Save&Invest

All 3 portfolios outperform benchmarks

Panel sees bond portion as key contributor to robust performance of the simulated portfolios last month

Lorna Tan
Invest Editor

This is the sixth part of the Save & Invest Portfolio Series, where we track the performance of three simulated portfolios.

The Sunday Times Invest introduced this series at the start of the year to feature simulated portfolios of three real retail investors.

The investors are 25-year-old Shona Chee, a technical account manager, entrepreneur Getty Goh, 38, who is married with two young children, and retiree Wang Moo Kee, 61.

The Portfolio Series does not involve actual money as it is intended only for illustration and education.

All three portfolios are limited to instruments listed on the Singapore Exchange (SGX) to keep them simple, accessible and easy to monitor, and also limited to the Singapore Savings Bonds (SSBs), which can be bought via automated teller machines.

The main asset classes are domestic equities, real estate investment trusts (Reits), global exchange-traded funds (ETFs) and bonds.

While there are similarities in the three portfolio holdings, the allocation for each profile differs, depending on the individual's risk-return objectives and preferences.

The simulated portfolios are constructed by CFA Society Singapore (CFAS) for an ideal investment time horizon of five to 10 years.

The three portfolios, which went live on Jan 18, are being tracked each month until early next year.

PORTFOLIO PERFORMANCE

Last month, all three portfolios registered gains and outperformed the benchmarks.

Ms Chee's portfolio was up 1.06 per cent, outperforming the benchmark by 70 basis points or 0.7 per cent, as all four sub-components (equities, ETFs, Reits and bonds) of her portfolio outperformed.

Mr Goh's portfolio grew 1.03 per cent, outperforming the benchmark by 10 basis points, while Mr Wang's portfolio rose 0.74 per cent, outperforming the benchmark by 70 basis points.

The CFAS panel attributes the robust performance in April mainly to the bond portion. During this period, the Singdollar has remained stable against the US dollar.

The gains registered backed up CFAS' belief that diversification is key, and that the bulk of investment returns are achieved from prudent asset allocation and not market timing.

REBALANCING PORTFOLIOS

The panel took profit on Raffles Medical in Ms Chee's and Mr Wang's portfolios, and took profit on Wing Tai in Mr Goh's portfolio.

A decision was taken to hold higher cash levels in all portfolios for the time being.

The CFAS panel said that while it is "reasonably satisfied" with the current allocation, both Raffles Medical and Wing Tai have enjoyed double-digit rallies. The panel thinks it's a good time to take profit on these two companies.

"We think DBS Group Holdings, Singapore Airlines and Ascendas Real Estate Investment Trust (A-Reit) are okay to hold. They have the lowest PB/ROE (price-to-book ratio–return on equity) in the entire list. The more expensive stocks on a PB/ROE basis are Raffles Medical and Wing Tai," said the panel.

Investors who are looking for value strive to maximise ROE while minimising PB.

ROE reveals how much profit a firm generated in comparison with the total amount of shareholder equity (total assets minus total liabilities) on the balance sheet. The PB is a ratio used to compare a firm's current market price with its book value.

Thus the panel has decided to take profit on these counters and raise the level of cash in the portfolios instead of immediate redeployment.

Meanwhile, it is looking for a more opportune valuation level to re-enter the market.

The panellists are also carefully watching the Reits' exposure, given the gains, and have decided to maintain the status quo in the absence of any trigger for change.

The panel said: "The global ETFs all did well this month, in part aided by the relative strength of the euro and the yen against the US dollar. The Chinese equities and eurozone equities also showed recovery. Gold continued to be well supported."

Given that growth is likely to come from Asian regional economies, the panel is keeping a close watch on increasing exposure to emerging market equities and will look to rebalancing the portfolios accordingly in the next cycle.

WHY THEY TRAIL BENCHMARKS

The panel explained that the cumulative portfolio performances are likely to trail the indices or benchmarks.

The two main reasons are: cost and the differences between the underlying positions in the portfolios and the indices chosen.

Cost: None of the benchmark indices has any costs embedded, whereas the actual simulated portfolios have to incur trading costs. They range from 0.31 per cent for Mr Wang's portfolio, which is the largest, to about 1 per cent for Ms Chee's portfolio, which is the smallest.

In addition, the ETFs have their own management fees, which range from 0.3 per cent for iShares JPM Asia Credit Bond and DB x-trackers MSCI USA to 0.6 per cent for DB x-trackers FTSE China 50.

Difference between the underlying positions and the index: The panel decided on a customised benchmark comprising the following four indices:

- Straits Times Index (STI) : This is generally a good approximation of the basket of Singapore-listed stocks. The portfolios do not hold some sectors represented in the STI – for example, oil and gas. Costs obviously come into play here as well as if trading costs are taken into account.

  The panel said: "Mr Wang's Singapore equity exposure has actually tracked the benchmark STI quite closely. Mr Goh was hampered a bit from holding back half the equity position in cash to start, while Ms Chee has mainly been affected by trading costs."

  The bounce in some of the STI sectors such as Keppel Corp and Sembcorp Marine, in which the portfolios do not have any positions, also contributed to the underperformance.
- MSCI World: The decision was to go with MSCI World as the most diversified and broad equity index; however, the ETFs used in this sub-sector include commodities.

  The panel deliberated on whether to have a separate commodity benchmark but, in the end, decided to just lump the commodity ETFs under MSCI World for simplicity.
- FTSE S-Reit: This is an approximation of the underlying positions. So far, the Reit selection (mainly the choice of A-Reit) is the reason for the outperformance versus the benchmark.
- ABF Singapore Bond: There is no "perfect candidate" so the panel ended up selecting the ABF Singapore Bond as the best proxy for the bond positions.

  This benchmark is made up of Singapore Government or quasi government bonds, which makes it a good benchmark for the SSB component of the portfolios. The underperformance for this sub-sector ranges from 2.69 per cent (Mr Goh) to 2.99 per cent (Ms Chee), and the reason for this is that Singapore Government bonds have done very well this year up to last month.

  In addition, the iShares Asia Bond ETF is invested in US dollar bonds, and the ETF has delivered a negative return since its inception mainly because of the 6 per cent correction in the US dollar relative to the Singdollar.

• The third seminar in the Save & Invest Portfolio Series, to be held on July 9, will be for income-seeking investors. More details will follow. To analyse the financials of SGX-listed firms, you can check out StockFacts (www.sgx.com/stockfacts). Please send your queries on this series to lornatan@sph.com.sg.

The CFAS panellists who track the simulated portfolios are (from top) Mr Phoon Chiong Tuck, head of fixed income at Lion Global Investors; Mr Jack Wang, partner at Lexico Capital; Mr Praveen Jagwani, chief executive officer of UTI International, Singapore; and Mr Simon Ng, CEO of CCB International (Singapore). They are watching closely the increasing exposure to emerging market equities.

All four sub-components (equities, ETFs, Reits and bonds) of Ms Shona Chee's portfolio outperformed. ST PHOTO: DESMOND WEE

Mr Getty Goh's portfolio grew 1.03 per cent, outperforming the benchmark by 10 basis points. ST PHOTO: ONG WEE JIN

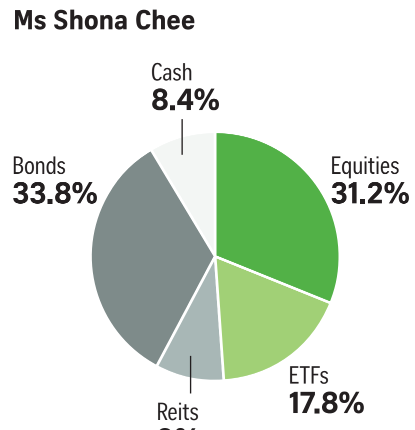
Mr Wang Moo Kee's portfolio rose 0.74 per cent, outperforming the benchmark by 70 basis points. ST PHOTO: CHEW SENG KIM

Portfolio performance

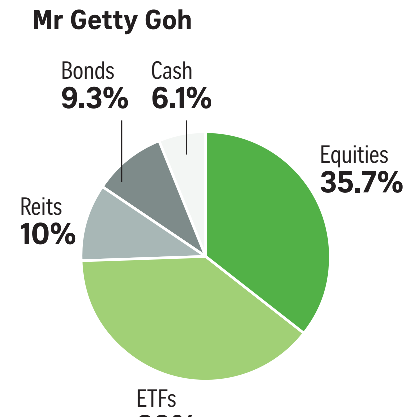
Portfolio	Initial investment ($)	Current portfolio value ($)	Net total return (%)	Benchmark return (%)	Dividends and coupons ($)	Realised profit/loss ($)	Unrealised profit/loss ($)
Ms Shona Chee	40,000	41,162.63	2.91	5.79	77.02	589.96	1,066.67
Mr Getty Goh	200,000	208,223.55	4.11	6.40	387.28	3,137.31	5,400.84
Mr Wang Moo Kee	400,000	416,937.60	4.23	5.39	2,162.70	5,975.00	11,061.90

HOW THEY COMPARE

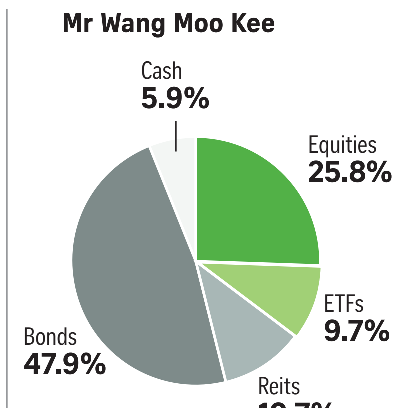
Ms Shona Chee



Mr Getty Goh



Mr Wang Moo Kee



NOTES:
- Portfolio start date was Jan 18, 2016.
- Portfolio performance as at April 29, 2016.
- As the Portfolio Series is intended for illustrative and educational purposes only, it will not involve actual money, investments or solicitation of funds for actual fund management by CFAS or the advisory panel.
- You are advised to seek independent financial or other professional advice for your own investments.
- CFAS and the advisory panel may provide information and recommendations on investments which they have an interest in.
- All views or recommendations made by the advisory panel are to be attributed to CFAS.

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