

## CHAPTER 5

# FOSTERING SUSTAINABILITY

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# SUSTAINABILITY AT KHAZANAH

As Malaysia’s sovereign wealth fund, we have a duty to create value beyond just monetary terms. Through our reach and influence, we actively engage with our portfolio companies to drive the adoption of sustainable practices that deliver long-term benefits for the nation, communities and natural environments.

## Our Sustainability Principles



### Do Good

We aspire for positive outcomes and ensure our actions today produce results towards a **positive economic, social, and environmental change**, for current and future generations.



### Do Better

We aim to build on the status quo, by identifying **opportunities to create shared value** through managing risks and preparing for the future.



### Do No Harm

We **manage and mitigate risks** to ensure that our actions do not expose stakeholders to negative effects on the social fabric, the economy, or the environment.

## Our Guiding Principles


- 1 **Meet legal and ethical standards**  
as responsible corporate citizens
- 2 **Be accountable to stakeholders**  
and consider what they look to us for
- 3 **Ensure returns commensurate with risks**  
so that we can manage expected outcomes
- 4 **Act fairly and judiciously**  
to uphold what is right and ensure equity
- 5 **Be practical and reasonable**  
to take into account context and potential trade-offs
- 6 **Prioritise substance over form**  
to prevent green-washing
- 7 **Create value for our investments**  
by crowding in solutions

# SUSTAINABILITY AT KHAZANAH

**Recognising the importance of sustainability while taking into consideration our stakeholders and the investment community, we continuously engage and share sustainability best practices with our portfolio companies.**

We undertook a portfolio-wide materiality assessment and formalised our Sustainability Framework in 2021 and 2022 respectively, outlining measurable targets that will guide our portfolio companies as well as our organisation towards creating positive long-term value across the ESG spectrum. By taking these actions, we are better positioned to engage effectively with our investee companies and our wider stakeholders on ESG issues.

We adopt a firm-wide approach to sustainability, covering how we behave as an investor as well as how we go about our day-to-day work. Our approach is designed to be holistic and focuses on issues which impact us and our portfolio companies most, from a business materiality point of view.

 Discover the milestones we have achieved on our sustainability journey by reading **Our Progress on Our ESG Targets** section on page 73 of this report.



## Responsible Investor

We have made public commitments towards ensuring that ESG and responsible investor practices are integrated within our investment processes, including:

- Assessment of new investments
- Monitoring of existing investee companies
- Identifying value creation opportunities



## Sustainable Organisation

As an organisation, we strive to embed sustainability within our cultural and behavioural practices. To this end, actions we have taken include:

- Driving internal enablement by creating sustainability awareness and providing training to our people



## Good Corporate Citizen

We believe that being a good corporate citizen not only drives business success but also plays a role in creating a wider impact.

To this end, we continue to catalyse positive change in the environment and surrounding communities, towards creating a better future for the nation.

# OUR APPROACH TO SUSTAINABILITY

## Our Environmental, Social and Governance (ESG) Framework

Launched in June 2022, our ESG Framework sets out an approach to sustainability that is anchored on the three pillars of ESG. The focus areas we have identified within our framework are determined based on issues that are most material to our investment portfolio, business and mandate.

### Purpose and Aspiration

### Sustainability Focus Areas

### Material ESG Issues<sup>1</sup> and Relevant SDGs

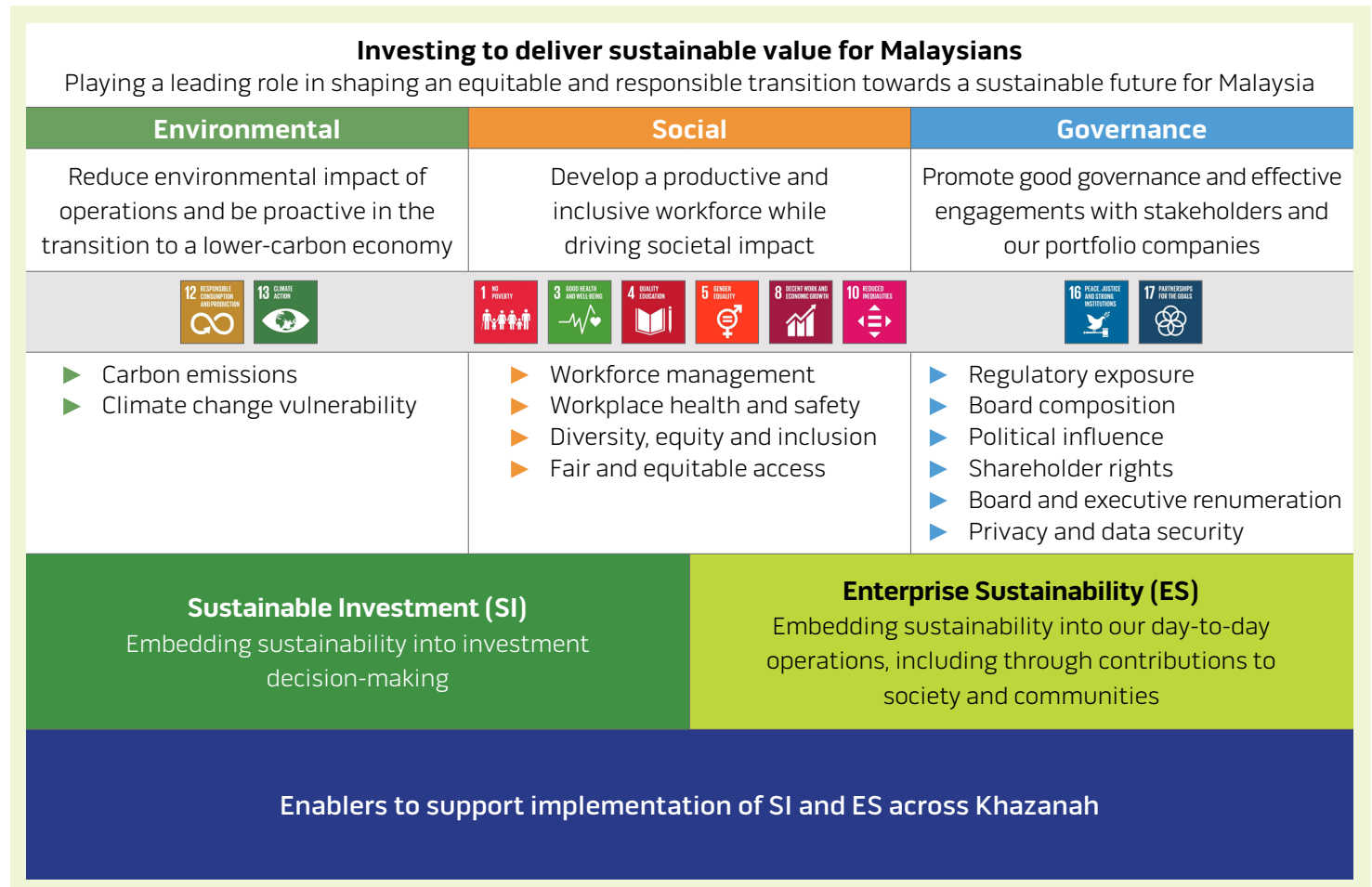
Focus areas that Khazanah is committed to address and manage – this streamlines what sustainability means to Khazanah

### Sustainability Actions

The “how” in achieving the focus areas and targets – these would be further translated into initiatives for execution

### Enablers

Enablers support effective implementation of Khazanah’s Sustainability Framework






<sup>1</sup> Material ESG issues highlighted are Khazanah’s primary focus issues

# OUR APPROACH TO SUSTAINABILITY

## Our Progress on Our ESG Targets

To guide and focus our sustainability efforts over the coming years, we have also committed to the following short, medium and long-term targets across our three pillars. These targets align our aspirations with our stakeholders, including the Government of Malaysia, as well as other national institutions.

We acknowledge that the ESG space is evolving at a fast pace, and in response we will continue to adapt our targets and actions to ensure they remain relevant for the long-term. Since the inception of our ESG Framework in June 2022, we have focused on advancing towards our identified targets. Our commitment lies in fostering lasting and impactful change, ensuring that the measures we take contribute to a sustainable future.

Environmental	Social	Governance
<ul style="list-style-type: none"> <li>▶ <b>Net Zero emissions</b> by 2050                             <ul style="list-style-type: none"> <li>▪ Established carbon footprint baseline for our portfolio.</li> <li>▪ Develop Climate Transition Pathways by identifying decarbonisation levers for impactful emission reduction.</li> </ul> </li> <li>▶ <b>Carbon neutral operations</b> by 2023                             <ul style="list-style-type: none"> <li>▪ Achieved carbon neutral operations for FY2023 by identifying high impact areas to reduce emissions, renewable energy certificates and carbon offsets.</li> </ul> </li> </ul> <p> Learn more about <b>Carbon Neutral Operations by 2023</b> on page 76.</p>	<ul style="list-style-type: none"> <li>▶ <b>30% women Board Directors and senior leadership</b> by 2025                             <ul style="list-style-type: none"> <li>▪ 15% of our Board Directors are women.</li> <li>▪ 30% of our Senior Management Team are women.</li> <li>▪ Developing internal pipeline strategies to support the advancement of women into these roles.</li> </ul> </li> <li>▶ <b>Enhance diversity, equity and inclusion (DEI) framework and programmes</b> by 2023                             <ul style="list-style-type: none"> <li>▪ In 2023, we developed a DEI Framework that is currently being applied throughout the organisation.</li> <li>▪ Internal awareness of DEI has increased through internal training for all staff within the organisation.</li> </ul> <p> Learn more about our <b>DEI in Khazanah</b> on page 96.</p> </li> <li>▶ <b>Measurable socio-economic impact targets</b> by 2023                             <ul style="list-style-type: none"> <li>▪ SEMARAK Framework was developed and launched in 2023.</li> <li>▪ The SEMARAK Framework underscores our focus on creating long-term societal impact through Dana Impak.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Enhance Board competencies</b> (including sustainability) at our portfolio companies by 2024                             <ul style="list-style-type: none"> <li>▪ The management process for nomination of directors (including selection, nomination, and evaluation of Directors) have been formalised within the organisation.</li> <li>▪ To complement the above, we have implemented training programmes aimed at equipping our Board with skills and knowledge for effectiveness.</li> </ul> </li> <li>▶ <b>Disclose general voting principles</b> by 2022                             <ul style="list-style-type: none"> <li>▪ A newly revised version of our Voting Guidelines can be found in our Shareholder Expectations and Investment Stewardship document.</li> </ul> <p> For more information on revised version of our Voting Guidelines on our website, visit <a href="https://www.khazanah.com.my/how-we-invest/investment-approach/">https://www.khazanah.com.my/how-we-invest/investment-approach/</a></p> </li> <li>▶ <b>Include ESG-linked KPIs for key leadership positions</b> for our portfolio companies by 2023                             <ul style="list-style-type: none"> <li>▪ All key leadership positions for our portfolio companies have ESG-linked KPIs.</li> </ul> </li> </ul>

✓ Completed

# OUR APPROACH TO SUSTAINABILITY

## Our Sustainability Enablers

We believe in driving sustainability through:



**Sustainable Investments**  
Embedding sustainability into our investment decision-making processes

**Enterprise Sustainability**  
Embedding sustainability into our day-to-day practices, including through contributions to society and communities

We continue to implement sustainability enablers across our organisation with the aim of building our internal capabilities and capacity to address sustainability issues. The sustainability enablers we have implemented include:



Offering **training and development** opportunities to all employees, both in-house and external

Advocating **sustainability matters** with our stakeholders

Enhancing our **ESG data and analytics** capabilities

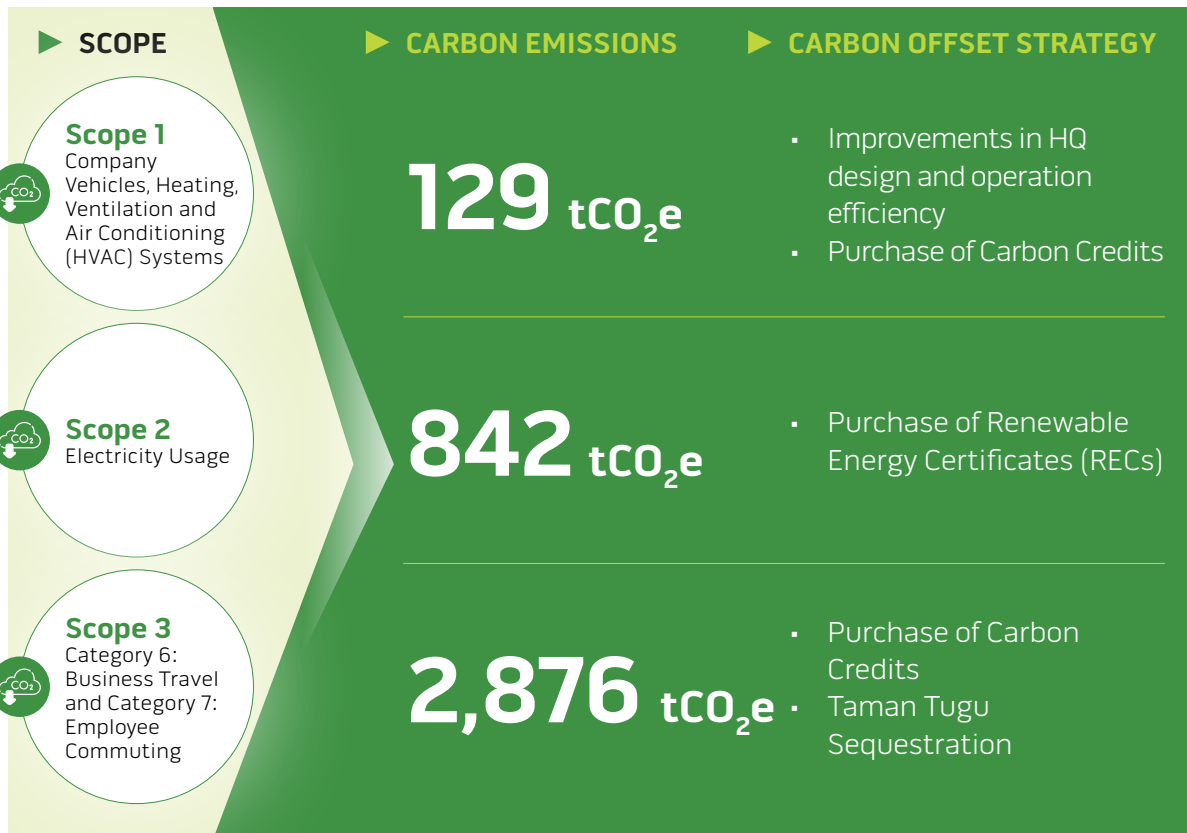
Building a **culture of sustainability** through internal initiatives to manage and reduce emissions and waste

# OUR APPROACH TO SUSTAINABILITY

## Our Commitment to Carbon Neutral Operations

Aligned with our climate targets and strategic goals, we are dedicated to facilitating the transition to a low-carbon economy, as demonstrated by our commitment to carbon neutral operations.

In 2022, we introduced ESG targets, featuring a commitment to achieve carbon neutrality in our operations by FY2023. Following a verification of our operational carbon emissions data, we have identified the following key figures for our carbon emissions:



We reached our ESG target of carbon neutrality by 2023, by utilising 4,420 tCO<sub>2</sub>e of carbon stock, obtained through a combination of carbon credits and Taman Tugu sequestration rates.

Strategies on achieving carbon neutrality:

- Identification of high impact areas to reduce carbon emissions through improvements in HQ office design and operational efficiency;
- Carbon sequestration from Taman Tugu;
- Purchase of a mixture of carbon avoidance and carbon removal credits; and
- Purchase of Renewable Energy Certificates, aligned to RE100, from each region of operations.

In alignment with our climate commitment, we have already established our ambitions for achieving Net Zero by 2050. We are actively advancing our Net Zero Pathway which will address climate-related risks and opportunities from an investment standpoint, playing a pivotal role in Khazanah’s approach to addressing climate challenges as investors.

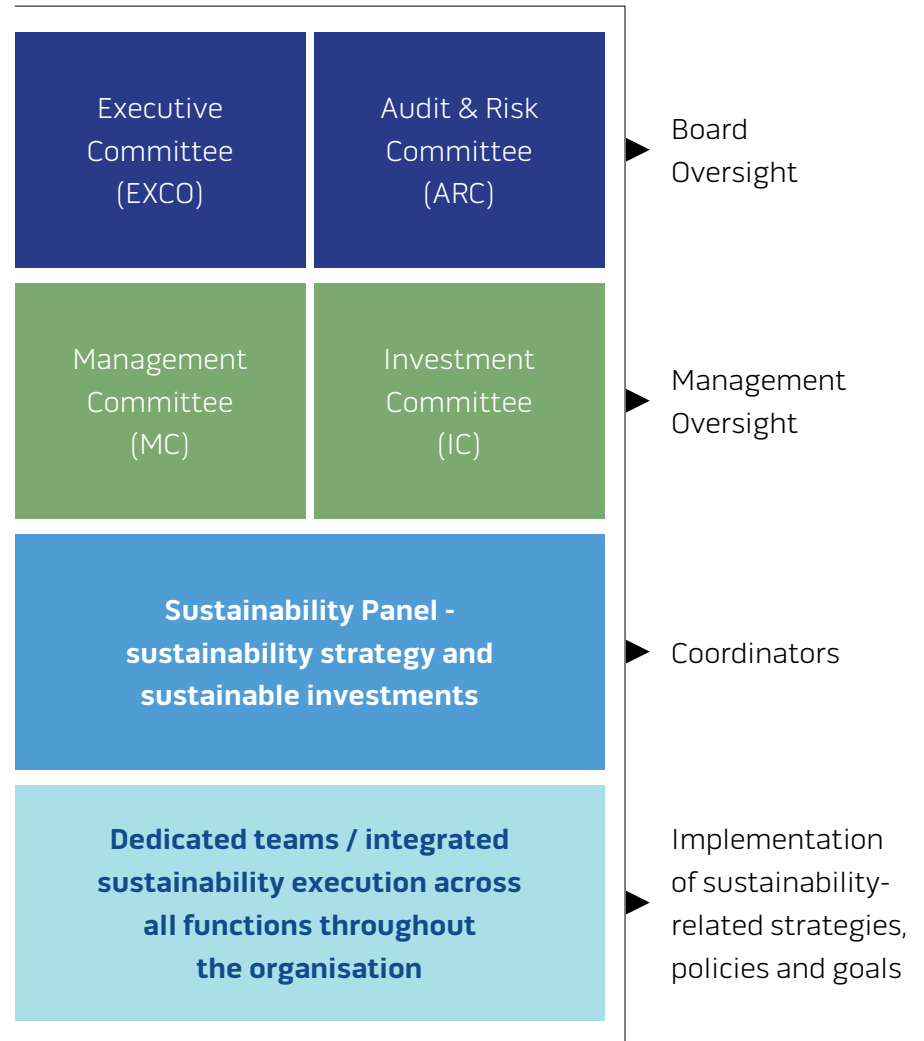
# SUSTAINABILITY GOVERNANCE

**Our sustainability governance structure provides the necessary leadership and accountability for our sustainability actions and initiatives.**

The governance structure entrusts ultimate responsibility for sustainability with our Board of Directors, which oversight is exercised through the Board Executive Committee (EXCO) and Audit & Risk Committee (ARC). At the management level, the Management Committee and the Investment Committee deliberate on the strategic direction and policies surrounding enterprise sustainability initiatives and sustainable investments while monitoring achievements and progress on all fronts.

To translate our framework into actionable sustainability strategies, we established a Sustainability Panel that comprises representatives from our Central Sustainability Team (under our Strategy Division), Sustainable Investment (SI) Team (under our Investments Division) and representatives from other support divisions. In developing sustainability strategies, the Sustainability Panel considers the potential impact of such strategies on Khazanah. Meanwhile, project-specific representatives are responsible for implementation on the ground, across their respective teams and divisions.

## Our Sustainability Governance Structure





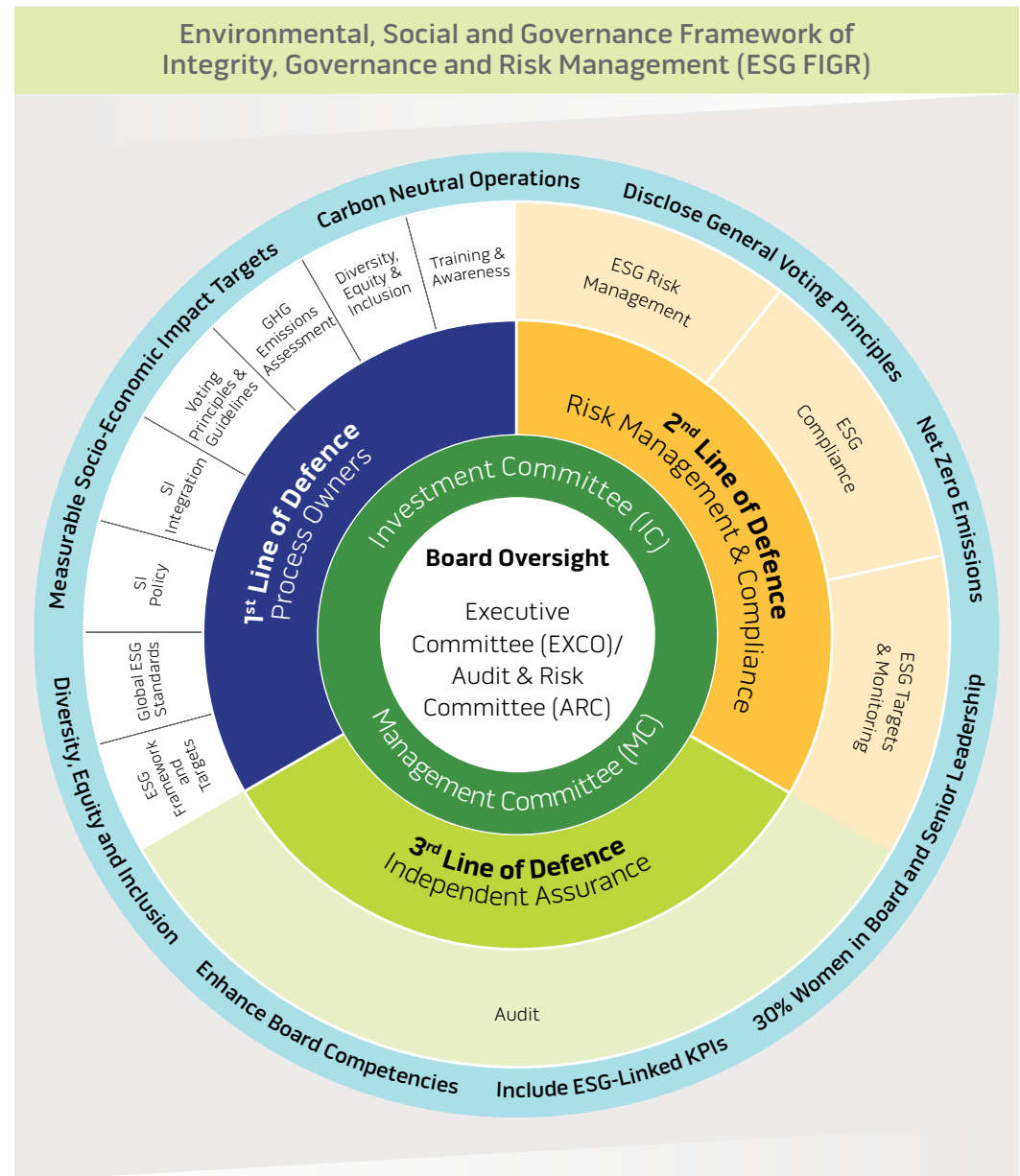
# SUSTAINABILITY GOVERNANCE

**We operationalise sustainability governance through the Three Lines of Defence based on clear and defined roles and responsibilities.**

The ESG FIGR was adopted by the Management Committee in May 2023, complementing the Sustainability Framework and medium-term targets launched in June 2022. Similar to our FIGR, the ESG FIGR has established the EXCO and ARC as the Board sub-committees responsible for supporting the Board with oversight over sustainability matters. At the management level, the MC and IC serve as the platform for deliberation and monitoring of our sustainability progress, executing the Board’s strategic direction.

The ESG FIGR, which covers both Sustainable Investing and Enterprise Sustainability, complements the Shareholder Expectations and Investment Stewardship (SEIS) document launched in 2022. The SEIS document outlines our expectations towards our investee companies and investment stewardship principles, including our Voting Guidelines that govern our voting at general meetings of listed companies.

Another key effort to maintain our high standard of transparency and accountability with regard to sustainability is reflected in Khazanah’s Sustainable Investment Policy. This policy outlines our principles, commitments, and consideration of ESG factors to ensure we continue making responsible investments.



# SHAREHOLDER EXPECTATIONS AND INVESTMENT STEWARDSHIP



**Our approach to investment stewardship is guided by our responsibility to safeguard and grow the nation's wealth for current and future generations.**

Achieving this goal dictates that we apply a long-term perspective to our investments and prioritise the creation of sustainable social and economic value for Malaysians. To this end, we adopt an active investor approach, seeking to influence outcomes via our portfolio companies through ongoing engagement, Board representation and voting at general meetings.

## Our Shareholder Expectations

The investment stewardship at Khazanah is pillared on six specific shareholder expectations that apply to all companies in our portfolios.

- 1 Companies must generate long-term value**

  - Investments should generate long-term sustainable returns as captured in the long-term Total Shareholder Returns (TSR).
  - Any focus on short-term targets should not jeopardise future value and TSR.
  - Companies should consider social and environmental dimensions of value in addition to financial targets.
  - Company strategy should be supported by capabilities and resources, with best practice internal policies, processes and controls.
- 2 The Board of Directors should hold ultimate responsibility for corporate strategy, monitoring and oversight**

  - The Board must communicate a clear vision –encompassing sustainability considerations – and translate this vision into the company's strategy.
  - The company should have a capable management team led by a competent CEO who is appointed by following a rigorous and transparent process.
  - The company should have an unconflicted board that is supported by relevant committees and its effectiveness should be evaluated regularly to ensure the appropriate mix of skills, backgrounds and experience.
- 3 The Chairperson should be a leader who sets the right culture**

  - The Chairperson should set a culture of performance, duty and integrity and engender a sense of custodianship amongst directors.
  - The Chairperson should act as the conduit for stakeholders to provide feedback, including through performance reviews of the Board and management.
  - The Chairperson should be independent, failing which there should be a Senior Independent Director to provide the necessary counterbalance.

# SHAREHOLDER EXPECTATIONS AND INVESTMENT STEWARDSHIP

## Our Sustainable Investment Expectations

Sustainability has been embedded as a foundational consideration in our investment stewardship approach. Our aim is to holistically drive sustainability across the dimensions of financial returns, strategies and impact, as depicted below:

► Deliver

**LONG-TERM  
SUSTAINABLE  
RETURNS**



► **JUST TRANSITION**

must be built in to ensure sustainable outcomes are more equitable



► Strive for **AGILITY AND GROWTH**

amidst shifts in industry structure and the impact of global megatrends



4

### The right management team must be selected and incentivised to be aligned with the company's success

- Hiring must be rigorous and transparent, with market-based talent review and sourcing policies that reflect the complexity and demands of the positions in question.
- Compensation and benefits should be linked to the delivery of sustainable strategies and performance.
- Incentive schemes should be implemented as long as incentives are tied to achievement and there should be built-in consequences for negative outcomes.

5

### Shareholder rights must be protected

- Shareholders should be treated equitably, with adequate protection for the capital they provide.
- Shareholders should have the fundamental right to vote, especially on matters impacting them and to seek clarification where appropriate.
- The company should follow a "one share one vote" policy to avoid disproportionate control amongst certain shareholders.
- Khazanah shall engage regularly with portfolio companies to communicate expectations and collaborate for best outcomes.

6

### Companies should adopt sustainability considerations to future-proof their business

- Khazanah shall actively engage with portfolio companies to provide support on their sustainability journeys, including pertaining to their responsible ESG transition.
- Sustainable business practices should be incorporated throughout the value chain and a commitment to Net Zero GHG emissions by 2050 should be adopted.
- Diversity at the Board, management and workforce levels should be maintained to drive resilience, creativity and agility. This could be achieved by ensuring that generational and gender (indicated by having at least 30% women) diversities are represented at the Board level.
- The dignity and rights of workers should be honoured at all times.
- Best practices in corporate governance should be maintained, with management KPIs linked to ESG targets set at the corporate level.

## KHAZANAH'S AFFILIATIONS

To improve our organisational practices, we continually broaden our understanding of sustainability through engagements with other organisations and partners. In pursuit of this goal, we are actively involved as a member or signatory of the following initiatives:

### Asia Investor Group on Climate Change (AIGCC)



AIGCC is an initiative to create awareness and encourage action among Asia's asset owners and asset managers about the risks and opportunities associated with climate change and low-carbon investing. AIGCC provides capacity and a trusted forum for investors active in Asia to collaborate and share best practices on investments, policies, risk management engagement and to climate action.

Khazanah has recently joined AIGCC under an observer status in 2024, with the intention of adopting a more structured approach to Paris Aligned Investments, given our role as a sovereign wealth fund. The AIGCC offers an Asian perspective on climate issues and provides us with regional networks – which can be used to leverage for collaborating and advocating for climate action.

### Joint Committee on Climate Change (JC3)



The JC3 is a regulator-industry platform, aimed at pursuing collaborative actions for building climate resilience within the Malaysian financial sector. The JC3 aims to build capacity through knowledge sharing, identify issues facing the financial sector towards climate transition, facilitate collaboration between stakeholders and support the financial sector's integration of identified solutions to address climate change or climate-related risks.

In the capacity of an observer, Khazanah actively endorses JC3 initiatives, particularly with a focus on advancing climate transition efforts in Malaysia.

# KHAZANAH'S AFFILIATIONS

## Institutional Investor Council Malaysia (IIC)



Khazanah is a member of the IIC and a signatory of the Malaysian Code for Institutional Investors 2022 (MCII 2022), whereby we support and comply with the code. We are in line with its seven principles, as outlined below, and the Stewardship Spotlight, as outlined in our Shareholder Expectations and Investment Stewardship (SEIS) document.

1

### **Institutional investors should disclose the policies on their stewardship responsibilities and review the effectiveness of their stewardship activities**

Our Framework of Integrity, Governance and Risk Management (FIGR) provides a clear responsibility, authority and governance structure for Khazanah and guides all our investments activities and business conduct. The FIGR is periodically reviewed and was last updated in 2021. We are also supported by our Investment Policy (IP) statement, our newly enhanced Sustainable Investment (SI) Policy and our newly developed SEIS document. We are continuously improving our process of reviewing the effectiveness of our stewardship activities.

2

### **Institutional investors should monitor their investee companies**

Our investment portfolios are actively monitored and managed by our Investments teams in accordance with our Management and Monitoring Manual. This includes formulating a strategy to create sustainable value, which is the basis for performance monitoring.

3

### **Institutional investors should engage with investee companies as appropriate and collaborate with investors to enhance engagement outcomes**

Our engagement framework outlines how we monitor investee companies through frequent engagements with the Board, management team and nominees, and we continuously collaborate based on our syndication process with other shareholders, investors and partners via both formal and informal platforms. Our IIC membership is a key collaboration platform for us.

4

### **Institutional investors should adopt a policy on managing conflicts of interest which should be publicly disclosed**

We have robust policies and processes to manage conflicts, which include our Staff Code of Conduct Handbook and the Supplier Code of Business Ethics. Both documents are publicly available through our website. We also implement an 'Information Barrier' policy to effectively manage insider information.

## KHAZANAH'S AFFILIATIONS

5

**Institutional investors should incorporate corporate governance and sustainability considerations, including climate-related matters into their decision-making process while seeking to deliver sustainable returns in the long-term interest of their beneficiaries or clients**

We continue to actively monitor the governance aspect of our investee companies through a diligent management and monitoring process. Our recently enhanced SI policy, newly launched Sustainability Framework and newly developed ESG FIGR will guide us in our approach to deliver sustainable value, including via our investee companies.

6

**Institutional investors should publicly disclose their corporate governance policy and voting guidelines**

Our FIGR outlines how we manage risks and instil a strong culture of corporate governance and risk management in Khazanah, whilst our SEIS document outlines our investment stewardship principles and our newly revised Voting Guidelines that govern our voting at general meetings of listed companies. These documents are available on our website.

7

**Institutional investors should collaborate where appropriate to respond to corporate governance and sustainability concerns or risks. The collective voice and views of institutional investors are important levers in shaping behaviour and promoting good corporate governance, in particular on emerging issues such as sustainability reporting and investing**

We continuously collaborate with key stakeholders of our investee companies based on our engagement framework. Formal and informal syndication with other shareholders, investors and partners ensures a collaborative approach and collective voice in addressing our concerns, both publicly and privately, depending on its nature. Examples include our IIC membership and the inaugural GLIC Integrity Event (GIE), which was jointly held by several GLICs.

## KHAZANAH'S AFFILIATIONS

### International Forum of Sovereign Wealth Funds (IFSWF)



As a member of the IFSWF, we endorse the Santiago Principles, striving to embody transparency, good governance, accountability and prudence in our investment practices. Our membership also provides us with an avenue to engage in meaningful dialogue towards driving better investment practices across the global sovereign wealth fund landscape.

### 30% Club



Khazanah is a Corporate Advocate of the 30% Club Malaysian Chapter that supports the achievement of a minimum of 30% women's participation at all senior decision-making tables across Malaysia, including Boards and the C-suite. The Club also aims to activate corporate leaders to be visible in adopting Diversity, Equity and Inclusion (DEI) best practices in their organisations and engaging wider stakeholders with market influence.

Since becoming a Corporate Advocate to the Club, Khazanah's champion, Dato' Feisal has participated as a speaker on 30% Club Malaysia webinar on 7 March 2023, entitled Embrace Equity held during the International Women's Week.