EXPERT OPINION

WHY ARE CTAS RELEVANT IN THE CURRENT CONTEXT?

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Metori Capital Management is the sub-investment manager of the Lyxor Epsilon Global Trend Fund, which is part of Lyxor's liquid alternative UCITS platform. The fund invests in a diversified portfolio of financial futures (futures on stock indices, interest rates, sovereign bonds, and currencies), with the objective to take advantage of upward and downward trends in global markets. With over 600 million euros in assets, it is one of the largest managed futures UCITS funds in Europe.

WHAT IS A CTA?

The term CTA stands for "commodity trading advisor", which defines an asset manager specialised in the trading of futures markets. The scope of a CTA is not restricted to commodity futures as it also includes financial futures (such as futures contracts on sovereign bonds, interest rates, currencies, and stock indices). CTAs initially emerged in the United States during the 70's and started to develop in Europe during the 90's. They have been through multiple financial crises over the past decades and have demonstrated a capacity to generate performance with little to no correlation to equity markets.

MANY CTAS ARE ALSO TREND-FOLLOWERS. WHAT IS TREND-FOLLOWING?

Trend-following (also referred to as "momentum") is an investment strategy, which consists of detecting trends in liquid markets and in taking positions to benefit from such trends. A trend is the estimation of the direction (upward or downward) of a given market. In short, trend-followers aim to follow markets rather than betting against them.

Many trend-followers are systematic, meaning that their strategies are driven by quantitative models and implemented on a systematic basis. Systematic implementation removes the emotional bias from decision taking. Quantitative models are used to analyse large data sets to estimate trends and risks and allocate portfolios. Systematic managers are therefore largely driven by research, which involves a solid quantitative and scientific background.

WHY ARE CTAS RELEVANT IN THE CURRENT CONTEXT?

CTAs are relevant both in the long term and in the current context. They have the ability to provide diversification to investors, i.e. a return pattern that is uncorrelated to equities and bonds. This is because CTAs allocate to multiple regions and asset classes and seek to adapt to the direction of markets. CTAs are one of the few strategies capable of taking advantage of upward moves in bond yields.

HOW DID YOU REACT TO LAST YEAR'S CRISIS? WHAT IS THE SITUATION TODAY?

During the first quarter of last year, our investment model benefited from its diversified exposure: while it captured large profits from short-term interest rates, it limited losses from risky assets by exiting or reducing positions within a few days following the first sell-off. It then re-entered into equities as markets rebounded.

Throughout the first few months of 2021, our model took a cautious long exposure to equity markets while repositioning its fixed income allocation: concerns over inflation, which sparked a surge in long-term yields, led our strategy to close most long exposures to bonds and start playing a steepening of the U.S. yield curve.

WHAT CHALLENGES ARE FACED BY CTAS?

While CTAs aim to benefit from "trending" market environments, they also seek to limit losses during periods when markets are erratic. In such periods, CTAs must avoid excessive rebalancing and/or taking positions with little conviction. The other challenge is to ensure that the estimation of trends is consistent with the real macro environment and market sentiments. This requires a comprehensive analysis of interactions between markets, which requires ongoing research & development efforts.

HOW DO METORI AND ITS EPSILON MODEL DIFFERENTIATE FROM OTHER CTAS?

The world has become excessively complex and interconnected. Global markets are driven by global factors (e.g. Brexit, trade tensions, pandemic, central bank policies, etc.), which emerge and unfold from time to time. To address such increased complexity, Metori has built a comprehensive statistical framework to analyse a diversified universe of asset classes, across multiple regions, over multiple time horizons. We look at markets globally, taking interconnections into account, instead of trading single instruments in isolation. We believe this is a modern approach to trend-following.

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