HEDGENORDIC RT

November 2019

Round Table Discussion:
Global Macro 2019

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Editor´s Note...

Macro: The Quintessence of a Hedge Fund Strategy

It was the first time HedgeNordic had called for a round table discussion on Global Macro and strategies active in the field. In previous years, we had sprinkled in a macro manager or two to our traditional round tables on CTA/ Managed Futures. It seemed a natural thing to do. At times, the two approaches show similar return patterns, suffer similar fates, are reviewed and compared by investors through the same lens, and feel pleasure or pain from similar market events. Why, even the largest index providers tend to throw them in the same buckets, mix CTAs into Macro indices and vice-versa.

At HedgeNordic, we do the same, painfully, and include macro managers in the Nordic Hedge Index CTA sub-category. The Nordic universe simply is too small to fragment it further, so we limp along while knowing better.

It was Serge Houles, of IPM, who eventually convinced me to try and put together a dedicated round table focusing on global macro exclusively. After some brainstorming we had a short list of managers and allocators we wanted to approach. Serge was very helpful in holding my hand, twisting some arms and pushing things forward. Many thanks, Serge!

One of the first names we had on the list was the oldest, and at times largest Swedish hedge fund, Nektar. Nektar however had returned assets to investors and closed its doors for good, earlier in the year, following the redemption of Brummer & Partners. Nektar, for me, was a symptom of how many managers in the macro space, some for many years, had struggled to generate satisfying returns and attract assets, and how hard it was out there in open markets.

Global Macro is –arguably- the quintessence of a hedge fund strategy. Various instruments are used, trading numerous markets across the globe, using leverage at times and having the ability to go long and short. Some of the brightest brains, greatest brands, biggest egos and successful stories in asset management are found among global macro managers. (We know, of course, often bad experiences make great stories!) It is also the space where seemingly two simple traits can make all the difference between fame and glory and utter disaster: skill and experience.

However, one must be aware this group is all but a homogeneous clique and views on the world and how to make capital on those views come in all the colors of the rainbow. Questions related to what kind of data is used, how it is processed, weighed, interpreted and evaluated, what sort of time frames, sensitivities and filters are applied is what makes global macro such an interesting, widely dispersed and competitive field.

The stage therefor, was set for a great discussion. The ingredients were simple: put some macro managers around a table, add a couple of allocators, close the doors and throw some subjects at them to feast on and watch the **magic** happen.

Joining in the discussion, moderated by Jonathan Furelid were Alexander Melsom (Nordkinn), Ulrika Bergman (Nobel Foundation), Ulf Torell (Alfred Berg), Asif Noor (Aspect Capital), Ashwin Thapar (AQR), Arne Hassel (IPM), Hans Fredrik Lysén (RPM) and Torbjörn Hamnmark (AP3).

We were able to cover a wide variety of topics, including the history of macro – where are we now?, the investor view on macro, the pros and cons of systematic versus discretionary management, macro in the current (unusual?) environment, macro as cheap factor exposure, the hidden risks in global macro and listened in to what markets are telling macro strategies at this time.

The paper, though there is some volume to it, makes for a good read and brings some interesting insights on the topics around global macro, both from a manager´s, as well as from an allocator´s perspective.

Don't miss it!

KAMRAN GHALITSCHI

CEO & PUBLISHER HEDGENORDIC

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PARTICIPANTS:

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN ON OCTOBER 9TH 2019

Ulrika Bergman, CFA

Chief Investment Officer

At the Nobel Foundation Ulrika is actively managing a SEK 4 billion fund portfolio, covering all asset classes. Before joining the Nobel Foundation in May 2017, she was heading up a Global Equity Team managing SEK 170 billion at SEB.

Up until 2007 she held positions as Risk Manager and Account Manager at RPM where she started her career. RPM is an alternative investment house, focusing on directional investment strategies, specifically Managed Futures and Global Macro. She holds a Master of Science in Business Administration and Economics. Ulrika Bergman is a CFA® charterholder.

Ashwin Thapar

Co-head of Macro and Multi Strategy Research and Portfolio Management

Ashwin Thapar is a Managing Director and senior member of the Research and Portfolio Management team at AQR Capital Management. In his role, he co-heads research and portfolio management efforts on AQR's macro and multi-strategy funds, including the firm's Managed Futures, Global Macro, Alternative Risk Premia and Multi-Strategy products.

Ashwin is a member of Investment Committees covering these areas, as well as the firm's Market Risk committee. Ashwin has published research on topics including currency hedging, deep value and alternative risk premia investing and is a frequent conference presenter on these topics. Prior to joining AQR, Ashwin earned a B.Sc. in finance and a B.A. in mathematics from the University of Pennsylvania, graduating summa cum laude in both fields.

Alexander Melsom

CEO Oslo Branch - Investment Manager

Alexander Melsom is one of the Founding Partners and Investment Manager at Nordkinn.

Prior to joining Nordkinn, Mr. Melsom was Head of Portfolio Management at the Central Bank of Norway FX reserves. Mr. Melsom has also worked as a proprietary trader and portfolio manager at DnB Asset Management and Gjensidige.

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Asif Noor

Portfolio Manager

Mr. Noor joined Aspect in February 2016 as a Portfolio Manager. He is a founding partner of Auriel Capital Management, which was acquired by Aspect in February 2016. Prior to launching Auriel in 2004, he was Vice-President, Quantitative Research and Portfolio Engineering in Deutsche Asset Management in London where he developed quantitative Global Tactical Asset Allocation strategies from 2002 to 2004.

From 2000 to 2002, he worked in the Quantitative Research and Portfolio Engineering Department of Deutsche Asset Management in New York where he focused on currency overlay products. His career started at Barra RogersCasey as an Analyst in Investment Consulting. He is a CFA charterholder and holds a B.A. in Economics from Bard College (USA).

Arne Hassel

Chief Executive Officer

Arne Hassel is the Chief Executive Officer with responsibility for all parts of the firm. He joined IPM in July 2019, bringing close to 30 years of financial industry and investment experience. Prior to joining he was Chief Investment Officer for Barclays Investment Solutions, after having been Head of Investments at Coutts Private Bank.

Other previous roles include Co-Head of Multi-Asset Allocation at Universities Superannuation Scheme, the largest pension fund in the UK, and Head of Global Currency Management and Head of the Hedge Fund Strategies Group for Europe and Asia at Goldman Sachs Asset Management. Arne holds an M.Sc. in Economics from the Stockholm School of Economics and studied subjects equivalent to a BA in Political Science and BSc in Biotechnology at Uppsala University.

Ulf Torell

Portfolio Manager

Ulf Torell is a Portfolio Manager at Alfred Berg. Alfred Berg is autonomous Nordic asset manager within the BNP Paribas Group. Operating in the Nordic countries from offices in Oslo and Stockholm, specialized in portfolio management, analysis and client service.

Ulf Torell has been working at Alfred Berg since 2010 mainly focusing on tactical asset allocation. Up until 2010 he held positions as Equity and Fixed Income Strategist at Swedbank and Ålandsbanken. Ulf holds a bachelor's degree in economics from Uppsala University and a licentiate degree in financial economics from the University of Gothenburg.

PARTICIPANTS:

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, ON OCTOBER 9TH 2019

Torbjörn Hamnmark

Head of Strategic Asset Allocation

AP3

Torbjörn Hamnmark is Head of Strategic Asset Allocation at the Third Swedish National Pension Fund, AP3. AP3 is a USD 40 Billion sovereign wealth fund serving as a buffer fund in the state income pension system. He has been with AP3 since 2010 as Senior Strategist with responsibility for portfolio construction. Since October 2014 he is Head of Asset Allocation. Torbjörn is also a member of the investment committees for Mistra (The Swedish Foundation for Strategic Environmental Research) and WWF Sweden.

He has an MBA in Finance and International Business and an Executive MBA in Leading Innovation, both from the Stockholm School of Economics. Before joining AP3 he was Head of Fixed Income at DnBNOR Asset Management in Stockholm for ten years. He started his career in 1989 as an options specialist with Arbitech. His options career continued with Citibank in Frankfurt and London, where he was based 1995-1998.

Hans Fredrik Lysén

Portfolio Manager

RPM investments DIFFERENT MOVES.

Hans Fredrik Lysén recently joined RPM Risk & Portfolio Management AB to set up a new systematic multi-asset-fund within the Swedish asset manager best known as CTA multi manger. As portfolio manager of this fund he will continue to offer investors the same trendfollowing model as he used as manager of a family office for more than 3 years with focus on increasing risk adjusted returns by reducing maximum drawdowns. Lysén will also be responsible for sales, raising assets for this fund.

Previously he had worked at Handelsbanken, responsible for the asset management offer to Special Clients, Global responsible for Private Banking concept which had the highest ranking in Sweden during this period. Within Handelsbanken he had also been risk controller responsible for Equity Risk Policy, and senior project leader Internal Audit Handelsbanken Markets and Central Treasury.

Jonathan Furelid

Moderator

HEDGENORDIC

Jonathan Furelid is working as a freelance communications consultant and journalist with a special focus on the Nordic asset management industry.

Jonathan's previous experience include roles as risk manager and investment analyst at RPM Risk & Portfolio Management and head of investor relations communications at Laika Consulting.

Jonathan has been working with Hedge Nordic on a freelance basis since 2012.

Jonathan Furelid holds a M. Sc. in Business Administration from Linköping University.

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Participants, left to right: Keith Jarvis (Aspect), Alexander Melsom (Nordkinn), Ulrika Bergman (Nobel Foundation), Ulf Torell (Alfred Berg), Asif Noor (Aspect), Ashwin Thapar (AQR), Arne Hassel (IPM), Jonathan Furelid (HedgeNordic), Hans Fredrik Lysén (RPM), Torbjörn Hamnmark (AP3), Alexandra Voss (IPM), Kamran Ghalitschi (HedgeNordic), Filipe Wallin Albuquerque (HedgeNordic), Joakim Jerner (AQR)

ROUND TABLE DISCUSSION

GLOBAL MACRO

October 9th 2019, Stockholm

On October 9th, 2019, HedgeNordic hosted a macro roundtable in Stockholm, including some of the world's most distinguished managers within the field of macro trading, both from the systematic and discretionary camp. Alongside these managers, we had invited Nordic institutional investors to give their views and share their experiences from allocating to macro strategies.

The purpose of the discussion was to give a background to where macro is today, what makes the case for a systematic or discretionary approach, why one should invest in macro now and how the unusual environment of record low interest rates has impacted the strategy. Other topics included what catalysts are needed to bring back outsized returns to the space, if there is an increasing trend from investors to bring macro in-house and what investors can expect from macro going forward.

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The history of macro – where are we now?

In an effort to give the historical aspect to where macro is today, participants were asked to share their views on how macro differs today compared to 10 years ago and how the perception of macro might have changed from the investor side.

Ashwin Thapar, who is co-heading research and portfolio management of macro strategies at global quantitative investment manager AQR, says that much of the outperformance of macro post the financial crisis was driven by trend following signals while today he sees broader fundamental information being brought into the strategy.

"The macro space received a lot of interest during the post-financial crisis period, when many macro managers did very well. However, much of the outperformance was driven by trend-following signals, and CTAs delivered strong performance. As a consequence, we observed that a lot of macro investing has converged towards different flavors of trend-following. These include moving averages, crossovers and others, but ultimately simple trend signals. Even if trend following is a strategy we believe in, it seems like an overly-concentrated approach to creating a global macro portfolio – a strategy that one would expect to have a very flexible and diversified mandate!"

"What we've pushed to do within the macro space is to capture the broadest possible set of fundamental information, diversifying across both systematic and discretionary approaches. It's important to note that the nature of the fundamentals that drive markets can vary through time. Prior to the financial crisis, just focusing on monetary policy was perhaps good enough, and we think that was the most commonly used type of indicator. However, since the crisis there have been times where you'd likely say monetary policy has mattered less, when what most investors believed to be a zero interest rate lower bound came into place. For countries at the lower bounds, you could either say that monetary policy was going to have less impact, or that the way you capture it in the model had to change."


Jonathan Furelid – HedgeNordic


Arne Hassel – IPM

"Over the last ten years macro has become a strategy where broader fundamental information has to be incorporated, whether that's on a systematic or discretionary basis. I think this is something that managers are having difficulty doing well. Perhaps it's because they haven't tried yet, or because they've just been focused on trends. Perhaps it is because they've struggled to do so in a world where the nature of the fundamentals has changed, and the datasets have become more varied. Nowadays, information might be sourced from the likes of Twitter, rather than traditional news sources. So, I think investors in the macro space will need to evolve their processes to capture the channels that matter today."

"For better or worse, there's a lot of different information sources and it's hard to track everything that's coming through. In my mind, a systematic process is always necessary to decipher all of the relevant information, but the real edge lies in how you process that information."

Arne Hassel of Swedish systematic macro manager IPM, underscores that much of what macro does today is very similar to what it did ten years ago, but that the outcome of positions still shows a great deal of dispersion. Hassel also highlights that the investor perception of macro has changed.

"Something I find intriguing with macro, is that so many things actually remain the same or quite similar, and still there is so little consensus. I'm sure there are some differences, as you talked about, but if you look at the economic machine, it's not that different. And the market rules are not that different. Also, the behavioral functions underpinning all of this remain the same. Still, there is no consensus about how the economic machine works, what information is the most relevant, how you should interpret this information and how other people look at this information. That's good news for macro as a strategy. It means that there will be a persistent opportunity set. It will change, it will evolve, but I can't see everyone agreeing on what are the right things to look at within global macro and then coming up with the same positions. We continue to see a huge dispersion when it comes to what people are doing in this space and what the outcomes are."

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> " If you are a macro manager, you have to do things differently. Forecasting financial markets has become more challenging. There are more participants, more players trying to forecast markets with the same type of indicators."
>
> Asif Noor

"Perhaps just to add on to that, what I believe is the same and what I find is different. It seems that the perception of global macro is changing. When it comes to macro returns, investors now identify various factor exposures that were previously categorized as macro. And these factors – for example momentum, value, carry and defensive – are increasingly viewed as generic. So, I believe there has been a shift in what people mean by macro returns. Now the focus is more on what's not captured by the factor exposures, the so called 'clean alpha'. And that's good news for us at IPM, because we've focused on the clean alpha since we started some 20 years ago."

Asif Noor from UK-based systematic macro manager Aspect Capital highlights that there has been a structural change to market behavior since the global financial crisis, which has made it more difficult to build a macro program today. The level of investor sophistication regarding how macro works he believes has improved as well.

"I tend to agree with both gentlemen here, but when you talked about going back in time, 10 years, I think you have to go back a little bit further maybe 12 years so before the global financial crisis. From '07, '08 we've seen a big structural change in the way markets behave, and actually the models we have been building to forecast markets. And I think generally it was, (blanket statement), relatively easier to build a macro program, because what we used to consider macro 15, 20 years ago is now considered Risk Premia to a certain degree." "And the other thing that's changed is the level of investor sophistication. I find for example, while presenting to an institutional client, talking about value, carry, and momentum isn't good enough. If you are a macro manager, you have to do things differently. Forecasting financial markets has become more challenging. There are more participants, more players trying to forecast markets with the same type of indicators. But what's offset that is the type of data sets we have, for example alternative data sets and technological advances that allow us to test relationships we couldn't test 10, 15 years ago. So, you have to take good with the bad. From my perspective, there has been a change in terms of how we build forecasting models, pre financial crisis to post financial crisis. It is important to evolve and build models that are actually up to date. You can actually use a lot more data sets. When I started building macro programs, we had literally all our data through one data vendor and maybe a Bloomberg contract and that's it. Now, the sky is the limit. Every week we get a call from a new vendor offering a new data set. And most of it is useless to be honest. But there's still a lot of information in some of the data sets which cannot be ignored."

Ulf Torell – Alfred Berg

Ulrika Bergman, CIO of the Nobel Foundation wonders whether it has been an arms race within systematic macro and whether it is more difficult to start a global macro program today. According to Asif Noor of Aspect, that is the case, but he says it is very important to stay true to your investment philosophy.

"Yes, it is an arms race, but you have to stay true to what you believe in and to what your philosophy is. Our philosophy has always been, hypothesis-driven research. So, if you actually forget about the data first, but look at the empirical hypothesis, what anomaly you trying to capture, then you can filter out a lot of the rubbish data sets, the data sets that are not applicable. We come across clients who tell us, XYZ manager came in, and they have 50 PhDs, analyzing a hundred alternate data sets every month. How can you compete with that? And that's just becomes a FinTech company, right? You're just basically processing and more computer power you put in to find some things, some relationships that works. That's not how we do research. We talk about hypothesis, what we're trying to capture, and do we have the data to capture that?"

Ulf Torell of Alfred Berg thinks out loud and asks whether the current landscape, that has been highly affected by the quantitative easing of central banks, is likely to continue affecting the causalities between financial and fundamental data.

"If we consider the structural events that have happened over the last decade, there have been some quite considerable events, for example the financial crises. These structural events have affected the macro economy altering the causality between macro and financial data on a broad scale. To what extent and how this has happened is though harder to say."

"One example is the QE that has been launched, to alleviate the financial crises. This may have contributed to the plummeting productivity growth and the lower natural interest rate. It's hard to identify whether this

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trend – of declining interest rates - will continue, or whether it's temporary. I guess these types of questions are what many macro hedge funds are battling with these days, when they are reviewing their forecasting models. Are the new relationships that we see temporary or permanent? We can observe that the causalities between financial and other data changed, but for how long? These are vital questions we need to find answers to as we base our forecast on these relationships."


Alexander Melsom – Nordkinn Asset Management

Alexander Melsom of Norwegian / Swedish discretionary fixed income macro manager Nordkinn says he thinks macro over time is quite stable but that you need to adapt to change.

"I think macro over time is quite stable and PMIs are still one of the main drivers of market movements. However, the big difference has been accepting and adapting to the lower neutral rate, lower inflation and lower inflation expectations. What brings rates and equities up and down are more or less the same factors."

"Every year there will be new factors driving the markets and adapting to the changes is key. Nordkinn is a pure discretionary macro fund. We work as a team and are able to adapt to the changes by testing and dissecting the different views within the team. Nordkinn started in 2013, and with our relatively long history of managing assets in a negative rates environment we believe there will still be many opportunities."

Explaining whether there are model-driven components to Nordkinn's approach, Melsom says:

"The big difference has been accepting and adapting to the lower neutral rate, lower inflation and lower inflation expectations."

Alexander Melsom


Torbjörn Hamnmark – AP3

"It's still a part of our absolute return bucket to have external hedge funds. But as a reflection of a couple of years of poor performance, and the debate around high fees, we have reduced that exposure to become maybe a bit more self-reliant."

Torbjörn Hamnmark

"We are not model-driven, and every decision is discretionary and based on individual skills. However, we have a large "tool kit" that helps us with analyzing the market. Risk is not separated into individuals but managed as a team and risk is allocated through conviction levels. If we have a high conviction on a position, we allocate a predefined level of risk."

"When working as a team it is essential to have a strict structure and pre-defined levels of stop-loss. Our strict structure moves the difficult decisions more into the area of behavior finance and somewhat into a more systematic way of thinking."

The investor view on macro

Torbjörn Hammark of AP3 was asked to give his view on whether macro trading is increasingly internalized these days given that there is easier access to macro factor exposures these days.

"I wouldn't describe it as you internalize a macro hedge fund, but of course my team's work is very much to

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> "Everything that diversifies your portfolio, or your specific sub portfolio, is something that I'm looking for, of course."
>
> Hans Fredrik Lysén

focus on macro risk factors, and we are fairly active and make big portfolio decisions in terms of overall portfolio duration, overall currency exposure, overall equity exposure, and so on, is that a new thing? Maybe not. But I think that's the added value we can make If you look at the overall running of the portfolio. We do internalize macro funds in terms of running our internal alpha mandates, which we still do, they tend to be less cross asset, and more dedicated specialist mandates. That's one shift."

"We are probably less dependent today than we were 10 years ago on the external macro hedge funds for example. It's still a part of our absolute return bucket to have external hedge funds. But as a reflection of a couple of years of poor performance, and the debate around high fees, we have reduced that exposure to become maybe a bit more self-reliant. The external hedge funds are there to generate alpha."

According to Ulrika Bergman, the Nobel Foundation treats macro as part of the hedge fund bucket, rather than a separate silo.

"It's more of a hedge fund silo, where we think in the terms that our hedge fund bucket should be somewhere in between equities and fixed income, both return and risk terms. The portfolio is a mix of asset managers that provides that. I would say we only have systematic macro managers, and it is within the multi-strategy funds."

It is harder to evaluate discretionary managers. Many of the hedge funds that we have been allocating to, have a really long track record. With a systematic approach, it's easier to understand that this type of process could be repeatable over time. And with global discretionary macro, especially with a smaller team, it's harder to make sure that same person who made the decisions stays in place. That's one explanation. The other is maybe that those are the funds that we have found with the best historical track-record."

Hans Fredrik Lysén, as a previous allocator within a family office, says he sees macro primarily as a portfolio diversifier.

"Everything that diversifies your portfolio, or your specific sub portfolio, is something that I'm looking for, of course. But essentially I can agree with the others here. I like Asif's idea to stick to your philosophy, since it is cleaner and easier for the investor to know what one is buying. And if it's going bad. Even when the idea doesn't work at the moment, for whatever reasons, it is at least easier for your investors to evaluate if they should sell off, reduce or even increase their investment depending on how the manager chooses to allocate.

On systematic versus discretionary

Arne Hassel adds his views on systematic versus discretionary.

"Perhaps just to add to this discussion on systematic versus discretionary, I've been on both sides and managed both types of strategies. And I think they both make sense. Sometimes you hear the 'man versus machine' argument, that discretionary is man and systematic machine. But then you forget that there are humans coding, developing and re-evaluating the algorithms. So for me the key thing is how rule-based you are. Here, systematic macro has the advantage of being in most cases totally rule-based. And that makes it easier to handle human biases. I know, from having been on the discretionary side, how hard it can be to avoid these biases and stay objective. But for systematic strategies, it's simple. It's built into the process."

"Another factor is the amount of information that's now available, how you handle it and make use of it. For example, at IPM our strategy has five different models with 95 different factors and a lot more time series. I would have no chance as a discretionary manager to really take in all this information and use it when I come up with conclusions. But as a systematic manager I can do that. Even though I think both strategies have

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their strengths, I think a future with more available information will favour the systematic strategies."

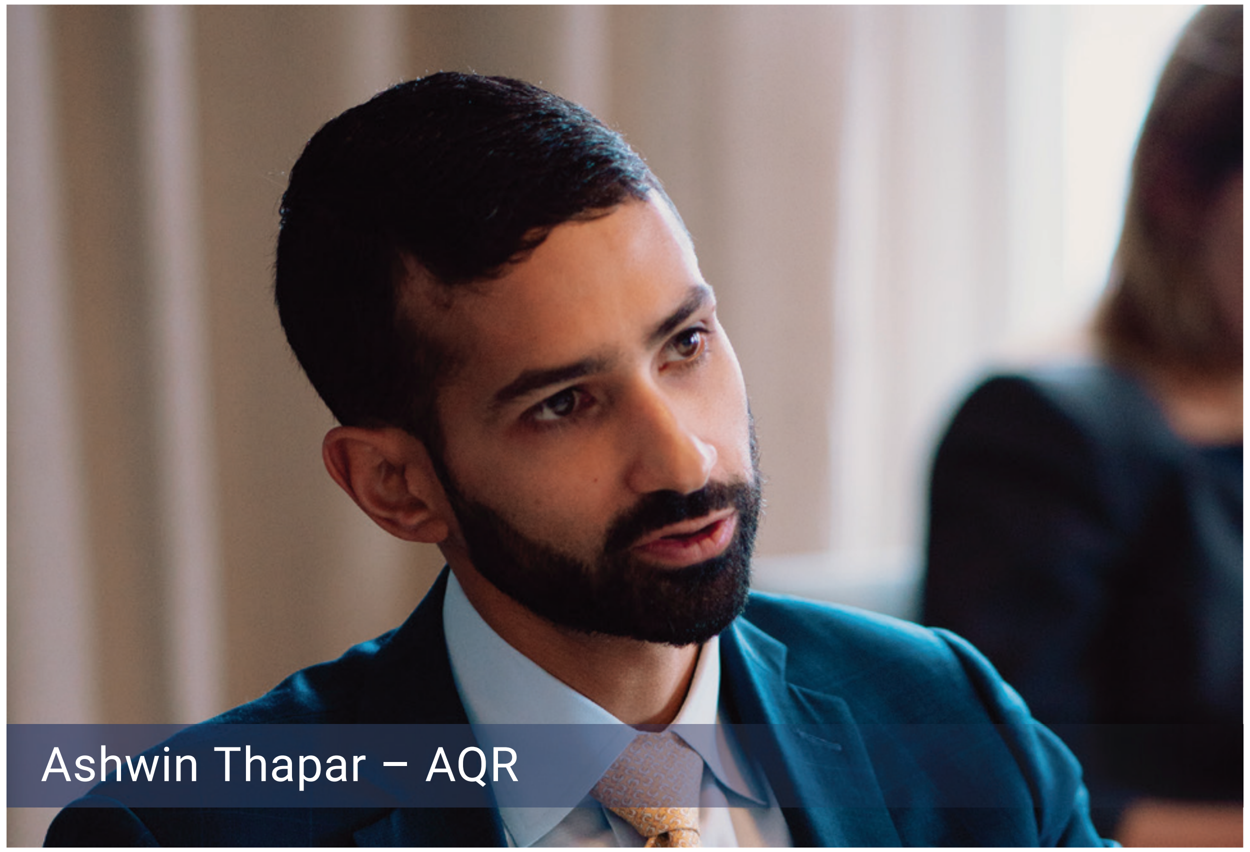
Ashwin Thapar of AQR states that macro as a strategy may be best served using both systematic and discretionary approaches.

"AQR is short for Applied Quantitative Research, so our name clearly denotes us as a systematic manager, and we've been running systematic strategies since our founding 21 years ago. However, our thinking has evolved over the last 10 or so years. We now believe that in the macro space in particular – where portfolios end up being more concentrated – there are merits to both systematic and discretionary approaches, and perhaps an investor can do best by diversifying across both."

"I think the issue investors often face today is that realizing the desired level of volatility has been incredibly challenging in both the macro space and other places. The more allocators diversify their hedge fund book, the less risk they have tended to end up with – sure they get diversification, but it hasn't translated to better returns. Therefore, we've looked into how we can provide that diversification for investors in a way that also can translate to better returns."

"We started down the path of trying to understand this concept, asking how systematic and discretionary approaches best can be combined and how to build a better macro portfolio. What are the strengths of systematic and what are some of the shortcomings? A clear strength is its ability to capture a lot of different types of information. There's been plenty of talk about risk premia, such as value, momentum, carry and defensive, all supported by published research, including papers by AQR. I'm a big believer in these types of risk premia, and also a big believer in evolving the research process to capture more and better relationships, and in incorporating the many new data sets that are constantly being created."

"At the same time, while it's hard to admit any shortcomings of systematic investing, when a lot of managers are working with the same datasets and are teasing out similar relationships, systematic approaches can face challenges in certain environments, where historical relationships are overly relied upon. If many investors are positioned in the same way, there can be the potential for big reversals. Additionally, there will always be new types of information that we have not yet figured out how to systematically incorporate. It could for example be political, with questions like: which models are capturing Brexit outcomes? Which models are capturing what's happening in Turkey or in Hong Kong? How do we balance them?"


Ashwin Thapar – AQR

"The more allocators diversify their hedge fund book, the less risk they have tended to end up with – sure they get diversification, but it hasn't translated to better returns."

Ashwin Thapar

"Here I think a discretionary approach can use the same set of information, but with a quicker-evolving approach to understanding how it's combined, how relationships manifest, what matters where and when. But it may be best to start from the vantage point of a quantitative firm, where you have the best machinery to collect and process tons of data. Then you add in the discretionary element, enabling an experienced manager to predict how the data impacts markets in a more dynamic way."
"We think this is a good way to be hedged against one type of relationship failing. To bring this back to the capital efficiency argument we discussed earlier, the investor can think about systematic and discretionary as two complimentary, diversifying approaches, rather than as a competition between them. Combining them in a single fund structure has the potential to help investors translate that diversification back to higher returns, without necessarily just reducing the volatility. This is the philosophy we've moved towards in the macro space."

Macro in the current (unusual?) environment

Given an unusual macro environment with historically low interest rates and massive central bank interventions, the participants around the table were invited to share their views on how macro strategies are affected. Asif Noor highlights the importance of having many diversified models.

"From our perspective, the building blocks should be a set of diversified models. We have dozens of models; some may not be predictive over the next couple of years. But you need to have substantial set of uncorrelated return streams that can compensate you in those environments."

Adding, he says that it is important to understand why a particular set of models are not working in a given environment, and explains how at Aspect, models are not being phased out just because that they underperform temporarily.

"It depends on what the reason is why certain models are not working. The advantage of being systematic is that we have a lot of data, and everything is process driven. We can actually simulate different scenarios. Even fake a scenario, where you can get inflation data with perfect foresight, and see whether the relationship itself is not working, or if the model is broken. It just goes back to what I said initially. It's about your hypothesis, and what you're trying to capture. If the model is not working for a few years it doesn't bother us, because we can then do what the discretionary manager would do and look


Asif Noor – Aspect Capital

at the environment, look at what's changing QE, and negative real yields for example."

"Throughout my career I have always been asked, "are you discretionary or systematic?" Well I'm kind of both, because the models are based on hypothesis. It's systematizing discretionary ideas, and then as time has gone by, and we now have some elements of timing of good models. Timing is similar to what a discretionary macro manager would do. We just do it in a repeatable fashion."

"Every time a particular scenario comes up, we'll have a threshold crossed. The strategy does the same thing, but the idea is actually discretionary, or having looked good through 20 years of ups and downs has taught us a few things that we could actually utilize in a more efficient way. I am not such a big fan of mixing systematic and discretionary processes together. At least from my perspective, the result becomes more discretionary than systematic."

Answering the question on what models are struggling in the current environment, Asif Noor says:

"The traditional macroeconomic models, for example, last year, didn't work - models looking at inflation data for example. But we still allocated risk to them, because we believe that it's a temporary aberration, and fundamentally what drives markets. You cannot change that. It goes back to the point we were discussing earlier: if you are your true macroeconomic believer of how things work. If inflation picks up, volumes will increase at some point. It's just a question of the horizon. That's the other point that I wanted to make earlier: it really depends on your utility function of the strategy."

"You may have a macro manager who has a six to nine month holding period, and they're happy to just wait out the noise. There's going to be noise in the short term, and then there are tweets coming out here and central bank guidance there. They may be over in the next one or two weeks but bring a lot of volatility. But you have a process that says over the next six months, my strategy will return a certain Sharpe Ratio. So, you are okay to hold on to that volatility. Do you have another macro manager that wants to benefit from that shorter-term volatility, and also benefit of the longer term? It really depends on what you say your objective is, what your utility function is."

Arne Hassel agrees that diversification is key. He also acknowledges that the opportunity-set for relative value strategies remains good.

"You had asked a bit earlier about negative yields and what effect they have on macro as a strategy. Many macro managers, including IPM, are very diversified. If a part of a market would be acting in an odd or unusual way, that would still be a small part of the total universe we look at. Also, we are 85% relative value, which means that we care more about differences than levels. Our directional part doesn't have a long or short bias, which means that changes often are more important than levels."

"That also brings me to your question about opportunities and opportunity sets going forward, what's struggling now and what's likely to come back. I believe it makes sense to look at risk adjusted returns as a function of a manager's skill and opportunities. In the case of systematic managers, it would be the quality of the system and the opportunity set. At the beginning, I said that I think that the opportunity sets for macro are quite persistent. But what we've seen recently is that the differences in certain areas, for example within bond yields, have become quite small. This means that the opportunity set is not as rich as before when we had more dispersion."

"But I think there is some good news around the corner when it comes to dispersion. It might be overshadowed right now by the amount of liquidity sloshing around in the system and people chasing ideas based on momentum and sentiment. But underneath we see the dispersion and the opportunity sets growing. There seems to be a backlash to the globalisation trend, governments increasingly choose different paths for their macro policies, and the central banks come across As less independent now than previously. All this point towards more differences and more dispersion in several markets. This is good news for the opportunity set for relative-value oriented strategies like ours."

"We also seen new opportunity sets that we increasingly can tap into. Emerging debt is one example. Because our approach has pretty high hurdles for markets to be included when it comes to, for example liquidity and the amount of idiosyncratic or event risk we can accept, we've had to wait for some of the markets to mature. But an increasing number of emerging markets are now ripe for the kind of strategies we are using. So even if some opportunity sets have been a bit anemic of late, the future actually looks quite bright."

Hassel was asked whether central bank intervention is a negative for the strategy, and he reminds us that we have been in similar environments before.

"It's easy to forget what it was like before the 90s. Many of the things happening now are not too different from that period, and many strategies did quite well in that kind of environment. Sure, there are some concerns about central banks now controlling not only the short end of the yield curve, but increasingly also the long end. And that probably causes some problems. But that's not going to last forever. And, as I mentioned before, I think there are quite a few other things happening that will make the opportunity sets richer and more attractive going forward."

Alexander Melsom says that skill is required to understand central bank actions.

"Central banks globally have been quite preemptive in cutting rates so far, so maybe there is some hope of

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> "I would never ask a manager to just extract one part of the strategy. I think a good hedge fund manager should have diversified alphas, and have a good program as a whole. And that's what I would pay for."
>
> Ulrika Bergman

turning the negative sentiment. Some central banks have however been acting very differently, especially on how they have used the window of opportunity to normalize rates. The key word is "skill" to understand the different central banks reaction functions. For Nordkinn as a discretionary fund with a Nordic edge, Norway and Sweden are the main contributors to our performance."

Macro as cheap factor exposures or carve outs

We wondered whether macro today is more accessed through cheap factor exposures and whether investors increasingly demand customized solutions from fund managers, Ulrika Bergman says:

"I would never ask a manager to just extract one part of the strategy. I think a good hedge fund manager should have diversified alphas, and have a good program as a whole. And that's what I would pay for."

"Outside of the hedge fund space, we have allocated to risk premium strategies, but I can't say that they are better than the hedge funds. Both have their place in the portfolio. I look at our portfolio as a whole and try to understand what risk factors I have exposure to. Most of the time obviously it is the equity factor that's driving returns. But that is - I guess - a general problem in today's world. In that sense it might be good to add some type of risk premia; value, momentum or other factors. But when I allocate to a hedge fund, of course, I don't want those types of exposure. I want the residual or alpha that a manager can produce. I wouldn't pay hedge fund fees for those type of simple factors."

Ashwin Thapar of AQR taps into the risk premia discussion.

"AQR is a very large player in the Risk Premia space, and we were among the first to say: "the underlying types of strategies run by hedge funds are very common". Risk premia describes strategies that are well understood by the academic literature, have pervasive evidence, long time series, work in different asset classes and geographical markets. Most importantly, there are fundamental or behavioral hypotheses for why they exist. We offer portfolios that explicitly provide efficient and well-implemented exposure to those risk premia in a diversified way. I would argue that good implementation and efficient harvesting of these risk premia is of key importance, and that thorough and more sophisticated implementation approaches justify a marginally higher fee. So, there shouldn't be a race to the bottom on fees."

"Managers harvest returns or allocate risk across these ideas in a huge variety of ways. I would argue that it makes sense to really understand how a manager is extracting value from these ideas, and to allocate to the managers you think can do that well in a repeatable fashion. However, I'm also fully sympathetic to the notion that if you are paying hedge fund fees, or anything close to that, you should have access to a return source that has residual information above and beyond things like alternative risk premia."

"Going back to an earlier point, I think it's important to understand what a hedge fund is trying to deliver, and to evaluate whether it is doing exactly that. If you look at diversified hedge fund indices in the macro space, they might be pursuing many different ideas. We have found that many of these strategies boil down to return streams that are captured in a simple trend-following strategy. There are several CTAs showing up in the hedge fund macro indices, but even if you exclude these and look at actual macro funds, there is a similar pattern. I think it's valuable for allocators to focus on making sure your macro exposures are truly diversified from trend-following and momentum biases only. This is something we've been focused on in the context of our global macro strategy. We try to make sure it's diversifying and still can add value in periods when trends suffer. Because any good long-term strategy, like trend following, can go through tough periods."

"The last few years were challenging for trend following, and it's perhaps not surprising that macro indices performed poorly at the same time. I think a value-adding strategy should provide residual returns versus

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alternative premia, so it should be doing something meaningfully different enough to show up in return characteristics even if traditional risk premia are doing poorly. It is important to make sure there's that differentiation."

Discussing how transparent macro managers can be towards investors to make them aware of where returns are coming from, Ashwin Thapar claims that transparency is key and that AQR put a lot of effort into explaining performance.

"At AQR, we try to provide investors with a strong understanding of what they are getting. Transparency is something we value highly. For a risk premia-based portfolio, we think it's very important for investors to have a clear understanding of the underlying ideas driving the portfolio. This is why we publicly release research on underlying ideas that go into those portfolios. We try to spend significant time to educate investors upfront, as well as on an ongoing basis through portfolio reviews or ad-hoc conversations. We think it's important to help investors understand what's happening in the portfolios, how we're thinking about it, and how each piece works."

"The ability to be transparent decreases slightly as you move further up in the alpha spectrum from traditional risk premia, such as for an alpha-focused macro hedge fund with added discretionary elements, or a fully diversified systematic program using alpha signals. But we think this is an important trade-off, because it allows further value creation by enabling the use of more proprietary, lesser-known information sources. Overall, I will say that the firm leans much more in the direction of transparency, which led us to help drive the alternative risk premia movement to demystify hedge fund strategies."

Asif Noor is surprised investors are not demanding more customized solutions.

"I'm actually quite surprised I offered this up to detriment of the sales guys, customized solutions. Because we use currency carry as an example, dollar is now a funding currency. So a lot of pension plans, especially in the US,

"In terms of customization, one trend we are seeing more in Europe is on the ESG front."

Ashwin Thapar

have some sort of a hedge ratio of 50% hedge, that they have a dollar basket there, and that dollar basket is going to be quantitative carry. So they hire a macro manager that has quite a bit of allocation of risks in carry, I'm using a stylistic example, then you're really doubling up on that exposure. A lot of the allocators make the assumption that you as a macro manager, or as an active manager will provide the most diversified returns possible, and that it's best not to tinker with it."

"But I am surprised that we can't provide more customized solutions, that would be much more value add. Sometimes we get requests for the more liquid parts of the portfolio for lower fees, which again, surprisingly in a bit contradictory because again, the amount of money that they save on fees does not correspond to how much alpha they would give up. So yes, we don't get many requests for subsets of the portfolio unless there's a particular asset class that investors don't want to allocate to for corporate reasons."

Ashwin Thapar sees a customization trend within ESG.

"In terms of customization, one trend we are seeing more in Europe is on the ESG front. While attention historically has been slightly more focused on the equity side, we think that spending more time researching ESG-relationships within macro can pay off. This might be a little bit more challenging, since classic ESG data vendors such as MSCI, focus mainly on within-country comparisons and for a smaller universe, and is thus less relevant for cross-country analysis."

"In addition, more concentrated investment universes can pose a challenge. For example, if you have, say, 20 liquid countries within developed markets, it's harder to incorporate ESG constraints than if you had a universe of thousands of stocks. I believe there will be an increasing desire for customization around ESG exposures in the macro space, and AQR has an active ESG research program that we're spending a significant time and focus on."

Ulrika Bergman prefers specialized managers if she were to look for a specific factor exposure.

"I have a look at our portfolio, and find that we have huge underweight in, say, value, and I would like to correct that, I might allocate to a value strategy separately to compensate. But I don't want to go to a hedge fund

aspect capital RPM investments DIFFERENT MOVES. Alfred Berg AQR IPM NORDKINN ASSET MANAGEMENT AP3

manager, and ask them to take out the value factor. I rather try to find a manager that is specializing on that factor. Someone who has a good track record in doing that."

Arne Hassel says that it is important to have a view on who should do the diversification part – the manager or the investor.

"Diversification is good, and perhaps the only free lunch in town. But the question is - who does it for you? What we find with many of our institutional clients is that they often prefer to do the diversification themselves. They are looking for the building blocks, be it traditional betas, factor exposures or what can be called 'clean alpha'. And we fit very well into this building block or Lego approach, as a natural part of a well-diversified portfolio."

"Then there are other types of clients who might want you to diversify and provide a combination of several things or building blocks. This is something many managers can do. The question is if you credibly can offer the best blocks across a wide range. When you develop and grow your business, I think it's important to state on the tin what you are doing, and not fall for the temptation to add in things that many clients already get from other building blocks. So, diversification is good, as long as you are clear about what you are diversifying and where."

Torbjörn Hamnmark says AP3 are leaving factor exposures behind, focusing instead on asset classes.

"For me it's been a journey where before I started about 10 years ago, the whole portfolio was supposed to be seen through the lens of risk factors and factor risks. So, we divided the portfolio in the risk classes instead of asset classes and so on. I think that's something that we are leaving behind us to some degree and are going back to focus on asset classes, for various reasons. Part of the reason is the difficulty of building this diversified portfolio. That's maybe not something we experienced very much today, but it could be a clear challenge tomorrow."

"The other thing is, we've been through the journey of very specific Risk Premia exposures and building diversified portfolios around Risk Premia. This journey almost takes us back to the classical asset class - at least when you have the whole portfolio perspective, as pockets of risk and alpha sources in your portfolio. Yes, it plays a role when it comes to management, or portfolio, a strong push back to traditional asset classes, and understanding the macro factors driving those traditional asset classes like equity, fixed income, currency."


Ulrika Bergman – The Nobel Foundation

"Diversification is good, and perhaps the only free lunch in town. But the question is - who does it for you? "

Arne Hassel

Ulf Torell taps in on the diversification discussion:

"I was thinking about what we were saying earlier on diversification. We try to be diversified against something. And this something is what we conceive as future risks. There are a couple of common risks that most people focus on, and generally diversify against, but we must be aware that it's always the unexpected risks that cause big drawdowns of the portfolio."

"Most emphasis must therefore be to identify the risks that is not on most people's radar and not identified yet. Of course, it's not easy but if we manage to stay a little bit ahead, the portfolio will be a lot more robust.

I usually use stress tests as a tool to test portfolios against many different potential risks. The test itself is not that hard, the biggest challenge is to identify the right risks."

Hans Fredrik Lysén agrees that diversification is key to perform in diverse market environments.

"That is why it's so important to have diversification. It is there to help give the result that you're expecting, no matter what happens out there. However, if you mix too much, and diversify too much within that strategy, you lose what you're after. And as we talked about fees: as long as you deliver the performance and the character you have, I think fee is actually irrelevant. But you really have to perform. Not only over time, but also in crisis situations."

Hidden risks in macro?

Asked if there were hidden risks in macro trading given an environment of low volatility for some time, especially in equity markets, Ashwin Thapar responds:

"It can be beneficial to invest with a manager that's been managing strategies through a variety of market environments. AQR has been managing capital since

1998. We have a robust risk management program in place across all our alternative funds. Further improvements have been motivated by lessons learned during the financial crisis. A portfolio that appears diversified may not be so if the underlying risk factors driving the portfolio increase in volatility and become correlated."

"Because of this risk, we have been incredibly focused on ensuring the diversification within our portfolios, not just when we construct them, but also continuously measuring it from a top-down perspective. A large focus of our macro portfolios is on relative value investing, rather than directional bets. You can make 150 different directional bets, but they could all amount to exactly one bet in certain market conditions. To reduce this risk, we focus on relative value diversified across asset classes, since you don't tend to see a few common principal components driving returns the same way you might with directional bets."

"We perform an analysis of the overall portfolio, stress testing positions across market exposures and across returns in different historical stress environments. These tests are continuously performed in conjunction with our risk team, where we have systematic processes in place to, for example, add hedges if we observe an equity market beta of the overall portfolio exceeding pre-defined thresholds. Again, this is in service of making sure diversification is retained."

"There are a couple of common risks that most people focus on, but we must be aware that it's always the unexpected risks that causes big drawdowns of the portfolio. "

Ulf Torell

"In the current environment, a stress test might ask how the portfolio would be affected in a hard Brexit scenario. We're not necessarily in the business of making single bets on Brexit outcomes, although the models may pick up signals implicitly, and then the discretionary team can use those signals to shape their views. If the risk assessment, either from a hard Brexit or an opposite outcome, leads to expectations of large portfolio moves, we'll consider reducing the magnitude of positions to manage risk. While we're not going to override the models, we might reduce the magnitude of positions to reduce extreme outcomes. To summarize, the process of stress testing, evaluating exposure levels and directionality, are all aspects we take very seriously."

Ulrika Bergman believes that is difficult for investors to run stress tests but that it is important that hedge funds remain a diversifying exposure to equities and that they performed as communicated in times of particular market events.

"As an investor into hedge funds kind of hard to do the stress test, because for most strategies we don't have underlying positions. We can look at history, and have some sense, but it's hard. What we expect from our hedge funds is that they should be diversified away from equities and most of the time perform well when equity market's turn down. I have this expectation communicated from the manager on how the hedge fund should perform in different market environments. When there is an event in the market I'm always very curious to see how my hedge funds performed. That could be a deleveraging or some like a rotation similar to what happened in September between value and momentum. Did the mangers do what they said? Did they have a very dramatic return in that event? Even though that's only a single observation, that gives me a sense on what could happen when things go bad."

"From my perspective is easier to look at longer track records and see how managers performed during those times of crisis. And of course, since we've been in this risk-on market environment for a long time, some factors like the equity-factor, have been driving returns. There are probably hidden risks in many hedge funds. Of course, there are many good hedge funds with a short track record as well. But it's harder for me as an investor to see through if they have the systems needed in place for when things go bad."

Alexander Melsom of Nordkinn says that their focus is not to be uncorrelated per se, but that the priority is to

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optimize on themes and to make sure risk control is in place should they not work out.

"Nordkinn does not focus on being uncorrelated or diversified to the markets in the first order. Rather, our focus in the first order is to optimize the macro themes that we believe in and to get most out of those themes being active from day to day with deliberate and concise consumption of risk based on our convictions. The low correlations to markets is instead the residual of how we operate, i.e. the second order effect, which explains our history showing that we have consistently been uncorrelated and diversified."

"I would also like to add that transparency is vital, not only to understand what is behind the risk but also to be able to explain if something does not work out as expected. You have to expect the unexpected."

Arne Hassel underscores the importance of having a view of tail risk when constructing your program.

"It is interesting to hear about to what extent you view your return stream as an output of your strategy or if it something you are looking to design. The way we look at risk is very much through a tail risk lens. We are not big fans of the more traditional mean-variance approach. We think you can do better by focusing on the tails. We're also conviction-based, which means that if we find a richer opportunity set in a particular area, for example more dispersion in a relative value portfolio, then we would have a higher exposure in that area."

"But if you focus on those two things – tail risk and conviction, then you have to check if the portfolio has certain biases or loadings, if you have more exposure to an area or theme than you might be comfortable with. This is where our risk filters come in. This approach has served us well and made sure that we focus on the right opportunities, while staying diversified and trying to avoid tail events."

Asif Noor believes overlooking drawdown correlation is a common mistake among macro managers.

"One of the issues or challenges, I guess is combining sets of uncorrelated models. A lot of managers I think would fall for this trap i.e. not looking at draw down correlations, similar to what Arne was talking about earlier. For example, when you have eight or 10 different models forecasting, a dozen financial futures in fixed income space and they are showing very low return-based correlations. But when you look at the draw downs, they all line up at the same time. It becomes kind of pointless and useless in terms of providing diversification when most needed. We are focusing more on those stress days in looking at the return profile of those model. If you are a macro manager, and forecast about 40 markets but look at orthogonal bets, you have about five to eight of these in the portfolio at any one time."

"So, there can be concentration risk, and that's the feature for macro strategies. You are going to have concentrated bets, unlike a long/short equity portfolio. You have to manage that to some degree. If you go below five orthogonal bets you probably have too much risk concentration risk. So, there's only so much you can do. One of the solutions is actually turning down the risk, when you have a concentrated portfolio, but that has its pros and cons obviously. So, you are focusing a lot more on draw down correlations and make sure that, you don't just have artificially low correlations. We have low correlations in periods that matter. And that's a point to make, I guess. I mentioned earlier that the investors are getting more and more sophisticated, and it's very hard to actually sell something that is not true to what you've said earlier."

"If you say, I don't have any trend following system in a program, for example, I have a hundred percent RV, don´t allocate anything to price-based trend following. And then we have a month like May and you draw down along with the trend followers, you get found out very quickly. The market has changed, and the allocators have changed, and are much more sophisticated. You have to really be careful about how you position the program, and what you actually do deliver. You will get judged very, very quickly."

"Transparency is vital, not only to understand what is behind the risk but also to be able to explain if something does not work out as expected. You have to expect the unexpected."

Alexander Melsom

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What are markets telling macro strategies right now?

Managers were asked to give input on what markets are telling them, or rather their models, right now and where they see the risks and opportunities?

Ashwin Thapar highlights the lack of volatility, central bank activity and that asset classes trade with higher beta to fixed income markets

"There are a few different things that are interesting. Asset volatilities have been very low for several years now, to such an extent that for relative value portfolios it has been very difficult to take meaningful volatility on positions without large amounts of leverage. This has been a challenge, but I think we have started to see a change. For example, we have seen pockets of idiosyncratic volatility picking up around various event risks globally in both emerging and developed markets, which has translated into higher volatilities. I think this has started to change the nature of the leverage profile required to do relative value macro, which could be a positive catalyst for a better opportunity set going forward."

"Another example is the exaggerated magnitude of central bank activity, particularly comparing 2019 to the end of 2018. By the end of last year, The Fed was looking more hawkish, there was some decoupling among global central banks and the sentiment was tilted towards getting rid of the "Fed put", if you will. That has changed this year, where it seems like every large market event is followed by a dovish central bank response. As a result, we have seen slightly more cross-asset correlation."

"Finally, we have also seen more assets trade with a higher beta to fixed income markets. Previous relationships seem to have changed, and we do see some anomalies in this area. For example, directional fixed income bets are more correlated with slope bets. There have probably been good reasons for this, as short rates are relatively stable and the majority of the variation comes from the back end. More interestingly, we're seeing relative value currencies and some of the relative commodities also increase in correlation with fixed income. As we discussed earlier, this is a good example of current insights from our risk management analysis, looking for common exposures and unintended directionality."

Torbjörn Hamnmark highlights the difficulty in diversifying bond exposure and says risk-based pricing is simply not present.

"It's obvious that due to the strong bond market rally, and the significant shift of yield curves it's been a very coordinated global move. You would have thought that US rates could fall more than other markets, and they have fallen more, but the Swedish yield curve almost as much. High correlation is important, because it will be difficult to diversify your bond portfolio. I also think at this level of bond yields the long-term investors that have the choice will shy away from bond markets, and credit markets, this is the final nail in the coffin,."

"Besides I believe it's very harmful how financial markets work. Now markets have moved a long way from being risk-based in terms of pricing. I think we've taken away all animal spirits, and how markets work and coordinate, in a sense. This is very harmful for natural financial flows and so on. Every decade has its own charm, and the coming decade will and must be very different from the past decade. It is going to be very, very interesting."

Alexander Melsom shares with his view on the fixed income sector.

"The long end of the yield curves has been highly correlated, and directionality in the long end has been especially challenging with a lot of noise. We have therefore as of late and all else equal been focusing more

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on the shorter end of the yield curves that are more correlated to the central bank actions. Norway especially, being one of the few central banks hiking rates. We have also preferred relative risk rather than directional risk in these markets."

“I think policy makers today completely disrespect the economic machine as we know it... ”

Torbjörn Hamnmark

Arne Hassel believes that we are in a challenging environment and that it is all about being patient.

"The macro situation is both interesting and challenging. The business cycle looks elongated and the end of the cycle has been called I don't know how many times. That makes it tricky for managers to stay long markets that depend on growth holding up. Many are afraid of looking stupid when the cycle eventually does roll over and being told 'I told you so'. So many are jittery right now, and you can see that in the market behavior, with sudden sentiment driven sell-offs. In this kind of market, it's an advantage to be long term and to be able to stay in uncomfortable positions, as long as the fundamentals support them. It's all about being patient."

"Equities might look a bit on the expensive side, but not as expensive as bonds, after a rally that has lasted about 37 years and brought us to negative yields and negative term premia. Traditionally you put money into bonds when the cycle rolls over. But everyone won't feel comfortable doing that, given the levels in the bond markets and the risk of some more inflation in the system. This is not an easy time to put money to work. The strategies with a better chance in this kind of scenario are those that depend less on the traditional betas. This is why we think there is such a demand for "other" strategies that are uncorrelated to the traditional markets."

"I think this is an interesting environment and some of the patterns we are seeing should soon be good news for macro strategies that filter noise and focus on fundamentals. If we would all agree on how to look at the economic machine, how to interpret all this data, how to interpret some of these political events, and what central banks do, there wouldn't be much for us to do."

Torbjörn Hamnmark believes that policy makers today disrespect the economic machine and that, in the future, markets will be driven by different fundamental factors.

"I believe you have to be very open minded on the economic machine we were going for. I think policy makers today completely disrespect the economic machine as we know it, as the invisible hand and that kind of thing, which makes its own mistakes in terms of overleveraging and so on. But now there are lots of stones thrown into the well-oiled machinery in terms of trade wars, and extreme monetary policy. The next decade will be determined by completely different fundamental drivers. Be it MMT, or what is it, completely different to your political landscape. I'm keeping an open mind."

Ulrika Bergman says it is important for macro managers to continue to develop as the markets becomes more complex.

"On that note, I think that there will still be a lot of opportunities for macro managers in the future. What is important for a manager is to keep developing, as we talked about before, maybe get rid of some of the old ways of just looking at simple risk premia. The world is complex, it's evolving, and you need to gradually take in new ways of managing money because of that, while not switching completely at the same time."

Torbjörn Hamnmark says the difficulty is for managers to find a balance.

"The extreme important trade off of sticking to your guns, and your models and your experiences and keeping this open mind - super difficult trade off."

Ulf Torell believes that it is very likely that there is an overconfidence in monetary policy in the current market environment.

I wouldn't be surprised if we look back at the development over the last decade and say that we were overconfident on how efficient monetary policy and central banks would be to battle structural problems. Monetary policy as a whole is more of a business cycle tool that is best used to accommodate business cycle fluctuations. It has never been very efficient in battling structural problems. Since the next downturn is likely to be caused by structural rather than cyclical factors, we are likely to look for other tools. Perhaps we will have a different world a couple of years from now, in which monetary

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Hans Fredrik Lysén – RPM

policy prove to be an inefficient tool and instead other instruments, such as fiscal policy, regulations may prove to be more useful. In this new and different world, the relationships between macro and financial variables may also be slightly different and as a consequence we may need to find different ways of how to handle business cycle fluctuations in the future. This implies that there will be other drives of asset prices as well."

Hans Fredrik Lysén underscores the importance of thinking in terms of asset class exposures.

"Isn't that a little bit related to if financial theory works? The drivers we have in financial theory shouldn't stand in distinction. And that's why I state that you should allocate to your asset classes, and sometimes some asset classes will go bad. Like bonds probably will. But still, there will be players out there making money on that. If you stick to your idea and it works, even in generally bad markets, you will be the natural choice for the investors."

Arne Hassel stresses the importance of staying long-term, letting fundamentals play out.

"This jittery macro environment, with plenty of liquidity and nervous investors chasing short-term themes, means that we have to be more patient. We still see the fundamental asserting themselves, even though it might take longer in a period like this. That's why we believe it's so important to be long-term and not throw in the towel on positions that have fundamental support."

Asif Noor claims the current market environment holds value adding possibilities for macro.

"If you can prove that your macro program does offer a diversified return stream, I think it's the best time to be in the space. We've talked about valuations being stretched, people have been on the right side of the equity trade for so long that markets are jittery, so they don't really want to add more of the same exposure to their portfolios. We talked about the event risk factors, the dispersion in spreads, the environment would make it sort of right for macro manager trading our way to be able to add value."

"The combination of those two things makes it a very good entry point for macro program, We have also seen a lot of new entrants in the space. In the last 12 to 18 months, we've seen a lot of new macro managers, in the RV space come, and offer products of this nature.

"This jittery macro environment, with plenty of liquidity and nervous investors chasing short-term themes, means that we have to be more patient."

Arne Hassel

That tells me that there is an opportunity there. People don't launch new funds just for the sake of it. They've obviously done their due diligence and figured out that there is demand. It's only about delivering the return stream that an investor needs. If you just offer more beta. It's pointless really."

Alexander Melsom points to criticism of the ECB and how far they are willing to take expansionary monetary policy.

"There has been some criticism of the ECB and how far they are willing to take monetary policy stimulus and how much it actually works. At least some central banks used the window of opportunity by normalizing their rates and I think that being more active in adjusting might, in hindsight, have been more right than not."

Torbjörn Hamnmark argues that the ECB must stop chasing the inflation target.

"I think it depends on what you mean. I'm surprised the ECB doesn't say it has gone their way, because as far as I know, unemployment in Europe is at 20-year lows. Okay. Inflation is at 1.5. You have got to stop chasing the inflation target. The economy seems to be maxed out in a sense."

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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.

"Your single access point to the Nordic Hedge Fund Industry!"

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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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