KWSP
EPF

EPF SUSTAINABLE INVESTMENT PRIORITY SECTOR POLICIES

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EPF Sustainable Investment Priority Sector Policies

1. ABOUT THIS DOCUMENT

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 those aims, 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. These Priority Sector Policies consisting of ESG expectations on six sectors namely 1) Palm Oil, 2) Oil & Gas, 3) Mining, 4) Power Generation, 5) Construction and 6) Banking, chosen based on EPF's exposure as well as the ESG risks imminent in the sectors builds upon the Priority Issue Policies to fortify the foundations of our SI policy. The Priority Sector Policies aims to address material ESG issues specific to the sector, beyond the scope of the Climate Change and Workers' Wellbeing Policy, as additional yardsticks in EPF achieving our target of having:

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

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 and Global Reporting Initiative ("GRI") Reporting Standards,), with a local nuance.

1.2 Scope and Applicability

Our expectations are directed at boards and management teams of all external fund managers and investee companies ("companies")[1] in our portfolio operating in the six identified sectors focused in this policy document. These expectations are global in scope but tailored to the Malaysian context, covering both existing and new investments, and applicable to six sectors namely 1) Palm Oil, 2) Oil & Gas, 3) Mining, 4) Power Generation, 5) Construction and 6) Banking. Companies that are part of EPF's priority sectors should refer to the sector policy in tandem with the Priority Issue Policies and strive to meet the expectations listed in both the policies.

[1] Includes both investee companies and external fund managers ("EFM") in EPF's portfolio

2. OUR APPROACH TO PRIORITY SECTOR POLICY EXPECTATIONS

2.1 Implementation of Sector Policy Expectations

To support the rollout of the policy and ensure alignment with the Priority Issue Policies, we grouped the list of expectations into three classifications: (1) Core Requirement, (2) Best Practice, and (3) Voluntary.

Classification	Definition
Core Requirement	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
Best Practice	Expectations that investee companies / fund managers are encouraged to comply with
Voluntary	Expectations that investee companies / fund managers may choose to comply with at their discretion in the immediate term

Table 1: Classification of expectations

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

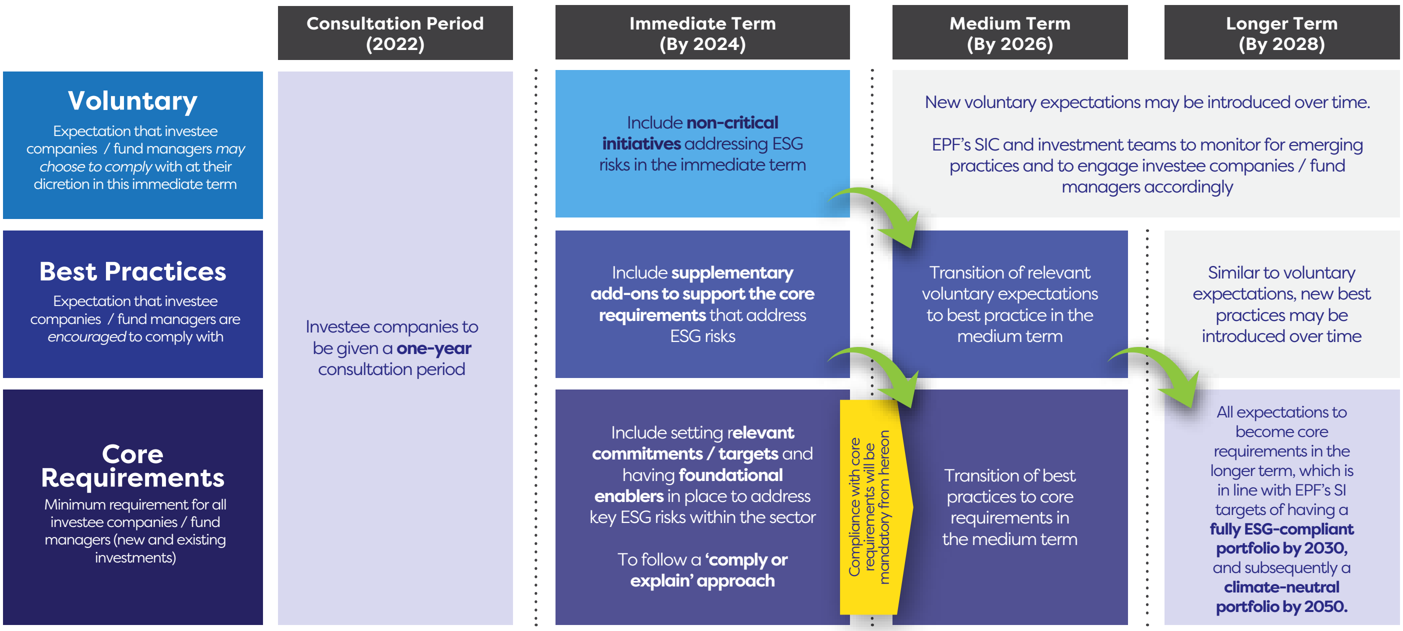

Figure 1: Phasing approach for EPF's expectations

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 3.

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[2]. We will also consider various stewardship actions based on the outcomes of periodic ESG assessment – refer to Section 4 of this document and our stewardship policy for further information.

[2] 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

3. SECTOR-SPECIFIC ESG EXPECTATIONS

3.1 Palm Oil Sector Policy

Background

The oil palm industry is a pillar of the Malaysian economy and plays a pivotal role in the feeding and fuelling a growing global population. Development of oil palm plantations has been contributing to various adverse impacts on climate change, local communities and ecosystems. However, the environmental and social issues revolve in the palm oil sector mainly depend on the way palm oil is produced and milled. Responsible palm oil can indeed limit these impacts.

Given that Malaysia is the second largest producer and exporter of palm oil in the world, accounting for 25.8% and 34.3% of the world's production and export respectively, and to the ever close scrutiny over the sector, heightened efforts are expected to be put in place to address the environmental and social concerns. Responsible players and sustainability exist in the palm oil sector, and as one of the institutional investors, EPF is convinced that they should be supported. The approach will create path for long-term benefits to its members and to the society at large. As such, this Palm Oil Sector Policy aims to urge plantation companies to better manage ESG risks associated with plantation sector by adopting sustainable palm oil practices.

Scope of Coverage

This policy covers EPF's investments in the following:

I. Companies directly involved in the upstream segment and downstream segment palm oil value chain which constitute a significant part of their activities.

  a. Upstream operations predominantly include oil palm cultivation, harvesting, milling and etc.
  b. Downstream segment refers to refiners and traders where the activities include manufacturing and distribution of oils and fats products, oleochemicals, palm oil-based biodiesel, as well as fast moving consumer goods.

II. Excludes other companies further down the value chain for instances producers or traders of palm oil derivatives, or manufacturers and retailers of ingredients and products containing palm oil.

III. New development of palm oil projects, plantation and/or mills.

IV. All business lines, branches, subsidiaries and joint ventures of which EPF has the operational control. In the event EPF forms new joint ventures in which it has a minority stake, it will endeavor to include these standards as part of the joint venture agreement.

Expectations

Core Requirements

1	Upstream & Downstream	RSPO member (or have a time-bound action plan to become RSPO members not exceeding 5 years)
2	Upstream	Obtain and maintain MSPO and/or ISPO certification(s)
3	Upstream	A time-bound action plan to obtain full RSPO certification of their operations not exceeding 10 years, subject to certain exceptions and conditions
4	Upstream	Disclosure of fire incidents and mitigation measures in place to address them
5	Upstream	Review memberships of industry associations and interest groups on a regular basis and assess whether the advocacy positions on climate policy held in these groups are aligned with their own positions

Best Practices

6	Upstream	A policy in place to increase yields in order to minimize land use
7	Upstream	A time-bound action plan in achieving 80% renewable energy usage for whole operations not exceeding 10 years
8	Upstream	A policy of rehabilitation on land used
9	Downstream	A time-bound action plan to ensure that palm oil suppliers are compliant with the requirements listed in the Upstream Core Requirements and Best Practices

Voluntary

10	Upstream	A time-bound action plan for full RSPO certification of fresh fruit bunches supply base as per the verification mechanism for smallholders
11	Upstream	A policy in place in relation to smallholders (if relevant), particularly in respect of training on key environmental and social issues, yield improvement and RSPO certification
12	Downstream	A time-bound action plan to trade and/or process RSPO-certified palm oil

3.2 Oil & Gas Sector Policy

Background

Oil and Gas industry has always been an integral part of the global economy. However, as the world heads towards a greener economy, the industry has been under great scrutiny with regard to ESG aspects especially its greenhouse-gas (GHG) emissions. According to IEA, the Oil and Gas industry accounts for 9 percent of the global GHG emissions from its operations and indirectly accounts for another 33 percent of global emissions from the fuel that the industry produces. Apart from that, there is also the trend of increasing regulatory activity surrounding the ESG elements of the industry which have not gone unnoticed. Hence, should the companies manage its operations poorly, it may lead to negative implications towards the company's financials and reputation in which will ultimately reflect in EPF's investments. As such, this Oil and Gas Policy aims to urge oil and gas companies to better manage environmental, social and governance (ESG) risks associated with oil and gas sector.

Scope of Coverage

This policy covers EPF's investments in the following:

I. Oil and Gas companies

II. Groups or joint-ventures owning Oil and Gas assets, which represent a significant share of their total assets New development of palm oil projects, plantation and/or mills.

III. Companies which are directly involved in exploration, production, transportation, storage terminals, retail (excluding petrochemicals) or operation related to Oil and Gas activities

Expectations

Core Requirements

1. Does not derive any revenue from oil sands and oil and gas activities in Arctic region.

2. Meet the industry's sector specific international standards
   - Human Rights
   - Transparency
   - Gas Flaring (Exploration, Production)
   - Marine Pollution (Exploration, Production, Transportation)

3. Commitment to zero accident at worksite, including disclosure of number of accidents, injuries, fatalities and Lost Time Injury Frequency Rate (LTIFR) and measures to prevent.

Best Practices

4. Diversification from pure Oil and Gas business into a low carbon industry

5. Align to the principle of Free, Prior and Informed Consent prior to settling in a new area or starting a new project where significant adverse impacts are likely to occur from the company's operations.

3.3 Mining Sector Policy

Background

Mining industry plays an important role in facilitating the world's transition to a low carbon economy. According to World Bank, the production of minerals, such as graphite, lithium and cobalt, could increase by nearly 500% by 2050, to meet the growing demand for clean technologies. Furthermore, the growing demand for metals and minerals also provides economic opportunities for resource-rich developing countries. Having said that, mining activities, if they were not conducted properly, may lead to various environmental and social issues such as climate change and safety and health. These could pose negative implications to a company's reputation, financials and ultimately our investment in the company. As such, this Mining Policy aims to urge mining companies to better manage environmental, social and governance (ESG) risks associated with mining sector by adopting responsible mining practices to ensure the minerals mined truly benefit the people and planet.

Scope of Coverage

This policy covers EPF's investments in the following:

I. Mining companies
II. Groups or joint ventures owning mining assets, which represent a significant share of their total assets
III. Companies which are directly involved in exploration, development or operation related to mining activities

Expectations

Core Requirements	
1	Derive not more than 20% of revenue from thermal coal
2	No development of new thermal coal extraction capacities
3	No extraction of asbestos
4	Neither explore nor develop new mines in World Heritage Sites, and respect legally designated protected areas
5	There is a tailings management policy or commitments that covers management of risks associated with Tailing Storage Facilities
6	There is a statement of policy as a public commitment to fulfilling responsibility in respecting human rights
7	Commitment to zero accident at worksite, including disclosure of number of accidents, injuries, fatalities and Lost Time Injury Frequency Rate (LTIFR) and measures to prevent

Expectations *(cont'd)*

Best Practices	
8	Leverage on technology to monitor the safety of tailing storage facilities in real time
9	Alignment of practices with the Global Industry Standard on Tailing Management (GITSM)
10	Align to the principle of Free, Prior and Informed Consent prior to settling in a new area or starting a new project where significant adverse impacts are likely to occur from the company's operations.

Voluntary	
11	Commitment to phase out thermal coal mining activities by 2040

3.4 Power Generation Sector Policy

Background

Power generation sector plays an important role in delivering clean energy in the path towards net zero. According to the International Energy Agency (IEA), annual clean energy investment worldwide will need to more than triple by 2030 to around $4 trillion. Renewable energy technologies like solar and wind are the key to reducing emissions in the electricity sector, which is today the single largest source of carbon dioxide (CO2) emissions. Furthermore, coal-fired electricity generation accounted for 30% of global CO2emissions, where the majority of that generation is found today in Asia. Having said that, power generation activities, if they were not conducted properly, may lead to various environmental and social issues such as climate change and safety and health. These could pose negative implications to a company's reputation, financials and ultimately our investment in the company. As such, this Power Generation Policy aims to urge power generation companies to better manage environmental, social and governance (ESG) risks associated with power generation sector by adopting sustainable practices to ensure the electricity generated truly benefit the people and planet.

Scope of Coverage

This policy covers EPF's investments in the following:

- **I.** Power generation companies
- **II.** Coal-fired power plant projects

Expectations

Core Requirements

1. No development of new coal fired power plant and expansion of existing coal fired power plant*

   **In line with Malaysia's energy transition plan, EPF does not discount the option of extending the operation of existing coal-fired power plant in Malaysia.*

Best Practices

2. Commitment to increase renewables power generation capacity
3. Derive not more than 30% of revenue from thermal coal

Voluntary

4. Commitment to phase out thermal coal power activities by 2040

3.5 Construction Sector Policy

Background

The construction industry act as a crucial component of the economy thanks to its multiplier effect which includes fostering new development areas, promoting trades and generating employment opportunities, ultimately boosting the overall economic activities and growth. As urbanization worldwide is expected grow, there will be an increasing demand for construction activities. As such, construction companies might be more exposed to not only the financial risks but also the environment, social and governance (ESG) risks surrounding the sector, including climate change and workers' health and safety. If those risks are not well managed, this may result in unfavorable investment return to EPF's portfolio. Therefore, this Construction Sector Policy outlines EPF's expectations of construction companies to better manage ESG risks associated with the sector by adopting sustainable construction practices.

Scope of Coverage

This policy covers EPF's investments in the following:

I. Construction companies, groups, joint-ventures or associates companies involved in the construction works of building, infrastructure, and/or specialized works not limited to fabrication works, marine engineering and piling works

Expectations

Core Requirements	
1	Meeting the minimum scoring of local sustainable construction certification
2	Meeting the minimum certification of local workmanship quality requirement
3	Commitment to zero accident at construction site, including disclosure of number of accidents, injuries, fatalities and Lost Time Injury Frequency Rate (LTIFR) and measures to prevent
4	Ensure that engagements with local communities are appropriately conducted prior to starting a new project or settling in a new area where significant adverse impacts are likely to occur from the company's operations
5	Have a statement of policy as a public commitment to fulfilling responsibility in respecting human rights

Best Practices	
6	Usage of Industrialized Building System (IBS) in the construction works
7	Embarks on digital construction initiatives such as usage of building information modelling (BIM) technology for construction projects
8	Commitment to maximize usage of local materials supplied from local suppliers

Voluntary	
9	Establish a time bound action plan to increase usage of environmentally-friendly raw materials such as green cement, green concrete and green steel

3.6 Banking Sector Policy

Background

Undoubtedly, environmental, social and governance issues are becoming a norm in the world we live in. Truth is, no industry is sparred from experiencing the damaging effects from failing to appropriately manage these issues. Financial regulators and investors are increasingly acknowledging the financial instability of neglecting the importance of embedding the ESG concerns and factors into businesses. For instance, banking industry specifically is exposed to significant physical and transition risks arising from the climate shock, and these risks could be materialized directly through their insensitive exposures to corporations and countries that are facing the shocks. As such, given that the banks serves as the resource backbone for the businesses, it also carries an important role in supporting a green and sustainable economy. Therefore, through the implementation of the Banking Policy, the EPF aims to urge the banks to better manage ESG risks associated with the financial sector by adopting sustainable financial practices.

Scope of Coverage

This policy covers EPF's investments in the following:

I. Commercial banks

II. Islamic banks

Expectations

Core Requirements

1. Establish the following strategic policies with respect to minimizing the adverse impact of climate change:
   - Sustainable financing policy to provide guidance in lending
   - No new coal financing by 2030, if not sooner
   - No new logging financing by 2030, if not sooner
   - Financing to only MSPO/ISPO/RSPO certified plantation companies by 2030, if not sooner
2. Disclosure of exposures to high ESG risk sectors
3. Management of cybersecurity risks that are in compliance with the local laws and regulations
4. Adopt a transparent information and fair advices product selling practices by having a formal policy in place to prevent any mis-selling.

Best Practices

5. Adopt transparent reporting on environment, social and governance impact from its business activities by publishing a sustainability related financial disclosure that is in line with the global / national standards
6. Supports and enables low-carbon transition by continuously expanding products in sustainable financing.
7. Supports and enables financial inclusion by providing diversified products that cater to the underserved segments

Voluntary

9. Signatory to any relevant certification / body

4. STEWARDSHIP ACTIONS

As an investor, we are committed to uphold our companies to these expectations on our Priority Sector Policies. Our core requirement expectations are implemented on a "comply-or-explain" basis at each assessment checkpoint listed in Section 2.1 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[3]

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 material ESG issues.

5. FOLLOW-UP AND MAINTENANCE

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

[3] Full divestiture option will be evaluated on a case-by-case basis to account for liquidity of investments, contract agreements, market movements, etc.8

6. REFERENCES

Sector	References
Palm Oil	• Roundtable on Sustainable Palm Oil (RSPO) • Malaysian Sustainable Palm Oil (MSPO) • Malaysian Palm Oil Council (MPOC) • Sustainability Accounting Standards Board – Agricultural Products • BNP Paribas Palm Oil Sector Policy
Oil & Gas	• Sustainability Accounting Standards Board – Oil and Gas • World Bank • BNP Paribas Unconventional Oil and Gas Policy • International Energy Agency (IEA) • Oil and Gas Climate Initiative (OGCI) • Societe Generale Oil and Gas Sector Policy • Credit Agricole Oil and Gas Sector Policy
Mining	• Sustainability Accounting Standards Board - Metal & Mining • International Council on Mining & Metals (ICMM)'s Mining Principles • BNP Paribas's Mining Sector Policy • Reclaim Finance - Coal Policy Tool • Climate Analytics - Special Report on 1.5°C • Mining companies' Sustainability Reports
Power Generation	• Sustainability Accounting Standards Board - Electric Utilities & Power Generators • Malaysia's Energy Transition Plan 2021-2040 • International Energy Agency • BNP Paribas's Coal-Fired Power Generation Sector Policy • Reclaim Finance - Coal Policy Tool • Climate Analytics - Special Report on 1.5°C • Power generation companies' Sustainability Reports
Construction	• Sustainability Accounting Standards Board - Construction • Construction Industry Development Board • UK Green Building Council (UKGBC) • Credit Agricole Sector Policies – Real Estate, Transport Infrastructure • Malaysian Construction Companies Sustainability Reporting
Banking	• Sustainability Accounting Standards Board • BNM Climate Change & Principle Based Taxonomy • Principles of Responsible Banking • CDP • Malaysian Banks' Sustainability Reports

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