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BLOOMBERG

BULLISH expectations

Veteran fund manager Tan Teng Boo, whose global fund is up 64% this year, predicts global stocks will surge another 30% to 40% next year

| BY KELVIN TAN |

During a morning taxi ride to his Robinson Road office in January this year, when equity prices around the world were still plummeting given the onslaught of the global financial crisis, Tan Teng Boo — a renowned Malaysian fund manager who is founder and managing director of boutique asset management firm Capital Dynamics — was asked by the cab driver for a stock tip.

The 55-year-old obliged, recommending a buy on local conglomerate **Keppel Corp**, which was trading slightly above $4 then. The cab driver, who was "surprisingly stock savvy", said Keppel Corp wasn't worth the risk because the company was facing the cancellation of many of its oil rig contracts. "I told him that at $4, all the negative news would have been discounted but he wasn't convinced," muses Tan, who was in town last week to host an annual fund meeting with the international clients of his global equity fund, iCapital Global Fund, which is sold to accredited investors in Singapore.

While the taxi driver might not have acted on that stock tip, Tan proceeded to buy Keppel Corp, sinking more than $1 million of Singapore-registered iCapital Global Fund's assets in the conglomerate at an average price of between $4.10 and $4.20. In the weeks that followed, the bargain-hunting, value-driven fund manager also bought aggressively into Hong Kong-listed sports lottery organiser **RexLot** and property developer **Beijing Capital Land**.

These opportunistic buys, as well as the other bargains he scooped up in late-2008 such as Australia-listed oil exploration company **Oil Search**, have paid off. The iCapital Global Fund — boosted by the strong price rebound of its stock holdings since March — has delivered impressive gains of 64% this year (as at end-September), outperforming most global equity funds and the 22.5% returns achieved by the MSCI World Index. This fund, with assets of US$110.6 million ($154.1 million) as at end-October, has also clawed back all the losses it incurred last year, when the fund slumped 34.6%.

Indeed, generating gains of 64% for a global fund in less than a year is a feat, even for the most experienced fund manager. But talk to Tan, who has more than 30 years of investment experience, and he will tell you the double-digit "post-crisis" gains this year weren't too difficult to achieve. "Investing is pretty simple. If you have the discipline to buy [during times of] maximum pessimism, you will make a lot of money."

Tan also manages an Australia-registered retail global equity fund called the iCapital International Value Fund, which was launched in June, and a Bursa Malaysia-listed closed-end Malaysian equity fund named iCapital.biz Bhd, whose market capitalisation was about RM250 million ($103 million) as at Nov 5. (From October 1998 to September 2009, the net asset value of iCapital.biz Bhd surged 95%. That's three times more than the 31.5% gains of the FBM Kuala Lumpur Composite Index.)

'A good old-fashioned bull run'

Despite the powerful rebound in global equities since March and strong economic recovery experienced by many countries, many global investors are still feeling fearful and "blind to the fact" that a new bull market has emerged, Tan observes.

"A few weeks back, [New York University economics professor Nouriel] Roubini said the markets had gone up too fast, too much, and too soon. Roubini got the downturn right but he got the upturn wrong," says Tan. Going into September and October, many market commentators also warned that equities would face a sharp slide as these two months were historically "dangerous" months. "We are now in November and we are still in one piece," he jests.

Tan says he can't fathom why so many investors and market commentators are still in "crisis mode", worrying about the possibility of a "double dip recession" or a "new normal" where the global economy experiences a prolonged period of below-average growth.

"People are still seeing the rebound as a bear-market rally. In my view, it's definitely a bull market. In fact, it's a good old-fashioned bull rally and certainly, a V-shaped recovery," asserts Tan, a self-proclaimed optimist.

Stocks to surge '30% to 40%' next year

According to Tan, the first stage of the bull run, when stocks rebound substantially from their oversold levels, has ended. What global equity markets are experiencing now is the second stage, when economic growth and corporate earnings are recovering. This stage could last for a while. "The third stage is when the economic and earnings recovery becomes self-enforcing. That would happen when the bull market is maturing, perhaps in 2011." Investors should take advantage of the second and third stages of the market uptrend, Tan says.

Given that the current bull rally still has more room to run over the next couple of years, Tan believes global stocks could deliver gains of 30% to 40% next year. Inevitably, there will be corrections along the way. "But I don't focus too much on short-term corrections," says Tan. He is convinced the general direction of the global stock market over the long term will be up. It will be supported by "a long boom", which he defines as China-led secular economic growth that could last for decades.

As he sees it, the global economy — boosted by China and other emerging countries that are benefiting economically from it — had "already decoupled" from the US economy as far back as six years ago. Because of his bullishness on China-related stocks, they dominate the holdings of his funds.

Bullish on China but negative on Malaysia and Thailand

The fund manager reckons that the Chinese stock market, which corrected sharply in August, "is ready to move out" of its short-term slump. "Given strong GDP growth in China, considering that 4Q figures could even hit 10%-plus, coupled with the strong earnings recovery, next year should be another good year for the Shanghai Composite Index," says Tan. He declines, however, to predict how much the index would move next year. "I can say that the STI could surge 30% next year but the Chinese stock market is one of the most difficult markets to decipher. I would say the general trend of the Shanghai market is up but percentage wise, it is hard to pinpoint."

Overall, Tan is positive on most global stock bourses except for Malaysia and Thailand, the only markets his global funds will not invest in. "Out of the 42 global markets that we can invest in, the two markets that frighten me the most in terms of political trends are Thailand and Malaysia." His funds will not invest in these stocks even if they look extremely cheap, he reiterates.

"Many fund managers are keen on Thai stocks because they are cheap. But they can't answer me one question. What happens when the Thai king dies? The political problems that Thailand faces will take at least two elections to sort out, which is about 10 years," Tan points out. He adds that neither of its current political parties "is strong enough to knock the other out". "You have this political stalemate which is bad for its economy."

Malaysia is also looking risky in terms of its political path, according to Tan. The next general election, which may take place in three years, will be fiercely fought, he says. "The political structure of Malaysia is so split up that now, there is a vacuum and it can get worse." Malaysian Prime Minister Najib Tun Razak is trying to reform the country's policies but "if his reform programmes do not succeed, there could be a split in [leading political party] Umno itself". Malaysia could end up in the same situation as Thailand, Tan fears. "So, why take such risks when there are so many attractive markets out there that can give you a better risk-reward ratio?"

Unconventional fund manager

Overseeing assets totalling US$300 million, the outspoken Tan isn't afraid to be different. Unlike other fund houses, Capital Dynamics, which has offices in Kuala Lumpur, Singapore and Sydney, does not employ a third-party marketing agent or distributor. The marketing, distribution and sale of the funds are done in-house to "save costs" for investors. Distribution costs eat into returns, he says. As such, Singapore investors who are interested in any of his global funds would have to contact Capital Dynamics directly.

To further keep expenses low, Tan does not pay himself a salary or take a director's fee from the funds he manages. He lives on the investment gains generated by his personal investment portfolio. "That was how I sent my kids overseas for their education," quips Tan, who has two adult children.

When it comes to running his funds, Tan likes things done his way. Supported by a team of 20 analysts, he is the only fund manager and decision maker for all his funds. It is "a one-man show", he admits, because he doesn't believe in the merits of an investment committee with differing views. "If I do well for you, I want all the credit. If I do badly, you can kick my butt."

Unlike other global diversified equity funds,

GWYNETH TEO/THE EDGE SINGAPORE

Tan on his one-man-show style of investing: If I do well for you, I want all the credit. If I do badly, you can kick my butt.

which can hold anywhere from 50 to 100-odd stocks, Tan's only invest in 10 to 15. Currently, its main holdings include UK supermarket chain **Tesco**, UK engine manufacturer **Rolls Royce**, German luxury car maker **Porsche**, small Swiss bank **St Galler**, Singapore-listed Keppel Corp, and a group of Hong Kong-listed firms such as Chinese agricultural firm **Chaoda Modern Agriculture**, banking group **Bank of East Asia**, RexLot, conglomerate **Shanghai Industrial**, Chinese cigarette-paper packaging firm **Shanghai Asia Holdings**, Beijing Capital Land, and retailer **New World Department Store China**.

Despite his concentrated approach, the fund manager insists the risks faced by his global equity funds aren't greater than many of its bigger and more diversified rivals because none of his holdings are overvalued in price. They are fundamentally sound with good growth prospects, he adds. Our "margin of safety" is to not overpay for stocks, says Tan, who uses a value investing approach with "a global macro overlay", looking at the economic growth, inflation rates, interest rates, and politics of the countries his invested companies operate in. Further, he does not buy into any financial derivatives or short stocks. "We want to run our funds as conservatively as possible."

Stock picks and divestments

Of late, Tan has added several new holdings to his recently launched Australia-registered iCapital International Value fund, which still has 25% of its assets in cash. This Australian dollar-denominated retail fund, with assets of about A$25 million ($31.7 million), is open for sale to Singapore investors with a minimum investment amount of A$20,000.

Its new buys include Australia-listed **Mermaid Marine**, a diversified marine service provider, and Singapore-listed **Mermaid Maritime**, a drilling and sub-engineering service provider operating in the oil and gas industry. The two companies, despite their names, are unrelated. "We added two Mermaids to our funds recently," jokes Tan, who paid A$2.70 to A$2.80 for Mermaid Marine, which currently trades at A$2.64, and 70 cents for Mermaid Maritime, whose stock price is about 73 cents.

Both these companies look attractive in terms of valuations and growth prospects, he says. "Mermaid Marine currently operates a fleet of oil supply vessels in the northern part of Western Australia, where Chevron has discovered the Gorgon oil fields. It is a huge project. And Mermaid Marine [which has secured contracts from Chevron] will benefit from it for many, many years to come." Tan also purchased Porsche shares at €53 ($110) for the fund.

A stock he recently divested for a good profit was Oil Search, which he bought at A$3.70 and sold at A$6.28. Last month, the energy company said it would be undertaking a capital-raising exercise to help fund a multibillion-dollar liquefied natural gas (LNG) project in Papua New Guinea after a financial deal with an Abu Dhabi group fell through. In August, Abu Dhabi-based International Petroleum Investment Co had wanted to buy Oil Search's 3.5% stake in a US$15 billion Exxon Mobil-led project but the deal was terminated recently. "Oil Search had to do a private placement after the deal with Abu Dhabi was called off. We didn't like that as we were not sure what the real reason was. We didn't want to wait to find out the reasons," Tan explains.

A local stock that he is considering is property and beverage company **F&N**, which he views as an undervalued laggard. "The market was worried that once F&N was done with its finished projects, it would not have a landbank anymore. The Singapore government may slow down the appreciation and recovery of the real estate sector and that would give F&N an opportunity to build up its landbank," says Tan. "Don't forget that its beverage business is doing very well. Overall, F&N is a laggard whose valuations look attractive and it is one of the stocks we are looking at."

When asked why he didn't add Keppel Corp to the holdings of his newest global fund, Tan says it is "psychologically difficult" to buy the stock at the current price of $8, twice the amount he paid for the conglomerate early this year. "We bought at $4 and now it is at $8. If [the trade] goes wrong, investors will question our decision."

He is also increasingly puzzled as to why Keppel Corp isn't winning new orders to build oil rigs despite the fact that the firm has a joint venture with Brazilian oil powerhouse **Petrobras**. "I don't think [the management] has the answer to this question at this point in time. If we have clarity on that, and if the orders come in, then we would be quite happy to buy at $8."