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Charting new growth

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Malaysia's top investment and pension professionals talk shop



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ASEAN fund passporting, capturing growth opportunities, and the future of pensions and investments in Southeast Asia were among the topics hotly debated by more than 100 senior investment professionals at *Asia Asset Management's* fifth annual Malaysia roundtable.



From left: Daniel Shane, Associate Editor, Asia Asset Management; Jalil Rasheed, Investment Director - Head of Singapore Office, Invesco Asset Management Singapore Ltd; Wan Kamaruzaman Bin Wan Ahmad, Chief Executive Officer, Kumpulan Wang Parsaraan (Diperbadankan); Phua Lee Kerk, Chief Strategist, PhillipCapital and He Kai, Head of Fixed Income, Bosera Asset Management (International) Co., Limited.

Under the banner *Institutional Investments and Pensions: Charting New Growth*, the one-day event in Kuala Lumpur sought to address the most pertinent issues and challenges facing the region today, with everything from closer capital market integration to decision-making at the US Federal Reserve coming under the microscope.



Wan Kamaruzaman Bin Wan Ahmad
Chief Executive Officer
Kumpulan Wang Persaraan (Diperbadankan)

The roundtable's first panel of the day, entitled *Portfolio Construction: Capturing Opportunities in Asian Equity and Asian Fixed-Income*, brought together four top institutional investment executives whose expertise spans the breadth of the regional asset class spectrum. They were: Wan Kamaruzaman Bin Wan Ahmad, chief executive officer of Malaysia's second-largest pension fund, Kumpulan Wang Persaraan (Diperbadankan) (KWAP); Jalil Rasheed, investment director and head of Singapore officer, Invesco Asset Management Singapore Ltd; Phua Lee Kerk, chief strategist, PhillipCapital; and He Kai, head of fixed-income, Boseru Asset Management (International) Co Ltd.

In response to the question "What is the appropriate level of asset allocation to equities and fixed income in the current low-yield investment climate?", Mr. Jalil argued that there was no one-size-fits-all approach among Asian institutional investors.

"Institutional investors have a very scientific way of looking at asset allocation. We speak to lots of investors, and they all have very unique ways of attributing what sort of levels of allocation that they would like," he explained. "You can't really pinpoint and say: "this is the most optimum level of asset allocation"."

Broadly-speaking though, Mr. Jalil added that pension funds typically allocated 60% to 70% of their portfolio to fixed-income assets due to the guaranteed yield that is necessary for their pay-out obligations.

Mr. Wan Kamaruzaman then told delegates that KWAP's asset allocation strategy was based on the civil servant pension fund's moderate risk appetite. "At this point in time, for our asset allocation, the majority is in the fixed-income space. We have about 55% of our allocation in this space; it's a combination of government and corporate bonds. A significant portion is in the equity space, which is domestic as well as global equity. In total, equity represents about 35%. After you combine those two, the balance is in alternative asset classes and to some extent in cash," he explained to attendees.

Mr. Wan Kamaruzaman also said that global investments made up approximately 10% of his portfolio as part of KWAP's diversification strategy, although this can go as high as 19%. In addition, the pension fund also has in place a tactical asset allocation strategy, he continued, "whereby we can go beyond or below based on market considerations. That's where we really, every year have to crack our heads, and see the performance of the asset classes and where we're underweight or overweight."

Finally, during the panel discussion Mr. Wan Kamaruzaman revealed that KWAP would soon be awarding mandates for investments into Sharia-compliant and environmental, social and governance-themed (ESG) assets. "We're coming out with a couple of mandates, maybe a domestic one and maybe a regional one, on SRI [socially responsible investing] investments in particular in the equity space. The other thing is that we're looking at bigger participation in the Sharia space; we want to grow our sukuk mandate and Sharia-compliant equity to have a bigger presence there," he said. "We're still in the midst of diversifying and we're focussing on many new markets to mitigate our risk of exposure. Our exposure of 90% in one market can be very challenging."

A new era

DIAM Singapore Managing Director Keiichiro Okuda made the first presentation of the day, entitled *Abenomics in Japan: Ushering in a New Era*. He proceeded to discuss the opportunities and challenges facing Prime Minister Shinzo Abe's efforts to revitalise the Japanese economy.

Mr. Okuda gave attendees an update on the developments and impact of Mr. Abe's economic policies over the last 18 months or so. These have been broadly categorised under three so-called 'arrows': bold monetary easing; flexible fiscal policy; and a new growth strategy. The third arrow was of particular interest to Mr. Okuda, who ran delegates through some of Japan's measures to improve return on equity (ROE) via the introduction of the Japanese Stewardship Code; better corporate governance; and the introduction of independent external directors.

"The government is aware of the low level of ROE among Japanese corporates, and has clearly come out with measures to improve this and the stock prices," he explained, while sharing statistics with the audience that indicated overseas investor inflows had increased on the back of these measures. "Through these reforming policies, the government is aiming for growth to create a ripple effect across the nation," Mr. Okuda surmised.



Keiichiro Okuda
Managing Director
DIAM Singapore

China issues



Conrad Cheng
Deputy Chief Executive Officer and
Chief Portfolio Strategist
Bosera Asset Management (International) Co., Limited

Following a short break, the roundtable resumed with a presentation by Conrad Cheng, deputy chief executive officer and chief portfolio strategist, Bosera Asset Management (International) Co Limited, whose topic was *China: The New Opportunity Set*. Mr. Cheng reminded audience members of the Chinese market's resilience during previous Asian financial crises in 1994, 1997 and 2003, before addressing some of the new government's initiatives to transform the economy from an investment-led one into a consumption-based one.

"What we're seeing at this particular juncture versus what we've seen in the past is the level of commitment to reform at the micro level. But while having government reforms is a good thing – and we're seeing the Chinese government rollout a lot of anti-corruption measures – the real underlying issue is the level of demand. At this point of time, the level of demand can sustain the economy going forward," Mr. Cheng asserted.

He added that if China met its goal of 75% urbanisation, it would create 300 million new city-dwellers, and offer more investment opportunities in underdeveloped sectors, such as healthcare.

Mr. Cheng admitted that China's A-shares market had been a "rollercoaster" in terms of performance, but equities were on average trading with PE in the high single-digits, and foreign inflows over the last two months had been large. He attributed this to the impending launch of the Shanghai-Hong Kong Stock Connect, and also noted that the Chinese equity markets afforded good stock-picking opportunities. "A lot of global investors think the valuation is low, and the potential liquidity from all of these various supporting measures has meant a lot of foreign investors have come in," he explained. "A-shares have a lot of stock-picking opportunities, whereas for H-shares it's very much concentrated on the banks and the telcos. It's a much larger universe with many small caps."

Going forward, Mr. Cheng did however highlight structural issues that needed to be addressed, such as the country's shadow-banking sector and weakness in the property market.

The known unknown

Staying with the China theme, the next speaker was Shen Tan, managing director and head of relationship management at Income Partners Asset Management (HK) Ltd. His presentation, *RMB Bonds: A Better Way to Participate in China's Economic Growth*, addressed the fixed-income side of the Mainland market.

Mr. Tan noted the opportunities in credits issued by the country's large caps and state-owned enterprises (SOEs), versus large cap equity. "For large cap SOEs, you understand why it hasn't performed in terms of equity, because they've only got two agendas for the management: ensure that they keep their jobs, because they are government officials. Secondly, it's a social agenda; they need to provide employment to ensure social stability. The number one priority isn't about shareholder equity," he explained. "On RMB bonds, regarding Chinese credits for large SOEs, rule number one for keeping your job is not defaulting; so it's very important that they pay back the coupons on the bonds. That's why credit has done fairly well."



Shen Tan
Managing Director, Head of Relationship Management
Income Partners Asset Management (HK) Ltd.

Mr. Tan also compared the performance of US dollar-denominated Chinese credits versus their RMB counterparts. "If you overlay the US dollar bonds that are issued by Chinese companies with RMB bonds, which have a positive carry of about 2% to 2.5%, you're looking at a return of about 10%-plus. There's lower volatility and more certainty of your return; so why wouldn't you want to invest in RMB fixed income?" he continued.

On a separate note, he also highlighted the investment opportunities afforded by Abenomics in Japan. While the outcome of Mr. Abe's bold economic policies are not yet certain, Mr. Tan explained, the country's currency is very likely to depreciate in any possible scenario. "The unknown thing is the outcome, but the known thing is that the yen will go down; so short the yen – simple. It's not a question of whether or not Abenomics is successful, it's just a question of the steepness of the depreciation of the yen," he claimed.

Ticket to ride



Lawrence Au
 Head of Asia Pacific
 BNP Paribas Securities Services

Following a lunch and networking break, the event resumed with a brief presentation by Lawrence Au, head of Asia Pacific, BNP Paribas Securities Services. Following an introduction to the recently launched ASEAN Collective Investment Scheme (CIS) fund passporting programme, Mr. Au then showed audience members a video presentation on the subject, explaining some of the products that BNP Paribas Securities Services offered in this area.

The theme of ASEAN fund passporting was also hotly discussed in the afternoon's first panel session, of which the CIS was the central theme. Addressing the matter on stage were: Mostapha

Tahiri, head of Singapore, BNP Paribas Securities Services; Chan Ai Mei, chief marketing officer, Hwang Investment Management (Hwang IM); Nor' Azamin Salleh, chief executive officer, Maybank Asset Management Group Berhad (Maybank AM); and Josephine Law, counsel, Sidley Austin LLP, Singapore.



Nor' Azamin Salleh
 Chief Executive Officer
 Maybank Asset Management Group Berhad

Ms. Law brought delegates up to speed with the latest developments in the scheme, whose pilot countries are Singapore, Malaysia and Thailand. Under the programme, asset managers that meet the required criteria will be able to market retail funds into the other CIS jurisdictions under a cross-border framework.

"We're looking at quite plain vanilla-type funds for qualification under the passport. For example, there's very limited use of derivatives permitted. We're looking at global exposure of about 20%, and no securities lending or repos. So, the focus is on having a liquid, transferable securities-type portfolio. We were next waiting for the handbook, which was issued in August, which was what a lot of the fund managers were waiting for as it set out the nitty-gritty operational aspects like how to apply under host jurisdictions," she explained.

Mr. Tahiri added that he felt the ASEAN passport scheme was a strong sign that fund managers in the participating countries were seeking to broaden their horizons internationally, while the scheme could also threaten the future of UCITS in Asia. "We strongly believe that there are a lot of talented fund managers here who deserve to be known internationally," he told the panel. "In that respect, UCITS was a starting point; firstly for them to market funds back to Asia, mainly in the countries open to UCITS, which were initially Taiwan, Singapore and Hong Kong, and indirectly in Thailand and Malaysia to some extent, via feeders."

He added: "Fund managers are very concerned about the future of UCITS in Asia, and the how the ASEAN fund passport will impact UCITS as a brand."

Both Hwang IM's Ms. Chan and Maybank AM's Mr. Azamin told audience members that their respective fund houses were busy readying products for distribution under the ASEAN CIS programme.



From left: Daniel Shane, Associate Editor, Asia Asset Management; Mostapha Tahiri, Head of Singapore, BNP Paribas Securities Services; Chan Ai Mei, Chief Marketing Officer, Hwang Investment Management Berhad; Nor' Azamin Salleh, Chief Executive Officer, Maybank Asset Management Group Berhad and Josephine Law, Counsel, Sidley Austin LLP, Singapore.

PE potential

The next speaker on the day's agenda was founding director of the ASEAN Private Equity & Venture Capital Association, Anu Sahai. Her talk, *Allocating to Private Equity*, focussed on some of the regional developments and opportunities in this space in Southeast Asia.

Ms. Sahai began by highlighting some of the benefits a private equity allocation offers an investment portfolio, such as an asymmetric return profile compared to public equity, and the potential for higher returns due to the risk and illiquidity premium.

She then addressed some of the specific opportunities in ASEAN. "We've got great demographics, we've got a young population; for the growth rates we're still talking about 7% to 8%, surpassing what Brazil and Russia can provide, while India and China are slowing down," Ms. Sahai noted, adding that the development of the ASEAN Economic Community will increase the bloc's dynamism by lowering trade barriers and increasing labour mobility.

Ms. Sahai said that while multiples on private equity deals in some parts of the region appeared high, this was not indicative of the market as a whole. "If we look at deal multiples across the ASEAN region, they've definitely gone up. Indonesia's the highest because everyone is chasing deals in Indonesia. The key is people chasing the same deals in Indonesia; there's a lot of deals available, but it's a matter of the same deals being chased by a few of the top players," she explained.

Product integrity

Following the last tea break of the roundtable, Trevor Persaud, managing partner, Stradegi, brought delegates up to speed with the latest asset management trends across Asia. Mr. Persaud underscored what he believed to be four key themes underpinning current developments in the industry: environmental; product and distribution; investment capabilities; and operations.

Environmental pressures, according to Mr. Persaud, included lower fees and higher costs, the increasing importance of operational efficiency, creating distinct value propositions, and a sharpening focus on product integrity. He indicated that the latter point was especially pertinent in the current market environment.

"We're highly paid individuals in the context of all of the different industries we could have chosen, and so we should always be adhering to the highest levels of professionalism and integrity in what we're doing," Mr. Persaud explained. "Part of that is what might be identified as best practice, and that's a key trend I see in Asia particularly, but part of that is just being efficient in the way that we deploy our resources within our firms. It's not simply good enough to sell, or good enough to have a good product, we have to make sure that all of our processes and logistics are well managed. What we see happening very slowly in this part of the world, is that operational efficiency is rising up the agenda."



Retirement challenges

The roundtable's final panel concerned the theme of enhancing savings and investments in ASEAN and Asia in general. Its participants were: Dato' Steve Ong, chief executive officer of the Private Pension Administrator Malaysia; Javern Lim, founder and group managing director, VKA Wealth Planners Sdn Bhd; and Lambert Xu, director, business development, Bosera Asset Management (International) Co, Limited.

Responding to a question about the development of China's corporate pension market, Mr. Xu replied that growth in pillar two schemes had been disappointing since these products were launched. "Pillar two corporate pension plans have developed very, very slowly; they started in 2005 with 150 billion RMB (US\$24.4 billion), and now they have 600 billion RMB."

He said that the reason for the sluggish uptake was two-fold: low returns due to conservative asset allocation, and lack of tax exemption. "If you look at the investments in pillar two, it is around 30% in equity and 70% in fixed income; there are no investments in overseas assets. Because so little is in equity, the return is very low compared with the National Social Security Fund (NSSF). For the NSSF it's about 9% for the last ten years, but for pillar two it's around 7%. In China, if you invest in trustee products or bank wealth products, you can easily get 6% to 10% return," Mr. Xu explained.



Dato' Steve Ong
Chief Executive Officer
Private Pension Administrator Malaysia

Mr. Ong was then asked to provide attendees with the latest developments in Malaysia's Private Retirement Scheme (PRS) programme, which was launched around two years ago. He said the Malaysian government was acutely aware of its retirement challenges in its population, with the PRS intended to supplement the country's pillar two Employees Provident Fund (EPF).

"Retirement is a global issue, and in Malaysia we're trying to address that as we move along; that's because by 2020 Malaysia will join the ageing society group, where 11.3% of our population will be above 60 years old," Mr. Ong said. "We've gone out to educate people that it is a 'now' problem; you can't leave it for tomorrow. We're gaining a lot of traction; given that it's a new industry and a new product, it's doing great. It's a voluntary scheme, so the government is incentivising people to put money in with tax incentives. Take-up is good, we're approaching 100,000 members, and we'll see more on that by the end of the year. Some of the challenges are awareness levels, but we've addressed that very well within a short period."