FIMM TODAY

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STATE OF THE MALAYSIAN INVESTMENT MANAGEMENT INDUSTRY

The Evolving Investment Management Landscape

Fintech: Implications for the Investment Management Industry

Positioning Malaysia as a Global Hub for Islamic Asset Management

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Editor's Note

Dear members,

FIMM's Annual Convention held on 28 September 2017 was an enlightening one that helped to set and establish context of the investment management industry. Subject matter experts and fund managers were on hand throughout the day to help attendees better understand the state of the industry and what could be forthcoming going forward. Indeed, it was clear from the presentations of the experts that we are truly operating in a dynamic environment rife with both challenges and opportunities.

Not surprisingly, one topic which kept cropping up in the various panel discussions was the rise of financial technology (fintech) and digital innovation. Threatening to 'disrupt' standard business models, alternative investment management technology such as robo advisors and online investing is slowly gaining traction in Asia and may soon become commonplace in Asia.

Is this something that we should worry over? According to the panellists, there is no doubt that business models will have to change. Consultants will have to learn how to make the most use of technology to remain relevant because it is doubtless that competitors will certainly employ these means. This applies as well to the new generation of technologically savvy consumers who are more than capable of seeking out investing information online themselves. If consultants cannot create value for these clients—by harnessing technology and adequate backroom support—they will lose these clients to competitors or robo advisors.

Of course, this does not mean that the role of a consultant is going the way of the dinosaur; rather, consultants must view their role as an evolving one. One panellist suggested that consultants need to focus more on the roles that technology cannot play, namely building better personal relationships with clients and offer holistic solutions rather than products, as well as be proactive in expanding their customer base. Consultants who continue to rely on just pushing products may find that robo advisors, with their databases of thousands of funds, could do a better job and at a cheaper cost than them.

Panellists also touched on the state of the Private Retirement Scheme (PRS) and Islamic asset management. Specifically, the question of the day was whether the PRS could be enhanced to reach out to more consumers, and if Malaysia can become a global hub for Islamic finance. These are questions that should not be unfamiliar to consultants, and we invite specialists in both areas to give our coverage of these topics a careful read in this issue of FIMM Today.

The Convention also addressed some of the pervasive uncertainties within the investing environment. Is it time to invest? Or is it time hold back? While panellists agreed that the shadow of volatility continued to hang over the investing environment, they were confident that market conditions should remain stable over the near-term. At the same time, they warned that investors needed to be wary of any sudden changes, which could have a systemic effect throughout the region.

To sum up: the state of our industry remains robust, although it is still positioned at a point where things could change quickly and drastically. What this means is that as consultants, you need to keep a careful eye on the market, look out for the best investment opportunities, and provide top notch advice to your clients to ensure that their interests are best served.

This is the last issue of FIMM Today for 2017, and we look forward to seeing you again in the coming year.

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State of the Malaysian Investment Management Industry

Stakeholders and entities involved in the Malaysian investment management industry cannot afford to rest on their laurels despite having delivered a highly commendable performance over the past decade, said Kamarudin Hashim, Executive Director of Intermediary & Fund Supervision, Securities Commission (SC) Malaysia. Speaking at the FIMM Annual Convention 2017, Kamarudin said that both industry and demographics have evolved, thereby bringing with them new challenges and opportunities for all industry players.

"The growth of digital finance is undoubtedly changing the face of the world's financial markets and it will drive changes throughout the value chain of our existing business model," he said. "Digital finance has led to innovative business models and solutions within the investment management industry and this trend will certainly grow and subjugate our financial landscape in years to come."

Citing strong demand for alternative financing, innovative digital enterprises and changing consumer demographics, Kamarudin said that the digital trend would likely intensify moving forward. The growth of global investment in financial technology (fintech) seems to bear out this point: according to Big Four auditor KPMG's Pulse of Fintech quarterly report, total investment in 2Q2017 more than doubled quarter-on-quarter to US$8.4 billion.[1]

[1] https://home.kpmg.com/sg/en/home/insights/2017/07/the-pulse-of-fintech-q2-2017.html

Meanwhile, the SC has welcomed the new digital evolution and is firmly behind the trend as inexorable and a key growth catalyst, Kamarudin added.

"The SC remains strongly committed to embracing the digital evolution as an engine of growth for our capital market," he said. "With this commitment, a holistic digital agenda has been designed to enhance access to financing, increase investor participation, augment the institutional market and develop synergistic ecosystems. All of them are aimed to achieve greater efficiency, operational productivity and effectiveness, connectivity, accessibility and flexibility."

The issue of cyber security is not if it is going to happen, but when it is going to happen, we are all vulnerable to opportunists who go for the weakest links.

Despite the positives connected with digitisation, the rise of fintech has also posed new challenges to the status quo. In the investment management industry, the growing popularity of fintech alternatives such as robo advisors and online investing platforms have proved disruptive, while the growing ubiquity of online access has made cyber security a key issue. Kamarudin said that the SC is firmly aware of the growing risk of cyber terrorism, and has issued guidelines on the management of cyber risk. Stakeholders cannot take cyber security for granted and must make the necessary investments to mitigate the risk.

"The issue of cyber security is not if it is going to happen, but when it is going to happen," he said. "We are all vulnerable to opportunists who go for the weakest links. If you look at some of the cyber incidences – including the 'WannaCry' ransomware attack – they leveraged on areas where they know a large part of the users were not adhering to cybersecurity discipline and protocols.

"Cyber security is very important, particularly in an industry like investment management where there is a lot of evolution involving tech. Some of you are already adopting online systems, and even for those who haven't developed an online platform—you still have systems managing client information which are vulnerable to cyberattacks."

ENHANCING RETIREMENT SAVINGS AND PROFESSIONALISM

While digital technology is heralding an exciting new chapter in the investment management industry, sufficient focus must also be placed on the relatively new Private Retirement Scheme (PRS), Kamarudin said. Given expectations of greater longevity and worrying statistics indicating that the vast majority of Malaysians have insufficient retirement savings, investment management stakeholders need to step up their efforts to increase PRS contributions.

Although the growth of PRS since its launch has not been poor—by the end of its launch year in 2012, PRS assets under management (AUM) totalled RM66 million contributed by 22,000 members while in June 2017, the total was RM1.7 billion from 248,000 members—the number of contributors is still less than 1% of the Malaysian population.

In contrast, AUM for the unit trust industry grew from RM505 billion in 2012 to RM750 billion during the same time frame, thereby suggesting that PRS is growing at a disproportionately slower rate than unit trust.

"Given the importance of PRS for the general well-being of retiring Malaysians, more intensive efforts and measures need to be taken to accelerate the growth of the PRS industry," Kamarudin said. "In this regard, greater collaboration among key stakeholders such as the Private Pension Authority (PPA) and PRS providers as well as the SC will be pursued to enhance the level of public awareness and understanding of PRS. Additionally, targeted campaigns should be undertaken to increase employer and youth participation as these are among the segments likely to bring about greater impact to the PRS industry."

Greater collaboration among key stakeholders such as the Private Pension Authority (PPA) and PRS providers as well as the SC will be pursued to enhance the level of public awareness and understanding of PRS.

In this area, unit trust and PRS stakeholders must put the interest of the client first—in other words, the conduct and professionalism of all stakeholders must be directed at preserving confidence and public trust in the industry.

> *While investors are responsible for their investment decisions and the consequences, they rely on distributors and consultants to assist in making the right investment decision.*

"While investors are responsible for their investment decisions and the consequences, they rely on distributors and consultants to assist in making the right investment decision. As a product manufacturer, the industry is in a unique position to directly influence the financial well-being of investors…Investors see you as trusted fund managers and advisers, and in return, you should not see them as mere sales targets."

Kamarudin also said that while the overall standard of conduct has been commendable, small pockets of undesirable practices such as the misappropriation of clients' funds, investments through proxies, pre-signing investment forms and unauthorised investment withdrawals persist.

"While the number is still small, we can never predict the impact on the high level of trust and confidence that investors have in the Malaysian fund management industry," he said. "In this regard, players must always act in the best interest of investors and are strongly urged to carry out your roles and responsibilities with the highest levels of professionalism and integrity.

FIMM and industry players must proactively strengthen the control environment and compliance culture in addressing these conduct issues to ensure continuous investor protection and confidence. Additionally, the education and awareness programmes for consultants and the public must also focus on conduct aspects."

Kamarudin delivered the keynote address at the FIMM Annual Convention 2017 held on 28 September 2017. The theme of the convention was *Embracing the Future: Fresh Perspectives*.

Recent Developments in the Investment Management Industry

THREE KEY EMPLOYEE PROVIDENT FUND - MEMBER INVESTMENT SCHEME (EPF-MIS) INITIATIVES

REMOVAL OF
30%
OVERSEAS LIMIT

ALLOWING
74
NEW FUNDS UNDER EPF-MIS

EXPANSION OF RANGE OF WARRANTS APPROVED UNDER EPF MIS:

All warrants listed on Bursa Malaysia now eligible except for structured warrants

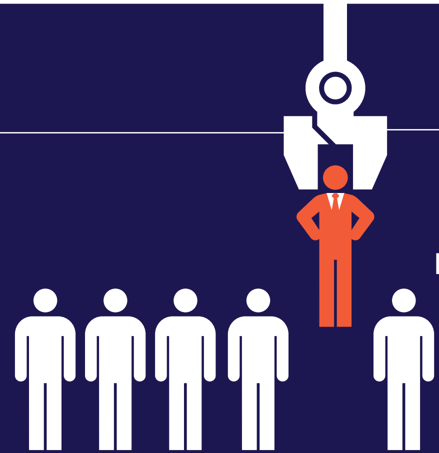
EPF ISLAMIC PROJECT:

All members of Institut Pengurusan Dana are now able to offer Islamic investment options to EPF Members

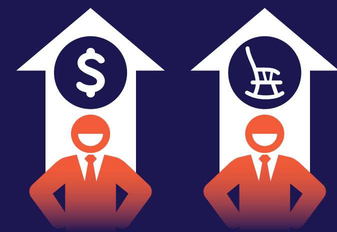
With these initiatives, EPF members now have more flexibility and choice in making investments to enhance their retirement assets.

FIMM INITIATIVES:

Apprenticeship Programme



FIMM's Apprenticeship programme is aimed at helping recruit capable advisors to grow the financial planning industry



The programme is also aimed at encouraging the professional development of Corporate Unit Trust Advisors (CUTA) and Corporate Private Retirement Scheme Advisors (CPRSA)

Regulatory Development

Introduction of Consolidated Rules to streamline processes and documentation

Finalising Code of Ethics to be shared with industry

Industry Engagement

Engaging stakeholders on the Industry Blueprint for the next five years

Advertising & Promotions

Conducted first full-fledged public awareness campaign to help educate investors

The Evolving Investment Management Landscape

The ground of the investment landscape is shifting despite positive indicators suggesting that the investment industry has resumed a traditional recovery narrative. Ken Yap, Senior Director, Research Analytics for Cerulli Associates told attendees of the FIMM Annual Convention 2017 that there are clear indications that business won't be 'as usual' moving forward.

Several factors contribute to this shift, not the least of which is the continuing volatility in the global financial markets. According to Yap, the macro perspective may not be as stable as rising markets in the first half of the year seemed to suggest. "The market has been rising in the first half of 2017, but if you look at the past few years, it has been very volatile; and indeed, we are still looking at fairly turbulent times marked by icy [global] politics," he said.

"At the same time, interest rates remain fairly low in the region and central banks are either trimming or keeping rates at status quo. Taken together, we have a very volatile market in a low interest rate environment which present challenges in terms of selling funds and investing into products."

While market observers have been warning of a challenging investing environment these past few years, one key difference according to Yap is that the fund managers themselves are starting to acknowledge the risk. A Cerulli survey conducted in 2017 showed that asset managers have identified the top investment risks in the near-term to be market uncertainties and the low investment appetite seen across the region.

What is suggestive, however, is the fact that over the past five years, these same managers have identified the distribution framework and regulatory structure as their top risk items. That they now identify the macro environment as their key risks indicate that there has been a real change in the investing environment, and will become a priority for them going forward.

> *"Passive products are growing a lot faster at a pace of 21% over the last five years. In comparison, active funds were growing at just under 11%. What that means is that at the same rates, you would expect the passive industry to double its size in 3.5 years"*

The shrinking appetite for risk is also evident in another survey, Yap said. In another survey conducted by Cerulli, key distributors of fund products in Asia as well as fund houses based in the region showed that they were prioritising low volatility and regular-income products for their clients. Meanwhile, funds doing well across Asia ex-China tend to be more conservative products such as bond funds and income funds.

Another key change according to Yap is the changing expectation of investment returns: "Assets have been growing steadily but in terms of returns, 2015 was a challenging year with quite a number of institutional funds recording returns in negative territory," he said. "Last year was really a year of recovery. Most of the funds did quite well but going forward, many of them warned that they would expect returns to be a lot lower going forward."

One interesting consequence of this low-yielding environment is rising interest in alternative assets including private equity, infrastructure real estate and private debt.

CHANGING ASSET MANAGEMENT INDUSTRY: SOME THEMES

Punctuating the change in the investment management environment is the emergence of several key themes, Yap added. These themes have started to dominate and become ubiquitous throughout the region, and are expected to pick up greater steam going forward. Understanding and preparing for these emergent themes will be key for investment managers and consultants if they are to remain relevant to the industry in the future, he said. These themes are as follows:

Rise in Passive Investments

Passive investments, e.g. exchange-traded funds (ETFs) and index-linked funds, have seen significant inflows globally in recent years, Yap said. The trend, while picking up steam globally, has yet to really catch on in Asia ex-Japan with active funds still by far holding a significantly larger market share. Active funds are about five times bigger than passive funds, although passives are growing twice as quickly. "Passive products are growing a lot faster at a pace of 21% over the last five years. In comparison, active funds were growing at just under 11%. What that means is that at the same rates, you would expect the passive industry to double its size in 3.5 years and for the active funds to do the same, it will take about seven years. If the trend persists, the dynamics will be quite different going forward."

Yap suggested that one reason passives are not growing as quickly in Asia ex-Japan is due to the fact that fund sales here are still dominated by banks and marketed by incentive/commission-based agents. As passive products typically do not offer incentives for sales of investments, there has not been significant distribution in general.

Nevertheless, fund managers have started including passive products in their product line-up to broaden their range of products and better meet customer requirements.

Regulatory Changes

The role of financial education is to ensure that retail investors have sufficient knowledge of products to make appropriate investment decisions. One ever-present bugbear faced by retailers is the opacity of investment cost, which varies from one fund provider to another. As a result, there is a cloud of uncertainty hanging over investors when they do decide to make their investment decisions. According to Yap, this may soon change.

"A second key theme across the region has to do with what regulators are doing in terms of the asset management industry's development," Yap said. "China obviously has been at the forefront in terms of developing a very dynamic regulatory regime...that aside, across the region, we do find some common thinking across regulators.

"In general, we are seeing that regulators are trying to push for greater transparency in terms of fees charged on investment products and this ultimately will translate into cost on the distributor or supplier side. At the same time, this will probably also create pressure on fees overall."

Although there is no indication if and when the Malaysian regulatory authorities will make any changes to the fee structure and disclosure guidelines, greater transparency seems to be the way forward in the present sustainability-driven environment.
Meanwhile, Yap added that some regulators have also started encouraging investments into passive products as they are keen to diversify the channels of distribution. This goes hand-in-hand with the rise of fintech, which gives retailers greater ability and flexibility to make investments on their own.

Robo Advisory
Another trend that, while still nascent in Asia, shows signs of strong potential is the use of robo advisory for investment decisions. Yap said that a Cerulli poll showed that a majority of the investors surveyed said that they were willing to entrust up to 10% of their assets to a robo advisor. As the survey targeted high net-worth individuals, the 10% translates into a fairly substantial amount in absolute terms. However, Yap reiterated that this is still at a very gestational stage in Asia. "We believe that this transition to robo advisors will be gradual and will take a long time to take shape," he said. "Overall, we feel that online and robo advisors will play a big part in the industry in the sense that they will streamline the fund buying process and raise investor awareness around fees and new opportunities available through these platforms. Indeed, it is probably a very effective tool in targeting the new generation of investors and broadening the distribution channel."

Nevertheless, as robo advisors are promoting low-cost investing, the rise of the trend would likely add pressure on fund houses which are already facing challenges in terms of fee competition and disclosure. Finally, he said that the challenges and trends in the industry have resulted in a wave of consolidation in the industry in response to these headwinds.

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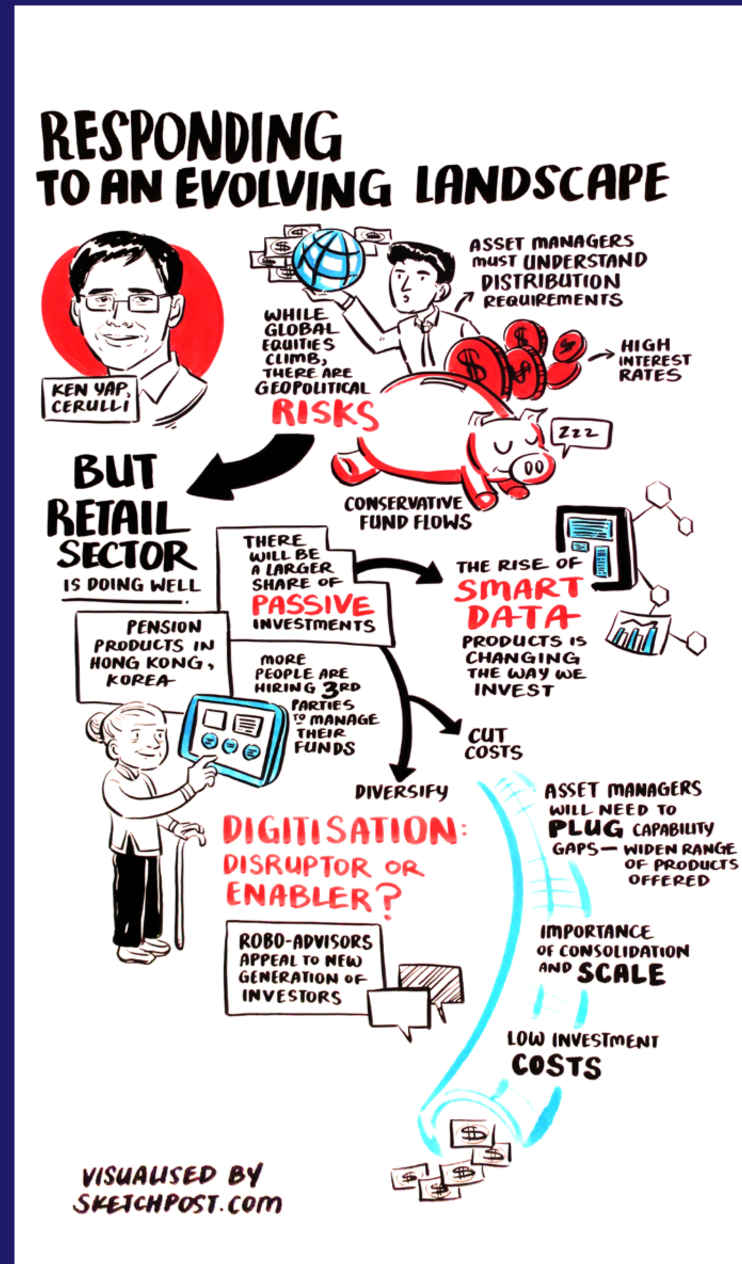


PRS: State of the Industry

FROM LEFT
Alex Tan, Senior Vice President, AmInvestment Bhd; Munirah Khairuddin, CEO, CIMB-Principal Asset Management; Ng Chze How, General Manger, AIA Pension and Asset Management Sdn Bhd; and Husaini Hussin, CEO, Private Pension Administrator.

Malaysia's Private Retirement Scheme (PRS) has been around for more than five years, making it relatively new compared with other asset management schemes. While it has shown commendable growth since its launch, its membership of about 270,000 and total assets under management (AUM) of almost RM2 billion suggest that, while still at a gestational phase, there is significant room to grow.

To recap: the PRS was designed to supplement the retirement savings of Malaysian workers by providing a facility on top of their mandatory pension contributions. The PRS is distinct from savings schemes as contributions are locked down until the contributor reaches a minimum age of 55. Since it is an investment into unit trust funds, the value of contributions will grow with time therefore providing protection against inflation whilst increasing in value.

Of the 270,000 members, approximately 27% comprises persons between the ages of 20 and 30, while about 500,000 corporates contribute on behalf of their employees. The PRS has expanded its fund offering to 58 funds by eight providers, which covers both core and non-core, conventional and Syariah investments. There are approximately 20,000 consultants licensed to market and distribute PRS as at September 2017.

> *"PRS has been growing at about 30% annually since its launch in 2012, but the relatively small number of contributors suggest that more needs to be done to encourage investment in the scheme."*

Incentivising the take up of PRS is the Government's offer of RM3,000 in tax relief for all contributors. An additional incentive is also offered to youths in that every RM1,000 contributed by persons between 20 and 30 would be matched. PRS has been growing at about 30% annually since its launch in 2012, but the relatively small number of contributors suggest that more needs to be done to encourage investment in the scheme.

"We would like to see more growth especially in terms of the number of members," said Husaini Hussin, the CEO of the Private Pension Administrator (PPA) at FIMM's Annual Convention 2017. "We are not worried too much about total AUM because AUM will keep on growing: because of the lock in feature of PRS, we won't see a reduction in AUM. But the focus should be on getting more Malaysians to sign up especially from the corporate sector and the self-employed, the latter of which is still very low."

Speaking as a panel member at the Convention, Husaini said that the youth incentive has seen a positive result in the past year. However, his co-panellist, Ng Chze How, General Manager, AIA Pension and Asset Management Sdn Bhd, said that tax incentives alone were insufficient to sustainably recruit new contributors.

You have to plan PRS in as a total financial planning solution blended with any other product that you're giving to your clients. When you advise timed deposits for savings, life insurance as a legacy or investment product for growing their capital, don't forget there is this one more solution which is not a standalone solution.

"There are many items that enjoy tax relief such as sports equipment, books, etc. I would be very puzzled if I were to go to a bookstore, and see them use the tax incentive to promote their books," he said. "It doesn't make sense. If you're going out there marketing PRS on the tax relief of RM3,000, I think we miss the core value of retirement savings." Rather than positioning PRS creating immediate economic value in the form of tax relief, Ng said, stakeholders must persuade and motivate their clients to recognise the retirement challenges they face and the way that PRS can help mitigate those challenges in the future.

Alex Tan, the Senior Vice President of Retail and Retirement Funds, AmInvestment Bhd, agreed with his fellow panellist. He reiterated that PRS is a long-term investment meant for a specific purpose, and is most beneficial when started young. The perception, therefore, of PRS consultants who overlook the youth market citing the lack of disposable income is mistaken and short-sighted. "These are our future investors in unit trust," Tan said. "PRS is a door opener allowing these youths to understand the world of investments. [But] young investors need something fast and easy to understand. A lot of education is still required for PRS."

Annuities and other retirement saving schemes are unsuitable for the younger generation because of the cost of investment. However, PRS' minimum investment of RM100 is affordable and can also be a gateway to future relationships, Tan added. What must be stressed is how these savings are translated into retirement lifestyles. In this regard, the tax relief strategy is not the proper marketing tool.

Moving on to the corporate PRS contributors, Husaini said that engaging with employers to deduct PRS contributions from salaries of voluntary employees was an effective way to increase employee participation. Ng agreed, but added that more needed to be done to persuade employers of the reputational, and not just financial, benefit of implementing this plan.

This lesson, he added, applied to financial planners as well: "You have to plan PRS in as a total financial planning solution blended with any other product that you're giving to your clients. When you advise timed deposits for savings, life insurance as a legacy or investment product for growing their capital, don't forget there is this one more solution which is not a standalone solution. You have to give the full package as a combo set to your customers."

Finally, in response to a question from the floor, the panellists agreed that the PRS awareness campaign should expand its scope to include other intermediaries such as tax accountants, human resource practitioners and so forth. Through this, they agreed that these other intermediaries will be able to help create a more supportive framework for PRS in order to boost enrolment.

FROM LEFT
Andy Lim Say Kiat, Group Managing Director, PhilipCapital Malaysia; Ling Kay Yeow, Partner, Ernst & Young Advisory Services Sdn Bhd, Chang Zhong Yang, Senior Manager, SC Malaysia; Tang Khan Loon, Director, FA Advisory Sdn Bhd; and Graeme Brant, Senior Executive, Quantifeed.

Fintech: Implications for the Investment Management Industry

The rise of robo advisory and digital wealth management should not be viewed as the end of the traditional advisory industry, but as a tool for increasing participation in an increasingly segmented market, according to panellists of the "Digital Investment Management: Friends of Foes?" discussion at the FIMM Annual Convention 2017. However, consultants cannot at the same time afford to sit idly by and expect the status quo to remain the same.

While robo advisory and digital financial innovations have taken the world by storm in recent years, the impact on Asia has yet to really take off. However, digital technology is encroaching slowly but surely with a growing presence in key markets including China, India and Australia. The general view is that digitisation is inevitable, prompting regulators including the Securities Commission (SC) Malaysia to develop regulatory frameworks and policies to support this development. In Malaysia, this has taken the form of the digital investment framework launched in 2017.

"The SC looked at all global developments and we believe that robo advisory is a beneficial innovation that can be implemented in our market," said Chan Zhong Yang, Senior Manager, Innovation, Digital and Strategy for SC Malaysia. "We did our focus groups, engaged with market participants on what was the best form for the market in Malaysia and the digital investment framework is the outcome of this."

According to Chan, the development of the framework was a natural progression for the SC based on what they have been doing over the last few years: they introduced the equity crowdfunding framework (ECF) in 2015 and the peer-to-peer (P2P) financing framework in 2016. In every case, Chan said, the idea was to increase participation in the capital market by expanding the channel of products available for both investors and investees.

"Our starting point was how we could best leverage on the capital market to fulfil some of the economic aims of our economy, and ECF and P2P financing was really focused on providing greater access to financing for our micro, small and medium enterprises," Chan said. "They also provided an additional investment product that catered to specific needs within the market. For the digital investment framework, it is really about trying to encourage greater investor participation into the market."

Technology allows this to happen because it provides greater segmentation of the market, added Graeme Brant, Senior Executive, Strategic Partnerships, Quantifeed. Because of their low cost and accessibility, robo advisors allow financial institutions to provide affordable wealth advice to clients and remain profitable. This means catering to the previously underserved segment of the population who could not afford wealth advice in the past.

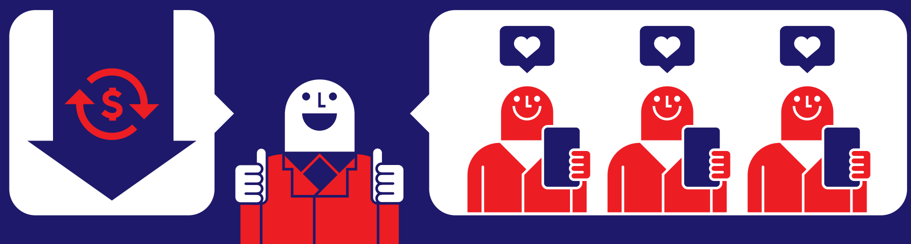
"What technology is facilitating is a real segmentation of customers or potential customers so those customers that can afford a personal adviser relationship probably still want that," he said. "They may use technology to keep an eye on things at their convenience but it's not changing that relationship as significantly as the change to those people who weren't in the position to pay for advice. Their needs are probably less complicated and they just really want a portfolio that's going to help them with their retirement or help them save for their kids' education."

One reason that Asia is well-suited for the implementation of robo advisory is because while high net worth individuals have been well looked after, those in lower economic classes have not been receiving proper amounts of care. It would be this segment of the population who would stand to gain the most from technology, Brant said.

While the suggestion is that existing wealth management companies catering to high net worth individuals would not be threatened, existing consultants and providers still need to change in order to remain relevant.

Even if robo advisors did not gain a firm footing in Asia, there is no doubt that the use of technology would optimise certain processes to make them more efficient, thereby creating value for customers and a competitive edge for providers.
"If you embrace technology it creates new opportunities for you," said the Director of FA Advisory Sdn Bhd Tang Khan Loon. "But if you ignore it, it becomes a disruption for you…We need IT systems to help with processes and we need robust processes to build our model portfolio in order to provide solutions to our clients."

For Tang, his advisory firm is looking to synthesise the advantages from robo advisors with their existing consultants to create what's known as "bionic advisors". Under this model, human consultants continue to build and maintain relationships with clients while using sophisticated robo advisors to help develop portfolios for clients based on their needs and risk appetites. This fusion of human and technology thereby allows each component to focus on what they do best in order to create an integrated solution for the investor.



The trends suggest that firms are investing into these areas as they significantly cut down transactional cost and improve customer experience.

Meanwhile, in addition to robo advisory, technology is changing investment management considerably in three other ways, says Ling Kay Yeow, Partner at Ernst & Young Advisory Services Sdn Bhd. Technology is gradually becoming as ubiquitous in the investment management industry as it is in the day-to-day, and this is changing the landscape of the industry.

"There are three other big areas in technology that we see. An area where most of the fund providers and asset management companies are already focused on today is RPA – Robotic Process Automation, which gives fund providers much greater back office capabilities," Ling said. "[Second], What digital has done today is given access to a lot more alternate data. Given access to big data…you can get immediate feedback and the product can be tuned to meet customer needs. So, it's the agility you get when you start mining alternate data and alternate views.

"Finally, when you want to serve the customer, [technology] functions as

an omnichannel. It's no longer just a single interface where you have to be there in person, but you can engage with the customer through whatever channel the customer can think of. If the customer wants to use mobile or chat with you, you're there…We see a lot of effort within the industry to invest in omnichannel to cut out inefficiencies and share data."

The trends suggest that firms are investing into these areas as they significantly cut down transactional cost and improve customer experience. The suggestion then is that Malaysian investment management stakeholders must consider these new developments as possible investments for themselves if they are to remain competitive in the financial market.

Positioning Malaysia as a Global Hub for Islamic Asset Management

The Islamic asset management industry in Malaysia has developed significantly since its launch nine years ago, but more can be done to secure its position as a global hub for the industry. Panellists at FIMM's Annual Convention 2017 agreed that the country continues to hold significant potential to be a global Islamic asset management hub, but must look at intensifying efforts in several key areas.

According to the Malaysia International Islamic Finance Centre (MIIFC), total assets under management (AUM) of Islamic funds were valued at US$70.8 billion by the end of Q1 2017 comprising 1,535 funds. This is compared against AUM of US$47 billion comprising 802 funds by the end of 2008. Malaysia's share of AUM stood at US$22.6 billion from 388 funds making it the largest country with domiciled Islamic funds.

While Malaysia's robust Islamic finance structure and regulatory support has made it an attractive Islamic asset management hub, growing interest in Syariah-compliant and sustainable funds globally may prompt other locales to ramp up their Islamic offerings. Nevertheless, said Dominic Godman, partner and head of Singapore at Arabesque Asset Management, Malaysia has a good head start and the necessary support from the government to maintain its leading position.

"We think that Malaysia is one of the most important countries that's leading sustainable and Islamic investing in the Asian region," Godman said.

"So how has this happened? Following the Asian financial crisis, the Malaysian government focused on the development of an Islamic Capital market especially on product innovation, policy incentives and financial market regulation. Having established a leading position in the market, the government and regulatory authorities are now looking at increasing global interest in socially responsible investments (SRI) or ESG investments where there's a close alignment to the ethics of Islamic finance."




FROM TOP
Dominic Godman, Partner and Head, Arabesque Asset Management Ltd; Suhazi Reza Selamat, Executive Director, UOB Islamic Asset Management; Nik Mohd Hasyudeen Yusoff, Public Interest Director, FIMM; and Sani Hamid, Director, Financial Alliance Islamic Wealth Advisory.

We saw that Malaysia has the infrastructure for Islamic finance, had the rules and regulations in place, had the support of the regulators, the players–there was nowhere else where we thought best to house the Islamic initiative

Government efforts to promote Malaysia as a regional centre for sustainable investment is bearing fruit, he added, and has positioned Malaysia at the heart of one of the most significant trends in the financial market in decades. Some examples he cited include the introduction of the bourse's FTSE4Good Sustainable Index, introduction of the sustainable and responsible investing certificate framework, as well as the SC's call for corporates to adopt integrated reporting standards.

It is also for this reason that UOB, one of Singapore's leading banks, has decided to house its new Islamic asset management business in Malaysia, Suhazi Reza Selamat, Executive Director and CEO for UOB Islamic Asset Management, said the banking group considered various countries for its expansion into Islamic management but ultimately decided on Malaysia.

"We saw that Malaysia has the infrastructure for Islamic finance, had the rules and regulations in place, had the support of the regulators, the players—there was nowhere else where we thought best to house the Islamic initiative," he said.

"It's been nine years since Islamic fund management started and there are good signs that the Islamic space is still very vibrant with a lot of interest from institutions, from the retail space and from the retail funds business. There's been tremendous growth outpacing conventional growth so, to me, all these recent signs show that the momentum is still there. Our perception is that going forward, Islamic is still here to stay and hence why my organisation has ventured into this space now."

The macro framework aside, there remain specific considerations that needed to be improved to position Malaysia as an international destination for Islamic funds, said Sani Hamid, Head of FA Islamic Wealth Advisory. As a wealth advisory firm, FA Islamic Advisory builds wealth portfolios for clients, which means seeking out Syariah-compliant solutions that fit the investment needs and risk profile of the client. In order to do so efficiently, there is a need for a diverse pool of Syariah-compliant funds or assets to draw from, but the breadth of products available in the market at the moment is somewhat limited, he said.

"What I'm finding in Malaysia is that 90% of Syariah-compliant funds are Malaysian-centric and are probably long-only funds," he said. "To build a portfolio robust enough in today's environment, I would like to see various categories of funds and managers with wider mandates not confined by a certain country or sector. For example, I don't know how many global macro funds are Syariah-compliant…When I look at the sector today where bonds and income funds are highly overvalued, there is a gap where Malaysia has to fill to make it internationally attractive for customers to come in."

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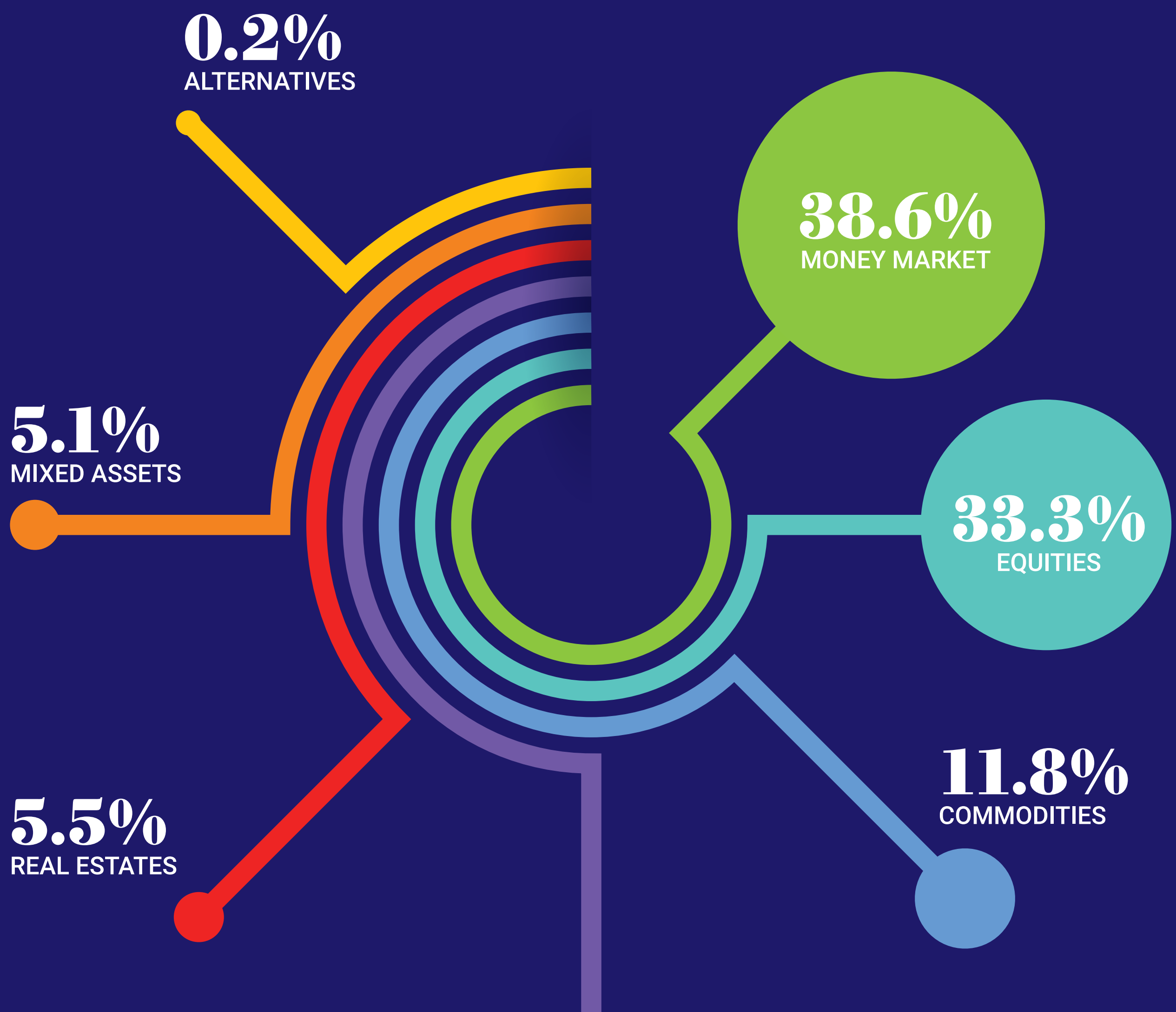


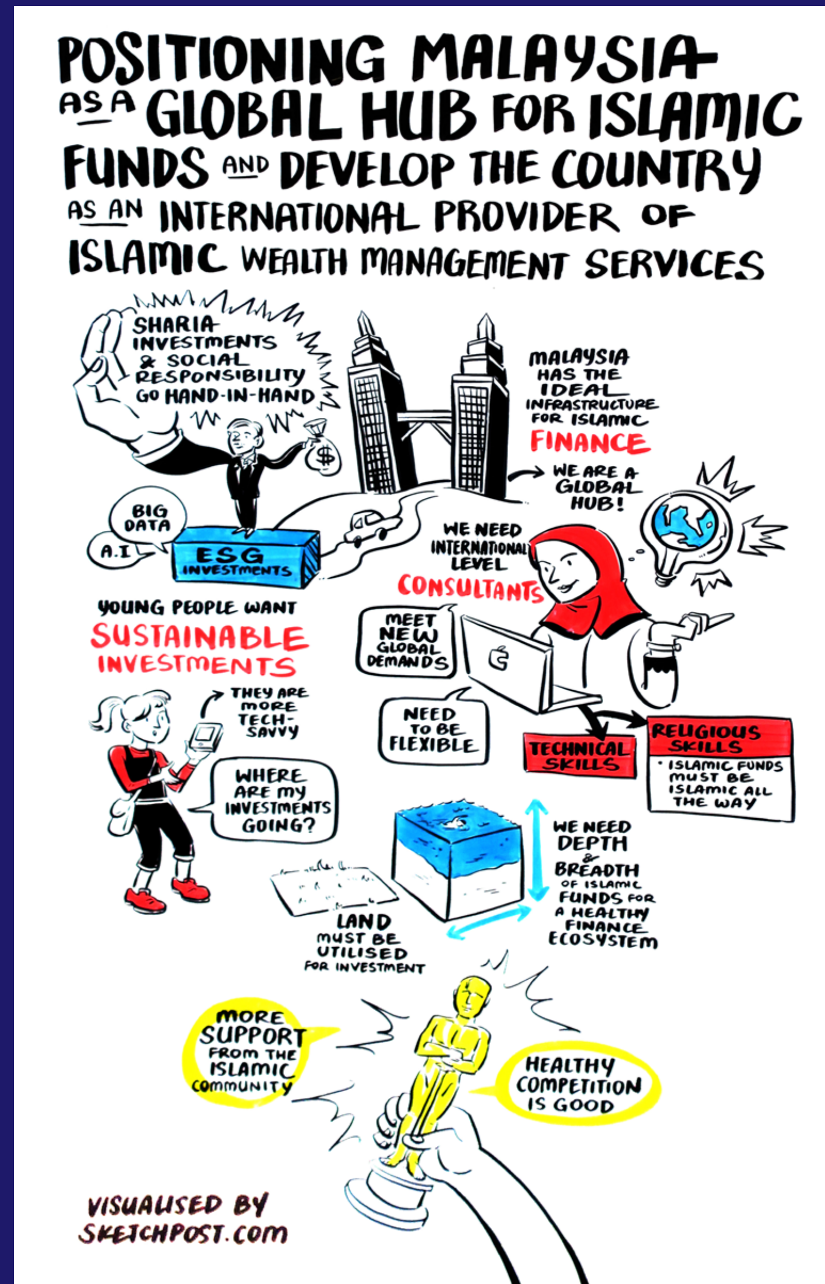
FIGURE 1:
Type of Islamic Funds by AUM (1Q 2017)
Source: MIIFC

Indeed, according to MIIFC, Islamic funds are largely dominated by money-market funds (see Figure 1), which are typically regarded as conservative funds with lower rates of return. The lack of diversity handcuffs wealth advisors to include funds in portfolios that may not properly meet customer needs thereby leading to a less than optimum solution.

In addition to insufficient breadth and depth of the market, Sani said that Malaysian consultants must also step up their level of expertise to cater to international clients if it is to truly become an international hub for Islamic finance. Additionally, these consultants also need to have the proper support framework in place allowing them to tap into comprehensive solutions suitable to their needs.

"To attract people, to allow my clients to walk RM1 or 2 million here, the consultant has to be competent," he said. "Consultants have to be at an international level and prepared to answer difficult questions. Investors are now more savvy — they're well-read and could possibly know more than you. Because of that, you will find it extremely hard to bring yourself to the level of international fund investors. You need to be competent and make sure you have the proper back-end support if you want to go international."

During the discussion, panellists agreed that there was also room for greater innovation in terms of Islamic fund types, as well as areas where greater dialogue was required. There was also general agreement that while Malaysia had a good head start in terms of infrastructure and regulation, growing interest in the sector may see other countries intensifying their efforts to develop their own offerings. In that regard, Malaysia must continue to keep pace with developments to remain on target of becoming a global hub.



Opportunities Remain Despite Uncertainties

Despite uncertainties in the macro environment, there remain investing opportunities in Malaysia and region likely to yield positive returns in the short-term, panellists at a FIMM Annual Convention 2017 discussion said. Market observers have been warning of greater volatility owing to disruptions in global politics, upcoming fiscal policies and uncertain commodity prices. Nevertheless, the panellists believed that opportunities remained.

“For us at Threadneedle, we hold the view that the market backdrop presents both ample opportunities although we are seeing a lot of uncertainties,” said Mohd Farid Kamarudin, Head of Islamic Investments, Threadneedle Investments, Singapore.

“And these uncertainties come in a lot of forms. One risk that we continue to hear in the newspaper and in investment research reports is macro-related. These uncertainties are partly due to the fact that most of the asset classes are highly correlated. For example, some political event outside our country could have implications on our market here in Malaysia.”

Macro aside, there are also a number of concerns situated closer to home. In 2018, key ASEAN countries including Malaysia, Indonesia and Japan are expected to hold general elections which could bring about a change in leadership. As a change in leadership may also bring about a change in policy, this could have either a positive or detrimental effect on the economy, thus creating greater uncertainty for the region.

Nevertheless, healthy capital inflows in to Malaysia suggest there remains strong foreign investor confidence in the country. While some observers argue that these funds will be repatriated when developed markets such as the US and UK raise their rates, Farid said he has seen no indication that this will happen in the short-term.

“I feel that the search for yield will continue as a theme in 2018, and this will benefit both fixed income and hard currencies, as well as the local currency,” he said. “Capital flows remain a risk but we don’t see outflows happening anytime soon.”

In terms of investing opportunities, Valentin Laiseca, Executive Director, Asian Index, MSCI, identified three key opportunities investing themes over the short-term: China-A shares, sustainability (ESG), and quantitative investing. China-A shares refer to listed Chinese companies domiciled within China, while ESG companies refer to those with a robust sustainability framework.

“The biggest event related to equities is the inclusion of China-A shares in mainstream indices,” Laiseca said…There was a lot of interest from the China government to have China-A included in mainstream to get the capital flow into their market economy. Because of this they accelerated some reforms and in June 2017, we included China-A in our main indices.

“For ESG, we are talking about things like climate change, about water stress, pollution, corporate scandals, governance scandals—all these non-financial factors are becoming increasingly important. The reason is because of three trends. One, the abundance of spread of information which is only going to get worse. Two, tolerance from society to companies who pollute, companies that

> *“I feel that the search for yield will continue as a theme in 2018, and this will benefit both fixed income and hard currencies, as well as the local currency”*

do not respect their employees, companies that do not respect minority shareholders—societies have become less tolerant. Three, the link between these scandals and asset prices are only going to grow stronger and stronger. We've seen it with Volkswagen and recently with Equifax and the cyberattacks.

"Finally, the growth in quantitative investment strategies and in particular factor investing. There's more correlation between different asset classes and geographies in different sectors and it's important to come up with strategies that are cost effective that gives you that slight overperformance over the market."

For investment managers and stakeholders, the suggestion here is that funds related to these three themes will see greater traction moving forward because of growing interest. For example, an index-linked fund tracking an index for China-A shares may perform better in the near-term as other index-linked investors pour greater attention to these counters. Exchange-traded funds (ETFs) which typically also track indices may also function as an effective proxy for investors to capitalise on these themes.

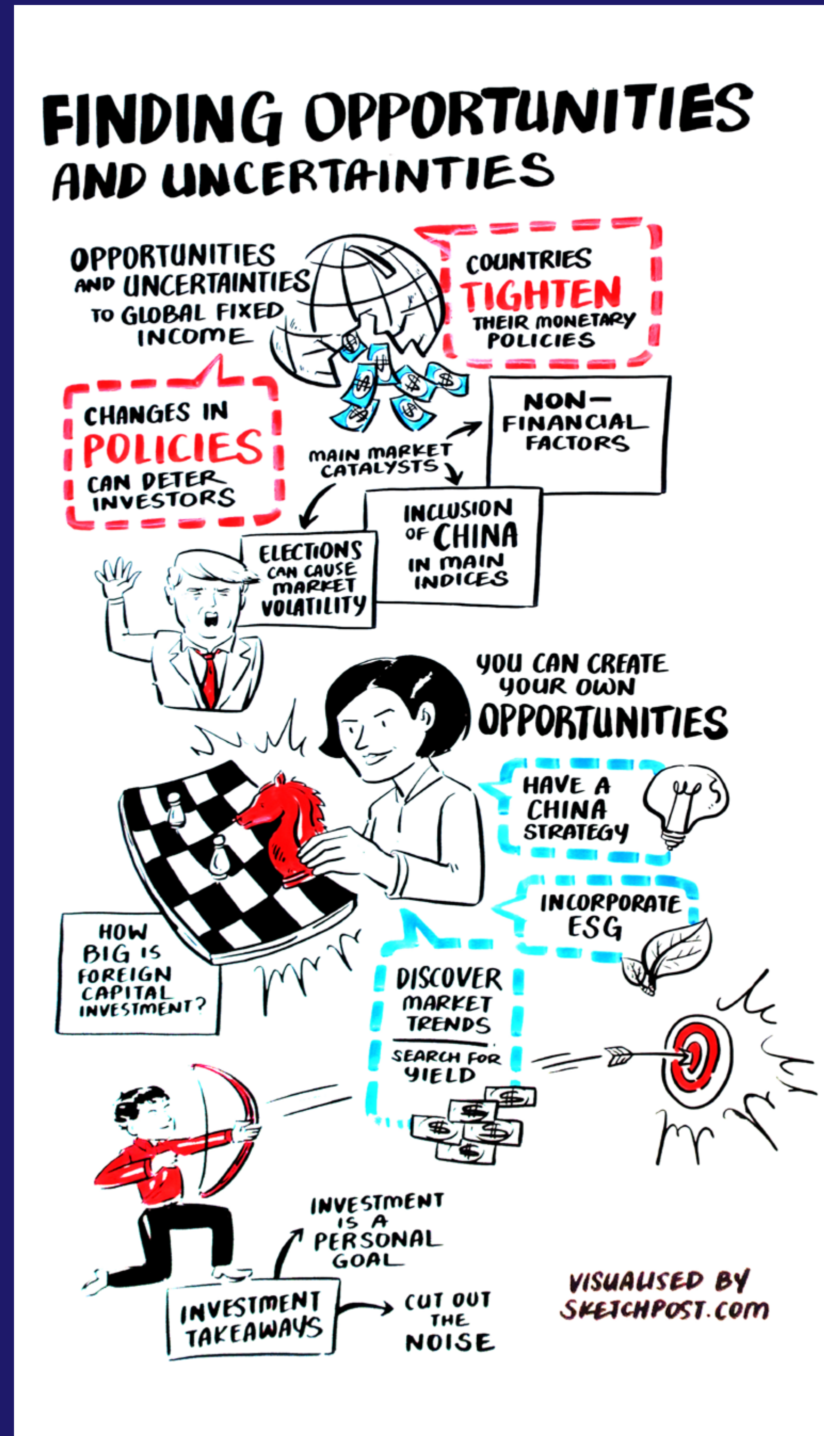
At the same time, Lim Tze Cheng, the CEO of Inter-Pacific Securities Sdn Bhd offered a contrarian view and suggested that investors could look beyond market trends to focus on the growth potential of individual companies. In this perspective, Lim said, there is no 'right' time to invest:

"Every moment is an opportunity, it really depends on how you see it," he said. "It's a matter of confidence and perspective. You need to change your mindset. Don't let your investment perspective be guided by how the market will go. What is really in your control is to invest in companies that can grow. That is where you really find the opportunities."

FROM LEFT
Valentin Laiseca, Head of ASEAN Index Coverage, MSCI; Ismitz Matthew De Alwis, CEO, Kenanga Investors Bhd; Mohd Farid Kamarudin, CEO Malaysia, Threadneedle Investments; and Lim Tze Cheng, CEO, Inter-Pacific Securities Sdn Bhd.

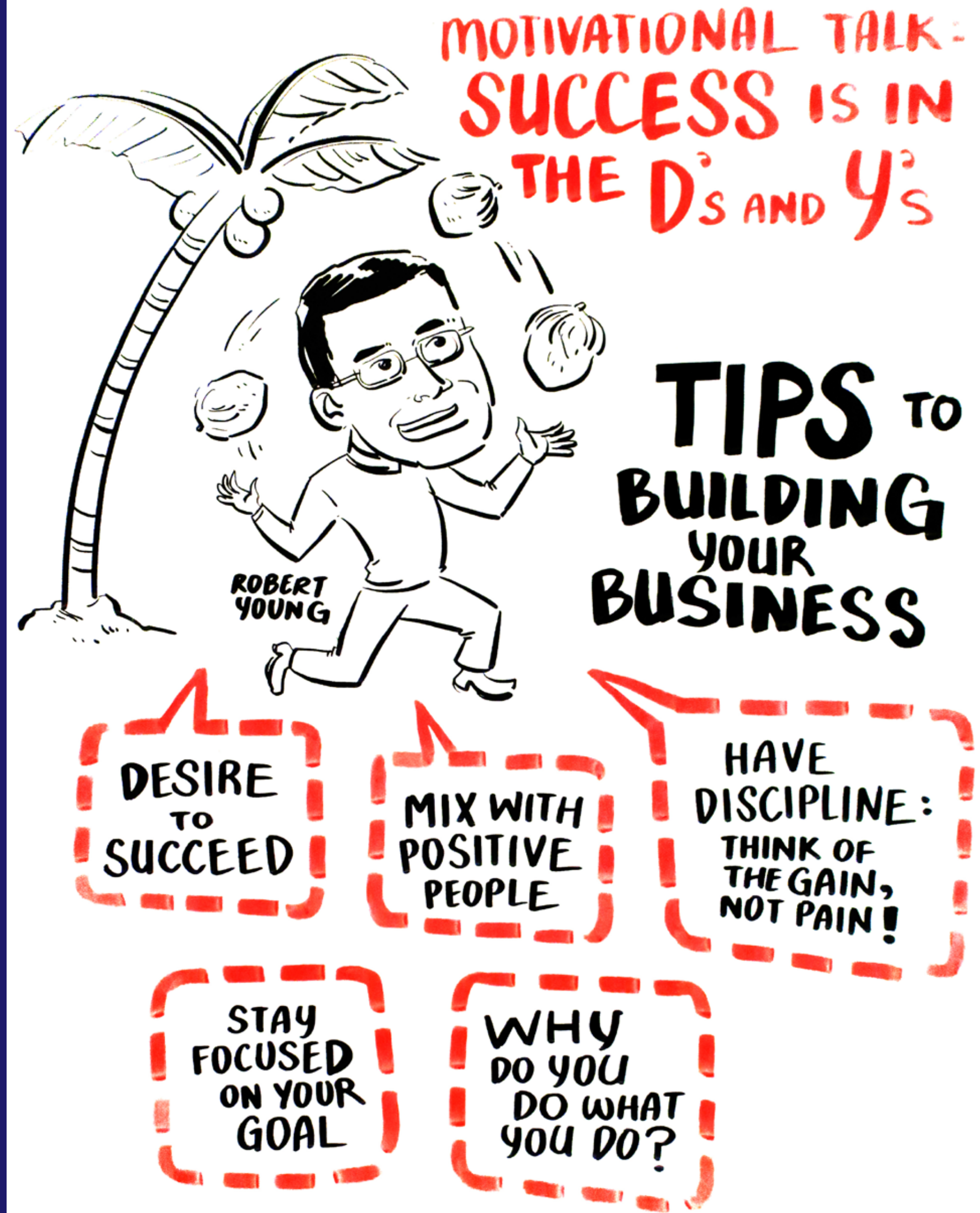
Lim was recently in the spotlight after his fund, the Inter-Pacific Dynamic Equity Fund and its Syariah-compliant counterpart, became the best performing fund in the country after growing 51% in the first eight months of 2017. He credits his success less to being able to read the market and more on an investment nous that has led him to specialise in Malaysian manufacturing and tech counters.

Malaysia's economy is expected to expand by 5% in 2018, according to a November forecast by the Conference Board, a New York-based global, independent business research association. This is slightly lower than the 5.5% forecasted for 2017.

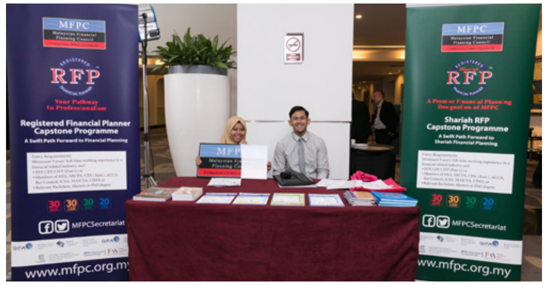


Koid Swee Lian,
Director, FIMM

Robert Young,
Chartered Life Underwriter and
Chartered Financial Consultant



FIMM Annual Convention 2017 in Pictures

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