



Kepos' quiet touch wins favor among quant funds

Reuters – Fri, Jun 22, 2012 4:39 PM EDT

By Svea Herbst-Bayliss

BOSTON (Reuters) - When Mark Carhart meets with the world's largest pension funds and endowments he brings along an appealing proposition: His new hedge fund makes money during a crisis.

To be exact, Kepos Capital's computer driven trading models have earned returns of more than 5 percent this year as Europe's worsening debt crisis washed away gains elsewhere, leaving investors increasingly uneasy over where to put their money.

"The last year has been great for our approach," said Carhart, who used to co-manage Goldman Sachs Group Inc's once vaunted \$10 billion Global Alpha fund and who has been concentrating on macro investing, including currencies, at his own firm since late 2010.

"There has been a lot of panic and a lot of herding and systematic strategies are always looking for ways to determine when sentiment becomes excessive," Carhart, 46, said in his first media interview about his new firm since launching Kepos.

He declined to discuss performance or other details about the fund and its investors, citing private placement restrictions.

SETTING OFF ON HIS OWN

After running Goldman's quantitative investment business for nearly a decade when the Global Alpha fund rose an average 12 percent every year, Carhart attracted lots of attention when he struck out on his own.

But the money did not flood in, making for a tough start as Carhart and his team of 30 people - including former Goldman colleagues Bob Litterman and Giorgio Di Santis - built a track record and crisscrossed the country to woo investors.

Now with some \$500 million in assets, a 13 percent return since inception, several prominent clients and a just-earned award from Institutional Investor as emerging hedge fund of the year, Kepos could be on track to raise a lot more, industry analysts said.

Through May, the Hennessee Group shows the average hedge fund gained only 2.15 percent, while the Newedge Macro Trading Index grew only 0.74 percent.

Working in Kepos' favor may be a revived taste for quant funds after investors long shunned their

TOP STORIES »

Asian shares down on EU deadlock, awaiting U.S. reaction

Reuters

Asian shares and the euro were pressured on Friday as European leaders argued over how to ease borrowing strains ...

Top court upholds healthcare law in Obama triumph

Reuters

Goldman trims U.S. staff: sources

Reuters

RIM delays new BlackBerry launch; sales crumble

Reuters

JPMorgan likely to post \$4 billion to \$6 billion trade loss

Reuters

Internet Explorer

:

Recent Quotes

Portfolios

Symbol	Price	Change	% Chg	
^VIX	19.71	+0.26	+1.34%	

Save List to Portfolio

TRADING CENTER

Switch to Scottrade and Get \$100 Back*

so-called black box models and complained that quant managers were overly protective about information.

"We are speaking with a number of huge institutional investors who are very excited about this area and there is definitely an appetite for these kinds of funds," said Rishi Narang, whose firm, T2AM, invests in quant funds.

Quant funds make up only about 10 percent of the \$2 trillion hedge fund industry's total assets, but a handful of quant funds such as Renaissance Technologies, D.E. Shaw and AQR have been hugely successful. Indeed, D.E. Shaw, before it became enormous, and Two Sigma are two of the firms whose work Carhart admires and models himself after.

GAINS FROM CRISIS

The increasing hand wringing sparked by Europe's debt crisis in 2012 could be a blessing for Kepos. The crisis offers plenty of chances for the firm's PhD's - about one of third of the 30 employees including Carhart have one - to research which country might leave the eurozone and whose credit is most at risk.

In the firm's plainly furnished offices on New York's west side, across from the city's biggest bus station, the markets' frenzy barely make a stir as analysts and traders stare at their screens and go over their models again and again in virtual silence. **Apart from the computers and systems, the most high tech objects there may be the bicycles Carhart and colleagues pedal to work and store in a spare room.**

But even as Carhart presides over strong returns, the so-called quant quake of 2007, when the Global Alpha fund and many others stumbled badly, is never far from his mind. He is doing things differently now, explaining to investors how that disaster - when many models looked too similar and misread the markets - will not be repeated.

Kepos' models can adapt more quickly and the fund, with only a fraction of the money that Global Alpha managed, is more agile than Goldman Sachs was.

Investors familiar with the fund said the average holding period is about a week.

Still, Carhart faces stiff competition for investors. Firms such as Cambridge, England-based Cantab Capital Partners - headed fellow Goldman alumnus Ewan Kirk - and Charlottesville, Virginia-based Quantitative Investment Management are also posting solid numbers and attracting attention, industry analysts said.

But even as the firm is feted by the industry as a prominent newcomer, Carhart stays focused on his goals. More assets are welcome, but the firm "is not like anything else," he says.

"We are quiet, modest and under the radar, and we want to stay that way."

(Editing by Andre Grenon)

@yahoofinance on Twitter, become a fan on Facebook



SEC Files Fraud Charges
Against Hedge Fund
Manager
FOXBusiness



Hedge Fund Manager Philip
Falcone Charged with
Securities Fr
FOXBusiness

Compare Brokers »

FEATURED CONTENT



Student Loan Crisis: It's Not
the Debt, It's the Lack of Jobs
Daily Ticker - Wed, Jun 27, 2012 12:25 PM
EDT



The Curious Case of Google
CEO Larry Page
Breakout - Wed, Jun 27, 2012 1:09 PM EDT



3 Indicators That Can Tell You
the Market's Next Move
Breakout - Wed, Jun 27, 2012 7:59 AM EDT



Internet Explore



Internet Explor



YAHOO! FINANCE ON TWITTER



Internet Explore

□□□□□□□□□□:

□□□□□□

RELATED CONTENT

- Goldman trims U.S. staff: sources
- Segantii soft closes Asia hedge fund at \$620 mln, ...
- Asian hedge funds ditch short-selling for long-only ...
- Investors cast doubt on "end of world" hedge ...
- Seeking elusive 'alpha,' investors scour the ...
- KKR buys hedge fund provider Prisma Capital

• [Goldman to Vend Hedge Fund Unit](#)



[Jim O'Neill on European Debt Crisis, BRICs Outlook](#)
Bloomberg

Related Searches



1. [Cheapest Places to Retire](#)
2. [Best Dividend Stocks](#)
3. [10 Best Mutual Funds](#)
4. [High CD Rates](#)
5. [High Dividend ETFs](#)
6. [High Yield Bonds](#)
7. [Top 10 Stocks](#)
8. [Small Business Ideas](#)
9. [How to Start a Business](#)
10. [Lowest Mortgage Rates](#)
11. [Best Stock Picks](#)
12. [Gold Investments](#)

ads by Yahoo!



There are no comments yet

TODAY ON YAHOO!

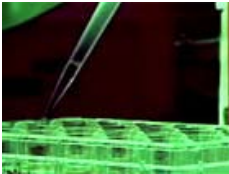
1 - 6 of 20



Jaw-dropping switch saves Obamacare



Hilary Duff shows off fit figure in biki ...



Security lapses at bioterror lab exposed



'My Three Sons' actor dies at 68



Bachelorette's forbidden crush revealed



Scientists unveil spray-on battery



Internet Explorer ☐☐☐☐☐☐☐

ON THIS SITE

- [HOME](#)
[INVESTING](#)
[NEWS](#)
- [PERSONAL FINANCE](#)
[MY PORTFOLIOS](#)
[EXCLUSIVES](#)

ALSO ON YAHOO!

- [Autos](#)
[Finance](#)
[Games](#)
[Groups](#)
[Health](#)
[Maps](#)
- [Movies](#)
[Music](#)
[omg!](#)
[Shine](#)
[Shopping](#)
[Sports](#)
- [Travel](#)
[TV](#)
[Y! News RSS](#)
[Y! News Alert](#)

TRENDING NOW

- [1. Amare Stoudemire](#)
[2. Louis C.K.](#)
[3. Hunt for Higgs particle](#)
[4. Obamacare](#)
- [6. Hillary Clinton](#)
[7. Russell Brand](#)
[8. Glamping](#)
[9. Student loans](#)
[10. New iPhone](#)

All Yahoo! »

5. Vitamin D and depression

YAHOO! FINANCE WORLDWIDE



- Argentina
- Australia
- Brazil
- Canada
- China
- Chinese
- France
- French Canada
- Germany
- Hong Kong
- India
- Italy
- Japan
- Korea
- Mexico
- New Zealand
- Singapore
- Spain
- Spanish
- Taiwan
- UK & Ireland
- USA

Copyright © 2012 Reuters Limited. All rights reserved. Republication or redistribution of Reuters content is expressly prohibited without the prior written consent of Reuters. Reuters shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

Copyright © 2012 Yahoo! Inc. All rights reserved. [Help / Suggestions](#) [Privacy Policy](#) [About Our Ads](#) [Terms of Service](#) [Copyright/IP Policy](#)

Quotes are real-time for NASDAQ, NYSE, and NYSEAmex when available. See also delay times for **other exchanges**. Quotes and other information supplied by independent providers identified on the Yahoo! Finance **partner page**. Quotes are updated automatically, but will be turned off after 25 minutes of inactivity. Quotes are delayed at least 15 minutes. All information provided "as is" for informational purposes only, not intended for trading purposes or advice. Neither Yahoo! nor any of independent providers is liable for any informational errors, incompleteness, or delays, or for any actions taken in reliance on information contained herein. By accessing the Yahoo! site, you agree not to redistribute the information found therein.

Fundamental company data provided by **Capital IQ**. Historical chart data and daily updates provided by **Commodity Systems, Inc. (CSI)**. International historical chart data and daily updates provided by **Morningstar, Inc.**

Yahoo! - ABC News Network