Alignment

I have recently lost weight and to those who ask how, I answer it is the “Alignment diet”. The mechanism is less important than the motive: it turns out that if your wife wants you to lose weight, your interests suddenly align.

Alignment is key in our industry too. I was a newbie to systematic trading when moving to my first hedge fund. Simon, a trader, joined the fund from another firm with an established CTA program, and was supposed to educate us all about trend following. Simon was not much of a team player, but he did teach me an important lesson about alignment. In September, Simon was up about 7% and then suddenly his book went flat. Completely flat. For four months Simon came to the office and traded absolutely nothing. It turns out that if your manager’s pay structure is misaligned with your own interests, you may end up paying for running a very low volatility product: one with no risk at all.

I am reminded of this incident in our current environment. Investors have been talking to us about a higher volatility version of our products. Their rationale is clear: funding is expensive, so higher volatility gives you more bang for your buck. Diversified allocators, investing in multiple funds, are fighting an even lower volatility. So investing at a higher vol share class is beneficial to allocators.

CTAs are fairly margin-efficient so higher volatility is easier to implement (so long as you are mindful of capacity). The main blocker is alignment: if your management fees are an important part of your pay packet, your interests and your allocators’ interests are misaligned. Management fees are important for business stability, but they turn you into a low-volatility asset gatherer rather than a hungry alpha hunter. Once fees are tilted to performance, higher vol is easy: your and your clients’ interests are back in alignment.

Which brings us to the important business of internal alignment. GQ is often asked about how a hedge fund can fit inside the trillion-dollar (and change) asset manager behemoth that is TIAA Nuveen. It is a testimony to the foresight and support of people like Mike Sales and Jon Spencer that gives us the freedom to innovate and aligns our interests with the performance of the funds. Investors understand how important upside-alignment is. They also care about us being invested in our own products since downside-alignment is equally important.

But alignment is not just about the fund manager, it is about the team. Three days ago (October 23rd) The SAFI team collected the HFM US 2024 CTA/Quant Newcomer award.

Figure 1: Left-to-right: Reinhold, Hiroshi, Scott, Leia and Anthony

Don’t bother looking for me in the photo, it is the team that made it happen. Reinhold, Anthony, and the whole Operations team have been instrumental in supporting the new asset classes we trade. Leia and the tech team have been supportive not just in terms of running the models, but also behind-the-scenes: cyber security, database admin, and even setting up the website! Hiroshi (SAFI’s Portfolio Manager) and Scott have been executing our trades. Unlike many other CTAs, SAFI allows the traders more flexibility in timing trades, subject to market conditions, and Hiroshi’s contribution in trading, managing liquidity and managing brokers relationship has been invaluable. Not in the photo but equally invaluable are Maggie and the accounting team, Adam from legal, Quinn, Sam and Anand from IR and last but not least, Mike who runs our business development.

So as I raise my glass (sparkling water, I am still on a diet) to the outstanding team in GQ, Gresham and TIAA Nuveen, let me toast Alignment!

Yoav Git

Quant Research

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