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BUILDING ANOTHER FORTRESS

Smart Investor (November 2018)

By CS Cheah

Kenanga Growth Fund Series 2 lives up to the pedigree of the fund manager's flagship Kenanga Growth Fund

Lee Sook Yee, CIO of Kenanga Investors

A common trait among growth funds is that they tend to offer higher potential capital appreciation with the trade-off of above-average risk. With this in mind, the hallmark of a profitable growth fund is the ability to generate superior risk-adjusted returns in a consistent manner. Such qualities are embedded in Kenanga Growth Fund Series 2 (KGFS2), which was rolled out in this year to replicate the success of the fund manager's flagship Kenanga Growth Fund (KGF), floated 18 years ago with the aim of providing long-term capital growth by investing principally in Malaysian equities.

"Above all else, KGFS2 is nimbler in size, and it can have up to 30% regional exposure as part of its asset allocation strategy. This will diversify its exposure to local and regional markets," Kenanga Investors Bhd Chief Investment Officer (CIO) Lee Sook Yee tells Smart Investor. "An absolute return fund, KGFS2's tactical allocation strategy enables its equity portfolio to aim for growth during favourable market conditions as well as capital preservation during adverse conditions." Measured against a benchmark of 8% growth per annum, Lee maintains that KGFS2's investment direction will be deeply rooted in Kenanga Investors' bottom-up stock picking philosophy of focussing on companies with strong fundamentals and proven track records.

MOVING FORWARD

Barring the present bearish sentiment in equity markets across Malaysia and the region, the prospects of KGFS2 emulating the success of its "older cousin" can be considered bright judging from its stringent benchmarking, mirroring that of KGF coupled with the fact that that the fund is personally managed by the CIO, who is well-versed with local and regional equities investment. KGF has consistently delivered top performance for the 5 and 10-year period with returns of 66.49% (versus 1.39% of the FBM KLCI benchmark) and 329.95% (versus 76.03% of the FBM KLCI benchmark) respectively as of end-September this year. An ideal testament to KGF's impeccable track record is the string of awards and accolades it has won since its inception, which includes:

Performance of Kenanga Growth Fund

Kenanga Growth Fund	1 Year	3 Years	5 Years	10 years
Fund Performance	-3.07%	23.66%	66.49%	329.95%
Benchmark*	2.14%	10.62%	1.39%	76.03%

Source: Lipper Investment Management as of Sept 30, 2018
**Benchmark: FBM KLCI*

- For nine consecutive years since 2010, the KGF fund has been hailed as Fundsupermart.com's Recommended Unit Trusts Awards Core Equity (Malaysia) category winner (the most recent being for the 2018/2019 period)
- Won The Edge Lipper Malaysia Fund Award in the Best Equity Malaysia category for four years in a row between 2013 and 2016, and
- Lee has been named as the Malaysia CIO of the Year 2018 for the third year running in the Hong Kong based Asia Asset Management's Best of the Best Awards.

Brushing aside speculation that KGFS2 will be "a runaway success," Lee prefers to see the fund as an initiative to accommodate growing demand from clients in view of the success of the flagship KGF, the fund size of which has ballooned to RM1.52bil as of end-August. "Given its size, KGF should over time be re-balanced to focus more on liquid bigger-cap companies, while KGFS2 seeks to focus more on small to mid-cap growth-oriented companies," she rationalises. "With our disciplined approach of bottom-up stock picking, we are confident

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Kenanga Growth Fund Series 2*

Fund objective: To provide investors with long-term capital growth by investing principally in a diversified portfolio of Malaysian and foreign equities with sustainable business models. **Availability:** In both the ringgit and US dollar classes. The minimum investment amount is RM1,000 (RM class) or US$250 (US$ class).

PERFECT TIMING

On a similar note, the timing of KGFS2's launch, which coincided with general market weakness following Malaysia's 14th General Election (GE14), does provide an excellent opportunity for investors to invest into the new fund. "Locally, stocks in both the large and mid-small cap space have been battered down on heightening risk aversion and policy uncertainties as the government is transitioning through the reform process," opines Lee.

"With the market expected to stay low due to near-term volatility and uncertainties, opportunities abound for us to accumulate quality stocks at very affordable pricing." Sustainability of business models, earnings visibility and balance sheet strength are among the stock picking parameters that have been identified for KGFS2, according to Lee. "Every stock in our portfolio is well-researched to the extent that we go beyond fundamentals and quantitative screening to meet company management and/or the major shareholders in ensuring each stock's upside potential is intact," she elaborates. "Generally, our portfolio consists of 30 to 50 stocks – with a minimum of 30 to ensure diversification and maximum of 50 to prevent us from losing sight of or focus on the stocks in our portfolio."

To date, Kenanga Investors has a pool of 49 diverse funds that can be divided into four categories, namely equities, balance, fixed income and money market.

Disclaimer: *Investors are advised to read and understand the Prospectus dated 28 May 2018, the Master Prospectus dated 30 June 2017 ("MP") and the Supplementary Prospectus ("SP") (if any), its Product Highlights Sheet ("PHS") as well as consider the fees, charges and risk factors involved before investing. The Prospectus, MP, SP (if any) and PHS have been registered and/or lodged with the Securities Commission Malaysia, who takes no responsibility for its contents. A copy of the said Prospectus, MP, SP (if any) and PHS is obtainable at our offices or any authorized distributors. Application for units can only be made upon receipt of application form referred to in and accompanying the Prospectus, MP, SP (if any) and relevant PHS. Unit prices and distributions may go down as well as up. A Fund's track record does not guarantee its future performance. Investors are advised to read and understand the contents of the unit trust loan financing risk disclosure statement before deciding to borrow to purchase units. If you are in doubt when considering the investment or any of the information provided, you are advised to consult a professional adviser. Kenanga Investors Berhad is committed in preventing conflict of interest between its various businesses and activities and between its clients /directors /shareholders and employees by having in place procedures and measures for identifying and properly managing any apparent, potential and perceived conflict of interest by making disclosure to clients, where appropriate. The Manager wishes to highlight that* *the specific risks of the Fund(s) are Stock Specific Risk, Currency Risk, Country Risk, Equity Risk, Derivatives Risk, Settlement Risk, Warrant and Convertible Loan Stock Risk and Risk of Investing in Exchange Traded Fund ("ETF"). All fees and charges payable to the Manager and the Trustee are subject to the goods and services tax / sales and services tax / other taxes of similar nature as may be imposed by the government or other authorities from time to time. Kenanga Investors Berhad (353563 – P).*

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