IDS Capital on asset-raising trail with its uncorrelated F&F managed futures fund

IDS Capital, the Geneva-based firm set up by Cedric van Rijckevorsel in 2004 as a multi-family office, is ramping up the marketing effort for its two-year-old managed futures offering, the F&F Systematic Trading Fund.

The firm is in discussions with large investors and managed account platforms about the product — and is also launching a new reduced-fee share class in a bid to attract accelerator capital.

Launched in 2009, the F&F Systematic Trading Fund is managed by Anthony Martin, who joined IDS in 2008 to oversee risk management across the firm's multi-manager funds. Martin and van Rijckevorsel soon started talking in detail about systematic strategies.

"We liked them because you don't have the same reliance on defining the timing of the markets," explains van Rijckevorsel. "And we wanted to produce something sufficiently differentiated from the other CTAs out there."

The firm set up a paper portfolio and, following some strong numbers, decided to launch a fund with internal money. "I finally got bored of seeing the good returns without it being an actual fund," says van Rijckevorsel.

He adds: "The aim at that point was to use it as a complement to what we were doing on the multi-manager side, and as a component of our wider range. And we wanted to test everything before we offered it to investors."

The fund debuted in August 2009 and made 4.28% in the remaining five months of the year, before posting an 8.30% return in 2010. As of mid-September the fund was down around 1.8% this year, but was bouncing back from a loss in August with a 2% gain thus far in September. The strategy has returned 10.9% since inception.

IDS decided initially to focus on building a track record rather than actively seeking to grow the fund through inflows — particularly given the difficult asset-raising environment of the past couple of years. The fund currently holds just $2.5 million, with marketing having only recently begun.

Martin was experienced in managed futures trading before his arrival at IDS, having worked for a commodity markets-focused fund of funds as well as previously heading the trading team for Man Group's Fidex CTA operation — for which assets grew from $10 million to $250 million during his tenure.

F&F Systematic Trading is a trend-follower with a tactical trading style, combining long-term views and dynamic position sizing. Through its ability to be either long or short the markets it trades, it is designed to have low correlation to equity markets over the long term, while showing positive correlation in bull markets and negative correlation in bear markets.

The team at IDS (left to right): Duncan McKay, Anthony Martin and Cedric van Rijckevorsel

The fund uses relatively low levels of risk, with a margin to equity ratio of around 7% on average. Its level of trading activity is also low, with a round-turn per year and per million of just above 500, versus 1,500 to 2,000 for medium-term trend followers.

While many CTAs are increasingly moving towards shorter trading timeframes, the F&F strategy aims to capture a longer economic cycle in a broad range of asset classes. The fund's timeframe for investing is therefore much longer than that of the average trend follower, holding positions for around a year on average compared with three to six months for many of its peers.

It trades 40 highly liquid futures markets, mainly in Europe and the US, and it invests across grains, meats, soft commodities, metals, energy, equities, bonds, short-term interest rates and currencies.

While large CTAs may rely too much on profits from financials, the F&F fund is able to take advantage of trends in lower-liquidity markets, says Martin. For example, soft commodities contributed 4.6% towards a total performance of 8.4% during the fourth quarter of 2010.

Martin was already working on the strategy before joining IDS, and he estimates that it took him about seven years to develop. "I wanted something that was very robust over time; something very simple, using very few parameters and with tight risk controls," he says.

He has developed a rigorous three-tiered risk management process, which is embedded in the systematic approach of the fund. The first level controls each market exposure, the second manages each sector exposure, and the third controls the fund's volatility by dynamically adjusting the overall fund exposure.

> *"We liked systematic strategies because you don't have the same reliance on defining the timing of the markets"*

The firm credits its risk management process with protecting the fund from big monthly losses when other CTAs have come unstuck. In November 2010, when the EuroHedge Managed Futures Index lost 2.16%, F&F Systematic Trading was down just 0.20%. And in March 2011, the index was down 1.85% but the fund ended the month slightly in the black, with a gain of 0.05%.

When the fund itself has taken a significant hit, its risk management system appears at least to have reduced intra-month losses. The fund was down 5.25% in May and underperformed the EuroHedge index, which lost 3.59%. On the other hand, research by IDS comparing its own fund to 12 peers running similar systematic strategies showed that while the biggest intra-month loss for F&F Systematic Trading in May was 6.0%, at one point in the month its peers were down by 8.4% on average.

Earlier this year, the firm hired experienced hedge fund asset-raiser Duncan McKay to head up business development. "My main task has been to broaden our audience," he says. McKay's background is in marketing to institutional investors, and since joining the firm he has already been able to get the CTA onto the radar screen with some of these large allocators.

McKay is in discussions with two managed account platforms and is also talking to smaller, less-constrained investors, such as high-net-worth individuals and private banks, which may be interested in making smaller allocations that could grow the fund little by little.

The firm is looking to incentivise the pipeline of investors it has so far lined up by launching a new 'accelerator capital' share class — offering access to the fund at a discounted fee rate. IDS is limiting capacity via the new share class, which is only available until the end of the year.