

Think Wealth Client Connect

Finding Alpha Amid Uncertainty with Hedge Funds – Angus Wai

Willem Sels:

Thank you, Angus, for sitting down with me, at a time when many people are looking at hedge funds to diversify their equity exposure and to look for alpha. But is there a lot of alpha opportunity or is there just too much unpredictable noise and geopolitical uncertainty?

Angus Wai:

Thank you for having me.

I think today's market, given the geopolitical risks, alpha is quite inconsistent. And, you know, it is hard to predict where alpha is coming from. And that's why from our perspectives, you need to diversify. You need to have strategies that capture alpha wherever they are available and when they are available. We run a very diversified portfolio with 9,000 positions and with a lot of different strategies, consists of 60+ teams that are generating alpha opportunities independently with uncorrelated return. Besides that, I think in order to better weather through this market, we need to have a very strong risk management system. Our risk management system uses maximum data to really provide our insights to our portfolio managers allowing them to see ahead where potentially there can be unwind in certain sector or certain positions. So, then they can de-growth or defend before that happens.

Willem Sels:

But zooming in on Asia to find that alpha, the economies and the markets have been behaving very differently due to their composition, their policies, their rate outlook. Will that continue? And do you take a lot of relative bets within markets or between markets?

Angus Wai:

We definitely do all of those. So, we do within the markets, cross markets, cross sector, cross themes. We want to be ready. We want to be there when alpha comes through. In terms of alpha in Asia, we're very excited. We have a lot of corporate reforms. We have AI value chain stories. We have a lot of capex enhancement stories within the region, like Korea, China and Japan. So, from our perspectives, we're seeing a very durable Asia source. I'll give a great example from the

Japan standpoint. There are 4,000 listed companies in Japan. There are 1,700 companies in Topix, but only 50% of these companies are covered by the sell-side analysts. Now, interestingly, only 25% of these written reports are translated into English. So, you can see how much alpha can be captured by somebody sitting here locally and working hard stock picking and doing their fundamental work.

Willem Sels:

Apart from the fundamental work, one of the key advantages of hedge funds is your huge access to data sources that you can analyse. And now, of course, you have AI to help you. How does it help you in terms of speed, depth of the analysis, or even launching new strategies?

Angus Wai:

Absolutely. AI is a game changer. It really speeds up our process for analysing data, thoroughness and pointing us to the right way of looking at alpha. And more importantly, the efficiency, and productivity. But behind the scene, we have to build a massive data driven machine. We have a program called External Alpha Capture where at this moment as we speak, there are more than hundreds of contributors out there contributing best ideas into our system for analytics right now. We calculate that every day we actually analyse 50 million plus lines of code or data. And if you print all of them on a piece of paper and stack them up, it's three times the height of Mount Everest. So, it's truly a large-scale effort here. So, from data, we can actually give insights to our portfolio managers, helping them to generate a better return and a protective portfolio. And by AI, we can also use AI for a lot of our tasks at transcribing, translating and even asking AI to represent some of the analyst tasks that we traditionally have to ask a human to do. Combined that gives us a very, very strong capabilities.

Willem Sels:

Thank you for explaining in detail and in very practical terms, how hedge funds generate alpha and that diversification of equity portfolios. Thank you so much!

Angus Wai:

Thank you!