

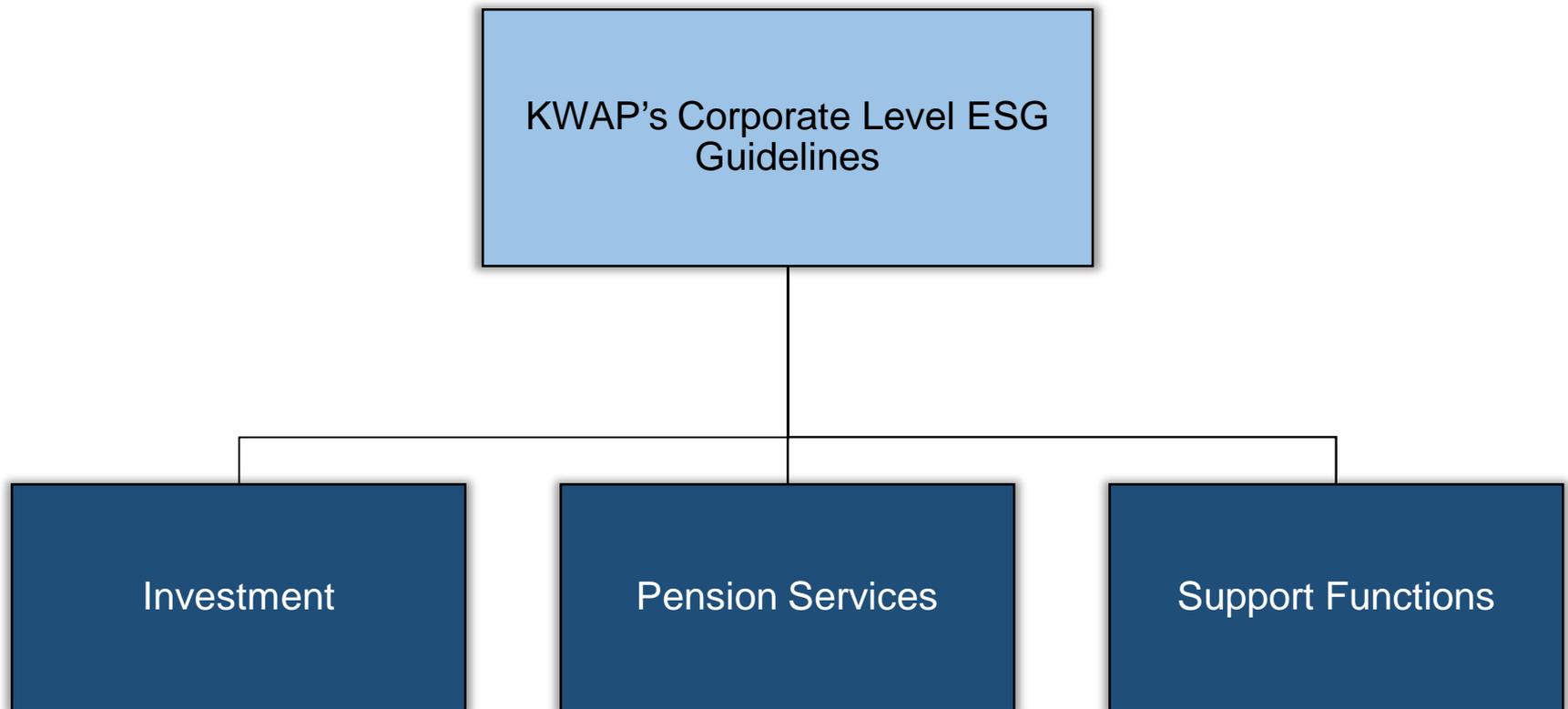
**KWAP'S  
CORPORATE  
LEVEL  
ENVIRONMENTAL  
SOCIAL &  
GOVERNANCE (ESG)  
GUIDELINES**



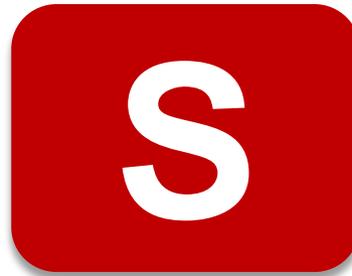
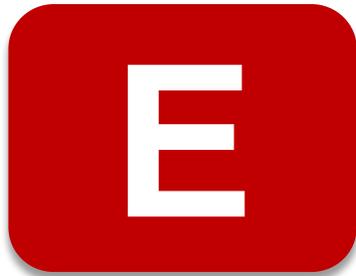
- This Corporate Level ESG Guidelines (“Guidelines”) is based on KWAP’s conviction that integrating environmental, social and governance (ESG) practices into its investment practices can **generate sustainable long-term returns** and ensure its pension services and support functions will be delivered in a responsible manner
- This Guidelines details KWAP’s **holistic view on ESG** which is applied across its investment practices, pension services and support functions
- It consists of **seven pillars** to guide KWAP’s internal processes as well as its engagement with external parties
- This Guidelines **will be updated periodically** to keep abreast with the latest best industry practices and to reflect KWAP’s latest initiatives

# INTRODUCTION (cont'd)

KWAP's Corporate Level ESG Guidelines covers all aspects of the organization



# WHAT'S IN A NAME



## Environmental

- Issues relating to the quality and functioning of the natural environment and natural systems
- These include :
  - ✓ Greenhouse gas (GHG) emissions
  - ✓ Climate change
  - ✓ Renewable energy
  - ✓ Energy efficiency
  - ✓ Air, water or resource depletion or pollution
  - ✓ Waste management
  - ✓ Changes in land use

## Social

- Issues relating to the rights, well-being and interests of people and communities
- These include :
  - ✓ Human rights
  - ✓ Labour standards in the supply chain
  - ✓ Child, slave and bonded labours
  - ✓ Workplace health and safety
  - ✓ Human capital management and employee relations
  - ✓ Diversity relations with local communities

## Governance

- Issues relating to the governance of companies and other investee entities
- These include :
  - ✓ Board composition
  - ✓ Business ethics
  - ✓ Bribery and corruption
  - ✓ Shareholder rights
  - ✓ Internal controls
  - ✓ Risk management

# BACKGROUND – SOCIALLY RESPONSIBLE INVESTING ('SRI')

## *Socially Responsible Investing*



- ❖ KWAP has **adopted SRI** since its incorporation in **2007**
- ❖ KWAP has **avoided investments in the following industries** through negative screenings based on ethical considerations:
  - i. Alcohol
  - ii. Gaming
  - iii. Swine
  - iv. Chemical weapons, cluster bombs etc.
  - v. States under UN Embargo Environmental Degradation
  - vi. Adult Entertainment
  - vii. Corrupt Practices
- ❖ This was **incorporated in KWAP's Investment Policy and Guideline (IPG)** and has been its stance since 2007
- ❖ Benchmarking against industry best practices pertaining to responsible investing and KWAP's long term fiduciary duty to maximise its return on investment, it decided **to expand beyond the SRI practice** of negative screening (which is restrictive) and include a broader, more holistic view by implementing this Corporate Level ESG Guidelines
- ❖ This involves not only formulating KWAP's ESG Guidelines for Investment (which is focused on investments) but to **internalise ESG across the organization and its value chain**

# OBJECTIVES – CORPORATE LEVEL ESG GUIDELINES

## Description

### 1. Role to Stakeholders

- To enable KWAP to fulfil its roles to its stakeholders (including the future generations) in a responsible and sustainable manner by adopting good ESG practices

### 2. Sustainable Investment Performance

- To improve the sustainability and long term investment performance of KWAP and its investee companies
- KWAP believes sustainability factors may significantly influence the risk-return profile of investments

### 3. Promotion of good ESG practices in the capital market and KWAP's business partners

- To leverage on KWAP's position as an institutional investor to improve ESG practices in :

i. Capital Market

ii. Companies across KWAP's value chain

# OBJECTIVES – CORPORATE LEVEL ESG GUIDELINES (cont'd)

The main objectives of the Corporate Level ESG Guidelines include:

3. Promotion of good ESG practices in the capital market and KWAP's business partners (cont'd)

## Description

- i. Capital Market :
  - ❖ Engagements with its investee companies
  - ❖ Collaborations with regulators (eg: Bursa Malaysia and Securities Commission)
  - ❖ Collaborations with Corporate Governance ('CG') bodies, e.g. ICGN, ACGA, UNPRI and MSWG
  - ❖ Active roles in CG related councils, e.g. Institutional Investors Council and Security Commission's CG Stakeholders Group
- ii. Companies across KWAP's value chain :
  - ❖ External fund managers
  - ❖ Suppliers
  - ❖ Third-party service providers
  - ❖ Other related business partners

# PILLARS GOVERNING KWAP'S CORPORATE LEVEL ESG GUIDELINES



## 01 Environment

How does KWAP safeguard the environment?

## 05 Members Administration

How can KWAP serve pensioners responsibly?



## 02 Human Capital

How does KWAP manage its employees

## 06 Ethical Practices

How does KWAP promote ethical practices?



## 03 Governance

How does KWAP uphold good governance practices?

## 07 Social

How does KWAP contribute towards the well-being of its community?



## 04 Investment Management

How are ESG incorporated into KWAP's investment management?

As a pension fund, while KWAP actively participate in improving the long term social security for the pensioners, it also takes cognisance of its duty to future pensioners and future generations. **The initiatives undertaken under this pillar are strategically designed to minimise KWAP's carbon footprint.**

|                                    | Description  | Initiatives   |
|------------------------------------|--|---|
| 1. Promote efficient energy usage  | <ul style="list-style-type: none"><li>○ As an organisation that is continuously striving to improve its efficiency, it continuously monitors and tries to reduce its energy usage</li></ul>            | <ul style="list-style-type: none"><li>○ Implement energy conservation measures</li><li>○ Switch to energy efficient LED light</li><li>○ Extensive usage of natural sunlight at KWAP's green building which reduces its energy usage</li></ul>                                 |
| 2. Reduce carbon dioxide emissions | <ul style="list-style-type: none"><li>○ As an organization that operates in the city centre, KWAP is obliged to play its part to reduce the traffic congestion thus make the city more green</li></ul> | <ul style="list-style-type: none"><li>○ Encourage its employees to utilise public transport</li><li>○ Encourage carpooling (eg: to attend external meetings and company visits)</li><li>○ Adopt flexi-working hours to ease the city's rush hour traffic congestion</li></ul> |

## 3. Efficient usage of natural resources

### Description

- KWAP promotes efficient usage of natural resources

### Initiatives

- Encourage recycling of papers
- Adopt paperless meetings (including Board meetings)
- Reduce usage of water at its offices by creating awareness amongst its employees and guests
- Promote usage of eco-friendly products which includes sourcing for environmental friendly office supplies, recycled paper and free trade coffee & tea

## 4. Invest in green buildings

- As a responsible investor, KWAP ensures its investments in property takes environmental factors into account

- Ensure all the buildings it purchased are environmentally-friendly green building
- KWAP's main office is located at Integra Tower. It is a LEED Platinum certified building which is the highest rating to be awarded to a green building

KWAP has implemented various policies and initiatives to ensure the well-being of its most valuable asset: its people.

## 1. Promote inclusive and diverse culture

### Description

- KWAP is a strong advocate of diversity and equal opportunity for all

### Initiatives

- Recruit a diverse workforce which reflects Malaysia's diversified culture
- Actively advocate gender equality via the promotion of female board representation at its investee companies
- Closely monitor the gender composition of its workforce
- Disclose breakdown of employees composition in periodic reports to its Senior Management at all EXCO meetings

## 2. Ensure employee's safety

### Description

- Whilst KWAP provides a pleasant and conducive work environment, it also ensures that its employee's safety is safeguarded at all times.

### Initiatives

- Operationalised KWAP Safety and Health Committee aimed at maintaining a safe and healthy workplace.

Comprised of:

- Emergency Response Team
- Inspection and Investigation Team
- Communications and Promotions Team
- Policy and Procedures Team

## 3. Promote work-life balance

- KWAP recognises the importance of work-life balance to protect employee's welfare and to improve employee engagements.

- Set up KWAP Sports and Recreational Club (SPARC) to encourage participation and involvement of KWAP employees in sports and recreational activities
- Bureaus include Sports Bureau, Recreation Bureau, Welfare Bureau and Education Bureau

## 4. Ensure employee's welfare

### Description

- KWAP is desirous to be an employee of choice which ensures its employee's welfare

### Initiatives

- KWAP's remuneration package not only fulfils Government's minimum wage requirement but it is benchmarked against the industry standards (both the general market as well as financial market)

This is to ensure that employees welfare are taken care of as well as contribute towards talent retention

## 5. Encourage a healthy lifestyle

- KWAP is an active advocate of wellness programs with aim to improve the health of its employees

This will in turn result in greater productivity and a reduce long-term health care costs

- Conduct regular health-related activities and campaigns
- Provide full-fledged gymnasiums at its offices for its employee's usage
- Encourage active participation of its employees at sports events

This pillar underpins KWAP's efforts and initiatives to achieve high standards of corporate governance at KWAP as well as its investee companies, its business partners and the overall capital market

## 1. Internal governance

### Description

- KWAP shall ensure that its conduct throughout the whole business process (including investment and operations) are in strict adherence to the principles of good corporate governance as required under the Retirement Fund Act. KWAP is led by experienced and skillful Board members with varied background from government, private sector, Bank Negara Malaysia and contributor's representative. This has resulted in a dynamic and diversified Board

### Initiatives

- Its Investment Panel member provides strategic directive on investment matters. To further improve its CG structure, in 2015 KWAP appointed a new Chairman for its Investment Panel (previously the Chairman of the Board also chaired the Investment Panel)
- In line with best CG practices, KWAP has established the following Board committees:
  - Audit Committees
  - Risk Management Committees
  - Remuneration Committees
  - Tender Board

## 2. Shareholders activism initiatives

### Description

- As a responsible investor, KWAP strongly believes that regular engagements with its investee companies would improve their investment approach towards ESG practices, which in turn will result in better shareholder return and value

### Initiatives

- KWAP's engagement approach includes:
  - Conduct dialogues and regular meetings with investee companies' management (including Management visits)
  - Issue Annual Shareholder Letters
  - Issue letters to investee company whenever there are ESG related concerns
  - Attend all investee companies' AGMs and EGMs

## 3. Collaboration with Regulators and Corporate Governance bodies

### Description

- KWAP believes that as an institutional investor, it is in a position to not only promote good CG practices internally but also amongst its investee companies and the capital market generally.

### Initiatives

- Regulators
  - Participate in public policy matters pertaining to ESG. This includes direct engagements with Securities Commission and Bursa Malaysia vis-à-vis focus group, interviews, forums and programs for directors of public listed companies
- CG councils
  - Play active role in CG councils
  - E.g. Institutional Investor Council and Securities Commissions' Key CG Stakeholders Group
- CG Bodies
  - Be an active member and jointly collaborate with CG bodies to conduct both international level and local CG programs (eg: ICGN, ACGA, UNPRI and MSWG)

KWAP incorporates ESG considerations into all its investment decisions as detailed in KWAP's ESG guidelines for Investment

## Initiatives

### 1. Integrated ESG considerations into KWAP's investment management process across all asset classes i.e. Equity, Fixed Income, Private Equity and Real Estate

- Its commitment towards ESG in its investments and investment practices is reflected in the following documents which form part of its overall ESG Guidelines:
  - ESG Guidelines for Investment
  - Investment Policy and Guidelines
  - ESG-Based Research Methodology
- As a retirement fund, KWAP has a long term approach to its investments. It evaluates companies not only based on their short term performance but also the investee companies' long term prospects
- Any decisions to divest on ESG grounds will take into account all factors including its impact on the funds' long term performance, investment portfolio and the progress of KWAP's long term engagement undertaken to improve the investee companies' ESG practices
- KWAP released its Corporate Governance Principles and Voting Guidelines in 2011 (revised in 2014) which was distribute to all its investee companies to improve their awareness on its Corporate Governance principles and to guide them on how KWAP will vote at their AGMs/ EGMs

## Initiatives

### 1. Integrated ESG considerations into KWAP's investment management process across all asset classes i.e. Equity, Fixed Income, Private Equity and Real Estate (cont'd)

- The Corporate Governance Principles and Voting Guidelines guideline will be reviewed periodically with the next review scheduled after the upcoming revision to the Malaysian Code on Corporate Governance by the Securities Commission

It will incorporate not only the latest relevant sections from the Malaysian Code on Corporate Governance but other latest CG codes both locally and abroad

This will ensure KWAPs' CG practice is at par with the latest best practices

KWAP takes cognisance of incorporating ESG factors while performing the role of pensions services administration and management, a new core function besides the existing investment mandate

## Initiatives

### 1. Ensure delivery of the key services in a timely and cost-effective manner

- As a pension administrator, KWAP strives to ensure delivery of the key services in a timely and cost-effective manner.
- In addition, it is desirous to provide value-added services to enhance the pensioners' well-being
- Based on the result of the pensions demographic study, KWAP will conduct financial awareness programs aimed inter alia to raise awareness amongst the future pensioners to commence financial planning whilst they are still working as it will be too late when they are retired
- KWAP will also implement initiatives to enhance the eco-system of pensioners to ensure they will have active ageing after their retirement

- ✓ KWAP is committed to the highest standards of ethical conduct across the organisation
- ✓ This include ensuring honesty, integrity, accountability in its business and operation
- ✓ This pillar sets a standard on how KWAP should conduct its business in order to shape and instill a responsible professional culture, while adding and creating value to stakeholder, environment and society

## Initiatives

### 1. No Gifts Policy

- In support of the highest standards of ethical, integrity and professionalism behaviour within KWAP, it adopted a No Gifts Policy which shall govern and guide KWAP's employees in their dealings with external parties

### 2. Ethical practice in managing relationship with third parties

- KWAP will take appropriate measures before entering into a new business relationship with any third parties  
E.g. perform a general portfolio review of the potential/existing third parties  
This is to ensure that third-parties have no internal relationship with KWAP thus minimise the risk of corruption

## Initiatives

### 3. Procurement process

- KWAP takes cognisance in the importance of adopting a governance process for its procurement to ensure its interests are protected at all times. This is also to ensure fairness in the selection process
- Its procurement process including procurement of products and services from suppliers, vendors, consultants and other service providers shall be strictly performed in accordance with the approved Standard Operating Procedures (SOPs)
- As such KWAP shall strictly abide by the requirements as contained in Request for Proposal, Request for Quotation, Direct Purchase, Supplier Valuation Process and other related documents

### 4. Terms and Conditions of Employment

- KWAP adopted Statutory Bodies (Discipline and Surcharge) Act 2000 as part of its Terms and Conditions of Employment to all employees
- This forms KWAP's Code of Ethics and Conduct

### 5. Whistle Blowing Policy

- KWAP introduced its own "Whistle-Blowing Policy" which meets the requirement of Whistle-Blower Protection Act 2010
- This provides a mean for employees to raise concerns, disclose any malpractice or misconduct which they are aware of while providing assurance that they will be protected

- ✓ Whilst KWAP strives to generate good returns on its investments, it is mindful on the need to also ensure that it creates a positive impact on the pensioners, the future pensioners, its employees and the community at large
- ✓ As a socially responsible organisation, it conducts Corporate Social Responsibility (CSR) initiatives covering the workplace, marketplace, community and the environment carrying the tagline “Sharing Our Values”

## Initiatives

### 1. Programs under the tagline ‘Sharing Our Values’

- KWAP strongly believes that cultivating a better world stems from the idea of what can it can do to give back to the community
- To conduct initiatives aimed at contributing towards the well-being of its community such as:
  - KWAP Book Charity Drive
  - English Workshop
  - Visit to Old Folks Home and Orphanages
  - KWAP Adopt-A-Library

## 2. Create awareness on retirement planning

### Initiatives

- As a pension fund, KWAP advocates the society to be prepared for their retirement life
- As such, it will conduct programs targeted to those who just started working and also to those reaching the retirement age on how to manage their finances and be ready for the life after work such as:
  - Plan Your Retirement Early
  - Financial Planning for Retirement Seminar