FUND IN FOCUS

MontLake DUNN WMA Institutional UCITS Fund
CTA/Managed Futures

ML Capital is delighted to present the second edition of 'FUND IN FOCUS'.

DUNN Capital's award winning CTA/Managed Futures strategy has been hosted on the MontLake UCITS Platform since 2011, and now they continue our discussion series with their views on how established managers can stay ahead of the up-and-comers, and how CTAs can effectively tackle the challenge of interest rate hikes.

- Established CTA/Managed Futures manager with a 40+ year track record
- UCITS Fund AUM has grown 3x in the last 12 months - DUNN's AUM in excess of $1 billion
- Client centric with 0.20% management fee/20% incentive fee
- WMA Institutional Program offers significantly reduced volatility, with a targeted annual return and volatility in the low teens
- Best of both worlds - culture of continuous innovation and improvement, combined with decades of real experience
- Systematic, trend following strategy has proven successful in previous periods when interest rates rose

How to Stay Young as You Get Older & Facing the Rise in Interest Rates
by Niels Kaastrup-Larsen, Managing Director, DUNN Capital Management

As a systematic manager, we have chosen to focus on a few key topics we feel are important when evaluating opportunities within the alternative investment space.

The first topic we want to discuss is the internal debate that many investors face when choosing a manager: "do you go with an established manager, or do you pick one of the new, up-and-coming managers?" In recent years, a number of 'emerging' manager funds have been launched, based on the argument that new managers out-perform established managers. And indeed, when you look at the performance data of newer managers, sometimes their results seem to be better than the industry benchmarks.

But it is not always that simple. Timing can be important when launching a fund, and those new managers who launch during a market environment that particularly suits their trading style can earn outsized profits during this time. However, most of the new managers that experienced good timing will eventually encounter an unfavourable market for their strategy, which will bring their track record more in line with industry norms.

Another complicating factor to be considered when analysing newer managers is capacity. In many cases, managers perform very well during their early years only to experience difficulty later on, when their portfolios became larger and less nimble. Finally, it is important to keep in mind that part of the reason large, mature managers do not out-perform the benchmarks, is because they have *become* the benchmark due to their size, and thus it is difficult to outperform yourself.

But if your choice is not purely based on performance, what other things do you need to consider?

Before we get to the answer, perhaps we need to consider the human bias in all of us that gravitates towards the latest and greatest gadget, for example. Apple has certainly found a way to make us want to swap our 'old' device for the newest model, convincing us that new is better than old; and perhaps when it comes to technology, this may be true.

But what about when it comes to investing, and specifically, the quality of a manager?

Being in business for more than 40 years gives us a number of advantages, but perhaps the most important one is that we have been in many drawdowns and learned from our mistakes, which builds stamina.

Developing trading systems is a process of trial and error - you have to find all the things that don't work in order to discover the things that really are robust in the long run.

The key to success in any industry is innovation, creating better methods and techniques. A culture of constant improvement, combined with decades of real experience, can allow you to "Stay Young as You Get Older".

At DUNN, we strive to do just that. What is really exciting for us, and why we do what we do, is that we know our research and trading strategy is better today than it was 12 months ago, and that it will be even better a year from now - and that is a journey that we are privileged to share with our current and future clients.

How a Rise in Interest Rates May Affect CTAs

There has been some talk about how CTAs will perform when interest rates start to rise again, having profited a great deal from the rising bond markets and short term interest contracts for a very long time.

And some commentators have predicted that it will hurt CTAs, and trend followers in particular, when the cycle turns!

But where is the evidence? Does anyone really remember the 1970's? Moreover, did anyone invest with a trend following manager back in the 70's?

One of the advantages we have at DUNN, is that we did, in fact, trade in the 70's using a trend following strategy - so, we have real performance numbers to share that are not based on back-testing, optimized to take into account the declining interest rate cycle that started in 1981.

The last real rise in interest rates, during the previous cycle that ended in 1981, took place from about early 1977 to about mid 1981 - all other periods that we know today, like 87-89, 93-94, 99-00 or 03-06, were in fact corrections in a much bigger declining interest rate cycle.

And yes, during some of those periods, CTAs, including DUNN, did not perform particularly well. But we did trade in the 1970's, and the last move in interest rates (1977 to 1981) from about 5% to approximately 17% on the 3-month rate, was a very profitable period for DUNN. Our trading program has changed materially since those years, but the core remains trend-following, and we know this strategy has worked in a rising rate environment.

We are not trying to predict what performance we will be able to deliver when the interest rate cycle turns (if it has not already), but rather to say that in our 40+ year history we have been faced with many different market conditions and so far, we have been able to navigate all of them (albeit, not always in a straight line).

Let me finish this piece by highlighting our core beliefs:

At DUNN we believe that all markets will exhibit trends from time to time, and that all markets have an equal opportunity to exhibit these trends. Thus we see a continuing opportunity to profitably exploit these trends, by applying a measured investment strategy that removes emotional judgement, and replaces it with data-driven analysis and decision-making.

About ML Capital

ML Capital is a forward looking and leading independent investment management firm specialising in European regulated fund structures. As an award winning platform provider, we partner with the very best of investment managers to bring to market the latest most appropriate fund structures to comply with the raft of incoming regulatory requirements, whilst meeting the ever increasing expectations of investors.

ML Capital handles all aspects of the fund structuring and launch on investment managers' behalf. Through our dedicated network we offer fund sales and distribution if required and have had comprehensive coverage of investors in all key European markets for the past 20 years.

Our goal is to provide the most appropriate fund structures to maximise distribution opportunities across all key markets. Our solutions bring together market leading service providers with some of the very best minds in the regulated fund space; providing well managed European investment products with the highest levels of service and governance. We ensure that all incoming investors and partners come in with the full knowledge that they are investing into structures that are designed to protect and preserve investor interest.

For more information on ML Capital please visit www.mlcapital.com