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Industry outlook to remain tough: Pacific Mutual

By Jeeva Arulampalam

jeeva@nstp.com.my

THE market outlook for fund managers next year remains challenging amid weak business and investment sentiments and potential volatility in asset classes, says Pacific Mutual Fund Bhd's chief.

"It will be a very tough year investment- and business-wise. Sentiment will remain fragile and massive swings in markets will not help," Pacific Mutual chief executive officer and chief investment officer Michael Auyeung told Business Times in an e-mail interview.

Although improved risk appetite may result in better sales in terms of fund inflows, the performance may be offset by outflows from investors who are tired of market volatility and want to take out their recovered capital.

Auyeung said that launches of new funds next year might see only subdued response, judging from the poor performance of many funds introduced in the last two years.

"From the investment perspective, 2010 will make fund managers earn their money. Managers will need to generate some degree of qualitative outperformance and their understanding of the relationships between multiple asset classes, economies and policy manoeuvres will be tested," he said.

Macro policy moves to help economies recover from the global downturn will have an exaggerated effect on asset prices, similar to that this year.

"But as we start seeing the stimuli unwind

into 2010, different asset classes globally could react unpredictably. We don't have a comprehensive understanding of the underlying structural integrity of the global economy as it has been masked by policy overlays," Auyeung said.

Some parties have suggested that asset classes such as bonds, emerging market stocks and commodities are mispriced and possibly in various stages of a bubble formation or undervalued.

"Any one of such asset classes could massively deflate or erupt upwards on liquidity movements," Auyeung added.

The primary driver of a fund's performance will depend on investments made in the right asset class or geographical market at the right time.

Auyeung said the fund management industry would have to be careful about new fund concepts, given the inherent volatility and cyclical outlook.

"We may see some funds taking more of a narrow target range in terms of mandates. Hopefully, there will be renewed focus on existing funds that have yielded consistent performance over long periods."

He advised retail investors to have a well-diversified portfolio with a wide range of assets and to pick a fund manager who actively manages the portfolio.

On Pacific Mutual's investment strategy for the year ahead, Auyeung said that decisive execution in tactical asset allocation, the geographical movement of funds and primary research-driven stock-picking would continue to be its best options for investment flexibility and outperformance.