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December 2024

Round Table Discussion:

Managed Futures / CTA

Editor´s Note...

A Mouthfull of CTA Flavours

Picture stepping into a bustling kitchen filled with chefs from around the world, each working with the same core ingredients—spices, proteins, and grains—but creating wildly different dishes. Imagine the energy in the room and the aroma-filled air.

Indeed, the world of managed futures funds and Commodity Trading Advisors (CTAs) is much like this culinary scene. We got a taste of it at HedgeNordic's latest round table discussion on Managed Futures in Stockholm. We were reminded of the diversity of "flavours" among managers and programs, examined why performance in this space can vary so dramatically and how investors can savor the best of what this eclectic menu offers.

There is a German idiom which translates to "we all cook with water," meaning everyone is equal and starts with the same preconditions with no magic tricks up their sleave. However, as we all have experienced, what lands on our plates heavily depends on whether it's prepared by a master chef in the kitchen or someone inept at cooking.

The dispersion in performance among CTAs arises from a mix of unique "recipes" in strategy design. Some managers might favor "spicy" high-risk, high-return profiles, while others prefer the "savory" balance of risk-adjusted returns. Differing timeframes, markets traded, risk management techniques, and execution methods create distinct layers of complexity—much like seasoning a dish to suit individual taste.

Though most managed futures strategies are fully systematic, the individual personality, conviction, discretionary choices, the "culinary preferences and dietary experiences" of the managers behind these "recipe" infuse them with unique character, adding to dispersion in approaches and performance. Even within similar rule-based frameworks, the subtle seasoning of discretion—when to tweak a model, adjust exposure, or introduce or decline new markets—adds layers of individuality to each strategy.

Given this range of approaches, indexing in managed futures may be seen as blending all those culinary creations into a single dish. The resulting homogenization, the "stew" if you like, for some, may lack the distinctiveness and richness that individual strategies bring to the table. For others, this may be the quick, convenient and efficient way to fill the belly. Investors who embrace the diversity in this space and have the skill, resources and access to thoughtfully select a portfolio of CTAs may prefer a full course meal by carefully hand-picking complementary approaches—each strategy contributing its unique flavor to enhance the overall experience.

But discussing diversity and dispersion was just the amuse-bouche…

Other items served from the menu included "Innovation in CTA Strategies and Products," "Trend-Following Replication and Non-Trend Diversification Efforts" and "The Role of CTA ETFs."

The cooks in the kitchen for the discussion were Linus Nilsson (Tidan), Harold de Boer (Transtrend), Martin Källström (Lynx), Moritz Seibert (Takahē), Kathryn Kaminski (AlphaSimplex), Jerry Parker (Chesapeake), Julia Axelsson (SwedbankRobur), Razvan Remsing (Aspect), Kamran Ghalitschi (HedgeNordic) and Andrew Beer (DBi).

Join us as we explore the ingredients behind the approaches and uncover how investors can craft their own perfectly balanced "tasting menu" of managed futures strategies.

The stove is hot, so let's get cooking!

KAMRAN GHALITSCHI
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PARTICIPANTS:

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, ON OCTOBER 22ND, 2024

Kathryn Kaminski

Chief Research Strategist, PM

ALPHASIMPLEX
A VIRTUS INVESTMENT PARTNER

As Chief Research Strategist at AlphaSimplex, 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 and serves as a co-portfolio manager for the AlphaSimplex Managed Futures Strategy.

Prior, she held portfolio management positions as director, investment strategies at Campbell and Company and as a senior investment analyst at RPM.

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.

Razvan Remsing

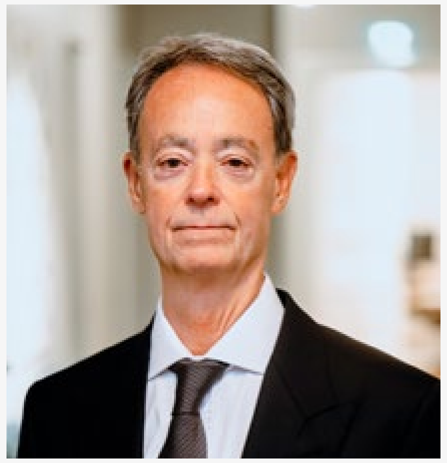
Director of Investment Solutions

aspect capital

Razvan Remsing joined Aspect Capital, in 2010 and is Director of Investment Solutions. He is also a member of the Investment Committee, responsible for reviewing and approving all research leading to new or improved trading strategies, as well as for the ongoing monitoring of existing strategies and client portfolios.

Remsing´s role spans product development and research functions at Aspect as well as heading the team that provides quantitative expertise to Aspect's clients on the investment process and the development of new product ideas. His primary responsibility is client engagement on matters relating to strategies, products, performance and research.

Prior to joining Aspect, Remsing worked at Skybound Capital, Clear Horizon Capital, and PeregrineQuant (now Vunani Fund Managers) . He 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.



Jerry Parker

CEO

CHESAPEAKE

Jerry Parker is the Chairman and CEO of Chesapeake Capital and Chesapeake Holding Company. Parker received a BSc degree in Commerce with an emphasis in Accounting from the University of Virginia in January 1980.

Parker started his trading career in 1983 as an exempt commodity trading advisor for Mr. Richard J. Dennis, in his "Turtle" training program.

Parker, a portfolio manager, has overseen Chesapeake's operations and its trading since its inception in February 1988.

Martin Källström

CEO

LYNX

Martin Källström is the CEO and a Partner of Lynx Asset Management.

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

Prior to joining AP Källström created and headed the investment and actuarial consulting business for Aon in the Nordics.

He started his career as an actuary with Watson Wyatt and holds a MSc in Finance from Stockholm University.

Julia Axelsson

PM, Asset Allocation, Manager Selection

Swedbank

Julia Axelsson manages balanced portfolios for Sweden's largest asset manager, Swedbank Robur. She has more than 25 years of experience from the asset management industry, including various positions at Nordea, Kaupthing Bank, Ålandsbanken, Länsförsäkringar, and NordSIP.

Over the years, Axelsson ,,has specialised in asset allocation, manager selection, alternative investments, risk management, and sustainable investments.

She holds a Master's degree from Sofia University and has completed studies in Economics at both Stockholm University and Stockholm School of Economics. Julia is a Chartered Alternative Investment Analyst (CAIA).

Moritz Seibert

Founder & CEO

TAKAHĒ

Moritz Seibert is the founder and principal investment manager of Takahē Capital.

He started began his professional career as a derivatives trader at HSBC in Germany.

Later, he worked for RBS, where he was responsible for the bank's equity derivatives structuring business. In 2012, Moritz co-founded Aquantum, a Munich-based systematic CTA focused on trend following and spread trading strategies. Subsequently, Moritz served as the CEO and CIO of Munich Re Investment Partners, a quantitative asset management firm focused on institutional investment solutions.

More recently, Moritz also served as the CIO at Exponential Age Asset Management, a large digital asset fund of hedge funds.

He also hosts the Open Interest podcast series on Top Traders Unplugged.

PARTICIPANTS:

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Andrew Beer

Managing Member

DBi

Andrew Beer is the founder, a Managing Member and Co-Portfolio Manager of DBi. Andrew has been in the hedge fund business since 1994, when he joined the Baupost Group, Inc., focusing on value investing. In 2003, Beer was a founder of Pinnacle Asset Management and also a founder of Apex Capital Management, one of the earliest hedge funds focused on the Greater China. He began his career as a mergers and acquisitions investment banker at James D. Wolfensohn Inc.

Beer is a frequent speaker on hedge fund investment strategies and industry dynamics and is an active contributor to various industry publications. Beer formerly was a member of the Board of Directors of the US Fund for UNICEF.

He received his Master of Business Administration degree, as a Baker Scholar, from Harvard Business School and his Bachelor of Arts degree, magna cum laude, from Harvard College.

Linus Nilsson

Head of Systematic Strategies

TIDAN CAPITAL

Linus Nilsson has the overall responsibility for the R&D and management of all systematic strategies at Tidan Capital. He recently held the position of Senior Portfolio Manager for one of the largest European pension funds.

Prior to this role, he was the Fund Manager / CIO for a European Systematic Hedge Fund, where he implemented trading strategies, oversaw investment activities and improved the flagship's performance.

He has worked for Seeding Fund (Head of Risk Management), Global Hedge Fund of Funds (Senior Hedge Fund Analyst), Central Bank (Risk Manager / Analyst),and a CTA Fund of Funds (Investment Analyst) in both investment and risk-related positions.

Nilsson holds an MSc in Electrical Engineering from Chalmers University of Technology in Gothenburg and an MSc in Financial Economics from the University of Gothenburg. He holds a number of industry designations, among them the CFA.

Harold de Boer

Observer

transtrend

Harold de Boer is the architect of Transtrend's Diversified Trend Program, responsible for R&D, portfolio management and trading. Harold was born and raised on a dairy farm in Drenthe.

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

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

Participants (left to right): Linus Nilsson (Tidan), Harold de Boer (Transtrend) Martin Källström (Lynx), Moritz Seibert (Takahē), Kathryn Kaminski (AlphaSimplex), Jerry Parker (Chesepeak), Julia Axelsson (SwedbankRobur), Razvan Remsing (Aspect), Kamran Ghalitschi (HedgeNordic) and Andrew Beer (DBi)

ROUND TABLE DISCUSSION

MANAGED FUTURES / CTA

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM ON OCTOBER 22ND 2024. ALL REFERENCES TO DATES, TIMELINES, PERFORMANCES, NEWS AND EVENTS ARE TO BE SEEN FROM THAT POINT IN TIME.

Trends in financial markets can provide valuable insights into broader market dynamics, investor sentiment, or central bank activity. Trend-following managers, who have their eyes and ears – and money – on these trends, are important players in understanding the pulse of financial markets. After enjoying one of their best annual performances on record in 2022, trend-following CTAs had a more challenging year in 2023 and a not-so-outstanding year so far in 2024.

"This year, the market has been heavily focused on monetary policy," explains Kathryn Kaminski, Chief Research Strategist at AlphaSimplex Group. "The most challenging trend environments have been in currencies and fixed income, with the market swinging back and forth as it tries to gauge expectations for monetary policy decisions," she elaborates. "We're at an inflection point in monetary policy, which has caused significant market volatility." Kaminski notes that short-term signals have particularly struggled in this environment. "Trend signals are currently evenly spread across different asset

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classes, with no clear standout trends at this point," she adds. "We're in a 'wait and see' phase, awaiting the next major macroeconomic catalyst."

"2024 so far has been a fairly interesting year for directional trading" in the eyes of Razvan Remsing, Director of Investment Solutions at Aspect Capital. Echoing Kaminski's view, he points out that "the key stories that rocked markets have been the changing sentiment between recession risks and inflation fears, with these themes playing out more strongly in financial assets such as currencies and bonds." However, "the pockets of real idiosyncratic risk and opportunities have been in commodity markets," notes Remsing, particularly agricultural commodities, which continued to benefit from unstable patterns. "The ongoing El Niño weather phenomenon has contributed to trends in many of these agricultural commodities."

Moritz Seibert, founder and principal investment manager at Takahē Capital, agrees with Remsing, noting that commodity markets have provided the most significant opportunities for his firm's long-term-focused trend-following strategy. "We focus solely on longer-term timeframes and spread small bets across

> "The pockets of real idiosyncratic risk and opportunities have been in commodity markets."
>
> Razvan Remsing


Moritz Seibert, Takahē


Martin Källström, Lynx

more than 90 markets. However, when I reflect on this year, it's just four or five key trades that have driven our performance," Seibert explains. These standout trades included cocoa, coffee, sugar, and orange juice, as well as the Japanese yen. "Although the yen trade eventually reversed, it has been a great trade from entry to exit," he adds.

Commodity markets, particularly cocoa, significantly contributed to the performance of Chesapeake Capital's classical trend-following CTA strategy as well. "We trade heavily in commodities, and cocoa turned out to have a meaningful contribution to performance," notes Jerry Parker of Chesapeake Capital. However, he also points out that "the choppiness in interest rates and currencies took away a portion of those gains." Chesapeake Capital is known for employing trend-following techniques across single stocks rather than stock indices, which Parker mentions have "traded well for the most part." While the firm maintains 50 percent net long positions balanced with short positions, this strategy "has delivered positive results even if it has not surpassed broader benchmarks like the S&P 500."

Shifting away from specific market trends, Razvan Remsing of Aspect Capital highlights the divergence in performance across the industry. "There has been significant variety across the board," he notes, attributing the biggest differences to the types of models employed by managers. "We trade both trend and non-trend models across both traditional and alternative markets, as well as at different trading speeds," says Remsing. "This year, we have seen a huge breadth of returns depending on whether strategies are slower or faster, the extent of exposure to commodities or niche markets," he explains. "It's one of those interesting years of big divergence, even though there is nothing particularly unusual about the year."

Martin Källström, the newly appointed CEO of Lynx Asset Management, has also noted a similar divergence in performance among the strategies employed at the Swedish systematic asset manager. "When we review our breadth of strategies, we have noted considerable performance dispersion by timeframe and methodology at various points during the year. For example, medium and long-term models performed particularly well in the first quarter as they held onto positions through

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"We aim to move beyond the fast versus slow and long versus short discussion and instead focus on diversification across a range of markets."

Harold de Boer

some choppy periods, while short-term counterparts lagged. However, a change in market dynamics in the third quarter, particularly in August, created a more challenging environment for the longer-term timeframes, while short-term trend performed very well," Källström explains.

Fast- to medium-term trend-following is a core focus for Lynx, as the team aims to provide clients with portfolio protection, making these models a priority for the firm. Beyond trend-following, "some of our diversifying models, which for us include machine learning strategies and macro-based approaches – not traditional risk premia but models utilizing alternative data and incorporating different priors – have performed well in this environment," Källström notes. "This diversification has been an excellent complement to the challenges faced by trend."

Razvan Remsing and his team at Aspect Capital have grappled with the question of whether faster or slower trading speeds are more effective. "The utility is very different when trading at faster speeds. Some managers say that faster allows you to capture convexity early, but in practice, we see a lot of bleed when you're trading fast all the time," Remsing explains. "Going slow, on the other hand, can work quite well. You're less visible in the market and can maintain your positions, but in a big structural shift, you risk being on the wrong side of the trade for an extended period," he elaborates. Over the

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Martin Källström

last decade, Aspect Capital has adapted its framework to be more responsive to market signals on persistence. "That approach has served us well. For us, it's about balancing the shift between fast and slow trading. And so far, we're still up on the year across our trend models, but it has been thanks to that dynamic ability to span from fast to slow."

Harold de Boer, Head of R&D and Managing Director at Transtrend, explains that his team aims to "move beyond the fast versus slow and long versus short discussion and instead focus on diversification across a range of markets." De Boer points out that "If one market faces challenges while another is working in your favor, you can stay the course. When you're caught in a reversal, you can relax, knowing that other markets are performing well, and not needing to react can be advantageous." According to de Boer, "such a really diversified approach often brings us the aimed for resilience to limit massive losses and/or to recover swiftly from them. However, that is no guarantee, as was illustrated around a few events since May this year." Jerry Parker's Chesapeake Capital has long been driven by "a strong obsession with adding more markets and taking trend-following where it needs to go – which, in my view, is into every market," says Parker.

Linus Nilsson, Head of Systematic Strategies at Swedish boutique Tidan Capital, who oversees a short-term systematic macro strategy, notes that his trend-following signals have mirrored the broader challenges faced by trend-following strategies this year. With a focus on non-trend approaches employing mean reversion and behavioral strategies, Nilsson observes that "behavioral strategies have performed reasonably well this year. They continue to be effective as investors remain as predictable as they always are."

Highlighting the challenges for trend-followers in 2024, Kathryn Kaminski of AlphaSimplex reiterates that "fixed income has been extremely difficult this year, largely due to navigating the pivot in monetary policy." Kaminski notes "a lot of range-bound behavior in fixed income, following 2022's significant shift in interest rates." She adds, "There is currently substantial uncertainty about the yield curve and its direction, the longer-term path for inflation, and how much room and ammunition central banks have to lower rates in the future." Fixed income has thus been the toughest market for trend-followers this year, and these challenges have persisted for some time.

Andrew Beer of DBi (DBi is part of asset management network iM Global Partner), a proponent of simple replication of trend-following CTAs, reflects on recent market oscillations, describing them as particularly frustrating. "It's as if the timing of each reversal is perfectly engineered to take a medium-term trend follower to the woodshed." Commenting on shorter-term strategies, Beer empathizes: "I feel their pain from afar

> "The entire trend-following space is extremely heterogeneous – no one is doing things in exactly the same way. We're positively correlated to each other to varying degrees yet all of us are doing things differently."
>
> Moritz Seibert

– just as they pivot into a position, that's when Powell, the Bank of Japan, or someone else seems to make a statement that triggers an abrupt reversal."

Martin Källström of Lynx Asset Management echoes this sentiment, observing that such kind of market behavior has been typical for the year thus far. "For managers aiming to protect client portfolios through reactive trend strategies, these have indeed been challenging times," says Källström, emphasizing the importance of incorporating diversifying strategies that perform better in these conditions. However, this is not an extraordinarily unusual period. "We have encountered similar conditions before and remain confident that our advanced trend strategies will soon see an improved opportunity set."

The Heterogeneity of the Industry

At first glance, the trend-following CTA industry may appear unified in its aim of delivering crisis alpha and downside protection during challenging market conditions. However, a closer look reveals an impressive diversity in strategies – ranging across instruments, markets, trading speeds, approaches, and philosophies. This variation highlights the unique ways in which different managers pursue a shared goal.

"The entire trend-following space is extremely heterogeneous – no one is doing things in exactly the same way," says Moritz Seibert, founder and CEO of Takahē Capital. "We're positively correlated to each other to varying degrees – 0.5, 0.6, 0.7, or 0.8 – yet all of us are doing things differently," he emphasizes. At Takahē Capital, this differentiation shows in the refusal to adjust position sizes post-trade. "We don't tinker with our trades once established; we let them play out as one sample among the many which we will trade over time," Seibert explains. "This approach may be more old-school than new, but it's one I have grown to appreciate."

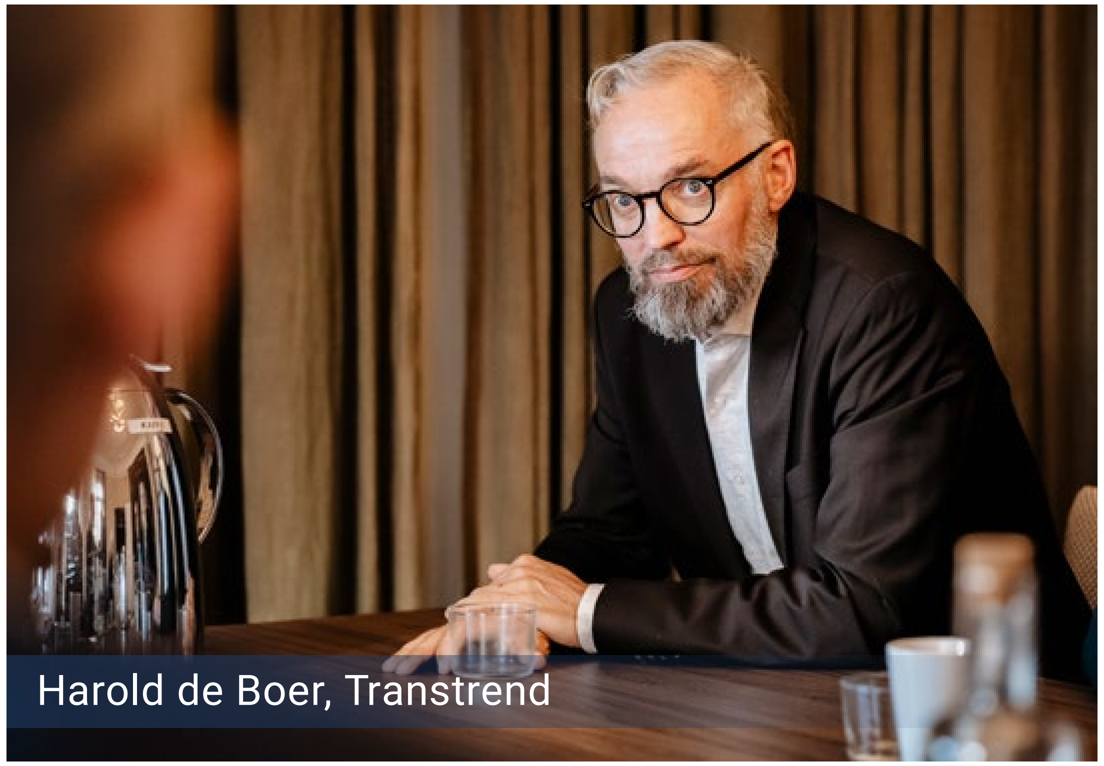
Takahē Capital also sets itself apart by following trends in spread markets – not necessarily synthetic ones. "We focus on calendar trades in commodities and certain cross-market spreads that show related behavior," says Seibert. Using crude oil as an example, he describes how breaking down the futures curve reveals multiple opportunities.

"In WTI, you can create over 100 calendar spreads, for example, taking the first contract minus the second, or the first minus the third, or the sixth minus the fourteenth, and so on. Right now, with events in the Middle East, the front end of the curve reacts more intensely than usual, driving interesting dynamics along the futures curve," he elaborates. "You have these different trending behaviors at different points in time on the curve that you can trend-follow." According to Seibert, "this is an approach that differs operationally – not conceptually – from a single-market trend-following strategy."

Martin Källström highlights that Lynx Asset Management has a distinct approach in various aspects to many other trend-following managers. "Part of what makes Lynx different is our Swedish heritage.

We are based in Sweden, and while we understand how many of our peers have approached trend-following, our strategies are not anchored by what has been done in the past," explains Källström, the CEO of Lynx. "We have a strong focus on research and constantly aim to innovate, moving past the conventional trend-following approaches. It has been clear to us that more advanced strategies in trend-following have worked better, especially since we are not focused on very long-term timeframes," he elaborates. "We want to be reactive and provide protection for our client portfolios."

Källström reminds us that their approach to managed futures also differ significantly from others in the industry. The team at Lynx Asset Management has developed strategies that go beyond traditional trend-following. "It is notable that the CTA space extends far beyond just trend-following. While we still trade futures systematically, we are increasingly incorporating new data sets and applying advanced machine learning techniques to predict markets," he says. "A lot is happening, and the industry is dynamic and evolving from that perspective."



Harold de Boer, Transtrend

Harold de Boer of Transtrend attributes the success of the trend-following industry to its heterogeneity. “The industry became successful precisely by not being “an industry.” There were no CTA indices in the early days,” says De Boer. “The various managers were just a group of independent minds, and even when some of those minds came together in groups, they still succeeded by making different choices.” According to De Boer, success came from challenging conventional thinking, saying that “we became successful by doing things differently, by not adhering to conventions, and by not following a prescribed way of doing things.”

The strong performance at the industry level, De Boer suggests, was driven by the diversity of approaches. “Why were investors interested in allocating to CTAs? Because our returns weren’t correlated with stocks or bonds. That was the key,” he says. However, he believes the CTA winter – a multi-year period of underwhelming performance following the very stellar performance during the GFC – was partly a result of the industry’s own misstep: “Our investment returns resulted from being non-conventional. As an industry, our commercial success was pushed by branding ‘trend’ as an asset class. That was a great marketing success,” says De Boer. “But by doing so, we

“The industry became successful precisely by not being “an industry.” The various managers were just a group of independent minds, and even when some of those minds came together in groups, they still succeeded by making different choices.”

Harold de Boer

inadvertently helped to create our own conventions. Suddenly, (potential) allocators started asking if we were deviating from what we were ‘supposed’ to do.”

De Boer is glad to have seen this CTA winter turned into a CTA spring. What he considers to be largely the result of different CTAs having made different choices again. “That’s what I like about the composition at this (not really) round table: different characters with different views. If Razvan and I would agree on everything, both of us would essentially have nothing to offer.” De Boer recognizes that many investors are attracted by the various CTA-indices. “But we CTAs don’t offer index returns. Instead, our different approaches offer an attractive index, the fruit of a rich, strong and diverse industry. Most of our allocators recognize that. They don’t fear us to deviate. They choose us to deviate.”

Razvan Remsing from Aspect Capital acknowledges the value of diverse approaches, stating, “We respect the view that the difference in approach is the richness of the land.” However, when reflecting on the CTA winter between 2012 and 2018, Remsing emphasizes that this period was particularly challenging for Aspect Capital because “we certainly did not conform to the pressure of an index, nor did we want to alter our systems to fit what we believed was an unnatural, but transient, market

“The way different managers approach trend-following varies by firm, but if done well, the key factor we aim to capture is market divergence. If everything is in equilibrium, trend followers may struggle.”

Razvan Remsing

regime,” he explains.
While Kathryn Kaminski put the term “crisis alpha” on the map, Aspect Capital prefers to focus on the unpredictability alpha element of CTA strategies. “The way different managers approach trend-following varies by firm, but if done well, the key factor we aim to capture is market divergence,” explains Remsing. “If everything is in equilibrium, trend followers may struggle,” regardless

Razvan Remsing, Aspect

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of whether they stick to their style or not.
Remsing further explains that the period between the global financial crisis and the pandemic was marked by an unusual zero-interest-rate policy, which compressed the breadth of macro markets, creating a muted and constrained environment for trend-followers. This, he suggests, contributed to the so-called CTA winter. "There was a macroeconomic element to this CTA winter, and I don't think it was entirely about us, as managers conforming to external pressure," he adds. Nonetheless, Remsing agrees with De Boer that "the richness of approach and style divergence will lead to strong industry performance over the long term."

Linus Nilsson of Tidan Capital argues that the success of trend-following strategies ultimately led to their downfall, contributing to the CTA winter. "Long-term trend-following CTAs were immensely successful until around the start of the CTA winter in 2014, depending on how you measure it," Nilsson explains. "As a result, many managers gravitated toward longer-term trend-following strategies, which led to increased cross-correlation between managers." To break free from this, Nilsson suggests that "managers need to move beyond the traditional trend-following strategies and deploy more risk through mean reversion strategies, behavioral strategies, and spread strategies." He concludes, "By doing so, you can create a strategy that isn't directly trend-correlated but still retains some of the same properties."

> "Managers need to move beyond the traditional trend-following strategies and deploy more risk through mean reversion strategies, behavioral strategies, and spread strategies."
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> Linus Nilsson


Harold de Boer, Transtrend


Julia Axelsson, SwedbankRobur

Kathryn Kaminski and her team at AlphaSimplex conducted a study a few years ago titled "CTA Style Evolution," which analyzed and estimated the changing factor exposures of CTAs since the inception of the SG Trend and SG CTA Indices. Kaminski highlights two key details to keep in mind: first, the returns of some managers included in earlier periods are no longer relevant as those managers do not exist anymore; second, the strategies traded today differ significantly from those used in the original backtests.

More importantly, "the study revealed a massive shift from shorter-term trend-following, especially around 2000, to a greater emphasis on longer-term trend-following towards the end of the period," according to Kaminski. Additionally, the study showed an expansion into other factors, such as cross-sectional momentum across different asset classes, as well as factors like value and other potential return drivers that have grown substantially over time. "This empirical analysis helps illustrate how CTA drivers of return have evolved," Kaminski explains, "highlighting that today's CTA strategies differ significantly from those of a decade ago."

Trend-Following Replication and Non-Trend Diversification Efforts

Andrew Beer of DBi, who spent a decade as an industry outsider before launching a trend-following replication model across various fund formats, including an ETF, has observed how dynamic and constantly evolving the industry is. Beer and his team considered two possible approaches for building their replication model. "One path was to build a bottom-up trend-following model by asking: What is the typical approach in this space? What are the average models and positions that others use? And then to implement it that way," Beer explains. The second approach involved "estimating the returns on a Monday and making a one-week bet that the instruments we have would be representative. We don't

build strategies like anyone else in the industry."

Beer believes the industry "will continue to evolve, as there are many smart, well-resourced professionals dedicated to enhancing Sharpe ratios and uncovering new opportunities over the coming decade." However, he explains that his team's replication model operates by "betting each week that we have an accurate view of the overall market landscape." Since launching the strategy in July 2016, "we haven't changed a single line of code, factor, or rebalancing date – maintaining complete consistency throughout." This approach, he argues, "provides the flexibility to adapt as the industry changes." Beer is confident the strategy will endure due to its short timeframe, which allows it to focus on longer-term, structural shifts in the market, "capturing broader asset-class correlations with a limited set of instruments, rather than reacting to short-term trends." Essentially, DBi aims to replicate the SG Hedge Fund Index's return stream before fees and trading costs.

Moritz Seibert of Takahē Capital contends that traditional trend-following managers have made Andrew Beer's replication efforts "tougher" in recent years, referencing Kaminski's study on shifting factor exposures. "Twenty years ago, 99 percent of CTAs focused solely on trend-following. Fast-forward to today, and while most still trade trends, they have incorporated other elements," argues Seibert. "We don't know the full footprint of these additional strategies, but they are present – except for a handful of pure trend-followers."

> "20 years ago when most CTAs focused on long- or medium-term trends, a top-down replication approach would have captured trends more consistently with less noise."
>
> Moritz Seibert

Seibert argues that "20 years ago when most CTAs focused on long- or medium-term trends, a top-down replication approach would have captured trends more consistently with less noise." Today, however, with the addition of mean reversion strategies, shorter time horizons, and machine learning, replication models relying on the 10-20 most liquid markets are more likely to experience higher tracking error. "While replication can potentially outperform the index due to lower fees, the tracking error is bound to be higher given the broader range of factors in the strategy mix," he explains.

Andrew Beer notes that the tracking error of his replication model relative to the SG index has decreased, with its correlation to the index increasing. Martin Källström of Lynx attributes this shift to the nature of the index itself: "When you look at an index of many managers, most of whom are applying trend-following strategies, the common thread that remains is trend-following, as the idiosyncratic elements get averaged out." While Beer "wholeheartedly agrees that there are strategies to enhance a trend-following approach," he notes that allocators typically choose to access the CTA space by investing in a handful of managers. In this context, he suggests that "many of those incremental benefits tend to offset each other over time."

"In our view, trend-following alone doesn't generate high enough risk-adjusted returns for many investors," argues Källström. "Our flagship strategy stands out because we incorporate a range of additional approaches to enhance trend-following." He emphasizes that "there is something substantial behind trend-following – it captures inherent behavioral biases of investors and generates returns over time. We all agree on that." However, Källström believes that while trend-following is valuable on its own, "there's much more that can be done." He explains that Lynx, through its analysis, has developed techniques that outperform traditional trend-following methods by leveraging advanced multivariate and statistical approaches. These methods are designed

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to identify more sustainable trends that can be more effectively capitalized on. In addition to developing advanced trend following strategies, the team at Lynx Asset Management invests significant research into strategies that complement trend-following, resulting in a product that is not only appealing but also sustainable enough to hold over the long term.

Discussing the effectiveness of non-trend strategies, Razvan Remsing from Aspect Capital explains that "everything depends on how you implement them, how much you use, and why you do it." Aspect Capital has long incorporated non-trend models into its CTA strategy, with approximately 20 percent of its risk budget allocated to non-trend diversifying models. "These models are designed specifically to complement our longer-term trend-following strategy," Remsing notes. "Holding a pure trend-following strategy through the cycle can be behaviorally challenging for investors."

To help investors stay committed through market cycles, Aspect Capital added diversifying strategies that are designed to complement, rather than contradict, the trend-following approach. "We ensure that investors maintain their intuition from our trend signals and that these non-trend models do not dominate the overall risk. It's crucial that non-trend models don't drive performance during strong periods for trends," explains Remsing. Over time, however, non-trend models added value and contributed to a positive drift. Remsing further emphasizes that "long-term investors are better positioned to hold the strategy, especially when the return stream is slightly better, but

> "There is a cost to being a purist in trend-following, as it can lead to underperformance at times."
>
> Julia Axelsson

still highly correlated with peers."
Julia Axelsson, a Portfolio Manager involved in Asset Allocation and Manager Selection at Swedbank Robur, acknowledges the critique that asset allocators have stifled creativity by forcing the entire investment universe into predefined style boxes. "Guilty as charged, but we do need some level of predictability to make informed investment decisions, including with CTAs. That is the reality of the industry," she says. "We don't set exact return expectations, even if we do hope there is some inherent alpha in trend-following strategies," Axelsson adds. However, she notes that whether that alpha will materialize in the near term is uncertain.

What Axelsson and other asset allocators expect, instead, is diversification and protection when most needed. "There has been a lot of discussion about correlations between traditional asset classes being all over the place, making it difficult to rely on normal patterns," she says. "We need to find diversification in the products you offer. If we can't rely on strong absolute returns, at least we want trend-following managers to provide diversification." Axelsson is cautious about the risk of over-diversification among trend-following CTAs, noting, "It seems like each of you is diversifying within your models and trying not to rely solely on trend-following. So, do we risk over-diversification by allocating to CTAs?"

Harold de Boer of Transtrend emphasizes a crucial distinction between two types of diversification within CTA strategies: diversification by market, which he sees as essential, and diversification by investment style. "No successful CTA has ever traded only one market, so market diversification is embedded in the CTA DNA," says De Boer. "However, even with market diversification being the largest and most essential aspect, it is important to be careful as well by constantly adapting and adding specific markets."

Axelsson shares this view, noting, "Market choice is part of what is inherently expected in a managed futures program." However, she expresses concern over managers broadening beyond trend-following to incorporate multiple strategies, potentially shifting into multi-strategy territory. From her perspective as an allocator, Axelsson acknowledges that "there is a cost to being a purist in trend-following, as it can lead to underperformance at times." Yet, she believes predictability remains critical: "To invest in anything, we need a clear understanding of how a strategy will perform in various market conditions, so we can evaluate its fit within the broader portfolio."

Jerry Parker of Chesapeake Capital is cautious about excessive model diversification within the trend-following space. "I fully embrace the long-term trend and the more beta-driven approach that investors should expect, rather than adding too many elements," Parker explains. "I am disappointed that trend-following has shifted away from the principle of letting profits run." He also expresses concern with the industry's and investors' focus on volatility and correlation management.

Relying on his experience as a former allocator at Swedish pension fund AP1, Martin Källström of Lynx underscores the importance of establishing a strong partnership with investors and aligning on a shared objective. While trend-following strategies come in various forms, Källström highlights that "for Lynx, it's

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Kathryn Kaminski, AlphaSimplex

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>
> Kathryn Kaminski

much more effective to focus on discussing our objectives, how our performance evolves, and what we aim to achieve across different market environments."
Källström further points out that a typical objective of a CTA investor differs from the typical hedge fund objective of absolute return." For Lynx Asset Management, "it has been a journey of being clear and explicit about our goals." Källström observes that many CTA managers, including Lynx, now operate multiple programs, each differing not just by style but also by objective. "Being explicit about these differences is key," he adds. Rather than optimizing solely for the highest risk-adjusted return, the Lynx Program's objective is also to diversify and protect client portfolios from sustained drawdowns. According to Källström, "If you want to build a successful partnership, aligning on that mutual goal is essential."

Linus Nilsson from Tidan Capital points out that over time, the focus on trend-following managers being compensated for absolute returns – rather than for lowering correlation or other characteristics – has been lost. "It's very tempting to gravitate towards the index of trend-following basics, such as correlation and predictive behavior," says Nilsson. "But how many CTAs are paid for having a low correlation to equities?" he asks. "None. They all get paid for the absolute return." He underlines that while there is an emphasis on more abstract characteristics such as correlation and tail-risk management, "ultimately, that's not what we get paid for, but it may help you to get the initial allocation."
Nilsson suggests that the industry "has become less diverse" over time, partly due to the trend toward indexification. "Institutional investors increasingly allocated to managers with higher predictability, that's an easier story to tell," he argues. "This shift contributed to the industry's decline, and it's partly why we lost out to the Millenniums and Citadels of the world. Hopefully, one day, we can return to a more diverse and innovative space again."

Innovation in Access: The Role of ETFs

Historically, CTAs were viewed as complex, high-minimum investments that were better suited for institutional or accredited investors. That first began to change with the introduction of Managed Futures into the daily liquid U.S. '40 Act mutual fund space in 2007. Fast forward to today and, the rise of CTAs in an Exchange Traded Fund (ETF) structure can help further

democratize access to Managed Futures strategies. In the United States in particular, there is a universe of investors who prefer the intra-day liquidity and the even lower minimums for ETFs, which they utilize as building blocks for portfolio construction. By making CTA strategies available through ETFs, these investors, as well as smaller institutional investors and retail investors, can access managed futures strategies. AlphaSimplex manages a recently launched ETF. "Not all investors prefer to invest in our traditional vehicles – there are some investors who simply prefer ETFs," explains Chief Research Strategist Kathryn Kaminski. "If we believe CTAs should be part of investors' portfolios, we also need to make them accessible to those client groups."

Andrew Beer and his team at DBi, who manage one of the world's largest alternative ETFs through their managed futures strategy, emphasize the importance of diversification in portfolios. "There are $10 trillion in U.S. ETF assets, but 99.8 percent of those assets are in long stocks and bonds," Beer explains. "This means many investors are building portfolios that miss an important element of protection. Managed futures are, in my view, the most statistically obvious diversifier on planet Earth."

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>
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Jerry Parker, Chesapeake

He also highlights the challenges of accessing the traditional managed futures space, describing it as a "very problematic asset class to get reliable exposure." Beer explains that gaining reliable exposure in this space using the traditional institutional playbook is challenging, largely due to the performance unpredictability and divergence of individual manager performance. "The unpredictability, the lack of consistent alpha, and the absence of managers delivering a Sharpe ratio of 2 over extended periods suggest that diversification across managers is the playbook," Beer says. "However, this approach is generally only accessible to a small group of investors with dedicated investment committees and specialized knowledge. That is not the audience I'm targeting."

Jerry Parker of Chesapeake Capital, which also runs a trend-following strategy in an ETF structure, suggests that institutions may hold overly specific expectations for the managed futures industry, imposing excessive restrictions. He reiterates that "institutions often require stringent volatility and correlation management, saying, 'You can't be in my portfolio if you are not going to manage volatility and correlation.'" In contrast, Parker highlights the greater flexibility in working with individual investors, who are "much more open-minded about a new evolution – a different approach that may not conform to the traditional managed futures strategies known today."

In conjunction with the ETF launch, Kaminski and her team at AlphaSimplex published a paper titled "The Managed Futures Ecosystem and the Evolution of the Managed Futures ETF." The paper draws parallels between the development of the U.S. '40 Act mutual fund space and its institutionalization, which Kaminski notes shares similarities with the growing managed futures ETF space. She points out that a key driver of U.S. mutual fund and ETF adoption in general stems from the structure of the U.S. retirement system itself, "largely due to fragmentation in the U.S. pension system." Kaminski explains, "The U.S. investment landscape is far more fragmented than Europe's, and access differs greatly. While many European investors may have exposure to CTAs via aggregated pension schemes managed by professional investment committees, the onus of retirement planning often falls on the individual in the United States. Pension plans also limited individuals' access to high-minimum vehicles, hence the growth of CTAs in U.S. mutual funds. The ETF offers a new investment avenue to individual investors who typically lack exposure to these strategies, even in their own individual 401Ks and other retirement savings vehicles." Kaminski likens the ETF space to the early days of '40 Act mutual funds, so one can expect innovation, early mistakes, and a range of product offerings. "It serves as an access point for investors via model portfolio solutions and other tools within the U.S. pension system, where access to these strategies is extremely limited," she adds. She also observes that some institutional investors are interested in ETFs as liquidity provisions, using them to maintain target allocations instead of frequent rebalancing of manager-specific investments. "Since U.S. regulation around active ETFs became more transparent, the number of ETFs within the Morningstar alternative and non-traditional equity category groups has surged from 77 to 380, with assets under management rising from approximately $5.7 billion to $140 billion in the past 5 years by the end of 2023." Kaminski believes "this is a fast-growing space, not only for CTAs but across alternative investments. As CTAs, we're drawn to innovation, so this is an exciting development."

"(Individual Investors are) much more open-minded about a new evolution – a different approach that may not conform to the traditional managed futures strategies."

Jerry Parker


LinusNilsson, Tidan


Andrew Beer, DBi

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Linus Nilsson of Tidan Capital suggests that "the ETF market is a natural extension of the greater predictability expected from trend-following CTAs." He explains that a trend-following replication model is "a logical progression when everyone essentially follows the same strategy – it becomes so predictable that a top-down regression on returns can offer a fairly reliable replication moving forward." Nilsson, who manages a proprietary CTA database, NilssonHedge, has noticed a significant decline in the number of active CTAs. "The number of active CTAs has dropped drastically from around 1,000 to 500, with most of the remaining firms being small compared to the 20 or 30 large players."

Nilsson believes this trend could be problematic for the industry and investor interest, as it stifles innovation and increases exposure to non-systemic risk. "There's a risk that the CTA/Trend Follower space could become a significant systemic risk in financial markets, given their significant positions in futures like the S&P. If they need to adjust those positions suddenly, it could have a huge market impact," explains Nilsson. "Trend-following's success may have, in a way, created its destruction."

Martin Källström of Lynx Asset Management considers this a pivotal and interesting moment for the industry. "Different firms have distinct philosophies and focuses. In recent years, there has been a trend towards simple strategies with significant capacity and low fees, largely driven by market demand," he explains. However, Källström sees an alternative opportunity for firms like Lynx that prioritize research. "We're investing even more in research now, as we observe other firms heading in the opposite direction, prioritizing lower fees and volume over developing their core programs. There's a real split in the industry," he notes.

Källström sees this divergence as a strategic choice for firms. "It's about defining your place in the industry and what value you want to provide your investors not only now, but in the future," he adds. "We're committed to offering high-risk-adjusted returns through a research- and innovation-driven approach. But there are other viable paths in the industry, and firms are making their own choices."

When discussing research and innovation, Harold de Boer of Transtrend emphasizes the need to separate marketing concepts from investment ideas. In his view, an index solution, for instance, falls under marketing rather than investment strategy. "A UCITS structure, which we see frequently in Europe, originated from regulation but ultimately became just a marketing tool. For me, an ETF is also purely marketing. No CTA program will perform better simply because it's packaged as a UCITS, an ETF, or tied to an index," argues De Boer.

He believes that while there are many ways to implement strategies, "we should keep our primary focus on investment ideas." De Boer acknowledges though that "to grow substantially in our industry, you have to focus on marketing more than you might want to." For this reason, he stresses the importance of distinguishing between investment-driven research and marketing. "Our core mission is investment research and working on true investment ideas. And, yes, to attract enough clients and ensure our survival, we sometimes need to focus on marketing as well."

Moritz Seibert of Takahē Capital views the competition between traditional CTA vehicles and newer ETFs as "a fair game." Seibert argues that "ETFs are just a wrapper, a delivery mechanism." Htowever, he questions whether an ETF, with exposure to only a few markets, can outperform a fully diversified CTA with a broader

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Kathryn Kaminski

scope and a traditional monthly NAV. "I would bet not," Seibert states. "Ultimately, capital flows to where the best returns are. That's where the money pot lies. The winner in the competition among all CTAs is the one who delivers the best risk-adjusted returns," according to Seibert. "At the end of the day, it's about finding your place in the market, setting your direction, and then executing on that vision."

Kathryn Kaminski from AlphaSimplex, who also manages CTA strategies in multiple fund formats, further emphasizes that AlphaSimplex's traditional fund structures and ETFs serve different objectives, catering to the varied needs of investors. "I'm excited to be involved with both and to see the different access points and needs that ETFs fulfill," she says. Kaminski is particularly enthusiastic about the ETF space because she does not see it as directly comparable.

"For us it's simply a different objective," Kaminski explains. "One product that focuses purely on trend-following, while another combines trend-following with diversifying strategies to help navigate different market conditions." She notes that ETFs offer unique benefits, such as intra-day liquidity and the ability to buy in for as little as $25. "There are different benefits and there are always pros and cons, and while there are some current limitations in implementation, that could change over time."

For Kaminski and her team, the key will be to adapt as the ETF space develops, offering more opportunities with each step forward. "It's about finding ways to provide managed futures and our best ideas to a broader audience, offering access points that truly serve their needs," she says. For Kaminski, the focus is on innovation. "The more we innovate and explore different approaches, the better we can help investors find solutions that may diversify their portfolios, especially in challenging moments." Kaminski concludes by saying "it's exciting to see how much the industry has changed and evolved to meet diverse needs. Ultimately, our job is to provide diversification to our clients."

"From a diversification perspective, this is the best asset class I've seen," concludes Andrew Beer. "The space is truly remarkable, and it's all about finding ways to bring it to investors." For Beer and his team at DBi, "it's about discovering the most efficient, straightforward, and understandable ways to offer investors access to the trend-following space." Jerry Parker of Chesapeake Capital notes that "the ETF structure lowers the entry barrier for smaller trend-following firms like my firm and individual investors looking to invest in this space, while also providing instant credibility and increased transparency."

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- Andrew Beer

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