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How these four funds beat the virus crash

Active fund management came into its own during the market turmoil. Strategic decisions by these fundies helped them outperform the benchmarks.



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The idea for this column was simple – find four fund managers who did well during the [coronavirus crash in February and March](#) while delivering on the promises they made to investors.

Doing well was defined as being in the top percentile of returns in the category or cohort that applied to each fund. Delivering on promises refers to the decisions taken by each fund manager to meet their stated objectives.



Volatile markets have paid off for Gyrostat chief investment officer Craig Racine and his investors. David Rowe

To get an idea of the volatility in March and in the March quarter, the best- and worst-performing funds from the 430 in the Australian Fund Monitors database were plus 38.29 per cent and minus 77.28 per cent in March, and plus 64.38 per cent and minus 87.07 per cent in the March quarter.

Gyrostat Capital

In the 10 years that he has been running the Gyrostat Absolute Return Income Equity Fund, chief investment officer Craig Racine has never before enjoyed the fruits of so much volatility.

The March quarter delivered the highest quarterly return in 10 years as the fund profited from the surge in market volatility in Australia and overseas across 20 different assets.

Gyrostat has now operated for 37 consecutive quarters within a "hard" pre-defined risk parameter of no more than 3 per cent capital at risk. The maximum drawdown under any circumstances is 2.2 per cent.

Income is derived from passing through dividends from the ASX top 20 companies.

The fund has met its two core objectives of protecting capital in down markets and providing investors with regular income. Layered over these are three further aims:

increase exposure to international assets, make money on large market falls and profit from large stock gains.

Racine says he was pleased to see the fund ranked among the top-performing hedge funds in the March quarter as measured by research group EurekaHedge. It should be noted that when markets lack volatility, the fund's return can fall below 1 per cent. Since inception in 2010, the annual return has been 5.26 per cent.

Bronte Amalthea

Like all the funds managed by John Hempton's Bronte Capital, the Amalthea long/short fund aims to deliver double-digit returns over a three-year period with low correlation to local and global indices.

The fund had an outstanding March quarter because Hempton and his team were on top of the coronavirus impact before most others.

"There was a wide divergence between what was being said in the popular press [and implied in market prices] and what you could read freely in reputable journals like The Lancet," Hempton says in his latest Amalthea newsletter.

The fund made the smart strategic decision to invest in a handful of very cheap put options, which is a right to sell an asset within a specified time frame at a specific price.

Fund manager returns (%)

Name of fund	Mar	Mar qtr	1 year	3-year pa
Bronte Amalthea	11.00	19.50	32.93	22.62
Gyrostat Absolute Return Income Equity	5.78	9.11	16.94	6.62
RBA cash rate	0.08	0.23	1.22	1.68
Loftus Peak Global Disruption	-2.63	2.11	16.40	19.65
Benchmark	-8.00	-9.48	3.22	9.43
AB Managed Volatility Equities	-11.15	-13.58	-1.95	6.13
Benchmark	-20.83	-23.40	-14.53	-0.59

SOURCE: FUND MANAGERS

"In retrospect, some of those puts were astonishingly good purchases," Hempton says.

"We had at least one fifty-bagger – albeit on a tiny position. Several other positions produced attractive results. In the past month, some of those puts and some of our short book has turned into cash [or cash equivalents].

"Overall, we made a small net profit in February and now in March. The result is that our funds are today less invested than they have ever been, with the net effect of reducing our risk profile.

"We have generated a lot of cash and we have a limited desire to deploy it. Looking forward, we are not taking outsized bets where we do not have an edge and where we think the range of outcomes skews towards the downside.

"We expect to deploy the excess capital over the next year or so, though we stand ready to act substantially faster if good opportunities present themselves."

Loftus Peak

Former Macquarie Group media analyst Alex Pollak has an impressive track record in fund management over seven years, thanks to a strategy of backing the companies at the forefront of digital disruption.

Pollak believes the coronavirus will accelerate the trend towards the destruction of traditional business models in retail, transport, communications, energy and banking.

The big tech stocks, which are the core holdings in the Loftus Peak Global Disruption Fund, proved to be safe investments during the crisis-driven market volatility.

Pollak says Apple, Netflix, Amazon and Tencent have highly adapted competitive strategies and they will do even better as people adopt new behaviours around work practices, entertainment and shopping.

He says the Loftus Peak investment strategy can be summed up with a word his team invented – "cloudification", which refers to the use of cloud computing to make the digital economy work at scale.

Pollak operates the fund within a handful of risk parameters, including a limit on its exposure to any one stock to 1.5 per cent of assets.

He says this means it does not mind if a company goes broke but that is unlikely given his preference for those with strong cash flow, successful business models and sound balance sheets.

In line with international fund managers operating with largely unhedged portfolios, the fund benefited from a 5 per cent decline in the Australian dollar in March.

AllianceBernstein

Chanticleer has written before about the AB Managed Volatility Equities Fund, which has always been positioned with a defensive mindset.

The fund has achieved its top percentile performance by investing in stocks that provide downside protection during market sell-offs.

Roy Maslen, AllianceBernstein's chief investment officer, Australian equities, says his team first began worrying about the global impact of the coronavirus in January.

Over the next couple of months, the fund sold shares in Qantas, Sydney Airport, Woodside, Vicinity Centres, Wesfarmers and REA because of the likely impact of the virus on aviation, tourism, energy, shopping centres, discretionary retail and real estate.

The cash was switched into stocks with more defensive characteristics, including Telstra, Spark Infrastructure, Insurance Australia Group and Northern Star Resources.

A unique aspect of the fund is its capacity to invest up to 20 per cent of assets in international shares. This has allowed it to buy into leading global healthcare companies, including Johnson & Johnson and Roche.

Maslen says there are quality Australian healthcare companies such as ResMed (owned by the fund) and CSL (not held by the fund). But he believes the international companies it picked offer better value.

Analysis of the performance of the fund over many years shows it has outperformed its benchmark index (S&P/ASX 300) by about 600 basis points when shares have risen and lost only about 53 per cent of the index decline when markets have fallen.

Disclosure: The author's self-managed super fund has units in the Loftus Peak Global Disruption Fund.