Mar/ Apr 2025, Issue 390

SHAPING A SMART AND SUSTAINABLE FUTURE: IMPACT INVESTING

The SmartInvestor

The business world is embracing impact investing as a powerful way to drive social and environmental change while delivering financial returns. However, the costs of practicing Environmental, Social and Governance (ESG) principles often demand sacrifices, raising the question: is impact investing a sustainable path for long-term growth? **Datuk Wira Ismitz Matthew De Alwis, Executive Director** and CEO of Kenanga Investors Berhad sheds light on impact investing and examines if businesses can sustain their ESG responsibilities.

Are Malaysian businesses seeing value and shifting towards impact investing?

Yes, we believe so. Today's landscape sees ESG laying the foundation for a framework that drives both corporate responsibility and business growth.

Globally, we have moved past perceiving impact investing as an optional nice-to-have used to polish annual reports and financial statements, instead it is now a fundamental aspect of corporate strategy. In many ways, this shift signifies a positive development for all stakeholders. For businesses, it is an opportunity to discover new market opportunities and foster innovation.

For wealth managers, we can help clients fulfil their financial goals through purpose-driven investment decisions.

Industries that impact investing currently thrives in?

ESG is driving innovation across multiple industries in resource efficiency and adoption of circular economic models. Energy management systems, such as smart grids have led to reduced energy consumption and lower operating costs. Technologies that capture, utilise and store carbon emissions are gaining traction, driven by both regulatory requirements and corporate net-zero commitments. The water sector is another area of growth, with new water purification systems helping to address water scarcity issues in some parts of the world, especially in agricultural and urban planning.

The renewable energy (RE) industry is particularly notable, with investments in solar, wind, and hydropower increasing steadily. These technologies are not only reducing dependency on fossil fuels but also creating jobs and boosting local economies.

These sectors present compelling investment opportunities for forward-thinking investors looking to align financial returns with positive environmental outcomes. After all, there's little point in investing in our own potential if we neglect the very planet and society that enable us to flourish.

How is impact investing translated to value for businesses?

For an organisation, integrating impact investing into research and development (R&D) not only improves products and services but also aligns with sustainability goals, attracting conscious consumers and opening new markets.

l Additionally, processes streamlined through sustainable R&D reduce costs by improving energy efficiency, reducing waste or using renewable resources, all of which keep the final output more affordable for the general consumer. Beyond the business, real-world problems can be solved, benefiting communities, customers, and the environment.

At Kenanga Investors, we believe that the continuous delivery of consistent top performance stems from the premise of an effective stewardship and active ownership approach throughout the investment value chain. In search of long-term value accretive investments, we aim to influence investee companies as shareholders through the promotion of responsible and sustainable practices.

To ensure the effectiveness of our stewardship activities, we regularly review and enhance our practices, aligning our policies with evolving best practices. For our investment team, it begins with Integration, where companies are evaluated on each of the ESG factors. Positive Screening assesses and scores companies based on these factors, assigning scores from poor to exemplary. Negative Screening excludes companies operating in sectors or business areas misaligned with our ESG core values such as controversial weapons and adult entertainment. If a company's score falls below the threshold, the investment team engages with the company to address deficiencies and monitor progress.

Immediate challenges most often come from the short-term pressure of unrealised financial returns versus the long-term gains.

To manage this, we regularly provide timely market updates and market outlook talks to inform and educate our distributors and investors alike. We aim to convey the intricacies of sustainability-driven investments to them through clear and effective communication in a market overwhelmed by constant information flow.

We also believe that the industry continues to face inconsistent standards of measuring accurate ESG performance and its impact. This lack of standardisation creates significant challenges for the industry, as it hampers their ability to make informed decisions based on reliable and comparable data. Without standardised metrics, it becomes difficult to differentiate genuine impact from superficial claims, such as greenwashing.

We are appreciative of the efforts that the Securities Commission of Malaysia is undertaking with the launch of several policies and frameworks such as the National Sustainability Reporting Framework, the Simplified ESG Disclosure Guide (SEDG), and the Revised Guidelines on Sustainable and Responsible Investment (SRI) Funds, amongst others. We foresee that these initiatives will help foster transparency, align with global best practices, and build investor confidence in Malaysia's sustainability ecosystem.

Are there sufficient investment solutions to support impact investing?

While the landscape for impact investing solutions has grown in recent years, there is still room for development to meet the diverse needs of investors and industries. Solutions such as green bonds, ESG-focused funds, and thematic investments in areas like RE and sustainable agriculture are becoming more prominent. Tools aligned with frameworks like the United Nation's Sustainable Development Goals (UNSDGs) have enhanced impact tracking and transparency. That said, challenges remain, particularly in emerging markets like Malaysia, where product diversity, retail accessibility, and standardised metrics require further development.

On a positive note, ongoing innovation and collaboration among financial institutions and regulators are introducing solutions such as blended finance investments and reverse mortgages, making impact investing increasingly accessible and scalable.

If impact investing is not recognised as a standalone asset class, how can Malaysia elevate its prominence?

Impact investing can be made more prominent by embedding it within existing asset classes and fostering a supportive ecosystem. This includes introducing clear policies and incentives, such as tax benefits or mandatory ESG disclosures, to encourage participation. In addition, raising awareness through education campaigns and financial literacy programmes can help investors and businesses understand its value.

Public-private collaborations and blended finance models offer a practical way to de-risk impact investments and attract broader participation. By combining public funds, philanthropic capital, and private investments, these models share risks and make impact projects more appealing. This approach mobilises larger capital pools and fosters inclusive, scalable solutions for sustainable development.

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Source:

The SmartInvestor (Issue 390, Page 28 to 30)

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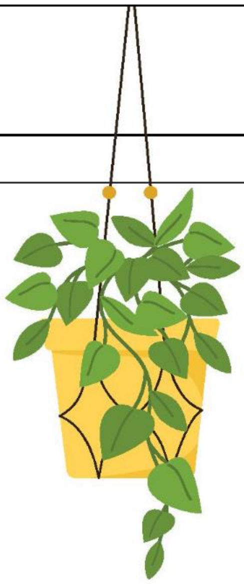

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Additionally, processes streamlined through sustainable R&D reduce costs by improving energy efficiency, reducing waste or using renewable resources, all of which keep the final output more affordable for the general consumer. Beyond the business, real-world problems can be solved, benefiting communities, customers, and the environment.

Ultimately, we believe that the returns—both financial and reputational—generated from impact investments empower institutions and businesses to reinvest in further initiatives. As we collectively see the tangible benefits of these investments, it builds confidence and inspires greater commitment to the impact investing space.

Wealth managers face pressure to integrate ESG factors while ensuring consistent returns. How is Kenanga Investors tackling this?

At Kenanga Investors, we believe that the continuous delivery of consistent top performance stems from the premise of an effective stewardship and active ownership approach throughout the investment value chain. In search of long-term value accretive investments, we aim to influence investee companies as shareholders through the promotion of responsible and sustainable practices.

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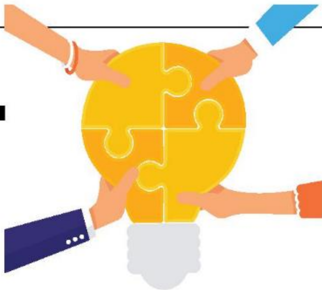

We understand that investors will have varying priorities; while ESG outcomes are important, some will have a greater need to focus on the returns of their investments.

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