

SAC Capital expands into fund management

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CORPORATE finance house SAC Capital has launched its own fund management firm to provide funding for small and medium-sized enterprises (SMEs) at the pre-listing and pre-trade sale stages.

Called SAC Investment Management (SACIM), the move comes amid demand for more private capital fundraising platforms and a weak initial public offering (IPO) market.

At the initial stage, SAC Capital will hold the lion's share at 75 per cent, followed by Japanese investor Tokusui Corp with 15 per cent; and SACIM chief executive Gerald Cheong with 10 per cent.

SACIM is now close to hitting S\$20 million in committed capital, although it has ambitions to hit S\$50 million in aggregate for its maiden fund. It will have another year to raise the remaining S\$30 million, following which it has further plans to continue launching more funds.

While SAC Capital is not the first corporate finance house to launch its own fund or asset management platform, this is seen as a natural progression for boutique corporate finance houses to expand into the private equity (PE) business, given the synergies between the investment banking and PE business, said Wayne Lee, CEO of issue manager and accredited Catalyst sponsor W Capital Markets.

SAC's latest move also comes as the momentum in new listings has slowed amid a growing mistrust in issuers after recent negative news arose from companies shortly after listing, as well as the stubborn, thin trading liquidity that persists among existing centers.

SAC Capital CEO Ong Hwee Li said private equity fundraising can complement cases where companies choose private funding rather than public listings.

"But of course, on the private equity side, there is a five plus one plus one life span, so...eventually there will need to be an exit strategy too," he said. "The objective is really to provide a ready pool of investors for companies, especially SMEs that

are looking for funds. We do see some not-so-good companies that don't meet our IPO criteria. We have turned down many for IPOs."

SAC Capital is not new to doing private fundraising for SMEs – it does so by getting a mix of corporate and individual investors, both local and overseas, to invest in these firms. But Mr Ong felt that setting up a proper fund management company will ease the process.

"In the past, we have to go and source for buyers and investors (for each individual company), which is quite tedious. With this fund management company, we are able to aggregate all our investors, and fund managers can assess and make the decision that will also spread the risks for our investors," he said.

That said, these SMEs are not obliged to engage SAC Capital to market their IPO should they decide to list, nor does SAC Capital necessarily have to take these companies public, especially as not all would meet its internal listing criteria.

For a start, Mr Cheong said the capital committed will be used to invest in companies in selected sectors such as education, healthcare, fast-moving consumer goods (FMCG) and entertainment.

According to him, medical firms are seeing price-to-earnings ratios in the high teens; education companies' ratios of more than 20 times; and FMCG and entertainment companies in the teens.

"We invest in companies that are mature and profitable, and they should also have a clear and identifiable exit strategy through an IPO or trade sale. We would consider all sectors except for mining and oil and gas, because we are not familiar with them."

Furthermore, these sectors are considered attractive to investors and are quite resilient during downturns, Mr Cheong said, adding that the fund has not started investing in any companies yet.

The initial team at SACIM will comprise two fund managers and one investment analyst.

SAC Capital does IPOs, corporate advisory for listed companies, underwriting and share placement, fundraising, mergers and acquisition,



Mr Ong (far left), with SACIM chief executive Gerald Cheong, says that the objective is to provide a ready pool of investors for companies looking for funds. BT PHOTO: YEN MENG JIIN

and Catalyst sponsorship for SMEs.

Mr Ong has spoken previously about his vision to grow SAC Capital into a regional investment banking firm.

The set-up of this fund management company should "more or less complete the picture of the investment banking business", he said, given that he is not looking to add the brokerage business because "to me, stockbroking is sunset".

SAC Capital still hopes to enlarge its merger and acquisition team to broker more shares sales and trade sales in the region.

It has plans to start an office in Malaysia this year, and another in Thailand next year.

Market watchers acknowledge the complementary nature of a fund management business to corporate advisory.

Mr Lee, who founded W Capital Markets, said his company is not currently in the private equity fund management business, although such a business, via a separate entity, can complement investment banking.

"This also really depends on the vision of the boutique corporate finance house founder and his ambitions. PE firms typically charge 2 per cent management fees with carried interests when the internal rate of return exceeds the hurdle rate. This is a lucrative business model in the finan-

cial industry if the PE fund is a top-quartile performer."

Mark Liew, chief operating officer at PrimePartners Corporate Finance, added that his company has a related asset management company which focuses mainly on fixed income products.

"The challenge when managing third party funds, which requires a separate asset management licence, and investing such funds in the deals of a sister corporate finance company, is in managing the potential conflicts of interest. It generally requires separate management teams."

"Local and large foreign banks have both investment banking and asset management businesses. In general, they would have Chinese walls between the businesses, and would set up separate companies with physically separate offices, separate management and boards et cetera to address conflicts of interest."

To this end, Mr Cheong from SACIM said that the fund management business is focused on investments, which is distinctly different from SAC Capital's corporate finance business of financial advisory and IPOs. "If there is potential conflict, it will be disclosed accordingly."

Zico Capital and Haitong International Securities are some corporate finance houses in Singapore that also have asset management arms.

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