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## Living up to mounting challenges.

Focus Malaysia (Weekly Issue – 29 July 2017)

By Ismitz Matthew De Alwis

### TOUGH for fund managers to gauge markets' direction in a globalised world TODAY'S investors are a well-informed lot



Year-to-date (YTD), this year has brought about some cheers to stock market participants with the FBM KLCI having firmed 7.82% to 1,770.07 points as of July 27 (off June 15's high of 1,795.01). After languishing for most of last year, the cumulative YTD foreign funds inflow into Bursa Malaysia remains above the RM10 bil mark at RM10.35 bil as of July 21, the highest among its Southeast Asian peers. Is it too early

for market participants to rejoice, especially after enduring a year-long lackluster performance previously? Amid the backdrop of a weak ringgit against the greenback – or a suppressed oil price – is the recent upswing sustainable? Which are the stocks that are capable to withstand the current economic climate?

#### Global developments

Like their investors, such and many other economic and fundamental questions always linger in the minds of fund managers whether they manage assets linked to unit trusts, investment-linked insurance products or institutional clients. In fact, they need to decipher if the current stock market rebound has the potential to sustain over the short, medium or long term. Or, if the situation warrants the shifting of their fund allocation to other assets such as bonds, properties, currencies or commodities.

Last year was a tough cookie for fund managers to make investment calls given the prevalence of volatile market conditions. Stemming from foreign funds' exit amid concerns over the 1Malaysia Development Bhd (1MDB) saga and the ringgit's depreciation against the greenback, local financial markets in general were rather subdued throughout the entire year. Further aggravated by adverse global developments such as Brexit (Britain's withdrawal from the European Union) and the outcome of the US presidential election which saw inward-looking candidate Donald Trump emerging victorious, a defensive stance was inevitable.

#### Bracing for global challenges

Elsewhere, it is inevitable for fund or asset managers to be subject to a host of global challenges:

- **Regulation:** Domestically, local fund managers must abide by the various rules and regulations drawn up by the Securities Commission, Bank Negara Malaysia or any other relevant regulators. For those with global operations, there is a need to keep tabs with dissimilarities – or even changes – between regulations in their home base and those in other jurisdictions that they are currently operating in.

As regulators seek to raise professional standards, advisers are under pressure to justify or to be accountable for their recommendations, ie “reasons” behind their investment calls.



- **Price transparency:** Asset managers must provide attractive charging structures that suit their clients. As competition heats up, costs will eventually become more transparent while coming under downward pressure.

- **Client support:** Managing clients' expectations is becoming more challenging as they become more demanding in terms of the level of support that they expect. Hence, it is vital for fund managers to increase their degree of sophistication (or work harder) in terms of depth and scope of consultancy rendered.

- **The rise of technology:** Asset managers must embrace new technologies to remain competitive, whether that applies to dealing and trade execution or tools for helping to gather and analyse market data and information. With online mobile devices gaining prominence as an ubiquitous part of doing business – or as an essential tool used by many people in their daily dealings – asset managers must keep pace with the increasing digitalisation around them, particularly when it comes to providing access to timely information in appropriate formats and via different mediums.

- **Delivering robust quality products:** Global asset managers are increasingly expected to offer robust infrastructure and products based on well-regulated jurisdictions, offering daily dealings as well as clean and transparent pricing – all of which are requirements deemed to be hygiene factors by most clients and distributors. This will boost the creation of higher quality products that invest in more mainstream asset classes. Before this can happen, fund managers will first need to continuously upgrade the quality of their operations.

- **Being a partner, not just a product provider:** Given that high quality investment products are the foundation of any fund management business, fund managers need to do more than just provide good funds. They should strive to deliver support of the highest level – from a back office level right through to frontline sales support.

- **Alignment of industry practices and decision-making processes:** Asset managers must respond to the changing way advisory businesses make investment decisions. This entails more strategic approaches to asset allocation which is based on clients' goals and risk appetite rather than merely picking individual funds at random for clients.

- **Maximising returns in a lower return/higher risk environment:** Income and capital growth are in relative short supply these days and asset managers need to be careful that investors' expectations are not based on assumptions that runs contrary to today's investment climate or economic cycle. Asset managers' investment strategies are usually designed as long-term investments and it is incumbent on asset managers to work with advisers to ensure investors are aware of this and do not have unrealistic expectations.

- **Having a clear business strategy:** Fund management has become an increasingly competitive sector; simply having some half decent funds is not good enough. As such, a detailed business plan with a clear outlining of goals and strategies to achieve them is essential. This entails a thorough understanding of the fund manager's target markets – segmented by distribution channels and investor type such as adviser, wholesale and institutional – with a matching service proposition catering to the needs of each. Such is the norm today as investors in the digital era have become more informed and aware about how a switch in market direction can impact their investments.

*“For those with global operations, there is a need to keep tabs with dissimilarities between regulations in their home base.”*



### Unit trust funds in Malaysia (as of May 31)

No. of management companies	36
No. of approved funds*	642
Conventional	435
Islamic-based	207
No. of launched funds	631
Conventional	430
Islamic-based	201
Units in circulation (billion units)	528.996
Conventional	392.447
Islamic-based	136.549
No. of accounts#	18,778,558
Conventional	15,886,885
Islamic-based	2,891,673
<b>Total NAV (RM bil)</b>	<b>407.16</b>
<b>Conventional</b>	<b>338.82</b>
<b>Islamic-based</b>	<b>68.34</b>
<b>% of NAV to Bursa Malaysia market capitalisation</b>	<b>22.21%</b>

Note: The above statistics does not include statistics for wholesale funds effective January 2009

\* Includes funds approved but pending launch

# Does not include unitholders accounts at IUTA that operate under a nominee account system

Source: Securities Commission Malaysia

### ENDS

*Ismitz Matthew De Alwis is Kenanga Investors Bhd's executive director and CEO as well as the current president of the Financial Planning Association of Malaysia*



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38
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### Sea of green across Asia

MAJOR Asian markets ended firmer on July 27, spurred by the Federal Reserve's decision to leave interest rates unchanged and a record close by the Dow Jones Industrial Average which advanced 0.45% or 57.58 points to 21,710.11 at the close of July 26's overnight trading.

Hong Kong's Hang Seng Index soared 150.15 points to 27,151.17 to emerge the day's biggest gainer while South Korea's KOSPI rose 8.75 points to 2,443.24.

Other markets closed on a flatter note with Japan's Nikkei 225 at 20,019.64 (up 29.48 points), Australia's S&P/ASX 200 at 5,785.01 (8.39 points) and China's Shanghai Composite Index at 3,249.81 (up 2.11 points).

The ringgit firmed 0.59% against the greenback to 4.2767 while at the energy market, Brent crude was hovering close to the US\$51 (RM26.26) per barrel level after soaring 71 cents to a two-month high of US\$50.91 during July 26's overnight trading.

Elsewhere, the FBM KLCI notched up 0.23% or 4.07 points to 1,770.07 with gains outpacing losers by 425 to 410. Trading volume surged to 1.53 billion shares worth RM1.97 bil.

## Living up to mounting challenges

- **Tough for fund managers to gauge markets' direction in a globalised world**
- **Today's investors are a well-informed lot**

**Guest writer by Renuka Marudan De Alwis**

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**Global developments**

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In fact, they need to decipher if the current stock market rebound has the potential to sustain over the short, medium or long term. Or, if the situation warrants the shifting of their fund allocation to other assets such as bonds, properties, currencies or commodities.

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<b>% of NW to Bursa Malaysia market capitalisation</b>	<b>22.27%</b>

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