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EnviSioninG A Better Future

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EnviSioninG a Better Future

Our Inaugural ESG Conference

- **In this report we summarize the key issues discussed in 22-24 June by leading ESG practitioners and industry experts who presented the latest regulatory requirements, the current operating environment, challenges, and future goals, during our inaugural ESG conference.**
- **Malaysia: Sustainable investment trends are steepening.** The ESG agenda is a call to action and is here to stay. Companies with strong ESG practices have the potential to outperform and be in a better position to overcome challenges arising from the pandemic. However, many public listed companies (PLCs) still adopt a compliance mindset to address ESG issues when, in fact, sustainability could be a driver of value creation. While ESG compliance standards are high, more can be done to improve the standard of disclosures. ESG concepts have been regulator driven in Malaysia, led by Bursa Malaysia, Bank Negara Malaysia, and the Securities Commission, although asset owners and investors are also actively pushing the ESG agenda – with our key pension funds playing important roles in raising awareness on ESG issues. In the Malaysia context, the ESG framework is already there, but, to move the ESG needle, PLCs need to embrace ESG concepts into their daily practices while regulators need to conduct more effective enforcement.
- **Thailand: The ESG road never ends.** The sustainability journey started in 1993, with the sole focus on the "G" pillar – it evolved over years, driven by the Stock Exchange of Thailand (SET), Securities and Exchange Commission, and Bank of Thailand. In 2013, the "E" pillar was introduced to listed companies. On the supply side, after SET introduced THSI in 2015 to promote ESG practices among listed companies, the number of listed companies qualified for inclusion into the Thailand Sustainability Investment (THSI) surged to 124 in 2020. On the demand side, COVID-19 became an opportunity for investors to realise the importance of sustainability as accumulated funds flowing from asset management companies into investments in ESG stocks increased dramatically since 2Q20. The growth journey of ESG in Thailand has therefore just begun.
- **Singapore: Rising adoption of ESG with the Government and regulators playing their part.** The Government, regulator, and the stock exchange (SGX) have been taking steps to formulate long term sustainability policies, enhance scrutiny and compliance by companies, and offer ESG-related products. SGX has implemented sustainability reporting on a "comply or explain" basis since 2017. Today, its iEdge SG ESG Leaders Index includes more than 80 companies. In Feb 2021, the Government unveiled the Singapore Green Plan 2030, a "whole-of-nation movement" to advance the country towards sustainable development. In Jun 2021, the Monetary Authority of Singapore released its inaugural sustainability report, and its plan to green the city-state's finance sector and lead the energy transition in Asia and announced plans to test the climate resilience of its official reserve investments. Singapore companies are rapidly adapting ESG practices and incorporating them into their business strategies.
- **Indonesia: Increased awareness on ESG investments.** The stock exchange (IDX) has promoted ESG values to the public, such as the implementation of ESG equity indexes: IDX ESG Leader Index and Sri-Kehati Index. A growing trend on ESG domestic related funds: from IDR253bn (two products) in 2017 to IDR2.7trn (15 products) as of Apr 2021; 71% of funds are benchmarked to the Sri-Kehati Index, followed by MSCI's ESG Screen Index of 28%, and FTSE's ESG Index by 1%. The Sri-Kehati Index, established in 2009, assessed by the Indonesian Biodiversity Foundation (KEHATI), refers to the UN's Principles for Responsible Investment, and consists of 25 companies with high ESG ratings. Since its inception, the index has performed +10.8% annually (as of end-FY20), vs IDX at +9.8% pa within the same period. On 14 Dec 2020, IDX published the ESG Leader Index. The scoring and screening were conducted through a collaboration with Sustainalytics, in providing an objective screening test.

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RHB's ESG methodology, scores, and local regulations; Reports from each of our regions:

- Malaysia: https://bit.ly/3zyK2CV
- Thailand: https://bit.ly/3wFNwSh
- Singapore: https://bit.ly/3gLIexl
- Indonesia: https://bit.ly/3vCXS4a

Contents — **Page no**

Country Analysis

Malaysia - Moving the ESG Needle; Benefits and Challenges

Panellists: Lya Rahman, Advisor at the Institutional Investors Council Malaysia; Phang Oy Cheng, Executive Director at KPMG

- Sustainable investment trends are steepening. Malaysia's key pension funds – Employees Provident Fund and Retirement Fund Incorporated or KWAP – are key movers in raising awareness and highlighting the ESG profile to the investment community.

- The ESG agenda is a call to action and here to stay. Companies with strong ESG practices can outperform and are better positioned to overcome challenges from the pandemic.

- Many PLCs still adopt a compliance mind-set to address ESG issues when, in fact, sustainability could be a driver of value creation. ESG concepts have been regulator driven in Malaysia, led by Bursa Malaysia (Bursa), Bank Negara Malaysia and the Securities Commission (SC). The SC has guidance documents to encourage socially responsible behaviour. While there is a good level of compliance amongst PLCs, the reporting standards have room for improvement.

- Lya Rahman (LR) also highlighted the disparity between disclosure and reality, and argues that the Social aspect tends to be neglected. She also calls into question the roles of auditors and independent directors.

- LR highlighted the inconsistent presentation of ESG data and different emphasis on ESG ratings by different service providers. Investors need to consider their investment objectives and whether they should be using in-house ESG analysis or third party data.

- Phang Oy Cheng emphasised that the ESG process is a journey and typically takes a company 3-5 years to get to grips with the concept. Sustainability reports are only an end product, but PLCs need to be properly set up to enable them to "walk the talk".

- LR was of the view that there needs to be some degree of monitoring and oversight of ESG practices by the regulators – in particular on the role of independent directors, the process of nominating independent directors, and how independence is defined. She revealed that Bursa is looking to come out with standardised and uniform data tools, and is now consulting stakeholders on the best way to proceed.

- There was a lengthy discussion on how Top Glove and Serba Dinamik have seen a significant erosion in their value after suffering high-profile ESG issues that highlight the need for regulators to be more proactive.

- From an investors' perspective: A dilemma as to which ESG indicators should they base their analysis off? There is a need to look beyond mere compliance and focus on detailed specifics, eg behaviour to mitigate climate change or how labour issues are perceived by stakeholders. Asset owners are actively pushing the ESG agenda and, going forward, we can expect to see investors becoming even more proactive and – in some cases – more activist.

- The PLCs' board of directors also need to be sufficiently knowledgeable about the business to challenge management.

- The ESG framework is already there; however, for Malaysia to move the ESG needle, PLCs need to embrace ESG concepts into their daily practices, while regulators need to conduct more effective enforcement.

- Investors – rational metrics and prioritise needs

- Corporates – positive trends seen but need to meet investor expectations

- Regulators – do regulations have enough teeth? More needs to be done

Indonesia - ESG investing trends and the perspective of the Indonesia Stock Exchange (IDX)

Panellist: Ignatius Denny Wicaksono, IDX's Head of Business Development

- Rising awareness in relation to the implementation of ESG initiatives has been seen among businesses, and become one of the key factors in making investment decisions. Surveys by the CFA Institute in 2020 concluded that 85% of professional investments globally, considered ESG measures as part of their initial screening. Data from the Principles for Responsible Investment show that the portion of global assets under management or AUM that adhere to ESG principles has grown significantly, from USD1.4trn in 2015 to USD3.3trn in 2020.

- Indonesia Financial Authority (Otoritas Jasa Keuangan), in its Regulation No. 51/2017, has made sustainability reporting mandatory for public listed companies (PLCs), requiring them to disclose the number of activities (but not limited to): Responsible investments, sustainable business strategies and practices, management of social and environmental risks, and informative communication. The mandate has a timeline of until 2024 – large banks by 2019, smaller banks and PLCs (assets > IDR250bn or c.USD17m) by end-2020, medium PLCs (IDR250bn ≥ assets ≥ IDR50bn or c.USD4m) by end-FY22, and small PLCs (assets ≤ IDR50bn) by end-FY24.

- IDX, which is at the forefront in setting new standards of investing in the capital market, has consistently been promoting ESG values to the public. Some of the measures include product development to facilitate listing for small-mid size enterprises (Acceleration Board) and start-ups (IDX Incubator), the issuance of Green Bonds and ESG-related ETF, and ESG equity indexes (IDX ESG Leader Index & Sri-Kehati Index). For example, for any green bond, the IDX provides a 50% discount on listing fees. IDX has fulfilled the list of criteria by the Sustainable Stock Exchange Initiatives (SSE, authorised under the United Nations), ensuring that its ESG products and educational programmes are running in accordance with international standards. Also, IDX emphasises that sustainable investing has proven to generate better investment returns, as the companies that adhere to these ESG standards tend to perform better fundamentally.

- The trend in ESG domestic related funds has been remarkably positive, rising from IDR253bn (two products) in 2017 to IDR2.7trn (15 products) as of Apr 2021, with 71% of the funds benchmarked to the Sri-Kehati Index, followed by MSCI's ESG Screen Index at 28%, and FTSE's ESG Index at 1%. The Sri-Kehati Index was established in 2009, assessed by the Indonesian Biodiversity Foundation or KEHATI, which refers to the United Nations' Principles for Responsible Investment or PRI, consisting of 25 companies with high ESG ratings. Since its inception, the index has risen 10.8% pa (as of end-FY20), compared to the IDX's +9.8% within the same period. On 14 Dec 2020, IDX set up the ESG Leader Index. The screening was conducted through collaboration with Sustainalytics in providing an objective screening test, for the selection of 30 companies without significant controversy, and relatively high trading liquidity.

- The main differences in screening methodology for Sri-Kehati and IDX ESG Leaders are: Sri-Kehati screens the negative sectors (coal, alcohol, pesticide, GMO, etc), large stocks (>IDR1trn in market cap), those that are profitable, and above 10% free float from all available stocks in the IDX; while the ESG Leaders Index only screens from the IDX80 (80 most liquid stocks traded in IDX). From these 80 available stocks, IDX keeps to the methodology of Sustainalytics, which follows SASB standards. The screening metrics identify the subset of ESG issues most relevant to the financial performance for all 77 industries. These standards are developed based on extensive feedback from companies, investors, and other market participants.

Thailand - ESG Movement In Thailand: ESG100

Presenter: Vorranut Piantam, Director of Thaipat Institute

- Thaipat Institute is a public organisation in accordance with Section 34 of the Social Welfare Promotion Act, B.E. 2546 (2003) with the mission to work with organisations and companies – individually and collectively – to develop effective solutions and endure business growth with social progress by driving integration of environmental, social and governance (ESG) factors into core business practices. Since the institute's inception in 1999, Thaipat has been recognised as a leading advocate in corporate responsibility and sustainability movement in Thailand.

- In 2014, Thaipat launched the ESG Rating Unit to provide corporate sustainability data research and analysis in order to encourage ESG disclosure of Thai companies to the investment community, both locally and globally. Prior to 2014, Thaipat developed ratings criteria and provided corporate social responsibility (CSR) and anti-corruption progress indicator sets to the Securities and Exchange Commission (SEC). More than 500 listed companies in the Stock Exchange of Thailand were assessed, for the first time, by using Thaipat ratings criteria, which then became the ESG100 universe of Thai publicly listed companies.

- Globally, investment under ESG is anticipated to increase to USD53trn or more than 1/3 of the global investment in 2025 compared to USD37.8trn at end-2020. From time to time, Europe has accounted for about half of global ESG assets; however, the US is expected to catch up in 2021 with its strong commitment towards ESG and it should dominate global ESG investment from 2022. Next growth candidate should be Asia, particularly Japan.

- For the Asia Pacific region, ESG investments have surged since 2020 as investors recognised the importance of ESG in response to the pandemic. According to MSCI Investment Insights 2021 surveying global institutional investors, about 79% of Asia-Pacific investors increased their ESG investments significantly or moderately, while 57% of those are expected to incorporate ESG completely, or, to a large extent, into their analysis and decision-making process by end-2021.

- ESG movement in Thailand can be categorised into three types including i) sustainable banking, ii) sustainable investing, and iii) sustainable financing. Sustainable banking in Thailand was more pronounced when Bank of Thailand, along with 15 commercial banks agreed to commit ESG into their lending activities by focusing on four dimensions: leadership & responsible lending commitment, stakeholder engagement, internal implementation mechanisms, and transparency. Likewise, the group of 32 local institutional investors (total AUM: c.THB10.8trn), led by the Government Pension Fund, also declared their intention to sustainable investing at the ESG Collaborative Engagement in Aug 2019. As a result, NAV aggregated from sustainability funds registered in Thailand amounted to THB34bn as of Feb 2021, up from THB22bn as at end-2020, while 2M21 investment flow into these sustainability funds was highly successful, at THB11bn, compared to the full-year investment inflow of THB15bn in 2020. Sustainable financing has been another growth area in Thailand as the Thai Bond Market Association anticipates ESG bond issuance will likely hit a new high of THB100bn in 2021. For 4M21, the issuance amount has already reached THB61bn compared to only THB86.4bn in 2020.

- According to UN-supported Principles for Responsible Investment (UNPRI), Thaipat has adopted its unique approach for ESG investment as the institute is establishing the ESG Investment universe and indices, escalating company engagement, and convening sustainability Disclosure Community (SDC). This approach has brought in the institute's two ESG products including i) ESG100 Investment Universe, and ii) Thaipat ESG Index. Impressively, Thaipat ESG Index showed a solid 1-year total return of 27.7% while total return of 49.3% since the inception of Thaipat ESG Index has outperformed major SET benchmarks, including SET50 index (+16.2%) and SET100 index (+19.4%).

- Finally, the key speaker keenly highlighted that ESG in Thailand has improved consistently from time to time. Based on data from Sustainalytics, unmanaged ESG risk in Thailand is the lowest among ASEAN countries, while ESG risk exposure is on par with the average in ASEAN countries. Management score in Thailand is also the highest within ASEAN and can be comparable to North America.

Case Studies

Regional Panel: ESG as a new asset class? Where will we be in ESG investing in 2030?

Panellists: Hardik Shah, ESG Practice Lead, GMO; Brian Walsh, Group Head of Sustainability, TP ICAP-Liquidnet; Jurgita Balaisyte, Senior Associate, MSCI APAC; and Andrew Chan, Consulting Leader, PwC Malaysia

Moderator: Ryan Huang, MONEY FM 89.3

- Over the years, ESG awareness has improved amongst corporates, with boards shifting their focus away from viewing ESG as a CSR initiative to questioning management about the company's purpose and how the organisation's strategy is aligned with it. The changing consumer sentiment, population, and wealth dynamics also plays a role in the growing corporate awareness towards ESG. The recent change in administration in the US has also re-shifted the focus of regulators and corporates towards ESG, as we are moving away from a phase of self-regulation to one of greater scrutiny. While Europe is way ahead in terms of ESG adoption, the rest of the world is catching up fast, as investors are starting to take notice, eg only ESG ETFs have grown assets under management or AUM by at least 10% in the last year, and about 120 new ESG ETFs were launched during this period.

- The existence of multiple ESG reporting standards and metrics does confuse corporates as to which one they should report and comply with. While there is no certainty on whether we will have one standard for ESG reporting, similar to accounting standards (which have been evolving over many years), ESG standards could evolve. They may also converge much quicker, given the rapid adoption. Amongst the ESG pillars, climate action, labour issues, supply chain disruption, and improving governance are amongst the key aspects that seem to be gaining the most attention. However, the key ESG issues for each company will vary based on its materiality.

- Investors looking at ESG should start with identifying their key goals: Whether it is managing risk or creating a positive environmental and social impact. Once the goal is identified, investors need to identify the most relevant ESG metrics they need to monitor. Data from ESG providers are diverse and not standardised, so investors should use them as a reference point and apply their own analysis to it. In the long term, the presence of different rating agencies and methodologies will help investors identify what fits better with their investment philosophies. The diversity in ESG rating and assessment standards also creates opportunities for active investment managers to generate alpha, as it creates market inefficiencies, given that different investors look at multiple ESG factors and try to assess which ones are the most relevant.

- Recent growth in ESG assets is not necessarily new capital flowing in, rather it is asset managers starting to look at ESG information for their existing mandates. Hence, some of the assets are getting reclassified as ESG assets. Demand for ESG investments is also growing from investors who are now demanding returns that meet ESG requirements. COVID-19 has also accelerated this awareness and demand for ESG investment products. This rapid rise in demand for ESG investments has also created risks of greenwashing, where corporates and investors allude towards complying with ESG requirements without making any change in the business or investment strategies.

- ESG outperformance has to be assessed over a long-term time horizon, as the value is derived over the long term. Factors that happen after a short-term change in asset prices should not be used as basis to assess the performance of ESG-related investments.

- The future of ESG or sustainable investing will simply be "investing", as all investors will completely incorporate and integrate ESG analysis into their processes when it comes to assessing any investment opportunities going forward.

Regional Panel: A Greener Earth: From Waste Management to Green Building

Panellists: Junice Yeo, Executive Director and Head of Greater China of Eco Business; Tommy Tjiptadjaja, Co-Founder and CEO of Greenhope; Tan Szue Hann, Council Member and Chairman, Sustainability of SG Institute of Architects.

Moderator: Nik Shahrizal Sulaiman, Internal Audit Leader PwC Malaysia

- Topics on sustainability began in the 1970s, when industrialisation kicked in. Currently, there is increasing urgency from various stakeholders to look into ESG matters. Companies are now looking deeply into ESG concerns, as their customers and suppliers are asking for ESG information of the company before any decisions are made.

- There is an increasing trend where consumers do care about environmentally responsible products, due to the impact of social media and from their own personal experience (ie experiencing weather change). The younger generation is more inclined to be more environmentally friendly and opt for sustainable products. Companies are under pressure to change their usual practice because of this.

- Businesses cannot afford to ignore all the regulations in place to adopt ESG practices. There are local laws that help to ensure companies disclose their ESG practices. Nevertheless, the law does not translate to companies practising ESG – as ESG laws are just there to get companies to understand what is most important to their business. One issue with ESG disclosure is that the information is not easy to comprehend. As such, the challenge is on how to evaluate this ESG impact into a metric going forward.

- Sustainability is also being practiced by start-up companies – pure technology start-ups are shifting to a more sustainability-based model. Large corporates are also shifting to being sustainable. Nevertheless, there is an issue of greenwashing. As such, open and good governance is important to weed out greenwashing.

- Plastic pollution is at an exponential phase. Plastic consumption is now at 400m tonnes a year, and only 9-10% of plastic waste is recyclable. It will take 500-1,000 years for plastic waste to bio-degrade. That said, governments do understand the impact of plastic pollution on the livelihood. Nevertheless, governments alone will not be able to solve this issue. Governments, the private sector and consumers need to work together to tackle this issue.

- Green buildings are important – as they globally consume c.30-35% of global energy. To address the issue of consumption, there are seven environmental design goals (EDGs) that are being used: Education integration, climate action, natural capital, resource management, urban harmony, health & wellbeing, and adaptability & longevity. Each EDG prolongs the life of occupants and lifecycle of the buildings, and contain elements that can be used to measure performance and achieve savings. While green buildings might be slightly more expensive, the benefits tend to outweigh the costs.

- The construction sector produces a lot of greenhouse gases. A lot of countries are now measuring how much carbon waste a building can produce, before they give the green light for a construction project to begin. Apart from looking at just the impact of constructing the building itself, the entire supply chain and lifecycle of the buildings should also be taken into consideration.

- Tobacco is a sin sector – as it produces items that impact health. Nevertheless, tobacco firms do hire a lot of farmers to harvest the crops. If the industry is completely curtailed, a lot of people will go jobless. Hence, a holistic and careful approach should be used to manage tobacco companies. The case is similar for plastic companies, as authorities are unable to completely eradicate this industry. Nevertheless, some approaches that can be done include applying higher levy rates to reduce the overall impact on the environment. It is all about balancing the trade-offs while applying ESG.

Sector Panel Sessions

Plantation: How has ESG changed the way investors think about the sector?

Presenter: Mavath R. Chandran, Advisor to the RSPO

- **ESG assessment should begin from "G"**. The board of directors, particularly the independent directors, should be the first focus. Due diligence should be conducted in determining if the directors are truly independent and the degree of influence from the company's activity on their personal reputation.

- **ESG ratings are not exhaustive**. Most standard ESG reports have a broad-brush approach in ESG analysis, where certain sectors (like agriculture) will continuously be rated as inherently high-risk, without accounting for how well a palm oil company is performing to tick the right sustainability boxes.

- **Harmonisation of ESG reporting is unlikely**. While there are several ESG ratings that are managed today, due to the lack of alignment, most people will struggle to sift through the reported data. This situation is unlikely to improve, given the inherent competition between service providers and different rating standards that serve the requirements of different group of stakeholders.

- **Understanding the three key motivations**. It is proposed that investors should first understand several key motivations before looking at the ESG evaluations of companies. Depending on the responses to the following questions, analysts will be able to highlight specific indicators from the various ESG reports/ratings, thereby allowing a fruitful analysis.

  i. What is the risk (or topic of risk) that is being assessed?
  ii. What is the reason that the ESG evaluation is being conducted?
  iii. What is the drive for ESG investment for the investor?

  Looking beyond the public perception, investors should continuously engage with companies' senior management to get a clearer picture of the actual performance and companies' strength in the areas of ESG.

- **Plantation companies are expected to go beyond RSPO requirements**. In the long term, plantation companies may have to routinely engage with independent third-party consultants to audit their labour practices, and set up panels to engage with NGOs directly. While this may incur higher compliance costs, it would reassure their stakeholders and the public that their sustainability practices are well in place.

Rubber Gloves: Impact of ESG on gloves industry

Presenter: Dr Supramaniam Shanmugam, President, Malaysian Rubber Glove Manufacturers Association (MARGMA)

- Global demand for gloves is estimated to be 420bn pieces pa (ppa) in 2021. Out of this, Malaysia is the largest supplier with a 67% market share. This is followed by Thailand (18%), China (10%), and Indonesia (3%). To put things into perspective, the 420bn pieces of gloves usage pa means that 13,318 gloves are used every second. MARGMA expects strong annual demand growth of 15-20%.

- For MARGMA, ESG refers to the rubber gloves industry's commitment to do more than just making profit. This includes actively striving to contribute positively to the environment and social causes, as well as conducting business responsibly.

- MARGMA realises the importance to communicate and serve its stakeholders, which goes beyond shareholders, management and workers of the companies. Nine key stakeholder groups have been identified and these are:

  i. Employees and families;
  ii. Customers;
  iii. Business partners;
  iv. Communications and societies;
  v. Governments;
  vi. Shareholders, investors and creditors;
  vii. Non-governmental organisations;
  viii. Media;
  ix. Competitors.

- MARGMA believes that ESG is beneficial to the rubber gloves industry as it will improve topline growth, and result in cost reduction, enhance productivity, aside from allowing investment and asset optimisation.

- Zooming into the "E", which refers to environmental issues under ESG, MARGMA's focus will be on waste and pollution control, reduction of carbon footprint, optimal energy and water usage, circular economy, and biodegradability of its products.

- As for the "S", which refers to social issues, MARGMA's focus will be on promoting employee health and safety, encouraging human rights and product integrity, increasing employee morale, improving working conditions, as well as inclusivity and diversity.

- Lastly for the "G", which refers to governance issues, MARGMA's focus will be on executive remuneration, eliminating of corruption and bribery, ensuring board diversity and structure, as well as focusing on tax strategy and accountability.

Banking: Sustainable finance - New norm in an age-old industry?

Presenter: Dr Adam Ng, Sustainable Finance Expert, WWF-Malaysia

- WWF-Malaysia is part of World Wide Fund for Nature (WWF), the international conservation organisation. WWF-Malaysia's efforts to conserve nature focus on six major goals – forest, oceans, wildlife, food, climate and energy, as well as freshwater – and three key drivers of environmental problems – markets, finance and governance. With banks being key enablers for ASEAN countries to achieve both their United Nations Sustainable Development Goals (SDGs) and commitments under the Paris Agreement, WWF works in partnership with banks, regulators and banking associations throughout ASEAN to develop policies and guidelines that are aligned with environmental, social and governance (ESG) best practices.

- WWF sees the following as key challenges in sustainable finance:
  - i. The lack of data (sufficiency and scientific) required for the redirection of capital flows to green assets;
  - ii. Insufficient corporate sustainability disclosure practices. Such disclosures would ensure banks consider their impact on sustainability issues and enable them to be transparent about the risks and opportunities they face;
  - iii. Incorporation of physical and transition climate risks, risks related to biodiversity loss, or second order effects from interlinkages between climate change and biodiversity into bank's climate stress-testing; and
  - iv. The need for better project implementation, funding and transparency to support pipeline of bankable projects.

- WWF believes banking institutions' sustainability agenda can be supported through a 6Ps framework:
  - i. Purpose – a clear reference to sustainability and SDGs in the bank's strategy and long-term vision, engagement with stakeholders on ESG issues, and participation in sustainable finance initiatives and policy advocacy with regulator;
  - ii. Policy – develop public statements on specific ESG issues and specific sectors;
  - iii. Process – assess ESG risks in client and transaction approvals, engage with clients to transition their business models, and strengthen client expectations on thematic issues across multiple sectors;
  - iv. People – senior management to have responsibilities for the implementation of the bank's ESG strategy and management of climate change risks and opportunities. To provide mandatory training on ESG issues at all levels and integrating sustainability considerations into KPIs;
  - v. Product – supporting clients in Environmental & Social (E&S) sensitive sectors to reduce negative or enhance positive impacts, as well as offering of specific financial products and services that support mitigation of E&S issues; and
  - vi. Portfolio – periodical review of portfolio exposure to E&S risks assessment, with a strategy to manage and mitigate climate-related risks across the bank's portfolio. Disclosure to ESG risk exposures and targets to reduce these negative impacts.

- In Apr 2021, WWF introduced Sustainable Financial Regulations and Central Bank Activities (SUSREG) – a new framework designed to support central banks, financial supervisors and relevant policymakers in enhancing the financial sector's stability and resilience to climate-related and other E&S risks. The framework calls for:
  - i. A national green finance roadmap and strategy that sets policy expectations and steer financial institutions toward the intended direction and target;
  - ii. Requirements for minimum level of disclosures, and provision of guidance to ensure disclosures are standardised;
  - iii. Greater reference to existing multi-stakeholder sustainability standards and initiatives;
  - iv. Creation of taxonomies that define sustainable economic activities;
  - v. Policy incentives to promote green and socially responsible financing and investments;
  - vi. Government grants and seed funding to support investments in clean technology and businesses, including climate-smart agriculture and nature-based solutions; and
  - vii. Removal of policy barriers and implementation of proper pricing of negative externalities to level the playing field.

REITs: S-REITs Sustainability Journey

Presenter/Panellists: Nupur Joshi, CEO REITs Association of Singapore (REITAS)

- Nearly 28% of global energy-related carbon dioxide (CO_2) emissions are from building operations. Thus sustainability plays a key role in maintaining long-term value and safeguarding future cash flow of the REITs. Properties with good sustainability metrics are also more desirable to tenants and investors, thereby enhancing competitive positioning.

- Sustainability reporting has been mandatory for all SGX-listed companies since 2017. SGX will soon consult the industry on making climate-related reporting mandatory, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). However, the REITs are in various stages of this journey. With 80% of REITs having overseas assets, the standardisation of environmental, social & governance (ESG) metrics across has posed some challenges.

- On the environmental front, the REITs actively trying to increase the proportion of green buildings in their respective portfolios, especially new acquisitions, are looked at more closely though a sustainability lens. There is also increased scrutiny over the amount of resources being used or generated – energy, water, carbon etc.

- Socially, COVID-19 has propelled companies to take a longer term view of their business, while looking after the interests of all their stakeholders, not just investors. REITs supported tenants via rental rebates and other measures, and overall, there has been increased health and safety standards in their properties.

- On governance, the Monetary Authority of Singapore (MAS) has always had high standards and guidance for corporate governance for S-REITs. Governance concepts have expanded the ESG strategy to include companies' management of environmental risks and opportunities, supply chains, employees and other stakeholders, in addition to traditional measures of good corporate governance.

- Green financing: Approximately 52% of sustainable REIT financing since 2020 has been via sustainability linked loans, 39% via green loans, and the balance in green bonds and green perpetual securities. The authorities have also been playing an active role in promulgating green financing through various schemes such as MAS' Green and Sustainability-Linked Loan Grant Scheme and MAS' Sustainable Bond Grant Scheme.

- REITs sustainability goals and targets include:
    - i. improving their data gathering system and getting reports externally assured as well as standardisation of such data;
    - ii. Staying compliant with new ESG regulations;
    - iii. Increasing the proportion of "green" buildings in their portfolio;
    - iv. Increasing the proportion of sustainable finance in their capital structure;
    - v. Incorporating sustainability considerations into overall strategy and then operationalise them throughout the organisation and through each property's life cycle;
    - vi. Targeting to be recognised at sustainability awards – eg Global Real Estate Sustainability Benchmark (GRESB), Singapore Governance and Transparency Index (SGTI), Governance Index For Trusts (GIFT) etc.;
    - vii. Targeting to be included in various sustainability indices eg iEdge ESG Transparency Index, MSCI ESG indices etc.

- REITAS' role in ESG has been two pronged: Skills development – organising courses and webinars on ESG themes relevant to REITs – as well as participation in consultation papers: Enterprise Rise Management Guidelines, Green Finance Industry Taskforce on Identifying a Green Taxonomy for Singapore and ASEAN, MAS' Financial Centre Advisory Panel on Green Finance Working Paper etc.

Oil & Gas: Petronas' roadmap to net zero carbon emissions

Presenter: Dr Salmaan Inayat-Hussain, Interim Head, Environmental & Social Performance, Group Health, Safety, Security & Environment (GHSSE), Petronas

- In 2020, Petronas set the aspiration to achieve net zero carbon emission by 2050, after embarking on the sustainable journey two decades earlier. This is also in line with the response of its global peers in addressing climate change issues.
- While the Sustainable Development Goals (SDG) 2030 are the focus area, shorter term targets by 2024 were also set including 49.5m tCO2e capped greenhouse gas (GHG) emissions, 3,000 MW of installed renewable energy capacity, and 24,100 beneficiaries from Petronas education programmes.
- In order to achieve the net zero target, Petronas is seeking to achieve operational excellence and move towards low carbon energy and solutions on the back of better technology and innovation. Some of these solutions highlighted are: carbon capture, utilisation and sequestration (CCUS), offshore wind, solar PV, flaring and venting reduction, energy efficiency improvement, higher renewable energy usage. Petronas also encourages the use of more bio-based feedstock to produce low carbon products and innovates to increase the use of waste as feedstock through the circular economy.
- The residual carbon emissions are offset to balance towards net zero, involving energy based offsets from own investment in renewables and other low carbon technologies to forest-based carbon offset – the latter being the last option to balance the remaining Scope 1 and 2 GHG emissions to net zero.
- Regarding the recent exclusion from JP Morgan's ESG indices, Petronas believes this is not an accurate and true representation of its continuing commitment to sustainable and responsible investing in line with ESG good practices. Petronas remains firmly committed to respecting internationally recognised human rights, which is closely aligned with the United Nations Guiding Principles on Business and Human Rights.
- Yayasan Petronas will continue to focus on three main areas – education, community well-being, and development as well as environment.

Automotive: How will electrification of transport transform our future?

Presenters/Panellists: Huzaimi Nor Omar, Head of Low Carbon Mobility at the Malaysia Green Tech Corporation; Michael Jopp, Vice President Sales & Marketing at Mercedes Benz Malaysia;

- The greening of the automotive industry is expected to play a role in achieving the reduction of greenhouse gases (GHG) by 45% by 2030. Currently, energy generation and transportation contribute approximately 80% of Malaysia's GHG, with the latter making up 20-29%.

- Globally, Mercedes Benz has seen sales for its battery-powered electric vehicle (BEV)/plug-in hybrid electric vehicle (PHEV) tripled YoY in 2020. In Europe, the share of BEV/PHEV was nearly 20% in 2020, with YTD-2021 sales of PHEV vehicles already exceeding the sales of diesel vehicles – the predominant choice for customers in Europe. In Malaysia, Michael noted that the development of EV adoption in the past couple of years has not been as dynamic as compared globally, due to the lack of clarity in the National Automotive Policy and clear regulatory framework for investment.

- The soon-to-be-launched Low Carbon Mobility Blueprint is the first policy initiative which focuses on the transportation sector in Malaysia. The goal is to have clearer and more transparent policies and targets in the transportation space – especially land transportation, which is lacking at the current juncture. The four key focus areas of the blueprint include – i) reduction of GHG emissions via improving energy efficiency, ii) the use of electric type vehicles, iii) alternative energy or fuel, and iv) transportation modal shift.

- According to Michael, the three key impediments in driving the adoption of EV vehicles are i) availability, ii) range anxiety, and iii) cost of acquisition. Based on a survey done by the Malaysian Green Technology and Climate Change Centre (MGTC), the local confidence level and willingness to shift to the EV platform is still low.

- In terms of charging infrastructure, three different segments of chargers are highlighted: office charger, home charger and public chargers. For public chargers, Huzaimi said MGTC is championing the roll out of public chargers by installing the first numbers, followed by a charger to EV vehicle ratio – the roll out of EVs will help bring the charging numbers up. The purpose of taking the first step is to provide the groundwork that will instil confidence in the direction of electrification of transport for both consumers and car manufacturers, and eventually, drive the adoption of EV.

- The charging infrastructure will be sourced from the existing electricity grid, of which the electricity generation mix still relies heavily on fossil fuel. However, MGTC pointed out that the scope currently focuses more on tail pipe emissions. This is given that there are already strict regulations and clear targets in electricity production, in which the players have to abide by. Despite the narrower scope, based on studies conducted by MGTC, which include the grid performance in Malaysia, the overall tail pipe emission could be reduced by 20% just by switching to EV from the traditional internal combustion engine (ICE). There is also a need to update local planning regulations to compel developers to factor in charging infrastructure into future residential and commercial developments.

- MGTC is currently working with the Ministry of Energy, Green Technology and Water (KETTHA) for an amendment of regulatory control with regards to the emission rating verification under the vehicle type approval. In short, a successful change in regulation would introduce a base emission standard, which sets a ceiling for vehicle emission. Currently, the average fuel efficiency in Malaysia for passenger car is 8.4 litres per 100km. The first target is to reduce it to 5.3 litres per 100km by 2025, and later on to 4.1 litres per 100km as per global fuel efficiency initiative.

- Taking Nissan Leaf as an example, Michael thinks that an EV at approximate MYR180,000 is affordable, but still at a premium, when compared to the average selling price of ICE vehicles in Malaysia. Despite the cost of battery – which forms the bulk of the cost of the EV – having gone down significantly over the years, the price of the Nissan Leaf has remained largely unchanged. He also highlighted that EV incentives compared to ICE vehicles are very important to make EVs more competitively priced. Positively, the other part of the equation – the travel range – has improved from the introduction of the Nissan Leaf in Malaysia in 2013.

Corporate Breakout Sessions

DiGi.Com (DIGI MK, BUY, TP: MYR4.78): Journey To Sustainability

Presenters/Panellists: Philip Ling, Head of Sustainability; Kulani Kulasingam, Head of Privacy/Data Protection Officer

- DiGi.Com's (Digi) sustainability journey is embedded within the company's overall purpose: To connect customers to what matters most and empower societies. Responsible business forms part of its corporate strategy to drive responsible practises across all operations towards longer-term value creation. The group aspires to be a leading domestic connectivity and digital services provider, as well as being a trusted Malaysian brand for responsible business practices.

- A holistic responsible business approach (Yellow Heart) is conceptualised via a materiality matrix that addresses stakeholder expectations and ESG performance. At the core of the approach is the need to raise standards in operations and supply chain across seven areas: Diversity & inclusion, transparency & accountability, human rights, health, safety & well-being, climate & environment, and privacy & security.

- One of the key pitfalls in Digi's ESG journey is assuming that corporate goals are well understood. Time is required to infuse the culture of sustainability, and Digi's approach has been that of continuous improvement – from policy making and internal controls to measurement and monitoring tools. A big challenge presented is keeping abreast with new regulations and technological advancements.

- As part of the concerted drive towards digital inclusion, Digi aims to not only provide affordable internet access for all, but educate customers on using the Internet responsibly. Accessibility is a priority, eg ensuring that the visually impaired and senior citizens are able to use its products and services effectively. COVID-19 saw Digi stepping up resources and efforts to help the country deal with the health crisis via uninterrupted network connectivity, crowdfunding, and provision of free data.

- An annual Responsible Business Summit (RBS) is held to ensure sustainability initiatives are continuously aligned to business processes and corporate strategies. The platform facilitates stronger engagement with employees on how they can play their part in contributing to a more responsible business.

- A key topical area under the Governance pillar is online safety and data privacy. Digi adopts global best practises in the areas of transparency and awareness, stakeholder empowerment and advocacy, and active participation in policy and decision making. In 2020, the group included a proposal on provisions to govern the processing of children's data for a public consultation paper issued by the data protection commissioner. As part of the continuous effort to future-proof governance, a privacy control framework is used to oversee data flow management. Digi also embraces the privacy and security by design approach with assessments and regular monitoring. Programmes are organised to educate children on the risks associated with the digital age and how they can protect themselves from online threats and cyber-bullying.

- Digi has the largest female representation on its board and at the group level, which sets it apart from its competitors and/or listed peers. Diversity and inclusion forms the very core of its corporate DNA, with platforms created internally to empower the fairer sex. An in-house programme prepares women for top management roles while relevant training helps equip women with the appropriate skillsets and capabilities to strengthen their career progressions. Digi also runs a successful apprenticeship programme that grooms young talent to become future leaders.

- Digi believes Celcom shares common ESG goals and traits. Both companies will continue to uphold the highest standards of integrity after the merger to ensure the combined businesses deliver on the sustainability agenda.

IOI Corp (IOI MK, NEUTRAL, TP: MYR4.05)

Presenter/Panellist: Dr Surina Ismail, Head of Sustainability

- IOI Corp highlighted its key initiatives and sustainability journey, emphasising its stringent rules and regulations for cementing its place as one of the gold standards in the plantation industry when it comes to ESG.
- One new development is the formation of IOI's Sustainability Consultative Forum (SCF), which comprises its management team, external participants from government agencies, national and international sustainability certification bodies, international brands, and Sustainability Advisory Panel members. This forum will take place twice a year and will address particular relevant issues of the day. The first SCF was held on 28 May and focused on responsible recruitment practices (particularly in West Malaysia) and legalisation, particularly in Sabah. IOI is currently compiling the discussion points of this forum and will share the outcome publicly.
- Questions focused on the latest news about migrant rights activist Andy Hall sending a petition to the US Customs & Border Protection (CBP) about alleged forced labour conditions at IOI. While the CBP said on 26 May that it will launch an investigation on these allegations, it has not issued a Withhold Release Order (WRO) on the group's products as yet. We note that IOI's current exposure to the US is about 2-3% of total group revenue, and a WRO is not likely to have a significant impact on earnings. However, this could likely have reputational risk, especially if IOI's long-term multinational corporation customers take action.
- IOI has explained that Hall contacted the group in early May to tell them about of two labour breaches he had uncovered. The first was in relation to seven Bangladeshi workers (working in two estates) that went home to Bangladesh on leave. Due to COVID-19, these workers were not able to come back to Malaysia. It was found that these workers had paid deposits of MYR700.00 each and they wanted their deposits back. IOI stated that deposits were not meant to be taken and has since taken the necessary steps to resolve this issue and repay the workers their money. Subsequently, it undertook checks on all its estates to ensure that this was not being practised elsewhere. IOI also re-educated its workers and staff about this issue.
- The second issue was in relation to a systemic risk in Bangladesh. It was discovered that some Bangladeshi workers were made to pay MYR19,000-20,000 each to come to Malaysia to work. These payments were made to illegal syndicates in Bangladesh and IOI had no knowledge of these syndicates. The group explained that the recruitment of workers from Bangladesh was a government-to-government (G2G) initiative that started in 2017. The Malaysian Government works with its Bangladeshi counterparts to bring in a certain number of workers – it then allocates them to firms that need them. IOI does not even get to interview these workers – therefore, it had no knowledge of these payments being made prior to these workers arriving in Malaysia. Given the issues uncovered, the Malaysian Government stopped this G2G arrangement in 2018. IOI is unsure of how to redress this issue, and believes it should be redressed at the G2G level.
- IOI is no longer hiring Bangladeshi workers, with workers from this country currently making up 6% of its total labour force. We note that this issue is unlikely to be confined to IOI, but to any company who has Bangladeshi workers and it definitely needs to be resolved at the government level. In India, IOI noted that recruitment was done via recruitment agents, which can also be subject to illegal practices at the source country. As such, the group has suspended recruitment from India since Dec 2020. Workers from the latter nation currently make up 4% of IOI's total labour force.
- While we are dismayed that there is yet another Malaysian company being investigated for forced labour, we believe IOI's transparency about the issues at hand is commendable. The group has worked hard at trying to resolve any issues uncovered and is hoping the CBP appreciates the process, as well as the stringent implementation it enforces. Given that human nature is flawed, we believe it is impossible to monitor every single human interaction at its estates. We make no change to our NEUTRAL call and TP on IOI.

Cromwell European REIT (CERT SP, NOT RATED)

Presenter: Elena Arabadjieva, COO and Head of Investor Relations

- Cromwell European REIT (CEREIT) is a diversified, pan-European REIT with a commercial real estate portfolio valued at EUR2.3bn. 85% of its portfolio is weighted towards Western Europe and ~95% comprise office and light industrial or logistics assets, with a blend of core (58%), core plus (34%) and value-add (8%) assets with a long WALE of 4.8 years. Cromwell Property Group owns 28% of CEREIT – which is its largest investment – which indicates strong alignment with the unitholders.

- CEREIT has adopted five-pillar sustainability framework since IPO. Each of the pillars have defined owners with external advisers supporting the REIT. They are:
  i. Economic – committed to providing sustainable and stable distribution;
  ii. Governance – manage risks through best-practice governance processes and procedures;
  iii. Stakeholders – actively engage stakeholders to understand what matters;
  iv. People – recognise individual and team strength to drive its sustainable, competitive advantage;
  v. Environment – actively reducing the environmental impact of properties.

- The REIT has largely achieved or exceeded the targets set under these pillars. This has been reflected by its improved ranking vs peers in various global benchmarks. Below are its achievements and measures under each pillar:-
  i. Economic – limited impact on CEREIT's portfolio occupancy rate and FY20 DPU despite the COVID-19 pandemic;
  ii. Governance – majority of the board comprises independent directors, while senior management has specific ESG-linked key performance indicators to meet;
  iii. Stakeholders – 71% tenant-customer satisfaction (69% in 2019), 58% increase in participation rate;
  iv. People – employee engagement score of 89%. 50% of its employees are female. It also recorded a six-fold increase in training hours per employee;
  v. Environment – 20 BREEAM 2 certifications (as at end-Dec 2020, vs 11 as at end Dec 2019) and one LEED certification.

CEREIT has set clearly defined short-term goals (2021) and mid/long-term goal on each of these five pillars and is working towards achieving this.

- On industry ESG trends and development, the REIT noted three key developments in:
  i. Europe – European Green Deal and Sustainable Finance Disclosure Regulation;
  ii. France – Tertiary decrees. The decree requires owners and occupants of private and public buildings with a floor or cumulative area greater than or equal to 1,000 sqm to reduce energy consumption compared to a reference year. Targets are to reduce energy consumption by 40%, 50% and 60% by 2030, 2040 and 2050_final.
  iii. Singapore – the Monetary Authority of Singapore has laid out environmental risk management guidelines for asset managers.

Ernst & Young's global investor survey shows ESG increasingly influences investment decisions, and ESG ratings are increasingly used as an investment screening tool.

Minor International (MINT TB, TRADING BUY, TP: THB35.50)

Presenter: Chompan Kulnides, Head of Sustainability

- **Minor International (MINT)** is one of the largest hospitality, restaurant, and lifestyle companies in the Asia-Pacific region, with a presence in over 60 countries. It currently has 527 hotels and serviced suites with 75,168 rooms, 2,365 restaurant outlets, and 428 retail point of sales. Based on its 2020 total sales of THB55.8bn, 59% were generated from Minor Hotels, 35% from Minor Food, and 4% from Minor Lifestyle. Geographically, 63% of 2020 revenue was from overseas, with the remaining 37% from Thailand. Paying attention to ESG, it established the Sustainability Department in 2011 to develop strategies and goals, integrate them into corporate units, and promote sustainable business practices with stakeholders.

- **Managing environmental impact and supporting conservation.** MINT is committed to minimising the impact of its presence to the environment and the surrounding communities by striving to efficiently utilise natural resources, as well as manage and minimise the company's waste and emissions. Among the projects are a reduction of single-use plastic in Thailand with environmental-friendly alternatives, and waste management initiatives. MINT also promotes biodiversity protection, especially where it has a footprint, including both life on land and below water ie its establishment of an elephant foundation and sea turtle conservation in Phuket and Sri Lanka, as well as reef protection programme in the Maldives. The company is on a move to synergise its environmental practices to NH Hotel Group, which was acquired in late-2018.

- **Develop sustainable and capable human capital.** MINT provides a safe and healthy working environment and promotes well-being among employees, while continuously investing in educational and career enhancement for its workforce, talents and leaders. The company also invests in the community through various programmes to support children, youth, and underprivileged community members. Amid the COVID-19 pandemic, it still offers the online learning journey and other opportunities to staff. Some of the initiatives include "The Pizza Company Book Club" programme – encouraging kids to collect stamps from the reading of books at participating schools for free pizza redemption – and "The Founders Day" worldwide campaign in June to inspire its own people with a responsible mindset by doing good deeds for society and the community at large.

- **Drive for sustainable value chain management practice.** The company has created a sustainable business by establishing long-term and sustainable partnerships with its key stakeholders in the value chain – suppliers, business partners, and customers. A strong relationship with them is vital to its growth and competitiveness. It also pays attention to local sourcing eg building partnerships with small vegetable farmers to become a major supplier countrywide. Its managed hotel and restaurant franchisee partners also comply with sustainability measures set across brands under MINT's umbrella. Customer-wise, the company promotes food safety and traceability, health and wellness, relationship management, and customer experience creations.

- **Shared value creation** is one on MINT's sustainability enablers, with the aim of encouraging its operations to create a competitive business, while addressing social and environmental needs. For example, its resorts in Tanzania continue to provide support to Shanga, a financial independent social enterprise, which offers careers to people with disabilities. The Shanga workshop and store is located in the grounds of the company's hotels, and has become part of the guest experience.

- **Strengthen good corporate governance (CG).** MINT has built a strong platform for a sustainable organisation by practicing good CG and responsible business culture practices; embedding effective risk management cyber security and data protection; as well as ensuring the availability of a grievance mechanism in all business operations. The company, as a professional-run organisation, annually endorses succession plans, and identifies internal and external successors for all top-to-bottom management levels.

Kencana Energi Lestari (KEEN IJ, BUY, TP: IDR540)

Panellist: Mr Wilson Maknawi, Vice President Director, and Mr. Giat Widjaja, CFO

- Kencana Energy Lestari (KEEN) is an independent power producer that focuses on run-of-the-river (RoR) hydroelectric systems for all its plants. Each unit constructs and operates an alternative energy power plant (under a build-own-operate-transfer contract) and sells the electricity produced solely to state-owned electricity company, Perusahaan Listrik Negara, at 213 GWh as of FY20.

- KEEN's long-term plan is to enhance its electricity production by 1,378 GWh by 2028 (+26% CAGR, 249 MW). The target will be backed by three upcoming projects: Pakkat 2 (35MW, commercial operation date (COD): 2025), Salu Uro (90MW, COD: 2027), and Kalaena (75 MW, COD: 2028). Its nearest project (Madong Plant, 10MW) is targeted to be complete by 1Q22. This would take its FY22F total capacity to 49MW. Initially, KEEN managed two power plants – Pakkat (18MW, since 2018) and Air Putih (21MW, since Jan 2020).

- KEEN booked a revenue of USD25.4m (+7.2% YoY) in FY20, which brought a sturdy bottomline (including MI) of USD6.7m (+190.2% YoY) – FY20 NPM was at 34% (FY19's 15%). Management expects FY21 revenue and earnings to grow to USD41.8m (+65% YoY) and USD10.7m (24% YoY). It also gave assurance that COVID-19 had a minimal adverse impact on operations, in general. Thanks to its green business, the company has benefited from tax incentives and had some cost for some imported equipment waived.

- The company is upbeat on the development of renewable energy in Indonesia, as there are ample opportunities due to the low utilisation of electricity usage in the country (ranked sixth in South-East Asia). Also, the Government is committed to achieving net zero carbon emissions by 2060. As of 1H21, renewable energy accounted for about 14% of total national energy output (targeted for 23% by 2025 and 48% by 2030). Of the total, about 59% came from hydropower. However, the uncertainties related to the legal framework, expensive investments, and politics remain the biggest obstacles for the sector's growth.

Top Glove (TOPG MK, NEUTRAL, TP: MYR4.90)

Presenter: Lim Cheong Guan, Executive Director

- Top Glove is the world's largest glove producer, with a capacity of 100bn pieces pa (ppa). It commands 26% of the global market share. The company has 48 factories and 812 production lines. It sells its products to 1,600 customers across 195 countries. Top Glove has 22,000 employees.

- The company has announced that 2021 is the year of ESG for Top Glove. It aspires to be the glove manufacturer of choice for customers, driven by the integration of sustainability into every aspect of its business. We understand that Top Glove is now linking its executive compensation to ESG metrics.

- Top Glove has identified the strategic focus for each of the E, S and G components. Details are as below.

- For the "E" aspect or Environmental practices, the strategic focus areas are:

  i. Reducing carbon emissions;
  ii. Improving natural gas efficiency;
  iii. Water management;
  iv. Increasing procurement from suppliers with Forest Stewardship Council certification;
  v. Producing more environmentally friendly gloves.

- For the "S" or Social aspect, the strategic focus areas are:

  i. Enhancing the recruitment process;
  ii. Providing comfortable accommodation;
  iii. Improving workers' engagement;
  iv. Achieving workplace health;
  v. Practicing workplace safety;
  vi. Enhancing security;
  vii. Training and awareness.

- Lastly for "G" category, which refers to governance issues, the key focus areas are:

  i. Independent directors' tenure policy;
  ii. Board gender diversity;
  iii. Engaging independent professionals to conduct board evaluations;
  iv. Regular meetings for its independent directors' committee;
  v. Anti-corruption and whistleblowing.

Leader Environmental Technologies (LET SP, NOT RATED)

Presenter: Ngoo Lin Fong, Deputy CEO

- Leader Environmental Technologies is a tech-oriented company, focusing on sludge treatment, smart water and energy management, high performance membrane products, and green-tech investments. It is a first mover for sludge treatment in China.

- It aims to integrate AI technology into the smart system to optimise process control and reduce the chemical and energy costs in water and wastewater treatment, and focus on low-carbon technologies for biomass, sludge, wastewater and organic waste.

- The company is optimistic that the membrane separation segment is expected to command the largest share of the global water and wastewater treatment technologies market, due to increasing demand for low energy consuming water treatment processes, as well as the growing emphasis on reducing chemical usage.

- Its Novel Fenton technology achieves 15-30% high COD removal efficiency, compared to the conventional Fenton process. In addition, the resource recovery of carbon source from sludge would help to reduce 10-25% of waste sludge mass and save 20-70% carbon source chemical cost.

- Management has announced and secured SGD76.7m worth of projects across five locations in China, from sludge treatment to industrial wastewater treatment, as well as animal manure treatment and resource recovery. Its ongoing rights issue is scheduled to raise another SGD66.05m to fund new projects. Usually, these projects are funded via 30-40% of equity and the rest with local debts, with a cost of funds of 5% pa. The proceeds from the rights issue will entitle the company to fund over SGD100m worth of projects in the future, which management is in the midst of negotiating.

- The capex for FY22 is expected to be SGD100m as the company is likely to bid and secure BOT projects to process up to 1000 tonnes/day. Typically, the construction period is about one year, and it aims to ramp up to full capacity by the second year. Concessions for these projects are usually 20-25 years. It cost about RMB55m/100tonnes of capacity.

- The company's competitive edge is that its cost for technology and methods for treatment are 30% lower than its competitors, as well as much a much lower investment cost, with no need for an incinerator plant, which requires huge capex to build. Typically, the IRR for these projects is 15% on average. For EPC projects, the gross margins are around 20-25% while the EBITA for sludge/wastewater treatment is around 50-60%.

Maybank (MAY MK, BUY, TP: MYR10.70)

Presenter: Dato' Amirul Feisal Wan Zahir, Group CFO

- Maybank (MAY MK, BUY, TP: MYR10.70), which started its sustainability journey back in 2010, made bold sustainability commitments when it unveiled M25 – its 5-year strategy. As its 20/20 Sustainable Plan came to an end in 2020, management relooked the banking group's mission of Humanising Financial Services. The ongoing COVID-19 pandemic, which amplifies the disruptive impacts of climate change and nature loss, also made it all the more important for Maybank to relook its core mission of putting people and communities right at the heart of everything the bank does. Being the largest banking group in Malaysia, Maybank is mindful of the role it can play to direct capital strategically and open up opportunities supporting the transition to more sustainable developments.

- The M25 Plan, launched in Apr 2021, is a roadmap setting out the banking group's strategic objectives for 2021-2025. Of significance is the prominent role sustainability has been given within the 5-year plan. Maybank announced its commitment to embed the sustainability agenda in its long-term strategy, making it the bank's DNA. This will be supported by clear roadmaps, targets and key performance indicators.

- The M25 sustainability strategy was developed following engagements with key internal and external stakeholders. A total of 24 material issues were identified as Maybank undertook a group-wide materiality assessment, taking a deep dive into issues that matter to stakeholders. This enabled management to identify top material environmental, social and governance issues for the group. The materiality assessment also enabled management to understand which material issues constitute financial, reputational, environmental, societal, legal, or operational risks for Maybank, and which ones represent opportunities.

- Maybank's sustainability agenda is predicated on three key strategic priorities:
    i. **Responsible transition** – To enable transition to a low carbon economy by balancing environmental and social imperatives with stakeholders' expectations. This would be achieved via the development of sustainability focused products and services, systemic risk management, ESG integration in financial analysis, engaging staff in sustainability, and strengthening business ethics.
    ii. **Enabling its communities** – Building community resilience across ASEAN and undertaking responsive action to promote economic development and social well-being. This involves empowering communities, financial inclusion, climate resilience, transparency and trust, as well as diversity, equity and inclusion.
    iii. **A house in order & walking the talk** – Leading by example with good management practices and ensuring that Maybank's ESG strategy is based upon a strong foundation. Issues of importance are governance & compliance, privacy, supply chain and environmental impact.

- The Board approved the bank's sustainability commitments:

  Commitment 1: Mobilising MYR50bn in sustainable finance by 2025

  Commitment 2: Improve the lives of one million households across ASEAN by 2025

  Commitment 3: Carbon neutral position for Scope 1 and 2 emissions by 2030 and net zero carbon equivalent position by 2050

  Commitment 4: Living sustainability via achievement of one million hours pa on sustainability and delivering 1,000 significant Sustainable Development Goals or SGD-related outcomes by 2025.

- Maybank also made the following financing commitments: No deforestation, no new peat and no exploitation stance approved by the Board of Directors in Jan 2020; no financing to blacklisted activities deemed not in line with the group's core values; and no financing of new coal activities.

City Developments (CIT SP, BUY, TP: SGD8.70)

Presenter: Esther An, Chief Sustainability Officer

- **Key global trends.** The World Economic Forum (WEF) 2021 survey involving 841 global experts and decision-makers revealed that the Top 3 global risks – in terms of likelihood – were all climate- and environment-related. 2020 has been a year of sustainability awakening with 120 countries – including the Top 3 largest economies in East Asia, ie China, Japan, and South Korea – have pledged to slash carbon emissions to net zero. Similarly, 163 of the biggest investors and 2,360 businesses have pledged to have zero carbons emission by 2050 based on the United Nations' Framework Convention on Climate Change. ESG investing is also gathering momentum – based on a wealth professional report, ESG ETF assets nearly tripled, reaching new assets under management or AUM record of USD189bn in 2020. Nearly 200 ESG ETFs entered market with an inflow of USD97bn. With competition for new ESG assets increasing, more issuers are expected to enter the ESG ETF market over 2021.

- **Singapore Green Plan 2030.** Announced early February, the plan focuses on five key aspects:
  i. City in Nature – building green, liveable, and sustainable homes;
  ii. Sustainable Living – reducing the amount of waste to landfills by 26% by 2026, reaching 30% by 2030;
  iii. Energy Reset – raising sustainability standards of buildings through the next edition of the Singapore Green Building Masterplan;
  iv. Green Economy – seeking out new innovations that are best-in-class in carbon/energy efficiency;
  v. Resilient Future – safeguarding against rising sea levels, ensuring food security, and moderating the rise in urban heat levels.

- **City Developments' sustainability governance.** CDL is the first real estate developer in Singapore and maiden real estate conglomerate in South-East Asia to sign on to the World Green Building Councils' Net Zero Carbon Buildings Commitment, pledging net-zero carbon in operations for buildings under direct control by 2030. It also has the longest history amongst Singaporean companies to have a dedicated sustainability portfolio, headed by a chief sustainability officer (CSO) for over a decade. The CSO reports directly to the Board Sustainability Committee (BSC), which comprises three independent directors, and CDL's executive director and group CEO. The BSC has direct advisory supervision on CDL's sustainability strategy, material ESG issues, work plans, and performance targets. The committee convenes meetings at least twice a year to discuss CDL's sustainability plans and review its performance. Throughout the year, the CSO updates the BSC on the company's ESG performance and initiatives through the quarterly sustainability reports, as well as global and local ESG trends.

- **CDL's four ESG pillars** are: i) Integration, ii) innovation & adaptation, iii) investment, and iv) impact with deliverables as decarbonisation, digitalisation & innovation, and disclosure & communication. CDL's value-creation model is aligned with 14 of the 17 Sustainability Development Goals or SDGs set by the United Nations.

- **CDL innovation and achievements.** From 2012 to 2020, CDL reported energy savings of more than SGD30m due to energy-efficient retrofitting and initiatives implemented across all managed properties. In 2020, the company achieved a 44% reduction in carbon emissions intensity against 2007 levels, putting it on track to achieving its Science Based Target Initiatives or SBTi-validated target of 59% by 2030. CDL has a strategic research & development partnership with the NUS School of Design & Environment. In 2020, the NUS-CDL Smart Green Home developed an Acoustic Friendly Ventilation Window prototype that reduced noise while achieving air-change efficiency of up to 4x more than conventional windows.

- **Green financing.** CDL has issued more than SGD2.5bn in sustainable finance over the last four years. The largest: SGD1.22bn in green loans granted for the South Beach JV earlier this year.

Global Power Synergy (GPSC TB, NEUTRAL, TP: THB79.00)

Presenters / Panellists: Sirobon Boontaworn, Senior Vice President of Corporate Finance; Pongsak Plaingam, Division Manager of Investor Relations, and Suthathip Charoenkij, Investor Relations Officer

- Global Power Synergy (GPSC), founded in 2013, is one of the largest power producers in Thailand and the power flagship of PTT Group. It mainly provides electricity, steam, and industrial water to state-owned power utilities and industrial customers (IUs) in the country. Currently, GPSC's capacity breakdown is as follows: 5,055 MWe in electricity, 2,946 tonnes per hour of steam, 15,400 refrigeration tonnes of chilled water, and 7,372 cubic metres per hour of industrial water. Apart from being listed in the SET Thai Sustainability Investment (THSI) index, the company also aims to be listed in Dow Jones Sustainability Indices (DJSI).

- **Three key strategic directions (3S).** Going forward, GPSC plans to grow sustainably via its 3S: i) Synergy and integration – to enhance reliability and profitability through improved operations, procurement, and maintenance with Glow Energy; ii) Selective growth – to seek growth from high-potential countries, ie Thailand, Taiwan, Vietnam, India, China and Myanmar, and to leverage PTT Group's network; and (iii) S-curve business – to be a part of the electric vehicle (EV) battery value chain by becoming involved in the mid-downstream segment, and collaborating with high-expertise partners. EV is a global trend and Thailand has set a goal to have 1.2m EVs in 2030, from 4,300 currently.

- **Highest exposure to the Environmental pillar.** GPSC aims to achieve a 30% (currently 12%) renewable energy (RE) portion of total capacity in the long term. It is also playing a key role in its parent PTT's 10-year ambition to have an RE capacity of 8GW. GPSC focuses on both clean conventional and RE power plants across Thailand and the aforementioned Asia markets. For international markets, its Global Renewable Power (GRP) – a 51:49 JV between GPSC and PTT – and Global Renewable Synergy (GRSC) will be vehicles to enhance the RE portion. For the domestic market, its Combined Heat and Power Producing (CHPP) should also be a subsidiary to boost the growth of its RE segment. With the global trend in clean energy ramping up, we believe the company has potential to grow without any concerns on financial restrictions. This is as its net D/E ratio is currently at 0.67x – below the internal limit and covenant of ≤1x and 2.5x.

- **Aiming for net-zero emissions and DJSI listing.** GPSC is also planning to enhance its infrastructure projects by using energy storage systems that employ know-how from 24M Technologies and implementing digital transformation, as well as studying carbon capture, utilisation and storage (CCUS), etc. Moreover, the company is likely to invest in only power plants with all clean energy fuel (eg wind, solar, waste, hydro, gas-to-power). Meanwhile, it continues to study and update the latest carbon credits trading and emissions trading schemes, as well examine shadow carbon pricing to a greater degree.

- **Sharing social responsibility.** The company applies PTT's group and international standards, as per those specified by DJSI and UN Sustainable Development Goals. GPSC conducts its social responsibility activities based on three principles: i) Activities linked to its mission and operations, ii) using its own expertise and potential, and iii) engaging in projects that are suitable for society's needs. For example, it delivered many solar rooftop systems to power schools and hospitals in areas where it operates. GPSC also developed waste management learning centres for some communities.

- **Giving its corporate governance a big boost.** GPSC has a corporate governance score of 5 – the highest possible – from the Thai Institute of Directors (IOD). The company's disclosure policy is in compliance with regulations set by the SET. As it is a utility company, GPSC also discloses important information broadly and promptly to stakeholders, eg providing details on the Glow Energy tender offer in 2019. GPSC is also willing to provide information or feedback, when there is talk on the Street on its developments. We note that it also does not provide information to parties that may encourage an unfair trading environment. On shareholder rights, it provides the base standard rights of shareholders – including rights to receive dividends, company news, the right to vote on company matters, and to attend both AGMs and EGMs.

Sembcorp Industries (SCI SP, NOT RATED)

Presenter: Ng Lay San, Senior Vice President, Group Strategic Communications & Sustainability

- Sembcorp Industries is a leading energy and urban solutions provider, driven by its purpose to do good and play its part in building a sustainable future. By focusing on growing its renewables and integrated urban solutions businesses, it aims to transform its portfolio towards a greener future and be a leading provider of sustainable solutions. SCI has a balanced energy portfolio of over 12,800MW, with more than 3,300MW of renewable energy capacity comprising solar, wind, and energy storage globally. SCI is a component stock of the Straits Times Index, as well as sustainability indices that include the FTSE4Good Index and iEdge SG ESG indices.

- SCI has set its vision to be a leading provider of sustainable solutions, supporting development and creating value for its stakeholders and communities. Its purpose is driven by aligning with – and contributing to – the United Nations' Sustainable Development Goals or SDGs, participating in low carbon and circular economies, and managing ESG risks and opportunities embedded within strategies, governance, and incentives.

- SCI has identified the growing trends towards decarbonisation, electrification, and urbanisation as an opportunity to not only advance its sustainability initiatives, but also incorporate them into the company's renewed business strategy. SCI plans to transform its portfolio from brown to green as it looks to grow the percentage share of net profits from sustainable solutions to 70% in 2025 from 40% in 2020.

- To transform its business from brown to green, SCI plans to take following actions: i) Quadruple its grow renewables installed capacity of 2.6GW to 10GW by 2025 through organic growth and selective M&A or partnerships, ii) reduce its greenhouse gas emission (GHG) intensity by 25% by committing to halve GHG emissions by 2030 from the 2010 baseline of 5.4m tCO2e and deliver net zero emissions by 2050, and iii) triple its land sales in the urban business to 500ha by 2025 while offering synergistic platforms for sustainable growth.

- SCI expects profits for its renewables business to grow at a CAGR of 30% while its integrated urban solutions business is likely to grow at a CAGR of 10% during 2020-2025.

- As a commitment towards climate action, SCI will not make any new investments in coal-fired energy assets and could even consider divesting some of its fossil fuel-fired energy assets, if deemed necessary to meet its emissions-reduction target. SCI plans to invest SGD5.5bn towards sustainable solutions and has also identified the need to focus on new and green sources of capital to fund its transition from brown to green solutions. The company recently launched its inaugural SGD400m green bond offering in June, and was the first certified green bond under the Climate Bond Standards by a Singapore-based energy company.

Arwana Citramulia (ARNA IJ, BUY, TP: IDR1,050)

Panellist: Rudy Sujanto, CFO

- Arwana Citramulia's ESG initiatives are in line with its sustainable production efficiency improvements. Its meticulous measures to reduce energy usage and defective products have become key factors to its successes – healthy margins and strong balance sheet. The company also has, on numerous occasions over the last nine years, been named one of Indonesia's best green firms.

- ARNA's strategy has successfully trimmed production costs due to lower gas consumption per sqm of ceramic produced. In 2015, the ratio was 1.96 normal cu m (Nm3)/sq m (IDR3,200/sq m). Last year, it maximised its usage to 1.55Nm^3/sq m. It also reduced the product defect rate of total production to 1.3% in 2020 from 4.5% in 2015. In addition, 63.5% of the defect output was recycled to produce other items, while the rest was given to local craftsmen – as part of its CSR programme – to be processed as mosaic tiles.

- ARNA's facilities (Plants I-V) are designed with c.36% of green spaces on average, solar panel-equipped, and the utilisation of natural lighting during daytime production hours. This has been fruitful, evidenced by its lower energy usage – Plant I's energy usage fell 5.2% and 5% YoY in 2019 and 2020 to 1,055Kcal/kg. Total CO2 emissions were also down to 0.0043 tonnes CO2/sq m (-4% YoY) – much lower than the maximum limit of 0.46 tonnes CO2/sq m.

- ARNA is committed to upgrading the technology installed at its factories – each having its own water recycling system for the production process and sanitary use. Production waste water is channelled into a reservoir, which is then reused for other production processes, reflecting a zero waste water policy. The company also installed a heat recovery system at its plants, whereby heat produced by machinery is redirected into the pre-heating phase to reduce gas consumption.

- Even without support from ASP movements, ARNA's rapid increase in production (FY15-20 CAGR of 9% to 68.7m sq m), combined with its cost-savings programmes that adhere to sustainability principles, have made its overall margins expand healthily – 1Q21 GPM was 35% vs the 10-year average of c.28% while NPM was 18% vs c.11%. The energy-preservation programme has also boosted ARNA's liquidity. About IDR132bn in costs have been saved during FY15-20 vs its net cash of IDR552bn as of 1Q21.

ComfortDelGro (CD SP, BUY, TP: SGD2.00)

Presenter: Jackson Chia, Group Chief Risk & Sustainability Officer

- ComfortDelGro is a leading global provider of land mobility services, with operations in various geographies, including Singapore, Australia, the UK, and China. Key businesses include public bus and rail services, taxis, private and charter bus services, car rentals, driving schools, automotive engineering, and inspection & testing services.

- CD's sustainability journey began 14 years ago with the introduction of the group's Green Statement. In 2016, CD was one of the earliest firms to publish a sustainability report before it was made mandatory for SGX-listed companies in 2017. However, its real concerted effort towards building a sustainability strategy began in 2018 when it set up a group-level sustainability office with a focus towards driving the ESG agenda.

- CD's global sustainability strategy focuses on three key areas: i) enabling an energy-efficient transport system, ii) enhancing the safety and well-being of the community and its people, and iii) engraining a culture of innovation and strong governance. It has mapped its sustainability framework to 10 of the 17 United Nations Sustainable Development Goals.

- At group level, CD has identified the following initiatives, especially in the environmental domain, to enhance its efforts towards a sustainable business model: i) Commit to the Science-Based Target Initiative (SBTi) – an international project to limit global warming to less than 2°C of pre-industrial levels – that requires the group to reduce greenhouse gas emissions (GHG) by 50% from 2015 levels by 2030 and ready CD for Net Zero GHG emissions by 2050, ii) start work on Taskforce on Climate Change Financial Disclosures or TCFD, iii) level up knowledge on Carbon Offsets and Renewable Energy Certificates, and iv) integrate sustainability considerations into its business strategies.

- In order to work towards SBTi, CD is looking to transition to a greener operating fleet and working with various stakeholders like electric vehicle-charging infrastructure providers and regulators to speed up the process. It also plans to expand solar panels installation at bus/train depots and interchanges with an aim to increase the capacity from 2MWp to about 9MWp. CD is looking to improve fuel efficiency through the adoption of eco-driving habits and better network planning to reduce dead mileage. Especially for its rail business, where most of its operations are underground, it plans to reduce energy use through air-conditioning optimisation and improving chiller plant efficiency.

- In 2019-2020, the group took the following steps to progress further in its sustainability journey: i) Introduced a cloud-based sustainability software across the group that will capture and harmonise ESG data fields, ii) introduced hybrid taxis and buses and implemented solar photovoltaic and energy-efficient solutions to reduce GHG intensity, iii) participated in ESG rating exercises, iv) participated in the Central Depository or CDP's Assessing Low Carbon Transition transportation study, and v) undertook sustainability workshops for its board and workplace practitioners.

- CD is already operating hybrid vehicles across its land transport operations in Singapore, Australia, UK, and China. It has been testing fully electric taxis in Singapore since 2019 and recently launched a hydrogen bus service in London.

- CD plans to eventually integrate sustainability in its businesses and growth strategies as it looks towards exploring other green verticals in which it can expand, and build a compelling ESG narrative and proposition when it submits applications for future tenders. It will also take the ESG evaluation criterion into consideration for all future inorganic growth opportunities.

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