Q&A

Building hedge fund and corporate finance capabilities

Melvyn Yeo, chief investment officer at Thirdrock

By Joe Marsh

Thirdrock is a Singapore-based multi-family office set up in October 2010 and run by Jason Lai and Melvyn Yeo as chief executive and chief investment officer, respectively.

Seeded with over $500 million by two billionaire-plus families, the firm has since taken on more clients and bigger chunks of its original benefactors' portfolios, and now runs more than $1 billion, all of which is family money.

Having received a capital market services licence from the Monetary Authority of Singapore in October for its wealth management division, the firm is setting up an asset management division, has seeded a hedge fund and recently bought into a corporate finance boutique, ISSEA Advisory.

AsianInvestor spoke to Yeo about how the firm goes about investing.

Q How is Thirdrock structured?

A We are now restructuring into three business segments: wealth management, asset management and corporate finance.

Wealth management is the anchor of our business currently and we essentially have trading authorisation over clients' accounts across their banking relationships and manage the assets on a consolidated basis.

We are starting the buildout of asset management that will house our own labelled hedge funds and venture capital/private equity investments. We started by bringing on board two portfolio managers from the Monetary Authority of Singapore to manage an FX-focused hedge fund.

Q What sort of private deals have you done?

A We have a strong pipeline and variety of deal flows across different sectors, geographical regions and stages of a company's lifecycle. We could be evaluating an angel/seed deal, or a buyout of a listed company, participating as cornerstone for IPOs or doing due diligence on a mezzanine transaction.

Real and physical assets are also within the mandate of what we evaluate for our client families. Real estate and mining deals are typical, and we also look at infrastructure projects, especially in the clean/renewable energy sector.

One deal we executed was making an investment into Headland Strategic, a hedge fund seeding platform based in Hong Kong, alongside other high-net-worth individuals and families.

We tend not to take board seats in our portfolio companies, but we help them where needed.

With the acquisition of ISSEA Advisory, and the formal set-up of our asset management arm, we expect to be a lot more active in private investments. We plan to launch a couple of funds, while continuing to do direct investments with clients.

Q How do you invest in public markets?

A We typically run two portfolio types for client families. The core portfolio is about asset allocation and aims for risk-managed high single-digit or low double-digit returns. It is about capital preservation to a large extent and very much focused on risk-adjusted returns, hence proper diversification is essential.

The second pot of money is more opportunistic. The split between core and opportunistic depends on the risk adversity of the underlying families, so you'll see anything from 10-30% of assets demarcated as opportunistic.

The opportunistic portfolio usually involves tactical trades, leverage, even potentially intra-day positions. It could be something as simple as an FX trade; say, a view that sterling has hit a certain resistance level and is going to sell off in the next couple of days, so we put on a short.

We are absolute return-focused and predominantly US dollar-based for investment performance measurement for now.

Q How much do you use external managers?

A We are constantly on the lookout for good external managers who can replace what we do on our desk ourselves, especially in sectors that are more esoteric or harder to access.

For example, two years ago we wanted to have exposure to European distressed assets, so clearly it made sense for us to find a manager who is a specialist in this space. We spent a few months on due diligence before we invested.

About 70% of our discretionary assets are managed in-house, but that number has been coming down over the years and we expect that trend to continue.

Q And what about for private investments?

A From 2006 to 2008, many private equity and venture capital funds raised a lot of money but have not deployed it, so their returns have not been that great for those vintages. Furthermore, post-2008, many high-net-worth individuals have wanted more control over where their money goes, rather than putting it into a blind pool.

So there's been a resurgence of one-off private deals rather than investments into funds. That's not to say we don't invest in funds for private assets – we do, but a small amount, so we can be open to co-investment opportunities.

Q How much of your AUM is in liquid/public portfolios and how much in private investments?

A Most of our assets are in public market, tradable securities. Private investments are more one-off in nature for us at the moment, but this is a space our clients will continue to have growing appetite in.

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Q What's Thirdrock's investment headcount?

A After the acquisition of ISSEA, our headcount is close to 20 people and more than two-thirds of our headcount are involved in the traditional front office and investment functions.

We expect to hire a few more people over the course of the year as we build out asset management, and most of them will also be in investment roles.

Q What's the breakdown of your portfolio?

A We have been running a discretionary portfolio for more than one-and-a-half years. As of the end of December, our public securities asset allocation was 35% in equities, 30% in fixed income, 20% in alternatives, 10% in cash/cash-equivalent assets and 5% in commodities.

We reduced our equities allocation in December as we took profit – especially in US markets, given the rally – and anticipated a weak start in January, and we put more into cash products. We steadily increased our equities allocation again in February following the sell-off, but we are still cautious.

Q Do you use exchange-traded funds?

A We do invest in ETFs for allocation to assets like gold or silver, or because we want broad sector allocations, such as the Financial Select Sector SPDR Fund for US financials.

For example, we bought the Nomura Nikkei 225 ETF to gain exposure to the Japan rally on the back of Abenomics more than a year ago, and over time we picked single stocks to overlay the beta exposure.

Q How do you manage your portfolio risk?

A We track individual securities' performance attribution and its contribution to portfolio volatility, and also correlations on a cross-asset basis. While we will consider using derivatives to hedge portfolio risks, we also institute a disciplined risk approach and will cut the loss on a losing position where needed.

Where hedging strategies are concerned, we try to keep it simple, as they are not meant to make money, so we are content to spend some premium to protect downside risks. Hence we implement vanilla strategies and typically do not consider exotic derivatives such as binaries, barriers or dual conditional options.

We can hold up to 100% cash if necessary. ■