LSEG Lipper Fund Awards 2024

Of surprises, agility & resilience

By The Wealth team / The Edge Malaysia 25 Mar 2024, 12:00 am

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While 2023 was another volatile year for investors, the local fund management industry performed well. The winners of the LSEG Lipper Fund Awards were able to cut through the noise and navigate the uncertainties to deliver good returns to investors.

Based on last year's performance, the outperformers were RHB Islamic Global Developed Markets Fund RM Class (32.59%), KAF Core Income Fund (28.71%), PMB Shariah Tactical Fund (24%) and Principal Global Titans Fund — Class MYR (22.7%). Not surprisingly, they are all equity funds that generated higher returns with higher risks.

The good news for Malaysian investors is that fund managers are mostly positive on the local market in 2024, be it for equities, bonds or the ringgit.

The semiconductor and renewable energy sectors remain their favourites. But other sectors of the old economy, such as utility and construction, are staging a comeback, thanks to a more stable government and policy implementations.

Based on their email answers to Wealth, fund managers were caught off guard in 2023 by the economic and market performance of the US and China, the world's largest and second-largest economies respectively.

For many, the big surprise was that the supposedly "most telegraphed recession in the US" did not happen, while the S&P 500 kept hitting new heights. On the other side of the globe, China's economy did not rebound strongly as expected but instead, the country faced multiple challenges in its property sector, deflation and weak investor sentiment.

"It was a year of surprises, especially in terms of how both the US and China economies unfolded on different trajectories," says David Ng, deputy managing director and chief investment officer (CIO) of AHAM Asset Management Bhd (AHAM Capital).

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> *Ng, AHAM Asset Management*

There were also many surprises in Malaysia. For Eastspring Investments Bhd CIO Doreen Choo, one was Sime Darby Bhd's takeover of UMW Holdings Bhd. Another was the proposed 33% stake sale of Boustead Plantations Bhd by the Armed Forces Fund Board (LTAT) and Boustead Holdings Bhd to Kuala Lumpur Kepong Bhd.

"We had then expected that this [takeover exercise] could be the impetus for more merger and acquisition activities, which might have excited the market," she says.

However, the Boustead-KLK deal was aborted.

PMB Investments Bhd executive director Mahani Ibrahim says the firm was surprised by the strong performance of the property sector.

"Bursa Malaysia's Property Index delivered a strong performance, generating a return of 34.47% in 2023, particularly in the second half after a long period of languishing," she says.

A similar scenario played out in the local semiconductor sector. The "Magnificent Seven" (Mag 7) stocks rallied in the US market, but the Malaysian semiconductor companies did not perform well, notes Choo Swee Kee, executive director and CIO of TA Investment Management Bhd.

"[The underperformance] baffled us, as the management of the local technology companies mentioned a slowdown in orders from their end clients. The hope of a turnaround of the whole sector was pushed further from last year into 2024, according to them," he says.

However, the artificial intelligence (AI) trend that took the world by storm benefited some companies, such as YTL Power International Bhd. Choo says the company was a clear beneficiary — it has partnered with US-based semiconductor company Nvidia Corp to build the infrastructure for a data centre in Johor.

UTILITY, CONSTRUCTION, PROPERTY AND ENERGY COMPANIES BACK IN FOCUS

Fund managers that performed well were flexible in pivoting their investment strategy from growth to value, while actively seeking opportunities based on emerging trends, including AI.

Manulife Investment Management (M) Bhd, the biggest group awards winner for two consecutive years, reduced its growth stocks position, especially in the technology sector, and repositioned itself in the property, oil and gas, utilities and construction sectors.

Areca Capital Sdn Bhd benefited from investing in undervalued companies in the property and healthcare sectors, while PMB Investment Bhd gained from focusing on laggards and small-cap stocks.

As for KAF Investment Funds Bhd, which won a group award and 10 individual awards, its best stock call last year was YTL Power International, whose stock price rallied as a result of its partnership with Nvidia to build cloud and AI infrastructure locally.

Not all semiconductor firms in Malaysia did well, but fund managers continued to explore opportunities abroad. Kenanga Investors Bhd, which benefited from YTL Power International, also generated good returns by investing in companies such as Alchip Technologies Inc, a semiconductor firm based in Taiwan that specialises in application-specific integrated circuit (ASIC) chips for AI servers.

Principal Asset Management Bhd favoured memory chipmakers last year after the oversupply situation in the market turned around in mid-2023, partly on the back of exponential AI usage.

Public Mutual Bhd, which won 19 individual awards at the LSEG Lipper Fund Awards 2024, focused on selected stocks within the global information technology hardware and software area, says CEO Chiang Kang Pey.

Beyond local shores, other plays that panned out well included Principal's bet on cement companies in India, where the government increased spending on infrastructure projects post-pandemic. Public Mutual invested in selected US consumer discretionary counters, which gained from the country's resilient consumer spending, thanks to robust wage growth and a tight labour market.

In Southeast Asia, Saturna Sdn Bhd — which won its first LSEG Lipper Fund Award this year — made the right decision by investing in Delfi Ltd, a chocolate manufacturer based in Indonesia, which provides it with exposure to the burgeoning market.

WILL THE MALAYSIAN MARKET MAKE A COMEBACK IN 2024?

Fund managers are generally more upbeat about the Malaysian market in 2024.

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> Syhiful, Maybank Asset Management

“The outlook for Malaysia has improved substantially this year, which is reflected in the strong year-to-date performance of the local market,” says Syhiful Zamri Abdul Zaid, CIO of Maybank Asset Management Sdn Bhd.

The firm is a major winner this year, taking home seven individual awards and a group award.

“We have increased our allocation to the Malaysian market, especially in the construction and property counters, to capture the initiatives stemming from the National Energy Transformation Roadmap and Johor-Singapore Special Economic Zone.

“Other major projects include the LRT3, Penang LRT, Johor LRT, MRT3 and the biggest of all, the KL-Singapore high speed rail (HSR),” he says.

Dr Tan Chong Koay, founder and chief strategist of Pheim Asset Management Sdn Bhd, says the Malaysian market will become particularly attractive to foreign investors if the US market undergoes a correction this year, whether due to the overstretched valuations of the Mag 7 or other reasons.

“We will be ready to seize opportunities as we have positioned ourselves well in the local stock market in sectors that have met our investment criteria, such as property, construction, and oil and gas,” he explains.

Other themes that Tan is watching out for include Malaysia My Second Home (MM2H), subsidy rationalisation and fiscal reform, the New Industrial Master Plan 2030 (NIMP), and the revitalisation of the electrical and electronics (E&E) hub in Penang.

Tan is also keeping an eye on the growth of data centres, the Sarawak thematic play on infrastructure, and the water tariff hike and pipe replacement exercise by the government to reduce non-revenue water.

Chue Kwok Yan, CEO and CIO of KAF Investment Funds Bhd, notes that foreign ownership of Malaysian equities has hit a 16-year low. “Over the past decade, Malaysian equities have underperformed, experiencing continuous net outflows. Currently, Malaysian equities are trading at more attractive valuations, approximately one standard deviation below their 10-year historical average.”

While most fund managers favour equities over bonds this year, many have positive views on Malaysian bonds. Mohamad Shafik Badaruddin, managing director and CEO of AmanahRaya Investment Management Sdn Bhd, sees opportunities in the Malaysian bond market in 2024, driven by the economic recovery and government stimulus measures.

“While overseas opportunities exist, particularly in emerging-market bonds and green bonds, we maintain a focus on the Malaysian market due to its growth potential and attractive yields,” he explains.

Goh Wee Peng, CEO of AmFunds Management Bhd which won the Best Bond Group (Malaysia) award at the LSEG Lipper Fund Awards 2024, sees potential in local bonds as the expectation of interest rate cuts by the US Federal Reserve remains intact.

RHB Asset Management Sdn Bhd has a similar view. Its managing director Mohd Farid Kamarudin believes the interest rate cycle has peaked. The local bond market would also benefit from improving supply and demand dynamics, in addition to a more stable market ahead.

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> *> Tan, Pheim Asset Management*

US bonds are worth looking at, he says. “Interestingly, the interest rate in the US is now significantly higher than its long-term potential growth rate and inflation rate, or what we call positive real rates. This has rarely been the case for the US, which represents a good buying opportunity.”

Eastspring’s Choo, however, has a slightly different take. She expects ringgit bond yields to be range-bound this year, with a slight downward bias given the lack of primary market supply.

“Currently, we see limited opportunities as corporate credit spreads remain historically tight. Nevertheless, we continue to like thematic plays in the space, such as ESG (environmental, social and governance) and green/SRI (socially responsible investment) bonds.”

CHINA OR US, EAST OR WEST?

Given that the US market has rallied, led by the Mag 7, should investors continue to place their bets there for future growth, or should they seek value in the Chinese market and elsewhere?

Maybank’s Syhiful sees opportunities in the US market, including in companies riding the AI trend but whose share prices have not caught up with the Mag 7.

“The US market presents opportunities for the laggards outside the Mag 7. The rally could broaden on the back of optimism about a soft landing in the US economy,” he says.

Pheim’s Tan, however, expresses caution over the US market as the S&P 500 hit a historical high by breaking above the 5,000-point level recently. It is trading at a price-earnings ratio of 22 times this year, far above the index’s historical average of 16 to 17 times.

"We are not saying that it would be a bull market for China. What we are saying is that the extremely low expectations in China, due to extended periods of false recovery, mean that there could be some upside from the China market this year."
> Chue, KAF Investment Funds

He believes that, at such a level, the market has priced in rate cuts that are far more than the Fed's guidance. "Judging from the resilient US job market and inflation figures in January, we think that inflation is still sticky and unlikely to come off to the Fed's target of 2% in the near future.

"Should the rate cut not materialise as the market expects, we believe the US could experience some correction, affecting global markets."

Several fund managers expect the Fed to cut rates by three times, lowering interest rates by 50 to 100 basis points (bps), in line with market consensus.

Pheim's Tan, however, expects the central bank to start lowering rates by 25bps to 50bps with one or two rate cuts, which is below market expectations, as inflation remains sticky,

"This is based on the strong inflation and job data released in January this year. Having said that, we would not be totally surprised should the Fed not cut interest rates at all, if the US inflationary pressure re-emerges," he adds.

Also holding a more conservative view is Hoo See Kheng, CEO of Hong Leong Asset Management, who expects the Fed to lower rates by 25bps to 50bps in the second half of this year.

Meanwhile, some fund managers are disappointed with the performance of the Chinese market but almost all agree that its valuation is low and too attractive to ignore.

Manulife Investment Management (Malaysia) Bhd CEO Jason Chong points out that investors who were betting on China's revival in 2024 would have started on the wrong footing, with the Hang Seng Index falling 9.2% in January. The firm is capping its exposure to the China market at a manageable level for now, as its valuation is too cheap to ignore.

TA's Choo says: "The China market has been a disappointment so far … We decided to observe the market first for more convincing data before making any decision."

AHAM's Ng is taking a wait-and-see approach on the country until its economy shows clearer signs of a rebound or there are indications that the government will introduce further stimulus to bolster economic growth.

It would be sensible for investors to have exposure to the Chinese market owing to its cheap valuations and the enormous size of its economy, says AmFunds' Goh.

In fact, one should not discount the possibility that the Chinese market could surprise on the upside in the second half of this year, says Christopher Leow, CEO and CIO of Principal Asset Management Singapore, a regular winner in the regional and global categories of the LSEG Lipper Fund Awards.

"There is value, given how much prices have corrected. Given share buybacks and the cumulative effect of all policy actions taken so far, markets could see reasonable upside from the second half onwards," he explains.

It is a tug of war between two forces in China, observes KAF's Chue. "On one side is the languishing confidence; on the other is the central government's desire to have controlled deflation.

"We hesitate to pinpoint the bottom for equities, yet we are inclined to believe that the potential for upside in Chinese equities exceeds the downside risk at this point.

"We are not saying that it would be a bull market for China. What we are saying is that the extremely low expectations in China, due to extended periods of false recovery, mean that there could be some upside from the China market this year," he says.

Japan, India and Southeast Asia are three regions that investors should keep an eye on, says UOB Asset Management (Malaysia) Bhd CEO Lim Suet Ling.

"We like the structural stories of Japan and India. Asean also looks interesting for the opportunities in the domestic economy as well as trade diversion [from China] or 'China Plus One'.

"We have generally been active in Malaysia for our Asia portfolio. As investors, we are looking for mispricing opportunities locally. We believe the outlook for Malaysia is improving this year, due to accelerating corporate earnings, improved flows from institutional investors (domestic and foreign) and undemanding valuation," she elaborates.