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POSITIONING YOURSELF FOR TOMORROW

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FEATURES

We welcome views and comments from our readers. Please share your thoughts with us via email to *fimmtoday@fimm.com.my.*

Editorial Note

Last year, we had seen the operationalisation of ASEAN Capital Markets Forum's (ACMF) initiative for the framework to facilitate cross-border offerings of Collective Investment Schemes (CIS) or ASEAN CIS. To date, we have eight funds authorised under the ASEAN Collective Investment Schemes (CIS) Framework. Five funds were approved by the Securities Commission Malaysia (SC) and three funds by the Monetary Authority of Singapore (MAS), while the Securities Commission of Thailand is currently reviewing one fund application.

Nazaruddin Othman
Chief Executive Officer

The progression of ASEAN CIS initiative signifies the industry's readiness to advance into the regional and global arenas. It goes without saying that skill sets and expertise would be the key for the Unit Trust Management Companies (UTMCs) to leverage on the opportunity to compete regionally. It is also important to note that acquisition of skills and knowledge must be continuous, to keep abreast with the latest business and industry trends.

In our industry, it is equally essential for unit trust and PRS consultants to ensure that their personal development comes first, as it equips the consultants with the necessary skills and knowledge to deliver high standards of services to the customers. As the ambassadors of the investment management industry, it is crucial for consultants to build high level of product knowledge to be able to advise customers on the suitable products for them based on their risk profile.

In this issue, we share some pointers on how to apply some principles in customer engagement. We have included a relevant article for consultants on the importance to act professionally in order to remain relevant in the industry. On the market outlook, we include informative contributions from iFast Research Team and Templeton Global Equity Group. We have also introduced a mini quiz for the readers and mystery gifts will be given away to those who reply with the correct answers.

At FIMM, we will continue to strive for the highest level of integrity and standards of practice in the distribution of unit trust and PRS. Having recently stepped into this new role, I look forward to contribute and collaborate with all FIMM members for the betterment and growth of the industry.

Nazaruddin Othman
Chief Executive Officer

THE CONTINUOUS *pursuit of* PROFESSIONALISM

By **Caryn Choo**

Continuing professional development should ideally be a vital part of a Unit Trust Consultant's role that is embarked upon regularly for knowledge, skills and personal development.

Continuing Professional Development (CPD) may not rank as the top priority of firms and Unit Trust Consultants (UTCs) as compared to other business aspects such as achieving sales targets or aggressive marketing efforts. However, it is crucial that UTCs realise that their journey to professionalism does not end once they passed their Computerised Unit Trust Examination (CUTE).

In practice, every UTC should have a personal development plan and diligently log their CPD activity in an organised system. FIMM's CPD Programme provides a flexible structure to chart their progress and encompasses a broad range of knowledge and skill sets. Many, however, find it relatively easy to achieve the 16 CPD points required for their yearly contract renewal. After all, attending a full day course of 8 hours will earn them 8 points. Subscription to 2 finance magazines can garner a maximum of 4 points.

With the plethora of courses available today, it doesn't take much to meet the bare minimum requirements.

Going Beyond the Status Quo

While UTCs are spoilt for choices when it comes to courses, not all of them are suitable to address the individual's knowledge gaps. At the very least, CPD should be applicable to the UTC's present and future responsibilities and professional development. "Unfortunately, UTCs who just want to obtain CPD points may attend any seminar or course, whether it is relevant to their specific needs or not," said Jeffrey, a UTC attached to an investment bank for the past decade. "In those cases, these courses are unhelpful to them." He opined that the impact of such a "check-box" seminars approach can be mitigated by a good mentoring program. A good mentor or leader will be able to pinpoint and guide their UTCs to address areas where they wish to improve upon.

According to Fiona, a Group Agency Manager of a leading unit trust agency based in Petaling Jaya, a weekly mentoring and coaching session is a must for her strongest performers who are called 'Leaders'. The leaders in turn will duplicate this mentoring system to their down liners and act as mentors to the small groups. "New UTCs need a lot of guidance. They are thirsty for knowledge and they value the small group mentoring sessions," said Fiona. In addition, her firm conducts free motivation trainings three times a week. "I believe that one can't have too many training sessions and I always give more that what's expected or required. The rewards you get make it worth the while," she said. This also opens up a great window of opportunities for UTCs who want to go all out and sharpen their skills further.

The Proof is in the Pudding

UTCs who advance themselves professionally experience manifold benefits including being able to give quality advice that results in greater client satisfaction, boosting the performance of their agencies and charting a bright career path for themselves. In 2008, a leading investment bank streamlined the training in its unit trust agencies to focus on an asset allocation approach.

Training campaigns on asset allocation approach was conducted for their investment salespeople while their sales force was trained via an internal video on external sales positioning and internal sales processing of EPF investments. The programme was successful and the investment bank saw an 18% year-on-year increase in its EPF Members Investment Scheme.

Well-trained UTC professionals also help grow the country's unit trust industry significantly.

Early this year, the Securities Commission (SC) reported on their website that the unit trust industry's net asset value has grown to RM355.64 billion – the largest in Southeast Asia, which is a 4% increase from January 2014. The promising Private Retirement Schemes (PRS) sector has more than doubled its Assets Under Management (AUM) and membership to RM716.1 million and 128,977 members respectively, thanks to the tireless efforts of these professionals.

Staying a Step Ahead

With the financial industry being in a constant state of change, it is expected that Unit Trust Management Companies are taking steps to conduct more trainings to prepare their consultants for a liberalised market, with some harnessing upon the power of the mobile app and social media to keep their consultants - especially the young ones who are digitally inclined - abreast with the latest updates and training materials.

UTCs need to play their part by continually keep up-to-date with the latest industry news and transfer the relevant knowledge for the benefit of their clients. "Despite the higher up-front costs of some funds, quite a number of customers still prefer going through a UTC because they feel assured that their investments are taken care of," said Jeffrey.

Thus the onus is on the UTCs to sharpen their professional expertise and add value to their customers who have confidence in them, or risk losing them to more capable and accomplished competitors.

MALAYSIAN ECONOMY

to be Driven by Manufacturing, Exports and Government Projects

By **iFast Research Team**

Economy to Slow Down

In a slew of GDP growth figure releases, Malaysia surprised markets by announcing that its domestic economy grew by 5.8% year-on-year in 4Q 2014, exceeding consensus estimates of a 5% year-on-year increase. The latest quarterly growth marked the 21st consecutive quarter of economic expansion since the recession suffered in September 2009. The government highlighted that higher 4Q 2014 growth was contributed by stronger private sector spending, trade and domestic activities.

Overall in 2014, Malaysia grew by 6.0% year-on-year, coming in slightly above consensus forecasts of a 5.9% year-on-year growth. This is the 5th consecutive year of economic expansion after the recession suffered in 2009.

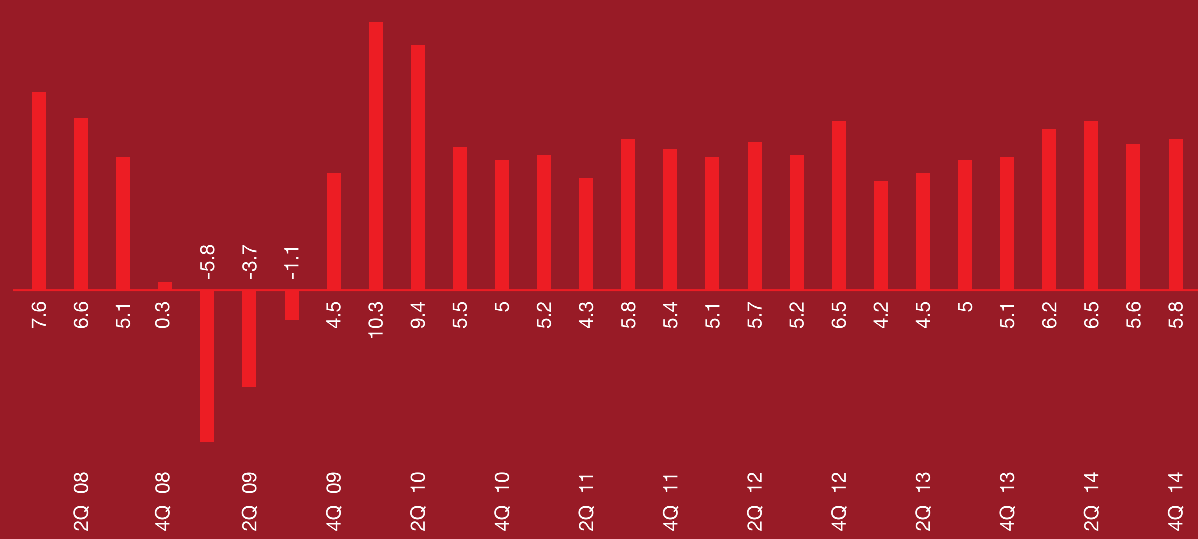
The GDP growth numbers are a much welcomed surprise for an economy that is perceived to be hit by falling oil prices. Nonetheless, Malaysia's economy still held up strongly during the last 3 months of 2014 due to stronger growth in non-oil and gas sectors such as mining (+9.6%), construction (+8.7%) and services (+6.4%).

However, we remain cautious on the outlook for Malaysia's economy going forward. We think the strong economic outperformance will be short lived and will slow down going into 2015. Having said that, it is just a slowdown and the economy is unlikely to go into recession.

In the revised Budget 2015, the government lowered its 2015 GDP growth forecasts to 4.5% to 5.5%, citing drastic changes in external factors, most notably the shocking 50% drop in oil prices. We are expecting GDP to be at the lower bound of the 4.5% to 5.5% target. The main reason is that slump in oil prices has emerged as a major risk and has changed the outlook for the Malaysian economy and market. Oil and gas (O&G) products contribute approximately 25-30% of exports and more than 25% of government revenue. According to PEMANDU and Bank Negara, the O&G industry accounted for roughly 20% of Malaysia's Gross Domestic Product (GDP). The negative implications of a sustained period of lower oil prices could be detrimental to the domestic economy.

Despite that, we believe a slowdown in the oil and gas sector will be mitigated by a boost in other sectors such as sectors that benefit from cheaper oil prices. Going forward, we believe economic growth will be mainly driven by industrial production/manufacturing, non-oil exports and government projects.

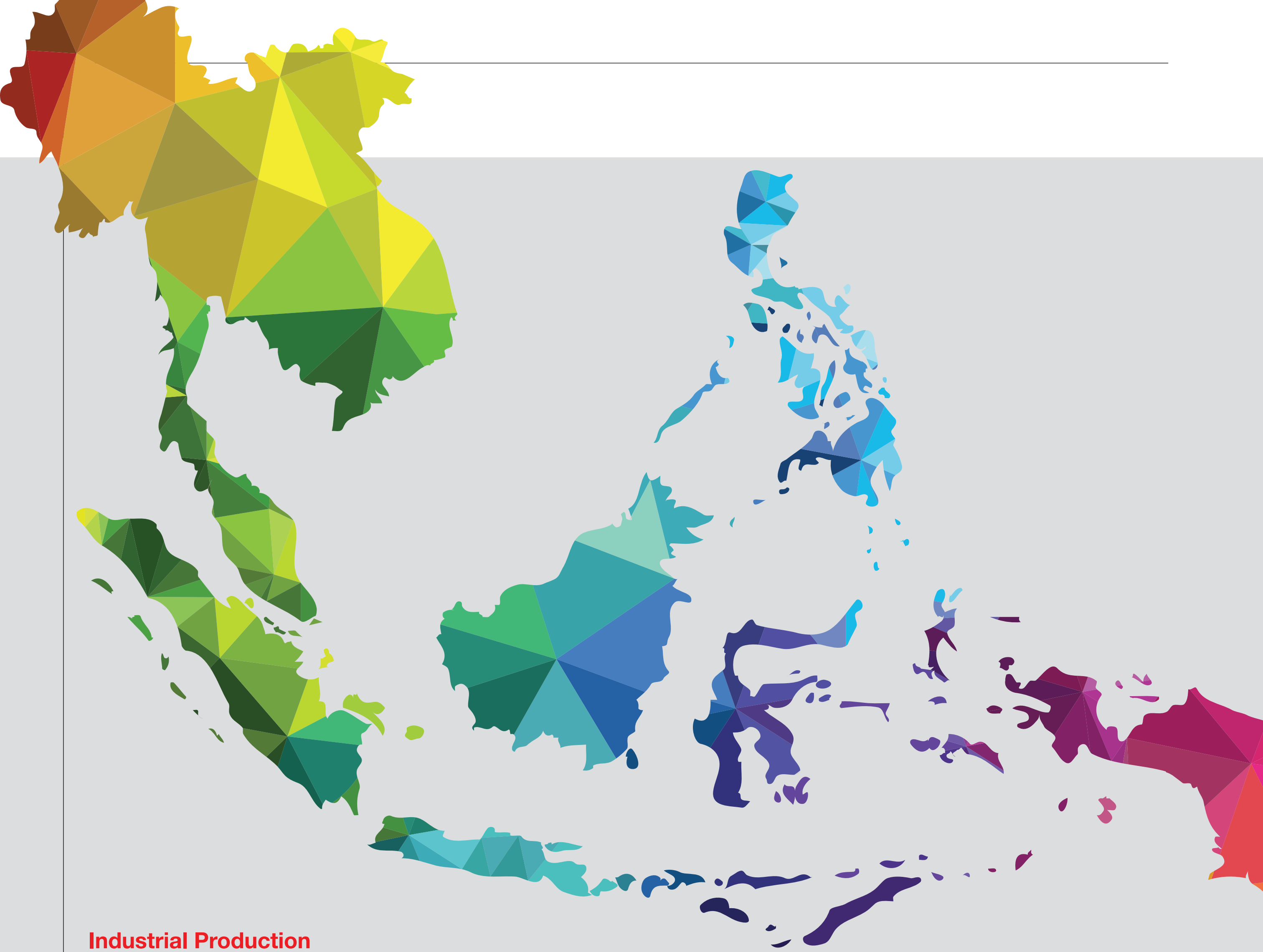
Chart 1: GDP Growth YoY (%)



YoY : Year-on-year
Source : Bloomberg, iFAST estimates

Chart 2: GDP Annual Growth Rate Year-on-year (%)

YoY : Year-on-year
Source : Bloomberg, iFAST estimates



Industrial Production

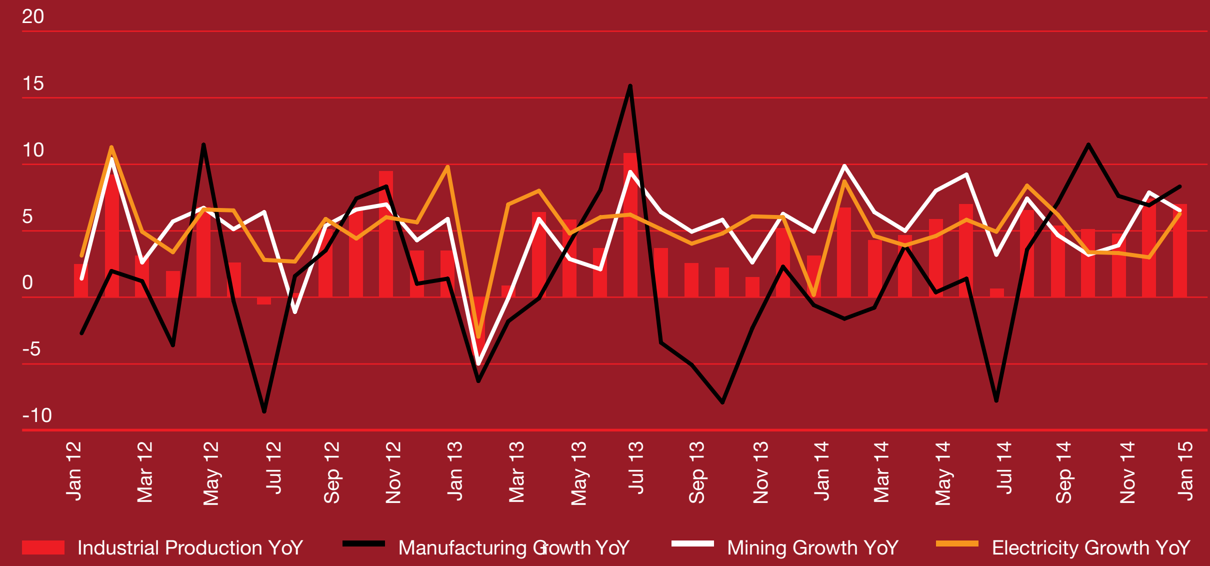
Industrial production is still resilient as shown by the 7% year-on-year increase in January 2015 (refer Chart 3). The January growth figure marked the 22nd consecutive month that industrial output recorded year-on-year growth, since the minor slowdown in March 2013.

Industrial production growth was led by gains in manufacturing and mining output. Manufacturing continued to expand, supported mainly by export-oriented industries (which we will mention more below). Manufacturing production climbed 6.5% year-on-year, which is the 22nd consecutive month that manufacturing output recorded year-on-year growth, since the minor slowdown in March 2013.

In addition, mining production rose 8.3% year-on-year to continue its recovery from the slowdown during late 2014 and early 2015.

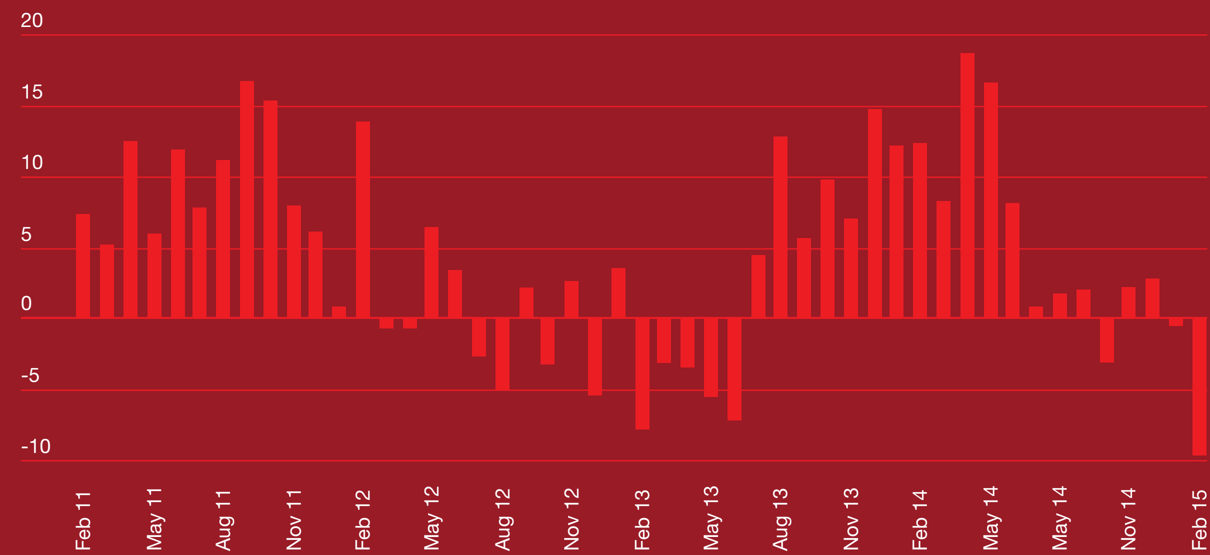
> Malaysia's manufacturing and mining sector have been helped by a resilient domestic economy and improvements in global demand.

Chart 3: Industrial Production Growth YoY (%)



YoY : Year-on-year
Source : Bloomberg, iFAST estimates

Chart 4: Exports Growth YoY (%)



YoY : Year-on-year
Source : Bloomberg, iFAST estimates

Exports

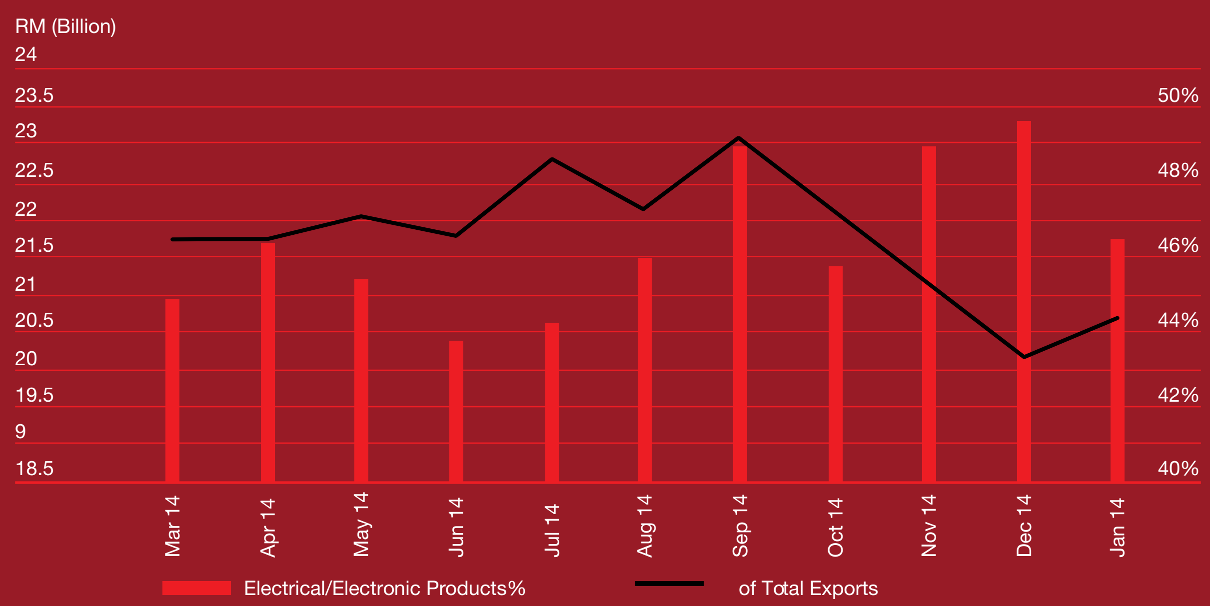
As of end-February 2015, oil-related exports such as crude petroleum, refined petroleum products and palm oil saw year-on-year contractions of -20.9%, -28.0% and -28.3% respectively, resulting in a year-on-year contraction of -0.9% for the total exports. While Malaysia's oil-related exports have tempered significantly in the midst of underwhelming oil prices in 2014 and early 2015, we believe that exports growth will continue to be resilient in 2015, mainly supported by non-oil exports.

Non-oil exports have been helped much in part by the strengthening of the US economy, which is the 3rd largest export market for Malaysia. As the prospect of global economic growth turns brighter in 2015, Malaysia's economy is expected to receive a much-needed boost from exports again. The larger contribution of exports to the economic growth will mitigate the slowdown in domestic household demand.

Surprisingly, oil and gas products are not the main exports of Malaysia, making up just approximately 25% of our total exports (as of February 2015). In fact, technology and electrical/electronic products are the top exports of Malaysia, contributing an average of RM20 billion every month, which is 40% to 50%, to our total exports, refer Chart 5.

Going forward, we believe sectors that export most of their finished goods to overseas market are likely to benefit from the improved overseas demand. Companies that derive more revenues from foreign markets will be able to sustain their earnings momentum due to larger overseas earnings contribution and are expected to be less impacted by fiscal tightening in domestic market.

Chart 5



Government Projects

In addition, the government expects the construction sector to grow by 10.7% next year, mainly supported by at least 7 new infrastructure projects announced in Budget 2015 in addition to the ongoing ones. We expect government projects to continue to provide impetus for the country's economy, refer Table 1.

The spillover and multiplier effect from government spending is crucial for economic growth in the country. By implementing the infrastructure projects, the government aims to boost the economy by increasing job opportunities and drive supporting industries.

Construction companies or construction-related industries are likely to see stable earnings arising from the aforementioned government projects. These companies are less likely to be affected by the slowdown in domestic household demand. In fact, construction companies that consume fuel to run their machineries such as excavators and lorries may even benefit from the fall in oil prices post-subsidy removal.

Conclusion

However, we remain cautious on the outlook going forward. We think the strong economic outperformance will be short lived and will peter off going into 2015.

Despite that, we believe a slowdown in the oil and gas sector will be mitigated by a boost in other sectors such as sectors that benefit from cheaper oil prices. Going forward, we believe economic growth will be mainly driven by industrial production/manufacturing, non-oil exports and government projects.

Table 1: Notable Mega Infrastructure Projects

	Estimated Completion Date	Estimated Cost
Kuala Lumpur-Singapore High Speed Rail	2020	RM 40 billion
MRT Sungai Buloh-Kajang Line	2016	RM 23 billion
MRT Sungai Buloh-Serdang-Putrajaya Line	2020	RM 23 billion
MRT Circle Line	TBA	RM 9 billion
KL118 (formerly Warisan Merdeka)	2020	RM 5 billion
Tun Razak Exchange	2030	RM 26 billion
West Coast Highway	2018	RM 7.1 billion
Pengerang Integrated Petroleum Complex	2020	RM 69 billion (Up to RM 170 billion)
Petronas RAPID Project	2016	RM 60 billion

Touching Base with Customers: Striking the Right Balance

By Caryn Choo

No customer likes feeling insignificant, and with the sheer amount of options available in the market these days, they can walk away anytime they want. Too little contact with customers will weaken the relationship and may result in losing them to competitors. However, over-contacting customers to the point where they blatantly ignore your barrage of phone calls and emails may very well repel them from you. How does one find the right balance for both?

Customer loyalty is becoming more fluid by the day. The Ernst & Young Global Consumer Banking Survey 2014, which contains responses from more than 32,000 retail banking customers across 43 countries including Malaysia, showed that customers are actively exploring their options when it comes to financial service providers. In the past year, over half of respondents have opened or closed an account or service, while 40% plan to do so within the coming year (Figure 1).

When asked if they have a prior relationship with the FSP, 59% said no (Figure 2), which indicates that they were very open to exploring and forming relationships with new providers, and have no qualms in terminating relationships with existing providers who are deemed no longer suitable to be their primary FSP. These alarming figures strongly suggest that establishing a strong relationship with your customer has never been more critical.

What do customers want?

The Ernst & Young Survey and casual discussion among several retail unit trust investors revealed several customer expectations. Customers want consultants to remember their current situation, priorities and risk profiles to avoid being repetitious on information that Unit Trust Consultants (UTCs) should already know by heart (or at least keep in their records). It strongly suggests unprofessionalism to forget such details and erodes the customer's confidence in the agent.

Customers expect consultants to proactively contact them to share when there are roadblocks or hiccups at certain investment and reroute them effectively. They also require status updates on their investments especially important news that points them to the best channel for resolution, be it fund switching or portfolio rebalancing.

"When customers call because they are nervous during market instability, I view it as a good opportunity to validate their feelings, reassure them and guide them in navigating the turbulent waters. Most times, they will appreciate the honesty and reassurance that their investments are in good hands," Hamid, a financial planner said.

How much is too much?

Unless the relationship with a customer was a friendship to begin with or has evolved into a friendship, it's best to personalise your customer service without getting overly personal. Customers don't expect you to be their best friend. You just need to understand their needs, be involved in their investment experience and demonstrate that you care for them.

In his book, Tom Panaggio, author of The Risk Advantage and co-founder of two successful direct marketing companies, advised business owners to go above and beyond for a client or risk hurting their company's future prospects. He opined that one needs to provide value that exceeds their customer's expectations not by a huge margin, but just enough so that they are nicely surprised. That's when the power of word-of-mouth advertising begins. "A client's real value is not the revenue made from their first order, but the total long-term value. The cost of acquiring a customer can be significant, but the cost of losing one is greater," Panaggio wrote.

> Statistics from the Direct Marketing Association (DMA) of US supports Panaggio's claims and reports that it is six times tougher to acquire a new customer than to do another transaction with an existing one. DMA also adds that the likelihood of repeated business from a customer drops by 10% for every month that we do not engage with them in any ways possible. This means that after 10 months of no contact, a loyal client can be regress to the stage of a new prospect.

Consultants who only meet with their top clients once every quarter will inadvertently results in a 20% drop in loyalty. This approach is a recipe for disaster. "One should have regular contact with their clients at least once every two months, and ideally every month," said Jeffrey, a veteran UTC. "I will ask my clients how often they want to hear from me and if they'd like me to call, email or meet them up in person and I will do so. Most of them prefer to be contact monthly."

In addition to financial industry news and regular investment status updates, you can send some feel-good communications such as birthday, wedding anniversary and festivity cards; invitation to seminars, educational info on retirement planning, and targeted announcements of new products that will meet their specific needs. "I find that it's better to email clients on new fund updates to give them time to be familiar with the information before I call them. This way, I avoid being brushed off if they are busy. As long as quality communication happens on the customer's terms, I'd say you have found the right balance." concluded Jeffrey.

Interview

Moving Forward

FIMM's new CEO, Nazaruddin Othman, shares his insights to position the organisation as a catalyst in boosting the level of professionalism in the unit trust and private retirement scheme industries.

By **Caryn Choo**

Nazaruddin is no stranger to the players in the unit trust industry. He was previously the CEO of BIMB Investment Management Berhad and he had also worked with Securities Commission Malaysia (SC) for 14 years. His role in SC involved reviewing unit trust funds and real estate investment trusts proposals as well as developing the guidelines and monitoring compliance by Unit Trust Management Companies (UTMCs).

He admits that managing FIMM will be a challenge for him because he needs to constantly juggle the dual roles that FIMM plays as a regulatory body and an industry association looking into the interest of its members. "SC expects FIMM to be more vigilant concerning the sales practices of our members. On the other hand we are also the representative of the industry; ensuring that their voices are heard and their interests are protected." This is where his unique blend of regulatory knowledge and industry acumen comes in handy.

"Having been involved in the regulatory and operational intricacies, I want to harness my knowledge and experience in both areas to contribute to the industry," he said.

> "Having been involved in the regulatory and operational intricacies, I want to harness my knowledge and experience in both areas to contribute to the industry."

The State of the Industry

According to Nazaruddin, Malaysia is one of the few countries in the world with a tied-agency network where the consultants are attached to one UTMC. This remains as the significant mode of distribution for unit trusts to retail investors. "The sales through consultants stood at RM18.26bil last year, representing 12.9% of the total sales of unit trust funds.

The downside of this setup is that it limits the options for investors as they will only select funds recommended by their trusted agents or consultants. Investors need to know about all the other SC-approved funds in the market in order to make an informed decision to invest.

Nevertheless, the landscape now has changed. There are other channels, such as Institutional Unit Trust Advisers (IUTA) and Corporate Unit Trust Advisers (CUTA) that investors can turn to for unit trust advice. IUTAs and CUTAs have distribution agreements with multiple providers. "This is the right direction to go as it offers much wider range of funds for investors to choose, depending on their risk profiles and needs," he said.

He added that the penetration rate is still quite low judging by the number of accounts and the total NAV of unit trust funds against the market capitalisation of Bursa Malaysia. The percentage of total NAV of unit trust funds against Bursa Malaysia's market capitalisation is just about 20%, as compared to the percentage in developed countries, i.e. in the range of 50%. "This scenario highlights the dire need to spur the growth of the industry. The best way to do it is through awareness campaigns, which FIMM is actively engaged in to create an informed investment community and increase the number of unit trust investors in the country," he said. "We have participated in various events such as InvestSmart Fair organised by SC and PNB's Minggu Saham Amanah Malaysia to educate the public on our roles and functions and we will continue our efforts moving forward".

We will also continue to tie-up with SIDC, the education arm of SC, by participating in their public seminars to educate the novice investors," Nazaruddin added. He is also looking into harnessing the power of social media and mobile technology as effective platforms to reach out to the younger generations.

The Road Ahead

Nazaruddin is poised to take up the challenge of positioning FIMM effectively to help elevate the investors' awareness on unit trust and private retirement scheme (PRS).

His first commitment to the organisation is establishing a series of engagement sessions with the industry leaders to get their views and feedback on how they want to position FIMM going forward. "FIMM was initially established to protect our members' interests. As such, we will engage our members to obtain their views and I will share them with the rest of the industry to get their acceptance. The end result will be a business plan for the next two to three years to chart the strategic growth of FIMM," Nazaruddin said.

Nazaruddin has also identified several "low-hanging fruit" initiatives that can be implemented swiftly. The computerisation of the PRS examination is one of them. "PRS is at an infancy stage. With the rollout of this computerised system soon, the examination can be held at 19 centres nationwide to ensure greater reach. We hope that this initiative can be a contributing factor to grow the PRS industry," he said.

Another significant milestone is the inclusion of a compulsory bankruptcy screening during the registration of aspiring consultants. Termed as the 'enhanced gatekeeping function', it is an in-built feature linked to RAM Credit Information. "Previously it was done by way of self-declaration and the bankruptcy screening is only carried out upon renewal of the registration of the unit trust consultant. To increase efficiency, we make this search at the point of application," Nazaruddin explained. This initiative is in line with one of FIMM's mandates to ensure that only fit and proper individuals are admitted into the industry for the purpose of marketing and distribution of unit trust funds.

He also said that FIMM is working on the registration manual which will be released soon. "We are compiling a comprehensive and user-friendly registration manual, which will be available in print and digital format, for applicants to be familiar with FIMM's submission requirements. This will translate to a faster turnaround time in terms of registration processing," he added.

FIMM is also revamping and consolidating the industry rules and guidelines to reflect the recent changes that took place in the industry. "Once we have consolidated all the circulars issued to the members thus far, it will be a convenient reference for our members," said Nazaruddin who is liaising with the SC to gather their feedback before the rules is issued.

A firm believer in technology, Nazaruddin's road map also seeks to address the organisation's IT system to enhance its efficiency in carrying out its roles. "Our current systems are quite archaic and are long overdue for a revamp," he said. As part of the IT enhancement project, FIMM will implement a Continuing Professional Development (CPD) tracker module to help members monitor the points collected by their consultants. "We are also looking to set up an e-learning system for consultants to earn CPD points through online courses. E-learning providers can connect to this integrated system as well."

To Nazaruddin, the road map is a launch pad for greater things ahead. "I'm under no illusion that these changes will happen overnight, but they will eventually happen. As FIMM was mandated as an SRO just a mere four years ago, there is still a learning curve that we need to go through. If we set the foundation right, we'll be able to grow as a respected organisation to protect the interests of our members and the investing public."

"PRS is at an infancy stage. With the rollout of this computerised system soon, the examination can be held at 19 centres nationwide ensuring a greater reach. We hope that this initiative can be a contributing factor to grow the PRS industry."

**as of Feb 2015*

Asia's Big Four:

Reforms at the Forefront

By **Templeton Global Equity Group**

While Asia is a diverse continent in terms of both culture and development, many countries in the region have responded to recent economic headwinds similarly—by embarking on ambitious reform. Templeton Global Equity Group's Peter Wilmshurst and Joanne Wong look at some of the proposals on the table, and use their experience of travelling widely in the region, as well as detailed on-the-ground research from colleagues, to suggest that while their intentions may be clear, each individual country faces its own challenges in delivering favourable results.

In the search for a more sustainable economic growth model—one driven more by consumption and less by fixed asset investment—Chinese authorities have imposed a swathe of structural reforms; and they are by no means alone among their Asia-Pacific counterparts in following such a strategy.

For China in particular, we believe this effort will take time and the path will likely not be smooth. Consequently, we think slower GDP growth compared with years past is likely to continue.

The good news is that China's leaders seem to recognise the problems of overcapacity, overindebtedness in some sectors, a frothy property market and the declining economic productivity of credit creation. In contrast, Chinese authorities are trying to juggle reforms for both state-owned enterprises and banks, while providing support for growth at the same time, and these objectives are not always in sync. We expect periodic, targeted stimulus measures rather than wholesale easing as economic reform and restructuring take centre stage and China moves to rebalance its investment-centric economy.

If China does continue to reorient its economy away from infrastructure, we believe the country could benefit in the long term. The loosening of credit conditions by the People's Bank of China may, in our view, provide flexibility for structural reforms to be made without excessive economic disruption.

This relatively benign outcome, however, would depend on China's leadership making wise choices. The country's most influential legislative body, the National People's Congress, intends to address the issue of economic reform during its meeting this month.

Meanwhile, we believe earnings and valuation levels are likely to stay under pressure as economic growth slows and capital misallocation is purged from the system.

Given the pressured valuations, we have found selective opportunities in China, though the environment remains challenging, given significant economic imbalances and a highly politicized business environment. Furthermore, we believe that overinvestment in infrastructure, corporate fixed assets and real estate represents real risks.

Abe's Arrows

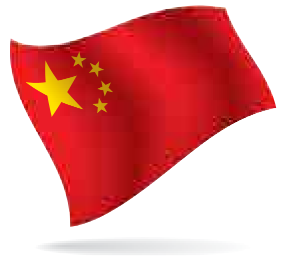
We believe Japan's historic quantitative easing (QE) efforts have produced limited material benefits for the economy. Japan seems to have become dependent on QE to finance its debt and shows no signs of ending this policy. In our assessment, Japan's massive QE measures are likely to spread vast amounts of global liquidity this year, potentially benefitting several economies and financial markets around the globe.

QE and fiscal stimulus represent two of the three "arrows" of the Japanese government's plan to spur growth known as "Abenomics" after Prime Minister Shinzo Abe. While monetary and fiscal reforms are positive first steps towards helping Japan emerge from its economic doldrums, we think the third arrow—structural reforms of the government and corporations—may be just as important.

On the government side, proposed reforms include cutting the corporate tax rate, deregulating certain industries and expanding the workforce. One of the first attempts at deregulation came in February, when the government began relaxing agricultural rules to allow Japanese farmers to become more competitive. The first cut in the corporate tax rate will come in April, when the rate is expected to decrease by 2.5 percentage points.

We believe an increase in the number of people working in Japan is essential, given the country's demographics and debt load. Japan's population is shrinking, at the same time the country has one of the world's highest percentage of residents over the age of 65. That demographic profile has helped fuel the country's debt,

Finding Value in the Midst of Reform



China

In China, we have focused on companies we believe have balance sheet strength, capital discipline and the ability to generate strong and sustainable free cash flow. We are finding opportunities in the capital goods sector, and the auto and durables segment of the consumer discretionary sector. We also are finding value in health care, as we believe China's underpenetrated market may support strong volume growth despite pricing pressures. And, because we think oil prices will normalise long term, we have found opportunities in energy.

Japan

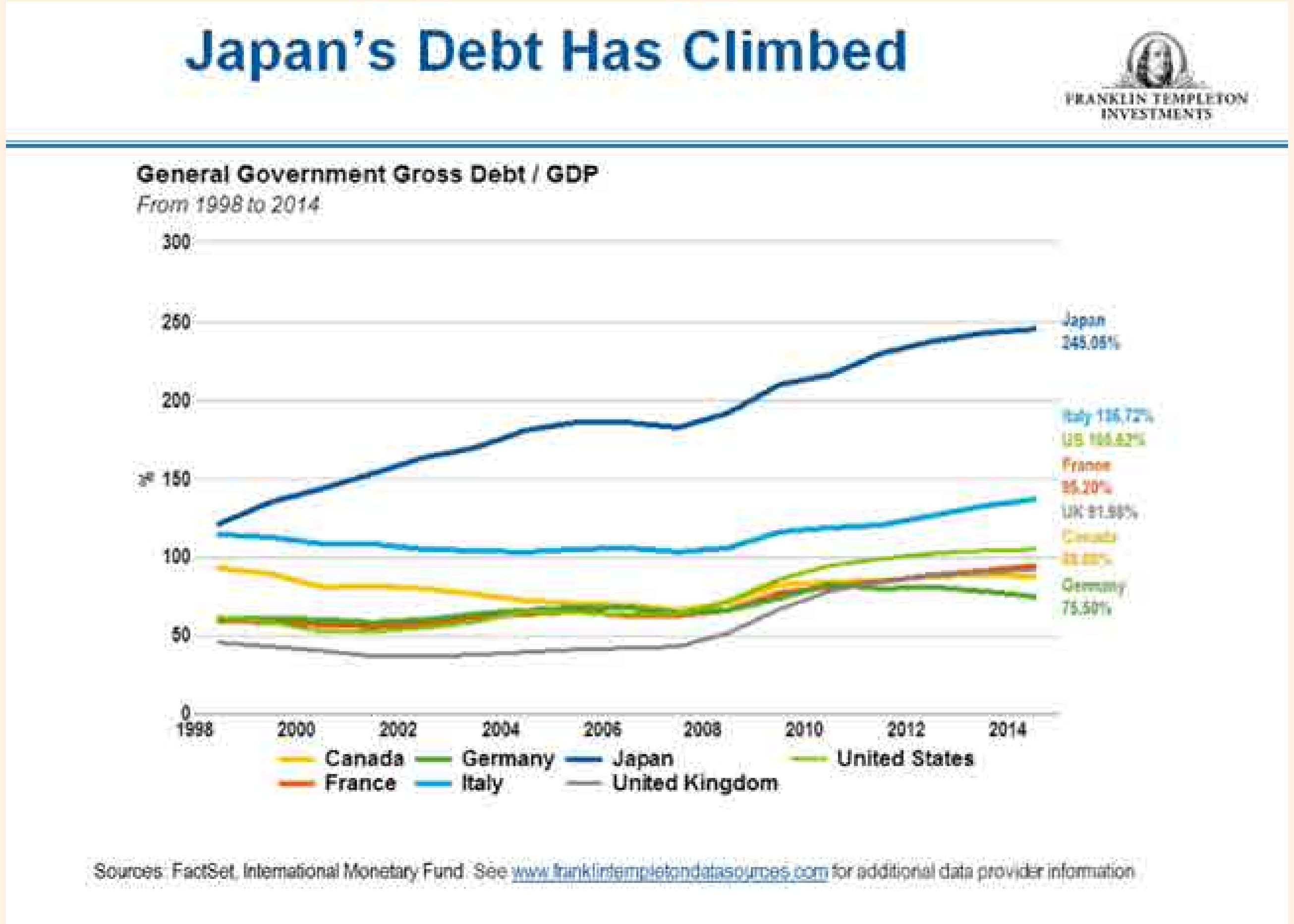
Value in Japan appears to us to remain relatively scarce, as many larger companies are conglomerates with secondary positions in industries that we find unattractive. The optimistic viewis that the market's intrinsic value and potential for improvement have not yet been recognised, but will be soon. The more pessimistic view is that corporate Japan is appropriately priced and is largely a "value trap," which is a bargain that appears promising, but doesn't increase in price as expected.

India

Within the context of valuations in Asia markets, in india we like health care, private sector banks and automotive companies. health care companies have benefitted from India's underpenetrated health care market, while private sector banks and automobile companies are tied into the cyclical economy and tend to perform well when the economy is growing.

South Korea

We have found opportunities in the banking and automobile / auto parts sectors in South Korea. The banks we own have traded at what we consider decent levels, and earnings are at trough levels due to low interest rates. At some point, when interest rate rise, we believe profitability could improve substantially.



as a dwindling number of working-age Japanese pay for health and social services for the country's aging population. In fact, Japan's debt equals 245% of its GDP, which is the highest percentage of debt to GDP in the world . Among the proposals floated to address these issues are encouraging more women to enter the workforce and increasing immigration.

While we are pleased Prime Minister Abe's government is addressing structural issues as part of his third arrow, the proof will be in the execution, and we are sceptical the government will get the support it needs to implement all of its plans.

On the corporate side, we believe Japanese companies could look more attractive to investors if they were to improve their balance sheet management, and stop hoarding cash and participating in expensive merger and acquisition activity. Larger corporations also should, in our view, address their poor underlying profitability, which may involve shutting down money-losing subsidiaries and focusing on those with relevant technology.

India Rising

Asia's third-largest economy, India, is also undertaking structural reforms. Under Prime Minister Narendra Modi, the government has introduced inflation targeting, a policy to control inflation, which we believe should help lower interest rates and bring down the cost of capital. It has also set out ambitious goals that include building 100 new cities, improving infrastructure including the use of bullet trains and a project to reduce flooding by linking rivers through the use of canals and reservoirs, although implementation and financing remain key concerns. Longer term, we believe India needs to cut red tape, simplify labour regulations and improve the quality of its fiscal spending by rationalising subsidies and channelling resources towards capital formation and productive sectors.

An economic recovery is underway in India, helped by a decline in inflation and increased exports to keep up with rising demand, specifically from the United States.

Shareholders Benefit

In South Korea, a reform package that took effect this year has forced the country's largest conglomerates to spend up to 80% of their net income on dividends, domestic investment or employee salaries, or face a 10% tax on those profits. South Korea has been a market where dividend yields have lagged, and stock prices have sagged along with them. Companies have generated a lot of free cash flow, but shareholders have received very little of it back. Some companies have already announced share buybacks and higher dividend payouts, and, if the trend continues, we think stock prices of South Korean companies could rebound.

Peter Wilmshurst weighed in on US equity valuations, the outlook for European stocks, and the financial and energy sectors during a 4 March panel discussion at Franklin Templeton's Asia Pacific Investor Forum, "Investment Ideas for a Changing World," in Sydney, Australia. Below are excerpts from his presentation.

- **Overall, valuations in the US equity market appear to be stretched; some are probably close to fair, but they certainly aren't as attractive as you see elsewhere in the world.**
- **In general, we have found valuations for markets outside the United States are typically 30%-40% cheaper than they are in the United States.**
- **Lower oil prices and the benefits of a declining currency have had a positive effect on the eurozone economy, in our view. We're starting to see these benefits flow through to earnings-per-share estimates as well.**
- **Bank valuations aren't as low as they were in 2011 or 2012, when the European sovereign debt crisis was really at its height, but we still can find banks in the United States, Europe and, increasingly, Asia, with good, strong domestic franchises that are trading at a discount.**
- **Much of the oil supply that came on line recently was high-cost supply. We believe in the coming year or two, supply may slow down—or even decline in some places. Ultimately, we think the oil price has to be underpinned by a higher price than it is today, and as the price moves higher, we believe oil stocks may start to react positively.**

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A Quick Quiz

Get a mystery gift with your correct answers!

HERE ARE THE QUESTIONS:

Q1: How many hours of CPD have to be completed per annum in total?

a) 14 b) 16 c) 18 d) 20

Q2: For every month that you don't talk to a customer, what is the percentage of the drop in loyalty?

a) 5 b) 10 c) 15 d) 20

Q3: In which year was FIMM mandated as a self-regulatory organisation (SRO)?

a) 1994 b) 1997 c) 2001 d) 2011

Email us the correct answers to **fimmtoday@fimm.com.my** by **15 October 2015**. Top 5 correct entries will be rewarded with a mystery gift. Please include your personal details such as name, profession, age and mobile number in your email as well.

Notes

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