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Focused on absolute return

JAMES DUNN THE AUSTRALIAN SEPTEMBER 20, 2013 12:00AM



From left: Han Lee, Leanne Pan, ST Wong and Yong Quek in Melbourne.

IN an ideal world, Han Lee would not measure his fund's performance very often.

Lee, the co-founder and investment director at Melbourne-based Prime Value Asset Management, is a true long-term investor: but since he has opened his fund to retail money, he has grudgingly accepted the "tyranny of measurement".

Not that Lee should have any concern - his flagship fund, the Prime Value Growth Fund, has outperformed its benchmark (the S&P/ASX 300 Accumulation Index) by 5.6 percentage points a year since establishment in April 1998.

The fund has delivered 13.7 per cent a year since inception (net of fees but excluding performance fees), has beaten the benchmark in 11 of those 15 years and delivered a positive return in 12. That ranks the fund in the top echelon of Australian share funds: of the 250 large-cap "growth", "value" and "blend" funds that have 10-year performance numbers, Morningstar ranks the Prime Value Growth Fund fifth.

Lee is not a fan of this kind of categorisation. His philosophy boils down to buying individual businesses, as part-owners. "I don't think that we have a 'style'; in fact, we resist being pigeon-holed," he says. "We are plain-vanilla stock-pickers. We like companies for their business strategy, their management, their opportunities, and we're prepared to wait as long as it takes for value to be realised."

It sounds a bit like Buffett-style intrinsic value investing, a comparison Lee accepts. "Maybe that's because of my antiquity. My first bible on investment, as a student in the 1950s, was Graham and

Dodd's Security Analysis. That's the Old Testament. The New Testament is Warren Buffett's annual shareholder letters."

Lee, who has a 40-year track record in the Australian investment market, came out of Shell Australia, where he had been managing the equities component of the company's corporate super fund. At Shell, Lee met Y. Yong Quek, who worked in the corporate treasury. When they left Shell in 1998, the two started a boutique investment fund, because friends and family wanted them to invest their money.

Joint chief investment officer Leanne Pan, who had worked with Lee on the Shell corporate super fund, came across from the Orica corporate super fund in 2004; Pan's joint chief investment officer Shih Thin (ST) Wong joined in 2011.

"We started with our own money, my in-laws' money and some related families in Asia who wanted us to manage their money," says Quek. "At that stage, because we were, in effect, a family office, we could do our own thing, and what we really wanted to do was manage money in a high-conviction, concentrated-portfolio, index-unaware style." But in 2004 the firm opened the fund up to external investment. When you do that, the surveys and benchmarks become a part of your life.

"We decided that with more money, we could spread the overhead cost around and average it down a bit," says Lee. "It is still managed as if it is our own money, because we have our own money in it. Long-term return on investment matters more to us than relative performance to the benchmark, but the reality is that you have to be measured against something - even though the benchmark doesn't add any value to what we're doing ... we're not concerned about market capitalisation, and we hold a very concentrated portfolio."

At present the Prime Value team manages \$250 million: it holds about 30 stocks, with some overlap in the three funds. Absolute return is the focus, with preservation of capital a close second. "A strict valuation perspective doesn't feature significantly because we don't just buy 'cheapness' for its own sake," says Wong. "We can invest for the longer-term - as long as it takes for value to be realised; we're not focused on month-on-month."

Prime Value Asset Management also manages the income-oriented Prime Value Imputation Fund, launched in 2001, which has outperformed the S&P/ASX 300 Accumulation Index by 4.7 percentage points a year since December 2001, 12.3 per cent to 7.6 per cent.

In May, Prime Value launched its first new fund for almost 12 years, the Prime Value Opportunities Fund, also a concentrated equities fund, designed to balance outperformance and capital preservation. Its mandate allows a 100 per cent cash weighting, and also a 20 per cent allocation to international stocks.

Lee says Prime Value wants to grow its funds under management organically, but never wants size to compromise the way it invests.