

# SAIL Advisors Sets Course

One of Hong Kong's premier funds of funds

By Elise Coroneos



ELIZA LAU

Search Alternative Investments Ltd was established in 2003 by Search Investment Group, the private family office of Robert W Miller who was a founding shareholder of Duty Free Shoppers.

Miller's Search Investment Group has been investing in alternative assets for more than two decades. Search Alternative Investments Ltd was established in 2003 to provide an institutional platform for hedge fund investments. It later changed its name to SAIL Advisors Ltd.

At present, its investments are managed within two multimanaged, multistrategy funds of hedge funds, the globally focused SAIL Flagship Fund, and the Asia- and Japan-focused SAIL Pacific Explorer Fund.

In 2004, Miller began to open up the SAIL funds to like-minded third party investors who share his investment objectives and philosophy: namely, to seek steady and consistent growth through a truly multistrategy funds of hedge funds with an emphasis on low volatility and minimizing drawdowns.

Eliza Lau, SAIL's chief investment officer who came on board in 2003, has overseen the development, launch and now management of the two funds of funds.

Lau, an engineer by training, had previously spent 13 years with Salomon Brothers, based in New York and Hong Kong where she

worked in asset management and various research departments before becoming a founding partner of JL Capital Partners Ltd, a hedge fund management company based in Singapore.

SAIL's edge, says Lau, is its strong and experienced team of investment professionals, backed by a solid operational infrastructure. Moreover, the long history of Miller's investment in hedge funds and private equity continues to afford SAIL access to the many preeminent fund managers who are closed to other investors.

"These longstanding relationships help to open many doors, especially to exclusive and hard closed funds," she says.

On Lau's watch, SAIL Flagship Fund's assets under management have grown to US\$1.4 billion, invested across some 40 fund managers of funds. A significant percentage of the fund's money is still that of the Miller family office, according to Lau, who declined to give a specific number.

The Flagship Fund has a globally diversified approach across strategies and managers. Right now, the fund of funds is invested 32% in various long/short strategies, 30% in relative value, 22% in opportunistic strategies and 15% in event-driven.

"The diversification is achieved not only by strategy, but also by investing in unique

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### Vital Statistics

<b>Assets under mgt</b>	US\$1.6 billion
SAIL Flagship Fund	US\$1.4 billion
SAIL Pacific Explorer Fund	US\$200 million
<b>Minimum Investment</b>	US\$5 million
Registration	SAIL Advisors Ltd is registered with the Securities and Futures Commission, Hong Kong
<b>Domicile</b>	Cayman Islands
<b>Redemption</b>	3% within the first 12 months
<b>Fee Structure</b>	
Management fee	
SAIL Flagship Fund	1.5%
SAIL Pacific Explorer Fund	1.75%
Incentive fee	
SAIL Flagship Fund	5.0%
SAIL Pacific Explorer Fund	10.0%
<b>Auditor</b>	PricewaterhouseCoopers

managers within strategies," says Lau. "Within long/short, we have long biased, market neutral and relatively short biased, some with a large cap focus and some growth and value focused."

Geographically, the Flagship Fund currently allocates 52% to US-focused strategies, with 14% to Asia, 9% to Europe, 8% to emerging markets and 16% to other global locations. In 2005, it returned 9.8% net and was up 3.2% in January 2006.

The advantages of being on the ground in Asia and the depth of the connections afforded by the Miller family office meant that the SAIL Flagship benefited from access to many of the preeminent Asia-based hedge funds, according to Lau. SAIL was keen to channel these advantages by launching an exclusively Asia-focused fund of funds.

"Based on the ground in Asia, SAIL has long-standing relationships around the region, which provide an advantage in identifying and assessing the most talented managers in the region's relatively young hedge fund industry," says Lau.

"We launched our Asian fund of funds because we were seeing good opportunities in the region, as well as a skilled pool of managers stepping up to exploit those opportunities through a range of strategies, including relative value, multistrategy and distressed."

The result was the SAIL Pacific Explorer Fund, an Asia-focused, multistrategy, fund-of-funds portfolio launched in January 2004. It currently has some US\$200 million in assets invested across 30 managers.

At present, the most represented countries in the portfolio are Japan (39.5%), Hong Kong and China (14.9%), Taiwan (6.7%), Thailand (6.0%), India (5.9%) and Indonesia (5.2%).

Lau is keen to point out that SAIL has adopted the global hedge fund standard level of due diligence when investing in Asia-based managers, something she believes other funds of funds with a similar mandate lack.

"I believe SAIL stands out among Asia-based funds of funds for our robust and fully built out infrastructure and operations, as well as our long-standing track record for investing in hedge fund strategies globally," she says. "Some of the Asian funds of funds, setting up more recently still have a long way to go in this regard."

When choosing managers, SAIL utilizes two separate but equally important teams. They are a team solely focused on investment due diligence issues and a team solely focused on issues to do with infrastructure, operations and risk management.

This avoids any potential bias which might occur. If the operational due diligence

## SAIL Flagship Mgt Ltd PERFORMANCE HISTORY

January 1999 – January 2006

	SAIL Flagship	Barclay/GHS Fund of Funds Index	S&P
<b>Return (%)</b>			
Annual comp rate*	11.52	9.69	2.12
1999	29.52	26.89	21.03
2000	6.64	10.21	(9.09)
2001	6.90	4.45	(11.88)
2002	4.00	1.79	(22.10)
2003	11.99	10.44	28.68
2004	11.09	6.65	10.88
2005	9.76	6.91	4.91
2006 (1 mth)	3.24	2.86	2.65
<b>Risk%</b>			
Annual std dev	4.65	4.70	14.96
Semideviation	3.62	3.74	15.94
Maximum decline	(2.81)	(2.81)	(44.73)
<b>Return/Risk</b>			
Sharpe Ratio	1.69	1.32	0.00
<b>Correlations With Benchmarks</b>			
S&P	0.44		
T-bills	0.12		
ML Treasury Master	(0.02)		

\*Actual client trading started in May 2004. Returns between January 1999 and December 2003 were examined by KPMG.

◀ **9 SAIL ADVISORS** team has concerns with a manager's risk management, it has a right to veto the investment through its due diligence process.

"We had a recent example of a US-based manager in the mortgage backed space that we liked, but we saw problems with the level of transparency they were prepared to give us and their valuations reporting," says Lau. "In this case both teams, investment and risk management, worked closely with the manager to iron out our concerns and we are now an investor of that fund."

In addition to handpicking its managers, SAIL also engages a top-down approach when choosing investments. This paid dividends in the past year when it came to the fund's investment in such strategies as convertible arbitrage. The Flagship Fund cut back its exposure to convertible arbitrage in the last quarter of 2004, so by 2005, it had less than 2% exposure by dedicated managers to the strategy.

"This was a very good call to help us to minimize the downside," says Lau. "Then in the second part of 2005, valuations came down to a very reasonable level and we could see that volatility was likely to pick up and new issuance would come through, so we added exposure which has paid off."

SAIL also benefited from its top-down analysis in the area of its event-driven exposure. Last year, SAIL increased both its funds of funds' weightings in the event-driven strategies from 7% to 15%. "That has been a tremendous call for us," says Lau. "Our managers in that space have done very well both inside and outside the US."

SAIL's top-down approach is not limited to strategies, but also extends to its choice of countries in which to invest. The Pacific

Explorer Fund invests in both single country managers and regional managers.

According to Lau, regional managers can get very good exposure in specific markets such as India, Korea and China, including Hong Kong, and when specific markets are not working out they can move assets relatively quickly and therefore can handle volatility better in difficult times.

Single country managers, she says, are most useful to invest in when a very strong opportunity has been identified in a particular market; such is the case in China at the moment.

Last year, China valuations became relatively undervalued as a comparison to other markets, according to Lau, a situation the Pacific Explorer Fund exploited by adding to China exposure in September 2005.

"We looked for the China-focused managers who could capture the upside for us with a level of volatility we could manage and we are continually adding to this China focus," she says.

Lau expects the SAIL Flagship Fund to be soft closed at around US\$2.5 billion, and the SAIL Pacific Explorer Fund to be soft closed at around US\$400 million, possibly by the end of this year.

SAIL is also considering the launch of a third fund of funds this year; however, Lau was unable to reveal any details at this stage.

Other developments at SAIL during 2006 will include an increase in the number of professional analysts from 13 to at least 15. Additional analysts are expected to be added in the area of relative value fixed income and credit as well as to SAIL's quantitative team, which focuses on building models and running scenario analysis.

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Medtronic Inc. (MDT)	4.64%
Merck & Co. (MRK)	4.61%
Lilly (Eli) & Co. (LLY)	4.27%
Wyeth (WYE)	4.12%
WellPoint Inc. (WLP)	3.59%
Abbott Labs (ABT)	3.44%
Bristol-Myers Squibb (BMJ)	3.00%

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