



Insights

Playing our part in the innovation ecosystem

Penning our thoughts after a few months of interesting announcements made by the Malaysian Government related to funding and priorities for innovation.

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June 2024

To start, we are revisiting how a forward-looking asset allocation decision was made almost 15 years ago by decision-makers at the Ministry of Finance (MOF) of the Government of Malaysia.

Government-backed venture capital had existed in Malaysia when MTDC was established in 1992. Other government agencies too were at the forefront of early-stage investing, backed by public sector allocations keen on building up Malaysia's position as a tech-savvy high-income country. There had been a successful track record of those entities with several direct and indirectly-held portfolio companies being publicly listed locally as well as in US and Europe.

Innovation funding environment can be tricky and requires an adept hand at balancing the numerous variables to produce the needed impact. Structuring for risk capital will inevitably affect risk-taking and risk-sharing behaviors, and when public sector allocations are optimally structured, the right outcomes could attract other capital providers from the private sector, thereby increasing the capital pool to fund innovation

Mudharabah Innovation Fund

Whilst Xeraya has been around in the VC space in Malaysia for the past 14 years, many may be unaware that we manage a fund – Mudharabah Innovation Fund – with allocations from the MOF as part of RMK10. The fund, as per its name, makes Shariah compliant investments, within the sector of Xeraya's expertise (life sciences). In addition, the Fund's mandate includes a nation-building agenda (we call this Malaysia-centricity).

For this, we employ our playbook of "source value globally, bring value locally". The MIF investment portfolio includes assets that had been acquired, and listed on NASDAQ, all while achieving a certain level of national capacity building across different parts of the value chain – R&D, manufacturing, and/or clinical trials. This extends across many sectors too – both agriculture and healthcare.

The MIF over the years has been institutionalized with an overall infrastructure that embodies the oft-cited axiom of financial and strategic returns, but within a specific sector. The fund is governed by prominent public and private sector members on the independent MIFIL Board with sector expertise in the realm of public finance, investment and venture capital, that will provide guidance on the fund management, ensuring that Xeraya remains focused on delivering the Fund's stated objectives.

The MIF has also built a strong foundation for a Shariah-compliant VC fund with strong process, policies and governance. The timeline also aligns with the overall growth in Islamic finance, specifically in Malaysia – in part driven by active participation of an active Shariah Advisory Panel that was setup in 2014 and currently includes the sitting Chairman and Deputy Chairman of the Securities Commission of Malaysia’s Shariah Advisory Committee for the 2023-2025 session.

With Government rolling out important policy guidelines in recent weeks which will serve to positively re-position Malaysia as an innovation hub through “KL20”, “Malaysian Venture Capital Roadmap 2024-2030”, “5 Year Roadmap to Catalyse MSME and MTC” and National Biotech Policy 2.0 outlining specific policy goals relating to utilizing biotechnology in agriculture, healthcare, industrial manufacturing sectors by 2030, the lessons and insights would serve as good guiding beacons to ensure the right mix of ambition and execution.

We cannot afford to lose momentum.

Collaboration will be key in execution - and with the expanding funding pool and master plans announced, we want to maximize impact whilst diluting risk. But entering together with a view for a long-term outcome. Life sciences sector is known for its long incubation, but has significant value creation over time in terms of impact (mostly on things that we care about – healthcare, aging, climate change) and economic value (strong spillover effects into other sectors like real estate, education, infrastructure).

We continue to believe this is a great time for the nation, looking at the breadth of thought put behind the policy guidelines. It's going to be about resilience and perseverance from now on to bring it to the end-goal of sustainable and competitive economic growth.