

α Alpha Chronicles: A Sharpe Read

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Aberdeen Trawls for Hidden Gems in Bottom-Up Style



Christopher Wong has always been captivated by the tools, tips and tricks that go into the building of a successful enterprise.

The senior fund manager with Aberdeen Asset Management Asia Ltd in Singapore has numerous opportunities to engage with companies as a result of the Scottish firm's emphasis on a bottom-up investment philosophy.

"I'm totally fascinated by how entrepreneurs grow their businesses. How the company evolves as it matures is a reflection of the human spirit, the aspiration to do better in life," he said.

The Aberdeen Group, which has been investing in Asia for more than 25 years, has assets under management totalling more than US\$76.9 billion.

Its long-only¹ equity strategy focuses on stock fundamentals, first-hand company research, and involves a team effort with asset managers based in the regions it invests in. No investment is made without first having interviewed the company's management.

"Aberdeen's style suits me because it's all about how normal human beings run their companies, and not about the stock market's current flavor of the month," said Wong, an Accounting and Finance graduate from Edinburgh's Heriot-Watt University.

"When we meet with companies, we learn how their businesses function and the challenges they face."

Along with his colleagues, Wong, 44, meets with companies Aberdeen invests in at least twice a year. He also attends as many annual and extraordinary general meetings as possible.

"At AGMs and EGMs, you have the opportunity to talk to management and the board. Once you understand the business, and do your homework, you are less likely to go wrong in the stock-picking process," he added.

Dissecting the Fundamentals

Apart from focusing on the people behind the companies, Aberdeen's company-specific, sector-agnostic approach also involves analysing business models.

"Is there a differentiation between the company and its competitors? What is its brand equity, and does that raise barriers to entry? Does the company have an effective succession plan?"

Once Wong is comfortable with answers to key questions, he focuses on valuations and when it's a good time to buy.

"Markets usually overshoot - both on the upside as well as the downside. When these disproportionate reactions occur, that's where the potential opportunities are," he added.

A significant amount of hard work also kicks in after taking a position. "A lot of people underestimate how much work is required to monitor the business - it's an intensive job that requires checks with channel partners, competitors and industry players."

With over 2,800 staff in 25 countries, Europe's third-largest listed fund manager relies on a network of local offices to better understand the social and cultural context behind the operations of each company.

"To talk to a local entrepreneur, you need a local context, and having a presence there provides that touch," said Wong, who held a corporate finance and consulting role prior to joining Aberdeen.

"A face-to-face connection provides us with the smell test, so to speak, where we can get a good grasp of the motivation of these individuals."

With Aberdeen being one of the founders of the Asian Corporate Governance Association, active engagement with companies is an integral part of the investing process.

"Our role is to work with senior management, whether it is to examine risk parameters, remuneration, or composition and independence of the board," Wong said.

"We try to prod and educate younger companies to embrace more international standards of governance, and ensure that management doesn't undertake actions that may be prejudicial to the rights of minority shareholders," he added.

"This is how we try to add value to the wider investment community and fulfill our fiduciary duty to clients."

Smart Picks, Contrarian Views

At the end of the day, it boils down to a multi-pronged strategy - constructing a portfolio with sufficient

diversification and exposure across sectors, as well as choosing fundamentally strong companies, said Wong.

Being a long-term investor, Aberdeen does not seek "steroid-injected business models" that deliver returns in six months.

"We're very comfortable with Singapore companies, as they have solid balance sheets, although earnings growth has plateaued in the near term. Opportunities remain in the region and globally," he added.

While Wong sees short-term risks from the credit deleveraging cycle for Singapore bank stocks, their valuations - trading at one time price-to-book (P/B) or slightly above - appear attractive. They also have healthy dividend payouts and robust capital ratios.

Likewise, property developers are trading at large discounts to their revalued net asset values (RNAVs). "The stocks have been pretty much bashed down, and the bleak sector outlook is probably already reflected in the price."

"It's all about striking a balance between fundamentals and valuations, between long-term structural issues and cyclical trends," Wong added.

"We will take a contrarian view when stock prices are weak, and take profits when prices turn frothy."

Due to the substantial infusion of liquidity into global markets, investors have been fixated on macroeconomic trends, including the trajectory of interest rate hikes by the Federal Reserve and the outlook for the Chinese economy. Company-specific and stock-specific factors have taken a back seat.

"The focus on these big issues can be very challenging for stock-pickers like us," Wong admitted.

But ultimately, the benefits of smart stock selection will prevail, particularly in the Asia-Pacific region where equity markets, by-and-large, offer enticing valuations and sound growth prospects.

"Valuations in the region are at one standard deviation¹ below the 10-year average, and price-to-book ratios are at even bigger discounts to long-term averages," he noted.

"Generally, equity markets have an upward bias over the long term. Investors can get quality returns if they pick quality stocks."

¹Definitions of the Day

Long-only

It refers to a policy of only holding long positions in assets. To be long an asset or security means to be a buyer, benefiting from an increase in prices. The opposite is short, which means the seller of the position reaps gains when prices fall.

Standard Deviation

It quantifies how much a series of numbers varies around its mean or average. This measure allows a fund's performance swings to be captured within a single number, and is frequently used to gauge a fund's risk.

Fund Snapshot (data as of 31 January 2016)

| | Aberdeen Singapore Equity Fund |
|-------------------------|--------------------------------|
| Inception Date | 5 December, 1997 |
| AUM (as at 31 Dec 2015) | S\$688.4 mln |
| Benchmark | Strait Times Index |
| Management Fee | 1.5% p.a. |
| Top Five Holdings | OCBC, Jardine Strategic, DBS, |

| | |
|-------------------------------|--|
| | UOB, City Developments |
| Sector Allocation | Financials 50.7%, Industrials 21.0%, Consumer 8.7% |
| Sharpe Ratio | 0.01 |
| Annualised Standard Deviation | 12.62 |



Text: Jennifer LH Tan

Photo: Jennifer LH Tan

Alpha Chronicles is a regular column on SGX's My Gateway website that aims to profile best-in-class fund managers in the asset management industry. The excess return of a fund relative to that of its benchmark is its alpha, while the Sharpe ratio - developed by Nobel Laureate William Sharpe - measures the fund's risk-adjusted returns.

For previous editions of Alpha Chronicles: A Sharpe Read, please click [here](#).

For more information, or if you would like your asset managers to be featured on SGX Market Dialogues, please send suggestions to jennifer.tan@sgx.com.

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