



**KWSP**<sup>®</sup>  
**EPF**



**EPF**  
**SUSTAINABLE**  
**INVESTMENT POLICY**

# EPF Sustainable Investment Policy

## 1. MANDATE

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Established in 1951, the Employees Provident Fund (EPF) is a social security institution operating in accordance with the Employees Provident Fund Act 1991 (Act 452), helping the Malaysian workforce to save for their retirement. EPF invests our funds into a portfolio of diversified asset classes comprising government bonds and securities, private and public equities, money market, real estate and infrastructure. The activities and operations of EPF are governed under the EPF Act 1991 whereby investments are made according to Section 26 of the Act.

Today, EPF continues to refine our vision of helping members achieve a better future to stay relevant as well as create a comfortable retirement for our members. This strengthens our commitment in safeguarding our members' savings and increasing our dedication in providing excellent services.

It is EPF's belief that aligning our investment activities with the broader interests of society would serve well with our objectives as a retirement savings fund driven by long-term, sustainable value creation for our stakeholders. EPF recognises that in addition to financial considerations, environmental, social and governance (ESG) factors are essential to make better informed and holistic investment decisions. Given EPF's position as a prominent organisation in Malaysia, we also believe that our vision-driven corporate practices will influence and impact adjacent businesses, investee companies and therefore, benefit our members

and contribute to a wider sustainability ecosystem.

This Sustainable Investment (SI) Policy explains EPF's approach to sustainable investing and integration of ESG factors into EPF's investment processes and stakeholder engagement. EPF's approach to SI will be coherent with that of our enterprise sustainability.

As a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI), EPF will implement the six Principles for Responsible Investment, which include embedding ESG considerations into investment analysis and decision-making processes, and seeking appropriate ESG disclosures from investee companies. EPF follows the recommendations provided by the UNPRI and supports the Task Force on Climate-related Financial Disclosures (TCFD).

This will be supplemented by:

- 1 EPF's Priority Issue Policies that define EPF's stance on Climate Change and Workers' Wellbeing; applicable to all investments across different sectors and;
- 2 EPF's Priority Sector Policies that define specific ESG expectations focusing on six sectors namely Oil & Gas, Palm Oil, Power Generation, Mining, Construction and Banking.

## 2. SUSTAINABLE INVESTING IN EPF

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EPF defines SI as the integration of ESG considerations into investment management processes and ownership practices in the belief that these factors can improve risk-adjusted financial returns. By applying the lens of a sustainable investor, a more comprehensive understanding of opportunities and risks in an investment can be made which results in better investment decision-making. Our vision is to help members achieve a better future by delivering long-term value creation. The integration of sustainability factors across all asset classes, including both conventional and Shariah investments, is a crucial element of our SI approach.

In our view, SI involves uplifting the ESG performance of our investee companies. EPF strongly advocates SI as an investment practice that considers a holistic range of sustainability-related issues across ESG areas. Going beyond financial investments, EPF aims to work closely with investee companies across a wide range of sectors to achieve good ESG standards. SI is therefore a core EPF investment consideration that focuses on delivering long-term sustainable value through sustainability risk management and value creation while balancing shorter-term financial returns.

## 2. SUSTAINABLE INVESTING IN EPF



We believe compliance to EPF's ESG expectations as set out by the sector and issue policies would improve investee companies' ESG performance and may potentially strengthen their business resilience and marketability. Additionally, SI can potentially result in wider societal impact in the form of social and environmental contributions. This is achieved when EPF invests in companies with robust ESG practices that directly address societal problems, provide access to financial services and education, as well as maintain environmentally-friendly business practices.

### 2.1 ESG Definition

EPF understands SI as the overarching investment strategy and ESG as a data toolkit to identify and inform our SI priorities.

Environmental factors capture the direct and indirect environmental risks and opportunities of a company's business activities. Themes include greenhouse emissions, climate risks, pollution, waste and biodiversity impacts. As stewards to our members' savings, we are cognizant that climate change and environmental degradation can create financial risks in corporate value chains, and hence affect the value of our investments. In particular, with the impact of climate change well underway, we aim to align our investments amid the transition into a low-carbon future by focusing on Climate Change as our Priority Issue. Further information on EPF's expectations on Climate Change is available in EPF's Climate Change Policy.

Social factors assess the internal and external social risks and opportunities of a company. Internal social risks and opportunities include a company's human capital strategy, remuneration policy as well as social diversity in the workplace. External social factors of a company on the wider community cover themes such as human rights, customer brand perception and data security handling of consumers. Positive social factors not only align with our

mission of creating a better future for our members, but also are congruent with the objectives of Shariah (Maqasid Shariah) of valuing life, religion (faith), intellect, offspring and wealth. With the increasing spotlight on Malaysian corporates labour rights issues, EPF has selected Workers' Wellbeing as its Priority Issue for the Social pillar. Further information on EPF's expectations with regards to workers' wellbeing can be found in EPF's Workers' Wellbeing Policy.

Governance factors evaluate a company's corporate governance framework and performance, such as but not limited to voting policy, fair remuneration, accounting policies and corporate governance structures. Our corporate governance principles are guided by effective and independent board or management oversight which promotes disclosures, transparency and accountability, and efficient use of resources in delivering long term value to stakeholders.

### 2.2 Sustainable Investing Targets

EPF has started the journey to transition to be a sustainable investor and has defined two overarching sustainability targets. Firstly, EPF aims to achieve a fully ESG Compliant Portfolio by 2030. EPF will define the respective ESG expectations for investments across sectors and asset classes, through its Priority Issue and Sector Policies. EPF investee companies, investment partners, and external fund managers are urged to embark on this transition phase together. Our ESG expectations are not static and will be reviewed on a regular basis.

Secondly, EPF commits to achieving a climate neutral portfolio by 2050. According to the United Nations Framework Convention on Climate Change (UNFCCC), climate neutrality is aligned with achieving net zero GHG emissions, in line with the Paris Agreement and 12th Malaysia Plan. The Climate Change Issue Policy and its ESG expectations on EPF's investments will pave the way forward in EPF achieving this target.

### 3. GUIDING PRINCIPLES FOR SUSTAINABLE INVESTMENT

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

#### Guiding Principle 1: ESG in Investment Decision-Making

At EPF, we believe that ESG factors play a critical role in safeguarding the longer-term returns of our investments. To do this, EPF will establish minimum sustainability standards and thresholds for investments, and the necessary metrics and indicators for performance tracking. Each asset owner will have a tailored set of sustainability standards and thresholds to guide investment decisions. The relevance and impact of ESG considerations to investment decisions varies across asset classes and strategies.

Additionally, EPF will establish a position on controversial sectors and issues, where clear guidelines and actions will be developed to manage scenarios in which the sectoral stance is challenged. Reviewed on an annual basis, sectoral stances ensure that any potential challenges in investments can be managed with consistency, predictability and transparency.

#### Guiding Principle 2: Stewardship as a Top Priority

As a cornerstone organization in Malaysia, EPF recognises stewardship as a top priority to reinforce our active leadership role in driving SI and manage investee companies in our portfolio to provide sustainable returns. We strongly believe and advocate for effective stewardship to create and ensure longer-term value. Examples of EPF's effective stewardship initiatives include responsible voting practices, ESG monitoring as well as active engagements with investee companies and external fund managers.

#### Guiding Principle 3: Commitment to Local and Global Goals

EPF's commitment to becoming a regional leader in sustainable investing is aligned with our commitment to local and global sustainability goals. Anchored to relevant local and global goals to drive the nation building agenda, we have identified specific sustainable investing priorities for EPF. For each priority, EPF will be setting and communicating clear goals for EPF and our investee companies. 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. We strive to publicly disclose EPF's progress by identifying, quantifying our performance and communicating our ESG performance and impact.

#### Guiding Principle 4: Focus on Capabilities Building

To further EPF's successful transition towards being a leader in SI, we have identified internal capabilities building as a key principle in our SI approach. We will build internal capabilities and raise awareness surrounding SI via training and awareness programmes, embedding our sustainable investment approach throughout the organization. Moreover, SIC is to enhance internal sustainability advisory capabilities to provide advice to senior management and across the investment portfolio, championing the sustainability agenda internally and externally. Finally, EPF will establish a change management office to instil a sustainability-charged culture in EPF. The change management office is expected to drive changes within the organization and oversee a timely and economical transition process. Beyond capabilities building within the firm, EPF also aims to act as a convener, helping investee companies by sharing good practices and initiatives on ESG to stimulate collaboration to common ESG issues.

## 4. EPF'S SUSTAINABLE INVESTING APPROACH

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EPF invests locally and globally through a range of asset classes across a myriad of business sectors, using tailored investment strategies. This includes making direct investments through EPF's internal fund managers and outsourcing a portion of capital to external fund managers to be invested on EPF's behalf. EPF's SI approach covers the entire investment value chain, from pre-investment to post-investment monitoring and stewardship.

### 4.1 Approach To Sustainable Investing

EPF's approach to sustainable investing is based on the following:

- 1 Negative screening at the highest level of businesses we have determined to be controversial
- 2 Employing the appropriate investment strategy based on EPF's level of involvement and influence over an investment asset as well as ESG performance.

#### 4.1.1 Negative Screening

Negative screening excludes potential investment opportunities related to controversial business activities and countries defined by EPF. Our existing Controversial Business Activity List already excludes companies that engage with the production, distribution and/or trade of weapons, tobacco, alcohol beverages, adult entertainment and gambling.

EPF will be enhancing our list of exclusions by accounting for ESG considerations across all asset classes. EPF seeks alignment, where possible, with local and international standards as well as the best practices defined by various organizations. Our exclusion list will be reviewed annually.

#### 4.1.2 Investment Strategy Guidelines

Asset owner will select an appropriate investment strategy based on two factors – EPF's level of involvement and influence over an investment asset, as well as ESG performance.

For an investee company in which EPF has a low level of involvement and influence with, EPF can choose, depending on the investee's ESG performance, to either avoid investing, invest and monitor ESG performance, or perform positive screening to only invest in companies that are ESG-focused to capture the value from transformative ESG impact. If there is a high level of involvement and influence with an investee company, EPF can opt to invest and engage with the company to improve or maximise ESG value.

In addition to evaluation using external ESG rating platforms, we have also developed our proprietary ESG Rating Index to assess the quality of ESG aspects of our investee companies under surveillance. This tool is able to generate a quantifiable rating, supplementary to the traditional financial analysis. Apart from that, the rating index also aids us in identifying shortfalls with regard to ESG-related criteria in our investee companies, enabling us to initiate conversations with them on EPF's prioritised list of ESG issues. For our externally-managed assets, we are also gradually integrating greater ESG consideration into our investment evaluation process, especially on investment due diligence.

### 4.1 Stewardship

We believe that longer-term value creation for our stakeholders is also a function of ongoing engagement with a myriad of organisations and institutions. As part of our active ownership practice, it is our fiduciary duty to ensure that all aspects of our investments involve the consideration of ESG-related factors in addition to financial returns. Engagement thus forms a key aspect of our investment governance process as we believe that this would translate into more sustainable returns over the long term.

Our stewardship philosophy is centered on four key activities:

<p><b>Proxy Voting</b></p>	<p>Proxy voting forms an integral part of our engagement process. Public equities voting decisions are evaluated based on our latest Voting Guidelines published in our website.</p> <p>We will vote in favour of resolutions which are in line with the Malaysia Code of Corporate Governance and are of the best interest of our members. On the other hand, our decision to vote against or abstain on resolutions are premised on those which do not meet our guidelines, deemed to have conflict of interests, poor transparency and/or perceived to be detrimental to our interests and objectives. With ESG risks and opportunities embedded in our voting policy, EPF will review our voting policy in light of regulatory and market developments as well as to account for changes in global standards and best practices related to Sustainability and Corporate Governance.</p>
<p><b>Monitoring</b></p>	<p>To effectively embed sustainability in our stewardship initiatives, EPF has developed corporate governance improvements to manage financially-material ESG risks and opportunities across our investment cycle. EPF will define the ESG reporting data requirement by investee companies to enable effective portfolio management and monitoring. Simultaneously, EPF will work closely with our local and regional partners to set common requirements to simplify ESG reporting for companies.</p>
<p><b>Active Engagement</b></p>	<p>Our investment team rigorously monitors and engages with investee companies to discuss strategy, financials and ESG factors. We also conduct a top level engagement program led by the CEO and senior investment heads to establish dialogues and express our commitment in ESG.</p> <p>Issues of concern are usually raised directly to our investee companies across multiple avenues including written queries, meetings, as well as conversations with company management. EPF will also leverage on our representation as nominee directors to engage with companies regarding ESG issues and concerns. Responses from the respective companies are then monitored to ensure that steps are being taken to address the issues raised in order to protect and enhance shareholder value.</p> <p>EPF will further collaborate with investee companies to improve our portfolio's ESG-related business practices, generating a greater societal impact that protects the interests of EPF members. By having ongoing dialogue with companies, we hope to ascertain a more comprehensive understanding of an investee company's ESG risk profile, strategy and governance, financial performance and other sustainability opportunities.</p> <p>Active ownership will not only improve EPF's knowledge of portfolio investments to make effective investment decisions, but also enable us to improve an investee company's longer-term value. Through regular dialogue and direct engagements, we hope to communicate EPF's ESG perspectives to companies, and to address any concerns wherever necessary. Beyond engagements with individual companies, EPF aims to embed the ESG-lens in our existing active involvement in multiple investor organizations, market and national networks and initiatives, advocating for industry uplifts and national collaboration in creating a more sustainable ecosystem.</p>
<p><b>Collaborative Initiatives</b></p>	<p>We have consistently collaborated with other institutional investors, asset managers, policy makers and regulators to share best practices and thought leadership, as we believe that a collective and uniformed tone from all stakeholders will be more effective in improving transparency and performance on ESG matters in our investee companies.</p> <p>Some of our collaboration partners include but are not limited to Minority Shareholders Watch Group (MSWG), Institutional Investors Council Malaysia (IIC), Securities Commission Malaysia (SC), Bursa Malaysia, United Nations-supported Principles for Responsible Investment (UN PRI), and the International Social Security Association / Asean Social Security Association.</p>

For further clarifications kindly reach out to EPF's Sustainability Centre Office at  
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