



Suruhanjaya Sekuriti
Securities Commission
Malaysia



SUSTAINABLE AND RESPONSIBLE INVESTMENT GUIDE

FOR PRIVATE MARKETS

SUSTAINABLE AND RESPONSIBLE INVESTMENT GUIDE FOR PRIVATE MARKETS



Suruhanjaya Sekuriti
Securities Commission
Malaysia



DISCLAIMER

The *Sustainable and Responsible Investment Guide for Private Markets* aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.

© Copyright and published by the Securities Commission Malaysia, December 2023.

CONTENT

	BACKGROUND	5
	OBJECTIVE OF THE SRI GUIDE FOR PRIVATE MARKETS	7
	HOW TO USE THE SRI GUIDE FOR PRIVATE MARKETS	7
CHAPTER 1	OVERVIEW OF INVESTMENT AND DUE DILIGENCE PROCESSES	8
1.1	Investment Process of Venture Capital Management Corporations/ Private Equity Management Corporations	9
1.2	Due Diligence Process of Equity Crowdfunding/Peer-to-Peer Financing Platform Operators	10
CHAPTER 2	SUSTAINABILITY CONSIDERATIONS	12
2.1	Application of Sustainability Considerations	13
2.1.1	Screening	14
2.1.2	Environmental, Social, and Governance Factors	15
2.1.3	United Nations Sustainable Development Goals	16
2.1.4	Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market	21
2.2	Enhancing Sustainability Data Availability for Venture Capital Management Corporations/Private Equity Management Corporations and Equity Crowdfunding/Peer-to-Peer Financing Platform Operators	22
CHAPTER 3	ADOPTION OF SUSTAINABILITY PRACTICES BY VENTURE CAPITAL MANAGEMENT CORPORATIONS/PRIVATE EQUITY MANAGEMENT CORPORATIONS	24
3.1	Active Ownership	25
3.2	Engagement	25
3.3	Development of Sustainable Investment Mandates	25
3.4	Monitoring Process and Communications	25
	CONCLUSION	26
	APPENDIX	27
	ACRONYMS AND ABBREVIATIONS	28

BACKGROUND

In recent years, there has been a growing recognition of the importance of incorporating sustainability considerations in investments, resulting in an increase of sustainable investments from US\$22.8 trillion in 2016 to US\$37.8 trillion in 2022.¹ This trend is expected to grow further and exceed US\$53 trillion by 2025.² Within the global private markets, from 2019 until the end of 2022, over 330 new sustainability, environmental, social and governance (ESG), and impact funds were launched by private-market equity investors. These funds saw their cumulative assets under management (AUM) grow threefold, surging from US\$90 billion to over US\$270 billion over the same period.³

Similarly in Malaysia, there is a noticeable increase in sustainable investments. This is driven by the facilitative policy frameworks introduced by the Securities Commission Malaysia (SC). Guided by the respective blueprints and masterplans, the SC has outlined its aspirations to enhance sustainable finance through the sustainable and responsible investment (SRI) and Islamic capital market (ICM) pillars. The *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap)*⁴ identified 20 recommendations across five overarching strategies, known as the 5i-Strategy⁵, to develop a facilitative SRI ecosystem in Malaysia. This includes the widening of access to SRI for micro, small and medium enterprises (MSMEs) through alternative funding avenues.

As MSMEs form the backbone of the Malaysian economy, accounting for 97.4% of all businesses in Malaysia⁶ and contributing up to 38.4% of our country's gross domestic product (GDP)⁷, the capital market should continue to support the growth of these MSMEs. Traditionally, MSMEs have relied on bank financing as their main source of funding. However, in addition to these conventional avenues, alternative capital market financing avenues such as venture capital management corporations (VCMCs), private equity management corporations (PEMCs), equity crowdfunding (ECF) and peer-to-peer financing (P2P financing) platforms have emerged as crucial means to channel the required funding to MSMEs. This provides at-risk capital for many of these young and innovative companies and may support the growth, employment, innovation, and social cohesion that MSMEs bring to the Malaysian economy, and also paves the way for their involvement in our country's transition towards a low-carbon economy.

The Malaysian government demonstrates its commitment to support MSMEs in achieving sustainability goals through relevant policies and strategies. Notably, this is evident in the launch of the *New Industrial Master Plan 2030 (NIMP 2030)*⁸ and the *National Industry Environmental, Social, and Governance Framework (i-ESG)*⁹ for the manufacturing sector. These initiatives underscore the importance of sustainable development strategies and priorities in Malaysia, while simultaneously opening up various opportunities for MSMEs, given their role in the global supply chain.

¹ ESG Assets May Hit \$53 Trillion by 2025, a Third of Global AUM, Bloomberg Professional, Bloomberg. <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>

² *Ibid.*

³ *Climate Investing: Continuing Breakout Growth Through Uncertain Times* (McKinsey & Company). <https://www.mckinsey.com/capabilities/sustainability/our-insights/climate-investing-continuing-breakout-growth-through-uncertain-times>

⁴ <https://www.sc.com.my/api/documentms/download.ashx?id=89dea0ab-f671-4fce-b8e4-437a2606507c>

⁵ This strategy aims to widen the range of SRI instruments, increase the SRI investor base, build a strong SRI issuer base, instill a strong internal governance culture, and design information architecture in the SRI ecosystem.

⁶ SME Statistics, Department of Statistics Malaysia, 2022. <https://smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-statistics>

⁷ *Ibid.*

⁸ https://www.nimp2030.gov.my/nimp2030/modules_resources/bookshelf/NIMP_20303/NIMP_20303.pdf

⁹ <https://www.miti.gov.my/index.php/pages/view/9849?mid=1282>

Additionally, Capital Markets Malaysia (CMM), an affiliate of the SC, has introduced the *Simplified ESG Disclosure Guide for SMEs in Supply Chains* (SEDG)¹⁰, which assists SMEs in identifying essential ESG disclosures for monitoring and reporting. Collectively, these efforts form parts of a facilitative ecosystem for SMEs to participate in sustainable projects and investments.

At the MSME level, having a clear sustainability policy and strategy allows MSMEs to effectively address specific sustainability issues and their potential influence on a company's performance and risk, allowing for the proactive mitigation of possible risks. Furthermore, it provides MSMEs the opportunity to connect with a growing community of investors, particularly those from the private markets segment, who are interested in achieving financial returns while also making positive environmental and social contributions.

However, in Malaysia, there is still a lack of awareness and understanding among private market participants regarding the importance and potential benefits of sustainability incorporation. As a result, sustainability incorporation in the investment process of VCMCs/PEMCs and the due diligence process of ECF/P2P financing platforms remains nascent.

While firm-level sustainability policies and strategies are important, the Sustainable and Responsible Investment Guide for Private Markets (Guide) primarily focuses on incorporating sustainability considerations at the investment decision-making process for VCMCs/PEMCs and the due diligence process for ECF/P2P financing platform operators in the assessment of their portfolio companies and fundraising campaigns. With the increasing importance of sustainability considerations globally, it is crucial for private markets in Malaysia to seize the opportunity and incorporate sustainability considerations. With that, Malaysia's private markets can be drivers of positive change and contribute significantly to the nation's journey towards a net-zero future.

¹⁰<https://sedg.capitalmarketsmalaysia.com/wp-content/uploads/2023/10/SEDG-Full-Guide.pdf>

OBJECTIVE OF THE SRI GUIDE FOR PRIVATE MARKETS

For the purpose of this Guide, the term 'private markets' encompasses alternative fundraising avenues that operate outside of public exchanges, which includes entities such as VCMCs/PEMCs and ECF/P2P financing platform operators. The Guide aims to provide guidance to VCMCs/PEMCs and ECF/P2P financing platform operators on incorporating sustainability considerations in the investment and due diligence processes.

While the adoption of this Guide is on a voluntary basis, the VCMCs/PEMCs and ECF/P2P financing platform operators are encouraged, on a best endeavour basis, to adopt the same as this will facilitate the assessment of the sustainability status of portfolio companies and fundraising campaigns.

HOW TO USE THE SRI GUIDE FOR PRIVATE MARKETS

VCMCs/PEMCs are recommended to incorporate sustainability considerations into their investment processes:

- 1 Refer to [Chapter 1: Overview of Investment and Due Diligence Processes](#) - Review how sustainability considerations can be incorporated at each stage of the investment process to enhance decision-making.
- 2 Refer to [Chapter 2: Sustainability Considerations](#) - Review the guidance on the sustainability considerations that VCMCs/PEMCs can refer to and adopt in the assessment of potential investment opportunities.
- 3 Refer to [Chapter 3: Adoption of Sustainability Practices by VCMCs/PEMCs](#) - Access additional guidance on the adoption of sustainability practices in the investment process of VCMCs/PEMCs.
- 4 Utilise the Toolkit in Appendix - Use this toolkit to help embed sustainability considerations within the investment decision-making process.

ECF/P2P financing platform operators are recommended to incorporate sustainability considerations into their due diligence processes:

- 1 Refer to [Chapter 1: Overview of Investment and Due Diligence Processes](#) - Review how sustainability considerations can be incorporated at the relevant stages of due diligence process to enhance decision-making.
- 2 Refer to [Chapter 2: Sustainability Considerations](#) - Review the guidance on the sustainability considerations that ECF/P2P financing platform operators can refer to and adopt in the assessment of fundraising campaigns.



CHAPTER 1

OVERVIEW OF INVESTMENT AND DUE DILIGENCE PROCESSES

1.1 INVESTMENT PROCESS OF VCMCS/PEMCS

Incorporating sustainability considerations into the investment process is of growing importance for VCMCs/PEMCS in Malaysia. In this sub-chapter, an overview of the investment process undertaken by VCMCs/PEMCS will be provided, highlighting how sustainability considerations can be incorporated at every step of the investment process by VCMCs/PEMCS. From sourcing deals to assessment, approvals, structuring, financing, monitoring, and exiting investments, guidance will be provided to support VCMCs/PEMCS in making informed decisions in their investment process.

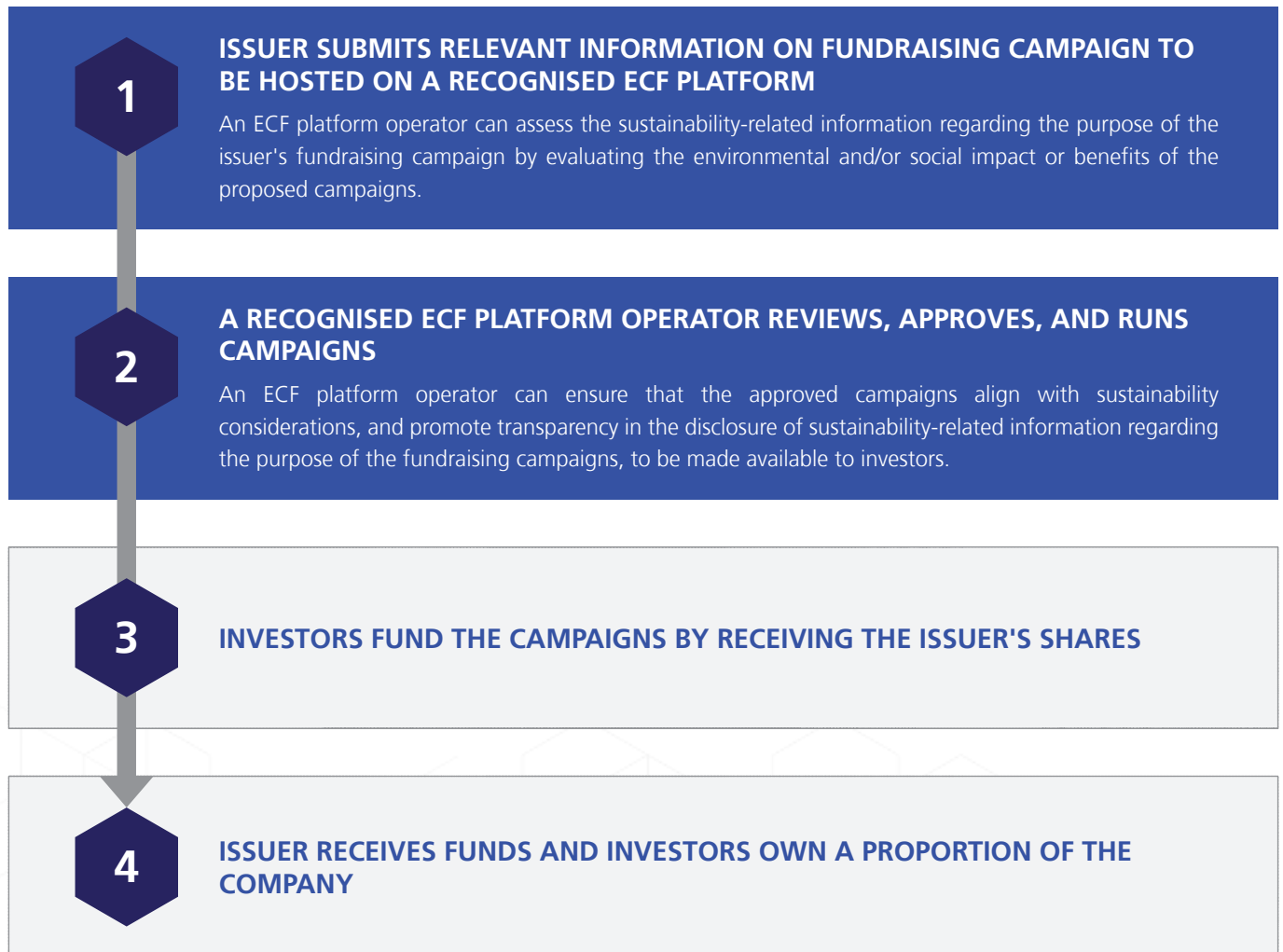
Table 1: Incorporation of sustainability considerations in the investment process of VCMCs/PEMCS



1.2 DUE DILIGENCE PROCESS OF ECF/P2P FINANCING PLATFORM OPERATORS

ECF/P2P financing platform operators may adopt the following best practices as set out in this sub-chapter to effectively incorporate sustainability considerations throughout each stage of the due diligence process of the fundraising campaigns.

Table 2: Incorporation of sustainability considerations in the due diligence process of an ECF platform operator



Note: The incorporation of sustainability considerations is only applicable to the first two stages of the due diligence process.

Table 3: Incorporation of sustainability considerations in the due diligence process of a P2P financing platform operator

Note: The incorporation of sustainability considerations is only applicable to the first two stages of the due diligence process.



CHAPTER 2

SUSTAINABILITY CONSIDERATIONS

This chapter serves as a guide on sustainability considerations that VCMCs/PEMCs and ECF/P2P financing platform operators can refer to and adopt in the assessment of potential investment opportunities and fundraising campaigns. These include examples of screening (Table 4), ESG factors (Table 5), illustrative mapping of investments and fundraising campaigns to UN SDGs (Table 6), and assessments based on the *Principles-Based SRI Taxonomy for the Malaysian Capital Market* (SRI Taxonomy).¹¹ This Chapter also provides guidance on enhancing sustainability data availability for VCMCs/PEMCs and ECF/P2P financing platform operators.

2.1 APPLICATION OF SUSTAINABILITY CONSIDERATIONS

While the Guide serves as a useful starting point for VCMCs/PEMCs and ECF/P2P financing platform operators, it is essential to customise the approach according to each organisation. By applying the Guide, VCMCs/PEMCs and ECF/P2P financing operators can adopt and implement sustainability considerations that align with their values.

¹¹ <https://www.sc.com.my/api/documentms/download.ashx?id=a0ab5b0d-5d7d-4c66-8638-caec92c209c1>

2.1.1 SCREENING

Screening is an important step in the investment and due diligence processes. In the case of a VCMC/PEMC, screening involves the initial evaluation of investment opportunities. Further, in the case of an ECF/P2P financing platform operator, screening involves incorporating sustainability considerations into the due diligence process to assess a particular fundraising campaign. It involves applying a set of criteria to assess companies, countries, or potential investments based on their exposure or involvement in particular sectors, companies or projects.

For VCMCs/PEMCs, the incorporation of sustainability considerations in the screening process allows more informed decision-making in the assessment of potential investments. This is important because sustainability considerations can have a material impact on the company's financial performance and long-term value. For ECF/P2P financing platform operators, this allows an assessment of the alignment of fundraising campaigns with sustainability considerations through the due diligence process. This offers investors the opportunity to invest in sustainability-focused fundraising campaigns hosted on the platforms.

Towards implementation of screening as an important step in the investment and due diligence processes, VCMCs/PEMCs and ECF/P2P financing platform operators may consider the following approaches, which represent a non-exhaustive list of screening strategies and practices globally.

Table 4: Examples of screening strategies


SCREENING STRATEGY	DESCRIPTION
BEST-IN-CLASS/ POSITIVE SCREENING	Investments or fundraising campaigns related to sectors, companies, or projects selected for positive sustainability performance relative to industry peers, and that achieve a rating above a defined threshold, where applicable.
ESG INTEGRATION	Systematic assessment of quantitative and qualitative data and explicit inclusion of ESG factors in investment analysis.
IMPACT INVESTING AND COMMUNITY INVESTING	<p>Impact investing</p> <p>Investing to achieve positive, measurable social and environmental impacts, alongside a financial return, requires measuring and reporting against these impacts, demonstrating the intentionality of the investor and underlying asset/investee, and demonstrating the investor contribution.</p> <p>Community investing</p> <p>Where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose. Some community investing is impact investing, but community investing is broader and considers other forms of investing and targeted financing activities.</p>
NEGATIVE/ EXCLUSIONARY SCREENING	The exclusion from a fund or portfolio of certain sectors, companies or projects, countries or other issuers undertaking certain business activities or practices from a portfolio for their poor sustainability performance relative to industry peers or based on specific sustainability criteria (e.g., avoiding particular products, services or business practices).
NORMS-BASED SCREENING	Screening of investments or fundraising campaigns against minimum standards of business or issuer practice in Malaysia, and where applicable and appropriate, with relevant globally recognised frameworks such as treaties, protocols, declarations principles and conventions.
THEMATIC INVESTMENTS	Selection of investments or fundraising campaigns with an allocation of capital that aligns with specific themes or assets related to sustainability or certain environmental or social outcomes (e.g., clean energy, energy efficiency, sustainable agriculture, healthcare, social inclusion).

By adopting these screening strategies, VCMCs/PEMCs and ECF/P2P financing platform operators can effectively assess the alignment of potential investments and fundraising campaigns with sustainability considerations.

2.1.2 ESG FACTORS

The understanding and categorisation of ESG factors vary based on investors, businesses, and their stakeholders, as well as the jurisdictional classification of ESG factors. Some examples of ESG factors that may be incorporated within the investment and due diligence processes include:

Table 5: Examples of ESG factors

 ENVIRONMENTAL	 SOCIAL	 GOVERNANCE
<ul style="list-style-type: none"> ◆ Access to clean water 	<ul style="list-style-type: none"> ◆ Community/Society 	<ul style="list-style-type: none"> ◆ Anti-corruption
<ul style="list-style-type: none"> ◆ Climate change adaptation 	<ul style="list-style-type: none"> ◆ Diversity, equity and inclusion 	<ul style="list-style-type: none"> ◆ Customer privacy
<ul style="list-style-type: none"> ◆ Climate change mitigation 	<ul style="list-style-type: none"> ◆ Enhanced conduct towards workers 	<ul style="list-style-type: none"> ◆ Data privacy
<ul style="list-style-type: none"> ◆ Energy management 	<ul style="list-style-type: none"> ◆ Enhanced conduct towards consumers and end-users 	<ul style="list-style-type: none"> ◆ Governance structure
<ul style="list-style-type: none"> ◆ Promotion of resource resilience and transition to the circular economy 	<ul style="list-style-type: none"> ◆ Enhanced conduct towards affected communities and wider society 	<ul style="list-style-type: none"> ◆ Policy commitments
<ul style="list-style-type: none"> ◆ Protection of healthy ecosystems and biodiversity 	<ul style="list-style-type: none"> ◆ Health and safety 	<ul style="list-style-type: none"> ◆ Risk management and reporting
<ul style="list-style-type: none"> ◆ Waste management 	<ul style="list-style-type: none"> ◆ Human rights, labour standards and practices 	

2.1.3 UN SDGs

UN SDGs can be considered as one of the sustainability considerations in the investment and due diligence processes by the VCMCs/PEMCs and ECF/P2P financing platform operators in Malaysia. This enables VCMCs/PEMCs and ECF/P2P financing platform operators to effectively assess and prioritise investment decisions and fundraising campaigns that address pressing environmental, social and economic challenges.

VCMCs/PEMCs and ECF/P2P financing platform operators can refer to the table below for illustrative mapping of investments and fundraising campaigns to UN SDGs.

Table 6: Illustrative mapping of investments and fundraising campaigns to UN SDGs

UN SDGs	EXAMPLES
 <p data-bbox="197 976 432 1032">End poverty in all its forms everywhere</p>	<p data-bbox="560 719 1031 748">Provide financial knowledge and training</p> <ul data-bbox="560 757 935 786" style="list-style-type: none"> ◆ Host financial literacy workshops. <p data-bbox="560 824 1299 853">Increase proportion of take-home pay for workers and producers</p> <ul data-bbox="560 862 1227 925" style="list-style-type: none"> ◆ Use fair-trade supply chains in manufacturing and selling; and ◆ Increase wages for workers. <p data-bbox="560 963 903 992">Increase affordability of items</p> <ul data-bbox="560 1001 1445 1097" style="list-style-type: none"> ◆ Incorporate local suppliers in order to lower item prices, and offer these lower prices to the local public; and ◆ Develop products with higher nutrition for lower prices.
 <p data-bbox="181 1612 448 1765">End hunger, achieve food security and improved nutrition and promote sustainable agriculture</p>	<p data-bbox="560 1355 1153 1384">Sustainable food production through urban farming</p> <ul data-bbox="560 1393 1187 1559" style="list-style-type: none"> ◆ Advocate for community gardening; ◆ Install urban farms; ◆ Advocate to increase local production of fruits/vegetables; ◆ Increase accessibility to affordable fruits/vegetables; and ◆ Increase use and access to agro-technology. <p data-bbox="560 1597 943 1626">Promote healthy and active living</p> <ul data-bbox="560 1635 1422 1731" style="list-style-type: none"> ◆ Host programmes to involve parents in healthy eating; ◆ Promote healthy menus in institutions such as schools and childcare centres; and ◆ Advocate for and educate consumers on nutrition labelling. <p data-bbox="560 1769 1050 1798">Prevent and control nutritional deficiencies</p> <ul data-bbox="560 1807 1329 1870" style="list-style-type: none"> ◆ Identify strategies to address stunting and wasting among children; and ◆ Provide vitamins/food to vulnerable groups of children. <p data-bbox="560 1908 810 1937">Increase food security</p> <ul data-bbox="560 1946 1445 2078" style="list-style-type: none"> ◆ Work to obtain 100% of suppliers' harvest, including 'ugly' foods that can still be eaten; ◆ Support microfinance initiatives to fund farmers for self-sustainability; and ◆ Advocate for local land rights to maintain farmers' access to their land.



Ensure healthy lives and promote well-being for all at all ages

Enhance existing healthcare coverage and system delivery

- ◆ Provide better access to antenatal and perinatal care services;
- ◆ Provide long-term chronic care closer to communities, particularly underserved communities;
- ◆ Provide welfare programmes for mothers in low-income groups; and
- ◆ Provide healthcare devices such as Automated External Defibrillators (AEDs) to the public.

Provide affordable medical treatment

- ◆ Provide affordable consulting/diagnose services; and
- ◆ Provide greater access to medicines and treatments.

Provide alternative healthcare financing mechanisms

- ◆ Establish mechanisms to allow the poor, low-and middle-income households to have access to healthcare.

Eradicate diseases (communicable diseases and non-communicable diseases)

- ◆ Promote research and development into preventative/control measures for diseases;
- ◆ Promote higher levels of hygiene and sanitation; and
- ◆ Promote food safety and vaccinations for diseases that can be spread via contaminated food.

Research and development in the field of life sciences

- ◆ Develop medical technologies pertaining to the diagnosis, monitoring or treatment of medical conditions or to improve standards of care; and
- ◆ Advance drug development and pharmaceutical technologies such as drug delivery and formulation.



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Access to Science, Technology, Engineering, Arts and Mathematics (STEAM)

- ◆ Provide platforms and infrastructure for learning and creation such as MakerSpace;
- ◆ Host educational programmes; and
- ◆ Provide access to digital materials like Arduino, 3D printing and robotics to schools and students.

Utilise Educational Technology (Edtech)

- ◆ Provide education to underprivileged communities; and
- ◆ Provide greater access to tertiary education via funding and scholarships.



Achieve gender equality and empower all women and girls

Promote women inclusion and the female agenda

- ◆ Advocate against gender-based violence;
- ◆ Introduce measures to break male-dominated hierarchies in politics and work;
- ◆ Commit to equal pay and shrinking the gender pay gap; and
- ◆ Assist women in finding and retaining jobs, and supporting equal social and economic rights.



Ensure availability and sustainable management of water and sanitation for all

Provide greater access to clean pipe water

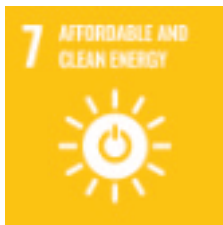
- ◆ Design solutions to help solve water scarcity;
- ◆ Provide piping or filtering to rural areas; and
- ◆ Design solutions to better monitor water quality.

Promote better and more efficient water usage

- ◆ Educate employees/the public regarding water usage at home and at work.

Promote cleaner lakes, rivers and other water sources

- ◆ Improve watershed infrastructure;
- ◆ Commit to and carry out water pollution prevention measures; and
- ◆ Treat and clean industrial wastewater.



Ensure access to affordable, reliable, sustainable and modern energy for all

Increase take-up of renewable energy products

- ◆ Replace existing non-renewable energy consuming items with renewable energy alternatives; and
- ◆ Provide greater access to renewable energy enablers like solar panels.

Reduce energy consumption

- ◆ Incorporate smart sensors into machinery/rooms/office spaces to turn off when not in use; and
- ◆ Choose suppliers of materials with low-carbon footprints.



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Sustain growth of business and e-economy

- ◆ Promote e-commerce and digitalisation of businesses; and
- ◆ Streamline access to business licenses and permits.

Equitable compensation for employees and increased labour participation rate

- ◆ Link skills certification with wage levels; and
- ◆ Increase the number of high-quality and high-paying jobs.

Provide upskilling opportunities

- ◆ Enhance digital and technology skills; and
- ◆ Host classes with technical and vocational skills.



Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Improve urban access

- ◆ Introduce alternative transport methods;
- ◆ Provide options to consumers to use low-carbon supply systems, such as smart lockers or pick up points; and
- ◆ Introduce better safety measures in factories, malls, parks.

Provide investment for new innovations and projects

- ◆ Reinvest portion of profit into research and development;
- ◆ Host projects and think tanks, and fund innovative and beneficial projects; and
- ◆ Host classes with technical and vocational skills.



Reduce inequality within and among countries

Facilitate ownership of affordable homes

- ◆ Increase access to dignified, affordable housing;
- ◆ Provide alternative financing mechanisms for home ownership; and
- ◆ Expand accessibility to internet/WiFi.

Support participation in entrepreneurship and investment in income-generating portfolios

- ◆ Provide jobs to underserved communities;
- ◆ Provide flexible working schedules and being transparent on selection criteria; and
- ◆ Offer equal opportunity to employees, such as women.

Support new markets and customer groups

- ◆ Invest in smaller, often underrepresented groups, and ethnicities.



Make cities and human settlements inclusive, safe, resilient and sustainable

Safe, affordable, accessible, mobility support-friendly transport systems

- ◆ Develop solutions to ease transport access to those with mobility issues;
- ◆ Promote safe transport systems such as dedicated bicycle lanes or safe bus stops;
- ◆ Promote low-carbon transport methods; and
- ◆ Improve travel through methods like traffic light optimisation.

Strengthen cultural/natural heritage

- ◆ Preserve cultural landmarks like street art.

Inclusive and accessible green public spaces

- ◆ Transform laneways into safe, greener areas; and
- ◆ Incorporate green technology into office buildings.

Urban community well-being programmes, targeted towards youth, elderly, women and disabled

- ◆ Provide educational activities for the public in several areas such as arts, mental health, sports, social.



Ensure sustainable consumption and production patterns

Mainstream sustainable consumption and production

- ◆ Reduce waste generation;
- ◆ Expand recycling programmes; and
- ◆ Boost demand for green products and services.
- ◆ Raise awareness for sustainable lifestyles and development;
- ◆ Promote sustainable procurement practices; and
- ◆ Reduce plastic-based packaging, and if unavoidable, use bioplastic.

Research methods for a circular economy

- ◆ Upcycle materials to form new items;
- ◆ Convert food waste into compost and fertiliser; and
- ◆ Use recycled products in companies' supply chains.



Take urgent action to combat climate change and its impacts

Strengthen resilience to climate-related hazards

- ◆ Improve data analysis to provide more accurate real-time alerts; and
- ◆ Promote regular checking/cleaning of hazard-diverting resources, such as drains and pipes.

Integrate climate change measures into solutions and services

- ◆ Introduce products that help with preservation/conservation, such as rain harvesting devices; and
- ◆ Swap to renewable energy from fossil fuels.

Raise awareness and education levels on climate change mitigation, adaptation and impact reduction

- ◆ Provide education programmes and training to employees regarding impact reduction.

Transition to low carbon

- ◆ Protect forested areas such as carbon sinks;
- ◆ Expand green mobility in transport sector;
- ◆ Improve urban/rural planning and focus on micro-mobility;
- ◆ Increase take-up of renewable energy and improve energy efficiency; and
- ◆ Encourage the use of biofuels.



Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Protect ocean ecosystems

- ◆ Use biological pest control to reduce ocean pollution and biodiversity loss;
- ◆ Use phosphorus-free fertiliser in agriculture to reduce nutrient run-off; and
- ◆ Invest in marine research and development.

Avoid overfishing and bycatch

- ◆ Commit to sustainable fishing in allowed areas and seasons;
- ◆ Design solutions to alleviate bycatch issues such as nets that allow smaller species to escape while capturing the larger intended species; and
- ◆ Advocate against unsustainable fisheries/fishing practices.




Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Conserve and restore terrestrial and inland freshwater ecosystems (forests, wetlands mountains and drylands)

- ◆ Protect biodiversity and natural habitats;
- ◆ Restore degraded land and soil; and
- ◆ Reduce and halt the degradation of natural habitats and prevent extinction of threatened species.

Promote sustainable management of forests and encourage reforestation

- ◆ Carry out tree planting programmes and campaigns; and
- ◆ Promote agro-tourism and agro-forestry.

 <p>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</p>	<p>Strengthen social cohesion</p> <ul style="list-style-type: none"> ◆ Foster environments of mutual respect; ◆ Enhance community mediation and inter-religious mediation services; ◆ Enhance child protection and children’s rights; and ◆ Increase access to justice and prevent crime. <p>Promote freedom of information and open data</p> <ul style="list-style-type: none"> ◆ Make company data publicly available; and ◆ Advocate for proper news sharing avoiding fake news and inflammatory messages. <p>Inhibit corruption</p> <ul style="list-style-type: none"> ◆ Introduce no bribe policies.
 <p>Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development</p>	<p>Enhance partnerships for sustainable development</p> <ul style="list-style-type: none"> ◆ Participate in public private partnerships to achieve a common goal; and ◆ Partner with institutions locally or internationally.

2.1.4 SRI TAXONOMY

The SRI Taxonomy provides common guiding principles on the classification of economic activities in alignment with environmental, social and sustainability objectives. It aims to facilitate greater product diversity and accelerate the development of SRI as an asset class. It will also give issuers, investors, intermediaries, and asset owners more clarity and guidance in identifying sustainable investment assets or activities. As it is principles-based, the SRI Taxonomy may be applied at the project, asset, entity, or portfolio level.

VCMCs/PEMCs committed to having an SRI-aligned portfolio may incorporate the SRI Taxonomy as part of its assessment framework prior to making an investment decision. ECF/P2P financing platform operators can also utilise the SRI Taxonomy to assess the fundraising campaign objectives in alignment with the environmental, social, and sustainability objectives outlined in the SRI Taxonomy.



Reference to: SRI Taxonomy

2.2 ENHANCING SUSTAINABILITY DATA AVAILABILITY FOR VCMCS/PEMCS AND ECF/P2P FINANCING PLATFORM OPERATORS

Sustainability is gaining significant importance across businesses, regardless of their size. Investors and consumers are increasingly seeking companies that demonstrate a strong commitment to sustainability practices. Consequently, it is crucial for businesses including MSMEs to actively gather, report, and disclose relevant sustainability data.

VCMCs/PEMCS are demonstrating a growing interest in investing in portfolio companies that incorporate sustainability considerations, recognising the competitive advantages these businesses can offer. VCMCs/PEMCS can leverage sustainability data to assess the sustainability performance of potential portfolio companies, enabling them to make well-informed investment decisions.

ECF/P2P financing platform operators are actively seeking ways to assess the disclosures/information that explains the sustainability-related purpose of fundraising campaigns, offering investors access to sustainability-related investment opportunities. Similarly, sustainability data is crucial for ECF/P2P financing platform operators to ensure that successfully completed campaigns are aligned with their intended sustainability-related purpose.

DISCLOSURE REQUIREMENTS OF ISSUERS AND ECF/P2P FINANCING PLATFORM OPERATORS IN THE GUIDELINES ON RECOGNIZED MARKETS

If the ECF/P2P financing platform operators are facilitating sustainability-related fundraising campaigns, this Guide should be read in tandem with the disclosure requirements outlined in the *Guidelines on Recognized Markets*, particularly the chapters on recognised market operators' obligations.

The disclosure requirements of these chapters aim to provide investors with fair, accurate, clear and not misleading disclosures concerning sustainability-related fundraising campaigns, given the importance of disclosure for informed decision-making.

Following the completion of an issuer's fundraising campaign, ECF/P2P financing platform operators should obtain the necessary disclosures/information from the respective issuers to provide regular communication with investors. This ensures investors can make informed assessments on successfully completed fundraising campaigns, thereby mitigating greenwashing and impact-washing risks.

In order to ensure that sufficient sustainability data is available, VCMCs/PEMCS and ECF/P2P financing platform operators may encourage the SMEs to enhance their sustainability disclosure and reporting standards by making reference to available guidance, including the SEDG¹³ issued by CMM. The SEDG not only assists SMEs in collecting and disclosing sustainability data but also provides a simplified and standardised set of disclosures tailored to the specific needs of SMEs.

¹³ <https://sedg.capitalmarketsmalaysia.com/wp-content/uploads/2023/10/SEDG-Full-Guide.pdf>

This page is intentionally left blank.

CHAPTER 3

ADOPTION OF SUSTAINABILITY PRACTICES BY VCMCS/PEMCS

This chapter provides additional guidance on the adoption of sustainability practices in the investment process of VCMCs/PEMCS.

3.1 ACTIVE OWNERSHIP

VCMCs/PEMCS in Malaysia can demonstrate active ownership throughout the investment value chain. This involves engagement with investee companies, voting at meetings regarding sustainability matters, or seeking to influence the investee company's behaviour, policies, and practices related to sustainability.

3.2 ENGAGEMENT

VCMCs/PEMCS in Malaysia are encouraged to engage and actively involve their investee companies to gain insight into their perspectives and expectations regarding sustainability considerations, enabling them to identify their sustainability policies and practices.

3.3 DEVELOPMENT OF SUSTAINABLE INVESTMENT MANDATES

VCMCs/PEMCS in Malaysia are encouraged to consider the development of sustainable investment mandates across different asset classes. These mandates should outline how sustainability considerations will be embedded into the investment decision-making process. By incorporating sustainability considerations into their investment mandates, private market participants can ensure that sustainability considerations are systematically considered and incorporated throughout their investment activities.

3.4 MONITORING PROCESS AND COMMUNICATIONS

VCMCs/PEMCS in Malaysia are encouraged to maintain a portfolio monitoring process, as well as maintain regular communication with investors on matters related to sustainability. Examples may include quarterly updates on sustainability through periodic letters or reports to investors. These can also be made available for public access subject to considerations such as confidentiality, operational and contractual arrangements between the VCMCs/PEMCS, investors and its investee companies.

CONCLUSION

The SRI Guide for Private Markets aims to provide guidance for VCMCs/PEMCs and ECF/P2P financing platform operators in Malaysia to effectively incorporate sustainability considerations into their investment and due diligence processes. By applying the recommendations outlined in this Guide, VCMCs/PEMCs and ECF/P2P financing platform operators are encouraged to enhance their approach to incorporating sustainability considerations, thereby fostering SRI practices within the private markets industry.

It is important to acknowledge that the landscape of sustainable investments is rapidly evolving. As such, VCMCs/PEMCs and ECF/P2P financing platform operators are encouraged to actively contribute to the industry's development by sharing their experiences and promoting good practices among their peers. By engaging in knowledge sharing and collaboration, VCMCs/PEMCs and ECF/P2P financing platform operators can collectively drive the adoption and implementation of sustainability considerations, further solidifying Malaysia's position as a regional leader in SRI.

The incorporation of sustainability considerations is not only a strategic imperative but also an opportunity to contribute to the broader goals of sustainable development and climate change. By embracing the recommendations in this Guide, VCMCs/PEMCs and ECF/P2P financing platform operators can play a significant role in shaping a more inclusive, resilient, and sustainable future for Malaysia.



APPENDIX - TOOLKIT ON INCORPORATION OF SUSTAINABILITY CONSIDERATIONS IN THE INVESTMENT PROCESS OF VCMCS/PEMCS

STAGE	PROCEDURE	CHECKLIST
INITIAL DEAL IDENTIFICATION	1. Screen the proposed investment for potential environmental and social issues at an early stage.	
INTRODUCTORY DEAL MEMORANDUM	2. Provide a short statement addressing its proposed environmental and social due diligence.	
INTERNAL DUE DILIGENCE	3. Conduct internal environmental and social due diligence actions depending on the level of risk and case-specific circumstances.	
EXTERNAL DUE DILIGENCE	3. Conduct external environmental and social due diligence actions (if required) depending on the level of risk and case-specific circumstances.	
TERM SHEET/ NEGOTIATION	4. May include standard general conditions regarding compliance with applicable national environmental and social laws and regulations, including having in place relevant human resource policies. If internal and/or external environmental and social due diligence has identified any specific issues of concern, appropriate corrective action may be negotiated with the company.	
INVESTMENT PROPOSAL	5. A brief summary of the relevant environmental and social issues may be included in the investment proposal for consideration by the investment committee.	
INVESTMENT AGREEMENT	6. In line with the term sheet, the investment agreement (or equivalent instrument) may include appropriate environmental and social clauses.	
MONITORING PROCESS	7. In order to periodically ensure that the VCMCs/PEMCS continue to meet the fund's environmental and social requirements and expectation, it may be necessary to maintain a portfolio monitoring process, on an agreed basis.	
EXIT	8. May have necessary documents/data in place that showcase the portfolio company's environmental and social performance, on an agreed basis, prior to the fund's exit from the investment.	

ACRONYMS AND ABBREVIATIONS

CMM	Capital Markets Malaysia
ECF	equity crowdfunding
ESG	environmental, social and governance
MSMEs	micro, small and medium enterprises
PE	private equity
PEMC	private equity management corporation
P2P	peer-to-peer financing
SC	Securities Commission Malaysia
SDGs	Sustainable Development Goals
SRI	sustainable and responsible investment
VC	venture capital
VCMC	venture capital management corporation
UN	United Nations

This page is intentionally left blank.

Securities Commission Malaysia

3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur
Malaysia

Tel +603 6204 8000

Fax +603 6201 5546

Email cau@seccom.com.my

Website www.sc.com.my | www.investsmartsc.my

 @SecComMalaysia