

DOW JONES NEWSWIRES

TUESDAY, JANUARY 5, 2010

TIP SHEET

Almanac Commodity Fund Focuses on 'Trench' Traders

By Tom Polansek

CHICAGO (Dow Jones) - George Zivic, founder of Almanac Commodity Fund, doesn't think credentials for top commodity traders start and end on Wall Street.

The New York-based hedge fund allocates money to external managers and believes the best ones have experience with physical commodities. He chooses managers who can call farmers to check on crop conditions in Kansas or gather early information from shipping contacts about how much iron ore is in sitting in Hong Kong's harbor.

"The true knowledge of how to extract value comes from managing the physical side," Zivic said. "We're looking for the guy who's coming out of the trenches."

The strategy seems to be working. The fund, which launched in mid-2007, gained 14.5%-15% in 2009, compared with a total return of 13.5% for the S&P GSCI, Zivic said. He declined to disclose its value but said it was significantly less than \$500 million.

In 2008, Almanac lost 1.8%, compared with a drop of about 46.5% for the S&P GSCI. The fund's dip was disappointing but "very positive" in the bigger picture considering broad commodity market losses, Zivic said.

He sees the fund as a "hybrid" because it outsources investments like a fund of funds but applies its

own market outlooks like a single-manager fund. It invests in a range of commodities, with the most exposure in base metals, agriculture and energy.

The agriculture exposure is primarily in soybeans, corn and wheat, with less exposure to "soft" commodities like cocoa. Energy exposure includes natural gas. Almanac stays away from higher-profile crude oil and gold as they attract large macro and pension funds that turn the markets more into "currency vehicles" than markets that trade on supply and demand, Zivic said.

The fund focuses on markets' fundamental factors and relationships between commodities, rather than on pure price movements. For example, as opposed to trying to predict price movements of heating oil, Almanac is interested in trading the relationship between gasoline and heating oil, Zivic said.

"Every commodity market has its own physical commodity characteristic that we look to capitalize on," Zivic said.

The fund trades calendar spreads, in which a trader buys one contract month in a market and sells a different month in the same market, along with intermarket spreads, in which he offsets a long position in one market with a short position in another market. If a manager thinks there is too much heating oil in storage, for example, he can take on a

short position in nearby heating oil and a long position in 2012. Short positions are bets that prices will fall, and long positions are bets that prices will rise.

"If your view is that commodity prices are going up, we're not the best vehicle for you," Zivic said. "What we try to do is look at these specific supply and demand, consumption vs. production relationships, and try to generate 15%, 16%, 17% year in and year out."

Zivic said the fund takes a top-down approach to investing and that he starts by formulating a global macro outlook. He then identifies the best commodity markets to participate in, depending on his macro view, and the specific characteristics of the markets. Finally, Zivic looks for managers to trade.

Agriculture is the most attractive sector in the near term due to supply and demand imbalances, Zivic said. During the next four to five years, it can "really only go up" because there is a limited amount of farmland, he said.

Production advances, such as improved yields from genetically modified seeds, "have already happened," Zivic said. "There isn't anything cutting edge to increase the production per acre. We're really bound by the arable acres on the globe."