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AWARD-WINNING FUNDS SUPPLEMENT 2004

The Search For Intelligent Life

HOW TO FIND THE RIGHT FUNDS, THE
RIGHT COMBINATIONS AND, IF NECESSARY,
THE RIGHT ADVISER FOR YOUR PORTFOLIO

INSIDE YOUR MUST-HAVE UNIT TRUST GUIDE!
PROFILES OF MORE THAN 50 S&P AND LIPPER AWARD-WINNING FUNDS

FEATURING...

- ABERDEEN ASSET MANAGEMENT • APS ASSET MANAGEMENT • CITIGROUP ASSET MANAGEMENT •
- DBS ASSET MANAGEMENT • FIDELITY INVESTMENTS • FIRST STATE INVESTMENTS • HENDERSON GLOBAL INVESTORS •
- HSBC ASSET MANAGEMENT • TEMPLETON ASSET MANAGEMENT • OCBC ASSET MANAGEMENT • **PHEIM ASSET MANAGEMENT (ASIA)** •
- PHILLIP CAPITAL MANAGEMENT • SCHRODER INVESTMENT MANAGEMENT • UOB ASSET MANAGEMENT •

PLUS! ARE YOU HOLDING TOO MUCH CASH? HOW TO CHOOSE THE BEST INVESTMENTS

PHEIM ASSET MANAGEMENT



Dr Tan Chong Koay,
Chief Investment Strategist,
Pheim Asset Management (Asia)

“Past performance is not a guarantee for future performance.” Have you ever noticed a caveat like that printed in small type on the fact sheets of the unit trusts that you have invested in, or are thinking of investing in? Or perhaps it ran something like this: “Past performance is not necessarily indicative of future performance.”

Indeed, many investors tend to get caught up in the hype generated by investment fund awards, and sometimes they use this “award-winning fund” label as justification for their investment choice. Some even opt for and prefer long-established fund managers with billions of dollars under management just because such fund management companies have “been around”.

But how many realise that they may be putting their retirement funds at risk because of such blind faith? After all, how many funds can consistently rank among the top in terms of returns for shareholders? Most are flavours of the year and drop out of the top ranking league the following year.

BACK TO BASICS

Before even getting sucked into the hype, investors must come to grips with the myth that unit trusts are always safe bets. “First an investor should find a fund that matches their investment objective, time horizon and risk tolerance. Be wary of the fees and charges imposed by the fund manager and look out for funds with established track records,” says Dr Tan Chong Koay, founder and chief investment strategist of Pheim Asset Management (Asia) Pte Ltd (or Pheim Singapore) and Pheim Asset Management Sdn Bhd (also known as Pheim Malaysia).

What are some of the risks associated with unit trust investments that one should be aware of? These would include market risk, credit risk and inflation risk. Market risks refer to

The Long Walk of *Pheim*

By Timmy Tan

Looking for superior returns for your unit trust investments? Sorely disappointed with the performance of the big boys or renowned international houses? Then look no further than home-grown veteran fund managers with consistent track records.

fluctuations in the performance of stocks due to changes in the economic, political and sociological environment. Credit risks would apply more to fixed-income instruments like bonds, term deposits and debentures because there is always the possibility that the issuer of the instrument might default by failing to repay the interest or principal amount in a timely manner. And should the inflation rate be consistently higher than the rate of return on the investment then the investor is suffering from inflation risk.

Then there is the fund manager risk. The selection of securities that make up the assets of a unit trust fund is a subjective process of the fund manager. Hence securities selected by the manager may perform better or even worse than anticipated. Poor management of a fund may cause the capital invested by a unit holder to be at risk.

THE ABSOLUTE TRUTH BEHIND GLAMORISED AWARDS

What does it mean when an investment fund has captured the spotlight of fund performance ratings? Does this undeniably guarantee superior performance into the future? "Not necessarily," Dr Tan carefully explains. "In order to conduct a complete assessment of a fund, one must not mistakenly look at any particular award in isolation. What is important is the fund's ability to consistently extend its outstanding performance into the future. In addition, it is also imperative that a thorough analysis of the fund manager be conducted. This is to say one must read into the manager's philosophy and process."

Through observation, it is a fairly popular practice for funds to be outsourced to external fund managers for management. Investors must then pay particular attention to the key investment manager behind the funds. Is the manager who has been winning the awards over the years the same manager who is going to be managing your fund in the future?

More often than not, key executives managing the funds leave their position or, more blatantly, the whole management company of the fund is replaced all together. While managers have changed, this fact may still appear less apparent to many investors out there.

HOW DOES PHEIM FARE?

Weathering the Asian crisis in 1997 and 1998, the infamous technology bubble in early 2000 and the recent sharp correction, Pheim's ASEAN Emerging Companies Growth Fund (PAEC) was able to generate a return of 195.14% versus the FTSE All-World ASEAN USD Index return of 21.74%. That is an outperformance of 173.4 percentage points. Pheim's performance over the years has displayed great consistency. The PAEC was ranked tops in terms of returns and information ratio in the offshore category for four consecutive three-year and five-year terms for the periods ended 2000, 2001, 2002 and 2003 by Standard & Poor's (S&P). As at May 2004, the latest available ranking from S&P, this fund has been rated as number one on an annual basis for the 1-, 2-, and 3-year periods, all the way through to the 9-year period since the fund first

SINGAPORE	
2000	Standard & Poor's (S&P) has ranked the ASEAN Emerging Companies Growth Fund number one in terms of returns and information ratio in the offshore ASEAN category for four consecutive 3-year and 5-year periods ended 2000, 2001, 2002 and 2003.
2001	
2002	
2003	

The fund has been given a five-star ranking by S&P
 * Past performance is not a guarantee for future performance

"A thorough analysis of the fund manager must be conducted. This is to say, one must read into the manager's philosophy and process."

started in January 1995. This is no mean feat as this ranking pitched the PAEC not only against regional but international competitors. No one asset manager has ever ranked number one for so many periods in the history of this category (offshore ASEAN) by Standard & Poor's.

In a similar ranking done by S&P as at May 2004, the Pheim Vittoria Fund, which invests principally in the Far East ex Japan region, has been ranked well within the top quartile for the 1-year, 2-year and 3-year periods all the way up to eight years since the fund started in September 1995. Placed in the offshore Equity Asia Pacific ex Japan category, the fund is able to compete effectively with 190 other regional and international players.

Pheim has been able to sustain a creditable performance since its establishment in the mid-1990s. Watson Wyatt Malaysia has verified that Pheim Malaysia has outperformed the benchmark for all its Malaysian mandated accounts combined every year for 10 consecutive years (1994 to 2003) since inception.

Similarly, Watson Wyatt Singapore has verified that Pheim Singapore has outperformed its respective benchmarks every year for all accounts over eight consecutive years (from 1995 to 2002) since its inception. Pheim Singapore is currently in the midst of the verification process and is looking forward to its result in the coming weeks.

Not to be outdone, Pheim Malaysia has also been able to successfully garner accolades for the funds managed by them. All three unit trusts launched by Pheim in Malaysia last year, namely the Pheim Income Fund, the Pheim Emerging Companies Balanced Fund and the Dana Makmur Pheim, were first-place award winners at both the Standard & Poor's Investment Funds Award Malaysia as well as TheEdge-Lipper Malaysia Unit Trust Funds Awards for the 1-year period ended 2003 in their respective categories.

Barely in its first year of competition, Pheim became the only manager in the one-year category to win three awards. With such accolades, how confident should investors be with this boutique fund manager given that the funds have only won in the short one-year category? Should these funds be ruled out given that they do not have a longer record?

Firstly, Pheim is not a young start-up asset management company. This boutique fund-management outfit commenced operations in Malaysia in 1994 and this was followed by another outfit in Singapore the following year. Dr Tan himself is an investment veteran with more than 28 years of investment experience and, in some senses, is considered a 'guru' having earned himself the nickname 'King of the Second Board'

AWARD-WINNING FUNDS FROM PHEIM

Fund Name	Return	S&P Award 2004
Pheim Emerging Companies Balanced Fund	+31.88% vs KL Emas +24.37%	One year award – Asset Allocation Malaysia Neutral
Pheim Income Fund	+14.60% vs FD rate +4.00%	One year award – Fixed Income MYR
Dana Makmur Pheim	+34.02% vs KLCI +23.19%	One year award – Asset Allocation Islamic

Fund Name	Pheim Income Fund	Pheim Emerging Companies Balanced Fund	Dana Makmur Pheim
Objectives	PIF aims to provide unit holders with a consistent income return in the medium to longer term.	PECBF aims to provide unit holders with steady income and some prospects for capital appreciation in the long term.	DMP aims to provide unit holders with a steady income and some prospects for capital appreciation in the longer term. All investments in this fund will be made in accordance to Syariah principles.
Asset Allocation	- Equities and equity-linked securities: Up to 20% - Fixed-income instruments and liquid assets: At least 80%	- Equities and equity-linked securities: Up to 60% - Fixed-income instruments and liquid assets: At least 40%	- Equities and equity-linked securities: Up to 60% - Fixed-income instruments and liquid assets: At least 40% - Investments are managed in accordance with Syariah principles.
Investor Profile	PIF is suitable for risk-averse investors who are looking for consistent income and lower risks compared to equity investments.	PECBF is suitable for conservative equity investors who are looking for steady income and some prospects for capital appreciation while taking moderate risks.	- DMP is suitable for conservative equity investors who are looking for steady income and some prospects of capital appreciation while taking moderate risks. - DMP is also suitable for investors who prefer investments that are made in accordance with Syariah principles.

in 1998. Bloomberg in Malaysia accorded Dr Tan this title on account of his well-timed investments on Malaysia's secondary bourse in 1995 and 1996. In a phenomenal investment by Pheim that was led by Dr Tan, they held a warrant that went up by more than 51 times.

Additionally, industry observers are keen to point out that the Alliance First Fund which won awards in S&P's three-year award and five-year award categories for asset allocation in Malaysia, and the Alliance Vision Fund which won the three-year award for smaller companies in Malaysia, were both managed by Pheim until as recent as July 2003 before being then taken back for management by Alliance Unit Trust Management Bhd. Credit has been given to a fund manager that has managed the fund for six months.

INVESTMENT FUNDAMENTALS

What is the basis for Pheim's consistent investment performance? Dr Tan reiterates that Pheim has a proven investment philosophy focused on a value approach and their investment team adheres strictly to it. They seek stocks that are undervalued, with the expectation that their share prices will rise at some point to more accurately reflect their true worth.

Their emphasis on acquiring a thorough understanding of the companies prior to investment has enabled them to recognise value where it may not be so apparent to others. They also place great emphasis on compliance and internal controls. For example, proprietary trading is not practised and strict controls on personal trading are enforced.

Since their establishment in 1994, they have not engaged in any legal disputes with any client or third parties. Their first two clients are still with them today and Dr Tan, the chief investment strategist, has never sat on the board of any company that they have invested in for his entire 28-year career. To remain independent, all their institutional shareholders do not sit on the boards of the companies in which Pheim invests.

What are some of the investment criteria set out by Pheim when it analyses companies?

1. Low price-earning ratios;
2. Low gearing;
3. Businesses with strong earnings growth;
4. Decent margins;
5. Strong cash flows; and
6. A focused business model and management.

Active asset allocation should also be a factor contributing to a fund's success, especially in Asia. "We do 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, and to be more fully invested near market troughs. An acute sense of market trends, strategic asset allocation and good stock picks are keys to superior out-performance

WINNERS OF STAR/STANDARD & POOR'S INVESTMENT FUNDS AWARD MALAYSIA 2004

SECTOR AWARD	WINNER	MANAGEMENT GROUP
One Year Award		
Asset Allocation Islamic	Dana Makmur Pheim	Pheim Unit Trusts Bhd
Asset Allocation Malaysia Neutral	Pheim Emerging Companies Balanced Fund	Pheim Unit Trusts Bhd
Equity Malaysia	Hwang-DBS Select Opportunity Fund	Hwang-DBS Unit Trust Bhd
Fixed Income Islamic	Public Islamic Bond Fund	Public Mutual Bhd
Fixed Income MYR	Pheim Income Fund	Pheim Unit Trusts Bhd
Sector-Islamic Syariah	Hwang-DBS Dana Izdihar	Hwang-DBS Unit Trust Bhd
Sector-TMT Malaysia	RHB-Technology Fund	RHB Unit Trust Management Bhd
Smaller Companies Malaysia	OSK-UOB Small Cap Opportunity Unit Trust	OSK-UOB Unit Trust Management Bhd
Three Years Award		
Asset Allocation Malaysia Neutral	Alliance First Fund	Alliance Unit Trust Management Bhd
Equity Malaysia	RHB Malaysia Recovery Fund	RHB Unit Trust
Fixed Income MYR	Public Bond Fund	Public Mutual Bhd
Sector-Islamic Syariah	Public Ittikal Fund	Public Mutual Bhd
Smaller Companies Malaysia	Alliance Vision Fund	Alliance Unit Trust Management Bhd
Five Years Award		
Asset Allocation Malaysia Neutral	Alliance First Fund	Alliance Unit Trust Management Bhd
Equity Malaysia	TA Growth Fund	TA Unit Trust Management Bhd
Fixed Income MYR	Public Bond Fund	Public Mutual Bhd
Sector-Islamic Syariah	Pacific Dana Aman	Pacific Mutual Fund Bhd
Smaller Companies Malaysia	OSK-UOB Small Cap Opportunity Unit Trust	OSK-UOB Small Cap Opportunity Unit Trust

without taking on unduly high risks," says Dr Tan.

Looking ahead, he remains optimistic for his funds given the positive outlook for Asia. While some participants may argue that high oil prices, rising interest rates and China's slowdown could derail growth, the economic numbers we are seeing in the region as well as the US are showing signs of strength. Furthermore, central bankers are working hard to prevent a relapse of their countries' economies, or a severe burst of an economic bubble.

This year, there has also been renewed interest towards investment in the Asian region. While investors generally shunned equity investments in Asia after the financial crisis in 1997, they have now demonstrated a strong interest in investing in the fast-growing region.

Through its unit trust network alone, Pheim has been able to attract fresh funds to invest in companies in the Asia ex-Japan region. Appointed as an external fund manager by a Zurich-based bank as well as a large Japanese securities company, Pheim was able to amass no less than US\$55-million worth of funds in the first half of 2004. This is clearly a reflection of investors' confidence and optimism towards the outlook of the Asia economies. Pheim further anticipates another US\$50 million by the end of this year.



ABOUT PHEIM ASSET MANAGEMENT

Dr Tan Chong Koay founded the Pheim Group in 1994 with its first fund management company in Malaysia. This was subsequently followed by an office in Singapore the following year. Backed by 28 years of direct investment experience, Dr Tan oversees a team of eight investment professionals, four of whom are CFA charter holders. The assets under management of the Pheim Group have grown from a modest US\$97.30m in December 1998 to a sizable US\$533.76m as at May 2004.

The largest account for Pheim Singapore (about US\$98m) has outperformed the benchmark for eight consecutive years ended December 2003 while the largest account for Pheim Malaysia (about US\$121m) has outperformed the benchmark for seven consecutive years ended December 2003.

In March 2002, Pheim Asset Management (Asia) became the first boutique fund manager to receive approval from the Monetary Authority of Singapore to upgrade its licence into full Investment Adviser status. With this, Pheim can launch funds catered for retail investors.

Shareholders of the Pheim Group include Dato' Malek Merican, Encik Omar Merican, Multi Purpose Capital Holdings Berhad and Dr Tan Chong Koay.