



## **Interview with Michael J Liang, CIO of Foundation Asset Management**

*EurekaHedge*

Foundation Asset Management (HK) Ltd, regulated by the Securities and Futures Commission Hong Kong, is an independent China-focused asset management company. We are committed to maintaining a focus on absolute returns and delivering comparative performance through disciplined risk-adjusted investment process in all relevant markets.

Foundation China Opportunity Fund has outperformed both indexes and peers on a 1- and 2-year basis (since inception), it eased 16% in 2008 but returned 13% from January 2007 to December 2008 during the same period: HSI -28%, HSCEI -24% and SHCOMP -32%.

### **1. Can you explain your investment strategy and process?**

The investment philosophy will be one of value investing. The investment process employed for our fund will be a combination of value-based strategies. Value in financial markets manifests itself in more than one form. Currently we employ four distinct, but related, value investing methodologies. All portfolios are aimed for long-biased, equity-focused and absolute returns.

### **2. What do you look for when you analyse a company and speak to its management?**

We seek to understand the core value of a company by focusing on balance sheet analysis, followed by industry dynamics and the company's competitive edge; we always like to know how companies generate cash, and like to buy "50-cent dollars".

### **3. What are the firm's assets?**

Foundation China Opportunity Fund is the only fund currently under management (AuM US\$11 million), and we are in process of setting up managed accounts with two renowned institutional investors.

### **4. The fund was down 16% in 2008 when the Hong Kong H-share and A-share indices were down 51% and 65% respectively. What were the main reasons for the fund's outperformance?**

Outperformance of core portfolio of stocks, coupled with effective hedging and some alpha generation from shorting.

### **5. Which sectors do you see offering the best opportunities this year? Are there opportunities in the fixed income or convertible bond market in China or Hong Kong; and if so, would you play these other part of the capital structure?**

We find opportunities in deep value situations, early recovery of some industry leaders and continue to own companies with stable earnings growth at reasonable valuations. Although we see some value in some corporate and convertible bonds, we would like to place our focus on equities.

### **6. Some strategists are projecting the stimulus plan that Beijing announced last November to be successful and that China will become the main force for growth over the next ten years. Would you agree with this?**

I think the stimulus plan is an important part of the recovery effort, however in order to see a sustainable recovery we also need external demand to pick up. We think China will continue to grow in the long run if it can effectively increase domestic demand.



7. **Many economists also comment that China will need to convert its economy – from one dominated by the export sector to one that is led by domestic demand. How long would this process take; or has it already occurred?**

I agree, but it will take time. We need to see more policies addressing this issue.

8. **What are some of the risks that you are most concerned with as an investor this year (liquidity, political, trade disputes, debt, bankruptcy, etc)?**

The recovery could be sluggish and volatile if the world economic policy fails to address the issue earlier head on.

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