

# Press Clippings

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19:23 26Nov08 RTRS-FUND VIEW-Short-term trading is top CTA strategy -German fund

By Peter Starck

FRANKFURT, Nov 26 (Reuters) - German hedge fund manager **Varengold** <VG8G.DE> will focus its strategy for managed futures on short-term trading while stock markets remain volatile, which they are likely to do until at least the middle of next year.

Globally, some \$250 billion is invested in managed futures strategies, or around 15 percent of the hedge fund industry's total assets under management of approximately \$1.7 trillion. Short-term trading strategies use mathematical models to identify and profit from pricing anomalies.

HI Varengold CTA Hedge is a fund of funds investing exclusively in managed futures, or CTAs. They typically invest only in highly liquid, exchange-traded derivatives.

The Varengold fund divides its 40 million euros (\$52 million) in assets under management (AUM) -- up from just over 10 million euros at the start of 2008 -- between five sub-strategies and 12 CTAs.

Varengold's annualised return in the year to end-September was 16.5 percent compared with 12.2 percent for Barclay's benchmark CTA index and a 25 percent loss for the MSCI World equities index <.MIWD00000PUS>.

"The general expectation is that stock markets will continue to fall next year," Varengold co-founder and Chief Executive Yasin Qureshi told Reuters in an interview.

"There are no solid fundamentals in sight to give direction for a bull market."

Qureshi believes many equities investors will nevertheless hold on to their stocks until dividends for 2008 have been paid and sees no clear market trend emerging until corporate earnings for the first quarter of 2009 have been released.

"Markets are still very emotionally driven, very choppy," he said. "Short-term trading CTAs capturing the high volatility will do well."

Varengold recently raised its short-term trading sub-strategy exposure to 35 percent of the fund's assets -- the maximum it allows for the purpose of risk diversification.

Short-term trading strategies deploy mathematical models that seek to exploit pricing anomalies with the help of algorithmic trading in derivatives, where milliseconds count.

Because of the lately see-sawing stock markets, Varengold has reduced its exposure to the trend-following sub-strategy, Qureshi said.

## BELLY-UP?

"You have very high volatility in single-strategy CTAs ... and because they can be very volatile they can also be very dangerous," Qureshi said.

According to Hedge Fund Research, an alternative investment industry information company, hedge funds saw redemptions of \$31 billion in July-September as investors scrambled for cash.

"Investors are very cautious. Some are speculating that up to 50 percent of hedge funds could go belly-up next year," said Qureshi.

For Varengold, recent redemptions by institutional investors in need to go into cash despite the fund's superior performance had been offset by net inflows from private investors, he said.

Reaching AUM of 150 million euros by end-2009 would be satisfactory, though the figure could be lower if investors' need for cash remains acute, Qureshi said, estimating 10-20 percent growth next year for industry-wide managed futures AUM.

"I don't see a lot of potential safe havens apart from managed futures," he said.

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