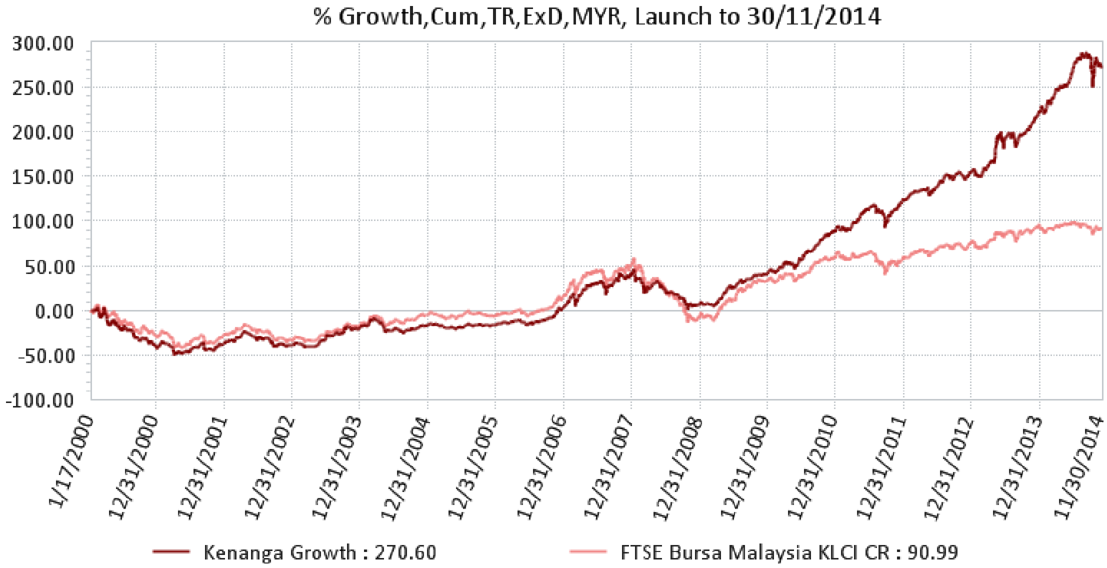
Kenanga Investors

Date: 11 December 2014

KENANGA GROWTH FUND MARKET OUTLOOK

Comparison between the Fund's performance and performance of the benchmark

Performance Chart Since Launch (17/01/2000–30/11/2014)
Kenanga Growth Fund vs FTSE-Bursa Malaysia KLCI Index



Source: Lipper

MARKET REVIEW

In November the Malaysian market gave back much of the sharp rebound enjoyed end Oct despite Wall Street's continued strength. Thereafter, the market rebounded slightly towards the end of the month. The KLCI slipped 1.9% m-o-m or down 35pts to close at 1,820pts. The broader market underperformed, with the FBM 100 falling 2.3% m-o-m to 12,227pts. Small caps performance was even worst with the FBM Small cap index down 7.1% m-o-m to 16,443pts. Some factors which impacted the market include 1) Disappointing 3Q corporate earnings, 2) Falling commodity prices, and 3) Release of the SC's updated list of Syariah compliant securities.

A greater proportion of corporates missed analyst estimates, dampening sentiment on the market. Y-o-Y earnings growth for the market has now been revised down to sub 1% levels for 2014 from high single digit previously, the third consecutive year of similar downgrades. Secondly, the continued downtrend of commodity prices also exacerbated the sell-down on their respective equity sectors, with crude oil falling 17.9% m-o-m to USD66/bbl (WTI) and CPO falling 5.8% m-o-m to RM2,172. Crude oil broke significantly lower after the OPEC (Organization for Petroleum Exporting Countries) refused to respond to lower prices and left production quotas unchanged. Towards the end of the month, there was also news that Petroliam Nasional Bhd (Petronas) will be reviewing its dividend to the government and also its capital expenditure allocation in view of the declining global crude oil prices.

Meanwhile GDP grew by 5.6% in the third quarter from 6.5% in the second quarter. It was supported by the private sector demand and the positive growth in net exports of goods and services. The government also announced that beginning 1 Dec, fuel subsidies for RON95 and diesel will be removed following the implementation of a managed float system similar to that used on RON97.

Kenanga Investors

Date: 11 December 2014

Regional markets were mixed, the MSCI Asia-Ex Japan index was flattish at +0.3% in MYR terms but weaker in USD terms as the US dollar appreciated against most Asian currencies. China surprised with a rate cut, which signals a shift towards monetary easing. Equity markets in China rallied on the back of this, expecting more easing to come. The Shenzen CSI 300 Index rallied +12% in November.

MARKET OUTLOOK

While Dec had historically been a positive month, sentiment has worsened as investors mull the impact of lower commodity prices (especially oil) on the government's finances and the countries trade balance. Capital outflows could also accelerate as the outlook for the currency worsens. As such any window dressing activities look less likely now, and the index is set to record one of its worse years since the 2008 GFC.

Moving into 2015, we see more volatility ahead from divergent central bank policies across the developed economies. The prospect of increasing US rates as compared to an easing bias from the ECB and BoJ are likely to continue to drive US dollar strength which will result in volatile capital flows. Meanwhile the domestic scenario does not look rosy, ahead of the implementation of the 6% GST which will impact domestic consumption. Lower commodity prices will also impact spending down the supply chain, as producers cut back to protect margins. Petronas has also indicated its intention to cut-back on its capital expenditure by 15-20% which will dampen investment in the O&G sector. Also, if oil prices remain low the government would be hard pressed to meet its fiscal deficit target of 3% and might have cut back on spending such as development expenditure.

FUND STRATEGY

We think pockets of value have started to emerge post the sell-down. We continue to believe that careful stock-picking favouring the growth-oriented mid-to-small caps will continue to outperform the broader market. Our stock selection favours the sectors that will benefit from the main economic drivers and the weaker Ringgit such as exporters, manufacturers and construction. Portfolio strategy wise, we will continue to adopt a bar-bell strategy of beta and defensive stocks while adding positions on any market weakness.