

China Hedge Funds Bounce Back From Losses to Rank Near Top

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- Hedge funds in the region are among world's top performers
- Greenwood, Springs, SPQ China Funds gained more than 20%

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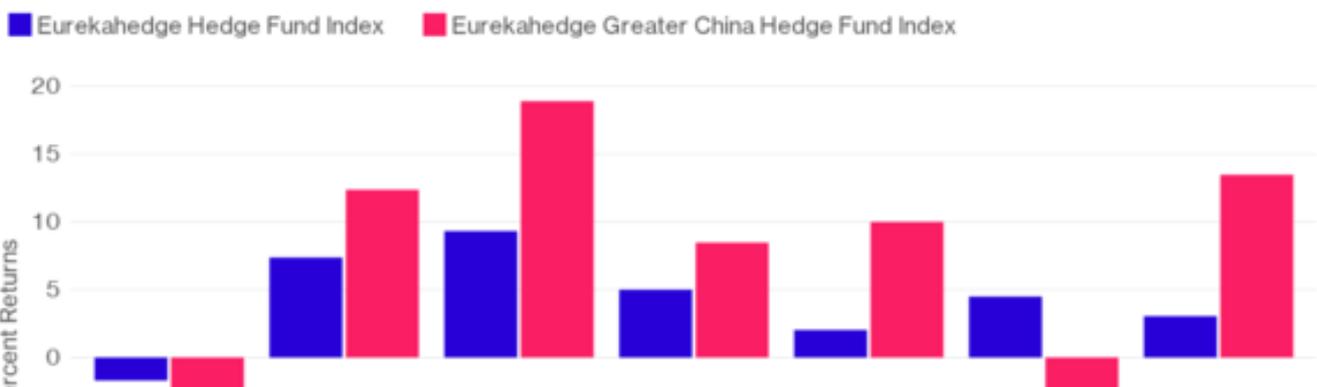
China-focused hedge funds bounced back from their worst performance in five years and trounced global counterparts.

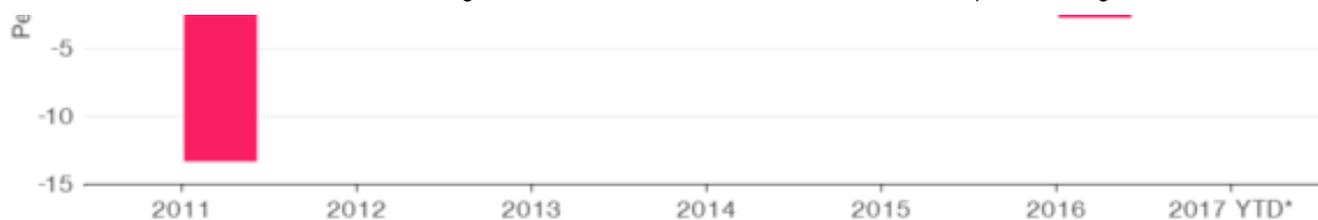
After an annual loss last year, Greater China hedge funds added more than 13 percent on average in the first half of 2017 to rank among the top-performing strategies in the world, according to preliminary data from Eurekahedge. Hedge funds from Greenwood Asset Management, Springs Capital and SPQ Asia Capital were among standout performers with gains of 20 percent or more.

Hedge funds worldwide are struggling with investor redemptions after central bank intervention suppressed volatility and sapped returns. China funds were a rare pocket of outperformance as global hedge funds on average gained about 2.4 percent in the first half, according to Hedge Fund Research Inc. [data](https://www.bloomberg.com/news/articles/2017-07-10/hedge-funds-lost-0-4-in-june-hurt-by-macroeconomic-strategies) Monday. Investors are taking notice: the majority of China-focused hedge funds saw inflows in May for the first time since 2015, according to a report by research firm eVestment.

China Hedge Funds Bounce Back

Clawing back after 2016 loss





Source: EurekaHedge, Bloomberg
*Through June 30

Bloomberg

While Greater China equity funds overall benefited from surging Hong Kong-listed shares and large-cap stocks on the mainland, well-timed bets on technology, Internet and consumer companies drove returns at some of the top performers. In recent years, China-focused hedge funds have helped shield investors from losses in falling markets and have roughly kept pace with benchmarks in volatile conditions, said Peter Laurelli, global head of research at eVestment.

China funds' average performance in the first half was twice the 6.3 percent gain in a HFR index tracking equity-focused funds globally, benefiting from investments in healthcare and emerging markets.

The Hang Seng China Enterprises Index of mainland companies listed in Hong Kong touched post-October 2015 highs in the first half. The MSCI China Index added about 24 percent through June 30. China's initiation into MSCI Inc.'s indexes has further boosted the outlook for the nation's largest stocks.

Greenwoods' \$1.6 billion Golden China Fund made nearly 27 percent in the first half, according to an estimate sent to investors. Performance was boosted by bullish bets on consumer stocks listed in Hong Kong and China, and Internet-related companies traded in the U.S., as well as service companies on the Hong Kong stock exchange, Joseph Zeng, chief executive officer of Greenwoods' Hong Kong company, said.

The SPQ Asia Opportunities Fund, which gained 22 percent in the first half, was helped by profitable investments in technology and consumer discretionary stocks, and companies that run after-school education programs for young students in China, according to Gregoire Dechy, chief operating officer of Hong Kong-based SPQ. One of the fund's picks was Momo Inc., the mobile social networking platform whose shares have more than doubled this year.

The fund makes three-fourths of its investments in stocks with a market value of more than \$5 billion dollars, Dechy said.

Other managers found opportunities in overlooked areas. Springs Capital's China Opportunities Fund added more than 7.5 percent in June, with 2017 gains topping 24 percent, according to a person with knowledge of the matter.

Profit at the fund, one of the rare offshore stock hedge funds that focuses on yuan-denominated shares traded in China, was driven by gains in chemical materials, high-end manufacturing and healthcare stocks, said the person. It avoided large-cap stocks most popular with foreign investors in the yuan shares market, the person said.

And while analysts' forecasts compiled by Bloomberg show expectations for a muted performance for China's broader stock market heading into the second half, managers see some gains set to continue in the medium- and longer-term.

Greater China's large companies, including blue-chips and leaders of small industries, may outperform small- and mid-cap stocks over the next three years as large companies gain share when China's slowing economy spurs industry consolidation, according to a Pinpoint Asset Management letter to investors seen by Bloomberg.

The firm's \$883 million Pinpoint China Fund added about 16 percent through June, driven by gains in holdings of technology, media, telecommunications and consumer stocks, according to Jennifer Wong, the firm's managing director of investor relations.

APS Asset Management expects MSCI's decision to include A-shares in its indexes will have "enormous" implications over time, and November's Communist Party congress may provide a catalyst for stocks associated with China's new economy, according to chief investment officer Wong Kok Hoi. The firm's \$2 billion A-share strategy benefited from bets on consumer and tech stocks including Gree Electric Appliances Inc. of Zhuhai and Hangzhou Hikvision Digital Technology Co., he said.

Here's a look at how some firms performed in the first half. Spokespeople for the firms either confirmed or declined to comment on the numbers.

HEDGE FUND	JUNE PERFORMANCE	1H17 PERFORMANCE
Springs China Opp's Fund	+7.5%	+24%
SPQ Asia Opp's Fund	+1.8%	+22%
Pinpoint China Fund	+3.8%	+16%
Foundation China Opp'y Fund	+4.4%	+24%
Zeal China Fund	+4.8%	+12%
Quam China Focus Segregated Portfolio	+3.2%	+23%
GH China Century Fund	+4.4%	+16%
Greenwoods Golden China Fund	+3.2%	+27%
FengHe Asia Fund*	+1.8%	+6.5%
OZ Asia Master Fund*	+2.2%	+15%
APS China A Share Fund**	+8.8%	+14%

*Fund holdings include exposure outside Greater China

**Estimates as of June 23