ASTRAL ASSET MANAGEMENT: COMPOUNDING CAPITAL WITH DIVERSIFIED VALUE STRATEGIES

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It was a rainy morning when I first met up with Mr Lee Kian Soon, the CEO of Astral Asset Management. He started the Astral Value Fund with Mr Sean Mah, who is the Chief Investment Officer in the Company. Over a cup of coffee, he shared his insights about stock investments. As value investors, we struck a chord as soon as we began our conversation. An intellect and an experienced stock picker, I was fortunate to be able to pick his brain and piece together this interview, and present it exclusively for your learning and reading pleasure.

What was the motivation in starting the Fund?

If the last century was known as the U.S. century, we are optimistic that this century will be the Asian century. We see many exciting investing opportunities in Asia, and we believe many investors know about the Asian growth story and are keen to invest but either do not have the time or required expertise to do so. We would like to offer investors an opportunity to participate in the growth of the Asia region through our flagship Astral Value Fund.

Astral Value Fund is managed more like an owner's fund. An owner's fund refers to the fact that we treat the fund as if we own the capital with capital preservation being our starting point, and we would invest only if the returns and risks can be met according to our targets. Both fund managers have invested a significant portion of their personal wealth into the Fund as we earnestly believe in eating our own cooking.

What is the objective of your Fund, and what do you invest in?

We invest mainly in Asian equities. Our aim is to earn a return higher than the equity markets by taking less risk over time, through holding portfolio of mainly long-only equities, bonds and cash.

Beating a benchmark or index is not enough, we strive to deliver returns as absolute as possible, and as resilient as possible, in bull markets and more importantly, in down markets.

To deliver consistent absolute returns, we have a high watermark, meaning to say we only get performance fees if we make positive returns and exceed the previous value where performance fee was paid out. This is important in down markets as even if we beat the indices but end up lower than our previous high Fund's NAV, we are not entitled to a performance fee. The focus should always be consistent positive returns for our investors and only then will the magic of compounding start to kick in.

We are value investors and believe that carefully selecting a portfolio of assets diversified over different value investing strategies, with a suitable margin of safety relative to their intrinsic value, would help us achieve our aim of compounding wealth over time.

What is your investment strategy?

We believe that value investing goes beyond the traditional classification of deep value which is to buy cheap relative to earnings or assets. Several other situations give rise to value investing such as buying fast growing companies at mature companies' valuations or paying a fair price for franchise companies. We also invest in turnarounds, sustainable high income situations and special situations such as Mergers & Acquisitions.

By investing in a variety of value investing situations, we believe the value of the portfolio can be protected, especially during market downturns.

In good times, we believe the majority of our situations will do well. In bad times, a pure portfolio of traditional deep value situations tend to become cheaper and a portfolio of fast growing companies will be deeply discounted. This is when franchise and high income stocks would be the saving grace and investors would be thankful we have them in the portfolio. Unaffected by the general market sentiments, turnarounds and special situations have a life of their own.

Our diversified strategy is the main reason why we have avoided making any major losses since May 2015 whereas our main investment markets in Singapore and Hong Kong have tumbled over 20%.

	Astral Value Fund	**MSCI Asia Index**	**Hang Seng Index**	**ST Index (USD*)**
May 2016 YTD	2.8%	-2.1%	-5.0%	-0.6%
Since Inception May 2015	0.9%	-15.8%	-26.0%	-23.1%
Outperformance Since Inception		16.7%	26.9%	24%

**Straits Times Index was rebased to USD using the month-end exchange rate.*

When equity markets are overvalued, we will invest in other asset classes such as fixed income or cash, while waiting for better risk-reward investment opportunities to surface. We always have some cash and short term bonds available for both liquidity and to take advantage of sudden mispricing.

How do you allocate capital for various value strategies?

There is no hard and fast rule and weighting the portfolio is more art than science.

In a normal situation to bullish situation, high income and franchise stocks should occupy about 20% of the portfolio and the remaining 4 strategies (deep value, fast growers, turnarounds and special situations) should have equal proportion of about 20%.

When the market turns bearish, the opportunity set will increase substantially for deep value, fast growers and turnarounds. We have to ensure that the switching is worthwhile though, i.e., the new position has a much better risk reward ratio than the existing one.

In general, we do not exceed 40% of a portfolio for a particular strategy. We are currently heavily weighted to buying reasonably priced fast growing companies and turnarounds as these two categories have been hit hard by the recent downturn.

How do you generate your trade ideas?

With one eye on the investment climate among the various asset classes, we build up our portfolio one asset at a time using a fundamental, bottom-up approach. Besides the periodic screening of potential companies, we get our new ideas from interviews and periodicals.

The bulk of our time is spent constantly monitoring and keeping track of a large number of companies which we have studied before. We try to understand each potential company and their business models in depth. We look for situations where there is significant mispricing between the price and intrinsic value.

Once we identify significantly mispriced equities, we will do detailed analysis and build up a position based on the size of the discount and quality of business. Attention will also be paid to the liquidity of the equity and the potential for narrowing of the gap between the discount.

We will monitor diligently the stocks that we hold and seek to maintain a portfolio of equities diversified over various value investing strategies and throughout the capitalisation spectrum.

What is your investing edge?

Prior to setting up Astral, both fund managers have had experience investing, consulting and managing various businesses which have developed our capabilities to appraise the true value of companies. We have also built up a network of contacts over the years which give us first hand insights into the competitive dynamics of industries. Before establishing the fund, we had a 3-year track record investing using the same investment strategy which delivered significant returns to our investors.

	Track Record#	MSCI Asia Index	Hang Seng Index	ST Index (USD*)
Jan 2012-Aug 2014	47.1%	20.3%	21.3%	14.5%

** Straits Times Index was rebased to USD using the month-end exchange rate*

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Besides our experience, the other key investing edge is pure hard work. For us, whenever we see a business trading at a steep discount to intrinsic, we start out by saying we have no edge at all and then think why "Mr. Market" would give us such a bargain. The reason is because for every trade we enter into, there is an opposite seller who have owned the stock, and the fact the seller owned the stock before means they have a high probability of knowing more than we do. Hence we ought to understand why they are selling the stock.

Our edge we have over the other side will only come when we dive deep into the company and "kick the tires", knowing the short term and long term prospects of the company by doing industry research, talking to management, customers, suppliers, competitors and other stakeholders.

You have mentioned that you 'dive deep' into the research of companies. How much time do you spend on a company before investing in it?

Even though we invest in different value strategies, we still have to work out how much is the intrinsic value of the company compared against the current price. Through deep diving to make sense of how strong is the moat of the company and assessing the management quality, we try to think of a range of intrinsic value that the company is worth.

We take days, months, or even years, before putting our money in a certain stock. Every time we look at a company, we document our thoughts, meetings and valuation into writing which is stored inside a database. It is very tedious at first but over time when you analyse enough companies, that repeated structured thinking and database become extremely useful. A stock would stay on our watchlist if we feel that the valuation is not right, timing is not right or a catalyst is not present.

We currently actively follow about 400-500 companies listed in Hong Kong and Singapore in our watchlist and about 60-70 companies have made it to our portfolio.

How should potential investors contact you and find out more about the Fund?

As we are a Registered Fund Management Company, regulated by the Monetary Authority of Singapore, Astral Value Fund is only open to accredited investors.

For more information, please feel free to visit our website at www.astralasset.com

Potential investors who are keen to find out more can give us a call at 6407 1544 or email us at: enquiries@astralasset.com

We aim for a 10-15% return annually. Thus far, we've been ***outperforming our expectations.***

This is how we do it: Revealing the secrets to consistent profits from the market
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