The Interview – Andreas Koettner, Golden Hedge Alternative Investments: “Position limits in US commodity markets could influence the trading behaviour of larger hedge funds”

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GFM: What is the background to your company and fund?

AK: The Golden Hedge Multi-Strategy Fund was licensed in October 2008 by the Malta Financial Services Authority and started trading in May this year. Founded by Bernhard Goetsch and myself, Golden Hedge specialises in relative value commodity trading and stock index arbitrage strategies, both relatively novel niche strategies with low correlation to typical CTA or hedge fund styles.

I am the portfolio manager of the fund and have a deep background in the development of computerised trading algorithms. The company is a start-up hedge manager and to date has less than EUR5m in assets under management, but we are currently negotiating a seeding agreement with prospective investors.

GFM: Who are your key service providers?

AK: The fund’s auditor is Ernst & Young, its administrator is Valletta Fund Services, the custodian is Bank of Valletta and the prime broker is MF Global (UK).

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base?

AK: The fund is offered through licensed agents to private banks, asset managers, funds of hedge funds and family offices mainly located in Switzerland and European Union member states. At this stage of the marketing process we are focusing especially on high net worth individuals and private asset managers. As assets grow, the target group will also include funds of hedge funds, pension

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funds and other institutional investors.

GFM: What is your investment process?

AK: First, we strongly believe in quantitative investment strategies that can be back-tested and statistically verified on a large set of historical data. This process is particularly useful to obtain an estimate of the risk and return properties of a prospective trading model during market stress or other extreme events.

Secondly, we are looking for novel and non-conventional strategies beyond the mainstream hedge fund styles and hence have much lower competition and higher risk premiums. For example, the statistical arbitrage sector is crowded with large funds using more or less the same strategies. This can be a dangerous combination, as we have seen in the summer of 2007.

GFM: How do you generate ideas for your funds?

AK: Investment ideas emerge from the continuing research process, which represents a large part of our daily work. Due to our quantitative investment approach, we can back-test and simulate new ideas very quickly and efficiently.

GFM: What is your approach to managing risk?

AK: Golden Hedge follows a stringent risk management process. First, market risk management encompasses the definition of trading limits based on risk measures such as value at risk and stress tests, market liquidity and sector concentration. The trading models have a rigorous risk management policy implemented and constantly monitor the exposure in terms of measures such as sector risk, position risk, volatility risk, margin to equity ratio, and daily VaR.

Position sizes are automatically adjusted according to current market conditions – for instance, the higher the volatility, the lower the position size. To simulate the risk of rare events of market stress with high volatility and a high degree of correlation among usually lowly correlated instruments, more advanced methods of risk analysis are implemented.

Finally the operational risk management includes the provision of IT back-up systems and the selection of high quality service providers such as the prime broker, custodian, administrator, and auditor, as well as the fund's regulatory framework.

GFM: How has your recent performance compared with your expectations and track record? Do you expect your performance or style to change going forward?

AK: Performance is in line with our expectation, although our track record is too short to make a valid conclusion. Through our mix of different strategies we are well positioned for different kind of market environments. For example, stock index arbitrage shows generally strong returns in times of market turmoil as more opportunities arise in times of high volatility.

Futures spread trading (relative value) does not depend on market direction and profits from short-term movements in the forward curve caused by large market participants. We don't expect that this will change in the near future.

GFM: What events do you expect to see in your sector in the year ahead?

AK: In the futures sector we could see a tightening in regulation, especially in the US where the Commodity Futures Trading Commission is discussing the imposition of position limits on certain commodity markets. This could have an influence on the trading behaviour of larger hedge funds and an impact on market liquidity.

GFM: Are investors' expectations shifting between capital preservation and growth? If so, how do you deal with this?

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AK: Our investment philosophy is to follow a conservative preservation of capital approach with stringent risk management.

GFM: What differentiates you from other managers in your sector?

AK: The Golden Hedge Multi-Strategy Fund is a niche player in the hedge fund market, designed to focus on novel strategies with unique return profiles.

GFM: How do you view the environment for fundraising in 2009? How does this affect your fund?

AK: The first six months of 2009 have been rather difficult in which to raise assets – especially for start-up funds like ours. We now feel that the bottom may have been reached and that the appetite for hedge funds is coming back. We are currently looking for seed investors to negotiate an agreement for seed money in exchange for an equity stake in our business.

- Multi Strategy Hedge Funds

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