

## Falling short of expectations

Can the APS Alpha Fund deliver better performance and win back investors' enthusiasm?

I BY KELVIN TAN I

**G**eorge Tong, a 46-year-old retail-fund investor, was excited by the APS Alpha Fund's prospects when it was launched in July 2003. Managed by APS Asset Management — a homegrown boutique fund house with a sterling track record — the Asia ex-Japan equity fund looked more than capable of delivering the double-digit annual returns it was targeting. And it would only charge a performance fee of 25% of annualised returns over 6%, effectively making it a zero expense ratio fund. "Unfortunately, the disclaimer often used by fund managers that 'past performance is not indicative of future performance' is borne out in this instance," says Tong, who is married and has two daughters.

After raising more than \$80 million from Tong and probably thousands of other retail investors during a two-month marketing campaign, the APS Alpha Fund has done nothing but disappoint. It ended calendar year 2003 with a lacklustre return of 3.5% for the 3½ months that it was trading. Last year, it did little better, chalking up a return of only 3.88%, which put it among the worst performers in its class. And, so far this year, the APS Alpha Fund has returned just 1.87% (as at July 29), according to data from Standard & Poor's Fund Services. That makes it the second-worst performer of the 36 Asia ex-Japan equity funds that S&P tracks. "I am certainly disappointed with the underperfor-

mance of this fund, which has scarcely achieved the double-digit returns which it expressly set out to do," laments Tong. "The fund started with such high hopes."

Worryingly for APS Asset Management, some retail investors have been abandoning the fund in search of better returns elsewhere. The APS Alpha Fund's 2004 financial report reveals that it was hit with total redemptions of \$20.4 million last year versus total subscriptions of \$12.3 million. Without a marked turnaround in performance soon, the fund could continue losing assets, say industry watchers.

**Wrong kind of market**

"We have not done well and that is a fact," admits Wong Kok Hoi, founder and chief investment officer (CIO) of APS, in an interview with *The Edge Singapore* last week. "The past two years have been a very difficult period for us because the market [in Asia] hasn't been a stock-pickers' market. It is more of an index market."

During his more than 23 years as a professional investor, Wong has carved a reputation for uncovering undervalued stocks with good growth potential that have gone unnoticed by the rest of the market. "In a unidirectional market, like what we have been seeing over the past 12 to 18 months, it is difficult for us because investors in general are buying only the familiar names that are in the index," explains Wong, who oversees more than US\$4 billion worth

of assets at APS. In Singapore, he says, the stocks that have done well of late are mostly index counters like Hongkong Land, Jardine Matheson, SingTel and Keppel Corp. "We are stock pickers, we don't buy those index stocks," he says. "In Hong Kong, property stocks as well as the banks have performed well. Again, we don't have any of them."

Indeed, not only have many of the stocks that the APS Alpha Fund holds remained unnoticed by the market, some of them have actually declined in value even as the rest of the market has advanced. One of Wong's worst-performing stocks last year was South Korean television cathode ray tube maker Hankuk Electric Glass, which slumped 39% last year as the company reported a 53% decline in earnings.

But Wong says he isn't selling because Hankuk is still a fundamentally sound company with no debt and a business that is still "cashflow positive". Also, it is being priced by the market at little more than its net cash per share. "The share price is 40,000 won (\$1 approx 610 won) and its net cash is around 38,500 won. So, at worst, the share price would come down to net cash," says Wong. "Yes, the share price of Hankuk obviously isn't performing because the company makes mature products but its cashflow keeps going up." It could be just a matter of time before Hankuk's stock starts rising, he adds.

Among its Singapore-listed hold-

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ings, electronic contract manufacturer Venture Corp was another big underperformer for the APS Alpha Fund last year. "Venture Corp had been a big position in our portfolio," says Wong. "We have reduced it quite significantly for the APS Alpha Fund but it is still in our portfolio." But the 21% drop in its share price last year hasn't changed his mind about Venture's long-term potential. "The company is run by the same group of people with the same business model," he says. "But it is going through difficult times."

## Keeping the faith

The run of poor performance by the APS Alpha Fund could continue for a while longer, with Wong insisting that he will not chase "asset reflation plays" like property and banking counters that are outperforming strongly. "In the investment business, you have to be very disciplined in the way you manage money," he says. "You should not change your investment philosophy or the way you manage the portfolio just because of one or two bad years. A lot of fund managers that have done that in the past all ended up with disastrous consequences."

So, what exactly is Wong's investment philosophy? It is simply to focus on well-managed companies that have "core competency" in their respective fields, and that can earn high returns on equity. Given enough time, the market will recognise the value of these companies and their share prices will rise. Take, for example, Taiwanese rice-cracker manufacturer Want Want Holdings, which Wong has kept in his portfolio over the past six years. "Last year, Want Want was a dog but this year it did quite all right," he says. "From the low of this year, it must have rebounded about 30%." Taiwanese magnesium-alloy-casing manufacturers like Catcher Technology and Foxconn Technology have also been doing well lately, rewarding Wong for his stoic patience.

"So, we have not changed our portfolio very much," says Wong. "And we are still sticking to our investment style as well as those stocks that we think would do well over the long run. If these

## APS Alpha Fund's performance

	YTD RETURNS 31/12/04 - 29/7/05 (% CHG)	1-YEAR RETURNS 30/7/04 - 29/7/05 (% CHG)	2-YEAR RETURNS 31/7/03 - 29/7/05 (% CHG)
APS Alpha Fund (\$)	1.87	9.00	9.00*
Equity Asia-Pacific ex Japan Sector Average	11.44	27.40	47.91

\*Refers to the actual performance of the fund since its inception as at July 29, 2005

stocks underperform for a year or two years, we have to accept it."

## Better returns for 2005?

Against the backdrop of more sober market sentiment, Wong believes that the APS Alpha Fund would probably be ranked near the top of its class rather than the bottom. "In difficult markets, we tend to do well," he says. "If you look at the history of markets, there would be periods of exuberance and despair but, over the cycle, the discerning investors will do well." It is probably just a matter of time before the fund's returns begin shining again, he adds. "If you were to look at our track record, you would know that we have the tendency to bounce back very strongly after a period of poor performance, especially for an extended period of time."

Indeed, APS Asset Management does actually have a very good track record. During the 1996 to 2003 period, which encompasses the Asian financial crisis, Wong and his team delivered positive returns in five out of seven years on the accounts they managed for institutional clients, with annual outperformance ranging from 6% to 29% against the MSCI Far East ex Japan Index. In 2003, the fund house won the prestigious Global Investor's Investment Excellence Award in the Asian equity category. And, to be fair, the APS Alpha Fund's zero-expense ratio feature means that retail investors haven't had to pay APS Asset Management for its poor performance since 2003. Interestingly, that feature, which won the APS Alpha Fund the "Most Innovative

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Product" award for 2003 from *Asia Asset Management* magazine, has not been replicated by other funds in Singapore.

Going into the second half of 2005, the determined Wong is eager to prove his critics wrong. "This year, we want to make sure that we double what we made last year. And I am very determined to make a 10% return this year," he says. "The point I want to make is that as the going gets tough, we work even harder."

So far, fund distributors in Singapore are giving the APS Alpha Fund the benefit of the doubt. "We typically tend to assess funds on a three-year track record, so that fund managers have a full cycle in order to prove the fund's performance," says online fund distributor Fundsupermart. "This also allows us to judge the consistency of the fund's performance." As it has been in existence for only two years, it is probably too early to "write the fund off completely", it adds.

Moreover, the fund managers at APS Asset Management have committed their own money to the retail fund. "That means that they have good reason to stay on and ensure the success of the fund," says Fundsupermart. Besides, while waiting for the performance to improve, investors are not being charged. "It's hard not to like a fund with a zero-expense ratio," notes Chris Firth, CEO of online fund distributor dollarDEX.

For his part, retail fund investor Tong says he is willing to give the APS Alpha Fund another year to prove its worth. "I have no plans to switch to other funds at the moment," he says. "With the revaluation of the yuan and the ringgit, and with indices like the MSCI ex-Japan rising over the past months, I hope the saying 'past performance is not indicative of future performance' will work the other way this time round for the APS Alpha Fund."

The APS Alpha Fund, as at June 2005, is invested in 43 Asian stocks, including eight Singapore-listed counters: food producer Del Monte; contract manufacturer Hi-P International, finance group Hong Leong Finance; liquid-crystal-display maker IDT Holdings; copperfoil maker Kingboard Copperfoil; handset keypad producer Memtech International; Venture Corp and Want Want Holdings. ■