ALMA CAPITAL

WINTON

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1) What are the main dynamics affecting alternative liquid fund platforms like yours, which strategies are gaining the greatest support?

Hervé: In 2023, interest rate moves saw flows into fixed income and money markets. Given the liquidity profile of alternative UCITS, it is often the first place investors look to raise capital for fixed income. Consequently, 2023 was a challenging year for liquid alternative platforms in terms of flows, despite good returns across strategies.

Moving in to 2024, we've seen momentum turn positive, with strong performance, exciting launches, and positive inflows. Rising risk free rates have increased investor's return expectations from liquid alternatives, but also lead to greater dispersion, which creates more opportunity for talented managers to extract alpha. The environment also favours portfolio diversification, something liquid alternatives provide very well.

These market dynamics have impacted Alma Capital Investment Management. We experienced a challenging fundraising environment in 2023. In 2024, we have started the year with strong performance across our funds. There has been particular investor interest in systematic and credit strategies, in line with market trends. Our launch pipeline is very healthy, with some exciting products coming to market.

2) Your Alma Platinum IV Systematic Alpha fund won the MondoAlternative Awards 2024 as Best Liquid Alternative Managed Futures over 3 years (2021-2023). What is the fund's investment process and what are the characteristics of the strategy?

Simon: The fund follows a diversifying alternative investment strategy that aims to profit from trends, up or down, across commodities, currencies, fixed income, and equity indices. The strategy allocates 75% of risk to a core trend-following component, with the remaining 25% allocated to complementary non-trend signals.

The fund's core trend-following strategy is designed to position for medium-term price trends as efficiently as possible and to produce returns that are diversifying for equities and bonds in the long run.

The basic idea of trend following is simple: go long the markets that have gone up and go short those that have gone down. However, strategy design choices can lead to different performance characteristics. For example, we use shorter-term models to trade equity indices in order to improve the strategy's responsiveness to equity drawdowns. This is the situation where many of our investors are seeking diversification.

The non-trend component comprises a range of signals that are diversifying for the core trend strategy. The aim is to identify novel sources of returns that can help the overall strategy deliver in environments where markets are moving sideways, without diluting the attractive portfolio properties associated with trend following.

We implement the strategy through a systematic investment process each day and we employ a team of quantitative researchers who are tasked with improving our trading signals and finding new ones. Our long-term track record shows how vital innovation and original research are for maintaining an edge in our highly competitive industry.

3) After a positive 2022, 2023 was a difficult year for Managed futures products, with your fund nevertheless standing out for its ability to generate a very positive performance over the year. What are the reasons for this success and how did you differentiate yourself from other products?

Simon: There were two main reasons for our outperformance of other managed futures funds in 2023: effective risk management and the inclusion of diversifying non-trend signals.

The collapse of Silicon Valley Bank in March triggered a classic "flight-to-safety" market reaction: a rally in bonds and a decline in equities. This was a problem for trend followers, who were short bonds and long equities. And it was an even bigger problem for those that automatically target a fixed level of portfolio volatility. Why? Because positive correlation between equities and bonds meant that long and short positions appeared to be offsetting one another. These strategies were then forced to scale up their positions heading into the event to hit their volatility targets.

Our strategy was not lured into this false sense of security, because it incorporates a range of risk measures when determining how much leverage to use. In particular, a proprietary stress test was warning of the elevated risk of correlations changing heading into the month, which meant that we avoided the double-digit losses experienced by many of our peers.

While our risk management helped protect us to the downside in 2023, it was our diversifying non-trend signals that lifted our performance to new highs. Last year was the perfect example of why combining trend following with diversifying signals is so valuable and standout contributors included multi-asset carry and commodity mean reversion models.

4) The last three years have proven to be a very complex period from a macroeconomic point of view, with various scenarios following one another quite rapidly and with a level of uncertainty that still remains high. In this regard, how do you monitor and consider macroeconomic factors in the decision-making process? Which economic indicators or global events most influence your trading decisions?

Simon: This wide range of factors driving markets is creating a favourable environment for our strategy. The aftermath of the pandemic, the Russia-Ukraine conflict, the return of inflation, and the breakdown of supply chains: all of these things are tremendously complex. And investors can find it difficult to understand exactly what all the ramifications are for a particular asset class.

Unlike economic indicators, trend following does well at times like this because complexity and uncertainty means that information is not absorbed into markets very quickly, which allows large trends to emerge. We saw this in commodity markets through 2021, in fixed income during 2022, and in the dollar last year.

We pay close attention to economic indicators and global events, even if they are not an explicit feature of our trend-following strategy. We are always researching new non-trend signals and are on the lookout for information that our models do not know about that can enhance our risk management.

5) How does your fund perform in different market conditions, for example in bullish, bearish or sideways markets? Do you make strategy changes based on these conditions?

Simon: The strategy is fully systematic and we seek to design it in a way so that we don't need to change it reactively to shifts in market conditions.

The core trend-following strategy tends to perform best when there are large, steady moves across multiple asset class. It doesn't particularly matter if these moves are to the upside or the downside because the strategy can go long or short in any market that it trades.

Trend following does less well when markets reverse sharply or are range-bound. It's for this reason that we seek out complementary signals that can generate profits when markets are not trending. Fundamental signals, for example, anticipated reversals across several commodities in the second half of 2022, while carry tends to do well when prices are stable.

6) What are the specific risks associated with your strategy? How do you manage them to preserve investor capital?

Simon: The main risk we face is that markets move against our positions in a big way. This risk isn't unique to our strategy: it is a fact of life for any investment seeking returns above the risk-free rate.

However, historical risk events for systematic investors, like the 2007 Quant Quake or the collapse of Long-Term Capital Management in 1998, provide a clear lesson: when large market moves occur, the best outcome is achieved by continuing to trade the strategy as designed and without significant intervention.

This viewpoint heavily informs the design of our strategy and our approach to managing risk. It explains, for example, why we often operate at lower levels of volatility than many of our peers and why we use a range of measures to determine how much leverage we use, not just volatility.

7) What type of clients is the fund targeting and what are the main benefits it can bring within a well-diversified portfolio?

Hervé: Given its blend of trend following and systematic macro signals, the fund is designed to be a cornerstone CTA allocation. It lends itself well to private wealth portfolios, as perhaps their only systematic hedge fund. In line with this, the fund's current client base consists predominantly of large wealth managers.

That said, due to its diversification benefits, low correlation to other managed futures strategies, favourable liquidity and cash efficiency, and overall portfolio enhancement properties, the fund is a compelling strategic allocation for any institutional investor base.

Simon: In terms of the benefits of an allocation, trend following is pretty much the only liquid alternative investment strategy that has close to zero long-term correlation with equities and bonds. And the data shows how maintaining a long-term core allocation to a well-designed trend-following strategy can materially improve the performance of most investment portfolios in the long run. This is particularly true during difficult periods for equities and bonds, the times when a genuine alternative investment is needed the most.