



Pheim's star rises

Decade-old boutique fund house becomes key feature of Singapore's fund management landscape

BY BEN PAUL I

Dr Tan Chong Koay is instantly recognised at the L'Aigle d'Or restaurant. The founder and chief executive of the Pheim Asset Management group meets business associates and clients at the posh eatery located directly opposite his Duxton Road offices often enough that its staff know exactly what he wants even before he asks for it.

But Tan's reputation as a savvy investor has spread much farther afield than the word on his culinary preferences. In the nine years that it has been in business, Pheim has built up a formidable performance record on the back of Tan's astute stock-picking skills and keen sense of market timing. And, with the pummelling regional stock markets have taken since the 1997 financial crisis, many big-name, global investment houses have scaled back their presence in Southeast Asia, leaving home-grown boutiques like Pheim with a much higher profile. For Tan, this represents a window of opportunity to snare more clients and grab a larger chunk of the fund management market. "I have not even started yet," he says confidently. "If you are talking about Asean funds, we are undoubtedly one of the best for the last five years. We will start to make it known to the public, and I believe people will be interested."

For the moment, what has caught the attention of casual observers is Tan's rise as something of a mover and shaker in the local stock market. Over the last couple of years, his name and that of his firm have repeatedly cropped up as big subscribers in several initial public offerings, at times walking away with as much as 10 per cent of the shares on offer. That's made Pheim's offices and Tan's regular table at the L'Aigle d'Or important ports of call for IPO promoters when it comes to pricing an issue. "If we are not interested because the price is too high, chances are that other people won't be interested either," says Tan. "We have a good sense [of pricing] because we see almost every company."

The influence that Tan apparently wields belies the size of the funds that he oversees. Pheim manages almost US\$400 million in total out of its Singapore and Kuala Lumpur offices. While that's no small sum, it doesn't compare to the billions that the largest institutions have to invest. But what sets Tan apart is his penchant for investing in small but promising companies, especially when the price is right. That's made him a godsend to recent public listing aspirants — most of which have been relatively small companies — at a time when big institutional investors were paying little attention. "In Singapore, if you want to list a small cap, chances are you will come and see us first because of our reputation," says Tan.

Tan's interest in small-cap companies is not newfound. "All my life I've liked small- and medium-sized companies," says the 53-year-old fund manager. "It's more difficult in



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that you have to do a lot more work. But I always get excited by a company that is small and growing and which is going to do as well as the giants." In fact, Tan has carved out an impressive track record in this field. In the early 1990s, when he was director of portfolio investment at John Govett, two small-cap funds that he supervised — the Malaysian Emerging Companies fund and the Singapore Sesdaq fund — topped their performance league tables. And, when he struck out on his own in 1994 and set up Pheim, his heavy exposure to Malaysia's relatively undiscovered Second Board paid off handsomely when they roared to life the following year. Today, Tan says that about half his funds are invested in small-cap stocks and his best performers each year tend to come from that category.

Small-cap saviour?

With some of the IPOs in Singapore launched during periods of widespread investor apathy in the last few years, Pheim often had little competition for the shares and swung for the fences on the issues it thought would be winners. One of the companies it invested in heavily was water treatment firm Hyflux, which launched its IPO in early 2001. "They originally wanted to list at a P/E [price-earnings] of 12 times," says Tan. "But after some bargaining they were quite realistic and listed at eight times, which I thought was very reasonable even though it was slightly higher than some of the IPOs at the time."

Convinced that the business had good growth potential and that the company satisfied his investment criteria of "strong cash

flows, low gearing and focused management", Tan bought as much of its stock as he could. "We took just below 5.0 per cent [of the company at IPO], then after it was listed, we went and increased our stake to over 7.0 per cent by buying in the market," he says. "We had a strong belief that it was a company that people would like." He was right. From its IPO price of S\$0.32, Hyflux topped out at S\$0.76 by the end of 2001 and contributed strongly to Pheim's performance that year. It has climbed even further since and is now trading at S\$1.28.

Similarly, Tan picked up large chunks of several other IPOs that he thought were attractive. Among them were customised software company Axis Systems, after-sales service company Accord Customer Care Solutions, digital video surveillance firm Multivision and computer network solutions provider DMX Technologies.

Pheim's fascination with the many small-cap stocks listed on the Singapore Exchange must be heartening for some commentators who have publicly mused about the possibility that professional investors are giving Singapore a miss because of the apparent lack of heavyweight listings on the exchange. Despite attracting several foreign listings over the last few years — mainly from Hong Kong and China — few of them have been the sort of companies that would attract the interest of big institutional investors, they say. "If you are a small company, you must also approach a fund manager who is small," says Tan. "If I am a big fund manager, I wouldn't be interested in a small company because it represents such a small percentage of my fund."

But Tan doesn't see himself as some kind of saviour of Singapore's unloved small-cap stocks. Far from it. For starters, not all small-cap stocks in Singapore and around Asia meet his stringent investment criteria, and he has given many recent IPOs a miss. Moreover, when he does invest in a company — big or small — he reckons that his typical holding period is somewhere between nine months and two years. With Asia's stock markets being so volatile over the last few years, the opportunity to take profit usually comes up during that timeframe, he says.

To purists who believe in simply buying good stocks and holding them for the long-term, that might sound like nothing short of heresy. But Tan attributes a good part of Pheim's strong performance record to his contrarian moves ahead of key turning points in the market. "The ability to sense risk is not just a case of looking at numbers," says the 27-year fund management veteran. "There isn't a mathematical formula or tool.

It comes from your experience."

Among the big bets that paid off were his heavy accumulation of shares between July and October 1998 just as Asian markets bottomed and his decision to clear out of tech stocks by March 2000 just before Nasdaq peaked. "As long as they are tech stocks, if you didn't get out in the first quarter of 2000, you would really have had it," he says. "Whether it was a small cap or big cap would have made no difference. Our success depends on our ability to read the major trends."

Rising prominence

With the improvement in market sentiment over the last few weeks, Tan is already lamenting that it is now much harder to pick up bargain-priced IPOs in decent sizes. "As you can see, they are asking for higher P/Es," he says. "At one time, you couldn't even do it at five and six times, now they are asking for eight times. It's because the market is better now." But even if that makes Tan less willing to put money on the table, his rising profile in the market — not to mention his strong performance record — is fast making him a prominent feature of Singapore's money management landscape.

However, as an independent boutique house substantially owned and driven by one man, Pheim's success wasn't achieved easily. During its early days, the firm was carefully scrutinised by its clients, comprising mostly institutions, says Tan. And some of them still regularly quiz him about his stock selection process and whether he has enough suitably qualified analysts working for him. For his part, Tan bristles at the suggestion that boutique fund management houses like Pheim are riskier than big institutions. While some of them fail within the first five years, the ones that last are often more effective money managers than big institutions, he says. And while big institutions have a battery of fund managers and analysts to look after your money, with staff turnover and movement within the organisation, you are never really sure who will be managing your funds a couple of years down the road, he adds.

In contrast, boutique fund houses with a strong and consistent investment philosophy can offer more certainty even if they are less institutionalised. "The best investment processes are those in which decisions are made by small flexible groups operating to a strong set of beliefs and values," notes consultant Watson Wyatt in an article. In many respects, that is the kind of outfit that Pheim is gradually evolving into. After almost a decade of steady growth, the firm has four analysts at its Singapore office and another three at its Kuala Lumpur office. But while Tan increasingly relies on them to make investment decisions, he still sets the firm's overall investment philosophy and ensures that everyone follows it strictly. And he doesn't see himself becoming any less hands-on in the years ahead. "Why would I go anywhere?" he asks. "This is my dream."