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**EPF**



# EPF CLIMATE CHANGE ISSUE POLICY

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## 1. ABOUT THIS DOCUMENT

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### 1.1 Context and Background

The Employees Provident Fund (“EPF”) is Malaysia’s foremost pension fund acting in accordance with the Employees Provident Fund Act 1991 (Act 452) with aims of safeguarding members’ savings and helping members achieve a better future. As a long-term and global financial investor with that aim, we recognise the importance of incorporating and addressing sustainability matters in our investments. We believe that doing so will allow us to better manage risk exposures and identify wider value creation opportunities for our members.

In 2020, we established our Sustainable Investment (“SI”) Policy which forms our view on how we think about sustainability. This Issue Policy, as well as our Sector Policies, builds upon the foundations of our SI Policy. This Climate Change Issue Policy supports our aim to address sustainability matters in our investments by establishing how we expect companies to manage various climate-related

matters. To encourage standardisation of ESG disclosures globally, we aligned our expectations to internationally recognised principles and standards, including United Nations’ Principles for Responsible Investing (“UNPRI”), United Nations’ Sustainable Development Goals (“UN SDG”), Sustainability Accounting Standards Board (“SASB”) Materiality Map, Global Reporting Initiative (“GRI”) Reporting Standards, United Nations’ Global Compact, and the Taskforce for Climate-Related Financial Disclosures (“TCFD”). This document is a starting point for EPF to interact with companies on climate change issues and sets the foundations for EPF to meet our target of having:

- 1 A climate neutral portfolio by 2050
- 2 A fully ESG-compliant portfolio by 2030

### 1.2 Scope and Applicability

Our expectations are directed at boards and management teams of all external fund managers and investee companies (“companies”)<sup>1</sup> in our portfolio and cover aspects of a company’s strategy, operations, processes, reporting and engagement activities. These expectations are global in scope, covering both existing and new investments, and applicable to all sectors and industries. We are, however, mindful that some sectors are more exposed to certain climate change sub-issues and expectations than others. As such, companies are encouraged to perform a materiality

assessment and engage us on the applicability of the expectations to their businesses.

For selected priority sectors<sup>2</sup>, we also developed supplementary sector policies that build on top of this issue policy – companies that are part of EPF’s priority sectors should refer to the sector policy in tandem and strive to meet the expectations listed in both the issue and sector policy.

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<sup>1</sup> Includes both investee companies and external fund managers (“EFM”) in EPF’s portfolio

<sup>2</sup> Includes oil and gas, palm oil, banking, mining, power generation and construction sectors

## 2. CLIMATE CHANGE AS A PRIORITY

Our view on Climate Change as a critical issue to address is in line with global priorities. This is evidenced by detailed reports and findings from the 2021 Intergovernmental Panel on Climate Change (IPCC)’s report, Swiss Re Institute’s “The Economics of Climate Change”, and the 2021 United Nations Climate Change Conference (COP 26). On the local front, Climate Change has similarly been placed at the forefront of national priorities as Malaysia recently established the commitment to achieve carbon neutrality as early as 2050.

Aside from aligning to national and global priorities, we believe Climate Change has the potential to significantly impact business performance and our overall portfolio returns. According to the World Economic Forum (“WEF”), 4 out of the top 5 global risks are environmental-related<sup>3</sup>. If not managed well, Climate Change can dramatically affect the future of our members. Hence, we recognise the urgency and are committed to play a part in addressing the Climate Change issue.

## 3. DEFINING CLIMATE CHANGE

United Nations’ Framework Convention on Climate Change (UNFCCC) defines Climate Change as “a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods”

As a further step in defining Climate Change, we broke this down to 8 key sub-issues as follows:

No	Sub-Issues	Definition
1	Greenhouse Gas (GHG) Emissions	Direct and indirect greenhouse gas emissions from a company’s operations
2	Airborne pollutants	Air pollutants such as Nitrogen Oxides, and particulate matters that are generated from business operations
3	Energy usage and efficiency	Management of energy efficiency and intensity, energy mix as well as grid reliance across business operations
4	Water and wastewater management	Consumption of freshwater consumption, water sourcing management for company’s operations and management of wastewater
5	Waste management	Management of hazardous and non-hazardous waste generated by company’s operations, including its treatment, recycling and disposal
6	Land usage and natural resource depletion	Impact on land and available land, ocean and natural resources (e.g. oil, food source, freshwater, minerals, etc.) for business operations
7	Biodiversity and ecology impact	Impact on biodiversity and natural ecosystem for both land and ocean from business operations
8	Resilience against natural disasters	Management of a company’s business operations against natural disasters such as flooding, forest fires, hurricanes, earthquakes, etc.

Table 1: List of sub-issues for Climate Change

The list of expectations in Section 5 of this document will draw reference to the sub-issues in the table above. We encourage companies to conduct a materiality assessment to identify the relevant sub-issues to your business<sup>4</sup>. This can serve to inform the scope of the expectations for each company to meet<sup>5</sup>.

<sup>3</sup> Top 5 risks includes extreme weather, climate action failure, human environmental damage, infectious disease and biodiversity loss

<sup>4</sup> Conducting a materiality assessment on these sub-issues is one of the key expectations listed in Section 5

<sup>5</sup> For example, to meet Expectation #4: “Companies should establish a clear ambition, management stance and commitment across the material sub-issues” – Companies can limit the setting of stance for sub-issues that are most relevant to their business by conducting a materiality assessment

## 4. OUR APPROACH TO CLIMATE CHANGE EXPECTATIONS

### 4.1 Identifying Climate Change Expectations

Informed by the sub-issues, we identified the list of expectations based on the framework below:

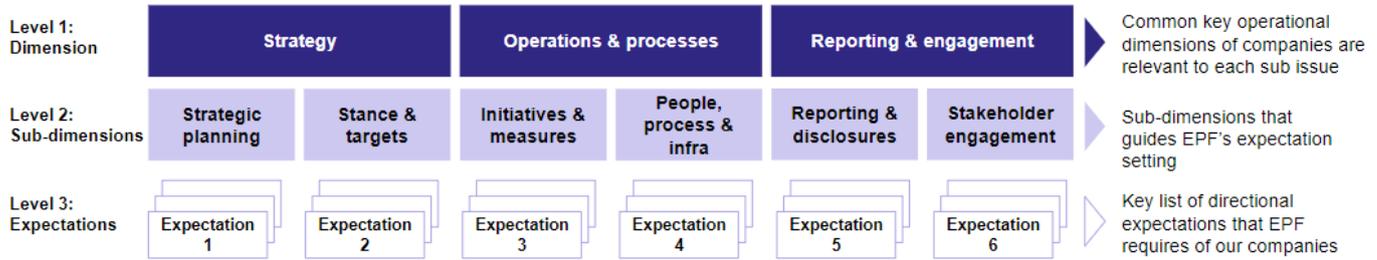


Figure 1: Framework for identifying Climate Change expectations

The framework establishes the “Level 1: Dimensions” and “Level 2: Sub-dimensions” of a company to guide our development of Climate Change expectations. By adopting the “Level 1” and “Level 2” lenses, our expectations would sufficiently cover key operating aspects of a company – from strategic planning to stakeholder engagement.

### 4.2 Implementation of Climate Change Expectations

To support the rollout of the policy, we grouped the list of Climate Change expectations into three classifications: (1) Core Requirement, (2) Best Practice, and (3) Voluntary.

Classification	Definition
<b>Core Requirement</b>	EPF’s minimum requirement for all investee companies / fund managers (new and existing investments). These requirements are in line with global standards, and are deemed good practices for all companies to adopt
<b>Best Practice</b>	Expectations that investee companies / fund managers are encouraged to comply with
<b>Voluntary</b>	Expectations that investee companies / fund managers may choose to comply with at their discretion in the immediate term

Table 2: Classification of expectations

This classification is used to support the phased implementation of the expectations as per below:

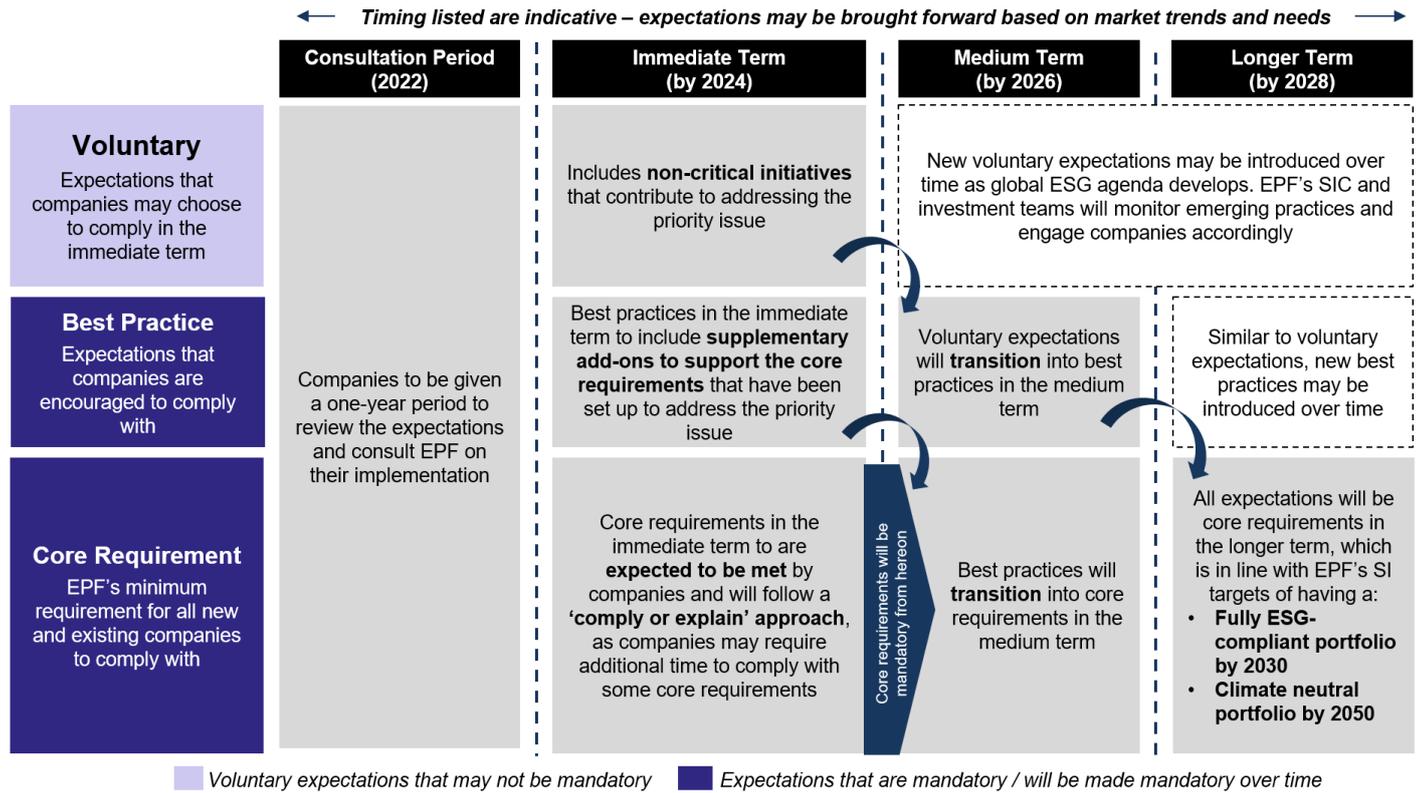


Figure 2: Phasing approach for EPF's expectations

As part of our commitment to support our companies on their own sustainability journey and account for the varying levels of ESG maturity in our portfolio, we will phase the implementation of our expectations. In the immediate term (by 2024), we expect all companies to meet the core requirements expectations. By the medium term (by 2026), best practice will evolve into core requirements expectations. Lastly, by 2028, we expect companies to meet all the expectations as listed in section 5<sup>6</sup>.

Timelines set for the immediate, medium and long term are indicative and serve as a checkpoint to assess companies' progress and efforts towards meeting the expectations. We will adopt a comply-or-explain approach as we assess a company's compliance against the core requirement expectations to account for extenuating circumstances<sup>7</sup>. We will also consider various stewardship actions based on the outcomes of periodic ESG assessment – refer to Section 6 of this document and our stewardship policy for further information.

<sup>6</sup> Not all voluntary expectations in section 5 may evolve to be mandatory in the long term. EPF may also introduce new voluntary expectations based on global trends and movements on this issue.  
<sup>7</sup> Explanations on expectation gaps will be evaluated on a case-by-case basis; we will also consider other factors such as the company's size and capabilities

## 5. OUR CLIMATE CHANGE EXPECTATIONS

No	Expectations	Sub-dimensions
<b>Core Requirement</b>		
1	Companies' long-term business strategy and planning should incorporate recognised global climate goal(s)	Strategic Planning
2	Companies should perform a materiality assessment on the level of relevance and risk exposure of each sub-issue to their business, and disclose the results from the assessment, including the confirmation of material sub-issues	Strategic Planning
3	Companies should establish a clear time-bound emissions reduction plan in line with achieving net zero by 2050	Stance & Targets
4	Companies should establish a clear ambition, management stance and commitment across the material sub-issues	Stance & Targets
5	Companies should identify and consider relevant programmes within their own operations to manage the material sub-issues	Initiatives & Measures
6	Companies should identify and introduce process-based indicators and metrics across the material sub-issues and ensure they align to internationally-recognised standards	Initiatives & Measures
7	Companies should develop clear policy documents for the committed stance across material sub-issues	People, Process & Infrastructure
8	Companies should conduct regular internal climate-related training and awareness programmes, ensuring employees are made aware of the company's policies and practices	People, Process & Infrastructure
9	Companies should have in place a clear responsibility and accountability structure that supports the development, implementation and monitoring of climate-related policies and initiatives	People, Process & Infrastructure
10	Companies should disclose their climate-related policies, gaps, risk management and mitigation measures, strategies, roadmap and relevant globally recognised standards that companies have adopted	Reporting & Disclosures
11	Companies should seek to align their disclosures and reporting practices relating to climate risks and opportunities with TCFD	Reporting & Disclosures
12	Companies should monitor and disclose climate-related metrics, value and targets associated with their own operations in accordance with the GHG protocol or other relevant industry standards	Reporting & Disclosures

No	Expectations	Sub-dimensions
<b>Best Practice</b>		
13	Companies should assess the sensitivity and resilience of their long-term business strategy to different transition and physical climate scenarios (e.g. 1.5 – 2 degrees Celsius scenario) and have clear business continuity planning measures against scenarios	Strategic Planning
14	Companies should understand and identify the socio-economic impacts of their business and operations on the material sub-issues	Strategic Planning
15	Companies should identify and introduce impact-based metrics across the material sub-issues and ensure they align to internationally recognised standards	Initiatives & Measures
16	Companies should put in place a mechanism for technical expert input (internal or third-party) across the policies and management strategy of the material sub-issues	Initiatives & Measures
17	Companies should monitor, identify and address their exposures and climate risks on the material sub-issues across their value chain	People, Process & Infrastructure
18	Companies should have in place key performance indicators of Board and Senior Management to integrate climate-related elements appropriately	People, Process & Infrastructure
19	Companies should have in place relevant tools and infrastructure to enable and support the company’s climate-related policies	People, Process & Infrastructure
20	Companies should monitor and disclose scope 3 emissions arising from their value chain in absolute and relevant intensity terms that is in accordance with the GHG protocol or other relevant industry standards	Reporting & Disclosures
<b>Voluntary</b>		
21	Companies should consider research and development and alliances / partnerships to reduce impact and dependency on the material sub-issues	Initiatives & Measures
22	Companies should extend their in-house climate-related training and capability building across their supply chain, especially towards small-medium enterprises to manage their scope 3 emissions measurement	People, Process & Infrastructure
23	Companies should have policies or guidelines for engaging with policy makers, regulators, finance providers and customers on climate change and related topics and be transparent about relevant associated spending and activities	Stakeholder Engagement
24	Companies should engage with vendors and suppliers to advocate for sustainable practices and uplift their understanding of climate change	Stakeholder Engagement

## 6. STEWARDSHIP ACTIONS

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As an investor, we are committed to uphold our companies to these expectations on Climate Change. Our core requirement expectations are implemented on a “comply-or-explain” basis at each assessment checkpoint listed in Section 4.2 of this document. Companies that do not meet the core requirement expectations and fail to provide adequate explanations will be subjected to our stewardship / intervention actions, including, but not limited to:

- 1. Proxy Voting**  
Weigh in on decisions on the company’s direction and vote for mandates around ESG issues
- 2. Regular dialogues on ESG Progress**  
On-going dialogues to understand gaps and to provide low-touch guidance on action plans moving forward
- 3. High-touch ESG Monitoring and Review**  
Implementation of frequent reporting requirements and review cycles on ESG progress
- 4. Gradual / Signaling Divestment**  
Partial or gradual divestment over time as a signal to reinforce our ESG view and stance
- 5. Full Outright Divestment**  
Full divestiture of our equity ownership from the company<sup>8</sup>

With these stewardship / intervention actions, we aim to support our companies to progress along this sustainability journey with us and produce meaningful impact to addressing Climate Change issues.

## 7. FOLLOW-UP AND MAINTENANCE

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Climate Change is an evolving issue globally. As such, we are committed to assessing the trends and movements of this issue moving forward. To ensure continuous relevance, we will periodically review the contents of our Climate Change policy and announce updates accordingly. All updates will be proactively communicated to the relevant stakeholders of this policy.

For further clarifications kindly reach out to EPF’s Sustainability Centre Office at  
[sustainability@epf.gov.my](mailto:sustainability@epf.gov.my)

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<sup>8</sup> Full divestiture option will be evaluated on a case-by-case basis to account for liquidity of investments, contract agreements, market movements, etc.