



Federation of Investment Managers Malaysia



2024 SURVEY **FIMM**

“ ESG Integration in Malaysia’s Investment Management Industry ”

TABLE OF CONTENTS

INTRODUCTION	3
EXECUTIVE SUMMARY	4
LITERATURE REVIEW	5
KEY FINDINGS	6
Corporate ESG Reporting	6
Stakeholder Engagement & Influence on Investment	7
Resources, Education, and Industry Development	8
Consultant Perspectives & Challenges	9
RECOMMENDATION & CONCLUSION	10

INTRODUCTION

Environmental, Social, and Governance (ESG) factors have become increasingly crucial in the global investment management landscape. As investors and stakeholders alike demand greater accountability and sustainability from the companies they invest in, ESG integration has emerged as a key strategy for ensuring long-term value and risk mitigation. By benchmarking against global standards and analyzing survey findings from industry participants, this report aims to provide a comprehensive overview of how ESG principles are being adopted and implemented in Malaysia's investment management sector.

Research Objective:

To assess the current extent of ESG integration within Malaysia's investment management sector, encompassing both corporate and consultant levels.

Research Design and Methodology:

The research design included the issuance of a comprehensive survey to industry participants at both corporate and consultant levels.

A structured survey consisting of 20 questions was designed to capture the insights and experiences of respondents regarding ESG integration. The survey was divided into two sections, tailored separately for corporate entities and consultants. The questions were crafted to gather data on several key aspects, including ESG reporting practices, stakeholder engagement, strategic planning, and the perceived impact of ESG initiatives.

Respondent Profiles

The survey garnered a total of 12 corporate respondents (Figure 2) and 317 consultant respondents, representative of the Malaysian population (Figure 1).

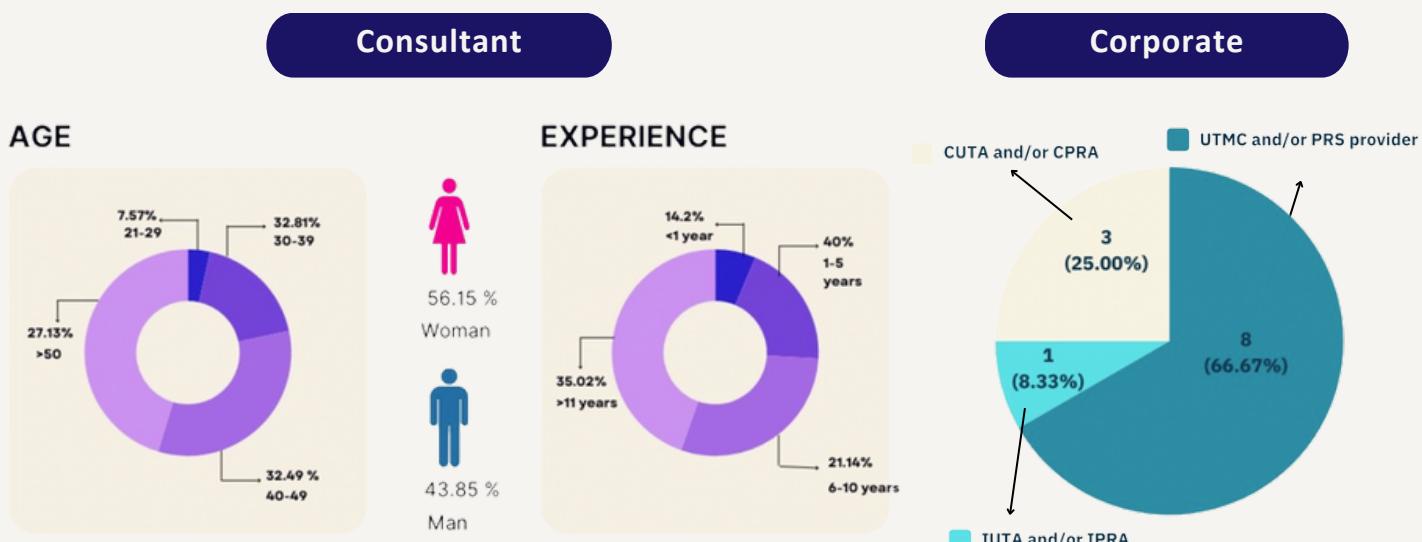


Figure 1: Consultant Respondent Profile

Figure 2 : Corporate Respondent Profile

EXECUTIVE SUMMARY

FIMM 2024 Survey on ESG Integration outlines the current state and implications of incorporating Environmental, Social, and Governance (ESG) principles in Malaysia's investment management sector.

The survey was designed to assess the extent of ESG integration within Malaysia's investment management industry, targeting both corporate entities and consultants. It included a structured questionnaire with 20 questions aimed at collecting data on ESG reporting practices, stakeholder engagement, strategic planning, and the perceived impact of ESG initiatives.

Corporate Overview:

- **ESG Reporting and Implementation:**

There is a noticeable variance in how different corporate entities approach ESG reporting. Many are still in the initial stages of developing an ESG framework, indicating an early stage of integration within their operational strategies.

- **Stakeholder Engagement**

Corporate engagement with stakeholders on ESG issues varies widely. Some companies have established significant engagement, implementing regular interactions with stakeholders regarding ESG matters, while others are yet to start or are in the planning stages.

- **Impact on Investments and Reputation**

ESG initiatives have a moderate impact on investment decisions and are not yet central to decision-making. However, effective ESG reporting greatly improves a company's reputation.

Consultant Overview:

- **Understanding and Engagement**

Consultants show varying levels of understanding and engagement with ESG principles. Many have only a moderate grasp of these issues, indicating a gap in comprehensive ESG training and knowledge among professionals who advise on investment strategies.

- **Challenge Faced by Consultants**

The main challenges for consultants include a lack of sufficient information about ESG, poor understanding of ESG frameworks, and a general lack of promotion of ESG principles within their practices. These challenges hinder their ability to effectively integrate and promote ESG in their advisory services.

- **Professional Development Requirements**

There is a clear need for ongoing education and structured training programs to enhance consultants' expertise in ESG. This could improve the quality of advice given to investors and encourage a deeper integration of ESG factors into investment strategies.

LITERATURE REVIEW

This literature review examines the Environmental, Social, and Governance (ESG) adoption trends, integration practices, and challenges in the United Kingdom, Australia, and Malaysia. These countries represent different stages of ESG market development, offering insights into the evolving landscape of sustainable investing across diverse economic contexts.

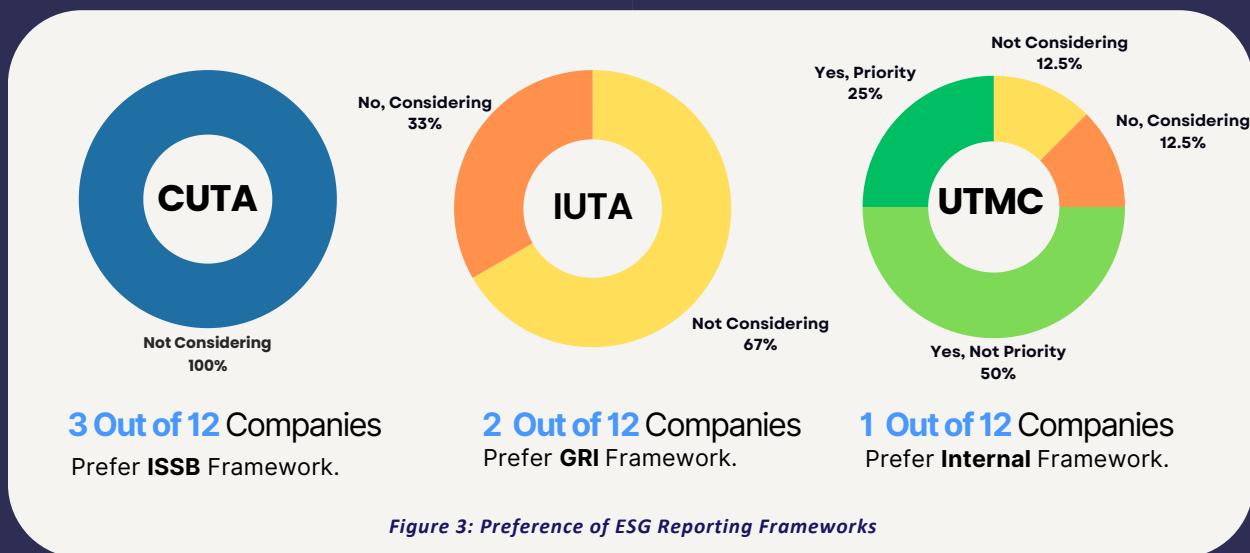
Comparison Table:

Aspect	United Kingdom 	Australia 	Malaysia 
Market Growth	\$116.7B in ESG funds (2020)	Substantial; 78% of top 200 using TCFD	\$0.84B in SRI funds (2020)
Regulatory Framework	Strong; mandatory disclosures, net-zero by 2050	Comprehensive; 43% emissions cut by 2030, net-zero by 2050	Developing; SRI Roadmap introduced 2019, net-zero by 2050
Investor Demand	High; 57% increased ESG allocation	Strong; 65% of fund managers consider ESG	Moderate; Institutional-led retail lagging
ESG Integration	Advanced; positive screening, best-in-class	Integrated in analysis and valuation	Unique; blends Islamic finance with ESG
Active Ownership	Widespread; Stewardship Code 2020	Favoured but implementation gaps exist	Emphasized but effectiveness questioned
Key Challenges	Data consistency (78% of survey respondents cite as major issue)	Reporting inconsistencies	Data quality, SME prevalence
Greenwashing Response	Proactive; developing labelling regime	Active; Guidelines from regulatory bodies	Growing concern; measures less developed
Skills Gap	Impacting ESG integration quality	Acute in key sectors (e.g., energy)	Major barrier to accelerating adoption

Summary: The table compares ESG adoption in the UK, Australia, and Malaysia across various aspects. Market growth ranges from approximately \$116.7 billion in ESG funds in the UK (Investment Association, 2021) to \$0.84 billion in SRI funds in Malaysia (as of 2020) (Securities Commission Malaysia, 2021). Australia shows substantial growth with 78% of its top 200 companies using TCFD (Australian Council of Superannuation Investors, 2022). Regulatory frameworks vary, with the UK, Australia and Malaysia targeting net-zero by 2050 (UK Government, 2019; Department of Climate Change, Energy, the Environment and Water, 2023; Securities Commission Malaysia, 2019), while Australia aims for 43% emissions cut by 2030 (Australian Government Department of Climate Change, Energy, the Environment and Water, 2022). Investor demand is high in the UK and Australia (Schroders, 2021; Chong and Ng, 2018), while Malaysia is still institutional-led (Securities Commission Malaysia, 2020). ESG integration practices differ, with the UK being most advanced. Active ownership is widespread in the UK (Financial Reporting Council, 2020) but faces implementation gaps in Australia and Malaysia (Lokuwaduge and de Silva, 2020; Amran, Lee and Devi, 2014). Key challenges include data consistency in the UK, with 78% of investment professionals citing it as a major issue according to the CFA Institute (2020), reporting inconsistencies in Australia (Atan et al., 2018), and data quality and SME prevalence in Malaysia (Securities Commission Malaysia, 2020). The skills gap impacts all three countries to varying degrees (Responsible Investor, 2021; Securities Commission Malaysia, 2020).

Conclusion: While all three countries are progressing in ESG adoption, they face different challenges and are at varying stages of development. The UK leads in many aspects of ESG integration with the largest market size (Investment Association, 2021), followed by Australia with its substantial adoption of TCFD among top companies, while Malaysia shows promising growth but faces more significant challenges and has a smaller market size (Securities Commission Malaysia, 2021). Addressing these issues will require tailored approaches in each country, considering their unique market structures, regulatory environments, and investor bases.

CORPORATE ESG REPORTING



IMPLEMENTATION

The implementation of ESG reporting varies significantly across different types of investment Undertakings.

- For CUTA, there is a general lack of interest in ESG reporting, with most not considering its implementation. Among those who are considering it, there is a preference for the ISSB framework.
- For IUTA , a majority have not considered ESG reporting however 33% are planning to adopt it by the end of 2024 . A small number of companies prefer the GRI framework.
- For UTMC , most are still in the early stages of developing an ESG reporting framework.
- Remaining companies have no plans or are still considering their options.

MEASUREMENT

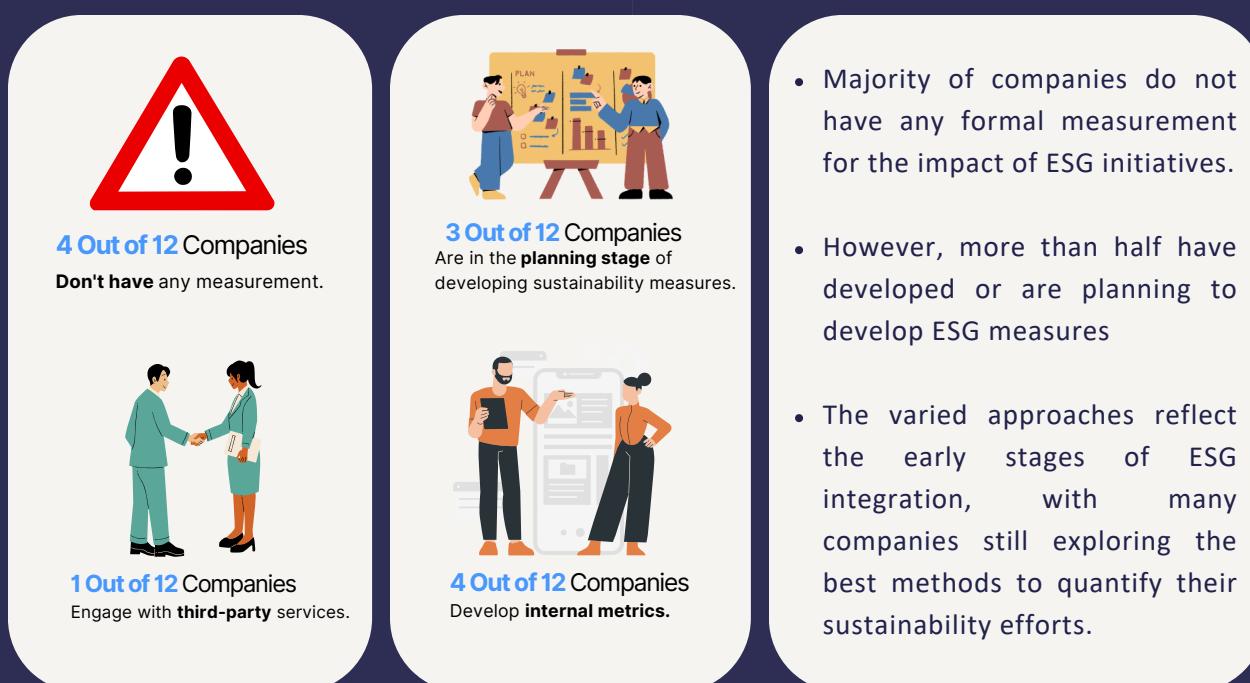


Figure 4: ESG Measurement in Companies

STAKEHOLDER ENGAGEMENT & INFLUENCE ON INVESTMENT

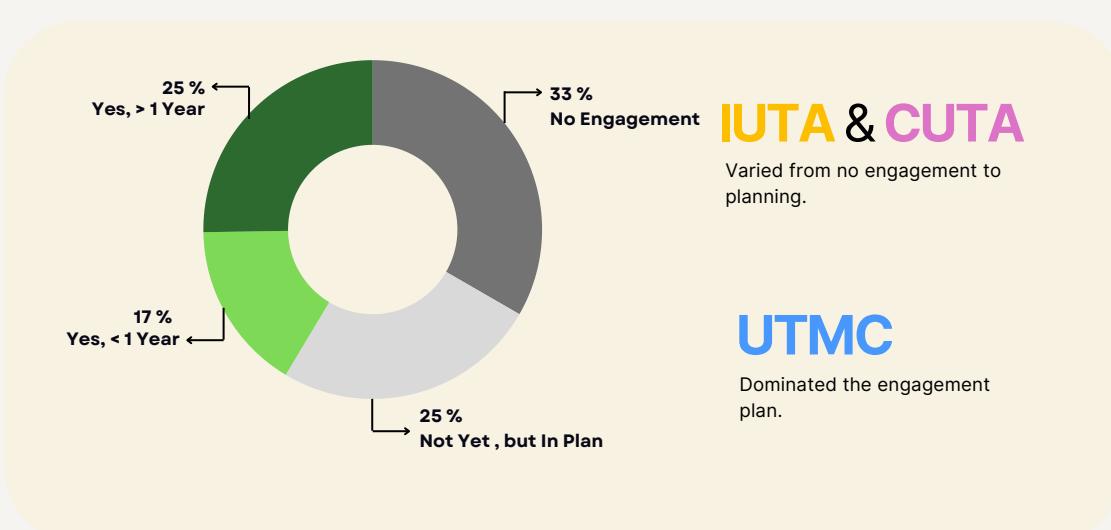


Figure 5: Company Engagement with Stakeholders on ESG Matters

STAKEHOLDER ENGAGEMENT

Based on the chart, one third of companies report no engagement with stakeholders on ESG matters, while 25% have plans to start but have yet to engage. Additionally, 17% of companies have been engaging with stakeholders for less than one year, and a quarter have been doing so for more than one year.

On the right side of the chart, it's evident that UTMC companies are actively engaging with stakeholders on ESG matters, while IUTA and CUTA are still in the planning phase for such engagement.

ESG ALIGNMENT

Majority of companies show a minimal or no alignment with ESG in their company portfolio. Specifically, 75% companies have no ESG-aligned investment and one third have less than 5% of their investments aligned with ESG. This indicates that the overall level of ESG alignment remains low and only few companies begin to integrate ESG principles into their investment strategies.

INVESTOR DECISION



Figure 6: ESG Alignment in Company Portfolio

Regarding the influence ESG-related initiatives on investors' decisions, half the companies believe there will be a moderate impact, while a quarter think there will be no impact.

As for whether effective ESG reporting enhances a company's reputation among stakeholders, almost all the companies agree that it does. This underscores the importance of ESG reporting in building and maintaining a favourable reputation in the market .

RESOURCES, EDUCATION, AND INDUSTRY DEVELOPMENT

Key Strategies for Transitioning

- ① Guidance for Industry
- ② Awareness for Public
- ③ Collaboration with Regulators

Resource Allocation



Figure 8: Key Transitioning Strategies and Resource Allocation

There is a consensus on the importance of having a clear industry guidance , increasing public awareness and fostering collaboration with regulatory bodies for driving the adoption of sustainable practices across the industry.

The commitment to resource allocation for ESG initiatives varies significantly among companies. While some companies have established dedicated departments or engage in shared initiatives to promote sustainable practices, a substantial number still lack any concrete plans for resource allocation.

ESG AWARENESS OUTLOOK

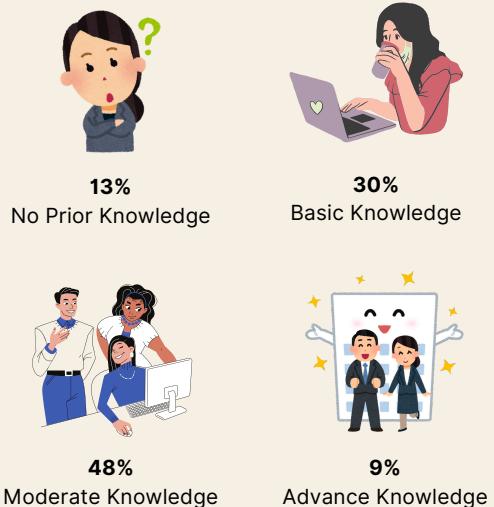


Figure 9: Level of Familiarity with ESG for Consultants

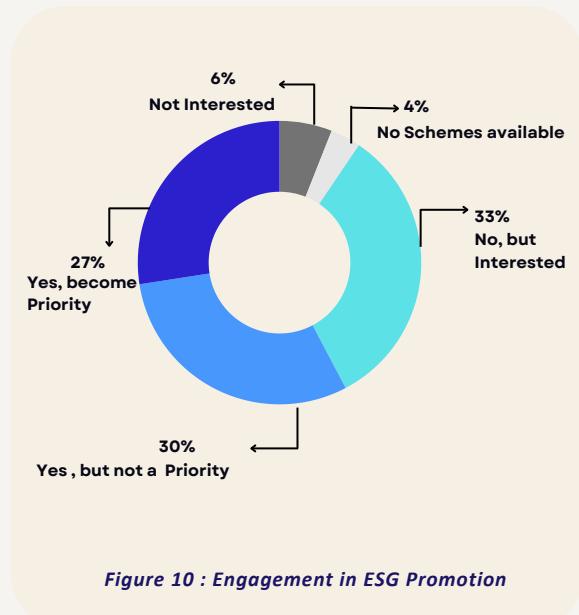


Figure 10 : Engagement in ESG Promotion

Consultant's understanding of ESG investment varies, with majority having a moderate level of knowledge, while a smaller proportion have advanced or beginner-level understanding. This highlights the need for ongoing training and education programs to enhance their expertise in ESG investments which may improve the quality of advice and services provided to investors. Building the capacity of consultants through structured learning opportunities can drive more effective promotion and integration of ESG principles in the industry. The interest in exploring and promoting ESG schemes indicates a growing market potential for sustainable investments.

CONSULTANT PERSPECTIVES & CHALLENGES

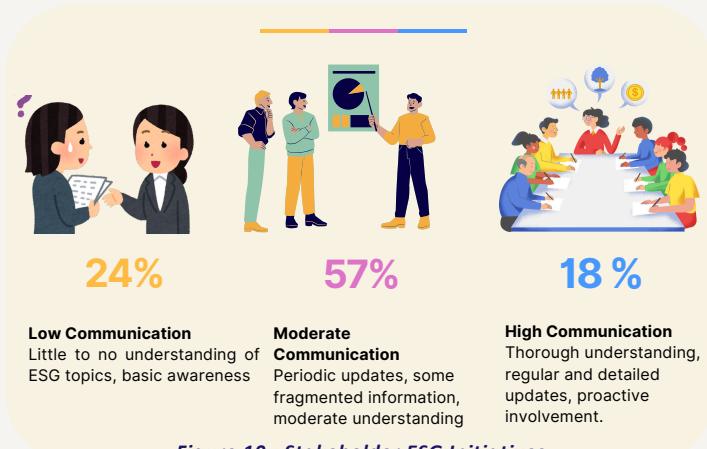


Figure 10 : Stakeholder ESG Initiatives



Figure 11 : ESG Maturity Level of Investors

The diverse levels of stakeholder engagement on ESG matters suggest that companies are at different stages of integrating ESG into their operations. With more than half of the companies having moderate communication and awareness, it underscores the need for more consistent and comprehensive stakeholder engagement practices across the industry. The variation in company-stakeholder engagement on ESG matters indicates that best practices are not yet widely adopted, though more than half are moderately aware and promoting ESG.

In terms of the maturity levels of investors in ESG, 66% of investors are aware of ESG investments and 41% of those investors have invested. Enhancing investor education on ESG principles and benefits is essential for increasing their maturity and willingness to invest in sustainable options. This can lead to more informed investment decisions.

HOW CONSULTANTS STAY UPDATED?



Figure 12 : Method of Awareness for ESG-led initiatives

Half of the respondents stay updated with developments of ESG investments through company training, while some prefer self-research. This suggests that companies are the primary sources of information for ESG-led initiatives.

INDUSTRY CHALLENGES AND SUPPORT

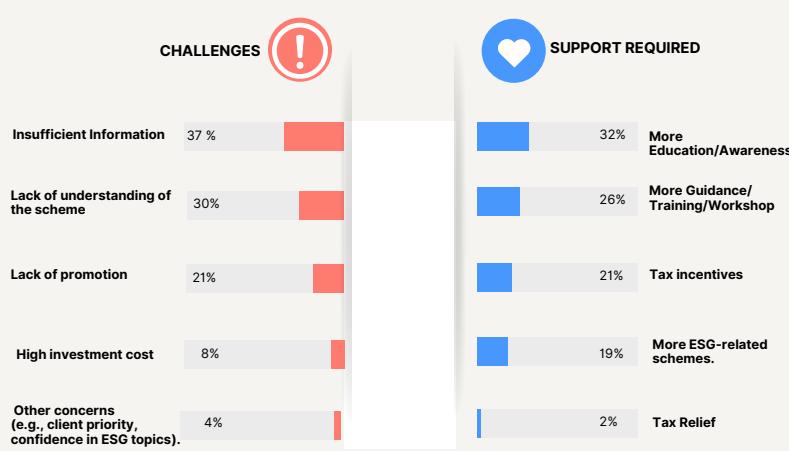


Figure 13: Challenges Faced and Support Required by Consultants in Promoting ESG

There are 3 primary challenges that hinders the widespread of ESG, which are insufficient information, lack of understanding of the scheme, and a lack of promotion.

These issues can be addressed through better education/awareness campaigns, more guidance in trainings or workshops, greater tax incentives, and more schemes. Solving these challenges will not only boost the adoption of ESG in companies but also improve the quality of individual knowledge.

RECOMMENDATION

Based on the survey findings, there is a significant variation in the implementation of ESG (Environmental, Social, and Governance) initiatives across different types of investment undertakings. Below are the recommendations to improve ESG as it is crucial for companies and governments to demonstrate their commitment and reliability.

Raising awareness helps companies recognize the value of ESG initiatives, encouraging them to integrate ESG principles into their business strategies and operations especially for IUTA and CUTA. Companies can organize more workshops and informational campaigns that highlight ESG case studies and provide guidance for implementing ESG in their business practices.

Next, companies should send committee members, who are existing employees to network with companies that are currently practising ESG principles. This will help to broaden their understanding and knowledge on ESG, enabling them to bring back valuable insights to implement within their own company. Ultimately, this will allow the company to adopt and stay updated with ESG practices, enhancing their business performance.

Lastly, facilitating partnerships between government bodies and companies to co-develop ESG projects provides substantial benefits. Companies can utilize governmental expertise and support, such as facilitating networking with relevant stakeholders to enhance project impact and funding opportunities, while those new to ESG practices can gain valuable learning opportunities through hands-on experience and knowledge sharing from those who are currently practising ESG principles during project implementation.

CONCLUSION

In terms of ESG integration, this survey shows the state and future directions of the investment management sector in Malaysia. Overall, the ESG reporting and implementation business is still in its early stages, despite certain organizations and consultants having made considerable headway in this area. Stakeholder involvement, strategic planning, and ESG reporting vary greatly throughout organizations, which is indicative of the industry's inconsistent understanding and implementation of ESG concepts. Businesses continue to confront obstacles in the form of inadequate resource allocation, a lack of professional expertise, and a lack of comprehension of the ESG framework when it comes to the creation and promotion of the ESG framework. The paper suggests strengthening industry guidelines, increasing public awareness, encouraging collaboration with regulators, and providing additional funding for ESG activities as ways to encourage wider incorporation of ESG. By doing this, businesses will be better able to manage and apply ESG in a methodical manner, improve stakeholder trust and corporate performance, respond to concerns about sustainability and responsible investing throughout the world, and ensure long-term value and risk management.



REFERENCES

- Amran, A., Lee, S.P. and Devi, S.S., 2014. The influence of governance structure and strategic corporate social responsibility toward sustainability reporting quality. *Business Strategy and the Environment*, 23(4), pp.217-235.
- Atan, R., Alam, M.M., Said, J. and Zamri, M., 2018. The impacts of environmental, social, and governance factors on firm performance. *Management of Environmental Quality: An International Journal*, 29(2), pp.182-194.
- CFA Institute, 2020. *Future of Sustainability in Investment Management*. Charlottesville: CFA Institute.
- Chong, W.L. and Ng, K.Y., 2018. Perception of ESG investing among Malaysian fund managers. *Capital Markets Review*, 26(2), pp.1-25.
- Financial Conduct Authority, 2021. Guiding principles on design, delivery and disclosure of ESG and sustainable investment funds. London: FCA.
- Financial Reporting Council, 2020. *UK Stewardship Code 2020*. London: FRC.
- Ghazali, N.A.M., 2007. Ownership structure and corporate social responsibility disclosure: some Malaysian evidence. *Corporate Governance: The international journal of business in society*, 7(3), pp.251-266.
- Investment Association, 2021. *Investment Management in the UK 2020-2021*. London: The Investment Association.
- Lokuwaduge, C.S.D.S. and de Silva, K., 2020. Emerging Corporate Disclosure of Environmental Social and Governance (ESG) Risks: An Australian Study. *Australasian Accounting, Business and Finance Journal*, 14(2), pp.35-50.
- Morningstar, 2021. *European Sustainable Funds Landscape*. Chicago: Morningstar, Inc.
- Responsible Investor, 2021. *ESG Talent Survey 2021*. London: Responsible Investor.
- Schroders, 2021. *Global Investor Study 2021*. London: Schroders plc.
- Securities Commission Malaysia, 2019. *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market*. Kuala Lumpur: Securities Commission Malaysia.
- Securities Commission Malaysia, 2020. *Sustainable and Responsible Investment in the Malaysian Capital Market*. Kuala Lumpur: Securities Commission Malaysia.
- Securities Commission Malaysia, 2021. *Annual Report 2020*. Kuala Lumpur: Securities Commission Malaysia.
- UK Government, 2019. UK becomes first major economy to pass net zero emissions law. [online] Available at: [https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-netzero-emissions-law](https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law) [Accessed 1 July 2024].
- Australian Council of Superannuation Investors (ACSI), 2022. *ESG Reporting by the ASX200*. [online] Available at: <https://acsi.org.au/wp-content/uploads/2022/08/ACSI-ESG-Reporting-Trends-in-the-ASX200.pdf> [Accessed 1 July 2023].
- Department of Climate Change, Energy, the Environment and Water, 2023. Australia's climate change strategies. [online] Available at: <https://www.dcceew.gov.au/climate-change/policy/australias-climate-change-strategies> [Accessed 1 July 2023].
- Australian Government Department of Climate Change, Energy, the Environment and Water, 2022. Australia's Nationally Determined Contribution Communication 2022. [online] Available at: <https://www.dcceew.gov.au/sites/default/files/documents/australias-ndc-communication-2022.pdf> [Accessed 1 July 2023].