Malaysia as a Global Hub for Fund Administration

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The State of the Industry Today

The asset management industry continues to face headwinds in today’s volatile environment, and industry players face many challenges in seeking growth, containing costs and creating new avenues of business. According to the PwC 19th Global Asset Management CEO Survey 2016, only 30% of global asset management (AM) CEOs expect global economic growth to improve. Despite the gloomy outlook, global AM CEOs have greater confidence in their own company’s prospects for revenue growth over the next 12 months.

Overall, the outlook for the future remains bright: PwC’s Asset Management 2020 report projects that global assets under management will exceed US$100 trillion by 2020, up from slightly under US$65 trillion in 2012. A large part of this growth will be led by Asia as part of the SAAAME region (i.e. South America, Africa, Asia and Middle East).

Based on another PwC survey on Asian AM Chief Operating Officers in 2015, asset managers are already exploring more outsourcing options, driven by the need to manage costs, reviewing investment priorities and releasing capacity from non-core functions.

From a fund administration perspective, this has immense implications, as well as opportunities. As assets under management grow in Asia, asset managers in this region will look to outsource more non-core activities and increase investment in new technology. Regulators and investors are also demanding more information, better transparency and faster reporting response times adding to the pressure on in-house fund administration.

Fund Administration Centres (FAC) – What Does Success Look Like?

Many jurisdictions are competing to be FACs, including Luxembourg, Dublin, Singapore, Hong Kong and Cayman Islands. As an attractive proposition, fund administration is part of an indelible asset management ecosystem that includes custodians, lawyers, accountants and asset managers. However, success in this field is dependent on each jurisdiction’s key strengths and competitive advantage. Furthermore, successful FACs aren’t necessarily where the portfolio managers are based. A strong legal, tax and audit ecosystem is critical for future-proofing the hub status.

PwC expects global AuM to exceed $100 trillion by 2020

A number of trends and developments in Asian asset management are also changing the operational landscape, creating increasing competition and margin pressures for asset managers. This includes the faster adoption of disruptive technology, the rising need to upscale operational infrastructure, on-shoring and creating substantive presence to penetrate domestic growth opportunities, and ambitions to grow regionally and globally.

<table>
<thead>
<tr>
<th>Year</th>
<th>Mutual Funds</th>
<th>Mandates</th>
<th>Alternative Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>16.1 trn</td>
<td>18.7 trn</td>
<td>37.3 trn</td>
</tr>
<tr>
<td>2007</td>
<td>25.4 trn</td>
<td>28.8 trn</td>
<td>59.4 trn</td>
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<td>2012</td>
<td>27.0 trn</td>
<td>30.4 trn</td>
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<tr>
<td>2020</td>
<td>41.2 trn</td>
<td>47.5 trn</td>
<td>13.0 trn</td>
</tr>
</tbody>
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Source: PwC analysis

Past data based on Hedge Fund Research, ICI, Preqin, Tower Watson, and the City Uk data

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**Mutual Funds**

**Mandates**

**Alternative Investments**

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**Figure:** PwC AuM in USD trn by 2020

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CIAWM 2016
Successful FACs require the infrastructure, talent and regulatory environment to be able to cater for diversified asset classes, segregated mandates for institutional clients and regulatory & tax reporting amongst others. In addition, thriving FACs would require recognition as a fund domicile – which necessitates a robust investment fund structure for increased investor confidence and security. Most established fund jurisdictions have dedicated investment fund structures of varying characteristics to fit investor needs. More recently, Singapore, Hong Kong and Australia have each announced the introduction of their own domestic open-ended investment company vehicle (OEIC) or corporate-form funds to allow global investors to domicile their fund ranges in-country.

Malaysia – What Will It Take?
Over the past decade, Southeast Asia has become an area of interest for many investment houses. The widening of the middle income class, outstanding talent and abundant natural resources have contributed to this growth. Over the past year, the Malaysian capital market has also played a pivotal role by providing access to capital and value creation. That, coupled with its economic success, makes for a healthy asset management marketplace.

Malaysia is also credited with its introduction of strategic policy measures that have led to the growth of its capital markets. Some of the notable ones are: comprehensive revamp of the exchange board structure and equity fundraising framework in 2009; amendment to IPO rules; listing of foreign-owned corporations and special purpose acquisition companies; Business Trusts; and tax incentives to venture capital investing.

The Malaysian government has played an instrumental role in Islamic finance’s rapid expansion in the country, including taking steps to establish forward-looking market infrastructure, institutions, and regulatory frameworks. Malaysia is also among the first countries to revise its tax regime to ensure tax neutrality for Islamic financial instruments. In addition, the Malaysian government provides tax exemption of Islamic banks and Islamic insurance companies, tax deduction on issuance costs of Islamic

“Malaysia offers a healthy mix of fund products to customers today ranging from REITs to ETFs, to Unit Trusts”
securities, and tax relief for Islamic REITs. Malaysia also has tax exemptions specifically for international Islamic banks, Islamic insurance companies, and Islamic funds.

Looking at the key components within a successful fund domicile, how does Malaysia fare in each of the key components?

“Malaysia has attracted global players to set up their regional hubs”

Investors - The Malaysian mutual funds market has seen a significant growth more specifically, the growth of the Islamic funds has shown great promise. Malaysia ranks second in the top 10 countries with high Muslim population.

Service providers - Today, Malaysia has attracted global players to set up their regional hubs or processing centres in Malaysia. For example, globally renowned fund administrators and custodians such as Standard Chartered Bank, BNP Paribas, HSBC and Deutsche Bank all have a presence in Malaysia.

Products & structures – Malaysia offers a healthy mix of fund products to customers today ranging from REITs to ETFs, to Unit Trusts. However, a product that should be considered in Malaysia’s asset management offering today is the corporate-form fund. As described earlier, Singapore, Hong Kong and Australia are currently in the process of introducing legislation for corporate-form funds.

Overall, fund administration and asset servicing is becoming a fiercely desired space by many fund jurisdictions, and finding the competitive advantage will be key to success. Growing the overall financial services area would also be critical, as without this, fund administration would be limited in its offering by simply calculating net asset values. Developing the talent pool and supporting infrastructure to create more value is necessary to ensure that the sector is well-serviced and remains operational and cost-effective. Lastly, having a national corporate-form fund vehicle to entice global investors to use Malaysia as a fund domicile would anchor and accelerate the role of Malaysia as a global fund administration centre.


Malaysia’s Proposition Today for Asset Management and Fund Administration

Asset Managers - The Malaysian asset management regime is the only one that has a distinct regulatory license for Islamic fund management, which enables the industry to remain agile to adapt to its specific development.