Kenanga Investors

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PRS funds delivered mixed performance in 2015

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Written by Maxine Yong

THIS year has seen mixed performance from PRS funds across all categories due to various challenges in the local and global economy. These include heightened volatility in the market, the ringgit being the worst-performing currency in the region and slower growth globally.

Over a one-year period (until Nov 30), core funds under the conventional growth category registered returns of -2.25% to 8.94% while shariah-compliant growth funds registered returns of 3.81% to 5.84%.

Conventional and shariah-compliant core funds under the moderate category provided one-year returns of -1.53% to 4.35%, and 2.28% to 4.37% respectively. Core funds under the conservative category registered one-year returns of 1.13% to 5.19% for conventional funds and 1.60% to 2.88% for shariah-compliant funds. Comparatively, all core funds registered lower returns over a one-year period compared with last year.

Conventional non-core funds performed relatively better than their core fund counterparts, with one-year returns of -3.64% to 8.86%, while shariah-compliant non-core funds' one-year returns ranged from -4.75% to 13.33%. Two new non-core funds were launched at end-2014, namely AmPRS-Asia Pacific REITs D and Kenanga OnePRS Shariah Equity Fund. The new funds provided respective year-to-date returns (as at Nov 30) of 10.59% and 7.40%.

For funds' asset allocation, core funds follow the parameters set by the Securities Commission Malaysia (SC), while non-core funds determine their own level of risk. Non-core funds can invest directly in any local or foreign investment instrument or collective investment scheme that is approved by the SC.

According to independent investment research firm Morningstar, AmPRS-Conservative D outperformed its peers in the conventional conservative fund category, returning 5.19% over a one-year period (ended Nov 30). According to the fund's mandate, as at Oct 30, 80.73% of its net asset value (NAV) was invested in collective investment schemes including AmConservative (37.92%), AmCash Management (20.21%), AmIncome Extra (11.47%) and AmIncome Reward (11.13%). The rest was invested in various sectors, and only 2.93% was held in cash and others.

Within its shariah category, Public Mutual PRS Islamic Conservative Fund returned 2.88% over the same period.

Public Mutual Bhd CEO Yeoh Kim Hong says the company's conventional funds continue to experience challenging market conditions as banking and financial stocks have underperformed the broad market.

She attributes the higher returns of its PRS Islamic funds (as compared to the conventional funds on a one-year return basis) to the outperformance of the FBM Emas Shariah Index.

"Shariah-compliant stocks performed better this year with the FBM Emas Shariah Index trading unchanged compared with a decline of 4.17% in 2014."

As at Sept 30, Public Mutual PRS Islamic Conservative Fund had invested 59.9% of its NAV in sukuk, 17.1% in shariah-compliant equities and Islamic derivatives, and the rest in the Islamic money market.

The AIA PAM-Moderate Fund came out tops in the conventional moderate category, providing returns of 4.35% over a one-year period. As at April, 21.75% of its NAV was invested in investment funds — namely DBXT MSCI Asia Ex Japan 10 ETF and Investec GSF Asian Equity A — while 3.24% was held in cash and the rest in various sectors, including trading/services, finance and construction.

Comparatively, CIMB Islamic PRS Plus Moderate A returned 4.37% in the shariah category.

The Kenanga OnePRS Growth Fund was the best performer in the conventional growth fund category, returning 8.94% over this period. As at July, 69.1% of the fund's NAV was invested in Kenanga Growth Fund, 28.9% in Kenanga Bond Fund and 2% held in cash.

The Kenanga Growth Fund invests in Malaysian equities, mainly in the trading/services sector (22.4%), short-term deposit and cash (22.0%) and industrial product (15.1%). The Kenanga Bond Fund invests mainly in Malaysia's unsecured corporate bonds (58.7%) and short-term deposit and cash (27.6%).

Kenanga Investors Bhd executive director and CEO Ismitz Matthew De Alwis attributes the funds' performance to the outperformance of the underlying equity funds. All Kenanga OnePRS funds outperformed their respective targets.

"This is mainly due to stock selection as the overall market remained in the red compared with last year. Our strategy of overweighting the export and manufacturing sector together while underweighting underperforming sectors such as oil and gas and property also contributed to the outperformance," he explains.

"Kenanga's strategies remain focused on stock picking, while adopting a defensive strategy during times of market stress. Although the general market was down, sectors such as manufacturing, exports and selected construction companies outperformed. We scrutinised companies that still exhibited strong earnings growth, for example companies that benefited from the weaker ringgit and recovery in US demand," De Alwis says.

Nevertheless, he admits that volatility is an unescapable part of equity investing and the funds were impacted by the China-led selldown in August, though by a smaller extent. "However, we remained with our bottom-up strategy of adding to selected stocks on weakness and subsequently recovered the lost performance."

De Alwis says the key challenges of managing the funds in 2015 were heightened volatility as the market digested numerous issues such as the implementation of the Goods and Services Tax, government contingent debt (1MDB) and domestic political uncertainty. Externally, the slowing growth in China coupled with the possibility of a US interest rate hike also weighed on sentiment. Against this backdrop, foreign funds exited Malaysia's equity market to the tune of RM18 billion while the ringgit was the worst performer in the region, declining about 18% against the US dollar as at end-November.

In the shariah growth category, Public Mutual PRS Islamic Growth Fund returned 5.84%.

Across all categories, the best fund (based on returns) over a one-year period ended Nov 30 was CIMB Islamic PRS Plus Asia Pacific Ex Japan Equity Class A. The fund provided a one-year return of 13.33%. CIMB Islamic PRS Plus Asia Pacific Ex Japan Equity Class A is a non-core shariah-compliant fund. According to its mandate, as at October, 95.18% of its NAV was invested in a target fund — the CIMB Islamic Asia Pacific Equity Fund — while the rest was held in cash. The target fund invests in Asia excluding Japan, with 91.47% in foreign shariah-compliant equities. It mainly invests in telecommunications (28.50%) and consumer (24.55%) sectors. The remaining 8.53% is held in cash.

Munirah Khairuddin, CEO of CIMB-Principal Asset Management Bhd, attributes the outperformance of the fund to the process-driven portfolios that aim to deliver consistent total returns, regardless of the market condition. "Our research effort is focused on looking for quality companies with growth, low-risk balance sheet and good operating cash flows. Going forward, we intend to buy selective names on any significant correction."

She says most of the company's PRS funds are on track to exceed their targets. "We took the opportunity to diversify our funds more into the regional markets [where permissible] that benefited from the weakening ringgit to add value.

"Our PRS funds with regional market exposure have provided better returns relative to the ones limited to Malaysian asset holdings," she adds. "Non-core funds have regional exposure as compared to the more Malaysian-centric core funds. The ringgit has depreciated against all Asian currencies year to date, adding favourable forex exchange gains to our Malaysia-denominated regional funds."

Over the past year, most of CIMB's shariah-compliant PRS funds have provided better returns — on a one-year and year-to-date return basis — than their conventional counterparts. Munirah says this is due to the limited exposure of shariah-compliant funds in the financial sector, for example they cannot hold bank stocks.

She also stresses that PRS funds are meant for long-term investments. "Our investors are encouraged to stay invested and to avoid market timing. History has proved that equity markets tend to rebound and recover over time, rewarding those who remain invested."

Although there are PRS funds that provide spectacular returns, 23 out of 46 PRS funds have provided one-year returns of less than 2.5%, which is the dividend payout guaranteed by the Employees Provident Fund. Moreover, five of the 23 underperforming PRS funds provided negative returns (see PRS table on Page 8).

The Public Mutual PRS Growth Fund registered one-year returns of -2.25%, which is the lowest among its peer funds, despite having the largest fund size (RM175,168,184 as at Oct 30). Yeoh explains that this was due to its more prudent approach to stock selection and the fund's mandate of having a lower exposure to the foreign market compared with selected peer funds.

On the overall funds' performance, she says although PRS funds have limited exposure to the Chinese markets, their performance was impacted as the FBM KLCI eased amid the decline in China's markets during the period. "But as our PRS funds did not have a significant exposure to the oil and gas sector, they were not directly impacted by the downturn in oil prices over the past year.

"Other than comparing the absolute level of fund returns over a given period of time, investors should also look at the volatility of fund returns relative to other peer funds," Yeoh suggests. "Since the commencement of the PRS, our PRS funds have registered less volatility or more consistent returns compared with peer funds.

"The contributors to PRS schemes should always take a longer-term view when assessing their returns for retirement purposes," she advises. "It is not appropriate to measure fund performance over short-term periods as the positioning of funds can fluctuate depending on the period under review."

There were 46 approved PRS funds as at end-November — 33 core funds and 13 non-core funds — offered by eight providers, namely Affin Hwang Asset Management Bhd, AIA Pension and Asset Management Sdn Bhd, AmFunds Management Bhd (formerly known as AmInvestment Services Bhd), CIMB-Principal Asset Management Bhd, Kenanga Investors Bhd, Manulife Asset Management Services Bhd, Public Mutual Bhd and RHB Asset Management Sdn Bhd.

According to data provided by the Private Pension Administrator (PPA), the central administrator of the PRS, the industry's total asset under management (AUM) exceeded the RM1 billion mark as at Nov 30, up 68% from RM500 million a year ago.

The PRS member base has also risen almost 34% to 167,958, PPA CEO Datuk Steve Ong says, compared with 111,258 last year. "Half of the new members that came on board are young contributors [aged 20 to 30]. It shows that they are not only concerned about wealth management but also preparing for their retirement capitals.

“Investors need to know why they are investing. They can have a higher risk appetite when investing for wealth management,” explains Ong. “But when it comes to retirement capitals, they cannot afford to take high risk as it would directly impact their retirement quality. This is where PRS as a retirement product comes in.”

He remarks that potential and existing investors should not worry about poor short-term returns or the current market performance and thus refrain from investing in PRS.

A difficult 2016

In an environment of global economic stagnation with low growth and low inflation, fund managers will take on a cautious approach in their fund strategy to achieve the targeted returns. CIMB-Principal Asset Management Bhd CEO Munirah Khairuddin says the company expects moderate returns for equities and fixed income in 2016.

“With the government forecast economic growth of between 4% and 5% in 2016, which will be driven mainly by domestic demand, we will maintain our equity allocation and remain cautious. We will stay focused on stocks with quality growth, strong cash flows and sustainable dividends,” she adds.

Public Mutual Bhd CEO Yeoh Kim Hong says exports and foreign direct investments are the potential bright spots for Malaysia, but domestic consumption will be weighed down by increased cost of living due to subsidy rationalisation and higher imported inflation.

“As foreign investors are generally underweight in the domestic market following significant fund outflows from Malaysia since 2014, any upside to the ringgit and oil prices may attract fund inflows into Malaysian equities and help revive the market.

“Although the earnings momentum of the overall market may be lacklustre, selected companies are poised to enjoy good earnings growth due to new projects or market share gains. These are the stocks that our portfolios will focus on,” she adds.

Kenanga Investors Bhd executive director and CEO Ismitz Matthew De Alwis says, barring any major equity sell-offs, the company expects to see a similarly good performance for its funds in 2016, riding on the returns of the underlying funds.

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PERSONAL WEALTH

News: PRS funds delivered mixed performance in 2015

This article first appeared in *Personal Wealth, The Edge Malaysia Weekly*, on Dec 28, 2015 - Jan 3, 2016.

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"Our PRS funds with regional market exposure have provided better returns relative to the ones limited to Malaysian asset holdings" – MUNIRAH

"Although the general market was down, sectors such as manufacturing, exports and selected construction companies outperformed" – ISMITZ

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