KWSP
EPF

EPF SUSTAINABLE INVESTMENT PRIORITY SECTOR POLICIES

FREQUENTLY ASKED QUESTIONS

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General FAQ

1. EPF has introduced different types of expectations ie core requirements, best practices and voluntary in its phased approach. What is the intention behind this approach?

One of EPF's investment philosophies is to uplift our investee companies and external fund managers on their respective ESG pursuits. Hence, the different types of expectations are set out to be implemented in a phased approach, with the purpose of encouraging companies to progressively enhance their ESG responses over time, starting with implementing the foundational core requirements in the immediate term. Nonetheless, for companies that are already fairly mature in their ESG pursuits, they are encouraged to adopt EPF's best practices and voluntary expectations, even in the immediate term, to advance further on their ESG journey.

2. How does EPF intend to monitor performance against the expectations set out in the Priority Sector Policies? Would the disclosures in my company's annual sustainability reporting suffice?

Companies' sustainability reporting would be one of the main reference points for EPF to monitor performance against EPF's expectations. EPF may also leverage on external ESG data providers for additional information. None-theless, we acknowledge the data limitations of publicly available information, and hence we may reach out directly to companies to validate our findings and / or request for additional ESG data relating to the expectations in the relevant Priority Sector Policies.

3. What is Free, Prior and Informed Consent (FPIC) and why does it matter?

The United Nations estimates that there are around 400 million indigenous people in the world living across 90 countries. They make up less than 5% of the world's population, but account for 15% of the poorest. In Malaysia, Indigenous peoples are predominantly located in Sabah and Sarawak, making up 61% and 71% of the states' total population respectively, according to Human Rights Commission of Malaysia (SUHAKAM). Indigenous peoples are connected to land and water which are often tied to their physical, spiritual, cultural and economic wellbeing. Despite protecting 80% of earth's biodiversity, only 10% of land owned by Indigenous People and local communities are officially recognized by governments, exposing them to various social risks such as community displacement, loss of income and poor health and safety arising from new development projects. Additionally, neglecting the rights of Indigenous people may bring negative implications to the operations and reputation of companies.

To address these risks, FPIC is a specific right that pertains to indigenous peoples and is recognised in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). While there are no universally accepted standards, FPIC is essentially a participatory process enabling indigenous people to have a say (give or withhold consent) in interventions that may affect their lives. It is also deemed as a best practice to be undertaken by companies when engaging with local communities.

4. Some of the expectations in the sector policies are applicable on a project basis. Would the expectations be applied only to future projects or past projects as well?

The expectations will be applied for future projects. That said, to minimize risks associated to the respective expectations, EPF may require information and input from the company for prior projects that did not meet the expectations.

Sector-Specific FAQ

5. What are the sectors that EPF considers as high ESG risk which require exposures disclosures by the Banks?

High ESG risk sectors are those sectors that contribute greatly to GHG emissions and/or sectors that have social implications. These may include sectors such as plantation and oil & gas. However, the identification of the specific sector deemed as high ESG risk is dependent upon the Bank's assessments after taking into account its exposures and materiality of the sectors to its operations.

6. Are the expectations related to coal in Mining and Power Generations Policies applicable to thermal coal only?

Yes. Currently, thermal coal is widely used in the power generation industry, particularly in developing countries. However, its high carbon and sulfur content are major contributors to greenhouse gas (GHG) emissions and global warming, exposing power generation and mining companies to stranded asset risk as the world is transitioning to a low carbon economy. As such, limiting the exposure on thermal coal will enable EPF to minimize its investment exposure to this risk and carbon intensity of its portfolio, in line with the target of having a Climate Neutral Portfolio by 2050. Meanwhile, there is no limitation imposed by EPF on Metallurgical (coking) coal at this juncture as it is a vital component in the production of iron and steel used for economic development as well as clean technologies.

7. Developing countries, including Malaysia, are still reliant on the use of thermal coal in power generation. What is the rationale for addressing thermal coal as part of the power generation sector policy?

The conclusion of COP26 saw a considerable number of nations and organisations agreeing to phase down coal power as coal burning is attributed as the single biggest contributor to climate change. These commitments include, among others, ceasing of new permits issuance and ending of direct government support for unabated coal-fired power generation. In addition to this global agreement, EPF acknowledge that Malaysia has also committed to become a carbon-neutral nation by as early as 2050. As part of the transition journey towards a lower carbon pathways, EPF will support the thermal coal commitment made by the Minister of Energy and Natural Resources (KETSA) in the Malaysia's Energy Transition Plan 2021-2040:

"Although Malaysia will not be building new coal power plants, the Ministry does not discount the option of extending the operation of these plants. However, the decision for extension of these plants will depend on future availability of technologies in reducing emissions and also the cost of adopting those technologies."

In addition, EPF has also set a best practice expectation for more commitments to increase renewables power generation capacity from our investment to support this transition journey. Lastly, EPF's expectations will be updated accordingly to reflect commitments made by the government for the provision of clean energy.

8. Under the core requirements for the Oil and Gas Sector Policy, there is an expectation for investees to not derive any revenue from oil sands and oil and gas activities in Arctic region. Is there any particular reason EPF focuses solely on this region?

Oil and Gas development in the Arctic region is prone to harsh operating conditions; sea ice, permafrost coverage, and potential impacts to critical natural habitats for endangered species. The unique and fragile ecosystems of the Arctic region also support the subsistence livelihoods of indigenous people's groups that have populated certain areas in the region for centuries. Additionally, there is often also a lack of infrastructure such as roads, cities or pipelines to transport the oil or gas. This makes the breakeven price of Arctic oil the highest of all oil types, increasing the financial risks.

Further, the largest global banks including Citigroup, Goldman Sachs, JP Morgan Chase & Co, HSBC and BNP Paribas SA pledged in recent years to implement restrictions on funding of Arctic oil exploration for the alignment of portfolios with the Paris Agreement. Hence, EPF believes including this as a core requirement is in line with global standards.

9. What is EPF's perspectives on Oil & Gas pure play diversifying into a low carbon industry?

A growing number of oil and gas (O&G) players including Eni, Total, BP and Shell have pledged to net zero goals. The specific initiatives a company chooses to reduce its emissions will depend on factors such as its geography, asset mix, and local policies and practices. This includes improving energy efficiency of operations, scaling up carbon capture usage and storage (CCUS) and eliminating methane leaks, flaring and venting. It's very clear that improving the financial and climate resilience of an O&G portfolio involves concentrating future investments on resources that offer the best combination of lower breakeven prices and lower emissions intensity.

Although timelines may differ, participating in the transition to the low-carbon future can unlock a multiplier effect and establish new growth areas for companies across the spectrum. Long term investors such as EPF will certainly monitor closely the sector's ability to balance diversification with expected returns and dividends.

10. EPF has set a core requirement in its Palm Oil Sector Policy where its relevant investee companies would have to be a RSPO member or have a time-bound action plan to become a RSPO member not exceeding 5 years. Why is there a preference for the Roundtable Sustainable Palm Oil (RSPO) instead of leveraging on existing local standards?

The RSPO is the main certification standard for the use of palm oil and its fraction in food and oleo-chemicals. Founded in 2004, it is a multi-stakeholder, non-profit group that unites seven sectors of the palm oil industry in regular dialogue, including investors, growers, retailers and NGOs, using a consensus voting system to develop standards and criteria on an on-going basis. Malaysian Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) standards are national certification standards created by the government with mandatory compliance where they align the management of palm oil production with many existing national laws and regulations.

We prefer RSPO as it requires the companies to go beyond what national law such as MSPO/ISPO dictates. We are cognizant that while RSPO, MSPO and ISPO cover similar set of general themes: legality, environmental responsibilities, social responsibilities and business practices, RSPO's requirements are far more holistic and robust. The greatest difference between RSPO and ISPO/MSPO is the inclusion of directives on business practices and plantation management, requiring a commitment to transparency and ethical conduct in business operations and transactions. RSPO is more transparent in its standard development and auditing results than both ISPO and MSPO. As RSPO is not legally binding, it is more flexible to change.

In pursuit of having uniformity in disclosures by investee companies and requirements needed by investors, EPF sees the importance to have one holistic and superior certification standards to be set as guidance and to be followed by investee companies. This will directly lessen the encumbrance of investee companies in their reporting.

For more information, please contact us at
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Additionally, feel free to reach out to the following analyst for sector specific enquiries:

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