Second Asia hedge fund gets a $1 billion launch

Broad Peak's debut underscores appeal of region to investors

By MARGOT PATRICK

HEDGE FUNDS

LONDON—Two former Goldman Sachs executives, including the onetime co-head of its Asian securities business, have launched a Singapore-based hedge fund with about $1 billion, people familiar with the matter said, underscoring investors' growing interest in the region.

The size of the launch has made it one of the most-awaited in Asia. **Broad Peak** is only the second Asia-based hedge fund to garner commitments of about $1 billion, according to data firms that track the industry. The first was a vehicle run by Hong Kong-based Abax Global Capital Ltd. and backed by Morgan Stanley, which raised funds earlier this year.

The Asian hedge-fund market has been on a tear, with assets growing last year by 28%, to $147 billion from $115 billion, according to data provider HedgeFund Intelligence, which estimates global hedge-fund assets exceed $2 trillion.

The growth in Asia is being driven by both local and foreign hedge-fund firms looking to tap investor demand and to capitalize on the region's economic growth and rapidly developing trading markets. For the first four months of the year, average returns on Asia hedge funds were 6.55%, as tracked by data provider Eurekahedge, compared with 4.03% for North American funds and 5.46% for those that invest in Europe.

The recent $1 billion launches "show that there is a great deal of investor interest in the region and there are more managers coming through that have the experience to handle that size of a portfolio," said Neil Wilson, editorial director at HedgeFund Intelligence, which tracks hedge-fund launches and industry assets.

Broad Peak started trading on May 2, about 10 months after founder Hyder Ahmad resigned as co-head of Goldman Sachs's Asian securities business, which oversees sales and trading of stocks, bonds, derivatives, commodities and currencies. He had worked for the bank since 1995.

Broad Peak's chief operating officer is Michael Moore, who most recently was partner at Hong Kong-based Penta Investment Advisers, one of Asia's five largest hedge-fund operators by assets, according to a survey last year by Alpha Magazine. Before joining Penta, Mr. Moore spent 11 years at Goldman Sachs.

Broad Peak's initial offering is a multistrategy fund, investing across asset classes, including stocks, bonds, currencies and commodities. Multistrategy funds let managers move capital into the markets where they see the greatest opportunities at any given time and often appeal to investors as a way to get exposure to a broad range of strategies through a single investment.

Japan machinery orders trip up shares

A WALL STREET JOURNAL NEWS ROUNDUP

ASIAN-PACIFIC STOCKS

Several Asian markets fell yesterday after weaker-than-expected machinery orders in Japan and warnings from Chinese regulators against speculative trading.

In Tokyo, the Nikkei Stock Average of 225 companies fell 0.9% to 17512.98. The drop in core machinery orders suggested a slowdown in corporate investment that may hamper economic growth. Industrial-robot maker **Fanuc** fell 1%. Precision-equipment maker **Ulvac** shed 3.1%.

But Japanese auto makers rose on hopes of industry consolidation after **DaimlerChrysler**'s announcement that it plans to sell 80% of its troubled U.S. unit, Chrysler Group. **Nissan Motor** rose 0.7%, and **Suzuki Motor** climbed 2.2%.

In China, the Shanghai Composite Index skidded 3.6% to 3899.17 after the warning to fund-management companies to strengthen risk controls and not to engage in speculative trading. "Institutions are worrying about possible concrete steps to cool the market, and we expect they will happen," said Zheng Weigang, senior stock analyst at Shanghai Securities.

Hong Kong's Hang Seng Index eased 0.5% to 20868.15 a day after news that China will allow funds to invest in overseas stocks sparked a 2.5% advance. "Today's retreat is a minor adjustment...but the momentum is still strong," said Marco Mak, head of research at Taifook Securities. Exporter **Li & Fung** fell 1% amid renewed concerns about the health of the U.S. economy after forecasters cut growth estimates for the world's largest economy.

Philippine shares surged to their highest level in 10 years, lifted by relatively smooth midterm elections. The benchmark 30-company Philippine Stock Exchange Index advanced 1.3% to 3408.73.

South Korean shares fell, snapping a run of four record closes, led by a selloff of shipbuilders' stocks. The Korea Composite Stock Price Index fell 1% to 1589.37.

Australian stocks slipped as weaker prices for base metals hurt miners. The S&P/ASX200 Index fell 0.9% to 6291.2.

Regulator's warning damps Chinese shares

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weighing on investors.

Big stocks were especially hard hit. "The notice may restrict investment activities by securities funds in the near term," said Qian Qimin, an analyst at Shenyin & Wanguo Securities. "That'll help lead the overall market to a consolidation."

The market in China's regular stock, called Class A shares, is mostly closed to foreign investors and is largely driven by individuals.

The surging value of trading—activity was valued at $43 billion yesterday—is one sign that the market's influence could be felt outside the country's borders, particularly if a sudden fall from near-record levels hurts consumer sentiment or slows economic growth, according to analysts. "International investors may not lose money from the A shares, but worries over weakened Chinese demand for commodities and machinery will likely surface," Credit Suisse analysts said in a note.

Despite increasing concern, enthusiasm remained high yesterday, underscored by the jump in Bank of Communications shares. The Shanghai-listed Class A stock ended at 13.54 yuan ($1.76) compared with an initial-public-offering price of 7.90 yuan.

The bank raised 25.2 billion yuan ($3.3 billion) from its IPO of 3.19 billion Class A shares. "Based on its fundamentals, the stock will likely trade between 13 yuan and 16 yuan in the next six to 12 months," said Su Xiaobo, an analyst at Zhong Yuan Securities.

The bank's shares have been listed in Hong Kong since a June 2005 IPO that raised US$1.88 billion. The stock added 1% there yesterday to HK$8.52 (US$1.09).

—Zheng Jin and Sun Yan contributed to this article.

BoCom shares jump 71% in Shanghai market IPO

Continued from previous page

list outside mainland China when it offered shares in Hong Kong in 2005. Its Hong Kong-listed Class H shares closed at HK$8.52 (US$1.09) each yesterday, up 1.1%.

"The share price is better than my expectations," BoCom Chairman Jiang Chaoliang said on the sidelines of the A-share listing ceremony at the Shanghai Stock Exchange.

"From a long-term perspective, the bank shares on the A share market are at reasonable levels now," Mr. Jiang said. He added the bank is considering using the A-share IPO proceeds to fund mergers and acquisitions.

Mr. Jiang said BoCom reserved some of its A shares for HSBC, which had a 19.9% stake in the Chinese lender before the IPO diluted its holdings. Both banks have said they want to maintain HSBC's stake at 19.9%, the maximum foreign ownership allowed in a Chinese bank under existing rules.

"Our planned offer this time is 4.5 billion shares, but we only sold 3.19 billion. [The difference] is what we have saved so HSBC can exercise its rights," Mr. Jiang said in a statement. He added that he believed HSBC would "definitely exercise that right."

Analysts said BoCom's A shares may have little room for gains in the near future.

Yesterday's closing price implies a price/earnings ratio of 27 based on an estimated 2008 earnings of 50 fen a share, and a price-to-book ratio of 4.5 based on an estimated 2008 book value of 2.98 yuan a share. That is above the average P/E of 22 and price-to-book ratio of 3.5 for its mainland China-listed peers, analysts said.

"Based on its fundamentals, the stock will likely trade between 13 yuan and 16 yuan in the next six to 12 months," said Su Xiaobo, an analyst at Zhong Yuan Securities.

Analysts predict the bank's net profit will show a compound annual growth rate of more than 30% during the next five years, based on strong prospects for the retail-banking business in China.

They expect the A-share offering to boost BoCom's capital adequacy and help its expansion by funding the acquisition of smaller financial institutions, such as city commercial banks and brokerages.

China's Ministry of Finance is the bank's largest shareholder, with a 20.36% stake. Other major shareholders include China Central Huijin Investment Co., a government-funded holding company, and the National Council for Social Security Fund, the country's national pension fund.

—Zheng Jin

Global shipping could see revival

Continued from previous page

pers' Council. Although the council isn't a party to the trans-Pacific talks, some companies that buy from its members are, and Mr. Ho tries to stay abreast of progress toward new 12-month rate agreements.

The outcome of these secretive talks, which overran their normal April 30 deadline, is still uncertain. Mr. Ho expects a cut of no more than 5% in rates, while at least two shipping lines are pushing for single-digit increases.

Meanwhile, if the forecasts that UBS and some other analysts have made for rates on Asia-Europe routes prove correct, container lines with a heavy exposure to that regional trade should cash in.

Hong Kong-listed **Orient Overseas (International)**, the 10th-largest shipping line by capacity, is "well positioned" for an upturn in the industry, Macquarie Securities says. Last year's soft freight rates caused OOIL's net profit to fall 11%, but revenue rebounded in the first quarter this year, thanks largely to a 42% jump in revenue for its Asia-Europe trade.

Some of this growth is coming from newer markets in central and eastern Europe. For instance, OOIL plans a service from China to Odessa, Ukraine, at the end of June, says spokesman Stanley Shen.

Macquarie in March raised its 12-month price target for OOIL shares to HK$75 (US$9.60) from HK$56, and it rates the stock "outperform." Standard & Poor's initiated coverage on OOIL in March with a "hold" rating and a 12-month price target of HK$70. Shares of OOIL declined 80 Hong Kong cents yesterday to HK$65.10. **China Cosco Holdings**, through its wholly owned subsidiary Coscon, deployed 36% of its container capacity on routes between China and Europe last year, more than on the trans-Pacific. Coscon, the world's fifth-biggest container line and the largest in China, also raised its rates to Europe by $100 per TEU in January and by another $100 in April.

This year Coscon plans to expand its 400,000-TEU fleet by a net 46,000 TEU. If trans-Pacific rates continue to slide, suggested China Cosco Holdings Secretary Jeffrey Ng, many of these new ships will sail to Europe instead of the U.S.

Coscon seems to have "significantly outperformed" peers in trans-Pacific trade during the first quarter, Morgan Stanley said last month. It rates China Cosco Holdings' Hong Kong-listed shares a "hold," with a 12-month price target of HK$5.78. Shares of China Cosco rose 40 Hong Kong cents to HK$9.77—far above their end-2006 level of HK$4.41.

On April 26, Macquarie raised its 12-month target price for China Cosco to HK$6.86 from HK$3.55, but kept its rating as "neutral." Predicting a turnaround in the container business in 2007, Macquarie expects China Cosco's Coscon unit this year to boost its rates by 1.4% and increase its net income 2.5 times.

IN BRIEF

Beijing banking rule change seen easing economic strain

HONG KONG—Hong Kong's financial secretary said Beijing's expansion of a program that allows approved banks to invest offshore will alleviate macroeconomic pressures on China.

"This orderly outflow of funds will mitigate some of the exchange imbalances, as well as mitigate some of the excess liquidity that may create asset inflation in the mainland," Henry Tang said on the Hong Kong government's Web site.

China's banking regulator Friday said it will allow approved banks to invest in overseas stocks.

Swiss exchange to merge with trade-clearing firms

Switzerland's stock exchange agreed to combine trading with two Zurich-based firms specializing in clearing and settling trades, in a move that will give Swiss banking companies **UBS AG** and **Credit Suisse Group** a far bigger interest in the bourse. **SWX Swiss Exchange** said it will merge with **SIS Group** and **Telekurs**, amid pressure throughout Europe for operators to reduce costs for what are called posttrading services. The aim is to make Switzerland's market more efficient and competitive, while fostering international collaboration.

Informa to add databases with Datamonitor purchase

LONDON—**Informa** PLC agreed to buy **Datamonitor** PLC for £502 million ($993 million).

Informa, which publishes the Lloyd's List maritime newspaper, said the acquisition will add business data and content to its portfolio and save it £3 million a year in costs.

Datamonitor operates searchable databases on industry sectors, publishes company financial reports and provides consulting services.

—Compiled from staff and wire service reports.

SPECIAL ADVERTISING SECTION

ASIA IN THE GLOBAL ECONOMY

Asia Society's 17th Asian Corporate Conference

A rapidly aging population poses problems for Japan's economy

By **Catherine Bolgar**

TRANSITIONS can be tough. Japan, the economic powerhouse, is seeing its post-war baby boomers start to retire this year. The land of the rising sun is heading into the sunset years. It's rattling the country's finances, changing the economy and raising questions about such touchy subjects as immigration.

Nearly every country in the world is aging — people's median age is rising and the percentage of those over age 65 is growing. Japan has one of the world's highest life expectancies at 85.49 years, and one of the lowest fertility rates at 1.25 children per woman, according to its Ministry of Health, Labor and Welfare. As a result, the portion of the population over age 65 has ballooned to 21% in 2005 from 7% in 1970. Other countries will experience a similar shift. Japan is just further along the road.

Part of Japan's economic success came from the savings prowess of its post-war baby boomers, born between 1947 and 1949. When these people hit their working prime, they socked away over 20% of their earnings, creating a pool of investment capital for businesses to tap. But retirees tend to reduce their savings, says Charles Yuji Horioka, professor of economics at Osaka University. Japan's household savings rate has declined quickly, to 5% in 2001 and 3.2% in 2004, according to the Organization for Economic Cooperation and Development.

Japan — and other rapidly aging countries such as China and South Korea — risks a savings shortage, in which it might not have enough stashed away to finance investment, Prof. Horioka says. However, with a shrinking work force, Japan won't need to increase the productive capacity of the economy, and it ought to be able to get by with less investment, he adds. Alternatively, Japan could borrow from other Asian countries whose populations are just heading toward their peak working years, when they will be saving the most.

Another way to keep the economic ball rolling is to boost the work force. Workers are the ones who save and they're the ones who foot the bill for current retirees. But given its demographics, Japan has only two options for adding workers: delay retirement or increase immigration.

Raising the retirement age, now 60, just five years could sharply boost Japan's economy. Not only would the labor pool stop shrinking as quickly, but those workers would continue to pay taxes and save instead of receive retirement benefits, Prof. Horioka says. Under a law passed last year, companies must gradually raise the retirement age to 65, and the age for receiving government pension benefits is also shifting to 65. In an August 2005 survey of Japan's baby boomers by Nomura Research Institute, 78% of respondents wanted to continue working past the current retirement age of 60.

Immigration is another way to rejuvenate the population. A 2000 study by the United Nations Population Division shows that with no net immigration, Japan's population would have peaked in 2005 at 127 million, followed by a decline to 104 million by 2050. The ratio of workers to retirees would fall to 1.7 in 2050 from 4.8 in 1995.

To keep the population at 2005 levels, Japan would need nearly 400,000 immigrants a year, the U.N. study says. That would put the immigrant population, including descendants of immigrants, at about 18% of Japan's total by 2050. Without such immigration, Japan would have to raise the retirement age to 77 to keep the worker-retiree ratio at 4.8.

The reality is far different. Japan has strict immigration laws, and took in only about 88,000 immigrants in 2004, up 3% from a year earlier, according to the OECD. Foreigners made up about 1.5% of Japan's population in 2004, vs. around 11% in the U.S. Most immigrants to Japan are from South Korea, followed by China, Brazil and the Philippines.

But increasing immigration can be problematic for a homogenous society like Japan. "The influx of labor can be helpful, but social and cultural backlashes can occur," says Zachary Zimmer, senior scholar at the Institute of Public and International Affairs at the University of Utah in Salt Lake City. "When Asian countries look at their solutions for coping with this demographic shift, most prefer to deal with it internally rather than through immigration."