
DUNN president Marty Bergin and CEO James Dailey

# Succeeding an industry legend

DUNN Capital president **Marty Bergin** reflects on taking the up the reins at a managed futures pioneer

It's been nearly three years since Bill Dunn stepped away from the managed futures firm he founded in 1974, as one of the first CTAs in the business, and one of the few to have survived through four decades.

Dunn, a former defence contractor and theoretical physics PhD turned trend-following pioneer, passed full ownership of DUNN Capital Management to his CEO Marty Bergin as part of a business succession plan that was put in place in 2010.

While such plans should be less significant for systematic firms, at a time where many big-name hedge fund firms, often personality-led, have seemingly struggled to execute or plan a smooth transition from their founders, DUNN has been a model case study.

Bergin, a former CPA who had worked with DUNN before joining the firm in 1997, took over in an "accelerated transition" as his mentor became less involved in the business and wanted to pursue outside activities.

"We were discussing how much time [Bill] would be having to spend in the office," recalls Bergin, which would have required disclosing such arrangements to investors.

"At the point, Bill said one of the options was he could just retire. He thought that was the best way to go. At that point he was very happy with the transition and how it was going."

Dunn retains an office at DUNN's headquarters in Stuart, on Florida's Atlantic coast, although hasn't used it in years. He remains the DUNN's largest single investor, and still lives in the sunshine state.

"It was certainly a vote of confidence from Bill in Marty's ability, because the reason he wasn't here, was because he was confident with Marty's leadership," says DUNN CEO James

Dailey, who took over the role from Bergin having joined DUNN in 2003, and worked as CFO since 2008.

Today, DUNN manages around $1.1bn in AuM, primarily through its flagship World Monetary & Agriculture (WMA) program, which can now be accessed through a variety of vehicles – a US private fund, offshore fund, Ucits, '40 Act fund and managed accounts.

Over the years, DUNN has become more sophisticated across all aspects of its business, but Bergin says he has tried to stay faithful to the principles, methodology and processes the firm's founder put in place.

"I've always felt like Bill was my mentor," says Bergin, now DUNN's owner and president. "Most of the key things about what we do are things I've learned from Bill. Some of them aren't even accepted in the industry per se. For instance, we are extremely client-centric and Bill always said that he was on the same side of the table as the client. He never wanted to be in an area of conflict." For example, DUNN is among the few alternatives firms that has never charged a management fee, so that it only gets paid if its clients made money.

In its long history, DUNN has been through a five-year period, starting in 2003, without collecting a significant incentive fee, but Bergin says "[Bill] thought that was the proper thing to do."

"The other thing is, from a business standpoint, Bill and I are true believers that it's the people that make the business," Bergin adds.

"Yes, you have to have an algorithm and you have to have the technology behind it, but it doesn't work without the people.

"The people do the research, the people do the implementation, the people interact with the clients and you're only as good as your weakest link in the firm. So, people are really important to us."

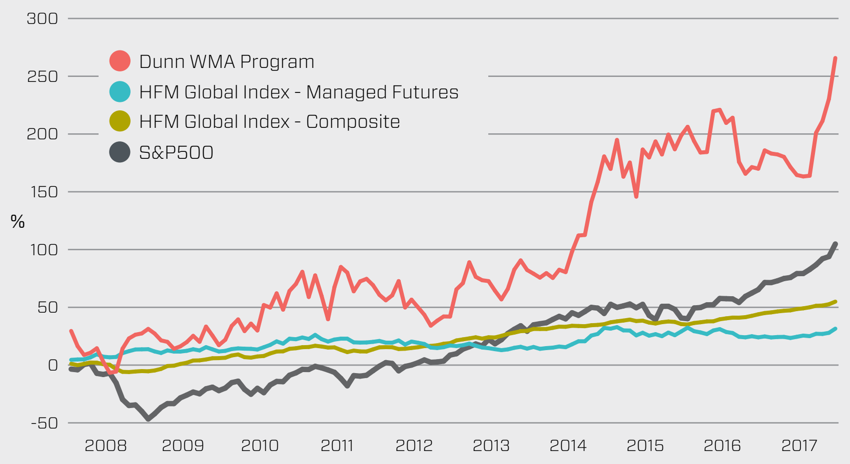
DUNN has made a number of new hires in recent years to "increase the intelligence of the people involved in the business", as well as promoted from within. David Kauppi, who joined in 2001, for instance, took over as CFO after Dailey become CEO.

"I don't think people understand how much the dynamic in a firm can change when you bring in new people," Bergin says. "We spend a lot of time researching people that we bring into the firm. It's a long process.

"We bring people in and we say: 'Okay, you figure out how to add value to DUNN. If you can add value, we're all happy, and if you can't then it didn't work out and you can move on and find something else to do."

Among the external hires, managed futures veteran James Curley joined in 2015 as an executive vice-president working in marketing, while Niels Kaastrup-Larsen, formerly of GNI Fund Management, Chesapeake, Beach Capital and Rho Asset Management, became managing director of DUNN Capital (Europe), a Swiss entity set up to develop DUNN's business in Europe.

## Compound return over the past 10 years




Last year, the firm also acquired Zurich-based SigmaSquare Capital, with its founder Stefan Wintner joining as vice-president of volatility strategies.

DUNN started trading Vix futures several years ago in its WMA program as a relative-value trade, but had been searching for years to bring in the right volatility trading expert. "Everybody made money over the last five years on the short side of volatility. We could do that," says Bergin.

"I wanted somebody that was doing something different in volatility but still making money. What we're doing now is trading volatility of volatility, with the idea that when volatility does spike, it should be a positive for us. Yet, we're still making money on the short side of the volatility trade."

### Positive returns

The program Wintner has developed has a capacity of around $500m and will take a small allocation from the WMA program, as well as be offered as a standalone product. "We're taking meetings [with potential investors] on a very selected basis," says Bergin.

The WMA program has gone through a number of improvements through the years, and was expanded in 2006 with the addition of smaller agricultural markets to enhance the portfolio. The original algorithm is still in play but augmented with a number of others. "There are different ways to approach trend-following and our idea is, if we approach it enough ways, we end up being able to reduce the risk and increase the return and thereby generate better risk-adjusted returns."

And DUNN's WMA program has delivered some of the best returns in the business, with near 21% annualised return in the past five years, according to *HFM* data. The program has a higher volatility than many of its peers, but as Bergin argues: "It allows people to allocate less money to get the same bang for their buck, because if you're trading at a very low volatility, you have to allocate such a large portion of your assets to get the value of the uncorrelated nature of our strategy."

He adds: "We always talk to people about allocating a percentage of their risk, not a percentage of their AuM.

"We advocate 20% to 25% of their overall risk which, in most cases, is less than 20% or 25% of their AuM, which investors like to hear."

One enhancement to WMA that Bergin believes sets DUNN apart is its adaptive risk profile (ARP). "I have to believe that because our risk/return, or Sharpe ratio, has improved year after year after year over the last 10 years in comparison to the industry.

"The industry's risk-adjusted returns have gone down, since the credit crisis, and ours have been increasing.

"A lot has to do with several things that we've implemented more recently. But, I would say the most significant, at least over the last year, was the ARP."

DUNN lost money for six consecutive months for the first time ever last year, but was down only 5%.

"In trading at the volatility levels that we trade at, or the risk levels that we trade at, that's phenomenal," say Bergin. "I would venture to say that people that traded much less


DUNN founder Bill Dunn

volatility than we did, but did not fare as well as we did during that period of time.

"That's exactly what we were expecting with the research. It's proved that it has worked."

DUNN started its research on the adaptive risk profile amid the low volatility environment and heightened market correlations after the financial crisis, which proved problematic for many trend-followers.

"The most encouraging thing that we've seen in the last quarter of the year and is exciting to me is the correlation matrix breaking down. Everything is starting to break apart; you're starting to see European bonds move different than US bonds, Asia moves differently than the rest of the world. This give us opportunities to make money," Bergin says.

## Not all about the quants

Bergin thinks investors often underestimate the research capabilities of firm such as DUNN when comparing them to the 'mega CTAs'. "Small firms are naturally not going to have as many people on research," he says. "You see the big firms and they will advertise that they have a hundred PhDs and they have this huge research machine. You lose something in the disconnect of having that many people in research.

> "The people do the research, the people do the implementation, the people interact with the clients and you're only as good as your weakest link in the firm"
> **Marty Bergin, DUNN Capital**

"I think that people forget that the industry is a people-orientated industry. Quants are one thing, but the real world is important in what we do. I've seen quants that will develop systems and they will have products in that system that you can't trade.

"So, I think it's important to have people that understand the industry we work in on the research side."

DUNN also has a 24-hour team of experienced execution traders who put eyes on every trade before they get executed, rather than having a fully automated process where trades are automatically processed and executed. They can use all the modern algorithmic trading tools available to execute, but Bergin says their expertise "adds value to the firm".

DUNN is known as a pure trend-follower, but has looked at other areas of research such as machine learning and short-term trading.

"There are a couple of shops out there that are doing something in the short-term space that have done well and consistently well. But-most short-term trades make money for a little while and then it just evaporates and the system doesn't work anymore, and they're around for five to 10 years and then they disappear," he says.

"If I could find something that worked in the short-term time frame, as a trend-following component, I would love to add it to the program in some way."

Bergin admits it is harder to compete with larger firms in developing machine learning and high-frequency trading, which can be a "very capital-intensive business", but adds DUNN was one of the first to trade a neural net program, years ago. "It worked pretty well," he recalls, explaining the systems was closed down after the developer passed away.

By some trend-follower standards, DUNN's trading universe remains quite small, trading 53 markets and Vix futures, with another four in the pipeline to be added. Its program is designed to allocate all its risk equally to each market, meaning new markets will only be added if they can offer value from a correlation standpoint.

"If there's a market that's trading, that's on a regulated exchange and has enough volume that it is easily traded, if it's uncorrelated to the other markets in our portfolio, then it's an advantage for us to add that to the portfolio," says Bergin. For now, that rules out bitcoin futures, he says.

"We're not going to add markets just for the sake of adding them. I think that for a lot of people that trade a lot of markets, it's purely an AuM issue because they can raise capacity if they can spread the trades over more and more markets."

## Education, education, education

DUNN's approach to asset-raising has changed somewhat in recent years, but the focus has always been on educating investors, rather than sales. "Bill's adage was: 'If people were smart enough they would find us; if they weren't smart enough to find us I don't want them as an investor'," recalls Bergin.

"My feeling is I don't have to market, per se. I don't have to be 'salesy.' I think DUNN's mission is to educate people. Once people are educated they'll see the value in what we do. I think our performance will stand on its own and we'll get our share of assets."

Bergin admits DUNN will not be for everybody, and he is keen to embrace investors who look at managed futures as a core asset holding.

"We don't want hot money. We aren't looking for people that are timing the space. We're looking for people that understand why there's value in investing in this space. They're going to keep it for the long term."

An educational approach has played a role in making a success of DUNN's distribution partnerships: with ML Capital in Europe on Ucits fund, repositioned for institutions as a half leverage version of WMA in October 2014; and with Arrow Funds in the US, to give investors exposure to the WMA program through a mutual fund, the Arrow Managed Futures Strategy Fund.

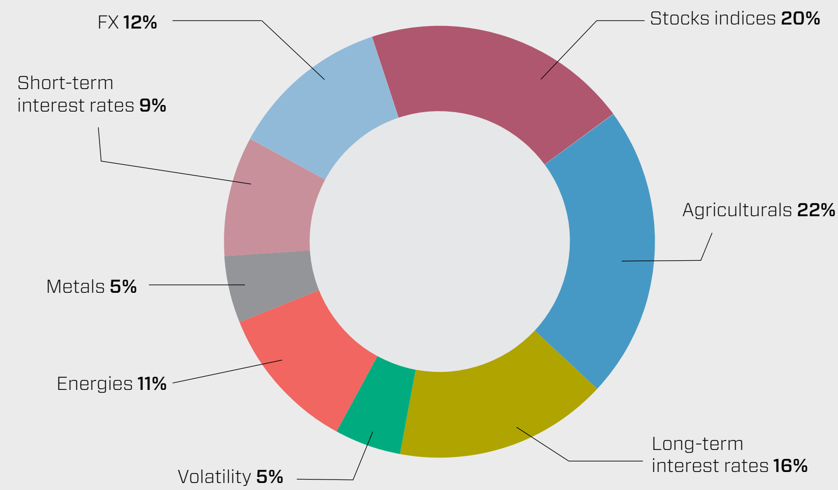
The former, sitting on the MontLake platform, has raised over $400m, while the '40 Act has garnered $200m in two years.

Bergin says DUNN has worked hard at partnering with the distribution channels, sending staff around the US and Europe to talk to investors about the products.

"I feel like investors in those products get a good understanding of what we do and why we do it, and that makes all the difference. And hopefully we will find the money will be stickier than you find in other products," he says.

While Bergin says he prefers not to cede control of aspects of the business in such partnerships, he is happy that those DUNN has chosen "do it the right way". "They keep the cost to a minimum for the investor," he says.

## Diversion in DUNN's WMA portfolio

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> **Marty Bergin, DUNN Capital**

He adds: "It's taken 40-plus years to develop the reputation that DUNN has. It's on my watch now to make sure that reputation stays positive. That's a lot of responsibility because it takes five to ten minutes to destroy the reputation."

The '40 Act and Ucits products carry a management fee to pay expenses but Bergin admits that as much as he finds it distasteful, "there's no way around it".

One frustration Bergin has with such daily liquidity products is that they are still yet to become a vehicle to offer the potential benefits managed futures strategies to the wider investing public.

Bergin says it is "criminal" that regulation still prevents such investors from accessing managed futures products.

"The fact that you have to be an accredited investor to have access to this type of strategy is mind-boggling to me," he says.

"I think that maybe the regulators, over time, will start accepting this type of strategy as not being scary to them and see the advantage of it and start allowing for further investment".

He adds: "There are ways of protecting the public by educating them about what they're investing in, not restricting what they can invest in," he says.

In a similar vein, Republican SEC commissioner Michael Piwowar, while acting as chairman of the agency, last year called for an overhaul of Regulation D and an end to the definitions of accredited and non-accredited investors, based on the $200,000 annual income, or $1m net worth, test.

"In my view, there is a glaring need to move beyond the artificial distinction between 'accredited' and 'non-accredited' investors", he Piwowar said.

"I question the notion that non-accredited investors are truly protected by regulations that prevent them from investing in high-risk, high-return securities available only to the Davos jet-set."

Bergin, like many, believes the regulatory and reporting burden on CTAs and hedge funds needs to be addressed.

He notes that DUNN had historically had one person spending three or four days a month on the job. Today it employs multiple people full-time in compliance.

"It's ridiculous the amount of compliance that we're put through," he says.

"We don't want to see bad actors in the profession because it puts a stain on all of us. We take our partnership responsibilities seriously to protect and help the industry and we expect the same from regulators."

Bergin is nonetheless optimistic over the prospects for the managed futures business. "We're just getting to that point where it's accepted. More and more people seem to be excited about the space," he says, adding in years past conversations at points of poor performance would have turned to "managed futures is dead, trend-following is dead".

"We're starting to move forward and the onus is on us, as an industry, to keep that going through the education and keep preaching the message."

Bergin says he does remain troubled by seeing the majority of asset inflows going to the larger managers and wishes there could be more opportunity for second tier, and maybe even the third tier managers to get more allocations.

And as for DUNN: "In a perfect world we'd be trading $5bn over the next five years. That would be a situation where our investors would be happy, and we'd be happy."

*This article was adapted from an interview with the Marty Bergin by Katy Kaminski and Niels Kaastrup-Larsen as part of the Top Traders Unplugged podcast series, with additional reporting by Matt Smith.*

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