RCM Alternatives

Managed Futures

2020 | Strategy Review

website blog podcast

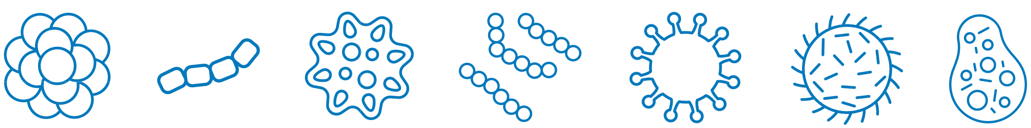
Managed Futures 2020 Strategy Review

What a year 2020 was in markets. From the Corona Crash in March to VIX highs in the 80s, to tech stocks doubling and tripling from those lows. From retail traders driving the market, to stimulus checks holding the market hostage, not to mention Gold, Bitcoin, and Bonds at the zero bound.....did we miss anything?

In a year as crazy as this will be a poster child for volatility and the risk in equity markets for years to come. So how did long volatility seeking managed futures programs across short term, trend, ag, vol/options, and energies do? We would expect these volatility loving strategies to have done well – but the SocGen CTA Index actually fell -1.5% in Feb, before returning a paltry 0.13% in March and 0.22% in April . It, was of course, better than being down -30% in a few short weeks, and the large funds likely did deliver the low volatility/non-correlated returns the large institutions they cater do desired.

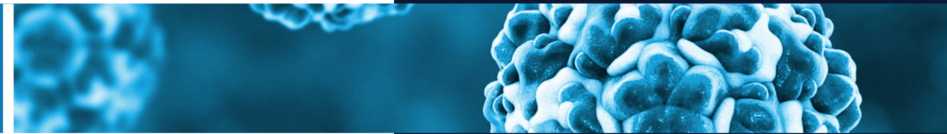
But outside the broad hedge fund and managed futures indices, 2020 was surely the year of the small-to-mid-size manager, who were more than willing and able to let their models capture some of these huge swings. These managers are able to react to market changes much more nimbly; or have more niche structures and strategies which the largest players can't replicate at scale. Examples included dedicated volatility traders who provided insurance when investors needed it most and smaller commodity focused programs in the energy space.

Here's our review of how each strategy type performed in 2020:



MARKET	LOSS at Covid Low	GAIN from Covid Low
S&P 500	-32.71%	70.19%
Nasdaq	-24.27%	94.40%
Corn	-20.76%	57.53%
Gold	-4.74%	30.62%
Crude Oil	-89.35%	646.46%
10 Yr Yield	-71.88%	72.22%
US Dollar	8.22%	-13.53%
VIX	452.63%	-70.71%

Trend Following
2020 Performance: Good

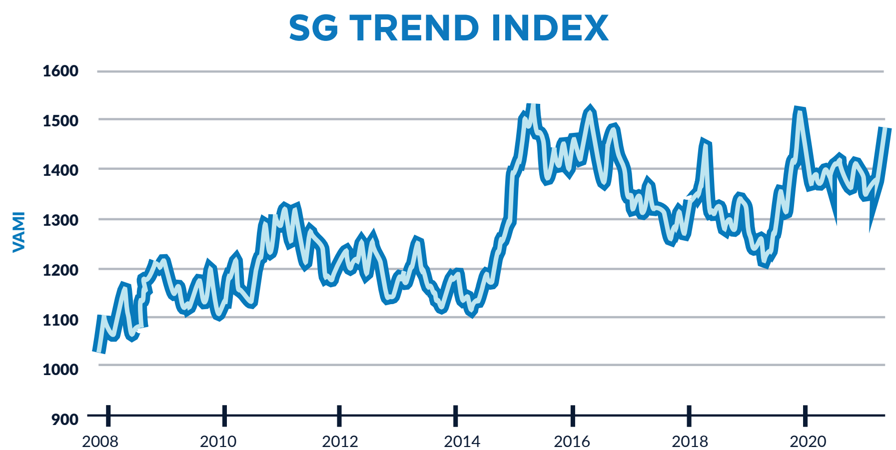


If you're just skimming asset class performance reports and see trend following turning in a positive 2020 (+6% for the SocGen Trend Index, +8% for the SocGen Trend Indicator), you'd be excused for believing they did a great job capturing the volatility spike and cross asset sell off in Feb/Mar. But the reality is the bulk of their performance came in Q4, and especially December. With the uncertainties of the election behind us, and vaccine dispersion in front of us, there have been resulting trends in energies, grains and oilseeds, foreign currencies, cotton, and lumber – not to mention stock indices. (now trend is keeping a systematic eye on whether the Covid-19-19 reflation trade becomes the inflation trade in 2021).

That's not to say there weren't gains to be had in March and April. Those were generally good months to be a trend follower as commodity prices (primarily energies….like oil going negative) declined because of COVID-19 drying up global demand. Short to medium term trend followers were able to get short stocks, using the initial decline in February to flatten longs and be able to establish short positions as the March sell-off accelerated. But, alas, 2020 wasn't a 2008 repeat, and instead of a months long decline – a sharp V shape price recovery was in the cards, causing losses across most sectors and trend time frames.

Adding it all up – there were winners like EMC Classic (+21% ret/ -6% dd), Auspice Diversified (+18% ret/ -4% dd), and Chesapeake Diversified (+6% ret/ -9% dd), while most others finished around breakeven - like former bellwether AQMIX (AQR's managed futures mutual fund) at -0.5% ret/ -9% dd. It's worth noting Winton, who's name used to be synonymous with trend following but infamously moved away from it in recent years, saw the ill effects of that big decision – losing "around -21%" in 2020 per the FT, while its pure trend following program gained 7%. Click through to performance for some of top Trend Followers we track:

- *Auspice Diversified Program*
- *Campbell & Co. Managed Futures*
- *Chesapeake Diversified*
- *EMC Classic*
- *Red Rock Systematic Global Macro*



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Past performance is not indicative of future results.

For more on these strategies, listen to their Derivative podcast episodes:.

Chesapeake Capital
Jerry Parker

Abraham Trading
Salem Abraham

AlphaSimplex
Kathryn Kaminski

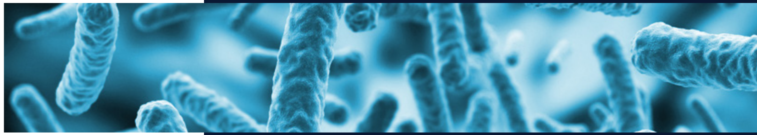
Auspice
Tim Pickering

Standpoint Funds
Eric Crittenden

trendfollowing.com
Michael Covel

Short-Term

2020 Performance: Good at first, ended a little rough

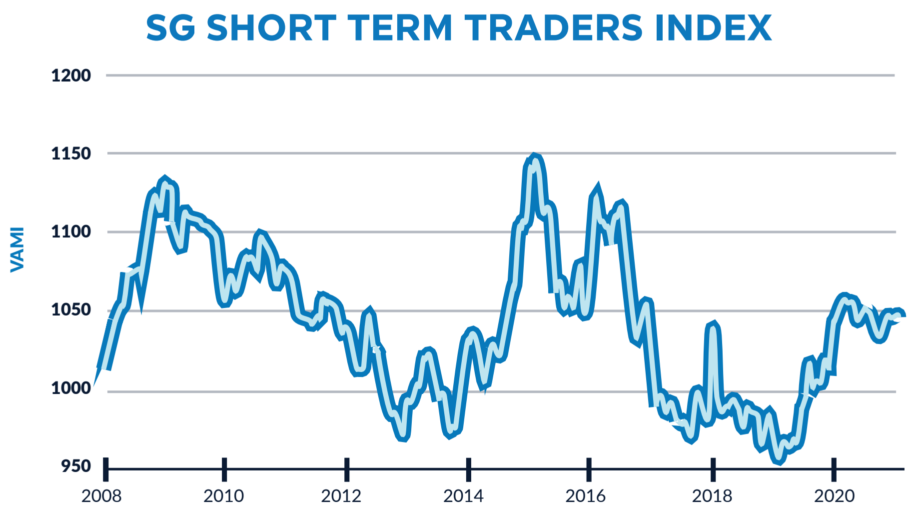


Short term traders answered the bell in the first half of 2020 as expanding market volatility provided great opportunities for these programs. Short term traders, as we define them, hold positions 0 to 3 days using primarily systematic trading models. Typically, when we see increasing trading ranges over days to weeks, this becomes a great time to be a short-term trader. On the flipside, these strategies will tend to struggle as markets become more "normal" and trading ranges consolidate.

We saw great performance from day traders like Deep Field ICA (+7% ret/ -15% dd) and QTS Tail Reaper in the first six months of the year with QTS putting up a whopping +35% ret/ -22% dd) return during the height of the Covid-19 sell-off in March. The second half of the year proved much more difficult for both programs as the markets shifted their focus from Covid-19 to tech earnings and the hotly anticipated Presidential election.

Other managers that did well include Eckhardt Evolution (+10% ret/ -6% dd) who had a strong start to the year and is finishing strong to close out 2020.

Short term stalwarts Crabel (0% ret/-5% dd), QIM (-4% ret/-17% dd), and Quest (+3% ret/ -15% dd) all had pedestrian years by their own standards.



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For more on these strategies, listen to their Derivative podcast episodes:

- Deep Field Capital
  Bastian Bolesta
- QTS Capital
  Ernie Chan

Discretionary Global Macro
2020 Performance: Average

For more on these strategies, listen to their Derivative podcast episodes:

Breakout Funds
Aaron Larkin
Matt Laviolette

There was no shortage of macro themes to trade around in 2020. From the pandemic to negatively priced oil, this year was bit crazy. And on top of the obvious, even seemingly less exciting markets got in on the action. Take Silver for instance, with about a week left in 2020, Silver was still holding on to the top performing market on the year at +47%. Silver, Gold's often boring cousin out-performed the metal spotlight Gold that clocked in at a measly +25% comparatively. It also outperformed the NASDAQ 100, which to note has been on an absolute tear, by approximately 2% (subject to change).

Overall the discretionary global macro space has slimmed down considerably over the years given the struggles to compete with broad based index funds.

Fortunately for us, we still know some pretty good names and track quite a few, and notably this year two of our most closely-tracked funds AG Capital (+40% ret/-9% dd) and Breakout Funds (20% ret/ -6% dd) both put together excellent years. Similar to other strategy groups the bulk of 2020, gains rolled in during the first half of the year while the second half of 2020 proved to be more difficult.

Finally, while a machine learning fed systematic global macro model instead of discretionary - worth noting here Taaffeite Capital Mgmt., which bounced back from a -39% drawdown in March to return +97% on the year!

GLOBAL MACRO INDEX

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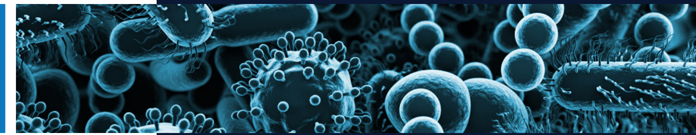
Commodity Specialists
2020 Performance: Mostly Good

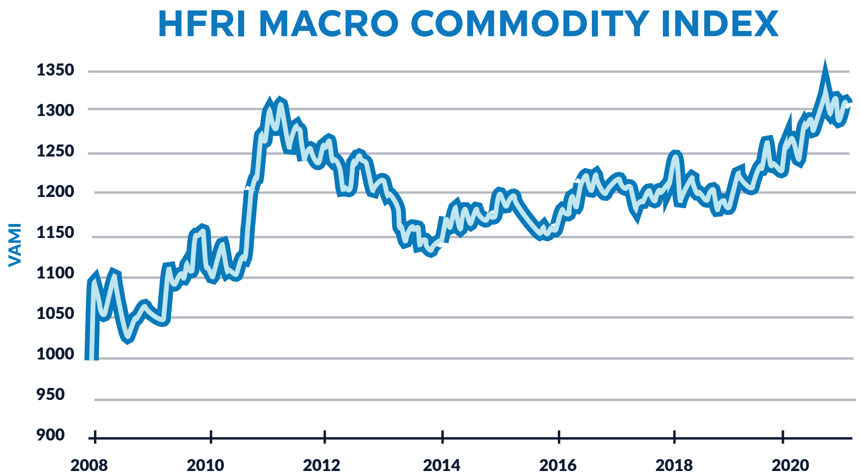


Before diving into the weeds of overall commodity performance on the year, we did a big picture look at the best and worst performing commodities on the year. Big losers: Crude Oil, Gasoline, and Lean Hogs. Oil and Gas took big hits with the overall halt of travel worldwide, and the largest consumers of pork – China – limited U.S. imports for a good part of 2020. Big winners: Lumber, Silver, and Soybeans. Lumber prices (somewhat mysteriously) hit +112%, mainly due to overall market volatility, and soybeans are up over 30% due to decreased production from major competitors like China and Brazil.

As for the specialist traders themselves, the top energy programs that we keep an eye on include Jaguar Aegir (+24% ret/ -1% dd) and Cayler Capital (+23% ret/ -9% dd) which are systematic energy programs trading spreads. Both programs saw the bulk of their gains come in March and April as crude oil prices declined to historic levels – aka negative levels.

Over the in the grains & oilseeds there was plenty of opportunity as well. Soybeans printed their highest price since 2016 while corn and wheat finished the year strong. After years of rangebound trading in these markets, it was nice to see the grain specialists have more opportunities. Programs of note being Opus (+45% ret/ -1% dd) & GammaQ (+12% ret/ -2% dd). Meanwhile, Demeter took the top spot amongst the meat specialists with returns of +30% ret/ -3% dd.

2020 saw mixed performance from multi-market commodity traders. New entry Cazadores ended the year at +7% ret/-2% dd, while long time commodity trader Red Rock Commodity L/S came in with a YTD of +12% ret/ -13% dd.



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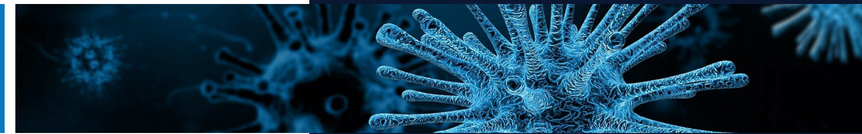
For more on these strategies, listen to their Derivative podcast episodes:

Cayler Capital | EVE
Brent Belote
Emil Van Essen

Volatility, Options, and Tail Risk Strategies
2020 Performance: Mostly Great



What a year to be a volatility trading manager! With the VIX spiking from 14 up to 80, then crashing back down into the 20s...it was all Option and Vol traders could handle – and then some. This led to renewed interest in this unique group, as evidenced by the successful launch of a new Vol Trader fund of funds, the Mutiny Fund.

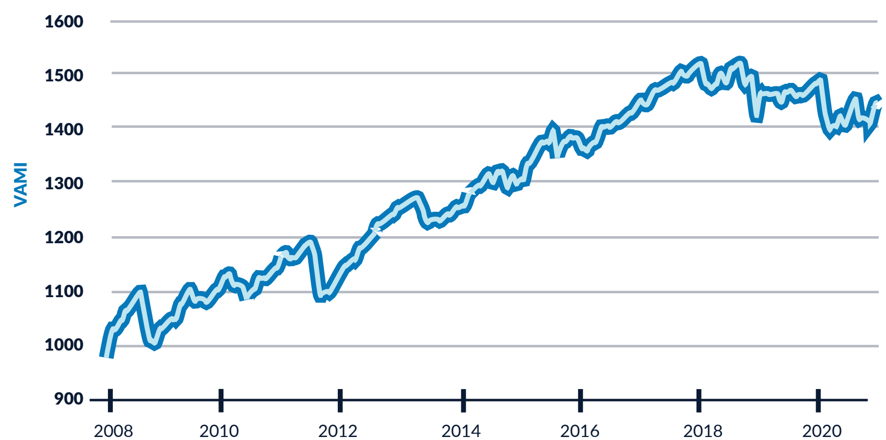
The numbers in March were gaudy, with groups like Taleb and Spitznagel's Universa reportedly up 4,000% (although the math doesn't really work that way, listen to a lively discussion on that here), and other groups feeling left behind if they weren't up more than double digits in March alone.

But it wasn't all rainbows and lollipops. There was the little problem of when to monetize in March. Too early, you didn't make enough, too late – you didn't make any. There was the oddness around the US election, with vols coming down, but at the same time bid up around the Nov election date and out into the January inauguration, making for a rather odd VIX curve. There were times when VIX was up ,but overall vol was down. And there was the persistent mismatch between implied and realized vol, leading to issues for managers using that as a metric for when vol was "expensive".

In the end, bigger winners included Benn Eifert's QVR Advisors posting +77% ret/-12% dd for the year, Covenant Total Volatility +21%, Rotella Long Boiased Vol +20% ret/-1.5% dd), and a bunch of managers up around 15% - including Artemis Vega (+15% ret/-10% dd), Logica (+15% ret/-7% dd), Quadriga (+13% ret/-35% dd); while more pure vol arb (trading both sides of the vol) like Deepfield Vol Arb +7% ret/ -15% dd) and Pearl and Certeza both down small single digits.

For those managers who mostly sell options for a living, it wasn't quite as bad as you would think it may have been. The Catalyst/ Warrington Strategic Program CWXIX managed to put in +4% ret/ -7% dd on the year even with the huge volatility spike, while Double Helix was down a respectable -8% ret/ -10% dd.

HFRI VOLATILITY INDEX



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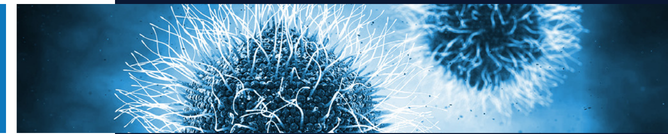
For more on these strategies, listen to their Derivative podcast episodes:

- Mutiny Fund
  Jason Buck
  Taylor Pearson
- Deepfield
  Bastian Bolesta
- Logica
  Wayne Himelsein
- Certeza
  Brett Nelson

Single Solution Strategies
2020 Performance: Mostly Great



Blended Portfolios. The new 60/40. Whatever you call it, there has been a big move the past few years towards putting diversifying alternative strategies like trend and active long vol in a single investment with long equities (or even fixed income). These types of strategies believe it's hard to adhere to just an equity or alternatives sleeve alone – and investors are better off capturing the emotional benefits and rebalancing premium of trading then together.

And 2020 was a bit of a real time test for those types of strategies, allowing investors to see just how well their diversifiers protected in the Feb/Mar sell off as well as how their equity exposure captured the amazing rally off the lows.

Winners in this space included StandPoint Funds BLNDX mutual fund, which blends trend following with long equities and did +16% with a -9% drawdown versus the S&P's +18% return and -34% drawdown; Rational Equity Armor's HDCTX mutual fund which blends long equity with a VIX based tail risk component which did +16% ret/-11% dd; Catalyst Multi-Strategy ACXIX (+5% ret/-12% dd) sub-advised by Caddo Capital Mgmt., which blends mortgage backed bonds with trend and Blackbear Capital Advisor's GEM program (+22% ret/-10% dd), which blends VIX and options based tail hedges with an active beta approach rotating changing allocations between sectors and geographies.

Another slightly different flavor of this is more on the Risk Parity/Dynamic Asset Allocation side, where instead of long beta hedged with an alternative – programs dynamically allocate between different asset classes and risk premia styles to generate an absolute return profile aimed at providing consistent returns across environments.

Results here included the Astor Macro Alternative GBLMX fund (+14% ret/ -11% dd), EVE GTAP program (+8% ret/-1.8% dd), and Resolve Adaptive Asset Allocation RDMIX at +1% ret/-22% dd.

JP MORGAN HEDGED EQUITY FUND

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For more on these strategies, listen to their Derivative podcast episodes:

Standpoint
Eric Crittenden

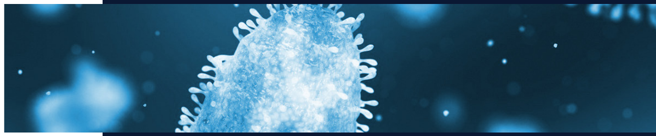
Equity Armor Investments
Joe Tigay

Caddo Capital
Darren Kottle

Black Bear Capital
Victor Canto
Jim Kleinops
Donn Stobierski

ReSolve Asset Management
Adam Butler
Rodrigo Gordillo
Mike Philbrick

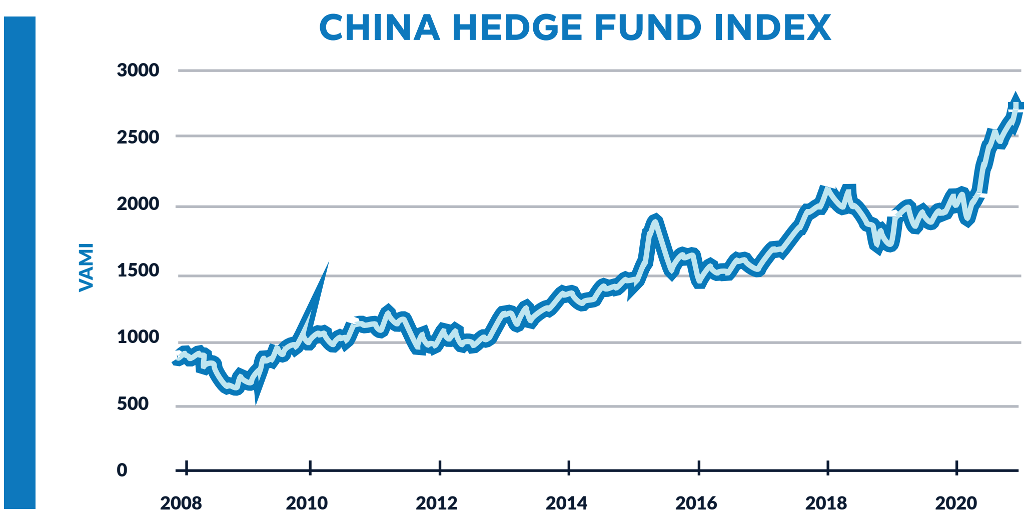
China
2020 Performance: Surprisingly Good



As has often been the case this century - China was front and center in 2020 in terms of driving markets and headlines. First as the coronavirus epicenter at the beginning of the year, then as the main engine kicking the global economy back into gear. The Chinese imports of commodities (and eventual destruction of their own) led to major ripple effects across the globe causing US commodities to absolutely tank in Q1, before the whole script reversed in the latter half of the year and Chinese commodities markets ripped higher. The top 5 markets in China all saw increases of +35-50%: Soybeans: +51%, Iron Ore: +53%, China Coke: +51%, Corn: +43%, and Corn Starch +36%.

RCM's service enabling Chinese private funds to license US CTA trading signals for use on Chinese commodity markets continued to grow in 2020. Onshore China funds that saw success using these signals included a classical systematic multi model strategy, JinZhiShang Strategy 2, which ended 2021 at +26%; JinZhiShang Strategy 19, a short term trading model using machine learning to identify trading patterns was up +29%, and a forward curve analyzing systematic strategy, JinZhiShang Strategy 21, which was just above breakeven.

Check back at the end of the month and we'll be giving a breakdown on the where, what, why, and how this all might play out in the year to come with our Managed Futures 2021 Outlook!



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For more on these strategies, listen to their Derivative podcast episodes:

Abingdon Global
Fred Schutzman
Stephen Klein

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*This program is only intended for Qualified Eligible Persons (QEP) pursuant to CFTC regulation 4.7

Sources: SocGen Trend Index
SocGen Short Term Traders Index
Barclayhedge Global Macro Index
HFRI Volatility Index
HFRI Macro: Commodity Index
JP Morgan Hedged Equity Fund
Eurekahedge Greater China Hedge Fund Index

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