QuotedData

Annual overview | Investment companies

2 March 2016

Altin

A vessel for volatile seas?

The last twelve months appear to have been good for Altin. Its NAV has grown 5.0%, providing support for its stance that it offers a lower volatility solution with distinctly different sources of return, and its discount has narrowed, boosting share price returns (11.7%). Despite this, a major shareholder (32% holding) is requesting a dividend equivalent to 28.2% of Altin's net assets (which could have tax implications for some investors) and the replacement of three of its four directors. The board says that the proposals are not in all shareholders' interests and that they should vote against the majority of them (see pages 4 to 6).

Targeting 6% (post fee) returns with low volatility

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. tot. ret. (%)	MSCI World Hedged tot. ret. (%)	CGBI WGBI total return (%)
31/01/12	9.8	13.4	6.2	14.5	2.2
31/01/13	(13.7)	(6.3)	(4.2)	(5.4)	6.7
31/01/14	(0.3)	3.2	5.1	14.2	3.3
31/01/15	25.7	8.8	6.3	15.8	2.2
31/01/16	11.7	5.0	3.9	10.6	8.9

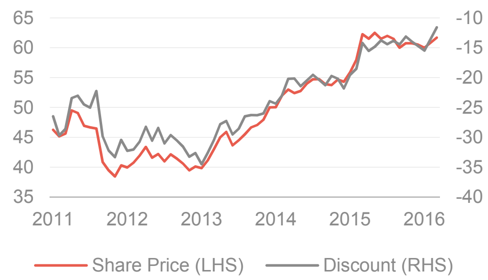
Source: Bloomberg, Marten & Co and SYZ Asset Management. We have compared Altin's performance to the HFRI Fund of Funds Composite Index, the MSCI World Hedged Index (which is the MSCI World Index hedged back into US dollars on a monthly basis) and the CGBI WGBI – the Citi Government Bond Index World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

* There are 3,449,706 shares in issue, 56,327 of which are held in Treasury, leaving 3,393,379 outstanding.

Sector	Hedge funds
Ticker	AIA LN / ALTN SW
Base currency	USD
Price	61.7
Net asset value	69.8
Premium/(discount)	(11.6%)
Yield (%)	Nil

Share price and discount

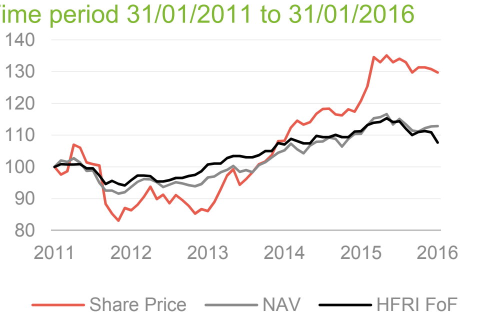
Time period 31/01/2011 to 01/03/2016



Source: Bloomberg, Syz Asset Management, Marten & Co

Performance over five years

Time period 31/01/2011 to 31/01/2016



Source: Bloomberg, Syz Asset Management, Marten & Co

Domicile	Switzerland
Inception date	01/12/1996
Manager	Michaël Malquarti
Market cap (USD)	209.4m
Shares outstanding	3,393,379 *see left
Trading vol (1yr avg.)	5,971
Net gearing	28.5%
NMPI status	Not an NMPI

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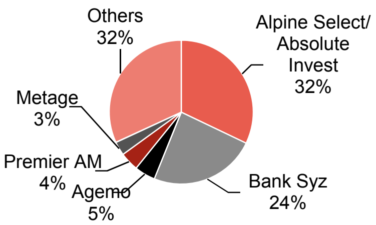
Technical terms

The world of hedge funds is littered with technical terminology. If you are viewing this online, 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 we have written that explains a bit about the different strategies that hedge funds employ. If we have missed anything just let us know using the "contact us" tab on the website.

Altin's board rejects the majority of Alpine Select's EGM proposals

Figure 1: Shareholder base



Source: Altin – company reports and stock exchange announcements.

Background to the requisition

On 3 February 2016, Altin received a request (the "requisition") from Alpine Select AG (alpine Select) and its subsidiary Absolute Invest AG (which between them own 32.41% of Altin's shares) asking that it arrange an Extraordinary General Meeting (EGM) at which shareholders would be asked to vote on whether they wanted to:

- Pay a dividend of CHF 20 per share out of retained earnings; and
- Remove three of the four existing directors – Peter Altorfer, Eric Syz and André Pabst and appoint, in their place, three directors of Alpine Select and Absolute Invest's choosing. They are Thomas Amstutz, Gerhard Niggli and Dieter Dubs.

Altin's board has since stated that Alpine Select has issued the requisition without first seeking to talk to Altin and its board about their proposals. Further information about Altin's board and its CEO, Tony Morrongiello, can be found on pages 17 and 18 of this note.

Requisition is not performance or capital management related

Alpine Select's chairman has said that they have nothing to complain about with regard to Altin's performance and capital management. They want to take control to direct strategy and dividend policy.

Raymond Baer, chairman of Alpine Select and formerly the president of banking group Julius Baer, has commened on their proposals in an interview 'Finanz und Wirtschaft'. He said (translated from German) that, "On the investment performance and the capital management of Altin there was nothing to complain about" and that, "Alpine Select have expanded their participation steadily and now want to take control of the top panel to take responsibility for strategy and dividend policy".

Alpine Select did not use the last put option issue as an opportunity to exit at around NAV.

Readers may be interested to note that, according to Altin, Alpine Select did not use the last put option issue (see page 14 for details) as an opportunity to exit at around NAV. Instead it opted to sell its options in the market thereby boosting their proportionate shareholding.

Altin's board's response and recommendations

The EGM is scheduled for 18 March 2016. Altin's board has reviewed and rejected all proposals bar the appointment of Thomas Amstutz.

On 25 February 2016, Altin's board published its formal response to the EGM requisition. It categorically rejected all of Alpine Select's proposals with the exception of the proposal to appoint Thomas Amstutz (a member of the boards of both Alpine Select and Absolute Invest) as a director of Altin. The EGM is scheduled for 18 March 2016. Altin has sent shareholders a letter and an independent auditor's report which discusses the proposed dividend (the auditors have formally confirmed the board's concern that the payment of such a large dividend does not comply with Swiss Law – see overleaf.) All of these documents are available on Altin's website: www.altin.ch

Altin's board proposes Thomas Amstutz as a director

Altin's board proposes Thomas Amstutz as a director, as it recognises Alpine Select as an important shareholder.

In its response to the requisition, Altin's board say that recognises that Alpine Select is an important shareholder and therefore proposes the election of Thomas Amstutz as a new director. Whilst many investors generally prefer independent boards, it is worth noting that Banque Syz, as a major shareholder (24%), currently has board representation through Eric Syz. As such, some investors might take the view that it is reasonable for other major shareholders to receive similar treatment and that it is therefore reasonable that Alpine Select also has board representation. Although, given the size of its shareholding, investors may also think that to enact Alpine Select's proposals in full (thereby allowing them to appoint three out of four directors) is disproportionate and possibly not in all shareholders' interests.

The dividend proposal's legality has been brought into question

The auditor's opinion is that the dividend proposal of CHF 20 per share does not comply with Swiss law or the company's articles of association.

Altin's board commissioned PricewaterhouseCoopers AG to conduct an audit to review "Alpine Select AG's proposal for the appropriation of retained earnings of Altin AG" (or, in other words, the dividend). The findings of the report have been made public and can be found at www.altin.ch/p/CNTP_663088_EN. However, in summary, the auditors conclude that, in their opinion, "… Alpine Select AG's proposal for the appropriation of retained earnings does not comply with Swiss law and the company's articles of incorporation. The reason is that Altin AG does not have enough liquidity and therefore the proposed dividend distribution would contravene the duty of care (Art. 717 para. 1 CO)." Given this conclusion, investors may now question whether a distribution of this scale could actually be made even if the resolution proposing it is approved by shareholders at the EGM on 18 March 2016.

The dividend proposals are not tax efficient for all investors

The ability to reclaim the 35% Swiss withholding tax depends on shareholders' circumstances. The proposals appear to be most efficient for Swiss corporate investors, who should be able to reclaim most of the tax in three to four months.

In addition to the concerns noted above about the scale of the proposed dividend, there are also concerns about the tax implications of the scheme, which would be subject to a 35% Swiss withholding tax. The board believes that, with the exception of Alpine Select and Absolute Invest, these proposals will be to the detriment of most shareholders, with the impact being dependent on a shareholder's specific circumstances. For example, they say that, as a Swiss corporate entity, Alpine Select and Absolute Invest should be able to reclaim most of the tax in a short time frame (three to four months). Swiss private investors will ordinarily pay tax at their marginal rate on their earnings. For overseas investors, the tax implications typically rest on their jurisdiction's agreements with Switzerland regarding the reclamation of double taxation. Altin's board believes that most UK institutional investors should be able to reduce their tax liability to 15%. Cayman Islands investors, by comparison, would not ordinarily be able to reclaim any of the 35% withholding tax.

Potential for portfolio destabilisation and increased expense ratio

Board expect proposed dividend will lead to a marked reduction in Altin's assets - destabilising the portfolio and leading to an increased ongoing charges ratio.

The proposed dividend of CHF 20 per share would require a total payment (excluding treasury shares) of CHF67.9m, which would have the effect of reducing the company's net assets by 28.2%. If the current gearing policy was maintained (between 25% and 30%), gross assets would have to fall by a similar proportion. The portfolio was approximately 51% invested in assets with one-month maturity or less. As such, Altin could theoretically raise the money to fund the dividend but the board says that this would come at the expense of selling down the short maturity holdings significantly, which would fundamentally alter the structure of the portfolio. The advisers believe that to fund such a dividend, without destabilising the portfolio would actually take six to nine months.

A reduction in net assets of this size would, all things being equal, lead to an increase in Altin's ongoing charges ratio, as its fixed costs are spread over a reduced asset base.

Negative market signalling could lead to discount widening

The board believes that if the Alpine Select proposals are passed, this would be viewed negatively by the market and would likely lead to a reduction in demand for Altin's shares and a widening of its discount to NAV. This could offset the progress made in tightening the discount during 2015.

The board believes that the proposals are not in the interests of all shareholders and that, reducing the company's assets to this extent would change the structure of the portfolio in a detrimental way. It is also concerned that there would be a reduction in board independence and an increase in the company's ongoing charges, which would not be welcomed by most investors. If the proposals are passed and Altin ends up with a less independent board, the market might take this as a signal that the company may be at greater risk of being subject to actions that are not necessarily in all shareholders' best interests.

Market outlook

Global markets are characterised by uncertainty with little consensus. Growth remains anaemic despite massive stimulus.

As recent market moves illustrate, global markets are presently characterised by uncertainty. There are many views (different commentators believe variously that the global economy is heading towards stagflation, recession or possibly hyperinflation). There is little in the way of clear consensus but it seems to be widely acknowledged that central bankers have a difficult path to tread. All appear to be focused on trying to keep their economies edging forward, hence a climate of loose monetary and fiscal policy and competitive currency devaluations, but despite their efforts, growth remains muted. Central bankers are keen to reduce what is clearly a massively distorting stimulus, and one whose impact appears to be lessening, but do not want to choke off nascent recoveries.

A further problem is that many countries, particularly the big Western economies, are carrying a lot of debt, which has expanded significantly with their stimulus programmes. Managing this debt is clearly going to be a challenge and its level may be denting central bankers' efforts to boost their economies. It seems that this is in part a confidence trick. The debt either needs to be inflated away (but despite low interest-rates and a lot of liquidity, inflation remains muted) or serviced and ultimately paid back (this in itself acts as a drag on growth). However, as debt levels grow, markets may become concerned about a country's ability to meet its debt obligations.

Volatility is likely to persist in current environment of heightened uncertainty.

As such, the loose central bank policies that have sustained the post credit bubble recovery seem unlikely to last forever. Notwithstanding the recent wobbles related to the slowdown in China, further tightening in the US would seem to be plausible at some point. Although, with markets apparently nervous, a return to normality could yet be some way off and, with deflationary risks growing, the shift towards more normal interest rates could be quite gradual. Against this backdrop, heightened volatility could persist. This creates opportunities for some but might not be to everyone's taste, with some investors instead looking for more, absolute return focused, lower volatility solutions.

Altin offers different sources of returns compared to many of the traditional absolute return funds.

Many investors looking for a "port in a storm" have already alighted on Altin, attracted by its commitment to low volatility returns. Other "absolute return" funds have made significant allocations to assets such as gold and index-linked bonds but Altin's portfolio offers a genuine alternative to these narrow bets. Altin's advisers increased the amount of downside protection in the portfolio during 2015 and, reflecting their views (see below) they are happy to maintain this. The tail protection strategies they bought last year in an effort to protect the portfolio from severe market falls have yet to really kick in (see page 12) but could provide significant benefits in a sharp market correction.

Fund profile

Swiss and London listed fund of hedge funds. More information on Altin can be found at the company's website: www.altin.ch

Established in 1996, Altin AG is a Swiss domiciled investment company that invests in a portfolio of hedge funds, with the aim of generating absolute annual returns with lower volatility than traditional equity markets. Its shares are listed on both the Six Swiss Exchange and the London Stock Exchange and, for the price of a share, it offers investors diversified exposure to an asset class that is otherwise difficult to access. There are a range of challenges to investing in hedge funds directly such as high minimum investment sizes and the significant resources required to conduct the necessary research and operational due diligence before investing. Altin's closed-end structure means that it can access certain blue-chip funds that similar open-ended vehicles cannot because they need more regular liquidity. Altin borrows money ("gearing") with the intention of maximising returns over the longer term (see page 16). Altin's board believes investors should expect to earn 6% per annum returns in the current environment and, where returns are less than between 10 and 12%, have this topped up by an element of discount narrowing (see page 14).

Advisers' view

Altin's advisers are not expecting a global growth catastrophe, but expect further volatility and see downside risk as economies move along the path of interest-rate normalisation.

Altin's advisers say that their view of the world has changed little since QuotedData last wrote about the company in September 2015. In their view, markets remain caught in a tug of war between fragile global growth (including concerns over the robustness of US growth, recovery in the EU and the growth outlook in China) with the loose central bank policies required to keep economies and markets edging forward and a desire to scale these back. The global economy may not be in a recession but they observe that growth is not satisfactory and whilst they are not expecting a global growth catastrophe they still see plenty of downside risk. Arguably reflecting these uncertainties, markets have been volatile recently, although the advisers say that markets have perhaps not been quite as volatile so far as they had expected. However, they believe that as Western economies move to tighten monetary policy further periods of volatility will be seen.

Against this backdrop, the advisers are happy to continue to maintain the portfolio's allocation to protection strategies. These generally supported performance during Q3's falling markets but as discussed on page 12, the advisers say that the scale of this correction was not sufficient for the tail protection strategies to kick in and provide strong positive returns. Q4's performance was more mixed. The current environment of increased volatility does not tend to favour long-biased strategies and so the advisers have favoured equity market neutral strategies. However, with recent down shifts in markets, the advisers say that valuations are improving. They have been tentatively adding to this space and expect to see further opportunities.

Macro strategies have recently tended to exhibit mixed returns depending on style and strategy bias. The advisers believe that good returns can be achieved but it is important to have diversification in and amongst strategies. That said, the advisers are favouring funds whose managers have strong views (both positive and negative.) Altin's advisers believe that many of these funds will perform well as the global picture clarifies.

Furthermore, with recent interest-rate rises, and the prospect of further interest-rate increases, Altin's advisers say that they are seeing an improving environment for fixed income arbitrage strategies. The advisers are also seeing new opportunities in relative value strategies as lower valuations, following recent market setbacks, emerge. They say that this view was a factor in the recent addition of the Concordia Fixed Income Relative Value Fund to the portfolio.

Overall the advisers say that they are happy with the current shape of the portfolio and its recent performance. They expect that they will continue to rebalance the portfolio as markets evolve (by generally rotating out of strategies that have performed well into areas where they see better value). Overall, the advisers remain optimistic that, as we move through this phase, some lasting trends will emerge that macro managers can use to their advantage. The team also expects that a higher level of volatility will provide more opportunities for hedge funds to generate alpha.

Investment process

An eight strong alternative investments team with a strong culture of debate.

SYZ Asset Management has an eight strong team of people dedicated to manager research and alternative investments and, whilst Michaël Malquarti makes the final decisions on fund selection and portfolio construction, Syz says that it operates a very team-orientated approach and strongly encourages a culture of debate.

Fund selection

Large global hedge fund universe is screened using a range of metrics – the manager's attitude to running money is key.

Altin's investment universe comprises c10,000 hedge funds globally and the SYZ team uses third-party databases and its industry network to screen this down into a more manageable number. SYZ assesses each fund on a range of criteria, looking at metrics such as investment style, the underlying manager's attitude to risk, available resources, projected volatility and portfolio liquidity. Crucially, it says that it is looking for managers who share its own sense of ethics. For example, is the manager conscious that they are running other people's money?

Operational due diligence can take anything between two and 12-months.

The advisers say that the due diligence process for a fund takes anything between two and 12-months. The process begins with an initial call with the manager and assuming this goes well, at least two analysts make site visits to perform qualitative and quantitative analysis and operational due diligence. The analysts are focused on ensuring the risk the manager is taking tallies with the underlying fund's objectives.

In terms of idea generation, the advisers visit a lot of other managers, including many that aren't necessarily destined to make it into the portfolio. About two or three times a year they conduct thematic trips to increase their knowledge of a particular sector of their universe.

Based on this initial screening, the SYZ team condenses the universe down to a watch list of about 55 approved funds. These are followed on an ongoing basis (with regular calls and visits) and from this list about 35-40 positions are chosen for the portfolio.

Altin's closed-end structure allows it to invest in longer lock-up share classes, which typically have lower fees.

Investments can be made in new funds (as opposed to those that already exist) but only if the team knows the track record of the key people. Moreover, there can be significant advantages in purchasing brand new funds, such as "early bird" deals, where the fund's charges are lower to attract an initial group of investors. The advisers say that part of the attraction of managing Altin's portfolio is that it can take longer-term views, when compared against an open-ended fund, which means they can invest in longer lock-up classes. These may offer superior return prospects or lower fees but would not be suited to inclusion in an open-ended fund because of their lower liquidity.

Asset allocation and portfolio construction

Advisers' view on a fund's prospects determines its portfolio weight. Top-down overlay helps guide portfolio evolution.

Altin's advisers say that they are aiming to identify opportunities where they have confidence in their ability to predict likely outcomes over 12-36 months. The more certain the team feels 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%) will typically be adding either higher returns or strong diversification benefits.

The advisers' bottom-up approach to fund selection is complemented by a top-down macro overlay. Altin's advisers regularly meet with the in-house macro team at Banque Syz to see if they can generate new ideas for the portfolio. These discussions help to guide the way in which the portfolio develops.

Risk management

Altin's advisers assume standardised risk returns for each investment that is consistent with the strategy, rather than extrapolating past performance.

For the purposes of risk management, the team assigns the funds into different volatility buckets depending on the nature of the strategy. Except in rare cases, for example when assessing low liquidity and multi-strategy funds, they assume a standardised risk-adjusted return for each investment (as opposed to extrapolating from past performance or relying on the manager's stated objective.) This is a key feature of the investment process. The management team does not believe that the past performance of a fund is an indicator of future performance. Instead they aim to build a portfolio that is expected to meet Altin's performance objectives when taking an appropriate amount of risk.

Altin's advisers seek to identify truly different sources of returns across managers, to aid diversification.

The advisers aim to achieve diversification within the portfolio by looking for truly different sources of returns, by style, manager location, asset classes, etc. This is as opposed to looking at correlations based on historic data, which the advisers say are inherently unstable and cannot be relied upon. Instead, having verified a manager's strategy during the due diligence phase, Altin's advisers actively seek to avoid employing managers that are making the same underlying investment decisions as this could multiply invisibly the risk within the overall portfolio. Quantitative tools are used to measure risk, but they act more as signals to review positions rather than driving changes in the portfolio.

> Quantitative analysis is used to flag unusual behaviour for further investigation.

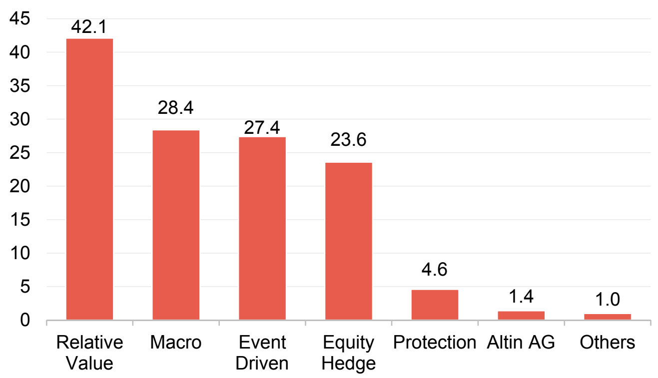
Quantitative analysis is used on a monthly basis to help flag unusual behaviour and something untoward here could trigger a full redemption. Funds will typically be removed from the portfolio if there are key changes at the fund or management company level, if SYZ finds a better alternative investment or if a fund starts to exhibit persistent performance problems. The advisers say that they don't trade the portfolio. Turnover was elevated after Michaël took over the management of the portfolio in November 2012, as he worked to realign its risk profile with its mandate, but this has now settled down. Trades are generally implemented on a monthly basis.

Asset allocation and portfolio developments

As illustrated in Figures 2 and 3, Altin's allocations to relative value and event driven strategies have decreased during the second half of 2015 whilst the allocation to macro strategies, despite two funds being liquidated (see below), has remained largely unchanged. During the same period, the allocation to equity hedge has increased modestly whilst protection has remained largely in line. However, within the strategies, and particularly within protection, the advisers say they have been rebalancing allocations (generally adding to areas where they have seen improving valuation opportunities and trimming areas that have performed well). The portfolio holding in Altin itself has remained largely unchanged in H2 following a significant reduction in the first half of 2015.

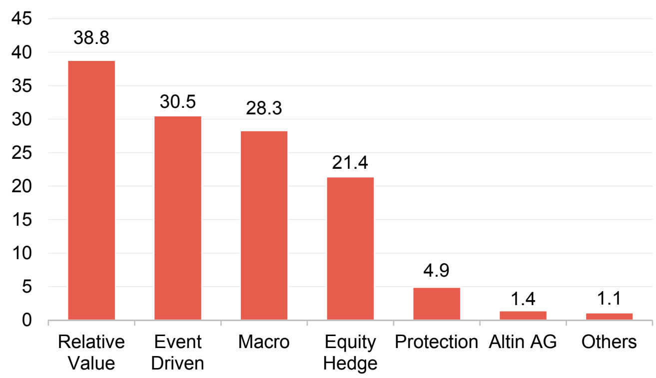
Relative value and protection strategies were increased during the first half of 2015. This had the effect of reducing the portfolio's sensitivity to equity markets, which has aided performance during more recent difficult months (more detail on these changes and their underlying rationale can be found in our September 2015 note). However, apart from reducing exposure to the healthcare sector, following September's difficulties, the second half has seen limited portfolio activity. The advisers say that they are happy with the shape of the portfolio and expect it to remain fairly stable. However, they believe a significant proportion of the portfolio is liquid enough to allow them to take advantage of opportunities as these arise during the coming months. However, it appears that this could change if Alpine Select's proposals for a CHF 20 dividend per share are approved. The advisers say that the shifts in allocations during the second half of 2015 largely reflected the differing performances of the strategies.

Figure 2: Portfolio allocation by strategy as at 1 January 2016



Source: SYZ Asset Management

Figure 3: Portfolio allocation by strategy as at 1 July 2015



Source: SYZ Asset Management

Two macro funds were wound up and exited the portfolio. These funds were not well suited to volatile market environments.

As highlighted above, two macro funds left the portfolio during the second half of 2015. The Civic Capital Currency Offshore Fund exited the portfolio when its advisers decided to close the fund and liquidate it. The fund's trading-orientated macro strategy has suffered heavily during the last few years as this style has not been well suited to increasing market volatility, the impact of central bank intervention and the growth in short term strategies, which have eroded returns. This is a problem for many traditional trading-orientated macro funds, such as Fortress Macro (the other fund to exit the portfolio when its managers decided to close the fund for similar reasons.)

Passport Long Short Fund's thematic approach offers differentiated sources of returns to the equity long short and macro buckets.

The two new funds to enter the portfolio were the Passport Long Short Fund and the Concordia Fixed Income Relative Value Fund. The advisers say that the Passport Fund is something of a hybrid between equity long/short and macro and so allowed them to add some differentiated exposure to both of these buckets. It is also a global fund and this was an area the advisers wanted to top up. Altin's advisers say that the fund's manager has a highly original, thematic-based approach. He doesn't follow the crowd, takes strong views and so offers strong return diversification. An example would be the manager's view on the US dollar. He believes that as supply contracts, there will be demand for US-dollar generating assets and large cap/mega cap growth companies with strong cash flows will benefit from this environment.

The second new entrant is the Concordia Relative Value Fund, which Altin's advisers describe as a pure fixed income arbitrage fund (they say that it engages in the full range of cash vs derivatives trades but does not do credit arbitrage.) The advisers says that such funds tend to perform well during periods when interest rates are rising or falling but do less well when rates are stable. The advisers believe that, with the end of quantitative easing, this fund should do well as central banks are increasingly acting on rates. The advisers say that the returns from this fund have been positive for the last four months (October 15 to January 16), it has given stability to the portfolio and provides a different source of returns (this is useful when other areas may be suffering.)

Performance

As illustrated in Figure 4 overleaf, Altin's NAV made steady progress during the first half of 2015 but the second half was noticeably more challenging for markets (readers interested in more discussion on Altin's performance through to August should read our September 2015 note). However, despite these challenges, both Altin's share price and NAV outperformed the HFRI Fund of Funds Index, MSCI World Hedged and CGBI WGBI Indices during 2015. Altin's share price performance was markedly stronger, reflecting the narrowing of the discount over the course of the year.

Taking a closer look, the advisers say that event driven strategies and equity hedge lost ground during the second half of 2015. In the case of equity hedge, this was despite a strong performance in Q4 when most managers were up (beating global equities in absolute terms). However, much of the damage was done during the market sell-off in Q3 when nearly all managers were down. Altin's advisers say that the utilities and staples sectors held up well but most underlying managers had an underweight exposure to these areas.

Event driven managers suffered during the second half of 2015. Altin's advisers say that, during the third quarter, special situations strategies suffered from both stock-specific issues and general market moves. Of particular note was presidential-hopeful Hillary Clinton's comments on restraining drug prices in September, which saw the healthcare sector suffer and M&A activity (previously a strong contributor according to Altin's advisers) curtailed. These developments were apparently exacerbated by crowding in the space as many managers chased the same investment ideas. Slumping energy prices also saw funds exposed to distressed energy companies suffering in both Q3 and Q4.

Altin's advisers say that the macro bucket was the strongest contributor in Q4 (most funds were up) and improvement on Q3 where there was considerable dispersion in returns (long equities generally suffered but fixed income strategies and short commodities strategies generally performed well).

Relative value performed well during the second half of 2015 (the advisers say that systematic funds – multi-strategy and quantitative funds, in particular, performed well in Q3 and Q4).

Looking at protection strategies these reportedly added value in Q3 but Altin's advisers say that the size of the correction was not sufficiently large for the tail protection strategies to kick in and generate significant returns. However, during Q4, protection was the largest detractor. These strategies suffered during October's market rally and struggled in December's volatile markets.

Figure 4: Altin monthly NAV and share price performance vs indices 2015/16

Month	Share price return (%)	NAV return (%)	HFRI FoF Comp. total return (%)	MSCI World Hedged tot. return (%)	CGBI WGBI total return (%)
January	2.95	0.05	0.13	(0.67)	2.03
February	3.76	2.46	1.69	5.72	(0.75)
March	7.33	1.91	0.66	(0.67)	0.76
April	(1.20)	0.34	0.25	0.85	(0.76)
May	1.63	0.79	1.00	0.97	(0.63)
June	(1.60)	(2.80)	(1.04)	(3.11)	(1.29)
July	0.08	1.56	0.19	2.43	1.28
August	(0.08)	(1.46)	(2.0)	(6.85)	(0.17)
September	(2.44)	(1.76)	(1.83)	(3.71)	0.81
October	1.25	(0.28)	0.86	7.79	0.27
November	0.00	0.97	0.31	0.47	0.05
December	(0.41)	0.47	(0.40)	(2.25)	(0.24)
2015 Cumulative	11.42	2.15	(0.23)	(0.09)	1.30
January 2016	(0.83)	0.08	(2.89)	(5.42)	2.02

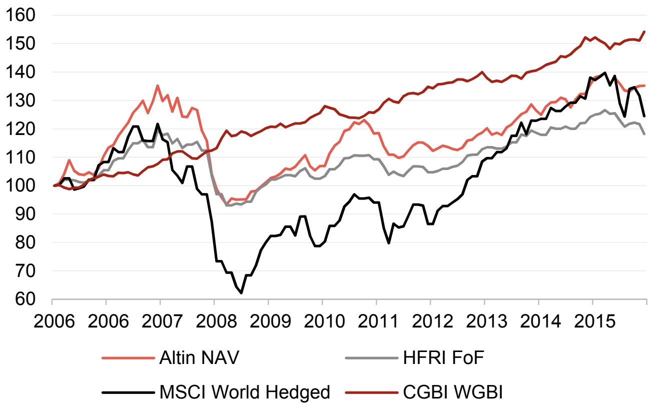
Source: Altin AG, Bloomberg and SYZ Asset Management.

Figure 5: Cumulative performance to 31 January 2015

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
Altin share price	(0.8)	(1.2)	(3.2)	7.3	50.6	29.7	27.9
Altin NAV	0.1	1.5	(2.0)	2.2	16.7	12.8	35.2
HFRI FOF Composite	(2.9)	(3.0)	(5.8)	(3.2)	6.8	7.6	18.2
MSCI World Hedged	(5.4)	(7.1)	(10.2)	(4.7)	22.0	31.9	24.5
CGBI WGBI	2.0	1.8	2.7	1.3	12.7	24.3	54.2

Source: Altin AG, Bloomberg, SYZ Asset Management and Marten & Co

Figure 6: Altin NAV vs indices - 10 years to 31 Jan 2016



Source: Altin AG, Bloomberg, SYZ Asset Management and Marten & Co

Figure 7: Performance - 10 years to 31 January 2016

	Altin NAV	HFRI FoF Comp.	MSCI World Hdg'd.	CGBI WGBI
Performance	35.2%	18.2%	31.9%	24.3%
Ann. Return	3.1%	1.7%	5.7%	4.5%
Volatility	8.1%	5.5%	14.4%	3.0%
Sharpe Ratio	+0.00	-0.33	-0.03	+0.13
Best Month	+6.3%	+3.3%	+10.1%	+3.0
Worst Month	-10.2%	-6.5%	-15.9%	-1.6%
% +ve Months	63.6%	62.8%	60.3%	65.3%
% -ve Months	36.4%	37.2%	39.7%	34.7%
Correlation	1.00	0.91	0.59	-0.29

Source: Altin AG, Bloomberg, SYZ Asset Management and Marten & Co

Peer group comparison

Improvement in performance relative to peers coincides with Michaël Malquarti taking prime responsibility for Altin's portfolio.

As illustrated in Figure 8, which provides a peer group comparison of Altin against other hedge funds and funds of hedge funds, Altin's share-price performance, relative to its peers, is particularly strong over the one and three year time frames (it ranks first over both periods). This improvement in performance coincides with Michaël Malquarti taking prime responsibility for Altin's portfolio. This improved performance has also served to lift its longer term performance over the five and ten year periods (it ranks second out of 10 over 5 years and first out of 3 over 10 years). As also illustrated in Figure 8, Altin's ongoing charges are middle of the range of its peers, as is its discount, despite having a stronger performance record.

Figure 8: Hedge fund peer group comparison – returns over 1 year are annualised

	Share price return 1 year (%)*	Share price return 3 years (%)*	Share price return 5 years (%)*	Share price return 10 years (%)*	Ongoing charges** (%)	Premium/ (discount) (%)	Yield (%)
Altin	7.8	14.8	5.4	2.5	1.6	(15.3)	-
Acencia Debt Strategies	(13.1)	1.5	4.3	(0.7)	1.0	(17.1)	3.3
BH Global	(2.5)	3.7	2.9		1.4	(5.3)	-
BH Macro	(5.6)	(0.4)	3.0		2.5	(6.6)	-
BlueCrest All Blue	2.5	4.0	2.3		0.1	(4.6)	-
Boussard & Gavaudan	4.5	6.1	2.7		1.6	(23.0)	-
Dexion Absolute	(9.9)	1.4	0.9	(0.5)	1.7	(8.5)	-
DW Catalyst	(21.4)	(1.6)	1.3		2.5	(10.2)	-
Global Fixed Inc Real.	(38.5)	(39.3)	(31.2)		1.8	(66.2)	-
Third Point Offshore	(22.0)	5.6	8.7		2.5	(17.0)	-
S&P 500	(0.7)	11.3		6.5	N/A	N/A	-
Altin Rank vs peers	1	1	2	1	5	6	N/A

Source: Marten & Co and Morningstar. *Note: Share price returns are to 31 January 2016 in US-dollar equivalent. **Note: Where applicable, ongoing charges are at the fund level and do not include the look-through fees charged by any underlying funds.

Further details on the other funds can be found at www.quoteddata.com. However, of all of Altin's peers, Dexion Absolute is arguably the closest. It too is a fund of hedge funds that can invest in a range of managers but it is smaller in scale, is trading at a tighter discount to Altin, its recent performance has not been as strong (see figure 8) and it has recently put forward proposals to wind itself up.

Discount

2015 saw the trend of discount narrowing continue. Gap versus pre-crisis levels has narrowed significantly.

As illustrated in Figure 9, 2015 saw Altin's discount continue on its broad path of narrowing that has been the trend since the beginning of 2013. The discount continues to be in excess of its average pre-crisis levels but the gap has closed significantly. This could reflect increase in demand for absolute return and/or lower volatility strategies, following an uptick in market volatility during the year. Altin also made efforts to reach out to UK investors during 2015 (a process which continues), which appears to have led to an improvement in the liquidity in its London line (Altin has reduced its treasury stock primarily through issuance to UK investors).

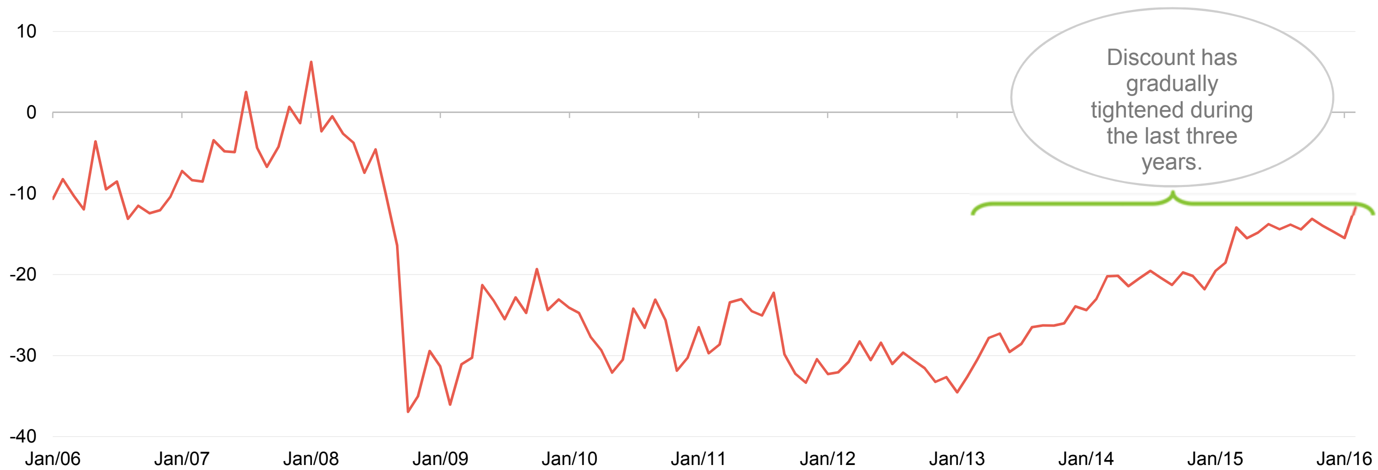
Put options as means of discount control

The board has made a commitment to return capital when Altin returns less than 10-12% in a year.

Altin's board believes that investors should 1) expect to earn 6% per annum returns in the current environment and 2) have that topped up by an element of discount narrowing. As such, when Altin's share price 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. For a number of technical reasons (see overleaf), put options are issued to shareholders allowing them to return a specified number of shares at a premium to the prevailing market price. Such a programme was executed during 2013 and then again following the year ended 31 December 2014. However, reflecting on share-price returns during 2015 (+11.4%) the board has elected not to proceed with such a put option issue.

However, the policy remains in place and so, where Altin's share price returns are less the target level, investors may once again be provided with a put option programme. This policy may have contributed to the discount narrowing during the last couple of years.

Figure 9: Premium/(Discount) over 10 years



Source: Altin AG, Morningstar and Marten & Co.

Buybacks through tradeable put options

Tradeable put options are used as efficient way to return capital at narrow discount.

In September 2013 and then in March 2015, shareholders were given put options on the basis of one put option for every share they held. A holder of 10 put options had the right to sell one share back to the company at a 20% premium to the prevailing market price (if all of the put options are exercised in full this represents a 10% capital reduction). 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 and so would generally choose to sell them in the market. Swiss investors, by comparison, would not face withholding tax on exercising the put options and so the put options market price should inherently track towards its intrinsic value (the difference between the prevailing share price and the underlying NAV). This allows for a more equitable treatment between all shareholders, both Swiss and non-Swiss.

Fees and costs

Management and performance fees

The base management fee is equivalent to 1.5% per annum of market capitalisation. There is a tiered performance fee.

Altin pays a base management fee of 0.125% per month (1.5% per annum) on the market capitalisation of the company (which, unlike a fee paid on net assets, gives the adviser an incentive to support measures to reduce the discount).

There is a performance fee which is calculated as 5% of the first 12% of net asset value return generated by the company in an accounting year, 10% of returns between 12% and 20% and 0% thereafter. The idea is that the adviser is incentivised 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). Alternative Asset Advisors receives both fees (see management arrangements below) and pays SYZ Asset Management's fees from this.

Ongoing charges and fees on underlying funds

Funds of hedge funds, such as Altin, have historically tended 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 that, for Altin, these average out at around a 1.6% base management 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.

Structure of management arrangements

Altin is Swiss domiciled but makes its investments 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), whilst SYZ Asset Management are advisers, making investment recommendations to Alternative Asset

Advisors. Although this may at first appear complicated, this is in fact a well-established structure in the hedge fund sector.

Capital structure and company life

One class of ordinary share is in issue, dual listed in London and Zurich with the shares being fully fungible between the two exchanges.

Altin is domiciled in Switzerland. It has one class of ordinary share in issue (Swiss registered shares), which is listed on both the Six Swiss Exchange and on the London Stock Exchange. Figure 1 on page 4 provides an illustration of the composition of Altin's share register.

Liquidity on the Swiss line is reasonable but had dwindled in London. However, reflecting efforts by Altin's management team to reach out to UK investors last year, progress has been made in improving the liquidity in the London line and Altin reduced its treasury stock last year primarily through issuance to UK investors. It should be noted that in the event that there is differential liquidity in the two lines, this is not a problem for UK or Swiss based investors, as stock can be transferred easily between the two exchanges.

There are 3,449,706 ordinary shares in issue. Of these, 56,327 of these are held on Altin's balance sheet as 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, the net figure 3,628,131 is used to calculate the market capitalisation, etc.

Altin uses gearing with a view to enhancing returns over the longer term. The company's policy is to have maintain total exposure to between 125% and 130% of net assets (i.e. effectively between 25% and 30% geared). As at 1 January 2015, total asset exposure was 128.51%.

Indefinite life with annual exit opportunities where price returns are less than 10% in a calendar year.

Altin has an indefinite life and there is no specific mechanism, such as a regular continuation vote, to wind up the company. Although, as discussed where Altin fails to achieve c10%-12% over a calendar year the board considers that shareholders should be compensated by giving them the chance to exit part of their investment.

The adviser

Altin's portfolio is managed using a team approach. The management team is headed up by Michaël Malquarti who has been with Syz since 2005 and has worked in different roles, within the company. Michaël holds a Masters degree 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 2008 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. At the end of 2012 he was promoted co-head of the Alternative Investments team and took prime responsibility for Altin's portfolio. Since the end of 2015 he's been heading SYZ Asset Management's overall manager research effort, whilst remaining responsible for its alternative multi-manager business.

The board and CEO

The board comprises four members, three of whom are deemed to be non-executive and independent of the investment adviser. The average length of service is 10.5 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.

Altin's board

The chairman, Peter Altorfer, was elected to the board in April 2010 and was subsequently appointed as chairman in April 2011. He is a partner at the law firm Wenger & Vieli in Zurich (specialising in bank and company law) and is a member of various company boards including Forbo Holding AG, Baar, Huber + Suhner AG, Herisau, agta record ag, Fehraltorf and Abegg Holding AG.

André Pabst is the second longest serving member (after Eric Syz – see below) and has the largest direct shareholding of all the directors (2,000 shares) which, at current prices, is worth 6.1x his annual director's fee of CHF20,000. Mr. Pabst's company, Pabst Investment & Trust, has provided consultancy services to Altin since 1996. These largely relate to company secretarial activities.

Roger Rüegg is the newest member of the board. He began 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.

Eric Syz, is the longest serving board member. He is a founding partner of Banque SYZ & Co SA (Altin's investment adviser) and member of its Executive Committee. As such, he cannot be considered to be independent of the investment adviser. 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 Banque SYZ.

Figure 10: Board member - length of service and shareholdings

Director	Position	Appointed	Length of service (yrs)	Annual director's fee (CHF)	Share-holding*	Years of fee invested*
Peter Altorfer	Chairman	28/4/2010	5.8	30,000	-	-
André Pabst	Director	13/12/2001	14.2	20,000	2,000	6.1
Roger Rüegg	Director	22/4/2013	2.8	14,000	-	-
Eric Syz	Director	1/12/1996	19.2	-	-	N/A

Source: Altin AG, Bloomberg and Marten & Co. *Note: shareholding as at 31 December 2014. Years of fee invested based on Altin ordinary share price of CHF 61.2 as at 16 February 2016 and a CHF/US$ exchange rate of 0.99 as at 16 February 2016.

Altin's CEO – Tony Morrongiello

Tony Morrongiello, Altin's CEO, was appointed in March 2013. As CEO, his role is to supervise Altin's operations, which includes the investments made by the fund advisor, operational management of the company and to coordinate investor relations activities. A key objective of the role is to enhance the awareness of Altin in the Swiss and European markets. 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. Mr. Morrongiello received CHF 334,763 for his services during 2014 (2013: CHF 91,362). These amounts include both social security contributions and variable performance related compensation. Mr. Morrongiello does not have a direct investment in the company.

Previous research publications

Figure 11: Marten & Co. previously published research on Altin

Title	Note type	Date
Alternative investment	Initiation	3 February 2015
Extra protection added for uncertain times	Update	23 September 2015

Source: Marten & Co.

QuotedData

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123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
135a Munster Road, London SW6 6DD

Edward Marten
(em@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

IMPORTANT INFORMATION