

## Altana Market Outlook:

### Investment Thoughts - Aug 2016 by Lee Robinson

#### Introduction

As many of you know, we invest our own money in both direct investments and via our own funds. Investments range from VC through growth capital to asset-backed as well as listed opportunities. I am fortunate to meet a wide range of highly talented investors from entrepreneurs and self-made millionaires some billionaires to family office decision makers. I have my own deal club of 18 entrepreneurial investors who also individually have their own networks, and further I sit on the committee for the financial services network of the YPO. Most investors I meet have a common desire to co-invest and thus align their interests. They also either do not trust or think little of the financial industry in general, both from a value point of view [fees] and/or service [lack of quality ideas].

As a consequence of some of the meetings I have undertaken recently, I have been asked to collate an overview of some of my investment theses and ideas from the last quarter. Please keep them confidential and kindly contribute your own comments and ideas via email. It is my intention to cultivate a virtuous network of investors and investment ideas free of conflicts of interest.

#### Investment Thoughts

##### Income Generation

Most of our peers are searching for income. Although long dated bonds have had negative real yields for several years and there isn't a huge difference between +0.2% and -0.1% yields, we have noticed the psychological switch as rates went below zero. Clients are now convinced that rates will stay low for longer and are chasing after yield through adopting a barbell approach in most cases. They expect 10-20% in higher risk, 6-12% in direct lending and sub investment grade names with the rest in investment grade bonds or Treasuries at 2%.

##### Bonds

We generate regular ideas in public bond markets for clients to exploit. For example, in Jan 2016 we put together a portfolio of investment grade bonds with less than 2 years' duration yielding 4-10%. Recently, we created an event driven/special situations portfolio targeting 12-15% returns with bonds having less than 5 year duration.

##### Asset Backed and Direct Lending Opportunities

Through our network of successful entrepreneurs and businessmen, we share co-investment ideas in seed, development and asset-backed investments. We share the burden of due diligence work and offer the option to our clients to invest alongside. This has allowed us to find 10%+ income yielding ideas with asset backing. For example, we co-invested in a portfolio of Dutch and German commercial real estate. Gross unlevered yields were 10%. Senior debt of 60% was achieved at all-in costs under 3% including interest-rate caps. The mezzanine loans yield 12% amortising over 5 years. We particularly liked the diversity of the loans, plus the fact that the largest tenant with a good credit rating signed a 15-year lease. The interest from this tenant covers all of the senior interest. For the mezzanine to not be covered, we would need 75% of the remaining 80% of tenants to not pay. This is highly unlikely, hence we are effectively taking risk on

the main tenant but rather than receive the 2-3% level the senior lenders are participating, we receive a much more respectable 12%.

### **Trade Finance**

In trade finance, we have been providing margin to traders on Bitcoin exchanges. This is now fully automated with lending periods of 2-30 day duration yielding over 20% per annum. It is slightly lower than traditional trade finance returns partly because we can instantly sell the asset at market prices if the debtors default, as opposed to typical trade finance where taking delivery of the assets are often weeks later and sold at a large discount. We were particularly pleased to find that during the Bitcoin move in May from 500 to 750 back to 600 over a period of 20 days we had zero defaulters. Part of this is the fact Bitcoin trades 7 days a week 24 hours a day so the main gap risk is less probable than for other commodities on other exchanges that close for the weekend and overnight. We have now formed a BVI company to take advantage of this opportunity which is open to third parties with no management fee, only a performance fee above 8% return.

We finalised the documentation to fund a peer-to-peer fund manager. Riposte, run by one of my former colleagues, Kwame Van Leeuwen, will be investing in portfolios of loans via lending platforms such as Lending club and Prosper targeting 8-10% net returns. In addition, we have agreed to underwrite some of the company's working capital in exchange for a share of the management and performance fees, thus lowering our asset-backed returns by 1.5% if the fund doesn't grow, but more than doubling them if the business grows. We have discussed the peer-to-peer returns with many experts and other investors. Most quite rightly point out that returns will fall when recessions occur. However at such points lending rates will increase thus, if like myself you see this as a long-term alternative to cash in the bank, then it will average out over time, especially as you will be reinvesting returns each month regardless.

Other deals we are working on include UK construction finance which is lower risk and generates 6-8% in the senior tranches, though finding parties to take the higher risk equity tranches is not easy.

### **Bitcoin and Blockchain**

We have touched upon elsewhere, but other notable successes occurred for us this quarter in this space. Every fourth year, the amount of Bitcoin released every 10 minutes halves. This was due to occur in July 2016. We correctly predicted that in advance of the event Bitcoin would rally. In late May it moved from 500 to 750 in a matter of days meaning that all our co-investors and ourselves are comfortably profitable, with some up 40% and others - with better timing - up over 100%.

Further have private equity investments in SatoshiPoint, the UK's leading Bitcoin ATM network and more recently Crypto Facilities, an innovative exchange on which we also trade futures. We like the fact that Crypto was chosen by the CME to be their partner and suspect that the CME will be the largest player in this market within 18 months.

### **Other Private Equity**

Overall, it has been a successful year to-date for the young disruptive companies we partially own.

Elevate Direct Ltd, a disruptor in the market for hiring contractors has signed a significant contract with the UK government. If successful, they will swiftly become the number one in the UK seriously harming companies like Hays and Michael Page.

BITPOSTER, a portal for all outdoor/billboard advertising in the UK now has 99% of the sellers content and agreements finalised with 3 out of the 4 main buyers in space, is generating revenue, and closed a new financing round to expand globally.

I am a shareholder and director on a challenger bank application. This has been a very interesting project which will likely lead to other opportunities. Preliminary meetings with the UK regulators went incredibly well and we have been invited to submit the final application which will hopefully be approved by first quarter in 2017.

Gametech plc, a mobile betting application company that allows you to bet on whether financial markets rise or fall in the next 1, 2 or 5 minutes has been a roaring success with monthly turnover having grown to £1.5m. The management team has a strong track record, but we have been very impressed at the rapid growth: we expect it to IPO in August 2016 although we only invested two years ago.

One of our earlier growth capital investments, Fairstone Group, which is a roll up of UK IFAs has received a large injection from a private equity firm. We have rolled this into a new vehicle, having taken some profits off the table.

We are constantly reviewing ideas with our club members so we will have more to report following the summer. Not only are these disruptive new ideas leading to profitable buying opportunities, they are highlighting short ideas for the listed incumbents that will likely go out of business or become distressed.

## YPO

The Young Presidents Organisation (YPO) has 24,000 global C-suite members with several subnetworks including a financial services network whose executive committee I sit. One of their recent events was at Canary Wharf's impressive Level 39 business complex. Level 39 was created to allow fintech early stage companies, a location to build their businesses and meet large financial firms. They hope to follow in the footsteps of the likes of Markit whose CFO is a YPO member and brought along Lance Uggla, their CEO, to talk and answer questions. There were several panel discussions on financial intermediation, blockchain and other disruptive technologies. Whilst informative and the event ran at strong pace, most of us came away with the realisation that the barriers to entry in fintech are very high. Each start-up in fact needs to collaborate with the large entities whose very existence they threaten; this requires them to reveal their intellectual property at an early stage, which often leads simply to the larger institutions just copying their initiative.

## Acceleration Deals

Meetings have also involved discussing how best to produce absolute and relative outperformance across a selection of fund managers. Clients are consistently disappointed that portfolios of managers often disappoint across the cycle. We believe that the best way to mitigate downside and increase returns from investing with fund managers is to take a share of both the management and performance fees. We have found many very exciting emerging managers who are willing to offer a share of their fees in return for our early investment. Where a client has products with similar risk profiles, we look for substitutes with greater upside.

Investors typically receive 10-20% of the manager's gross fees in exchange for \$20-50m of acceleration capital. If we take the more conservative 10% number then with a typical 1.5% and 20% fund that grows to \$500m the increased annual returns are as follows:

Annual Performance	0%	5%	10%	20%
Extra return	3.8%	6.3%	8.8%	13.8%

Clearly not all funds will grow as quickly or at all but some will grow to even larger sizes. Even if only 20% achieve such growth, then a portfolio of such investments will add 1-3% outperformance annually to your investments. By closing those that don't grow (cutting losses) and replacing with better prospects the Altana Accelerator will aim to achieve a higher success ratio. Additionally, we have negotiated an

exemption to maintain an investment in a fund that is over \$100m thus the capital can be redeployed in parallel to retaining a share of the enhanced fees, thus providing an essentially riskless cash flow stream.

Our Accelerator model and yield opportunities were the areas of greatest interest in meetings over the last 3 months.

### **Made Me Smile**

I had a visit from the very experienced advisor, who has helped many family offices over the years. Whilst we had spoken on the phone previously, this was the first time we had met face to face. He told me a great story about a family that had a big business, sold it, and was now running his own family office. He asked the family member: "How many employees did you have in your original business?" The answer was "over 2,500". He then asked: "And how many in the family office?" The reply was "3". The point is emphatically made: family offices are typically under-resourced. Altana currently employs 16 (staff) as our focus is to find the best capital preservation and growth tools, which requires filtering a very diverse pool of opportunities.

### **Education Club**

The education of our children is a topic that often comes up in meetings: we all want the best for our children, yet many of us can see that the traditional education systems are out of touch with the modern era. Further, the needs for those inheriting wealth are also different and often complex. Robotics and automation are moving at exponential rather than linear rates. Competition for jobs and roles for graduates and young adults is at its fiercest and not abating. We discussed concerns and are looking for solutions. I will report back with my summary in due course and most likely we will organise an event with speakers. We can see this topic is essential to many hence plan more work.

### **Real Assets**

I met yet another wine expert extolling the long term benefits of wine as an investment. I think it is safe to say we have all seen such promotions. However, this group had an interesting edge: they buy and sell wine wholesale and have, as a consequence, built up a valuable database which indicates the best windows to SELL wine held in storage. This is something about which most of us - including myself - are weak. I've always said the difference between amateur and professional investors is the ability to sell. I've asked this group to rework its offering so they can help all of us with wine portfolios achieve better yields.

### **Brexit**

It goes without saying that this was the macro topic on the lips of everyone from clients to taxi drivers. My favourite comment came from a taxi driver who said that if governments were recommending we remain, then we should definitely vote to leave as doing the opposite of government recommendations is usually correct. For market participants, Brexit means more volatility, hence more opportunities, so from a purely money-making stand point going forward it is good news. We were long gold and treasuries, but short stocks going into the vote partly due to our trend-following manager, and partly due to the market all but completely pricing in a "remain" vote. This was profitable. I personally was short some FTSE 250 names that I felt were overpriced and/or likely to be disrupted by innovation which was also profitable. Ian Gunner, our head currency trader stayed up all night and went short sterling after the first wobbles began as early voting pointed to a closer decision. He managed to get short at 1.47 level and cover at 1.33. Our corporate bond book was at minimum exposure with some hedges so only dropped 0.3% but opened up better opportunities to use the excess cash. It was an excellent day all round.

Going forward, I also think it is good news for everyone because Europe will be forced to change direction to try to prevent the UK departing. There are French elections next May: Hollande and Sarkozy will both have to push tougher immigration to get elected over Le Pen. German elections in third quarter of 2017 will mean the same. Hence some of the UK's concerns that lead to a Brexit vote will be allayed. I therefore

believe there is still a 70% chance the UK remains post a negotiated compromise deal. However, due to the French and German elections, I see no logic to triggering article 50 prior to knowing the results in late 2017. This means a longer period of uncertainty than the market is currently expecting.

Finally, many of you have watched the interview I gave on Real Vision TV in May 2015. I recently visited their headquarters in the Cayman Islands and was asked to add a follow up piece.

They are on our website:

<http://www.altanawealth.com/news/>

and via Youtube:

<https://www.youtube.com/channel/UCrjZ4lZ9oklQ0b0-c6wz3PQ>

Kindly keep this note confidential but please feel free to contribute your own thoughts and comments by email as we love to exchange notes and ideas. As always, we welcome your feedback.

Yours sincerely,

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