Kenanga Investors

Date: 27 June 2018

ONLY A TEMPORARY SETBACK

Focus Malaysia (June 23 2018)

By Cheah Chor Sooi


Chan says market forces would eventually drive down fees in the unit trust industry


Lee sees banks benefiting from a gradual rising interest rate environment


Chong sees market weaknesses as opportunities to buy low and sell high later

WHILE Malaysia's unit trust industry is not insulated from the volatility swings experienced in the equity and bond markets in recent times, prospects of a rebound look good. This is given that various reform policies to generate a return of monetary and human capital are underway to drive back capital flows over the longer term.

Moreover, concerns over regulatory uncertainty and kitchen-sinking exercises by the new government are expected to ease as it consolidates its fiscal position alongside efforts to restore investor confidence, according to Affin Hwang Asset Management Bhd chief marketing & distribution officer Chan Ai Mei. However, some market softness can be expected in the near term as the government's immediate focus is to implement structural and institutional reforms to curb corruption, as well as enhancing governance and transparency. "Nonetheless, a robust governance framework will eventually lead to business stability that would attract more sustainable forms of foreign direct investment," Chan tells ***FocusM***.

Coupled with fresh pro-growth policies, this would provide the uplift of growth for the economy and increase wealth distribution. Manulife Asset Management Services Bhd CEO Jason SM Chong attributes the market sell down over the past one month to foreign fund outflows. "We believe they will likely return when investors are convinced that major hidden skeletons have surfaced while the government continues to provide a clearer roadmap on its plans to drive the economy going forward. The longer-term fundamentals remain positive for Malaysia, especially with the new government looking to weed out corruption and excessive spending," he opines. In the meantime, Chong expects local pension funds and insurance companies with large monthly inflows to continue investing in the local market. "Given the current market uncertainties, we would advocate 'dollar cost averaging', which is to either average up or down your investment cost," he advises.

Statistics of unit trust funds (as of end-April)

No. of management companies	36
No. of authorised funds*	**654**
• Conventional	428
• Shariah-compliant	226
No. of launched funds	**647**
• Conventional	425
• Shariah-compliant	222
Units in circulation (billion)	**583.221**
• Conventional	432.620
• Shariah-compliant	150.601
No. of accounts#	**19,495,747**
• Conventional	16,319,621
• Shariah-compliant	3,176,126
Total NAV (RM bil)	**442.446**
• Conventional	364.475
• Shariah-compliant	77.971
% of NAV to Bursa Malaysia's market capitalisation	**23.35%**

Note: The above statistics do not include statistics for wholesale funds effective January 2009
* Includes funds authorised but pending launch
# Does not include unitholders' accounts at IUTA that operate under a nominee account system

Source: Securities Commission

"History has shown that investors tend to enjoy better returns in the medium to long term by doing dollar cost averaging rather than trying to time the markets."

Growth catalysts

Kenanga Investors Bhd chief investment officer Lee Sook Yee foresees banks benefiting from a gradual rising interest rate environment and higher consumer spending from the removal of the Goods and Services Tax. There are also prospects of stronger corporate earnings growth for the next one to two years, underpinned by solid gross domestic product and private consumption growth.

"Finally, the roll-out of a comprehensive fiscal plan to address fiscal consolidation could be a rerating catalyst to the market and currency in the medium to long-term," Lee tells ***FocusM***.

"These are the key investment themes that we will be watching and intend to leverage on in the future." Externally, Lee expects the faster-than-expected US interest rate hikes, political turmoil in Italy which may threaten stability in the European Union, and US China trade tensions to continue clouding the global economy and financial markets.

"During periods of high uncertainty, we may adopt more defensive investment strategies, which may include keeping higher cash levels or switching to defensive sectors such as consumer and healthcare," she shares.

On events that could detract or boost fund performance, Lee expects renewed ringgit weakness to benefit exporter holdings while a potential delay of infrastructure projects is negative to construction holdings. "That said, we think construction stocks have been oversold as some infrastructure projects are likely to proceed, scaled down or rescheduled versus market expectation of outright cancellation," she says. "This is also healthy to the construction sector and ensures more sustainable growth going forward."

Industry challenges

Addressing the thorny issue of cost/fees which has hindered investor appetite for unit trusts, Affin Hwang AM's Chan says the natural forces of a free market would eventually drive down fees in the industry. "Imposing a cap on fees has been explored, however, industry players still feel that they should be given the flexibility to implement different kinds of strategy on distribution," she observes.

There has been a greater emphasis on a performance-based fee structure in the unit trust industry where asset managers only receive a fee when the fund outperforms a set hurdle rate or high water-mark in the fund. This would be beneficial to both the asset manager and investor as it aligns their interests in the sense that managers are motivated to outperform while investors get a return that is higher than the market's.

Such fee rationalisation obviously sounds more appealing than the blanket fee slashing which has become a common practice in developed markets (such as the US), where asset managers often have to lower their fees to sustain their business. In fact, technology can be an enabler to drive down costs in the industry.

Asset managers have become more cost-conscious and are looking at their entire value chain to see which processes can be automated or streamlined.

"This includes the client on boarding process where new clients can conduct their own risk assessment or portfolio suitability test," Chan points out.

Moreover, technology is also an ideal platform to reach out to millennial investors who tend to be always online/connected, socially-conscious, but also often fickle and price-sensitive.

"If industry players fail to catch up with this trend, they could be limiting themselves to the same subset of investors instead of drawing in a new group of investors who desire more convenience and automation, as well as closer proximity and engagement with their asset manager," she adds.

Giving unit trust industry a facelift

AN industry revamp to reshape the image of unit trust consultants is imminent if the industry is to adopt a holistic approach towards wealth management. Client portfolio managers today do much more than sell unit trust funds or push products.

They also provide advisory services for the overall maintenance of the client's portfolio, such as strategic/ tactical asset allocation, diversification and rebalancing. "Professional standards in the industry need to be upgraded to reflect these new changes to further gain the trust of investors," says Affin Hwang Asset Management Bhd chief marketing & distribution officer Chan Ai Mei.

Hence, the need for investment solutions and distribution channels that go beyond product-pushing. Instead, the industry should move towards a more advisory-based and holistic approach when managing wealth and risk.

Compared to other developed countries like the US and Australia, Malaysia is probably moving at a much slower pace towards such an approach. "Part of the challenge, we think, is that the market hasn't matured to a stage where it is ready to pay for advice. It still expects services (including advisory) to be provided free," adds Chan.

Investment strategies

Commenting on the strategy to apply in the current lacklustre market, Kenanga's Lee stresses adhering to a bottom-up stock picking strategy which focuses on undervalued stocks whose fundamentals are deemed superior and sustainable. "These stocks are not the typical 'index stocks' … we prefer to keep close to the ground by interviewing corporate management and have a thorough understanding of the business model, management quality, certainty of earnings growth and the potential risks of the companies we invest in," she says.

"We do not change our strategies each year as this is simply illogical; as unexpected incidents or geopolitical events happen pretty frequently, we can rely on this consistency to help us ride the market highs and to weather the lows." Manulife's Chong sees market weaknesses as opportunities. "Investors should buy low and sell high and not buy high (when the market has already rebounded) and hope to sell higher," he advises.

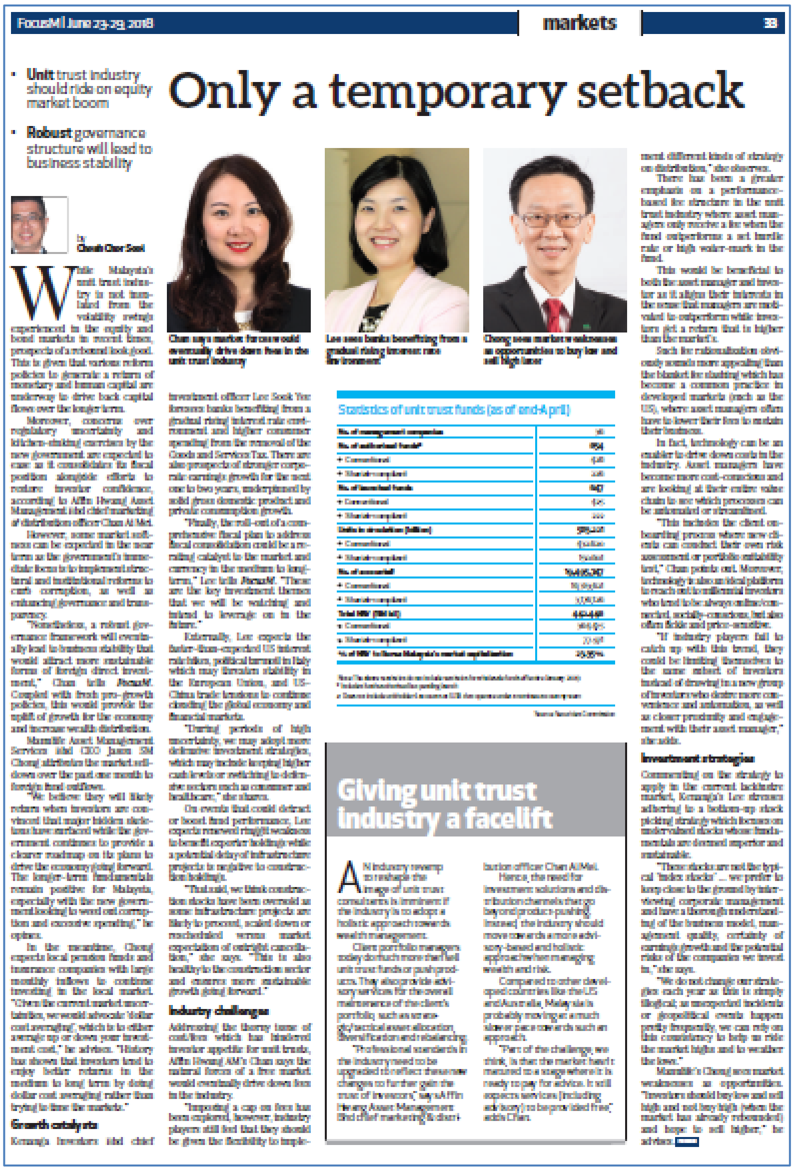
ENDS

Kenanga

Kenanga Investors

Article Source:

Focus Malaysia. (June 2018)


FocusM | June 23-29, 2018 markets 33

- **Unit** trust industry should ride on equity market boom
- **Robust** governance structure will lead to business stability

Only a temporary setback

by Cheah Chor Sooi

Chan says market forces could eventually drive down fees in the unit trust industry

Lee sees banks benefiting from a gradual rising interest rate environment

Chong sees market weaknesses as opportunities to buy low and sell high later

Statistics of unit trust funds (as of end-April)

Growth catalysts

Industry challenges

Investment strategies

Giving unit trust industry a facelift