ARECA CAPITAL

# ARECA STEPS UP REGIONAL PUSH

Areca Capital Sdn Bhd, a mid-sized fund house with RM5 billion of asset under management and advisory (AUM) after growing rapidly in recent years, has been quietly building its capabilities within its investment team with a clear goal: to become a respectable regional investor.

"We are currently managing about RM5 billion across equity, fixed income and private market strategies. Malaysia remains our home base and our strength. But over the years, the growth of AUM has enabled us to continue building our capabilities to become a home-grown, regional wealth manager," says its CEO Danny Wong.

Areca has established a strong reputation in the local market, especially in the Malaysian equity space. The Areca equityTrust Fund (AETF) won the Best Equity Malaysia Fund at the LSEG Lipper Fund Awards for nine years in a row.

In March, AETF won the Best Equity Malaysia Fund in the five- and 10-year categories, delivering investors a total return of 66.16% and 220.79% respectively in both periods, as at December 2024. Since its inception in April 2007, the fund has delivered a whopping 525.93% in total return, as at November 2025.

Local equity aside, the firm is well known for its private debenture market (PDM) products where high-net-worth (HNW) investors' funds are channelled into private companies for attractive yield and proper safeguards, such as having a healthy collateral coverage ratio.

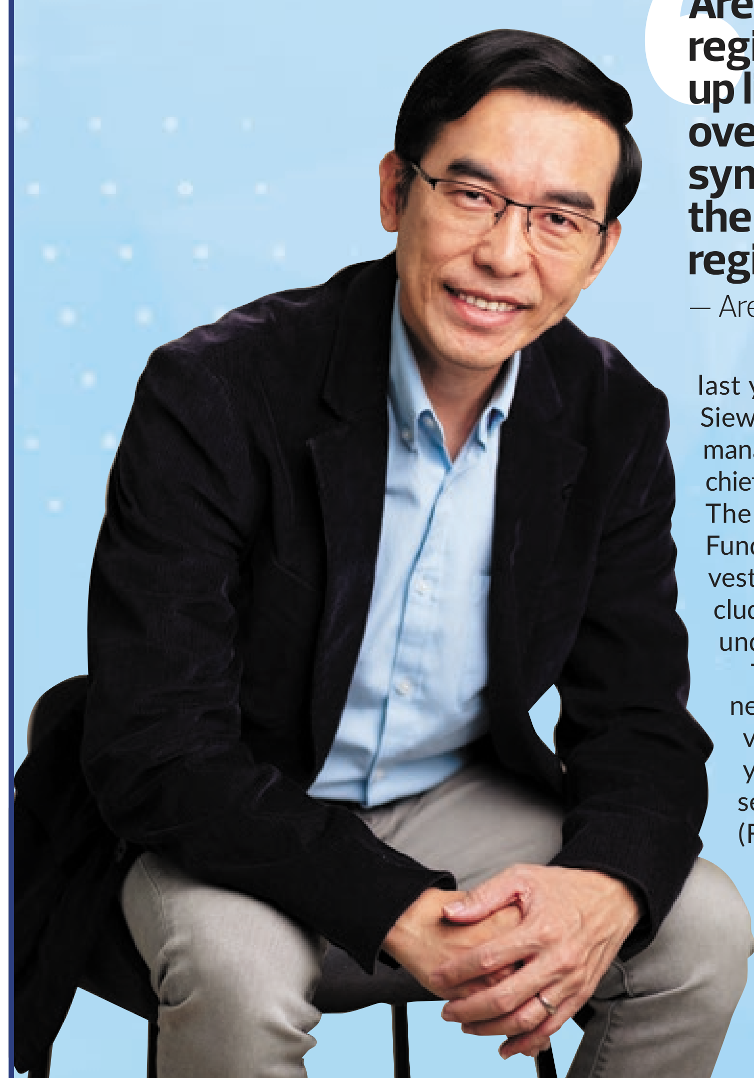
Hence, it is not surprising that Areca is now setting its sights regionally, which has been years in the making. For instance, the firm made a key hire last year when Ch'ng Cheng Siew, an award-winning fund manager, joined the firm as its chief investment officer (CIO). The Areca Premier Wealth Fund, a regional fund that invests in regional equities, including Asean, was launched under her watch.

The firm struck up a partnership with a Chinese investment firm in the same year, namely Fullgoal Asset Management (HK) Ltd (Fullgoal Hong Kong), to allow clients to tap investment opportunities in China.

Fullgoal Hong Kong is a wholly-owned subsidiary of Fullgoal Fund Management Co Ltd (Fullgoal Fund), which, in turn, is one of the largest fund houses in China with an AUM of US$249 billion (about RM1.05 trillion) as at the second quarter of this year.

Even before Areca's partnership with the asset management giant in China, it launched the Areca Dragon Technology Fund (ADTF) as early as in 2020, allowing its clients to diversify their portfolios regionally and tap opportunities offered by the world's second largest economy.

While Areca's regional products and strategies have largely centred around the Hong Kong, China and Asean markets, Wong says this is only the beginning. The firm is not limiting itself to these three markets and will gradually expand its product offerings across Asia-Pacific and more.



> **"Areca is also exploring a more physical regional presence. It can be through setting up licensed fund management entities overseas or forming joint ventures with synergistic partners, which would support the firm's ambition of becoming a truly regional wealth manager."**
> — Areca Capital Sdn Bhd CEO Danny Wong

"We view Asia and China as a key growth region over the long term based on rising middle- and upper-income households, which is why we started positioning and investing in greater China and Asean. But we are not narrow in focus.

"Beyond the high-growth markets in this region, we may even go into the advanced economies in the next decade, which is why we have been building our capabilities," he says.

This regional push is anchored on two fronts: building solutions internally through strengthened investment capabilities and complementing them with strategic tie-ups with reputable foreign fund houses. The combination allows Areca to bring on-the-ground expertise and diversified strategies to Malaysian investors.

Wong clearly is not resting on his laurels. The firm is investing in talents by expanding its investment team and has successfully attracted several seasoned fund managers to join its course.

Establishing partnerships, such as the one with Fullgoal, is ongoing. "We are actively looking to partner up with experienced local and global players. Especially on foreign markets that we may not be familiar with, we prefer working with experienced, local players on the ground with specialised knowledge," he says.

Areca is also exploring a more physical regional presence. It can be through setting up licensed fund management entities overseas or forming joint ventures with synergistic partners, which would support the firm's ambition of becoming a truly regional wealth manager.

A key factor for Areca's regional push is to provide greater value to its clients, which is through broadening investment opportunities and diversification, especially in a world of de-globalisation and volatile markets.

"Again, Malaysia remains our home base and our strength. But we want to add regional capabilities and solutions for our clients," says Wong.

While the firm has grown by leaps and bounds in its AUM size, Wong has not forgotten the advantage of being nimble in managing portfolios. It gave Areca an edge over its larger-size counterparts when it was still a small player in the industry. Several of Areca's funds come with a flexible mandate and adopt a dynamic asset allocation approach.

"For instance, we have an actively managed fund in Asia with dynamic asset allocation, which combines growth with active risk management. During extreme conditions, we have the flexibility to hold up to 100% cash to safeguard capital. This is critical, especially in today's fast-moving markets, as the tactical flexibility allows us to capture opportunities while maintaining a disciplined approach to managing risk," he says.

The expansion of Areca's product suite also allows it to provide clients with solutions that come with different characteristics, return potential and risk profile. Investors with a bigger risk appetite can venture abroad and invest regionally, such as in China and Asean equities. Those who are more conservative can opt to invest in products like the Singapore real estate investment trust (REIT)-focused fund, which provides them with exposure to one of the region's most mature and diversified REIT markets.

"Ultimately, our range of solutions focuses on our clients; they aren't market specific. This allows our clients to diversify effectively and focus on where values and opportunities are," says Wong.

Areca, as a mid-sized fund manager with ample room to grow, will also continue to leverage its innovation and agility to lead the development of new products for local institutional and HNW investors, says Wong.

## EXPANDING PRIVATE MARKET OFFERINGS

Areca has been actively venturing into private markets, both in equities and fixed income, such as the PDMs that provide funding to small and medium enterprises (SMEs) in exchange for a return. This is to complement its public market investments of listed shares.

PDMs, which fall under the category of private credit, are favoured by some as they provide steady and attractive yields, especially when interest rates are falling. These investments are less affected by mark-to-market factors, such as wild swings in short-term prices that often happen to asset classes that are less liquid. These changes in pricing do not reflect the long-term valuations of the products, but have an impact on the emotions and psychology of the investors.

Private credit, like PDMs, is generally perceived as a riskier asset class compared with government and investment-grade corporate bonds, as small businesses are more likely to default on their loans than their larger peers. It is also illiquid as investors cannot withdraw their principals from those investments quickly before they mature. But Wong begs to differ.

"The risk level of private credits depends on the product structure or the value and quality of the collateral that is pledged. In fact, our PDMs function similiarly to bonds or other asset-backed securities in terms of structure, as we put in place terms and conditions that provide investors with better protections, such as having a healthy collateral coverage ratio. This is achieved through our negotiations with the issuers," he says.

Wong says PDMs have been one of the most important journeys of Areca since 2016. A decade later, the firm, with its investors, have invested close to RM1 billion in this asset class. Not only did investors enjoy attractive returns, businesses also benefited through faster disbursement of funds to fund their projects.

"Looking back, it is a phased approach to learning, structuring and refining PDMs over the past 10 years. We do direct investment via private capital funding into the private market, rather than indirectly through peer-to-peer financing platforms. We want to directly evaluate and assess the merits and risks of the issuers (borrowers), instead of being reliant on a third party's credit methodology or due diligence process," says Wong.

In other words, Areca prides itself as having over a decade of experience and the in-house capability of sourcing private credit deals, structuring those products and pricing them accurately, all by themselves.

Wong continues to see plenty of opportunities in the private credit space, which investors should continue to look out for. Why?

"In a 2017 study by the International Finance Corporation and the World Bank's Enterprise Survey, Malaysia's micro, small and medium enterprises' (MSMEs) financing gap was estimated at RM92.24 billion (with an exchange rate of RM4.30 to the US dollar). By our estimates, the MSMEs' financing gap would have expanded to RM130.78 billion today (which is projected by extrapolating initial figures in line with Malaysia's gross domestic product growth from 2017 to 2024).

"This represents a significant unmet demand that the industry and regulators would need to address and the need for 'alternative' funding solutions.

"The regulators are cognisant of this. We can expect more positive updates from the Securities Commission Malaysia (SC) soon, in regard to developments in this asset class. This bodes well for industry players, SMEs and the investment community," says Wong.

On Oct 30, Bank Negara Malaysia released the "Discussion Paper on Asset Tokenisation in the Malaysian Financial Sector". A month earlier, the SC was reported saying that it is expecting to announce the successful applicants of its regulatory sandbox, which aims to encourage securities tokenisation to help spur innovations in the capital market.

As a firm that keeps a close watch on the pulse of industry trends, Wong says tokenisation is an area that the firm is exploring, but more from the perspective of risk management and investor protection, instead of product sales.

"Our focus is always on a well-structured solution for the stakeholders and clients. We believe in combining human and machine in making our products better, both in terms of investors' experience and the way we service them," he adds.

Regional push aside, one of Areca's key targets in the past two years was to become a one-stop centre for wealth solutions, which gave birth to Areca Capital Trustees Bhd or ACTB in 2023.

The goal was a natural extension based on the long-term relationship it has with its clients and families. After managing their personal and family wealth for over a decade, Areca's clients were coming back for more solutions, such as trustee services for family and legacy planning.

Commenting on this, Wong says ACTB has gained good traction this year, especially in the area of customised trust mandates and succession planning for HNW families. It is a key pillar of Areca's vision of serving the end-to-end needs of clients from the premium wealth segment. That includes investment management, investment advisory and multi-generational wealth planning.

"What sets us apart from our competitors is our integrated and specialised approach. Some trustees may be focused on purely the structuring of a trust, not too much on ensuring that the money set aside remains sufficient and grows steadily for the decades to come, after taking into account inflation. This is important as a trust can last for several decades before being 'activated' for its first distribution," he says.

Wong elaborates on the two-pronged approach of how ACTB works hand-in-hand with Areca's investment arm to provide value to its clients.

"ACTB focuses on structuring private trusts and setting the framework, as in how wealth should be distributed. Whereas Areca Capital Sdn Bhd, the licensed fund manager and investment adviser who already understands the family's values, goals and investment philosophy, crafts the investment strategy [on how to deploy the money in the trusts].

"The integration ensures two critical elements for long-term success. First comes customisation, where every trust is tailored according to the family's instructions. Second is continuity, where the same pair of trusted hands who manage the family's investments also guide the family's transition and investment plans," says Wong.

## OPPORTUNITIES IN THE LOCAL MARKET

2025 has been a challenging year for the local equity market, as the Malaysian market remains a laggard compared with its regional peers. The Kuala Lumpur Composite Index (KLCI) was down about 2%, as at early November, with the small- and mid-cap markets doing worse.

However, global and regional markets, including South Korea, Japan, Vietnam and Singapore, have shown strong performance. The Hong Kong and China markets, represented by the Hang Seng Index and Shanghai Securities Index 300 were up 29.1% and 17.9% respectively, during the corresponding period, benefiting the ADTF.

As prices remain suppressed, Wong sees value in specific sectors in the local market moving forward. He is keeping an eye out on the semiconductor sector as the Malaysian government targets RM1 trillion in electrical and electronics exports by 2030, whose demands are fuelled by artificial intelligence.

He also favours the tourism sector on the back of Visit Malaysia 2026, a nationwide tourism campaign by the government to attract international and domestic tourists. The campaign targets over 35 million tourist arrivals next year, compared with 26 million in 2019.

As large-scale infrastructure are undergoing changes, the construction and infrastructure sectors are poised to benefit from the ongoing development. They include the Pan Borneo Highway, Sarawak-Sabah Link Road, Mass Rapid Transit Line 3 and East Coast Rail Link, among others.

On the other hand, the Malaysian bond has been generally benefiting from the easing interest rate environment this year. As at November, the US Federal Reserve has cut the federal funds rate twice by 50 basis points this year as global growth was dampened a tad by the ongoing trade war.

Wong says the narrowing interest rates differential between Malaysia and the US is only part of the reason for the strengthening of the ringgit against the US dollar, not the primary driver. But such an ongoing trend could enhance the attractiveness of ringgit-denominated assets.

"Stretching out durations with an eye on credit risk would be our call for the coming year," he adds.

Overall, the world is moving faster and investors should be cognisant of the risks ahead. "We are now living in a multipolar world with realignment of governmental relationships over goods and services. Tensions [between the US and China] are rising and many countries are under pressure to pick sides, which can have a huge impact on the markets," says Wong.