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Kenanga Investors Bhd executive director and CEO Ismitz Matthew De Alwis has taken a different approach to grow the fund house's business. This includes coming up with unit trust funds that look at absolute returns and focusing on the younger generation.

BY EMILY CHOW

THE ROAD LESS TRAVELLED

Kenanga Investors Bhd CEO and executive director Ismitz Matthew De Alwis is not one to follow the herd. For instance, while some players in the industry tend to focus on introducing new funds, he believes that a company shouldn't have too many unit trust fund launches.

"How many Malaysian equity funds can you have? It is more important to have a range of funds that stay on the risk reward spectrum. We will only fill the gap if we don't have that particular fund," he tells *Personal Wealth*.

"As a fund house, I believe we have fulfilled the Malaysian spectrum. If we launch any new funds, it will be more on a regional basis."

De Alwis also prefers to focus on coming up with new unit trust funds that look at absolute returns, instead of relying on benchmarking as a performance indicator. Many unit trusts use benchmarks based on stock or bond market indices. In contrast, funds that look at absolute returns are more concerned about the total returns they receive from the assets they are invested in.

"Let's say you benchmark against the FBM KLCI, which is at -10%. If your fund is at -5%, you have already outperformed the benchmark, even though [your fund] is at -5%.Beating the benchmark can still mean negative returns.

"We have come to a stage where this generation of investors are educated and are not looking for superstar funds or a one-year wonder. They just want it to be consistent. That is why we ensure that our funds have [steady] three, five and 10year records."

Kenanga Investors launched its first absolute return fund — the Kenanga Asia Pacific Total Return fund — in July 2013. As at the end of last month, the equity growth fund had more than 40% of its allocation in Hong Kong and 10% each in Taiwan and South Korea. The fund promises a compound return of 10% per annum.

Absolute return funds don't necessarily carry more risk than benchmark ones, according to De Alwis, as they still subscribe to picking stocks with good fundamentals and supportive valuations to generate positive returns. Since these aren't relative performance funds, he adds, they don't have to hold stocks they don't like even if the stocks make up a huge weighting of the index.

TARGETING WORKING PROFESSIONALS

For its wealth management segment, Kenanga Investors is targeting working professionals, instead of high and ultrahigh net worth individuals. "High net worth individuals have private bankers. But what about the working professionals who might not have RM3 million to RM5 million to set up an account? What about starting small, at the RM250,000 to RM500,000 level? These are the people who need wealth management and financial planners more than anyone else," says De Alwis.

"There is strong potential in this area, and we are embarking on this on our wealth management side. The next elevation we want to provide our clients is a wealth management platform — Ken WRAP — that will bring all this together in a consolidated system so that financial planners can service their clients with all the products in one place. We are targeting the distribution force in the first phase of the platform's rollout, then later on to our clients."

De Alwis hopes the platform will better serve the industry as he feels the terms "wealth management" and "financial planning" have not been realised correctly in the Malaysian landscape. There are self-designated financial or wealth planners who only sell one or two types of products, he says, and because people don't typically pay for advisory fees in Malaysia, product pushing becomes common.

"This has taken the industry a few steps backwards. Insurance products are pushed to you even though you may not need them, as they can get high commissions, compared to other developing countries.

"We are targeting financial planners and pure insurance and unit trust agents to use [the platform]. Commission is their bread and butter, so when you continue to pay high commissions, product development gets more difficult. But once you have multiple products under the platform you won't be tied to the commissions and will focus more on assets under administration instead."

Kenanga Investors rolled out the central bank approved platform this month and is looking to promote it in the market over the next two to three months.

BROAD EXPERIENCE

De Alwis' leadership style stems from his experience in and exposure to the region over the years. His career began as a field analyst in the fast moving consumer goods (FMCG) sector in the early 1990s. He moved to the Philippines in 1993 as an investment analyst when his company landed an account with one of the largest banking groups there. Later, he worked in China and Hong Kong, also as an investment analyst.

He came back to Malaysia in 1998 during the Asian financial crisis and joined a local bank. He then moved on to the bank's securities arm and asset management arm, which eventually led him to business and product development.

De Alwis joined ING at end 2003 to set up ING Funds Bhd — ING Investment Management's arm in Malaysia — and served as its executive director and country head until it was acquired by Kenanga Investors in June 2013. He was then appointed deputy CEO at Kenanga Investors. He became executive director and interim CEO in August last year, and its CEO last month.

De Alwis has seen the financial industry evolve over the years. He recalls a time when banks in the Philippines, with their heavy security and grill bars, resembled pawnshops.

"You would be fearful at the time. So the question was how to revolutionise product offerings and make banks friendlier. We had to move towards private desks and counters to sit down at, but changing mind sets was the bigger challenge," he says.

"And then on the business side of things, banks were only doing traditional products, such as deposits and loans. So how do we move to fee-based products like bancassurance or unit trusts? And in the Philippines, there was a trust issue. Was it safe to put [money] in a bank? People still put money in Milo tins or under their pillows."

Another challenge the industry faced back then was getting the logistics and processes in place, which was made harder by the fact that the Philippines is an island nation.

"How would you get all the bank branches connected? This is where you introduce a process and get people to follow it. By the time I left the Philippines, there were already changes in how the banks operated. Banks were removing the 'pawnshop' grills and were becoming friendlier," he says.

China is another country whose banking industry has seen significant changes. When De Alwis was there, the government imposed full capital controls, few companies wanted to insure Chinese products and there was a proliferation of counterfeit notes.

"China wasn't liberalised like how it is today. But that was interesting because I had the opportunity to get involved in a financial industry that wasn't very open yet," he says.

"In Malaysia, you can operate across the country once you have a banking licence. But China's licensing requirements is by province. So, if you operate in Guangzhou, you can't just go to Beijing and open a branch there."

CREATING A BALANCED CLIENT BASE

As Kenanga Investors already has a three-year post-acquisition plan in place, De Alwis' role as CEO is to see it through — to build a balanced distribution network and client segmentation, focus on products as a core thrust, and enhance customer operations and experience.

Previously a corporate fund house with predominantly institutional clients, the acquisition of retail-oriented ING Investment Management gave Kenanga Investors a more balanced client base. Last year, the retail portion of its business grew to 30% from 10%, while its institutional segment comprised 30% to 40% of its operations.

Today, the fund house has about RM5.89 billion in assets under management (AUM), of which RM3.1 billion is from the retail segment. This puts it in 10th place in terms of market share.

De Alwis says this is an improvement from the previous year's No 17 ranking, and that its AUM grew 68% last year. He hopes to see the fund house achieve a top five position in the next three years.

"The 68% growth came from a mix of clientele last year. First, there was an increase in people coming in with lump sum cash. However, what was more exciting to us were the regular investment plans," he says.

"After the merger, we signed up with various banks to allow for auto-debit plans, and we have seen tremendous growth here because it is more convenient. We also saw huge growth in the Employees Provident Fund member scheme as people want higher yield enhancement. But I am most pleased with the regular investment plans."

De Alwis' priority, though, isn't growing the fund house's AUM. Rather, he is looking to create a balanced client base first, and targeting the Gen Y in particular.

"I don't look too much at the AUM alone. It is more important to have a balanced retail and corporate or institutional client base. In retail, we want to have a balance of each age segment. This is more important and will automatically translate into [more] AUM," he says.

"People always emphasise private or premier banking, but we want to create a relationship that is from the cradle to the grave and be your preferred investment house. Malaysia has a young population, with an average age of 28, but this segment is largely ignored."

However, De Alwis acknowledges that there are challenges in attracting those in the younger age group, as it will take more time, education and investment. "Some businesses tend to ignore it, and I don't blame them because the return on investment (ROI) [from this group] is not immediate. But... this will give us future gratification ...we want to grow with that segment of the market," he says.

Kenanga Investors is also looking at offering funds denominated in currencies other than the ringgit, as it feels it is a more palatable option for clients. "If I am investing for my children's education and want them to study overseas, and I feel it is a good time for me to have some currency exposure but still want to be invested in something close to my heart, I can have an Asia fund that is US dollar-denominated."

LONG-TERM VIEW

De Alwis take a long-term view when it comes to the local economy. Even though Bloomberg reported this month that Malaysian corporate dollar bonds will be the worst performing in Asia this year due to the ringgit's decline, the fall in oil prices and the 1MDB debt repayment concerns, he remains optimistic.

"No doubt we were affected by oil prices. But if you take a step back and look at emerging markets like Malaysia, our No 1 driver is domestic consumption. Despite a choppy market, we are spending," he says.

"The next question is: Do you think oil prices will stay this low and do you think the big boys of oil will let it fall further? When will they go back to normal? I don't think they will go up to US$100 [a barrel], but will regularise between US$65 and US$75."

He then addresses another issue of concern — when the US will raise interest rates. The Federal Open Market Committee did not raise rates last month despite market expectations, but De Alwis is certain of its eventuality.

"On a textbook level or economic terms, the US has to raise its rates. Then, the cost of funds will get expensive and people will withdraw [from here] and go back there.

"But when anyone raises interest rates, there is always a period of consolidation. Of course, you will see some outflows when rates are raised. But things will go back and this is like a cycle," he says.

"I don't think people should look at it too bleakly. All these are kneejerk reactions. But if you are in this for the long haul, don't have a kneejerk reaction."

On his preferred sectors, De Alwis recommends construction, utilities, exports and information and communications technology (ICT). While a weak ringgit should translate into better earnings for exporters, construction is favoured for its earnings visibility and stability this year due to a surge in spending and key infrastructure projects in the sector.

"As for the utilities space, we believe the market will have a better appreciation of the sector's free cash flow generation ability post-Malakoff Corp Bhd's listing, turning the listing into a re-rating catalyst for the entire sector," he says. "The ICT sector is interesting because not many people know that every handphone you carry has a made-in-Malaysia product in it."

De Alwis recommends that investors also have a long-term view when it comes to investing. Allocate certain parts of your portfolio for trading if you have the instinct for it, he says, but go into unit trusts for long-term investing.

"If you like to follow the crowd or prefer trading shares, then certain parts of your portfolio should be for that. But if you are looking at the long term, you are talking about unit trusts — and that you should leave to the fund managers."

When it comes to his personal portfolio, De Alwis says he does not invest directly in the equity market, opting for unit trusts instead. "I am in it for the long haul, mainly for my children. I have some bonds. I employ different strategies depending on what the portfolio is for.

"If it is for my kids, it will be a more diversified portfolio. Later on, I will have share classes, depending on where they want to study. For myself, I am into income, so I look at dividend-paying stocks or high-yield bonds."

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De Alwis

REGIONAL PARTNERSHIP

As Kenanga Investors Bhd expands its reach regionally, it is establishing partnerships that will give it access to local expertise. It is currently looking at Asean and Asia-Pacific.

Its parent, K&N Kenanga Holdings Bhd, formed a partnership with Japanese investment bank Tokai Tokyo Financial Holdings earlier this month. Primarily on the investment banking level, the partnership allows the two groups to mutually supply products and services, share information and aid each other's clients. It will also give Kenanga Investors access to Tokai Tokyo Financial's research.

"If you notice, a lot of asset management funds are Asia-Pacific ex-Japan. I think people don't understand the Japanese market well, because a lot of the write-ups and information is in Japanese. It is difficult to get more information unless a securities firm translates it," says Kenanga Investors executive director and CEO Ismitz Matthew De Alwis.

"Another thing is that large-cap companies in Japan are already very strong and stagnant, so people say there is no opportunity there. However, there are tons of opportunities for small and mid caps, and that is what we want because there is value we can get out of them."

Tokai Tokyo Financial does a lot of research on small and mid-cap companies, according to De Alwis, so this will help Kenanga Investors gain further insight into the Japanese market.

"We work a lot with small and mid caps on our Malaysian equities side, so this is the target segment we are looking at. I am not saying we avoid large caps – they are always there to form your foundation – but you also need to add value," he says.

"I would say you can expect to see more Japanese counters, and we will have some enhancements to our Kenanga Asia-Pacific Total Return fund, as the fund will look for value in Japanese companies."

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