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**EPF**



# EPF CORPORATE GOVERNANCE PRINCIPLES AND VOTING GUIDELINES

2023 Edition



KWSPMalaysia



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## Message from CEO



As a long-term investor managing our members' retirement savings, sustainability is at the heart of our mandate and central to the trust placed in our organization by our stakeholders. This commitment is embodied in the Employees Provident Fund's (EPF) Sustainable Investment Policies, comprising Sustainable Investment Policy, Priority Issue Policies, and Priority Sector Policies which was launched in 2021. These policies are guidelines for EPF's investments in achieving its targets of having a Fully ESG Compliant Portfolio by 2030 and Climate Neutral Portfolio by 2050. All of EPF's investee companies are expected to comply with the relevant ESG expectations set in the policies within the stipulated time frame, and the failure to do so may result in the EPF taking necessary actions as part of its stewardship activities.

The EPF also takes the corporate governance practices of its investee companies seriously. Governance failures are not only costly in financial terms, but would also erode the trust in the integrity of our markets. As the largest investor in Malaysia, the EPF is of the view that it is imperative for its investee companies to have a strong, proper, and effective Board. This is to ensure that its investee companies, and in turn EPF members, can have a solid foundation for a prosperous future ahead of them.

The EPF has long been actively involved in proxy voting activities in Malaysia. To bring its stewardship practices a step further, with effect from 2023 the EPF will publicly disclose its voting decisions prior to commencement of the General Meetings. We hope this will further provide clarity to the market on how we think about key matters that are close to our heart.

As CEO, I am committed and will strive for excellence in our sustainability agenda. We have an exciting year ahead and I am confident by continuing on our current trajectory we will achieve changes at scale that benefit members, society and the planet.

With that said, we are pleased to deliver to you our latest version of the EPF Corporate Governance Principles and Voting Guidelines.

Thank you.

**DATUK SERI AMIR HAMZAH AZIZAN**

March 2023

# Introduction

With RM1 trillion in assets under management, the EPF is the largest shareholder 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 last 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.

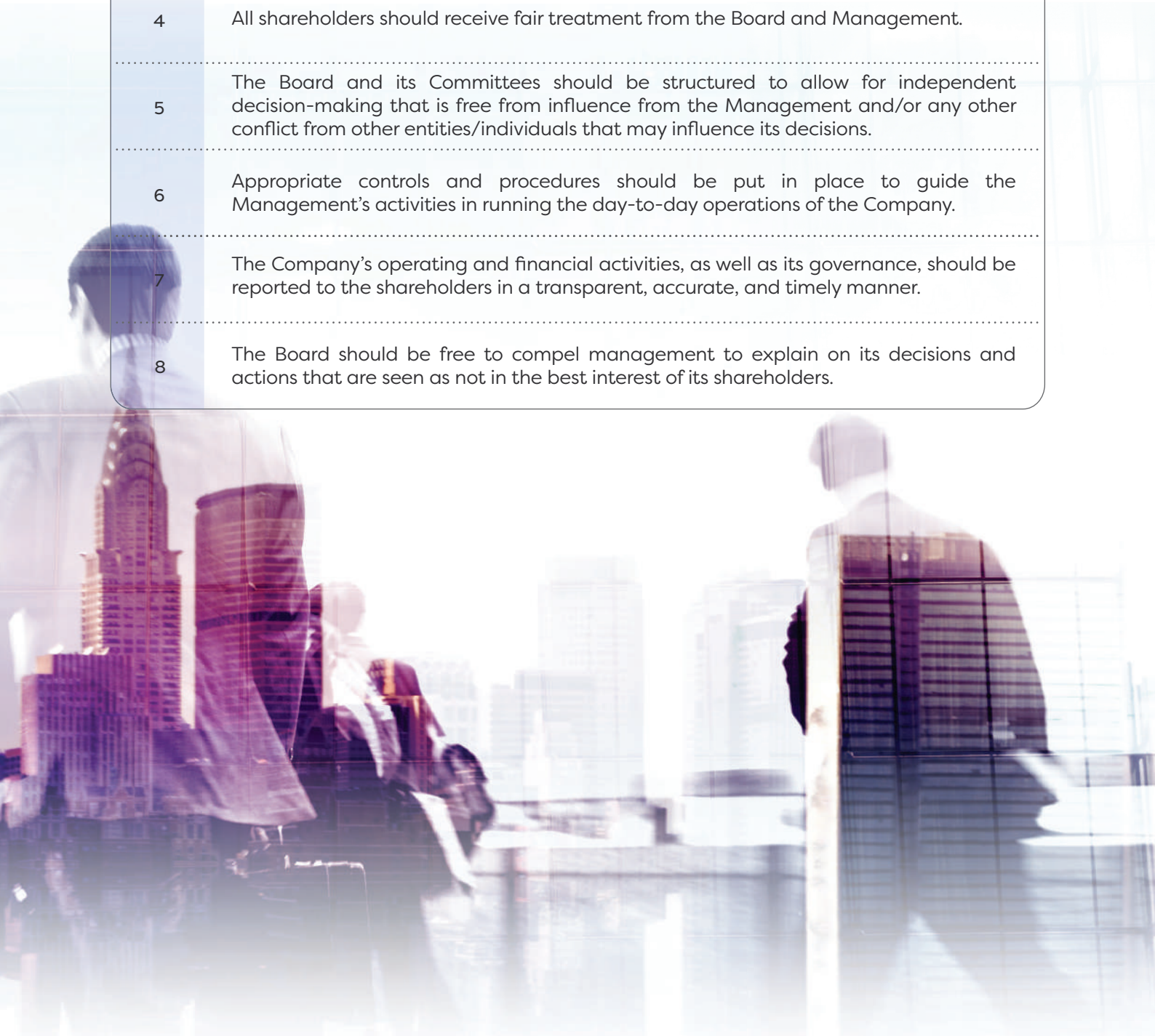
It is hoped that all public companies listed on Bursa Malaysia could refer to this document as part of the efforts to strengthen their own boards in the interest of effective stewardship and sustainable market development.



# 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 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 decisions.
- 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.
- 8 The Board should be free to compel management to explain on its decisions and actions that are seen as not in the best interest of its shareholders.



## Part B: Board Matters

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

### 1.1 Board Composition

The Board should ideally comprise of mostly Independent, Non-Executive of relevant skills, knowledge and experience, 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.



### 1.2 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, to ensure effective and conclusive decisions can be made. Conversely, a board that is too small is also not ideal to ensure decisions are made without thorough considerations from multiple viewpoints. Directors should actively participate in Board decisions.



### 1.3 Board Committees

Boards are recommended to have the following Board Committees:



#### 1.3.1 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 the Internal Audit function reports directly to the Audit Committee.

#### 1.3.2 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. Proper review on the Directors' independent status.
- iv. Attendance records of Board of Directors at regular and special meetings;
- v. Succession plans for Senior Management and Board.

### 1.3.3 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.

### 1.3.4 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, establish internal controls necessary to manage these risks and report 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.

## 1.4 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 Board level. We encourage Chairman to be independent, if not, there should be a Senior Independent Director and the majority of board must be independent. Chairman should not be a member in any of the Board Committees.



## 1.5 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. Ideally the Board should be entirely non-executive, with the CEO invited as the management representative to the board or the ex-officio.



## 1.6 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 each director, the EPF strongly encourages the 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.

## 1.7 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.



## 1.8 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.



## 1.9 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, skills 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 Director's capacity to bring an independent judgment and to act in the best interest 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.

## 1.10 Independent Directors' Tenure

The EPF is of the view that the independence of a Director can be compromised at 9 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.



## 1.11 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.

## 1.12 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. This year EPF incorporates the 30% female board member target and require our investee companies to set a proper plan to achieve this target.

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.



## 1.13 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.



## 1.14 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 and to ensure alignment of the shareholders’ objectives and the strategic direction of the investee companies.



## 1.15 Oversight on Sustainability

The EPF believes that incorporating sustainability considerations into companies’ strategies and operations is vital to ensure business resilience and drive long-term sustainable value for its stakeholders. Failure to adequately manage and mitigate environmental, social and governance (ESG) risks may result in material financial, legal and reputational implications to the company and its stakeholders.



In line with its corporate vision and mission that aims to deliver sustainable returns for its members, the EPF has embarked on the journey to be a sustainable investor through the integration of ESG considerations into its investment decision making process. The pathway is further defined by its commitment to two sustainable investment targets – 1) to have a fully ESG Compliant Portfolio by 2030 and 2) a Climate Neutral Portfolio by 2050. The accomplishments of these two targets are guided by EPF Priority Issues and Sector Policies which outline the ESG expectations, where all investee companies are expected to comply with the core requirements set out under these policies within the stipulated timeframe of the phased approach. For more information on EPF’s approach and specific requirements on sustainable investment, please refer to the EPF’s Sustainable Investment Policies on our website. (KWSP - Sustainable Investment)

Overall, the EPF holds the investee companies’ board accountable for the effective oversight of the respective company’s ESG matters. The EPF may exercise necessary stewardship actions such as engagement and voting decisions on companies that are deemed to have failed to adequately manage or mitigate its material ESG risks. The EPF also aims to incorporate specific action for non-compliance with EPF SI Policies into its voting policy in the next review.

## Part C: Corporate Matters

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

### 2.1 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. The EPF also believes that shareholder interests should always be at the forefront when it comes to the issuance of new shares, and any dilution of ownership and control should be avoided unless it is absolutely necessary and in the best interest of the company and its shareholders. As an institutional investor, the EPF recognizes the importance of protecting the interests of shareholders from unfavorable dilution.



The EPF may vote AGAINST the authority for the company to issue up to 10% of paid-up capital in the company, in accordance with Section 75 and 76 of the Companies Act 2016, unless the issuance is done in order to comply with certain regulatory requirements or expectations.

### 2.2 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.

It is imperative that ESS is awarded only to eligible individuals, specifically employees of the company. This ensures that the scheme serves its intended purpose of promoting employee motivation and engagement. It is also essential to note that Non-Executive Directors (NEDs) should not be granted ESS, as they are not employees of the company. Instead, NEDs receive separate fees and allowances for their contribution as board members, which are commensurate with their responsibilities and duties. This approach promotes fairness and transparency in the compensation structure of the company, allowing for all individuals to be compensated according to their specific contributions to the company.

### 2.3 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.



### 2.4 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.

## 2.5 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.



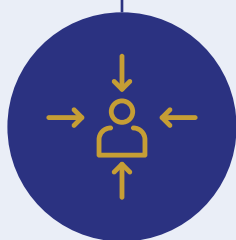
## 2.6 Dividend Policy

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.



# 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.

The EPF recommends that the resolution on each director's fees be tabled separately at the AGM. Although this recommendation is not a mandatory requirement, it is considered a best practice for good corporate governance. By presenting each director's fees separately, shareholders can have a clearer understanding of the remuneration structure and make an informed decision on whether to approve the fees. This also promotes transparency and accountability, which are important values for a well-governed company. Therefore, companies are encouraged to adopt this best practice to enhance their corporate governance and build trust with their stakeholders.

# Part E: EPF Voting Guidelines at Shareholders Meeting

Voting guidelines at shareholders meetings

SHAREHOLDER RESOLUTIONS	VOTING
<p><b>1. RE-ELECTION OF DIRECTORS</b></p> <p>If any of the following applies to any directors for re-appointment:</p> <ul style="list-style-type: none"> <li>a. The director has a reputation or history of mismanagement that adversely affect the company.</li> <li>b. The director did not act in the best interest of the company.</li> <li>c. The director was involved in company decisions that led to any undesirable and severe environmental or social outcomes.</li> <li>d. The director was involved in activities that may be defined as corrupt practices under MACC Act 2009.</li> <li>e. The director failed to attend at least 75% of the Board and/or Audit Committee meetings, where applicable.</li> </ul>	<p>AGAINST</p>
<p><b>2. RE-ELECTION OF CHAIRMAN</b></p> <p>The Chairman and CEO is the same individual.</p> <p>The Chairman of the Company is a member of the Audit Committee, Nomination Committee, or Remuneration Committee.</p>	<p>AGAINST</p>
<p><b>3. INDEPENDENCE</b></p> <p>Re-appointment of any Independent Director who has served on the Board for more than 9 years.</p> <p>Re-appointment of the Chairman of the Nomination Committee (or its equivalent) where there is one or more Independent Directors who served more than 9 years on the board.</p> <p>Re-appointment of any independent director who has served on the Board for more than 8 years.</p>	<p style="text-align: center;">AGAINST</p> <p style="text-align: center;">AGAINST</p> <p style="text-align: center;">ABSTAIN</p>
<p><b>4. BOARD DIVERSITY</b></p> <p>Re-appointment of the Chairman of the Nomination Committee (or its equivalent) where there is no female director on the Board.</p> <p>Re-appointment of the Chairman of the Nomination Committee (or its equivalent) if the company has less than 30% of female directors on the Board and that do not have an action plan and a reasonable timeframe for achieving this.</p>	<p style="text-align: center;">AGAINST</p> <p style="text-align: center;">ABSTAIN</p>

SHAREHOLDER RESOLUTIONS	VOTING
<p><b>5. POLITICIANS</b></p> <p>For active politicians on board, EPF may ABSTAIN from voting or vote AGAINST in the following order</p> <ul style="list-style-type: none"> <li>a. The Director who is an active politician; and</li> <li>b. Chairman of the Nomination.</li> </ul>	<p>ABSTAIN OR AGAINST</p>
<p><b>6. EXCESSIVE REMUNERATION</b></p> <p>For companies where EPF believes the Executive Directors receive excessive payment, the voting will be implemented in the following order:</p> <ul style="list-style-type: none"> <li>a. Chairman of the Board;</li> <li>b. Chairman of the Remuneration Committee (or its equivalent); or</li> <li>c. Re-appointment of any Independent Directors.</li> </ul>	<p>AGAINST</p>
<p><b>7. DIRECTORS FEES</b></p> <p>If past decisions made by the board have brought the company into financial distress.</p> <p>Advance payment of fees to the director, whom the EPF voted AGAINST his/her re-election and is only applicable for separate resolutions on the advance payment of fees to each director.</p>	<p>AGAINST</p>
<p><b>8. EMPLOYEE SHARE SCHEME (ESS)</b></p> <p>If any of the following apply to any ESS:</p> <ul style="list-style-type: none"> <li>a. Total ESS issue exceeds 10% of the company's paid-up capital.</li> <li>b. No cancellation of outstanding ESS that is not yet exercised to ensure the dilution is capped.</li> <li>c. Detailed criteria and basis of ESS allocation are not disclosed in the circulars or are not performance-based.</li> <li>d. The entire ESS issue is vested immediately and not on a staggered basis.</li> </ul> <p>Consequent to items (a) to (d) above, the EPF will vote AGAINST all resolutions related to the award of ESS to all Directors.</p>	<p>AGAINST</p>
<p><b>9. ESS TO NON-EXECUTIVE DIRECTORS</b></p> <p>All resolutions related to the award of ESS to any Non-Executive Directors.</p>	<p>AGAINST</p>

SHAREHOLDER RESOLUTIONS	VOTING
<p><b>10. SHARE BUY-BACK SCHEME</b></p> <p>If any of the following apply to any share buy-back schemes:</p> <ul style="list-style-type: none"> <li>a. Weak balance sheet with high gearing.</li> <li>b. Do not generate strong cash flows.</li> <li>c. Do not have a good dividend payment record or no dividend payout statement.</li> <li>d. Any other reason where it is deemed inappropriate or untimely.</li> </ul>	AGAINST
<p><b>11. TRANSACTIONS</b></p> <ul style="list-style-type: none"> <li>a. Transactions that do not disclose adequate material information relating to the transactions to all shareholders.</li> <li>b. Transactions that EPF disagrees on valuations or value accretive prospects, as determined on a case-by-case basis.</li> </ul>	AGAINST
<p><b>10. NEW SHARE ISSUANCE</b></p> <p>If any of the following apply to any new share issuance schemes:</p> <ul style="list-style-type: none"> <li>a. EPF deems that the company has sufficient funds and a new share issuance is not necessary;</li> <li>b. No sufficient disclosure on the purpose of utilisation of proceeds;</li> <li>c. EPF is of the view that the issuance of shares is not in the best interest of the company and its shareholders.</li> </ul> <p>The EPF may vote AGAINST the authority for the company to issue up to 10% of paid-up capital in the company, in accordance with Section 75 and 76 of the Companies Act 2016, unless the issuance is done in order to comply with certain regulatory requirements or expectations.</p>	AGAINST



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#### Disclaimer

- The views expressed by EPF in the EPF Corporate Governance Principles and Voting Guidelines – 2023 edition (“this Document”) is valid as at 1st April 2023.
- 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.
- EPF has no obligation to update this Document in the event of a material change to the information contained in this Document. Further, it is not the obligation of EPF to check or ensure that the contents of this Document remain current, accurate, complete, reliable or relevant.
- Notwithstanding the publication of this Document, EPF reserves its right in full to vote in shareholders meeting in accordance to the facts in hand and making its own judgment, in order to serve the best interest of EPF. For the avoidance of doubt, EPF may depart from any of the provisions in this Document and vote in a way that it deems appropriate, on a case-by-case basis.



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