



CORPORATE GOVERNANCE PRINCIPLES AND VOTING GUIDELINES

Second Edition

Effective 24th July 2014

FOREWORD



The first edition of KWAP's Corporate Governance: Principles and Voting Guidelines (the Guidelines) released in 2011 marks KWAP's commitment to promote good corporate governance practices amongst our investee companies. This is in line with the efforts made internationally as well as domestically, particularly by regulatory bodies such as Securities Commission and Bursa Malaysia. Since the release, KWAP has been committed in applying the Guidelines in dealings with corporate actions and governance practices of our investee companies.

We are pleased to inform that the Guidelines has received both local and international recognition, including by the World Bank as mentioned in their Report of the Observance of Standards and Codes 2012. The Guidelines will be periodically updated, underscored by the fact that corporate governance is a dynamic subject that is continuously evolving.

Between 2011 until the release of this latest Guidelines, the industry has seen the development of new and revised corporate governance guidelines, namely:

- i. Second Edition of Bursa Malaysia's Corporate Governance Guide, 2013;
- ii. Securities Commission's Malaysian Code on Corporate Governance, 2012; and
- iii. Malaysian Code for Institutional Investors, 2014.

On that note, KWAP is pleased to present the second edition of KWAP's Corporate Governance: Principles and Voting Guidelines with revisions made driven by the prevailing industry's best practices and our experience in dealing with our investee companies, particularly during AGMs and EGMs.



The updates were focused on:

- i. Enhanced expectations and responsibilities of our investee companies' Board of Directors, emphasizing higher level of commitment that is expected from them and changes towards the criteria for their re-election.
- ii. Recommendations to enhance the overall governance of our investee companies via the setting up of board committees (including recommendations on the committees' roles and composition) for several functional areas.

As an institutional investor that embraced responsible investing approach, we look beyond financial aspects in our investment selection process. We expect our investee companies to implement policies which will ensure the creation of sustainable shareholder value in the long term. As such, we have included recommendations for our investee companies to disclose their policies and implementation of the Environmental, Social and Governance aspects of their operations in their Annual Report and website.

In addition, we recommend our investee companies to adopt a high level of transparency and disclosure in both financial and operational areas. This includes disclosures on gender and ethnic diversity in their Board of Directors and staff composition.

It is our hope that regular updates on our prevailing stance on corporate governance practices and policies will benefit our investee companies in their decision making process, particularly pertaining to matters that require approval from shareholders. We also encourage our investee companies to regularly engage KWAP via other mediums such as management briefings and dialogues to facilitate a better understanding of the specific circumstances of the respective investee companies.

Thank you.

Wan Kamaruzaman Wan Ahmad
Chief Executive Officer



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KWAP'S CORPORATE GOVERNANCE: PRINCIPLES AND VOTING GUIDELINES

1.0 IMPORTANCE OF CORPORATE GOVERNANCE

KWAP's Board, Investment Panel and its management recognise the importance of the principles of corporate governance in conducting the affairs of KWAP and its investee companies.

"Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interest of other stakeholders".

-Finance Committee on Corporate Governance (Report On Corporate Governance, Malaysia, February 1999)

Based on the belief that investments in companies that are well managed from the corporate governance perspective will provide higher returns and lower risks in the long term, KWAP has chosen to be proactive in shareholder activism. In this context, proactive shareholder activism refers to active engagement with investee companies on corporate governance and strategies which should embed Environmental, Social and Governance (ESG) related aspects of their operations.

The importance is further amplified in the present volatile economic environment where shareholder activism, vis-à-vis its impact on corporate governance will ensure only well managed investments both in terms of efficiency and adherence to strict ethical values are retained.

KWAP strongly advocates the notion that shareholder activism is not a task to be borne solely by the regulators (e.g.: Bursa Malaysia or Securities Commission). With the policies and regulations put into effect by the regulators, in turn, it is the shareholders who are in the best position to enforce their rights.

2.0 SCOPE AND PURPOSE

2.1 SCOPE

This Corporate Governance: Principles and Voting Guidelines applies to KWAP's domestic equity investments in listed companies. To ensure coherence with regulations and industry's best practice, this guideline took cognizance of:

- i. Second Edition of Bursa Malaysia's Corporate Governance Guide, 2013;
- ii. Securities Commission's Malaysian Code on Corporate Governance, 2012;
- iii. International Corporate Governance Network's Global Corporate Governance Principles, 2009; and
- iv. Malaysian Code for Institutional Investors, 2014.

2.2 PURPOSE

The purpose of this document is to:

- i. Communicate KWAP's principles on corporate governance and voting policy to its investee companies with the aim to enhance their corporate governance;
- ii. Serve as a guideline for KWAP in monitoring the conduct of its investee companies; and
- iii. Serve as a guideline in the manner KWAP will vote for resolutions raised in AGMs/EGMs.

3.0 CORPORATE GOVERNANCE GUIDELINES

3.1 PROACTIVE INVESTMENT MONITORING

KWAP constantly looks into companies with good shareholders' orientation which is characterised by:

- i. Consistency and alignment with the respective management strategies and policies;
- ii. Reputable and proactive board members with the ability to fulfill their roles in monitoring and governing the management of the company;
- iii. Prompt and sufficient disclosures and announcements; and
- iv. Ensure shareholders' voting rights are respected at all times.

KWAP is committed to further improve corporate governance practices by engaging in proactive and constructive discussions with the management of its investee companies.

This shall be undertaken via voting for/against/abstaining from voting on board proposals and may include influence over decisions pertaining to:

- i. Policies (such as disclosure and voting policies);
- ii. Corporate transactions (including mergers and acquisitions);
- iii. Restructuring exercises; and
- iv. Engagement and remuneration of directors;

3.1.1 Approach to Investment Monitoring

KWAP shall actively engage with its investee companies via:

- i. Meetings and dialogues with the management;
- ii. Active participation in AGMs and EGMs;
- iii. Writing to express its concerns; and
- iv. Board representation, where applicable.

3.2 BOARD OF DIRECTORS OF INVESTEE COMPANIES (THE BOARD)

3.2.1 Board's Responsibility

The board's responsibility is to ensure the investee company's success over the long term is consistent with their statutory duties and necessitate their fiduciary duty to the shareholders.

i. Demarcation of Roles and Responsibilities

The board should establish clear roles and responsibilities of the board and those delegated to management. This provides better demarcation of roles, responsibilities and promotes accountability of the parties.

ii. Fulfillment of Responsibilities

a. Strategic Plan

The board should review, adopt and monitor the implementation of the strategic plan for the investee company.

b. Performance

The board should oversee and measure the performance of the investee company.

c. Risk Management

The board should establish a sound risk management framework which encompasses sufficient risk management systems and internal controls system to monitor and manage all risks.

d. Succession Plan

The board should ensure that the investee company has an effective succession plan in place. This also includes succession plan for non-executive members of its board and senior management.

e. Integrity of Reporting and Internal Controls

The board shall ensure that the investee company has established a sound framework of internal controls and compliance.

iii. Ethical Standards

KWAP recommends its investee companies to disclose its Code of Conduct which should be periodically reviewed and updated. The Code of Conduct should include processes and communication channels that facilitates whistle blowing.

iv. Prompt Dissemination of Information

It is recommended for the board to establish procedures to allow the board members access to accurate and complete information and advice in order for the board to discharge its duties effectively.

In addition, the investee companies should have appropriate corporate disclosure policies and procedures which comply with the disclosure requirements as set out in the Bursa Malaysia Listing Requirements. KWAP recommends its investee companies to leverage on information technology for effective dissemination of information to its stakeholders.

v. Board Charter

To emphasise the directors' commitment to governance, the Board Charter should be developed to serve as a reference tool and benchmark to facilitate regular assessment of the boards performance. KWAP recommends the board to periodically review and publish the Board Charter on the investee companies' website.

vi. Disclosure of Ethnicity in Annual Report

In line with the objective of inclusiveness in the New Economic Model (NEM), investee companies are encouraged to disclose the workforce ethnicity composition in their Annual Report. Investee companies should emphasise diversity as a source of strength and subsequently promote sustainability and Socially Responsible Investing (SRI).

3.2.2 Board Composition

The board should have a balance of independent and non-independent non-executive directors in that no individual or small group would dominate the board's decision making. KWAP recommends that its investee companies abide by Bursa Malaysia's requirement that at least one-third of the number of directors on their board should be independent directors.

3.2.3 Board Size

The investee companies should observe its board size according to the structure and circumstances of the investee companies. The board should be adequate in size to ensure effective decision making process as well as to capture the diversity of skills and expertise necessary for the best interests of shareholders and active participation of every director.

KWAP recommends a board size of at least seven (7) board members and the size may be increased depending on the diversity of the investee companies business.

3.2.4 Separation of Power between Chairman and Chief Executive Officer

KWAP recommends a clear division of responsibilities at the top of the investee companies and this should be clearly defined in the Board Charter. The working of the board and the executive responsibility of the investee companies' business should ensure a balance of power and authority, such that no individual represents a considerable concentration of power.

In addition, KWAP recommends the Chairman to be a non-executive member of the board and should be neither the CEO nor a former CEO. This will ensure that the board can meet its obligations more objectively.

Where the Chairman is not an independent director, the board should comprise a majority of independent directors.

Note:

Independent director is a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of the investee company.

3.2.5 Board Meetings

The board should meet regularly as warranted by particular issues, size and the complexity of the investee companies. Attendance of directors and the frequency of the board meetings held in the year should be disclosed in the investee company's annual report.

3.2.6 Re-election of Directors

All directors shall submit themselves for re-election at least once every three (3) years.

3.2.7 Board Committees

The investee companies are recommended to have at least four (4) key committees mainly comprised of independent non-executive directors i.e. Audit Committee, Remuneration Committee, Risk Management Committee and Nomination Committee.

i. Audit Committee

- a. To establish policies and procedures to assess the suitability and independence of external auditors as well as ensuring financial statements comply with applicable financial reporting standards. It is recommended that the board should establish internal audit function which reports directly to the Audit Committee.
- b. To ensure the financial statements comply with applicable financial reporting standards as this is integral to the reliability of financial statements.

ii. Risk Management Committee

- a. To assist the board in the effective discharge of its primary responsibilities of identifying principal risks and implementing appropriate systems and risk assessment processes to manage such risks.

iii. Nomination Committee

- a. To comprise exclusively of non-executive directors, a majority of whom must be independent.
- b. The roles of the Nomination Committee should include developing, maintaining and reviewing the criteria to be used in the recruitment process and annual assessment of directors.

- c. The Nominating Committee should develop criteria to assess the independence of the independent directors (with the tenure of directorship taken into account as one of the criteria).
- iv. Remuneration Committee
 - a. To consist exclusively or majority of, non-executive directors that are responsible to establish formal and transparent remuneration policies and procedures to attract and retain directors.
 - b. KWAP encourages its investee companies to disclose its board remuneration policies and procedures in its Annual Report.

KWAP encourages its investee companies to define and disclose the responsibilities, composition and procedures of all its board subcommittees.

3.2.8 Election of Directors

It is in the best interest of KWAP as a shareholder that the investee companies continue to be dynamic and deliver sustainable returns for the shareholders.

This includes the board setting out expectations on time commitment for its members and protocols for accepting new directorships.

KWAP recommends that non-executive directors serve on no more than five (5) public listed company boards to ensure they can effectively devote their time to the board they serve.

KWAP prefers investee companies:

- i. To be transparent with the details including the tenure, remuneration and criteria for the appointment of its directors; and
- ii. To undertake assessment of its independent directors annually.

3.3 OTHER MATTERS

3.3.1 Director's Report, Financial Statements & Auditors' Report

The investee companies should disclose the Director's Report, Financial Statements and Auditors' Report. The material items should be included in the investee companies' latest Annual Report.

3.3.2 Appointment of Auditors

The investee companies should have an external audit that ensures the integrity, scope and quality of the audit.

The investee companies should provide explanations in the event of any change in its auditors (to be made either via Annual Report or AGM).

3.3.3 Director's General Mandate to Issue Shares Pursuant to Section 132D of the Companies Act, 1965

Where a general mandate is sought by the investee companies, KWAP prefers the proposed resolution to be accompanied with the following information:

- i. Whether the mandate sought is new or renewal;
- ii. If it is a renewal, to specify the proceeds raised previously (if any), and to give the details and the status of the utilisation of the proceeds; and
- iii. If new, to specify the purpose and utilisation of proceeds resulting from the issuance.

3.3.4 Shareholders' Mandate for Related Party Transactions of Revenue or Trading Nature

KWAP prefers its investee companies to enforce a transparent process for identifying and managing conflicts of interests.

KWAP recommends the investee companies to disclose all material information related to all Related Party Transactions (RPTs) to shareholders accurately, comprehensively and promptly (above and beyond the minimum disclosure requirement under Bursa Listing Requirement).

The investee companies' Recurrent Related Party Transactions (RRPTs) should preferably be conducted on sound commercial terms and undertaken only in the interest of the investee companies and not individuals' interest.

The investee companies are encouraged to make a statement in the circular to shareholders on whether or not the transactions are at arms length and are conducted in the best interest of the company.

The investee companies' board should preferably disclose the identity of the related party and the value in monetary terms of the transaction.

The board should preferably disclose details of any dissension to the RPTs/ RRPTs.

3.3.5 Exercise of Ownership Rights by Shareholders

It is the responsibility of the board to take reasonable steps to encourage shareholders' participation at general meetings. The board can demonstrate their commitment to shareholders by ensuring that the investee company publishes these measures on its corporate website.

The board should encourage poll voting and to promote effective communication (including proactive engagements) with shareholders.

4.0 KWAP's VOTING GUIDELINES

4.1 Based on the Corporate Governance Guidelines as stated in Clause 3.0 above, KWAP has adopted the following voting guidelines:

i. Directors' Attendance at Board Meeting

KWAP will vote **AGAINST** the re-election of a director who has failed to attend at least seventy-five percent (75%) of the scheduled board and other committee meetings as disclosed in the Annual Report.

ii. Re-election of Directors

KWAP will vote in **FAVOUR** of the re-election of a director if:

- a. The director possesses the qualification, experience and sound reputation which could contribute positively to the investee company's business; or
- b. The director is the founder of the company.

KWAP will vote **AGAINST** the re-election of a director, if based on KWAP's on-going observation, that:

- a. The director has poor reputation and conduct;
- b. The director does not act in the best interest of shareholders; or
- c. The director has poor record in any other company.

KWAP will vote **AGAINST** the re-election of a director that serves on more than five (5) public listed company boards.

iii. Age of Directors

KWAP will vote **AGAINST** the re-election of directors aged above seventy-five (75) years old (with exception given to founder of the investee company in which case KWAP will vote in **FAVOUR** of the re-appointment).

iv. **Tenure of an Independent Director**

KWAP will vote **AGAINST** the re-election of Independent, Non-Executive Director who has served on the board for a cumulative term of twelve (12) years or more.

KWAP recommends that an Independent Director who seeks to continue to serve on the board upon completion of twelve (12) years to be redesignated as a Non-Independent Director.

v. **Directors' Fee**

KWAP will vote **AGAINST** resolution on approving the directors' fee if:

- a. It is observed that the board has been ineffective; and/or
- b. The increase in directors fee cannot be justified.

vi. **Authority to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965**

KWAP will vote in **FAVOUR** of the resolution if the proposed utilisation of proceeds is deemed to benefit both the investee company and ultimately its shareholders.

KWAP will vote in **FAVOUR** of such resolution tabled by financial institutions in Malaysia, on the basis that these financial institutions are required to comply with more stringent capital requirement imposed by Bank Negara Malaysia.

KWAP will vote **AGAINST** such resolution if the company fails to state specifically the purpose and planned utilisation of the proceeds to be raised from such a mandate.

KWAP will vote **AGAINST** such resolution if the proceeds will be utilised for exercise that is in KWAP's opinion not beneficial to the investee company and/or shareholders.

vii. Authority for Purchase of Own Shares by the Company

The investee company has to ensure that the share buy-back scheme is conducted in the best interest of the shareholders.

KWAP will vote in **FAVOUR** of such resolution if:

- a. The investee company has a strong balance sheet and cash flow; and
- b. The investee company has a good dividend payment record.

KWAP will vote **AGAINST** such resolution if the exercise is, in KWAP's opinion, detrimental to the investee company and/or its shareholders.

viii. Employees Share Options Scheme ("ESOS")

KWAP will vote in **FAVOUR** of the proposed ESOS if:

- a. It is offered to executive directors and other employees of the investee company; and
- b. The criteria and basis of ESOS offering are performance driven.

KWAP will vote **AGAINST** the proposed ESOS if:

- a. The total ESOS issued exceeds ten percent (10%) of the investee company's paid-up capital;
- b. One Hundred percent (100%) of the ESOS could be vested or divested immediately; or
- c. The investee company intends to award the ESOS to non-executive/ Independent Directors of the company.

ix. Transactions and Corporate Exercise

KWAP will vote **AGAINST** transaction/corporate exercise which:

- a. Is detrimental to the company and/or to KWAP's investment returns (in medium and/or long term); and/or
- b. Will have an adverse effect on sustainability and/or Environmental, Social and Governance.

4.2 Notwithstanding Clause 4.1 above, KWAP may deviate from this voting guidelines and use its discretion to vote in a way it deems appropriate or abstain from voting, on a case-to-case basis.

5.0 OTHER INVESTMENT MONITORING PRACTICES

5.1 SUSTAINABILITY AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Apart from being a return focused organisation, KWAP expects its investee companies to generate sustainable shareholder value in the long term.

To ensure sustainability, the investee companies are required to effectively manage the ESG aspects of its operations as well as the financial aspects.

This includes the requirements for the investee companies to:

- i. Adopt sound corporate governance and business ethics policies;
- ii. Effectively manage their relationships with stakeholders including customers, employees (eg: employee benefits and corporate culture), suppliers, vendors, the community and the environment;
- iii. Adopt long term environmental policies which exceeds statutory requirements and promote usage of resources in more productive, efficient and sustainable manner; and
- iv. Embark on long term social sustainability which includes community development activities and policies that take into account the welfare, health and safety within the company's area of operation.

It is recommended that the board ensures the investee companies disclose these policies and their implementation via ESG report in their annual report and corporate website.

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