



Fund Strategies Forum Athens

23/11/2010

Good Morning Dear Friends

Since I started IKOS 19 years ago, I have lived through at least 4 major global crises, 3 of which posed a major threat to my company and the industry as a whole. Many of my then competitors didn't make it though. IKOS is today one of the longest-lived Hedge Fund structures globally. I'm here to talk about the strategies and actions that supported the continuity and the long term success of the business.

Each crisis required an action on the investment management side and an action on the business side, and those actions had to parallel and be coordinated with each other. We are here to talk about investment management post crisis, and we will, but we should also look at the business response to these crises which are a continuously recurring phenomenon, which should be expected and planned for.

Graph 1

CRISIS TIMETABLE

1994	Asian and Latin American Crisis
1998	LTCM Liquidity Crisis
2000-02	Dot Com Bubble
2007-08	Credit Crunch

IKOS INVESTMENT RESPONSE

1994	Development of strategies using liquid listed large markets
1998	Diversifying away from one country
2000-02	Development of faster execution methodology and models
2008	Better risk management tools, Portfolio Management Approach

IKOS BUSINESS RESPONSE

1994	The development and application of a fund structure
1998	The evolution into an umbrella master feeder fund structure with structured leverage
2000-2002	The development of a team to build a powerful systematic execution platform



2008 The development of an institutional pedigree manager (2005-2010)

This next graph demonstrates the successful result of continuous delivery throughout time and global economic dislocations

Graph 2 IKOS High Frequency systems evolution

It shows a very powerful trajectory of innovation and development which has taken place over many years. There is no such thing as overnight success, not in our industry, where we must hold ourselves to the highest quality standards.

Would you like to know what concepts during the last 18 years formed my clear guide to success?

Clear vision of where the world is moving towards

In the old days the problem with vision was lack of information.

Today the problem is too much information, and the ability to absorb it, evaluate it, categorise it, and summarise it quickly. Market research is the start of every successful business development initiative. And to trade well today we collect vast numbers of data in all markets, not just prices, but order levels, fundamental inputs and execution details to help us trade more effectively.

Investment in people and infrastructure

It seems obvious but you have to countertrend in the application of resources. Recruit when everyone else is letting staff off, and invest when everyone else is pulling back. Countertrend strategies are also used in trading. The secret is not to borrow or leverage beyond a certain level. This is equally applicable to countries as to households. Borrowing assists growth, but it also increases risk.

Determination

Research your strategy properly, then stick to it and see it implemented through. It will carry you through the crisis and be the basis of your strength in the future. Determination derives from conscious confidence that by carrying out the correct action the correct result will be derived. In investment management we determine the correct action by applying the scientific principle to investment Management. I have given numerous speeches describing alpha generation using the scientific method of investment management. In a nutshell you develop an idea, you formulate it within a structured approach, you test it, and then you can scale it so you can repeat the resulting performance, in a systematic way.



Empowerment of teams «ΙΣΧΗΣ ΕΝ ΤΗ ΕΝΩΣΗ»

This sounds so obvious and yet what do we mean? In a team the total is greater than the parts, and the collective intelligence of many people is multiplied to deliver success. The true team spirit is often demonstrated when a crisis knocks, and leaders have to listen and to make decisions, as well as to ask questions which are the beginning of the process of innovation. Innovation is required to develop successful investment strategies.

Inspirational optimism

This is the hardest kind of concept for me to describe as I am always more comfortable with facts and numbers. But we do not have to describe it in order to embrace it. No matter how difficult any situation may be, it is our responsibility to the world, to our society, to our families, to our investors to manage it with a positive frame of mind and a smile. This belief, that solutions can be found for the better, keeps us learning, and exploring, and exceeding limits, and is the foundation of the human experience on this earth. And when the crisis hits our investors expect us to be reliable, to communicate well explaining the issues and the performance, demonstrating good risk management and the ability to “keep our heads when all around us are losing theirs”. And again I have explained in previous speeches how the development of a systematic trading platform gives us control and helps us to identify in a structured manner the developments and solutions to make our strategies more robust for the future. By employing a systematic, automated, trading approach, we can at all times be constructive and transparent in our investment management.

To demonstrate this I will refer briefly to the results of IKOS in its industry and within the Global Financial environment

Graph 4 from IKOS NEWSLETTER SHOWING IKOS PERFORMANCE VS INDICES AND SHARPE OVER 5 AND 3 YEARS, and performance year to date in the 3 main strategies

So what is the impact of the current crisis in the European financial industry and the Hedge Fund Industry in Particular?

Graph5 COMBINE THE INDUSTRY EVOLUTION AND NEW REGULATION SLIDES FROM LYXOR PRESENTATION

As Hedge funds we have to take market cycles into consideration. Right now higher costs, slower asset growth, more extreme due diligence and regulation, greater competition, lower fees, all test the managers of today. The process of intensified regulation, despite the debate, the complexity, and the protectionism, will actually help to evolve more robust, institutional pedigree, European hedge funds, which are able to manage global HR, global evolving risk, and global trading. Regulatory changes in MiFid, UCITS, European passports, and reporting requirements will be assimilated and used successfully by Hedge Funds committed to success.

So what changes and what stays the same?

1) Investors come first, we have to offer top performance and service which includes continuous communication and transparency



2) Risk management at every level helps to provide consistent returns. Growth has to be planned

3) Disciplined and well integrated project management, research management and investment management deliver high quality product

4) As business leaders, our aim day is to help bring energy, focus and commitment to innovate within our teams. We have to embrace new products and solutions

To achieve this, we must foster and adopt new ideas from a wide array of fields. Mathematics, information science and control theory are obvious, but we often find that technological advances in other scientific fields find their way into our industry.

The market crisis has demonstrated a number of inefficiencies. Those firms that did manage to ride out the crisis are now at a junction: We can congratulate ourselves for our success and allow ourselves to become complacent about the efficiency of our organisations, or we must recognise the fact that no structure can remain efficient for long in such a rapidly changing environment, and work even harder to innovate and renew. I, for one, cannot allow myself to become complacent. I feel I owe it to our investors, my team, and myself to re-examine and innovate.

Graph 6 What IKOS is doing

Over the last 5 years or so IKOS has achieved a significant transformation into an institutional pedigree manager. Many more managers are going through this process now. IKOS can be recognised by the investment community for its visionary leadership, and for the asset protection and performance demonstrated throughout the crisis and particularly in the last year. With strong positive results in all our 3 strategies and with our asset base growth improving our position to 37 in Europe this year, we are working hard to receive the awards which mean that our investors enjoy all-around performance.

Dear Hedge Fund friends, please remember we are participants in an amazing industry. We have to have the patience to wait, the humbleness to explain, the commitment to invest, and the confidence to believe, that what is right is happening, and will happen.

I would like to conclude with this inspirational thought.

Even in the great depression of the 1930's Charles Walgreen a successful American entrepreneur adopted major philanthropy as his corporate and personal mission. He proved that a business can thrive even as it provides for the common good. We can synergistically expand when we allow ourselves to operate generously and unselfishly in whatever we are doing.