



From left: Gisbert, Yee, *The Edge*'s ESG pullout editor Tan Zhai Yun, Ho, Fung and Muhamad Umar

The Edge to roll out Malaysia's first ESG awards

BY TAN ZHAI YUN

The momentum to adopt environmental, social and governance (ESG) criteria and sustainability practices in the capital market has picked up significantly in the past few years. By the third quarter of 2021, assets in global sustainable funds hit a record high, according to investment research firm Morningstar.

At the same time, more than 70 countries — including the biggest polluters — have set a net-zero target and over 1,200 companies have put in place science-based targets to reach net-zero emissions, according to the United Nations.

In Malaysia, at least 44 out of the 54 Sustainable and Responsible Investment (SRI) funds approved by Securities Commission Malaysia were launched in the last two years. As at December 2021, 94% of the top 50 listed companies in Malaysia had ESG strategies and 68% had emissions reduction policies, according to PwC's research.

But the journey of ESG adoption is not easy. There is a huge demand for talent who can help companies carry out sustainability reporting according to the latest standards, measure greenhouse gas emissions and introduce effective social and governance policies.

The price of not doing ESG well could be the loss of key customers, markets or investors. A few Malaysian companies have already faced these consequences due to alleged mistreatment of workers and governance failure.

To recognise the importance of ESG and the effort that local industry players have put into this area, *The Edge* Malaysia is collaborating with Bursa Malaysia Bhd and FTSE Russell to launch the *The Edge* ESG Awards. The Awards will acknowledge public-listed companies (PLCs) and asset management firms that are ESG leaders in Malaysia.

"We're introducing *The Edge* ESG Awards now because adopting ESG principles has become an imperative for businesses today. If businesses ignore ESG, they risk getting shut out of supply chains or being divested by major investors, among other things," says Datuk Ho Kay Tat, publisher and group CEO of *The Edge* Media Group. "By acknowledging and rewarding those who are leading the pack in adopting ESG, we can encourage Malaysian businesses to do better and learn from each other."

Morningstar is the knowledge partner of the Awards funds category, while Deloitte is the auditor. The main partner of *The Edge* ESG Awards is UOB Malaysia.

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Morningstar, Deloitte and UOB Malaysia for collaborating with us on *The Edge* ESG Awards," says Ho.

The Awards are important to promote ESG adoption among Malaysian companies and recognise their successes, says Datuk Muhamad Umar Swift, CEO of Bursa Malaysia. It could also become the catalyst for, and establish thought leadership, on ESG issues for industry leaders and professionals in the ecosystem.

"The growing ESG momentum in the international marketplace is an opportunity for businesses to shift their focus away from being only profit-centric. Corporates must start pivoting towards long-term value creation, as this will facilitate a resilient and sustainable business future for all stakeholders," says Muhamad Umar.

New regulations and sustainability guidelines are being introduced as more Asian markets become aware of the importance of ESG. At the same time, investors are starting to realise that companies that pay attention to ESG factors are more likely to perform better in the long term, Muhamad Umar adds.

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Fung

REWARDING PLCs THAT HAVE THE BEST ESG SCORES

Over 300 Malaysian PLCs that are in the FTSE Bursa Malaysia Emas Index universe and have a FTSE4Good ESG rating are in the running for the ESG Awards. Manufacturers of weapons, coal and tobacco are excluded. PLCs flagged for controversies will not be eligible as well.

The FTSE4Good ESG ratings model looks at 14 themes, which are underpinned by 300 indicators. An exposure level of high, medium, low or negligible to each theme is applied to the business, depending on which sector it is in.

PLCs are then assessed using the relevant indicators to see how well they are mitigating their ESG risks. FTSE Russell carries out the assessment based on the PLC's publicly-disclosed information.

The FTSE4Good index is helpful for companies to understand their current ESG performance and areas that they can focus on in the future, says Fung. "Companies included in FTSE's ESG scoring process are able to access and review our ESG methodology and relevant data points, and understand the information that investors look for to know how [the company's] ESG risks are being addressed."

The ESG index and underlying data is traditionally used by capital market players to craft their ESG investment strategies. It is now also being used by banks to structure their sustainability-linked financial product offerings, according to Bursa Malaysia.

ACKNOWLEDGING THE BEST ESG FUNDS

Only the SRI funds qualified by the Securities Commission Malaysia are eligible for the funds category. This means up to 53 funds are competing for the awards, according to the latest list dated April 22, 2022.

From this universe, only the funds that receive the Morningstar Sustainability Rating of three or more "globes" are eligible for the Awards.

The Morningstar Sustainability Rating aims to help investors evaluate the relative ESG risks within portfolios. The higher the number of "globes", the lower ESG risk the fund has. The ratings are determined using bottom-up assessments of the underlying holdings within a fund, underpinned by Morningstar Sustainability's methodologies for assessing corporate and sovereign ESG risk.

"Morningstar will provide our proprietary ESG data and research for funds, such as the Morningstar Sustainability Rating, Low Carbon Designation and Impact Metrics to be used as the basis for The Edge to determine the Awards winners," says Gisbert.

Compared to other regions, the development of ESG funds in Asia is nascent. According to Morningstar's data as at the first quarter of 2022, sustainable fund flows in Asia ex-Japan lag behind Europe and the US.

"However, we see great opportunities for growth in Asia, with more launches and growing assets for sustainable funds. The push for greater awareness on sustainable investments from regulators, the asset and wealth management industry, associations and media should also help engage Malaysian investors on sustainability," says Gisbert.

Agala dinner will be held in the fourth quarter to honour the winners. ■

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Bursa Malaysia and FTSE Russell, which is a subsidiary of the London Stock Exchange Group, launched the FTSE4Good Bursa Malaysia Index in 2014. From the original 24 companies at inception, there are now 87 that qualify for the index, demonstrating the growing adoption of ESG among Malaysian PLCs.

"Malaysian companies are very advanced in disclosure on certain issues, such as corporate governance. They are adapted to engaging with international investors and have strong connections with local institutions. From this perspective, many Malaysian companies have integrated advanced ESG practices into their business strategies," says Helena Fung, head of sustainable investment APAC at the London Stock Exchange Group.

"At the same time, ESG issues are both dynamic and evolving, and it is important for companies in Malaysia and elsewhere to continue enhancing their practices, particularly on environmental issues such as climate change."

Meanwhile, Morningstar is an investment research firm whose data is widely used by investors, asset managers and financial advisers. The company will be providing its unique set of data and analytics on ESG for the funds award category.

"As a global industry leader of ESG research, Morningstar is very pleased to be the knowledge partner of The Edge ESG Awards for the funds category. We believe that these Awards will bring more transparency on sustainable investments and help investors identify funds that align with their ESG preferences, which is in line with Morningstar's mission to empower investors," says Nicolas Gisbert, Morningstar head of strategic partnerships, Asia.

Yee Wing Ping, CEO of Deloitte Malaysia, finds the Awards timely to acknowledge the movers and shakers of the industry who are pursuing their ESG goals.

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social issues are some of the biggest threats looming over our current way of life. Based on Deloitte's Global Turning Point report in May, unchecked climate change could cost the global economy US\$178 trillion in net present value terms from 2021 to 2070. On the other hand, making a move to rapidly achieve net-zero emissions could increase the size of the world economy by US\$43 trillion in the same period," says Yee.

"In my view, we must look at addressing ESG issues not just as a threat but an opportunity as well. Businesses are best placed to move the needle by fostering innovations and collaborations to advance the ESG agenda."

By acknowledging the ESG industry leaders in the fund and equity universe in Malaysia, it is hoped that more industry players will join in the trend. After all, going for ESG can bring financial benefits to businesses.

The FTSE4Good Bursa Malaysia Index, for instance, outperformed the FBM Emas Index by 3.2 percentage points in the first five months of 2022 and 0.7 percentage points in 2021, according to a CGS-CIMB Research report in June. According to Morningstar, all of its Asia-focused sustainability indexes outperformed or lost less than their non-ESG equivalents during down markets from 2017 to 2021.

"We identify with FTSE4Good's focus to increase the profile of companies with leading ESG practices and we hope the Awards will help to drive this objective by giving due recognition to the deserving corporates. It also highlights the fact that sustainability does not necessarily come at the expense of profitability. In fact, it can be an impetus for future growth and help bolster the companies' branding and credibility," says Ng Wei Wei, CEO of UOB Malaysia.

UOB hopes to encourage greater adoption of ESG practices among Malaysian corporates as well, Ng adds.

"Our participation in The Edge ESG Awards reinforces our commitment to ESG. In Malaysia, our reliance on natural resources means that our forests, coastal areas, water and biodiversity are even more vulnerable to the effects of climate change. We believe that our pursuit of economic growth must be balanced with sustainable and responsible actions."



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