The Benefits of Multi-Manager Portfolios in CTA Investing

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At first glance, CTA investing can appear deceptively homogeneous. Many managers trade the same liquid futures markets and rely on systematic, trendfollowing models that can look highly similar from the outside. Yet beneath the surface, the dispersion across managers can be substantial, driven by differences in signal design, trading horizons, execution, portfolio construction, and risk management. This dispersion is one of the key reasons why multi-manager portfolios have remained relevant within managed futures investing, an area where Abbey Capital has specialized for more than two decades.

A defining feature of Abbey Capital's approach is its long-standing managed account infrastructure, which underpins all the firm's $7.8 billion portfolio allocations. Instead of investing through commingled fund vehicles, Abbey Capital allocates capital through managed accounts, allowing for greater flexibility in portfolio construction, transparency, and operational oversight. "Every investment we've made since the firm was founded has been implemented through managed accounts, which is somewhat unique," explains John Twomey, Director of Research at Abbey Capital.

Looking Beyond Pure Trendfollowing

At its core, Abbey Capital seeks to build portfolios that provide diversified exposure to the broader managed futures universe. While the asset class is often associated primarily with trendfollowing, Twomey argues that managed futures should instead be viewed as a broader palette of liquid, largely uncorrelated strategies capable of serving as a meaningful diversifier alongside traditional equity exposures. "One of the first things to recognize is that the space is much broader than simply trendfollowing," says Twomey. "That's often the initial simplification investors make when they first approach managed futures, but the opportunity set is far more diverse than that."

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According to Twomey, this is also where the implementation challenge begins for allocators entering the CTA space. "Many investors initially assume that one managed futures manager looks broadly similar to another, and that trendfollowers are all highly correlated and essentially pursuing the same trades," says Twomey. "But once you begin analyzing the underlying data and return drivers in more detail, the degree of dispersion across managers and strategies becomes very significant."

Pure trendfollowing strategies, for example, have what Twomey describes as a well-known "Achilles heel," particularly during periods of sharp V-shaped reversals and highly correlated market moves. According to him, shorter-term trading strategies can help navigate some of these environments. "Shorter-term strategies are by no means a definitive protection against those environments, but historically they have often proved quite helpful, particularly during periods of elevated volatility or in the early stages of equity market corrections," he explains.

Abbey Capital also allocates to other sub-strategies within managed futures, including macro and value-oriented approaches. "There are directional macro strategies, both systematic and discretionary, that approach markets from a very different modeling and data perspective," says Twomey. "Typically, the key distinction versus trendfollowing is that the timing profile of the trades is different."

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For Twomey, the value of these complementary approaches lies not only in their lower correlation to traditional trendfollowing strategies, but also in their ability to behave differently across changing market regimes. "There's utility in the fact that these strategies are not only decorrelated, but also somewhat orthogonal to traditional trendfollowing," explains Twomey. "When we think about the degrees of freedom within the CTA space, we think about a much broader opportunity set than simply trendfollowing alone."

The Case for Multi-Manager Portfolios

Abbey Capital views multi-manager portfolio construction as an effective way to capture the broad dispersion that exists within the CTA universe. "If managed futures is being used as a portfolio asset, then it also benefits from a portfolio-based approach to implementation," argues Twomey. "The broader the opportunity set and the greater the number of independent strategies within a portfolio, the more diversification benefits and manager dispersion you are ultimately able to harvest."

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Even within trendfollowing alone, Twomey believes investors generally need exposure to a relatively broad group of managers before meaningful diversification benefits begin to emerge. According to him, portfolios often require exposure to eight to ten trendfollowing managers before allocators start capturing the diversification available within the strategy set. "At a certain point, you begin to encounter diminishing returns and marginal inefficiencies from having too many managers in the portfolio," says Twomey.

While Abbey Capital considers its more than 25 years of experience evaluating CTA managers to be a key strength, the firm believes the value of its platform extends beyond manager selection alone. "An equally important part of the platform is how efficiently we can implement and manage these exposures within a portfolio framework."

Managed Accounts, Liquidity, and Capital Efficiency

An important component underpinning Abbey's approach is its managed account infrastructure. According to Twomey, the advantages begin with portfolio construction and risk allocation. Equal capital allocations across CTA managers rarely translate into equal portfolio risks, given that managers often operate with materially different volatility targets and portfolio characteristics. "An equal nominal allocation across managers rarely results in an equal allocation of risk," explains Twomey.

Beyond portfolio construction, the managed account framework also gives Abbey Capital centralized oversight of collateral management, counterparty exposure, and operational risks across the platform. "Because we centrally manage collateral across the platform, we're able to optimize the yield on those balances while still operating within very tight credit parameters," says Twomey. In today's higher-rate environment, this has become increasingly important, particularly because futures-based investing leaves a meaningful portion of portfolio assets invested in cash or cash-like instruments. "You can think about it as effectively earning the cash yield alongside the CTA strategy itself," notes Twomey.

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Transparency is another advantage of the managed account structure. Because Abbey Capital maintains direct visibility into portfolio positions and manager activity, the firm can monitor exposures and identify potential issues significantly faster than would typically be possible through standard fund reporting. “If there are issues or problems we have with a manager or group of managers in a portfolio, we should be able to know about them very quickly,” explains Twomey.

Capital efficiency is one of the structural characteristics Abbey Capital believes managed futures offer particularly well. Because futures require only a fraction of the underlying notional exposure as margin, investors retain significant liquidity and flexibility within the broader portfolio. “Capital efficiency is essentially embedded in the structure of the strategy itself,” says Twomey. This efficiency becomes especially valuable when combined with the liquidity profile of the asset class, which he believes remains one of the more underappreciated advantages of CTAs, particularly during periods of market stress.

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Liquidity becomes particularly valuable during broader market dislocations, when other investment opportunities may emerge across public or private markets. “What we’ve seen from many institutional investors is that CTAs can serve as an alternative source of portfolio liquidity during periods of market stress,” says Twomey.

An Evolving Industry

The managed futures industry has also continued to evolve steadily over the years, both in terms of research sophistication and the breadth of strategies operating within the space, a trend Twomey expects to continue going forward. “The CTA space is continuously evolving and constantly trying to improve itself,” says Twomey. “Managers are always searching for better ways to implement strategies, improve portfolio construction, and refine their research processes. Nobody is leaving stones unturned in trying to become incrementally better over time.” In Twomey’s view, this ongoing process of innovation and adaptation should ultimately remain a long-term benefit for investors allocating to the managed futures space.