

## Key Points: Totus Alpha Fund

- ❑ *Totus Capital is a Sydney based long short fund manager established in 2012 by Ben McGarry which aims to place equal emphasis on performance and capital preservation.*
- ❑ *The Fund invests mainly in Australia, but also in other developed economies, with a primary exposure to equity markets.*
- ❑ *The Totus Alpha Fund's investment strategy is to identify structural themes, and then seek to drive performance by investing in securities that have concentrated exposure to those themes.*
- ❑ *Single stock short positions are used to generate alpha, frequently in under researched parts of the market such as the small and mid-cap space. Index derivatives are used to hedge the portfolio's market risk.*
- ❑ *In house research uses a variety of information sources to identify themes, with bottom up analysis for security selection.*

## Management Company Overview

Totus Capital is a Sydney-based absolute return fund manager founded by Ben McGarry in 2012. McGarry is the sole director of the Management Company and a significant investor in the Fund. The Management Company also holds units in the Fund and regularly reinvests the bulk of its post-tax performance fees back into the fund.

McGarry qualified as a Chartered Accountant with PWC in 1999 and has 14 years market experience, commencing his career covering European building materials and construction sectors at Morgan Stanley in London. Immediately prior to establishing Totus he was an Assistant Portfolio Manager at Mathews Capital, a Sydney-based absolute return manager. Previous experience included analytical roles at Ausbil, a Sydney based \$10bn+ long-only manager, and sell side emerging companies experience at UBS. McGarry's emerging company research with UBS included exposure to a range of sectors including energy, materials, industrials, tech, financials, retail and telecommunications.

Totus has 2 full time investment professionals, and contracts out a range of non-investment functions such as accounting, compliance and marketing. On the investment side, McGarry is supported by Sam Granger, an analyst with 2 years' previous experience in an emerging company research role at NAOS Asset Management.

## Investment Strategy

The broad strategy of the Fund is long short investing, principally in equities in developed markets. Specifically, the Fund looks to identify medium to longer-term structural investment themes and generate absolute returns by investing in (or shorting) securities that have concentrated exposure to those themes.

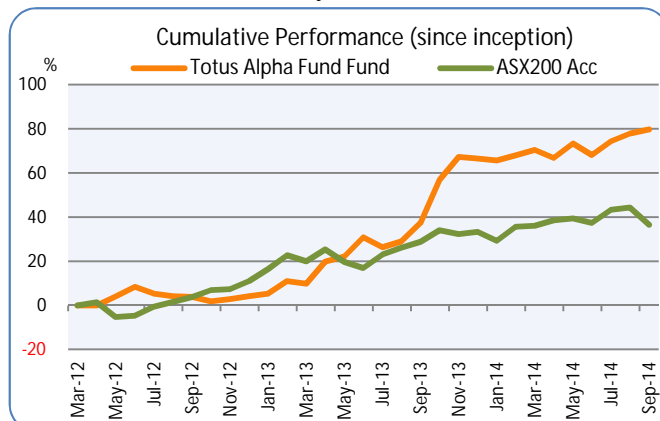
McGarry describes these themes as long-term trends driven by changes to a specific industry or the broader economy. His view is that these trends are usually significant and powerful drivers of longer-term share price performance, both on the upside and downside, and tend to continually surprise the market with the impact they have on earnings and price.

McGarry gives examples of these structural themes as including; the search for yield; the end of the resource boom; bricks to clicks; and ageing populations. Once a structural theme is identified the idea is critically evaluated through internal research, market soundings (examining the bull and bear case) and industry modelling.



Key Performance	Totus Alpha Fund	ASX 200 Acc
Sep-14	1.00	-5.38
Annualised Return	26.41	13.25
Latest 3 Months	6.86	-0.60
Latest 6 Months	5.45	0.33
Latest 12 Months	30.85	5.93
Latest 24 Months p.a.	31.55	14.71
Latest 36 Months p.a.	n/a	14.75
Latest 60 Months p.a.	n/a	6.81
% Positive Months	63.33	73.33
Best Month	14.16	5.37
Worst Month	-3.49	-6.64
Largest Drawdown	-5.95	-6.72
Average +ve Return	4.12	2.72
Average -ve Return	-1.53	-3.37
Annualised Standard Deviation	13.43	11.11
Downside Deviation (Since Inception)	4.43	7.22
Sharpe Ratio (Since Inception)	1.61	0.93
Sortino Ratio	4.70	1.34

\*Statistics above for the ASX are adjusted to the Fund's start date



Totus estimates that 90% of trading ideas are internally rather than broker generated. As such critical to the development of themes is access to a wide source of ideas and analysis. To this end McGarry uses conferences calls, company meetings, webcasts, site tours and newsletters (including a number of independent research services), Bloomberg and IRESS news services.

This report qualifies Financial Advisors for 0.5 CPD points on completion of AFM's online test available at [www.fundmonitors.com](http://www.fundmonitors.com)

The Totus Alpha Fund is listed on [www.prismselect.com](http://www.prismselect.com) and applications can be made online using OLIVIA123.

## Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	-0.59	1.44	1.43	-2.15	3.99	-3.02	3.70	2.02	1.00	-	-	-	7.86%
2013	1.13	5.31	-1.06	9.21	1.84	7.21	-3.49	2.10	6.49	14.16	6.69	-0.39	59.91%
2012	-	-	-	-0.08	4.13	4.07	-2.77	-1.04	-0.34	-1.92	1.02	1.26	4.17%

## Fundamental Research & Analysis

After identifying a theme, and following the research process, the next step seeks to identify the best approach to gain exposure to the theme. For example, should the exposure be long or short, or should the exposure be taken locally or offshore? To date the Fund has had a local bias of around 65% of gross exposure although McGarry expects this may change over time as the Manager's research capacity expands.

Security selection is driven by fundamental bottom up analysis which typically includes management meetings, absolute and relative valuations, assessment of risks, operational and balance sheet leverage, and capital requirements. A quality filter is also applied which looks at each company's industry position, management track record and catalysts which may affect the impact of the theme, or the timing or size of the investment.

The weighting of each theme in the portfolio, and to securities within each theme, is determined by the Manager's conviction - higher conviction themes and stocks generally have a greater investment weighting. However the highest conviction idea (largest position) may not equate to the stock with the greatest upside. McGarry also considers risks, catalysts, (such as upcoming results or company presentations) and capital requirements. The portfolio is continually monitored and adjusted as new information is received.

The process for identifying short positions is similar but with an emphasis on catalysts to monetise the short idea. McGarry also looks to ensure there is no unintentional doubling up of exposures (for example long energy producers at the same time as being short airlines which are significantly exposed to rising oil or fuel prices), and seeks to avoid illiquid names, and monitor short open interest and takeover potential. McGarry estimates that the Fund's performance attribution from longs and shorts has been relatively evenly balanced since inception.

In addition to shorting large companies facing structural challenges, McGarry believes his background as an emerging company analyst and his chartered accounting experience lends itself to identifying short candidates in under researched parts of the market such as the mid and small cap space.

In order to ensure that the portfolio is well diversified McGarry seeks to avoid over-exposure to any single theme or investment. In order to reduce company specific and event risk the Fund will often utilise a basket approach by taking exposure to a range of stocks exposed to each theme.

The final aspect of the portfolio's construction is hedging, which is conducted via single stock shorting to generate alpha, and where appropriate, through the use of Index derivatives to reduce market exposure. The Fund can vary its net and gross market exposure but expects to have a long bias over time.

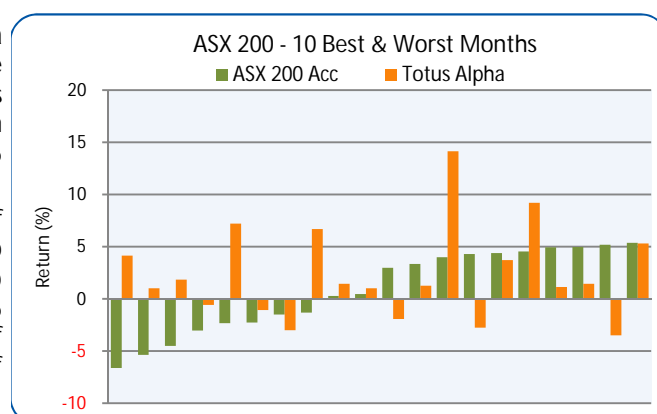
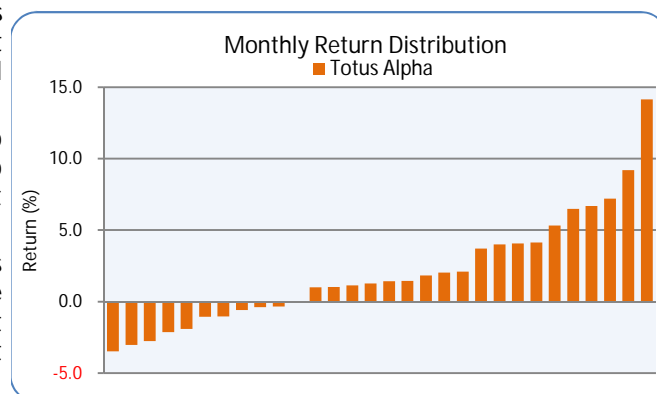
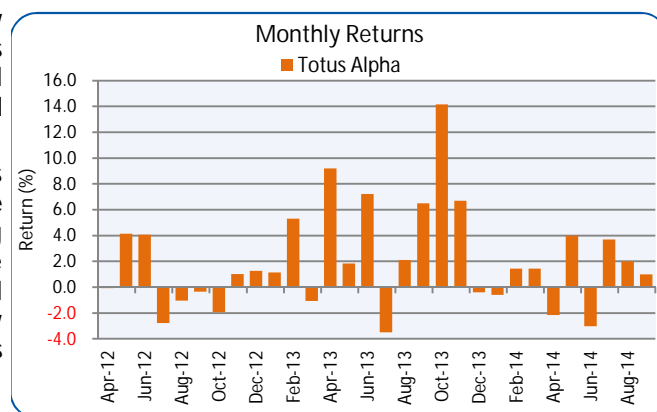
## Investment Risk & Processes

McGarry places significant emphasis on risk management. The Fund has a number of exposure limits in place. These include a net exposure maximum of 150% (typically the range is 75 to 125%) with a gross exposure maximum of 300%. There is a position limit of 125 stocks, with no net new purchases of a security permitted if the position exceeds 20% of NAV.

Although the portfolio can have significant diversification as a result of investing in up to 125 positions, (it frequently has over 100) there can also be significant concentration within that total, and there are no concentration limits at the portfolio level. Individual position sizes of 15% of NAV are not uncommon, and although once a position reaches 20% of NAV it cannot be added to, the potential exists to have a small number of large positions making up the majority of the Portfolio's NAV.

### Totus Alpha Fund Key Terms

Strategy	Equity Long/short
Geographic Mandate	Australia/Global
Domicile/Structure	Australia, Unit Trust
Investor Type	Wholesale only
Min. Investment	A\$250,000
Additional Investment	\$A50,000
Management Fee	2% p.a
Performance Fee	20% p.a, with high water mark
Hurdle	No
Min. Term	Soft lock up for 12 months
Redemption	Monthly
Inception Date	Apr-12
Fund Size	\$12 million
Manager's Total FUM	\$19 million
Status	Open



## Investment Risk and Process (continued)

Portfolio controls are in place around liquidity, asset quality and management track record, and there is a focus on only investing in listed securities in developed markets. There is no use of stop-loss limits however significant attention is paid to position sizing as a risk management tool. Technical factors such as volume, trend changes and open short interest are actively monitored on a discretionary basis rather than with the use of hard limits.

The Fund does not invest in over-the-counter derivatives, unlisted securities, emerging markets or industries in which McGarry feels he has no expertise. IPO's are permissible, but unlisted securities and pre-IPO's are not.

## Performance Review

Since inception in April 2012 the Fund has delivered an annualised return of 26.41% compared to the ASX 200 Accumulation's return over the same period of 13.25%. The Fund has delivered these returns with a somewhat higher volatility at 13.43% compared to 11.11% for the Index.

Over the last twelve months the Fund has returned 30.85%, well above the Index return of 5.93%. The Fund has an up and down capture ratio of 1.38 and -0.36 respectively and the Fund's average down month return of -1.54% compares with the Index at -2.80%.

## Operational & Business Risk

Totus uses outsourced providers for a number of non-core infrastructure and service activities. QRMO (Quality Risk Management Operations) provide the middle office function including daily trade matching, portfolio monitoring and analysis, and daily prime broker reconciliations, as well as NAV shadowing and reconciliations with the Administrator.

Positional data is uploaded to the Fund's Imagine portfolio management system by executing brokers and reconciled daily to the Manager's trade blotter. QRMO also runs daily reconciliations to the Bank of America as Prime Broker, and monthly reconciliations to TMF Group, the Fund's Administrator.

The portfolio is monitored daily by QRMO and compliance breaches are notified by email and documented. McGarry advised that the Fund has not recorded any breaches to date. All data and functions are backed up and Totus staff have remote access to market information and portfolio details, as well as the Prime Broker's and Administrator's systems.

Market data is sourced from Bloomberg and IRESS.

Segregation of duties is imposed, such that staff placing transactional orders with brokers are unable to provide settlement or cash movement instructions. All cash payments are made by the Prime Broker or the Administrator upon receipt of proper written instructions. All client monies are processed and handled via the Administrator and Custodian. Totus is audited by E&Y and monthly performance is calculated by the external Administrator, TMF Group.

Totus employs a number of part time support staff on a contract basis. These include Inna Merkin, the Fund's part time accountant, 2 days per week, and Larry Adams, who provides external compliance functions. Benn Lim, who previously worked with McGarry while at UBS, provides third party distribution.

## Operational & Business Risk (continued)

There is significant reliance on McGarry as far as investment strategy and implementation are concerned, in addition to his being the sole director and shareholder of the Management Company, which also acts as the Fund's Trustee. As such, in keeping with many boutique fund managers, "Key Person Risk" is high.

However, in the event of his absence Sam Granger is authorised to trade on the account and he has instructions to liquidate the portfolio in an orderly manner if required.

In addition to the Totus Alpha Fund the Management Company invests in and manages two small accounts for specific related party portfolios outside the Fund. McGarry notes that all trades are allocated to the Alpha Fund first.

## Structure, Terms & Compliance

Totus Capital (A.C.N. 151256772) holds AFS Licence number 409468 effective 25 November 2011, and is open to Wholesale investors only. Ben McGarry is noted on the licence as a Key Person, and Totus is subject to an annual compliance audit by Graeme Green Accountants.

The minimum subscription is \$250,000 with the Manager having discretion to accept lower investments. The minimum additional investments is \$50,000. Management Fees are 2.0% p.a. of the NAV, payable monthly. The Performance Fee is equivalent to 20% of the increase in the Net Asset Value, are subject to a permanent high water mark, and is also paid monthly. There is no hurdle for Ordinary Units. The Fund uses series accounting with performance fees attributable for each series.

There are no entry or exit fees, or any buy/sell spread.

The Fund also bears the cost of services such as Administration fees, prime broking fees, transactions costs, auditors and legal fees.

Investments and redemptions can be made monthly before the last day of each month, with redemptions dated the last day of the following month. Generally 100% of the redemption proceeds are paid within 4 weeks of the relevant redemption date.

A 12 month soft lock-up period exists with a 4% exit fee applying to redemptions within that time. After 12 months there is no exit fee. Investors can redeem monthly, with one month's notice period required.

## Investor Relations

Totus issues a one page monthly performance report which includes the Manager's commentary, month end position and theme exposures, and net and gross portfolio exposure.

## Service Providers

Custodian: Merrill Lynch International  
Prime Broker: Bank of America Merrill Lynch  
Administrator: TMF Fund Administration  
Auditors: Ernst and Young

Commentary and performance data in this Fund Review is updated monthly by Australian Fund Monitors Pty Ltd. For updates please email: [contact@fundmonitors.com](mailto:contact@fundmonitors.com) or visit [www.fundmonitors.com](http://www.fundmonitors.com)

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