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Interview with James Bryson and Roland Haas, Directors of HB Capital Partners

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Komodo Fund is a Cayman Islands incorporated open-ended mutual fund, with an Indonesia focus. The fund manager, HB Capital Partners, is a Cayman Islands incorporated Company, authorised by CIMA and with SIBL exemption. The investment advisor, PT HB Capital Indonesia, is incorporated as a PMA (foreign investment) company in Indonesia. James Bryson and Roland Haas are the directors and shareholders of HB Capital Partners and PT HB Capital Indonesia. The planned launch for the fund is 3rd quarter 2006, with an expected launch size of US$10 million.

The objective of Komodo Fund is to achieve long-term capital appreciation through an actively managed portfolio of predominantly Indonesian investments. The fund will invest in Indonesian listed securities, debt instruments and derivatives that are readily marketable. The fund may also invest in non-Indonesian listed companies which have substantial operations in Indonesia, as well as American Depository Receipts (ADR), Global Depository Receipts (GDR), and Exchange Traded Funds (ETF).

Roland Haas was educated at the University of San Francisco, California, where he earned a masters of business administration degree, majoring in finance and international business. Roland started in the fund management industry as an investment analyst at Templeton International Singapore, before joining G.T. Management Singapore as a fund manager in 1992. Roland was president director at PT Lippo Investment Management from 1994 to 2001. During that period he was the sole manager of the Indonesian Growth Fund.

James Bryson was educated at the School of Oriental and African Studies, University of London, where he earned an honours degree in economics and politics. James has worked in the Asian equities business, since leaving the British Army in 1995. Most of his time in the industry has been spent on the equities sell-side in Indonesia, as head of equity sales respectively for BZW Securities, ANZ Securities and then Merrill Lynch Indonesia. After 2-1/2 years with ML Hong Kong in a regional research sales and account management role, James returned to Indonesia in mid-2004 to start and run the equities business for PT CIMB Niaga Securities, until mid-2005.

1) ***In your estimate, what is the size of the Indonesia-focused hedge fund space, in terms of number of funds as well as total assets?***

   We believe we are the first Indonesia-focused hedge fund (Komodo Fund is multi-strategy, absolute return with an equities bias). There are many Asia-focused hedge funds which can and do invest in Indonesia but for them Indonesia is normally a relatively small part of a much broader mandate. In addition, the manager has an Indonesia-based investment advisor, which is not the case with other hedge funds investing in Indonesia.

2) ***What is the rationale behind the Komodo fund focusing predominantly on Indonesia as opposed to other emerging economies? Also, why Indonesia and not a broader emerging markets or Asia ex-Japan mandate?***

   We have, collectively, 23years' experience specifically in this market, and for most of that time we have been located in Indonesia. We believe our understanding and knowledge of the market gives us a competitive advantage over other regional managers who invest in Indonesia. Corporate Indonesia has an unimpressive historical track record in the areas of corporate governance and transparency. These are issues that we believe require significant improvement, and we intend to be active in this area, as this will enhance Indonesia's investment profile.

3) Recent Eurekahedge research suggests a trend of growth in single-country focused hedge funds in emerging Asia? Do you see this as an indication of deepening markets in the region?

The large and growing number of funds with regional mandates in Asia makes fund differentiation increasingly difficult for new entrants. I suspect that factor, along with deepening markets, is contributing to this single country trend. The liquidity and depth of the Indonesian capital markets are now at levels which justify a single-country focus. This was not true historically.

4) You have stated that you will not be applying a high water mark/hurdle rate to your fund. Please explain the rationale behind this decision.

Historically, high water mark/hurdle rate have often led to the voluntary wind-up of funds as well as excessive risk-taking, to meet such minimum targets. Given the occasional extreme volatility of the Indonesian capital markets and the Indonesian rupiah, and the coinciding collapse in liquidity, we believe the application of HWM/HR is not in the interests of running an Indonesian dedicated fund on a longer term basis. In order to live up to this longer term commitment, we have committed to investing at least 25% of any performance fee into the fund.

5) On a related note, what are some of the main risks currently associated with investing in the region? How do these compare with the risks associated with investing in Indonesia?

In our view, the main risks in the region are; too much hot money, carry trades, until recently a lack of appreciation for risk and excessive risk appetite, the direction of monetary policy in China, and the impact of a US slowdown on Asia's exporting countries. With regard to Indonesia, carry trades have been and may continue to be a short-term problem due to the high domestic interest rate environment. Indonesia could be negatively affected as a result of a correction in commodity prices. However, Indonesia is not heavily reliant on the US for exports, the long-term outlook for commodity prices is still very favourable, and the market is amongst the cheapest in the region in terms of PEG ratio. Also, both corporate and government balance sheets have been significantly deleveraged since the Asian financial crisis and the government is now clearly showing its intention to deliver growth through long-overdue investment, particularly in the energy and infrastructure sectors.

Our investment advisor's ability to conduct frequent company visits as well as their access to a broad range of key economic decision-makers at both the macro and micro level, allows us to manage potential risks at the market and corporate level, more effectively than managers without such local presence.

6) What are the typical holding period and turnover of Komodo's portfolio?

These will to some extent depend on market conditions but for equities we would expect to maintain a stable core portfolio based on our fundamental view of each company. Given the historical volatility of the Indonesian capital markets, a strictly buy-and-hold strategy has not always paid off. Rather, a more active management approach is required to make money in Indonesia, over longer periods of time. As such, the turnover of the fund can be expected to be above average.

7) Does your fund tend to long-biased? What is the average net exposure of your fund?

Yes, we will tend to be long-biased but not exclusively so. The ability to short equities is currently limited to a small number of relatively illiquid single stock options and index futures but this area will definitely expand over time and we intend to make use of such products when appropriate. Meanwhile, stock lending/borrowing is still rare and relatively expensive. Our expected net average exposure is likely to be 80-100%.

8) *Indonesia was one of the economies most affected by the Asian financial crisis of 1997. Given that you operated the Indonesia Growth Fund that returned 125% in the three years from February 1998 to February 2001, could you share some of your insights about operating a hedge fund in Indonesia?*

The Indonesian Growth Fund did well during that period because the market recovered from extremely oversold levels as did the Indonesian rupiah. Having said that, the main difference between operating a hedge fund versus a regular mutual fund such as this, is that a hedge would have had the option to go cash during the crisis, and gear up into the recovery. The Indonesian Growth Fund could only outperform on a relative basis during the downside due to its long-only mandate.

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