

# Junzi Capital Engineering - TGO Fund



Chon Tang - Founder

## Background

After studying Junzi Capital Engineering's strategy in some detail, a seasoned veteran of the CTA industry summarized his impression of the firm's approach and performance in this way: "You guys are kind of a misfit." That kind of reaction doesn't offend Junzi's founder, Chon Tang. After all, being unique is precisely why he thinks his firm has a role to play in the asset management business.

"I decided I would become a CTA/CPO roughly 4 weeks after I traded my first futures contract," Chon Tang says with a laugh. "My first futures contract EVER. I am from as far outside the industry as you can possibly get."

The catalyst for this event developed about a half year earlier during the climax of the 2008 financial crisis. Although Mr. Tang had a solid grounding in academic financial engineering through his education at UC Berkeley (BS in electrical engineering and computer science) and MIT (MS, again in EECS), he hadn't traded or followed the markets for the past decade. Instead, he had spent much of the previous decade investing in and working with tech startup companies as an

angel investor in the fertile northern California region.

"If the market meltdown hadn't devastated my personal, passively invested portfolio, I would have never been motivated to explore the markets." But once the markets began to wobble, Mr. Tang was drawn towards the action. "It's like being a spectator at a car wreck, or a physicist at a particle accelerator; I wanted to know what was blowing up, and why."

While studying the wreckage of the markets over that winter, Mr. Tang came to believe there was an active opportunity here to exploit market behavior. The core strategy wasn't passed on by a mentor or found in a textbook or seminar. "I really had no prior understanding of how other traders, especially quants, developed and traded their models. All I had was my own intuition, informed by my understanding of the Black-Scholes option pricing model and how it was derived. I'm an engineer first and foremost, and everything really grew organically and spontaneously as I built." Years of historical data ranging across a variety of different instruments, ranging from cash equities to futures, were then studied quantitatively, and the framework of the strategy was developed and back-tested.

It doesn't escape Mr. Tang's notice that quants have a mixed reputation, as the successes of some have been tempered by equally spectacular blowups from other quants. "I would argue theorists and engineers approach problems in two very different ways. A theorist may develop a closed-form formula that models how the world should function, but these things are fragile, and the real world won't apologize for deviating from your formulas. An engineer from day one has to build with contingencies and failures in mind." The

## At a Glance:

### TGO Fund

Program Assets \$12.3 million  
No. of Employees: 3

#### Account Information

Minimum Investment: \$250,000  
Management Fee: 0.0%  
Incentive Fee: 30%

#### Performance Analysis

Start Date: October 2009  
Total Return: 169.3%  
Compound Annual Return: 35.65%  
Worst Drawdown: 9.04%  
Sharpe Ratio: 2.15  
% of Winning Months: 74.36%  
Average Gain: 4.69%  
% of Losing Months: 25.64%  
Average Loss: -3.14 %

#### Correlations

Barclay CTA Index +0.04  
S&P 500: +0.12  
U.S. T-Bonds: -0.27  
World Bonds: -0.14  
EAFE: +0.10

#### Annual Returns Past 4 Years

2009 (partial year) 23.52%  
2010 40.29%  
2011 8.53%  
2012 43.24%

Past results are not necessarily indicative of future performance.

distinction comes into focus when Mr. Tang points out that the Wright brothers succeeded in manned flight as engineers and mechanics rather than publishing theoretical research on aerodynamics.

## Philosophy

Chon Tang characterizes Junzi's approach to strategy development with one simple phrase: competitive advantage. The focus from day one was on figuring out what Junzi could do differently from other