



KWAP INVESTMENT POLICY STATEMENT

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CONTENT

1.0 PURPOSE	2
2.0 BACKGROUND	2
3.0 INVESTMENT MANDATE	2
4.0 INVESTMENT PHILOSOPHY	2
5.0 INVESTMENT OBJECTIVES	2
6.0 RISK MANAGEMENT	3
7.0 INVESTMENT BELIEFS ON ESG	3
8.0 INVESTMENT PRINCIPLES	4
9.0 SCOPE OF INVESTMENTS	4
10.0 INVESTMENT RESTRICTIONS	4
11.0 TRANSPARENCY	5
12.0 INTEGRITY AND GOVERNANCE	5

1.0 Purpose

This policy statement outlines the overarching investment mandate, philosophy and objective of KWAP. Certain aspects of this policy statement may evolve over time given changing market environments and expectations as well as shifting needs and constraints. This policy statement is therefore intended to be a living document and may be subject to review and updates from time to time as and when necessary.

2.0 Background

KWAP is Malaysia's largest public sector pension fund for civil servants. Incorporated on 1 March 2007 under the Retirement Fund Act 2007 (Act 662) ("the RFA"), KWAP receives contributions from the Federal Government, statutory bodies, local authorities and other relevant agencies and manages these contributions, including for investments, in accordance with and for the purposes prescribed under the RFA so as to assist the Federal Government in funding its pension liability.

In 2015, KWAP was appointed as an agent of the Government of Malaysia for the purpose of administering pension payments, gratuities, and any other benefits granted under any written law to its beneficiaries.

3.0 Investment Mandate

Under section 4(1) of the RFA, the functions of KWAP are to administer and manage the Retirement Fund, which is established under section 13 of the RFA, in accordance with and for the purposes prescribed in the RFA and to do such other things as it may be required and permitted to do under the RFA.

KWAP is mandated to manage the Retirement Fund towards achieving optimum sustainable returns through sound risk management and investment strategies. KWAP has the fiduciary duty to protect the Retirement Fund that it manages. The Retirement Fund shall be applied towards assisting the Federal Government in funding its pension liability.

4.0 Investment Philosophy

In line with its mandate, KWAP applies a long-term perspective to deliver sustainable risk-adjusted returns. KWAP believes that alpha opportunities exist as markets are not always efficient. KWAP pursues active strategies in asset classes where it holds strong alpha convictions in and/or in opportunities in which the Fund believes it is capable of exploiting directly or indirectly. Passive strategies shall be adopted when there is weak conviction that active management can add value.

5.0 Investment Objectives

KWAP seeks to achieve optimum returns on investments for the Retirement Fund on a sustainable basis through dynamic investment strategies in line with the Fund's risk appetite so as to meet the Retirement Fund's obligations in meeting long-term pension liabilities and in delivering sustainable and meaningful pensions to its beneficiaries. KWAP targets to outperform Malaysian inflation with an additional premium, over a 10-year rolling period.

6.0 Risk Management

KWAP pursues a comprehensive risk management policy, as KWAP believes in risk management as an integral part of good governance and corporate management mechanisms. In ensuring that risk management to investments is applied in a consistent manner, the risk appetite for KWAP investment portfolio is set out in the form of a Risk Appetite Statement.

KWAP Risk Appetite Statement forms the basis from which KWAP Management formalizes the appetite, attitude and tolerance towards identified risks. It describes the level of risk that KWAP is willing to accept in pursuit of its investment objectives and articulates KWAP's attitude towards taking managed risks in support of its strategic objectives by establishing the level of risk at which KWAP aims to operate and the level of risk within which KWAP is willing to operate.

KWAP Risk Appetite Statement is approved and set by KWAP Board and is reviewed periodically. Amendments or revisions to the risk appetite are therefore subject to the approval of KWAP Board. While KWAP Investments Panel is responsible for KWAP's investment decisions, KWAP Board is responsible for the overall level of risk that is undertaken by KWAP. KWAP Risk Appetite Statement is summarized below:

1. KWAP will target to align total fund level risk with that of a balanced Reference Portfolio comprising Malaysian Equities and Malaysian Government Securities. This represents KWAP's passive risk target.
2. KWAP will target to limit total fund level risk to that of a Reference Portfolio comprising Malaysian Equities and Malaysia Government Securities. This represents KWAP's total fund risk limit, including both passive and active risks.

7.0 Investment Beliefs on ESG

KWAP believes integrating environmental, social and governance (ESG) practices can generate sustainable risk-adjusted returns and enable KWAP to perform its operations in a responsible manner, consistent with its fiduciary responsibilities, and in line with broader objectives of society and the best long-term interest of its beneficiaries.

In the context of ESG, KWAP shall, where possible, refrain from investing in companies, which may undermine or compromise KWAP's commitment and progress on responsible investing and ESG and/or whose business activities have reputational risk or adverse impact on KWAP, including but not limited to the following:

1. Companies that are exclusively or principally engaged in vice products or services;
2. Companies that are exclusively or principally involved in businesses, which are deemed indecent, immoral or unethical;
3. Companies that are in repeated and/or unmitigated violations of widely accepted ethical norms, standards and laws concerning human rights, labor standards, the environment and anti-corruption;

4. Companies whose business activities are conducted in an unsustainable manner, with severe and irremediable adverse impact on biodiversity, ecosystems, natural resources, climate, and communities, and/or to the detriment of the good condition and resilience of the environment and social systems within which they operate; and
5. Companies whose business activities threaten, cause harm or adverse impact to, or result in conversion or degradation of cultural and/or natural heritage sites, protected areas, or critical natural habitats.

KWAP believes that ESG integration is a journey to a sustainable future. KWAP acknowledges that companies may be at different stages in the journey towards embracing ESG and sustainability. KWAP's stewardship activities are therefore primarily aimed at long-term value creation with its investee companies.

KWAP believes exercising voting rights and engagement are key drivers of active ownership. While the right to voting and engagement are the most preferred options, KWAP may, at any time, exercise discretion to discontinue investments according to relevant internal policies and guidelines, including where the outcomes of voting actions and engagements have not been satisfactory and other measures have been exhausted.

8.0 Investment Principles

KWAP is guided by its Strategic Asset Allocation, which is recommended by KWAP Investment Committee and approved by KWAP Investment Panel, and which is reviewed regularly to reflect changes in the investment environment, enabling KWAP to optimize returns reflecting its risk tolerance.

KWAP further believes in diversification. KWAP's conscious strategy to diversify into international and private markets is to improve portfolio efficiency in terms of accessing a larger universe of assets with more attractive returns and to reduce correlation among existing assets.

9.0 Scope of Investments

KWAP seeks to secure consistent and sustainable returns in the best interests of its beneficiaries as a whole and aligned with its fiduciary duty. As such, KWAP's investment horizon is for the long term. In line with its Strategic Asset Allocation, KWAP pursues a variety of investment strategies including diversification of investments and actively participates across the spectrum of asset classes and geographies to realize its investment goals and sustainably maximize total returns. All investments of the Retirement Fund are and shall be in accordance with the RFA.

10.0 Investment Restrictions

All investments of the Fund shall be in accordance with provisions under the RFA and further guided by KWAP's investment policies and guidelines.

For example, when investing abroad, KWAP shall, where possible, refrain from investing in the following:

1. Any company or entity or organization incorporated and/or established in any country or otherwise has a principal place of business domiciled in or subject to the laws of the country that has no diplomatic ties with the Government of Malaysia; and

2. Countries that have been identified as higher-risk countries by Bank Negara Malaysia and any other relevant regulatory authorities, including the United Nations Security Council Sanctions List, which relates to terrorism/terrorism financing and proliferation of weapons of mass destruction.
3. KWAP shall also exercise due diligence to refrain from dealing with entities and individuals, who have been identified under the United Nations Security Council Sanctions List, which relates to terrorism/terrorism financing and proliferation of weapons of mass destruction.

11.0 Transparency

KWAP believes transparency as one of the basic principles of good governance. Transparency promotes accountability and leads to improved decision making. Transparency and effective communication are therefore two critically important success factors that would facilitate KWAP to build trust, improve its strategic focus and clarity, enhance its stakeholder relationships and drive better outcomes.

Consistent with KWAP's investment beliefs on ESG, KWAP became a signatory of the Malaysian Code for Institutional Investors (MCII) in 2015 and of the United Nations-supported Principles for Responsible Investment (UN PRI) in 2018, respectively.

One of the explicit commitments that KWAP has made as a signatory of the UN PRI is to report on its responsible investment activities to the UN PRI, on an annual basis. The UN PRI assesses such reporting and in turn provides KWAP with recommendations on how KWAP can further improve its responsible investment practices. KWAP believes such reporting is beneficial for KWAP in ensuring continuous improvement on its internal processes concerning its responsible investment activities.

Further, as a signatory of the MCII, KWAP believes it is in a strategic position to influence good practices at the industry level and at its investee companies. Based on its conviction that good practice of corporate governance can contribute towards generating sustainable long-term returns, KWAP is committed to report its application of the principles of the MCII on an annual basis, including reviewing and updating its statements, where necessary, to reflect any changes in its practices and in ensuring its observance to the MCII.

12.0 Integrity and Governance

KWAP adopts a zero-tolerance approach against all forms of bribery and corruption. KWAP is also committed to:

1. Comply with all laws and regulations, which govern its operations and business; and
2. Maintain and preserve the highest standard of governance, integrity, accountability and transparency in all its operational and business activities.

