SG TREND INDICATOR

CONSTRUCTION METHODOLOGY

- A market based performance indicator designed to have a high and stable correlation to the returns of trend following CTA strategies

- Parameter & Market Selection
  - 20/120 day moving average cross-over
  - Always in the market (Long or Short)
  - 55 liquid Futures markets, diversified across 4 asset class sectors
    - Equity Indices, Currencies, Fixed Income (Bonds & Interest Rates), Commodities
  - Futures contracts are rolled during period when “roll market” liquidity is concentrated
    - 2 business days after open interest in the deferred contract exceeds open interest in the lead (expiring) contract, or;
    - 3 business days before the lead contract expires, which ever happens first

- Portfolio Construction
  - $2 billion constant portfolio size
  - 15% annualised Volatility target
    - Volatility estimates using daily data, 3 month look back, 0.97 exponential decay factor (per business day)
    - Correlation between market p&l series are estimated using weekly data, 1 year look back, 0.97 exponential decay factor (per week)
  - Equal Risk (25%) Sector Weight
  - Equal Risk Market Weight (intra-Sector)
    - Individual positions limited to the smaller of 1% of average open interest, or 5% of average daily volume (previous 2 years)
    - Currency markets are unconstrained
  - Excess cash held in 3-Month US Treasury Bills
    - 25% haircut on cash for margin requirements

- Trading & Portfolio Rebalancing
  - Daily trading at settlement price
    - Model signal trades are executed at the next day's (t+1) closing (settlement) price
    - Roll trades are executed on the close of the day determined by the roll rule
  - Monthly rebalancing
    - Rebalancing trades are executed on the close of the first business day of each calendar month
  - Trading costs
    - Defined Sector weighted Outright and Roll transaction costs encompassing: exchange fees, clearing commissions, and execution slippage

- Performance
  - Returns are reported net of fees
    - 2% management fee (per annum) & 20% performance fee (subject to high watermark & crystalised quarterly)

- Updates
  - There have been 2 updates to the Trend Indicator methodology:
  - 2012:
    - Shortening the look back periods for estimating volatilities and correlations, as well as time between rebalancing
    - Change in sector risk allocations
    - Switch to correlation estimates based on p&l series in place of prices
    - Eliminating the signal buffer that was initially employed to discourage whipsaw trading
  - 2016:
    - Move to equal sector weights
    - Reduced transaction cost assumptions from fixed $50 per side, to sector weighted Outright and Roll transaction costs

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