

# Re-imagine Your Retirement

The quickest way to save for retirement  
& the ways to ensure your retirement funds last



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## Guiding philosophy : 1

### Reward through contribution

*"Becoming a millionaire is the side effect of helping a million people (OK, that's a bit of a stretch! 😊). One's salary or influence is not an end in itself, but an (imperfect) measure of your contribution to the world."*

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## Guiding philosophy : 2

### Success comes from expanding the pie for everyone

*It's not a zero sum game, it can be win-win for everyone*

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## Guiding philosophy : 3

### Interdependence is a source of strength

*It's a way to harness the skills  
of multiple people for a  
greater good*

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## Guiding philosophy : 4

### This is not a 100-m sprint, it's a marathon

*Put in the hours, no short cuts, no easy  
way out. The investment process is a  
result of more than 10,000 hours of  
research, reflections and observations.*

*We are in this together for the long  
term*

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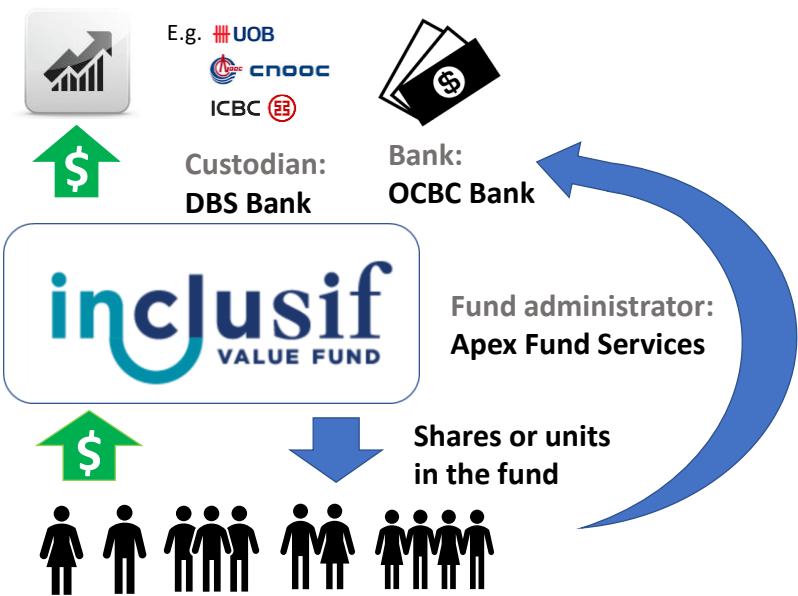
Guiding  
philosophy  
: 5

Be humble

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- Cayman Islands incorporated open-ended investment company with limited liability
- 100 voting non-redeemable non-participating management shares (THL, who appoints Inclusif Capital as IM)
- 49,900,000 non-voting redeemable participating shares (Investors in the fund)



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Investment Manager



- Compliance
- Operational support

Portfolio Manager:  
Teh Hooi Ling

- Manage portfolio
- Marketing & client servicing



Custodian



- Keeps the securities

Fund Administrator



- Maintains shareholder register
- NAV calculation and reporting

Bank

- Keeps investors' subscription monies



Auditor



Cayman Legal Advisor



Campbells

Executing Brokers



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Topics to be covered

Why equities

How to get higher than index returns

How much money is enough

How to make your money last forever

The inconvenient truths about equities

Inclusif Value Fund

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We spend more than 20 years of our early lives preparing ourselves

- To be economically active
  - When we were young, we were taught knowledge and skills just so we can contribute economically when we are grown-ups, and earn ourselves income
- This is the reality: In the capitalist system adopted by almost all countries in the world, we can live better, have more autonomy when we have money
- When we are no longer economically active, we have to ensure that we have saved enough in our active days to allow us to continue to live in a comfortable and dignified way

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Various ways to reach our goals/destinations

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# How long does it take to reach \$1 M



If you save \$1,000 a month?

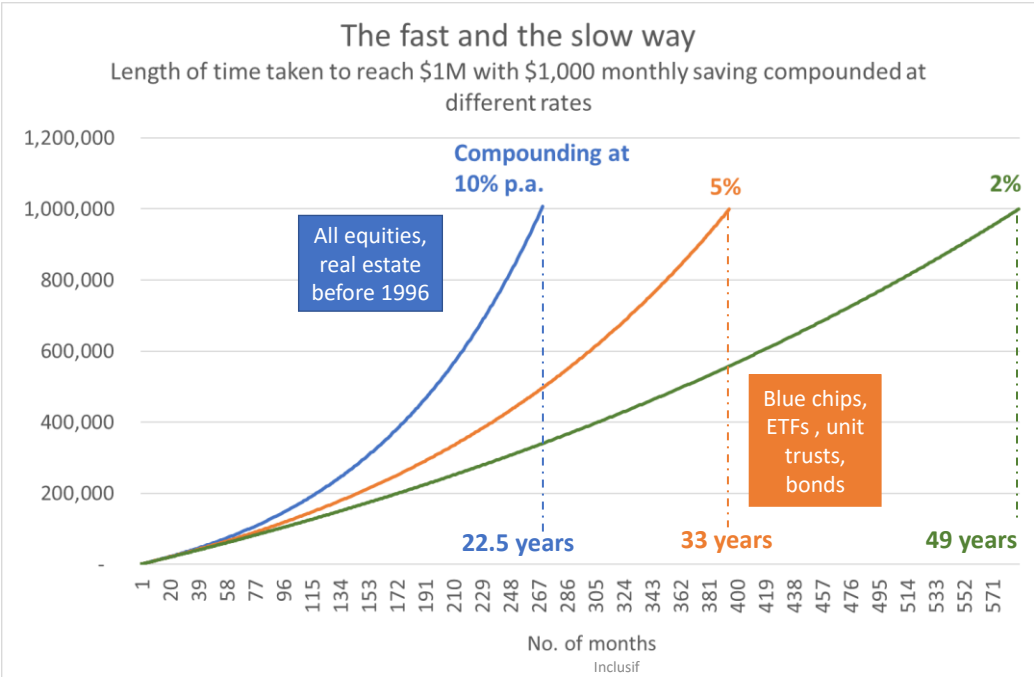


It depends on what rate you are compounding your money at

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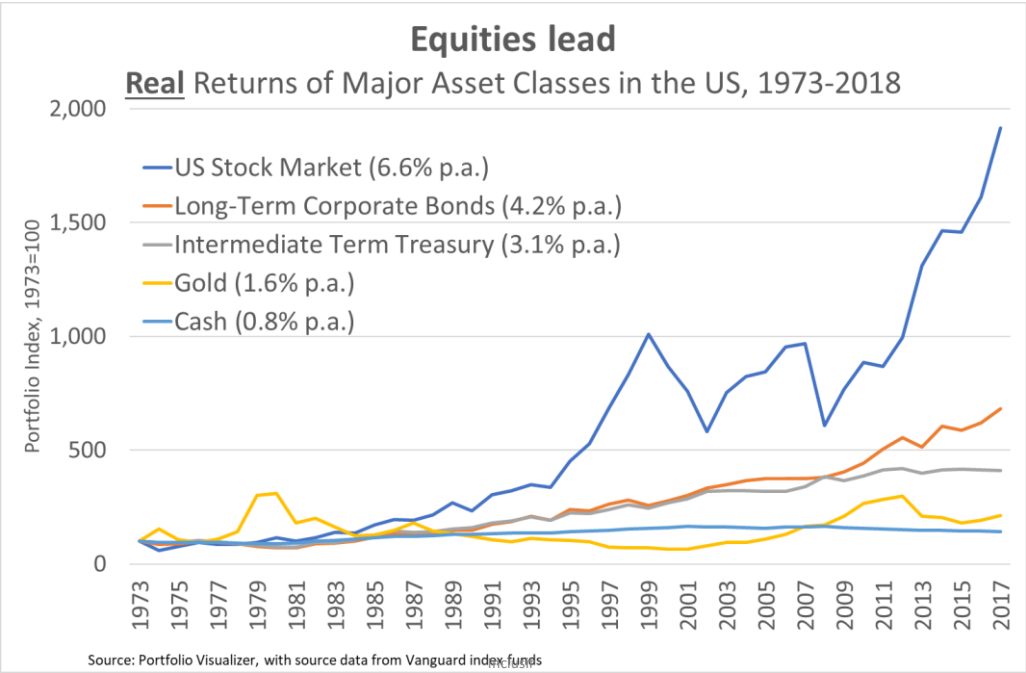


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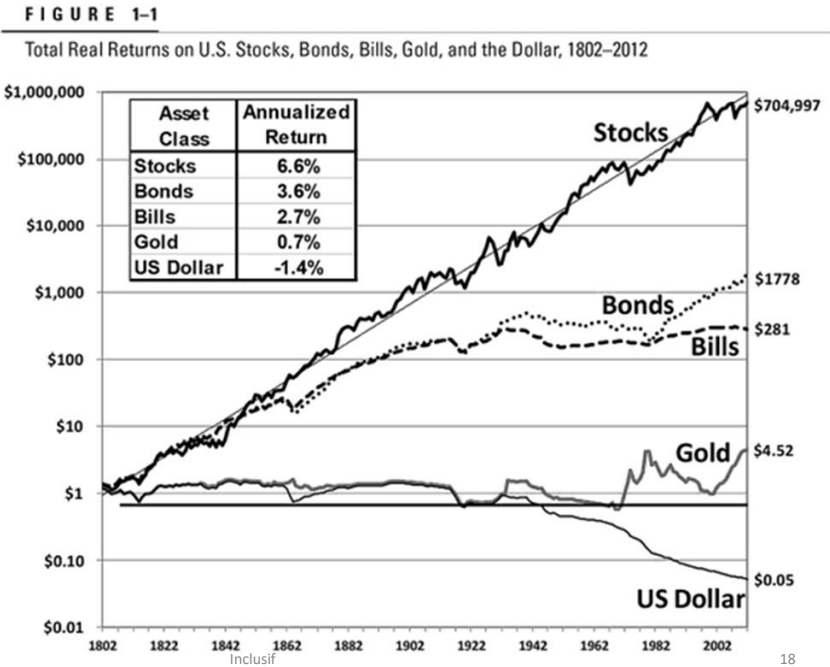
Either very safe (cash, fixed deposits etc) or very risky (mixed bag of investments in friend's new café, condo in Johor which suffered forex and capital loss and low rental) portfolios





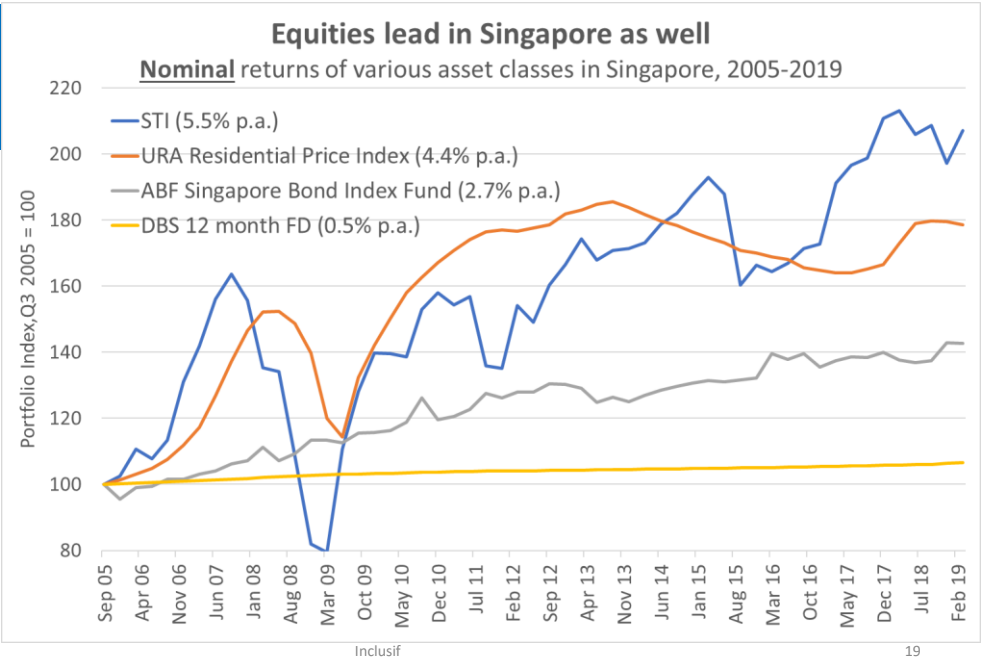
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Over a longer term, Over 200+ years



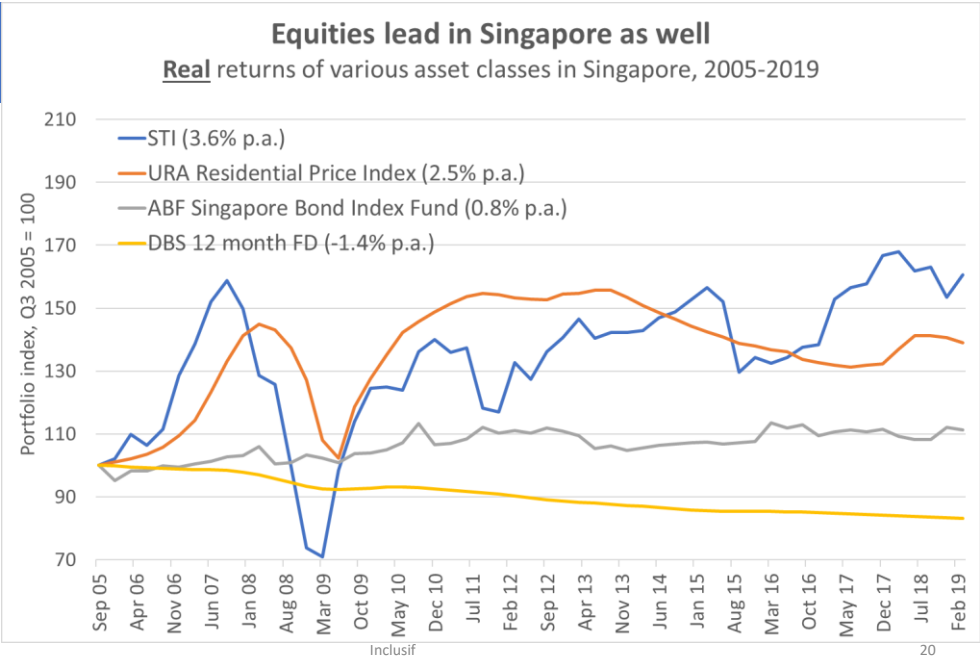
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What about Singapore?



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After inflation



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Note:

- Asset class with higher volatility also generates higher returns over time
- Those which are more stable have lower returns

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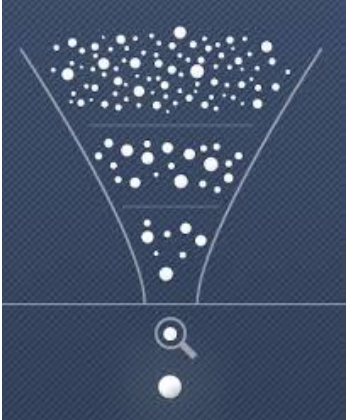
It boils down to stock selection:  
There has to be a method, it cannot be random



"I suggest you buy Acme Chemicals."



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Show Me the Money:

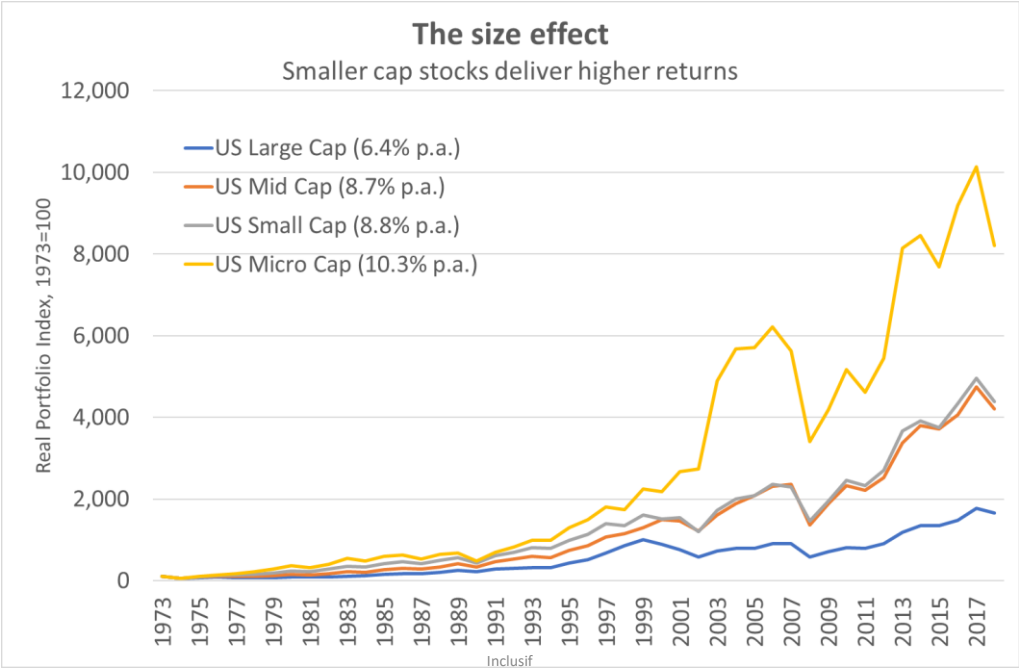
What does the evidence tell us about the type of stocks that yield the highest returns?



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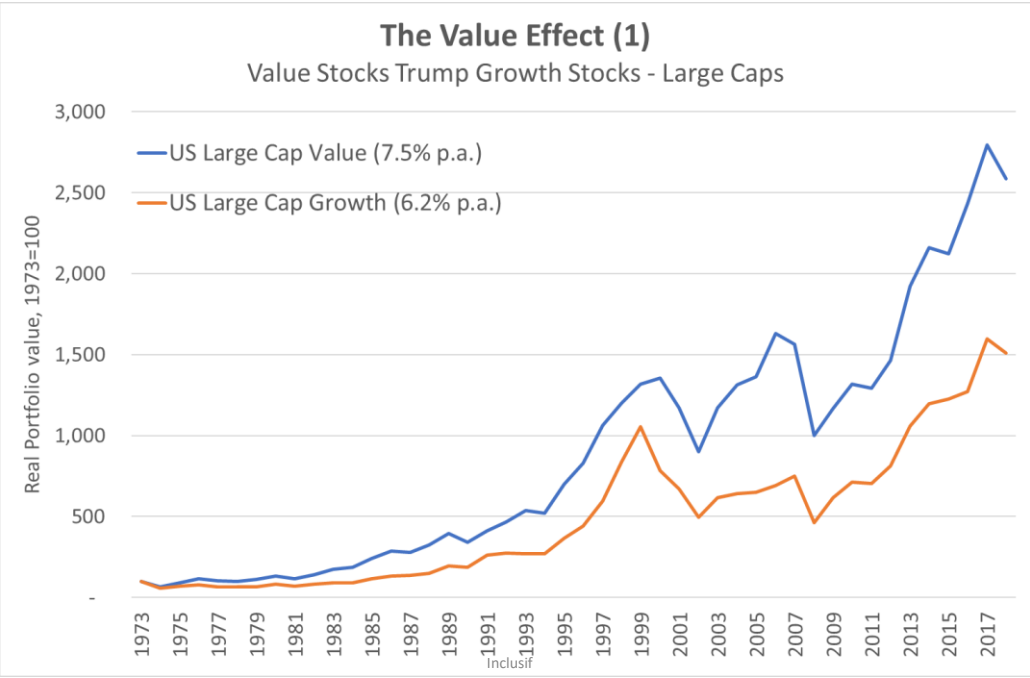
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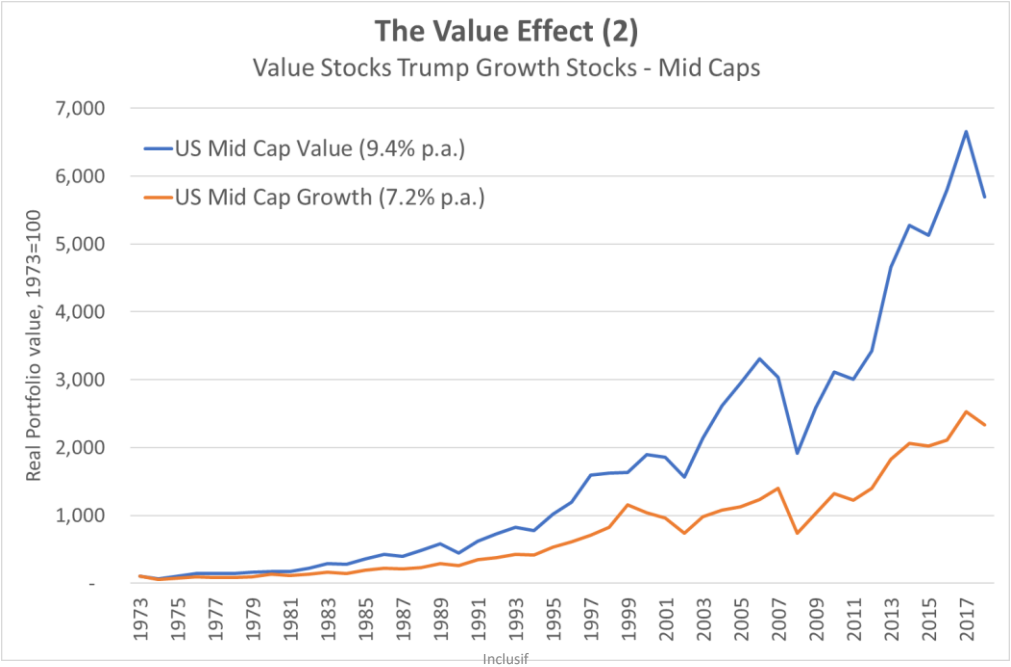
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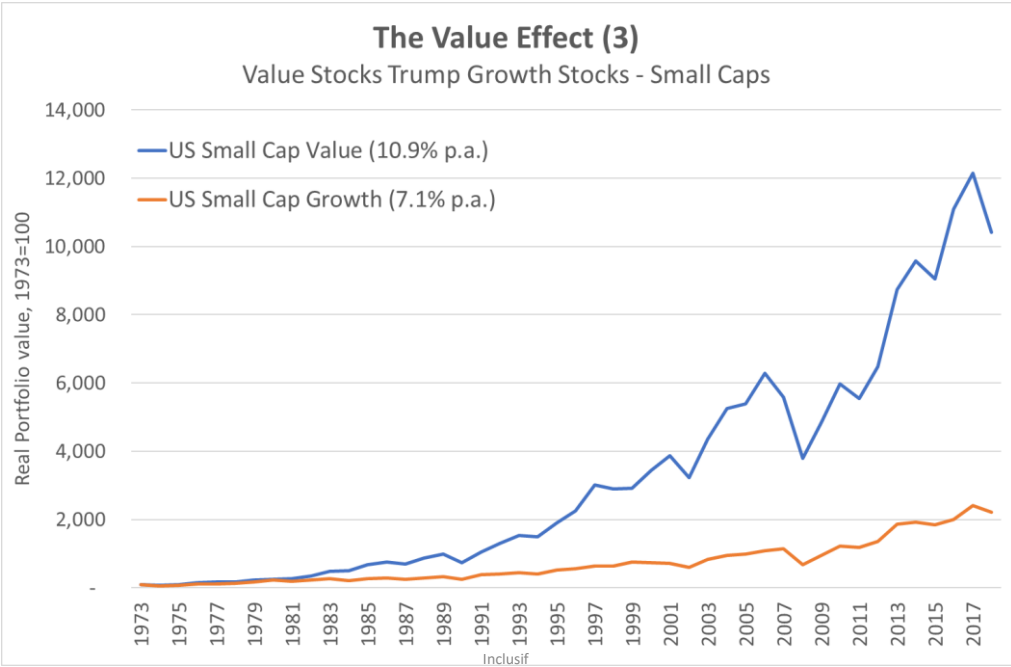
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# The Sweet Spot

Stocks which provide the biggest bang for your buck				
Compounded annual real returns of stocks grouped based on various attributes				
Real Returns p.a. (%)	US Large Cap	US Mid Cap	US Small Cap	US Micro Cap
All stocks	6.4	8.7	8.8	<b>10.3</b>
Value stocks	<b>7.5</b>	<b>9.4</b>	<b>10.9</b>	
Growth stocks	6.2	7.2	7.1	

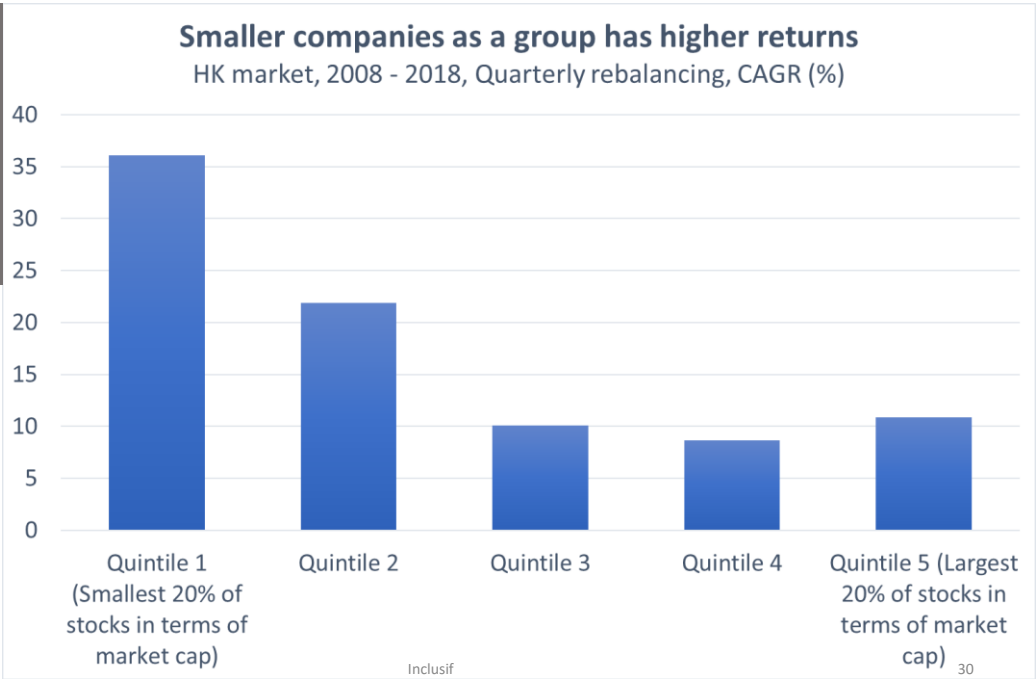
Source: Professor Kenneth French’s Data Library

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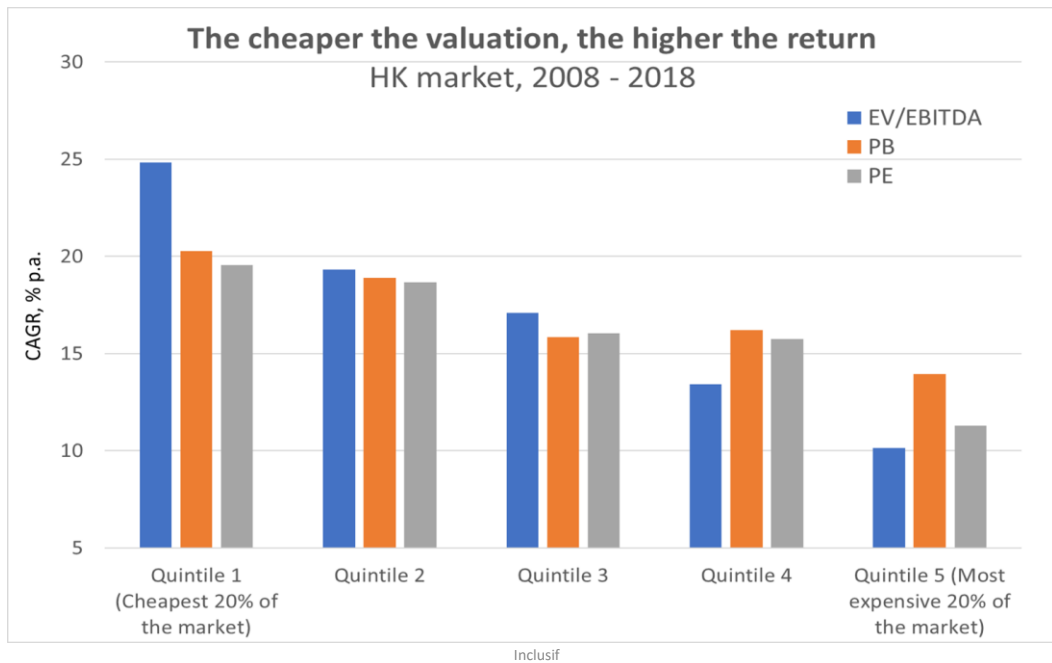
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The size and value effects can be found in all stock markets around the world



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## Value stocks

- A stock whose share price is **significantly below its “fair value”**
- “Fair value” can be estimated using various metrics, for example, share price relative to the assets owned the company, or the share price vs the earnings generated by the company, or the discounted future earnings or cashflows of the company

## Growth stocks

- A stock whose current share price reflects significant future growth in earnings and cashflows
- Investors in growth stocks **hope that the company’s future growth will exceed current investors’ bullish expectations,** which are already reflected in the share price

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## Value - More certainty

- If a company owns total assets net of liabilities of \$100 M, but in the stock market it is only valued at \$50M, someone can offer to buy up all the shares in the company for say, \$60M, and then dispose of all the assets at say \$80M. Old shareholders will gain 20% and the new shareholders 33%.
- When expectation is so low, any positive surprise will give the share price a big boost

## Growth - Less certainty

- The growth trajectory of a company is highly uncertain
- Many factors could impact growth: regulatory environment, competition, consumer preference, product obsolescence etc.
- When expectation is set so high, any disappointment will be severely punished

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That's why the evidence shows value trumps growth in terms of returns.

Takeaways:

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Value is referred to as the gravitational pull of the financial markets. The further away a stock trades from its fair value, the higher the probability the price-value gap will close

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When you buy assets which are trading below value, you are exchanging a smaller store of value, i.e. your cash, for a greater one

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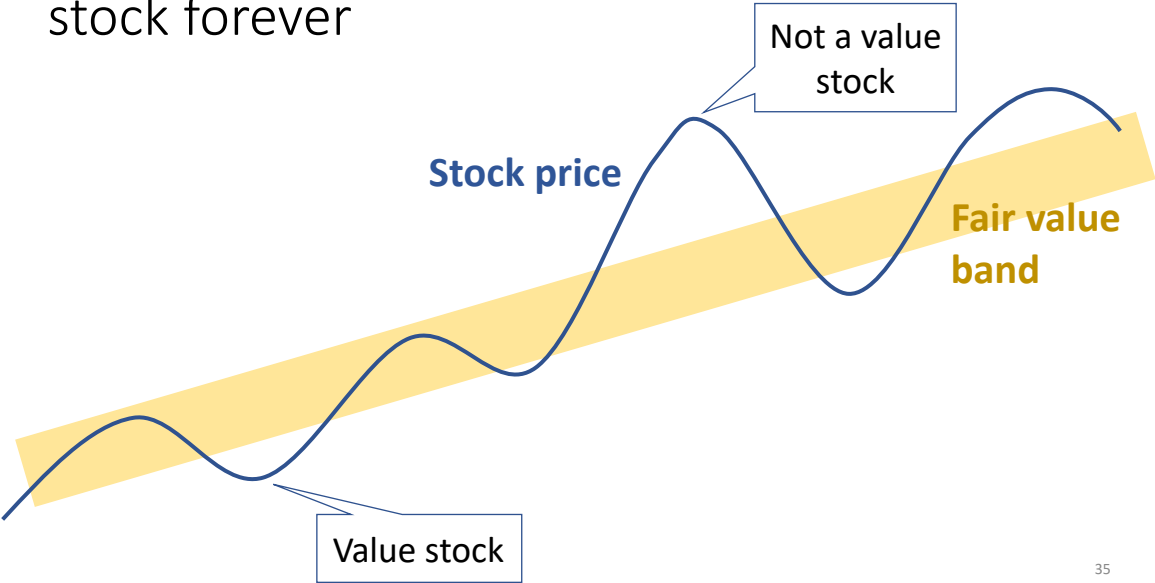
**The price may not revert to fair value in the next one day, one week, one month or even one year. But over time, it will definitely do so**

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However, a value stock doesn't stay as value stock forever



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Epistar (Taiwan)



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Megastudy Co. (Korea)



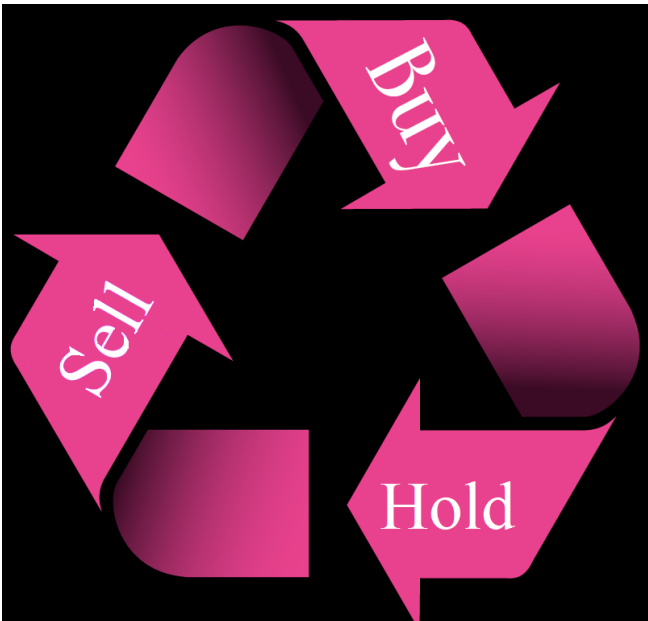
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There has to be a certain degree of active management

—  
Buy a stock when it's cheap, sell when it is no longer cheap and recycle capital to another cheap stock



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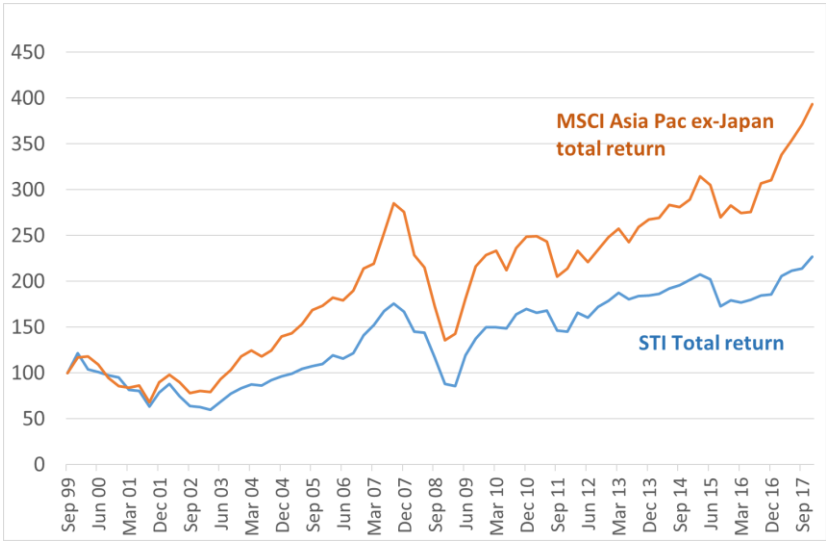
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Another way to getting higher returns:  
  
Don't restrict yourself



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Extra returns from investing in other markets



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## Yet another way to enhance your returns

Be fearful when others are greedy, be greedy when others are fearful

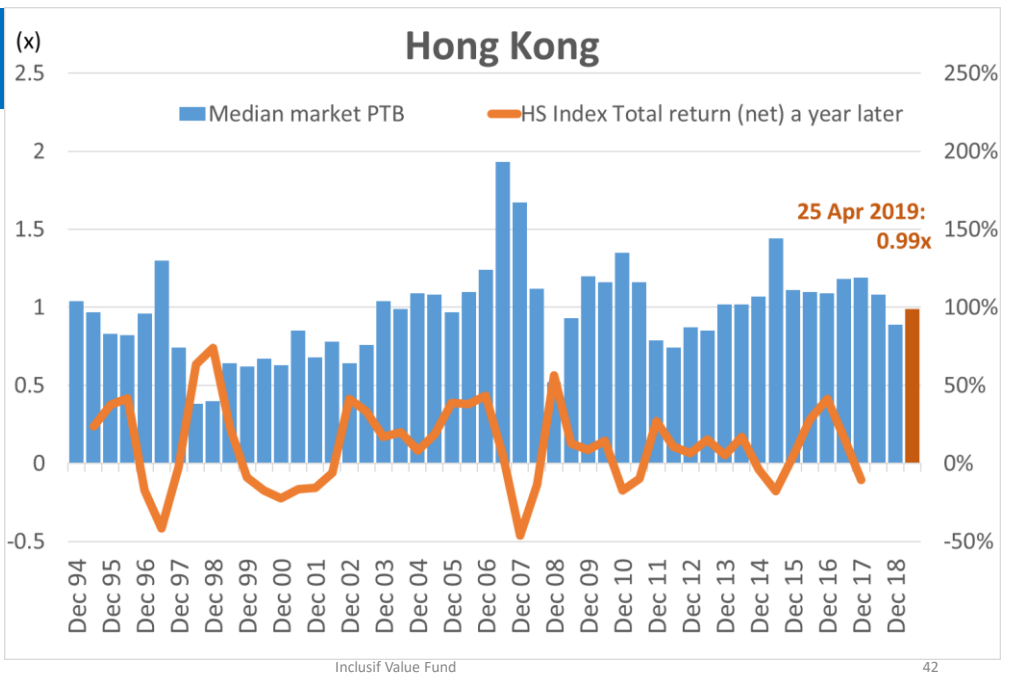


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Be guided by valuation

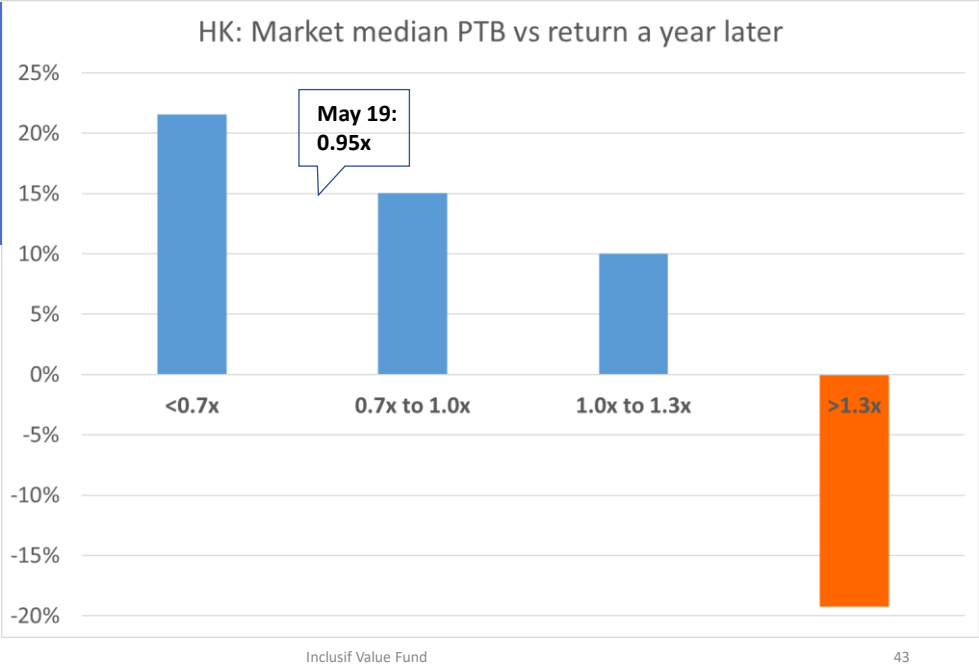


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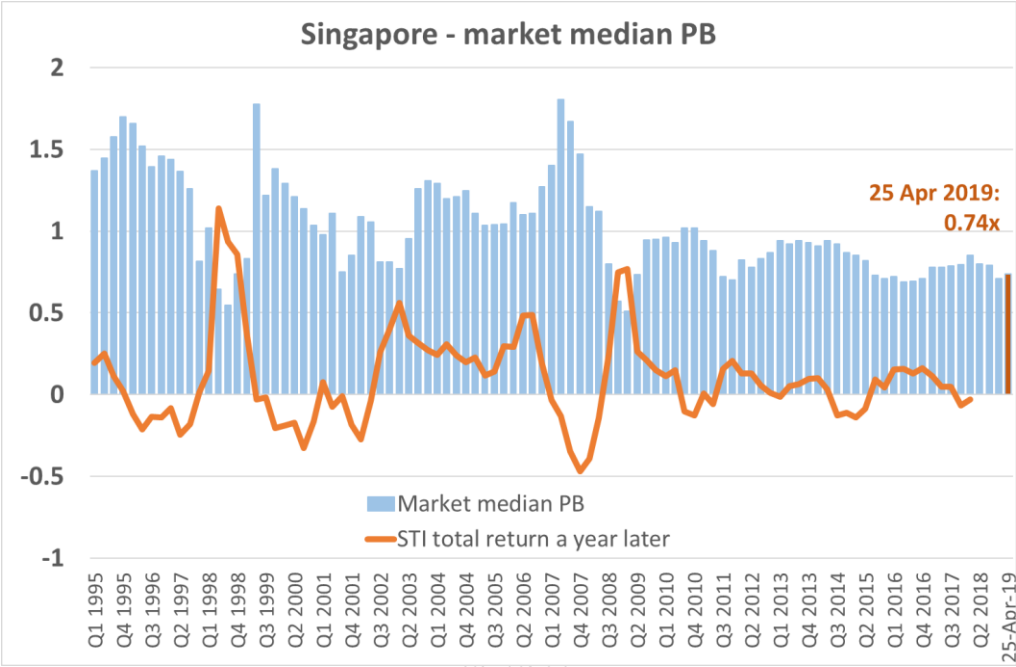
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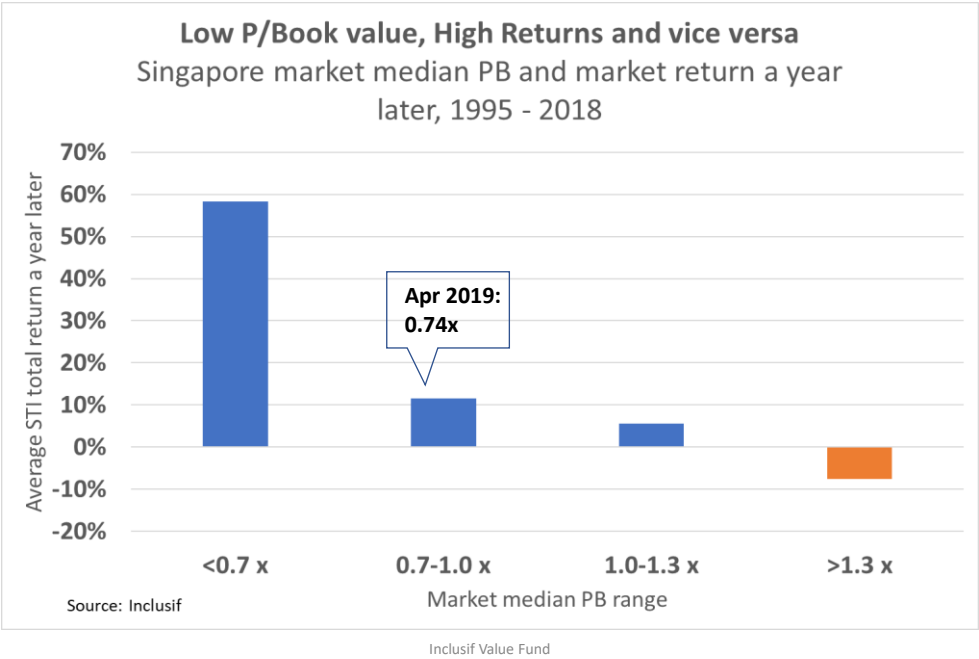
Again, the cheaper the valuation, the higher the returns and vice versa



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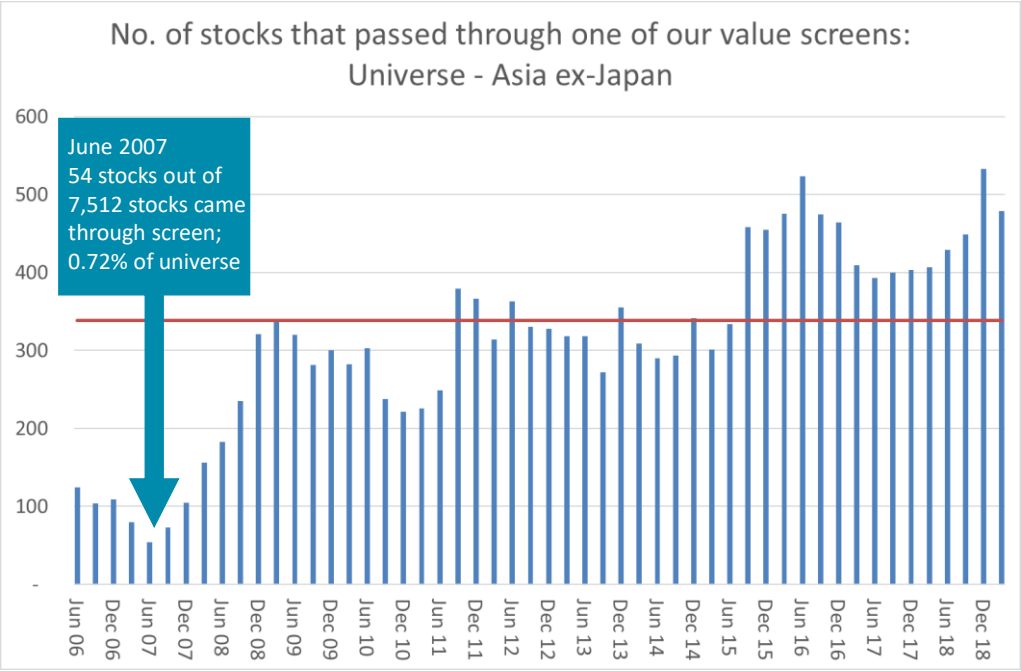


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# Recap

Equities provide the highest returns vis-à-vis other asset classes over the long term – so **concentrate** your portfolio in equities if you want to achieve your retirement goal faster

Index typically gives around 7% p.a.  
– Ways to enhance your returns:

Have a portfolio of small cap value stocks – actively manage it

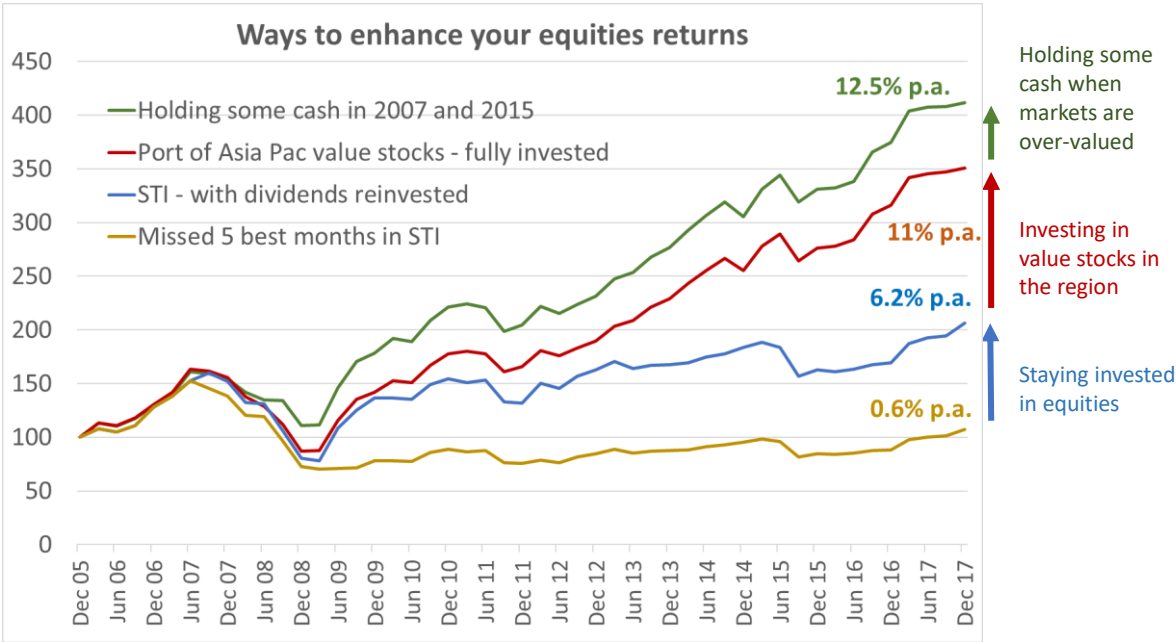
Include more markets

Be guided by valuation – trim positions when markets are over-valued, buy more when markets are cheap

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# MONEY

HOW MUCH  
IS ENOUGH?

After you have  
\$1M, then what?

Is \$1M even  
enough?

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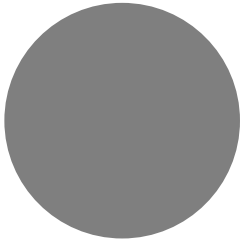


If you need only 5% of that  
\$1M a year to pay for your  
daily expenses, that is  
\$4,000 a month, then \$1M  
is enough.

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# How to ensure your money last forever?

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Keep all \$1M in equities!!!



STOCK EXCHANGE



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# Stress test the worst case scenario



You put \$1M into the market at the point of retirement



Unfortunately, that time coincided with the peak of the market



You need to depend on this \$1M for your retirement by withdrawing \$50K a year, which works out to \$4K a month

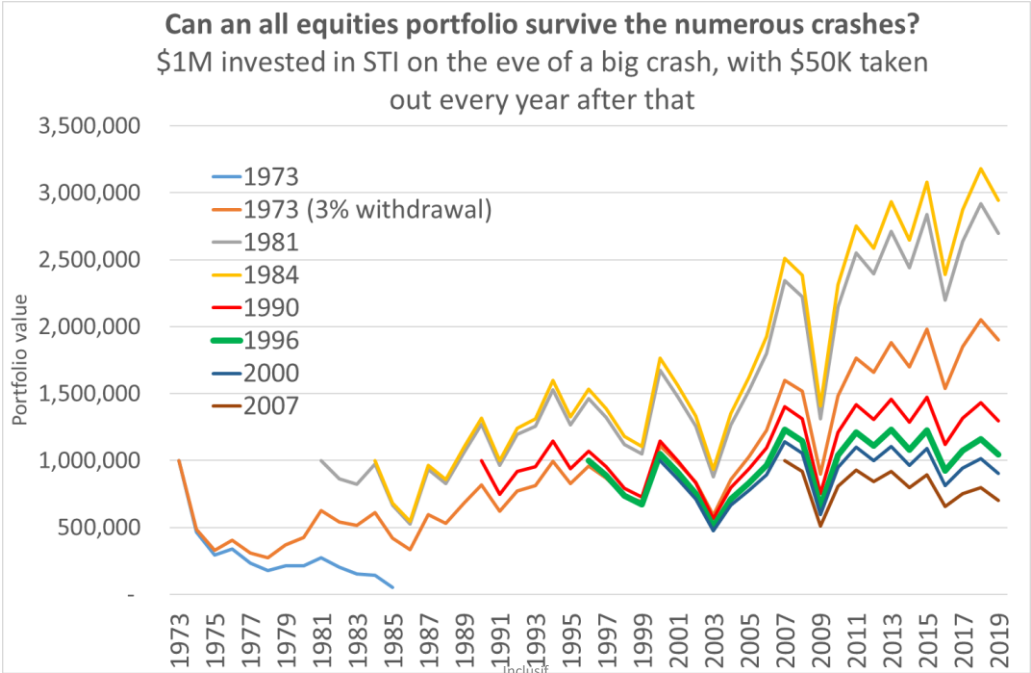


Can your \$1M continue to provide for you up till today?

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An all equities portfolio for retirement - Worst case scenario							
A five per cent withdrawal is "safe" enough							
Retired on 1 Feb:	1973	1981	1984	1990	1996	2000	2007
				\$'000			
Initial portfolio value	1,000	1,000	1,000	1,000	1,000	1,000	1,000
At 5% withdrawal							
Amount withdrawn:	650	1,900	1,750	1,450	1,150	950	600
Portfolio as at Feb 2019	Port depleted in 85	2,697	2,944	1,298	1,043	905	700
Portfolio at its lowest		528	544	565	508	477	513
At 3% withdrawal							
Amount withdrawn:	1,380	1,140	1,050	870	690	570	360
Portfolio as at Feb 2019	1,903	6,073	5,641	2,858	2,050	1,610	1,014
Portfolio at its lowest	272	610	581	768	624	525	545
Source: THL, Inclusif Capital							

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Like a magic cup that automatically fills itself!



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How about regular savings into STI over 20 years to build up your retirement fund?

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## Regular savings

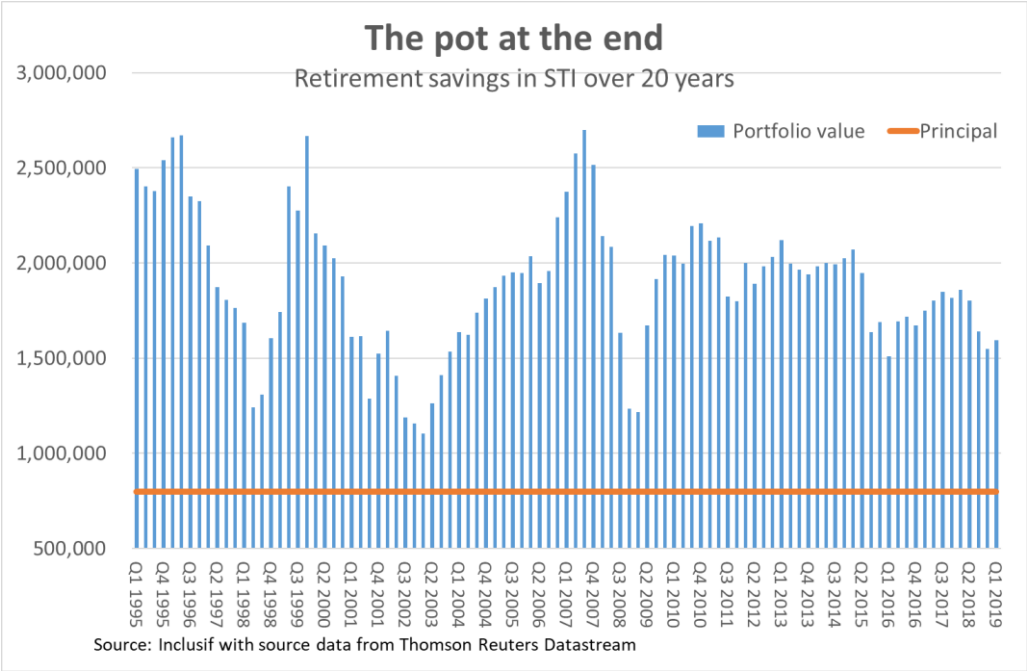
Invest \$10K every quarter into the Straits Times Index over a period of 20 years

Dividends are reinvested

How much do you have at the end of 20 years?

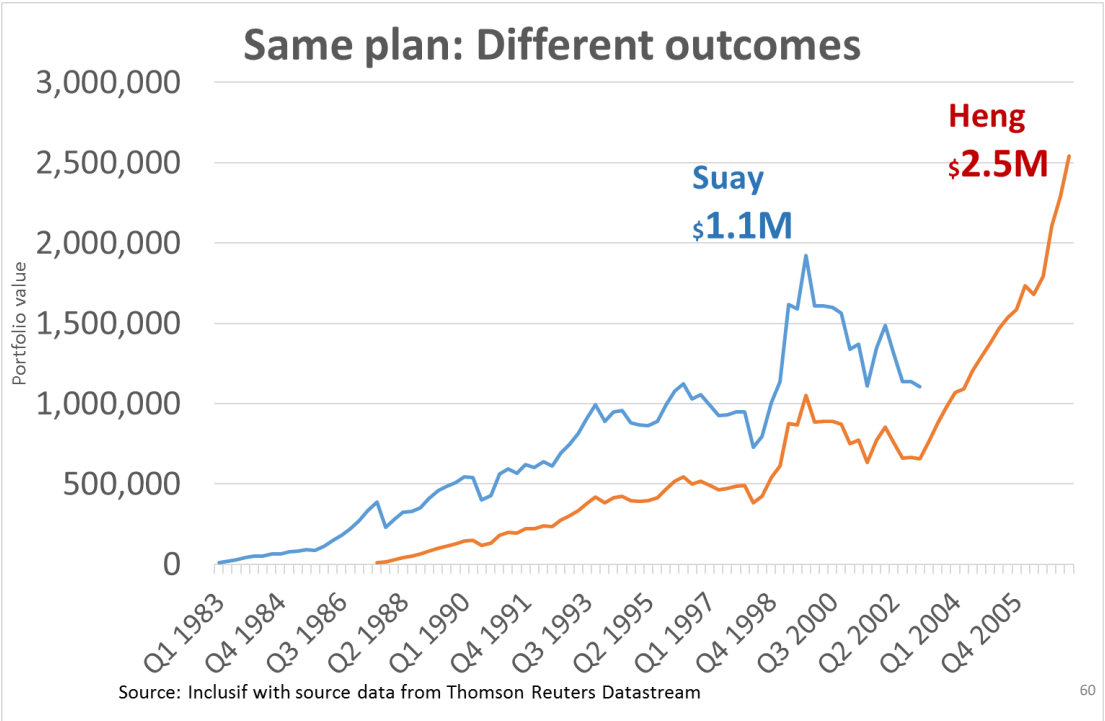
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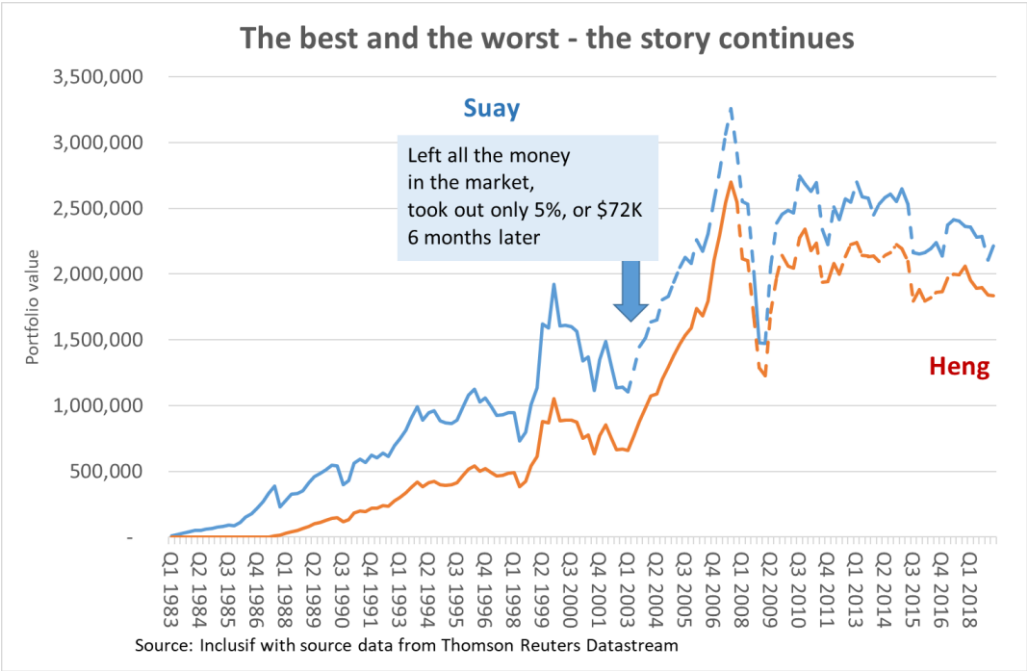
Suay didn't have to take all her money out after she retired.

What happens if she left all in the stock market and just took out 5% a year?



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Entire sum remains in equities, i.e. STI in this case

	Suay	Heng
Port at point of retirement	1,105,127	2,540,227
Years since retirement	16	12
Total amount withdrawn	1,864,062	1,224,843
Amount withdrawn since Q1 2007	1,479,892	1,224,843
Port as at Q1 2019	2,215,417	1,836,819

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Fixed deposit vs  
leaving money  
in the stock  
market

	Heng			
	Savings in FD: 2% int	5% withdrawal on FD	Savings in STI	5% withdrawal on port in STI
Q4 2007	2,565,629	128,281.45	2,548,571	127,429
Q4 2008	2,486,095	124,304.73	1,289,837	64,492
Q4 2009	2,409,026	120,451.28	2,142,367	107,118
Q4 2010	2,334,346	116,717.29	2,341,470	117,074
Q4 2011	2,261,981	113,099.06	1,940,471	97,024
Q4 2012	2,191,860	109,592.99	2,223,651	111,183
Q4 2013	2,123,912	106,195.60	2,136,832	106,842
Q4 2014	2,058,071	102,903.54	2,225,674	111,284
Q4 2015	1,994,271	99,713.53	1,879,902	93,995
Q4 2016	1,932,448	96,622.41	1,860,259	93,013
Q4 2017	1,872,542	93,627.12	2,060,607	103,030
Q4 2018	1,814,494	90,724.68	1,839,587	91,979
Total sum withdrawn		1,211,509		1,224,461
Savings/ Portfolio as at Q1 2019	1,823,566		1,836,819	

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Using STI as a proxy, a  
5% withdrawal a year is  
safe enough

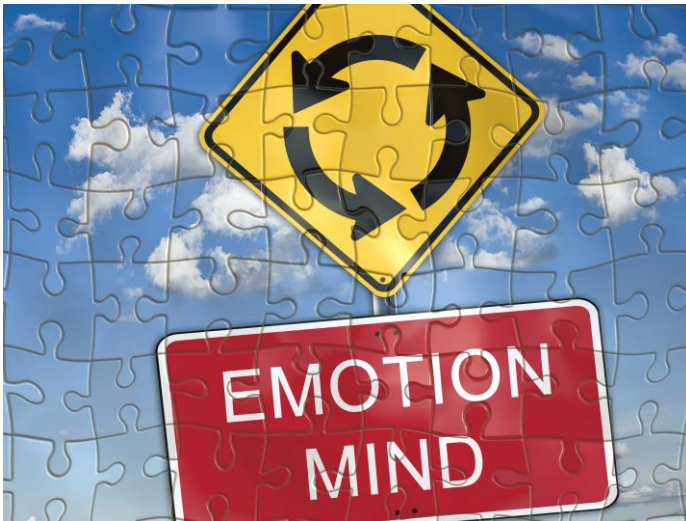
—  
But as mentioned, you  
can boost your returns  
by investing in value  
stocks across the region  
and actively managing  
your portfolio. This  
means the amount  
available for withdrawal  
may be higher over  
time



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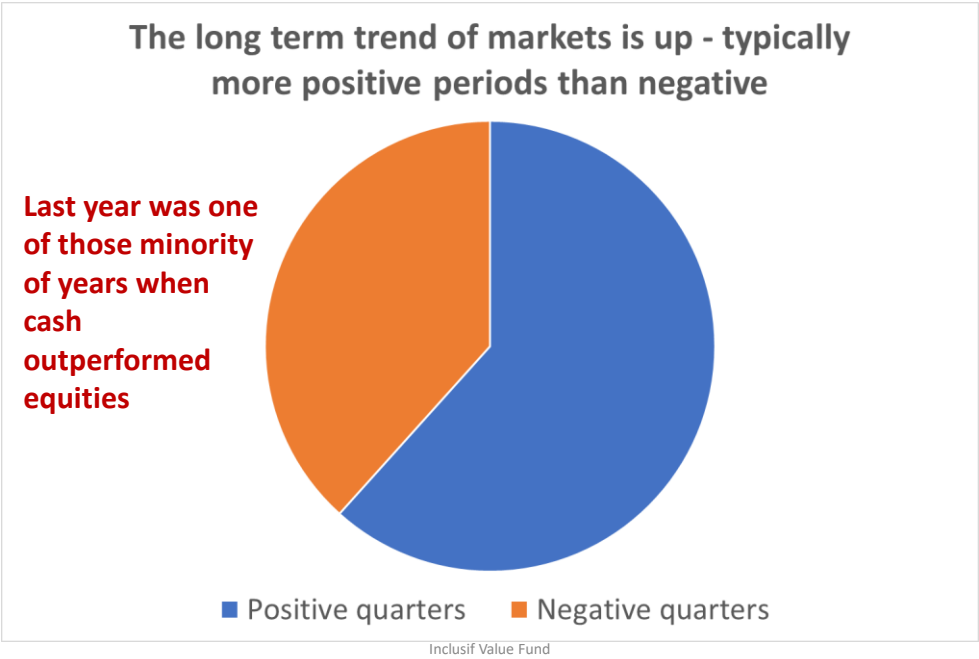


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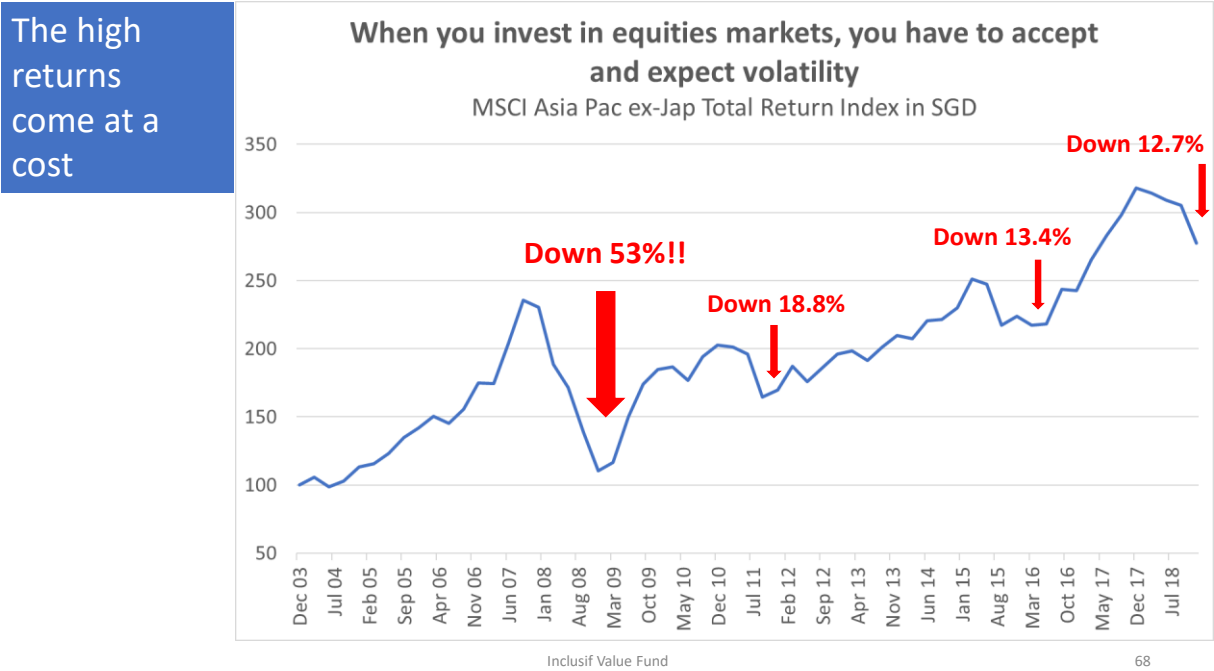
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Things you need  
to be aware of  
when you invest  
in equities

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## Volatility is the price for getting higher returns

We need to accept that stocks have negative returns from time to time – usually at an inconvenient time when the economy is bad and people are at risk of losing their jobs

What you MUST **NEVER EVER** DO: Throw in the towel after an especially tough stretch!

You should start trimming your positions when the market is getting more and more expensive

But always maintain some exposure in the equities market

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Also markets take the escalator up, but the elevator down



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The downturn can be fast and ferocious. It can be a stomach-churning ride

It is usually too late to sell after the crash has happened

Selling after a big crash is the worst thing you can do to your portfolio

You deny yourself the chance of a recovery

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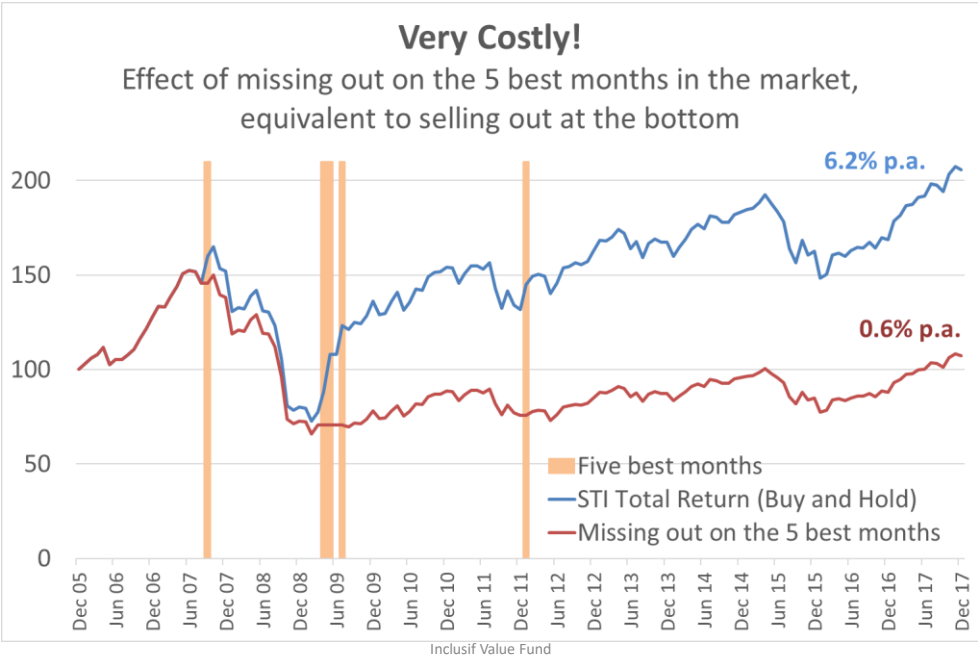
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Ride out the tough periods – STI total returns

Crisis	Period	Loss during period	3 months	6 months	12 months
Iraq invades Kuwait	Aug 1990 to Oct 1990	-28%	4%	32%	25%
Asian Financial Crisis	Jul 1997 to Sep 1998	-32%	40%	46%	117%
Dot-com, Sept 11 Attacks	Jan 2000 to Nov 2001	-47%	27%	25%	1%
Enron, Iraq, SARS	Dec 2001 to Mar 2003	-19%	11%	28%	54%
Global Financial Crisis	Oct 2007 to Mar 2009	-57%	50%	70%	78%
European Debt Crisis	Jul 2011 to Oct 2011	-19%	7%	17%	21%
	Average	-34%	23%	36%	49%

**Caveat: Provided the stocks you own are at no risk of going to zero  
Indexes will not go to zero. If they do, it's the end of the world as we know it!**

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The tussle between value and growth



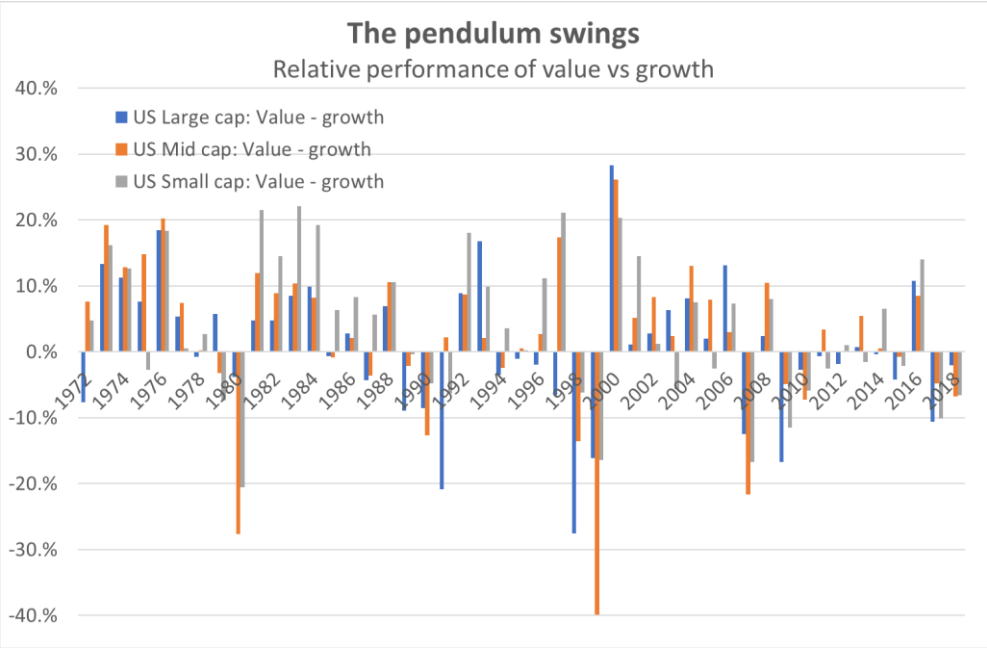
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While value outperforms growth over the long term, this doesn't happen consistently year after year.

There will be stretches of time when growth outperforms value.



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## Recap (2)

- A 5% withdrawal for retirement is safe enough – if you can find an instrument that grows at at least 5% a year, with zero risk of the entire portfolio going to zero
- Major market indices fit that bill – the STI which consists of stocks like DBS, OCBC, UOB, City Developments, SingTel etc is unlikely to go to zero. If that happens, it's the end of the world – as we know it.
- A widely diversified portfolio of value stocks, with very low borrowings also fits that bill
- One has to expect volatility when investing in equities. Volatility is caused by the short-sightedness of investors
- Can trim as the market is going higher and higher. Don't sell after a major crash, you deny your portfolio of a recovery. Ride out the rough periods.

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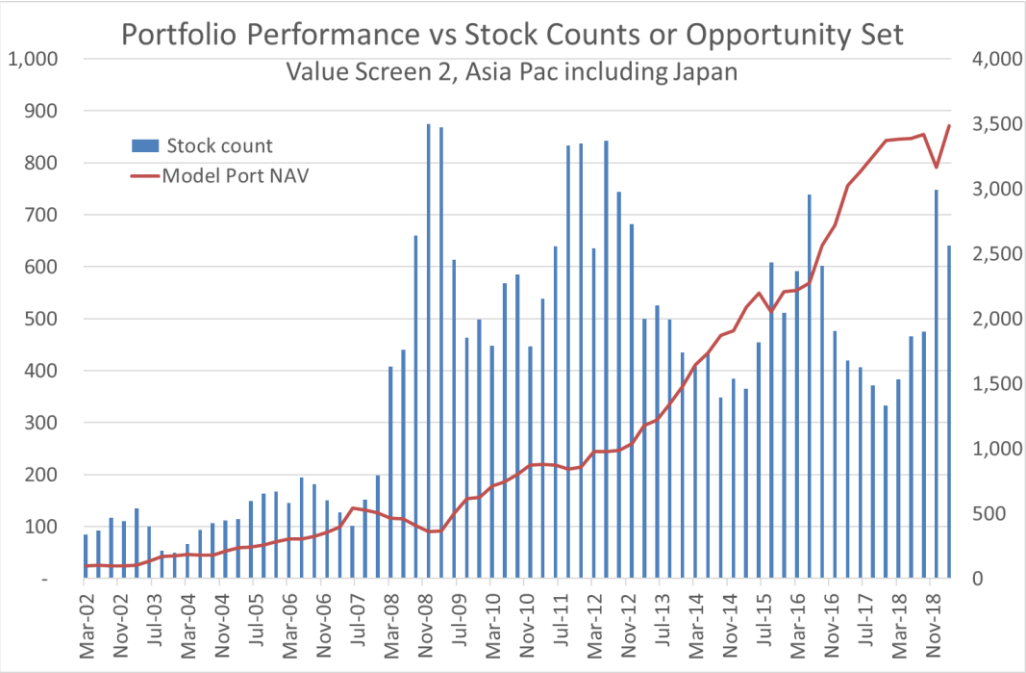
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## Where is the market now?

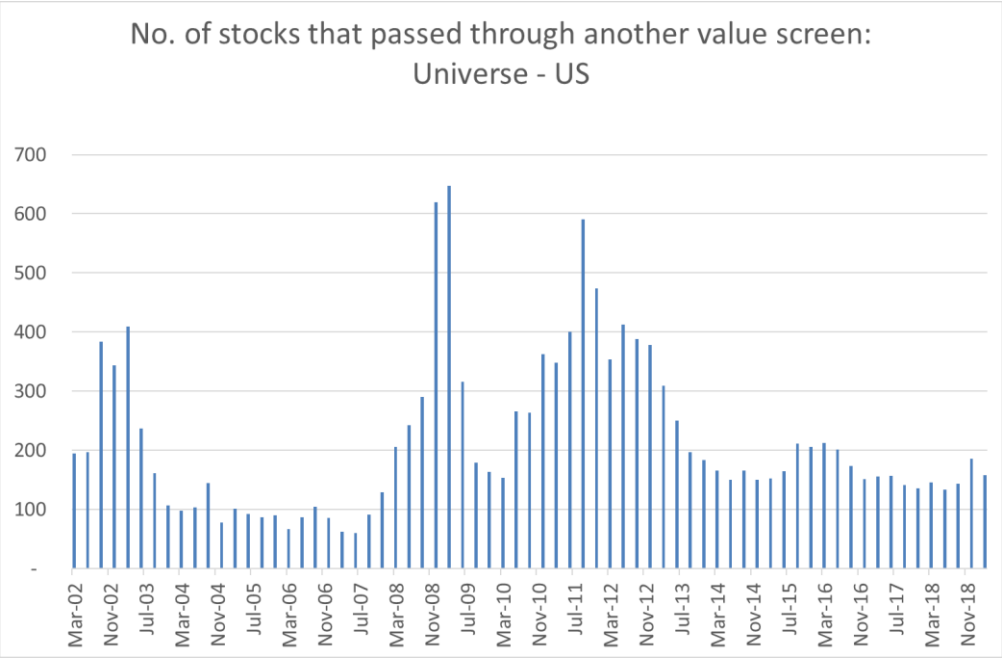
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There are more value stocks in Asia than in the US



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A brief analysis of Singapore property market



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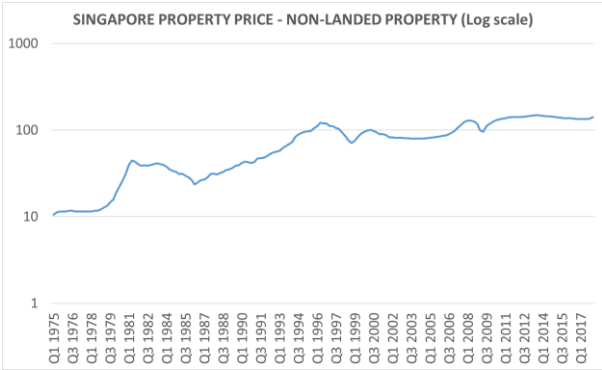
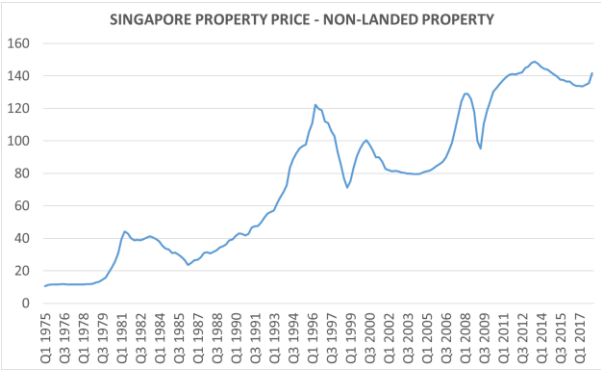
Real estate :  
Rental analysis

- Notes:
- 1. Didn't account for personal income tax, and months without tenants, stamp duty and additional buyer's stamp duty
  - 2. Interest payment is based on 30-year mortgage.
  - 3. Leasehold property will likely have higher rental yield

Property: 750 sq studio at The Pier		
Price		1,320,000
Loan		50%
Mortgage rate		2.60%
Yield based on price		3.05%
Equity		660,000
	Monthly	Yearly
Rent	3,350	40,200
Maintenance		-4,000
Agent's commission		-1,800
Misc		-500
Monthly instalment	-2,642	-31,707
Cumulative interest paid in first year		-16,985
Rental income before tax		16,915
Property tax		-1,691
Net rental income		15,223
Net rental yield/Equity		2.31%
Annual cash flow		502

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Real estate : Capital gains  
The good old days are over?

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To this



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## Our view

- The past 50 years have seen Singapore develop from a third world country to the first and then to a global city. Property prices have reflected the change in the city's status
- Unless the government allows unfettered capital and human inflow into Singapore, we are unlikely to see the slope of increase in real estate prices as experienced in the 80s to mid-90s.
- There is no lack of supply. On the demand side, unless the government opens the gate wide to foreigners, demand is not likely to explode. Currently, rental yield is near historical lows. Prices have stayed elevated because of the low interest rates. When interest rates start to hike, prices may come under pressure. That will lift rental yield. The price appreciation that many of us are used to may not return.
- The more likely scenario is to see property prices rising in tandem with GDP and money supply growth.

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## Final takeaways

- Concentrate your portfolio in equities, with emphasis on value stocks across the region, in order to achieve higher returns. Need a certain degree of active management
- You can retain the bulk of your portfolio in equities even after retirement if you need to withdraw only 5% of your portfolio a year to fund your living expenses
- The big caveat is: Equities are volatile. But as long as you know that you have a portfolio that has zero chance of going to zero, you can just tune out the market noises. Never ever sell after a major crash. Chances are you won't get back into the market, and hence you deny your portfolio of a recovery

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## Inclusif Value Fund

- Using the process which incorporates all my understanding and research of the markets
- Asset class: Equities
- Markets: Asia Pacific, including but not limited to HK, KR, TW, JP, SP, MY, TH, ID, AU, VN
- Strategy : Long only quantitative value, diversified across markets, sectors, industries, stocks
- Pay only when there is positive performance – no annual management fee



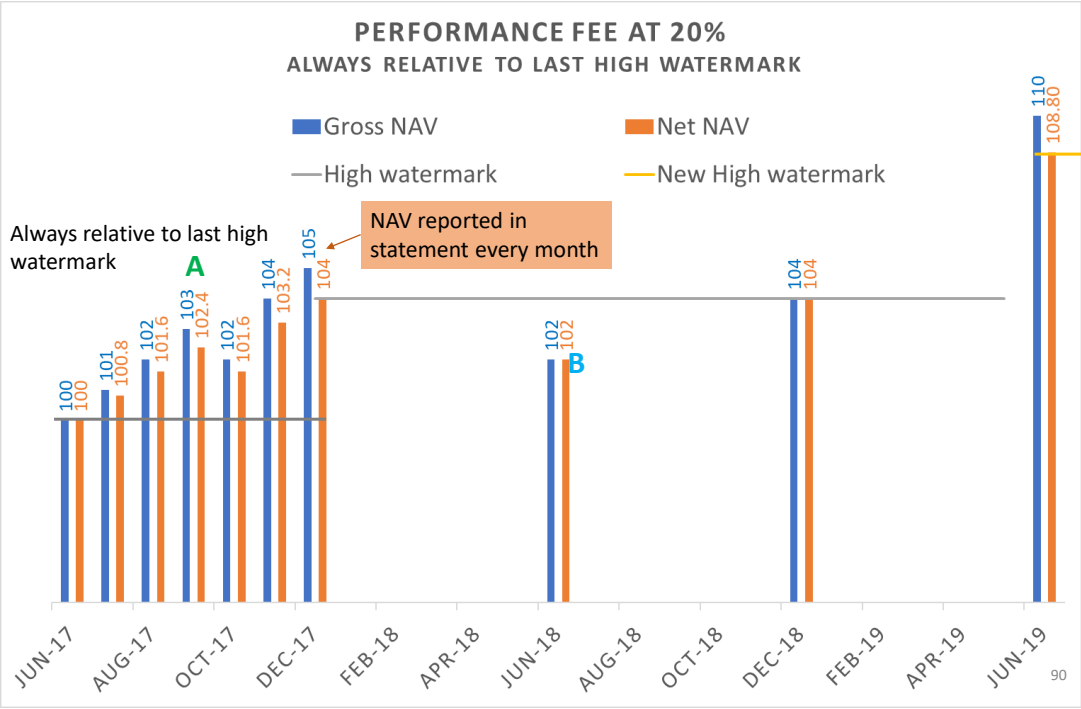
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Minimum Amount	S\$160,000		
Classes of Shares:	A (closed)	B	C
Fees:			
Management	0%	0%	0.5%
Performance (On high watermark)	16%	20%	16%
One-time set up	S\$500	S\$2,000	\$2,000
Subscription	Monthly		
Redemption	Quarterly with 60 days' notice		
Lock-up	Three years		
Penalty for early redemption	5% (within first year)		
	3.5% (within second year)		
	2% (within third year)		
	<b>No penalty</b> for redemption up to 5% within lock-up period; and after third year		

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## Equalisation credit and contingent redemption

### Equalisation Credit

- Investors who come in at NAV higher than the last high watermark, e.g. **A**, will get equalisation credit
- This means, they will be given additional units in the fund
- So that when performance fee is crystallised at the next performance period relative to the last performance period, they only pay for the performance from their entry level upwards

### Contingent Redemption

- Investors who come in at NAV lower than the last high watermark, e.g. **B**, will get redemption credit
- This means, units will be deducted from their account
- So that they pay for the performance from their entry level to the last high watermark, as well as the performance from the last high watermark to the new high watermark

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## Inclusif Value Fund

- I will always try to improve the process and will constantly do research and keep tabs of the market to see if anything has changed
- I will build up my team over time to help me do that. Currently the team consists of Seng Hong and Yao Yang
- This method works best in Asia, probably because markets here are less efficient, population is still growing, and urbanisation is still in progress
- Over time, this method may have to be tweaked. When the time comes, I'll make sure I have the necessary skillset in my team to do that
- **Caveat: This is an equities fund, there will be volatility. It will not be a straight line ride.**

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Inclusif Value Fund - like the more commonly used acronym IVF

Give Hope! Give Life!	
Give Hope	That you will be able to retire with a decent size of fund.
Give Life	Give you a life you want in your retirement years: one in which you don't have to worry about managing your funds; you can spend your free time with your family, travel the world, or do things you want to do.

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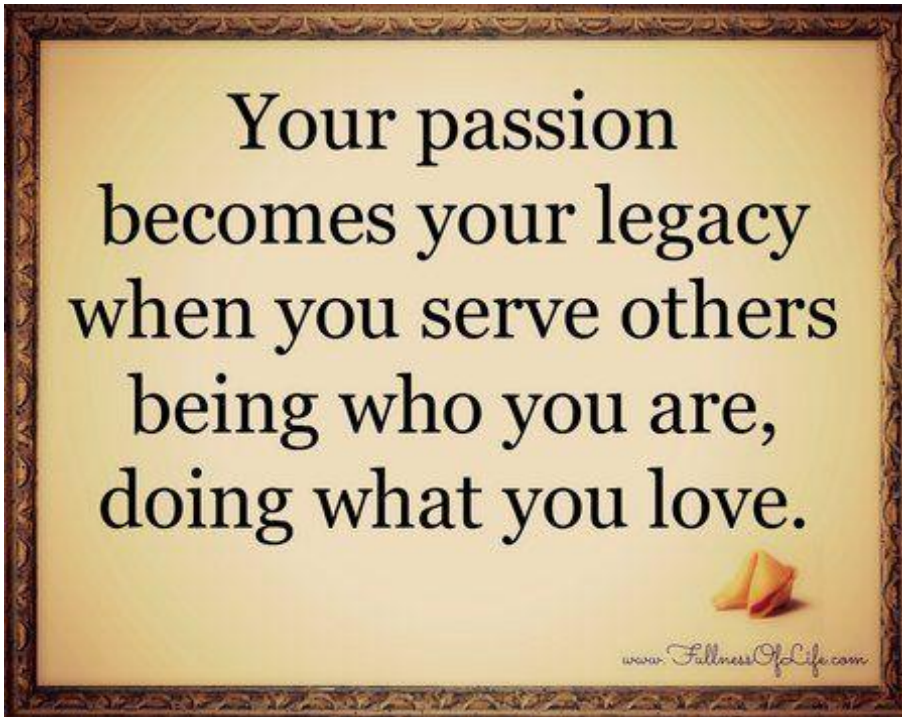
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# Thank you

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