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Everest Capital positive on Asia

Asian investments doubled since 2003 to US$500m

By GENEVIEVE CUA

Mr Vermersch: Everest is completely in tune with Asia

COULD a bubble be building in commodities markets? Or, in emerging market debt? No matter: Hedge fund manager Everest Capital aims to profit anyway by going long in one market and short the other.

With assets of about US$1.8 billion, Everest is one of the world's largest hedge funds. It opened a Singapore office in late 2003. Since 2004, total assets have grown by about 50 per cent from US$1.2 billion, thanks to strong performance and inflows.

Assets invested in Asia have grown from US$250 million in 2003 to about US$500 million. The company set up its Singapore office in the belief that being closer to Asian markets would enhance returns.

Everest's Matthieu Vermersch, head of Asian investments, says: 'We're positive on Asia and not in a passive way. We're completely in tune with Asia, looking into how Asia fits into the global context.'

As an example, the firm invested in luxury group Richmonde which it saw as one of the biggest beneficiaries of burgeoning Chinese wealth. 'The winners in the Chinese context are the ones that can maintain margins and pricing power. That's why it's very important to always go around the different companies, not to check on growth - which is a given. But what we do is to check with suppliers, competitors, and with customers to see how much they can maintain pricing power.'

Everest's flagship fund, Everest Capital Global, runs on a global macro strategy. The latter is among among the most opportunistic of hedge fund strategies, investing across asset classes - in equities, distressed and high yield debt, currencies and arbitrage. The fund has delivered annualised returns of nearly 17 per cent from inception in 1990 to December 2005, against the MSCI All Country World Free Index's 5 per cent. Last year alone, the fund generated 40 per cent in returns.

Since inception, the fund has captured 165 per cent of the market's upside and 59 per cent of the downside. The firm has won a number of performance awards.

Mr Vermersch says he is 'intrigued' by a couple of anomalies in the market. One is the surge in commodities prices. 'We're perplexed. We're not completely convinced that China is the only explanation for what is going on in the commodities world. Demand for copper in 2005 was flat. China grew but someone else didn't. A lot of Chinese demand arises from the re-industrialisation of China. You close a factory in Europe and rebuild it in China. It's a zero sum game. Companies in China are also getting more efficient.'

He cites statistics which show that last year, some US$80 billion surged into commodities index funds, compared with US$20 billion in emerging market equities.

'We're not playing commodities on the long side. We're trying to understand if it's a bubble, and if it bursts, how to play that. Timing is very difficult. My guess is that we could extract ideas by buying puts. I don't think we'd be net short commodities this year.'

Another anomaly is the high valuations of emerging market debt, compared with the discount on equity.

'What intrigues us in emerging markets is how credit markets and equity markets are priced worlds apart. There is some discount applied to equity markets; why isn't it applied to credit which is at a tight spread? . . . So there is a greater possibility to hedge long equity with short credit.'

The macro and micro environment in emerging markets is the opposite of the early 1990s. Today, governments are running surpluses, and companies are in strong cash flow positions, he says.

'If you aggregate the companies, they're cash flow positive. They can run the business without my money,' he adds.