

FUTURES INTELLIGENCE

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Investor Choices

You hear a lot of talk about how much money is coming in, where the investors are going and what effect capital inflows may have on commodity trading advisors. Having worked with Mack Frankfurter before, I knew that he could be relied on to give an independent and thoughtful assessment, which he does in [Insider Talk](#).

To illustrate the extent of the growth, [Index Tracker](#) presents some interesting data on commodity investing.

Managed accounts have attracted investor interest since the 2008 crisis. We were very lucky and got Esther Goodman to talk about managed accounts investing. Anyone who's been around the industry will know or have heard of Esther. In [Founders](#) she gives a terrific discussion.

[Futures Lab](#) follows that up with a report on monitoring managed accounts. We have insights from a rating agency and transparency reporting pointers from GlobeOp, administrator of some \$159 billion in assets.

For those that want a quick reminder of the key issues in assessing a manager, Mark Shore has a list of ten succinct points in [Manager Profile](#).

[Practitioner View](#) is from the brokerage side of the futures industry—veteran introducing broker Gerald Colagrossi sees a place for human knowledge and skill in a world of automated trading.

And do check out the [Top Ten](#) programs with the highest returns in March. You might find some surprises.

Chidem Kurdas
Editor

Veteran Investor on Transparency & Control

Growing interest in commodity trading advisors raises questions as to the best way to invest. Alternatives include funds of funds, managed account platforms and individual separate accounts. To get a better sense of the options, we talked with Esther Goodman, one of the most experienced investors in the industry. She is the chief operating officer and senior executive vice president of Kenmar Group, a \$1.5 billion fund of funds business and managed account platform.

Ms. Goodman started to work in commodity futures in 1974. She was a founder and principal of Westchester Commodity Management, a registered CTA, and later worked as a marketing executive at the well-known Commodities Corp. in Princeton, NJ. She joined Kenmar in 1986.

For more on managed accounts, transparency and control, see the next section, [Futures Lab](#).



Esther Goodman

“We want to make sure managers follow their trading policy and we get what we expected when we added a manager to the portfolio.”

Opalesque Futures Intelligence: What is your experience with managed accounts?

Esther Goodman: Kenmar has been dealing with and investing through managed accounts for some 27 years. We started as a multi-manager futures business in the early 1980s and all of our investments were through managed accounts. Later we used managed accounts to invest in other strategies as well, but still the majority of our accounts are with commodity trading advisors and global macro, with a smattering of long/short equity primarily in the commodity and natural resource space.

OFI: From the investors’ perspective, how different is a managed account from a regular pooled structure?

EG: Typically each legal entity – fund – owns a managed account and our clients invest in that fund. Kenmar monitors trading activity, positions and daily performance in each managed account. If we did not invest through managed accounts, we could not monitor trades—we’d lack transparency and control.

OFI: How much information do your clients get about a managed account?

EG: If the manager agrees and a client wants

it, we will provide transparency to the investor and they will receive reports showing their specific pro rata share of positions. That’s subject to the client signing a non-disclosure agreement, of course. We recently appointed GlobeOp as the independent administrator of the accounts. They provide risk analytics and a variety of customized reporting for us.

OFI: What if a client wants their own separate account rather than a pooled account?

EG: We do individual separate accounts if the client is large enough and the managers agree. Recently we did one for a UCITS product where the client wanted some of the smaller managers to be in a separate account. The managers who agreed to this went into the portfolio.

OFI: What is managers’ view of managed accounts?

EG: Many large and even some small managers want only a limited number of managed accounts. They want to be judicious in their choice of the clients and platforms that get accounts. So it is not always possible to do a managed account. But at Kenmar we’re lucky because we’ve been doing this for a long time and have close relationships with

FOUNDERS Q&A

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some of the large managers. The confidentiality of the trade information is a concern for managers. We've built up trust with them over the years.

OFI: What advantage does a managed account have over a regular fund?

EG: On a managed account platform, you have another party who watches what the manager is doing. If an investor requests a manager that is not on our platform we can do the due diligence, add them to the platform and monitor the investment.

OFI: Why would an investor be willing to pay a managed account platform?

EG: For a fund of funds or institutional investor that is not able to analyze trade information themselves, the reason to invest through a managed account platform is that they believe the person who runs the platform can do the monitoring for them and shut a manager down if the manager violates their agreed-upon trading policies and risk limits. That's what the investor is paying for. We expect that managed accounts will continue to grow, but there will always be people who don't want to pay for the service.

OFI: As an overseer of accounts, what do you watch for?

EG: We want to make sure managers follow their trading policy and we get what we expected when we added a manager to the portfolio. We have over 25 years of experience with managed accounts, the ability to understand the trades and extensive knowledge in comparing and contrasting traders.

OFI: Are institutions interested in having separate accounts?

EG: We've managed a multi-manager futures portfolio for a mid-sized public pension plan for 12 years. The client receives daily portfolio level position information and knows that if their stop point were reached, we could get them out of one or all of the managers tomorrow.

OFI: Are commodity trading advisors getting more attention?

EG: In the past, CTAs were perhaps the black sheep of Wall Street. After being misunderstood for years, they are finally better understood and more widely accepted. Investors see that

managed futures returns are no more volatile than equities. Also, the industry has grown a lot. Fifteen years ago you could not find anything but trend following CTAs, whereas today there are so many different strategies that you can really build risk-efficient portfolios. Investment strategies have matured and returns are less volatile than they were 30 years ago, when I got into the business.

OFI: With the growth of financial futures, do CTAs provide exposure to commodities?

EG: Large managers (those with \$1-billion plus assets) generally have less exposure to commodity markets because of their size, but there are many specialized managers who trade commodities. Ten years ago these markets were relatively quiet but today you can find terrific commodity-only futures managers. However, specialist commodity managers tend to be smaller, so institutions are more inclined to rely on funds of funds in this area.

OFI: Is there a case for fund of funds in managed futures?

EG: I may be biased as a fund of funds manager, but investing in a CTA through a fund of funds makes a lot of sense. For one thing, you avoid some of the operational risks of investing directly in small CTAs with limited infrastructure. At Kenmar, we're used to dealing with both small and large CTAs. We think managed accounts are crucial because it is important to have the ability to monitor positions and get out when or if there is a trading violation. Many investors simply aren't set up to open and monitor their own managed accounts, making funds of funds a very viable solution.

OFI: How is the fund of funds business doing?

EG: Kenmar is well positioned in our niche space of futures, global macro, commodities and natural resources. This is a space where institutional investors are usually more comfortable investing with a fund of funds. The managers are often smaller niche traders that may be more time consuming to evaluate and monitor. By comparison, most larger institutions do their own due diligence and monitoring for long/short equity strategies.

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Managed Account Monitoring

By Chidem Kurdas

In the aftermath of the 2008 crisis, interest grew in managed accounts, in part as a way of instituting better oversight of trading and assets. That interest, in turn, led to greater attention to questions about the use of accounts. What are the benefits of different types of accounts? What level of transparency should investors target? Here we review material from the rating agency Moody's, fund administrator GlobeOp and other industry participants.

For an investor's perspective on this topic, see our conversation with Kenmar's Esther Goodman in [Founders](#).

A report from Moody's points out that managed accounts "offer various advantages such as control and ownership of assets but also present challenges given the costs involved and monitoring requirements." Moreover, while the structure reduces certain elements of operational risk, it does not eliminate all the risk. But the benefits, costs and risks depend on the type of account an investor chooses.

It is useful to distinguish three main types of accounts. One, the investor might open a dedicated separate account with a hedge fund manager. Two, the investor can get access to selected funds via a commingled pool on a managed account platform. Three, the investor may have a separate account on a platform. Table 1 summarizes the features of these three structures.

TABLE 1

	Separate Account With Fund Manager	Managed Account Platform	Separate Account on Platform
Control of assets	Investor	Platform	Investor or platform
Subject to gates or suspensions?	No	Yes	No
What does the investor own?	Underlying securities	Share of account	Entire account
Responsibility for risk management	Investor	Platform	Platform
Transparency		Customized reporting	

SOURCE: Summarized from Moody's study, "Hedge funds: Investing through Managed Accounts."

Commodity trading advisors are the largest group on managed account platforms, accounting for 30% of platform assets according to Moody's. Global macro accounts for another 15%, so close to half the assets on the platforms are in these two trading strategies.

Investors have to decide whether an account offers sufficient advantages over a pooled fund, then identify the right type of account and level of customized reporting. Fund managers vary in their willingness to take on the added complexity of a separate portfolio and provide potentially sensitive information. Platforms also offer different levels of reporting.

Long-time futures allocator Kenmar recently hired fund administrator GlobeOp to provide managed account administration and

detailed risk analytics and reporting. GlobeOp chief executive Hans Hufschmid says they will provide transparency for their clients and their clients' clients. GlobeOp sends reports to investors if a manager agrees.

Table 2 shows some of the components of a report. The administrator can independently confirm pricing sources, position reconciliations, fund assets and liabilities, counterparty risk concentration, portfolio liquidity and where the assets are held in custody.

TABLE 2

Sample Operational Risk Disclosure Report Selected Services and Information

* Confirm: cash, collateral balance, over-the-counter position, pricing, investment position

* Fund Asset/Liability Confirmation: NAV, % of NAV confirmed by administrator

* Pricing Analysis: % Confirmed by administrator

* Third Party Exposures: Each third party as % of NAV

* FAS 157 Classification (from manager)

* Management and performance fee calculation

Managers' Objections

Some managers simply will not do separate accounts, because of various complications caused by accounts compared to commingled funds. Credit fund manager Claren Road Asset Management is in this group. Suzanne Murphy, head of strategic development at Claren Road, says they want to treat all investors equally and a client with a separate account can fire the manager at moment's notice—hence the account holder would have a different level of liquidity from investors in the pooled fund, creating inequality.

John Phinney Jr., chief operating officer of Apollo Capital Markets, says managed accounts have unintended consequences. Well-intended investors create inconsistencies, for instance imposing restrictions that cause the account to drift from the fund's strategy. Hence returns in a separate account can diverge from the returns the manager makes in the fund.

Another concern managers have is about divulging trade information via separate accounts that allow investors to watch the trading. A question for the manager is whether the investor can be relied on to protect confidential trade data and making sure it does not fall into the wrong hands. Managed account platforms offer a solution; only the platform operator sees the trades.

In any case, to benefit from trade-level information an investor needs to have the capability to monitor trading and take action if there is a problem. A platform will do this for investors.

According to Moody's, institutional investors are showing increased interest in getting separate accounts on platforms, that is, "renting" a platform's infrastructure (see Table 1, third column). Then the platform operator is responsible for monitoring trades and managing the risk, as well as other functions like negotiating legal documentation with third parties.

In addition to negotiating the level of transparency and frequency of reporting, investors have to consider the question of minimum investment. A dedicated separate account typically requires a large investment. CTAs may agree to trade an account for less than a million dollars but established hedge fund managers often will not consider a separate account for less than \$50 million or \$100 million. There are reports of large managers that will not do a separate account unless the client commits at least \$1 billion.

By contrast, commingled accounts on a platform typically have low minimum investment requirements. Another consideration is that a separate account may be easier to negotiate via a platform rather than directly from the manager, especially if the manager already has a relationship with that platform and is comfortable with the platform's monitoring.

Future Prospects

Managed accounts and platforms that offer them are not new. For instance Lyxor, the largest platform with \$10.5 billion in assets as of 2010, started in the 1990s. Account assets are still a very small share of hedge fund industry assets, though growth has been more rapid in the last two years as investors sought greater security, liquidity and control. Dow Jones Indexes and Credit Suisse recently introduced an index that tracks multiple managed account platforms, on the ground that there has been a resurgence of interest in the space due to the superior liquidity and transparency of managed accounts.

Moody's analyst Joanne Job expects that growth will continue to be strong in the short term but more subdued in the longer term as investor risk appetite returns, barring another market shock. If managers provide fund investors with the level of transparency the investors want, then managed and separate accounts will have less of an advantage and, given their higher costs, become less attractive. But many institutions now prefer to have their own account. That preference will likely continue.

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Is Diversity in Danger?

More money is coming into futures trading—see the next section, Index Tracker, for data on commodity futures growth related to index investing. We wanted to go beyond conventional wisdom and get an analytical view on how the industry is evolving as it grows.

Our commentator, Michael “Mack” Frankfurter, has a distinct view on the subject. He is the co-founder and managing director of Cervino Capital Management LLC, a commodity trading advisor and registered investment adviser, and the author of numerous scholarly articles on futures markets. He was previously featured in [Opalesque Futures Intelligence](#) issue 5, April 7, 2009, where he argued about roll yield.

Mr. Frankfurter has been involved in managed futures since 1991, when he joined The Echelon Group, an investment company that allocated to emerging traders and helped incubate CTAs, including Dreiss Research, Jackson Grain, Range Wise and others.

The reading list at the end of this interview includes the studies and arguments he refers to.



Mack Frankfurter

“What investors should be asking themselves when they allocate to large \$1 billion-plus CTAs is whether or not they are just joining the herd.”

Opalesque Futures Intelligence: How do capital inflows affect managed futures?

Mack Frankfurter: It seems that increasingly managed futures is dominated by just a few commodity trading advisors and commodity pool operators. Investors tend to gravitate towards these programs and ignore the rest—so most of the money is actually migrating into a small universe of \$1 billion-plus funds. That raises the question of what kind of impact these few CTAs/CPOs have on the market when they build or liquidate a position.

OFI: What does that mean for markets?

MF: I, as well as others, suspect that cash flows in and out of contracts have a strong influence on commodity market direction. In that sense, one could argue that large CTAs/ CPOs have “become the market”. I would add into that equation commodity exchange traded funds and notes and mutual funds such as the PIMCO Commodity Real Return Strategy Fund. Even though these investment products may be excluded from the definition, they are effectively securitized managed futures funds, for the most part trading naïve strategies.

OFI: What does it mean for investors?

MF: Managed futures is suffering from a decline in market diversity. While industry participants like to celebrate the rise of managed futures and point to its growth in assets, the facts tell a different story. Here are some numbers: of the 523 programs listed in the IASG database, 15% represent 91% of total assets. Of these, just ten programs represent 60% of the assets. I believe you would see a similar concentration in other databases tracking managed futures.

OFI: There are new CTAs starting up all the time. Doesn’t that enhance diversity?

MF: While the barriers of entry are low for starting up a CTA, only a handful make it into the sweet spot between \$10 million to \$100 million in assets under management, and most do not survive past two years. From what I understand, the total number of CTAs who are actively trading is but a few hundred out of the several thousand registered CTAs. There are more CPOs, but most of these funds just allocate to a handful of the same CTAs, further diminishing market diversity. This raises the specter that the managed futures industry may be double-counting total assets under management.

OFI: How do you explain the growing attraction of managed futures compared to certain other hedge fund strategies, as shown by capital inflows?

MF: Managed futures is the little kid brother to the hedge fund juggernaut. Even so, its impact upon the industry is writ large in two significant and related ways. First, CTAs and CPOs, unlike their brethren hedge fund managers, have operated in a highly regulated environment for decades. After the experience of the 2008 crisis, Madoff and assorted scandals, it is no surprise that investors are more interested in liquid and regulated investments like managed futures. Second, the regulated environment of the futures industry was structured in such a way that it helped lower barriers of entry for talent. Some of that talent matured over the years and created institutions. A constant influx of new talent is healthy for the industry, but it's a tough game. Skilled CTAs may be unlucky and not raise enough assets to survive while unskilled but lucky CTAs find it easier to attract assets—until they blow up.

OFI: Is managed futures a promising asset class?

MF: It is not an asset class. If managed futures were confined to just commodities, maybe it could be considered representative of the commodity asset class. But with CTAs also trading financials, managed futures is as much an asset class as are registered investment advisers, mutual funds or hedge funds.

OFI: But many people do consider hedge funds an asset class. So why not CTAs?

MF: The underlying problem is that people mix up structure versus strategy. If mutual funds or investment advisers are not an asset class, why should hedge funds be regarded as one? Hedge funds are not an asset class and neither are CTAs or CPOs. What started out as an investment activity defined by regulation is now conventionally considered by many an asset class.

OFI: If managed futures is not an asset class, what is it?

MF: As with much of the lingo that the financial industry regularly comes up with, mainly for marketing reasons, the term has become a misnomer. Let's take a step back and look at what managed futures is truly representative of—professionally managed derivatives speculation. If one studies the role of the derivatives speculator as an economic agent within the economy, I suppose you could label it the "anti-asset class." I'm sure this will sound bizarre to many and will definitely not be appreciated by marketers, but if you understand the role of speculators versus hedgers within the derivatives market, that label makes as much sense as any.

OFI: Okay, but how does that explain why CTAs make above market returns?

MF: The futures and derivatives markets provide an important function within the economy, specifically price discovery, liquidity and reduced volatility. Such attributes benefit businesses that use the futures market to hedge and through that mechanism the economy as a whole, not necessarily speculators. If you are in the camp that thinks futures speculation is a zero-sum game – surprisingly there are those who argue this isn't the case – you reach the conclusion that the source of return comes from either a transference of so-called risk premia from risk adverse hedgers, or alternatively from an asymmetric advantage or "edge" as the old school called it, what many now refer to as "alpha".

OFI: How come some CTAs make above-market returns for decades?

MF: The likely source of return is behavioral—they're taking advantage of opportunities offered by irrational behavior and market disequilibria. A good example of this happened in 2008 when "dumb money" entered the market vis-à-vis long-only commodity investment products. So-called "investulators" didn't understand that it is not healthy for commodity markets to be perpetually bullish. That said, it is not appropriate for CTAs to make a claim of positive alpha simply because the return is more than the risk-free rate. Managed futures is not risk free. However, certain speculators can have an edge. The adept capture risk premia from the wisdom and/or madness of crowds, which is just a fancy way of saying trend following and counter-trend speculation.

OFI: You can argue that a long/short equity hedge fund belongs in an investor's equity portfolio, just like an equity mutual fund. But CTAs and global macro can't be categorized like that because they may trade almost any market via futures. How should investors classify CTAs?

MF: Categorization is an understandable crutch, but it's a slippery slope that leads to pigeonholing and stifles the inquiry necessary to make investing successful. Earlier I alluded to the fact that traders can be skilled or unskilled, lucky or unlucky. I suppose one could start by dividing the investment universe into passive asset exposure versus active trading strategies. The source of return from these categories is distinct, but it raises a sticky question with respect to commodities—is passive long-only commodity exposure truly representative of the "beta" of that asset class? As to active trading strategies, the "alpha" side of this equation, one could divide that universe into a whole slew of strategies: value-motivated traders, market-makers, scalpers, day traders, position traders, momentum traders, contrarians, pure arbitrageurs, hedgers, indexers, gamblers, etc.

OFI: If it's not an asset class, how can managed futures be benchmarked?

MF: Well, there are studies related to this question, but there is no perfect solution. In a 2006 paper titled "The Beta of Managed

INSIDER TALK

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Futures” Lee, Malek, Nash and Rose argue that trend following is the predominant strategy in this space. Therefore the appropriate benchmark for managed futures is one that mechanically mimics trend-following systems. That’s an interesting approach and one that addresses issues related to peer group analysis and comparison. The weak part of their thesis, however, is the assumption that managed futures essentially represents trend-following strategies.

OFI: Is there a way around that?

MF: The paper’s authors readily admit that CTAs employ a wide range of methods, and attempt to resolve that issue by creating a “beta benchmark” of twenty systems trading the most liquid markets globally. Their study found that this benchmark, for the period analyzed, was highly correlated to large CTAs. That brings us back to my initial point that a small number of \$1 billion-plus CTAs/CPOs dominate the industry to such an extent that market diversity is endangered, leading to imbalances in the ecosystem such as excessive speculation.

OFI: Why does this matter to investors?

MF: This line of reasoning implies that the relationship between alpha and beta is transient in nature. Think of it this way: ‘beta’ is akin to market herding behavior, while ‘alpha’ applies to speculators who obtain their source of return from culling the herd through some asymmetric advantage or edge. In other words, ‘alpha’ is predatory behavior, yet serves an important function by enforcing a core assumption within modern finance called “rational expectations equilibrium”. What investors should be asking themselves when they allocate to large \$1 billion-plus CTAs is whether or not they are just joining the herd. My view is that these large CTAs leave a big footprint and can easily be preyed upon. That’s why you often see performance decline as assets under management increase. The heart and soul of managed futures, on the other hand, is more about allocating to adaptive, nimble traders not encumbered with too much capital.

Suggested Reading List

Many of these papers can be accessed at: http://www.scribd.com/cervino_academy

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“Skilled CTAs may be unlucky and not raise enough assets to survive while unskilled but lucky CTAs find it easier to attract assets—until they blow up.”

Commodity Index Growth

By Chidem Kurdas

There has been dramatic growth in index-related commodity investments over the past two years. In particular, investments in gold and certain agricultural commodities like corn have expanded substantially, as the table below shows.

The Commodity Futures Trading Commission collects information on index investing in commodity markets. For this purpose, the investors include index funds, swap dealers, pension funds, hedge funds and mutual funds. Exchange-traded funds and exchange traded notes are part of the index activity.

These participants use both direct investments in futures markets and indirect investments through over-the-counter swap agreements with financial firms. The CFTC obtains information about both activities. For OTC agreements, the Commission uses "special call" requests for details of firms' market positions in physical commodity futures.

The data below is the notional value of futures contracts for all US markets with more than \$0.5 billion of reported net notional value of index investment at the end of any one month.

Index Investment Growth

	Notional Value of Futures Contracts, Net billions of \$			
	Feb. 28, '11	Dec.31, '10	Dec.31. '09	Dec. 31, '08
Total, US and Non-US	232.7	211.1	159.9	82.2
Selected US Futures:				
WT1 Crude Oil	47.3	41.7	36.4	20.1
Gold	16.7	14.9	8.4	6.1
Natural Gas	16.5	14.6	14.7	7.1
Corn	15.6	13.8	6.9	5.0

SOURCE: Commodity Futures Trading Commission, various reports

Gold is an outstanding example. Index-related gold futures activity – as defined above – fell from 2007 to 2008, reflecting the unusual circumstances at the time. By the end of 2009, conditions were more normal. From then to the time of the latest data release at the end of February 2011, the notional value of gold contracts approximately doubled.

This year gold futures have been the largest sector after crude oil, whereas in the past other commodities like natural gas drew far more activity than gold.

For a discussion of possible adverse effects from the inflow of capital into futures markets, see this issue's [Insider Talk](#) with Mack Frankfurter.

What Investors Want: Ten Points

What do asset allocators look for when they approach a manager? We asked Mark Shore, who has experience both in due diligence and managed futures. He was vice president and chief operating officer at Morgan Stanley's VK Capital Inc., a commodity trading advisor. More recently he was head of risk at Octane Research Inc., where he did due diligence on funds of hedge funds.

Currently he is chief investment officer at Shore Capital Management, where he provides research and consulting on alternative investments with a focus on CTAs. He is also teaching a course on managed futures at DePaul University.

Mr. Shore says managers should:

1. Be open to providing information.
It is not helpful to tell people who are doing due diligence, "You don't need to know this, it does not matter," even if the request for information is about a minor issue.
2. Understand the markets they trade in.
The experience can be longer or shorter, at different places or just one place. But there has to be a demonstrable appreciation of how the markets work.
3. Explain what caused the drawdowns.
Everybody has drawdowns, but they should learn from the experience and help us understand what caused it. "It was bad luck" is not a good explanation. There is always an element of luck but managers have to be aware of what makes their investment program vulnerable.
4. Have a well organized research process, undertaken by confidence-inspiring people. The manager needs to discuss how they do the research and what kind of process they have in place.
5. Generate the type of volatility that diversifies the investor's portfolio.
Like cholesterol, there is good and bad volatility. Good volatility fits the portfolio. I don't like using the Sharpe ratio to assess performance because it makes no distinction between the good and the bad— this is due to the assumption of a normal distribution.
6. Take care of business issues.
If the manager's time is taken up by investment and trading-related work, then there should be other senior people at the firm who have the ability to run the business.
7. Create an organizational structure that covers necessary tasks.
It should be clear that all functions are taken care of.
8. Make sure the back office is staffed with capable people.
The back office can be internal or outsourced to a third party, like a large prime broker or administrator, as long as they have the necessary capabilities.
9. Have a reasonably stable investor base.
There should be long-term clients and not a lot of turnover in the investor base over the history of the fund.
10. Be prepared for key personnel risk.
There needs to be qualified people at the firm who can take over if something happens to the managing partner.

In a Changing Industry, Some Things Are Constant

This view is from Gerard Colagrossi, founder of Colagrossi Futures LLC. He's a long-time broker who has held executive positions at Fortis, UBS, ABN AMRO and MF Global.

I have been involved in the futures industry for over 30 years. I've probably been responsible for more orders than anyone else in the business. It was a different world when I started—at that time prices were written on boards with chalk! Now, of course, everything is electronic.

But the basics of what we do for clients has not changed. We're a full service introducing broker, providing clearing, execution and back office services. The clients are commodity trading advisors, hedge funds, institutions and high-net-worth customers. Our goal is to provide accurate clearing and execute according to their specifications. Yes, trades are automated, but we attempt to improve execution and make sure it is done the way clients want.

Avoiding Slippage

Our desks have been responsible for thousands of orders a day. Many clients have multiple accounts at multiple futures commission merchants. A major concern with large trades is slippage. Nobody wants to find that the market price moved against them because of the trade they put on.

I believe it is not the case that there is necessarily more slippage today compared to the past. At certain times a market can be thin and a big order can cause slippage, but markets in general have become more liquid. The number of contracts traded has increased tremendously and volume continues to grow from year to year.

Futures and Options Volume

	Percentage Change from 2009 to 2010*
Foreign Currency	142%
Ag. Commodities	41%
Non-precious metals	39%
Interest rate	30%
Equity Indexes	16%
Precious metals	16%

*Contracts traded or cleared at 78 exchanges worldwide.

Source: Futures Industry Association.

On the other hand, with electronic trading you can have more slippage. An electronic trading system may take the first bid/offer available. With discretion, a broker-trader would not always take the first offer but look for a better price. Whether stop-orders achieve better prices depends on market conditions.

Market volume fluctuates due to current events. You do not want to put orders, especially big orders, blindly into the market. That's where human intelligence still provides value. We execute most orders electronically but watch the market before executing to try to get our clients the best price.

Market Knowledge

It used to be that you could only trade limited hours during the day. Now you can trade 24 hours a day. Some overnight news events and market moves are as important as events that happened during daytime. We are open 24 hours.

It still pays to have people with deep knowledge of a market to oversee trade execution in that market. Our market specialists have been doing the same overnight shifts for years. The markets are too complex to change people's schedules, so we do not rotate schedules. If somebody works on the Sydney market we're not going to move him to the Europe market.

One change in recent years is customers' priorities. In the past five or six years people were very price sensitive. But now they look for added services; they want value, not just low cost. We work to make it as seamless as possible.

Another major issue is confidentiality. There's a perception that prop trading desks might use customers' order flow information to make money. The 2010 Dodd-Frank Act is getting the banks out of prop trading. But clients look for brokers they can trust with their trade information. They want to sleep at night. As an IB, our obligations to the client remain the same.

March Madness Champions

The expression “march madness” usually refers to a basketball championship. Here we have the month’s top performing commodity trading advisor programs from Institutional Advisory Services Group, a futures brokerage founded in 1992.

March, a turbulent month marked by the earthquake and tsunami in Japan, was the highest-return month since inception for certain programs. Some of these have substantially lower year-to-date returns than their March returns because of losses early in the year.

Please note that we have not included more than one program per manager on the list, diverging from the Institutional Advisory Services Group ranking in this respect.

CTA	Program	March Return
1. Global Investment Mgt.	GIM High-Frequency	58.2%
2. Paramount Capital Mgt.	Commodity Trading	38.7%
3. DRUMRFX	Drumrfx	18.7%
4. GT Capital CTA	GT Capital CTA	11.4%
5. Pearlman CTA	Booster Program	9.9%
6. K&Q Futures Inc.	K&Q Option Select	9.7%
7. Arborvitae Capital Mgt.	Options Program	8.3%
8. Crawford Rule Ltd.	Taiwan Index Options	7.4%
9. Alternative Asset Mgt.	Megalio Futures Alpha	7.2%
10. IKOS	IKOS FX Fund	6.5%

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