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APS's Wong bets on convertible bonds as hedge to stocks slump

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APS Asia-Pacific Hedge Fund, the best performer among 108 Asian long-short equity funds in the past 12 months, has invested half its portfolio in convertible bonds to limit potential losses from a slump in stocks.

"We think our 50% exposure to convertible bonds provides a good hedge to markets like this," said Wong Kok-Hoi, the fund's manager, in an interview in Singapore. The MSCI World Index has rallied 51% from a low in March, while China's benchmark Shanghai Composite Index is up 53% this year. Global stocks are fully priced following a rally in 2009, with Chinese shares having entered a "bubble," said Hugh Young, who helps oversee the equivalent of US\$220 billion (\$319 billion) at Aberdeen Asset Management Plc on Aug. 6.

The Shanghai Composite Index has dropped 20% from this year's high earlier this month.

Asian equity valuations are "not very extended," said Wong, whose US\$52 million hedge fund returned 47% in the past year, according to data compiled by *Bloomberg*. "But markets have a life of their own so I can be wrong," he added.

Wong's hedge fund owns as many as eight convertible bonds that offer yields of as much as 75%, he said. Asia high-yield corporate bonds were trading at an average yield of 9.4% today, according to HSBC Asia high-yield corporate bond index. APS's convertible bond holdings include Powerchip Semiconductor Corp.'s debt maturing in February 2010, and bonds of Taiwan High Speed Rail Corp., which mature in May 2012.

Some convertible bonds were sold at prices which assume the company can't survive, Wong said, adding that his team's research showed many of the companies' fundamentals were relatively sound.

Wong, a former fund manager at The Government of Singapore Investment Corp., founded APS Asset Management Pte. in 1995. The firm oversees about US\$1.5 billion in assets.

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