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Ex-Morgan Stanley Executive's Hedge Fund Jumps 49% on China Bets

- All-Stars bought New Oriental, Alibaba, Baidu shares on dips
- Private investments in Tujia, Didi, Xiaomi also paying off

By Bei Hu

(Bloomberg) -- A former Morgan Stanley executive's hedge fund has soared 49 percent this year by sticking with well-timed bets on technology stocks and investing in some of China's hottest private companies.

Led by Richard Ji, who was previously head of Asia Internet and media research at Morgan Stanley, the All-Stars Investment Fund profited from a rebound in stocks including Alibaba Holding Ltd. and Baidu Inc., after adding shares during dips in recent years. Investments in closely held companies including Tujia.com, China's answer to Airbnb, and Chinese ride hailing giant Didi Chuxing also put the fund on track for its fourth straight profitable year, Ji said in an interview.

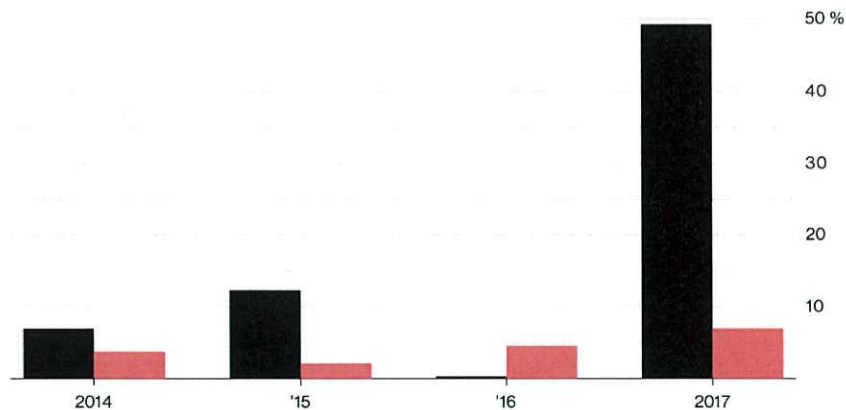
Unlike the vast majority of hedge funds, All-Stars has the flexibility to invest in private companies, giving it an edge over peers and placing it among Asia's top performers. This year's gain has given the fund an annualized return of nearly 18 percent since its April 2014 inception, more than triple that of the EurekaHedge Hedge Fund Index. Less than 9 percent of Asia-focused hedge funds have had positive returns every year since 2014, according to Singapore-based EurekaHedge Pte.

While China-focused hedge funds have beaten peers in other parts of the world, they've trailed the broader stock market as they've been overly cautious. Greater China long-short hedge funds rose 27 percent this year through October, according to EurekaHedge Inc., as the MSCI China Index rose 47 percent in that period.

Beating Peers

All-Stars fund outperformed index since inception

■ All-Stars ■ EurekaHedge Hedge Fund Index



Note: 2014 return from inception on April 9, 2014. 2017 returns through Oct. 31
Source: All-Stars newsletter, EurekaHedge

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All-Stars Investment, which manages about \$1.2 billion, focuses on "new-economy leaders" in China, including technology and consumer companies. Nearly 20 percent of All-Stars' money has been invested in private companies.

The firm is seeking \$600 million to \$800 million from investors for a private equity fund, Ji said. Pre-initial public offering investments have included mobile phone maker Xiaomi Corp. and Truck Alliance Inc., an Uber-like service for China's long-haul logistics industry, he said. The fund targets late-stage

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investments in companies typically within two to four years of going public, as it is easier to identify winners, he said.

Ji, who founded the firm, was later joined by former Morgan Stanley colleagues. The basketball fan named it "all-stars," in reference to its focus on investing in market leaders and "market killers," he added. Its hedge fund makes long-term investments in 10 to 15 stocks, turning over less than 30 percent of them in a typical year.



Among All-Stars' successful bets:

- Alibaba's share price plunged as much as 45 percent in 2015 after Kering SA sued it for facilitating the sale of counterfeit merchandise. All-Stars added to its Alibaba holdings mid-last year, amid continuing investor concerns and a U.S. Securities and Exchange Commission probe of its accounting practices. The stock more than doubled this year.
- New Oriental Education & Technology Group Inc. shares plunged as much as 24 percent on Dec. 2, 2016, after a press report accused its employees of helping clients write college application essays and reference letters. All-Stars has held the stock for two years, adding more during the selloff, convinced of a rebound given the company's brand recognition, customer loyalty and ability to charge a premium over peers, Ji said. The stock also more than doubled this year.
- Baidu's shares took a beating from public outrage over the 2016 death of a student who had received questionable treatment from a hospital found through the search engine. All-Stars bought the stock on its "near-monopoly" of the Chinese search market with strong pricing power. The stock jumped more than 45 percent this year.
- All-Stars also bet on NetEase Inc.'s ability to introduce new hits to replace old games that have fallen out of favor. The second-largest Chinese video game publisher rose more than 45 percent this year.

On the private side, All-Stars marks up the value of its investments when there are new rounds of financing for the companies. All-Stars initially invested in Tujia.com, the home sharing platform, in June 2015. The latest round of financing this year, led by Ctrip.com International Ltd. and All-Stars, valued the company at more than \$1.5 billion. It could be worth more than \$10 billion as China leads the world in tourist volume and idle apartments, Ji wrote in a newsletter to investors.

All-Stars invested in Didi Chuxing at a valuation of \$2 billion three years ago, Ji said. The latest round of financing earlier this year valued the ride-hailing company at about \$50 billion.

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