

## Trade finance asset class a fertile ground for innovative product

By Steve Price

EuroFin Asia Group forged a path in trade finance when it launched in September 2006 its open-ended LH Asian Trade Finance Fund, which enables non-specialised investors to access commodity and raw material trade finance, an asset class that was once the preserve of banks, through a product that is largely uncorrelated to other asset classes, exhibits low volatility, and provides identifiable cash flows through interest revenue.

The firm, which focuses on assisting SME/SMI to access funding, picked up the Most Innovative Product Award in *Asia Asset Management's* 2013 Best of the Best Awards in the Singapore segment for its product, which EuroFin CEO and Founding Partner Christian Stauffer says is approaching US\$200 million.

"We will probably soft close the fund at some point this year," he says.

Through investing in structured trade finance facilities or repurchase agreements, and generating income through arranging fees and spreads from trade finance transactions, the fund, which is open only to accredited investors, aims for absolute return with low volatility.

Though liquidity of the fund is monthly, Mr. Stauffer says the prod-



*Christian Stauffer*

uct's unique features are the main draw.

"The fund is non-directional, offers steady and uncorrelated returns, and fits particularly well into large financial institution and family office portfolios," says Mr. Stauffer. "The only vague correlation is a positive correlation between the base rate and trade finance rate. It's basically a port-

folio of short-term primary secured senior loans, with each of the loans generating an accrued coupon on a monthly basis."

EuroFin Asia focuses on diversification. "We have a highly granular portfolio," says Mr. Stauffer, "and we have a low concentration ratio; some 5-6% in any one counterparty. Then we diversify across commodities and geographically." Loans are made to companies with historically "robust" performance that require additional liquidity to grow.

Several factors bode well for the growth of trade finance as an asset class. While banks' balance sheets came under pressure during the financial crisis, resulting in reduced willingness to lend, greater regulatory requirements for capitalisation are now having a similar effect, which leaves room for alternative credit providers.

On the demand side, commodity prices declined by some 20% across the board in 2013. "In a way you are taking out 20% of demand because traders don't think in dollars, they think in volume," says Mr. Stauffer. "Last year, we didn't see too much liquidity squeeze in the market. However, if the demand for commodities goes back to the level reached in 2012, we would see a bigger squeeze." ■

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