Interview with Robert Greer

Scholar-in-Residence, J.P. Morgan Center for Commodities (JPMCC), University of Colorado Denver Business School; and Member of the JPMCC's Research Council

Mr. Robert Greer, Scholar-in-Residence at the JPMCC, presenting on commodity investing at the CFA [Chartered Financial Analyst] Society in Chicago on November 28, 2017. Mr. Greer is also an Editorial Advisory Board member of the *Global Commodities Applied Research Digest (GCARD).* (Photo courtesy of the CFA Society Chicago.)

In the Winter 2017 issue of the *GCARD*, we briefly interview Mr. Robert Greer, who is a Scholar-in-Residence at the J.P. Morgan Center for Commodities and is also an active member of both the JPMCC's Research Council and its Advisory Council. Mr. Greer is most well-known in his former role as an Executive Vice President and Real Return Product Manager at PIMCO, before his retirement.

Mr. Greer has been a stalwart supporter of the JPMCC, contributing to the Center's success in a myriad of ways. For example, he has been a featured presenter for the JPMCC's lecture series. He contributed to the inaugural issue of the *GCARD* with his article on "Portfolio Rebalancing and Commodities: The Whole is Greater than the Sum of Its Parts." And he has provided valuable business insights at the Center's prestigious Research Council meetings such as during Professor Forest Reinhardt's Harvard Business School case study on Olam International and during the Center's August 2017 international commodity symposium.

Mr. Robert Greer, who is also a Senior Advisor at CoreCommodity Management, LLC, presenting at the CFA Society in Chicago on November 28, 2017. (Photo courtesy of the CFA Society Chicago.)

In our interview, Mr. Greer explains how he became involved in the commodity markets and what led him to writing the first published article on an investable commodity index. He also touches on some of the major changes in the commodity industry, concluding with a description of the value that the JPMCC can potentially bring to the commodity industry.

Interview with Mr. Robert Greer

You have been referred to as the "Godfather of Commodity Investing." How did you first become involved in the commodity markets (either in the physical or derivatives markets)?

Like many things in life, my first involvement in commodity markets was purely coincidental; yet it has had a big influence on much of my subsequent professional activity. In the early 1970s I was working in the design of computer systems when I got a call from a fraternity brother. He wanted me to move to Dallas and lead the startup of a commodity brokerage company. When I protested that I knew nothing of commodities, he said, "That's no problem. I have plenty of connections here in Dallas to get clients, while my partner in Chicago has all the expertise we need to trade markets. All you need to do is run the business, and since you have a Stanford MBA, I'm sure you can run any business." I was young enough and foolish enough that I agreed and accepted the offer.

In 1978, your article, "Conservative Commodities: A Key Inflation Hedge," was published by the Journal of Portfolio Management. This article introduced the idea of an investable commodity index, which was a new concept at that time. What prompted the idea of an investable commodity index, and were there any barriers to your article being accepted?

When I entered the commodity futures markets in 1973, there were not a lot of participants who had my background in economics and finance. This was also a time when inflation was starting to run out of control and when the first stock index funds had just started. In that environment I realized that commodity futures are no more volatile than individual stock prices, but they had a reputation for high risk because of the tremendous leverage that was available. What if an investor, not a "speculator," simply did not use leverage, instead fully collateralizing each position. This of course would only be possible if you held only long positions, which was OK since long exposure might protect an investor from inflation. Next, these long positions could be weighted based on how important each commodity was in global trade, leaving no room to guess which commodities would go up more than others. Adding some rules on rolling positions forward and you had a measure of the returns from passive long-only collateralized commodity futures investing—an investable index. Prior to that time commodity indexes were indexes of prices, not of investment returns.

Nobody seemed interested in such a crazy idea, even suggesting that the words "commodity" and "investment" should not be spoken in the same sentence. Fortunately Peter Bernstein, editor of the *Journal of Portfolio Management*, was intrigued by the manuscript I sent him, and he published it in 1978. It only took another 15 to 20 years for investors actually to begin using such an investment strategy. In 2012 I had fun describing these efforts (including having to work without personal computers, online databases or even the ubiquitous HP 12C calculator) in an early chapter of my book, Intelligent Commodity Indexing, which also lays out in more detail the drivers of commodity index returns and why they logically lead to the inflation hedging and diversification that investors need.

What are some of the major changes you have experienced in the commodity industry, particularly on the investing and financing sides of the business?

The first major change I remember living through was in the 1990s, when investors began to recognize commodities as a distinct asset class and started thinking about how to use this strategy in a portfolio. Forward-looking institutions like the Harvard Endowment and Ontario Teachers' Pension Plan were early adopters that began to bring attention to the benefits of inflation hedging and diversification that commodities could bring to a portfolio. More recently, say in the last 10 to 15 years, we have seen other changes. There is increased regulation of the physical markets because of environmental and other concerns, and especially since 2008, financing for commodity activities from traditional banking sources has become more difficult.

How can the JPMCC be of most benefit to the commodity industry?

The JPMCC has the opportunity to make a difference in commodity industries and markets because it uniquely covers a broad spectrum of different commodity markets and is concerned about both physical and futures markets. In that role the JPMCC can contribute to commodity industries by the training of personnel who manage commodity functions in industry (e.g. supply management and procurement); by training investment professionals who have the chance to incorporate commodity exposure in portfolios; and by educating regulators and the media about the value and benefits that commodity futures markets bring to the economy.

Thank you, Mr. Greer, for this opportunity to interview you!

ROBERT GREER
Scholar-in-Residence, J.P. Morgan Center for Commodities, University of Colorado Denver Business School

Mr. Robert Greer is the first person to define an investable commodity index and is a pioneer in explaining why commodity indexes are an asset class distinct from stocks and bonds. He developed one of the two common methods of explaining sources of commodity index returns and has spoken on this asset class on national television, at industry conferences and trade meetings globally, and at college lectures at Yale, Oxford, Columbia, Princeton and elsewhere. Mr. Greer spent eight years managing the commodity index businesses at Daiwa Securities, Chase Manhattan Bank, and J.P. Morgan before joining PIMCO in 2002 to build their inflation products business. Under his 13 years of leadership PIMCO's commodity business grew from a single pilot account to become the world's largest commodity investment management business, at one time responsible for $35 billion in accounts. During this time the other inflation strategies for which Mr. Greer had business responsibility, including inflation-linked bonds, real estate, and certain multi-asset strategies, also grew so that his lines of business included over $100 billion in assets under management.

Prior to building the commodity and inflation business for PIMCO and others, Mr. Greer spent a decade in the commercial real estate industry, and also spent many years in corporate finance and computer systems development. But for more than two decades Mr. Greer's primary interest has been the business of commodity investment; so much so that the Chicago Mercantile Exchange has referred to him as "the godfather of commodity investing." He has also published articles on the subject in *The Journal of Portfolio Management*, *The Journal of Derivatives*, *The Journal of Alternative Investments*, *Pensions & Investments*, and in the inaugural edition of the *Global Commodities Applied Research Digest*, for which he is also a member of the Editorial Advisory Board. He has consulted on the subject of commodities to the CIA, the Bank of England and the New York Fed, and participated in the CFTC's Agricultural Roundtable in April 2008. Mr. Greer wrote and edited, The Handbook of Inflation Hedging Investments, oriented to the institutional investment community, which was published by McGraw Hill in December 2005. In addition, Mr. Greer wrote the foreword to the book, Intelligent Commodity Investing, which was published by Risk Books in 2007. He also co-authored Intelligent Commodity Indexing, published by McGraw Hill in 2012. Among other interests since retiring from PIMCO, Mr. Greer serves as a scholar-in-residence at the J.P. Morgan Center for Commodities, part of the University of Colorado Denver Business School, and is a member of both the Research Council and the Advisory Council of that organization. He is also a Senior Advisor for CoreCommodity Management, LLC and provides strategic consulting for companies in the physical commodity business. Mr. Greer received a bachelor degree summa cum laude in mathematics and economics from Southern Methodist University and was in the top 5% of his MBA class at the Stanford Graduate School of Business.