



Super Funds: Old Hat or Interesting Product Concept?

Seen against the background of steadily increasing investment opportunities, many investment consultants, asset managers, bank consultants, and institutional investors are becoming increasingly interested in so-called super funds. In the following interview, asset management consultant Markus Hill speaks with Daniel Flück, a leading investment analyst, about this new product category.

New products are constantly added to an already confusing mass of investment funds. More and more foreign funds are pushing into the German market and swelling the list of registered investment funds for

open sale in Germany, not to mention the huge number of certificates as well as stocks and bonds. So why not unite all these kinds of assets in one product? Discussions with investors (private

as well as institutional), press authorities from fund companies, and economic journalists reveal widely different opinions on the relatively new product range known as super funds. This interview was instigated by an earlier interview with Daniel Flück, member of the Board of Directors of Arcturus AG (BG Umbrella Fund), by Anke Ertner and Detlev Glow (Head of Fund Research, Lipper) which was broadcast in the autumn of 2006 on n-tv television. In preparing this program a number of additional questions arose, which we wish to discuss in more detail.

Markus Hill: Mr. Flück, the term “super fund” is becoming a new media star. “Super fund” sounds to me prone to misunderstanding. Are “super funds” really “super”? What is actually behind this product category?

Daniel Flück: Super funds are investment funds which are in accordance with the EU guideline OGAW III. This guideline allows managers of such products wide freedom in the area of asset allocation. In addition to investing in investment funds, they are also able to invest directly in stocks, bonds, money market instruments, certificates, and derivatives. In contrast to traditional funds, super funds do not, as a rule, invest to benchmark, but try to achieve the highest possible gains independent of market fluctuations with the lowest possible risks.

Hill: Since when do we have super funds on the German market and how many products are there already?

Flück: The OGAW III-Guideline was converted to German law by the Investment Modernisation Law of Jan. 1, 2004. The first super funds, therefore, appeared on the German market in 2004. Dr. Jens Ehrhardt was the first to offer a super fund, with his Tri Style Fund. Our own products (BG Umbrella Fund) were also transformed in 2004 from classical umbrella funds to super funds. We can therefore count ourselves one of the pioneers in managing super funds.

At this time, there are 37 super funds on the German market (source: Feri InvestBase, see chart on page 37). In 2007, all authorized German funds must be in accordance with the EU guideline. However, this does not mean that all funds will “mutate” into super funds. There will still be classical plain vanilla long-only products on the market. Expanding the legal framework does not necessarily lead to changes in the investment processes of existing funds. To what extent adjustments in investment processes become necessary must be decided from case to case. The classical long-only funds will continue to be in demand by investors when making their asset allocation decisions.

Hill: What profit margins are we talking about? What is being promised? What do actual results look like?

Flück: What profits are possible is hard to calculate. This depends on developments of the market and the abilities of the fund managers. Since the concepts for the various super funds differ considerably, returns are also very different. One cannot talk about a homogenous category when discussing super funds. This can also be seen in the returns for 2006. The performance of super funds ranged from -2.1% to 16.39% (source: Feri InvestBase). There were also wide fluctuations in the volatility of the various products.

Hill: How does the investment sector view this product category?

Flück: At first the investment sector was sceptical about the new category. Especially the sales branch finds it difficult to handle super funds. If you are used to classifying client portfolios according to countries, regions, or branches, or under headings like stocks, bonds, or money markets, it is difficult to sell a product that unites all these categories and is even permitted to invest in derivatives. Now, however, more and more companies are launching super funds. Prior scepticism has disappeared and one realizes the interesting challenges of the super funds.

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Hill: Which investment opportunities are open to fund managers?

Flück: There is a very broad range of investment choices. For instance there is the possibility to invest in other investment funds. This enables managers to top external managers in regions or categories where there is little expertise in ones own company. On the other hand, regions or categories which are difficult to find via investment funds can be covered by investing in single stocks or investment fields. The use of derivatives offers the fund manager interesting chances to realise or optimise his or her investment goals. Actually, one can even extend the quota of investment in a super fund from -100% to +200%. However, there are hardly any products which make use of this construction.

Hill: Which individual investment strategies can be carried out – catchword: absolute return strategy or portfolio management strategies?

Flück: You have already mentioned two very important aspects. The broad investment range of super funds allows the realisation especially of portfolio management and absolute return strategies. Boundaries between the traditional fund concepts of stocks, bonds and money markets tend to meld since these instruments can be handled with great flexibility within a portfolio. Also other concepts such as portable alpha strategies can be realised within a super fund.

Hill: How is the weighting of the various investment classes?

Flück: This depends mainly on the weighting the funds mention in their issuing prospectus. The law allows flexible weighting up to 100%. In terms of asset allocation, I also see this as the only sensible way to achieve the greatest possible flexibility. In terms of

absolute return products, of course, it may make sense to establish a fixed quota or spectrum for a certain class of investments. Weighting types of investment is therefore largely dependent on the overall concept adopted.

Hill: Investment in every investment instrument is possible – but what about the reality? Which classes of investment are actually being used?

Flück: There are some super funds which invest almost exclusively in bonds or fixed-interest securities. Others are largely invested in shares or in equity funds. One will also find various amounts of derivatives being used, depending on the risk tolerance of a product. We are quite flexible in our products. In our more aggressive products, we are basically more heavily invested in equity funds than in the defensive products. However, we do not shy away from dropping investments in shares completely or hedging our respective positions entirely through index futures.

Hill: Super funds are often referred to by experts as “hedge funds light”. How do they differ from classical hedge funds?

Flück: It is an interesting fact that this question is often posed by private and institutional investors. Super funds, like hedge funds, are allowed to invest in derivatives. However, they do not possess the same amount of freedom as hedge funds. They are not permitted to leverage to the same high degree, sell short as much, and borrow as freely. This makes super funds safer than hedge funds for the investor. That is why they are called hedge funds “light”.

One important difference from hedge funds is also the calculation of the daily prices for shares. Super funds can be bought and sold at daily stock market prices. Another aspect is the transparency and

supervision through regulatory institutions. Super funds are much more strictly controlled by the authorities than hedge funds. They are classified as special asset bonds and shares. Since they can be sold to the public directly they get much more publicity. The whip of transparency motivates super fund managers every day to improve their performance as compared to the competition. Super funds, like umbrella funds, are by now firmly established on the market, with the additional charm of combining the advantages of classic long-only funds, dear to investors, with hedge fund instruments.

Hill: What about the cost structures of super funds?

Flück: Management fees range from 0.75% to 2.5% p.a. The average is 1.74%. In addition, there are the transaction costs, other fund costs, and possibly profit sharing costs. Some products offer lower price share classifications for institutional investors. By comparison umbrella funds have management fees of 1.31% on average, as well as transaction costs and possible profit sharing. The additional cost for management fees in the case of umbrella funds amounts to a mere 0.4% on average. Added costs for fund management are justified by the much broader range of investment opportunities. On the other hand, transaction costs for super funds can be cut through the use of derivatives like index futures, which usually incur additional costs in normal umbrella funds. The use of index futures to cut market risks is far cheaper than the actual funds sale.

Hill: The core-satellite concept, style-investing – are these, in your opinion, factors which play a role in super fund investment?

Flück: Of course. Some super funds are in themselves already strongly diversified. They offer an asset management package, so to speak, in themselves. This makes them an ideal basic investment tool

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which can then be supplemented by a few so-called satellites.

A portfolio might include themes like raw materials, environmental technology, or emerging markets grouped around a super fund – under presumption of a suitably long-term investment horizon.

Another example: imagine a risk-taking investor with an already relatively aggressive stock market portfolio. Why not add a somewhat more defensive super fund to this portfolio? There are a number of uses for such a super fund. Think of the catchword “style-investing”. The market of institutionally managed assets is strongly dominated by consultants with multi-management mandates. Super fund managers have a very good overview of the market and their selection of high-value target funds profits from this know-how.

Style-investing can make good sense precisely for these institutional investors when they add a super fund to such a consultant mandate. The risk is spread.

But style-investing also plays a role in the retail market. I know several asset managers who buy asset management funds for their clients’ portfolio in order to combine the varying investment styles of super fund managers.

Hill: What are the advantages of a super fund for an investor?

Flück: Some super funds offer a complete asset management package in one product. Such a super fund is ideally suited as a basic investment tool due partly to its very broad diversification. Absolute return concepts were not open to the broad mass of investors until the advent of super funds. A super fund such as our BG-Fund is best suited for investors who expect a continuous steady and positive development in asset value with little volatility and whose prime goal is the preservation of their capital investment.

Hill: An investor must consider many points in his investment decisions. One product alone is often not the solution. Not every product is suited for every investor. “Primitive” advertising slogans are all well and good but let us take a closer look: What are the weaknesses of these products at present?

Flück: We are talking about a young category of funds whose concepts vary considerably. This makes it difficult for the investor to select the right product for himself. Most products offer a disciplined investment process that is clearly documented. Due to the broad spectrum of investment possibilities it may not be easy to determine in which category an investment falls (stocks, bonds, absolute return, and so on). Even rating agencies find it hard to evaluate these products. The result obtained depends to an even greater degree on the abilities of the fund manager than in the case of classical products.

An active management style is clearly indicated. For example: the influence exerted by a certain fund manager is definitely clearer than in some multi-management techniques. It may happen, for instance, that a typical multi-manager argues that the respective target fund manager offered a weak performance or that a certain class of investments showed a negative performance due to investment guidelines in an unfavourable economic climate. This is understandable, but the question is whether an investor was not actually thinking he had “bought” an active management package. High transparency in the case of super fund products can turn out to be a weak point. Other market opinions praise this transparency in results and see the broad product spectrum as a strength in terms of product integrity and product clarity.

Chart: Super funds on the German market

Fonds	KAG	WKN	ISIN	Vol. (Mio. EUR)
4Q-Strategie Fonds Universal	Universal-Investment GmbH	A0BLTP	DE000A0BLTP1	11
ADCIRCULUM - ZIEL 6+	Axxion S.A.	157175	LU0158129311	13.1
Allianz-dit FinanzPlan 2015 A	Allianz Global Investors Luxembourg S.A.	A0HOR5	LU0239364028	3
Allianz-dit FinanzPlan 2020 A	Allianz Global Investors Luxembourg S.A.	A0H0SB	LU0239364531	3
Allianz-dit FinanzPlan 2025 A EUR	Allianz Global Investors Luxembourg S.A.	A0H0SH	LU0239365264	3
Allianz-dit FinanzPlan 2030 A	Allianz Global Investors Luxembourg S.A.	A0H0SP	LU0239367716	3
Allianz-dit FinanzPlan 2035 A	Allianz Global Investors Luxembourg S.A.	A0H0TT	LU0239368102	3
Allianz-dit FinanzPlan 2040 A	Allianz Global Investors Luxembourg S.A.	A0H0SV	LU0239368953	3
Allianz-dit FinanzPlan 2045 A	Allianz Global Investors Luxembourg S.A.	A0H0T2	LU0239369506	3
Allianz-dit FinanzPlan 2050 A	Allianz Global Investors Luxembourg S.A.	A0H0T8	LU0239384059	3
BG Umbrella Fund: BG Global Balance	LRI Invest S.A.	728494	LU0169413365	26
BG Umbrella Fund: BG Global Challenge	LRI Invest S.A.	172958	LU0161562482	45
BG Umbrella Fund: BG Global Classic	LRI Invest S.A.	608148	LU0126518215	26
BG Umbrella Fund: BG Global Discovery	LRI Invest S.A.	728495	LU0169414090	19
BG Umbrella Fund: BG Global Dynamic	LRI Invest S.A.	608149	LU0126518488	53
BG Umbrella Fund: BG Stable Value	LRI Invest S.A.	728496	LU0169414413	8
BN & Partner Global Fonds - UI	Universal-Investment GmbH	A0B5LC	DE000A0B5LC5	13
Censeo Variabel T	Security Kapitalanlage Aktiengesellschaft	A0KD75	AT0000615182	7.47
db PrivatMandat Comfort - Balance (U)	DWS Investment S.A.	A0B5H0	LU0193173159	1528.68
db PrivatMandat Comfort - Dynamik (U)	DWS Investment S.A.	A0B5H2	LU0193173316	183.58
db PrivatMandat Comfort - Einkommen (U)	DWS Investment S.A.	A0B5HZ	LU0193173076	1367.09
db PrivatMandat Comfort - Return	DWS Investment S.A.	A0B5H3	LU0193173407	612.72
db PrivatMandat Comfort - Substanz (U)	DWS Investment S.A.	A0B5HY	LU0193172854	76.44
db PrivatMandat Comfort - Wachstum (U)	DWS Investment S.A.	A0B5H1	LU0193173233	414.44
G&P - FE Global Allocation Balance A	G&P Invest SICAV	A0HGXP	LU0232362060	7.13
GET-Capital Rendite%ager 1 INKA	INKA Internationale Kapitalanlagegesellschaft mbH	A0B76S	DE000A0B76S0	34
GIP InvestWorld Balanced Portfolio	LRI Invest S.A.	579871	LU0119628237	1
GIP InvestWorld Europe Portfolio	LRI Invest S.A.	579867	LU0119626884	23
GIP InvestWorld International Portfolio	LRI Invest S.A.	579866	LU0119626454	94
GIP InvestWorld Special Portfolio	LRI Invest S.A.	579868	LU0119627692	17
Meinl Quattro eu	Julius Meinl Inv.-Gesellschaft mbH	A0DM97	AT0000618731	23.54
Multiwert Superfund-Absolute Return	Axxion S.A.	A0DPCY	LU0208670512	18.14
StrategieInvest Classic VT	Hypo KAG (Austria)	A0LEKW	AT0000A02X51	2.11
StrategieInvest Dynamic VT	Hypo KAG (Austria)	A0LB9M	AT0000A02X77	16.09
Tri Style Fund T	Hypo KAG (Austria)	798616	AT0000701164	121.05
UC Multimanager Global-LBB-INVEST	Landesbank Berlin Investment GmbH	979915	DE0009799155	26
von der Heydt Kersten Invest - ALL ASSETS A	von der Heydt Kersten Invest S.A.	A0JDNY	LU0245778138	5.58
Wagner Universal Aktiv-Fonds	Universal-Investment GmbH	A0B5LB	DE000A0B5LB7	1

Source: FERI Investbase

Hill: At present some funds in the retail sector are being launched on the basis of the so-called 130/30 strategy. This strategy is closely related thematically to the area of UCITS III. What is meant by this concept?

Flück: This strategy originated on the USA. For a number of years the 130/30 strategy was used mainly by institutional portfolio managers. Worldwide assets managed with this 130/30 strategy amount to USD 50 billion according to a study by Merrill Lynch. In Europe the creation of regulated 130/30 funds was made possible by UCITS regulations, which sees in 130/30 strategies merely one form of funds managed according the guidelines without utilizing the full range of possibilities offered by UCITS III. With a 130/30 concept, a fund

manager invests 100% of the fund volume in a classical long-only portfolio. In addition, one is allowed to use synthetic short positions of up to 30% and on the other hand the long exposure may also be used to increase the share of derivatives to 130%.

If a fund manager particularly favours certain positions these can be leveraged to increase the proportion of profit opportunities for

Super fund managers have a very good overview of the market and their selection of high-value target funds profits from this know-how.

these titles. Certain positions that a fund manager may see as less attractive can be underweighted or not considered in this portfolio or may even be short-weighted to profit from falling prices. This means the net investment still amounts to

100% but one is working with a total of 160% of fund volume.

Hill: The 130/30 strategy originated in the field of institutional investment. Why did institutional investors come up with this strategy?

Flück: Like all other UCITS III versions, 130/30 funds offer institutional investors the opportunity

to invest in strategies that could otherwise only be implemented in a hedge fund framework. The sale of hedge funds to institutional investors has been up to now hampered by a lack of regulatory instruments and too little transparency. Investment in

regulated products that also a far more favourable cost structure than hedge funds are of far less risk to the budgets of institutional investors.

UCITS III offers some hedge fund managers the opportunity of offering hedge fund strategies in a regulated form to the wider public

In times of correlation when purely beta-diversification no longer brings the desired effect of minimizing risk, institutional investors are becoming increasingly sensitive with respect to their alpha-diversification. This means that 130/30 strategies also offer these managers the chance of generating additional alpha by spreading the risk as compared to classical long-only mandates. 130/30 funds will therefore be found more and more often in the portfolios of institutional investors.

Hill: We know that new product concepts are as a rule backed by big marketing machinery. Are there critical points to be considered in this 130/30 concept?

Flück: Just as in the classical long-only products, the success of such products is dependent on the abilities of the fund management. The chance to go short does not make a bad fund better. Fund managers who are able to make mainly the right decisions with respect to overweighting, or not considering certain single companies, however, could use the leverage opportunities to continue to profit from their originally correct choices in future.

Some salesmen and journalists are advertising these products as miracle weapons – especially in bear market times. I must contradict this view. The 130/30 concept always contains a beta-component as well. Therefore they cannot always avoid the negative effects of a bear market completely in the long run. They are not wholly neutral to the market, although there will always be good fund managers with the necessary know-how who can generate additional profits even in bear market times.

The track record for these products is still too short and too few products are on the market to make a final judgement concerning this product category. Chances and risks are not yet completely apparent. After all, wrong decisions have a higher than average risk here as compared to long-only products. At any rate one has in the past been well-advised not to blindly chase after every “marketing story”.

Hill: When 130/30 funds are seen as one form or variation on the super fund concept one can see certain risks and opportunities. What tendencies for the fund industry and for the investor do you see? How will the product landscape change after UCITS III?

Flück: I see UCITS III as an enormous opportunity for fund industry firms who can manage to match the increasing challenges offered by UCITS III with innovative product concepts and so benefit the market. The products offer enormous sales potential to retail customers as well as institutional investors. Demands on know-how are higher now for product salesmen as well as clients. The lack of homogenous UCITS III products makes it hard to form “clean” peer groups. Here the challenge lies in the individual judgement of investment processes which will have to be mastered by product buying agents, asset managers, fund of funds managers, family offices, and other institutional organisations.

All versions made possible by UCITS III are not yet known. We have discussed a few of these. Some surprising offers are sure to come.

UCITS III offers some hedge fund managers the opportunity of offering hedge fund strategies in a regulated form to the wider public, with a light limitation in the present investment spectrum. Market access barriers to retail and institutional markets would be lowered. The asset management industry cannot but profit from such impulses.

Hill: Thank you for this interview.



Markus Hill is an independent asset management consultant. His professional background includes, among others, the SEB Bank and Credit Suisse Management. His activities include management of mandates (for example: Arcturus/BG Funds) in the areas of sales, marketing, and public relations. He is an initiator of such authoritative studies on the first all-German Consultant Questionnaire by RCP-Telos etc. Various publications here and abroad underscore his wide-ranging activities as branch networker.



Daniel Flück is a founding member of Arcturus AG and Chairman of the Board, and since 2004 has been responsible for sales of the BG Umbrella Fund among others. In addition to his activities as leading analyst, he is in close contact with various institutional target clients. As head of a team of five analysts who actively support the BG Umbrella Fund, Mr. Flück's main emphasis is on the analysis of the European market. Besides technical and financial analysis of the financial markets, he also selects suitable investment funds (multi-management) and hedge funds. He possesses a profound practical and theoretical background in the management of umbrella fund concepts.