue is that the smaller markets, while they've moved in different ways, tend to have had idiosyncratic sharp reversals, rather than correlated sharp reversals."
>
> Matthew Sargaison

Matthew Sargaison, CO-CEO of Man AHL, underscores the problem of idiosyncratic reversals and the lack of diversification effects for CTAs this year, but sees diversification in other parts of the alternatives space providing investors with benefits.

"We have seen this year that correlation is not a particularly useful metric in this sense. Diversification actually does exist in the markets, on a market-by-market basis. The issue is that the smaller markets, while they've moved in different ways, tend to have had idiosyncratic sharp reversals, rather than correlated sharp reversals.

What gives me some comfort is that, apart from trend-following, it has been a good environment for some other strategies in the space. Equities seem to have had a harder time than CTAs, but there are plenty of things that actually worked in the quant equity space. Seeing some of that dispersion go well is a comfort, but it's about looking at what fits into all the portfolios. If you only look for trends, it's more difficult. But if you have a broad enough spectrum, I think there have been some good opportunities."

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"What we saw in February was a sell-off of unprecedented speed, and this happened after a period of unusually strong uptrends in equities. In such a scenario it's expected that trend following models struggle."

Martin Källström

Jeremy Taylor of UK-based CTA ISAM says that he sees no evidence in data that the environment for CTAs has changed.

"I think it's all quite interesting that we're talking like economists and macro-traders around the table when probably a lot of us are on the statisticians and scientists. While it's very easy to say that something has changed, something is different, it's very hard to see any evidence of that in the data.

Hans-Olov Bornemann of Sweden's CTA SEB Asset Selection says that when talking to clients, there is a lot of emphasis on the big questions regarding the market and how CTAs are likely to benefit from broader market moves going forward.

"When speaking to clients I experience that they are focusing on the big questions: Will the equity market continue upwards? Will the bond market go down? We've had a bull market in equities for almost 10 years now and a bull market in bonds for 40 years. So the big question is when the bull markets are going to end, and how clients should position their portfolios.

We are basically in the final phase of a business- and market cycle and investors do not really know what to do. Should they believe in the continuation of a positive market? Or is this the time when you need to reallocate into more defensive investments?

This is the phase when those invested in CTA funds want to hold onto such investments. We may be facing a rather negative market environment. If that were to happen, the trends are likely to become longer again and CTAs should have great possibilities to generate returns. CTA funds would thus help to stabilize the return of the clients' overall portfolios."

Lynx's Källström returns to this year´s performance and the significant drop in February, that, for many, explains the negative returns for the year.

"I don't know if I speak for all of us, but for many I know that dampened performance in 2018 is really a story of February. February was an exceptional month where trend following mainly accrued losses in equities, which also turned out to be the worst asset class to trend follow 2018. What we saw in February was a sell-off of unprecedented speed, and this happened after a period of unusually strong uptrends in equities. In such a scenario it's expected that trend following models struggle. The strategy subsequently recovered thanks in large part to trends in commodities, such as the oil markets.

The recent pickup in volatility has not yet played out and it's a bit too soon to comment on the performance other than that most trend followers are now likely to be defensively positioned, short in equities and long the US dollar.

It's worth remembering that some of the best periods in CTA history have been preceded by difficult environments – the worst day in Lynx's 20-year track record is still the 19th of September 2008, and from there the fund went on to its best ever year.

Investors sometimes compared what happened in October with February. These two months however were totally different scenarios, especially the build-up going into the events cannot be compared. For many CTAs the losses in February were 2-4 times larger than those in October, so they are not directly comparable. If we exclude February, the reversals of the past few years do not look very different from those over the past decades. What's been lacking since 2014 are sustainable trends to generate the returns needed to bring back managers to new high watermarks. And again, the reasons behind that are, of course, subject to much debate."

Man AHL's Sargaison agrees, but says there were also structural differences.

"February demonstrated a failure of volatility ETFs and a

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lack of understanding of variance pricing by some investors in the market.

I remember being at a conference in Barcelona a few weeks before the February volatility hit. People were talking about risk premia, and that variance premium was the 'best' premium on the table. The problem is that as soon as you see a spike in volatility, the dynamics of the market tend to change. I didn't expect that the February volatility was going to cause failure, but the move spilled into other markets and it was interesting to see the tail properly wagging the dog, in the sense that volatility in the S&P 500 was actually appeared to be driven by the volatility of the VIX (rather than visa-versa). We see October as a much more fundamental and structural kind of recognition, where the global economy is at play. It was not about a specific breakdown in market pricing."

According to Greenig of Florin Court, the moves in 2018 are a reminiscent of the quant crisis in 2007, which Kaminski sees similarly:

We can certainly make the comparison between 2007 and 2018. Going into both 2007 and 2018, consistent with global market direction, trend following strategies held positions that reflected sustained trends in global markets coming out of 2005–2006 and 2016–2017. These trends included sustained positive returns in many traditional assets like equities, which led to trend following strategies having long positions in those asset classes. In both 2007 and 2018, markets reversed several times, which hurt both equity markets and trend following strategies simultaneously."

Gernot Heitzinger of SMN agrees that February was not comparable to October.

"I fully agree that February was not comparable to October, although what was triggered by equities in February was equivalent to energies in October. The problem is, I think, that October hurt more in the eyes of the investor because investors were seeking a place to hide, whereas in February it was just CTAs having lost some of their previous gains in equities. In October, it was much more difficult. Looking ahead, if we are now in what we see is another 2007 followed by a 2008, it might not be great for all of us, but it might be great for CTA performance, at least. But that is what we have to hope for because if we are all wrong, being short now, and if all of our markets go up, making 2019 a nice investment year, and

Dr. Douglas Greenig, Florin Court

we are down again, then the story is getting very, very difficult to tell."

Remsing of Aspect says that it has been a particularly difficult year for models that are narrower in focus, referring back to previous discussions about the selective information in prices.

"Just to pick up on some earlier interesting points from Harold, talking about the selective information in prices: I believe we see that as well. We tend to agree that the purer your information stream has been, or the purer the factor, the more it got hurt this year. We found that strategies that have a more eclectic mix of signals, looking for information in other places than just in a single channel, have done very well. Our macro, our multi-strats have done well. The more you narrow it down to single style, single factor, the tougher it got."

"We can certainly make the comparison between 2007 and 2018. Going into both 2007 and 2018, consistent with global market direction, trend following strategies held positions that reflected sustained trends in global markets coming out of 2005–2006 and 2016–2017."

Kathryn Kaminski

The dynamics of models

Turning the discussion to the underlying models of the system, managers were asked to comment on how they have reacted in terms of risk taking and how they have evolved over time.

Hans-Olov Bornemann says that the sizing of positions has been affected by the trend reversals seen during the year:

"In our fund, the size of positions is very much related to the clarity of the underlying trends that the model perceives. Since there have been a lot of trend reversals in 2018, the model has not been willing to bet too much on the underlying trends that the model has identified. The model has been running with a risk level clearly below the long term risk target. So far, that has been a correct risk management decision to make. But lately, the model thinks that the trends have become clearer and our model has been willing to take larger positions again. Our model has identified the equity market to be in a downward trend and the US-dollar in an upward trend. It will be very interesting to see how markets will develop over the next couple of months."

Mende of RPM claims that risk taking differs between different sub-strategies.

"Our trend following managers are not dependent on volatility as such, but rather on what we call directional volatility. It's been a low trending environment since February and our existing trend followers have been at average- to low risk levels. But the managers that like volatility, like our VIX-trading strategies or our shorter-term managers, actually have much higher risk than we have been served before. So, it's different for different strategies."

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Martin Källström, Lynx

In terms of how models have evolved over time, Heitzinger says that adding diversification has been key for SMN."

"Over the years we have done a lot to further improve market diversification. We have identified and developed a portfolio purely consisting of alternative markets. Those alternative markets are slightly up for the year, which, compared to the classic CTA market portfolio, is a big success actually. And this has helped, but they have only helped to some extent because some of those markets tended to be correlated in October as well. But it has definitely helped to offset the reactions in the classic and traditional markets."

Mende of RPM highlights the introduction of volatility strategies trading the VIX.

"We have actually introduced new, non-trend following strategies to our portfolios last year. We introduced VIX, volatility arbitrage-kind of strategies. We have also tried to increase diversification within existing strategy groups, for example by increasing the number of shorter term trading strategies.

Källström of Lynx says that the addition of strategies built on non-price data and machine learning techniques that have been added over the years contributed nicely more recently.

"What we've worked on for years, and that is actually paying off quite handsomely right now, is our research in non-price data, models within the macro field that are diversifying to trend following. Another area is machine learning. We started doing ML research in 2009, which was quite early, especially in implementing the strategies into the programme. The first model was launched in 2011 and is still active. The ML component has since grown and today has a meaningful risk allocation. There's a limit, though, to how big this component can be given our overall objective, but as a stand-alone, it's really been excellent and it's something we may look at offering directly to investors in the future."

What do new contracts, such as Bitcoin, do for CTAs?

Last year Bitcoin was introduced as a futures contract, but so far very few CTAs have taken on the task to add it to their portfolios. Among the managers that were present in this discussion, only two (Florin Court and MAN AHL) had started trading it. But why is it that so many shy away from it, and what has the experience from managers trading Bitcoins been?

According to MAN's Sargaison, Bitcoin has been one of the best trends this year and Florin Courts Greenig sees huge potential from a trend perspective, even though he claims to "have no clue about the fair value of the asset."

"It was a great trend for the Bitcoin, last year, too – only in the other direction. So we've made money on the way up, and we made money on the way down. I have no idea what Bitcoin ought to be worth. Neither does anyone else. And that makes it in some ways a marvelous market. It's like going to some hipster neighborhood in London and some new fashion trend is starting to emerge. A few years ago it was facial hair and Tom Ford glasses, right? And you don't know how far it'll spread.

Bitcoin's success will be a matter of social convention to some degree. What the level of acceptance and institutionalization is, I don't know. But the potential is obviously for a very huge uptrend or for it to just dwindle away to nothing. I like that in an asset."

Regarding diversification, De Boer says that Transtrend has become less prone to add markets over the years, simply because many of these additions add little to diversification.

"There was a time when we were considered to be one of the most diversified traders in terms of the number of markets we traded. We were so convinced that that was a good idea, that we kept on adding more markets. Until we realized that, due to changes in the correlation


Harold de Boer, Transtrend

structure between markets, this type of 'diversification' wasn't really working anymore. We had to adapt our trading techniques to effectively and efficiently get a diversified portfolio. This even meant removing some markets. For instance, if a specific market offers nothing more than a more expensive way of exploiting the same trends that we can more efficiently capture via other markets, it makes no sense trading it. We know that more and more managers are adding non-standard markets to their programs. These are often markets that we have been trading for a long time already. And some of these markets we have stopped trading now."

Sargaison tells us that Man AHL has added markets outside of the traditional futures contracts that are reflecting broader indices and would rather trade the underlying, individual constituents of those indices.

"We don't trade a lot of index futures for the exact reasons described. We believe trading constituents makes a lot more sense in our view. Half of the entire equity

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"... all happy investors are the ones that understood what they bought, and actually got what they thought they bought. All unhappy investors are the ones that, for some reason, either chose the wrong strategy, the manager did not do what they had promised, or they were unable to live with it."

Razvan Remsing

trend that we trade in our flagship funds comes from trading stocks rather than the indices, because the dispersion you can get from just looking at trends at an industry level, sector level, or a factor level even, is greater than an index. If there is a year like 2017, where the biggest trend in the market is just the S&P 500 continuing to go in one direction for the whole year, investors do not get any value from that. However, over the longer term, very clearly there's a benefit. So it has become quite a big thing for us to really push where we think there is diversification to be found."

For those managers that have stayed out of the contract so far, counterparty risks and liquidity are mentioned as obstacles. According to Heitzinger at SMN, there was not enough open interest data to support the case, while De Boer of Transtrend had concerns on the way it was promoted by the exchange, De Boer says:

Gernot Heitzinger, SMN

"For us, a very important element was counterparty risk. And we even spoke with the exchanges to express our concerns about the way they were marketing these futures contracts. The position limits were based on price levels seen two years before the introduction of the futures contracts, meaning that since the position limits were denominated in Bitcoin, the limits were inflating with the price of Bitcoin. Those position limits were meaningless."

Razvan Remsing, Aspect Capital

What are clients saying about CTAs in the current environment?

We wanted to know more about how the perception among clients have been given the performance backdrop of CTAs in recent years. Aspect's Remsing says it has been a good exercise in investor communication.

"How do you begin to answer this question? There is a saying by Tolstoy about all happy families being alike and every unhappy family being unhappy in its own way. So, to use that as an analogy to investors, all happy investors are the ones that understood what they bought, and actually got what they thought they bought. All unhappy investors are the ones that, for some reason, either chose the wrong strategy, the manager did not do what they had promised, or they were unable to live with it.

For us, the last year has been a very good exercise being able to communicate with every single one of our investors. And the opportunity there has been to really have those deep conversations about what it is exactly they're trying to solve. The challenges are broadly the same across the globe. It depends on whether there is a geographical differentiation between those portfolios which are typically more equity or commodity heavy, or whether they're more fixed income heavy. Certain volatility targets therefore, and certain asset mixers are more appealing, but ultimately it's a diversification requirement in the liquid space to traditional assets.

Those are the conversations that we are most involved in, and then identifying what the solutions are. There's no one solution that fits everyone, therefore you have your trend solution, you have your macro solution, you can do short term trading, you can do alternative markets, you can do more liquid markets, it becomes an investor preference conversation. For us it's really being able to develop and have the answers and the products at the firm to be able to enter those conversations."

RPM´s Alexander Mende says that less informed investors question the crisis alpha characteristics of CTAs given that the strategy has not delivered in the most recent equity downturn.

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Hans-Olov Bornemann, SEB

"The main question from the relatively uninformed investor this year is: where is my crisis alpha? While equities sold off, you still lost during the same month - what's going on? We try to explain to our potential clients beforehand that this is a systematic strategy and by definition, systematic strategies need time to react, no matter how short term you are. You need time for data to generate a signal, and we found that the average trend follower needs around 15-20 days to turnaround a position, which was not good enough when going into October/November."

Remsing notes that it comes down to defining what a crisis is and that investors don't view it as a hedge but rather as diversification. Greenig of Florin Court adds:

"It is also about being fair to the investors. When they look at the long track record of CTAs, what they may not fully realize is the CTA space as a whole as shifted direction slower over the past decade or so. And slow, medium-slow trend is not the same thing as higher speed trend. There are few firms that I think really do provide a lot of crisis alpha, because they're shorter. But you pay the price, synthesizing a lot of volatility when nothing's happening. Of course once we get a proper crisis we'll have proper crisis alpha."

On this subject, Kaminski refers to an article that she had written dubbed "Crisis or Correction?".

Following the difficult equity market correction in February, we wrote an article entitled "Crisis or Correction?" (Kaminski 2018). Many investors and allocators wanted to understand why trend followers were down simultaneously with equity markets. The article clarifies that there is a difference between a crisis and a correction. A crisis is a sustained period of losses; a correction is a short-term drawdown that reverts within a short period. During a crisis, medium-term strategies such as trend following have the ability to shift positions to capture the sustained movement. Corrections happen rather quickly and do not persist. During a correction, trend following performance will depend on where they are positioned prior to the event. In Q1 2018, market trends were strongly long going into the correction, putting trend following strategies in the same positions as equity markets. The positions held by trend followers take time to pivot in new directions.

"There are two things that distinguish the CTA product from other investment products. First, the returns are uncorrelated to equities and bonds over the long term, and second, the product has an ability to generate positive returns during extended bear markets."

Hans-Olov Bornemann

When things are complex, I really enjoy writing articles that clarify how we are thinking about the space. We believe it's all about creating a dialogue, listening to people, listening to our clients, and providing them with analysis and explanations in a nomenclature that is digestible and straightforward.

As our industry matures and develops, we are also seeing a lot of interest in bespoke solutions. Investors are becoming more agile in their use of our strategies. They increasingly seek to create portfolio-aware solutions. They know all of the different managers and approaches. What we can provide is not some extra trend signal that we found somewhere. Instead, we strive to be a resource and a partner to help investors build better portfolios."

Källström of Lynx agrees to that, saying:

"From an investor point of view, we should be aware investors are pretty sophisticated these days. Some investors may look at CTAs as a hedge fund strategy, and I believe actually we see some evidence among CTAs that they are style-drifting away from the previous promise to deliver something else. The typical route is diversification in terms of models, as well as over trading horizons. I do want to add that there are sophisticated investors who want particular building blocks. And that's why Lynx has been very true to trend following in their main program, but, of course, there are other strategies that will make sense for other type of objectives. So CTAs can and will be on those objectives as well. But offering a catch-all type strategy would not be the optimal solution for many sophisticated investors because they want to build portfolios of building blocks."

SEB´s Bornemann points to CTAs' unique ability to deliver returns in periods of extended market trends and that the financial crisis taught many investors that they needed more diversification.

"If we go back a decade, prior to 2008, a lot of investors were trusting that the markets would bring them positive returns over time. By carrying a long position in equities and bonds you would automatically get positive returns over time. In 2008, however, a lot of equity-heavy investors realized that you could lose quite a bit of money if you relied too much on the market. Many institutional inves-

"The main question from the relatively uninformed investor this year is: where is my crisis alpha?"

Alexander Mende

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tors therefore started an effort to construct more diversified portfolios. They added crisis-alpha-type products to their portfolios, products that have the possibility to generate positive returns during major market declines.

In recent years, private banks and retail banks have been following the same path and have been building portfolios which are much more diversified than before. The financial crisis of 2008 was not the last financial crisis to happen. The next financial crisis may be waiting just around the corner.

There are two things that distinguish the CTA product from other investment products. First, the returns are uncorrelated to equities and bonds over the long term, and second, the product has an ability to generate positive returns during extended bear markets. These two features in combination with a third feature, the ability to generate positive excess returns over time, makes the CTA product a very appreciated component in many client portfolios.

So, how is this all possible? Humans tend to have hardwired behavioral patterns. When forecasting the future return of an investment, they just extrapolate the most recent performance. They therefore buy assets that have been going up and sell assets that have been going down. This behavior pattern is the reason why CTA products are making money over time and why their returns are not dependent on a positive market development.

In spite of the weak performance for the CTA sector over the last 12 months, the client interest is still pretty stable. Should the performance of CTAs pick up at the same time as the equity market goes down, one could expect a major boost in interest for CTAs again."

Harold de Boer points to the fact that investors are willing to understand and learn more about the strategy and ask more questions these days than they used to.

"Of course, no one wants bad performance. But this year's disappointing performance of trend following CTAs does have one small positive side-effect: investors are asking more questions, as they want to better understand what's going on. Ultimately, this will benefit both investors and managers, because investors will have an even better understanding of what they are investing in – a better understanding of when specific strategies work and when they don't work. Of course, serious investors should also ask questions when performance is exceptionally good. But in close to 30 years of managing money for our clients, we have only had one client – and this happened to be a Nordic client – who came to our offices after a few months of investing with us and asked why we did much better than they expected in a certain month."

"...what's very bad for marketing purposes now are our poor performance numbers looking exactly 10 years back. Doing so, you're getting us all at the peak of 2008 performance. Since then returns look very poor, especially compared to equity markets..."

Gernot Heitzinger

Razvan Remsing of Aspect points to the fact that there has been a lot of complacency in the market.

"A lot of complacency has come into the market where you can get a cheap exposure to beta, just by holding S&P or holding bonds through passive products. It's hard to beat that over the last 10 years.

So, there's this complacency that suddenly we're getting to volatility levels that are arguably only back to more long-term levels for commodities or equities and to Kathryn's point, markets have only given back a year worth of gains. That's not a crisis. But it's relatively new – hence the complacency that had set in. We spend far more time talking to our clients when we're down than when we're up, not because we don't offer them the same amount of opportunity."

Heitzinger of SMN has some concerns about the recent ten year period from a marketing perspective:

"I think what's very bad for marketing purposes now are our poor performance numbers looking exactly 10 years back. Doing so, you're getting us all at the peak of 2008 performance. Since then returns look very poor, especially compared to equity markets, which faced their lows at that time. Equity markets still had a very good run over the last 10 years that makes a very different case to defend if people ask you about the fact that there have been a lot of trends, S&P has tripled since then, and that hasn't even been possible to capture, so there are a lot of questions from investors here."

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Investors looking less to replicate trend following with cheap options

Lynx's Källström also sees a difference in investors' perception of risk premia strategies.

"I think that investors are starting to be a bit more skeptical to the risk premia approach. Only a few years ago, it felt like that was the most walked route. Everyone took for granted that you can replicate strategies and the banks are doing it so cheaply. Why should you buy an advanced higher-fee strategy? I don't think that's as prevalent anymore. There is a significant difference between the simple models offered by risk premia products and the premium offerings. Allocators need to take the time to understand what those differences are and how that will impact their portfolios. The premium approach is often the result of years or even decades of research and smart execution, and we believe that means significant better risk-adjusted returns for clients in the long-run, also after accounting for fees."

Sargaison agrees with Källström on this and adds institutions are looking for more tailored solutions and are willing to pay more for quality.

> "Investors invest with us because of the choices we have been making, of which our track records are the footprint. Investors have the right to know what choices we've made, the reasons behind them and their effect on the performance of our programs."
>
> Harold de Boer

"I agree with Martin. We've seen a lot of institutional interest in risk premium in the last few years. This year, there seems to be a slight correction, maybe a better understanding, of systematic alpha strategies. And some investors are saying, "Actually, we wouldn't mind paying a little bit more to get something that we think is in fact better." This is potentially a good place to be, particularly when a number of strategies across the CTA industry have faced challenges, yet investors are still coming in and asking for more of something, rather than less.

There are definitely investors who want to see pure trend-following strategies. That has been an interesting challenge, because we have been trying to tell them, that in our view a diversified portfolio may bring more benefits.

Now they finally say, "well actually what we really want is just trend in the S&P 500, because that's the only market we're exposed to". If you want to do that, we can provide competitive execution and structure, and risk management."

De Boer of Transtrend points to the fact that simplistic trend strategies have not delivered in crucial years for trend following.

"We mentioned 2007 a few times. This whole thing about risk premium and the idea that it's something that everyone can just copy and implement successfully is founded on nothing more than historical simulations. It doesn't match at all with the large dispersion in the actual performance of CTAs in 2007 and in 2008. And similarly, in 2001 and 2002. So, in reality, it doesn't seem to be just one simple trick that anyone can perform.

Each choice with respect to the design and implementation of their strategies that the different CTAs had to make in those years was fairly crucial to being successful, or not. And that's still the case. Which means that the more simplistic strategies, just implementing 'trend' as cheaply as possible, are not going to work in the long-run. You have to be able to explain why individual returns were so different in those years, what kind of choices led to that dispersion. And that's what we all have to explain nowadays to all of our clients who want to know what we are doing. If you didn't trade in real life, if you didn't have to make any choices, you cannot explain them. All of us here, we all made (often different) choices.

That characterizes all of us. Some of these choices worked, and some may not have led to the aimed-for results. Looking back, we can be praised or blamed for those choices. But since we ourselves made them, we can explain every single one of them. And that's essen-

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tial. Investors invest with us because of the choices we have been making, of which our track records are the footprint. Investors have the right to know what choices we've made, the reasons behind them and their effect on the performance of our programs."

Asset flows and performance

The question of size and its impact on CTA performance is a long standing one. Are CTA returns negatively affected by the size of the industry? Have they become too big for their own good? The question may become all the more relevant since many managers enter into less liquid markets.

Jeremy Taylor of ISAM believes this is a near impossible question to answer.

"I think that's basically an impossible question to really answer. It's really, really, really hard.

One clarification first: many of us around the table are involved in trading, and promoting the advantages of the more esoteric markets, the less-known markets. But they aren't necessarily less-liquid. It just might mean the liquidity is a bit more difficult to access.

But it's still a fascinating question but it's one I'm not going to actually answer because I don't know the answer. We can look at our own role as an individual CTA within a market. We can make sure that we're appropriately sized, we can execute in a well-behaved way, we can make sure that we're minimizing our impact. But the rest of us around the table are also trading in markets, and will be trading at slightly different times, and will be using slightly different signals or even totally different strategies."

Sargaison, who had previously worked together with Jeremy Taylor when he still was at Man AHL, says Man were doing some thought experiments on this back in 2008.

When Jeremy was at Man AHL, we used to have a thought experiment, thinking about the cost of our impact and what this may be if the business was to grow and suddenly become, say, a 'mega CTA'. The impact on the market would then change, even though we were doing the same trades.

"...many of us around the table are involved in trading, and promoting the advantages of the more esoteric markets, the less-known markets. But they aren't necessarily less-liquid. It just might mean the liquidity is a bit more difficult to access. "

Jeremy Taylor

We are continuously seeking ways to improve the efficiency of our flow to market, and thinking about how we fit the flow compared with the rest of the industry.

This year was interesting because, in terms of modeling, we saw far too many players trading the same trends. One tends to see trends appearing more quickly and sharply, once everybody tries to jump in the same signal. This perhaps over-extends the trends, and then when true value appears, and other market participants realize (consistency; otherwise English sp. is better) trends have been over-played, we tend to see a sharper snap back.

Have we seen that in the data? Until this year, not at all. We saw it slightly in February, but we saw it in the most liquid market in the world: the S&P 500. So that's where the market has really snapped. Do we think CTAs can move the S&P 500? No."

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The research agenda

What is currently on top of the research agendas of CTAs? Have recent performance issues translated into any material changes?

Hans-Olov Bornemann of SEB gives a general view.

I can give a general comment. What tends to happen during periods of less attractive returns, for example the period 2011 - 2013, is that people start to get worried about the strategy's ability to generate returns. Clients start to believe that the model is broken, sales people start to get worried and non-investing managers are feeling the stress as well. Under the increasing pressure from external and internal stakeholders, there is a human tendency for the responsible fund manager to start to tweak the model to satisfy the widespread request for change.

In such situations, I think it is important to understand why you have not been making money. Is it because the model is indeed broken, or is it because the market has behaved in an unusual manner? When it comes to ourselves, we do not think that our CTA model is broken. The model has been doing very well over a long period of time. In addition, we can still observe the irrational human behavior pattern that helps us to generate excess returns over time.

Market behavior in 2018, however, has been rather unusual. The news flow has been shifting back and forth and this has caused more frequent market reversals and shorter trends than a normal environment would have. The market behavior can also be explained by the fact that market participants are very nervous and do not know whether to position themselves for a bear market or for an extension of the long running bull market. Since CTAs lose money in every market reversal and make money when the trends become longer and longer, the market environment has definitely not been ideal for CTAs in 2018.

To change the composition of a model when you are under pressure is not a particularly wise thing to do. Investment success is based on the process of systematic research and systematic implementation. Under pressure, human beings tend to react emotionally and irrationally. In order to rationalize their emotional decisions, such fund managers tend to assume that the world has changed and that they need to implement models which are geared towards the most recent market behavior. In essence, these managers first become victims of emotions and then get fooled by short term randomness in the underlying data. Model changes they pursue in such situations are unlikely to improve their long term performance."

ISAM´s Jeremy Taylor agrees that there needs to be a long-term focus in terms of the research agenda.

"I echo those things. It's about having a research program that is aligned to the long-term objectives of your fund. It has been interesting talking with investors this last year because they really want to see that research. They are paying fees, they want to see that you're doing research, but they don't want you to be doing research that's not aligned with the mandate of the product that they have bought. Our message is very clear, it's all about diversification. There are many ways to do that. For example, adding markets, although to Harold's point, we have to be careful not to add things that are just picking up existing factors, or improving our execution, which allows us to be less constrained in the way that we trade and therefore deliver more diversification. We also spend a lot of time communicating these research goals to clients."

Sargaison of Man AHL highlights that more research is being done on the quant equity side at the moment.

When you have more than one flagship fund, you don't have to make one size fit all – a trend-following fund can stay trend following. Having said that, there are some incremental improvements that are still being discovered even today. I believe it's easier, though, if you've got a multi-strategy fund which is always finding features that has lots of different strategies. We're probably doing more research now in the cash equity space than we are doing in the futures.

We're concentrating our efforts in quant equity and, despite this year's performance in quant equity in general, I'm quite excited. The unwinding that leads to that bad performance may mean fewer participants in the market. We could see less crowding going forward, possibly.

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"We don't change strategies from year to year. Obviously trend following returns tend to be very lumpy, and there's really no way you can isolate it. "

Martin Alm

Crowding varies across strategies. You´d expect crowding in trend-following with exaggerated volatility. Crowding in equity factor space is really where it's sort of arbitrary; slightly undervalued things and slightly overvalued things may mean that quite a bit more leverage is needed, which can lead to 'blow ups'. Once it blows up, the spreads for compression become wider. If you are prepared to sit and ride out the bad patch, then you may see more opportunity."

A lot of research has been undertaken in this field, as well as in the machine-learning space. We are and we are conducting a lot of research ourselves at the Oxford-Man Institute."

Kaminski says that there is research going on outside of trend at AlphaSimplex, pointing to volatility as one topic.

"From the AlphaSimplex point of view, I would echo what Matthew said in that we're seeing more research in areas like machine learning, which we've been doing to some extent in the strategy since inception. We are also doing a lot of research outside of trend following in other strategies. We have also been doing a little more research on volatility. Several years ago, it seemed that any level of volatility produced similar results. These days this does not seem to be the case. In other words, the decay rate of volatility has changed a little bit more recently. Given this change, being more precise in how one measures and reacts to volatility may be advantageous."

Remsing of Aspect says that is all about improving in each area rather than finding a new "magic alpha source".

"You need to evolve but you need to still stay true to style. We have a number of products that do different things, and you need to stay true those things. The research comes into finding new models, it may come to acquiring alternative data sets, or being able to answer the same question from a different angle, maybe a bit quicker, or maybe getting a sentiment on those markets in a different way, executing better and so on.

None of these things are magic… we haven't found a new alpha. What we're doing is improving incrementally in each of those areas, but being very, very true to style and communicating very clearly with our clients. We do not want to surprise our clients in the direction we take.

Martin Alm, Optimized Portfolio Management

The dialogue we have with our clients is far more direct and open than we would publish in a broad forum, but it comes down to making sure we're still delivering to investors what they want and we are looking for those enhancements that are evolutions rather than revolutions. We don't believe that this is a completely new environment. It's tough, but it's been tough before and it will be tough again."

Looking ahead, allocators see no major reasons to shift their CTA allocations. Martin Alm of OPM explains.

"We don't change strategies from year to year. Obviously trend following returns tend to be very lumpy, and there's really no way you can isolate it. We said that this year could be like 2007: that could be great or it could be really bad depending on what happens in 2019. And obviously, I don't know what's going to happen next year. We don't try to time these kind of strategies and I don't know exactly which model is best. We try to look at what the firm is doing, how the risk management works, and the structure, administrative setup and things like that. It's more a process of finding a good mix of different kinds of strategies."

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NordicInsights

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.











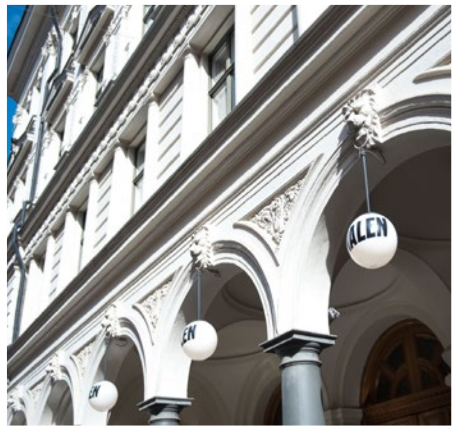


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