FIMM TODAY

Sept 2017 Issue

DATO' NORAZHARUDDIN IS FIMM'S NEW CEO

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PP:18242/08/2013(033601)

A publication by
Federation of Investment
Managers Malaysia

Editor's Note

Dear Members,

Since the publication of the last issue of *FIMM Today*, the Federation has continued to grow and evolve to meet the new challenges posed by global and local developments. This volume of *FIMM Today* contains an overview of some of the issues that we face, and provides some talking points that will serve as a prelude to the discussions at our annual convention in September.

One of the key issues we face is continuing uncertainty in the financial markets. However, Malaysia seems to have been shielded from the worst thus far. In spite of the uncertainty, the unit trust industry in Malaysia continues to show positive growth in 2017 in terms of net asset value (NAV), which, as at the end of June 2017, totalled RM409.45 billion. Meanwhile, the Malaysian economy continued to grow at a healthy 5.6% in the first quarter of the year, and is expected to continue this trend through 2018. This is further evidence of the robust fundamentals of the country underpinned by domestic consumption and public sector spending.

Nevertheless, there is evidence that the global economy is becoming less stable. Given the cyclical nature of booms and busts at the macro level, there is some evidence suggesting that the global economy may be looking at another downturn two or three years down the road. It is therefore becoming increasingly important for asset management practitioners to ask themselves if they have the necessary skillset to identify upcoming dynamic changes in the market.

Are you able to identify weaknesses in the equities market and thus advise your clients to switch to a fixed income fund? Or are bonds the issue instead? Are your clients well-positioned to weather the storm, or can you advise a rebalancing of some form? If you cannot make these determinations, then perhaps it is time to brush up on your knowledge.

There are also challenges arising from developments on the local front. The increasing sophistication of investors, the proliferation of fintech and general improvements in the level of financial education are making customers demand more from their unit trust consultants and asset managers. Not just in terms of yields and returns, but also in terms of providing variegated services in an integrated manner. If consultants are unable or unwilling to provide these services, then others, through online or other means, will be more than happy to step in.

This is to say that our responsibility as unit trust practitioners and asset managers in relation to clients and customers is changing. As practitioners, we can no longer rely solely on the technical merits of our products as our main selling point, but rather we must focus our efforts on meeting the needs of our clients. An oft-thrown about phrase is that our role is one of 'selling solutions', and that is precisely what we need to do: develop solutions to meet our customer's investing needs.

On a final note, we are pleased to welcome at the helm of FIMM Dato' Norazharuddin Abu Talib who has taken on the post of Chief Executive Officer effective July 17, 2017. Formerly the Managing Director of Astra Partners Sdn Bhd, Norazharuddin brings a wealth of experience from his previous positions at various organisations including Citibank, South East Asia Development Corporation Berhad (SEACORP), Walden International Investment Group (WIIG), Commonwealth Development Corporation (CDC), PDX.com Sdn Bhd, and Malaysia Venture Capital Management Berhad (MAVCAP).

We look forward to many productive years with him at the helm.

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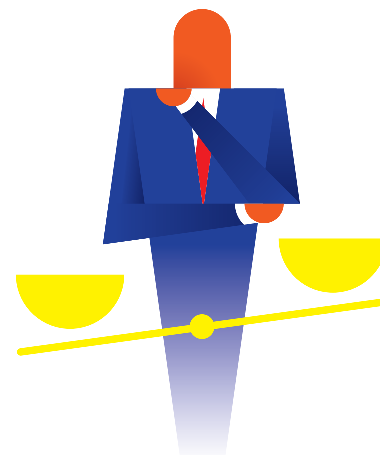
Dato' Norazharuddin Abu Talib
Chief Executive Officer, FIMM

Developing FIMM into an effective self-regulatory organisation (SRO) has been a key priority for the Federation since it was accorded the status by the Securities Commission (SC) in 2011. Over the past six years, FIMM has been working hard to develop its identity as well as to more effectively dispense its role as a bridge between the SC, the industry and unit trust consultants (UTCs).

Dato' Norazharuddin Abu Talib, appointed CEO on July 17, 2017, will be responsible for overseeing the changes and enhancements to the Federation. Bringing with him a wealth of experience in the areas of private equity and venture capital management, Norazharuddin, an asset management outsider, aims to bring fresh new ideas to FIMM. An affable and approachable man, Norazharuddin nevertheless does not pull back the punches when the occasion calls for it.

"The challenge that was put to me is to see if I can improve FIMM in the areas identified by the Board," he tells *FIMM Today*. "The issue is to manage both industry as well as investors, and to ensure that both parties provide us with the right feedback so that we can get on with the business of playing our role as an SRO.

> *"The issue is to manage both industry as well as investors, and to ensure that both parties provide us with the right feedback so that we can get on with the business of playing our role as an SRO. But finding the right balance between industry and investor, however, is easier said than done."*



But finding the right balance between industry and investor, however, is easier said than done."

Another priority for Norazharuddin is to identify the right benchmarks for FIMM, and in doing so, establish the right values for the organisation. "I think in terms of where FIMM will be, I would like to see FIMM become a good SRO," he says. "In a broad sense, I would say that this means possessing the right values that dictate the habits and performance of our people."

Whilst becoming an effective SRO is Norazharuddin's ultimate goal for FIMM, he acknowledges that this goal breaks down into a number of smaller, more discrete goals which are just as important. His immediate priority, he says, is to develop FIMM's human capital by recruiting and retaining the best talent available.

"We are trying to attract people with good skillsets whom are looking to advance themselves to the next level," he says. "I want to see us working together hand-in-hand as a team, and to help our employees build their skillsets so that they can move anywhere within FIMM. The challenge for me is to help them achieve their career goals and ambitions."

Norazharuddin believes that working on FIMM's people also extends to their members, namely the unit trust and Private Retirement Scheme (PRS) consultants. Over the last few years, FIMM has been actively working to enhance the level of professionalism of consultants in Malaysia, but here too is an area that Norazharuddin says the Federation must tread carefully.

Ideally, consultants and practitioners ought to place their clients' needs as their first and foremost priority. However, the practice of prioritising the sale of products is still a key commercial consideration for some. No problems arise when both client and commercial interests are aligned, but the issue is if and when these interests are misaligned. At these times, the professionalism of the individual consultant will be called into question.

Norazharuddin says unit trust as well as the PRS plays an important role as investment assets for the Malaysian public as well as a stabilising force in the broader capital market. It is therefore critical that FIMM creates a structure that effectively oversees the marketing and promotion of unit trusts to maintain investor confidence and to prevent the development of any systemic risk. From that perspective, he says that investor education must be a priority for FIMM.

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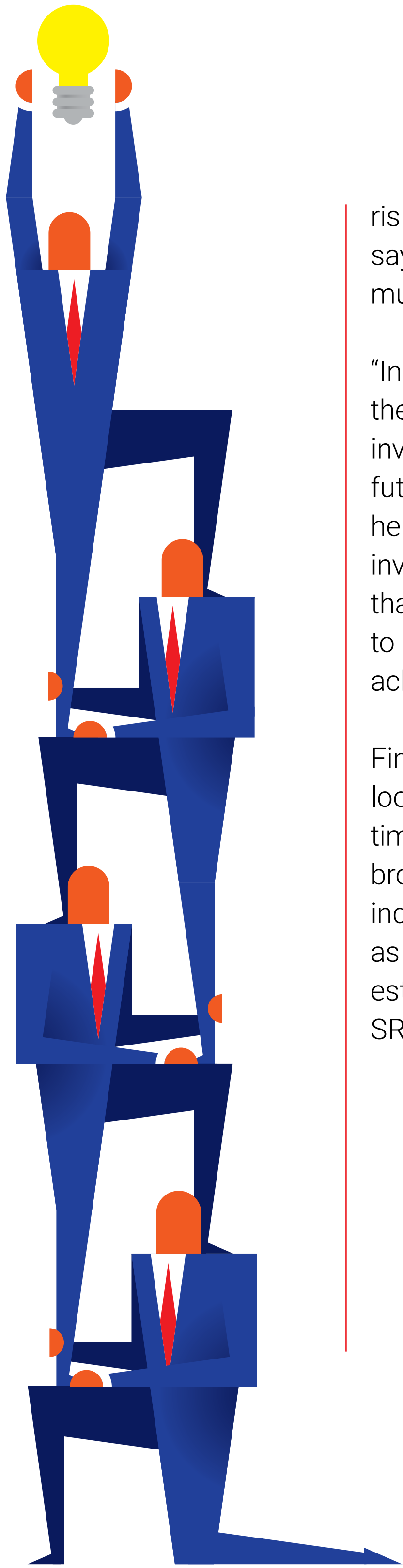
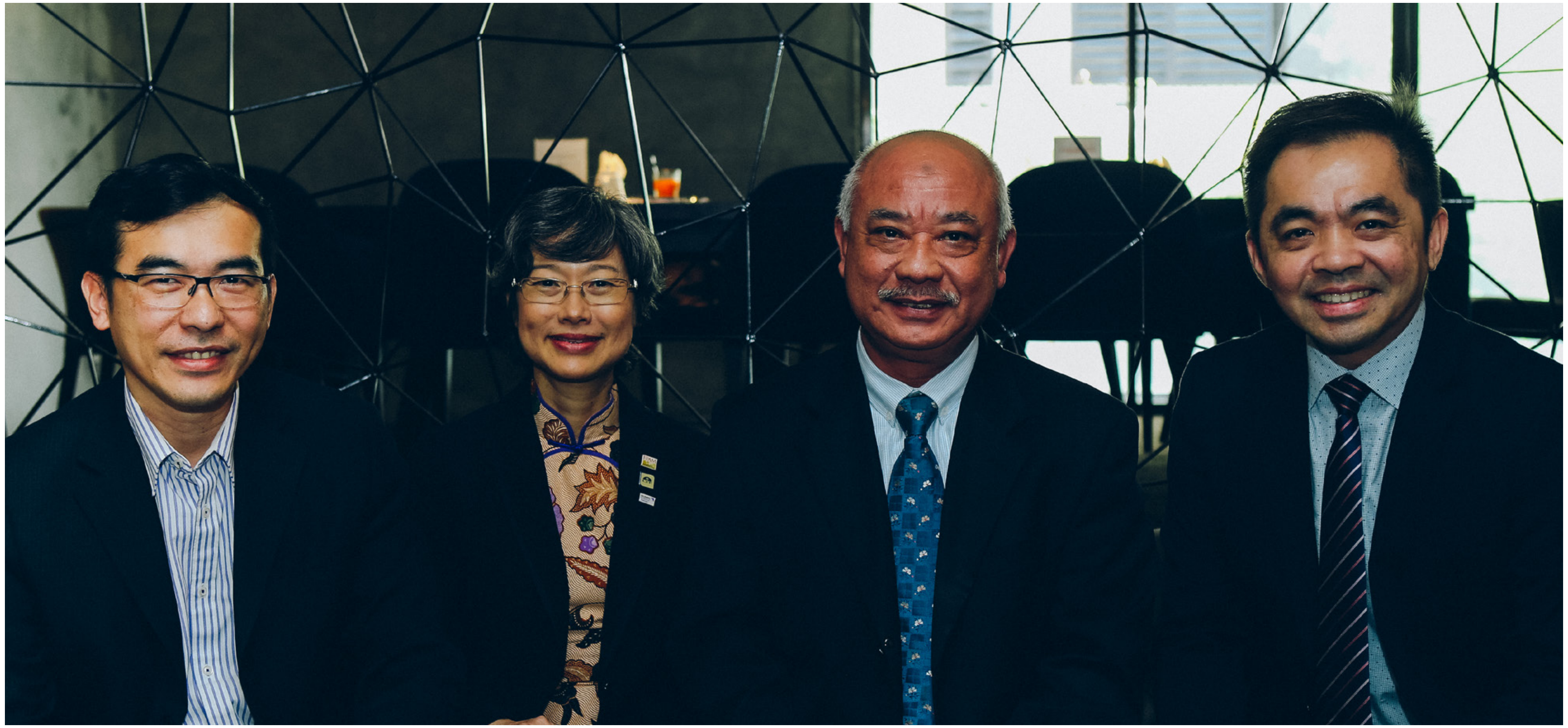


"In more mature markets, the general public are active investors planning for their future including retirement," he says. "We need to help investors in Malaysia become that way. I would like FIMM to play a more active role [in achieving that]."

Finally, Norazharuddin says he looks forward to a productive time at the helm and seeks broad cooperation from both industry and regulators as well as his staff as he strives to establish FIMM's identity as an SRO.

Left to right:
Danny Wong, Chief Executive Officer, Areca Capital
Lynette Li, Chief Executive Officer, FPAM
Dato' Norazharuddin Abu Talib, Chief Executive Officer, FIMM
Tang Khan Loon, Director, FA Advisory



Integrated Thinking, Not Qualifications, More Important for UTCs

A persistent caveat issued to finance practitioners the world over is the need for continuous professional development lest they be left behind by the march of progress. For unit trust consultants (UTCs), this typically translates into a need for additional training, building skillsets and expanding their client base. Not surprisingly, some UTCs view the transition into becoming a full-fledged financial planner as a natural next step in their career progression.

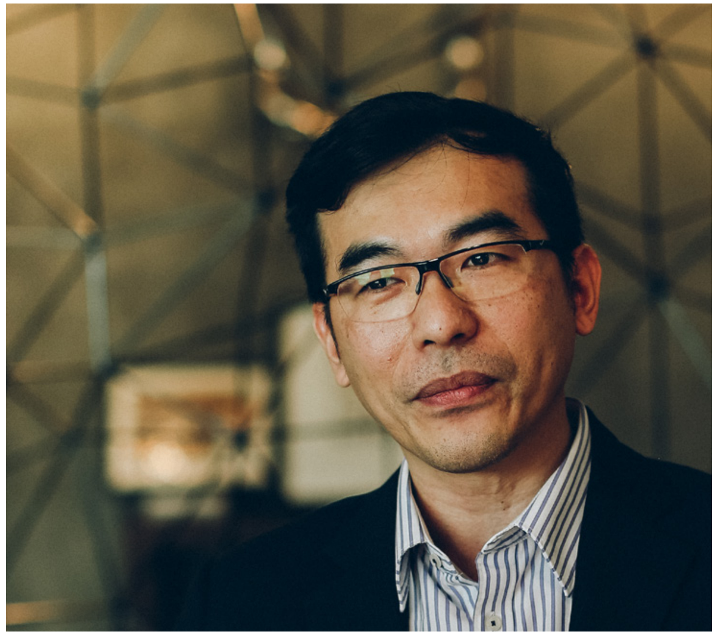
To determine if fund providers agreed with this perspective, FIMM hosted a roundtable discussion with Areca Capital's CEO Danny Wong, the CEO for the Financial Planning Association of Malaysia (FPAM) Lynette Li, and FA Advisory's Director Tang Khan Loon. While all three participants agreed that the traits associated with financial planners—e.g. providing needs-based investing advice and integrated investment solutions—were characteristics that should be embraced by all UTCs, they said it was not necessary for all UTCs to seek professional certification.

"Financial planning is not for everybody," says Li, whose organisation, FPAM, administers the Certified Financial Planner (CFP) qualification. "Not all UTCs will make good financial planners. There will be those who want to stay as consultants but it is how they practise that is going to have to change [because of changes in the market]. As a UTC, you need to move yourself to the next level, which is to be advice-based rather than product-based."

FPAM has gone on the record as saying that the current model of the unit trust industry which is product-focused is not sustainable in the long term. The association's president, Ismitz Matthew De Alwis told *The Edge* financial newspaper that new developments including the development of financial technology (fintech) and potential changes to regulations may in future contribute to a shift in the way business is done.

FA Advisory's Tang notes that the market is changing, and one of the biggest changes is customer expectation. Clients are becoming more financially savvy and demanding more from their advisors to provide them with integrated wealth management solutions rather than simply recommending high-yield products. However, this does not necessarily translate into an imperative that current UTCs seek out financial planning qualification.

"The industry is being driven by the evolution of the consumer," Tang says. "If the consumer today is so savvy that they need you to provide [financial] advice, then there is a need for UTCs to evolve as well… practitioners have to ask themselves if they are ready because this is the global perspective."



GETTING READY FOR THE CHANGE

Preparing their people for the change has been a key priority for Areca Capital, CEO Danny Wong says. About 80% of its consultants are today CFP-licenced financial planners while the company itself is in the midst of applying for a financial planning licence. This move is part of the company's overall strategy to better meet its clients' financial planning needs and broaden the scope of its operations.

"The biggest disruption we face in Malaysia is not fintech or robo advisory, but changing client expectations," he says. "Can you meet those expectations? If you can't then you're out. Clients are requesting more [services] these days because of the growing dynamism in the market, because we are in a new phase of our investment era. At Areca, we have always advocated advisory selling and we planned this a long time ago."

Areca is not alone in deploying this strategy. Other fund management companies, such as Kenanga Investors Bhd, are also actively encouraging their agency force to seek CFP qualification. Nevertheless, Wong says, this should not be taken to mean that this is the only viable strategy for asset management practitioners.

"There are different needs in the market," he says. "There is no 'one-size-fits-all'. There are certain investors who know their financials well and who will seek out specific investment advice. To use a medical analogy, you would see a general practitioner if you are unsure of what you need. But once you know what you need, you go straight to the specialist. The market is big enough; but having said that, the needs-based, integrated [advisory] approach must come in."

This is particularly true if the Malaysian regulatory

> *Our key principle is that the client interest comes first. This means that our advisors will try their best to ensure that our client's portfolio is growing [rather] than to push the product of the day or the year. - Tang*

framework changes to a fee-based structure from its current sales charge structure in line with global best practices, Tang adds. If such a shift were to occur, UT practitioners will be paid a fee derived from total assets under advice (AUA) rather than a percentage of product sales. This effectively shifts the emphasis from product sales to the quality of advice and portfolio execution that the practitioner or UTC can offer.

Tang says that the advisory approach has been the foundation for FA Advisory since its inception. This is due in part to the specific evolution of the licensing regime in Singapore, which is where the firm was first established, but also because it's a key part of the company's DNA. Tang says that being an independent advisory firm is essential as it allows them to better align their interest with their clients' interests.

"FA Advisory is a pure independent financial advisory firm working with our own advisory process…but we also work with insurance companies, investment platforms and fund houses, and provide other services including wills, trust, and so on," he says. "Our key principle is that the client interest comes first. This means that our advisors will try their best to ensure that our client's portfolio is growing [rather] than to push the product of the day or the year."

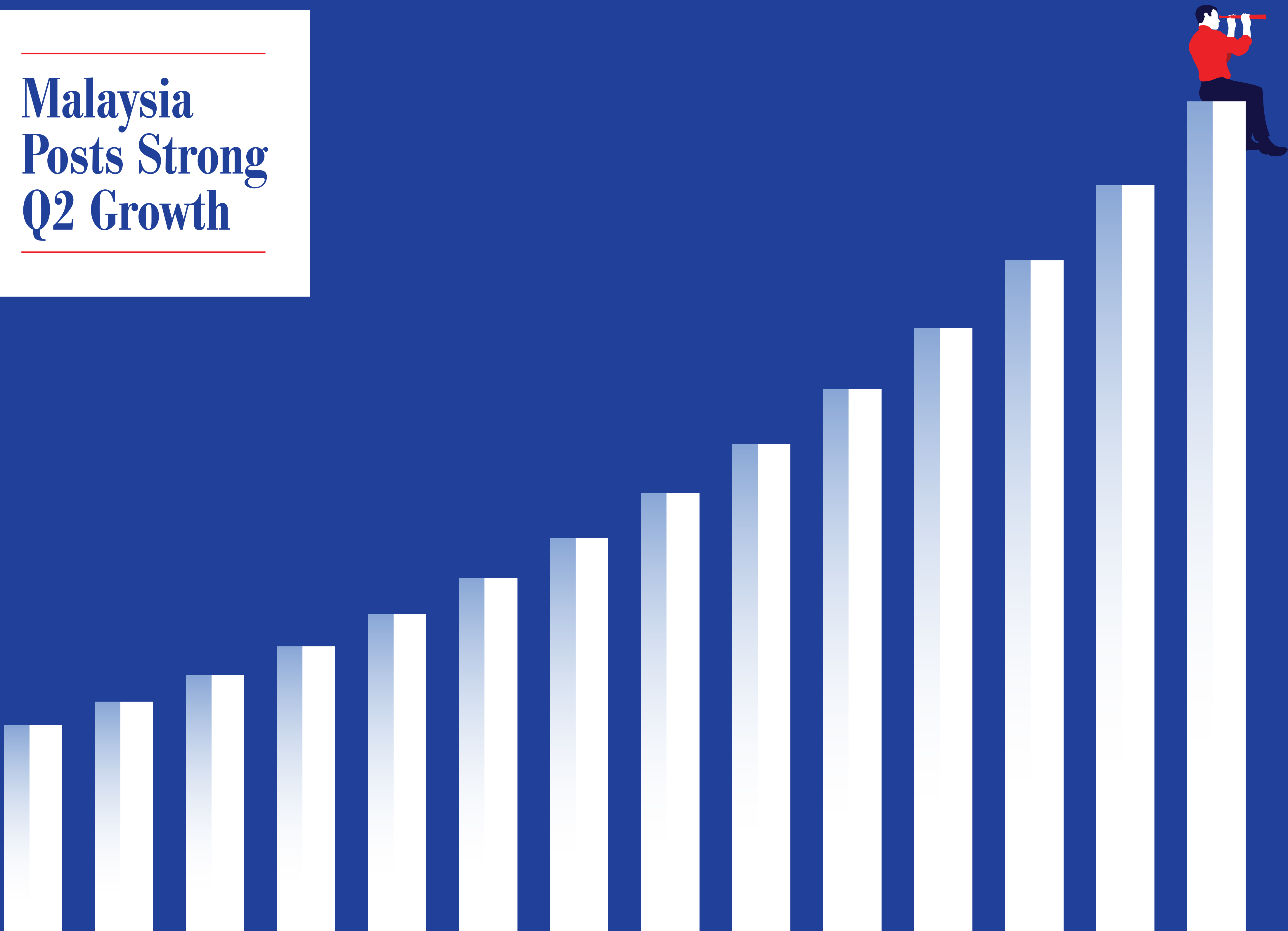
However, he warns that this does require considerable backend support, administratively and also in terms of technical analysis. The growing range of products available in the market means that UTCs must be able to efficiently and effectively identify products for clients based on their financial plan, and this may include products aside from unit trust. To be able to effectively meet client requirements, there is a chance that they may have to work with other asset types including insurance and annuities.

Fees aside, Li adds, that there are also good reasons for UTCs to raise their game regardless of whether the regulatory change happens or not. In addition to making UTCs better financial advisors, there are also practical business considerations to factor.

"I'm going to paint you a picture," Li says. "A client goes to a financial planner who may or may not offer [investment] products. He will draw up a plan, make a recommendation and develop a solution. When it comes to advice on which product, he may not want to provide a specific recommendation and may ask the client to go to the UT or insurance agent of their choice. If I am a UT consultant and I can't read a financial plan, then the next UTC who can will get the client. Ultimately you still have to be educated."

In summary, continuous professional development is indeed essential for consultants looking to progress in their careers, but this need not necessarily take the form of wealth management licensing. Instead, consultants should be looking at ways to provide better solutions to their clients and to help them manage the increasingly complex investing environment towards their financial goals. FIMM regularly organises a number of events aimed at helping consultants better understand their role and to better serve their customers. For more information about these events, visit ***https://www.fimm.com.my***

Malaysia Posts Strong Q2 Growth



The Malaysian economy outperformed expectations in the first quarter of 2017 with real GDP growing 5.6% year-on-year, according to the Malaysian Institute of Economic Research. While second quarter numbers were not available at the time of publication, the general view on the street is that Malaysia would have continued its strong showing with growth underpinned by both domestic consumption and public spending.

Other trends have also indicated a sustained growth pattern: positive inflows of portfolio investments, the rallying Ringgit and the rising benchmark FBM KLCI equity index. In a recent research report, CIMB revised its second quarter GDP growth to 5.7% from 4.9% previously citing the resilient industrial production numbers and improvements in oil and gas output. The revision came about despite a moderation in the manufacturing sector, which is further evidence that the Malaysian economy is expected to continue to

While the global marketplace is awash with liquidity, the sky-high levels of cheap money now in circulation may turn out to be the catalyst for the next round of market instability.

perform well in the near-term barring any sudden and unforeseen developments. Despite the positive trend, there remains signs that business confidence has not developed in tandem with the data. Indeed, the second quarter Business Confidence Index fell 7.2% year-on-year.

"The peculiarity of the 2Q2017 Business Confidence Index is that the current and domestic-related indices improved over the previous quarter; however, the expected and export-oriented indices worsened during the same period," MIER said in its report. "It shows that businesses are still pessimistic about the near-term prospect as well as on export demand, although they are upbeat about the current development in the domestic market.

"From the consumer's point of view, confidence level continued to improve but consumers remained cautious. In the second quarter of 2017, MIER's Consumer Sentiments Index (CSI) showed an increase but nevertheless remained below the benchmark demarcation level of 100 points. The survey revealed that consumers' current incomes have continued to improve and they are more optimistic about their future incomes as well as on the employment outlook. However, consumer spending took a breather as confidence remains weak."

Despite the seemingly mixed outlook for the market, MIER continues to project relatively robust growth for Malaysia, putting the expansion at between 4.7% and 5.3% in 2018.

VALUE STILL TO BE FOUND IN MARKETS BUT CAUTION ADVISED

The mixed outlook for the Malaysian market is a representation of the global situation. While the global marketplace is awash with liquidity, the sky-high levels of cheap money now in circulation may turn out to be the catalyst for the next round of market instability.

Over the past few years, investors and consumers have availed themselves of cheaply available funds and have reached an upper limit where consumption slows and stagnates causing a "balance sheet recession", said FA Advisory's Director of Investment Sani Hamid.
"A balance sheet recession happens when households and corporates consume so much on both their assets and liabilities side that they cannot go on any further," he told his audience at the independent advisory firm's Wealth Forum 2017. "They cannot consume further because they have reached the upper limits and that is what has been happening over the last few years.

"Even though you put the interest rate at zero, I'm not going to consume if my debt levels are too high. So that's what's happening today. It helps to explain the conundrum we're in. That despite the abundance of liquidity, consumption and economic growth has not taken off because the debt level has reached a prohibitive level. What will have to happen next is a period of de-leveraging."

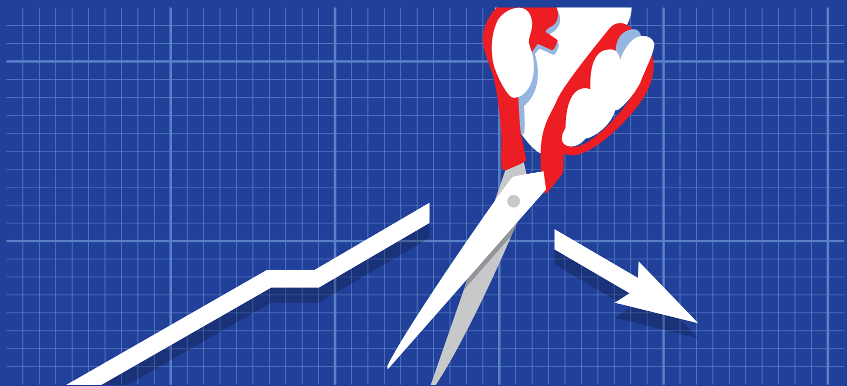
In summary: balance sheets are too engorged and hence need to be purged or reset before sustainable growth in the form of consumption can resume. However, a balance sheet reset, or otherwise known as de-leveraging, can be a hugely destabilising force and the impact will largely depend on the ability of central banks and governments to engineer a controlled de-leveraging, otherwise referred to as a 'soft landing'.

QUANTITATIVE EASING: A BRIEF HISTORY

The roots of the current high-liquidity environment can be traced back to the monetary policies of key governments around the world which almost universally decided to pump money into their national economies in a bid to stave off the worst of the financial crisis. By making ample funds available at cheap, near-zero rates, monetary authorities were convinced that consumers and institutions would spend and thus shore up failing assets while stimulating growth. The authorities also began buying up bonds at accelerated rates under what is known as 'quantitative easing' (QE) programmes.

However, as Sani explained, the funds made available through QE did not always reach its audience of businesses and consumers in the real economy, and were instead used to invest in financial securities for quick returns. The financial markets—bonds and equities—quickly grew and became inflated due to the deployment of these leveraged funds while the real economy grew at a much slower pace. Differently put, the market has outpaced fundamentals, Sani said. "Instead of QE [funds] going to Main Street, it went to Wall Street," he added. "And that's why [the first] QE was not enough. Basically, what we had in 2009 to 2016 was that a lot

With central banks and monetary authorities around the world preparing to shut off access to these funds while allowing interest rates to normalise, the worry is that the unwinding will destabilise markets and disrupt economic growth.



of the money made its way to the asset side: people bought bonds, equities, real estate; money flowed over to this side of the world [emerging Asia] which was financed by debt."

As long as cheap money was available, investors were borrowing to finance investments which in turn prompted market growth. With central banks and monetary authorities around the world preparing to shut off access to these funds while allowing interest rates to normalise, the worry is that the unwinding will destabilise markets and disrupt economic growth.

Indeed, institutions from around the world have already issued warnings about prospects going forward. The International Monetary Fund (IMF) warned last October that advanced economies were showing signs of stagnating, which could lead to subdued global growth. Meanwhile, the World Bank observed in February that global trade growth had remained lacklustre for the fifth consecutive year, which could pose serious problems in the medium- to long-term.

WHAT NEXT?

Sani's view is that the financial markets could continue to grow over the next 12 to 18 months, but warned that the odds of a market reversal were growing shorter by the day. Further evidence that normalisation is in the making is the decision by the monetary authorities to raise interest rates and to allow securities to mature. The increased cost of borrowing will prompt investors to unwind their positions, while the maturity of securities—government bonds, mainly—will draw funds out from the market.

De-leveraging will see a period of anaemic growth, even in the emerging markets, particularly those who have been the beneficiaries of leveraged foreign investor funds. But more concerning is the impact that the rush for the exit may have on asset prices and, by extension, on the stability and orderliness of the market bearing in mind that market prices have superseded fundamentals.

De-leveraging will see a period of anaemic growth, even in the emerging markets, particularly those who have been the beneficiaries of leveraged foreign investor funds.

"If asset classes had gone up because of cheap liquidity, what happens to those prices [when the liquidity is withdrawn]?" Sani said. "So by and large, everybody in the market is on the same page. In all likelihood, prices will have to adjust to meet fundamentals. Where observers differ is how bad the adjustment will be, whether there will be a soft landing or not. [The adjustment] won't be uniform but will depend on the assets and their relative fundamentals."

From an investment standpoint, Sani said that investor flexibility and adaptability to the current changing situation are key in protecting portfolios. Index-linked products would likely not be very attractive going forward as they would follow the market down if a recession were to happen. More effective would be products managed by a professional manager who is able to keep track of market dynamics and make the appropriate adjustments as required.

Sani Hamid
Investment Director,
FA Advisory

Assessing the Private Retirement Scheme

The Private Retirement Scheme (PRS) was launched in 2012 to help Malaysian workers better plan and save for their retirement. Specifically, the PRS was designed to address concerns that a majority of Malaysians lacked sufficient savings to retire. According to the Employees Provident Fund (EPF), a significant number of its members fell well short of the minimum of RM228,000 that the retirement fund estimates retirees will need.

While PRS is still at a relatively early stage of development, there is widespread opinion that take-up has been lacklustre. Nevertheless, we felt it would be helpful to poll some of Malaysia's largest PRS providers and seek comment on some of the main challenges faced by the marketing of PRS. Here are the responses from three investment houses:

ISMITZ MATTHEW DE ALWIS,
Chief Executive Officer,
Kenanga Investors Bhd

CHAN AI MEI,
Chief Marketing & Distribution Officer,
Affin Hwang Asset Management Bhd

ALEX TAN CHENG LEONG,
Senior Vice President, Retail & Retirement Funds,
AmInvest

As the responses reveal, there is a general sense that PRS is growing, slowly but surely. One of the biggest concerns is the continued perception of PRS as a tax benefit rather than a retirement savings tool. There were also questions about whether distributors were sufficiently incentivised and educated to effectively promote PRS as opposed to other investment tools.

Finally, there is also a belief that employers need to play a more proactive role in the overall PRS structure. While Malaysia may not be ready to make PRS a mandatory superannuation tool as in other markets, there is a sense that they need to make a greater effort in encouraging the adoption of PRS. The responses, which have been edited for length and language, are reproduced below.

01

How has the PRS performed against your expectations when it was first launched?

Ismitz Matthew De Alwis (Kenanga): From its launch in 2013 to July 2017, Kenanga OnePRS has garnered a total of 8,920 members with assets under management (AUM) of RM49.68 million. Even though we were the last to join the list of PRS providers, we are proud of our growth and are looking to grow further as we come to the end of the year.

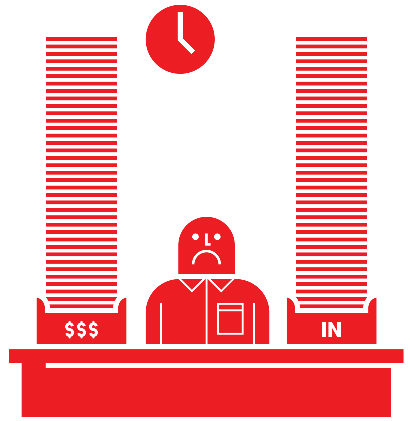
Chan Ai Mei (Affin Hwang AM): The take-up of our PRS funds has been within our expectations. Since the launch of the Affin Hwang PRS Solutions in 2012, our AUM has grown to RM180 million against our targeted AUM of RM100 million by the third year. We are seeing an average of 3,000 new investors every year, and an average conversion rate of 70% who consistently top up their PRS funds.

Alex Tan (Aminvest): The take up for AmInvest PRS has been positive since its launch in 2013. Our AUM for PRS has more than doubled from RM26.25 million as at the end of our fiscal year ended 31 March 2014 (FYE2014) to RM53.18 million at FYE 2017. As at July 2017, our AUM for PRS stands at RM60.78 million.

02

What are the main challenges and obstacles faced by promoters and distributors in marketing PRS?

Kenanga: The main challenge remains the views and attitudes of everyday Malaysians towards retirement planning. Saving for retirement continues to take a backseat in terms of priorities. Also, many are still unaware of the nature of PRS and how it works to support an investor's existing EPF savings. The challenge in marketing PRS has been to convince Malaysians that while the current retirement income system is working reasonably well for today's retirees, future retirees may not be saving sufficiently for a comfortable retirement.



> *"Corporations are not incentivised to swing contributions from the Malaysian mandatory retirement scheme to PRS and view it as extra work and cost for them. - AmInvest"*

Education continues to be the key to increasing take-up rates of PRS.

Affin Hwang AM: Unfortunately, PRS schemes are still widely viewed as tax relief vehicles, as opposed to viable retirement solutions complementing statutory retirement savings such as EPF. Also, corporate adoption of PRS schemes is still wanting. Many employers still view such schemes as an added cost to them, not to mention the administrative fees and payroll functions that could burden the company.

On the flipside, we're seeing better adoption by small and medium-sized enterprises (SMEs) to provide PRS schemes for their employees. With SMEs, the schemes are easier to administer, while fewer decision makers [in the organisation] make it easier for them to determine the exact vesting schemes and structures they intend to put in place.

AmInvest: PRS awareness is very low thereby affecting the ability of Malaysians, both individuals and corporates, to seriously save towards retirement. Corporations are not incentivised to swing contributions from the Malaysian mandatory retirement scheme to PRS and view it as extra work and cost for them. We would propose to make it mandatory for all corporates in Malaysia to undertake PRS as a benefit in their employee benefits scheme.

On the supply side, the PRS exam questions are too complicated for potential distributors to pass and become licensed PRS consultants. We would propose to hold more PRS familiarisation programmes to increase the number of distributors. There are also complaints of low fees on the part of distributors who then are dis-incentivised from taking on PRS distribution as a full-time career.

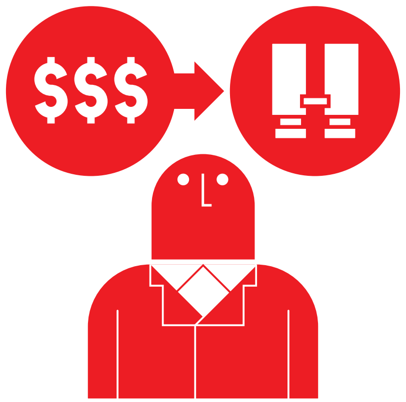
03

Do you feel that the PRS distribution structure is effective as it stands?

Kenanga: If we look at what's available in other countries we are definitely ahead as we market PRS through various channels. The challenge is to convince Malaysians to plan and save for their retirement early and effectively.

Affin Hwang AM: Currently, the industry relies heavily on its existing pool of unit trust and insurance agents, private retirement consultants (PRC), corporate private retirement advisors (CPRA), and institutional private retirement advisors (IPRA) as the main distributor of PRS funds. Growth within the distribution channels for PRS is relatively slow and is in fact declining. The number of registered PRS consultants dipped lower at 0.7% from 16,019 in 2015 to 15,899 in 2016, according to FIMM's 2016 Annual Report. Part of the reason may be due to the lack of an effective incentive mechanism to reward agents/consultants.

AmInvest: We would like to see digital platforms promoted more as alternative distribution channels.



"Consultants' mindsets needs to move from a sales and product perspective to AUM accumulation and long-term passive income. - Kenanga"

04

How can it be improved?

Kenanga: Consultants' mindsets needs to move from a sales and product perspective to AUM accumulation and long-term passive income. Case in point is the EPF members scheme. Beyond consultants, investor education is crucial as investors, too, need to move away from understanding the PRS as an annual RM3,000 tax benefit. Ideally, at least one-third of one's last drawn salary should be put aside [for retirement savings]. Let's say an employed person currently has 23% set aside (through EPF deduction), he should then set aside another 10% from his salary for his PRS account.

Affin Hwang AM: Currently, most PRS providers, including us, have zero front-end load fees or sales charges for PRS funds. As such, there are fewer incentives for agents to market and promote PRS funds to consumers as compared with the marketing of unit trusts that offer higher commissions. Additionally, both unit trusts and PRS funds are being marketed too similarly even though they are designed to cater to different investment needs and requirements. As such, there needs to be greater education for both consumers and agents on how the two differ, and why investing for the long-term does not necessarily have to be at odds with their current investment goals.

We also believe FIMM can play a bigger part in helping to promote and develop PRS as a viable complementary retirement solution for those with higher life expectancies. So far, we have seen increased tax deductions and incentives such as the youth incentive, which encourages saving at a younger age and is definitely a positive development.

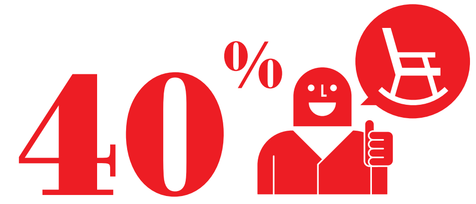
AmInvest: We need to increase awareness on PRS and hold more regular PRS familiarisation programmes to increase the number of distributors in the market.

05

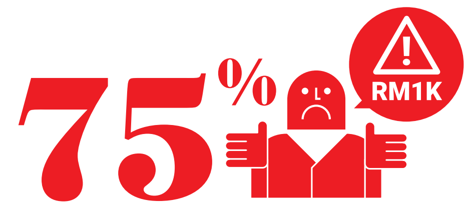
Do you feel that there is sufficient incentive for the investing public to purchase PRS as part of their retirement planning?

Kenanga: We believe that any form of incentive for the public will be helpful. The recently launched PRS Youth Incentive has been well received as it encourages younger investors to sign up. The yearly tax relief of RM3,000 could be increased to encourage long-term contributions which will benefit savers in the long run. Regardless of incentives, investors still need to understand that their contribution into PRS is part of their retirement planning for the long-term and should not invest simply for the benefits.

Affin Hwang AM: The level of financial literacy and awareness among Malaysians is lacking. Recent statistics by Bank Negara (BNM) show that only 40% of Malaysians are financially prepared for retirement and 75% have difficulty setting aside RM1,000 as emergency funds.



"Recent statistics by Bank Negara show that only 40% of Malaysians are financially prepared for retirement and 75% have difficulty setting aside RM1,000 as emergency funds. Both consumers and industry players share the blame for this current predicament. - Affin Hwang AM"



Both consumers and industry players share the blame for this current predicament.

The harsh reality is that trying to get Malaysians to start thinking about their retirement when they are also trying to make ends meet daily puts industry players in an awkward position. Malaysians should start thinking about their investments holistically and realise that they can start small and make gradual incremental contributions. Young working adults, especially, can make use of existing incentives such as the PRS Youth Incentive to complement their existing retirement savings.

AmInvest: The PRS Youth incentive has increased the participation rate from 7% of the total contribution in 2013 to 18% as at end 2016. Should the incentive be continued beyond 2018, it could further encourage GEN Y and millennials to save for their retirement via PRS. Based on our findings, the industry ticket size for PRS is only MYR3,000 per annum which shows that PRS is still perceived as a tax-saving product.

06

There are concerns that the process of signing up for and purchasing PRS is too complicated, i.e. the need to meet with a consultant, filling forms, etc. Do you agree that this is the case?

Kenanga: The rather lengthy process of signing up for PRS is not without reason. There are several concerns that need to be addressed by both an adviser and the client when signing up for any investment product. However, the industry is in consultation with PPA to look at the onboarding processes.

Affin Hwang AM: Such concerns are prevalent in the finance and banking industry overall and not necessarily restricted to just PRS or asset managers. However, the overall client experience is something that asset managers need to think about more thoroughly, from the initial sign-up process and consultation to portfolio review and rebalancing stage. Clients today want convenience and are increasingly connected to their smartphones. As such, the asset management and investment landscape is becoming more complex and this warrants a more personalised and tailor-made approach.

Asset managers can then make use of fintech solutions and online platforms to streamline the entire process and ensure the initial registration steps do not become too tedious. But more importantly, asset managers should do periodic check-ins and continuous service/sales support, which clients appreciate.

07

How has your organisation supported the rollout of PRS? Have you done anything different to market the product as compared with your other investment products?

Kenanga: We will continue to educate our clients on the importance of our strongly held belief: "Add Colours to Your Retirement". This highlights the importance of being financially secure in order to live a colourful and vibrant life during retirement years. Kenanga Investors' Retirement Investment Solutions package consists of a range of products that caters to various client needs and risk appetites. This package is dedicated to retirement planning where various investment instruments are combined to form a holistic portfolio, both conventional and Shariah-compliant.

Malaysian corporates that offer contributions to their employees' PRS funds as well as implement it as part of their employee benefits will be able to help increase the take-up rate of this product. We've been working with companies that want to introduce PRS as part of their employee benefits to retain their talents. This is a mid-term initiative that will only prove itself over the next three to five years. We believe that corporate institutions need to play a bigger role to promote PRS to their employees.

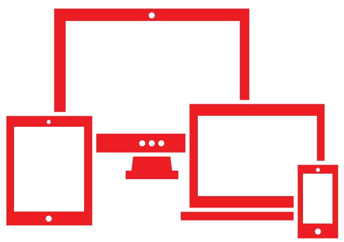
> *"Malaysian corporates that offer contributions to their employees' PRS funds as well as implement it as part of their employee benefits will be able to help increase the take-up rate of this product… We believe that corporate institutions need to play a bigger role to promote PRS to their employees.*
> *- Kenanga"*

In 2016, Kenanga Investors was proud to introduce its Shariah OnePRS Scheme where investors can access the three core funds: conservative, moderate and growth. We believe that this enhances our existing retirement solutions suite of products as well as addresses the needs of the growing Islamic investment market.

We have also launched our KenWealth platform at the asset management end where investors can access not only Kenanga Investors PRS funds, but six other providers as well. This gives investors greater accessibility and convenience wherein he or she will be able to subscribe to seven out of eight approved PRS providers' funds under one roof. This will further encourage diversification of investors' portfolio while promoting best practices in retirement planning under a consolidated platform.

Affin Hwang AM: We are building on current strategies to expand our efforts and grow our PRS segment to reach our next target of RM300 million in AUM. The industry has its own inherent challenges, but we believe that by utilising new innovative solutions like fintech and various online platforms, we can create a new impetus for the market. We believe that in future, investment solutions need to go beyond mere product pushing and towards a more advisory based and bespoke approach. Nevertheless, it is a long-haul game and one that requires continuous education and innovative marketing strategies to create a breakthrough and start conversations.

AmInvest: We distribute PRS through AmBank and Corporate Private Retirement Advisors (CPRA). What makes AmPRS attractive is that it is the only PRS programme in the country to offer unique PRS non-core fund offerings to help investors build and customise their investment portfolios for a comfortable retirement.



"The industry has its own inherent challenges, but we believe that by utilising new innovative solutions like fintech and various online platforms, we can create a new impetus for the market.
- Affin Hwang AM"

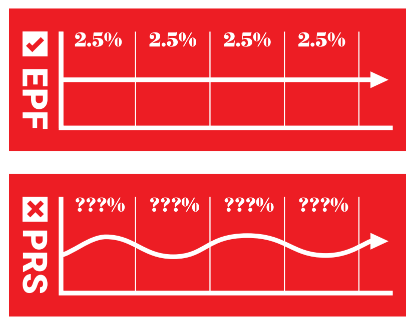
08

Does your organisation plan on intensifying the marketing and promotion of PRS?

Kenanga: For the last two years, Kenanga has been promoting PRS and retirement solutions to Malaysians via public events and retirement seminars. We will continue to proactively promote retirement education and on-ground activities. In the coming few months, we are planning to intensify promotional efforts of PRS to Malaysian youths, to encourage them to take advantage of what the PRS Youth Incentive offers to those aged 30 and below for 2017-2018. We will be participating in the upcoming InvestSmart Fest 2017 in October, which is a great platform to educate the masses on the benefits of taking up PRS.

We will also be organising internal activities towards the end of the year to promote PRS to our own staff members. We need to ensure that our own people are convinced by PRS before we can confidently promote it to external consumers.

"One of the biggest resistance towards the adoption of PRS is the expectation of returns, which are not guaranteed, unlike a state pension fund like the EPF which guarantees a 2.5% return annually by statute. Hence, investors may be reluctant to bear any additional risk on their investments.
- Affin Hwang AM"



09

Please include any additional comment you may have on the way PRS is currently being managed and organised in Malaysia. We especially welcome constructive criticism pertaining to any aspect of the PRS, especially the training, marketing and distribution of PRS by our members.

Affin Hwang AM: One of the biggest resistance towards the adoption of PRS is the expectation of returns, which are not guaranteed, unlike a state pension fund like the EPF which guarantees a 2.5% return annually by statute. Hence, investors may be reluctant to bear any additional risk on their investments. However, continuous education on holistic wealth planning and risk mitigation may help in addressing this concern.

Also, there is nothing compelling the adoption of PRS since it is not mandatory. We can look at other countries such as Australia, where it has made superannuation compulsory since 1992. Superannuation is similar to a managed fund where your money is pooled with other members' money and invested on your behalf by professional investment managers.

Generally, investors will not have access to this fund until they retire. Employers will then make contributions to the superfund and investors can also top it up with their own money. The Australian government may also make contributions if they come from low-income backgrounds. New Zealand has a similar government-administered superannuation programme called KiwiSaver, launched in 2007. While it is not compulsory, it has a high level of take-up.

Another way to boost PRS adoption is for employers to contribute the amount of retirement savings above the mandatory rate of 12% into any of the existing PRS schemes. That will give the PRS industry a boost of between 1% and 4% additional funding currently channelled to EPF into the PRS industry. This can be a longer-term plan to ensure that all employers in the country adopt PRS.

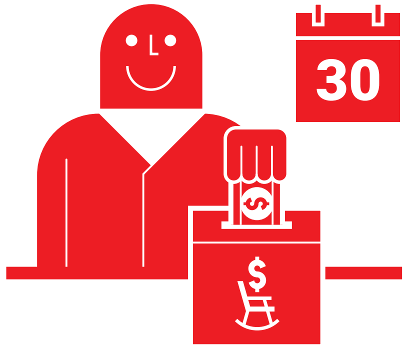
AmInvest: The growth of the PRS industry is dependent on the development of the capital markets, as a mature stock and bond market will support the growth of the industry. To get millennials to invest, we need to:

- Teach them to put savings on auto-pilot.
- Teach them to ignore the global market hype or news trends that make them less confident about investing.

The fact is that asset management companies and fund managers have the expertise to see through the volatility to earn the best returns. Meanwhile, we need to encourage savers to treat their retirement savings as a recurring expense, so that it is included in their regular budget.

Employers should also play a part in building a retirement ready nation. Some of the benefits for employers include:

- **Attracting employees:** Employer's contribution to PRS enhances the overall benefits package and effectively positions companies as an employer of choice. This would help companies to attract best talents for the job.
- **Retain employees:** Through customised vesting programmes, an employer's contribution to PRS can be an effective tool for employee retention. With PRS, employers can reward and recognise employees' efficiency.
- **Enjoy tax deductions under corporate income tax:** Employers who contribute to PRS on behalf of their employees are eligible for tax deduction of up to 19%. This allows employers to contribute up to 7% of employees' remuneration into PRS.



> ***"The fact is that asset management companies and fund managers have the expertise to see through the volatility to earn the best returns. Meanwhile, we need to encourage savers to treat their retirement savings as a recurring expense, so that it is included in their regular budget. - AmInvest"***

Upcoming Events

INVESTSMART® ANTI-SCAM VIDEO COMPETITION

InvestSmart® Anti-Scam Video Competition is a competition organised in conjunction with InvestSmart® Fest 2017 aimed at creating awareness about the rising trend in illegal investment schemes and develop resistance against these scams. Interested participants should produce and submit a video in line with the competition's theme: "Scams Can be Avoided – Manage Expectations & Safeguard Your Interest", in Bahasa Malaysia or English. Winners can stand to win up to RM5,000 in cash as well as other prizes. Submissions for entries closed on 15 Sept 2017, but the shortlisted entries will be announced on 6 Oct 2017 on InvestSmartSC's Facebook page. For more information about the competition, visit the competition's website at ***http://bit.ly/2ezvkDv*** or scan the QR code with your smart device.

INVESTSMART® FEST 2017

The Securities Commission Malaysia is hosting the InvestSmart® Fest 2017 themed "Invest for Your Future" on 13-15 October 2017 at Hall 5 of the Kuala Lumpur Convention Centre. This annual three-day InvestSmart® Fest will provide investors with fundamental knowledge to make sound investment decisions, including learning about investment opportunities and protecting oneself against investment scams. Admission to this three-day event is free of charge. This year's InvestSmart® Fest will showcase exhibition booths from capital market institutions, associations, industry players and relevant government agencies under one roof, as well as a variety of talks and seminars by leading industry experts. There will also be a financial planning service desk called "finplan4u" aimed at giving participants a free initial financial assessment. For more information, visit the event website at ***http://bit.ly/2eYbHFI*** or scan the QR code with your smart device.

WORLD INVESTOR WEEK 2017

The Securities Commission Malaysia (SC) will be participating and supporting the International Organization of Securities Commissions (IOSCO) by participating in World Investor Week (WIW) 2017, which runs from 2-8 October 2017. To celebrate the event, the SC will screen a short animation feature on scam awareness in leading cinemas around the nation including Negeri Sembilan, Johor, Perak, Sarawak and the Klang Valley. The video will also be featured in the SC's social media platforms as well as on the website of its education arm InvestSmart®. The SC will also showcase the country's financial planners and will broadcast a panel discussion live on Facebook to spread awareness on the benefits of financial planning for all Malaysians. Additionally, the SC has reached out to its stakeholders who will participate in WIW in various capacities. These include Bursa Malaysia, FIMM and Private Pension Administrator Malaysia. For more information, visit the event website at ***http://bit.ly/2w23Jku*** or scan the QR code with your smart device.

FIMM looking out for investors' interest

The Federation of Investment Managers Malaysia (FIMM), a self-regulatory organisation (SRO), launched its first ever full-fledged public service awareness campaign which aims to educate the public on investing their money wisely.

"Investors' interest in Unit Trust (UT) and Private Retirement Scheme (PRS) is one of our top priorities. The timing of this campaign is also very pertinent to the public, as we see more and more people do not mind handing over cash for investments and signing incomplete forms for their convenience, which are against standard practice of UT and PRS investments. Hence, this campaign acts as a platform to educate the public on investing, their rights as an investor and to let people know that FIMM is the authorised regulatory body in charge of managing Unit Trust Companies and their consultant's code of conduct," said Dato' Norazharuddin Abu Talib, the newly appointed Chief Executive Officer of FIMM.

With the tagline of "Investors' Interest, Our Priority", this awareness campaign will run nationwide for 6 months from 4 September 2017 onwards and will be rolled out in two phases. Phase 1 educates the public to deal only with authorised consultants and Phase 2 encourages the public to start saving early through UT and PRS. The campaign covers all mainstream media such as print, radio, outdoor, social content marketing and electronic media.

For more information or to get in touch with us, the public can visit ***www.fimm.com.my***

About Federation of Investment Managers Malaysia

The Federation of Investment Managers Malaysia (FIMM) was established in 1993 to support the development of the investment management industry. On 20 January 2011, FIMM was recognised as a Self-Regulatory Organisation (SRO) by Securities Commission Malaysia. As an SRO, FIMM regulates and supervises its members and registered persons to strive for the highest level of integrity and standards of practice that will best serve the investment management industry and promote investor protection.

CONTINUING PROFESSIONAL DEVELOPMENT (CPD)

To earn your CPD points, answer the questions at ***https://goo.gl/J3bYmY***
or scan QR code with your smart device.

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PRINTED BY:
Nets Printwork Sdn. Bhd.
52, Jalan PBS 14/4, Taman Perindustrian Bukit Serdang,
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