

# Capturing rising opportunities in sustainable investing

*The Edge (07 December 2021)*

By **Ismitz Matthew De Alwis**

At Kenanga Investors Group (Kenanga Investors), we aspire to “localise” the world’s gold standards in environmental, social and governance (ESG) investing to suit the economy and investor profile of Southeast Asia and Malaysia. We believe that, by managing ESG risks and opportunities, ESG integration will boost long-term results. It is our responsibility, on behalf of asset owners, to generate a positive ESG impact through

their investments. It is also our fiduciary duty, as a signatory of the Malaysian Code of Institutional Investors, to engage in and promote ESG practices to all of our stakeholders. In addition to the collective benefits that we expect to derive from adopting ESG principles, we are at risk of losing competitiveness if we do not make significant strides in this direction.

As a firm, we intend to integrate ESG considerations into three major aspects; i) firm-wide, ii) product and iii) stock level. This perspective will allow us to develop overall targets and values, focus on ESG-led portfolio and product structuring, and ESG screenings throughout our investment processes while maintaining an active stewardship stance through engagements with stakeholders and exacting our voting rights with investee companies.

We also believe that Islamic finance can be an enabler in achieving sustainable development. We see a promising source of growth in Islamic social finance. This includes instruments like qard hassan, waqf and zakat. In particular, we see waqf, an Islamic endowment instrument, as an attractive asset class that integrates commercial obligations with sustainability and social objectives.

We were recently appointed fund manager for Dana Wakaf Bencana, an emergency relief fund established to channel resources to those affected by climate change-related disasters as well as future pandemics. A collaboration between government-



**Ismitz Matthew De Alwis**, Executive Director & Chief Executive Officer

linked agencies and the private sector, the initiative is in line with the Securities Commission Malaysia's Islamic Fund and Wealth Management Blueprint released in 2017 and the Waqf Featured-Fund Framework introduced on Nov 12, 2020, which aim to facilitate the growth of the Islamic social finance segment. In April this year, we oversaw the launch of Kenanga Waqf Al-Ihsan Fund, where half of the derived income will be distributed to sectors such as education, healthcare, economic empowerment and environmental preservation or development. Both funds are rooted in elements of waqf, which encourages Muslims to channel revenue and various goods and services to groups or communities in need. This bears credence to the idea that it is possible to do well while doing good. We foresee that these initiatives will generate a considerable amount of awareness and interest, owing to its altruistic nature, especially in today's social climate, which will lead to society empowerment and poverty alleviation.

As part of our overall sustainability roadmap, we have further established a strategic partnership with Northern Trust Asset Management, a leading global investment manager known for innovative solutions across the spectrum of ESG investments while delivering competitive risk-adjusted returns. Our collaboration is set to enable the development of more ESG-driven products by encouraging product innovation through the introduction of new types of ESG funds. This will create more entry points for retail investors, as opposed to difficult-to-access products currently in the market.

Northern Trust Asset Management brings to the partnership a global network of investment professionals with over three decades of managing socially responsible portfolios through a multi-dimensional approach of integrating sustainable investing objectives, investment acumen and stewardship for long-term value creation.

### **Why invest in ESG assets?**

The demand for ESG investment solutions is undoubtedly increasing in Asia, especially with the governments' intention to promote sustainable investing.

The Monetary Authority of Singapore has set up a US\$2 billion investment programme to promote portfolios with a healthy green focus, while the Financial Services Commission in South Korea has announced a series of initiatives to promote ESG and responsible investing early this year. Many other regulators in the region have actively promoted their stewardship code related to ESG matters. Sustainability measures announced in Malaysia's Budget 2022 by the Finance Minister included the need to transition towards low carbon practices, environment and diversity, and community empowerment. This includes the impact of climate change on financial stability and the economy, as well as addressing social-related issues like poverty. This shows that policymakers are aligning their support towards sustainable investing with incentives, further fuelling growth in socially responsible assets.

In Asia-Pacific alone, institutional ESG assets under management have grown more than 30% a year in the last five years on average, according to data from Broadridge. This rapid growth can be attributed to strong inflows in 2020, and there is no sign of slowing down.

It is expected that ESG investing in Asia will continue its growth momentum over the next five years, and investors in Asia are responding by adopting sustainable investing in different ways. Some institutional investors such as sovereign wealth funds and public pensions in the region started their journey through the exclusion of business operations, which may be considered controversial in its investment guidelines.

Others who are more advanced in their sustainable investing journey are starting to set more quantifiable ESG targets in their portfolios, such as a reduction in carbon exposure or integrating ESG in a multi-dimensional way.

### **What are the opportunities in sustainable investing?**

Many surveys have indicated that millennials will be the driving factor for sustainable investments in the years to come, with more than half in that age group surveyed globally having social good, climate change and other sustainability factors in mind when making their investment decisions.

Traditional thinking on the necessity of giving up growth for ethical or responsible investing is also being reconsidered. Many studies have highlighted that the investors of tomorrow will insist on positive impact as well as positive returns, so ESG methodology is now part of the mainstream and is here to stay.

Within the theme of building long-term resilient portfolios, climate change is an interesting challenge, as it poses a significant number of risks while presenting compelling opportunities. In navigating the transition to a low carbon economy, there are investment opportunities in companies that have business lines focused on adaptive technologies and are switching to renewable energy, or the development of alternative energy sources, including water filtration systems.

Another potential investment opportunity lies in emerging markets. While these economies have been somewhat behind developed markets in terms of climate risk controls, ESG frameworks and the acceptance of ESG investing, things are changing.

Investors are fuelling the green transition, driving real corporate action more quickly and forcefully than politicians ever could. It is anticipated that climate risk will soon transition into market risk, most likely resulting in the considerable repricing of securities. Investors preparing for the storm are incorporating climate risk into their portfolio construction process and stewardship activities to assess which companies are better positioned to transition to a low carbon economy. Using environmental criteria in the evaluation process is one way investors can help mitigate long-term climate risk.

Kenanga Investors sees the importance of a whole nation approach in terms of developing short- to long-term key policies for sustainable development locally. The challenge we all face is, clearly, short-term thinking. Sustainable development promises better and more resilient economies and businesses, inclusive growth and equitable societies — but in the future, after a period of adjustment and, potentially, some pain. We owe it to ourselves, and future generations, to ensure sustainable and beneficial outcomes for all.

More info: [www.kenangainvestors.com.my](http://www.kenangainvestors.com.my)

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Source:

The Edge CEO Morning Brief (07 Dec 2021)

TUESDAY DECEMBER 7, 2021 13 THEEDGE CEO MORNING BRIEF

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## CAPTURING RISING OPPORTUNITIES IN SUSTAINABLE INVESTING

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ment. Both funds are rooted in elements of *waqf*, which encourages Muslims to channel income and surplus goods and services to groups or communities in need. This has led to the idea that it is possible to do well while doing good. We foresee that these initiatives will generate a considerable amount of awareness and interest, owing to its altruistic nature, especially in today’s social climate, which will lead to society empowerment and poverty alleviation.

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**Millennials will be the driving factor for sustainable investments in the years to come.**

— Ismitz Matthew De Alwis, executive director/CEO

This advertisement has not been reviewed by the Securities Commission.

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