MarketWatch

Get ready for another mutual fund with a hedge-fund-style strategy. What investors need to know.

Managed-futures strategies tend to 'do well when volatility starts to rise and keeps going,' says Rob Sorrentino, president of Eckhardt Trading Co.

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U.S. stocks rose Monday, with the S&P 500 notching its 46th record closing high of 2024, according to Dow Jones Market Data.Photo: Getty Images/iStock

Eckhardt Trading Co., founded by longtime managed-futures trader Bill Eckhardt, is branching out into the mutual-fund world with a strategy often associated with hedge funds.

The Quantified Eckhardt Managed Futures Strategy Fund (QETCX), a mutual fund that aims to provide returns from a blend of managed-futures and fixed-income strategies, is launching today, according to Rob Sorrentino, president of Eckhardt Trading Co. He said in an interview that the managed-futures strategy — which uses futures contracts across asset classes including stocks, bonds, commodities and currencies — is meant to help diversify portfolios.

Eckhardt has long provided its managed-futures strategy to institutional investors to help them manage risk in their portfolios, as it tends to add "some good financial impact" when traditional asset classes are struggling in tumultuous times, according to Sorrentino. He pointed to 2022, a year when stocks and bonds broadly fell amid surging inflation, as well as 2020, when COVID-19 rocked markets, as recent examples of when the firm's managed-futures strategy paid off.

“For the most part, these strategies do well when volatility starts to rise and keeps going,” with a particular event triggering market reactions that keep rippling across various sectors, said Sorrentino. “You won’t really get much out of them when volatility is just going down and down and down, and just languishing around,” he said, or when “the trends are very short and choppy.”

Eckhardt’s managed-futures strategy is systematic, with the firm’s algorithms determining its positioning in markets, which may be long or short, according to Sorrentino. Going short involves betting prices may fall, whereas long refers to a bet that asset values will rise.

This is the first time that Eckhardt Trading Co., founded in 1991, is providing its managed-futures strategy to retail investors via a mutual fund, according to Sorrentino.

Other mutual funds with managed-futures strategies are provided by firms such as AQR Capital Management, Arrow Funds and Pacific Investment Management Co., known as Pimco, according to Morningstar. Individual investors may also find exchange-traded funds that focus on managed futures, such as the iMGP DBi Managed Futures Strategy ETF ↑ **DBMF** 0.04% or Simplify Managed Futures Strategy ETF ↓**CTA** -0.22%.

“It’s essentially a trend-following strategy,” said Hyunmin Kim, a research analyst at Morningstar, in a phone interview.

Managed-futures strategies are systematic and aim to provide “uncorrelated streams of return to make your portfolio more resilient over the long term,” said Kim. “You will be reaping the diversification benefit if you have chosen the right strategy,” she said, cautioning that there’s “a wide range of performance” among managers in Morningstar’s systematic-trend category.

Fees and minimums

Investing in managed-futures mutual funds is more expensive than conventional mutual funds that buy stocks or bonds, and there may be an investment minimum, according to Kim.

“The minimum investment amount really varies by strategy,” she said. “It could be anywhere from zero to $50 million.”

The investment minimum for the Quantified Eckhardt Managed Futures Strategy Fund is $10,000, according to an email from Sorrentino. As for fees, shares of the mutual fund will launch with a total annual expense of 1.65% for investors. That includes a 1% management fee.

Some managed-futures mutual funds have expense ratios above 2%, depending on the share class, according to Kim. By contrast, mutual funds and ETFs that simply track major U.S. equities or bond indexes have much lower costs.

For instance, the Fidelity 500 Index Fund ↑ **FXAIX** 0.41% , a mutual fund that seeks to track the returns of the S&P 500 index, has an expense ratio of 0.015%. And th iShares Core U.S, Aggregate Bond ETF ↑ **AGG** 0.09% , which tracks an index of the total U.S. investment-grade bond market, charges an expense ratio of 0.03%.

Performance of managed futures

Eckhardt's approach to managed futures, which has been available to institutional investors under the label "evolution" strategies, performed relatively well during periods that were rough for markets, such as 2008, 2018, 2020 and 2022, according to Sorrentino.

Take 2022, when stocks and bonds were pummeled as the Federal Reserve hiked interest rates to battle surging inflation. Managed futures had gains in the elevated market volatility that year.

The iMGP DBi Managed Futures Strategy ETF, which replicates managed-futures strategies used by hedge funds, soared in 2022 to end the year with a total return of 21.5%, according to FactSet data. The ETF has an expense ratio of 0.85%.

In other examples of market turmoil, the S&P 500 plunged in 2008 amid the global financial crisis, and the equities index was down in 2018 after a tumultuous fourth quarter that year, according to FactSet data. Then, during the first quarter of 2020, investor anxiety over the COVID-19 virus sparked a steep selloff in the S&P 500 before the Fed swooped in to support the markets and economy.

A composite of Eckhardt's "evolution strategies" saw a net return of 12.5% in 2022, as well as positive gains during the first three months of 2020, according to data from the firm that Sorrentino shared with MarketWatch. The firm's "evolution strategies" were up slightly more than 5% in 2018 on a net return basis, and gained more than 13% in 2008, according to the data.

While having a portion of portfolios allocated to managed futures may be helpful when markets are "dislocating," traditional asset classes may outperform against other macro backdrops, according to Sorrentino. For example, in 2023, when stocks and bonds broadly gained in the U.S., Eckhardt's "evolution strategies" fell 6.7% on a net return basis, according to the firm's data.

Meanwhile, in this year's bull market, the iMGP DBi Managed Futures Strategy ETF is up a total of 9.7% through Monday, after falling 8.9% on a total return basis in 2023, according to FactSet data.

The U.S. stock market closed higher Monday, with the S&P 500 index ↑ **SPX** 0.39%

notching a fresh record high. The index has jumped almost 23% this year.

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