



## Small Managers - BIG ALPHA - Report 62



### Index options strategy gains by following investor flows closely

B. G., Opalesque Geneva:

When the two partners of a new investment management firm in London started their all-weather equity index options strategy in January 2017, they experienced teething problems. But the following year, the strategy became a well-oiled machine. One that, they say, should benefit from the approaching volatility.

Their **Carmika Alpha Hedge Strategy** has annualised 9.8% since inception. It is up 16% YTD after returning 2.8% in August - compared to the S&P 500, which was down 17% in the same period.

Manjeet Mudan, one of the partners at Carmika Partners, will present at the [Small Managers - Big Alpha Episode 10 webinar](#) on October 4, at 11 am ET.

### Focus on investor flows

What differentiates Carmika from their peers is their elimination of basis risk and correlation, as they only trade a portfolio of exchange-traded S&P500 options, Mudan tells Opalesque. "The investment team do not take any directional view on market timing or volatility risks. They focus on investor flows and crowded positioning which affect options markets."

COO Michael Cameron adds that Carmika tends to do best when the VIX, the most widely used benchmark of volatility, is between 15 and 30 since that is generally when investors are most active. (The VIX was at 32 on 26 Sept. 2022.)

"Carmika's edge lies in a very experienced investment team that have traded across bull and bear markets coupled with their ability to adapt and structure the portfolio according to the changes in volatility regime. This is one of the keys to the persistent success over time - a lot of talented quantitative managers have more rigid strategies that face headwinds with changes to volatility."

### More opportunities

As the U.S. Federal Reserve has just increased its funds' rates by 0.75 percentage points, and the Bank of England by half a point, the managers at Carmika expect more volatility in financial markets to come.

“This added nervousness as the markets centre on macro should cause the markets to price in more fear. This is widening the spreads of implied to realised volatility,” Mudan notes. “With short-term yields approaching 4% and likely to increase, this will dampen the appetite for retail structured products trying to sell S&P500 volatility to create yield substitute products. Large changes to investor flows and biases will create more opportunities for our strategy.”

### All-weather nature

The \$40m strategy, which runs Delaware, Caymans, and SMA structures, trades listed, liquid, scalable US equity and equity index options.

“The Carmika AHS continues to outperform other funds and demonstrate its all-weather nature, including success during risk-off events such as almost 12% (net) in February 2018 and 19% during the first quarter of the Covid pandemic,” Mudan says.

The core strength of the strategy is its quantitative analysis, combined with discretionary management for structuring and executing trades, he adds. The investment team are highly experienced in capital markets and have been at the forefront of relative volatility trading since their early origins at Hull Trading, Goldman Sachs, and Morgan Stanley. The strategy is highly liquid and uses only exchange-traded options on the S&P 500.

Carmika has outperformed the CBOE Eureka Hedge Relative Value Volatility Hedge Fund Index by 18% so far this year. This [index](#) is up 1% YTD after a flat August. A [relative value](#) fund seeks to exploit temporary differences in the prices of related securities, mostly through pairs trading.

London-based [Carmika Partners LLP](#) was founded in 2015. The two partners Martin Vestergaard and Manjeet Mudan have a combined 50 years of experience in risk management, quantitative options trading and options market making.

[Upcoming webinar:](#)

### Small Managers - BIG ALPHA 10

Episode 10 of this groundbreaking webinar series presents another carefully screened panel of investment managers. In one hour, you'll meet them all, get to know their top quartile strategies, and since this is an interactive session, you will be able to ask questions.

#### Who:

- Manjeet Mudan, Carmika Partners
- Aman Oberoi, K2Q Capital
- Ted Parkhil, Incline Investment Management
- Pascal Rohner, Katch Investment Group

**When:** Tuesday, October 4th 11 am ET

**Free registration:** [www.opalesque.com/webinar/](http://www.opalesque.com/webinar/)