Initiation | Investment Companies

3 February 2015

Altin

Alternative investment

For many investors who are uncomfortable with current equity and bond valuations, it makes sense to consider an investment that aims to generate decent returns with low volatility and a low correlation to markets, as Altin does. A further consideration is Altin's Board's commitment to narrow the discount over time.

Objective

Altin aims to grow investors' capital and to deliver superior risk-adjusted returns with a low annualised standard deviation. It does this by investing in funds with a diverse range of fund managers and investment styles, mainly in the field of alternative investments, predominantly hedge funds. It is targeting a return of 6% after fees in the current market environment with lower volatility than and a low correlation, to equity markets.

Year Ended	Share Price Total Return (%)	NAV Total Return (%)	HFRI FoF Comp. TR (%)	MSCI World Hedged TR (%)	CGBI WGBI Total Return (%)
31/12/10	2.0	12.5	5.7	8.3	3.4
31/12/11	-7.8	-7.5	-5.7	-7.5	5.5
31/12/12	-0.4	2.8	4.8	13.1	4.5
31/12/13	24.7	10.4	9.0	26.1	0.2
31/12/14	8.6	5.8	3.4	7.6	8.4

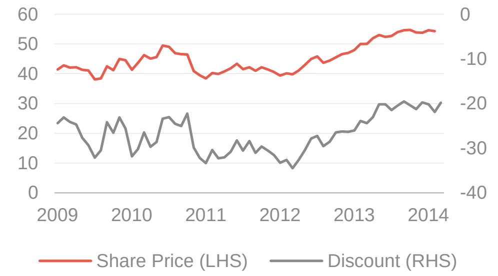
Source: Bloomberg, Marten & Co, SYZ Asset Management. We have compared Altin's performance to the HFRI Fund of Funds Index, the MSCI World Hedged Index (which is the MSCI World Index hedged back into US dollars on a monthly basis) and the CGBI WGBI – the Citi Government Bond Index World Government Bond Index.

* There are 3,823,867 shares in issue, 195,736 of which are held in Treasury, leaving 3,628,131 outstanding.

Sector	Hedge Funds
Ticker	AIA LN / ALTN SW
Benchmark	None
Base Currency	USD
Price	55.5
NAV	69.51
Premium (Discount)	(20.2)%
Yield	Nil

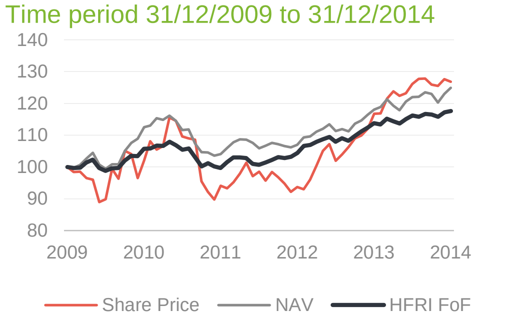
Share Price and discount

Time period 31/12/2009 to 31/1/2015



Performance over five years

Time period 31/12/2009 to 31/12/2014



Domicile	Switzerland
Inception Date	01/12/1996
Adviser	Michaël Malquarti Alexandre Rampa
Market Cap (USD)	201.4m
Shares Outstanding	3,628,131*see left
Daily Trading Volume	5,053
Net Gearing	24%

Contents

Technical terms

The world of hedge funds is littered with technical terminology. If you are viewing this on-line, you should find links to the glossary section of the QuotedData website scattered throughout this note that will hopefully provide some explanation, if needed. If you are reading a hard copy, you can visit our website and just type any term whose meaning you are unsure of in the search box, hit enter and the relevant glossary item should pop up. You will also find a note that explains a bit about the different strategies that hedge funds employ and another that explains the basics of risk. If we have missed anything just let us know using the contact us tab on the website.

Strategies for uncertain times

Since 2008 when the credit bubble burst and central banks began pumping liquidity into the world's financial system, equity and bond markets have staged a remarkable recovery. Remarkable, given that until recently there has been very little by way of economic growth and government finances haven't shown much sign of improvement either. Some commentators have been predicting, for five or six years now, that this will all end in tears.

In the investment companies sector, in the UK at least, hedge funds have not been popular even though many hedge funds try to limit the impact of falling markets on their portfolios. In fact, the number of investment companies dedicated to the area is still dwindling, as evidenced by the impending demise of CQS Diversified Fund. Perhaps it is understandable why investment company investors lost patience with the hedge fund industry in the aftermath of the credit crisis and the coincident discoveries of fraud in the sector (Madoff etc. – not something that affected Altin) but, talking to the SYZ team (the investment advisers for Altin), they point to the US, where the industry is larger than it was before the onset of the financial crisis. They also point out that there is a wide spread of investment strategies and styles that you just cannot access except through an investment in a hedge fund. Given the global macroeconomic backdrop, and current discounts that are available on listed fund and fund of fund structures, they believe that investors looking for absolute returns should give the sector a closer look.

SYZ say that, in a world of rising rates, hedge fund returns could outshine those of conventional funds

SYZ also make an interesting comment in their latest message to investors. For the last 30 years global interest rates have been trending downwards and this has provided a tailwind for the values of most assets. While rates may not be about to leap up, they think the coming rise in US rates could be the start of a gradual reversal of that trend. If so, this is an environment that the vast majority of investors have little or no experience of. SYZ suspect that if rates end up increasing or even rise a bit and stabilise, markets will struggle to deliver the returns we have been used to. They say hedge funds should still be able to make similar returns to history however, making them relatively more attractive to investors.

The right structure

It is not practical for most investors to invest in hedge funds directly

Investing in hedge funds directly requires you to have a lot of capital as many have sizeable minimum investments. You need staff to carry out investment and operational due diligence as well as portfolio construction and risk management. On the other hand, investing through a listed fund of funds lets you outsource a rather complex investment process to experts in the field and allows investors access to the sector for the price of a single share.

Closed-end funds can access more attractive long lock-up funds

In terms of managing the portfolio, SYZ believe Altin's closed-end structure gives investors a real advantage over an equivalent open-ended fund. Pre-2008, many open-ended funds of hedge funds operated with a liquidity mis-match; their investors could demand daily, weekly or monthly redemption but many of the funds they were invested in were operating with quarterly or even longer notice periods. Today, open-ended funds of funds are restricted from investing in funds with long lock-up (notice) periods. This is unfortunate as SYZ say these are often the funds with the best long-term performance. SYZ believe it is simply not possible to access most best of breed hedge fund managers and, at the same time, provide monthly or even in some cases quarterly liquidity to your investors. They say the best performing "blue chip" hedge funds require lock-ups because they can and in most cases should (due to the nature of the things they are investing in). A closed-end fund such as Altin can invest in funds with long lock-up periods while its investors can sell their investment whenever they choose, provided they are prepared to accept the prevailing market price.

An additional feature of the closed-end structure is that the fund can use gearing to enhance returns. Altin is taking advantage of this ability and current low interest rates; gearing currently stands at 24%.

About the investment advisers

Managing and advising multi-manager products such as Altin is a core business for SYZ Asset Management. Altin dates back to 1996 and has the longest track record of any fund in the SYZ stable. SYZ launched an open-ended version of it in 1998 but the two portfolios are not mirrors of each other. Liquidity constraints and return requirements account for the main differences between the portfolios. In 2008 SYZ launched a low volatility portfolio, in 2009 a UCITS multi-strategy portfolio and in 2010 an institutional portfolio with an uncorrelated mandate. In total they have €1.2bn invested in absolute return funds - €400m in funds of funds and €800m in bespoke mandates and advisory. The advisers say they like this mandate because of the lack of liquidity constraints.

The team is headed up by Alexandre Rampa and Michaël Malquarti. They have been in the team for about ten years and have been co-heads of it for two years. They refocused the portfolio when they took charge in 2012, taking on some risk to improve returns but also investing in higher return uncorrelated funds and moving the portfolio back towards investment in longer lock-up funds to take better advantage of the benefits of the closed-end structure as we discussed above. The objective was to achieve higher expected returns without much more beta risk.

The advisers' biographies are on page 13.

How they select the portfolio

SYZ Asset Management has a team of 18 people dedicated to alternative investments. There has been a significant change in approach since 2011 and, whilst Alexandre and Michaël make the final decision on what goes into the portfolio, SYZ now have a very team-oriented approach. The investment team is drawn from a diverse group of people; to better encourage a culture of debate.

The team is selecting from a universe of c10,000 hedge funds worldwide. They use third party databases to help sieve this into a manageable number. They do not believe that past performance is an indicator of future performance and actively try to remove this from their assessment of potential investments so as not to bias their judgement. Instead they aim to build a portfolio that is expected to meet Altin's performance objectives based on an appropriate level of risk-taking.

SYZ assess each fund on a range of criteria, looking at metrics like investment style, the manager's attitude to risk, the depth of resource, projected volatility and portfolio liquidity. They want managers who share their sense of ethics. For example, is the manager conscious that they are running other people's money?

It takes anywhere between two and twelve months for a fund to move from being identified as a potential candidate for the portfolio to SYZ advising the purchase of a position. After an initial call with the managers, at least two analysts (to make sure they can have an informed debate back at the office) make onsite visits, documenting everything as they go, performing qualitative and quantitative analysis and operational due diligence. The emphasis is on ensuring the risk the manager is taking tallies with the fund's objectives.

They want to keep their industry knowledge current, so they visit a lot of other managers, even those that aren't necessarily destined to make it into the portfolio. About two or three times a year they'll conduct thematic trips – building up knowledge of a particular sector of their universe.

Based on this initial screening, SYZ condense the universe down to a watch list of about 55 approved funds. These are followed closely (regular calls and visits) and from this list they choose about 35-40 positions for the portfolio.

Longer lock-up share classes have lower fees

The team will consider making investments in new funds but only if they know the track record of the key people. There can be significant advantages in buying a brand new fund such as early bird deals where you pay lower charges. The advisers say that part of the attraction of managing Altin is that it can take longer-term views than for an open-ended fund, which means they can invest in longer lock-up classes of shares in funds which come with lower fees.

On a regular basis they take time to sit back and look at the macro picture (in conjunction with SYZ's in-house macro team) to see if this might throw up ideas for the portfolio.

SYZ try to identify opportunities where they have confidence in their ability to predict likely outcomes over 12-36 months. They factor the external market environment into the overall portfolio risk level. The more certain they feel about the prospects for a fund, the higher its weighting will be in the portfolio. Core positions (maximum 8%, normally between 5% and 6%) will have a robust investment process and highly predictable outcomes. Smaller, satellite positions (maximum 4%, normally 2%-2.5%) add either higher returns or strong diversification benefits.

Identifying truly different sources of returns

In terms of risk management the team assigns funds into volatility buckets depending on the nature of the strategy adopted by each fund. Except in rare cases, for example when assessing low liquidity and multi-strategy funds, they assume a standardised risk-adjusted return for each investment, consistent with a constant Sharpe ratio for each fund, rather than extrapolating from past performance or relying on the manager's stated objective. Diversification across managers is achieved by looking for truly different sources of returns, by style, manager location, asset classes, etc. as opposed to relying on what they believe are notoriously unstable correlation matrices. Their aim is to avoid employing managers that are making the same underlying investment call thereby invisibly multiplying risk within the overall portfolio. Quant tools are used to measure risk, but act as a flag to review positions rather than to inform the construction of the portfolio. SYZ also don't try to aggregate the underlying portfolios, which would be impractical, often outdated and missing the dynamic component of an investment style. They don't want to try to second guess individual investment decisions anyway.

Quant analysis is used on a monthly basis to help flag unusual behaviour and something untoward here could trigger a full redemption. Funds will be removed from the portfolio if there are key changes at the fund or management company level, if they find a better alternative investment or if they start to exhibit persistent performance problems. The advisers don't trade the portfolio. Turnover was elevated when Alexandre and Michaël took over, as they worked to realign its risk profile with its mandate, but this has settled down now. Trades are implemented monthly.

Advisers' outlook

As economies diverge and assets become less correlated, hedge funds have more opportunity to add value

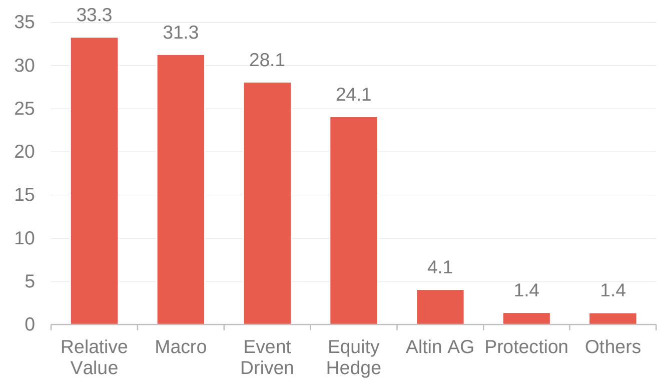
SYZ say the global economy is not synchronised and, in 2015, Macro managers will be looking to take advantage of the divergence in the strength of world economies while being wary of the actions of central banks, deflation and the sustainability of growth. SYZ are watching though for signs of managers taking too much risk out of their portfolios. They think that generally the outlook for emerging markets is not great, expecting them to be adversely affected by rising US interest rates (first increase forecast for Q3 2015). Some emerging markets will be beneficiaries of falling oil prices but equally, others will be adversely affected. SYZ are cautiously optimistic on the outlook for Macro managers. They expect them to focus on themes such as falling energy prices, cheap implied volatility, US dollar strength and how to benefit as the differences between the major world economies become more pronounced. SYZ think the latter will also be a fertile hunting ground for Equity Hedge managers who will also be looking to exploit a less homogeneous market for sectors and stocks. SYZ think the environment is becoming more supportive for short sellers, in the US in particular. Overall though they are neutral on the Equity Hedge style.

Event Driven funds may not have had a great 2014 but SYZ thinks M&A activity could remain strong in 2015 given companies are holding record amounts of cash on their balance sheets. They say it is possible that activity could be heightened ahead of a US rate hike, to lock in low financing costs. Many of the more obvious trades are already crowded though and so SYZ are more optimistic about managers operating in the distressed space for example in the energy sector where new opportunities might arise.

As sectors and stocks become less correlated, SYZ are bullish on Equity Market Neutral strategies. Credit Related and Interest Rate Relative Value strategies have been suffering from a lack of dispersion of returns, a product of the desperate search for yield and the actions of central banks. SYZ think this might change in 2015. SYZ also say that those seeking to benefit from Volatility Arbitrage strategies might have an easier time in 2015.

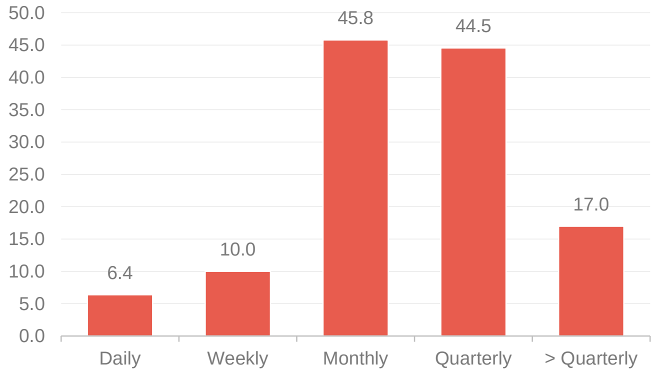
Portfolio positioning

Figure 1: Portfolio allocation by strategy 1/1/15



Source: SYZ Asset Management

Figure 2: Portfolio liquidity 1/1/15



Source: SYZ Asset Management

As Figure 1 shows, at 1 January 2015, Altin's primary strategy exposures were to Relative Value (33.3%), Macro (31.3%), Event Driven (28.1%) and Equity Hedge (24.1%). In addition to owning a modest position in its own shares.

Overall, the fund had a net exposure of 123.8% (in other words was borrowing money equivalent to 23.8% of the fund's net assets). This was down from 127.5% at the end of September 2014.

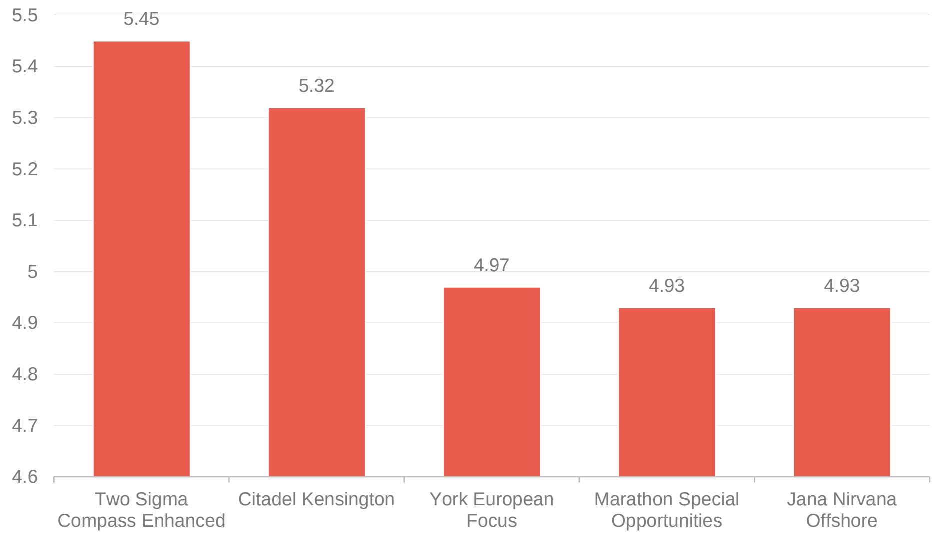
Looking at the liquidity profile of Altin's portfolio as at 1 January 2015 (as illustrated in Figure 2) the portfolio had a roughly 50/50 mix between assets with liquidity of one month and shorter and funds with quarterly or longer liquidity. Over 85% of the portfolio can be redeemed with 3 months' notice or less.

Largest holdings

Figure 3 shows Altin's largest holdings, in terms of portfolio weight as they were at the start of January 2015.

Two Sigma Compass Enhanced Cayman Fund follows a global Systematic Macro strategy investing in futures (equity indices, bonds, commodities), FX spot and forwards and related instruments. It typically employs short to medium-term models, both technical and fundamental, which are developed by one of the best respected and largest quantitative team in the world. Reportedly it has been one of the best performing hedge funds in 2014, positive returns stemming from most models, with the largest contributions coming from commodities and fixed income.

Figure 3: Largest holdings as % of gross assets 1/1/15



Source: SYZ Asset Management

The Citadel Kensington Global Strategies Fund implements a Multi-strategy Multi-manager approach with risk split across nine buckets, including, amongst others, fundamental equity strategies, global fixed income, quantitative and macro. They drastically changed their approach and allocation following 2008 by repositioning the fund toward skill-based, liquid and less balance sheet intensive strategies with extremely tight risk controls. Focus is on removing all of the systematic risks to isolate the idiosyncratic risk, which is then leveraged up. It benefits from Citadel's deep research and portfolio management capabilities with more than 400 employees dedicated to investment.

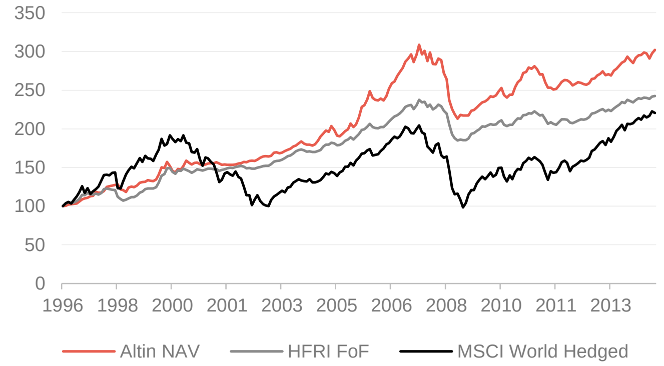
York Europe Focus Fund is a Multi-strategy Event-Driven fund that invests in companies in Europe in distressed situations, M&A situations and equity special situations. The Focus fund has a higher return objective than York Europe's flagship fund and has more tolerance for liquidity risk. The fund is managed by Christian Reyntjens under the supervision of the CIO Christophe Aurand, the pair have a good track record in the European event-driven space and have successfully navigated times of stress in European markets. This position allows Altin to benefit from many event-driven opportunities, including less liquid ones, in Europe in the on-going post-2008 and 2011 context.

Marathon Special Opportunities Fund is a Multi-strategy Credit fund focusing on situational investments in corporate high yield, emerging markets and structured finance. This fund has yearly liquidity with a 90-day notice and a 20% fund-level gate, which allows it to invest in less liquid/higher return instruments. In addition, its size and pedigree allows it to be involved in larger more-difficult-to-get transactions, such as sales of assets by European banks during their recent deleveraging process.

Jana Nirvana Offshore is an Event-Driven fund started by Barry Rosenstein specialising in investments in companies going through strategic changes. They invest mainly in large cap companies based in the US and frequently take activist positions. The Nirvana strategy is a more concentrated version with a higher net and gross exposure than the flagship fund. Jana's style compared to their peers is a softer approach to activism where they work along with management teams rather than pushing for change aggressively.

Performance

Figure 4: Altin NAV, a Hedge Fund Index and global equity markets



Source: Bloomberg, Marten & Co, SYZ Asset Management

Figure 5: Performance inception to 31/12/2014

	Altin NAV	HFRI FoF	MSCI Wld. Hedged
Performance	208.7%	144.0%	118.0%
Ann. Return	6.4%	5.1%	4.4%
Volatility	7.6%	5.9%	14.7%
Sharpe Ratio	+0.34	+0.20	+0.10
Best Month	+6.7%	+6.8%	+10.1%
Worst Month	-10.2%	-7.5%	-15.9%
% +ve Months	66.4%	64.1%	58.1%
% -ve Months	33.6%	35.9%	41.9%
Correlation		0.77	0.42

Source: Bloomberg, Marten & Co, SYZ Asset Management

Altin not much impacted by recent exchange rate moves

First a quick message about the impact of the shift in the Swiss Franc / US dollar exchange rate. It seems as though some hedge funds were caught out by the move. However, SYZ say Altin's portfolio was not much affected. This is evident in the NAV figures they have been publishing since this happened. SYZ say most hedge fund managers had little to no exposure to the cross as the potential distribution of returns was perceived (rightly so, in retrospect) as very asymmetrical.

Next, looking at recent performance, SYZ say the last few months of 2014 were not easy for many hedge fund managers. A court ruled that the US government would benefit from the profits generated by Fannie Mae and Freddie Mac (the US Federal mortgage agencies) rather than their private shareholders (which include many hedge funds), the move to block tax inversion deals hurt Event Driven funds, the decline in the oil price and the strength of the US dollar benefitted Systematic Macro funds. SYZ say Commodity funds managed to generate positive returns on average as it became easier to predict price moves on fundamental grounds. SYZ say Equity Hedge funds made more alpha from their short than their long positions and more from individual stock trades rather than following broad market themes. Falling correlation made it easier for Equity Market Neutral managers to make money but Credit Relative Value managers were hurt by sharp price moves.

Over the long-term Altin has returned more than its peer group and global equity markets with low volatility

Looking back at Altin's long-term net asset value performance history, we want, surprisingly perhaps, to dwell on the negatives. We should first point out that, as illustrated in Figures 4 and 5, Altin has returned more than its peer group (as measured by the HFRI Fund of Funds Index) and more than global equity markets (as represented by the MSCI World Hedged Index) with much lower volatility than the equity market and a low correlation to it. However, within this good long-term trend, there are two periods that might be worth delving into in more detail.

The first is Altin's performance in 2008 – a negative return of 29.2% for the year with a 10.2% fall in the NAV in September 2008 alone (the worst month in the fund's history by some margin). This was of course the year of the bankruptcy of Lehman Brothers (it filed for Chapter 11 on 15 September 2008). Panicking investors rushed for the exits, credit lines were pulled and hedge funds with liquid strategies were forced to unwind these positions at the depths of the market to fund redemptions. Some funds found they could not fund redemptions immediately, which did not endear them to investors. However, on the plus side, Altin's 29.2% fall in NAV over 2008 is more than 10% better than the return on the MSCI World Hedged Index in US dollars; and, in theory at least, central bankers have been working to reduce systemic risk from the world's financial system, so the chances of a repeat of the events of 2008 should have been lessened. In 2008 the correlation between widely different asset classes suddenly spiked upwards as investors tried to sell everything at once, with little differentiation for asset quality. However, with new approaches to risk and risk management, it seems unlikely that such an extreme event will be repeated in the near term. Additionally, Altin's current portfolio has a very different structure to that of 2008. SYZ say the level of diversification by investment strategy is much higher today and the portfolio also holds some protection strategies.

Figure 6: Altin NAV month by month since start 2008

	2008	2009	2010	2011	2012	2013	2014
Jan	-4.42	2.27	-0.31	0.5	1.85	2.15	0.68
Feb	3.83	-0.41	0.94	2.04	1.7	0.31	2.06
Mar	-5.02	0.04	1.98	-0.47	0.91	1.34	-1.66
Apr	-0.14	0.05	1.78	1.13	-0.12	0.79	-1.21
May	2.60	2.82	-3.52	-1.38	-0.95	1.27	2.33
Jun	-0.59	0.33	-1.34	-2.50	-1.55	-1.86	1.12
Jul	-5.73	1.51	1.44	0.15	0.77	0.57	0.12
Aug	-3.05	1.42	-0.01	-3.95	0.84	-0.65	1.17
Sep	-10.20	1.57	4.16	-2.54	-0.42	2.25	-0.44
Oct	-4.96	0.52	2.42	-0.04	-0.56	0.88	-2.20
Nov	-2.94	1.01	1.24	-1.00	-0.36	1.53	2.23
Dec	-2.60	1.70	3.27	0.45	0.77	1.42	1.53
Total	-29.2	13.55	12.47	-7.52	2.85	10.37	5.75

Source: Marten & Co, SYZ Asset Management

In 2011, markets were knocked by the euro crisis. Altin's performance during this period, -7.5%, wasn't much out of line with its peers and the MSCI World Hedged Index but the then adviser feared we were heading for a rerun of 2008 and aggressively de-risked the fund. When Draghi made his speech in mid-2012, promising to do whatever it would take to save the Euro, markets shot upwards and Altin missed the rally, locking-in quite a bit of underperformance. Subsequently, the adviser stepped down and Alexandre Rampa and Michaël Malquarti were promoted and given the task of revamping the investment approach to try to ensure something like this wouldn't happen again. As we explained on page 4, that exercise involved taking on some risk to improve returns but also investing in higher return uncorrelated funds and moving the portfolio back towards investment in longer lock-up funds to take better advantage of the benefits of the closed-end structure.

Discount / valuation

Discount anomalously wide – Board acutely conscious of the problem

At 20%, Altin's discount looks anomalously wide relative to its peer group of London listed hedge funds (mostly low single digit). The Board is acutely conscious of the problem.

One important step it has taken is to improve communications with shareholders. In fact, relative to most funds of hedge funds, Altin is very transparent, publishing the entire portfolio each quarter. Tony Morrongiello was made CEO to act as point of contact for shareholders independent of the adviser. His role also encompasses advising the board on corporate strategy and corporate governance, an area that was further strengthened in 2013 with the appointment of Roger Rüegg as an additional independent non-executive director.

There are reasons why buy-backs and capital distributions (both measures that Altin has adopted in the past in an attempt to tackle the problem) are unsuitable for a Swiss-domiciled fund. Share buy-backs are permitted in Switzerland but the company has to open a second line of trading in the stock and the amount it can buy-back each day is very limited (related to average daily turnover in the stock - 25% of the daily average traded volume over the preceding 6 months). Altin's CEO, Tony Morrongiello, estimated it could take 200 trading days to buy-back 10% of the company – a strategy that he believes would have no material impact on the discount.

The Board believes that investors should 1) expect to earn 6% returns in the current environment and 2) have that topped up by an element of discount narrowing. As such, when Altin fails to achieve c10%-12% over a calendar year, the Board thinks shareholders should be compensated by giving them the chance to exit part of their investment. The mechanism by which the Board has chosen to achieve this might, at first, look a bit convoluted but the discount has narrowed since it was introduced.

Put options used as efficient way to return capital at narrow discount

In 2013 shareholders were given put options on the basis of one put option for every share they held. A holder of ten put options had the right to sell one share back to the company at a 20% premium to the prevailing market price. The put options were listed so that all shareholders could choose whether to sell their put options or exercise them. Non-Swiss investors who exercised their shares would face a withholding tax (see the Capital Structure section for an explanation). The put options were trading above the level where it made sense for a non-Swiss holder to exercise them and so most just sold their put options.

New Capital Return programme announced 20 January to provide additional return to shareholders

On 20 January 2015 the Board announced that, as the share price had failed to meet the 10%-12% return objective over 2014 (albeit by a narrow margin), the Board would institute a further 10% capital reduction "as quickly as technically feasible". At the same time the Board committed to further capital buybacks at the end of any given calendar year during which the share price may have failed to appreciate by less than 10%-12%, whilst the discount to NAV remains at significant levels

Fees

The base management fee is 0.125% per month (1.5% per annum) on the market capitalisation of the company (which gives the manager an incentive to support measures to drive down the discount).

There is a performance fee. This is calculated as 5% of the first 12% of net asset value return generated in an accounting year, 10% of returns between 12% and 20% and 0% thereafter. The performance fee is structured to try to incentivise the adviser to produce returns in the 12% to 20% range. There is a high watermark based on net assets under management which is currently $285.5m (i.e. the net assets would have to exceed this level before a performance fee was payable).

Both fees go to Alternative Asset Advisors (the named investment manager – see below in the section on capital structure) and they pay SYZ from this.

The nature of funds of hedge funds such as Altin is that they do seem to have higher ongoing expense ratios than the average investment company. This is, in part, reflective of the amount of work that goes into managing these funds. There are, of course, fees charged on the underlying funds by their managers. The advisers estimate these average out at around a 1.6% base fee and 17% performance fee. The advisers say Altin's closed-end nature allows them to access longer lock-up share classes which come with lower fees. They also take advantage of "early bird" fees for new funds which may mean discounts on both base and performance fees.

Capital structure & leverage

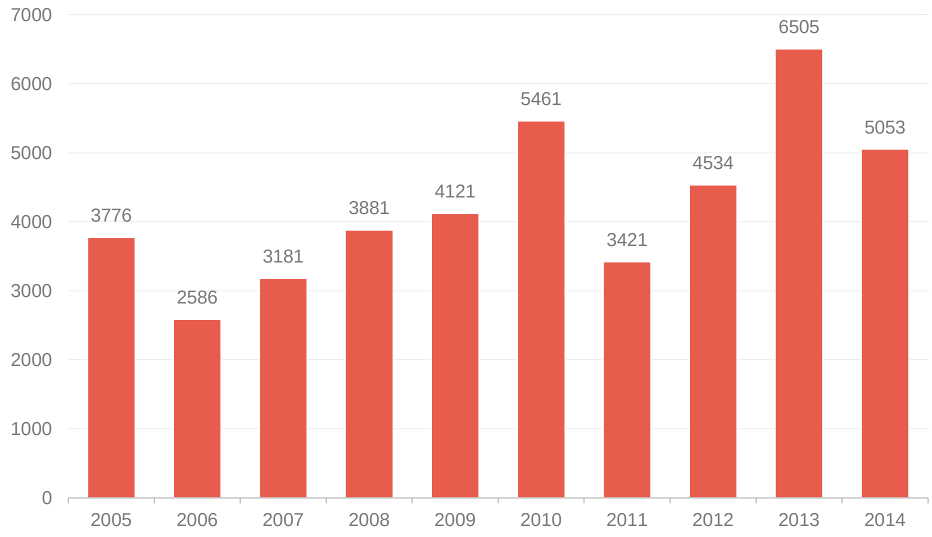
Altin AG is domiciled in Switzerland and invests through a Cayman Islands company, Altin (Cayman) Limited. The investment manager of the Cayman fund is Alternative Asset Advisors SA (based in Nassau in the Bahamas) and SYZ Asset Management are advisers, making investment recommendations to Alternative Asset Advisors. This is a well-established structure in the hedge fund sector.

There are 3,823,867 shares in issue. 195,736 of these are held on Altin's balance sheet, these are Treasury shares, they do not have full voting rights and can sit on the balance sheet for up to six years. In accordance with UK practice, we use the net figure 3,628,131 to calculate the market capitalisation etc.

Altin's shares are listed on both the Swiss exchange and on the LSE. Liquidity on the Swiss line is reasonable (see the graphic below) but has declined in London. This is not a problem for UK-based investors seeking to make an investment in Altin, as stock can be transferred easily between the two exchanges.

The fund uses gearing to enhance returns. It has an annual revolving credit facility agreement with Credit Suisse (Bahamas) Ltd of $60m-$90m. Interest is charged at LIBOR+160bps. The whole line is committed and gearing is 24% of net assets.

Figure 7: Average Daily Volume (Swiss line)



Source: Bloomberg

Altin does not pay dividends as this is not very tax efficient for all shareholders

The company does not pay dividends as this is not an efficient way of providing returns for all shareholders. For investors based outside Switzerland there is no capital gains tax. However, distributions made to investors out of the retained earnings are subject to withholding tax at the rate of 35%. UK-based investors benefit from a double taxation agreement between the UK and Switzerland which gives them a 20% credit against their UK tax bill. Nevertheless the receipt of distributions made out of retained earnings is not very tax efficient for UK investors.

In the past Altin declared distributions out of its core share capital (nominal value and share premium) but this policy is not sustainable in the long run and has been discontinued.

The co-advisers

The advisory team is headed up by Alexandre Rampa and Michaël Malquarti (both Co-Head of Alternative Fund Investments at SYZ & Co for about two years). Alexandre has been with SYZ since January 2006 and Michaël since 2005. The portfolio is managed using a team approach and the advisers consider that their varying focuses are highly complementary.

Alexandre holds an MSc in Management (majoring in Finance) from HEC Lausanne. He is also a CAIA and CIIA charterholder. From 1998 to 2000 Alexandre worked for Union Bancaire Privée as an analyst in the Alternative Asset Management Group. He then worked for Banque Privée Edmond de Rothschild until 2005, as a Senior Analyst and Portfolio Manager, where he was responsible for Arbitrage and Event-Driven strategies and was a lead portfolio manager for their ‘uncorrelated product’. Alexandre joined SYZ as a Senior Portfolio Manager, and Senior Analyst, with a focus on low volatility portfolios.

Michaël holds a Masters in Mathematical Physics from the University of Geneva and a PhD in Astronomy from the University of Sussex. Following a period of undertaking research in Theoretical Cosmology, Michaël joined SYZ to develop quantitative and qualitative tools to support the Alternative Investment Process before becoming Head of Risk in 2007 and institutionalising its risk management process. In 2010, Michaël joined the Alternative Investment Team as a Senior Analyst and Senior Portfolio Manager with a focus on complex issues, complex strategies and portfolio construction.

The Board

The Board comprises four members, three of whom are deemed to be non-exec and independent of the investment adviser. The directors (with year of appointment in brackets) are: Peter Altorfer (chairman – 2010), André Pabst (2001), Roger Rüegg (2013) and Eric Syz (1996). The average length of Board member service is 9.4 years and all directors stand for re-election annually. Altin has one direct employee in the form of its CEO Tony Morrongiello. Mr. Morrongiello is not a member of the Board of directors.

Eric Syz, as a founding partner of Banque SYZ & Co SA (Altin's investment adviser) and member of its Executive Committee, cannot be considered as independent of the investment adviser. He is the longest serving member of the Board. Mr. Syz chaired the Board between 1996 and November 2001 before then serving as a delegate to the Board until March 2013. Mr. Syz is not recorded as having any direct investment in Altin but has exposure through his holding in Bank SYZ.

André Pabst is the next longest serving member, having provided 13 years of board member service. He has the largest direct shareholding of all the directors (2,000 shares) which, at current prices, is worth 5.4x his annual director's fee of CHF20,000. Mr. Pabst's company, Pabst Investment & Trust, has provided consultancy services to Altin since 1996.

Chairman, Peter Altorfer, has served on Altin's board since April 2010. He received the largest director's fee (CHF 30,000) and, as at 31 December 2013, is not recorded as having a direct shareholding in Altin. Mr. Altorfer is a partner at the law firm Wenger & Vieli in Zurich (specializing in bank and company law). He is a member of various company boards including Forbo Holding AG, Baar, Huber + Suhner AG, Herisau, agta record ag, Fehraltorf and Abegg Holding AG.

Roger Rüegg is the newest member of the Board, having joined in April 2013. Mr. Rüegg received CHF 15,000 for his services in 2013 and, as at 31 December 2013, is not recorded as having a direct shareholding in Altin. Mr. Rüegg started his career at McKinsey & Company in 2001 before joining Julius Baer's trading division in Zurich and then joining Horizon21 Alternative Investments in 2006. In 2010 Mr. Rüegg founded Multiplicity Partners AG, an independent investment boutique specialising in alternative investments.

Tony Morrongiello, Altin's CEO, was appointed in March 2013 and, as CEO, supervises Altin's operations. This includes the investments made by the fund manager, operational management and investor relations. A key objective is to enhance awareness of Altin in the Swiss and European markets. Mr. Morrongiello received CHF 91,362 for his services during 2013. Mr Morrongiello has more than fifteen years' experience of managing funds of hedge funds in Switzerland, Europe and Asia. He has managed or advised a number of alternative investment companies and founded Caliburn Capital Partners, a company which managed funds of theme funds in London, Geneva and Singapore. He also sits on various committees and boards of funds of hedge funds.

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