ARECA CAPITAL

ONE-STOP CENTRE

FOR PRIVATE WEALTH SOLUTIONS

In the past six years, Areca Capital Sdn Bhd has undergone a significant growth phase as seen from the outperformance of its funds. Its next goal is to be the preferred private wealth firm in town through the offering of quality investment products and advisory services, as well as financial planning and estate planning solutions, all under one roof.

Areca Capital CEO Danny Wong says the firm's assets under management (AUM) surpassed RM5 billion for the first time this year, buoyed by the opening of new investment accounts and overall strong performance of its funds.

"Our fund size has grown to RM5 billion this year from less than RM1 billion in 2019, as supported by the continuous trust and confidence of our clients," he says.

Wong attributes the firm's growth to the high service standards accorded to its clients. Performance and quality service have led to a long-standing and close relationship with clients — some of whom have been with it for decades, as evident by Wong's observation that "their hair turned from black to silver".

The key to maintaining such a relationship with its clients is understanding and catering to their needs. Oftentimes, Wong's engagement with clients would result in new investment ideas, such as its private credit products.

"Many of our product ideas actually come from discussions with clients. For instance, our first private credit product was structured after a meeting with one of our clients back in 2016. We realised many companies out there were in need of funding and started matching some of them with our existing clients. From there, we gradually built our internal capabilities to seek out opportunities and conduct due diligence on companies in the private credit space."

Put simply, private credit involves the investment of funds in companies via capital market funding. Areca Capital does so through the setting up of wholesale funds that allow its clients, who are sophisticated investors, to provide private companies with capital for various business purposes.

For similar reasons, Areca Capital launched ArecaCapital Trustees Bhd in 2023 to fulfil its clients' need for trust and estate planning solutions. Wong observes that major generational wealth transfer, which means the passing of assets from one generation to the next, is increasingly happening in the country.

In recent years, Malaysians have witnessed the passing of several prominent business figures — among them Westports Holdings Bhd founder Tan Sri G Gnanalingam in July 2023 and Public Bank Bhd founder Tan Sri Teh Hong Piow in December 2022. Billionaire tycoon T Ananda Krishnan also passed away in November this year at the age of 86.

Estate planning, which often involves the setting up of a trust, is important to maintain harmony within a family, especially in the case of business owners with more complex wealth matters, when the patriarch (or matriarch) passes away, says Wong.

"We have received a fair bit of interest for our private trust services. More are coming in. People are increasingly becoming aware that estate planning is very important," he says.

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ESTATE PLANNING GAINING TRACTION AMONG HNWIS

Having served high-net-worth individuals (HNWIs) for decades, Wong has encountered business founders who put comprehensive estate planning in place and those who didn't. Wong says both have vastly different outcomes, as in the case of the latter, it could lead to infighting among family members.

Wong cites the example of two brothers vying for assets that had been placed under a joint account in their parents' names. When the father passed, the mother became the sole account holder.

The younger brother, who was very close to the mother, wanted her to transfer all the assets in the joint account to another account. His brother objected as their father's will had stipulated that the elder son would be entitled to the assets in the joint account. On top of that, their ageing mother no longer has the capability to make sound decisions on the funds in the joint account.

"Harmony within the family has been damaged in that situation. But it can be avoided if estate planning had been done earlier, perhaps by setting up a trust with clear instructions," says Wong.

In another case, a family whose parents had died wanted their properties to be distributed equally among the siblings without specific details. But the challenge was, how could several properties located in different areas, with different values in terms of pricing, be distributed equally among siblings?

Adding to the complexity was that some siblings agreed to liquidate those properties for cash to be distributed equally, while others didn't. For the siblings who did not agree to liquidate, some fought over the same property for different reasons.

The executor of the will, who was himself one of the beneficiaries, also found it challenging to resolve the situation due to conflict of interest. Not to mention all the procedures and tax matters involved if he were to liquidate those properties before distributing the cash.

Where ArecaCapital Trustees Bhd comes into play is to provide its clients with estate planning solutions early on when they are still in the right state of mind to do so. The process typically involves regular meet-ups and discussions, depending on the complexity of the matter.

"We usually meet with clients at least five to six times over a month or two for estate planning, unless it is a straightforward case. It takes time to understand the person, his or her family and its wealth. We then come back with advice from legal and tax professionals with established companies," says Wong.

While ArecaCapital Trustees Bhd acts as the corporate trustee of its clients, it leverages the strength of Areca Capital, which is a licensed fund management, investment advisory and financial planning firm. This synergy ensures the sustainability of a trust by employing strategic investment approaches to safeguard and grow wealth over time.

Wong says Areca Capital can advise its clients on investment-related matters pertaining to estate planning when necessary. It can also provide them with investment solutions and assist in the purchase of medical and life protection insurance policies via its insurance partner.

"When a client puts assets into a trust for estate planning, we will know, from an investment perspective, whether the assets are of good quality or not for the longer term, and can advise accordingly," he says.

For now, ArecaCapital Trustees Bhd offers estate planning services to clients with assets and funds starting from RM1 million. Wong is planning to reduce the amount in the future.

The annual advisory fee for managing funds under a trust ranges from 0.5% to 1% per year. The upfront fee for setting up a trust ranges from RM3,000 to RM5,000, depending on the complexity of the matter, which isn't expensive. Wong says the firm might even consider waiving the upfront fee for some of its existing clients.

NEW CIO, NEW FUNDS AND NEW PARTNERS

"However, our trustee and estate planning services are our value-added services to fulfil our clients' needs. Areca's forte is still asset management," Wong asserts.

Fund management remains the core capability and bread and butter of Areca as a group. While expanding its products and services, Wong has always kept an eye on further strengthening Areca Capital's investment capability and product offering.

For one, Areca Capital made an important hire this year. It recruited Ch'ng Cheng Siew, an experienced and award-winning senior fund manager in the asset management industry, as its Chief Investment Officer (CIO).

With Ch'ng on board, Areca Capital has launched several new funds this year to provide its clients with more options, including the Areca Premier Wealth Fund, managed by Ch'ng, in October. According to its product highlight sheet, the fund aims to provide investors with medium- to long-term capital growth by investing in regional equities, including Malaysia.

The fund, benchmarked against an absolute return of 8% per annum, has a minimum initial investment amount of RM250,000 (for its ringgit share class or such other amount at the manager's discretion) and an annual management fee of up to 1% per annum. The fund also charges investors a "10% performance fee on the appreciation in the NAV [net asset value] per unit during a performance period" and a sales charge of up to 3%.

Earlier in April, Areca Capital launched its Areca Aggressive Alpha Fund that aims to provide investors with high capital growth over the medium to long term. According to its product highlight sheet, the fund invests primarily in Malaysia-listed equities, typically in small and medium public-listed companies with high potential for capital gains. The fund also invests in equity-related securities, including call warrants, preference shares and convertible instruments.

"It is a fund that focuses on small-cap stocks, in which you will see interesting names that are not that well exposed to many investors," says Wong.

Interestingly, Areca Capital struck up a partnership with a Chinese investment firm this year, namely Fullgoal Asset Management (HK) Ltd (Fullgoal Hong Kong) to invest in its funds and allow clients to tap into investment opportunities in China. Fullgoal Hong Kong is a wholly-owned subsidiary of Fullgoal Fund Management Co Ltd (Fullgoal Fund).

According to its official website, Fullgoal Fund is a Chinese investment management firm set up in 1999. As at Dec 31, 2022, it managed 287 public funds with a total AUM of RMB582.26 billion, excluding the AUM of money market funds, and was ranked No 4 in the market.

In May, Areca Capital also launched the Areca China A-Share Alpha Fund, which offers investors exposure to the China A-share market.

"We are working with Fullgoal on this fund, which differentiates itself from most existing China funds in the market that invest in H-shares," says Wong.

China A-shares are shares of companies based in China that are listed on either the Shanghai or Shenzhen stock exchanges, generally only available for trading to mainland Chinese citizens. H-shares represent the shares of public companies from mainland China listed on the Hong Kong Exchanges and Clearing, which are a lot more accessible to foreign investors.

Two other funds managed by Areca Capital that invest in China are the Areca Dragon Technology Fund and the Areca Focus Leverage Fund. The latter put investors' money in undervalued Chinese banks when it was first launched. For the Areca Dragon Technology Fund, Areca Capital had also signed an investment advisory agreement in 2023 with China Universal Asset Management (Hong Kong) Co Ltd which was founded in November 2009 and is a wholly-owned subsidiary of China Universal Asset Management Co Ltd, one of the top 10 mutual fund companies in China.

The launch of new products with a focus on China is in line with the firm's view that the China market has bottomed out. With aggressive stimulus measures being implemented — and perhaps more to come — Wong believes the Chinese economy will gradually recover, benefiting its stock market as a whole.

"We are confident that the market has already bottomed [out]. China's economic growth and market will recover, even though we don't expect a U-shape sharp rebound. This year may be a good time for investors to increase their position in the Chinese market. The challenge is in convincing them to stay for the long term," Wong reckons.

GLOVE AND SEMICONDUCTOR SECTORS COULD PERFORM IN 2025

The Malaysian market, as represented by the FBM KLCI, has performed well this year, but what about 2025?

On the global front, Wong doesn't expect the global economy and market to be spectacular, weighed down mainly by geopolitical uncertainties such as the ongoing trade war between the US and China, which could intensify, given that Donald Trump has returned to the White House.

"It is very hard to tell whether the US will impose more tariffs on China, or even companies in other countries closely linked to China. If it does, how will China retaliate? Nobody knows exactly. This will certainly hamper international trade, not to mention the fluctuation in different currencies.

"As Malaysia is a trading nation, we have to be very careful in selecting companies with clear earnings visibility. You might also want to look at companies riding on local trends and demands [rather] than those relying more on exports," he says.

However, despite all these challenges, it doesn't mean there aren't opportunities in the market, especially when the ongoing trade war is likely to distort market prices and further contribute to companies shifting their supply chain from China to Southeast Asian countries, including Malaysia.

Locally, Wong favours the rubber glove sector as it is expected to benefit from higher tariffs imposed by the US government on goods manufactured in China.

Malaysian glove manufacturers have been losing market share to their peers in China in recent years due to higher product prices. But the Chinese glove companies could lose some advantage if the US government imposes higher tariffs on their products. When their products are no longer as cheap, sales of the local glove companies would pick up, translating into better revenues and profits.

"When the prices for Chinese gloves go up, US buyers will shift their orders to Malaysia. The average selling price of gloves will catch up and the sales volume of local glove manufacturers will increase. This is a sector with clear earnings visibility despite uncertainties in global trades. However, investors need to pay attention to valuations as share prices have surged ahead," says Wong.

He also favours semiconductor companies when such companies globally are shifting their supply chain out of China to avoid tariffs imposed by the US government. Such a trend is already happening rapidly and in a big way, partly reflected in the amount of foreign direct investments Malaysia has garnered this year.

"In the past three to four years, it was common to see Malaysian companies set up joint-venture firms in China, but the situation has now reversed. Chinese companies are setting up JVs and shifting their operations here, while US companies with operations in China have relocated to Southeast Asia, including Malaysia. All this would benefit the local semiconductor firms," Wong says.

He adds that the share price and valuation of local semiconductor companies are also looking attractive at the moment.

For companies more exposed to the domestic economy, Wong likes those in the construction and infrastructure sectors that can benefit from emerging trends, such as the booming data centre industry and infrastructure projects. In addition, he also likes Sarawak initiatives and development.

Overall, he believes 2025 will be a stock picker's market where investors have to be careful to generate good performance.

"I don't see a clear bull run happening next year. Investors will have to be very selective," he advises.

Wong believes 2025 will be another good year if a well-executed strategy is in place.