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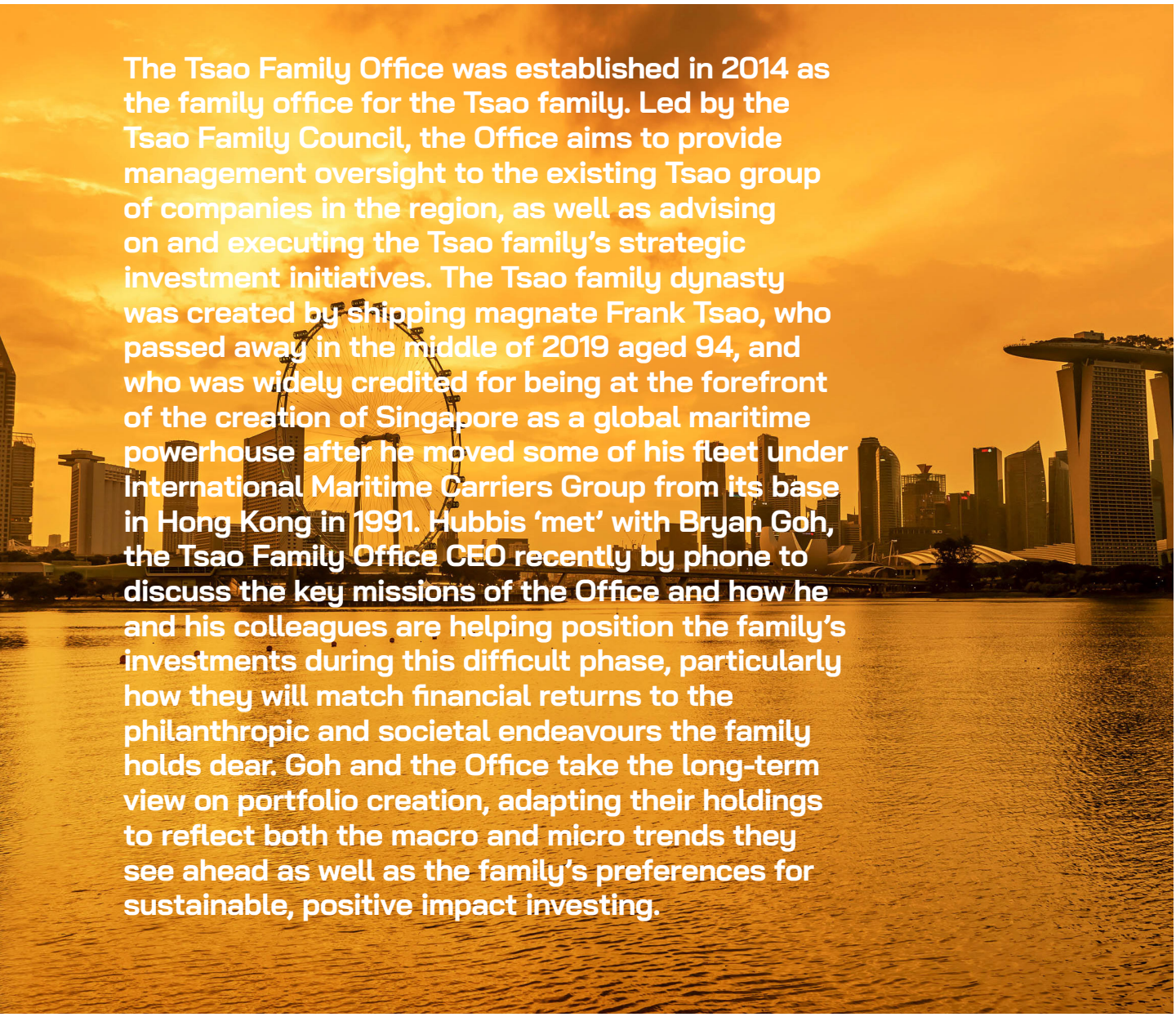
Bryan Goh of Tsao Family Office on Taking the Slow Train to Sustainable Portfolio Construction



The Tsao Family Office was established in 2014 as the family office for the Tsao family. Led by the Tsao Family Council, the Office aims to provide management oversight to the existing Tsao group of companies in the region, as well as advising on and executing the Tsao family's strategic investment initiatives. The Tsao family dynasty was created by shipping magnate Frank Tsao, who passed away in the middle of 2019 aged 94, and who was widely credited for being at the forefront of the creation of Singapore as a global maritime powerhouse after he moved some of his fleet under International Maritime Carriers Group from its base in Hong Kong in 1991. Hubbis 'met' with Bryan Goh, the Tsao Family Office CEO recently by phone to discuss the key missions of the Office and how he and his colleagues are helping position the family's investments during this difficult phase, particularly how they will match financial returns to the philanthropic and societal endeavours the family holds dear. Goh and the Office take the long-term view on portfolio creation, adapting their holdings to reflect both the macro and micro trends they see ahead as well as the family's preferences for sustainable, positive impact investing.

Goh joined the Tsao Family Office (the Office) in April 2019, when he left the CIO role at Bordier & Cie in Singapore. Before that, he was Head of Alternative Investments at DBS from 2011 onwards.

"I was hired to manage the family office assets and to expand the ESG investments and broadly the family's philanthropic objectives," Goh reports. "As one of Asia's most prominent families and businesses, with a history that stretches for over a century, Tsao Group seeks to align the pursuit of business interests with a commitment to enhance human well-being and contribute to the long-term benefit of society. Tsao Family Office manages and administers the Tsao family assets and services leveraging on responsible investments."

Viable alternatives

Goh reports that the family's investment philosophy is aimed not only at generating returns for the family but is also aimed at financing viable businesses and consumers. "Investments, we believe," he explains, "have the power and responsibility to shape the future of society."

Accordingly, he explains that as investors, the family cannot separate who they are from how they invest. "The selection, development and mentoring of the people at the Tsao Family Office define the results," he explains.

Global reach

The Office invests globally across a wide range of assets and markets, allocating risk to the different asset types and markets, including equities, globally and across all sectors, across all segments of the fixed income capital structure, including leveraged finance and structured credit, as well as across private credit, equity, and real estate. "Most importantly," he states, "we aim to invest in a sustainable and responsible way to generate consistent returns to fund the philanthropic activities of Tsao Group."

Taking the slow train

Goh explains that whereas if he was sitting in a private bank, he might be under pressure to invest with a short-term investment horizon; for the Office the situation is very different. "We are very patient, we can deploy capital with great flexibility, and I think this period is very interesting because what it doesn't give you in immediate return, it gives you information about future opportunities and risks. This is a major shake-up, but we aim to see through this to find the long-term future themes."

He says that for the past decade, possibly longer, China and the US have been disengaging, and world trade had been scaled back and has in fact been falling as a percentage of GDP. "The rivalry had begun long ago, and we simply see an acceleration of that in recent times, and we are seeing how robust the different systems are, one fully capitalist and one state-driven capitalism. Both deal with exogenous shocks rather differently, and that helps give us clues about how we might or might not be able to invest going forward."

Patience – an investing virtue

The reality is that in this situation and given the impact of the pandemic on the world, the Office is even more patient than ever. "We have to be incredibly strategic; we must look at things along different lines, not just earnings over the next two to three years but the great rivalries between central banks and market forces, the changing balance between rich and poor, the rivalry between the US and China, free markets and central planning, the different system of economic activity and different ways of organising society and capital. These are big picture concepts, but core to how we strategise out investments."

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Goh observes that the volatility and unpredictability of 2020 to date has largely been positive for the private banks and the wealth

BRYAN GOH
Tsao Family Office

community's fee and transaction revenues, and is likely to have also encouraged more private clients to adopt DPM or advisory mandates with their providers.

"But from an investment perspective, which is my priority here at the Office, I can report that our strategic approach has allowed us to avoid the worst of the problems earlier this year, so, for example, we were trading in the leveraged loan markets and the CLO markets and the securitisation markets, which were less retail driven, and that offered much better visibility, whereas equities and on-the-run bond markets were a different story, hostage to the capital flows and many emotions out there."

Careful does it

He reports that in fact, the Office had already been more in a capital preservation mode since late 2019. "Actually, when March came, we were looking at opportunities, but then the markets rebounded rather too quickly, I think, and rapidly recovered to levels not reflecting the new reality."

He observes that this disconnect between prices and reality is driven by the central banks and treasuries printing money and supporting markets. "I can see why they would logically try to prop markets up, as money has been diverted from banks to capital markets" he says, "but the result is asset prices at one level of economic activity and then fundamentals implying something else. What does that mean for opportunities? Well, I think we need to wait for a deeper correction, and that might not come from the very retail, liquid markets, it might come from the more fundamentally driven markets where you have less retail participation and fewer ETFs, and more institutional participation."

"We look five, ten years out, or even longer. We can take long-term views on the key factors that drive economics, demographics, society, technological advancement, geopolitics, central bank policies and so forth. At the end of the day, everything boils down to human behaviour, and I believe it is geopolitics that will define the next 10 years. Where will China find its place? What will the Belt and Road initiative mean? If similar in effect to the US Marshall Plan, which gave birth really to NATO, then the implications are enormous."

Dislocation, distress & recovery

Goh says he and colleagues see phases ahead and have divided investment opportunities into categories to fit dislocation, distress and recovery. "We have seen dislocation already in March," he says, "but there could be more dislocation. We have not yet seen much distressed pricing, and that will certainly bring problems as well as opportunities when it comes and that is building up momentum now. Meanwhile, the recovery is still some good time away. So, we have lined up our approach to deploying capital to take advantage of those three categories, dislocation, distress and recovery, and right now we are positioning largely for further dislocation."

He observes that some of the dislocation might be that certain assets are too expensive and that usually one would bet against them, but that investors must be especially careful because of the impact of central banks on markets.

Regarding the distress that he predicts, he says a lot of capital has been lined up, committed in private fund strategies to take advantage of chapter 7 or chapter 11, type strategies in credit, and markets.

A long-term vision

Goh explains that the luxury of investing for the Office is that the family vision is long-term. "We therefore invest over much longer timeframes than I would in the world of private banking," he reports. "We look five, ten years out, or even longer. We can take long-term views

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Goh excuses himself for becoming somewhat theoretical – he is, after all, an alumnus of the London School of Economics – but says that ultimately to grow an economy aside from the short-term fix of printing money, which is not sustainable, economies need to grow their basic factors of land, labour, capital and knowledge.

Structural changes ahead

"In the old days of history, economies achieved that by military means, so if they wanted more land, or more people, they expropriated, or acquired them through conquest. But in today's production function, the most important factor is the know-how, the technology, which in essence is simply the knowledge base. But how do you acquire that? Conquest does not get you any more know-how, so maybe it is stolen, bought or taken over by influence. And that seems to be what is going on now between the US and China today, really. If the Belt and Road is indeed similar in some key aspects, objectives and implications to the Marshall Plan, it seems to be all about buying power and influence and friends."

He observes that the money is going through Asia towards Europe and then down into Africa. "Is that the new hinterland for China?" he ponders. "But for sure, it is all about buying influence, buying friends, buying access to factors of production, maybe access to markets. There is enough demand in China in the future, so this is all about buying factors of production."

ESG rules

Goh closes the discussion by commenting on the family's approach to sustainable investing in the form of a strategy based on ESG and impact investment principles. "The Tsao Foundation, which is a long-established elderly care and health care charity, is supported by the Office, which is accordingly driven by this commitment to social responsibility, ESG and impact investing. That is where more and more of our capital has headed and will head in the future, so we are making sure we navigate clearly through these waters. It is not easy; we seek good financial returns as well as sustainability, and we are very careful about truly following this direction, wary about greenwashing and so forth. But by taking the long-term view and investing in knowledge, we have a better chance of achieving our missions and our goals." ■