Promising start for unit trust industry

Fund managers are optimistic this may be an opportune time to invest in equities judging by the number of new funds launched recently

THE Malaysian capital market is looking promising judging from the new unit trust funds launched between Jan 1 and Feb 5. According to the Federation of Investment Managers Malaysia (FIMM), equity funds made up seven out of eight new retail funds launched over the 34-day period.

The statistics show fund managers are optimistic this may be an opportune time to invest in equities in view of the current low valuations.

Such funds offer diverse investment strategies that aim to take advantage of the long-term investment opportunities created by the ongoing recovery in Europe. They are also driven by attractive valuations of small-cap stocks and emerging companies, both locally as well as internationally.

Amid the current bearish trend – which is made worse by a series of global stock market tour and a plunge in crude oil prices – the unit trust industry holds the golden key to boost subdued market sentiment in capital markets.

Temporary phenomenon

That stocks are losing their glitter as an asset class is a temporary phenomenon, says FIMM CEO **Nazaruddin Othman**. Fund managers with foresight would take the opportunity to invest in undervalued stocks, in particular blue chips that have been badly battered.

"Doubtlessly, fund managers are forecasting a bleak outlook with earnings disappointment and China's economic slowdown both capable of eclipsing investment performance in the immediate term," Nazaruddin tells **FocusM**. "But on the longer term, stocks remain a staple asset class for investments."

Moreover, unit trust managers are increasingly diversifying their investment to encompass equity and non-equity portfolios, both conventional and Islamic.

FIMM is recognised by the Securities Commission (SC) as a self-regulatory organisation which seeks to encourage adherence to high ethical standards while at the same time promote public understanding of the industry.

As of Dec 31, total assets managed by the 37 unit trust management companies who are members of FIMM stood at RM346.6 bil with more than 18 million account holders.

Public Mutual, the largest private unit trust company with about 120 unit trust funds under its management, managed a total fund size of RM64.8 bil as of Dec 31. Launched on Jan 15, its latest product, Public Regular Savings Sequel Fund (PRSSQF) will invest 70–98% of the fund's net asset value (NAV) in a diversified portfolio of Malaysian equities comprising blue chip stocks, index stocks, growth stocks and stocks that offer or have the potential to offer attractive dividend yields.

The balance of the fund's NAV will be invested in fixed income securities and liquid assets which include money market instruments and deposits. "With its emphasis on the domestic stock market, PRSSQF offers investors the opportunity to benefit from the recent market retracement of stocks and position their investments for long-term capital growth," noted Public Mutual CEO **Yeoh Kim Hong** in a media statement.

Areca Capital Sdn Bhd CEO **Danny Wong** is cautious of the first half (1H) but optimistic on the outlook for the second half (2H). That said, 1H may be a good time to look for opportunity.

"The equity market was affected badly due to foreign outflow in 2014 and 2015. I don't expect this to repeat as most foreign monies had left the Malaysian shores, hence limiting the downside," he tells **FocusM**.

Shadow-banking meltdown

Wong sees the biggest risk to stem from China's currency depreciation and shadow-banking meltdown. Other potential risks include a drop of Brent crude oil to below US$20 (RM83), aggressive US interest rate hike and geopolitical tensions (including terrorist attack).

He foresees a better year for the fixed income market as inflation threat is not the main concern; if any, it is a cost-push factor where interest rate policy should remain. "I expect no change in interest rates for the next six months at least," reckons Wong. "With a new Bank Negara Malaysia governor coming on board, it is hard to gauge his view and strategy."

More broadly, while he maintains that bonds are for all seasons with regard to risk optimisation, liquidity always matters. "To mitigate the liquidity risk, investors can consider open-ended fixed income funds," suggests Wong. "Choose those portfolio with decent size with flexible duration. As always, avoid high credit risk."

Affin Hwang Asset Management Bhd (AHAM) managing director **Teng Chee Wai** opines that there are still pockets of opportunities for the various portfolios to participate in despite the challenging market conditions.

"We expect markets to move in shorter and more rapid spikes thus making timing and stock selection a fundamental differentiating factor in portfolio performances," he tells **FocusM**. "We will continue to take a tactically cautious approach on the market, and will likely be maintaining a relatively higher cash portion in the interim as we anticipate global financial markets to remain volatile in the interim."

Opportunities

On this note, Teng is optimistic that the absolute return strategy that AHAM has put in place for its portfolios will be able to provide investors with positive returns over the medium term (three-year rolling period) irrespective of market performance.

Key opportunities observed by Teng include:

- Emerging market (EM) economies have been going through structural adjustments and economic reform to weather the multiple economic challenges, ie falling commodity prices, rising debt burden, currency depreciation, slower domestic economy, etc. The process may have run half its course and markets are starting to show some positive progress.
- EM financial asset prices may stage a modest recovery if the downside risk subsides. Historically, the US dollar strength may take a pause after the rate hike as traders take profit or reduce their tactical greenback bets. The reversal of US dollar may provide a respite for EM assets to perform.
- The underperformance of Asia, ex Japan equities presents the attractive valuation opportunity to the investors. Against the historical standards, the Asian equity multiples have fallen to multi-year lows amid heightened market volatility. In addition, the current depressed Asian valuation suggests it is trading at a wide discount relative to the global counterparts.
- Though the Federal Reserve has started the rate cut cycle in the US, the global central banks continue to embark on monetary easing. Moreover, the European Central Bank has signalled for more easing in the coming March meeting, while the Bank of Japan adopted negative interest rate in its first meeting of the year. Global policymakers should remain accommodative and supportive of economic growth.

Market volatility

Aberdeen Islamic Asset Management Sdn Bhd CEO **Gerald Ambrose** anticipates market volatility to rise, thus "providing us with an opportunity to buy companies which we are very familiar at a significant discount to what we view as fair value."

Although companies in the cyclical business of commodities look weak, he sees few large companies with a competitive advantage, is still able to generate profits even with subdued commodity prices.

"We believe there are opportunities to buy these companies at very attractive valuations right now, while other investors with a shorter term horizon consider them unfashionable," Ambrose tells **FocusM**.

Given the current global economic scenario, Ambrose, expressing his personal opinion, says he does not mind having a certain percentage of his portfolio – say 10-15% – invested in gold.

"Gold is the best insurance policy against the madness of central banks and the orgy of quantitative easing [printing money] which has spread from the US to England, thence to Japan, China and more recently the eurozone," he predicts. "This seems to have led to each country trying to devalue its currency, endangering the credibility of fiat money."

Nazaruddin says in the longer term, stocks remain a staple asset class to invest

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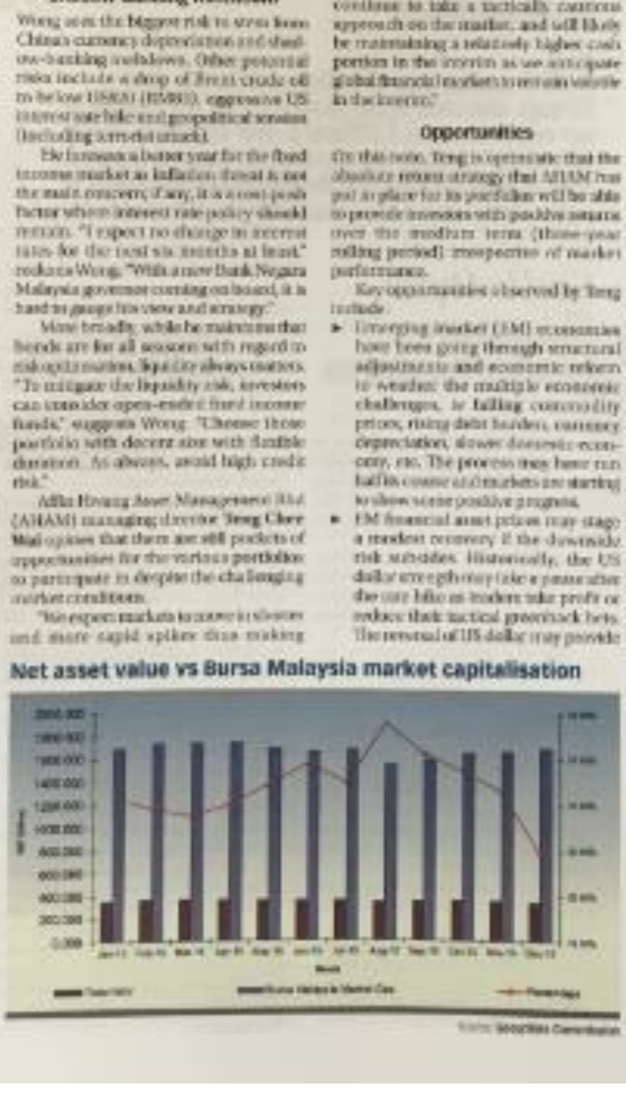
We expect markets to move in shorter and more rapid spikes, says Teng

Ambrose anticipates market volatility to rise

Net asset value vs Bursa Malaysia market capitalisation



Source: Securities Commission