

# Managed Futures

Managed Futures funds (also referred to as CTAs, trend followers and systematic traders) seek to identify trends, with buy and sell signals spotted by computer models analysing hundreds of markets and securities globally

These funds have been in existence for over 30 years and total assets in the strategy are in excess of \$200bn. The UK is home to some of the best known funds including AHL, Aspect, BlueTrend and Winton.

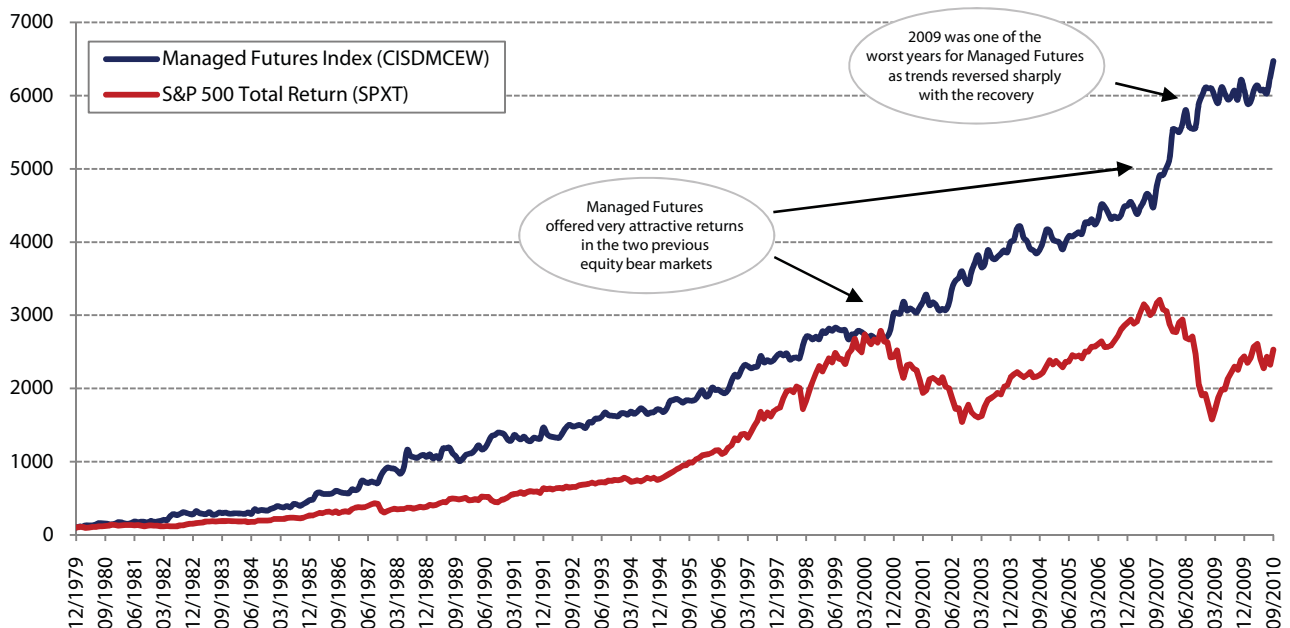
Financial and commodity markets tend to show strong trends, often occurring at different times through their cycles. By gaining exposure to numerous markets at different points in their cycles, Managed Futures funds are able to minimise single market risk while reducing overall volatility. They are also indifferent to rising or falling markets as they can make money from being long or short.

## OVERVIEW

- Managed Futures funds invest in the most liquid markets in the world;
- Computer models analyse trends in over 150 futures markets;
- Asset classes covered include stock indices, bonds, energies, soft commodities, interest rates, currencies and metals;
- **Uncorrelated** historic returns to almost all asset classes including bonds, equities (especially in severe negative equity months; see overleaf) and hedge funds;
- High historical annualised returns but with high volatility too, hence modest Sharpe and Sortino ratios;
- High levels of regulatory oversight;
- Many funds now available in **UCITS III** format making them more attractive for UK investors;
- **\$100,000** invested in Managed Futures in 1980 would today be worth **\$6,473,000** vs. **\$2,531,000** in the S&P 500 TR;
- Historical volatility has been broadly similar to equities – **16.2%** vs. **15.6%**;
- It is important to point out that the systematic trading index has strong survivorship bias;
- The S&P 500 also displays extensive survivorship bias with over 320 stocks having been removed from the index since 1990 alone.

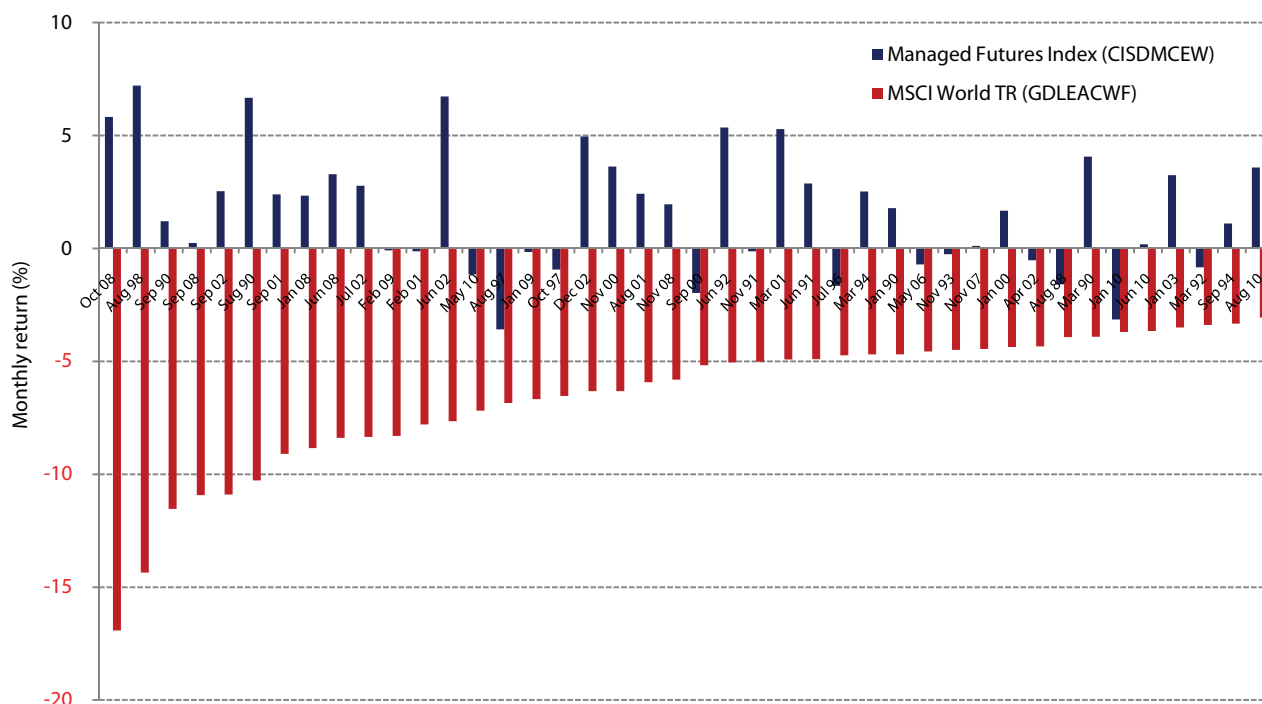
## Long term performance of Managed Futures funds – January 1980 to September 2010 inc - [Growth of \\$100](#)

Managed Futures have produced an annualised return of **+14.6%** vs. **+11.3%** for equities.



Source: <http://cisdm.som.umass.edu/> & Bloomberg

Monthly return of Managed Futures in MSCI World negative returns in excess of -3% (Jan 1988 to Nov 2010)



**WHY DO MARKETS TREND?**

Most Managed Futures managers tend to view price trends as a function of supply and demand for a particular commodity or financial instrument, or as shifts in risk premium for different asset classes. There are a large number of factors that can lead to such shifts in risk premiums, such as the changing state of the economy, specific events, market news, or the emergence of information not yet incorporated in the current market price. Market participants have different expectations of the future, so adjustments to expectations and the inclusion of new information in the price tends to be a gradual process.

**CAN MANAGED FUTURES OFFER DOWNSIDE PROTECTION?**

In times of market panic, strong trends can emerge. Typically, these trends see riskier assets (equities, corporate bonds etc) sold, and so-called “safe haven” assets (government bonds, strong currencies, etc) bought. These trends can, and historically have, proved very profitable for Managed Futures funds, as can be seen in the chart above.

**WHO INVESTS IN MANAGED FUTURES?**

Given their uncorrelated characteristics, Managed Futures play an important role in Global Tactical Asset Allocation

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for institutional investors such as **pension funds, charities, university endowments, high net worth individuals and family offices.**

**Downside of Managed Futures**

Investors should be aware that given the volatility and possible drawdowns of Managed Futures trading returns, these investments should be viewed as long-term and should not be viewed solely as an insurance against negative equity markets. We highlight these points below:

- Managed Futures are as volatile as equities;
- Losses tend to be incurred when trends reverse sharply, particularly with a sudden increase in volatility;
- They **will not protect capital** in every negative equity month;

- Investors must take a long-term view of three to five years.

**Benefits of Managed Futures**

Futures markets and systematic trading funds are able to offer a number of attractions to investors:

- An allocation to Managed Futures can considerably reduce overall volatility in diversified portfolios, whilst significantly improving the efficient frontier;
- Managed Futures funds did not restrict redemptions in the worst liquidity crisis in living memory;
- They have historically proven one of the best investments in inflationary times (ahead of index linked gilts, gold, property and the GS commodity index);
- There is no borrowing and therefore no credit lines required;
- They are highly regulated by the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA);
- Clearing houses guarantee transactions, thus removing counterparty risk;
- Systematic funds generally do not allow discretionary human intervention and therefore have no emotional attachment to markets. ■

**Edward Bradley-Norman**  
Campion Capital