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CAI sees prospects in Asian special situations

By Yvonne Chan | 26 February 2014

The Hong Kong-based hedge fund manager is considering re-opening its special situations vehicle, citing opportunities in mispriced assets.

Central Asset Investments (CAI), a Hong Kong-based multi-strategy hedge fund firm, is considering re-opening its pan-Asia special situations strategy to new investors, says chief executive Eddie Tam.

The CAI Special Situations Fund, launched in August last year, takes concentrated positions in specific market opportunities that are also held by its main multi-strategy offering, CAI Global Fund. The special sits vehicle has returned about 100% in the first six months of operation.

"At the beginning, it was a natural outgrowth of our main fund. [CAI Global] was full in certain positions and we felt our conviction levels were so high that we wanted to do more," Tam tells *AsianInvestor*.

The fund was created to keep CAI Global within its internal risk limits, while offering the firm's existing investors the chance to increase their concentration risk.

"It's not meant to be a well diversified portfolio," says Tam. "It's also more of a buy-and-hold type of strategy. Typically, we're looking for some catalysts or inefficiencies to be arbitraged."

The main contributors to the fund's performance have been portfolio holdings in the technology and renewable energy sectors, which also holds true for CAI Global, which returned 51.6% in 2013.

Tam declined to specify the special sits fund's AUM, except that it runs less than $100 million.

CAI's existing investors were offered the chance to allocate to the vehicle last year, but only for a limited time. It was created with an intended lifespan of 18 months, with an optional extension period of 18 months.

However, CAI is considering re-opening the fund this spring to both internal and external investors – for a period of one or two months – and making it a permanent offering.

"There seems to be increasing demand for this product," says Tam. He adds that the mandate will likely change slightly if it becomes a permanent product

"So far, what we have done with it is made deft stock pickings, based on a lot of fundamental research. It seemed quite obvious that something that we bought was extremely undervalued and we saw a near-term catalyst," says Tam.

"But in the future, I don't exclude the possibility that we will invest more in the classic definition of special situations," he adds. "It could be M&A, distressed or event-driven type investments."

Tam had foreseen the onset of US Federal Reserve tapering as creating problems for some emerging markets that are running sizeable current account deficits – a view borne out by last month's EM rout.

However, he notes that EMs – particularly those in Asia – with significant current account surpluses and foreign currency reserves "are holding up better than perhaps some other emerging markets".

South Africa, Turkey and Brazil have seen their currencies drop against the dollar in the past several weeks, while the Vietnamese dong has been steady, and the Indonesian rupiah rose following a reduction in the country's current account deficit.

"There is quite a lot of differentiation among emerging markets," says Tam. "I would say the impact has been quite mild in Asia."