AFM Fund Review
Alpha Beta Asian Fund

June 2014 +1.69 %

Last 12 months +12.33 %

Key Points: Alpha Beta Asian Fund

❑ *Alpha Beta Capital is an emerging Asian equity manager established in 2012 by highly qualified and experienced portfolio managers.*

❑ *The Alpha Beta Asian Fund's long/short strategy uses a quantitative approach to evaluate macroeconomic data, and two distinct statistical models to process fundamental company data and other share price drivers to select individual stock positions.*

❑ *The Manager can exercise limited discretion to adjust country exposure, model selection and to manage risk.*

❑ *Systematic processes are used to integrate trading with portfolio and risk management as well as middle and back office functions.*

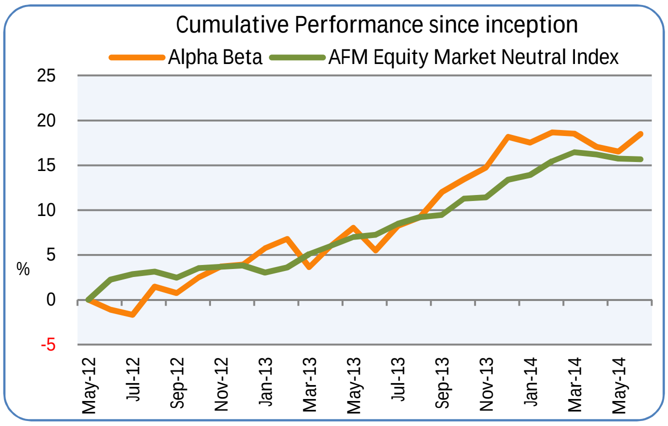
❑ *The Fund targets annualised returns of between 10% and 15% with a low volatility.*

Key Statistics	Alpha Beta Asian Fund	EMN Indx*
Jun-14	1.69	-0.07
Annualised Return	8.49	6.62
Latest 3 Months	-0.01	-0.78
Latest 6 Months	0.28	2.29
Latest 12 Months	12.33	8.71
Latest 24 Months (p.a)	9.45	6.88
Latest 36 Months (p.a)	n/a	n/a
Latest 60 Months (p.a)	n/a	n/a
% Positive Months	64.00	71.43
Best Month	3.17	2.27
Worst Month	-2.93	-2.89
Largest Drawdown	-2.93	-3.18
Average +ve Return	1.71	1.04
Average -ve Return	-1.11	-0.72
Annualised Standard Deviation	5.50	3.58
Downside Deviation (Since Inception)	3.35	2.42
Sharpe Ratio (Since Inception)	1.00	0.78
Sortino Ratio	1.60	1.13

*Statistics for the EMNIndex are adjusted to the fund's start date

**The AFM Equity Market Neutral Index (EMN Indx) used as the comparison for the Alpha Beta Asian Fund's Key Statistics and cumulative performance is an equally weighted composite of all Equity Market Neutral Funds on AFM's database.*

Chart 1: Cumulative returns



Management Company Overview

Sydney based Alpha Beta Capital was established by Andrew Barry and Ken Lewis in May 2012. Both Barry and Lewis have significant qualifications and international experience in funds management, including working together at Coronation International, a global multi-strategy hedge fund group in London. In 2009 they left Coronation to develop the models and systems at Sable Absolute which formed the basis of Alpha Beta's quantitative processes and strategy.

Andrew Barry has a Bachelor of Economics (Econometrics and Finance) from Sydney University, and also holds a CQF in quantitative finance. He entered the hedge fund industry in 2004 with Sydney based Saltbush Funds Management, prior to moving to London and joining Coronation in 2007. On returning to Australia in 2010 he worked for Nanuk Asset Management, partly owned by CQS, prior to leaving to establish Alpha Beta Capital in 2012. His experience includes portfolio management, risk management and model / system development.

Ken Lewis has a BSc and MSc in engineering from Witwatersrand University in South Africa, and a PhD in engineering from Cambridge University. He entered the financial services industry in 1995, prior to which he was employed in the aerospace industry. Lewis has almost twenty years experience in the managed funds industry, having run or managed a range of funds in South Africa, including equity long only, long/short, bond, quantitative and equity structured products. From 2005 to 2008 he ran the investment team at Coronation International in London with primary responsibility for a multi asset hedge fund, two multi strategy fund-of-funds, and a global bond fund.

Richard Zillman joined Alpha Beta in December 2012 as a quantitative analyst responsible for programming models. He has a Bachelor of Engineering Electrical (1st class Honours) from the University of Queensland and previously worked as an engineer at Canon Research developing computational methods.

Vinesh Jha joined in May 2014 based in Hong Kong to head up Business Development as well as provide quantitative research. He holds an undergraduate degree from the University of Chicago and a graduate degree from the University of Cambridge, both in mathematics.

From 1999 to 2005, Jha was the Director of Quantitative Research at StarMine in San Francisco, where he developed industry leading metrics of sell-side analyst performance.

Subsequently he developed systematic trading strategies for proprietary trading desks at Merrill Lynch and Morgan Stanley in New York. Most recently he was Executive Director at PDT Partners, a spinoff of Morgan Stanley's premiere quant proprietary trading group.

Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	-0.54	0.96	-0.12	-1.23	-0.45	1.69	-	-	-	-	-	-	0.28%
2013	1.76	0.96	-2.93	2.32	1.85	-2.34	2.59	0.89	2.59	1.25	1.17	2.98	13.69%
2012	-	-	-	-	-	-1.09	-0.57	3.17	-0.68	1.70	1.19	0.22	3.94%

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Alpha Beta Capital benefits from having an experienced advisory board including Paul Chadwick, the Managing Director of CQS Australia and Nanuk Asset Management, and who was formerly head of GMO Australasia. He is the current Chairman of AIMA (Australia) .

Also on the advisory board is Steve Williams, formerly an Executive Director of Citigroup. He is a director of PrimeAg Ltd, and is the Executive Chairman and co-founder of Saltbush Funds Management. Barry, Lewis and Arthur Lo are the shareholders of the management company.

Risk and Operations

Risk Manager Arthur Lo has Bachelor of Engineering (Honours) and Master of Commerce degrees from the University of NSW. He previously worked for IBM Global Services as well as establishing a proprietary trading desk specialising in cross-border equity trading (equity arbitrage and long/short). He heads the Risk Committee for Alpha Beta and is the principal of Providus Capital Pty Ltd, the Fund's Trustee which provides administrative support, licensing, compliance and risk management to Alpha Beta Capital.

Alpha Beta has a part time Operations Manager, Julie Korowe who has 15 years' industry experience with the majority of her career spent as a senior Equity Finance Trader for a large US multi-strategy hedge fund.

Investment Strategy:

The Alpha Beta Asian Fund ("the Fund") invests in Asian listed equity markets with a focus on liquid companies in Australia, Japan, Hong Kong, Indonesia, Philippines and Thailand. The Fund uses a systematic approach to evaluate macroeconomic, company fundamental and price data, all of which are evaluated through a series of quantitative models.

The Strategy relies on a number of core beliefs: Firstly that a well designed systematic investment process, operating within a multi-strategy framework will be able to extract consistent returns, on average, with low volatility. Secondly, by utilising holding periods substantially shorter than the industry-norm, profit opportunities consistently arise. Finally, a strategy that holds a large number of small positions versus a small number of concentrated positions, will remove much of the emotional angst of trading, and the investment process becomes repeatable. While this results in a relatively high turnover this is consistent with the strategy of searching for profitable opportunities.

Quant Modelling:

The strategy's quantitative modelling has 4 stages. The first stage screens the Asian equity universe for market cap liquidity and broker coverage.

In the second stage of risk allocation the models evaluate a number of macroeconomic, risk and financial market variables to calculate a "risk indicator". This then provides a guide to the degree of risk allocation that is appropriate, and the Portfolio Manager then adjusts allocations to the models accordingly. Risk is further managed by soft and hard limits on country, sector, and company exposures as well as liquidity, Value at Risk (VaR) and market cap limits.

The third stage uses two broad types of models to evaluate the underlying equities for investment, namely directional and mean-reverting models.

Directional Models aim to predict the medium-term trend of a stock's price based on seven quantifiable factors. These are predictive earnings surprises, predictive institutional demand, earnings quality, relative valuations, intrinsic value, earnings, and finally price momentum.

The seven factors are combined to create a score which looks to predict the direction of each stock's price. Long or short positions are taken depending on the direction of the model. The weighting of each position will be guided by the strength of the models' signals, which generally cover a medium term time frame, from weeks to up to six months.

Alpha Beta Asian Fund Key Facts	
Strategy	Asian Equity Market Neutral
Domicile	Australia
Investor Type	Wholesale
Min. Investment	A$500,000
Additional Investment	A$100,000
Management Fee	2% p.a
Performance Fee	20% p.a, with high water mark
Hurdle	4% net return to investors
Min. Term	1 month
Redemption Notice	Monthly with 30 days notice
Fund Inception Date	Jun-12
Fund Size	A$11 million
Manager's Total FUM	A$16 million

Chart 2: Monthly Returns

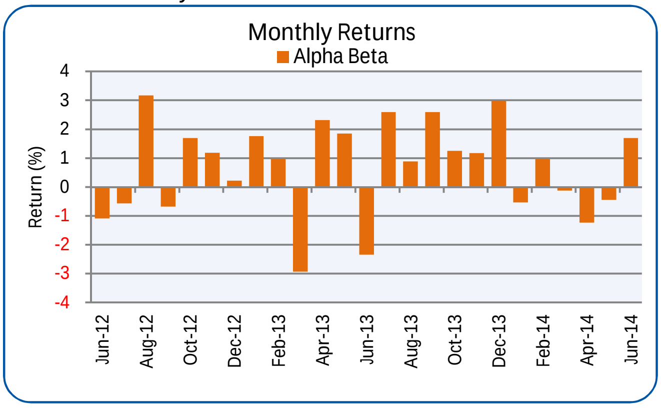


Chart 3: Distribution of monthly returns

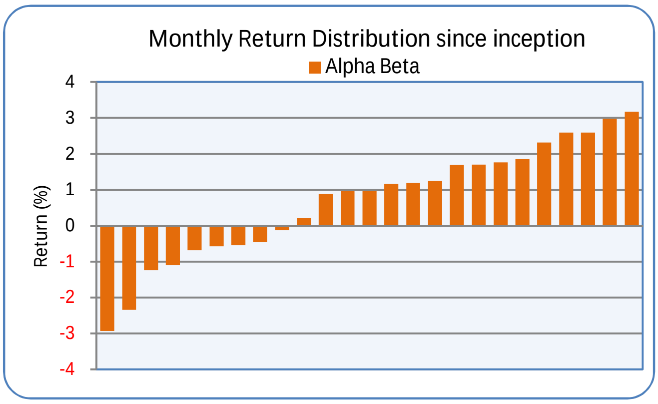
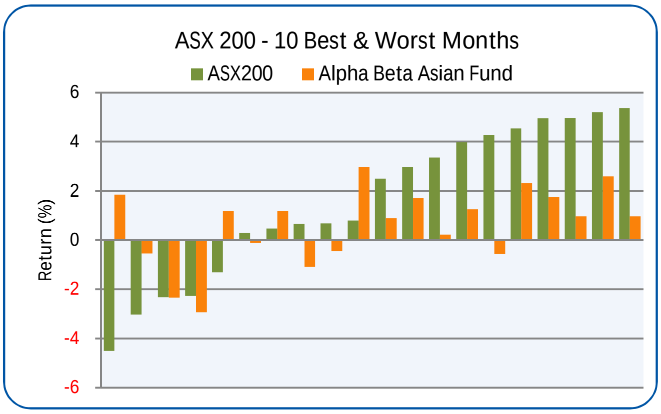


Chart 4: Correlation to ASX200's best and worst months



The mean-reverting model is the second of the two major model types. This also creates quantitative signals from a series of underlying models when a company's share price deviates too far from its underlying or relative fair value. Mean reversion reflects the "stretch" or "correct" component of a share price movement within the trend, often referred to as overbought or oversold.

As such the mean reversion models rely on share prices rarely traveling in a straight line; rather they rise and fall as they become alternately overbought or oversold in the mean reversion process, while still moving around the medium to longer term directional trend towards fair value. By combining the two, Alpha Beta's models look to capture both the longer term directional trend of share prices, and their shorter term mean reversion price movement.

Each of the models react to both positive and negative signals enabling the Fund to profit from both rising and falling prices. In addition, when the head or tail winds created by the macro environment change, the investment team is able to adjust overall risk exposure, increasing or reducing market exposure and risk as a result.

The strategy therefore has the potential to profit from the total range of price movements, rather than merely the starting and finishing price that occurs when investing on a "buy and hold" basis, and can benefit from market volatility as a result.

A key benefit of quantitative models is their ability to capture and process large volumes of information using the core macroeconomic and fundamental company data used in traditional analysis, while eliminating individual analyst's potential preferences and bias.

The power of models is based on their ability to correctly predict the underlying trend as well as when a deviation from the trend presents a tradeable opportunity. The challenge is to evaluate the correct factors to be included, and then process the data to identify opportunities.

The concept may be logical and simple but the data collection, programming and implementation involved in the strategy is both complex and specialised. Inevitably not all trades are successful, but the resultant high turnover of the portfolio across over 300 positions provides diversification to reduce risk, as does the ability to adjust long and short exposures.

An important difference between pure quant, or "black box" strategies, and Alpha Beta's implementation is that the final output from the various models can be adjusted by the Portfolio Manager if they are aware of fundamental factors affecting the underlying company. For example, a company may be excluded from a trade if the manager is aware that a takeover bid is in place. This discretion can only be used to reduce exposures.

The final stage of the process is trading. Trades are placed via direct market access to retain control over price, allocation and reduce transaction costs.

Risk Limits, Systems and Processes

In keeping with the Manager's overall systematic approach the Risk Management includes real time monitoring of positions and market exposure, and is combined into a proprietary and automated system called PARMS (Portfolio and Risk Management System). PARMS is a centralised and integrated system which provides full functionality including stress testing of the portfolio for a range of potential market shocks, and is also utilised to produce the daily risk report which is sent to all staff and the Risk Manager, as well as a daily P&L.

Trades are entered via direct market access and are executed through Citigroup, the Fund's Prime Broker. All trades are reconciled daily with the Fund's administrator Apex and prime broker CitiGroup. Apex are also responsible for producing the Fund's final month end NAV.

Individual limits are +4% for long and -3% for short positions, although in practice these limits are rarely attained, with the manager aiming to keep maximum exposure to any one stock to 1.5%, with an average of 0.5% to provide significant stock diversification. To ensure liquidity, no position is permitted to represent more than 20% of that stock's average daily turnover.

Gross portfolio exposure (long plus short) ranges from 50% to 250% with net exposure limited to -25% to +35%. In general market exposure is normally kept between 10% and 30% net long. These are soft limits which are immediately brought back in range if breached. For larger markets the country limits are minus 20% to plus 30%.

Gross FX risk other than A$ is +10% to -10%, with exposure actively hedged. The overall portfolio has a drawdown limit of 8%, with gross exposure progressively reduced as this limit is approached.

Performance Review

The Key Performance Indicators (KPI's) indicate an annualised return of 8.49% with the risk emphasis reflected in the risk statistics, with 64.0% of months providing positive returns, volatility of 5.50% and a Sharpe Ratio of 1.00. The distribution of returns and the worst drawdown of 2.93% have been achieved during a variety of market conditions.

Operations and Business Risk

Alpha Beta's staff have appropriate experience in relevant fields and each member's function can be covered in the event of any absences. Barry's expertise in systems and programming has resulted in well developed systems and robust programming. The appointment of Zillman as a quantitative analyst, and Jha with significant model experience have contributed to expanding the skill set and reducing key person risk. The combination of Barry's quantitative and mathematical skills with Lewis' fund management, academic and research background creates significant balance, adding further to the investment team's depth.

The investment team has a daily phone meeting (as Lewis spends the majority of his time in South Africa) to ensure everyone is aware of the Fund's position status and strategy.

The Fund's support function have been enhanced with the addition of Korowe, while Jha has added to both the modelling and systems skill set, as well as to distribution capacity. Process driven systems and the nature of the trading reduce back office staffing needs, and the automated systems allows for trading with multiple brokers.

Terms and Fees

Annual management fees are 2% of Net Asset Value (NAV) payable monthly. The Manager also receives a Fee of 20% of performance provided the investor has received a minimum annualised return of 4%. The performance fee is calculated monthly and payable half yearly and is subject to a High Water Mark.

There are no entry or exit fees and no buy/sell spreads. The Fund is also responsible for all reasonably and properly incurred expenses such as administration, accounting and transactional costs.

Realised income is distributed annually, shortly after the end of June and may be re-invested or distributed.

The minimum initial investment is $500,000 (or a lesser amount at the Manager's discretion) with a minimum additional investment and withdrawal limit of $100,000. There is no minimum term and no early termination fees. Redemptions are monthly on 30 days' notice with payment made within 14 days of the end of the following month.

Investor Relations

Barry, Lewis and Lo are significant investors in the Fund on the same terms as external investors. The three principals and their related parties initially seeded the Fund with $6.5 million.

Investors receive a monthly performance report which includes a market commentary, the fund's performance and risk statistics, in addition to geographical and position exposures.

Structure and Compliance

The Alpha Beta Asian Fund is an Australian Unit Trust, open to wholesale investors. Alpha Beta Capital Pty Ltd is a Corporate Authorised Representative of Providus Capital Pty Ltd, which holds AFS Licence 290934 and acts as the Fund's Trustee.

Personal trading by the Portfolio Managers is not permitted in the Fund's investment universe. The majority or a significant portion of the Investment team's net worth is invested in the Fund.

Alpha Beta has contracted with Lazorne Pty Ltd to provide external compliance consulting services which includes quarterly reviews and compliance audits.

Prime Broker:	Citigroup Global Markets Ltd
Administrator:	Apex Fund Services Ltd
Auditor:	Ernst & Young
Legal:	Middletons
Compliance:	Lazorne Pty Ltd

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