Kenanga Investors

Date: 17 May 2021

Putting Sustainability at the Forefront of Investing

Smart Investor (May/June 2021 issue)

By Caleb Khew

The shift in focus towards socially responsible investing is a key tenet for the future for Kenanga Investors Berhad.

The idea of environmental, social and governance (ESG) factors influencing the larger world of investing and finance may be farfetched to the average person, but in fact, this relatively recent philosophy is fast gaining momentum.

Despite its non-financial roots, ESG has become an increasingly important aspect for investors to consider when constructing their portfolios, and it is no surprise that investment houses like Kenanga Investors Berhad (KIB) are also getting on the train to cater for clients with such concerns.

KIB has been a signatory to the Malaysian Code for Institutional Investors ("Code") since 2017, which aims to set out the broad principles of effective stewardship by institutional investors such as their disclosure of stewardship policies, monitoring of and engagement with investee companies, and managing conflict of interest. It also recently secured membership at the Institutional Investors Council (IIC), in a bid to demonstrate their commitment to the ESG cause.

"Growing demand from environmentally and socially conscious consumers and clients around the world has spurred companies to be more accountable for their working practices and the impacts of their activities on society and the environment. As a result, companies are placing greater focus on ESG factors and indicators and improving transparency and reporting to demonstrate their commitment," says Ismitz Matthew De Alwis, executive director and CEO of KIB.

He adds that the scope of ESG investment can vary greatly depending on the industry, with multiple aspects to consider such as cost reduction, supply chain management and technology development, while stakeholders like consumers, communities and regulators must also be taken into consideration.

"At present, there is no standardised set of metrics for firms to follow. If one company passes a set of indicators in the US, they may not pass indicators from neighboring Asian countries, so investors must ultimately determine which causes are most important to them," he explains, adding that this challenge also offers a chance for firms to be creative and flexible when implementing ESG initiatives and incorporating them into core business strategies.

"We firmly believe that in addition to financial considerations, the integration of ESG factors in the investment process is essential to make better informed and holistic investment decisions to ensure long-term sustainable value to stakeholders," says De Alwis.

As for KIB, the main priority lies in managing the various risks and opportunities presented by ESG factors when investing on behalf of their clients, with thresholds set that automatically reject sensitive sectors such as weaponry, defense, and breaches of the United Nations Global Compact principles. Funds that comply with various ESG guidelines have also been established to allow clients to invest with peace of mind.

“We will be holistically applying our ESG values to our responsible investing and ESG integrated open-ended funds, when it does not hinder our fiduciary responsibilities,” remarks De Alwis, adding that KIB is also in the midst of working towards the standard set by the Principles for Responsible Investment (PRI), a network of investors supported by the UN that promotes sustainable investment.

There has also been a shift in appetite for investors towards long-term investments due to the volatility and higher risk associated with short-term investment. When deciding where to invest for a significant period of time, investors will benefit by having more information about companies and sectors, and ESG factors can comprise a significant portion of this information.

There are also plans afoot to release a multi-functional digital platform to cater to the growing needs of clients and their investment team. The platform will be accessible from multiple devices and host its products and services like financial advisory, unit trust, Private Retirement Scheme (PRS) and Actively Managed Portfolios (AMP).

In addition, KIB aims to dedicate a considerable amount of focus towards Islamic investing as part of its overall integration of ESG values in its investment strategy. To that end, it recently launched its first waqf fund, Kenanga Waqf Al-Ihsan Fund, with Yayasan Waqaf Malaysia (YWM) as waqf recipient and administrator, and a portion of the derived income will be channeled to community projects like affordable healthcare, free education, and improving overall living standards.

“For a fund house to stay consistent, it needs to incorporate ESG values into its investment strategy, to achieve impact investing that will generate social and environmental value, as well as financial gains,” says De Alwis. “Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.”

In this retirement focused issue of *Smart Investor*, Ismitz Matthew De Alwis, executive director/ chief executive officer of Kenanga Investors Berhad provides his advice on the need for retirement planning.

Ismitz Matthew De Alwis, Executive Director & Chief Executive Officer

Smart Investor: Retiring is a big goal for many people. How crucial is the role of financial planning when it comes to investing for retirement?

De Alwis: Many assume that financial planning is only useful for retirement, or that they are at a stage where they think it is too late to even start. This assumption is incorrect, as financial planning literally just spells out planning your financials, without limiting the planning only for the future.

Financial planners analyse all parts of their client’s finances which include savings, taxes, retirement, and inheritance. If their clients have incurred any debt, the steps to resolve any liabilities. The principle goal being the financial independence of their clients in the long term. Saving their hard-earned income in their piggy banks is not sufficient due to inflation reducing their purchasing power over time.

Having been approved by the Securities Commission Malaysia to offer financial planning services back in 2018, we believe an all-encompassing financial management process is able to serve the needs of an investor on a greater level. Our platform operates on an “open architecture model,” providing the full-fledged financial planning and portfolio management services to our investors via our team of relationship managers. Services include education planning, investment planning, insurance planning, estate planning, retirement planning, succession planning and tax planning.

Smart Investor: What type of portfolio/products would you recommend for new investors looking to invest for their retirement?

De Alwis: Once a client comes on-board, a relationship manager would work through a process with the client to determine their risk tolerance levels, to set a clear goal and a pathway to attain that goal. Financial reports would be generated on the client’s financial status, risk profile, asset allocation, goals, current investment portfolio, investment strategy and recommendations.

No two clients are the same, even if they are similar in terms of risk profiling. With that being said, there are generally three types of classifications we can advise clients of depending on their risk tolerance level; conservative, moderate and aggressive.

Investors who are at or past retirement ages are generally advised to adopt a more conservative approach, which will have least volatility to protect their hard-earned savings. This will be low-risk fixed-income/money market securities and debt securities.

Those classified as aggressive are able to take on more volatile instruments to maximise returns by taking a relatively higher degree of risk. Generally, investors in this group tend to be more experienced or are younger (as they have more time to recover any losses that may occur throughout their investment journey). Moderate investors are advised to adopt a more balanced approach targeting less volatile instruments (bounds and fixed income) and equities at the same time. Such investors’ portfolio will consist of a 50/50 structure, to reap opportunities while protecting against sudden downturns.

Whichever your tolerance level, it is always best to speak to a licensed professional to assess your specific investment objectives, financial situation and particular needs.

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Source:

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