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In FUND SELECTOR ASIA

23 November, 2020 / Analysis

Malaysia introduces framework for Islamic impact funds

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Impact funds in Malaysia are expected to gain traction, according to industry sources.

Editor's note: this article was first published on Fund Selector Asia

Malaysia's securities regulator has launched a new framework to facilitate the offering of Islamic funds with "waqf" features, in a move to grow the country's Islamic social finance segment, according to a statement from Securities Commission (SC) Malaysia.

Waqf is an Islamic endowment instrument typically linked with social development and philanthropic objectives, according to the SC.

The introduction of waqf-featured funds will broaden the range of Islamic capital market products and provide the public access to Islamic funds that allocate all or part of the fund's returns towards socially impactful activities via waqf.

According to the SC's latest amended guidelines on unit trust funds, the primary objective of a fund with waqf features is to provide income and allows its unit holders to channel all or part of the distribution of income for waqf purposes.

The distribution policy of the fund must also include the percentage of distribution to be channelled for waqf purposes, it noted. The fund may only channel the distribution declared for waqf purposes to any state Islamic religious council (SIRC) or any institutions or organisation authorised by the SIRC to act as a waqf administrator or collection agent for waqf purposes.

On the area of transparency, the fund must disclose in its prospectus and product highlights sheet a detailed description of the waqf arrangement, including the name of the waqf recipient and initiatives, as well as the policies and processes relating to the selection of the waqf recipient.

The framework is applicable to existing and newly launched unit trust and wholesale funds.

"The framework will integrate commercial with social objectives and enable investments for the greater good of society," the SC said.

The SC has made efforts to facilitate the development of waqf through several initiatives, including the introduction of the sustainable and responsible investment (SRI) sukuk framework last year, which incorporates the development of waqf assets as an eligible SRI project, as well as facilitating the offering of the world's first waqf shares, according to the statement.

Demand

In general, the demand for Islamic products has grown in Malaysia. Assets of locally domiciled funds, excluding money market funds and fund of funds, grew 20% to $57bn in October this year on a 12-month period, according to data from Morningstar Direct. The growth was driven by domestic Shariah bond funds, which saw year-to-date net inflows of $4.8bn.

Currently, Shariah funds account for 31% of Malaysia's mutual fund market, the data shows.

Akmal Hassan, managing director at Shariah-focused asset management firm Aiiman Asset Management (pictured above), believes that the new waqf funds will further propel Malaysia's Shariah industry.

"We see the concept of waqf as an area that offers huge potential for the Islamic capital market space. This will help catalyse the Shariah fund management industry and broaden the range of product offerings to investors," Hassan told *FSA*.

Hassan said that Aiiman AM is currently working and engaging with SIRCs towards establishing Waqf funds.

Separately, he also noted that demand for ESG-centric funds, as well as Shariah fund, has steadily gained prominence over the years but more so in 2020 as the impact of Covid-19 has thrust investors to place greater emphasis on sustainable investments.

"Broadly, the performance of ESG, as well as Shariah funds, have also been resilient this year by avoiding certain sectors such as gaming, tobacco and alcohol, which took a big hit.

"From a demand perspective, an increasing convergence between Shariah and ESG principles can help spur growth for the industry," he said.

Echoing Hassan, Jaslyn Ong, Singapore-based analyst at Cerulli Associates, also expects that impact-related products in Malaysia may gain traction from investors.

"There hasn't been many impact-related funds in Malaysia. However, we do some successful fundraising, such as BIMB Asset Management's ESG Shariah funds that were launched over the recent years," Ong said.

However, she believes that demand will be driven from institutions.

"The demand for ESG, or impact investing in particular, are still largely driven by institutional players like the Employees Provident Fund (EPF) and KWAP in the country."

Meanwhile, the waqf framework should also provide Shariah asset managers opportunity to roll out new products in the market.

"I think asset managers with Shariah businesses would have an interest in rolling out these products to spur product innovation within the segment.

"Aside from Shariah money market funds, managers we spoke to largely felt that the market has been relatively slow [in developing new products] compared to conventional funds," Ong said.

TAGS

Aiiman Asset Management, Cerulli Associates, Malaysia, Shariah, Waqf

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