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By Netty Ismail

Octagon Capital Management Pte, run by former managers of the Government of Singapore Investment Corp.'s quantitative-investment group, plans to start a fund that seeks to profit from broad economic trends.

Octagon, which uses computer models to pick trades, will raise money "in the near future" for a quantitative macro fund that wagers on currencies, equities, interest rates and commodities in Asia, said Lam Poh Min, 39, co-founder of the Singapore-based hedge-fund firm. The firm is looking for a "more opportune time" to start the fund, Lam said yesterday.

The firm will tap investor appetite for macro strategies after withdrawals cut the size of its assets by 67 percent to \$160 million, even as its equity hedge funds outperformed peers. Octagon will likely stand out from Asia's biggest macro funds that don't rely on computer models to select investments, said Melvyn Teo, who researches the hedge-fund industry.

"Maybe that's one way of differentiating themselves from the other run-of-the-mill macro funds," said Teo, a director at the BNP Paribas Hedge Fund Centre at Singapore Management University. "I don't think there are a lot of quant macro funds; they are usually run by someone experienced with a view on macro issues."

An index tracking Asia-focused macro funds rose 3.3 percent in March, the best performance of nine groups followed by Singapore-based EurekaHedge Pte. Long-short strategies, which make bets on rising and falling stocks, gained 2.4 percent, according to the industry data provider.

Macro Strategies

Quek Jee Ngee, who started a quantitative investment group at GIC in 1996 and specializes in macro strategies, will oversee the new fund, Lam said. Quek, 44, also set up the proprietary investment unit at Singapore-based Oversea-Chinese Banking Corp. before joining Octagon last year as a partner.

"I've worked with him for so many years," said Lam, who together with Quek were the first people at GIC, Singapore's sovereign wealth fund, to develop computer models to trade financial markets. "I'm confident in what he can accomplish."

The yet-to-be-named fund, which will trade index futures and options, has a capacity of \$500 million, said Lam. It will target returns of 10 percent to 15 percent.

Octagon reopened its Pan Asia Fund, closed to new investors in October 2006, at the end of last year after withdrawals cut the size of its assets to \$124 million from as much as \$424 million a year ago. Clients withdrew almost \$24 billion from the region's hedge funds last year, according to EurekaHedge.



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“It has nothing to do with our performance,” said Lam, who was the top student in computer science at the National University of Singapore and graduated with first-class honors in 1995. “A lot of investors were in desperate need of liquidity and we were able to provide that.”

Rising Interest

The Pan Asia Fund gained about 2 percent from January through mid-April, after losing 4.6 percent in 2008. Asia- focused long-short equity managers lost 0.7 percent in the first three months of the year, extending their 22 percent decline in 2008, according to EurekaHedge.

The fund, which has the capacity to grow to about \$500 million, is attracting fund of funds, family offices and pension funds, and existing investors are starting to put in money again, Lam said.

Investors are also starting to shift some assets into the Pan Asia Fund from the Octagon Tactical Short Fund, reversing allocations last year, Lam said. The \$35 million Tactical Short Fund, which is “designed to be a very aggressive shorting vehicle,” fell about 5 percent from January through mid-April, after gaining 38 percent in 2008, he said. Shorting involves selling borrowed shares in the expectation prices will decline and they can be bought back to make a profit.

Bullish Point

The Pan Asia Fund has been “more aggressively adding” to its long positions since last month as the firm’s computer models show the recent rally could have more to go, Lam said. The MSCI Asia Pacific Index has risen 18 percent since March.

“We are right now at our most bullish point since the bear market began,” he said. “We are now maintaining the least amount of short exposures in the short fund in a long while.”

The firm picks 80 to 100 stocks for its portfolio after screening an “investment universe” of more than 2,000 securities daily.

Lam and Nelson Chia, a former equity trader at GIC, started by managing \$692,000, most of which was their own money, when they set up Octagon in 2004.

Octagon closed its \$15 million Japan-focused fund at the end of last year after managing it for nine months. The fund lost about 5 percent in 2008, compared with a 42 percent drop in Japan’s benchmark Nikkei 225 Stock Average.

Hedge funds are mostly private pools of capital whose managers participate substantially in the profits from their speculation on whether the prices of assets will rise or fall.