On September 5, 2014 the HAMF team was notified by Revolution Capital Management that one of their three original principals, Mark Chapin, had resigned and was subsequently removed as manager and principal effective immediately.  The firm’s ownership and voting rights were previously split equally among the three principals, but after Chapin’s resignation equity ownership would be split equally among the remaining two principals, Michael Mundt and Rob Olson.  In discussing this with Firm Counsel and our Chief Compliance Officer we were notified that this constituted a change in control voided Revolution’s contract with HAMF. On September 8, 2014 the HAMF team directed Revolution to take the account flat by removing all futures trades.  The account was confirmed to be flat on September 10th.

The HAMF team remains confident in Revolution strategy under the leadership of Mundt and Olson.  Revolution’s Alpha strategy is a well-established systematic program, and the departure of one its original engineers is not expected to have a meaningful impact in the near term. Chapin’s duties primarily included strategy development and operations technical support (i.e. automation, data feeds, order management) but had increasingly shifted towards operations over the past few years.  Projects that Chapin had been working on matured and the team will be shifting some of his prior responsibilities to others within the team and are hiring new operations analyst. Michael Mundt remains the lead architect of Revolution’s Alpha program.   Below are additional details from our discussions.

Chapin and Revolution mutually and amicably agreed to the pre-defined exit package outlined in the LLC’s operating agreement.  The agreement is based on full year 2014 economics and is not expected to be paid out until the second half of 2015 when the firm’s taxes are finalized.  He will also receive a decreasing trailing payout dependent on Revolution reaching certain milestones.

During separate conversations with the remaining principals at Revolution and with Chapin directly, we heard a consistent message that he had stepped down after becoming increasingly frustrated over the years with the business side of running a CTA (i.e. investor relations, compliance, monthly accounting) and that he expected to focus on technical research when they started the firm.  He originally expected to license their trade strategies rather than executing the strategies themselves as a standalone business.  Both parties also mentioned that several of the projects Mark had been working on had matured and reached the end of the development.  Compensation was apparently not a factor in his decision; all principals were receiving the same annual guaranteed payment.  Chapin intends to pursue other opportunities, but was undecided at the time we spoke with him.  When asked why leave now, Chapin sited the general decline in the managed futures industry in recent years, unlike the upside he saw when they started the firm.  He also noted that the drawdown in their Mosaic strategy and recent outflows as other factors.  Mark also noted that the three principals had been rotating operations support efforts week by week for years and the middle of the night call regarding trading issues began to wear on him.

Chapin said that he was heavily involved in model development early on, but that Michael had taken over during the past 3-4 years.  Michael said that the intention was always for him and Mark to equally contribute to model development, but over the past few years he had taken on the vast majority of the R&D efforts. This assessment is consistent with the HAMF team’s observations during the time we have been invested.  Revolution is hiring a new operations analyst who will join the team in late September. With this new addition to the team, Rob Olson and Jeff Perini will re-align their focus away from full-time operations and into a split between operations support and strategy development (where they wanted to focus more of their time on).