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KENANGA INVESTORS GROUP: MALAYSIA'S TOP-PERFORMING FINANCIAL STAR

Fortune 100 (March 2018)

Chinese e-commerce giant Alibaba's founder and chairman Jack Ma is just about the brightest star in Southeast Asia's digital universe.

SO WHEN HE ANNOUNCED earlier this year that he had chosen Kuala Lumpur as the location for his multibillion-dollar regional distribution hub, it was quite rightly seen as a ringing endorsement for Malaysia's bid to establish itself as one of ASEAN's major logistics centers and investment gateways.

Home to more than 622 million people and with a combined GDP of close to US\$3 trillion, ASEAN is increasingly an economic force to be reckoned with, while Malaysia is rapidly emerging as one of its most attractive destinations for inward investment. According to the World Economic Forum's Global Competitiveness Report for 2016-17, it has the fourth-least-burdensome regulatory environment in Asia as well as one of the region's most well-developed financial infrastructures.

And one of the brightest stars of the Malaysian financial sector is Kenanga Investors Berhad (KIB), which over the past five years has developed into one of the country's top investment and asset management houses to watch in terms of innovation, progressiveness, and consistent investment returns. This has all happened under the careful stewardship of its chief executive officer, Ismitz Matthew De Alwis, who was awarded 2018 Malaysia CEO of the Year by the Best of the Best Awards, for the second consecutive year, hosted by Asia Asset Management.

KIB is currently on something of a roll. It had snapped up several key industry awards lately, with the most recent being named as Investors' Choice—Fund House of the Year 2017, voted in by investors through Fundsupermart.com. This further complements KIB's earlier prestigious recognition as 2018 Malaysia's Best Pension Fund Manager and Best Islamic Equity Group by Asia Asset Management and The Edge Thomson Reuters, respectively. KIB's funds have also won many accolades over the years and are widely recognized as being among the consistently top-performing in the country.

Such is its reach and reputation that there is rarely a major regional or local awards ceremony hosted by the international financial sector's media where one of KIB's products is not recognized or rewarded. De Alwis attributes both his own and KIB's



success to a healthy combination of a rock-solid performance record and a steadfast commitment to innovation, a philosophy embraced by everyone in the organization. This belief and conviction in progress is also evidenced across the board; its parent company Kenanga Investment Bank Berhad, for example, recently joined forces with Japan's Rakuten Securities to launch the first-ever Malaysian full online trading system complete with straight-through processing to Bursa Malaysia.

Since its acquisition of 100% interest in ING Investment Management's local unit back in 2013, it now controls four subsidiaries: Kenanga Islamic Investors, Kenanga Funds, and two other nominee companies. Between them, they offer a wide range of products and services, including fund management for unit trusts and private retirement schemes (PRS), investment advisory, collective investment schemes, portfolio management services, and private wealth services, as well as segregated private mandates and alternative investments for retail, corporate, and institutional clients.

On the acquisition, De Alwis explains, it was part of a concerted effort on behalf of the bank to diversify its asset management services. "Historically, we were predominantly known as an institutional player that managed pension funds, Malaysian GLCs, and large corporate clients," he says.

"WE HAVE NOW DIVERSIFIED OUR STRATEGIES TO INCLUDE MASS RETAIL MARKETS THROUGH MULTI-DISTRIBUTION CHANNELS.

Moving ahead, we plan to further grow our clientele in the mass affluent to high-net-worth segment market." To this end, KIB is now on a mission to cater for Malaysia's professional classes in addition to its well-stocked pool of high-net-worth individuals (HNWI), who, De Alwis reasons, already have the millions or so required to set up a private wealth account to handle their investment affairs. Consequently, Kenanga is now also turning its attention to the ever growing pool of working professionals who are starting out with savings of between US\$50,000 and US\$100,000 and who are equally in need of the advice that KIB's network of financial consultants (licensed individuals who are authorized to market and distribute unit trusts and/or PRS) are ready to provide.

To help this network give Kenanga's new customer base the most appropriate and up-to-date advice, KIB offers to its clients KenWealth, a customer relationship and portfolio management platform that provides clients with access to over 20 well-established product partners within the industry. Instead of the run-of-the-mill products that are usually heaped onto a client, KenWealth first assesses clients' profiles, their financial statuses, and their risk tolerance levels before selecting the most suitable products that will then make up their entire portfolio—from investment protection that is made up of both life and general insurance, to treasury deposits and wills and trusts.



Any online tool is, of course, only as good as the information, data, and analysis that it has been set up to harness, as De Alwis is only too aware. He also knows that most of KIB's clients are not necessarily looking for spectacular—and therefore, by definition, high-risk—returns on their capital. "We are at a point in the cycle where we have a new generation of financially educated investors who are not looking for superstar funds or one-day wonders," he explains. "They just want consistency, which is why we ensure that our funds have steady three-, five-, and 10-year records." Performing investment vehicles coupled with customization and flexibility factors only add on to how seriously KIB intends to develop this sophisticated group of clients even further. In 2013, to meet this demand for a reliable return on investment, KIB launched its first absolute return fund. Like other such funds, the Kenanga Asia Pacific Total Return Fund was designed to produce a positive return regardless of prevailing market conditions, and it has so far done exactly what it set out to do. With 40% of its equity allocation in Hong Kong and a further 10% each in Taiwan and South Korea, the fund delivers a compound return of 10% per year.

A product of Malaysia's rapid growth over the past 25 years, the emergence of an affluent middle class is not the only socioeconomic development that De Alwis and his colleagues at KIB are in the process of addressing. In recent months, a tongue-in-cheek scarf TV advertisement showing a young woman applying shampoo to her hijab went viral when posted on YouTube. While it provoked some anger but also a great deal of humorous appreciation for the parody that it was intended to be, it can also be seen as emblematic of the growing purchasing power of the nation's Muslim population. And in a country where more than 60% of the inhabitants—around 20 million people—are adherents of Islam, financial institutions such as KIB are making ever-greater attempts to meet that market's requirements by developing Islamic banking products and services.

Malaysia's Islamic finance industry has, in fact, been in existence for well over 30 years, ever since the Islamic Banking Act of 1983 paved the way for the country's first Islamic bank. Malaysia's total Islamic banking assets currently stand at around US\$65.6 billion and regularly record an annual growth rate of 18%-20%. And, along with a number of full-fledged Islamic banks, many of these assets are managed by the Islamic subsidiaries of conventional financial institutions, including KIB's Kenanga Islamic Investors Berhad (KIIB) arm.

ACCORDING TO THE PRECEPTS LAID DOWN IN SHARIAH LAW, ISLAMIC FINANCIAL PRODUCTS MUST BE BASED ON THE CONCEPT OF MUTUAL RISK AND PROFIT-SHARING BETWEEN THE PARTIES.



Interest (riba), gambling (maisir), and speculative trading (gharar) are prohibited, shifting the emphasis onto leasing (ijarah), profit-sharing (mudharabah), and partnerships (musvarakah).

"Our Islamic products are now focused on equities and fixed-income funds, and we believe there will be further growth in this area," De Alwis predicts. "There is a global Islamic wealth pool of around US\$11 trillion to \$12 trillion that could be unlocked in the years ahead." All of KIB's Islamic financing, treasury, and stockbroking products are subject to scrutiny by its own Shariah Committee, which brings together four experts in Shariah law whose role it is to ensure full compliance to the principles of Islam. Local regulatory bodies have been spearheading the growth of this segment not only locally but also globally.



The Securities Commission Malaysia (SC) recently launched the Islamic Fund and Wealth Management Blueprint to strengthen Malaysia's competitive position in the global Islamic financial sector. His reference to the global nature of the Islamic wealth pool is telling, for it points to the growing international nature of KIB's ambitions:

"Our current strategy and strength is primarily for the Malaysian-centric market, but we do have a growing clientele across ASEAN. In practical terms, companies in the same time zone as their investors have a competitive advantage. From here we can easily work with clients in Singapore, Japan, China, and Hong Kong. Even companies in Kazakhstan, which might have traditionally considered London or Dubai as their natural choice for a financial hub, may in the future consider Malaysia, as we are both

geographically and culturally closer, apart from leveraging on Malaysia's existing infrastructure and capabilities in Islamic finance."

De Alwis knows the company's limitations as well as its strengths, however, and has decided to set up strategic alliances in the countries where it is looking to expand its client base. "In today's volatile and highly specialized markets, it is a much more efficient way for us to work with local companies than to set up offices abroad," he explains, "and it has delivered much better results for us."

As well as KIB's track record and reputation, the international investment community is being increasingly drawn to work with Kenanga because of Malaysia's growing potential



as a point of access for ASEAN. When Ma proposed setting up a Digital Free Trade Zone for his e-commerce operation last year, he was amazed that it only took four months to push the legislation through.

Malaysia offers investors a dynamic and vibrant business environment with the ideal prerequisites for growth and profits.

THE COUNTRY IS SUPPORTED BY A MARKET-ORIENTED ECONOMY AND PRO-BUSINESS GOVERNMENT POLICIES.

The government continues to attract investors by ensuring well-developed infrastructure (i.e., a network of well-maintained highways and railways; well-equipped seaports and airports; high-quality telecommunications network and services; fully developed industrial parks [including free industrial zones], technology parks, the Multimedia Super Corridor (MSC), and Advanced MSC Malaysia Cybercities and Cybercentres).

With liberal investment policies through a well-developed legal system (British) and the continuous support and facilitation from the government, internationally renowned brands have chosen Malaysia as their regional hub. Companies like BMW, Daimler Chrysler, Dell, GE, Honeywell, IKEA, Sony, Samsung, and many more have been able to establish a strong base that will continue to serve as a pivot of growth, both locally and regionally for them. The government also continues to promote a vibrant and progressive capital market, which is among the best in the Asia-Pacific region and ASEAN. But it is not just the high-quality and well-regulated capital market or the growing affluence of the middle classes that is attracting investors. The establishment of the International Organisation of Securities Commissions' (IOSCO) Asia-Pacific hub in the Malaysia regional hub was also a further reflection of Malaysia's commitment in promoting greater cross-border regulatory collaboration and cooperation. This is aligned with KIB's aspirations under ASEAN in promoting greater regional connectivity. Kenanga Investors is ready to help pave the way and be the preferred choice of investors as the gateway into Malaysia and the region.

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