Abbey Capital Enters 25th Year

Diversifying portfolios with diversified multi-manager CTA exposure

HAMLIN LOVELL DECEMBER 2024

Abbey Capital's Abbey Capital Futures Strategy Fund has received *The Hedge Fund Journal's* CTA and Discretionary Trader Award for Best Performing Fund over 2, 4 and 10 Years ending in December 2023 in the Fund of Hedge Funds – CTA strategy category.

Abbey Capital has recently moved its headquarters into new offices overlooking St Stephen's Green in the heart of Dublin; the new offices accommodate the current Abbey team and leave room for expansion. The firm was founded in a one room office in 2000 on Dublin's Abbey Street and named Abbey Capital.

Managed accounts pioneer

From the outset in 2000, Abbey has allocated only via managed accounts, offering full transparency and control. This was very innovative at the time and became especially appreciated by investors in the wake of the Madoff scandal in 2009, which led some funds of funds and multi-managers to disappear.

Enduring diversification

Using multiple managers was part of the founders' DNA even before the firm launched. "Our founders had experience in managing teams of futures and FX traders and had a desire to build best in class global multi-manager portfolios," says Director of Research, John Twomey, who explains: "We believe there is no single right way to trade markets, and our approach is to diversify with multiple managers following different approaches. We try to find CTAs around the world with diverse skillsets who aim to generate alpha and returns in a differentiated way".

Abbey builds well diversified portfolios of CTAs: "The dominant style is trend following, but even within this, small nuances in market allocation, signals, models, timeframes and risk management can lead to wide dispersion of returns in any year, which is one source of potential diversification benefits," points out Twomey. Abbey understands this performance dispersion and takes a longer-term view on managers' role in the portfolio: "Understanding what a manager does and what environments they should perform in is crucial. A manager at the bottom of performance rankings in a given year is not necessarily a bad manager. We have 25 years of experience of managing this sort of performance dispersion," says Twomey.

Abbey allocates to some pure play 100% trend strategies and others that may combine 70-80% trend with 20-30% in other models and even some that are entirely non-trend. "The priority is the quality of underlying research, irrespective of the strategy split. We can allocate to non-trend inside a diversified CTA or on a standalone basis. In any case, it must be high quality, actively researched and developed over time," stresses Twomey.

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Diversification for investor portfolios

The strategies are designed to provide diversification on many levels: for most other hedge fund strategies, for traditional asset classes such as bonds and equities, and for illiquid alternatives such as private debt and private credit, private equity, real estate, commodities and infrastructure, which have higher equity correlation.

CTAs have historically had a very low correlation to equities and have the scalability to deploy substantial assets in underlying markets. They are all about meaningful diversification, and crisis alpha is only one part of that. "A trend follower may not help in a one- or two-day sharp reversal but was helpful in the past when performance showed bonds and equities were more correlated," says Twomey. Says Twomey, "A correlation matrix or regression analysis on CTAs versus other strategies tends to show diversification to both liquid and illiquid assets".

CTAs also potentially provide the liquidity to rebalance portfolios when necessary to take advantage of cheaper valuations.

Diversified by asset classes

"CTAs are bidirectional, trading all asset classes long and short," says Twomey. Abbey has had a roughly even split between the four asset classes historically, but this is more of an outcome than an explicit target. "There are no hard rules, but we do want to ensure that commodities in general, and smaller commodities in particular, are a part of the portfolio for the diversification they can provide," says Twomey.

Most of the individual CTAs are broadly diversified but some of them might have more focus on commodities or financials. "We blend their expertise into a relatively stable portfolio for the long run and are not predicting the next 6-9 months. It is very difficult to time asset allocation or indeed trend following, and it is better to have risk diversified in a more robust way than try to time it," says Twomey.

Most CTAs are multi-asset but a few that are single asset class specialists tend to be within the smaller sleeve of non-trend followers. "We may use specialists for a small part of the allocation when they have a particular skillset or alpha," says Twomey.

Their award-winning mutual fund is exposed to more than 200 contracts overall through futures and OTC FX markets.

Long term relationships across the industry

Of the first four CTAs Abbey allocated to, three are still in the portfolio 25 years later even though the exact strategy or program might have changed. "The intention is to form long term relationships and have the confidence to continue holding CTAs through periods of difficult performance," says Twomey.

Most of Abbey's managers are seasoned CTAs with track records of a decade or more. Abbey can invest in managers with a live track record of at least two years and has criteria for their experience. "They need to display an ability to navigate markets and be able to cope with the difficulties of running a business," says Twomey.

Abbey does also engage with start-ups and emerging CTAs with a view to monitoring their progress and potentially allocating later. "As specialists in the CTA space, we want to be aware of any interesting managers early on," says Twomey.

Innovation in CTAs

Abbey has observed CTA innovation over the decades and determined that the evolution of

CTA programs tends to be a continuum, without sudden shifts. "It is predominantly based on the curiosity of economists, engineers, physicists and mathematicians, who are able to undertake quality research and incorporate new technology or data into their approach. CTAs are good at taking in a new information source and analysing it objectively. They have a very robust approach to research and make sure it adds to rather than detracts from returns," explains Twomey.

Machine learning and AI are not completely new: "We have seen managers using Bayesian techniques and neural networks since the 1990s. The common theme is that this is another technical tool used to solve problems. It is all part of the toolbox available to systematic managers," says Twomey.

AI is not however going to supersede human analysts at Abbey: "We see a role for humans in constructing portfolios and accounting for investor appetite. The next frontier is to continue to apply new technology, data and methodologies as it becomes available. Gen AI and large language models can empower staff without technical and coding skillsets to perform tasks they could not have done before," says Twomey.

The investment universe of CTAs continues to evolve, and this is again not a Big Bang moment. They are constantly reviewing their universe as liquidity ebbs and wanes. "For example, some short-term interest rates had very low volatility during the ZIRP period, making them less attractive to trade. Today our funds trade across futures, OTC FX, interest rates swaps and covered options," says Twomey.

Abbey as investment adviser approves any contract added to the Fund and considers the manager's rationale based on strategy and liquidity, as well as operational risk and constraints. "We want to limit any potential credit or counterparty exposure that could impact liquidity," says Twomey.

Access vehicles

Multi-manager CTA portfolios via managed accounts have been the constant, but Abbey has broadened out access routes to diversify its investor base.

Having started with private placement funds in the early 2000s, Abbey is celebrating the 10th anniversary of its US '40 Act mutual fund launched in 2014. Their two '40 Act funds were seeded with mainly proprietary capital of USD 25 million and have grown combined assets to USD 3 billion. Total firm assets are in excess of USD 7 billion, making Abbey one of the largest players in multi-manager CTAs.

Abbey has not run a UCITS product to date but could consider it.

Fee trends

The US '40 Act vehicles have no performance fees at any level. Both Abbey and the underlying CTAs charge only management fees. "In our view flat fee programs are not inherently inferior, and as with any program we allocate to, it is important they are actively researched and developed," says Twomey. Many of the largest and oldest CTA managers offer at least one flat fee strategy. In other vehicles Abbey may also allocate to CTAs charging performance fees and can work with the same managers across multiple products with different programs.

Flat fees, ETFS and ARP

Flat fee CTA products are not unusual, but not all of them would meet Abbey's criteria.

Abbey has seen the growth of ETFs trading CTA trend strategies but has neither allocated to them nor launched its own ETF. "There are additional constraints in the ETF world for implementation. The breadth of the strategy can be quite tight, and it could be difficult to implement a multi manager approach," argues Twomey. From Abbey's perspective a daily dealing '40 Act fund offers a competitive and efficient access point for most investors, who may hold CTAs for multi-year periods. Many ARP (alternative risk premia) programs are also not a good fit for Abbey. "We have seen asset growth over a significant amount of time. We would not invest in a strategy based on published rules that never change. We want to see actively researched and dynamic products," says Twomey.

Cash efficiency and interest

Says Twomey, "CTAs may enjoy the tailwind of higher interest rates since only a small part of capital needs to be deployed in margin to trade futures and FX. Recently, they have benefitted from the higher rates on dollar cash balances, which has been passed through to investors".

Improving opportunity set

Broad indices of CTAs saw a difficult period between 2011 and 2018, punctuated by the great year of 2014 that saw big moves in EUR/USD, Abenomics in Japan and an oil price crash. CTAs and managed futures are always predicated on trends in markets, which can go quiet for periods, but post-Covid the climate has improved. "While we cannot and would not try to forecast the future, the environment has been better recently. Growing monetary policy dispersion in addition to geopolitical disruptions and dislocations have resulted in a greater opportunity set," says Twomey.

Abbey's performance has been relatively strong and the '40 Act structure suits many buyers in wealth management as alternatives are being democratized. Many investors would rather diversify risk across a multi-manager than pick a single CTA. Abbey has attracted a relatively stable investor base in contrast to some other managers that have seen big inflows and outflows. **THFJ**

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****The following figures are as at 31 December 2024: The 1-year, 5-year and 10-year annualised returns for ABYIX is 1.12%, 5.03% and 2.71% respectively.***

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Visit www.abbeycapital.com for returns updated daily. Call (US Toll Free) 1-844-261-6484 or (international callers) +1-508-871-3276 for returns current to the most recent month-end.

Investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. Please click here for the Abbey Capital Futures Strategy Fund current prospectus.

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