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Editorial

Welcome to the April issue of Asia Pacific Intelligence. This issue has a bit of a theme of blending European and Asian investment skills and opportunities. We open with a profile of a company that combines Europe and Hong Kong, with an interview with Max Gottschalk of Gottex Penjing Asset Management. Gottschalk believes there are unique investment opportunities in Asia.

Another European and Asian mix is profiled with Michael Kretschmer's Japanese long/short hedge fund, the Pelargos Japan Alpha Fund, managed from the Netherlands, and invested in by Aegon. A travelling Finn based in Singapore, Seppo Leskinen, tells us about Karelia Asia, his financial advisory firm working for institutional investors offering advice on various Asian and African asset classes and offering, Leskinen says: "Nordic values."

Enjoy this issue and do send me your news for coverage in the future,

Beverly Chandler
Editor, Asia Pacific Intelligence
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Get involved!

Opalesque founder Matthias Knab will be hitting the road this month to kick off the Asian leg of the 2013 Opalesque Roundtable Series:

April 23 Opalesque 2013 Singapore Roundtable

April 24 Opalesque 2013 Japan Roundtable (in Tokyo)

April 29 Opalesque 2013 Hong Kong Roundtable

May 2nd Opalesque 2013 Australia Roundtable (in Sydney)

May 7th Opalesque 2013 West Coast Roundtable (at SALT conference in Vegas)

May 20th Opalesque 2013 Gulf Roundtable (in Abu Dhabi)

Please contact Matthias at knab@opalesque.com if you are interested in participating.



Beverly Chandler

About the editor - Based in the UK, Beverly Chandler has been a specialist hedge fund journalist and editor for many years. She has written extensively for the national newspapers, including the Financial Times, trade papers and established a number of hedge fund magazines and newsletters. She has also written a series of books on the subject, including Managed Futures - An Investor's Guide for Wiley Financial, and Investing with the Hedge Fund Giants, from Pearson. Beverly was the European editor for MAR Hedge from 1996 to 2000, the years when a great number of the hedge fund manager star names of today were starting to build their businesses. She was awarded the Rose Baratz journalism award by AIMA in 1992.

Beverly has also worked extensively in the hedge fund conference industry, chairing and filming interviews at events for the GAIM conferences among others.

Gottex Penjing finds value in smaller Asian hedge fund managers

May last year saw Swiss headquartered fund of fund specialist **Gottex Fund Management** announce its purchase of Hong Kong based Penjing Asset Management,



Max Gottschalk

thereby creating the Gottex Penjing Asset Management, under new chief executive officer Max Gottschalk with about \$700m of its \$7bn deployed in Asia hedge funds.

While a quintessentially European company in culture, Gottex has expanded globally over the years, with an office in the US opening over a decade ago, and a representative office in Hong Kong from 2006. But the purchase of Penjing represented a bigger commitment to Asia. In an interview with Asia Pacific Intelligence, Gottschalk explains from Hong Kong: "More recently we felt there were

unique investment opportunities in Asia. One of the key appealing opportunities in Asia is that global investors have been highly under-allocated to Asia for many years. This has been further accentuated since 2008 as investors in Europe and the US have focussed mainly on their existing domestic portfolios, giving Asia little attention, while the latter has grown economically in importance."

Gottschalk started out with the aim of building an Asian specific fund of fund offering to give Gottex's investor base in Europe and the US unique access to the Asian markets. All the sub funds in which Gottex Penjing invests for its four funds of funds are in the hedge fund space, making them one of the largest allocators to hedge funds in Asia. "Our core expertise is selecting the best local talent" Gottschalk says. "Investors seeking exposure here will be looking at long only but we feel there is a compelling reason to use hedge funds in Asia. Asian hedge funds historically have delivered good performance with less volatility than traditional assets."

The firm has a team of 24 people on the ground with nine full time investing professionals researching Asian asset managers across the region. "One of the markets that offer compelling investment opportunities today has

been mainland China and its A share equity markets. If you look at valuation matrices, these are trading between 20 and 30% below their historical average, so they are cheap. We also have a strong allocation to Japanese equity markets, in the mid-cap sector in particular." Korea is beginning to look attractive but the political risks throw up a warning flag.

Gottschalk finds funds of funds compelling in Asia. "The industry is still very fragmented and many managers manage small sums of money so they require a lot more due diligence in terms of monitoring, but the smaller managers have been the ones that have generated the strongest and most consistent alpha, out-performing by 2-300 basis points per annum their larger peers."

Gottex Penjing will look at hedge funds with assets under management from \$50m up to \$250m. "At around the \$1bn mark, performance starts to deteriorate" Gottschalk says.

As a manager of funds of funds, Gottex was, like many of its peers, affected by illiquidity issues through the financial crisis. "One of the most important lessons learned from 2008 is to make sure that the portfolio in which we are invested in offers better liquidity than the liquidity

we offer clients" Gottschalk says. "There can be no mismatch between their liquidity and what we offer investors. We have also learned from 2008 to use managed accounts with underlying hedge funds when appropriate, in order to get better control and transparency."

While traditionally emerging market funds have had liquidity issues all of their own, Gottschalk finds that by staying with smaller managers some of those liquidity issues can be reduced as they can manoeuvre through markets more easily, with a greater degree of flexibility than their

possibly larger peers.

The Gottex Penjing investor base is 90% institutional, and drawn from all over the world. As a relative newcomer to Asia, Gottschalk reflects that there is a different attitude compared with Europe. "The sentiment is far more positive in Asia as the economies are growing. Although the capital markets in Asia have been highly correlated with US and European markets over the past few years, over the last six months we have seen correlation drop and investors are starting to look for opportunities to diversify again. Asia right now offers great value and existing under allocations to Asia

mean investors will be seeking to increase their allocation to Asia over the coming years, and we do expect more flows into the region."

In dollar terms, the Penjing Asia Market Independent Fund returned 1.73% in January and was up 6.51% over 2012; the Penjing Asia Fund was up 3.04% in January, 10.01% over 2012 and the Penjing Asia Equity Fund saw performance of 5.04% in January, and 14.54% over 2012. "We have a strong start to the year, our performance is capturing interest from investors, momentum is growing and as long as the West does not give us negative surprises, the wind is in our back" Gottschalk says.

KPMG investment team finds huge potential international growth for domestic Chinese fund management firms

Charles Muller, member of the global KPMG leadership team, reports from his recent trip with his colleagues to Hong Kong, Shanghai and Beijing talking with asset managers, trade bodies and regulators, that domestic Chinese fund managers will soon be venturing out of China. Muller can see a time, not that far ahead, when funds



Charles Muller

will routinely be priced in dollars, Euros and the Renminbi.

The firm found that Hong Kong is in the process of updating its regulation on fund domiciliation in advance of a possible mutual recognition agreement with mainland China. "While for the moment most funds

registered for distribution in Hong Kong are domiciled in Europe or in the Cayman Islands, this could very well change soon. Indeed, Hong Kong has asked mainland China for a mutual recognition agreement of funds domiciled in both jurisdictions, a request that seems to be favourably received in Beijing. This would mean that funds domiciled in Hong Kong could be distributed in mainland China and vice versa."

"This is an extraordinary opportunity for Hong Kong to establish itself not only as a fund distribution but also a fund domiciliation centre. Obviously, if the agreement materializes, global asset managers will want to create Hong Kong domiciled funds to access Chinese customers," said Tom Brown, KPMG global leader for Investment Management.

"If structured in the right way, the same funds could then also be marketed in Europe to institutional investors via AIFMD," added Muller. "But for this to happen, Hong Kong will need to update its regulation on fund domiciliation, a process that has already started."

Muller found that all Chinese asset managers are now considering extending their activities abroad and their first step is to open a branch in Hong Kong and then to expand to Europe and the US. "We have three Chinese asset managers with UCITS funds in Europe already. What they want to do is get accustomed to the European fund industry and to find investment that can go back into China" Muller said.

Internally, Chinese fund law is changing rapidly as growing appetite and sophistication drives expansion overseas. "Their know-how is investing in China" Muller says. "European investors want to invest in China because it gives them exposure to a new currency and a new economy and all investors want diversification."

It's not going to happen overnight, Muller estimates, as the Chinese approach change cautiously. "For a long time Chinese asset management has been very traditional but sophistication is growing and we were asked many questions on hedge funds as well."

Dutch investment boutique hunts for returns in Japan's revitalisation

Michael Kretschmer is co-manager of the Netherlands based Pelargos Japan Alpha Fund, from investment boutique [Pelargos Capital](#). The fund launched in June 2008, has returned 35% since inception, and has \$135m under management, most of which is from



Michael Kretschmer

the Dutch insurance company Aegon. His co-manager is Richard Dingemans. The Aegon connection came from their decision to do an alpha/beta split in their asset management with the bulk of their money under management going into beta funds such as ETFs while a small proportion went into alpha, specifically into long/short vehicles such as the Asian and Japan fund run by Pelargos.

The fund's strategy is long/short relative value, with Kretschmer buying cheap equities and shorting the expensive ones. While 2008 was a tough time to start a fund, Kretschmer feels, with the benefit of hindsight, that it was a fortunate time to launch. "In the middle of the crisis, we could start from scratch" he says, allowing a pure focus on performance while marketing was a bit more tricky.

The fund is designed to be net long or net short in a range between minus 25 to plus 60 and Kretschmer likes to keep a close eye on volatility, targeting high single digit volatility. The realized volatility stands at 6.5% whilst the current ex-ante volatility is close to 10%. "Because it's a moving

target, it's difficult to target" he says, "and we are very risk conscious but in Japan we currently wanted to be aggressive and carry risk in the books because lots of things have changed in Japan."

As the situation in Japan changes, Kretschmer sees it move from a volatile environment to a momentum market. "There are two ways to look at it" he says. "Yen sensitive stocks have done extremely well out-performing the majority of other markets because the yen was weak but that trade is over so now we look at the domestic space and reflation stocks."

Kretschmer believes that the domestic Japan story bears a lot of opportunity, with cheap domestic stocks hitting a wall of consumption drivers.

"It is extremely exciting after a 20 year bear market and deflation - assets are cheap, food is cheap and housing affordable. You can buy good companies for low prices and as the deflation trade is switching and the whole economy transitioning from deflation to inflation and you can make a lot of money with risk assets like equities."

The first off the blocks are the highly leveraged stocks, particularly real estate developers with a lot of land and debt on their balance sheet.

The Netherlands base for the fund means that the fund is more analytical than event driven. The fund managers visit companies and their management teams every quarter with one week of meetings.

The recent rise in investment return from Japanese hedge funds has caused observers to worry about a bubble scenario. Kretschmer believes that the current effects of the Bank of Japan policies will leave a wealth effect that is temporary, rather than structural. "Even if they achieve the stated 2% inflation target this is just a redistribution of wealth within society which used to benefit older people and might now benefit younger people

who tend to spend more and take more risk but I am doubtful potential real GDP will actually benefit" he says.

The lower yen is a real boost as it means potentially higher corporate earnings, thereby higher capital expenditure and eventually more consumer spending. Within its current monetary policy mandate, the Bank of Japan has bought equities to try and encourage a return to inflation. This has particularly worked with REITs which have caused real estate inflation to return to the sector.

"Inflation and higher risk assets will make structural reforms easier to execute and that, in contrast to just money printing, could boost the potential GDP but it's a bit too early to assess that" Kretschmer says. "As the Bank of Japan continues to buy equities it is rational to go along especially because equities are still inexpensive. It's a natural thing. You see a similar phenomenon in US equities with the Bernanke put and in peripheral European fixed income with the Draghi put."

Within the last two to three months the fund has begun to attract the attention of other institutional investors, both globally and from Japan itself. "It is well suited to institutions and over the past few years overseas domiciled Japan manager performed better than Japanese fund managers themselves" Kretschmer says.

Institutions like the single digit volatility target. Performance has been steady since the outset. The worst month came in May 2012 when a little early reflation bubble in Japanese equities burst and the fund dropped 3.8% but it ended up 11%, making money every single month after the drawdown.

Michael Kretschmer was a speaker at the Opalesque Netherlands Roundtable. You can read that [here](#).

Eurekahedge Hedge Fund Index reports gains of 0.22% in February, 2.33% year to date

(This piece originally appeared in [Opalesque's AMB](#))

The March issue of the [Eurekahedge Report](#) reveals that the hedge fund sector has more than \$1.8tln under management and enjoyed positive returns across all regions in 2012 – with Asia ex-Japan as the best performing with 12.14% of gains.

Other key highlights from the Eurekahedge monthly report include:

- The Eurekahedge Hedge Fund Index was up 0.22% in February and is up 2.33% year to date
- 23% of early reporting funds attracted assets in February
- The Eurekahedge Japan Hedge Fund Index crossed the 200-point mark for the first time to reach its highest level on record
- Japanese hedge funds witnessed the strongest three month return on record, up by 11.27%
- Nearly 250 hedge funds are up more than 10% so far this year
- Updated figures for January show that the industry grew by \$30bn during the month, bringing the industry back above the \$1.8tln mark
- European hedge funds outperformed underlying markets by 3.42% in February
- Event driven hedge funds witnessed the ninth consecutive month of positive returns - up nearly 10% since

June last year

- The first two months of 2013 have seen nearly 50 funds launching globally
- Assets in Latin American hedge funds have increased by 5% in the first two months of 2013
- AUM of North American hedge funds currently at \$1.24tln, expected to cross the historical high of \$1.25tln in March

The performance update for February hedge funds finds that after a strong showing in January on the back of resurgent risk appetite and rallying markets, hedge funds delivered a more muted performance in February as risk aversion increased during the month. The Eurekahedge Hedge Fund Index was up 0.22% during the month, outperforming the underlying markets which finished in negative territory. The MSCI World Index was down 0.07% in February.

The firm writes that February witnessed diverging trends among global markets with US and European indices finishing with contrasting results. Risk aversion increased during mid-month and the S&P dropped below the 1500 mark in the third week of February as developments from Europe effected confidence globally. Economic contraction in Europe along with political uncertainty in Spain and Italy dampened some of the bullishness across the board. Although North American bourses rebounded at month-end to finish in the black, European indices finished with losses.

Managers across all major hedge fund regions posted profits during the month, according to Eurekahedge. Asian hedge funds provided the strongest returns in February – Japanese managers were up 2.51% as the underlying markets continued to rally, although most of the gain was made on the last day of the month. The promise of Prime Minister Abe's policies have delivered strong gains to the Japanese market and the momentum looks set to continue for a while, certainly Abe seems convinced of this as he reflected at the CSIS forum that "Japan is back" and the market is following suit. The Eurekahedge Japan Hedge Fund Index has climbed to its historical high, crossing the 200 point marking and gained 10.50% over the last three months, making it the strongest three months on record for the index.

Asia ex-Japan managers also closed the month with gains of 0.57% while the underlying equity markets finished the month with gains of 0.73%. The region's long/short equity funds delivered the strongest returns during the month, up by 0.80%. European hedge funds also posted positive returns of 0.68% for the month, outperforming the underlying markets by almost 3.42%. European markets declined as the debt issues once again came to the fore – driven primarily by the results of Italian elections. Long/short equity and European macro managers reported gains for the months. North American managers continued to make hay as the markets shrugged off European concerns amid a slew of positive economic data.

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The Critical Difference

The Nordic bridge between Asian hedge funds and northern European investors

Seppo Leskinen left his native Finland 25 years ago and has for the last three years been based in Singapore, originally running SEB Asset management Asia and more recently as the chief executive officer of [Karelia Asia Pacific Ltd](#). He set this firm up in 2012. It is an independent, privately held, 'unconflicted' financial advisory firm working for institutional investors offering advice on various Asian and African asset classes. Leskinen says: "We represent Nordic values."



Seppo Leskinen

The firm works in broad terms as an Asian investor advisory firm focusing on investors such as pension funds and life insurance companies from the Nordic and Scandinavian countries and some other European investors. "We try to listen and to find out what the investors are looking for at a high level when it comes to Asia in terms of both long only and hedge funds, but also direct investments transactions" Leskinen says. "I try to get people to invest in Asia by offering them better quality information than what we normally are getting in Europe. Being based in Singapore gives us a very nice edge."

Once Leskinen's firm has identified the demand, they try to build a portfolio to match. "We have built a group of partners who we use depending what the demand is" he explains. "My core partners are Fullerton Fund Management Company in Asian long only strategies

which is quite comprehensive and Standard Chartered Bank in various credit and loan assets, private equity, and principal investments. We are working on some infrastructure loan assets that can be structured to a pension fund for this liability matching especially when the corporate bond market has lost its shine." Real asset investment can stretch from mining to a dairy farm in New Zealand.

Leskinen also markets a small number of Asian hedge fund managers. The firm numbers seven sales people in total who are on the ground near the investor base in Denmark, Sweden, Norway, Finland, Austria and Hungary and there are a further two people in the UK covering mainly family offices. "I am personally very actively involved too" Leskinen says. "I only market managers where I have invested myself my own money. This gives me comfort that the "fact sheet" numbers are actually real and keeps me very much informed what the underlying manager is doing. I have an aligned interest with investors."

Leskinen believes that Nordic and European investors are coming back from the 2008 crisis. Nordic investors in Asian hedge funds took fright after the financial crisis but they are returning. "Clearly when it comes to Asia it is a bit different because Nordic people can trade in Europe but when it comes to Asia they don't do single securities, they need an external manager whether it's for long only or long/short. It's a major difference."

In addition to its Nordic and European institutional client base, Karelia Asia has relationships with local asset managers who distribute their funds to both institutional and more 'private wealth' type of investors plus family offices drawn from the Nordic region and also from the UK and continental Europe, university endowments and a small number of Asian investors.

Money under management is in the 10s of millions of dollars at the moment with this early stage company

but Leskinen reports an impressive pipeline, especially in the fund strategy side. "My plan is to manage a few hundred million Euros from the Nordic region alone in coming years but we will see" he says.

Investors looking to Asia Pacific hedge funds are looking for the same as from anywhere else, he says, quality and trustworthy managers. "However the Nordic countries differ quite a lot when it comes to investing in Asia in general and also in hedge funds. Some countries are further up in the curve than others and one needs to know where to target."

Leskinen believes that Asian hedge fund investments are still challenging for investors as many Asian hedge fund names have not been marketed in the Nordic countries and have not been heard of before. "Also the Asian markets are still not that well understood as the quality of information is not always that great and the investors don't trade underlying securities much which makes the Asian markets quite distant to them. This makes the hedge fund managers relationship even more challenging. It is often a question of trust and a question of covenants. That's where we can add value being local and we focus on this very much to create a good relationship with the managers and trying to close the gap. Our own view and opinion on the manager is very often asked by the investors."

Generally, Leskinen finds that Nordic investors continue to prefer European, Luxembourg or Dublin funds, he finds. "The institutional investor doesn't normally invest in very young managers and those managers get invested by family office type of investors. There have been exceptions, especially if the team is strong. There is growing interest in 'new frontier' strategies and we are looking for a suitable manager at the moment."

He adds: "I also think that generally

there is good growing interest in Asian hedge funds generally as the long only strategies have been quite well marketed in that region and the Nordics have very strong experience in hedge fund investing and many are very well resourced to do their own due diligence on the manager once they have agreed to look at them."

Post 2008, investors are, Leskinen believes, better resourced on manager research and are even more professional. "Quite often an investor has his own view of the market going forward. You might be a great manager in their mind but your strategy just doesn't fit to 'my view of the market' and you will not get invested."

Leskinen sees new types of Asian funds coming through that include alternative assets in various forms, such as Asian art and real asset linked strategies; socially responsible funds focusing on lending to less fortunate and very low income societies in the

form of micro finance type of funds that lend small amounts of money to certain target groups like single parents in India or Pakistan; Asian 'direct lending strategies' and infrastructure related strategies on both direct deals but also funds.

New investor groups or growing investor groups coming through include the private wealth investor community who are getting more sophisticated in their investments. "The 'home bias' is still there but less and less going forward as people get more informed" Leskinen says. "There is demand for country and sector specific strategies for Asia and the emerging markets. There is also a fundamental discussion going on among the larger institutions and their allocation strategy. Many of them follow MSCI world index and as we all know that doesn't reflect the allocation based on real GDPs and Asian economies are inadequately captured in that. The Asian allocation could easily double if the real GDP

based allocation were taken onboard today" he says.

Looking forward, Leskinen believes that there will be more Asian and emerging market allocations across the board in all sectors and strategies, and a growing demand for more sophisticated Asian hedge fund strategies. "Larger European institutional investors will open their local Asian offices in growing numbers and larger Asian managers will open their offices in Europe to be closer to the investors. Asian investors will increase their allocations from Asian toward western economies."

From the point of view of a market outlook, Asian markets will be strong and, Leskinen believes that as long as China avoids social unrest it will continue to be the engine going forward. "New frontier markets will see growing numbers of managers and thus investments too" he says.

"Ignore Japanese alpha at your peril" says GFIA

(This piece first appeared in [Opalesque's AMB](#).)

GFIA addresses the subject of the resurgence in hedge funds in Japan in this month's issue of their research insights, asking is the recovery rational, or a false signal?



Peter Douglas

"Compared with when we last visited the topic two years ago, Japan seems to have regained investors' attention; it might even become a pain trade, too important to omit in the context of a global portfolio. Bloomberg reports that "the rally in Japanese stocks since new Prime Minister Shinzo Abe ... is starting to stir investor interest in hedge funds", and it certainly doesn't discourage that EurekaHedge has just reported the best three month performance on record for their Japanese hedge fund index through February."

In their quantitative research piece, GFIA looked at the Japan absolute return universe, and quantified some of the characteristics of the constituent funds over the years. "We note however a precipitate drop in the number of listed funds since our

last Japan-focused study; our final universe consists of 96 funds, less than half the number listed in May 2011.

A grizzly market watcher might comment that when there's been an exodus of alpha seekers from a market, those that are left should have a field day."

Funds drawn from the AsiaHedge and GFIA's own database were divided into three categories: long-only funds, long-short funds and market neutral funds. They then examined three risk-return attributes - returns of funds vs benchmarks; correlations analysis and gross and net exposures of long-short funds.

GFIA found that the three strategies studied showed clear and expected divergences in return profile, volatility of performance and correlations. "Long short funds had the best total returns, although market neutral managers delivered the steadiest performance as return profiles diverged according to strategy directionality. All three strategies did better than passive benchmarked investing from a risk-adjusted perspective, clocking higher returns at far lower volatilities. Benchmark correlations for long/short and long only funds actually dipped during downward/sideways trending periods, a testament to the managers' stock-picking skills, while those of market neutral managers spiked worryingly. Net exposures were wide ranging, whilst gross exposures have expanded since the summer of 2012, culminating in a sharp uptick in January 2013."

GFIA concluded that there are plenty of interesting and differentiated Japanese propositions. Highlights to

take away included:

1. Small-mid cap managers dominated the hedge fund space and contributed to most of the outperformance in long short equities strategy. This compares with the TSE Mothers index which was down for the period covered. Allocators would do well to focus on this part of the market.

2. Different sub strategies abound for long-only and long short equity managers. We are seeing increasing influence of Japanese activism funds. There is good diversification within the Japanese manager universe.

3. Niche or deep value strategies focusing on: healthcare, sector consolidation themes, real estate refinancing deals, M&A arbitrage to name a few. Managers have strong informational edge due to long-standing experience and cultural reasons. Skill and experience do matter in Japan.

The firm concludes: "Nobody knows whether "this time it's for real" in Japan. While the renewed enthusiasm is certainly good for business, it may not necessarily be self-fulfilling or sustained. Half the deflationary battle (a psychological disease entails a similar cure) may already be won, if market sentiment continues to buoy domestic spending."

"But from an allocators' perspective, this is a market representing the world's third largest economy; arguably its most innovative economy, with over 3,000 listed stocks, of which, conservatively, there might be sell-side coverage of 25%, and a minimal community of alpha seeking investors. Ignore Japanese alpha at your peril."

QDLP scheme for hedge funds kicks off with \$5bn quota application in mainland China

(This piece first appeared in [Opalesque's AMB](#))

The [South China Morning Post](#) reported that foreign hedge funds are going to be allowed to raise yuan capital from mainland China investors which can then be invested in overseas securities.

The piece explains that the QDLP scheme, designed for foreign hedge funds, complements the qualified foreign limited partner system Shanghai launched in 2011. "Shanghai has started the countdown to the introduction of a "qualified domestic limited partner" (QDLP) scheme, which will allow foreign hedge funds to raise yuan capital on the mainland to make investments in overseas securities".

The city has submitted an application to the country's foreign exchange regulator for a \$5bn quota, which may then be distributed to funds wishing to participate in the scheme.

The paper writes that Shanghai's move comes as it faces competition from Qianhai, an experimental financial zone in Shenzhen that is being used as a testing ground for freer yuan usage and capital account convertibility. "Government officials said the application for the investment quota was in the final stage of preparatory work for the launch of the scheme, although a launch date had yet to be decided."

An official with the Pudong Financial Services Bureau said in the SCMP piece: "The QDLP programme will be launched sooner rather than later. The

city officials are very active in pushing ahead with major liberalisation, including the QDLP."

Under the QDLP scheme, qualifying foreign hedge funds must be registered with the local authorities before they can convert yuan funds that they will be allowed to raise from mainland high net worth individuals into foreign currencies for securities investments abroad.

The scheme, initially proposed by the Shanghai government, is intended to bolster the growth of the domestic hedge fund sector.

Hedge funds that raise capital privately are still in a rudimentary stage on the mainland, and cash-rich Chinese investors have little knowledge about the operations of the sector.

The paper writes that the city has made no secret of its ambition to transform itself into a global financial centre, but it is facing competition from Qianhai, an otherwise backwater area in Shenzhen which has risen to prominence since Beijing gave it approval last year for a trial of bold financial reforms.

"Bankers and fund managers said Qianhai was more efficient than Shanghai in approving the establishment of new funds and loosening regulations on cross-border capital flow between Shenzhen and Hong Kong.

Senior Shanghai city officials, including the executive vice-mayor, TuGuangshao, a former vice-chairman of the China Securities Regulatory Commission, are now actively backing

more liberalisation of the financial markets to allow freer cross-border capital flows."

The yuan is still not fully convertible under the nation's capital account. Foreign institutions may only buy mainland stocks through the qualified foreign institutional investor programme, while mainland investors may buy into qualified domestic institutional investor products offered by mainland mutual funds and banks to gain indirect access to overseas markets.

The QDLP scheme, designed for foreign hedge funds, complements the qualified foreign limited partner system Shanghai launched in 2011.

Sources said Shanghai might now get a \$3bn initial quota for the QDLP scheme, rather than the \$5bn it had bid for in its discussions with the State Administration of Foreign Exchange.

However, the paper quotes HowHow Zhang, the chief researcher at Z-Ben Advisors in Shanghai, who said: "It doesn't look as if foreign hedge funds would find it easy to raise capital domestically, since mainlanders are still not very interested in their products."

Asia Pacific Intelligence reported on hedge funds and their move into China in its October issue. You can read that piece [here](#) and a piece on the \$5bn trial [here](#).

November saw a piece about Shanghai's Fortune Group's product based on Winton Capital's trading programme. You can read that piece [here](#).

Japanese stockmarket reaches new highs

(This piece originally appeared in [Opalesque's AMB](#))

The latest surge from the Japanese stockmarket reveals its sixth consecutive month of gains in February, with a 3.8% return over the month. Masashi Oda, Chief Investment Officer, SuMi TRUST commented: "A key positive driver was the nomination of Mr Haruhiko Kuroda, currently the President of the Asian Development Bank and former Vice Minister of Finance for International Affairs, to be the next Governor of the Bank of Japan. This followed the decision in the early part of the month of the present Governor, Mr Masaaki Shirakawa, to step down before the scheduled end of his five-year term. Prime Minister Abe has called on the BOJ to ease policy and boost stimulus measures to revive the economy. Mr Kuroda is seen as a strong supporter of such measures, having advocated that the BOJ should adopt an inflation target and pursue a policy of aggressive monetary easing in order to attempt to reverse many years of deflation."

Oda also believes that another key positive driver, which has been seen by investors as further evidence of Prime Minister Abe's strong commitment to boosting economic growth, stems from his meeting with President Obama at which an agreement was reached on talks which could set the stage for Japan to join negotiations on the Trans-Pacific Partnership, a U.S.-led regional free trade agreement. Abe had undertaken to consider joining the pact only if no prior

commitment to eliminate all tariffs was required, and now that the official joint statement made it clear that all goods will be subject to negotiation, an announcement that Japan will enter negotiations is expected shortly.

"Investors were also reassured that communiqués from G7 and G20 did not criticise Japan over the recent weakness of the yen, effectively signalling that the BOJ has scope to continue stimulating the stagnant economy. Prior to the meeting there had been concerns that criticism from G20 could prompt Japan to modify its aggressive stance and hurt plans to spur growth. Instead, finance ministers from the member countries pledged that fiscal and monetary policies will not "target exchange rates for competitive purposes", reducing the risk of reversing the recent depreciation of the yen" Oda writes.

"SuMi TRUST believes that the strength and duration of a further stock market rally depends, in the near term, on a number of key factors. Firstly, whether the global economy maintains its positive momentum, secondly, the extent to which the new BOJ Governor implements policy measures and thirdly whether Japanese companies deliver the strong earnings growth expected by investors. In the medium term, the decision to commence negotiations on joining the Trans-Pacific Partnership and recognition of the potential benefits of joining the pact is an additional factor that could provide support for the market."

While large cap stocks have led the recent rally, outperforming the

broader market, and still present a range of strong ideas, SuMi TRUST has also sought out opportunities in small and mid-cap stocks, many of which have been lagging the market. Oda writes: "One stock pick in small cap companies is Nippon Seiki, a manufacturer of instrument panels and sensors for vehicles and a world leader for its products in the two-wheel sector. As a 'Keiretsu' supplier, the company has a strong relationship with Honda, but the firm has been expanding its business with other vehicle manufacturers and this now represents 65% of instrument panel sales and 74% of total sales. On the back of the competitiveness and quality of its products, SuMi TRUST believes that Nippon Seiki is likely to capture significant business from a major non-Japanese auto manufacturer. We expect the company to achieve strong earnings growth over the medium-term on higher sales resulting from market share growth and higher levels of production by Honda, which is supported by a recovery of auto sales in the U.S. and continued sales growth in emerging countries."

SuMi TRUST's Global Asset Services division has global expansion plans, reported in Asia Pacific Intelligence's March edition. You can read that piece [here](#).

Asia Pacific Intelligence interviewed Japanese hedge fund manager Chris Rigg of the Audley Japan Opportunities Fund in February. You can read that piece [here](#).

Manulife's inaugural survey finds investor confidence low across developed Asia

The inaugural [Manulife Investor Sentiment Index](#) in Asia (Manulife ISI), based on 3,500 interviews across seven Asian markets, has revealed that investors in developed Asia are not

confident it is the right time to invest, with Hong Kong and Taiwan the most pessimistic. This contrasts with higher confidence in the emerging markets of Indonesia and Malaysia as well as in Canada and the U.S. The interviews

were conducted in Hong Kong, China, Taiwan, Japan, and Singapore, Malaysia and Indonesia.

Robert A. Cook, President and CEO, Manulife Asia said, "From an

investment point of view, there's no more exciting place than Asia right now. There are so many opportunities across the region for people to invest to achieve their life goals. To help them do that, it's extremely important that we understand investors' needs. The Manulife Investor Sentiment Index helps us do that by providing the kinds of market insights that the Index has been doing in North America now for many years."

This first Manulife ISI in Asia shows that the top reason investors believe it is a bad time to invest is that "the market is too volatile". This is the top answer for all assets except property, regarding which the top reason people offered was "the current price is too high and a correction is expected".

Reflecting the relative pessimism across the region, Asia investors overall indicate they are holding the single biggest portion of their assets in cash, even though respondents in all markets outside Indonesia and Malaysia have only weak confidence that this is an effective investment strategy.

Over half (56%) of Asia investors report being either on track or ahead of schedule to meet their financial goals, significantly more than in Canada. While 10% of Asia investors say they are so far behind schedule they are unlikely to catch up, this is only about half the level in Canada. In terms of achieving their financial goals, the top two most commonly-cited resolutions this year are to learn more about investing, followed by a desire to develop a financial plan. Moreover, more investors in Asia place these as their top resolutions by a factor of two-to-one compared to those in North America.

Despite the current pessimism, the Manulife ISI also shows investors across Asia are relatively optimistic about the future, with the sole exception of Japan. Clear majorities report they expect to be better off in two years' time – very similar to the results in North America.

"The results seem to point to a gap between investors' goals and their strategy to achieve them," said Philip Hampden-Smith, Chief Marketing Officer, Manulife Asia. "Interestingly, it seems many are aware of that gap, which may explain why the highest resolution is learning more about how to invest. It will be fascinating to see how sentiment tracks over time, especially given that most respondents are optimistic about the future."

Manulife Investor Sentiment Index - key findings:

Investor sentiment

Investors across markets in Asia have only low levels of confidence that it is a good time to invest, with Hong Kong and Taiwan investors being the most pessimistic. This contrasts sharply with more enthusiastic levels of investor sentiment in the U.S. and Canada and, by far higher margins, in Malaysia and Indonesia. Overall, young Asia investors, aged 25-29, are more optimistic than other age groups, except in Hong Kong, whose young investors appear the most pessimistic in Asia.

Reasons for not investing

Sentiment on the issue of investing in real estate (either their primary residence or other properties) diverges sharply across markets. In Hong Kong and Taiwan net sentiment was clearly negative, whereas sentiment is positive in all other Asia markets, especially Indonesia and Malaysia, as well as in the U.S. and especially Canada. Nearly two thirds of Asia investors saying it is a bad time to invest in stocks report the main reason is "market volatility," a reason cited by over three quarters in China and Malaysia.

Investment preferences

Investors in Indonesia report it is a good time to hold cash and invest in property (either their own home or other real estate), with little appetite for stocks, a pattern also evident in Canada. In contrast, in Hong Kong the reverse is true. In Malaysia two-fifths of investors' assets are stored in cash

and this aligns with the widely-held sentiment in that country that it is a good time to hold cash. In Japan, though, where cash makes up about the same proportion of investors' assets, sentiment towards cash was clearly negative.

Financial goals

Two thirds of investors in China say they are either on track or ahead of schedule to meet their financial goals. In contrast, in Japan nearly a quarter report being behind schedule and unlikely to catch up. There was agreement across all markets in Asia and North America on the two most cited steps taken to get back on track, these being increasing savings and reducing spending.

Asia investors using a professional financial advisor report more optimism towards investing than those without an advisor. A quarter of Asia investors have a professional financial advisor, versus two fifths in Canada. Of those who do not have an advisor, over a third in Hong Kong, Singapore and Taiwan said the main reason was a lack of trust, which was a factor for only 6% in Canada.

Personal finances

Over two fifths of Asia investors report feeling better off than two years ago, though with variance across the region. In China, 60% agreed with this statement, whereas only a fifth did in Japan. In Singapore, a fifth of investors feel worse off than two years ago, while in Indonesia this is true of just 4%.

A majority (54%) of investors across Asia believe they will be better off in two years' time, an almost identical degree of optimism as in Canada. Looking ahead, the most optimistic Asia investors were in China, where 68% expect to be better off in two years' time. This again contrasted with Japan, where only a quarter expects to be better off in two years' time.

Asia Pacific hedge fund news for March included:

ASIA

The [IO&C](#) reported that there may be a decision soon on the Asian Funds Passport pilot proposal. The proposed Asia Pacific version of Europe's UCITS funds, an Asian Funds Passport, was given a positive airing at the annual ASIC Forum for industry participants.

AUSTRALIA

Businessweek [reported](#) that Australia's Ascalon Capital Managers Ltd., a company owned by Westpac Banking Corp. (WBC) that invests in hedge-fund managers, bought a 30 percent stake in Singapore-based RV Capital Management Pvt as it expands its Asian investments.

CHINA

Asian Investor [reported](#) that mainland Chinese fund firms have set their sights on Europe, seeking to break into the European institutional market and sell the China growth story, although fears over market volatility both domestically and in Europe around Cyprus points to short-term fundraising difficulty.

Marc Saluzzi, chairman of the Association of the Luxembourg Fund Industry and partner for PwC's Luxembourg Financial Services practice, says he noticed an uptick in Chinese managers seeking advice on breaking into Europe in the second half of 2012.

Another story from [Asian Investor](#) revealed that LGT Capital Partners, the Switzerland-based alternative asset manager overseeing \$25 billion, has launched a Beijing office, marking its first operation on the mainland. The Beijing office will be headed by Frankie Fang, who has been serving

as LGT Capital's China representative since 2007. It is understood that LGT Capital will examine potential private equity deals in primary, secondary and co-investment opportunities on the mainland, with the Beijing office serving to research and monitor its investments.

EMERGING MARKETS

Institutional Investor [reported](#) that emerging markets were once seen as risky, but capital inflows - in particular from hedge funds - show how that mind set has changed. In the quarter ended December 2013, according to Chicago-based hedge data firm HFR, hedge fund capital invested in emerging markets rose \$11.2 billion to a record \$139 billion.

HONG KONG

Opalesque [reported](#) the "Report of the Survey on Hedge Fund Activities of SFC-licensed Managers/Advisers" shows that hedge fund assets under management (AUM) in Hong Kong increased 38% from the time of the last survey in September 2010 to US\$87.1 billion as of 30 September 2012.

JAPAN

Bloomberg [reported](#) that Tsukasa Shimoda, a former fund manager at Morgan Stanley Asset & Investment Trust Management Co., will start a Japan-focused hedge fund amid increased appetite for the world's second-largest equity market.

The Japanese FSA published a [draft review](#) of the short selling regulation.

KOREA

Asian [Investor revealed](#) that the Korean National Pension Service \$340 billion pension fund has set itself a long-term goal of opening offices in Hong Kong and Shanghai. However, for now it is focused on stabilising its other overseas bases.

Hedgeweek [reported](#) that Hyundai Securities Co Ltd is seeding capital to a new Singapore-based hedge fund, under the leadership of Dr Kim Hong-shik, a derivatives specialist who headed the Asian equity-linked products for ABN AMRO and was founding member at K3 Capital Management, a Singapore-based hedge fund.

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