WE ALWAYS KEEP AN EYE ON THE RISK BUDGET

In addition to hedge funds, Alpinum offers a range of absolute return-oriented fixed income fund products with a focus on mitigating losses during periods of market stress, while seeking attractive risk-adjusted returns in the long-term.

Interview with Reto Ineichen, CIO of Alpinum IM.

Mr. Ineichen, how do you define the term "absolute return", which, depending on the provider, always includes other strategies and products?
Investors often equate "absolute return" with hedge funds. However, that is not the case. Investors do not want hedge funds but look for returns that are minimally or not correlated with the market. The idea of "absolute return" is based on the principle of losing as little money as possible in a difficult market phase and still achieving an attractive return in the long-term. We can illustrate this, for example, with our Absolute Return portfolio, consisting of various modules or building blocks (see chart). The portfolio has a concrete risk budget and aims to lose a maximum of 5% over a calendar year, including difficult market phases. Even in the exceptionally difficult investment year of 2022, the portfolio was able to withstand the challenging environment. It is composed of independently operating building blocks, for example in the alternative or bond sector, which are managed separately. However, the concept does not only work during bear phases - the investor should also participate in rising markets.

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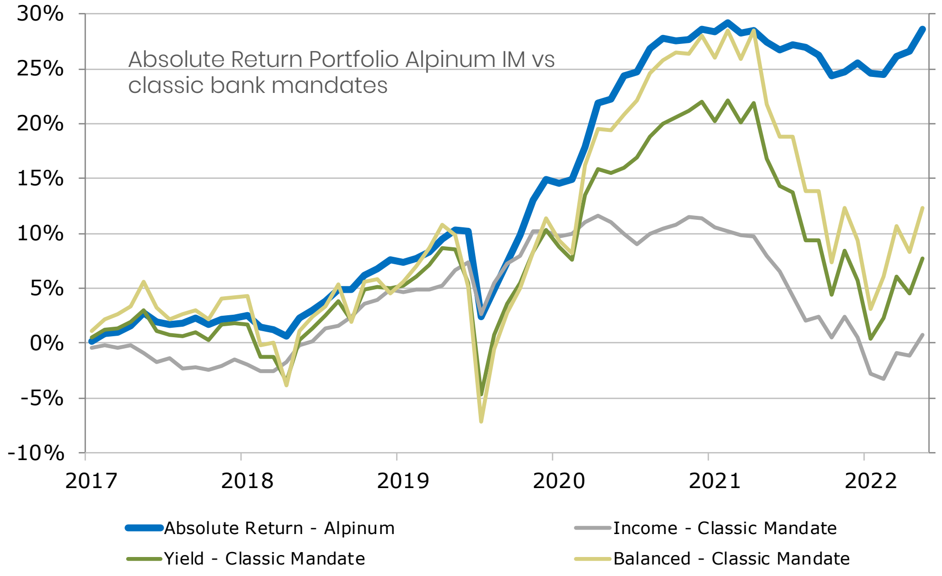
How do you achieve this absolute return?
Our unique selling point is that we consistently stick to a stable risk budget for each of our products. We do not define in advance how much return we want, but how much risk we take at most – we are then constantly and opportunistically looking for the best possible source of return for this risk budget. It is always important that we do not build up new risks as long as our portfolio loses money. This investment philosophy has led to high risk-adjusted returns.

Do you have an example of how you find the highest return for the same level of risk?
The Alpinum Ultra Short-Term Bond Fund consists of short-term bonds and money market investments. For example, we have identified Scandinavian bonds. These bonds provide more return for a similar risk compared to Continental European issuers. Typically, such issuances are smaller in size, often only a few hundred millions of local currencies. Many of these bonds have no rating. For complexity reasons, large asset managers often neglect that market. We work together with specialists from these regions and can thus generate currency-hedged excess returns.

Performance – Last 5 years



Absolute Return
- +29%

Return expectation fulfilled

Performance 5 Years:
- +12% Balanced
- +8% Yield
- +1% Income

Return expectation not fulfilled

Source: ALPINUM INVESTMENT MANAGEMENT; data from 30.09.2017 – 31.01.2023 in USD

Meanwhile, however, "normal" asset managers also rely on bond investments. Is this a disadvantage for you if returns can also be earned with traditional bond funds?
For me, it's a relief. It is easier to talk about a topic – fixed income investments, for example, – that essentially has a positive outlook.

Are you now raising your target return as interest rates have increased?
Yes, we are. The long-term performance of the absolute-return portfolio, for example, significantly outperformed traditional portfolios even with lower risk budgets, as illustrated in the chart above. Historically, the portfolio achieved a return of approximately 5% p.a. in $ despite a low interest rate environment. With the higher interest rate level, the return potential increases enormously, as, for example our bond portfolio, is currently showing a yield of almost 9% p.a.

This sounds complex and time-consuming: constant adjustment of the strategy, cooperation with specialised asset managers and alternative investments. Do you set out the target return net of fees?

Yes, we do. We have a low fee structure:
For our global fixed income portfolio e.g. we only charge a management fee of 0.35%, which is less than the usual standard fees in the market. With 0.5% plus 5% performance fee, which is around half of the market average, even the Alternative Investments strategy is very attractively priced.

Everyone wants to invest in the top-tier hedge funds. Is it true that they are often closed and you can only invest with high minimum amounts?

That's actually the case. But I have been in the hedge funds business since 2005 and have maintained a very wide network. We have currently invested around $ 700 million in hedge funds, making us a trusted and reliable business partner. It even happens that closed hedge funds ask us if we want to invest. ●