Asset & Wealth Management Market Intelligence Digest
Malaysia

Asset & Wealth Management
Market Research Centre
Asia Pacific

Summary table of contents

Key takeaways

Islamic investments outpacing conventional funds

- Islamic investments have been on the rise, and grew by 80.8% between 2012 and 2017, outpacing that of conventional products. Islamic fund products are likely to continue to flourish, given the government's emphasis on making Malaysia a global Islamic hub.

Institutional investors looking abroad

- Institutional investors including Khazanah, the country's sovereign wealth fund, and key pensions such as Kumpulan Wang Persaraan (KWAP) and Employees Provident Fund (EPF) have been shifting allocation gradually. These key investors are looking for greater overseas exposure, presenting asset managers with a wider pool of opportunities to tap on.

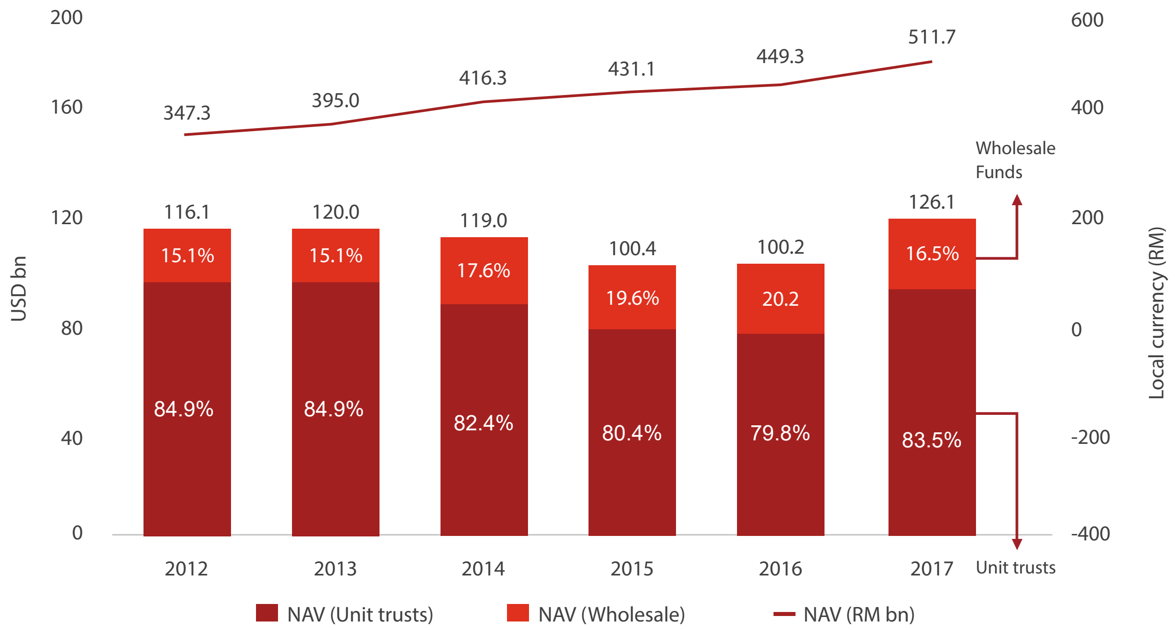
Master-feeder partnership most common for foreign managers

- Most foreign asset managers, which are looking to enter the Malaysian market, continue to do so through master-feeder partnerships with local asset managers.

Market landscape

Mutual funds – Overview

NAV of mutual fund market (USD bn), 2012 - 2017



Mutual fund assets grew by 25.8% in 2017

As of end 2017, there were 939 funds in the market comprising of 644 unit trusts which are offered to retail investors, and 295 wholesale funds which are made available only to high net worth and institutional clients.

In local currency terms, the mutual fund assets recorded positive growth annually, represented by a five-year CAGR of 8.1% between 2012 and 2017. In USD terms however, the mutual fund market saw a 25.8% growth to $126.1 billion in 2017. This was largely driven by unit trusts, which grew by $25.3 billion.

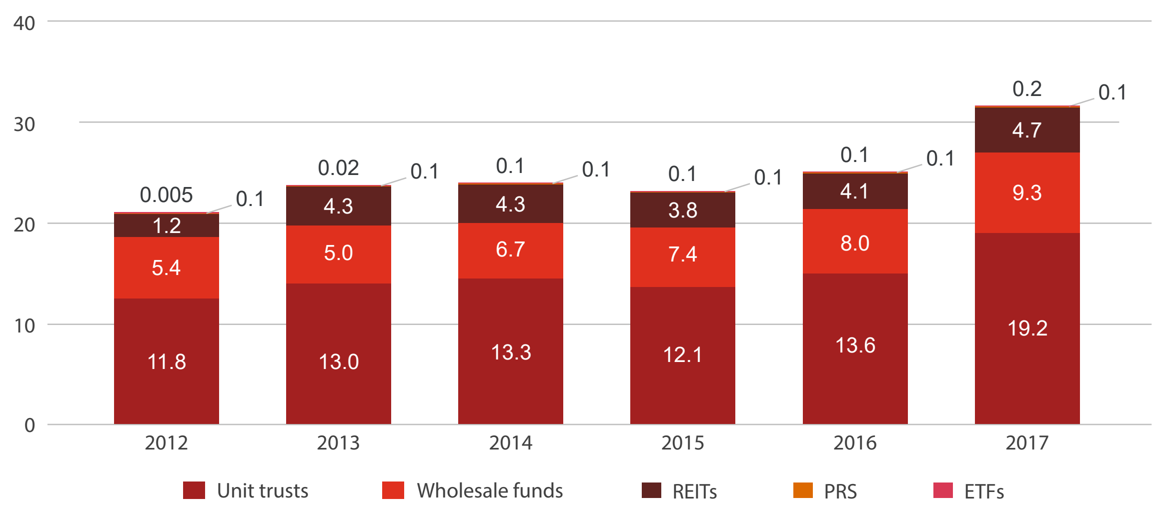
Unit trusts continued to occupy the bulk of mutual fund assets, at $105.2 billion in 2017, compared to $80.0 billion in 2016. On the other hand, wholesale fund assets grew by only 3.0% from $20.3 billion to $20.9 billion in the same period.

On average, each unit trust had assets of $163.4 million, while each wholesale fund had assets of $70.7 million at the end of 2017.

Islamic Market Landscape

Overall Islamic fund management - Fund types

NAV of Shariah fund assets by fund types, (USD bn), 2012-2017



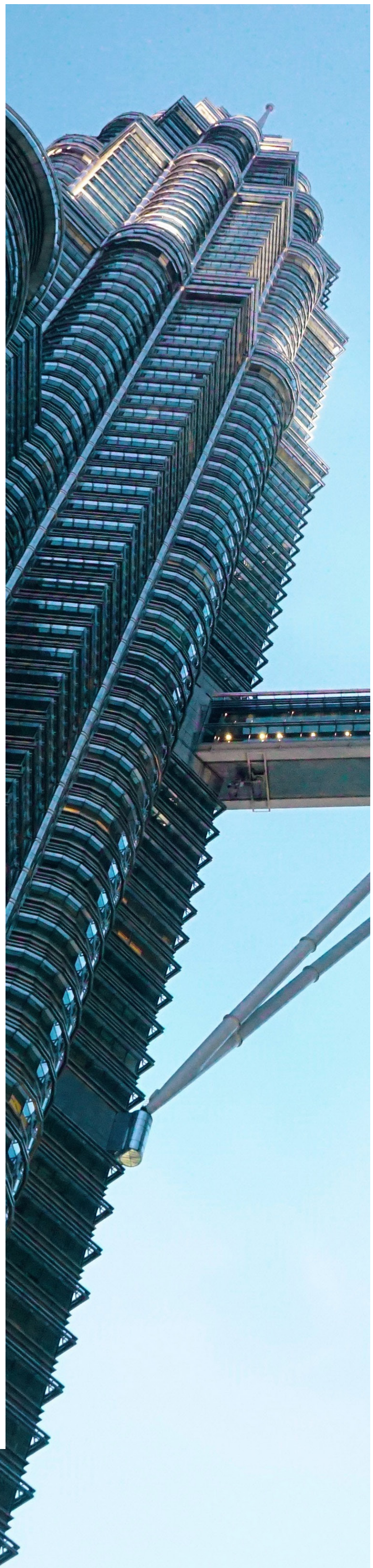
Unit trusts continue to dominate the Shariah market landscape

Shariah funds comprise of unit trusts, wholesale funds, REITs, PRS and ETFs. Between 2012 and 2017, the number of Shariah fund products has also increased from 227 to 325 fund products. During the same period, Shariah fund assets grew by 80.8% from $18.5 billion to $33.5 billion between 2012 and 2017.

Shariah wholesale funds and REITs saw the most significant growth in assets over the five year period between 2012 and 2017. Shariah wholesale funds, which are funds sold to sophisticated investors, saw assets rose from $5.4 billion to $9.3 billion, while Shariah REITs have grown from a small base of $1.2 billion to over $4.7 billion.

Although Shariah unit trusts occupy the largest proportion of Shariah fund assets, its dominance has eroded by 6.7 percentage points from 64.2% to 57.5% between 2012 and 2017. Correspondingly, Shariah REITs saw its market share grew by 7.8 percentage points from 6.3% to 14.1% during the same period.

Institutional investors



1 Sovereign wealth fund

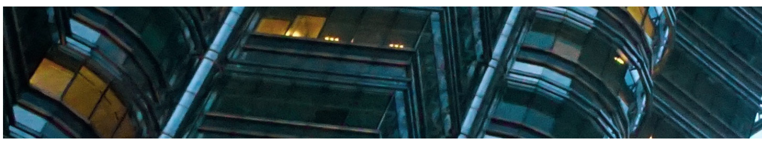
- As of end 2017, Khazanah's assets stood at $38.7 billion, representing a 19.5% year-on-year increase in assets.
- Khazanah has been actively diversifying its portfolio in recent years by increasing foreign exposure, particularly to Singapore and China. It has increased its investments in the technology sector through private equity investments.

2 Pension funds

- Pension assets have been growing steadily in Malaysia. EPF and KWAP, the country's largest pension funds, had assets of $165.6 billion and $27.9 billion, respectively.
- In 2017, EPF introduced a segregated Shariah account – the new Simpanan Shariah fund – in August 2016 and it was officially launched in January 2017. Looking forward, EPF's Shariah-compliant assets are expected to grow by at least $6.2 billion (RM 25 billion) on average each year.
- On the other hand, KWAP is also active in socially responsible investments and aims to be fully Shariah-compliant in the long run.

3 Insurance companies

- In 2017, Bank Negara Malaysia mandated a reduction in foreign ownership in the local establishments of foreign insurance companies from 100% to 70% by end June 2018. At present, both EPF and KWAP are looking to acquire stakes in Prudential and Great Eastern – the only two foreign insurers with 100% foreign ownership currently.



Distribution trends

Rank	Company Name	Number of unit trust consultants, 2016
1	Asset Manager A	28,951
2	Asset Manager B	6,169
3	Asset Manager C	1,926
4	Asset Manager D	1,875
5	Asset Manager E	1,266
6	Asset Manager F	1,010
7	Asset Manager G	´ 961
8	Asset Manager H	640
9	Asset Manager I	511
10	Asset Manager F	340
	Others	1,404
Total		45,053

Direct sales force dominated by Asset Manager A

As of 2017, there were 36 registered asset managers, 49 banks, and 14 independent financial planners eligible for fund distribution in the country. Across these entities, there were over 54,000 consultants – 83% of them work for asset management companies, while the remaining 17% work for banks and independent financial advisors.

Asset Manager A, the country's largest asset manager, also had the largest sales force of 28,951 consultants as of 2016. Asset managers B and C, on the other hand, occupied 14% and 4% of the asset management sales force.

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