



# Edwin Wong

\* CIO \* SSG Capital Management

**E**dwin Wong is managing partner and CIO of SSG Capital Management, which he co-founded as a spin off from an Asia-Pacific distressed and special-situations desk at Lehman Brothers. The core members of that team came together in 2009 and launched its first fund, SSG Capital Partners I.

## What's the fund's size, and who are the investors?

Assets under management are about \$250 million, and we're in the process of doing another close.

The fund was seeded by Asian families we have done business with in the last decade, and for whom we've made money in the past. Many of them have never invested in funds before, but they know our returns and knew their capital wasn't at great risk. They also see SSG as a strategic platform to help grow their enterprise, as they are keen to co-invest alongside the fund.

If you think back to early

2009, the institutional fundraising environment was very distressed, especially for funds like ours with a five-year structure. So we went to people who were comfortable with us and knew about our style of investing. We also went on the road to Europe and got a bit of money from family offices there.

## What are your return targets?

We wanted to be conservative and have guided investors to a target return of 25%-plus. Looking at the investments we have made to date, we should exceed that meaningfully. The fund is currently up 21% but that is based on very conservative marks. We typically keep the assets marked at cost until a liquidity event takes place.

The mark-up is coming from our first asset resolution, where we are getting all our capital back, plus a cash profit, plus a chunk of free equity. Our investors will be getting their first cash distribution based on this.

## What are your fees?

It's a 2-and-20 structure. The way the performance fee works is that investors get all their capital back plus an 8% hurdle rate before they are charged performance fee. It's a very honest structure, where there is no chance of us taking our carry until investors get all their money back plus an 8% return.

The way our cash on cash works, we expect investors will get all their capital returned sometime between years two and three.

## How many positions will you be working on at any time?

I expect the portfolio to have no more than a dozen meaningful positions. It is a labour-intensive process. We don't do trades over a broker screen. Most of our positions are 100% proprietary, meaning we source and create them from day one and are the only investor in the transaction.

We've been operating below the radar screen, and I have

found that to be a good niche. We have strong local networks for sourcing deals, especially in our core geographies of China, India and Indonesia.

## How do you handle investments in countries like Indonesia where entrepreneurs may prioritise their own interest over yours?

It boils down to doing things you know well and staying away from things you don't know. We have learned from experience who to deal with and who not to, which structures work and which don't. Legal documentation only goes so far.

We only get involved in transactions where we are not only structurally protected, but the principals behind them are people we have a lot of comfort with.

Structurally, our deals can be quite complex and we take all kinds of collateral, in some cases we have even taken cash. We do everything we can to align our interests with key stakeholders.



## How do you ensure good corporate governance is being practised in these companies?

We act as an agent for change in these enterprises, and we are activist in that sense. We were brought up with the high US standards of Lehman Brothers and those standards remain at SSG. We have a board seat in most of our investments, but we are actively involved with management whether we have a board seat or not.

## How are the markets in general creating opportunities for you?

We live in a strange world right now. There is a ton of liquidity in the markets, but they are heavily skewed towards liquid assets, so anything from high-grade bonds to high-yield bonds to equities are up significantly.

On the other hand, illiquid assets offer value, but most people are reluctant to invest in them or forbidden from doing so. Plus many mid-cap companies are still starved of capital, as banks aren't really lending to them.

This is a great time to invest if you have long-term locked-up money.

## Are distressed investors

### EDWIN WONG'S CV

#### CAREER

2009 to date Managing partner and CIO at SSG Capital  
 2008 Managing director at Nomura International  
 1997-2008 Managing director at Lehman Brothers  
 1994-97 Associate, JP Morgan  
 1991-94 Chartered accountant at Coopers & Lybrand

#### EDUCATION

1996 MBA, University of Wales and Manchester Business School  
 1991 BBA, University of Michigan

## looking more to America and Europe currently?

Those regions are in more distress than Asia, and the game is different there, with much bigger portfolios – it is more of a legalistic servicing type game. We did something similar during the late 1990s, when the crisis was much more severe and systemic.

Now in Asia, we focus much more on single special-situations opportunities, and that requires different skill sets from those needed to service, say, a mortgage-backed portfolio.

There are still plenty of defaults out there caused by, say, leverage, disputes between shareholders or problems with derivatives.

## Are there any sectors or countries where you're

## finding especially good trades at present?

We're quite opportunistic in nature. Greater China, Indonesia and India are our key geographies. In terms of sectors, we're looking at opportunities in resources, shipping, real estate and retail.

When we say distressed investing, it's more about acquiring an asset at a deep discount to its true value than buying into troubled assets. In fact, all of the companies we've invested in are producing positive Ebitda.

## How do you risk-manage the fund?

First of all, we spend a lot of time conducting due diligence on an opportunity before we decide to commit capital. Our LPs are very successful

businessmen in a wide range of sectors, and we often draw on this deep pool of resources to ensure we cover all the financial, operational and political angles.

We have specific concentration limits by country and sector. We have a maximum concentration limit of 25%, but in practice we would like to keep it to 15%. We will also consider hedging if the circumstances warrant it.

## What are you hearing from your investors?

We met with a lot of our first-round investors recently, and they are pleased to see us delivering on what we said a year ago. Also, they can now see very clearly the types of investments we have made and how we achieve significant returns without putting their capital at great risk.

Many of them have decided to increase their commitment to the fund, which is a strong vote of confidence. They have also been helpful by introducing us to new investors.

They like our very hands-on approach and that we are delivering 100% alpha. We're not doing any carry trades. It's a lot of hard work to do what we do, but the returns make it all worthwhile. ■