

FundManagers

If you would like to nominate one of your fund managers or a colleague for our series of fund managers interviews, please contact Rosie Eustace on:

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Over the course of the year Rosie Eustace will be conducting a series of interviews with leading managers to find out the story behind their success.

The series begins with Glenn Stevens, Managing Director, GAIN Capital Asset Management.

In 1999, GAIN Capital Group established an asset management arm to compliment their core online FX business – GAIN Capital Asset Management (GCAM) was the result. Glenn Stevens, managing director of GAIN Capital Group, arrived in 2000 bringing 15 years of FX experience. He quickly became a key figure in developing the GCAM product, building an investor base, a track record and fine tuning their approach to the market. Stevens launched his Wall Street career at the Bankers Trust Company in 1984, and since then has worked for Merrill Lynch and Natwest Bank in senior trading positions, before joining GAIN.

During his career the FX markets have grown in prominence, becoming one of the most popular alternative markets and a handy diversification tool: "I've been running proprietary FX desks since the 80s. I've always been an 'FX evangelist', so to speak, and it's nice to finally see FX recognised as an asset class in its own right and as a viable alternative investment."

In a nutshell Stevens sums up GCAM's trading philosophy as short-term spot trading in all G10 currencies, – e.g. intra month, intra-week, and intra-day trading. Currently, they do not trade emerging markets, options, or other FX derivatives. "Our mission statement is to create pure alpha in spot FX. For an investor who wants to diversify into FX, this is a pure product in terms of return flow," continues Stevens.

GCAM operates with several trading strategies – the philosophy being that in different types of markets, different types of strategies will be more successful. "GCAM's approach is to allocate resources from within our pool of strategies to take

advantage of a prevailing type of market. We currently have 5 strategies that are a mix of proprietary technical and discretionary models," explains Stevens. "Every quarter we re-allocate among those 5 strategies in order to optimise returns."

Stevens' experience at Merrill Lynch and Bankers Trust, providing FX liquidity to some of the biggest CTAs in the world, has given him extensive knowledge on how market makers operate and execute their short-term spot trades. This is very important at GCAM because in its rapid trading high-volume scenario the quality of execution can have a significant impact on returns.

The strength of GCAM's business execution is a major plus point. Looking at many of the upstart hedge funds, more than 50% haven't made it because of business issues that are not related to trading returns. "We've taken execution expertise up a notch and made it one of the integral parts of our success. If you look at our track record it will show our steady production of returns. We don't have any wild

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swings; we don't have any large draw downs. Our max draw down on any given month has been less than 2.1/4% over the last 5 years – a very steady approach. It's all about incremental gains, not big bets on just a few ideas," says Stevens.

In terms of the bank platforms GCAM uses a combination approach. For liquidity they are currently interfacing with 15 of the largest money centre banks, either through their individual platforms or via access to EBS. They also have access to a few of the consortium platforms, such as FXall or Currenex.

"The platform we use to manage risk and capture trades is GAIN Capital Group's proprietary trading platform. We are an

internal customer,” explains Stevens. In terms of internal trade capture and monitoring positions and risk in real-time, it’s advantageous to have your own systems in place.

Looking forward to 2006, Stevens outlines three major goals. Firstly, to continue focusing on their business execution and making sure it stays a competitive advantage. He says: “Even though it’s a blue collar approach we have something simple that works and you don’t need to tinker with it.”

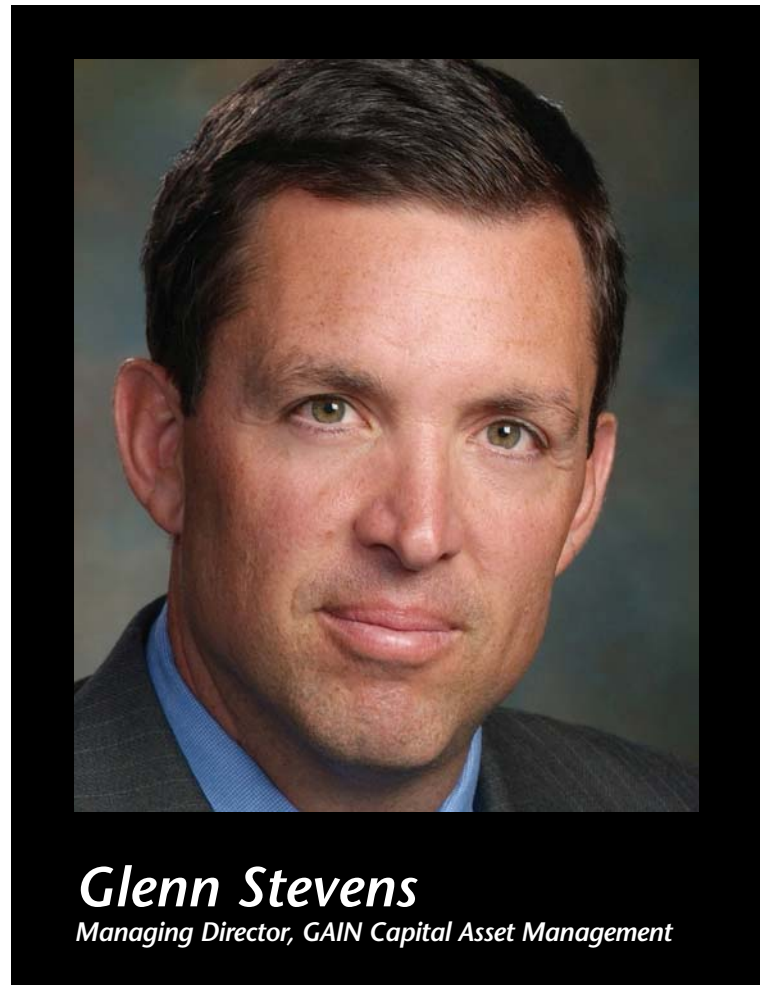
Secondly, Stevens is always on the look out for a complimentary strategy. “Right now we have 5 strategies. The beauty of this approach is that we stay away from ‘group think’. I want each trader to have an independent strategy because I want to be prepared if the markets change in their complexion. I’m able to deploy the more effective strategy/strategies at any point and I can emphasise and de-emphasise on an opportunistic basis. If you’re a one-model scenario and you go into a type of season that doesn’t provide opportunities for that model, you lose money. For me, I can change the mix to gain the upside of any scenario. That said, I would like to add a sixth and possibly even a seventh strategy,” says an enthusiastic Stevens.

The third goal is simply to add assets. This of course does open investor doors. “Our goal is to get to US\$250 million by the end of 2006 and with over \$150 million under management now, we’re well on our way.”

If you’re too small in size it’s very difficult for a large multi-billion dollar fund of funds to dedicate more than a few percent of their assets to your FX fund. It makes them nervous being too large a shareholder. So every time GCAM reaches a new threshold in terms of assets under management they can market to larger funds.

Stevens explains there are two factors that make GCAM so scalable. Number 1 is the appetite of their traders: “The traders have an average of 15 years trading experience in FX. Our people have traded on spot desks at the major money centre banks and are now applying those skills to the benefit of GCAM’s investor base.” Secondly and all importantly is the liquidity of the FX market: “There’s really no reason we can’t scale five fold without having to change our trading philosophy or operation, simply because we’re dealing with the most liquid market in the world.”

Looking at the macro picture, Stevens explains that it doesn’t matter if in 2006 we experience a non-trending, choppy market or a trending market – as long as there’s volatility, advantage can be taken by employing one or more of their strategies. “As with most asset managers, lack of volatility is the real

**Glenn Stevens***Managing Director, GAIN Capital Asset Management**by Rosie Eustace*

challenge as it’s difficult for anyone to make money under that condition,” adds Stevens.

Under Steven’s guidance GCAM has developed into a significant pillar of GAIN Capital Group’s FX offering – providing a broker-dealer service for self-directed clients, a technology solution to white label partners and an asset management service to a broader ray of investors. “We have really addressed all the opportunities available in FX. A customer can come to us as an institution or individual and manage their own investments or let us do it for them. We complement our service offering with proprietary technology,” summarises Stevens.

“This is a very exciting time; we’re now seeing the fruition of a lot of ground work over the last several years. Once we’re able to achieve critical mass in terms of assets under management, there’s no reason why any investor looking to diversify into FX wouldn’t consider us.” ■