



2021 edition

EPF CORPORATE GOVERNANCE PRINCIPLES AND VOTING GUIDELINES

Employees Provident Fund

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Message from CEO



The Employees Provident Fund (EPF) of Malaysia has long been a strong advocate for good corporate governance practices by its investee companies, the importance of which is clearly demonstrated with the challenges brought on by the COVID-19 pandemic. Since the publication of our first *Corporate Governance Principles and Voting Guidelines* in 2010, governance has been an integral part of our investment philosophy. To that end, the EPF has been actively involved in proxy voting activities, which is what this publication is mainly about, and frequently conducted corporate engagements to further exercise its influence.

The EPF regularly reviews its voting policies to ensure that they are relevant to recent developments in market practices and stakeholders' expectations. This year, we are pleased to introduce our latest voting policies. While some of these policies have changed, our core belief has remained the same - a strong, proper and effective Board will be an enabler of positive changes in our investee companies.

As we strive to help our members achieve a better future, it has become inevitable that we have to consider the environmental and social impacts of our investments, the implications of which will have a vast impact on our members and portfolio for many generations to come. You may expect the EPF to be more vocal in these areas, especially after publishing our Sustainable Investment Policy in the near future. We will also continue to collaborate with other stakeholders, such as the Government, other institutional investors, industry players and non-governmental organisations, in order to foster strong alignment to promote sustainable investments. This is also consistent with the *Malaysian Code on Corporate Governance 2021 (MCCG 2021)* published by the Securities Commission Malaysia, where an urgent need for companies to manage environmental, social and governance risks and opportunities was highlighted.

With that said, we are pleased to deliver to you our latest version of *EPF Corporate Governance Principles and Voting Guidelines*. We wish you success in all of your endeavours.

Thank you.

DATUK SERI AMIR HAMZAH AZIZAN
July 2021



Part A: **Introduction**

With almost RM1 trillion in assets under management, the EPF is one of the largest shareholders in Malaysia. As a steward of its members' retirement savings, EPF will always remain invested in the capital markets to generate sustainable long-term returns for its members. As such, it is crucial that EPF's investee companies practise good corporate governance, as it can lead to improved transparency and reduce vulnerability to crises. This will help EPF members by preserving and enhancing the value of its investments.

As one of the founding members of the Institutional Investors Council (IIC), EPF practises effective stewardship by ensuring that its investee companies are aligned to good corporate governance principles. This coincides with efforts by the regulators such as the revised Malaysian Code of Corporate Governance that was published by the Securities Commission Malaysia this year.

It is EPF's intention that with the publication of this document, its public listed investee companies can better understand the principles that EPF holds. The EPF takes this opportunity to introduce its revised voting guidelines, which have taken the latest market developments and stakeholders' expectations into consideration.

It is hoped that all public companies listed on Bursa Malaysia could refer to this document as part of the efforts to strengthen their own boards in the interest of effective stewardship and sustainable market development.

EPF Corporate Governance Principles



The EPF Corporate Governance Principles are a set of basic expectations for its investee companies, which are as follows:

- 1 The Board of Directors should always act in the best interest of the Company.
- 2 The Company should conduct all of its businesses in a lawful and ethical manner.
- 3 All rights of shareholders should be clearly defined and communicated to the public.
- 4 All shareholders should receive fair treatment from the Board and Management.
- 5 The Board and its Committees should be structured to allow for independent decision-making that is free from influence from the Management and/or any other conflict from other entities/individuals that may influence its decision.
- 6 Appropriate controls and procedures should be put in place to guide the Management's activities in running the day-to-day operations of the Company.
- 7 The Company's operating and financial activities, as well as its governance, should be reported to the shareholders in a transparent, accurate, and timely manner.

Part B:

Board Matters

Under Part B, you may find some of EPF's views on specific board matters.



Board Composition

The Board should include a balance of Independent/Non-Independent and Executive/Non-Executive Directors, such that no individual or a small group of individuals can have an overarching influence on the Board that could jeopardise its independent decision-making.



Board Size

The size of the Board should be optimised to allow for a diverse set of individuals with unique skills, expertise, and experience to contribute positively to the Board. The Board should not be too large, such that effective and conclusive decisions can be made. Every Director should actively participate in Board decisions.



Board Committees

Boards are recommended to have the following Board Committees:

■ Audit Committee

The Audit Committee should consist of Non-Executive Directors only, and the majority of the Committee should be Independent Directors. The Audit Committee should also be chaired by an Independent Director. All members of the Audit Committee should be financially literate and at least one should be a member of an accounting association or body. Material audit findings by the Committee should be disclosed in the Audit Committee Report in the Company's Annual Report.

The Board should also ensure that the Internal Audit function reports directly to the Audit Committee.

■ Nomination Committee

The Nomination Committee should consist of Non-Executive Directors only, and the majority of the Committee should be Independent Directors. The Nomination Committee should also be chaired by an Independent Director.

The Company should grant its shareholders the flexibility to nominate new directors to meet changes in the industry from time to time.

The following information should be disclosed in the Annual Report in a sufficiently detailed manner:

- i. Criteria for appointment of new Directors on the Board;
- ii. Composition, background, and areas of expertise of existing Board of Directors, and whether new appointments complement the Board's current portfolio of talent;
- iii. Attendance records of Board of Directors at regular and special meetings; and
- iv. Succession plans for Senior Management and Board.

■ **Remuneration Committee**

The Remuneration Committee should consist of Non-Executive Directors only, and the majority of the Committee should be Independent Directors. The Remuneration Committee should also be chaired by an Independent Director.

The Remuneration Committee should ensure that the compensation structure encourages the Management and employees to act in ways that will enhance the Company's long-term profitability and value.

The Remuneration Committee should also ensure that the total remuneration package, including other incentive plans such as share options and bonuses, is commensurate with the level of responsibilities of the executives and is appropriate in view of the Company's performance.

Non-Executive Directors should be adequately compensated based on their experiences and contributions to the Board, and their responsibilities to shareholders.

■ **Risk Management Committee**

A Risk Management Committee should be established at the Board level, and comprises a majority of Independent Directors.

The Risk Management Committee is responsible for overseeing all risk management activities, reviewing key risks inherent in the organisation, establishing internal controls necessary to manage these risks and reporting its findings to the Board. The Committee should continuously carry out enterprise-wide programmes to create risk awareness culture, in the form of policies, procedures, organisational structure, training programmes and well-defined responsibilities.



Separation of Power between Chairman and Chief Executive Officer

The EPF believes that the combination of the two roles may impair the ability of Independent Directors to discharge their fiduciary duties. The separation of roles between the Independent Chairman and the Chief Executive Officer will promote healthy debate and discussion at the Board level.



Executive Directors

The EPF believes that only one Chief Executive Officer (or its equivalent) should be appointed on the Board, representing all top executive officers. Other top executive officers may be invited to participate in Board discussions. This could minimise the size and enhance the effectiveness of the Board.



Directorship Limit

The EPF believes that a Director should not be a Board member on more than 5 public listed companies. This is to ensure that the public listed companies can have directors who are able to fully commit in discharging their fiduciary duties.

To better assess the time commitment of its Directors, the EPF strongly encourages its investee companies to disclose the list of Board seats and/or executive positions in private companies, foundations, non-profit organisations, non-governmental organisations, and charities in the Annual Report.



Board Meetings

The Board should meet regularly, depending on the issues, size, and complexity of the Company. Directors' attendance and the frequency of Board and Board Committee meetings should be disclosed in the Annual Report.



Board Evaluation Process

Companies are encouraged to disclose the result of their evaluation and assessment of each Director, especially in terms of performance and contribution to the Board in the Annual Report.



Re-election of Directors

All directors shall submit themselves for re-election at least once every three years.

The EPF generally will not object to the re-election of directors who possess the relevant qualification and experience that can contribute positively to the Company. Only in specific instances as outlined in the EPF's Voting Guidelines that it may object to the re-election of directors.

Investors rely on company disclosure to make informed decisions. In some instances, the EPF has observed selective omission of material information under Directors' profiles in Annual Reports. This may include interest, position, or relationships that might influence, or be perceived to influence, in a material respect a Director's capacity to bring an independent judgment and to act in the best interests of the Company.

On the above matter, the EPF strongly encourages a complete and accurate disclosure of Directors' profiles with no material omission, to ensure informed decision-making by shareholders.



Independent Directors' Tenure

The EPF is of the view that the independence of a Director can be compromised at 12 years of service. However, if the Board is of the view that the Director is still able to contribute positively to the Company, the EPF will support the re-election of the Director as a Non-Independent Director. In such cases, the Board must ensure that its independence is not compromised.



Directors' Remuneration

The EPF requires full disclosure of remuneration paid to all Executive and Non-Executive Directors, on an individual and itemised basis.

For Non-Executive Directors, the EPF will take into consideration past decisions of the Board, and how those decisions affect the performance of the Company in deciding the approval of Directors' fees.

For Executive Directors, the EPF believes that they should be remunerated fairly, but not excessively. The amount should be reasonable after considering the Company's performance and industry practices. If the remuneration for Executive Directors is found to be excessive, the EPF will proactively engage with the Company and the Board's Remuneration Committee on the matter.



Board Diversity

The EPF is of the view that female representation on company boards is still low in Malaysia. As such, it expects its investee companies to have at least one qualified female Director to be on the Board.

Aside from gender diversity, the EPF also strongly encourages its investee companies to consider other forms of diversity that could potentially add value to the Board such as skills, experience, age, and cultural background. This will help to minimise 'group-think' in the decision-making process.



Active Politicians

A board candidate should go through a formal, rigorous, and transparent process to determine their suitability for the role. This process should be guided by clear criteria as required under Bursa Malaysia's Listing Requirements and MCCG 2021. Nonetheless, if the Director is an active politician, the EPF has taken the stance to discourage such appointments, as recommended by MCCG 2021.



EPF's Nominee Directors

If it is deemed required, the EPF may reserve the right to appoint and support its Nominee Director to the Board, in order to protect its interest.



Oversight on Sustainability

The EPF believes that the integration of sustainability considerations in a Company's day-to-day operations is vital to drive long-term sustainable value for its stakeholders. This is especially so as the global community embraces sustainability considerations in their ways of life, therefore compelling businesses to adopt sustainable practices; a trend that the EPF expects to accelerate over time.

As an institutional investor in Malaysia, the EPF expects a disclosure of the Sustainability Statement, as per the Listing Requirements, at the very least. If the Company is believed to have poor sustainability practices, the EPF may insist on a formal engagement with the Board and/or Management.



The EPF believes that the integration of sustainability considerations in a Company's day-to-day operations is vital to drive long-term sustainable value for its stakeholders. This is especially so as the global community embraces sustainability considerations in their ways of life, therefore compelling businesses to adopt sustainable practices; a trend that the EPF expects to accelerate over time.

Part C: Corporate Matters

Under Part C, you may find some of EPF’s views on specific corporate matters.



New Share Issuance

The EPF generally has no objections to new share issuance to ensure adequate funding for expansion and growth. However, the EPF will evaluate whether the share issuance will result in unnecessary and excessive dilution, and if it is in the best interest of the Company.



Related Party Transactions

The Board should disclose all information on transactions with related parties in a transparent, accurate, and timely manner. For significant transactions, the information provided should adhere to the Listing Requirements. However, the EPF encourages companies to exceed the minimum disclosure as required under the Listing Requirements.



Share Buy-Back Scheme

The Company must ensure that the share buy-back scheme is conducted in the best interest of the Company. The EPF is of the view that excess cash should be prioritised for dividend payment, instead of share buybacks.



Dividend Policy

The EPF regards consistent dividend payment as indicative of a fundamentally strong company. Companies must establish a dividend policy, and disclose it in the Annual Report.

The EPF is supportive of a dividend reinvestment plan.



Employees Share Scheme

To avoid doubts, this section is about Employees Share Scheme (ESS), or other equivalent share schemes to employees, such as Long Term Incentive Plan (LTIP), implemented either by way of issuance of new shares or grant of its existing shares.

The EPF believes that it is vital for such plans to be linked to employees' individual Key Performance Indices (KPIs) or subject to the group's key financial targets being met. This is in line with the EPF's view that the award of ESS should be based on performance.

The EPF also believes that the Company should set a vesting period for the ESS to be exercised, and that the award is given to performing employees at all levels, and not just to the top Management.

The EPF also regards a 10% share issuance plan as adequate for distribution.



Transactions

The EPF will conduct its own assessment on transactions that require shareholders' approval. Any corporate restructuring exercise, mergers and acquisitions, or capital raising exercise should meet the long term strategic objective of the Company and deliver sustainable value to its shareholders.

Any transactions that result in dilution to the EPF's shareholdings or expansionary exercise that requires new capital injection will require more detailed disclosure from the Board and the Management.



Part D: Shareholders Meeting



Voting Results

Through digitisation of the voting process, waiting time for collating and computing voting results has been reduced significantly. The Company should disclose the collective voting results to shareholders during the shareholders meeting.



Minutes of Meeting

The EPF expects the minutes of shareholders meetings to be made available to shareholders. This will allow shareholders to keep track of issues raised during the meetings, and hold the Board accountable in future meetings.



Combined Resolutions

Shareholders' permission should be sought if the Company intends to combine resolutions to be voted during General Meetings. Nonetheless, the EPF believes that voting on resolutions on re-election of directors should be conducted individually.

Part E: EPF Voting Guidelines at Shareholders Meeting

Voting guidelines at shareholders meetings

	Resolutions	Voting
1	<p>Re-election of Directors</p> <p>If any of the following applies on any directors for re-appointment:</p> <ul style="list-style-type: none"> a. The director has a reputation or history of mismanagement that adversely affects the company. b. The director did not act in the best interest of the company. c. The director was involved in company decisions that led to any undesirable and severe environmental or social outcomes. d. The director was involved in activities that may be defined as corrupt practices under the MACC Act 2009. e. The director failed to attend at least 75% of the Board and/or Audit Committee meetings, where applicable. 	AGAINST
2	<p>Independence</p> <p>Re-appointment of any Independent Director who has served on the Board for more than 12 years.</p> <p>Re-appointment of the Chairman of the Nomination Committee (or its equivalent) where there is one or more Independent Director who has served more than 12 years on the Board.</p>	AGAINST
3	<p>Board Diversity</p> <p>Re-appointment of the Chairman of the Nomination Committee (or its equivalent) where there is no female director on the Board.</p>	AGAINST

	Resolutions	Voting
4	<p>Politicians</p> <p>For active politicians on the Board, the EPF may ABSTAIN from voting or vote AGAINST in the following order:</p> <ol style="list-style-type: none"> a. The Director who is an active politician; and b. Chairman of the Nomination Committee 	<p>ABSTAIN or AGAINST</p>
5	<p>Excessive Remuneration</p> <p>For companies where EPF believes the Executive Directors receive excessive payment, the voting will be implemented in the following order:</p> <ol style="list-style-type: none"> a. Chairman of the Board; b. Chairman of the Remuneration Committee (or its equivalent); or c. Re-appointment of any Independent Directors. 	<p>AGAINST</p>
6	<p>Directors Fees</p> <p>If past decisions from the Board has brought financial distress to the company.</p>	<p>AGAINST</p>
7	<p>Employee Share Scheme (ESS)</p> <p>If any of the following applies on any ESS:</p> <ol style="list-style-type: none"> a. Total ESS issue exceeds 10% of the company's paid-up capital. b. No cancellation of outstanding ESS that is not yet exercised to ensure the dilution is capped. c. Detailed criteria and basis of ESS allocation are not disclosed in the circulars, or are not performance-based. d. The entire ESS issue is vested immediately and not on staggered basis. e. The ESS is awarded to Non-Executive Directors of the company, whether Independent or otherwise. <p>To avoid doubt, if the above items (a) to (d) apply, the EPF may vote AGAINST all resolutions related to the award of ESS to all Executive Directors.</p>	<p>AGAINST</p>

	Resolutions	Voting
8	<p>Share Buy-back Scheme If any of the following applies on any share buy-back schemes:</p> <ul style="list-style-type: none"> a. Weak balance sheet with high gearing. b. Do not generate strong cash flows. c. Do not have a good dividend payment record or no dividend payout statement. d. Any other reason where it is deemed inappropriate or untimely. 	AGAINST
9	<p>Transactions Transactions that do not disclose adequate material information relating to the transactions to all shareholders.</p>	AGAINST
10	<p>New Share Issuance If any of the following applies on any new share issuance schemes:</p> <ul style="list-style-type: none"> a. The EPF deems that the company has sufficient funds and a new share issuance is not necessary. b. No sufficient disclosure on purpose of utilisation of proceeds. c. The EPF views the issuance of shares as not being in the best interest of the company and its shareholders. 	AGAINST

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Disclaimer

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- EPF reserves its right in full to revise the provisions in this Document or adopt any other views from time to time, and EPF may or may not issue subsequent publications on the subject matter under this Document.
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