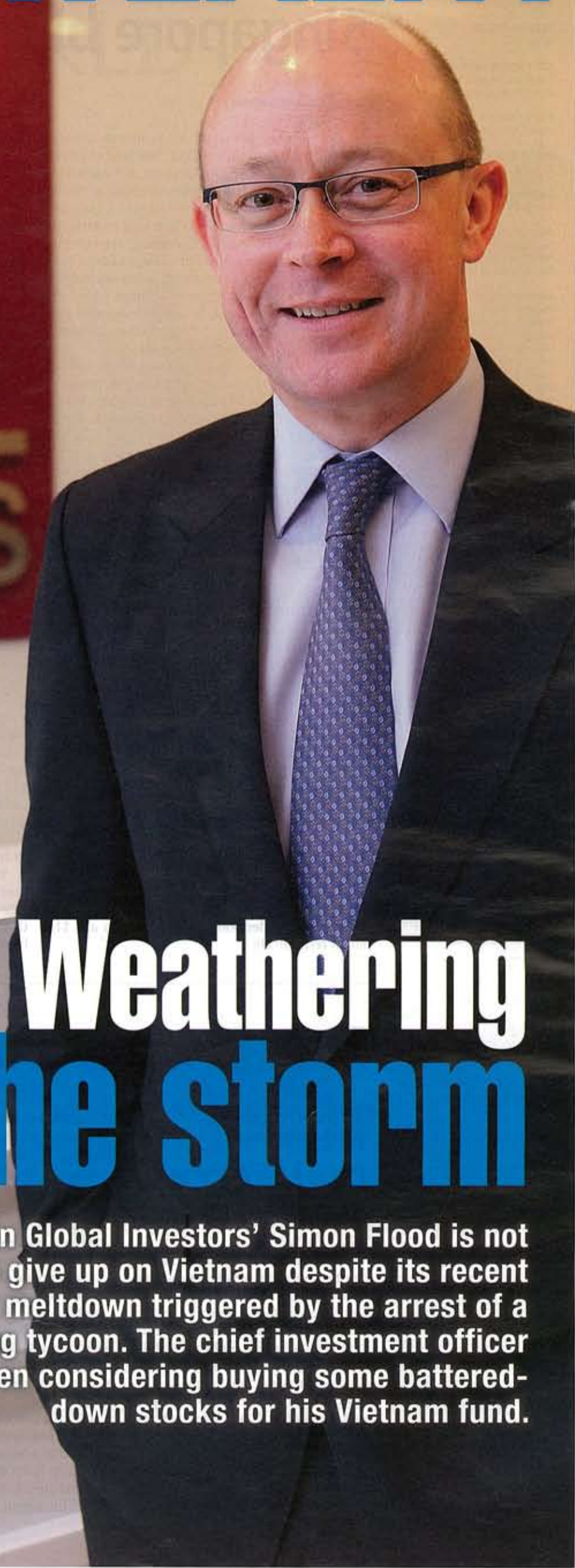


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Managing money

Phillip Capital's Anthony Hoe focuses on Singapore blue chips to deliver returns

Alternatives

Investors continue to pull money away from hedge funds

Collectibles

Eric Clapton's Richter to sell for US\$20 mil

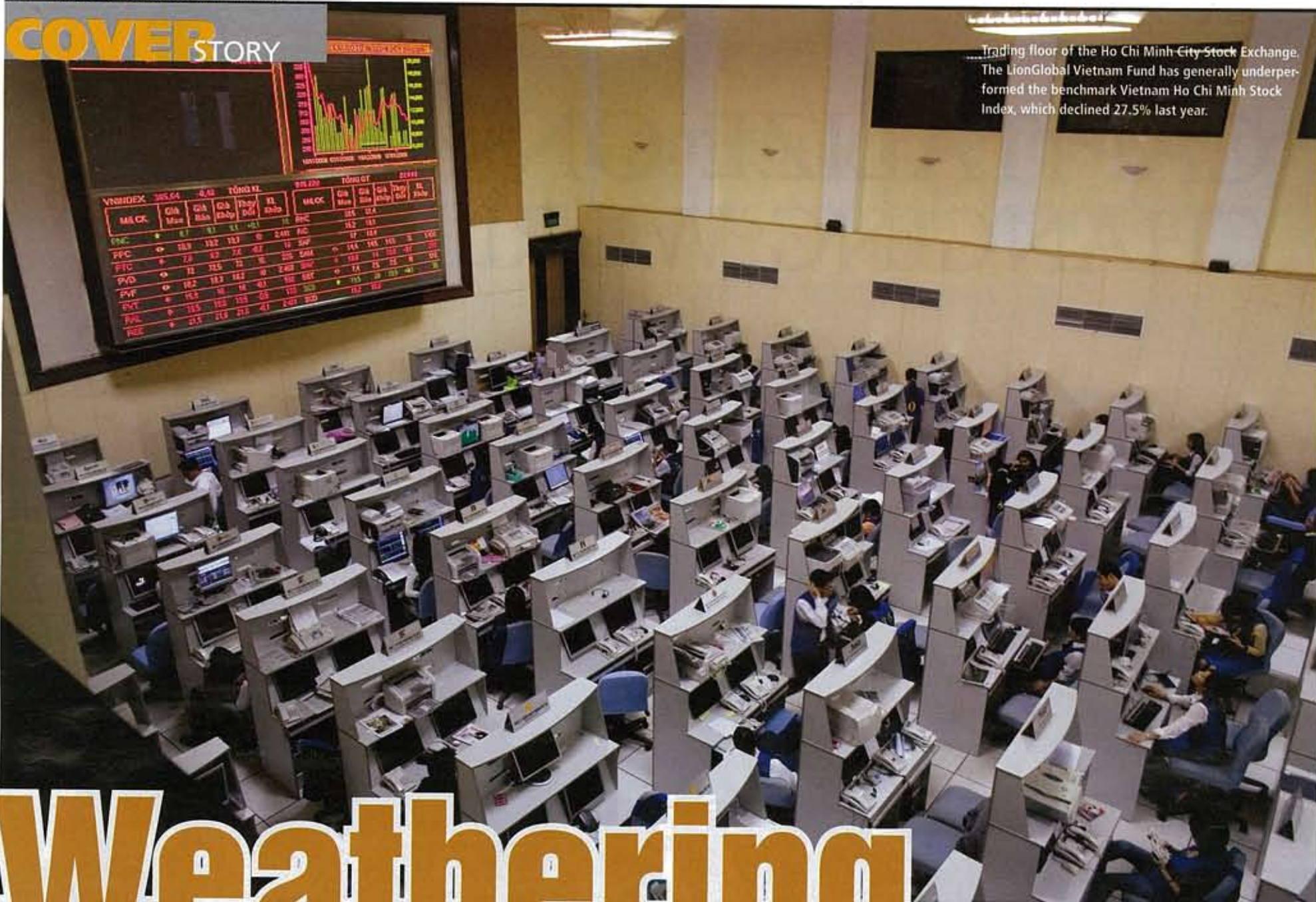
Fund focus

Slew of income funds for yield-hungry investors

Weathering the storm

Lion Global Investors' Simon Flood is not about to give up on Vietnam despite its recent market meltdown triggered by the arrest of a banking tycoon. The chief investment officer is even considering buying some battered-down stocks for his Vietnam fund.

COVER STORY



Trading floor of the Ho Chi Minh City Stock Exchange. The LionGlobal Vietnam Fund has generally underperformed the benchmark Vietnam Ho Chi Minh Stock Index, which declined 27.5% last year.

Weathering the storm

Lion Global Investors is not about to give up on Vietnam despite the country's recent market meltdown triggered by the arrest of a banking tycoon. It is also turning more bullish on equities worldwide.

BY FRANKIE HO |

While investors worldwide were keeping an eye on the European Central Bank (ECB) and the US Federal Reserve in the lead-up to their recent announcements of stimulus measures, Singapore-based fund manager Simon Flood found himself having to deal with something more pressing closer to home. Stock markets in Vietnam had crashed on news that a founding member of one of the country's largest banks had been arrested for illegal business activities, and Flood had to decide on the next course of action for a Vietnam fund he oversees.

On Aug 20, police in Vietnam raided the home of banking tycoon Nguyen Duc Kien and took him into custody, sending shock waves across the two local stock exchanges and triggering a run at Asia Commercial Bank (ACB) over the next few days. According to Vietnamese media reports, Kien was accused of using shell companies he purportedly set up for real estate purposes to channel funds for building up stakes in other local banks in the name of his family members. He owns less than 5% of ACB, whose CEO Ly Xuan Hai was subsequently arrested by police for alleged economic mismanagement.

Having got up to speed with the developments surrounding ACB and its two top executives, Flood eventually figured there was no immediate need to reduce his fund's exposure to the Vietnamese market as a result of the stampede. In fact, he even considered having the

fund pick up some battered-down stocks.

"What the situation created was an opportunity to pick up some very well-run Vietnamese companies at better prices. That was certainly something we were looking at," says Flood, 48, recounting the meltdown last month.

As chief investment officer of Lion Global Investors, owned by Oversea-Chinese Banking Corp and Great Eastern Holdings, Flood is responsible for the asset management firm's LionGlobal Vietnam Fund, a \$64.6 million fund with holdings in several leading Vietnamese companies and financial institutions, including VietinBank and Sacombank. Launched in February 2007, it is the first Singapore-registered Vietnam fund for retail investors. The fund is not invested in ACB, in which Standard Chartered Bank has a 15% stake.

Having built his career in the asset management industry, Flood is no stranger to sharp swings in financial markets. At Lion Global, he leads a 60-member investment team and helps oversee its \$27.8 billion worth of assets under management. Before joining Lion Global in October 2009, he was chief operating officer at Merrill Lynch Investment Managers, looking after its business in Asia-Pacific excluding Japan.

"Sometimes, the rumour is more damaging than the fact," says Flood, noting that depositors had rushed to get their money out of ACB, thinking that the bank was in trouble. "People responded without waiting for the facts to become clear. The facts still aren't clear." He points out that the Vietnamese central bank has clarified that the arrests had nothing to do with ACB itself.

Vietnam's deep-rooted problems

Corporate shenanigans in communist Vietnam have increasingly surfaced as the government acts to fix the country's troubled banking system, restore investor confidence and lift the economy. Earlier this month, the former chairman of Vietnam National Shipping Lines (Vinalines) was extradited to Vietnam from a neighbouring country after being arrested by Interpol. Duong Chi Dong had been on the run since March, when the authorities probed executives of the state-owned firm for suspected corruption.

In March, Pham Thanh Binh, former chairman of Vietnam Shipbuilding Industry Group (Vinashin), was sentenced to 20 years in prison for mismanaging government resources, resulting in the state-owned firm being pushed

to the brink of bankruptcy in 2010. More than a handful of other senior Vinashin executives were also handed prison terms by the court for running afoul of the law.

Once regarded as a mini China in the making, Vietnam has lost much of its allure as an investment destination in the eyes of foreigners. The recent troubles involving top executives at some of the country's leading companies have only exacerbated the situation. Among other things, runaway inflation, a sharp devaluation of the Vietnamese dong and inefficient state-owned enterprises — which account for a chunk of the country's economic output — have all been blamed for Vietnam's current malaise.

In heeding the government's push for growth, many state-owned enterprises had borrowed heavily to expand into various businesses, some of which they were not familiar with, and even speculated in the local property market, causing a real estate bubble that has since burst. Following the global financial crisis and rate hikes by the Vietnamese central bank to rein in inflation, many of these companies ended up in dire straits. Vietnamese banks in turn saw a spike in bad debts.

Despite the challenges, Flood is not giving up on his Vietnam fund just yet. "The investment climate in Vietnam is clearly tough, but the road to progress in emerging markets has potholes in it," he says. "We are defensively positioned in Vietnam. We take positions in large companies with well-managed businesses. Those businesses will have their moment in the sun, but not at every stage of the

Top 10 holdings of LionGlobal Vietnam Fund

STOCK	% OF NAV
Vingroup JSC	12.5
Masan Group Corp	9.9
Vietnam Joint Stock Commercial Bank for Industry and Trade	6.9
JSC Bank for Foreign Trade of Vietnam	6.8
Hoang Anh Gia Lai Group	6.6
Sacombank	5.9
Petrovietnam Fertilizer & Chemical	5.3
Hoa Phat Group JSC	4.7
Baoviet Holdings	4.7
FPT Corp	3.9

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cycle. We will not turn over our fund aggressively to try and keep pace with the rotations in the market."

Even the prospect of Vietnam being bailed out by the International Monetary Fund (IMF) has not caused him to lose sleep, he adds. Earlier this month, the Vietnamese National Assembly put out a report saying the country needs some VND250 trillion (\$14.7 billion) from the IMF to save its banking system from collapse. Vietnamese banks have the highest bad debts among lenders in Southeast Asia. The government has insisted, however, that it will not seek help from the IMF. Vietnam last sought aid from the fund in 2001.

"Politically, the IMF's involvement is probably never that popular," says Flood. "Sometimes, countries get to a point where they have to hit the reset button. I am not aware that Vietnam is in that place. You only need to look at its currency. The currency has not gone through the floor."

Vietnam fund's performance

Flood's determination to stay the course in Vietnam and ride out its market volatilities may not necessarily sit well with investors of the LionGlobal Vietnam Fund. According to Bloomberg data, the fund's net asset value (NAV) in Singapore-dollar terms was down 68% from its inception in 2007 to August 2012. Its NAV was down 36% last year and 24.5% over the last three years.

The fund has generally underperformed the benchmark Vietnam Ho Chi Minh Stock Index (VN Index), which declined 27.5% last year but gained 11.4% over the past three years. Over the last five years, the index fell 53.2%. When compared with the FTSE Vietnam Index, the LionGlobal Vietnam Fund did better. The FTSE Vietnam Index, which was launched the year the fund took off, fell 47.7% last year, 32% in the last three years and 74% from its inception to August 2012.

All three did much better in the first eight months of this year, with gains of 12.7% for the LionGlobal Vietnam Fund, 12.6% for the VN Index and 13.5% for the FTSE Vietnam Index.

Flood adds that the fund's performance can be hindered by foreign-ownership restrictions. Foreign investors are not allowed to own more than 49% of a Vietnamese company. The ownership limit for Vietnamese banks is 20%. "Once the foreign quota for a company is full, you can't buy anymore in the market," he says.

Almost half, or 46.6%, of the fund's investments are in the financial sector. Other sectors it is invested in include consumer, industrial, basic materials, communications and energy. The top five companies in the fund are **Vingroup**, **Masan Group**, **Vietnam Joint Stock Commercial Bank for Industry and Trade**, **JSC Bank for Foreign Trade of Vietnam** and **Hoang Anh Gia Lai Group**.

Global outlook not as bad

Vietnam is not the only subject on Flood's mind. While Europe and the US are still struggling with their own troubles, there are reasons for investors in general to be more optimistic, he says. For one, inflation is no longer a major concern worldwide, although it remains to be seen how the third round of the Fed's quantitative easing, unveiled on Sept 13, would ultimately affect asset prices.

"The decline in inflation on a global basis is creating opportunities for central banks to reduce interest rates, which in turn should result in higher demand for finance, which will stimulate the economy," he says. Besides pledging to buy US\$40 billion (\$48.9 billion) worth of mortgage-backed debt every month from banks to keep long-term interest rates low, the Fed also intends to keep its short-term benchmark rate near zero until at least mid-2015.

As it is, companies, especially in the US and Asia, are sitting on large amounts of cash, according to Flood. While many in Asia have in-

creased their dividend payouts in recent years as a way to use this cash, companies in general have not been as active in terms of pursuing acquisitions, he notes. "There is potential for this cash to be put to work. That can have a material effect on confidence and markets in a fairly short period of time."

Even companies in Europe are ready to take off, once there is greater clarity in how European leaders handle the debt crisis, he says. "We are seeing a number of opportunities coming out of Europe. There are many companies in Europe that are well positioned, such that once the environment clears, they would start participating again, not just in the export markets but also in the domestic economies."

The political will in Europe to ensure the survival of its single-currency bloc is strong, with "almost a unity of perspective" among

proponents of a break-up of the euro, because they know that they are better together than they are apart."

The fact that Spain is reluctant to go the way of Greece in seeking external aid is a sign that it is prepared to rough it out to make things work, he adds. "They don't want to be beholden to Europe. To get these countries to stand on their own two feet and sort out their own troubles is great."

While the eurozone is clearly under stress, Flood believes it will ultimately come out of the crisis stronger. "This policy of robbing tomorrow to pay for today is something that has been tried, stress-tested and failed throughout history. And so, to force Europe into a place where it needs to be responsible, where it needs to run a balanced economy, where it needs to look at its level of government ex-



Flood: The investment climate in Vietnam is clearly tough, but the road to progress in emerging markets has potholes in it

politicians and the ECB, he says. "The peripheral nations, from which a lot of these problems emanated, have all seen a change in political leadership. What you have is a determination to save Europe and the euro. There aren't many people out there who are active

penditure, is actually something that is very positive," he says. "That ultimately means a stronger Europe, a stronger euro and a better-balanced global economy."

For now, his team at Lion Global is starting to adopt a more risk-on stance for global equities. "We are approaching 'neutral' now from 'underweight'. We think there is a lot of bad news in prices."

In China, domestically focused Chinese companies, particularly those involved in infrastructure development, should still do well despite a slowdown in the world's second-largest economy, he figures. "There are a number of good companies in China that will benefit from government spending programmes. We like these companies on the basis of their valuations and the outlook for their earnings, which are more secure, given that their funding comes from the government." He declines to identify these companies.

Still, with an impending change in political leadership, Flood doesn't expect China to announce any major policies to support its economy in the near term. "They will be talking about doing some things rather than making big gestures. You will probably see a series of smaller steps, as we have already seen with the reserve requirement ratio being decreased and interest rates coming down."

Views on the US

Leadership changes may also be on the cards in the US, which will hold its presidential election in November. While both President Barack Obama and his Republican rival Mitt Romney

have pledged to do their utmost to boost the economy and help jobless Americans get back to work, Flood expects the status quo to be maintained in the lead-up to the vote.

"I think their first goal is to get elected rather than to save the economy," he says. "There is too much to play for politics for people to demonstrate genuine leadership. When I say genuine leadership, I mean doing what is right for the country as opposed to what they think is politically astute. That applies to both the Democrats and the Republicans."

But even after the presidential election, the US still has its so-called fiscal cliff to contend with. More than US\$600 billion in tax hikes and cuts in government spending will kick in from Jan 1 next year, making it even harder for the anaemic US economy to make any progress, unless lawmakers pass legislation to prevent them. Income-tax cuts under the Bush administration and a subsequent dole-out of fiscal stimulus measures were put in place to help jump-start the economy, but these would cease from January as the government seeks to rein in its huge budget deficit.

"When negotiations started on the US debt ceiling the last time around, that was the first time I can remember when the Democrats and the Republicans demonstrated very clearly that they were incapable of reaching across the aisle to achieve consensus that would benefit all of America, not just their constituents," Flood says. US companies, he recalls, ended up holding back their expansion plans and stopped hiring altogether until both parties finally agreed to a deal. He is hopeful, though, that US lawmakers will still work something out before the January 2013 deadline.

Taking stock

Even as he continues to keep an ear to the ground for investment opportunities, Flood remains focused on building Lion Global's profile. "It's fair to say we are not the biggest operating division in OCBC," he concedes. Even with Great Eastern, which owns 70% of the asset management firm, Lion Global is "not an enormous contributor".

Since Daniel Chan stepped down as Lion Global's CEO in 2010 for personal reasons, the company has undergone "a significant change" under current CEO Gerard Lee, becoming more performance-focused and disciplined in constructing and managing its portfolios, says Flood.

"You need to build a track record. Then people get to know you and entrust their money to you. Are we where we want to be yet? No, we are not. Asset management is a long-term game. We are building on the foundation that we got in place."

He takes particular pride in the performance of some of the firm's newer products, such as the Asia High Dividend Equity Fund, launched in January, and the LionGlobal Emerging Markets Bond Fund, which took off in November 2010. "There's a lot of money out there that continues to look for yield and safe havens," he says.

Since its inception, the Asia High Dividend Equity Fund has seen its NAV in Singapore-dollar terms grow 10.4%, beating the MSCI All-Country Asia Pacific ex Japan Index's 3.3% gain over the same period. In recent months, interest in the fund was underpinned particularly by investors seeking safer plays amid an increase in volatility in financial markets. The fund has the greatest exposure in Australia (30.3% of its NAV), followed by Singapore (22.3%) and Taiwan (17.6%). The top five companies it is invested in are **QBE Insurance Group**, **Woolworths**, **Telstra Corp**, **Singapore Telecommunications** and **Singapore Press Holdings**.

As for the LionGlobal Emerging Markets Bond Fund, its NAV rose 11.2% in the first eight months of 2012, compared with a 9.2% gain by the JPMorgan Corporate Emerging Markets Bond Index. The lion's share of its holdings, almost 40%, is in Asia.

Sector allocation of LionGlobal Vietnam Fund

