

Alex Krainer, Altana Wealth: “Our portfolio holds about two-thirds of risk exposure in commodity markets with tremendous upside potential in an inflationary environment”



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Alex Krainer, portfolio manager for the newly-launched Altana Inflation Trends Fund, says the fund was created to meet the challenge of an ongoing global economic crisis and a debt overhang in most of the world’s advanced economies that will have to be resolved through either deflationary deleveraging or high inflation – each of which should lead to significant asset prices readjustments.

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

AK: Altana Wealth was set up by Lee Robinson primarily as a vehicle to manage his own wealth and preserve it from the still-unfolding crisis in the global economy. Before setting up Altana Wealth, Lee was the principal at Trafalgar Asset Managers, which he co-founded in 2001 and grew from a USD6m start-up to a USD3bn award-winning organisation in 2008. In that year, he correctly anticipated the bursting of the housing bubble in the US and was among the few managers who earned positive returns for his investors.

Unfortunately the crisis that began in 2008 remains unresolved, and today we believe that the high inflation remains one of the greatest risks facing investors. Inflation is a formidable destroyer of wealth, and historical precedents suggest that it could destroy half or more of investor wealth.

To respond to this risk, we created the Altana Inflation Trends Fund, which Lee seeded with USD10m of his own wealth. We launched the fund last November and expect that it will open to outside investors in March or April this year.

GFM: What is the structure of your fund?

AK: The Altana Inflation Trends Fund is a standard Cayman Islands master-feeder structure. The asset manager is also a Cayman Islands company with regulated subsidiaries in London and Monaco. Altana Wealth Limited in London is authorised by the FSA, while Monaco-based Altana Wealth S.A.M. is regulated by Monaco’s Commission for the Control of Financial Activities.

GFM: Who are your main service providers?

AK: Goldman Sachs International in London is our prime broker, Goldman Sachs Fund Administration

in Dublin is administrator and Grant Thornton the fund's auditor. We also have Kinetic Partners on the compliance side.

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

AK: At the moment, Lee is the fund's sole investor. When it opens to outside investors, we plan to offer it initially to family offices, high net worth individuals, funds of funds and life insurers. Our marketing manager David Helm, who was formerly a partner at Sofaer Capital and Odey Asset Management, is developing our marketing strategy and distribution in the US, the Middle East and Far East.

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

AK: The current crisis informed the formation of Altana Wealth's approach to investing. The debt overhang in most of the world's advanced economies will have to be resolved either through deflationary deleveraging or through high inflation. In either case we expect significant asset prices readjustments over the following years.

The way to preserve wealth in such an environment is to keep appropriate exposure to prices of assets we expect to be most affected by inflation or deflation. Accordingly we selected some 30 futures markets for the Altana Inflation Trends Fund, with about two-thirds of the portfolio concentrated in energy, metals and agricultural futures markets.

GFM: Please describe your investment process.

AK: The core concept underlying our trading philosophy is simply that markets tend to move in trends. Trends reflect the cumulative psychology of market participants and will probably continue to shape market price readjustments in the future as they have done in the past. This offers skilled managers a way to generate attractive returns over time.

I have personally devoted more than 10 years to developing decision-support technology to exploit this recurring opportunity by systematically recognising emerging trends and determining opportune entry and exit points. The more than four years of audited track record I generated before joining Altana Wealth gives us a good indication of the validity of our model and the strategies we use.

Our philosophy fully embraces uncertainty about the future events in that none of our strategies relies on any predictive or probabilistic approaches to generating trading decisions. They simply react to events as they unfold, rather than trying to predict their occurrence in the future.

While trading strategies tell us when to enter or exit which trade, it is even more important to determine how much risk to take on each trade. We determine the risk profile for our investments using a number of metrics, the most important of which is perhaps drawdown analysis based on simulations on 20 years of price history as well as the real track record generated with similar strategies. The past few years have provided a particularly rough market environment in which to gauge our portfolio's risk profile.

GFM: What is your approach to managing risk?

AK: With regards to price risk, the quality of trading decisions generated by our model forms the bedrock of our risk management. Our trading process strictly adheres to the implemented trading strategies and allows for no discretionary trades. This eliminates the rogue trader risk that has proven one of the most dangerous risk factors in trading organisations. Further, strict adherence to our model keeps us from another deadly hedge fund ailment: strategy drift.

We further rely on diversification to reduce risk. Trend-following strategies can produce volatile returns, especially in period of sharp trend corrections or long periods of range-bound price fluctuation. We can reduce such volatility by trading in some 30 futures markets using more than 200 different trading strategies. This achieves lower volatility of returns and therefore lower risk.

With regards to the size of our bets, we strictly adhere to predetermined position limits and do not vary them often. In fact, we only adjust them to keep the fund's risk-to-reward profile roughly constant. In other words, we never engage in price averaging on losing positions, nor do we increase risk in drawdowns to try to speed up gains. I believe this is one of the most dangerous temptations for a risk manager, as it has led to numerous hedge fund blow-ups in the past.

We have to accept that taking risks will result in losses at times. We must be prepared to tolerate such losses and continue to implement our investment process with discipline and rigour. I believe this discipline to be the most important tenet of robust risk management and long-term success.

GFM: How has your fund performed?

AK: Before joining Altana Wealth, I generated more than four years of audited track record with a friends-and-family managed account, up to last December delivering a 10.30 per cent compound rate of return net of fees with about 15.6 per cent annualised volatility. The worst drawdown I experienced on this account was 17.55 per cent.

Although these figures come somewhat below the historical norm, we are very pleased with the track record as it spans some of the most difficult trading environments for CTAs in the past three decades, especially 2009 and 2011. As the English proverb goes, "Smooth seas do not make skilful sailors." I feel privileged to have sailed the rough seas and delivered solid performance for our investors.

GFM: Are you looking at any particularly attractive opportunities right now?

AK: The current market environment itself constitutes a particularly attractive opportunity. We expect renewed inflationary pressures in the commodities markets, which should translate into high returns for the fund. We've seen similar episodes in 2008 and in 2010, and we expect the next such price readjustment to be possibly even more pronounced.

What could that mean for the Altana Inflation Trends Fund? Time will tell, but looking at my track record as an indication, I made 27 per cent in 2008 and 17 per cent in 2010. The fund will have a higher concentration in commodities and could have close to triple-digit returns in similar environments. That's a great opportunity to pursue.

GFM: What developments do you expect to see in your investment sector or industry field in the coming year?

AK: I'm afraid I expect more of what we've seen since 2008: volatile financial and commodity markets and recurrence of high cross-market correlation levels. Again, I expect rather large asset price readjustments going forward. These might unfold gradually, but their magnitude will probably be surprising from today's perspective.

GFM: How will these developments affect your firm and the performance of your fund?

AK: I expect this environment to be favourable for our strategy, although volatility will remain high relative to historical norms. At times, this volatility may even test investors' risk tolerance. However, if we want to deliver real returns and protect investor capital from the ravages of inflation, we'll have to stomach the commensurate risk.

As managers, we'll also have to be good at providing adequate transparency to investors and educate them about what we do. Their confidence in us will depend on how well they understand our strategy. Attaining above-average returns depends on your ability to stay the course during the periods of flat or negative returns. You can only do that if you have deep understanding of the investment strategy and confidence in the team that's implementing it. We really want to share that understanding with our investors and earn their confidence.

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

expectations?

AK: First and foremost, investors expect integrity from managers. That includes an alignment of interest between managers and investors. At Altana Wealth, we entirely espouse the owners' approach to managing assets. The firm is simply an extension of Lee Robinson's endeavour to manage his own wealth and protect it from future dislocations in the global economy.

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

AK: The main thing that differentiates the Altana Inflation Trends Fund is that our portfolio holds about two-thirds of risk exposure in commodity markets that will have tremendous upside potential in an inflationary environment. This is the fund's intended objective – to provide a truly effective hedge to investors in periods of inflation or deflationary recession. , Due to their size, most large CTAs can't hold more than token exposure to commodities, and tend to concentrate on stock-, bond- and forex-related futures.

GFM: How do you view the environment for fundraising over the coming 12 months?

AK: We are very encouraged by investors' response thus far. Most of the investors we have spoken to share our concerns about the economic environment and are actively considering bold moves to protect their wealth. I expect they'll continue to do so as the crisis unfolds.

Equally, they seem far more interested in investing with emerging managers than we've seen one or two years ago. Finally, in the case of Altana Wealth, it seems quite significant to investors that they get an emerging manager with an institutional quality organisation.

GFM: Do you have any firm plans for further product launches?

AK: At present we're 100 per cent focused on making sure that we run a tight ship as an organisation and that our strategies perform as intended, but we are keen to listen to our investors' concerns and needs and will endeavour to respond to them. One way we can do that effectively on Altana's platform is to offer customised solutions on a managed account basis.

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