



**KWSP**  
**EPF**

Statement Of Compliance With  
**The Malaysian Code  
For Institutional Investors  
For Year 2019**

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## Introduction

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 communication between institutional investors like EPF and their investee companies to help improve long term returns to shareholders and further to promote good corporate governance among the listed companies.



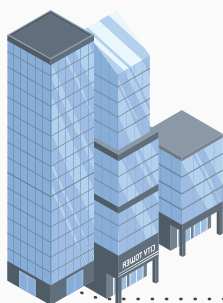
# WHAT IS THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS?



**LAUNCHED**  
On 27 June 2014



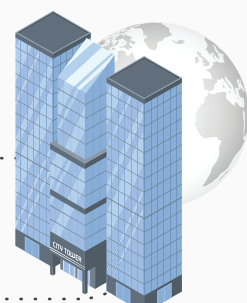
**AIM**  
To strengthen accountability of institutional investors to own members and investors.



**INSTITUTIONAL INVESTORS**  
Significant influence over investee companies due to substantial stake they hold



Sustainable long term value



**INVESTEES COMPANIES**  
Practice good governance and behaviours



Based on one of recommendations from **CORPORATE GOVERNANCE BLUEPRINT 2011**



**6 PRINCIPLES**  
Of effective stewardship



**INDUSTRY DRIVEN CODE**



**22 SIGNATORIES**  
To the code as at end-2019



**INSTITUTIONAL INVESTORS COUNCIL**  
Established on 3 July 2015 to represent institutional investors in Malaysia

**CODE FORMULATION**

by Steering Committee and Working Group comprising senior executives from:



## 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. 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 formulates

investment policies, guidelines and criteria on all investment matters and closely monitors EPF investment activities. It is also 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 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 EPF Principles of Corporate Governance is set on four main pillars of good stewardship:**

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

## PRINCIPLE 2

# Monitoring Investee Companies

Institutional investors should monitor their investee companies.

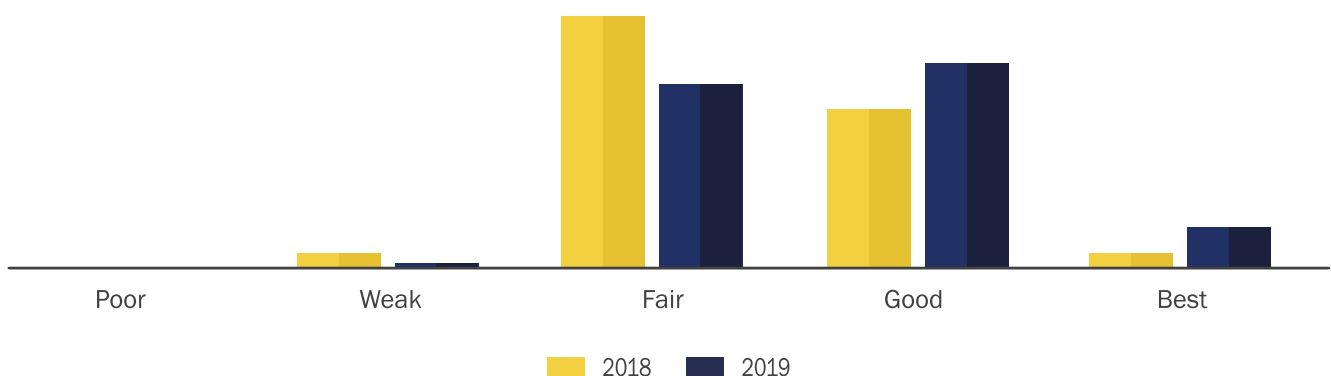
**EPF's team of investment managers and research analysts rigorously monitor its investee companies. The monitoring process largely comprises meeting with management of the investee companies, analysing company annual reports and announcements, investment screening and studying external research. The team conducts frequent meetings with the investee companies and ask questions on the company's strategy, financial performance and other relevant issues such as Environment, Social and Governance (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.**

EPF has also developed its own internal rating tool to monitor and evaluate investee companies' performance in the aspect of ESG. The proprietary tool aims to assess the quality of ESG aspects in investee companies 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. With improved ESG disclosure by investee companies under Sustainable Reporting and/or Integrated Reporting initiatives by Bursa Malaysia, we are

set for a long term journey to elevate the ESG standards in Malaysia.

In 2019, based on 120 companies under the EPF surveillance universe, we see more companies were rated better ESG score, leading to improvement in overall average score to 81% (vs. 2018: 77%), suggesting that ESG compliance among public listed companies (PLCs) are improving. The Top 5 ESG-rated companies for the year were AMMB, UMW Holdings, Bursa Malaysia, Public Bank and Telekom Malaysia.

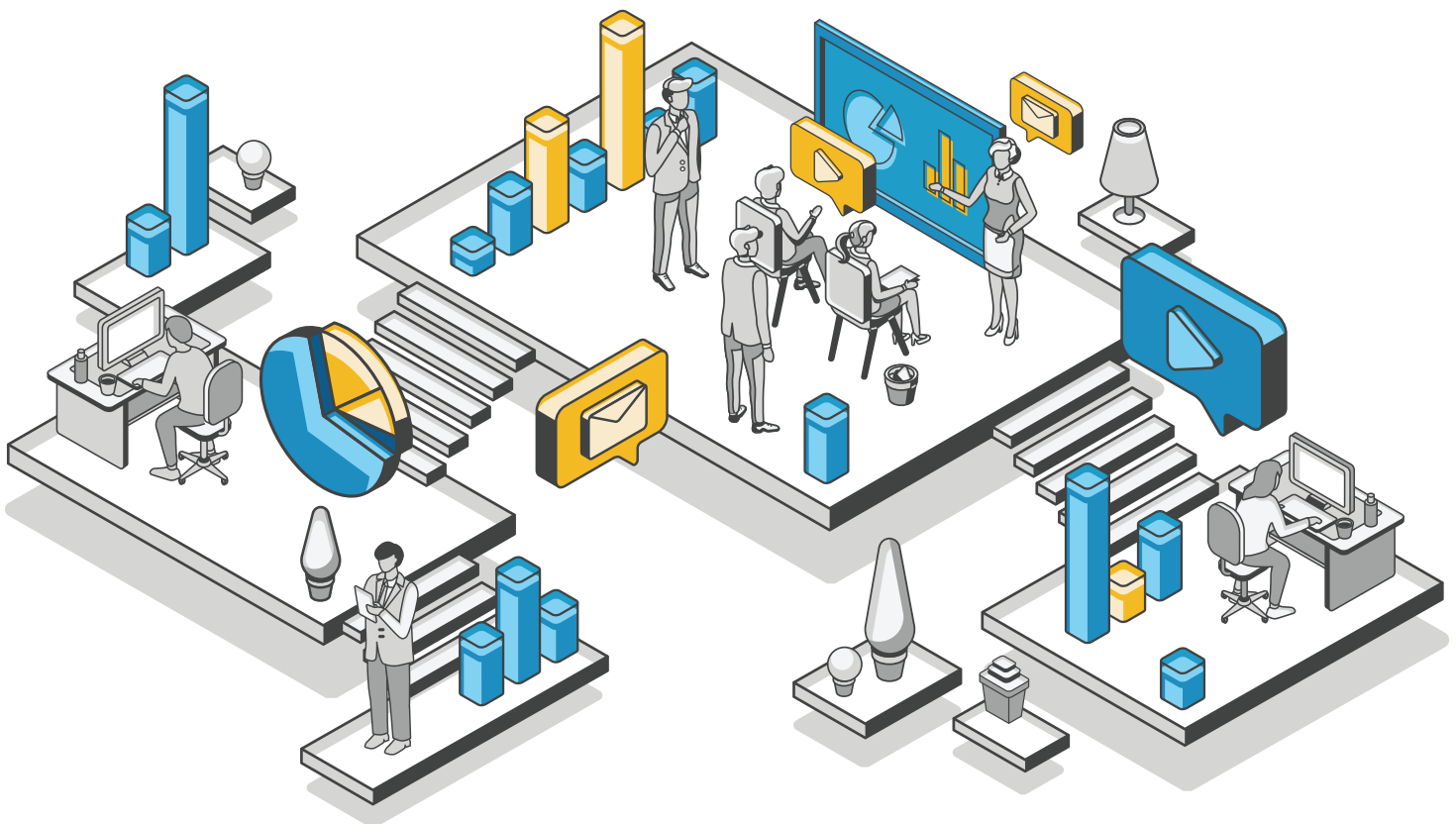
### ESG Rating Distribution in 2019 vs. 2018



## PRINCIPLE 3

# Engaging Investee Companies

Institutional investors should engage with investee companies as appropriate.



**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. EPF regularly engage with its investee companies which may relate to the company's financial performances, long term strategic plans and ESG issues. Further engagement is escalated over time according to the nature and severity of concerns and the responsiveness of the companies to the issues.**

**EPF approach to engagement activities are based on two prongs:**

**1** 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.

**2** 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.

## ENGAGEMENT ACTIVITIES IN 2019

**As part of regular top level engagement program with the investee companies, the EPF CEO and Deputy CEO led a team of senior investment heads to visit 39 companies locally and abroad in 2019. In addition, EPF Investment team of analysts have completed more than 700 meetings with over 200 companies, regulators and agencies.**

**EPF also attended and voted at 138 shareholders' meetings on 1,153 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.**

**Being a member of IIC, EPF together with the Council Members have engaged with the board and senior management of 5 PLCs focusing on the oversight of strategy, performance, governance, stakeholders' engagement and risk management.**

**In addition to the above list, EPF has also involved in engagements with companies on the following ESG-specific issues below:**

### 1 Governance

Excessive remuneration issue has been increasingly common not only in Malaysia but also globally especially during the current weak economy environment. EPF believes directors' compensation should commensurate with the performance of the company and as an institutional investor, EPF will continue to engage with its investee companies on this matter.

During the year, EPF had made a fruitful engagement with a local listed plantation company to convince them that the proposed directors' remunerations were excessive. In the course of action, EPF has written to the company to express its concerns on the misalignment of the directors' excessive remuneration to the weak performance of the company during the year under review, and subsequently has voted against

the related resolution at the company's shareholder meeting. While excessive remuneration remained the key governance issue for a local listed conglomerate company, in most recent case, the company has asked for shareholders' consent to pay a gratuity to its late founder who passed away during the financial year. While EPF appreciates the transformative contribution he has devoted to the company, EPF is of the view that any recognition and respect for deceased director should not be in monetary or tangible form. During the AGM, EPF expressed its stance and voted against the resolution, in addition to other remuneration issues that the company have yet to address as at to date.

Malaysian aviation industry was going through turbulence last year, ended with downgrading of

country's air safety rating by the United States Federal Aviation Authority (FAA). The year started with drama between the industry giants since end-2018 when the local aviation companies were sued for outstanding airport taxes, which subsequently resulted in counter claim against the suitor seeking for even bigger amount. As a major shareholder of the companies, EPF has written to them requesting to solve the issue amicably as the dispute is potential to erode shareholder's return and brings in more volatility to the capital market. The companies involved have consequently replied and the management met with us to explain further on the issue and steps taken to address the issue.

In August, the main local airports were hit by significant disruptions due to failure of a network switch.



## 2 Social

The U.S. Customs and Border Protection (CBP) during the year had issued a Withhold Release Orders (WROs) to disposable rubber gloves from a local non-listed company which was suspected to have been produced in whole or in part, using forced labour. Prior to this incident, Malaysia Labour Department has taken the company to court after it failed to pay its workers for 3 months in early 2019. The company pleaded guilty and was fined in mid-2019. While EPF does not have any investment in the company, EPF has written to all investee companies in glove industry to ensure that they will continue to adhere to social compliance standards and improve their employee's welfare.

As a developing nation, EPF acknowledges that the pivotal role of construction sector not only in country's economic growth but also in improving the quality of life and living standards of Malaysian people. However, EPF urges all companies to strictly adhere to the highest safety standards to avoid any unwanted incidents. While accident on construction site is not new, EPF is concerned on recurring trend of such event. During the year, it was reported that a resident engineer fell to his death at the MRT construction site in Kuala Lumpur. The victim and three other workers were inspecting a T-beam before the first fell 10 meter onto the road, killing him on the spot. EPF has written to the main contractor involved to express its concern on the unfortunate event and to ensure that appropriate actions especially in relation to the safety measures are taken to prevent future recurrence.

## 3 Environment

Forest burning in Indonesia which has brought severe haze to the neighbouring countries including Malaysia in September 2019 was definitely alarming. A few local oil palm plantation companies were identified by the Indonesian authorities to have involved in the forest burning. Two of them denied the accusation while one said that they will give full support to Indonesian authorities to assist on their investigation. EPF has issued letters to them requesting for explanation and mitigation plan on this matter. EPF will continue to proactively engage with our investee companies to strongly oppose any irresponsible environmental practices to prevent similar episodes in the future.



## PRINCIPLE 4

# Managing Conflicts Of Interest

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

**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 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 investee companies ever since the 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 incorporate 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.**

To further reinforce its commitment towards sustainability, in April 2019, EPF has become the signatory to the United Nations-supported Principles for Responsible Investment (UNPRI). EPF is required to adopt the six Principles for Responsible Investment, which include embedding ESG considerations into investment analysis and decision-making processes, as well as seeking appropriate ESG disclosures from investee companies.

## 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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