Asia's Steadiest Hedge Fund Had August Gain for Perfect Record

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- LH Asian Trade Finance Fund hasn't ever had a losing month
- Hedge fund lends to companies that process commodities

The LH Asian Trade Finance Fund’s strategy of lending to commodity companies helped the hedge fund post the lowest price swings among peers in Asia and led to a gain in August, even as stocks, bonds and raw materials tumbled.

The hedge fund eked out a gain of 0.25 percent last month, maintaining a perfect record of monthly increases since it was started in September 2006, according to the firm. During the same period, global hedge funds recorded a loss in about one-third of the months, according to Eurekahedge Pte., which said the fund is the least volatile it has tracked in Asia over the past decade.

Volatility across global markets spiked last month as concerns about China’s slowing growth coincided with worries about rising interest rates, sending investors fleeing to low-risk havens. The LH Asian Trade Finance Fund, managed by Singapore-based EuroFin Investments Pte, known as EFA Group, has managed to keep down price swings by lending to companies which trade and process commodities such as wheat, coffee, steel or iron ore. The loans carry less risk because they are short term and backed by the commodities the traders are dealing with, according to the firm.

“Our performance is uncorrelated to all other major asset classes,” Chief Executive Officer Francois Dotta said in an interview. “In particular, the return is very little affected by a slump in commodity prices.”

Commodities Languish

This year, the fund returned 2.4 percent until the end of August, according to a company factsheet, even as returns from raw materials are languishing near the weakest in 16 years. Wheat has declined 15 percent since the beginning of the year and iron ore is down 26 percent after falling 44 percent last year.

“The fund is the right investment if you want to put your money in a very safe pot,” said Mohammad Hassan, a Singapore-based analyst at Eurekahedge. “It continues to perform, even when markets are down.”

As an example of a trade financed by EFA, Executive Chairman Christian Stauffer cited lending to a wheat trader in Singapore, buying the commodity from an Australian farmer and selling to a wheat miller in Malaysia. Loan volumes range from $500,000 to $10 million, according to Stauffer. About half of its customers are based in Asia, and 25 percent each in the Middle East and Eastern Europe, he said.

EFA also manages the EFA Dynamic II Fund, which was started in 2012, has a global focus and has gained 2.6 percent since the beginning of the year. Both funds have a combined $460 million of assets, Dotta said.

Financing the $8.5 trillion global commodity trade is still mainly done by banks, Stauffer said. But after a wave of mergers in Europe in the ’90s and the tightening of regulation following the global financial crisis, the niche for non-banking trade financing firms has grown. Independent financing firms currently account for 15 percent of the global business and will increase further, he said.

“The future for trade finance continues to look bright,” Stauffer said. “People will keep drinking coffee or eating bread.”

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