

The Systematic Approach

Aref Karim, CEO, CIO and founder of Quality Capital Management tells **JESSICA FURSETH** that a personal touch is valuable, but if in doubt trust in the strategies, systems and data at your disposal

FOR A MANAGER of a quantitative hedge fund, Aref Karim has a distinctly personal approach. “I generally believe that investing is using a combination of the left and right side of the brain,” he says. “No matter how systematic you are – and we are running everything systematically – the idea-generation part of it, that’s all art.”

To be able to blend together these two sides is a major part of the appeal for Karim, who founded Quality Capital Management (QCM) in 1995 and remains in charge of the investment strategy. “This industry is full of great, innovative people who are all trying to do the same thing: enrich people’s lives and, indirectly, create wealth,” he says, highlighting enrichment before wealth not for the last time in our chat.

On that note, Karim could have moved to the US after his 13 years with the Abu Dhabi Investment Authority (ADIA), but chose London for his family: “In 1995 my three children were quite young, so schooling was important. One of the better independent schools in a relatively safe, green area happened to be in Surrey.” Of course, London is not a bad place to run a business, either: “The other reason was from a time-zone perspective: London is very well positioned for the business we run.”

London is just up the rail tracks from QCM, which is headquartered near Karim’s home in Weybridge. It’s a freezing winter day in the picturesque Surrey town, and

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we are sitting in QCM’s offices, which are sharply decorated in white and red. Karim himself is sharper, with cufflinks, a black and white tie, and a handsome Patek Philippe Nautilus. He’s calm and business minded when talking shop, as 2015 represents “a return to opportunity” for QCM. The firm’s investment strategy is driven by a wholly integrated model that’s mainly long volatility: “I feel that QCM today is a leaner, stronger firm. We have revamped all our products. A considerable amount of research has gone into it,” says Karim, deliberate with his words. “Yes, we’ve had a blip. But there’s no reason why we can’t come back with more vigour, with an enhanced and streamlined QCM, to move forward in order to serve the investor society in a more meaningful manner.”

This has already started to happen, as the quantitative hedge fund has seen a return to form over the past year. Assets under management now stand at just more than \$60m, after a gain of nearly 13% in 2014. This is still a way from the 2012 peak of nearly \$1bn, though – that’s the aforementioned blip – as the QCM model struggled to maintain its position during the sluggish low-volatility period. “Particularly given our style of trading, we tend to like directional moves, divergences and flows of capital across regions, because it create waves of opportunity,” says Karim. “And so this quiet period, when interest rates were being targeted to virtually zero, it took away those opportunities.”

While the post-crisis years were great for QCM’s investment style, the problem came later, when “uncertain conditions” turned to market inertia. “To navigate through that kind of environment is trickier. We didn’t have the tools to position ourselves correctly. Now we have done an extensive amount of research to better deal with these kind of environments.”

The upgrades started in 2013 and finished in 2014. “I wish we’d done it

earlier,” says Karim. “We delayed it because we were waiting for the right timing. 2014 was still a good year for us, but we could probably have done a lot better.”

QCM’s upgrades have also meant adjusting the investment model: “We don’t like to interfere in the actions taken by the models we have developed. We’ve tested these ideas over years of data. But because we’d had a setback we were being overly cautious, so we held back on implementing changes.” This was in part because Karim ultimately believes the investment model can read a situation better, working without emotion: “Can the systems do it better? The answer is, in my mind, yes they can.”

The appeal of futures

QCM offers daily liquidity to investors, an unusual feature for a hedge fund. But Karim’s decision to invest solely in exchange-traded futures came before the downturn put the spotlight on liquidity.

“We started with futures way back, as that was an area of expertise for me from ADIA. For me there’s no difference in the nature of the exposure: it’s a derivative, there’s an underlying asset.” Another benefit to futures is the nimbleness, says Karim: “We can margin things, so your \$100 [exposure] can be funded by only a part. That opens up an avenue to use this strategy as what we would call portable alpha.”

But possibly the most appealing element of managed futures is the “extremely low” correlation to the behaviour of other assets. “That’s the beauty of it: in an equity bull market, chances are we’ll also do well by being long on equities and other assets in the portfolios. Where things change completely is in bear markets, as we saw in 2008 when the markets crashed – that’s when these strategies really come into their element by providing a huge risk offset. They do it by going short on equities and long on safe haven assets.” ▶

PHOTOGRAPHS by David Harrison



► **The sovereign experience**

Karim started in accountancy, an experience which has followed him into alternative investments: “Accountants are trained to look at micro and macro pictures, which is a good habit.” QCM’s long-term investment outlook is a heritage from Karim’s 13 years at ADIA. “Abu Dhabi provided a unique experience. The fund manages the excess oil revenue of the country – it’s huge! And it has always been fairly low-key. I was very privileged to be in a position where they did not have, at the time I joined, an alternative investment portfolio. To be involved in the project at its embryonic stage was a greatly interesting experience for me.” Karim took the hedge fund portfolio from idea to execution, balancing the extreme long-term mandate with proving the merits of alternative assets for a sovereign wealth fund. “This was a huge experience,” he says.

QCM represents a scaling-down of this same long-termism to “a miniscule level” compared with ADIA. “But it’s fun. We brainstorm investment ideas with the researchers, go through the challenges of running the business, deal with issues and downturns, and then enjoy the upticks.”

That Karim cares deeply about his company is obvious from the way he talks, but in any case he’ll say it outright. “I love what we do. If somebody says: ‘What is the purpose? Why does QCM exist? Why are you running the business still?’ It’s because I’m very passionate about it, and more importantly it’s because there’s almost a philosophical and societal purpose behind it.”

The capital already invested into the business is one element, but there’s also the firm’s experience. “We’ve navigated good times and the periodic storms. We’ve learned a lot, and there’s no reason why we cannot pass that on,” says Karim.

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The greatest support

This outlook hasn’t changed since the company started 20 years ago, according to Karim, who is now 62. “I could have retired and walked away, but that doesn’t complete my own mission. I get a great amount of satisfaction from knowing I can share this pool of capital with investors.”

The CEO has a wide range of hobbies: literature, poetry, art, culture, travel. “Last year we were in Namibia, which I was fascinated by. We flew over the largest sand dunes in the world, over Skeleton Coast, heading right up to the northern tip of the country. We met this tribe called the Himba, a nomadic tribe who are dwindling, sadly. It was quite remarkable, seeing how content they were with simplicity.”

He talks about going to Cambodia with his daughter, where the French abandoned train tracks from the colonial days near the Thai border. “The kids in the Battambang villages create these roofless carriages for the tracks, where you can sit on a bamboo mat and go through the countryside. They call it the Bamboo Train. Fascinating.”

Life in London is pretty good, too: “I really love the city: the culture, the diversity

– it’s just phenomenal.” And the schools, of course – Karim came to London twice for the sake of education: the first time to finish university after the independence war broke out in what is now Bangladesh, and the second time for his children.

“My eldest outgrew the grade school in Abu Dhabi, and being a single parent, I didn’t want to send her to boarding school. I simply didn’t like the idea. I spend a lot of time with my children.”

It would seem Karim’s three children appreciate that sentiment, as they all live close by and two of them, Raami and Faaria, now work at QCM.

Faaria, the firm’s director of business development and marketing, admits that working with family might seem a nightmare for some. “For me, it’s business as usual. The added benefit is having a truly inspirational man as my line manager, incentivising me to work harder for the greater good of the business, clients and shareholders, and to try to make a difference in the lives of others.” Faaria concludes: “The greatest lesson I take away is that family offers the greatest support.” **H**

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