

Hedge Funds Asia

News, analysis and commentary

Quam Asset Management Bets Against Short Sellers

By Taylor Hall

Jim Fong, portfolio manager at Quam Asset Management Ltd, the Hong Kong-based hedge fund unit of Quam Group, has something to say to the short sellers who have become increasingly active in Hong Kong's markets: Thank you.

"When a short seller comes out with a report, actually, I should thank them," Fong, who manages Quam's long-short equity Greater China fund, said in an interview at the firm's office. When companies targeted by short sellers respond with their own statements, "it helps us clarify more whether the company is good or not," Fong said. "Then, swift action is very important."

Fong has taken the opposite side of the bet from short sellers twice recently, buying shares of Shenzhen-based Apple Inc. supplier AAC Technologies Holdings Inc., which tumbled after allegations from Gotham City Research, and of furniture maker Man Wah Holdings Ltd., which sank after Muddy Waters LLC's Carson Block announced he was shorting the stock.

In both cases, Fong took advantage of sell-offs following the short sellers' reports to add to positions before trading was halted. Quam initially invested in both companies in 2016, according to Kate Lam, investor relations officer.

Short selling activity has picked up in Hong Kong, drawing recent regulatory scrutiny. Bearish research firms tracked by Activist Insight have targeted at least 20 companies in Hong Kong over the past 12 months, the most since at least 2012.

"Our approach is to do our own research when each report comes out," Fong said. "We track the companies they attack and check across all the Hong Kong listing rules. We also track their margins with peers. We investigate the chairmen."

In the case of AAC, shares have risen about 17 percent since they resumed trading June 7. The company has rejected Gotham's claims, announced a buyback and unveiled a new 10 billion yuan (\$1.5 billion) line of credit. The stock is still down about 13 percent since Gotham first questioned the company's accounting and transactions with related parties on May 11. Sofa-maker Man Wah, which has blasted Block's allegations, is trading back around where it was before his salvo.

Fong doesn't always bet against the shorts. After e-commerce firm Cogobuy Group was targeted by an anonymous research group in May, Fong sold his holding in the company. Shares have since tumbled about 50 percent since trading resumed May 31.

The Quam China Focus Segregated Portfolio, a long-short equity fund that invests in Greater China growth and income stocks and event-driven opportunities, has returned an estimated 23 percent through June, according to Kate Lam in investor relations at Quam.

The strategy, set up in June 2005, has returned about 14.5 percent each month since inception.

Mercer Hires Former Man Group Analyst for Research

Adrian Worth, a former hedge fund performance analyst at Man Group, has joined Mercer's Asia wealth business as Manager Research Consultant covering hedge funds in Asia, according to a Hong Kong-based spokesperson. Worth's responsibilities also include research into multi-asset strategies across Asia, the spokesperson said.

Previously, he was an investment analyst in Hong Kong at Cassia Investments. Before that, Worth was a manager of hedge fund research at Cambridge Associates and a hedge fund performance analyst for Man Group in London.

Worth, who started at Mercer on April 20, is based in Hong Kong and reports to Jordan Nault, global leader of hedge fund research at Mercer, the spokesperson said.

Bloomberg Briefs

July 5, 2017

Quote of the Week

"When a short seller comes out with a report, actually, I should thank them."

— Jim Fong, Quam Asset Management
(see story, this page)

Inside

Returns in Brief

PruLev Global Macro Fund, Pinpoint Asset Management, AVM Global Opportunity report June numbers.

Market Calls

Shinzo Abe's election defeat in Tokyo last weekend is a "huge buy signal" for Japanese equities, according to Ed Rogers.

Market Calls, Revisited

Hedi Ben Mlouka was bullish on shares of Nishat Power Ltd in Pakistan and PetroVietnam.

On The Web

Traders who think they've found China's next big short could be setting themselves up for a squeeze. That's the takeaway from top-ranked fund managers and analysts after short interest in Ping An Insurance Group Co., China's largest non-state controlled financial firm, swelled to a record HK\$54 billion (\$6.9 billion) in June. It's by far the biggest bearish wager on Hong Kong's stock exchange, where most of China's top companies have listings. Read the story [here](#).

Returns in Brief

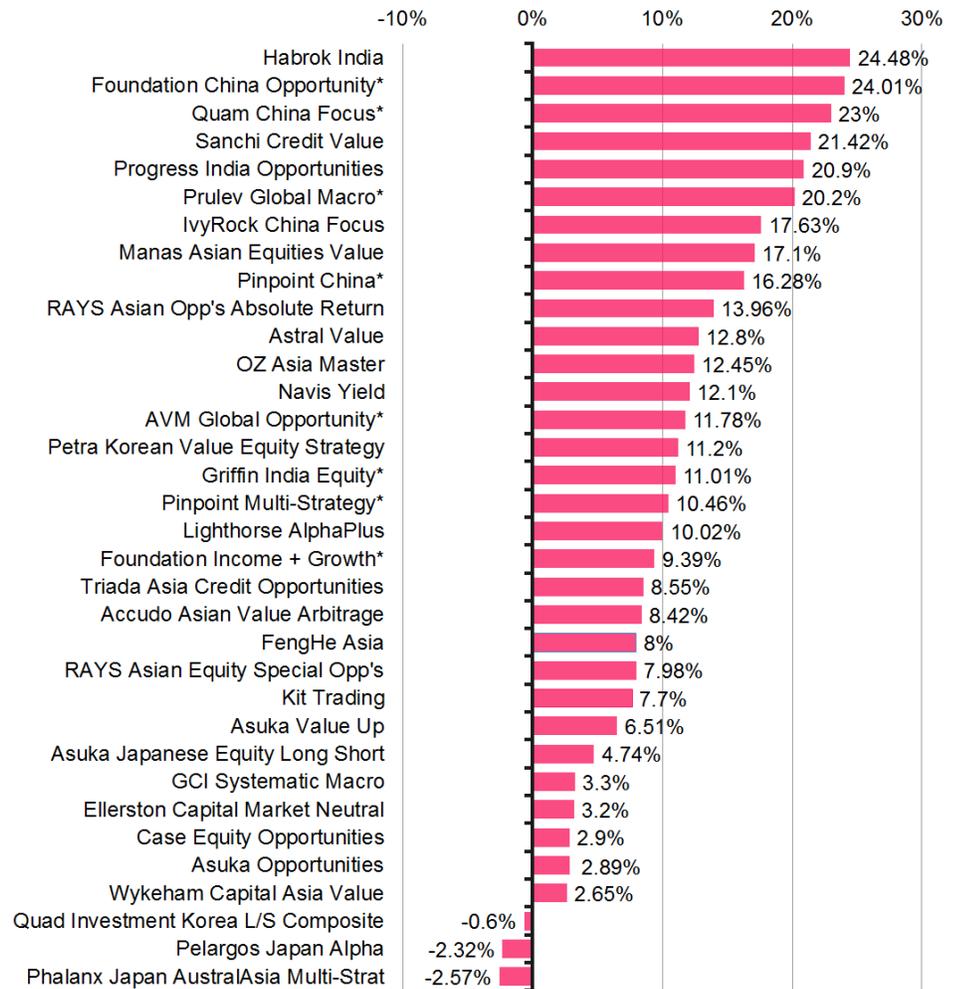
A look at Asia-focused hedge fund performance last month. Funds in the table below that are not mentioned in the accompanying text were reported in past issues of the Brief or in Bloomberg News stories, which may be accessed on the terminal.

■ The PruLev Global Macro Fund fell 15.2 percent in June, led by losses in the fund's fixed income holdings amid hawkish statements from the the Bank of Canada, Reserve Bank of Australia, and Bank of England, according to a letter to investors seen by Bloomberg. The quantitative and event-driven macro fund has returned 20.2 percent so far in 2017, and an annualized 11.35 percent since inception in February 2012. August Li, deputy fund manager at the Singapore-based fund, confirmed the returns.

■ Pinpoint Asset Management's \$883 million China fund, a long-short equity fund, added 3.8 percent in June, driven by gains in consumer and TMT stocks, and is up 16.3 percent so far in 2017, according to estimates through June 27 in a letter to investors seen by Bloomberg. The firm's \$371 million Pinpoint Multi-Strategy Fund, a multi-manager fund that invests in global equities, credit, macro and quant strategies, rose 2.5 percent last month, bringing gains in the first six months to 10.5 percent. Jennifer Wong, managing director of investor relations, confirmed the returns.

■ AVM Global Opportunity Fund, run by Ashvin Murthy, a former director of FX options trading at UBS, added 1.6 percent in June, according to a letter to investors. The Singapore-based fund, which invests in equities, commodities, and currencies to make bets on political trends and macro events, is up 11.78 percent so far this year, the letter said.

2017 Year to Date Returns



Source: Bloomberg News
*through June 30
Through May 31 unless otherwise noted

— Taylor Hall

Bloomberg Brief: Hedge Funds Asia

Hedge Funds Asia Editor
Nathaniel E. Baker
nbaker14@bloomberg.net
+852-2293-1170

Hedge Funds Asia Reporter
Taylor Hall
thall88@bloomberg.net
+852-2293-1383

Bloomberg News Reporters
Bei Hu
bhu5@bloomberg.net
+852-2977-6633

Reprints & Permissions
Lori Husted
lori.husted@theygsgroup.com
+1-717-505-9701 x2204

Bloomberg News Editor
Sree Vidya Bhaktavatsalam
sbhaktavatsa@bloomberg.net
+852-2293-1577

Contributing Data Editor
Jamie Wong
wwong330@bloomberg.net
+852-2977-6453

Klaus Wille
kwille@bloomberg.net
+65-6231-3658

Subscribe
On the Bloomberg Terminal:
BRIEF<GO>

On the web:
www.bloombergbriefs.com

Market Calls

Abe Defeat 'Huge Buy Signal,' Ed Rogers Says

Japan Prime Minister Shinzo Abe's election defeat in Tokyo last weekend is a "huge buy signal" for Japanese equities because of the increased pressure on Abe to return to his core task of boosting the economy, said Ed Rogers, head of Rogers Investment Advisors.

The result of the Tokyo assembly elections is a "wake-up call" for Abe to go back to economic reform instead of pursuing constitutional change, Rogers said in an interview with Bloomberg TV. Rogers Investment is an Asia-focused advisory group that provides funding and support for hedge funds.

Abe's Liberal Democratic Party suffered a bloodbath in in Sunday's Tokyo assembly elections, winning its smallest number of seats on record in the capital. The initial euphoria over Abe's pledge to revive the economy ebbed in 2016 with the first decline in the Topix Index in five years. While equities have climbed this year, they are yet to recapture 2015 highs.

"Prime Minister Abe is really sweating it right now, to be perfectly honest," said Rogers, adding that unless Abe refocused his energies voters could show him the door.

Speaking after the TV interview, Rogers said the victory for Tokyo Governor Yuriko Koike was also positive for strengthening her hand for plans to make Tokyo more attractive as a financial hub. The city government has set up an advisory panel focusing on policies and reforms to attract financial firms.

Tokyo has been losing out as a financial hub due to its regulatory environment, with hedge funds enjoying lower tax rates in Hong Kong and Singapore.

Abe insisted in an interview published Tuesday that he would press ahead with plans to present the first-ever constitutional amendments to parliament in the next session. But achieving his ambition of enshrining the existence of the Self-Defense Forces in the top law is looking more remote than previously.

— Kathleen Chu and Betty Liu

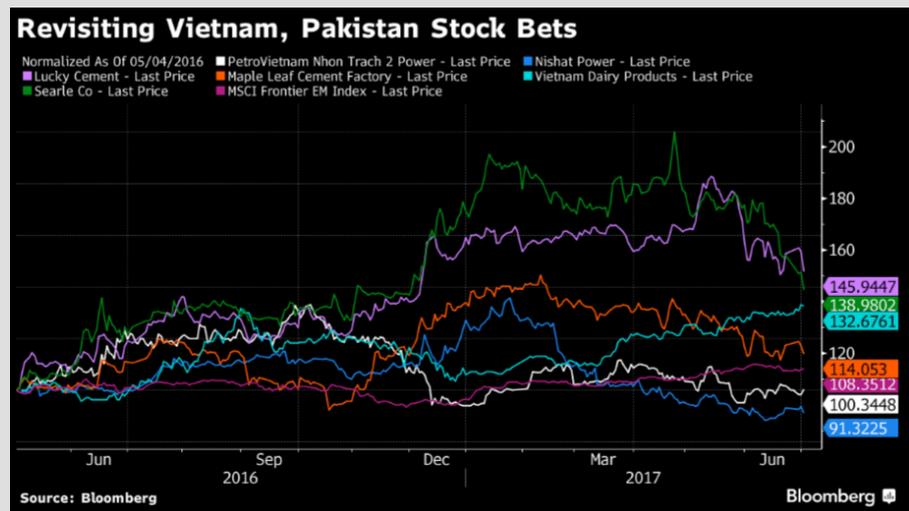
Market Calls, Revisited

By Taylor Hall

Last May, Hedi Ben Mlouka said he liked shares of energy producers Nishat Power Ltd in Pakistan and PetroVietnam Nhon Trach 2 Power JSC.

The companies were well-positioned because demand for power was rapidly increasing in the countries, where it takes at least four or five years to build new supply, Ben Mlouka, who is chief executive officer and chief investment officer at Dubai-based FIM Partners, said in an interview at the time.

Ben Mlouka was also bullish on shares of Pakistan's Lucky Cement Ltd. and Maple Leaf Cement Factory Ltd, and held large positions in Vietnam Dairy Products JSC and Pakistani pharmaceutical manufacturer Searle Co Ltd. FIM Partners is a Dubai-based manager of frontier-focused hedge funds and private equity funds.



The firm's frontier fund exited its position in Nishat Power in January amid concerns over potential cash flow constraints and broader issues in the energy sector, Ben Mlouka said in emailed comments. Nishat shares gained about 25 percent between May 1, 2016 and Jan. 31, 2017 in local currency terms.

The fund also exited its position in Searle Co in April as valuations became rich, and continues to monitor the stock for potential entry points, he said. The stock, which added nearly 80 percent between May 1, 2016 and March 31, 2017, has declined nearly 30 percent from its peak on April 24.

The fund still holds its position in PetroVietnam Nhon Trach 2 Power, and expects the company to benefit from the ongoing liberalization of the electricity sector in Vietnam. Since last May, shares have declined about 1.6 percent.

The fund trimmed its position in Lucky Cement in May as shares rallied ahead of Pakistan's re-entry into MSCI Inc.'s emerging markets index. FIM remains confident in the medium-term outlook as projects under the China-Pakistan Economic Corridor are executed, he said. Shares of Lucky Cement have gained more than 40 percent since last May.

The fund still holds its position in Maple Leaf Cement Factory, which has added 18 percent over the period. It remains bullish on Vietnam Dairy Products, or Vinamilk, citing the company's long-standing brand name, international growth potential, and strong supply chain. Shares of Vietnam's largest dairy producer have added about 35 percent since last May. The MSCI Frontier Emerging Markets Index has advanced 7.6 percent over the same period in U.S. dollar terms.

The FIM EM Frontier fund has returned 7.9 percent in the first half of 2017, according to Ross Smith in investor relations at FIM Partners.