

Content Includes:

# Preqin Special Report: CTAs

June 2016

## Investors in CTAs

More institutional investors currently invest in CTAs than ever before.

## Asset Flows

Recent growth in investor numbers has been matched by significant inflows of capital to CTAs.

## Fund Launches

Despite a growing appetite for the strategy, the number of new fund launches has fallen significantly since 2013.

## Performance

After a difficult 2015, CTAs started 2016 strongly.





# Foreword

Commodity Trading Advisors (CTAs), which operate trading strategies in futures and related derivatives across a wide range of commodity and other financial markets, have attracted considerable interest from investors in recent quarters. Net inflows to CTAs amounted to \$24.6bn in 2015, the third highest among top-level hedge fund strategies, and despite the hedge fund industry as a whole experiencing outflows of \$14.3bn in Q1 2016, inflows to CTAs continued (\$13.7bn).

Although CTAs experienced some performance difficulties in 2015, with the Preqin All-Strategies CTA benchmark falling 0.08%, they started 2016 strongly, returning 1.52% in Q1 2016. Possibly more importantly from an investor's perspective, however, is CTAs' continued low correlation to other financial markets, with investors utilizing the strategy to add diversification to their overall portfolio. The correlation of CTAs to the Preqin All-Strategies Hedge Fund benchmark and the S&P 500 Total Return Index have both fallen to close to zero, while their correlation to the S&P GSCI Total Return Index, which tracks liquid futures contracts in diversified commodities, has turned negative, as CTAs benefit from their ability to take short positions during the decline in commodity prices over the past two years.

With more investors allocating greater sums of capital to CTAs, this report takes a look at the latest trends in the CTA market: investor allocations and future activity, the make-up of the current fund market and CTAs' long-term and recent performance.

We hope you find this report useful and welcome any feedback you may have. For more information, please visit [www.preqin.com](http://www.preqin.com) or contact [info@preqin.com](mailto:info@preqin.com).

## Key Facts



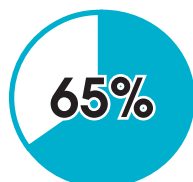
**\$13.7bn**

Total inflows to CTAs in Q1 2016, the largest among all hedge fund strategies.



**1,191**

Number of CTA funds active in the hedge fund industry today.



**65%**

Proportion of CTAs that employ a trend following strategy.



**1.52%**

Preqin All-Strategies CTA benchmark return in Q1 2016.

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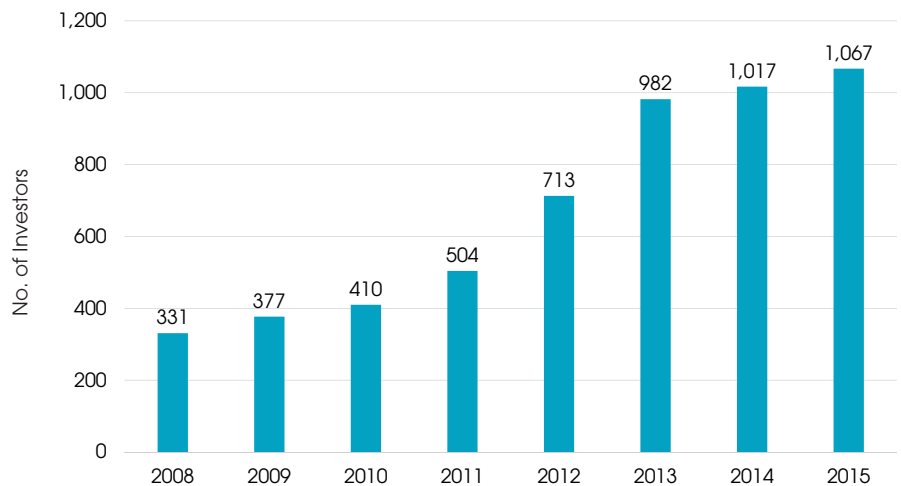
# Investors in CTAs

CTAs play an important role in a number of institutional investors' portfolios. These vehicles, operating trading strategies in futures and other related derivatives across a range of commodity and other financial markets, offer the possibility of returns with low correlation to other financial markets, and can help to diversify and smooth returns in investor portfolios.

These benefits have attracted a number of institutional investors to allocate to CTAs in recent years, with the number of active investors rising from 331 in 2008 to 1,067 as of the end of 2015 (Fig. 1). While CTAs are most established among fund of hedge funds managers, 43% of which invest in CTAs, a range of other large institutions include CTAs in their portfolios: 28% of public pension funds and 27% of superannuation schemes allocate capital to CTAs (Fig. 2).

Europe-based hedge fund investors are more likely to invest in CTAs than investors from other regions, with 27% allocating to the strategy, followed by 24% of Asia-Pacific-based investors (Fig. 3). By contrast, only 19% of all hedge fund investors based in North America and 12% of investors based outside these regions invest in CTAs.

**Fig. 1: Number of Institutional Investors Active in CTAs, 2008 - 2015**



Source: Preqin Hedge Fund Online

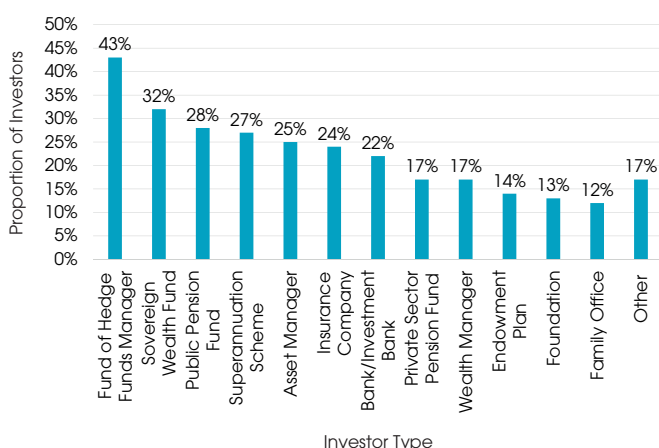
## Asset Flows

Recent growth in investor numbers has been matched by significant inflows of capital to CTAs in recent quarters; CTAs received net inflows of \$24.6bn in 2015, the third highest among top-level hedge fund strategies (Fig. 4). This growth continued in Q1 2016, when CTAs received inflows of \$13.7bn despite the hedge fund industry as a whole experiencing net outflows of \$14.3bn. The inflow of capital has contributed to the significant increase in CTA assets

under management (AUM), which rose from \$204bn at the beginning of 2015 to \$241bn by Q1 2016, representing the largest percentage increase (18%) among top-level strategies in this period.

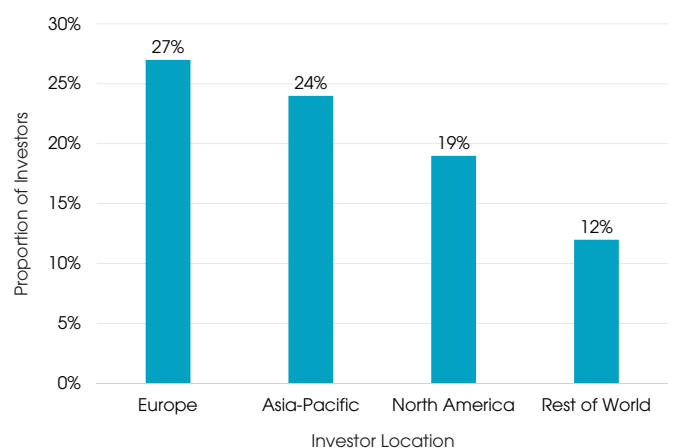
However, the new capital has not accrued evenly to all CTAs as investors appear to be allocating larger sums of capital to some vehicles while withdrawing capital from others. Despite the significant inflows to CTAs in Q1 2016, only 40% of CTAs saw inflows in this period, while 48% saw outflows.

**Fig. 2: Proportion of Institutional Investors in Hedge Funds with a Preference for CTAs by Investor Type**



Source: Preqin Hedge Fund Online

**Fig. 3: Proportion of Institutional Investors in Hedge Funds with a Preference for CTAs by Investor Location**



Source: Preqin Hedge Fund Online



## Appetite and Future Activity

Despite a challenging 2015 for CTAs, in which the Preqin All-Strategies CTA benchmark returned -0.08%, investors remained satisfied with performance: 69% of investors surveyed for the Preqin Investor Outlook: Alternative Assets, H1 2016, felt that their CTA investments had met their expectations for the year, the second largest proportion among

top-level hedge fund strategies (Fig. 5). This highlights the role of CTAs in diversifying portfolios and providing some downside protection. In this context, flat performance during a time of volatile commodity prices and falling equity markets may be acceptable for these investors.

Investors will continue to seek new investments in CTAs in the year ahead;

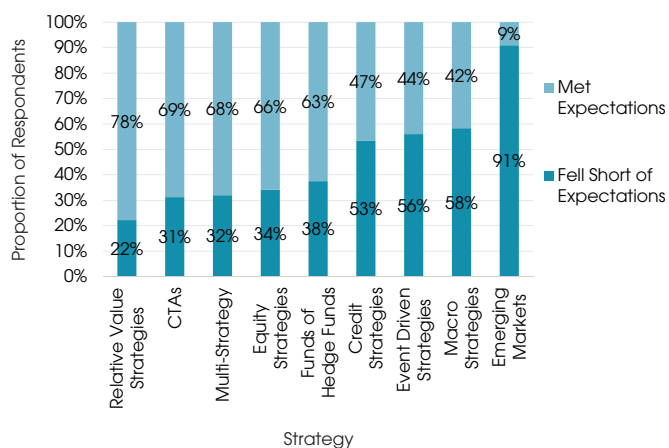
29% of investors surveyed by Preqin plan to increase their exposure to CTAs in 2016, including 2% that did not invest in 2015 but plan to in 2016 (Fig. 6). While there remains a significant proportion (46%) that do not yet invest in CTAs and do not intend to over the course of 2016, among investors that currently allocate to CTAs, over half plan to increase their allocations.

**Fig. 4: Quarterly Asset Flows by Strategy, Q1 2015 - Q1 2016**

	Q1 2015 Asset Flows (\$bn)	Q2 2015 Asset Flows (\$bn)	Q3 2015 Asset Flows (\$bn)	Q4 2015 Asset Flows (\$bn)	Q1 2016 Asset Flows (\$bn)	Q1 2016 AUM (\$bn)	Percentage Change in AUM over Q1 2016*
CTAs	11.3	-4.8	16.7	1.4	13.7	241	7.8%
Credit Strategies	-3.7	15.1	-2.0	-5.1	-11.9	230	-4.8%
Equity Strategies	29.6	28.8	-1.7	3.6	-9.7	786	-2.6%
Event Driven Strategies	-1.6	12.3	-1.8	-10.7	-2.8	161	-2.5%
Macro Strategies	-3.4	-14.0	-11.2	2.8	-6.4	923	0.4%
Multi-Strategy	12.2	5.2	7.8	2.4	12.8	443	2.9%
Niche Strategies	-0.1	-0.6	1.4	0.6	-1.5	13	-12.4%
Relative Value Strategies	-15.3	5.6	-5.3	-3.8	-8.7	334	-2.9%
<b>Total Industry</b>	<b>28.8</b>	<b>47.5</b>	<b>3.9</b>	<b>-8.9</b>	<b>-14.3</b>	<b>3,130</b>	<b>-0.5%</b>

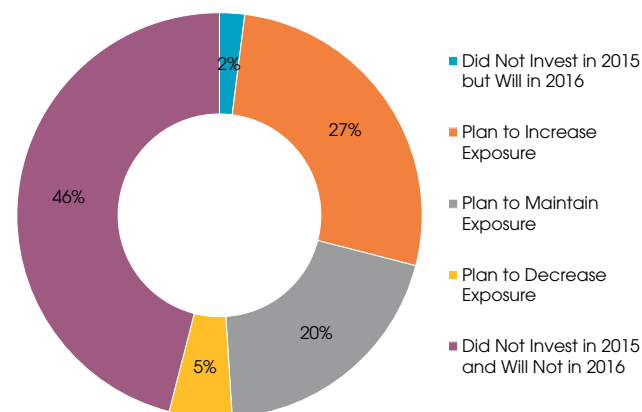
Source: Preqin Hedge Fund Online

**Fig. 5: Hedge Fund Portfolio Performance in 2015  
Relative to Expectations of Institutional Investors by  
Strategy**



Source: Preqin Investor Outlook: Alternative Assets, H1 2016

**Fig. 6: Investors' Allocation Plans for CTAs in 2016**



Source: Preqin Investor Outlook: Alternative Assets, H1 2016

**Fig. 7: Sample Investors Targeting CTAs in the Next 12 Months**

Investor	Type	Location	Investment Plans for Next 12 Months
APK Pension Fund	Private Sector Pension Fund	Austria	Plans to invest €30mn across two funds in the next 12 months, seeking exposure to CTAs alongside macro and equity market neutral strategies.
Sacramento County Employees' Retirement System	Public Pension Fund	US	Expects to commit to two funds in the next 12 months focusing on systematic CTA and low volatility strategies.
Swaen Capital	Asset Manager	Singapore	Swaen Capital is looking to invest in CTAs in the next 12 months. The asset manager is not interested in seeding funds or investing in emerging managers but may consider spin-off teams.

Source: Preqin Hedge Fund Online

\*Includes increase in assets due to performance.



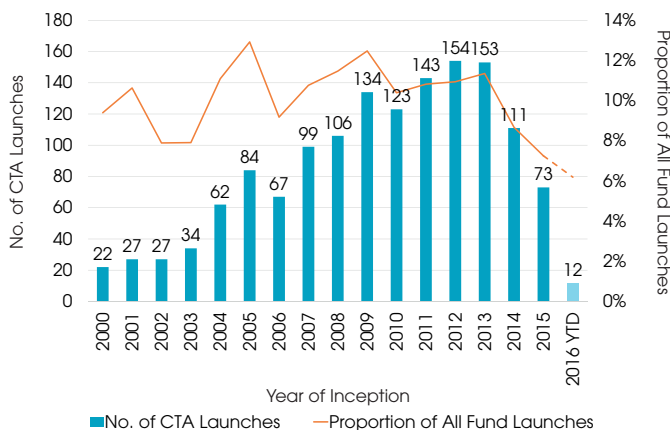
# Fund Managers

There are currently 1,191 CTA funds active in the hedge fund industry today. Data taken from Preqin's **Hedge Fund Online** service shows that the number of new CTA launches reached a peak in 2012 and 2013, before falling over the past few years as the market became more saturated with these vehicles (Fig. 8). Although the number of CTA launches in 2016 will increase substantially over the rest of the year, the small proportion (6%) of all fund launches so far in 2016 that CTAs accounted for suggests that this could be another year of comparatively few launches, despite the growing appetite for these funds in the current market environment.

The majority of CTAs trade using systematic models, which use computer algorithms to predict patterns in futures markets. The proportion of new fund launches that solely use a systematic methodology has fluctuated between 70% and 77% since 2010 (Fig. 9). Eleven percent of new vehicles launched in 2015 combine computer-driven trades with discretionary trading by fund managers, while the proportion of new vehicles that relied solely on discretionary trading stood at 19%, the highest level since 2010.

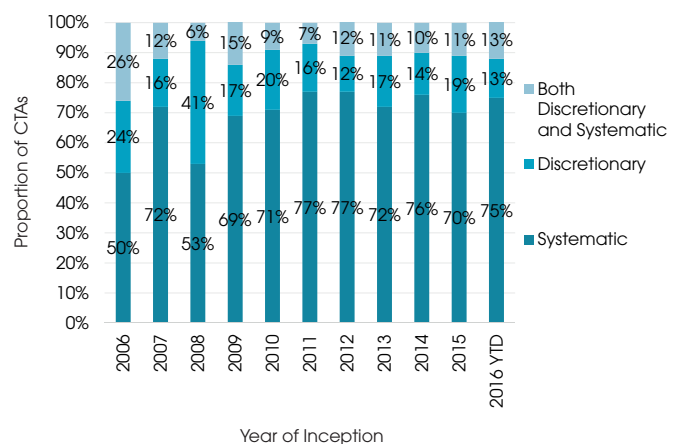
The majority (65%) of CTAs utilize trend following strategies, which seek to capture directional moves in market prices through the use of technical indicators (Fig. 10). Comparatively, the next most commonly used strategies are macro (24%), counter trend (23%) and pattern recognition (23%), while only 13% use arbitrage and 10% practice option writing strategies. Currency markets are the most frequently traded futures markets by CTAs (65% of vehicles), while large proportions also trade stock indices (58%), energy (54%), grains (52%) and metals (51%, Fig. 11).

**Fig. 8:** CTA Launches as a Proportion of All Hedge Fund Launches by Year of Inception, 2000 - 2016 YTD (As at 19 May 2016)



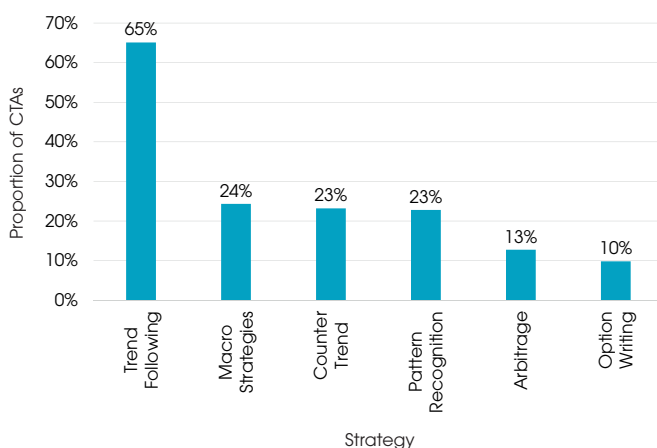
Source: Preqin Hedge Fund Online

**Fig. 9:** Trading Methodology Employed by CTAs by Year of Inception, 2006 - 2016 YTD (As at 19 May 2016)



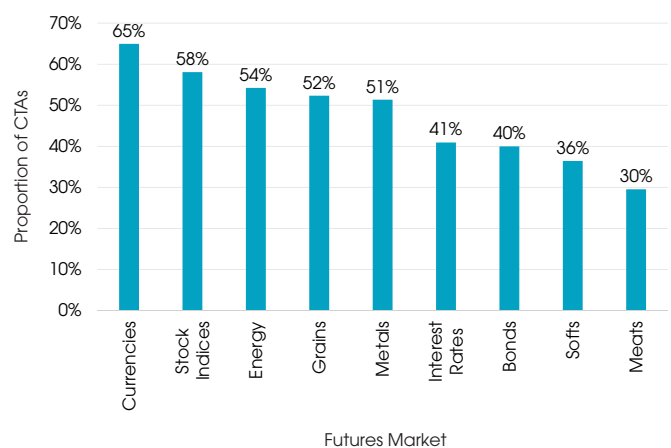
Source: Preqin Hedge Fund Online

**Fig. 10:** CTAs by Strategy Employed



Source: Preqin Hedge Fund Online

**Fig. 11:** Top Futures Markets Traded by CTA Funds



Source: Preqin Hedge Fund Online





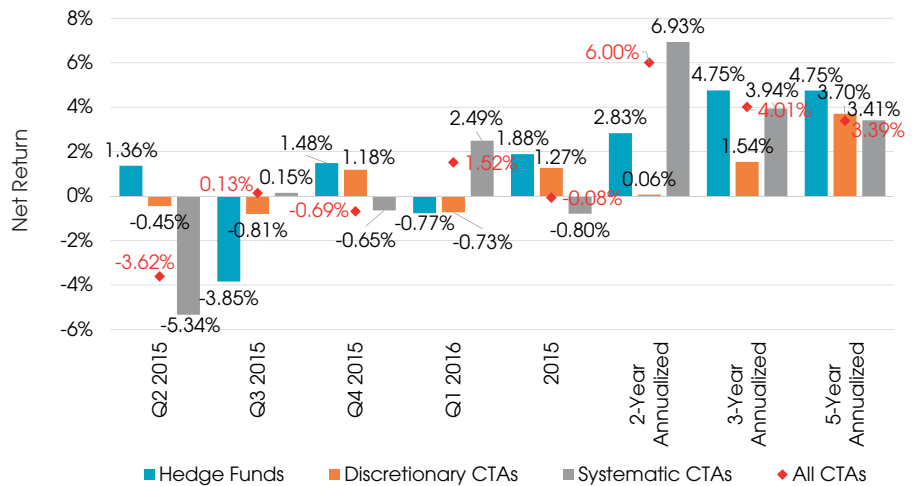
# Performance of CTAs

After a difficult 2015, which saw CTAs return -0.08% for the year, CTAs began 2016 with strong performance. Intra-month price swings and the volatility of commonly traded commodity assets created difficult conditions for fund managers in 2015, and 2016 has started in a similar style. Oil prices hit a 12-year low at the beginning of February, yet positive talks between Saudi Arabia and Russia later in the month drove prices to a seven-week high. Oil prices continued to increase in March, with the WTI Index hitting prices 50% higher than the lows seen in February, while there were also increases in the prices of sugar and coffee. CTAs performed well in these volatile markets, with the Preqin All-Strategies CTA benchmark returning 1.52% in the first three months of the year despite losses of 1.12% in March (Fig. 12).

## CTA Performance

Fig. 13 highlights the diversification benefits that CTAs can provide over the long term. Since the beginning of 2011, hedge funds have posted five negative quarterly returns; in four out of these quarters, CTAs returned positive gains to investors, with the most drastic difference in performance coming in Q3 2011, when CTAs generated 2.54% compared with -6.14% for hedge funds. However, over the longer term, hedge funds outperformed CTAs over both the three- and five-year periods (Fig. 12). While

Fig. 12: Performance of CTAs (As at April 2016)



Source: Preqin Hedge Fund Online

the strong performance of CTAs in 2014 has driven their two-year performance significantly higher than that of hedge funds, CTAs ended 2015 with a negative return for the year, with most CTA sub-strategies delivering a return of less than 1.00%.

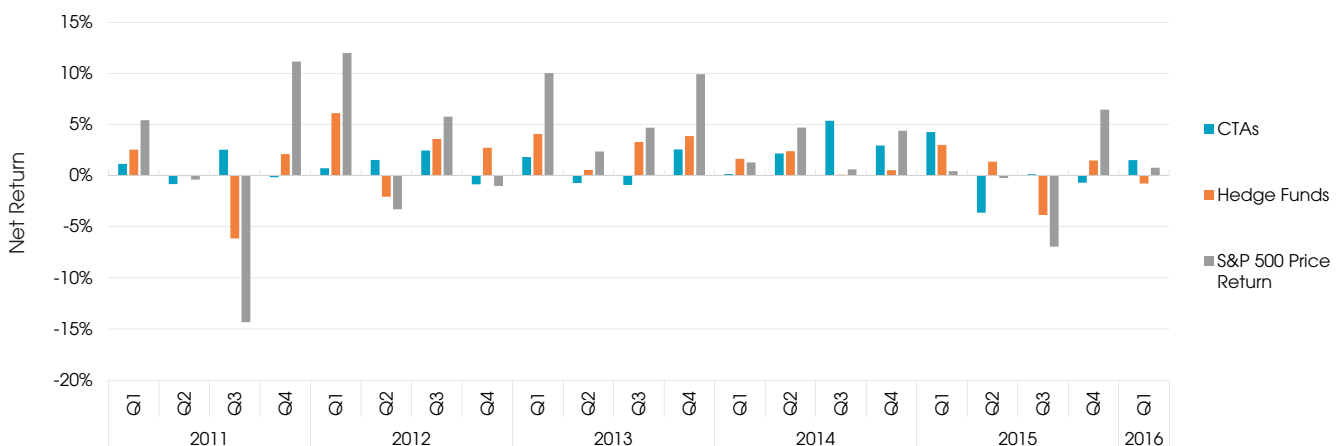
## Strategy Performance

Since the beginning of 2015, option writing strategies have had the strongest performance among CTA sub-strategies (Fig. 14), returning 8.67% over this period, nearly three percentage points more than any other CTA sub-strategy. This was helped by the strong performance of the

sub-strategy in 2015, when option writing returned 8.55%, compared with the 1.25% returned by macro strategies, the next strongest performing sub-strategy.

Counter trend is the next strongest performing sub-strategy over the period since January 2015, followed by macro and pattern recognition. As seen on page 5, nearly two-thirds of all CTAs employ trend following strategies; however, despite this large proportion the sub-strategy has returned 1.28% since January 2015, the worst performance of all CTA sub-strategies.

Fig. 13: Quarterly Performance of CTAs vs. Hedge Funds, Q1 2011 - Q1 2016



Source: Preqin Hedge Fund Online

## Risk/Return Profiles

Over the three-year period to April 2016, arbitrage strategies have generated the highest annualized returns with the lowest volatility (Fig. 15). Macro, pattern recognition and counter trend strategies are closely clustered in terms of their risk/return profile. In contrast to arbitrage, option writing strategies exhibited the lowest returns and highest volatility over the three-year period, with the recent strong performance not enough to offset losses in previous years.

## Market Correlation

Since the decline in commodity prices in H2 2014, correlation between CTAs and the S&P GSCI Total Return Index has become increasingly negative, reaching -0.42 in April 2016, highlighting the ability of these vehicles to take advantage of both upward and downward moves in commodity futures (Fig. 16). CTAs have

retained a low correlation (less than 0.3) to both equity markets and other hedge fund strategies since January 2013; although correlation increased in the second half of 2015, by the end of April CTAs had close to zero three-year correlation with equity markets and hedge fund strategies.

## Systematic vs. Discretionary

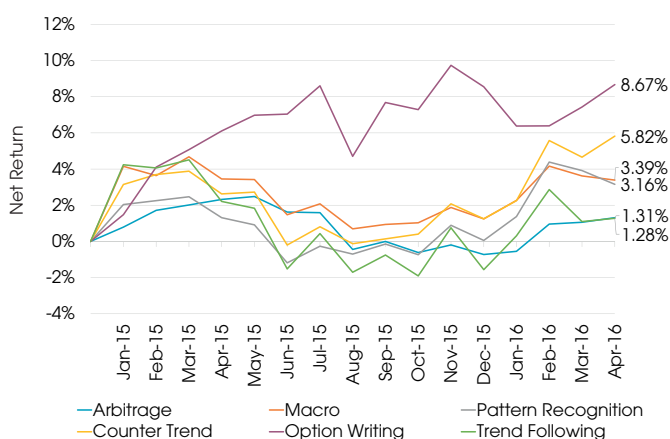
Systematic CTAs significantly outperformed their discretionary counterparts in the first quarter of 2015; however, since then, systematically traded CTAs have recorded fluctuating performance with losses in April (-1.76%), August (-2.03%) and December 2015 (-1.57%) to end April 2016 with a return just eight basis points higher than discretionary CTAs' at 1.38% (Fig. 17). In the middle of 2015 the difference in volatility levels between these two trading styles widened; despite the volatility metric in Fig. 16 created using returns

over a three-year period, the sharp dip in the performance of systematic CTAs in Q2 2015 will have been a factor in this change of trend. The basis point spread in volatility was 108 as of May, which widened to 176 basis points in August and remained around that level up to April 2016 (169).

## Outlook

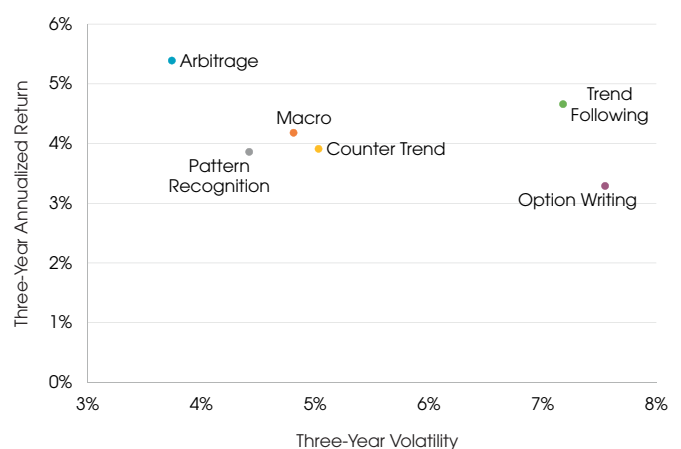
So far in 2016, CTAs have recorded strong performance and reduced their correlation to the equity markets, emphasizing the use of CTAs in creating a well-balanced portfolio by not only providing diversification to traditional assets but also the potential for good levels of returns. Even within CTAs there is noticeable variation between strategies, and although many vehicles are trend following, a diversified approach to CTAs may help smooth returns.

**Fig. 14: Cumulative Performance of Top-Level CTA Strategies**



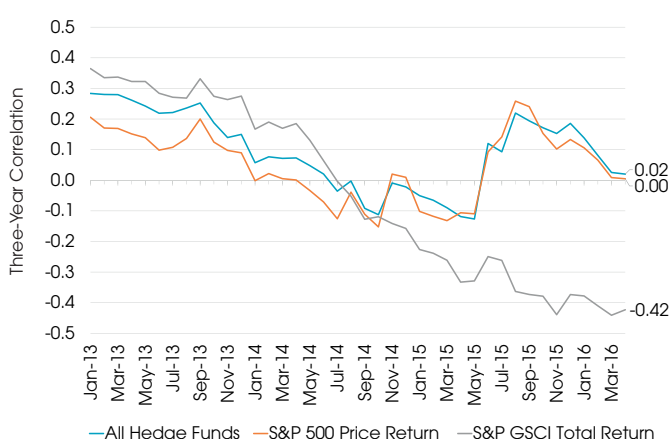
Source: Preqin Hedge Fund Online

**Fig. 15: Risk/Return Profile of Top-Level CTA Strategies**



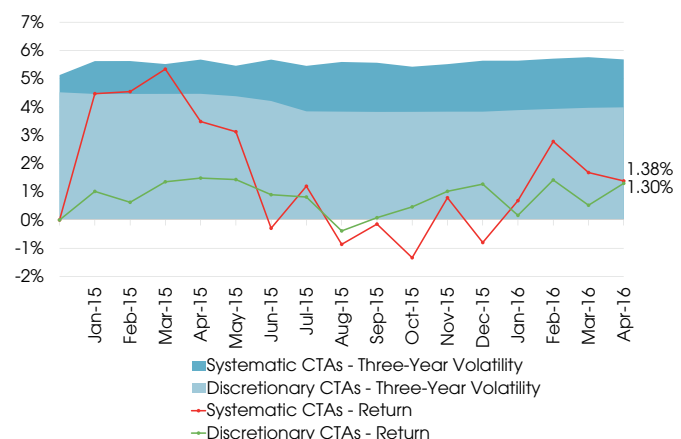
Source: Preqin Hedge Fund Online

**Fig. 16: Rolling Correlation of Benchmarks to CTAs, January 2013 - April 2016**



Source: Preqin Hedge Fund Online

**Fig. 17: Cumulative Performance and Rolling Three-Year Volatility: Discretionary vs. Systematic CTAs**



Source: Preqin Hedge Fund Online



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June 2016

## Preqin: Global Data and Intelligence

With global coverage and detailed information on all aspects of the hedge fund asset class, Preqin's industry-leading **Hedge Fund Online** service keeps you up-to-date on all the latest developments across the hedge fund universe.

### Source new investors for funds

Find the most relevant investors, with access to detailed profiles for over 5,000 institutional investors actively investing in hedge funds, including insurance companies, pension funds, family offices, foundations, wealth managers, endowment plans, banks, fund of hedge funds managers and more.

### Identify potential investment opportunities

View in-depth profiles for hedge funds seeking capital, including information on investment strategy, geographic focus, structure, service providers used, sample investors, direct contact information and more.

### Find active fund managers of hedge funds

Search for firms operating hedge funds. View information on key contacts, assets under management, performance history, key investment preferences, known investors and more.

### Benchmark performance

Identify which fund managers have the best track records with fully customizable performance benchmarks, and view performance details on individual named funds and share classes.

### Examine fund terms and conditions

Access fund-by-fund and industry level fund terms and conditions data for individual hedge funds, which provide a market overview, enabling you to see the current trends for specific strategies, structures, sizes and more.

### View detailed profiles of service providers

Search for active administrators, custodians, prime brokers, auditors and law firms by type and location of funds and managers serviced. Customize league tables of service providers by type, location of headquarters, and total known number of funds serviced.

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