



MODULE 2 UNIT 2

Video set Video 1 Transcript

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NIR VULKAN: Today we'll be talking to Matthew Sargaison. He is the co-CEO of Man AHL, and he's the member of the executive committee. He served as Chief Investment Officer from 2012 to 2017, and the Chief Risk Officer between 2009 and 2012. He began his relationship with AHL in the 90s as a trading system researcher and institute product designer.

He will be speaking about the early days in systematic trading industry with AHL, who's a leading and pioneering quantitative investment management firm. Matthew will also share a bit about where the company is today, and his impression of important trends that are likely to impact the industry.

MATTHEW SARGAISON: Hello, my name is Matthew Sargaison. I'm the co-CEO of Man AHL. We're a quantitative trading house, part of the Man Group, and I've been in this business since 1992.

Can you tell us about your time at Man Group in the 90s and how algorithmic trading was perceived then?

SARGAISON: I joined Adam, Harding, and Lueck, as it was then, now Man AHL, in 1992, straight out of university. So, it was my first job. I had studied maths at Cambridge, and, if I'm honest, I hadn't come into this, you know, with a passion for finance. It was an effort to try and find a job that could use quantitative skills that I'd developed. I wanted to do something with what I'd studied, and I didn't really fancy the idea of becoming an accountant. And back then, it was pretty clear that the big hiring in the quantity of space was from the banks. So, I actually interviewed with a number of banks, and was offered a job to become a trainee FX trader at Chemical Bank, as it was then.

And the only alternative to that was this small firm that I'd spotted an advert for in the *Financial Times* called Adam, Harding, and Lueck, and I went along and interviewed there, and it had such a different feel to the large corporate atmosphere at a bank. It was a small, invigorating, you know, exciting place where the overall perception was that they were doing something very different with computing. They talked, in slightly excited terms, about predicting the future. Which they did very poorly, but just well enough to, you know, to actually make money out of. And it was very different then, because this was not something that was common. So, algorithmic trading – by which I mean systematic model-based trading – was not a standard thing, as far as I knew, in the city, and certainly, even over the next 10 years, there didn't seem to be much more of an acceptance.

Can you tell us about Man AHL today?

SARGAISON: So today, AHL is part of the larger Man group. AHL is around 170 staff, although we're constantly growing at the moment. And we've moved from where we were at the beginning of the 90s – I think we had around 200 million dollars, which seemed like a lot of money at the time. We now manage around 24 billion dollars, and that pool of assets for our clients is principally coming from sovereign wealth funds, large public pension plans. So, at the end of the day, the end investors that we typically have, tend to be ordinary individuals with pensions. So, we have a lot of responsibility for that, and a large amount of money is being managed.

We've come some way from being a relatively single-focused trading strategy – we have a history in trading what's called trend-following in futures markets. Today, we run a range of different strategies and funds covering either those historic trend-following approaches to much more multi-strategy, multi-asset funds, so we have a much broader mandate and we, you know, run a range of different products.

And then, in terms of research, where we are today, again, is more spread. We focus on a number of areas. One of the key ones that we're well known for focusing on is understanding liquidity from a quantitative perspective in harder-to-trade trade markets. So, we've explored the range of areas where we can apply quantitative strategies. We do a lot of research in machine learning these days. We have a collaboration with the University of Oxford, working on ways we can apply machine-learning techniques to financial markets. And then there's a broader range of, kind of, execution research looking at shorter-term information in the order book, at a frequency of the order of, you know, sub-seconds, in order to minimize the cost of trading and execution for our larger funds. As well as signal research, where we're looking at understanding inefficiencies in the market and finding some form of predictability about market direction across different asset classes.

How have things changed for algorithmic trading from the 90s to now?

SARGAISON: Things have changed massively, I mean, we've come from a period where we were one of the very small number of niche algorithmic traders, to a place where it is incredibly common and mainstream. More importantly, the process has changed as well. So, we thought of ourselves as algorithmic traders back in the early 90s, but in reality, only a very small part of the process was fully automated, so data gathering was still semi-automated. Computers would be used to generate signals, but ultimately trades would be printed out on bits of paper, phones would be picked up, brokers called, and execution was done in a very manual way.

Over the years, things have clearly developed quite substantially. So, we started building our own direct algorithmic execution facilities, something like 14 years ago, where we would connect, you know, electronically to exchanges and pass trading information to and fro. The process of gathering data has changed massively, so rather than collecting prices once a day as we did at the early 90s, we're now processing something like 2 and a half billion ticks of prices every single day. And so, there's, you know, there's a lot more technology involved, there's a lot more process throughput. Some of the models are more complex than they were 25 years ago, although at their essence what, you know, we're typically doing hasn't changed all that much. It's about understanding process, about good modelling, good research, and applying that to market-trading behaviour.

Do you think algorithmic trading is growing as a percentage of the market?

SARGAISON: I think it has grown as a percentage of the market, I mean, it's grown, pretty significantly over the last 10, 15 years. So, the big jump from the early days didn't really occur, it very recently occurred in the, kind of, early to mid-2000s, and that wasn't necessarily around where we were trading. So, the big growth, I think, came in the equity space, so we were early adopters of quantitative methods trading in futures markets. The big development of algo trading in cash equity markets kind of grew consistently, as I say, through the early 2000s, and got to a peak actually in 2007 when there was something of a crisis. There was a bit of a crash caused by overcrowding, in a particular sense, in quantitative space in those markets. Hardly registered outside the financial arena, but

there's, you know, there'd been a growth at that point. There was probably a lull immediately after that as people took stock of the impact of that kind of crash, but then more consistently, again, over the last 5, 10 years, we've seen that growth come back, until now people talk about quantitative trading as being, sort of, near the, part of the significant force in financial trading.

What trends are likely to affect the future of algorithmic trading?

SARGAISON: Very clearly, at the moment, there's a lot of focus on what a term "machine learning" approaches, and that's not really coming just from finance, that's clearly, you know, the whole spread outside in the world, you know, whether it's from self-driving cars, automated homes... The sense of algorithmic involvement in our lives is growing everywhere. It's almost surprising that it's taken this long, really, for machine learning to have such an impact as it does in financial space, because finance is perfectly set up, it involves data processing very clearly, it's quite well-suited for the appliance of these kind of techniques.

And that's only something that's going to grow, so I think more automation throughout the whole process is likely to occur. It does require some sort of balance, because the only reason why quantitative techniques work, if they work in financial markets, is because there are inefficiencies still there.

You know, we were taught early on in, you know, in economics classes that markets should be efficient. They clearly aren't efficient, otherwise, we wouldn't be able to take advantage of some of the, sort of, behavioural anomalies we see. But as we see more and more market participants moving towards quantitative techniques, at some point you have to assume that markets will become more efficient as a result of this, and that, you know, there's a steady state there where we have to see a trade-off between human involvement and machine involvement at the same time.

VULKAN: Did you understand all the concepts in this video? If you would like to review any of the questions, click on the corresponding button.