



# Opalesque Round Table

## SINGAPORE

# Introduction

Dear Reader,

Welcome to the third edition of the Opalesque Roundtable Series, the **Opalesque Singapore Roundtable**. In an Opalesque Roundtable, we unite some of the leading hedge fund managers (single and multi strategy managers) as well as representatives of the local investor base (institutions, fund of funds, advisers) to gain **unique insights into the specific idiosyncrasies and developments, the issues and advantages of each hedge fund center**.

This Opalesque Roundtable demonstrates impressively how the city-state Singapore, with only 4.78 million inhabitants and by territory the smallest country in Southeast Asia, has entered the prime league within the global hedge fund jurisdictions. Home-grown Singapore hedge funds have reached impressive multi-billion asset bases and many have outperformed their global peers.

The Opalesque Singapore Roundtable was **sponsored by Customhouse Group** ([www.customhousegroup.com](http://www.customhousegroup.com)) and took place in their Singapore office. We also thank Singapore based GFIA for helping us putting the group together.

The participants of the Opalesque Singapore Roundtable are:

- **Angus Cameron**, Komodo Capital Management ([www.komodo-capital.com](http://www.komodo-capital.com))
- **Peter Douglas**, GFIA ([www.gfia.com.sg](http://www.gfia.com.sg))
- **David Walter**, KBC Alpha Asset Management ([www.kbcaim.com](http://www.kbcaim.com))
- **Michael Coleman**, Aisling Analytics ([www.aislinganalytics.com](http://www.aislinganalytics.com))
- **Moe Ibrahim**, 3 Degrees Asset Management ([www.3degrees.com.sg](http://www.3degrees.com.sg))
- **Julian Ings-Chambers**, Artradis Fund Management ([www.artradis.com](http://www.artradis.com))
- **Christopher Brandon**, Rhicon Currency Management ([www.rhiconccy.com](http://www.rhiconccy.com))

The first Alternative Investment Management Association (AIMA) meeting held in Singapore was in 2000. A total of six people came together at that meeting, who were probably all of the hedge fund people working out of Singapore at that time. In this Opalesque Roundtable, you can learn what has changed since then.

Please enjoy "listening in" to the Opalesque Singapore Roundtable!

**Matthias Knab**

Director Opalesque Ltd.

[Knab@opalesque.com](mailto:Knab@opalesque.com)

# Participant Profiles



Matthias Knab, Christopher Brandon, Moe Ibrahim, Peter Douglas, Julian Ings-Chambers, David Walter, Angus Cameron, Michael Coleman

# Introduction

## Angus Cameron

Komodo Capital Management

My name is Angus Cameron. I have been trading Asian markets for about 13 years for banks and hedge funds. My expertise is interest rates and foreign exchange, and over the past few years I have added a broader macro component to our investing.

I am the Chief Investment Officer of Komodo Capital Management. We started Komodo Capital Management in 2006 to manage the KC Asia Fund, which is a macro-directional and relative value fund. Our objective is pure alpha generation. We aim for 15 to 20% annualized returns irrespective of market conditions - boom markets, bad markets, high volatility or low volatility.

About 60% of our trading strategies are directional and about 40% of our trading strategies are relative value and arbitrage. We trade currencies, interest rates, and equities, underlying assets, and volatility.

I manage the business with two other senior partners. One of them is Simon McMahon who has about 14 years trading experience and focuses more on the volatility side. The other partner is Edward Blair, who has been trading for about six years and focuses on the algorithmic trading strategies.

We are relatively new - we've have been around for about a-year-and-a-half and run approximately \$75m. Since inception, our annualized return has been about 18%, and we have a Sharpe ratio of 3.2.

## Peter Douglas

GFIA

I run GFIA, which is Asia's oldest hedge fund consulting firm. We now research hedge funds and absolute return managers in developing markets globally, not just Asia but also including Latin America, the Middle East and Africa. We sell our work both as consulting and advisory services to professional investors, and as discretionary money management services through fund of funds.

I also serve as Director of the Chartered Alternative Investment Analyst (CAIA) Association, representing CAIA in Asia. I chair the Alternative Investment Management Association (AIMA) chapter in Singapore.

## David Walter

KBC Alpha Asset Management

My name is David Walter; I am Head of Research for KBC Alpha Asset Management based here in Singapore. We are an Asian focused fund of funds group, primarily serving large pension funds and other institutions.

Our team has been doing research on Asian hedge funds for over six-and-a-half years and has offices in Singapore, Hong Kong, Tokyo, and London. Personally, I have been involved with the Japanese market for my entire career, which is a span of 20 years.

## Michael Coleman

Aisling Analytics

My name is Mike Coleman; I am one of the partners at Aisling Analytics, which is owned 50% by myself and my business partner Doug King. We manage the Merchant Commodity Fund, which as the name suggests is a pure commodity play - a mix of energy and soft commodities. Our portfolio is made up entirely of commodities: derivatives, futures, options on futures, swaps, and on occasion we also hold a physical position.

The trading approach is a mix of directional and relative value. Typically, we would be between 25-40% directional, and correspondingly 75-60% relative value.

The Merchant Commodity Fund started in June, 2004, and current assets under management are about US \$2.3 billion. Our annualized return is around 34% since inception.

**Moe Ibrahim**  
3 Degrees Asset Management

I am the Founder of 3 Degrees Asset Management, and the Fund Manager of The Asian Debt Fund (ADF). 3 Degrees was established in 2002 and we launched ADF in January 2004. Today, we manage US\$400 million. ADF has generated a net IRR since inception of circa 15.5%, with no leverage, no down months, low volatility and a cash position which has averaged 30% over the past 24 months.

ADF focuses on fundamentally sound companies that have defaulted as a result of over leveraging. Geographically, we target opportunities in Southeast Asia, where we believe the supply/demand imbalance is at its greatest.

ADF pursues three primary types of transactions:

Late Stage Distressed – We invest in companies experiencing financial difficulty, such as a liquidity crisis, as well as companies that have defaulted on their debt. Investments are normally made at a discount to an event, such as a recapitalization, a re-organization, a debt buy back, asset sales or some other form of repayment. Returns are generated through the realization of these value-creating events, rather than changes in valuation.

Next, we extend short-term, senior secured bridge loans via an asset-based lending strategy.

Finally, we selectively assume control of troubled companies, focusing on businesses that have been foreclosed upon by financial institutions.

Our business is highly relationship driven – a key contributor to why returns have exhibited no correlation to broader markets.

**Julian Ings- Chambers**  
Artradis Fund Management

I am the Business Manager of Artradis Fund Management, which is now about six years old. We are a fund management company based in Singapore, managing a little over \$4 billion currently across three areas: Asian volatility, Asian long/short funds and Russia, but with the bulk of our assets in the Asian volatility funds. Across all of our funds we seek to generate positive non correlated returns, with a strong emphasis placed on risk management and by that also risk adjusted returns.

**Christopher Brandon**  
Rhicon Curerency Management

I am one of the three founding partners of Rhicon Currency Management. We are pure discretionary traders in the FX markets. Our main fund, the Rhicon Strategic Program has about \$300 million which we trade in a short to medium-term strategy. The fund has generated about 12% returns over the past four years since inception at about 7.5% vol. We have a team of ten between our offices in London and Singapore.

**The first Alternative Investment Management Association (AIMA) meeting held in Singapore was in 2000. A total of six people came together at that meeting, who were probably all of the hedge fund people working out of Singapore at that time. How has the Singapore hedge fund industry evolved since then? What is it like to run a hedge fund out of Singapore today?**

**Christopher Brandon**

We have seen the local industry go through two distinct stages. The first one was a boom in hedge fund startups, which lasted from 2003 to about 2006. Singapore is a very business-friendly environment, the regulator has a soft touch, and the infrastructure is obviously world-class, as we know.

The second stage has witnessed a rapid institutionalization of the hedge fund industry. We have seen these patterns in Europe and North America, and we are experiencing the same developments here as well. Until recently there were very few hedge funds in Singapore with over \$100 million in assets under management, whereas we now have multi-billion dollar hedge funds, some of which are represented at this Roundtable. There is also a much broader scope of funds based here, as well as wider variety of strategies and even instruments traded.

**Peter Douglas**

Just by looking around this table, we can refute the old criticism of the Asian hedge fund industry, that they are mutual funds with a performance fee. Nobody sitting around this table is managing a (Alfred Winslow) Jones model, net long, long-short, directional equity fund. So this Opalesque Singapore Roundtable demonstrates that it is very possible to run an extremely well diversified portfolio of Asian hedge fund managers. Our Wittenham Asia Core fund of funds, for example, has a historic correlation of less than 50% with the Asian hedge fund aggregates, and a similar degree with Asian equity indices.

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**Julian Ings-Chambers**

Coming back to what Chris said, we have also found Singapore to be a very user-friendly environment during the six years or so we've been operating here.

Instead of dictating the environment for us to operate in, the regulator has been open to dialogue and has sought to evolve an optimal environment for funds to operate in, to identify how fund management firms can grow their. They have been deliberately and very obviously accommodative to funds setting up here, and understanding what it is that they need. Their attention goes across all areas, from regulation to operational environment.

**Moe Ibrahim**

The industry's growth has been favorable for all Singapore-based managers. Singapore has evolved from being a daily stopover into a 2 to 3 day leg of much more comprehensive Asian due-diligence trips being performed by institutional investors.

Investor traffic has increased substantially in recent years. As mentioned, we launched 3 Degrees in late 2002 and The Asian Debt Fund in January of 2004. We now see a minimum of 3 to 5 new investors a week who are passing through town, which is up nicely from where we started.

From a regulatory perspective, you can probably be in business within 24 hours; with that being said, I think people operate understanding that ultimately this is Singapore, and there is a certain way to conduct business here. This is a "Big Brother is always watching" regulatory environment, which can be effective. Overall it's a convenient and predictable place to run a business.



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**Michael Coleman**

Moe has raised a key point with the investor traffic - there is clearly a network effect going on, like a virtuous cycle. As there have been more funds established, investors find it more worthwhile to extend their stays and come more often. Singapore is now offering very diverse investment opportunities.

First of all, the variety of markets operating in Singapore. For instance, Singapore is a commodity center, so really it's the only location in Asia where you could base a global commodity fund. So there's a much wider range of strategies and the people with the corresponding skill sets operating within the Singapore market, and I think it's much more diverse than Japan or Hong Kong in that respect.

Secondly, the attractiveness of Singapore as a business destination, as a place to setup or start a hedge fund, also then pulls in strategies and talents that aren't based in Singapore, but that can handle the time zone.

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So I think in particular the Monetary Authority has done an excellent job of utilizing the tax incentives. So the combination of the light regulatory touch plus the tax benefits that are available is a very powerful mix that attracts managers to Singapore.

**Moe Ibrahim**

With respect to investor type, the presence of multi-billion dollar shops here in Singapore is now drawing not only fund of funds, but institutional investors, pension funds, and endowments.

As a result, larger allocators are developing relationships with funds of our size - below the \$1 billion threshold - much earlier in their investment process. This bodes well for us as relationships take time to develop, and we are building those relationships now.

**Angus Cameron**

I agree with that, we often see investors who have basically come to see your fund or Mike's fund, and they say well, why don't we take a look at Komodo as well?

**David Walter**

I think I'd make a couple of points here. I think on the regulatory side the MAS would certainly not liked to be seen as a light touch and I think to reiterate what Moe says there, if something does go wrong, they will come down on you like a ton of bricks.

- Moe Ibrahim** The regulatory environment will become more onerous should the industry grow significantly too quickly, or something blows up, whatever comes first.
- David Walter** Correct. So I think they certainly -- in discussions we've had with the MAS, they are certainly very loathed to be seen as "light"; they like to be seen as accommodating business, but certainly not as "not regulatory", and the way this place works it certainly will be regulated.

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**I think with regard to the growth of the industry, the obvious comparison is with Hong Kong. We have been investing in Asian hedge funds since the end of 2001, and when we started, probably about 40-50% of hedge funds were based outside Asia. They were investing in Asia, but based in London or New York. Obviously, now that figure is down to about 15-20%, and the major centers are without doubt Hong Kong and Singapore.**

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Hong Kong has obviously benefited from the fact that most of the prime brokers and administrators are there and obviously from the China story as well. When it comes to the large multi-billion, multi-strategy funds, I would say there is a split between Hong Kong and Singapore, which is largely determined by the focus of their business. For example, funds which are active in interest rates or the broader Asian market may come here to Singapore, and managers who really want to focus on China will move to Hong Kong.

Looking at the growth of the industry, Singapore has benefited from a couple of things. First, the attitude of the Japanese regulators and tax authorities has really motivated an enormous number of Japanese managers to base their management here in Singapore. This includes actual portfolio managers, because of the difficulty of doing business in Japan.

The second factor is India. The growth of India as a hedge fund space has made Singapore the obvious location because of the existing networks, the ease of travel, the environment, and more recently also because of the dual-tax regime between Singapore and India. All this made Singapore a good place to set up Indian hedge funds.

So, there is a distinct stream of Japanese and Indian hedge fund managers towards Singapore, and the place has set itself up for that.

- Michael Coleman** I am surprised we haven't seen more Australian managers moving this way, any perspectives on that, David?

**David Walter** Well, I suspect the lifestyle in Sydney isn't too bad!

- Michael Coleman** But the taxes.

**David Walter** The taxes are a factor, that's right. There are quite a few Australian managers who invest in this region and have set up an office in Singapore. I am not aware at this point of any having gone to Hong Kong, but I can think of half-a-dozen who have got offices in Singapore. However, the Aus-



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tralian tax situation is so difficult to get around anyway that I think, coupled with the lifestyle, staying in Australia makes sense too.

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Mentioning the Sydney lifestyle, Singapore is also a good place to raise a family, and most of us are middle age, we've got kids and family. I would say if you look at the major Asian financial centers - Tokyo, Hong Kong, and Singapore - Singapore wins.

**Moe Ibrahim**

For our strategy, Singapore makes sense geographically as we focus predominantly on Southeast Asia (Indonesia, Thailand, Philippines and Malaysia). These countries account for circa 75% of our portfolio. We are also doing more business in Singapore as well.

If China, Taiwan or Korea are your focus, then Hong Kong makes more sense. I think the Western world sometimes forgets that Asia is just not just India and China. From our perspective, the most interesting countries are Southeast Asian countries, where it's a lot easier to develop relationships.

We find it more straightforward to do business: 1) more people speak English; 2) the information we get is in English; and 3) many of our transactions are governed by English Law. Moreover, the majority of the opportunities we see are US dollar-denominated. In addition, there are few debt strategies based in Singapore, so it's an easier place to stand out, even as a smaller firm.

**Julian Ings-Chambers**

The industry is growing extremely quickly anyway, and I think Singapore has been very clever in making it as easy to operate here as they possibly can. Our industry benefits from hubbing, so industry growth feeds on itself and develops a momentum of its own.

As a consequence, Singapore has started to take an increasingly bigger share of startups and of the funds coming into Asia to open a regional office.

To some extent, this has created a couple of new problems with administrative resources or with prime brokerage desks which have tended to be headquartered in Hong Kong. On the positive side, the brokerage community and the administrative community have tried respond to these issues pretty quickly, and we see those bottlenecks beginning to disappear.

It is probably not possible to point to a single issue and say this is why the industry is being successful here; momentum is critical though, which is certainly what we have here. Lastly I'd add that hedge funds are part of a broader initiative for Singapore which is looking to build, and to a large degree already has built, a world class centre for wealth management.

**Moe Ibrahim**

One of the challenges, albeit minor, relates to fund administration and other service providers. Hong Kong probably has more depth of experience versus Singapore. However, since the number of Singapore-based funds is increasing, service providers are setting up dedicated Singapore-based operations. This, again, benefits everyone.

**Christopher Brandon**

If you analyze the local hedge fund scene, we are seeing a trend where more fund managers establish themselves here who do not run Asian specific strategies, like Rhicon for example. We are a currency focused manager, so there is less of a compelling or inherent reason to necessarily be in Singapore. However for us, being here has definitely been advantageous, and I think we are likely to see more fund managers that don't just trade Asian products establish themselves in Asia, and for many Singapore will be a natural fit.

Looking at the investor side, we also see a lot of investors looking to establish a presence here, particularly in the fund of funds space. In fact, at this time, several of our investors are actively looking for office space and hiring staff to perform due-diligence on managers in the region as

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**Christopher Brandon**



well to seek marketing opportunities into Asia. This is all part of a broader development and continued growth of the Asian hedge funds industry.

**Matthias Knab**

**We had mentioned Singapore's wealth management initiative. As hedge fund or FoF managers, how do your links to this industry look - are the sectors pretty much siloed? Are they open to you? Do they create products - the private bankers?**

**Moe Ibrahim**

Asian private banks have been a small source of inflows. Nevertheless, the growth of the private banking industry has been a tremendous source of deal flow for us. We have gotten to know some of the highest profile businessmen here in Asia, especially Southeast Asia, and do direct transactions with them for the asset-based bridge lending part of our portfolio.

This business was very strong for me between 2000 and 2003. It slowed for a while, and now we are being inundated with transactions as the large investment banks seem to have challenges with keeping certain transactions confidential. Details of deals sometimes get leaked, etc. 3 Degrees values relationships, so confidentiality is always of paramount importance.

**Michael Coleman**

While there are more and more private bankers here in Singapore, the list of products that those private bankers can pitch to their clients is, in my experience, still very much dictated back in Zurich or London or wherever.

So, as yet, I have not seen much evidence of approved lists of hedge funds being generated in Singapore for the Asian client base.

**David Walter**

There are obviously some private bankers who do encourage their clients to invest in the industry here. Having said that, a lot of the high net-worth people here think they know Asia better than a lot of the fund managers do. So to a large extent they will invest in assets directly, rather than through hedge fund strategies.

Given what we've seen in the first quarter of this year - from what I am hearing, there is quite a lot of pain in the private banking sector - this might actually present an opportunity for the Asian hedge fund managers who as a group have generally done better than the markets or long-only products.

**Peter Douglas**

I would agree, there is a lot of pain in the private banks at the moment. For the last two, three years, if not longer, the "sophisticated" way to run a private portfolio, for many banks, is to lever the assets, particularly for hedge fund portfolios. Many of those portfolios lost money in the first quarter, and in any case the banks' credit departments are tightening their rules. Private bankers are not returning calls to new product manufacturers very quickly at the moment!

Apart from the private banking market, we can also observe the early stages of the formalization of the savings market in Asia. It's still a very informal environment, with a large number of people effectively running their own hedge funds with their own personal account investments. As we've seen in other geographies, the institutional money management will slowly develop too.

My view on this is that Singapore is again being quite long sighted, and they have been doing this for many, many years. I worked previously for a UK investment company, coming to Singapore in 1995 to help open their office in Singapore, which was an earlier attempt to develop the investment industry here and local expertise.

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**Moe Ibrahim**

Historically, wealth in Asia was concentrated in very few hands, the godfathers who ran the large Asian conglomerates. These tycoons invested their money in their own companies, and hence used private banks to gain access to non-Asian investment opportunities, such as US-based hedge funds.

Today, the number of Asian millionaires is increasingly quickly and the middle class is growing at a phenomenal pace. Many of these countries never even had a middle class before. These investors will be less inclined to accept US risk, since they are unfamiliar with it.

As a result, the private banks will need a diversified product pool, which will include Asian hedge fund strategies. We expect this to be a significant future source of inflows.

**David Walter**

We should also highlight the growth of institutional money in Asia that's beginning to invest in the region. Obviously, you've got the big two investors in Singapore (Temasek, GIC) who have been doing it for a long, long time, but you've seen quite a few more institutions here that have come into the market in the last three, four, five years as well.

But I am not just talking about Singapore here, I mean particularly in Korea - there has been a big growth in Korea - and in Taiwan. Japan has had its ups and downs depending on how the regional banks and the BIS go. Despite the scare of what's going on in the market at the moment (Q1 2008), there are still a lot of net allocations from Japanese institutions.

So I think it's actually the move of institutional investors which is the real key change here in Asia.

**Matthias Knab**

**Can we elaborate this a bit further, how is the Asian institutional investor market, in Singapore and elsewhere, developing?**

**David Walter**

In Singapore definitely, but also some other national pension schemes, both in Japan and Korea are coming in and starting to invest in hedge funds, as well as places like Malaysia and so on. This trend will continue, even more so given the difficult or volatile times in the other asset classes, these moves could be a good development for the pensions industry.

**Peter Douglas**

Just highlighting Singapore again, of course we have both the Government Investment Corporation (GIC) who have been very sophisticated investors in alternatives, and Temasek/Fullerton who also have substantial sums invested in hedge funds, both for many years. Beyond those, the gap to the second tier is quite wide. There is clearly a growing second tier of institutional, or institutional-looking investors in Singapore, but they are still at the stage which we would not classify as institutional style of decision making yet.

The main public pension scheme here is the Central Provident Fund (CPF), which covers all Singaporeans and long-term residents. To my knowledge, this fund is either not participating, or only at a very early stage of participating in alternatives. Although there are the legal structures available for Singaporean companies to set up company-specific pension funds, again I think it's fair to say that that's at a very early stage of development as most Singaporeans feel well served by the CPF.

Summing up, there are avenues for managers to source capital from in Singapore, but that's not the main rationale for a manager being here. This is not primarily an asset sourcing location.

**Michael Coleman**

Coming back to the point that I think Moe raised earlier though, I would like to add that there is more institutional money finding its way to Singapore, both from within the region and globally. So for instance, we have several Australian pension funds, European funds and endowments are coming here to visit funds. So to that extent institutional flows are becoming more important to Singapore managers.

**Peter Douglas**

Yes correct, the big global allocators from the US and Europe - also from Japan - are coming through, and are taking Singapore managers seriously. There's between \$9 and \$10 billion of assets represented around this Opalesque Singapore Roundtable today. You are not going to get that in a medium-sized city of 4.5 million people unless the global allocators are investing.

**Matthias Knab**

**Where does your money come from; is it from Asia, is it from US, Europe, what's the mix roughly?**

**Christopher Brandon**

Our investor base is broadly diversified, with 40% coming from North America, 40% from Europe, and a further 20% from Asia. In particular we have seen a rapid growth in our Asian investor base - which is very institutional, and which has grown from a low level only a couple of years ago.

While currency as an asset class seems to be neglected by many fund of funds, it seems to be drawing a lot more interest from the likes of pension funds who are seeking to use it for portfolio diversification purposes and generating returns. Several Asian institutions have been early adopters of using foreign exchange managers to add alpha to their portfolios, and we expect this trend to continue.

**Julian Ings-Chambers**

In our case nearly half of our assets come out of Europe, about 35% from the US, and the balance from Asia.

We see the same dynamics - for a few years or so emerging markets were slightly off the radar, the large asset allocators were investing in more traditional asset classes. But currently, as growth opportunities in Western markets begin to look a little bit more vulnerable, they are turning to emerging markets for growth, which on a relative basis may prove to be a little bit stronger.

While previously they may have kept an eye on the Asian investment market, these large allocators may not necessarily have done a formal review of the region for a couple of years. When they are coming back to Asia now to check out a long-term asset allocation of let's say 1% or 3% to emerging markets or Asia, they are now finding larger, home-grown Asian managers where they are able to consider a meaningful allocation.

## Angus Cameron

We have quite a different mix. About more than 50% of our capital comes from Asian investors, European investors around 30%, and US investors around 20%. I am not quite sure why that is. My speculation is that we are more of an Asia-focused fund, so they feel more comfortable investing in us.

As far as investor types, we are initially popular with family offices, and though we have not yet reached a multi-billion size such as Aisling or Artradis, it is surprising that already now we get the interest of more and more institutional investors.

You could also say that this is a positive development in the sophistication of Asian investors, just as one of the areas where Asian countries adapt or catch on. Initially they will outsource the decision making system to an allocator in Europe or an allocator in the United States, but as they become more and more familiar with the process and the selection process themselves, they will take more responsibility themselves in these decisions.

So we are actually seeing more interest from Asian institutional investors directly into us rather than via an intermediary like an allocator based in Europe.

**Historically, I believe US-based investors operated on the hypothesis that US credit was “less risky” than Asia. Obviously, the past few months have disproved that theory, and now investors are starting to look seriously at Asia.**

**We are regularly asked about an Asian Financial Crisis scenario. That was over 10 years ago. Asia is a fundamentally different place today. In fact, ailing US financial institutions have turned to Asia for capital infusions. Risk is not constant, it's a moving target, and Asian credit is becoming a smart and safe place to invest.**

**Moe Ibrahim**



## Moe Ibrahim

When ADF first launched, we experienced a similar phenomenon to Angus – with our first US \$100 million coming predominantly from Asian allocators. Our launch coincided with the launch of several Asian fund of funds and we attracted some of that capital.

As we have grown, we have attracted more European capital. 75% of our investor base is Europe and Asia, wherein the rest is even between US, Canada, South Africa, Australia, and Latin America.

Historically, I believe US-based investors operated on the hypothesis that US credit was “less risky” than Asia. Obviously, the past few months have disproved that theory, and now investors are starting to look seriously at Asia.

We are regularly asked about an Asian Financial Crisis scenario. That was over 10 years ago. Asia is a fundamentally different place today. In fact, ailing US financial institutions have turned to Asia for capital infusions. Risk is not constant, it's a moving target, and Asian credit is becoming a smart and safe place to invest.

We believe it's the right time for our strategy and US based institutional allocators, who tend to be lumpier at \$20-50 million per allocation, can now invest in ADF and be less than 10% of our assets under management, which is often a key requirement. As such, we expect to attract more North American capital in the coming 24 months.

## Michael Coleman

Again, we are maybe a bit atypical in that and we have never created a structure to allow US investors to come in. Our investor base is actually 70% European, about 20% Asian, and 10% is the rest; Australia, Cayman Islands structures, some Latin America etc.



We found it actually a little bit frustrating in our early days that despite a very strong Asian focus in our initial stage – although we were always a global commodities fund, Asia and China was the epicenter of the commodity bull market that was getting underway – Asian investors were incredibly conservative when allocating to commodities.

I concur with what David said before, one of these paradoxes: Asian investors, or more specifically an Asian entrepreneur will do very risky things with his own money, but he will do that when he feels he is in control. He won't delegate the doing of risky things with his money.

I was a rubber trader for many years, so I know a lot of the old money families in Southeast Asia, and rubber sits at the base of many substantial fortunes in Asia. These people's point of view is – even though they know commodities inside out and have known me for 20 odd years – "why should I pay a fee to somebody to trade in commodities, I do that for myself. Whereas, I know nothing about distress-debt investing or equity long/short, therefore you can make a case for managing my money in those areas."

So while we thought at our start that a big chunk of our first \$40 or \$50 million would come from Southeast Asia, from the commodity community, in fact very, very little came from there.

**Looking at the universe of Asian managers - not just Singapore but Asia in general - there are very few who can actually take US taxable money and provide the right sort of accounting that the US taxable investors need. For the nontaxable pension funds and endowments etc. it's pretty easy to invest over here, but for taxable entities and individuals it's very difficult to do so.**

**At KBC Alpha we actually run an onshore LP, and finding candidates for this structure is remarkably difficult. I think we have investments across the region in 42 different hedge funds, but probably less than ten can provide the accounting or the structure that we need to be able to invest as an onshore entity, which is a problem.**



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**Matthias Knab**

**That is very insightful, thank you all. Is there is any development you see here which we have not yet discussed, anything else you would like to mention?**

**Moe Ibrahim**

Previously, I believe Singapore was held back because of the brain drain: the best often left for jobs in the US and Europe. Today, with uncertainty in those markets and the collapse of credit around the world, the quality and volume of résumés we have seen over the past few weeks alone is phenomenal.

Candidates who are really quite talented, with substantial experience, want to return to Asia. While it has been difficult for us to find really good people historically here in Singapore, that has changed.

**Peter Douglas**

At GFIA, we love training people – it's one of the great privileges of being in this business – and we are always trying to find bright young people locally. In the last year-and-a-half, it has been very difficult, because of the hiring activities of the private banks in particular, which pretty much stopped in 3Q07. It's now much easier to get the attention of intelligent graduates.

We're also finding people outside of Singapore sending us résumés, as Asia appears a safer haven than London or New York. The employment situation is becoming much easier if you are running a knowledge-based business like ours.

**Matthias Knab**

**Suddenly Singapore and other Asian financial centers become a pillar of stability and security, it's the other way round.**

**David Walter**

There is one structural shortcoming in the region we have not mentioned. We are sitting here in the office of Customhouse, who is one of the new and growing community of administrators in Singapore, but I think one of the big headwinds the industry is facing are pricing and valuation issues, particularly as people start going into more esoteric type of securities. This includes for example the private lending space, where we see more opacity generally. The investment banks do not necessarily want to price, and if they are pricing, they may not necessarily offer the correct price.

The lack of a pricing policy is one of the big issues we come across in some investment strategies, which includes having an entity that has the ability to price assets and different types of securities independently. If you ask me for a wish list, of what we need in Asia, in Singapore or in Asia generally, I would like to see the emergence of independent valuers.

**Over the past two months, the counter parties that price our portfolio have increased efforts to police themselves. Specifically, quotes are now routed through the compliance departments of these financial institutions. This is a consequence of the mispricing which contributed to the credit crisis.**

**Now there are at least two sets of eyes questioning a price internally before it is sent out.**

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Over the past two months, the counter parties that price our portfolio have increased efforts to police themselves. Specifically, quotes are now routed through the compliance departments of these financial institutions. This is a consequence of the mispricing which contributed to the credit crisis.

Now there are at least two sets of eyes questioning a price internally before it is sent out. That has probably contributed to some of the mark to market issues, and overall, is a positive development.

**David Walter**

I agree with you, and that's a good sign. As investors, our position is that the more independence we can get the better. Experience and qualification are other dimensions; while there is certainly a good number of administrators active in Asia, I would like to see more than basically a lot of junior accountants who can do the basic accountancy, but may struggle when it comes to pricing assets.

**Peter Douglas**

One of things which has begun to bother us really quite seriously over the last few years has been seeing non-independent administrators; administrators that are attached to prime brokers. We have spent a lot of time looking at this, and we now will not allocate to a fund where the prime broker and the administrator are within the same business group. It's an appalling conflict of interest, and one of the few areas where I think regulatory action would be very welcome.

So I clearly agree with David, independent administration is absolutely critical and becoming more important. On a positive note, Singapore has done a good job of facilitating and encouraging administrators to come here. We are sitting in Custom House' Singapore office; they are privately owned but administer over \$40bn, with 40-50 people sitting in Singapore working to global best practice. There are probably another half-a-dozen independent administrators with hedge fund capacity here, as well as the obvious big names.

So I agree there is scope to do a lot more, but equally, Singapore's moving along very much in the right direction here.

**Matthias Knab**

**One question to the allocators here. What trends do you see in the Asian hedge fund space, what strategies or what developments catch your interest at this point in time, or let's say for the rest of the year?**

**Peter Douglas**

I suspect that long-short space is going to become more interesting again later in the year, partly because so many investors are walking away from it. Once we have moved through the most aggressive de-leveraging phase in markets and liquidity has ebbed a bit, I think we are going to get to relatively normal markets for equities, where valuations and company prospects matter again, which we haven't seen for two or three years.

**David Walter**

I suppose there are two or three real trends on this. The one development which frightens me is the growth of this private lending market by people who haven't experienced major downturns in the region. I think you have seen a lot of "club" deals issued by investment banks with opaque pricing. There are a lot of people getting involved in these things, where they have no control, and they don't really have any means, if it goes wrong, to get out of it. I think that is potentially the biggest disaster waiting to happen in the Asian market at the moment, notwithstanding the fact that a lot of China and India are down significantly year-to-date.

The second trend is, and we have discussed this already, that a lot more strategies are emerging. In our case, we have been allocating a lot more to fixed income and currency funds investing in the region. Over the past two or three years, these fund were largely flat, but were able to get into the right trades in the last six months, given the increased volatility and the movements in the currency and interest markets.

Third, volatility is becoming more important as an asset class. Obviously the team at Artradis have been a prime example of how play volatility successfully, and you are seeing more people moving into that space, which is good for the industry and good from an allocator's point of view.

I'd like to add a fourth point, where I also agree with Peter: On the long/short space after the fall-out that we have seen, depending on how many people survive, there are going to be opportunities. I still get frightened by the fact that I go around and look at people's portfolios, and there's still an enormous commonality in what people hold in their equity portfolios. That's something I think that we, the allocators in general, really have to check. Particularly in the long-short space, managers can be invested in the same thing, and you have to be careful that you're not getting into this as well.

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**David Walter**



7:00  
CHICAGO

13:00  
DUBLIN

21:00  
SINGAPORE



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