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PMART - Discretionary vs Advisory Account

Phillip Managed Account for Retirement or PMART* is an investment scheme which allows investors to withdraw a portion of their savings to gain higher return via investment in the Malaysian equity market. Like most investments, investors may also face the risk of possible short-term losses from time to time due to changes in economic conditions and market sentiment. Clients are placed under the Advisory (no new accounts and no further top up allowed) or Discretionary Mandate, the former is managed by clients themselves and the later are managed by our fund managers.

We have been providing annual performance reviews of our Discretionary and Advisory Accounts to examine how well these portfolios have fared. The performance analysis dated back to 2008, the year we started actively managing the Discretionary portfolios based on our model portfolio.

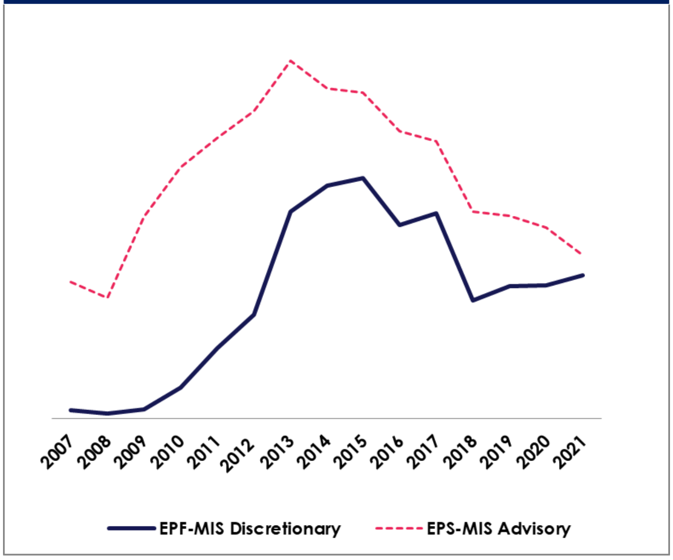
We have just concluded 2021 and this report shall examine the performances of Discretionary and Advisory Accounts of PMART. 2021 was a challenging year, as local equities market not only impacted by local shocks like the resurgence of Covid-19 cases and political uncertainty, sentiment also dampened by expectations of coming Fed tapering and rate hikes. Our PMART Discretionary Accounts dropped 4.9%, underperformed Advisory Accounts (-2.9%) and FBM KLCI index (-3.7%).

**PMART is the name we used for EPF Members' Investment Scheme where Phillip Capital Management Sdn Bhd is an IPD appointed under the retirement scheme.*

Portfolio Size

Our performance analysis was conducted on all of our PMART accounts managed by our in-house fund managers (i.e. Discretionary Mandate) as well as all the Advisory Accounts as at end of 2021. We started managing our Discretionary portfolios actively since 2008. The performance also took into consideration the additions of new accounts as well as those that have changed their mandate and accounts that were closed mandatorily upon reaching the age of 55.

Chart 1: Fund Size of Discretionary & Advisory Accounts



Source: PCM, Dec 2021

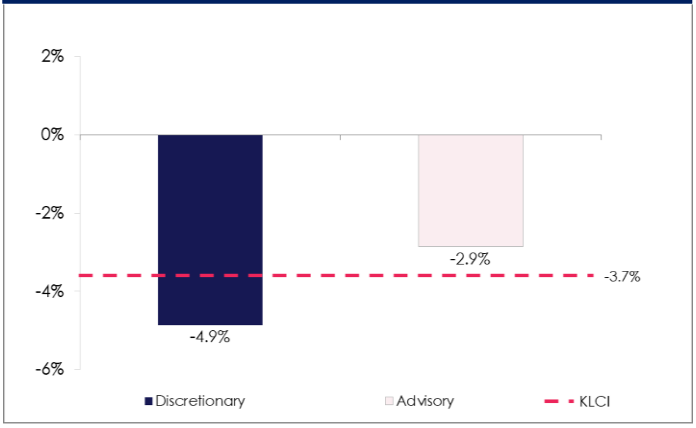
Chart 1 exhibits the relative size and trend of Asset Under Management (AUM) for both Discretionary Accounts and Advisory Accounts since 2008. Advisory Accounts dropped consistently since 2014, as investors can no longer make further withdrawal under Advisory Account. Since 2016, some funds from Discretionary accounts moved out to other mandates like ETF, and Blue Chip Focus and Dividend Enhanced. We also launched PMART-UT in Feb 2018, which allow investors to use their EPF savings to invest into unit trust funds in Malaysia. Since 2017, we have adjusted our calculation by excluding the funds managed by independent portfolio managers.

In contrast to the dip in prior years, we have seen a spike of 36.6% in AUM growth for Discretionary Accounts in 2021. For Advisory accounts, there was a dip of 14.3% at the end of 2021.

Our Performance Last Year

In 2021 continue to be a bumpy year for local equities, as resurgence of the COVID-19 pandemic, re-introduction of lockdown measures, political instability which led to a change in the government, China Evergrande crisis, and the implementation of prosperity tax affected general market sentiment. 2021 also marked the fourth year of foreign fund exit, with a net outflow of RM 3.2bn (2020 outflow was RM 24.7bn). The aforementioned shocks made 2021 an especially challenging year for us. We were also affected by the Serba Dinamik saga and its related company SCIB due to our positions in the related shares.

Chart 2: Performance between Discretionary & Advisory Accounts (2021)



Source: PCM, Dec 2021

Chart 2 shows that Discretionary Accounts recorded a composite return of -4.9% in 2021, which underperformed KLCI (-3.7%) and Advisory Accounts (-2.9%). The returns were computed on a composite basis, meaning all of our PMART portfolios were integrated into a single account for performance evaluation purposes. The whole year returns presented were cumulated by the monthly returns of the composites.

Portfolio Review

Beginning of 2021, our portfolio performed well in the weak market, lifted by better performance from some of the stock picks. Sentiment turned negative in Q2 as COVID-19 cases resurged significantly and the government announced a 3-phase total lockdown consequently. Our gains also pared down by the Serba Dinamik saga and its related company SCIB which were involved in audit disputes.

In August, MCO lockdown measures imposed earlier were relaxed, following increasing adult vaccination rates. In Q4, the shocks from emergence of Omicron variant, introduction of prosperity tax targeted at companies with super profits, and stamp duty hike again dragged down local performance. As a result, KLCI is the only index in the region that is negative for the year. The year 2021 also marked the 4th year of foreign fund exit from the market, while local institutions were also net sellers for the whole year despite the net foreign purchases from Aug 2021.

During the year under review, we had new investments into CTOS (a leading credit rating agency and credit-related data solutions provider) and Cypark Resources (renewable energy player). We also added Axis Reit and Lagenda Properties for Moderate accounts, and subscribed rights issue on AirAsia Loan Stocks for its attractive yield. Other than the top holdings Awantec and Datasonic, we also increased exposure on Greatech, MYEG and OCK.

On the disposal side, we have completely sold off controversial Serba Dinamik and SCIB. We also disposed all UOA Reit and redeploy the cash to other stocks and MMC Corporation due to general offer uncertainty.

The gainers in 2021 were Hextar Global (+180%), Formosa Prosonic (+65%), CTOS (+65%), and Greatech (+48%). On the other hand, major losers were Vizione (-79%), SCIB (-36%), Serba Dinamik (-36%) and AwanBiru (-28%). Not all the accounts have the same shares as we allocate shares based on risk profile and size of accounts too.

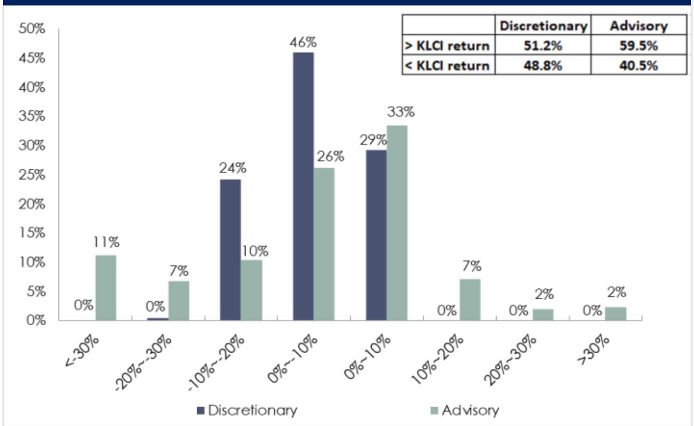
Discretionary Accounts More Consistent

Chart 3 shows the distribution of returns for Discretionary and Advisory Accounts.

48.8% of discretionary accounts underperformed KLCI return of -3.7% while 40.5% of Advisory Accounts recorded poorer return than KLCI. 28% of Advisory Accounts recorded losses of at least -10%, while 26% of accounts posted losses from 0% to -10%. For 2021, the chart is showing a slight bias towards the negative side of returns as we experienced a challenging year.

On the other hand, performance of Advisory Accounts was more diverse as they are highly dependent on the skill and risk appetite of respective investors. As shown in Chart 3, the divergence of gainers and losers were both higher in the Advisory Mandates where 2% of the accounts gained more than 30% and 11% lost more than 30%.

Chart 3: Performance Distribution between Discretionary & Advisory Accounts (2021)



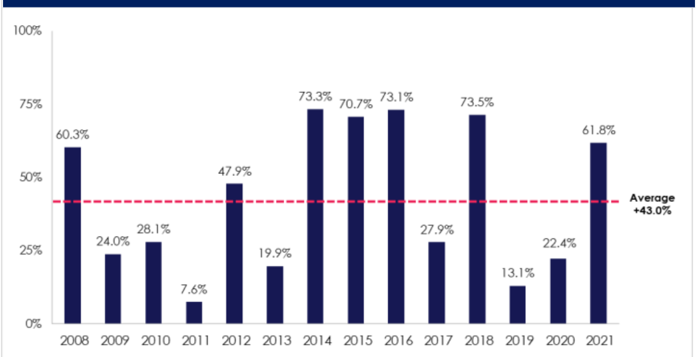
Source: PCM, Dec 2021

Advisory Accounts beat Discretionary Accounts in 2021

As shown in ***Chart 4***, 61.8% of the Advisory Accounts outperformed Discretionary Accounts in 2021. Over the past 14 years, Discretionary Accounts outperformed at least 70% of Advisory Accounts by 7 times.

Just to clarify again, Discretionary Mandates refer to those managed by internal fund managers based on our model portfolios depending on risk profile and size. Investors who have chosen to have their accounts managed by their respective portfolio managers are excluded from this analysis.

Chart 4: Percentage of Advisory Accounts that beat the Discretionary Accounts



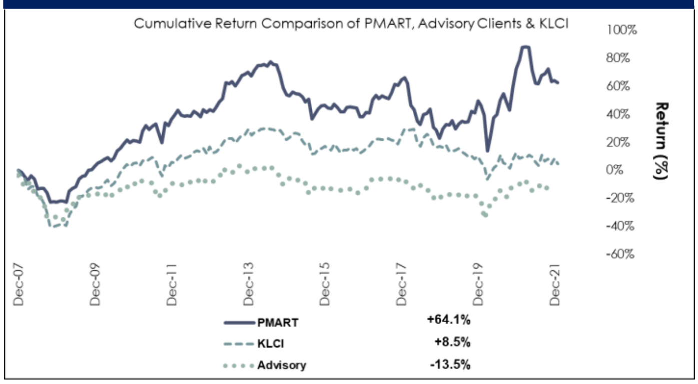
Source: PCM, Dec 2021

Past Fourteen-Year Performance

A performance analysis on Discretionary and Advisory portfolios from 2008 till 2021 was also conducted by tallying the asset-weighted average return of all PMART accounts.

The cumulative time-weighted performances of Advisory and Discretionary portfolios are shown in ***Chart 5*** whereas the yearly returns are tabulated in ***Table 1***.

Chart 5: Cumulative Return (2008 - 2021)



Source: PCM, Dec 2021

Discretionary Accounts Outpaced KLCI By 55.6% in 14 years

From 2008 till 2021, the Discretionary Accounts had a cumulative return of 64.1%, outperforming KLCI that registered a gain of 8.5%. Advisory Accounts on the other hand suffered a loss of 13.5% over the period. The return is net of all fees including service fees for new injections.

Advisory Accounts Presented More Stable Return

The standard deviation shown in **Table 1** represents the volatility of performances. Advisory Accounts and KLCI exhibited the lowest standard deviation, 11.7% and 11.9% compared to Discretionary Accounts (13.6%). The lower standard deviation implies that the risk-adjusted return was more superior for the same level of risk.

Table 1: Yearly Return (2008 – 2021)

Year	KLCI	Discretionary	Advisory
2008	-39.3%	-22.7%	-33.4%
2009	45.2%	33.4%	24.7%
2010	19.3%	17.5%	9.2%
2011	0.8%	12.3%	-3.4%
2012	10.3%	5.4%	6.5%
2013	10.5%	18.5%	8.1%
2014	-5.7%	-9.5%	-11.1%
2015	-3.9%	-4.8%	-1.5%
2016	-3.0%	-5.5%	-4.5%
2017	9.4%	19.0%	10.2%
2018	-5.9%	-25.3%	-15.7%
2019	-6.0%	21.7%	5.7%
2020	2.4%	15.3%	7.6%
2021	-3.7%	-4.9%	-2.9%
Cumulative Return	8.5%	64.1%	-13.5%
Annualized Return	0.6%	3.6%	-1.0%
Standard Deviation	11.9%	13.6%	11.7%

Source: PCM, Dec 2021

Alpha (2008 – 2021)

Alpha is a measure of the active return of an investment, or the excess return above the market return. It gauges the performance of an investment at different risk level.

Chart 6 shows the cumulative monthly Alpha return achieved by our PMART Discretionary Accounts in the past 14 years. Since 2008 till late 2014, Discretionary Mandates managed to deliver positive alpha return, attributed to our right stock allocation and selection.

Alpha return has been moderating from 2014 till 2016, impacted by oil price collapse and various negative global developments, and started to pick up again in 2017. In 2018, alpha return dropped significantly due to the negative market sentiment.

As end of 2021, PMART Discretionary outperformed benchmark KLCI by delivering an alpha of 55.6% over 14-year period.

Chart 6: PMART Alpha Return (2008 – 2021)

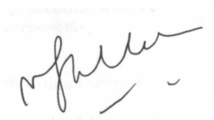
Source: PCM, Dec 2021

Summary

In 2021, KLCI declined 3.7% and has underperformed most of its regional peers. Part of the reason was Malaysia suffered from economic slowdown as a result of the prolonged lockdowns due to the pandemic, while political uncertainty also acted as a major overhang on the market. As a result, foreign fund remained the fourth year of net seller with a net outflow of RM3.2bn last year. Going forward there are still uncertainties to the global market arising from the persistent inflation worries, the Fed rate hike from March 2022, tightening of liquidity due to tapering, and concerns over a slower economic recovery due to new Omicron strains. Locally, our market will also be influenced by external influence although we noted the return of foreign funds last two months.

Despite the potential downside risks, we reckon the main theme for 2022 will be on the improving macro outlook, which will eventually translate to better performance in the equities market. We believe that Malaysia's economy and the market is at the start of the recovery process. Hence, we are cautiously optimistic that the returns of foreign funds which will help boost the domestic market. Whilst foreign funds tend to look for large-cap stocks with strong liquidity, the improved market sentiment will subsequently spill over to the small-mid-cap stocks which we have higher weightings in, will eventually outperform the broader market. Going forward, our strategy is to switch gradually to have more big-cap stocks to provide better stability to the PMART portfolios and reduced our dependent on cyclical stocks which we have experienced big gains as well as big losses during weak market conditions.

For Phillip Capital Management Sdn Bhd



Datin Hajjah Nona Salleh
Executive Chairperson