PROFILE

Metori: CTAs Form Part of Strategic Asset Allocation

CTAs' outstanding long-term returns

Hamlin Lovell

Managed by Metori Capital Management on the Amundi UCITS platform, the Amundi Metori Epsilon Global Trends UCITS (EGT) has again won *The Hedge Fund Journal's* UCITS Hedge Award for Best Performing Fund over 10 years ending in December 2024, in the CTA – Trend Following category. This period covers a high proportion of Metori's current programs' track record, but the manager also has a longer-term perspective on the role of CTAs in portfolios. Metori's analysis of hedge fund indices suggests that CTAs have delivered the most attractive long-term return profile based on several quantitative criteria.

Trend versus other strategies over 25 years

Metori's 2019 paper, which was recently updated, highlights how the SG Trend Index is up about 284% since 2000, and its maximum drawdown is only about double its volatility against ratios of four to nine times for the other hedge fund strategy indices, which are drawn from HFRX. The SG Trend Index was selected as being the closest fit for pure play trend followers like Metori.

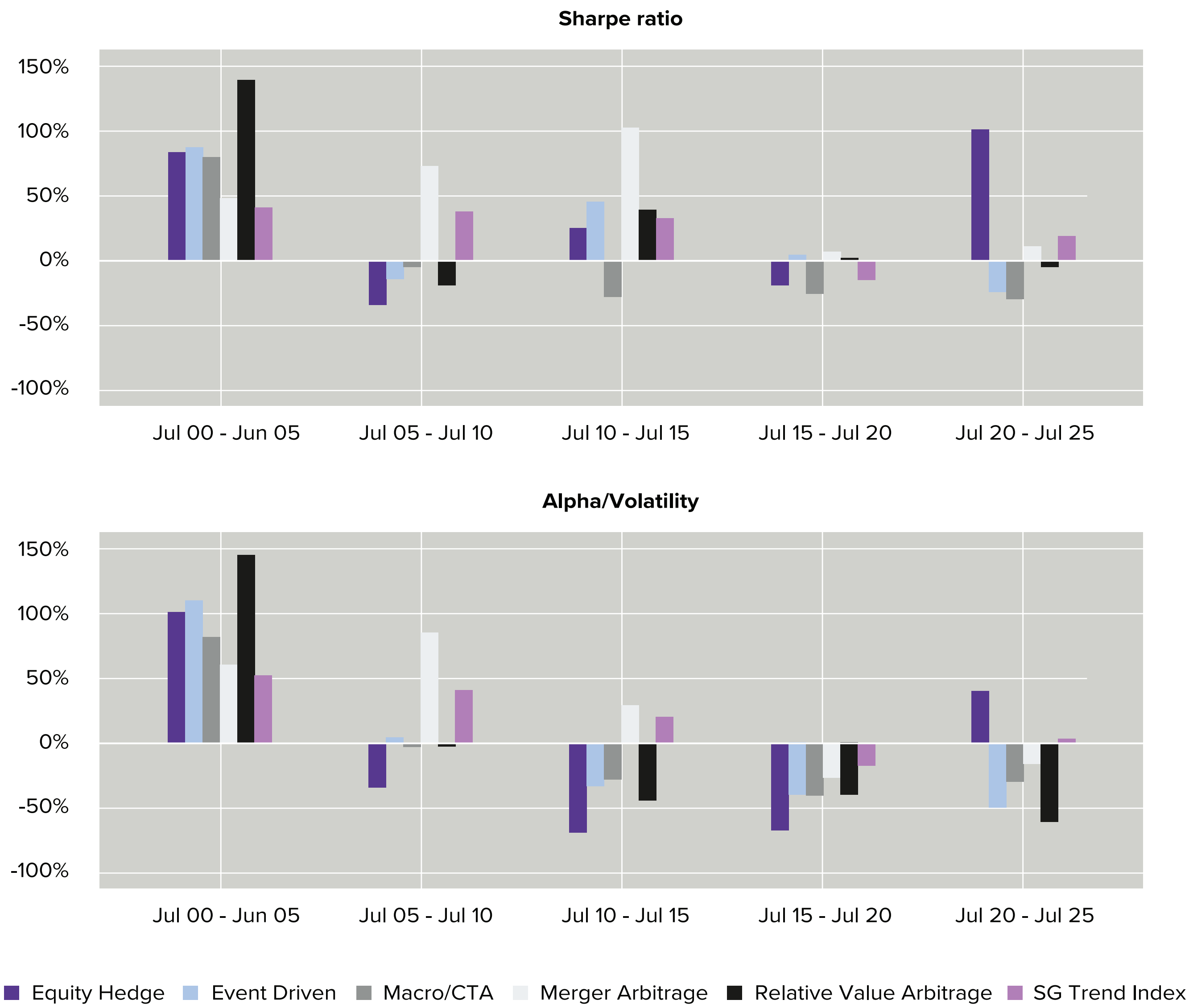
"Not only has trend following been the strongest performing strategy since January 2000, but it has also demonstrated a consistently low equity market correlation," says CEO and CIO Nicolas Gaussel. Metori acknowledge that the broad merger arbitrage index had a better Sharpe ratio, but Gaussel views it as having a much lower return potential due to low average volatility.

Trend is somewhat criticized for low performance in the past 5 years, but when also allowing for its low correlation to the S&P, the data shows that trend strategies keep on standing out.

CTAs have performed especially well during episodes including the Russian crisis of 1998, the equity rally of 2006-2007, the GFC in 2008, Abenomics in Japan in 2012-2013, the Covid crisis in 2020 or the Ukrainian one in 2022. They did not perform so well during the TMT bubble bursting of 2001-2002, rate rises of 2004-2006, or the European debt crisis of 2011-2012, but these duller periods have been outweighed by the

Fig.1

Source: Bloomberg, HFR, Metori



Note: Strategies are proxied by the returns of the following indexes from the corresponding periods. Relative Value Arbitrage: Hedge Fund Research HFRX Relative Value Arbitrage Index. Equity Hedge: Hedge Fund Research HFRX Equity Hedge Index. SG Trend Index: SG Trend Index. Event Driven: Hedge Fund Research HFRX Event Driven Index. Merger Arbitrage: Hedge Fund Research HFRX ED Merger Arbitrage Index. Macro/CTA: HFRX Macro/CTA Index

stronger phases. Over the long run the big picture is one of considerable outperformance versus other hedge fund strategies.

Metori's decade of absolute and risk-adjusted outperformance

Over the years, Metori's EGT return pattern has regularly been recognized by *The Hedge Fund Journal's* UCITS Hedge Awards and CTA and Discretionary Trader Awards. Metori is distinguished by a steadier return profile that has substantially avoided downside periods for trend following strategies while capturing a good proportion of upside. For instance, Metori broadly preserved capital between April 2015 and January 2019 when the SG Trend Index had a deep drawdown. "We adapted well in 2015-2019, when the trend indicator was low, by reducing risk, maintaining more independent bets, and cutting costs of trading and rebalancing," says Gaussel. Turnover as measured by round turns per million was lower than peers and Metori also estimates its execution

▲ *(Middle row, third from left):* **Nicolas Gaussel**, CEO and CIO, with the Metori Capital Management team.

slippage and market impact have been relatively low. "We estimate our total rebalancing costs to be 5 to 10 times lower than without turnover control. This makes a significant difference, especially during lacklustre trend periods," says Gaussel.

When trend following CTA performance boomed in 2021, during a rebound period marked by a high correlation to equities, Metori's EGT returns ended below industry averages. This stands as an exception as during most other periods since 2013, Metori has outperformed by a large margin on absolute returns, and by an even bigger amount on risk-adjusted returns. Once again Metori's EGT returns are distinguished from peers. From a recent peak in July 2022 to April 2025 the broad indices are down circa 20% and Metori's EGT is holding steady, feeling a happy sense of *déjà vu*.

> **"People said trend was dead in late 2018 but it recovered."**
>
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For at least two decades, some CTAs have been adding non-trend modules such as carry or added risk premia and created a different return pattern. Metori has chosen to keep focusing on trend following to stay true to the style qualities of the strategy and generate a better upside to downside capture ratio than peers.

2025: expected drawdown or alpha decay?

The first half of 2025 has been challenging for most trend following CTAs but needs to be seen in perspective. Though the VIX spiked to the 50s in April, amongst the highest levels since 2008, the price action was not conducive to trend followers, which are anyway not long volatility *per se*.

Various trend indices and indicators, including Metori's proprietary one, have troughed near some of the lowest levels since late 2018, which was also a period when geopolitical tensions and trade wars disrupted financial markets.

The all-time low for Metori's trend indicator, which is the square of Sharpe ratios from applying trend to various markets, is the lowest since the European crisis around the end of 2011. Some other trend indicators have even touched their nadir since 2004.

Gaussel is unfazed and does not see any fundamental change in behavioural and other patterns that have made trend work well: "People said trend was dead in late 2018 but it recovered, and ultimately markets should continue to behave as they have done over the last 30-50 years".

Tariffgate versus Covid risk reduction

In 2025 Metori's EGT models have reduced risk, which had the benign effect of somewhat softening the blow of a poor climate for trend following. The risk reduction in 2025, reducing margin to equity from 13% to 9% for EGT, was smaller than in March 2020 around the Covid crisis, when it dropped to 4%. Metori's margin to equity for EGT has averaged around 11% since inception but has fluctuated in quite a significant range.

In fact, the margin to equity cut was to control volatility rather than in response to the drawdown or any attempt to predict profitability. "We permanently measure risk/return trade-offs. The model decreases exposure when volatility spikes and increases it when risk is stable. During Covid volatility was not the only change. Correlation estimates also spiked up leaving nowhere to hide so we had to reduce capital at risk much further," explains Gaussel.

Correlation

Heightened correlation estimates between markets are sometimes a headwind for trend following but this has not been the problem in 2025. "We did not see much problem from high correlations this year. We have not seen any sustained increase in correlations apart from a few days around the tariff announcements in April 2025," says Gaussel.

Importantly, Metori's proprietary correlation clusters have continued to construct a distinctive portfolio with more independent bets. "We calculate that we have an average of 14 independent bets versus only 6 for the average industry trend follower," says Gaussel.

Drawdowns versus history and simulation

Metori's 2025 performance drawdown for EGT has been approximately equivalent to one standard deviation. The performance is also consistent with the results of Monte Carlo simulations and other stress tests. "For a strategy running at 10% volatility with a Sharpe ratio between 0.5 and 1, simulations suggest investors should expect a drawdown of 1.5 standard deviations or 15% over a five-year period. EGT saw its lowest point at -11.5% in 2025," says Gaussel. (This is for the I-USD class of the Amundi Epsilon Global Trends fund, which peaked at 193.80 at the end of June 2024 and bottomed at 171.56 end of April 2025). "This is why we are cautious on double leveraged mandates. No algorithm can predict Trump or geopolitics, but the maximum drawdown is close to historical levels predicted by Sharpe ratios and volatility," adds Gaussel.

Losers and winners in 2025

The V-shaped moves and violent intraday reversals in equity indices in

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April were not the main cause of losses because equity was not the largest part of risk. Equities are only one of nine sub-asset classes for Metori as a firm; the others are short term rates, bonds, currencies, metals, base metals, energies, agriculturals and industrials.

Fixed income and even more so currencies were in fact the worst losers amongst Metori's EGT asset class groups. Though media narratives in 2025 portray some strong trends, many of them have proved difficult for trend models to latch on to. "For instance, the big picture US dollar index seems to have followed a steady downtrend. But individual currency pairs have not appreciated against the US dollar in such a persistent fashion, and FX has been the largest detractor from 2025 performance," explains Gaussel.

There have nonetheless been some pockets of strong trends, of which gold is the most obvious. Certain European equity indices, equity industry sectors and short-term interest rates, as well as some unintended yield curve trades arising from longs and shorts in bonds of different maturities, have generated tradable trends. Agricultural commodities have also made some contribution to some of Metori's strategies. "There have been some trends, but not enough to offset the costs generated on other contracts," cautions Gaussel.

Beyond EGT, Metori also manages other trend following strategies including commodities, and including Chinese futures, as well as a dedicated Chinese trend following strategy.

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Strategic or tactical asset allocation?

Some allocators may try to time their allocations to trend followers. Some might want to buy the dip and sell the rip rather like some equity investors. But more of them, worrying about alpha decay, might tend to sell the dip and take profit too early. Gaussel argues that: "It is very difficult to time allocations and trend followers should form a steady part of strategic asset allocation. Many investors are tactical investors, but it is always hard to make money in discretionary tactical asset allocation and could be even harder in CTAs".

US investment consultants Meketa Investment Group, who advise the giant California teachers' pension fund CalSTRS, view trend following as a structural part of a "risk mitigating strategies" allocation that would have helped portfolios in many years. CalSTRS ends up with a 4% weighting in CTAs, which might be rebalanced after a strong year like 2022 when CTAs were up while equities and bonds were down, but should not be traded actively because it is very hard to pick tops or bottoms.

This might explain why over two-thirds of the CTA industry's assets under management come from North America, where Metori has had a presence for some years and is engaging with institutional investors. THFJ