

Malaysia Carves a Path for ETFs

Zainal Izlan Zainal Abidin, chief executive officer of i-VCAP Management, talks to *Innovative Investor* about the growing potential in Malaysia for exchange-traded funds (ETFs), especially since the first Shariah-compliant fund was launched earlier this year.

What have been some of the main developments in investment products in Malaysia in the last 12 months?

Structured products have grown very rapidly in terms of product development and the evolution of new ideas. Many domestic banks and financial institutions are now offering structured products of some form to the market, and there is a lot of demand from retail and high net worth (HNW) investors.

ETFs are also an emerging investment asset class. Two ETFs have been launched in the last 12 months; the first was launched in mid-2007, and the second was launched early this year. The latest one was Asia's first Shariah-compliant ETF, and it was listed on Bursa Malaysia.

I am now hearing talk in the market that the launch of more ETFs is in the pipeline.

What are the details of the Shariah ETF?

The MyETF Dow Jones Islamic Market Malaysia Titans 25 (MyETF), which was launched and listed in January this year, uses the Dow Jones Islamic Market Malaysia Titans 25 Index as the underlying benchmark, and it covers 25 leading Shariah-compliant stocks on Bursa Malaysia.

The initial subscription period for MyETF was in January 2008, and 840 million units were subscribed during that period. While the initial NAV of the Fund was RM1 per unit, it was then offered at a discount to the public to encourage them to subscribe. The current fund size is valued at about RM750 million (US\$238 million), which we believe makes it the largest Shariah ETF in the world.

How big is investor appetite for ETFs in Malaysia?

MyETF is essentially responding to the market's demand for Shariah-compliant investment products. In addition, the Malaysian government has stated that it has strong aspirations to make Malaysia a leading global Islamic financial hub. To achieve this, the introduction of new products will help. At the same time, from a general capital market development perspective, the Securities Commission (SC) of Malaysia has been encouraging market players to introduce new products to broaden the range of what is currently offered by Malaysian investment management firms. ETFs as a new asset class are therefore being welcomed by the regulators.

However, as ETFs are a new asset class in Malaysia, a lot of investor education is needed. We have done some of this before

the launch of our ETF, and we will continue to do more as we want to see greater participation by both retail and institutional investors.

What more is needed in the way of education?

We are working, in some instances together with the stock exchange and other parties, on investor education. This includes conducting investor briefings on MyETF, speaking at industry conferences, participating in investment exhibitions, and producing informative articles in the national papers on ETFs as an asset class.

There is especially a need for investors to be clearly informed on the performance objective of ETFs which is usually to track a benchmark index, and on the listed status of ETFs, as most retail investors in Malaysia are more familiar with actively-managed, unlisted mutual funds. In addition, the in-kind creation and redemption mechanism for ETFs is another feature that they may take some time to get comfortable with, though it is more applicable for institutional and HNW investors.



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Why are ETFs suitable for Malaysian investors?

ETFs provide a convenient way to access any product or asset class for investors who might not have time to do individual stock picking or market selection. ETFs can also access countries and markets not readily accessible at an individual stock or security level.

Also, ETFs are a fairly low cost instrument compared with unit trusts as a product in Malaysia. Unit trusts tend to have high front-end charges whereas charges for ETFs are mainly the brokerage commissions when the units are bought and sold.

How do you expect to see the ETF market develop in Malaysia?

The SC and Bursa Malaysia have introduced and are continuing to work on various measures and guidelines to facilitate the development of ETFs. The government has also announced recently that it would introduce measures to create a more favourable market-making environment. Work is also underway to make the securities borrowing and lending regulations more conducive.

Such developments will benefit structured products and ETFs by making them more attractive and accessible.

Of course, it will take some time for ETFs to develop to the extent they are popular in the US and Europe, but we hope to speed up the pace at which they are accepted among the Malaysian investors. The introduction of more ETFs and timely development of the supporting infrastructure will help this process.