Kenanga Investors

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ETFs struggle to gain traction in Malaysia

Ignites Asia (6 October 2020)

By Ernest Chan

The main problem is that distributors have little incentive to market the products

A lack of distributors willing to market and promote exchange traded funds, as well as a belief that ETFs deliver lower returns, are holding back the growth of the industry in Malaysia, experts say.

The first ETF in Malaysia was launched in 2005 and 19 ETFs are now listed on the Malaysian stock exchange. Their combined assets amounted to just $551.16m as of end-August, accounting for less than 1 per cent of the total of $71.62bn held in domestic mutual funds, according to data from Morningstar.

The industry appears to be facing growing headwinds. Net ETF inflows between January and August this year were $9.51m, down from $18.22m in the same period last year. Total net ETF inflows in 2019 were $14.11m as of end-December.

Chong Lee Choo, Kuala Lumpur-based innovation lab and alternative investment director at Affin Hwang Asset Management, said the lack of distribution avenues had been a major obstacle for the growth of the local ETF industry. “When we talk about ETFs, I can say that there are zero distributors,” said Ms Chong. “There isn’t really anyone marketing the ETFs other than the issuers themselves.”

Affin Hwang AM has eight ETFs listed on the Malaysian bourse, including the country’s first leveraged and inverse products, which launched in the market last December. Total assets across the whole ETF range amounted to RM119.46m ($29.05m) as of end-August, according to the company, out of the asset manager’s total AUM of RM44.7bn. The crux remains the same as it is across most other Asian markets, Ms Chong said, that distributors are not incentivised to sell ETFs. “If you ask me, the one thing that can be done that will give an effective boost to the ETF market [would be the] remuneration of the advisers or the salesperson,” Ms Chong said. “I think the challenge of Asian markets is that the regulators are reluctant to step in to control or regulate the fees and the charges.”

The US ETF market has been able to grow over time because financial advisers are paid for their advice, she said, which means the adviser has an incentive to pick the best and cheapest products for clients. “The issue in

Malaysia and Asia in general is that the clients typically don't pay for their advice," she added. "It's funded by the asset management companies."

Hong Kong provides an illustration of the potential outcome of such a challenging environment. A number of ETF providers have recently pulled out of that market with providers citing the industry's reliance on commission fees to push products as a big obstacle to being able to attract investors. Vanguard confirmed its exit last month, while BMO Global Asset Management is also reportedly withdrawing from the territory's ETF space. Affin Hwang AM is trying to counter this distribution problem in Malaysia by partnering with online distribution channels. Ms Chong said the company was "basically in talks with almost all" the roboadvisers to encourage them to use local ETFs to build their portfolios. However, the asset manager has just one confirmed partnership — with Wahed Invest, the US-based digital sharia-compliant wealth platform that launched in Malaysia last year. It uses Affin Hwang AM's sharia gold ETF as one of the building blocks for its portfolios.

The remainder of the roboadvisers prefer to use US-listed ETFs because they are looking for more liquid funds with more assets and larger trading volumes, Ms Chong said. As ETFs are still rather new in the Malaysian market it is hard to meet those requirements. Affin Hwang AM is also preparing to launch its own online channel so that it can take control of marketing and selling its ETFs and unit trusts. "For the mobile app we are trying to attract investors who want to build wealth or who want to build their retirement portfolio using ETFs," Ms Chong said. "It's still in the works, so we're hoping to launch something by early next year so investors will be able to build portfolios using our ETFs," she added. The growth of the Malaysian ETF market is also restricted by a lack of investor education and awareness about ETF performance.

Ismitz Matthew De Alwis, chief executive of Kenanga Investors, said many people assumed that since ETFs were passively managed the returns would be low, but that was not the case. He cited the performance of i-VCAP Management's MyETF MSCI Malaysia Islamic Dividend ETF, which has a one-year return of 20.17 per cent, compared with the FTSE Bursa Malaysia Kuala Lumpur Composite index's return of 9.41 per cent over the same time period. Kenanga Investors partnered with Taiwan's Yuanta Securities Investment Trust to launch two leveraged and inverse ETFs in January this year — its first ETFs in the Malaysian market. The two products had combined assets of just $931,414 as of end-August, according to data from Morningstar Direct. Jaslyn Ong, Singapore-based analyst at Cerulli Associates, said many Malaysian investors still had a trading mindset focused on stocks or bonds, instead of wanting to invest in ETFs or unit trusts.

Malaysian fixed income has performed very well over the past two years and, as retail investors are still on the conservative side, the demand for these assets is likely to remain high compared with unfamiliar products such as ETFs, Ms Ong said. Affin Hwang AM's Ms Chong, however, believes there is an opportunity to capitalise on the surging performance of certain healthcare-related stocks amid the coronavirus pandemic, which has caught the attention of a lot of first-time investors interested in investing but with little experience. "A lot of these first-time investors may not really know what they are doing, so they could be buying on rumours. They could be buying because their friends told them about the stocks," Ms Chong said. "So, we kind of stepped in to educate them and basically give them another option that they can also invest in ETFs if their experience in the stock market is not wide enough," she added. One of the main propositions of investing through ETFs is that investors can invest in foreign markets on Bursa Malaysia, she says, because most of the company's ETFs provide overseas exposure.

Affin Hwang AM has no plans to launch any new ETFs for the remainder of the year, but it is reviewing some themes and exposures for product launches next year, which could include smart beta-type ETFs for assets such as Malaysian small-cap, Asia ex-Japan, emerging markets and the US.

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Source:

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Net inflows to ETFs listed in Malaysia are almost half what they were for the same period last year © AP

Ernest Chan, Ignites Asia OCTOBER 6 2020

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Chong Lee Choo, Kuala Lumpur-based innovation lab and alternative investment director at Affin Hwang Asset Management, said the lack of distribution avenues had been a major obstacle for the growth of the local ETF industry.

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The crux remains the same as it is across most other Asian markets, Ms Chong said, that distributors are not incentivised to sell ETFs.

"If you ask me, the one thing that can be done that will give an effective boost to the ETF market [would be the] remuneration of the advisers or the salesperson," Ms Chong said. "I think the challenge of Asian markets is that the regulators are reluctant to step in to control or regulate the fees and the charges."

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RM119.46m

Assets in Affin Hwang Asset Management's eight ETFs at the end of August

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RM44.7bn

Affin Hwang AM's total assets under management

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