

RESPONSIBLE INVESTING: INTEGRATING ESG INTO PENSION FUND PORTFOLIOS

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OVERVIEW

Capital Markets Authority (CMA)

ESG Factors

Governance Factor

Key milestones: ESG integration in the capital markets

Pension funds ESG integration

Emerging issues and new developments in ESG

Key takeaways

Conclusion



Who is the Capital Markets Authority?



Who we are

Independent public
agency set up in 1989 Cap
CM Act. Cap 485A



Vision

The Trusted Regulator of
An Inclusive Capital
Markets.



Mission

To regulate and promote the
development of an orderly, fair, and
efficient capital and commodities
markets that safeguard stakeholder
Interests.

OBJECTIVES OF CAPITAL MARKETS REGULATORS (IOSCO PRINCIPLES)

Investor Protection

- Prevention of Fraud, Insider trading, Failure of market intermediaries to meet contractual obligations

Upholding Market Integrity

- Transparent, fair, orderly, efficient market (sound market infrastructure & institutions, governance, competence standards, access)

Mitigate against systemic risks

- Strengthen Systemically Important Financial Institutions, minimize market concentration risks and other reinforce stability factors

Role of Capital Markets

Mobilize
savings

Create new
assets and
liabilities

Capital
formation

Facilitate price
determination
and discovery

Provide
liquidity to
financial assets

Improve
corporate
governance

Accelerate
economic
development

Some of the Capital Market Products..

Kenya Capital Markets Industry Product Structure

Equity Market	Debt Market	Derivatives Market
<ul style="list-style-type: none"> • Ordinary Shares • Collective • Investment Schemes(REITS, Unit Trusts) • Sharia compliant stocks and funds* • Exchange Traded Funds • Global Depository Receipts*** • Equity Based Crowdfunding* 	<ul style="list-style-type: none"> • Treasury Bonds • Corporate Bonds • Green Bonds • Sustainable Bonds* • Blue Bonds* • Social Bonds* • M-Akiba • Preference Shares • Infrastructure Bonds • Commercial Papers • CIS (Fixed Income Funds) • County Bonds* • Asset Backed Securities*** • Sukuk* • Global Depository Notes*** • Debt Based Crowdfunding**** 	<ul style="list-style-type: none"> • Futures • Swaps** • Options** • Swaptions** • Online Foreign Exchange Trading

* In the pipeline:

** OTC Market active but exchange traded products due to be introduced in the near term.

*** Regulations and/or guidelines in place awaiting issue of the products.

**** Products in the mass market (through the sandbox) awaiting development of regulations and/or guidelines



ESG

Environmental (Green) Finance.

Includes management of the environmental impact of the company including **carbon emissions** or **waste** and **resource management**

Social (Impact Investment) Finance.

Address a social market failure in the provision of welfare such as health, education, human rights, equality and employment

Governance (Stakeholder) Finance.

Adherence to international standards of employee welfare, employee representation, stakeholder engagements, executive compensation, transparency etc

THE RISK OF INACTION - Scenario 2035

+2°C warming
= 30% drop in
agricultural
GDP

Social unrest =
20%
contribution
gap

Governance
scandals = Kshs
300 billion in
pension fraud
(est.)

WHY THE ESG CONVERSATION MATTERS IN THE PENSION SECTOR?

ESG has gained considerable traction in recent years.

We are in a sustainable development & climate emergency. The UN PRI has more than 5,000 signatories (managing trillions of US dollars) across over 80 countries

Kenya's pension assets exceed KES 2.4 trillion In Dec 2024 (30.7% growth from KES recorded as at Dec 2023) and continue to grow.

Your members will live to 85+. Will their pensions survive climate change, social unrest or governance failures?

Average member age at retirement is 55. Life expectancy is 67 and projected to rise to 75+ by 2050. 30+ years of post retirement.

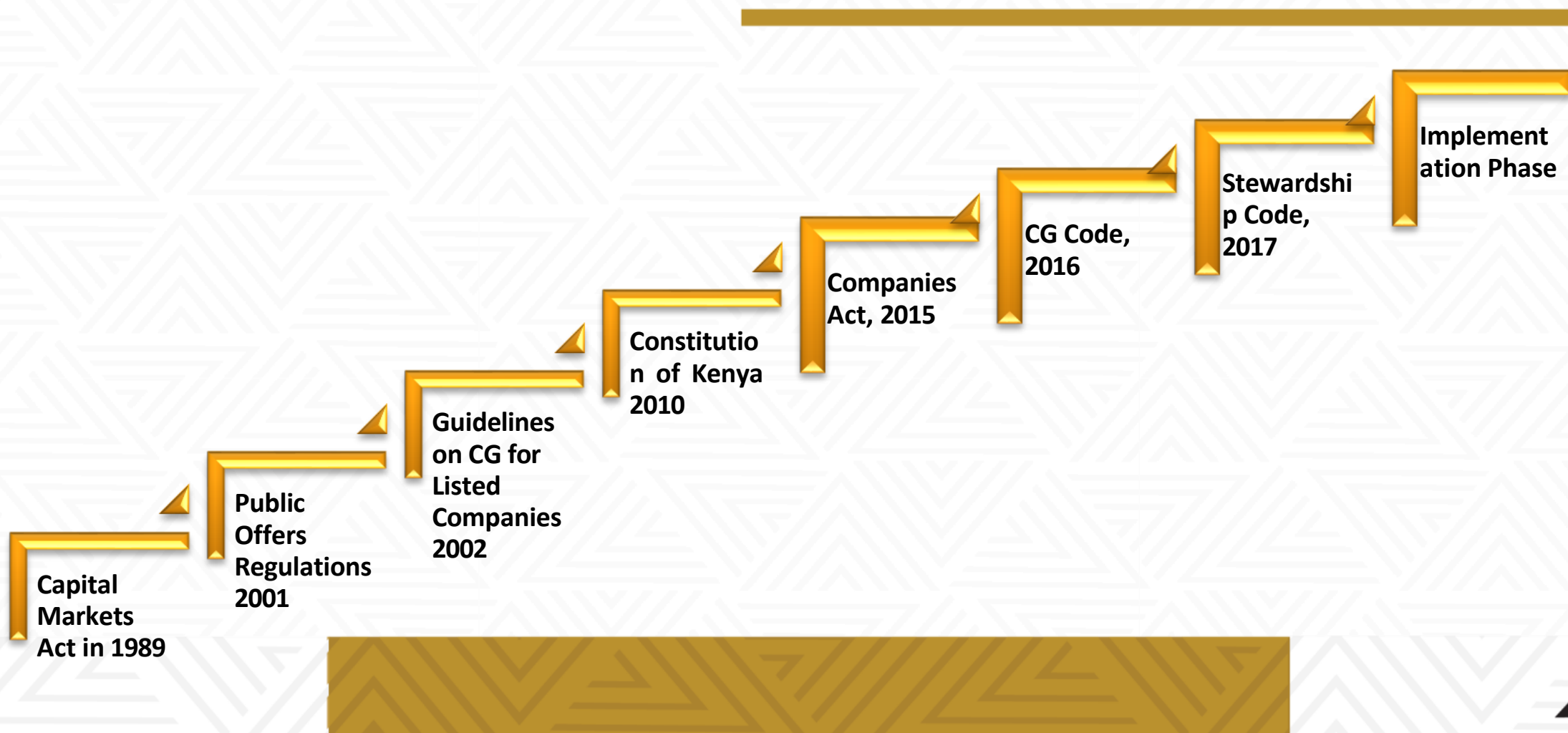
Pension funds are long-term investors — their actions shape economies and society.

ESG issues — climate change, governance failures, social inequality — now have material financial impact.

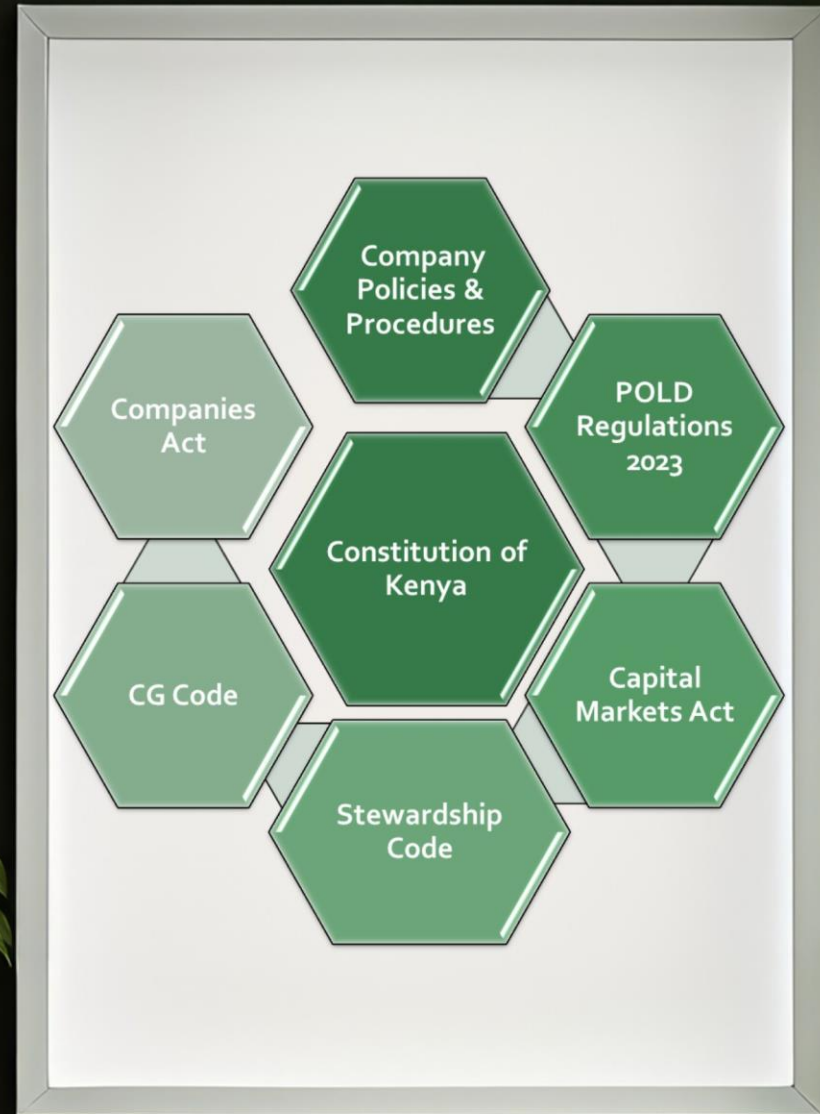
Trustees and fund managers are fiduciaries — integrating ESG is part of your duty of care.

Sustainability reporting has become a global movement especially with the looming effects of climate change and environmental calamities. There is need to promote sustainability reporting as a tool to attract, mobilize and drive sustainable investments.

KEY CORPORATE GOVERNANCE REGULATORY REFORMS 1989 TO DATE



LEGAL FRAMEWORK FOR LISTED COMPANIES



What is being done to promote good governance amongst Issuers?

Implementation of the Code of Corporate Governance.

Annual publication of the state of corporate governance report.

Onsite governance inspections.

Enforcement action for corporate governance violations.

Capacity building/creating awareness.

Governance audits and Legal & Compliance audits. Key gatekeepers.

Implementation of the Stewardship Code and empowerment of Minority Shareholders.

THE REPORT ON THE STATE OF CORPORATE GOVERNANCE PRACTICES FOR ISSUERS OF ISSUERS IN KENYA REPORT 2024 (7TH EDITION)



KEY STATISTICS

Item	No.
Number of issuers	66
Equity market capitalization as at December 31, 2024	Kshs 1.948 Trillion
Frequency of independent governance audits	Every 2 years
Frequency of independent legal audits	Every 2 years
Board development training hours per year	12 hours
Board evaluation	Annual
Integrated reporting	Annual
AGMs	Annual

b. Market Capitalization by Sector

The table below presents the market capitalization as of 31st December 2024

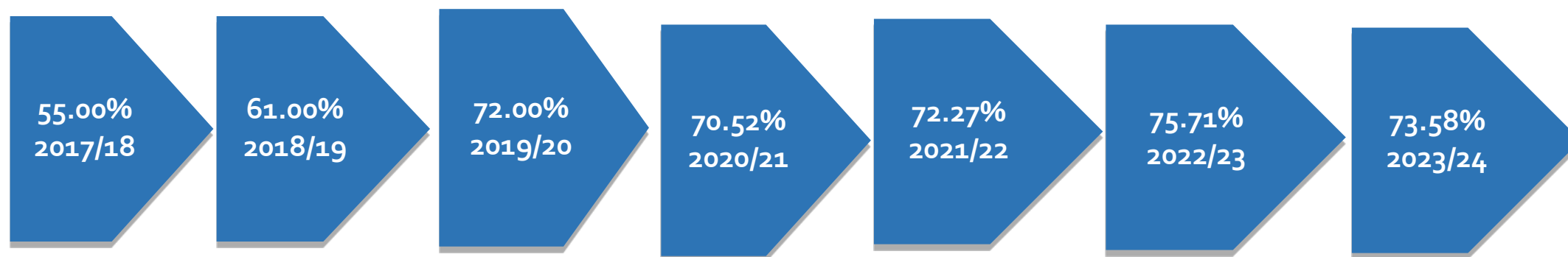
No.	Sector	Market Cap	Proportion
1	BANKING	866,803,354,402.83	44.50%
2	TELECOMMUNICATION & TECHNOLOGY	683,115,547,400.00	35.07%
3	MANUFACTURING & ALLIED	186,080,487,157.25	9.55%
4	ENERGY & PETROLEUM	64,091,874,384.16	3.29%
5	INSURANCE	44,292,492,742.64	2.27%
6	COMMERCIAL AND SERVICES	33,547,105,615.80	1.72%
7	CONSTRUCTION & ALLIED	33,001,513,035.00	1.69%
8	AGRICULTURAL	17,997,969,075	0.92%
9	INVESTMENT	7,429,847,647.91	0.38%
10	REAL ESTATE INVESTMENT TRUST	6,924,628,260.00	0.36%
11	AUTOMOBILES & ACCESSORIES	1,824,700,514.00	0.09%
12	INVESTMENT SERVICES	1,557,004,746.00	0.08%
13	EXCHANGE TRADED FUNDS	1,304,000,000.00	0.07%
		1,947,970,524,981	100.00%

THE STATE OF CORPORATE GOVERNANCE OF ISSUERS IN KENYA

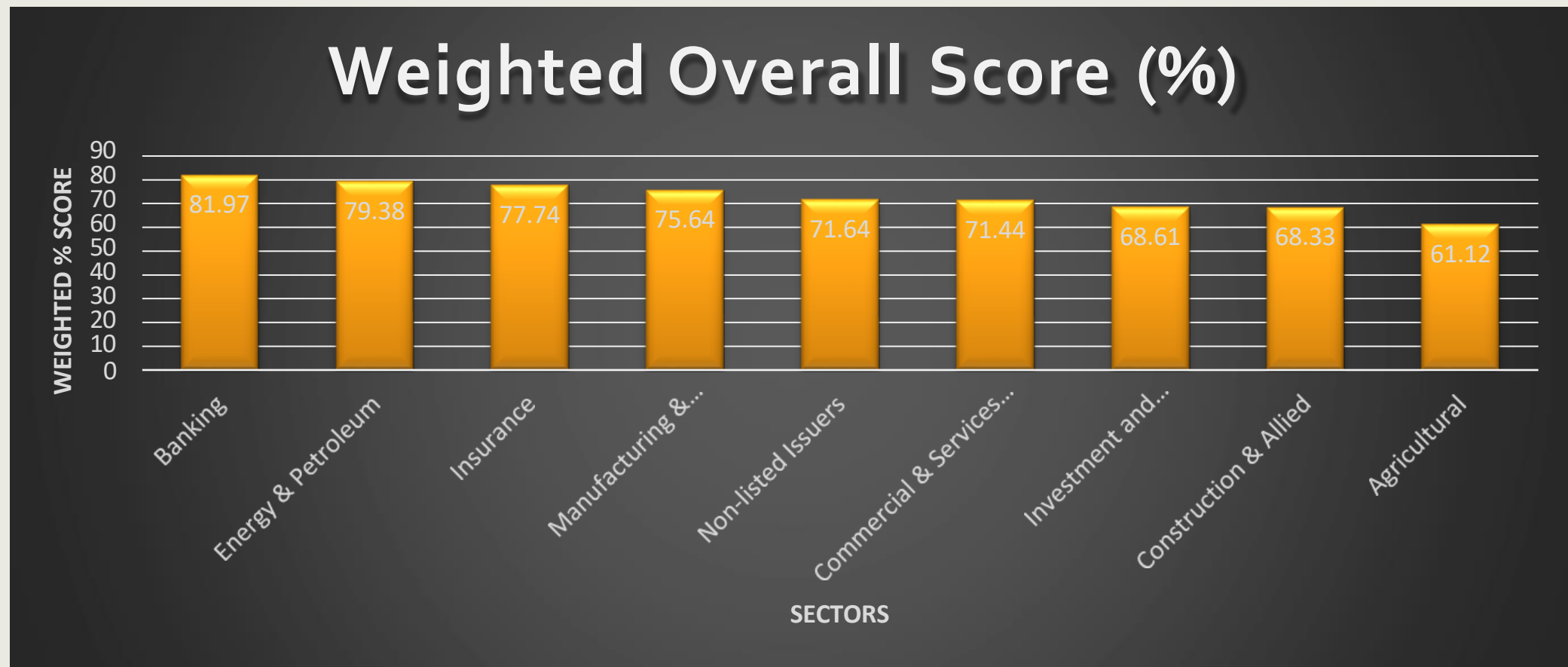
❑ **Standout achievement;** significant improvement in the annual weighted overall governance score from a Fair Rating of 55% in the financial year 2017/2018, issuers have advanced to an impressive Good Rating of 73.56% in 2023/2024.

❑ **Slight decline due to;** transition from disclosure based to implementation-based assessment approach, new POLD 2023 requirements and approval of specific policies by shareholders during the AGMs.

❑ Below is **the Overall weighted score by all issuers** across periods (FY 2018- FY 2024)



Overall Weighted Performance Per Sector



Performance by various sectors across all principles – Heatmap

	Commitment to Good Corporate Governance	Board Operations and Control	Rights of Shareholders	Stakeholder Relations	Ethics and Social Responsibility	Accountability, Risk Management and Internal Controls	Transparency and Disclosure
Agricultural	Blue	Yellow	Yellow	Yellow	Yellow	Blue	Yellow
Banking	Green	Blue	Green	Green	Green	Green	Green
Commercial & Services & Telecommunications	Green	Yellow	Blue	Yellow	Green	Green	Blue
Construction & Allied	Blue	Yellow	Yellow	Yellow	Blue	Blue	Green
Energy & Petroleum	Green	Blue	Green	Blue	Green	Green	Green
Insurance	Green	Blue	Green	Blue	Green	Green	Green
Investment & Investment Services	Blue	Blue	Green	Blue	Yellow	Green	Yellow
Manufacturing & Allied/Automobiles & Accessories	Green	Blue	Green	Green	Green	Green	Green
Non-Listed Issuers	Green	Blue	Blue	Blue	Blue	Green	Blue

Key:

Leadership Rating (75% and above)
Good Rating (between 65% and 74%)
Fair Rating (between 51% and 64%)
Needs Improvement (50% and below)

CMA'S 5 PILLARS TO SUPPORT ESG INTEGRATION IN THE CAPITAL MARKETS

Facilitate sustainable investments to support the delivery of ESG

Strengthen ESG disclosures through ESG legal and regulatory framework

Clarify investor including institutional investors duties on ESG

Strengthen corporate governance to support sustainability/ESG

Build market capacity and expertise on sustainability/ESG

ROADMAP TOWARDS THE DEVELOPMENT OF ESG/IR LEGAL AND REGULATORY FRAMEWORK

Develop ESG/IR strategy

Develop ESG/IR policy framework

Develop ESG/IR legal and regulatory framework

Development of NSE ESG index with a focus on sustainability

Implement and collaborate

KEY MILESTONES: ESG INTEGRATION IN THE CAPITAL MARKETS SECTOR

ESG Assessment

**Developed ESG implementation
roadmap**

**Shared experiences with peer
regulators both locally and overseas**

**ESG standards e.g. NSE ESG
guidance manual**

Collaboration

How ESG Impacts Pension Fund Outcomes

Scenario A: High carbon exposure → higher transition risk → potential stranded assets

Scenario B: Poor governance in an equity holding → sudden value destruction

Scenario C: Strong labour practices → higher productivity and sustainable cashflows

ESG issues have a direct and indirect link to financial outcomes

ESG AND IMPACT INVESTING APPROACHES

Social Responsible Investing;
Avoid harmful exposure e.g.
excludes tobacco, weapons and
thermal coal

Thematic; Seek beneficial
exposure e.g. investing in solar,
wind, and hydro projects

ESG; Manage harmful exposure,
manager internal risks, manage
supplier risks e.g. integrates ESG
factors across its portfolio,
including carbon intensity and
governance metrics

Impact; Explain causal logic,
assess targeted effects, assess
all effects e.g. invests in off-grid
solar and affordable healthcare
enterprises in developing
markets

Practical Roadmap for Pension Funds ESG Integration

Policy & Governance – Update IPS to include ESG principles

Capacity, Data and Materiality Assessment – Appoint, ESG Leads/Data Providers and identify key ESG issues per asset class

Integration & Screening – Factor ESG into investment selection

Stewardship – Engage companies on ESG improvements

Reporting & Review – Monitor, disclose, and adjust

Materiality Matrix - Example

Equities	Key materiality pillars; Governance, carbon intensity, labour standards
Fixed income	Key materiality pillars; Issuer governance, sovereign ESG factors, climate exposure for project finance
Real assets	Key materiality pillars; Climate resilience, land rights, environmental permitting

ASSET ALLOCATION EXAMPLE

Traditional; 60% equities, 30% bonds, 10% alternatives

ESG-aware; 55% equities (tilt toward low-carbon leaders), 30% bonds (green/local bonds), 15% alternatives (infrastructure, affordable housing, energy transition)



ESG Roles and Responsibilities

Trustees; Set ESG policy, monitor implementation

Custodians; Ensure data & compliance

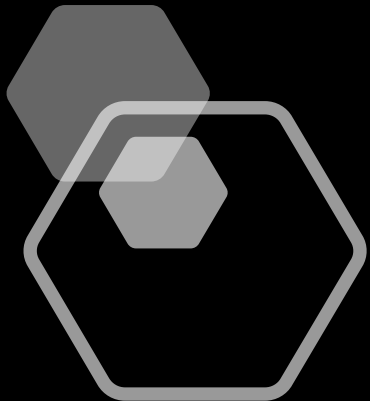
Fund Managers; Integrate ESG in investment process

Administrators; Track and report on member communications

Regulators; Provide framework, enforce transparency

Common Objections & How to Address Them

- ❖ **ESG reduces returns** → evidence shows risk-adjusted returns can improve; integration is selective & materiality-focused.
- ❖ **It's just marketing** → insist on measurable KPIs, verification, and transparency.
- ❖ **Data is poor in Kenya** → start with what you can measure, push for issuer disclosure, use engagement.



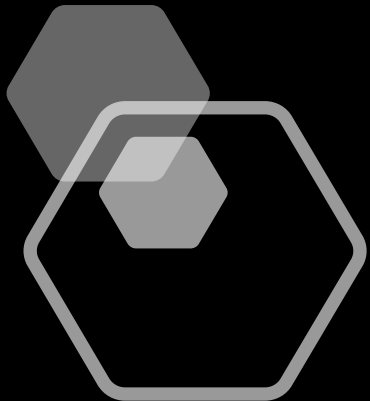
ESG OPPORTUNITIES IN KENYA

Renewable Energy: Geothermal, solar and wind projects.

Green Infrastructure: Roads, housing, transport via green bonds.

Agriculture: Climate-smart and sustainable agri-value chains.

Social Bonds: Healthcare, education, affordable housing.



OVERCOMING ESG CHALLENGES

Data scarcity: Local ESG data initiatives. Partner with global ESG analytics providers, ESG data vendors

Limited ESG expertise: Training and certification programs for trustees

Green washing/Impact washing risks: Third party verifiers, transparency reporting and disclosure

Perception of lower returns: Data/reports proves otherwise. ESG funds have outperformed non-ESG funds in the long term

Emerging Issues - ESG & Sustainability

ESG Policies and Strategy- Boards to approve and disclose ESG Policies on websites and in annual reports.

Review of the CG Code to incorporate all ESG factors- expand beyond governance-focused principles to encompass critical environmental and social factors.

IFRS S1 & S2 Standards- Kenya has adopted a roadmap for phased implementation starting Jan 2027. Boards should begin readiness assessments, build capacity and align with international standards.

ESG Assessment Initiative by CMA and FSD Kenya- goal is to evaluate current ESG practices and map the broader capital markets ESG ecosystem. Findings will inform CMA's policy and regulatory framework.

Carbon Market Assessment by CMA and FSD Kenya- Focused on assessing the complete carbon market ecosystem, stakeholder mapping, demand, supply and risks and opportunities analysis.

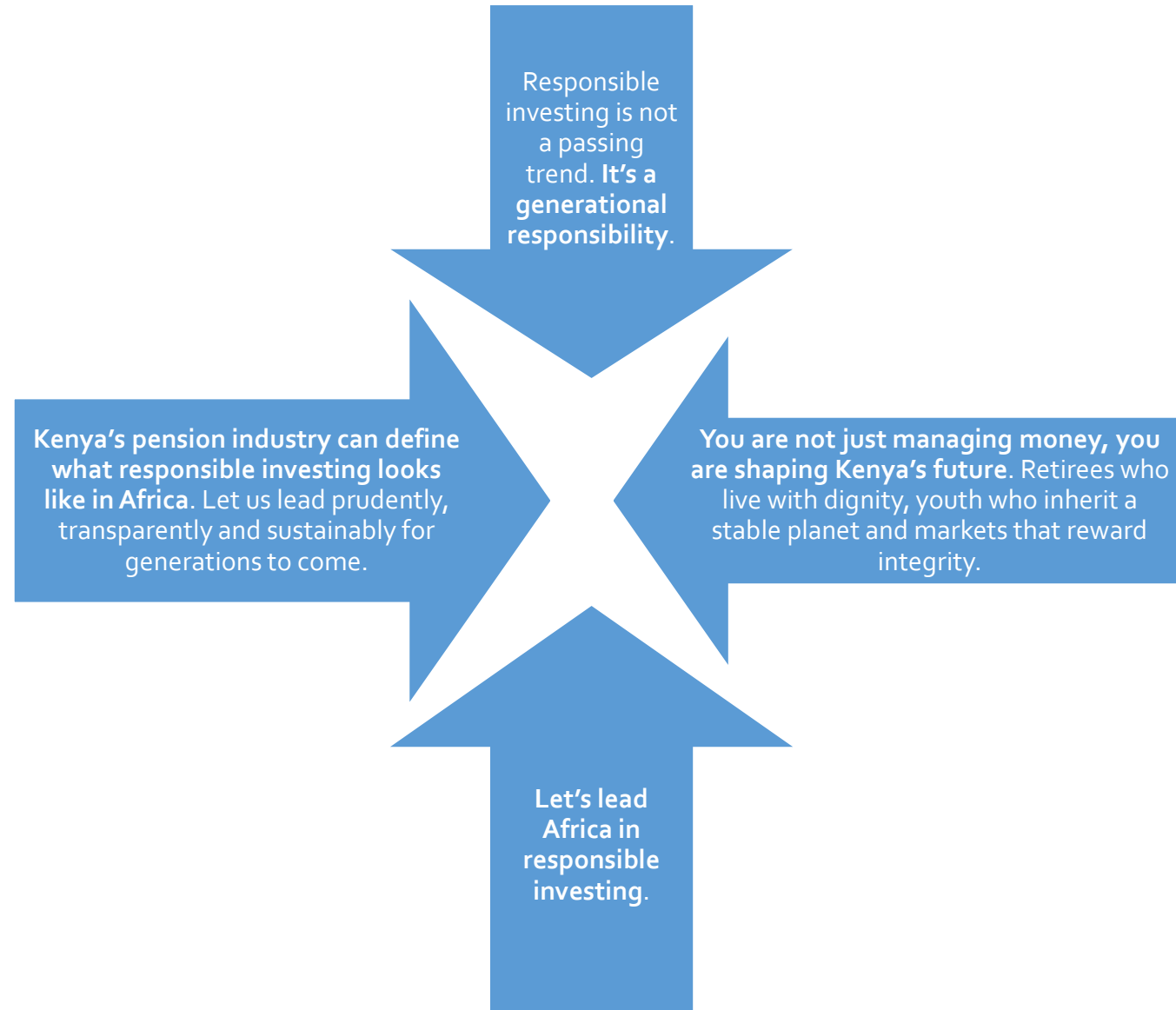
Emerging Issues - Technology and Data Protection

Artificial Intelligence in ESG Reporting- CMA leveraging AI, machine learning and blockchain for ESG integration. The MALENA platform is enhancing issuer ESG performance assessment.

Data Protection- Data protection is a core governance responsibility for pension funds due to the volume of sensitive personal and financial data they handle. Boards must set the tone at the top by integrating data protection into risk management, strategic decisions, internal controls and digital transformation agendas.

Cybersecurity- Pension funds face heightened regulatory and market expectations. Boards must lead a proactive, strategic cybersecurity response. Calls for awareness raising to enhance proper oversight. Cyber risk management should be embedded in the enterprise-wide risk framework.

CLOSING REMARKS



Key Takeaways

Start Where you Are – It's a journey

You can eat the elephant, one bite at a time.

Perfect is the enemy of good – Avoid analysis paralysis

CONCLUSION

‘It is better to do things when you can prevent them than to cry when you are already suffering, and nothing can be done anymore.’

Amharic Proverb

THANK YOU



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