Rising markets lift funds

WHILE QUARTERLY PERFORMANCE IS IMPORTANT, FOCUS SHOULD BE ON THE LONG TERM

By Gaurav Ghose
Financial Features Editor

On the back of increased risk appetite that led to a strong stock market rally in the first three months of 2012, Gulf equity funds, led by Saudi Arabia and the UAE, performed notably well during the period, according to Lipper, a Thomson Reuters unit.

The positive feeling about the market in the first quarter, however, did not fully compensate the negative sentiment in the first quarter of 2011. Overall, according to the latest data obtained by *Gulf News*, funds flows in the first quarter totalled $877.3 million (Dh3.22 billion), only half of the outflows of $1,685.9 million during the same period last year.

This year's relatively strong start can be seen in the average performance gain of 11.02 per cent against a negative return of 1.72 per cent in the first quarter of 2011. Equity funds, in particular, averaged a gain of 11.64 per cent, in stark contrast to a decline of 1.85 per cent, during the same period in 2011. All categories experienced double-digit performances, except for Equity Kuwait funds.

The fund sector allocations along with higher exposure to Dubai index as against Abu Dhabi have been the main combination behind the outstanding performance of Al Mal UAE Equity Fund since the beginning of 2012, says Tariq Qaqish, manager of the fund, which topped the UAE funds list for the quarter, beating the S&P GCC Index (see table).

"Moreover, our overweight positions in the telecom sector and capital goods sector in addition to our underweight positions in the banking sector contributed to the strong performance," he says. "Our cautious outlook on the banking sector due to its limited potential growth attributed to the Fund's performance. We had an overweight position in Arabtec, where we reduced our exposure on levels we believed the stock was fundamentally overvalued."

Qaqish added: "Although the fund did not participate in the rally of small stock company, we have achieved superior performance to our unit holders."

Best performing

With regard to Falcom IPO, the best performing fund in Saudi Arabia with a return of more than 40 per cent, Detlef Glow, head of Lipper Europe, Middle East and Africa, told *Gulf News*: "It is noteworthy that the best performing fund within the table does not only [make] profits from international IPOs. The fund also invests in IPOs from companies within the Mena region and Saudi Arabia and can stay invested up to two years after the initial public offering."

However in Saudi Arabia, banks and petrochemicals did not rise as much as sectors such as telecommunications, insurance and property.

"Funds which are heavy in those two segments would still have performed well but not as well as others," says Raghu Mandagolathur, senior vice president, research, at Kuwait Financial Centre (Markaz).

In the UAE, the big story was property, which rose by about 40 per cent. The investment sector was up 43 per cent.

Shakeel Sarwar, head of asset management at investment bank Securities and Investment Co. (SICO), Bahrain, whose flagship fund is GCC-focussed Khaleej Equity Fund, is cautious in his reading of the strong first-quarter performance of Saudi and UAE funds.

"Most of the Saudi Funds are index-like funds and are run by managers with a speculative mindset," he says. "In good times they do well but in bad times they do very bad."

Fund managers who are focused on the region and have underperformed their respective benchmarks did so because of the nature of the rally which was driven by speculation and low quality stocks, says Sarwar. SICO's Khaleej Equity Fund has returned 11.4 per cent for the year compared to 14.7 per cent in the S&P GCC index. "Due to our conservative, purely fundamental approach to investing, we completely avoided the speculative stocks which led the GCC markets' rally in the first quarter," Sarwar said. "We are confident that our disciplined investment process would enable us to outperform the benchmark in the long run."

Cash as king

The uncertainties fund managers have been faced with during the past few years is a reason for some of the funds failing to beat the market benchmark, says Dunny Moonesawmy, an independent financial analyst based in Paris.

"Cash has been king [in] strategies to cushion the market downturn. As market rebounded, it is normal that funds do not capture the market entirely. Take Al Alhi Saudi Trading Equity as an example where 61 per cent of the portfolio was invested in money market products in October 2011," he says. Given that the index gained only six per cent and banks were up a mere two per cent, Kuwait funds didn't do well, says Mandagolathur. The large and mid cap stocks, which make up the bulk of the fund holdings, were up just 0.14 per cent and 2.7 per cent while small and micro caps gained 10 and 21 per cent respectively.

Bond funds underperformed equity funds and, as expected, money market funds fared poorly. Bond funds increased 1.98 per cent in the first quarter as against 0.67 per cent during the same period last year. Emerging market bonds performed better than Dollar or Euro bonds, given the prevailing low interest rates.

As for money market funds, Sarwar says, while these are ideal for downside protection, they miss out when equity markets do well, and that's what has happened this time.

With markets returning to reality and uncertainties related to global growth emerging again, coupled with new worries over decreasing economic growth in China and recession in the UK, the outlook going forward is sober. "The next two quarters will be challenging and markets in the Gulf should continue to suffer, even though at a lesser extent," Moonesawmy says. "I expect the Gulf market to remain flat as they are strongly linked to the financial and the real estate sectors, which are still convalescing."

While it is difficult to forecast the growth of his UAE Equity fund for the rest of the year, Qaqish believes it could be go up another 10 to 15 per cent. And that's based on the UAE market valuations, which he says "looks appealing as corporate earnings are expected to grow by 20 per cent and trading at eight times price to earnings-ratio in 2013."

ONES TO WATCH

Top 10 Saudi Funds (Q1 2012)

Name	Manager	Class Scheme Lipper Global	Price NAV (LC)	1Q12 return (%)	Islamic
FALCOM IPO	FALCOM Financial Services Ltd	Equity Global	1662.41	40.66	Yes
Al Bilad Investment Saudi Pure Equity (Asayel)	ALBILAD Investment Co	Equity Saudi Arabia	0.45	26.56	Yes
Saudi Fransi Al-Saffa Equity Trading	Saudi Fransi Capital JSC	Equity Saudi Arabia	8.23	24.88	Yes
Saudi Fransi Saudi Istithmar Equity Fund	Saudi Fransi Capital JSC	Equity Saudi Arabia	5074.11	23.87	No
Jadwa Saudi Equity	Jadwa Investment CJSC	Equity Saudi Arabia	185.29	23.54	Yes
Al Bilad Investment Al Aqar	ALBILAD Investment Co	Equity Sector Real Est Other	0.45	23.52	Yes
SHC Saudi Financial Institutions Equity	Saudi Hollandi Capital Co	Equity Sector Banks&Financial	31.98	23.23	No
HSBC Amanah Saudi 20 ETF	HSBC Saudi Arabia Limited JSC	Equity Saudi Arabia	25.22	23.13	Yes
HSBC Saudi Financial Institutions Equity-FIF	HSBC Saudi Arabia Limited JSC	Equity Sector Banks&Financial	14.28	22.87	No
RiyadC Al Emaar Fund	Riyad Capital CJSC	Equity Sector Basic Industries	12.93	22.33	Yes

Top 10 UAE funds (1Q12)

Name	Manager	Class Scheme Lipper Global	Price NAV (LC)	1Q12 return (%)	Islamic
Al Mal UAE Equity	Al Mal Capital PSC	Equity UAE	0.66	19.17	No
Emirates Gateway	SHUAA Capital PSC	Equity UAE	5.77	18.97	No
ADCB MSCI UAE Index	Abu Dhabi Commercial Bank PJSC	Equity UAE	4.13	16.62	No
INVEST AD - UAE Total Return	Invest AD Asset Management PJSC	Equity UAE	66.82	16.21	No
TNI UAE Blue Chip	The National Investor PJSC	Equity UAE	4.96	15.98	No
Al-Itihad fund	Union National Bank PJSC	Equity UAE	6.07	14.91	No
ADCB Al Nokhitha	Abu Dhabi Commercial Bank PJSC	Equity UAE	3.76	14.21	No
NBAD UAE Growth	NBAD Asset Management Group AMG	Equity UAE	5.11	13.69	No
NBAD UAE Islamic (Al Na'eem)	NBAD Asset Management Group AMG	Equity UAE	7.52	7.7	Yes
NBAD UAE Distribution (Mizaat)	NBAD Asset Management Group AMG	Mixed Asset Other Flexible	3.22	2.8	No

Source: Lipper, a Thomson Reuters company.

Benchmark	Return
S&P GCC Index	14.70%
S&P Saudi Index	21.80%
S&P UAE Index	18.40%
S&P Kuwait Index	1.30%
S&P Qatar Index	1.20%
S&P Oman Index	-2.10%
S&P Bahrain Index	2.60%

Indices Summary as of March 31, 2012

Index	Closing	QTD change %	YTD change %
TASI	7835.15	22.09	22.09
Banks & Financial Services	17945.05	23.07	23.07
Petrochemical Industries	7198.51	15.49	15.49
Cement	6089.24	14.11	14.11
Retail	7371.78	13.85	13.85
Energy & Utilities	5786.86	16.29	16.29
Agriculture & Food Industries	6593.38	13.43	13.43
Telecommunication & Information Technology	2203.24	32.04	32.04
Insurance	1346.94	35.15	35.15
Multi-Investment	3737.74	35.6	35.6
Industrial Investment	6967.53	26.32	26.32
Building & Construction	3723.03	14.06	14.06
Real Estate Development	4019.13	48.57	48.57
Transport	4405.77	52.86	52.86
Media and Publishing	2612.89	21.59	21.59
Hotel & Tourism	7815.69	30.13	30.13
Large Cap	5178.93	16.4	16.4
Med Cap	5293.3	27.53	27.53
Small Cap	4063.13	18.79	18.79
Micro Cap	11818.1	28.52	28.52

Source: Gulfbase

SIGNS

First quarter return is important to provide early warnings

A quarter's performance is just that: only three months of a fund's growth or decline. While quarterly performance of a fund is an important indicator that investors should keep track of, the focus should always be on the long term, five years or more. Short term volatility — and this is especially true of specialised funds — could have a negative impact, sometimes quite severe, on the performance of a fund. If investors get jittery and exit the fund they may realise a loss, sometimes big. However, the first-quarter return is important, as it provides early signs of where things could be headed.

Dan Dowding, senior executive officer at Killik & Co., Asia and Middle East, monitors funds on a short-term basis in an effort to detect any early warning signs of things going wrong. "Quarterly returns are an important reference point that you can compare to indexes, benchmarks and peers," he says.

However, it is also true that a quarter is not long enough to assess the returns of a particular sector or asset, says James Thomas, regional director of Acuma Wealth Management.

One has to look beyond returns. "A fund should not be discounted simply because it had a poor quarter," says Thomas. "The investment return is only one factor when considering an investment. Also, look at the risk that has been taken to achieve that return."

Total expense ratio (TER) of the fund should also be taken into account. "High costs can have a drag on performance, so I do pay close attention to TERs. That said, I am happy to pay higher fees on fund if it displays a consistent track record of out performance," says Dowding. While it is important to see whether the fund is consistently beating the benchmark, there is no guarantee that it will continue to do so in the future. And sometimes comparison with peers becomes difficult as funds have different benchmarks. "While for GCC funds, S&P GCC is normally used (the index was up 14 per cent in the first quarter), for Kuwait funds it could be anything from the KSE Weighted, to KIC index and S&P," points out Raghu Mandagolathur, senior vice president, research, at Kuwait Financial Centre. "Also, each asset class would have a different benchmark," he adds.

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