Emerging Asia

Single country Asian funds begin to gain traction

By Elise Coroneos

When investors think of Asia, they usually think of places like Japan, Hong Kong and Singapore. Investors prefer to go where they know success stories have already been told, and are often put off by what they view as high risk investments in less sophisticated markets.

Less common on the hedge fund scene are funds and investments in countries such as Korea, Taiwan, Thailand and Vietnam, where regulatory authorities often make it difficult and in some cases impossible to start a fund. But word on the ground is that these countries are slowly developing a following among hedge funds and funds of funds.

Please advise

Investment specialists on the ground in Asia are reporting an increase in the number of hedge funds requesting that they act as sub-advisors in their countries of origin.

Take Indochina Capital, one such advisor with offices in Ho Chi Minh City and Hanoi. "We get investors calling us that don't have a local presence in Vietnam and want us to assist them by being their subinvestment advisor," says Tung Kim Nguyen, a partner at the firm.

"We went to a hedge funds conference in Hong Kong a few months ago and received much interest from those in attendance."

Nguyen is one of three principals at Indochina Capital, which was established in 1999. Born in Vietnam, Nguyen moved to the US when he was two. He worked for Goldman Sachs in New York before his return to Vietnam in 2002 to join Indochina.

The other partners in Indochina are its founders Peter Ryder and Rick Mayo-Smith, who previously worked for Salomon Brothers and Morgan Stanley, respectively.

Indochina Capital has total committed assets of some $100 million from clients across Asia, Australia, Europe and the US. This is made up of $32 million on the real estate side, $39 million on the equities side, and substantial liquid and illiquid private equity positions, as well as separate pools of equity capital for a number of US family offices.

"Vietnam is among the top two or three most exciting emerging markets in the world right now," says Nguyen. "It has a much firmer commitment to privatization than the Chinese, which is demonstrated by the fact that when the Vietnamese government privatizes a company, its intentions are to sell 50% of that company's shares to private investors, but in China the percentage is almost always much less."

Approaching each country as an entity unto itself is important, say regional specialists, who believe that Asia should not be approached with a strategy-specific state of mind.

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> — Richard Fan, UG Investment Advisors

One such regional specialist is UG Investment Advisors, which is based in Taipei. UG's focus is purely on alternative opportunities in Greater China, which in its case includes China, Hong Kong, Taiwan and Korea.

According to Richard Fan, who co-founded UG along with Eugene Wang in 1998, it is important to approach investment opportunities in the region with an open mind, determining situation by situation the best alternative strategy to employ.

"These markets are characterized by high retail trading volumes and heavy regulation, both of which create opportunities because of mispricings," says Fan. "We do not believe you can be strategy specific and then apply that strategy to this market. We believe you have to look at the market first, and then develop the strategy based on the mispricings you see within the market."

UG manages about $450 million across six funds, only two of which are currently open. They are the UG Formosa Multi-Strategy Fund, with $35 million under management, and the UG Hidden Dragon Undervalued Assets Fund, with $16 million under management. Both funds are domiciled in the Cayman Islands. The Multi-Strategy Fund has a 1.85/20 fee structure, while the Hidden Dragon fund has a 1.95/20 fee structure.

Another veteran of Asian investing is Doug Barnett, president of Quest Management Inc, which he founded in 1994. Quest's $220 million Thai Focused Equity Fund focuses purely on 50 stocks from the Thai stock market, of which about 10 names make up the portfolio at any one time.

"It is basically activist concentrated portfolio investing in Thai stocks," says Barnett.

Prior to founding Quest Management, Barnett was the managing director of Swiss Fund, the Thai division of the global Unifund Group, and before that he worked for Morgan Stanley in Los Angeles.

Quest claims to be the only Thailand-based foreign fund manager with a full-time focus on locally listed stocks.

According to Barnett, the fund's four largest investors, from largest to smallest, are Sir John Templeton, an unnamed pension fund, Julian Robertson, and Barnett and his management team. These investors make up about 40% of assets, with the remainder coming from some 150 other sources, says Barnett.

While the fund's management team is based in Bangkok, the fund is domiciled in the British Virgin Islands, with all transactions settled through Hong Kong.

"The attraction of our fund is that we are rare in that we have been doing the same strategy for nearly 16 years. In the whole hedge fund space, there aren't that many who have been doing the same thing for that long," says Barnett. "The other attraction is the fact that there is a fair amount of volatility."

According to Barnett, the fund's downside volatility is around 20%, with returns averaging in the mid-20% range each year compounded for the last 15 years.

"We are looking for the riskiest 1–3% of somebody's portfolio," says Barnett. "So while we can get a 20% drawdown, our analysis shows that there is about an 81% chance that an investor will make a positive return over any given two-year period in our track record. And if you look over four years, there is nearly 100% chance of a positive return."

A younger firm hoping to make strides as a single country hedge fund is NorthPoint Investment Partners, which launched the NorthPoint Absolute Return Fund, in March 2004. The Cayman Islands-domiciled fund, which currently has only $2.6 million under management, is 95% invested in Korea.

Nam Ki Hong, the firm's managing partner, spends half his time in Seoul and the other half in Singapore, from which marketing takes place. In June and July this year, the fund took in its first two institutional investors, both based in Asia.

"Our investment philosophy is premised on the view that there are a lot of changes going on in Korea in various areas," says Hong. "As the Korean economy goes from that of a developing nation into a developed nation, there are a lot of changes occurring within the older and newer industries.

"For example, some of the older industries, such as the basic materials and steel, are being taken over by China, and taking their place is the high tech sector. And because we are close to the market and the companies, hopefully that translates into better performance," says Hong.

NorthPoint was up 10.2% year to date to the end of October.

Local presence

Some question the value of being on the ground when investing in specific regions, preferring to trade Asia from the comfort of New York or London.

John Trammell, the chief executive officer from Investor Select Advisors, a fund of funds founded in Tokyo in 1996, says his firm has no evidence yet that a manager's proximity to the market in which it trades reflects an ability to achieve better returns than that of its New York or London counterparts.

Investor Select Advisors, which today manages more than $650 million, has offices in New Jersey, London and several locations in Asia and Australia. It maintains a specialty in the area of Asian investing.

"I wish we could make the case that being located in Asia is always better because we have a business model that has invested a lot in establishing ourselves close to our fund managers because we believe it is important," says Trammell.

"But right now there is no evidence that a London-based, Japan-focused hedge fund is any better or worse on a performance level than a Tokyo-based, Japan-focused equity manager."

Not surprisingly, Fan from UG Funds disagrees with this conclusion.

"The problem I see is that you can't just put someone on the ground and say 'now we have a local presence,'" says Fan. "The person has to be the right person who can build the right relationships.

"If the person doesn't know how to integrate themselves into the local scene, their being located locally may not make a difference, but the right person will always make a difference."

Elise Coroneos is a financial journalist based in Sydney.