

**POWER TEAM**

Kevin Tok (left), executive director and Wong Seak Eng, fund manager of Aggregate Asset Management Pte Ltd.

Focusing on value

Performance fee structure aligns with investor interests, says Aggregate Asset Management

BY GENEVIEVE CUA

THOUSANDS of investment funds are lodged for sale to accredited or sophisticated investors in Singapore. What is the likelihood that in less than five years, a boutique startup with a single fund product could actually raise assets to exceed S\$400 million?

Aggregate Asset Management, a value investment firm, was set up in 2012 with less than S\$5 million in capital. Today, thanks to a sterling track record of annualised double-digit returns since inception, it boasts assets under management of S\$460 million, larger than numerous other unit trusts.

An intrinsic part of its value proposition is its fee structure: Investors pay no annual management fee. Instead, a performance fee of 20 per cent is levied on the fund's profits, subject to a high-water mark – that is, the fund has to exceed its previous high to be able to charge the performance fee.

Aggregate was the brainchild of fund managers Eric Kong, Wong Seak Eng and executive director Kevin Tok. Mr Kong and Mr Wong were previously fund managers at Yeoman Capital. Professor Kishore Mahbubani, Lee Kuan Yew School of Public Policy dean and himself an investor, recently came on board as non-executive chairman and non-executive director.

Mr Tok says the firm set out to target high net-worth clients, a relatively untapped market despite the competitive landscape of private banks selling a plethora of investment

funds. "Many high net-worth clients are accredited investors, but they invest like retail investors and are not aware of the boutique fund management space. We target individuals, not institutions. This market is really unserved; it's quite a sweet spot."

Aggregate began with a Registered Fund Management Company license. By 2015, as its assets began to approach S\$250 million, it secured a full Capital Markets Services license, which does not set a cap on AUM and allows it to pitch its services at retail investors. However, it remains targeted at accredited investors.

Annual return

So far, the Aggregate Value Fund (AVF) has generated a compounded annual return of 11.24 per cent net of fees since inception. This exceeds its stated target of 10 per cent a year net returns over the long-term. This was achieved on the back of volatility (standard deviation of 2.6 per cent) lower than the MSCI All Country Asia Pacific ex-Japan Index (3 per cent SD). The 10-year SGS Bond volatility is about 2.2 per cent.

This relatively lower risk profile has given it an annual Sharpe ratio of 1.01 compared to 0.46 for the MSCI AC Asia Pacific ex-Japan index. The Sharpe ratio is a measure of risk-adjusted return, and managers typically aspire towards a higher Sharpe ratio.

Says Mr Kong: "We're very clear on what this vehicle is about, for people to put money in, to grow it at a certain rate with a well-diversified portfolio. That makes people feel

safer. Diversification results in lower volatility so we deliver a consistent performance on a monthly basis; that gives people a lot of confidence."

The firm believes that a retirement portfolio may be 100 per cent invested in equities over a long-term. A retiree can withdraw up to 5 per cent a year to fund living expenses. This goes against the grain of conventional advice that bonds are a core holding for retirement savings. To be sure, a caveat must be that the all-stock portfolio should be able to generate returns in excess of the withdrawal rate.

Mr Wong says: "When we explain the (withdrawal) system to clients, they think it sounds good. They can rely on a system to generate double-digit returns and they can take out 5 per cent for retirement spending... Slowly we're starting to see investors rely on this withdrawal system."

As at end-September, there were 633 stocks in the portfolio, compared to just over 700 at end-March. Most of the holdings are small and mid-caps, with a market capitalisation of between S\$50 million and S\$500 million.

The process of stock selection is initially mechanical. The firm ferrets out undervalued stocks, screening companies based on metrics including price to earnings multiple, price to book multiple, dividend yield and cash flow, among other parameters. Stocks that make it through the screens are scored and ranked. The firm invests only in listed securities, and those with at least a five-year track record. It does not invest in initial public offers or pre-IPO stocks. It avoids highly indebted stocks, and does not visit companies.

The sell discipline is largely a matter of judgement. A number of factors may trigger a review of holdings, such as sharp price movements, corporate events such as a takeover offer or rights issue. Mr Tok says: "We focus on the entry price. If the buy price is attractive, half the battle is won. In selling, we may miss the high. But as long as we get in at a good price, the chance of winning is there."

"We don't set a target price to sell. Stock performance may be quite random. When it comes to selling, we use our experience to read the situation."

Even when broad-market valuations are high, there are undervalued stocks to be discovered, says Mr Kong. "In the last three years, we could find stocks that paid 7 per cent dividends, with a net book value of S\$1, a share price of 40 cents and PE in single digit. Such stocks give us big returns and little downside. This is where our alpha comes from – stocks that no one would consider looking at."

"We can still find them today. In 2017, the run-up is due to a few things – technology, property and also financial stocks that recovered after the doldrums. The stocks we look at creep up very slowly. Overall their valuations have not caught up with index stocks. We still find valuations attractive in our hunting ground."

There are of course a number of caveats to the value approach. While research shows that a value strategy is likely to outperform in the long run, there may be long fallow periods when it underperforms. Investors will need patience.

2017 is a case in point. The AVF has lagged in the nine months to end September with its return of 10.65 per cent, compared to the MSCI AC Asia Pac ex-Japan index return of 22.39 per cent. This is due to a surge in the values of tech stocks in the index. The firm said in its third quarter newsletter that four stocks – Tencent, Samsung Electronics, Alibaba and Taiwan Semiconductor – comprise 19 per cent of the index. The overall average valuation of the four stocks – a PE of 37 times, dividend yield of one per cent and price to book multiple of 7.4 times – is "spectacularly expensive". This year the four stocks' price appreciation was 69 per cent.

The firm is sticking to its strategy. It says in its newsletter: "Our business is to buy undervalued stocks. We don't buy stocks at 50 times PE and hope to sell them at a PE of 100 times. We think even though one can make a lot of money from growth investing, one can lose a lot too... Never overpay for an investment, no matter how rosy its prospects. Successful long term investing is buying with a margin of safety." ■