

Ex-GIC duo launch hedge fund

By Kamni Bharwani 05 November 2004

Singapore-based Octagon Capital seeks to fill the gap for quant-driven Asian hedge funds.

Lam Poh-Min and Nelson Chia, both ex-investment professionals with the \$100 billion-plus Government of Singapore Investment Corporation (GIC), have launched a quant-driven equity long/short fund focused on the pan-Asian region.

"We saw a void in the market for quant-focused Asian hedge funds that needed to be filled," says Lam, who was previously a senior portfolio manager at GIC's quantitative investment unit. Lam spent the last nine years with GIC and was one of the pioneers of quantitative investing when GIC began using this approach in 1996.

Chia comes from a trading background, and also has nine years worth of experience at GIC, trading equities and derivatives in Asian and global markets.

"Our skill sets compliment each other perfectly," Lam notes. "I focus on running the quantitative model and pick the stocks to invest in. Nelson focuses on executing the trades and uses his experience and understanding of the various Asian markets to decide when the right time is to make the investments."

Lam says this division of labour replicates the responsibilities the two had when working together at GIC. A third former GIC colleague will join to handle administration and operations.

The Octagon Pan Asia Fund launched last month with just under \$1 million in assets. The fund has a capacity of around \$200 million.

"We haven't begun formal marketing yet as our primary focus has been getting the operations up and running," says Lam. "But we've been encouraged that a good number of investors have contacted us and shown interest in the fund."

When asked whether former employer GIC would invest in the new fund, Lam declined to comment.

"After almost a decade at GIC we each felt we were at a point in our professional careers where we wanted to start a venture of our own," Lam adds. "The regulatory environment in Singapore was also very accommodating."

While at GIC, Lam developed a proprietary model that seeks to identify and capitalise on trends in financial markets, which he has enhanced and adapted for Octagon. "The model is premised on the idea that in a large heterogeneous investment universe, it is possible to find, with careful analysis, trends that can be profitably capitalized on. We look at over 2000 stocks, applying statistical analysis to identify good trends from a risk reward point of view," he explains.

"Given the volatility of Asian markets, and sometimes high transaction costs and poor data quality, running a 100% quantitative model in Asia does not make sense. While we don't override the model, we do add a qualitative perspective to our investment decisions, particularly when shorting stocks."

In the current directionless market environment, Octagon's strategy is to protect capital. But Lam adds that he expects, "the environment to improve going forward. The nature of markets is such that prolonged periods of inactivity are followed by big swings."