



**Statement of Compliance**  
for the  
Malaysian  
Code For  
Institutional  
Investors 2023

# Introduction

Established in 2007, KWAP is the long-term investment manager of Malaysia's pension fund for civil servants. KWAP manages contributions from the Federal Administration and relevant agencies to obtain maximum returns through sound management and investment.

Sustainability is a salient principle for KWAP due to our fiduciary duty to fulfill the mandated role of generating long-term sustainable returns for our stakeholders, mainly the pensioners.

As a purposeful compass within KWAP's journey, where each step is a stride towards a future defined by enduring financial resilience and commitment towards nation building, environmental stewardship and social responsibility.

KWAP declare our compliance to the first Malaysian Code for Institutional Investors and this document describes KWAP's approach in complying with the Malaysian Code for Institutional Investors 2022



KWAP became a signatory to the Code on 19<sup>th</sup> October 2015



KWAP is among the 38 signatories of the Code



As institutional investor, KWAP holds significant influence over corporate governance practices both within its industry and among its investee companies

# About MCII

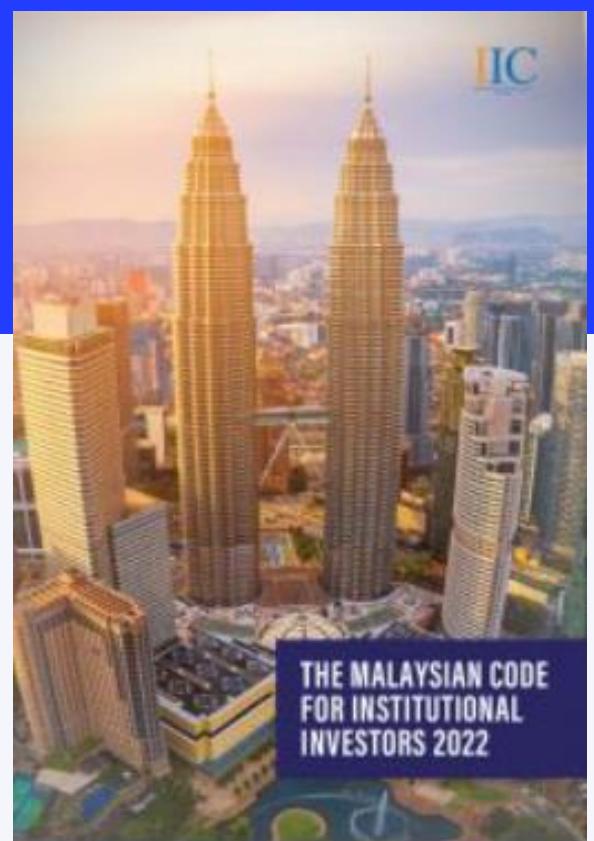
The first Malaysian Code for Institutional Investors published in 2014 (MCII 2014) was developed following a recommendation of the Securities Commission Malaysia's Corporate Governance Blueprint (2011-2015).

The publication of the MCII 2014 was undertaken by a Steering Committee spearheaded by the Minority Shareholders Watch Group (MSWG) comprising Chief Executive Officers and key representatives from the institutional investors fraternity in Malaysia, namely the Employees Provident Fund, Permodalan Nasional Bhd, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, Pertubuhan Keselamatan Sosial, Malaysian Association of Asset Managers, Malaysian Takaful Association and the Private Pension Administrator.

The Code is voluntary and provides guidance to help institutional investors understand and implement the principles.

The revised Malaysian Code for Institutional Investors 2022 (MCII 2022) which supersedes the first edition of the MCII issued on 27 June 2014 was launched on 23 September 2022.

The MCII 2022 adopts the "apply and explain" approach and covers the areas relating to good corporate governance practices and sustainability which institutional investors are expected to focus on in discharging their stewardship responsibility. This revised Code also strengthens the reporting expectations on signatories in order to enhance transparency and facilitate deeper understanding of their stewardship actions and outcomes.







# 7 Principles of the MCI

1

Disclosing Policies on Stewardship

2

Monitoring Investee Companies

3

Engaging Investee Companies

4

Managing Conflicts of Interest

5

Incorporating Sustainability Considerations

6

Publishing Corporate Governance Policy and Voting Guidelines

7

Collaborative Response On Corporate Governance and Sustainability Issues



# Principle 1

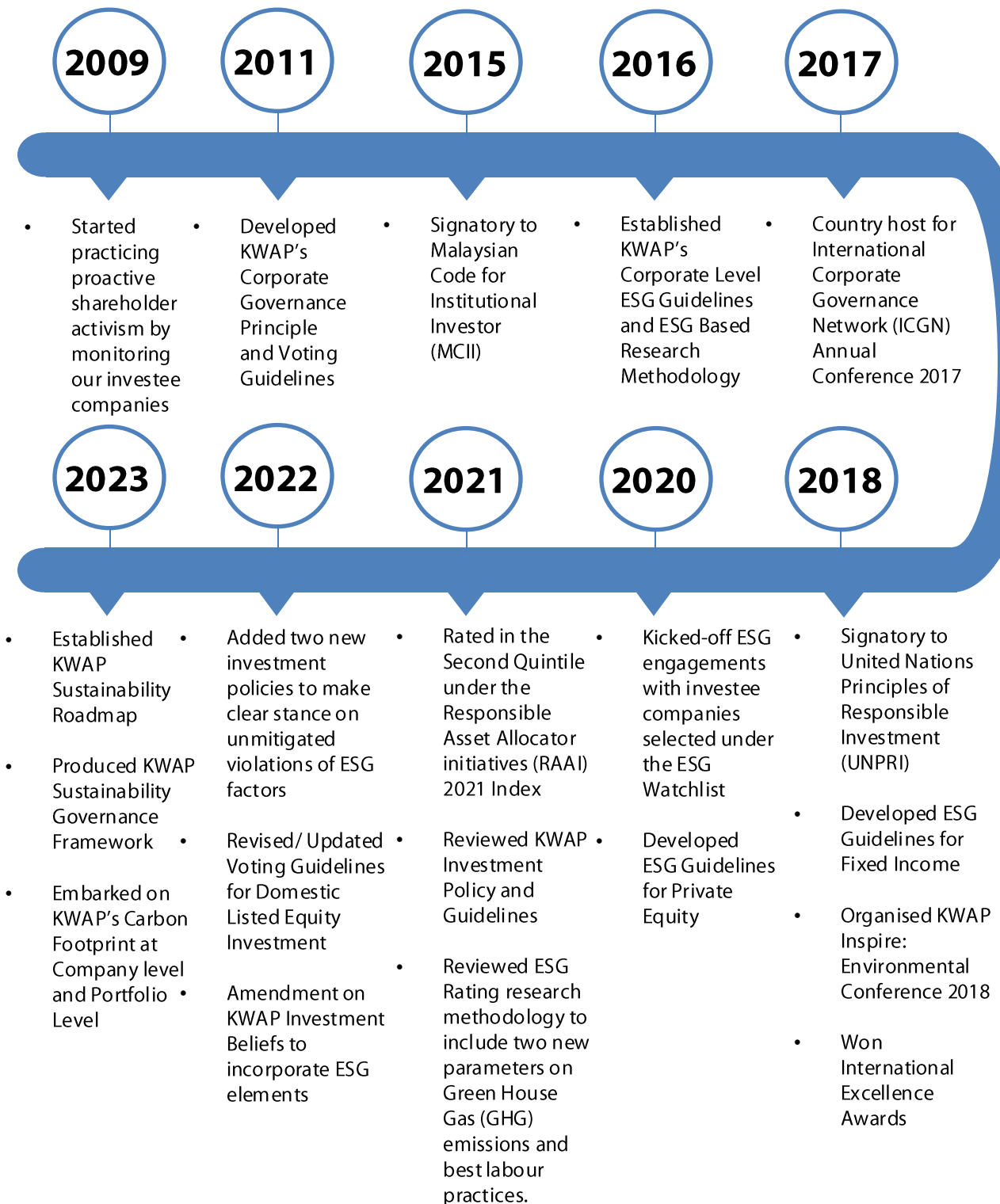
In order to fulfill our objective of achieving optimum returns on investments for the fund and assist the Federal Administration in financing its pension liability, KWAP recognises the importance of putting in place good governance practices which are made transparent. In line with this, KWAP discloses our policies on stewardship responsibilities in our Annual Reports.

## DISCLOSING POLICIES ON STEWARDSHIP

**Having large presence in the domestic market provides opportunity to play stewardship role** by promoting good sustainability practices in the Malaysian capital market whilst believing that ESG integration is a journey collectively 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 investee companies.



## KWAP's Sustainability Journey



The progressive steps and achievements of KWAP in integrating sustainability and responsible investment principles into our strategy highlighting key milestones from 2009 to 2023, a commitment to ethical investing and corporate responsibility. It demonstrates a chronological development of policies, guidelines, and strategic actions aimed at enhancing our sustainability profile and influence in the investment space as well as dedication to continuous improvement in sustainable investment practices, with a clear record of engagements, recognitions, and strategic initiatives.

# Principle 2

## MONITORING INVESTEE COMPANIES

**ESG Tracking Methodology** was developed to enable KWAP to have a structured process to track, monitor and review the ESG performance of our investee companies.

KWAP annually screens investee companies based on the considerations outlined in the ESG Tracking Methodology and shortlists a few companies to be included in the ESG Watchlist. The team at KWAP will then conduct a thorough analysis of the relevant ESG issues as per the GRI Standards. Following this, we organise ESG engagements and dialogues with companies under the ESG Watchlist to further monitor their operations and limitations, if any, and share experience based on previous engagements with other companies. This is to send a strong message to all investee companies under KWAP's investment universe of our intention to be the leader in ESG for asset owner category.

The enhanced ESG Tracking Methodology expands the coverage to monitor ESG performances of selected investee companies and borrowers for Domestic Equity and Fixed Income Corporate Bonds Investments as well as improve the list of questionnaires that will be sent to investee companies and borrowers prior to the ESG engagement.

As per our revised Voting Guidelines for Domestic Listed Equity Investment the expectations for investee companies to consider the following ESG factors:

1. Provide decent workplace by respecting the workers' rights and comply with labour standards;
2. Adopt long term environmental policies, which exceeds statutory requirements and promote usage of resources in a more productive, efficient and sustainable manner;
3. Adopt no deforestation, no peat, no exploitation (NDPE) for all relevant sectors, including but not limited to palm oil, forestry and logging, construction and real estate;
4. Investee companies are encouraged to embark on initiatives to address GHG emissions, for example CO<sub>2</sub> and methane;
5. Develop long-term plan to ultimately transition from ventures of coal-based power generation into cleaner and greener power generation; and
6. In line with national interests and policy agendas, investee companies are encouraged to embark and shift their focus to lower-carbon solutions for energy and green technology.



# Principle 3

KWAP actively engage with investee companies on ESG issues, exercising our influence through proxy voting and active ownership. Our approach is underpinned by principles of transparency, accountability, and continuous improvement, reflecting our strong commitment to responsible investing. Through both direct engagement and proxy voting, we encourage investee companies and issuers to enhance disclosure and take action on their sustainability issues and opportunities.

Furthermore, we actively engage with our investee companies to promote better sustainability practices, aiming to enhance long-term outcomes for the businesses and assets in which we invest. These considerations are crucial in assessing a company's risk profile and value, significantly influencing our investment decisions and asset management strategies.

KWAP views sustainability-related factors as essential and collaborate with investee companies to generate long-term value.

This is achieved by integrating these factors throughout the investment life cycle, ensuring a holistic approach to sustainable investing.

## ENGAGING INVESTEE COMPANIES



“ Our proactive engagements and continuous assessment of progress are essential components of our journey toward a sustainable and resilient future ”





KWAP to play a more proactive and effective stewardship role in shaping, influencing and championing the ESG agenda within the Malaysian capital market.



### **Voting at AGM/EGMs**



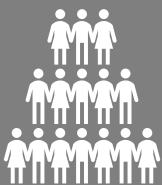
We continue to exercise our voting rights at Annual General Meetings and Extraordinary General Meetings (AGMs/EGMs). In the period of January 2022 to June 2023, we submitted more than 200 AGMs/EGMs resolutions to investee companies and exercised our voting rights based on KWAP's published Voting Guidelines. During the period the votes that we opposed and abstained of the resolutions were due to the non-compliance to KWAP's Voting Guidelines such as director's tenure has exceeded the limit, appointment of an active politician; and director's remuneration was not aligned with company's performance.

### **Senior Management Engagement**



We conduct engagements with our investee companies by organizing shareholder's engagements. The topics that were discussed during the engagement include company overview, market condition, company's future business plans and ESG related issues. The engagements were participated by KWAP's senior management team including KWAP's Chief Executive Officer.

### **ESG Engagements**



Based on our ESG engagements with our investee companies, we have observed that the sustainability disclosures among the investee companies have improved as regulators in Malaysia (i.e., Securities Commission Malaysia and Bursa Malaysia) established and updated Sustainability Guidelines / Toolkits based on the best industry practices to encourage companies to disclose their sustainability initiatives.

### **Analyst Engagement**



Our research analysts conducted a total of 573 engagements, 329 domestic and 244 international, throughout the period which included analyst briefings, internal meetings and engagements with investee companies, including reviews on their ESG practices, where applicable.

# Principle 4

## MANAGING CONFLICTS OF INTEREST

At KWAP, we recognise the importance of confidentiality and integrity at our workplace and have implemented various initiatives and policies to manage conflicts of interest which are published on our annual report and website. In 2020, we adopted a Conflict of Interest Policy (CIP). The policy was developed to establish the principles and rules for managing potential conflict of interest which may arise in KWAP. The policy requires all KWAP personnel to act in the best interest of KWAP and not to be involved in an activity for personal gain that conflicts with KWAP's interest.

To enhance transparency and uphold the integrity of our governance, it is upon each member to disclose any potential conflicts of interest. Such conflicts may arise from any official role or personal investment in companies, organisations, government bodies, or any entities pertinent to matters being deliberated by the Board or the Investment Panel. Upholding the highest standards of best practice and governance, all members of the Board and Investment Panel are mandated to annually declare their personal securities holdings and any conflicts of interest stemming from their duties at KWAP. This declaration is to be formalized through a submission to the Group Legal Services of KWAP at the start of each financial year.

All disclosures relating to conflicts of interest will be documented in the minutes of the respective meetings, ensuring transparency and accountability. Members are obliged to prioritise KWAP's interests, adhering to the KWAP Act and their fiduciary responsibilities. In situations where a conflict has been declared, the concerned member must abstain from participating in discussions or voting on related resolutions or matters before the Board, the Investment Panel, and any Board Committees.

KWAP has also institutionalised policies to preempt and manage conflicts of interest. The Investment Risk Policy stands as a testament to our commitment, providing comprehensive guidelines to all stakeholders about the principles, infrastructure, processes, and responsibilities essential for the effective management of investment risks within KWAP.

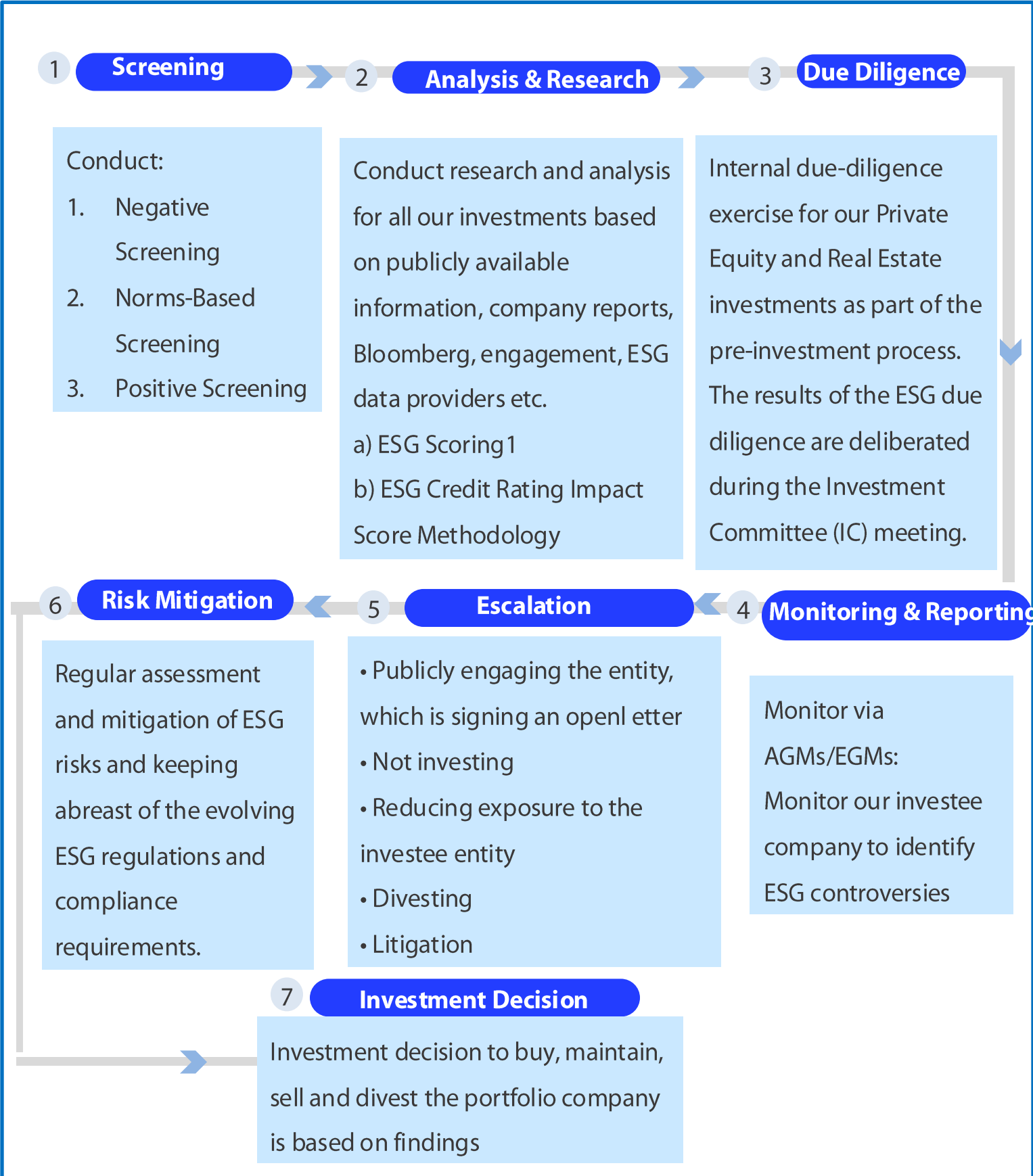
**Conflict of interest** with regards to KWAP's Board and Investment Panel members are addressed in the Retirement Fund Act 2017 (Act 662) (KWAP Act) and the Board Charter. A member must abide by the requirements under the KWAP Act in relation to the disclosure of interest in any matter under discussion, where he/she acquires a direct or indirect interest by himself/herself, a member of his/her family or his/her associate.

### Chinese Wall Policy

The Policy was introduced to establish procedures 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 regulation. It also helps to ensure that the possession of material non-public and price-sensitive information does not give rise to the risk or perceived risk of a conflict between the public interest, KWAP's and the employee's personal interest.

# Principle 5 INCORPORATING SUSTAINABILITY CONSIDERATIONS

This process reflects KWAP's commitment to responsible investment by weaving ESG factors through the entire decision-making fabric, ensuring that investments not only yield financial returns but also contribute positively to society and the environment.





# Principle 6 PUBLISHING CORPORATE GOVERNANCE POLICY AND VOTING GUIDELINES

## Statement of Corporate Governance

KWAP's Board composition as outlined in Section 6 of Act 662 (the "KWAP Act") comprises a diverse array of highly qualified, experienced, and skilled members hailing from various backgrounds, including the Government, Private Sector, Bank Negara Malaysia, and representatives of Contributories; imperative for the overall strategic achievements of KWAP

KWAP Act also requires the establishment of an Investment Panel, a body which is responsible for matters pertaining to the investment of the Fund established under Section 7(1) of KWAP Act. The Investment Panel is generally responsible to recommend the relevant investment policies and strategies of KWAP to be approved by the Board. Further, the Investment Panel shall have the authority and limit as specified under KWAP Act, KWAP's Investment Policy, Investment Guideline and/or other relevant policies currently in force.

In line with the Principles on Good Governance for Government Linked Investment Companies ("PGG") issued by the Ministry of Finance in April 2022, which states that "a board evaluation facilitated by independent experts is conducted once every year., the Board and Investment Panel's Effectiveness Assessment ("BEA") was conducted in 2023 to ensure that the Board and Investment Panel members of KWAP are continuously improving and carried out their roles and functions effectively.



In support of the initiative to enhance the governance and sustainability standards and practices across all GLICs, the **Principles on Good Governance for Government Linked Investment Companies (PGG)** was developed as the single reference on baseline governance and sustainability practices that should be adopted by GLICs.

The development of the PGG considers and integrates where applicable, local and global standards, practices and discourse on public and corporate governance including the Malaysian Code on Corporate Governance (MCCG) issued by the Securities Commission Malaysia.



# Voting Guidelines for Domestic Listed Equity Investment

KWAP has published KWAP Voting Guidelines for Domestic Listed Equity Investment in 2022 to guide KWAP and our investee companies on the manner in which KWAP will vote for resolutions raised during AGM / EGM. We constantly look into companies with good shareholders' orientation which is characterised by the following:

1. Consistency and alignment with the respective management strategies and policies;
2. Reputable and proactive directors with the ability to fulfil their roles in monitoring and governing the management of the company;
3. Prompt and sufficient disclosures and announcements; and
4. Ensure shareholders' rights are respected at all times.

KWAP is committed to further improve the environmental, social and governance (ESG) practices by conducting 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 the following:

1. Policies (such as disclosure and voting policies);
2. Corporate transactions (including mergers and acquisitions);
3. Restructuring exercises; and
4. Engagement and remuneration of directors.

KWAP shall actively engage with its investee companies through the following approaches:

1. Meetings and dialogues with the management;
2. Active participation in AGM/ EGM;
3. Expressing concerns in writing to the Board of Directors or management;
4. Meeting with the Chairman or other directors, including Senior Independent Directors;
5. Joint engagement with other institutions on particular issues;
6. Submitting resolutions and expressing concerns at the general meeting;
7. Requisitioning for general meetings including requesting for the removal of non-performing directors;
8. Make public or media statement on concerns if they are not addressed appropriately by investee companies; and
9. Board representation, where applicable.

# Principle 7

## COLLABORATIVE RESPONSE ON CORPORATE GOVERNANCE AND SUSTAINABILITY ISSUES

KWAP is committed to promote strong ESG practices within the capital market and amongst our business partners. Leveraging our position as an institutional investor, we are dedicated in enhancing ESG practices through various avenues, including engagements with our investee companies, collaborations with regulators, and active involvement in corporate governance bodies like PRI.

The proactive involvement in governance-related councils, such as the IIC and the Security Commission's Key CG Stakeholders Group, alongside our ongoing dialogues with various regulators including the SC, Bursa Malaysia, BNM, and the Malaysia Anti-Corruption Commission (MACC), underscores our unwavering dedication to nurturing governance excellence while spearheading innovation in the investment landscape. Furthermore, we have actively contributed to sustainability-focused initiatives such as the Joint Committee on Climate Change (JC3) led by BNM and the SC, in addition to our engagement with the IIC/Malaysian Code for Institutional Investors (the Code) and Sustainable Investing Platform (SIP).

KWAP believes that by leveraging partnerships and collaborations, we can improve KWAP's impact on matters that affect sustainability-related practices. The collaborative sustainability-related efforts include:

1

Seeking to improve transparency and standards

2

Conducting research

3

Participating in regulatory consultations

4

Promoting governance practices

5

Advocating for long-term thinking in the investment and corporate worlds