HEDGEFUNDMANAGER
HFMWEEK
The *long* and the *short* of it
ISSUE 272 9 August 2012

Senior MD departs Millennium for role at Schonfeld Group

Adin Kahn moves on as Israel Englander's firm embarks on portfolio manager hiring drive

BY ELANA MARGULIES

ADIN KAHN, SENIOR managing director and head of business development, at Israel Englander's $15.8bn hedge fund titan Millennium Management, has departed the firm, *HFMWeek.com* revealed.

According to a source close to Kahn, he has landed at a new firm, joining New York-based Schonfeld Group last month as a senior managing director.

Kahn worked at New York-headquartered Millennium for over seven years. Previously, he was a managing director at Deutsche Asset Management from 1995 to 2005.

Additional details were not available. Millennium and Schonfeld spokespersons did not return queries by press time.

Millennium has recently hired a new global head of business development and is overseeing a portfolio manager hiring drive.

According to the firm's website, the hedge fund hired Peter Hornick this year as senior managing director, global head of business development. Most recently, he was head of fixed income sales, Americas for Nomura Securities.

News reports from March named Hornick as one of a number of senior managers scheduled

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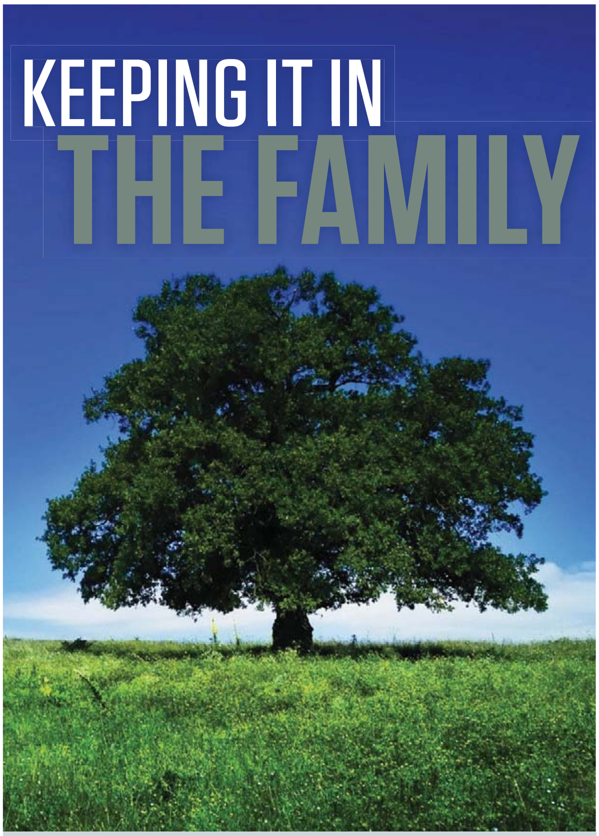

FOCUS ON

SYSTEMATIC TRADING

Alternative investment specialists Nils Beitlich, of Credit Suisse, and Dr Guenther Dobrauz-Saldapenna, of PricewaterhouseCoopers, discuss cutting-edge trading strategies and new investment opportunities with Cambridge physicist Dr Adrian Stevenson and Cambridge entrepreneur Quentin Tannock

Dr. Guenther Dobrauz-Saldapenna heads PwC Zurich's Asset Management R&C Services practice. Earlier, he practised with Deloitte and as an attorney. He also was Legal Counsel to a VC/PE firm and to a hedge fund group. He holds a PhD in investment law, an MBA degree, and is co-founder of the Swiss Strategies Group.

Nils Beitlich is head of Alternative Investment Research at Credit Suisse. Previously he was a quantitative and qualitative research analyst with a leading hedge fund group focused on systematic trading strategies. Beitlich holds an MSc degree and CAIA certification, and is co-founder of the Swiss Strategies Group.

Historian Niall Ferguson adeptly explained that history offers only one example of a country that managed to get itself out from under an excessive debt-to-GDP burden similar to the one we are facing today without either inflating or defaulting: Britain, after 1815. That was enabled by some rather exceptional advantages, such as being a beneficiary of the industrial revolution and having one of the world's largest empires to draw upon.

As we currently lack all of these dynamics and extraneous factors, our general macroeconomic outlook is rather grim. This is unsurprising since bond yields continue their multi-year decline and concerns that fixed income markets are becoming increasingly uncertain are understandably gaining the spotlight. Although many a T-bond bear has already fled the government bond bubble, a large number of investors remain 'long Treasuries'. These investors face two major questions. First, for how much longer should they maintain their positions? And second, where should they put their money to work if they decide to exit?

In efforts to remain well diversified and avoid concentration in one asset class, many will seek alternatives, offering long Treasury-like returns and a low correlation, at least to equities. Yet traditional investment alternatives will most likely have a negative impact on the overall risk/reward characteristics expected of a diversified portfolio. Intriguingly, some hedge funds are deploying strategies that could be a viable alternative to government bonds. Relative value strategies, for example, offer a similar risk/reward profile but struggle to provide investors with the high liquidity of treasuries. So what's next?

As we know from innovation theory, disruptive technologies usually originate outside the established industries and are most likely to be discovered when specialist knowledge is applied in a cross-disciplinary way, or when experts from different fields collaborate to find new solutions. What is true for technology also applies to investment strategies. In recent years we have seen behavioural finance and pattern recognition segue into the professional investment arena. Similarly, theoretic concepts such as the Kalman Filter and Fourier analysis have become a point of interest and indeed of investigation and application for hedge funds, the investment world's traditional innovation powerhouse.

Thus the answer to the long Treasuries investors' two questions may in fact lie in a sub-class of systematic trading strategies that have recently emerged at the intersection of academic research and professional investment. Such methods rely on signal processing techniques in order to produce consistent returns with low volatility, sometimes equal to that of a diversified bond portfolio. They are frequently applied to liquid instruments, such as currencies and futures, where a sufficient volume of trading data is available for analytical purposes, and the presence of risk management factors, including speed of execution and speed of exit, can be taken into account.

Dr Stevenson explains that in the case of currencies, signal processing of a currency pair's price waveform generates signals for making trade decisions. These signals are fundamentally different from those generated by more fuzzy trading methods, which seek to identify trends or predict future price movements. The result is an approach to trading that is frequently more deterministic and consistent in action, with lower drawdowns and risk. Automated execution of these strategies in currency markets, at relatively high frequency and with conservative trading stops, results in consistent returns similar to those of a diversified bond portfolio. There is reason to believe that such methods will be an area of growing importance within the alternative asset universe in the very near future. Since systematic strategies provide some of the most consistent trading performances, proven low-volatility strategies from trusted hedge funds could become an accepted alternative to Treasury bonds and afford significant advantages over other traditional investment alternatives such as emerging-market debt and high-dividend stocks. This is especially true when the liquidity on offer is high. The returns are excellent. In our favoured systems, 12% to 14% annual performance is typical on a non-leveraged basis. Moreover, such systems are highly configurable. Since different types of rule kernels have been developed, diversification by strategy as well as by instrument is possible. This allows investor requirements to be matched very closely, especially in terms of risk.

So amidst all the gloom around (and potentially ahead of) us, there are new promising and rewarding investment opportunities to be discovered for those in the know. The key is to find the type of cutting-edge research that is being applied by best-in-class fund professionals. ■