

**Special Address By The Guest Of Honour**

**Ybhg Tan Sri Dato’ Seri Ranjit Ajit Singh**

**Chairman Of Securities Commission Malaysia**

**The Malaysian Private Equity Forum 2016**

**“The Impetus For Growth And Innovation”**

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The Majestic Hotel, Kuala Lumpur**

YBhg Dato’ Wan Kamaruzaman Wan Ahmad, Chief Executive Officer of KWAP,

YBhg Tan Sri Samsudin b. Osman, Chairman of EPF,

YBhg Tan Sri Abdul Wahid Omar, Chairman of PNB,

Distinguished guests,

Members of the media,

Ladies and gentlemen,

1. A very good morning to everyone. It is a great pleasure for me to be here today at the Malaysian Private Equity Forum, and I would like to thank KWAP for having kindly extended their invitation for me to speak. I believe that this is the 4th time this forum is being held, with organization rotating between key institutional investors such as KWAP, EPF and Ekuinas. This is a highly commendable effort that brings together professionals, investors and stakeholders of the private equity sector, serving as not only a constructive platform for the sharing of thought leadership on the present issues of the day, but also for promoting greater awareness of private equity and the opportunities it can offer.

Ladies and gentlemen,

1. The landscape of global financial and capital markets has shifted significantly over the past decade, as investors and market players respond to global developments and prepare for the possibility of an environment of slower economic growth as well as lower interest rates and commodity prices.

**Private equity as a vital component of market-based financing**

1. With today’s prevailing expectations of a low-yield environment which have resulted in a growing appetite for diversification and search for better yields beyond traditional asset classes, the increasing prominence of private equity as an alternative avenue of investment is compelling as we look at the sector’s global performance. Since 2013, the PE industry has managed to raise capital in excess of US$500 billion annually worldwide.[[1]](#footnote-2) This marks a significant increase of 45% from the average amount of US$344 billion raised annually during the years of 2009 to 2012.[[2]](#footnote-3) This steady fundraising performance has been translated to the PE sector’s positive growth outlook,[[3]](#footnote-4) with a record US$1.3 trillion of uninvested capital[[4]](#footnote-5) (termed as dry powder in industry parlance) expected to be a factor in stimulating greater levels of deal-making over the next few years.
2. This performance and outlook has also been reflected in the Asia-Pacific PE market, where fundraising remained stable with US$50 billion of capital raised, consistent with its five-year average.[[5]](#footnote-6) Asia-Pacific also recorded $125 billion in deal value in 2015, a 44% increase from the previous year, as well as sustained momentum in returns, with top-quartile funds generating an average return of 21% in 2015.[[6]](#footnote-7)
3. This encouraging development worldwide is a reflection of the importance and appeal of private equity both as a means of financing and as an asset class, which has been acknowledged by capital market regulators and investors alike. The global body of capital market regulators (International Organisation of Securities Commissions - IOSCO) of which I am Vice Chair, has in a special task force report which discusses the issues and challenges in relation to the financing of small and medium-sized enterprises, recognised the unique role that private equity plays in providing effective financing for new and innovative business ventures.[[7]](#footnote-8)
4. Indeed, from a wider capital market perspective, private equity creates strategic value through its financing of emerging businesses and bridging the pipeline between the private and the public markets, thereby ultimately benefiting public investors.
5. Some studies show that PE-owned companies are better managed and subsequently more productive.[[8]](#footnote-9) It has also been found that industries in which PE funding is active have expanded more rapidly than other sectors.[[9]](#footnote-10) And from an industry perspective, demand from Limited Partners (LPs) is set to grow, with surveys showing that 42% of LPs are planning to enlarge their PE allocations in the short term, and 51% intending to do so over the long term.[[10]](#footnote-11)

**Attractive value proposition of private equity in Malaysia**

Ladies and gentlemen

1. Set against this backdrop, Malaysia’s PE scene holds ample headroom for growth. As at end-2015, the total amount of committed funds in Malaysia’s venture capital and private equity sector grew 15.2% year-on-year to RM7.15 billion, more than double the size a decade ago.[[11]](#footnote-12) Deal-making has also been on a steady incline since 2012, with RM365 million worth of investments made by VC/PE firms in 2015, which is an increase of 59%.
2. This growth trajectory is poised to continue its course in view of the promising value proposition that Malaysia’s PE scene offers.
3. Demand, for example, is ever present and flourishing in our developing nation. Malaysia has a high number of small and medium enterprises, in excess of 645,000 at last count, which make up 97.3% of all corporations in Malaysia.[[12]](#footnote-13) As market-based financing is expected to intensify in prominence given developments in the financial industry, it is anticipated that the PE sector will constitute a progressively substantial component of the capital-raising pipeline for early and growth stage companies. These young and expanding businesses typically lack the maturity, scale and track record required to avail themselves to traditional and established channels of fundraising. With its operational expertise, network of contacts, and commercial knowhow, as well as its investment horizon that incentivises decision-making for the longer-term, PE is well-placed to address the financing and growth needs of this relatively underserved segment.
4. Demand may also manifest itself from the perspective of investors. The Malaysian capital market features deep pools of institutional capital in excess of RM1.5 trillion which is rapidly developing at a 5-year Compound Annual Growth Rate (CAGR) of 11%, offering good potential for expansion of allocation to the PE asset class. Adding further to the prospective source of capital is Malaysia’s growing class of affluent and high net worth individuals, numbered at an estimated 475,000 and are collectively worth more than RM1 trillion.[[13]](#footnote-14)
5. Such investee and investor demand is further driven by the diversity of choice that the Malaysian capital market is able to offer. Malaysia possesses a globally leading niche in the Islamic capital market segment. Given that the nature and structure of PE are consistent with the Shariah-compliant concepts of risk-sharing and participation in real business activity, Malaysia is strategically positioned to be a center for Islamic PE activities, a segment which is naturally supported by the infrastructure and ecosystem afforded by our established Islamic capital market. This enabling environment also affords plenty of opportunities for VC/PE firms and investors seeking to broaden their portfolio to include investing in sustainable and responsible ventures such as green financing.
6. The growth prospects and proposition of the Malaysian VC/PE sector have been reflected through the international recognition that it has garnered – Malaysia currently ranks 11th out of 125 countries assessed in the *Venture Capital & Private Equity Country Attractiveness Index[[14]](#footnote-15)*, which measures investor-focused indicators such as economic activity, depth of the capital market, as well as the level of investor protection and corporate governance.
7. With this outlook laid out before us, I am heartened to see some of our long-term institutional investors the likes of KWAP and EPF taking the lead in signalling a greater appetite for diversification into this high-potential asset class. With sovereign wealth funds, government investment companies and agencies still constituting the largest source of capital through their contribution of 87.4% of VC/PE funding in 2015, there remains plenty of latitude for private sector involvement in this market segment, and it is my hope that the private sector will follow suit in considering and harnessing the potential value of PE in complementing their portfolio.

**Regulatory framework for enhancement of breadth, depth and quality of the VC/PE industry**

Ladies and gentlemen

1. The global trend for greater diversification has over the years resulted in an increasing number of long-term investors, including pension funds, which in turn has given rise to the implications of increasing retail investor exposure to what has traditionally been seen as an alternative investment avenue reserved for sophisticated investors.
2. Thus, in carrying out its two-prong mandate of regulating and developing the capital market, the Securities Commission Malaysia is committed to facilitating the development of the size and quality of the VC/PE industry while simultaneously preserving investor confidence in this high-growth high-risk asset class, an objective that has guided the thrust and design of the SC’s initiatives and efforts.
3. Being of the view that effective regulation caters to the interests of both the industry and its investors, the SC has taken a pragmatic and proportionate approach in regulating the VC/PE sectors, which is consistent with that taken by other comparable jurisdictions globally, such as Singapore, Hong Kong, and the US.[[15]](#footnote-16)
4. The SC’s regulatory framework, for example, has been tailored to allow progressive development taking into consideration the distinct needs and nuances of Malaysia’s VC/PE landscape. Where appropriate, the SC has liberalised certain requirements to accord greater flexibility and better accommodate VC/PE activities. For example, as of last year,[[16]](#footnote-17) private equity firms may now invest in listed securities, and venture capital firms are now allowed to invest in listed securities of not more than 20% of its fund size. Limited liability partnership structures are also now recognised under the SC’s new and enhanced framework.
5. These liberalisation moves are concurrently supported with measures to enhance the quality of registered VC/PE firms. In today’s challenging environment of soft growth expectations, intensified investor scrutiny and rising competition for capital, a crucial point of distinction for VC/PE firms in moving forward would be the strength of their governance and management. It is with this in mind that the SC has also sought, through its regulatory framework, to ensure that not only will VC/PE firms display good business practices in relation to conduct and operations, but also that these firms are well-managed with adequate capital and personnel of sufficient experience and expertise.
6. These enhancements of quality are further complemented by investor safeguards, including clear and enhanced requirements on valuation, custodian, disclosure and reporting, all of which are intended to instil trust and confidence in the industry. Our Guidelines, for example, encourage VC/PE firms to adopt a valuation methodology in line with international best practices for the purpose of evaluating investments in venture corporations.

**Working closer with industry to nurture the VC/PE ecosystem**

Ladies and gentlemen

1. Understanding the importance of having a supportive environment that will catalyse and accommodate the growing depth and breadth of any fast-developing industry, the SC has over the years pursued proactive initiatives to ensure that the right incentives and structure are in place to facilitate VC/PE activity. One such measure, for example, was establishing a tax exemption framework that allows qualifying VC/PE firms who invested significantly in seed or early stage companies to enjoy tax-free income.
2. At the same time, SC is also mindful of how the availability of prospective deals could influence and impact VC/PE activity. In this regard, the recent creation of the equity crowdfunding as well as the upcoming peer-to-peer financing segments[[17]](#footnote-18) allows for a symbiotic relationship with the VC/PE industry, by efficiently facilitating access to potential investees or investors, as the case may be.
3. Cognisant of the fact that successful developmental initiatives are always a product of collective effort, the SC coordinates and drives the implementation of such efforts through its position as Chair of the Malaysia Venture Capital and Private Equity Development Council (MVCDC), a body comprising of policymakers and practitioners mandated to provide strategic vision and direction for the development of the VC/PE industry.
4. As we look towards building scale and critical mass in the industry moving forward, I am pleased to announce that MVCDC will be forming an industry-driven working group that will be tasked to identify recommendations for improving and building capacity within the VC/PE ecosystem. This working group will focus on central issues which include exploring how our homegrown dealflow can be further improved, possible intermediation channels that could facilitate portfolio scoping, and how the mobilisation of our savings pool can be further encouraged.

**Concluding remarks**

Ladies and gentlemen

1. From financing transcontinental railroads during the Gilded Age of the US,[[18]](#footnote-19) to the commercialisation of semiconductors which enabled the invention of computers, to spurring the cutting-edge digital advancements of today, private equity’s instrumental role in driving innovative economic growth certainly requires no further presentation.
2. In this regard, I would like to thank KWAP for their initiative and efforts in organising this forum to promote greater awareness for private equity which not only represents an important component of the capital market, but also an avenue of financing of the real economy.
3. Thank you very much, and I hope you have a fruitful discussion over these next two days.
1. Bain & Company, Inc., *Global Private Equity Report 2016* [↑](#footnote-ref-2)
2. ibid [↑](#footnote-ref-3)
3. Bain & Company, Inc., *Global Private Equity Report 2016*; PricewaterhouseCoopers, *Private Equity Trend Report 2016* [↑](#footnote-ref-4)
4. Bain & Co; amount of uninvested dry powder as at end-2015 was the highest in over a decade (2004-2015) [↑](#footnote-ref-5)
5. Bain & Company, Inc., *Asia-Pacific Private Equity Report 2016* [↑](#footnote-ref-6)
6. Bain & Company, Inc., *Asia-Pacific Private Equity Report 2016* [↑](#footnote-ref-7)
7. IOSCO, FR11/2015 *SME Financing through Capital Markets* [↑](#footnote-ref-8)
8. Bloon, Sadun and Van Reenen, “Do Private Equity-Owned Firms Have Better Management Practices?” in Gurung and Lerner, *Globalisation of Alternative Investments Working Papers. Volume 2: Global Economic Impact of Private Equity 2009* [↑](#footnote-ref-9)
9. Bernstein, Shai and Lerner, Josh and Sorensen, Morten and Strömberg, Per, *Private Equity and Industry Performance* (March 15, 2010). Harvard Business School Entrepreneurial Management Working Paper No. 10-045; AFA 2011 Denver Meetings Paper. [↑](#footnote-ref-10)
10. Survey by Preqin in June 2015 [↑](#footnote-ref-11)
11. The total size of funds in the Malaysian VC/PE industry was RM3.3 billion in 2006 [↑](#footnote-ref-12)
12. SME Corp Annual Report 2014/2015. For Chairman’s information, the figures used are from a census taken in 2010, with findings of the 2015 census slated for release only in 2017. [↑](#footnote-ref-13)
13. Credit Suisse Global Wealth Databook 2015; SC estimates for net worth figures; all figures are as at 2015 [↑](#footnote-ref-14)
14. IESE Business School, *The Venture Capital & Private Equity Country Attractiveness Index 2016* [↑](#footnote-ref-15)
15. Our regulatory framework for VC/PE was benchmarked against these jurisdictions. [↑](#footnote-ref-16)
16. The SC’s revised *Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations* were issued in March 2015 [↑](#footnote-ref-17)
17. While the SC launched the P2P financing framework in April 2016, we have yet to approve any P2P financing platform operators. [↑](#footnote-ref-18)
18. Wall Street Journal, *A Short (Sometimes Profitable) History of Private Equity*, 17 Jan 2012 [↑](#footnote-ref-19)