

The Brave New World of Hedge Funds in Asia

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Introduction

- Shape of the Global Industry
- Shape of the Asian Industry
- Winners and Losers in Asian Hedge funds
- Foreign vs Local
- Developments in Asia Hedge Fund regulation
- Challenges ahead

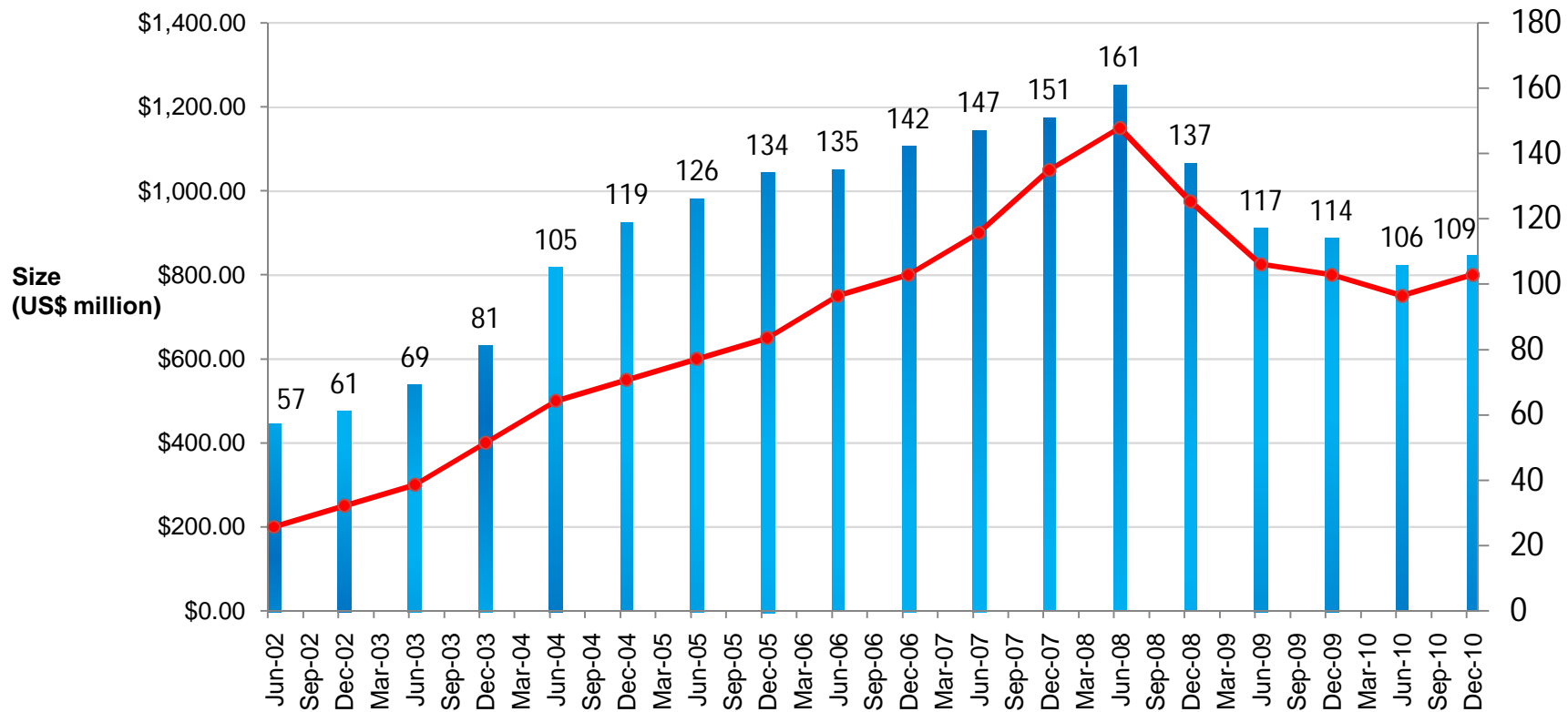
The Global Industry

		February 2011 AuM (US\$bn)	Performance- based growth/(decline) (US\$bn)	Net asset flows (US\$bn)	March 2011 AuM (US\$bn)	% Change in assets
Hedge Funds		1734.9	4.5	13.9	1753.4	1.1%
By Geographi c mandate	Asia ex-Japan	114.2	1.0	0.5	115.7	1.4%
	Japan	15.6	(0.1)	0.1	15.6	-0.1%
	Europe	392.2	0.6	4.5	397.3	1.3%
	Latin America	61.3	0.5	0.4	62.2	1.5%
	North America	1151.6	2.5	8.3	1162.4	0.9%

Source: EurekaHedge April 2011 Asset flows update

The Global Industry

Fund of Funds Billion Dollar Club assets evolution since 2002

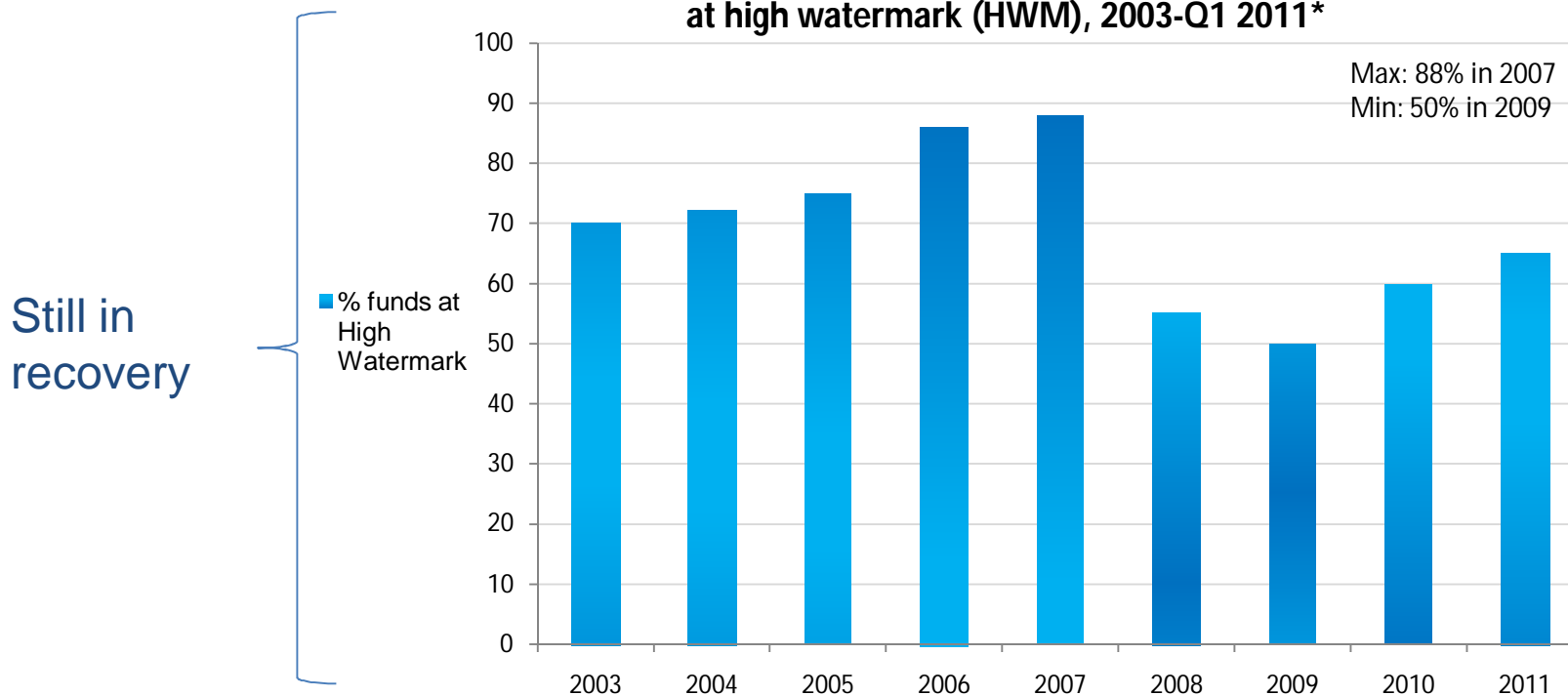


- 33% of the 109 billion dollar FoFs experienced outflows in 2010

Source: 'Once titanic industry turns around to grow by 4.82%' Hedgefundintelligence.com March 3rd 2011

The Global Industry

HFRI Fund Weighted composite Index - Percentage of constituent funds at high watermark (HWM), 2003-Q1 2011*



- 65% of funds have reached their individual high water marks

Source: Hedge Fund Research, global Hedge Fund Industry Report –first Quarter 2011 www.hedgefundresearch.com

We are boutique not institutional sized

Top 15 US Hedge Fund Managers		Top 15 European Hedge Fund Managers		Top 15 Asia * Hedge Fund Managers	
US firms	Firm Capital (\$bn)	European firms	Firm Capital (\$bn)	Asian firms	Firm Capital (\$bn)
Bridgewater Associates	58.90	MAN GLG	69.6	Platinum AM	16.04
JP Morgan Highbridge	45.50	Brevan Howard AM	31.95	Hillhouse Capital Management	3.18
Paulson & Co.	36.00	BlueCrest	24.6	Penta Investment Advisors	3.00
Scros Fund Management	27.90	Winton Capital Management	17.17	Seatown (Temasek)	3.00
Och-Ziff Capital Management Group	27.60	Lansdowne Partners	15.37	Value Partners	2.79
Blackrock	26.60	Brummer & Partners	11.50	Broad Peak Investment Advisers	2.60
Baupost Group	23.40	Standard Life Investments	10.68	Kaiser Trading Group	2.25
Angelo, Gordon & Co.	21.97	Amundi	9.34	Ortus Capital Management Limited	1.94
Farallon Capital Management	21.50	Transtrend B.V.	9.20	Boronia Capital	1.77
King Street Capital Management	19.90	Sloane Robinson	8.10	Pacific Alliance Investment	1.75
Goldman Sachs Asset Management	19.80	Capula Investment Managers	7.33	Aisling Analytics Pte Ltd	1.56
Avenue Capital Group	18.10	The Children's Fund Mgt UK	6.00	Horizon Asset Limited	1.55
Canyon Capital	17.18	COMAC Capital	5.74	ADM Capital	1.38
Renaissance Technologies	17.10	Exane Asset Management	5.69	Prime Capital Management Co.	1.36
Elliott Management Corporation	16.80	Jabre Capital Partners	5.54	LIM Advisors Limited	1.32
Total Assets of top 15 US funds	398.25	Total assets of top 15 European funds	201.01	Total assets of top 15 Asian-Pac funds	45.49

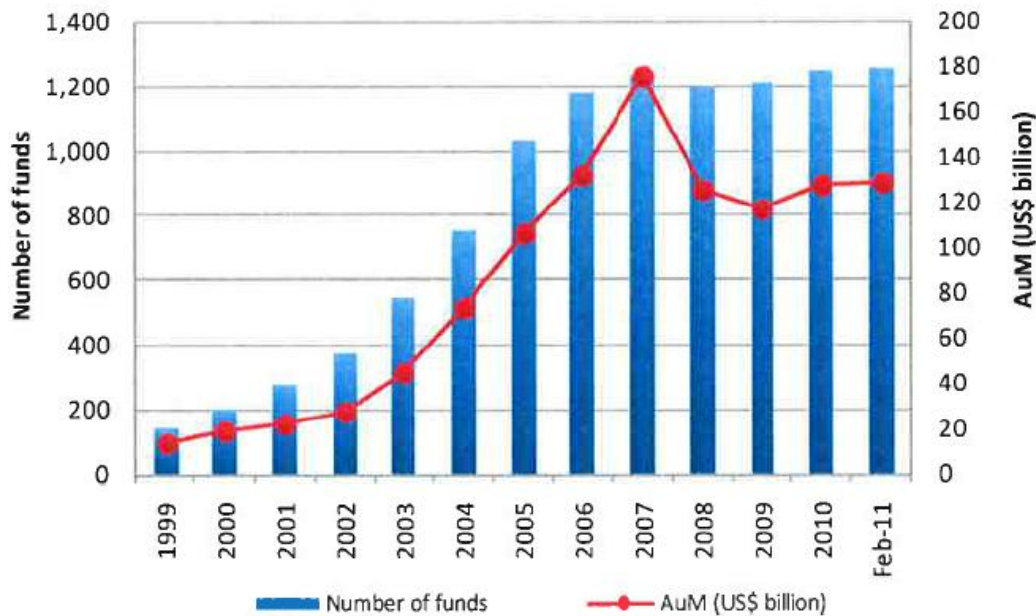
- Hedge fund leverage still below 2007 peak
- 935 new launches in 2010 – most since 2007

Out of \$130bn, i.e.35% managed by 15 managers

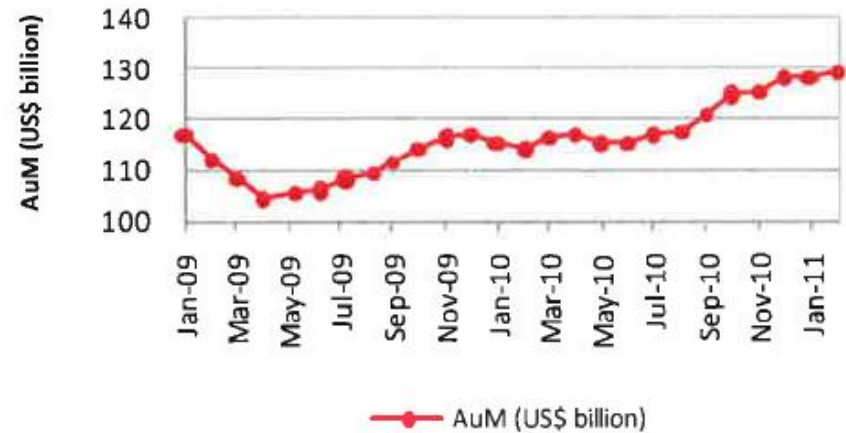
Source: Hedge fund Intelligence

The Asian Hedge Fund Industry

Growth of the Asian hedge fund industry



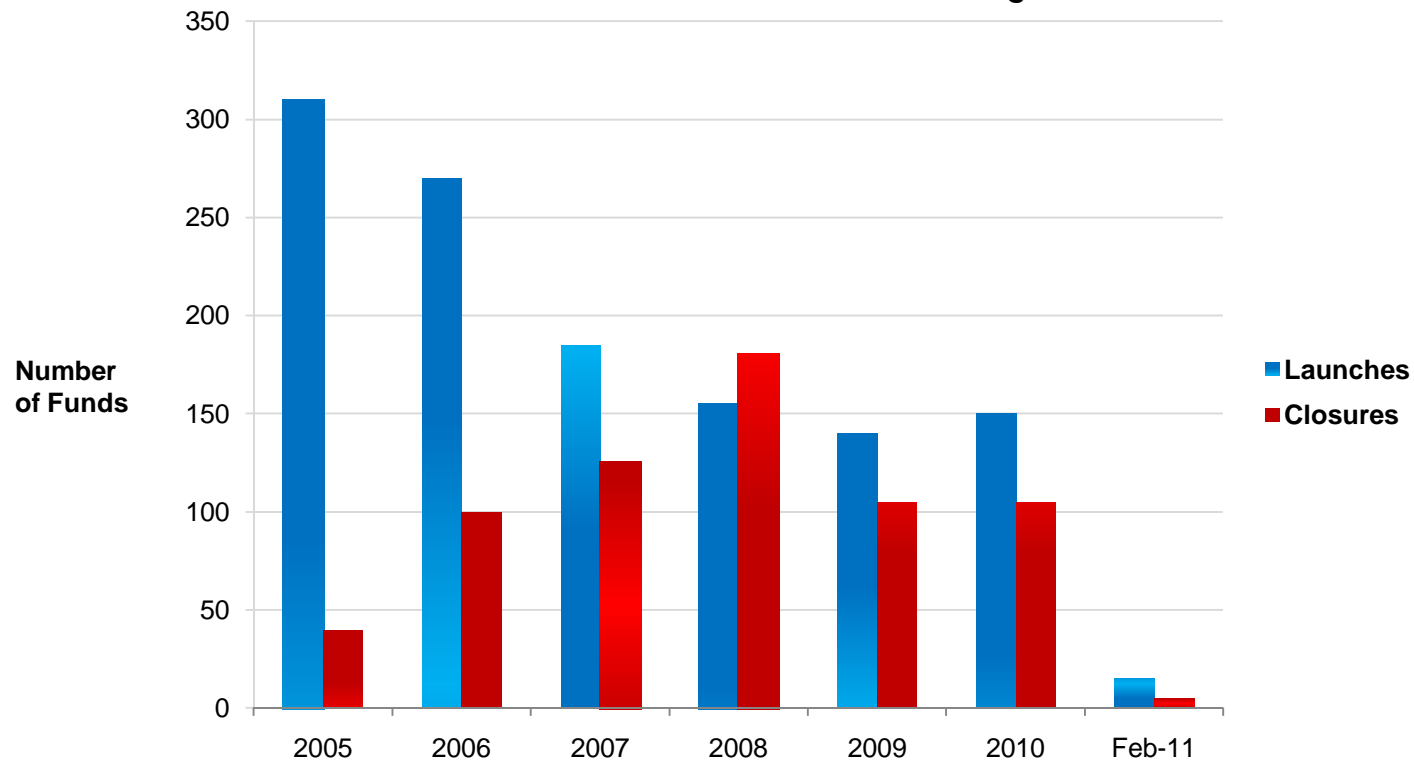
AuM growth in recent months



Source: EurekaHedge

The Asian Hedge Fund Industry

Launches and closures across Asian Hedge Funds



- Dream is still alive
- Average age of Asian Hedge funds is 3.7 years

Source: EurekaHedge

The Asian Hedge Fund Industry

Does the Asian hedge fund industry have unique characteristics?

History

- Late starter - shorter history compared to US/Europe
- Smaller startups and smaller funds
- Fewer 2nd or 3rd generation managers
- From fringe to core allocation for global investors

Market and participants

- 'Asia' is not a single market...14 countries
- Ideal size smaller...sweet spot \$250m
- Still a lot of boutiques rather than asset-gatherers
- Liquidity is fickle, shorting is harder, less leverage
- Few domestic institutions....retail/foreigners dominate
- Less M&A activity...but growing

Business and funding

- Harder to get started...but easier/cheaper to operate
- Traditionally reliant on European FoF...now Madoff'd
- No domestic Asian institutional investor base
- Independent administration, low operational risk

The Asian Hedge Fund Industry

What has passive exposure to Asian markets delivered?

MSCI Asia Pacific - Indexed returns since 1988



Annualised
return 0%
Annualised
volatility 21%

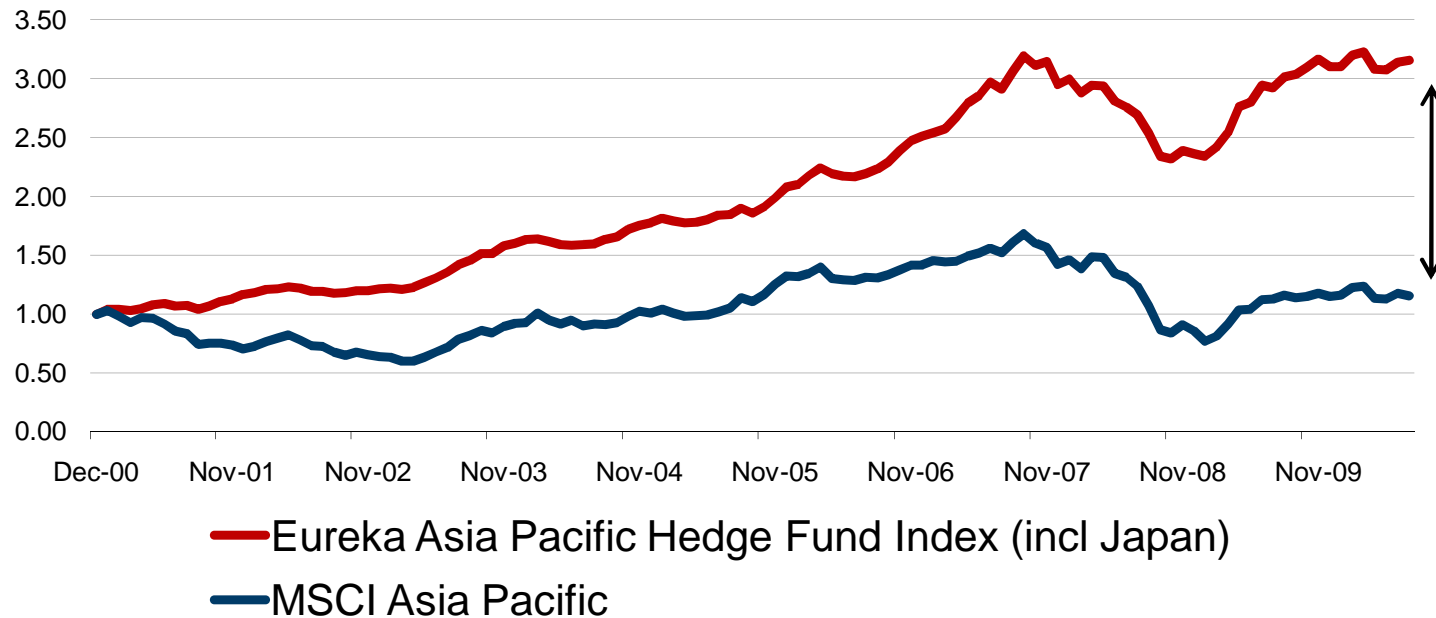
Lots of GDP growth, lots of volatility, no fees,and no return

Source: Bloomberg

The Asian Hedge Fund Industry

Compounding works.....given time

Indexed Returns – Asian hedge funds vs. MSCI Asia



Alpha in Asia...but take with a grain of salt

Source: EurekaHedge/Bloomberg

Asian Hedge funds Winners & Losers

What do clients want?

	Priority	Local Investors	Foreign Investors
High Risk Investment	1st choice	Greater China Equities	Long Only Equity
	2nd choice	N/A	Event Driven
Low Risk Investment	1st choice	N/A	N/A
	2nd choice	N/A	Fixed income/RV/Vol
Small or large AUM	-	Small or Large	Large only
Start Ups	-	Y	N

Asian Hedge funds Winners & Losers

Top 10 Myths of Asian hedge fund investing (maybe.....)

	Myths	True	False
1	Managers are all about Beta and don't protect capital		✓
2	Managers don't understand risk		✓
3	Managers are mostly equity long-short, and even those are long biased	✓	
4	Liquidity is an issue	✓	
5	Shorting is difficult	✓	
6	Restrictions on foreign investment, poor information	✓	
7	Debt markets are undeveloped	✓	
8	Managers' operational infrastructure is weak		✓
9	Managers are not transparent and different due diligence is required		✓
10	Regulatory oversight is weak		✓

Asian Hedge funds Winners & Losers

What's recently changed in Asian hedge funds?.....the paradoxes

What's changed?	What's stayed the same?
<u>SUPPLY AND DEMAND</u>	
Lower fund AUM Late global allocators departed More 2 nd generation managers Growing core of managers with track record Opportunistic 'businesses' exited Fund migration to Asia...regulatory pressure More experienced investors left on the ground	Lots of ideas, little capital, no domestic base Majority of funds <\$100m, business risk Good returns don't prevent redemptions No domestic base - proximity to US allocators Still some mavericks Fees...mostly
Institutionalisation of funds, more 'packaging' From tactical to core allocations	Overseas investors make 'safe' choices...want size, liquidity
<u>STRUCTURAL</u>	
Breakdown in trust post 2008 Regulatory change in US/Europe	Global best practices, few blowups, few gates Mostly sound regulatory, good service providers
Overkill in due diligence, more infrastructure Lower sweet spot of AUM	Low leverage, liquid fund terms Liquidity a challenge...managers understand
<u>STRATEGIES AND PERFORMANCE</u>	
More diversity More indigenous managers More China domestic managers	Still mainly equity long short, correlations high Smaller, indigenous managers outperform Japan alpha – nobody cares

Asian Hedge funds Winners & Losers

Asian opportunities – prepare to be a little different

Active stockpicking (not benchmarks)

Urbanisation

Consumer, education, healthcare, environment

Asian High Yield bonds

Local Asian franchises

China travel

China A shares 50% off peak

Illiquid vs. liquid,
Smaller vs. large,
Boutique vs institutional

Cheap US companies with Asia exposure

Trade finance

Family co-investments

RMB liberalisation/
China big bang

Seeding/acceleration capital

Motivated/distressed sellers

Asia ex J volatility

Frontier markets

Japan restructuring!

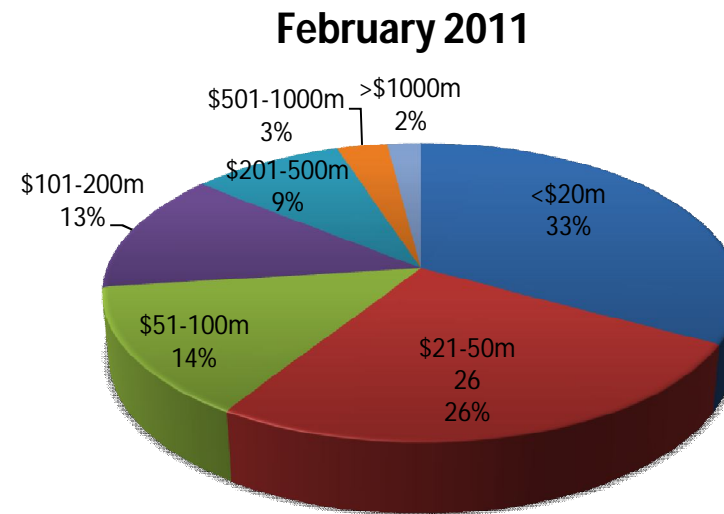
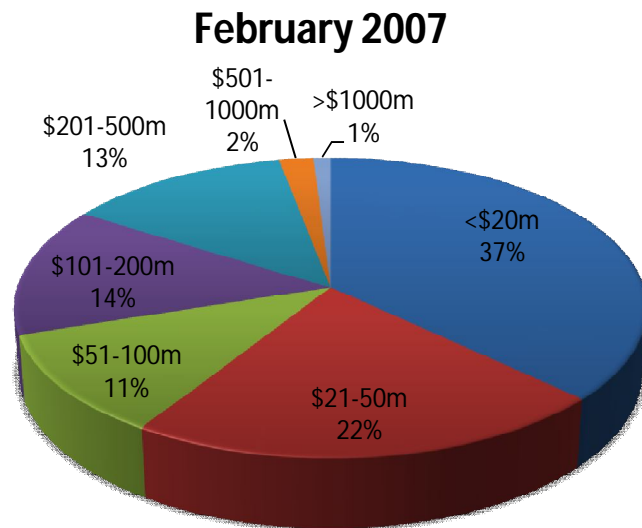
Asian private equity funds

Asian hedge and long-only funds

Asian fx

Asian Hedge funds Winners & Losers

Breakdown of the hedge fund population by fund sizes

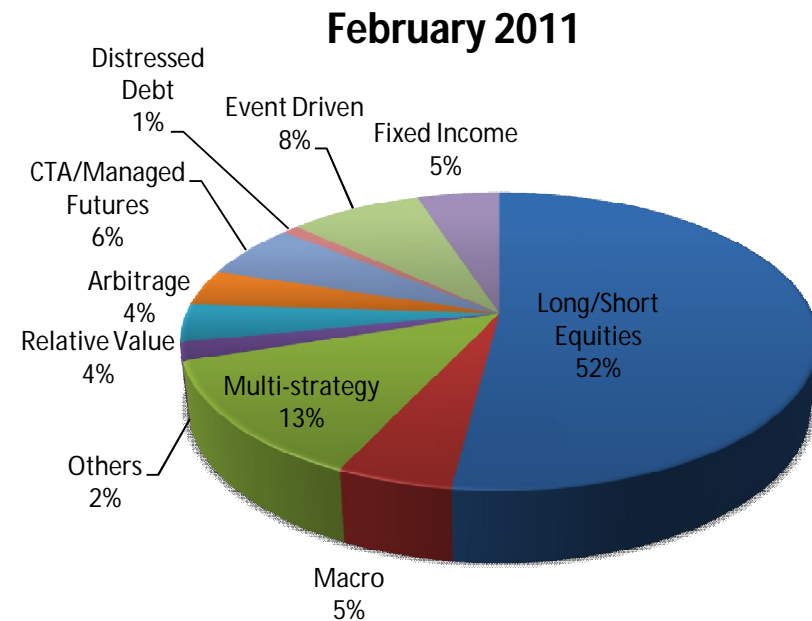
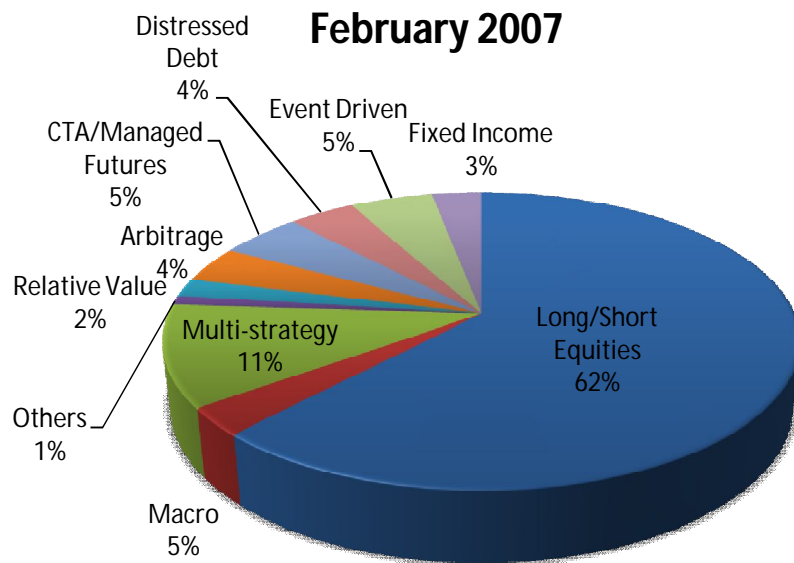


- 59% still not to scale
- Is <\$100m enough in the current market?

Source: EurekaHedge

Asian Hedge funds Winners & Losers

Changes in the strategic mix of Asian hedge funds by assets under management

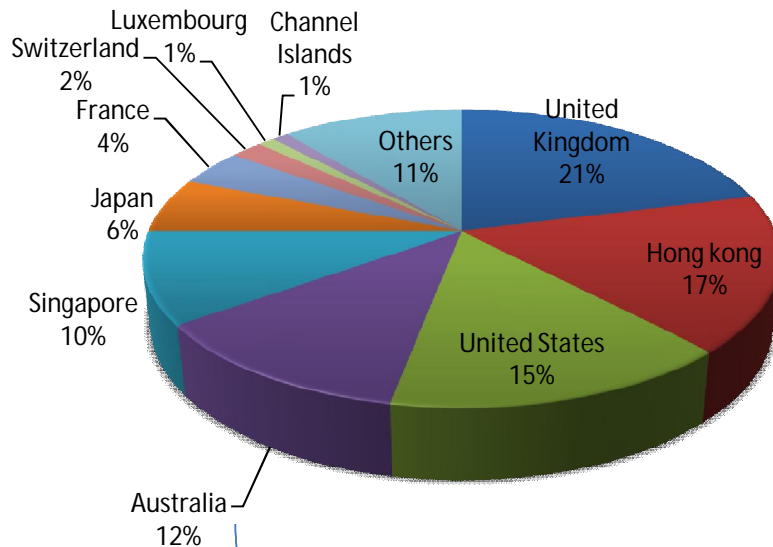


Source: EurekaHedge

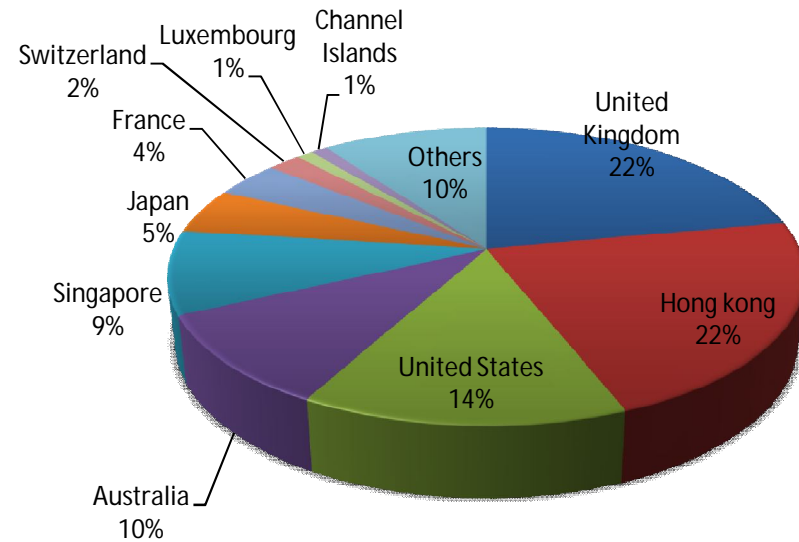
Asian Hedge funds Winners & Losers

Head office location by numbers of funds

February 2007



February 2011



Decline of Australia

36% UK & US

32% UK & US

Source: Eureka hedge

Asian Hedge funds Winners & Losers

Asian hedge fund fees by launch year

Year	Performance Fees (%)	Management Fees (%)
2000	19.48	1.49
2001	19.75	1.47
2002	19.82	1.54
2003	19.61	1.47
2004	19.75	1.58
2005	19.42	1.73
2006	18.78	1.62
2007	19.08	1.84
2008	18.86	1.68
2009	17.94	1.66
2010	18.56	1.59
Feb 2011	18.41	1.49

Not weighted by capital – large launches charge fees

Market share of top Asian hedge fund prime brokers by assets under management

2007		February 2011	
Prime Broker	Share	Prime Broker	Share
Goldman Sachs	26.5%	Goldman Sachs	22.5%
Morgan Stanley	26.6%	Morgan Stanley	22.0%
UBS	9.2%	UBS	13.8%
Deutsche Bank	7.5%	Deutsche Bank	12.2%
Credit Suisse	6.6%	Credit Suisse	7.4%
Citigroup	3.2%	Citibank	5.5%
Merrill Lynch	3.8%	Bank of America Merrill Lynch	5.1%
Bear Stearns	9.1%	JP Morgan	2.8%
Fimat	0.5%	Barclays	2.7%
Man financial	0.1%	Newedge	2.6%
Others	6.9%	Others	3.5%

Source: EurekaHedge

Foreign vs Local

- Soros
- Viking
- Moore Capital
- GLG
- Fortress

- Asian sleeves of Global portfolios
- Are they here to stay this time?
- Are opportunities better than those at home?

Foreign vs Local

- 2010 – Nick Taylor, Senrigan
 - \$200m seed, \$1bn today
- 2010 – John ho, Janchor
 - No seed, \$750m today
- 2011 – Morgan Tse, Azentus
 - GS spin out \$1bn start up
- To come:
 - Nomura Prop Desk
 - Highbridge spin out

Developments in Asian HF regulation

- 2010 – short selling reporting requirements tightened – Hong Kong
- 2010, October – Sales of securities to professional investors tightened – Hong Kong (most fund managers unaware)
- Ongoing lobbying by AIMA of FSTB for corporate law and tax changes to make HK a fund domicile (HKIMA against this initiative)
- Singapore 2011, tightening of regulations concerning authorisation of fund managers
- Korea – fund of funds to be allowed domestically (maybe....)

Challenges Ahead

- Still a poorly capitalized industry
- Selling the dream – 90% of staff should get a proper job
- Flows coming from institutions
- Back to the future – Gentlemen's club, institutional platforms

Challenges Ahead

- Collision of two worlds
- Short selling in retail products will come
- ETFs are dangerous
- Hedge Funds to become alternatives again
- AIMA off in wrong direction

All pundits are wrong