Letter from Kuala Lumpur (Second of Two Parts)

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APAC countries each have their own path to investing in alternatives and private capital. Most key Malaysian institutions began with private equity, venture capital, and real estate. Favored PE sectors include data centers, which in 2023 represented an astounding 90% of all privately funded deals in that arena.* Others were in the consumer, industrial, and healthcare spaces.

A decade ago, given the limited bucket for alternatives relative to the traditional equities/fixed income model, PE made the most sense given its high double-digit returns. Over the past three years, however, global rate hikes have brought private credit returns up on par with PE. Not to mention the benefits of income distributions at lower risks afforded by the asset class.

As we noted last week, Malaysia’s top institutional investors, including KWAP, EPF, and PNB, manage well over MYR1 trillion among them. While their directives and risk/return goals differ, they are all increasing exposure over time to alternative assets. This mandate clearly includes direct lending and private credit and helps influence the direction of other investors seeking premium yields, diversification, and long-term stable returns.

From a pacing perspective, one large player told us they expect to lean into private credit in the next two years or so. Their main focus will be middle market direct lending but will also explore infrastructure and commercial real estate debt. Two others are looking to appoint several more managers to gain MM exposure in US and Europe, as they (typically for Malaysian investors) have found themselves overweight domestic investments.

Each investor also has their own product and fund structure requirements. A pension fund head said they favor evergreen structures with the ability to top-up, as necessary. Others still prefer the familiarity of close-ended vehicles. In concert, expect a rise in club deals, anchor commitments, and strategic partnerships with foreign asset managers with underwriting capabilities and regional deal flow. Malaysian institutions will invest with Australian or European managers in mid-market APAC deals, USD senior credit with U.S. platforms.

Despite these benefits, there are challenges. Some institutions face talent or governance bottlenecks in scaling alternative credit teams. There are also liquidity mismatches, especially for funds with long lockups or illiquid structures. And geopolitical volatility surrounding tariffs and rate policies could affect cross-border credit strategies.

Still Malaysian investors will solidify private credit and direct lending as core pillars for yield and capital preservation, and structures to support scale and transparency. Top plans will provide deeper capital pools, presenting unique opportunities for asset managers to partner on well-structured, regionally relevant, and strategically aligned credit solutions.

After all, the 60/40 model has its limits, even in Malaysia. As the CEO of one of the country’s largest pension funds put it recently: “Right now, listed equity is okay because it’s going up. But what if it’s down?”

Italic: *https://practiceguides.chambers.com/practice-guides/private-equity-2024/malaysia/trends-and-developments