Hedge funds

Pioneering commodities investor Gresham drops ‘long only’ mantra

Famed long-only investor creates funds to allow it to bet on further price falls

Gregory Meyer in New York MAY 24, 2017

One of the fund industry’s staunchest commodities buyers is allowing itself to sell, after the slump in energy, metals and grains halved the value of its assets.

Gresham Investment Management, part an old guard of “long-only” commodities specialists, has started two hedge funds that can take bullish or bearish positions with equal ease.

Their launch comes after a period in which plentiful energy supplies, bumper crops and a slow economic recovery dragged down materials prices. The benchmark Bloomberg Commodity Index lost value in five of the past six years and is down in 2017.

Founded in 1992, New York-based Gresham pioneered investing via commodity futures to obtain returns untethered to stocks and bonds. Pension plans and other institutions gradually embraced commodities as an asset class and funnelled hundreds of billions of dollars to index products and active managers such as Gresham, now a unit of TIAA.

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David Mooney, Casement Capital

After peaking at $16bn about five years ago, Gresham’s assets under management are now $7.4bn. The “vast preponderance” of the decline was due to indices’ performance, said Douglas Hepworth, Gresham executive vice-president.

The new hedge funds can go long or short on commodity futures, meaning they can bet on prices going up or down or on the differences between separate contracts.

“We would certainly be delighted to have a balance of assets that were not so dependent on what any market does,” Mr Hepworth said.

One fund, managed by a group called GreshamQuant, follows a “systematic” trend-following strategy in some 50 commodity futures markets that are not heavily traded, such as certain power, gas and coal markets. It is led by Scott Kerson, formerly head of commodities at Man Group’s AHL unit.

Another fund, Gresham CMS, can hold long and short positions in commodities using strategies including momentum, volatility and “fundamental factors,” according to a regulatory filing.

The freedom to buy or sell commodities has been no guarantee of success.

The commodities hedge fund universe is the “most negative of any asset class or primary strategy in 2017”, returning minus 1.9 per cent this year, according to research company eVestment. Some of the biggest names in the niche, including Clive Capital and Vermillion Asset Management, have dwindled or shut down.

“They’re entering a space where there are fewer and fewer hedge funds,” said David Mooney, founder of Casement Capital, a commodities asset manager. “At current rates, there’s one fund leaving the business every month.”

Gresham is not the only bullish commodities investor to diversify. Pimco closed a commodities hedge fund to new investors after its assets topped $1bn. CoreCommodity

Management, a $5.5bn firm, has an increasing fraction of its assets invested in strategies that can go long or short, said Eliot Geller, a partner there.

UK-based Schroders last year launched a commodity fund that can take both long and short positions, the fund company said.

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