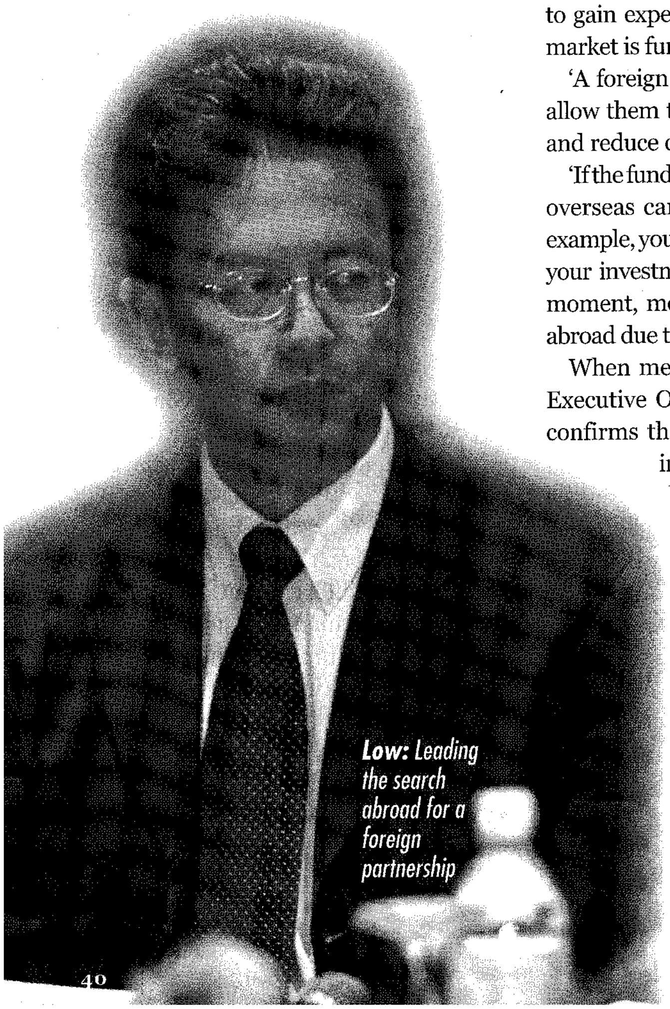
Searching Abroad

SBB Mutual takes advantage of the recent relaxation on overseas investments to expand its presence abroad.

By Habhajan Singh

SBB Mutual Bhd, the country's second largest unit trust company according to a number of agents, is seeking a foreign tie-up to tap the overseas market.

Sources say the company is currently on hot pursuit of a partner to facilitate its investments overseas, mainly in Asia. Among others, the company has invested in the stock markets in Singapore, Hong Kong and China.



Low: Leading the search abroad for a foreign partnership

At the moment, SBB Mutual's investments overseas have a market value of less than RM50 million. They come from two funds – the SBB Double Growth Fund and the SBB Emerging Growth Fund – which have a mandate to venture abroad.

With a fund size of some RM4 billion, the Southern Bank Bhd group member is understood to be actively looking at expanding its presence abroad, partly to enlarge a potential income source, but also to gain experience before the local capital market is further liberalised.

'A foreign partnership of some sort will allow them to do business at a faster pace and reduce costs,' says an industry source.

'If the fund size is not big enough, investing overseas can be an expensive affair. For example, you have to appoint a custodian for your investments,' the source adds. At the moment, most locals cannot invest much abroad due to regulatory restrictions.

When met recently, SBB Mutual Chief Executive Officer Paul Low Hong Ceong confirms that the company is looking at increasing its presence abroad, but declines to comment on the potential tie-ups.

According to the company's master prospectus, when it comes to foreign securities, the investment managers focus on investing in major established markets for their high liquidity and low political risk. Foreign cash, it adds, is kept in the United States Dollar or Hong Kong Dollar to minimise the exchange rate risk.

SBB Mutual's move to rope in an international partner comes on the heel of Bank Negara Malaysia's (BNM) recent loosening of the noose on overseas investments. Beginning April, unit trust companies are allowed to invest up to 10% of their net asset value (NAV) in offshore securities.

The gradual loosening of the maximum limit on the part of the central bank may see more unit trust companies seriously consider options to invest overseas.

In the past, companies have shied away from investing overseas due to the cap. The argument was plain and simple: the total sum allowed to venture abroad is too small to have a significant impact on overall returns. As at end-March, the industry had close to 100 billion units in circulation with a NAV of RM78.50 billion. For the 40-odd unit trust players, that works out to less than RM8 billion.

With the associated currency risk that comes with investing abroad, most companies have simply abandoned the route. Even established players like Prudential Unit Trusts Bhd and TA Unit Trust Management Bhd have yet to venture abroad. While not ruling out the idea all together, Prudential Unit Trusts, for example, is looking into how best to capitalise on the new ruling with its counterparts in the region.

Echoing similar views, TA Unit Trust Management's Chief Executive Officer Richard Chua says, 'You would invest abroad if you can get better returns compared to what you get from your investments locally. Otherwise, why bother?'

So, why bother?

Most unit trust company chiefs speak this lingo. Low does not dismiss its validity. 'With a fund size of some RM4 billion, the sum is small. On top of that, you have to put aside for Syariah fund,' he says. SBB Mutual estimates its Syariah fund size stands at about RM1 billion.

Based on SBB Mutual's experience, Low agrees going abroad is no child's play. At the moment, the routes open to local unit trust managers are either through strategic alliances or advisory services from brokers. The services come at a price. On top of that, there's also the equally expensive research cost.

If it is not very profitable, then why bother going abroad at all? SBB Mutual is looking ahead. Three years down the road, the capital market regulators envision a game plan with foreigners being allowed a freer reign. This was part of the liberalisation charted out in the Securities Commission's (SC) Capital Market Masterplan.

With that in mind, industry players foresee the overseas cap going higher, especially with the 2007 market liberalisation target approaching.

But Low and company at SBB Mutual havve other reasons in mind as well. SBB Mutual's dabbling in foreign soil allows its managers to taste the global flavour of the game. When the foreigners do make their way into Malaysia, it hopes to have a set of managers able and ready to compete. 'This is a window of opportunity. If they cannot compete on the same footing, at the very least, they will be more prepared,' says Low.

The foreign forays also address another issue. Low is concerned that some local investment fraternity folks are too caught up with the local scene at the expense of having lost touch with international goings-on. 'We have to get back into the game to see what's happening,' he quips.

With a huge external trade, Malaysian investment managers cannot sit pretty, ignoring the world around them. On the whole, Malaysia has a huge foreign trade with countries like the United States and China. A foreign business magazine once aptly captured the scenario with this headline: 'When China sneezes, Asia catches a flu.'

It goes to show the importance of the world economy and its impact on Malaysia. This is exactly the point that Low stresses to his team. 'Hence, by being involved in the overseas market, we will invariably pay more attention to it. This gives us an insight to be more prepared.'

Talking to the Securities Commission

For a start, SBB Mutual plans to address the issue of investing Syariah funds overseas. At the moment, the funds are governed by SC's Syariah advisory panel. Every six months, the regulator produces a list of Syariah-compliant counters. It is understood that the funds cannot be easily tapped for investing overseas.

'We'll take the initiative to talk to the SC on matters concerning investing Syariah-funds overseas. I believe no one has done it yet,' says Low.

Eventually, SBB Mutual hopes that these issues will be taken up by the entire industry, probably through its association, the Federation of Malaysian Investment Managers (previously known as the Federation of Malaysian Unit Trust Managers). mb

UPON hearing of SBB Mutual Bhd's overseas plans, ***Malaysian Business*** shot a few questions to its Chief Executive Officer Paul Low. Here are excepts of his reply:

What are the criteria looked at when investing abroad?

Among them, you have the economic and geopolitical conditions. You want to ensure the safety and security of investors' money. You also look at the country's stock market valuation and if the country's equities are comparatively cheaper. You try to identify niche asset classes that will do well despite local economic uncertainties. On top of that, you see to it that foreign investments are able to provide the diversification to the participating funds in terms of investment performance and risk level.

What type of expertise is required to manage overseas funds abroad?

Careful stock selection and diversification. Strategists employ both quantitative and qualitative analysis to identify stocks with growth potential.

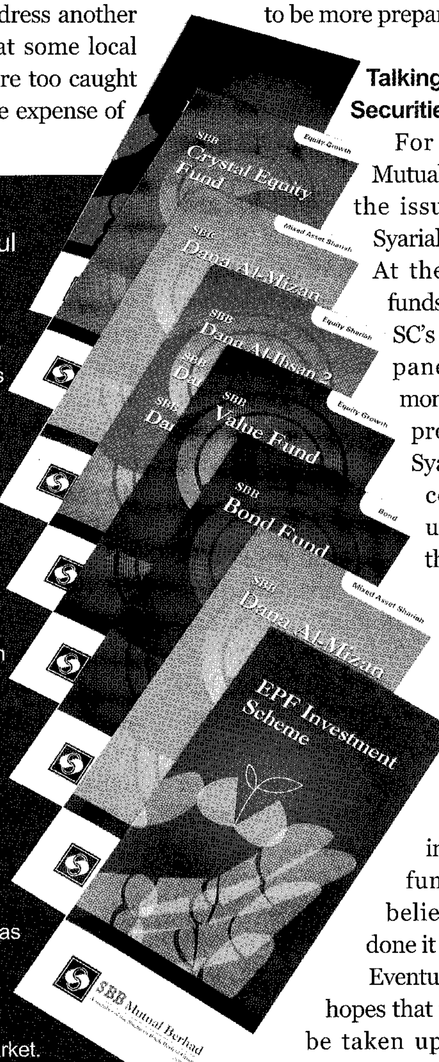
You identify stocks that can provide superior total returns – (1) companies with established products, strong market position and proven records of consistent growth; (2) companies with the potential to dominate their respective markets by offering a unique product or technology; or (3) companies with growth rates that are underestimated by the market, but are likely to exceed market expectations in the coming years.

What are the risks in investing abroad, specifically for Malaysian unit trust management companies?

Investments always carry risks, whether locally or overseas. What's important is how well the investment managers mitigate the risks. The Malaysian market has been closed for sometime now. Local fund managers may have somehow lost touch with foreign markets. This may be the biggest obstacle moving forward. Therefore, those companies already with foreign exposures in their funds would be in a more favourable position to take advantage of the liberalisation of the market.

Is the present limit (10% of NAV) sufficient or should it be increased? What's the company's take on this matter?

We feel that the 10% limit will not impact the fund significantly in terms of diversification effects. In order to reap more benefits of investing abroad, funds should be allowed to gradually invest up to at least 30%.



Some of the options offered by SBB Mutual