Singapore story

A snapshot of different hedge funds based in Singapore display the variety of strategies that have evolved there.

By Simon Osborne

In the previous edition of *AsianInvestor*, we discussed the exodus of hedge funds to Singapore, and in their wake, the migration of hedge-fund service providers. We visited Singapore to meet with several hedge-fund managers who originated their businesses in the Lion City, all now running hedge funds with differing strategies, but each recording very successful results.

THE LONG/SHORT MANAGER

Ashutosh Sinha launched an Asian long/short fund when he established Amoeba Capital in mid 2006. He had formerly been head of Asian investments and the co-manager for global emerging markets at Morgan Stanley, where he ran a $10 billion portfolio.

Ashutosh Sinha

You started in mid-2006 just after the markets had taken a sharp fall. How did you perform thereafter?

In our six months we've made a return of 33% net. That should put us in the top 10%.

We had absolute returns everywhere except Australia. We did especially well in India. We bought mid-caps there as we saw value and did what the consensus was not doing at the time.

How have your assets grown since you started?

We started with $22 million. It was bit of a struggle in the first few months to grow assets as investors were monitoring us making sure that all operational issues were sound. Then we hit a sweet spot and got huge momentum. We're now at $150 million.

We started with four investors, then after the first quarter we were up to eight. Now we have 25 investors.

In this first year we've gotten the building blocks, in years two and three we want to get assets up to $500 million, because I think this business will be scalable up to $1 billion, but most important of all is building our performance.

The equity markets have been strong. How did your short positions work out?

Our net exposure was 50-60%, with 100% long and 50% short. About one third of our short ideas worked out, which is good in markets that are up by 20%.

What sectors do you currently think look attractive?

Among other things, we like auto-components that are outsourced to Asia, water treatment, and infrastructure and real estate in India.

Now you're self-employed, how do you get on with handling the day-to-day business management?

It's not difficult to run the business side. Yes, it can be frustrating sometimes, when you think back to working in a large firm and someone being there to do the ancillary things for you. For example, we haven't hired an IT manager here, but we were able to outsource it quite easily.

THE QUANT MANAGER

Dutchman Frank Holle runs QAM Asset Management with his Thai business partner, Chatchai Ngampakdeepanich. They operate two quant hedge funds. Their global fund is around $57 million in assets and the Asian fund is around $33 million. In 2006, these were up 24% and 12% respectively.

Do you have a qualitative overlay for the model or is it purely quant-driven?

We run a pure systematic, quantitative strategy and there is no qualitative overlay. This is possible due to our methodology whereby we, via our computer models, detect what goes on in the market, that is to say, which factors investors are paying attention to. We run our models on a regular, monthly basis and every month the factor weightings change.

It's our philosophy that a quantitative strategy needs to be dynamic but should not be changed over time. It needs to be right from the start and work in all market circumstances. Interfering with a quantitative strategy if it doesn't work for a certain time period would be disastrous because with changing it, the consistency goes out of the door. Without consistency investors can't rely on the investment manager.

You trade once a month; why?

We use very strict liquidity limits when we trade in order to not influence the markets. During the month we do nothing, we hold our stocks and rebalance one month later. Around 70% of positions are rebalanced each month. The benefit is that we achieve very good returns this way whilst keeping the transaction costs at a minimum. We trade our orders with VWAP (Volume Weighted Average Price) program trades. We do not use stop-loss limits during the month, which we have found would have a negative impact on our returns.

What is your model currently telling you

Frank Holle

about which sectors and countries offer good value at the moment?
Our models see good value in countries like China, Taiwan and South Korea. We avoid India, which is very expensive. We use next-to-price momentum factors, mainly fundamental factors divided between earnings momentum and valuation factors. Sectors we are overweight in Asia include steel, banks and electrical equipment.

Within your multi-factor model, what are the key ratios used to assess earnings and valuation?
For earnings we use analysts' forecasts for one and two years out. We capture the earnings revisions of every analyst worldwide and use these for our models. We also look at how these analysts are dispersed with their earnings forecasts.

The impact of earnings surprises differs according to the level of dispersion of earnings forecasts. With regards to valuation we look at factors like P/E, price/cash flow, dividend yield, price/sales, RoE – all factors that are commonly used by the market. Our strategy detects factors that are influencing the markets; logically these are factors that are widely used.

Can you tell us about an example of a trade that has worked out well for the fund?
We own 120 stocks in our global fund and 60 in our Asia fund. In Asia for example a stock that we held for a long time was Orient Overseas, a company listed in Hong Kong that was cheaply priced relatively in our universe of global stocks, and its earnings kept on being revised up by the analyst community. We achieved very high returns on this stock.

In our global fund we bought shares in Phelps Dodge, which was cheap and had huge earnings momentum; we held it for several months until it was taken over at a substantial premium.

Are you planning on growing assets?
We will hard-close our Asia fund at $100 million so that we are able to keep investing in smaller Asian economies like Indonesia, Malaysia and Singapore, besides the bigger economies like Japan, South Korea and Taiwan. Our global fund has the potential to manage more than $1 billion. Without compromising our target returns of 30% or more, it is our ambition to grow our total assets this year to $250 million, and then double every year afterwards.

What was the cause of the 12% drawdown in August 2006?
This drawdown was caused by an overweight position in commodity stocks worldwide. Valuations and earning momentum were still attractive but investors were shunning these stocks for a while. Recently they have done well again. Our target volatility for both funds is around 16-18% with drawdowns not more than 15%.

THE EVENT-DRIVEN MANAGER

Michael Lien, another Morgan Stanley veteran, from its investment banking department, is managing director of Fundamental Capital Advisors, where he runs the FCM Absolute Return Fund. He operates a pan-Asia event-driven strategy.

What is the status of the fund?
The fund size is currently $75 million. We made a 17% return in 2006 on an average net exposure of 30%. We've spent three years focusing on process, paying attention to our volatility adjusted return, with our Sharpe ratio at 1.3 for the last two years. Janice Lim of Lion Capital has joined us as co-portfolio manager. We plan to increase the size of the fund to $400 million over the next 2-3 years.

Michael Lien

What exposure policies do you run?
We run net exposure of 30%. We take a low-exposure approach and eliminate beta via shorting index futures. Identification of corporate restructurings and M&A targets is an all-weather strategy that is capable of generating alpha.

Is there an element of activism in your event-driven strategy?
Not activism, but we try to be persuasive if we can think of a way of unlocking value. We like managements that are aligned with the interests of minority shareholders, and ones who are receptive to reasonable ideas.

Can you give an example of a position that you're holding?
We bought China Telecom at 1x book value in the expectation that its dominant fixed-line franchise could be leveraged and bundled with wireless services in a restructuring of the industry in China, with the introduction of 3G standards. Now the consensus is that China Telecom will be given a 3G license, as it negotiates the purchase of one of Unicom's 2.5G businesses. This has become something of a crowded trade but we still hold that position.

How do you decide when to exit positions?
When we hit a target price on our event-driven positions, we get out of that position as there is an opportunity cost in waiting for a legal completion, especially if the value for that event is already recognized in the share price.

In which markets are you seeing good opportunities?
We expect to see growing activities in buyouts and capital restructurings in Taiwan. In Korea, we are building our book on M&A targets, including Kamco [Korea Asset Management Company] divestments. Corporate balance sheets there have been rebuilt. Our short lists in those countries are growing. ■