Money compass

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Kenanga Investors Bhd:
Standing Out From The Crowd

Delivering consistent above-par investment performance & services

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Deputy Chief Executive
of Kenanga Investors Berhad
Ismitz Matthew De Alwis

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Recommended reading material by:
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Ismitz Matthew De Alwis

Kenanga Investors Berhad:
Consistent above-par Investment Performance

Over the years, Kenanga Investors Berhad (KIB) has made its mark by delivering consistent above par investment performance, mainly due to the caliber of its equities investments. The asset manager legacy of consistent performance returns and growth of assets under management through customised portfolio mandates for corporations and institutions as well as government and pension funds are results of the painstaking efforts it has made to succeed.

2013 was a significant year for Kenanga Investors Berhad (KIB). The successful acquisition of ING Fund Berhad created a stronger base for the company and since the merger KIB has been setting new milestones. Beyond that, the company aims to deliver a transformation agenda with the goal to build on the combined strengths of both organisations and to achieve a beneficial union through a smooth and successful integration. With the acquisition, the company aims now to also be a household brand among retail investors and to become the leading investment manager for all segments.

Consistent Performance

Kenanga Growth Fund

Best Performing Equity Malaysia Fund
Equity Malaysia (3 & 5 years)

LIPPER FUND AWARDS 2014 MALAYSIA

Recommended Unit Trusts Awards 2014/15
Core Equity Malaysia

Period	Industry Benchmark (FTSE BM KLCI)	Cumulative Fund Performance (%)
6 months	0.84%	14.01%
1 year	6.16%	27.10%
3 years	19.23%	71.96%
5 years	75.10%	192.73%
Since Launch	97.47%	268.71%

* As at 30 June 2014.

Kenanga Syariah Growth Fund

Best Performing Equity Malaysia Diversified Fund
Equity Malaysia (10 years)

LIPPER FUND AWARDS 2014 MALAYSIA

Recommended Unit Trusts Awards 2014/15
Core Equity Malaysia (Islamic)

Year	Industry Benchmark (FTSE BM EMAS SHARIAH)	Cumulative Fund Performance (%)
6 months	2.57%	8.39%
1 year	8.89%	15.29%
3 years	27.29%	52.53%
5 years	79.80%	150.66%
Since Launch	158.39%	341.43%

* As at 30 June 2014.

Kenanga Asia Pacific Total Return Fund

***Ranked No. 1**

Year	Industry Benchmark (Compounded Return of 10%p.a.)	Fund (%)
Year To Date (Jan-June 2014)	5.06%	7.88%
Since Launch (11 July 2013)	10.14%	17.60%

* In Year To Date and 6 months category as at 30 June 2014.

Kenanga OnePRS

*** Ranked No. 1**

OnePRS Scheme	Year To Date (Jan- June 2014)
OnePRS Growth Fund	8.76%
OnePRS Moderate Fund	4.84%
OnePRS Conservative Fund	3.75%

* In Year To Date category as at 30 June 2014.

> *"Kenanga will deliver expertise, ideas and services so you can capture the ideal opportunities"*

STRIVING FOR GREATER SUCCESS

Recently, Money Compass had the opportunity to sit down with the Deputy Chief Executive of Kenanga Investors Berhad, Ismitz Matthew and he pointed out that "There was no manual for the integration process that we could refer to and there was no easy route to take when we wanted to set off the transformational change. From the company's point of view, we witnessed good results for the past few months. Whilst for the employees, the transformation process was a very good learning platform for them."

Matthew was confident that the company now has the right platform, the right priorities and the right people to capture the tremendous upside potential in the investment management industry in Malaysia serving the various spectrums of clients.

"Post-acquisition, we can now focus on delivering the best investment products for customers through the expansion of distribution channels, operating scale and functional capabilities." Matthew also shared some of the growth drivers supporting its strategy which included:

PRODUCTS AND SERVICES INNOVATION

From a products perspective, KIB advocates a simple and transparent concept which enables them to get closer to customers and ease communication. In this rapidly changing world, it is particularly important to have products with a high degree of flexibility and the ability to respond quickly to external changes. After the merger, the company will further streamline its product range and strengthen its market share.

KIB recognises that the alpha generation and return delivery will remain key to the overall value proposition of its products but the company wants to make a real difference in the product and in its service quality that is provided to all its customers. Therefore, KIB is now in a position to deliver services to all market segments including; equities, fixed income and to managing of cash, onshore and offshore, dedicated mandates for institutional and HNW clients, retirement solutions benefits for corporate for their employee to individuals retirement planning and corporate treasury/cash solutions. Be it individuals or corporate investing, as financial markets evolve, KIB will deliver expertise, ideas and services so you can capture the ideal opportunities.

ENRICHING CLIENTS EXPERIENCE

Matthew said that future customers' needs and expectations will be completely different from the existing model. They will need more personalised information, education and counseling. Therefore, KIB constantly refines and enhances the interaction and service relationships between the company and its customers. Client engagement strategies will need to be tailored to reflect the diversity of the investor base. Another key element of the company's transformation strategy is to ensure operational efficiency and effectiveness.

Matthew expressed, "The clients of the future will be fundamentally different in terms of their needs and expectations. They will demand more personalised information, education and advice that will require us to radically address our technology capabilities to really understand our clients and support this level of service. At KIB, we will continue to evolve around this. Beyond process improvements and technological innovations, the key to us is to improve and own customer experience, which is providing convenience to our clients and we need to do this by serving them not only faster but with consistent service standards."

He also emphasised that a successful asset manager must be able to build the growing pathway together with its customers from diverse backgrounds.

Therefore, KIB will focus on building the architecture that meets the business needs of tomorrow and provide the right level of control to meet increasingly stringent compliance. Platforms will be completely redesigned in phases with the flexibility to support a much more diverse client base and deliver control and client experience.

PARTNERSHIP FOR GROWTH

Matthew further explained that "people" will be the key for KIB's growth strategy. Future investors will likely be even more demanding, characterised by a desire for immediacy, valuing simplicity and transparency and expecting a more personalised service. Apart from providing convenience through technologies, one of the biggest challenges that KIB faces is to fulfill the expectations of customers from diverse backgrounds.

"In order to effectively target and service this increasingly diverse client base, the company focuses on "Distribution Excellence" where the value chain from support structure, service process, and sales process and distribution models will be able to deliver a high valued customer experience.

It is undeniable that investment return will continue to be a very important element. However, KIB believes that the pendulum is continuing to swing from manufacturing to distribution and that client proximity and understanding will become increasingly important differentiators. Power will continue to shift towards those who control the client relationships."

KIB currently has more than 1200 advisers promoting their products and about 800 licensed private pension consultants supported by 10 branches nationwide. Besides this, KIB also has complimentary distribution channels through IUTA and CUTA.

Matthew mentions, "The Partnership for Growth" philosophy of KIB is not merely to enhance the productivity and quality of the advisers and distribution models, but also seeks to ensure a "longevity" of the tenure of distribution partnership with them and for our clients; a Cradle-to-grave type relationship. Performance development through training and education will remain one of the core values for our advisers which in turn be beneficial to our clients."

The industry as a whole has a key role to play in helping to demystify the world of investment and savings. Education will be critical to help improve trust and engagement with the industry. Therefore, to provide training and education to advisers and customers is equally important to maintain the industry growth and performance.

Apart from having the best performance based compensation in the industry and line with its aspirations of keeping long-term relationships with its distribution partners, KIB is pleased to say they are the first in the industry to contribute up to 15% of their advisers' compensation to their PRS account for their retirement. This is in hopes that it will further spur advisers to take on a more advisory role rather than merely being a product pushers.

Matthew believes that all this will be paramount to long term success, enabling KIB advisers who achieve it to deliver the personalised and tailored customer experience clients increasingly expect as well as to maintain long-term relationships with the company and clients.

DEMOGRAPHIC TRANSFORMATION

Demographic transformation, combined with technological advancement and social shifts will significantly change the profile, needs and requirements of investors going forward. The clients of tomorrow are likely to be very different from the clients of today, both in terms of who they are, where they live and what they need and expect from us.

"We foresee client service models undergoing significant change in response to the evolving client profile. We are already see consumers' increasing thirst for information, demands for multiple touch points and growing acceptance of digital solutions. Such trends are anticipated to accelerate, particularly for the more empowered or engaged investors. Gone are the days when investors will be satisfied with half-yearly statements."

Matthew pointed out that tomorrow's investor will expect 24/7 access, full transparency and the ability to self-report, review and re-balance investments via a range of channels, including extensive use of mobile technologies. But he is not suggesting that all investors will use this functionality and is also not advocating that a standard retail investor re-balances his / her portfolio on an overly regular basis. However, he does foresee that to be successful, KIB will need to be equipped to service a more demanding client type, while continuing to satisfy the expectations of more conventional clients, who remain satisfied with more limited interaction.

KIB will have to capture new customers far earlier and keep them longer by offering products tailored to a younger, less affluent and potentially less financially literate market. Therefore, KIB focuses on educating the young, not only as potential clients but also in terms of making a career out of this industry.

An aging population, combined with low birth rates, low savings rates and high levels of fiscal debt are creating a growing retirement burden which is shifting increasingly to the individual. All this will change the needs, requirements and behaviours of future investors. The clients of tomorrow are likely to be very different from the clients of today. This presents significant opportunities for the industry, but also unprecedented challenges.

PRIVATE RETIREMENT SCHEME(PRS)

Retirement planning is one of the essential components of financial planning.

The launch of the Private Retirement Scheme is a commendable move by the Malaysian government, and will eventually be embraced by all segments of the market. Pension reform can reinforce and speed up reform in other areas. For example, it can contribute to bigger, deeper and more liquid financial markets.

Introducing such schemes can complement financial market reforms such as strengthening the legal and regulatory framework to promote good corporate governance and outreach to different age group segments providing great opportunities. With the various incentives, for example the 20-30 years group and tax relief, this will encourage further retail participation in the market.

Matthew says there is a lot of groundwork to be done, such as educating people on why they should take a more active role in saving for their retirement and making the scheme as accessible as possible. He added PRS is a form of savings which complements the EPF and this is important as average life expectancy has risen.

Given the average life expectancy of Malaysians at 74 for males and 78 for females, retiring at 60 today means that, on average there must be savings that can last 15 or 20 years. This must also take into consideration inflation and health care cost.

According to the statistics by the Employee Provident Fund (EPF), nearly half of Malaysian, nearly half of Malaysian retirees quickly exhaust their EPF savings within 5 years. The figures are troubling and points to huge socio-economic displacement. Retirement savings need to be promoted and encouraged.

Matthew says many companies are now offering either higher EPF contributions or offering contribution to a PRS fund to lure and retain talents. Therefore, Matthew believes that there is a huge potential in the PRS market. He resolves to maintain close co-operation with the Private Pension Administration (PPA) under the Securities Commission to promote PRS and the need to consider retirement planning to the market.

INTEREST RATES AFFECT THE STOCK MARKET TREND

Over the past 24 months, the Asian markets have shown remarkable resilience in the face of uncertainties including the impact of QE tapering, China's economy slowdown as well as geopolitical and disastrous events like typhoon Haiyan in the Philippines and military coup in Thailand. KIB remains confident of the outlook for Asia.

However, with QE tapering gaining further momentum, coupled with rising inflation, the trend of rising interest rates has become a major focus for the market. As expected, Bank Negara Malaysia (BNM) announced a rate hike of 25bp on 11th July 2014, marking the first OPR hike in three years.

Lee Sook Yee, Chief Investment Officer of KIB, believes that although interest rates are on the rise, the anticipated stronger GDP growth this year would not be derailed. Rising from a low base, OPR may be hiked by another 25bp before the year ends as inflationary pressure is building up, coupled with the rising “financial imbalances” cited by the central bank.

According to Lee, whilst higher borrowing cost affects sectors like the property developers due to potentially softer demand, the rush to buy ahead of the implementation of GST may well offset the interest rate impact. Moreover, banks are deemed to be beneficiary of the rate hike thanks to margin expansion. Higher OPR, however, has indirectly impacted exporters given the stronger Ringgit which has appreciated recently in anticipation of the rate interest.

Overall, Lee remains optimistic on equities as prospects are for global economic growth to gain momentum in the period ahead. Although the US QE3 programme will end by 4Q2013, she expects policies worldwide to remain largely supportive so as not to derail the slow and uneven recovery thus far. However, interest rates globally are likely to trend up after staying at record lows for an extended period. Against a largely positive external backdrop, Malaysia is on track to register stronger GDP growth of more than 5% in 2014 (2013:4.7%), helped by improving exports and resilient domestic spending. Corporate earnings, however, are likely to stay muted this year as rising costs partially negates topline expansion. Pegging the FMBKLCI at 16.5x FY15 EPS, Lee believes the market has an upside potential to end the year higher with an index target of 1980.

In the near-term, however, Lee believes the market would be lackluster with range bound trading in Q3, as a combination of toppish market valuation, threat of an interest rate hike and creeping inflation, are likely to put a cap on market performance. However, the good news is there is still ample liquidity in the system supporting equity prices.

Hence, Lee expects a stronger fourth quarter, and advises investors to buy on weakness to take advantage of a rebound in the subsequent months.

PORTFOLIO STRATEGY

Lee will continue to adopt a bar-bell strategy of investing in both beta and defensive stocks while adding on any market weakness. Her stock selection favors sectors that will benefit from being the main drivers of the economy such as the oil & gas (which will continue to form the core holdings due to robust CAPEX programme underpinning earnings growth), construction (beneficiary of ETP programme), exporters/manufacturers (beneficiaries of weak Ringgit and recovering external demand like tech, ICT etc.) and plantation sector (rebound of CPO price from a decline in 2013).

CONCLUSION:

To round up, KIB is excited by the industry prospects and the recent acquisition allows them a transformation platform to make strategic choices in terms of where how they want to position themselves to capture opportunities and what value it brings to all of them, the company, their distributors and clients. With operational flexibility and agility, they believe in simplicity, transparency, honesty and integrity will likely be regarded as a more important buying criteria and the driving reason for people to join them. These are the values they intend to hold on to and to be known for besides superior fund performances! M