

CTA Survey and the J8 CTA Index

A survey-led benchmark for explaining the CTA and Managed Futures Industry



07 September 2022

J8 Capital Management LLP

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Summary



We want to understand how CTAs generate returns. We asked:

What are the most common markets traded?

What is the most common method to calculate position signals?

How are assets allocated?

How is risk managed and controlled?

What is a common fee structure?

We conducted three international surveys to address these questions.

The surveys were conducted in 2014, 2015, and 2017. We received over 110 responses from investors, managers, brokers, and consultants.

We derived a simple index model from the survey results and found that it offers an intuitive explanation of CTA returns.



Publications and partners

Publications

The 2014 and 2015 survey results and the calculation and development of the J8 CTA Index were published in international journals and magazines.

The 2017 survey results are reported in the Annex of the Index Handbook <http://www.j8capital.com/j8-cta-index.html>

Partners

The surveys were prepared and distributed by J8 Capital Management LLP in London in partnership with Prof. Dr. Robert LK Tiong of Nanyang Technological University in Singapore.

Matthias Knab of Opalesque supported the distribution of the 2017 survey and publication of results.

AIMA announced the 2017 survey in their weekly news letters.

Sachs, T., Tiong R. "A liquid and investible benchmark index for the CTA and managed futures industry". Journal of Index Investing, Institutional Investor Journals, Spring 2016, Vol. 6, No. 4: pp. 30-70.

Sachs, T., Chen, H., Tiong, R. "Common denominators: portfolio construction, fees. Building an index for the CTA industry". The Hedge Fund Journal, January 2015, Issue 101, pp. 54-57.

Sachs, T., Chen, H., Tiong, R. "Common Denominators - Markets traded by CTA and managed futures funds". The Hedge Fund Journal, September 2014, Issue 97, pp. 32-33.

Chen, H., Sachs, T., Tiong R. "Common Denominators in the Commodity Trading Advisor and Managed Futures Industry". Journal of Index Investing, Institutional Investor Journals, Winter 2014, pp. 46-58.



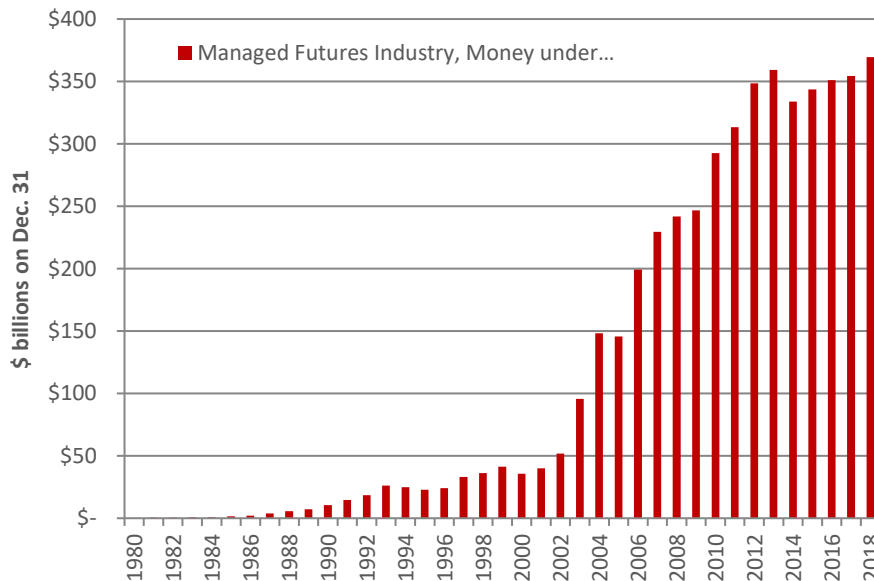
Motivation

What is the CTA industry?

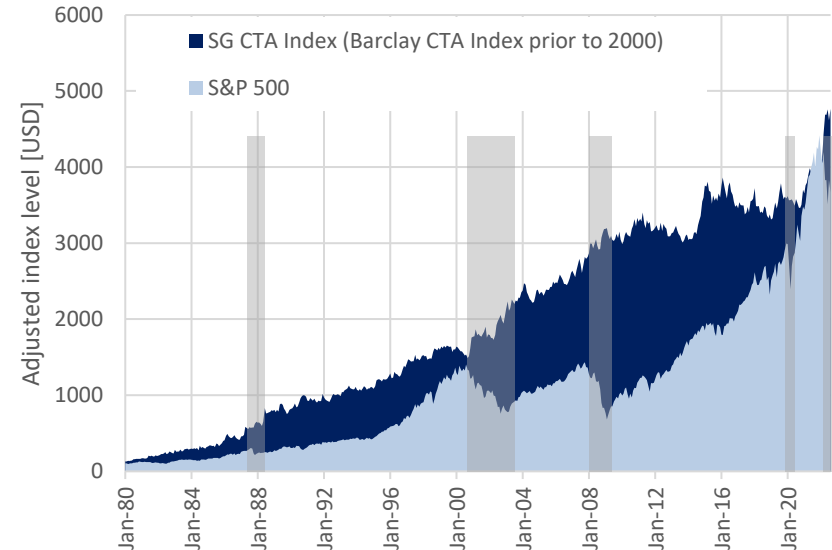
The CTA and Managed Futures Industry is still “young” but fast growing.

In the United States, trading future contracts dates back to the 1850s. The Commodity Futures Trading Commission (CFTC) first recognized the “Commodity Trading Advisor” (CTA) in 1974. The CTA and managed futures industry constitutes about 11.3% of the \$3.0 trillion hedge fund industry in 2016.

Historically, CTAs show profitability over an entire business cycle while the return stream can be lumpy. The long-term value proposition of CTAs include **portfolio insurance, portfolio diversification, and capital appreciation.**



Managed Futures Industry AUM in USD billion as of Dec 31 since 1980. Source: Barclay Hedge Ltd. and J8 Capital Management LLP



Long-term performance of the SG CTA Index (Barclay CTA Index prior to 2000) and the S&P 500, starting with \$100 on 31 December 1979. Source: Barclay Hedge, Societe Generale, ICE, J8 Capital Management LLP. 4

NOTE: PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURES RESULTS. THE RISK OF LOSS IN COMMODITY INTEREST TRADING CAN BE SUBSTANTIAL.

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2017 CTA Survey – Key Findings

The 2017 CTA survey by far and large confirmed the findings of the 2014 and 2015 CTA survey (total of 110 responses), with view nuances:

Investment Methodology:

There is no change to our previous survey findings that one can explain the majority of complex return generation of the CTA and managed futures industry with a simple index model or investment methodology (12M momentum on SP, CL, EUR, GC, HG, and TY in a risk weighted portfolio with 7% target volatility and 2/20 fee structure with 90d US T-Bills as risk free non-margin cash compounding rate). The J8 CTA Index holds as explanatory model and investible benchmark for the CTA and managed futures industry.

Fee pressure:

While 1.5% to 2% p.a. management fee remain the most popular, the 2017 survey detects a gradual shift into the 1%-1.5% or lower bracket. The high watermark performance fee remains stable in the 16% to 20% area.

Markets:

While the perceived popularity of markets is in general little changed, the 2017 shows that in particular Crude Oil, Wheat, Corn, Coffee and VIX have dropped out of favour while DAX, Nikkei 225, FTSE 100, and GBP gained popularity. Please see the ranking of the top 20 most popular markets.

CTA Survey

Respondents



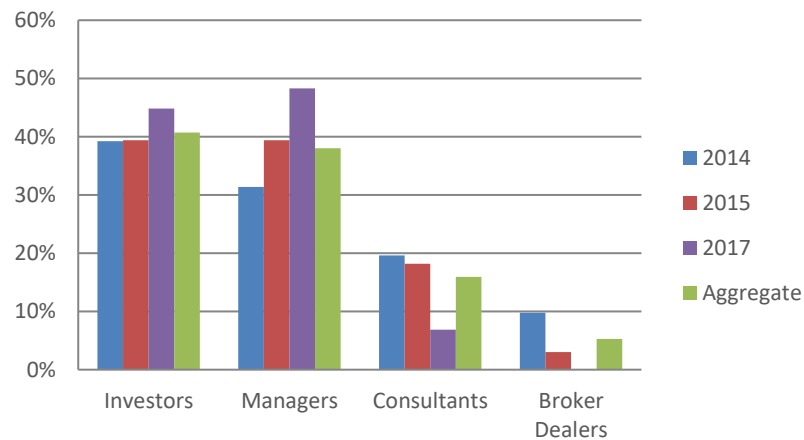
The majority of the survey participants were CTA investors and CTA managers from Europe, UK and the USA.

2014: 51 respondents

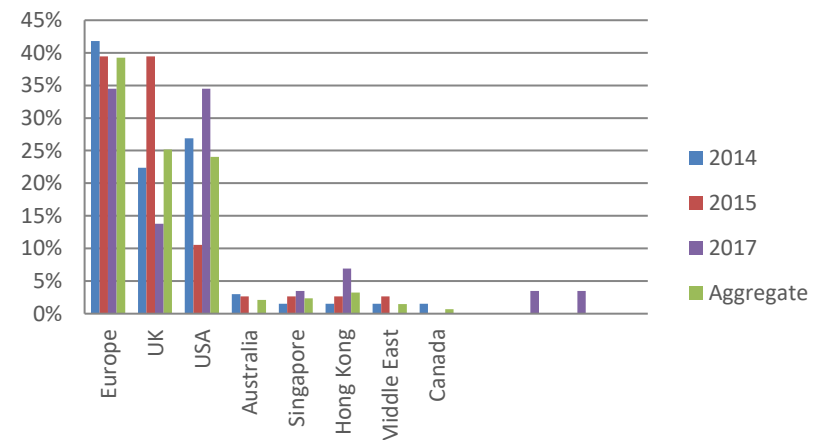
2015: 33 respondents

2017: 29 respondents

Type of survey respondents



Origin of survey respondents



CTA Survey

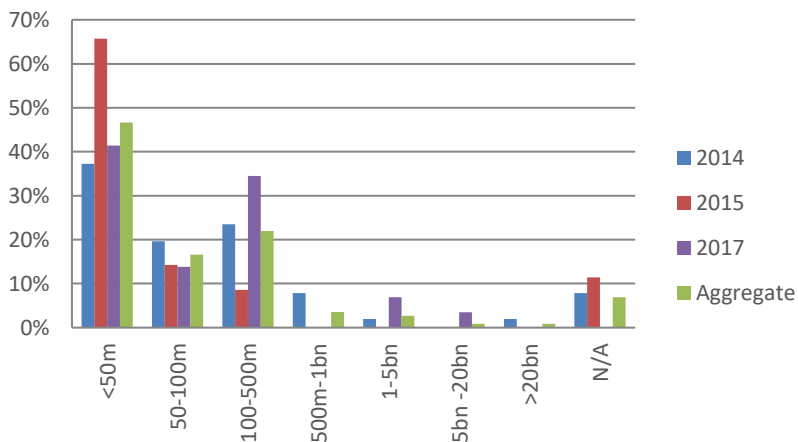
Respondents



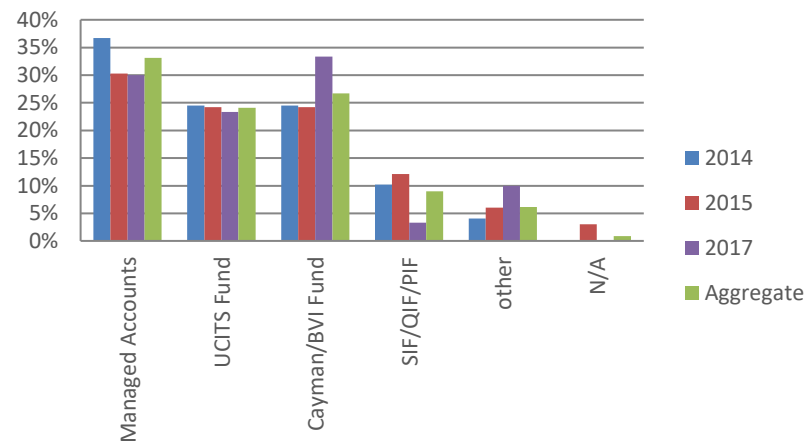
The majority either invested or were managing less than USD 50 million in CTAs.

The preferred investment vehicle was managed accounts followed by UCITS funds and funds domiciled in Cayman Islands and the British Virgin Islands.

AUM in CTAs/Managed Futures



Preferred investment Vehicle



CTA Survey

Markets - Commodities



What are the most common or popular markets traded by the CTA and managed futures industry?

The survey covered four global markets:

Commodities: energy, industrial and precious metals, grains, softs, and life stock

Fixed Income: government bonds and interest rates

Equities: indices and volatility

Currencies: G10 and emerging market currencies.

CTA Survey

Markets - summary



The 20 most common or popular markets are:

Total			2014 Survey		2015 Survey		2017 Survey	
Number of respondents			51		33		29	
Rank	Number of ticks	Market	Rank	Number of ticks	Rank	Number of ticks	Rank	Number of ticks
1	101	S&P 500	1	49	1	27	1	25
2	97	Euro FX	2	48	2	26	4	23
3	91	Gold	3	46	4	25	7	20
4	89	10yr US Treasury Note	7	41	5	24	2	24
5	87	Copper	4	45	6	23	12	19
6	86	Eurodollar	5	44	6	23	12	19
7	83	WTI Crude Oil	6	43	8	20	7	20
7	83	CBOE VIX	8	40	2	26	20	17
9	69	British Pound	13	31	12	14	2	24
9	69	Japanese Yen	9	38	16	11	7	20
11	67	Euro Bund (10yr)	12	32	11	15	7	20
12	64	Brent Crude Oil	10	37	12	14	36	13
13	62	Wheat	11	33	9	17	40	12
13	62	Euro STOXX 50	13	31	14	12	12	19
15	57	Coffee	16	28	10	16	36	13
16	56	Nikkei 225	16	28	24	8	7	20
17	55	Corn	13	31	19	9	27	15
18	54	DAX	22	24	19	9	5	21
19	50	Natural Gas (HH)	20	26	30	6	18	18
19	50	FTSE 100	25	23	30	6	5	21

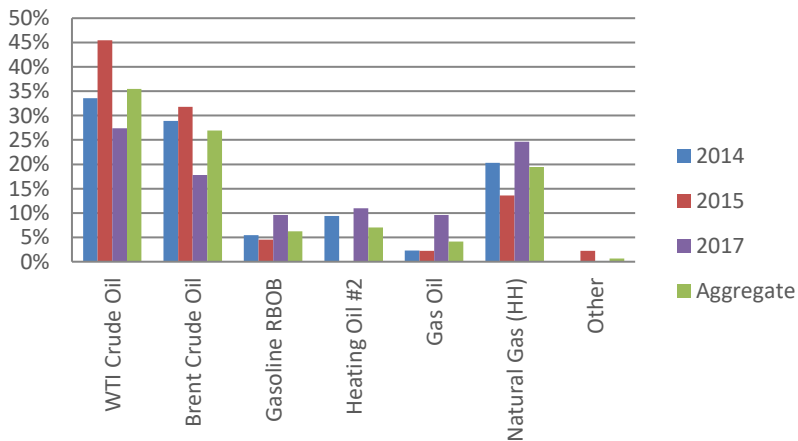
CTA Survey

Markets – Commodities: energy and live stock

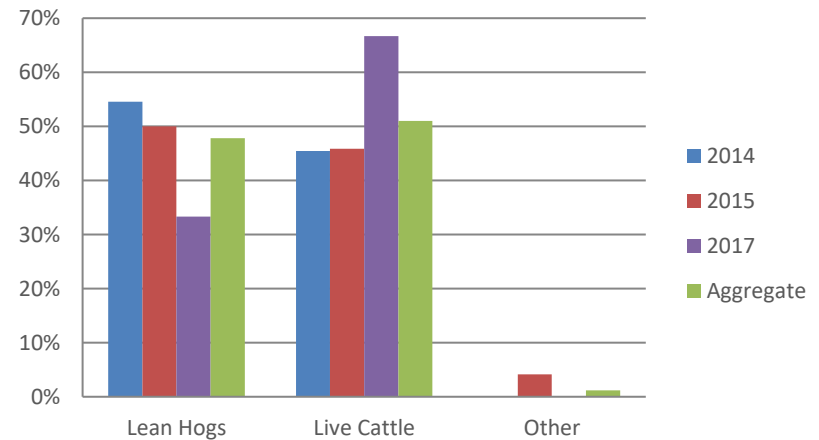


While the crudes and natural gas dominate the energy commodities, lean hogs and live cattle were of similar popularity.

Commodities - Energies



Commodities - Live Stock



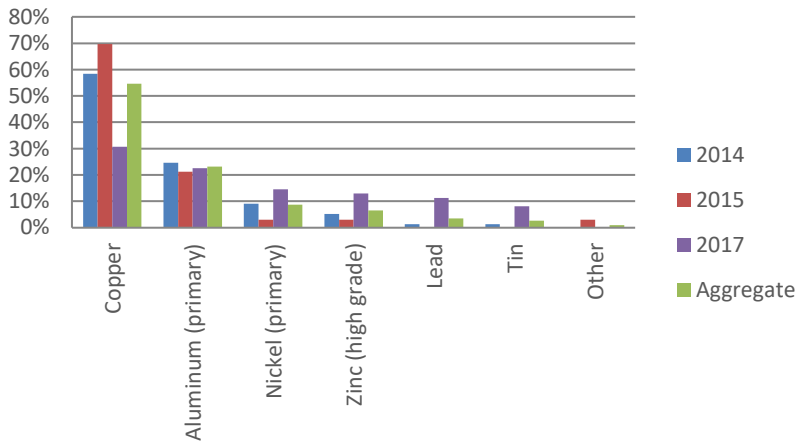
CTA Survey

Markets – Commodities: metals

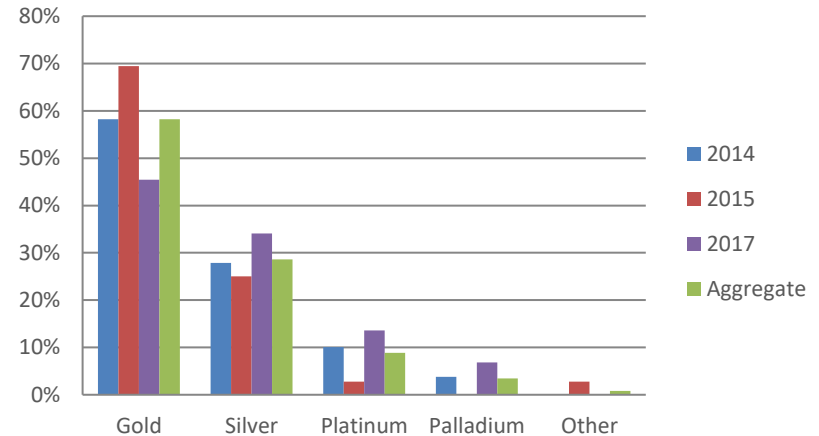


Copper dominates the industrial metals complex and gold the precious metal complex.

Commodities - Industrial Metals



Commodities - Precious Metals



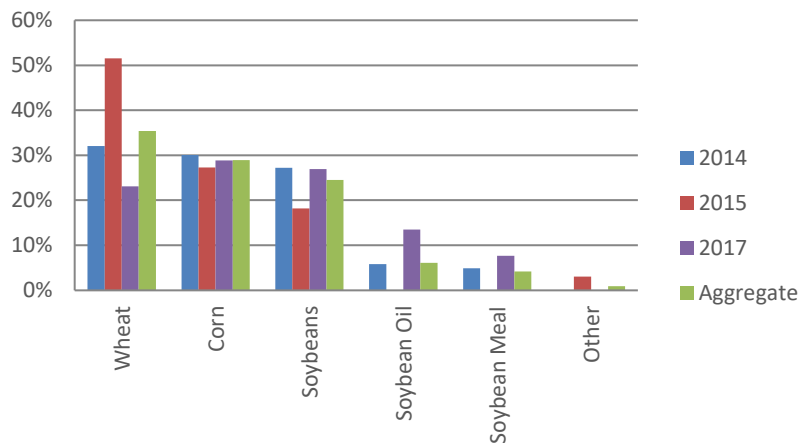
CTA Survey

Markets – Commodities: agriculture

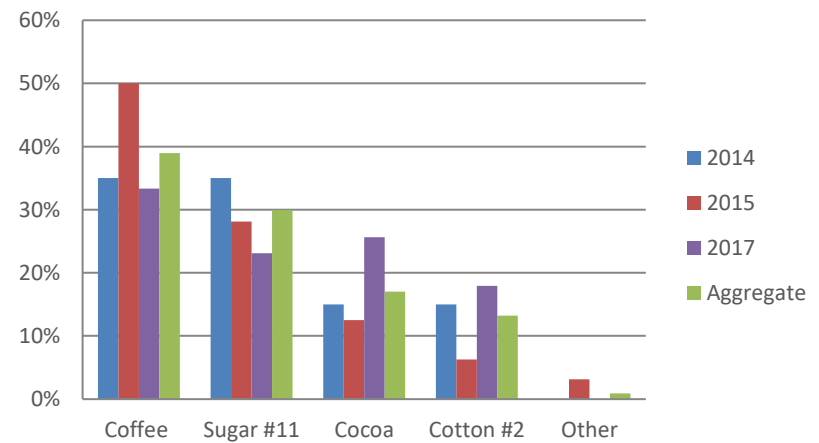


While the crudes and natural gas dominate the energy commodities, lean hogs and live cattle were of similar popularity.

Commodities - Grains



Commodities - Softs



CTA Survey

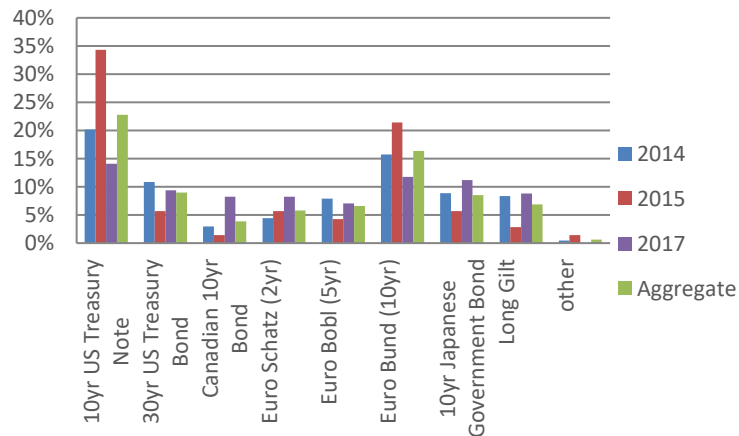
Markets – Fixed Income



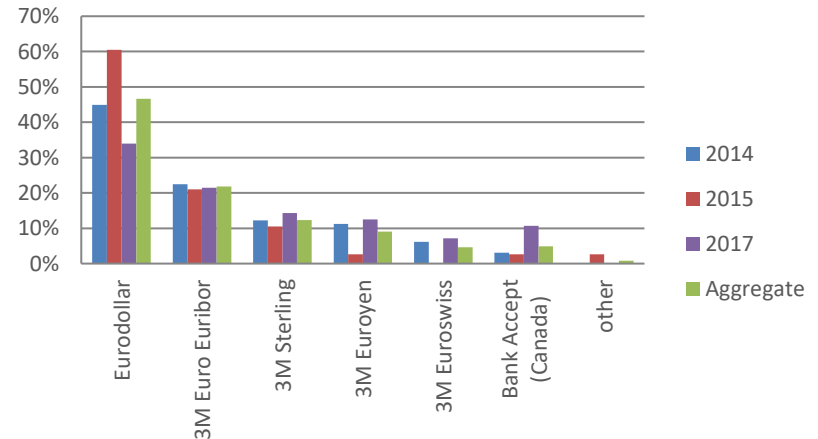
Within government bonds, the 10 year US Treasury note and the 10 year Euro Bund are the most popular markets.

In the short-term 3 month interest rate market, the Eurodollar was twice as popular as the next two markets, Euribor and Sterling, combined.

Government Bond Futures



Rate Futures



CTA Survey

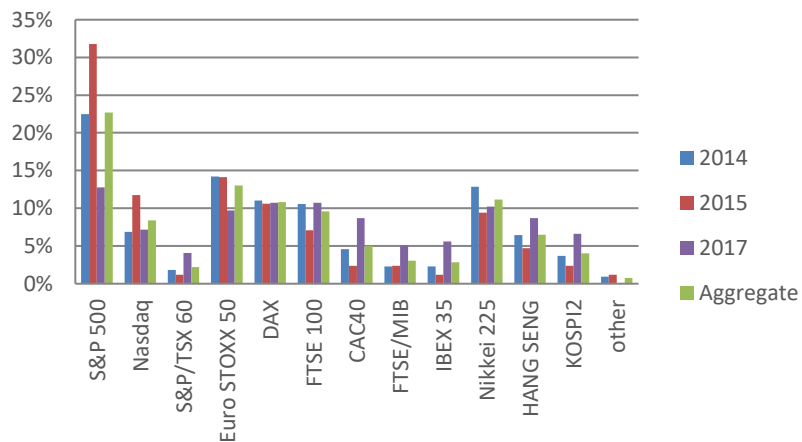
Markets – Equities



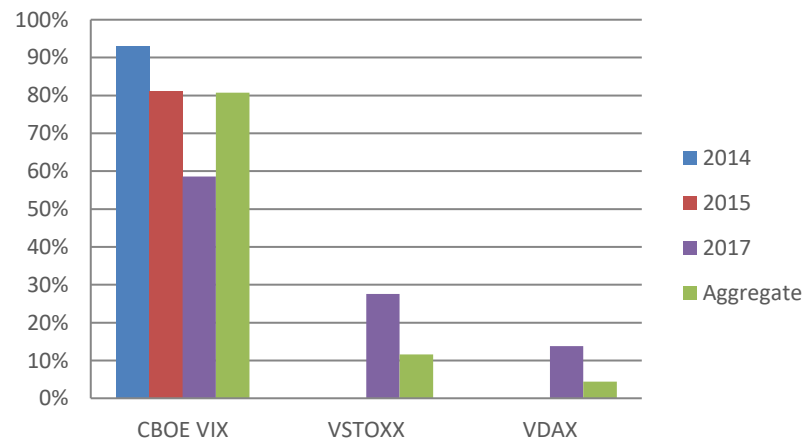
The S&P 500 was the most popular equity index, only followed with good distance by the EuroStoxx50 and Nikkei 225.

The VIX futures is the most popular futures to trade equity volatility.

Equity Index Futures



Equity Volatility Futures



CTA Survey

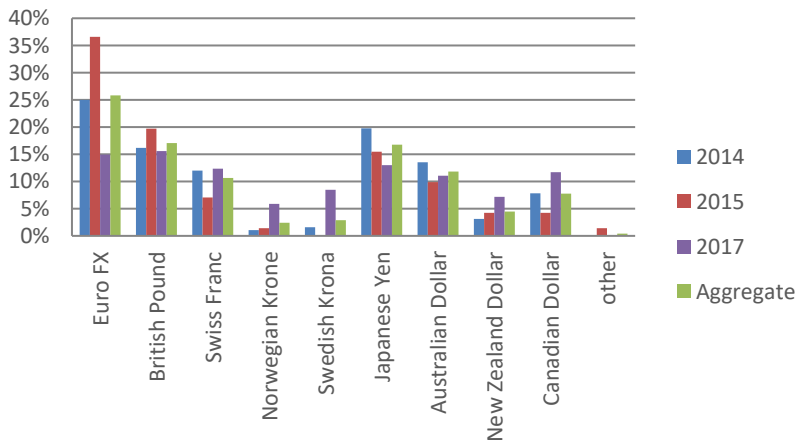
Markets – Currencies



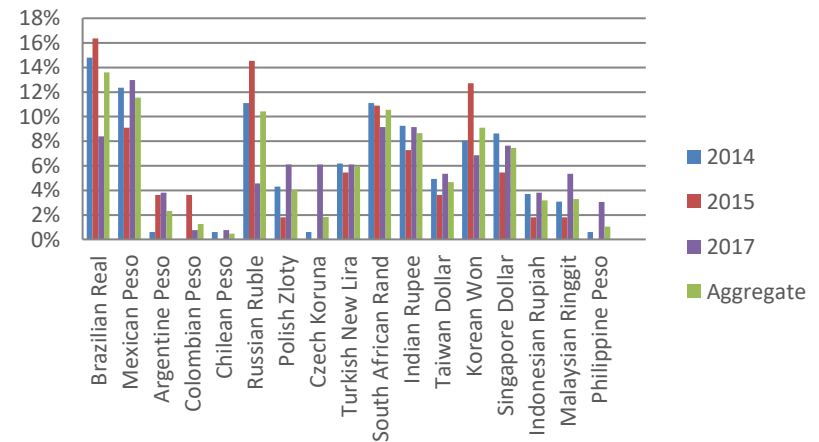
The EURO FX was the most popular G10 currency with the British Pound and Japanese Yen following.

The Brazilian Real, Mexican Peso and South African Rand are the most popular emerging market currency markets.

G10 Currency Futures



EM Currency Forwards



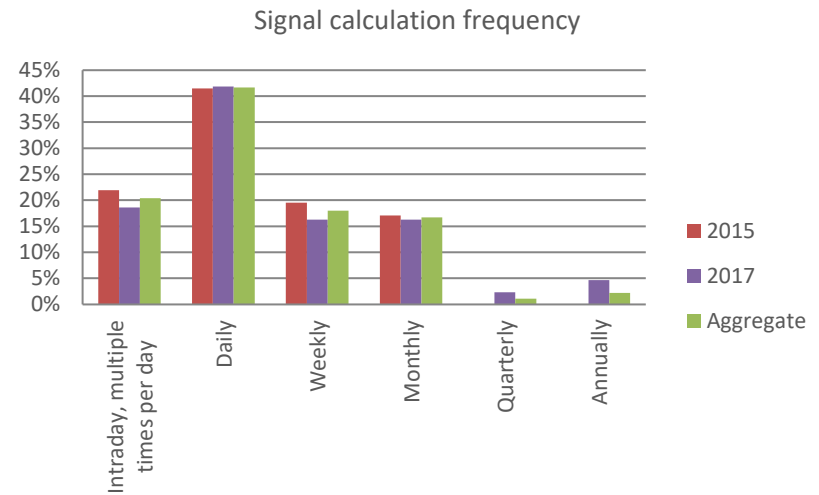
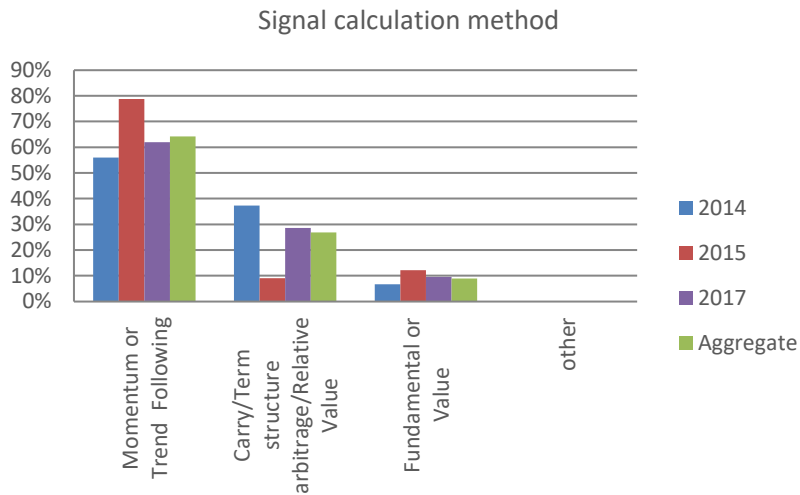
CTA Survey

Directional signal calculation



Momentum or trend following was the most popular method used to calculate whether to take a long or a short position in a specific market.

The most popular signal calculation frequency was daily, followed by equally popular intraday and weekly signal frequencies. The management style is predominantly 100% systematic.



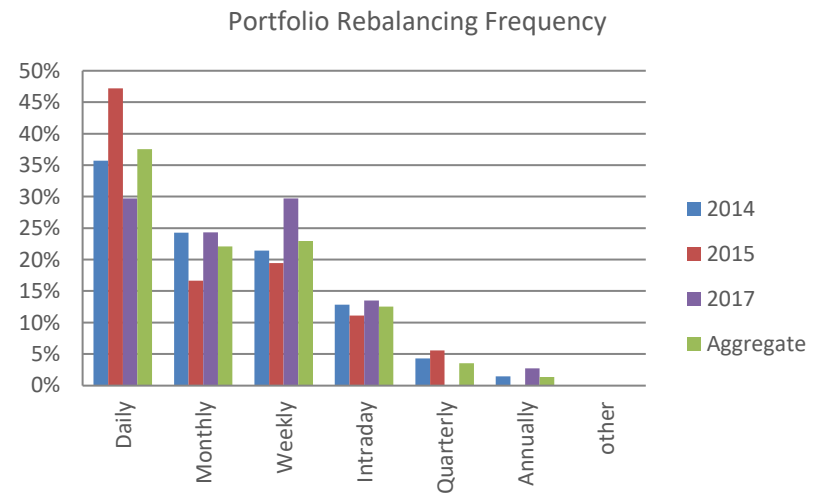
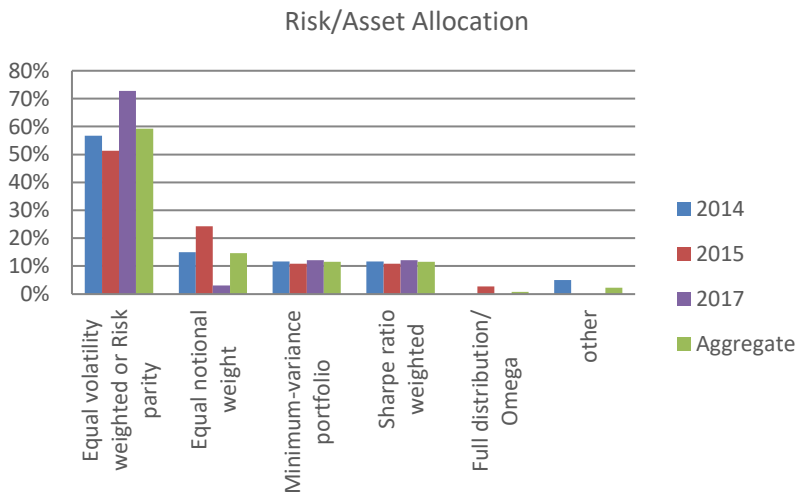
CTA Survey

Asset allocation



The most popular method to allocate assets is equal risk weighted allocation. This is to allocate more assets to less risky and less assets to more risky markets.

The most popular portfolio rebalancing frequency is daily followed by equal popularity of monthly or weekly rebalancing



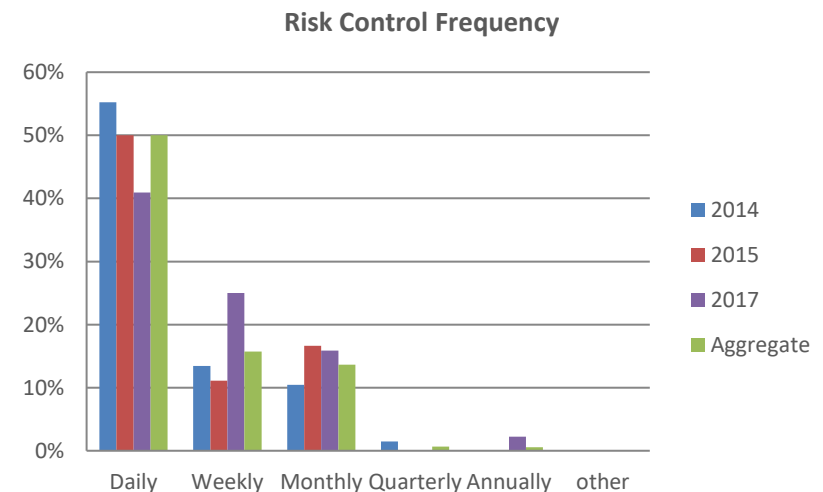
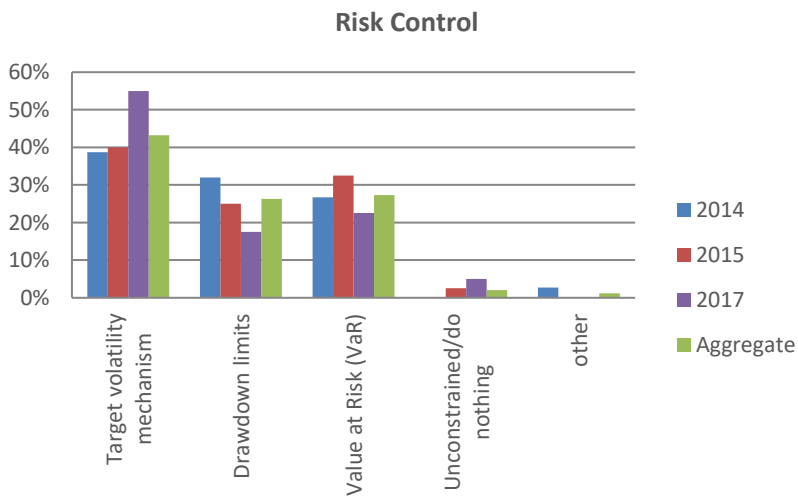
CTA Survey

Risk control



The most popular method to control and manage risk is the target volatility mechanism by which the portfolio leverage is reduced in volatile and increased in less volatile markets to obtain a long-term consistent volatility profile.

The vast majority of respondents opted for a daily risk management frequency, only followed by far by monthly, or weekly risk management frequencies.



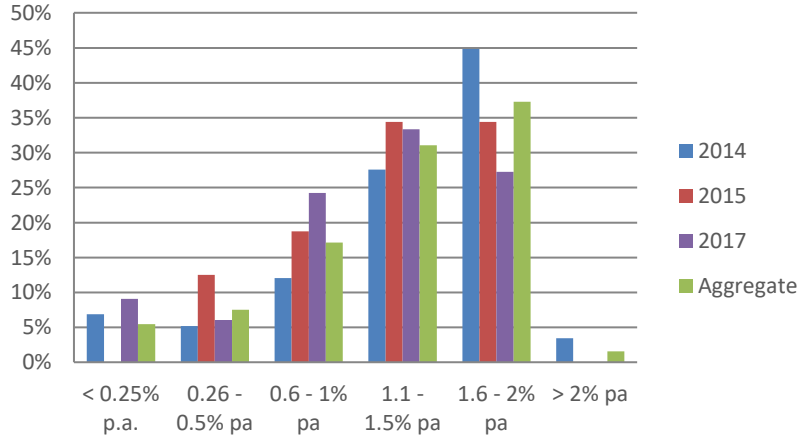
CTA Survey

Fee structure

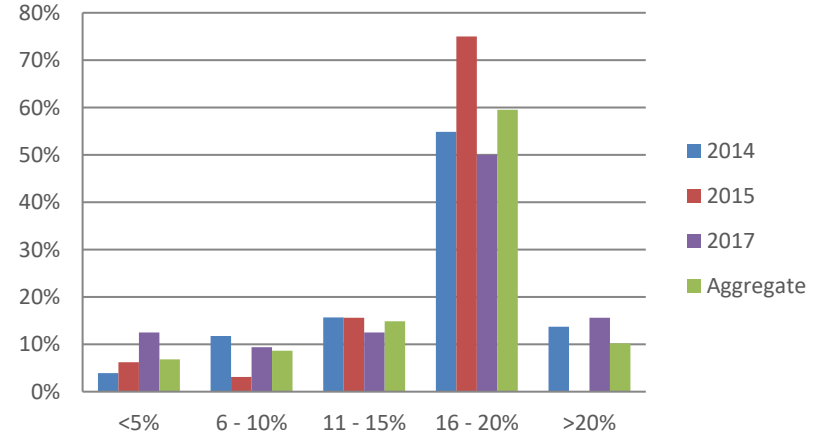


The conventional 2/20 fee structure of 2% per annum management fees and 20% high water mark performance fees is the most popular fee structure, though in 2017 survey fees have come down. Hurdle rates were not common, but if used, US Libor was the most popular hurdle rate.

Management Fees



High Water Mark Performance Fees



Most popular management fee structure

Most popular high water mark performance fee structure

CTA Survey to J8 CTA Index

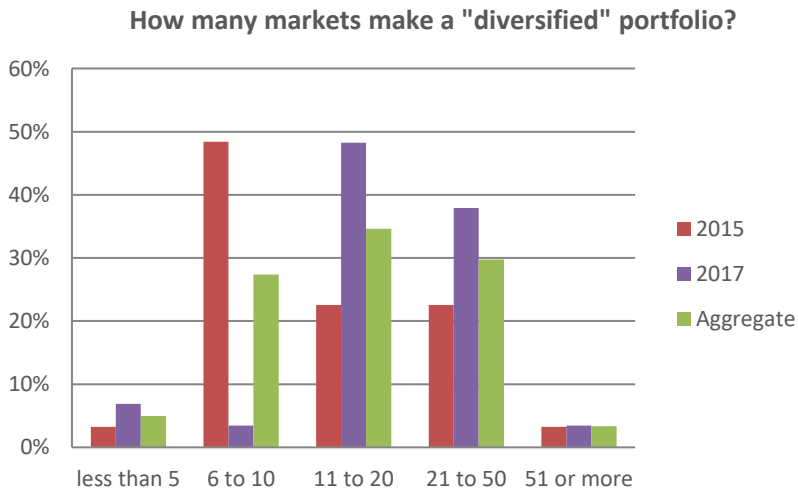
Survey-led index parametrization



Choice of portfolio

When we first set out to design the J8 CTA Index in 2015, most survey respondents believed that a portfolio of 5 to 10 single markets constitutes a “diversified” portfolio. In 2017, the opinion was of 11 to 20 markets. To keep it simple and minimalistic, we set out with 6 futures markets and a T-Bill portfolio.

We chose the top 7 most popular markets, using the 3M Eurodollar to justify a 90 day US T-Bill portfolio as risk free rate for the non-margin cash portfolio.



Choice of number of markets

Rank	Number of ticks	Market
1	101	S&P 500
2	97	Euro FX
3	91	Gold
4	89	10yr US Treasury Note
5	87	Copper
6	86	Eurodollar
7	83	WTI Crude Oil

Choice of most popular markets

CTA Survey to J8 CTA Index

Survey-led index parametrization



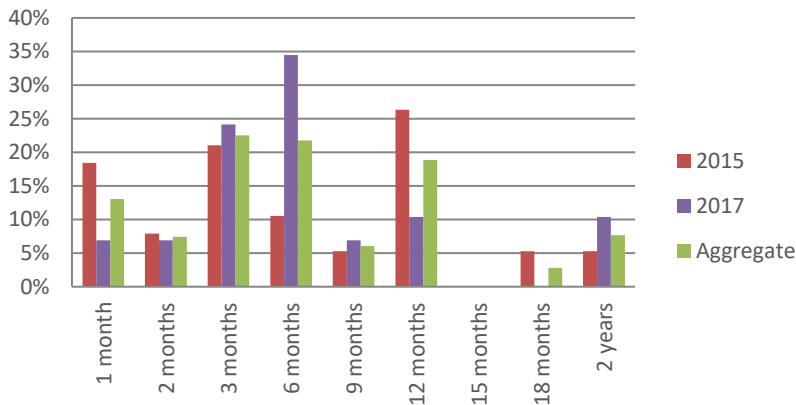
Choice of lookback period, target volatility and other parameters

For signal calculation based on momentum or trend following, a 12 month look back period was the most popular, followed by three and one month.

For risk management, a target volatility of 10% per annum is the most popular, followed by 5% and 7%. We chose 7% for performance back-test reasons to make it fit better with existing CTA benchmark indices.

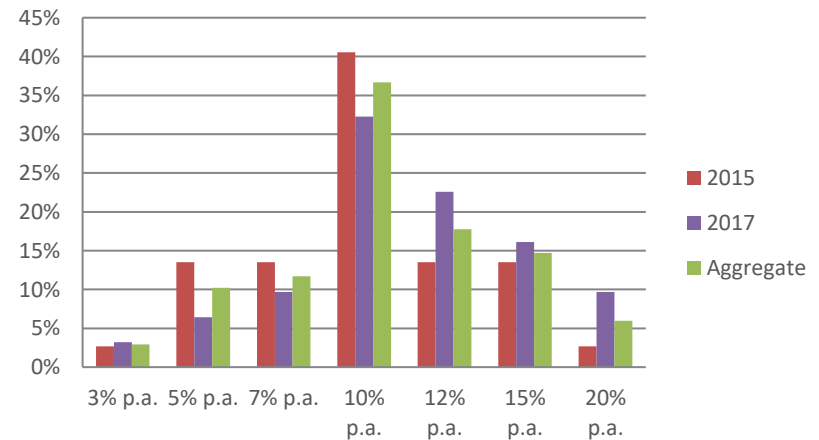
Based on the survey results, we applied a 2% p.a. management fee and 20% high water mark performance fee.

What is a representative lookback period for momentum?



Choice of 12 month lookback period

What is the most common target volatility?



Choice of 10% target volatility

CTA Survey to J8 CTA Index

Construction summary



We chose the winners of each category only to avoid over fitting and optimization bias.

The survey found that the CTA and managed futures industry may be generalized in

- trading a risk weighted
- 12M momentum portfolio of
- 6 global core futures markets
- managed to a target volatility of 7% and
- applying a 2/20 fee structure.

This minimalistic index methodology is derived from industry practice. We explain the complexity of the CTA and managed futures industry with the simplest possible index model.

The J8 CTA Index methodology was finalized and launched in November 2015.

J8 CTA Index

Construction - Markets



There are a total of six markets included in the J8 CTAI.

Asset Class	Market	Designated Contract	Exchange	Bloomberg
Commodities	WTI Crude Oil	Light, Sweet Crude Oil	NYM	CLA Comdty
Commodities	Copper	Copper Grade 1	CMX	HGA Comdty
Commodities	Gold	Gold 995 fineness	CMX	GCA Comdty
Government Bonds	10-Year US Treasury Note	10-Year US Treasury Note	CBT	TYA Comdty
Currencies	Euro	EUR/USD	CME	ECA Curncy
Equity Indices	S&P 500	E-Mini S&P 500	CME	ESA Index



Disclaimer for Hypothetical Results

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

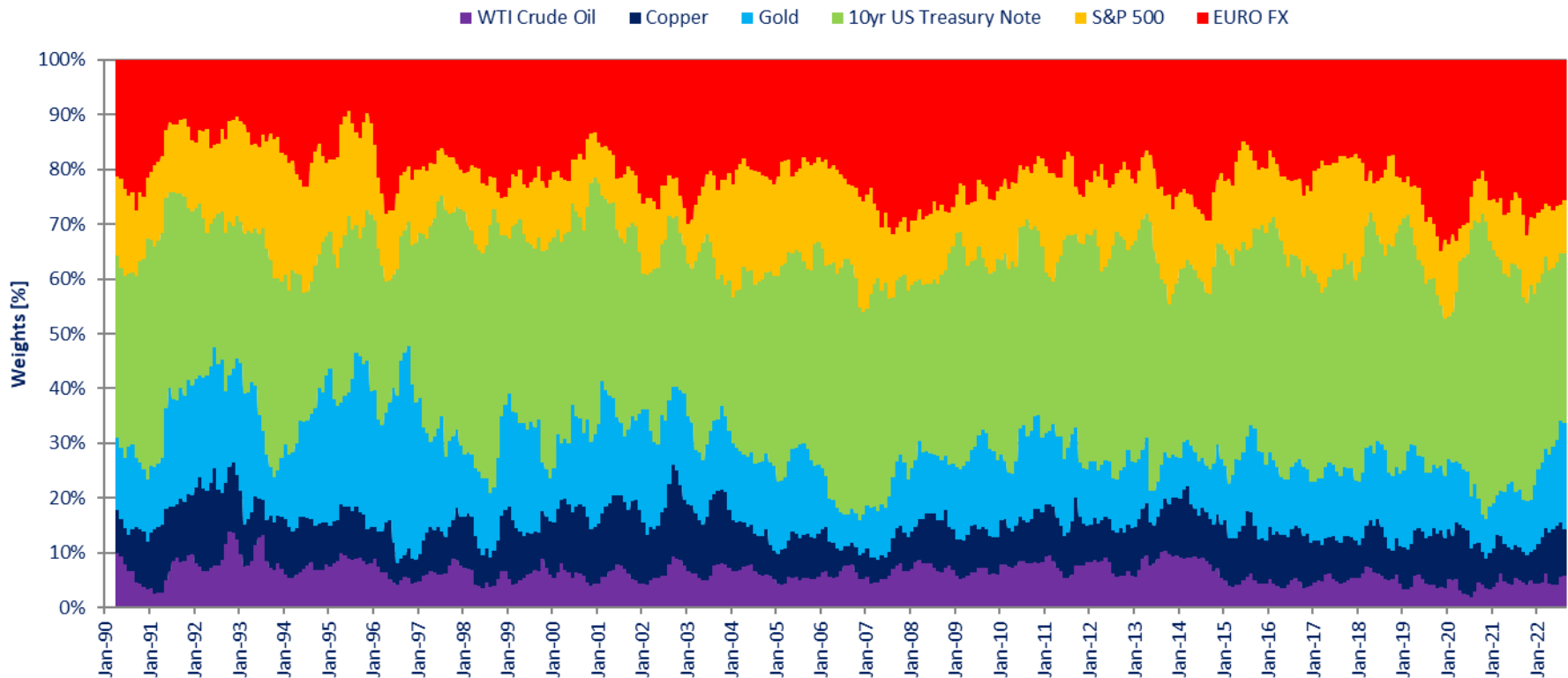
ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

J8 CTA Index

Construction – Asset allocation



The J8 CTAI uses a risk-weighted asset allocation for index construction. This is to allocate proportional to the inverse volatilities of the underlying long-only market.



Hypothetical historical weights of the underlying assets in the J8 CTAI ER, starting April 1990. Source J8 Capital Management LLP.

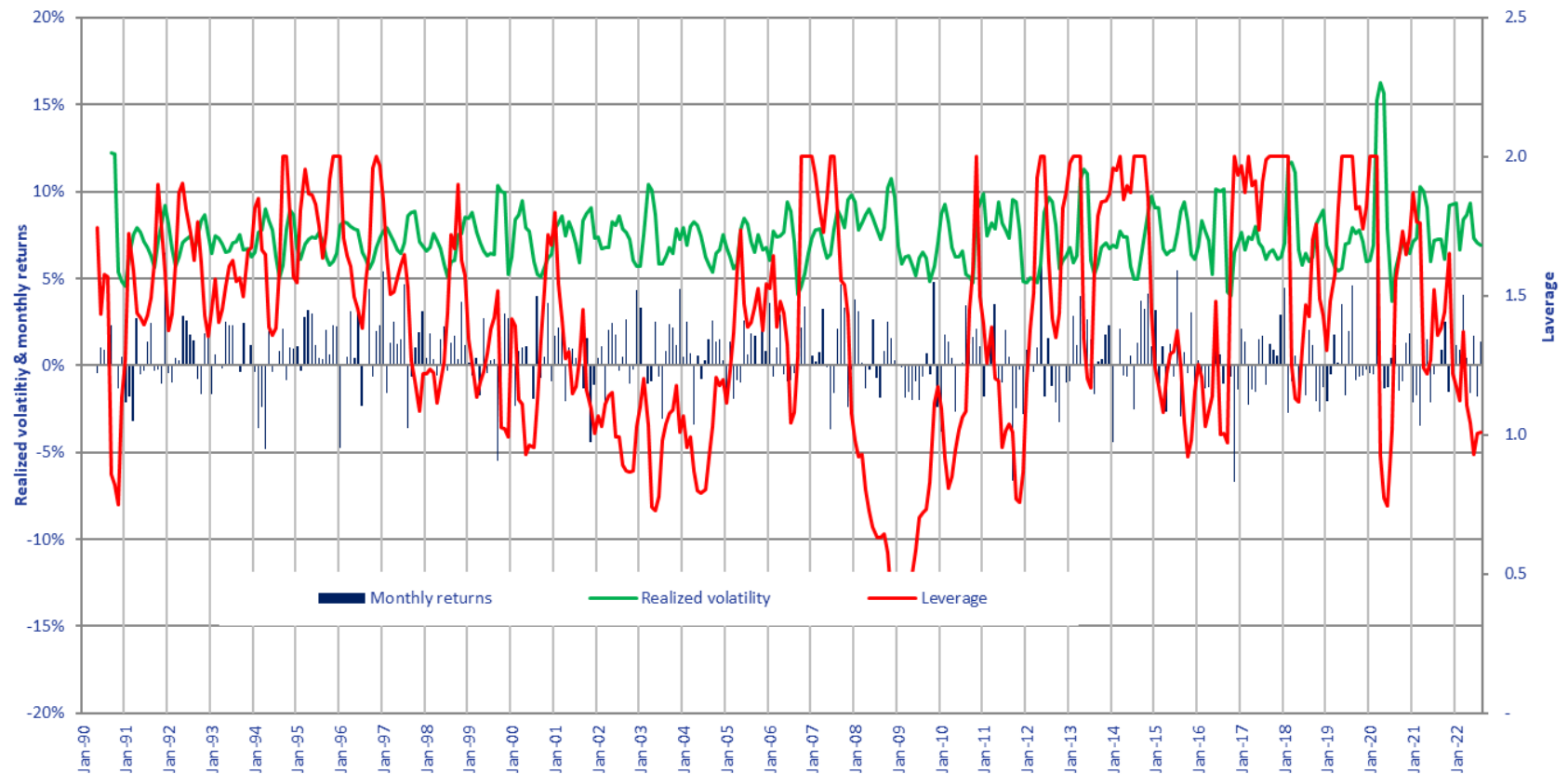
NOTE: PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURES RESULTS.
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J8 CTA Index

Construction – Risk management



The Index is risk controlled using a target volatility mechanism.



Hypothetical realized 3 month volatility, monthly returns, and dynamic leverage adjustment in the J8 CTAI NET, starting April 1990. Source: J8 Capital Management LLP.

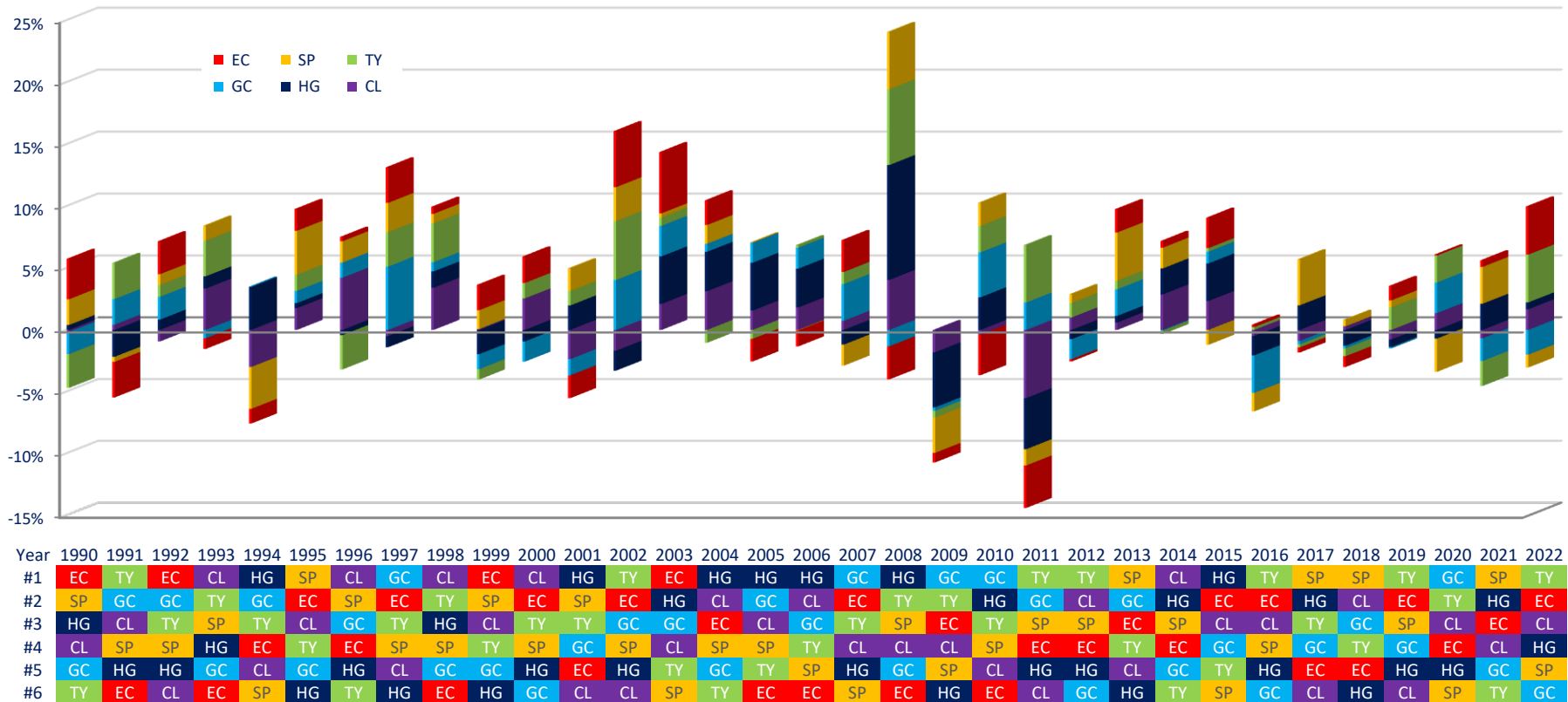
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J8 CTA Index

Hypothetical performance - Attribution analysis



The attribution analysis shows diversified return contribution per asset over time.



Attribution analysis of hypothetical annual returns of sub-strategies, excess returns (ER), since July 1990.

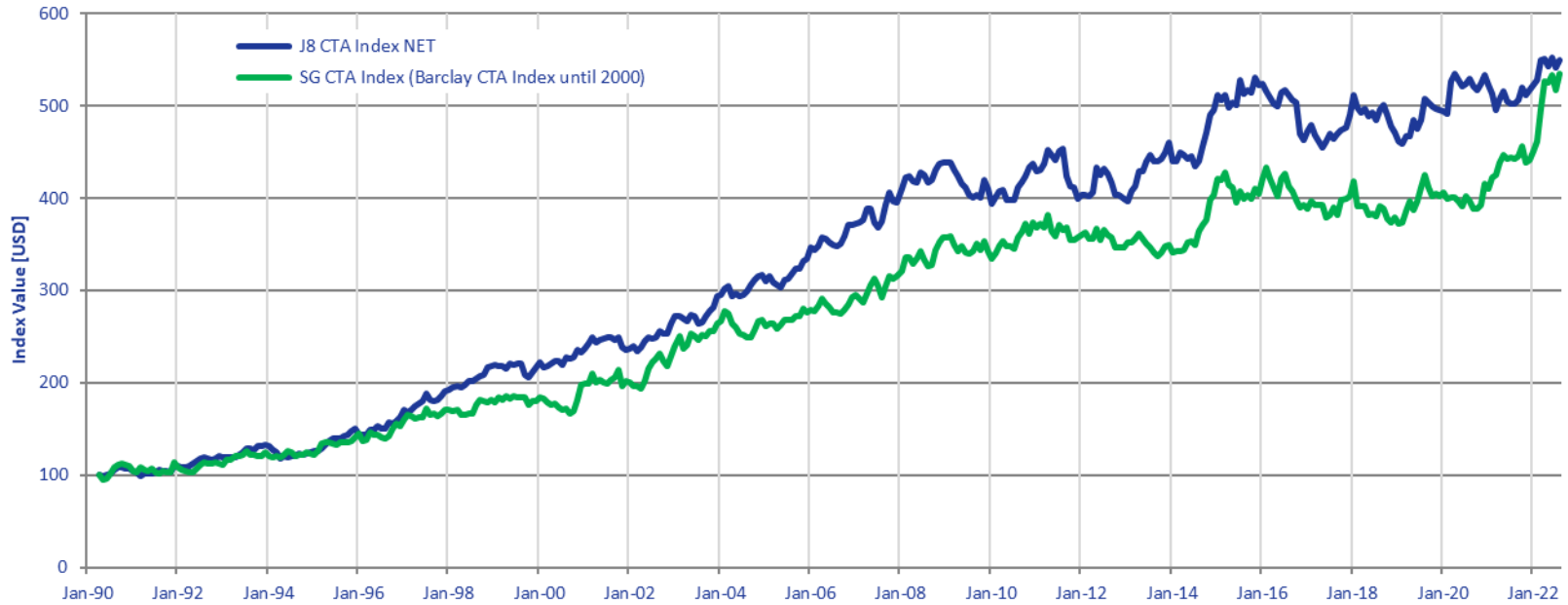
Legend: #: Place of performance rank, ● HG - Copper. ● GC - Gold. ● TY - 10 year US Treasury Note. ● CL - WTI Crude Oil. ● SP - S&P 500 Index. ● EC - EURO FX..

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J8 CTA Index

Hypothetical performance – Time series



Performance Statistics	J8 CTA Index NET	SG CTA Index (Barclay CTA Index until 2000)
Annualized Return	5.41%	5.32%
Annualized Volatility	7.13%	8.91%
Sharpe Ratio (0)	0.76	0.60
Maximum Drawdown	-14.21%	-14.26%
Skew	-0.07	0.31
Kurtosis	0.67	0.46
Correlations		
SG CTA Index (Barclay CTA Index until 2000)	0.49	

Hypothetical performance of the J8 CTAI NET, starting April 1990 and comparing with Barclay CTA Index until 31 December 1999 and SG CTA Index thereafter. Source: Capital Management LLP, SG Prime Services.

J8 CTA Index

Licensing and IP rights



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Exposure to the Index may only be offered to investors by broker dealers, investment managers, or other entities or managers who manage or advise 3rd party assets, who have entered into a license agreement with J8 Capital Management LLP. Please contact J8 directly for further enquiry info@j8capital.com or www.j8capital.com.

The Index Handbook with the full index methodology is published by J8 Capital Management LLP on www.j8capital.com



Conclusion

We set out with a survey to understand the inner working of the CTA and managed futures industry better.

We establish commonalities within the complex CTA and managed futures industry and we discovered a simple and investible method that explains most of the industry returns.

The J8 CTA Index is derived from techniques and methods which are used by a wide range of industry participants. The index parameters were survey-led and their robustness confirmed independently (see publications).

The CTA and managed futures industry can be described as a slow momentum or trend following industry, trading global liquid markets in a risk weighted portfolio which is managed to a target volatility.

We found that the J8 CTA Index moves in similar patterns as popular, non-investible CTA benchmark indices.

The J8 CTAI, however, is investible. The index methodology is published and the construction of the index follows the Principles for Financial Benchmarks established by IOSCO. It may serve in commoditizing the CTA industry.

The J8 CTA Index offers to investors exposure to CTA-like returns and may serve as a benchmark to other CTA and managed futures managers.



Acknowledgements

We want to express our sincere thanks and gratitude to every respondent who took the time and effort to complete our survey. Thank you so much! Getting good responses is sometimes a very onerous task. Following respondents agreed to be mentioned as participating:

Martin Advisory & Consulting Services, LLC, SVQuant, Numen Capital, Metzler Asset Management, Gjensidige Forsikring, FEG, Kathrein Privatbank AG, Crescent Bay Capital Management, Inc., CERN.

We further want to thank Matthias Knab of Opalesque who agreed to help distribute our survey, to collect more responses. Thank you Matthias for your unermuedliches Engagement!

http://www.opalesque.com/665051/CTA_survey_results_on_investment_methodology_fees_and505.html

We also want to thank Tom Kehoe of AIMA for reviewing the survey questionnaire and publicising the survey in their weekly newsletter.

Last but not least we want to thank our long standing research collaboration partner Prof. Dr. Robert Tiong and Dr. Chen Chen of the Nanyang Technological University for organising the survey and collecting the responses and scientific reflection of the results.

Important Notice (1/2)



THE RISK OF LOSS IN COMMODITY INTEREST TRADING CAN BE SUBSTANTIAL. YOU SHOULD, THEREFORE, CAREFULLY CONSIDER WHETHER SUCH TRADING IS SUITABLE FOR YOU IN LIGHT OF YOUR FINANCIAL CONDITION. THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN COMMODITY INTEREST TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF DIFFERENT STRATEGIES UTILIZED IN COMMODITY INTEREST TRADING AND SIGNIFICANT CONSIDERATIONS SHOULD BE GIVEN TO WHICH STRATEGY IS APPROPRIATE FOR YOUR PARTICULAR FINANCIAL SITUATION. AS WILL ALL TRADING STRATEGIES, PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURES RESULTS. ALL INVESTMENTS IN THE COMMODITY INTEREST MARKET SHOULD BE MADE WITH RISK CAPITAL ONLY PLEASE ENSURE THAT YOU ARE FULLY AWARE AND UNDERSTAND ALL RISKS, FEES, AND OTHER CONCERNS RELATED TO YOUR INVESTMENT BY REQUESTING THE COMPANY'S COMPLETE DISCLOSURE MATERIALS.

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