

Personal

MANAGING YOUR TIME AND MONEY

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MECGF ranks first

The Malaysian Emerging Companies Growth Fund Ltd (MECGF), an unlisted offshore Malaysian country fund, was recently ranked for the first time by Micropal. It came out first among offshore Malaysian country funds in both the one-year (1996) and two-year (1995-1996) categories. This is the first time a Malaysian-incorporated asset management company has been ranked first by Micropal. The fund is managed by Pheim Asset Management Sdn Bhd, headed by chief executive Dr Tan Chong Koay.

According to Tan, 1996 was the MECGF's best performing year in its 2 1/2-year life. The fund's net asset value increased by 44.36 per cent, far ahead of the KLSE Composite Index's gains of 25.02 per cent (based on US\$), an outperformance of 19.34 per cent.

Personal editor Lim Yin Foong spoke to Tan on Pheim and the MECGF, and on his investment philosophy and stock-market outlook.

Pheim's Malaysian Emerging Companies Growth Fund (MECGF) was recently ranked the top-performing offshore Malaysian country fund by Micropal. To what do you attribute this performance? Stock selection is important, but market timing boosts performance. One should not be fully invested at all times in the local market which is very volatile and not as developed as in the US. My philosophy is to buy near the bottom and cash out when there is over-valuation.

I also make it a point to buy stocks when they are cheap. This strategy paid off when, in 1995, Second Board stocks were cheap across the board, and we invested up to 25 per cent of the MECGF's value in Second Board stocks. As their prices shot up in 1996, I trimmed them down to the current 2 per cent level.

Many people think the fund did well because of our investments in the Second Board, but that is not entirely true. It was very much boosted by our holdings in the Second Board, but some of our investments on the Main Board have also doubled. Several Main Board counters also did very well, like Arab-Malaysian Finance Bhd, Arab-Malaysian Merchant Bank, Omega, Southern Bank, and Pan Pacific Asia.

Pheim's focus exclusively on fund management is also a positive factor; the custody and administration work of the MECGF is done by our custodian (HSBC Trustee [Singapore] Ltd). All of the fund's investors are institutional and foreign-based.

Tell us a bit about the MECGF and its investment objectives.

The fund was established to primarily invest in smaller- to medium-sized companies with a market capitalisation of not more than US\$200 million. Its basic investment objective is to attain long-term capital appreciation of its assets through investing in securities in Malaysia, and of their affiliates operating outside the country (limited to a maximum of 10 per cent of the fund's net asset value). At Feb 28, the fund size stood at approximately US\$86 million.

Besides the MECGF, how many funds does Pheim manage? How much money are you currently managing?

The company has six other accounts invested in the Asean region. In total, we manage about RM330 million as at Feb 28, out of which RM60 million is invested in the region.

What has been the performance of these funds in the past year?

Ranking of offshore Malaysia country funds - for one year (1996) and two years (1995 - 1996)

Barclays ASF Malaysia	26.25	8	31.63	4	Barclays Asian Selection Fund
CIBC-CEI Malaysia	31.19	5	29.59	8	CEI
Fidelity Fds Malaysia	24.09	12	27.11	7	Fidelity Funds (Lux)
Generis Malaysia Mfn	41.63	2	40.14	2	Generis
Hanward/Fidelity Malaysia	24.17	11	27.03	6	Hanward/Fidelity
HSBC GIF Malaysia Equity	27.67	6	32.17	3	HSBC Asset Mgmt - GIF
Impac AP Malaysia	14.86	13	n/a	-	Impac Asset Mgmt Ltd
JF Malaysia	33.21	4	30.80	5	JF
Malaysia Equity	25.54	9	7.62	12	Deiwa Int Cap Mgmt
Malaysia Emerging Cos Gth	44.36	1	55.41	1	Pheim Asset Management
MBI Malaysian	9.15	14	3.75	13	MBI Struct Trust Managers Ltd
Nikko GRIP Malaysia Fond	25.48	10	11.42	11	Nikko Bank Luxembourg
The Malaysia Capital Fund	27.16	7	26.83	9	Mees Plessors Capital Mgmt
Thorsdon New River Malaysia	34.36	3	24.28	10	Thorsdon (New River)
Mean/Count	27.76	14	26.44	13	

Lumpsum, % Change, initial RM100, bid-bid, Malaysian Ringgit, Gross Income

Besides the MECGF, our other funds — mainly for institutional and high net-worth clients — have outperformed the Dow Jones Asia Pacific Index. Outperformance (since inception of various accounts) range from 1.84 per cent to 41.34 per cent as at Feb 28, 1997.

Are there any plans to launch a fund locally, for individual investors? We have plans to launch a closed-end fund, which will be listed on the KLSE and offered to Malaysian individuals for public subscription. The Securities Commission's guidelines on closed-end funds are very generous and flexible, and thus very conducive to fund management.

The advantages of a closed-end fund is that it would not be affected by redemptions, and as such, we can plan our investment for long-term benefits. We believe this fund would be a suitable investment vehicle for long-term investors, at a reasonable cost.

As most people are aware, closed-end funds tend to be quoted at a discount to their net asset value. To overcome this problem, we shall propose, subject to shareholders approval, to liquidate the fund and distribute the proceeds back to shareholders at the end of the fifth year. This will enable shareholders to get the market value of their investment, after costs.

Investment policy

What is your investment philosophy?

We strongly believe that one should not be fully invested at all times. Stock selection is important, but to outperform, managers need to invest and sell at the right time. We strongly believe in buying when markets look cheap and selling during extended rallies. We believe that to outperform in the long run, fund managers must be prepared to underperform temporarily.

I strongly believe that smaller- and medium-capitalization compa-

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Managing Malaysian balanced funds



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net@value

Some web sites that offer travel tips



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TRAVEL

An unforgettable trip to Siam Reap by boat

InView



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Some symptoms of stress are irritability, listlessness, rapid heartbeat and tensed muscles. Left untreated, stress could lead to chronic burnout. We have some tips to help keep stress levels low. Also, five things to ask when buying travel insurance.

Be wary of high stock price

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nies in general will outperform larger-capitalization companies.

What is your investment approach? Are you "top down" or "bottom up"?

We concentrate on stock selection, using a "bottom up" strategy but sometimes use a "top down" strategy, depending on our reading of the market. We prefer companies with these qualities: high earnings growth potential; attractive profit margins; reasonable valuations; strong balance sheets; market leaders in growing industries; and significant competitive advantages.

What is the current asset allocation for your various funds, and why?

As at the end of February this year, our funds were largely 60 per cent invested, with the remaining 40 per cent in cash holdings, in US currency in fixed deposits. This is because we feel that the market is not cheap, and it is increasingly difficult to find good value.

With 40 per cent in cash holdings, we are, however, in a good position to pick up cheap stocks; the recent sharp correction has provided excellent opportunities to accumulate fundamentally strong

stocks at reasonable prices.

Unlike conventional fund managers, you seem to be heavy on Second Board companies. How do you approach investments on the Second Board? How much are you currently invested in the Second Board?

We buy stocks not so much because they are Second Board or Main Board stocks, but because they are cheap, taking into consideration their prospects, management and balance sheet strength. We invested significantly in the Second Board in late 1994 and 1995, when they were cheap — many of them were selling at five to seven times price-earnings (PE) below the market PE.

Now, they are selling at record highs and we have only 2 per cent in Second Board stocks.

KL stock-market outlook

Which sector/sectors do you

favour for the next six months, and why?

Our portfolios will continue to concentrate on the high-growth sectors which may be found in construction, manufacturing, services and niche sectors.

Which sectors are "out" for you?

No one particular sector, but one should be careful about ever paying a too-high price for any stock. The greater the uncertainty of future earnings, the lower PE one should pay. The problem is sometimes people in a very optimistic mood tend to pay too high for a growth stock and, as such, high expectations are built into the stock price, leaving little room for negative surprise.

What is your outlook for the KLSE for the next six months?

I always believe that if the market PE is too high — as it has been before end-February — one should always be very cautious. Having said that, however, the recent

sharp correction has provided excellent buying opportunities.

If the market corrects to below 16 times PE, many stocks, especially those with good track record, relatively low gearing and good growth potential, would become fundamentally cheap again, in view of the still-intact long-term economic growth of the

Fund management profile

Phelm Asset Management Sdn Bhd was set up in January 1994 by its chief executive Dr Tan Chong Koay, with several founding shareholders including merchant banker Datuk Malek Merican and family.

The two fund managers in the company are Tan and director of investment Lim Chi Teong, who are assisted by an investment team.

Tan has 21 years of fund management experience: He started at Chung Khai Bank Ltd and then moved on to South East Asia Development Corporation, Arab-Malaysian Merchant Bank where he set up and expanded its investment department; DG Bank-GZB (Asia); and John Govett (Asia) Ltd. While with John Govett, he managed the US\$100 million Malaysian Emerging Companies Fund, which was ranked first in Micropal's ranking of one-year investment trusts in the Far East excluding Japan (single market sector).

In 1987, actuarial firm William Mercer Zainal Fraser rated Tan the top manager for retirement and pension funds in Malaysia, when he registered a return of 35 per cent for the year.

Lim has 12 years of fund management experience, having worked with Malaysian International Merchant Bankers Bhd, First Star Financial Corporation Ltd, Arab-Malaysian Merchant Bank Bhd, and DBS Asset Management Ltd.

In 1995, Phelm set up a Singapore office which currently manages two regional funds: the US\$16 million Asean Emerging Companies Growth Fund and the US\$20 million Vittoria Fund. Phelm specializes in small- and medium-sized companies in the Southeast Asian market. Tan and his team emphasize on company visits, and also use research data from stockbroking houses.

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country. Those who take a medium-to-long-term view should be able to make reasonable returns.

high growth rates.

Regional outlook

Which market in the region do you favour right now, and why?

We favour the Philippines and Thailand right now. The Philippines has the highest earnings per share growth amongst the Asean countries. Many growth stocks are selling at PEs below 12, especially the medium- and smaller-sized companies. Buying the Philippines is like buying a growth stock whereas buying Thailand is like buying a cyclical stock. If you pick the right stocks, you should make good money. ■

MECG Fund's monthly performance since inception against the KLSE

