

Date: 14 October 2024

CREATING REAL IMPACT

The Edge (Special Focus, 14 October 2024)

Datuk Wira Ismitz Mathew De Alwis, executive director and CEO of Kenanga Investors Bhd (KIB), argues that ESG is still relevant despite investors and the general public in some parts of the world losing their faith in it.

"We believe the world is facing unprecedented environmental and social challenges, from climate change to social inequality. ESG remains a crucial framework for addressing these pressing issues. However, it is clear that the approach to ESG needs to evolve to remain effective and meaningful," he says.

KIB is part of Kenanga Investors Group (KIG), which is led by De Alwis.

Rather than discarding the idea of ESG, De Alwis believes there should be a focus on evolving and refining the approach in a practical and meaningful way. Currently, there is a risk that ESG has become more about compliance than impact.

For instance, many global standards and requirements often overlook local contexts and result in increased compliance costs that become a burden, rather than creating genuine value and positive impact. "When sustainability practices are driven by mere compliance, they can lose their true purpose, making the practice of sustainability itself unsustainable" he points out.

De Alwis makes the case for global ESG frameworks to allow more localisation, which could make the approach more relevant and effective. At the company level, material issues most relevant to a company's operations and stakeholders should be prioritised.

"This means identifying and focusing on the areas where the company can have the most significant impact, rather than adopting a one-size-fits-all, 'tick-box' approach," he says.

COLLECTING BETTER DATA

KIG currently has three sustainable and responsible investment (SRI) wholesale funds, which are externally managed. The company is committed to expanding these options, including introducing more internally managed SRI funds. To do so, it has to overcome the challenge of obtaining granular yet insightful ESG data of companies.

"Compiling datasets such as energy consumption, carbon emissions and other ESG-related information is generally approximate at best as many companies do not have the resources to compile and collate this information meaningfully.

"In the absence of such information, KIG is required to expand its economic and manpower resources to meaningfully analyse the ESG aspects of these companies before making an informed investment decision," says De Alwis.

Last year, KIG completed comprehensive screenings for fixed income securities and sector-specific assessments for equities. ESG factors were integrated into every stage of the investment process across all asset classes, not just within the SRI funds.

"For KIG, this approach is essential not only because of the intrinsic value of ESG principles but also because we believe that integrating these factors will enhance our long-term investment performance," says De Alwis.

To expand its SR1 offerings, the company continues to engage with portfolio companies on their ESG disclosures, which will expand its universe of investable stocks. It is also looking at impact investing, which in its view, is an enhanced version of ESG or SRI investing.

"We would love to be able to quantify to our clients the socioeconomic, environmental or human impact of their investments, where they feel like they have made a measurable difference to the environment or their society. Again, measurability and data will be key to our ability to carry out impact investments," says De Alwis.

As at December 2023, KIB's total assets under management (AUM) with ESG coverage amounted to about RM10 billion or 48% of the reported AUM. This mainly comprised local equities and fixed income assets, but it is extending the coverage to global equities and other asset classes.

A NEW REALITY

KIG can already observe its portfolio companies being increasingly impacted by factors such as the Carbon Border Adjustment Mechanism and climate-related risks, including flooding and rising temperatures. This reflects the reality that ESG is a critical factor that must be considered by companies and fund managers.

As a fund manager, KIG engages with companies to ensure they are assessing the potential impact of climate risks, and encourages the development of decarbonisation strategies.

"To further strengthen resilience, we advocate for integrating climate considerations into business planning. This includes investing in infrastructure, diversifying supply chains and implementing contingency plans to mitigate the impact of climate-related disruptions," says De Alwis.

Regardless, it can be difficult for companies and fund managers to navigate these new areas while still generating consistent returns, he acknowledges.

However, integrating ESG factors with its forte of rigorous bottom-up stock picking enables the fund manager to identify high-quality investments, he adds.

"We prioritise a long-term investment perspective, recognising that ESG factors contribute to sustainable returns over time, even amid short-term market volatility," says De Alwis.

KIG's investment strategy also avoids over-reliance on specific sectors, so that those with "emerging ESG credentials" such as energy, industrial and materials, that have opportunities for growth as they transition are included.

"Our investment strategy is inherently flexible, allowing us to make strategic adjustments in response to market shifts, such as changes in energy prices or a downturn in the tech sector," he says.

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Creating real impact

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For instance, many global standards and requirements often overlook local contexts and result in increased compliance costs that become a burden, rather than creating genuine value and positive impact. "When sustainability practices are driven by mere compliance, they can lose their true purpose, making the practice of sustainability itself unsustainable," he points out.

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"This means identifying and focusing on the areas where the company can have the most significant impact, rather than adopting a one-size-fits-all, 'tick-box' approach," he says.

COLLECTING BETTER DATA

ESG is a key consideration at KIG as the fund manager believes its responsibility goes beyond delivering financial returns to creating positive, long-term impact through its investments.



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DE ALWIS

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Record temperatures in Malaysia and the region are impacting various sectors, following a pattern of increasing extreme weather caused by climate change.

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