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ALTERNATIVES

Galaxy exploring quant universe with CTA hedge fund

By Yvonne Chan | 27 February 2012
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Hong Kong alternatives manager Galaxy is on a mission to explore the commodity trading fund arena.

Galaxy Asset Management, the Hong Kong-based hedge fund manager overseeing $500 million in AUM, is exploring the commodity trading adviser (CTA) universe via an Asia-focused fully automated trading fund.

It quietly forayed into the CTA – or managed futures – arena with the launch of the Galaxy Quantitative Fund in May 2011 with $3.7 million in partner capital. The quant fund trades futures, currencies and commodities with an emphasis on Asia, but with some exposure to Europe.

“We only invest in liquid instruments,” says Galaxy managing director Derek Lee, who manages the fund.

The portfolio’s positions are closed at the end of each trading session to avoid being affected by gap risk – price changes that may occur in the period between a market’s close and its subsequent reopening, when trades are settled.

The fund was up 2.8% in January – compared with the average gains of 4.65% by Asia ex-Japan CTAs and 0.24% for global CTAs, according to data provider Eurekahedge. Galaxy’s fund has returned 7.62% since inception, bringing the AUM to $4 million.

The firm plans to open the fund to external investors later this year. “We wanted to have a track record before we started more active marketing,” says Lee.

It has a capacity of $100 million, based on the markets it trades in now. “But every month we are adding a few more markets, so it can easily go up to a few hundred million,” says Lee.

Galaxy’s decision to launch a quant fund was fuelled by growing investor interest in the strategy following volatile market conditions in 2008. “Our understanding is that a lot of institutional investors now have dedicated teams looking at CTA-type managers,” says Lee.

Quants, which use proprietary computer-driven trading systems to pick stocks, tend to attract greater investor attention during bear markets, as some individual CTA funds can outperform hedge fund counterparts that rely on analysts or managers to select stocks.

The average 2011 return for Asia ex-Japan focused funds in the CTA category was 11%, compared with losses of 14.1% for long/short equity, according to Eurekahedge. In a recent report, the data provider noted that on a global basis CTA fund assets reached a historic high of $213 billion in 2011.

Galaxy is not one to shy away from popular investor themes, as can be seen in its product range, which includes a special situations strategy and a Ucits-compliant fund.

The quant fund uses Barclays Capital as its prime broker, and is in the process of transitioning its administrator to Deutsche Bank by March 1.