

# PNB

## Sustainability Policy



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## Revision Log

This Sustainability Policy (“Policy”) is the property of Permodalan Nasional Berhad (“PNB” or “we” or “us” or “our”). The Sustainability & Social Investments Department (“SSID”) and ESG Investments Department (“ESGID”) of PNB are the custodians of this Policy document and are responsible for the maintenance and update of this Policy. All amendments and/or update made to this Policy are to be tracked. Relevant information such as this Policy’s version control number, dates of amendment and approval, and section(s) amended is to be recorded in the amendment schedule below:

Version number	Date	Details of Changes		Approval date
		Section ref.	Description of changes	
1.0			Original document	August 2023



## 1.0 Purpose of This Policy

- 1.1 PNB's sustainability commitment and approach to integrating Environmental, Social, and Governance ("ESG") factors into our operations and investing mandate are encapsulated in this Policy.
- 1.2 This Policy outlines the foundation, ownership, and oversight mechanism which have been built on and around the Ten (10) ESG Commitments which was announced by PNB in April 2022 ("Ten (10) ESG Commitments").
- 1.3 This Policy governs PNB Group<sup>1</sup>'s business operations, investment processes and decision-making activities.

## 2.0 Sustainability Philosophy & Principles

- 2.1 PNB's sustainability journey is grounded by five (5) key guiding beliefs to ensure the approach undertaken in PNB is consistent, robust and transparent.

### **Guiding Belief 1: ESG Drives Long-term Value**

We believe that by integrating ESG issues more systematically in our investing activities and operations, we will be better positioned to seize new opportunities while accounting for rapidly evolving risks in delivering sustainable returns to our unit holders and upholding our social mandate.

### **Guiding Belief 2: Responsible Leadership**

We also believe that with our size and influence, especially within Malaysia and the greater Southeast Asia region, we have an important and strategic role to play in addressing the systemic challenges facing our stakeholders<sup>2</sup> today and in the future.

### **Guiding Belief 3: Collective Action and Partnership**

We are cognisant that we alone cannot solve these challenges. With collective action and greater partnership between private and public sectors, we believe that we will be able to make a lasting impact and address these challenges more effectively.

### **Guiding Belief 4: Walk the Talk**

We strive to align our behavior with our principles to build trust and credibility as we believe action speaks louder than words. Walking the talk means consistently demonstrating our values and taking responsibility for any inconsistencies. By doing so, we create a culture where actions reflect our beliefs.

<sup>1</sup> PNB Group shall refer to Amanah Saham Nasional Berhad ("ASNB"), Pelaburan Hartanah Nasional Berhad ("PHNB"), PNB Merdeka Ventures Sdn Berhad ("PNBMV"), PNB Research Institute Sdn Bhd ("PNBRI"), and any other company or entity sanctioned by the Board of Directors of PNB.

<sup>2</sup> Stakeholders shall refer to our internal and external stakeholders which shall include but not limited to our unit holders, employees, investors, analysts, regulators, suppliers and community.



## 2.0 Sustainability Philosophy & Principles (cont.)

### Guiding Belief 5: Progress over Perfection

We believe in progress over perfection. As the science around climate change, a significant component of our Ten (10) ESG Commitments, continues to evolve, and that will not deter us from continuing to improve on our commitment.

## 3.0 Sustainability Mandate & Strategy

- 3.1 This Policy is anchored on PNB's mandate which is to enhance the economic wealth of Bumiputera community and all Malaysians, for the prosperity of the nation.
- 3.2 PNB's Ten (10) ESG Commitments (Exhibit 1) consists of several levels that have been designed to enable a structured and coherent sustainability response.



Exhibit 1: PNB's Ten (10) ESG Commitments



### 3.0 Sustainability Mandate & Strategy (cont.)

- 3.3 PNB has defined the Ten (10) ESG Commitments to drive and guide our sustainability and ESG aspirations.

#### 3.3.1 ESG Commitment 1: Net Zero Enterprise by 2025

PNB aims for “Net Zero Enterprise by 2025”, which refers to achieving a state of net-zero carbon emissions in business operations by the year 2025, including operations of the PNB Group but excludes Scope 3 emission of PNB’s investment portfolio<sup>3</sup>.

PNB aspires to achieve net zero of the anthropogenic emission of greenhouse gases (“GHG”)<sup>4</sup> through pursuing operational GHG reduction and removal by the year 2025. We are committed to firstly reduce GHG emissions through applicable decarbonisation measures before offsetting hard-to-abate GHG emissions through carbon offsets.

#### 3.3.2 ESG Commitment 2: Net Zero Portfolio by 2050

“Net Zero Portfolio by 2050” relates to PNB’s commitment to gradually reduce the overall portfolio emissions which includes PNB’s financial assets<sup>5</sup> by year the 2050.

PNB aims to achieve the target via stewardship of our Investee Companies<sup>6</sup> as well as rebalancing our investment portfolio such that the emissions decline over time. This includes actively engaging our Investee Companies to set decarbonisation strategies and reduce their respective emissions over time, and by exploring green and transition investment opportunities which are aligned with net zero economy.

#### 3.3.3 ESG Commitment 3: RM10 billion in New Green & Transition Assets by 2030

PNB aspires to invest RM10 billion into green & transition assets by the year 2030. We aspire to focus on investments that mitigate the impact of climate change as well as those that facilitate adaptation and resilience. These include but are not limited to clean energy, green mobility, agriculture and other land use as well as green buildings.

#### 3.3.4 ESG Commitment 4: Living Wage in PNB by 2023

Living wage is the minimum income necessary for employees to afford a reasonable standard of living that enables them to meet their basic needs including food, housing, and other essential needs such as clothing, social protection and financial security.

PNB will define and adopt a living wage policy to ensure that its employees are earning above the minimum living wage by the year 2023.

<sup>3</sup> Scope 3 emissions that includes all investment related activities. Scope 3 emissions are indirect emissions in a company’s value chain. For the case of PNB, its purchase of goods and services, capital expenditures, fuel and energy-related activities, waste generated, business travel, employee commuting as well as lending and investment activities.

<sup>4</sup> Greenhouse gases (GHG) includes carbon dioxide, methane, nitrous oxide and industrial gases such as hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride.

<sup>5</sup> Public equities, private equities, bonds, real estate, infrastructure, and other investment instruments.

<sup>6</sup> PNB strategic companies and core companies.



## 3.0 Sustainability Mandate & Strategy (cont.)

### 3.3.5 ESG Commitment 5: Labour Rights Policy

At PNB, we believe that fostering the necessary labour policies drive good business practices, better productivity and risk management.

As part of our Ten (10) ESG Commitments, we have adopted a Labour Rights Policy underscoring our views and expectations on six (6) Key Material Issues, namely:

1. Forced & child labour
2. Fair wages & benefits
3. Diversity & inclusion
4. Freedom of association
5. Safety & health
6. Upskilling & education

### 3.3.6 ESG Commitment 6: Forty percent (40%) Women in PNB Leadership by 2025

For the senior management level, we target to achieve at least forty percent (40%) women in our leadership by 2025. This is to ensure an inclusive, well balanced and diverse leadership team reflecting the development goals of Malaysia and globally.

### 3.3.7 ESG Commitment 7: Balancing Profitability & Social Investment

Our commitment to the betterment of society through social impact programmes will continue unabated, with our focus area aligned with pillars of PNB's proposed Social Investment Framework, which will align with United Nations Sustainable Development Goals (UNSDGs) i.e. education, health and social community initiatives.

### 3.3.8 ESG Commitment 8: Triple Bottom Line Stewardship Model

We plan to achieve this commitment by refining our Stewardship Framework<sup>7</sup> to include amongst others, a focus on people and planet. This includes the development of internal guidelines in determining the appropriate level of engagement on our investment, measuring Board of Directors and Chief Executive Officer of the Investee Companies' effectiveness, transparency in voting, more active participation and coordination with other institutional investors and having impactful engagements with our Investee Companies, including developing and publishing our positions on ESG-related issues and high-risk sectors.

<sup>7</sup> PNB Stewardship Framework showcases PNB's stewardship philosophy and expectations for its Investee Companies, the investing public and the general market. PNB Stewardship Framework among others guides PNB in playing its role as an active shareholder to create value and improve the performance of its Investee Companies.



### 3.0 Sustainability Mandate & Strategy (cont.)

#### 3.3.9 ESG Commitment 9: Transparency in Voting

PNB aspires to continue exercising proper, effective and active engagement and interaction between the management, Board of Directors and shareholders of the Investee Companies' and will contribute to this commitment by publishing both our voting policy and our voting decisions at the Investee Companies' general meetings, via our website [\[link\]](#). This will provide transparency to the marketplace on the position of a large investor in a Malaysian public company.

#### 3.3.10 ESG Commitment 10: TCFD-aligned Disclosure

PNB will align its sustainability disclosure with the Task Force on Climate-Related Financial Disclosures ("TCFD") reporting framework, as well as inclusion of other non-climate indicators or initiatives that are unique to PNB to ensure the completeness of information for stakeholders of PNB.

### 4.0 Sustainability Approach

We are embedding ESG considerations into all parts of the organisation (Exhibit 2). Embedding ESG into all processes of decision-making allows us to augment our efforts in identifying opportunities for value creation and managing ESG risks.



Exhibit 2: PNB's Sustainability Approach





## 5.0 Governance

- 5.1 PNB has established a Sustainability Governance Structure (Exhibit 3) to integrate sustainability and integrity into the decision-making process across the organisation as well as to ensure transparency and accountability of our sustainability journey.

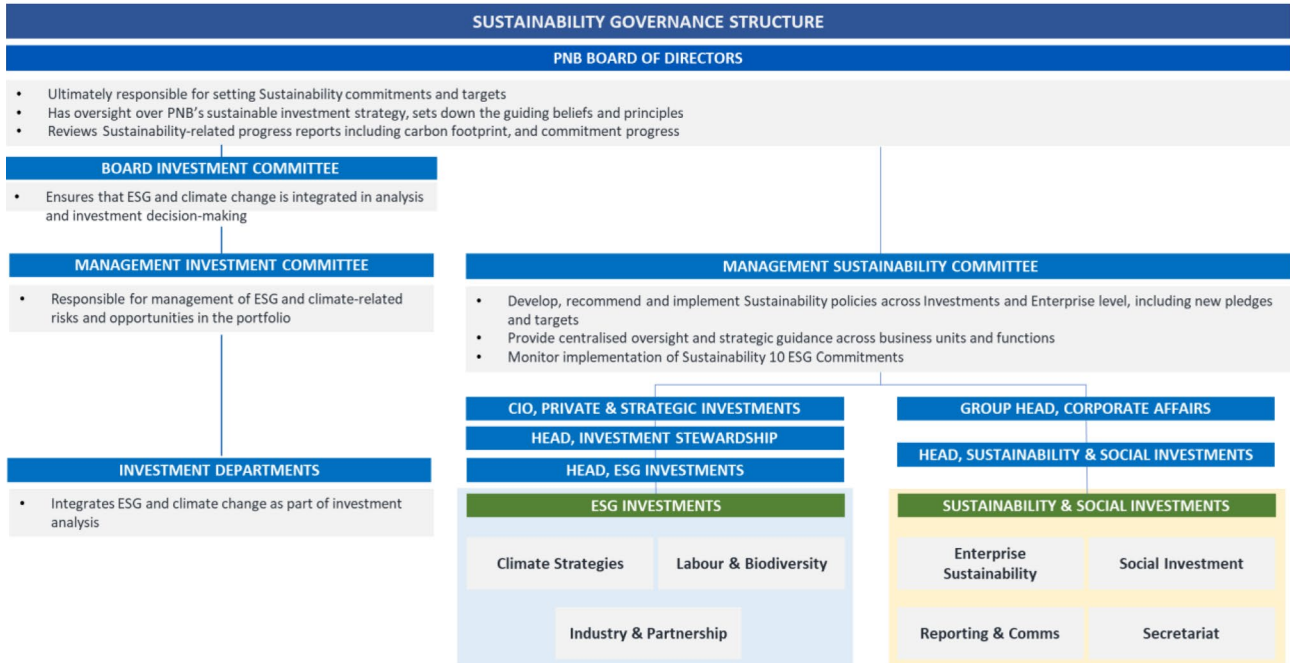


Exhibit 3: PNB's Sustainability Governance Structure

- 5.2 PNB sustainability governance starts with the Board of Directors of PNB that is ultimately responsible for oversight of PNB Groups’ overall sustainability strategy and approval of proposals beyond the Terms of Reference of the Management of Sustainability Committee of PNB (“MSC”).
- 5.3 The Board of Directors of PNB is supported and informed by the MSC that will oversee the overall implementation of the PNB’s Ten (10) ESG Commitments and initiatives to achieve the targets.
- 5.4 Overall governance of sustainability matters at PNB for enterprise and portfolio are managed through the SSID within Corporate Affairs Division, and ESGID within Investment Stewardship Division of PNB, respectively.

## 6.0 Stewardship & ESG

We believe that investing sustainably will strengthen PNB while minimising risk and identify opportunities for value creation – delivering on the fiduciary duties entrusted upon PNB. As such, as part of our Sustainable Investing (SI) approach, we recognise that active engagement with our Investee Companies and where possible, our stakeholders, are vital in supporting our agenda in creating longer-term value, and thus translating into long-term sustainable returns.

Our stewardship philosophy is centred on four (4) key types of engagements:

### 6.1 Proxy Voting

Proxy voting forms an integral part of our engagement process. Public equities voting decisions are evaluated based on the latest PNB's Voting Guidelines published on our website [\[link\]](#). Notwithstanding anything stipulated in the Voting Guidelines, PNB may depart from any provision in the PNB's Voting Guidelines and vote in a way it deems appropriate, on a case-to-case basis. In these instances, we are committed to publish the rationale for any departures.

Moving forward, PNB will periodically review our Voting Guidelines by taking into account regulatory and market developments as well as changes in global standards and best practices related to sustainability and corporate governance.

### 6.2 Regular Dialogues on ESG Progress as a Triple-Bottom Line Steward

As a Triple-Bottom Line Steward<sup>8</sup>, PNB will emphasise on social and environmental factors, in addition to financial performance in our investment decisions and portfolio management. Through PNB's Strategic Investments Council<sup>9</sup>, we also conduct senior-level engagement programmes led by the Chief Executive Officers and senior sustainability heads of our strategic companies to establish dialogues and sharing of ESG practices, as well as express our commitment and expectations in sustainability and ESG outcomes.

Integral to our active ownership and engagement stance, PNB will further engage and collaborate with the Investee Companies to improve the standard of ESG-related business practices and disclosures. Through ongoing dialogues with the Investee Companies, we aim to gain better insights and a more comprehensive understanding of the Investee Company's ESG risk profile, strategy and governance, financial performance and other sustainability opportunities.

Active ownership will not only improve PNB's knowledge of portfolio investments to make effective investment decisions, but also enable us to improve an Investee Company's longer-term value. Through regular dialogues and direct engagements, we will communicate PNB's ESG mandate and priorities to the Investee Companies. These sessions will help us to address concerns wherever necessary. PNB will also leverage on our representation through our Nominee Directors to engage with Investee Companies regarding ESG issues and concerns, as well as to cascade PNB's ESG expectations and continuously advocate for alignment with the Investee Companies.

<sup>8</sup> Focusing on People, Planet and Profit.

<sup>9</sup> A platform for PNB and its Investee Companies to discuss views and common challenges.



## 6.0 Stewardship & ESG (cont.)

Beyond engagements with individual investee companies, PNB will also actively participate in multiple investor organisations, networks and initiatives to advocate for industry uplifts, foster greater collaboration to accelerate the ESG agenda and support creation of a sustainable ecosystem.

### 6.2.1 Net Zero Pathway

PNB has pledged to reach a Net Zero Portfolio target by the year 2050. To achieve this goal, we will disclose our net zero progress which include targets and measurement of PNB Portfolio's GHG emissions, as well as establish and adhere to a clear pathway towards net zero.

### 6.2.2 Escalation Matrix

PNB has adopted an Escalation Matrix<sup>10</sup> to guide our approach in engaging our Investee Companies. The Escalation Matrix determines the steps that PNB, as an investor, should take when engaging the Investee Companies. Different engagement method can be undertaken by PNB, ranging from informal discussions to more formal and assertive measures, such as voting against management proposals or divesting from an Investee Company, if necessary.

We choose to adopt the Escalation Matrix to ensure that our engagements with the Investee Companies are consistent & well-structured, and able to achieve our objectives effectively and efficiently. Having a clear tool ensures that all parties involved in the engagement process are aware of the steps that can be taken and the expectations for each degree of escalation.

## 7.0 Sustainable Investment

### 7.1 Sustainable Investing ("SI") Approach

PNB's SI approach is designed to strengthen and elevate the entire investment value chain, from pre-investment to post-investment monitoring and stewardship. The principles underlying SI is the foundation of a successful investment strategy and that SI considerations can materially improve long term returns of our portfolio and ensure resilient risk management practices are embedded into our investment decisions.

<sup>10</sup> The escalation matrix provides clarity on PNB's engagement approach with the Investee Companies through various activism touchpoints. Further information on PNB escalation matrix can be found on PNB official website.



## 7.0 Sustainable Investment (cont.)

PNB's SI principles are in line with the sustainable investment principles of the membership networks and standards that we subscribe to, which include the Principles for Responsible Investment ("PRI") supported by the United Nations and the Malaysian Code for Institutional Investors.

### 7.1.1 Two-Step Approach to Sustainable Investing

PNB adopts a two-step approach to sustainable investing across all asset classes; ESG Negative Screening and adopting an integrated approach to embed ESG considerations in our investment value chain.

#### 7.1.1.1 ESG Negative Screening

ESG Negative Screening excludes potential investment opportunities related to controversial business activities defined by PNB, which are guided by PNB's exclusion list that excludes companies involved in the related sectors<sup>11</sup> ("Exclusion List") due to ethical violations and / or exposure to unacceptable risks.

PNB seeks alignment, where possible, with local and international standards as well as the best practices defined by various organisations. Our Exclusion List will be reviewed at least annually by the MSC.

Further information on PNB ESG Negative Screening can be found on Appendix I of this Policy.

#### 7.1.1.2 Embedding ESG into the Investment Value Chain

An integrated approach to embed ESG factors together with a standard operating procedure will be operationalised in parallel to conventional investment parameters across all investment decision making in PNB.

## 8.0 Sustainable Enterprise

PNB adopted a holistic transformation approach towards Net Zero Enterprise through the implementation of R2O; Reduce, Replace and Offset.

The Reduce initiative is to prioritise emission reduction initiatives through identifying high-impact initiatives, adapting ESG values in daily operations as well as engaging and educating the internal and external stakeholders radically.

The Replace initiative is to implement high-efficiency improvement initiatives which lead to reduce emissions including targeted emission reduction activities, assessment of the availability of technology in the market as well as change management and continuous engagement with related stakeholders.

<sup>11</sup> Alcohol, gambling, greenfield coal investment, tobacco, marijuana and recreational drugs, weapons and adult entertainment.



## 8.0 Sustainable Enterprise (cont.)

The Offset initiative is via the purchase of carbon credits to offset the remaining hard-to-abate emissions, which follow applicable carbon offsetting guidelines available globally, while prioritising nation-building initiatives and projects that are verifiable and credible.

## 9.0 Performance Measurement, Standards & Reporting

PNB's performance measurement is based on materiality issues that have been identified by SSID, ESGID and other relevant departments via materiality review process, including:

1. Identifying issues related to the operation of PNB through employee feedback, trends and best practices in the market.
2. Understand material topics for PNB through workshops, surveys, and engagement with stakeholders.
3. Prioritise material issues to shape PNB's sustainability commitment, strategy, approach and reporting.

The revision of materiality factors shall be submitted by SSID and ESGID to the MSC for approval once every three (3) years, or as and when needed, and will be the basis for formulating PNB's Ten (10) ESG commitment from time to time.

PNB will monitor the progress of sustainability initiatives and provide disclosure based on the PNB's Ten (10) ESG Commitments, and shall align the same to international standards of reporting e.g. the Global Reporting Initiative (GRI) and Task Force on Climate-Related Financial Disclosures (TCFD). The report on disclosure and progress will be published annually.

## 10.0 Management & Document Control

This Policy shall be reviewed by the MSC and shall be subject to the approval of the Board of Directors of PNB on an annual basis, or whenever there are changes to our sustainability and ESG approach or mandate to ensure the continued relevance and appropriateness of its contents, taking into consideration any changes in applicable guidelines, regulations and changes to existing practices / processes. SSID and ESGID are the custodians of this Policy and are responsible for its continuous development, maintenance and distribution. This Policy has been reviewed by the MSC and approved by the Board of Directors of PNB.



## APPENDIX I

### PNB ESG Negative Screening

No	Exclusion Criteria	Definition
1	Alcohol	This involves production, packaging, distribution, marketing and sales of alcoholic beverages.
2	Gambling	This involves creation, development, operations and marketing of traditional (i.e. slot machines, roulette, poker) or digital (i.e. online casino, sport betting apps) gambling games.
3	Greenfield Coal Investment	This involves exploration, construction and operation of new thermal coal mines and new coal-fired thermal power plants. By not directly investing in the development of new thermal coal infrastructure, PNB can contribute towards preventing the expansion of coal generating capacities in the future.
4	Tobacco	This involves cultivation of tobacco as well as manufacturing, distribution, marketing and sales of tobacco products, e-cigarettes and vaping products.
5	Marijuana and recreational drugs	This involves the manufacturing, production, processing, distribution, marketing, or sale of drugs (including but not limited to marijuana and/or recreational drugs).
6	Weapons	This involves design and development, manufacturing, distribution and after-sales support of weapons, from small arms to large military weapons.
7	Adult Entertainment	This involves production, distribution, sales and marketing of adult-related content.

