



## Interview with Wong Kok Hoi, Founder, Chairman and CIO of APS Asset Management Pte Ltd

*Eurekahedge*

Founded in 1995, APS provides fund management services specialising in Asia Pacific equity investments. APS is a fully independent firm owned 100% by its employees. Mr Wong Kok Hoi, founder, Chairman and CIO of APS, has more than 29 years of investment experience. APS has three teams of 24 investment professionals based in Singapore, China and Japan, managing three key products, ie, Asia ex-Japan, Greater China and Japan equities. As a bottom-up fundamental manager, APS prides itself on contrarian and creative thinking and original research, and seeks to enhance its clients' portfolios by superior stock-picking. APS's clients are mainly institutions that include pension funds, foundations and family offices based in North America, Europe, Australia/New Zealand and Asia.

Earlier this year, APS won a number of awards. Asia Asset Management named the APS China A-Share Fund "Best of the Best Awards China A-Share 3 Years". APS also received accolades from Hedge Funds World for the APS Asia-Pacific Hedge Fund "Best Performing New Fund". Recently, the APS Asia-Pacific Hedge Fund was the winner of "Fund of the Year" Award in the Asia including Japan category by AsiaHedge Awards 2010. Last year, APS Far East Ex-Japan product was ranked "Best Fund for Past One and Two Years" based on Mercer Investment Consulting Survey for Far East Ex-Japan Equity Funds Ending December 2009.

The performance and AuM of the funds are as follows:

Fund Name	Assets as of 1-Oct-2010	YTD Net Returns as of 31-Oct-2010	3-Year Net Returns as of 31-Oct-2010
APS Asia-Pacific Hedge Fund	US\$104 million	28.2%	132.1%
APS Greater China Long/Short Fund	US\$50 million	20.2%	42.8%
APS Far East Alpha Fund	US\$54 million	20.0%	5.1%
APS Japan Alpha Fund	US\$29 million	7.5%	-19.7%
APS Small Cap Alpha Fund	US\$37 million	23.1%	15.7%
APS China A-Share Fund	US\$341 million	2.4%	-19.4%

- 1) ***In 2010, many funds have struggled in volatile, unpredictable and non-trending markets. Your funds, on the other hand, have performed admirably. How did you deliver this performance?***

Many funds are trend-following and where the trends are volatile and unpredictable, following them can lead to volatile and unpredictable investment returns. At APS, we have a very different approach. We do not follow trends, especially short-term trends. We look for value and attractive businesses. When we find them, we do our due diligence to confirm that our investment hypothesis is correct and then we invest for the long-term. The turnover on our long-only funds typically is between 30% and 40%, so we are not traders. When you focus on the long-term prospects of a business, you can generate attractive risk-adjusted returns for your investors.



- 2) ***One of the themes this year has been the weakening US dollar. Were you able to capture the opportunities presented? Assuming that this trend continues, how do you intend to capitalise on it going forward?***

If Asian economies were still dependent on exports to the developed markets where there is a high degree of substitution, the weakening dollar would have presented a greater problem. The fact is that Asia companies now produce many goods and services that other countries do not, whether it is a low-cost apparel made in Sri Lanka or iPhones and iPads in China. Moreover, the largest economy in the region, China, effectively has pegged its currency to the US dollar so its weakening has, if anything, strengthened China's positioning as a global low-cost exporter.

- 3) ***What have you done differently in the post-Lehman world to meet investor expectations in terms of performance? Have you changed your investing approach/strategies?***

We have not changed our investing approach or strategies in the last 16 years. We have done extremely well in the last three years; our Asia-Pacific Hedge Fund is up 132% in the last three years because we hedged well in 2008. We like to believe that we stay disciplined to our investment process at all times and are not easily "carried away" by market euphoria or pessimism. Also, we already have robust risk controls but early this year, we strengthened them by adding real-time risk analysis systems for the portfolios. These systems help us to understand how the portfolios are positioned and what is helping and hurting in real time.

- 4) ***Of the different strategies employed by APS Asset Management, which has been the best performing over the years and why? What competitive edge do you offer investors investing in your funds?***

Our investment strategies are consistent across all our products but our hedge funds, particularly the APS Asia-Pacific Hedge Fund, have performed very well in this tough, directionless environment. The markets in Asia remain inefficient and these allow us to identify and invest in undervalued companies on the long side and short overvalued companies on the short side. Our competitive edge, we believe, is our experience and our expertise in deep and thorough primary research. We have done just this in APS for 16 years and feel that we have become quite good at it. Last year, our APS Asia-Pacific Hedge Fund was up 96% and this year, in what has been an even more challenging environment, it was up 28% as of end-October 2010.

- 5) ***What sort of fundamental/technical analyses would you put into your pre-stock selection research? Could you tell us a little about your investment philosophy? How do you drive synergy across the different funds?***

Our stock selection process is purely fundamentally driven; we do not use technical analysis. Our core investment beliefs are that economic modelling in Asia is not reliable for reducing risk or generating excess returns and that securities can be mispriced by an irrational and volatile fast-moving market. We believe that we must invest independently from the market to generate strong alpha and, as such, we place importance on independence of ideas and thoughts and in-house idea generation by our investment professionals. The empirical evidence is that consensus underperforms.



Our analysts and portfolio managers source ideas from four main areas: structural and business trends, new companies and products, out-of-favour stocks and company-specific leads. Once we have identified an investment idea, it is then classified into what we call "alpha categories": structural, economic, dynamic and opportunistic alpha. Then, we conduct our due diligence and valuation work before a final investment decision is made by a portfolio manager. This results in a diversified "alpha portfolio".

We share ideas across different teams. We are blessed by a team of investment professionals that we built over the years. During the most challenging times in 2008, we retained all of our staff and hence were able to seize the opportunities during the bear and bull markets in the last three years.

**6) *Could you give us an overview of your risk management practices across the different funds – any changes over the last two years?***

We have an independent risk analytics team, led by our Chief Operations Officer (COO), which monitors portfolio risk at the individual stock and portfolio level. We utilise proprietary "live" portfolio analytics which look at liquidity risk and concentration risk, among other variables. We prepare performance attribution analysis to view our largest contributors and largest detractors. We also have oversight by an independent compliance team to monitor trades and portfolio positions against investment guidelines and our portfolio guidelines are built into a front-end compliance system where trades are cleared before execution.

**7) *How has asset raising environment been in 2010 – any new launches or strategies to deal with the changed financial landscape?***

Our strong performance over the past three years has generated a great deal of interest in our funds, particularly the APS Asia-Pacific Hedge Fund and the APS China A-Share Fund. As a result, we have seen an increase in our assets under management in both funds. We secured an investment in the APS Asia-Pacific Hedge Fund from one large pension fund in the US and we won our first Asian mandate from an Australian superannuation pension fund. Based on the level of interest we have seen here in Asia and in the US and Europe, we believe 2011 should see even more assets flow into our funds.

In terms of new launches, we launched the APS Greater China Alpha Fund in October 2010 managed by the same team which manages APS China A-Share Fund, which entered a soft close. Also, our open-ended Vietnam Alpha fund will be launched in the second quarter of 2011 to investors seeking to invest in one of the last frontier equities markets in the region.

**8) *What do you have to do differently in the post-Lehman environment to raise capital?***

Post-Lehman, investors have higher demands for transparency and rigorous attention to investment guidelines, risk controls and compliance. In order to attract assets, I think we will have to demonstrate to investors that we have got skill-sets that can generate long-term alphas. And you will also have to articulate it well, not in a fuzzy or "black-box language" manner. You also need to have a full infrastructure which we do. In fact, APS looks better as a result of higher investor demands – quite an irony!



**9) How do you foresee the amount of stress laid on tightening regulations across the hedge fund industry to affect your fund? Are there any requirements that could potentially inhibit your funds' strategies?**

If anything, the tightening regulations are good for our hedge funds. Our hedge funds are not that large, with the APS Asia-Pacific Hedge Fund just over US\$100 million, typically the size which can generate the strongest returns to investors. As a firm, however, APS has US\$2 billion AuM so our hedge funds, small as they are, are operating within a larger organisational structure. Investors can get the best of both worlds: access to a smaller and strong performing hedge fund within a larger firm structure which reduces operational risks.

**10) Could you share with us, your short-term and medium-term outlook on some of the regional markets?**

We remain bullish on the equities markets in Asia. In China, we believe the long-term growth story remains intact and valuations remain attractive. China trades at about 15x PER but offers superior growth prospects. Asia, too, is attractive. Asian economies are increasingly less dependent on Western economies, which is a positive given the sluggish economic environment there. Intra-Asian trade is rising and there is a greater importance within Asia of economies less sensitive to US. For instance, China, India and Indonesia comprise roughly 75% of Asia's GDP, according to the IMF, and are among those economies least sensitive to US growth. Southeast Asia also sees positive demographic trends. The population of 600 million is young, with over 50% less than 30 years old. Like China, countries such as Malaysia, Thailand, Philippines and India are entering a stage of economic development when rising GDP per capita leads to increases in domestic consumption. Finally, equity valuations are attractive in Asia, with most countries trading below a PER to Growth (PEG) ratio of less than one.

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