

*"Men... go mad in herds, while they only recover their senses slowly, and one by one." Charles Mackay*

## Monthly Performance Review

The Totus Alpha Fund Founder's Series units rose 1.0% net of fees in May, outperforming the ASX 300 Accumulation Index which was down 2.7% for the month.

One of the themes that we have been following for several years at Totus is the tendency from time to time for the market to get carried away with a stock or sector based on a clever story or idea that is heavily promoted by company management and their proxies. This can lead to valuations that are completely detached from the underlying economic fundamentals of the business. We label these businesses "promoters" and see them as an attractive source of uncorrelated potential return for our investors *if and when* the gravitational pull of economic reality finally starts to take hold. Over the years the fund has had a lot of success in this space with short positions in companies such as Linc Energy, Maverick Drilling, LNG Limited and 1 Page.

The skill in making money from these opportunities is not necessarily in identifying them (in this cheap money, low volatility world there are more than enough candidates) but it is having the tenacity and patience to follow them closely in order to scale the position up sufficiently to make a meaningful return once the broader market finally becomes concerned about the issues that we have identified.

This was the situation that played out last month with Quintis (formerly TFS), a stock that we have been short for almost 3 years. We had identified TFS as one of our high conviction shorts back in January ([AFR article link](#)) but it took a comprehensive report from US firm Glaucus Research in March to focus the attention of the media and regulators on the business. The fund made 3% on its short position in Quintis in May before trading in the stock was halted. The fund still holds a 1% short position in Quintis.

Top contributors in May: A short position in Quintis +3.12% (Promoters), and long positions in Alphabet +0.77% (Internet & Cloud), and Smartgroup +0.66% (Value). Biggest detractors: Long positions in Vita Group -1.16% (Value), Shriro -1.12% (Value) and Medibank -0.40% (Ageing Population).

## Fund Facts

The Totus Alpha Fund is an Australian domiciled equity long/short absolute return fund with a minor futures and offshore equities component.

Inception date: 2 April 2012  
 Total return: 153.0% net of all fees  
 Minimum investment: \$250,000  
 Redemption: Monthly (post 12 month "soft lock-up")  
 Prime Broker: Bank of America Merrill Lynch, Morgan Stanley  
 Fund Administrator: Citco Fund Services  
 Fund Auditor: Ernst & Young  
 Fund Custodian: Bank of America Merrill Lynch, Morgan Stanley  
 Legal Advisor: Henry Davis York  
 Fees: 2% Management, 20% Performance  
 Hurdle rate: Founder Series units have a hurdle rate on performance fees set at the RBA cash rate

High water mark: Yes  
 Best benchmark: Absolute return  
 Fund Manager: Totus Alpha Management Pty Ltd  
 Address: Level 8, 139 Macquarie Street Sydney NSW 2000  
 Phone: +61 2 8072 9945  
 Email: [ir@totuscapital.com.au](mailto:ir@totuscapital.com.au)  
 Web: [www.totuscapital.com.au](http://www.totuscapital.com.au)

### Performance Quality Measures

(since inception vs. the ASX 300 Accumulation Index)

	Totus Alpha Fund	ASX 300 Accumulation Index
Alpha	19.89% (annualised)	
Beta	0.1036	
Correlation	0.0765	
Sharpe ratio	1.06	0.79
Sortino ratio	2.27	1.24
Maximum Drawdown	-17.87%	-13.45%

## Performance Summary (net of all fees)

	Totus Alpha Fund Accumulated	ASX300 Accumulation
Latest month (May)	1.0%	-2.7%
Calendar year to date	2.3%	2.8%
One year rolling	-3.0%	10.8%
Total since inception	153.0%	64.3%
Annualised return	19.7%	10.1%

## Month-end Position & Theme Exposures

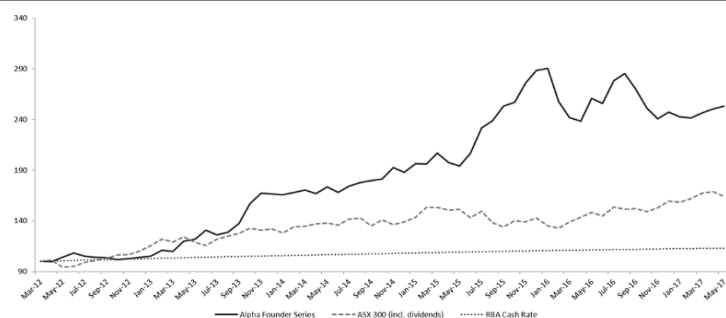
As at 31 May, the fund had a net exposure of 62.90% and a gross exposure of 258.9%. The fund held 119 positions (52 long and 67 short).

Major investment exposures were as follows:

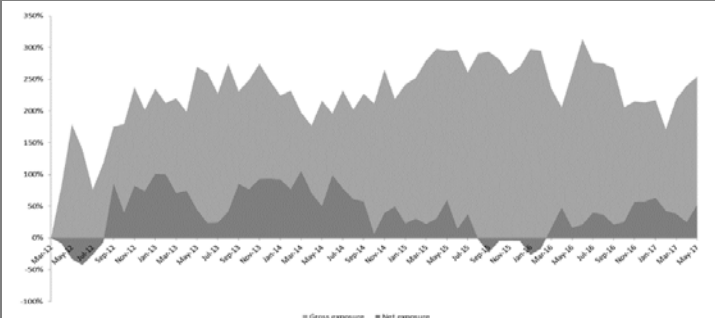
Longs: Financials 27.98%, Value 25.11%, Internet & Cloud 23.96%, Scarce Growth 22.57%

Shorts: Earnings Risk 27.67%, Commodities 18.63%, Structural Change 9.39%, Roll Ups 7.51%

## Performance Chart Since Inception (Base = 100)



## Gross & Net Exposures Chart (as a % of Net Assets)



Return (%)*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012				-0.08	4.13	4.07	-2.77	-1.04	-0.34	-1.92	1.02	1.26	4.17
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	60.14
2014	-0.59	1.44	1.43	-2.15	3.99	-3.02	3.70	2.02	1.02	0.87	6.14	-2.31	12.83
2015	4.60	-0.20	5.53	-4.53	-1.76	6.33	12.21	3.00	6.15	1.52	7.37	4.50	53.51
2016	0.67	-11.27	-6.15	-1.37	9.36	-1.98	8.82	2.58	-5.31	-7.08	-4.12	2.74	-14.26
2017	-2.00	-0.46	2.19	1.59	1.01								2.29

\*All returns quoted are for Founder's Series units