

**PHILLIP MUTUAL BERHAD**

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## **ASEAN-ISE: Empowering Sustainable Development through Collaborative ESG Initiatives**

On 15<sup>th</sup> Feb 2024, four ASEAN stock exchanges namely Bursa Malaysia, the Singapore Exchange (SGX), the Stock Exchange of Thailand (SET) and the Indonesia Stock Exchange (IDX) will be jointly developing an initiative to implement common ESG (environmental, social, and governance) metrics in their respective data infrastructures and advance the region's sustainable development, known as the ASEAN-Interconnected Sustainability Ecosystem (ASEAN-ISE). Separately, the four Participating Exchanges also agreed on a foundational governance structure and operational blueprint for building this ecosystem. We see this positively as ASEAN exchanges are collaborating for a reliable, harmonised data system, with adaptable solutions for individual market needs.

Taking a step back, in ASEAN, the embrace of Environmental, Social, and Governance (ESG) practices is primarily driven by factors such as global supply chains, governmental regulations, progressive business leadership, and a younger demographic demanding sustainable consumption. Furthermore, there is a noticeable trend towards stricter traceability and reporting standards, driven by heightened demands (especially from North American and European customers) for sustainable sourcing. Therefore, the recent initiative by the Participating Exchanges is commendable in setting up a framework for sustainable future.

Challenges ahead primarily concern SMEs in adopting ESG practices due to speed and inclusivity issues. While more firms are expected to embrace ESG, some may face exclusion due to high compliance costs. ASEAN's network-focused dynamic suggests a trickle-through effect as countries adapt to ESG regulations, potentially aiding wider adoption across the region. Therefore, this new ecosystem is envisaged to facilitate cross-border trade flows, connect corporates' supply chains to ESG-oriented investment capital, and provide suppliers with good ESG practices and disclosures to secure more competitive financing rates.

### **Phillip Capital Management Sdn Bhd (PCM)'s role in ESG**

In line with the nation's goal towards sustainability, PCM has integrated ESG factors that we attest as material and relevant for a company's financial performance and long-term sustainability into our investment decision-making process. These include but not limited to ESG ratings by established index, environmental considerations (climate change, natural resources preservation, pollution & waste), social considerations (health & safety, community engagement, employee relations) and governance considerations (board independence, transparency & disclosure, shareholder rights).

Separately, PCM offers discretionary portfolio that invests in stocks with high ESG ratings from the F4GBM and F4GBMS Indices, namely [PMART](#) and [PMA](#) ESG. There are both conventional and Shariah options available. PMART and PMA ESG is suitable for investors who want to optimise the risk-adjusted return by constructing a diverse sustainable portfolio of ESG companies.

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[In our recent publication](#), we emphasised that despite the challenges in 2023, the majority of our Private Managed Accounts posted positive returns, surpassing the 2.7% decline observed in the KLCI. Specifically, our ESG portfolios demonstrated robust performance, achieving a significant positive return of +9.7%, outperforming the KLCI, which saw a decline of -2.7%, and surpassing the F4GBM Index, which recorded a modest increase of +0.7%. Here is the list of stocks in our ESG mandates.

**Table 1: ESG Mandates – Stock List 2024**

## Conventional ESG Portfolio

No	Stock	F4GBM ESG Rating <sup>[1]</sup>
1	BERMAZ AUTO BHD	4-Star
2	CTOS DIGITAL BERHAD	4-Star
3	INARI AMERTRON BHD	4-Star
4	KELINGTON GROUP BERHAD	4-Star
5	LAGENDA PROPERTIES BERHAD	3-Star
6	MATRIX CONCEPTS HOLDINGS BHD	3-Star
7	MALAYAN BANKING BHD	4-Star
8	PUBLIC BANK BHD	3-Star
9	SIME DARBY BHD	3-Star
10	SIME DARBY PLANTATION BERHAD	2-Star
11	TELEKOM MALAYSIA BHD	3-Star
12	TENAGA NASIONAL BHD	3-Star
13	YINSON HOLDINGS BHD	3-Star

## Shariah ESG Portfolio

No	Stock	F4GBMS ESG Rating <sup>[1]</sup>
1	BERMAZ AUTO BHD	4-Star
2	CTOS DIGITAL BERHAD	4-Star
3	INARI AMERTRON BHD	4-Star
4	LAGENDA PROPERTIES BERHAD	3-Star
5	MATRIX CONCEPTS HOLDINGS BHD	3-Star
6	PENTAMASTER CORPORATION BHD	2-Star
7	SIME DARBY BHD	3-Star
8	SIME DARBY PLANTATION BERHAD	2-Star
9	TELEKOM MALAYSIA BHD	3-Star
10	TENAGA NASIONAL BHD	3-Star

Source: PCM

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### **How our holdings could harness the benefits of increasing ESG trend?**

We believe listed companies with good ESG practices will continue to benefit from the rising sustainability trend. Furthermore, we have pinpointed selected names within key sectors—Construction, Renewables, Utilities, and Property—that stand to benefit from the Net-Zero Transition Roadmap (NETR) and the policies outlined in Budget 2024. As companies enhance their ESG performance, we foresee a reduction in the risks associated with foreign labour dependency, a factor that historically affected industries such as Plantation, Construction, Gloves, and Electronic Manufacturing Services (EMS). With supply chains increasingly prioritising ESG criteria, ongoing government and corporate initiatives will help mitigate the risks of sanctions and reputational damage. This is crucial amid heightened ESG scrutiny, safeguarding trade opportunities.

**Note:**

[1] *ESG Ratings of Public Listed Companies (PLCs) assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology, December 2023 - [link](#)*

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](mailto:phillipmutual@phillipcapital.com.my) if you require any further information.

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