Value investor seeks good businesses at good prices

Fund manager Brian Tan believes it is crucial to fully assess the risks before entering any investment. Before buying into a company, investors should understand clearly what makes its business profitable and sustainable. ST PHOTO: LAU FOOK KONG

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Bad investments might seem like a taboo topic for someone who manages funds, but Mr Brian Tan has a cautionary tale to share.

He says knowledge is a good investment, referring to his MBA from the University of Western Australia. It was less true of his PhD, which he attempted twice at French business school Edhec but could not complete. It cost $60,000, he said.

Mr Tan, now 33, joined Pilgrim Partners Asia founder Albert Ee and was invited to be a partner to set up the family office practice. Pilgrim Partners Asia first started a macro hedge fund in May 2010.

He enjoys fund management because "it's heartening to see an investment thesis where a lot of work has gone into analytical rigour, objectivity and rationality, with independence of thought being vindicated eventually when we make money".

Q *How did you get started in this field?*

A I was always good with money - I even did some eraser trading in primary school.

I started out in this field 10 years ago with a Singapore family office managing client mandates. Then I was headhunted in 2010 and joined wealth manager ipac Singapore's office, managing money for expatriate and Asian high-net-worth clients. I later moved to financial advisory company Financial Alliance before starting my own fund.

Q *Describe your investment philosophy and strategies.*

A Value investing is the only way to go - it allows you to avoid big mistakes. The typical experience of the speculator is one of temporary profit and ultimate loss.

We begin each investment evaluation by measuring risk and incorporating an appropriate margin of safety. This stems from a business analyst approach.

We want to understand what drives a business and what makes it profitable and sustainable. Our goal is to preserve and grow wealth through capital growth and cash flow income.

We typically maintain some part of our portfolios in defensive instruments such as cash and cash equivalents, which we are willing to hold because of our disciplined investment approach.

Ultimately, our goal is to find good businesses at good prices, which is hard in today's reality.

Q *What's in the portfolio?*

A We've achieved 14 per cent a year in the past two years - this was with individual client portfolios that have now transferred into the fund.

In terms of allocation, we had 70 per cent in risk assets in 2013, but scaled that down to 50 per cent last year. This year, it's only 30 per cent.

For the future, we continue to be cautious about market valuations, and we believe the current levels of unprecedented monetary stimulus will not end without great amounts of market dislocation and pain.

Q *What was your best investment?*

A Our fund's history with Singapore real estate investment trusts has been quite good.

Q *What was the one that got away?*

A That would be Apple. We valued it at about US$60 a share - that was before a seven-for-one stock split - when it was going for about US$85 in early 2009.

It never went to US$60, and if we had bought at US$85, that would have given a return of 11 times today - but sometimes that is the cost of being disciplined.

Q *What would you say to someone who is trying to put together a portfolio?*

A There is no short cut to wealth. Learn as much as you can, and be prepared for big buying opportunities, which come maybe only every seven to 10 years.

Be wary of making big mistakes with conventional thinking. Products will purport to provide higher yields and returns without higher risk. There is no such thing as risk-free.

Rachael Boon

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