

An introduction to Quantitative Investments

Saliegh Salaam & Grant Watson
Joint Boutique Heads



Quantitative Investments, jointly headed by Saliegh Salaam and Grant Watson, is the latest independent asset management business to be added to the OMIGSA stable of boutiques following the acquisition of a majority stake in Futuregrowth Asset Management in August 2008. The Futuregrowth team of five top quantitative investment professionals has joined OMIGSA and continues to successfully manage both institutional and retail funds in a range of long-only, alternative and ethical solutions.

Futuregrowth is well known as one of the pioneers of quantitative analysis and investing in South Africa, starting in 2000 with their multi-factor investment models and continuing with further refinements and innovations in the following years. Their “quants” team – one of the most experienced in the local industry – was certainly one of the attractions behind OMIGSA’s acquisition of the niche manager.

Joint boutique head Saliegh Salaam joined Futuregrowth in 2006 and has over 14 years’ experience in fund management, equity analysis and dealing. He was one of the founding members of African Harvest, and prior to this worked at Investec and Coronation. He holds both BCom and CFA qualifications.

Grant Watson, meanwhile, joined Futuregrowth in 2004 and previously ran hedge funds independently and at award-winning niche manager Decillion, while also having traded currency derivatives. He has 15 years of experience overall, and has notched up the following qualifications: BCom, MBA, CMMD and SAIS.

With such experienced and qualified individuals in the team, the Quantitative Investments boutique is sure to continue its role as a leading player in its established niche.

The boutique now has the added benefit of leveraging off of OMIGSA’s extensive data base and systems, which contribute some additional analytical power. At the same time, they are able to exchange information and ideas on the latest international innovations in quantitative management with Old Mutual’s offshore quants experts – Analytics and Acadian in the US, and OMAM (UK).

“OMIGSA’s new boutique is certainly one of the most experienced ‘quants’ teams in the industry.”

“The objectivity of our models is a big plus because most of the sentiment around investing is eliminated.”

An objective, robust, repeatable and proven investment process

The Quantitative Investments boutique aims to generate market-beating returns by actively constructing equity portfolios according to an objective quantitative model that identifies numerous factors (mainly those reflecting investor biases) that have been driving equity markets. It also predicts which particular factors will be influential going forward, and which shares will benefit from these trends or behaviours. Called a “multi-factor model”, it uses regression analysis to pinpoint how factors like value, growth, momentum, commodity prices, interest rates and global markets (among many others) have helped to move the local equity market. The result is a forecast of future share returns, which are ranked and adjusted for implementation costs.

Armed with this predictive information on returns, the quants team then optimises the ranked shares according to their risk and return characteristics and constructs share portfolios, taking into consideration the constraints imposed by the client’s risk and return requirements. The result is a diversified and risk-adjusted portfolio of shares that are likely to outperform the market over the medium term. Holdings are dynamically adjusted to profit from the most rewarding return drivers at any point in time.

“The objectivity of our models is a big plus because most of the sentiment around investing is eliminated,” explains Salaam. “Whereas research has shown that many asset managers have difficulties in deciding when to sell, our models make us equally good at selling as at buying, which adds market outperformance (alpha) to our portfolios.”

“This also means that our philosophy is applicable in the alternative space, removing the long-only

constraint,” adds Watson. “The model identifies underperforming shares just as readily as outperformers.”

Another key benefit is the consistency of performance produced by the model, he notes. “We know how portfolios will behave over time. Such consistency is valuable to many investors, especially multi-managers. The boutique is able to apply its model to any benchmark or universe of shares, adapting portfolio risk and return objectives according to the needs of the investor. Combined with the appropriate use of derivatives (like futures and options) to manage risk, the result is a diverse array of fund offerings including long-only equities, market-neutral hedge funds, absolute return funds and even ethical (SRI and Islamic) funds.

Quantitative Investments offers clients:

- An alternative source of both alpha and diversification compared to traditional fundamental approaches;
- A large, pioneering and experienced quantitative team, putting considerable intellectual capital behind our investment decisions, with the ability to leverage Old Mutual’s proven global quantitative pedigree in offshore markets;
- Access to clean historic data;
- Access to the best systems;
- An advanced research agenda that continuously improves process and performance; and the backing of OMIGSA’s world-class administrative and governance platforms.

Quantitative Investments Managed Volatility Fund	Quantitative Investments Market Neutral Hedge Fund
Portfolio Manager: Saliegh Salaam and Gerald Meharchand	Portfolio Manager: Grant Watson
Risk Profile: Moderate	Risk Profile: Low to moderate
Benchmark: JSE SWIX and other	Benchmark: STeFI
Risk parameter: Targets an absolute risk level 10-15% lower than the SWIX	Risk parameters: Beta neutral to the Alsi40. Maximum allowed gearing is five times.
Minimum investment amount: R100 million	Minimum investment amount: R10 Million
Inception date: To be launched	Inception date: 1 January 2006
Quantitative Investments Active Quant Fund	Quantitative Investments Enhanced Index Fund
Portfolio Manager: Khayaletu Mtoko and Grant Watson	Portfolio Manager: Khayaletu Mtoko and Grant Watson
Risk Profile: Moderate to high	Risk Profile: Low
Benchmark: Composite 80% FINDI, 20% RESI and other	Benchmark: CAPI and other
Performance target: A minimum excess return of 2%-2.5% p.a.	Performance target: A minimum excess return of 0.5%-1.0% p.a.
Risk parameter: A maximum allowable forecast tracking error of 2.5%	Risk parameter: A maximum allowable forecast tracking error of 0.5%
Minimum investment amount: R100 million	Minimum investment amount: R100 million
Inception date: February 2000	Inception date: February 2000
Quantitative Investments Absolute Return Fund	Quantitative Investments Life Settlements Fund
Portfolio Manager: Grant Watson	Portfolio Manager: Grant Watson
Risk Profile: Low to moderate	Risk Profile: Low to moderate
Benchmark: CPI + 3% over rolling 3-year periods	Benchmark: 10-Year US Treasury bonds
Risk parameter: Manage equity exposure relative to a targeted floor level	Risk parameters: Customised
Minimum investment amount: R100 million	
Inception date: January 2006	Inception date: To be launched
Quantitative Investments SRI Equity Fund	Quantitative Investments Shari'ah Equity Fund
Portfolio Manager: Gerald Meharchand and Saliegh Salaam	Portfolio Manager: Saliegh Salaam and Gerald Meharchand
Risk Profile: Moderate	Risk Profile: Moderate
Benchmark: JSE SRI Index	Benchmark: JSE Shari'ah Index
Risk parameter: A maximum allowable forecast tracking error of 2%-3%	Risk parameter: Targets an absolute risk level lower than the Shari'ah Index
Minimum investment amount: R100 million	Minimum investment amount: R100 million
Inception date: July 2004	Inception date: January 1990