

This document outlines the sustainable investment mandate, approach and governance measures.

## **1. Purpose of document**

- 1.1. As the sovereign wealth fund of Malaysia, we have a duty to create value beyond just monetary terms for the nation and its future generations. We remain conscious of the impact of our investments on the broader society as well as the natural environment. We take a firm-wide approach to Sustainability – covering how we behave as an investor as well as how the organisation goes about our daily work. Our approach is designed to be holistic and focuses on issues which impact us and our portfolio most from a business materiality point of view.
- 1.2. The purpose of this Sustainable Investment (SI) Policy is to outline Khazanah’s principles and commitments in relation to sustainable investment. “Sustainable investment” is investment that seeks to generate financial returns while better managing risk and generating sustainable long-term value.
- 1.3. This policy is anchored upon our investment philosophies in the Investment Policy Statement. This policy will be reflected in the processes outlined within Investments’ governing documents to guide the implementation within each asset class and sector team approach towards integrating ESG.
- 1.4. Scope and applicability – this policy governs all new investments, as well as investee companies within our portfolio.

## **2. Sustainable Investment Mandate**

- 2.1. The SI Policy is grounded in Khazanah’s overall investment mandate, which is to play a leading role at shaping an equitable and responsible transition towards a better future for Malaysia.
- 2.2. It is a widely accepted belief that investing responsibly through incorporating environmental, social and governance (“ESG”) factors aids management of risk and generates sustainable, long-term returns.
- 2.3. Khazanah has identified the following fundamental values that drive our sustainability response:
  - a) Do Good – Aspire for positive outcomes
  - b) Do Better – Aspire for better or improved outcomes
  - c) Do No Harm – Avoid negative outcomes

- 2.4. Moreover, we have established the following principles that form the basis of how we operate as an organisation:
- a) Meet legal and ethical standards;
  - b) Be accountable to stakeholders;
  - c) Ensure returns commensurate with risks;
  - d) Act fairly and judiciously;
  - e) Be practical and reasonable;
  - f) Prioritise substance over form; and
  - g) Prioritise active engagement over divestment.
- 2.5. Khazanah's overall approach to Sustainability as an organisation is outlined through our Sustainability Framework, anchored on the Environmental, Social and Governance ("ESG") pillars. We have also committed to several medium to long-term ESG targets for the organisation which will guide the organisation's overall efforts. The framework and targets are published on Khazanah's official website ([link](#)) and will be periodically refreshed to ensure they remain relevant in the long-term.
- 2.6. In line with our fundamental values and principles, we will not invest in companies which violate our commitment to sustainable investment, including those which are linked to:
- a) Products or activities that are illegal in their host country;
  - b) Repeated and unmitigated incidences of forced labour, child labour, or human trafficking;
  - c) Serious violations of the rights of individuals in situations of war and/or conflict;
  - d) Repeated and unmitigated incidences of severe environmental damage; and
  - e) Repeated and unmitigated incidences of fraud, bribery, corruption, or money-laundering.
  - f) Specifically, and primarily the production of alcohol and tobacco, the production and distribution of pornography, and provision of gambling services;
  - g) The production, distribution or other operations related to weapons, arms or other military equipment that are prohibited under international conventions to which Malaysia is a party; and
  - h) Other products, activities or sectors that are prohibited by national policy.

Where we are invested via an external fund manager, we recognise the potential exposure to items in the list above and will conduct appropriate assessment when committing to new external funds.



Where the company we are invested in supports the above products or services indirectly or unintentionally, management will further review and assess the company to determine the severity of the exposure to the above products and services, and consider ways to avoid or mitigate such exposures.

- 2.7. Khazanah's sustainable investment principles are in line with the sustainable investment principles of the membership networks and normative codes we subscribe to. We are subscribed to the United Nations-backed Principles for Responsible Investment ("PRI"), the Malaysian Code for Institutional Investors and The Santiago Principles. Refer to Appendix for a comprehensive account of the principles.

### 3. Sustainable Investment Approach

- 3.1. Our approach sets out how we apply our sustainable investment principles. We aim to integrate sustainable investment into investment processes and decision-making, including:
  - a) Incorporating ESG issues and ethical considerations in formulating strategy, screening and selection of investments;
  - b) Embedding ESG considerations into the internal processes for monitoring investee companies' performance;
  - c) Where applicable, engaging stakeholders and exercising our shareholder rights to improve investee companies' responsible business practices based on Khazanah's Shareholder Expectations and Investment Stewardship document;
  - d) Seeking to incorporate ESG requirements into contractual arrangements with external investment managers; and
  - e) Reporting on our sustainable investment activities and outcomes to key internal and external stakeholders.
- 3.2. We strive to be both principled and pragmatic, taking into account various factors which may differ between our portfolios (refer to Investment Policy Statement for investment structure), such as investment mandate, investment horizon, degree of influence, and asset class. The extent to which we integrate sustainable investment in processes and decision-making is predicated on such factors.
- 3.3. We shall continue regular engagements with our investee companies as it is important for long-term sustainable value creation, and that it is our duty as responsible and active shareholders to ensure our investee companies continue to improve their sustainable practices, where applicable. We will also continue to engage with the wider stakeholder landscape in Malaysia in our role as a steward of our portfolio companies.

3.4. In the event existing investee companies encounter ESG issues, in general, Khazanah's approach is as follows:

a) Escalation:

- i. ESG breaches by our investee companies are to be raised by the relevant M&M teams to the Investment Committee, subject to materiality

b) Active engagement:

- i. Company of concern may be placed under heightened observation within a reasonable probationary period
- ii. Where we have influence, issues with potential for corrective measures may be addressed through active exercise of our ownership rights or other forms of engagement with management, to formulate and implement a plan of improvement

c) Divestment:

- i. In instances where issues further deteriorate below a minimum acceptable threshold, company of concern may be divested in accordance with the Schedule Matters for the Board and the Limits of Authority.

#### **4. Sustainable Investment Governance**

4.1. The overall governance of Sustainability matters at Khazanah are managed through the Central Sustainability Team within Strategy Division, and Investments related matters will be managed by the Sustainable Investments Team within IMO team.

4.2. Implementation and oversight of sustainable investment within Khazanah shall be managed at various levels through the functions below (to note that all sustainability-related investment issues shall be deliberated at the Investment Committee):

a) **Investment function:**

- i. Integrate ESG and ethical considerations as part of investing, monitoring, and divestment
- ii. Engage with the management of investee companies on ESG issues

b) **Sustainable Investment function:**

- i. Overall sustainability alignment:
  - Align with Central Sustainability Team on overall strategies, policies and relevant frameworks
- ii. Sustainable Investment integration oversight:
  - Review, and where relevant, enhance the Investment Policy and Investments Strategy to incorporate ESG considerations, including the SI policy

- Provide sustainability insights to support SI integration into the individual asset class and sector teams
  - Conduct **ESG analysis** to provide insights on managing the ESG risks and opportunities relating to Khazanah's investment portfolio
  - iii. Sustainable Investment Monitoring & Advocacy:
    - Track and monitor SI implementation across the investment teams against set targets and milestones
    - Ensure that the investment database is equipped to capture relevant ESG indicators relating to Khazanah's investment portfolio
    - Track ESG performance of portfolio companies to:
      - Identify priority sectors / portfolio companies with higher ESG risks
      - Where appropriate, engage the portfolio companies with the relevant investment teams to provide support required
      - Support Khazanah's Nominee Directors to effectively carry out their ESG oversight responsibilities
  - iv. Sustainable Investment Disclosures and Engagements:
    - Drive SI-related disclosures, aligned with the relevant frameworks determined by the central Sustainability team
    - Support the Central Sustainability Team with external engagements with investment-related stakeholders, e.g. Institutional Investors Council Malaysia, Perkukuh, international funds
- c) **Investment Committee**
- i. Integrate sustainable investment principles into the investment lifecycle
  - ii. Deliberate on appropriate responses to ESG issues that have been escalated
- d) **Board of Directors**
- i. EXCO:
    - Approve Sustainable Investment Policy
    - Provide oversight and accountability of Sustainable Investment Policy execution
    - Deliberate on appropriate responses to escalated ESG issues

### 5. Control and maintenance

5.1. This policy is the property of Khazanah Nasional Berhad. The Central Sustainability Team is the custodian of this policy and is responsible for its maintenance. All amendments made to this policy are to be tracked. Relevant information such as the document's version control number, dates of amendment and provisions amended are to be recorded in the amendment schedule below.

Version number	Date	Removed		Inserted	
		Provision	Comments(page)	Provision	Comments(page)
	2 Aug 2022			1.1, 1.2, 1.4, 1.5, 2.1, 2.4, 2.5, 4.1, 5	Updated following the establishment of Khazanah's Sustainability Framework and Targets

### Appendix 1

- a) ***United Nations-backed Principles for Responsible Investment (“PRI”)***. The Principles require signatories to:
- Principle 1: Incorporate ESG issues into investment analysis and decision-making process.
  - Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices.
  - Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest.
  - Principle 4: Promote acceptance and implementation of the Principles within the investment industry.
  - Principle 5: Work together to enhance our effectiveness in implementing the Principles.
  - Principle 6: Report on our activities and progress towards implementing the Principles.
- b) ***Malaysian Code for Institutional Investors:***
- Principle 1: Disclose policies on Stewardship
  - Principle 2: Monitor Investee Companies
  - Principle 3: Engage Investee Companies
  - Principle 4: Managing Conflicts of Interest
  - Principle 5: Incorporate Sustainability Considerations
  - Principle 6: Publish Voting Policy
- c) ***The Santiago Principles***, whose objectives are to:
- Maintain a stable global financial system and free flow of capital and investment.
  - Comply with all applicable regulatory and disclosure requirements in the countries in which SWFs invest.
  - Ensure that SWFs invest on the basis of economic and financial risk and return-related considerations.
  - Ensure that SWFs have in place a transparent and sound governance structure that provides adequate operational controls, risk management and accountability.