RCM Alternatives: Energy Fund Managers

4 Hedge Fund Managers who could Profit from a bounce in Crude Oil

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We half-jokingly talk about buying a tanker full of Gasoline in our post, How to Play a Bounce in Crude Oil, and park it in the backyard so you have cheap gas into the foreseeable future. And even though the real point of that post is to warn people off USO as a long term play on Oil going back up, due to its problems with cost of carry and roll yield – we're still getting lots of questions on how to best position a portfolio for a bounce in energy prices.

It seems most of us are sort of hard wired to want to own a piece of Oil money. Whether it be the riches we saw on TV back in the 80s with JR on Dallas or pictures of Saudi princes with gold cars, there's something very American about making riches in Oil. Of course, most of us aren't going to sink a bunch of money into digging holes in the ground. Investors want access to the potential return stream, but not all the JR drama that goes with it. We've covered why this is harder than it looks in the past – with futures foreign to many investors, and the Oil ETF notoriously bad for tracking… you know, Oil; and energy companies delivering more than just exposure to the commodity.

But being in the alternative investment space, we're starting to get one question over and over, what hedge funds or alternative investment programs are likely do to well when the energy sector bounces back? This is a more complicated and interesting question than it appears on the surface, because the question most people are actually asking is – what's a smarter way to play a bounce in Oil prices?

Why a smarter way? Well, even if $USO or $XLE were perfect and did exactly as we expected them to do when prices eventually rally, there's that one very important small word in there – WHEN. You don't just have to be right that prices will rally, you have to be right on WHEN they rally as well. The same goes for long dated futures, buying call options, buying depressed junk bonds on energy companies, MLPs at 75% off ticket price, and more. Most people are betting on a binary outcome with Oil prices in the traditional bets on it moving back up. If it goes back up, you make money. It keeps going down, you lose money.

The potential benefit of investing in a full-fledged investment program with exposure to Oil , versus an investment based primarily on Oil, is that you remove the binary aspect. Sure, you're not going to make money 1 to 1 on a rise in Crude prices, but you won't lose it 1 to 1 on further declines, either. You might even make money should the Crude Oil bounce not materialize, either because the funds typically lose less when they're wrong than they make when they're right, or because the funds go short Crude – and make money when it goes down! Either way, the idea behind putting money into one of these funds is to get exposure to the moves in Oil, with the ability to make money independent of when and if prices rise or keep falling.

Without further ado, here are 4 managers who will give you meaningful energy market exposure:

Manager #1: Emil Van Essen / Spread Trading Program

AUM: $12mm
Track Record Length: 9 years
Energy Markets: WTI, Brent, RBOB, HO, NG, London Gas Oil

Comp ROR: 15.93%
Ann Vol: 25%
Max DD: -36.21%
2015: +6.53%

When you read about the supply and demand complexities of the crude oil market, that's just the sort of inputs Emil Van Essen is using to find opportunities across the energy markets, be it Crude Oil or Gasoline. Classified as a relative value trading program, their goal is to find opportunities in energy markets prices relative to each other on the future price curve. For example, the manager might buy the nearest month crude oil contract and simultaneously sell the higher priced contract three months out on the market curve, with the expectation that the two contracts will eventually come closer together in price over time. For more information and the program's full fact sheet, please call 312-870-1500.

Past Performance is Not Necessarily Indicative of Future Results.

Rally Periods	EVE	CRUDE	$USO
JAN '07 to JUN '08	118.31%	137.93%	120.27%
MAR '09 to APR '11	51.11%	154.54%	46.64%

Sell-Off Periods	EVE	CRUDE	$USO
AUG '08 to FEB '09	21.50%	-63.69%	-70.87%
JUL '14 to JAN '16	10.12%	-68.48%	-73.43%

Manager #2: Jaguar Aegir

(pro-forma prior to October '15)

AUM: $20mm
Track Record Length: 3 months (7.5 years including pro-forma)
Energy Markets: WTI, Brent, Oman Crude, RBOB, HO, NG, GasOil

Comp ROR: 23.78%
Ann Vol: 11.50%
Max DD: -6.31%
2015: +8.62%

Jaguar Aegir is a prime example of looking for returns in the markets through a systematic approach, leaving the question of WHEN to play the bounce / fall up to the computers, so to speak. Jaguar Aegir's primary goal is to evaluate market mispricings over different time periods (seconds, minutes, hours), and filter that data through a systematic framework to make decisions on trades. Jaguar isn't looking for the bounce in oil per se – but the bounce or fall over one or two trading days. A rallying market can make those opportunities more prevalent, with bigger daily moves. Most trades are very short-term in nature and are typically closed out by the end of trading each day. For more information and the program's full fact sheet, please call 312-870-1500.

Past Performance is Not Necessarily Indicative of Future Results.

Rally Periods	JAG	CRUDE	$USO
JAN '07 to JUN '08	NA	137.93%	120.27%
MAR '09 to APR '11	NA	154.54%	46.64%

Sell-Off Periods	JAG	CRUDE	$USO
AUG '08 to FEB '09	NA	-63.69%	-70.87%
JUL '14 to JAN '16	19.26%	-68.48%	-73.43%

Manager #3: Red Rock Capital, LLC / Commodity Long-Short

AUM : $60 Million
Track Record Length (yrs): 2.3 Years
Energy Markets in Portfolio: Natural Gas, Crude Oil, Heating Oil, Gas Oil, Gasoline, Brent Crude

Comp RoR: 33.13%
Annzd Vol: 17.78%
Max DD: -6.08%
2015 Perf: 31.3%

It's no secret that energies are commodity markets, and Red Rock's Commodity Long-Short program is an investment which focuses specifically on the commodity markets. Red Rock's Commodity Long-Short is a trend following/global macro type system which takes longer term, directional trades in various commodity markets – including a heavy dose of energy sector markets. Using a systematic approach, the strategy is designed to capitalize on volatility expansion in either direction in commodity futures markets. On average the strategy will hold positons for approximately 9 days and returns of the strategy exhibit low correlation to stocks, bonds, hedge funds, and other managed futures programs. For more information and the program's full fact sheet, please call 312-870-1500.

Past Performance is Not Necessarily Indicative of Future Results.

Rally Periods	RED	CRUDE	$USO
JAN '07 to JUN '08	NA	137.93%	120.27%
MAR '09 to APR '11	NA	154.54%	46.64%

Sell-Off Periods	RED	CRUDE	$USO
AUG '08 to FEB '09	NA	-63.69%	-70.87%
JUL '14 to JAN '16	68.47%	-68.48%	-73.43%

Manager #4: Protec Energy Partners, LLC

AUM: $10M
Track Record Length: 5 years 9 months
Energy Markets: WTI, RBOB, HO, NG

Comp ROR: 18.41%
Ann Vol: 16.57%
Max DD: -23.79%
2015: -2.46%

Finally, for those looking for a pure energy allocation to your portfolio, Protec Energy Partners deserves to be on the list. The program only trades in the energy markets: crude oil, heating oil, gasoline, and natural gas – and spun out of a firm doing physical trading and delivery of those markets for large national chains and gas stations. Protec employs quantitative, options intensive trading strategies. Considering this unique approach, the ET1 Program requires a commitment to disciplined risk management, with an emphasis on market research and development. Tack on 24 years of energy market experience, with low correlations to traditional assets and other alternative investment strategies, and you can see why it's appealing. For more information and the program's full fact sheet, please call 312-870-1500.

Past Performance is Not Necessarily Indicative of Future Results.

Rally Periods	PEP	CRUDE	$USO
JAN '07 to JUN '08	NA	NA	NA
MAR '09 to APR '11	46.76%	154.54%	46.64%

Sell-Off Periods	PEP	CRUDE	$USO
AUG '08 to FEB '09	NA	NA	NA
JUL '14 to JAN '16	46.76%	-68.48%	-73.43%

There you have it, 4 programs that provide dynamic energy market exposure while investing in markets such as Crude Oil, Natural Gas, and Gasoline; with average compound annual returns of 22.81%.* There's even the different types of Crude oil, with exposure spanning from the US standard of WTI (West Texas Intermediate) to the European standard (Brent Crude) and the Middle East standard (Oman Crude).

As for performing during a bounce in energy prices, most of the programs are newer and weren't around for the big rallies in Crude prices 5+ years ago, with the one program that was around, having averaged returns of 72.06% during the two big run-ups in Oil in Jan '07-Jun '08 and Mar '09-Apr '11 (compared with $USO returning 83.46%). [past performance is not necessarily indicative of future results] But as noted earlier, the best part of this isn't their ability to perform during a run up; it's their ability to perform if you're wrong in your timing on that bounce in energy prices. To that end, we saw the programs gain 33.19%*, on average, during Crude sell-offs. Compare that with $USO returning an abysmal -66.09% during those periods, and you can see the allure. [past performance is not necessarily indicative of future results]

We get it, you want some of those oil riches. Who doesn't. Just be careful how you go after them… there's black gold in those hills, but also some troublesome cliffs, valleys, and other obstacles.

You'll need a dynamic guide to find your way.

*HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

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As past performance does not guarantee future results, these results may have no bearing on, and may not be indicative of, any individual returns realized through participation in this or any other investment. The risk of loss in trading commodity futures, whether on one's own or through a managed account, can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. You may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain a position in the commodity futures market. Any specific investment or investment service contained or referred to in this report may not be suitable for all investors. You should not rely on any of the information as a substitute for the exercise of your own skill and judgment in making such a decision on the appropriateness of such investments. Finally, the ability to withstand losses and to adhere to a particular trading program in spite of trading losses are material points which can adversely affect investor performance.

We recommend investors visit the Commodity Futures Trading Commission ("CFTC") website at the following address before trading: http://www.cftc.gov/cftc/cftcbeforetrade.htm Managed futures accounts can subject to substantial charges for management and advisory fees. The numbers within this website include all such fees, but it may be necessary for those accounts that are subject to these charges to make substantial trading profits in the future to avoid depletion or exhaustion of their assets.

Investors interested in investing with a managed futures program (excepting those programs which are offered exclusively to qualified eligible persons as that term is defined by CFTC regulation 4.7) will be required to receive and sign off on a disclosure document in compliance with certain CFTC rules The disclosure documents contains a complete description of the principal risk factors and each fee to be charged to your account by the CTA, as well as the composite performance of accounts under the CTA's management over at least the most recent five years. Investor interested in investing in any of the programs on this website are urged to carefully read these disclosure documents, including, but not limited to the performance information, before investing in any such programs.

Those investors who are qualified eligible persons as that term is defined by CFTC regulation 4.7 and interested in investing in a program exempt from having to provide a disclosure document and considered by the regulations to be sophisticated enough to understand the risks and be able to interpret the accuracy and completeness of any performance information on their own.

Reliance Capital Markets II LLC ("RCM") receives a portion of the commodity brokerage commissions you pay in connection with your futures trading and/or a portion of the interest income (if any) earned on an account's assets. CTAs may also pay RCM a portion of the fees they receive from accounts introduced to them by RCM.

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WHAT WE DO

We build great Managed Futures portfolios with clients looking to access the managed futures space in a meaningful way. That's been our specialty for more than a decade, with our experienced team up to the challenge of finding unique managers to fit unique needs.

For Investors

Research & Educate

We believe education means more than just a glossy brochure showing how managed futures is non-correlated to the stock market. We believe it means ongoing analysis of what's happening now, not just what happened over the past decade; and we provide daily research and commentary via our popular 'Attain Alternatives' blog covering all things alternative investments, as well as periodic whitepapers digging deeper into topics, guest posts by fund managers, and more.

Scout Talent

You can think of us as talent scouts, helping investors scour the world of alternative investment opportunities in an effort to identify those with robust, consistent performance, sophisticated risk management processes, and well-developed operational infrastructure. This selection is done through our proprietary filtering algorithm before performing one-on-one meetings and "real-time due diligence" where we analyze daily trading.

Tailor Portfolios

Armed with a menu of talented managers, we then provide customized portfolio and strategy advice to better generate target returns and protect principal while meeting the diversification, return, and risk needs of investors ranging from high net worth individuals to pension funds. Clients invest in these portfolios by opening a brokerage account with us, where we earn a portion of the trade-by-trade costs and fees paid to the portfolio managers you enlist. There are never any

Make It Easier

We make the actual investment part, with the paperwork and funding and all the rest, as easy as possible. We do this by eschewing a 'one size fits all' approach in favor of a consultative approach where we work with clients to find solutions that work for them in terms of structuring the investment. These include vanilla individual futures accounts, to the creation of 'Funds of One' or direct access to managers. The choice of clearing firms considers the investor's requirements for credit rating, balance sheet, and more; while consideration is given to smart collateral options via T-Bills, Notes, Corp. Debt, & Stocks.

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