Suruhanjaya Sekuriti
Securities Commission
Malaysia

GUIDANCE NOTE ON MANAGING ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS FOR FUND MANAGEMENT COMPANIES

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PART I – INTRODUCTION

Chapter 1
Background and purpose

1.00 The Securities Commission Malaysia (SC) has set out requirements under the *Guidelines on Compliance Function for Fund Management Companies* for a fund management company (FMC) to have a risk management framework that, among others, includes managing and monitoring risks assumed by the FMC on behalf of its clients and mitigation actions to address such risks.

1.01 Environmental, Social and Governance (ESG) risks are increasingly recognised as sources of financial risk which, if materialised, could cause actual or potential negative impact on the value of investments and/or returns. This has resulted in increased expectation for the FMC to manage ESG risks in their investment portfolios.

1.02 The purpose of the *Guidance Note on Managing ESG Risks for Fund Management Companies* (Guidance Note) is to assist the FMC in establishing a responsible investment[1] framework by providing clarity and setting out the SC's expectations on the development and implementation of practices, policies and procedures towards effective analysis and management of material ESG risks and risk-related considerations that are present in the FMC's investment portfolios, as well as facilitate meaningful disclosures to investors while driving positive impact and change.

1.03 ESG-themed investments are still considered nascent in Malaysia given challenges such as limited investment universe, general lack of awareness or appreciation among both the investor community and investee companies' Board of Directors and senior management, the extent as well as quality of ESG reporting by investee companies particularly in addressing the need for consistent, comparable, and reliable information to facilitate meaningful ESG investing. Given the FMC's position as the intermediary between investors and investee companies, the FMC stands to play a critical role in changing the sustainability-themed investments landscape by influencing investee companies towards greater adoption of good sustainable practices and reporting, whilst fulfilling investors' expectation for more sustainable investments.

1.04 To effectively manage ESG risks in investment portfolios and to have impact on the investee companies, the FMC should have an investment framework that incorporates responsible investing approaches, i.e. explicitly acknowledging the ESG factors in investment processes and decision making and active ownership. The responsible investment framework should be integrated in the FMC's existing investment and risk management processes as well as governance structure.

[1] Responsible investment is defined as a strategy and practice to incorporate ESG factors in investment decisions and active ownership as stated in the United Nations Principles for Responsible Investment.

1.05 This Guidance Note was developed in reference to multiple sustainability-related frameworks and reports that have been issued by various organisations globally. The SC has also conducted questionnaire-based reviews and engagements with a number of FMCs and identified some practices for reference. These practices are for illustrative purposes only and are not intended to be exhaustive.

1.06 This Guidance Note is applicable to FMC licensed by the SC for fund management in relation to portfolio management pursuant to paragraph 2.05 of the *Licensing Handbook* where the FMC have discretion over the investment management process and decision.

1.07 The FMC is expected to use its best endeavor to adopt this Guidance Note to the extent that it commensurate with their respective business operations and activities as well as ESG risk profiles. Furthermore, the FMC is encouraged to undertake various initiatives and demonstrate progress as well as outcomes in managing ESG risks in accordance with the practices set out in the Guidance Note.

1.08 This Guidance Note should be read together with the relevant laws and regulations, and guidelines issued by the SC.

PART II – MANAGING ESG RISKS FOR FUND MANAGEMENT COMPANIES

Chapter 2
Governance and strategy

2.01 The FMC should consider ESG risks in business, investment and risk management strategies and be responsible for ensuring its communication and implementation within the organisation, as well as institutionalising them through established process structures.

2.02 If the FMC has voluntarily agreed to abide by or implement internationally-recognised sustainability related standards and/or recommendations, this should be disclosed and reflected in its responsible investment framework.

Role of the Board of Directors (Board)

2.03 The Board has the overall responsibility to oversee the business and affairs of the FMC and should include, among others that it:-

a) plays an active role in guiding the FMC towards developing and adopting a systematic and effective responsible investment framework to manage ESG risks and its integration into the FMC's investment process and risk management framework including approving the relevant policies and procedures;

b) governs and sets strategic direction for the responsible investment framework which includes approving the FMC's responsible investment objectives, governance structure, risk tolerance, business plan, strategies, targets, and timeline, as well as oversees and evaluates the implementation, progress, and impact. In relation to the FMC's governance structure, such governance structure should include having in place a review of internal controls to validate its adequacy and effectiveness in managing ESG risks;

Practice 1: Defining responsible investment objective
FMC A developed a 3-year action plan to strengthen its responsible investment approach. The FMC's ambitions include bringing ESG-investing into the mainstream, foster innovation and advise investors, for which targets are set. For example, to bring ESG-investing into the mainstream, the FMC strives to implement 100% ESG analysis and integration on its investing and voting activities.

c) sets clear roles and responsibilities for the Board and senior management, including determining and requiring regular reporting and updates by senior management about the FMC's ESG risk management and developments;

d) ensures allocation and investments of adequate and competent resources (including talent pool) to enable proper and effective discharge of roles and responsibilities including by the senior management in implementing processes, systems, and controls to manage and support the long-term strategy in undertaking responsible investment and managing ESG risks; and

e) ensures that the remuneration and incentives structure promotes and cultivates the achievement of the FMC's responsible investment objectives, targets and performance.

Practice 2: Establishing a dedicated committee with clear roles and responsibilities to manage ESG risks
FMC B established a Responsible Investing Committee (RI Committee) charter which outlined key roles and responsibilities of the RI Committee. For example, the RI Committee is responsible for ensuring that: a) a responsible investment framework including the policies and procedures relating to responsible investment are in place and regularly reviewed; b) a sound ESG risk management process is in place; c) the FMC's internal audit function conducts regular review on its responsible investment activities and processes; d) its investment activities are in compliance with its responsible investment policy; and e) trainings for employees on ESG issues are conducted on a regular basis.

Role of senior management

2.04 The senior management should:-

a) be responsible for the development and implementation of comprehensive and adequate responsible investment framework, business strategies, risk management policies, tools, metrics, policies and processes and internal controls in respect of the management of ESG risks as approved by the Board;

b) assign roles and responsibilities and allocate adequate resources with appropriate expertise to manage ESG risks in the FMC's activities including appropriate capacity building for all staff, analytical tools and technology as well as procuring external or third-party resources when needed;

c) provide prompt updates and recommendations to the Board on the effectiveness of the framework, strategies, tools, metrics, policies and progress in managing ESG risks as well as relevant internal and external information and developments on ESG risks and other related matters to facilitate robust Board discussions; and

d) maintain oversight of the FMC's disclosures by ensuring that the description of information disclosed through public commitments and investor communication accurately reflects the level and/or extent of the FMC's consideration of ESG risks in its processes.

Practice 3: Incorporating ESG across investment process

Analysts and fund managers at FMC C incorporated ESG factors at all stages of the investment process and this is overseen by a dedicated committee appointed by the Board to manage ESG risks.

Resources and capacity building

2.05 To remain effective in their roles and ensure well-informed decision making, the Board and senior management should:

a) have adequate understanding of ESG risks that are affecting the FMC's investment objectives and strategies and risk management framework; and
b) undertake appropriate training in relation to ESG issues and keep themselves abreast of the development relevant to this area.

2.06 FMC should provide appropriate ESG-related training or capacity building programs to equip its staff with relevant skills and knowledge to identify and manage ESG risks as well as keep abreast of ESG issues and pertinent developments related to sustainable and responsible investment.

Practice 4: Training and capacity building

FMC D created a specific ESG training programme in its e-learning platform which was available to all staff. The FMC has at least one ESG champion in each investment team. The ESG champions have monthly global calls to share latest developments on sustainability. All ESG champions has to undertake at least one ESG qualification.

Chapter 3
Investment process

ESG consideration and investment decision

3.01 The FMC should ensure that its policies and procedures for investment management processes include identifying all relevant and material ESG risks that could affect the valuation and/or returns of its investment portfolios across all asset classes.

3.02 The FMC should incorporate relevant ESG factors in its research, investment analysis methodologies and investment selection and decision process at securities level and on portfolio basis.

3.03 In implementing paragraph 3.02 above, FMC may be guided by or use ESG incorporation approaches[2] as follows:

Integration	Screening[3]	Thematic
Explicitly and systematically including ESG factors in investment analysis and decision, to better manage risks and/or improve returns.	Applying filters to list of potential investments to rule companies in or out of contention for investment, based on an investor's preferences.	Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. This may also include impact investing.

Practice 5: Adoption of exclusion list

FMC E adopted a combination of integration, screening and thematic approaches. For screening, the FMC adopted the following exclusion policy for all its investment portfolios.

Screening	**Industries**
Full exclusion	Tobacco, controversial weapons, asbestos
Conditional exclusion	Palm oil, coal, nuclear power generation, agriculture, mining (non-exhaustive list)

For the conditional exclusion, the FMC set industry-specific criteria and parameters for the company to be included for consideration.

3.04 The FMC should identify and assess the ESG risks of an investment based on their relevance and materiality to the economic sector of the investment.

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[2] ESG incorporation approaches as described by the UN Principles for Responsible Investment.

[3] Screening methodologies such as positive or negative lists or exclusion criteria.

3.05 The FMC should understand and incorporate ESG preferences of its clients and/or beneficiaries when selecting any of the ESG incorporation approaches and making investment decisions and be mindful of any limits set by them.

Practice 6: Developing internal ESG scoring methodology
FMC F has an in-house ESG team that developed ESG scores for securities using its proprietary ESG scoring methodology. ESG factors were assessed and assigned weightages based on the relevance and materiality of each factor to the securities. The proprietary ESG scoring methodology combines quantitative analysis using third party ESG data and qualitative analysis via internal research and engagements carried out by the FMC with the respective investee companies. The ESG scores of the securities were used as guidance during the investment selection and analysis process. An overall portfolio ESG score was also formed by aggregating the ESG scores of the securities in the portfolio.

3.06 The FMC should evaluate the potential impact of the ESG risks using appropriate data, tools and metrics in considering the relevance and materiality of the ESG risks to the investment.

3.07 The FMC may consider using ESG data provided by any credible third-party providers and/or use in-house ESG research data in supporting its ESG risk identification and assessment methodology. The ESG risk identification and assessment methodology may also be supported with information gathered from engagements with the investee companies.

Practice 7: Adjustment to third party data
FMC G has developed an ESG screening methodology based on the ESG score extracted from an external ESG research house. The ESG score from the external research house ranged from AAA (Best ESG practice) to CCC (worst ESG practice). As the ESG score was constructed based on the global ESG benchmark and subject to global data availability, the FMC made qualitative adjustments to the ESG scores following engagements with the investee companies. An example of adjustment performed is as below: Security Type : Equity listed in local main market Industry : Palm Oil Security Name : Share-X External ESG research house score : BB (Below Average ESG practice) The external ESG research house rated Share-X as BB (Below Average ESG Practice) due to the investee company's delay on no-deforestation commitments. The external ESG research house also highlighted that the investee company is behind its peers in its RSPO certification of which the issuer's group palm oil mills is less than 40% RSPO certified. However, the FMC has been actively engaging with the investee company and has identified that contrary to the external ESG research house

Practice 7: Adjustment to third party data
assessment, the number of RSPO certified palm oil mills was at 93%. In addition, there was also no deforestation activity that took place in any of the estates belonging to the investee company. Following this, the FMC adjusted the overall ESG score of Share-X to reflect the actual ESG practice undertaken by the investee company which was assessed from the FMC's engagement with the investee company.

3.08 The FMC should ensure that the assessment of ESG risks in making an investment decision is adequately documented.

3.09 Where the ESG risks are deemed to be immaterial or irrelevant due to the nature of the fund's investment strategy, time horizon of the investment or any other reasons, the FMC should provide adequate justification and ensure that it is documented.

Practice 8: ESG assessment in private equity investment
FMC H, which manages private equities, considered ESG factors throughout the investment period in the investee company, done in three (3) stages i.e. pre-investment, investment period up to exit and exit readiness. <u>At "pre-investment" stage</u> The FMC carried out ESG screening and risk categorisation on potential investments, whereby: a) Research was done on potential investee companies based on potential ESG risks the companies posed. b) An in-house ESG team and/or external ESG consultants then assessed the ESG risks and opportunities for value creation for each investee company and conducted due diligence on the integrity of the potential investee companies. The findings of the assessment and due diligence were summarised and material ESG issues were discussed by the FMC's Investment Committee. c) For selected investee companies, the FMC collaborated with the management of the companies to develop ESG action plans based on areas of improvement needed or opportunities for value creation. <u>At "investment period up to exit" stage</u> a) An in-house ESG team carried out ESG orientation session with the selected investee companies' management team to discuss the ESG action plans, as well as engaged and supported the management in implementation. b) The FMC monitored and reported ESG performance of the investee companies to its Investment Committee on periodic basis; and c) The FMC obtained assurance from the investee companies via annual signed declaration of Compliance against the FMC's Code of Conduct and ESG Business Principle, and a signed representation letter indicating the accuracy of the financial results. <u>At "Exit Readiness" stage</u> The FMC's in-house ESG team conducted ESG compliance due diligence to ensure all ESG issues and action plans have been addressed and determined the readiness for exit.

Chapter 4
Investment risk management

ESG risk monitoring

4.01 ESG risks deemed material by the FMC should be monitored, assessed and managed on a continuous basis to ensure appropriate risk management strategies[4] are undertaken to protect the investor's interest.

4.02 The FMC should have in place appropriate policies, procedures and systems to monitor and evaluate material ESG risks of its investment portfolio, including clearly defining the tasks, responsibilities and timelines for managing the ESG risks. These methods and procedures should be reviewed regularly.

4.03 The FMC should incorporate adequate risk management of the identified material ESG risks that are present at securities level and on portfolio basis and ensure consistency with any disclosed sustainable investment objective on an on-going basis.

4.04 The FMC should establish integrated monitoring and reporting process to apprise senior management and Board on material impact of ESG risks to facilitate oversight and decision making to ensure adequate risk management strategies are undertaken on a timely basis to protect the value of the investment portfolio.

4.05 The FMC should periodically reassess the identification methodology of material ESG risks which are relevant to the investment portfolio and develop a holistic view on the overall factors impacting any of their existing portfolios. These periodic assessments should take into consideration events[5] that could adversely affect an investment portfolio's risk and return profile.

4.06 Where possible, findings of ESG risk monitoring and evaluation exercise should be communicated to relevant stakeholders[6].

4.07 When assessing the materiality of the ESG risks above, the FMC should adopt an approach that is appropriate and reasonable which can include a quantitative approach, qualitative approach or a combination of both. The approach should be reviewed regularly including the quality of the data and information relied upon.

4.08 The periodic assessment, monitoring and management of ESG risks are to be adequately documented.

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[4] Strategies can include but are not limited to communicating with investee companies to enhance its responsible investment practices (reduce risk), hedging (transfer risk) or outright disposal (avoid risk).

[5] Events such as introduction of carbon tax on non-renewables or allegations of labor mishandling for a manufacturing entity.

[6] Such as the investors of a unit trust fund, asset owners and investee companies.

Practices 9: Monitoring of material ESG risks in an investment portfolio
FMC I requires its investee companies to update their sustainability practices on a quarterly basis via a questionnaire such as wastewater management and rainwater harvesting. This questionnaire will be assessed by a dedicated resource team to track the progress and obtain further information if required. FMC J utilises a third party service provider to measure the total carbon footprint of its investment portfolio and compares it against a benchmark. As part of its continuous portfolio monitoring, FMC J tracks the growth or decline of the investment portfolio's carbon footprint vs. the benchmark and periodically communicates the findings to its investee companies during engagement sessions. FMC K monitors its investment portfolio periodically in accordance with internal scoring methodologies and if an investee company's rating drops below a minimum threshold, it will be alerted for an ad-hoc engagement session. To maintain the investment, the investment team must present its justifications in a challenge session between peers, which will then be presented to the Investment Committee.

Scenario analysis

4.09 Scenario analysis is a forward-looking tool to assess the resilience of investment portfolios to possible adverse situations, which the FMC is advised to employ to better manage its investment risks. The FMC should ensure that it relies on sufficient and reliable data towards ensuring reasonableness of results when employing scenario analysis.

4.10 Where environmental risk in the investment portfolio is deemed material, the FMC should develop capabilities to perform scenario analysis to gauge the potential impact of the risk under stressed conditions. This should include quantifying where possible, effects of both physical and transition risks to the investment portfolio's value, premised on alternative scenarios with different combinations of assumptions as defined by the FMC taking into consideration its investment portfolio's risk profile.

4.11 The scenario analysis should include relevant time horizon[7] such as short, medium and long-term time period using appropriate and adequately reviewed scenario assumptions such as incorporating forward-looking information to complement historical data.

4.12 The FMC should ensure that the scenario analysis is adequately documented and should contain at least, the following information:

a) Choice of scenarios;

b) Material assumptions made[8];

[7] The time horizon should commensurate with the type and tenure of investment.

[8] Assumptions such as carbon footprint trajectories or share of GHG emissions by the investee companies business units.

c) Assessment of scenario results;
d) Assessment of requirement to take appropriate action; and
e) Actions taken on identified risks.

4.13 The FMC may use the result of the scenario analysis in re-evaluating and adjusting its investment strategies and decisions.

Illustration: Assessment of Physical and Transition Risk at securities level

Company A is a local listed entity involved in the generation and distribution of power with physical power plants and distribution centres across the country.

At present, its energy generation mix consists of 80% non-renewables and 20% renewables with 50% of the non-renewables mix being coal. The remainder 50% are other non-renewables such as natural gas and oil.

As part of its Sustainability Reporting, Company A stated that it has ceased constructing and commissioning new coal-based plants and is moving to more efficient gas-based plants. By 2050, it is projected that the non-renewables energy mix will be contributed entirely by non-coal-based plants.

Energy Generation Mix/Year	**2020**	**2030**	**2040**	**2050**
Renewables	20%	30%	40%	50%
Non Renewables, consisting of:	80%	70%	60%	50%
Coal	*50%*	*30%*	*10%*	*0%*
Non Coal	*50%*	*70%*	*90%*	*100%*

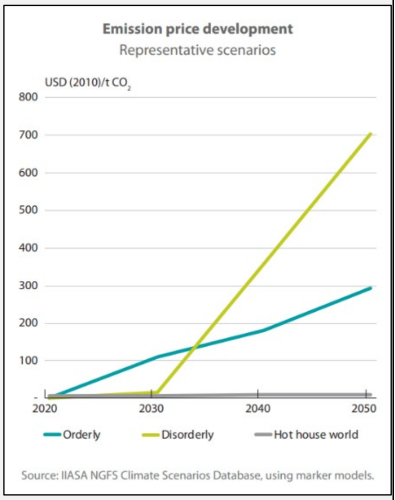
As at 2020, Company A's Scope 1 and Scope 2 emissions[9] stood at 35 and 0.2 million tonnes of CO2 equivalent (CO2e), based on its Sustainability Report.

GHG Emissions or Year ***(in mill T of CO2e)***	**2020**	**2030**	**2040**	**2050**
Scope 1	35	30	25	20
Scope 2	0.2	0.4	0.6	0.8

[9] Source: https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance

Illustration: Assessment of Physical and Transition Risk at securities level

Transition Risk – 2040 Carbon Tax Scenario



Drawing from the Network for Greening the Financial System Disorderly Scenario (Disorderly Scenario) where governments impose emission prices i.e. carbon tax on industries with heavy emission of greenhouse gases, FMC could extrapolate and stress test the impact of the carbon tax on Company A's financials.

From the Disorderly Scenario, emission prices are expected to be at ~US$350 for every tonne of CO2 being produced during the year 2040. For Company A, 10% of its Energy Generation Mix in 2040 is sourced from coal-based plants. With the assumption[10] that the 10% contributes to 10% of total Scope 1 emissions (10% of 25 million tonnes of CO2e) and that the carbon tax imposed is only on coal-based plants at US$350 or RM1,400[11] per tonne of CO2e), a total of an additional RM3.5 billion is expected to be incurred by Company A in its energy generation business.

Given its unique position, costs incurred by Company A in generating energy are allowed to be passed to the consumer via a Cost Pass-Through framework. Assuming that this increase in operating costs is passed at a 50% rate, the net effect to Company A's financials is RM1.75 billion per annum.

Physical Risk – Coastal Erosion Scenario

From the National Coastal Erosion Study conducted by the Ministry of Environment and Water, it was projected that 288km of coastal line is in danger of immediate collapse (Category 1).

State	Distance	Eroded Coastal (Categerised as follows)						Total Of Distance/Eroded Coastals		
		Category 1		Category 2		Category 3				
	(KM)	(KM)	Unit	(KM)	Unit	(KM)	Unit	(KM)	Unit	(%)
Perlis	20	4.4	3	3.7	1	6.4	4	14.5	8	72.5
Kedah	148	31.4	16	2.2	1	9.9	3	43.5	20	29.4
Pulau Pinang	152	42.4	9	19.7	5	1.1	1	63.2	15	41.6
Perak	230	28.3	4	18.8	2	93.1	4	140.2	10	61.0
Selangor	213	63.5	10	22.3	7	66.1	3	151.9	20	71.3
N. Sembilan	58	3.9	2	7.7	4	12.9	1	24.5	7	42.2
Melaka	73	15.6	5	15.1	2	6	2	36.7	9	50.3
Johor	492	28.9	9	50.3	9	155.6	11	234.8	29	47.7
Pahang	271	12.4	11	5.2	3	107.8	8	125.4	22	46.3
Terengganu	244	20	6	10	6	122.4	10	152.4	22	62.5
Kelantan	71	5	3	9.5	3	37.6	5	52.1	11	73.4
W.P Labuan	59	2.5	2	3	2	25.1	2	30.6	6	51.9
Sarawak	1035	17.3	8	22.3	10	9.6	7	49.2	25	4.8
Sabah	1743	12.8	5	3.5	2	279.2	12	295.5	19	17.0
Total	**4809**	**288**	**93**	**193**	**57**	**933**	**73**	**1414.5**	**223**	**29.41**

[10] These assumptions are expected to be adequately documented and periodically assessed. As an alternative, the FMC could request GHG emissions data by Company A's Energy Generation Mix type for a more accurate estimation of coal-based plants' contribution to its total GHG emission.

[11] Conversion rate of 4:1.

Illustration: Assessment of Physical and Transition Risk at securities level

Source: National Coastal Erosion Study 1986.
Category 1: Shorelines currently in a state of erosion and where shore-based facilities or infrastructure are in immediate danger collapse or damage.

Category 2: Shoreline eroding at a rate whereby public property and agriculture land of value will become threatened within 5 to 10 years unless remedial action is taken;

Category 3: Undeveloped shoreline experiencing erosion but with no or minor consequent economic loss if left unchecked.

Units denote number of Observation Sites surveyed

To assess and size the physical risk due to coastal erosion, physical asset level data of Company A could be used to extrapolate potential financial loss.

As a start, FMC could request geographical data of Company A's power plants via engagement sessions that are at Category 1 locations and stress test the financials ex-contribution of these vulnerable power plants.

As part of the assessment, mitigating factors such as activation of business continuity measures (i.e. activation alternative sites, usage of gensets) could be assumed to reduce the potential impact of financial loss to Company A.

Chapter 5
Stewardship

5.01 The FMC should have a clear stewardship[12] (including engagement and voting) policy which outlines its responsible investment practices.

Practice 10: Establishment of a stewardship policy
FMC L established a stewardship policy which describes among others, but not limited to the following: a) Criteria for selection of companies for engagements; b) Methodology used to engage with its selected investee companies e.g. direct engagement with the company, company dialogues, issuance of a due diligence questionnaire etc.; c) Monitoring of financial and ESG performance and risk; and d) Governance and reporting of its stewardship activities. Separately, the FMC also established a voting policy that outlines the FMC's voting principles, proxy voting approach, voting scope, engagements linked to its voting activity as well as management of potential conflicts of interest.

5.02 The FMC should monitor investee companies to fulfill its stewardship responsibilities in driving the companies' transition towards sustainable growth and business practices.

5.03 The FMC should engage with investee companies on material ESG issues[13] that may have potential impact on the companies' goodwill, reputation and/or performance with the objectives of, amongst others, influencing their behavior towards better management of ESG risks and opportunities.

Practice 11: Setting criteria and objectives for engagements
In identifying and selecting the companies for engagement, FMC M has in place clear processes in prioritising issues and the targeted companies, taking into consideration, amongst others, the following: a) Size of holdings; b) Materiality of the ESG risk in the portfolios; c) The willingness and ability of the company to improve its ESG risk profile; d) Any breaches to international norms identified by the FMC; and e) Availability of other avenues to put in place effective risk mitigation measures.

[12] The FMC should consider aligning to stewardship codes such as the Malaysian Code for Institutional Investors, and/or take reference from international resources, such as the International Corporate Governance Network Stewardship Principles and Principles for Responsible Investment for guidelines on active ownership.
[13] Issues such as carbon footprint, biodiversity loss and mistreatment of employees.

5.04 The FMC should consider setting time-bound action plans when the investee companies fall short of ESG expectations and monitor the performance of the investee companies against pre-determined key performance indicators.

5.05 The FMC should actively encourage investee companies to provide comprehensive and meaningful disclosures[14] on how the investee companies embed sustainability in their organisation and identify, evaluate and manage ESG risks and opportunities in their business environment.

5.06 The FMC should maintain proper documentation of its engagement efforts and report on stewardship initiatives. Outcome from the engagement should feed into research analysis, portfolio construction and monitoring of investment risk.

5.07 Where relevant, the FMC should exercise its voting rights and monitor compliance with voting policy (including if voting process is outsourced) on ESG issues and communicate its voting policy to relevant stakeholders including investee companies and investors.

5.08 Where possible, the FMC should consider having collaborative engagements with other FMCs and/or other institutional investors for a more impactful stewardship in driving investee companies' transition towards more sustainable growth and business practices.

[14] For example, by referring or adopting the 'Sustainability Reporting Guide' issued by Bursa Malaysia Securities Berhad or 'Implementing the Recommendations of the Task-Force on Climate-related Financial Disclosure' set by the Taskforce for Climate-related Financial Disclosure (TCFD).

Practice 12: Documentation of engagement efforts
FMC N devised a standard engagement note with a clear template on the engagement objectives to be met and to track the progress of the commitments made by the investee company, which were to be completed by the FMC's analysts following their engagements. The engagement note consist of: a) A section which summarised the key material ESG issues raised during the engagement and a conclusion on the impact it has on the FMC's investment; and b) A section that tracked the progress of milestones achieved by the investee company to address the material issues raised during the engagement. This includes: i. Issue description: Brief outline of the engagement objective or the change sought by the FMC; ii. Topic: Description of the topic to be discussed, which was used to filter the engagements for the FMC's reporting purposes; iii. Date raised: Date of when the issue was raised with the investee company; iv. Delivery or review date: Date or timeline for the FMC to see and review progress made by the investee company engaged; and v. Date change delivered: When the FMC believed the issue has been appropriately addressed.

Chapter 6
Disclosure

Content of disclosure

6.01 The FMC should disclose entity level information on:

a) its objectives, targets, strategies and governance in relation to its responsible investment framework;
b) the description of the FMC's approaches and processes towards the incorporation of ESG factors in the investment decision-making process[15];
c) the process of how ESG risks have been identified, assessed and managed as well as the extent that the process has been integrated into its risk management framework; and
d) the description of its proxy voting and investee engagement policies and activities.

6.02 The FMC should also disclose the relevant and material impact of ESG risks on the investment portfolio using metrics, where data and information are available.

6.03 The FMC is encouraged to refer or adopt an approach from local guidance or international reporting frameworks[16] to provide meaningful material ESG risk disclosures to the investors.

6.04 The FMC managing a fund that qualifies as a sustainable and responsible investment fund under the *Guidelines on Sustainable and Responsible Investment Funds* (SRI Funds Guidelines) should observe the guidance provided in this section as well as comply with the disclosure requirements in the SRI Funds Guidelines.

Method and approaches

6.05 Disclosures can be made in websites, annual reports, sustainability reports or other forms that are available to the public.

6.06 FMC should-

a) ensure that the content of the disclosures as described in 6.01 above are aligned and consistent with the FMC's responsible investment commitments as well as the implementation of the policies and procedures;
b) ensure that information described in all marketing materials and communication accurately reflects the portfolio's or product's objective and strategies;

[15] This should also include details on managing investments that cease to be compliant to the FMC's SRI or ESG standards.
[16] For example, standards and frameworks set or recommended by the TCFD.

c) carry out regular reviews on the disclosures to ensure that all disclosures are factual, accurate, relevant and kept up-to-date; and

d) maintain a well-documented and thorough internal review and reporting procedures for the disclosures.

6.07 Where the FMC is established within a group structure, the FMC's disclosure may be consolidated or cross-referenced to the disclosures made at the group level.

Practice 13: Disclosure by FMC
FMC O established a dedicated page on its website to promote transparency on its overall responsible investment framework. All ESG-related policies and procedures such as the ESG integration guidelines, ESG scoring framework, stewardship policy and voting policy were made accessible at its website. The FMC also published its own annual sustainability report that outlined among others, its sustainability commitments towards ESG consideration and yearly engagement activities to drive changes in corporate behaviour, which was also made publicly available on its website. The FMC also issued position statements that described the FMC's stance on issues relating to ESG such as fossil fuels, controversial weapons and tobacco. In addition, the FMC provided an overview of its responsible investment framework by incorporating a section on its ESG policy in its pre-contractual documents such as the FMC's fund prospectus and introduced ESG and carbon indicators in its fund factsheet which enabled investors to readily access the carbon and ESG performance of their investments.