

APS rolls out China fund

BY TSERING NAMGYAL

Singapore-based APS Asset Management is planning to launch a new China fund in October this year, said Wong Kok Hoi, the company's chief investment officer. APS aims to raise US\$300 million for the fund, APS China Alpha fund. The fund will invest in medium to small sized Chinese companies.

APS has been trying to secure additional quota under the QFII programme and in a slight new twist, the firm will be investing in companies via another rule called the Strategic Investment Scheme for China A Shares.

This requires the company to take a ten percent stake in a single investee company in the A-share market for a minimum lock period of three years and can buy it at a discount of ten percent at the current market price. "We are taking advantage of this scheme," said Mr. Wong. "We have already spoken to a lot

of investors and hopefully we will launch it in around October."

APS China A share fund, domiciled in Luxembourg and launched in July 2004, reported a return of nearly 47.70% year-to-date. The company has already done its research and due diligence and has spoken to the management of the companies for its new fund, he said. "Chinese markets are horribly inefficient," says Mr Wong. "This is why the markets are well suited for our active management approach."

He likes companies in which "management's interests are aligned with those of minority shareholders" particularly where the members of the management team owns a bulk of the company. He has a list of about 30 companies in mind.

He cited the strength and the experience of its Shanghai-based China team as one of the reasons behind the China fund's superior performance compared to its peers. "This is probably the most experienced Chinese market specialists in China," he said.

The company is expanding its China team. The company said it has made offers to four new analysts in China and is also opening its second China research office to be located in Dongguan next month, making it the only fund management company with a presence in the city.

Asked about the prospects of the China market, he said "this is the most exciting market for both the investors and fund managers." For instance, he cites that auto sales in China grew by 140% in the first half of 2006, which is "truly amazing."

While the markets are exciting, Mr. Wong said corporate governance is still a major concern in China and the standards are "nowhere near the standards of most Asian markets."

"It is extremely difficult to research Chinese companies so the Chinese market is not suitable for passive managers," he said. "There is a lot of junk there but if you are able to avoid them then you may emerge to be a great investor." ■