China hedge funds not riskier

China, Taiwan and HK funds give decent returns, study finds

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CONTRARY to popular belief, hedge funds investing in Greater China are not any more risky than United States hedge funds, as far as market risks are concerned, a study revealed yesterday.

In fact, the report, Hedge Funds in Emerging Asia, found that hedge funds that invest in China, Taiwan and Hong Kong, offer decent returns without substantially higher risks, partly because of the ability to sell short in the Hong Kong market, said Singapore Management University (SMU) assistant professor Melvyn Teo.

The study, conducted by Prof Teo, compared hedge funds investing in China with those investing in other regions, such as the US, over a period of seven years, from 2000 to the end of last year.

Commissioned by Fullerton Fund Management, the objective was to find out if these funds investing in China were mere trend followers, meaning they increased their exposures to those markets which were going up, said Ms Shirin Ismail, its director and head of Absolute Returns Investment Strategies.

“We found out most funds are not blindly following market. They have what we call alpha, or skills, that allow them to extract additional sources of returns.

“They are also able to uncover inefficiencies in the market and protect you in a downturn, if one were to occur,” she said.

Ms Ismail, who called the results “encouraging”, said the funds they tracked also possessed the ability to short sell.

“We realise that in such funds, the investment universe is very wide. It includes Hong Kong, Taiwan, China and, sometimes, even outside of this region, to a small extent.

“They have access to overseas markets, whereby certain Chinese companies have listed their stocks there, for example, in US markets. So, they can effectively short-sell – that is, hedge – their portfolio when they feel that certain companies would not do as well as other companies,” she said.

Prof Teo considers these hedge funds to be mainly targeted at “sophisticated investors”, or those able to fork out a minimum investment of $100,000. But retail investors can still get a piece of the hedge fund action through “funds of funds”, which are funds investing in other funds.