OPALESQUE 20 YEARS

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Small Managers - BIG ALPHA - Report 67

CTA manager Conquest re-opens its doors with a new partner

B. G., Opalesque Geneva:

Conquest Capital Partners has a revival tale to tell. Founded in 1999 in New York City by Marc Malek, a well-known personality in the quantitative space, it ran several CTAs including the flagship fund Conquest QM for 20 years. Then, one of its main investors, a large Ivy League University's endowment, decided to retreat from the quantitative space and redeemed. This forced the other large investors to reduce their exposure to stay within their risk limits. All remaining monies were returned in mid-2019. As Malek was seeking a new partnership, the pandemic happened, hampering his efforts. The firm went into hibernation mode and continued to look for an opportunity while part of the staff stayed on a part-time basis. Malek, not one for idleness, used his free time to work with US and Lebanese policymakers.

As the Covid crisis lifted, the firm's very own winter ended too: in June 2022, a large US-based family office invested with Conquest as both an equity partner and a $30m investor in a separately traded managed account (SMA) of Conquest QM, which began trading in September 2022. The family office in question is very large, US-based, and has wide-ranging interests including gas and oil, mining, hotels, restaurants, and the movie industry. It intends to grow its investment in Conquest in the coming months.

With the relaunch of the flagship strategy in September, the senior investment team of five was re-engaged on a full-time basis.

The firm is in the process of launching a master-feeder fund which will be able to accommodate both onshore and offshore investors. Malek is not planning on relaunching any other funds for now. "Our priority now is growing our Conquest QM strategy," he tells Opalesque, "which we believe will have a very attractive overall risk-adjusted return while offering significant outperformance in risk-averse environments."

Malek will present in Opalesque's next webinar, **Is there still ALPHA in HEDGE FUNDS?** on February 9th (details below).

Conquest Quantitative Macro (Conquest QM) is an all-weather offering designed to capture independent alpha from short-term trading opportunities regardless of the risk environment. It differentiates from other CTA and quantitative strategies as it combines both bottom-up trading models with a quantitative top-down allocation process.

Performance: up 44.7% in 2022

For over 20 years, Conquest QM outperformed with no correlation to hedge funds, equity indices and CTA portfolios.

From its inception in May 1999 to the end of 2022, the strategy annualised 13%, compared to 4.8% for the SG CTA Index, 6% for the HFRI Composite Index, and 6.5% for the S&P 500 index. The strategy was up 44.7% net in 2022, compared to 20% for the SG CTA Index.

Conquest QM's track record reflects actual performance from May 1999 to June 2019 (resuming in September 2022) and pro forma performance from July 2019 to August 2022.

Risk Seeking and Risk Averse regimes

From inception to August 2022, the strategy averaged +3% monthly in Risk Averse periods and +0.6% in Risk Seeking periods. It tends to perform well during Risk Seeking regimes and outperforms significantly during Risk Averse regimes.

The strategy "employs a proprietary asset allocation mechanism based on the Conquest Risk Index (CRI), which shifts our risk allocation dynamically between our four sub-strategies and about 100 models in order to maximize our risk-adjusted return in both Risk Seeking (RS) periods and Risk Averse ones (RA)," Malek explains.

"In RS environments, we increase our allocation to long-risk strategies, while in RA ones, we increase our risk to conditionally long-vol ones. Our micro bottom-up models are largely price based, while our top-down macro overlay relies largely on fundamental and risk data. Our short-term nature ensures that even in RS periods, we retain our ability to profit from sudden RA moves by quickly reacting to market movement."

Outlook: a more normal market environment

Malek believes that after over a decade of heavy global government intervention in the financial markets through zero interest rates, large-scale quantitative easing and massive fiscal stimuli, which amongst other factors had a large suppressing effect on volatility, we have transitioned into a more normal market

environment.

He does not expect the volatility of 2022 to persist at that high level, but he does expect it to remain elevated as we work through many of the imbalances built up during the QE years. More importantly, the rolling global tightening in financial conditions will continue to provide many lucrative trading opportunities in the financial markets both directional and on a relative basis.

A good time for short-term trading strategies

Malek further thinks now is a good time for short-term trading strategies. "Our modelling of the risk environment points to a long-term equilibrium of 70% Risk Seeking and 30% Risk Averse. Due to both monetary and fiscal global interventions since 2009, the index had a very large skew to 90% Risk Seeking and 10% Risk Averse for significant stretches in the last 14 years. In the advanced stages of an expanding business cycle, money gets misallocated. Contractions in that business cycle re-orient assets to where they are best utilised. When you go for a 13-year period without any meaningful correction, those imbalances rise exponentially. Think $80 million NFTS!

"We are currently undergoing such a correction of a 13-year boom while facing significant headwinds from inflation, lower company earnings, higher mortgage rates, and, most importantly, a US consumer severely hampered in his/her spending in an economy that relies over 70% on that."

Malek has more than 30 years of quantitative and discretionary trading experience. His research has been published extensively and he pioneered the Alt-Beta strategy. Prior to founding Conquest in 1999, he was the Global Head of FX and Derivatives Proprietary trading at UBS.