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ALTERNATIVE INVESTMENTS

## Income Partners lines up new strategies

By Jame DiBiasio | 23 July 2009

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**Agus Tandiono explains the thinking behind the new equities capability he has built for the traditionally credit-oriented firm, and what else lays in store.**

Since 1993, Hong Kong-based Income Partners has focused on managing Asian credit portfolios. Led by founding partners Emil Nguy and Francis Tjia, it built up nearly \$1 billion of assets under management, only to see AUM fall during the Asian financial crisis of 1997-98. Having survived that trauma, it saw AUM rise once more to over \$1 billion by 2008. Once again the numbers have declined, this time due to the global credit crunch.

For an Asia-focused player, \$1 billion in credit strategies is big. The partners understand that, while the firm has once again weathered the storm, they can either remain within the credit niche and rebuild back to \$1 billion -- or they can take advantage of the crisis to develop a new platform with multiple alternative strategies, and grow the business into a major Asian asset manager, with scale.

"This is a transformational year for Income Partners," says Agus Tandiono, who has recently joined the firm as its fourth partner. He is also its CIO for equities, a new role. "We don't want to come out of this crisis standing still."

Nguy and Tjia, along with third partner Jiffriy Chandra, who heads the credit team, contacted Tandiono early this year to discuss creating an equity capability for this fixed-income shop. Tandiono agreed and put in his own money, both to the firm's capital as well as to seed its first equity strategy.

This month the firm has launched its inaugural equity product, the IP Asian Equity Long-Short Fund, and so far has attracted about \$20 million.

Meanwhile, Income Partners is preparing to launch strategies in other asset classes, including a private-equity strategy and a distressed credit play, and is keen to do more.

Tandiono first worked on the long-only side at Fidelity Investments beginning in 1995, initially as a financial analyst and then a portfolio manager of country and regional funds. He is steeped in Fidelity's fundamental research-driven style, an approach he retained when, in 2005, he left to join Citadel Group, which was opening shop in Hong Kong and hiring aggressively.

His initial role at Citadel was, superficially, a step down, returning to an analyst role, but Tandiono felt he needed to learn the ropes when it came to shorting and risk management. He was rapidly promoted to become Citadel's head of Asian equities, and built its team from six to 22 professionals. AUM in Asian equities rose nearly ten-fold, from \$500 million to a gross of \$4 billion at the firm's peak, in mid-2008.

But in the wake of the crisis, Citadel closed its Asian equities desk and its event-driven desk; it still maintains a team in Hong Kong to handle its special situation positions.

Like Fidelity, Citadel also employed a fundamental, bottom-up stock-picking approach. The difference was that its PMs could not only buy stocks they liked but sell short those they disliked, using leverage to boost returns.

Tandiono is bringing a version of the Citadel investment process to Income Partners. He and his newly assembled team of two analysts pursue a fundamental research-based approach across four sectors (financials, industrials, telecoms and IT). Because these days prime brokers will provide less leverage, it remains a modest part of the strategy; in turn, however, Tandiono can take up to 50% net exposure, long or short (versus the Citadel process, which required 0% net exposure, ie it was pure market-neutral).

He also reviewed a number of risk-management systems. He discarded those that were predicated on risk-factor modelling, because they are global models that don't reflect Asian characteristics. (For example, Tandiono didn't see the point in comparing, say, Wing Hang Bank with a peer set of UBS, Citibank and the like.) Nor did he want to go with providers using value-at-risk methodology, because the credit crisis has shown how dangerous the unmeasured tail risks can be.

Instead he chose SunGard APT, a statistics-based model that helps identify whether the fund is tilted towards growth, value, momentum or other characteristics, and breaks down the portfolio to seek out those securities that are contributing to this tilt the most. From there it allows the portfolio manager to handle the risk, either by buying more or getting rid of particular names.

Not only is Income Partners keen to diversify its business, but it is finding that having an equities capability can enhance its existing bond strategies. By sending both a bond and a stock analyst into the room with a company, they can get a much clearer picture about what's happening across the capital structure, and can better identify trades.

The challenge now is to build scale, as he did while at Citadel. In the meantime, Income Partners is looking to bring in more outside talent to help it go into new asset classes. And with the demise of many big alternative investment shops, there are experienced people out there.

"When competitors close, we open," Tandiono says. "When they sell, we buy."

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