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Opalesque Exclusive: APS China Alpha Fund (+94.9% in 2009) increased shorts, reduced net exposure in wake of tightened monetary policy

From Sagar Chakraverty, Opalesque Asia:

APS Asset Management (APS), a Singapore-based fund management firm saw its China Alpha Fund return +94.9% in 2009 and -0.5% in Jan-10. The low performance of China A-shares in January was primarily due to government's lending restrictions on banks and introduction of administrative measures to control property price rise. The Shanghai A-share index dropped 8.8% in January while the Shenzhen stock exchange saw a decline of 6.8%.

The Chinese government's decision to restrict its monetary policy has dampened investors' sentiments. On 12-Jan-2010, the People's Bank of China (BOC) raised the reserves requirement for local banks by 0.5% to 15% of their deposits, only hours after raising the interest rates on its one-year bills in an attempt to curb loan growth and cool economic activity, the Telegraph reported.

Bank lending is targeted at around 7.5tln yuan ($1.1tln), a drop of 22% from 2009 levels, which was 9.5 tln yuan ($ 1.39 tln).

China's yuan-denominated A-share market will become the world's third largest in the next 10 years, with its value reaching $10tln in 2020, according to a China Daily report. China A-shares are renminbi-denominated shares issued by companies registered in mainland China and listed on the Shanghai or Shenzhen stock exchanges. They are only available to domestic investors, Qualified Foreign Institutional Investors (QFII) license holders and approved foreign investors under the strategic investment scheme. This scheme permits foreign business entities to take a minimum approved 10% stake in A share companies, but holdings must be held for at least three years (see here).

APS China Alpha Fund – strategy

The investment objective of the APS China Alpha Fund is to achieve long term capital appreciation through investment in China stocks listed in Hong Kong, Taiwan, Singapore and A and B shares listed on Shanghai and Shenzhen Stock markets. APS follows bottom-up approach, selecting good stocks based on fundamental analysis, rather than adopting a broad view about markets or sectors. The firm never tries to forecast markets but looks for mispriced securities. Volatile markets are helpful because they provide opportunities for stock pickers such as APS.

In 2008, the firm played cautiously without gearing up the portfolio, according to APS' chief investment officer, Wong Kok Hoi. APS stayed focused on well-managed companies with strong balance-sheets so that even if there was a loss, it was not too much. Buying undervalued convertible bonds, which were sold off massively in Q3-08 by banks because of huge redemptions also helped the firm.
In 2009 the firm shifted from a defensive strategy to a more bullish strategy owing to subdued share prices resulting from heavy selling in 2008.

Ahead of tightened monetary policy of China in 2010, James Liu, Deputy CIO and Manager of the Fund told Opalesque last week that the APS had increased the Fund's short positions and reduced net exposure. With more tightening measures expected, APS could possibly lower its net exposure further in the near future. Despite being under these uncertain market conditions, they target a double-digit return in 2010.

China's fund market to grow on back of its robust economy

Asian markets have moved largely in tandem with the Chinese stock, Wong Kok Hoi told Bloomberg TV in an interview in Aug-09.

As of today (08-Mar), the MSCI AC ASIA ex JAPAN index is down 2.89% YTD primarily due to its counterpart, the MSCI Broad China Index, which is down 5.59% YTD.

In January, the National Bureau of Statistics revealed that the total GDP for 2009 was RMB 33.54tln ($4.91bn), up 8.7%. Already the world's third-largest economy behind the US and Japan, China now accounts for 7.5% of the world's total economic activity. It will surpass Japan in 2010, and could surpass the US too by 2020, Money Morning's chief investment strategist Keith Fitz-Gerald said.

However, Fitz-Gerald pointed out that China's key challenge was not lack of liquidity but peoples' excessive savings (35%) and not enough spending.

APS' James Liu told Opalesque: "the Chinese hedge fund market will continue to grow this year given the strong economic recovery of China and the structural issues faced by the developed economies today. We expect to see more funds flow into Asia, particularly China, which represents about one quarter of the all Asian focused hedge funds at the moment."

He added that APS was expecting some new managers come into the market, especially after a record gain of 50.4% posted by China hedge funds in 2009, according to data provider Hedge Fund Research.

Wong Kok Hoi established APS Asset Management in 1995 with a mandate of $10m to manage institutional money. Now APS manages $1.7bn (as at end Feb-2010) and has offices in Singapore, Tokyo, Shanghai, Shenzhen, Beijing and New York. The firm's clients include pension funds, foundations, insurance companies, and government agencies based in the US, Europe and Asia.

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