

Date: 6 April 2018

## KENANGA WINS ISLAMIC GROUP AWARD FOR SECOND YEAR RUNNING

*The Edge Malaysia (2 April 2018)*

*By Laili Ismail*

**K**enanga Investors Bhd bagged a group award and two individual awards at *The Edge-Thomson Reuters Lipper Fund Awards 2018*. It won the awards for Best Equity Group (Islamic), Best Equity Malaysia (Provident) in the three-year category and Best Equity Malaysia (Islamic) in the 10-year category. CEO and executive director Ismitz Matthew De Alwis credits the excellent performance to the fund house's careful research and bottom-up stock-picking approach. He says the team spent a lot of time researching undervalued stocks whose fundamentals were deemed superior and sustainable to arrive at their intrinsic values.



“Often, these stocks are not the typical ‘index stocks’ as the benchmark, to us, does not provide any meaningful guidance to the prospects of a company or its inherent worth. We diligently apply this bottom-up approach to stock selection. And over time, we have been able to produce results that consistently outperform on a risk-adjusted basis,” says De Alwis. Kenanga Malaysian Inc Fund, which bagged the award for Best Equity Malaysia (Provident) in the three-year category, offers investors exposure to local equities, with a particular focus on companies with overseas business and earnings. Kenanga Shariah Growth Fund, which took home the award for Best Equity Malaysia (Islamic) in the 10-year category, is the fund house’s flagship shariah-compliant product, focusing on growth companies in this universe. “In line with our investment philosophy, both funds

employ our bottom-up stock-picking approach,” says De Alwis. According to Lipper data, Kenanga Shariah Growth Fund has provided a return of 8.96% per annum, compared

with its benchmark's (FTSE Bursa Malaysia Emas Shariah) 2.36% per annum, for an annualised outperformance of 6.6% over the 10 years ended Dec 31, 2017. On a cumulative basis, the fund gave a return of 136.11%, compared with its benchmark's 26.3%, for an outperformance of 109.81%. This is the second consecutive year that Kenanga has won the award for Best Equity Group (Islamic). De Alwis says the fund house has consistently adhered to its investment objectives, which include providing tailored shariah-compliant investment solutions to clients by taking into account their risk-return appetite and investment horizon.

“Talent is our biggest asset and our investment team is highly qualified, with experience in both favourable and unfavourable environments. We have strengthened our capabilities by incorporating a robust investment risk analytics framework to preserve and enhance performance within any given risk parameters. We have also expanded our distribution network and refined our product offerings to ensure continuous relevance,” he adds. Both funds were more invested in the markets last year compared with 2016, says De Alwis. “As the global economy showed signs of strong recovery in early 2017, we increased our ‘invested level’ from 80% to 90%.

<b>Fund</b>	Kenanga Syariah Growth Fund	
<b>Award</b>	Equity Malaysia – Islamic (10 years)	
<b>Fund Size*</b>	RM409.93 million	
<b>Fund Manager</b>	Lee Sook Yee – Chief Investment Officer	
<b>Returns for periods ended Dec 31, 2017 (%)*</b>	1 year	12.96
	3 years	20.85
	5 years	43.88
	10 years	136.11

\*As at 31 Dec 2017

<b>Fund</b>	Kenanga Malaysian Inc Fund	
<b>Award</b>	Equity Malaysia – Provident (3 years)	
<b>Fund Size*</b>	RM176.05 million	
<b>Fund Manager</b>	Lee Sook Yee – Chief Investment Officer	
<b>Returns for periods ended Dec 31, 2017 (%)*</b>	1 year	24.25
	3 years	50.83
	5 years	76.41

\*As at 31 Dec 2017

Apart from the external environment, Malaysia's gross domestic product growth was poised for a rebound after three years of deceleration from 6% in 2014 to 4.1% in 2016.” He cites the oil crash of 2014 to 2016 and the ringgit depreciation in 2015 as significant market downturns that the fund managers had to manoeuvre through. Despite these hurdles, the fund house believes that sticking to stocks with good fundamentals enables them to weather such downturns. “Additionally, our macro views and sector selections also helped. We were ‘overweight’ on exporters in the last two year and ‘underweight’ on oil and gas stocks in 2015 and 2016,” says De Alwis. Overall, the market performance last year was not without volatility, with an extended period of consolidation in the third

quarter, due to the absence of fresh domestic leads and fund outflows on carry trade unwinding. De Alwis says the fund house went tactical on its asset allocation, preferring to hold slightly more cash than normal (more than 10%), and rebalanced the portfolio away from oil and gas into the construction, utility, infrastructure and technology sectors.

“We chose to stay highly invested in our conviction ideas as we believe market volatility always exists. But it is stock-picking that matters most in delivering results as the prices of quality stocks tend to recover more quickly after a market downturn,” he says. Kenanga’s assets under management (AUM) grew 16.5% to RM8.75 billion last year, says De Alwis. This was mainly the result of portfolio appreciation and continuous new fund inflows, especially among its retail products. He also attributes the increased AUM to an expanded distribution network — a recently introduced private wealth business that ventures into an untapped retail high-net-worth segment.

“Kenanga Investors also became an institutional unit trust adviser for both unit trust and Private Retirement Scheme funds. We also launched two funds last year — Kenanga AUD Alternative Income Fund 1 and Kenanga Global Multi Asset Fund — which have received favourable response from the market,” says De Alwis. Despite the generally positive economic outlook, the fund house is cautious of various risks. For instance, the abundant global liquidity supporting fund flows and asset prices thus far could reverse if monetary conditions tighten and inflation picks up. “We are closely monitoring US long-term yields as an indication of this. Other risks include renewed protectionist measures from the US, slower-than-expected growth in China and geopolitical tensions,” says De Alwis. On the home front, he sees the 14th general election as the biggest event taking centre stage this year. He points out that as investors value stability and policy continuity, the possibility of a change of government, or expectation thereof, could cause some market volatility. “We are of the view that the incumbent party will stay in power with at least a simple majority. But an outcome that drastically differs from our base case of BN winning could bring a market sell-off and fund flow reversal,” says De Alwis.

Given this environment, Kenanga will maintain a relatively high investment level in the first quarter of the year, but will tactically scale back upon dissolution of Parliament. “With our base-case belief of political and policy status quo, we anticipate the return of foreign flows in the second half of the year and certain themes, such as rising foreign direct investment, China’s Belt and Road initiatives, railway construction awards and government-linked companies’ transformation, should be more discerning in the second half of the year, providing a positive backdrop,” says De Alwis.

“However, the central banks’ policy tightening and liquidity risks will also feature more prominently in the second half. In short, volatility will increase. Thus, stock-picking will be the key to outperformance.” Sector-wise, Kenanga will stay positive on the construction sector despite its “overweight” stance last year as the contract awards momentum remains strong. The continued strong momentum in global trade should benefit the export sector, although some firms will be affected by the stronger ringgit, says De Alwis.

Hence, the fund house prefers exporters that provide more value-add or those that are naturally hedged by having raw material costs in the US dollar. Generally, the broadening out of growth should also benefit the consumer sector, according to De Alwis. "Consumer companies will benefit directly from lower imported raw material costs and indirectly via the stronger currency. Our preference is for consumer staples such as food and beverage," he says. "We remain selective on the oil and gas sector due to the overcapacity situation for asset owners and prefer companies with steady income streams (such as FPSOs). But we think value could emerge for selected downstream players. We also like banks and utilities (especially Tenaga Nasional Bhd), but remain selective on property. "With increased coverage from Bursa Malaysia's small-cap research scheme, we will continue to look out for hidden gems in this sector. We also favour government-linked companies' reforms or restructuring plays as value-unlocking will continue to feature prominently this year."

**ENDS**

### Article Source:

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## Kenanga wins Islamic group award for second year running

By KHAIRUL HANIFFA

Kenanga Investors has bagged a group award for its Islamic investment funds in the Best Equity Islamic Group award category for the second year running.

Chief investment officer (CIO) for Islamic funds, Datuk Seri Dr. Ahsan, credits the consistent performance of the fund house's careful research and bottom-up stock-picking approach. He says the team spent a lot of time researching and identifying the best investment opportunities in the Islamic market.

"When there is a market correction, we provide our investors with guidance on the pros and cons of the market. We also provide our investors with a long-term view of the market. We are not just looking at short-term returns, but we are looking at the long-term growth of the market," he says.

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"Our investors are our top priority. We will continue to provide them with the best returns possible and ensure that their investments are safe and secure. We will continue to strive for excellence in the Islamic market and provide our investors with the best returns possible," he says.

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stocks with good fundamentals enables them to weather such downturns.

"Additionally, our strong view and active selection also helped. We were overweight in sectors in the last two years and 'underweight' in other sectors in that period," says Dr. Ahsan.

Overall, the market performance last year was not without volatility, with an extended period of consolidation in the third quarter, due to the absence of fresh demand for stocks and bond yields on a very tight monetary policy.

Dr. Ahsan says the fund house was tactical in its asset allocation, focusing on high-quality stocks that had solid fundamentals and generated the portfolio some momentum and gains in the investment, equity, infrastructure and technology sectors.

"We chose to stay highly invested in our conviction ideas as our broader market volatility always exists. But it is stock-picking that matters most in determining returns in the presence of volatility, which is why we stay highly invested after a market downturn," he says.

Kenanga's strong under-management of the fund house in 2017, he says, was due to Dr. Ahsan's tactical approach to the market. This was evident in the fund house's strong performance in the Islamic market, which was a result of its tactical approach to the market.

"Kenanga's investment strategy was to invest in high-quality stocks that had solid fundamentals and generated the portfolio some momentum and gains in the investment, equity, infrastructure and technology sectors," he says.

"Despite the generally positive economic outlook, the fund house was cautious in its asset allocation, focusing on high-quality stocks that had solid fundamentals and generated the portfolio some momentum and gains in the investment, equity, infrastructure and technology sectors," he says.

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Year	Kenanga Islamic Group	Islamic Market - Index
2017	15.2%	12.1%
2016	18.5%	15.3%
2015	22.1%	18.7%
2014	25.3%	21.9%
2013	28.7%	25.2%

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