

Malaysia's Unity Trust

A new state-run fund tears down ethnic walls

By Steven K.C. Poh, Kuala Lumpur

A NEW ERA FOR Malaysian investment. An election pledge fulfilled. A vehicle for national unity. The platitudes heaped upon Malaysia's Vision 2020 Unit Trust Fund (ASW 2020, by its Malay initials) make it sound like a good deal more than ringgit and sen. Prime Minister Mahathir Mohamad certainly sees ASW as not just another money-making scheme. Launching the \$1.2-billion investment fund last month, he said the government set it up because it would bring all ethnic groups closer together by 2020, when Malaysia aims to become a developed nation. The PM added that the new generation is no longer divided along ethnic lines, "and it is not fair that they should be saddled by the policies of yesteryears."

Created to help Malaysians aged 12 to 29 get a slice of the economic pie, ASW is open to all ethnic groups. Two earlier state-run trusts, ASN and ASB, were exclusively for bumiputras or indigenous people, under the New Economic Policy to help them acquire 30% of corporate assets and eradicate poverty. "The use of unit trusts to distribute wealth more equitably has contributed to balanced development and lifted the savings rate to over 30%," Mahathir declared at the ASW launching.

This time, however, Kuala Lumpur was more interested in boosting savings than spreading riches. It aims to get Malaysians setting aside 40% of their income, to raise funds for investment and moderate spending, which feeds inflation and current-account deficits. With units sold at many outlets including the post office, ASW 2020 is one way to make people squirrel away their ringgit. "It's good for the whole country," says Patrick Lim, president of the Malaysian Investors Association. "High interest rates [a common weapon against inflation] is bad for the management of the economy. So the government is using ASW to mop up liquidity." Adds Zakie Ahmad Shariff, Shapadu Corp.'s assistant general manager for special investments: "National savings is one way to ensure sustainable growth."

Hilmey Taib is chief executive of Permodalan Nasional Berhad, the investment trust agency which manages ASW 2020 and its two predecessors. "This is a zero-risk fund," he says of the new trust. PNB guarantees that every share would be redeemable at the purchase price of one ringgit. Returns should get a boost from advantages like special allocations of shares in highly prized state-controlled companies. Dividends paid out to unitholders are tax-free. The fund targets risk-averse investors willing to forgo high profits. PNB forecasts a return on investment greater than from bank deposits; one private fund manager believes 15% a year is a conservative estimate (time deposits pay just over 7%). The other two state trusts have seen dividend rates of 12% to 14%.

As it finalizes ASW's portfolio, PNB is incorporating a long-term portion to be invested in infrastructure and other privatized undertakings. It will also have short- and medium-term holdings similar to ASN's portfolio, which is anchored in equities and the money market. PNB may also invest up to 10% of ASW's portfolio abroad, but that is not expected in the short or medium term.

Former academic and activist Syed Husin Ali praises the fund's savings thrust and its stress on national unity and the youth. "The fact that ASW 2020 is designed for the youth shows the government is looking into the future," he says. (It also helps ensure few will cash in for a long time.) Ex-banker Ramon Navaratnam sees ASW as a "breakthrough" in Malaysia's outlook. Now

advising the Sungei Way Group, he explains: "For the man on the street, investing in this is not for money, but that sense of belonging to the nation." He wishes the age ceiling was 45 so more can participate, and the fund enlarged to between \$2 billion and \$2.8 billion.

Some economists who laud the fund have concerns. "If the objective is to suck liquidity, the fund is not targeting the people who really have the savings to invest," says Loh Eng Seng of TA Securities. "Kids between 12 and 20 don't have much money; yuppies are a high-consumption group." But Lim says the fund encourages youths to save and parents to buy units for their children.

How will ASW 2020 affect the unit trust industry? As of June, Malaysia had 47 private funds with a total net asset value of \$2.54 billion, and 26 government-sponsored funds worth \$18.33 billion. Jacob Thomas, executive director of the Federation of Malaysian Unit Trust Managers, thinks the \$1.2-billion ASW "will have a tremendous impact." He worries about privileges like tax-exempt dividends: "We can't compete on that." But for its patriotic proponents, ASW 2020 is not really about competing on a level playing field, but coming together on a wholly different plane.