Diversity pays dividends for Tam's Central Asset Investments strategy

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CAI's multi-strategy approach to investing delivers rich rewards in Asia

When Eddie Tam started **Central Asset Investments** (CAI) more than eight years ago, conditions were ripe for a multi-strategy fund in Asia. Investing in various asset classes provided opportunities for gains against the backdrop of shifting global macro policies that were making Asian markets increasingly challenging to navigate.

Since then, the firm has grown to a few hundred million dollars in assets, and become one of the best-performing multi-strategy funds in the world. It returned more than 51% in 2013, taking annualised returns to over 23% since inception in 2005.

Its flagship product, the **CAI Global Fund**, uses the investment strategy that Tam has honed over the years, combining rigorous bottom-up fundamental research with top-down asset allocation.

The fund invests across several asset classes – including stocks, bonds and convertibles – and across the region's top markets, such as Japan, Greater China, South Korea and India. The fund also invests in some European and US securities that have exposure to Asia.

"Our business is discovering the inefficiencies in the marketplace and finding oversold situations," comments Tam. "We are global investors interpreting a lot of events through an Asian perspective. We believe we bring a different perspective to the table."

Tam partnered with **Vishal Tourani**, who has the role of COO, and portfolio manager **Armand Yeung** to establish CAI in April 2005.

2013: a stock-picker's market

By the end of 2012, the CAI Global Fund was already shifting its portfolio towards equities, after taking into account the changes in the macro environment.

Eddie Tam

Biography: Eddie Tam

- CEO and CIO of Central Asset Investments, which he founded in April 2005
- Chief portfolio manager of the Fore Opportunity Fund at Fore Research and Management
- Head of sales and marketing of Asian derivatives at Credit Lyonnais
- MPPM from Yale School of Management and currently an active member of the Greater China Advisory Board at the Yale School of Management

However, this top-down asset allocation shift was just the beginning of CAI's investment process. **Fundamental** research and bottom-up stock-picking played an instrumental role in the fund's 51% returns that were delivered in 2013.

The firm's investment and research team, headed by Yeung, dives deep into the investible universe to find the best-in-class ideas to express its views.

Along with a research team based in Shenzhen, CAI uses both quantitative and qualitative research methods to filter through opportunities, from building valuation models and conducting company visits to carrying out channel checks and engaging directly with company management. Wherever appropriate, CAI also tries to fully immerse itself into a theme. For example, its analysts are often among the first to test out a new product.

"When an online gaming company comes out with a new game, our analysts are some of the first people to play it," explains Tam, who himself is an active user of social media.

As head of CAI's investment strategy, Tam is also responsible for making decisions on asset allocation.

"We aim to optimise our asset allocation strategies in order to achieve strong returns," says Tam, explaining that he employs a "simple, almost common-sensical approach to investing".

The result is a combination of asset classes, including convertibles, bonds, equities and cash within a single portfolio. The weightings and types of classes vary from time to time depending on how Tam and his 12-man investment and research team interpret the market at any given point.

A key of CAI is that Tam and his team cover the markets around the clock. A typical work day for Tam begins at 9am and ends at 5am the following day.

A multi-strategy approach

In determining the portfolio's asset mix, Tam employs a top-down approach to analysing the markets – taking an overall look at the "big picture" in the global economy and the financial world, and then breaking down its analysis to finer details.

"We take all headline news, economic, geopolitical news developments, as well as fundamental bottom-up information, into our decisions on how much bond and how much stock exposure we should have in the portfolio," says Tam.

The CAI Global Fund returned more than 100% in 2009, driven primarily by credit as governments across the world moved to stimulate their economies. Half-way into the recovery cycle, however, the fund tilted toward equities to capture the rapidly emerging opportunities in that space.

Similarly in 2011, a period of fear about China's overpriced property market created opportunities in distressed credit. That compelled Tam and his team to focus on bonds. "But again, toward the end of 2012, credit had recovered, and it was clear that better opportunities were in stocks," explains Tam, illustrating how the deft handling of assets from bonds to equities and vice-versa has helped to boost returns.

"We constantly evaluate all these factors. Today, we're almost entirely in equities and will be so in the foreseeable future," says Tam. By contrast, he believes that the US exit from its quantitative easing policy and China's transition into a consumption-driven economy will make opportunities in the credit and fixed-income space hard to find. "This is not a good time to be investing in bonds," he remarks.

Focus on returns, not asset -raising

In Asia, where long/short equity has long been the dominant and most popular strategy for hedge fund investors, Tam's multi-asset investing strategy is relatively unusual. The strategy demands a strong level of expertise in more than one asset class, and the decision over the timing of a purchase or sale of any asset could either make or break returns.

But Tam, who took a Master's degree in electrical engineering before getting a management degree from Yale University, was never daunted by the challenge.

"My primary mandate is to make long-term superior returns and not focus solely on raising a lot of capital," he says, rejecting the idea of offering "gimmicky products" to lure investments.

Apart from the CAI Global Fund, the firm's only other fund is the CAI Special Opportunities Fund. That vehicle has returned 118% since launch in August 2013. Structured to have a limited shelf life of 18 months, it is currently closed but the firm may look to re-open it to new capital in the near future.

Tam has been back to Asia from the US for over 20 years, where he spent the first 10 years on the sell side working with **Merrill Lynch** before moving on to Credit Lyonnais, where he became head of sales and marketing of Asian derivatives. He is often seen as a pioneer of the region's equity derivatives market.

Tam moved into the money-management business in 2002, initially investing on his own before being invited to join in by a former Merrill Lynch colleague who founded a credit and convertible-focused fund, Fore Research & Management. Tam served as chief portfolio manager of the **Fore Opportunity Fund**, before leaving to establish his own fund.

"Fore was clearly into credits and convertibles. But I didn't want to be pigeon-holed to just doing one asset class. I thought there were a lot of opportunities to make profitable investments across equities as well as credit and convertibles," explains Tam.

CAI now invests globally but keeps an Asian-region wide focus. Greater China is its core competence. The firm's main office is in Central, Hong Kong, where the trading takes place, while the China office in Shenzhen covers the China market in depth.

Tech and renewables are key themes

"In the last two years, we've been successful in discovering opportunities in areas such as technology, mostly software technology, and renewable energy. Both are powerful trends and we made money from both," says Tam. He predicts further opportunities in both of these themes.

The CAI Global Fund's portfolio is tilted towards US-listed Asian companies at present. Top picks in this area last year included a Chinese renewable-energy company called Canadian Solar, and Taiwanese semiconductor firm, Himax Display Technologies. Himax is known for its liquid crystal on silicon chips used for screens on smartphones and Google Glass' head-mounted display.

Both stocks, with a market capitalisation of over $1 billion, were among last year's strongest performers in the US, with prices skyrocketing by almost 800% and more than 500% respectively.

Canadian Solar, where CAI Global is the second-largest shareholder, is a leading vertically integrated solar module producer that has operations around the globe, but focuses in on North America, Europe, and Asia. Much of the company's manufacturing capacity is located in China.

Last year, renewable energy as a sector proved to be very volatile. "There is a secular growth element to renewable energy, especially in solar. We've developed unparalleled expertise in this area," Tam notes.

He is also excited about software technology and how that is evolving in China and other parts of Asia – possibly leapfrogging the West in terms of development and usage.

China's technology giants, including an affiliate of Alibaba Group Holding and Tencent Holdings, recently moved into the business of extending loans and consumer investment products – an area long dominated by traditional banks.

While Alibaba is moving into money management, Tencent created its very own 'virtual red packets' over Chinese New Year, where gifting cash or red packets to friends/family is an old tradition. This marketing ploy allowed Tencent access to banking information from millions of clients, who used its virtual red packets.

Spotting trends early

CAI identifies stocks that are trading at steep discounts to their underlying value and uses that insight to spot emerging trends in the market.

"We saw [early on] stocks like Korea's dominant portal, Naver, which was trading cheaply and realised that technology is an area of growth and undervaluation," explains Tam. "We then expanded the research to the whole Korean, Chinese and Japanese internet space and saw interesting companies having varying focus."

He is keen to explore many other areas of growth in the region, but for now his money is on renewables and leading technology bets in Asia.

"In less than a year, Alibaba has become the largest money market manager in China. Tencent is doing the same and is scaring many of the traditional banks. It brings us to the view that e-finance is a highly promising sector," Tam concludes.

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