

# Consistency through conviction

Pheim Asset Management (Asia) Pte Ltd (“Pheim Singapore”) launched the Pheim ASEAN Emerging Companies Growth Fund, its first public fund, in 1995. The fund has weathered a number of crises, during which many ASEAN funds were closed thanks to the poor market environment. Pheim stuck with the fund due to its set belief in the region’s strong economic fundamentals.

This perseverance paid off, because after every crisis, the fund managed to turn around, and outperformed the FTSE All World ASEAN index (FTSE) by a good margin. For example, after the Asian financial crisis, the fund outperformed the FTSE by 15.91% and 10.74% in years 1998 and 1999 respectively. In 2001, one year after the tech bubble, the fund again outperformed by 21.39%. The same happened after the global financial crisis, when the fund outperformed the FTSE index by 36.04% and 16.52% in 2009 and 2010 respectively. The Pheim ASEAN Fund had a difficult year in 2008, although it outperformed the FTSE. However, in 2009 it generated a return of 106.89% in US dollar terms, outperforming the FTSE by 36.04%. The fund had another good year in 2010, when it generated a return of 47.05%, outperforming the FTSE by 16.52%.

Morningstar ranked the Pheim ASEAN Fund its No. 1 in terms of total returns in US dollars, for all 1- to 15-year periods as at end of December 2010, in the Morningstar category of ASEAN Equity Funds. The fund is now the 2010 winner in the three-year and five-year categories for Best of the Best Performance Awards in ASEAN equities.

According to Pheim, the key to outperformance is to buy stocks that are technically cheap, where you believe their fundamentals will drive improvement. Pheim’s team are value investors who do not believe in being fully invested at all times, but trim equity exposure when the market is near its peak to preserve capital, and increase exposure when the market is near its bottom. Pheim will raise cash when the market is overvalued, and will only fully invest when the market is depressed.

Pheim’s success formula is to believe in and to be consistent in applying the same investment philosophy, in place since the first day of operation, which has been developed by Pheim’s founding director, Dr. Tan Chong Koay, over his 35 years of experience. This philosophy underpins the company’s excellent long-term track record. Also, Pheim has built up a strong team who share the same philosophy and believe in its philosophy. Pheim’s slogan, “Your Need is Our Focus” and its performance record are the reasons that its total (combined) assets under management have risen to a record high of more than US\$1.8 billion as at December 2010. Dr. Tan also won *Asia Asset Management’s* award for CEO of the Year in Malaysia for 2010.



Dr. Tan Chong Koay

*Asia Asset Management* spoke to Dr. Tan, founding director of Pheim Asset Management Sdn Bhd and Pheim Asset Management (Asia) Pte Ltd.

**AAM: ASEAN equity markets performed very strongly in 2010. What are your views this year and where are the opportunities?**

**Tan Chong Koay:** In 2010, ASEAN region has done well. The FTSE ASEAN Index was up 30.4% versus MSCI Asia Ex-Japan’s return of 17%. Year to date (as at Feb 7), the FTSE ASEAN Index declined marginally by 1% versus MSCI Asia Ex-Japan’s 0.4%. The FTSE ASEAN Index dropped by 4.8% at the end of January before rebounding to its current level. The recent correction in

ASEAN market is not a surprise given that the markets have done well in 2010. We view the recent sell down in ASEAN markets as healthy and create opportunities to accumulate fundamentally sound stocks. As you can see from the table below, ASEAN markets are not excessively expensive.

Table 1: ASEAN Valuation

Market	Index	PER 11	PER 12	PBV 11
Indonesia	3,487.7	13.9x	12.1x	3.3x
Malaysia	1,535.6	14.7x	12.6x	2.3x
Philippines	3,880.0	12.6x	11.3x	2.0x
Singapore	3,192.2	14.9x	13.5x	1.7x
Thailand	985.6	11.0x	9.5x	2.0x

**AAM: Within ASEAN, Indonesia was the best performing market last year, rising about 52% in local currency terms. However, so far this year, Indonesia is the worst performing market. Can you explain the reasons and why is the market so volatile?**

Indonesia is one of the very few countries that has projected high growth rate. Its 4Q GDP growth was 6.9% and 6.1% for full year 2010. Indonesia macroeconomic and fiscal numbers have shown tremendous improvement. Hence, it is no surprise that Indonesia was the best performing market in the region. Two possible reasons the market reacting so adversely: firstly, inflation trajectory is up and the central bank’s decision to hold rates at 6.5%, despite surging inflation, causes worries among investors that the central bank is behind the curve. Hence, we believe that the market is pricing in interest rate policy risk; secondly, given that the spread between BI rate and inflation is now negative, investors are

concerned whether the currency can hold; thirdly, consensus is estimating US GDP growth of 3 – 3.2% in 2011. Foreign investors could be taking profit in emerging markets and channeling the funds back to US in anticipation of better growth momentum there.

**AAM: Thailand was among the best markets last year. What are your thoughts for this market going forward?**

In US dollar terms, Thailand was the best performing market, up 55.7% versus Indonesia's 53.4%. A general election is likely in the first half of this year. If Democrat wins convincingly, this would create a strong, stable government which is good for the earnings outlook and the stock market. Strong and stable government is good as they can implement growth policies. Having said that, Thailand is not spared from inflation scare and it is still subjected to foreign sell off if inflation continues to reign. As shown in Table 1, Thailand's valuation is among the cheapest in the region.

**AAM: Rising inflation is a big concern in Asia. How do you think this will impact on company earnings this year and what sectors are likely to benefit from this? How will the region benefit from China growth this year?**

High rates of inflation would imply more monetary tightening than currently discounted by the market. It would also mean that countries like Taiwan and Korea, with comparatively weak domestic inflationary pressures, would be likely to outperform within a regional context. Gold and property would likely do well as they are perceived as good hedges against inflation. Also, consumer stocks which are not able to pass on rising raw materials costs would suffer from margin erosion and should be avoided.

As for China growth, the tightening measures implemented on property and other sectors to curb inflation will result in slower GDP growth this year. However, we believe that China still needs to stock up and buy food related products to meet long-term demand. In this regard, countries that are rich in agricultural resources like Indonesia and Malaysia will be able to complement China growth. Tourism is another sector that will have a big impact as China per capita income continues to rise. Singapore will be in the best position to reap the benefits from the rising tourism. We also believe that environment protection and its related sector will do well as Asia has been growing at the expense of the environment.

**AAM: Pheim is a bottom up stock picker. In the current inflationary environment, what are your concerns when it comes to stock selection?**

The market has been re-rated up significantly over the last two years and has factored in growth recovery before inflation became the main concern now. While there are pockets of high valuation in Asia, Asian stock markets in aggregate do not appear to be so expensive. The region also continues to offer certain defensive quality in terms of still significant dividend support. Hence, we believe that any such inflation scare is likely to prove a short term spike rather than the start of a new trend, just as it was in 2008, thereby creating a major buying opportunity in the Asian stocks sensitive to

interest rates risk, be it Indian or Indonesian banks or Thai or Philippines property developers. Our view is that rising inflation is not something bad because it does indicate demand and growth. So long as inflation does not rise to a level that will affect demand significantly, investors should not be too worried about it.

**AAM: Do you think the small/mid cap sector can catch up with the large cap sector this year? What are the reasons?**

Obviously, it is not easy to find value stocks among the small/mid cap as most have run up. There are stocks out there which we believe are still undervalued simply because the stocks are under-researched or analysts are behind the curve in their earnings upgrades especially in the palm oil sector. In addition, some IPOs that came in the market were quite attractive and valuations are not demanding. To answer your question, some of the small/mid cap will catch up if there are positive earnings surprises. Thus, good stock picking skill is important to identify the emerging stars this year.

**AAM: Typically, how do you do your stock selection? What kind of pre-screening filters do you address (ie. dividend yield, pe, csh to book) and how do you further refine them to suit your investment style?**

Pheim's stock selection process is summarised by the diagram below:



Stocks that meet our criteria are mainly companies with relatively low P/E ratio, low or no gearing, growing earnings, led by good management with an established track record, and operating in a growing industry. Each stock will be evaluated on these merits before it can be recommended to the investment committee for approval.

**AAM: How many stocks typically are in your portfolio, and what kind of turnover is in your portfolio? When do you cut losses and when do you take profits for example?**

The company typically invests in big, medium and small caps in various industries. An average sized fund typically holds 60 to 80 stocks at any particular time and the average holding period for a stock is between 9 to 18 months. Pheim is a bottom-up stock picker. Thus, the fund would take profit when a stock is trading at a premium to its fair value. It would consider cutting loss when the fundamental has changed, for example, a sudden change in management team or deterioration of industry outlook.

**AAM: As a value investor, what are you looking for? How is this different from some of your competitors?**

At Pheim, our investment team continuously screen for stocks that meet our investment criteria. Pheim has no hesitation to invest in a stock even if it is not in the benchmark index. We generally invest when we deem the market is under-valued and increase cash when we deem the market to be over-valued. ■