ESG investing on the rise

Several trends have accelerated and emerged stronger since the Covid-19 pandemic wreaked havoc on the world. Environmental, social and governance (ESG) investing is one of them.

Ahmad Najib Nazlan, executive director and CEO of Maybank Asset Management Sdn Bhd, says ESG-related data were very helpful last year in helping the firm discover companies that are resilient in facing economic and market adversity. "Companies with high ESG scores have experienced lower cuts in earnings growth compared with those with lower scores. Furthermore, we found that in the long run, high ESG-ranked companies tend to outperform conventional companies at lower volatility."

As at Dec 31, 2020, the MSCI World Socially Responsible Investing (SRI) Index generated 10.4% per annum, while the MSCI All Country World Index (ACWI) was lower at 9.7%. The volatility of the former at 13.4% was also lower than the latter at 14.2%.

Dr Tan Chong Koay, founder and chief strategist of Pheim Asset Management Sdn Bhd, says the rise of ESG is due to a growing awareness of environmental issues among the public. "The extreme weather phenomena that affected many parts of the globe in recent years have drawn more attention to the need for us to do more to protect the environment. We increasingly realise that we must all do our part in engaging in and promoting sustainable practices to preserve the earth for future generations."

The election of Joe Biden as US president has been another boost for the ESG investing trend, says Tan. "Biden won the 2020 US presidential election partly on the Green New Deal campaign platform. The election win has given him and other governments the political will to push the ESG agenda forward after a lull over the last four years. This agenda has existed since the Obama administration," he adds.

"It has also given the ESG investing trend fresh impetus in the investment space today."

However, the trend has its own set of challenges. Yeoh Kim Hong — CEO of Public Mutual Bhd, the biggest winner at the Refinitiv Lipper Fund Awards 2021 — says the differing quality of ESG information disclosed by companies is one of them. This is despite an increased level of disclosure made by companies.

"The inclusion of environmental and social considerations when undertaking investment decisions is still a challenge for us. And it is expected to be a gradual process," she says.

Ismitz Matthew De Alwis, CEO of Kenanga Investors Bhd, agrees. "The first problem we encounter is ensuring the quality and accuracy of information. Financial data of listed companies are checked by auditing firms. But non-financial data are not endorsed by third parties in many cases. The rules of disclosures vary. And the conversion and standardisation of disclosure guidelines still need to be developed," he says.

Moreover, it is hard to analyse and evaluate vast amounts of ESG data even when they are available. There is also a lack of standardisation of reported data by companies and quick accessibility to this data by fund houses, says De Alwis.

"We will continue to work towards observing ESG data standards locally and internationally. There are no fixed rules on how fund managers must include ESG factors into their investment decisions. But we selectively consider methodologies such as norms-based screening, negative screening and positive or best-in-class screening, among others, in our investment processes," he says. E

"Ideally, we want to sell shares at their highest point, when they are overvalued. This is not an easy call. But having good research and extensive investment experience certainly helps." › Tan

Pheim Asset Management garners six awards

BY **IRIANI AMIRUDIN**

Pheim Asset Management Sdn Bhd took home six awards at this year's Refinitiv Lipper Fund Awards. For the sixth consecutive year, Dana Makmur Pheim swept the award for Best Mixed Asset MYR Balanced (Islamic) in the 10-year category. The fund also took home the award for Best Mixed Asset MYR Balanced (Provident) in the 10-year category.

The Pheim Asia Ex-Japan fund grabbed the awards for Best Equity Asia-Pacific ex-Japan in the three-, five- and 10-year categories, whereas the Pheim Emerging Companies Balanced fund won the Best Mixed Asset MYR Balanced-Global in the 10-year category.

Dr Tan Chong Koay, founder and chief strategist of Pheim, says these achievements are mainly due to its investment philosophy of never being fully invested at all times.

"We believe in trimming our equity exposure near market peaks to preserve capital. This philosophy works well in the volatile Asian market in the long run. When the market continued to break new highs around January 2020, we raised cash and reduced equity exposure, as we thought the valuations were too high and risky," he says.

When the Dow Jones Industrial Average collapsed in March last year, however, the performance of Pheim's funds still took a hit and was at its historical low. It was a challenging period for Tan and his team, but they knew that it would be temporary.

Tan is thankful for the trust of its investors, as they did not redeem their capital when markets were depressed.

"We are doing our best to educate investors that crises can present opportunities. They can earn good returns by participating in the market when most shares are being offered at big discounts. Our experience and track record speak for themselves. We have been able to do well during many crises," he says.

> "We believe in trimming our equity exposure near market peaks to preserve capital. This philosophy works well in the volatile Asian market in the long run."
> > *Tan*

With cash in hand, the fund house picked up many stocks at attractive valuations from March to May, which led to the outperformance of Pheim's funds last year.

"The decision by our investment team to buy glove company shares early [was the right move]. For instance, the shares of Supermax went up by more than 1,000% in less than three months, outperforming giant conglomerates such as Amazon.com, Microsoft, Apple and Tesla," says Tan.

In anticipation of an economic recovery worldwide in 2021, the US markets have been breaking new highs. While this bodes well for investors, Tan believes there is a need to be cautious in view of heightened volatility inflicted by the Covid-19 pandemic and the resurfacing of the US-China trade and political tensions.

Tan and his team will leverage an active asset allocation strategy to manoeuvre market uncertainties. The fund will also combine value and growth investing strategies by investing in companies that have healthy growth rates and good management and are undervalued.

Pheim is positioning itself appropriately through sector rotation, Tan says. This will allow the fund house to identify and invest in companies that have temporarily been affected by the pandemic, and are thus expected to recover strongly.

Other key risks that investors should beware of include high government debt levels worldwide, the threat of rising inflation as well as heightened social inequality that can increase political risk, says Tan.

FUND	Pheim Asia Ex Japan	
AWARD	Equity Asia Pacific ex Japan – Malaysia (3, 5 and 10 years)	
FUND SIZE	RM10.30 million	
FUND MANAGER	Pheim Asset Management Sdn Bhd	
RETURNS FOR PERIODS ENDED DEC 31, 2020 (%)	3 years	22.48
	5 years	44.01
	10 years	49.65

FUND	Pheim Emerging Companies Balanced	
AWARD	Mixed Asset MYR Balanced – Global (10 years)	
FUND SIZE	RM17.90 million	
FUND MANAGER	Pheim Asset Management Sdn Bhd	
RETURNS FOR PERIODS ENDED DEC 31, 2020 (%)	3 years	20.61
	5 years	33.92
	10 years	77.00

FUND	Dana Makmur Pheim	
AWARDS	Mixed Asset MYR Balanced – Malaysia – Islamic (10 years) Mixed Asset MYR Balanced – Malaysia – Provident (10 years)	
FUND SIZE	RM205.20 million	
FUND MANAGER	Pheim Asset Management Sdn Bhd	
RETURNS FOR PERIODS ENDED DEC 31, 2020 (%)	3 years	25.46
	5 years	51.24
	10 years	143.08

Pheim Asset Management founder and chief strategist Dr Tan Chong Koay (in batik shirt) and the team

As for the likes of Top Glove Corp Bhd, Kossan Rubber Industries Bhd and Supermax Corp Bhd — three of the Big Four glove makers — as well as their smaller rivals, they are currently trading at single-digit PERs, as compared to over 100 times at their peaks. Market sentiment aside, few would dispute that glove manufacturers will remain highly profitable this year, or maybe even next year, as global demand for gloves is expected to stay strong.

Likewise, most would agree that semiconductor players will continue their robust growth in the coming years, thanks to emerging technologies such as autonomous driving, artificial intelligence (AI), 5G technology and the Internet of Things (IoT).

Like it or not, the rubber glove and semiconductor sectors are still the most closely watched by the investment fraternity today. The question is, would you rather buy a cheap glove stock or an expensive tech stock?

Pheim Asset Management Sdn Bhd founder and chief strategist Dr Tan Chong Koay says being a value investor, he would buy a stock offering a strong value proposition.

"By that, I mean, the stock has to possess good growth potential, low gearing, good management, and is trading at a price that is attractively low compared with historical prices. I would apply these criteria when considering whether to buy a stock, be that a glove stock or a tech stock," he tells *The Edge*.

SAM FONG/THE EDGE

"Assessing a company's future performance and its stock's future price level is never easy. There are many factors and imponderables that may impinge on such projections."
— Tan

PATRICK GOH/THE EDGE

There are still opportunities in current tech rally, says expert

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the share prices of companies in the sector. However, what is driving the tech rally now are some of the biggest tech companies, such as Apple, Alphabet, Amazon and Microsoft, which, apart from being huge, are also very profitable.

"While they are still trading at valuations that can be regarded as still high on traditional measures, they are seen as benefiting from having sustainable growth business models. Additionally, they are continually morphing and expanding into related and new areas that would add to and help entrench their business growth," he says.

Tan elaborates that the tech space is a very diverse universe. There will be some, even many, tech companies whose business models may appear to be innovative, but are still trying to prove to the world that they are sustainable.

"Some will not succeed. Some of them may not be unlike those seen in the dotcom era. Nevertheless, the positive investment sentiment in the market in general, and in the tech sector in particular, and the unprecedented flood of liquidity in the market would have rubbed off on such stocks, leading to them trading at valuations that would be regarded as extreme by traditional measures," he says.

Tan goes on to say that while investors should look at the current tech rally with a healthy dose of caution, they should also recognise that the technology index in the US is underpinned by quite a number of good companies, which are doing very well and are likely to continue doing so for quite some time.

Fortress Capital's Chua, however, sees the two tech rallies differently.

"If we dive into the history of the tech bubble, the bubble was filled with companies that had no intrinsic value and real earnings. The dotcom bubble consisted of companies that sold big ideas and dreams without a real business model and fundamentals. On the other hand, the recent tech rally is driven by companies that provide products and services to support the technological advancements of the world; in this context, the semiconductor businesses," he explains.

Chua believes investors can still find opportunities in the current tech rally, as there are still laggards and companies with high growth potential that, in his opinion, have not been fully priced in yet.

"The main driver for semiconductor companies is the imbalance in supply and demand. Investors can be optimistic that the world is moving rapidly into IR 4.0 (Fourth Industrial Revolution), so huge usage of semiconductors is indispensable in achieving that. E&E (electrical and electronics) components are one of Malaysia's top exports, so I believe we will have more companies in Malaysia enjoying a season of strong earnings," he concludes.