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When is Macro REALLY Global Macro in a mutual fund?

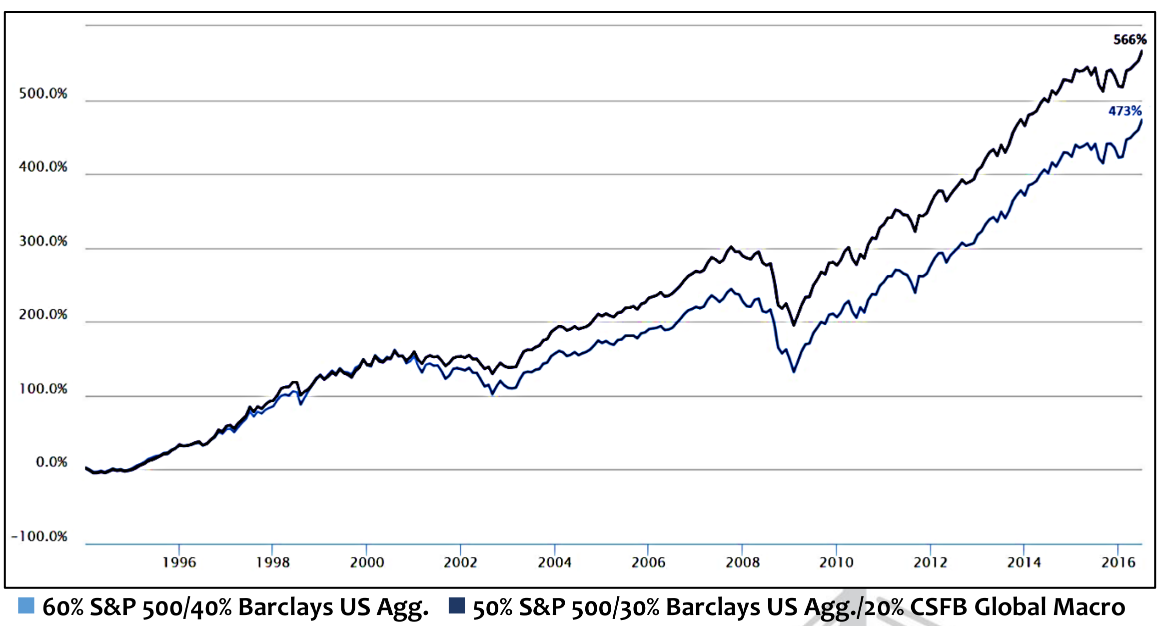
We've written in the past about many of the issues in categorizing today's new world of liquid alternatives (Fixing Morningstar: There Aren't As Many Liquid Alternative Mutual Funds as You Think). We've spent significant time analyzing both the traditional and non-traditional mutual fund arena as it pertains to the concept of "Macro" strategies.

"Macro" is short for "Global Macro", a strategy that seeks to produce returns by investing long and short in equities, currencies, interest rates, and commodities. It is a strategy that encompasses the broadest mandate possible given its ability to utilize a variety of securities and instruments.

"Global" reflects the fact that the strategy will seek opportunities throughout the world. "Macro" refers to a manager's use of macroeconomic principals to identify trading opportunities. Within global macro there are two sub-categories; Discretionary and Systematic. As their names would suggest, Discretionary funds are managed by portfolio managers that are conducting their own research and Systematic funds employ computer or trend-following models to make investment decisions. Discretionary and Systematic strategies can be complementary and both can have attractive risk/reward profiles, but many buyers don't differentiate between the two approaches.

We see the "Macro" label being applied to an increasingly larger number of mutual funds these days. What was once a category that sought to invest long and short in virtually any security around the world, this label is being applied to almost any investment strategy without regard for how the portfolio is constructed. This naming trend undoubtedly is being driven by growing demand for Global Macro strategies as a result of low interest rates and a 7+ year bull market in equities. As can be seen in the chart below, the inclusion of Global Macro into a traditional 60/40 portfolio clearly has benefits:

Cumulative Returns (Jan 1994 - July 2016)



Source: eVestment

But who is really managing a "Global Macro" fund and who is just using the name? Does a fund that invests only in non-traditional bonds qualify as "Macro"? And if so, why?

Who Started Global Macro Investing?

Global Macro investing as we know it today originated in Princeton, New Jersey at a firm called Commodities Corporation in 1969. The firm, founded by Helmut Weymar, a PhD Economist from MIT, produced some of the greatest macro traders of all time. This included Bruce Kovner (Caxton Associates), Paul Tudor Jones (Tudor Investment Corporation), and Louis Bacon (Moore Capital) just to name a few. The firm was originally established to use macro-economic research to identify profitable trading ideas within commodities markets but quickly evolved to include all tradable capital markets.

While Commodities Corporation was making a name for themselves in rural New Jersey, a young Hungarian named George Soros had begun crafting his own version of Global Macro in New York City in the early 1970s. His investment process was based around his theory of reflexivity where human behavior alters the fundamentals of the economy creating booms (economic expansions) followed by busts (economic contractions). His theory of reflexivity can be applied to all asset classes and allows him to invest both long and short. A perfect example of this is the housing boom and bust in the late 2000s.

Given this history as a backdrop, we wouldn't classify many of the mutual funds carrying the "Macro" label today as "Global Macro" funds because they simply fall short of meeting the basic criteria for the strategy. The following strategies, as classified by Morningstar, often include funds that we don't consider to be truly Global Macro:

- **Global Tactical Asset Allocation**
  We have found that most of the funds that fall into this category are essentially 60/40 portfolios that tweak the mix of their equity and fixed income allocations. The strategy has the tendency to be long only and not trade as wide a range of securities as traditional global macro funds. The correlation benefits of this strategy also tend to be less effective as the return pattern closely resembles a traditional balanced 60/40 portfolio. **William Blair Macro Allocation Fund (WMCIX)** is one fund we would highlight in this category, as shown by their 0.69 historical correlation to a 60/40 portfolio.

- **Nontraditional Bond**
  One of the larger funds to carry the Global Macro label is the **Eaton Vance Global Macro Absolute Return Fund (EAGMX),** which falls into Morningstar's Nontraditional Bond category. While we agree that a variety of macro themes can be expressed using fixed income instruments, we do not support the idea that a genuine Global Macro strategy can be run using a single asset class. While the Fund can be long and short, it is typically long biased and the fact that it doesn't invest in commodity and equity markets leaves a large portion of the global opportunity set unaddressed. While we can't argue that the Fund has generated a good absolute return stream, returns alone does not make it a Global Macro fund.

The newly launched **Context Macro Opportunities Fund (CMOTX)** falls into this category as well. The Fund is sub-advised by First Principles Capital Management using their Fixed Income Relative Value strategy seeking to arbitrage mean reverting yield spreads. This strategy also has a long-term record of generating consistent returns but in no way can it be considered to be Global Macro in nature.

- **Equity (Long, Short or Otherwise)**

It is not uncommon to see equity managers attach Macro to the name of their fund. These managers will consider top down macroeconomic factors when managing their portfolio. They will typically seek to invest in companies with macro tailwinds and avoid companies with macro headwinds. We would argue that most good fundamental stock pickers incorporate macro factors within their investment process when investing in companies. That said, in no way should these funds be considered Global Macro. They are subject to the beta inherent in the equity markets and as a result their portfolios will typically not offer the diversification benefits of a genuine Global Macro strategy. We would put the **Catalyst Hedge Futures Strategy Fund (HFXIX)** into this group. While "Macro" is absent in the Fund name, investors we speak with have utilized the Fund on the premise that it is a Global Macro strategy, but in reality it just trades equity index futures long and short.

- **Multialternative**

Morningstar lumps most Global Macro funds into the Multialternative Category which causes a great deal of confusion. Some of the funds in this category are truly Global Macro funds. That said, it is not as simple as it seems. One of the best examples of this is the **John Hancock Global Absolute Return Fund (JHAAX)**, which is sub-advised by Standard Life. It is one of the largest Global Macro strategies in the world, currently standing at approximately $60 billion in assets. Most investors in the John Hancock GARS only see the mutual fund assets, which stand at approximately $8 billion. We openly admit that the GARS strategy endeavors to be Global Macro, expressing long and short ideas around the globe. The issue we take with the fund is that given the size of its asset base, we don't believe that it can invest nimbly to take advantage of new opportunities. The Fund, out of necessity, must set a long-term asset allocation and stick to it, making the Fund much more of a balanced 60/40 portfolio than a Global Macro fund.

- **Global Macro in Sheep's Clothing**

On the other side of the coin, we would also argue that there are Global Macro mutual funds out there that don't call themselves as such. The most notable example is **Marketfield Fund (MFLDX)**. Most investors came into the Fund under the premise that it was a long/short equity fund, seduced by its exceptional long-term performance. As to be expected, as assets ballooned in the strategy it lost its ability to nimbly allocate capital and returns suffered considerably. Generally when Macro funds grow their assets into the multi-billions they need to bring on a fleet of new traders in order to put the capital to work. While they often trade the deepest and most liquid markets in the world, there seems to be a direct correlation between rising assets under management and declining performance.

In our view, genuine Global Macro investing strategies deserve to have a place in most asset allocations whether it be an individual, endowment, or pension. The strategy may provide a diversified return stream through asset classes not typically found in traditional portfolios. However – investors need to be careful what they are getting; just because a fund has macro in its name, it does not necessarily mean that it is a bona fide Global Macro offering. Adding a macro fund into the portfolio that doesn't fit the characteristics of a bona fide global macro strategy may leave investors disappointed during periods when they expected the fund to perform at its best. We believe this often translates into investors make portfolio shifts the exact wrong time, turning paper losses into permanent ones.

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. This and other important information about the Fund's is contained in the prospectus, which can be obtained by visiting the above websites.

Mutual Fund Non-Performance Comparison

Fund name	Morningstar Category	Objective	Ticker	Expense Ratio	Major Risks	Links
William Blair Macro Allocation Fund, Class I	Global Tactical Asset Allocation	The William Blair Macro Allocation Fund seeks Long-Term, Risk-Adjusted Total Return	WMCIX	1.28% (Gross)[1] 1.24% (Net)[2]	Aggressive Investment Technique Risk, Asset Allocation Risk, Commodity Risk, Counterparty and Contractual Default Risk, Credit Risk, Currency Risk, Derivatives Risk, Emerging Markets Risk, Exchange-Traded and Closed-End Fund Risk, Exchange-Traded Note Risk, Foreign Investment Risk, Geographic Risk, Geopolitical Risk, Interest Rate Risk, Inverse ETF Risk, Leverage Risk, Liquidity Risk, Market Risk, Mortgage-Backed/Asset-Backed Securities Risk, Private Placement Risk, Real Estate Risk, Regulatory Risk, Share Ownership Concentration Risk, Short Position Risk, Short Sales Risk, Smaller Company Risk, Swap Risk, Tax Risk	https://www.williamblairfunds.com/funds/individual/fundid_22/share_class_n/macro_allocation/overview.fs
Eaton Vance Global Macro Absolute Return Fund, Class A	Nontraditional Bond	The Eaton Vance Global Macro Absolute Return Fund seeks to generate absolute returns by utilizing a flexible strategy	EAGMX	1.07% (Gross)[1] 1.04% (Net)[2]	Absolute Return Strategy Risk, Foreign and Emerging Market Investment Risk, Market Risk, Derivatives Risk, Risk of Leveraged Transactions, Risks of Commodity-Related Investments, Subsidiary Risk, Tax Risk, Credit Risk, Risk of Lower Rated Investments, Geographic Risk, Short Sale Risk, Interest Rate Risk, Risks of Repurchase Agreements and Reverse Repurchase Agreements, Equity Investing Risk, Securities Lending Risk, Issuer Diversification Risk, Risks Associated with Active Management, General Fund Investing Risks	https://funds.eatonvance.com/global-macro-absolute-return-fund-eagmx.php
Context Macro Opportunities Fund	Nontraditional Bond	The Context Macro Opportunities Fund seeks total return with low correlation to broad financial markets.	CMOTX	2.97% (Gross)[1] 1.95% (Net)[2]	Active Trading Risk, Arbitrage or Fundamental Risk, Asset-backed and Mortgage-backed Securities Risk, Below Investment Grade Securities Risk, Collateralized Debt Obligations and Collateralized Loan Obligations Risk, Convertible	http://www.contextam.com/documents/FG/context-asset-site/resources/309999_Macro_Opportunities_Fund_5.1.16_Prospectus_with_8.5.16_Supplement.pdf#zoom=80

					Securities Risk, Counterparty Risk, Credit Risk, Currency and Forward Currency Contracts Risk, Derivatives Risk, Distressed Securities Risk, Duration Risk, Equity Risk, Event Risk, Exchange-Traded Funds Risk, Exchange-Traded Note Risk, Fixed-Income Securities Risk, Floating Rate Loans Risk, Foreign and Emerging Markets Securities Risk, Government Sponsored Entities Risk, Hedging Risk, Illiquidity Risk, Index Risk, Interest Rate Risk, Leveraging Risk, Limited History of Operations Risk, Management Risk, Market Risk, New Fund Risk, Non-Diversification Risk, Other Investment Companies Risk, Short Position/Sales Risk, Small and Medium Capitalization Companies Risk, Sovereign Debt Risk, Subordinated Securities Risk, TIPS and Inflation-Linked Bonds Risk, U.S. Treasury and Agency Security Risk, Volatility Risk	http://www.contextam.com/documents/FG/context-asset-site/resources/309999_Macro_Opportunities_Fund_5.1.16_Prospectus_with_8.5.16_Supplement.pdf#zoom=80
Catalyst Hedged Futures Strategy Fund, Class I	Managed Futures	The Catalyst Hedge Futures Strategy Fund's objective is capital appreciation and capital preservation in all market conditions, with low volatility and low correlation to the US equity market.	HFXIX	2.02% (Gross)[1] 1.92% (Net)[2]	Acquired Fund Risk, Affiliated Investment Company Risk, Fixed Income Risk, Futures Risk, Hedging Risk, Index Risk, Liquidity Risk, Management Risk, Market Risk, Non-diversification Risk, Options Risk, Regulatory Risk, U.S. Agency Securities Risk, Turnover Risk	http://www.catalystmutualfunds.com/literature_and_forms
John Hancock Global Absolute Return Fund	Multialternative	The John Hancock Global Absolute Return Fund seeks to achieve a long term total return from investments. The Fund has a broad investment mandate that permits it to use an extensive range of investment strategies and to invest in a wide spectrum of equity and fixed-income securities, as well as derivative instruments, in pursuing its investment objective.	JHAAX	1.63 (Gross)[1] 1.63% (Net)[2]	Credit and counterparty risk, Cybersecurity risk, Economic and market events risk, Equity securities risk, Fixed-Income Securities Risk, Foreign Securities Risk, Hedging, Derivatives, and other strategic transactions risk, High portfolio turnover risk, large company risk, liquidity risk, lower-rated and high-yield fixed-income securities risk, sector risk, small and mid-size company risk	http://www.jhinvestments.com/Fund/Overview.aspx?ProductType=MutualFund&FundID=3341&ClassCode=A&BackToFundTableType=Price
Marketfield Fund, Class I	Long-Short Equity	Marketfield Fund seeks capital appreciation.	MFLDX	2.34% (Gross)[1] 1.64% (Net)[2]	Market Changes Risk, Management Risk, Macroeconomic Strategy Risk, Equity Securities Risk, Convertible Securities Risk, Foreign Securities Risk, Emerging Markets Risk, Small-Cap and Mid-Cap Stock Risk, Short Selling Risk, Depositary Receipts Risk, Debt or Fixed-Income Securities Risk, High Yield Securities Risk, Other Investment Companies Risk, Exchange-Traded Fund Risk, Mortgage-Backed/Asset-Backed Securities Risk, Derivatives Risk, Liquidity and Valuation Risk, Portfolio Turnover Risk, Tax Risk	http://www.marketfieldfund.com/

[1]Gross expense ratio is defined as total annual fund operating expenses
[2]Net expense ratio is defined as total annual fund operating expenses after fee waiver/expense reimbursement

A **long** is the buying of a security such as a stock, commodity or currency with the expectation the asset will rise in value.

A **short** is the sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

A **futures contract** is an agreement traded on an organized exchange to buy or sell assets, especially commodities or shares, at a fixed price but to be delivered and paid for late

Equity index futures are futures contracts on a stock or financial index. For each index, there may be a different multiple for determining the price of the futures contract.

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