

Thai Focused Equity Fund

Due Diligence Questionnaire

Equity Hedge Strategies

Fundname: [Thai Focused Equity Fund](#)

Investment Manager: [Quest Management Inc.](#)

Prepared on: [Oct 27, 2011](#)

Investment adviser

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Place of incorporation [Cayman Islands](#)

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Investment Company/Vehicle

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Place of incorporation [BVI](#)

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Investment Manager

Company History

Please give a brief review of the company history.

Quest Management was founded in 1994 to provide specialist Thailand investment management services. We were structured as a group of managed accounts until October 1997, when we rolled all our managed accounts into the comingled offshore open-ended hedge fund called the Thai Focused Equity Fund.

In 2006, we broke our US investors into a Feeder Fund to make US SEC compliance easier.

Percentage of firm owned by insiders?

[56%](#)

by outsiders?

[44%](#)

Who owns the largest stake?

[49 % Doug Barnett](#)

Assets under management

Please list total assets under management for each year-end since inception.

1994	7
1995	16
1996	23
1997	19
1998	24
1999	32
2000	33
2001	40
2002	54
2003	218
2004	227
2005	221
2006	254
2007	336
2008	128
2009	118
2010	212
2011	160

Goal for total assets under management in 5 years

What is your goal for assets under management in 5 years?

Above \$150 million, we have increased the notice period. Depending on notice period, we can manage up to \$400 million, but we would not actively market above \$250 million.

Description of products

Please give a detailed description of all current products / programs and products under development.

Thai Focused Equity Fund, a single country open-ended offshore hedge fund with a strong long bias.

Management Company Ownership

Who owns the company and with what percentage?

Quest Management is owned 49% by Doug Barnett, and the balance is owned by five wealthy Thai investors.

Partner capital invested

How much capital do the partners have invested in the fund?

\$43 million. Quest and partners of Quest own about 27% of gross assets.

Registration with regulatory authorities

Please list any regulatory authorities the company is registered with.

QMI is regulated via the BVI Registrar of Mutual Funds. We are licensed to provide management services to private or professional mutual funds.

Lawsuits, regulatory or tax issues

Are there any material, criminal, civil or administrative proceedings pending or threatened against the firm or any of its principals, or have there ever been any such matters?

No.

Trading for company account

Does the company trade for its own account? If yes specify extent of trading activity.

No.

Corporate culture

Describe your corporate culture.

We have a staff of seven, plus two part time. We have very low turnover.

Strengths

What are your greatest strengths?

Quest Management's competitive edge stems from our clear understanding of finance and manufacturing processes, our physical location in Bangkok, and our long and close working relationships with many of Thailand's leading corporate management teams.

Weaknesses

What are your weaknesses?

Having a single country focus makes it hard for us to attract institutional investors. We also could do a lot better at marketing.

Greatest failure

What was your greatest failure?

In 1998, we had too much customer concentration in hedge funds. When our two largest clients, Tiger and Soros, blew up at the same time, we lost about 70% of assets in about four months. We now run a much more diversified client base with 70 customers. Our largest investors are Quest and its partners with about 28%, a wealthy Asian investor with 15% followed by a value-based US Fund of Funds with about 13% and a wealthy European family with about 8%. Many of our other investors are also the personal accounts of other fund managers.

Fund discontinuations

Did you ever discontinue or liquidate a fund?

No

References

Please provide references and names of clients we can contact.

Name Mr. Tim Jensen
Company OakTree Capital
Title Investment Manager
Telephone 212-284-1996
Email tjensen@OakTreeCap.com

Mr. Jensen was Mr. Barnett's head of research in Thailand in 1992 and 1993.

Name Mr. James Rosenwald
Company Rosenwald Capital
Title President
Telephone 310-318-9000
Fax 310-318-1156

Mr. Rosenwald introduced Mr. Barnett to Soros Fund Management.

Name Mr. James Lyle
Company Millgate Capital
Title President
Telephone 212-845-4904
Fax 212-921-5842

Mr. Lyle was the head of international investing at Tiger until he started his own company in 1997. He has invested with QMI since Feb 1996, and is a director of the fund.

Personnel background of senior managers

Portfolio Management

DOUG BARNETT, PRESIDENT, has twenty five years of experience in the investment banking and fund management business, specializing in the Thai stock market for the past 22 years. He personally decides asset allocation and selects the companies in which to invest, basing his decisions on company visits and detailed analysis carried out under his direction.

Prior to founding Quest Management Inc. (QMI) in 1994, Mr. Barnett was the Managing Director of Swiss Fund, the Thai division of the global Unifund group. As head of Swiss Fund, Mr. Barnett spearheaded a focused investment strategy that achieved a \$350 million profit on an average investment of \$150 million over four years. While there, he also established a superior track record in private equity investments. Seven carefully selected private equity projects, with an aggregate purchase price of \$24 million, earned a return 3.5 times the equity invested.

Before developing his expertise in the Thai stock market, Mr. Barnett worked in Los Angeles for three years as an Associate for Morgan Stanley, where he refined his fundamental approach to valuation and trading of equities.

Mr. Barnett's engineering background has been a strong complement to his financial expertise. He earned a Bachelor's and a Master's degree in Mechanical Engineering, both from Princeton University. Before graduating at the top of his class in 1987 from UCLA's Anderson Graduate School of Management, Mr. Barnett worked for five years as a project engineer for Chevron Corporation, where his recommendations for improved piping and instrumentation designs saved the company over \$5 million and won high praise and recognition from management. He uses his understanding of manufacturing processes and finance to improve efficiency and profitability at QMI portfolio companies. Mr. Barnett is the Investment Manager of the Thai Focused Equity Fund, an open-ended offshore mutual fund established in 1997 to invest in Thai listed equities.

Trading

KATEKAO TUNTIPRAWON - FINANCIAL ANALYST & TRADER, is responsible for uncovering, analyzing and recommending investment opportunities, as well as for trading our portfolio. Prior to joining QMI in 1994, she worked as an analyst at Swiss Fund, the Thai Division of the global Unifund group. Ms. Tuntiprawon's research coverage has included various companies within the electronics, entertainment, finance, property and retail industries. Ms. Tuntiprawon began her career with the United Nation's Save the Children program, where she was an educational instructor at the Indochinese Refugee Camp in Panat Nikom, Thailand.

Ms. Tuntiprawon earned her MBA in 1993 from the Graduate School of Management at Assumption University in Bangkok. In 1984, she received a BS degree from Thammasart University.

Risk Management

Doug Barnett, Katekao Tuntiprawon

Operations

PAKAMON PRUKSANUBAL, Fund accounting, has been with QMI since 1994. Ms. Pruksanubal is responsible for back office operations. From 1993 to 1994 she was Chief Accountant at Swiss Fund, the Thai division of the global Unifund group. Ms. Pruksanubal began her career at Seagate Technology (Thailand), where she was in charge of cost and management accounting activities for the company's Thailand based operations. Ms. Pruksanubal attended the Graduate School of Management at Chulalongkorn University, where she received an MBA degree in Finance, and received her BS degree in Accountancy from Thammasart University in 1986.

Programming

Doug Barnett

Administration

Doug Barnett

Marketing

Doug Barnett

Backoffice

PAKAMON PRUKSANUBAL

Current number of employees

7 full time, 2 part time

Number of employees 3 years ago

7 full time, 2 part time

Total number of employees (at inception and now):

The number of professional staff has increased by one since July 1994.

What has your yearly employee turnover been for the last five years?

2 new professionals since 1994

Hiring

How do you attract new, talented people?

College recruiting, referrals

Other business involvements

Do any of the principals have other business involvements?

no

Compensation

Compensation of key people (i.e. incentive system, bonus system)?

We pay bonuses based on fund performance.

Personal account trading

Do you have any regulations regarding personal account trading?

No front running, allocation of IPO's based on relative trading activity, maximum indication = 3 months salary, brokers send management duplicate confirms of all employee trades, employees must get prior approval before trading.

Number of employees in front office

3

Number of employees in back office

2

Back office organization

How is your back office organized?

Pakamon and Araya do the back office.

Investment in research

How much money have you invested in research since inception?

3 full time analysts for 18 years

Marketing channels

What are your marketing channels (distribution, intermediaries, etc.)?

Personal direct selling, writing in investment magazines and newsletters, speaking at Hedge Fund conferences, third party marketers.

Investment Product Details**Current Strategy Allocation**

74% Long/Short Equities
0% Market Neutral/Statistical Arbitrage
0% Short Selling
26% other: cash

Maximum strategy allocation

99% Long/Short Equities
0% Market Neutral/Statistical Arbitrage
0% Short Selling
1% other: cash hedging

Minimum strategy allocation

50% Long/Short Equities
 0% Market Neutral/Statistical Arbitrage
 -50% Short Selling
 50% other: cash hedging

Current Fund Size

in Millions USD

\$160 million

Fund growth

Date	Total Assets Under Management	Total Assets Under Management with the strategy	Number of Accounts	Largest account (size) \$ mm
1994	7	7	8	1
1995	16	16	15	5
1996	23	23	20	10
1997	19	19	32	10
1998	24	24	3	10
1999	32	32	1	-
2000	33	33	1	-
2000	40	40	1	-
2002	54	54	1	-
2003	218	218	1	-
2004	227	227	1	-
2005	221	221	1	-
2006	254	254	1	-
2007	336	336	1	-
2008	128	128	1	-
2009	113	113	1	-
2010	103	103	1	-
2011	160	160	1	-

What percentage of assets under management are the firm's or its key employees' investment?

Quest and partners of Quest own about 27%.

Fund structure

Categorize structure of fund (i.e. offshore fund, managed account, etc.).

Offshore fund, BVI Corporation

Share classes

Do different share classes exist? Please describe. (i.e. different economics, etc.)

Yes; Class A, C and D common shares are for investors, Manager shares (Class B) have same liquidity (one month notice period) as Class A, but receive all of the incentive fee. Class C shares require a 3 month notice period to liquidate. Class D shares require a 6 month notice period to liquidate. Currently, 64% of investor shares are Class A, 36% are Class C.

Cross-liabilities

Do cross-liabilities exist between the share classes or funds? If yes, please comment.

Yes; Common shares must pay incentive fee and management fee to manager shares.

Reference currency

Reference currency of fund / program

USD

Fund open?

Class C open for new investors

Class C open for existing investors

Class C open for US investors (in Feeder Fund)

Class C open for offshore investors

Listing

Is the fund listed? If yes, where?

No

Subscription frequency

monthly

Subscription Day

When can investments be made?

End of each month.

Notice Period

What is the notice period for a subscription?

3 days

Minimum initial investment

(in Reference Currency)

\$100,000

Minimum additional investment

(in Reference Currency)

\$100,000

Front end load

None

Back end load (redemption fee)

None

Lock-up period

None

Redemption frequency

monthly

Redemption day

When can investments be redeemed?

End of the month valuation. Payment is usually in the middle to end of the following month.

Notice Period

What is the notice period for a redemption?

Class A and B: 1 month
Class C: 3 months
Class D: 6 months

Initial pay-out ratio

What percentage of the investment will initially be paid out?

100%

Initial period

When will the initial redemption be paid?

Payment is usually in the middle to end of the following month.

Redemption payment

Is a redemption paid in cash or in kind?

Cash. We can pay in shares if we face a liquidity problem, but this has never happened.

Redemption stop

Can redemption be held back in certain circumstances?

Exchange closure, discontinuous markets

Annual management fee

Class A: 1%
Class C: 1%
Class D: 1%

when charged?

Monthly

Performance Fee

20.00 %

when charged?

annually

Equalisation factor

Is an equalisation factor used? If yes, please describe method briefly.

Yes method: Seward& Kissel standard.

High water mark

Yes

Hurdle rate

Amount? How calculated?

0%

Other fees

Other costs charged to the fund?

Brokerage, custody, administration, audit and accounting.

Sponsor

Is the fund or the management company sponsored by any entity? Please explain.

No

Number of investors

Number of investors in the fund?

85

Investor concentration

Percentage of the fund represented by 3 largest investors?

50%

Client mix

Client mix in %?

Mostly the personal account of other fund managers. One Fund of funds comprises about 14%, all else are wealthy individuals.

Side-letters

Has the investment manager, general partner, fund or their holding companies, subsidiaries or other affiliates entered into any side letter agreements with regard to fee arrangements, fee rebates, the provision of liquidity or any other arrangements modifying the terms of investment with investors or their representatives since the last confirmation? If yes, please comment.

Yes; family of the investment manager.

Managed accounts

Do you accept separate managed accounts? If yes, please comment.

No

Clients gained

Number of clients and amount of assets gained over last 12 months

27 investors totaling \$27.2 million

Clients lost

Number of clients and amount of assets lost over last 12 months

22 redemptions totaling \$23.4 million

Redemptions by key personnel

Have any key personnel or managing staff redeemed 25% or more of their investment in the fund(s)? If yes, please comment.

No.

Oldest account

Oldest continuously active account in years?

18 years; Several of our managed accounts rolled into the fund in 1997.

Largest withdrawals

What were the largest withdrawals in your fund since inception? (date, % of equity, reasons)?

Soros Dolphin fund 8.8 million, 40%, LTCM 1998 melt down.

Asia Capital Holdings, 12% in May 2000 to take profit based on their macro view of Asia.

John Templeton, 27% in February 2004, to take profit. He reinvested in October 2004

John Templeton, 16% in December 2007, to take profit.

26 fund of funds, 27% Jan-April 2009, financial meltdown

Average investment period

Average investment period for a client? (in months)

>36

Investment Product Strategy

Strategy description

Please describe your strategy and its principles in as much detail as possible.

Our management philosophy is founded in a focused portfolio approach, where we invest in only a few companies, combined with thorough bottom-up fundamental analysis and detailed statistical analysis of historical trading patterns in each portfolio stock.

We typically invest in 8 to 14 stocks. This focused approach allows us to dedicate significant time and resources to working with the management teams of our portfolio companies to help them improve both earnings and their P/E multiple. We typically advise our portfolio companies on capital structure and strategy issues, and on how to more effectively communicate their business fundamentals and growth prospects to the investment community. We also seek to provide our portfolio companies with business contacts both in Thailand and abroad. We strive to understand our companies and their managers better than any other fund manager.

Historically, the most profitable opportunities for us have been situations where we have identified well run companies that are widely misunderstood by the investment community, and in which the management is willing to work with us to improve investors' understanding of the company's underlying strengths. Depending on our views on the market and overall investor sentiment, we will hedge our long position in stocks by raising cash and shorting selected stocks. If the market has a big short-term run up based on improved sentiment, we will short to lock in our profit.

TRADING & LIQUIDITY We believe in focusing on the best values available in the market and typically have 50% to 70% of the portfolio in our top 4 or 5 stocks. On several occasions we have had 25% of the portfolio in one stock. We will not compromise on our investment criteria, so we are prepared to hold a large cash position when we can't find good ideas. At times cash has been as high as 50% of our portfolio. We don't use leverage to enhance returns in our portfolio; our normal position will be long stock and cash of 10 - 25%. When a stock's 1-week moving average price drops below its 10- week moving average price, we will re-examine our position. If, after detailed analysis and discussions with management we see no fundamental reason for the drop, we will buy more shares and redouble our efforts to get management to explain more effectively the investment thesis for the stock.

Our search for hidden value often leads us to invest in small market capitalization companies that receive limited analyst coverage and suffer from poor share liquidity. We typically take 3 to 6 months to buy or sell a position. When buying, we usually stay on the bid side and try to buy less than one third of the daily volume. Likewise, when selling we usually stay on the offer side and try to sell less than one third of the daily volume. We make sure that the total illiquid investments is less than 27%, the current management shareholding.

Our average holding period for a position is about 240 days, and our turnover averages 1 time per year. This turnover results from constantly fine-tuning our asset allocation, not trading in and out of a large number of stocks.

Trade example

Please provide an example of a typical trade (If you pursue several strategies, please provide an example for each strategy.)

We look for companies with high expected EPS growth over the next two or three years, which have strong management teams and defensible market niches. We buy a stock when it is cheap relative to other stocks in similar businesses and preferably in the lower third of its forward-looking P/E trading range. We typically reduce our exposure to a stock when the stock reaches the upper 10% of its historical P/E trading range. However, we believe in letting winners ride; as such, we tend to maintain our positions as long as the company's fundamentals are intact and there is strong upward momentum and a consistent flow of new brokerage research coverage and a broadening base of institutional investors in the stock.

Target return (net to investors)

20%

Target standard deviation

Target standard deviation of returns?

25% downside deviation

Asset classes

Asset classes invested in (i.e. stocks, bonds, etc.)

mostly stock, warrants and short SET50 futures to hedge our long exposure.

Asset break-down

What is your asset break down in terms of instruments traded?

90% stock, 0% warrants, index futures 0%, cash 10%

Geographical exposure

0% USA / Canada

0% Europe

0% Asia (ex Japan)

0% Japan

0% Global emerging markets

100% Thailand

100% Total

Country focus

(Percentage and Country)

Thailand

Industries avoided

Are there certain industries you do not trade? If yes, please explain.

Now, we are avoiding retail, infrastructure and entertainment which are adversely affected by political squabbling.

Short selling criteria

How do you generate your investment ideas for the short side of the portfolio?

High P/E, low earning growth, bad management, and a up coming catalyzing event.

Gross long exposure

What is your gross long exposure?

66% Current

85% Average

50% Minimum

100% Maximum

Gross short exposure

What is your gross short exposure?

-14% Current

-5% Average

0% Minimum

-63% Maximum

Performance attribution

Please give performance figures for longs and shorts since inception of the fund.

Most of our profit comes from fundamental analysis of companies, and from the long side. We hedge in falling markets with cash and short stock.

Investment bias

long-biased

Security selection method

Bottom-up

Time horizon for your investments

Long Term

Style experience

How many years have you been involved in the present investment style?

21

Investment ideas

How do you generate your investment ideas?

Screening on Bloomberg, company visits, broker research

Investment information

What kind of information do you use (street, proprietary, external advisors, etc.)?

Bloomberg, broker research, own research

Quantitative tools

What quantitative tools are used to support your investment process? Please describe.

Bloomberg, live excel spreadsheet for risk controls

Qualitative tools

What qualitative tools are used to support your investment process? Please describe.

experience in the Thai market, familiarity with many Thai company management teams.

Investment discipline

In what ways are you a disciplined manager?

We stick to our strategy.

Decision makers

Who are the decision makers?

Doug Barnett with analytical support from Katekao Tuntiprawon

Delegation of responsibilities

How are responsibilities delegated when key personnel are out?

Trading within general guidelines.

Resignation of key people

In what way could the resignation or change of any of the principals influence your strategy?

Loss of any staff would reduce our net experience, but we have done this strategy for 20 years with five different analysts, five different traders and six different fund accountants and maintained similar results.

Farming out

Do you farm out part of your portfolio

No, but our analysts run part of the fund portfolio (16.1%) with constant oversight by Doug Barnett.

Performance as a function of capacity

In what way can size affect your performance

When managing greater than \$150 million, we have to match investor notice period to underlying liquidity of our portfolio.

Maximum capacity

What is the maximum capacity of your investment strategy and the markets you trade?

\$150 million with one month notice period

\$250 million with a 3 month notice period - (We are currently selling this class of shares)

\$400 million with a 6 month notice period

Bear market experience

Have you experienced a bear market? If yes, how did your investment style do?

Yes; 16 bear markets in 20 years (> 20% declines). We tend to go down about half of the underlying market.

Bear market actions

What actions do you take in a bear market?

Short, raise US dollar cash, look for oversold value.

Performance in stress periods

What was your performance in

- 0.60 % Mar 1997

+ 6.70 % Oct 1997

+ 6.90 % Aug – Oct 1997

+ 8.50 % Mar – May 2000

- 13.00 % Sep 2000 – Mar 2001

- 1.15 % Apr 2001

- 0.20 % June – Sep 2001

+ 10.00 % Oct – Nov 2001

+ 7.80 % Mar – July 2002

-44.4% Oct 07 – Mar 09 (SET -55.4%)

(We usually have very low correlation with most major markets).

Cyclicality

Do you consider your investment style as cyclical? Please comment.

No

Significant events

What kind of event could modify your investment style?

We would adjust if we had poor performance for an extended period of time.

Strategy adjustments past month

What did you do differently 6 or 18 months ago?

Slightly tighter control of stop losses on individual stock high water marks, defined cash hedging strategy based on distance from gross NAV high water mark, use of index shorts to hedge.

Competitive differentiation

What is your edge, i.e. what do you do differently or better from other managers in the same field in order to achieve superior returns?

Quest Management's competitive edge stems from our clear understanding of finance and manufacturing processes, our physical location in Bangkok, and our long and close working relationships with many of Thailand's leading corporate management teams.

Closest competitors

Who are your three closest competitors?

None

Most valued competitors

Which of your competitors do you value most highly?

None

Complementing competitors

Which of your competitors would be a good complement to your strategy?

None

Trades per day

How many trades does your fund execute per day?

5

Portfolio turnover

What is the portfolio turnover in one year?

2 times, but the names remain constant. Trading is a result of underlying stock volatility.

Brokerage arrangements

Do you have brokerage softdollar arrangements? If yes, are these arrangements for the benefit of the fund, or the management company?

Yes; we have soft dollar arrangements with several brokers according to section 6, brokerage and custody, of our Confidential Explanatory Memorandum. This money is used to pay for online data and periodical research. We are not allowed to spend this money on management company marketing or direct expenses. In aggregate, our soft-dollar expenses are about \$50,000 per year.

Trade reconciliation

How often are orders reviewed and positions reconciled?

Daily

Trader mischief

How long could it take for trader mischief to be discovered (hiding tickets, etc.)?

One day

Position building

How is a position entered (block, scaled...)?

Typically scaled over many months.

Holding period

Holding period of a position in days

600 Average

Criteria to sell

What leads to the selling of a position?

When the stock is over valued and volume begins to dry up.

Criteria to add

What leads to adding to an existing position?

A price drop with no change or an improvement in the fundamentals.

Investing new money

How do you handle new money?

We target an asset allocation for the portfolio, and as money moves in and out, we adjust to maintain our desired asset allocation.

Securities borrowing

How do you ensure a stable stock or bond borrowing?

We borrow from several lenders, we borrow more than we plan to short, although now, we have no individual shorts.

Long-term arrangements

Do you have long term contracts with your prime brokers / finance counterparties? If yes, please comment.
No; we don't borrow cash. Term borrow for short stock is not available in the Thai market.

Banking counterparties

List banks where you hold accounts.

Citigroup, JP Morgan

Risk Management**Main return drivers**

What are the main return drivers of the strategies pursued?

Individual stock selection, market timing

Strategy risks

What are the 3 main risks you take on and get compensated for?

portfolio concentration risk, some USD/Baht risk, commodity cycle risk (in current portfolio)

Monitoring/Evaluating Risk

How do you monitor and evaluate those risks?

By staying closely in touch with the management teams at our major investee companies, by speaking with forex traders about the forward premiums.

Portfolio construction

Please describe your portfolio construction process.

We invest around themes (such as current expected US dollar weakness and increasing inflation) and try to find companies involved in those themes that have excellent management, low P/E, and high expected earning growth.

Risk Management techniques

Hedging: we sometimes short other stocks in the same sector when we want to maintain our exposure to our main long position in the sector.

Volatility: adjusted position sizes.

Position limits: we do not buy more than 15% of the portfolio value at cost in any one company.

Loss cutting rules: we ratchet up a high water mark on each stock in our portfolio on a daily basis. If the price drops 20% below the high water mark, we will re-examine whether to sell or buy more.

We also run a high water mark on portfolio gross NAV. At 10% down from this mark, we raise 15% cash; at 15% down, we raise 30% cash and short our available stock; at 20% down, we raise 50 to 60% cash, and look for oversold stocks that we like.

Hedging

Market liquidity: we offer monthly liquidity, so we limit our investment in securities that can not be liquidated in one month to no more than 27% of our portfolio.

Liquidity profile

Please describe the liquidity of the instruments traded.

87% can be liquidated within one month.

Non-liquid assets

What is the extent of non-liquid assets in % of the portfolio?

0% 13D filings

0% Notional Non-exchange trades or OTC derivatives

0% Private placements in private companies

0% Private placements in public companies

0% Other:

Minimum free capital

What is the minimum level of free capital (cash, excess capital) held in order to absorb losses and sustain positions in adverse conditions?

We sometimes get up to 100% invested, but only briefly.

Current free capital

What is the current level of free capital (cash, excess capital) held in order to absorb losses and sustain positions in adverse conditions?

26%

Loss Cutting Rules

Do you follow any strict loss cutting rules (e.g. downgrades, stop loss limits, distressed debt, etc.)?

Yes; we ratchet up a high water mark on each stock in our portfolio on a daily basis. If the price drops 20% below the high water mark, we will re-examine whether to sell or buy more.

Unwinding the portfolio

How many days does it take to unwind your book without market impact?

30 days to sell 87%

Unwinding positions in adverse conditions

How many days would it take to unwind 20% of the portfolio in adverse conditions? What would the impact be on NAV?

0 days, because in adverse markets, we would already be 30 to 60% cash. No effect on NAV.

Leverage

Do you use leverage, and if yes, in what form?

No

Reasons for drawdowns

What were the circumstances behind it?

Bear market, low supply of shorts, beta mismatch of shorts and longs

Mitigation of max. drawdowns

Have you made any changes to your strategy since then that would have mitigated these drawdowns?

Yes: we ratchet up a high water mark on each stock in our portfolio on a daily basis. If the price drops 20% below the high water mark, we will re-examine whether to sell or buy more. We also have much better supply of short stock and the futures market is now very liquid.

Max. drawdown to be expected

What is the maximum drawdown that should be expected?

25% except if there is another worldwide banking crisis.

Use of derivatives

What kind of derivatives do you use in your strategy?

OTC puts and calls, listed warrants, OTC forwards for currency, OTC set index swaps, listed SET50 futures, and listed SET50 calls/puts.

Purpose of derivatives in strategy

What do you use derivatives for (hedging, leverage, etc)? Please explain.

Hedging, Speculation

Use of options

If options are traded, explain how they are used (as a buyer or seller, covered, naked, as part of a hedge strategy, etc.)?

We sell naked puts on stocks that have been pounded down. We buy listed warrants as we sell the underlying stock after the stock has gone up a lot in order to keep our exposure with less capital at risk. We hedge our long exposure with index options.

Calculation of leverage including derivatives

How are options, futures and derivatives treated when calculating leverage?

Shorts and derivatives are seldom more than five to ten percent of the portfolio value (notional).

Credit risk of OTC trades

How do you evaluate credit risk in your OTC trades?

Our counter party is usually Citibank.

Lack of investment opportunities

What do you do when there is no investment opportunity in the market?

Hold cash.

Contingency plans for natural disaster

Please outline your contingency plans for managing a natural disaster.

Offsite back up of all our data, both physically and to "the cloud".

Portfolio concentrations

Are there any concentrations (> 5%) in the portfolio?

Yes: energy, PET plastic production and electronics manufacturing and air conditioner manufacturing are all big concentrations.

Number of positions

How many different positions do you have in the portfolio?

26; Top 10 positions and cash equal 94% of the portfolio.

Maximal Allocation (current)

What is the maximal allocation to...?

15% any single position

100% geographical region (Thailand)

20% industry sector

Beneficial market environments

What market environments are beneficial to the performance of your strategy?

Falling interest rates, vibrant domestic and export economy.

Difficult market environments

What market environments affect performance negatively?

rising interest rates, falling consumer confidence, weak export market

Performance in a bear market

How do you expect to perform in a bear market?

We expect to lose less than half of the SET index loss.

Currency exposure and currency effects

What are the currency exposures and effects to your strategy?

We usually hedge the domestic Baht denominated company exposure completely. However, we now expect the Baht to strengthen against the USD, so we are not hedged.

Performance / Reporting**Changes during track record**

Any permanent or temporary changes to the trading methodology during the track record shown?

No

Portfolio transparency

What portfolio transparency do you provide to investors?

Sector exposure.

Performance audit

Who audits performance?

BDO and Admiral Administration

Frequency of performance audit

How frequently?

annual

Benchmark

What index/indices are used as benchmark?

Stock Exchange of Thailand Index

Frequency of NAV

At what frequency is the NAV/performance provided?

Weekly flash NAV

Monthly final NAV at mid month

Delay in estimated and final NAV

How long after month-end is the estimated and final NAV available?

Estimated one day

Final ten to fifteen days

Independence

How do you ensure independence between fund, administrator and investment advisor?

The administrator dispurses the money, and makes sure operations are in compliance with the Confidential Explanatory Memorandum.

Reporting

Reports available?

Monthly market commentary

Audited Annual report

Dataservices

Do you report your performance to Altvest or any other dataservices?

Yes, everyone that we know about.

Marking frequency

How frequently do you mark your book, do you have daily P&L?

real time

Daily P&L

Do you provide daily P&L to your investors by request?

No

Marking procedure

How are securities marked at month end? (bid/offer/mid etc.)?

Typically, last trade.

Consistency of marking procedure

Is this approach constant or does it vary at times?

Constant

Provider of prices

Who supplies your administrator with the prices? (constant/changing?)

Bloomberg

Marking of OTC-Products

How are OTC-Products marked? (Swaps, Options, Forwards etc.)

From counter party

Provider of OTC prices

Who provides these prices?

counter party