



December 2019

HIGHLIGHTS FROM CFM'S AUTUMN SEMINAR 2019

Introduction

On the 14th November, Capital Fund Management (CFM) was joined by clients and investors for our 2019 London Autumn Seminar. We heard from market experts, academics and CFM's senior leaders on trend-following, quantum computing, portfolio construction and geopolitics.

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The agenda for the day included:

- ▶ **Trend is dead, long live the trend:** CFM's President Phillipe Jordan led a discussion on trend-following and its efficacy.
- ▶ **Demystifying quantum computing:** Professor John Morton, Director of the UCL Quantum Science and Technology Institute explained the fundamentals of quantum computing and the impacts of its development.
- ▶ **Agnostic risk parity in action - portfolio construction innovation:** Philip Seager, Head of Strategy - Quantitative Investment Solutions at CFM explored agnostic risk parity and portfolio construction innovation in an interactive demonstration.
- ▶ **Global risks in a changing world:** Jim O'Neill, Chair of Chatham House led a discussion on geopolitics, addressing capitalist expectations, macro trends, inequality, the rise of China and the general election.

Key takeaways from the day

Each presentation and successive discussion incited thought-provoking themes, findings, predictions and big picture trends:

- ▶ CFM's President, Phillipe Jordan presented his views on the current state of trend-following. He explored the performance history for each decade going back more than 200 years, highlighting the disappointing but still positive performance since 2010. Disappointing decades such as 2010-19 have occurred in the past, and it was casually observed that they seem to coincide with deflationary periods, albeit seen through the lens of a limited statistical sample. Over the long-term, however, the strategy has outperformed the S&P 500, as well as being de-correlated from it. This makes it an accretive investment especially when owned at the right price.
- ▶ Professor John Morton, Director of the UCL Quantum Science and Technology Institute gave an insightful presentation on quantum computing, explaining its capabilities beyond current computers and its potential for the future. He offered two examples of problems it can solve: Shor's algorithm and quantum annealing together with its capacity to address the travelling salesman concept of route optimisation. He explained the fundamentals of the quantum bit, or

qubit, and how future success in the field is determined by developments to reduce error rates and redundancies, and so reduce the number of corrective qubits required in computers. Finally, he emphasised how companies' intent to use quantum computers more practically will be realised when qubit development is funded through operational budgets rather than through R&D allowances, forecasting that we will start to see quantum computing being applied in applications, such as chemical engineering, over the next two years.

- ▶ CFM's Head of Strategy for Quantitative Investment Solutions, Philip Seager gave an interactive demonstration of agnostic risk parity: CFM's proprietary approach to constructing portfolios. He demonstrated using a two security portfolio the differences between a Mean Variance Optimisation (MVO) approach and those based on agnostic techniques. He showed that after transforming into the coordinate system defined by Principal Components (PC) that equal weighting of instruments leads to allocation to the highest volatility PCs, MVO leads to an allocation to the lowest volatility PCs while agnostic allocation diversifies risk across independent, uncorrelated PC portfolios. He argued that agnostic allocation hedges against unknown-unknowns and demonstrated empirically how it leads to better risk adjusted returns in the setting of trend following on a managed futures universe. He also demonstrated the differences between these techniques applied to a portfolio of traditional and non-traditional investments.
- ▶ Jim O'Neill, the Chair of Chatham House and former Chief Economist for Goldman Sachs presented his views on the current geopolitical and economic landscape, as well as Brexit and the upcoming general election. He considered macro trends including, GDP forecasts and productivity, equality and poverty rates, arguing that capitalism has not turned out as expected. In particular, he emphasised the problems surrounding wealth inequality and the lack of real wage growth in Western democracies, highlighting how the lack of real wage growth led to some UK communities, reliant upon tariff-free trade, to vote for Brexit in 2016, discussing how the national minimum wage might be a tool to combat this issue. Finally, Jim took questions on the general election, Nigeria's population growth and China's economy and role in global politics, noting in particular its resilience to housing bubbles compared to the exponential house price increases seen elsewhere in the world.

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CFM has pioneered and applied an academic and scientific approach to financial markets, creating award winning strategies and a market leading investment management firm.



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