Kenanga Investors

September 2020
Market Review and Outlook

Global Market Review

Risky assets performed well in July: the MSCI World Net Index ended the month only slightly negatively (-0.5%), registering a year-to-date performance of -6.3% at month end.

Equities were driven by a number of positive developments. Economic data were better than expected over a broad range of indicators. The second-quarter earnings season only improved as it progressed, with companies beating estimates by the largest amount in at least a decade. Policy remained supportive, and in Europe, leaders reached a ground-breaking agreement on the EUR 750 billion recovery fund.

On the health front, the number of new coronavirus cases did not decline, and even reached new highs in several US states. The situation in many emerging markets remains worrisome, and local outbreaks elsewhere have brought economic re-openings to a halt or even reversed them. This has become visible in the slowdown in real activity indicators and will be reflected in the regular macro data in the coming weeks.

Despite concerning virus data, emerging markets performed strongly in July, thanks to good economic data in China, a weaker US dollar, stronger commodity prices, a rebound in exports and a high new-economy weight. Additional drivers included strong earnings momentum and a high valuation discount. The US market also outperformed, helped by an exceptionally strong earnings season. The Covid-19 winners closed the month with an earnings bang, beating expectations and providing positive guidance. Europe was the laggard despite the recovery fund agreement, which could be because European earnings face headwinds from the rapidly depreciating US dollar. Investors have also turned their focus to the new US fiscal plan, to be announced in the coming days or weeks.

The technology sector outperformed the broader market in July, delivering strong results in the last week of the earnings season. Materials also did well due to rising industrial commodity prices and improved precious metal prices. The energy sector did not benefit from the rise in the oil price and lost 8.6% of its value during the month. Financials, the other value sector, failed to convince investors despite decent results for US banks. This is attributable to adverse interest rate fundamentals and the need for high bad-debt provisioning, combined with regulatory pressure on dividend distributions.

In July, a month where pandemic related news flow stated to deteriorate again with the prospect of a second wave emerging in several territories while others don't get the virus under control, the global equity markets recovery took a pause, as the MSCI World DM NR index in EUR ended the month about half a percent down. What didn't change however is the relentless outperformance of the Growth investing style – yet another 4.1% last month when comparing MSCI Growth to MSCI Value indices – bringing that same gap to an astonishing 29% year-to-date globally (and 34% on the US market). Unsurprisingly in such a harsh environment for the strategy, the fund's performance lagged the MSCI World index by 1.0% over the month, nevertheless continuing to consistently outperform the MSCI Value index.

Region wise , unlike last month, the US was the best performing area and the only one up in EUR terms, on the back of more resilient than feared macro data and an earnings season that stared off better than (accordingly strongly revised and low bar) expected. Europe ended up slightly in the red, while Asia in general and Japan in particular, was the big laggard.

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Sector wise, Materials had been the best performing sector, buoyed by selected chemicals and gold mines, followed by Consumer Discretionary, largely driven by Amazon and Tesla. Also, Utilities did well. At the other end of the spectrum, the biggest casualty by a margin was again Energy. Financials, plagued by interest rate margin pressure and rising credit costs, and Real Estate, pressured by prospect of bankruptcies, rising defaults and higher vacancy rates were also weak, albeit to a lesser extent.

As far as relative performance is concerned, stock selection was the biggest contributor to the monthly underperformance, and that was largely concentrated in Consumer Discretionary, where not owning non-dividend paying Amazon, a number of holdings in highly Covid19 sensitive stocks (Las Vegas Sands, Carnival) and autos (Volkswagen, Continental, Nissan and not owning rocketing and nondividend paying Tesla) took their toll. Also, selection in Communication Services (Vodafone) and Financials (SMFG, BoNY Mellon) detracted somewhat. All this was only partly compensated by meaningful positive contribution from selection in Consumer Staples and Health Care (Pfizer).

Sector allocation wise, being overweight Energy, an attractive sector from a valuation perspective but plagued by twin issues of oversupply and further weakening demand ended up to be the overwhelming driver of moderate underperformance.

In the US, we felt appropriate to start reducing our exposure and harvest some profits on Apple after a massive multiple expansion (stock ended the month at close to 30X next year's earnings and 20 x EV/Ebitda) and the stock trading on an all-time high. Such valuation levels leave little margin for error for eventual setbacks in the coming iPhone cycle trajectory.

Proceeds were allocated to underperforming and markedly cheaper Samsung Electronics, that should benefit from dominant position in key markets, supportive memory demand dynamics and smartphone shipment recovery, while strong financials also leave room for additional shareholder returns.

We also added to Siemens: with a resilient earnings outlook, favorable exposures (limited US risk, focused on less cyclical Health Care division) and soon spin-off of the Energy division, the firm should increasingly be seen as a strong play on secular trends in automation, electrification, rail transportation and health care (stake in listed Siemens Healthineers) and re-rate accordingly.

Global Market Outlook & Fund Strategy

Against a still on-going pandemic and multiple conflicts yet lingering, the overall macro-economic picture seems to have largely stabilized. The global economic recovery is still intact, though at a lower pace, on the back of ongoing fiscal and monetary stimulus.

Real activity data is set to increase in importance. Investors will be looking for guidance regarding the shape of the macro and earnings recovery. Data on the virus itself and the measures taken to limit contagion will also be scrutinized. A medical breakthrough would be a game changer, although its arrival before the end of the year seems very unlikely.

If on one hand, historically high traditional valuation metrics anticipate a strong earnings recovery, on the other hand, investor sentiment indicators give mixed signals and institutional surveys point towards caution, as cash level are still elevated.

Source : NN Investment Partners

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Kenanga Global Dividend Fund

September 2020

3-year Fund Volatility
13.9
High
Lipper Analytics
14 Jul 2020

FUND OBJECTIVE
Aims to achieve capital growth by investing in a diversified portfolio of high dividend-yielding equities globally through a target fund i.e. NN (L) Global High Dividend Fund which is domiciled in Luxembourg.

Fund Category/Type
Feeder / Growth

Launch Date
19 March 2007

Trustee
CIMB Commerce Trustee Berhad

Benchmark
MSCI World Index

Target Fund Manager
NN Investment Partners

Sales Charge
Max 6.50%

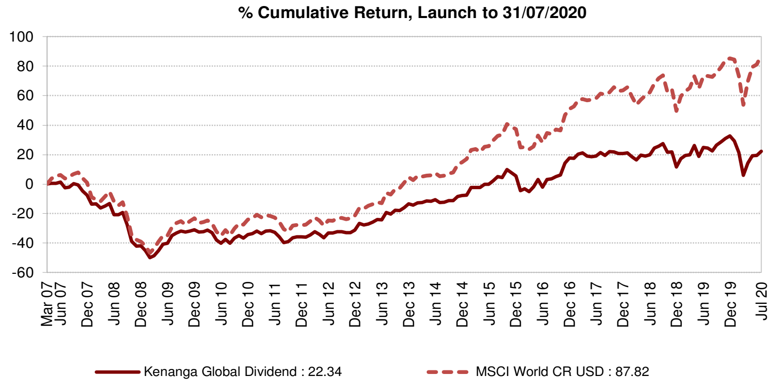
Annual Management Fee
1.80% p.a.

Annual Trustee Fee
0.08% p.a.

Redemption Charge
1.0% p.a. of NAV

All fees and charges payable to the Manager and the Trustee are subject to the goods and services tax /sales and services tax/other taxes of similar nature as may be imposed by the government or other authorities from time to time.

FUND PERFORMANCE (%)



Source: Novagni Analytics and Advisory

CUMULATIVE FUND PERFORMANCE (%)#

Period	Fund	Benchmark
1 month	2.33	3.59
6 months	-5.36	1.81
1 year	-1.61	8.27
3 years	0.75	16.40
5 years	19.69	44.73
Since Launch	22.34	87.82

CALENDAR YEAR FUND PERFORMANCE (%)#

Period	Fund	Benchmark
2019	18.85	23.92
2018	-7.53	-8.55
2017	2.55	8.36
2016	11.52	10.04
2015	14.46	19.43

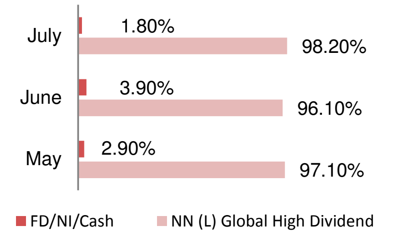
 # Source: Lipper, 31 July 2020

FUND SIZE *	NAV PER UNIT *
RM 15.36 million	RM 0.5744

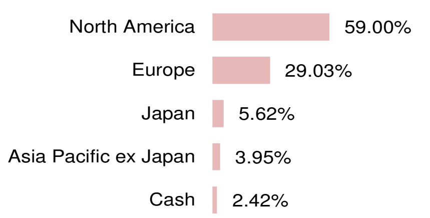
HISTORICAL FUND PRICE *

	Since Inception	Date
Highest	RM 0.6351	12-Feb-20
Lowest	RM 0.2145	10-Mar-09

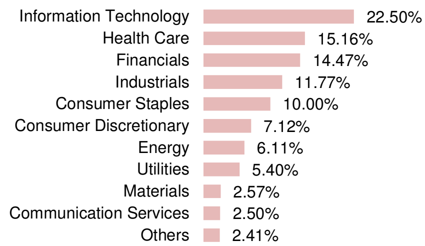
ASSET ALLOCATION (% NAV) *



TARGET FUND COUNTRY ALLOCATION (% NAV) *



TARGET FUND SECTOR ALLOCATION (% NAV) *



TOP EQUITY HOLDINGS OF TARGET FUND (% NAV) *

1	MICROSOFT CORP	5.72%
2	WALMART INC	2.59%
3	PFIZER INC	2.58%
4	CISCO SYSTEMS INC	2.56%
5	APPLE INC	2.47%

** Source: Kenanga Investors Berhad, 31 July 2020*

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Not Applicable