

International hedge funds moving into Asia

Panellists

Young Chin, Pyramis Global Investors
Steve Kim, Marathon
Tim Rainsford, Man Investments
Scott Reinhart, Pine River Capital
Moderator
Martin Visairas, Citi Prime Finance

There has long been a steady stream of international managers beating a path to Asia. Panellists were asked about what they find when they get here and what impact their presence has on the local industry.

"If you say you're Asian specialists, it's hard to be taken seriously if you're not in the region," said Pine River's Scott Reinhart. "From our standpoint, it's been a huge boost to our ability to be able to speak with brokers, analysts and management in the region."

For Man Investments, the initial decision to be in Asia was marketing-led, but in time the Asian presence evolved from servicing structured products and managed futures fund clients to being a base for managers as well. "It was easy for them to set up because we already had a large infrastructure in Asia and as our strategies will develop we'll continue to do the same," said Man's Tim Rainsford.

Pyramis's Young Chin found that having people on the ground really boosted the firm's understanding of Asia. "When you fly in you have a tendency to look at stocks in a certain way, and you can't understand the dynamics and granularity as well."

For Marathon, the decision to set up shop in Asia was from an investment-decision standpoint — to get close to the markets — but being able to raise capital in the region came as



L to r: Young Chin, Steve Kim, Tim Rainsford, Scott Reinhart, moderator Martin Visairas

a pleasant surprise. "Asia has become a much more meaningful source of capital; there are deep sources such as sovereign wealth funds and family offices that have become acclimated to investing in the hedge funds space," said Marathon's Steve Kim. Still the firm's main focus is the US, and Asia will only be a satellite, he added.

Hidden gems in Asia

Panellists

Greg Davidson, DCP Oracle
Robert Lewis, Novatera Capital
Lester Poon, Cheetah Investment Management
Peter Tasker, Arcus Investment
Moderator
Aradhna Dayal, AsiaHedge

For all the talk of the institutionalisation of the hedge fund industry, it is still one in which niche players can thrive. All four panellists have found their own niche and came together to discuss the environment for their strategies.

One of the issues was scalability. Cheetah Investment Management's Lester Poon said investors often mistakenly thought that the limitations of the domestic China market might restrict his fund. "But in the last few years mon-

ey allocated to the domestic commodities sector has gone up four or five times," he said, while both Japan specialist Arcus Investment's Peter Tasker and Greg Davidson of commodity arbitrage fund DCP Oracle both agreed that the sweet spot was between \$300 million and \$500 million.

However, for small-cap investor Novatera Capital, the strategy is not scalable, said founder Robert Lewis. "I can do up to 300 company visits a year and put 30 companies in the portfolio. I could go for bigger companies but one of the nice things about small- and mid-caps is that not that many people are looking at them."



L to r: Lester Poon, Robert Lewis, Greg Davidson, Peter Tasker, moderator Aradhna Dayal

Despite being a niche manager, Tasker has attracted a heterogeneous investor profile, including Japanese, other Asian and European individual investors, family offices, and fund of funds.

Having a certain comfort level with risk determines the investor profile, said Davidson. "People in Asia are more comfortable with the risk of China. For most North Americans China is an enigma," he commented.



L to r: Denise Hu, David Walter, Jerry Wang, John Knox, Harold Yoon, moderator Aradhna Dayal

Panellists

Denise Hu, Archer Asia
John Knox, LGT Capital Partners
David Walter, PAAMCO
Jerry Wang, Vision Investment Management
Harold Yoon, SAIL Advisors
Moderator
Aradhna Dayal

The emergence of Asian investors

Hedge fund allocators kicked off the panel with a look back at the events of 2008 and how industry participants have reinvented themselves since. "The biggest change has been a real shake-out in managers — those with best pedigree and track record have been able to maintain business," said Harold Yoon of SAIL Advisors. "Managers with the best pedigrees are the ones able to raise capital and [now] if you're going to get access to these well-known managers, you have to get in early."

Risk management and liquidity are much higher on the agenda than they were before, said LGT Capital Partners' John Knox. "Our expectations of transparency have changed dramatically. We expect to know what people are doing; we don't like to rely just on trust."

Not all allocators are looking for size — PAAMCO's David Walter is focused on emerg-

ing managers to invest in from the start, but only those who are their own bosses. "We have a huge aversion to seeding — those managers are presented with enormous conflicts of interest, especially during times of stress," he said.

Similarly, Archer Asia's Denise Hu is realistic about what the region can offer in terms of the size. "Only a few funds can be compared with big hedge funds outside the region," she said.

On the topic of consolidation, it was not necessarily an answer to the industry's problems, panellists said. Knox noted the Darwinian nature of the industry that will make it extremely difficult for those trailing along the bottom to survive, but consolidation will not help them, said Vision Investment Management's Jerry Wang. "It's not that easy for two hedge funds to merge or to be part of a bigger global fund. I don't see a lot of consolidation on the horizon," he said.