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# Aylett achieves nine-year record

## South African unconstrained multi-strategy hedge fund returns a net annualised 11.3% since inception

Cape Town-based Aylett & Co Fund Managers now has a nine-year track record with its South African unconstrained multi-strategy hedge fund, the Aylett Prescient QI Hedge Fund.

Since inception on June 13, 2008, the fund has returned a net annualised 11.3% versus 6.2% for the STeFI Index. So far this year to the end of May, the fund has added a net 2.3%.

The fund aims to beat cash with no capital losses and often invests in small- to medium-sized stocks to generate outperformance.

According to Dagon Sachs, an analyst at Aylett & Co, the fund added considerably to performance when it rebalanced in the middle of last year from having high cash allocations to being more exposed to equities.

Opportunities in three mid-cap industrial companies added to the fund's 15.07% net performance for the 12 months ending May 2017.

The firm bought a sizeable portion of manufacturer Astrapak's preference shares, expecting the company to downscale its preference share funding to reduce financing costs. The business de-geared but the value of its preference shares remained inexpensive as the changes took time to filter through to listed markets.

In December, the company announced preference share redemptions, at R100 per stock, a better outcome than expected, benefitting the fund, which had begun adding positions at R55 per share.

"It's a good example of why the fund works because of its size," says Sachs. "We could take a meaningful position in that instrument, more than you would be allowed to as a percentage of your fund in a unit trust."

Another position involved a long/short trade on Pick n Pay and its holding company. The team had been monitoring the stock for some time and initiated a long position in the holding company, while shorting Pick n Pay stock. In June, the holding company announced its intention to collapse the pyramid structure in place of a single company listing, which caused its shares to rally 12.95%, benefitting the fund's long position.

Further contributing to performance was a position held in diversified electronics and telecommunications group Altron. Having avoided the stock for around eight years, the team believed the company’s investment proposition changed when new management released its plans to dispose of loss-making and non-core operations.

In eight years, the fund has had minimal down months, the most recent being a negligible 0.45% drop in April when it was buying into opportunities during market weakness. The largest monthly drop in its history has been a negative 0.58%.

In the past 12 months, its highest monthly return was in December, when it added a net 4.35% to performance when Astrapak announced its redemption of preference shares.

The fund has R65 million in assets under management from predominantly high-net-worth South African investors with a long-term investment horizon. It has significant capacity to grow further while still sticking to its investment approach.

The fund was restructured as a qualified investor fund in September 2016.

As bottom-up stock pickers, Sachs says the team is focused on finding value and “sufficient margin of safety” in stocks in industries that the team is interested in. If no opportunities exist, the fund remains invested in cash.

The team considers macroeconomics but this doesn’t drive investment decisions.

“As long as the macro environment doesn’t completely overshadow everything, we are going to remain bottom-up focused,” says Sachs. 

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