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## Unconventional **OPTIMISM**

Contrarian Malaysian fund manager Tan Teng Boo is predicting a big rebound in global stock markets and calling for a 'buy' in the battered markets of China, Vietnam and India

WILL BILL MILLER RISE  
FROM THE ASHES?

**PW2**

NEVER HAVE SO MANY SHORT-  
SELLERS MADE SO MUCH  
MONEY WITH STOCKS

**PW4**

FINE WINE PRICE SURGES  
2.2% IN JUNE WHILE  
STOCKS SLUMPED 8%

**PW8**

STAYING AFLOAT IN A  
BEAR MARKET WITH A  
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# Unconventional OPTIMISM

Contrarian Malaysian fund manager Tan Teng Boo is predicting a big rebound in global stock markets and calling for a 'buy' in the battered markets of China, Vietnam and India



BY KELVIN TAN |

Reading 300 corporate annual reports on a Sunday is a chore for even the most zealous of fund managers. But not for renowned Malaysian fund manager Tan Teng Boo, a self-proclaimed "investing fanatic", who enjoys flipping through thousand of pages of those boring journals in the hope of uncovering "hidden gems" in the world of equities.

It was through one of these manual stock screening exercises in a hotel room in Europe, where the 54-year-old, grey-haired fund manager was doing a company research visit a few months ago that he discovered Switzerland-listed provincial bank **St Galler Kantonalbank**, which has since become "one of the core favourite stocks" in his global portfolio.

"St Galler Kantonalbank has no subprime exposure, and its non-performing loans are so low that you can hardly believe it," says the enthusiastic founder of Kuala Lumpur-based independent fund management firm Capital Dynamics Asset Management, at a meeting with *Personal Wealth* last Monday. "This Swiss bank is very conservatively run and has a 6% dividend yield. It also has exciting growth strategies that would tap into the Eastern European and South American markets," adds Tan, who strangely doesn't carry a handphone.

"I am a very busy man who travels a lot on company visits around the world and I feel it would be rude not to return my calls. But given my hectic schedule, it is very

likely that I will miss a lot of calls if I carry a handphone. So, to avoid unnecessary problems, I just don't carry a handphone," says Tan with a broad smile.

Tan, who manages over US\$250 million (\$340.5 million) in assets, is unconventional in more ways than one. He loves his job so much that he pays himself no salary and takes zero director's fees from the funds that he manages. "Given that I do not take any money from the funds, the expenses do drop quite a lot," says Tan, who lives off the investment gains generated by his personal investment portfolio. "For my case, I have been investing for a long time on my own. That was how I sent my kids overseas for their education," quips the fund manager, who has 37 years of investment experience and is married with two adult children.

## Publicity drive in Singapore

Although he is well known in Malaysia, making a name for himself by taking concentrated bets in stocks that he has high conviction in, Tan is relatively unheard of in Singapore, where he runs a small-time boutique fund management outfit called Capital Dynamics Singapore. But he was determined to change things when he was in town last week.

First, he organised a Saturday meeting on July 19 at the Hilton Singapore with over a hundred international clients of his iCapital Global Fund to update them on the performance of this US\$40 million global equity fund. After that Tan, went on publicity drive, hosting a press conference and giving interviews to numerous Singapore-

based financial media, including *The Edge Singapore*, last Monday and Tuesday.

According to Tan, the media exposure was in conjunction with the first anniversary of the global fund. But he denies that it was aimed at raising subscriptions for iCapital Global Fund. "Fund raising? No... We are bad at marketing," jests the Capital Dynamics founder, whose fund does not employ any marketing agent or distributor and is sold to high-net-worth individuals and institutional investors. He tells *Personal Wealth* that his main objective of meeting up with the local press is to present his theory of a "long boom" because investors have "become too pessimistic" of late.

"I have a client from Switzerland who is almost schizophrenic and wanted to withdraw about 70% of his funds. He said if UBS could be hit like that, 'how could you in Singapore and Malaysia withstand the downside?' He was really fright-

ened," Tan muses.

The seasoned fund manager has achieved a net compounded annual return of 23.08% for his Malaysia fund management firm — Capital Dynamics Asset Management Sdn Bhd (CDAM) — over the past 10 years from 1998 to June 30, 2008, outperforming the 6.57% annual gains achieved by the Kuala Lumpur Composite Index. Shares of his Bursa Malaysia-listed closed-end fund, iCapital.biz Bhd, have consistently traded above their net asset value since listing in October 2005.

## The long boom

Despite the current bearish downturn, Tan is convinced that stock markets around the world, which have dropped 20% on average in value over the past year, are on the verge of a turnaround.

"The bear market will not last because globally, economic conditions are still rather sanguine," he says. "If you are technically minded

[referring to the readings of technical charts], every time the markets reach such levels, you know that we are pretty close to a bottom." He sees the strongest rebound in the bombed-out stock markets of China, Vietnam and India (all of which are currently down 40% since January) over the next 12 months.

The current stock market downturn is only a correction in a long boom, a term that Tan defines as a China-led secular economic boom that would last for decades. "We have entered a long boom. Led by China, the length and scope of this long boom will be unprecedented and everybody on the planet will benefit from it. Even if you are hurt by rising oil prices, you will benefit in other aspects."

As he sees it, the global economy — boosted by the growth engines of China and other emerging countries that are benefiting economically from it — has "already decoupled" from the US economy as far back as five years ago. The global economy is now assisting the US economy to grow, Tan points out. "The Internet revolution and globalisation enable the benefits of China's transformation to be transmitted far and wide. Benefiting economies will magnify the impact that China has on the rest of the world."

He also dismisses concerns over rising global inflation and the risk of stagflation, a scenario of high inflation and slow economic growth. He believes that global inflation numbers will come down in the near future as oil prices correct to about US\$100 to US\$110 per barrel by year end. "Inflation is cy-

## Tan's dozen buy-and-hold stocks

NAME	SHARE PRICE* (YTD %)	FORWARD PER (TIMES)	DIV YIELD (%)
Aeon Credit (HK)	11.11	11.59	3.13
Bank of East Asia (HK)	-28.96	14.29	4.38
Chaoda Modern Agriculture (HK)	19.55	9.56	0.66
Keppel Corp (SG)	-18.92	14.3	1.8
Porsche (GER)	-28.6	6.98	0.72
RexCapital Financial Holdings (HK)	-60.4	7.02	NA
Rolls Royce (UK)	-30.56	10.55	NA
Shanghai Asia Holdings (SG)	-22.22	NA	5.7
Shanghai Industrial (HK)	-31.47	11.33	3.43
Sonic Healthcare (AU)	-19.14	19.64	5.18
St Galler Kantonalbank (CH)	-10.64	10.72	5.84
Tesco (UK)	-22.18	13.36	2.93

\* As at July 25, 14:30 SG Time



Tan feels that emerging economies such as China, some countries in the Middle East and Russia will be the growth markets for Porsche going forward

## A fund manager who 'doesn't eat his own cooking'

Malaysian fund manager Tan Teng Boo, who runs a Malaysia closed-end equity fund and a global stock fund, doesn't invest his own money in the two products he manages. "A typical fund manager would say, 'you have to invest in your own fund'. For me, I eat my own cooking in ways that are different," he tells *Personal Wealth*.

The main reason Tan does not put money in these funds is because he needs the money for an ambitious expansion plan. "The longer-term strategy for Capital Dynamics is to build it up into a global fund management firm. That is why I need to reserve a lot of capital to make sure that my firm can expand to other countries," says the Kuala Lumpur-based Tan, who is currently waiting for approval to operate in Australia. He set up an office in Singapore last year.

"Every office in a new country needs steep capital requirements. Our third office would cost about \$1 million worth of capital requirement. Our Singapore office was capitalised at close to \$2 million," adds Tan who is looking to expand to the US, China and Hong Kong.

At the moment, Tan says he has no plans for his global fund to become his retail investment vehicle in Singapore. "The retail fund industry in Singapore is a very tough market to compete in. For a retail approach, we are looking to do that in Australia, followed by China, the US and Hong Kong."

clical while the boom is secular. When oil peaks out, inflation and headline CPIs [consumer price indexes] around the world will come down," says Tan. "We are now living in exciting times," adds the self-proclaimed optimist.

### Outperforming MSCI World Index with 12 stocks

Since the inception of the iCapital Global Fund in July 6 last year, the performance of this long only, concentrated global equity fund was down by 1% as at end June. That's not bad considering that the MSCI World Index, a common barometer of global equities, slumped 14.23% over the same period.

"If you compare our global fund with other renowned funds managed internationally, you would see that we have beaten all of them be it Vanguard, HSBC, Schroders AllianceBernstein or T Rowe Price," Tan enthuses.

But unlike these global diversified funds, which hold 50 to over 100 stocks in their portfolios, Tan's global fund, which can invest in 42 stock markets around the world, only has 12 stock holdings namely Chinese agricultural firm **Chaoda Modern Agriculture** (Hong Kong), **Bank of East Asia** (Hong Kong), Hong Kong-listed financial advisory company **RexCapital Financial Holdings**, Shanghai government-owned conglomerate **Shanghai Industrial** (Hong Kong), Chinese cigarette paper packaging firm **Shanghai Asia Holdings** (Singapore), consumer finance company **Aeon Credit** (Hong Kong), Singapore-listed conglomerate **Keppel Corp**, Australia's **Sonic Healthcare**, UK supermarket chain **Tesco**, UK engine manufacturer **Rolls Royce**, German luxury carmaker **Porsche** and Switzerland-listed **St Galler Kantonalbank**.

Although his global equity fund looks highly concentrated by taking exposure in only a dozen stocks, Tan insists that the risk faced by iCapital Global Fund isn't greater than many of its bigger and more diversified rivals. That's because these carefully selected underlying stocks, all of

which are fundamentally sound with good growth prospects, are not overvalued in price, he adds.

"We are very conservative but we are not conventional. The conventional wisdom is that if you want high returns, you take high risk. The high risk is a certainty but the high return is a question mark. Our approach is to take low risk but achieve high returns," he says.

To achieve consistent long-term gains, Tan basically uses a value investing approach with a global macro overlay. "We are primarily value investors. We look at the long-term intrinsic value of companies and we compare them with their market prices to establish a margin of safety," he explains. "But we differ from the value approach of Benjamin Graham, Warren Buffett and Philip Fisher by adding in macro economic factors. We look at economic growth, inflation rates, interest rates, and politics."

Tan reasons that when investing in Asia and other emerging markets outside of the US, using a pure value investing approach doesn't work because there are many other external macro factors that influence the price of stocks. "If you invest in America, you don't have to worry about capital controls and you don't have to worry about who will be the next prime minister. If you apply the Fisher/Graham [value investing] method in Vietnam or South Africa or Malaysia, you will be dead," he quips. Tan terms his investment approach as an "intelligently eclectic" value investing strategy. "We combine a lot of things and we adapt and innovate."

To make sure that his fund investors "sleep soundly at night", Tan has a mandate that restricts the fund from buying financial derivatives and the shorting of stocks. "We can't do shorting or invest in any derivatives because we want to make this fund as conservative as possible." Currently, Tan, supported by a team of 15 analysts, is the only fund manager and decision maker for all his funds. "In terms of fund management, it is a one-man show as I

don't believe in an investment committee. If I do well for you, I want all the credit. If I do badly, you can kick my butt."

### View on stocks and markets

Stocks in his global portfolio that Tan is most bullish on at the moment include Porsche, Chaoda Modern Agriculture and St Galler Kantonalbank.

"We like Porsche because the stock price versus its [intrinsic] valuations look very attractive," says Tan who adds that the stock market is currently valuing Porsche like an ordinary carmaker like Toyota or Honda. "Porsche is more than that. It is an iconic brand." He points out that emerging economies such as China, some countries in the Middle East and Russia will be the growth markets for Porsche going forward. "The sales for Porsche in China have been doubling every year for the past three years while sales in the Middle East have tripled over the past four years. So, it is still early days for Porsche. It is undervalued if you look at its long-term potential."

For vegetable farming firm Chaoda, Tan says it will benefit from China's shift of resources provided to the agricultural sector. "The policies of the Chinese government have been skewed towards manufacturing and FDI. They are now shifting the balance to agriculture." With the country's agricultural sectors receiving priority in terms of subsidies and funding for machinery, Chaoda would be a key beneficiary, he says. "Chaoda is a very unusual company. Many farms in China are small, and they are not big enough to achieve economies of scale. What Chaoda did was to go to small farmers and rent land from them. In essence, it consolidates all the farms into a larger, economically viable size."

Of late, Tan has sold off all his energy-related stocks including **Diamond Offshore** of the US and **Australia's Oil Search** on valuation concerns and in anticipation of lower oil prices ahead. "Apart from these two energy stocks, which I sold on [high] valuation basis, we have been a net buyer over the past six months," says the fund manager, who still has cash of about 30% of the net asset value of this global fund. Typically, Tan would buy into the shares of the 12 companies he already owns in his global portfolio when prices fall to attractive levels. He adds that he generally holds stocks for a long period of time, unless their fundamentals change or when the companies are mismanaged.

Although he is a bottom-up stock picker, Tan says bombed out stock markets such as China, Vietnam and India are now looking attractive after sliding more than 40% since the start of the year. "Bull markets can only start from bear markets. That is why we have very little exposure to US stocks, which have dropped only 20%."

For his home country Malaysia, where the stock market has been plagued by political uncertainties in recent times, Tan says the rally

will come if economic conditions get better. "For Malaysia, I would be more concerned about the economic outlook and economic performance of the country than political developments. Malaysia is still far ahead compared with a country such as Cambodia. We still have a fundamental rule of law. I cannot foresee a situation where the whole country is torn apart by politics where people go to the streets and pull the whole government down." Will Malaysia achieve its target of 5% to 6% GDP growth this year? "Yes I think it will," says Tan. "In fact, Malaysian exports in the past four to five months have performed much better than Singapore's exports."

As for the US equity market, Tan reckons that stocks there are now trying to find a bottom. He believes the US market "will bottom out" over the next three to six months. "For confidence to come back, you really need US financial stocks, which have been badly battered of late, to perform better. For the US stock market to recover, it is more about confidence rather than hard economic fundamentals."

But regardless of how global stock markets perform, Tan says he remains confident in picking the right stocks that would outperform, even in a bear market. "Yes, stock markets in major regions are in a slump. But if you look at specific stocks, you may see a different picture." Likening the current market situation to the two vastly different cities in Charles Dickens' novel *A Tale of Two Cities*, Tan points out that energy stocks such as **Diamond Offshore** were near their peak when he sold it four weeks ago. At the same time, stocks of US tech giant **IBM** and pharmaceutical powerhouse **Johnson and Johnson** are currently hovering near their 52-week highs while shares of troubled US mortgage financiers **Fannie Mae** and **Freddie Mac** were down 80% from a year ago.

"The current situation is very confusing indeed because you have good and bad times running in parallel. The key thing is to be able to pick the right stocks. We are not so concerned about the performance of market indexes," he says.

Open to only accredited investors in Singapore, Tan's global equity fund, which is domiciled in the Cayman Islands and employs HSBC as the custodian of its cash and stock holdings, currently imposes a minimum investment amount of US\$200,000 with subsequent investments of US\$10,000. The open ended fund charges 1.5% in management fees and levies a performance fee of 20% of the returns exceeding 6% per year.

"We take performance fees only when our returns exceed 6% on an annual basis and on compounded basis. Our high water mark is very unique. Let's say the fund started five years ago, and this year I achieved 20%, but if my compounded returns from five years back are not greater than 6%, I still cannot earn a performance fee," says Tan.