

Opalesque Exclusive: Opalesque Exclusive: APS Asia-Pacific Hedge Fund returned +3.9% in March (11% YTD) but Greek debt, raw material suppliers, and inflation raises concerns

From Sagar Chakraverty, Opalesque Asia:

APS Asset Management (APS), a Singapore-based fund management firm, saw its APS Asia-Pacific Hedge Fund return +3.9% in March (11.1%YTD).

APS said: "In March most markets indices closed up for the month: S&P 500 +5.9%, Japan +9.6%, Asia Pacific ex-Japan +7.3% (MSCI Index)... US retail sales rose for a second consecutive month in February despite winter storms affecting large regions of the country. As we entered April, labor data revealed the largest employment gain in three years, adding to convictions of a US economic recovery."

The open-ended, Cayman-domiciled Fund was up 96.2% in 2009 and down 11.1% in 2008. It was inception in March-02 and has returned 47.89% since inception till 31-March-10.

The portfolio's long positions were helped in March by structural changes and consolidation within China's healthcare system. The government is taking measures to improve medical services, reduce costs, and provide greater insurance coverage. Further, investments in the semi-conductor industry had better returns due to stronger-than-expected demands from the US, Europe and China.

However, the portfolio's short positions were hurt as share price strengthened on resilience in the Singapore property market and a recovery in property transaction volumes in China. They were also hurt by prospects for higher sales price for Malaysian palm oil producers due to rising crude oil prices.

As of March, the portfolio held a net exposure of 33.7%, of which 14.8% were in the Chinese markets and 7.5% in the Singapore market.

Strategy

The Fund aims to produce an absolute return in excess of 15% per annum through careful stock picking, by using primarily the L/S equity strategy to cover the Asia-Pacific markets. It is also involved in two secondary strategies: deep value L/S and distressed equity.

While the long portfolio of the Fund invests in markets across the Asia-Pacific region, including Japan, the short portfolio invests in markets that include Japan, China, Hong Kong, Singapore and Australia.

Concerns that could affect the Fund's performance

Even though Asian markets have picked up, the March sentiments were impacted to some extent by Greece's worries. On 6th April, Greece tried to renegotiate the terms of its debts, which led to sharp fall in the euro against the dollar, and in turn negatively affected those Asian exporters who have euro exposures.

The second concern is from raw material suppliers, who are pushing for a market-oriented pricing system that could put price pressure on Chinese steel mills. In response to this, China is taking measures to reduce the number of iron ore importers, close-down domestic small mills, and promote consolidation within the domestic steel industry.

Third, a severe drought in southwest China is hampering agricultural output, resulting in increased grain and vegetable prices and exacerbating inflationary pressures.

APS is monitoring Chinese inflation and its impact on China's central bank monetary policies. The red nation is likely to impose more tightening in coming months. James Liu, Deputy Chairman and Deputy CIO of the Fund [told](#) Opalesque in the beginning of March, "With more tightening measures expected, APS could possibly lower its net exposure further in the near future."

The Shanghai A share index climbed 1.87% in the March, and the Shenzhen A share index rose by 3.22%. According to the National Bureau of Statistics, CPI went up by 2.7% yoy, approaching the 3% inflation rate target set by the Chinese government for the full year 2010. The rise of CPI was mainly caused by 6.2% price hike in food and 3% price hike in housing.

Founded in 1995, APS was one of first investment managers to set up business in Singapore, and has won several hedge fund awards since. On 01-April, APS [announced](#) the appointment of Lim Meng Tat as CEO. Prior to this, Tat was the managing director and CEO of Russell Investment Group in Singapore.

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