TOPLINE

A startup life, for these two fund managers

Passion and confidence drive founding duo behind fledgling fund Astral Asset Management. BY CAI HAOXIANG

IN humble digs at the Regus business centre at Suntec City Tower 2 sit two fund managers planning to make a name for themselves.

From inauspicious beginnings in May 2015 right before the China crash, Astral Asset Management has grown from US$5 million in initial capital to US$13 million of assets under management (AUM) today.

The Astral Value Fund, which the firm manages, has returned 18.5 per cent from inception till end-May this year.

The firm has broken even on their operational costs, says Sean Mah, 36, the fund's cherubic-looking chief investment officer. "We're very good at bootstrapping."

Mr Mah, together with chief executive officer Lee Kian Soon, 42, are the brains, the brawn, and everything else in between behind Astral.

No excessive spending

They pay themselves fresh graduate salaries. They share a tiny office with a Bloomberg terminal, while fund administration is outsourced and investor meetings held in a larger Regus room.

"You don't spend excessively on rental or entertainment. We believe performance is a better way to attract investors," Mr Lee explains.

Astral was down 1.8 per cent in 2015, up 7 per cent in 2016, and up another 12.8 per cent year-to-date till end-May.

The firm was only about half-invested at the beginning of the mid-2015 crisis, and also benefited from investing throughout the stock-market downturn. From US$5 million raised from eight investors in 2015, including the two founders, the fund now counts more than 20 investors today. It is open to accredited investors only.

"Many guys gave us US$100,000 to start with. But those with conviction kept topping up even when the market went down. So while on paper we made 18 per cent after two years, those who bought at the worst moments made even more," Mr Mah notes.

Astral's performance was due to bets on a number of consumer and healthcare firms. A large gainer it is still holding on to is Hong Kong-listed Hop Hing Group, which owns the rights to operate Japanese fast food chain Yoshinoya and US chain Dairy Queen in northern China.

"Last year was a bad year for China; this was one of the few companies that had positive same store sales growth," Mr Mah says. "If you bothered to talk to management, you could see they had a turnaround story coming, benefiting from food deliveries."

According to Mr Lee, food and beverage chains which expand too quickly will end up closing stores. But once the restructuring is over and write-offs are incurred, profitability can be regained. This thesis also applies to another significant holding for the firm, BreadTalk Group, he adds.

Striking out

A former McKinsey consultant covering financial services, Mr Lee joined family office Mingly Corporation and helped set up its Singapore operations in 2007.

It was when he was looking for investment professionals in 2008 that he decided to hire Mr Mah. The younger man had just graduated in 2006 and worked as an auditor with PwC for two years.

"Sean came across as very logical and keen in investing, at a point when most people were looking to work in an investment bank," Mr Lee remembers.

Both Mr Lee and Mr Mah worked at Mingly until end-2014, when they decided to strike out. A track record of returns and many years of experience made the duo confident that they had the skills needed to make a living from investing.

"I always wanted to have a shot at entrepreneurship. By then, I was almost 40. Potential investors also gave strong signals," Mr Lee says.

Astral follows a value strategy and has around 70 stocks in its portfolio. It originally began targeting to have two-fifths of AUM in Hong Kong, two-fifths in Singapore, and the remaining fifth in the United States.

But it now has two-thirds in Hong Kong and the remaining third in Singapore.

"Over time US got so expensive that we decided to stay out of it. Hong Kong got cheaper and cheaper," Mr Mah points out. "Today, Singapore mid- and small-caps have rallied a lot but not Hong Kong mid-small caps."

Singapore stocks added recently include private hospital operator Health Management International and hotel play Amara Holdings.

(From left) Mr Lee and and Mr Mah of Astral Asset Management. They are the brains, the brawn, and everything else in between behind Astral. PHOTO: KELVIN CHNG

Legitimate business model

Mr Mah says a lesson he learnt through the years is the importance of ensuring that a firm's business model is legitimate. A firm's shareholders and management are also important, Mr Lee adds.

"A lot of companies have conflicts of interest or corporate governance issues. No matter how good their business model is, or how cheap, they still cannot perform," Mr Lee notes.

Cross-checks with sector experts in personal networks and through published information on suppliers, customers and competitors are thus critical, he says. If the duo disagree on a stock, the fund usually takes a small position first, Mr Mah reveals.

Astral was notably in beauty products direct seller Best World International in 2015 before its spectacular 10-bagger rally in 2016 and 2017.

However, it has sold off most of its position through the rally. "We still think it's the right thing to do," Mr Lee says. He notes the business is not a "franchise" stock with pricing power and a predictable revenue stream, and its growth is already priced in.

Astral can expand to US$50 million with its current lean set-up without any change in strategy or personnel, Mr Mah says.

Asked about fees, a hot topic of debate in the investment industry, he argues that a modest management fee is necessary. "The manager doesn't have to take excessive risk to get performance fees, because he has a pay cheque at the end of the month," he says.

Ultimately, it will take time and returns to build up Astral, according to the founders.

Asked how both of them can keep track of 70 stocks, Mr Lee replies: "We have been in (the industry) for 10 years each, so we have a good sense of stocks listed in Hong Kong and Singapore. We didn't do this overnight."

haoxiang@sph.com.sg
@HaoxiangCaiBT