Prudence pays off for Pheim

Fund management company survives market peaks and troughs with equal aplomb

| BY LIM AI LEEN |

"Timing is key," says Dr Tan Chong Koay, founder and chief executive of the Pheim Asset Management group which is based in Malaysia and Singapore.

He was explaining how Pheim (pronounced "firm") funds somehow manage to perform better when markets are experiencing negative returns. This was according to findings by Watson Wyatt, international investment consultants, who were hired by Pheim to carry out an independent valuation on the performance of the fund management company.

According to Tan, the ability to assess the market's turning point is crucial. This is because Pheim's investment philosophy is that it does not believe in being fully invested at all times. "Rather, we seek to trim our equity exposure near market peaks in order to preserve capital. Conversely, we try to be fully invested near market troughs," says Tan.

Tan provides an example: "We made some investments in stocks listed on the Second Board of the Kuala Lumpur Stock Exchange in 1995. We exited substantially [up to 98 per cent] by December 1996, just three months before the Second Board 'crashed' in March 1997. We made a profit of RM38 million from RM25 million worth of investments."

And how does one determine when the market will peak or trough?

"We have our own methodology" is all Tan will say. He stresses, however, that there is no magic formula — it's a combination of research and the monitoring of market trends.

"You have to be anticipatory. By the time you realise that things are starting to look too rosy, it may be too late to get out," he adds.

Honesty and wisdom are also important. He says: "You must be prudent. When the market is high, you must be able to say 'I've made enough' and call it a day. When the market is low, you must be in for the long term and put the money in."

Tan's investment philosophy, it appears, has paid off. Some of his funds are among the consistently best performing funds in the region for the last decade.

As of the end of last December, the Pheim group managed US$396 million in funds. Institutional clients made up 95 per cent of Pheim's customers, which explains why most of the funds are invested in higher risk-higher return assets like equity. For retail investors in Malaysia, Pheim Unit Trusts Bhd only offers a balanced fund, a syariah fund and a fixed income fund. It also acts as external fund manager for Alliance Unit Trust Bhd's balanced fund, Alliance First Fund.

"The retailer should not take too much risk. So you have to be more careful with public funds," says Tan. He observes that for retail investors, it is a question of whether they can afford to take the risk. More so, he stresses, if the investor is not knowledgeable or advised properly, and is aggressive at the wrong time. "Never borrow money to buy shares," he cautions.

Nevertheless, he believes that if the investment is approached in the right manner, funds can act as good saving schemes. "When the market is hot, the chances of losing are high. So it is better to constantly put in money when the time is right, and aim for a return that will beat the interest rate. A good fund manager should take an average risk and get an above-average return," he advises.

And if the market timing is right, how does one pick which stocks to buy?

"If you are a long-term player, you have to use your investment criteria. We like companies that have low gearing, strong cash flow, high margins, focused management, growth prospects and a low price-earnings ratio," says Tan.

So what products does Pheim offer the institutionals and high net-worth clients? Tan is particularly proud of Pheim's Asean Emerging Companies Growth Fund, offered out of the Singapore office. Launched in 1995, this pure equity fund invests in stocks traded on the stock exchanges of Malaysia, Singapore, Thailand, Indonesia and the Philippines.

The fund registered a return of 17.7 per cent for 2002 — its best performance so far. This result also gave it first ranking among offshore funds in the Asian equity category by Standard and Poor's Fund Services.

The main reason for this growth, says Tan, was the performance of the Indonesian and Thai indices last year. He points to the statistics for 2002 in US dollar terms: "The Indonesian stock index grew by 27.3 per cent whilst Thailand's grew by 19.8 per cent. And the 'rich' North Asian countries like Taiwan and China had the worst-performing indices, registering a fall of 24.6 per cent and 19.6 per cent, respectively."

So what will the outlook be like for the rest of the year?

"I am very bullish on Asean," Tan announces. And with a handful of No 1 fund performance rankings spanning across a five-year period under his belt, he may be right.

MOHD IZWAN MOHD NAZAM/THE EDGE

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