

THE EFFECT ON STOCK PRICE OF INCLUSION IN OR
EXCLUSION FROM FTSE4GOOD BURSA MALAYSIA

BY

HEIDI MARYSSA BINTI MOHD SABRI

A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Finance)

Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia

OCTOBER 2021

ABSTRACT

The purpose of this study is to test the sensitivity of investors towards the Environmental, Social, and Governance movement in Malaysia towards the announcement of inclusion in or exclusion from FTSE4Good Bursa Malaysia. The data were sourced from the firms' historical prices and public announcements by Bursa Malaysia. This study adopted an event study methodology research approach as it examined the announcement of inclusion in and exclusion from the FTSE4Good Bursa Malaysia. The findings indicate that investors are more sensitive towards deletion announcements compared to inclusion announcements from the index. This study makes a modest contribution to knowledge by suggesting a framework to understand corporate ESG investment practice in FTSE4Good Bursa Malaysia listed firms based on the study's findings and a review of the literature. Arising from this framework, suggestions are made for further research to use the latest data and compare the progress of FTSE4Good Bursa Malaysia with other FTSE4Good Indices in other emerging countries to find the loophole in our journey towards sustainability.

KEY CONCEPTS: Announcement Effect, ESG Stocks, FTSE4Good

ملخص البحث

الغرض من هذه الدراسة هو اختبار حساسية المستثمرين إزاء الحركة البيئية والاجتماعية والحوكمة في بورسا ماليزيا أو الاستبعاد منها. تم الحصول على FTSE4Good ماليزيا تجاه الإعلان عن الإدماج في البيانات من الأسعار التاريخية للشركات والإعلانات العامة من قبل بورسا ماليزيا. واعتمدت هذه الدراسة بورسا FTSE4Good نهجا بحثيا لمنهجية دراسة الأحداث حيث بحثت الإعلان عن الإدماج والاستبعاد من ماليزيا. وتشير النتائج إلى أن المستثمرين أكثر حساسية إزاء إعلانات الحذف مقارنة بإعلانات الإدراج الواردة في المؤشر. وتقدم هذه الدراسة إسهاماً متواضعاً في المعرفة باقتراح إطار لفهم ممارسات الاستثمار سجلتها بورسا ماليزيا استناداً إلى نتائج الدراسة FTSE4Good البيئية والاجتماعية والحوكمة في الشركات والدراسات السابقة. وبناء على هذا الإطار، قُدمت اقتراحات لإجراء مزيد من البحوث لاستخدام أحدث أخرى في FTSE4Good بورسا ماليزيا بمؤشرات FTSE4Good البيانات ومقارنة التقدم المحرز في بلدان ناشئة أخرى لإيجاد الثغرة في مسيرتنا نحو الاستدامة.

FTSE4Good، الكلمات المفتاحية: أثر الإعلان، المخزونات البيئية والاجتماعية والحوكمة

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Finance).

.....
Ahmad Fawwaz bin Mohd Nasaruddin
Supervisor

.....
Azniza Hartini bt Azrai Azaimi Ambrose
Co-Supervisor

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Finance).

.....
Nur Hasnida Abdul Rahman
Examiner

.....
Rafiq Murdipi
Examiner

This dissertation was submitted to the Department of Finance and is accepted as a fulfilment of the requirement for the degree of Master of Science (Finance).

.....
Roslily Ramlee
Head, Department Finance

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science (Finance).

.....
Gairuzazmi Mat Ghani
Dean, Kulliyah of Economics and Management Science

DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Heidi Maryssa binti Mohd Sabri

Signature.....

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**THE EFFECT ON STOCK PRICE OF INCLUSION IN OR
EXCLUSION FROM FTSE4GOOD BURSA MALAYSIA**

I declare that the copyright holders of this dissertation are jointly owned by the student and IIUM.

Copyright © 2021 by Heidi Maryssa binti Mohd Sabri. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below.

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieval system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Heidi Maryssa binti Mohd Sabri

.....
Signature

.....
Date

To my beloved parents and my family,

ACKNOWLEDGEMENT

*In the name of Allah, the Lord of Mercy, the Bestower of Mercy.
All praise and glory belong to Allah, Lord of the worlds.
The Lord of Mercy, the Bestower of Mercy. Master of the Day of Judgement.
You alone we worship; You alone we ask for help.
Guide us to the straight path.
The way of those on whom You have bestowed Your grace,
Not of those who earned Your anger nor of those who went astray.*

QUR'AN 17:80

In the name of Allah, whose love made this work possible. Blessings be upon the Prophet Muhammad SAW, whose gentle mercy has taught me how to walk in faith. To my mother, whose love and prayers changed the path of my destiny. You sacrifice almost your whole life in raising me to be a useful person. To my father, who embodies what it means to be a generous human being. You inspire me to make the world a better place. Thank you, Mama and Ayah, for building my life. To my sister, Alea, whose unconditional support and spirit lifted me up in the darkest time. To my brother, Eusof, the little boy Allah sent into my life for me to be a better person. To Hiroko, Hiromi, Syahmi and Syahrin, whose sweet souls teach me how to love. To my supervisor, Dr. Ahmad Fawwaz bin Mohd Nasaruddin, whose guidance and kindness had brightened up my journey in seeking knowledge. To Dr. Aznizar and Dr. Margarita, who showed me the beauty of the academic world. To Syahiran, whose moral support and comfort had given me hope in completing my work. I am beyond grateful to be surrounded with supportive people and may all the goodness I received will bounce back to each one of them in a greater amount.

TABLE OF CONTENTS

Abstract.....	ii
Approval Page.....	iv
Declaration.....	v
Copyright.....	vi
Dedication.....	vii
Acknowledgement.....	viii
List of Figures.....	xi
List of Abbreviations.....	xii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 ESG Concerns.....	1
1.1.2 ESG Evolution.....	3
1.1.3 Policies.....	5
1.1.4 FTSE4Good Bursa Malaysia.....	6
1.1.5 ESG Rating Framework.....	7
1.2 Problem Statement.....	12
1.3 Research Objectives.....	14
1.4 Research Questions.....	15
1.5 Structure of the Study.....	15
1.6 Implications.....	16
1.7 Limitations.....	17
1.8 Motivation.....	17
CHAPTER TWO: LITERATURE REVIEW.....	18
2.1 Introduction.....	18
2.2 Environmental, Social and Governance (ESG).....	18
2.3 Event Study.....	25
2.3.1 Positive Announcements.....	25
2.3.2 Negative Announcements.....	29
2.3.3 ESG Announcements.....	32
2.4 Empirical Market Hypothesis (EMH).....	35
2.4.1 Theoretical Literature.....	35
2.4.2 Empirical Literature.....	36
2.5 Chapter Summary.....	38
CHAPTER THREE: RESEARCH METHODOLOGY.....	39
3.1 Introduction.....	39
3.2 Research Design.....	39
3.3 Variables Discussion.....	40
3.3.1 Dependant Variables.....	40
3.3.2 Independent Variables.....	41
3.4 Hypothesis.....	41
3.5 Population and Samples.....	42

3.6 Data Collection.....	43
3.6.1 Type of Data Used.....	43
3.6.2 Data Collection Process.....	44
3.6.3 Data Collection Organization.....	44
3.7 Data Analysis.....	46
3.8 Statistical Tools.....	47
3.8.1 T-Test.....	47
3.8.2 P-Value.....	47
3.9 Chapter Summary.....	48
CHAPTER FOUR: FINDINGS AND DISCUSSION.....	49
4.1 Introduction.....	49
4.2 Descriptive Analysis of The Results.....	49
4.3 Analysis on the Mean Adjusted Return Model (MEAR).....	50
4.3.1 Listed Announcements.....	50
4.3.2 Delisted Announcements.....	54
4.4 Analysis on the Market Adjusted Return Model (MAAR).....	58
4.4.1 Listed Announcements.....	58
4.4.2 Delisted Announcements.....	60
4.5 Hypothesis Testing.....	64
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION.....	68
5.1 Research Summary.....	68
5.1.1 The MEAR and MAAR.....	70
5.1.2 The Implications of The Results.....	71
5.1.3 Hypothesis Decision.....	74
5.2 Recommendations.....	74
5.3 Limitations Of The Study.....	75
5.4 Conclusion.....	77
REFERENCES.....	79
APPENDIX.....	85

LIST OF FIGURES

Figure 1.1	Pillars and Themes of ESG Ratings	22
Figure 1.2	Scores and Exposure of ESG Ratings	23
Figure 3.1	Sample of constituents and event windows (FTSE, 2020)	60
Figure 3.2	Abnormal Return Formula (Source Wattal and Telang, 2005)	62
Figure 4.1	Table of Daily Movement of Listed Firms using MEAR	65
Figure 4.2	Graph of Daily Movement of Listed Firms using MEAR	66
Figure 4.3	Table of Event Window of Listed Firms using MEAR	68
Figure 4.4	Table of Daily Movement of Delisted Firms using MEAR	69
Figure 4.5	Graph of Daily Movement of Delisted Firms using MEAR	70
Figure 4.6	Table of Event Windows of Delisted Firms using MEAR	71
Figure 4.7	Table of Daily Movement of Listed Firms using MAAR	73
Figure 4.8	Graph of Daily Movement of Listed Firms using MAAR	74
Figure 4.9	Table of Event Window of Listed Firms using MAAR	74
Figure 4.10	Table of Daily Movement of Delisted Firms using MAAR	75
Figure 4.11	Graph of Daily Movement of Delisted Firms using MAAR	76
Figure 4.12	Table of Event Windows of Delisted Firms using MAAR	78

LIST OF ABBREVIATIONS

IIUM	International Islamic University Malaysia
ESG	Environmental, Social and Governance
CSR	Corporate Social Responsibility
EMH	Efficient Market Hypothesis
AAR	Average Abnormal Returns
CAAR	Cumulative Average Abnormal Returns
MEAR	Mean Adjusted Return
MAAR	Market Adjusted Return

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

1.1.1 ESG Concerns

According to the environmental chief of the United Nations, Mother Earth is sending us a message with the COVID-19 pandemic and the current climate crisis. It is a widely known fact that human activities such as overpopulation, pollution, burning fossil fuels, and deforestation are directly contributing to the environment and society¹. These activities have led to global environmental problems, mainly climate change, soil erosion, poor air quality, and health issues. During the implementation of lockdown recently by most governments in containing the virus, NASA has observed a reduction of 30% in air pollution in most parts of the world, verifying that, human activities have indeed affected the environment at first hand². Carbon emissions are expected to drop after the decline in economic activities with the closure of schools, shops, and factories.

The drop in carbon emissions was last seen in 2007 and 2008, which was during the global economic crisis as well. The Carbon Majors Reports prepared in 2017 by the Carbon Disclosure Project, pointed out that a meagre 100 corporations have been

¹United Nations. (2020). The Climate Crisis – A Race We Can Win. <https://www.un.org/en/un75/climate-crisis-race-we-can-win>

²Blumberg, S. (2020, December 21). Data Shows 30 Percent Drop In Air Pollution Over Northeast U.S. NASA. <https://www.nasa.gov/feature/goddard/2020/drop-in-air-pollution-over-northeast/>

responsible for producing 70% of the world's greenhouse gas emissions since 1988³. The Climate Accountability Institute (previously the Carbon Disclosure Project) is a non-profit organisation located in the UK, Japan, India, China, Germany, and the United States of America that assists businesses and localities in disclosing their environmental impact. In the most recent report of Carbon Emission by The World Bank in 2016, Malaysia shows an increase in Carbon Dioxide emission per capita at 8.09 metric tons, which is higher than Indonesia and Vietnam, at 2.15 and 2.06, respectively. Although the number of firms involved with the carbon emission is relatively smaller than one could predict, the outcome of the production by the few companies will badly affect the health of Mother Nature and living creatures in the area.

Throughout the years, environmental degradation and biodiversity loss are being caused by increased demand for fossil fuels and natural resources, with expanded agriculture, palm oil and rubber plantations, aquaculture, and the illicit wildlife trade⁴. In 2020, Malaysia was once again slammed by the international news headline for the exploitation of foreign workers during the national lockdown. According to Al-Jazeera, migrants in Malaysia had been placed in horrible conditions and they were forced to do the most dangerous and dirtiest jobs for this country by irresponsible firms⁵. An interview with Dato' Abdul Rahman Othman, Director General of Immigration, revealed that there are approximately an additional 2.2 million undocumented labours in Malaysia, which is equivalent to one third of Malaysia's labour force. Some of the foreign workers are victims of trafficking. Male laborers are found in construction

³Climate Accountability Institute. (2017, July). The Carbon Majors Database CDP Carbon Majors Report 2017. <https://climateaccountability.org/carbonmajors.html>

⁴Valencia, M. (2016). Rate of Environmental Damage Increasing Across Planet but Still Time to Reverse Worst Impacts. United Nations Sustainable Development. <https://www.un.org/sustainabledevelopment/blog/2016/05>

⁵Al Jazeera [Al Jazeera English]. (2020, July 3). Locked Up in Malaysia's Lockdown | 101 East [Video]. YouTube. https://www.youtube.com/watch?v=zyl_xsdpteI

(Singapore), plantation (Malaysia), fishing industry (Thailand), and manufacturing, notably in small scale manufacturing (Malaysia, Republic of Korea, Taiwan, Japan); whereas female migration is still predominantly for service and entertainment sectors such as domestic help (Singapore and Hong Kong).⁶

In research from Idris (2020), the Labour Department, a division of the Ministry of Human Resources, has looked into staff's living quarters of Top Glove Corp factory after the report has made it to British news in December 2020. Aside from social and environmental concerns, governance is one of the most important indicators for measuring the health of the economy. A recent study by Yusof and Arshad (2020) found that twenty percent of companies tend to pay bribes to apply for construction licenses or have meetings with tax officials. Sustainability comprises three major keys, not only in the natural environment, but also in social and governance. The power behind this mess lies in the hands of policy makers and businesses, since both contribute extensively to the well-being of a society. This study intends to test the practicality of the initiatives taken by FTSE Russell in promoting a better quality of a company's management in ESG issues.

1.1.2 ESG Evolution

The practice of social considerations and restrictions in investment decisions has taken place since the 19th century among faith-based groups in general (Eccles, Lee and Stroehle, 2019). In 1898, as a reflection of the firm's orientation of investment funds and core values, the Quaker Friends Fiduciary Corporation adopted an investment

⁶ Piyasiri Wickramasekera. (2002, August). *Asian Labour Migration: Issues and Challenges in an Era of Globalization*. INTERNATIONAL LABOUR OFFICE GENEVA.

policy that avoided “sin stocks” involving weapons, alcohol, and tobacco (Roselle, 2016). For decades, social concerns, including civil rights, the environment, and women’s rights, have been progressively involved in the individual to economic investment decision-making process. In the beginning of the new millennium, the majority of market players assumed that a socially responsible investment would slow down financial returns. However, the world started to welcome ESG efforts openly in the 2010s after the global financial crisis in 2008 (Papadopoulos and Araujo, 2020). ESG awareness is what the global financial crisis has left us with (Sampei, 2008).

Despite the fact that the time period was brief and few regions were spared, several ESG-focused or responsible investing strategies survived the storm, and in many cases, outperformed standard goods. Morningstar and MSCI research found that the majority of ESG indexes outperformed their parent indices in the first quarter.⁷ After the slump in 2008, the public and the governments requested financial institutions to amend their capital allocation policies, where the spending should be allocated into projects that can help turn the world into a better place. This has led banks and businesses to become more transparent and rational in allocating money into areas that will resolve social or environmental crises. Since the foundation has been built, the implementation of ESG-related practices across industries and jurisdictions in the next decade is expected to grow in a significant manner.

⁷ Aegon Asset Management. (2020, June 8). *Why ESG Matters in a Crisis*. Institutional Investor. <https://www.institutionalinvestor.com/article/b1ly879667bxnt/why-esg-matters-in-a-crisis>

1.1.3 Policies

Over the years, major attempts have been made by policy makers worldwide to agree on targeting global climate issues to be internationally binding (Bauer and Menrad, 2019). The Millennium Development Goals (MDGs), which was introduced by the United Nations (UN) in 2000, mandates world leaders to tackle eight goals consisting of extreme poverty, hunger, disease, environment, sustainability, and women empowerment.⁸ In December 2015, 188 states including Malaysia, who had been responsible for 40% of carbon emissions, stated their support for the Paris Agreement to reduce climate change.⁹

Nowadays, most institutions, corporations, and organisations have as well established policies regarding ESG practice to protect public health, minimise economic fallout, and mitigate socio-political risk. For instance, Sweden, with the highest ESG score of 8.98 amongst other European countries in 2020, has adopted a standard for sustainability reporting.¹⁰ The Swedish Investment Fund Association requires Key Investor Information Documents (KIIDs) and annual reports to include information on sustainability management in operations.¹¹ Along with the global ESG movement, FTSE Russell has taken a step forward in developing an index series to rate the sustainability and ethical impact of an investment, as a way to acknowledge the

⁸ UN Department of Economic and Social Affairs. (2015, July 6). *Millennium Development Goals Report 2015 | Latest Major Publications - United Nations Department of Economic and Social Affairs*. United Nation. <https://www.un.org/en/development/desa/publications/mdg-report-2015.html>

⁹ Denchak, M. (2021, February 19). *Paris Climate Agreement: Everything You Need to Know*. NRDC. <https://www.nrdc.org/stories/paris-climate-agreement-everything-you-need-know>

¹⁰ *Country Sustainability Ranking - Sustainable investing*. (2020, November 16). Pure Play Asset Management | Robeco.Com. <https://www.robeco.com/en/key-strengths/sustainable-investing/glossary/country-sustainability-ranking.html>

¹¹ Boyd, J. (2021, June 22). *Sustainability standard adopted by Swedish fund industry*. International Investment. <https://www.internationalinvestment.net/internationalinvestment/news/371349/sustainability-standard-adopted-swedish-fund-industry>

concerns regarding ESG.¹² In collaboration with FTSE Russell, Bursa Malaysia Bhd. established an ESG Index in 2014 as part of the globally benchmarked FTSE4Good Index Series (Abu, Baba, Basri and Mahat, 2016). Later, the Guidelines on Sustainable and Responsible Investment Funds (Guidelines on SRI Funds) was introduced in Malaysia in late 2017.

1.1.4 FTSE4Good Bursa Malaysia

The purpose of the FTSE4Good Index Series by FTSE Russell is to measure the performance of firms in displaying good ESG practices. The data from the index can be used as tools for index-tracking investment, in research, to determine socially sustainable firms, as a reference, and as a benchmark index to keep an eye on the performance of sustainable investment portfolios. FTSE Russell's methodology analyses companies' exposure across a full spectrum of material ESG risks, classified into 14 ESG themes and underpinned by more than three hundred detailed quantitative and qualitative indicators. As of July 2020, F4GBM Index consisted of a total of 73 constituents of public listed companies (PLCs) from across the small, medium, and large market capitalisation segments that have been practising good sustainability efforts and reporting.

The latest data as of June 2020 showed an increase of 204% since its launch in 2014 with 6 additions and 2 deletions. Index constituents are drawn from the top 200 shortlisted companies on the FTSE Bursa Malaysia EMAS Index and reviewed in June and December every year (Bursa Malaysia, 2015). FTSE Bursa Malaysia EMAS Index

¹² FTSE Russell. (n.d.). *FTSE4Good Index Series*. Retrieved June 6, 2020, from <https://www.RussellFTSE.com/products/indices/ftse4good>

comprises the constituents of the FTSE Bursa Malaysia Top 100 Index and the FTSE Bursa Malaysia Small Cap Index. The implementation of FTSE4Good by FTSE Russell should, or at least rationally, could be thought of as an ethical investment initiative (Collison, Cobb, Power and Stevenson, 2009). In July 2020, it was revealed that BlackRock was the major factor in ESG compliance, where the US\$7.3 trillion asset manager had written to 577 Asian businesses, representing over 90% of MSCI index components, requesting stronger sustainability disclosures¹³. The study tests the effect of the sustainability disclosure towards investors' behaviour in Malaysia through mean-adjusted and market-adjusted models.

1.1.5 ESG Rating Framework

ESG performance of a firm can be calculated in diverse ways. Elkington (1997), as cited in Sassen, Hardeck and Hinze (2016), proposed the triple bottom line approach, which recommends that businesses should examine their economic, environmental, and social consequences on society as a whole, as well as on specific stakeholders (Dyllick and Hockerts, 2002). The capital market acknowledges the application of ESG criteria to capture corporate social performance (Bassen and Senkl, 2011). FTSE Russell's ESG Ratings and data model have adopted a methodology that enables investors to understand a firm's risk to, and conduct of, ESG issues in various scopes. The ESG Ratings are made up of an overall score that is divided into two parts: Pillar and Theme Exposures; and Scores. Over 300 distinct indicator evaluations are used to create the Pillars and Themes, which are then applied to each firm's particular circumstances.

¹³ Ng, J. (2020, December 17). *Cover Story: ESG becoming mainstream*. The Edge Markets. <https://www.theedgemarkets.com/article/cover-story-esg-becoming-mainstream>



Figure 1.1 : Pillars and Themes of ESG Ratings

ESG consists of understanding and measuring the outcome of relevant risks, and communicating how these risks are managed as part of the business plan. The ESG rating focuses on three pillar scores, which include environmental, social, and governance, with a subdivision of 14 subject scores and 300 indicators.

ESG Rating			1 Rating
Measure of the overall quality of a company's management of ESG issues			
Environmental	Social	Governance	3 Pillars
<i>Score:</i> Measure of the quality of a firm's management of Environmental issues	<i>Score:</i> Measure of the quality of a firm's management of Social issues	<i>Score:</i> Measure of the quality of a firm's management of Governance issues	

<i>Exposure:</i> Measure of the relevance of Environmental issues for a company	<i>Exposure:</i> Measure of the relevance of Social issues for a company	<i>Exposure:</i> Measure of the relevance of Governance issues for a company	
Biodiversity Climate Change Pollution and Resources Supply Chain Water Use	Customer Responsibility Health and Safety Human Rights and Community Labour Standards Supply Chain	Anti-corruption Corporate Governance Risk Management Tax Transparency	14 Themes
<i>Score:</i> Measure of the quality of a firm's management of issues related to each Theme	<i>Score:</i> Measure of the quality of a firm's management of issues related to each Theme	<i>Score:</i> Measure of the quality of a firm's management of issues related to each Theme	
<i>Exposure:</i> Measure of the relevance for a company of each Theme	<i>Exposure:</i> Measure of the relevance for a company of each Theme	<i>Exposure:</i> Measure of the relevance for a company of each Theme	

Figure 1.2 Scores and Exposure of ESG Ratings

The assessment process of ESG ratings starts with the characteristic analysis of a firm, such as subsector, country of operation, and company status. After having gained the information on subsector and country of operation, the ESG Theme is identified, whether or not it has potential risks to the company. The exposure will be set with 4 different levels from 0 to 3 for each applicable ESG theme. Assessment of actions will be taken against each exposure with 6 different Scores from 0 to 5 for each applicable ESG theme. Lastly, ESG rating will be calculated with Exposures and Scores for each applicable ESG Theme. As an illustration, in the case of the water security theme, the

characteristics of Company B and C are analysed. Company B belongs to the Hotel subsector and operates in Japan and India. Company C is in the same subsector with Company B but only operates in Japan. Company B's subsector scores a 2 (Medium) on exposure, but because it has operations in India (Primary Impact Country), it is scored at level 3 (High) on exposure for the location. Meanwhile, Company C scores a 2 (Medium) for the theme of water security.

SUBSECTOR		COUNTRY OF OPERATION	EXPOSURE LEVEL
Primary Impact Subsector	533 - Exploration & Gas 3572 - Farming & Fishing 7577 - Water	N/A	HIGH
Secondary Impact Subsector	5753 - Hotel	Primary Impact Country (e.g., India, South Korea, Singapore, UAE)	
Secondary Impact Subsector		Non Primary Impact Country	MEDIUM

COMPANY B			COMPANY C		
SUBSECTOR	COUNTRY OF OPERATION	EXPOSURE LEVEL	SUBSECTOR	COUNTRY OF OPERATION	EXPOSURE LEVEL
HOTEL	JAPAN, INDIA	HIGH	HOTEL	JAPAN	MEDIUM

Subsequently, the actions taken against the water security theme by each company will be accessed with a total of 4 indicators under the water security theme. As illustrated below, 50% indicator points are awarded to Company B, while Company C is awarded 66.7%. This gives them a score of 3 (Good Practice) and 5 (Best Practice) for Company B and C, respectively. ESG rating will be calculated with Exposures and Scores for each applicable ESG Theme. Pillar score is an exposure-weighted average of applicable theme scores. Therefore, a High Exposure score of 3 will have the weight of three times of a Theme score that is Low Exposure of 1 for the relevant issue. Finally, the overall ESG rating is calculated as an Exposure-weighted average of the three Pillar scores.

Manufacturers and producers of tobacco, military systems, problematic weapons (cluster bombs, anti-personnel mines, depleted uranium, chemical or biological weapons, and nuclear weapons), and coal are among the FTSE4Good standard exclusion criteria. For businesses in developed markets, High Exposure ESG themes must have a score of at least 2, with nuclear power meeting 16 of 17 indicators in the Health and Safety theme and infant formula meeting 19 of 20 indicators in the Customer Responsibility subject. The Index Series does not include companies who are involved in scandals. The FTSE4Good Bursa Malaysia Index is made up of FTSE Bursa Malaysia EMAS businesses who have an overall ESG score of at least 2.9 and meet the FTSE4Good standard exclusion criteria. Malaysian firms' ESG ratings perform well in developing markets, with Malaysia ranking 5th in FTSE Emerging business scores and 3rd in Governance Pillar scores out of 16 Emerging Market nations. As of December 24, 2019, Malaysian firms scored 2.9 in developing markets and 3.3 in developed markets on the ESG score.

1.2 PROBLEM STATEMENTS

The development of sustainable investments, which involve sustainable businesses based on ecological, social and governance evaluations, has been rapidly soaring in the market in recent years (e.g., Mollet and Ziegler, 2014; Peillex and Ureche-Rangau, 2016). Despite the growing popularity of ESG investment, the ESG investing in Malaysia is still considered immature, regardless of the increase in demand of ESG-themed funds, due to a limited investment universe and a lack of high-quality ESG reporting, which can be reflected in the types of ESG-themed funds available in Malaysia (Wealth, 2021). According to Wong et al. (2021) Malaysia's institutional framework, with its common law heritage and robust domestic economy, may teach other developing and emerging countries a thing or two. In 1987, Malaysia's first report on sustainable development was released (Mohammad and Wasiuzzaman, 2021). According to Teoh and Thong (1984), Malaysian businesses appear to be deficient in corporate social responsibility, focusing instead on their workers and the profitability of their product offerings rather than the impact on the environment and society.

The growth of corporate failures and corporate governance scandals have cast doubt on commercial enterprises' accountability, ethical behaviour, and ability to strategically manage a wide range of stakeholders. The pre-emptive action and continuous education on sustainability requires a multilateral effort by all global players, especially firms and investors. According to 2021 Trafficking in Persons Report of Malaysia by the United States Embassy, The Government of Malaysia does not fully meet the minimum standards for the elimination of trafficking and is not making substantial progress to do so, especially with the impact of the COVID-19 pandemic on its anti-trafficking capacity; therefore Malaysia was downgraded to Tier