Having clients' best interests at heart

"Maintaining a good reputation and word of mouth is crucial to businesses. The key to building a strong brand is not so much through sales and advertising, but through trust and awareness."

— Danny Wong

Areca Capital Sdn Bhd was not the first name that came to mind when one talked about investing. But this has gradually changed in the past two years.

The boutique asset management firm's growth and popularity is evidenced by its assets under management (AUM), which swelled to RM2.7 billion this year from RM700 million just two years ago, despite the ongoing pandemic.

"We launched about 20 funds in the last two years that allowed our clients to seize market opportunities locally and regionally," says Danny Wong, CEO of Areca.

As its AUM increased, so did its workforce. The firm's headcount grew to 84 people this year, with about 50 focusing on client servicing. It is also growing its research and information technology team to build better products and improve customer experience.

"Our goal is to achieve an AUM of RM6 billion in three years," he says.

As it pursues this goal, Wong says the firm will not compromise on the quality of its products and services. It is precisely because Areca has always kept its clients' interests at heart that it has survived for 15 years despite fierce competition in the industry.

For instance, the firm has always imposed a 1% to 2% sales charge — lower than the market rate of 3% to 6% — when selling its funds directly to clients. This means more of its clients' money is invested in the market after deducting the sales charge.

"By paying 1% to 2% upfront, if our investors don't like a particular fund, they can withdraw their money after the fund has achieved a 3% return. We are willing to provide our clients more flexibility," says Wong.

Areca's annual management fee of around 2% is higher than the market rate, but with good reason. Wong says it is because the company's sales representatives share the annual management fee with fund managers, on top of earning an income from the lower-than-market-rate sales charge.

As the annual management fee is incurred at the end of each year, it encourages sales representatives to keep their clients with them over the long term.

"We don't want our people to push products to investors for short-term gain; we want them to stay with us. The longer the better," says Wong.

Most of Areca's sales representatives are also licensed financial planners who can advise clients based on their needs and provide them with other value-added services such as will writing and setting up trusts.

After all, it is all about sustainability and responsibility, instead of short-term gain and success. Such a principle is also in line with the environmental, social and governance (ESG) trends that have taken the world by storm in the past two years.

Wong has no doubt that Areca's customer-driven approach has helped it build a solid reputation among investors. He cites the recent example of a client defending the firm at an event where Wong was also present.

"The client who defended us against critics had doubted us three years ago. He had said, 'Who are you guys? I have never heard of you all.' Today, he defended us in front of others.

"Maintaining a good reputation and word of mouth is crucial to businesses. The key to building a strong brand is not so much through sales and advertising, but through trust and awareness," says Wong.

Solid, innovative products

Wong believes in building a good reputation with solid and innovative products and is proud that Areca has always been strong in this area.

For instance, the Areca equityTrust Fund (AeTF) won the Best Equity Malaysia Awards for four consecutive years starting 2018, in the three-, five- and 10-year categories at the Refinitiv Lipper Fund Awards.

The RM267.8 million fund (as at end-2020) yielded a cumulative return of 299% and 142% in the past 10 and five years. It generated a return of 69% and 41% in the past three years and one year, respectively.

"The fund first swept the Best Equity Malaysia Awards for the short, medium and long term in 2018. Very few funds have achieved that. It is a strong testimony to the quality of our products."

As a result, investors poured more money into AeTF in the past two years. The firm had to stop accepting investments from most of its product distributors to keep the fund size between RM300 million and RM500 million.

"We want to keep it small and nimble to invest in smaller-size companies. Imagine if we had an AUM of RM1 billion; it would be challenging for us to achieve outperformance by investing in small to mid-cap stocks."

Instead, the firm recently launched the Areca Equity Growth Fund, which has a similar investing strategy as AeTF.

Last year, Areca introduced various equity funds that allowed its clients to capitalise on the stock market on the back of the pandemic. For instance, the Areca Focus Leverage Fund (AFLF) invested in Singapore banks when their share prices plunged.

How does it work? Wong explains that it purchased Malaysian Government Securities (MGS) on the secondary market and pledged them to a bank for a Singapore-dollar loan. It then deployed the fund to buy shares of Singapore banks such as DBS Bank. There were several advantages of doing so. For one, Areca earned income from the MGS — which had a yield of about 3% then — after paying a fee to the bank for the loan. Areca and its clients also saved costs from not having to convert Malaysian ringgit to Singapore dollars.

AFLF also provided investors with a currency hedge, says Wong. "Assuming that the Malaysian ringgit weakens against the Singapore dollar, we would be paying more on the loan, but we will also gain more from disposing of our Singapore shares at the end of the day. It is a natural hedge."

AFLF generated a return of 17% for clients from August last year to when it was closed in January. "The fund was launched to provide foreign exposure to our clients. It was a success," he says.

Last year, Areca also launched the Areca Dragon Technology Fund (ADTF) for clients to ride the technology trend, which is expected to last for many years.

ADTF invests in China companies, including Semiconductor Manufacturing International Corp, Hua Hong Semiconductor Ltd, Alibaba Group Holding Ltd, Tencent Holdings Ltd, Xiaomi Corp, JD.com Inc and Meituan-Dianping.

The fund did not perform as well as expected because of the Chinese government's crackdown on its tech companies in August this year. However, the fund is poised to gain traction as the dust settles in China and because of the ongoing digitalisation trend.

Niche in private debt market

A fact little known to ordinary investors is Areca's niche in the private debt market.

Wong says these fixed-income products, which invest in loans, bonds and preference shares issued by listed and non-listed companies, have yielded attractive returns.

The firm launched Areca Astute Assets Fund in 2019, which invests into a company that is involved with the collection of various non-performing loans (NPLs) obtained from a publicly listed financial institution.

While this may sound like a risky venture, this company assessed the loans by working with a data system provider, supported by a debt collection company, to price and purchase the loans at an appealing price.

"We invested at an attractive discount," explains Wong.

He says the fund was able to generate a decent yield in each year. However, Areca sold off its stake last year as the pandemic hit the globe. The fund yielded investors some returns, though not as much as it would have.

"That was our first attempt at investing in companies involved with NPLs. We found that we could manage the risks while enjoying attractive returns. We will soon launch our third, similar fund."

Areca had already been channelling its clients' money to invest in the business activities of various companies, including a reputable public listed property developer.

Wong approached the developer and decided to invest RM50 million in the preference shares of its joint-venture company to fund one of its projects. The decision yielded investors of the Areca Progressive Income Fund (APIF) 2.0 a 7.5% return in a year.

"The property developer also provided us with a corporate guarantee and pledged some of its unsold properties as collateral for the money we provided. The value amounted to two times the investment amount we provided them. It was a good deal."

Wong explains that the yields generated by APIF 2.0 were attractive as the investment deal did not go through an intermediary, such as a bank. "It took us only three weeks to provide the company with the funds, which was very fast based on industry standards."

In the past, Areca had arranged similar deals for unlisted companies in exchange for attractive yields. They were related to property projects in Old Klang Road, Sepang Gold Coast, and Penang.

"We did a few of them. They were mostly backed by assets worth up to at least two times the investment amount provided by us," says Wong.

Recently, Areca invested in the construction of a green energy power plant in Pahang with its investors' money. The deal is backed by the cash flow generated by another factory that belongs to the same business owner, and a personal guarantee by the business owner himself.

"It is a one-year deal that will yield us 7%. It also comes with guarantees that are double the investment amount provided by us," says Wong.

In short, Areca's investors are essentially tapping Wong's connections and his ability to seek out overlooked investment opportunities in the market.

Some might argue that these funds are risky as they invest in only one company, but Wong begs to differ. "This is where our licensed financial planners come into play. We advise our clients to diversify their investments by putting their money into different funds for good overall returns.

"For instance, our Dragon Tech Fund has not done well since the Chinese government crackdown on tech companies. But other funds they invested in have done well. And their net returns remain steady and healthy."

Venturing into fintech space

Recently, Areca made its foray into the financial technology (fintech) space to fund start-ups with potential to disrupt the financial industry.

As at November, it had deployed funds into Versa, a start-up that allows investors to invest in a money market fund managed by Affin Hwang Asset Management Bhd. It gives the man-in-the-street the opportunity to invest in the fund — from as low as RM1 — which would otherwise be available only to institutional investors.

MobyPay, a buy now, pay later (BNPL) solutions provider, is another start-up that Areca has invested in. The company allows consumers to purchase various items on instalment plan without being charged interest. The start-up earns its income from the merchants when the items are sold.

Areca recently invested in an insurance technology (insurtech) start-up known as DearTime, which has yet to launch its products and services on the market. It aims to be Malaysia's first fully digital life insurer that offers pure protection products via a fully self-serve app.

"The start-up aims to offer five life insurance products — death, medical, critical illness, disability and accident — at much lower prices than most existing products. A person can choose the sum insured and payment frequency based on what they can afford.

"The people behind this start-up are experienced, multi-disciplinary professionals from the insurance industry who bring together expertise and experience including actuarial, underwriting, servicing, claims, risk and compliance, technology, and so on, to fully digitalise the insurance business, making life insurance affordable, simple and accessible to all," says Wong.

He adds that DearTime is going through the regulatory sandbox application process under Bank Negara Malaysia and he believes the start-up is ahead of the insurtech race against its peers.

Moving forward, Areca is looking to uncover more gems within the fintech space.

"We are exploring collaborations with a few local fintech companies to provide artificial intelligence (AI) technology in some potential new funds.

"One of them is Cammillion, a WealthTech that adopts AI to combine sustainable investing with thematic ideas, personalised to the client's needs. With an array of ESG maximising and UN Sustainable Development Goal strategies, we see this as interesting both for institutional mandates and retail investing.

"We are also working with Pentaip, a Malaysian home-grown company specialising in the artificial general intelligence (AGI) framework that focuses on investment analysis. With their excellent internal R&D capabilities, Pentaip was named the first runner-up in the Create@Alibaba Cloud Startup Contest Southeast Asia region and represented Southeast Asian start-ups at the Create@Alibaba Cloud Startup Contest global finals held in China this year. Pentaip won the Best Popularity Award and the Excellence Award in the contest.

"In short, we are stepping into the area of private equity and venture capital. After all, we have been analysing public-listed and private companies by understanding their management teams and looking at their numbers. We are applying those methods to start-ups and early-stage companies. They are not very different."

Wong sees great potential in the unlisted market where funding supply and demand are not efficiently matched.

"When we talk about funding locally, it is mostly about IPOs (initial public offerings). However, the discussions surrounding the various stages before a company goes for an IPO are relatively lacking. These include pre-seed funding, seed funding, series A funding and so on.

"I believe fund houses like us that are smaller in size and nimbler can fill this gap pretty well. We have ready funds to be deployed into these areas," he says.

Areca will also introduce its thematic and multi-asset investment solution by December. This strategy will ride major themes, such as technology and responsible investing, by investing in various asset classes to generate healthy returns.

The firm will also launch a fund that invests in Singapore real estate investment trusts (REITs) with leverage. "We would invest, let's say, RM100 million in the fund. And it will deploy RM200 million into selected Singapore REITs through leverage.

"Assuming the REITs come with a yield of 5% per annum, investors would be able to earn 10% with leverage. After deducting the borrowing cost of, let's say, 3%, investors can still make a healthy return of 7%.

"However, we need to study very carefully how many REITs there are that can give us steady returns. So far, we like industrial and data centre REITs," he says.