

RESEARCH & RANKINGS



TOP OF THE HILL

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WHEN JD.COM, China's second-largest e-commerce retailer, completed a larger than expected initial public offering on Nasdaq at the end of May, the listing, which valued the company at \$26 billion, did not just confirm investors' appetite for Chinese Internet stocks; it also ensured the rise of Hillhouse Capital Management to the top of the Asian hedge fund universe.

Hillhouse was founded in 2005 by Zhang Lei with seed capital from the endowment at Yale University; the 41-year-old Zhang had interned at the

university's investment office while completing his MBA. Hillhouse made an initial \$255 million investment in JD.com four years ago. By the time of the IPO, that stake had grown to almost \$4 billion. Hillhouse's assets under management have almost doubled over the past 12 months, reaching \$11 billion as of April 1 and \$14 billion at the end of May thanks to the JD.com IPO, from \$7.5 billion at this time last year.

Hillhouse founder Zhang rarely speaks to the press, and the firm does not disclose data on year-to-date performance. But since its inception in 2005, Hillhouse has generated average gross annualized returns of about 40 percent. That, combined with the boost from the recent Nasdaq listings of JD.com

and Qunar, the leading Chinese travel site, in which Hillhouse also holds a stake, has helped push the Beijing-based firm to the top of *Institutional Investor's Alpha's ninth annual Asia Hedge Fund 25 ranking of the largest Asia-based single-manager hedge fund firms*. (For more data visit institutionalinvestorsalpha.com.) Hillhouse displaces Hong Kong-based Value Partners Group, which had been No. 1 for four years running, and becomes the first mainland China firm to achieve the top ranking.

China is expected to grow 7.3 percent this year — its weakest pace since 1990. Hillhouse, however, has prospered through a strategy that emphasizes investment for the long term and a focus on the limited number of sectors in which the firm, which has only 30 investment professionals, feels it has special expertise: consumer, consumer Internet and health care. Hillhouse is stage-agnostic, investing in both public and private equity, and prefers to style itself as a long-term equities investor.

Its investment process is built around three issues: the quality and defensibility of a target company's model, the quality of its management and wheth-

er it has a long-term vision for growth.

Hillhouse invests rarely, and usually at scale. Seventy percent of the companies in its portfolio have remained unchanged since 2005, with the top ten names accounting for two thirds of total assets. Hillhouse was one of the earliest investors in Tencent Holdings, a Hong Kong-listed social networking and gaming company, which has a market capitalization of \$160 billion.

"Just because there's been a slowdown in China relative to the speed the country's been growing in the past ten years, it's wrong to assume there aren't investment opportunities there," says Joseph Pacini, Hong Kong-based head of the

alternative investment strategy group for Asia at U.S. asset manager BlackRock. "The Hillhouse model is more akin to a special-situations style. They have a long track record in investing in unique opportunities in China, where even amid poor growth there are still sub-sectors growing at

30 percent-plus a year."

The past year has been very much a tale of two Asian markets. After years of poor performance, Japanese and

"Valuations in China are lower than in the U.S. or Europe. There's a significant runway for further growth."

*Timothy Tse,
Value Partners*

The 2014 Asia Hedge Fund 25

RANK		FIRM/FUND	FIRM CAPITAL (\$ MILLIONS)	
2014	2013*		2014	2013
1	2	Hillhouse Capital Mgmt (Beijing, China)	\$11,000 ¹	\$7,500
2	1	Value Partners (Central Hong Kong)	10,189	9,316
3	3	Sparx Group Co. (Tokyo, Japan)	6,644 ²	7,100
4	4	Dymon Asia Capital (Singapore)	3,800	2,950
5	5	Greenwoods Asset Mgmt Co. (Shanghai, China)	3,135	2,100
6	15	Tybourne Capital Mgmt (HK) (Central Hong Kong)	2,700	1,118
7	-	Turiya Capital Mgmt (Hong Kong)	2,428 ³	-
8	10	Myriad Asset Mgmt (Central Hong Kong)	2,375 ⁴	1,675
9	6	Prime Capital Mgmt Co. (Hong Kong)	2,302 ⁵	2,096
10	7	PAG (Hong Kong)	2,100	2,000
11	8	LIM Advisors (Central Hong Kong)	1,876	1,755
12	-	Nezu Asia Capital Mgmt (Hong Kong)	1,550	-
13	9	ADM Capital (Asia Debt Mgmt Hong Kong) (Hong Kong)	1,400	1,700
14	12	Income Partners Asset Mgmt (HK) (Hong Kong)	1,307	1,225
15	-	Allard Partners (Hong Kong)	1,000	-
15	13	Argyle Street Mgmt (Hong Kong)	1,000	1,160
17	20	Ward Ferry Mgmt (Hong Kong)	910	684
18	18	Tower Investment Mgmt Co. (Tokyo, Japan)	863	962
19	17	Ortus Capital Mgmt (Hong Kong)	837	1,000
20	11	Azentus Capital Mgmt (Hong Kong)	844 ⁵	1,600
21	24	Quantedge Capital (Singapore)	795	612
22	16	AR Capital (Singapore)	765	1,070
23	23	Double Haven Capital (Hong Kong)	715	620
24	19	Pinpoint Asset Mgmt (Hong Kong)	633	685
25	21	Segantii Capital Mgmt (Hong Kong)	611	680

Unless otherwise noted, assets are as of April 1, 2014, and April 1, 2013.

*Ranks are as published in the 2013 Asia Hedge Fund 25.

¹Estimate of total firm assets, which consists of long-term equities and private investments.

²Assets are estimated as of March 31, 2014, converted from yen using the exchange rate on that date.

³Assets are as of February 25, 2014, from the firm's form ADV.

⁴Assets are as of March 5, 2014, from the firm's form ADV.

⁵Assets are as of March 27, 2014, from the firm's form ADV.

Chinese equity markets rebounded in 2013 on the back of policy developments — namely, the announcement of Abenomics in Japan and efforts by the new administration of President Xi Jinping in China to rid the political system of corruption and rebalance the economy toward consumption and services.

Asia-focused hedge fund

managers benefited from the shifts; the EurekaHedge Asian Hedge Fund Index gained 15 percent in 2013, compared with 6.5 percent for Singapore-based EurekaHedge's global hedge fund index. (The Asian index includes funds located outside Asia that invest in the region.) Greater China managers performed particularly well, generating a 22.6

percent median return, notes Hugh Abdullah, Morgan Stanley's Hong Kong-based head of capital introduction for Asia. Throughout the global hedge fund industry, "stock-picking skill was most evident in the Asia region," he says.

The first half of 2014, however, was a different story. In Japan the euphoria that had greeted the announcement of Prime Minister Shinzo Abe's reform plan cooled as investors waited for the completion of stimulus measures. And in China the appeal of Xi's reformism lost some of its gloss as concerns resurfaced about the overheated property market; problems in a lightly regulated mutual fund industry; and questions about the government's ability to hit its gross domestic product target.

However, with signs of economic stabilization in China and the launch of more stimulus in Japan in June, markets have rallied: The Shanghai Composite Index gained 7.5 percent in July.

The firms in the ranking managed \$58.7 billion as of April 1, a gain of almost 15 percent in a year. The number of firms with more than \$1 billion in assets dipped to

16 from 17 in 2013, with fewer high-profile launches than in recent years and most of the growth focused on established regional titans.

Value Partners slipped to second place even though its capital base grew 9.4 percent, to \$10.2 billion, from \$9.3 billion in 2013. The firm has a hedge fund portfolio of as many as 120 positions dispersed throughout Asia and generated returns in the "high single to double digits" in 2013, according to CEO Timothy Tse, who remains bullish on China and Xi's reform push. Earlier this year Value Partners launched a New China Policy Fund to take advantage of the upswing that certain industries, such as pharmaceuticals, cars and e-commerce, are likely to see as a result of both Beijing's new growth model and the aging of the Chinese population.

The firm's largest position is in state-owned Chongqing Chang'an Automobile Co. Tse notes that the carmaker trades at a forward price-earnings ratio of 18.3. "There's still huge potential in the market, even from a pure valuations perspective," Tse says. "Valuations in China are lower than in the U.S. or Europe. There's a significant runway for further growth."

Last year Value Partners launched its inaugural qualified foreign institutional investor (QFII) fund, which allows foreigners to invest directly in mainland Chinese securities; the firm plans a second QFII fund later this year. "The first fund was oversubscribed, and we closed it very quickly," Tse says. But foreign investors' interest in Asia continues to wax and wane. Interest from U.S. and

European investors in Asian hedge funds has tended to be muted, says Morgan Stanley's Abdullah. Most Western investors have tended to be quite negative on China, assuming a hard landing, he says.

Foreign flows to Asian hedge funds evaporated after the Federal Reserve's taper announcement and have yet to return in earnest, notes Candy Cheung, a manager of Asian portfolios at SAIL Advisors, a Hong Kong-based fund-of-hedge-funds firm. Whether they return will depend in large part on U.S. markets: "We're already starting to see some flows from developed markets back into Japan and Asia, and that might reflect a view of U.S. equity market valuations," she says.

Investor outflows have been most severe in Japan, Cheung adds. Despite the stimulus, "a lot of the economic numbers are not picking up yet, and near term there's still a lot of caution in Japan on the equities story," she notes.

In line with this short-term caution, assets at Tokyo-based Sparx Group Co. fell to \$6.6 billion from \$7.1 billion last year, although this was still enough for the publicly traded firm to retain the No. 3 spot. Apart from Sparx, the only other Tokyo-based firm in the ranking is Tower Investment Management Co., whose asset base also dropped. Cheung advises against reading too much into the dip: "If Abe can pull this off, it will be positive for the equities market in the long term," she says.

Long-short equity strategies continue their historical dominance of the Asia Hedge Fund 25, with 2013 proving a difficult year for credit, relative-value and especially macro

funds. With conflicting and uncoordinated policy moves across the region, "instinctively, Asia might look like a good region for macro strategies, but in fact it's been a very difficult year for those funds," says Allen Sing, an Asia-focused portfolio manager at SAIL Advisors. The rising interest rate environment in the U.S. has disrupted flows into emerging-markets funds and reflects the consensus-driven nature of macro trading in Asia. "Macro managers, even relative-value managers, tend to line up on very similar trades," Sing says. "There's very little dissension or debate on how these market prices should play out, which means there's not really much opportunity for funds to differentiate themselves from each other."

Two relatively new players among Asia's hedge fund elite round out the top five: Dymon Asia Capital, the Singapore-based macro fund founded by Danny Yong, maintains its No. 4 spot, with its assets growing to \$3.8 billion from \$2.95 billion last year, while Shanghai-based Greenwood's Asset Management Co. holds on to fifth place. Greenwood's, which manages \$3.1 billion, a 50 percent gain on its 2013 total, was founded by alumni of the People's Bank of China and draws on its policy expertise to combine local due diligence with fundamental research in pursuit of a long-short equity strategy.

The firm's flagship Golden China Fund, which has more than \$1 billion in assets, grew 17.5 percent in 2013 and is up 11 percent year-to-date. Greenwood's has played Xi's rebalancing act over the past year by being long consumer, pharmaceuticals, Internet and

technology stocks and going short on property and infrastructure. The firm expects policies to support Chinese equities over the next 12 months, including reform of the *hukou*, or household registration, system, which will allow for freer internal migration; the expansion of the QFII system; and the launch of Shanghai-Hong Kong Stock Connect, a mutual market-access program.

Despite the rise of mainland China-based Hillhouse and Greenwood's, Hong Kong continues as Asia's hedge fund capital, hosting 18 of the firms in the ranking, up from 15 last year. Tybourne Capital Management (HK), launched in July 2012 by Eashwar Krishnan, former Asia head at U.S.-based Lone Pine Capital, rises to sixth place from 15th last year, more than doubling its assets, to \$2.7 billion. Several Hong Kong-based firms debut: Turiya Capital Management at No. 7, with \$2.4 billion in assets; Nezu Asia Capital Management (No. 12, with \$1.6 billion); and Allard Partners (No. 15, with \$1 billion).

BlackRock's Pacini sketches the evolution of Asian hedge funds. Phase one was the arrival of global hedge fund players; phase two was the launch of the first locally managed firms. Today, he says, we're on the cusp of phase three: local traders who grew up in global shops and established Asian incumbents setting up their own firms.

Still, the Asian market faces

limitations as it seeks to grow and support differentiated strategies at scale. "The major constraint on the further development of the hedge fund industry in Asia is the simple lack of liquidity in most markets beyond large-cap Japanese and Chinese equities and foreign exchange," says Harold Yoon, CIO of SAIL Advisors.

In asset classes such as local fixed income and Southeast Asian equities, "there's just not enough liquidity to support big fund activity."

In China the main constraints remain the inability to short stocks and restraints on foreign investor participation in the mainland securities market and domestic investor allocations to offshore hedge funds. These stem mainly from the lack of convertibility of the renminbi, which inhibits the free flow of capital.

The most important element Asian hedge fund development, however, may simply be time. "Most global institutional investors still allocate to Asian hedge funds as a proxy for exposure to the beta of Asian equities, broadly speaking," Pacini says. "But hedge funds aren't there to ride market swings; they're there to take advantage of inefficiencies and increase consistency of returns." The longer Asian hedge funds produce consistent returns, "the greater investors' understanding of the value of hedge fund exposure in Asia will be," he says. "But that will take time." — Aaron Timms

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*Joseph Pacini,
BlackRock*

2014 Asia Hedge Fund 25

Rank 2014	Rank 2013	Firm/Fund	City	State	Country	2014 Firm/Fund Capital (\$ millions)	2013 Firm/Fund Capital (\$ millions)	Net Return (%) 2013	NET RETURN 1Q2014 (%)	Inception Date
1	2	Hillhouse Capital Mgmt	Beijing		China	11000	7500	-		
2	1	Value Partners	Central Hong Kong			10189	9316	-		
		Value Partners High-Dividend Stocks Fund				1775	1122	8.1	-2	9/2/2002
		Value Partners Classic Fund				1252	1539	11.2	-7.2	4/1/1993
		Value Partners China Greenchip Fund Ltd				419	138	16.5	-1.7	4/8/2002
		China Convergence Fund				291	275	9.2	-8.1	7/14/2000
		Value Partners Hedge Fund Ltd				273	267	19.2	-3.9	10/29/2004
		Chinese Mainland Focus Fund				155	176	8.3	-9.6	11/27/2003
		Value Partners Taiwan Fund				59	53	13.7	8.3	3/3/2008
3	3	Spax Group Co.	Tokyo		Japan	6644	7100	-		
		Cosmo Asset Mgmt Co.	Seoul		South Korea	3060	3233	-		
		Spax Asia Capital Mgmt	Central Hong Kong			128	864	-		
4	4	Dymon Asia Capital	Singapore			3800	2950	-		
5	5	Greenwoods Asset Mgmt Co.	Shanghai		China	3135	2100	-		
		Golden China Fund				962	860	17.46	1.09	7/1/2004
		Greenwoods China Alpha Fund				409	127	24.57	0.59	4/1/2007
		Golden China Plus Fund				254	94	21.77	-0.58	1/1/2010
		Greenwoods A-Share Opportunities Fund				18	-	-	-5.39	1/16/2014
6	15	Tybourne Capital Mgmt (HK)	Central Hong Kong			2700	1118	-		
7		Turiya Capital Mgmt	Hong Kong			2428	-	-		
8	10	Myriad Asset Mgmt	Central Hong Kong			2375	1675	-		
9	6	Prime Capital Mgmt Co.	Hong Kong			2302	2096	-		
		Dragon Billion China Master Fund				2059	1904	-	-	
10	7	PAG	Hong Kong			2100	2000	-		
		Pacific Alliance Asia Opportunity Fund				2100	2000	-	4.25	7/1/2002
11	8	LIM Advisors	Central Hong Kong			1876	1755	-		
		LIM Asia Multi-Strategy Fund				1320	1249	-		
12		Nezu Asia Capital Mgmt	Hong Kong			1550	-	-		
		Nezu Japan Fund Ltd				782	-	20.9	3.9	2/1/2009
		Nezu Asia Partners LP/Nezu Asia Fund Ltd				324	-	55.5	11.8	11/1/2000
		Nezu Cyclical Partners LP/Nezu Cyclical Fund Ltd				168	-	27	1.3	8/1/2005
		Tiger Nezu Partners LP/Tiger Nezu Fund Ltd				152	-	29.7	14.5	2/1/2011
		Nezu Master Fund LP/Nezu Master Strategy Feeder Ltd				132	-	24.9	1.3	1/1/2009
		Nezu KT Partners LP/Nezu KT Fund Ltd				59	-	13.8	3.8	7/1/2012
		Nezu Kuma Partners LP/Nezu Kuma Fund Ltd				41	-	-36.6	11.8	8/1/2008
		Nezu TMT Partners LP/Nezu TMT Fund Ltd				8	-	7	-1.6	11/1/2009
13	9	ADM Capital (Asia Debt Mgmt Hong Kong)	Hong Kong			1400	1700	-		
14	12	Income Partners Asset Mgmt (HK)	Hong Kong			1307	1225	-		
		IP All Seasons Asian Credit Fund				257	-	1.24	0.83	2/1/2002
		Income Partners Renminbi High Yield Bond Fund				206	-	8.41	-0.89	7/27/2011
		IP All Seasons Bond Fund				180	-	1.63	0.55	9/1/2011
		Income Partners Renminbi Investment Grade Fund				155	-	8.8	-2.17	12/15/2010
		IP Asian High Income Bond Fund				25	-	0.85	0.78	11/30/2012
15		Allard Partners	Hong Kong			1000	-	-		
		Allard Growth Fund				570	-	-2.4	1.9	5/1/1997
15	13	Argyle Street Mgmt	Hong Kong			1000	1360	-		
17	20	Ward Ferry Mgmt	Hong Kong			910	884	-		
		Long/Short Strategy				505	-	-	-	
		Long Only Strategy				405	-	-	-	
18	18	Tower Investment Mgmt Co.	Tokyo		Japan	868	962	-		
		Tower K1 J-Fund				276	331	42.6	-6.14	4/8/1999
19	17	Ortus Capital Mgmt	Hong Kong			857	1000	-		
		Ortus Fund (Cayman) Ltd				105	-	-17.32	2.14	9/26/2003
20	11	Azentus Capital Mgmt	Hong Kong			844	1600	-		
21	24	Quantedge Capital	Singapore			795	612	-		
		Quantedge Global Fund				795	612	-	-	10/1/2006
22	16	AR Capital	Singapore			765	1070	-		
23	23	Double Haven Capital	Hong Kong			715	620	-		
		Double Haven Asia Absolute Bond Fund				275	165	7.19	1.74	12/1/2011
24	19	Pinpoint Asset Mgmt	Hong Kong			633	685	-		
		Pinpoint China Fund				500	543	9.24	-2.01	6/3/2005
25	21	Segantii Capital Mgmt	Hong Kong			611	680	-		
		Segantii Asia Pacific Equity Multi-Strategy Fund				611	680	-1.68	-2.14	12/1/2007