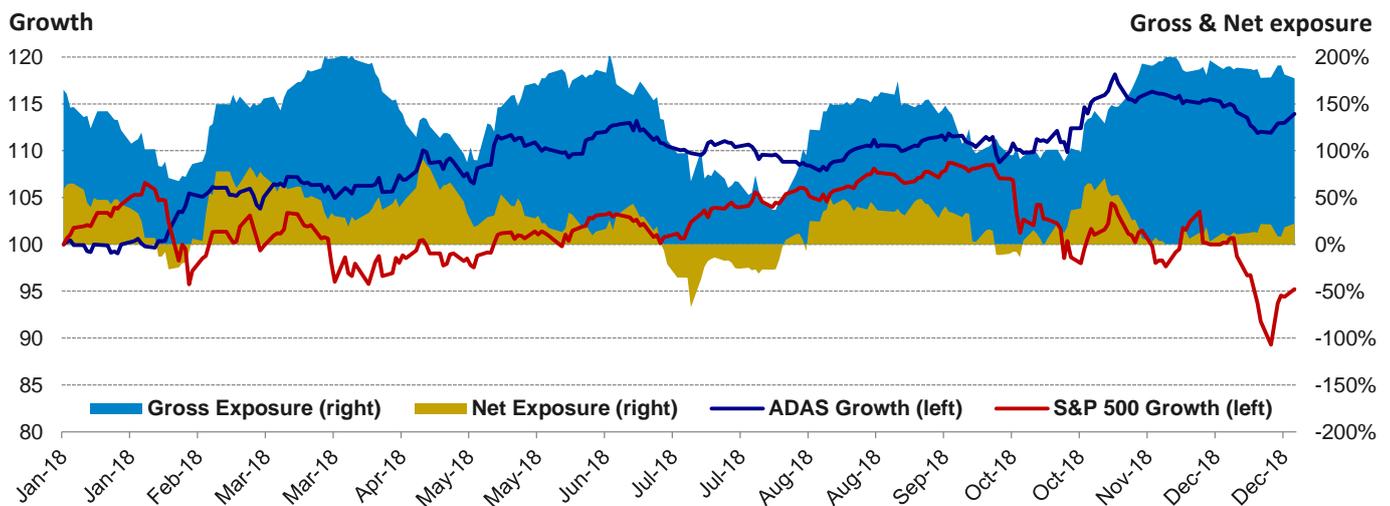


Altana Director Alignment Strategy

When volatility catches you out, directors outperform.

By Alphons Vermorken, PM ADAS

Finally, in 2018, after five years waiting on the side-lines volatility returned. It is in these market conditions that corporate directors demonstrate their superior understanding of their company by selling its stock ahead of market sell offs and entering at more favourable valuations. By understanding and implementing these principles, the Altana Director Alignment Strategy (ADAS) anticipated the sell-offs of [February](#) and [October](#) - returning respectively **3.87%** and **3.22%** - and protected its downside risk only giving back **-1.15%** in December when the S&P 500 had dropped **-18%** intra-month.



Gross & net exposure and returns. Source: Altana Wealth Ltd

Throughout 2018 ADAS consistently proved its ability to anticipate market moves, significant corrections and rebounds. These characteristics, coupled with defined stop loss and take profit parameters, are the strengths of the strategy, which were also proven in the first two months of 2016 when, as a result of turbulence on several Asian exchanges ADAS was up nearly **4%**, while the S&P 500 sold-off over **-11%**.

In February, the volatility index (VIX) spiked over 37 for the first time in over two years. The fund outperformance was mainly driven by a contraction of long exposure post the rally during the first three weeks of the year and an increase in short exposure. Less and less long trade signals were generated and numerous short positions were added to the book, as a result of directors selling to take profits and reduce exposure ahead of the markets turning. The strategy, by being net short, generated significant outperformance. Towards the end of February as markets bottomed out, directors realised it was an opportunity to buy their undervalued company stock. This resulted in ADAS increasing its overall long book and profiting off the rebound. On the back of this, the strategy generated solid profits (+7.4%) in the first quarter of 2018.

The second and third quarters were relatively quiet, especially the summer months, which were characterised by a low number of interesting buy opportunities from directors. It was only at the end of September that the tide turned and activity picked up, especially on the short side. As a result, ADAS entered October with a market neutral to short overall exposure. Once again, the equity markets suffered significant losses during October when the S&P 500 printed red numbers on 16 of its 23 trading days. As in February, these market reversals were anticipated by the algorithms leading to solid outperformance. As corporate valuations became attractive, post this second market correction, the system started to build up its long book going into November.

The trades kept flowing in, on both the long and short side throughout November and December, leading to a 100% long and 100% short fully invested book. While historically December is usually a quiet month, December 2018 was surely not. It was the worst December intra-month since the Great Depression. Meanwhile the trading system kept the books fully invested and our market neutral net exposure allowed the strategy to sail through the end of the year with only a **-1.15%** loss for the month when the S&P 500 was down well over **-9%**.

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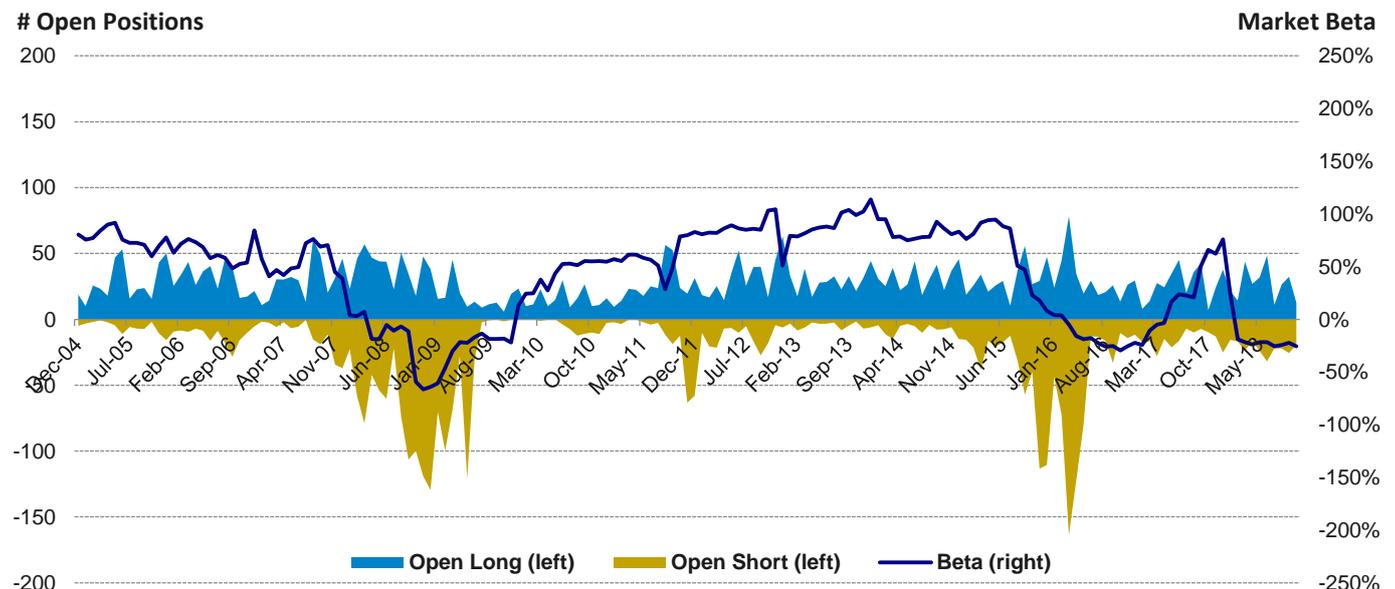
How to anticipate volatility and reduce your market risk in difficult markets

In a turbulent 2018 ADAS outperformed the S&P 500 by 21% (before fees), strong supporting evidence that corporate directors have the ability to make better trading decisions ahead of major micro and macro events.

Since 1968 the academic literature has shown this on numerous occasions . *"There is no other business that you know better than the one you run yourself"* (Michael L. Babich, CEO Insys Therapeutics). Research has also shown that *"Directors possess, and trade upon, knowledge of specific and economically significant forthcoming accounting disclosures as long as 2 years prior to the disclosure."* (Huddarta and Bin Kea, 2003). With information technology improving every day we expect the knowledge of corporate directors to become more accurate. *"Monday 23rd December was the busiest day and saw our biggest trading hour, with customers spending nearly £17 million. Also on the 23rd, Stanway in Essex was our first ever store to take £1 million in sales in one day"* (Sainsbury's Christmas update).

In the last three years since the strategy has been running live we have consistently witnessed the decoupling of the ADAS portfolio relative to market exposure (beta). Since the reduced volatility in equity markets picked up in August 2015, the market exposure of the book decreased significantly by reducing the overall long exposure but also by adding a large number of short positions to the book. This allows the strategy to generate positive returns in deteriorating markets. The nimble and convex nature of the strategy gives it a unique downside protection whilst benefitting continuously from picking up on undervalued stocks, as a result of market corrections. This in combination with very tight running stop losses on every position allows the book to make use of the optimal upside potential from directors' superior knowledge while limiting potential drawdowns to a minimum, as witnessed during December 2018. These characteristics will dictate the gross and net exposure of the book as a result of the number of trades we get on the long and short side, as well as allow the book to shift very quickly from directionally long to directionally short when markets turn in this more volatile environment.

History has shown that directors have anticipated market drawdown well by selling, at the right time resulting in significant short exposure in the ADAS portfolio. The reduction in market beta results in capital preservation for the portfolio and consistent returns throughout economic cycles.



Open positions and beta. Source: Altana Wealth Ltd

Despite an uncertain political climate with trade wars, Brexit and turmoil in Asia, corporate directors were a lot more active than in 2017. Overall market volatility allowed them to find interesting valuation opportunities as well as driving them to reduce equity exposure in falling markets. In anticipation of 2019 and the more volatile times ahead, these characteristics make ADAS an ideal diversifier for any portfolio as it is decorrelated.

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%

▶ 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%

▶ 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.
 ▶ Returns are capped at 2.5% total expense ratio. Cap includes the management fees and other fund expenses.

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

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