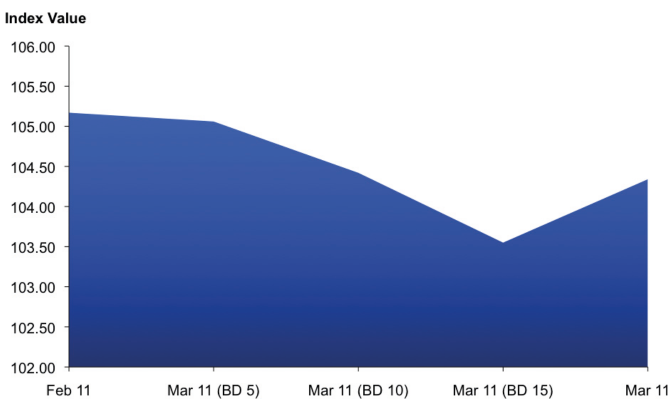
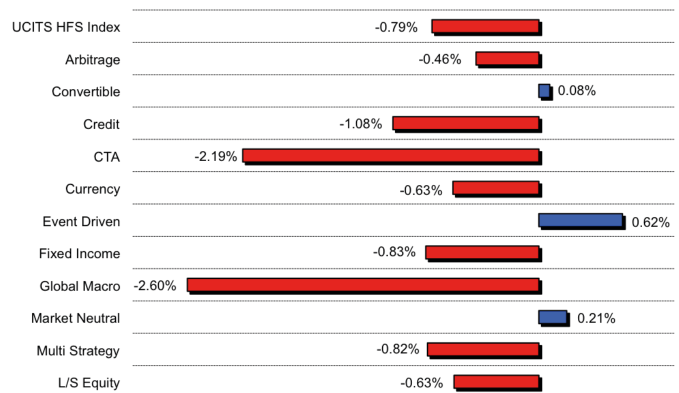
Newsletter April 2011

UCITS HFS Index loses -0.79% in eventful March 2011

Performance March 2011



Performance March 2011 by strategy



The UCITS HFS Index reported the second monthly loss in 2011 as the events in Japan clearly had an influence on the financial markets in March. After a slow start into the month with a loss of -0.10% in the first week of trading the broad UCITS HFS Index took its first hit in the second week of March with a loss of -0.61%. The impact of the disaster in Japan on the financial markets peaked in week three of March which led to another loss of -0.83% for the broad index. The markets bounced back in week four, as did the UCITS HFS Index with gains of +0.75%. That wasn't enough to turn things around though, leaving the UCITS HFS Index with a loss of -0.79% in March 2011.

March 2011
Funds positive: 56.84%
Funds negative: 43.16%

From a sub-strategy perspective only three out of the eleven strategies were able to report positive numbers last month: Event Driven (+0.62%), Market Neutral (+0.21%) and Convertible (+0.08%). While Event Driven and Convertible made up for their losses of the first three weeks with over one percent performance in the last week of trading, Market Neutral didn't lose too much in the first place and was able to add +0.26% to its performance at the end of the March. The biggest losers were Global Macro (-2.60%), CTA (-2.19%) and Credit (-1.08%), the latter taking huge losses in the first week of March already. The UCITS HFS Index now stands at -0.68% in 2011.

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Fund presentation of the month: Fulcrum Commodity Fund

Fund Strategy

The Fulcrum Commodity Fund is a daily liquidity absolute return UCITS III fund that contains the fundamental and behavioural commodity models from Fulcrums flagship macro fund, Alpha. The Fulcrum Commodity Fund targets an annual return of 15%-20%, with realised annual volatility of 12-16%. It aims to capture secular trends in commodities whilst limiting drawdowns during major commodity selloffs. The fund invests in non-deliverable commodity indices comprising around 24 underlying commodities. Alpha is achieved through the utilisation of systematic strategies based on prices, volatility, backwardation and contango, inventory data, and mean reversion.

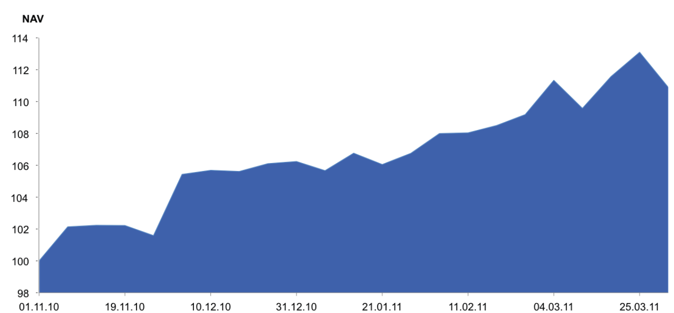
Fund Manager

Fulcrum is a private partnership founded in 2004 by Gavyn Davies and Andrew Stevens. Andrew was an investment manager at Goldman Sachs for 12 years. Gavyn was oldman's Global Chief Economist for 16 years. They employ 34 people and manage approximately $1.5 billion, spread across a number of strategies. Top-down asset allocation and disciplined risk management are central to all of their funds. Their other absolute return UCITS fund is Fulcrum Alternative Beta Plus, which has been up every year since inception in November 2007, returned 7.5% in 2010 (with a realised volatility of 6.5%) and has $480 million under management.

Fund Facts

Date of inception:	1st of November 2010
AuM:	USD 87.06 million
Sharpe Ratio:	2.82
Volatility:	10.00%
1 month performance:	+1.20%
3 month performance:	+4.74%
Performance since inception:	+11.40%
YTD performance:	+4.74%

(All data as of 29.03.2011)



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Interview with Jürgen Dumschat, AECON Fondsmarketing GmbH

After completing his training as a bank clerk, Jürgen Dumschat switched to the financial services industry with a focus on marketing and distribution. In 1988 he became the CEO of a German financial service provider and set up the German business for a Swiss private bank and a traditional British Asset Manager. In 2001 he founded AECON Fondsmarketing GmbH, a service provider for Independent Financial Advisors (IFAs). Jürgen Dumschat is the chairman of IVIF and the organizer of the annual "Hidden Champions Tour". He recently presented a new ratio that tries to account for the more and more asymmetric return profiles of investment funds. We sat down with him to learn more about the new ratio as well as to find out what German IFAs think about UCITS hedge funds.

Dennis Drenjovski: AECON Fondsmarketing GmbH serves IFAs from offering back office solutions to fund selection. Doesn't this lead to less and less individual financial advise?

Jürgen Dumschat: It is very important to us not to patronize our affiliated cooperation partners. Our research has a strong focus on mutual and alternative funds and we prepare the information in an understandable way for the financial service providers. After that everything that happens is oriented towards the individual ideas and needs of every client. This is also one of the reasons why we refuse to create the typical model portfolios. I simply can't classify an investor into three or five categories. This only tempts the IFAs to neglect the real needs of a client. Some investors want to limit the maximum drawdown, others have very specific views

within which time frame they expect a positive return and some base their investment decisions on certain return expectations.

DD: At the beginning of this year you introduced the "Torment Ratio" which you developed. Could you please explain the concept and also tell us why investors should use this additional ratio?

JD: There are plenty of funds these days that produce asymmetric rate of return profiles. If after a three-year lasting bull market a trend follower exhibits the volatility of an equity fund, as he was fully invested in equities, the conventional ratios classify the risk as if it was an equity fund. If the market turns into a bear market and the fund hedges its equity exposure or switches to cash the alleged risk suddenly does not apply anymore. All conventional ratios show the strengths of such a fund only at the end of a crisis. In contrast, the Torment Ratio aims at comparing whether the investor gets an appropriate return for the suffering caused. The investor doesn't suffer from volatility in a rising market. But he does suffer from volatility in times of very high or long lasting drawdown periods. What could be more natural than to compare the performance (adjusted by the risk free rate of return) in relation to the maximum drawdown and the maximum under water period.

DD: You offer your affiliated IFAs a database with analyses of fund products. What findings do you get when you apply the Torment Ratio to the products in your database or what did you discover respectively?

JD: One thing is for sure: the Torment Ratio can't deliver the best funds for the future by hitting a button. Sadly the future tends to deviate from the past. What I can do though is to identify, for any given period of time, the funds that offered an attractive return for their maximum drawdown and maximum under water period. First and foremost I can compare funds independently of peer groups. After we applied the Torment Ratio on our list of favourites we could discover a huge overlap between our evaluation and the Torment Ratio.

DD: Isn't there a risk that overall funds will profit from your ratio that are very defensive?

JD: Naturally the rather defensive funds will often have a higher Torment Ratio. For that purpose they first have to outperform the risk free rate of return (we use the 3-month Euribor) though, otherwise the Torment Ratio can't be calculated. But then I can compare all defensive funds regardless of their peer group. At the same time I can decide how I define "defensive". For some this could be defined as a maximum drawdown of 5%, for other defensive could be synonymous with a positive return on a 12-month rolling basis. After I have chosen my basic parameters the Torment Ratio can provide me with a good orientation for my fund selection.

DD: Please give us some insight into the buying behaviour of German IFAs: What do they buy, in particular do they buy UCITS hedge funds at all or are they typically long-only oriented investors?

JD: During the latest financial crisis many people substantially betting on long-only products experienced for the second time that continuous income from trailer fees or also consulting fees related to the assets under management halved. These people start thinking whether there aren't better opportunities. Blockbusters like the "Carmignac Patrimone" or the "Ethna AKTIV E" are essentially being flooded with money of IFAs. However, it has to be noted that the huge asset inflows in this area are spread over a dozen of funds maybe. Long/short funds, managed futures funds or volatility arbitrage funds rarely performed spectacularly well in the latest zigzag movements of the market. If these products do perform well for a year they will be bought willingly again. IFAs that are linked to AECON rather bet on a sound and first and foremost future oriented fund mix. This may also be due to the fact that we are good "interpreters" as many investment companies often are not able to present their concepts in a plausible and comprehensible way. If the IFA doesn't understand the product, he won't be able market it to his clients. This is something the provider of alternative investments funds should work on in the future.

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