

Tembusu plans \$1 bil property fund; cuts stake in Artivision

| BY FRANKIE HO |

Andy Lim, founder and chairman of Tembusu Partners, is hopeful that money can still be made from real-estate markets in Asia despite efforts by governments in the region to rein in asset prices. While many investors have grown wary of this space, Lim has been travelling frequently to Europe lately to assess interest from the investment community there, with an eye to launching a \$1 billion fund focusing on pan-Asian properties.

"Some of the European investors are now trying to move some of their funds into Asia. The general feeling is that with a growing middle class [in Asia], real estate is probably an area that has a lot of upside," Lim tells *The Edge Singapore*.

The proposed fund will be the Singapore-based private-equity firm's fourth and largest to date. It is also the company's first property-focused fund. Details, such as which property classes it will target, are still being worked out, but the scope of investment will be broad, says Lim, 54. "We will do green-field [projects]. We will do existing assets. We will go for yield. The focus will probably be Southeast Asia, because we know the region well. We will probably also look at Hong Kong and maybe a little bit at China."

The fund will aim to achieve a return of more than 20% annually over a charter life of five years, says Lim. Tembusu is currently on the lookout for a sponsor, or two, as well as anchor investors for the project. "We hope it will happen within the next three months." Even if that happens, however, the fund might be ready to begin investing only next year, he adds. "Maybe by then, the market could be so bad that there are opportunities to buy. You don't buy at the peak. You buy when there is a correction."

Tembusu's plan comes at a time when soaring real-estate prices in markets such as China, Hong Kong and Singapore have prompted governments to roll out various cooling measures, which in turn have made investors nervous about property stocks. Yet, wading into markets amid widespread fear is characteristic of the private-equity group's *modus operandi*. "No doubt, there's always the unknown, but where there are challenges, there are opportunities," says Lim, who founded Tembusu in late 2006 after working in the civil service for eight years.

Existing funds

Lim, who is married to Singapore's former Second Finance Minister Lim Hwee Hua, launched Tembusu's maiden fund — Tembusu Growth Fund I — in January 2007. He teamed up with three well-known corporate chiefs — **KS Energy Services** founder Tan Kim Seng, **Raffles Education** CEO Chew Hua Seng and Labroy Marine founder Tan Boy Tee — to jointly inject \$50 million into the fund as seed money. Tembusu subsequently raised another



Lim: Despite government efforts to cool property prices, Asia's real-estate markets still look promising, underpinned by the region's growing middle class

\$50 million from 38 other individual investors, mainly owners of large companies in the region, including Indonesia's Lippo Group and Malaysia's YTL Corp. Tan Kim Seng, who sold the bulk of his controlling stake in KS Energy in 2006, is part of the committee that oversees Tembusu's investment decisions.

Fund I, which has a five-year charter life, invested in 17 companies in Southeast Asia and Greater China between 2007 and 2010, with the size of each investment averaging \$4.5 million. Companies in the natural-resources, technology, information-and-communication, and offshore-and-marine-services industries collectively accounted for about two-thirds of the portfolio.

Over the years, Tembusu has completely divested its interests in seven companies under Fund I. These include biodiesel producer **Van Der Horst Energy**, early-childhood-education provider **Cherie Hearts**, China-based wastewater-treatment firm **Tongji Environment** and 3E Membrane Technologies, which makes a water-filtration system designed for home use. Investments in these firms have mostly paid off, with **Cherie Hearts** yielding the highest rate of return, at 72%.

Some of the investments in Fund I have disappointed, though. Like many investors, Lim and his team were caught off-guard by **Hongwei Technologies'** accounting irregularities. Shares of the China-based polyester yarn maker have been suspended since February, after its auditors

uncovered discrepancies in its cash and bank balances. Tembusu had invested about \$4 million in Hongwei for a 5% stake. "The behaviour [of the company] was not consistent with the allegations," says Lim, noting that Hongwei had been issuing dividends yearly and that its major shareholder had been buying shares regularly on the open market.

Tembusu also had to write off its \$3 million investment in Malaysia-based copper smelter **TTM Industries**, which went belly-up after copper prices crashed during the global financial crisis. "We just could not help them. When copper prices collapsed, you didn't even know what hit you. It was like a massive stroke. Before you knew it, you were brain-dead," Lim says.

On the whole, however, Fund I's performance has been commendable. The fund has made three distributions to investors so far, totalling \$23.5 million. The first was \$6.7 million in September 2010. That worked out to \$66,826 for every \$800,000 invested. Investors subsequently received two other payouts of \$94,346 and \$72,426 respectively for every \$800,000 they had in the fund. A fourth payment is expected soon.

With a track record to show after his experience with Fund I, Lim went on to launch Tembusu Growth Fund II last July. This fund has raised about \$120 million so far, and will target securing another \$180 million by year-end. Over a five-year period, it will invest in 15 to 25 companies in industries

similar to those covered in Fund I, with a targeted annual return rate of 20% to 25%. In addition to Southeast Asia and Greater China, Fund II's geographical reach will also include the Indian subcontinent.

In partnership with **SBI Ven Capital**, which is the overseas investment arm of Japanese private-equity firm **SBI Group**, the fund made its first investment last month by providing a loan to **Greenlots**, a Singapore-based designer of charging networks for electric vehicles.

Tembusu's other fund is an equal-joint-venture renminbi-denominated offering launched in August 2009 with **Jiangsu's Nanjing government**. The **Nanjing Growth Fund** aims to nurture Chinese companies in the raw-materials, solar-energy, telecommunications, life-sciences, eco-environment, and high-end technology industries. The targeted fund size is equivalent to US\$80 million (\$97 million), half of which is to be contributed by the Chinese.

The **Nanjing Growth Fund** has yet to make an investment, although a Shenzhen-bound IPO "should be coming up soon", Lim reveals. The fund's overall progress has been slow, he admits, as Tembusu is "still on a learning curve" in terms of running a China-focused fund.

Almost five years since its inception, Tembusu now has more than \$500 million in assets under management, with a staff strength of 21 located in Singapore, China and the UK. Lim heads the group's investment committee. He is supported by a management team led by **Mahim Chellappa**, a former director at the Singapore arm of global securities firm **Jefferies**; and an international board of advisers, who include **Sheik Faisal Al-Thani**, the deputy managing director of energy group **Maersk Oil's** Qatar operations. Former Transport Minister **Yeo Cheow Tong** is also part of Tembusu's investment committee.

Overall, Lim seems pleased with Tembusu's performance so far. In particular, he takes pride in the 80% roll-over rate that the group has achieved. "Most funds have only a 20% rate. This means that out of all the investors, normally only 20% of them would continue with you in another fund. For us, we have 80%. Those in Fund I have decided to join us for Fund II."

Lim attributes this to him and his team having their own money invested in Tembusu's funds. "People who are spending other people's money will not think the same way as those who are spending their own money. We have our money in there. That's the difference," he says.

It was this motivation that held the team together during the global financial crisis, when a number of Tembusu's investee companies struggled to stay afloat as banks pulled their credit lines, Lim says. "We sent all our staff down to help our investee companies. Our money was there. We felt a sense of obligation to help them."

Opportunities emerging

With the improved global investment climate now, Tembusu is on the prowl again for new opportunities. "We take the view that this is the emergence of the Pacific century. Tembusu is pan-Asian and this is the region that the rest of the world is focusing on," says Lim. "With the various challenges in the US and Europe, funds are slowly finding their way to Asia."

One company Tembusu is eyeing is China-based **Tangshan Ganglu**, an iron-and-steel company that it tried to list in Hong Kong in 2008. The proposed listing was shelved as a result of the financial crisis. Plans, however, are underway to bring it to market early next year, says Chellappa.

"The company is interesting; it is vertically integrated and owns land that provides iron ore. So, there's no exposure to rising iron-ore input costs. Also, it generates good cash flow. But the entire sector is somewhat dependent on conditions in the construction industry. We expect that by next year, conditions will improve after China completes its tightening," notes Chellappa.

Part of Tembusu's business strategy in the coming quarters also includes divesting more of its current investments. The firm last month sold 30.7 million shares in **Catalist-listed Artivision Technologies**, leaving it with a 4.97% stake. **Artivision** is in the midst of finalising an agreement with **Facebook** to commercialise its online advertisement placement technology. If the deal goes through, it could be a game-changer for **Artivision**, which has yet to report a profit since it listed. Lim expects Tembusu to sell its remaining stake in the company in 1H2012.

"We did a partial divestment because we assumed there is still a pot of gold, maybe in 12 months' time," Lim says. Tembusu invested in **Artivision** in 2007 and saw it through its IPO, which took place just weeks before **Lehman Brothers** collapsed. ■