

Investment Management

The Weekly For Institutional Investors and Their Money Managers

WEEKLY

May 7, 2010

F-Squared's Howard Present: *'What We Offer is Straight Forward'*

Firm's CEO and founder says it is focused on growing institutional business

By Dave Lindorff

The key to making gains for institutional clients is not how well you do when the market, or some part of the market, or any particular investment goes up. It's how well your investments hold up when the market or a particular sector goes down. That, at least, is the basic idea behind the strategy pursued by Howard Present, president, CEO and co-founder of Wellesley, MA-based F-Squared Investments.

"There's a concept we call capital gap," explained Present, who came to F-Squared after earlier founding Helicon Partners LLC, a boutique management firm specializing in new business development within the financial services industry. "If the market goes down 50%, it has to recover by 100% to get back to where it was. What this means is that if you can avoid that downside, you pick up an exponential benefit. It's not how much you make that matters. It's how much you keep."

F-Squared's strategy kept quite a bit. When the S&P dropped by 37% in 2008, F-Squared's AlphaSector Premium Strategy, which is adjusted weekly, was down just 1.9%. A second strategy, called the AlphaSector Rotation Strategy, which is adjusted monthly, was down 8.5% for the year.

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But Present, who ran global product management and strategy as a managing director at Evergreen Investments before going out on his own, said that just avoiding losses is only half the battle. "There are a number of

strategies, like absolute return, that provide downside protection, but they don't tend to do very well when the market is moving up," he said. "Our strategy also seeks to outperform in a bull market too."

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Again, looking at the recent huge market swings, he said that in 2009, when the S&P roared back, rising 26.5% for the year, the AlphaSector Premium Strategy gained 32.3%, besting the index significantly, while the AlphaSector Rotation Strategy gained 25.3%, staying close to the S&P index.

"Historically, our Premium strategy bests the market by 11.5% a year. But it gets even better because of the strategy's ability to avoid downturns. For the nine years since the strategy's 2001 inception, the strategy is up 213%, compared to a gain of just 20% for the S&P."

In terms of the nuts and bolts of F-Squared's operation, Present said he works with nine sector exchange-traded funds (ETFs).

"It could be hundreds of companies we're invested in, but the maximum number of actual securities we hold is nine," he said. "What we've done is identify a structural weakness in the marketplace. There is a 'fat tail' in the market,

which means that extreme downturns of more than 10% are more frequent and more severe than are extreme upsides. Since the environments that most likely lead to extreme ups and downs, if you avoid both, you come out ahead."

When Present and his team see a market that is trending down, "we clear out of the way," he said.

"For example, when we see an individual sector like financials moving down, as happened in 2007, we get out of financials completely. We eliminate it," he said, noting that all sectors are weighted equally.

F-Squared currently has \$550 million in funds under management. The bulk of that is retail and small businesses, but the company is focusing on growing its institutional side. "We are getting lots of calls this year from pension funds and other institutions, and we expect to be up to \$200 million in institutional investments by the end of the year."

"Many institutions after 2008 have a greater appreciation of the cost of losses in trying to achieve their funding goals," Present said. "The products or investment solutions that had the best downside protection and also high upside potential--basically hedge funds--came with low transparency, low liquidity, and high complexity, and also high fees, and many funds ended up facing liquidity problems. In contrast, what we offer is straight forward daily liquidity, with good risk control in bear markets and attractive participation in bull markets."

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