Pillar 3 - Performance & Risk Management

1. Alpha sources: What were the significant sources of alpha over the last 3 years?

Securities mispriced by the market
Securities misunderstood by the market
Securities that benefited from cyclical factors
Securities in special situations
Picking up securities with solid fundamentals during times of market panic
Risk budgeting and allocation

Additional Remarks, if any (maximum 250 words)

We focus on achieving capital gains from short to medium term spread widening/tightening, less from levered carry. We look into price dislocation opportunities, exploiting potential inefficiencies in Asian/EM markets.

2. Stress test: Have stress tests been performed on this fund or strategy in the last 3 years?

Yes

Selected: Yes - Stress test scenarios were applied in the stress test that has already been performed?

Market volatility rising materially
Asset prices falling materially (or, in the case of short positions, rising materially)
Liquidity shrinking rapidly and materially
Correlations rising rapidly among diverse asset classes/sectors/geographies/etc
Interest rates rising substantially
Bond yield spreads widening significantly
Our fund passed the stress test

3. Investment cap per investor[ii]: Do you limit each investor's investment to a certain percentage of the fund's total AUM to restrict overexposure to any single investor?

No, we do not currently have a cap and have NO definite plans for one

4. Drawdown recovery: How long did it take for the fund to recover[iv] from its maximum drawdown since inception?

6 weeks or fewer

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

How did you steer the fund to full recovery after the maximum drawdown?

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

In May 2020, our bearishness on Indian credits and EM sovereign issuers that we deemed would be worst-hit by the pandemic, worked against the portfolio. While we pride ourselves as a fundamental credit shop, we also give due respect to the market and its irrational exuberance. We sensed the strength of laggard chasing midway through May and quickly covered our shorts. Indeed, major stock indices clawing back YTD losses, weak USD and treasury rates are positive signals that have been factored into our risk budget. We ended the month cautiously net long, having added more Chinese property and global distressed names.

In particular, we channeled more resources into a new Restructuring-into-Refinancing theme. Despite the retracement of spreads, there is still a record number of distressed bonds out there, even higher than during the peak of the 2008 Lehman crisis. We see plenty of alpha opportunities into the second half of the year, as babies were thrown out of the bathwater and a rising tide could float boats. Afterall, it is our forte to pick the gem among stones.

The above tactical switch back to long beta has proven right that our Fund quickly started to recover in June 2020. A typical bear market would last 2-3 years in our previous experience. Last year, the rebound was quick and met with a lot of skepticism as whether we had seen the bottom in March. Concerted efforts from both central banks and governments globally were powerful enough to make the financial market recover much faster ahead of the economies.

We always believe managers who are capable of standing by investment themes must have humility to know when to revisit as circumstances change as well. That is why we persist that we are not “married” to any single position. Market will always offer opportunities, and as such risk should be budgeted dynamically around the stage of investment cycle, trend and seasonality where opportunity sets are differentiated along a timeline. This flexible mindset empowers us to view market more objectively whenever a genuine opportunity arises.