

PHEIM ASSET MANAGEMENT:

Small cap stocks can deliver

Once labeled as the King of the Small Cap in Southeast Asia in Malaysia by Bloomberg in 2006, Dr Tan Chong Koay, the chief executive of boutique house Pheim Asset Management has weathered several crises in his 32-year investment management career. This latest crisis may well be the worst on record but Dr Tan seems unfazed. "I think we are seeing good opportunities in the small cap space as markets have been oversold and even good companies have been sold down indiscriminately since last year," says Dr Tan.

Comparing the large cap and small cap sectors and given the current aversion to risk, it would seem logical to expect that the big cap companies would be the first to benefit in a market rebound.

As ever, Dr Tan is sticking to his principles of stock selection: companies with low gearing, strong management and have been in the same business for at least a decade and are in a growth sector. "This is the same approach that we adopted during the Asian financial crisis a decade ago," he explains. On top of the value approach, what makes Dr Tan different from the crowd is his long-held belief not to be fully invested at all times.

Interestingly, some of the portfolios that he manages are now 30% in cash. Indeed, at the height of the market in late 2007, cash levels for some portfolios were extremely high, as much as 50%. "We just believe that there is no real need to be fully invested at all times in order to outperform the market," he explains. Rather, he says he seeks to trim out equity expo-



Tan Chong Koay

sure near market peaks in order to preserve capital, and to be fully invested near market troughs. Some might call this approach market timing. "That's why we sometimes face difficulties when we say this, especially with the investment consulting community," he adds.

Dr Tan, who won *Asia Asset Management's* award for CEO of the Year for Malaysia for 2008, has seen his firm wide assets under management take only a small hit from the crisis. At year end 2008, the total AUM of Pheim Group was US\$1 billion, not far from the US\$1.2 billion reported at year end 2007. Pheim is licensed in both Malaysia and Singapore, starting out in January 1994 in Kuala Lumpur and a year later in Singapore. In 2002, Pheim Unit Trusts was launched in Malaysia.

In the small cap space, where are some of the opportunities that he finds appealing? "Plantations, for one," explains Dr Tan, specifically in the oil palm industry. Some of the producers are still able to make money at current prices (about RM 1,800 a tonne of palm oil). Another potential sector is coal producers, especially in Indonesia.

Does the current crisis play into the hands of the long only managers or long/short firms? "I think a good long only manager can make money irrespective of the (market) conditions so it is important to get the trends right."

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