

# SRI INTEGRATION INTO INVESTMENT DECISION MAKING

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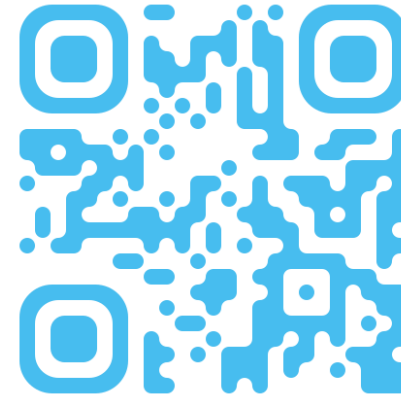
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# OPENING KEYNOTE



**DATUK MUHAMAD UMAR SWIFT**

CEO,  
Bursa Malaysia



**LUTFEY SIDDIQI, CFA**

Managing Director,  
Regions and Society Relations,  
CFA Institute



# OPENING KEYNOTE

SPEAKER'S  
PROFILE



## DATUK MUHAMAD UMAR SWIFT

CEO,  
Bursa Malaysia

- Director of all subsidiary companies within Bursa Malaysia Group, and serves as a Chairman of Bursa Malaysia Derivatives and Clearing.
- Over 25 years of experience in the areas of banking and financial services.
- Member of the Board of Securities Industry Development Corporation (SIDC)
- Member of the Financial Reporting Foundation and a Board member of the Capital Market Development Fund, both appointed by the Ministry of Finance
- Fellow of Chartered Accountants Australia and New Zealand
- Fellow of the Financial Services Institute of Australasia (FINSIA) in Australia
- Member of CPA Australia, a Chartered Tax Adviser of The Tax Institute of Australia
- Chartered Accountant with the Malaysian Institute of Accountants and a Registered Financial Planner
- Graduated with a Bachelor of Economics degree from Monash University, Australia.

# OPENING KEYNOTE

SPEAKER'S  
PROFILE



## LUTFEY SIDDIQI, CFA

Managing Director,  
Regions and Society Relations,  
CFA Institute

- Leads the organization's engagement, liaison, and partnership with members and stakeholders, including industry and academia.
- His regional and society relations teams around the world are charged with relationship management, representing the voice of the customer, and delivering on the CFA Institute mission in alignment with local market contexts.
- Visiting Professor-in-Practice at the London School of Economics (IDEAS) and an Adjunct Professor at the National University of Singapore (Risk Management Institute).
- Member of the World Economic Forum Future Council on Fiscal & Monetary Policy, having previously served on the councils for the future of financing and long-term investing.
- His industry experience includes stints at Deutsche Bank, Barclays and latterly UBS Investment Bank where he was Global Head of Emerging Markets for FX, Rates and Credit, and founding head of UBS Knowledge Network.

# OVERVIEW: ESG INTEGRATION FRAMEWORK

SPEAKER'S  
PROFILE



**MARY LEUNG, CFA**

Head of Advocacy,  
CFA Institute, Asia Pacific

- Lead the team that is responsible for building market integrity in APAC by developing and advocating capital markets policy positions that raises investor protection and fosters sustainable industry growth
- Oversee the promotion and development of CFA Institute Asia-Pacific Research Exchange (ARX)
- Over 20 years of experience in the global financial industry, having worked in corporate finance, wealth management advisory, and fund management
- Former Director of Business Development and Management for North Asia of Coutts & Co
- Former Executive Director of Corporate Advisory Group, UBS

# ESG Integration Framework

## Sustainable and Responsible Investment Series Part II

June 2021

Mary Leung, CFA

Head, Advocacy, Asia Pacific

CFA Institute





# Sustainable investing: on a tear

## Key drivers

- **Increased awareness** by investors of the potential impact that ESG factors have on value
- **Greater availability of ESG disclosures** by issuers, as well as ESG data and information from third-party providers that aid in investment decision making
- **Intensifying regulatory scrutiny of “greenwashing”**—that is, investment products that make claims around being green, meeting ESG criteria, or being sustainable, more so than they really are

# Sustainable assets under management by region

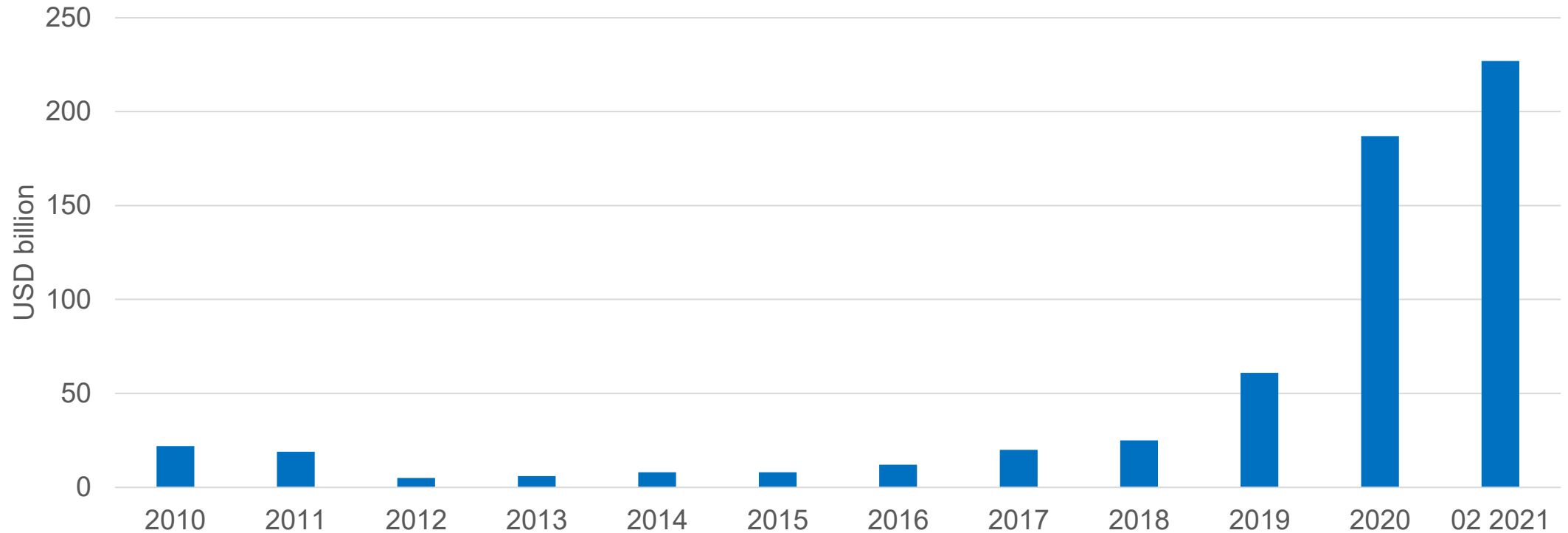
Region	AUM (US\$ billion)	Percentage of total	Number of funds	Percentage of total
Europe	1,625.3	81.9%	3,444	76.1%
United States	265.8	13.4%	409	9.0%
Asia (excluding Japan)	36.7	1.8%	237	5.2%
Australia and New Zealand	21.2	1.1%	129	2.9%
Japan	21.2	1.1%	149	3.3%
Canada	14.2	0.7%	156	3.4%
<b>Total</b>	<b>1,984.5</b>	<b>100.0%</b>	<b>4,524</b>	<b>100.0%</b>

Note: As of March 2021

Source: "Global Sustainable Fund Flows: Q1 2021 in Review," Morningstar

# ESG is no longer confined to active investing

## Sustainable ETF and ETP AUM



Source: "ETFGI Reports Assets Invested in ESG ETFs and ETPs Listed Globally Reached a Record US\$227

Billion at End of February 2021," ETFGI News, 22 March 2021

# ESG in the time of COVID-19

**Bloomberg**

**ESG a Win for Stocks, Less So for Bonds Amid Covid-19**

**THE WALL STREET JOURNAL.**

Coronavirus Pandemic Could Elevate ESG Factors

**FINANCIAL TIMES**

ESG passes the Covid challenge

**South China Morning Post**

Coronavirus strengthens case for sustainable investing as ESG stocks outperform market in crisis

**ET Markets**

Covid-19 is proving to be the litmus test for ESG investing

**Forbes**

Covid-19 Is Accelerating ESG Investing And Corporate Sustainability Practices

**ETF TRENDS**

ESG Investing Could Get a Lift From Retirement Plan Focus

**THE Asset** 財資

Covid-19 crisis could turn into the ESG era

**GlobalCapital**

Covid cuts flow of green bonds and loans, but not their appeal

**funds europe**

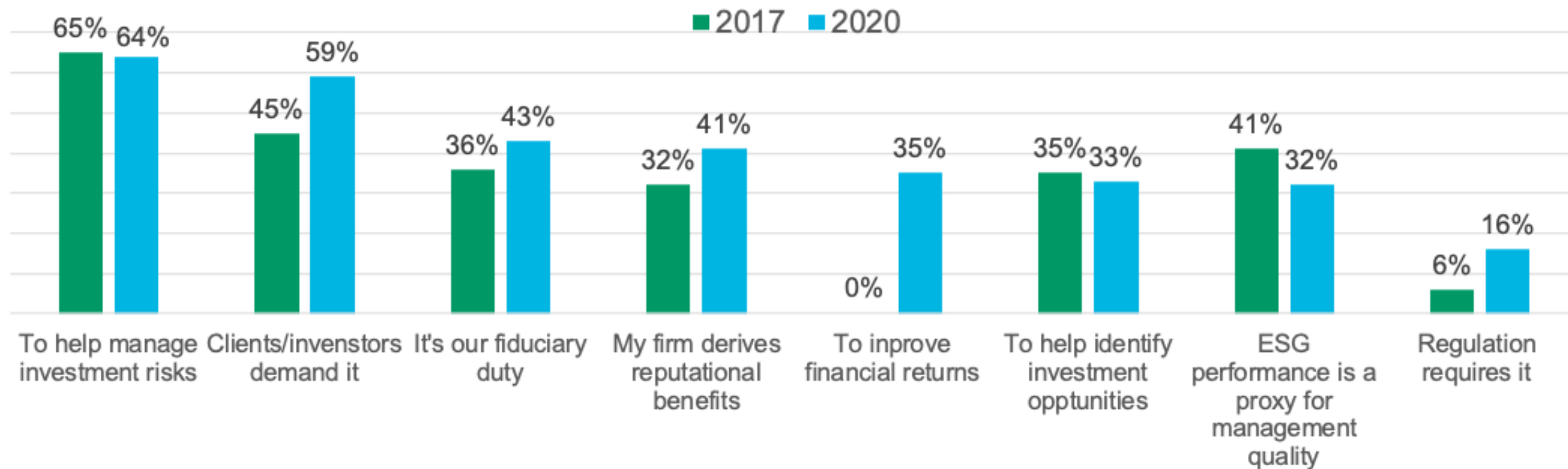
Covid-19 could shape ESG investing “for years to come”

**ASIAN PRIVATE BANKER** 

PB CEOs optimistic about growth of ESG investment in Asia after COVID-19

# Drivers of ESG integration

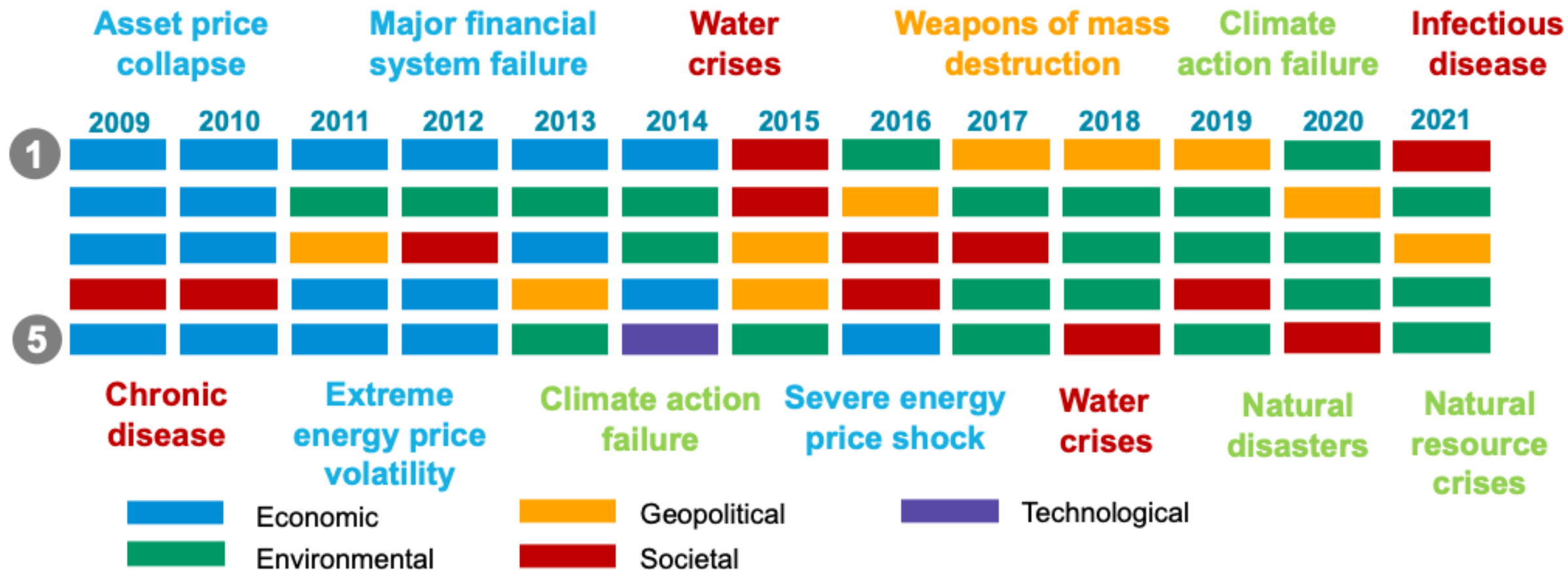
Why do you and your organization take any ESG issues into consideration?



Source: "Future of Sustainability in Investment Management: From Ideas to Reality," CFA Institute



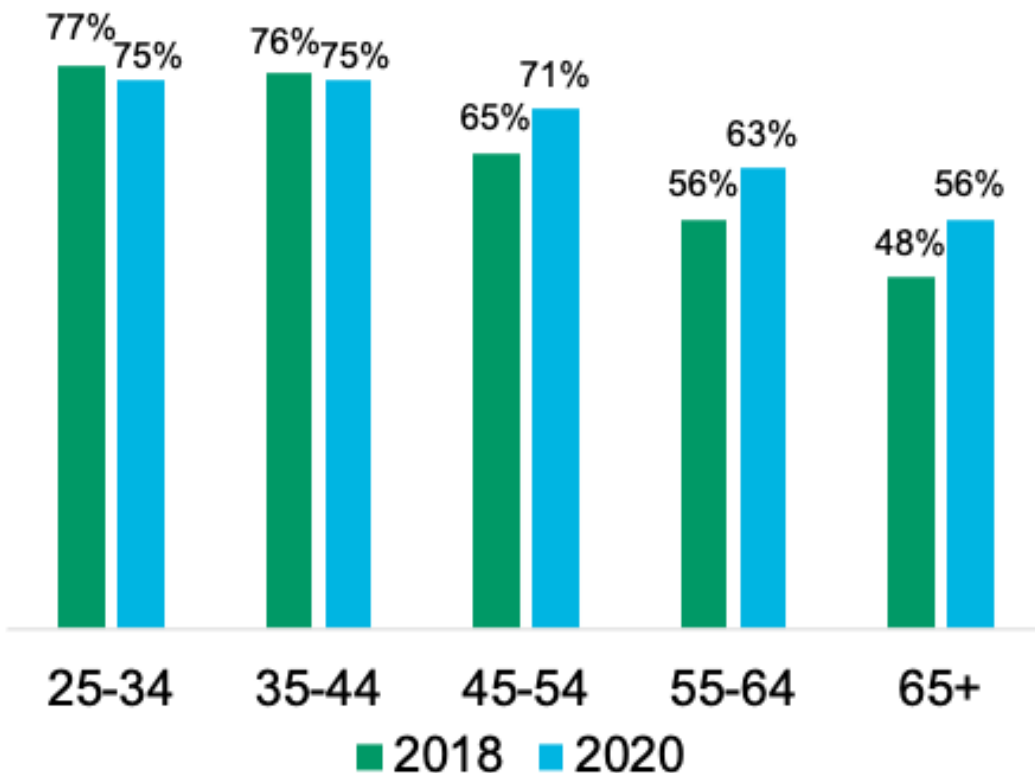
# The evolving risk landscape



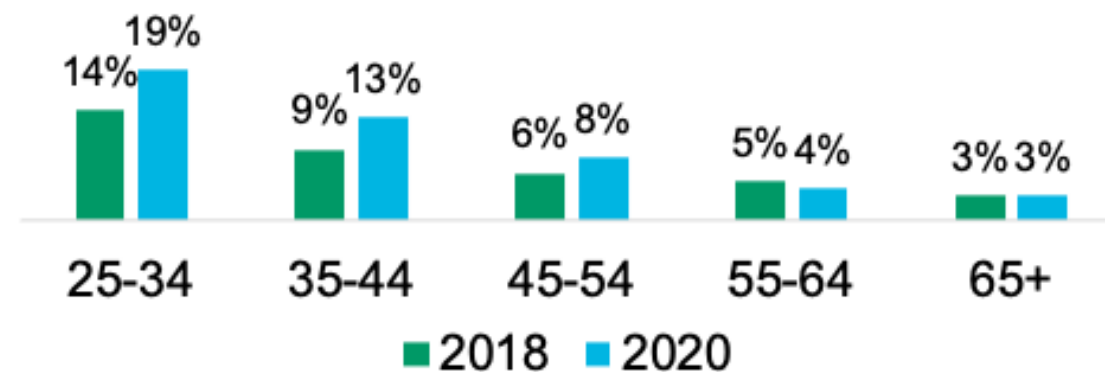
Source: World Economic Forum Global Risks Report 2021

# ••• The business opportunity

Retail investors interested in ESG strategies, by age



Retail investors currently employing ESG strategies, by age



Note: N = 2,430 in 2018 and N = 2,840 in 2020

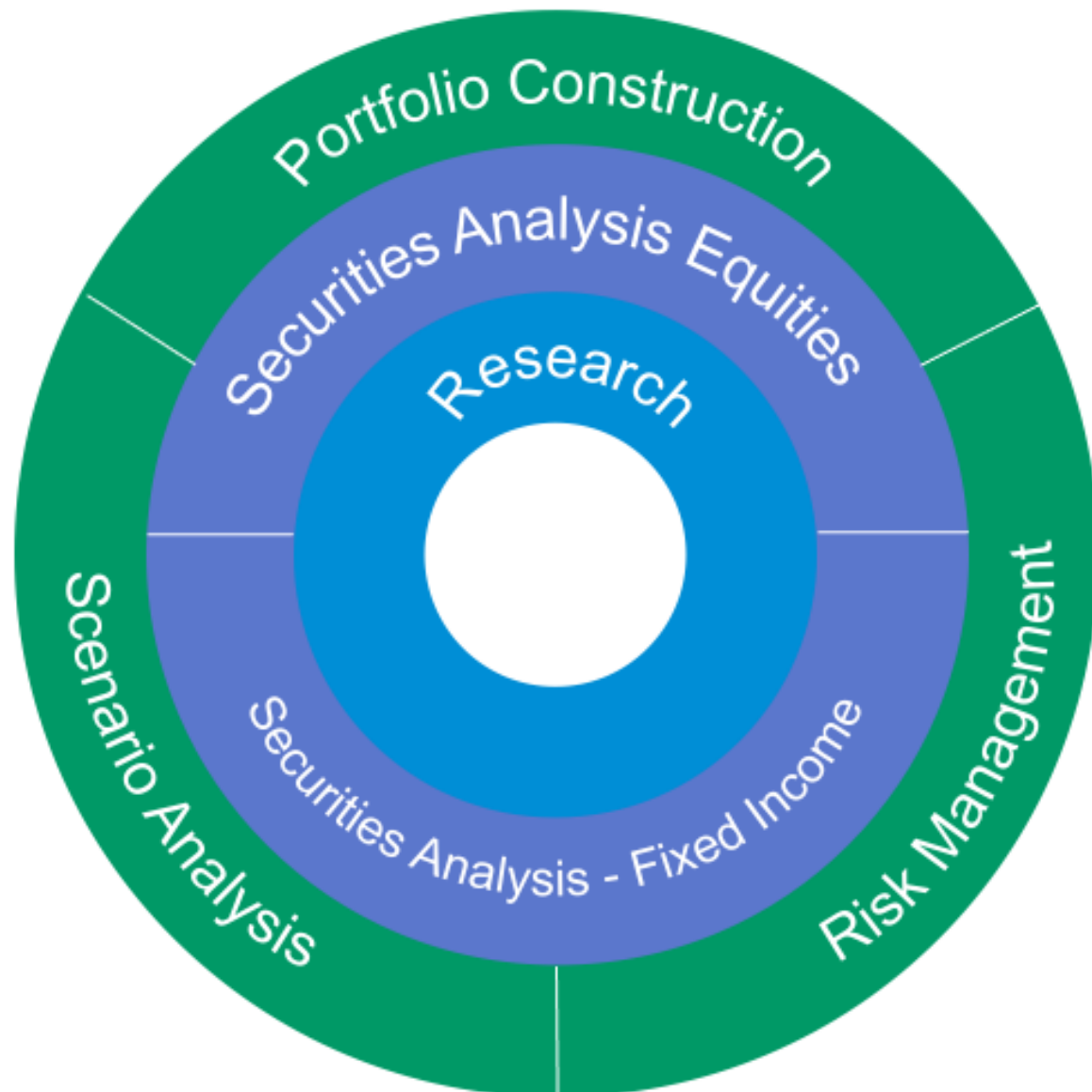
Source: "Future of Sustainability in Investment Management," CFA Institute

# The ESG integration framework



Source: See, for example, "ESG Integration in Asia-Pacific," CFA Institute and Principles of Responsible Investment

## ••• A simplified view



- Inner circle
  - Research
- Middle circle
  - Securities analysis for equities
  - Securities analysis for fixed income
- Outer circle
  - Portfolio construction
  - Scenario analysis
  - Risk management



# Examples of applying ESG analyses

- The ESG analysis is studied alongside the investment analysis of to inform a “buy / sell / hold / don’t invest” decision
- The ESG analysis can be the deciding factor between otherwise identical opportunities, all other factors being equal
- Engagement with a company that has subpar ESG performance can give rise to improvements, resulting in a buy/hold decision
- Temporary or permanent adjustments to forecasted financials, modeling assumptions, valuation multiples, forecasted financial ratios, and/or portfolio weightings are made for ESG analysis
- The ESG analysis can influence the maturity of the bond that an investor invests in







# ESG myth busters

ESG integration does not mean that:

- investment in certain sectors, countries, and companies is prohibited
- portfolio returns are sacrificed to perform ESG integration techniques
- immaterial ESG factors affect investment decisions and traditional financial factors are ignored
- major changes to the investment process are necessary





# Closing thoughts

- There is a structural shift into allocating assets into sustainability or ESG investments
- Passive ESG investments have increased significantly in the last few years
- There is no “one best way” to do ESG integration and no “silver bullet” to ESG integration
- Portfolio managers and analysts are more frequently integrating ESG into the investment process
- ESG integration is further along in the equity world than in fixed income
- Capacity building across the eco-system is key to harnessing the structural shift



# Our library of ESG-related publications

## Capital markets / Corporate and investor governance



## Future of Finance / Research Foundation



## CFAI / PRI series





Q&A

# PANEL SESSION: SRI INTEGRATION INTO INVESTMENT DECISION MAKING: EQUITIES

MODERATOR:



**DR. ADAM NG**

CFA Institute ARX Society  
Engagement Committee,  
Malaysia Representative

SPEAKERS:



**JIM McCAFFERTY**

Joint-Head,  
APAC Equity Research,  
Nomura



**RIZAL MOHAMED ALI**

Vice President,  
Responsible Investment,  
KWAP



**ZHIKAI CHEN, CFA**

Head of Asian Equities,  
BNP Paribas  
Asset Management



# PANEL SESSION: SRI INTEGRATION INTO INVESTMENT DECISION MAKING: EQUITIES

MODERATOR'S  
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**DR. ADAM NG**

CFA Institute ARX Society  
Engagement Committee,  
Malaysia Representative

- Specializes in sustainable finance at WWF-Malaysia and represents WWF in the subcommittees of the BNM-SC Joint Committee on Climate Change, Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) sectoral guide working group, and as knowledge partner with financial institutions in ESG integration.
- Completed his postdoctoral fellowship as Securities Commission Malaysia-Oxford Centre for Islamic Studies Scholar-in-Residence in Islamic Finance, Research Associate at Global Economic Governance Programme and Bachelor of Civil Law at University of Oxford.

# PANEL SESSION: SRI INTEGRATION INTO INVESTMENT DECISION MAKING: EQUITIES

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PROFILE



**JIM McCAFFERTY**

Joint-Head,  
APAC Equity Research,  
Nomura

- Former Head of Asia Pacific Research at RBS/CIMB, Hong Kong.
- Former Head of Research at ABN AMRO, Societe Generale and Seymour Pierce, London.
- Financial Times AIM analyst of the year in 2008.
- Published “UK Fund Managers and Institutional attitudes towards Japanese Equities” in the journal The Japanese Economy in 2012.
- Graduated with BA (Hons) degree in Economics from Heriot-Watt University and an MSc degree in Political Economy of East Asia from the University of Sheffield.

# Gapponshugi in an ESG World

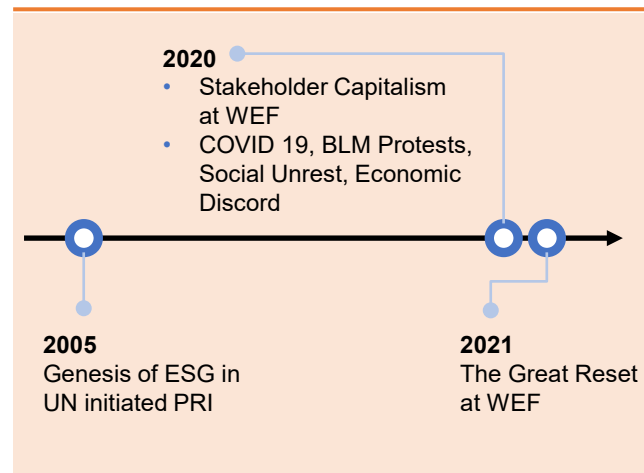
**Jim McCafferty – NIHK**  
Joint-Head of APAC Equity Research  
+852 2252 1189  
[jim.mccafferty@nomura.com](mailto:jim.mccafferty@nomura.com)

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Any authors named on this report are research analysts unless otherwise indicated.

# ESG Investing: The future starts here

## Timeline



## ESG: the new normal?

	2019	2020	Change
Investors considering ESG	55%	89%	▲
Investors complying with regulation	56%	84%	▲
Plans integrating ESG into investment policy	68%	88%	▲
Plans developing a set of ESG beliefs	19%	55%	▲

The key reason for considering ESG risks remains the need to comply with regulation, accompanied by an increase in plans integrating ESG into their investment policy and developing a suite of related policies as a result.

Source: Mercer European Asset Allocation Insights 2020

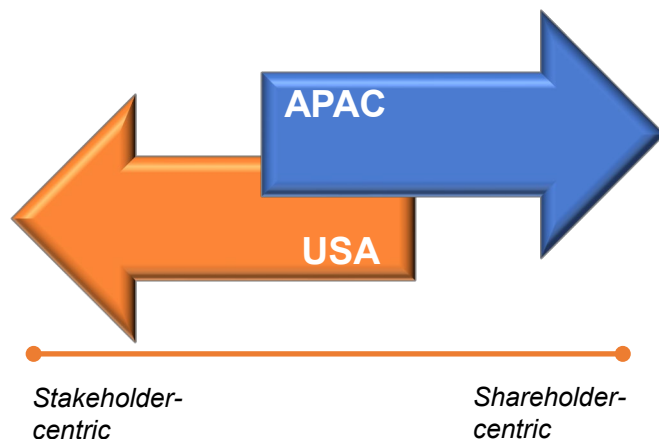
## Governance, beliefs and policy

Does the plan's investment policy make reference to ESG issue?	88%
Has the plan developed a set of ESG/responsible investment beliefs?	55%
Does the plan have a standalone ESG/responsible investment policy?	14%
Does the plan have dedicated resource focused on responsible investment?	8%
Does the plan have a responsible investment committee?	5%

The number of plans that have explicitly created and formalized ESG beliefs has increased significantly, up from 19% last year to 55% this year.

Source: Mercer European Asset Allocation Insights 2020

## ESG: East meets West



## Social Aspects at Forefront

	Affected in 2017	Will affect in 2022
<b>ESG issues impact on share prices</b>		
Governance	58%	65%
Environmental	23%	52%
Social	23%	46%
<b>ESG issues impact on corporate bond yields/spreads</b>		
Governance	41%	53%
Environmental	15%	40%
Social	15%	35%

## ESG: APAC Outlook

### Japan

Most advanced in APAC; GPIF leading change; best dividend growth of any major equity market in last five years.

### China

HK-listed companies obliged to give full disclosure on ESG-related activities. Shanghai and Shenzhen are expected to follow.

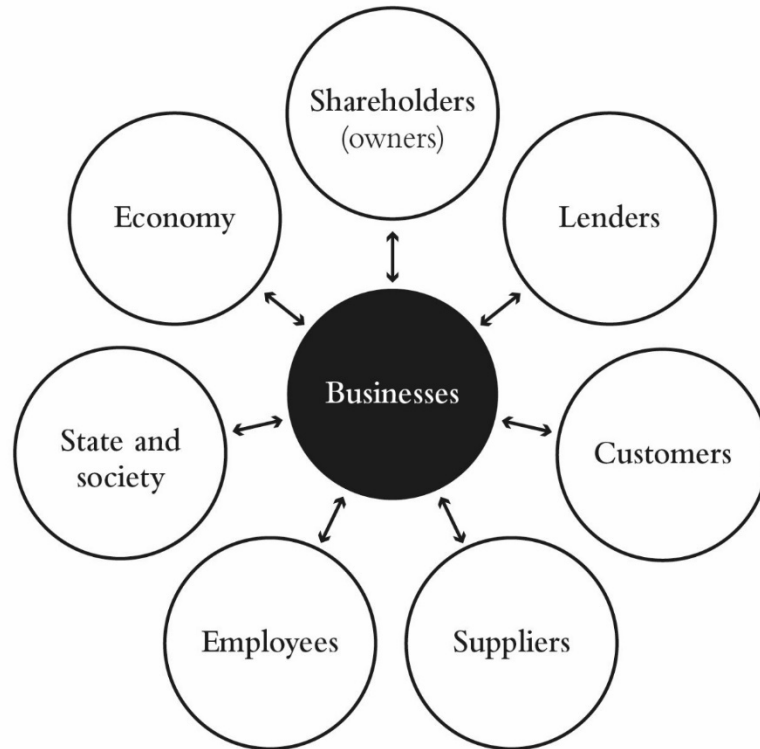
### Korea

NPS announcement in September that it seeks to incorporate ESG criteria into its domestic equity and bond portfolios.

### Taiwan

Board composition of leading index constituents is more international than regional peers.

# Stakeholder Capitalism: Lessons from Japan



**Ian Maitland & Mitsuhiro Umezo (2006)**

*"Japan appeared to have invented a more humane form of capitalism without having to sacrifice efficiency and productivity"*

*"Many Americans looked to Japan for an alternative to the raw capitalism practiced in the United States and liked what they saw"*

**Carl Kester (1991)**

*"Japanese managers are agents of the entire coalition of stakeholders rather than the shareholders or any other single group"*

**Eric Orts (1992)**

*Japanese company is "a coalition of stakeholders – suppliers, lenders, customers, shareholders – holding a complex blend of senior and junior, short-term and long-term, conditional and unconditional, implicit and explicit claims against the company"*

**Sanford Jacoby (2000)**

*Japanese variant of capitalism "balances the interests of multiple stakeholders: employees. Creditors, trading partners, and finally shareholders"*

**Ronald Dore (2000)**

*In Japan "the rights of owners.....are seen to be very properly circumscribed by the rights of other stakeholders – employees, customers, suppliers and sub-contractors, creditors, local communities etc"*

**Fukuyama (1995)**

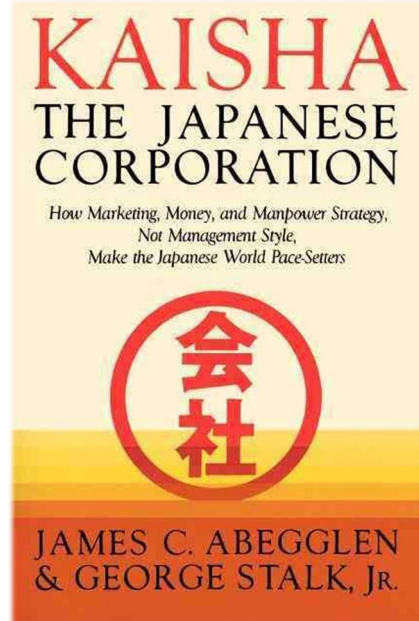
*Japanese company is a community "whose members are willing to subordinate their private interests for the sake of larger goals of the community"*

***"The Japanese system operates in stark contrast to Western-style capitalism. It's genesis lies in a 1970 article in the New York Times. The Friedman doctrine, also called shareholder theory or stockholder theory, is a normative theory of business ethics advanced by economist Milton Friedman which holds that a firm's sole responsibility is to its shareholders."***



# Gapponshugi: Ethical Capitalism

## Reading List



### **Kaisha: The Japanese Corporation**

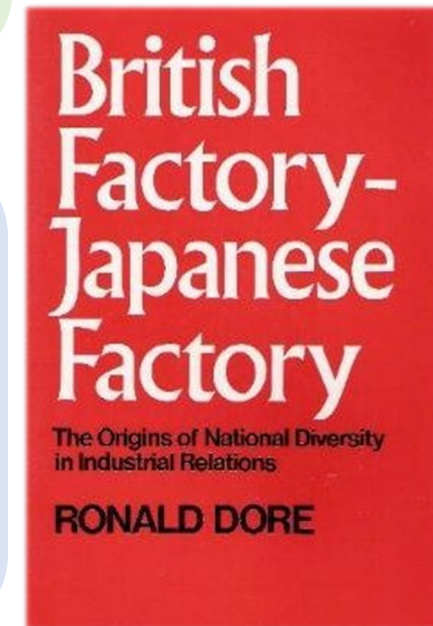
#### *Whose company is it?*

- The constituency of the Kaisha board members are other career employees of the company.
- Corporate objectives of US and Japanese management were polarized at date of publication.
- US management prioritized share price as second of nine objectives.
- Japanese management placed this last.
- One out of six of the major Kaisha executives have been executives of the company's union.
- *"Union and the Kaisha are co-terminous"*

### **British Factory/Japanese Factory**

#### *The Enterprise as a Community*

- Compared working practices/employment systems at English Electric Company with Hitachi Company in 1972.
- Hitachi's spending on non-salary benefits equivalent to 8.5% of labor costs. British equivalent just 2.5%.
- In 1969, 15 of 20 Hitachi directors joined the company straight from full time education.
- In 1967, 6 of 16 English Electric Company directors were NEDs with no previous interest in the company.
- In reference to British factory.
- *"By and large, once one is outside the factory gates one is a citizen"*



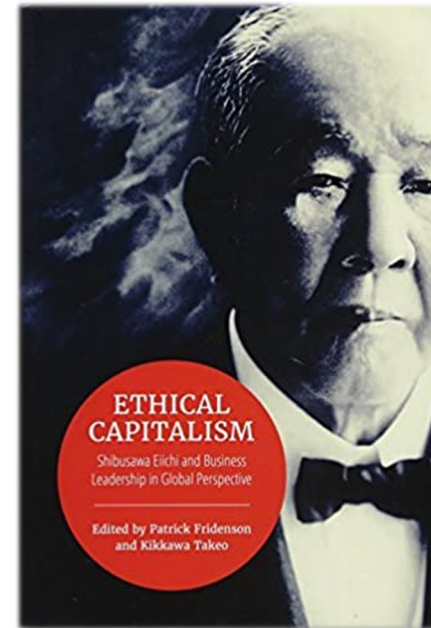
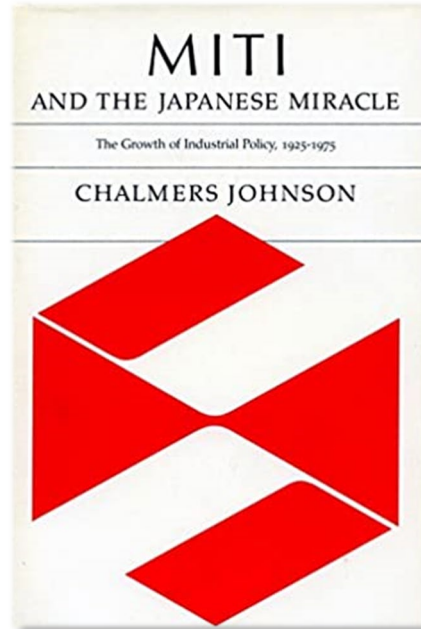
# Gapponshugi: Ethical Capitalism (cont'd)

## Reading List

### MITI and the Japanese Miracle

#### Administrative Guidance

- MITI had been engaged in both the transfer of knowledge among enterprises and facilitated the share of best practice from one enterprise to another.
- Guidelines and policies entailed loans to targeted industries to lessen reliance on capital markets.
- Longer term views as opposed to quarterly revenue or annual metrics could be prioritized.
- MITI abetted by Japanese lifetime employment systems, enterprise unionism and the seniority based wage system.
- *"In some of its forms administrative guidance is indistinguishable from a formal legal order by the government"*

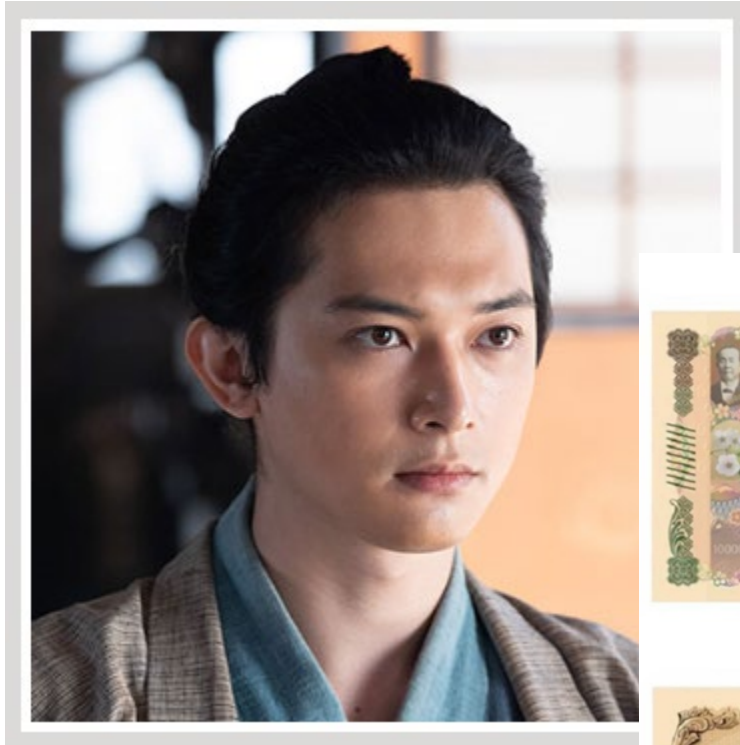


### Ethical Capitalism

#### *The Crisis of Capitalism and the Gapponshugi of Shibusawa Eiichi*

- As Head of Dai-Ichi bank, Shibusawa championed Gapponshugi capitalism as an alternative means of societal and economic organization.
- Shibusawa's Gapponshugi model was the diametric opposite of the zaibatsu model associated with closed family-centred conglomerates.
- Often strong religious and spiritual values were the principal justification that led business leaders to advocate corporate responsibility.
- Top management may become very wealthy individually, but if most of society suffers in poverty, his own happiness will not last.
- *"Shibusawa introduced the concept of gapponshugi to describe a specific type of corporation based on manpower, capital, technology, information and intellectual network"*

## “Seiten wo Tsuke” – “Reach for the blue sky”



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- NHK showing a 45 part drama series about the life and work of Shibusawa-san.
- Seiten wo Tsuke started on Sunday 14 February 2021 and runs for twelve months.
- Shibusawa-san will feature on the new ¥10000 note which will enter circulation in 2024.
- Yoshizawa Ryo, a well-known Japanese actor plays the role of Shibusawa-san. Many other famous actors play support roles.

# PANEL SESSION: SRI INTEGRATION INTO INVESTMENT DECISION MAKING: EQUITIES

SPEAKER'S  
PROFILE



**RIZAL MOHAMED ALI**

Vice President,  
Responsible Investment,  
KWAP

- He presently heads the Responsible Investment Section at KWAP, which was set up to manage ESG-related initiatives at KWAP.
- Over 20 years of experience in legal and ESG related work.
- Member of PRI Investor Working Group on Palm Oil.
- Working Group Committee Member of Institutional Investors Council Malaysia
- Former legal officer for DRB-HICOM, a public listed conglomerate.
- Member of Chartered Institute of Islamic Finance Professionals
- Graduated with a Bachelor of Laws (LL.B Honours) from Brunel University, London



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SPEAKER'S  
PROFILE



**ZHIKAI CHEN, CFA**

Head of Asian Equities,  
BNP Paribas  
Asset Management

- Responsible for further strengthening BNPP AM's regional franchise in the Equities asset class; with the aim of generating strong, sustainable investment performance for clients in the region.
- Leads the seven-member Asian equities investment team based out of Hong Kong and Malaysia.
- Citywire AAA-rated Fund Manager.
- Brings a wealth of experience, from the Monetary Authority of Singapore to Putnam Investments, with a focus on Emerging and Asia ex-Japan.
- Former Head of Asia ex-Japan Equities team for Lombard Odier.
- Graduated with a Bachelor of Business Administration from the University of Michigan, USA, and a Master of Social Science, Applied Economics from the National University of Singapore.

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