

Lighthouse Canton: Strong Growth Ahead for its Differentiated IAM Offering

Lighthouse Canton is a Singapore-based independent asset and wealth management firm for the institutional market and accredited investors. The firm's co-founder and CEO, Shilpi Chowdhary and the recently-appointed Chairman, Kong Eng Huat, a well-known veteran private banker, met with Hubbis to elucidate their views on the dynamic world of independent asset management in Asia, and why they believe Lighthouse Canton is well-positioned for the next five years of growth.



LIGHTHOUSE CANTON (LC) IS AN INTEGRATED ASSET AND WEALTH MANAGEMENT FIRM

regulated by the Monetary Authority of Singapore (MAS) and by the Dubai Financial Services Authority (DFSA).

LC's website emphasises the firm's independence and stresses the belief that it has robust product capabilities across the asset classes, as well as the ability to customise solutions to meet clients' needs, an institutional class infrastructure and counterparties, and reports that there is now a team of more than 40 professionals looking after close to USD1 billion of total assets under management and advisory.

Based out of Singapore, with a new and growing operation in Dubai, part of the firm's middle-office and back-office operations are located in India to capitalise on the talent there, as well as cost efficiencies.

Core principles

"We are an integrated firm trying to make the use of the best practices in both of the family office and asset management sectors," Chowdhary begins. "The asset management business is largely institutionally focused, and each segment complements each other. We operate on certain principles and uphold certain core missions - clients come first, we strive to offer innovative and holistic solutions, we are independent, we aim to attract, nurture and retain the best talent, and we partner with best-in-class banks and institutions."

Chowdhary left Credit Suisse to become co-founder of the firm in 2014. After five years of rapid growth and now with more than 40 in the team, Chowdhary is pleased with the progress, but knows that there is much to achieve, especially

Chowdhary's Key Priorities

"My first priority right now is to set the agenda for the team," Chowdhary reports. "We reorganised just recently, and as a part of that I want the team we have in place to take up the opportunity and responsibility, so my first mission is to articulate my vision very clearly to them and for them to be able to execute that vision. For the next 12 months, we will be very focused on getting some of those things right."

Secondly, LC is implementing new technology. "We must make sure that by the end of this year, we have delivered this in substance so that in 2020 we can then make tweaks here and there to refine it."

"As we are 100% independent, and with no external capital at all, there are sometimes pressures on us in terms of resources, but it means we invest very wisely, so this year, for example, we are focusing on technology, building up a system to feed in from all the banks for client accounts and create consolidated statements, complete with all risk analytics, on a live, real-time basis, rather than a month-end basis. We are doing this partly in-house and partly with a vendor on the coding side, as we found that there was no plug-and-play solution that fully addressed the complete need that we had identified."

Chowdhary explains that LC in fact works with several technology vendors, including WeInvest, in which the firm has a sizeable stake following a funding exercise managed by Schroders. He is also a director in the company, which was founded in 2015, helps financial institutions deliver a full-suite digital investing experience to their customers. WeInvest's website reports that it is "Asia's leading and proven digital wealth service provider" and is currently headquartered in Singapore, with a growing presence in Malaysia, Indonesia, Dubai, Hong Kong, India and China.

And his third priority is to attract quality talent while also retaining a key focus on the bottom line. "We have been growing so fast," he reports, "so we must make sure that both the top line and bottom-line growth are achieved, which is sometimes a challenge. We must balance the growth with the acquisition of talent."

in the field of Funds and the high-growth family office space.

A logical step

"I have always been an entrepreneur and setting this business up in 2014 was the next logical pro-



SHILPI CHOWDHARY
Lighthouse Canton

gression from a career standpoint,” he reports. “If you look across Asia and extrapolate from Europe and the US, you will realise that family offices will eventually have almost close to 50% market of the money management, although it is still in the single digits here in Asia for now. In short, family offices will become ever more prominent, and we are in the right place at the right time.”

Chowdhary comments that family offices are far from being simply externalised replicas of what some people did in a bank and then moved out on their own as asset managers to create single or multi-family offices.

A different value proposition

“The value proposition is extremely different,” he observes. “The banks essentially manufacture products and provide balance sheet, but multi-family offices have a more generational approach, and involve very long-term relationships, elevated accountability and transparency, and have no conflicts of interest.”

Moreover, he adds that the LC service suite does not stop at

Getting Personal with Shilpi Chowdhary

Chowdhary is the CEO and Co-Founder of Lighthouse Canton. He is responsible for driving the company’s vision and objectives as well as overall business directions. He oversees the Multi-Family Office, Asset Management and Bespoke Solutions businesses and creates synergy between the verticals.

Chowdhary had some 20 years of experience prior to co-founding Lighthouse Canton in 2014. Previously, he was a Managing Director at Credit Suisse Private Bank where he managed the Ultra High Net Worth portfolio for the bank. Prior to that, he spent more than six years at Citibank in India.

Chowdhary was born in a small town named Shimla, in the state of Himachal Pradesh. He originally qualified with a Bachelor of Technology degree in Civil Engineering and then attained a Post Graduate Diploma in Business Management from Symbiosis Centre for Management.

"Citibank was a great start to my career," he recalls, "as I learned much about many different aspects of banking. Credit Suisse was then a great move, and I thoroughly enjoyed my time there. In fact, before I founded this firm, I took them into my confidence in an open manner, and they were very supportive, for which I have great respect."

Married with a son of 15 and a daughter of 8 years old, Chowdhary enjoys quiet times at home reading and watching cricket on TV. His music tastes are wide-ranging, with favourite bands names such as U2, Metallica and Dire Straits, the first of which was soon due into Singapore.

managing money. “A family might be based in Asia, but they have children in the US and property in Dubai, so assembling all of that and keeping it tax efficient and compliant is extremely important, as is the need to ensure proper wealth and transition planning and structures. Our aim is to provide a holistic financial solution to our clients with their best interest at heart.”

He explains that as to partners and stability, LC operates custody arrangements with the private banks and some of the emerging players, such as Saxo Capital Markets. “We see the banks as partners and friends,” Chowdhary explains, “and not competitors, so we advise our clients we are agnostic in this regard. We choose the best, the



KONG ENG HUAT
Lighthouse Canton

most relevant, those who like to work with us, and we always aim for consistency.”

And LC also operate with some of the prime brokers for large clients where the firm is also providing them with fund structures. “For example,” Chowdhary explains, “when there is a 13X-compliant single or multi-family office structure for those with more than SGD50 million in assets the prime broker route is ideal. For other clients, who fall outside this bracket, we can continue to work with the private banks.”

In-house but conflict-free

The asset management operation includes a fund management business, with LC currently offering six of its own-brand funds, both public (tradable) and private (less liquid). “We avoid conflicts of interest by having a limit of 25% of our client’s money in our own funds,” Chowdhary reports. “And the teams are entirely separate, with some of the funds managed in partnership with external parties.”

He says the LC funds are also differentiated from the street. “For example, we were the first

to launch a trade finance fund in Singapore, which focuses on receivables financing and is denominated in Singapore dollars,” he reports. “Although others might do letter of credit

financing funds, ours is based on shorter-term receivables.”

Differentiated offerings

Moreover, Chowdhary maintains that while so many funds in the market are benchmark driven,

Getting Personal with Kong Eng Huat

Kong Eng Huat is currently the Chairman of Lighthouse Canton, where he advises and works with the CEO and leadership team on strategic planning, business development and corporate governance. He has more than 38 years’ experience with various international banks in the corporate banking and private banking worlds.

Eng Huat was the CEO of EFG Bank AG Singapore Branch from January 2012 to December 2018. He was a Managing Director at Merrill Lynch International Bank from January 1989 to March 2010.

A Singaporean through and through, Eng Huat graduated from the National University of Singapore with a Bachelor of Business Administration degree. “That was a long time ago, back in 1979,” he reports. “Since then, I was in banking my whole career, first in corporate lending dealing with commercial companies and then in private banking after I joined Merrill in 1989. I recall those days fondly as private banking grew rapidly as I was starting out to really help Merrill launch and build their Asia business. I started out as Merrill Lynch Bank Suisse’s Representative in Asia and pioneered discretionary portfolio management services in Asia. I was appointed MD for the South East Asian Private Banking business in 1997.”

Eng Huat says he likes being associated with nifty, smaller, entrepreneurial businesses. “LC has grown well in the first five years,” he observes, “and looking at the next five years, I believe I can add value in terms of the strategic planning, in terms of business development and also in the vital area of corporate governance.”

Eng Huat’s two sons live and work in London, one as a doctor and one as a computer engineer.

His spare time is spent playing golf. His favourite course in Singapore is on the island of Sentosa.

some of the LC funds have appeal as they are absolute return funds.

“Our LC Beacon Global Fund,” he explains, “is structured in a manner where its unique dual-approach through its Accrual strategy and Macro Strategy has enabled it to achieve a stable return stream since its launch in November 2016 - with no down month to date. For instance, in a challenging market like last year, the Fund was able to generate more than 6% returns net

strategy focusing only on 15 to 20 stocks identified as market leaders in the segments they are in, i.e. businesses growing at more than 20% per annum. Although there are many India funds in the market, there are very few of a similar nature. The fund invests purely on fundamentals driven by earnings growth supported by reasonable valuation rather than through macro calls. This explains why the portfolio is sector agnostic

“Typically,” he observes, “when the manager is young, he produces a lot of alpha, but as the fund size starts growing to USD500 million or more, the alpha generation starts reducing substantially. Accordingly, we focus on finding the right strategy and talent, and our approach is typically to first put our own money into the funds, let them run for one or two years, track them, and if all is good, we then raise external money for them under our brand.”

of fees at 0.5% volatility - proving itself to be uncorrelated to the equity markets and other traditional asset classes. The fund is currently annualizing close to 5% and yet running volatility which is less than 0.6%. It is another example of a differentiated strategy we offer to our investors; we make sure we do not go down the same beaten paths.”

“Our SageOne India Growth Fund,” he adds, “differentiates itself through its disciplined bottom-up approach to identifying and investing in companies with high earnings growth, strong profitability and quality corporate governance within the small and mid-cap space. It runs a long-only

versus most Indian funds which are mostly oriented towards consumer or agriculture-related names. The manager we have in place has a nearly 10-year track record of compounded average growth rate of more than 30%.”

Chowdhary also notes that the LC strategies and chosen managers are largely in their earlier stages of growth. “Typically,” he observes, “when the manager is young, he produces a lot of alpha, but as the fund size starts growing to USD500 million or more, the alpha generation starts reducing substantially. Accordingly, we focus on finding the right strategy and talent, and our approach is typically to first

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Come join the club

As to LC’s value-added and USPs, Chowdhary believes that the firm’s growth speaks for itself as having carved out a niche in the market.

“The banks have great capabilities, but they are siloed, so each function of the bank operates independent of the other,” he observes. “But today, firms like ours can enter the market with access to the latest technology at the right cost points for the first time, while for the banks they have legacy systems that usually hamper them and are very costly to upgrade.”

“Moreover,” he continues, “there is more and more available talent today who are more entrepreneurial minded, people who do not want to work with those larger institutions, who are leaving the banks because they feel boxed in by regulations and management practices, who feel that they are unable to express themselves. These factors, combined with our nimble approach and client-centricity, provide us with considerable differentiation.”

A holistic perspective

Eng Huat agrees, adding that external asset managers such as LC tend to look at clients on a holistic, consolidated basis, rather than acting as a banker for a portion of their assets.

“We also offer open architecture and access to a wide variety of research from other institutions and banks,” he notes. “Ultimately, we offer a more entrepreneurial model, and we also have a very strong infrastructure, in fact, I chose to join the firm because they

have a very strong institutional asset management capability, thereby freeing up the RMs to be relationship people rather than asset management people. This is where I think we have a genuine competitive edge.”

Chowdhary reiterates the firm-wide focus on differentiation. “Eng Huat mentioned infrastructure, and, yes, we have invested a lot in our infrastructure. We can provide all the support services, consolidated statements, or client risk assessment statements for their portfolios. We can provide structuring advice, proposals on succession planning, thoughts on wills, trusts, holding companies, all these areas, and all this requires people with deep understanding, with the quality and capability to make a genuine difference.”

Adaptable to the core

“Moreover,” he adds, “we adapt to the regulatory and market situations, nothing is cast in stone, we adapt and adjust to help build a sustainable long-term business.”

As to the search for and retention of talent, Chowdhary points out that people join private banks

due to the potential for learning, career progression and financial enhancement as key motivations.

“But a fourth element that is increasingly prevalent these days,” he explains, “is the feeling that they are being watched, restricted, that their entrepreneurial spirit is often being compromised. However, with LC we can offer a truly rapid and steep learning curve, as we are not siloed, so our team members can learn easily and quickly from each other. Secondly, we encourage an entrepreneurial approach where they are encouraged to take ownership of their responsibilities and not be afraid to speak out and take calculated risks with the goal to improve the offering of the firms to our clients - and the financial and career rewards will follow.”

The long-term creation

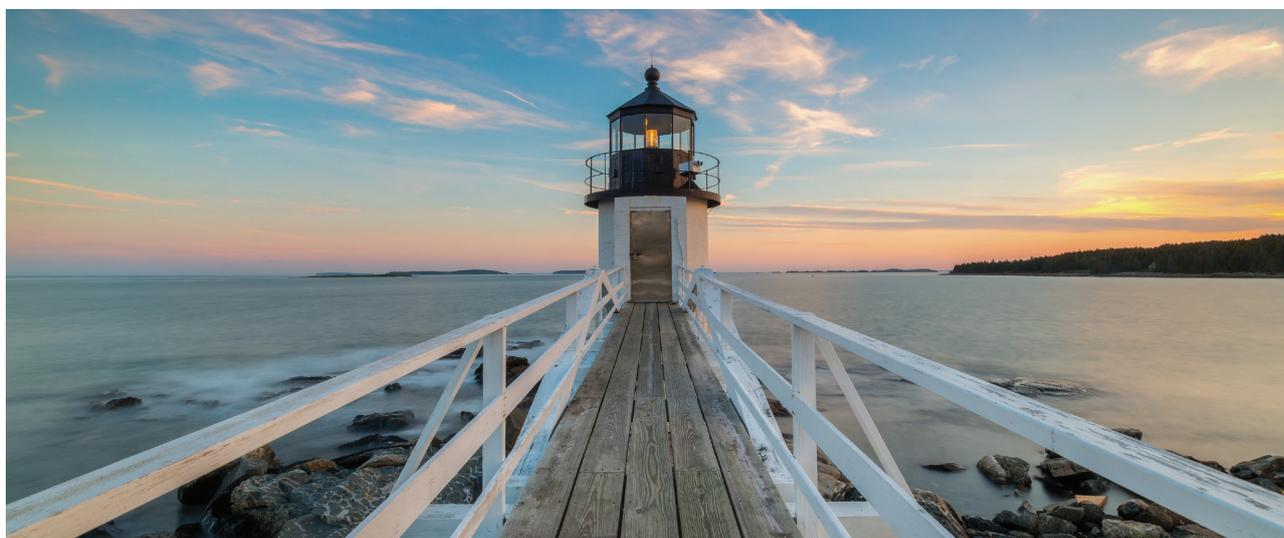
He maintains that as LC is highly transparent in its pricing and focused on the end objectives of the client, aiming to build consistent performance with high-quality talent, it is easier to retain those good people. “They are helping us build a sizeable and serious institution,

over time,” he reports, “and we are very proud of the fact that our attrition rates are almost negligible.”

Chowdhary says the firm follows a model whereby bankers are paid a fixed compensation, and then there are tiers in which they make percentages of revenue thresholds, in the range of 20% to 40% as a cap.

“To mitigate conflicts of interest,” he adds, “we charge the clients a fixed fee, which has no relation to how many transactions they make. An example might be 1% of the USD100 million portfolio, so the RM’s incentive is to retain assets and build with new money, so the more they bring in, the more they make. It is not transaction driven.”

As to market potential, Chowdhary points to specific target pockets of demand. “We aim to be highly diversified in our approach to client segments,” he explains, “The NRI market is very important, as is the ASEAN market, which Eng Huat is helping us to build up. We have a dedicated team which works on the Chinese market as well. But as a generalisation, we know that the endgame is the same for all these clients in terms of their investment goals.” ■



Lighthouse Canton's Six Strategies and Observations from the CIO

SageOne India Growth Fund

The focus is on high-quality structural growth businesses. This is an India-dedicated long-only equities fund with weekly liquidity, selecting a high conviction portfolio of 12-20 high growth stocks across multiple sectors and in the USD250 million to USD4 billion market capitalisation range and with a buy and hold approach with very low turnover and no leverage. The fund is managed by SageOne Investment Advisors, which has a more than a nine-year track record.

LC Beacon Global Fund

LC Beacon Global Fund is a global Macro fund which implements its arbitrage and relative value strategies through its dual-approach model to effectively generate steady risk-adjusted returns with low volatility and with low correlation to equity and bond markets. The fund aims to offer steady returns with minimal downside, targeting 4% to 6% over deposit rates.

LC Income Strategies Fund

The LC Income Strategies Fund aims to generate equity-like returns with fixed income-like consistency, achieved through income from selling put options on carefully selected stocks which offer a good combination of quality and value, whilst hedging market risks by buying options on the broader country/sector indices. Yield is generated from a diversified basket of short-dated investment-grade bonds and the Fund targets a 6% to 9% annual nett yield, with hedging strategies in place to mitigate the risks of a severe equity market fall.

LCM Global Growth Fund

This is a fundamentally driven equity long-short fund with a bottom-up approach to investing in global equities. The focus is on companies with strong profitability and rapid asset growth supported by quality management. The Fund holds a diverse portfolio of 30-50 high growth stocks across multiple sectors and regions, largely in the large-cap space of more than USD1 billion. The buy and hold approach also includes hedging as an "insurance policy" to mitigate exposure as well as opportunistic alpha shorts.

The LCV Trade Finance Fund

LCV Trade Finance Fund is an open-ended fund that was created in May 2018 and invests in trade finance products catering to SMEs in Singapore. The Fund was created through a partnership with Validus Capital, a Temasek investee company. The Fund finances SMEs supplying to Singapore based Government-linked entities and large corporates, with a 90% insurance facility on 80% of the underlying portfolio of loans. The expected returns are 4% to 6% over 3-month SIBOR.

LCCOF & LCCOF Series II

These are focused on life sciences real estate in India. The first series launched in 2016 and the second in 2018. The Fund buys into life sciences and pharma focused real estate with attractive yields and IRR potential, with anticipated IRRs of more than 20% in US dollar terms over three to four years. The Fund could later be listed as a REIT as a whole or sold in secondary markets to strategic players aggregating commercial real estate.

Commentary from Lighthouse Canton's CIO

In a review of the global and regional markets and economies for 2H 2019, the Lighthouse Canton CIO makes the following selected comments about the firm's strategies.

"Our internal strategies, LC Beacon Global Fund and LCV Trade Finance Fund continue to deliver returns without relying on market direction, reinforcing the uncorrelated nature of their strategies. Despite the rather cautious view of the equity markets, we believe that alpha generation is still possible through the diligent selection of managers in this strategy space."

"With that in mind, we continue to have select equity strategies in our portfolios for core equities allocation, as we believe that these managers can deliver high returns across the cycle and are better positioned than their respective peer group to navigate turbulent times through their disciplined approach to investment both in terms of process and risk management."

"For instance, the primarily macro and sentiment-driven sell-off in small and midcap stocks in India over the last one year is offering some compelling investment opportunities for Sage One India Growth Fund. Despite the market volatility, the Fund is holding a portfolio of companies with strong earnings growth and high profitability generated through their efficient business models and as importantly strong corporate governance."

"As for the LCM Global Growth Fund, we believe that the diversification of the portfolio has placed the Fund in a reasonably good position to mitigate the risk of large downside risks in bear markets by using a combination of disciplined stop losses, alpha shorts and put options."

"Each of our recommended managers in equities have demonstrated their ability to deliver superior risk-adjusted returns over the different market cycles."

"Outside of traditional asset classes, we have highlighted gold as an interesting asset class, as gold tends to outperform equities by 4-6x during equity bear markets. With banks and bonds charging customers to park money with them, gold is likely to attract more demand as a safe haven."

"We believe that a well thought out portfolio should continue to generate attractive returns across different market cycles, without causing undue stress to investors. We strive to achieve this for our clients every day and watch markets closely, so that you don't have to. We thank you for your continued support and confidence in us."