



KWSP[®]
EPF



EPF
SUSTAINABLE
INVESTMENT POLICY
FREQUENTLY ASKED QUESTIONS

FREQUENTLY ASKED QUESTIONS (FAQ)

1. What is sustainable investing (SI)?

EPF defines sustainable investing as the integration of environmental, social and governance (ESG) considerations into the investment cycle and ownership practices in the belief that these factors can improve risk-adjusted financial returns in the long term. This includes identifying ESG implications during due diligence, monitoring and assessing ESG risks during investment management and driving sustainable initiatives via active ownership.

By considering potential ESG risks and opportunities, we believe that SI practices will empower EPF to make better informed investment decisions while potentially generating wider societal impacts in the form of social dividends and environmental contributions. The integration of sustainability factors across all asset classes, including both conventional and Shariah investments, is a crucial element of our SI approach. As Malaysia's pension fund and a keystone organization in Malaysia EPF aims to be a key driving force of the sustainability agenda for the nation.

2. What does 'ESG' stand for and how is it relevant to EPF and our members?

ESG stands for environmental, social and governance. EPF uses ESG factors to better understand, assess, and manage sustainability issues. ESG is most often understood as "non-financial" information, providing insights into intangibles such as brand value, environmental risks, business resilience and societal impact.

The Environmental factor takes into account a company's direct and indirect impact on the environment, including themes such as climate change risks, biodiversity impacts, pollution and waste. Social factors assess the internal and external social risks and opportunities of a company. Internal social factors include human capital strategy, remuneration policy as well as social diversity in the workplace. External social factors of a company in the wider community cover themes such as human rights, customer brand perception and data security handling of consumers. Finally, the Governance factor includes corporate governance considerations such as but not limited to board and employee diversity, succession planning, remuneration, accounting policies and governance structures.

EPF's SI vision, as a pension fund, is to help members achieve a better future by delivering long-term value creation. To do this, EPF believes that it is crucial to incorporate an ESG-lens in our evaluation of a company's performance and business practices, as by considering risks and opportunities beyond financial performance, EPF will be well-positioned to make more holistic investment decisions, thus safeguarding our members' long-term returns.

FREQUENTLY ASKED QUESTIONS (FAQ)

3. What are EPF's sustainable investing principles?

EPF's commitment to SI is grounded in four key guiding principles to ensure consistency, predictability, and transparency.

Firstly, EPF will integrate ESG in our investment decision-making process, ensuring a robust and comprehensive investment process that assesses an investment opportunity not only by its financial upside potential but also its performance on key ESG factors. This involves establishing minimum sustainability standards, integrating an ESG lens during due diligence and monitoring, as well as defining positions on controversial sectors.

Secondly, EPF recognises stewardship as a top priority. To play a pivotal role in driving the Malaysian sustainability agenda, we will take an active leadership role in ensuring investments within our portfolio continuously improve to meet the EPF's set sustainability standards. EPF engages in stewardship through our responsible voting practices, ESG-monitoring as well as active engagements with investee companies and external fund managers.

Thirdly, EPF's ambition to become a regional leader in sustainable investing is aligned with our commitment to local and global sustainability goals. Benchmarking to local and global goals (see Q4) as well as taking into account our portfolio's exposure, we have identified relevant ESG priorities and targets for EPF. To accelerate our efforts, we have established the Sustainable Investment Centre (SIC) to develop, implement, monitor and report our annual sustainability progress towards our committed goals.

Finally, to further EPF's successful transition towards being a leader in sustainable investing, we have identified internal capabilities building as a key priority in our sustainable investment approach. We will conduct training and awareness programmes internally and externally, develop internal sustainability advisory capabilities, and establish a change management office to instil a sustainability-charged top-down culture within EPF.

4. How will EPF manage key ESG issues?

EPF has identified and prioritised key firm-wide ESG issues that are relevant to the EPF within the Malaysian context. We referenced the considerations of the 12th Malaysia Plan's national development priorities, the World Economic Forum (WEF) top sustainability issues, the United Nations Global Compact (UNGC) and the Sustainable Development Goals. We will periodically review these considerations to reflect the updated local and global sustainability priorities.

On a sectoral basis, we refer to the Sustainability Accounting Standards Board (SASB) as one of the guidance to understand and assess financially-material ESG issues of each sector. The SASB has developed standards that enable businesses to identify, manage and communicate financially-material sustainability information.

EPF has prioritised material sub-sectors and issues to be addressed as part of EPF's sector and issue policy. Moving forward, EPF will work closely with investee companies, investment partners, and external fund managers with high exposure in these sectors and issues so as to effectively manage relevant ESG risks.

FREQUENTLY ASKED QUESTIONS (FAQ)

5. What is EPF's stance on ESG?

EPF believes that ESG issues are significant in business practices as they reflect the risks and opportunities of businesses as well as the positive and negative impacts on the wider society. EPF has identified three Priority Issues namely climate change (E), workers' wellbeing (S), and corporate governance (G). These focus areas will be reviewed periodically to factor in the latest developments.

To integrate the priority issues, issue-specific policies have been developed, in line with global standards, EPF's mandate, national commitments and peer investors' practices. A prioritised list of sub-issues for EPF to focus on was then shortlisted.

On **climate change**, EPF recognises the negative externalities of climate change on economies and communities. As such, we have committed to a target of having a climate neutral portfolio by 2050. We strongly believe in doing more to reduce carbon emissions by integrating climate related considerations in investment decision making and seizing opportunities arising from this issue. Eight sub-issues namely GHG emissions, airborne pollutants, energy usage and efficiency, water and wastewater management, waste management, land usage and natural resource depletion, biodiversity and ecology impact and resilience against natural disasters were shortlisted for EPF to focus on.

As a social security institution, EPF acknowledges the importance of **workers' wellbeing** and issues surrounding it such as forced labour, occupational health and safety, and workplace diversity. We believe that investments by businesses in the workers' health and wellbeing are core in preserving a sustainable business model. As such, EPF is proud to support the internationally recognized human rights principles such as the fundamental International Labour Organization (ILO) Standards, the United Nations Guiding Principles (UNGP) on Business and Human Rights and the United Nations Global Compact (UNGC) Principles, and commits to align these principles into our investment decisions, with alignment to Malaysian values. We, therefore, expect our investee companies to adopt and implement these principles throughout their entire business supply chain by practising a more proactive approach rather than a reactive one, in minimizing the social risks. Six sub-issues namely diversity and inclusion, employee health and safety, training and education, forced/child labour, fair wages and benefits and freedom of association were shortlisted for EPF to focus on.

Corporate governance has been an integral part of EPF's investment philosophy and we view good governance as the foundation of a successful and sustainable business. A robust governance framework improves business resilience and helps mitigate both financial and non-financial risks that are detrimental to stakeholders such as corruption, excessive remuneration, and conflict of interest. As such, EPF requires its investee companies to align their practices with the local corporate governance code and EPF Corporate Governance Principles, as well as strongly encourages the adoption of best practices to demonstrate their commitment to higher standards of corporate governance. The EPF Corporate Governance Principles outlines a set of expectations for investee companies covering matters related to the board, corporate exercise and shareholders' meeting. These expectations are translated into voting guidelines which are regularly reviewed to ensure that they are relevant to recent developments in market practices and stakeholders' expectations.

FREQUENTLY ASKED QUESTIONS (FAQ)

6. How will investee companies and external fund managers (EFM) be impacted by EPF's pursuit of sustainable investing?

Moving forward, EPF's portfolio managers will be communicating the ESG requirements and standards to our investee companies and EFMs. Our SI framework will provide the basis for ongoing and future engagements to discuss, assess and manage ESG risks as well as capitalising on value creation opportunities. EPF will begin engaging investee companies and EFMs to discuss ESG data disclosure requirements such as but not limited to those related to climate change and corruption ensuring practicality and feasibility of the data requests.

7. What is the coverage of the SI Policy?

The Policy covers all asset classes that EPF is invested in, across both conventional and Shariah investment. There is a no-one-size-fits-all approach in sustainable investing; the degree of applicability to teams will differ and asset owners must apply the practice as they see fit.

8. Who are the parties relevant to the implementation of EPF's SI Policy?

All stakeholders involved in EPF's investments, including but not limited to EPF's Investment Panel, all EPF investment staff, External Fund Managers, investee companies/funds and service providers.

9. Is Shariah investment considered a sustainable investment?

A Shariah investment would typically apply negative screening to exclude investments that are involved principally in prohibited activities that are not in compliance with Shariah principles such as alcohol, pork, tobacco, gambling, adult entertainment and interest (riba) based financial services, or generates its revenue from such prohibited activities of more than the tolerable threshold. The prohibition of riba is also extended to the conventional debt and cash instruments used in investment which must be kept at a minimum level.

Although the negative screening approach adopted in Shariah investment has a positive social impact that is similar to ethical investment, for Shariah investment to be considered sustainable investment it would require beyond exclusionary screening, including but not limited to positive screening, norms-based screening, active engagement and thematic investments that are compatible with the objectives of Shariah (Maqasid Shariah) which promote the welfare of humankind and prevent harm by preserving religion (faith), life, intellect, offspring (future generation) and wealth.



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