



STATEMENT OF COMPLIANCE WITH  
**THE MALAYSIAN CODE FOR  
INSTITUTIONAL INVESTORS  
FOR YEAR 2021**

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# Introduction

The Statement of Compliance with the Malaysian Code for Institutional Investors (Code) for year 2021 supports the objectives of the Code which is to enhance communication between institutional investors like EPF and their investee companies and to help enhance long term returns to shareholders. Encouraging good governance practices is essential to achieving this objective. We declare our compliance to the Code and below are our approaches to the Six (6) Principles of the Code.





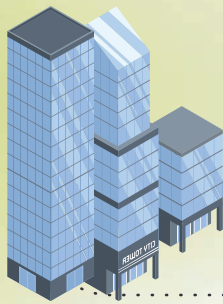
# WHAT IS THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS?



**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



**INVESTEE COMPANIES**  
Practice good governance and behaviours



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



**6 PRINCIPLES** of effective stewardship



**INDUSTRY DRIVEN CODE**



**38 SIGNATORIES** to the code as at end-2021



**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, the EPF has invested its funds into a portfolio of diversified asset classes comprising government bonds and securities, private and public equities, money market instruments and real estate. EPF has a long-standing commitment to solid governance structures 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 (IP) who is responsible in making investment decisions. The IP, which 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's investment activities. It is also responsible for ensuring prudent management of EPF's investments 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 the investment activities

All investment transactions are handled by the Investment Divisions according to the asset allocation which has been vetted and approved by the MIC, IP and Ministry of Finance. A portion of the funds are outsourced to external fund managers who have been selected based on a number of criteria which includes the quality of investment philosophies and processes, experience of the organisation and the team, consistency of financial performance as well as the organisation 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 set up 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.

EPF recognises stewardship as a top priority to reinforce its active leadership role in driving sustainable investing and managing investee companies in its portfolio to provide sustainable returns. EPF strongly believes and advocates for effective stewardship to create and ensure longer-term value. Its stewardship philosophy is centered on four key activities as below:

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

## PRINCIPLE 2

# Monitoring Investee Companies

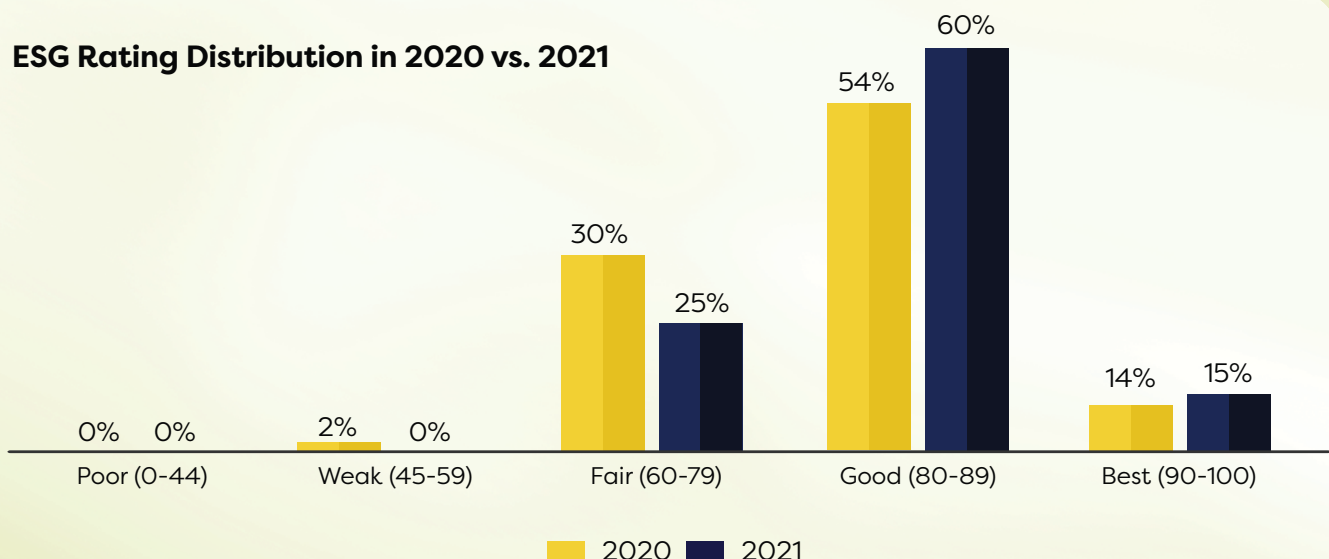
Institutional investors should monitor their investee companies.

**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, current developments and other relevant issues related to environment, social and governance (ESG). 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 shareholder 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 the 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 2021, based on 93 companies under the EPF surveillance universe, we have seen improvement in their ESG scores. In 2021, 15% of the companies in our surveillance universe were rated Best (score > 90) as compared to 2020 at 14% while 60% were rated as Good (80 < score < 90) versus 54% in 2020. Meanwhile, 25% of the companies were rated as Fair (60 < score < 80) compared to 30% in 2020. No companies were rated Weak (45 < score < 60) versus 2% in 2020. No companies were rated Poor in both years. The top 5 performers for 2021 were UMW Holdings Berhad, RHB Bank Berhad, Petronas Chemicals Group Berhad, Sime Darby Berhad and Sunway Berhad.

### ESG Rating Distribution in 2020 vs. 2021



## PRINCIPLE 3

# Engaging Investee Companies

Institutional investors should engage with investee companies as appropriate.

**EPF believes that the alignment of interest between long-term shareholders and companies will fulfil its fiduciary duty to achieve sustainable financial performance by investee companies over the long term. EPF regularly engages 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

Engagement with the board and management of investee companies on issues of ESG and long-term strategy with the objective of maximising long-term shareholder value. This is carried out by the EPF's top management.

2

The engagement with the management of the investee companies by EPF's team of analysts on business models, financials with the objective of ongoing monitoring of the investee companies.

EPF will also engage collectively with other institutional investors when appropriate as we believe that the collaborative effort and platform will enhance our ability to achieve the desired outcome. Our approach in collaborating with other institutional investors is to make sure the concerns of institutional and also major shareholders are being addressed. To that end, the Institutional Investors Council (IIC) of which EPF is a member and Chairman will become the appropriate platform to facilitate communication between institutional investors and companies on ESG matters and sustainable financial performance.

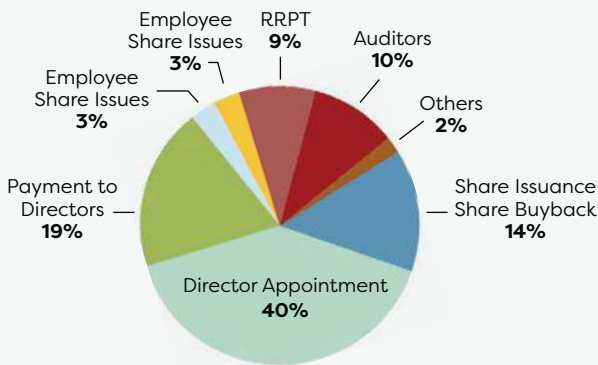
## Engagement Activities In 2021

Despite difficulties and extreme challenges faced throughout the year due to Covid-19, we have managed to conduct virtual engagements with the companies and regulators focusing on the oversight of strategy, performance and various ESG issues. As part of exercising our right as a shareholder, EPF participates in shareholders' meetings and votes on its resolutions. The EPF Equity Research department analysed all the resolutions based on the 2021 EPF Corporate Governance Principles and Voting Guidelines. The guidelines are based on the best governance practices for PLCs and to align to the EPF Principles of Corporate Governance.

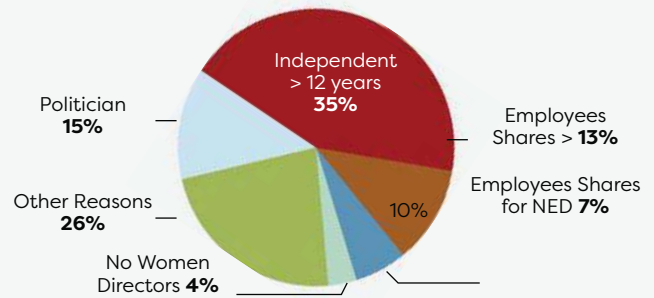


### AGM & EGM

- We have attended 113 AGMs and EGMs during the year
- There are 870 resolutions whereby 40% of the resolutions are on director's appointment
- Voted FOR on 94% of the resolutions



Type of resolution



Reason to vote against / abstain



### Shareholder Letters

- Wrote 26 letters pertaining to dividend payment & ESG-related issue



### CEO/CIO Visit

- 6 Malaysian companies visited during the year

In 2021, EPF engaged with its investee companies via letters and virtual meetings on various ESG issues. Among the issues that required greater attention were:

## 1 Governance

### (i) Politician on board of directors

The EPF is of the view that politicians should not sit on the board of directors of public-listed companies as conflicts of interest can easily arise and it has been shown in the past that it can be detrimental to companies. The EPF engaged with a transportation company via letters and virtual meetings before their AGM to express our concerns about having a politician being re-elected as their director. Explanations were given by the management and in line with the EPF's voting policies, we have abstained from voting the re-election of the director who is an active politician and also the chairman of the nomination committee.

### (ii) Audit issue

Audit issues flagged by auditors require immediate attention as they usually have serious implications for public-listed companies. In 2021, the EPF wrote several letters and attended virtual meetings with the independent directors and management of an oil & gas service provider which was embroiled in an audit issue. The EPF proceeded to divest its entire internal holdings of the company as the issue escalated unfavourably.

### (iii) Corporate exercise

EPF makes careful decisions on every major corporate exercise proposed for shareholders' approval to ensure that they are not detrimental to shareholders. In 2021, the EPF virtually engaged and expressed its concerns to a glove manufacturer on its share buyback activities and its proposal to pursue a dual listing of the company. After explanations given by the management, the EPF proceeded to support the dual listing proposal at their EGM but voted against the resolution to renew their share buyback authority at their AGM.

### (iv) Due diligence failure

EPF takes a firm stance against mismanagement as it erodes shareholder value. During the year, the EPF wrote a letter and together with the Institutional Investors Council Malaysia (IIC), virtually engaged with a bank associated with the 1MDB scandal. The company provided detailed explanations and also elaborated on the steps taken to address the issue during the engagement.

## 2 Social

### (i) Treatment of workers

During the year, the US Customs and Border Protection (CBP) issued a Forced Labour Finding and banned the exports of a disposable rubber glove company which was suspected to have mistreated its workforce. The company also fired a whistleblower. As EPF was a substantial shareholder, a letter was written to the company requesting immediate explanation on those matters. As a result of these issues, the EPF voted against a senior independent director of that company during the AGM.

In the same year, a migrant rights activist raised a petition to the US CBP on alleged forced labour practices by a plantation company. EPF wrote a letter to the company seeking explanations on the issue. EPF virtually discussed this issue at length with the top management of the company.

## 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 adhering 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, IP 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 the 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 conflicts of interest within EPF:

- Declaration of listed equity transactions by investment officers.
- Chinese Wall policy.
- No gift policy.
- Declaration of interest/relationship with panel equity brokers.
- Integrity code.
- Staff declaration of asset ownership.
- Nominee director 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 environmental and social issues while ensuring sustainable long-term performance. 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 environmental and social aspects of corporate behaviours. EPF continues to believe that strong governance practices, along with deep concerns for environmental and social risks are important drivers of investment value. In addition to the financial aspect of a company that EPF has focused on in the past, we also incorporate ESG aspects into our investment processes that relates to how a company achieves its long-term financial goals and at the same time generate positive social and environmental impacts. With the commencement of Simpanan Shariah, the process of integrating ESG factors into our investment processes and decisions have been intensified.**



To further reinforce its commitment towards sustainability, EPF, in April 2019, became a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI). EPF is required to adopt the six principles of the UNPRI, which includes incorporating ESG issues into investment analysis and decision-making processes, as well as being an active owner and incorporating ESG issues into its ownership policies and practices.

In February 2020, a dedicated ESG team called Sustainable Investment Centre (SIC) was established to spearhead the integration of ESG into EPF's investment decision making process. The SIC is also working together with the IIC and other collaborative platforms to drive the sustainability agenda in the local capital market.

In 2021, EPF announced its commitment to two overarching Sustainable Investment targets – to have a fully ESG compliant portfolio by 2030 and a climate neutral portfolio by 2050. In conjunction with that, EPF has launched several Sustainable Investment Policies in 2022 that outlines ESG expectations for priority sectors. The policies also require portfolio companies and fund managers to address the issues of Climate Change and Workers Wellbeing. These policies are available in the website for reference.

## 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 2021 EPF Corporate Governance principles and Voting Guidelines can be found [here](#). The guidelines are reviewed and updated as necessary.**

Essentially, EPF will generally vote in favour when 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 long-term shareholder value.

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





Ketahui lebih lanjut tentang KWSP dengan mengimbas kod QR atau layari

*Find out more on EPF by scanning our QR Code or visit*

**[www.kwsp.gov.my](http://www.kwsp.gov.my)**



**KWSPMalaysia**