



### 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.*



Key Performance	Totus Alpha Fund	Benchmark*
Feb-15	-0.20	6.89
Annualised Return	26.00	16.31
Latest 3 Months	1.99	12.67
Latest 6 Months	10.31	7.71
Latest 12 Months	16.82	14.53
Latest 24 Months p.a.	33.00	12.53
Latest 36 Months p.a.	n/a	16.29
Latest 60 Months p.a.	n/a	9.81
% Positive Months	62.86	74.29
Best Month	14.16	6.89
Worst Month	-3.49	-6.64
Largest Drawdown	-5.95	-6.72
Average +ve Return	4.08	2.94
Average -ve Return	-1.49	-3.36
Annualised Standard Deviation	13.09	11.35
Downside Deviation (Since Inception)	4.36	6.99
Sharpe Ratio (Since Inception)	1.63	1.15
Sortino Ratio	4.71	1.78

### 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

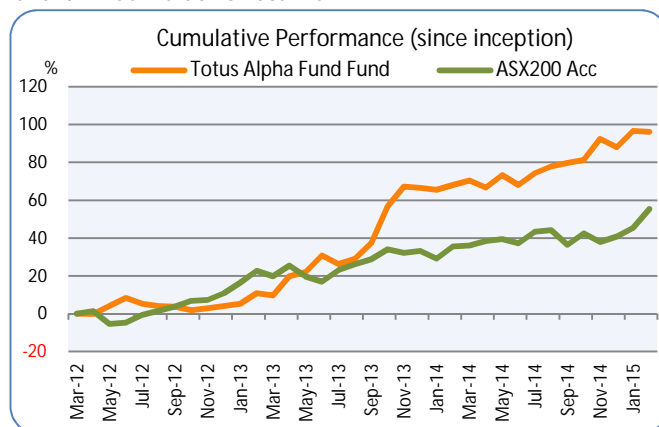
The broad strategy of the Fund is long short investing, principally in equities in developed markets. Specifically, the Fund looks to identify medium to longer-term structural investment themes and generate absolute returns by investing in (or shorting) securities that have concentrated exposure to those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

\*Benchmark is ASX200 Acc & the statistics are adjusted to the Fund's start date

Chart 1: Cumulative returns



populations. Once a structural theme is identified the idea is critically evaluated through internal research, market soundings (examining the bull and bear case) and

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
2015	4.60	-0.20	-	-	-	-	-	-	-	-	-	-	4.39%
2014	-0.59	1.44	1.43	-2.15	3.99	-3.02	3.70	2.02	1.02	0.87	6.14	-2.30	12.85%
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%

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.

## 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

### 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	\$15 million
Manager's Total FUM	\$22 million
Status	Open

Chart 2: Monthly Returns

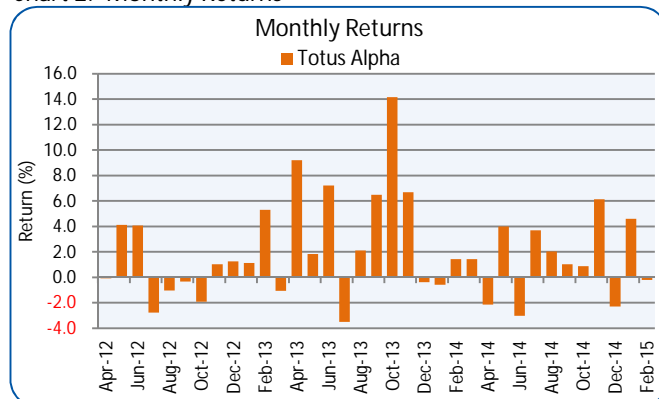


Chart 3: Distribution of monthly returns

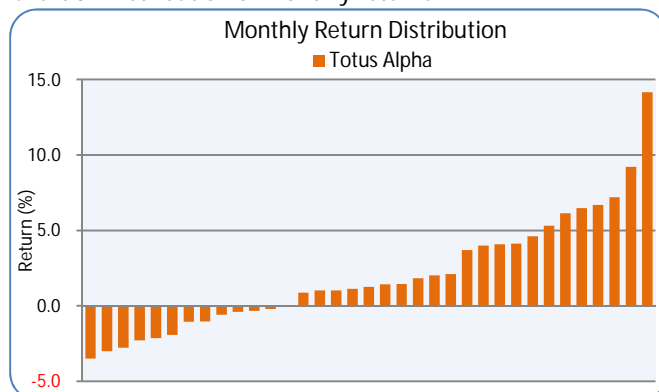


Chart 4: Correlation to ASX200's best and worst months



## Investment Risk and Process (continued)

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.

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

The Fund's performance in February was down 0.20% compare to the ASX 200 Accumulation's return of 6.31%. However, since inception in April 2012, the Fund has delivered an annualised return of 26.00% compared to the ASX 200 Accumulation's return over the same period of 16.31%. The Fund has delivered these returns with a higher volatility at 13.09% compared to 11.35% for the Index.

The Fund's Sharpe and Sortino ratios are 1.63 and 4.71 respectively, well ahead of the Index, indicating that the extra risk has been rewarded by higher returns. The Fund has an up and down capture ratio of 0.52 and -0.91 respectively and the Fund's average down month return of -1.49% compares with the Index at -3.36%.

## 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

## Operational & Business Risk (continued)

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.

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, 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.

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, prime broking, 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 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.

## 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
Legal:	Henry Davis York

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)



## About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider focusing on the Absolute Return and Hedge Fund Sector. Established in 2006, AFM holds AFS licence 324476 to provide general advice to wholesale investors only.

## AFM Information and Research Services

AFM's On-line Information Services:

Provide comparative performance and factual fund data along with industry information available on [www.fundmonitors.com](http://www.fundmonitors.com) and [www.prismselect.com](http://www.prismselect.com).

AFM Fund Reviews:

Provide quantitative performance information along with descriptions of various aspects of each fund and the fund's manager. AFM Fund Reviews do not contain financial advice but are designed to provide self-directed investors and their advisers with an accurate, balanced and verifiable description of the fund's strategy and the manager's approach to enable the reader to make an informed decision on the suitability of the product for their particular purposes.

AFM FACTORS Research:

AFM FACTORS Reports consist of in depth and detailed due diligence reports on specific funds and are designed for use by the research departments of dealer groups, financial advisers, and platforms. FACTORS research provide a quantitative approach to a range of operational and due diligence factors which combined with a detailed qualitative description provides the basis for inclusion of a particular fund on the approved product lists. AFM FACTORS reports are updated quarterly.

## AFM Research Methodology

AFM's research product and methodology has specific benefits and features which differentiates AFM Fund Reviews from other research products.

AFM Fund Reviews do not provide ratings or recommendations:

We believe that blanket ratings and recommendations can be misleading, and are not able to take into account the financial circumstances or objectives of individual investors.

AFM Fund Reviews are clearly and concisely written:

This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and the structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for an individual investor's requirements.

AFM Fund Reviews are updated every month:

Out of date research is potentially inaccurate research. Not only can a fund's performance and risk profile change over the course of the year (typically the cycle for much of the managed fund research available) but so can operational details and investment personnel. Each AFM Fund Review contains an expiry date, and each fund manager is not permitted to distribute out of date reviews.

AFM specialises in the absolute return, hedge and actively managed fund sector:

We believe that this is a specialised area of the managed fund market, and as such requires a specific focus and expertise. The seniority and experience of AFM's research team and our focus explains why we label our product as:

"Trusted, Targeted Research"

For further details please contact:

Christopher Gosselin

Australian Fund Monitors Pty Ltd

ACN: 122 226 724

Phone: +61 2 8007 6611

PO Box R1904, Royal Exchange,

NSW 1225 Australia

[chris.gosselin@fundmonitors.com](mailto:chris.gosselin@fundmonitors.com)

[www.fundmonitors.com](http://www.fundmonitors.com)

[www.prismselect.com](http://www.prismselect.com)

## Disclaimer & Copyright

While we take great care and attention to the quality of our information and research services, this report is provided and should be read on the basis of the following Terms and Conditions:

The information in this report, including financial returns, strategies, and other content (collectively referred to as "Content") has been prepared and issued by Australian Fund Monitors Pty Limited (A.C.N. 122 226 724, AFSL 324476) otherwise referred to as AFM. The information and Content does not contain Financial Advice. Users of this report or any Content of AFM's websites (the "Websites") should not act or make any financial decision without first seeking professional advice. Whilst the Content has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by AFM for any errors or omissions or misstatements contained herein. Any opinions, forecasts or recommendations reflect information and assumptions at the date of publication and may change without notice. In preparing the Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Disclosure of Interest

AFM has or may have, received fees either directly from a company itself or by a third party to provide consultancy services or corporate research.

Copyright Protection

All Content herein is owned by Australian Fund Monitors Pty Limited (A.C.N. 122 226 724) and is protected by copyright. You must not copy, frame, modify, transmit or distribute the content in full or in part, without seeking the prior written consent of the copyright owner. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes.

Copyright © 2014 by Australian Fund Monitors Pty Limited All rights reserved.

No Warranties

AFM does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content. All information and content in this report is provided on an *as is* basis, without warranty of any kind either express or implied. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other. Furthermore, AFM does not warrant or represent that the Content is error free.