

The Interview - Daniel Schweizer, Active Alpha: "We could even liquidate the fund's portfolio within a day"



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Daniel Schweizer, chief executive and chairman of Horizon21 spin-off Active Alpha, says the firm is particularly nimble in executing its long/short equity trading strategy through very liquid large-cap equities and options, enabling the AA Equity Fund to end 2008 in positive territory and helping Active Alpha to differentiate itself from other managers by providing investors with genuinely uncorrelated performance during difficult times.

GFM: What is the history and background of your company, principals and fund?

DS: Active Alpha is a Switzerland-based trading-oriented equity long/short manager. Our firm was founded in 2010 as a spin-off of the Horizon21 single hedge fund unit and is now fully management-owned. We currently manage around USD150m and were able to keep all existing investors during the spin-off. Having started within a larger asset management firm, this allowed us to build a very institutional infrastructure. The staff of seven includes a portfolio management team of four.

Our only fund is the AA Equity Fund, which trades large-cap equities and options in the US and Europe. The fund is domiciled in the Cayman Islands and was launched on September 1, 2008.

Before becoming chief executive and chairman of Active Alpha, I was CEO and later vice-chairman of Horizon21, which I joined in 2006. I spent the previous 20 years at UBS and its predecessor firm SBC, holding various senior roles in the trading and asset management divisions including head of equities and derivatives, chief executive of UBS Investment Bank Switzerland, member of the group managing board and deputy CEO of UBS A&Q.

I have worked with our senior portfolio manager Silvio Zraggen since I joined UBS in 1985 and I hired our chief investment officer Michael Uebersax in 1993 as an equity derivatives trader. Our vice-chairman is Marcel Rohner, the former chief executive of UBS Group, with whom I worked for many years at SBC. I believe it is important for effective corporate governance to have a discerning external director like Marcel on the board.

GFM: Who are your main service providers?

DS: Our prime brokers are Morgan Stanley and UBS. The fund's administrator is Citco Fund Services in Dublin and PwC is the auditor. Our offshore legal firm is Maples and Calder. In addition we have outsourced a number of functions such as IT and middle office to external providers.

GFM: What is your distribution strategy and targeted client base?

DS: We currently see the greatest interest from family offices and funds of funds in Switzerland and the UK. Our current investor base includes family offices, institutional investors, high net worth investors and of course the team, which is a significant investor in the fund.

GFM: What impact has the recent global financial crisis and economic downturn had on your business?

DS: Sticking to very liquid instruments allowed us to be very nimble, and we navigated quite successfully through the financial crisis, actually ending 2008 in positive territory. While the financial crisis did make the asset-raising environment a lot more difficult, it helped us to differentiate ourselves by providing uncorrelated performance during difficult times.

GFM: Please describe your investment process.

DS: Our investment approach is based on the highly efficient information-gathering process that we have refined over the past 20 years in proprietary trading and fund management. We try to capture various types of shorter-term mispricings and lead/lag relationships in liquid equities and listed equity options. We tend to be short-term contrarians and our decisions are driven by news, sentiment and technical analysis. This means that we have a very different focus from most of our long/short peers that rely on fundamental research.

The bottom-up part of our investment process is expressed in a portfolio of equities and options, usually consisting of 50 to 70 underlying companies. In addition, we express our general market views through overlaying index futures on this portfolio. Our net exposure is managed very actively which means we can, for example, flip from a 50 per cent long to a 50 per cent short in a day.

GFM: How do you generate ideas for your funds?

DS: We constantly screen the markets for trading opportunities. Besides following price action very closely, we have a very detailed trading calendar that allows us to be prepared for any relevant and preannounced news flow, be it economic figures, political events or company news. Various sentiment indicators are important for us to identify overbought or oversold situations. In addition, the options market is an important source of information.

GFM: What is your approach to managing risk?

DS: First, we believe that only liquid markets allow for truly active management of downside risk, as they allow you to cut losses quickly when necessary. What is also very important is that we do not have the ego to try to prove the market wrong and we do not sit out losses.

Of course, we have a risk governance structure where the risk officer is reporting to the chief executive, not to the chief investment officer. The risk management framework is fully documented and covers a range of strict risk limits on measures such as scenario analysis, value at risk and drawdowns. Those limits are set and controlled by the independent risk officer.

Our net exposure is managed very actively and typically varies between plus and minus 80 per cent of NAV. The target volatility of the fund is 15 per cent.

GFM: How has your fund performed?

DS: From launch up to the end of February our fund returned about 27 per cent net to investors, whereas the HFRX Equity Hedge Index was basically flat over the same period. We were up in 2008 but underperformed many peers in 2009. In 2010, we made almost 20 per cent. The fund's target annualised return between 13 and 17 per cent.

GFM: What do investors currently expect from managers, and how do you deal with those

expectations?

DS: We see investors looking to get real diversification from their hedge fund allocations. Given our low correlation to equities and other hedge funds, this is something we can offer. The other big topics are of course transparency and liquidity. We are very transparent and actually disclose all positions. The fund's redemption terms are monthly with a 15-day notice period, with no gates or redemption fees. We could even liquidate the fund's portfolio within a day.

Many investors allocated only to the very largest multi-billion-dollar funds during 2009 and 2010. This is slowly but surely changing as investors recognise that many attractive investment strategies are just not scalable enough to trade in a multi-billion-dollar fund. For us it is absolutely key to have the ability to change from long to short in a day. Even though we focus on large-cap stocks, our capacity is probably capped at around USD1bn, so we would close the fund around USD750m to USD800m.

GFM: What differentiates you from other managers in your sector?

DS: This is an easy one: Being a trading-oriented fund and not having a long bias is a clear differentiator from the vast majority of long/short equity funds. Trading both the US and Europe and our extensive use of options also differentiates us from other equity trading funds.

This very different investment approach has led to a low correlation towards most other long/short equity funds, providing stronger diversification benefits to investors.

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