

Submission ID

F03002

Region

Hong Kong

Category

Credit Focus

Name of firm

GaoTeng Global Asset Management Limited

The Flagship Fund's name

GaoTeng Emerging Markets Plus Long/Short Fixed Income Alpha Fund

The Fund's ISIN Code

KYG3729J1397

Data as of the quarter-end

30/09/2021

Total Fund Size (including all share classes)

282.31 Million USD

Total Number of Portfolio Manager(s)

3

Total Number of Analysts

4

Pillar 1 - Investment Approach**1. Investment style consistency: Who has the ultimate responsibility for keeping the investment style consistent under all conditions and circumstances?**

The lead portfolio manager/s of this strategy

Additional Remarks, if any (maximum 250 words)

The Lead Portfolio Manager (Mr. Desmond HOW) together with the team follows a consistent, disciplined and well-balanced “five-step loop” investment process that he has been sticking to, over two decades of his exceptional fund management career.

1) Step 1 – Dynamic Risk Budgeting

Portfolio Manager periodically scans global macro environment to determine Risk Budget.

2) Step 2 - Theme Identification

Head of Research conducts weekly and ad hoc Investment Reviews. Portfolio Manager, Trader, Strategist and Credit Analysts jointly brainstorm on Investment Themes. Themes can be formulated based on Economic Outlook, Industry Trends, Regulation Changes, Rating Migration Patterns, Event Plays or Market Technical.

3) Step 3 – Security Selection

Portfolio Manager and Trader perform Relative Valuation (RV) analysis on each security in the Shortlist to further screen for actionable securities and identify credits of interest for Analysts to conduct Fundamental analysis.

4) Step 4 – Trade Allocation

Portfolio Manager performs Horizon Return analysis and decides the allocation strategy of each trade Investment horizon. We classify and differentiate our investments between Strategic and Tactical.

5) Step 5 – Portfolio and Risk Alignment

Portfolio alignment aims to match risk with return objectives.

2. Investment style consistency: If the investment style deviates, are there material, negative consequences for the person with ultimate responsibility for ensuring style consistency?

No, there are no material consequences

Additional Remarks, if any (maximum 250 words)

Though we currently do not have a written policy stating there are material consequences of investment style deviation, it is inherently not allowed as we are fully aware that style-consistent funds tend to produce higher risk-adjusted returns in the long term and help to ensure asset manager acting in the best interests of clients. Our Manager always follows a clear, disciplined and consistent investment process within a highly robust risk-control framework.

3. Investment process: Does the investment process include any of the following.

We have a clear and consistent investment process

We have the strategy to have a target investors' risk/return profile

We generate ideas from the bottom up, e.g., drilling down into a potential investee's business model, moat, future cash flow, etc.

We generate ideas from macro views, e.g., structural shifts, economic cycles, regime change, regulatory shifts, etc.

The risk managers are consulted at one or more points during the research, investment, divestment processes

Additional Remarks, if any (maximum 250 words)

We adopt top-down analysis for risk budgeting and theme identification, while bottom-up analysis for research and valuation for security selection.

4. Do you take ESG as Investment/Divestment materiality consequences?

ESG effects on the portfolio are NOT currently considered, but we have CONCRETE[iii] PLANS to take them into account within the next 12 months

5. ESG as Investment Process [v]: Is ESG information is used in an investment product's investment process or stewardship activities?

Yes

Selected: Yes

As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

Selected: As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

independent evaluation of information reported by investees or provided by ESG data providers

cross-referencing two or more sources of information

6. When determining the materiality of ESG factors[v] [vi], does the strategy consider the following factors: (an adaptation of the CFA ESG disclosure requirements and recommendations)

The extent to which the materiality issue affects investment decisions or the investment process

Additional Remarks, if any (maximum 250 words)

Our ultimate goal is to achieve sustainable investing and superior returns by incorporating environmental, social and governance (ESG) factors into our traditional credit investment process. While we currently do not have a formal ESG policy in place, we have already been taking into account the ESG factors to various degrees when we assess investment opportunities and valuation, especially on the environmental and governance aspects, the latter of which is highly critical in emerging market high-yield credit analysis. We are gradually working toward a formal ESG and policy and will engage external consultants to advise on a bespoke framework that fits into our ESG philosophy.

7. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.

Responded to structural changes in the capital or asset markets to improve risk/returns to investors

Please briefly describe the critical challenge/s, actions taken, results and lessons learned:

On 30 Jan. 2020, Wuhan was shut down right before China's Lunar New Year, leaving investors struggling whether the health issue would evolve into Global Pandemic. New Covid cases peaked in China by mid-February, however it took the second wave of global infection for credit market to plunge into panic mode and the ruthless selling all happened in last few trading days of February.

However, investors have been complacently positioned long or levered long into March. They hit risk limits after relentless selling. Panic triggered by uncertainty led to a global capital market crash that included the worst drops since Global Financial Crisis. On a worldwide scale, Bloomberg reported that three out of four funds lost money, and nine out of ten credit hedge funds suffered loss as liquidity vanished from markets in March.

Within two months, Covid has upended all investment expectations for 2020. More than ever, a decisive yet systematic investment approach that combines both discipline and agility is needed amid stressed times. Facing disruptions at a speed and scale on an unexpected level, we need to dynamically rebalance our risk budget and identify investment themes arising from the crisis. Skilled managers who are able to act rather than react will be better placed to survive and prosper.

Wary of a second wave selloff in event of Covid-19 becoming a global pandemic, Mr. HOW saw the signal from the rates market in late Feb. 2020 and switched the Fund's risk budget to net short. Thematically, he looked for sectors vulnerable to a potential pandemic, especially to a supply chain disruption with China being both a huge supplier of intermediary goods and a big consumer of commodities. Airline, auto, retail and commodity issuers were identified, based on comparison research of crises including 2003 SARS, 2011 Japan Nuclear and 9/11.

The identification was successful, attested by the significant alpha generation from a small risk budget. In Mar. 2020, the Fund posted a strong return of 15.98% amid the liquidity crunch, and scored high in Sharpe ratio against realized volatility (6.31%).

Due to the Manager's acumen in making investment decisions and superior ability for dynamic risk budgeting and capturing high quality alpha, the Fund gained 30.95% in 2020 and is awarded as Best Performing Fund in 2020 by Hedge Fund Journal. As of 30 Sep. 2021, the Fund returned 10.03% for the year and 59.96% since inception, also being selected as Top Performing Asia-Pacific-Based Credit Strategies Hedge Funds in 2021 YTD by Preqin.

Upon a superb set of risk-adjusted returns, the Fund's AUM has grown nearly 13 times to \$281.31 million since inception. We have received tremendous investor interests and attract first Endowment, Foundation and Pension investors this year.

Performance and asset value is after management fee and before performance fee. Data of September is estimated and earlier has been finalized. Preqin 2021 YTD is as of June 2021.