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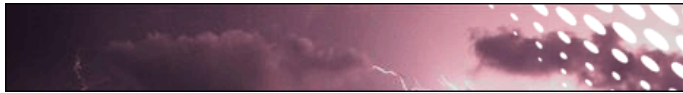
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Global-Cap Fund Blends 130/30, Agriculture Themes

By Martin de Sa Pinto, Senior Financial Correspondent | Monday, October 08, 2007

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ZÜRICH, Switzerland (HedgeWorld.com)—For many commodities experts, agricultural commodities are on the verge of a secular boom that some managers, such as Nicholas Maduz at \$1.3 billion commodities fund of funds manager Tiberius Capital Management, say could last 10 years or more.

A 130/30 fund focusing solely on agriculture may sound like some sort of genetically modified organism. But Alexis Dawance, manager of one such fund, said he believes his Zürich-based fund management firm, Global-Cap AG, is on to a winner as investor interest in both agricultural commodities and the 130/30, or "short extension" portfolio market, continues to develop.

In August, Global-Cap launched its GlobalAgriCap Fund with \$11 million in seed money from two funds of funds. The GlobalAgriCap Fund invests via equities in a universe of 2,057 agricultural companies worldwide. The impetus for the fund came from taking a different look at the companies in the universe of stocks that Global-Cap's GlobalMicroCap Fund chooses from.

"Our GlobalMicroCap Fund invests in the equity of stock market-quoted firms around the world. There is no size restriction, but we will tend to focus on smaller companies," said Mr. Dawance in an interview. "Our research for this fund identified a universe of a little over 2,000 agriculture-related companies worldwide. Two-thirds of those are small- and micro-cap companies, with only about 50 large-caps above \$5 billion."

At a certain point, he continued, the managers noted that about 25% of the GlobalMicroCap Fund, which manages slightly less than \$20 million, was invested in agricultural stocks. That was just about the upper limit for any sector or theme in the fund. "We liked our agriculture stocks, but decided it couldn't become too dominant a theme in GlobalMicroCap, which is mandated to maintain a reasonably high level of diversification," explained Mr. Dawance. "At that stage we decided to launch GlobalAgriCap."

The fund will focus on agriculture equities, rather than futures, since the latter often include metals such as gold and copper, and are thus not a pure play on agriculture. According to the fund literature, other benefits include the avoidance of losses on the futures "roll," as well as the possibility of increasing the value of the fund even if increases in agricultural yield keep supply in line with demand, a circumstance in which commodity funds tend to underperform.

The fund researchers will monitor themes such as the availability of water, oil and arable land and issues concerning climate change, all of which will have an effect on the supply side since several factors could cause supply disruption. On the demand side, the focus is on population growth, rising income levels and the development of efficient biofuels. Rising life expectancy and increasing demand for high-protein foods are already creating higher demand for agricultural produce, observed Mr. Dawance.

The new fund will invest or take short positions in equities across the agriculture supply chain. This includes producers such as land owners, farms and plantations; suppliers of seeds, agrochemicals and fertilizers; manufacturers of equipment and infrastructure; facilitators such as banks; distributors such as wholesalers; and logistics providers. The fund will invest in between 60 and 80 companies where the managers have identified a strong market position, sound management with a clear corporate strategy, favorable balance sheet ratios and good corporate governance. Target companies will have a market capitalization of less than \$1 billion.

Mr. Dawance said the managers will look to identify the most and least attractive agriculture sub-sectors. They will then use proprietary comparative analysis to identify the best long candidates and possible short ideas. Due diligence will include close contact with management at target companies, conferences, conference calls and company visits when possible.

"We'll be investing in themes such as fish farms, plantations, forests, fertilizers and tractors," said Mr. Dawance. "Within these sub-sectors we can play winners versus losers, or short entire sectors when we think one is particularly bubbly." He said the fund may also take a geographic focus, incorporating issues such as subsidies or tariffs into the evaluation process. For example, if United States corn subsidies are reduced it will be a boost for long positions in Brazilian ethanol, which can be produced efficiently from the country's vast sugar crop, and for short positions in U.S. ethanol, which made from corn and is four times less cost-effective to produce and needs government subsidies to survive.

"I believe that on a five-year horizon, we are on the verge of bull market in agriculture," says Mr.

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The markets are up



Dawance, noting that a number of macroeconomic factors are in place to drive the trend. For example, food costs in China are rising faster than the consumer price index. The government has so far shown little inclination to act because, when food prices outstrip inflation, the net effect is a redistribution of some of the cities' growing wealth to the country's poorer rural areas.

On the short side, said Mr. Dawance, GlobalAgriCap is going to be sector-specific, making broad use of pairs trading (for example, with long positions in Brazilian ethanol and short ones in the United States). He also said some bubbles are already appearing, suggesting that there may soon be a correction in fertilizers.

He was also keen to emphasize that GlobalAgriCap may have secured first mover advantage, noting that, though the new fund has yet to begin marketing efforts, it has received a growing number of enquiries in recent days. The fund was also recently flagged on the *AllAboutAlpha* web site. "[Switzerland's] private banks are very interested in this area, and we will see UBS, Pictet and others launching similar funds in the not-too-distant future," predicted Mr. Dawance.

The fund managers are Mr. Dawance and Victor Badin. Mr. Badin has been in investment banking since 2001, and most recently covered the position of senior associate covering European and Middle Eastern clients at Credit Suisse. He co-founded Global-Cap in April 2006. Mr. Dawance, the firm's other co-founder, began his career with Merrill Lynch in 1999. In 2000 he joined Lehman Brothers where he worked first in debt capital markets and later, as a director in equity sales.

GlobalAgriCap is incorporated in the Caymans. The administrator is ATU Fund Administrators (BVI) Ltd., and the custodian is Lehman Brothers International (Europe), with Maples & Calder acting as legal adviser and KPMG as auditor.

The minimum investment is \$100,000, with a subscription fee of up to 3%. Subscriptions are monthly, and redemptions are every 45 days with a 20% gate. There is a 1% redemption fee, paid to the fund, with an additional 1% fee for redemptions within 12 months of subscription. There is a 1.5% annual management fee, with performance fees set at 10%.

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