



Zarinah with winners of The Edge-Lipper Fund Awards

Staying the course

The Edge Lipper StarMine Awards 2010 award winners reveal their top picks for the year

by Celine Tan, Cindy Yeap and Tan Su-Yin

Over the last five years, investors have gone through a bull market, then a bear market followed by a recovery. After a heart-wrenching drop in 2008, we saw a sharp recovery in most of the capital markets in 2009. Asset returns were fabulous. A well-diversified investor who invested at end-2008 and kept his money in a diverse portfolio of funds would have benefited 25.93% on average and even more if he had a heavier weighting in equity funds, said Ivan Ng, Lipper's research analyst for Asean, in last December's *FundMarket Insight Report*.

Fund managers and analysts who

made the right calls and delivered consistent performance through the turbulence have stood head and shoulders above the rest. On Feb 23, the country's best were recognised at The Edge Lipper StarMine Awards 2010. Securities Commission Malaysia chairman Tan Sri Zarinah Anwar was guest of honour at the ceremony, where the winners of the The Edge-Lipper Malaysia Fund Awards, The Edge-StarMine Malaysia Broker Rankings and The Edge-StarMine Malaysia Analyst Awards were announced by *The Edge* and Thomson Reuters.

One of the biggest questions last year in the midst of the uncertainty

was asset allocation, and the ability to make the right calls and stay true to one's convictions separated the outperformers from the rest.

"The biggest challenge came in early 2009 as we began buying — at the time, brokers said we were their only buy orders," says Michael Auyeung, CEO of Pacific Mutual Fund Bhd, which won two fund group awards, equity and mixed assets, and four fund awards. "Then the markets fell again in early 2009... obviously, tremendous doubt crept in. But we stuck with it and actually raised our exposure levels even more."

CIMB-Principal Asset Management Bhd's CIO Raymond Tang concurs, adding that events in the last three years were often labelled as "never before seen in this generation" or "things will never be the same after this". "To go against the tide of the market requires great conviction to ride out short-term movements that could be against you in the short term. Being fundamentally driven helped, but the rigorous portfolio management process was the compass." The fund house won two funds awards, for the CIMB Islamic

THE EDGE-LIPPER MALAYSIA FUND AWARDS 2010

CLASSIFICATION AWARDS	THREE YEARS ENDED DEC 31, 2009	FIVE YEARS ENDED DEC 31, 2009	10 YEARS ENDED DEC 31, 2009
Bond Malaysian Ringgit	AmDynamic Bond	AmDynamic Bond	Public Bond
Equity Asia Pacific	Public Regional Sector	AMB Value Trust	
Equity Asia Pacific Ex Japan	Public Far-East Dividend		
Equity Global	Pacific S&P Global Stars		
Equity Malaysia	AMB Value Trust		Pacific Millennium
Equity Malaysia Small and Mid Caps	Public SmallCap	Public SmallCap	
Mixed Asset MYR Balanced - Malaysia	Apex Dana Al-Faiz-i	OSK-UOB Smart Balanced	PB Balanced
Mixed Asset MYR Balanced- Global	TA Asia Pacific Islamic Balanced		
Mixed Asset MYR Conservative	Pacific Income	Pacific Income	
Mixed Asset MYR Flexible	Avenue TacticalEXTRA		
Islamic fund awards			
Bond Malaysian Ringgit - Islamic	Public Islamic Bond	Public Islamic Bond	
Equity Malaysia - Islamic	CIMB Islamic DALI Equity Growth	CIMB Islamic DALI Equity	Public Ittikal
Mixed Asset MYR Balanced Malaysia - Islamic	Apex Dana Al-Faiz-i	Apex Dana Al-Faiz-i	
GROUP AWARDS	COMPANY		
Overall	Public Mutual Bhd		
Bond	AmInvestment Services Bhd		
Equity	Pacific Mutual Fund Bhd		
Mixed Asset	Pacific Mutual Fund Bhd		

DALI Equity Growth and the CIMB Islamic DALI Equity.

CIMB Islamic DALI Equity Growth's outperformance was achieved by controlling risk and adjusting the beta to suit market conditions, says Tang. "We concentrated on bottom-up stock picking using the growth methodology. From 2006 to 2008, we were overweight on KNM Group, but reduced weightings significantly prior to the crash. Post the US subprime crisis, we made the decision to overweight IJM Corp," he says. The fund returned 39.51% over the three-year period.

Public Mutual, which emerged the biggest winner, sweeping nine fund awards and the overall group award, adopts a value-based investment approach over the medium to long term in various market cycles.

"In periods of robust economic performance, we focus on companies that have strong earnings growth with potential for price appreciation. However, when the economic outlook

becomes more challenging, we emphasise companies that are resilient and boast healthy cash flow and strong balance sheets," says CEO Yeoh Kim Hong. "This enabled our funds to remain defensive amid the sharp contraction in the financial markets in 1Q2009. The funds were subsequently rebalanced to ride investment opportunities in selected sectors, which performed strongly when the economic recovery became broad based." Public SmallCap recorded returns of 67.49% and 100.53% over the three- and five-year periods respectively. Over the three-year period, Public Regional Sector recorded returns of 39.82% and Public Far-East Dividend, 17.41%.

Tougher times

Looking ahead, both analysts and fund managers face a more difficult year although earnings visibility seems to have improved and the economy is now on a much firmer footing compared to a year ago.

"Though still not stretched, valuations are no longer cheap, comparable to Singapore and Hong Kong markets... Returns are usually lower in the second year of recovery... The challenge is to look for "alpha+" stocks that can generate excess returns based on skill rather than market performance, being stocks that can deliver both capital upside from earnings growth as well as provide attractive dividend yield," says Lim Chee Sing, who heads RHB Research Institute — this year's StarMine awards No 1 broker in terms of recommendations on big-cap stocks and No 3 for recommendations on mid- and small-cap stocks. The house had an "outperform" on CIMB Group Holdings for the full year as it trekked from RM5.63 to RM12.84 (up 128%) and outperformed the Malaysian benchmark by 78%.

Choo Swee Kee, executive director of TA Investment Management Bhd agrees. "The FTSE Bursa Malaysia Kuala Lumpur Composite Index

**FTSE BURSA MALAYSIA 30
— RECOMMENDATIONS**

RANK 2010	BROKER	STOCKS SCORED
1	RHB Research Institute	23
2	Credit Suisse Securities (Malaysia)	22
3	CIMB Investment Bank	24
4	Citigroup Global Markets	23
5	HwangDBS Vickers Research	26
6	KAF-Seagroatt & Campbell Securities	28
7	BofA Merrill Lynch	18
8	Standard & Poor's Malaysia	25
9	Nomura	21
10	Kim Eng Research	27

**FTSE BURSA MALAYSIA 30
— EARNINGS ESTIMATES**

RANK 2010	BROKER	STOCKS SCORED
1	Kim Eng Research	26
2	OSK Research	24
3	Maybank Investment Bank	22
4	BofA Merrill Lynch	22
5	AmResearch	25
6	JP Morgan Securities (Malaysia)	24
7	HwangDBS Vickers Research	26
8	RHB Research Institute	23
9	Citigroup Global Markets	23
10	Macquarie Research (Equities)	24

**MID- AND SMALL-CAP
— RECOMMENDATIONS**

RANK 2010	BROKER	STOCKS SCORED
1	OSK Research	77
2	KAF-Seagroatt & Campbell Securities	65
3	RHB Research Institute	69
4	CIMB Investment Bank	51
5	Standard & Poor's Malaysia	94

**MID- AND SMALL-CAP
— EARNINGS ESTIMATES**

RANK 2010	BROKER	STOCKS SCORED
1	Kim Eng Research	37
2	KAF-Seagroatt & Campbell Securities	64
3	HwangDBS Vickers Research	39
4	RHB Research Institute	67
5	OSK Research	74

(FBM KLCI) rose more than 40% last year, which is way ahead of economic recovery. It would be difficult for the market to rise much further with a corresponding strong improvement in the fundamentals of listed companies.”

Fund manager's skills and convictions will be tested as the market zigs and zags. “We will employ several methods to manage the risk of market volatility,” says Amanah Mutual Bhd, CEO Sheila Halim. “These include managing equity exposure against cash, investing in some defensive companies, taking profit when a company's valuation meets fair price and limiting exposure to companies whose business has above average volatility.” They will focus on several investment themes, including the economic recovery, beneficiaries of pumppriming, rising commodity prices as well as mergers and

acquisitions, she adds. AMB Value Trust, which won two awards, recorded returns of 81% and 128.47% over the three- and five-year periods.

CIMB-Principal Asset Management Bhd is also positioning its portfolio to deal with a higher level of volatility. “We believe the beta year is over; this year returns will be more alpha-driven. While market volatility will come off, stock volatility will be high if they meet or miss expectations,” says CIMB-Principal's Tang. “As we expect the stock market to be more volatile, we have lowered beta by layering our funds with dividend growth stocks — stocks that are owned primarily for their dividends but offer some EPS growth.”

With interest rates on the way up, the bond market will also see a volatile period, in contrast to the rally in 2009 as the domestic monetary policy

remained accommodative.

Goh Wee Peng, head of fixed income, funds management division of AmInvestment Group Bhd, views the increased market volatility as an excellent opportunity to enhance returns through active portfolio management and trading.

“We maintain our neutral portfolio duration positioning strategy relative to the benchmark, a strategy we have adopted since 2H2009,” says Goh. “In terms of credit exposure selection, we shall continue to cautiously participate in good lower-rated PDS [private debt securities] for additional yield pick-up and to ride the anticipated spread-tightening trend, especially in the lower-rated segment of the credit curve.”

The fund house, which clinched the group award for the bond asset class for the third consecutive year, attributes the win to being able to consistently take advantage of market conditions via its structural long-term strategy implementation and tactical short-term trading.

The investment strategies of the fund houses continue to hinge on the perceived strength of the economic recovery. Picking companies from the sectors set to benefit most becomes crucial for these fund houses. “The market has been rotational on the various sectors. For example, interests have moved from construction to glove manufacturers to oil and gas players and then to banking stocks. Thus, in the coming months, identifying the sector rotational cycle is vital to trade the market,” says Choo.

RHB's Lim expects normalised net earnings per share for the FBM KLCI stocks in RHB's coverage universe to bounce back from a contraction of 14.2% in 2009 to double-digit growth of 15.7% in 2010.

“There is still room for earnings to surprise on the upside,” he adds, noting that corporate earnings have consistently surprised on the upside over the past



Zarinah with The Edge-StarMine Awards winners

three reporting seasons, with more companies having better margins to show from better product mix and cost controls even as demand improves.

RHB sees Unisem (M) Bhd as one such company. Its top pick in the mid-cap space, RHB reckons Unisem will benefit from the stronger outlook for its key product segments. RHB's top pick in the small-cap corner is Faber Group Bhd, which Lim reckons will see a re-rating when its 15-year hospital services concession is renewed. For big caps, RHB likes Tenaga Nasional Bhd as well as Malayan Banking Bhd, valuations of which are cheaper relative to the general market and/or industry peers.

Chris Eng, who heads OSK Research — this year's StarMine top mid- and small-cap stock recommender — says for small caps, it likes Hai-O, Supermax, Alam Maritim, Naim Cendera and Lion Industries. Last year, OSK maintained a full-year "buy" on Adventa as it rocketed from 67 sen to RM3.17 (up 373%) and outperformed the benchmark for Malaysia by 325%.

In the face of the uncertainties and the anticipation of global policy

TOP STOCK PICKERS

RANK	ANALYST	BROKER	INDUSTRIES
1	Norziana Mohd Inon	CIMB Investment Bank	Consumer Product, Energy
2	Maghfur Usman Ahmad	OSK Research	Transportation, Retail & Distribution
3	Annuar Aziz	Credit Suisse Securities	Transportation, Energy, Engineering & Construction
4	Ng Su Peng	Standard & Poor's	Engineering & Construction, Health Care
5	Shin Kao Jack	OSK Research	Technology, Health Care

changes, RHB's Lim says any substantial market weakness due to external developments could provide investing opportunities to pick up select stocks.

Meanwhile, Stephen Hagger, who heads research at Credit Suisse, is still "broadly positive on equities". Credit Suisse — the No 2 top broker in terms of big-cap stock recommendation, has eight top picks for the year: Maxis, CIMB, Public Bank, DiGi, AirAsia, Bursa, IJM Land and MAHB, which give exposure to the six themes it has identified for this year. "At some point, (regional) markets will, however, turn and we believe there could be a scramble for safety. We see Malaysia, as a low beta market, offering three defensive qualities: yield, low foreign ownership

and resilient earnings — making it a relatively safe place to hide."

The top overall stock picker is Norziana Mohd Inon of CIMB Investment Bank, who covers oil and gas and the food and beverage sector. She held an "outperform" on SapuraCrest Petroleum from April 30, 2009 through the end of the year as it spurted from RM1.11 to RM2.48 (up 123%) and outperformed the industry benchmark by 53%. She was also bullish on CI Holdings for more than six months during 2009 as it gained 59% and outperformed the benchmark by 55%. SapuraCrest continues to be her favourite stock because of its active order book replenishment, success in new markets and growing fleet of strategic assets. ■