

Syariah Investing in the M'sian Landscape

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By Datuk Wira Ismitz Matthew De Alwis

SYARIAH investing refers to investment activities that adhere to the principles of Islamic law, known as syariah. It is designed to offer Muslim investors financial opportunities that are aligned with their ethical values and religious beliefs.

Syariah principles extend to various aspects of life, including financial matters.

One of the key principles in syariah investing is the prohibition of *riba* (interest). According to syariah law, money is seen as a medium of exchange with no intrinsic value and using it to obtain more money is unethical. Due to this, interest is prohibited as it benefits one party at the expense of another.

Another key principle is *gharar* – defined as uncertainty or speculation. Transactions with excessive uncertainty or lack of information that might lead to unfavourable outcomes are discouraged. For example, future contracts, where the existence of assets at the delivery date is uncertain.

Syariah investing also prohibits *maysir* and *qimar*, referring to gambling and unethical activities, including the trade of alcoholic beverages and firearms.

In syariah investment, there must always be an exchange of tangible and identifiable underlying assets that offer clear benefit and value, while transactions involving harmful assets are forbidden.

Syariah investing covers various asset classes, such as asset leasing, real estate, commodities trading (trade finance) and *sukuk* (Islamic-fixed income securities).

Regardless of the asset class, they are all guided by the same principles. These principles are based on the belief that all stakeholders in an investment must share risks and rewards proportionally, as stated by the *Mudarabah* principle, which involves profit and loss sharing.

Malaysia's role in Shariah investing

While syariah investing has its roots in Islamic finance, it has gained a global audience.

At the forefront of this financial trend, Malaysia has cemented its status as a vital hub for syariah-compliant assets in the Asia Pacific region.

Through the early adoption of Islamic finance, strengthened by favourable government policies, Malaysia has created a thriving ecosystem for Shariah investments.

Malaysia's sophisticated Islamic finance ecosystem comprises robust market infrastructures, comprehensive regulation, a skilled workforce, and ongoing product innovation. With a strong foundation for future growth, the country has a thriving capital market that includes sukuk (Islamic bonds).

The Malaysian government has played a significant role as a sukuk issuer – contributing to the market's growth into one of the largest globally. The diversity of sukuk structures available has attracted investors seeking fixed-income opportunities that align with the Islamic principles.

Malaysia's strength lies in its regulatory frameworks, further strengthened by a pool of accomplished scholars who diligently oversee the syariah compliance of financial products – fostering trust and credibility within the industry.

The future of syariah investments in Malaysia looks promising as the demand for syariah-compliant products continue to increase.

In summary, Malaysia's proactive stance, robust infrastructure, leadership in the sukuk market, and commitment to syariah principles position it as a key player in the dynamic world of shariah investing.

Syariah investing and ESG principles

Islamic finance has emerged as a catalyst for Malaysia's sustainability journey, through the effective promotion of social trust, and solidarity through Islamic social financing.

This can be achieved through instruments like zakat (charitable giving) and waqf (endowments), which are integral to Islamic finance.

These mechanisms contribute to the social aspect of environmental, social and governance (ESG) principles by addressing issues like poverty, inequality, and community development.

Syariah-compliant investments and ESG-aligned investments share a common principle in avoiding harm.

Criteria and methodologies may differ, but both undergo rigorous screenings to ensure ethical and responsible investment. While companies are screened based on ESG criteria, syariah investing excludes businesses involved in activities such as alcohol, gambling, firearms, and interest-based finance.

Malaysia's issuance of green and socially-responsible investment (SRI) sukuk bonds is an example of how syariah-compliant financial instruments can support sustainability.

Green sukuk funds environmentally friendly projects while SRI sukuk incorporates ESG criteria into its investments. This shows a clear bridge between Islamic finance and sustainable investments, that contributes to both environmental and social objectives.

The integration between ESG and Islamic finance shows the significant growth potential when explored.

By expanding the range of shariah-compliant ESG investment products, Malaysia as one of the global hubs for Islamic finance is well positioned to take the lead in this evolving intersection.

This involves creating investment opportunities that address both societal and environmental concerns while following syariah principles.

Furthermore, Islamic finance can play a significant role in achieving the UN Sustainable Development Goal (SDG) commitments. It has the ability to contribute to various SDGs including poverty reduction, food security, improved healthcare, quality education, reduced inequalities, and the development of sustainable communities.

The integration of syariah investing and ESG principles in Malaysia shows a promising future. The alignment of these two concepts offers a holistic approach to responsible and sustainable finance – appealing to both Islamic and conventional investors looking to make ethical and impactful investment opportunities.

Kenanga Investors' options

As a firm specialising in alternative investments, Kenanga Investors places a significant emphasis on the importance of diversification and its impact on long-term returns in an ever-volatile market.

The company provides a diverse range of alternative investments instruments, including syariah-compliant options that are tailored to meet the specific needs of individual investors.

Kenanga Investors has diligently monitored the growth of shariah investments in Malaysia and witnessed its expansion.

Malaysia's proactive efforts in promoting Islamic social finance such as waqf and zakat have created a conducive environment for syariah investments.

As part of Kenanga Investors commitment to impact investing, the company collaborated with Yayasan Waqaf Malaysia to launch the Kenanga Sustainability Series: Emergency Waqf Musa'adah Fund, dedicated to supporting disaster relief efforts.

Kenanga Investors also recognises the significance of adhering to ESG principles and objectives. ESG and syariah investing both share the common objective of promoting responsible conduct and environmental stewardship.

To further bridge the gap between ESG principles and syariah investment, Kenanga Investors recently introduced the Kenanga Islamic Asia Pacific (ex Japan) Total Return Fund that offers investors the opportunity to tap into the region's potential for economic growth – spurred on by the Asia-Pacific (Apac ex Japan) region's (Apac region) increasing integration into the global economy and rising affluence as its young population transitions into a growing middle class, among other tailwinds.

Many countries in the Apac region are implementing economic reforms and welcoming foreign investments – further integrating and increasing their influence on the global economy.

The region is punching above its weight globally within the fields of renewable energy, battery storage, electric vehicles, semiconductors and various other drivers of the economy of the future.

Additionally, with a population of over 4.5 billion that is relatively youthful, the Apac region is expected to enjoy a demographic dividend over the next decade – further fuelling its growth.

Indeed, growth in the Apac region is expected to outpace global growth for the next few years.

Given the convergence of these positives, Kenanga Investors believes the Kenanga Islamic Asia-Pacific (ex Japan) Total Return Fund will provide significant investment opportunities for investors particularly in areas such as technology, consumer goods and services, industrials, and healthcare.

The fund utilises an absolute return strategy to provide capital appreciation over the long-term and is suitable for investors who are seeking syariah-compliant investments in the Apac region.

Kenanga Investors is committed to taking proactive measures in developing the necessary resources, skills, and expertise required to ensure the realisation of sustainable practices. This commitment extends to both shariah and ESG investments – reflecting the firm's dedication to responsible and impactful investment practices.

Disclaimer: Investors are advised to read and understand the master prospectuses (MPs), the supplemental master prospectus (SMP) if any, information memorandums (IM) if any, product highlights sheets (PHS) as well as consider the fees, charges and risk factors involved before investing. The MP, SMP (if any), IM (if any), and PHS have been registered and/or lodged with the Securities Commission (SC), which takes no responsibility for its contents and related advertisement or marketing materials, and does not indicate that the SC has recommended or endorsed the product/service. The advertisement has not been reviewed by the SC. Investors have the right to request for a copy of PHS and other relevant product disclosure documents which are available at Kenanga Investors' office, at any authorised distributors and Kenanga Investors' corporate website before making investment decisions. If you are in doubt when considering the investment or any of the information provided, you are advised to consult a professional adviser. A Fund's track record does not guarantee its future performance. Kenanga Investors Bhd is committed to prevent conflict of interest between its various businesses and activities and between its clients/director/shareholders and employees by having in place procedures and measures for identifying and properly managing any apparent, potential and perceived conflict of interest by making disclosures to clients, where appropriate.

Datuk Wira Ismitz Matthew De Alwis is CEO and executive director of Kenanga Investors Bhd [199501024358 (353563-P)]

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Malaysia a vital hub for syariah-compliant assets in the Asia-Pacific region



The integration of syariah investing and ESG principles in Malaysia offers a holistic approach to responsible and sustainable finance – appealing to both Islamic and conventional investors looking to make ethical and impactful investment opportunities. – 123rf.com

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This advertisement has not been reviewed by the Securities Commission.

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