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Q&A: Qbasis Co-founder Talks Managed Futures

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Philipp Pözl Managed futures have become Europe's largest hedge fund strategy by asset size, accounting for one-fifth of the \$382 billion European market, and Liechtenstein-based Qbasis Invest has emerged as one of the best performers in this popular sector. With just under \$50 million in AUM, the commodity trading adviser's flagship Qbasis MF Trend Plus fund has had a compound annual return since inception in March 2006 of 35.35%. Moreover, in the crisis year 2008, Qbasis returned an impressive 145%. To discover the secret to Qbasis' success, *FINalternatives'* Senior Reporter **Mary Campbell** spoke to company co-founder **Philipp Pözl**.

Could you tell me something about the history of Qbasis?

It started out as a private trading club back at the beginning of this century. We earned some money and then subsequently lost some money in the stock market crash. That is when my fellow founder Florian Wagner decided to look into systematic strategies in general and into managed futures strategies in particular.

He researched a lot of different trading strategies at that time. In 2002, we got to know our now head of system development, Mr. Ziad Chahal, and we started working together on our trading system. After we had spent some time with each other and developed our now existing trading strategies, we started trading—that was at the end of 2002. We also began the core private trading club, and after a few successful years we decided, in 2005, that we were going to set up a company and offer those strategies to outside investors. In 2006, we started our first managed account and now we offer those strategies in different types of products: we launched personal managed accounts in 2006 and in 2008 an offshore fund. In 2010 we launched an ETF fund, a European-based, fully regulated ETF, which offers the same strategies as the offshore fund and managed accounts and the same strategies which we've been using since 2002.

Qbasis returned 145% in 2008. Can you tell me something about your strategy and how you achieved this result?

It's correct that we did extremely well but that year the whole industry did well. In 2008, everything went down in every strategy and all the hedge fund strategies had a very bad time

except for managed futures. Managed futures was the only strategy that was positive in 2008 and many of our competitors also had their best year in 2008; however, none of them could achieve the returns that we did. We were clearly the best in this period.

The reason for that is we use two different strategies. One is a trend-following strategy which has a weighting of 70% in our portfolio and the second is a counter-trend strategy which has a weighting of 30% in our portfolio. With those two strategies we trade, in total, more than 100 exchange-traded future markets. One of the reasons that we were so successful in 2008 is that we have this feature in our trend following strategy which we call early trend recognition. The strategy is able to recognize trends that are out there in the different markets—in stock markets, in bonds, in various types of commodities, in different currencies—and we can detect those trends earlier than others do; therefore we profit earlier than others do.

You launched an ETF rather than a UCITS-compliant fund. Why?

We launched our offshore fund in 2008 and in late 2009/early 2010 we sensed that we needed to have another product that was European-based, which was regulated and which could be accessed with a lower minimum investment. We looked at all the options, including UCITS. We decided to go with the ETF structure because managed futures strategies like ours aren't really made for UCITS funds. If you wanted to put together a UCITS version of our fund, you would need to work with a lot of restrictions; for example, you have to be very careful about the amount of commodities you trade inside the UCITS fund, and as our fund trades a little more than 60% commodities, the structure within the UCITS fund would have been very, very difficult to do and wouldn't have been very competitive. It would have been possible to do, but we thought it would be easier and more straightforward to simply have an ETF version of our fund that offers daily liquidity and is traded on the stock exchange. The alternative would have been to have a UCITS version using different indices and SWAPs in the background. It's really quite difficult to explain and at the end quite expensive for the investor.

You have close to \$50 million in assets under management now. Is there a point at which you'd have to cap your funds?

You have to cap it sometime. This is not a problem at the moment with \$50 million. We know that we can work without any problems up to \$2 billion. We might have to exclude some of the markets as we get bigger, where the open interest and the daily volume isn't that high. We will definitely have to monitor certain markets on the way to \$2 billion, but it wouldn't really affect the overall strategy and the overall performance.

Do you envision adding new products to your offering?

I think the products we have now are really our main focus. We offer managed accounts, we have an offshore fund and we now have a regulated onshore fund. This is pretty much it, I would say. Everything employs the same strategy, so there's not a whole lot more that you could offer in this space. Right now we're really concentrating on growing those products and getting more assets for them.

Do you think managed futures will continue to perform as well as they have?

Yes, I definitely think so. When you look at the last 30 years, since the inception of managed future indices, you see that managed futures strategies have performed well in every year except for 2009, which was the first year that the index was negative and it was really exceptional. I don't think that you'll find any other industry or part of an industry that's performed as well as managed futures did in the last 30 years. And in the last five years, we have shown that we are one of the best managed futures managers within that great industry, and I am sure that this will continue.

We will see more normal returns again in the future. I don't think it's likely that we will see a year like 2008 anytime soon, but I also don't think that we're going to see a year like 2009 again. I believe that managed futures are going to be successful going forward. One indication that people are really investing in managed futures right now is that, for the first time in Europe, managed futures have become the biggest hedge fund sub-strategy. Before, long/short equities was always number one. So for managed futures to have overtaken long/short equities and become number one is a really good sign that investors think managed futures will perform in the future.

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