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Small Managers – BIG ALPHA – Report 136

Not accepting the managed futures status quo: Incline IM says small is a structural edge

Matthias Knab, Opalesque for *New Managers*:

When Opalesque first wrote about Incline Investment Management in October 2022, the Nevada-based firm was running a two-engine systematic strategy with $23m and a decade of track record. Four years on, combined firm assets are around $130m, the track record of their flagship strategy, the Systematic Hybrid™, has passed fourteen years, and the two alpha engines have been enhanced by a third component: the introduction of box spreads to augment cash management. Their firm shows that being small is not a stage a manager passes through, but a structural edge worth defending.

Ted Parkhill, CEO, and Todd Hurlbut, CIO, spoke to us in October of 2026.

Matthias Knab: It's been a while since we talked. What's new from Incline Investment Management?

Ted Parkhill: We're still relatively small compared to some of the big players in the space, and our size is our advantage for a couple of key reasons. The first is that as a function of our size, we can trade some of the smaller commodity markets at full size. If you look back at our track record, 2024 and 2025 delivered solid performance. A significant contributing factor was some of the less traded commodity markets. For example, in 2024 we were long cocoa. In 2025 we were short cocoa allowing us to make money in both directions. And this trade contributed to our strong performance in 2024 and 2025. The big firms can trade markets like cocoa too, but they don't, because of position sizing limits and because the contribution ends up being a rounding error for them.

The second reason is that our size allows us to be nimble. We can easily respond to client requests or customization that might not be as available at a large firm.

To give you an example, a prospect recently approached us and asked whether we could build a new strategy for the exposure they needed. The answer was yes. We can work with prospects and clients to figure out new approaches, or new iterations of something we already do. We developed a commodity-only strategy for that particular prospect which they wanted to complement their existing holdings in equities and fixed income. We have also created a strategy we call the Tahoe Vista VIX strategy. So beyond the flagship, whose results you've seen, we can be responsive to client needs as a small boutique. We can tweak strategies. We can run separately managed accounts according to the client's objective.

Some of the big players simply can't do that. We can exclude a market if somebody has an issue with it, or we can add one. To us that's a huge advantage.

Matthias Knab: Where is the AUM now, and how big is the team?

Ted Parkhill: Total assets across all the strategies we run are about $125m to $130m. We have a team of seven, including my executive assistant who joined us this year. There are four of us on the trading team, and we have one business development person and one dedicated operations manager.

We also recently completed our fifth full-scale NFA audit, which ended in December of last year. We have an exit letter we can provide to any prospect. We run a very tight compliance ship. It matters to us, because in this business reputational risk is not something you want to toy with.

Matthias Knab: And how fast can you turn around a bespoke strategy like that?

Todd Hurlbut: It depends on what the client is looking for, and on the research involved in modifying or building it. It could take weeks, or it could take months, depending on what's being asked, what the opportunity is, and what's involved in the research and testing process.

Matthias Knab: You mentioned cocoa. What else is in that category of markets the big firms can't really play?

Todd Hurlbut: We do a couple of things differently, and intentionally. Our universe of commodity markets is larger than the average CTA. Since we use a risk budget for allocating exposure, we have a greater weighting to commodities than financial futures. The commodity markets offer idiosyncratic benefits to the portfolio, like diversification, and the fact that historically they have been very strong trending markets.

Plenty of firms trade smaller commodity markets with position limits, like cocoa and markets like it. The larger firms are just not going to be able to take a full risk position the way we can with a smaller asset base. We are not worried about changing our exposure until we hit about $1 billion in AUM. At

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$500M we may need to analyze some of the exposure.

Ted Parkhill: A few other examples include markets like Class 3 Milk, which is not common. We trade Frozen Orange Juice, Lean Hogs, Lumber, Coffee, Sugar, Tokyo Rubber, the beans complex; Soybeans and Soybean Meal and oil, Rice, Rapeseed, Milling Wheat, Hard Red Winter Wheat. The full gamut.

But I don't want to focus on that exclusively, because the strategy also has exposure to the financials. The big obvious trade this year has been bonds, as interest rates tick up. We trade all the global bonds as well as the global indices, and those have been contributing factors to our performance historically and especially in years like 2022 and here in 2026.

Being short global rates in this rising rate environment is a natural trade for any CTA, or for most systematic managers. However, it is not a common trade for the average investor. I can't remember a single time that somebody has told me their broker advised them to short bonds. I've never had that conversation in all my years in financial services. To us that makes it a beautiful diversifier, because it is simply so different.

Matthias Knab: You've touched on something there. Say more about that.

Ted Parkhill: There's so much talk about alternatives and the popularity of alternatives, and then you watch the conversation drift towards private equity and private credit. And we think, wait, I thought we were talking about alternatives. Private markets do not equate with alternative.

The English word alternative means something that is different. Alternative rock, alternative lifestyles, whatever it is, it's different. So, if you're talking about alternative investments, they should somehow be different. We define that difference as correlation. If something is non-correlated, it's different. That's the scorecard for whether something is genuinely an alternative or not.

Private equity, real estate and private credit are not alternatives when things go wrong. Those correlations drift to becoming positively correlated, as we saw in the global financial crisis with real estate and equities, when investors got hurt on both sides of the equation.

So if investors out there are wondering how to diversify away from overweight equities, and whether they can turn to bonds as a safe haven, our answer is that this is not as likely going forward as it has been for the last forty years. Our whole mantra is that investors should be looking for genuinely non-correlated performance, for something completely different. For a true alternative.

Matthias Knab: Let me come back to the client who wanted a dedicated commodity strategy. How do you get compensated for that? Do you run it, or do you take it on as a project and bill for the project?

Ted Parkhill: The intent is that we build it against the promise of managing a certain level of capital on the client's behalf.

Every investor has different objectives. This particular client said, "Look, we understand your strategy is globally diversified, we understand you offer the global bond component long or short, we understand you have the currencies and the equity indices globally. But we already have exposure to financial instruments. What we don't have is exposure to the commodity side." And we said, "We can help you build the commodity exposure."

The funny thing is that it runs somewhat contrary to the objective of our flagship strategy, the Systematic Hybrid™, because it is intentionally built with diversification in mind. And diversification at the portfolio level isn't really about correlations. It's about casting a wider opportunity net. The reason CTAs are so diversified, us included, is that they are trying to find the next trending market. That's what we do. We are not making thematic bets like the global macro players. Instead, we are like the fishermen casting their net with the hope of bringing in lots of fish. As it happens, once in a while the net will bring in a couple of big fish or trades that would be missed by most investors.

Matthias Knab: Which means your system is dynamic. It isn't that you have static allocations. When there's a big trend in bonds, or oil, or cocoa, you shift exposure there.

Ted Parkhill: Very good point, and I used to confuse people with one word. I used to say we trade over 75 global markets, and people would say, what? How do you do that?

Then I realized that was slightly misleading. The answer is that we track over 75 global markets. We may only trade 20 to 30 of those 75 at any time. Trading is the dynamic part you're pointing at, because it does shift. It really is looking for the next markets that are moving. If markets are flat or static, we're not trading them. We're still tracking them, because there may come a time when they break out in either direction and we can take a position.

There is one static piece, and that's initial position sizing. We developed the strategy with a risk budget. If we get a signal to go long Japanese government bonds, which is a rather sizeable market, and at the same time a signal to go long milk, we're not going to load up in one versus the other. We take the same amount of initial risk on each signal as we would on any market we track and trade.

For example, even if we got a call on the 'red hotline' telling us the pound was collapsing for whatever reason, we don't load up on the pound. We take the same initial position risk in the pound as we would in milk, or in Japanese government bonds, or in anything else.

Matthias Knab: Do all these markets trade on the same algorithm, or is orange juice handled differently from lean hogs?

Todd Hurlbut: All markets trade the same algorithm, because the key to long-term success is robustness. The strategy has to be robust, and it has to be robust across assets and asset classes. So the same system is used across all markets.

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Ted Parkhill: People do wonder how we manage that. How do you treat lean hogs the same way you treat oil? When people hear the word algorithm they think black box. It's actually fairly straightforward in some respects, although it did take Todd and me two years to work out.

One of the key factors in the algorithm is volatility. We look at the volatility of a particular market, and that determines the position size and where the stop is placed. Picture a highly volatile market that breaks out. We take a very small position with a wide stop. In a market with a tight, narrow band of volatility, we take a bigger position with a tighter stop. The two markets are completely different, they behave and react differently, but when we take a position, we have the same amount of initial risk on it, because we're sizing to volatility. That's how we can trade these unrelated markets using the same algorithm.

Matthias Knab: What else do you tell people when you want them to invest with you?

Todd Hurlbut: We've spent forty years in an environment where interest rates have been in a secular downtrend. If you look back at interest rates in the United States over the last couple of hundred years, what you find is 20-to-40-year periods of rising rates followed by 20-to-40-year periods of falling rates. And the asset classes that do well in a falling rate environment are very different from the ones that do well in a rising rate environment.

So, we tell clients that the future is uncertain, but there is a real likelihood we are in a longer-term secular rising rate environment. Rates won't go straight up, it will be volatile, but the trend will rise over time. What that means is that assets like real estate and bonds face headwinds going forward, while commodities and hard assets have historically been the best performing assets in that kind of environment. We think owning commodities and hard assets is probably more important than it has been in forty years.

There have also been plenty of periods when US stocks went nowhere. There can be lost decades, sometimes multiple lost decades. Investors who are very heavily weighted to stocks after this fifteen- or sixteen-year bull market may struggle to keep up with inflation if that allocation remains unchanged. We believe that it could become very important to be better diversified going forward and it all comes back to finding assets that are not correlated to your existing portfolio.

Matthias Knab: You also made a change to how you manage the cash side.

Todd Hurlbut: Strategies like ours benefit from rising rates, because most of our capital at any given time is sitting in cash earning a short-term rate. The trading gains accumulate on top of the interest we earn on the bulk of that cash.

One modification we made was migrating from Treasury bills to box spreads to manage the cash. There are three reasons. Box spreads typically give you a slightly higher rate than T-bills, by 20 to 35 basis points or so. There's no haircut with the exchanges when posting them as margin, so they're more efficient than T-bills from a haircut perspective. And probably most critically, they are more efficient tax-wise, because instead of the Treasury bill being treated as ordinary income, box spreads are treated as derivative or straddle income, taxed in the US at 60% long-term and 40% short-term capital gains rates.

So as rates rise, we capture the interest, then we capture the trading gains on top. It's a very effective way to benefit as the environment changes.

Ted Parkhill: We often get asked what we've changed or modified over time, and that's a good example of something we introduced in the last couple of years.

But on the relative outperformance, it really comes down to portfolio construction. The strategy is called the Systematic Hybrid™ for a reason. It's a hybrid because we have two engines. The first engine is the managed futures piece, trading all six global sectors: currencies, fixed income, equities, energy, precious metals and commodities. That's the blend.

On the other side, we asked ourselves whether it would make sense to enhance the cash rather than simply accept the T-bill rate. Remember, this was back when T-bills were almost zero. So, we built a separate engine within the portfolio to do that. We initially called it the Enhanced Cash Management System. What it does is trade individual equities with a short index overlay to protect and mitigate the downside risk. That is why it became the Systematic Hybrid™, because it has two engines, and it has worked really effectively over the years.

Matthias Knab: How do you frame the case for a small manager with a long record?

Ted Parkhill: Investors are always looking for something a little different, and we are a small emerging manager. But we have the track record that supports our thesis. Our thesis was to build a flagship strategy that was different from most CTAs, and we did that. We've now run it for over fourteen years.

In this business you get a report card every month, and over time those report cards add up. What we've been able to demonstrate is that the strategy works. It's not going to work every month, and it's not going to work over a few months. Every strategy goes through a drawdown, and we've been through our share, and that's the nature of the business. But over fourteen years we've proven it works over time.

We haven't attracted a lot of institutional capital, because we haven't really chased the institutional market. We don't have a dedicated salesperson going after it, so we haven't been discovered yet. Most of our client base is high net worth, with some family offices and a few small RIAs here in the US.

The strategy is designed to take advantage of markets that move on a global basis, which gives investors an opportunity to participate beyond the country-centric focus most of them have. To us that's a global diversifier that genuinely fits in a portfolio. That applies at the institutional level too. It's just a matter of time.

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