



**KWSP**  
**EPF**

**Statement of Compliance with**

# The Malaysian Code for Institutional Investors

**for year 2018**



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For Institutional Investors  
For Year 2018**

# Introduction

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## **Background**

This policy describes the approach taken by the Employees Provident Fund (EPF) to stewardship and how its policies comply with the requirement set forth by the Malaysian Code for Institutional Investors 2014 (Code). The purpose of the Code is to enhance the communication between institutional investors like EPF and its investee companies that are publicly listed to help improve long term returns to shareholders and further promote good corporate governance among the listed companies.

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## What is the Malaysian Code or Institutional Investors?

The Code was launched on 27 June 2014, based on one of the recommendations from the Corporate Governance Blueprint 2011 (CG Blueprint) to formulate an industry-driven code that is expected to strengthen the accountability of institutional investors to their own members and investors. In addition, institutional investors being a major player in the global financial markets have significant influence over their investee companies due to the substantial stake that they hold. This clout can provide the institutional investors with the ability to encourage good governance and influence appropriate behaviours by their investee companies to ensure delivery of sustainable long term value to their shareholders.

The formulation of the Code was done through the Steering Committee and the Working Group comprising senior executives from large institutional investors in Malaysia including :

Employees Provident Fund (EPF)

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Kumpulan Wang Persaraan (KWAP)

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Lembaga Tabung Angkatan Tentera (LTAT)

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Lembaga Tabung Haji (LTH)

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Pertubuhan Keselamatan Sosial (Perkeso)

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Malaysia Association of Asset Managers (MAAM)

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Persatuan Takaful Malaysia

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Pentadbir Pencen Swasta and Badan Pengawas Pemegang Saham Minoriti Berhad (Minority Shareholders Watch Group)(MSWG).

The Code aims to set out the broad principles of effective stewardship by institutional investors such as their disclosures of stewardship policies, monitoring of and engagement with investee companies, and managing conflict of interests. Following the launch of the Code, the Institutional Investors Council (IIC) was established on 3 July 2015 and registered with the Registry of Societies Malaysia (ROS) on 29 December 2017 to represent the common interests of institutional investors in Malaysia

EPF became a signatory to the Code on 24 January 2017, as part of the agenda to further promote good corporate governance in Malaysia. As of 31 December 2018, 20 organisations have become signatories to the Code.

# PRINCIPLE 1

## Disclosing Policies on their Stewardship

**Institutional investors should disclose the policies on their stewardship responsibilities.**

Since its inception in 1951, EPF invested its funds into a portfolio of diversified asset class comprising government bonds and securities, both private and public equities, money market instruments and real estate. The EPF has a long standing commitment to a solid governance structure as well as disciplined investment procedures and approval processes. The activities and operations of EPF are governed under the EPF Act 1991 whereby investments are made according to Section 26 of the Act.

The Act also provides for the establishment of an Investment Panel who is responsible in making investment decisions. The Investment Panel comprises of representatives from the Ministry of Finance, Bank Negara Malaysia and three others with financial and investment expertise. The Investment Panel formulates investment policies, guidelines and criteria on all investment matters and closely monitors EPF investment activities. The Investment Panel is responsible to ensure prudent management of EPF investment on behalf of its members.

At the management level, before any investment is made, senior members of the investment departments will conduct professional and independent vetting of the investment proposals, and resolve all investment matters through the Management Investment Committee (MIC). The committee, which meets on a weekly basis, is also responsible for the day to day operations of investment activities.

All investment transactions are handled by the Investment Division according to the asset allocation which has been vetted and approved by the MIC, the Investment Panel and Ministry of Finance. A portion of the fund is outsourced to the external fund managers who have been selected based on a number of criteria

which includes the quality of investment philosophy and processes, experience of the organization and the team, consistency of financial performance as well as the organization and board structure.

With the introduction of Simpanan Shariah on 8 August 2016, the EPF's current governance structure has been enhanced to incorporate the key components of Shariah governance framework. A dedicated team has been setup to monitor the Shariah compliance of investments and other operational matters. All activities related to Simpanan Shariah are reported in monthly meetings to the Shariah Advisory Committee (SAC) which consists of prominent Shariah scholars. The SAC is accountable for all decisions, views and opinions related to Shariah investment and operation matters.

The EPF Principles of Corporate Governance is set on four main pillars of good stewardship:

1	Effective Board	Effective and independent Board with highly competent and diverse members to exercise objective judgment
2	Manage Conflicts	Reduce conflicts of interest between various stakeholders and related parties
3	Efficiency	Efficient and productive use of resources in the best interests of shareholders
4	Transparency	Transparency through timely and complete disclosure of important information for effective shareholder decision.



## PRINCIPLE 2

### Monitoring Investee Companies

**Institutional investors should monitor their investee companies.**

The EPF's team of investment managers and research analysts rigorously monitor its investee companies. The monitoring process largely comprises meeting with management of the investee companies, analysing company annual reports and announcements, investment screening and studying external research. The EPF investment team conduct frequent meetings with the investee companies and ask questions on the company's strategy, financial performance and other relevant issues such as ESG and current developments. Any areas of concern are monitored and raised at dialogue meetings and voting resolutions are analysed before decisions are made. If EPF believes that a decision or proposal by the company's management will negatively affect the company's long-term value, EPF will escalate the issues with written queries, meetings, dialogues or engagement between its investment officers and

the company's management. EPF would monitor the company's response to ensure that steps are being taken to address the issues raised in order to protect and enhance shareholders value.

As part of regular top level engagement program with the investee companies, the EPF CEO led a team of senior investment heads to visit 18 companies under the CEO Visit Program in 2018. In addition, the EPF Investment team of analysts have completed more than 700 meetings with over 200 companies, regulators and agencies in 2018.

Being a member of IIC, the EPF together with the Council Members have engaged with the board and senior management of 3 PLCs focusing on the oversight of strategy, performance, governance, stakeholders engagement and risk management.

## PRINCIPLE 3

### Engaging Investee Companies

**Institutional investors should engage with investee companies as appropriate.**

The EPF believes that alignment of interest between long-term shareholders and companies will fulfil its fiduciary duty to achieve sustainable risk-adjusted returns over the long term. The EPF undertakes engagement with companies on issues that may impact the companies' long term value. Engagement may relate to the company's financial performances, long term strategic plans and ESG issues. Engagement is normally undertaken when it is believed that it would lead to an improvement or prevent deterioration in the company's performance.

Our approach to engagement activities are based on two prongs:

- The engagement with the board and management of the investee companies on issues of ESG and long term strategy with the objective of maximizing long term shareholders. This is carried out through a scheduled annual engagement by the EPF's top management.
- The engagement with the management of the investee companies by EPF team of analysts on business model and financial performances with the objective of ongoing monitoring of the investee companies.

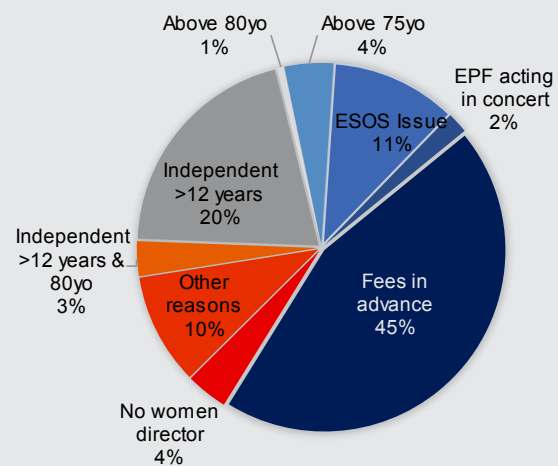
On a few occasions, further engagement is escalated over time according to the nature and severity of concerns and the responsiveness of the companies to the issues. EPF also engages the companies by attending the shareholders meetings. In addition, alignment of interests can be accomplished through meetings and discussions.

In 2018, EPF attended and voted at 160 shareholders' meetings on 1,247 resolutions. The Equity Research Department analysed all the resolutions based on the latest EPF Corporate Governance Principles and

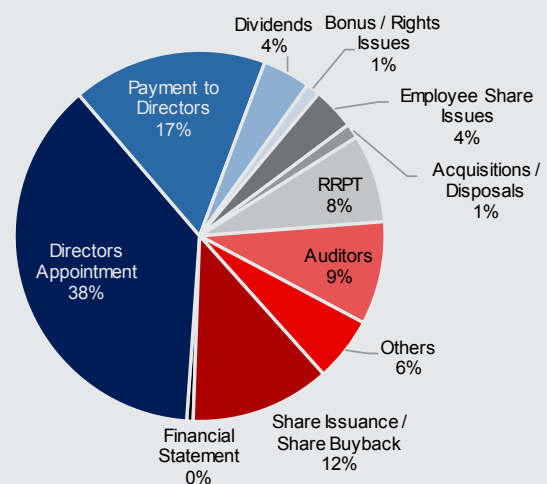
Voting Guidelines. The guideline is based on the best governance practices for PLCs and to align to EPF Principles of Corporate Governance.

Charts below show the number of resolutions EPF voted in 2018 and the reasons why EPF decided to vote against or abstain.

#### Voting by Resolution Types



#### Reasons for Against or Abstain



In addition to attending regular analysts and shareholders meetings, EPF has also involved in specific engagements with a total of 18 companies in 2018 on the following ESG issues:

## Governance

### Excessive Remuneration

Following the sharp decline in oil prices since end-2014, many oil and gas services companies are still facing tough times and reporting losses. A listed oil and gas company in Malaysia is no exception, and suffered significant losses in its latest financial year. However, the compensation package for its CEO remained excessive in EPF view, despite the poor financial performance.

During the company's AGM, EPF took a drastic step to vote against the re-election of three directors of the company, signalling our protest against the excessive remuneration payable to an executive director of the company, as well as excessive intellectual property rights, trademarks and branding fees payable to a company related to the said executive director. EPF decided on this course of action only after many engagements with the company, which yielded no desired results. In addition, EPF also highlighted that the composition of the company's Board Remuneration Committee was not in compliance with the recommendations of the Malaysian Code of Corporate Governance (MCCG).

Subsequently in July 2018 and November 2018, the company revised the composition of its Board Remuneration Committee and Long-Term Incentive Plan Committee respectively to consist of only non-executive directors and a majority of them are independent directors, in accordance with the guidelines of the MCCG.

### Corporate Exercise

All business transactions must be conducted on a fairly manner and non-detrimental to the minority shareholders including transaction involving related parties. During the year, a listed conglomerate in Malaysia proposed to dispose some assets to its major shareholders. However, there was an article published by a local media claiming that the valuation for some of the assets especially in prime locations were deemed unfair and not reasonable. After further engagement with the company and the independent valuer, the EPF is satisfied with the justifications and decided to vote for the resolution tabled in the EGM. The EPF has also asked for the

company to provide such explanation during the EGM to ensure that all shareholders will share the same understanding on the basis of the said valuations.

Another case was when a listed construction company in Malaysia proposed to acquire and privatize a listed property company as part of restructuring strategy by its common major shareholder, EPF conducted due diligence and engagement on the matter. In a view that proposal is at the disadvantage of the minority shareholders due to premium valuation and unfavorable outlook of the target company, EPF has decided to vote against the resolution and together with the other minorities shareholders, the resolution was failed to go through.

On top of normal analyst meetings, EPF will engage with investee companies on any proposal put forward for shareholders' approval which requires further clarification. This is to ensure that the right decision is made for the best interest of EPF's members and other minority shareholders.

### Operation

When a listed consumer company with huge amount of cash proposed to place deposit into its financial arm instead of distributing back to the shareholders as dividends, EPF has engaged with the company's management to clarify on this issue. Following the discussion, EPF has grasped better understanding of the vital role of the financial arm in offering cost savings and providing operational efficiencies to the company. Fundamentally, EPF is also comfortable with company's performance and dividend payments for the past years. As such, EPF maintained its voting decision to support the related proposed resolution in the AGM.

### Departure from EPF voting policy

EPF is proactive in making sure that its voting policy is updated, consistent with the latest revision in Malaysia Code for Corporate Governance (MCCG). An annual shareholder's letter comprises a set of revised policy is sent to investee companies at the beginning of each year as part of communication strategy with its investee companies.

In line with the agenda to promote greater women participation on board in the new MCCG, the EPF has

introduced a new policy to vote against reappointment of Chairman of the board, or Chairman of nomination committee, or appointment of any new male board member for company which does not have any women director on the board. However, during the year, there were few companies which have yet to comply and the EPF has decided to vote against the re-appointment of the companies' Chairman and new directors during the respective company's AGM. In the view that a policy related to board diversity should be in place, the EPF has also written to these companies to re-highlight our stance on this matter.

On the same note, the EPF has also updated its policy to vote against director's remuneration if no disclosure on the payment to each board of directors including all the benefits, fees, emoluments and other directors' fees in the company's annual report. The EPF has written to these companies who have yet to align themselves to the updated MCCG and asserted that the board would take more proactive measures to ensure better governance in the future.

### Other recurrent issues

To ensure the effectiveness of its policy, EPF continuously engage with its investee companies on the recurrent issues to ensure the alignment to the good governance practice. This includes the engagement on the issues relating to excessive remuneration package for directors, advance fee payment to directors, grant of Ex-Gratia or Employees Share Scheme to non-executive directors, and re-appointment of independent directors beyond 12 years old. While some of the issues are still yet to be resolved, EPF has put the company under close watch to ensure the alignment to best governance practices by the companies.

Reversed engagement. The EPF engagement approach is not only top down but also encourages for bottom up discussion from investee companies. This includes an engagement session conducted by Bursa Malaysia in gauging the EPF's stance and view on the proposed resolution to be put forward for shareholders' approval in its upcoming resolution. This is to ensure that all resolutions are in line with the good corporate governance practices as recommended by MCCG and investors' voting policy.

### Voting process

Besides engagement on issues relating to business operation, the EPF has also engaged with its investee companies on issues relating to general meeting. The EPF's votes during the general meeting are usually pre-casted and sent via proxy form prior to the meeting, based on the voting guidelines and approval by the Management Investment Committee (MIC). Subsequently, the EPF's proxy holders are responsible to attend the meeting and ensure that all votes during the meeting are casted accordingly. However during the year, there was a case where our proxy holder was not given a voting device or any evidence showing that the votes are casted according to the proxy form submitted while in a separate case, we found a discrepancy in our votes during general meeting. The EPF has written to the related parties to highlight its concern on the issues and to ensure that its votes as a shareholder are consistent with its policy which in turn will give meaningful impact towards strengthening good ESG culture by investee companies.

### Social

There was an allegation made by a foreign company on a listed rubber company in Malaysia claiming that the company had forced its workers to work beyond the time set by law and impose higher fees on foreign labor agencies. Although explanation on the issue has been provided to Bursa Malaysia, the EPF has written to the company to ensure that the company will continue to monitor its activities to meet the best environment, social and governance needs, and hopes that any action taken is made public to ensure transparency.

In other case, there was an unfortunate event where a launching gantry collapsed at a MRT construction site in Kuala Lumpur, killing one of the workers and injuring another. The management of the construction company involved via a reply letter to the EPF has provided with the details on the actions taken to ensure the welfare and well-being of the affected employees and their families are protected, compliance to Health, Safety and Environment (HSE) and steps taken to ensure the safe operation across its sites and the safety of its workers remain the top priority.

## Environment

Palm oil production is frequently associated with negative issues such as deforestation, climate change and violation of human rights. Under the Institutional Investors Council (IIC) platform, EPF together with other institutional investors had a meeting with the United Nation Principles for Responsible Investors (UNPRI) Working Group to discuss on issues such as palm oil certifications and the role of Roundtable on Sustainable Palm Oil (RSPO) and Malaysia Sustainable Palm Oil (MSPO), negative sentiments and fake news on palm oil in the Western countries and corporate transparency in disclosing sustainability practices. The EPF through IIC also asked UNPRI and all members to continue to working with relevant authorities such as Malaysian Palm Oil Board (MPOB), Malaysian Palm Oil Council (MPOC) to better inform the detractors of the palm oil industry. EPF also highlighted on its role in supporting more sustainable practices through engagement with plantation companies and integration of ESG considerations into its existing and future investments.



## PRINCIPLE 4

### Managing Conflicts of Interest

**Institutional investors should have a robust policy on managing conflicts of interest which should be publicly disclosed.**

The EPF is committed to adhere to the highest standard of corporate governance throughout the organization as a fundamental part of discharging its fiduciary duty to protect and enhance members' savings. EPF has put in place various policies to address potential conflicts of interest in relation to stewardship. This serves to maintain the integrity of decision-makers in EPF when dealing with and managing its investments.

In respect of conflicts of interest within the fund, members of the EPF Board, Investment Panel and sub-committees are required to make declarations of interest prior to meetings and abstain from taking part in the discussion and decision making. For example, if it concerns a related-party transaction

in which a member of EPF Investment Panel is also sitting in the public-listed Board, the person will be excused from attending such discussions.

In addition, the following policies were also implemented to address possible conflict of interest within EPF:-

- Restrictions on Listed Equity Transactions on investment officers
- Chinese Wall Policy
- No Gift Policy
- Declaration of Interest/Relationship with Panel Brokers for Equities
- Integrity Code
- Staff Declaration of Asset Ownership
- Nominee Directors Declaration

## PRINCIPLE 5

### Incorporating Sustainability Consideration

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

Sustainability in investment is defined as the ability to continue doing business in a responsible manner, taking into account the impact on environment and social context while ensuring long term performance and existence. Traditionally, EPF has been active in monitoring the governance aspect of our investee companies ever since the first establishment of the Malaysian Code of Corporate Governance in 2012. Over time, these considerations have evolved to include the environment and social aspects of corporate behaviours. EPF continues to believe that strong governance practices, along with deeper concerns for the environment and social risks are important drivers of investment value. In addition to the financial and governance aspect of a company that EPF has focussed on in the past, we have begun to integrate ESG aspects into our investment monitoring process that relates to how a company achieve its long-term financial goals and at the same time generate positive impact on the environment and social. The preliminary analysis is also done at the screening stage, mainly to filter out certain investments from an ethical perspective (tobacco, gambling, liquor, etc.). With the commencement of Shariah-based option, the process of integrating ESG factors into our investment processes and decisions will be more intensified. EPF has also developed its own internal rating tool to monitor and evaluate company performance in the aspect of ESG. With improved disclosure standards on ESG by the investee companies under Sustainable Reporting and/or Integrated Reporting initiatives by Bursa Malaysia, we are set for a long term journey to elevate the level of awareness on ESG standards in Malaysia.

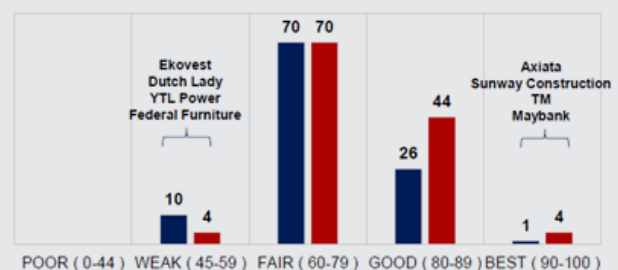
The proprietary rating tool aims to assess the quality of ESG aspects in investee companies under surveillance which is based on questions from how the company adhere to the CG code, disclosure standards and ESG integration. This tool is able to generate a quantifiable

rating which can be considered when evaluating the companies in addition to the traditional quantitative analysis done on their financials.

In 2018, the EPF surveillance universe has been expanded further to 123 companies from 109 companies in 2017. Based on the data that we have gathered, ESG distribution remained left-skewed, suggesting that most of the companies under coverage have already adopted good ESG practices. The best ESG companies for the year were Axiata, Sunway Construction, Telekom Malaysia and Maybank while the weak were Ekovest, Dutch Lady, YTL Power and Federal. We also found out that the Top 10 stocks with highest ESG score outperformed both the market and the Bottom 10 stocks over the period of two years. This proves that good ESG companies does add value to the EPF investment.

For 2019, few enhancements are made on the rating tool by introducing more components and weight on social and environment aspects. This is in line with the growing need for better ESG integration and improved disclosure by the corporates following the launch of Sustainability Reporting by Bursa Malaysia.

#### ESG Rating Distribution in 2018 vs. 2017





Clear outperformance of our Top 10 (T10) vs. Bottom 10 (B10) ESG stocks relative to market (KLCI)

## PRINCIPLE 6

### Publishing Voting Policy

**Institutional investors should publish a voting policy.**

EPF values the voting rights attached to its equity holdings in Malaysian listed companies and will always exercise those rights to ensure that its economic interest is protected. The latest EPF Corporate Governance Principles and Voting Guidelines is published in our website.

Essentially, EPF will generally vote in favour of resolutions which are in line with the Malaysia Corporate Governance Code and are in the best interest of all shareholders. EPF may also decide

to vote against or abstain on resolutions which do not meet these guidelines and are deemed to have conflicts of interest, poor transparency or what EPF believes to be detrimental to the long term value to shareholders.

Similarly, we have directed our external asset managers to vote in accordance with the latest policy in EPF Corporate Governance Principles and Voting Guidelines.



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