

ROCIM draws on team strengths to

Knowing that something is a good idea is one thing, but being able to put that idea into action is another matter entirely. During his years as an analyst and equity salesman, Walter Chang could see a way to make absolute returns in an Asia ex-Japan bull market and how to preserve capital in a bear market, but Asian hedge funds only began to emerge in the early 2000s, and it took him a few years more to get all his ducks in a row and set up his own fund.

ROCIM (it stands for 'return on capital investment management') came into being in 2007. Chang set up in partnership with two old clients and long-standing friends, ex-equities analyst and portfolio manager Susanna Lau and equities and bonds researcher Kim Pao. Chang is responsible for the portfolio as the fund manager, and is also responsible for marketing and research; Lau is in charge of marketing, risk management and business development, and also oversees operations and assists on research; while Pao is primarily responsible for research, as well as managing systems and operations. The three have complementary skills, and they also share a philosophy about how to look at stocks and construct a hedge fund portfolio.

"I wanted to pull together people who could complement each other in running a long/short equity fund," says Chang. "We're all experienced. I've been through five economic cycles and we've all been through a lot in the past couple of decades. Over that time we've come to understand what each of us are like and how we develop investment ideas."

Together the trio have produced good results from their partnership so far. From inception

Walter Chang and his colleagues have built up an impressive track record with their Asia fund. With a mix of top-down and bottom-up tactics, it looks well placed to cover all eventualities

in September 2007 to the end of that year the fund gained 19.1%, held steady through the turmoil of 2008 emerging 1% up, and in 2009 clocked up 56.5% performance for the year. Assets under management grew last year from around \$17 million at the beginning of the year to \$38 million now, but with capacity of \$300 million there is still plenty of room for the ROCIM team to demonstrate its investment philosophy in action.

The team blends a macro view of the markets with fundamental stock picking to construct a portfolio of between 20 and 60 names depending on their market view. ROCIM's philosophy

divides market cycles into distinct phases as they rotate through recovery from a bear sell-off to a flat period, followed by volatility with large market swings, euphoria and a return to a bear market. Each phase offers distinct opportunities and calls for its own positioning, from high gross and net positions, through generating alpha from both the long and the short books, to active trading, then decreasing exposure and, when necessary, going to cash.

Ideas are generated from both the top down – based on macro themes, sector themes and quantitative screening – and also the bottom up, as a result of company visits, news flow and external research. Since 2007, ROCIM has engaged in 1,200 investor meetings, 500 a year, all over Asia.

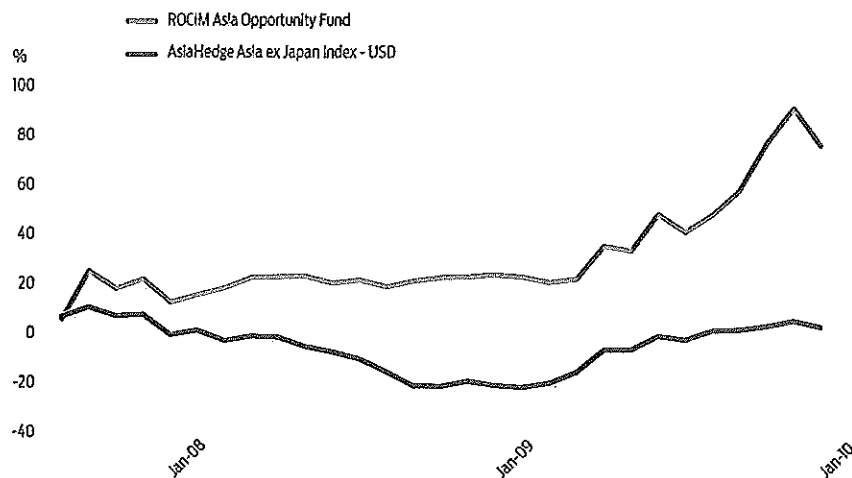
Its Asia Opportunity fund has a natural focus on China because it does not invest in Australia or India at this time. However, it is not a Greater China fund in disguise, as it also actively invests elsewhere in the region, for example in Korea, and Southeast Asian countries. "But at the moment China is driving the whole region and visits to mainland companies have so far accounted for two-thirds of our company meetings. For core positions we stay in very close dialogue with companies," says Chang.

"We are very familiar with certain sectors such as technology and consumption, and these stocks move fast in China," adds Lau. Having a regional focus not only widens the universe of potential plays but also increases news flow about China, and its competitors and trading partners in the region. "It's good to have an Asia ex-Japan mandate while looking at Chinese names because we have access to a wider stream of information flow," says Pao. "The incentive to monitor that information is less if you can't invest on the strength of it."

The fund's risk management is fairly straightforward – a review is triggered by a 10% loss, and a hard stop-loss at 20%. The review, and the decision to make a stop-loss call, is independent of the person who initiated the position. Single-name exposure is limited to a maximum of 15%, but the fund has only taken a 10% position a handful of times, and a 2-3% position size is more typical. The fund can go 200% gross long and 100% gross short, but in reality it has only gone up to 114% long and 32% short.

Having got off to a strong start in 2007, the firm had a shock in January 2008, but for the rest of the year was largely able to hide from trouble. "In December 2007, when we looked to the new year, we thought the market might rebound a little bit more, but instead the market taught us a lesson, and we lost 7.7%. By the middle of January, after reviewing all available information, we quickly concluded we are

Performance: ROCIM Asia Opportunity Fund



Source: AsiaHedge

blend macro and micro approach



Walter Chang



Susanna Lau



Kim Pao

indeed in a bear market and we should adapt our strategy by lowering our gross and net and increasing our cash level," explains Chang.

"I don't believe in having a big gross position that is market-neutral. It doesn't work in Asia. In 2008, we maintained a bear market strategy for the whole year, made up our losses in February, March and April, and came through the year flat."

Last year, as the market went into the early bull market phase, ROCIM adapted its strategy again to tilt the focus back to stock picking. By carefully observing market movement, Chang and his colleagues could see that the global bad news that emerged in March to May was doing little to dent stock markets.

"The story in the second quarter of last year was one of asset allocation. It didn't really matter what you bought, the stock market only reacted to positive news and ignored the bad news. The news in the first quarter that the US banks were making money triggered the rally," Chang explains.

"In the fourth quarter, stock picking became very important because the overall market re-rating process involving index names has slowed down, and that's when stock picking was able to make money because we are very

good at identifying companies. Overall, the past two and a half years have highlighted our ability to use our macro understanding and stock-picking skills when the time is right."

By the third quarter of 2009, fund of funds clients were sufficiently impressed with the way the fund's strategy delivered what it said it would, and began to invest. Now ROCIM has to prove to them that, as the market rolls out

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of the phase when easy money can be made, it can deliver on its promises.

"In 2009, it wasn't difficult to find companies offering 30-40% upside in a short time, but this year 15% upside is more realistic. There are risks of inflation, liquidity repatriation, trade sanctions, high earnings comparison basis and obviously individual country risks," says Chang. "Over the next few months we will see a lot of volatility. The turning point could be April, when Chinese companies start to announce their first-quarter results and we will see how they've been doing under tightened liquidity."

In 2010, Chang does not expect the market to go back to the previous low unless there is another big crisis creating a lot of forced selling. The drop in January was just a natural correction; volatility remains the key word of the year and whereas towards the end of last

year, the portfolio's macro weighting was 20% with 80% attributed to stock picking, now the split is more like 50/50, says Chang.

"We have to observe more, be more sensitive and pay attention to the political situation in Asia and the rest of the world," he says.

Exports are a theme to watch in 2010, as industrial companies have started to make money in some sectors due to capacity consolidation and inventory restocking orders from the West, for example in the textiles industry in China and in DRAM and LCD panel companies in Taiwan and Korea. "This could still go on for a few months, which is good enough for some companies to make a quick turnaround," says Chang.

Consumption was a strong theme last year and remains interesting in 2010, but it varies between sectors. In January, consumption names were among the worst performers in Asia, but Chang still sees opportunities in this space again when the time is right.

"A lot of themes are sporadic. Good sectors are pretty much the same as last year. The key is valuation reflection," says Chang. Another theme for this year is the potential appreciation of the renminbi, and what plays could go into that. "The Chinese government stopped renminbi appreciation in 2008, but now it's got inflation problems, and one way to counter that is to allow the renminbi to appreciate again. Some companies, such as companies with renminbi cash flows and US dollar costs, could benefit from that."

Overall, though, 2010 is set to be a very noisy year, one in which it will be very difficult to tell a story. The key is to be nimble, to trade well before a clearer direction becomes apparent, says Chang. The only story investors will be wanting to hear is how ROCIM will steer through that uncertainty as the year unfolds. As he explains: "People who like this fund are those who have a long-term belief that Asia will out-perform the western world but who also want a fund that can provide downside protection and upside returns. Which is exactly what we've done for the last two and half years."

ROCIM Asia Opportunity Fund: at a glance

Inception Date: September 2007

Managers: Walter Chang, Susanna Lau, Kim Pao

Offices: Central, Hong Kong

Strategy: Asia excluding Japan equity

Assets in strategy: \$38 million

Administrator: Fortis Prime Fund Solutions

Prime broker: Credit Suisse

Minimum investment: \$100,000

Open to investment: Yes