The Eurekahedge Monthly

Interview with Jerry Wang, Fund Manager of the Vision Asia Maximus Fund

Eurekahedge

Interview with Jerry Wang

1. *Explain how the underlying hedge funds are selected?*

   We believe in an all-embracing method with top-down and bottom-up approaches to search for investment-worthy managers by studying the individual merits of each candidate and evaluating its suitability with the overall portfolio. We begin by filtering and screening, as extensive a variety as we can gather, based on many aspects, such as strategy, liquidity, length of operation, volatility, performance, etc. We then shortlist from the universe of available managers. With the shortlisted group, we dig into their qualitative attributes from three perspectives: Investment Disciplines, Investment Operations and Risk Control Disciplines. To aid our manager evaluation, we conduct quarterly on-site due diligence interviews around the world. In addition, we gather industry news and intelligence through premier commercial databases and established professional networks. We input all the information gathered into our proprietary Manager Evaluation Database to conduct a thorough and comprehensive qualitative analysis of each manager.

   In addition to qualitative analysis, we also look into the quantitative attributes to examine a manager's suitability in the overall portfolio. We use an internal quantitative portfolio optimisation model as well as other types of analyses, such as conventional correlation, efficient frontier, regression analysis, etc.

   The selection process is on going. We conduct regular and vigilant monitoring to decide on possible appointments of new selections and/or terminations of the existing choices.

2. *Breakdown of the strategies employed and percent of NAV. Please state what you look for in a manager/fund in each strategy.*

   a. Equity Long/Short
   b. Relative Value (market neutral)
   c. CB Arbitrage
   d. Multi-Strategy Arbitrage
   e. Event Driven
   f. Distressed Debt/Securities
   g. Macro
   h. Fixed Income
   i. CTA

Strategy (for the month of Oct, 2003)	Allocation
Long/Short Asia ex-Japan	21.2%

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Long/Short Japan	19.0%
Long/Short Pan-Asia	14.4%
Distressed	11.5%
Fixed Income	11.3%
Asia Macro	7.8%
Multiple-Strategy Arbitrage	6.9%
CB Arbitrage	5.7%
Statistical Arbitrage	2.2%

The objective of the fund is to achieve long-term capital appreciation by investing in multiple investment programmess in the Asia-Pacific region. We practise diversification at both the strategy and underlying funds level. Therefore under each strategy, we search for investment managers that are diverse in style to ensure minimisation of the overall volatility.

3. *How long do you monitor a hedge fund manager before making an initial investment?*

   It varies; on average three months after our initial due diligence interviews.

4. *How large is the initial investment?*

   Depending on the manager's quality, length of track record, performance volatility, and liquidity, the range of our initial investment is usually from 1% to 3.5% of the portfolio.

5. *What is the process of increasing investment from the initial investment?*

   We conduct on-going monitoring on the qualitative and quantitative performance of each manager. We may increase investment if the manager complies with its investment process and outperforms its peers in the same category.

6. *What information do you require from the underlying funds? How often is this information required?*

   We request timely updates from our managers. We receive newsletters, weekly NAVs, monthly exposure reports and monthly return attributions from the managers for our own computation, monitoring and control. However, we do not require all managers to provide full transparency on their holdings. We aim to reduce portfolio risk/exposure through effective diversification.

7. *How often do you visit the underlying managers? And examples of questions asked?*

   We visit our managers at least twice a year at their offices. In between, we conduct formal conference calls with each of them on a monthly/quarterly basis or whenever necessary. The questions asked depend greatly on the type of strategies, as most technical questions would be market related or strategy specific. However, we do have a set of questions that we direct to each manager. Examples of the general questions include their staff turnover and new hire, their funds' asset inflows and outflows, capacity targets and current outlook.

8. *Please explain the background of the manager(s) and analysts for the fund. If preferred, please attach CVs*

   Jerry Wang and Ronnie Wu are the directors/managers of the fund. Jerry brings with him 12 years of experience in the asset management industry with extensive experience in both traditional and alternative investment strategies. Prior to founding Vision, Jerry worked at Merrill Lynch and Scudder Kemper Investments. Ronnie has over 10 years of experience in the asset management industry, of which six years are in the management of fund of fund (FoF) programmes. Since his joining in VIM, Ronnie has applied the skills learnt from his previous experience and spearheaded the construction and enhancement of the investment process. Prior to joining VIM, Ronnie worked at UBS and Chase Manhattan Global Asset Management.

Our analysts are divided into quantitative and qualitative analysis, as well as risk management control. Their previous engagements with top-notch investment companies, financial analysis service providers, family offices and investment research companies had granted them in-depth knowledge about the Asian markets as well as the hedge fund strategies in the region. The analysts have applied their effective analytical expertise to innovate and develop a number of proprietary evaluation platforms for the manager due diligence and selection process, portfolio construction, asset allocation, and risk management.

9. *Risk management: Explain in detail what type of risk management systems are employed by the manager(s). How often is this analysed?*

We recognise the business risk inherent in hedge funds. We apply stringent risk management guidelines at both the strategy and underlying funds level on a weekly basis, utilising quantitative systems including Exposure Report, Liquidity Report, Scenario Analysis and Portfolio Optimisation Model.

Our Risk Control Guidelines:
At fund level,

a. Changes in total asset management
b. Performance monitoring by tracking the annual Rate of Return (RoR) and monthly RoR
c. Analysing the risk and return profile by calculating the compounded RoR, arithmetic mean RoR, standard deviation and Sharpe ratio
d. Conduct drawdown analysis
e. Run regression on monthly analysis against relevant index to generate Alpha and Beta
f. Implement stop-loss limit from monthly and rolling 12-month performance perspective

At portfolio level,

a. The fund should contain a minimum of 15 managers in 6 different strategies at all times
b. No single manager to exceed 10% of the fund NAV
c. No single strategy to exceed 30% of the fund, except long/short equity strategy
d. At least 75% of managers allocated should reside within the Asia Pacific region
e. At least 50% of total portfolio assets should have monthly liquidity. Monthly liquidity reports are used to track total liquid assets within the investment portfolio across 30, 60, 90, 180 days
f. Apply stress test and scenario analysis to produce risk and return projections and follow the allocation that will deliver the targeted risk and return
g. Monitor country, gross, long and short, equity and non-equity exposures on a monthly basis
h. Monitor and enhance overall portfolio performance characteristics: standard deviation, Sharpe ratio, Alpha, Beta, correlation coefficient, etc.

10. *Please provide a correlation matrix of the underlying funds in the portfolio; or, if preferred, a general statement on the correlation of the underlying funds in the portfolio.*

Please see attached correlation matrix.

11. *Please describe the differences between building an Asian FoF vs a*

Japanese FoF? Is it more difficult to find suitable Asian hedge funds vs Japanese equities long/short given that some view Asia as a harder place to operate a hedge fund compared to Japan where markets are deeper and more liquid?

Comparatively, it is easier to build a Japan FoF than an Asian FoF because Asian FoF talents are harder to find. However, in terms of investment value, Asia offers abundant investment opportunities and attractive Alphas to skillful managers within the less efficient financial markets. In addition, a Japan FoF tends to be highly concentrated in Japan-only long/short equity whereas a pan-Asian FoF would offer more diversification.

12. Japan hedge fund performance: Is there any difference in performances and styles between Tokyo, London and US-based Asian fund managers?

    In general, US and London-based Asian fund managers' investment process tend to be more top-down driven. They realise the disadvantage of not going underground; therefore, they usually adopt longer-term themes coupled with macro views. Asia-based managers live in the same time zone, breathe the same air and are able to capture timely market intelligence. Proximity to markets and local expertise provide Asian managers an information edge over the overseas-based managers. Therefore, Asia-based managers, in general, are more bottom-up driven. Having said that, we are not necessarily biased towards Asia-based managers. The information advantage is more applicable to certain types of strategies, but not to all.

13. *Do you already invest in any China hedge funds? Do you intend to?*

    N/A

14. *Would you diversify the strategies you invest in? For example, would you consider adding a macro manager to your portfolio?*

    The core of our value lies in diversification. We believe we can generate attractive returns in Asia and reduce volatility by using the multi-strategies and multi-managers approach. Therefore, we do not exclude any strategies that focus in Asia. At present, we have allocations in Asian macro managers.

    Diversification has worked well in our fund. Since inception in April 2002, our Vision Asia Maximus Fund has delivered returns of 16.93%, which outperformed the benchmark MSCI Asia Pacific Free Index returns of 3.93% over the same period. Also, our percentage of positive months has reached 82.35%, as compared to the index's 47.06%, reflecting our fund's relatively superior returns. In addition, despite the sizable outperformance, our fund has taken on significantly lower volatility, as illustrated by our standard deviation of 3.75%, as compared to the index's 16.20%.

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If you have any comments about or contributions to make to this newsletter please email editor@eurekahedge.com

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