



The **Fund Manager** Sesdaq Companies Want Behind Them

Whenever **Pheim** Asset Management's Dr. Tan Chong Koay has a good feeling about a company, there is a strong **possibility** its stock is going to show gains going forward.



Dr. Tan Chong Koay

Dr. Tan Chong Koay is widely regarded in the investment community as a **small- to medium-cap specialist**. He has had numerous successes investing in such stocks, and the funds he manages, which tend to home in on smaller, well-managed companies on the rise, often show outperformance relative to the market.

A lengthy track record of good performance like that exhibited by Pheim forms a good basis for future returns, though this is, of course, never guaranteed. But with Dr. Tan and Pheim, investors are likely to have a higher level of confidence about potential returns. "After we combine all our accounts in Malaysia, we have outperformed eight years in a row. In Singapore, our first three accounts, which represent 60% of funds managed now, are still with us. From the first year of management, the three combined funds have outperformed the benchmark for the past seven years," says the Malaysia-born fund manager in his Duxton Road office.

There are several factors that have contributed to this success. Explains Dr. Tan: "You should have a very clear-cut investment philosophy, so that when investors give you their money, there is no misunderstanding. You must have a proven investment philosophy and an investment process, which backs it up. Coupled with your operational procedure and your internal controls, the integrity of your staff further backs up your investment philosophy. All this is very important to become a very good fund management house."

Underpinned by these quality drivers, Dr. Tan offers a glimpse into his investment philosophy. "Mid-cap stocks do behave slightly differently from the big-cap stocks at some point in time. But, sometimes, they also behave the same way. When the major trend goes up, they will also continue to go up. But the basic thing is that with many small companies, earnings per share have a good chance of growing faster than the average earnings growth of the market. As a result, if you buy the shares at the right price, you will make more money."

Before he started Pheim, first in Malaysia in 1994 and then in Singapore a year later, Dr. Tan had significant success as the first director of investment at John Govett (Asia), helping to oversee the company's Singapore Sesdaq Fund. At that time, Mr. Chong Huai Seng, now vice-chairman of Panpac Media Group, was managing director of John Govett, and Dr. Tan generously notes the latter's role in the success of the Sesdaq Fund in the early days.

Explains Dr. Tan: "I managed the Malaysian Emerging Companies fund. In legal terms, I also managed the Sesdaq Fund but I must say for the Sesdaq Fund, Chong Huai Seng actually helped a lot. So, we basically jointly managed that." They went on many company visits together and had fantastic success when they took a huge stake in contract manufacturer Venture Manufacturing.

Through the years, Dr. Tan has seen the Sesdaq board grow, and become more diverse, helped by the liberalisation of Singapore's financial sector. He says: "More entrepreneurs from different industries are coming up. You can



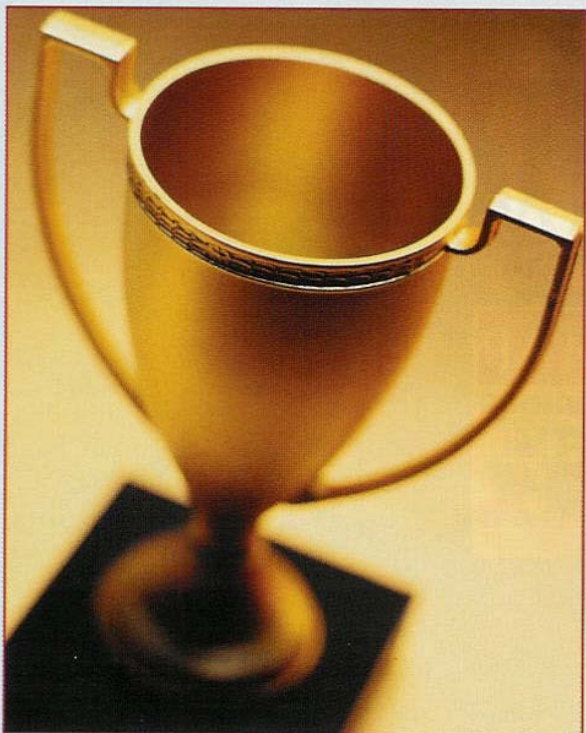
definitely see that. There are more and more niche players. In the last two years, we have seen food court operator Food Junction come out and water treatment companies like Hyflux and Darco Water Technologies." Dr. Tan knows these companies well as Pheim has invested in them in recent years. At different times, his company has owned as much as 7.2 per cent of Hyflux, 4.9 per cent of Food Junction and about 2.8 per cent of Darco Water.

Going forward, Dr. Tan is developing a notion that small- and medium-cap companies could become more attractive to investors. To support this burgeoning view, he points to the recent problems faced by US behemoths like Enron, Global Crossing and WorldCom. "Large companies are very hard to control and can easily get out of line. For a few companies, when you grow too fast, sometimes it's difficult to control. Would you like to invest in a company that has 100 subsidiaries? I tell you even the chairman doesn't know some of the names of the companies that he owns,

not to mention how to control them. When companies become too big and are not easy to control, they become high risk," he notes.

Investors may thus increasingly look towards smaller-cap stocks to satisfy their immediate investment needs. As he explains: "So, by coincidence, people tend to think that mid-cap stocks have less risk. These companies are focused and some of them have low gearing, and have been in the industry for more than 20 or 30 years. These are now viewed as lower risk instead of higher risk.

"But you know investment is an art, it's not something that you can generalise for the next 30 years. Of course, you will have people who will argue that small-caps are dangerous because if the companies do something wrong, they fold up easily. But increasingly, you see the medium-sized companies - those that are focused and not geared - withstanding the crisis a bit better. Increasingly, people are thinking they are low-risk companies." **Si**



Top Gun

Since its start-up, Pheim Asset Management has won top ranking awards in six out of the eight years of its operations. In 1987, Dr. Tan Chong Koay was rated Top Manager for Retirement and Pension Funds by William Mercer Zainal Fraser, an independent actuarial company. In 1992, the Malaysian Emerging Companies Fund, managed by Dr. Tan while he was at John Govett (Asia), was ranked first in the Micropal ranking of one-year Investment Trusts in the Far East ex-Japan (single) sector. In addition to investments in Malaysia, Dr. Tan also invested in South-east Asian markets when he jointly supervised the Singapore Sesdaq Fund and the South-east Asian Warrant Fund from 1990 to 1993. The Sesdaq Fund, under Dr. Tan's supervision until November 1993, was ranked first in a Micropal rating of Far Eastern Country funds in 1993. Since then, Dr. Tan has received many accolades for managing funds in Malaysia and Singapore. In 1998, Bloomberg News named him the "king" of the Kuala Lumpur Stock Exchange's Second Board on his strategy of investing in well-managed Second Board-listed companies during 1996 and subsequently disposing his interests with substantial gains before the market crashed in March 1997.