

The Interview - Justin Ferrier, Myo Capital Advisers: "There is currently an enormous supply/demand imbalance for special situations in Asia"



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Justin Ferrier, chief executive of Hong Kong-based Myo Capital Advisers, pictured (above) with fellow managing director Geoff Lee, believes the Myo Capital Special Situations Fund I will benefit from factors such as the repatriation of international capital from Asia, the unwinding of special situations teams in the region and the pullback of investment banks' prop desks under regulatory pressure, resulting in less competition and better quality deals.

GFM: What is the history and background of your company, principals and funds?

JF: Myo Capital Advisers is a Hong Kong company established in August 2007 that acts as investment adviser to Myo Capital GP and the Myo Capital Master Fund. The general partner is the investment manager of Myo Capital Special Situations Fund I, a closed-ended collective investment scheme organised and registered in the Cayman Islands as an exempted limited partnership.

The Myo Capital Master Fund was launched in April 2008 and was seeded by Man Group, an arrangement terminated in November 2009 when Man Group exited its investment. Geoff Lee and I are the responsible officers of the investment adviser as defined by the Hong Kong Securities and Futures Commission.

GFM: Who are your main service providers?

JF: The legal adviser for Hong Kong and international law is Simmons & Simmons, while Ogier advises on Cayman law. The fund's auditor is Ernst & Young, the administrator is HSBC Trustee (Cayman) and the custodian is HSBC Trustee Trust Services (Asia).

GFM: What is your targeted client base?

JF: The fund is mainly distributed to institutional and high net worth investors.

GFM: What impact has the recent global financial crisis and economic downturn had on your business?

JF: The global financial crisis has resulted in the repatriation of capital invested with international hedge funds, investment and commercial banks in Asia back to home markets. Hedge fund managers that built Asian special situations teams have closed them down and have sold assets or

are in the process of doing so, while investment banks that had billions invested in special situations have closed prop desks or merged and international commercial banks have tightened lending policies. This has resulted in less competition and better quality deals.

GFM: Please describe your investment process.

JF: The first step, idea generation and sourcing, begins with rigorous assessment of the opportunity set and top-down macro analysis to assess country risk, key investment themes and the opportunity set. We undertake disciplined allocation of resources to geographic markets and opportunity sets.

We use a database of sourcing contacts with individual contacts assigned to investment professionals, and draw on international and local sourcing networks including local brokers, banks, service agents and boutiques. The investment committee assigns primary and secondary responsibility for each country and contacts.

The second step consists of analysis and preliminary investment approval, starting with the preparation of a preliminary investment committee memo and analysis of quantitative and qualitative data for country, industry, business and capital structure. The risk/return analysis covers assessment of risk-adjusted returns with best, probable and worst outcomes. Following assessment of security coverage, liquidation value and downside protection, we approve the appointment of investment advisers.

The third step consists of structuring and final investment approval, including detailed analysis and term sheet, investment sizing and portfolio composition, updating of the investment committee memo to include risk-adjusted returns and final approval by the committee, followed by execution of the investment.

The final step comprises monitoring, adding value and exit. Active monitoring and analysis includes quarterly earnings results and industry updates, while risk management entails the monitoring of exposure limits, hedges and leverage, if any. Value is added via restructuring, improved budgeting and forecasts, and assisting the company with working capital financing, and we monitor and update risk-adjusted returns. Exits can be undertaken through debt via internally generated cash flow, refinancing by local banks or capital markets or shareholder debt buybacks, while equity exit options include an IPO or relisting on public markets, a put to the majority shareholder or sale to a strategic investor.

GFM: How do you generate ideas for your funds?

JF: We believe there is currently an enormous supply/demand imbalance for special situations in Asia including Australia. Over the next three years we believe there will be around USD200bn of supply but few funds are set up to take advantage of this.

This supply will be driven by a tightening in China and a slowdown in Australia. Asian banks are also tightening up, and some US and European commercial banks are continuing to sell assets and repatriate capital to home markets. We don't expect investment banks or international hedge funds to come back to the market any time soon. Many have closed their illiquid desks and exited Asian markets.

The opportunity set consists of distressed public bonds and convertible bonds, leverage loans, and local currency loans, and primary and secondary special situations.

GFM: What is your approach to managing risk?

JF: The fund may choose to hedge its portfolio investments using currency hedges and credit default swaps to protect currency and country risks.

Prior to making an investment the investment committee assesses the external risks of the investment including country, currency, political risk and determines whether these risks can and should be hedged using currency hedges and credit default swaps. The committee manages hedges

on a real-time basis and movements in underlying hedges are reported at the end of each trading day and summarised in the weekly risk report reviewed by the committee.

GFM: How has your fund performed?

JF: The Myo Capital Master Fund was up 20 per cent net of fees in 2010.

GFM: Are you looking at any particularly attractive opportunities right now?

JF: The Myo Capital Special Situations Fund I is targeting some 20 to 25 positions across various geographic regions, instruments and sectors. When fully invested, we expect the composition of the fund to consist of around 15 per cent public and convertible bonds, 15 per cent local non-performing loans, 20 per cent leverage loans, 25 per cent primary special situations investments and 25 per cent secondary special situations.

GFM: What do investors currently expect from managers, and how do you deal with those expectations?

JF: In the aftermath of the crisis, investor expectations have been raised, and so they should be. We continue to do the best job of investing where we can get the best risk/return balance.

GFM: What differentiates you from other managers in your sector?

JF: The fund specialises in distressed debt and special situations investing and its managers are pioneers in proprietary sourcing and deal flow. We have an extensive information network, a highly analytical and robust investment process, rigorous fundamental analysis and structuring expertise. Also, we don't have legacy positions, so our entire focus is on finding the best deals rather than managing a legacy portfolio. We have a strong partner in DBS, which has a fantastic network across the region that can help us source deals.

GFM: How do you view the environment for fundraising over the coming 12 months?

JF: It will be not an easy environment for fundraising, but there is still opportunity in market.

GFM: How do you expect your business to be affected by current and proposed regulatory changes?

JF: The Volker rule could mean investment banking prop desks closing down, which should lead to less competition in Asian special situations. We have already seen a number of special situation prop desks close, and there appears to be regulatory pressure on other players in the market.

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