



METORI
Capital Management



METORI CAPITAL

New Name, Same Outperformance

Metori Capital might not be well known in the CTA space, but the trading strategy of the Epsilon product which it sells began in 1994, making it one of the oldest managed futures products in Europe. Metori Capital is the name for the firm which span out of Paris, France-based Lyxor Asset Management in November 2016.

Metori got licensed by the AMF (Autorité des Marchés Financiers, the French securities regulator) in February 2017 and, quickly after that, the CFTC.

The firm runs 4 flavours of the Epsilon trading strategy, as Laurent Le Saint, a Managing Partner at Metori, explains.

“Our flagship product is Epsilon Global Trend; we have another fund called Epsilon Managed Futures which manages around EUR40million with a higher volatility budget (15%); we have a smaller product called Epsilon Fixed Income which is not proposed as a standalone fund to investors but as a trend-following sleeve of a multi-manager fixed income product which Lyxor manages, and finally, we have Epsilon China Diversified, which is a strategy we are running on Chinese futures contracts that some Chinese asset managers can use as a benchmark to structure their own products.”

Epsilon Global Trend is the fund which Metori promotes the most, and it excludes commodities from its list of instruments which is trades; this is driven by client demand, as Le Saint explains.

“Our client base is European and, particularly in continental Europe, a large part of our clients would rather not have commodities as part of their portfolios, so as a result we mainly focus on (Epsilon) Global Trend.”

Clients which look for commodities exposure can gain access through the Epsilon Managed Futures product.

Epsilon Global Trend

Metori is keen to point out that it doesn't market the Global Trend product under the Metori name, however; the firm is technically the sub-investment manager to the Lyxor-branded funds, which sit on Lyxor's UCITS platform..

Le Saint explains the rationale:

“Metori takes care of all front-to-middle operations; distribution is done to a large extent by Lyxor. This allows us as the manager to focus on the research, execution and fund management in general.”

Whilst AUM currently runs at some EUR300million – EUR250m+ is in the UCITS version of the fund - there is plenty of room for growth within the current model.

“There is no stated capacity, but we think that with our current set up we can get to around EUR3-5billion under management without any material impact on what we are doing” said Le Saint.

In order to drive that asset growth, Metori is currently looking for a sales and marketing assistant to not only complement Lyxor's marketing efforts, but to help with reporting and transparency to their investors.

“We like to use our own marketing support and we have our own way to pitch the product. Also, we have very big ambitions in terms of client reporting; we want to go a step further – or several steps further – in terms of how we can help investors understand what's in the fund, how the fund reacts to market events, what are the exposures, what are the returns and so on. We're not secretive hedge fund managers; we like to share information with investors and we want to ensure that it's done in the proper way” says Le Saint.

Le Saint and Nicolas Gaussel, CEO and co-CIO, are often on the road independently of Lyxor.

“Lyxor is a very good setup for us but we need to make our own effort to raise our brand as well.”

The Metori Difference

Le Saint believes that there are 2 areas which make a difference for Metori; firstly, the background and therefore outlook of the people at the firm, and secondly the risk management that is programmed into the model.

He expands: “A typical CTA product is a trader's product, running in a systematic way – a series of trading rules. We have a different process. We are not traders ourselves by background; we come from the asset management world and our approach is a statistical approach. We don't have rules like volatility breakouts; what we do is we compute trend estimators, volatility estimators, correlation estimators and we use those inputs in a proprietary mean variance allocation framework to optimise the expected return vs the risk profile.”

Might some say that the mean variance model doesn't work because it's unstable?

Le Saint disagrees: “The mean variance approach isn’t unstable because of the model; it’s unstable because of the inputs you put in it. We ensure that the trend estimators are consistent with broad market factors. We make sure that the trend of one asset takes into account the link of that asset with other assets- whether in the same sector or other sectors. So, we take the correlation into account at the very early stage of the trend estimation process.”

That outlook on managing risk is in the DNA of the firm’s view. Le Saint continues:

“We don’t have traditional stop losses and we don’t have take-profits because we don’t think it is a good way to use the past P&L to manage risk; we think risk should be managed with market conditions. Our short-term indicators in our model act as a stop-loss but in a different way.”

The market might not know the name Metori too well right now, but it’s only a matter of time.

The second element which is key to Metori’s success is their risk management process.

“First of all, Metori is a medium to long-term trend follower. A typical time horizon of a trend estimator for us is around 6 months but we combine that with correlation and volatility estimators with a time horizon between 1 and 2 months.”

The firm’s process allowed them to exit the recent ‘volmageddon’ debacle in early February less unscathed than other CTAs. In January, the fund reduced its risk exposure by one third, especially through reducing equity exposures and closing long positions European bond futures, and by the Tuesday 6th Feb, the fund was out of European and North American equities, with Asia being the only remaining long equity exposure.

“We use short-term risk indicators. If you have a situation like in early February and you use a 2-year correlation or a 1-year volatility model then it takes too long for the model to react to increased volatility or new volatility regimes. Through using short-term indicators, we can change the risk appetite of the model very quickly.”