Forward-Looking Fact-Based Fraud Detection System

While a high-conviction investment strategy has worked well for investment businesses such as Investor AB, we believe that value investing needs to be adapted in Asia to mitigate the risks of accounting irregularities and misgovernance, and our investment outperformance with low volatility has been a result of thoughtful systematic improvements to incorporate the fact-based forward-looking detection system as part of the investment process as implemented since September 2015.

For instance, screening for high net cash or high net current asset as a percentage of market value of the company might be the first step for many "Graham-style net-net" value investors to determine the attractiveness in valuation of certain stocks, so that the "asset liquidation value" acts as the floor to protect downside risk against further price declines, thus providing a "margin of safety" and call-option-like returns as mean-reversion works to realise returns over time for the patient value investor. However, their financial numbers could be "propped up" artificially to lure in funds from investors and the studiously-assessed asset value has already been "tunneled out" or expropriated in money-go-round tunneling opportunities via unusual related-party transactions. A number of these supposed value stocks are thematic stocks that are part of the "Ride the Asian Growth Story!". These stocks turned out to be the subject of some exciting "theme", but are inherently sick and prey to economic vicissitudes. They may seem to grow faster initially but the sustainable harvest of their returns is far too uncertain to be the focus of a wise programme in investment. Furthermore, Western-based fraud detection tools and techniques have not been adapted to the Asian context to avoid these traps.

Thus, accounting information can be used to inform – or to deceive. I am fortunate to have taught accounting at the SMU, including launching the inaugural 15-weeks course Accounting Fraud in Asia, and is grateful to be invited by Singapore's financial regulator Monetary Authority of Singapore ("MAS") to present to their top management team. We believe that we are one of the pioneers in incorporating the fact-based, forward-looking fraud detection system that combines accounting data, especially footnotes, with a wide array of contextual information - including unusual related-party transactions; money-go-round off balance-sheet activities; governance, group structure, consolidation accounting and ownership analysis; textual and linguistic analysis; analysis of event-based "catalysts" (information-based manipulation) and sensitive market announcements (action-based manipulation in prices and volume) - to provide fresh insights in equity valuation to inform our decision-making in investments.

Noteworthy is the accounting irregularities in one of Singapore's mainboard-listed companies China Environment Ltd (5OU: SES) first highlighted in February 2015 in the SMU course Accounting Fraud in Asia. The company had all the attractive traits of a "value stock" with single-digit price-earnings ratio and a very low price-to-book ratio. In the month before, China Environment received the Singapore Exchange's ("SGX's") approval to its placement of new ordinary shares and warrants to raise capital from the public which resulted in the share price spiking 20%. In the course, we flagged out its unusual unsecured interest-free loan advances to a mysterious "sub-contractor", sudden increase in other receivables, circular money-go-round transactions in money pledged to give loan guarantees and loans to related-parties, and a multitude of accounting irregularities in the footnotes pointing towards a potential accounting tunneling of assets via short-term rollover loans to undisclosed related-party entities. In June 2016, China Environment was investigated by Accounting and Corporate Regulatory Authority ("ACRA") who had also asked the firm to refile and restate its financial statements for financial years 2013 and 2014 in mid-June 2016 - done under the Financial Reporting Surveillance Programme. This came after China Environment's auditor Baker Tilly resigned on 15 April 2016. In late September 2016, its unit Fujian Dongyuan Environmental Protection received a letter of demand from China Construction Bank for overdue interest on a working capital loan of RMB23 million. A High Court writ of summons had earlier been issued against the founder Mr Huang and his family on 28 September 2016 about alleged non-existent receivables from firms Anhui Shengyun Mechanical and Nanning Youji Technology. The share price of China Environment has plunged 80% since February 2015.

In a presentation to the MAS in September 2015, I pointed out the potential of implementing the world's first fact-based fraud detection system for Singapore using a variety of corporate examples and how huge value destruction and losses harming the minority shareholders of China Environment and many other corporate examples can be avoided. The objective and benefit of this fact-based fraud detection system is not only to detect and prevent, but to also spur corporate reforms. I suggested a public disclosure of the list of companies by the four categories of commonly-used tunneling methods used by actual insiders, manipulators and syndicates to expropriate corporate assets -- (1) Money-go-round intercorporate loans, guarantees, other receivables and investments, (2) Capex irregularities, (3) Deals potion, (4) Consolidation craftiness e.g. the improper pushing of operating expenses and debt liabilities into unconsolidated entities in which the listco has effective economic control and power to artificially inflate its own profit and balance sheet asset value -- on the SGX website to inform and educate public in a Financial Literacy 2.0 campaign. This would prevent harm before fraud happens, and spur the potentially fraudulent firms to act to improve their corporate governance, including returning back part of the expropriated "missing cash", to get themselves off the List. This system is not a company-specific "short-selling campaign" and it is fact-based – so the companies in the List have no grounds to object.

By hanging this sword of Damocles over their heads, this will bring about greater efficiency in the overall regulatory system given the limited resources in going after so many fraudulent cases on a case-by-case basis which may occur and implode systematically during poor market and economic conditions, such as the reverse merger fraud wave in the US that was concentrated in 2011. By flushing out the lemons in the Singapore capital markets, it will no longer be the playground for manipulators and syndicates, and trust and credibility with local and global investors can be restored. A personal belief is that the capital markets should serve the grand purpose

Business Segment Report
Public Markets - Investing in Hidden Champions

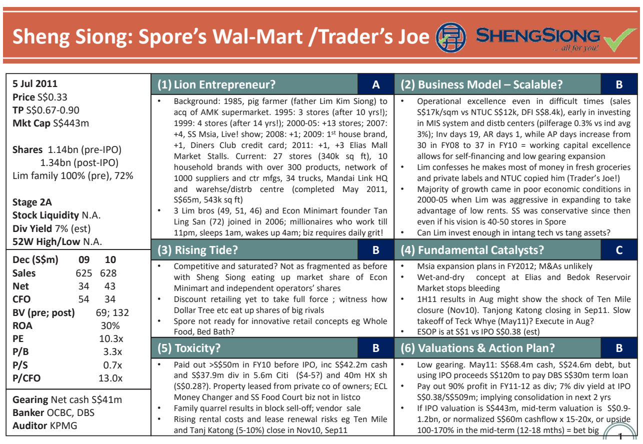
of "藏富于民", as a vault for common folks to protect, to preserve, and to compound their wealth in outstanding wide-moat innovators. Until the lemons problem has been resolved, getting retail investors to "invest" their hard-earned savings or/and CPF in the Singapore capital markets is a misguided initiative.

Thus, the pitfalls of investing in the Asian capital jungles due to accounting and governance risks remain very real and the serious investor must never ever dismiss these risks.

"How About Singapore Stocks?"

We are often asked: "How about Singapore stocks?". When the MIT Investment Management Company (MITMCo), the endowment fund of the Massachusetts Institute of Technology, visited my previous fund house in 2011 and 2012, I used the example of local supermarket operator Sheng Siong Group Ltd to highlight our investment strategy and process and that it is one of the few Singapore companies which we can invest S$20 to S$50 million in a single stock for the long term.

I had helped set up a meeting with the owner-operator Mr Lim Hock Chee and CFO Mr SK Wong in May 2011 before the company was listed in July 2011 with a share price of S$0.33 at a market value of around S$443 million. Mr Lim had commented that we were the first institutional fund manager to visit them and he showed us around his new Mandai Link warehouse and distribution centre. I asked Mr Lim about his Hidden Champion neighbour PIN Corporation, the leading cold storage logistics player, next to his Mandai Link HQ and professed my admiration for both him and Mr & Mrs Liew Yew Fah, and asked whether they might come together one day. Like Wal-Mart, both Sheng Siong and PIN are innovators in embedding technology into their business model to scale up, which enabled Sheng Siong to command efficient speed in its inventory turnover and achieve sales at S$17,000 per sqm, which is 40% higher than state-run giant NTUC Fairprice and double that of Dairy Farm Intl/Cold Storage.



Above is a summary excerpt of the 2011 presentation cover slide to MITMCo above to shed insights on the projected valuations in the mid-term of doubling and tripling to S$900 million to S$1.2 billion in the next three to five years – fast forward five years later to the present, Sheng Siong now trades at a market value of over S$1.5 billion.

Other than Sheng Siong which we publicly profess our love for, in terms of the business and the aligned owner-operators; Raffles Medical Group's Dr Loo Choon Yong; a few other listed companies which we have been closely monitoring; as well as a proprietary database built up over the decade-plus of 150 unlisted Hidden Champions, we do not find many other listed Singapore companies which we can be comfortable sizing up to an investment amount of S$10 to S$50 million in a single stock.

You might ask: "How about Singapore companies with brand visibility all around us"?

In our unrelenting effort to serve value investors and the public "to explain, exhort, encourage, inform, educate, advise" in the timeless wise words of the late Dr Goh Keng Swee, one of the founders and chief economic architect of modern Singapore, we would like to share briefly about a listed corporate example of a F&B/FMCG company with "brand visibility" but with potential accounting issues that begged further accounting transparency and disclosures. The objective is not a specific targeting of companies but to highlight the risks involved in thematic investing and to illuminate how the multitude of companies might fall under the forward-looking fact-based system in the four categories of commonly-used tunneling methods as shared earlier. More importantly, we hope to play our small part in crafting Singapore to be a special Home filled with Love and the right values through the sharing of our insights.

Puppet Master: The Pyramidal Story of PT Davomas Abadi

At the corporate level, shares of most companies in Asia are not as widely held as those in the West. From the below table summarising the prevalence of nominee and trust accounts by primary ownership category for 1,386 publicly traded corporations in Asia, Indonesia has one of the highest percentages of firms with nominee accounts or trust holdings that hide the ultimate identity of the shareholders. When corporate transparency and governance is measured this way, the Philippines and Singapore clearly rank at the bottom, while Taiwan is ranked at the top. The controlling owner with the ultimate beneficial ownership is like the *dalang* or puppet master behind the screen, sitting at the apex of the complex pyramidal or cross-holding or dual-class structure controlling the puppet firm(s) with dexterity through layers of intermediate companies, opportunistically misrepresenting economic prospects given weak enforceable legal rules of investor protection in emerging markets. Insiders closest to the dalang would have advance knowledge of the *dalang*'s short term plans, such as major contract wins or business restructuring in asset disposal that could trigger a jump in the share price, or issuance of shares that are dilutive to existing shareholders, or transferring of resources within the group of companies and affiliates via related-party transactions, positioning themselves ahead of the minority investors.

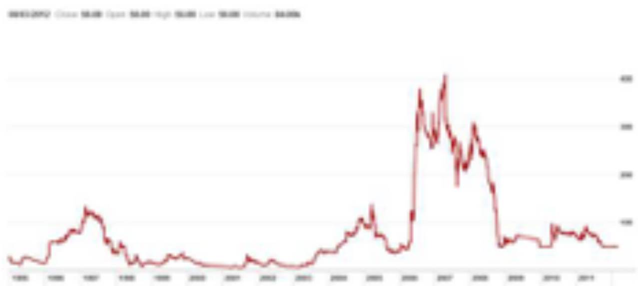
Country	Widely held corporation	Widely held financial	Foreign state	Family	State
Average percentage of shares held through nominee/trust account					
Hong Kong	0.0	3.9	0.0	0.0	0.0
Indonesia	2.7	0.0	6.0	1.5	1.1
Japan	7.8	1.4	0.0	1.1	1.6
Korea	0.0	0.0	0.0	0.0	0.0
Malaysia	0.0	0.0	6.2	0.4	0.3
Philippines	8.0	17.3	21.5	23.1	0.0
Singapore	0.0	21.4	7.4	10.3	31.3
Taiwan	0.0	0.0	0.0	0.0	0.0
Thailand	4.1	5.3	7.0	1.6	2.6
East Asia nine	3.2	5.3	6.8	5.2	4.9
Percentage of firms with nominee/trust holdings > 10%					
Hong Kong	0.0	25.0	0.0	0.0	0.0
Indonesia	21.1	0.0	20.0	7.9	5.3
Japan	30.8	12.5	0.0	6.7	12.5
Korea	0.0	0.0	0.0	0.0	0.0
Malaysia	0.0	0.0	16.7	2.4	1.8
Philippines	42.9	50.0	60.0	60.4	0.0
Singapore	0.0	60.0	50.0	43.6	82.1
Taiwan	0.0	0.0	0.0	0.0	0.0
Thailand	33.3	20.0	23.1	9.1	16.7
East Asia nine	16.8	18.9	24.0	17.1	14.6

Source: Carney and Child (2013), Changes to the ownership and control of East Asian corporations between 1996 and 2008: The primacy of politics, Journal of Financial Economics 107: 494-513)

We often wonder aloud and lament at the low valuations in Asia as compared to the West. Why is it that Asian entrepreneurs do not see the need to build "moats", instead preferring to be the *dalang*? Asian entrepreneurs whom we spoke to over the past decade are often perplexed and exasperated why sales and earnings growth at their companies do not necessarily translate into corresponding market capitalisation growth. Over time, some of these entrepreneurs feel unappreciated and eventually give up on using the capital markets as an integral part of the ecosystem to grow their businesses. They no longer put all their hard-earned assets and earnings into the listed vehicle; crown-jewel assets often remain privately-owned. They are often tempted to expropriate and tunnel out assets and resources out of the companies into their private pockets through related-party or money-go-round accounting transactions. The "value investor" would find these "value traps" attractive, patting themselves on their backs for any short term gains, not knowing that these were all engineered by the *dalang* to suck in naïve capital and that the returns can unwind any time.

Although Indonesia is an investor favourite, corporate governance is a longstanding concern. The case of PT Davomas Abadi, supposedly Indonesia's second-biggest cocoa processing and chocolate firm, is instructive on the ills of the *dalang*.

PT Davomas Abadi - Stock Price Performance



Davomas began in 1990 when the founders saw the opportunity in capitalising the potentials of Indonesia's agribusiness by establishing cocoa powder processing and cocoa butter production facility in Tangerang, West Java. Davomas was listed in the Jakarta Stock Exchange in 1994 and it grew to become the largest exporter of semi-processed chocolate products (cocoa powder and cocoa butter) in Indonesia with international trading houses and large chocolate manufacturers in Europe and US as their customers. Davomas became a darling stock with its growth prospects and technologically-advanced facilities. In April 2007, the main shareholders Tse Kam Bui and Husein Sutjiadi sold a 24.9% stake to a handful of investors at Rp400 per share, raising about IDR 610.2 billion (USD67 million). Reputable foreign institutional investors became significant shareholders.

In May 2009, Davomas shares were suspended because it defaulted on its USD238-million 11% guaranteed senior bonds due 2011. Shareholders agreed to a restructuring plan involving an exchange offer for the original bonds and a USD33-million shareholder loan. The shareholder loan was from the secretive majority owner Tse Kam Bui who controlled five BVI-registered companies that together held a 51% stake in Davomas. The debt to the BVI companies was immediately repaid via a rights offering for those shareholders. The original bondholders took a 50% haircut and exchanged for USD119-million variable interest rate guaranteed secured bonds due 2014 and retained security over the assets of Davomas and the BVI companies. In March 2012, Davomas once again defaulted on its debt due 2014.

In June 2012, Davomas shockingly reported new debt of IDR2.87 trillion to PT Aneka Surya Agro ("PT ASA"), allegedly a supplier to Davomas. Although the debt represented more than four times equity and more than double its IDR1.32 trillion in revenue, no other information about the transaction was given. A second debt restructuring was entered into in July 2012. Strangely, the restructuring was approved by the supplier PT ASA but the vast majority of the company's secured bondholders were not made aware of the bankruptcy court proceedings. The June 2012 debt restructuring called for the conversion of all outstanding debt into equity in Davomas. However, the debt-to-equity conversion required the consent from the general meeting of shareholders and the shareholders' meeting in September 2012 was cancelled due to confusion regarding the identity of the persons entitled to represent the majority shareholders, namely the secretive Tse Kam Bui. The irregularities in its financial statements remained unexplained.

Later, it was suspected that PT ASA belonged to this secretive controlling owner, the *dalang* behind all these undisclosed unusual related-party transactions in intercorporate loans. In January 2013, Davomas was fined by the IDX exchange IDR150 million (USD$15,500). The aggrieved bondholders and shareholders are still demanding for justice for the multi-million default.

The listed F&B company whose shares are rather illiquid is a pyramidal firm part of a larger complex indebted business group and appears to be in a turnaround situation with improving financial numbers at a cursory look after a big-bath asset write down and asset disposal, but still struggled with continued deterioration in sales and gross profit from core businesses as announced in their recent interim results. Without going into details, we are cautious of these issues:

- Complex web of unusual unsecured interest-free intercorporate loans that potentially mask the net debt position of the group, especially when the funds flow to over a dozen unaudited "dormant" and "inactive" subsidiaries and associates who used the intercorporate loans and deposits to possibly secure further loans e.g. multi-million in funds were traced in the footnotes to an unaudited inactive subsidiary incorporated in England where it has no business operations or sales;
- Unusual long term investments in opaque unquoted investment funds with impairment allowances;
- Questionable off-balance-sheet contingent liabilities such as financial support to hugely loss-making subsidiaries with net deficit of hundreds of millions disclosed in the footnotes, where the withdrawal of such propping would result in the non-viability of the going concern status, triggering another round of multi-million asset writedown to reduce the total shareholders' equity by at least a third;
- Disputable assumptions in the impairment test of the multi-million goodwill and intangible assets of the subsidiaries which are hugely loss-making by hundreds of millions; while estimates of the growth rate were lowered substantially from double digits in FY14 to flat-to-single digit in FY15, and the discount rate was not increased but instead lowered significantly by over 300 - 500bps despite the higher risk.
- Capitalising of hundreds of millions of operating leases from the off balance-sheet contingent liabilities into recognising as liabilities in the balance sheet;
- If the underlying economic substance of these impairment losses and impairment allowances were a result of shifting intercorporate loans around, there is potential shifting of these items between the statements of cash flow categories in operating and financing activities to inflate the reported cashflow from operation and the misclassification would reduce the operating cash flow by at least 20% in its recent interim results and turn the previous positive cash flow from operations to negative.

Thus, before investing money in these supposed value stocks, we strongly urge the retail investor to spend only 15 to 20 minutes of his or her time to search the following key words in the PDF copy of annual reports:

- "Unsecured", "interest-free"
- "Other Receivables", "Guarantees", "Financial Support", "Prepaid Expenses", "Prepayments", "Advances", "Other Current Assets"
- "Other Payables", "Accrued Expenses", "Other Current Liabilities", "Other Non-Current Liabilities"
- "Amount Due from/to Related Parties and Directors", "Amount Due from/to Subsidiaries"
- "Restricted Investments", "Deposit Pledged", "Pledged", Investment in "Unquoted Shares", "Unquoted Investment Funds"
- "Deferred Tax Liabilities", "Deferred Tax Assets"
- "Impairment", "Write-down", "Exceptional item"
- "Contingent liabilities"
- "Dormant", "Inactive", as well as the place of incorporation in offshore havens such as British Virgin Islands and tracing whether the unsecured interest-free intercorporate loans, cash deposits and investments in unquoted funds have flowed to these unaudited dormant and inactive subsidiaries and associates which in turn use them to secure more loans;
- "Joint(ly)-controlled", "Joint Venture", "Business Associates", "Associates", "Associated Company";
- "Going concern", "Disclaimer of opinion", "Emphasis of matter", "Restatement"

We also urge investors to take a quick read of the excellent empirical research paper "Incentives to Inflate Reported Cash from Operations Using Classification and Timing" which was published in the top-tier journal "The Accounting Review" by Singaporean accounting academic Professor Lee Lian Fen, currently a faculty member at the Carroll School of Management, Boston College.

Business Segment Report

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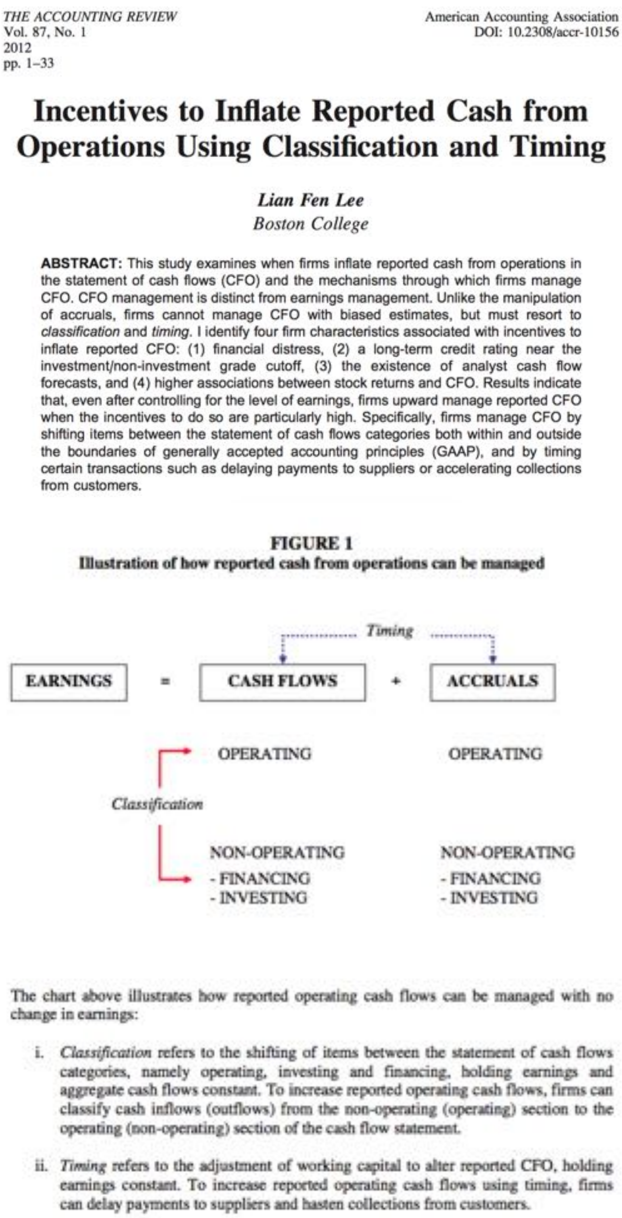

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Incentives to Inflate Reported Cash from Operations Using Classification and Timing

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ABSTRACT: This study examines when firms inflate reported cash from operations in the statement of cash flows (CFO) and the mechanisms through which firms manage CFO. CFO management is distinct from earnings management. Unlike the manipulation of accruals, firms cannot manage CFO with biased estimates, but must resort to *classification* and *timing*. I identify four firm characteristics associated with incentives to inflate reported CFO: (1) financial distress, (2) a long-term credit rating near the investment/non-investment grade cutoff, (3) the existence of analyst cash flow forecasts, and (4) higher associations between stock returns and CFO. Results indicate that, even after controlling for the level of earnings, firms upward manage reported CFO when the incentives to do so are particularly high. Specifically, firms manage CFO by shifting items between the statement of cash flows categories both within and outside the boundaries of generally accepted accounting principles (GAAP), and by timing certain transactions such as delaying payments to suppliers or accelerating collections from customers.

FIGURE 1
Illustration of how reported cash from operations can be managed

The chart above illustrates how reported operating cash flows can be managed with no change in earnings:

i. *Classification* refers to the shifting of items between the statement of cash flows categories, namely operating, investing and financing, holding earnings and aggregate cash flows constant. To increase reported operating cash flows, firms can classify cash inflows (outflows) from the non-operating (operating) section to the operating (non-operating) section of the cash flow statement.

ii. *Timing* refers to the adjustment of working capital to alter reported CFO, holding earnings constant. To increase reported operating cash flows using timing, firms can delay payments to suppliers and hasten collections from customers.

In recent years, Asian markets have witnessed many cases of dramatic share declines in companies where controlling shareholders and directors pledged their shares to banks to secure debts, margin loans or guarantees of issuers. These parties often utilise these loans for personal investments unrelated to the company's business. The disclosure of shares pledged and margin loans by directors and controlling shareholders and by the parties providing the loans is one area where disclosure requirements vary across the different jurisdictions in Asia. For instance, India (disclosure of details of shares pledged within seven working days) and Hong Kong have mandatory disclosure requirements but there are no specific rules in Singapore under SGX Listing Rules or the Securities and Futures Act.

Manipulative insiders could use the loans secured from the pledged shares to do an insider buying of shares say a few million, to prop up the share price of the listed company which has a market value of a few hundred million, creating a false signal of confidence in the firm's prospects and artificially pump up sentiments and share price to reduce the cost of financing of the loans with market-based debt covenants secured from the pledged shares to utilise in other projects in the wider business group, or to carry out capital market events, such as fund raising via secondary equity offerings (SEO) or/and debt or prior to the expiry of the moratorium period of shares.

We would like to suggest a couple of critical regulatory and corporate reforms to protect the interests of minority shareholders to avoid a repeat of the Davomas saga:

- Mandatory disclosure of whether shares of listed companies are pledged, to whom and the details/terms;
- Reforms to the opaque and complex shareholding structure in piercing the corporate veil to reveal the identities of the ultimate controlling shareholders by dismantling the nominee and trust accounts disclosure regime and expose the *dalang* puppet master and hold them accountable for their actions;
- Mandatory disclosures of the other business interests of the controlling shareholders and how the listco is positioned in the wider business group structure;
- Mandatory audit of dormant and inactive subsidiaries of listed companies;
- Disclosure of the list of companies on the exchange website under the four categories of commonly-used tunneling methods used by actual insiders, manipulators and syndicates to expropriate corporate assets in broad categories: (1) "Intercorporate Loans and Other Receivables" (2) "Capex" (3) "Deals" (4) "Consolidation";
- Redesign the market microstructure by including:
    - The empirically-tested PRIN measure right next to the share price in the exchange website to inform the investing public about potential price manipulation. The PRIN score, which is calculated from broker-stock exchange data, can be sorted in deciles from 0 to 1, and a higher score indicates a bigger probability of price manipulation. The PRIN captures the "principalness" of trades, including wash trades amongst the same small group of collusive parties, and "pump-and-dump" price manipulation scheme, that is, when prices are low, colluding brokers and insiders trade amongst themselves to artificially raise prices and attract positive-feedback traders and once prices have risen, the former exit leaving the latter to suffer the ensuing price fall.
    - Order-based cancellation/manipulation score right next to the volume data in the exchange website. Manipulators generate profits by placing and withdrawing limit orders strategically, involving only submission of buy or sell order limit, followed by cancellation of the order before it is executed. The purpose of the behaviour is to affect the

view of other participants. For example, if there are lots of limit buy orders placed at a price lower than the current price, there seems to be strong demand of the stock and a so-called support is created. The Australia Stock Exchange imposed a fee on these unusual unfilled order volume, excessive quoting, phantom quotes and quote stuffing, a practice that can be emulated by Singapore Exchange.

Otherwise, after the *dalang* has finished chewing the sweetness of the capital lured into the shares, he or she can easily spit out the pulp. As the sagely Warren Buffett puts it aptly: "But in the end, the only wealth creation comes about through what the business creates. If a company that's not worth anything sells for $20 billion and 5% of it changes hands, somebody takes $1 billion from somebody else, but investors as a whole gain nothing. They are all fee richer. It's a very interesting phenomenon. But they can't be richer as a group unless the company makes them richer."

Interestingly, the examination of the underlying substance and structure of unusual related-party transactions is neither a feature in audit- and financial analysis-related subjects in the university nor tested in the professional CPA and SQP qualification examinations and especially uncommon in the investment industry in Asia. We would like to suggest further educational efforts in this area.

We have been asked why do we not invest in this or that company in Singapore that appears cheap in valuation or a potential turnaround story. Of course, we do understand that the best investments are contrarian in nature and could be companies in a turnaround situation. But there is a critical difference when there are clear accounting irregularities detected in the company. As our good friend, Mr Hemant Amin, who is a highly accomplished and astute Indian value investor who runs his own multi-million family office Asiamin Capital, would ask a simple yet profound question, "How much money can you invest in this idea? $100,000? $1 million? $10 million? If there is an iota of doubt about the integrity of the accounts and management, why take a chance when you cannot possibly size up the investment and your time would be better invested in analysing a high-quality business at reasonable valuations."

An individual may make good money for himself in the short term in opportunistically betting on companies with creative accounting issues, seemingly a skilful genius while his investment size remains small. However, this is akin to pushing a snowball up a snowy mountain, which seems easy at the beginning, but gets tougher as the snowball grows bigger, until at one point the investor finds himself in a precarious position when the gravity of the situation turns the snowball onto him and send him tumbling down the slope. One could make a lot of money nine times out of ten opportunistic bets, increasing his bet size as the profits roll bigger, but it only takes one misstep to wipe out his capital – and his family's and relative's money.

We view such opportunistic behaviour and action unfavourably and believe it is not a sustainable way of investing nor an encouraged way of Life. We could know a character by observing the type of companies a fund manager involves himself with, by observing his way of Life, the congruency of his actions and behaviour against his words or proclaimed values; pretty much the same way we would know the character of the management of listed companies.

This is what I wrote in a comment to Robert Hagstrom's article on CFA about "What is the Difference between Investing and Speculation":

"Investing is the relentless process of translating and refining tacit knowledge into a distinctive and unique investment framework or mental model that is scalable beyond one single person and adaptable in different relevant contextual situations, particularly in dealing with what we do not know. Investors care deeply about ideas and research. Speculators care solely about "making money". Writing, research, ideas, knowledge – these are frivolous/useless pursuits with no immediate or short-term profits to Speculators. Investors have an instinctive longing to weave outside our own skin some reflection of our mind. Investors uphold the notion of responsibility, which emphasises the active nature of the agent/knower, as well as the element of choice involved in the activity of the agent/knower, who can be assessed to be responsible or irresponsible as having fulfilled his obligations to fellow enquirers as part of membership in a community. Getting closer to the truth as a result of one's virtues is more valuable for Investors than getting it on the cheap for Speculators."

We believe the sustainable way of fund management is to build our investment DNA and processes right from the start, deepening the foundation to build a lasting idea and structure larger than oneself with permanence in generating process-based outcome to serve others and be entrusted to handle greater responsibilities in managing more assets, especially the stewardship and care of the assets of other people.

An asset manager's single best investment will be the one he makes in his team and I wish to create a productive culture able to stand the test of time; the organisation will evolve, but the culture endures. By building a team with every member aligned with the mission and reinforcing key principles and values, we can best prepare to execute. I will not hesitate to make the team changes we need to thrive and to make the hard decisions to do the right thing for the firm irrespective of external perception. We will create value with values.

Travel Light to Journey Far

"Tous nos autres biens sont investis dans nos entreprises et nous voulons qu'ils y restent."

"All other assets are invested in our businesses and we want them to stay there." [Translation from French]

The above quote is by Gérard Mulliez, the low-profile mercurial billionaire founder of the Auchan Group and "France's Sam Walton" who said in a rare interview in 2007 that he is the proud owner of his eleven-year-old Mercedes, a house and a second home – and all other assets are invested in the business. His net worth is estimated by Forbes in 2016 to be at least S$35 billion. Gerard Mulliez is also the cousin of billionaire Michel Leclercq who is the founder of the popular sporting goods retailer Decathlon; the Mulliez family owns 40% of Decathlon.