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Strategic Positioning for ESG-Conscious Investors

When investors are interested in ESG-themed (Environmental, Social, and Governance) investments, there are several sectors they can consider for their investments. These sectors have gained attention due to their strong alignment with ESG principles and the potential for both financial returns and positive impact.

This article delves into the main/primary sector allocations within the FTSE4Good Bursa Malaysia Index (F4GBM) and the FTSE4Good Bursa Malaysia Shariah Index (F4GBMS). For the latest review period of June 2023, the F4GBM Index comprises a total of 98 constituents. Simultaneously, the F4GBMS Index consists of 77 constituents. Both indices are reviewed semi-annually in June and December against international benchmarks.

Sector (by alphabetical order)	Number of Constituents in			
	FTSE4Good Bursa Malaysia Index	Weightage (%)	FTSE4Good Bursa Malaysia Shariah Index	Weightage (%)
Construction	1	1%	1	1%
Consumer Products & Services	13	13%	11	14%
Energy	8	8%	6	8%
Financial Services	15	15%	4	5%
Health Care	4	4%	4	5%
Industrial Products & Services	11	11%	9	12%
Plantation	5	5%	5	6%
Property	9	9%	9	12%
Real Estate Investment Trusts	2	2%	1	1%
Technology	14	14%	14	18%
Telecommunications & Media	6	6%	5	6%
Transportation & Logistics	6	6%	5	6%
Utilities	4	4%	3	4%
	98	100%	77	100%

Source: Bursa Malaysia, compiled by PCM

1. Financial Services

The Financial Services sector (including Banks) in Malaysia plays a crucial role in promoting good governance practices and ethical behaviour. Transparent financial reporting, responsible lending, and ethical investment practices contribute to the governance and social aspects of ESG. Financial institutions also have the opportunity to support sustainable development through responsible financing and investment decisions.

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2. Technology

Many Tech names in Malaysia earn strong ESG ratings from investor research and ratings firms mainly due to their low-emissions footprint. In addition to that, Tech is strategically aligned with emerging ESG investment trends, including Electric Vehicles, Semiconductors, Artificial Intelligence, Biotechnology, and other related themes.

3. Consumer Products & Services

Companies in the Consumer Products & Services sectors that prioritise sustainable sourcing, ethical production, and fair labour practices demonstrate a commitment to ESG principles. Efforts to reduce waste, promote recycling, and offer environmentally friendly products contribute to the environmental aspect of ESG.

4. Industrial Products & Services

Certain industrial companies have exposures to the Technology/Semiconductor industries, which stand to gain from the rising trends mentioned earlier. Separately, some metal/chemical companies such as PMETAL and PCHEM are among the constituents of F4GBM and F4GBMS Index. PMETAL is seen as an indirect beneficiary of the global push towards decarbonisation as aluminium is the preferred metal of use in the EV and solar photovoltaic (PV) sectors. PCHEM has an established framework and internal policies in driving its ESG commitments. Sustainability KPIs were introduced in top management performance appraisals.

5. Property

Numerous property projects are actively engaged in promoting sustainable development. This includes reducing carbon emissions by incorporating EV charging stations, water-efficient fittings to optimise water consumption, using sustainable/eco-friendly materials and more. Moreover, there are some publicly listed companies that specialise in affordable housing, aligning favourably with the social aspect of ESG principles.

Not in the Top 5 list (yet) is the Utilities Sector. Despite comprising only 4 constituents in F4GBM and 3 constituents in F4GBMS, we believe that this sector holds considerable untapped potential. Malaysia's push towards renewable energy, including solar, wind, and hydropower, showcases its commitment to reducing carbon emissions and mitigating climate change. Investing in renewable energy aligns with both environmental and social aspects of ESG, as it reduces reliance on fossil fuels and provides cleaner energy sources while creating job opportunities.

Additionally, the Plantation and Energy Sectors are not part of the aforementioned Top 5 in the F4GBM and F4GBMS lists. Some plantation and energy names have been under scrutiny due to its environmental impact, including deforestation and habitat destruction. Nevertheless, efforts aimed at enhancing the sustainability of these sectors, including the commitment to stricter environmental regulations, underscore a dedicated emphasis on ESG principles. Additionally, improving labour conditions in the plantation sector (especially) contributes to the social component of ESG.

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Overall, while the Top 5 ESG sectors in Malaysia undoubtedly shine as beacons of sustainable practices and responsible governance, it is important not to overlook other sectors like Utilities, Plantation, and Energy. These sectors, although not prominently featured in the Top 5 rankings currently, still hold significant potential for ESG-conscious investors. Efforts towards sustainability, adherence to stringent regulations, and the exploration of innovative approaches collectively highlight the commitment of various sectors to align with ESG principles. As the investment landscape continues to evolve, keeping an open mind to the untapped potential within these sectors could yield both financial returns and a positive impact on the broader ESG agenda. Finally, we view that with the rising popularity of ESG considerations, an increasing number of companies will intensify their efforts to enhance their ESG profiles. This proactive approach is likely to lead to greater inclusion in the index in the times ahead.

Our investment portfolio focuses on quality companies that possess strong fundamentals, including stable earnings and a promising future outlook, and are led by capable management teams. Please click on the [link](#) to learn more or email us at phillipmutual@phillipcapital.com.my if you require any further information.

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