LEAP OF FAITH

BY **PATHMA SUBRAMANIAM**

Baiza Bain is on a new adventure after spending almost two decades in the Islamic financial services sector. Together with four other financial industry veterans, he set up Ficus Venture Capital Sdn Bhd last year to facilitate private investments in Islamic digital start-ups.

The first of its kind in the region, the home-grown shariah-compliant venture capital firm aspires to channel funds to accelerate start-ups as well as play a critical role in spearheading the halal economy in Asean.

Baiza, previously head of Maybank Private Equity Sdn Bhd, says getting into venture capital has been the most exciting experience he has undertaken in his career. "Private equity is about being able to crunch numbers. This is hardly anything like that. It is really about understanding people."

Ficus is the culmination of Baiza's 19 years of experience in Islamic finance and private equity. He was at Maybank when he first saw a gap in shariah-compliant funding options for start-ups.

"I used to get calls from start-up founders asking if Maybank Private Equity could assist them in getting funding. I used to wonder why they were calling me when I was in private equity and it was during one of those encounters that I realised they were desperate because a shariah-compliant business can only get funding from an Islamic bank or other shariah-compliant financial institutions," says Baiza.

> That is why our focus is on the Islamic digital economy — a vastly underrated space despite its immense potential. Even if just 10% of the businesses get into the digital space, we are looking at opportunities worth billions of dollars. This is huge, but no one is addressing it.
> > ***Baiza***

SUHAIMI YUSUF/THE EDGE

Private equity firms usually take the majority stake in their investee companies and their funds are usually directed at mature companies in traditional industries — as opposed to venture capital firms, which usually acquire a minority stake in start-ups and provide mentoring.

"It is not easy for a company that has only been around for a year to get a bank loan. In the case of a start-up, it will need venture capital funding. But conventional venture capitalists cannot fund Islamic start-ups. They just do not know how to because the agreements and contracts are different," says Baiza.

"It only gets harder after that because when you invest in a shariah-compliant company, you have to ensure that the business stays shariah-compliant. When it goes for subsequent rounds of funding, you have help them through those rounds to ensure that these are shariah-compliant. It is a continuous process until you exit.

"How do you manage the contracts with subsequent funders to make sure that they are *pari passu* with you? There should not be any discrimination between the different funders. I cannot tell an investee company that that it cannot ask for money from other funders because I cannot be the one funding them throughout.

"Instead, what I can do for these companies is tell them that I will assist them when they are negotiating with other funders and I will help them bridge the gap to make sure that we can keep the entire process shariah-compliant. We are happy to guide them."

That gave Baiza the impetus to look more closely at the Islamic finance landscape. He discovered that the government, through Malaysia Venture Capital Bhd, was supposed to set up the world's first Islamic venture capital fund in partnership with Jeddah-based Islamic Development Bank in 2016, but it did not take off.

However, the global Islamic economy had been growing steadily and its outlook remained buoyant. According to the Thomson Reuters' State of the Global Islamic Economy 2017/18 report, this sector was estimated to be worth US\$2.3 trillion and is expected to reach US\$3 trillion by 2021. Meanwhile, the value of the assets held in the Islamic banking and finance sector was estimated at US\$2.4 trillion in 2017 and is expected to hit US\$3.8 trillion by 2023.

Despite the positive outlook, Baiza noticed that the bulk of shariah-compliant businesses remained strongly rooted in the traditional bricks-and-mortar setting. So, he pitched the idea of setting up a shariah-compliant venture capital firm to long-time friends Tan Swee Yeong and Rina Neoh and industry contemporary Abdullah Hidayat Mohamad.

Tan and Neoh, who are established angel investors in their own right, are responsible for spotting investee companies and channelling investments. Hidayat, whose strength lies in strategising, is in charge of business development at Ficus.

Baiza's zeal for the project also caught the attention of his former boss, Nor Azamin Salleh, previously CEO of Maybank Asset Management Group Bhd. Today, he is chairman and co-founder of Ficus. The fund management industry veteran has held key positions in asset management companies such as Asian Islamic Investment Management Sdn Bhd and Commerce Asset Fund Managers Sdn Bhd.

"We decided to call the company Ficus because of the significance of the fig tree across many cultures. It is also unique in the sense of how we envisioned the company. We see our start-ups as saplings — if you give them the right amount of light and nutrients, they will grow. Also, some of the successful venture capital firms are named after trees," says Baiza.

Ficus is Latin for fig tree. It is also the genus of nearly 1,000 species of woody trees and several greenhouse and house plants.

THE PUSH TOWARDS DIGITALISATION

Recognising that the market for digital Islamic services is growing, which is reinforced by the dominant demographic of the Muslim community — youths who are technology-savvy, Baiza says it is only a matter of time before the bricks-and-mortar businesses are forced to move into the digital space.

"By recent estimates, there are 1.8 billion Muslims globally and 62% of them are residing in Asia. But many of the businesses in the halal space have little digital exposure," he points out.

"That is why our focus is on the Islamic digital economy (IDE) — a vastly underrated space despite its immense potential. Even if just 10% of the businesses get into the digital space, we are looking at opportunities worth billions of dollars. This is huge, but no one is addressing it."

The global Islamic economy not only comprises Islamic finance but also halal food, travel, media, recreation, pharmaceuticals and cosmetics as well as modest fashion. With Muslims representing more than 22% of the world's population and expanding at a much faster pace than other religions, there will continue to be a growing addressable market for digital Islamic services, says Deloitte Touche Tohmatsu Ltd in its report, *The Digital Islamic Services Landscape: Uncovering the Digital Islamic Services Opportunity for the Middle East and the World.*

The Thomson Reuters report points out that there is significant scope for growth and maturity in the Islamic economy as only US\$745 million in private equity investments were channelled to this segment over the past three years — a far cry from the US\$595 billion in conventional private equity and venture capital investments across the globe in 2017.

"Say, you run a bricks-and-mortar travel agency that organises umrah and haj pilgrimage tours. But if your competition can do it far more efficiently and much cheaper digitally, you will eventually have to move in the same direction if you want to keep running your business," says Baiza.

The shift is expected to take place over the next 5 to 10 years. When these companies are ready to transition, they will need funds, he adds.

Seeing that many of these companies are still in their infancy when it comes to going digital, Ficus' first fund is dedicated to setting up an IDE accelerator called Fintech Lab. The company is collaborating with the Malaysia Digital Economy Corporation and the Department of Islamic Development Malaysia (Jakim) via this platform, with which it hopes to help at least 60 new and existing IDE start-ups.

Its main areas of focus are financial technology (fintech), blockchain, logistics and agriculture technology (agritech). "We felt that it would be useful for us to create our own pipeline rather than wait for start-ups to graduate from other accelerators. We wanted companies that we could shape from the very beginning. Eventually, the Fintech Lab will act as a feeder to Ficus," says Baiza, the co-founder responsible for strategic partnerships.

"The accelerator was set up to run as an IDE accelerator. Technically, from a business standpoint, 98% of the start-ups out there are actually shariah-compliant while the remaining 2% are in businesses such as gaming or selling wine online, for example.

"If these companies are built in-house, we will not have to redo our due diligence because they have already gone through the process. But if we start with external companies, most of the time, we will have to do financial reengineering for us to invest."

One of the companies that Ficus has already identified is a start-up that sells modest fashion. Despite being around for only a few years, the company made several million ringgit in sales in 2017, says Baiza.

"This company is already part of the IDE, but we want it in the accelerator because even though the founders are doing what they love, they are not well equipped to scale their business so that it can become a regional champion. Right now, they lack the know-how and capital to go beyond Malaysia," he adds.

Ficus is looking into an Indonesian fintech business, which is revolutionising lending to agricultural projects in the country. "The peer-to-peer lending platform supports agricultural projects. We are in talks to see how its business can work in Malaysia," says Baiza.

"For example, we have bodies such FELDA (Federal Land Development Authority) and Felcra Bhd, which are finding it hard to raise funds but still have to manage their daily cost of business. FELDA is a landowner while Felcra plays the roles of farmer and funder. But they lack funding. This is where we believe the start-up can play a role.

"The two organisations have suffered a setback and it may take them three to five years to make a comeback. But if we have a peer-to-peer vehicle in which people can invest, they can probably resolve their funding issues sooner because they will have a yielding agricultural asset."

The Indonesian start-up has dabbled in agritech as it assisted farmers in the provinces of Java to discover that while the soil is fertile, the land is a tad too dry to grow commercial crops and to find ways to increase groundwater in the affected plots.

"It planted bamboo plants so that they could balance out the groundwater. It found that bamboo helps increase groundwater levels by 50mm a year. And the plants can be harvested and used to build houses and whatnot. This is one of the start-ups we intend to bring over because it is expanding and Malaysia has a more developed agricultural sector," says Baiza.

Apart from breathing new life into the plantation sector, the start-up could help FELDA and Felcra restore their credibility as peer-to-peer lending platforms have been successful around the world for their transparent fee structure and accountability, he adds.

THE ASEAN GOLDMINE

As far as trends go, countries in Southeast Asia tend to breed specific but different types of companies, says Baiza. "Vietnam, for example, is famous for gaming, but it is also strong in blockchain. In Indonesia and the Philippines, the start-ups are all about managing scale. In other words, they are in the business of managing giants — where you have a huge number of customers. Any company that can solve issues to do with millions of customers and do it quickly will succeed. Singapore tends to produce start-ups focused on fintech, biotech and logistics because these are its strong suits," he adds.

"I do not see a clear pattern in Malaysia yet, but we do have a good number of fintech start-ups because the regulators have encouraged sandboxes. It could be because a lot of start-ups are founded on a problem statement — maybe we just do not have many problems here," he jokes.

In addition to setting up the Fintech Lab, the Ficus team is working to get investors for its RM200 million Asean fund, which they hope to close by March. Baiza says the fund will invest in companies at the seed to pre-IPO stages.

"I fought for seed allocation because if we do not do seed funding, we will not have enough companies when we proceed to do another fund later. If we do seed funding, we can transfer some of the companies while they are developing the second fund to continue building them up," he adds.

"However, the bulk of our fund (60%) will focus on Series A and Pre-Series A funding. We have an allocation of 10% for seed capital and the rest is dedicated to companies in the Series B, C and pre-IPO stages."

Most of the companies that Ficus is looking to invest in have come through referrals and the networks of the five partners. "The good ones, I feel, are companies that were referred to us. People felt so compelled by what these companies are doing that they went out of their way to introduce them to us or bring them to our attention," says Baiza.

While the partners look at the relevant data and assess a start-up thoroughly, including its founders' ability to work through problems with each other, the decision whether to invest is sometimes based on intuition, he adds. "A very well-known angel investor once told me that being a venture capitalist is about knowing people. Rather than invest in an expensive computer to crunch numbers, he told me to invest a lot in buying people coffee and interacting with them.

"It is only through these conversations that you will come across people who will do their best to succeed because they have borrowed their parents' retirement money or their wife's savings. This kind of people will work hard. This may seem like an insignificant detail, but it makes a difference."

SUCCESS BREEDS SUCCESS

Malaysia has been at the forefront of the global Islamic finance landscape and is in a great position to lead this segment as it has the "perfect blend" of infrastructure, legislation and sizeable market, says Baiza. "Indonesia has the market, but it does not necessarily have the infrastructure and legislation. Singapore has better infrastructure and legislation than we do, but it does not have the market. Malaysia has the best of both worlds," he points out.

"For anyone wanting to establish a start-up, this country has the best environment for you to test, nurture and build your proof-of-concept. That is why we are based in Malaysia."

Baiza says Singapore draws the most investments and continues to have the best start-up ecosystem in the region as it requires start-ups to be domiciled in the city state if they were to obtain funding there. "All of us on the team agree that it was very painful to lose a company like GrabTaxi Holdings Pte Ltd to Singapore, but the founder needed funds for expansion

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From PE to venture capital

Baiza Bain graduated from Monash University with a degree in accounting and economics in 1999, just as the region was reeling from the shock of the Asian financial crisis. He could not secure a job at any of the renowned accounting firms as the economic slowdown had triggered more than 10,000 job cuts across the industries.

But as one door closes, another door opens. The dotcom boom — the period between 1995 and 2000, when investors started pouring money into internet-related companies — saw him land an advisory and content development role at the company that ran the world's first Islamic finance portal, IslamiQ.com Asia Ltd.

Being part of a small outfit, Baiza learnt a great deal from helping to develop shariah-compliant stock-screening mechanisms and software that users could implement to identify halal stocks in major bourses such as the New York Stock Exchange, Nasdaq and the London Stock Exchange.

Then, he moved on to Washington-based Guidance Financial Group LLC, where he was involved in the development of a shariah mortgage programme in the US and the placement of shariah funds (fixed income, real estate and private equity), with potential investors in the Middle East and Europe. While working for Guidance, he was seconded to a former client, Navis Capital Partners, a private equity firm with a focus on Asia. Here, he structured investments for the company's US$100 million shariah private equity fund.

Baiza subsequently moved on to spearhead Amanie Advisors Sdn Bhd's shariah consultancy services. In the 10 years with Amanie, he developed a number of Islamic funds, capital market products and banking products. He was also instrumental in establishing and managing the Amanie international shariah board as well the development of a web-based shariah stock-screening service product, which helps asset management clients screen shariah investments.

"After 10 years, I felt the need for another challenge and that was when Maybank Asset Management came calling. I was hired as vice-president of group asset management and regional head of business development. A year later, I was head of private equity," he says.

But Baiza began to miss the entrepreneurial culture he was a part of in the early days. "I met a fintech start-up founder who wanted to hire me as its country head. There I was with my suit and briefcase, but the person interviewing me was in shorts and T-shirt, and the interview was beside a pool. It was then it dawned on me that I used to be like that, not as extravagant, but still entrepreneurial," he says.

He left Maybank in March last year and started working on the launch of Ficus Venture Capital Sdn Bhd. "I knew what I was going to do, but I needed to sit down and think about it. One really good thing about being in banking and advisory is that you make a lot of friends," says Baiza.

"I did not want to be a copycat. I started having a lot of coffee with a lot of people to understand what was involved, what the landscape was like and what was lacking in the market. I spoke to a few close friends and unknowingly started recruiting."

Equity raising by REITs in 2018

REIT	NATURE OF FUND RAISING	NO OF UNITS ISSUED (MIL)	PRICE PER UNIT ($)	AMOUNT RAISED ($ MIL)	AMOUNT RAISED ($ EQUIVALENT)
Ascendas REIT	Placement (Sept)	178.00	2.540	452.12	
Ascendas India Trust	Placement (Feb)	97.37	1.027	100.00	
Cache Logistics Trust	Perpetual securities (Jan)	400 securities	250,000	100.00	
CapitaLand Commercial Trust	Placement (May)	130.00	1.630	212.00	
CapitaLand Mall Trust	Placement (Nov)	134.00	2.070	277.60	
Cromwell European REIT (€)	Rights issue (Nov)	606.00	€0.370	224.10	349.6#
ESR-REIT	Preferential equity fundraising (March)	262.85	0.540	141.94	
Frasers Commercial Trust	Placement (Jan)	67.58	1.480	100.02	
Frasers Logistics and Industrial Trust	Preferential equity fundraising (June)	152.00	0.967	147.13	
	Placement (June)	333.00	0.987	328.87	
Keppel DC REIT	Placement (May)	224.00	1.353	303.07	
Keppel KBS US REIT (US$)	Rights issue announced (Nov)	186.20	0.500	93.10	127.54*
Mapletree North Asia Commercial Trust	Placement (May)	312.00	1.060	330.30	
Mapletree Logistics Trust	Placement (June)	184.00	1.197	220.00	
	Placement (Sept)	309.92	1.210	375.00	
Manulife US REIT (US$)	Preferential equity fundraising (US$, April)	228.00	0.865	197.16	270.10*
OUE Commercial REIT	83-for-100 rights issue (Sept)	1,288.43	0.456	587.52	
Soilbuild Business Space REIT	Perpetual securities (Sept)	260 securities	250,000	65.00	

#€1 = S$1.50 *US$1 = S$1.37

COMPANY REPORTS

"KORE's share price has corrected over the last few months, owing to the disappointment over having a rights issue so soon after its listing, potential for another US office REITs listing and concerns over a negative ruling on its tax structure," says DBS in report dated Dec 7. "However, we believe the majority of these concerns have also been priced in, given that KORE now trades at a 10% to 11% forward yield (or, in the worst-case, 7%, assuming the current tax structure is ruled invalid) and a discount of about 25% to book value during a period when rents are still on an upswing."

In November, Cromwell European REIT raised €224.1 million (RM1.06 billion) via a 38-for-100 rights issue. It issued 600.83 million units at €0.373 each to acquire a portfolio of 23 properties across five countries in Europe. Sixteen are in the Netherlands, Finland and Poland; two in Italy; and five in France. The properties are a mix of office and warehouse.

CEREIT's rights price is at a 25% discount to its TERP of €0.498 a unit. CEREIT is tightly held, and its sponsor Australia Securities Exchange-listed Cromwell Property Group and its related corporations subscribed to their 35.31% share, as did major unitholders Gordon and Celine Tang, who own 13.9%, and Hillsboro Capital, with 11.6%.

Mapletree Logistics Trust acquired S$1.56 billion worth of properties this year, and raised S$595 million. DBS Group Research says the market is not according MLT the right valuation. "Our price target of S$1.50 is above consensus average of S$1.35. We believe the street has not accounted for the improved fundamentals post-acquisitions, and the potential to surprise on the upside organically and through more acquisitions." DBS expects MLT's DPU to grow 2% to 3% next year, driven mainly from acquisitions. It also expects S$300 million worth of acquisitions by FY2020, half to be funded by equity. MLT's units have lost 5% this year, which is a modest figure. MLT's units grew by 494 million units excluding fees, and its number of units in issue stands at 2.49 billion.

REITS REMAIN STEADY; ANALYSTS REITERATE 'BUY'

While the Straits Times Index had lost 9.3% this year and the FTSE REIT Index was down 8.26% as at Dec 12 (according to Bloomberg), REITs with blue-ribbon sponsors such as CapitaLand, Mapletree Investments, Ascendas-Singbridge, Frasers Property and City Developments had stayed steady. One of the strongest REITs this year is CapitaLand Mall Trust, which is up around 6% this year excluding DPU which yields around 5.5%. In November, CMT raised S$277 million in a placement to partly fund its acquisition of a 70% stake in Westgate.

Most analysts are "neutral" on CMT, but DBS recently took a mildly contrarian view and issued a "buy" call. "Anchored by resilient yields, CMT has been a safe harbour for investors, but is also starting to emerge as a growth play. As the retail sector bottoms out, CMT is set to outperform as full contributions from Westgate and the return of Funan take DPU back on a multi-year growth path. CMT's share price should re-rate as earnings growth returns to an upward trajectory of 3% to 4% a year (versus S-REIT's average of 1% to 2%)," the DBS report says.

In a report dated Dec 10, RHB Securities reiterated its positive prognosis for S-REITs. "We recently met with fund managers in Bangkok as we marketed S-REITs. Investor sentiment was generally positive, with most positioning on a neutral to slightly overweight stance on the sector moving into 2019. The recent dovish statements by the US Federal Reserve also seem to have given added confidence that interest rates are unlikely to spike sharply, consequently benefiting REITs," says the report. E

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Landscape needs to be invigorated

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and no one here could offer it to him. Malaysia has lost many such companies because of a lack of funding," he adds.

"But we can do the same. We can bring the best of Asean to Malaysia. With the influx of foreign start-ups, there will be more competition and things will get better all around because for a local start-up, when you know there are regional players coming in, it will work harder."

The growing number of flexible co-working spaces in the Klang Valley is also encouraging more start-ups to relocate, says Baiza. "Now, it is much cheaper to set up a company. Previously, you had to get your own office space and all that. But now, we have quite a number of common working spaces. If I tell one of my foreign investee companies to set up shop in Malaysia for three months, it will not be a big issue."

However, there needs to be a lot more improvement in the government ecosystem to draw more investments to the country, especially to start-ups, he adds.

A number of foreign venture capital firms have set up shop in Malaysia since the government announcement that it would allocate RM2 billion in matching grants for private equity and venture capital players to invest in strategic sectors. While such announcements are encouraging, Baiza points out that the grant money is not easily disbursed.

"The parties that are brought to the table to contribute money are actually statutory bodies such as Kumpulan Wang Persaraan (KWAP) and the Employees Provident Fund and Permodalan Nasional Bhd. We have had conversations with the whole lot of them and found out that they do not have the mandate to invest in venture capital companies, which makes the announcement slightly misleading," he says.

"They are institutional funders and statutory bodies, which means they cannot change their mandates overnight. Only KWAP has a clear mandate to invest in venture capital start-ups. Even then, the start-ups have to be high-performing ones with an established track record. I feel this will not have a big enough impact on Malaysia's venture capital landscape, what more the shariah-compliant venture capital scene, in which Ficus is currently the only player."

One way to invigorate the landscape would be to give tax breaks to big companies to invest in venture capital, Baiza suggests. Using Silicon Valley as an example, he points out that the only reason start-ups continue to flood the scene is that the people who made their money at the height of the semiconductor boom in the late 1980s and 1990s gave back by investing in new companies.

"It is the culture of success that breeds success. In Malaysia, we never really had such a phenomenon, where one successful generation has a lot more cash and wants to help others," he says.

"Most of the successful Malaysian start-ups have founders who come from somewhat influential or rich backgrounds. But there are many more entrepreneurs out there with bright ideas [who are not funded because] there aren't enough funds to go around to support them.

"Tax breaks are the best way to encourage the growth of the ecosystem because it is free money. From a corporate standpoint, I can either pay tax or use that money to invest in venture capital companies so that I can get a tax break and possibly even make a profit from it later." E