Green Street
Hedge Fund Alert
THE WEEKLY UPDATE ON FUND MANAGEMENT INTELLIGENCE

# Confluence Off to Dazzling Start

Opportunistic proprietary-trader **Confluence Global Capital** is laying the groundwork to take in outside capital after gaining triple digits in the startup's first 12 months.

The New York firm started trading with $25 million of partner contributions in January 2020 and went on to record an unlevered, gross gain of 155.4% through December. The showing translates to a 122.2% net increase.

While Confluence's total assets are unknown, it plans to accept its first limited partners once its proprietary capital increases to $150 million. How long it will take to reach that threshold hinges on the firm's performance.

The end goal for Confluence is to create a multi-manager model. The firm's managing member, former **First New York** partner **Andrew Ross,** is looking to combine in-house traders with limited-partner exposures to outside hedge fund managers, as well as private equity-style fund investments and related co-investments.

Ross formed Confluence in July 2019 with partner **Craig Gorman,** a fellow first New York alumnus. The two have since shaped the firm's operations and trading strategies. The buildout included the February 2020 hire of **Brooks Barge,** also from First New York.

The startup's investment team now has nine staffers, with more hires in the pipeline. Indications are that Confluence has identified a commodities trading-team that it plans to bring on board in the first half of 2021.

Confluence currently invests in outside managers via an internal fund of funds called Confluence Global Capital Partners Fund. Barge, a Confluence partner, heads that effort.

The infrastructure for incoming Confluence investors is still under development. In addition to the fund of funds, Confluence would offer limited partners exposure to its in-house strategies via additional vehicles and separate accounts.

Those market-neutral strategies include trading a highly diverse mix of assets on more than 50 exchanges around the world. There is a heavy quantitative component to many, but not all, of Confluence's trades. Wagers include stocks, foreign-exchange instruments, cryptocurrencies and commodity futures ranging from electricity to metals and grains.

The idea is to "identify short-term price inefficiencies that drive unmatched results," Ross wrote in a letter sent today to prospective investors. The approach is often manifested in quick trades that play out in niche, under-the-radar markets. The majority of those trades are based on a catalyst that Confluence has identified. The strategy employs elements of global-macro investing, along with arbitrage plays.

The fund of funds recently did due diligence on an undisclosed manager that specializes in investing in cattle as a commodity. Confluence also has explored the viability of a quantitative strategy that would bet on the outcome of sports games via Nevada gambling operations.

Perhaps as notable as Confluence's 2020 gain is the fact that the firm achieved it with minimal volatility in especially frothy markets. Confluence finished the year with a standout average Sharpe ratio of 10. It also had no down months, and its maximum daily loss was just 1.7%.

The firm was up a gross amount of 14.1% in March and 27.2% in April, demonstrating downside protection as the pandemic rattled economies around the world. Ross and his team finished the year with gross gains of 13.4% in October, 20.7% in November and 12.7% in December.

Industry participants called the result impressive, at the same time cautioning that such outsized gains will be much more difficult to achieve with similarly low volatility as the firm's asset base grows.

Ross has been pitching the idea that Confluence specializes in grinding out risk-adjusted returns, like other multi-strategy fund operators.

"To employ a baseball analogy: rather than strive to hit home runs, we strive for a high batting average in order to provide a more stable and consistent return profile," Ross wrote. "We hate losing money far more than we enjoy making it and consider our trading processes to be inherently less risky than more concentrated and static investment philosophies."

Quantitative algorithms that use alternative data sets add a high-frequency element to many of the firm's trades. Indeed, the proliferation of money managers turning to alternative data now fuels the price of a given financial instrument more than ever before, Ross wrote.

"We believe the proliferation of this real-time data, combined with market participants' unabashed impulse to thrust asset prices in whatever direction this information dictates, has ushered in a new regime of short-termism and short-term price dislocation," he wrote.

Before forming Confluence, Ross ran his own family office in New York. Before that, he spent more than 13 years in increasingly senior investment roles at First New York. ❖