

Price Swings Make Challenging Environment for CTAs

Performance fluctuates as returns between sub-strategies and trading methodologies diverge in Q1-Q3 2017

Pricing volatility in currency and energy markets has created a challenging performance environment for CTAs in 2017 so far. As at the end of September, the Preqin All-Strategies CTA benchmark has recorded year-to-date losses of 0.04%, compared to gains of 8.04% for the All-Strategies Hedge Fund benchmark. Trend followers, which represent the largest group of CTAs, have lost 1.62% YTD. In contrast, option writing CTAs, which represent one in 10 active funds, have gained 7.63% through the year so far. Similarly, systematic CTAs have posted losses of 1.02% in the nine months to September, but discretionary funds have returned 0.75%. This breaks from longer-term trends, which have seen returns between different strategies and methodologies more closely aligned.

For more information and analysis, see the full [November Hedge Fund Spotlight](http://docs.preqin.com/newsletters/hf/Preqin-Hedge-Fund-Spotlight-November-2017.pdf) here:
<http://docs.preqin.com/newsletters/hf/Preqin-Hedge-Fund-Spotlight-November-2017.pdf>

Key CTA Performance Facts:

- Two-thirds of CTAs (66%) trade in stock indices, while currency and energy futures are traded by 63% and 58% of CTAs respectively. **This leaves the strategy exposed to pricing volatility seen in these markets in 2017.**
- **As at September 2017, the Preqin All-Strategies CTA benchmark sits at -0.04%.** By contrast, the Preqin All-Strategies Hedge Fund benchmark saw a return of 8.04% over the same time period.
- **Option writing CTAs have posted the strongest performance for the year so far**, returning 7.63%. By contrast, trend following CTAs have seen losses of 1.62%.
- Despite their relatively stronger performance, just one in 10 CTAs operate an option-writing strategy, while **68% of CTAs pursue a trend following approach.**
- **Humans have outperformed machines in 2017 YTD:** discretionary CTAs have delivered YTD gains of 0.75% as at the end of September, while systematic vehicles have recorded losses of 1.02%.
- Following a period of stronger performance in recent years, there have been more fund launches in the discretionary space. **Discretionary-trading CTAs represent nearly one-third (32%) of all launches in Q1-Q3 2017**, an increase of 21 percentage points from 2016.
- This divergent performance trend is a relatively recent development: over the five years to September 2017, **discretionary CTAs have made annualized gains of 2.84%, while systematic funds have gained 2.22%.**

Amy Bensted, Head of Hedge Fund Products:

“The first three quarters of 2017 have proven to be a difficult performance environment for CTAs. The euro, Brazilian real and US dollar have all seen significant movement following political events in these regions over the year. These volatile conditions have resulted in fluctuations in monthly returns, with the Preqin All-Strategies CTA benchmark recording five months of gains and four months of losses in 2017 so far. More notably, different trading strategies and methodologies have seen markedly different returns through the year, creating a wide disparity between different funds’ fortunes.

However, investors continue to flock to CTAs, and overall the strategy has seen a net inflow of almost \$14bn in Q1-Q3. The number of institutions active in the CTA market has also increased, even as the asset class as a whole has seen large proportions of investors say they are looking to reduce or eliminate their allocations. Despite shaky performance in 2017, investors still see CTAs as providing protection from potential market correction, and so continue to seek exposure to the strategy.”

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

For more information, contact our dedicated press team at press@preqin.com or call (+44) 20 3207 0265.