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# HOW TO SELECT FUNDS FOR YOUR PORTFOLIO

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## KEY POINTERS HOW TO SELECT FUNDS

- ❑ When we look at funds, its easy to get attracted into the latest recommendations or hottest picks. **These funds made it to the top because of recent strong performance (usually less than 3 years of performance) and/or higher trailer fees paid by the fund managers to the distributors.**
  - And, it may often not be an accurate indicator of what we really need to fit in our portfolio.
- ❑ A well selected fund should **complement your overall portfolio strategy.**
  - Example, if you have a dividend strategy, and currently own a basket of Singapore REIT and financials, you do not want another “All Singapore REIT Fund” or a “Core Equity Singapore Fund”.
  - Rather, select funds which give you a different country (e.g. US, Hong Kong or European countries) and/or sector exposure (Consumer, Industrials, Utilities).
  - Alternatively, you can find bond funds which complement your dividend income strategy.

## KEY POINTERS HOW TO SELECT FUNDS

- ❑ While outperformance is always a desired trait when it comes to fund selection, we also need to consider **consistent performance (stable but growing NAV) of the fund.**
- ❑ Don't forget, **your psyche toward investing in the markets is more important than purely achieving investment results.**
  - If volatile NAV (prices) is keeping you awake at night, what is there to talk about outperforming the market over the next few decades?
- ❑ Treat funds like any other individual securities in your portfolio allocation.
  - Just because it is a diversified asset class does not entitle it to take up a larger part of your portfolio. If that was the case, I would have filled my entire portfolio with Ascott Residence Trust (>74 properties globally).
- ❑ Investment Management Association of Singapore (IMAS) has a basic screener of all the funds available in Singapore ([http://www.fundsingapore.com/screener/basic\\_search](http://www.fundsingapore.com/screener/basic_search)). I find this useful.

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## WHAT DOCUMENTS SHOULD WE FOCUS ON?

- Prospectus
- ✓ **Product Highlight Sheet**
- ✓ **Fund Factsheet**
- Semi-Annual/Annual Report

## WHAT TO LOOK OUT FOR FUNDS

Checklist	Comments
Who are the Managers of the fund?	<ul style="list-style-type: none"><li><input type="checkbox"/> Check for track record, reputation and expertise.</li><li><input type="checkbox"/> Were there any changes made to the Investment Manager during interim and why?</li></ul>
What is the fund's investment objectives?	<ul style="list-style-type: none"><li><input type="checkbox"/> Understand the fund's strategy, and relate it back to your portfolio objectives.</li><li><input type="checkbox"/> How can a fund's asset allocation, country exposure, sector exposure and top holdings relate to your portfolio?</li></ul>
What is the fund's AUM	<ul style="list-style-type: none"><li><input type="checkbox"/> Larger fund sizes (&gt;\$1 billion) are typically managed by experienced managers. However, they also have difficulty generating performances due to large deployment of capital.</li><li><input type="checkbox"/> Smaller funds (\$100 – 300 million) bear the risk of shutting down if not profitable. May not receive manager's attention.</li></ul>

# WHAT TO LOOK OUT FOR FUNDS

Checklist	Comments
Distribution Policy	<ul style="list-style-type: none"><li><input type="checkbox"/> Can be made quarterly or semi-annually. Select Policy most suitable for your portfolio objectives.</li></ul>
What is the fund's currency denomination?	<ul style="list-style-type: none"><li><input type="checkbox"/> Do they have a share class corresponding to your currency needs?</li></ul>
Analyzing performance	<ul style="list-style-type: none"><li><input type="checkbox"/> Look at Offer-to-Bid Returns to include effect of fees.</li><li><input type="checkbox"/> Ensure there is longevity, at least 5-10 years performance record.</li><li><input type="checkbox"/> Check what is the annualized performance (usually its &gt;1 year) and see if it complements your portfolio target returns.</li></ul>

# FEE STRUCTURES

- ❑ Fees which are being charged to the fund is called **Total Expense Ratio (or simply Expense Ratio)**.
  - This typically accounts for 1% - 2.5% of a fund's NAV.
  - Offer-to-bid spreads accounts for the effects of subscription and redemption charges.
  - NAV-to-NAV is also known as Bid-to-Bid Performance.
  
- ❑ While fund managers are capable of beating the market, it is usually due to the high fees which compromises investors' returns on their fund investments.

## WHAT ARE THE FEES WE SHOULD BE LOOKING AT?

Checklist for Fees	Comments
Initial Sales Charge	<ul style="list-style-type: none"><li><input type="checkbox"/> Typically up to 5%.</li><li><input type="checkbox"/> Paid to a distributor (e.g. FSMOne, Phillip Securities etc).</li><li><input type="checkbox"/> Can negotiate for a waiver.</li></ul>
Redemption Fees (Realization Charge)	<ul style="list-style-type: none"><li><input type="checkbox"/> Paid to a distributor when we sell a fund.</li></ul>
Switching Fee	<ul style="list-style-type: none"><li><input type="checkbox"/> Paid to a distributor when we switch between funds from the same fund manager.</li></ul>
Management Fees	<ul style="list-style-type: none"><li><input type="checkbox"/> Fees charged by the fund manager.</li><li><input type="checkbox"/> Typically range from 0.5% to 2% of the fund's NAV</li><li><input type="checkbox"/> Up to 60% of the fees can be used to pay to distributors (as Trailer Fees). This is disclosed.</li></ul>
Other Fees	<ul style="list-style-type: none"><li><input type="checkbox"/> Trustee, Custodian, Accounting, Valuation Provider fees.</li></ul>