The Interview – Renee Haugerud, Galtere: “Real assets, particularly agricultural commodities, should outperform equities and bonds”

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Renee Haugerud (pictured), founder and chief investment officer of global macro manager Galtere, sees opportunities in the convergence of the US economy with commodity-rich economies and is backing that view through a real assets private equity strategy that invests in the production of agricultural staples in Brazil, Uruguay and Australia as well as complementary agribusiness opportunities in Brazil.

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

RH: Founded in 1997, Galtere launched a master-feeder fund in 1999 to implement what is now our flagship strategy, which we call commodity-based global macro. The strategy employs a top-down macro view of the world, looking through a commodity lens, which leads to bottom-up micro analysis of potential macro instruments to express these views.

The choice of instruments and investments is largely discretionary, with exit and entry into positions strictly determined by our proprietary price analysis model. The strategy is also investible through managed account structures and platforms.

Galtere has been registered with the Securities and Exchange Commission since 2006. The company’s research and trading functions are based in New York, and since June we have operated a client service office incorporated in Switzerland. At present we manages around USD1bn in assets in the strategy.

GFM: What is the structure of your fund?

RH: The flagship fund is structured as a master-feeder vehicle with one offshore feeder, and is incorporated in the British Virgin Islands.

GFM: Who are your key service providers?

RH: Newedge is our futures clearing broker, and JPMorgan is our foreign exchange prime broker. Our administrator is Citco Fund Services, and we use Rothstein Kass for the annual audit. Legal counsel is provided by Shearman and Sterling.

GFM: How and where do you distribute the funds? What is the split of your assets under management between institutional and private clients?

RH: The fund is distributed globally through an in-house marketing team based in New York and Switzerland, and third-party marketing services are used selectively as well. Galtere is planning offerings on several managed account platforms. Our investor base is 95 per cent institutional.

GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?

RH: As was typical throughout the industry in late 2008 and early 2009, Galtere experienced redemptions, primarily from fund of funds clients, but at no point did we impose gates or suspend redemptions. The proactive risk management policy employed in the flagship strategy performed very well in 2008, mitigating losses to close the year nearly flat.

Otherwise, the dislocation of asset prices from a macro perspective offered numerous longer-term opportunities, prompting the launch of Galtere's Ultra Opportunity strategy. This strategy is designed to invest in liquid instruments at structurally dislocated levels, primarily with the intent of holding these positions over several years to maturity.

GFM: What is your investment process?

RH: Based on my forward-looking view of the world and 30 years of trading experience, I work with my team of analysts in identifying discretionary investment themes based on significant regime shifts across markets, such as the inflation of real assets versus paper assets, the convergence of commodity-producing economies in North and South America with the US economy, the investible implications of climate shifts, and the macro evolution that is affected by population growth and dietary requirements.

The strategy typically tracks five themes expressed across between five and 15 instruments. Entry into (and exit from) these positions is determined by a proprietary price analysis model developed 20 years ago. We use this technical price analysis to identify zones of under- and overvaluation, and then buy or sell into these zones as long as our fundamental research continues to support the trade.

Core positions are protected by short-dated option collars, where for instance a long position would be protected through the purchase of a put to limit downside risk while offsetting that cost through the sale of an upside call. Our aim is to structure these collars at zero cost, so the portfolio remains protected without spending too much premium.

GFM: How do you generate ideas for your funds?

RH: Idea generation is largely discretionary and based on years of trading experience. While many managers focus largely on past trends as signals for new trades, I always look for patterns that will play out in the future while using the past for additional input. In trying to recognise the bigger changes afoot ahead of others, Galtere's strategy could be seen more as an investment vehicle than a trading vehicle.

GFM: What is your approach to managing risk?

RH: Capital needs to be protected at all cost. In addition to using our pricing analysis, it has been policy since 2001 that core positions be protected against tail risk through collars. Our investors, like myself, need to be able to sleep soundly with the knowledge that their capital is being actively safeguarded.

GFM: How has your recent performance compared with your expectations and track record?

We are very satisfied with how our approach to risk management functioned in 2008, but in 2009 we lagged behind the market and our own expectations. As my view of the world was based on low growth, high unemployment, weak purchasing power, deflating equity prices and low interest rates, I stood aside during last year’s liquidity-driven market rally, maintaining low portfolio leverage. I further expected equities to retrace before year-end and was positioned bearishly in the second half of the year in accordance with that view.

My investment style has been consistent since developing the profile and theme strategy used at Galtere, and aside from slight refinements in response to an evolving market landscape, it is unlikely to change going forward. My approach to markets does tend to be lumpy, and investors may experience intervals of flat performance and diligent capital protection. This may be followed by periods when optimal timing manifests across several themes. In the past this has led to periods of outperformance and a long-term annualised return of 12 to 15 per cent combined with low volatility as well as low correlation to other widely-held asset classes.

GFM: What opportunities are you looking at right now?

RH: One of the biggest stories has been the breakdown of the yen carry trade and a repatriation of yen assets back home. This has led to a sharp rally in the yen versus the US dollar, an opportunity we identified late in 2009 when many others were positioned for dollar strength. We believe another major opportunity lies in a structural shift from paper assets into real assets, especially in the agricultural sector. We call this emerging paradigm inverse stagflation, and it has been an investment theme at Galtere since 2001.

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

RH: Our view is that real assets, particularly agricultural commodities, should outperform equities and bonds. Additional opportunities lie in the convergence of the US economy with commodity-rich economies in the Americas, where one of our focus regions has been Brazil. We are further expressing this view through the launch of a real assets private equity strategy that invests in the production of agricultural staples in Brazil, Uruguay and Australia, as well as complementary agribusiness opportunities in Brazil including storage and irrigation infrastructure.

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

RH: Our methodology combines elements from both macro and commodity strategies, expressing top-down commodity-based themes through the global macro universe of instruments: commodities, foreign exchange, fixed income and equities. Furthermore, our in-house risk management protects capital on a proactive basis as opposed to reacting to risk events after they have occurred, and our forward-looking approach assists us in the early identification of major changes influencing the investment landscape.

GFM: How do you view the environment for fundraising over the coming 12 months?

RH: We should be very well positioned to raise substantial assets going forward given our stability, track record and history of protecting capital. After recovering from their near-death experience in 2008, many investors are seeking stability, reliability, transparency and a forward-thinking investment attitude.

GFM: Are you considering any mergers or acquisitions in the foreseeable future?

RH: There are always opportunities out there, but our approach is pragmatic. As long as a solid business case can be made, we are open to a comprehensive evaluation of these opportunities. Galtere is poised to become a global and fully integrated commodity player.

GFM: Do you have any firm plans for further product launches?

RH: Aside from the Galtere Ultra Opportunity strategy and the agribusiness vehicle, we have no other plans at this juncture, but we are always on the lookout for opportunities as they arise. We offer investors access to our distinct view of the world through structures that span the liquidity spectrum.

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