



Raya Rally and beyond: The Return of the Retailer

As Hari Raya Aidilfitri beckons, thought it will be interesting to highlight something on the Malaysia market. If you have not noticed, the market is stirring especially in the small-mid cap space and there has been a noticeable increase in participation from local retail investors. The large cap FBM KLCI has recovered about half of the decline from the recent peak to trough while the FBM Small Cap index has done better and recovered about two thirds of the decline from the recent peak to trough.

This is an unexpected development as retail investors have been relatively quiet for a long period of time. In the past 5 days, the average daily trading value on Bursa is RM4.4bn, or about 2x the average in 2017-2019. A big factor of the increase has been retail investors, who account for about 35-40% of trading activity on Bursa compared to the low 20s average in 2017-2019.

What has prompted this change of heart by local retail investors?

We can think of a few reasons but the biggest is probably the decline in interest rates. For many retail investors, the benchmark is (rightly or wrongly) the FD rate. Given the monetary easing by BNM, the 12 month FD rate has fallen to about 2.0-2.1% currently. Meanwhile, the dividend yield from the FBM KLCI is 3.7%. Even if you assume that dividends are cut by 20-30%, the dividend rate alone is outpacing FD returns. Over the long haul, you have potential for capital appreciation from equities on top of the dividend yield.

We believe that interest rates would stay low for a prolonged period. While retail money is perceived as fickle, the funds could be stickier this time round given the comparatively low deposit rates.

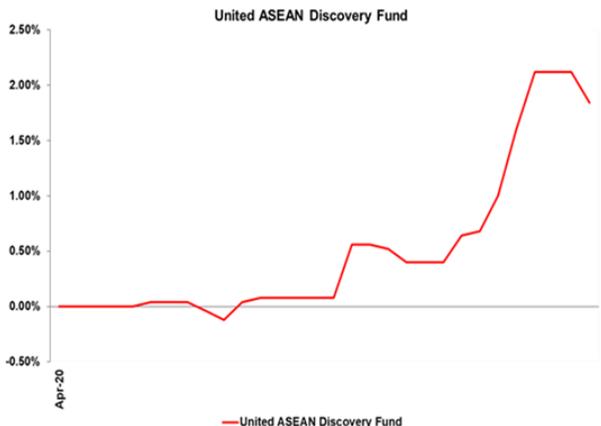
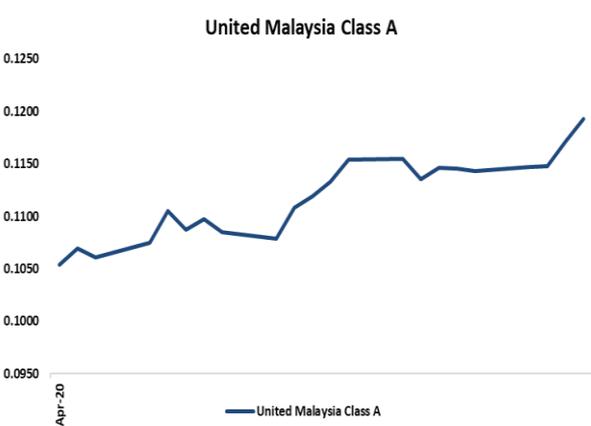
In the past, the Malaysia market has needed increased participation from foreign investors to drive the market higher. While we do not anticipate significant inflows from foreign investors, the increased interest from retail investors could provide a much needed boost for the domestic bourse.

Conclusion

The return of retail investors is a much welcome positive news for the Malaysia market. We believe that the higher participation is driven by the decline in interest rates and equities has increased in relative attractiveness. With interest rates expected to remain low, the participation of retail investors could be sustained.

What does this mean for our funds?

The funds which could benefit from an improvement in the Malaysia market are UMF (United Malaysia Fund) and UADF (United ASEAN Discovery Fund) as they have sizeable exposure to Malaysia. UMF is pure Malaysia and the equity exposure is circa 90%. Within UADF, Malaysia is our largest exposure at about half of the NAV.

Fund name	United ASEAN Discovery Fund	United Malaysia Fund – Class A																								
Fund Objective/ Strategy	<p>The Manager seeks to achieve the investment objective of the Fund by investing in equities and equity-related securities (i.e. warrants) of:</p> <p>i) small and medium sized companies which are listed and/or traded in eligible markets in the ASEAN region; and/or</p> <p>ii) small and medium sized companies which have substantial business in ASEAN countries and are listed and/or traded in a non-ASEAN eligible markets.</p> <p>The Manager defines small and medium sized companies as companies that have a market capitalization of under USD 3 billion at the point of investment. The Manager employs fundamental and bottom-up analysis as an integral part of their investment process.</p>	<p>The Fund seeks to provide unit holders with income and capital appreciation over the long term. The Fund invests in a diversified portfolio of equities, equity-related securities, fixed income securities, money market instruments and placement of deposits with financial institutions.</p>																								
Fund Performance	<p><u>Performance Chart as at April 2020 (1 Month)</u></p>  <p>United ASEAN Discovery Fund</p> <p>Source: UOBAM(M)</p>	<p><u>NAV Chart (1Month) as at April 2020</u></p>  <p>United Malaysia Class A</p> <p>Source: Lipper</p>																								
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