Big Mike, CTAs & the Power of Dispersion

I participated in the annual HedgeNordic CTA Roundtable discussion in Stockholm recently, ably led by Kamran Ghalitschi. I look forward to his writeup of some excellent discussions. In the interim let's talk about "*bananas*". And for once this isn't a metaphor for market madness.

My now centenarian (!) grandmother's description of the delicious (albeit infrequent) bananas of her youth always intrigued me. The variety everyone ate back then was the "Gros Michel" (*Big Mike*) and it was both sweeter and creamier than today's Cavendish variety. Ever wondered why banana-flavored sweets taste nothing like bananas? That artificial flavor is a tribute to Big Mike, you were right to question it!

The fungal Panama Disease wiped out the Gros Michel in the 1950's and infected soil meant it could not be replanted. The Achilles heel of this delicious fruit was that they were all genetic clones and so all faced the same fate in the face of the disease. This ushered in the present-day Cavendish variety – itself being another clone and another ticking clock? Perhaps we'll be recalling its lost flavour to our great-grandchildren yet to come.

CTA dispersion isn't a problem – It's the point!

The roundtable was a fascinating opportunity to compare notes and opinions on the CTA space with some of the pre-eminent practitioners of the trade, spanning the gamut from index replicators to trend veterans, price-only purists to ML/AI innovators, and yes - GQ's own flavour of alternative markets.

One of the themes was *Dispersion*. Indeed, the spread in CTA returns this year is around 30 percentage points. I'd argue this is exactly what both the Industry and Investors should want to see.

It means strategies are differentiated, risk factors are diverse, and investors have real choices. If all CTAs converged into one index-like blob, we'd be staring down the financial equivalent of Big Mike's fate: fragility, crowding, and systemic risk. It's high correlation that should give us pause.

Why does this matter for allocators?

Allocators have different objectives and it's good that CTAs don't come in one-size-fits-all:

- Some investors value capital efficiency while others find it hard to stomach high month-by-month volatility
- Some investors seek equity exposure and crisis alpha while others have a mandate of 'inflation-plus' and look to CTAs to help deliver on their target
- Some investors want CTAs to be defensive and to provide convexity to their specific delta one portfolio, while others want their CTAs to be a standalone solution, providing idiosyncratic alpha

At GQ, we are not chasing the big macro trends a CTA replicator does (indeed, our financial instruments strategy actively avoids them). We are not going to be the first port of call for those in search of equity drawdown protection and we are not going to look very much like other CTAs in your book. But! If you want a low correlation CTA, inflation convexity and the ability to point through to some clear drivers as to why the alternative markets we trade exhibit trends then we now have even stronger conviction that we can deliver. That is a design choice married to capacity discipline.

The *Gros Michel* was (Grandma's promise!) delicious. But it was also doomed. Mono-cultures - in fruit or finance - are fragile. In the CTA world, diversity and dispersion are a sign of robust health. If you're building a portfolio, rather than just asking for "CTA exposure", think about what your CTA allocation is meant to deliver and we are certain you will find a CTA matching your needs.

Here's to diversity - and the sweet memory of Big Mike[1]!

[1] I'm pleased to report the Gros Michel still exists in some small, carefully managed plots where the soil remains free of Panama disease. If you ever taste one let me know what it is like! And, yes, the Cavendish is now under threat from a new variant of Panama.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or investment strategy and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with their financial advisors. Financial professionals should independently evaluate the risks associated with products or services and exercise independent judgment with respect to their clients. The view and opinions expressed in this material are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market, economic or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions made in preparing this material could have a material impact on the information presented herein. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by Nuveen to be reliable, and not necessarily all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Past performance is no guarantee of future results. All investments carry a certain degree of risk, including the possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. This information does not constitute investment research as defined under MiFID. Nuveen, LLC provides investment solutions through its investment specialists.