

Why will duETS Succeed When MacroShares Housing Trusts Failed?

MacroShares Structure

The MacroShares paired trust structure required significant operational complexity. The custodial bank had to do accounting on two trusts with cash shifting between the two trusts on a daily basis. In addition, it generated K1's for tax purposes. This requirement was not only cumbersome and complex for end investors, but the cost of implementation was significant and drove the cost of operation even higher.

GIG duETS

duETS have a single trust with cash moving once every two years. GIG's structure reduces the complexity of the product as well as the cost of operation. duETS only require the issuance of 1099s. These will be calculated and disbursed by the brokerage firms much the same as is done with mutual funds.

MacroShares Costs

The base fee was 125 bp. This fee level was driven in part by the high cost of operation of the vehicles. GIG plans to charge 85 bp. This lower fee will be more attractive to end users of the product.

MacroShares did not cap fees at launch as is customary in funds business due to being undercapitalized as a firm at the time. Fund shareholders were required to cover all costs during the start-up. The high fixed costs associated with start-up caused the fees to shareholders to be variable and as high as 5%. Market makers and other investors declined to participate due to the high and variable costs.

GIG duETS

GIG's DUETS products plan to come to market at 85 basis points with capped fees. It will also cover the start-up costs, so that investors know what they will be charged. Institutional tiered pricing maybe made available as the product evolves.

MacroShares Duration Period

The MacroShares Housing Trust came out with a maturity of 5 years. In talking to potential end users, GIG found two modifications would be required. Long-term taxable investors wanted an investment they could hold for as long as they deemed desirable in managing their tax situation, while other investors wanted the convergence of the price of the securities to occur more frequently than five years.

GIG duETS

One of the reasons why GIG selected a Measurement Period of two years is that for the NCREIF NPI in its 30-year history there has not been a single two-year period where the index has moved over 50%. This means that the GIG product would never have been “locked out” over this time period, which includes the financial crisis.

MacroShares Timing

Some of the potential end users of the MacroShares Housing product were mortgage market participants and people wanting to hedge the price of their real estate. In 2009, many of those people either getting fired or going through foreclosure. As a result, a significant amount of the target market for the product was unable to think about participating in a new market; regardless of its usefulness. In the institutional market, banks and other mortgage participants were focused on reducing their exposure to derivatives and new instruments. MacroMarkets could not get the attention of these potential users. In the retail market, the MacroShares Housing Trust never got off the ground, as many potential users were already underwater on their mortgages.

GIG duETS

We believe now is the best time to bring out a product that allows the ability to hedge and take long positions in private real estate. Reports have shown that CRE is in high demand as a part of a broadly diversified institutional portfolio.