

IMAS 6th annual conference

how Singapore fund managers achieve absolute returns



Peter Douglas, CAIA

council member for Singapore, the Alternative Investment Management Association

member of Advisory Board, Chartered Alternative Investment Analyst Association

special advisor, Financial Planning Association of Singapore

principal, GFIA pte ltd



Alternative Investment Management Association (AIMA)

Global, not-for-profit trade association

Corporate membership: Europe, Asia, Australia, North
America (Chapters in Australia, Canada, Hong Kong, Japan
and South Africa)

Non-commercial communication with institutional
investors, regulators, financial media

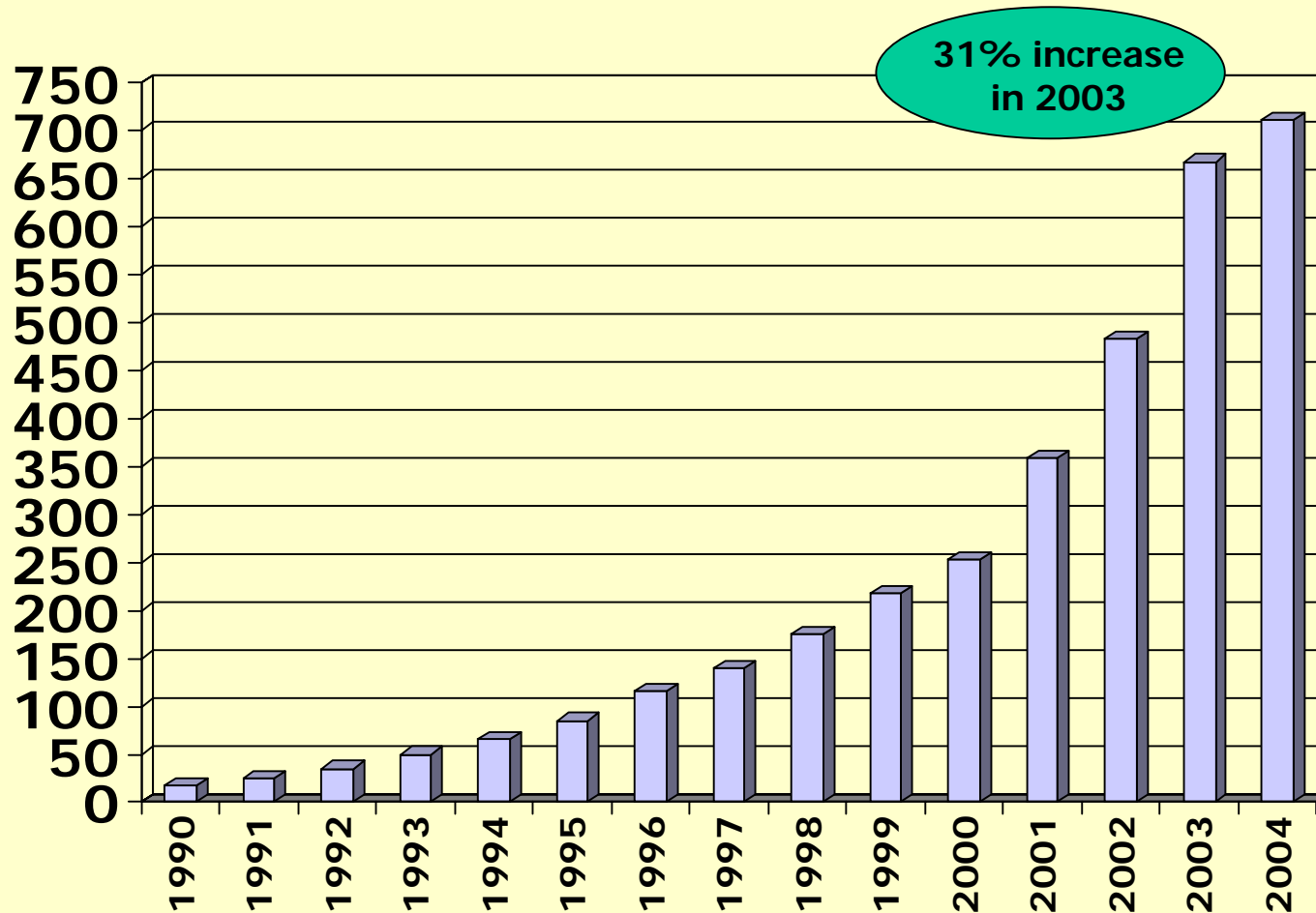
Providing research, education, lobbying

**enhancing understanding, sound practices and
industry growth**





aima's membership growth

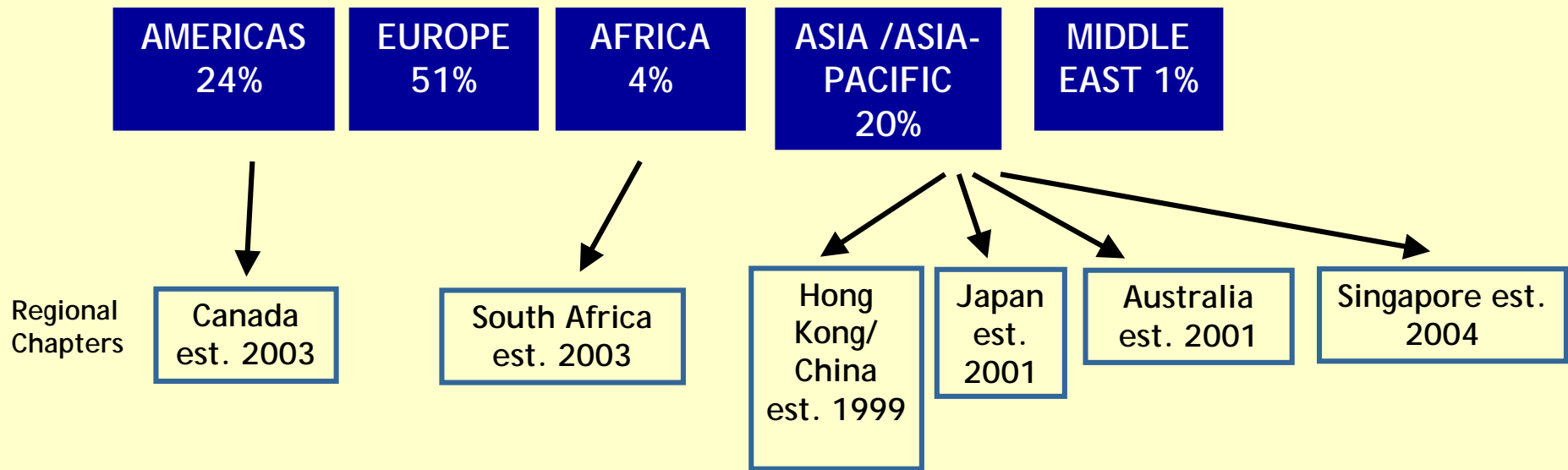


Corporate membership throughout Europe, North America, Asia, Australia and Middle East, including Chapters in Australia, Canada, Hong Kong, Japan, Singapore, and South Africa.





global coverage



Approx 710 corporate members
2,400+ individual member contacts
plus institutional investors, regulators and financial media





aima activities



EDUCATION

www.aima.org

**Chartered Alternative
Investment Analyst
(CAIA)**

AIMA Journal

**Research on asset
pricing and NAV
research**

**investor
forums/roundtables**

**'A Guide to Fund of
Hedge Funds
Management and
Investment'**

**'Market Neutral and
Hedged Strategies'**

**Educational events
with featured
industry speakers**

REGULATION

2nd International Regulatory Forum

USA – SEC

The USA PATRIOT Act
SEC Staff Report on Hedge Funds

UK – FSA

DP 16: Hedge Funds and the FSA
DP 17: Short Selling
CP 176: Bundled Brokerage and Soft
Commission Arrangements
CP 185: The CIS Sourcebook

France – AMF (ex-COB)

Fund of Funds regulation
Code of Practice

Germany – BAI and BAFIN

Investment Modernisation Act

Regular formal and informal meetings
with regulators in Australia, Hong Kong,
Singapore and Spain

SOUND PRACTICES

Series of 7 generic due diligence questionnaires for selection of

fund of funds managers
hedge fund managers
managed futures managers (CTAs)
prime brokers

hedge fund administration for Investors
hedge fund administration Managers

... released 7th September 2004

Guide to Sound Practices for European Hedge Fund Managers

Guide to Sound Practices for Australian Hedge Fund Managers

Guide to Sound Practices for Canadian Hedge Fund Managers

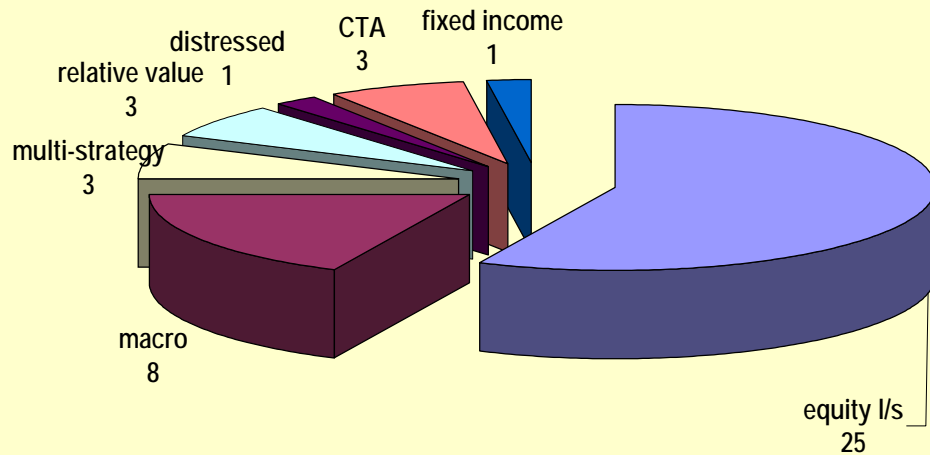
Guide to Sound Practices for fund administrators

released 9th September 2004

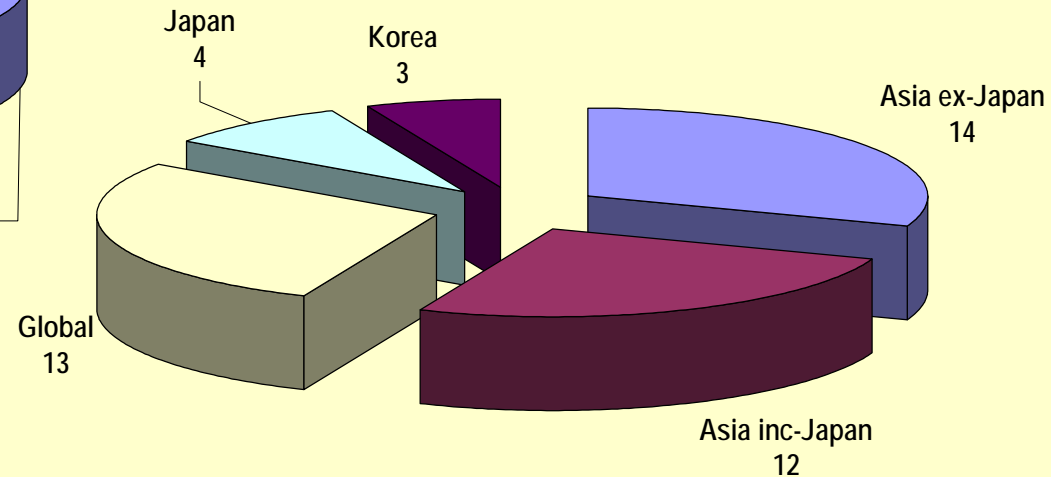
*(Guide to Sound Practices for:
- Asian Hedge Fund Managers)*



Singapore: a diverse hedge fund landscape

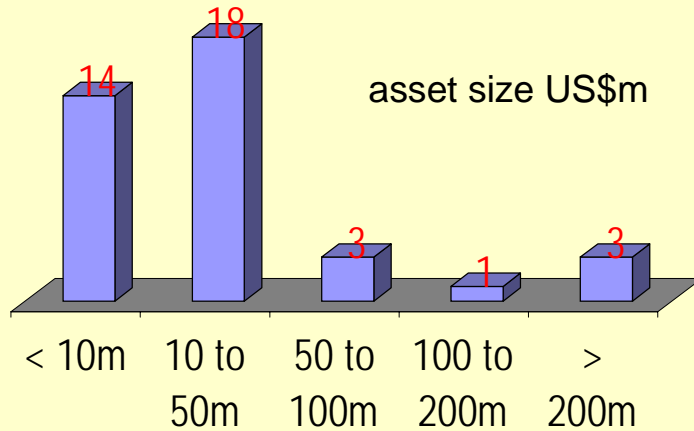


source: Eurekahedge, analysis: GFIA

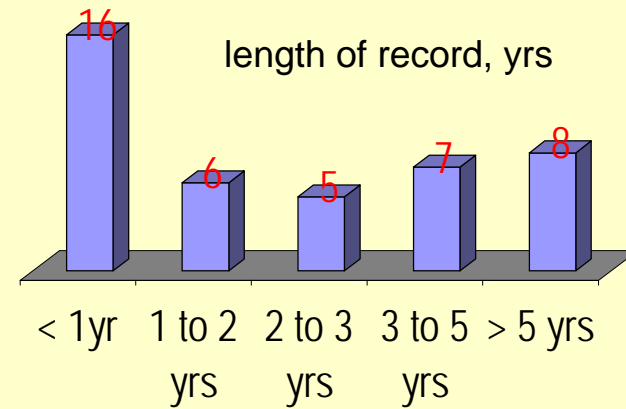


There are 44 hedge funds currently managed from Singapore. Recent growth has been noticeable in screen-based strategies such as macro, multi-strategy, relative value, and in strategies requiring a dual office structure such as Japan and Korea

still in early stages of development



source: EurekaHedge, analysis: GFIA



Most hfunds in Singapore are relatively new and small. Manager formation has been the highest in Asia over the last 12 months.



the shape of the industry

manufacturers

- typically assets are sourced globally, from specialist investors
- most managers are trained in major international banks or asset management companies; broad mix of local and non-locally owned businesses
- new managers are increasingly well resourced from the outset – de minimis there will a portfolio manager, one or two analysts/traders, COO, risk management system
- Singapore is seen as a viable and attractive location from which to manage hedged assets

demand

- domestic demand is largely through pbanks and IFAs, for global fund of fund product, often within a structured wrapper
- local appetite for single manager hfunds is still very limited and insufficient as yet to build a domestic hfund business
- retail demand for locally registered product has been limited
- GIC and Temasek have implemented substantial allocation programmes; some family offices have experience; beginning to see other institutional demand deepening

Singapore is a highly attractive location to manage assets but less attractive to asset gatherers





service providers and parallel business models

service providers

- prime brokerage typically driven from HK: Goldman Sachs, Morgan Stanley, UBS; Merrill Lynch, Deutsche
- administration either HK or Singapore: Bermuda/HSBC, Fortis, Citco
- risk management and other software is increasingly serviced from within the region (RiskMetrics, Beauchamp) tho' not universally (Pertrac etc)
- IT intensive strategies

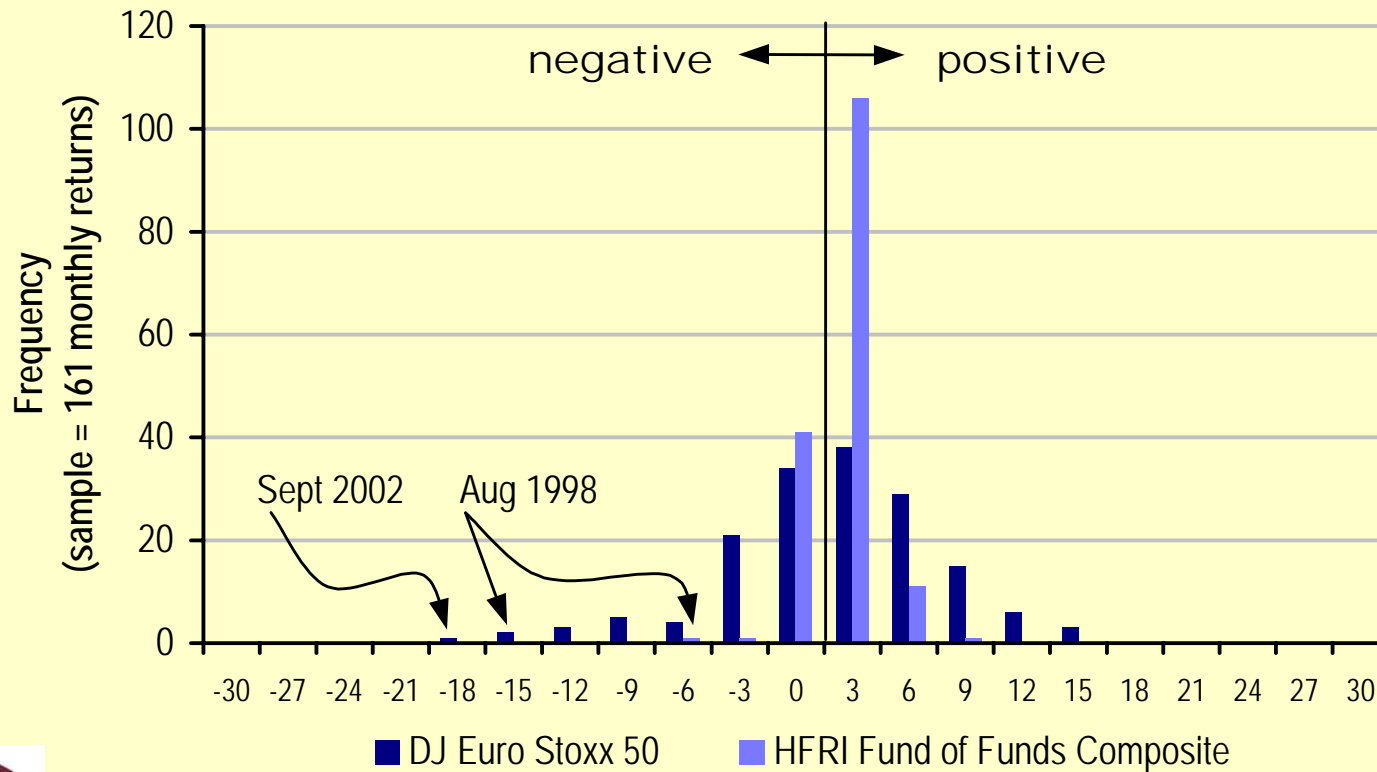
other supporting businesses

- Eurekahedge provides sophisticated fund marketing services out of Singapore, including start-up consulting, incubation, and databases
- global allocators proactively sourcing for Asian talent (Fairfield Greenwich's jv w/ Straits Lion, Tudor Capital, Paloma, Moore, etc)
- asset consulting for alternatives (Cambridge Associates, Frank Russell, GFIA)
- there are currently no indigenous funds of funds tho' several FoFs are advised from Singapore – this may change in the near term



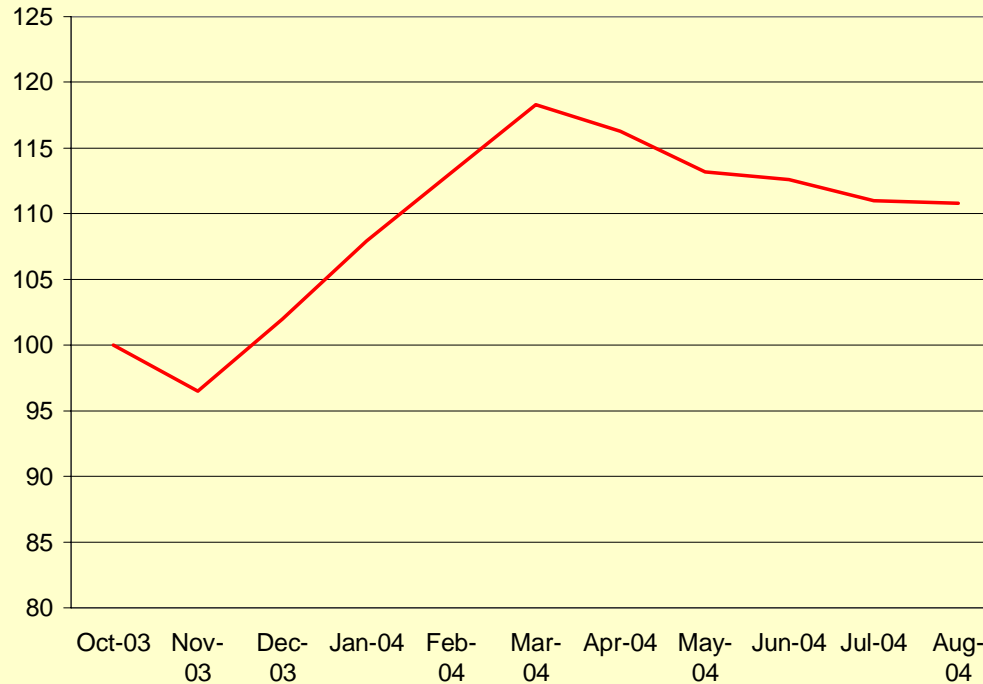
absolute returns – a refresher

an absolute return strategy might not exhibit unbroken positive returns. however returns should be skewed to the upside, and may well be clustered around a median.



Source: UBS - Alex Ineichen
based on local log returns: January 1990 - May 2003

how they do it (1): Tantallon



- Tantallon is a highly directional long-short fund, trading in regional Asian equities, focussing on capital flows as a driver of market movements
- they aim to protect capital in directionless markets but make substantial returns from market direction and specific risk
- the principal spent 20 years as a senior Asian stockbroker, and his partners are ex-portfolio managers



identifying value, environment, & catalysts

our search for ideas does not start with an index and its constituents. The reverse is true, as we seek out companies that are ignored, not followed by many analysts and hence significantly undervalued

- we ran a screen in October 2003 on Australian companies that had lagged the mkt and were cheap. One that stood out was **Caltex Australia**. Caltex is a refining company 50% owned by ChevronTexaco
- global refining margins in October of last year had only just begun to expand and the market was very sceptical of the length of the cycle and to where refining margins could get to on a sustainable basis. The China demand story also had many sceptics at that time but it was clear that China was going to drive demand on a global scale.
- capacity limitations were an issue within the region and still remain so. In Australia is that the environmental standards there are considerably higher than Asia so any excess supply into Asia could not substitute Australian supply. In addition the Australian market had seen supply reduced with the closure of refinery in South Australia.





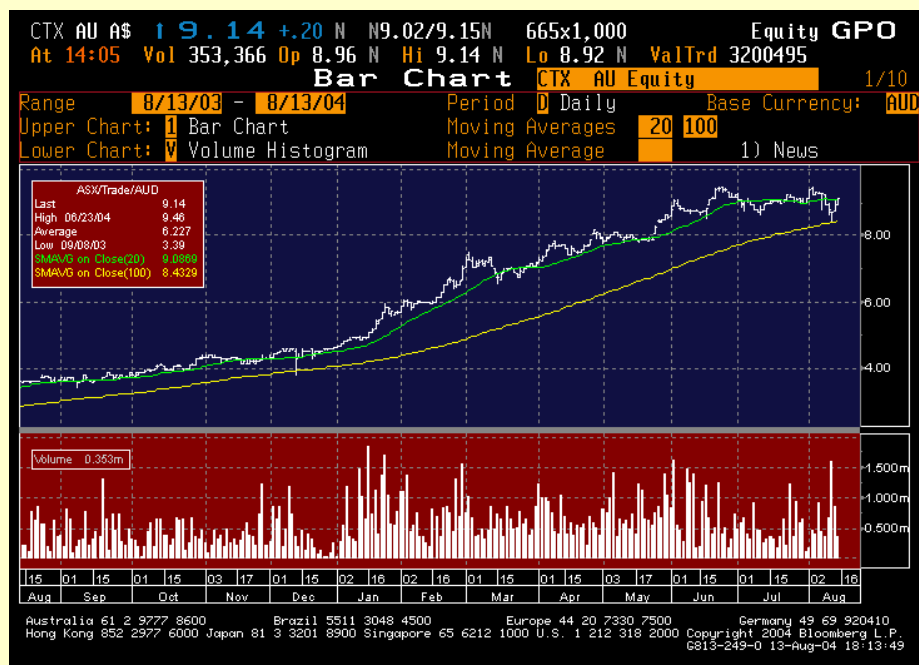
understand the company and its investors

Caltex is the only refining stock in the market. Hence as it had no peers and at the time had a market capitalization of AUD1.1Bn of which only 50% was free-float. As a result only one broker covered the company and extraordinarily it was referred to as a small cap by the broad market. The refining margins were improving and this was allowing the company to pay down debt faster than anticipated and speed their capex program of environmental upgrades. This was a unique situation where margins were widening, debt being paid down and nobody was noticing.



- Tantallon bought stock on the first day of trading and it has remained a core holding ever since. At that time the price was AUD4.40 and today is AUD9.40 and has paid 28c in dividends. It has now been picked up by the market and has coverage of at least 5 top-line brokers with more about to add coverage. We have added to the position as our assets have grown.
- The company still trades on single digit P/E multiple and has been recently included in the ASX 200 Index which trades on an average 23x.

A benchmarked investor would have been unlikely to have bought this company when we first discovered it.



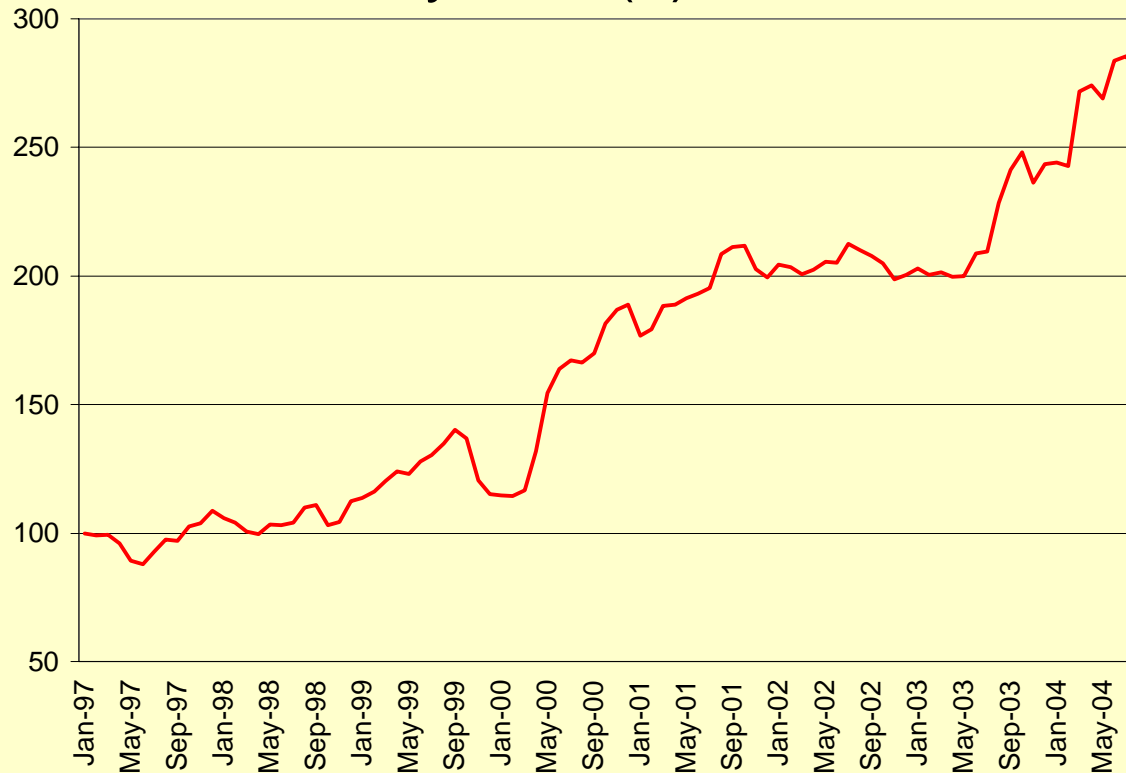


Tantallon: comment

- clearly directional
- typically qualitative and express ideas in words not numbers
- extreme focus on fundamental research of issuers' businesses
- edge is pragmatic understanding of what makes securities move
- flexibility to be outwith benchmark
- flexibility to short
- huge degree of personal autonomy within disciplined framework
- difficult to define "process"... however early investors include many industry insiders who look through "process" to underlying skill
- motivation is to extract significant commercial advantage



how they do it (2): Halberdier



- Halberdier are primarily a long-short Japanese equity fund, with a Japan-focussed macro overlay
- they aim for moderate to high returns with limited drawdowns
- the partners have long careers as senior traders and managers within global banks and relocated to Singapore in order to set up the company 7 years' ago – they're the oldest hedge fund in Singapore

theme:

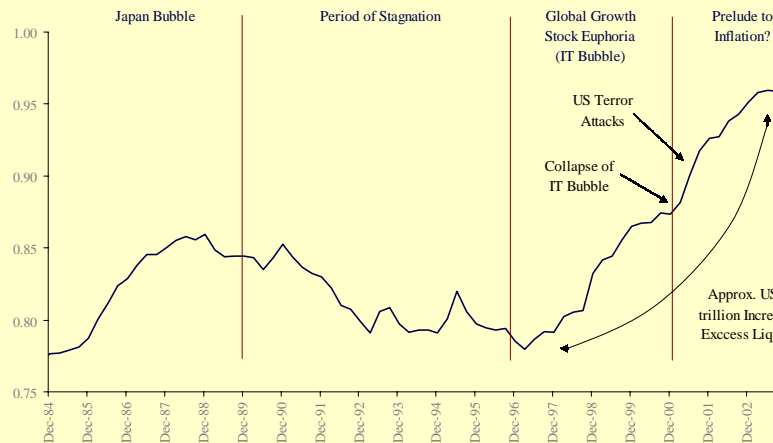
transition from long-term deflationary, to inflationary cycle

- Supply capabilities have shrunk significantly over the last 10-20 years across the board in resource industries.
- Huge world excess liquidity beginning secular move from paper assets to hard assets/commodities. Expansion of excess liquidity accelerated with the collapse of the IT bubble and US terror attacks.
- China had long been a major deflationary factor but turned into major inflationary factor in 2002 and beginning to have major impact on energy/commodity prices.
- World climate changing from peace to war, from free trade to protectionism; from US power as world policeman to unilateral self-interest

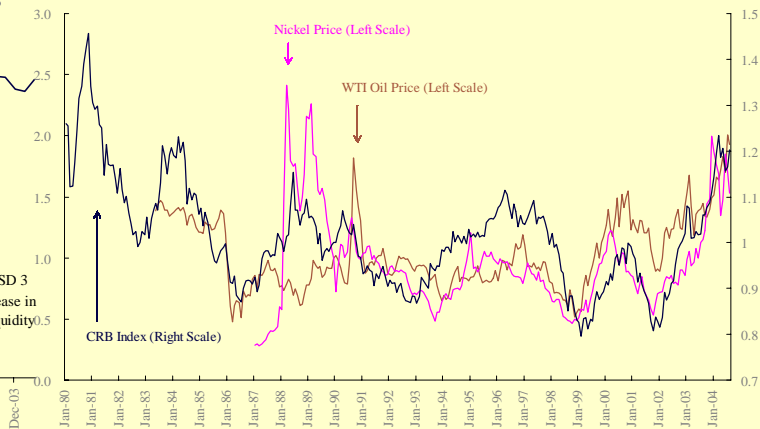
evidence:

- higher commodity prices
- higher interest rates
- lower excess liquidity available for financial assets

Global Excess Liquidity Cycle: Japan and US Combined Marshallian K
(Japan + US Money Supply / Japan + US GDP)



CRB Index, WTI Oil Price, Nickel Price
(Jan 90 = 1)



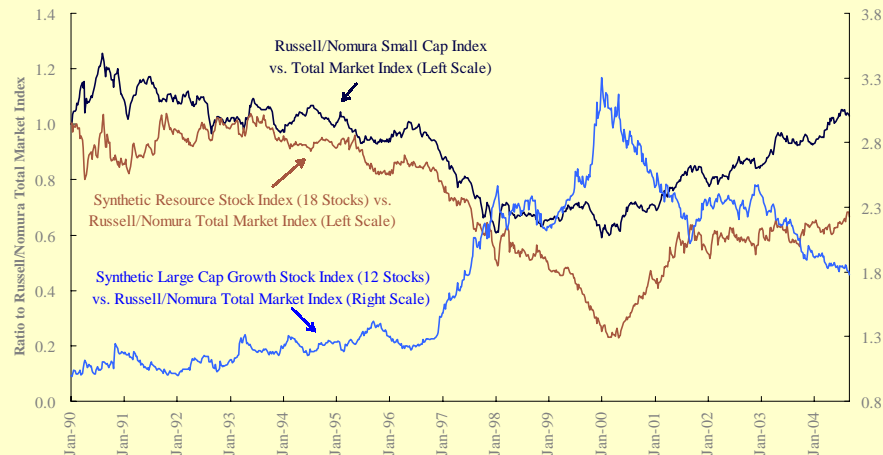


capture long-term sector trends

Buy Inflation-Sensitive Stocks / Sell Large-Cap Growth Stocks -

- Inflation-sensitive stocks include resource and small cap stocks
 - Resource stocks move in tandem with small cap stocks on a relative basis.
 - There are no economic similarities between the two but both are highly negatively correlated with large-cap growth stocks.
- Inflation-sensitive stocks on long-term uptrend and large-cap growth stocks on downtrend
 - Large-cap growth stocks outperformed the market substantially in deflationary, lower interest rate, liquidity driven market where they were given significant premium in valuation simply because they are large cap, not because they had higher growth potentials.
 - Inflation-sensitive stocks bottomed 4 years ago when the IT bubble collapsed and have substantially outperformed market and large-cap growth stocks since.

Japan Resource, Small Cap, Large Cap Growth Stocks
(Synthetic Resource Stock Index, Russell/Nomura Small Cap Stock Index,
Synthetic Large Cap Growth Index, Relative to Russell/Nomura
Total Market Index, Ratio Jan 90 = 1)



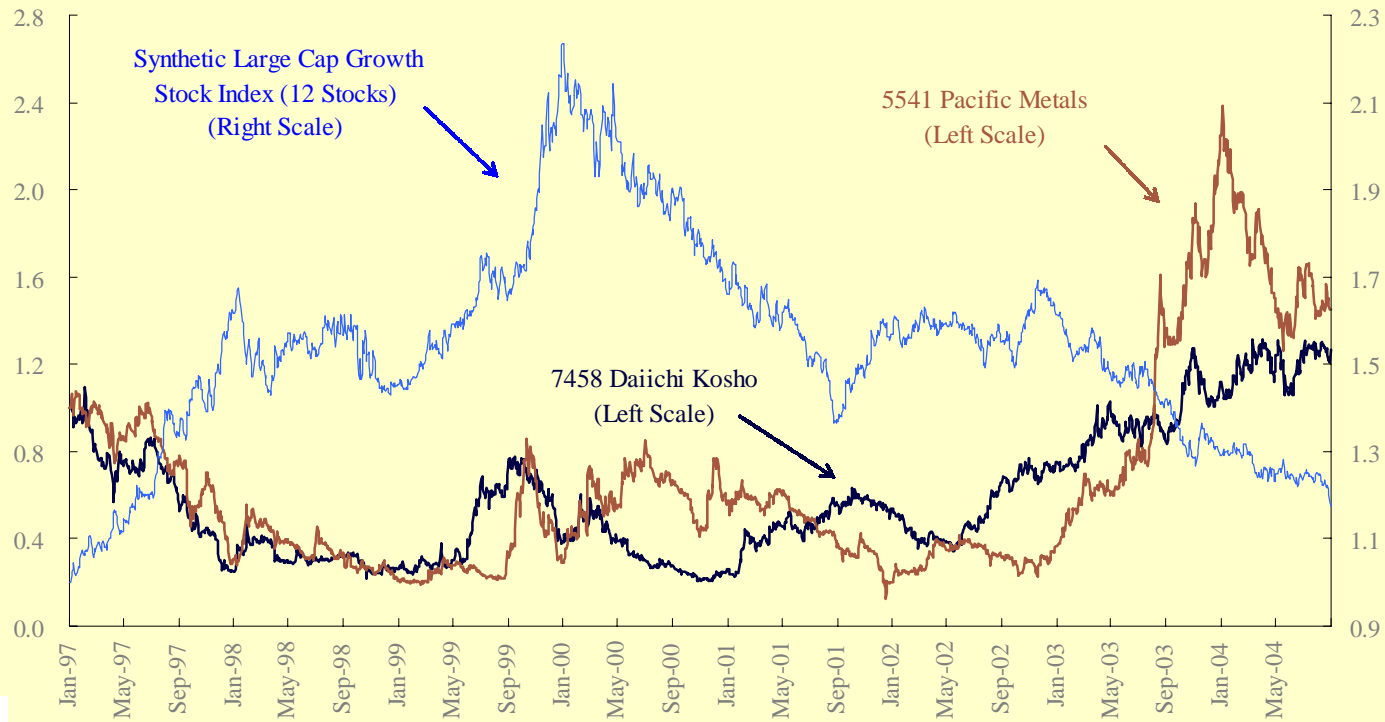


successful trade

Buy Inflation-Sensitive Stocks / Sell Large-Cap Growth exposure-

- 5541 Pacific Metal (Nickel, Small Cap)
- 7458 Daiichi Kosho (Karaoke, Small Cap)
- Large Cap Growth Stock Index

(Relative to Russell/Nomura Total Market Index, Jan 97 = 1)





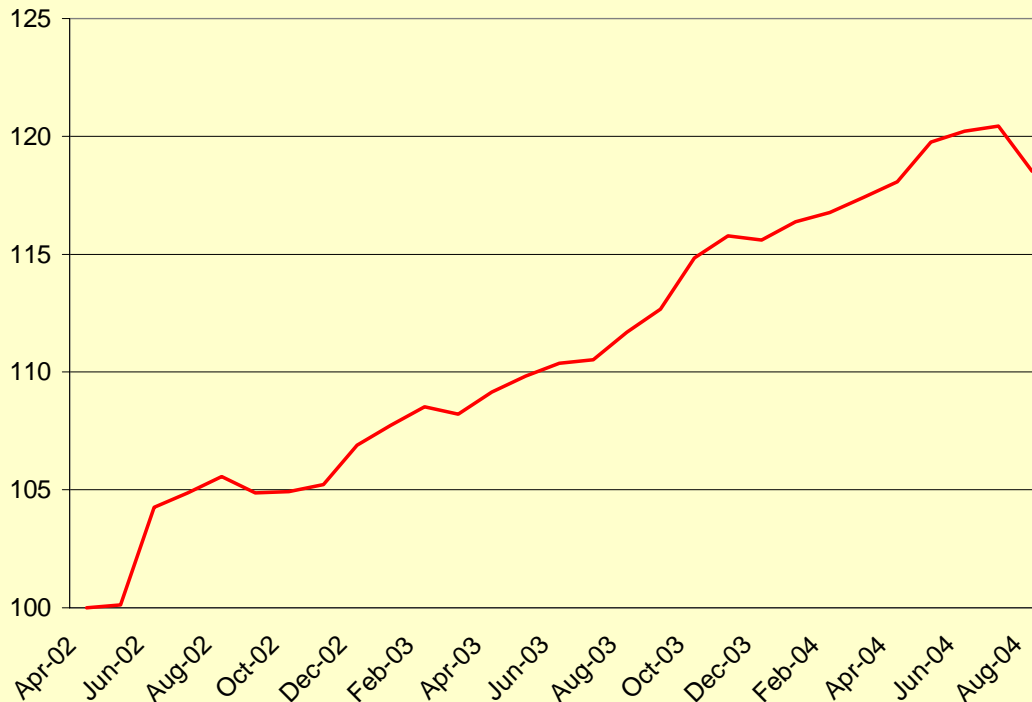
Halberdier: comment

- directional but prefer not to be naked market direction
- edge is pragmatic understanding of what makes securities move, in particular how major themes override specific risk
- approach is at the intersect of qualitative and quantitative; ideas expressed typically as quantitatively derived themes
- moderate interest in understanding issuers businesses
- trader's approach to equity investment – manage the risk, define the parameters of the trade, ride the trend
- flexibility to short, use derivatives, use second-order investment ideas
- experience and confidence – motivation is to be allowed to manage money properly, little marketing or attempt at scale





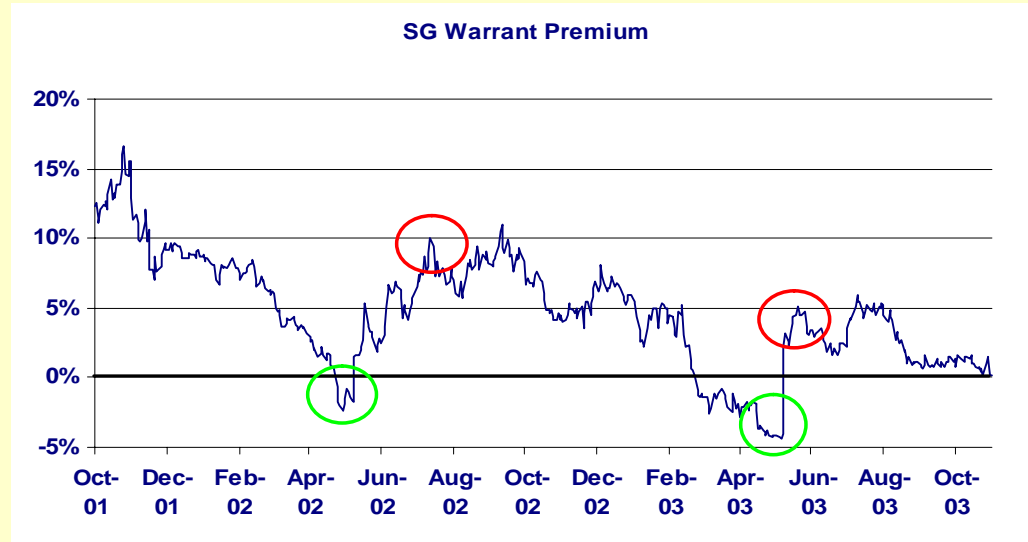
how they do it (3): Artradis



- Artradis are a multistrategy fund with a relative value focus, trading in regional Asian equities and their derivatives
- they aim for extremely consistent moderate returns, and will pay away a significant amount of upside in order to avoid loss
- the partners have long careers as senior traders within global banks and relocated to Singapore in order to set up the company 3 years' ago



Singapore Warrant Arbitrage



- warrant trading at 0 premium
- ascertain no change in divi policy / terms
- premium at historical low
- Singapore property prices still under pressure
- American style exercise, expire June 2004
- Long warrant/short stock hedged position established at zero premium
- Profit realized from premium expansion on stock fall - downside protection ensured via exercise



Kospi200 options attractive play on market reversal - put spread

Index	Month	Strike	Type	Price	Size	Implied volatility	Individual delta	Total delta	Individual gamma	Total gamma	Individual Vega	Total vega	Value
Kospi 200	May-03	77.5	Put	2.28	-280	33.9%	-0.509	142.6	0.0782	-21.89	0.0624	-17.48	\$(52,328)
Kospi 200	May-03	75	Put	1.2	240	34.8%	-0.319	-76.6	0.0706	16.94	0.0520	12.48	\$ 23,607
Kospi 200	May-03	72.5	Put	0.485	700	33.3%	-0.165	-115.8	0.0485	33.93	0.0388	27.17	\$ 27,828
sum								-10.0		28.98		22.17	\$ (893)

Date: 22-Apr-03

Kospi 200: 77.2

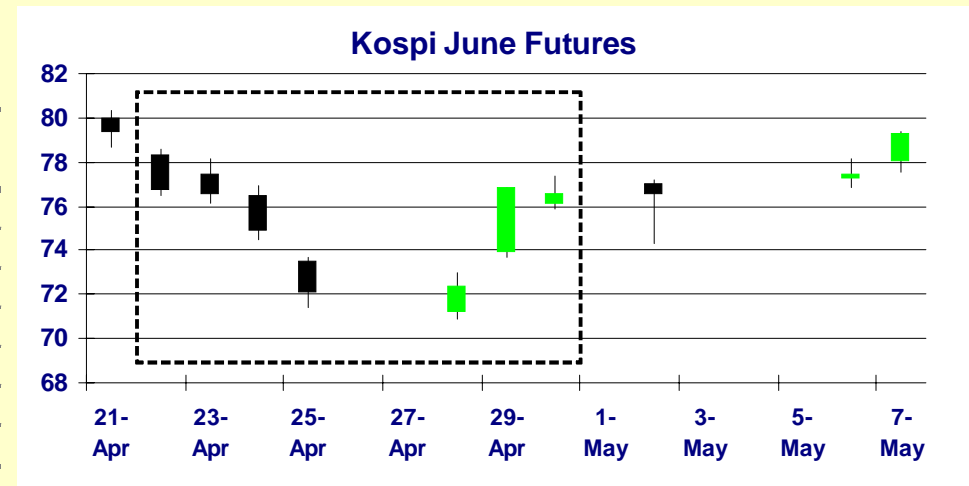
Korean Won: 1220

Options multiplier: 100,000

Futures Multiplier: 500,000

\$ value of future: \$31,639

Date	Kospi june Future	Position delta	\$ delta	Change Delta	% mkt move
22-Apr-03	76.65	-13.2	\$ (414,664)		
23-Apr-03	76.5	-12.9	\$ (404,447)	\$ (10,217)	0.20%
24-Apr-03	74.8	-26.3	\$ (806,246)	\$ 401,799	2.22%
25-Apr-03	72.05	-60.2	\$ (1,777,627)	\$ 971,381	3.68%
28-Apr-03	72.35	-56.1	\$ (1,663,457)	\$ (114,170)	-0.42%
29-Apr-03	76.85	1.4	\$ 44,094	\$ (1,707,551)	-6.22%
30-Apr-03	76.6	2.9	\$ 91,041	\$ (46,947)	0.33%



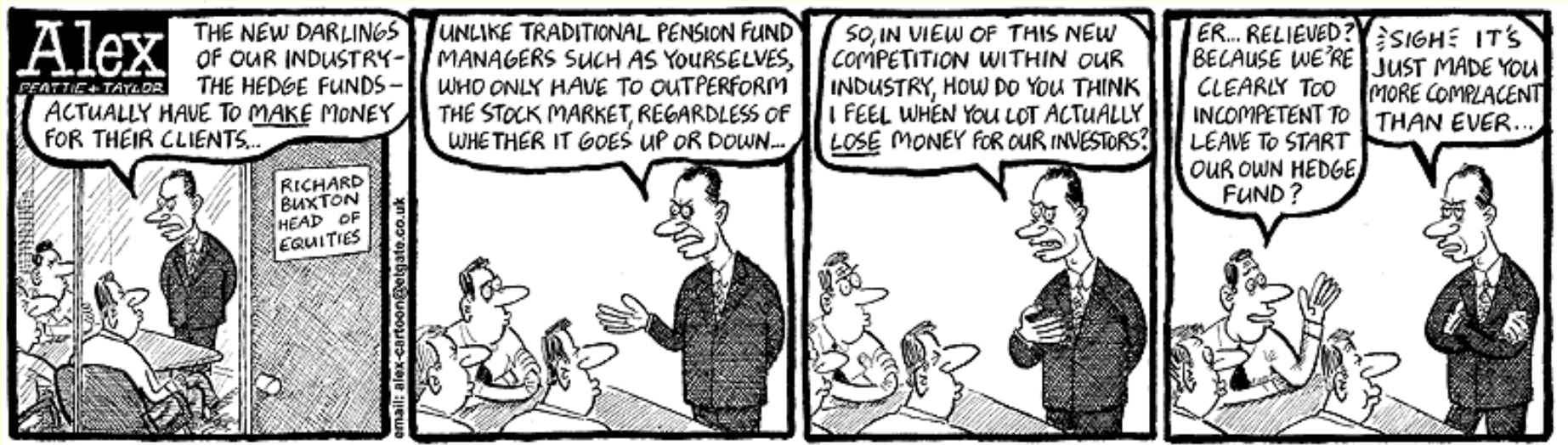


Artradis: comment

- never directional, invariably long volatility
- extreme emphasis on most effective risk-adjusted expression of investment ideas
- quantitative focus – little interest in issuers' businesses
- pragmatic depth of experience and understanding of operational nuances
- flexibility to short, use derivatives, OTC... but extraordinarily rigorous risk management and investment parameters
- motivation is to extract consistent return from volatile and idiosyncratic market opportunity set



... and finally



for this, thank you Jon Robinson of Vanguard Investments Singapore (not a hedge fund)!