DrobnyGlobal

Drobny Global Monitor

July 28, 2014

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Biases:

EQUITIES: Bearish Major Country (non peripheral Eurozone) Equities
BONDS:
FX: Bearish Yen
EMG: Bearish Asian EMG interest rates;

Current Exposure:

EQUITIES:
BONDS:
FX: Long USD vs CAD (July 8);
COMD:

Drobny Summer School Review: 2014 NYC

**** Please note latest changes to biases and/or exposure***

The second annual Drobny Summer School sponsored by BNP Paribas was held in NYC on July 17/18, this time with over 120 attendees taking part from around the globe. The event gives younger professionals exposure to how top investors/traders think about and approach markets. Several lively debates and discussions emerged and, as is typical of Drobny events, specific trade ideas were introduced as examples of how veterans actually build portfolios and trade the markets. It was a jam-packed session and by the end of the day attendees had been introduced to yield curve probability analysis and structuring, FX option insights and examples – think reverse knockouts!, Kelly optimal leverage calculations, dark risks in a portfolio, the concept of improving portfolio performance by investing in proportion to expected Sharpe ratios, emerging market idiosyncrasies, structural flows impacting volatility markets, and the latest in global capital flows and currency systems – a Bretton Woods II update. There was something for everyone to learn!!

Dr Laurence Meyer, a former FED Governor and co-founder of the highly-regarded and well-connected Macroeconomic Advisers firm, kicked off proceedings with a stimulating keynote address on Thursday evening discussing the FED and FED policy. He gave us a glimpse inside the FOMC and how it has developed over the years as the chair has changed. Under Greenspan, there was no dialogue at the FOMC meetings. Nothing. No one talked to each other. Greenspan made the decisions and told the others what they were. There was more dialogue under Bernanke, and sometimes chaos emerged (with each economist you get 2 opinions?). But, at least there were

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deliberations. Bernanke, unlike Greenspan, sought to build consensus. In both cases, the sense is the chairperson really does drive the policy decisions.

The new Yellen FED is so far characterized by the a super easy policy regime it is running. No one could have imagined, Meyer stressed, that we would be closing in on a 5.5% unemployment rate, roughly what most consider NAIRU, and a 1.75% inflation rate, yet FED FUNDS are at zero? Much of the discussion thus turned on the timing of the hiking cycle. Interestingly, the Macro Advisors forecasts is not far from the FED's own forecasts, including growth and inflation. To reconcile this, their path for hikes is rather steep, with the FED starting late (rates should already by higher), and then catching up quickly over the next two years.

Given the huge amount of excess reserves in the system, the initial tightening process could prove rather tricky. Meyer talked about the new RRP tool (reverse repo program) the FED are exploring as a mechanism to effectively firm up the floor on o/n rates. This is still in an experimental phase and its not clear how well this will work. Meyer believes the FED will initially try to first push up the FED FUNDS rate from around 0.10% currently to 0.25%, the top of the existing range.

When would that be? Meyer thought this would occur around year end or early next year, maybe 3mths ahead of the first official hike. If that's right, such an event has the potential to shock the market, especially with the Dec14 Eurodollar contract trading at an implied 0.27% rate (99.73) and the Mar15 contract trading at an implied 0.38% rate (99.62), as compared to a current 3mth labor rate of 0.24%. A shift in the FF's rate to 0.25% would likely push up 3mth cash rates to 50bps, if not higher, depending on perceptions on how soon the first official hike would follow. A valuable warning for us all! And, this set us up nicely for several of the presentations the following day.

I provide below a review of those presentations. The agenda for the day and bios of the presenters are attached at the end of this document. Please let us know if you would like copies of any of the slides from the presentations. Also, please note that this is my own review of the proceedings. Comments, questions, critiques, additional ideas are welcomed and encouraged.

1) Michael Dooley of Cabezon Investment Group and Drobny Global presented an update of his highly regarded and widely disseminated Bretton Woods II concept. BWII is a way to describe an unofficial hybrid of the former official Bretton Woods fixed exchange rate system. BWII is a rather curious model where capital flows from C/A surplus EM countries (largely in Asia) to developed deficit countries, most notably the US serving to keep nominal exchange rates relatively stable. Excess savings in Asia has been flowing to the US to help finance excess consumption, and purchases of exports from Asia. Theoretically, it's not supposed to work that way. Traditional theory would suggest capital rich developed countries would export capital to labor surplus developing countries.

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An additional surprise is that the system has survived for a considerable period of time. We have now witnessed 10-15yrs where Asian Governments pursued an export led growth model and the US borrowed at unusually low rates. Conventional wisdom would suggest that it can only be a short run phenomenon. Central banks in Asia would be limited in the amount of USD's they can accumulate and at some point the markets would create limits on the size of the US C/A deficit. That is a key insight of the BWII concept: that this system would last because it was in the interest of both parties for this relationship to continue.

So, during the 2002-2008 period, economists expected the USD to collapse under the weight of the growing US deficit and large and persistent Asian surpluses. But, it didn't happen, even during the crisis of 2008. In fact, as US interest rates fell sharply that year, the USD rallied! And, Dooley noted, today's USD bulls ignore the fact that the US is still running a C/A deficit. It is smaller, of course. But it is still sizeable.

In fact, although the C/A imbalances are down as a percentage of GDP, they are still near the highs in absolute terms. The absolute size of the capital flows have thus not changed very much. The US is still borrowing money from Asia today, not only to buy their goods, but also to make direct investments in Asia where physical investment rates are still very high. What a great business, Dooley claimed! The US is borrowing money from the Chinese at almost zero rates to buy their businesses. This is a form of financial intermediation that has legs. It lasts because it is in the interest of both parties to keep it going.

What are the implications, and how and when will this all end? One implication is that the global currency system will be more stable than commonly believed. Another is that US real interest rates will be depressed by international capital flows. This doesn't mean that there won't be cycles in US rates, and Dooley believes selling 10yr US nominal bonds is the best trade out there given the acceleration of the US economy and already depressed rates. But, over the cycle, expect US rates to be held lower than would seem likely given domestic conditions.

The system will start to break down when China commences a genuine withdrawal from the system. And, this can only happen after they have liberalized their capital markets, which will then reduce their ability to manage and control their exchange rate. Does this happen with a bang or gradually? Will it be 5yrs more of this system, or 50? Dooley wouldn't predict, but did concede that break downs of such systems are typically rocky and turbulent. The policy makers in China will likely try to liberalize gradually, but at some point they may lose control of flows. At that point, the authorities will face a choice to either continue with liberalization or go back to the old system. Dooley's conclusion is that the sequencing of the liberalization trend in China is critical to the eventual outcome and has to be watched closely.

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2) Jim Leitner of Falcon Fund, widely regarded as one of the great all-time macro HF investors, has presented many times at the Drobny Favorite Trade Conferences and is a previous winner of the Best Favorite Trade Award. He also presented at the inaugural Drobny Summer School event last year. His title this year was 'the evolution of a macro portfolio'. He offered several 'rules to live by' when investing: (1) look for disconfirming evidence; (2) don't be fooled by the illusion of knowledge; (3) remember that stories drive investors; (4) be humble; (5) remember that we are all biased to believe what we hear; (6) let historic probabilities be your guide; (7) be conservative with leverage and follow a simple rule of thumb: leverage is 1/N x Kelley criterion optimal leverage with min N=10; (8) always work to improve the information/noise ratio; and finally (9), if you are successful make sure you give back to the community (see **www.leitnercenter.org**). Jim spent a lot of time in the presentation on (7), the optimal sizing of bets, and showed himself to be a master at taking rigorous formations and simplifying the applications to a rule of thumb. He then discussed how to diversify bets over assets and processes. Jim distributes his bets across asset class, systematic bets (value, momentum, carry, mean reversion) and opportunistic bets (listen to the policy makers, look for anomalies including regression based price/value deviations).

Four examples were given. The first was Falcon's mean reversion model for trading cash equities which they apply to short time frames (longer than a day, but shorter than a month). Over a six month period, they have undertaken approximately 176 trades, of which 137 (78%) were winners and 39 (22%) were losers. However, when a mean reversion trade fails, it can fail miserably. Hence the average losing trade lost 3.0% (biggest loser down 11%) while the average winner returned 1.8%. This segment of his portfolio has thus been consistently profitable, with the sizing based on his adjusted Kelley criterion to avoid the nasty results that have often plagued mean reversion systems. The second example was buying Nikkei 18,000 – 20,000 call spreads for June 2016. The payout is over 7-1 if the trade works. In the past 100 years, the Japanese stock market has been up 61% of the time and on average the up years are up 23% and the bad years are down 20.5%. However, some of the bad years were really awful, so you need to bet conservatively. Hence the call spread. A third example was buying Euro/SFr, which seems undervalued on most measures off PPP and has asymmetric profile due to SNB policy. And, finally, he exploits high Brazilian interest rates by buying a 1yr fwd Bovespa put spread, with the put he owns struck at 61,000 and selling a 56,000 strike against it. If nothing happens, he makes almost 2.6 times the investment.

3) Shawn Slaven of Black River used two trade ideas to describe and explain how he methodically finds and constructs trades in emerging markets. The first came from the past, based on the recent surprise rate cut by Banxico, the Mexican central bank. The second trade in Colombian local debt is one he is currently working on. Both trades fit his basic prescription for success: (i) use experience to know what to look for; (ii) identify good risk reward opportunities; (iii) take action when the

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opportunities present themselves and be patient as they will always turn up eventually; and (iv) don't be intimidated by market consensus.
The first example was receiving 6mth-1yr TIIEs in Mexico at roughly the existing fixing rate back in May. The money market curve was flat, with no rate cuts anticipated; that was the opportunity. The behavior of Banxico in the summer of 2013 provided the experience. They surprised last year with cuts, first due to easier global monetary conditions and second after bad growth data in Mexico emerged. The opportunity for the trade became present again in May 2014, as global growth had disappointed in Q1 and then a disappointing GDP figure for Mexico was released. And, Shawn showed us that Banxico explicitly warned in their May inflation report they might cut should growth disappoint. Yet, after a big miss in the next GDP report released later that month, these signals were ignored and the possibility of a rate cut still did not get built into the yield curve. The market seemed fixated on renewed US growth and FED tapering and the potential this had for reigniting EM instability. Banxico cut by 50bps on June 6th, pulling down the front end of the curve by an equivalent amount. The signals were there, Shawn argued, you just had to keep an eye on the details and what the central bank was telling you. And, ignore or, rather, exploit the consensus.

His second example, currently in play, was to buy Columbian local debt and pay a 10yr rate swap against it. Colombia is a 'good' story, with strong growth, stable inflation, an appreciating currency, reasonable debt and fiscal balances, and in the background is the potential for a newly re-elected government to succeed in finding a settlement with FARC rebels. Yet, real yields are similar to countries with much worse fundamentals. And, Columbia is one of the few markets where bonds trade at yields above swaps. A catalyst for a potential move comes from the announcement of a rebalancing of the GBI-EM Index which increased sharply the weight of Columbia and should induce a substantial inflow of indexed money into the local bond market. This is a market with very little foreign involvement, so the potential is substantial and, surprisingly, liquidity is not very different from Mexico in 2010, when a similar development took place. Paying the 10yr swap against the trade protects against rate hikes by the central bank given strong growth. Essentially, the trade is takes advantage of a credit with a high risk premium that looks set to fall.

4) Hilmar Schaumann was formerly the chief risk officer at Fortress Investment Group and discussed the role and responsibilities of risk management teams at different financial institutions. There are, of course, traditional aspects to this role related to analytics and risk reporting, stress and scenario testing, keeping things in check, and coaching and strategizing with portfolio managers.

One of the most challenging areas in this regard is coping with what Hilmar called 'dark risks'. These are risks that cannot be expressed in vol or VaR measures in a meaningful way, and thus pose the greatest vulnerability to a franchise. These trades come in the form of negative convexity trades (eg, selling uncovered options), trades in pegged currencies, trades in illiquid or potentially illiquid instruments and, perhaps most prominently, basis trades or trades with imperfect hedges. All of

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these have potentially disastrous consequences as stops may not be close enough. Less well known and largely unanticipated risks come from risks that stem from funding structures used and potential documentation mismatches and counterparty risks. These are the types of risks that cannot easily be modeled and managed in traditional ways.

5) Nick Nanda of newly formed Kaleidoscope Capital discussed portfolio management in an age of high correlations. These high correlations are problematic for many investors since they reduce the number of effective bets directional traders can make. The most extreme instance of this is the well known risk on/risk off story. Yet, he notes, high correlations are actually beneficial for relative value traders as they reduce the volatility of pair trades. The trick is to pair up trades that are reliably correlated; ie, rather than stocks vs bonds, whose correlation can flip, pair up short dated and long dated bonds, or specific stocks vs their index. This allows a portfolio manager, who has two main jobs - alpha creation and portfolio construction – to construct truly diversified portfolios. Most managers concentrate on alpha creation, yet the low hanging fruit is actually portfolio construction.

He suggested two simple rules to maximize risk adjusted returns: (1) find many independent bets and (2) bet in proportion to the expected Sharpe Ratio. Holding many assets does not guarantee a diversified portfolio. Nick, who is a master at deconstructing trade ideas and portfolios into constituent parts, used two examples to explain. The first was a pretty standard trend-following algorithm using 22 currencies against the USD. He then decomposed the bets into regional bets (eg, within Europe vs the USD, commodity currencies vs the USD, EMG vs the USD, etc) and intra-regional bets (eg, a currency vs its region on a cross basis). The decomposition reveals that the strategy involves taking on significantly more risk in regional bets than intra-region bets, yet the Sharpe ratios of the two components are roughly the same. So, Nick showed us how redesigning and rebalancing the strategy to target the same risk for regional and intra-regional bets yields higher returns for roughly the same overall vol, resulting in a much improved Sharpe ratio. Pretty logical, leading to dramatically improved performance.

Nick's second example was very revealing. The SEC requires large US institutional managers to disclose information on their holdings of various equity securities (form 13Fs, rebalanced quarterly). He took the filings of one particular, well known and highly regarded (and undisclosed) equity manager and decomposed them into (1) overall market exposure; (2) sector allocations; and (3) stock alpha. This exercise reveals that, by far, the higher sharpe is in stock picking for this particular manager. He is a great stock picker, but not so great at overall exposure or sector allocation. Nick can take this publically available information, exploit the managers' stock picking expertise, while dispensing with the rest of his decisions that do not seem to be his strength. Wow, that was neat!

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6) Philippe Combescot of the equity derivatives team at BNP Paribas discussed the changes in regulations on bank balance sheets that have impacted structural flows. These rule changes have increased the value of nonbank balance sheets and created dislocations in derivatives markets. One example is a new risk in rolling S&P futures positions. End users tend to be long these futures rather than short and banks are therefore short, hedged with cash equities and earning carry. But, regulations now require a haircut on these positions, which means there may not be marginal sellers in the market which suggests in this new regime that there will likely be a spike in funding costs at the end of the year. And, if a nonbank has the balance sheet and the mandate allows, there are opportunities to provide financing in the derivatives markets at very attractive returns (20-40% according to the examples given in the OTC volatility market). The nonbanks would be working alongside the banks when doing this, as the banks simply don't have the unlimited balance sheets as they used to.

Much of the discussion concerned the VIX. The drop in vol over the past few years has justifiably pulled roll down trades to the very liquid front end of the curve. Even with the absolute value of the VIX so low, these should be thought of as 'risk premia' trades that compare rather favorably to *other* risk premium trades. Especially as there is a liquid options market on the VXX which allows you to sell calls/puts, etc to manage the exposure. Realized vol is currently 8.7 while implied front month VIX is roughly 11.5. The result is that many vol sellers are concerned about the absolute level of the VIX but the roll is still attractive so they are selling vol ultra short – 1 week to 1 month.

7) Jason Stipanov of Element Capital went through the process of finding and articulating a good trade idea in Fixed Income markets. This starts by articulating a macro framework and then looking at what is priced into the market. Their view is that the FED has a transparent, dovish reaction function focused on ensuring the economy emerges from deflationary tendencies. As a result, they are structurally bearish rates volatility (despite the fact that volatility historically spikes one year prior to a tightening cycle). At the same time, the US economy is strengthening and eventually will force the FED's hand. The spot US yield curve is roughly priced to this view, Jason argued, but the forward 2/10 curve builds in flattening. Yet, the combination of a transparent, dovish FED and strengthening data has the potential to produce a steeper curve than built into the forwards.

Jason therefore suggested a bull steepener trade. Element is a heavy user of derivatives and options, so the trade is expressed in the swaptions market. Specifically, the trade is to buy receiver swaptions on 2yr rate 1yr fwd and sell 1yr fwd receiver swaptions on the 10yr, duration neutral (which means buying roughly 4 times the front end receiver), and adjusting the strikes to make the structure zero cost. The strikes end up being roughly 140bps for the 1yr fwd 2yr receivers purchased and 290bps for the fwd 10yr receiver sold. This is a trade that should post gains if the FED are slow to hike, but should end up flat should the FED hike as priced into the market. The risk taken is that the FED

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hike pre-emptively and without strong data, resulting in a much flatter curve; precisely the exposure they seek. Additionally, although the structure is roughly vol neutral, it is long vol at the front end and short at the long end, which also fits in with the concept that the FED may struggle in the initial stages of any hiking cycle given the size of reserves and unusual start with zero rates.

Other factors the Element team considers in establishing trades are positioning and flows, entry level, and liquidity of the instruments. In this particular trade, he argued the market is positioned the other way (short the US front end); the entry level is attractive because the US curve has flattened considerably over the past 6mths, and liquidity is good in these instruments (they can adjust delta's easily to reduce exposure). What a clean process and presentation!

During this session, there was also a general discussion about why the long end of the US curve had rallied so much this year. The main and popular answers still don't seem to add up: (1) soft data at start of year leads to short covering – but why have long dated yields stayed low as the data strengthened?; (2) scarcity of Treasuries – but then why haven't swap spreads and credit spreads widened where there isn't direct intervention by the authorities?

8) Craig Puffenberger of TaylorWoods is an FX option expert who previously helped build and then ran an FX options desk at a major bank and then became head of FX trading. In those days, his group's options book had 30-50K positions at any one time; now as a stand-alone portfolio manager he aims to run 6-8 positions looking to make 3-5% on select core positions over a 3mth duration. The positions can be directional, RV, time decay earners, and some have exotic elements. There are 30 currencies in his trading universe and he trades only natural and regionally based crosses. He won't tend to trade a Kiwi/Euro cross, for example, and instead will run separate USD/Kiwi and USD/Euro positions; this makes for much better liquidity and does not require 24hr coverage.

Craig provided a useful review of mistakes commonly made in trading FX and FX options: (1) trading spot with overly tight stops – leads to constantly getting chopped up; (2) buying very low delta lottery tickets – typically they don't pay, especially in the current environment where central banks have been chopping off the tails; much better to reduce the notional exposure and increase the delta; (3) overstructuring – the more complicated, the less likely a trade will make money and, the more legs added to cheapen up a structure, the more it will resemble a lottery ticket; (4) avoid buying knock ins – these are inflexible structures that are hard to manage and adjust over time; much better to trade a delta with a vanilla option; (5) avoid the tendency to be 'long only' with options – fair value historically has implied vol trading 20% expensive to actual vol, so his preference is to structure short vol trades with very defined risk to exploit this 'carry'; (6) selling EMG 'high' strikes – this is a resume killer since in bad times, liquidity dries up quickly; much better to sell a 1-touch or digital instead in those markets where short vol exposure maxes out; (7) beware funding issues – make sure you have thought ahead about securing enough funding duration since, in a blow up

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situation in say, an EMG market, very short term funding rates can spike quickly; also make sure your funding matches your exposure.

Craig's current favorite trade is to exploit super cheap risk reversals in USD/Yen, the result of a bearish Yen bias in the market. Craig is long USD/Yen spot, but against this likes to sell 2-3mth 104 calls and buy 99 puts for zero cost. This is a core rather than a home run trade that allows you to be long USD/Yen with protection (not only spot, but also vol should a correction emerge). The additional advantage is that it leaves you in a position to trade the range with the delta, something that has proven valuable in the current very low vol environment. The idea is to continually roll this strategy until some day we break higher in the dollar.

Andres Drobny

Past reports can be accessed at www.drobnyresearch.com

Favorite Trades of Summer School Participants, 2014

Rates – 28 trades

Short green Eurodollars – IIII
Long Arg bonds -- III
Sell FF skew (reds v greens)
Eurodollar butterfly Z5, Z6, Z7
Tactically trade 10yr between range of 2.40 – 2.75
Short 5yr 5yr via options
Pay 10yr libor
Long CAD 10yr v US 10yr
Short bunds
Long AUD receivers 1yr2yr
Steepeners in EUR 1yr Fwds 5s30s
Receive Brazilian DI's
Receive Chile and Brazilian rates
Steepener in Brazilian DI's (Jan 16 v Jan 21)
Receive Hungarian rates 1yr1yr

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Long 10yr INR unhedged
Receive 6m5yr INR swap
Receive 1yr1yr NZD swap
Receive 2yr CNY Nondeliverable IRSwaps
Buy Puerto Rican GO muni bonds
Long Mozambique EMATUM bonds
Sell CDS on High Yield index
Long EM credit
Short JNK bonds v subprime bonds

FX -- 26

Short EUR/USD -- IIIII
Long USDJPY – III
Short EUR/GBP -- II
Short EUR/JPY
Short USD/JPY
Long USDCAD
Long USD/BRL
Long AUD/NZD
Short AUDUSD
Short AUDCAD
Short NZD
Long PLN/HUF
Short INR
Long INR/IDR
Short ZAR
Long USD/TRY
Long G10 FX volatility
EURUSD ATMF 1.3 v 1.25 Put Fly
Short USDCNH vol short term

Equities – 25

Long equity volatility -- III
Long Nikkei -- II
Long European financials -- II

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Long Argentinean equities -- II
Short SP500
Short CAC (French equities)
Long EMG equities
Long EMG equities v SP500
Short Canadian banks
Long MENA consumer stocks, short MENA petrochemical stocks
Long Gamestop (GME) – trades at 6.5 times EV
Long ACAD equity (use call options)
Long basket of retail common stocks
Long Indian banks
Long Indian equities
Short Turkish equities
Long European peripheral equities
Long 3 month vol on BCOM equity (Israeli telecom company)
Buy December ATM put on Bovespa
Long XIV equity
Short VXX equity
Long Nikkei vol to take advantage of flat term structure

Commodities -- 8

Short copper --II
Long Jan 15 natural gas
Long live cattle futures
Long Wheat (December)
Short soybeans (November 14)
Short WTI (December)
Long Gold volatility 12 months forward

Combo Trades -- 1

Buy 1yr SP500 calls 110% and buy 1yr5yr receivers 50bps OTM

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Drobny Summer School

New York 2014

Sponsored by BNP Paribas

Agenda

<u>Thursday, July 17th – Gansevoort Hotel, 420 Park Ave (29th and Park Avenue)</u>

5:00pm – Welcome cocktail reception

6:15pm – Keynote Presentation -- "Inside the FOMC" – Dr. Laurence Meyer, MacroAdvisers, former Governor of Federal Reserve Board

Dr. Meyer is co-founder of the highly-regarded and well-connected Macroeconomic Advisers firm. Dr. Meyer was also a professor of economics and a former chairman of the economics department at Washington University, where he taught for 27 years before joining the Federal Reserve Board. During that period, he spent a year as a visiting scholar at both the Federal Reserve Bank of New York and the Federal Reserve Bank of St. Louis. He is a fellow of the National Association of Business Economics and a member of the Board of Directors of the National Bureau of Economic Research, and has served on the advisory panel to the Congressional Budget Office. He is the author of *A Term at the Fed: An Insider's View*, published by HarperBusiness in July 2004.

8pm -- Dinner

<u>Friday, July 18th – Gansevoort Hotel, 420 Park Ave (29th and Park Avenue)</u>

8:00am – Breakfast

830am – Welcome remarks – Dr. Andres Drobny – The discipline of "What is your favorite trade?"

Dr. Drobny has been a professor of economics at Kings College in London, the head of research at Bankers Trust, participated in building a global FX powerhouse at Credit Suisse, and was a partner in a hedge fund and a proprietary trader. He has over 20 years of experience working with top macro hedge funds. An avid student of markets, Dr. Drobny is always on the hunt for good trade ideas. His thought process is sought out by top managers and smart traders, and his constant search for a 'favorite trade' has helped generate the immense interest, popularity and keen demand for seats at the Drobny Conferences. Dr. Drobny founded the Drobny Global group of companies in 1999. He holds a PhD from King's College Cambridge and an MSc degree from the London School of Economics.

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9:15-10:00am – Mike Dooley, Cabezon/Drobny – “Bretton Woods II Framework, where are we now?”

Dr. Dooley is a Drobny partner and was the co-architect of the Bretton Woods II theory which suggested in the early 2000s that an informal Bretton Woods system of currency stability had been put in place where capital would flow from Asia to support the US trade deficit. He argued that it was in the interests of all participants to maintain currency stability. Dooley, a regular presenter at Drobny conferences predicted the sharp rise in interest rates this past April and previously received the Drobny Favorite Trade Award for his presentation on the Bovespa in 2009. Dr. Dooley is a partner at Cabezon Investment Group, a Professor of Economics at the University of California, Santa Cruz, a Research Associate of the National Bureau of Economic Research and edits the International Journal of Finance and Economics. He previously held positions at the Federal Reserve Board’s International Division, the Research Department of the International Monetary Fund and Deutsche Bank. His published research covers a wide range of issues in open economy macroeconomics including work on global imbalances, crises in emerging markets, debt restructuring, and capital flight. At the IMF he was an early advocate of debt restructuring as a necessary ingredient in solving the EM debt crisis and represented the IMF in most of the Brady Plan restructurings. Professor Dooley received his PhD from Penn State University.

10:00-10:45am – Jim Leitner, Falcon – “Evolution of a Macro portfolio”

Jim Leitner is the investment manager of Falcon Family Fund. Before founding Falcon, Jim was head of Bankers Trust European Trading and established their Currency Anomaly Fund, which returned 40% per annum under his management. Jim earned a B.A. degree in Economics with a minor in Russian Studies at Yale University. He also has a MA in International Affairs from Columbia and a JD from Fordham Law School.

10:45-11:00am – Coffee Break

11:00-11:45pm – Shawn Slaven, Black River -- “Navigating the Emerging Markets landscape”

Shawn Slaven is a portfolio manager for the Black River Emerging Market Fund, managing FX and local fixed income investments throughout Latin America with a focus on Mexico and Chile. Black River is a global asset management firm specializing in alternative investment strategies, and an independent subsidiary of Cargill, a leading supplier of food, agricultural and industrial products and services. Prior to joining Black River in 2004, Shawn worked in equity and options trading at two Minneapolis sell-side firms. Shawn received a B.A. in Economics from Kenyon College, and also has an MBA in Finance from the University of Iowa.

11:45-12:15pm – Hilmar Schaumann, former CRO Fortress – “Risk management frameworks/tools – perspectives from a Chief Risk Officer”

Hilmar Schaumann had been the Chief Risk Officer of Fortress Investment Group, a NYSE-listed asset management firm active in global macro hedge funds, structured credit and private equity, until January 2014. Hilmar was the Founder of Deister Capital, a start-up credit investment manager with a long convexity risk profile. Prior to Deister, he was the Chief Investment Officer of Primus Financial Products, a credit derivatives manager, until 2005. From 1996 until 2002, Hilmar was the Head of Credit Trading at Swiss Re Financial Products. In 1990, he started his career at Deutsche Bank in Frankfurt and became a member of a global macro bond arbitrage desk in the bank’s London office, where he focused on global rates and G7 government bonds. Hilmar received his MS in mathematics from the University of Hannover and graduated from Harvard Business School completing the Program for Management Development.

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12:15pm – 1:15pm – Lunch

1:15pm – 2:15pm – Nick Nanda, Kaleidoscope – "A Quantitative Approach to Macro Investments and Portfolios"

Nick Nanda is the founding partner of Kaleidoscope. Nanda is a former partner and portfolio manager at Grantham, Mayo and Van Otterloo (GMO). He joined the firm in 2003 as a quantitative research analyst working with one of the founders of the firm, Jeremy Grantham. After successfully managing GMO's anti-risk portfolio through 2008, at age 27, he became one of the youngest partners in the history of the firm. Prior to his departure in 2014, he was one of four portfolio managers responsible for managing in excess of $50 billion of asset allocation and absolute return mandates. In addition, he also had day-to-day responsibility for managing at $2.8 billion global macro fund. He joined GMO following the completion of his B.A. in Economics from Oberlin College. Nick is a CFA charter holder.

2:15—2:45pm – Philippe Combescot, BNP Paribas – "How structural flows are affecting global derivatives markets"

Philippe Combescot is a Managing Director and Head of Institutional Client Structuring & Strategy for BNP Paribas' Global Equity & Commodity Derivatives business in the Americas. Philippe has spent his entire career with BNP Paribas, joining the bank in quantitative research in 1997. He then moved into option trading in both Europe and New York, before moving into structuring in New York in 2005. In 2009, Philippe moved to London to head the institutional structuring team. Philippe holds a Bachelors degree from Ecole Polytechnique, where he majored in Economics and Applied Mathematics. Philippe also holds a Masters of Science in Mathematical Finance.

2:45-3:00pm – Coffee Break

3:00-4:00pm – Jason Stipanov, Element Capital – "Fixed income risk, yield curve analysis and impact of extraordinary monetary policy"

Jason Stipanov is head of risk management at Element Capital and a Principal at the firm. He is responsible for analyzing portfolio risk and investment opportunities, trade structuring, position sizing and managing the development of relative value and risk infrastructure. Prior to joining Element in 2009, Stipanov worked in the Interest Rate group at Morgan Stanley where his primary focus was macro and RV trade ideas in rates and G7 currencies. Stipanov earned a US patent for developing a novel technique for modeling volatility returns. Prior to entering the financial industry Stipanov worked as a product manager at New Power Company and a strategy consultant at Ernst and Young. Stipanov received an MBA with honors in Finance from The Wharton School where he was a Palmer Scholar (top 5% of class) and graduated summa cum laude from Duke University with a BSE degree in computer science and electrical engineering.

4:00-4:45pm -- Craig Puffenberger, Taylor Woods – "How to trade FX and FX vol in a constantly evolving market?"

Craig Puffenberger is a Portfolio Manager at Taylor Woods Capital Management, a commodities-focused hedge fund based in Greenwich. Prior to joining Taylor Woods in 2011, Puffenberger was Global Head of GFX trading at Credit Suisse First Boston. He attended Cornell University where he earned a MEng (Master of Engineering) in Operations Research and a MBA (Master of Business Administration) in Finance.

4:45pm – Closing Remarks

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5:30pm – Cocktails at Penthouse Bar

7:00pm – Dinner/Party

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