Save&Invest

Robust full-year returns despite volatility

Simulated portfolios with 3 different investor profiles deliver far better returns than deposits

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Invest Editor

Despite the volatile investing environment last year, all three simulated portfolios that The Sunday Times launched a year ago have registered robust returns in excess of 9 per cent for the full year ended Jan 31.

In the 15th part of this series, we look at the full-year performance of the three simulated portfolios and the adjustments that we made to them on Feb 1. Our investors are communications manager Shona Chee, 26, entrepreneur Getty Goh, 38, who is married with two young children, and retiree Wang Moo Kee, 62. The Portfolio Series does not involve actual money as it is intended only for the purposes of illustration and education.

To keep them simple, accessible and easy to monitor, all three portfolios are limited to instruments listed on the Singapore Exchange and to Singapore Savings Bonds, which can be bought via ATMs.

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

Each portfolio has a different benchmark that best reflects its mix. Mr Goh's portfolio, for example, is heavier on blue-chip shares, while Mr Wang goes for bonds to reflect his more conservative stance.

The simulated portfolios are constructed by CFA Society Singapore (CFAS) for an ideal investment horizon of five to 10 years. We will track them until the middle of this year.

Key principles

Despite last year's vicissitudes, the positive one-year portfolio performance truly underscored the virtues of asset diversification, said the panel.

Here are the principles (in order of priority) applied by the panel in their asset allocation:

- Preserving capital in the currency of expenses
- Achieving a reasonable return above the inflation rate
- Maintaining a degree of liquidity

Portfolio performance (as at Jan 31, 2017)

Portfolio	Initial investment ($)	Portfolio value ($)	Net total return (%)	Benchmark return (%)	Dividends and coupons ($)	Realised P/L ($)	Unrealised P/L ($)
Ms Shona Chee	40,000	43,732.08	9.33	12.62	1,034.52	1,844.35	2,117.08
Mr Getty Goh	200,000	222,193.25	11.1	15.93	4,340.89	6,987.38	12,329.82
Mr Wang Moo Kee	400,000	437,247.70	9.31	10.27	13,774.84	15,419.74	9,100.40

What are in the simulated portfolios? (as at Feb 1, 2017)

	Ms Shona Chee	Mr Getty Goh	Mr Wang Moo Kee
Initial investment amount	$60,000*	$200,000	$400,000
Portfolio value	$63,638.43	$223,351.43	$438,362.75
Asset class	Security (Weightage)	Security (Weightage)	Security (Weightage)
Cash	7.1%**	0	0.1%
Domestic equities	**30.1%** - DBS - First Resources - OCBC - Singapore Exchange - Singapore Post - Singtel	**38.7%** - DBS - First Resources - OCBC - Singapore Exchange - Singapore Post - Singtel	**29.9%** - DBS - First Resources - OCBC - Singapore Exchange - Singapore Post - Singtel
Global ETFs	**26%** - DBX AC Asia ex-Japan 1C - DBX MSCI Japan 1C - DBX MSCI USA 1C - ISHARES MSCI India Index ETF - SPDR Gold shares	**43.5%** - DBX FTSE China 50 1C - DBX AC Asia ex-Japan 1C - DBX MSCI Japan 1C - DBX MSCI USA 1C - ISHARES MSCI India Index ETF - SPDR Gold shares	**18.7%** - DBX MSCI Japan 1C - DBX MSCI USA 1C - ISHARES MSCI India Index ETF - SPDR Gold shares
Reits	**9.9%** - A-Reit - Keppel DC Reit	**9%** - A-Reit - Keppel DC Reit	**4.8%** - A-Reit - Keppel DC Reit
Bonds	**26.9%** - CMT 3.08% Feb 21 - FCL 3.65% May 22 - ISHARES JPM USD Asia Bond - Singapore Savings Bond	**8.8%** - CMT 3.08% Feb 21 - ISHARES JPM USD Asia Bond - Singapore Savings Bond	**46.4%** - ABF Singapore Bond Index Fund - CMT 3.08% Feb 21 - DBS 4.7% Perp (call Nov 20) - FCL 3.65% May 22 - ISHARES JPM USD Asia Bond - OCBC 5.1% Perp (call Sept 18) - Singapore Savings Bond

*Ms Chee's investment amount grew to $60,000 from $40,000 as she added $20,000 savings to the simulated portfolio.
**The cash portion in Ms Chee's portfolio will be fully deployed into Singapore Savings Bond come March 1, 2017.

NOTES:
- Portfolio start date was Jan 18, 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.
- Figures may not add up to 100% due to rounding off.
- To access past articles and portfolio reports, click on the Save & Invest Portfolio Series banner at www.sgx.com/academy

Source: CFAS SUNDAY TIMES GRAPHICS

REASONABLE RETURNS

Given the volatile backdrop we witnessed last year, we are pleased that all the three portfolios have delivered reasonable returns even though a one-year time frame is considered too short when it comes to investing. These results show that having an investment portfolio is a more sensible and effective approach to safeguarding one's future, than letting one's funds sit passively in deposits.

CFAS PANEL

FULL-YEAR PORTFOLIO PERFORMANCE

The three simulated portfolios posted returns of 9.3 per cent to 11.1 per cent over the last 12 months ended Jan 31, which far surpassed the fixed deposit interest rates of about 1.5 per cent in Singapore. The CFAS panel said: "Given the volatile backdrop we witnessed last year, we are pleased that all the three portfolios have delivered reasonable returns even though a one-year time frame is considered too short when it comes to investing.

"These results show that having an investment portfolio is a more sensible and effective approach to safeguarding one's future, than letting one's funds sit passively in deposits."

Of the three, Mr Goh's simulated portfolio achieved the highest return of 11.1 per cent for the year ended Jan 31. As a result, his initial investment of $200,000 grew to $222,193.25. Ms Chee's and Mr Wang's portfolios enjoyed similar returns of 9.3 per cent. Mr Goh's portfolio did better because his portfolio is more aggressive with a higher allocation to equities, which outperformed bonds over the last year.

Some of you may wonder why despite the portfolios achieving returns in excess of 9 per cent, the chosen benchmarks fared better.

As explained earlier in this series, the benchmarks that are available do not mirror the simulated portfolios exactly. The benchmarks are theoretical constructs and are not readily investible.

For example, most of the non-Singapore exposure in the portfolios has been obtained through exchange-traded funds (ETFs), for which the chosen benchmark is an All Country Total Return ETF. This ETF includes Europe, yet we have not been invested in Europe consistently. The benchmark does not include gold too but we have maintained a position in gold for a long time.

"To recap, at different points last year, different asset classes in the portfolios outperformed these benchmarks," said CFAS. "For the year under review, we find that Reits and bonds outperformed while Singapore equities and ETFs trailed their respective benchmarks. The key takeaway from this is that it is impossible to predict all the factors that affect financial markets and therefore it is best to invest with a long-term horizon, in a diversified basket of assets."

JANUARY PORTFOLIO PERFORMANCE

Ms Chee's portfolio was up 2.47 per cent for the month, trailing the benchmark (2.82 per cent) by 0.35 percentage point. Mr Goh's portfolio was up 2.85 per cent, basically in line with the benchmark (2.84 per cent) while Mr Wang's portfolio was up 1.89 per cent, trailing the benchmark (2.71 per cent) by 0.82 percentage point.

The relative underperformance of Mr Wang's portfolio was due to security selection in the Singapore stock allocation, the lack of Asia ex-Japan and emerging market exposure in the global ETF allocation, the underweight stance in Reits (4.9 per cent actual versus 10 per cent target) and the underperformance of corporate bonds versus Singapore Government bonds, which recovered last month.

The underperformance of Ms Chee's portfolio was because she was relatively underweight on Singapore equities (28.6 per cent actual versus a 36 per cent target), as the Straits Times Index (STI) staged an impressive rebound (5.85 per cent) last month, outperforming the MSCI World index (2.73 per cent).

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Save & Invest Portfolio Series

The Save & Invest Portfolio Series features the simulated portfolios of a young working adult, a married couple with two young children and a retiree over an 18-month period. It guides retail investors in basic investment techniques and on how to build a portfolio in line with their financial goals and risk tolerance.

This initiative involves the Singapore Exchange collaborating with CFA Society Singapore (CFAS) and MoneySense, the national financial education programme.

The CFAS panellists tracking the simulated portfolios are Mr Phoon Chiong Tuck, senior fixed income manager at Lion Global Investors; Mr Jack Wang, partner at Lexico Capital; Mr Praveen Jagwani, chief executive of UTI International, Singapore; and Mr Simon Ng, CEO of CCB International (Singapore).

Due to requests from readers, you can now access past articles in the series, as well as monthly portfolio reports, by clicking on the Save & Invest Portfolio Series banner at www.sgx.com/academy.

Portfolio adjustments

The cash levels in the simulated portfolios were raised last month, given the redemption of the retail corporate bond CMA (3.8 per cent January 2022) – contained in all three portfolios – by the issuer on Jan 12. In addition, the panel decided to deploy the additional $20,000 top-up investment from Ms Chee.

The following portfolio adjustments took effect on Feb 1:

- **Ms Chee:** sold Singapore Airlines (SIA) and bought OCBC, Singapore Exchange, First Resources, Keppel DC Reit, Gold ETF, CMT 3.08 per cent Feb 21 bond, iShares JPM USD Asia Bond ETF and Singapore Savings Bond (on March 31).
- **Mr Goh:** sold SIA and CapitaLand Mall Trust (CMT); bought OCBC, Keppel DC Reit and CMT 3.08 per cent Feb 21 bond.
- **Mr Wang:** sold SIA and CMT; bought OCBC, Keppel DC Reit, CMT 3.08 per cent Feb 21 bond, FCL 3.65 per cent May 22 bond, DBS 4.7 per cent Perp (call Nov 20) and OCBC 5.1 per cent perpetual (call Sept 18).

The CFAS panel explained that the decision to buy OCBC shares was based on a few factors. First, banks are likely to benefit in terms of better interest margins from impending rate hikes expected this year. Also, OCBC is moving strongly into North Asia and wealth management via its Bank of Singapore unit.

The panel also saw potential in Keppel DC Reit because of the excellent fundamentals for data centres. These are specialised and secure facilities, designed and constructed to house and reliably operate mission-critical networking and computer equipment.

"Barriers to entry for this asset class are significantly high, due to substantial upfront costs. Robust underlying demand for data centre space is supported by increasing mobile penetration, e-commerce, video/media applications and cloud computing from diverse companies including IT/internet firms, financial institutions, media and government.

"Near-term supply pressure in Singapore should be more than offset by high utilisation rates in excess of 75 per cent and longer-term demand growth," said the panel.

In contrast, with high oil prices and a global slowing in tourism expected, SIA has limited upside potential. As such, the panel recommended exiting the stock.

Lorna Tan