Kenanga Investors

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Forge Ahead

The Business Year – Finance (VIP Interview - Malaysia 2017)

TBY talks to Ismitz Matthew De Alwis, Executive Director/CEO of Kenanga Investors, on the ASEAN market, the success of Islamic finance in Malaysia, and retirement funds.

BIOGRAPHY

Ismitz Matthew De Alwis is the CEO for Kenanga Investors Berhad, the asset management arm of Kenanga Investment Bank Berhad. He has 24 years of experience, starting his career as an investment analyst with a regional research and advisory firm, where he obtained vast regional exposure in Hong Kong, the Philippines, Dubai, and Singapore. He joined Kenanga Investors in 2013 upon the latter acquisition of ING Investment Management's Malaysia outfit. He has attended the Advanced Business Management Program at the International Institute for Management Development (IMD) in Lausanne and also holds an MBA. In addition, he has a bachelor's degree in business administration and two other professional qualifications from the Chartered Institute of Marketing UK and he is a certified financial planner (CFP). He is currently the President of Financial Planning Association of Malaysia (FPAM) and on the board of the Federation of Investment Managers Malaysia (FIMM). He was also appointed to the Industry Competency Framework (ICF) Advisory Panel for the Malaysian Capital Markets project undertaken by the Securities Industry Development Corporation (SIDC) of Malaysia.

How are financial services horizontally integrated within the Kenanga Group?

We are a financial group, our core businesses being equity broking, investment banking, listed derivatives, treasury, corporate advisory, Islamic banking, and asset and wealth management. Kenanga Investors Group is the asset management arm of Kenanga Investment Bank Berhad which consists of both conventional and Islamic entities. Kenanga is proud to be an award-winning Asset Management Company recognized for its investment performance and strong growth in recent years.

We are one of only eight licensed Private Retirement Scheme (PRS) providers in Malaysia. We serve multi-segment investors from retail, corporate, institutional, and high-net worth individuals via a multi-distribution network. Our commitment to our clients drives us to perform consistently well in our business. We were previously predominantly known as an institutional player, managing pension funds, Malaysian GLCs, and large corporate clients. In more recent times, we have diversified our strategies to include mass retail markets through multi-distribution channels.

Over the past few years, our company has recorded our consistent track records, solid investment strategies, and good risk governance for a more balanced value proposition for our clients. Moving ahead, we plan to further grow our clientele in the affluent to high-net worth segment of the market. In international standards, this includes individuals with assets ranging between USD100,000 and USD1 million. With the growing economy of Malaysia, there is also an increase in the segment of working and educated professionals with disposable income. We have initiated our private wealth arm to focus specifically on this segment market to provide financial advisory to meet their investment needs and accelerate their wealth accumulation.

How do you position Malaysia within the larger ASEAN region?

Our current strategy and strength is primarily for the Malaysian market. However, we do have a growing clientele across ASEAN, but our investment focus has been on Malaysia, therefore we build strategic alliances with our counterparts in other investment destinations. In today's volatile and highly specialized markets it is much more efficient to work in this manner than to set up offices abroad. This strategy has led to much better results for us. For example, Kazakhstan, a country that would normally look to London or Dubai as their financial hub could now consider Malaysia as we are geographically and culturally closer.

In practical terms, companies in the same time zone as their investors would have additional benefits; from Malaysia we are able to work with the Singaporean, Japanese, Chinese, and Hong Kong markets with ease. The global investment world is not yet entirely borderless; working with specialized boutique investment managers with on-the-ground knowledge reaps more benefits. We are a homegrown Malaysian investment firm with more than 40 years of experience, serving many international investors looking for a Malaysian strategy.

How did Kenanga become the investor of choice for Malaysian GLCs and institutional investors?

This is mainly due to concerted efforts across the group and to being focused through our strategy on delivering consistent performance and remaining true to our investment objectives and having a vibrant investment team. Also on the governance side, our investment risk management consists of a highly-skilled team that monitors all the parameters in the Malaysian standards whilst adopting international standards and best practices into our system. Investors prefer this long-term vision and sustainable performance as it fits their investment appetite.

For three-, five-, and 10-year mutual funds, we have consistently been recognized as the top equity manager in Malaysia. For the past two years we have been building our expertise and track record for regional equities such as Asia Pac, ASEAN, and fixed income (sukuk and conventional), which will continue to open new avenues and unlock funds among institutional and private investors in both the conventional and Muslim world.

Do you seek to integrate Islamic products into your core business?

Our Islamic products are now focused on equities and fixed income funds whilst we believe there will be further growth in this area. There is a global Islamic wealth pool of around USD11-12 trillion that could be unlocked in the years ahead. Currently, there are fundamental sukuk or equity products in the market but with more convergence and standardization of Shariah interpretation, streamlining, and structuring of the industry. We can expect to see more innovative Islamic products in the market.

The format is now more globally recognized, which gives confidence and also the opportunity to benchmark and index funds. With the current low interest rate environment and the relative volatility of the market, investors have been looking for more yield product. More and more strategies are coming from Europe and the US, with new sustainable products, reflected in the popularity of environmental, social, and corporate governance (ESG) amongst investors. Both ESG, or socially responsible investing (SRI), and Islamic finance have similarities as they are based on ethical values. The 2008 crisis also raised more awareness of the Islamic financing model, as it is based on real assets and leaves less room for speculation.

Why has Islamic finance gained so much traction in Malaysia?

Firstly, the Government's concerted and ongoing efforts to build a sustainable Islamic finance framework. Various complementing policies and incentives have been given to drive and promote and deepen the industry. All round efforts to create awareness about Islamic Banking and

Shariah-compliant products and understanding the differences between Conventional Banking & Islamic Banking. Better understanding of Islamic finance and investing has also been a contributing factor.

The requirements on capital adequacy for financial institutions in meeting Basel requirements may have resulted in more stringent loans approvals, but an Islamic structure generally requires debts to be backed by securities and/or solid assets. When taking an Islamic debt, companies may pledge actual assets; therefore, if the client defaults, it defaults on the asset—it is a matter of risk sharing.

Also, the system generally is based on profit sharing as there is no guarantee of interest. It reduces the upfront costs involved, which does not necessarily make it cheaper but reduces the overall costs based on the performance of the underlying assets. One needs to understand and study the asset-based Shariah products and learn how to market the products efficiently to customers. The wave of change, with the direction of funds flowing from the Middle East, is moving east rather than west, and has also created more interest in Islamic finance. The Middle East, as well as other Islamic countries is now increasingly looking at Islamic investment opportunities.

In Malaysia, there has been a commendable effort from the government over the years to build up the financial infrastructure and a value chain where all stakeholders are Shariah-compliant. Realistically, it takes time to build a new industry, and the announcement by the largest pension fund, the Employee Provident Fund (EPF), to start a 100% Islamic fund of MYR100 billion, will continue to spur the segment. It reflects continuing government interest in establishing Islamic finance. We will continue to support and build strong and independent leadership in managing Islamic banking and financial institutions.

Does Kenanga plan to consolidate its strong relations with the institutional investors to build the retirement industry?

We believe the retirement industry will spin off into other industries namely food and beverage, pharmaceuticals, healthcare, and hospitality—with IT advancing into all these sectors as well. As a country, we need to focus on developing our infrastructure for greater inclusivity and to educate

Malaysians to become more financially literate. For the continuous development of our retirement industry, all stakeholders from both the government and private sectors must be committed to drive sustainable retirement planning at all stages.

As an extra factor, Malaysia has great conditions for retirement: great weather, an amazing variety of food, well-organized healthcare, affordable costs of living, relative safety from natural disasters, and a rather central location in Asia Pacific. As most Malaysians speak English, we also have a great competitive advantage over others in the region. Retirement investment solutions are key drivers for our business.

Our approach has been a "no-one-size-fits-all" model resulting in understanding differing investment objectives that require tailored solutions where we carefully consider clients' risk appetites, risk tolerance, and investment schedules. This also requires us to have stringent risk management models with a three-line defense built into our process involving fund managers, compliance, and risk management. Together with our investment strategy to become a consistent performer and drive sustainability, moving into the retirement industry fits our strategy well for the years ahead. True to our mantra, we will use agility, collaboration, and trustworthiness to bring Malaysia to your doorstep.

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