EUREKAHEDGE

Interview with Aaron Smith, Managing Director of Superfund Financial (Singapore) Pte Ltd

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The Superfund group of investment companies was founded in 1995 by Christian Baha in Vienna, Austria, and are now among the world's largest providers of managed futures funds. In March 1996, members of the Superfund group of investment companies launched the first fund for private investors. By 1997, with further refinement, the award-winning Superfund trading strategy emerged, resulting in a fully automated approach to trading.

Today, more than 13 years later, the Superfund group of investment companies have total assets of approximately US$1.65 billion under management from more than 50,000 private investors, and with offices established in 20 countries worldwide. By consistently employing trend-following techniques, managed futures funds have the potential to generate returns in a range of market conditions and provide diversification and low correlation to traditional asset classes such as stocks and bonds. Our flagship fund Superfund A (Superfund Q-AG*) has averaged 18% pa in the past 13 years, Superfund B (Superfund GCT USD*) averaged 22.4% pa over the past nine years, and Superfund C (Superfund Cayman*) averaged 30.22% pa over the past eight years.

*Note: Closed funds

1. The Eurekahedge CTA/Managed Futures Hedge Fund Index rose 16.5% in 2008, while the average hedge fund was down over 12% during the year. How have your funds fared in 2008, on the whole? Could you tell us the names and returns of your best and worst performing funds during the year?

In 2008, our funds returned positive results collectively for the year. Our least aggressive fund (Superfund A USD SICAV) performed 20.95% in 2008 and our most aggressive fund (Superfund SPC C USD) performed 71.78% in 2008.

2. Which are the different asset classes that you allocate to? Do you have any fixed asset allocation ratio or any floor/ceiling in place for your allocations? If so, on what basis do you decide these?

We allocate to many different asset classes from equity indices, bonds, metals, agriculture, etc. As long as there is liquidity in the futures market, we will trade it. We generally have an allocation of 50% financials and 50% commodities. Our proprietary trading systems are designed to ensure minimal correlation between the different instruments and high liquidity for order execution.

The 50/50 allocation is based on historical and it is not fixed. If there is a trend, we will have position; but if there isn't one then we won't.

3. Could you tell us a little about the geographical diversification of your investment portfolio?

The spectrum of traded instruments globally consists of more than 100 futures markets in both commodity and financial futures.

4. Tell us about the qualitative and quantitative research that forms a part of your investment process. Do you bank on electronic models for your research and trading? If so, to what extent?

Positions are initiated using proprietary technical algorithms that attempt to identify price trends at their early stages. Most systematic trend-following systems employ technical indicators such as moving averages or Bollinger Bands to identify trending markets. Superfund funds have a high win/loss ratio because of the correlation matrix employed in evaluating technical indicators. In other words, trades are elected when indicators that have little relation to each other tell the system to go long or short. Superfund believes the key to using such indicators successfully lies in the way they are interrelated and applied in combination.

Due to the nature of trading in futures, there is the ability to go long or short. Unlike equities, there is no margin interest to pay to go short or to employ leverage. There are equally likely opportunities to follow a bullish trend or bearish trend, as long as the magnitude of the trend is significant.

At present, Superfund's trading strategy is based on short and mid-term time horizon. A key to Superfund's success is the potential to limit drawdowns by daily maintenance of stop orders. In this way, if a trend reverses – any loss is theoretically limited; while if a trend continues – profits are theoretically protected. By this measure, Superfund seeks to optimise winning trades.

5. On an average, how many positions do you hold at any point in time? And, how often do you review each of them?

At any given time, of the 100 futures markets traded, the portfolio would generally have 20-30 positions. Each position is individually evaluated to have a low correlation to other positions in the portfolio. These positions are reviewed real-time and on a daily basis.

6. How much leverage do you use for each of your funds? And what is the usual ratio of the long to short positions that you hold?

Risk management is the most important aspect of Superfund's trading methodology. Our basic strategy (Strategy A) runs a targeted average margin-to-equity of 20%. This means an average of 20% of the fund's assets are used in positions and an average of 80% remains in cash equivalents at all times thereby the fund is naturally leveraged.

In addition to Strategy A, there is Strategy B which is more dynamic and of a higher risk than Strategy A with a targeted average margin-to-equity of 30%. For example, if Strategy A is buying gold with 0.5% of assets, Superfund B is buying gold with 0.75% of assets.

The most aggressive strategy is Strategy C with a targeted average of 40% margin-to-equity. The positions in Superfund funds are limited to 3% of the total open interest in any given market. This is critical since we do not want to become the market in any particular contract (ie this avoids LTCM type of situations).

Maximum initial risk per trade: 1% of total assets in Strategy A, 1.5% of total assets in Strategy B and 2% of total assets in Strategy C.

Maximum risk per sector: 8% of total assets in Strategy A, 12% of total assets in Strategy B and 16% of total assets in Strategy C.

7. Tell us a little about the risk management tools and practices you have in place to safeguard your investors' wealth.

Stop loss placement plays a key role in the Superfund investment strategy: stop orders are automatically placed for all open positions and the systems continuously screen volatility and signal adjustments of portfolio exposure accordingly. When a trade goes against us, positions are automatically stopped out for a pre-calculated, limited loss. If a trade goes in our favour, it naturally becomes a greater percentage of the portfolio. The ideal situation is to let a winning trade run and to adjust the stop order on a daily basis. However, if there is high volatility we will take profit and minimise the size of our position.

8. We noticed that your fee structures are significantly different from (higher than) the average for the hedge fund universe and other managers of the strategy. Could you explain why this is the case? Also, could you shed some light on the differentiating factors of your funds from others having a similar strategy but charging substantially lower fees?

Firstly, our fee structure is completely transparent – we do not have any hidden fees (all performance figures are net of fees). As such, in comparison to other funds, it may appear that our fees are slightly higher. Secondly, our fees are reasonable relative to the returns investors can make over the long term and we are actively trading which also involves slightly higher costs. Sure, some CTAs will have a correlation to our strategy, but correlation does not mean that the investors will net the same returns. Thirdly, we do not compare our fund or our fee structure to other funds, rather we just know that some investors are willing to pay for the highest quality investment strategy. It is important that our clients are confident that over the next three to five years, they may not find any other opportunity which can realistically provide the same possible total return as Superfund.

9. What classes of investors (retail, institutional, high net worth individuals, etc) is your investor-base currently made up of? Could you give us a rough breakdown of the same? Also, how is this spread geographically?

Most of our investor-base currently comes from private banks and financial advisors. Today, we have about 80% high-net-worth private clients and about 20% institutional. Geographically, our 50,000 investors are spread throughout the US, Europe and Asia as we have 20 offices worldwide.

10. Could you give us your near- and medium-term outlook of the currency and commodity markets? Do you foresee any new trends taking shape? If so, how do you think these would impact the performance of CTA / managed futures funds for the rest of 2009?

Unfortunately, we cannot predict how markets will perform. The success of our strategy lies in the fact that we do not predict the future, we react to real market information and follow price trends while employing a systematic risk management which aims to ensure capital preservation.

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