

# SPOTLIGHT

## International Investment Advisers' Seggerman on Finding Growth Stocks in Korea

**Henry Seggerman**, chief investment officer of International Investment Advisers' Korea International Investment Fund, spoke to Bloomberg's Nathaniel Baker about his investment pool, which is the oldest hedge fund in Korea. The strategy has returned an average of 20 percent since inception in 1992.

### Q: How and when did you become interested in Korea?

**A:** In 1992 when the Korean market first opened to foreigners. The idea came with a conviction that the Korean market in 1992 would behave like the Japanese market had 20 years earlier. The founder of the fund, the late Harry G.A. Seggerman, had experienced the Japanese market during that time.

### Q: Korea is pretty strictly regulated isn't it? Can you short stocks?

**A:** You can't do naked shorting, but you can borrow and short. We've been borrowing and shorting since it became permitted in 2001. In the fall of '97 I shorted the Korean won.

### Q: Which was a good year for that trade, if memory serves?

**A:** We made a little money to protect us against the equity losses, which we couldn't avoid. We've tried to pursue a long/short strategy in ways that are unique in the market.

### Q: How so?

**A:** It's directional long/short. We do not have a sector focus, but we do have a very aggressive pursuit of what we call supergrowth companies. We've tried to identify the industries where Korea has a leading edge or companies can have a first mover advantage. On the long side we have holdings in AMOLED, which is Active Matrix Organic Light Emitting Diode. Samsung Electronics has 95 percent of the market for AMOLED. We have holdings in all the parts suppliers as well. Cloud computing and smart grids and convergence – essentially the exploitation of internet space for added connections between products, services and hardware.

That space is expanding rapidly because of the aggressive internet penetration rate in Korea. Also, flexible displays and flexible printed circuit boards; that technology is developing and we should see actual displays, such as bendable screens and roll-up screens and screens that can be attached to bent surfaces. This is something Koreans are pioneering.

### Q: When will they hit retail markets?

**A:** I think you'll see Samsung Mobile Display putting out different types of flexible display panels within the next year or two and probably commercializing them within five years. And we're also invested in various types of touchscreen technology of course; the little touch buttons and various types of films and etchings and IC chips -- you can see I'm very excited about these things and I've just scratched the surface. We're not tech focused. We do like LNG Power Generation and shale technology and there's a lot of brick and mortar-type things that are supergrowth as well.

### Q: What about on the short side?

**A:** The short side is driven by technicals. We zero in on stocks that according to Bloomberg's BTST screen have high conviction rates and profitability exceeding the market. For example moving average envelope – MAE – or Stochastics – TAS – or Bollinger band – BOLL; these are our three top-performing indicators of an overbought condition for Korea specifically.

### Q: What's your exposure?

**A:** Today we are 150/50.

### Q: How is the local hedge fund industry in Korea?

**A:** It's just getting underway now. They have permitted this active extension formula, 120/20. You've been able to do that for two or three years but Korean retail investors pursue things in pack form. That particular product didn't take off the same way that the installment funds or beneficiary certificates or wrap accounts did. But I have high hopes for Korea's hedge fund industry, that the retail and institutional side will begin pursuing alternative investments focused on the Korean market.

### Q: Don't the big institutions invest in hedge funds pretty extensively?

**A:** It's one thing for a Korean institution to take a 5 percent alternative asset allocation and then get on the phone to some manager in Stamford or Greenwich. It's quite another for managers running money in Korean securities to come up with formulas that work in Korea. We have yet to see the traditional hedge fund strategies find managers and then clients in Korean securities specifically.

### Q: How about some stock picks?

**A:** Daou Technology (023590 KS Equity), which provides web-based information systems and is involved with convergence. We have holdings in AMOLED manufacturing companies like Asia Pacific Systems (054620 KS Equity) and Tera Semicon (123100 KS Equity). I mentioned flexible printed circuit boards and we have holdings in Innox (088390 KS Equity) and IsuPetasys (007660 KS Equity).

## AT A GLANCE



**Age:** 59

**Education:** University of Michigan (B.A.), New York University (M.A.)

**Family:** Married with one child (age 29)

**Charitable Work:** International Rescue Committee

**Hobbies:** DJing, speed skating

**Mentor:** Steve Roach, Morgan Stanley/Yale University.

**Favorite New York City Restaurant:** Ricardo Steak House

**Recommended Recent Reading:** Day of Empire by Amy Chua