IFN ISLAMIC SUSTAINABLE INVESTING THOUGHT LEADERSHIP REPORT

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Sustainability: The future of Islamic finance

The call for finance to be a force for good has become more urgent than ever, and the Islamic finance industry is heeding that call. Despite practitioners often being quick to point out the similarities between it and the sustainable finance movement, Islamic sustainable finance remains but a drop in the multitrillion-dollar ethical finance industry. Industry leaders, however, believe we are moving in the right direction, and with the right steps, the industry could deliver more meaningful impact through Shariah instruments with a sustainable core. VINEETA TAN dives deeper.

Slow and steady

Don't let the abbreviations confuse you. Be it ESG [environmental, social and governance], SRI [socially responsible investing] or impact investing, these terms are parked under the wider sustainable finance umbrella and are often used interchangeably albeit with delicate differences. ESG may be a jargon first coined in 2005 but the concept dates back earlier with SRI taking off in the 1960s. Within the Islamic finance sector, however, these concepts are a relatively new phenomenon, with Islamic ESG or Islamic sustainable finance gaining more momentum over the last half a decade or so.

Take green bonds as an example. The first climate awareness bond, or green bond, was issued by European Investment Bank back in 2007. The landmark EUR600 million (US$678.27 million) offering triggered a domino effect which led to an ESG finance market that is worth over a trillion dollars and growing exponentially. The Islamic finance industry, however, trailed behind and only issued its first green Sukuk 10 years later in 2017. From then until July 2020, only 17 green Sukuk issuances have entered the market, and are mostly concentrated in Malaysia and Indonesia.

According to Bashar Al Natoor, the global head of Islamic finance at Fitch Ratings, about US$5.5 billion were raised through sustainability-linked Sukuk in 2020; this figure has been superseded in the first three quarters of 2021 alone, with almost US$7 billion already raised.

"If I look at how much was issued since 2017, it is less than US$20 billion, which is small compared to the size of the global Sukuk market which is around US$800 billion currently. So, in terms of actual size, the sustainable Sukuk market is still tiny," Bashar explained, adding that over 10% of Fitch's US$130 billion rated Sukuk outstanding has some elements of sustainable, transition and green, indicating that this theme is more apparent within the dollar space. Malaysia is an exception, with corporates driving the Islamic sustainable agenda in the local currency market.

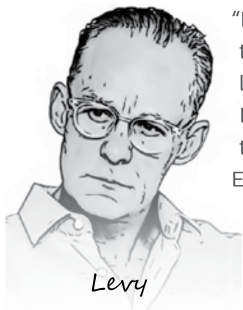
Bashar

The growth may be slow, but market practitioners take this as a sign in the right direction.

"Sustainability has always been at the heart of Islamic finance. But I think perhaps in the past we didn't bring it to the fore as much as we're doing now. And one of the reasons that we're doing it now is because in the conventional markets, sustainability, ESG financing has grown enormously in the last 15 years or so, and increasingly so in the last five years. So that depth of funding liquidity that's available in the conventional sustainable markets is something that Islamic finance is becoming increasingly aware of and tapping into. The combination of liquidity plus the fundamental purpose of Islamic finance have come together in the last three or four years," observes Farmida Bi, Norton Rose Fulbright's chair for the Middle East, Europe and Asia and the firm's European head of Islamic finance.

That depth of funding liquidity that's available in the conventional sustainable markets is something that Islamic finance is becoming increasingly aware of and tapping into

The Islamic and sustainable convergence is indeed gaining serious momentum, evident by the numbers.



"I think over the last 12 months, there's been a lot of discussion and the good news is that the discussion has basically crossed into almost every aspect of Islamic finance. Everybody is now talking about [Islamic sustainable finance], which is a good start," Dr Scott Levy, CEO of Bedford Row Capital, opined.

There is indeed a lot of talk, backed by meaningful measures, at the top of the industry and at government levels, with the likes of Malaysia, Indonesia, and several administrations in the Middle East putting together policies and incentives to spur the sector. Malaysia introduced its SRI Sukuk Framework in 2014, Indonesia launched its Green Bond and Green Sukuk Framework in 2017, and the UAE this year released its 10-year sustainable finance framework which features Islamic instruments while Oman is developing an ESG finance framework as well.

However, there is still a lot of work to be done, not only at policy level, but also at issuer level as we move from a mindset of maximizing profits to a mindset of profit with purpose.

Costly compliance

There is a cost to compliance, and this cannot be underestimated.

"In addition to complying with Shariah principles, you also have to comply with green bond principles and there are increasing layers of regulatory frameworks that are being built around Islamic sustainable finance," Farmida explained, adding that tapping the ESG market generally means having to get an ESG rating as well. "All of those are substantial obligations that you have to comply with, compared to going out into the market and issuing a conventional bond. So in order to jump through all of those different hoops, it has to be worthwhile."

There is a cost to compliance, and this cannot be underestimated

Disclosure is a central challenge Islamic financial institutions face in fully embracing the sustainability agenda. Perhaps the lack of Islamic

financial institutions committing to globally-recognized frameworks such as the UN Principles of Responsible Investment and the UN's Principles of Responsible Banking, which require regular detailed reporting of one's sustainability efforts and impact, is an indication of the severity of this challenge. To date, only a handful of entities have adopted these principles.

"The commercial necessity of doing so isn't quite clear enough," Dr Levy highlighted. "If [issuers] can tap into the markets the way they have always done and take a very conservative and traditional approach, why do they need to do this? And there isn't yet a commercial imperative in the same way there is on the conventional side to put the effort into the reporting that's required."

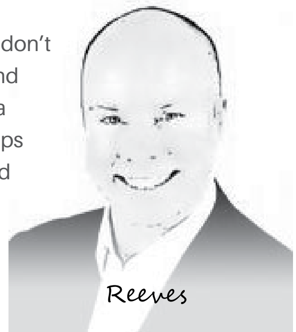
Professor Kevin Haines, Bedford Row Capital's head of social policy, echoes his colleague's sentiments: "There is an issue at the moment for Islamic finance about talking the kinds of language that is increasingly acceptable to investors. Investors are now expecting issuers to be conversant with these various regulatory frameworks and to be providing the data that investors need to demonstrate their compliance under these regulatory frameworks. This is early days but it is important for Islamic issuers to get conversant with these regulatory frameworks."

Making it worthwhile

The reality is: it is not easy to use finance for good without risking greenwashing. And it is costly too. These merely compound the concerns conventional issuers have with Shariah finance, which is already perceived as more complicated and expensive. This leads us to ask: is the payoff justified?

Market practitioners believe so, albeit the fact that it may take a while to realize such gains.

"(In general) getting a real yield that is actually positive is a challenge, and if you're an Islamic investor, then you have further restrictions. You don't have the entire universe available to invest in and so finding something that is going to generate a yield is one thing, finding something that perhaps can generate a positive inflation built in the yield is another. Islamic attributes attached is even more of a challenge and of course increasingly, Islamic investors also want sustainability, they're not different from everybody else. Having a sustainable Islamic investment I think is an incredibly positive and virtuous thing and I think in some respects they it could potentially lead this and certainly the opportunity is there," noted Craig Reeves, the founder of Prestige Funds.



When we compare the performance of conventional and Islamic indices, it does look like conventional edges ahead of its Islamic counterpart. The conventional S&P Global 1200 has modestly outperformed the S&P Global 1200 ESG Shariah. However, according to Michael Orzano, the senior director of global equity indices at S&P Dow Jones Indices, over the longer term, the ESG jurisprudence have led to outperformance and also some reduction in volatility.

"If we look at the trailing 10 years as of the 30th September 2021, the S&P Global 1200 Shariah gained an annualized 14.7% versus 13.1% for the conventional index, which is a pretty meaningful outperformance of over 1.5% per annum over 10 years. Interestingly on the volatility side, standard deviations were a little bit lower for the ESG SRI Index as well, which is interesting as it is a much narrower index," Orzano elaborated, adding: "Long-term outperformance was almost fully driven by the Shariah screens and the

ESG side of it didn't really have a large contribution because by design, the S&P ESG Index is constructed in an industry neutral basis so that it tends to closely track the conventional parent benchmark."

The ability to reach a wider investor base is often the driving reason to turn to Islamic sustainable finance. Beyond that, the trend toward doing good for the planet and people also attracts Islamic finance institutions to capitalize on this swelling demand.

Private capital really is vital and this presents a considerable opportunity for the Islamic capital markets to mobilize funding and is also a very unique opportunity for Islamic finance

"In Europe, you will see green issuances resulting in savings of at least up to 10 basis points as compared to normal issuances. But in the case of Asia, including Malaysia, generally the difference is very marginal," Chung Chee Leong, CEO of Cagamas, Malaysia's national mortgage corporation and the country's largest debt issuer, shared. "In our case, we managed to get two basis points (in savings) for our 2020 issuance. With increased awareness, we will probably see in the future, potentially some savings issuing sustainability Sukuk as compared to regular Islamic offerings." Cagamas in 2020 priced a combined issuance of its inaugural ASEAN Sustainability SRI Sukuk and Islamic medium-term notes totaling RM450 million (US$106.08 million). Proceeds from the SRI paper was used to specifically fund the purchase of eligible Islamic financing for affordable housing.

Urgent needs, attractive opportunities

For the most part, Islamic sustainable finance is here to stay, especially as the pandemic has created an urgent need for funding to recover.

"There is now a much greater focus on how to build back better as we come out of COVID. Many of the people who have been impacted the most by the coronavirus are in Muslim-majority countries and I think when those countries are looking at how they can rebuild that infrastructure, whether that's health, education, employment, there has been in Europe a very big focus on social bond issuances to try and ameliorate the effect of the pandemic. And those are structures and capital flows that these Muslim-majority countries can also tap into as the world generally tries to support development post-pandemic," noted Farmida.

The Islamic Finance Council UK expects US$30-50 billion in capital for green and sustainability Sukuk up to 2025.

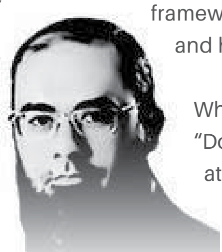
"It has been suggested that we need about US$7 trillion in infrastructure investment annually and between US$1.5 trillion to US$4 trillion every year for energy transition to meet the Paris [Agreement] targets; and with the commitments of the Glasgow Climate Pact, I'm sure

those numbers will then be increased and there aren't sufficient public funds to satisfy this. So, private capital really is vital and this presents a considerable opportunity for the Islamic capital markets to mobilize funding and is also a very unique opportunity for Islamic finance," according to Jennifer Schwalbenberg, the chief governance officer for the DDCAP Group.

The starting point is to understand and be aware of what the conventional [space] is doing, then look at your industry, see where you can capitalize on the things that you already have and then develop the things that you like

COP 26 [UN Climate Change Conference 2021], contentious as it may have been, nonetheless pushed various nations toward some serious climate commitments.

"The UAE was the first in the Middle East to announce their net zero ambition followed by Saudi Arabia and you must acknowledge that it's not easy for these countries. For these countries, which are some of the largest oil-producing countries in the world, to go next zero, they have to invest much more and they have to make much more effort as compared to other countries," said Khurram Hilal, CEO of group Islamic banking at Standard Chartered Bank.


Khurram

This year's UN Climate Change Conference saw the formation of the Glasgow Financial Alliance for Net Zero, a global coalition of 450 institutions from 45 countries committed to accelerating the decarbonization of the world economy and reaching net zero emissions by 2050. These institutions are not only augmenting their internal policies but also revising their investing and lending criteria for projects focusing on achieving net zero, signaling deep capital flows into the sustainable finance sector.

Turning words into action

So how do we, as an industry, capture these Islamic sustainable opportunities? As Schwalbenberg observed: "We had two weeks of moving intentions and wonderful announcements [at COP 26] but now we need to put that into reality and make it happen. It's no longer about goals and aspirations. It really needs to be about action. And with this, I think there really is a key role in the Islamic finance agenda for green finance, but also transition finance."

Bashar concurs. "I think the starting point is to understand and be aware of what the conventional [space] is doing, then look at your industry, see where you can capitalize on the things that you already have and then develop the things that you like. First is to build awareness, then realization of putting strategies and regulations and frameworks to improve that and then installing that in the system and having an ecosystem and incentivize issuers."

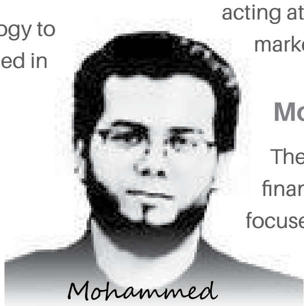
When it comes to regulations and policies, Dr Scott's advice is: "Don't be afraid of regulation – that's the first step. Look internally at your internal processes, have a brief read of the UN SDGs and understand where you fit into the things that the world is talking about at the moment."

At the heart of this movement is the importance of nurturing the right people to drive this change.

"We need to think about how do we get staff in Islamic banks to be equipped with the right knowledge? How do we create a future-ready workforce? We need our training and our learning institutions to focus in this area because this is the future of finance. They need to help develop the next generation of Islamic bankers who understand the dynamics of sustainable finance, who understand climate change, net zero carbon footprint, social finance and inclusion. They need to be fully up to speed with these concepts and not just knowing them, but also owning these concepts and also championing [them]," Khurram strongly believes.

Leveraging tech

And just as the Islamic finance industry is using technology to advance their cause, technology should also be leveraged in our journey of Islamic sustainability.


Mohammed

"Technology can definitely play a significant role in achieving environmental and social goals. We have instances of application of blockchain technology and Islamic social finance, such as the use of digital identities for monitoring the end-use of the contents of funds, as well as the preservation or development and proper use of Waqf or Islamic endowments for achieving various societal goals. Most of such goals find a place in the UN Sustainable Development Goals (SDGs)," according to Mohammed Alim, CEO-designate of IBF Net Group.

IBF Net is currently working on miniaturizing the Islamic economy, with a focus on Islamic social and sustainable finance using blockchain technology, and has launched several projects to this end. One of the projects is the Confluence platform which seeks to measure the impact of projects from the standpoint of Shariah and the UN SDGs.

"The platform combines the performance of the given projects against these metrics using an algorithm and produces a score or a classification scheme. This score reflects the impact of the projects using the lens of Shariah objectives, as well as the SDGs as perceived by the stakeholders. Given the availability of tools for measurement of environmental and social impact, for example carbon footprint, our platform identifies and adopts a suitable method for measurement and conversion of such impact into social cryptos. In this case, products can earn or liquidate such cryptos, which represent both types of impact acting at an exchange to alter their risk return impact profile in the market," Mohammed explained.

Moving forward

The notions of sustainability and ethics are not new in Islamic finance, although it is only in recent years that the industry is focused on harnessing and delivering sustainable impact in a more formal and structured manner. To many, this is the future of Islamic finance.

"This trend is a growth trend and I think this has already been cemented in the past three years; even at the height of COVID-19, we saw this segment growing, and I think this will continue in the short to medium term at least. If the government's strategies and milestones and objectives are really pursued in a very dedicated way, we could see more transformation of this segment, even in the long term, where it becomes a significant part of the industry," Bashar opined.

The push is also seen from the demand side, encouraging the supply side.

"We're definitely seeing a high level of demand from clients around the world for both ESG and for Islamic indices. Both of these are big areas of focus for us as an index provider. There have been significant inflows into ESG index products, including ETFs [exchange-traded funds] around the world over the past year, and we've also started to see Islamic ETFs in the US and Canada really gather momentum," Orzano shared. "I think the investment community is really just starting to think about combining broad-based ESG and Shariah investing together. I think we're likely to see a lot of new product development in the space over the next few years."

Schwalbenberg concurred: "I think as the strength of this agenda in the market increases, and that momentum builds, we will see the different institutions increasing their offerings and their options to the market. And it will be organic because as the sustainable finance sector grows and the products and services and practices become more prevalent, institutions will become more cognizant of this and they will realize they will miss opportunities and be at a disadvantage if they don't participate. Islamic sustainable finance will be recognized as the new normal and commitment will follow."

Corporates and Islamic issuers are already lining up their ducks.

"We see a lot of our traditional energy clients setting up new projects in a sustainable and renewable way and we are expecting a number of projects that were conventionally financed now being refinanced in a sustainable way going forward. So as a firm, we are expecting to do a lot more sustainable finance, certainly in the conventional markets, but hopefully much more in the Islamic markets as well," Farmida shared. It is learned that Cagamas and Standard Chartered are each preparing to introduce new products. Chung, CEO of Cagamas, revealed that the firm is looking to issue green Sukuk while Standard Chartered is working on expanding its Islamic green mortgage offering, Islamic social finance tools and Islamic ESG wealth management services, and is building on creating sustainability solutions for the wider Halal market including Islamic sustainable supply chain instruments.

As the multitrillion-dollar Halal industry continues to grow in its own space and globalize, I think it is important that they harness the socially responsible funding mechanism

"I think it's a great opportunity for growth that and we have this great upside in front of us," Khurram explained. "As the multitrillion-dollar Halal industry continues to grow in its own space and globalize, I think it is important that they harness the socially responsible funding mechanism, mechanisms of Islamic finance and strive to give holistic Halal solutions to faith-conscious clients.

"We need more innovation, we need more solutions in this space. This is an open field for all banks, all partners to come in and play their role."

The changing ESG landscape and our part in it

By Ismitz Matthew De Alwis,
the Executive Director/CEO of Kenanga Investors

Authored by

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Kenanga Investors

The term ESG [environmental, social and governance] is frequently mentioned these days, but what exactly does it mean? Perhaps a decade ago, it would seem almost performative to have ESG written as part of a company's corporate social responsibility statement. The fact that it is now one of the most trending topics in the industry shows that the world, at large, has truly shifted gears for the better. Now, it is a major part of many institutions' key performance indicators, and is something that customers or investors look out for before engaging with the said institution. It represents a more stakeholder-focused approach to business.

Shareholders have increasingly started viewing ESG-related issues as a window into the future, and a clear hierarchy has formed. As a result of this, leading corporations now view ESG issues as a business imperative. Companies that have included ESG principles/factors into their overall strategy and risk oversight discussion have presented a more positive image. The ability to detect and manage ESG-related concerns seems to have the capacity to create an engaging narrative surrounding a business and its practices.

The rise of Islamic finance in tandem

We also believe that Islamic finance can be an enabler in achieving sustainable development. We see promising sources of growth going forward in Islamic social finance. This includes instruments like Qard Hassan, Waqf and Zakat. In particular, we see Waqf, an Islamic endowment instrument, as an attractive asset class that integrates commercial obligations with sustainability and social objectives.

ESG investing and Shariah investing are commonly seen as two separate entities, yet they are, in fact, two sides of the same coin. Both ESG and Shariah investing seek to encourage responsible conduct with Shariah investing emphasizing being good stewards of society and the environment following Islamic principles while ESG aims for sustainable outcomes.

ESG practices and advancement are only feasible through education and training. However, it is also critical to have both integration and engagement when it comes to ESG. ESG integration will improve long-term returns through managing ESG risk and opportunities. I believe that ESG is just not one particular thing but it is broad, interconnected and informs the way we approach investment ideas and solutions. A holistic ESG plan should encompass clear directions for all business units.

Malaysia has been the hub for Shariah compliant investments in the region. According to the Securities Commission Malaysia (SC), Malaysia's Islamic capital market continues to hold a sizable part of the overall capital market, accounting for 65.85%. The market size in December 2020 was RM2.26 trillion (US$540.02 billion), up from RM2.04 trillion (US$487.46 bilion) at the end of 2019 [1].

Following the COVID-19 pandemic, there has been a rise in interest in ESG, notably in Asia, where several stock exchanges have begun to introduce sustainability reporting rules. The Singaporean government's development of the Singapore Green Plan, which seeks to provide a comprehensive framework for sustainable development, green economy and net-zero emissions, prompted the Monetary Authority of Singapore (MAS) to incorporate climate change and environmental sustainability into all of its frameworks. As a central bank and financial regulator, MAS seeks to collaborate with financial institutions in Singapore to increase the financial sectors' resilience to environmental threats [2]. In 2020, the Indonesia Financial Services Authority (Otoritas Jasa Keuangan) mandated ESG reporting for all listed firms in Indonesia while banks were obligated to do so beginning in 2019 [3].

Currently, in Malaysia, the region's evolution toward sustainability has progressed at varying rates among different organizations. Bursa Malaysia has set a good precedent by providing frameworks and rules since the beginning of its ESG journey in 2010, when it founded its sustainability committee [4]. The sustainability committee oversees the formulation, implementation and effective management of Bursa Malaysia's sustainability strategies. It ensures that Bursa Malaysia's strategic direction takes sustainability into account [5].

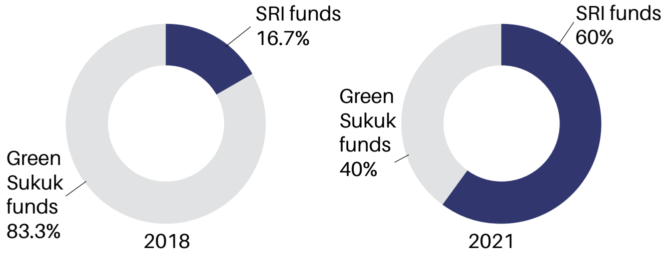
A recent global framework currently in the works is the joint Corporate Sustainability Practitioner (CSP) Competency Framework which was proposed this year, through the partnership of Bursa Malaysia, the UN Global Compact Network Malaysia and Brunei to support the credentialing of practitioners and professionals involved in Malaysia's corporate sustainability space [6]. Additionally, the SC released the Sustainable and Responsible Investment (SRI) Roadmap for Malaysia's capital markets in 2019. This roadmap is to create an SRI ecosystem, charting the role of the capital markets in driving sustainable development. All in all, regulators are looking toward building a holistic ecosystem that takes into account the perspectives of all stakeholders, whether investors, financial institutions or society at large [7].

It comes as no surprise that ESG and Shariah investment are intertwined with one another. The creation of the FTSE4Good Bursa Malaysia Shariah (F4GBMS) index demonstrates this. The F4GBMS index has been essential in identifying public listed companies that have improved their ESG policies and disclosures. It was created in Malaysia in 2014 in collaboration with FTSE Russell and represents firms that exhibit good ESG practices [8]. It is overseen by the FTSE4Good Committee, and firms are picked using FTSE's ESG approach, which is based on criteria outlined by the Global Reporting Initiative and the Carbon Disclosure Project [9]. The F4GBMS serves as a basis for fund managers to develop new investment products based on a portfolio with Shariah compliant equities governed by ESG principles. As of June 2021, the index's composition consisted of 54 constituents; this index will be revised twice a year, in June and December.

In Malaysia, there appears to be a gap between social enterprises and funding. This might be due to a lack of information and financing platforms. Greater transparency and knowledge about a sector are crucial since this information will educate funders, making it easier for them to decide who they can finance and why they should invest in them.

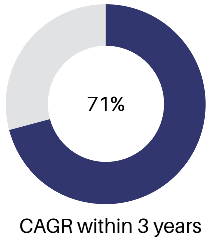
Impact investment is a growing topic of conversation in Malaysia, and it entails extending beyond funding non-profits and social enterprises.

Figure 1: Growth of SRI-related funds in Malaysia

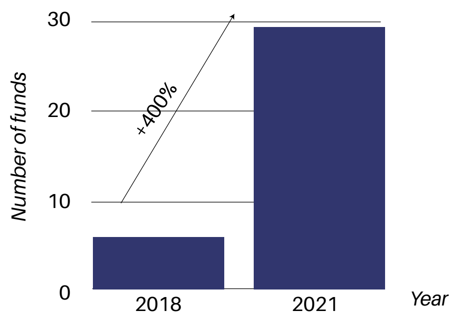


According to Securities Commission Malaysia (SC), there were only six SRI-related funds in Malaysia in 2008. The SC announced in October 2021 that there are currently 20 SRI-related funds in Malaysia.

There seems to be notable growth when it comes to SRI-related funds. The number of SRI-related funds increased four-fold between 2018-2021, growing by 71% on average per year.



Number of SRI-related funds in 2018 and 2021



Data sources:

1. *Responsible Investing: Looking for New Ways to Invest in Social Enterprises (8th August 2018, Bursa Sustain)*
2. *List of Sustainable and Responsible Investment ("SRI") Fund (as at 21st October 2021, Securities Commission Malaysia)*

Critical to this topic is SRI. SRI funds are funds that focus on the 'social' aspect of ESG in publicly traded companies. Figure 1 shows the growth of SRI-related funds and how they have developed in Malaysia. Encouragingly, the pace of growth has not been lacking and we foresee that rising interest will stimulate more product development within the market within the next few years.

Part of the change

The challenge we all face is clearly short-term thinking. Sustainable development promises better and more resilient economies and businesses, inclusive growth and equitable societies but only in the future, after a period of adjustment and potentially some pain.

Traditional thinking on the necessity of giving up growth for ethical or responsible investing is also being reconsidered. Many studies have highlighted that the investors of tomorrow will insist on a positive impact as well as positive returns, so ESG methodology is now part of the mainstream and is here to stay.

Kenanga Investors has always recognized the importance of a company that is driven by ESG principles and goals. We are of the opinion that by managing ESG risks and opportunities, ESG integration will boost long-term results. It is our responsibility, on behalf of asset owners, to generate a positive ESG impact through their investments. It is also the fiduciary duty of Kenanga Investors, as a signatory of the Malaysian Code of Institutional Investors, to engage in and promote ESG practices to all of our stakeholders. In addition to the collective benefits that we expect to derive from adopting ESG principles, it is a reality today that given the current wave ESG is riding on, we are at risk of losing competitiveness if we do not make significant strides in this direction.

As a firm, we intend to integrate ESG considerations into three major aspects; i) firm-wide, ii) product and iii) stock level. This perspective will allow us to develop overall targets and values, and focus on ESG-led portfolios and product structuring and ESG screenings throughout our investment processes, all the while maintaining an active stewardship stance through engagements with stakeholders and exacting our voting rights with investee companies.

The firm is also represented through my participation in and membership of several notable steering committees aimed at supporting Malaysia's transition toward an inclusive and climate-resilient economy such as the Sustainable Investment Platform, the FTSE Bursa Malaysia Index Advisory Committee and the Joint Committee on Climate Change (led by Bank Negara Malaysia and the SC).

As mentioned previously, Kenanga Investors is also a signatory of the Malaysian Code for Institutional Investors. As a signatory, we have developed practices to support the code and internalize the principles throughout the whole investment value chain. As investment managers, we have a say in the markets in which we invest in. We anticipate that frequent stewardship procedures within the investing community will raise awareness and, consequently, behavioral changes among community members.

Our recent appointment as the fund manager of Dana Wakaf Bencana, an emergency relief fund established for the purpose of channeling resources to those affected by climate change-related disasters as well as future pandemics, has seen us embarking on yet another milestone on the said roadmap. A collaboration between government-linked agencies and the private sector, the initiative is in line with the SC's Islamic Fund and Wealth Management Blueprint released in 2017 and the Waqf Featured-Fund Framework introduced on the 12th November 2020 which aim to facilitate the growth of the Islamic social finance segment. In April 2021, we also oversaw the launch of the Kenanga Waqf Al-Ihsan Fund, where half of the derived income will be distributed to sectors such as education, healthcare, economic empowerment and environmental preservation or development. Both funds are rooted in elements of Waqf, which encourages Muslims to channel revenue and various goods and services to the groups or communities in need. This bears credence to the idea that it is possible to do well while doing good. We foresee that these initiatives will generate a considerable amount of awareness and interest due to their altruistic nature especially in today's social climate which will lead to society empowerment and poverty alleviation.

We are aware that this is a long-term effort. As such, we have set our sights clear on the endgame and are confident in making good on our commitment to this agenda. We are also intending to encourage more policy discussions to effect enhancements in ESG integration within our investment strategies, voting policies and impact reporting to our stakeholders. In Malaysia, the government and regulators are pushing this as can be seen in the many initiatives, viewing the importance of a whole-nation approach in terms of developing short- to long-term key policies for sustainable development. This includes the impact of climate change on financial stability and the economy, as well as addressing social-related issues like poverty. Overall, on sustainability measures, the latest Budget 2022 announced by the finance minister included a transition toward low-carbon practices; environment and diversity; and community empowerment which augurs well for Malaysia in developing the local capital market sustainable roadmap and ecosystem.

We only have one Earth, and we feel that tackling the issues that have arisen as a result of decades-long neglect toward our environment is a once-in-a-lifetime chance. We look forward to being part of the change that will solve these concerns before the harm and its consequences are permanent. We must each accept the responsibility for change. It is time to 'create the future' that we want. We owe it to ourselves, and future generations, to ensure sustainable and beneficial outcomes for all.

This advertisement has not been reviewed by the Securities Commission Malaysia.

*Sources:

[1] https://www.sc.com.my/resources/publications-and-research/sc-annual-report-2020

[2] https://www.mas.gov.sg/news/speeches/2021/a-sustainable-future

[3] https://sseinitiative.org/stock-exchange/idx/

[4] https://www.bursamalaysia.com/cn/about_bursa/media_centre/bursa-malaysias-business-sustainability-programme-aims-to-drive-higher-integration-of-sustainable-practices-amongst-malaysian-listed-companies

[5] https://www.bursamalaysia.com/about_bursa/sustainability/sustainability_governance

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