

STATEMENT OF KWAP'S APPLICATION OF THE PRINCIPLES OF MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS

UPDATED : 03 APRIL 2019

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1. BACKGROUND

- 1.1 In 2011, the Securities Commission Malaysia issued the Corporate Governance Blueprint 2011 (the Blueprint) which inter-alia is aimed at promoting leadership in governance and responsible ownership by institutional investors.
- 1.2 One of the deliverables of the Blueprint is the formulation of the Code.

2. MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS

- 2.1 The Code was launched in June 2014 and sets out six (6) principles together with the guidance for institutional investors on effective exercise of stewardship responsibilities towards the delivery of sustainable long-term value to the institutional investors' ultimate beneficiaries or clients.
- 2.2 The Code is a voluntary code which sets out the broad principles of effective stewardship by institutional investors, followed by guidance to help institutional investors understand and implement the principles.
- 2.3 KWAP became a signatory to the Code on 19th October 2015 based on its conviction that good practice of corporate governance can contribute towards generating sustainable long-term returns. Furthermore, given KWAP's position as one of the largest institutional investors in Malaysia, KWAP is in a strategic position to influence good corporate governance practices at the industry level as well as at its investee companies.

Principles of the Code

Principle 1 – Institutional Investors should disclose the policies on their stewardship responsibilities

KWAP disclosed its policies on its stewardship responsibilities in KWAP's Annual Report 2018:

- KWAP was established on 1 March 2007 and manages the pensions of civil servants in Malaysia.
- We receive contributions from the Federal Government, statutory bodies, local authorities and other agencies; and place the money in investment vehicles as permitted under the Retirement Fund Act 2007 (Act 662).
- We are also managing the payment of pensions, gratuity and any other benefits granted under the consolidated fund commencing 2015.
- Our investments are guided by policies set by KWAP Investment Panel (IP) and approved by our Board. These include a Strategic Asset Allocation which is reviewed periodically to assure optimum returns from relatively low-risk investments.

- An analysis of the fund's performance is reported monthly to our IP and Board. This analysis includes performance against benchmark indices and absolute target returns for the different asset classes
- Additionally, the Board has continuously striven to adopt best practices in corporate governance in all of KWAP's processes and operations.
- KWAP's initiatives to take part in promoting good governance include:
 - a. became a signatory to the United Nations-supported Principles for Responsible Investment (PRI) in 2018; and
 - b. incorporated Environmental, Social and Governance (ESG) considerations across all its operations (including investment decision-making process)
- KWAP has set up a dedicated Responsible Investment team to manage ESG related initiatives at KWAP.
- In relation to Board committees, the Board has established various committees to oversee specific matters relating to the operations of KWAP, namely:
 - a. Board Audit Committee;
 - b. Board Risk Committee;
 - c. Board Remuneration;
 - d. Nomination Committee; and
 - e. Board Procurement Committee.
- The terms of reference of the Board Committees which formed part of the Board Charter were reviewed and approved by the Board in 2017.
- Going beyond our mandated role, we seek to enhance pensioners' knowledge on financial management. We also organised various corporate social responsibility (CSR) events to uplift the lives of the marginalised and financially compromised.

Principle 2 – Institutional Investors should monitor their investee companies

KWAP has a structured monitoring process on its investee companies.

- The monitoring process includes involvement of:
 - i. Senior Management of KWAP; and
 - ii. KWAP's officers from various departments including Equity, Research, Fixed Income, Alternative Investment and Responsible Investment section.

• The monitoring process conducted by KWAP includes:

- i. Monitor the performance and value drivers of its investee companies via company announcements and news flows that are monitored daily.
- ii. Risk areas
Overseeing KWAP's reputational risks and environmental risks based on its monitoring of the investee company's operations.
- iii. Quality of reporting by the investee companies, media discussion and analysis. We encourage our investee companies to ensure the quality and timeliness of their reporting.
- iv. Leadership including composition of Board and Senior Management
- v. Adherence to the Malaysian Code on Corporate Governance
We will post queries to the investee companies if we believe that they did not abide by any of the corporate governance codes or if they require improvements to their corporate governance.
- vi. ESG engagements and red flags

Examples:

- KWAP hosted an engagement session between the Institutional Investors Council and PRI Investors Working Group (PRI working group) on Sustainable Palm Oil on 13 November 2018. The topics that were discussed include latest issues and challenges faced by the Malaysian palm oil public listed companies (PLC). In addition, KWAP's officer who is a member of the PRI working group joined the PRI working group in their engagement with a Malaysian PLC.
- In Nov 2018, KWAP acted immediately when a media reported that there was a sanction by Roundtable on Sustainable Palm Oil (RSPO) over alleged forced labour on one of KWAP's investee companies. KWAP immediately requested the company for clarification and obtained their immediate undertaking on how they plan to address the issue within a committed timeline.

vii. AGM/EGMs

In 2018, KWAP submitted 150 companies' AGM/EGMs resolutions to all its investee companies and exercised our voting rights based on KWAP's published Voting Guidelines which is disclosed to all investee companies. Furthermore, KWAP monitored the issues deliberated at investee companies' AGM/EGMs.

Principle 3 – Institutional Investors should engage with investee companies as appropriate

KWAP is an active shareholder that regularly engages with its investee companies:

In 2018, the following engagements were conducted:

i. Annual CEO Letter to Investee Companies

KWAP issued its annual 2018 CEO letters to all its one hundred and fifty (150) investee companies clearly specifying our expectations as a long-term investor.

ii. Management Visits

In 2018, KWAP conducted management visits (attended by KWAP's senior management) to twenty (20) companies which comprised of eight (8) local companies and twelve (12) regional companies.

The topics that were discussed during the visit include company overview, market condition, company's future business plans and ESG related issues.

iii. Research Department

KWAP's Research Department conducted a total of seven hundred and ninety-eight (798) engagements throughout the year which include AGM/EGMs, analyst briefings and meetings with investee companies. iv. Institutional Investors Council (IIC) engagements with public listed companies (PLCs)

KWAP participated in all three (3) engagements between IIC and public listed companies conducted in 2018:

- a. FGV Holdings Berhad
- b. Sapura Energy Berhad
- c. Top Glove Corporation Berhad

Principle 4 – Institutional Investors should adopt a robust policy on managing conflicts of interest which should be publicly disclosed

KWAP has implemented various initiatives and policies to manage conflicts of interest which are published on its annual report and website.

- Conflict of interest with regards to KWAP's Board and Investment Panel members are addressed in the Retirement Fund Act 2017 (Act 662) (KWAP Act) and the Board Charter:

i. Disclosure of Interest applicable to KWAP's Board and Investment Panel members

A member must abide by the requirements under KWAP Act in relation to the disclosure of interest in any matter under discussion, where he/she acquires a direct or indirect interest by himself/herself, a member of his/her family or his/her associate.

Further, a member must declare any conflict(s) or potential conflict(s) of interest arising from position held in company(ies), organization(s), governmental or otherwise, or entity(ies) related to subject matter tabled before the Board and/or Investment Panel.

As part of best practice and good governance, all the Board and Investment Panel members are also required to disclose their personal holding of shares or any conflict of interest arising from their position as the Board/Investment Panel member of KWAP on annual basis. The declaration form is to be submitted to KWAP's Legal and Secretarial Department at the beginning of each financial year.

All disclosure of conflicts shall be recorded in the minutes of the meeting at which the declaration was made or read.

ii. Each member shall at all times act in the best interest of KWAP consistent with KWAP Act and other fiduciary duties.

iii. The member shall not be present or take part in any discussion or vote upon any resolution or question relating to transactions where he/she has interest on which he/she has declared his/her interest and nature of that interest to the Board, IP and Board Committees.

- KWAP's staff are required to maintain confidentiality with respect to non-public price sensitive information as required under KWAP's Code of Conduct for Investment Activities.
- KWAP's Integrity Pact was adopted to ensure that our staff and service providers do not act in their personal interest in all business transactions.
- KWAP has established "Chinese Wall" policy to control the flow of material non-public and price sensitive information within KWAP to minimise the risk of insider trading and potential breach of laws and regulations. The "Chinese Wall" has been invoked when required.
- Managing confidentiality of all information pertaining to KWAP is addressed by the Retirement Fund Act 2017 (Act 662).
- All KWAP Staff are required to declare their assets under KWAP's Asset Declaration Policy.
- KWAP has adopted a No Gift Policy in line with the best industry practice.

Principle 5 – Institutional investors should incorporate corporate governance and sustainability considerations into the investment decision-making process

KWAP has incorporated ESG considerations across all its operations (including investment decision-making process) via KWAP's Corporate Level ESG Guidelines.

- KWAP has incorporated CG and sustainability considerations into its investment decision making process via:
 - i. Investment Policy and Guidelines;
 - ii. KWAP's ESG Guidelines for Investment;
 - iii. ESG -Based Research Methodology;
 - iv. ESG Guidelines for Fixed Income; and
 - v. Corporate Governance Principles and Voting Guidelines for listed Equities.
- KWAP has developed an ESG Tracking Methodology 2018 which incorporated KWAP Research ESG Ratings, Investment Carbon Footprint and Company's controversies to monitor and further analyse the ESG performance of selected public listed companies under KWAP's domestic equity investments.
- In 2018, KWAP measured its investment carbon footprint for its domestic and international equity portfolios as part of its effort to manage its investment carbon footprint.

Principle 6 – Institutional investors should publish a voting policy

- KWAP's CG Principles and Voting Guidelines (Voting Guidelines) which serves as a guideline in the manner that KWAP votes in AGM/EGMs was published on KWAP's website.
- KWAP has participated in AGM/EGMs pertaining to our investee companies and voted according to the Voting Guidelines.
- KWAP actively engage with the investee companies whenever there are dissenting votes and communicate justifications for our stance (in the proxy form prior to AGM/EGMs) and request for clarification for the investee companies' justifications for such resolutions.

