Positioning Corporate Malaysia for a sustainable future

April 2022

pwc

CM2 capital markets MALAYSIA

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Foreword

This report has been conceived by PwC Malaysia in collaboration with Capital Markets Malaysia (CMM) to share Malaysia's progress on sustainability, position the country's efforts in sustainable investing, and highlight Corporate Malaysia's overall transition trajectory.

The events of the past two years have prompted a renewed focus on environmental, social and governance (ESG) issues, serving as a wake-up call to investors to prioritise a more sustainable approach to investment decisions.

With parallels being drawn between the unforeseen risks of a pandemic and those of climate change, these events could prove to be a major turning point for ESG investing as investors and policymakers pay close attention to the impact each will have on the real economy.

Adoption trends of ESG practices among Malaysian corporates have been heartening. Since the 2014 launch of the FTSE4Good Bursa Malaysia (F4GBM) Index, which recognises public-listed companies (PLCs) that have taken steps to improve their ESG practices and disclosures, the number of index constituents has more than tripled.

Further, based on an ASEAN CSR Network and NUS Business School research paper published in December 2020, about 65% of the top 100 PLCs in Malaysia adopted the Global Reporting Initiative (GRI) framework that same year while 60% disclosed performance data on emissions. The participation of women on boards currently stands at 26.4% for the top 100 PLCs, reflecting strong progress in their commitment towards gender diversity.

Notably, companies are positioning themselves for a more sustainable future, bolstered by initiatives like the Securities Commission Malaysia (SC)'s Sustainable and Responsible Investment (SRI) Roadmap and the release of the 2021 Malaysian Code on Corporate Governance (MCCG). Roadmaps such as Bursa Malaysia's three-year Sustainability Roadmap and the SC's strategic priority to mobilise capital towards sustainable and responsible businesses (under its Capital Market Masterplan 3) set the direction for a future that is ripe for value creation.

Fueled by the rise in sustainable investments and demand for sustainable assets, the capital market is in a unique position to effect meaningful change in driving sustainability practices among corporates which will ultimately secure long-term value for all stakeholders.

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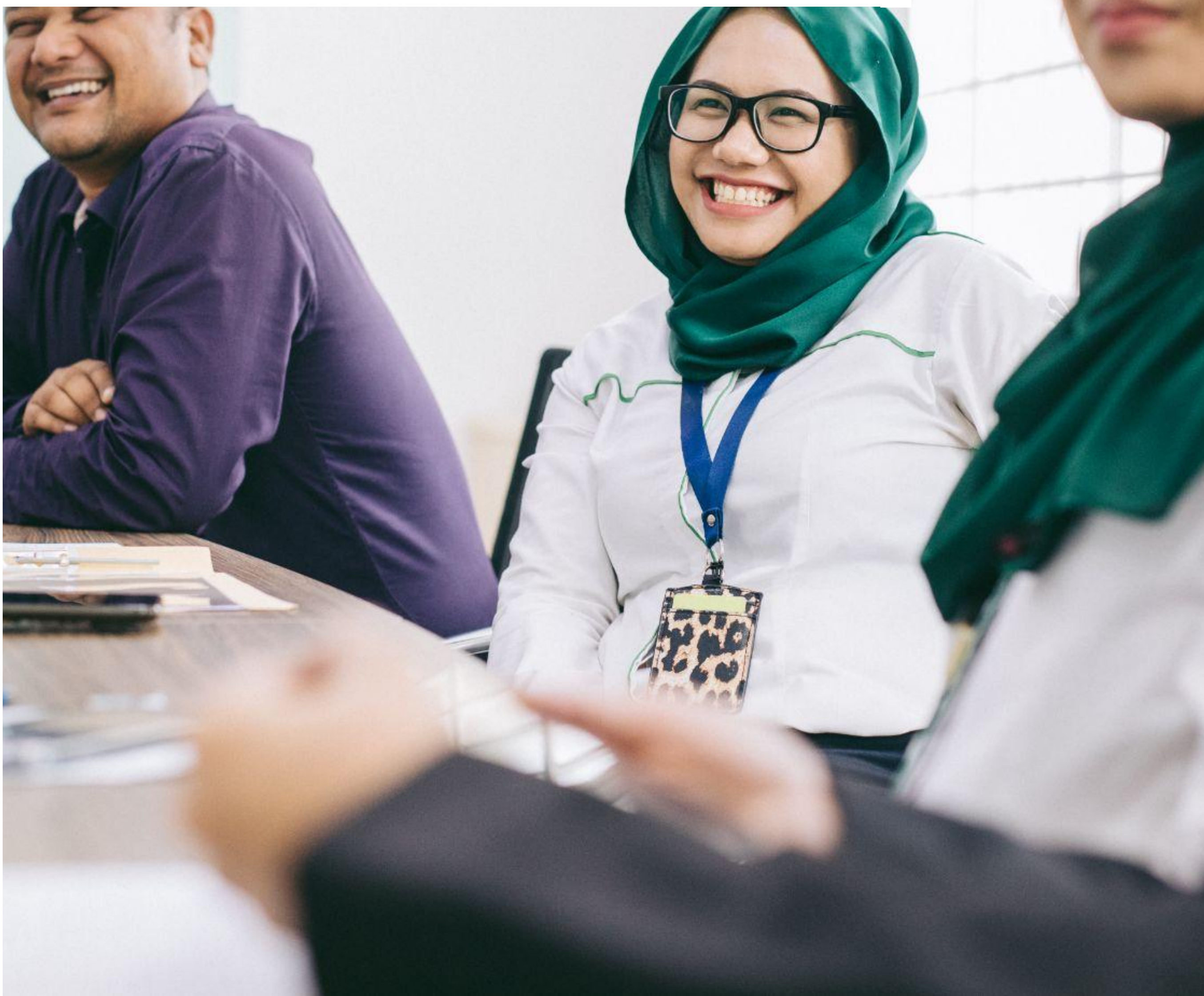
1 Country level initiatives



The road ahead for Malaysia

Short and mid-term climate change plans

The Malaysian government has made strides to mitigate climate change and elevate ESG issues in the country's journey towards becoming a low carbon economy.

The **Twelfth Malaysia Plan (RMK-12)** sets out Malaysia's medium-term socioeconomic development plan for a period of five years, with 'Advancing sustainability' as one of the themes (see page 6).

In line with the RMK-12 objective of a 'Prosperous, Inclusive, Sustainable Malaysia', the country is committed to its target of becoming a carbon neutral nation by 2050 at the earliest.

Budget 2022 is anchored on RMK-12 initiatives. One of the key highlights is the setting up of Malaysia's first voluntary carbon market (VCM). It will serve as a transparent and credible platform for the trading of carbon credits and carbon offsets by Malaysian companies, before transitioning to the domestic emissions trading scheme (DETS).

On the technology front, **the National Fourth Industrial Revolution (4IR) Policy,** which supports the RMK-12, has identified sustainability as a key point, with clear outcomes to be achieved by 2030, in supporting the country's commitment to the United Nations' Sustainable Development Goals (SDGs) (see page 7).

Initiatives under Budget 2022

Carbon pricing

- **Voluntary Carbon Market** (or VCM) initiative for carbon credit trading between green asset owners and other entities transitioning towards low-carbon practices
- Domestic carbon trading will be implemented in three phases by the end of 2022

Funding low carbon transition

RM1 bil Low Carbon Transition Facility by Bank Negara Malaysia (BNM) to help SMEs adopt sustainable and low carbon practices

Electric vehicles

- **Import duty, excise duty and sales tax exemptions** on EVs
- **Road tax exemptions** of up to 100% will also be given to the vehicle owners
- **Individual income tax reliefs** of up to RM2,500 for: the purchase & installation, rental & hire purchase of EV charging facilities, and payment of EV charging facility subscription

Initiatives under RMK-12

Carbon related

Net zero emission

- Committed to be a **carbon neutral country by 2050 at the earliest**
- **Increase conservation** of natural areas to maintain **at least 50% forest cover over the total land area**

Carbon pricing

- Conduct **feasibility study on carbon pricing, carbon tax** and **Emission Trading Scheme** aimed at creating carbon taxation system to incentivise behavioural changes and platform for carbon trading
- Promote **Renewable Energy Certificate** to enable procurement and trading of RE

Energy related

Renewable energy (RE)

- Formulate **"National Energy Policy 2021-2040"**
- Increase RE installed capacity to 31% by 2025
- Adopt new technologies, e.g. better energy storage systems
- Encourage waste-to-energy generation
- Promote existing mechanisms e.g. Green Tariff Rider and Renewable Energy Certificate to spur investments

Energy sustain-ability

- Introduce the **Energy Efficiency (EE)** & **Conservation Act** to regulate use of energy
- Promote EE, **Energy Audit Conditional Grants (EACG)** for selected industrial & commercial sectors
- Compliance of the **National Building Energy Intensity (BEI)** labelling in selected private properties
- No longer build new coal-fired power plants

Transport related

Electric vehicles

- **Promote usage of green vehicles**
- **Encourage uptake of recognised green labelling** for next generation vehicles and technologies
- **Expand B20 biodiesel programme** (contains 20% palm methyl ester) and B30 programme
- **Intensified triple-helix collaboration**, including Green Technology Financing Scheme (GTFS), Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE)

Low-carbon mobility

- **Low-carbon mobility blueprint**
- **Low-carbon public transport**
- **Micro-mobility services** to increase access to public transport
- User-friendly **active mobility, pedestrian and cycling infrastructure**

National 4IR Policy

The National 4IR Policy is a comprehensive policy to drive integrated efforts in transforming the nation's socio-economic development through the use of advanced technology 4IR.

The policy includes initiatives that support capital market financing for climate technology. For instance, the transportation sector supports R&D&C&I (research, development, commercialisation and innovation) for 4IR technologies to develop low carbon mobility solutions.

Initiatives to achieve balanced, responsible and sustainable growth by leveraging 4IR technologies

Co-create and co-design 4IR-related policies and regulations via a rakyat-centric approach

Provide support to innovate businesses and social enterprises to leverage 4IR technology to solve socio-environmental issues

Prioritise public sector R&D&C&I funding for technology innovations

4IR Policy Foundational Technologies

- Artificial intelligence
- Advanced materials and technologies
- Blockchain
- Cloud computing and big data analytics
- Internet of things

4IR technologies like AI can be used to monitor and predict air pollution levels or enable energy to be used efficiently in buildings.

From a sector perspective, 4IR technologies can be capitalised to develop low carbon mobility solutions to support the transportation and logistics industry's transition to a low-carbon economy.

The capital market plays a crucial role in facilitating the investment and financing of 4IR technologies for sustainability and deploying them at scale (see Chapter 2).

The Policy's key focus sectors

Sectors focus with potential integration with global value chain

- Transportation and logistics
- Manufacturing
- Healthcare

Sectors supporting socio-economic needs

- Education
- Agriculture
- Utilities

Sectors that drive technology adoption

- Finance and insurance
- Professional, scientific and technical services
- Wholesale and retail trade
- Tourism

Supporting sectors

- Construction
- Arts, entertainment and recreation services
- Real estate
- Mining and quarrying
- Information and communications services
- Administrative and support services

Malaysia's COP26 commitments

Malaysia has also made several noteworthy commitments to keep global warming below 1.5°C as set in the Paris Agreement.

At **COP26**, Malaysia delivered on the four mandates from the cabinet, i.e. negotiations on rules governing international carbon markets, transparency of emissions reporting, climate finance, and a common timeframe for the Nationally Determined Contribution (NDC).

Malaysia aspires to achieve net zero GHG emissions target with the following measures:

- Implement a **carbon pricing policy**
- **31% renewable energy generation capacity** by 2025 and 40% by 2035
- **All government vehicles to be non-ICE** (internal combustion engine) by 2030
- **50% forest cover** maintained at the minimum
- **100 mil trees to be planted** as part of natural-based solutions to lower GHG
- **40% recycling rate by 2025** by adopting Zero Waste through the waste to Energy programme
- Transform cities towards a low carbon pathway as outlined in the **National Low Carbon Cities Masterplan**
- Increase resilience to climate change through the **National Adaptation Plan**

Minister of Environment and Water, for Malaysia High-level Segment Statement COP26

Beyond COP26 developments, the Malaysia Climate Change Action Council (MyCAC), which was set up by the Ministry of Environment and Water (KASA), has agreed to implement the Low Carbon Mobility Development Plan 2021 - 2030.

The targets set include reducing GHG emissions by 165 million tonnes of carbon dioxide, saving fuel expenditure of RM150 billion over 10 years, and promoting increased use of electric vehicles and low carbon transportation.

Other COP26 commitments:

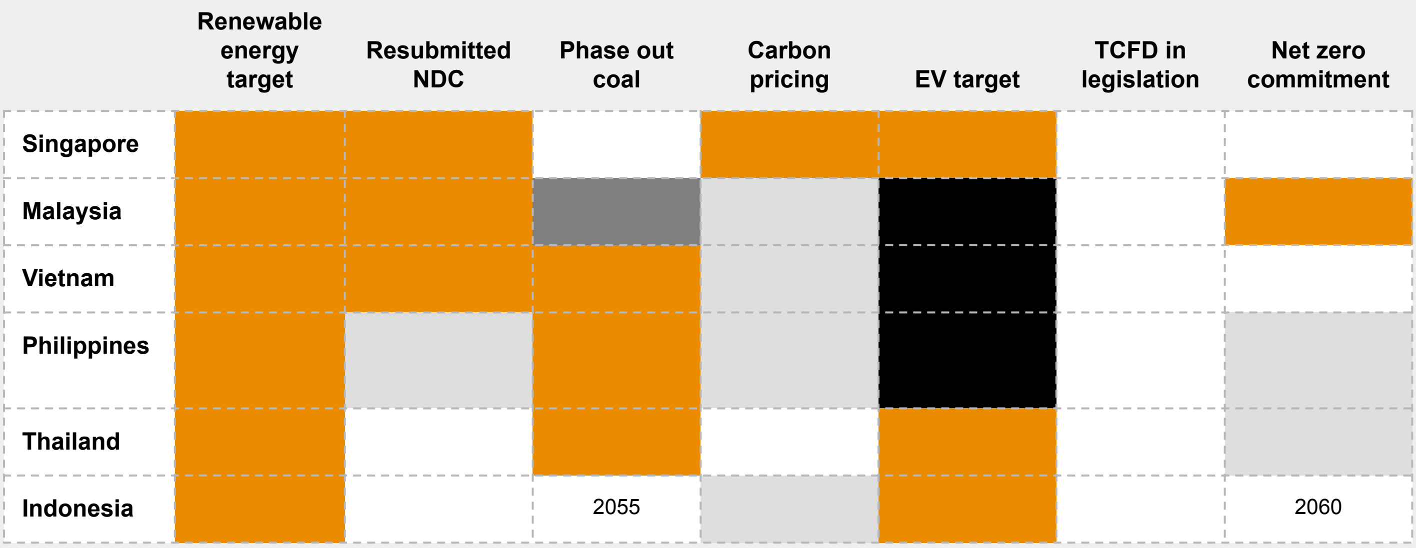
- Halt and reverse forest loss and land degradation by 2030
- 30% reduction in human-cause methane emissions between 2020 and 2030
- NDC commitment to reduce carbon intensity (against GDP) of 45% by 2030 compared to 2005 levels

Source: Various sources (Global Methane Pledge, UNFCCC)

Progress towards sustainable development

Malaysia is still in the early stages of its ESG journey and is already ahead in ASEAN, second only to Singapore based on the indicators in the table below. However, there is room for improvement compared to developed nations in Asia. Compared to more developed countries, developing economies like Malaysia will take a longer time to reach net zero. For developing economies, different pathways will be taken given their focus on uplifting rural and lower income communities.

Figure 1. Converting climate pledges into actions



- Policy/ legislation exists to support this climate action
- No target has been set, but policies implemented to support uptake of EV
- Investment to build overseas/ local new coal power plants has stopped
- There is a commitment to develop policy/ legislation sometime in the future
- No policy/ legislation exists

Source: PwC's 'Code Red - Asia Pacific's Time to Go Green' report

Notes:
- The data in this table is accurate as at 30 September 2021. NDC data is correct as of 12 October 2021.
- Between 30 September 2021 and the date of this publication, notable developments include:
  - BNM issuing an Exposure Draft on Climate Risk Management and Scenario Analysis, which includes a highlight that financial institutions shall make TCFD-aligned disclosures by 31 December 2024
  - Singapore Exchange (SGX) mandating TCFD-based climate disclosures to all issuers from FY22 onwards
  - Vietnam and Thailand announcing their carbon neutrality targets
  - Singapore bringing forward their Net Zero target to "*by around mid-century*"

Social development plans

Sustainability doesn't rest with environmental and climate action alone.

Malaysia is also addressing societal issues at large to achieve a balanced transition towards sustainable development, building on the foundations laid out before the pandemic.

Under Malaysia's 10 year economic roadmap, the **Shared Prosperity Vision 2030** (launched in October 2019) outlines **three key objectives**, which touch on societal issues and areas for development:

- **Upskilling**: Restructure the economy to be more progressive and knowledge-based, enabling all groups in society to participate in the economy
- **Income inequality**: Address the income gap so that no one is left behind. This takes into account the various ethnicities social classes, or regional differences within Malaysia.
- **Diversity and inclusion**: Build Malaysia as a united and prosperous nation, with the vision of developing it as an economic centre of Asia in 2030.

These key objectives are further translated into **RMK-12 priorities and strategies** as highlighted in the sidebar.

RMK-12: Selected social priorities and strategies

Developing future-ready talent

To meet the rapid change in technology
E.g. by raising the quality of education, management of educational institutions, improving access to education and technical and vocational education and training (TVET) ecosystem

Promoting equitable compensation of employees

Increasing employees compensation share of GDP from 37% in 2020 to 40% by 2025
E.g. through the Productivity Linked Wage System (PLWS), profit and wage link indicators and trade union memberships

Building an inclusive society

Addressing poverty and empowering Bottom 40% (B40) and Middle 50% (M50) households
E.g. by providing quality affordable housing, access to digital platform/sharing economy jobs and businesses, and access to education and health services

> Progress made in societal development has been pushed back by the pandemic. Social cohesion erosion and livelihood crises are among the societal risks that have worsened.
>
> - WEF's The Global Risks Report 2022

Making a just transition

As a country transitions to a net zero economy, specific social and economic conditions need to be considered beyond environmental priorities. This is in line with the International Labour Organisation (ILO) Guidelines on Just Transition which advocates just transitions at the local and sectoral levels, recognising that "no one size fits all'.

For Malaysia to achieve a **just transition**, this involves taking into account the most vulnerable communities in society, including the small businesses that have closed and workers that have suffered job losses.

Clear policies and guidelines will help SMEs navigate this challenging period, rebound and transition to a low carbon economy. See government initiatives below.

Government-led just transition initiatives in Malaysia

A number of initiatives to support SMEs include:

- Bank Negara Malaysia's RM1 billion Low Carbon Transition Facility (announced in Budget 2022) to help SMEs adopt sustainable and low carbon practices including increasing the use of sustainable raw materials and renewable energy

- SME Bank's RM3 billion sustainability sukuk (bond) programme - proceeds will be channelled to finance SME projects that directly support 11 of the 17 United Nations Sustainable Development Goals (SDGs)

Case study:
Axiata Group Bhd

Just Transition

Celcom Axiata Bhd (Celcom)'s Vendor Development Programme (VDP) 2.0 aims to equip vendors to become self-sustaining and succeed in IR4.0. The programme contributes to local economic growth and is aligned with one of the six thrusts of the government's National Entrepreneurship Policy 2030. First launched in 2016, the VDP is currently working with local suppliers, reduces the transport of goods and services, lowers emissions and improves environmental outcomes.

Impact assessment

The Group discloses their sustainable development contribution in the communities they operate in across Malaysia, ASEAN and South Asia through their annual National Contribution Report - highlighting their positive direct and indirect value creation, contribution to GDP, employment of locals and transparency in taxes paid.

Climate action

To harness energy efficiency opportunities, each operating company within the Group has determined reduction targets and links the performance of senior management to environmental KPIs. Efforts have been bolstered by the use of energy monitoring systems, intelligent cooling systems, switching to renewable energy to power telco networks and building towers with greener structures and materials.

Key takeaways for investors

As allocators of capital, investors have a pivotal role to play in integrating a just transition in their decision making. As it stands, the social dimension is often missing in investor strategies on climate change.

However, it is not enough for the capital market to single-handedly address some of society's most pressing issues, considering that not all initiatives are equitable. Evidently, transitioning to net zero comes with its own set of complexities.

In the case of a leading property development company in Malaysia, they recognised the importance of making a positive social impact among their vendors.

They adopted safeguards to protect the interests of their vendors including conducting human rights assessments among their new vendors and suppliers.

In a nutshell, partnerships and conversations need to take place for a transition that is fair, inclusive and transparent. Government policies and regulatory developments lay the foundation, providing the necessary impetus for change. The implementation makes a difference, an opportunity for businesses to take bold action, with their resources, clout and reach.

The journey may look different for each organisation depending on the issues they face or the stakeholders they serve. Ultimately, change is incumbent on the collective efforts of all key stakeholders; governments, businesses, investors and affected communities including employers and workers and other stakeholders in the value chain.

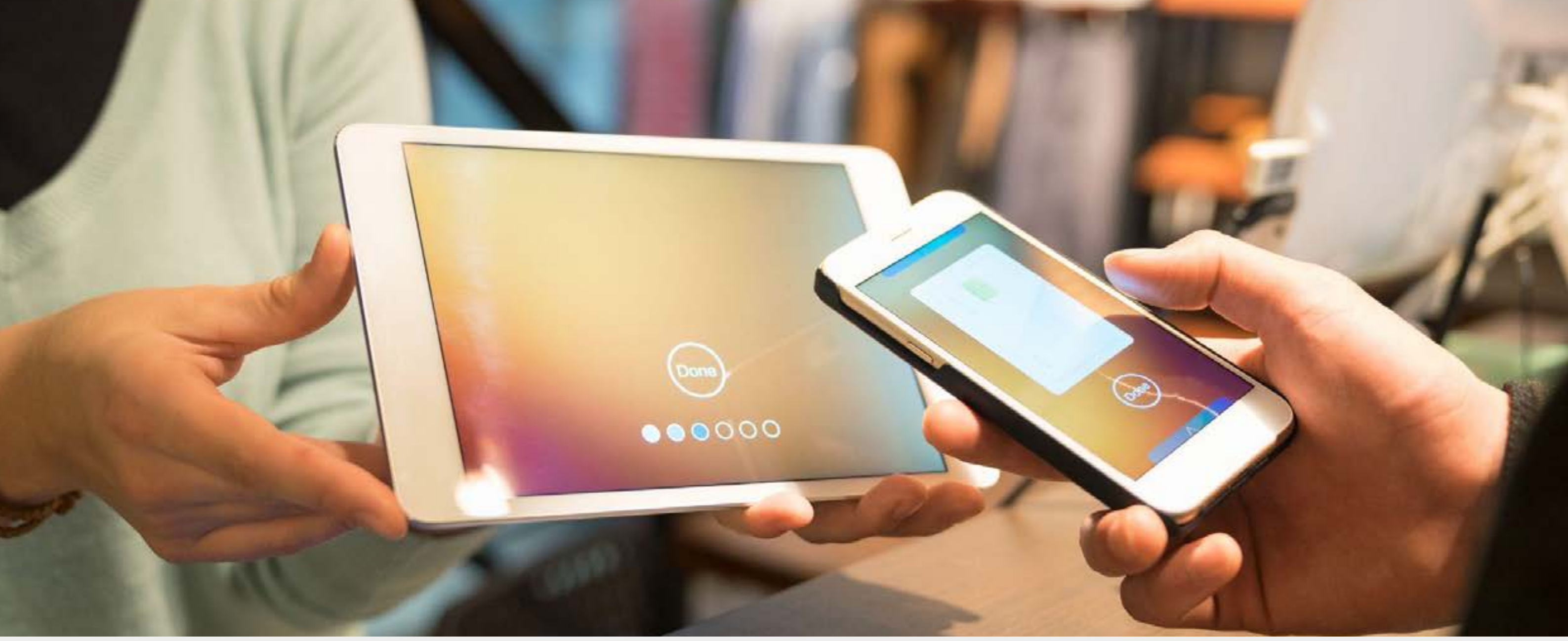
2 The capital market as a driver of corporate sustainability

Malaysia's sustainable finance initiatives

Undoubtedly, the pandemic has been a wake up call for businesses on the far-reaching impacts of asset-damaging events. However it has also been a boon for ESG investments, contributing to the rise in investor activity observed globally.

The capital market, through a combination of incentives and deterrents, is in a unique position to drive meaningful change in sustainability practices among corporates.

Fuelled by the rise in sustainable investments and demand for sustainable assets such as climate tech solutions, the capital market acts as an "invisible hand" to propel the corporate sustainability agenda.



Securities Commission Malaysia (SC)

Locally, the Securities Commision Malaysia (SC) laid out the foundations of Malaysia's sustainable and responsible investment (SRI) journey in 2014 with the introduction of the SRI Sukuk Framework.

Since then, the SC continues to champion various efforts in facilitating a sustainable capital market in Malaysia, such as:

Sep 2019
Co-chairing the **Joint Committee on Climate Change (JC3)** with Bank Negara Malaysia (BNM) to build capacity (see page 21).

Nov 2019
Implementation of the **Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap).**

Jan 2021
Expansion of **SRI Sukuk and Bond Grant Scheme** to include all sukuk issued under the SC's SRI Sukuk Framework or bonds issued under the ASEAN Green, Social and Sustainability Bond Standards (ASEAN Standards). Eligible issuers can claim the grant to offset up to 90% of the external review costs incurred.

Apr 2021
Release of the **5th edition of the Malaysian Code on Corporate Governance (MCCG)** in 2021 to strengthen the board's oversight on sustainability (see page 20).

Dec 2021
Release of a public consultation paper to invite feedback on the **Sustainable and Responsible Investment (SRI) Taxonomy** to identify economic activities aligned with environmental, social and sustainability objectives.

Bursa Malaysia

Similarly, to match the sustainability initiatives of businesses with investors, Bursa Malaysia has been working together with its index partner, FTSE Russell to assess the ESG practices and disclosures of public-listed companies (PLCs). These collaborative efforts led to the launch of the **FTSE4Good Bursa Malaysia (F4GBM) Index** in 2014.

More recently, Bursa Malaysia has been working on several strategies, such as:

Facilitating SRI products and services

e.g. aligning Shariah and ESG investing and the development of the ESG index

Enhancing corporate governance and sustainability practises and disclosures

e.g. supporting the Task Force on Climate-Related Financial Disclosures (TCFD), providing guidance through the Bursa Malaysia Sustainability Reporting Guide, and offering educational content on the BursaSUSTAIN online learning platform

Participation in relevant committees, working groups and events

e.g. Bursa Malaysia chairs JC3's Sub-committee 2 on Governance and Disclosure; joined the United Nations Sustainable Stock Exchanges Advisory Group on Climate Disclosure

Utilisation of technologies to drive the SRI ecosystem

e.g. ESG Artificial Intelligence which aims to fill a market need for easily accessible ESG data and information

Developments on the back of SC and Bursa Malaysia initiatives

Malaysia has made notable strides in sustainable financing over the years, since the launch of F4GBM Index in 2014 and the SC's guidelines on SRI funds in 2017.

F4GBM Index expansion

	F4GBM Index
Dec 2021	**80** constituents
Dec 2014	**24** constituents (upon inception)

Source: Bursa Malaysia

Resilience of F4GBM Index to pandemic shocks

Outperformed the FBM KLCI

~ 114 basis points

(2 year period i.e. February 2020 - February 2022)

Source: Bloomberg

Growth in Corporate Green, Social and Sustainability (GSS) bonds

Nearly **3x growth** in amount issued (2017 - 2021) ▶ RM1.98 bil (2021)

And **2 - 4 times oversubscription** rate for GSS bonds issuance (2021)

Source: Bloomberg

Who qualifies for the F4GBM Index?

The Index's stringent inclusion criteria is a positive indicator of the quality of ESG practices in Malaysia:

- Companies need to comply with FTSE Russell's ESG criteria
- Achieve a rating of 2.9 or higher
- Pass other additional screens (companies on the controversy monitor are not included)

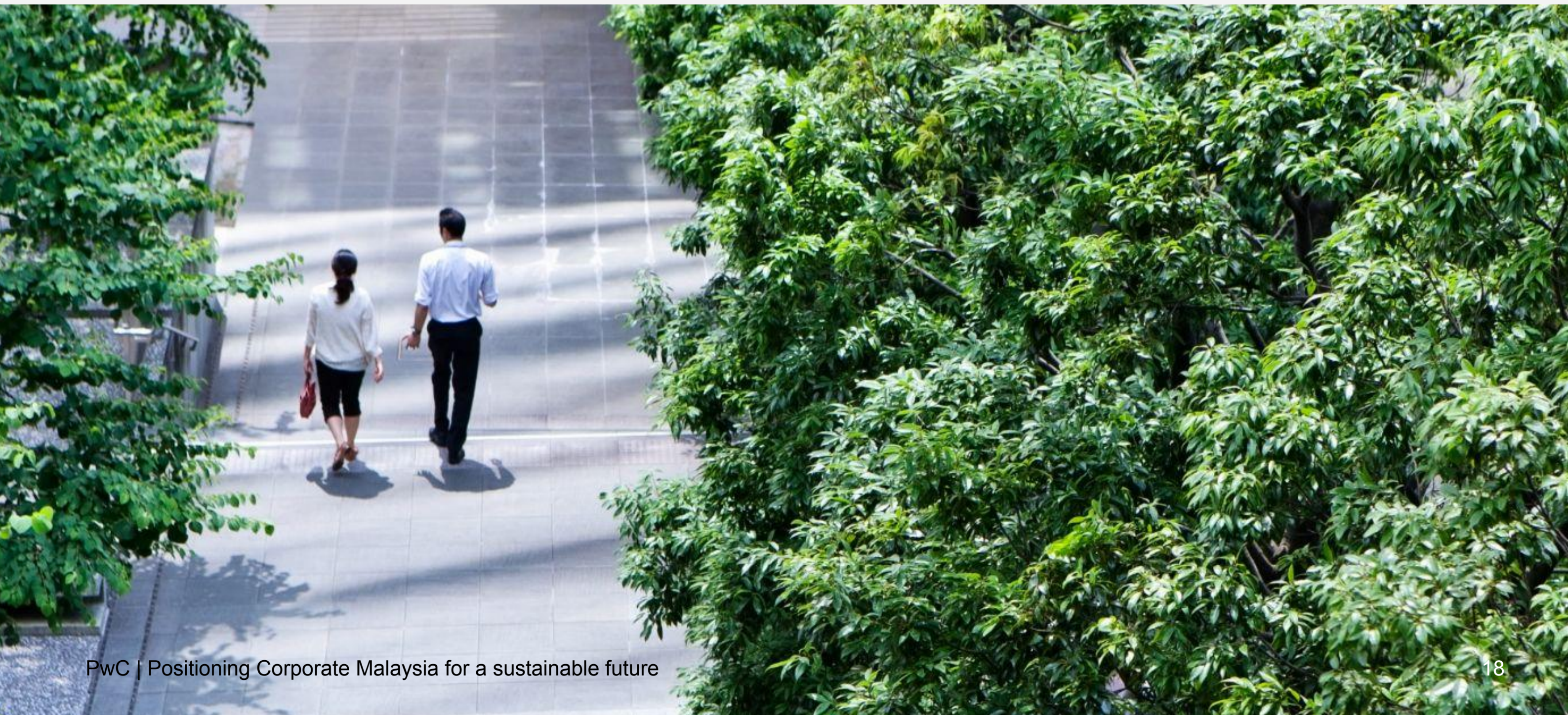
Key industries as of November 2021:

39%	Financial institutions
12%	Consumer staples
12%	Telecommunications
10%	Utilities

F4GBMS

In response to the growing demand for Shariah-compliant investment tools, Bursa Malaysia together with FTSE Russell launched the **FTSE4Good Bursa Malaysia Shariah (F4GBMS) Index** in July 2021.

As of December 2021, there are 57 constituents on the F4GBMS Index.



Centres of Excellence to support the development of an SRI ecosystem in Malaysia

Capital Markets Malaysia (CMM), an SC affiliate, has established three Centres of Excellence (COEs) to catalyse the development of a sustainable and responsible capital market and to support sustainable initiatives of three specific stakeholder groups: public-listed companies, financial sector intermediaries and asset managers.

Centres of Excellence

CENTRE FOR SUSTAINABLE CORPORATIONS	MSFI Malaysian Sustainable Finance Initiative	SUSTAINABLE INVESTMENT PLATFORM An initiative by Institutional Investors Council Malaysia & Capital Markets Malaysia
• Builds sustainable practices among PLCs • A platform to develop expertise and position Malaysian corporates as sustainable investment targets among investors • Capacity building activities include workshops to showcase best practices, C-suite coaching sessions on reporting and engagement with institutional investors	• Supports the Malaysian financial sector to facilitate capacity building, upskilling, awareness, and thought leadership on sustainable finance • Supports market development e.g. conducting forums/ meetings to raise awareness and facilitate sustainable/ green financing initiatives	• Advocates sustainable investment practices among fund managers in Malaysia • Supports them in building sustainable and responsible investment strategies that align financial returns with ESG priorities • Provides a platform to highlight the impact of sustainable investors and to cultivate stakeholders' capacity for data collection

Malaysian Code on Corporate Governance (MCCG) 2021

The April 2021 release of MCCG 2021 has been critical in addressing the board's role in championing ESG as boardrooms increasingly elevate sustainability as a hot button topic.

Bursa Malaysia's Corporate Governance Guide 4th Edition released in December 2021 was revised to reflect the Principles and Recommendations of the MCCG 2021 as well as other developments from the regulatory space and revered practices.

The code adopts an 'apply or explain an alternative' approach which is aimed at promoting a more meaningful application of practices and to deepen the understanding of corporate governance among companies.

What do the sustainability requirements of MCCG 2021 mean for businesses?

Roles and responsibilities

- **Boards and management responsibilities have increased** to include specific expectations on determining the company's sustainability strategies, priorities and targets. The current data collection process needs to be reviewed to ensure that it is **verifiable, accurate and robust**.
- New roles to be considered:
  - A **Sustainability Committee** to work with boards if sustainability issues are prevalent in the company
  - Appointing a **dedicated sustainability person** in management. Consider skills sets and experience needed by management staff and reporting lines to support this new function.

Board composition/ skill sets

- Board should include members with a **good general knowledge or deep knowledge of climate change issues**, that are especially relevant to the business/stakeholder concerns. Where more specialised expertise is needed e.g. legal issues, boards should seek legal advice on how to manage the **risk of "greenwashing"**.
- The board's training curriculum needs to be up-to-date

ESG target setting/ performance targets

- **More granular corporate disclosures**, e.g. target setting, gap analysis, and actions to close the gaps are expected
- **Key assumptions and models used should be reviewed independently** to ensure the targets and achievements are science-based
- Amend the board and management's **performance evaluation framework** to reflect their accountability. The evaluation results need to be shared with the company's shareholders.

Developments in the financial services sector driven by the Central Bank

The financial services sector, a key player and enabler in the capital market, is well positioned to champion sustainability initiatives.

In driving the sustainable agenda in the financial services sector, the Central Bank (Bank Negara Malaysia, BNM), also a co-chair of the Joint Committee on Climate Change (JC3), has laid out several initiatives such as:

- Issuance and ensuring effective implementation of the **Climate Change and Principle-based Taxonomy (CCPT)**, for financial institutions to assess and classify economic activities that contribute to climate change mitigation and adaptation from July 2022

- Release of the **Exposure Draft on Climate Risk Management and Scenario Analysis**, which sets out the proposed requirements and guidance on climate risk management and scenario analysis. It complements the CCPT, the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) and the VBIAF Sectoral Guides

- Launch of the **Financial Sector Blueprint 2022 - 2026**, which includes:
  - Integrate climate-related and environmental risks in prudential regulation and supervision
  - Support orderly transition to a low-carbon economy
  - Integrate climate risks in the Bank's internal functions and operations

Case study: Banking Sector

- **Disclosure**: PwC Malaysia's 2021 survey on ESG readiness among banks found that 50% of banks in Malaysia have adopted the CCPT while 64% plan to adopt the TCFD in the next two years - in line with the BNM-SC joint proposal for financial institutions (FIs) to make mandatory climate-related financial risk disclosures based on the TCFD from 2024.

- **Risk management framework**: Establishing an ESG risk management framework that is comparable to established frameworks for financial risks is key, amidst BNM's call[37] for FIs to integrate material climate-related risk considerations into their existing enterprise-wide risk management framework.

  The top 3 challenges cited by banks in embedding ESG factors into risk assessments are:

Low quality of customers' disclosures and ESG awareness	Absence of/limited access to counterparty ESG data	Lack of knowledge and competencies in banks

  PwC Malaysia's 2021 survey on ESG readiness among banks

- **Green financing**: Consistent with the Financial Sector Blueprint's aim to have more than 50% of new financing for green and transitioning activities by 2026, Malaysian banks have announced their respective commitments, cognisant of the impact they can make as sustainable financiers.

  Maybank has made a commitment to mobilise RM50 billion in sustainable finance by 2025 under its five-year M25 Plan. In 2020, Maybank offered green financing facilities focused on lower carbon solutions for energy and green technology.

  CIMB is mobilising RM30 billion towards sustainable finance by 2024. In terms of sustainability-linked loans for corporate clients, RM1 billion has been committed as of August 2021.

- **Gender diversity**: CPA Australia's 2020 report 'Banking on governance, insuring sustainability' highlighted that Malaysia's large FIs are leaders in board diversity in Asia Pacific. Several anchor banks have a 22% - 34% female representation in top management as of 2020.

Several important measures have been planned to equip the Malaysian capital market and support its transition to a net zero economy. This includes plans and roadmaps from the securities regulator, stock exchange and local institutional investors.

Future sustainable finance initiatives

Future initiatives by the Securities Commission Malaysia (SC)

The **Securities Commission Malaysia's** Capital Market Masterplan 3 (CMP3) launched in September 2021, serves as a five-year framework to promote a more inclusive and diversified market as Malaysia progresses into a high income nation.

Among other strategic considerations, the SC reinforces its commitment to climate action, outlining how it is shaping the sustainability agenda through effective capital mobilisation for transition towards a low-carbon economy.

Mobilising capital to sustainable and responsible businesses

Explore approach for transition financing in Malaysia

Includes financing through Green, Social and Sustainability (GSS) bonds or sukuk; and for smaller companies or green suppliers, through alternative channels or private markets

Facilitate wider options across the funding escalator for companies embarking on net zero commitments

Tap into different capital providers with varied risk appetites along the development lifecycle of green technology or infrastructure e.g. VC and PE firms, infrastructure debt funds, insurance companies and REITs

Promote greater transparency in the market through disclosures

Reporting of transition strategy, materiality of planned transition, with science-based targets using measurable and comparable matrix as well as exploring transition taxonomies to provide clarity on transition labels

Evaluate approach for investor protection

In relation to the management of disclosures, data, ESG investment decision-making as well as green-washing risks

Source: CMP3, SC

Future initiatives by the Securities Commission Malaysia (SC) cont'.

Enhance data transparency

Amidst the push for greater harmonisation of data and reporting standards, the SC has an important role to play in working with businesses in Malaysia to not only raise capital for their net zero journey, but to champion the harmonisation of transition taxonomies. Data is a crucial enabler in benchmarking how ESG investments are performing.

Efforts to establish an SRI taxonomy and broaden the spectrum of SRI products will enable greater capital allocation to sustainable initiatives aligned to the TCFD, leading to greater transparency and trust.

Championing Islamic Capital Market (ICM) growth

The promising growth of Shariah-compliant assets, from RM1.1 trillion in 2010 to RM2.3 trillion as at end 2021, is one of the key drivers in strengthening Malaysia's position as an Islamic Capital Market (ICM) leader. In response to the increasing appetite for Shariah-compliant investment products, the SC will strive to enhance investor access to Shariah-compliant companies with good ESG practices.

Companies aiming to adopt ESG practices will benefit from the SC's guidance around incorporating Shariah requirements and ESG standards.

Recognising the potential to develop the Islamic social finance sector, the SC will explore greater use of the **ICM framework** and its products and services to fund this sector. Various opportunities could be unlocked including the integration of impact assessments with Islamic social finance instruments, helping investors measure whether the capital invested achieves its desired impact objectives.

Future initiatives by Bursa Malaysia

Bursa Malaysia recently developed its **new 3-year Sustainability Roadmap,** outlining its key sustainability strategies from 2021 - 2023, to fulfil its vision of being ASEAN's leading, sustainable and globally-connected marketplace.

The Sustainability Roadmap highlights how Bursa Malaysia is embedding sustainability in the organisation and marketplace, one of the priorities in the Bursa Malaysia Strategic Roadmap 2021 - 2023.

The 5 priority areas - Bursa Malaysia's Sustainability Roadmap 2021 - 2023

- **Priority area 1: Strengthening our core**
  Build capacities of market participants to support a vibrant and sustainable capital market (e.g. through continuous enhancements to BursaSUSTAIN)
- **Priority area 2: Driving our growth**
  Enhance the sustainable and responsible finance ecosystem through new investment products (e.g. the FTSE4Good Bursa Malaysia Shariah Index) and high standards of sustainability practices and disclosure
- **Priority area 3: Protecting our environment**
  Reduce our environmental footprint and manage climate-related risks as we transition towards a low carbon future (e.g. through the application of the precautionary principle as defined in the Global Reporting Initiative Standards and the Ten Principles of the United Nations Global Compact)
- **Priority area 4: Empowering our workforce**
  Cultivate an empowered workforce to develop more sustainable approaches
- **Priority area 5: Advancing our communities**
  Create positive impacts for society and demonstrate commitment to support social issues that are aligned with our community focus areas

Enhancing sustainability practices and disclosures among PLCs is one of the key strategies in the Roadmap.

3 ways of doing this

- **Review of PLC Sustainability Reporting Framework** to ensure that PLC reporting practices (e.g. narratives included, materiality of sustainability matters) continue to meet the needs of stakeholders
- **Enhancements to BursaSUSTAIN** such as the free Sustainability Healthcheck for PLCs to diagnose where they are in their sustainability journey
- Building credentials of practitioners and professionals through the **Corporate Sustainability Practitioner Competency Framework** (in collaboration with UN Global Compact Network Malaysia and Brunei)

Future initiatives by key capital market players

A hive of activity has been observed in the local fund management industry in recent months. While ESG focused funds are still at a nascent stage in Malaysia, initial support from the government, regulators and the private sector is promising.

A number of asset management companies have made commitments to sustainability practices to drive corporate sustainability, while shoring up their resources to integrate ESG analysis across all funds.

Several government-linked companies (GLCs) and government-linked investment companies (GLICs) are also championing ESG practices among local PLCs.

Their influence could be significant, especially by virtue of the fund size owned by GLICs like the Employees Provident Fund (EPF), Khazanah Nasional Bhd, and Kumpulan Wang Persaraan (Diperbadankan) (KWAP), with a potential collective value of over RM1 trillion in assets under management (AUM) as of 2020.

Growth of ESG funds first half of 2021

Q1 2021 → At least **6** ESG-themed funds launched in Malaysia

June 2021 → **17** funds in Malaysia

- State their ESG & sustainability focus in the fund name
- Qualified as an SRI fund by the SC

Source: The Edge Markets

EPF, Malaysia's largest pension fund, was one of the first Asian pension funds to publicly commit to sustainability when it announced its plan to have a fully compliant ESG portfolio by 2030 and a climate neutral portfolio (with net zero GHG emissions) by 2050.

In late March 2022, EPF launched its Sustainable Investment Policy and two supplementary policies (Priority Issues Policies, and Priority Sector Policies). The **three-pronged priority issues** currently include two priority issues, namely climate change and workers' wellbeing. The **priority sectors** cover six sectors, i.e., palm oil, oil and gas, mining, power generation, construction and banking.

All of EPF's 16 external fund managers have signed the Sustainable Investment Pledge to solidify their commitment to include ESG considerations into their investment decision-making processes.

Permodalan Nasional Bhd (PNB) is expected to announce its framework on ESG investing, first looking as a business asset manager and second as an ESG investor, in early 2022.

As an investment house, integrating ESG considerations into investment processes is of paramount importance to PNB. Integrating assessments and insights in relation to social and environmental sustainability and governance into traditional approaches to investments is part and parcel of their commitment to the sustainability agenda.

Public Mutual Bhd is among the fund houses that are riding the ESG wave with the launch of their own ESG-themed funds. Public e-Carbon Efficient Fund (PeCEF), its second ESG-focused fund and first equity fund was launched in February 2021. Focusing on the environment, it excludes companies which are rated as having a 'high carbon impact' by the S&P Carbon Global Standard, such as energy, chemicals and utilities. It targets to invest in sectors that are well-positioned for earnings growth while registering low carbon emissions or demonstrating a clear carbon reduction strategy, such as technology, healthcare and consumer sectors.

Local initiatives echo regional aspirations

Efforts in Malaysia echo that of the ASEAN Capital Markets Forum (ACMF) Roadmap for ASEAN Sustainable Capital Markets which provide strategic direction in developing action plans and initiatives to drive ASEAN's sustainable agenda forward.

The initiatives taken by Malaysia's capital market regulators, stock exchange and government are aligned with the **ACMF Roadmap's Priority Area I: Strengthening Foundations** for a sustainable capital market. It consists of four recommendations as highlighted below:

Recommendation 1: Promoting Corporate Sustainability Disclosures	• Malaysian Code on Corporate Governance (MCCG) 2021 updates, which provides for more granular corporate sustainability disclosures • SC's Capital Market Masterplan (CMP3), which aims to promote greater transparency in the market through disclosures • Issuance of Bursa Malaysia's Sustainability Reporting Guide, which supports TCFD reporting • Bursa Malaysia's 3-year Sustainability Roadmap, where one of its key strategies is to enhance sustainability practices and disclosures among PLCs
Recommendation 2: Promoting Institutional Investor Disclosures	• Malaysia's key institutional investors EPF, Khazanah Nasional Bhd and Retirement Fund (Incorporated) (KWAP) are signatories of the United Nations Principles for Responsible Investment (PRI), hence incorporating the ESG mandate into their funds • EPF to formalise a sector-specific sustainability policy framework in early 2022 to guide future investments in complying with ESG and integrating ESG into the investment decision making process • PNB to announce, in early 2022, its framework on ESG investing and integrating ESG assessments into the investment consideration process
Recommendation 3: Examining a Common Taxonomy	• SRI Taxonomy for the Malaysian capital market, which is currently under public consultation by the SC as of March 2022 • The CCPT, issued by BNM for financial institutions to assess and classify economic activities that contribute to climate change mitigation and adaptation • Both SRI Taxonomy and CCPT are aligned to the ASEAN Taxonomy for Sustainable Finance, published by the ASEAN Taxonomy Board, aiming at driving the region's sustainability agenda
Recommendation 4: Exploring Transition Standards	• Domestic carbon trading to be implemented by the end of 2022, involving a voluntary carbon market (VCM) before transitioning to a domestic emissions trading scheme (DETS) • Low Carbon Mobility Blueprint and National Low Carbon Cities Masterplan launched, while Long-Term Low Emissions Development Strategy is expected to be finalised by 2022 • The development of of roadmaps, blueprints and frameworks outlined in RMK-12, to facilitate low carbon transition e.g. Nationally Determined Contribution Roadmap, feasibility study on carbon pricing, and a new National Energy Policy

Key takeaways for investors

Malaysia's financial regulators from the SC, Bursa Malaysia and BNM recognise an opportunity for companies to provide more reliable and trusted data to facilitate an effective and sustainable capital market for a just transition.

The regulators are responding through multiple platforms, in tandem with efforts by the International Sustainability Standards Board (ISSB) to develop globally consistent standards for sustainability reporting.

For investors and investees, there are benefits in contributing to the standard setting process by responding to regulator consultations and participating in meetings with them, leading to more inclusive and dynamic regulations.

Getting involved in collective action through organisations with a sustainability focus, such as the CEO Action Network, or Climate Governance Malaysia, can also shape the right business environment for greater sustainable development.

This enables better comparability between sustainable securities, and the ability to address potential issues including greenwashing or other areas of misalignment between issuer and investor expectations.

3 ESG adoption amongst Malaysian corporates

How are Malaysian corporations faring?

With ESG issues becoming more relevant than ever for investors, companies are taking a wider view of their business models beyond near-term financial issues. The Global Sustainable Investment Alliance has reported that sustainable investment assets grew to USD35 trillion globally in 2020, with USD25 trillion in these assets under management employing an ESG integration approach in their sustainable investment strategy.

Investment managers are systematically and explicitly including environmental, social and governance factors into financial analysis, a shift from the negative/exclusionary screening approach most commonly employed in 2018.

Malaysian listed companies are responding to the call for sustainability uplift. Compared to regional peers, Malaysia counts 26 companies in the MSCI All Country World Index (ACWI) ESG Leaders Index, just behind Thailand.

Figure 2. Number of companies in MSCI ACWI ESG Leaders Index in selected ASEAN countries

Country	Count
Indonesia	8
Malaysia	26
Philippines	8
Singapore	10
Thailand	27

Source: MSCI, February 2022

Commitments to climate change

Findings from Malaysia CEO respondents to PwC's 25th Annual Global CEO Survey indicate that expectations of customers, government and investors are driving ESG commitments, more so than a moral obligation to mitigate climate risk.

Figure 3. Number of companies adopting climate policies in selected ASEAN countries

Country	Top 20 PLCs adopting net zero policies*	Top 20 PLCs adopting TCFD*	Science Based Targets initiative (SBTi)**
Indonesia	1	1	3
Malaysia	5	8	9
Philippines	2	8	2
Singapore	7	10	14
Thailand	7	9	8
Vietnam	0	0	4

Note:

* The data is as of 30 September 2021, sourced from PwC Code Red - Asia Pacific's Time To Go Green

** The data is as of 28 February 2022, sourced from Science Based Targets initiative

Regardless of motivation, Malaysia is paying heed to the call for greater stewardship of the world we live in, which can be seen in recent commitments to climate policies and net zero targets.

Looking at the public-listed companies in selected ASEAN countries and their implementation of widely-implemented climate policies, Malaysia comes in closely after Singapore and Thailand (see Figure 3).

PwC's 25th Annual Global CEO Survey also finds that for the corporate sector as a whole, 26% of Asia Pacific companies have made a net zero commitment, and 71% of these commitments are science-aligned[1], although there is variation across the different countries. Malaysia findings show that 18% have committed to net zero, although only 38% are science-aligned.

Note:
1 Science-aligned targets are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement — limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

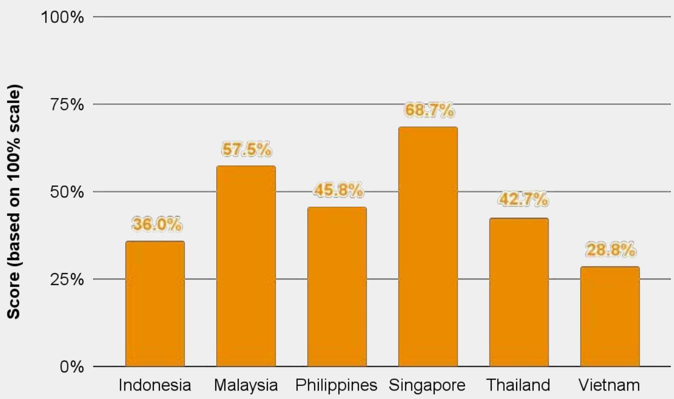
Efforts to disclose

Overall ESG reporting

Commitments need to be followed up with action and a measure of the progress made against them. Net zero and science-based targets are quantitative and time-based, but focus more heavily on the 'E' aspects of ESG. Taking a broader look at corporate sustainability reporting and assessing disclosures made against aspects of 'S' and 'G' provides a better snapshot of the business's impact for investors, customers and wider stakeholders.

As a region, ASEAN is still in a nascent stage in its disclosure of ESG issues. However, Malaysian listed companies generally exhibit strong performance for sustainability reporting, just behind Singapore (see Figure 4).

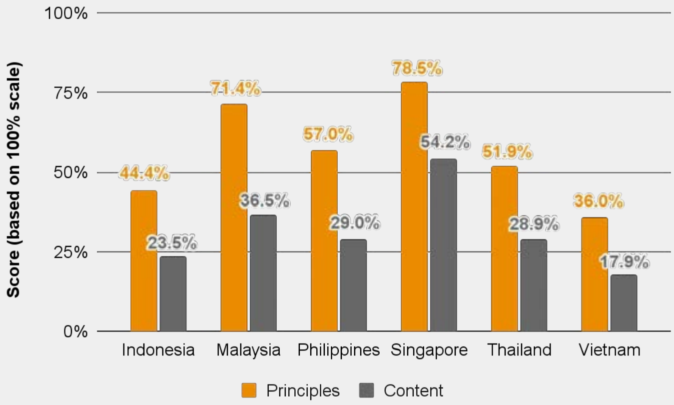
Figure 4. Overall score for sustainability reporting



Source for figures 4 and 5: Corporate Sustainability Reporting in ASEAN Countries, ASEAN CSR Network and NUS Business School December 2020

Overall, when examined closely, Malaysia performed better in the principles underlying their sustainability reporting than on the content of their disclosures (see Figure 5).

Figure 5. Overall score for principles and content



In terms of reporting principles, Malaysia did well in the area of stakeholder engagement and materiality, with improvements needed in identifying opportunities raised by ESG issues as well as sustainability training for boards.

Performance in content is generally lower across ASEAN countries, highlighting the need for better defined sustainability targets and linking sustainability performance to top executive remuneration in Malaysia. An area of challenge, and opportunity, is in raising the reliability and credibility of sustainability reports by having them externally assured, which will allow for greater trust to be built with stakeholders.

ESG strategy reporting

Another important ESG reporting aspect to consider is whether ESG strategies are translating into corporate policies.

As our research shows, a significant minority have yet to embed ESG strategies into business strategy. As ESG topics become more material to businesses, and compounded by shifts in the regulatory landscape and government commitments, there is room for greater movement in ESG action in the coming years.

Of the top 50 listed companies[1] in Malaysia…

94% have ESG strategies,

Only **62%** have ESG embedded in their business strategy, and

68% have emissions reduction policies

Source: PwC research, December 2021

Environmental reporting

- Generally ASEAN companies consider direct environmental issues such as energy, water and waste, more material in their reporting instead of secondary impacts such as GHG emissions, climate change and environmental compliance
- However, Malaysia's materiality reporting on secondary impacts (see Figure 6) is above average for GHG emission and highest in ASEAN for climate change
- With the commitments Malaysia is making to address climate change, we may see a shift in the disclosure of environmental aspects material to companies in the near future

Figure 6. Material environment topics

Country	GHG emissions	Climate change	Environmental compliance
Indonesia	38%	8%	25%
Malaysia	41%	27%	15%
Philippines	69%	20%	45%
Singapore	61%	25%	38%
Thailand	30%	22%	27%
Vietnam	23%	2%	46%

Source: Corporate Sustainability Reporting in ASEAN Countries, ASEAN CSR Network and NUS Business School, December 2020

Note:
1 Based on top 50 listed companies' annual report or sustainability report published in 2021

Social reporting

- Employment practices and diversity & equal opportunities are areas material to Malaysian companies, with reporting frequency above average amongst ASEAN countries (see Figure 7)
- There are fewer concerns on the materiality of labour relations
- Considering the mounting pressure from global investors on labour issues particularly in labour-intensive sectors, areas under labour relations, which include human rights, minimum wage policies, relationship with labour unions and other worker associations will likely become increasingly material to businesses

Figure 7. Material social topics

Country	Employment practices	Labour relations	Diversity & equal opportunities
Indonesia	51%	15%	46%
Malaysia	68%	15%	51%
Philippines	76%	52%	60%
Singapore	76%	22%	44%
Thailand	54%	14%	24%
Vietnam	78%	12%	40%

Source: Corporate Sustainability Reporting in ASEAN Countries, ASEAN CSR Network and NUS Business School, December 2020

Governance reporting

- Malaysia is among the top five performers in terms of Governance in ASEAN according to Asian Corporate Governance Association's (ACGA) CG Watch 2020 (see Figure 8)
- This is largely driven by the Malaysian Code on Corporate Governance and Bursa Malaysia's Corporate Governance Guide which sets out high governance standards aligned to the global practices
- Malaysia is ranked 5th in Asia Pacific, with declined scores largely due to political circumstances among others variables impacting public governance

Figure 8. ACGA's CG Watch Ranking

Country	2018	2020
Singapore	3rd	2nd
Malaysia	4th	5th
Thailand	6th	8th
Philippines	11th	11th
Indonesia	12th	12th
Vietnam	N/A	N/A

Source: Asian Corporate Governance Association

Corporates take ownership of ESG

Corporate Malaysia has shown appetite for greater sustainability, and initiatives to meet the need for more sustainable practices and policies predates the pandemic. The Malaysia chapter of the World Economic Forum's Climate Governance Initiative, a resource for non-executive directors to align with local and international corporate governance best practices, is the second in the world to be set up in 2019, and the Malaysia chapter of the 30% Club has made its mark on boards since 2015. There has also been positive progress in ESG disclosure, which has shown an uptrend between 2016 to 2020.

Companies are showing great interest in reinforcing their ESG approach. Bursa Malaysia's ESG Programme Survey 2021 finds that while just over half (55%) of Malaysian companies claim to have a sustainability plan and road map, 38% are seeking assistance to create one.

For most, climate-related solutions around energy efficiency, waste management and greenhouse gas emissions will be a priority. These initiatives will require financing, presenting an opportunity for sustainability-linked funding (62% of respondents say they would like to find out more).

It's worth noting that the majority of respondents are from the consumer and industrial products sector. This may skew results away from the realities of sustainability-challenged industries such as energy, transport and construction. However, positive reception coupled with a growing push from regulators may see greater growth in ESG management amongst Malaysian listed companies in the coming years.

Case study:
30% Club, a business-led campaign

Diversity and inclusion: The Malaysian Chapter of the 30% Club was launched in May 2015 with the aim of improving diversity on Malaysian corporate boards and senior management.

By activating the movement among corporate leaders, and leveraging key influencers in the investor community and government groups, women representation on boards has risen from 14% in 2015 to 25.5% in 2021. This effort has been bolstered by the update to the Malaysian Code on Corporate Governance in April 2021 requiring all boards to have at least 30% women directors, and the Malaysian government's mandate for all public-listed companies to have at least one female director.

To create a sustainable pipeline of talent, the Club in collaboration with PwC Malaysia launched a Board mentoring scheme in 2017 to bring together experienced board directors and aspiring board-ready women to accelerate the appointment of more women into board positions. As of February 2022, 68 mentees have completed the scheme, of which 33% are serving on boards.

Responding to risks

Against the backdrop of greater emphasis on ESG, the issues faced by certain sectors are also coming into sharp relief. Bursa Malaysia is heavily-weighted by sectors with greater exposure to sustainability challenges, such as oil and gas, power and utilities, and construction and property whose products and materials are carbon intensive, as well as plantations and manufacturers heavily dependent on foreign labour. There has been great scrutiny in recent years on these sectors, and these industries have seen the impact on their equity returns. Far from taking a ‘wait and see’ approach, players in these industries have been responding, and they are taking a longer-term view of their investments.

Construction and property

The industry relies heavily on labour while the production and use of building materials produce an environmental impact. To demonstrate sustainable management of resources, developers are reporting on their waste management efforts, with one highlighting that 13% of their waste footprint is reused or recycled.

To address the environmental impact of building operations and maintenance, developers are increasingly looking at green certification. In 2020, one such player achieved Green Building Index (GBI) accreditation on all their commercial development projects. The developer for Malaysia’s upcoming international finance and business district is also ensuring that the developers of plots within the district are contractually bound to achieve certain Leadership in Energy and Environmental Design (LEED) certification ratings, while meeting site-wide sustainability standards. The district itself currently holds a LEED Neighborhood Development Gold Pre-Certified Plan rating.

Oil and gas

Oil and gas players are taking this opportunity to diversify into cleaner energy solutions such as renewables (solar, wind and hydrogen) and liquefied natural gas to reduce carbon emissions, while exploring collaborations with international energy companies on carbon capture and sequestration solutions to help offset unavoidable emissions. Malaysia’s national petroleum company, has begun looking into nature-based carbon offsets to preserve and restore natural carbon sinks.

A number of players in the industry have recently begun exploring the development of electric vehicle charging infrastructure in Malaysia, in addition to their offshore production assets.

In a bid to contribute to the circular economy, a petrochemical player is collaborating with a chemical recycling company to develop Southeast Asia's first chemical recycling plant, that converts waste plastic into full-cycle plastic-to-naphtha.

Power and utilities

As an industry within the energy sector, the power and utilities industry is also exploring alternative sources of energy to power homes and businesses.

A key electric utility company has announced their sustainability pathway to 2050 with plans to shift the share of its portfolio from its current heavy dependency on coal and non-coal thermals to renewable energy, with investments in solar and emerging green technology, a move mirrored by a power producer in the industry.

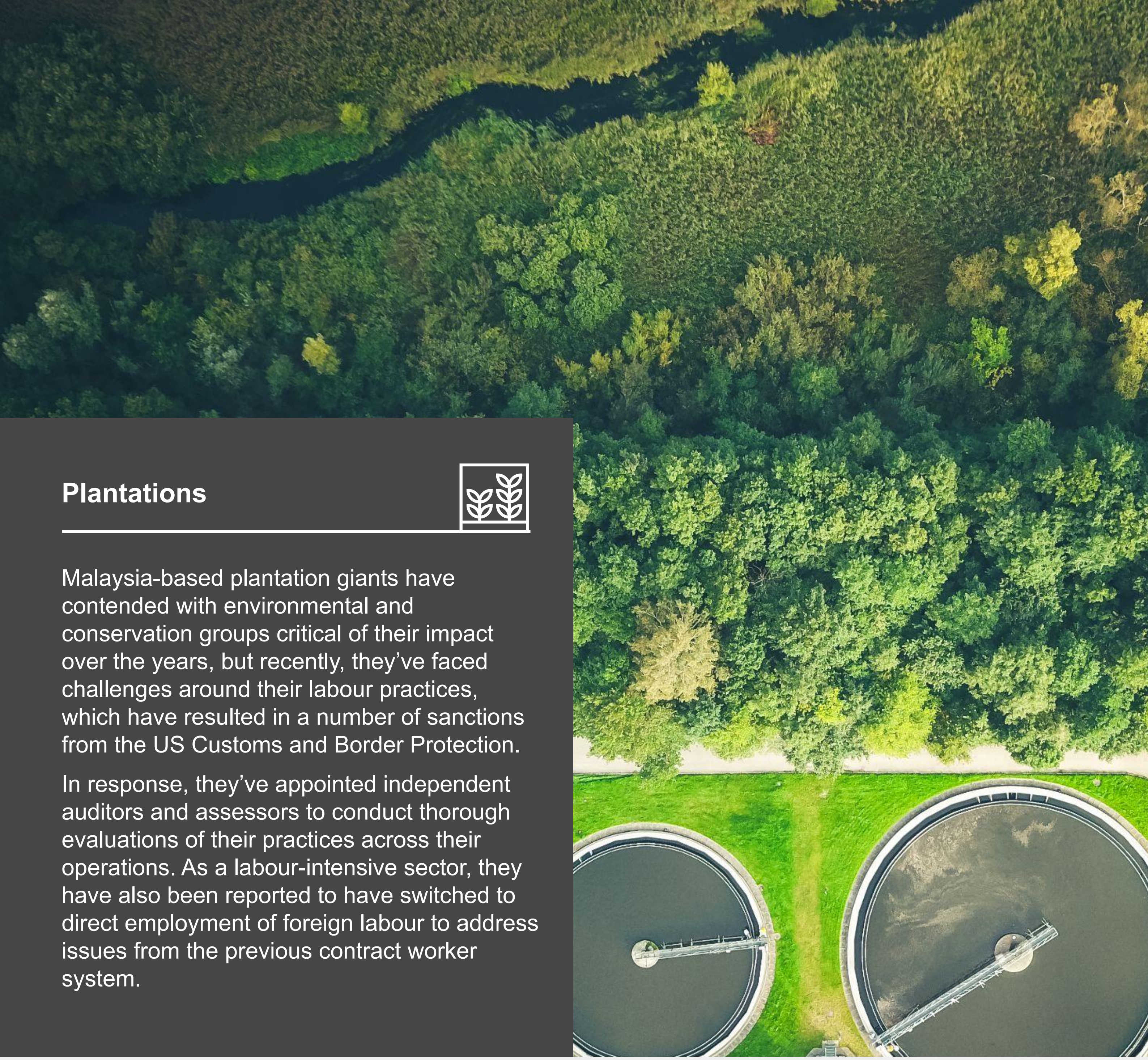
To facilitate the move to renewable energy, a significant sum will also be invested over the next two years to modernise the power grid to ensure that supply is stable, scalable and reliable.

Glove manufacturers and exporters

Glove makers, reliant on a large volume of natural resources and foreign labour in their operations, have also found themselves the subject of investigative action in the last two years.

Quick action to address indicators of forced labour has seen a lift in the ban for one of the country’s top producers, with rivals taking mitigative action through improved foreign worker management policies.

Efforts to adopt a more circular model of production have also been announced by various players, to recycle and upcycle gloves into rubber gaskets, sealants and floor mats, or to use packaging made of recycled or recyclable material. Initiatives towards energy efficiency also include investments in biomass systems and upcoming solar power systems.



Plantations

Malaysia-based plantation giants have contended with environmental and conservation groups critical of their impact over the years, but recently, they've faced challenges around their labour practices, which have resulted in a number of sanctions from the US Customs and Border Protection.

In response, they've appointed independent auditors and assessors to conduct thorough evaluations of their practices across their operations. As a labour-intensive sector, they have also been reported to have switched to direct employment of foreign labour to address issues from the previous contract worker system.

Regulations pushing companies to face ESG risks

Given the exposure that some of the largest contributors to Malaysia's economy face, tighter regulations are being developed to get companies to tackle their ESG risks head on. Labour issues have been an area resulting in great reputational and financial impact to the companies involved. As such, steps taken to eliminate forced labour include the development of the National Action Plan on Forced Labour (NAPFL) 2021-2025, developed by the Ministry of Human Resources (MOHR) with the support of the International Labour Organization (ILO).

To address trafficking in forced labour issues, the government is reforming the management of foreign workers by introducing an e-locker system and setting up the "Pasukan Nukleus Single Border Agensi" to strengthen control of the country's entry gates. While workers are the primary beneficiaries, businesses should also gain as more sustainable and human rights-centred business practices strengthen their global competitiveness.

The Data Challenge

What do ESG ratings tell us?

While the business community is more attuned to ESG matters than ever, measuring and comparing these efforts remains a challenge. The numerous interconnected standards and disclosure requirements available and the lack of an integrated reporting framework can result in inconsistent reporting.

In response, ratings agencies have developed their own ESG ratings to form a comparative assessment of quality, standard or performance on ESG issues. Companies are then classified based on their performance and ordered based on a grading system.

However, proprietary scoring conventions by each ratings provider continue to reflect in different stories for the same company. PwC's analysis of the top 10 Malaysian public-listed companies as rated by four well-regarded ratings agencies illustrates this. Out of the 41 companies featured, nearly half of them (19 companies) only appear once, and only one company appears in all four ratings.

Figure 9. Top ranked companies across selected ESG rating providers

Bloomberg ESG Disclosure Scores (Top 10 companies)	MSCI ESG Rating (companies with AA rating)*	S&P Global ESG Ranking (Top 10 companies)	Sustainalytics ESG Risk Scores (Top 10 companies)
Nestle (Malaysia) Bhd	AMMB Holdings Bhd	Hartalega Holdings Bhd	Westports Holdings Bhd
AMMB Holdings Bhd	Axiata Group Bhd	Malaysia Building Society Bhd	Inari Amertron Bhd
Press Metal Aluminium Holdings Bhd	Digi.Com Bhd	MISC Bhd	Bursa Malaysia Bhd
MISC Bhd	Hartalega Holdings Bhd	Malaysia Airports Holdings Bhd	Sunway Bhd
Petronas Dagangan Bhd	Malayan Banking Bhd	Petronas Chemicals Group Bhd	Hartalega Holdings Bhd
Fraser & Neave Holdings Bhd	Maxis Bhd	PPB Group Bhd	MISC Bhd
Digi.Com Bhd	Nestle (Malaysia) Bhd	Nestle (Malaysia) Bhd	Greatech Technology Bhd
Malayan Banking Bhd	Petronas Dagangan Bhd	Lii Hen Industries Bhd	Nestle (Malaysia) Bhd
Sunway Construction Group Bhd	Public Bank Bhd	CIMB Group Holdings Bhd	CIMB Group Holdings Bhd
RHB Bank Bhd	RHB Bank Bhd	IHH Healthcare Bhd	Kossan Rubber Industries Bhd
	Supermax Corp Bhd		

* Consists of 11 companies

Source: Various sources, December 2021

Key takeaways for investors

Investors today are increasingly relying on ESG ratings and data providers to make sense of the narratives corporations are sharing, to inform and improve investment decision-making. Conversely, the low correlation among ESG ratings limit the ability to derive meaningful insights about companies' resilience and long-term value.

Similarly, while Bursa Malaysia's FTSE4Good (F4GBM) index has grown substantially since it was first introduced in 2014 and investors may rely on it to understand the ESG landscape locally, indices such as these serve best as an indicator, rather than a signpost (screening criteria) for the capital allocation process. There may be companies that meet the ESG requirements of certain funds, but don't appear on F4GBM or MSCI ESG Index over various reasons including controversies or not meeting a minimum score threshold. On the other hand, there are also companies who have been found in violation of their ESG commitments, especially when ESG funds had made investments based on positive ratings by ratings providers previously.

The disparities in the ESG ratings available highlight the importance of investor savvy in being able to understand the methodologies used, identify the limitations of individual ratings, and do their homework when it comes to evaluating the suitability of investments against their own objectives. After all, some of the biggest ESG ratings providers are really looking at whether ESG impacts a company's bottom line, instead of its impact on the world, in helping investors build a 'better portfolio for a better world'.

Case studies

Sustainability practices of selected organisations

Digi.Com Bhd

Mobile service provider

Diversity and inclusion: This topic has been identified as one of the organisation's material issues in servicing its diverse spectrum of 10.4 million customers, with different needs and expectations. This is done through a combination of things, i.e. building organisation-wide awareness, leadership training, robust talent management practices, supportive policies, amongst others, over a period of eight years.

Among the tangible benefits of its efforts to meet their customers' needs with inclusivity in mind, Digi launched Interactive Voice Response (IVR) in 5 languages and developed alternative microsites in Nepalese and Burmese in 2020, to better serve their migrant customers. They have also revamped their website and mobile application to improve accessibility for the visually impaired community. The mobile player was recognised for its efforts and ranked #37 worldwide (amongst 100 global companies) in Refinitiv's Diversity Inclusion Index in 2020.

Farm Fresh Bhd

Dairy company

Regenerative agriculture (circular economy): The company adopts sustainable farming practices to uphold long-term product quality while leaving a positive impact on the environment. This includes minimising animal waste discharge by utilising treated solid waste as a source of nutrition for animal feed through a process of vermi-composting. In 2020, 181.6 million liters of farm dairy effluent (FDE) and 34.3 million kg of solid waste were recycled and removed from waste discharge. This has allowed for 70% of the grass produced to be free of chemical fertilisers.

Just Transition: Uplift livelihoods in rural and suburban areas near the company's farms through employment and career advancement opportunities. Their satellite farmer programme allows local dairy farmers to develop industry-specific knowledge on productivity and raw milk quality, and a home dealer network programme allows rural micro-entrepreneurs to become dealers or stockists for the company's products. These efforts have resulted in RM38.1 million in additional income generated for local farmers, and RM48.8 million in income generated for 38 stockists, 801 home dealers, and 1,312 agents, with 80% of the micro-entrepreneurs being women.

Hartalega Holdings Bhd

Rubber glove manufacturer

Responsible recruitment of migrant workers: A common issue faced by migrant workers is debt bondage from having to pay high recruitment fees to recruitment agencies. Hartalega has established four checkpoints to ensure workers are not required to pay any agency fees as part of its Zero Recruitment Cost Policy, namely during the interview stage in the source country, before departure to Malaysia, arrival in Malaysia and three months into employment.

Responsible migrant labour practises: The company has completed its remediation of recruitment fees totalling RM41 million in June 2021 to current workers who joined prior to the implementation of its Zero Recruitment Cost Policy in 2019. In addition, it paid an average bonus of 2.6 months to its migrant workers as well as invested more than RM95 million in providing first-rate workers' accommodation, which meets ILO Housing Standards.

Nestle (Malaysia) Bhd

Food and beverage manufacturer

Sustainability report: The Nestle in Society Report is extensive, addressing a total of 19 material sustainability topics, with commitments, targets, progress and performance data for each topic. Each topic is also mapped against UN SDG.

Safeguarding the environment: In reducing plastic in landfills, Nestle improved its package design to reduce 225 tonnes of plastics per year on average, between 2008 and 2020. Through its recycling initiatives, they also collected a total of 238 tonnes of post-consumer plastics in 2020.

Just transition: Rural development initiatives have been put in place to empower local farmers with skills to increase productivity to enhance their income while allowing the company to secure their supply chain. The Nestle Paddy Club contract farming scheme has helped over 200 farmers in 2019 achieve greater average yields of around 56% higher than the national yield, while employing sustainable agricultural methods which significantly reduces consumption of irrigation water by 30% to 40%.

Low carbon energy solution: The company is diversifying its product portfolio to include the marketing of liquefied natural gas (LNG) as a cleaner fuel option. This includes marketing LNG to the marine industry as bunker fuel for vessels. This allows Petronas Dagangan to play a key role in facilitating the growth of the low carbon economy.

Green mobility solution: Petronas Dagangan plans to pilot DC fast EV chargers at its service stations in collaboration with Mercedes-Benz Malaysia Sdn Bhd and EV Connection Sdn Bhd. This aims to address EV drivers' pain point of insufficient fast chargers in Malaysia.

Petronas Dagangan Bhd

Oil and gas product retailer

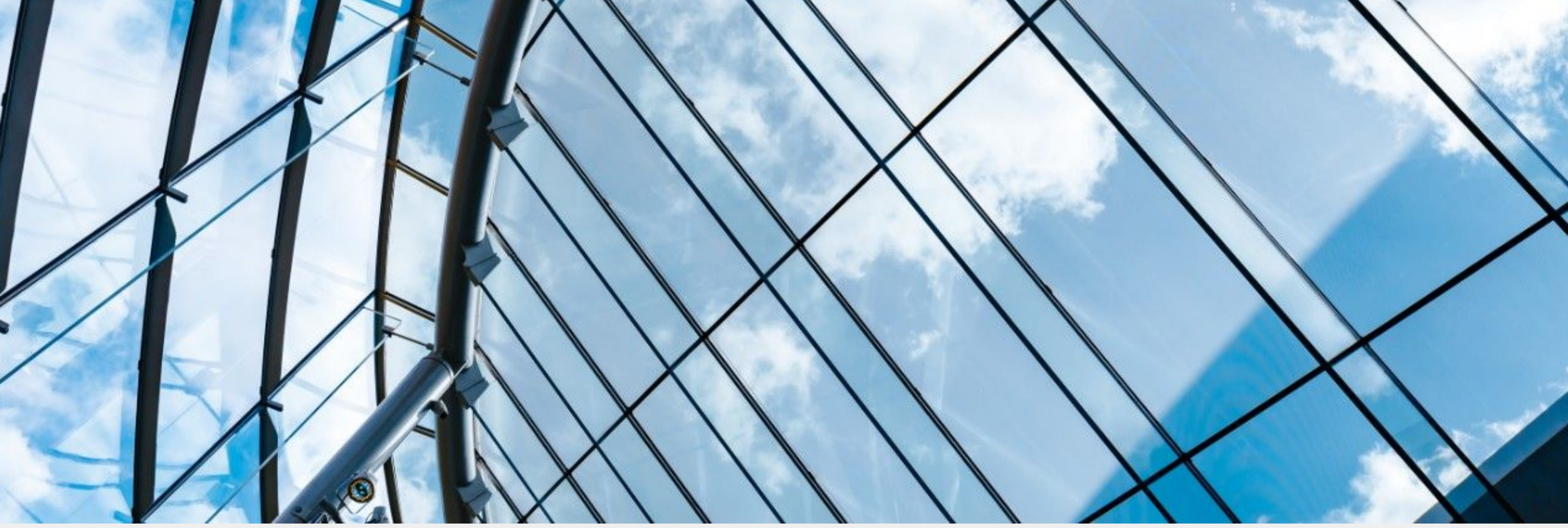
Press Metal Aluminium Holdings Bhd

Aluminium smelter

Sustainable production: The company has embarked on a journey to become an ASI-certified aluminium producer[1] by benchmarking its aluminium smelting operations against the ASI Performance Standard[1] and other key industry players.

Benchmark performance: Press Metal's Primary Aluminium Product and Value-Added Products generate less than 4.0 tonne CO2-eq per tonne of aluminium. This includes both direct and indirect (Scope 1 and Scope 2) emissions and pre-bake anode (Scope 3). It is less than half of the 8 tonnes CO2-eq per tonne of aluminium set by ASI for existing smelting plants to meet by 2030 and aligned with requirement settings for low carbon aluminium.

Note:
1 ASI - Aluminium Stewardship Initiative, is a non-profit organisation promoting the contribution of sustainable aluminium to society.



Sime Darby Property Bhd

Property developer

Recognised with a special mention for ESG Reporting Benchmarking Analysis at PwC Malaysia's Building Trust Awards

Biodiversity and carbon sequestration: Tree-to-Tree Replacement Policy where a new tree replaces a palm oil tree that has been removed. The reforesting effort intends to rehabilitate land formerly used for monoculture agriculture for greater biodiversity and to create long-term carbon sinks. Carbon sequestration via all tree planting amounted to 8,960 tonnes CO_2-e in 2020 or 23% of the Group's total carbon emissions.

Just Transition: Engaged 44.4% of contracted Tier-1 vendors through a structured vendor engagement programme which was restarted towards the end of 2020 (exceed the target of 25%), to raise awareness among vendors on sustainability (including human rights) and climate change issues.

Yinson Holdings Bhd

Integrated offshore production and support vessel provider

Energy transition strategy: Published a comprehensive Climate Goals Roadmap to achieve carbon neutrality by 2030 and net zero by 2050 through: (1) integrating carbon removal methods e.g. closed flare and hydrocarbon blanketing; (2) investing in renewable energy to offset GHG emissions; (3) integrating carbon removal technologies (e.g. direct air capture, carbon capture utilisation and storage); (4) implementing a 'No Venting and No Flaring Philosophy' for its offshore production business; and (5) investing in green technologies in marine, mobility and energy. The roadmap includes KPIs and performance targets aligned to the roadmap.

Green mobility solutions: Yinson has made investments into e-mobility, autonomous driverless solutions and electric harbour crafts. In 2021, Yinson partnered with GreenTech Malaysia Alliance (GTMA) to accelerate the development of EV charging infrastructure in Malaysia, building upon GTMA's 400 charging stations nationwide.

4 Investors' role

Key takeaways
What can investors do?

The growing impact of ESG priorities and the race to decarbonise the global economy in line with the Paris Agreement means that the foremost question is how to deliver the business transformation to meet sustainability commitments while securing the returns investors are looking for.

PwC's 2021 Global Investor Survey finds that nearly 80% said ESG was an important factor in their investment decision-making; 75% said companies should address ESG issues, even if doing so reduces short-term profitability. Divesting may be a short-term fix, but sustainable value creation requires a greater show of proactivity. Investors should take this opportunity to develop their own voice on ESG, and also encourage companies to make ESG a business imperative, instead of a compliance requirement.

How can investors be part of the ESG movement?

A 'Just Transition'

Sustainability priorities tend to overlook the social dimension of climate change. A just transition to a greener economy will need to account for the impact on all people and communities, including workers, SME vendors and their employees so that the benefits of climate action are distributed equitably.

As they may lack the know how and money to adapt to the green transition, leaving them behind may result in a struggle to deliver on companies' net zero commitment and potentially failing to capture new opportunities. Which is why this movement cannot happen without dialogue and partnerships among workers, employers, governments, communities and civil society.

Get involved

Opportunities to weigh in on climate action can look like getting involved in conversations with policy makers and regulatory authorities.

Investors and the companies in their portfolios can proactively be part of standard setting by contributing their perspectives and feedback at meetings and when exposure drafts are published.

Being part of a collective of like-minded peers advocating for sustainability and capacity building is another way of shaping a favourable ecosystem for businesses and the capital market in Malaysia.

Doing your due diligence

The focus on ESG has brought reporting into the spotlight. ESG ratings have sprung up to help investors compare companies' performance, but as we've seen, criteria differ from one data provider to the next, and relying on one source may mean missing out on investments that meet investor requirements but that don't appear on a particular rating.

When devising an investment strategy, be ready to conduct your own due diligence, and consider multiple sources of information to ensure that you're comfortable with the narratives of investee companies. Being part of the Sustainable Investment Platform can help build capacity for data collection and tools to build depth in sustainable investment strategies.

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