Refinitiv Lipper Fund Awards 2021

Resilience in a year of black swan events

The Wealth team / The Edge Malaysia
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A year of triple black swan events is how Gan Eng Peng, senior director at Affin Hwang Asset Management Bhd, depicts 2020. They were the Covid-19 pandemic, the collapse of the Pakatan Harapan government and crude oil prices falling into negative territory — the first time in history.

"The first half of last year was one of the most unique investment experiences we have had. Malaysian investors were faced with one of the fastest collapses in asset prices, economic activity as well as a change in government, with unknown policy directions. We had a health, economic and political crisis all at the same time." - Gan

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Local markets were in turmoil while fund managers' eyes were glued to the screen. At least, that was the case for Chue Kwok Yan, chief investment officer (CIO) at KAF Investment Funds Bhd.

"We were stuck in front of the computer screen. When we were away from our desks, our eyes were glued to the phone. Battery life on our mobile devices was impaired over that period. And probably the life expectancy of our team members shortened too," he quips.

Working from home compounded the challenges that Chue and his team were facing. They struggled to replicate the smooth communication they had when working together in the same office. "It was an emotional and stressful period — an experience difficult to put into words," he says.

CEOs and CIOs of other fund houses that manage billions in investors' money express the same experience, though in varying intensities, in their email responses to Wealth. But witnessing a crisis unfold was definitely not fun, even for an experienced fund manager who has gone through various up and down cycles.

"Experiencing market turmoil is never pleasant," says Kenanga Investors Bhd CIO Lee Sook Yee. "We had been through previous crises like the 1997/98 Asian financial crisis and the global financial crisis a decade later.

"There was also the European sovereign debt crisis in 2009, the US taper tantrum in 2013 and the global trade spats in 2018. The list goes on.

"But this crisis was different. What surprised us last year was the speed and ferocity of both the selldown and the subsequent rebound."

A keyword in Lee's response, however, is "rebound". Markets quickly clawed back ground in the second half of last year, and so did the performance of various funds that had been well positioned during the market meltdown.

"We were able to cut our losses and limit our funds to double-digit losses in general. It gave us a solid enough base to mount a strong comeback later that year." - Chue

In the case of Kenanga Investors, most of its equity funds fell by 18% to 33% last year compared with 2019. But these funds were up 9% to 43% at year end, which more than recouped their losses in the first half of the year, says Lee.

Many of the other winners at the Refinitiv Lipper Fund Awards 2021 staged a comeback in the second half of 2020 and ended the year with positive returns. More importantly, these funds generated impressive returns over the longer period of three, five and 10 years.

The question then, is how did they do it? What are the crucial lessons fund managers learnt from these unprecedented events.

The toughest decision: Cut losses, reserve cash

The market last year was a tale of two halves as funds that had invested in mainly the glove and semiconductor sectors performed better than their peers. But other real challenges lay in their decisions to cut losses, reserve cash and rebalance their portfolios.

KAF's Chue recalls how hard it was to cut losses and raise cash last year. The award-winning KAF Vision Fund, which mainly invests in local small and mid-cap companies, was up 54.3% at end-2020. But it suffered a loss of more than 20% at one point.

"We were able to cut our losses and limit our funds to double-digit losses in general. It gave us a solid enough base to mount a strong comeback later that year," he explains.

"The lesson learnt here, really, is that a deep and sharp pullback in the equity market triggered by a crisis is usually a great opportunity to invest. The crisis will pass, and the market will eventually rebound as investors are always forward looking." - Lee

"Ideally, we want to sell shares at their highest point, when they are overvalued. This is not an easy call. But having good research and extensive investment experience certainly helps." - Tan

Various award-winning fund managers mention that raising cash and cutting losses earlier on was the key to their outperformance in 2020. Danny Wong, CEO of Areca Capital Sdn Bhd, raised cash in February last year and reduced the equity market exposure of its funds to about 50%, which is way below the normal level.

RHB Asset Management Sdn Bhd did the same. And it was a tough call, says CEO Eliza Ong. "The decision to reduce equity exposure significantly is very uncommon to equity funds. Nevertheless, it had to be swiftly done in these unprecedented circumstances to protect asset values."

The decision to cut losses was also based on instinct that comes with extensive experience, says Affin Hwang's Gan. "When we were faced with an unknown future, we followed our basic instinct of preserving clients' capital. We knew we were going into the fastest and deepest recession in recent history. But this would mean selling into the downward trend at depressed prices.

"In hindsight, we made some mistakes. But that was a prudent decision. Cutting losses, sometimes at a deep level, were counter-intuitive to our wealth generation goal. But because of that, we more than made up for the losses incurred during the early part of the year by subsequently turning to a risk-on mode."

"Unlike previous crises like the Asian financial crisis and global financial crisis, certain sectors may look cheap in terms of their valuations after prices collapsed last year, but it may not be the right time for investors to enter stocks in these sectors until the virus can be stopped from spreading further." - Ong

After all, making losses was almost unavoidable as various events took place at great speed last year. "Events were happening faster than what the market could digest. And the usual tools of looking at markets did not work," says Gan.

For Kenanga Investors CEO Ismitz Matthew De Alwis, the imminent challenge was not just to sell, but to hold on to stocks before selling them at the right time. "We made some tough calls to not panic sell during the sharp drop at the beginning of last year. When the market is in turmoil, the hardest thing to do, sometimes, is to not do anything and stick to your strategy," he says.

The next challenge was then to add on to those stocks that the fund house still held a conviction in during the market crash, he adds.

Dr Tan Chong Koay, founder and chief strategist of Pheim Asset Management Sdn Bhd, concurs with De Alwis' second point. Bargain-hunting during a depressed market is wise, but hard to execute.

"Buying shares in a major crash takes a lot of courage as we would be acting against the majority of investors. We cannot be sure that we would be buying shares at the lowest price, and prices can go lower. This may lead us to underperform, at least temporarily," says Tan.

Another significant challenge for Pheim was when clients rushed in, wanting to redeem their capital when the market was in a free fall. Fund managers would have to sell shares for cash to meet these redemptions, even if they felt that they should hold on to those shares or buy more.

"Even if a fund has ample cash holdings, the fund manager's ability to use the cash is restrained if there is a huge amount of outflows due to client redemptions. An informed client base that believes in the fund manager's ability is important." - Wong

"We were lucky that many of our clients followed our advice not to redeem when the market was depressed," says Tan.

In fact, many award-winning fund houses have thanked their clients for trusting them during the market meltdown. Just as Areca's Wong rightly sums it up.

"Even if a fund has ample cash holdings, the fund manager's ability to use the cash is restrained if there is a huge amount of outflows due to client redemptions. An informed client base that believes in the fund manager's ability is important," he says.

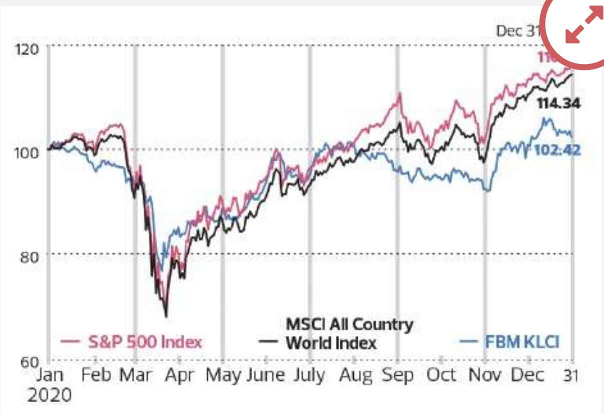
Key lessons from 2020

Take profit with discipline and do not be too greedy — this was a key lesson for Pheim's Tan in 2020. While he invested in glove stocks last year, he sold some of them during the latter part of the year to lock in healthy profits. In hindsight, he made the right move.

"Ideally, we want to sell shares at their highest point, when they are overvalued. This is not an easy call, but having good research and extensive investment experience certainly helps," says Tan.

For instance, Pheim sold some of its positions in Supermax Corp Bhd at RM21.55 per share. The stock peaked at RM23.76 before losing almost half its value by the end of last year.

"This is despite brokers being very bullish on the stock, with some saying that it would go beyond RM30. We received many comments from our stakeholders and brokers asking why we wanted to sell Supermax shares at such a time. However, we were proven right when its share price fell nearly 50% from its peak," says Tan.



Meanwhile, a similar scenario played out at Top Glove Corp Bhd, which almost overtook Malayan Banking Bhd as the company with the largest market capitalisation on Bursa Malaysia.

"A similar situation can be seen in Top Glove. Some brokers said that in a bull-case scenario, its share price could go up to RM70 or even RM100. This was far higher than its peak of RM29.30. This is a classic case of people being overly optimistic," says Tan.

Meanwhile, the crucial lesson RHB Asset Management's Ong learnt is that each crisis is different and that investors should stay calm to spot the right opportunities. "A health crisis, such as the Covid-19 pandemic, is different from a typical economic or financial crisis where [the share prices] of all sectors benefit from fiscal policies introduced by the government and interest rate cuts," she says.

"Unlike previous crises like the Asian financial crisis and global financial crisis, certain sectors may look cheap in terms of their valuations after prices collapsed last year, but it may not be the right time for investors to enter stocks in those sectors yet. Investors would have to wait until there is a clear sign that the virus can be stopped from spreading further or effective vaccines are widely available.

"On the other hand, certain sectors that are expected to benefit from the pandemic have continued to perform strongly. [Instead of a synchronised recovery in all sectors], certain sectors in the economy may recover more slowly than others."

Kenanga Investors' Lee concurs with Ong's view. The key lesson is to spot the right opportunities and stay invested in the market. "Investors should keep their cool and remain invested throughout the crisis, though with a certain rebalancing of the portfolio and rejigging of strategy," she says.

Governments and central banks globally took unprecedented measures to rescue their economies and markets, resulting in abundant liquidity, which sped up the global stock market recovery after March last year. While investors were shocked by the sharp pullback in markets, they were equally surprised by the swift recovery that followed.

"Many investors were reluctant to put their money to work during the early stage of the market recovery. Instead, they preferred to hang on for a deeper plunge," says Lee.

"The deeper correction, however, did not materialise. And most investors realised later that markets were looking towards a recovery instead.

"The lesson learnt here, really, is that a deep and sharp pullback in the equity market triggered by a crisis is usually a great opportunity to invest. The crisis will pass and the market will eventually rebound as investors are always forward looking."

Juliana Ramli, equity fund manager at Eastspring Al-Wara' Investments Bhd, says, "Do not be fearful to bargain hunt when stocks are sold down to very cheap levels. Instead, we continued to focus on our investment process and followed through with a disciplined, medium-term approach.

"Teamwork and open communication between team members are equally important to provide the necessary support during stressful times. And the ability to adapt to sudden changes is key."

ESG investing on the rise

Several trends have accelerated and emerged stronger since the Covid-19 pandemic wreaked havoc on the world. Environmental, social and governance (ESG) investing is one of them.

Ahmad Najib Nazlan, executive director and CEO of Maybank Asset Management Sdn Bhd, says ESG-related data were very helpful last year in helping the firm discover companies that are resilient in facing economic and market adversity. "Companies with high ESG scores have experienced lower cuts in earnings growth compared with those with lower scores. Furthermore, we found that in the long run, high ESG-ranked companies tend to outperform conventional companies at lower volatility.”

As at Dec 31, 2020, the MSCI World Socially Responsible Investing (SRI) Index generated 10.4% per annum, while the MSCI All Country World Index (ACWI) was lower at 9.7%. The volatility of the former at 13.4% was also lower than the latter at 14.2%.

Dr Tan Chong Koay, founder and chief strategist of Pheim Asset Management Sdn Bhd, says the rise of ESG is due to a growing awareness of environmental issues among the public. “The extreme weather phenomena that affected many parts of the globe in recent years have drawn more attention to the need for us to do more to protect the environment. We increasingly realise that we must all do our part in engaging in and promoting sustainable practices to preserve the earth for future generations.”

The election of Joe Biden as US president has been another boost for the ESG investing trend, says Tan. “Biden won the 2020 US presidential election partly on the Green New Deal campaign platform. The election win has given him and other governments the political will to push the ESG agenda forward after a lull over the last four years. This agenda has existed since the Obama administration,” he adds.

“It has also given the ESG investing trend fresh impetus in the investment space today.”

However, the trend has its own set of challenges. Yeoh Kim Hong — CEO of Public Mutual Bhd, the biggest winner at the Refinitiv Lipper Fund Awards 2021 — says the differing quality of ESG information disclosed by companies is one of them. This is despite an increased level of disclosure made by companies.

“The inclusion of environmental and social considerations when undertaking investment decisions is still a challenge for us. And it is expected to be a gradual process,” she says.

Ismitz Matthew De Alwis, CEO of Kenanga Investors Bhd, agrees. “The first problem we encounter is ensuring the quality and accuracy of information. Financial data of listed companies are checked by auditing firms. But non-financial data are not endorsed by third parties in many cases. The rules of disclosures vary. And the conversion and standardisation of disclosure guidelines still need to be developed,” he says.

Moreover, it is hard to analyse and evaluate vast amounts of ESG data even when they are available. There is also a lack of standardisation of reported data by companies and quick accessibility to this data by fund houses, says De Alwis.

“We will continue to work towards observing ESG data standards locally and internationally. There are no fixed rules on how fund managers must include ESG factors into their investment decisions. But we selectively consider methodologies such as norms-based screening, negative screening and positive or best-in-class screening, among others, in our investment processes,” he says.

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