

Asian Investor

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Risks to Asian investors holding US financial assets

Can you trust them?

**2009 investment performance awards
Investing in distressed assets
Portfolio risk management**



Johann Santer

* Managing director * Superfund

Superfund Financial is a CTA/managed futures company begun in 1995. Its Superfund Q-AG, launched in 1996, has an annualized net return of 18.5% since inception. Johann Santer has been with the firm since 2004, and in 2007 became MD of its Hong Kong office.

What is Superfund?

We are CTA/managed futures with a trend-following strategy. We try to benefit from the human emotions of greed and fear. We enter our trades in over 100 different futures markets and we avoid human miscalculation by using automated technical systems that we have developed in-house and those systems rely on technical analysis.

How do you risk manage the funds?

All of the rules are built into the trading systems. For example, not more than 1% of fund volume can go into a single trade in our conservative fund, so we avoid concentrations. We also always have stop-loss and stop-win positions in place whenever we do a trade. Being quants, we look into the price and the volatility to derive the stop-loss limit. If it is a less volatile instrument like a treasury bill, then the stop loss will be closer to the market price. When it is more volatile, as in the case with say, sugar, then the stop-loss limit would have to be further away.

What assumptions do you start with?

That trends will occur and therefore that trend following in a market will be successful. From there we developed our trading system and the rules

and guidelines that hold through various markets. We haven't had to make any substantial changes to that since origination.

How has it performed?

So far it has worked well and we now manage \$1.65 billion. That original fund is up 765%. Last year was a fabulous year for trend following. Our funds were up 34% to 74% following the trends and shorting equity markets and certain currencies such as the Australian dollar and British pound. After a major bull-market run, commodity markets started to break down in the second half of the year. We also have seen successful long positions in bond markets.

This year trends have not been so clear. January and February was positive for us, so we experienced something

unusual, a run of six months up in a consecutive row. Since then the funds have been down and we are slightly negative for 2009.

What have your investors been saying about performance?

They were happy last year as they were down on most other components of their portfolio except for cash. CTAs also provide liquidity usually weekly or monthly, so investors were easily able to get money back from our type of fund without gates and redemptions.

We think this might be a bear market rally that is already ending and that markets will remain under pressure and may see new lows. If that happens, then trend following will do extremely well in 2009 and will act as a hedge against lower equity markets. However,

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if those equity markets do move up in a sustained way, then managed futures funds can still pick up on those trends too and do well.

The personal views of managed futures managers don't factor into their systematic trading approach, but Superfund is a big commodities manager, so do you have any views on this asset class?

Commodity markets have been trading at low levels. We had a view on oil that it was a good buy at below \$40 a barrel. We tend to be more bullish towards commodities than equities, figuring that downsides on equity markets tend to be greater.

There have been reversals in commodity markets, and given our job is to follow trends not to create them. As those markets fell in mid 2008, those months were not so good, and we turned to shorting these markets.

Which specific commodities are you super bullish on?

Precious metals. This view derives from our take on the

currency system and the devaluations of paper currencies. Precious metals perform well in both inflationary and deflationary cycles.

In the longer term, on the expectation of returned inflation, we expect oil prices will pick up again, and alternative energy sources and the foodstuffs such as sugar and corn will contribute to that theme.

Hasn't gold already tripled? Isn't it a bit late? Commodity prices have a tendency to revert to norm.

Our Superfund clients didn't miss the boat: when gold was at around \$400 we launched 'Superfund Gold', a CTA strategy which is backed by a long gold hedge. The beauty is that a managed futures fund can go short gold too, if the opportunity presented itself, and you can't do that with the physical commodity. A 'buy and hold' strategy (or 'buy and hope') doesn't work in any environment.

What are Asian central banks doing?

PERSONAL CV

CAREER

2007-to date
Superfund Financial Hong Kong, managing director

2005-06 Superfund Asset Management GmbH Sweden, managing director

2004-05 Superfund Asset Management GmbH Austria, EMEA Team

EDUCATION

University of Applied Science BFI Vienna, master's in banking and finance

China has increased gold reserves to over 1,000 tons and we foresee that allocation may be increased. Gold is liquid and can be turned into cash quickly. Selling activity is coordinated among central banks, so they do not disrupt the market if they do choose to sell reserves in order to, say, help bail out their banks.

Asian central banks actually hold extremely little gold and have an overhang in US dollars, so I think there's a chance they may shift more into gold. More countries are getting sceptical about the US dollar so they may start to diversify their reserves, not just into other currencies, but into gold as well. You can't inflate it by printing more gold.

Why not simply invest in mining companies through equities?

If you have a positive view on gold, it may be risky to invest in a gold mining company because of operational risk. What happens if there is an explosion in their mine? Even if gold goes up you still don't gain. ■