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Other Financial Institutions

Discount Houses

As part of the framework for the creation of investment banks, the seven discount houses currently in operation will be rationalised and merged with stockbroking companies and universal brokers to form investment banks. Arising from the rationalisation process, lower sources and uses of funds were recorded in 2005. Total resources mobilised by the discount houses declined by RM5.9 billion or 18.5% (2004: +RM1.7 billion or 5.6%). This was mainly due to lower deposits, which declined for the first time since 1999, by RM6.2 billion or 22% on an annual basis (2004: +RM4.3 billion or 18.3%). Correspondingly, in terms of uses of funds, interbank placements declined significantly by RM5.3 billion to RM6.7 billion (2004: +RM6.2 billion to RM12 billion).

Investments in securities were marginally lower during the year, declining by RM0.5 billion or 2.9% (2004: -RM4.1 billion or -17.8%). There was a notable shift in the types of investment undertaken by discount houses, with a marked reduction in the holdings of bankers' acceptances (BAs) and private debt securities (PDS). The lower holdings of BAs were attributable to the lower yields on these instruments. The lower holdings of PDS were, to some extent, the result of an adjustment in investment portfolios of the discount houses, as part of the rationalisation process. Conversely, the discount houses increased their holdings of Government debt securities, by RM1.1 billion or 63.2% on an annual basis (2004: +RM0.5 billion or 35.7%), particularly in the form of Malaysian Government Securities (MGS), and to a lesser extent, Government Investment Issues (GII) and Treasury Bills (TBs). In addition, investments in BNM bills and Khazanah bonds were higher in 2005. As part of the portfolio reallocation exercise, the discount houses also increased their holdings of Negotiable Instruments of Deposits (NIDs), by RM1 billion to RM1.6 billion (2004: -RM0.3 billion to RM0.6 billion).

During the year, fee-based activities of the discount houses remained relatively stable. The industry arranged, lead-managed and co-managed the issuances of PDS worth RM3.4 billion (2004: RM3.6 billion), while the total amount underwritten moderated to RM0.8 billion (2004: RM1.5 billion) for 31 PDS issues (2004: 32 issuances).

Table 8.1
Discount Houses: Sources and Uses of Funds

	Annual change		At end-2005
	2004	2005	
	RM million		
Sources:			
Approved capital funds	264	-298	2,339
Deposits	4,344	-6,191	21,903
Interbank borrowings	-2,944	526	1,141
Others	38	48	593
Total	**1,702**	**-5,916**	**25,976**
Uses:			
Investment in securities:	-4,146	-555	18,554
Government debt securities	*475*	*1,140*	*2,943*
MGS held	*572*	*686*	*2,093*
Khazanah bonds	*-173*	*251*	*575*
BNM bills	*-365*	*516*	*516*
Private debt securities	*-3,033*	*-1,527*	*9,370*
Bankers acceptances	*822*	*-1,908*	*2,151*
Negotiable instruments of deposit	*-289*	*996*	*1,555*
Cagamas debt securities	*-1,093*	*33*	*1,109*
Others	*-491*	*-56*	*335*
Interbank placements	6,230	-5,316	6,723
Others	-382	-45	699
	2003	**2004**	**2005**
Number of discount houses	7	7	7

Note: Total may not add up due to rounding.

Provident & Pension Funds

Total resources of the provident and pension funds (PPFs) surveyed by Bank Negara Malaysia expanded by 10% to RM320.6 billion in 2005. The Employees Provident Fund (EPF) remained the largest fund, accounting for 82.3% of the total funds of the PPFs. Accumulated contributions, which accounted for 89.9% of the total resources of the PPFs, grew by 10% as at end-2005 (2004: 9%). The increment,

Table 8.2
Provident and Pension Funds: Selected Indicators

	2004	2005*p*
	RM million	
As at end		
Number of contributors ('000)	21,162	21,901
of which: EPF	*10,716*	*11,055*
: SOCSO	*10,239*	*10,627*
Accumulated contributions	262,039	288,203
Assets	291,493	320,645
of which: Investments in MGS	*100,318*	*110,947*
During the year		
Net new contributions	12,423	14,531
Gross contributions	*26,226*	*28,313*
Withdrawals	*13,803*	*13,783*
Dividends credited	10,705	12,993
Investment income	13,458	15,561

p Preliminary

Source: Employees Provident Fund, Pension Trust Fund, Social Security Organisation, Armed Forces Fund, Malaysian Estates Staff Provident Fund, Teachers Provident Fund and three other private provident and pension funds.

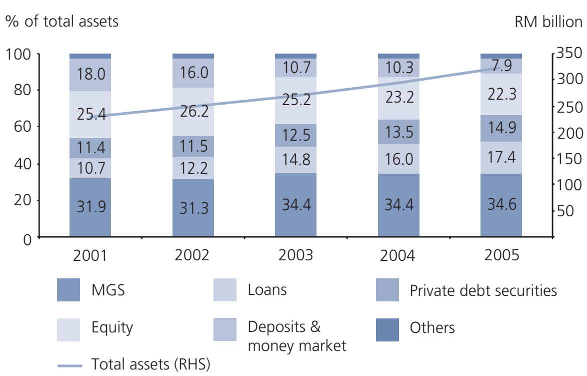
which is the largest since 2000, was mainly due to the significant increase of 17% in net new contributions (2004: 3.4%) and 21.4% in dividends credited (2004: 14.8%). Slightly lower withdrawals were recorded for the year, compared with 2004.

The significant increase of 17% in net new contributions to the PPFs came largely from higher gross contributions. During the year, gross contributions increased by 8% (2004: 8.2%), reflecting sustained growth in wages and the number of contributors to the funds. In addition, total withdrawals from the PPFs declined marginally by 0.1% in 2005 (2004: +12.8%). Nonetheless, withdrawals from the EPF for investment purposes increased by 15.5%, which corresponded with higher sales of unit trust funds during the year.

Given the higher investment income in 2005, the EPF was able to declare a higher dividend rate of 5% to its contributors (2004: 4.75%), which was the highest since 2002. Gross income from investment increased by 11.5% to RM13.1 billion, given the higher returns from investment in private debt securities (PDS) and lending activity. Returns from investment in debt and equity instruments by the EPF contributed 56.1% of its total investment income in 2005. Notwithstanding the lacklustre performance of Bursa Malaysia in 2005, income from equity investment registered a healthy growth of 12.8%.

In terms of asset composition of the PPFs, allocation was skewed towards investments which offered higher returns. Given the relatively low interest rate environment, holdings of cash and near-cash interest-bearing and interest-dependent assets like deposits in banking system and money market instruments, were

Graph 8.1
Provident and Pension Funds: Major Asset Composition



reduced. In addition, the holdings of equity-based investments experienced a marginal decline to 22.3% (2004: 23.2%). Nevertheless, the share of PDS and loans increased further to 14.9% and 17.4% respectively. In 2005, PDS issuance grew significantly and this development led to higher investment in PDS by PPFs.

Venture Capital

In 2005, the venture capital (VC) industry in Malaysia has progressed significantly as an alternative source of financing to the economy, with increased total funds available for disbursement and higher level of participation from industry players. Total investments from both local and foreign sources, number of venture capital fund management companies and number of investee companies also grew throughout the year. Total available funds for VC investments increased by 14.3% to RM2.6 billion. Both investment from domestic sources and investment from foreign sources recorded a significant growth of 32.8% and 54%, respectively. By the end of 2005, the total number of investee companies had increased further to 380 companies, involving a total investment of RM1.4 billion. Funds invested during the year increased by 49.2% to RM431.5 million into 101 investee companies (2004: increased by 27.3% to RM289.3 million into 139 investee companies).

The Cradle Investment Program (CIP), which was administered and managed by the Malaysia Venture Capital Management Berhad (MAVCAP), continued to provide pre-seed funding and entrepreneurial support to aspiring entrepreneurs with the commitment to develop and commercialise their ideas. As at end-2005, the amount of grants approved was RM7.5

Table 8.3
Key Statistics of Venture Capital Industry

	As at end-2004	As at end-2005
Venture capital funds (RM million)	2,266.0	2,589.0
Total investment (RM million)	1,058.0	1,441.5
Local sources (RM million)	887.7	1,179.3
Foreign sources (RM million)	170.3	262.2
No. of venture capital companies / funds	38	48
No. of venture capital fund management companies	34	39
No. of investee companies	332	380
	During 2004	**During 2005**
Total investment (RM million)	289.3	431.5
Local sources (RM million)	248.4	338.2
Foreign sources (RM million)	40.9	93.3
No. of investee companies	139	101

[1]Including divestment activities

Source: Securities Commission

Graph 8.2
Sources of Venture Capital
(% share, as at end-2005)

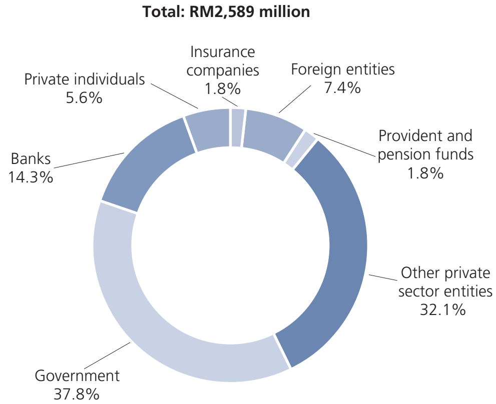


Table 8.4
Investment by Stages during 2005

No. of Investee Companies	101	
Business Stage	RM '000	% share
Seed capital	11,643.1	2.7
Start-up capital	25,116.0	5.8
Early stage	107,276.3	24.9
Expansion, growth	61,569.0	14.3
Bridge, mezzanine, pre-IPO	162,204.8	37.6
Management buy-out	29,664.0	6.9
Management buy-in	14,700.0	3.4
Cashing-out (secondary purchase)	1,642.0	0.4
Other types of investment	17,748.0	4.1
Total	431,563.2	100.0

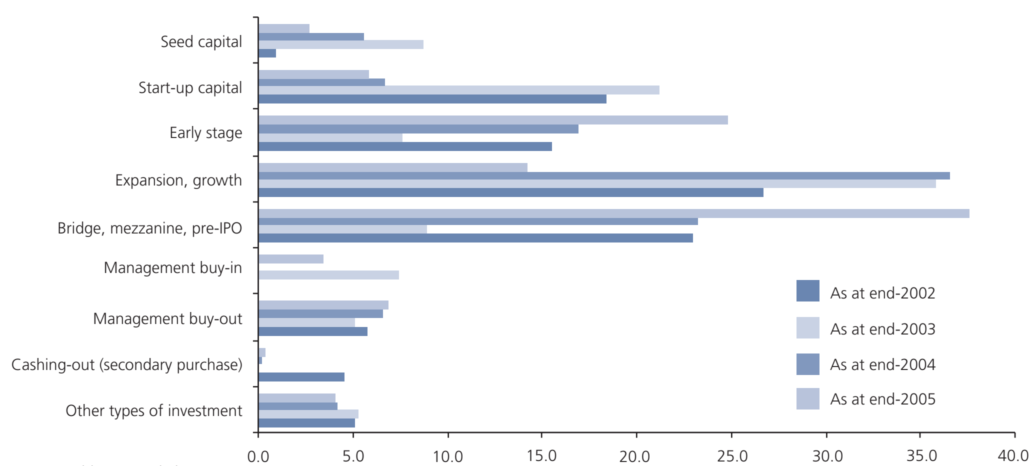
Source: Securities Commission

million and was awarded to more than 150 recipients. As CIP investment was mainly focussed on technology innovations, most of the ideas funded were related to this sector, such as software development, consumer/business products and e-services. CIP's strategy of partnerships with aligned and non-aligned industry partners, which included the various technology and investing community partners, allowed the program to grow as a new source of deal flow for venture capital and private equity firms, as well as other companies. Execution via the Cradle's Ideas Bank has strengthened networking between CIP's grant recipients with the investing community and the media. This was especially important to provide publicity and awareness of success stories which has led to more exposure for CIP's partners.

MAVCAP, as one of the few VC companies to provide seed and early-stage financing, continued to finance companies while maintaining the investment focus on ICT as mandated by the Government. For the year 2005, 17 new investees were provided funding by MAVCAP. Most of the investees funded by MAVCAP were deals related to the life sciences, biotechnology, agriculture and renewable energy.

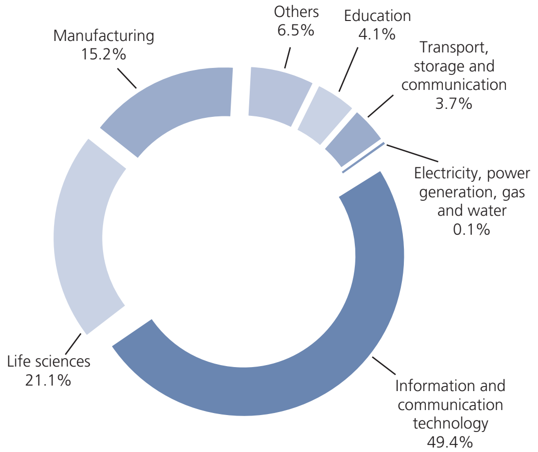
In line with the Government's efforts to allow the private sector to spearhead growth, the contribution of funds for VC investments from domestic private sector entities recorded another significant increase of 20% in 2005 (2004: 35.1%). In 2005, funds from foreign sources recorded the highest growth, followed by funds from banks and other private sector entities. As at end-2005, the Government remained as the largest contributor for VC funds.

Graph 8.3
Outstanding Investment by Stages (% share)



Source: Securities Commission

Graph 8.4
Investment made in 2005 (% share of total)



In terms of stages, VC investments, during the year, continued to focus on the expansion/growth, bridge/mezzanine/pre-IPO and the early stages. These investments represented more than 75% of all VC investments in 2005. In terms of share, investments in the more risky stages, namely the seed capital and the start-up capital stages, declined from 12.3% in 2004 to 8.5% in 2005. Investments in other stages increased slightly.

In terms of outstanding investments by stages, the expansion/growth, bridge/mezzanine/pre-IPO and start-up capital stages were still the main business stages that received the bulk of VC investments since 2003.

Table 8.5
Outstanding VC Investment by Sectors

	As at end-2005	
	RM '000	% share
Information and communication technology	661,189.2	45.9
Manufacturing	292,906.2	20.3
Life sciences	270,574.1	18.8
Education	59,325.0	4.1
Electricity, power generation, gas and water	4,740.0	0.3
Wholesale, retail trade, restaurant and hotels	12,024.0	0.8
Financing, insurance, real estate and business services	15,963.2	1.1
Construction	100.0	0.0
Transport, storage and communication	15,970.0	1.1
Others	108,748.4	7.5
Total	**1,441,540.2**	**100.0**

Source: Securities Commission

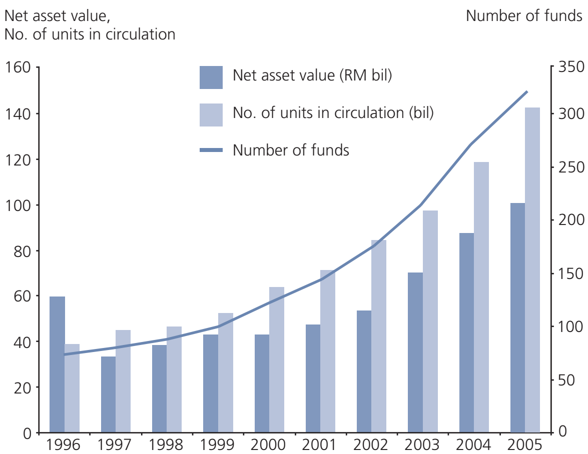
As in the previous year, in terms of investments by sector, the information and communication technology (ICT), life sciences and manufacturing sectors continued to receive the most of the financing. In total, the amount of VC investment in these three sectors constituted 85.7% of total investment made in 2005 (2004: 77.3% of total investment made). In terms of the outstanding size of funding at end-2005, the sectors which received most of the VC investment were the ICT sector (49.4% of total), the life sciences sector (21.1%) and the manufacturing sector (15.2%). The three sectors combined, accounted for RM1.2 billion or 85% of total funds invested. During the year, domestic VC funds were concentrated in the ICT (53.6%), manufacturing (17%) and life sciences (11.1%) sectors, while foreign VC funds mainly invested into the life sciences (57.4%), ICT (34.1%) and manufacturing (8.5%) sectors. The apparent shift in investment preferences as experienced in 2004 continued in 2005. The bulk of the domestically-sourced VC investment was more focussed on the ICT sector, a move away from the previous focus on the manufacturing sector, while foreign VC funds continued to concentrate on the life sciences sector.

Growth of the VC industry has advanced significantly to support sustainable funding for new growth areas as well as to serve as an alternative source of financing to the economy. Nevertheless, while many initiatives were undertaken to develop this form of alternative financing, areas for further improvement are still prevalent. The VC industry development needs to diversify further in meeting financing needs of potential investees in the seed stages.

Unit Trust Industry

The unit trust industry expanded further in 2005, with more new funds launched and further increases in the number of units in circulation. The net asset value (NAV) of the industry continued to expand by 12.7% and accounted for 14.2% of the total equity market capitalisation as at end-2005 (end-2004: 12.1%). During the year, a total of 51 new unit trust funds were launched (62 in 2004), bringing the total number of funds to 332 as at end-2005 (end-2004: 281). The sustained increase in the number of unit trusts launched reflected continued confidence in unit trusts as an investment vehicle to access a well-diversified portfolio. Gross sales of units remained consistently high throughout the year with an increase of 25.3% (33.4% in 2004). Despite the relatively higher repurchases made during the year, the industry recorded resilient annual net sales of RM14.9

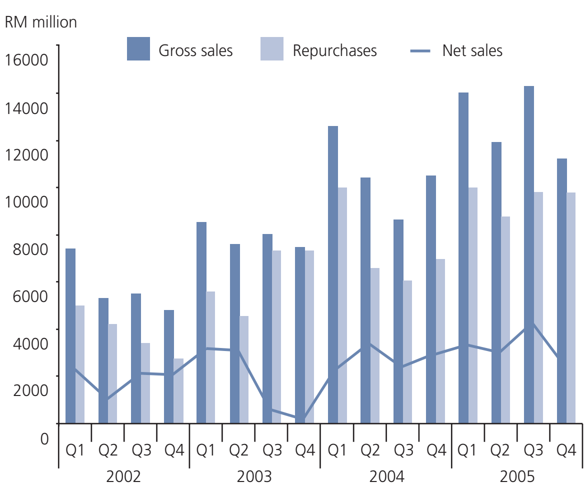
Graph 8.5
Unit Trust Industry - NAV, Units in Circulation and Number of Funds



billion or 18.2% higher than the year before (RM12.6 billion or 81.9% in 2004).

Effective 1 April 2005, the threshold for investing in funds abroad by unit trust companies was increased from 10% to 30% of the total NAV of all resident funds managed by a unit trust company. As a result, more global funds were established in 2005. Out of 51 new unit trust funds launched during the year, 13 of these funds were global funds meant for investment in foreign securities, either directly or via alliances with foreign unit trust funds.

Graph 8.6
Unit Trust Industry - Gross Sales, Repurchases and Net Sales

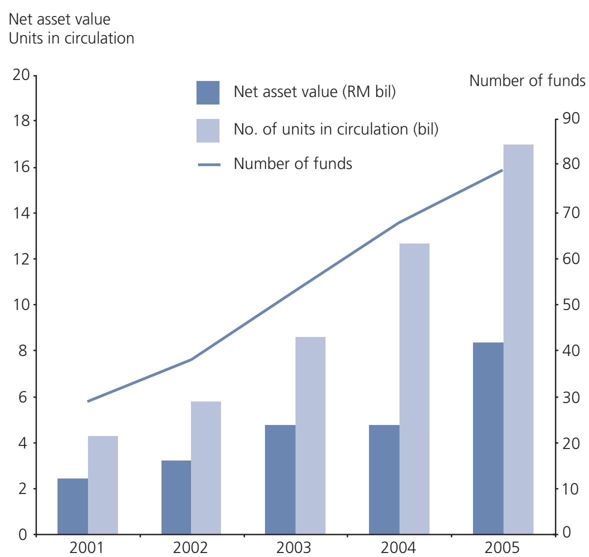


Ongoing efforts to further stimulate the development of the Islamic unit trust industry brought about continued positive growth in terms of NAV for the industry. In 2005, a total of 12 new Islamic funds were launched (15 in 2004), bringing the total number of Islamic funds to 77. The NAV of Islamic funds, which grew by 25.5%, accounted for 8.6% of total NAV of the unit trust industry as at end-2005 (end-2004: 7.7%).

The Government undertook further measures to accelerate the development of a vibrant and competitive Real Estate Investment Trusts (REITs) industry in Malaysia. The Guidelines on REITs were revised by the Securities Commission (SC), with the objective of attracting new players and enhancing awareness amongst local industry players and property owners/developers on the benefits of establishing a REIT. As at end-2005, three REITs were successfully listed on the Main Board of Bursa Malaysia, bringing the total number of listed REITs to six, while one REIT remained unlisted. Acceptance of REITs as an additional instrument for investors has been favourable thus far. Total turnover for REITs listed on Bursa Malaysia increased significantly to RM341.6 million for the year (RM11.8 million in 2004).

To further develop the Malaysian unit trust industry, the Government continued to seek ways to create an enabling environment in the country to maximise the potential for unit trusts. The SC continued to release guidelines for new products and revised rules for

Graph 8.7
Islamic Unit Trusts - NAV, Units in Circulation, and Number of Funds



feeder funds, fund-of-funds and wholesale funds to encourage wider participation by both high net worth individuals retail and institutional investors. Several investment restrictions were lifted to allow greater flexibility for unit trust fund managers to invest in a variety of instruments that would provide investors with a wider spectrum of risk-return mandates.

The penetration level, as measured by the ratio of net asset value of the unit trust industry to equity market capitalisation, improved to 14% from 12% in 2004. While this ratio remained low relative to countries with more mature financial systems, it indicated an opportunity for the unit trust industry to progress as an important investment vehicle for Malaysian investors.