



THE RISE OF SUSTAINABLE INVESTING IN MALAYSIA

ESG and sustainability have been in sharp focus in recent months, but how well is the country equipped to meet compliance standards?

With the media churning out doom and gloom pieces en masse, it is little wonder that environmental, social and governance (ESG) transparency is becoming a big focus area for the private and public sector, not just in Malaysia, but worldwide.

There is now much greater awareness among the retail market about the need for sustainable investing, but is this recognition enough to push stakeholders to make a change? According to prominent

industry leaders, this change is already underway and has a strong wave of support from key stakeholders.

GOVERNMENT SUPPORT ON HAND

“The government has been and continues to be a prime supporter of ESG compliance,” shares Patrick Chang, the chief investment officer (CIO), Malaysia, and CIO of equities for the ASEAN region at Principal Asset Management.

“Industry collaborations with the regulators on climate action mitigation

has been ongoing and creating positive awareness.”

He adds that there has been an update to the Malaysia Code of Corporate Governance this year, with new recommendations that board of directors should consider factors related to sustainability in the running of their businesses.

“This sends a strong message and is in line with what we see our neighbouring countries promoting as well,” he says.

This is echoed by Ahmed Muzni

“The establishment of the FTSE4Good Bursa Malaysia Index in 2014 was a step in the right direction as to be included in the index, companies need to meet an ESG inclusion criteria set by FTSE.”

Ahmed Muzni also believes that government-linked companies (GLCs) have a responsibility to take a more active leadership role in this sector, as well as pushing for the adoption of ESG practices.

“With the sustainability narrative becoming more prevalent, investors’ literacy towards it would improve tremendously, and that would be reflected in the future with the influx of assets under management in the sustainable investing space,” he predicts, adding that education for both investors and companies would help to further drive the prospects of sustainable investing in the future.

The government has also encouraged ESG compliance in Budget 2020, with Ismitz Matthew De Alwis, Executive Director & CEO of Kenanga Investors Berhad, praising the proposed tax exemptions for investment firms managing SRI and Shariah-compliant funds.

“This is a step in the right direction to eventually encourage more firms to turn to ESG themes in their respective structures,” he says.

However, De Alwis notes that there is no unified body to oversee ESG compliance, accuracy and reliability in Malaysia. He suggests that it may be prudent to emulate the example of the International Organization of Securities Commission (IOSCO), which established a broad-level Sustainable Finance Taskforce to aid in sustainability-related disclosures issues, and has already done work in Europe and the US, with expansion plans to other major global markets in the pipeline.

“It would bode well for ESG

“Industry collaborations with the regulators on climate action mitigation has been ongoing and creating positive awareness.”

– Patrick Chang,
Principal Asset Management

development in Malaysia if the government is able to involve all the relevant players to accelerate the progress of ESG investing.”

PRIVATE SECTOR EFFORTS

This overall change in attitude is not just limited to the people in charge – Chang says the private sector has already begun to explore this area of ESG compliance, with some companies “already moving ahead in sustainability efforts” as part of their sustainable reporting.

“We encourage private companies to allocate some resources to research and review their strategy going forward in an ESG lens. This would highlight the ESG risks they are exposed to and how they can mitigate them in the future,” he says.

This is a sentiment shared by Ahmed Muzni, who believes that the private sector “needs to have both a top-down and bottom-up approach” to help normalise the concept of ESG in Malaysia.

“Companies must commit to wanting to run their business sustainably – not only to generate profits but to ensure they positively

Mohamed, the CEO of Maybank Islamic Asset Management, who believes that regulation enhancement would be “a key catalyst to boost ESG investing in Malaysia”.

“The government can push for ESG adoption by institutional investors such as the Employees Provident Fund (EPF) and through regulators such as Securities Commission Malaysia and Bursa Malaysia to promote sustainability in the capital markets that are in line with global practices,” he suggests.



“Companies must commit to wanting to run their business sustainably.”

– Ahmed Muzni Mohamed, Maybank

impact the environment and society and manage their business with the highest level of governance,” he stresses.

“We believe continued engagement and conversations with corporates can

MALAYSIA ESG-FOCUSED FUNDS BY THE NUMBERS

- **TOTAL ASSETS UNDER MANAGEMENT:** US\$792,440,999.23
- **LARGEST FUND:** BIMB-Arabesque i Global Dividend 1 MYR (US\$165,524,427.96)
- **SMALLEST FUND:** Interpac Social Enterprise and Responsibility Fund (US\$366,477.01)
- **BEST PERFORMING FUND (ANNUALISED RETURN):** BIMB-Arabesque i Global Dividend 1 MYR (7.59%)
- **LARGEST FUND-LEVEL NET IN-FLOW (H1 2021):** US\$130,256,296.34 (RHB i-Global Sustainable Disruptors Fund)
- **LARGEST FUND-LEVEL NET OUT-FLOW (H1 2021):** US\$55,499,898.35 (Hong Leong Wholesale Bond Fund)
- **NEWEST FUND:** TA Global Absolute ESG Alpha Fund
- **OLDEST FUND:** Maybank Malaysia Ethical Dividend Fund

*Data provided by Morningstar Direct is accurate as of August 2021

With ESG becoming an increasingly hot topic in recent months, is investor appetite changing? Is Malaysia headed in the right direction to comply with ESG recommendations and standards? We sat down with key leaders in the investment space to get their thoughts.

PATRICK CHANG

CHIEF INVESTMENT OFFICER, MALAYSIA & CHIEF INVESTMENT OFFICER, EQUITIES, ASEAN REGION, PRINCIPAL ASSET MANAGEMENT BERHAD

1. DOES PRINCIPAL ASSET MANAGEMENT HAVE ESG COMPLIANT FUNDS, AND IF SO, HOW HAS THE PERFORMANCE BEEN THUS FAR?

Principal has been managing a suite of sustainable / responsible mandates in the form of mandates with exclusionary requirements from certain sectors due to ethical reasons or mandates which are Shariah compliant where securities are screened against Shariah compliant requirements. The funds have been recording competitive returns. We are in the process of introducing a suite of ESG related funds before the year end.

2. WHAT IS THE CURRENT APPETITE FROM RETAIL AND INSTITUTIONAL INVESTORS FOR ESG COMPLIANT FUNDS?

We are seeing a pick up in demand from the retail side through the bank distributors. There is a concerted effort at the industry as well as regulators level to promote sustainability as an investment theme in light of the growing awareness of climate change, social and environmental issues and actions. In addition, our institutional investors have been instrumental in driving responsible investment internally among asset managers.

3. DO YOU FEEL THAT MALAYSIA IS HEADED IN THE RIGHT DIRECTION WITH REGARDS TO SUSTAINABLE INVESTING, ESPECIALLY WHEN COMPARED TO REGIONAL AND GLOBAL EFFORTS?

Yes, certainly. We sense a strong drive to effect change from all angles be it regulators, institutional and also within the Principal Financial Group. Malaysia as a country has been at the forefront of its ESG push in the last few years and we sense that this will gather momentum. The bar has been set very high now as evident by the various industry workstreams working on similarly related sustainability agenda, i.e. all towards a common goal goes towards a better future for our communities, the environment and a more accountable investment environment.



LUM MING JANG

CHIEF INVESTMENT OFFICER, PUBLIC MUTUAL BERHAD

1. DOES PUBLIC MUTUAL BERHAD HAVE ESG-COMPLIANT FUNDS, AND IF SO, HOW HAS THE PERFORMANCE BEEN THUS FAR?

Our first ESG-compliant fund, Public e-Islamic Sustainable Millennial Fund (PeISMF), was launched in November 2019 to invest in Shariah-compliant stocks of companies globally which incorporate sustainability considerations in their business practices, primarily in the environmental and social aspects. The fund caters to investors, particularly millennials, who are keen to adopt sustainability considerations in their investments.

The good response by investors, coupled with the commendable performance of the fund's portfolio, has enabled PeISMF to grow to a net asset value (NAV) of RM184 million as at end-July 2021. Since its commencement on November 25, 2019 up to July 30, 2021, PeISMF has generated a return of 56.48%.

In February this year, we launched our second ESG-focused fund – Public e-Carbon Efficient Fund (PeCEF) – which invests in companies with efficient carbon footprints¹ in the global markets. Companies which are rated as having a 'high carbon impact' by the S&P Carbon Global Standard (e.g. in energy, chemicals and utilities) are excluded from the fund's stock universe. PeCEF differs from PeISMF as the former places an emphasis on the environmental pillar of the broader ESG assessment, and provides environmentally-conscious investors with the opportunity to align their investments with their values by reallocating their portfolios away from carbon-intensive companies, and towards more environmentally-friendly firms.

Underpinned by strong investor interest as well as gains generated by the fund's investments, PeCEF has garnered an NAV of RM453 million as at end-July 2021, making it one of the largest ESG equity funds in the domestic unit trust industry. Since its commencement on March 1, 2021 up to July 30, 2021, PeCEF has generated a return of 13.20%.

In a bid to capture this market more effectively, we also launched these funds under our e-Series of Funds, which allows investors to begin investing from as low as RM100. Since these funds are available exclusively online, they also contribute to a lower carbon footprint, while at the same time allowing for quicker and more convenient transactions.

2. WHAT IS THE CURRENT APPETITE FROM RETAIL AND INSTITUTIONAL INVESTORS FOR ESG-COMPLIANT FUNDS?

The encouraging response to our two ESG funds demonstrates that there is promising demand from both retail and institutional investors for ESG-themed funds in Malaysia. Many investors, especially millennial investors, are not only interested in the financial outcome of their

investments, but are also concerned about the impact of their investments on the community and environment.

The increased interest in sustainable investing has also led to an acceleration in the number of ESG / Sustainable and Responsible Investment (SRI) equity funds launched within the domestic unit trust industry. There are currently 13 ESG / SRI equity funds available in the domestic retail market, of which one fund was launched in 2020 and eight funds were launched this year.

Looking ahead, we continue to see growing demand for ESG / SRI funds given the rising appeal of sustainable investing among investors. We will continue to look into increasing our ESG / SRI product offerings to meet investors' preference for socially-impactful funds.

3. DO YOU FEEL THAT MALAYSIA IS HEADED IN THE RIGHT DIRECTION WITH REGARDS TO SUSTAINABLE INVESTING, ESPECIALLY WHEN COMPARED TO REGIONAL AND GLOBAL EFFORTS?

So far, Bursa Malaysia has already taken steps to encourage sustainability investing – such as introducing the FTSE4Good Bursa Malaysia (F4GBM) Index back in 2014 – to support investors in making ESG investments in Malaysian-listed companies.



AHMED MUZNI MOHAMED CHIEF EXECUTIVE OFFICER, MAYBANK ISLAMIC ASSET MANAGEMENT

1. DOES MAYBANK ASSET MANAGEMENT HAVE ESG COMPLIANT FUNDS, AND IF SO, HOW HAS THE PERFORMANCE BEEN THUS FAR?

We have embarked on our sustainable investing journey by launching a series of sustainability-themed investing funds.

Our first ESG-integrated fund, Maybank Global Sustainable Equity-I (MGSEI), was launched in August 2020, in line with the Securities Commission Malaysia's SRI framework and integrates both ESG and Shariah principles. Year-to-date, July 31, 2021, the fund returned 16.66% (MYR class) while its target return is in the range of 8% - 10% per annum. With its high conviction portfolio of stocks, we believe that this fund will be able to achieve its target return.

In January 2021, we launched the Maybank Global Sustainable Technology Fund (MGST), a sectorial or thematic fund designed to capture opportunities within the tech sector. We launched MGST as we believe the technology sector will continue to grow faster vs the global economy in the longer term. This is a very interesting period for the tech sector and our new fund offers savvy investors the platform to mine opportunities by investing in a suite of sustainable tech companies. Since inception, performance as at July 31, 2021, the fund returned 8.81% (MYR class).

Through retail investors, the Maybank Global Sustainable Equity-I Fund raised RM400 million in the first three months after its launch in August 2020 while the Maybank Global Sustainable Technology fund has raised more than RM200 million to date since its launch in January 2021.

2. WHAT IS THE CURRENT APPETITE FROM RETAIL AND INSTITUTIONAL INVESTORS FOR ESG COMPLIANT FUNDS?

Investors now believe their individual investment choices can make a difference towards building a more sustainable world. We observed an increase in demand for ESG-themed investing as more retail and institutional investors are compelled to invest sustainably as awareness for sustainability has become more prevalent. And that by investing sustainably, investors could potentially

generate higher returns in the long-term compared to conventional investments.

But it took a pandemic to turbo-charge the awareness and importance of sustainable investing as investors were observing the immediate global social and economic impact caused by it. The pandemic induced market downturn also proved that sustainable or ESG rated companies to be more resilient than others.

Although demand is still not as high as developed countries yet, we believe it will grow to dominate our customers investing criteria moving forward.

3. DO YOU FEEL THAT MALAYSIA IS HEADED IN THE RIGHT DIRECTION WITH REGARDS TO SUSTAINABLE INVESTING, ESPECIALLY WHEN COMPARED TO REGIONAL AND GLOBAL EFFORTS?

Over the past couple of years, total assets under sustainable investments have doubled, particularly in the US and European markets. Hence, we are expecting that trend to spread to Asia and so, to Malaysia in the near future.

As Malaysia is still in its developmental stage for ESG integration, the investment universe is relatively limited compared to the global markets. There has been a shortage of publicly available ESG information locally, along with a lack of corporate commitment to long-term ESG targets. Some improvements have been made but we still have to work to bring ESG to the forefront of business and investment management.

Local companies are still developing and learning ESG best practices, and ESG reporting and resources are part of that development. There is encouraging progress demonstrated by GLCs/GLICs given their leadership role and the higher level of awareness in pushing for the adoption of ESG practices.

In the near future we believe the ESG best practices adopted by companies in the US and Europe could very well be adopted by companies in Malaysia in order for them to compete on the global stage.

However, it is still a positive development for the future and we want to offer our investors the opportunity to obtain returns on their investments and contribute positively to our world and society.



ISMITZ MATTHEW DE ALWIS
**EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER, KENANGA
 INVESTORS BERHAD**

1. DOES KENANGA INVESTORS HAVE ESG COMPLIANT FUNDS, AND IF SO, HOW HAS THE PERFORMANCE BEEN THUS FAR?

We have launched our first SRI-driven (Socially Responsible Investing) fund this year with the introduction of the Kenanga Waqf Al-Ihsan Fund (KWAF) with Yayasan Waqaf Malaysia (YWM). In accordance with waqf principles, half of the derived income from the Fund will be distributed to sectors such as education, healthcare, economic empowerment and, importantly, environmental preservation or development. We are proud to be the first strategic partner to actively collaborate with YWM in the development of waqf since 2021's National Budget mandate last year which called for more engagements between YWM and the private sector, to drive the development of waqf within the country.

We foresee that the fund will generate a considerable amount of awareness and interest due to its altruistic nature especially in today's social climate which will lead to society empowerment and poverty alleviation. As the fund is still new (less than 12 months), we are not able to share any performance indicators yet, but investors can find more information about the fund on our website, www.kenangainvestors.com.my.

Going forward, we will be launching more ESG/SRI funds to the investing public.

2. WHAT IS THE CURRENT APPETITE FROM RETAIL AND INSTITUTIONAL INVESTORS FOR ESG COMPLIANT FUNDS?

Globally, from a retail perspective, there has been a great increase in awareness on ESG and sustainable investing due to the recent Covid-19 pandemic accelerating its progress. Investors have started to place greater emphasis on environmental and social issues. A higher demand for transparency is another positive culmination of this; when a company is willing to be open and honest regarding its operations and plans, it promotes a culture where employees feel valued, and can thrive in a positive and encouraging environment.

This has led to, a more or less butterfly effect where investors (being consumers themselves) want to work in environments like these and want the same benefits for other members of society as well. Companies who strive to do better for their employees and stakeholders around them will naturally be driven to review strengthen their existing policies and focus on ESG factors to improve transparency and achieve long-term sustainability in their business.

Despite the general opinion that ESG driven portfolios tend to underperform their traditional peers, there has been a growing awareness that different methodologies, investment strategies, regions and time frames has led to over simplifications of the true potential of ESG portfolios. As if on cue, in 2020, ESG funds emerged as winners against the S&P 500 during the first year of Covid-19.

As such, institutional investors too have begun integrating ESG into their investment decision-making processes. No longer is it about looking 'nice' on paper, institutional investors now can actually find themselves looking at unwanted risks from issues such as political instability, governance matters or impact from climate change. Obviously, there are also reputational risks for companies who disregard their environmental or social responsibilities. So, institutional investors and professional asset managers tend to use ESG primarily to compete on improved risk adjusted returns and risk management.

3. DO YOU FEEL THAT MALAYSIA IS HEADED IN THE RIGHT DIRECTION WITH REGARDS TO SUSTAINABLE INVESTING, ESPECIALLY WHEN COMPARED TO REGIONAL AND GLOBAL EFFORTS?

Malaysia has been slowly heading in the right direction in terms of sustainability and ESG investing, albeit with a few roadblocks on the way. As mentioned earlier, inconsistent methodologies and clarity over ESG can mislead investors to generalise about the potential for sustainable investments to outperform the market. For example, while everyone knows what being 'socially conscious' and 'treating the environment well' means, scoring remains in a state of transition, with some rating providers still in the way of refining their methodology through the inclusion of factors such as materiality. There is almost a too wide range of scoring methodologies in terms of determining which data to



analyse and include, metrics weighting, materiality and how to consider missing information. Moreover, subjective judgment is layered particularly regarding absolute and relative scores within and across industries.

So, while the concept of ESG investments is still very broad and unclear as it covers multiple qualitative factors, such as technology development, stakeholders, and supply chain management, this does provide an opportunity for firms to be innovative and implement their version of an ESG initiative into their core business strategy as Malaysian firms are still at an early stage when it comes to operationalising ESG investing.



better align ESG data points and depth disclosure investors require for their due diligence."

According to data provided by Morningstar Direct, there are 16 ESG focused funds in Malaysia with total assets under management (AUM) of over US\$792 million. However, these are mostly concentrated in three funds, with the Hong Leong Wholesale Bond, BIMB-Arabesque i Global Dividend 1 MYR, and Public e-Carbon Efficient Fund accounting for US\$414 million. The Public Mutual fund was only established earlier this year, while the other two were formed in the 2010s, highlighting the relative infancy of ESG focused funds. In fact, the oldest fund is the Maybank Malaysia Ethical Dividend Fund – established in 2003 – with the next oldest fund established in 2013.

While this highlights how ESG is a relatively new space in terms of

investment products, the sharp focus of the media on this sector in recent months has ignited newfound interest, with seven of Malaysia's 16 ESG funds established within the last 12 months at the time of writing.

Data from Morningstar Direct also shows that ESG funds in Malaysia recorded an average cumulative return of 11.15% in the last 12 months (August 1, 2020 – July 31, 2021). While some of this may be attributed to the global market rebound last year, it certainly bodes well for the future of sustainable investing.

"Companies need more educational awareness that their profits are not sacrificed by ESG compliance but in fact, profits may increase by adopting it," says Ahmed Muzni, adding that costs can be reduced further by executing ESG effectively.

"As for returns, evidence shows the

"It would bode well for ESG development in Malaysia if the government is able to involve all the relevant players to accelerate the progress of ESG investing."

– Ismitz Matthew De Alwis, Kenanga Investors

relationship between sustainability initiatives and strong business results."

He also believes that there is space for more industry-led initiatives, which can be developed through input from stakeholders.

"Some examples are like the roadmap of ESG integration in the investment process, consistent and inclusive ESG regulatory framework, encouragement to be signatories of global ESG standards and continuous innovation in ESG solutions for investors," he adds.

So where does this leave Malaysia with regards to ESG compliance? The initial support from both private and public sector is certainly encouraging, and the creation of seven ESG-focused funds within the last 12 months highlights a trend that is likely just in its infancy, but has much potential to grow in the coming years. The wider impact that this commitment will have is set to be felt beyond world of finance, and the concept of sustainable investing looks like it has a bright future ahead. Not just for investors, but for the wider population at large. 