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**EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT**

# ESG Integration at the Government Pension Fund of Thailand

September 2023



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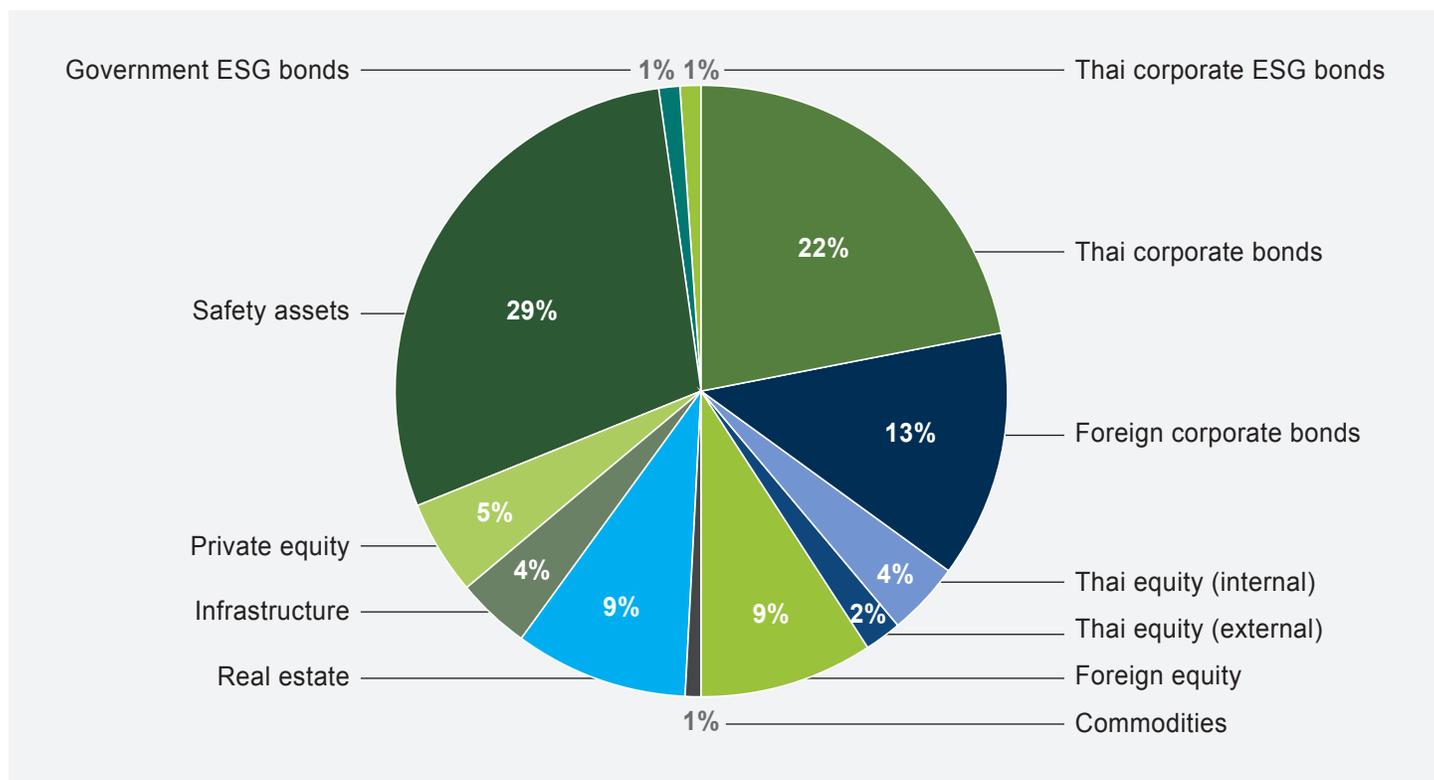
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# Executive Summary

With assets under management of over 1.2 trillion baht, the Government Pension Fund of Thailand (GPF) aims to be the leader in ESG investing and initiatives in the country and globally. As a universal owner, and signatory to the UN Principles of Responsible Investment, we have a wider responsibility to support global action on sustainable development, and to ensure that environmental, social, and governance (ESG) issues are properly integrated into all of our investment decisions.

**FIGURE 1: GPF's Portfolio Composition (as at September 2022)**





**This report presents our practical experiences of integrating ESG considerations into the investment process.**

The core of our approach is the GPF-ESG Weight and Score: Asset Valuation Methodology<sup>®</sup>. For passive equity investments, a four-step process is applied to customize MSCI ESG data using local data sources and knowledge to better reflect the local context. In particular, we believe that we need to place greater emphasis on corporate governance factors than in MSCI's global approach). For actively managed equities, we apply negative screens and we use the the GPF-ESG Weight and Score: Asset Valuation Methodology<sup>®</sup> to adjust the weighted average cost of capital and thereby stock target prices.

ESG factors are also included in our decisions on initial public offerings (IPOs) and in our external manager selection, appointment and monitoring processes.

In fixed income, in order to select high-quality companies and reduce the risk of default, GPF conducts a comprehensive credit analysis of debt issues with ESG factors forming an integral part of the assessment. The GPF Credit Score is a

combination of a *Core Credit Score* (65%) and *Modifiers* (35%). Our credit research analysts determine a company's Credit Score based on several factors, including ESG performance. While GPF does not currently analyse ESG issues for its sovereign bond holdings, we do invest in Sovereign Green, Social, and Sustainability (GSS) bonds which contribute to ESG outcomes.

**We are proud of what we have achieved to date but there is more that we need to do in terms of our processes, our reporting and our performance.** We recognise that the landscape of responsible investment is changing Building on our work to date, areas for further action could include:

- Improved reporting – including on climate-related exposures.
- Full incorporation of ESG factors into across all asset classes.
- Developing and implementing a net zero strategy.
- Continuing to work with our industry peers to drive higher standards of responsible investment in Thailand, and across the Asian markets.





## Senior Leadership Statement

**With assets under management of over 1.2 trillion baht (approximately USD 34 billion) invested across the globe, the Government Pension Fund of Thailand (GPF) is fully aware of its role as a universal owner.** Our duties are not defined narrowly in terms of maximizing investment returns and preserving the value of pension assets. We have a wider responsibility to support global action on sustainable development, and to ensure that environmental, social, and governance (ESG) issues are properly integrated into all of our investment decisions and into the decisions of the companies and other entities that we invest in. It is our belief that good management of ESG issues goes hand in hand with our fiduciary duty. If our investee companies manage ESG issues effectively, their financial performance is also likely to improve.

**In 2018, we set our vision to become the leader in ESG investing and initiatives in Thailand.** Since then, we have adopted the ESG integration framework of the UN Principles of Responsible Investment (PRI), OECD's due diligence guidance for responsible business conduct, and the United Nations Guiding Principles (UNGPs) on Business and Human Rights. ESG factors have been fully integrated into GPF's investment process from research to decision-making, with the GPF ESG score, which we first described in a [report](#) with the World Bank in 2020, serving as the cornerstone of our integration process.

**This report presents our practical experiences of integrating ESG considerations into our investment processes.** It extends the previous report by providing greater detail on how we address ESG issues in fixed income and on how we work with our investment managers on ESG issues. As we see this as a dynamic and evolving journey, we have noted areas for further research and potential incorporation into our processes in future. As a PRI Signatory, I hope that the report will help promote wider acceptance of responsible investing within the industry, and inspire other investors to join us on the journey to creating a more sustainable future.



**Dr Srikanya Yathip**  
Secretary General





## About this Report

**This report describes the ESG integration practices at GPF as a practical example of how a pension fund can integrate ESG considerations into its investment practices and processes.** The report focuses on the incorporation of ESG issues into our investment analysis and decision-making process. Other elements of responsible investing such as active ownership and ESG disclosure practices whilst also key to GPF's overall approach, are not discussed in great detail in this report. The report is a product of technical co-operation between teams from GPF and the World Bank.<sup>1</sup>

The report starts by providing some background information on GPF, including its investment philosophy and an overview of ESG investment philosophy before detailing the GPF ESG Score methodology. It then describes how the GPF ESG Score methodology is applied to equity and fixed-income investments, followed by an overview of how GPF ensures that ESG considerations are integrated into the selection, appointment and monitoring of external managers. It concludes with some reflections on the landscape of responsible investment and identifies areas where GPF expects to improve its investment process in the coming years.

<sup>1</sup> The World Bank input was coordinated with and provided by Cronos Sustainability consultants.

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## Government Pension Fund of Thailand (GPF)

**Government Pension Fund Act 1996 for government employees** (the members) with the objectives of promoting members' savings and of providing welfare and other benefits to members upon retirement. The Fund helps its members grow their savings for retirement by investing capital for returns under the acceptable risk level. Currently, it has 1.2 million members and 1.2 trillion baht (approximately USD 34 billion) in assets under management.

**FIGURE 2: GPF's Asset Under Management and number of members between 2018 and 2022**





**Vision:** To become a 'Thai Pension Fund with World-Class Standard'

**Mission:**

- To provide assurance to government employees regarding payment of gratuity and pension upon termination of their official service.
- To encourage regular savings among members.
- To provide welfare programs and other benefits to members.

## GPF'S INVESTMENT PHILOSOPHY

The Fund manages members' savings with prudence and diligence as prescribed by the laws and policies of Thailand. It prioritises diversification to maintain the optimal balance between preservation of capital and growth of return within acceptable risk parameters.

As a major long-term institutional investor, GPF recognizes the importance of sustainability. We believe in sustainable investment and aim to become a sustainable pension fund bringing both 'sustainable yet stable financial returns' to members and 'social returns' to society and to the global community.

## GOVERNANCE OF RESPONSIBLE INVESTMENT

In late 2021, the GPF Board appointed an ESG/SDGs Subcommittee. The Subcommittee has an oversight role on the implementation of GPF's ESG integration practices and ensuring that these practices are aligned with the Fund's ambition. The Subcommittee is also responsible for defining ESG strategy, setting goals and targets, and revision of policies and regulations.

The ESG/SDGs Subcommittee's roles complement those of the Corporate Governance Subcommittee which provides oversight of GPF's corporate governance. These two Subcommittee's along with the Risk Management and Audit Subcommittees, provide GPF's lines of defence against ESG-related risks.

The GPF Sustainable Investing Development Department is responsible for formulating and executing ESG strategies and initiatives commensurate with GPF's aspiration to be a leader in ESG investing.

GPF's actions are guided by its legal obligations under the Government Pension Fund Act 1996 and by the external commitments it has made, in particular to the Principles for Responsible Investment and to the SEC's Investment Governance Principles (I Code).



As a Signatory to the Principles for Responsible Investment (PRI), GPF commits to the following six key principles.

**Principle 1:** Incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** Be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** Seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** Promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** Work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** Report on our activities and progress toward implementing the Principles.



Under the I Code, subject to the need to meet its fiduciary responsibilities, GPF's roles and duties are as follows.

**Code 1:** Provide a clear written investment governance policy.

**Code 2:** Ensure adequate prevention of conflicts of interest in the customers' best interests.

**Code 3:** Create is a process for making decisions and following up closely and actively with the companies invested, with issues of strategy, good corporate governance, and social and environmental responsibility as part of the decision-making and follow-up.

**Code 4:** Increase the level of monitoring of the companies invested where Code 3 proves insufficient.

**Code 5:** Provide disclosure of voting policy and voting results to customers.

**Code 6:** Collaborate with other investors as appropriate to ensure effective implementation of Code 1.

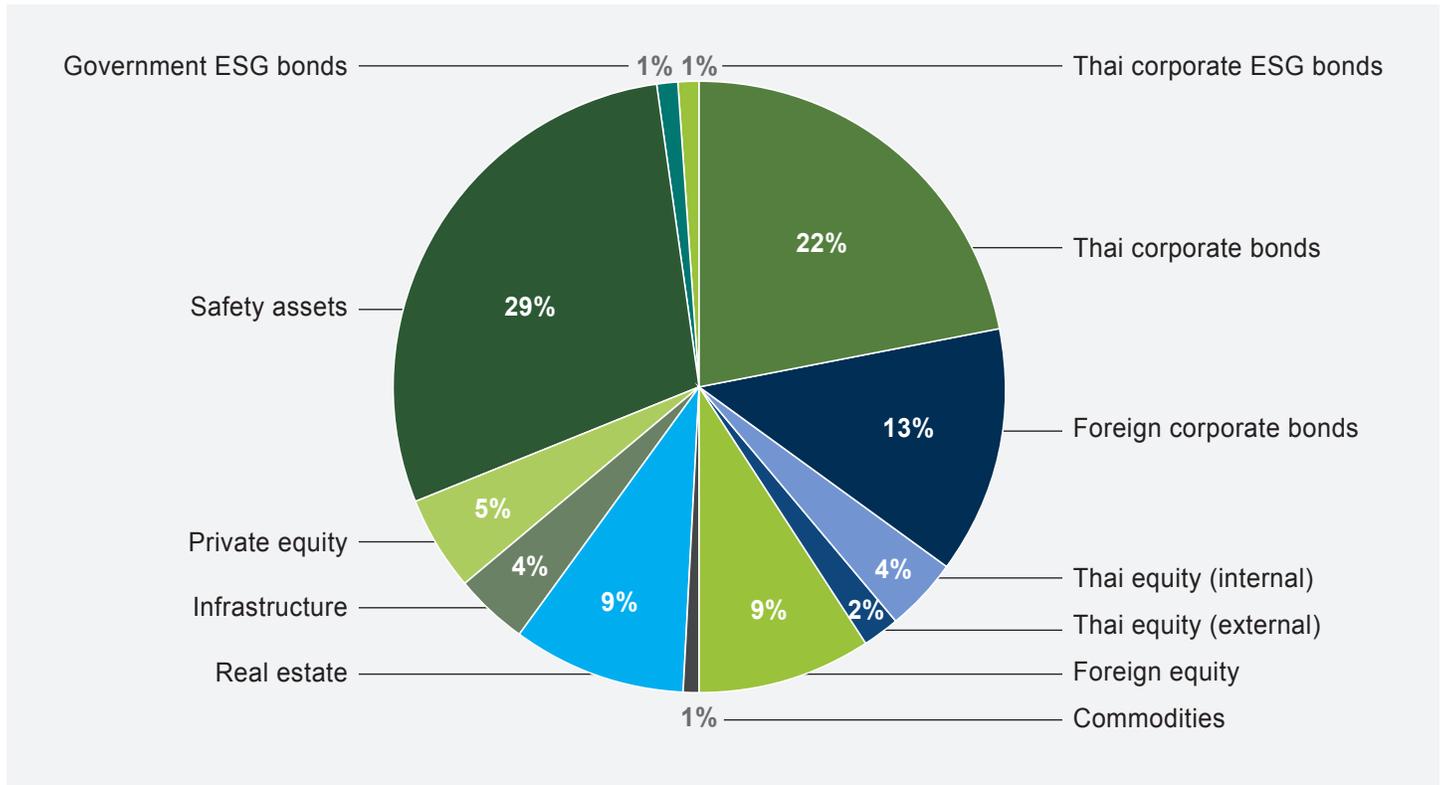
**Code 7:** Disclose investment governance policy and compliance with investment governance principles.

# OVERVIEW OF ESG INTEGRATION APPROACH

**GPF believes in sustainability** and aims to become a sustainable pension fund, bringing both ‘sustainable yet stable financial returns’ to members and ‘social returns’ to society and to the global community. As part of this process, GPF has established an investment framework that enables it, in line with its fiduciary duties and its social responsibilities, to invest within an ESG framework that has a high potential to deliver both social and investment returns, without compromising either of these objectives.

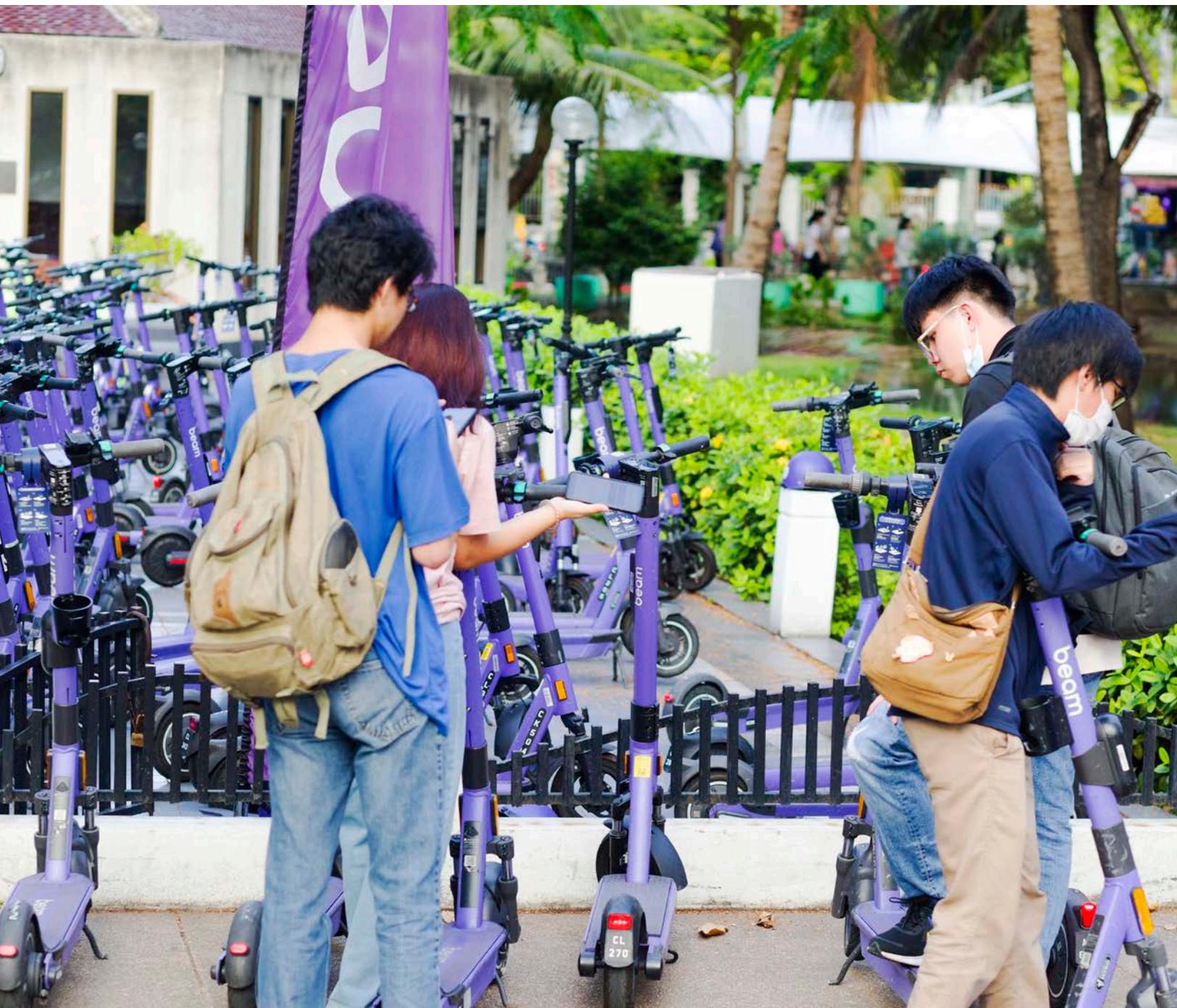
**ESG integration in GPF investments occurs through a combination of approaches** as illustrated in Figure 1 below, which shows our portfolio composition by asset class and by ESG approach. Overall, about two-thirds of our holdings are fully ESG-integrated. The rest, comprising primarily of safety assets (the majority of which are Thai government and Bank of Thailand bonds and bills), serves the fund’s main objective of capital preservation.

**FIGURE 3: GPF’s Portfolio Composition (as at September 2022)**



For domestic equity, bonds, and other holdings that we manage in-house, ESG factors are taken into consideration when analysing and making investment decisions, primarily utilising the methodology described in Section 4 but also through active ownership which plays a key role in GPF's ESG investment strategy for internally and externally managed assets; an overview of our approach to active ownership is provided in Section 5 below and a more detailed account is presented in our [ESG Report](#). In addition, we have a negative screening process which screens out companies that fail to meet our screening criteria or the criteria set out in our [Negative List Guidelines](#) (these prohibit GPF from further investing in companies that violate Securities and Exchange Act and/or cause serious negative ESG impact).

For externally managed assets, we incorporate ESG into our external manager selection, appointment, and monitoring processes. An ESG clause requires external fund managers to incorporate ESG into the mandates of our standard contract. GPF regularly engages in a dialogue with external fund managers to emphasize the importance of responsible investment and to be informed of the managers' operational approaches to ESG. These processes are described in more detail in Section 7 below.



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# GPF-ESG Weight and Score: Asset Valuation Methodology<sup>©</sup>

The scoring methodology, as well as the corresponding application in asset valuation, has been shaped by consultations with the OECD and with major pension funds such as PGGM, and refined based on the discussions with World Bank team when we published our first [report](#) describing the methodology in 2020

GPF's GPF-ESG Weight and Score: Asset Valuation Methodology<sup>©</sup> has been in place since 2018. The methodology is a customized methodology that uses MSCI ESG data as a starting point for developing GPF-specific industry ESG weightings and company ESG scores (which we refer to as the GPF-ESG Weight and Score). While MSCI data offers the advantage of allowing global comparisons between companies, it suffers from three limitations in the Thai context. First, MSCI's ESG data are calculated on a global basis, and if we are to rely solely on MSCI's weights and scores, we would find that few Thai companies would have ESG scores comparable to their global peers. Second, MSCI's data do not account for the data that are available from local sources. Third, for GPF and for the Thai market as a whole, governance factors are of higher concern, and we want to assign a greater weight to these factors in our investment process.

We have therefore developed a four-step process to modify MSCI's ESG data and scoring process to integrate Thai-specific data sources, and to reflect the concerns of Thai investors.

## STEP 1: MULTIPLY MSCI'S G-WEIGHT BY 1.3

This conversion factor is applied for governance factors to ensure that the G-Weight will not be less than 35% (around 1/3 of the total ESG-Weight). We also apply a cap of 65% to ensure that the G-Weight does not overshadow that of E & S issues. The result is that the final G-Weight for all companies is in the 35-65% range, to reflect the significance of governance in Thai market, yet leaving enough room for E & S issues.

## STEP 2: ADJUST THE E-WEIGHT AND THE S-WEIGHT

The E-Weight and S-Weight take account of: (a) the total remaining weight after deducting the newly calculated G-Weight, and (b) the original MSCI E-Weights and S-Weights for the company in question. The final decision on E- and S-Weights is made by GPF's Investment team and Sustainable Investment team, taking account of the new G-weights, the original E- and S-weights and their own views of and experience with the sector in question.

### STEP 3: E-SCORE AND S-SCORE CALCULATIONS

GPF also develops proprietary ESG scores for Thai companies, which build on MSCI data but also account for the available, standardized Thai local rating data and for GPF’s expert views on the ESG performance of Thai companies.

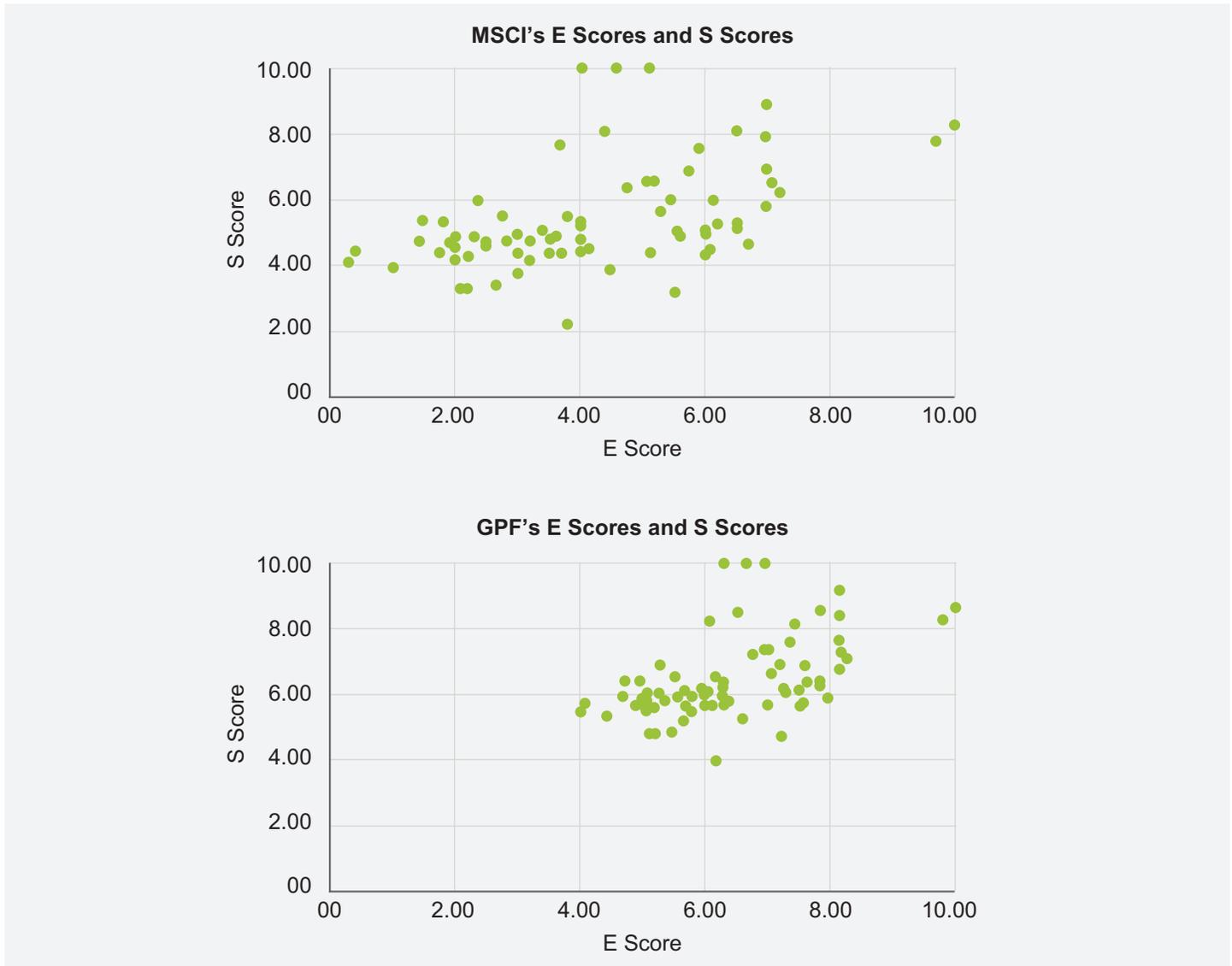
In calculating E-Scores and S-Scores for Thai companies, GPF’s view is that MSCI’s raw E- and S-Scores cannot be used directly as these are calculated so that companies can be compared with a global universe. To adjust these scores for the Thai universe, GPF first re-frames MSCI’s 0.0-10.0 scale to 4.0-10.0 (i.e., no Thai company will have an E- or an S-Score of less than 4.0).

To assign the E- and S- scores for all Thai companies, GPF then searches for the Thai company that achieves the lowest E-Score and the Thai company that achieves the lowest S-Score. These two companies are respectively assigned an E-Score of 4.0 and an S-Score of 4.0. The remaining companies then receive updated E- and S-Scores, using the MSCI E- and S-Scores in line with the following formula:

$$\left[ \frac{(\text{MSCI}_{\text{E-score}} - \text{MSCI}_{\text{old minimum}})}{\text{Old Range} / \text{New Range}} \right] + \text{New Minimum}$$

Figure 2 presents a full comparison between MSCI and GPF’s E and S-Scores. As would be expected the effect, in both cases is to move the scores up and to the right. While the effect is to compress (or reduce) the difference in scores between different companies, the relative performance of individual companies is unchanged (i.e. the Thai leaders remain leaders and poorer performers remain poorer performers).

**FIGURE 4: Comparing MSCI and GPF’s E-Scores and S-Scores**



## STEP 4: G-SCORE CALCULATION

In calculating G-Score for Thai companies, GPF incorporates:

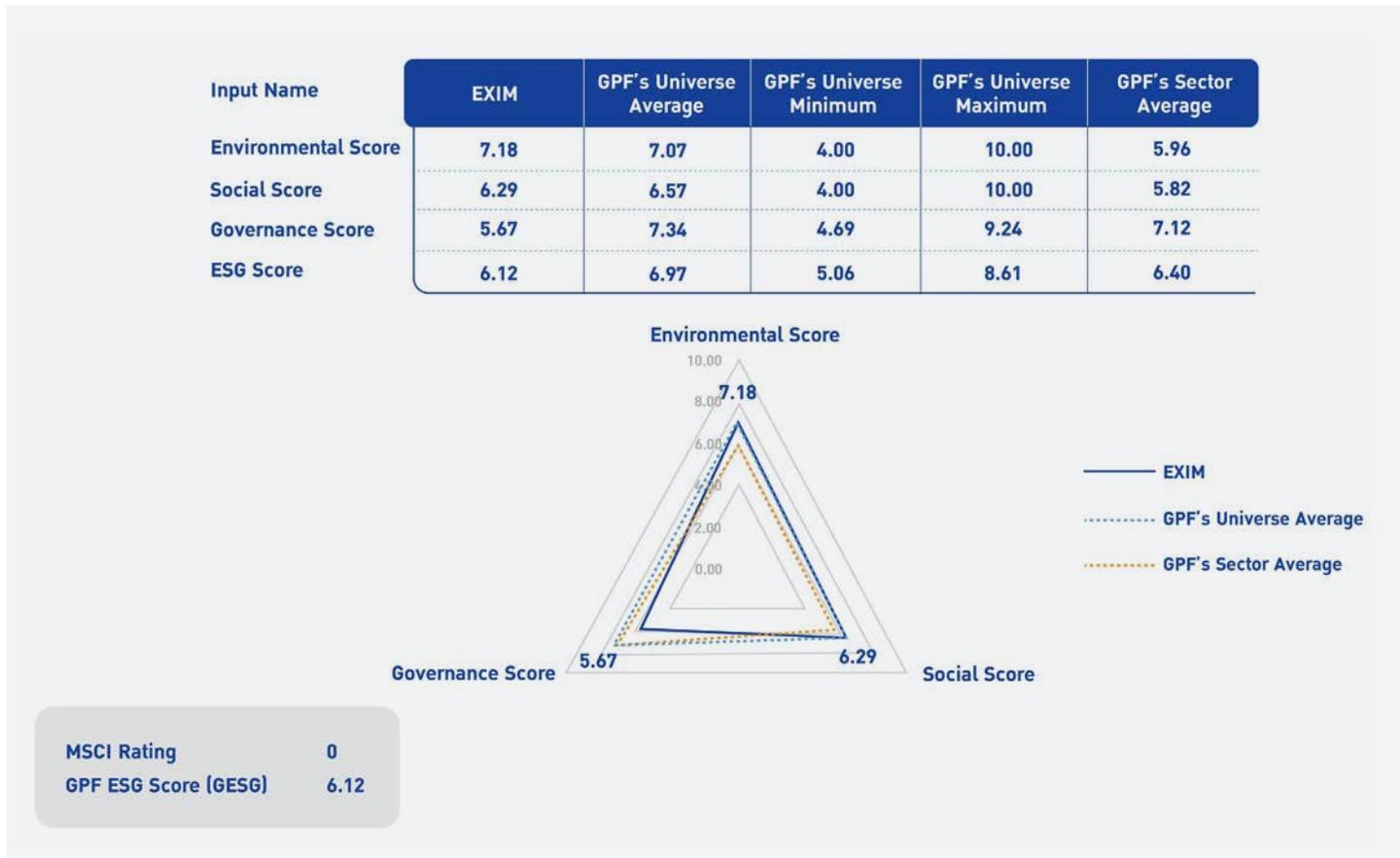
- The Star Rating from Thai IOD's Corporate Governance Rating (CG Rating) where the maximum 5 stars in this rating system is assigned a maximum score of 10 and 1-4 stars are calculated respectively and
- GPF's own internal analysis on governance-related issues such as ESG information disclosure, qualitative responses to GPF's engagement, board structure, independency of external board etc.

The weight proportion of the additional two factors are 10% and 30% respectively, leaving 60% for the original MSCI's G-scores.

## STEP 5: RESULTS DISPLAY

Research analysts and portfolio managers alike have access to GPF ESG score. The example in Figure 3 shows the GPF ESG score for a company of interest in conjunction with the sector averages for peer comparison.

**FIGURE 5: GPF ESG Score Output**





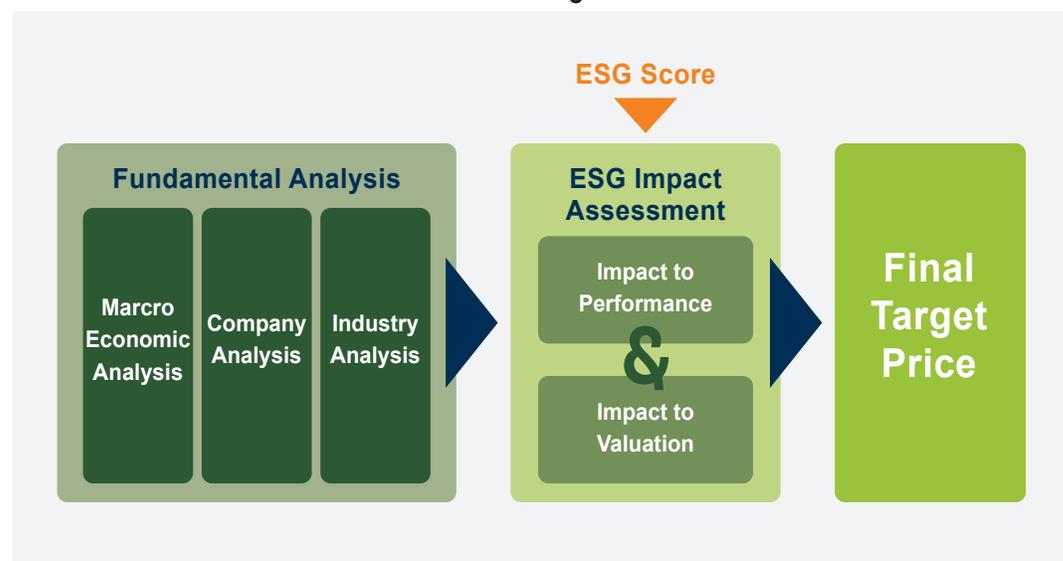


## Asset Class Application: Listed Equities

For equity investing, GPF focuses on companies with strong fundamentals. To that end, GPF integrates ESG criteria into its stock analysis and decision-making processes.

Figure 4 provides an overview of GPF's framework for stock analysis, highlighting where ESG impact assessment is integrated into the investment process to form the final recommendation ('the target price'). In summary, GPF's stock research analysts conduct 'fundamental analysis' on the outlook for the investee company itself, along with the outlook for economy as a whole and for the specific industry sector in question. The GPF ESG score is an integral part of the 'ESG impact assessment' which aims to determine impact to the operating performance as well as the fair value of the stock. This calculation of fair value is used to inform the analyst's 'target price' recommendation which is then communicated to portfolio managers.

**FIGURE 6: GPF's Framework for Stock Analysis & Valuation**



The GPF ESG score is integrated into the target price by modifying the discount rate in line with the rules set out in Table 1 below.

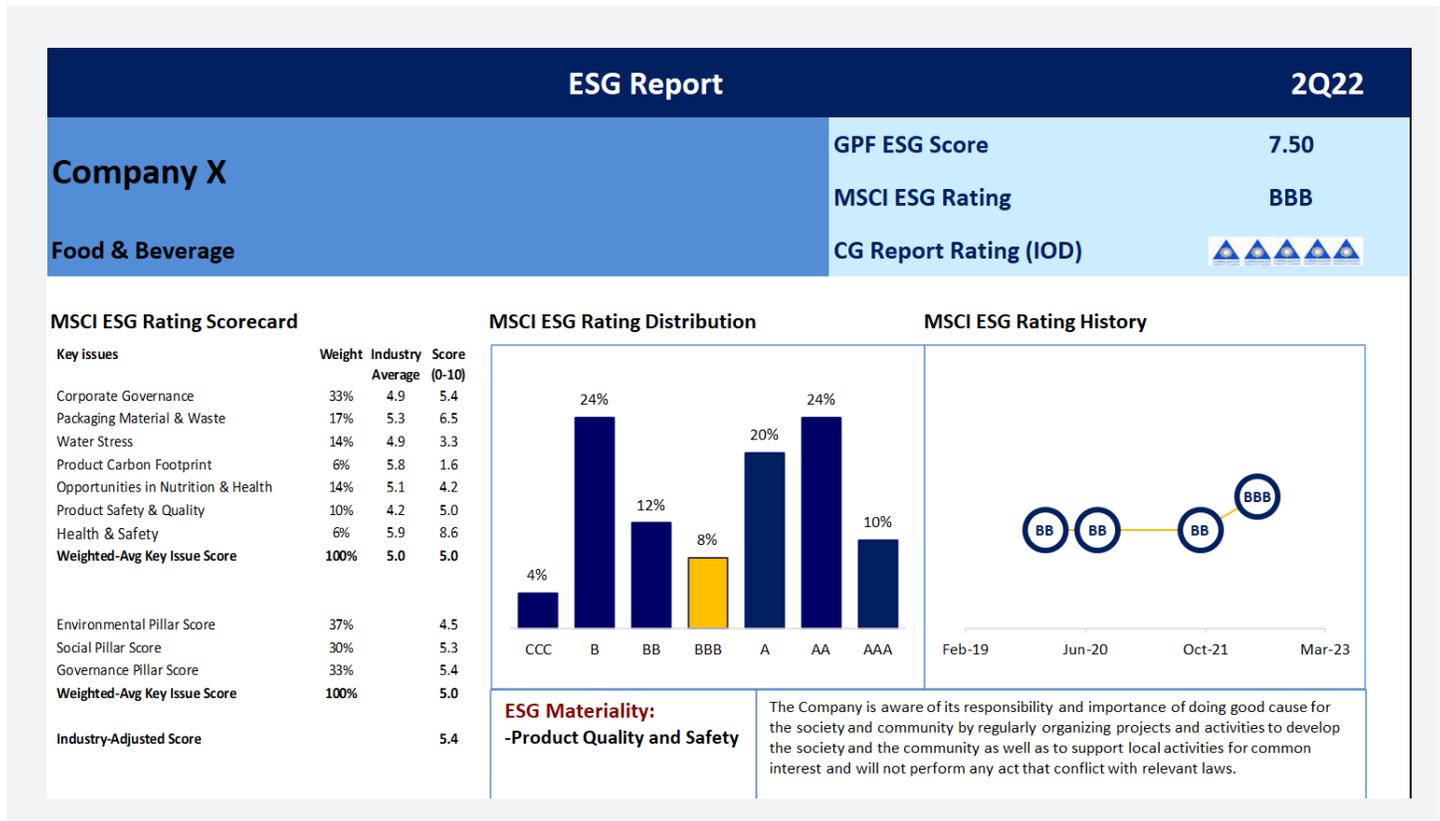
**TABLE 1: Rules for Incorporating ESG Scores into Asset Valuations**

	GPF ESG SCORE	DEFINITION	EXECUTION
Rule 1	>8	Low ESG Risk	Apply a LOWER discount rate of 25bps LESS
Rule 2	<6	Moderate – High ESG Risk	Apply a HIGHER discount rate of 25bps MORE
Rule 3	> 6 but < 8	Acceptable ESG Risk	No action

Using these rules, the weighted average cost of capital may be lowered by 25 basis points, resulting in a 4% higher target price. The higher recommended price reflects our belief that a company with excellent ESG performance has a significantly greater upside potential. Since we have implemented this methodology 6 companies in the investible universe (out of a total of circa 160 companies) have met the criterion for the 25bps discount rate.

**GPF’s equity research analysts also produce an ESG report for each investee company based on data from various sources.** The report comprises the GPF ESG score along with information on other external ratings and on material risks and opportunities for the company. The analysts can also provide their views on material issues that might pose a risk to the company’s performance. An example of these reports is shown in Figure 5.

**FIGURE 7: A Sample ESG Report for Company X**



# IPOS

**ESG considerations are included in initial public offerings (IPOs) investment decision making.** However, the data that are available at the time of IPOs are generally much more limited than when a company has listed and is being researched by MSCI and other data providers.

For companies that are coming to market for the first time, our process begins with a proposal to the Investment Steering Group (ISG) to add a new stock to the investible universe. Our equity research analysts present their assessment of the company, covering both fundamental factors as well as

their assessment of material ESG factors and, to the extent possible, the company's management of ESG issues. The ESG Impact Assessment analysis is often more qualitative rather than quantitative, due to the absence of ESG score and rating data. Upon ISG's approval portfolio managers can participate in the IPO.

Once a stock is included in the investible universe and has been listed, the investment process follows that of listed equity, and a formal ESG report will be produced by research analysts within a reasonable time period.

## ACTIVE OWNERSHIP

Apart from integrating ESG into our investment process, GPF believes that active ownership is a powerful way to protect long-term shareholder value and to encourage beneficial outcomes to companies, investors, and the society at large. We perform our roles by attending Annual General Meetings, voting on our holdings, and engaging with investee companies.

Our engagements generally take a positive approach, and generally involve the exchange of information and ideas on how to improve ESG performance. We also conduct collaborative engagements with other institutional investors. In terms of thematic topics human rights and climate change have been our priority topics for the past few years.

GPF exercises its right to vote in line with its published [Proxy Voting Guidelines](#). Our general rule is to vote in favour of all resolutions unless specified otherwise. The resolutions we most commonly vote against have related to corporate governance issues. In companies where we are concerned about corporate governance, we focus on votes relating to the election or re-election of specific directors as it is directors who set the basis for governance and culture through the organisation.

We have an escalation strategy for negative issues or breaches of regulation. If we are unable to satisfactorily resolve issues through engagement or through voting, we can decide not to invest in the company until appropriate remedial action has been taken.





# Asset Class Application: Fixed Income

## CORPORATE BONDS

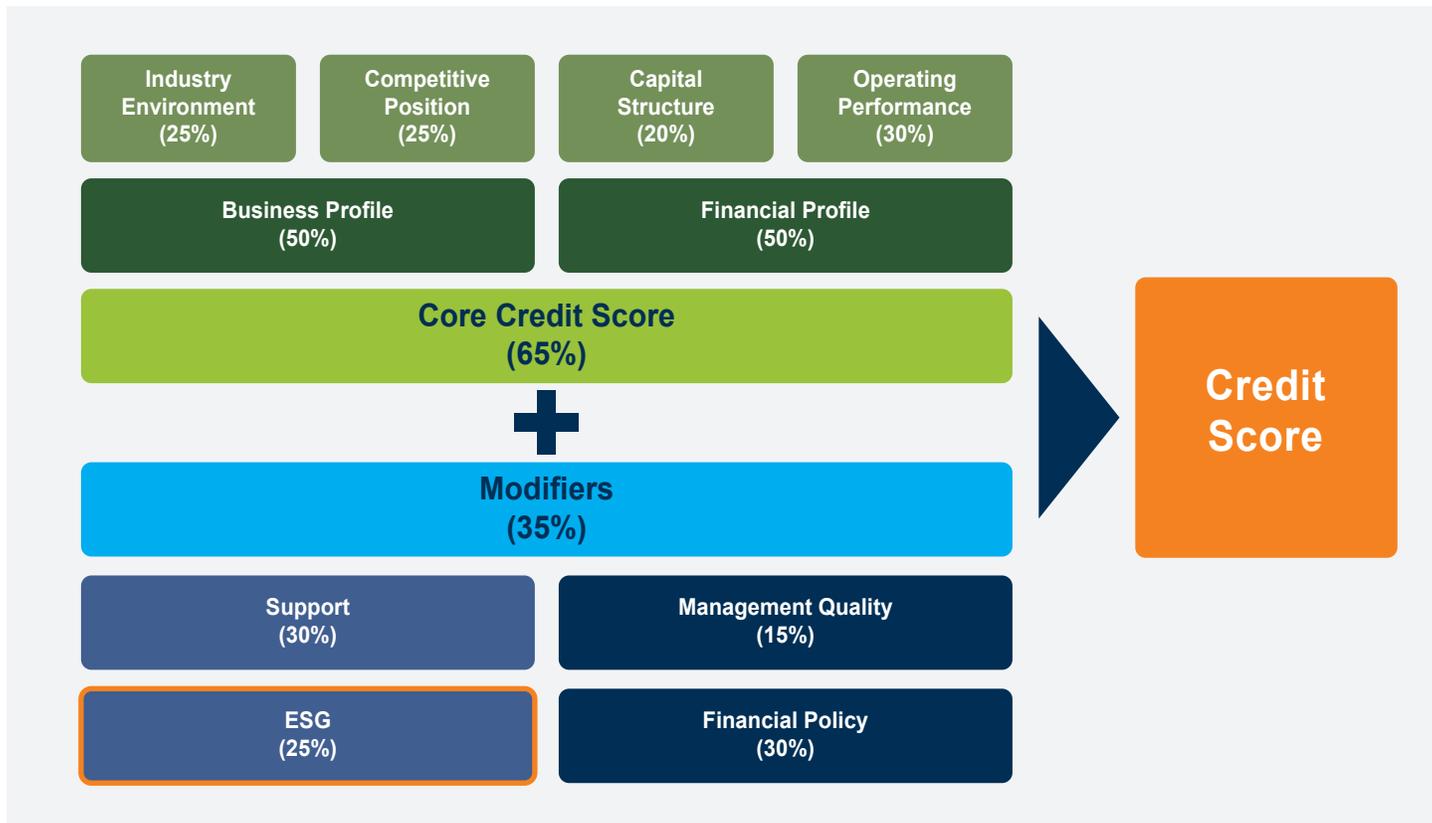
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To select high-quality companies and reduce risk of default, GPF conducts a comprehensive credit analysis of debt issues with ESG factors forming an integral part of the assessment. The GPF Credit Score is an evaluation of a company's creditworthiness, and is a combination of:

- *Core Credit Score* (65%) which is based on an assessment of the company's business and financial profiles. In determining the constituent scores for financial profile, for instance, key financial ratios such as D/E and ROA are graded against a set of predetermined thresholds;
- *Modifiers* (35%) which relate to potential support, management quality, financial policy, and ESG. A company's GPF ESG Score accounts for a quarter of the Modifiers.

**The ESG Score influences the overall GPF Credit Score for a corporate bond** which in conjunction with other external credit ratings is used by portfolio managers to evaluate risk and determine the required rate of return on investment. As illustrated in Figure 6, GPF's credit research analysts assign a company's Credit Score based on an assessment of several factors, including ESG performance. Like in equity investments, GPF's ESG score is one of the main inputs.

**FIGURE 8: Framework for Credit Analysis)**



## SOVEREIGN BONDS

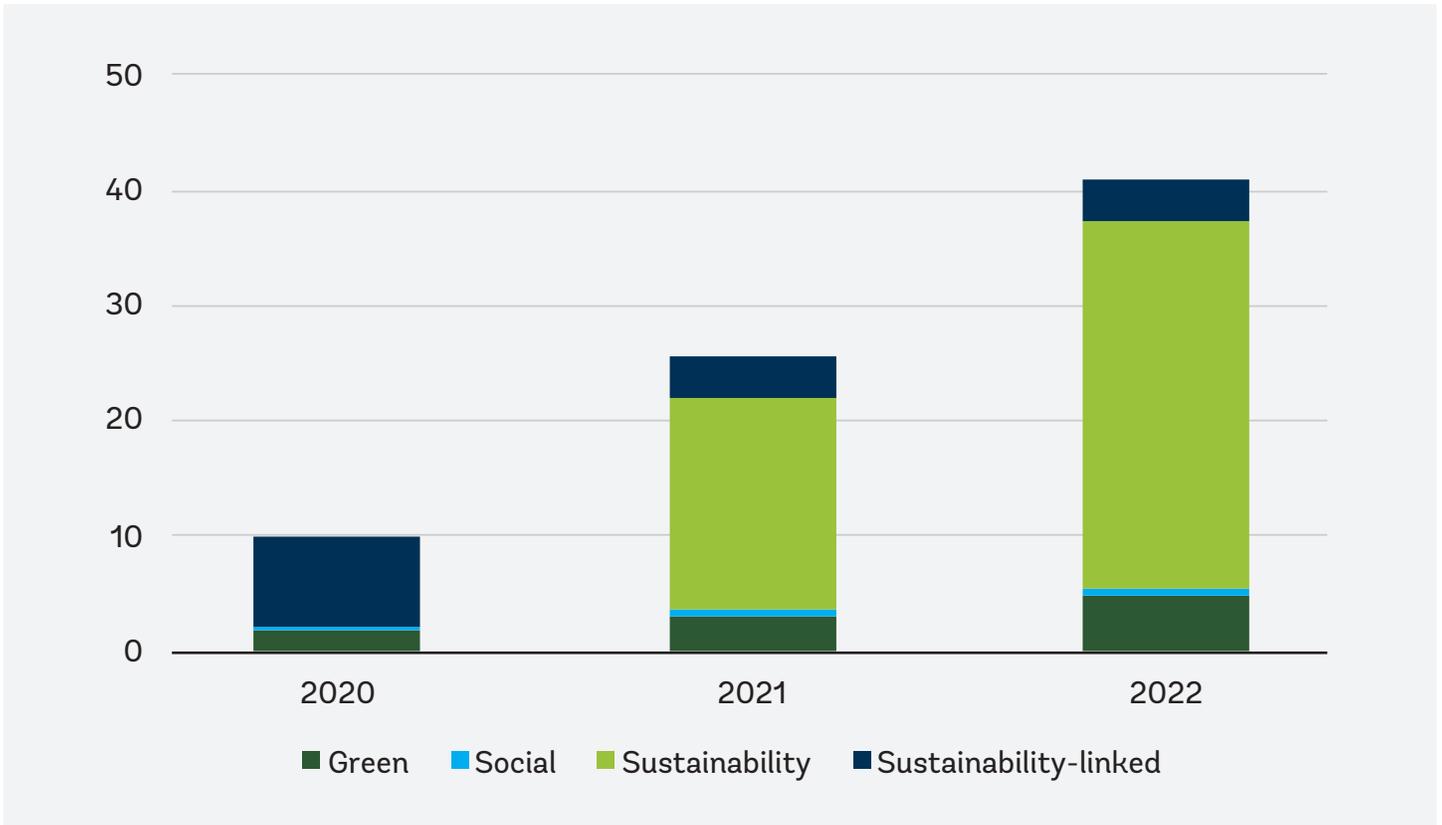
As noted in Section 2, about a third of the Member Fund is allocated to the Thai government and the Bank of Thailand’s (BOT) bonds and bills. In addition to the Member Fund, GPF also manages the Reserve Fund which acts as a buffer to ensure payments to members and a mechanism to avoid the depletion of the Fund in the long term. The Reserve fund can only be invested in (i) deposits at BOT or other state-owned banks, (ii) Thai government & BOT bonds and bills, and (iii) other financial obligations which guaranteed by Ministry of Finance (MOF).

**At present, GPF does not explicitly analyse ESG factors for its sovereign bond investments. GPF is aware of the growing number of ESG-related assessment frameworks for government bonds.** The ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) project, for instance, aids investors in assessing sovereign exposure to climate risk and creates greater transparency between issuers, financial institutions, and relevant stakeholders. The World Bank’s

Sovereign ESG Data Portal allows policy makers, practitioners, and academic researchers to explore how countries compare to each other in terms of their macroeconomic ‘ESG’ indicators.

**While GPF does not currently analyse ESG issues for its sovereign bond holdings in the same way as it does for listed equities and corporate fixed income, it does invest in Sovereign Green, Social, and Sustainability (GSS) bonds (see Figure 7) which do contribute to ESG outcomes through their use of proceeds.** For instance, the sustainability bond issued by MOF’s Public Debt Management Office in 2020 is used to finance green infrastructure (the Mass Rapid Transit – Orange Line) and social impact projects supporting Thailand’s recovery from the COVID-19 pandemic. GPF first began investing in Green, Social, and Sustainability (GSS) bonds in 2020. These holdings have grown substantially since then, and we continue to increase our holdings in GSS bonds, sovereign or otherwise, to make significant environmental and social impact.

**FIGURE 9: GPF's GSS Bond Holdings (THB billion)**





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## Asset Class Application: External Managers

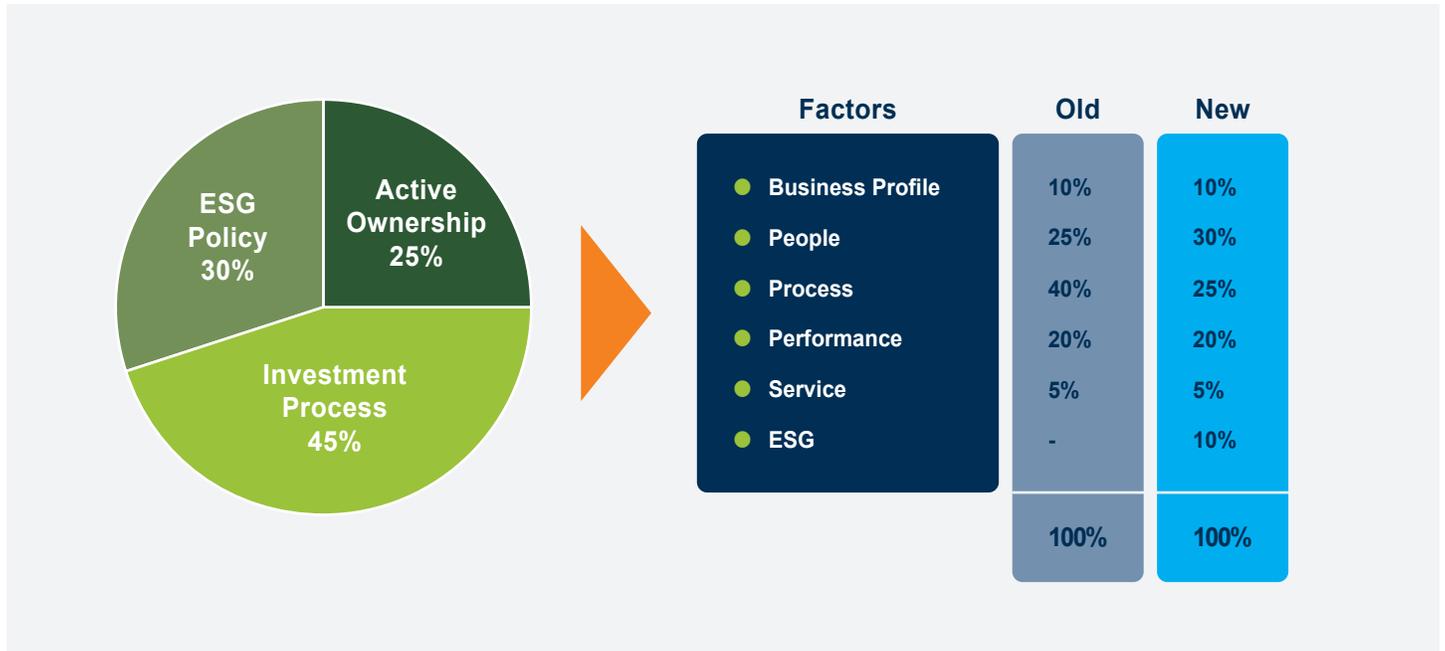
GPF incorporates ESG considerations into the selection, appointment, and monitoring of its external fund managers. The criteria focus on six main areas:

1. *Business Profile*: Business strategies, operations, organizational structure, and fee structure, among other.
2. *People*: Human resources and personnel involved in investment activities.
3. *Process*: Investment decision-making processes and procedures.
4. *Performance*: Past performance against benchmarks and peers.
5. *Service*: Additional service provision to GPF, covering both investment-related and other aspects such as knowledge transfer.
6. *ESG*: Incorporation of ESG factors in investment analysis and decision-making.

ESG factors were added in 2019. As illustrated in Figure 8, the assessment of *the degree and quality of* investment managers' approach to *ESG integration* on ESG grounds considers the *managers' ESG policy, their investment processes, and their approaches such as proxy voting and engagement activities.*



**FIGURE 10: Scoring Framework for Manager Selection**



Once they have been appointed, GPF monitors and evaluates how its fund managers integrate ESG into their fund management. The process usually begins during the third quarter of each year with a request for ESG-related information from the managers. The sample questionnaire for external fund manager monitoring is provided in Figure

9. On an ad hoc basis, GPF teams reach out to managers, particularly those with segregated mandates, for more detailed discussions about their ESG practices. The data collection and manager discussions form part of the annual portfolio review which influences contract renewals.



**FIGURE 11: Questionnaire for External Fund Manager Evaluation**

**Responsible Investment Questions**

Following the PRI’s guideline, the Government Pension Fund (GPF) incorporates ESG considerations into the selection, appointment, and monitoring of our external fund managers. Please respond to all questions below which form part of the annual ESG performance review.

FIRM LEVEL	
1. Have there been any updates to your sustainability / responsible investment policy in the past year?	No/Yes Please specify:
2. Have there been any changes to your responsible investment oversight and resourcing?	No/Yes Please specify:
FUND LEVEL – GPF INVESTMENT PORTFOLIO	
3. What is the proportion of the portfolio that is ESG integrated? Please briefly explain your answer.	% (estimate)
4. Are there any specific ESG targets in managing the portfolio?	No/Yes Please specify:
5. What ESG data, rating agencies, and research have been used?	Please specify:
6. Explain how ESG incorporation has impacted the portfolio composition.	Max 300 words
7. Explain how the stewardship policy has been implemented.	Max 300 words
8. Explain how the engagement process has been implemented.	Max 300 words
CLIMATE ACTION & SUSTAINABLE DEVELOPMENT GOALS	
9. Have the following items been put in place at your organization? <ul style="list-style-type: none"> <li>● Climate change governance</li> <li>● Climate change strategy</li> <li>● Climate change risk management</li> <li>● Climate change metrics and targets</li> </ul>	No/Yes Please specify:
10. Provide up to three specific example(s) of how your responsible investment activities are aligned with (any of) the SDGs in managing the GPF portfolio.	Max 300 words

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# Looking Forward

## THE CHANGING LANDSCAPE OF RESPONSIBLE INVESTMENT

The landscape of responsible investment is evolving. Globally, we are seeing a rapid increase in the number of policy measures – covering pension fund disclosure requirements, requirements for institutional investors to adopt responsible investment practices, stewardship codes and corporate disclosure requirements. As at early 2022, the PRI [estimated](#) that, across the world's 50 largest economies, some 868 policy tools and guidance and more than 300 policy revisions which support, encourage or require investors to consider all long-term value drivers, including environmental, social and governance (ESG) factors had been introduced.

When we look at these in more detail, we see three themes:

1. ***Pension funds are expected to have clear policies explaining how they implement responsible investment.*** These include expectations that:

- These policies are published.
- That the policies explain:
  - The coverage of the policy, and any exceptions to it.
  - The importance assigned to ESG issues in the asset owner's investment practices and processes.
  - How the asset owner takes account of financially material considerations, including those arising from ESG considerations such as climate change.
  - How the asset owner acts as the stewards of their investments, including investee/company engagement and exercising their voting rights.
  - How the asset owner manages conflicts of interest, including those that relate to sustainable investment.
  - How the asset owner accounts for the interests and preferences of their clients and/or beneficiaries.

**2. Pension funds are expected to implement their policies and to report on this implementation.** This includes expectations that pension funds

- Identify the most significant (material) ESG issues for their investments.
- Set ESG-related objectives and targets.
- Have clear plans for implementing these objectives and targets.
- Track the ESG characteristics of their investment portfolios (e.g. carbon footprint).
- Assess and manage the ESG risks and opportunities in their portfolios.
- Engage with investee companies and assets, and use their formal rights (e.g. voting) and information influence to encourage higher standards of corporate governance and sustainability performance.

**3. Much stronger focus on specific ESG themes, in particular climate change and net zero.** Many jurisdictions now reference the requirements of the Task

Force on Climate-related Financial Disclosures (TCFD), and increasingly biodiversity/nature (TNFD).<sup>2</sup> Within this, pension funds are expected to:

- Ensure that they have effective governance and oversight of these issues.
- Conduct scenario analysis or other forms of risk assessment.
- Set objectives and targets and develop clear strategies for delivering on these.
  - In the specific context of climate change, there is increased emphasis on (a) making net zero commitments, (b) setting net zero-aligned targets over the short- (through to 2025), medium- (through to 2030 or 2035) and long-term (through to 2050), (c) ensuring that the organization has a clear strategy (or ‘transition plan’) for meeting these targets including clarity around the actions that will be taken, the resources required, the responsibilities for oversight and implementation of these actions.
- Track, assess and report on performance.

## GPF COMMENT

We recognise that the landscape of responsible investment is changing. We are proud of what we have achieved to date but there is more that we need to do, both in terms of our processes, our reporting and our performance.

Building on our work to date, areas for further research and potential incorporation into our processes in future include:

- Documenting our ESG integration efforts so that we can more clearly communicate – both at the level of individual investment and in aggregate - how these efforts have affected stock selection, portfolio composition, financial performance and ESG performance.
- Critically benchmarking our practices, processes and reporting<sup>3</sup> – to identify areas of strength and weakness.
- Tracking how our ESG integration processes affect our investment decisions, and assessing how these decisions may have affected our overall portfolio performance.
- Publishing our first TCFD report, describing how we assess and manage our climate-related risks and opportunities and studying the new ISSB standards.
- Studying the methodologies behind Net Zero and financed emissions to see how they might be applied in the local context.
- Considering methodologies for incorporating ESG factors into sovereign bond analysis.
- Proactively communicating with our members to better understand their expectations of our approach to ESG integration.
- Continuing to work with our industry peers to drive higher standards of responsible investment in Thailand, and across the Asian markets.

<sup>2</sup> The TCFD framework is aligned with the standards published by the International Sustainability Standards Board (ISSB) in 2023.

<sup>3</sup> For example, using the [World Bank's Best Practice Disclosure Framework](#)



▲ 43.289

▲ 54.785

▲ 61.43

