

The art of the deal in Hong Kong

Fund manager harnesses creativity to maximize returns

By Darren Boey

HONG KONG

Michael Nock's paintings and sculptures lured about 100 art lovers to Hong Kong's Hanart TZ gallery in March on the opening weekend of his first exhibition.

In real life, Nock attracts investors. His \$357 million Doric Focus Fund has more than doubled since inception in June of 2000, outperforming the 43 percent gain of Morgan Stanley Capital International's benchmark of Asian stocks outside Japan.

"The investment process is a creative process," said Nock, 50, managing director of Hong Kong-based Doric Capital, in an interview last month. "The better investors are those people who allow themselves a degree of lateral thinking, thinking outside the box, thinking creatively."

Nock said one of his largest positions is KT&G, South Korea's biggest tobacco company, which U.S. billionaire Carl Icahn and his allies are demanding be broken up to lift shareholder returns. The shares are up 26 percent this year.

This year, Nock is investing in South Korea, India and China, the largest economies in Asia after Japan.

"We're out there looking at those companies that will benefit from domestic consumption," said Nock, a native of Sydney whose Hong Kong office is decorated with paintings including his own. "What we're looking for are opportunities that will arise as we see the emergence of a middle class in China, the expansion of the middle class in India, and an enrichment of the middle class in South Korea."

Some fund managers say Indian and South Korean stocks, Asia's best performers in the past year, are getting too expensive.

"Indian corporate earnings have to really continue to grow at robust levels" to justify gains, said Anthony Muh, a fund manager for Alliance Trust in Hong Kong. "In South Korea, we're a little bit more cautious than we would otherwise be" because of corporate governance concerns.

Nock, who names Jackson Pollock and Vasily Kandinsky among his artistic influences, first came to Hong Kong in 1980 to start up an office for Merrill Lynch. In 1982, he moved to ED&F Man Group, now called Man Group, the world's largest hedge fund company. He worked there for eight years.

The hedge fund manager, who describes his style of art as "semi-figurative and abstract," then spent four years in Los Angeles completing a master's degree in fine arts at the California Institute of the Arts.

He returned to Hong Kong in 1994 to manage investments for a local family, the name of which he declined to disclose. He took over the running of Doric in 1999 and started his first fund, the Doric Focus Fund, in 2000, with about \$15 million in assets.

Nock has since started two more: The Doric Asia Pacific Small Cap Fund, which now has about \$100 million in assets, and the Doric Kasagi Fund, which has controls about \$13 million in Japan.

KT&G stock has risen as much as 15



Daniel J. Groshong/Bloomberg News

Michael Nock: painter, sculptor and the managing director at Doric Capital Corp.

percent since Feb. 23, when Icahn and Warren Lichtenstein, a New York-based hedge fund manager, made a takeover bid that the company subsequently rejected. Lichtenstein last month won a seat on the board of KT&G.

Melbourne-based Foster's Group is another "sin" stock that Nock favors. The company, Australia's largest brewer, has spent \$4.1 billion on wine acquisitions since 2000 to make it the world's second-largest winemaker.

"Sin" industries typically have high margins," Nock said. "They also have opportunities to build strong brand strengths."

Shares in South Korea still offer good value even after their rally in 2005, Nock said. The Kospi, which jumped 54 percent last year, has declined 3.2 percent this year. It trades at 12.1 times estimated earnings, making it Asia's second-cheapest stock benchmark after Thailand's.

Stocks in China and India, meanwhile, are the most expensive in Asia after Pakistan and Japan. The Shanghai Composite index trades at 21 times estimated earnings, and India's Sensitive index at 20.4 times. The Morgan Stanley Capital International Asia Pacific index, a regional benchmark, is at 18.5 times.

Nock holds shares of Macmillan India, a textbook publisher worth \$179 million. The Madras-based company, a unit of publisher Macmillan Group, in October reported a 128 percent increase in third-quarter net income. The stock has gained 9.1 percent since then.

"We love identifying little companies," Nock said. "We're looking for those small acorns that are going to grow into big companies in the future."

Bumrungrad Hospital, Thailand's second-biggest publicly traded hospital operator, and Australia's ABC Learning Centres, the world's biggest listed child-care provider, are among other "acorns" Nock has invested in. Both stocks have gained more than 10 percent this year.

Macmillan and Nock's other Indian investments may benefit from economic growth as the Indian government takes steps to reduce poverty and bolster rural output. The statistics bureau on Feb. 7 forecast the economy will grow 8.1 percent in the year ending March 31, faster than 7.5 percent the previous year.

In China, Nock favors electricity producers, which are enhancing capacity to keep up with soaring domestic demand. Huangeng Power International, the largest China power generator by market value listed in Hong Kong, produced 32 percent more electricity last year. The shares have gained 2 percent this year.

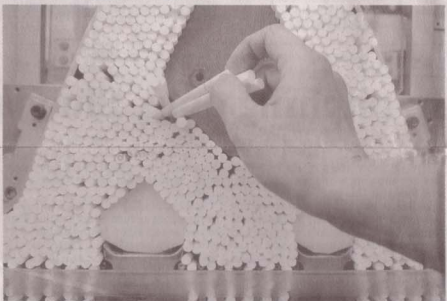
Chinese efforts to tighten up the regulation of the country's financial industry have also cheered Nock. The China Banking Regulatory Commission last year punished 6,826 people and 1,205 institutions, including banks and asset-management companies, for fraud and other crimes.

"The Chinese are getting very focused on corporate governance," Nock said. "If you're looking around the region, greater transparency is one theme that's developing in other markets."

Nock says stock selection and shorting allow him to introduce an element of creativity to his investments, just as his art encompasses a range of media including oils, charcoal and bronze.

"As a good investor, you have to be drawing on all manner of life experiences," Nock said. "It's not simply about looking and analyzing balance sheets."

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"Sin" businesses such as KT&G's cigarettes offer good value, says Michael Nock.