

Pheim spreads its wings

Strong performance and official approvals pave the way to tap retail money

BY BEN PAUL

Dr Tan Chong Koay — founder and chief executive of Pheim Asset Management group — has done well out of Asia's booms and busts over the last decade. With a combination of remarkably astute stock picking and almost prescient market timing, the 52-year-old fund manager has consistently outperformed his benchmarks and routinely topped the fund performance league tables.

But it is Tan's aggressive contrarian moves at key turning points in the markets, rather than his strong performance record, that have made him famous. And, he doesn't shrink from the attention. "We had three big breaks that really gave us our outperformance," he says, in a cramped meeting room at Pheim's Singapore office.

The first and possibly the most celebrated of these was the boom in stocks listed on Malaysia's Second Board in the mid-1990s. When Pheim first started business in 1994 in Malaysia, a powerful bull market that propelled some of the most prominent counters on the Kuala Lumpur Stock Exchange to record highs was coming to a close. In fact, the very day that Pheim opened its doors for the first time — Jan 4, 1994 — the Kuala Lumpur Emas index, which consists of all Main Board shares, hit an all-time record high of 394.42.

Against that backdrop, Tan's search for index-beating investments led him to Malaysia's relatively undiscovered Second Board where he found many companies that met his criteria of "strong cash flows, low gearing, focused management and businesses that can grow" on offer at bargain prices. "We mopped up a whole bunch of them," says Tan, almost shouting with excitement.

By the time he was done, about a quarter of Pheim's portfolio consisted of these Second Boarders. That left him in an ideal position to ride the Second Board mania that followed in 1995 and 1996 and cash out with handsome gains. And, the episode resulted in Tan being dubbed "King of the Second Board" by the media — a moniker that has stuck until today.

Pheim's next big break came at the height of the 1998 Asian financial crisis, says Tan. The fallout that sent currencies reeling and stock markets plunging presented the company with a golden opportunity to pick up shares in otherwise healthy and viable companies at exceptionally low prices.

And when prices were too high, he exited as he did with tech stocks before they crashed two years ago.

Unlike some fund managers, Pheim does not maintain a fully invested position at all times. Instead, it aims to be fully invested near the bottom of a market cycle and trims its position near what it anticipates to be market peaks. According to Tan, some 70 to 80 per cent of Pheim's net purchases in 1998 took place between July and October — just as Asia's markets were hitting bottom.

The result was gains of 10 times and more on some of its purchases. "PT Tempo Scan, which we bought for 414 rupiah, traded at over 6,000 rupiah last week," says Tan. "Dialog is now traded at over RM6 [\$1 approx RM2.09] in Malaysia, but it's in our book at 59 sen."

The third break that's helped Pheim build its long-term performance record is still unfolding. "In 2001, we decided that some stocks were so cheap and we increased our exposure," said Tan. With the strong rally that Asia's markets have staged, that move has



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turned out to be a winner. "If you look at WCT Engineering, the warrants have gone up more than 900 per cent," he boasts. "And, in Singapore, we took a big stake in Hyflux. That was really a star performer."

With consensus growing that the US economy is on a recovery track, Tan thinks that Asia's markets could keep climbing for the rest of the year. "After so many years of problems, companies that have survived, even with very little increase in GDP, are showing strong earnings growth," he notes. At Pheim, that optimism is reflected by the extent to which the funds under its management are invested in the market. "We would like to be nearly fully invested, say 80 to 90 per cent," says Tan.

Widening its client base

A sustained rally in Asia — if it does materialise — would be a big break for Pheim in another sense. It would help the company make the most of the broader range of investors it's now allowed to tap. Last week, the company announced that it had been granted a full investment adviser (IA) licence by the Monetary Authority of Singapore (MAS), which allows it to solicit funds from retail investors.

When Pheim first opened its Singapore office in early 1995, its small size and limited number of "sophisticated" clients enabled it to operate under exemptions to MAS rules. But as its business expanded and the rules themselves changed, the company came to be licensed as a boutique fund manager, which restricted it to certain types of clients. The full IA licence that it now has does not impose any restrictions on the types of clients it can serve and enables it to offer unit trusts.

However, Tan is coy about revealing specific plans to break into the retail segment of the fund management business in Singapore and is only willing to say that setting up a unit trust in Singapore is on the cards "some time down the road". For now, he empha-

sises that the broadened licence will give the company more flexibility in dealing with its existing institutional and high net worth clients. In addition, the implicit official recognition and endorsement that a full IA licence represents will be useful in attracting new clients.

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"The timing was very good," says Tan, who has just returned from Zurich where he did presentations for several senior bankers and fund managers. "If people think that Asia will outperform over the next few years, they will want to link up with a good fund manager and having a full licence makes a difference." Pheim currently has some US\$405 million under management. Its Singapore office manages about US\$160 million of this while its Malaysian arm handles the remaining US\$245 million.

Keeping risks low

Still, receiving new funds — especially from individual investors — in a booming market brings its own set of challenges for Pheim. "When people are optimistic, they will eventually become over-optimistic," says Tan. "This may be the year when people become over-optimistic about Asia." Receiving fresh money near the top of the cycle will make it tough for Pheim to earn the "outperformance fee" on the institutional funds that it man-

ages and could leave its growing pool of individual investors disgruntled if the unit trust they have invested money in declines in value, he says.

That's perhaps why the three Malaysian unit trusts that Pheim launched in January didn't include a "growth" or pure equity fund. The Pheim Emerging Companies Balanced Fund and Dana Makmur Pheim are allowed to invest a maximum of 60 per cent of their funds in equities while the Pheim Income Fund invests at least 80 per cent of its assets in fixed income securities. "The reason is because unit trusts are for retail investors and retail investors shouldn't take that much risk," says Tan. "At some point, the market will be very high and if they buy your fund, they will suffer a lot."

Not that he thinks that investors in Pheim's unit trusts will necessarily lose out in terms of performance because of the funds' conservative structure. "I believe that if I can pick the stocks well, I will perform as well as a growth fund but without taking as much risk," he says.

That's a bold claim but Tan does have a very strong record of performance backing it. For starters, Pheim's Malaysian and Singapore units have outperformed their benchmarks every year since opening for business in 1994 and 1995, respectively. And, their margin of outperformance has been especially wide in the volatile post-financial crisis years when Tan's stock picking and market timing skills really made a difference. In addition, the two Malaysian unit trust funds — Alliance First Fund and Alliance Vision Fund — externally managed by Pheim are ranked at the top of their respective fund classes by Lipper and Standard & Poor (S&P)'s. The Alliance First Fund was recently accorded a five-star rating by S&P, putting it in the top 10 per cent of its class in terms of performance and consistency.

So, is this sterling record a good indication of its future performance? Tan admits that it gets hard to make "killer" decisions if stock valuations don't get pushed to extremely high or low levels, as they were a number of times in recent years. For example, deciding to clear out of technology stocks in early 2000 when their prices shot through the roof was an easy call, says Tan. A story that he likes telling is how he picked up two million shares in Unisem when it was first listed at RM5.10 apiece and unloaded the lot when it hit RM40. "[Tech] companies aren't worth that much, my friend," he smiles. Unisem is currently trading at RM12.40.

On the other hand, he rates the Sept 11 sell-off as one of the more difficult situations he has been confronted with. He was convinced that the economy was bottoming and stock valuations were not "anywhere close to extreme levels". Yet, the general panic and increased geopolitical uncertainty had to be taken into account.

With about 80 per cent of its funds invested in the market, Pheim began taking as much profit as it could amidst the sell-off. But when the markets began stabilising, it went back in and bought back the shares it had sold. "It would have been more ideal if we didn't sell and just bought all the way up to 100 per cent," said Tan. But he does not regret reacting to what he thought could have been a major problem.

"If you want to be a good performer, you have to be prepared to temporarily underperform sometimes," says Tan philosophically.