

The Voice of Asset Managers

The Malaysian Association of Asset Managers ('MAAM') was founded in 1996 (encouraged by then Securities Commission Chairman Dato' Dr Munir Majid) by Encik Iskander Ismail, Chairman of MAAM till year 2000. The MAAM is an important organisation for the asset management industry, established to essentially spearhead the development of the local asset management industry and promulgate industry best practices. Membership is not compulsory, therefore members currently count at 21 corporates out of 75 licensed asset managers (as at June 2001) in Malaysia. However, MAAM members are estimated to manage nearly 90% of total funds under management of all licensed asset managers, hence we believe we represent the voice of the industry, big and small.

The objectives of the MAAM are many and varied but concentrated on the following areas:

- To act as the representative body for its members and the asset management industry in Malaysia;
- To promote the asset management industry in Malaysia and to ensure the provision of a high standard of service to investors;
- To make representations to the Government and regulatory authorities on matters affecting the asset management industry;
- To consider, promote, review and make recommendations on legislative or other measures affecting the asset management industry;
- To promulgate standards of practice for the asset management industry;
- To promote proper conduct among domestic asset managers;
- To promote research, training and education for members of the Malaysian asset management industry; and
- To collect and disseminate statistical and other information relating to the asset management industry in Malaysia and elsewhere.

The organisation has 10 elected committee members, consisting of industry leaders, and one full time Executive Secretary. The Committee meets once monthly to deliberate on pertinent industry issues. Funding is mainly through annual membership subscriptions. To extend organisation coffers and resources, MAAM is looking to possibly open up membership to licensed Fund Manager Representatives i.e. licensed individual fund managers or advisors, and investment departments of corporates managing third party monies, for example, insurers.

MAAM currently has 6 sub-committees focusing on

- developmental and advocacy issues – making recommendations pertaining to industry landscape and advocacy of best practices
- professional conduct – maintenance and review of industry code of conduct
- education
- marketing and e-commerce – in charge of marketing matters, website maintenance and issues pertaining to e-commerce affecting the industry
- new products – guidelines to new products and their development, and risk management aspects
- performance presentation standards – focusing on globally acceptable standards of performance presentations, and GIPS (Global Investment Performance Standards) as promulgated by the AIMR (‘Association for Investment Management and Research’)
- risk awareness - to develop an independent unit responsible for the promotion of risk awareness and management in investment related activities
- corporate governance - to determine the conditions and avenues of intervention, and appropriateness of publicly expressing a view on a contentious corporate action

The MAAM’s main thrust to date:

- Industry Code of Conduct – to promote and maintain integrity of asset management activities, as well as safeguard the interest of clients
- Practice Note on valuation of unlisted fixed income securities – advocating mark-to-market method of valuation using an average of 3 brokers’ quotes as opposed to book value. Phase 2 involves the Bloomberg Malaysian bond page, currently a work in progress, where quotes by bond brokers on all over-the-counter Private Debt Securities of fund managers involved will be averaged and displayed as we work towards price discovery and transparency.
- Liberalisation of the domestic pension industry – a concept paper has been tabled and presented to the relevant authorities
- Liberalisation of outsourcing by insurers
- Support for Mercer’s composite measure of performances for wholesale fund managers, being in line with the spirit of GIPS
- Adoption of AIMR’s GIPS as an industry best practice
- Seminars and educational matters
- Annual industry dialogues with relevant authorities, namely the Securities Commission and the Kuala Lumpur Stock Exchange, in promoting the fund management industry
- MAAM’s 18 recommendations were adopted within the Securities Commission’s Capital Markets Master Plan

History of the private industry

The asset management industry in Malaysia traces its beginning to the early 1970’s. Services were provided to institutional clients by the fund management departments or divisions of merchant banks.

These departments were considered exempt persons under the BAFIA (Banking and Financial Industry Act) in the area of investments, hence no separate licenses were required to act as an asset management arm.

Within the last decade however, an important development occurred in that the asset management business became separately corporatised. This means that almost all Malaysian asset management companies are now stand alone companies, subsidiaries of either financial institutions or experienced individuals. This move made sense as it minimised inherent conflicts of interest, while recognising the growth potential of the asset management business.

As separate entities, they are now required to be licensed by the Securities Commission as a fund manager, as indeed are all fund manager representatives.

The unit trust or retail business has been in existence for four decades. In 1959, the first unit trust fund was launched by Malayan Unit Trust Ltd. The industry was initially regulated by the ROC, Public Trustee of Malaysia, Bank Negara and Capital Issues Committee. Now it also comes under the SC's purview.

Growth of the Asset Management Industry

The main factor that has spearheaded the growth of the asset management industry has been the economic well-being of corporates and individuals. Malaysian per capita income has grown quite steadily to an estimated RM13,618 at the end of last year, despite having undergone an economic crisis and an export led slowdown over the last 10 years. The development of the asset management business has been driven not only by our rising prosperity as a result of economic growth, but also as a result of changing investor behaviour.

The early 90s were characterised by euphoric investment into equities as emerging markets were heralded the hidden gem by foreign investors in terms of value as industrialisation took place. This unfortunate episode culminated in the most Asian markets hitting all time highs during early 1994 at overly inflated values before reality hit home. The ensuing consolidation was painful as all consolidations are after a bubble. But not nearly as painful as the downturn during the Asian crisis years of 1997 and 1998, spurred by the Thai Baht crisis, whose contagion effect crippled currencies and hence economies around the region.

It was only after then that lower risk assets such as fixed income securities started to become more popular as investors fled the equities market in droves. The private debt securities ('PDS') market has also developed more depth of late as issuers took advantage of locking in prevalent low interest rates. The PDS market has grown to an estimated RM104bn, whereas the MGS market is estimated at RM102bn, still paling in comparison to current equities market capitalisation of RM522bn. In more developed markets, disintermediation started some time ago with bond markets dwarfing equities by a long shot.

Most currently, hedging and risk management tools are all the rage in a bid to minimise and understand investment risks.

What is a fund manager?

In layman terms, a fund manager would be an institution who is employed to manage third party monies with the aim of beating at least risk free returns depending upon objectives, risk tolerances and investment time frame. Asset classes mainly include shares, bonds, real property and cash.

Their target returns are usually tied to the performance of some benchmark, for example the Kuala Lumpur Composite Index in the case of a Malaysian equities portfolio.

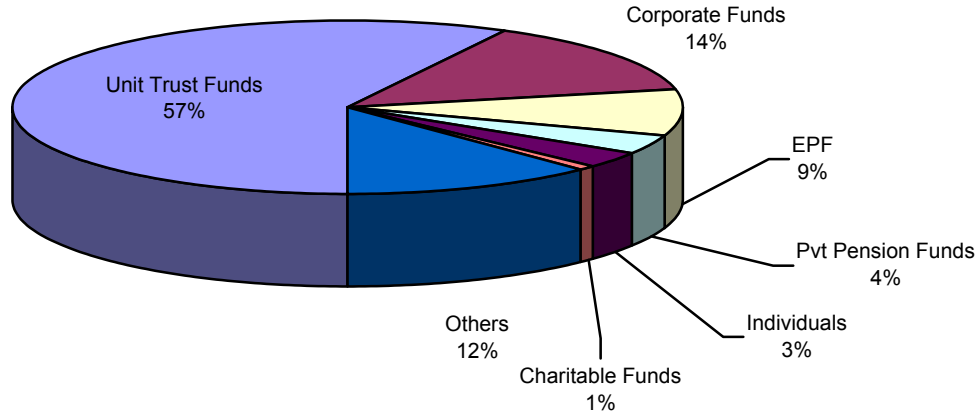
Fund managers typically manage funds on behalf of corporates, high net worth individuals, pension funds and other pooled funds such as insurance portfolios, and collective investment schemes such as unit trusts and closed- end funds.

The Asset Management Industry

The licensed asset management industry in Malaysia comprised 75 asset management companies licensed by the Securities Commission (“SC”) managing more than RM18 bn of clients’ monies at the end of June 2001. Of the 75, 60 were 100% locally owned companies, 10 were joint ventures with majority local ownership, 4 were joint ventures with majority foreign ownership and only 1 was 100% foreign owned. Number of licensed fund manager representatives stood at 222.

The unit trust industry, excluding Permodalan Nasional Berhad (‘PNB’) and other government sponsored funds, has 35 SC licensed players managing about 107 approved funds with an estimated net asset value of RM13.5bn at end June 2001. The unit trust industry is now governed by the Securities Commission (Unit Trust Scheme) Regulations 1996, and the Federation of Malaysian Unit Trust Managers (‘FMUTM’) has a semi Self-Regulating Organisation (‘SRO’) industry role.

**Source of Funds Under Management - Licensed Private Fund
and Unit Trust Managers as at June 2001**



It is estimated that the private sector asset and unit trust managers combined were managing approximately RM23bn at the end of June 2001. This works out to be about 5.75% of total domestic stock market capitalisation, although total funds under management would itself include fixed income and cash mandates. However, this is still a vast improvement over 1996 statistics of an estimated 2% to 3% of stock market capitalisation.

The Employees Provident Fund ('EPF') is the largest fund manager in Malaysia with over RM180bn of funds. It had just RM31.5bn in 1986. The EPF was established under the EPF Act 1951, and to date has out-sourced an estimated 2% of funds directly to fund managers and an additional 2.5 % of funds have been withdrawn by members under the EPF investment scheme. Under this scheme, effective December 1996, eligible EPF participants are allowed to withdraw up to a maximum of 20% of balances exceeding RM50,000 from their retirement accounts, to invest in funds managed by approved asset management companies and unit trust funds.

Permodalan Nasional Berhad ('PNB') can be considered the second largest fund manager with over RM25bn of unit trust funds in June 2001. It aims to promote Bumiputra ownership in the corporate sector and is given certain privileges such as IPO allocations towards this end. Its flagship funds are the Amanah Saham Nasional ('ASN'), Amanah Saham Bumiputra('ASB') and Amanah Saham Wawasan 2020. The PNB is also under the purview of the SC and manages funds in-house.

Insurance companies have over RM52bn in assets mainly managed in-house. They fall under the purview of Bank Negara. Other large public institutions, for example, LUTH,

LTAT, Khazanah and PERKESO utilise a combination of in-house and external managers. They generally come under the Ministry of Finance.

Private sector managers, comprising mainly asset managers, unit trust companies and insurers, are only managing an estimated 20% of total available funds. The rest is in public sector hands, mainly dominated by the EPF and PNB who between them account for over 65% of the industry. The reverse is prevalent in more developed nations, hence the trend here is of concern. The government is reviewing the current framework to release more funds to the private sector. The EPF investment scheme and more funds being placed directly with selected fund managers are two ways being currently promoted and implemented. Liberalisation of the pension industry is being looked at towards this end. This is something we private asset managers feel strongly about and are fighting hard to change i.e. the crowding out of the private sector.

At the same time, we are seeing industry rationalisation take place with the bank mergers and smaller fund management companies going out of business or selling out mainly due to lack of funds under management. Hence, the private fund management industry in Malaysia can still be considered to be in its nascent stages.

Do visit our web-site at 'www.maam.org.my' for further details on the MAAM.