



2023 Morningstar Fund Awards Malaysia
Tuesday, 16 March 2023 @ 10am
Keynote Speech by Dato' Zain Azhari Mazlan
Executive Director, Corporate Finance and Investment,
Securities Commission Malaysia

Highlights:

At the 2023 Morningstar Fund Awards Malaysia, which was held today, the Securities Commission Malaysia's (SC) Dato' Zain Azhari Mazlan, Executive Director of Corporate Finance and Investments, highlighted the SC's commitment to making progressive policies and engaging with stakeholders in order to help the Malaysian fund management industry grow in a way that benefits everyone.

In his keynote address, he said, "While the past year may have been challenging, initiatives by the SC, such as the liberalisation of the unit trust framework and the revised SRI Fund Guidelines, will help facilitate growth in the fund management industry by providing investors with more investment options and transparency."

Here are some highlights from his speech:

- Notwithstanding last year's challenges, the Malaysian capital market remained robust and orderly,
- Between 2019 and 2022, SRI funds have grown more than eightfold, ensuring more capital is going to firms that are doing good for people and the environment.
- Investors have benefited from increased access, choice and innovation, but also face increased risks of exploitation.
- The SC will place a greater emphasis on stronger advocacy in investor education, particularly for vulnerable investors.

Speech

Mr. Shihan Abey Guna, Head of Business Development, Asia, Morningstar

Mr. Bryan Cheung, Associate Director, Manager Research, Morningstar

Ladies and gentlemen,

1. Good morning. Before I begin, I would like to thank Morningstar for inviting me to deliver the keynote address at this prestigious event.
2. These awards present a great opportunity to recognise the contributions of all industry stakeholders and the exemplary performance across fund houses. This is a testament to the strength of our industry, against the backdrop of an uncertain world with a challenging external environment across capital markets globally.

Challenging market environment in 2022

Ladies and gentlemen,

3. It is indeed an opportune time for us to reflect on the year that we have left and look ahead to the sustained recovery of the Malaysian economy following the full reopening of all sectors, post-pandemic.
4. The resilience of our economy was evidenced by full-year GDP growth of 8.7%, which was underpinned by favourable domestic demand momentum, steady expansion in the external sector, and continued improvement in labour market conditions.
5. Global financial markets registered weaker performance last year with continued tightening of global financial conditions. Further intensification of geopolitical conflicts significantly increased overall uncertainties in 2022 and this, along with other factors¹ will shape the outlook of global market going forward.

¹ Concerns over the pace of global monetary policy tightening, intensified global inflationary pressures and repercussions on the Ukraine war

6. Amid these challenges, the Malaysian capital market remained robust and orderly, and we are confident that it will continue to play a significant role in financing economic growth and mobilising savings for productive investments.
7. While industry Assets Under Management have grown over the past 5 years², we did see a modest decline from RM 951.1 billion in 2021. This was largely due to a reduction in the market value of assets in line with sluggish global markets as assets were mainly allocated in equities followed by fixed income securities and money market instruments.

Facilitating growth for the industry

Ladies and gentlemen,

8. While the past year may have been challenging, I am encouraged to share that the SC has rolled out several initiatives to facilitate growth for the fund management industry.

Allow me to shed some light on these.

9. Firstly, as part of the liberalisation of the unit trust framework which came into effect early 2022, SC enabled retail funds to invest in and offer a wider range of investment instruments and activities. The liberalisation measures support an investment ecosystem that is more diversified, and provide a catalyst for product offerings as part of wealth management solution to meet investors' retirement objectives, including the offering of wealth decumulation products.
10. Further, the SC recently revised the SRI Fund Guidelines. In addition to enhancing reporting and disclosure requirements to provide more transparent disclosures to investors, the revisions also enable SRI funds to qualify as ASEAN SRI funds, thus providing fund managers the opportunity to cater SRI funds, not just for Malaysian investors but for the wider ASEAN investor base as well.

² AUM has grown by 5.1% on 5-year CAGR basis from RM 743.58 billion as at end-2018 to RM 906.46 billion as at end-2022.

11. Through these means, the SC aims to catalyse growth in the fund management industry while ensuring that investors' preferences, for greater diversity in types of funds, including SRI funds, are catered for.

Catalysing SRI funds and Broadening the Islamic Capital Market

Ladies and gentlemen,

12. Allow me to acknowledge the good work that the industry has undertaken to develop SRI funds. Between 2019 to 2022, SRI funds have grown by more than 8-fold³, ensuring that more and more capital flows to firms that are doing good for people and planet.
13. Nevertheless, ladies and gentlemen, let us be reminded that sustainability is a holistic journey. To further enhance fund management companies' intermediation capabilities, the SC also in 2022 issued a *Guidance Note on Managing ESG Risks for Fund Management Companies*. The Guidance aims to assist and guide fund management companies in establishing a responsible investment framework by providing clarity and setting out the SC's expectations on the development and implementation of practices, policies and procedures in managing material ESG risks in investment portfolios, as well as facilitate meaningful disclosure while driving positive impact and change.
14. The SC has also expanded the regulatory framework to facilitate for a broader and deeper SRI ecosystem. Towards this end, the SRI-linked Sukuk framework was issued in 2022 to facilitate more innovative Shariah-compliant financing avenues for sustainability purposes. Furthermore, as the co-chair of the ASEAN Capital Markets Forum (ACMF) Sustainable Finance Working Group (SFWG), the SC led the development the ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS). These standards enhance transparency, consistency and uniformity of ASEAN Sustainability-Linked Bonds and contribute to the development of a new asset class.
15. The SRI Sukuk and Bond Grant Scheme (Grant) has also been expanded to include issuances under the SRI-linked Sukuk Framework and the ASEAN SLBS accordingly. The Grant is aimed at lowering the cost of issuances as issuers are able to tap into the Grant

³ 7 in 2020 to 58 in 2022

to offset a portion of the external review costs incurred. These efforts aim to broaden and deepen the SRI ecosystem, and in turn catalyse more SRI funds in our market.

16. The SC also continues to chart the strategic direction to drive a broader and deeper Islamic Capital Market (ICM) by building on initiatives that focus on developing the Islamic social finance landscape and enabling more diversified Shariah-compliant offerings, whilst also strengthening the Shariah governance framework in Islamic investment management. To achieve this goal, the SC has expanded the Waqf-Featured-Funds Framework to cover listed funds such as Islamic REITs and Islamic ETFs. This expansion is intended to encourage the creation of innovative ICM products for impact investing and Islamic social finance. Additionally, the SC has updated the guidelines for Islamic Fund Management, which are now consolidated into the Guidelines on Islamic Capital Market Products and Services. These updated guidelines provide greater clarity on the Shariah governance framework for Islamic fund management businesses.

Protecting investors

Ladies and gentlemen,

17. As the capital market evolves, with technological innovation and increasingly complex products, investors tend to benefit from better access, choice, and information in relation to investments. Concurrently, this also presents increased risks and new challenges, especially for investors who are less adept and at greater risk of exploitation. The SC is cognisant of responding to these changes in upholding our mandate for investor protection. As such, the SC's regulatory approach, moving forward, will place greater emphasis on the identification and assessment of vulnerable investors. These efforts will be underpinned by stronger advocacy in investor education programmes to boost awareness and understanding on risks and issues relating to vulnerable investors.

Through the challenges ahead, the SC will remain prudent, positive and progressive

Ladies and gentlemen,

18. As highlighted at the start, the global outlook for 2023 is expected to be challenging and subject to various uncertainties from the pace of the monetary policy normalisation to geopolitical fragmentation.
19. Domestically, the Malaysian economy is expected to grow moderately around 4.5 percent, based on projections by the Ministry of Finance, and the Malaysian capital market is expected to remain resilient. Nonetheless, it will continue to be influenced by key global developments. We do see opportunities ahead and hope that many of you will seize these prospects that the Malaysian capital market holds.
20. On that note, the SC remains committed to progressive policy making, aiming to be adaptive to changes and use novel means to achieve intended outcomes. As some of you may be aware, the SC together with PRS providers will be exploring how behavioural interventions can be leveraged on to encourage greater retirement savings amongst Malaysians. This involves designing interventions to nudge Malaysians into making better decisions for retirement. For example, by automating regular PRS contributions and introducing spare-change saving features.
21. Further, the SC will continue to place emphasis on strategic engagement with all key stakeholders for a more inclusive development of the capital market. On this note, I am pleased to share that we are developing an industry wide survey to all fund management firms to seek perspectives on challenges and opportunities to catalyse the next phase of growth for the Malaysian fund management industry.
22. Looking ahead, several capital market trends are likely to impact the fund management industry. These include faster execution speeds and seamless access to information through digitalisation as well as increasing concerns surrounding cyber security and data governance. Moreover, there is a strong push to widen private markets and provide greater ease to public markets by reducing existing barriers.

Conclusion

Ladies and gentlemen,

23. Before I conclude, allow me to thank and acknowledge our hosts for today - Morningstar - once again.
24. Independent research providers such as Morningstar play a pivotal role in our industry by providing information to help investors make informed decisions. Furthermore, these awards provide a platform for deserved fund managers to get due recognition which in turn helps build investor confidence. As such, they play an important role in our industry.
25. I would like to congratulate the winners of the Morningstar Fund Awards Malaysia and hope these awards will inspire others to aim higher and be better.

Thank you.