

George Jiang Digs In Heels for Asia's Best Hedge Fund (Update1)

By Bei Hu



Jan. 5 (Bloomberg) -- It has been a roller-coaster two years for the Golden China fund, a hedge fund run by Shanghai-based **Greenwoods Asset Management Ltd.**

Golden China had its only losing year in 2008, falling 55.6 percent. In 2009, the fund came roaring back, rising 136.8 percent in the 10 months ended on Oct. 31, making it the top-performing Asia hedge fund managing more than \$100 million, according to data compiled by Bloomberg.

The 2009 gain gave Golden China an annualized 41 percent return from its 2004 birth.

When the market was falling, investors fled. Golden China's assets fell from a high of \$810 million at their October 2007 peak to \$81 million in February 2009. They were \$202 million on Oct. 31.

"We were prepared to dig in our heels even if all the outside investors pulled out," says **George Jiang**, founder of Greenwood and manager of the Golden China fund.

Golden China is a long-short fund, wagering both for and against stocks.

Ninety percent of Golden China's profit in 2009 came from buying undervalued stocks in industries with high-entry barriers, unique business models and strong cash flow, such as **insurers**, banks, Internet and natural resources companies, said **Joseph Zeng**, Greenwood's Hong Kong office head.

The fund made about 10 percent of its profit from shorting "highly overvalued" stocks, companies in industries with overcapacity, such as cement and steel, and those that use "aggressive" accounting practices, he added.

Strategy

Golden China has increased the use of trading pairs of related stocks to exploit valuation differences, Zeng said.

In addition to its own research team, Greenwood gleans industry insights from a group of experts and collects intelligence on peers from a network of companies.

Among its advisers is Liu Hongru, the first chairman of **China Securities Regulatory Commission**, the nation's securities watchdog, and a one-time deputy governor of the People's Bank of China, the Chinese central bank.

One of the fund's winning long bets in 2009 was on **Tencent Holdings Ltd.**, China's largest Internet company, whose QQ instant-messaging system boasts 485

million accounts, dwarfing rival services from Microsoft Corp. and Skype in China.

Massage Parlor

Greenwoods analysts used to poll restaurant waiters and massage parlor staff on their usage of QQ, Jiang said. Golden China, which sold Tencent shares at HK\$70 in mid-2008, bought back the stock in early 2009 at HK\$40 a share, fund documents show. On Jan. 4, the stock **closed** at HK\$168.

After 2008's losses, Golden China increased shorting, or selling borrowed shares betting on a decline in stock values, to about 60 percent of total investments from just above 20 percent at the end of 2007, Zeng said.

Unlike many China managers who use index futures and exchange traded funds, 90 percent of Golden China's short investments are single stocks, he said.

The fund's net exposure, the difference between its long and short investments, fell to 50 percent to 60 percent in 2009, from almost 90 percent in late 2007.

The fund is quicker to take profit on shares that have hit their fair value, Zeng said.

Greenwoods partners and staff contribute 30 percent of the capital in its funds, adding \$30 million in 2008, Zeng said. International investors account for 40 percent.

Challenges

Jiang said his biggest challenge is that very few international investors allocate on the basis of long-term outlook. "Most are too focused on short-term views or returns," he added.

Global institutional investors see hard assets in China as attractive investments, though are less certain about the value of China-only long-short hedge-fund managers, said **Jeff Fisher**, an executive officer at RAB Capital Asia in Hong Kong.

"The challenge China-only hedge funds face is that investors trade in and out of them instead of staying invested or doubling down during volatile market swings," he added.

Jiang, 42, was born to peasant parents in eastern China. After receiving a master's degree in international finance from the **Graduate School of the PBOC**, Jiang worked for the **Shenzhen Stock Exchange**, one of two in mainland China, between 1992 and 1996.

He started his investment career in 1996, heading the asset management department of **Guosen Securities Ltd.**

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