Best Mixed Asset Fund Group Award

The AmInvest team at the award ceremony. (L-R) Tan Ed-wyn (Fund Manager, Fixed Income), Kho Hock Khoon (Senior Fund Manager, Fixed Income), Cheong Yoke Phing (Fund Manager, Equities), Goh Wee Peng (Chief Investment Officer, Fixed Income), Datin Maznah Mahbob (Chief Executive Officer), Harinder Pal Singh (Senior Vice President, Operations), Ng Chze How (Senior Vice President, Retail & Retirement Funds), Mohd Fauzi Mohd Tahir (Senior Vice President, Equities) and Hoo Pik Mun (Fund Manager, Equities).

Recipient of 3 awards at The Edge-Lipper Malaysia Fund Awards 2015, in this interview we sit down with AmInvest's Chief Executive Officer, Datin Maznah Mahbob *(DMM)*, Chief Investment Officer of Equities, Andrew Wong *(AW)* and Chief Investment Officer of Fixed Income, Goh Wee Peng *(GWP)* to discuss key success factors and investment strategies, amongst others that have contributed to these wins.

- **Best Mixed Asset Fund Group** *(2 consecutive years)*
- **Best Bond Malaysian Ringgit, 10 Years - *AmDynamic Bond*** *(2 consecutive years)*
- **Best Mixed Asset MYR Balanced, Malaysia Islamic, 10 Years - *AmIslamic Balanced***

For the 2nd consecutive year, AmInvest has taken home the asset class group award for 'Best Mixed Asset Fund Group' in The Edge-Lipper Malaysia Fund Awards 2015 held in Kuala Lumpur on 9 March 2015.[1]

AmInvest's mixed assets funds comprising of AmIslamic Balanced, AmBalanced, AmConservative and AmAustralia drove the win in this category by outperforming its peers.[2]

The annual Edge-Lipper Malaysia Fund Awards acknowledges individual funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance based on the Lipper Leader ratings for consistent return (effective return), relative to peers. In addition, it recognises fund families with high average scores for all funds within a particular asset class or overall. Only funds that have done well for 3 years or more at the end of the calendar year of the respective evaluation year, are recognised.

"Our distinct and well established methodologies have given us an edge in all market conditions over our more than 30 years of managing funds. It is because of this coupled with our expertise in actively managing asset allocation between equity and fixed income that we have been able to add the most value to our investors investments in spite of market volatility last year. This augurs well for us particularly at a time where investors are on the lookout for fund managers who can deliver consistent investment performance and help them unearth investment opportunities in all market conditions," said Datin Maznah Mahbob, Chief Executive Officer of AmInvest.

At the same ceremony under fund classication awards, 2 AmInvest funds emerged top in their categories.[1] AmDynamic Bond, a fixed income fund launched in 2003 was singled out for the 2nd year running in the Bond Malaysian Ringgit 10-year performance category for demonstrating consistent strong risk-adjusted returns against its peer group for the period ended 31 December 2014.[1] Over the last 10 years, AmDynamic Bond has clocked in returns of 120.07% more than doubling the average returns of its peers of 53.83% for the same period, or which translates to 8.20% per annum versus the average returns of its peers of 4.31% per annum.[3] AmInvest's AmIslamic Balanced, a Shariah-compliant mixed assets fund, took home top honours in the Mixed Asset MYR Balanced-Malaysia Islamic category also for its 10-year performance.[1] This fund has recorded returns of 102.71% versus the average of its peers of 73.48%, or translating to 7.32% versus the average returns of its peers of 5.52% for the past 10 years.[3]

1 The Edge-Lipper Malaysia Fund Awards 2015, March 2015.
2 Lipper Investment Management for the period 31 December 2011 to 31 December 2014, based on total return, income distributions reinvested, calculated in MYR, data extracted 16 February 2015.
3 Lipper Investment Management for the period 31 December 2004 to 31 December 2014, based on total return, income distribution reinvested, calculated in MYR, data extracted 16 February 2015.

Best Mixed Asset Fund Group Award

What are the strengths of your winning funds? Is it the team, or your fund house's investing philosophy? Also, how do you define your fund house's investment approach and how has it contributed to your win?

DMM: We have multi-disciplinary specialist teams dedicated to economic research, asset allocation, bottom-up stock selection/research, bottom-up credit risk review and experienced fund managers. We also have a robust investment process which links all the information together with clear accountability metrics supporting the management of multi-asset funds. These 2 factors combined has positioned us well to deliver superior performances and win awards.

What was the most challenging thing your fund managers faced during this period?

AW & GWP: The big redemption when market was downward trending especially in November 2014, the greater volatility in the financial markets in general and the illiquidity in the bond market in particular.

Can you describe your asset allocation throughout 2014? Was there a significant re-balancing exercise? If so, why or why not?

AW & GWP: We were fully invested in equities during the year with active rebalancing within the equities portion, taking advantage of rotational under-valuation of stocks arising from the market volatility. For the fixed income portion, the emphasis was buying into corporate bonds with higher yields.

How will your fund managers be managing the winning funds this year, in light of the current economic outlook?

AW: Would be the same investment style but stock selection will be crucial due to macro uncertainty and this is where team work is very important to make the funds excel in 2015.

GWP: For bonds, our strategy will be consistent with our investment philosophy, which includes, but is not limited to its top-down approach that will consider the external and domestic drivers to anticipate the market direction. We are anticipating a more sanguine local bond market in 2015 on the back of less probability of an interest rate hike for the year.

How does your fund house stand out from those in the same group category as you?

AW: Other than our well established investment process, we have cultivated a sharing environment across diverse specialisations where the team has always worked together cohesively towards the organisation's success and this has helped the funds and AmInvest to excel in this category.

(L-R) Andrew Wong (Chief Investment Officer, Equities of AmInvest), Datin Maznah Mahbob (Chief Executive Officer of AmInvest) and Goh Wee Peng (Chief Investment Officer, Fixed Income of AmInvest).

Fund House Strategies

Could you sum up the performance of the financial markets in year 2014?

AW: Overall 2014 company earnings have been quite disappointing. Beginning 2014, initial projection for earnings growth was close to 10%. Subsequently, we saw a number of downgrades, mainly on the bigger caps, due to weaker than expected results and the almost flat current earnings' expectation for 2014.

We saw major downgrades in the banking sector due to rising competition especially those with offshore exposure. The plantation sector also underperformed due to the drop in demand especially from China as Beijing cracked down on commodity financing and from the run-up of plantation share prices in expectation of El Nino which did not materialise. The oil and gas sector saw a de-rating as crude oil prices fell from United States Dollar (USD)100 per barrel to USD75 per barrel.

The small cap rally in the first 9 months of the year supported the market but any unrealised gains earned in the earlier part of the year was quickly erased in the 4th Quarter of 2014 when market felt jittery about the Malaysian economy and was more positive about United States (US) recovery which led to an outflow towards Developed Markets (DM) from Emerging Markets (EM).

GWP: The bond market performance in 2014 has been a mixed bag. While short-term bond yields have risen on the back of expected higher inflationary pressure and anticipated interest rate hikes, long tenured bond yields have declined. Bond investors generally preferred corporate and longer tenured bonds for yield pickup. Declining crude oil prices was another key event that affected the bond market in later 2014 due to its potential impact on Malaysia's economic health. Nevertheless, the overall bond market performed better than 2013.

Which sectors do you see performing positively for 2015 in the local and global financial markets? Why?

AW: The most promising equity sectors evolve around earnings/dividend visibility such as construction, telecommunications (dividend play and the 6% service tax reversal), technology, healthcare, certain oil/gas stocks sold down indiscriminately and possibly plantations as Crude Palm Oil (CPO) prices might have limited downside coupled with United States Dollar (USD) revenue, amongst others.

GWP: For bonds, our sector outlook generally revolves around the effect of lower oil prices, stronger USD and higher funding cost. We favor transportation-related sectors, which should see lower operating cost and higher exports.

Which sectors will you be avoiding? Why?

AW: We will stay away from consumer stocks due to on-going subsidy cuts and implementation of Goods and Services Tax (GST). We will also be cautious of the property sector as big developers are scaling back on their property launches next year.

GWP: For bonds, we are wary of smaller oil and gas players, which may be impacted by capex cuts from upstream oil and gas players.

Given that there will be a lot more volatility in the markets this year, what are your fund house's strategies to ride out the market volatility?

AW: We see some trading opportunity for the next 3 to 4 months. There could be some upside to the market as investors focus on earnings growth this year. We will overweight the construction sector and be selective in the oil and gas and plantation sectors. We are neutral on the banks and we will underweight the consumer and property sectors.

However, with the implementation of GST and concern on potential US rate hike, we could see increased volatility in the market and there could be downside risk. Hence, we will be more defensive at this point and stay with dividend-yielding stocks. On top of that, we will track the quarterly results closely for guidance and change our strategy accordingly based on the latest earnings results.

GWP: Despite the possible volatility, we believe the overall local economic environment to be supportive of the bond market. Stable interest rates, less inflation pressure, lower but stable Gross Domestic Product (GDP) growth and active measures by the government to manage the fiscal concerns are some of the factors that may support local bond yields in 2015. We are maintaining high exposure to bonds, and seek high quality, lower rated bonds to buffer the expected volatility.

What kind of market conditions would affect your strategy adversely? How will you manage these risks?

AW: AmInvest's cash holdings for equities is marginally higher than the norm, indicating that we are moderately optimistic about the market with regards trading opportunities. However, we are positioning the portfolios to evolve around earnings/dividend visibility. By doing so, we have the dividend yielding stock to give us a floor from the dividend income while asset allocation would negate underperformance if the market rallies.

GWP: Aggressive US Federal Reserve (Fed) Fund rate hikes may affect the local bond market adversely, but we expect the probability of occurrence is low. Nevertheless, we take position on higher yielding bonds to buffer downside volatility.

Do you see your company's Assets Under Management(AUM) increasing or decreasing this year? Why?

DMM: For this financial year (ending 31 March 2015), AmInvest has already met its target. We are now aiming to grow our AUM with a target of managing RM44 billion by 31 March 2016.

What kinds of returns (equity and fixed income) will unit trust investors likely see this year? Why?

AW: We expect a modest growth of 6%. Given the uncertainties going forward, we do not expect returns to be phenomenal.

GWP: We are targeting 4.5% at the moment. While we believe the local environment is likely to be supportive of the bond market, we do not expect the bond market to see sustainable rallies.

Moving forward, what type of new funds do you see being introduced to the marketplace?

DMM: Close-ended bond funds will continue to be popular as we are still seeing volatility in the market. We also foresee funds with multi-currency classes being introduced.

Does your fund house have plans to launch new funds this year? If so, what will they be?

DMM: We hope to launch a few close-ended funds and global funds which showcases AmInvest's global investment capabilities.

What is your advice for investors? What should they be looking out for given the current economic outlook?

AW: Despite being moderately optimistic on the market, we have to keep in mind the potential risk that could derail the market. We think the following are important issues to look out for.

- Government's commitment to fiscal consolidation.
- Current account remaining in the surplus.

GWP: Volatility is expected to prevail in most financial markets in 2015. Investors should dissect the risk inherent in the respective assets and markets, and to determine if these risk are within their tolerance levels.

How will falling oil prices affect your holdings? Are you increasing or decreasing asset holdings in the oil and gas sector? What is your strategy and why?

AW: In OPEC's (Organisation of the Petroleum Exporting Countries) November 2014 meeting, when Brent oil was trading above US$80/bbl, the oil market was facing a surplus of around 1.5 to 2 million barrels per day. This may seem large but it is only 1.5% to 2% of global oil consumption. Hence, it will not take much to bring the market back into equilibrium from either an increase in demand or a reduction in supply. On the supply side, lower oil prices will curb investment and production. For shale plays, the drop in oil prices is unlikely to make much of a dent in production for 2015 as capex has already been committed.

However, things may change radically for 2016 as output from shale wells tends to decline by around two-thirds after the first year of operation. Unless producers keep drilling new wells, production will fall off dramatically. Prices will recover but unlikely to the levels of US$100/bbl as the turmoil of the past few months will continue to cast uncertainty with regards to aggressive capex budgets.

At current oil prices, we are slightly more biased towards an overweight position while keeping it mind that it is a trading environment. Therefore if oil prices were to fall further, implicating lesser downside risk to our base case assumption, we would be adding more weight to the sector.

GWP: In our view, bond investors are more concerned about the impact of falling oil prices on the macroeconomic level, as this would potentially determine the credit rating of Malaysia. A rating deterioration may see global investors shying away from Malaysian Ringgit (MYR) bonds. Meanwhile, we are wary of the potential weakness in the oil and gas sector and are not looking to increase exposure to this sector until there are material changes in our expectations.