Source: MFA Chicago 6/18/2014, Ryan O’Grady, Jeff Weiser, TR

Intro Call: 6/30/2014, Ryan O’Grady, Jeff Weiser, TR

**Summary:** The ROW Diversified Program has potential to be a core position within the HAMF managed futures strategy. The systematic strategy is diversified across markets, models, and time frames, and would provide the HAMF strategy some exposure to trend following as 50% of ROW’s risk allocation is in trend following models. The distinguishing factor of the ROW program is the use of “synthetic assets”, clusters of 3-4 individual markets within a sector, to generate signals rather than relying on signals from one market in isolation as is frequently done in the industry. ROW’s founders are seasoned systematic investors, and have a strong pedigree and previous track record from their time at FX Concepts where they were the Head of Investment Research and Portfolio Manager for the firm’s flagship strategy the Global Currency Program through 2009. Since the ROW program launched in November 2011 it has generated an annualized return of 7.6% and annualized standard deviation of 6.8% using monthly returns.

Agreed to ROE. They are ok with the flat management as a number of fund of funds are looking for incentive fee heavy arrangements. The team knows Arnold Mintz and seems to be knowledgeable on the HAMF structure. Recommend moving forward for further due diligence and an initial onsite.

**Firm**: ROW Asset Management was founded in July 2010 by Ryan O’Grady and Jeff Weiser. ROW is based in Newport Beach, CA and has eight employees. As of 6/30/2014 firm AUM was $145mm. The firm runs two strategies, the Diversified Program ($114mm as of 6/30/2014) and a dedicated Currency program ($31mm AUM as of 6/30/2014). Ryan and Jeff have invested over $10mm of their own money into the funds. Ryan and Jeff share responsibilities for the execution of the strategy and trading. Ryan oversees the research progress with two research analysts. Jeff is responsible for risk management. Technology, programming, and operations are run out of the branch office in New York by Debra Oaks and Laurie Pisano. Tim O’Grady (Ryan’s father) is the Head of Marketing. ROW has an affiliation with the UCLA finance department and they frequently use interns from the school’s master of financial engineering program for research tasks. All key members of the team previously worked together at FX Concepts, which had $14 billion in AUM at its peak in 2009. Ryan was with FX Concepts from 1992-2009 and most recently held the role of Head of Investment Research in addition to serving as a member of the firm’s management committee. Jeff was with FX Concepts from 1995-2009 and was the PM for the firm’s flagship strategy, the Global Currency Program, from 2001-2009. ROW’s Chief Technology Officer, head of operations and compliance, and a research analyst were all previously with FX Concepts as well.

**Strategy**: The ROW Diversified Program is diversified across global markets, trading strategies, and holding periods. The program began trading in November 2011 and has target vol range of 12-15%. By market, the program invests in over 60 markets across currencies, commodities, interest rates and equity indices. Forwards may be used for FX, and options on futures may be used for commodities. The program uses seven different types of models; Trend, Carry, Pattern Recognition, Fair Value, Volatility, and Mean Reversion. The risk weighting of the models is 50% trend, 25% carry, and 25% to the remaining relative value models. Pattern recognition strategy is half trend and half mean reversion so its allocation is split between trend and relative value. Holding periods range from 2-5 days for the mean reversion model to up to 3-6 months for the fair value strategy. The trend strategy uses an equal weight of moving averages, breakouts, and point to point momentum models, and typical holding periods are 2 weeks to 2 months. The carry strategy trades commodities and FX only and is multi time frame with the potential to have “very long holds”. The pattern recognition strategy seeks to fill the void between trend following and mean reversion strategies and looks take advantage of trend and consolidation patterns over a 1-2 week holding period. The fair value strategy only trades FX and identifies opportunities using purchasing power parity. The volatility and mean reversion strategies are “the same models expressed different ways” with the volatility strategy holding trades for 1 week to 1 month, and the mean reversion strategy holding trades for 2-5 days.

The distinguishing factor of the ROW program is the use of “synthetic assets”, clusters of 3-4 individual markets, to generate signals rather than relying on signals from one market in isolation as is frequently done in the industry. Synthetic assets are only created within assets classes (i.e. 3-4 commodities or 3-4 equity indices). The program trades over 60 markets which enables them to analyze 1000’s of different synthetic assets. In an environment where individual markets may not be trending or exhibiting other signals, certain synthetic assets may be providing strong signals, which provides a different opportunity set then many of their peers. The synthetic asset concept was not used at their previous firm.

The program also uses machine learning to take signals from implied volatility and futures curves. The machine learning tools help to overweight or underweight certain trades.

Jeff Weiser is responsible for risk management and has the authority to “selectively reduce risk during market events/crises exogenous to the model’s field of view.” Jeff said this comes into play 4-5 times a year. Examples are 1) cutting the Turkish lira ahead of the country’s election, and 2) reducing FX carry ahead of key ECB events or job reports in the U.S. Risk is only ever reduced, never increased.

Though the track record is relatively short in the CTA industry, it has performed well during a period when both trend followers and short term traders have broadly been out of favor. Also, while the program is expected to perform best in an environment where volatility is increasing, it has produced gains while volatility has been low and declining. The program has produced positive returns each year thus far; up 2.8% in the partial year for 2011, up 7.1% in 2012, up 2.5% in 2013 and up 7.8% YTD through June in 2014. Since November 2011 the program has an annualized return of 7.6% and annualized standard deviation of 6.8% using monthly returns (11.8% using daily returns). The max drawdown was 7.4% from August 2012 through February 2013. With the program closing in on a 3 year track record the team sees the performance as slightly below their expectations with trend following and carry not performing as well as expected and relative value strategies performing well but at a low allocation.

**FX Concepts History**: Ryan and Jeff owned a combined 10% of FX Concepts, but decided to leave in 2009 near the firm’s peak AUM and near the high water mark for the flagship strategy. They said they decided to leave after seeing a shift with the firm in 2008 and FX’s Concept’s CEO John Taylor looking to implement more discretionary trades into the strategies. The program was multi-strategy but focused on carry strategies. Prior to 2008, John left their strategy alone and focused on the firms daily FX research reports. Ryan and Jeff said that John was disappointed with the 11.5% gain in 2008 and felt that he was performance chasing with his plan to implement more discretionary trading. The Global Currency Program finished 2009 down 17.9%. FX concepts later filed for bankruptcy in 2013, an article on the bankruptcy noted, “There are no allegations of misconduct, malpractice, fraud or mismanagement associated with the demise of the firm, the bankruptcy having followed a series of lacklustre fund performances, which resulted in withdrawal of funds by all of the company’s corporate clients which were represented largely by public sector retirement funds.”

[http://forexmagnates.com/fx-concepts-holding-company-files-for-bankruptcy-following-outflow-of-final-client/](http://forexmagnates.com/fx-concepts-holding-company-files-for-bankruptcy-following-outflow-of-final-client/#sthash.qsI06xzk.dpuf)



**Follow up:**

More information is needed on the strategies, particularly fair value, volatility and mean reversion.

When and why are options on futures used?

More information needed on the use of machine learning and discretionary risk management techniques.

More information needed on roles/responsibilities at FX Concepts, how that program was similar or different than the current program, and what changes were implemented after they left (at high water mark).