Investment Science

Maybank Asset Management

The big question: **Do quant funds have a place in your portfolio?**

Quant funds offer attractive advantages for investing, especially in today's volatile markets. Find out whether they are a good fit for your portfolio in the last of a three-part series.

Quantitative funds are on the rise as they become more accessible, empowering retail investors with new levels of insight and analysis to make smarter investment decisions.

How can you ascertain if a quant fund is suitable for you? Here are three useful factors to think about:

> "One way retail investors can approach quant funds is to start small, or to start with a quant fund that has a strong track record and is rigorously back-tested."

1. Your investment goals

Compared to conventional mutual funds, quant funds can offer broader exposure to stock selection strategies and factors such as value, growth or momentum. This suits investors who want greater diversification.

They can also benefit from picking a fund that complements quant strategies with experienced fund managers who monitor and optimise the fund's model for better performance.

The actively managed Maybank All-Weather Quant Fund, for instance, was able to outperform its peers when markets were falling, thanks to its quant model which called for a more defensive approach was needed amid prospects of a deeper downturn. It reduced risk exposure, as a result, by investing up to 73% of assets in cash and cash equivalents as at September 2022, and ranked in the top 3 out of 370 peer funds of its peer group that month.

2. Your risk appetite and tolerance

As with any asset, investors should think about whether a fund's risk classification and its underlying portfolio mix of equities and bonds are suitable for your risk profile.

A common misperception is that all quant funds are inherently risky. This perception arose because traditional quant funds were designed for institutional investors that are comfortable with sophisticated strategies involving leverage or short selling. **However, the quant funds available for retail investors tend to be generally lower risk because they do not use leverage nor engage in short-selling activities.** For example, 'smart beta' quant strategies try to beat their benchmarks by selecting different securities from the benchmark. They can thus be regarded as equivalent in risk profile to a typical actively managed mutual fund investing with a 'buy and hold' strategy in the same sector or country.

Ultimately, all investment strategies carry some degree of risk. Successful quant funds keep an eye on managing the risks that might come with the nature of the quantitative models and algorithms model, even in a black swan event or a pandemic.

To prepare for such risks, the Maybank Asia Mixed Assets-I fund employs a smart beta strategy to invest in Asian equities, with a proprietary quant model driving the security selection process. The investment team mitigates model risks by establishing clear rules for when the fund manager can step in to overrule the quant model. These rules are triggered based on several criteria, one example of which is when fund managers identify unprecedented events that prompt a review of the quant strategy.

The managers' deep knowledge of Asian corporates enables the fund to tackle corporate governance risk as well, by excluding unsuitable stocks. They ensure the quant fund's model takes into account qualitative information that can impact the stock price, such as a company's leadership calibre.

3. Your investment time horizon

Time in the market is more important than timing the market."

This adage has proven true over the years; staying invested in quant funds for the long term – as with any asset class – is likely to lead to higher returns.

Rather than wait for a low price to buy into a quant fund, it is more important for an investor to get in early to allow the fund's strategy to play out fully over multiple market cycles, and reap the reward.

Additionally, a buy-and-hold approach to investing in a fund like Maybank Asia Mixed-Assets-I Quant Fund can position an investor for resilient performance even in today's uncertain environment. The fund's model is currently tilted towards low-volatility and high-quality assets, particularly those with steady dividend streams and strong balance sheets. This enables it to better weather the impact of market uncertainties such as interest rate hikes and economic downturns.

4. The right fit

Quant investing is set to get bigger, as advances in data science and digital technologies lead to a proliferation in fund strategies for retail investors.

Investing the time to understand quant funds and assess whether they fit right into your portfolio could well pay off.

For more information about Maybank Asset Management's Quant funds, please contact your Personal Financial Advisor or Relationship Manager. For more info, visit www.maybank-am.com.my