Altana Director Alignment Strategy

Trade Return Distribution Analysis 2018.

By Alphons Vermorken, PM ADAS

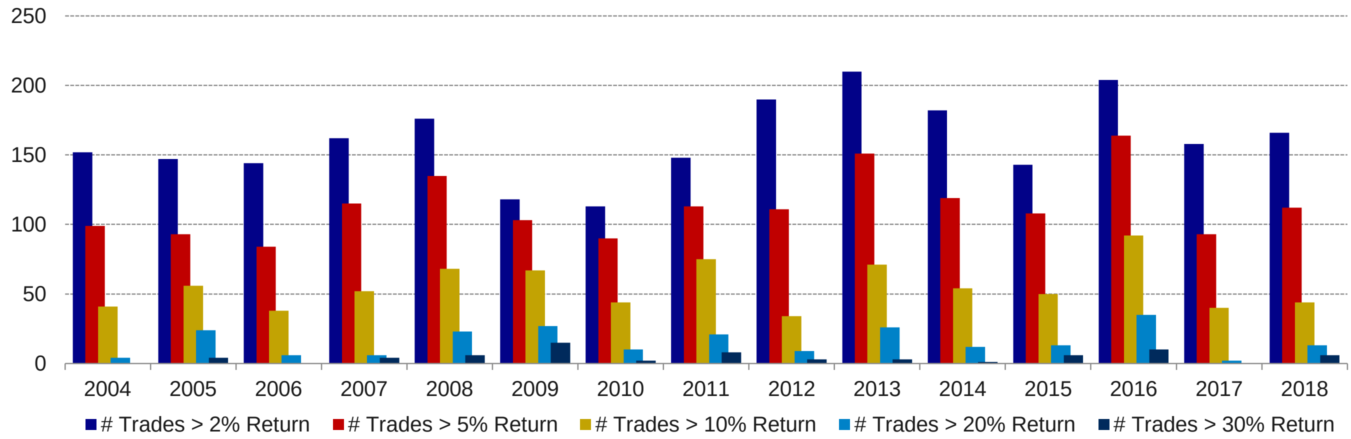
Chasing tail events … or making consistently good trades.

The Altana Director Alignment strategy (ADAS) is a long/short UCITS US equity strategy that focuses on $1 billion and above mid and large cap companies. It detects profitable trading strategies by filtering and aligning itself with corporate directors dealings. The system generates profits on the long and short side of the system offering the investor absolute returns via an alternative UCITS fund.

Over the past three years the Altana Director Alignment Strategy system has demonstrated its ability to navigate volatile markets. It positions the book to benefit most from market fluctuations by switching between being net short or net long ahead of selloffs or rebounds (please see the research note on the 2018 outperformance) as well as selecting trades ahead of events such as mergers, FDA approvals, earning releases or even frauds on the short side. The main driver of the returns cannot be linked to either stock selection or trade positioning only. Depending on the market environment, director confidence in the market and where the economy is in the cycle, the overall return attribution will be better explained by both of these underlying return generators.

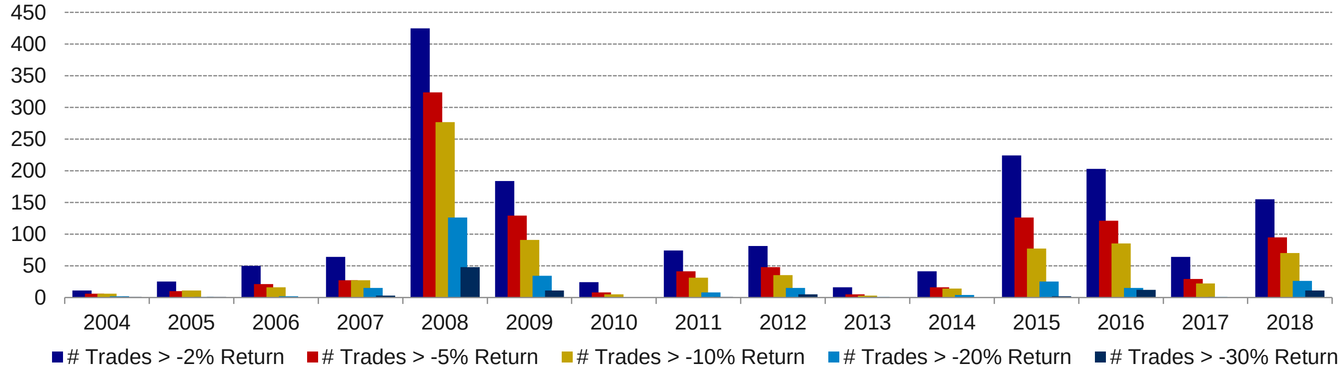
Some analysis of the historical returns of the trades that were held for the 30-day maximum holding period shows that the bulk of the return is not generated by identifying strongly outperforming trades. Certainly some years have more trades where the returns are well over 30% - e.g. on the long side more volatile years such as 2009 with the market rebound or on the short side, 2008 , with the global sell off - yet the strategy does not need to rely on tail events.

Figure 1:
Number of Trades



Number of long trades held for 30 days and corresponding return. Source: Altana Wealth Ltd.

Figure 2:
Number of Trades



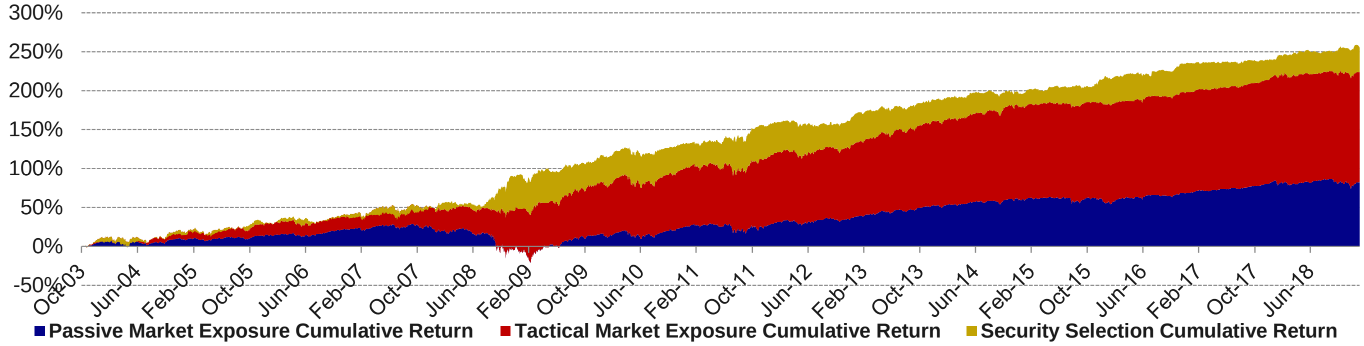
Number of short trades held for 30 days and corresponding return. Source: Altana Wealth Ltd.

Altana Director Alignment Strategy

Long beta, short beta and tactical trades.

Historically the Altana director alignment has benefited from three sources of returns. On the one hand as it is a long biased strategy as corporate directors are better buyers than sellers it will always have a part of its performance that can be allocated to having market exposure. As we have been riding a bull run for the last ten years a substantial part of the historical returns can be explained by having a beta component in the strategy. However, the beta component is rather small and very dynamic as the strategy sails the different cycles. From the below chart it becomes clear that during market selloffs the majority of the returns can be attributed to the tactical market exposure where the strategy switches between being net long and short.

Figure3:
Cumulative Return

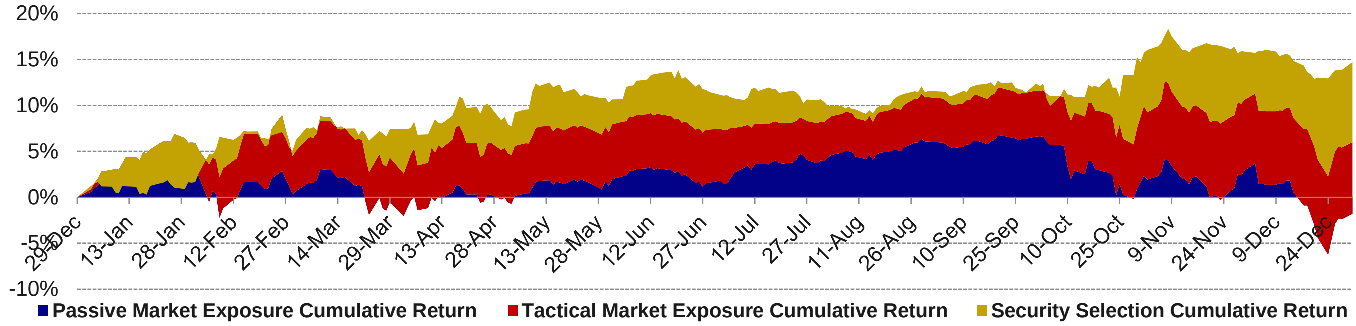


When taking a closer look at the most recent year 2018 and the difference sell-off scenarios we had, it becomes very clear that the dynamics we see over the longer time horizon apply to a shorter month by month window. Over the course of 2018, during the three market sell offs we had in February, October and December every time the majority of the returns can be explained by tactical market exposure and security selection.

It's only when the level of director activity becomes lower such as in the summer period that the beta component of the strategy becomes more prominent. The lower trading activity recorded over the summer periods results in the book becoming less nimble and dynamic and therefore more prone to a retraction of the overall portfolio returns. The stock selection component of the strategy is present in any type of market environment indicating that the corporate directors ability to select the right moment to trade their company based on their superior knowledge does indeed translate in abnormal returns. Reduced trading activity during the summer lead to less stock selection returns and as a result lower portfolio returns.

Overall the portfolio's return generating capabilities will benefit the most from volatile periods when directors can anticipate and predict company returns the best based on understanding the long term value of their companies versus the short term market movements.

Figure4:
Cumulative Return



A deep dive into the 2018 return distribution.

The research note mentioned above demonstrates that in more volatile years the strategy benefits substantially from market pullbacks and rebounds by following director sentiment and allocating accordingly. Furthermore the

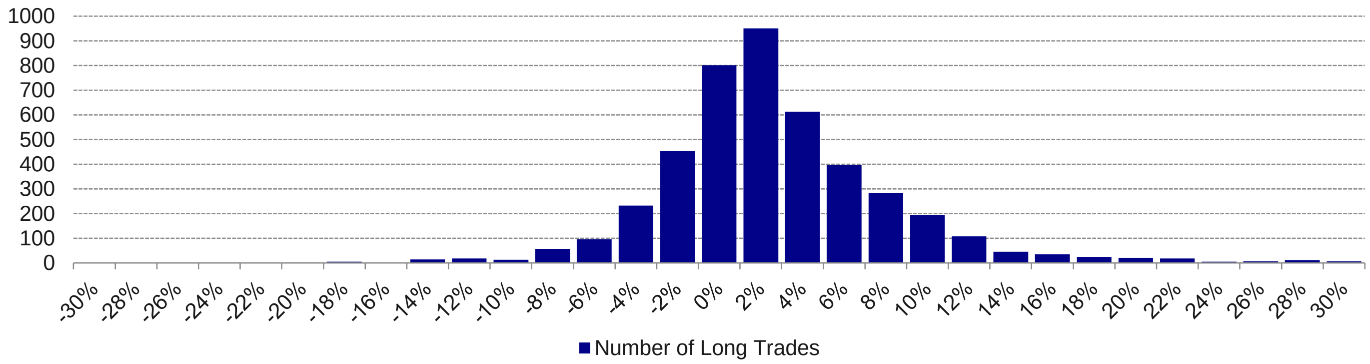
Altana Director Alignment Strategy

tight stop losses on an individual positions level of 2% allow the strategy to be very nimble in its behaviour and therefore generate a convex return profile.

A more granular return distribution analysis than the above historical charts show that the returns follow a non-symmetric skewed return profile where the majority of the probability load is around 3% for the long trades and a slightly more fat tailed distribution for the short returns. Please note that the histograms (Figures 5 and 6) show all the trades (held for 30 days, stopped by the stop loss and the scaling trades). The above charts only show the trades held for 30 days, hence the difference in the number of trades.

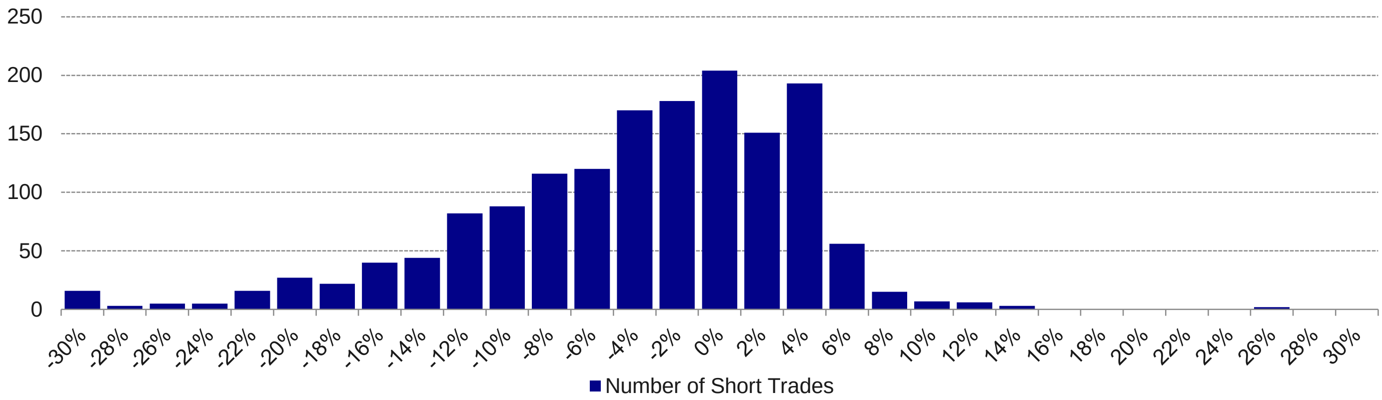
Figure 5 for the long trades indicates that there are very few outliers on the left side of the chart. These trades were typically stopped out in the 7-day fixed holding period when the stop losses were not yet activated. Given the sheer volume of these trades and the testing we conducted we came to the conclusion that adding stop losses in this period would not be beneficial and would have a major impact on the return profile. The short histogram (Figure 6) clearly indicates that there are far more high performing trades on this side of the book (good shorts have a negative return). This is the logical result of short trades bulking together and being predominantly present in the book during market downturns. 2018 was a year with three important market corrections amplifying the left hand side of the return distribution.

Figure 5:
Number of Trades



Return distribution of all long trades for 2018. Source: Altana Wealth Ltd.

Figure 6:
Number of Trades



Return distribution of all short trades for 2018. Source: Altana Wealth Ltd.

We therefore conclude that the Altana Director Alignment Strategy (ADAS) benefits from both strategic asset allocations by adjusting its long and short exposure as well as well targeted stock selection without being entirely reliable on either of them. It is predominantly the economic environment that will dictate the true origin of the outperformance of the strategy.

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Altana Director Alignment Strategy

Strategy: ADAS is a systematic US equity long/short UCITS, focused on $1bn+ mid- and large caps

Key Features:

- **Intuitive**: Corporate insiders know more than anyone about their shares
  ADAS seeks pure trading signals to align with corporate insiders
- **True Alpha**: When correctly filtered, directors' dealings generate true alpha
  ADAS generates long and short profits independently – the holy grail of absolute return
- **Positive Convexity**: The strongest signals are generated ahead of the largest moves
  ADAS stop loss methodology further adjusts net exposure as prices rise or fall

Altana Director Alignment Strategy – Gross performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	2.60%	1.43%	-0.17%	4.05%	-0.38%	-1.01%	-1.59%	5.72%	0.55%	-0.71%	6.23%	3.61%	**21.86%**
2017	0.79%	0.77%	0.89%	-0.32%	-1.12%	1.55%	0.07%	-0.39%	2.17%	-0.24%	0.76%	-0.66%	**4.28%**
2018	1.56%	3.87%	1.97%	0.93%	1.89%	1.10%	-0.79%	0.89%	-0.18%	3.22%	1.14%	-1.15%	**15.33%**
2019	1.23%	-1.38%											**-0.16%**

- *Trading program research was completed at the end of 2015*
- *Managed account track record January 2016 – May 2017*
- *UCITS Fund launched in June 2017*

Altana Director Alignment Strategy Fund (UCITS) – net of 2.5% capped fee

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017						1.33%	-0.13%	-0.60%	1.95%	-0.45%	0.55%	-0.87%	**1.78%**
2018	1.08%	2.93%	1.41%	0.58%	1.35%	0.71%	-0.80%	0.55%	-0.31%	2.41%	0.75%	-1.08%	**9.93%**
2019	0.79%	-1.30%											**-0.52%**

- *From Jun 17 – Dec 18: Returns were capped at 2.5% total expense ratio. Cap includes the management fees and other fund expenses. Until the UCITS Fund reaches an AUM of 20 million the total expense ratio (TER) will be capped at 2.5% and rebated by Altana Wealth Ltd.*
- *From Jan 19 – onwards: Performance is net of all legal, admin, trading and management fees.*

Please let us know if you have any questions or would like to receive further information.

E: investorservices@altanawealth.com | T: +44 20 7079 1080 or +377 97 70 56 36

For further information: please contact us at investorservices@altanawealth.com; London: +44(0) 207 079 1088 or Monaco: +377 97 70 56 36.