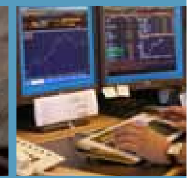
Role Call: Quantitative Investment Management—North America





January 2010

Welcome to the second issue of *Role Call: Quantitative Investment Management—North America,* a regular series from Russell Reynolds Associates in which we share our perspectives on emerging developments and trends in quantitative investment management markets, as well as provide ongoing updates on senior executive moves across this space.

Quantitative Investment Management Market Trends

- There is a sense of guarded optimism in the quantitative investment space after an extremely challenging 2007, 2008 and first half of 2009. However, in many ways it could just as easily be defined by "it can't get much worse!"
- Performance numbers for 2009 have remained mixed, with most managers focusing on improved risk management and diversifying strategies in order to adapt to a new market environment. Managers are increasingly looking beyond traditional factor-driven capital market models to include behavioral economics, volatility capture, event-driven strategies and high frequency methodologies.
- There continues to be interest in developing high frequency/stat arb trading platforms, as opposed to more traditional methodologies. This has forced firms to continue to invest in technology and sophisticated systems. Some appear to be taking advantage of "latency arbitrage" versus mining for original factors.
- Clients have been quite patient so far, but we expect a considerable amount of rotation/turnover of mandates continuing in 2010.
- Value tilted strategies have witnessed improved returns during much of 2009. However, because volatility continues to be considerable, it has been hard for value managers (who are unable to invest in high beta securities) to perform above benchmark. In addition, many value-based strategies have continued to emphasize quality, missing the substantive credit recovery.
- Managers who avoided popular alpha generation signals in 2007, 2008 and 2009—those that led to similar correlations and "crowded trades"—are particularly well positioned for growth into 2010.
- Many managers are re-evaluating their use of the dominant "off the shelf" risk management packages in favor of building or augmenting proprietary solutions. This comes out of the realization that effective risk management needs to incorporate an understanding of the alpha model, and that much of the liquidity crisis stemmed from overuse of similar methodologies.
- Risk management is increasingly focused on downside protection.
- The barriers to entry into the quant investment space (particularly infrastructure/technology) continue to lower.
- Because of this, investment factors tend to decay more quickly given increased competition. Firms that innovate more aggressively, as well as reinterpret and update existing models, will continue to lead the performance pack. There is a growing emphasis on creative quant talent who can identify and mine new opportunities, as opposed to just "implementers."
- There has been increasing pressure for investment transparency from both investors (particularly institutional plans) and the investment consultant community. This is in direct conflict with the need to be more proprietary in the development of investment models and the desire to use lesser-known factors.
- Large institutional clients are requiring more understanding of the transaction costs of quant trading strategies. Various investment consultants are now ranking managers by portfolio construction efficiency.
- Firms hiring in the quant space have mainly been the larger diversified financial services firms in the asset management businesses and this has predominantly been in fixed income and asset allocation.

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Affiliated Managers Group

- Affiliated Managers Group has appointed **Joe Germain** as Managing Director of Global Distribution. He was previously COO and Head of Business Development for the quantitative investment business at Lehman Brothers Asset Management.

Financial Engines

- **Omar Aguilar** has been recruited to Financial Engines, an investment advice provider in San Francisco, as Vice President of the Portfolio Management Group. Aguilar will report to CIO Christopher Jones. He was previously Head of Quantitative Equity at ING Investment Management.

Goldman Sachs Asset Management

- **Bob Litterman** has retired from Goldman Sachs Asset Management, where he most recently was Chairman of the quantitative investment strategies group. With Fischer Black, Litterman was responsible for developing the well-known "Black-Litterman asset allocation model."

- **Mark Carhart**, the former co-head of Goldman Sachs's hedge fund, Global Alpha, is raising capital for a new quantitatively-based hedge fund, which is expected to launch in the first quarter of 2010.

Mackay Shields

- Mackay Shields, the value equity subsidiary of New York Life Investment Management, has hired **Alexander Davidovich** as a quantitative analyst on the high-grade fixed income team.

PanAgora Asset Management

- Senior quantitative analyst **Bill Hao** left PanAgora Asset Management in August 2009.

Quantitative Management Associates (QMA)

- Portfolio manager **Michael Lenarcic** retired from QMA in October 2009.

Renaissance Technologies State

- James Simons, the billionaire founder and CEO of Renaissance Technologies is retiring on January 1, 2010. He will be succeeded by Co-Presidents **Peter Brown** and **Robert Mercer**. Simons is reported to be focusing on charity related work, specifically relating to mathematics education and autism research.

- **Robert Frey**, a former Managing Director with Renaissance Technologies, is launching Frey Quantitative Strategies, a new hedge fund of funds which will select managers using a quantitative methodology. Frey was with Renaissance from 1992 to 2004 and was a lead portfolio manager on the Medallion Fund, following which he spent five years as a Research Professor in the Quantitative Finance department of Stony Brook (NY) University.

Street Global Advisors

- **Marc Reinganum** has joined State Street Global Advisors in Boston as Senior Managing Director and Global Head of International Active Developed Market Equities. He was previously a Senior Portfolio Manager and Director of Quantitative Research at Oppenheimer Funds, as well as Co-Head of the Main Street team.

Yeshiva University

- **Sid Browne**, formerly CIO of Brevan Howard's U.S. business, has joined Yeshiva University as it's first CIO. Prior to Brevan Howard, Browne spent six years at Goldman Sachs as a senior member of the quantitative investment team.

About Russell Reynolds Associates' Asset and Wealth Management Practice

A specialized boutique within a global firm

With more than 140 years of collective executive search experience, backed by extensive senior-level expertise gained from working in a range of financial services firms, the Asset and Wealth Management Practice at Russell Reynolds Associates is in a unique position to counsel your organization. Our clients confirm that one of our key strengths is the depth and breadth of knowledge and experience our cohesive team brings to leadership identification, development and retention. We understand the investment world and talent pool, and our clients rely upon us for advice and insight beyond the boundaries of the traditional search process.

Our North American team is comprised of consultants and researchers who specialize in specific areas, including equity, fixed income or alternatives investments, distribution, or senior executive and functional roles.

We work on many cross-border assignments and have a long history of collaboration, bringing our clients the power of the entire firm. As part of our commitment to providing valuable and relevant industry insight, our Asset and Wealth Management team regularly authors white papers and surveys sharing our insights on industry issues and emerging trends affecting our clients' ability to identify and retain leaders and leadership teams.

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Leadership. In today's global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, assess and recruit senior executives and board members to drive long-term growth and success. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what makes an effective leader ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at www.russellreynolds.com.