



International Institutional Investor Series 2023
Beyond the Norm: Embracing New Opportunities for Resilient Returns
Keynote Speech by En. Kamarudin Hashim, Managing Director, SC Malaysia
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Asian Institute of Chartered Bankers (AICB), Jalan Dato Onn

Datuk Wira Ismitz Matthew, Chairman of the Malaysian Association of Asset Managers ("MAAM"),

Distinguished guests and speakers,

Ladies and gentlemen,

1. Good morning. First and foremost, I would like to thank the Malaysian Association of Asset Managers ("MAAM") for inviting me to deliver today's keynote address as part of the International Institutional Investor Series. The theme of this conference – Embracing New Opportunities for Resilient Returns - is particularly prescient given the challenging market environment that we experienced in 2022 and in the first half of 2023.
2. Before I share some of our developmental initiatives in advancing the fund management industry, allow me to touch on observations about the economy and the capital market as well as insights from the SC's Capital Market Stability Review which assessed systemic risks in the fund management industry.

Continued recovery of the Malaysian economy post-pandemic

Ladies and gentlemen,

3. The global economy continued to experience considerable challenges, shaped by increasingly uncertain geopolitical development, elevated inflationary pressure and tightening financial conditions globally.

4. The Malaysian economy, meanwhile, remained resilient and continued to recover following the reopening of the economy, underpinned by robust domestic demand. In 2022, the Malaysian economy grew by 8.7% (2021: 3.3%), far above market and official expectations of between 6-7%. In 1Q 2023, the economy grew further by 5.6%, and exceeded market's expectations of 5.1% growth.
5. Conditions in the domestic capital market remained orderly and continued to play its critical role in financing economic activity and mobilising savings. In fact, total funds raised hit a record high of RM179.4 billion in 2022, led by record amount of corporate bonds and sukuk issuances. However, overall weaker market valuations resulted in a dip of assets under management (AUM) to RM906.5 billion as of end 2022.
6. In the first four months of 2023, total funds raised amounted to RM31.4 billion, while AUM of the fund management industry rose to RM926.3 billion. Going forward, the performance of the domestic capital market will likely be influenced by key global developments, and is expected to stay resilient and orderly, given Malaysia's firm macroeconomic fundamentals and continued supportive policy environment.

Industry remained orderly despite challenges

Ladies and gentlemen,

7. In times of market turbulence, asset liquidity remains critical in mitigating adverse impacts from potentially large redemption pressures, which are common during periods of unfavourable market conditions. This is a fundamental aspect of a well-organised and functioning capital market.
8. In response to this, the SC has carried out a sequence of macro stress test on unit trust and wholesale funds to evaluate liquidity risk. This aligns with the International Organisation of Securities Commissions' (IOSCO) objective to examine the liquidity characteristics of assets in connection with their expected redemption streams in demanding market conditions.
9. Through these stress tests, we have found that even under extreme scenarios, fund managers have in place the necessary risk management processes and sufficient

liquidity to manage redemptions in an orderly manner¹. This again is testament that the industry remains resilient and is well equipped to meet investor needs even in the unlikely scenario of extreme redemption pressure.

10. With sound and good liquidity management practices, fund managers are well-placed to increase focus on growth, development and expansion into newer areas of investors' interests such as foreign funds and sustainable investments.

Accelerating growth in the SRI ecosystem

Ladies and gentlemen,

11. Accordingly, the integration of Environmental, Social and Governance (ESG) analysis into the investment process can create a more holistic view of risks and opportunities which leads to a more informed investment decision making process and more resilient portfolios during times of market uncertainty. This can be seen from various data and reports on ESG funds outperforming non-ESG funds during the height of the pandemic in 2020-2021.
12. Global sustainable fund inflows also showed greater resilience within the last quarter of 2022, with USD37 billion of fund inflows, relative to the broader market which experienced USD200 billion of net withdrawals over the same period. Globally, sustainable investing amounted to USD37.8 trillion of assets under management (AUM) in 2022, with global ESG assets expected to exceed USD53 trillion by 2025.² This represents a significant increase from the USD22.8 trillion in AUM at the beginning of 2016.³
13. The same trend is observed in Malaysia, where the growth of qualified Sustainable and Responsible Investment (SRI) funds have grown by multi-folds since the Guidelines on SRI Funds was introduced in 2017. As at 2022, the SRI funds industry in Malaysia has grown to RM7.05 billion Net Asset Value (NAV) with a total of 58 SRI funds, comprising 53% unit trusts funds and 47% wholesale funds. This shows that the growth in the SRI

¹ Source: [Capital Market Stability Review 2022 Report]

² The Economic Times, 2022, *\$1.9bn in global AUM: Sustainable investments provide greater stability investors*.

³ Global Sustainable Investment Alliance, 2017, *2016 Global Sustainable Investment Review*.

funds industry is almost equally driven by the retail and institutional investors, given increasing awareness on ESG issues.

14. To ensure that investors have access to sufficient and transparent information, the SC recently revised the Guidelines on SRI Funds to provide enhanced sustainability reporting and disclosure requirements for qualified SRI funds, and to qualify SRI Funds under the ASEAN Sustainable and Responsible Funds Standards (ASEAN SRFS). The revisions aim to promote the growth of SRI funds in Malaysia, while safeguarding investors' interests by requiring adequate disclosures are made to mitigate greenwashing risks.
15. As SRI gains traction, it is crucial to address ESG risks comprehensively, especially given the increased expectations from investors towards asset managers to actively consider and manage ESG risks within their portfolios. To guide fund management companies in establishing responsible investment framework and effective ESG risk management, the SC has released the Guidance Note on Managing ESG Risks for Fund Management Companies. The Guidance Note set out the SC's expectations on the development and implementation of practices, policies and procedures in managing material ESG risks in investment portfolios.

Ladies and gentlemen,

16. The SC also recognises the need to develop a broader and deeper SRI asset class to accelerate sustainable investment. Having launched the SRI Sukuk Framework in 2014 to enable companies to raise financing for green, social and sustainability projects, the SC introduced the SRI-linked Sukuk Framework last year to help businesses, including those in hard-to-abate sectors to tap into capital market financing for their transition needs. As at 2022, RM18.9 billion SRI sukuk have been issued since the framework was introduced, and out of this, 88% are dually recognised under the ASEAN Green, Social and Sustainability Bond Standards, thereby providing an investment choice for both asset and fund managers to invest in.
17. As sustainable investment continues to grow, further guidance is needed to identify and classify economic activities that can meet the environmental, social and sustainability

objectives. The Principles-based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market (SRI Taxonomy), which was released late last year, aims to provide more clarity to the market on the classification of economic activities that qualify for sustainable investment. Following the release of SRI Taxonomy, the SC will proceed with the next phase of SRI Taxonomy development, to provide more detailed guidance to the industry in the form of threshold-based taxonomy.

18. In order to drive sustainable investments, it is important to have high quality, consistent and comparable sustainability disclosures. In this regard, Bursa Malaysia has enhanced the sustainability reporting requirements for Public Listed Companies (PLCs) to align with international standards and best practices, incorporate sustainability indicators and climate-related disclosures.
19. With the impending roll-out of IFRS Sustainability Disclosure Standards (ISSB Standards) globally at the end of this month, the SC was tasked to set up and lead a national level Advisory Committee on Sustainability Reporting (ACSR) to support the implementation of the ISSB Standards in Malaysia, taking into account approach and timeline for implementation and market readiness. Ultimately, the ACSR's efforts will help ensure smooth implementation of ISSB standards in Malaysia, which is important to reduce disclosure fragmentation, promote more credible, transparent and comparable sustainability disclosures for companies. These are critical for asset managers in undertaking sustainability assessment of investment and in constructing their sustainable investment portfolio.
20. In accelerating the growth of SRI investments, it is important for fund managers to stay abreast of the latest developments and unlock innovative solutions. By embracing this paradigm shift, we can actively participate in building a more sustainable future, where financial decisions include commitments to social and environmental well-being. We must recognize our role in contributing to the greater good of society and creating lasting positive impact for our society and future generations.

Widening the categorisation of sophisticated investors

Ladies and gentlemen,

21. It is not just in the SRI space where fund managers can find new opportunities. As highlighted in the SC's Capital Market Masterplan 3 (CMP3), there is a need to increase investor inclusivity by widening access to investment options that will allow investors to pursue greater diversification and higher yields. Aside from assessing net worth, certain jurisdictions have also considered the level of investor knowledge and sophistication, alongside financial capacity to enable greater investor participation who have varying financial needs.
22. Moving forward, the SC will widen the sophisticated investor base by providing flexibilities within the calculation of high-net worth individuals (HNWI) threshold, expanding the qualification criteria of sophisticated investor to account for their knowledge and experience as well as extending angel investors' participation in other capital market products beyond the private markets and Micro, Small & Medium Enterprises (MSMEs) space. This would ensure the basis of investor categorisation serves as the most effective means to categorise investors which would enable them to be accorded the appropriate level of regulatory protection and facilitate capital formation.

...and enabling access to more global funds

Ladies and gentlemen,

23. In addition to expanding the categorization of sophisticated investors, the SC will also enable fund managers to offer foreign funds to high-net-worth entities and institutional investors in the Malaysian capital market.
24. This will be facilitated through the introduction of a "foreign exempt schemes" framework which will allow foreign fund operators that are a related corporation to a SC-licensed fund manager to lodge and launch their foreign funds. In addition to expanding the scope of product offerings for fund managers this framework, which is expected to be launched by the end of the year, will add greater diversity to the onshore fund options in the domestic capital market.

25. While the first phase of this framework will be targeted at institutional investors and high net worth entities, the SC is also reviewing the next phase of liberalisation to include HNWIIs whilst ensuring controls are in place for parity between domestic and foreign fund managers. This will require close consultation and engagement with industry stakeholders, which we envision to take place in 2024.

Enhancing compliance efficiency with technology

Ladies and gentlemen,

26. As you may be aware, the SC is moving ahead with its digital agenda to help increase investor participation and develop a capital market ecosystem that is more synergistic across all segments. With the advent of digitalisation, we have already seen more efficient, accessible services reach a wider group of investors. Many of our fund managers have leveraged on tools to improve efficiency of their front, middle and back-office operations towards better product delivery and user-experience. However, compliance and risk systems have yet to digitally transition and remain archaic.
27. This is where the adoption of Regulatory Technology or “Regtech” can play a part. Suitable Regtech tools can help to enhance compliance efficiencies, enable flexibility to environmental changes and attenuate challenges arising from the expansion of digitalisation in the fund management industry. Fund managers are encouraged to explore and leverage on the relevant innovative tools in areas such as regulatory reporting, compliance checks, misconduct detection, investment limit monitoring and cyber security risks.
28. In line with our digital agenda, the SC has been adopting Supervisory Technology or Suptech to enhance the delivery of our supervisory mandate towards better regulatory outcomes. These outcomes include improving our engagement with market participants and ensuring effective management of key market risks.
29. With the adoption of the respective Regtech and Suptech tools by capital market participants and supervisors, we envision better synergy for greater industry efficiency in the Malaysian fund management/capital market.

Conclusion

Ladies and gentlemen,

30. The global outlook for the second half of 2023 is expected to remain challenging and subject to various uncertainties from the pace of the monetary policy normalisation to geopolitical fragmentation. Domestically, the capital market is expected to remain resilient, but as an open capital market, will inevitably be influenced by global events and developments.
31. In the face of these uncertainties, there are various opportunities for fund managers, including those that I have just mentioned. I implore you to explore and seize these opportunities.
32. The SC will continue to place emphases on engagements with industry for progressive policy making, in line with our developmental mandate. As you may be aware, the SC has been actively engaging industry captains to understand opportunities to catalyse the next phase of growth for the industry. We have sent out a survey and collated valuable feedback on key development areas. Moving forward, the SC be working on several initiatives to catalyse the next phase of growth and provide better options for investors.

Ladies and gentlemen

33. Before I conclude, allow me to express my gratitude once again to the organisers for providing me the opportunity to deliver this keynote address. I wish all of you a productive conference ahead and hope that forums such as this provide the bedrock for dialogue and discussion that will help you embrace new opportunities to deliver resilient returns in the years to come.
34. Thank you.