CANDRIAM

A NEW YORK LIFE INVESTMENTS COMPANY

CTA - Commodity Trading Advisors*: A "trendy" investment?

60 seconds with the fund manager

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Marketing communication

* A CTA is a strategy that invests in futures contracts and aims to exploit price fluctuations in the bond, stock, currency and commodity markets using systematic trading models. A futures contract is a commitment to buy or sell an underlying asset (such as a stock index, commodities, government bonds) on a specific date at an agreed price.

Steeve Brument

Steeve Brument, Head of Quantitative Multi-Asset Strategies, Deputy Global Head of Multi-Asset, explains how a strategy invested in futures can deliver performance by harnessing the various market trends.

Why invest in a futures strategy?

A CTA strategy mainly uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities. CTA strategies take a quantitative approach to detect and exploit both upward and downward trends on these various markets.

A good CTA strategy must offer a portfolio the additional returns needed, particularly during market slumps, in order to enhance its robustness and limit its volatility. To accomplish this, each CTA manager has his own style. To maximise yields while limiting losses, it is important to be fully diversified in order to tap into various market configurations – diversified in asset classes traded, diversified in time horizons to detect trends, and diversified in the quantitative models used. As long as there is a trend, its direction hardly matters; the important thing is to detect this trend and to make best use of it, as this is exactly what is needed to offer returns to investors when they need them the most.

What are your strategy's performance drivers and their advantages for investors?

We have developed a quantitative method that analyses the most liquid futures markets on a constant basis, both to detect their main trends and to capture shorter-term shifts. Our main performance driver, trend-following, comes with two complementary short-term strategies. While trend-following strategies help capture wide-amplitude swings, our shape-recognition and contrarian strategies help capture short-term oscillations. Our investment universe is diversified (with 50 underlying futures covering seven asset classes[1], including equities, fixed income, currencies and commodities) and our risk-management algorithms equally weight the risk

60 SECONDS WITH THE FUND MANAGER

(1) Indicative data, likely to vary over time.

between asset classes thus offering efficient diversification at all times. Final returns are based on the accumulation of various positions taken by our models, whether bullish or bearish. They are designed to be decorrelated from traditional asset classes, which offers an edge to any investor seeking diversification.

How does your management strategy stand out?

Our approach stands out in many ways, starting with the objective we set ourselves more than 10 years ago when we developed our strategies. We wanted to offer investors a product that could tap into the main trends while offering greater robustness than a trend-following strategy alone.

To do so, we have made diversification the key to our management process.

Trend-following strategies are applied to a wide range of horizons (from six weeks to 12 months) and account for 70% of the risk budget at any point in time, while contrarian and shape-recognition strategies, which are used to capture shorter-term trends, each account for 15% of our risk budget[2].

We have also focused on risk management and diversification between asset classes. In practical terms, weighting our risk budget equally among seven different asset classes and 50 underlying futures contracts[3] gives us equal exposures to trends, regardless of the markets in which they develop.

In terms of risk management, our system allows us to be especially responsive when market risk increases.

Since 2006, these choices and our returns have helped us stand out, as they have allowed us to outperform the CTA indices[4], particularly when trend-following strategies have encountered less favourable environments.

Why invest today in your strategy?

As our strategy is only loosely correlated to the markets, we don't believe there is any particular time to invest in our strategy. Since the launch of the strategy, we have posted a performance disconnected from traditional asset classes and other alternative strategies, with a volatility profile around 10%[5]. Our strategy has historically shown a positive performance in phases of market stress (e.g. 2008 global financial crisis, recessionary fears in 2018, Covid in 2020, inflation and war in Ukraine in 2022)[6], as these phases naturally provide very clear and easily identifiable trends. This allows us to make a positive contribution to our clients' portfolios when they most need it. Adding this type of strategy to a diversified equity and bond portfolio has historically[7] helped enhance quality and performance by reducing volatility and drawdown of the overall portfolio.

But aren't some market environments more favourable than others?

Our main strategy is to tap into major trends. A favourable environment consists of several trends that are loosely correlated among themselves and that last for several months. When the

(2) Indicative data, likely to vary over time.
(3) Indicative data, likely to vary over time.
(4) Past performance does not guarantee future results and is not constant over time.
(5) Indicative data, likely to vary over time.
(6) Past performance does not guarantee future results and is not constant over time.
(7) Source: Candriam, https://www.candriam.com/siteassets/image/marketinsights/aa/2021/112021---commodity-trading-advisors/2021_11_cta_paper_en_web.pdf

markets move sideways or suffer sudden "risk-on risk-off"[8] shifts, our contrarian and shape-recognition strategies are able to take advantage of it, whereas the trend-following strategy (our main performance driver) will lack opportunities. The robustness of our approach is based, among other things, on the complementarity and low correlation between our strategies.

Our studies[9] show that trend-following strategies work best beyond a certain level of volatility, which remains relatively high today, fuelled by geopolitical and macroeconomic uncertainties.

(8) The concept of "risk-on risk-off" is an investment paradigm according to which asset prices are driven by changes in investors' risk tolerance.
(9) Sources: Candriam and Bloomberg.

The main risks of the strategy are:

- **Risk of capital loss**
- **ESG Investment Risk**
- **Sustainability Risk**
- **Equity risk**
- **Interest rate risk**
- **Credit risk**
- **Currency risk**
- **Liquidity risk**
- **Derivative risk**
- **Counterparty Risk**
- **Model risk**
- **Arbitrage risk**
- **Volatility risk**
- **Emerging market risk**
- **Leverage risk**

ESG Investment Risk: The non-financial objectives presented in this document are based upon the realization of assumptions made by Candriam. These assumptions are made according to Candriam's ESG rating models, the implementation of which necessitates access to various quantitative as well as qualitative data, depending on the sector and the exact activities of a given company. The availability, the quality and the reliability of these data can vary, and therefore can affect Candriam's ESG ratings. For more information on ESG investment risk, please refer to the Transparency Codes, or the prospectus if a fund.