# AYALTIS: THRIVING IN ADVERSE CONDITIONS

ERNESTO PRADO AND SON NGUYEN, OF AYALTIS AG, REFLECT ON THE FIRM'S DEVELOPMENT SINCE INCEPTION IN 2008, AND WHAT THE FUTURE HOLDS FOR THE FOHF SPACE

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The year 2018 marks the 10th anniversary of Ayaltis AG and is a cause for celebration. Scrolling back 10 years, you would have found us, Ayaltis' founding partners, in a small office close to the centre of Zurich. Nowadays the firm's offices are located off of Zurich's prestigious Paradeplatz and the team are as busy as they ever have been. The same is also true for the business partners, who supported us in getting our humble start-up off the ground. Continuity, a rare and cherished feature in the hedge fund world, is definitely a key component of the company's success.

Launching a FoHF in 2008 certainly wasn't the ideal time to begin such a venture, and raising assets in the midst of the great financial crisis was challenging. On the investment side, however, we were convinced that global deleveraging presented a unique investment opportunity.

Prior to founding Ayaltis, we've enjoyed a long history of working together. Moreover, we have each been dedicated to the hedge fund space in our previous roles and were able to apply our experience towards hiring team members. Since 2008, our team has consistently grown and counts 16 employees as of the end of December 2017.

> "WITH THE FOHF CONCEPT AN INVESTOR IS ABLE TO BE EXPOSED TO A LARGER CHOICE OF EVER CHANGING OPPORTUNITIES, THUS BENEFITING FROM DIVERSIFICATION EFFECTS"

In 2017, we took the next bold step in Ayaltis' growth and launched an office in Hong Kong. The management of the new Asian hub is assumed by Dr Hao Shao, one of our first employees. With this move, we leverage our strong Asian links: currently, Ayaltis' multicultural workforce counts three native Chinese speakers. Moreover, Ayaltis' seed capital investor has an affinity to China. This office primarily aims to focus on research and business development efforts.

## AYALTIS AT ITS CORE: RELATIVE VALUE

Our new office space reflects well our confidence in the future of active investing. While the firm's initial portfolio has changed over time, Ayaltis' key investment principles and its way of approaching portfolio construction remains the same, and relative value has always been an essential theme. Relative value is a paramount principle of constructing a portfolio and selecting hedge fund managers. This principle applies irrespective of asset classes and is grounded in a mindset of placing downside protection first.

The opportunities we seek consist of situations where two dislocated financial components have either a catalyst or are strongly driven to move, compressing or expanding to reach a fair relative-price equilibrium. The focal point is on asymmetric spreads, where the potential price movements of one element of the pair are much more constrained than the other to deliver resilient, convex asymmetric pay-outs. Particular attention is given to exclude participating in simple directional market movement. It's about capturing relative values dislocated because of the prevailing environment, panic, euphoria or complacency. Of course, market situations temporarily affect the attractiveness of certain funds, but do not impact the fundamental core of our analysis. This relative value bias is a distinguishing factor within the FoHF segment.

## A LOOK AT CURRENT OPPORTUNITIES

The market environment has significantly evolved since 2008, yet challenges remain in different shapes and forms. Up until very recently, it was a lack of volatility and the impact of global monetary normalisation. The Areca Value Discovery Fund, the company's flagship fund, navigated through the worst equity markets with tranquillity and sailed well through the exuberant equity markets of 2017. One might think that buoyant equity markets are easy to navigate, at least from a long-only perspective. However, the Ayaltis credo of 'relative value' emphasises a cautious approach. Riding the wave of an exuberant directional movement is not on the agenda.

Starting in 2016, the company's flagship fund shifted towards event-driven strategies, which were able to pick up, among others, on the increasing activity trend in the M&A space. Moreover, the growth in the quantitative funds segment related to artificial intelligence has had a significant impact on the hedge fund space overall. A large number of systematic funds stepped-up to new heights in analysing patterns and clusters in data.

This has also created a strong information asymmetry between those who could keep up and use this new way of analysis and those who couldn't.

The advent of big data is a promising new milestone that will intensify this information gap favouring active managers. Analysing and assessing these new trends in terms of viability and added value is a key task within the company. One key area of growth in the asset management industry is the rise of passive investment strategies. This development is creating a large number of opportunities for skilled relative value managers looking to trade the divergence passive investing generates between comparable tradable assets such as an index versus its components.

## MORE ATTRACTIVE THAN EVER: FoHFs

Looking at 2017's long-biased performance data of financial assets, an investor might come to the misleading conclusion that investing money has become easier in a low volatility world of unending rallies, when the true tendency is quite the opposite. The level of complexity and specialisation has substantially increased. This is also reflected in the hedge fund space: a large spectrum of long-biased hedge funds have thrived on easy money, making it harder for investors to identify the managers adapting to these new complexities without giving in to the siren call of long-biased investing in hedge funds. Selecting the best manager fit for a portfolio has become more demanding.

A FoHF approach tackles the various challenges which emerge when considering hedge funds. The approach necessitates a team of experts being in constant dialogue with hedge funds, who are responsible for verifying their track records and analysing the risks and sensitivities of a potential investment. With the FoHF concept an investor is able to be exposed to a larger choice of ever changing opportunities, thus benefiting from diversification effects. Through the network and the longstanding experience of the FoHF team, an investor gains access to opportunities of which they would otherwise not be aware (e.g. the launch of a new fund to capture an emerging development), and the ability to tap into closed funds not otherwise open to new investors. The strong level of risk management and the possibility to reach out to FoHF teams to support and assist in understanding the hedge fund universe is a highly appreciated feature among investors.

Sticking to what we know best while believing in a hard-won and sustainable investment skillset, and being open-minded in looking at market developments, has worked out well for Ayaltis for the past 10 years and remains a key guideline for our future.