

Trend following strategies seek to profit from market trends wherever they appear. This has led to returns that are often uncorrelated with many major asset classes. In particular, trend following strategies gained the attention of many investors for their performance during the popping of the dot-com bubble and the Global Financial Crisis.

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In this document, we examine how trend following works, why it has captivated so many investors, and what makes it different from other investment strategies. We discuss the types of markets and assets trend followers target, the tools and signals they use, and the unique benefits (and challenges) these strategies bring to a diversified portfolio.

Key takeaways

- Trend following strategies capitalize on persistent price movements by systematically buying assets rising in value and selling those declining, without relying on market fundamentals or subjective judgment. This disciplined approach attempts to provide consistency and repeatability across a wide range of market environments.
- Trend following is a common trading strategy utilized in isolation and within broader hedge fund programs or strategies such as systematic global macro. Trend following is at times also used interchangeably with managed futures and Commodity Trading Advisors (CTAs). Managers typically focus on futures and forward contracts across equity, fixed income, commodity, and currency securities.
- Trend following approaches often provide positive returns that are uncorrelated with major market risks and can provide positive returns during equity downturns. This makes them valuable as a potential diversification tool.
- The performance of trend following can vary depending on market conditions, as they can lag in extended periods with limited trends across markets or large reversals. Portfolio construction and strategy selection can also have a major impact on performance given the wide dispersion of strategies and returns among managers.

What is trend following?

A trend following strategy involves buying assets that have been going up and selling those that have been going down, betting that these trends will continue. This approach typically does not consider market fundamentals (such as if a stock is under- or over-valued) and is removed from subjective decision making, relying instead on a systematic pre-defined set of rules.

These strategies aim to provide a positive long-term expected return that is uncorrelated to major market risk factors and often produce large positive returns during the worst periods for equities. Some have referred to this benefit of positive returns during equity downturns as “crisis alpha”!

At times, trend following strategies may be synonymous with the managed futures, CTAs (Commodity Trading Advisors), or systematic global macro categories. Trend following strategies typically trade the largest and most liquid futures and forwards markets across the globe. Traded securities can largely be grouped into equities, currencies, commodities, and fixed income. However, managers may also trade more ‘alternative’ securities such as VIX contracts,² Bitcoin futures, and market neutral value premia, among many others. Trend following strategies not only vary by the markets they trade but also by the types and length of signals they use to trade them.

¹ Source: “Trend Following with Managed Futures: The Search for Crisis Alpha”, Alex Greyserman and Kathryn Kaminski, August 25, 2014.

² VIX refers to the CBOE Volatility Index, which represents the market’s expectations for volatility over the coming 30 days.

The trend following universe

Managers have been seeking to profit from market trends for decades. The number of managers and assets under management (“AUM”) in the trend following space has grown over time, particularly over the last two decades (see Figure 1). Trend following strategies can be proxied by the managed futures industry because many managers in the space, particularly CTAs, systematically trade futures across asset classes using trend following strategies, aiming to profit from sustained price movements. As a result, the performance of managed futures funds is often closely aligned with the broader trend following style. Managed futures’ AUM grew by roughly 10x from 2000 to 2013. Since this high-growth decade, AUM has leveled out, with a peak of \$365 billion in 2022.

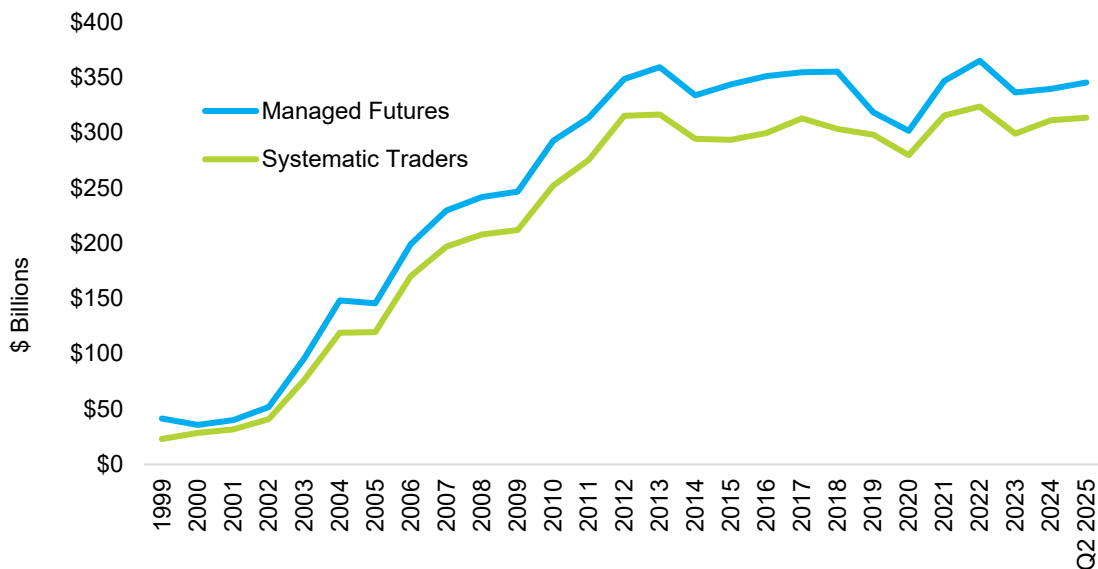


FIGURE 1
AUM of the Managed Futures Industry (\$ Billions)

Source: BarclayHedge, as of Q2 2025.

Despite managed futures' (i.e., trend following's) substantial growth since 2000, they still only comprise a small proportion of the total hedge fund industry. Managed futures' AUM as a percentage of the hedge fund industry's total AUM peaked in 2012 at approximately 23.5% and has since declined to approximately 6.2% as of June 30, 2025. Trend following's growth plateau over the past decade (while the rest of the hedge fund industry continued to grow) may be attributed to several different factors. For example, it may have been due to a combination of weak performance in the low-volatility markets that began around 2010 and lasted for roughly a decade, investor shifts toward higher-return hedge funds, and potentially even a misunderstanding of trend following's potential role as a diversifier.

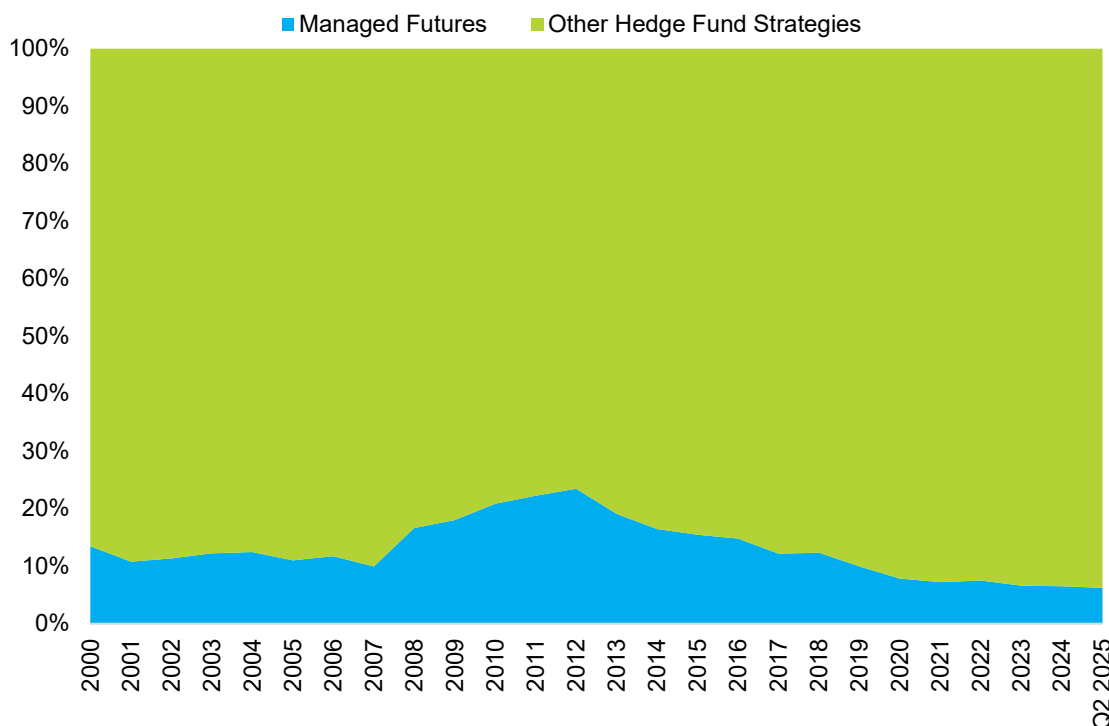


FIGURE 2
Managed Futures' AUM as a percentage of the Hedge Fund Industry

Source: BarclayHedge, as of Q2 2025.

Why do markets trend?

Market trends can be attributed to a variety of different sources, though they can largely be bucketed into three main categories: behavioral, economic, and institutional.

From a *behavioral* perspective, markets may trend due to differences in informational access or processing differences. This is similar to the under reaction to news where new information is not immediately 100% priced in. For example, if Apple releases earnings that significantly beat analyst's expectations, the stock may likely increase. This theory would say that any continued trend, post the initial jump, is the market slowly pricing in the remainder of the perceived impact to the company stock. Investor behavior can also result in herding, feedback loops, or confirmation bias³ among other drivers that create or exacerbate market trends.

³ Herding, feedback loops, and confirmation biases are all related cognitive biases that can impact decision-making. Herding is the tendency to follow the action of a larger group. Feedback loops are systems where the output is fed back into the system as an input, amplifying the original effect. Confirmation bias is the tendency to seek out information that confirms pre-existing beliefs. Each of these may contribute to the development or extension of trends within markets.

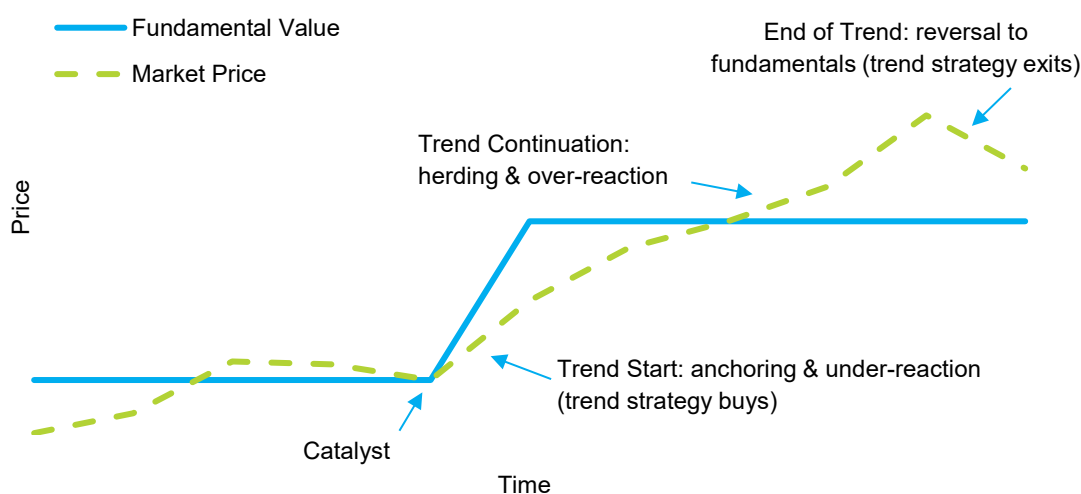


FIGURE 3
Example of a Behavioral Market Trend

Source: "Demystifying Managed Futures," Brian Hurst, Yao Hua Ooi, and Lasse Heje Pedersen, *Journal of Portfolio Management* Vol. 11, No. 3, (2013).

Market trends can also occur due to *economic* reasons such as companies being 'forced' to hedge price risks, governments and central banks using policies to influence economic growth, and time varying risk premia. For example, a utility company may impact commodity prices by purchasing energy futures contracts to lock in a price and improve business stability, or an airline company may likewise impact commodity markets by purchasing oil futures to limit the impact of future fuel price increases on the business.

Lastly, markets may trend for *institutional* reasons such as the use of risk systems with embedded stop-losses or other mechanisms that may exacerbate price movements. Hedge funds (or other investor types) may utilize stop losses that result in automatically selling securities at predefined levels. If many investors have similar exposures (and stop loss mechanisms), this can potentially exacerbate price declines. Other examples include delta hedging (buying more of an asset as its price goes up and selling more as it declines), or the impact of flows and rebalancing triggers.

Rather than advocate for one specific driver of the causes of market trends, it may instead be more appropriate to think of these explanations as a mosaic. Market trends likely develop because of many of these explanations and do so in different weights, at different times, and through different security types.

How are the trends identified?

Trends are identified by constructing a set of systematic rules that indicate if a security or market is moving up or down over some pre-determined period. This set of rules generates a signal indicating whether the strategy should buy, sell, or take no action. The most common example is a moving average crossover. This approach involves comparing the trailing average price of a security over a shorter time frame to a longer time frame. If the shorter moving average is above the longer moving average, it indicates a buy signal and vice versa. Figure 4 depicts this moving average example for the S&P 500.

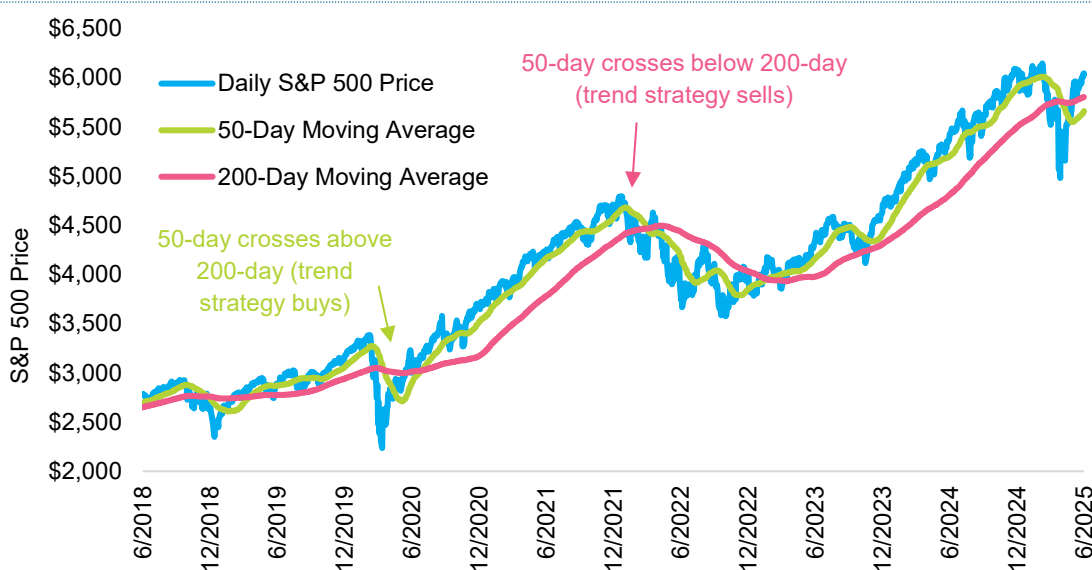


FIGURE 4
Moving Average Crossover
Example: S&P 500

Source: FRED, as of June 12, 2025.
Index used: S&P 500 Index.

Breakout models are another common signal type used by trend followers. These models compare the price of a security versus a range of prices, rather than a single moving average, to determine whether to go long, short, or have no position. Trend followers may also use a multitude of other methods to identify trends, their relative strength, and future attractiveness when evaluating trades.

Historical performance

Figure 5 shows the rolling three-year performance of three of the more prominent trend following indices.⁴ While they generally track each other, during some periods there have been large differences between their returns. Throughout this paper, we use the SG Trend Index to proxy trend following returns. This is because we believe the SG Trend Index provides a purer representation of the opportunity set available to investors in the trend market given that it represents the results of live manager strategies rather than a single set of rules and has historically exhibited a volatility level that is in-line with what may be expected for those constructing a trend following allocation.

⁴ The SG Trend Index is composed of the ten largest trend following CTAs (by AUM) who meet the index's criteria for being representative of the trend followers in the managed futures space; the index is equally weighted, rebalanced and reconstituted each January, and returns are net of fees. The CS Managed Futures Liquid Index is a rules-based representation of a trend following strategy that goes long or short liquid futures and forwards across equities, rates, currencies, and commodities. The Mount Lucas Management Index is a rules-based, systematic trend-following index designed to measure the returns available via a simple moving-average-crossover strategy.

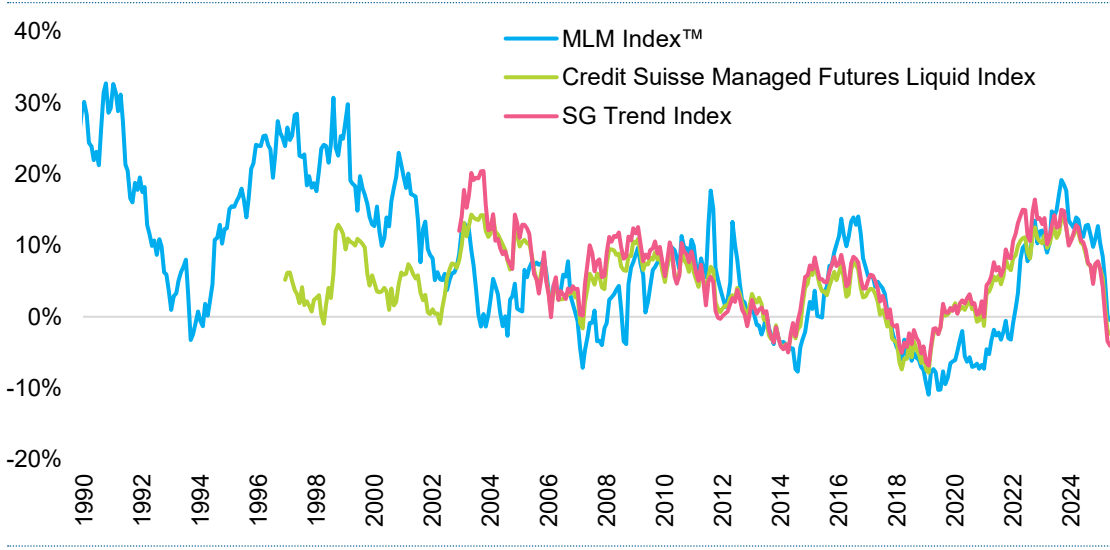


FIGURE 5
Rolling 3-Year Annualized Return of Trend Following Benchmarks

Source: eVestment, as of 5/31/2025. Indices used: MLM Index™, CS Managed Futures, SG Trend Index.

The SG Trend Index has demonstrated positive absolute performance since 2000 that has been complementary to that of both global stocks and bonds. Since January 2000, the SG Trend Index has produced an annualized return of 4.9%, above the Bloomberg US Aggregate Bonds' 4.0% and below the MSCI ACWI's 6.2%. The SG Trend Index's annualized volatility (13.4%) is likewise between US bonds (4.2%) and global equities (15.6%).⁵

⁵ Sources: Societe Generale and InvMetrics, as of 5/31/2025. Indices used: MSCI ACWI, Bloomberg US Aggregate Bonds, SG Trend. For the period 1/1/2000 to 5/31/2025.

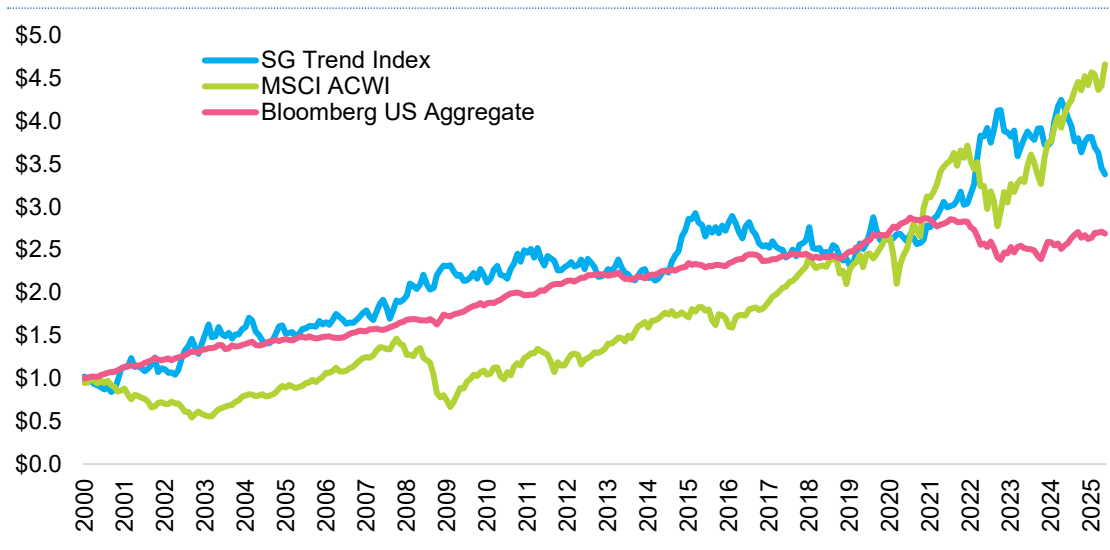


FIGURE 6
Growth of \$1 Since January 2000

Source: Societe Generale and InvMetrics, as of 5/31/2025. Indices used: MSCI ACWI, Bloomberg US Aggregate Bonds, SG Trend.

Correlation & Crisis Alpha

The best periods of relative performance for trend following strategies have often come when equities have experienced large extended drawdowns, a phenomenon commonly referred to as *crisis alpha*. Figure 7 below exemplifies this as trend following's largest periods of outperformance (relative to global equities) have come during the popping of the dot-com bubble, the Global Financial Crisis ("GFC"), the pandemic shock, and the rate hike environment of 2022-2023. In contrast, trend following has underperformed during equity bull markets such as the one that began in 2010 and lasted for roughly a decade. However, this is not necessarily unexpected for trend following nor is it a poor reflection of the strategy. Unlike traditional equities, whose

primary role is to generate long-term returns for a portfolio, trend following aims to produce uncorrelated returns that may protect the portfolio and produce positive returns during periods of volatility when other assets may struggle.

Put a different way, trend following has generated positive returns during the historical market downturns of the past 25 years, though it has lagged traditional equities during the upturns.

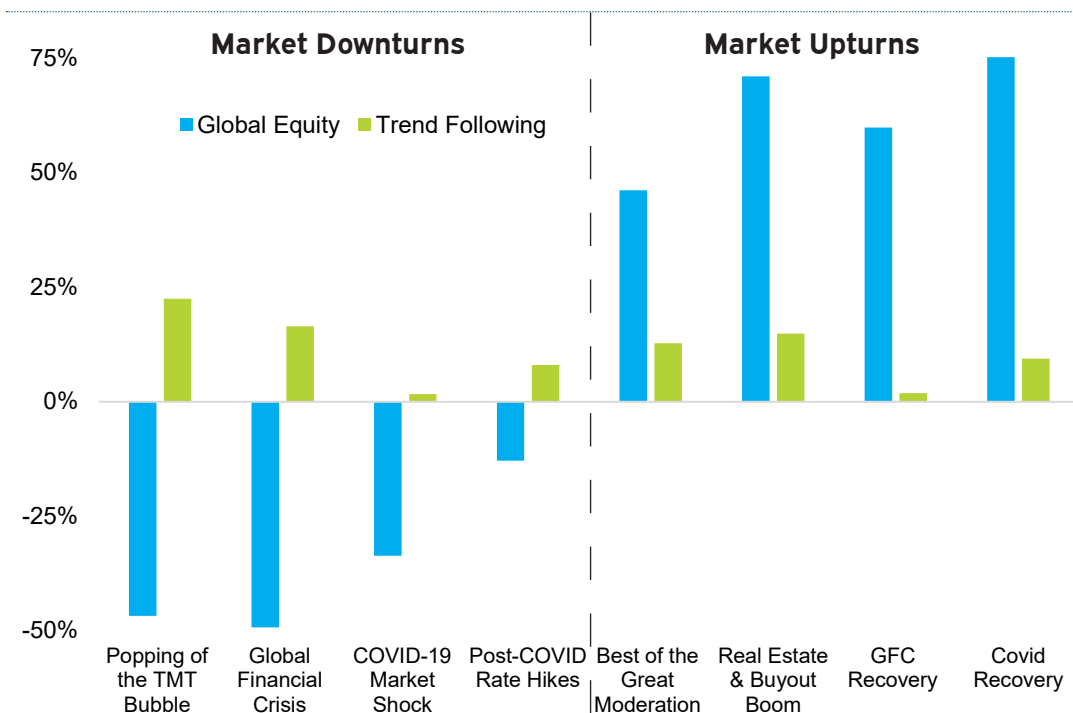


FIGURE 7
Historical Market Up and Downturn Scenarios

Source: Meketa Asset Allocation Tool. The periods in order are April 2000 - September 2002, October 2007 - March 2009, February 2020 - March 2020, January 2022 - October 2023, April 2003 - February 2004, October 2004 - September 2007, March 2009 - November 2009, April 2020 - December 2021. Indices used: MSCI ACWI Net and BarclayHedge CTA Index. Note this analysis uses the BarclayHedge CTA Index instead of the SG Trend Index.

Crisis alpha is also observed through the historical positive convexity of trend following strategies, particularly in comparison to equities.⁶ Positive convexity refers to a non-linear payoff profile between two investments, with a trendline that exhibits a “smile” shape (i.e., an upward-shaped curve). Trend following has shown positive convexity relative to global equities (see Figure 8). In the largest negative and positive periods for equities, trend following experienced its best results.

⁶ Convexity refers to the extent to which the price of one asset changes in relation to another asset.

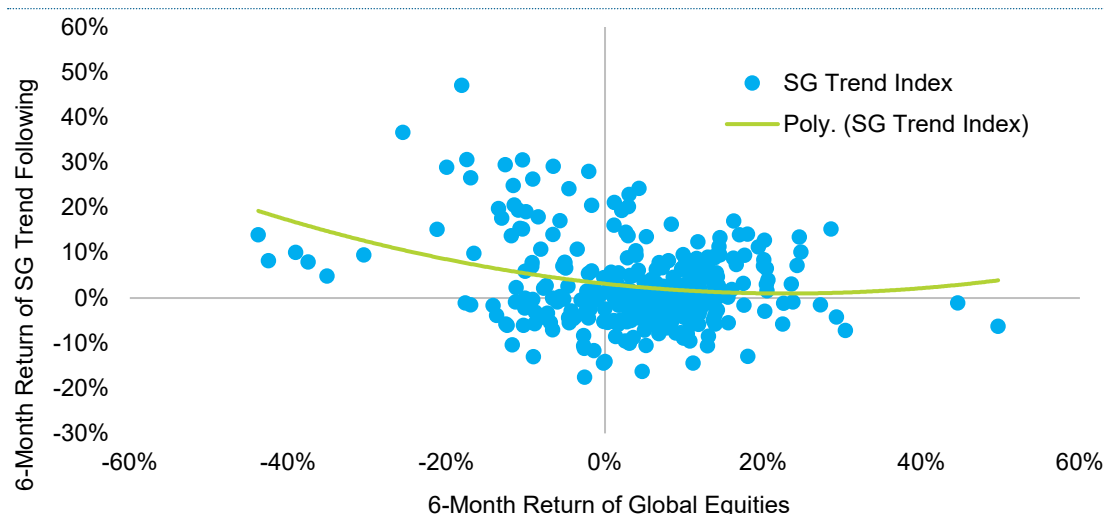


FIGURE 8
6-Month Convexity of Trend Following Relative to Global Equities

Source: Societe Generale and InvMetrics, as of 5/31/2025. Indices used: MSCI ACWI, SG Trend. The green trendline is a second-order polynomial regression.

This profile is possible given the rules-based nature of trend following strategies which results in no structural bias for long or short positions; they are designed to equally capture both upward and downward price trends regardless of asset type. This means they may generate positive returns during downward trending markets by “shorting” equities and by buying appreciating assets benefiting from flight to quality attributes. This results in a variable correlation profile as shown in Figure 9. Since 2000, trend following’s average correlation has been -0.10 with global equities, 0.10 with long-term government bonds, and 0.01 with US bonds, signaling little to no overall correlation.⁷ Notably, the level (and sign) of the correlation can vary widely, as evident during several periods of elevated positive and negative correlations.

⁷ Sources: Societe Generale and InvMetrics, as of 5/31/2025. Indices used: MSCI ACWI, Bloomberg US Government: Long Term Bonds, Bloomberg US Aggregate Bonds, SG Trend. For the period 1/1/2000 to 5/31/2025.

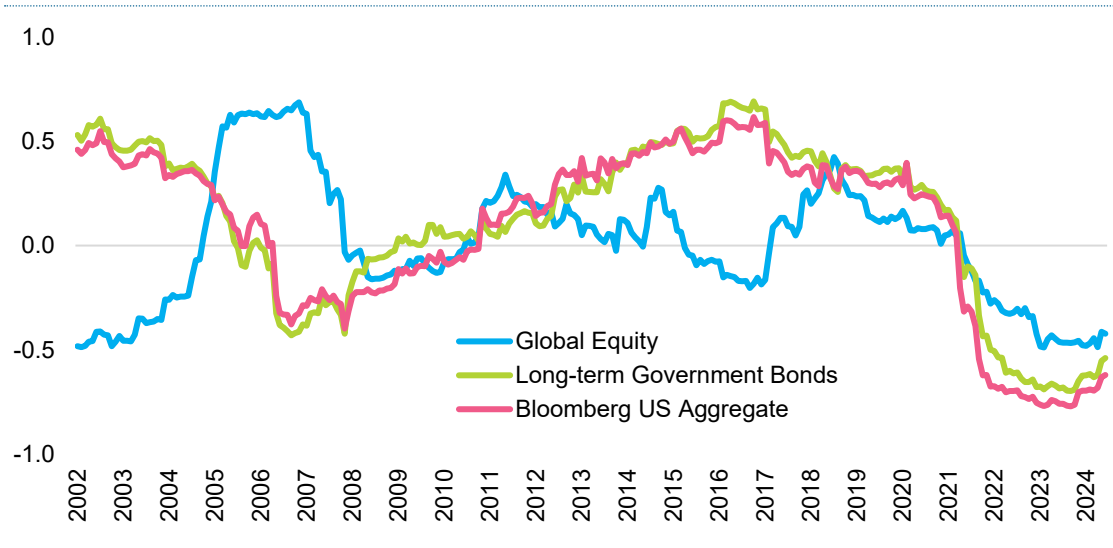


FIGURE 9
Rolling 3-Year Correlation to the SG Trend Index

Source: Societe Generale and InvMetrics, as of 5/31/2025. Indices used: MSCI ACWI, Bloomberg US Government: Long Term Bonds, Bloomberg US Aggregate Bonds, SG Trend.

For example, if equity markets are trending upward, trend followers will likely be net buyers of equities, leading to higher correlations with equities. Conversely, if equities are trending down, trend followers will likely be net sellers, leading to negative correlations to equities. However, it is often positioning in other asset classes during equity drawdowns that leads to a negative conditional correlation. For example, being short bonds in 2022 and long commodities contributed more to gains than being short equities.

Considerations for implementation

Trend following outcomes are heavily influenced by strategy design and structural choices. Small differences in how a trend strategy is built, from the markets traded and signals used, to how positions are sized and funded, often lead to dispersion in outcomes across strategies. These strategies are also highly capital efficient, meaning an investor can obtain a given level of exposure with a fraction of the notional capital, which further allows one to engineer the strategy’s impact on the total portfolio (e.g., by using leverage to achieve a higher volatility target). Below, we outline the key design choices that drive performance differences.

Design Choices Driving Strategy Dispersion

- *Markets Traded*: Some trend followers stick to traditional markets (highly liquid futures and FX forwards in equities, bonds, commodities, and currencies), while others include alternative markets (harder-to-access or OTC markets like power, credit default swaps, emerging rates) or even frontier markets (illiquid, niche contracts) in their universe. A strategy limited to traditional markets will offer more liquidity and often better performance in acute crisis periods, while those that trade a broader set inclusive of alternative markets may offer higher Sharpe ratios at the expense of less convexity in risk off periods. Thus, two managers with the same signals but different market coverage can have markedly different returns.
- *Signal Speed (Lookback Length)*: Trend programs vary in the time-window they use to measure trends, which affects responsiveness and return patterns. “Fast” strategies use short lookbacks (days to a few weeks) and react quickly to price changes, while “slow” strategies use long windows (several months or more), changing positions more gradually. Fast systems tend to cut losses early and pivot rapidly, which more reliably produces positive skew (big upside in sudden downturns as they quickly short markets) and strong crisis alpha, but at the cost of more frequent whipsaw losses and higher trading costs. Slow systems, in contrast, hold positions longer and avoid overreacting to market noise. These slow signals may miss the very start of new trends or give back more at the end, but they often capture the bulk of sustained trends.

These speed differences are a major source of performance divergence across managers. The most common time frame is medium-to-long term, ranging from 3-to-6-months on average, as is broadly represented in the SG Trend Index. Under the hood, many managers choose a blend of signal speeds and/or dynamically move between them over time to harvest the most profitable signals at any given time or increase diversification. Which signals are used may also depend on the liquidity of markets, as the gross alpha of short-term signals may be completely negated by transaction costs in more illiquid and niche markets.

- *Signal Types & Strategy Mix*: While most trend followers use price momentum signals, they can differ in how they measure momentum and whether they integrate other strategies. They might use moving-average crossovers, breakouts, or more complex trend filters. These various trend signals often agree on broad direction but differ in entry/exit timing. Moreover, some managers run a pure trend strategy (100% dedicated to price trend signals), whereas others include non-trend components such as carry trades, mean-reversion, or fundamental overlays.

For example, a manager might allocate a portion of risk to a carry signal (buying higher-yielding instruments, regardless of trend) or to relative value models. These additions can improve returns in range-bound markets (when pure trend might struggle), but they can also drag on performance during big trending periods (when a pure trend approach would perform best).

- *Position Modifiers*: Portfolio management rules beyond the basic trend signal can also impact performance. Trend followers may implement stop-loss thresholds, cutting a position if losses exceed a certain level to manage risk. In other cases, profit-taking mechanisms are used, trimming or closing positions after a large favorable move or if momentum wanes, even before an outright trend reversal signal occurs. A manager with aggressive stop-losses might avoid big drawdowns on a bad trade (improving downside protection), but could also prematurely exit trends that later resume, potentially sacrificing some profit. Profit-taking rules similarly can lock in gains early or cause underperformance if the trend keeps running. Such design choices can drive dispersion in results even if the markets and core signals are similar.
- *Risk Allocation Approach*: How a trend strategy sizes positions across markets is another differentiator. Some programs scale markets so that each contributes equally to risk (often termed “equal risk” or risk parity weighting). Others may overweight sectors qualitatively that they view as having a more attractive opportunity set, emphasize markets that have better liquidity characteristics, or lean into markets that are exhibiting stronger trends. These allocation choices cause performance dispersion. For example, if a huge trend occurs in an underweighted sector, that manager will lag peers who were equally weighted or overweighted there. On the flip side, a manager who had a big emphasis on, say, commodities during an oil price trend will outperform one who treated all sectors equally. Thus, even with the same signals, portfolio weighting decisions can lead to non-trivial return differences between strategies. Notably, more sophisticated risk systems may also factor in correlations by dynamically adjusting weights to maximize diversification, while others use simpler fixed weights, adding another layer of variation in outcomes.
- *Volatility Target & Leverage*: As trend following strategies trade futures and forward contracts, they typically are able to adjust the amount of margin posted to magnify or dampen the return profile of their trading strategy. Most managers construct their portfolio to aim for 12-15% volatility on average. With some exceptions, realized volatility varies around the long-term target depending on the signal strength and other portfolio construction items. Differences in volatility targets can drive meaningful differences in returns across strategy. This should be taken into account when comparing different strategies against each other as the volatility target represents a structural choice that can be easily replicated by others and is not representative of skill. A higher target will magnify gains and losses, while a lower target dampens them.

For example, a manager running at 20% vol could easily double the annual return (or loss) of a peer running at 10% volatility, even if their underlying trend signals are similar, simply because they are taking more risk. In practice, investors can adjust for this (some allocators compare managers on a risk-adjusted basis or ask a manager to run their account at a customized volatility level). This allows

investors to have many degrees of freedom in the decision of how to allocate to trend following since \$1 of capital is not needed to gain \$1 of exposure. Investors are able to dial up or down the desired impact and even use it as an overlay to some market beta exposure (e.g., portable alpha or return stacking).⁸

⁸ Return stacking is an investment strategy that uses modest leverage to layer multiple sources of return on top of a core portfolio, typically across uncorrelated asset classes.

Each of the above design elements can cause material divergence in outcomes. Individually, any one choice might only have a modest effect, but collectively these can compound into large return gaps. Managers make myriad decisions on these fronts, leading to a broad spectrum of performance profiles – even though the strategies are all “doing the same thing” in a general sense (i.e., buying winners, selling losers). For investors, understanding these differences is crucial to making informed decisions about manager selection and performance comparisons.

Dispersion in Practice and the Case for Multiple Managers

The theoretical dispersion drivers described above manifest in real-world results. An examination of the SG Trend Index illustrates how widely individual manager returns can diverge even as they move in the same direction. In most years since 2000, these managers have been “directionally aligned,” capturing the big moves but with meaningful dispersion across strategies. However, the spread between the best and worst managers’ performance is often very large (see Figure 10). On average, the gap between the top and bottom constituent in a given year has been around 26%, and it has stretched to over 30% in nine of the past 25 calendar years.

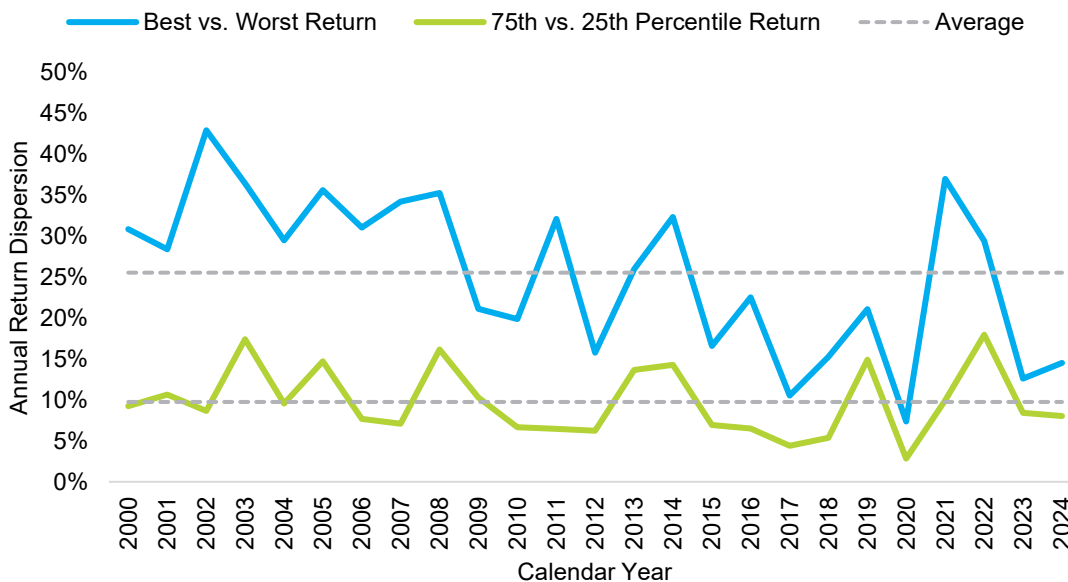


FIGURE 10
SG Trend Index Annual Constituent Dispersion

Source: Societe Generale, as of 12/31/2024. Index used: SG Trend.

This shows that trend followers tend to rise and fall together. However, there tends to be more dispersion in the best and worst years for stocks (see Figure 11). This implies that if investors are allocating to trend following in part to capture the “crisis alpha” or convexity of trend following relative to stocks, there is more reason to consider allocating across multiple managers or strategies.

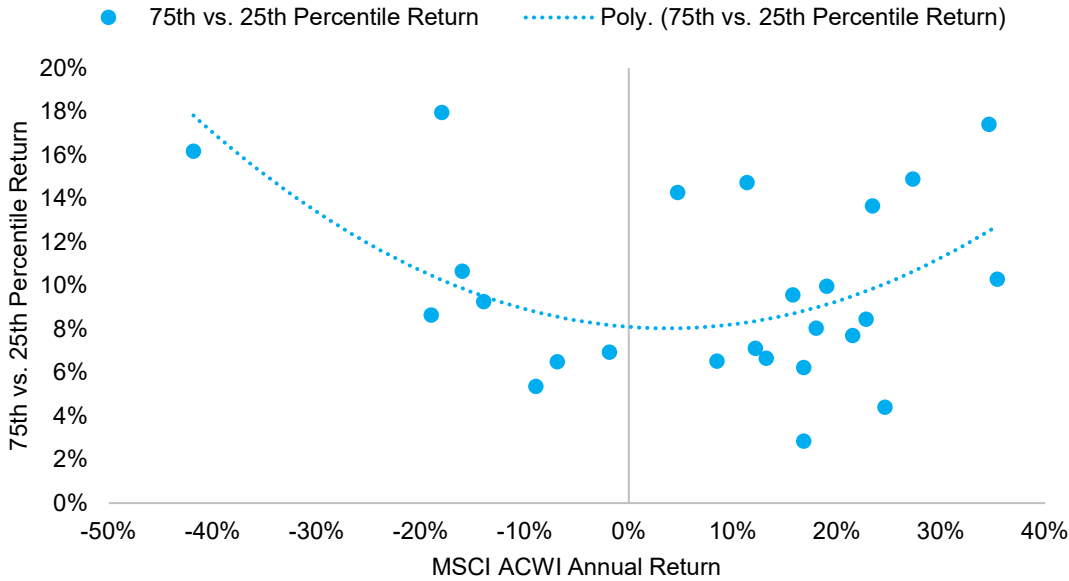


FIGURE 11
SG Trend Index
Constituent Annual Return
Dispersion vs. MSCI ACWI
Returns

Source: Societe Generale and InvMetrics, as of 12/31/2024. Indices used: MSCI ACWI, SG Trend. The blue trendline is a second-order polynomial regression.

Overall, while trend strategies should produce similar directional results, there is much to be gained (or lost) by being in the right (or wrong) strategy. This is why some investors build a multi-manager trend following allocation. By allocating to 3–5 different trend managers, an investor can substantially mitigate the idiosyncratic risks and dampen the dispersion of outcomes (see Figure 12).

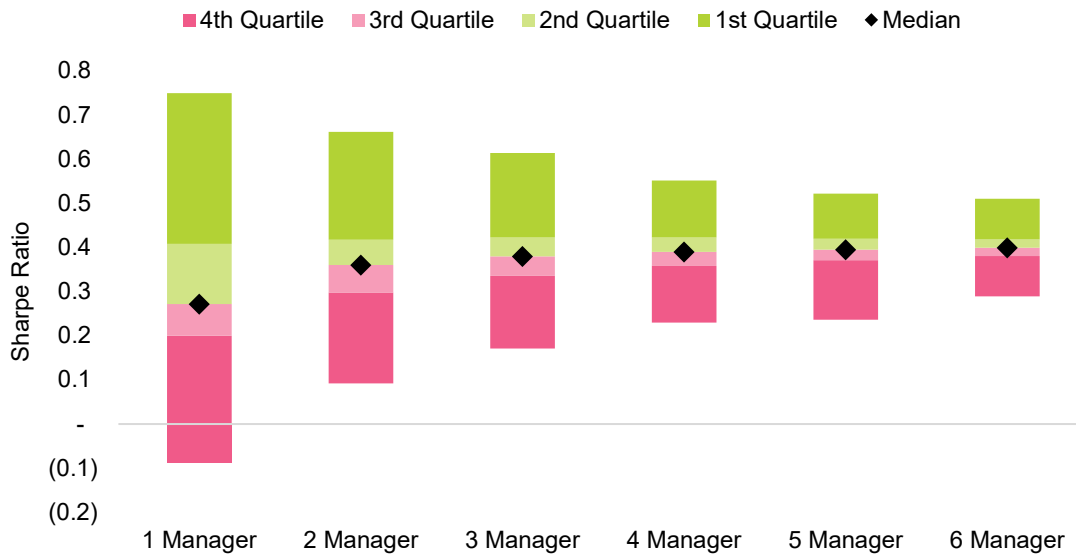


FIGURE 12
Historical Sharpe Ratio of
Multi-Manager Portfolios

Source: Efficient Capital Management. Methodology = 10,000 simulations of 1-6 manager portfolios using the 35 historic constituents of the SG Trend Index between 2000 and 2022.

A possible concern of allocating to multiple managers may be that it leads to overdiversification and diluting the outcome, but given the capital efficient nature of trend following, the individual volatility of the strategies can be adjusted so that the whole still maintains its desired impact. Allocating to multiple managers in trend following has the potential to improve Sharpe ratios and reduce drawdowns without sacrificing the impact on the total portfolio.

Using multiple managers also does not eliminate the positive skew or “crisis alpha” that trend following offers. In fact, it can enhance reliability. It is likely that at least one will catch any given big trend early or aggressively, increasing the chances that the allocation as a whole performs when it should. This may increase the probability of producing gains in major equity downturns higher than using a single manager. The bottom line is that a multi-manager approach can help make trend following outcomes more reliable and robust.

Portfolio Impact: Trend Following’s Role in Asset Allocation

When included in a broader portfolio, trend following may significantly improve portfolio efficiency. Because of its low long-term correlation to traditional assets and its tendency to excel in bear markets, even a relatively small allocation to trend strategies can shift the risk/return profile of a stock/bond portfolio for the better. Historically, for example, adding trend following to a 60/40 equity-bond mix would have resulted in more efficient portfolios. Figure 13 illustrates a range of historical portfolios of stocks and bonds versus those that also include a trend following component. The portfolios that include trend are higher up and to the left indicating that the inclusion of the strategy could have improved risk-adjusted portfolio outcomes.

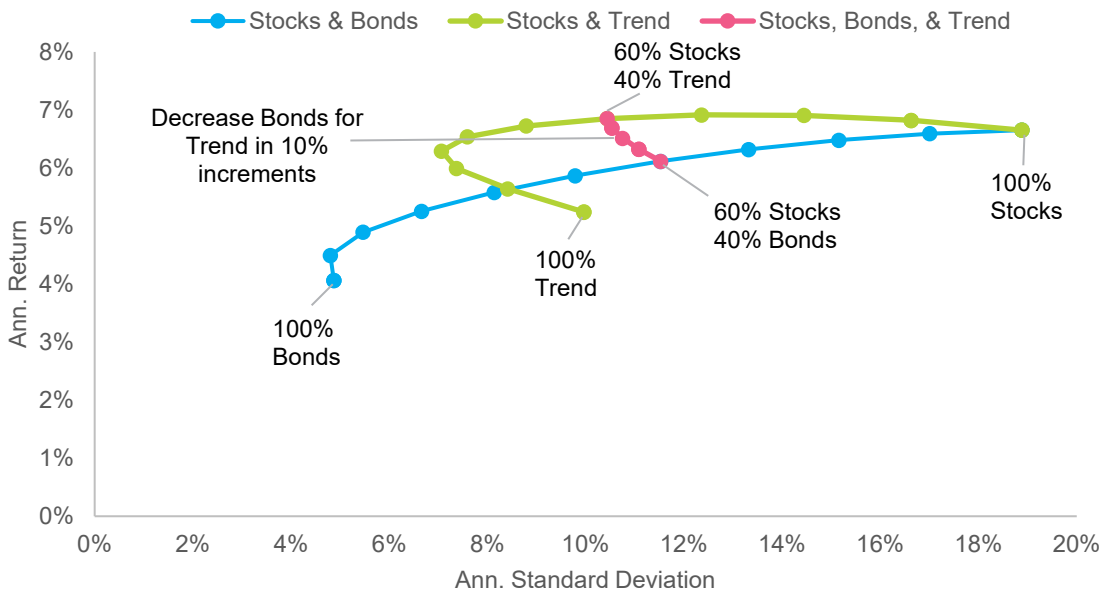


FIGURE 13
Historical Hypothetical
Portfolio Return &
Risk: January 2000 to
September 2025

Source: Meketa. Stocks are proxied by MSCI ACWI, Bonds are proxied by Bloomberg US Aggregate, and Trend is proxied by SG Trend Index. For the period January 2000 through September 2025. Hypothetical portfolios change in 10% increments and assume annual rebalancing.

Role in a risk mitigating strategies ("RMS") framework

Meketa uses the name “risk mitigating strategies” as a framework for investment strategies expected to provide exposures complementary to equity risk, which is the predominant risk in many investors’ portfolios. An RMS framework seeks to produce gains during turbulent markets, such as equity drawdowns, while also producing positive returns over the long term. The evolving landscape of risk mitigating strategies underscores the critical importance of constructing portfolios that are resilient to market shocks.

The RMS framework thoughtfully segments approaches into three components, each contributing unique defensive or diversifying attributes:

- **First responders:** These strategies are intended to be the first line of protection during a significant equity drawdown. They often utilize long-term US Treasuries, long volatility, and tail risk strategies.
- **Second responders:** These strategies are designed to capitalize on protracted bear markets. This group commonly includes *trend-following strategies* such as Commodity Trading Advisors (CTAs) and managed futures, which can also produce gains in extended bull markets.
- **Diversifiers:** This group includes a wide range of strategies that aim to provide diversification benefits. These strategies are not as narrowly defined as the first and second responders and can include various types of investments.

Trend Following strategies fall within the “second responders” component of RMS, they are the second line of protection designed to produce meaningful gains during extended equity drawdowns or market shocks.

Investment vehicles and fees

As the depth and breadth of data used to identify, execute, and analyze trend following has grown, there have been meaningful changes in the solutions offered to investors. At the institutional level, strategies are often offered as commingled funds, fund-of-ones, or separately managed accounts. Large institutions with dedicated investment staff may also opt to allocate via bank swaps on QIS (Quantitative Investment Strategy) products, license index rules for their own implementation, or trade their own strategies. In addition, there are mutual fund, UCITS, and ETF choices available to the retail marketplace, but with less breadth in strategy options.

There is a wide dispersion of both fee structures and ranges, dependent on the strategy and manager employed. For example, at the lower end, management fees can vary from 25 to 50 basis points for a simpler replication strategy.⁹ This often involves a manager either using regression techniques to approximate the positions taken in trend following portfolios or a manager implementing index rules for a small fee. Active strategies that have a narrow focus of markets and signals (e.g., core medium-term trend following) may have management fees in the 50 to 100 basis point range.¹⁰ These strategies typically focus on the most liquid 50 to 100 futures and forwards markets and trade only or primarily medium-term signals. At the higher end, there may be a 100 to 200 basis point management fee plus an incentive fee for alpha-focused trend following strategies that trade more markets and signal types.¹¹ These strategies often trade 200+ markets, many of which are OTC or harder to access (e.g., “alternative” markets). They also tend to trade a more diversified set of time frames and signals and/or include diversifying strategies in some capacity within their strategy. All of these features are meant to enhance the return stream and lift the risk-adjusted results.

⁹ Fee ranges based on Meketa Investment Group’s research and industry observations.

¹⁰ Management fee estimates reflect Meketa Investment Group’s analysis of prevailing market practices.

¹¹ These ranges are informed by Meketa Investment Group’s review of manager disclosures and industry data.

There are differences of opinions across the industry on which structure is best, with some advocating for only flat fees and others for incentive fee structures. Those in the flat fee camp would argue that trend is meant to do best in risk-off environments and investors should seek to harvest as much of these gains as possible rather than paying some away in incentive fees. Those in the incentive fee camp would argue that these products do not sacrifice convexity, and they gain much more in improved Sharpe ratios through a full market cycle than they give up at the margin in the large risk-off environments.

Conclusion

Trend following strategies are designed to capitalize on sustained price trends by methodically purchasing assets that exhibit upward momentum and divesting those experiencing declines, independent of market fundamentals or personal discretion. This systematic methodology promotes consistency and reproducibility across a diverse array of market conditions.

The landscape of trend following is expansive, including managed futures, CTAs, and systematic global macro strategies engaging in a variety of liquid asset classes worldwide. While managers primarily target equities, fixed income, commodities, and currencies, some also incorporate alternative assets to enhance diversification.

Trend following techniques often generate returns with lower correlations to major market risks and have the potential to perform positively during equity market downturns, underscoring their role as an effective diversification tool. Their adaptability and proven historical performance further support their integration into comprehensive investment portfolios.

It should be noted that trend following results are influenced by prevailing market environments. For example, these strategies may underperform during extended periods of low volatility. Additionally, portfolio construction and strategy selection play critical roles in determining outcomes, given significant variance in approaches and returns among managers.

The increasing sophistication of investment vehicles, coupled with a broad spectrum of fee structures, provides investors with unprecedented choice but also necessitates vigilance. Investors must weigh the trade-offs between simplicity, cost, and potential alpha, recognizing that higher fees can erode returns precisely when trend following is performing at its best.

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