South Korean CDS narrow on ratings upgrade, global hedge funds show interest in Malaysian IPO…

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Australia's hedge fund industry is now bigger than either Hong Kong or Singapore as institutional money migrates to alternative managers reported *FINalternatives* this week. Apparently the 63 hedge funds in the Triple A Partners/Basis Point Consulting Hedge and Boutique Fund Directory manage USD45billion of assets.

This compares with USD37billion in Hong Kong and USD21billion in Singapore. With strong inflows from Australia's superannuation funds the country's hedge fund and boutique asset management community now manages a combined AUM of USD216billion. At the last count, the Asian hedge fund industry (not including Australia) was estimated to be USD140billion according to *AsiaHedge*.

Australia's largest hedge fund firm is Platinum Asset Management with USD14.5billion, followed by Blackrock Investment Management Australia with USD6billion. Next is GMO Australia's Systematic Global Macro Trust with USD1.9billion, Macquarie Group's MQ Specialist Investment Management with USD1.6billion with PM Capital also running USD1.6billion.

Global hedge funds are showing growing interest in Malaysia with Och-Ziff Capital Management and San Francisco-based Standard Pacific Capital among 16 cornerstone investors in the USD1.5billion IPO of pay-TV firm Astro Malaysia Holdings, reported *Reuters* this week. Other investors in what is set to be Malaysia's third-largest IPO this year include Nomura Asset Management, Great Eastern Life Assurance and Malaysian state-owned fund management firm Permodolan Nasional Bhd.

Global hedge funds are starting to take interest in Malaysia, thanks to the strong response seen in previous IPOs: most notably Palm oil firm, Felda Global Ventures Holdings, who raised USD3.3billion when they listed this June, making it the world's third-largest IPO so far in 2012. This particular deal attracted nearly one third of cornerstone investors.

"Malaysia loves large IPOs so I think take up will be strong, judging from previous issues," Abdul Jalil Abdul Rasheed, CEO of Aberdeen Islamic Asset Management in Kuala Lumpur, was quoted as saying. Morgan Sze's Hong Kong-based Azentus Global Opportunities Fund is believed to be another cornerstone investor in the Astro IPO.

In other news, **Greater China-focused strategies have seen a significant increase in their AUM** reported *AsianInvestor*. In 2006 they only accounted for 4.4 per cent of assets. According to *Eurekahedge*, that figure now stands at 13.5 per cent of the region's USD125billion in total assets (this differs to the earlier figure quoted above). The Singapore-based research firm said in its latest report: "Over the years, the growth in China has attracted a number of hedge funds to boost investments into the region as managers seek out opportunities in a vibrant and growing economy."

Despite having a magnificent year in 2009, generating returns of 47 per cent, Greater China funds ended 2011 down -13 per cent and are practically flat for 2012 (1.17 per cent) so investors targeting these funds need to be prepared to ride some significant waves in performance. China's growing popularity comes at the expense of Japan which has seen its share of regional AUM decline from 33 per cent in 2006 to 14 per cent currently. Year-to-date, Japan-focused hedge funds are slightly down, -0.61 per cent, having also ended last year in negative territory with losses of -1.34 per cent.

Finally, **insurance costs on South Korean government bonds are falling at the fastest rate in Asia** following the decision by credit ratings agencies to upgrade their debt to the highest levels since the 1997 Asian financial crisis reported *Bloomberg* this week. Not great news for those managers buying up CDS on Korean government bonds but good news for those selling them and collecting the premiums. Spreads on five-year bonds dropped 31 per cent in the past month with a CDS contract sliding 35 basis points to 72 according to CMA. They reached a four-year low of 60 on 14 September. This is because Standard & Poor's raised its credit assessment of Korea to A+ last week, following similar decisions by Moody's Investor Services and Fitch Ratings.

"Credit-rating upgrades are positive for South Korea bonds and we expect them to spur inflows," said Kwon Young Sun, a Hong Kong-based economist at Nomura International Ltd. Despite its ratings upgrade and therefore perceived lower risk, Korea's economy is not exactly firing on all cylinders. Although its stock market is the third-best performer this year returning 6.1 per cent, the Korea Development Institute cut its growth forecast for 2012 from 3.6 per cent to 2.5 per cent on 17 September and reduced its projection for 2013 from 4.1 per cent to 3.4 per cent.

Tadashi Tsukaguchi, Tokyo-based chief fund manager of the global macro hedge fund at Mizuho Securities was quoted as saying: "I don't like South Korea at this moment as the outlook for domestic demand and exports doesn't seem great. For exports, South Korea depends greatly on China which is showing signs of slowing and the currency will probably try to price that in."

Manulife Asset Management (Asia) is, however, overweight on South Korean government bonds with fixed income portfolio manager Neal Capecci commenting that the sovereign rating upgrade "is confirmation of our positive view on South Korea, adding that on a relative basis "we're still confident with the fundamentals of the Korean economy".

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