

EXPERT OPINION

METORI CAPITAL MANAGEMENT

LEVERAGING THE BEST OF FRENCH MATHEMATICS FOR OVER 20 YEARS



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In January 2017, Metori was spun out from Lyxor. Nicolas Gaussel (NG) and Guillaume Jamet (GJ), co-Chief Investment Officers, talk about how being nimble and focused gives them an advantage when continually improving their trend-following model.

YOU HAVE BEEN INDEPENDENT NOW FOR MORE THAN A YEAR. HOW DOES IT FEEL?

NG: Metori's independence has brought everything that we and Lyxor imagined. While the strategy has been managed for nearly 20 years within Société Générale Group¹, the past 18 months have represented a major change. We have even greater focus on Epsilon's performance. While it's too early to tell if that's translating into results, certainly there are some specific ways in which it can make a difference.

We have gained focus and agility. Consider how incumbent retail banks launch online banks. Typically, they set up nimble, independent subsidiaries, rather than departments within existing structures. The digital revolution has allowed specialist teams to separate from large platforms. In Metori's case, our cloud-based IT infrastructure meant we could

implement automated, algorithm-based trading in only a few months. This has reduced trading spreads and freed up time for research.

In parallel, Metori has launched a research effort dedicated to the strategy. It is largely related to the identification and modelling of market factors transversal to asset classes. In our view, if you don't acknowledge these factors, you might end up being overweight some specific macro events without realising it.

Despite those changes, we still benefit from Lyxor's platform. Lyxor retains a fiduciary role, including risk oversight, as well as responsibility for distribution and some back-office functions.

¹ The oldest fund existing of the Epsilon strategy is Epsilon Managed Futures, which has been launched in August 1997.

WHAT DIFFERENTIATES YOU FROM OTHER CTAS?

GJ: Our model differs in three ways. Firstly, we are a pure-play trend-follower: persistence in price trends is a market feature that has been demonstrated in professional and academic publications.² Epsilon harvests this risk premium. Many other CTAs, by contrast, are a mix of strategies, including non-trend-following strategies. For example, we have seen some adding carry-based strategies over the last years. Yet our research suggests that while strategies such as these may perform well for some time, when things go wrong losses can exceed risk budgets many times over. An investor who buys into Epsilon knows what he is getting; Epsilon is transparent.

Secondly, our model is powered by factors. Our own research indicates that these are the performance drivers behind asset classes and geographies. To cite a high-profile example, the June 2016 Brexit referendum was a factor that subsequently impacted equities, bonds and FX. During the period immediately after the vote, the key was not to focus on such and such a contract or sector but to understand this Brexit impact factor. In reality, focusing on specific factors is, from our point of view, the key to performance, although generally the factors are less obvious. It is vital to identify macro factors and how they are likely to evolve, rather than concentrating on markets and correlations solely. For this reason, our model concentrates on 6-9-month trends, as we think that this is the horizon where short-term market reactions have less impact and underlying macro-economic drivers dominate.

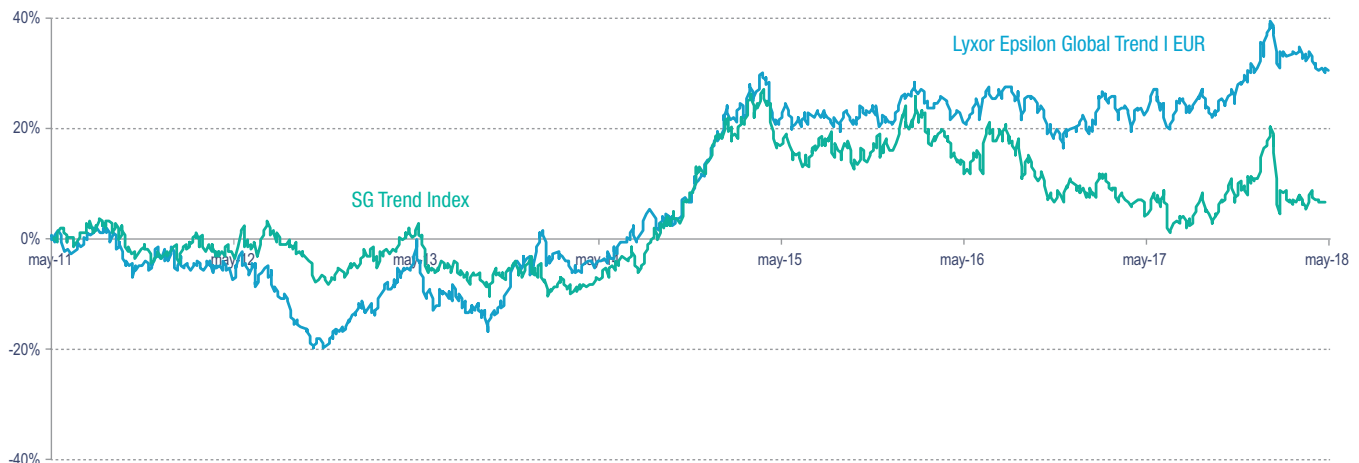
Thirdly, turning to first-level risk control, we use a short-term volatility correlation model. This allows us to react quickly to regime changes. As an illustration, when February 2018's market turbulence struck, our model had already halved exposures since the end of 2017. The reason is that the increase of correlation between equity and bonds made the long bond – long equity exposure riskier, hence leading to some disinvestment.

NG: There is a true “French touch” to our approach. Our country's excellence in mathematics is known. French scientists have won 13 out of 44 Field Medals in mathematics.³ In 2016, IPE noted that French quants' pre-eminence in investment banking was spilling over into asset management.⁴

We have a “framework model”. We believe that this framework is rich enough to account for markets as they are, but also provides necessary safeguards against apparently good ideas that are, in fact, wishful thinking. Additionally, our connections with academia keep us nourished with the best ideas. We frequently invite researchers to give informal talks about their current research.

GJ: We feel confident in our model. Since its implementation on 1 January 2013, we have outperformed the SG Trend Index by an average 6.4% per year⁵.

FIGURE 1 – CUMULATIVE PERFORMANCE OF EPSILON GLOBAL TREND VERSUS THE SG TREND INDEX



	18/5/2017 - 18/5/2018	18/5/2016 - 18/5/2017	18/5/2015 - 18/5/2016	18/5/2014 - 18/5/2015	18/5/2013 - 18/5/2014	18/5/2012 - 18/5/2013	18/5/2011 - 18/5/2012
EPSILON GT I EUR	6.8%	1.2%	-0.4%	27.3%	-3.1%	6.9%	-7.6%
SG TREND INDEX	5.5%	-7.6%	-3.8%	25.9%	-9.9%	6.6%	-3.4%
DIFFERENCE	1.3%	8.7%	3.4%	1.3%	6.7%	0.3%	-4.2%

The figures relating to past performances refer or relate to past periods and not a reliable indicator of future results. This also applies to historical market data.

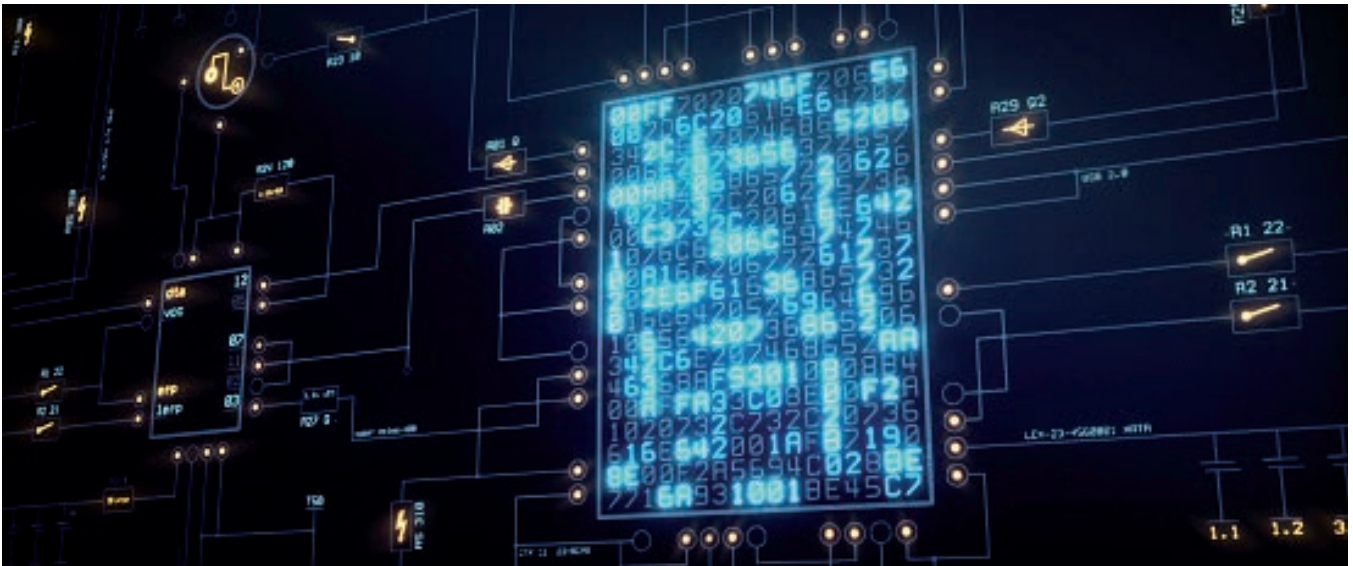
Source: Bloomberg. Data for the period 18/5/2011 – 18/5/2018.

²E.g. Antti Ilmanen, 'Expected returns,' Wiley, 2011 // NBIM Working Paper, 2014.

³<http://www.obs-ost.fr/fr/indicateur/espace-international>.

⁴'The French quant connection'; 04/2016.

⁵Data for the period 1 January 2013 – 18 May 2018. The figures relating to past performances refer or relate to past periods and are not a reliable indicator of future results. This also applies to historical market data. The SG Trend Index is designed to be representative of the trend-following managed futures space. It is an equally weighted index, tracking the performance of the 10 largest trend-following CTAs with daily liquidity. For more information: PRM.Indices@sgcib.com.



YOU ARE COMPETING WITH MULTI-BILLION DOLLAR BEHEMOTHS WHO EMPLOY DOZENS OF RESEARCHERS. DO YOU SOMETIMES FEEL LIKE DAVID AGAINST GOLIATH?

NG: Generally, I prefer quality to quantity! The times we live in offer renewed proof that a small team with vision can do better than installed behemoths. Just look at the equities with the world’s largest market capitalisations; the GAFA,⁶ the Ubers, the Teslas. They just did not exist when we were kids. It is all about the relevance of your model and the professionalism with which you put it into practice.

GJ: Additionally, the Epsilon strategy dates back to 1994 when its first fund was launched, making it one of the oldest CTAs in Europe. Our current model, therefore, incorporates the learnings of more than 20 years’ actual market trading.

HAVE YOU MADE ANY MAJOR CHANGES TO THE MODEL LATELY?

GJ: We are always making improvements. Recently, we have implemented refinements related to hidden trend identification. Our investment universe is also constantly evolving as we follow markets’ liquidity.

NG: We invest significantly in fundamental research in order to ensure that we innovate constantly. Currently, we are looking into trend identification and factor dynamics.

GJ: Each and every day we observe and question our model. Ours is a never-ending quest for ways to try to enhance performance. In the past year and a half, we have been able to concentrate on refining our model more than ever before.

MAIN RISKS

RISK OF LOSSES | VOLATILITY | LEVERAGE & VALUE-AT-RISK | ACHIEVEMENT OF INVESTMENT OBJECTIVE | MARKET RISK | THIRD PARTY RISK

⁶ Google, Apple, Facebook and Amazon.

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