

Start-Up Manager Plans Commodity Fund

Ignites article published on Oct 10, 2005

By Tom Leswing

A start-up asset management firm is planning to launch a commodities fund at a time when similar funds have gotten a lukewarm reception from investors.

WorldCommodity Asset Management of Atlanta, Ga., has filed with the SEC to launch the WorldCommodity Fund. According to the [filing](#)¹, the fund would invest a portion of its assets in guaranteed government bonds and other assets in commodities futures, options linked to commodities futures and other commodity-linked derivatives. It would also invest in equity securities of companies within the commodities sector.

Options and futures provide leveraged returns, points out Andrew Clark, a senior analyst at **Lipper** who has studied commodities funds. As a result, the leveraged returns can give a portfolio the equivalent of 100% exposure to the commodities markets, even if only a portion of the fund's assets are invested in the sector.

The WorldCommodity portfolio will be a no-load fund and have a total expense ratio of 1.60%. Of that amount, .90% will go toward fund management and .70% will go toward other expenses.

WorldCommodity Asset Management is headed up by James Llewellyn, who serves as president and portfolio manager. He was previously a registered rep with **E*Trade** and a financial consultant at **Merrill Lynch**. He has also served as a portfolio manager for **RedRock Partners**, which is a private partnership. Llewellyn was also involved in creating the Rogers Funds, private funds that invest in commodities and are based in Chicago.

Analysts say commodity funds are very rare and can identify only five other portfolios with mandates similar to the WorldCommodity portfolio. They are the \$10.8 billion [Pimco Commodity Real Return Strategy Fund](#)², the \$1.8 billion [Oppenheimer Real Asset Fund](#)³, the \$153 million Credit Suisse Commodity Return Strategy Fund, the \$107 million [Scudder Commodity Securities Fund](#)⁴ and the \$98 million [Merrill Lynch Real Investment Fund](#)⁵.

Of those funds, three have been launched since March 2004, says Brian Boswell, a research analyst with **Financial Research Corp.** Scudder launched its fund in February 2005 and Credit Suisse rolled out its portfolio in December last year. Merrill Lynch came out with its fund in March 2004. However, the three funds have captured only \$358 million in assets, according to **Morningstar**.

FRC estimates that commodity funds have captured \$3.2 billion in net inflows this year, but the vast majority of that amount, \$2.49 billion, has gone to the Pimco fund. Last year, the funds captured \$4.9 billion in inflows, but FRC estimates that \$4.4 billion of that amount went into the Pimco fund.

“There just hasn’t been a lot of interest in them,” Boswell says. “Commodities have been popular with institutions, but they just haven’t panned out with retail investors.”

Investors may simply be put off from the funds because the portfolios use derivatives, he adds.

Boswell says investors’ lukewarm reaction to existing commodity funds could imply that WorldCommodity will have a tough time raising assets for the new fund.

Pimco appears to be bucking the norm by leveraging its strong brand recognition and distribution clout, according to Sonya Morris, a Morningstar analyst who follows commodity funds.

“Pimco has a reputation as being a solid management shop as well as a strong bond manager,” she adds.

Morris says she’s concerned about the high 1.60% expense ratio of the fund, especially considering that investors can invest in funds that are similar to commodity funds for less. For example, Vanguard’s [Energy Fund](#)⁶ charges only 0.31% of assets. Additionally, she points out that values of commodities overall have been climbing for the past five years. As a result, the fund could encourage investors to chase performance by jumping into a hot-performing market sector.

WorldCommodity’s Llewellyn acknowledges that commodities have been a hot-performing asset class, but he says the overall commodity market will continue to earn positive returns.

“It’s our belief that this is going to go on for another 15 to 20 years,” he says.

The commodities market has enjoyed strong performance from energy-related commodities, such as oil, but grains and metals haven’t enjoyed similar gains, he says. With that in mind, the fund expects to have an increased allocation to those two categories of commodities as they are more likely to enjoy positive performance going forward.

He agrees that certain energy funds have lower expense ratios than the WorldCommodity Fund, yet the WorldCommodity Fund, unlike energy funds, can change allocations to different types of commodities. That could help improve the portfolio’s performance at times when energy commodities are declining in price.