

Statement of Compliance with THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS 2022



Introduction

Since 2018, both Principal Asset Management Berhad and Principal Islamic Asset Management Sdn Bhd (collectively referred to as “Principal”) have pledged support to the Malaysian Code for Institutional Investors (“Code”). Principal strives to embed responsible investment in its practices, with the aim of providing long-term value to our investors. The decision to pledge our support as a signatory to the Code further reinforces our stand and commitment towards the adoption of good corporate governance and delivery of sustainable long-term value to our clients. Our sustainability commitment was further reinforced with our signatory admission to the United Nations sponsored Principles for Responsible Investment (UN PRI) in December 2019.

The revised Code in 2022 brings about much welcomed enhancements with the inclusion of Principle 6 of the UN PRI which requires the disclosure of not only the voting policy, but also to provide clarity on the institutional investors’ voting policies, voting decisions and disclosure of the use of any voting advisory services. The recognition of Principle 7 of the UN PRI by the Code further reinforces the call for action from the institutional investors to work together to shape corporate behavior and promote good corporate governance and sustainability practices. We recognize that the collaborative efforts not only support the betterment of corporate Malaysia, but also provides an opportunity for fellow institutional investors to play a significant role in shaping the behavior and promoting good governance amongst corporates.

Principal wishes to provide our statement of compliance to the Code where applicable, as follows:

Principle 1 – Disclosing Policies on Stewardship

Institutional investors should disclose the policies on their stewardship responsibilities and review the effectiveness of their stewardship activities.

- We utilize services of proxy voting research advisory firms to support our stewardship activities. Our voting decision are set to two (2) categories implied consent and mandatory sign off.

- Implied consent is where we have reviewed our voting advisory provider's policy and agree to apply such policies to any resolutions that passes to a specific group of portfolios.
- Mandatory sign offs are for groups of portfolios where we provide the flexibility to our clients to vote.
- Exception handling procedures are in place, where should there be a differing view between our analyst and the advisory providers recommendations, the recommendation may be overridden with proper justification and documentation.

Principle 2 – Monitoring Investee Companies

Institutional investors should monitor their investee companies:

At Principal, the consideration of ESG factors currently takes place within our investment process for listed equities as part of the fundamental research driving security selection. Our analysts are best placed to determine the importance of such factors in relation to a specific security or sector. The analysts provide essential insights into industry trends and company-specific considerations integrating ESG factors into their final investment thesis. We believe these insights and considerations are crucial to the evaluation of sustainable competitive advantages and risks at a company-specific and industry level.

In fixed income, ESG integration within the investment process is utilized for the purposes of risk management and alpha generation. Our research teams are organized by areas of industry sector specialization and our analysts are responsible for providing essential insights into industry trends and company-specific considerations, which may include certain ESG issues deemed material and relevant to the evaluation of sustainable earnings trends, sentiment, and valuation. Each corporate issuer in our coverage universe is assigned a specific ESG score, with assessments captured via the ESG scoring grid. That score is an essential deliverable of the investment thesis. Both industries and issuers are scored using this model.

All securities actively covered are monitored and at least annually engaged on both fundamentals as well as sustainability risks which is how Principal is meeting the Code's principles.

Principle 3 – Engaging Investee Companies

Institutional investors should engage with investee companies as appropriate and collaborate with investors to enhance engagement outcomes.:

For us, engagement means striving for shared value and employing stakeholder power to enhance corporate behavior. This includes direct corporate engagement, for example communicating with senior management and/or boards of companies, voting on shareholder proposals, and maintaining sustainable proxy voting guidelines. We believe that by encouraging corporations to be leaders in sustainability through better long-term stewardship of human, natural, and financial resources, we can play an active role in delivering better outcomes for our stakeholders. While we have been successful in seeking certain changes in line with our clients' expectations when directly engaging with issuers (see our case studies below), we also view unsuccessful attempts as opportunities to reconsider our approach and look for alternative ways to engage with investee companies.

We have representation on the Board of the Institutional Investors Council (IIC) Malaysia and as such, provided opportunities for us to collaborate with fellow institutional investors to engage companies ranging from financial services, healthcare providers, conglomerates and others as well.

Principle 4 – Managing Conflict of Interest

Institutional investors should adopt a policy on managing conflicts of interest which should be publicly disclosed:

Principal is fully committed to the highest standards of ethical and professional behavior, a critical part of which is the identification and management of potential and actual conflicts of interest. In accordance with our beliefs and standards and in compliance with the global regulatory environment in which we operate, we developed a detailed suite of policies and procedures to assist in the identification and mitigation of conflicts of interest including but not limited to our Code of Conduct, Code of Ethics and Personal Account Dealing policies.

Principle 5 – Incorporating Sustainability Considerations

Institutional investors should incorporate corporate governance and sustainability considerations, including climate-related matters into their decision-making process while seeking to deliver sustainable returns in the long-term interest of their beneficiaries or clients.:

The consideration of ESG factors is integrated into our sustainable investing approach across all actively managed asset classes. The integration approach is determined by the specific investment process of the investment team within the underlying asset class. Our global Sustainable Investing Oversight Committee has worked with each investment team to help categorize alignment with our internal framework into traditional and ESG Integrated Strategies. Our sustainable investment offerings are further classified as ESG Integration Foundational, ESG Integration Enhanced Features, Thematic or Impact.

Consistent with our overall investment philosophy, our sustainable investing approach focuses on fundamental change. Managed appropriately, we believe ESG integration may contribute to enhanced long-term returns and reduced risks. Where consistent with the specific investment team’s strategies and practices, the consideration of ESG factors is embedded directly within our research process in assessing the fundamental attributes of companies. Our focus is not limited to companies that rate highly according to third-party research providers, but rather companies that are demonstrating a commitment to improvement. In short, we encourage companies to always strive to be better versions of themselves. Our focus and commitment can therefore be summarized by our guiding purpose: By encouraging corporations to be leaders on sustainability through better long-term stewardship of human, natural, and financial resources, we play an active role in the betterment of society.

Principle 6 – Publishing Corporate Governance Policy and Voting Guidelines

Institutional investors should publicly disclose their corporate governance policy and voting guidelines:

As an investment manager who exercises voting authority with respect to client securities Principal Malaysia have this policy to ensure that the manager votes proxies in the best interest of its clients.

Principal Malaysia will disclose to clients how they may obtain information on how we voted their proxies. While the following describes the voting approaches taken, we will endeavor to disclose publicly our corporate governance policy and voting guidelines.

Policy

The Managers believe that proxy voting and the analysis of corporate governance issues, in general, are important elements of the portfolio management services provided to advisory clients. The Managers' guiding principles in performing proxy voting are to make decisions that

- (i) favor proposals that tend to maximize a company's shareholder value and
- (ii) are not influenced by conflicts of interest. These principles reflect the Managers' belief that sound corporate governance creates a framework within which a company can be managed in the interests of its shareholders.

In addition, as a fiduciary, the Managers also monitor certain Clients' ability to participate in class action events through the regular portfolio management process. Accordingly, the Managers have adopted the policies and procedures set out below, which are designed to ensure that the Managers comply with legal, fiduciary, and contractual obligations with respect to proxy voting and class actions.

Voting to manage the proxy voting process.

We may retain the services of proxy research voting advisors services from leading global providers. The advisors guidelines address a wide variety of individual topics, including, among other matters, shareholder voting rights, anti-takeover defenses, board structures, the election of directors, executive and director compensation, reorganizations, mergers, and various shareholder proposals. In connection with each proxy vote, providers prepares a written analysis and recommendation based on guidelines to the particular proxy issues.

Voting Against providers recommendations

On any particular proxy vote, Portfolio Managers may decide to diverge from the Guidelines. Where the Guidelines do not direct a particular response and instead list relevant factors, the providers

Recommendation will reflect their own evaluation of the factors. If the Portfolio Manager's judgment differs from that of providers, a written record is created reflecting the process Against the advisors Recommendation(s)"), including:

- a) The requesting Portfolio manager Team's reasons for the decision;
- b) The approval of the lead Portfolio Manager for the requesting Portfolio manager team;

Clients may choose to vote proxies themselves, in which case they must arrange for their custodians to send proxy materials directly to them. Clients may provide specific vote instructions for their own ballots. Upon request, the Managers may be able to accommodate individual Clients that have developed their own guidelines. Clients may also discuss with the Managers the possibility of receiving individualized reports or other individualized services regarding proxy voting conducted on their behalf.

Abstaining from Voting Certain Proxies

Principal shall at no time ignore or neglect their proxy voting responsibilities. However, there may be times when refraining from voting is in the Client's best interest, such as when the Managers' analysis of a particular proxy issue reveals that the cost of voting the proxy may exceed the expected benefit to the Client. Such proxies may be voted on a best-efforts basis. These issues may include, but are not limited to:

- Restrictions for share blocking countries;
- Casting a vote on a foreign security may require that the adviser engage a translator;
- Restrictions on foreigners' ability to exercise votes;
- Requirements to vote proxies in person;
- Requirements to provide local agents with power of attorney to facilitate the voting instructions;
- Untimely notice of shareholder meeting;
- Restrictions on the sale of securities for a period of time in proximity to the shareholder meeting.

Proxy Solicitation

Employees should inform the Investment team of the receipt of any solicitation from any person related to Clients' proxies. As a matter of practice, we do not reveal or disclose to any third party how we may have voted (or intend to vote) on a particular proxy until after such proxies have been counted at a shareholder's meeting.

However, we may disclose that it is Principal's general policy to follow the providers Guidelines. At no time may any Employee accept any remuneration in the solicitation of proxies.

Principle 7 – Collaborative Response on Corporate Governance & Sustainability Issues

Institutional investors should collaborate where appropriate to respond to corporate governance and sustainability concerns or risks. The collective voice and views of institutional investors are important levers in shaping behaviour and promoting good corporate governance, in particular on emerging issues such as sustainability reporting and investing:

- We support Collaborative response on corporate governance & sustainability issues and have participated in such situations in corporate Malaysia together with our fellow institutional investors via the IIC.

In addition, we are open to Collaborate where our clients interests are aligned with other global signatory bodies such as the PRI.

Recent Collaborations include participation in engagements with audit oversight boards pertaining to company external audits as well as participation in advisory groups related to sustainability reporting standards that would impact investee companies and the investors.