Reuters

US commodity trend funds find pensions elusive

02.25.09, 3:05 PM ET

UNITED STATES -By Barani Krishnan

NEW YORK (Reuters) - Trend-following fund managers in the United States aim to reel in bigger clients after placing winning bets on falling commodity prices, but conservative pension groups like Calpers and their advisers said on Wednesday they aren't biting.

High management fees of up to 6 percent a year and another 20 percent on profit is one reason why such fund managers -- who buy when markets are up and sell when they are down -- are disliked by those advising pensions, endowments and other institutional funds.

Another thing working against these trend-followers is historical data showing positive returns for passive "long-only" investors in commodities, who buy and hold futures over extensive time periods regardless of market swings.

Trend-following fund managers -- also known as Commodity Trading Advisers or managed futures funds -- are active money managers who will abort a long, or bullish position, for a short, or bearish bet, just to capture market momentum.

These fund managers trade in financial futures like bonds, stock indexes and currencies, apart from energy, metals and agricultural futures. Their clients are often retail investors who put between $1 million and $5 million in trend-following accounts.

"If you're talking about commodities exposure for institutions, our approach would be really something very broad-based and passive," said Michael Schlachter, managing director at Wilshire Associates, a global investment advisory which advises Calpers.

"The actively managed portfolios charge ridiculous fees for commodity assets. Who wants to pay a 6 percent base fee when the active manager may also be long commodities most of the time, something the client can do passively?"

Calpers, or the California Public Employees' Retirement System, is the largest U.S. pensions fund, with total assets of $170 billion. It had $1.1 billion passively invested in the S&P GSCI, a long-only commodity index, in June, before a crash in oil, metals and grains prices took the value of that down to $586 million by the end of last year.

In December, Calpers said it had appointed three commodities consultants, including Wilshire, to boost its inflation-linked asset class, which lost 3 percent in 2008. Calpers told Reuters then that it was open to exploring commodities exposure outside of the S&P GSCI, including long/short strategies that helped some trend-following funds post returns up to 75 percent last year.

But Calpers spokesman Clark McKinley told Reuters the fund was not evaluating any trend-following commodity strategies. "We are still tracking this index," he said, referring to the S&P GSCI.

Schlachter, the Wilshire managing director, declined to discuss Calpers or any particular client. But he said Wilshire had the same advice to all institutions invested in commodities for diversification: Do not chase short-term trends.

And while the firm was not in the habit of forecasting market direction, Schlachter said: "I'd be shocked if commodity prices didn't rebound very, very rapidly to levels we saw last year, once we get back into a strong economy."

Ben Rotenberg, director at California's Cliffwater LLC, another Calpers consultant, said although long-only commodity indexes had plummeted in value since June, there was no certainty they had lost their sway with clients.

"I don't know if that's necessarily the case. I think its more of the asset class as a whole that's suffered," he said.

Still, some trend-following managers are hopeful of stealing some market share from long-only indexes that have monopolized the institutional business in commodities.

"We've met dozens of new potential clients, from state retirement systems to university endowments and family offices, and we've had very encouraging response," said Marc Malek at Conquest Capital, a managed futures firm in New York whose two trend following funds returned 45 and 52 percent last year. (Editing by Marguerita Choy)