

**INSTITUTIONAL INVESTOR COUNCIL MALAYSIA** 



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# Preface

This Report on **Investor Stewardship and Future Key Priorities 2016** is a collaborative effort among the Institutional Investor Council Malaysia (IIC) members. The IIC provided the overall strategic direction for the formulation of the report while the Working Group provided relevant feedback. The writing, research and coordination of the entire report was undertaken by the Secretariat led by the Working Committee Chair.

The Report outlines the current state of play of institutional stewardship in Malaysia, the level of engagement undertaken by its member organisations and the observations on the corporate governance of the investee companies. The report concludes with the strategic priorities of the IIC for the next five years (2016-2020).

This Report comprises five chapters:

- Investor Stewardship Developments: A Global Overview
- State of Play on Institutional Stewardship in Malaysia
- Stewardship and Engagement
- Observations on the CG of Investee Companies
- Strategic Priorities (2016-2020)

The above chapters will provide readers with an indication of the extent of the stewardship and engagement activities undertaken by the IIC members as well as their observations on corporate governance practices of their investee companies. The findings on stewardship and engagement and the observations on the CG of investee companies were based on a survey of seven member organisations of the IIC, namely Employees Provident Fund, Permodalan Nasional Berhad, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Haji, Khazanah Nasional Berhad, Social Security Organisation and Aberdeen Asset Management Sdn Bhd. The final chapter concludes with the IIC's collective view of its strategic priorities for the next five years.

#### **Institutional Investor Council Malaysia**

August 2016

# Foreword

This is the inaugural Institutional Investor Council Malaysia (IIC) Report which provides valuable insights into key developments in stewardship globally and the state of play of institutional investor stewardship in Malaysia.

This Report is a collaborative effort among the member organisations to share their experience and observations in discharging their stewardship responsibilities. This has further led to the formulation of strategic priorities to be undertaken by the IIC moving forward in the near to medium term. To make this Report holistic together with coverage of practical aspects, we have included not only the principles and policies adopted by the institutional investors but also disclosed the facts and figures pertaining to their corporate governance (CG) activities.

Institutional investors, as major participants in the capital market as well as being emerging capital providers to the economy, are in a unique strategic position to influence the standard of CG practices among their investee companies. Recognising this fact, it is imperative for the institutional investors to step up the manner in which they discharge their stewardship objectives.

Active stewardship also requires institutions to relook internally at their own governance processes and practices to ensure consistency with the stewardship objectives which they wish to achieve. This has led to institutional investors being more transparent in their disclosures of stewardship policies and voting guidelines. The launch of the Malaysian Code for Institutional Investors in 2014 was a significant starting point in driving effective stewardship, and it is hoped that more local institutional investors will lend support and become signatories as an endorsement of their commitments towards the stewardship agenda.

I would like to express my gratitude to fellow IIC members for providing the strategic direction and guidance in the formulation of this Report. I also would like to thank all member organisations who participated in the survey and for their contributions.

Finally, I would like to make mention my special thanks to the Head of IIC Secretariat and Working Committee Chairman, Rita Benoy Bushon who provided invaluable guidance, knowledge and insights in the making of this Report, as well as her coordination of the production of this Report together with her team.

I look forward to the support and cooperation of all institutional investors as well as other key stakeholders such as the regulators as we continue on this journey towards enhancing CG and stewardship.

#### Dato' Wan Kamaruzaman Wan Ahmad

Chairman Institutional Investor Council Malaysia

# Chapter 1 -

# Investor Stewardship Developments: A Global Overview

#### SIGNIFICANCE OF INSTITUTIONAL INVESTORS

Institutional investors as a group has been gaining importance as well as shaping the financial landscape, in particular, the Asian capital markets over the last three decades as a result of socio-economic developments in these countries and the policy reforms by their governments. The policy reforms included the development and establishment of defined contribution pension schemes such as a privately managed mandatory contribution scheme established in Hong Kong in 1995 and a voluntary retirement savings scheme known as the National Savings Fund introduced by Thailand in 2012. In addition, to support socio-economic developments, specialised institutions in the form of mutual funds and unit trust funds were created such as Permodalan Nasional Berhad's unit trust scheme, Sekim Amanah Saham Nasional (ASN) on 20 April 1981. As such, more and more individual savings found their way into such institutionalised entities where these funds accumulated into sizeable pools representing a dominant force in the capital market.

Institutional investors are a heterogeneous group, with diverse characteristics, legal forms and differing mandates. The more traditional institutional investors are institutions which manage and invest individual and pooled retirees' assets such as pension funds and insurance companies which comprise the bulk of funds in these capital markets. These institutions provide income security, social security and health benefits to millions of people for their retirement needs and at the same time contribute towards the nations' development needs including funding the governments' development expenditures.

Other forms of institutional investors include profit-driven investment entities such as mutual funds and unit trust schemes, asset managers, private equity firms as well as hedge funds which grew over the last three decades.

These pension and insurance funds became involved in the equity markets, as the funds were mobilised from the traditional fixed income assets into equities to enjoy diversification benefits and additional yield for their beneficiaries. For example, in the late 1980s, around 10% of EPF's funds were invested in variable-yielding assets such as equities while 90% were invested in fixed-income securities such as the Malaysian Government Securities (MGS).¹ This asset allocation shifted to 43.8% in equity investments² at the end of 2015 while the balance was mainly invested in fixed-income securities. This meant that the proportion held by institutional investors in the listed entities outstripped that of retail investors by the sheer size of funds released into the markets by the once-captive pension assets.

<sup>1</sup> The Employees Provident Fund of Malaysia: Asset Allocation, Investment Strategy and Governance Issues Revisited, R.Thillainathan (2003).

<sup>2</sup> EPF Annual Report 2015

The statistics below depicts the quantum of fund size relative to that of the markets, both in the global and local space.

In 1993, the total public pension fund assets were about \$1.3 trillion. It grew to a size of almost \$100 trillion of assets under management in OECD countries as of 2013 according to a World Bank report.<sup>3</sup>

The role of institutional investors grew substantially in tandem with emerging markets as well, with equity and bond markets nearly quadrupling over the last two decades.<sup>4</sup>

As a consequence, the percentage of public equity held by retail individuals proportionately declined over the years. In the mid-60s retail individuals held 84% of all publicly listed stocks in the United States and today they hold around 40%. In Japan, this proportion of retail shareholdings has shrunk to only 18% in 2011, while in the UK, the percentage has decreased from 54% to only 11% in the last 50 years. In Malaysia the percentage of retail investors has similarly decreased from about 50% in the 1990s to 23% in 2015.

The above statistics show the size of funds and the clout that these institutional investors wield in capital markets. As a pool of fiduciary funds managed professionally, the responsibility had become even more significant. They are now seen as an important catalyst for influencing market behaviour and practices in their investee companies extracting long term sustainable value for their ultimate beneficiaries through effective stewardship.

The idea of institutional investor stewardship is very much premised on the concept that corporate governance is a shared responsibility. Thus, while the primary responsibility of stewardship lies with the board of directors, institutional investors are expected to play their stewardship role by being responsible owners. The ICGN Global Stewardship Principles asserts that institutional investors' bear an obligation to preserve and enhance long-term value on behalf of their beneficiaries or clients, and their scope for influence of companies in which they invest bring about important responsibilities. These responsibilities take different forms, from exercising votes formally to informally exercising influence on management and boards across a range of key issues. The Malaysian Code for Institutional Investors (Code) states that agents in the investment chain include asset owners, asset managers and service providers. The asset owners are collective investment vehicles such as pension funds, insurance companies, takaful operators and unit trusts, whilst the asset managers are agents who manage the funds on behalf of these asset owners through an investment mandate. Service providers, meanwhile, include custodians, proxy advisers, investment consultants and trustees that support the activities of the asset owners and asset managers. <sup>8</sup>

<sup>3</sup> Evaluating-pension- fund-investments- through-the- lens-of- good-corporate- governance-Commissioner Luis A. Aguilar/Institutional investors: The Unfulfilled 100 trillion promise

<sup>4</sup> Institutional-investors-the-unfulfilled-100-trillion-promise

<sup>5</sup> OECD Working Paper on "Institutional Investors as Owners: Who They Are and What Do They Do" released in 2013

<sup>6</sup> Bursa Malaysia Berhad CLSA Investors' Forum 2009, Hong Kong 23 – 24 September 2009

<sup>7</sup> Bursa Malaysia Berhad Annual Report 2015

<sup>8</sup> The Malaysian Code for Institutional Investors

The extent of fiduciary duty throughout the investment value chain can be seen as the relationship between beneficiaries and institutional investors. From a broader perspective, other agents in the investment value chain also have a role to play to ensure that institutional investors live up to their fiduciary duties by providing information and tools to better understand risks and ultimately make sound investment decisions.

The 2015 OECD Corporate Governance Factbook states that "The effectiveness and credibility of the entire corporate governance system and company oversight depend on institutional investors that can make informed use of their shareholder rights and effectively exercise their ownership functions in their investee companies".9

In G2o/OECD Principles of Corporate Governance, there is a new chapter on 'Institutional Investors, Stock Market and Other Intermediaries'. This chapter addresses the need for sound economic incentives throughout the investment chain to engage in corporate governance with particular focus on institutional investors exercising their ownership rights and contributing to good corporate governance. The Principles encourage institutional investors acting in a fiduciary capacity to act with consideration of such obligations and specifically states that they should disclose the procedures they follow when deciding how they use their voting rights and how they manage material conflicts of interest which may affect the exercising of their share ownership rights.<sup>10</sup>

<sup>9</sup> The OECD Corporate Governance Factbook 2015 10 G20/OECD Principles of Corporate Governance

# DEVELOPMENT AND IMPACT OF STEWARDSHIP CODES

#### **Global Developments**

The role of institutional investors came under greater scrutiny following the global financial crisis. Critics pointed certain blame on institutional investors for not being effective stewards and failing to monitor their investee companies which contributed to the financial collapse. In 2009, the review of corporate governance in UK banks and other financial industry entities under the Walker Report recommended a new stewardship code for institutional investors in the UK which led to the issuance of the UK Stewardship Code in 2010. This was followed by the issuance of stewardship codes and responsible investment guidelines for institutional investors by global organisations as well as in a range of other markets over the years as shown in **Table 1** and **Table 2** respectively. Another recent global development was the issuance of the International Corporate Governance Network (ICGN)'s Global Stewardship Principles in June 2016 which draws from ICGN's Statement of Institutional Investor Principles, first introduced in 2003.

As institutional investors become more global in their operations they demand greater accountability and transparency from their investee companies. At the same time, institutional investors are also under great pressure from their beneficiaries or clients to manage their investments responsibly. Thus, the proliferation of stewardship codes is a positive development in increasing the awareness of the role of institutional investors in their investee companies.

Since 2011, the UK Financial Reporting Council (FRC) and the UK Investment Association have published annual reports on the impact and implementation of the UK Stewardship Code. According to the FRC, the quality of engagement between major investors and large companies improved following the introduction of the UK Stewardship Code. However, concerns about the disclosure and reporting on stewardship by fund managers remain, which is why the FRC announced that disclosures by signatories will be assessed and a tiering system will be introduced in July 2016.

Five years after the launch of the UK Stewardship Code, the Investment Association reported that although investment managers, life insurance companies and pension funds were committed to engagement, there was still room for improvement. The report, nevertheless, showed that there was an increase in resources devoted to stewardship analysis and activities as well as a significant increase in voting activities with broader integration of stewardship factors in the investment analysis.

#### Development of the Malaysian Code for Institutional Investors

The Securities Commission Malaysia (SC) recognises the critical role played by institutional investors in the governance ecosystem, and consequently encapsulated this role in the Corporate Governance Blueprint 2011 (CG Blueprint)

In June 2014, the Code was launched. It was seen as a significant milestone and as well as a critical building block in realising the goal for greater self and market discipline. Malaysia is the first in ASEAN and second in Asia among emerging markets to launch a code for institutional investors. The establishment of the Institutional Investor Council Malaysia (IIC) in July 2015 created the push towards greater awareness on the importance of the Code especially among local institutional investors. The IIC advocated institutional investors to become signatories of the Code as a reflection of their commitment towards becoming responsible investors. In addition, the IIC would provide leadership in the responsible investing space through creating awareness and understanding the importance of the role of the institutional investors in the ecosystem.

In line with this objective, two asset owners, Kumpulan Wang Persaraan (Diperbadankan) (KWAP) came on board as signatories to the Code in October 2015, followed by ValueCAP Sdn Bhd in December 2015, together with six other global fund managers who had earlier become signatories in 2014 namely, Hermes Fund Managers, Hermes Equity Ownership Services, Aberdeen Asset Management Sdn Bhd, Legal & General Investment Management, BNP Paribas Investment Partners Malaysia Sdn Bhd and BNP Paribas Investment Partners Najmah Malaysia Sdn Bhd.

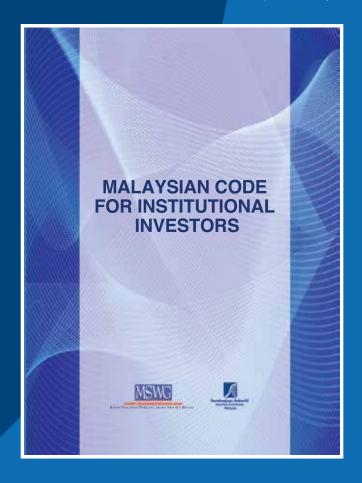


Table I: Information on Stewardship Guidelines of Selected Global Organisations

ORGANISATION/ YEAR	DEVELOPMENTS	STATUS
ICGN (2003) (2013) (2016)	The ICGN Principles for Institutional Investor Responsibilities was first issued in 2003 and updated in 2013. The publication of ICGN's Global Governance Principles (2014) builds further on responsibilities and best practices of institutional investors. The ICGN released its Global Stewardship Principles on 27 June 2016.	ICGN Global Stewardship Principles was published in June 2016
EUROPEAN UNION (2014)	The European Shareholder Rights Directive aims to encourage long-term shareholder engagement and proposes changes to elements of listed companies' corporate governance practices. It is also expected to tackle significant aspects of stewardship and engagement.	Final version currently in progress
OECD (2015)	The OECD released the G2O/OECD Principles of Corporate Governance in September 2015. There was an addition of a new chapter on the governance of "Institutional Investors, Stock Markets, and Other Intermediaries" which addressed the need for sound economic incentives throughout the investment chain, with a particular focus on institutional investors acting in a fiduciary capacity. It also addressed the issues of conflicts of interest, cross-border listings, and fair and effective price discovery.  Note: The role of institutional investors mentioned in the G2O/OECD Principles is part of a broader set of CG principles and not a stewardship guideline/code per se.	Principles to be implemented in G20 and OECD countries

Table 2: Information on Selected Country Stewardship Codes

COUNTRY/YEAR	DEVELOPMENTS	STATUS
UNITED KINGDOM (2010) (Revised 2012)	The UK Stewardship Code first published in 2010 aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The UK Stewardship Code is applied on a 'comply or explain' basis.  Since December 2010 all UK-authorised Asset Managers were required under the UK Financial Conduct Authority's (FCA) Conduct of Business Rules to produce a statement of commitment to the UK Stewardship Code or explain why it is not appropriate to their business model.	Signatories: - 205 asset managers - 88 asset owners - 14 service providers  Monitoring authority: Financial Reporting Council (FRC)
SOUTH AFRICA (2011)	Code for Responsible Investing in South Africa (CRISA) was launched on 19 July 2011.  CRISA applies to institutional investors as asset owners and their service providers. It is a voluntary code that encourages institutional investors and their service providers to adopt the applicable principles and practices on an 'apply or explain' basis.	No formal signatory mechanism Monitoring by: CRISA Committee

Table 2: Information on Selected Country Stewardship Codes

COUNTRY/YEAR	DEVELOPMENTS	STATUS	
JAPAN (2014)	The Japan Stewardship Code was introduced as part of a broad economic reform agenda in February 2014.	Japan has over 180 signatories.	
	Adherence to the code is voluntary. Over 180 institutions (including trust banks, investment managers, pension funds, insurance companies, and proxy voting advisors) have adopted the code as of February 2015.  A 'Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code' was established in August 2015 to follow up on the adoption of the Japan's Stewardship Code and CG Code as well as further improving CG of all listed companies in Japan.	Monitoring authority: Financial Services Authority (FSA)	
MALAYSIA (2014)	The Malaysian Code for Institutional Investors (Code) was launched by the SC together with MSWG on 27 June 2014. Institutional investors were encouraged to be signatories to the Code and were also expected to encourage their service providers to be signatories to the Code.  The Code sets out six broad principles of effective stewardship by institutional investors, followed by guidance to help institutional investors understand and implement the principles.	Signatories: - 2 asset owners - 5 asset managers - I service provider  Monitoring: The IIC to monitor the take up and application of the Code	
	Malaysia has since established the Institutional Investor Council Malaysia on 3 July 2015 to represent the common interests of institutional investors in Malaysia and to be a platform to shape and promote corporate governance culture through among others, the effective adoption of the Code.		

STEWARDSHIP CODES IN PROGRESS:				
HONG KONG	A public consultation on the draft Principles of Responsible Ownership, which follows a comply-or-explain approach was published by the Hong Kong Securities and Futures Commission in March 2015.	Public Consultation		
BRAZIL	The Association of Capital Market Investors (AMEC) released its draft stewardship code for public consultation in June 2016. The final version of the AMEC Stewardship Code is expected to be introduced in October 2016, at the 2016 AMEC Investor Forum.	In Progress		
TAIWAN	A draft stewardship code was published by the Taiwan stock exchange in December 2015.	In Consultation		
SINGAPORE	The stewardship code primarily targets institutional investors and has an additional principle on collaboration between investors. A series of meetings with key local investors and stakeholders are being held to gather support ahead of the launch of the code.	In Discussion		
INDIA	Securities and Exchange Board of India in coordination with other authorities is expected to introduce a stewardship code for institutional investors.	In Discussion		

## Chapter 2 -

## State of Play on Institutional Stewardship in Malaysia

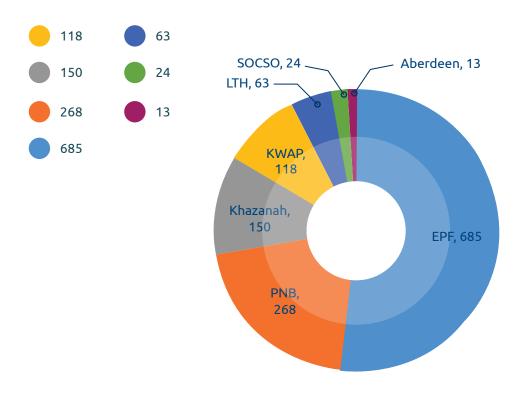
#### INTRODUCTION

This Chapter provides an overview of the role of institutional investors in the context of stewardship in Malaysia. Similar to that of global and emerging markets, the role and influence of institutional investors in Malaysia too has grown over the last three decades. Some of these developments were alluded to in the preceding chapter.

The Employees Provident Fund, Permodalan Nasional Berhad, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Haji, Khazanah Nasional Berhad, Social Security Organisation and Aberdeen Asset Management Sdn Bhd, collectively managed a fund size of approximately RM1,321 billion\* as at 31 December 2015 (**Chart 1**) where the size of domestic equities was approximately RM524 billion (**Chart 2**).

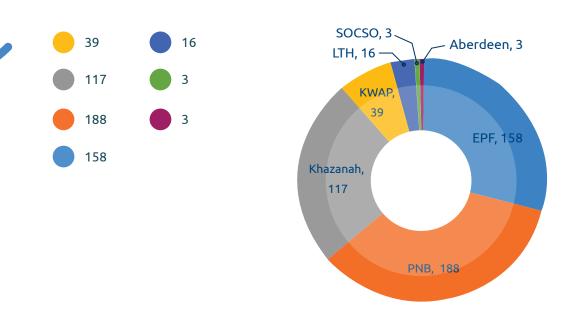
(\* Refer to comments under **Table 3**)

Chart 1: Total fund size as at 31 December 2015 (RM Billion)



Source: Information provided by the respective institutional investors through the Survey conducted

Chart 2: Total fund size in domestic equities as at 31 December 2015 (RM Billion)



Source: Information provided by the respective institutional investors through the Survey conducted

The total fund size in domestic equities of the above institutions amounted to approximately RM524 billion as shown in **Table 3** as at 31 December 2015. This represented 31% of total Bursa Malaysia market capitalisation of RM1.69 trillion as at end December 2015 which reflected the magnitude of these institutions in the Malaysian capital market.

Table 3: Extract of Key Information of Institutional Investors from the Survey

As at 31 Dec 2015	EPF	PNB	Khazanah	KWAP	LTH	socso	Aberdeen	Total
Total fund size (RM Billion)	685	268	150	118	63	24	13	1,321
Total fund size in domestic equities (RM Billion)	158	188	117	39	16	3	3	524
No. of listed investee companies in Malaysia	256	100	9	113	III	46	48	
Active monitoring of listed investee companies in Malaysia	113	100	9	113	III	46	46	
Domestic External Equity fund managers - in number	15	5	Nil	15	5	6	Nil	
- Market value (RM Billion)	15.5	1.8	NA	6.4	0.5	1.7	NA	
Signatory to the Malaysian Code for Institutional Investors				V			V	

Source: Information provided by the respective institutional investors

<sup>\*</sup> There may be some effects of double counting for the total figure as Aberdeen is a fund manager which may be managing funds of the other asset owners but the overall amount is not significant compared to the total figure.

The key information of institutional investors and their governing structures are set out in **Appendix I(a)** and **Appendix I(b)** respectively.

A brief profile of these institutions are as follows:-

#### **Employees Provident Fund (EPF)**



The EPF, which was established by law in 1951, is a mandatory savings scheme where both employees and employers contribute towards the provision of social security and retirement benefits of its members who are generally private and non-pensionable public sector employees. The EPF, as at December 2015, had a total of 14.55 million members of which, 6.79 million are actively contributing to the scheme. The total number of active employers was 536,489. As at 31 December 2015, EPF's fund size stood at RM685 billion, with RM300 billion in equity investments.

#### Permodalan Nasional Berhad (PNB)



PNB was established in 1978, as one of the vehicles under the New Economic Policy, with its founding mandate to address the problem of socio-economic disparity between the different ethnic groups in Malaysia via (i) restructuring economic imbalance by promoting the ownership of share capital by the Bumiputera community in the corporate sector in Malaysia; and (ii) mobilising the savings of the people, especially the Bumiputera community, through unit trust funds in order to ensure the sharing and distribution of economic wealth. As at 31 December 2015, PNB's fund size stood at RM268 billion, with RM188 billion in equity investments.

#### Khazanah Nasional Berhad (Khazanah)



Khazanah is the strategic investment fund of the Government of Malaysia entrusted with holding and managing the commercial assets of the Government, as well as undertaking strategic investments on behalf of the nation. Khazanah was incorporated under the Companies Act 1965 on 3 September 1993 as a public limited companyand began operations a year later. Except for one share owned by the Federal Lands Commissioner, all the share capital of Khazanah is owned by the Minister of Finance Incorporated, a body pursuant to the Ministry of Finance (Incorporation) Act 1957. As at 31 December 2015, Khazanah's fund size stood at RM150 billion, with RM117 billion in domestic equity investments.

# Kumpulan Wang Persaraan (Diperbadankan) (KWAP)



KWAP was established on I March 2007 under the Retirement Fund Act 2007 (Act 662) replacing the repealed Pensions Trust Fund Act 1991 (Act 454) and is primarily responsible for managing and growing the Retirement Fund which was established by the Federal Government in 1991 for the purpose of funding the public sector's pension liability. The Fund started with an initial fund size of RM500 million and as at end 2015 it has grown to RM118 billion with RM44 billion in equity investments. In November 2015, KWAP expanded its role ensuing from the takeover of selected functions of Post-Service Division of Public Service Department which are members' administration, benefits processing and pension payment.

## Lembaga Tabung Haji (LTH) TABUNG HAJI



LTH was established in 1963 as a premiere economic-based Islamic financial institution inspired by the realization of helping to provide investment services and opportunities while managing pilgrimage activities for the Malaysian Muslim community. In addition to managing pilgrimage activities, LTH operates as an alternative institutional body providing investment opportunities for Islamic depositors to save and invest in accordance with Islamic principles. As at 31 December 2015, LTH's fund size stood at RM63 billion, with RM16 billion in domestic listed equity investments.

### Social Security Organisation (SOCSO)



SOCSO was established in 1969 by law to provide social security protection to employees and their dependants through social security schemes. Both employees and employers contribute towards this mandatory scheme. As at 31 December 2015, SOCSO's fund size stood at RM24 billion, with RM4 billion in equity investments.

#### Aberdeen Asset Management



Aberdeen Asset Management plc is a UK-listed company engaged solely in fund management for clients, both institutional and retail/wholesale. Aberdeen Asset Management Sdn Bhd (AAMSB) was the first fund manager wholly-owned by a foreign party to be licensed as a fund manager by the SC in 2005 under the National Economic Action Council's (NEAC) special scheme. Its subsidiary, Aberdeen Islamic Asset Management Sdn Bhd, was licensed as an Islamic Fund Manager in 2009. Across all investment strategies, Aberdeen's investment process is based on fundamental research, transparency, simplicity and a collegiate approach. As at 31 Dec 2015, Aberdeen Asset Management Group's assets under management stood at US\$415.7 billion, while its Malaysian subsidiary AAMSB's assets under management stood at RM13 billion/US\$3.17 billion which also represents its equity investments.

#### **STATE OF PLAY**

Large institutional investors in Malaysia, in particular, government-linked investment companies (GLICs) have, over the years, undertaken various measures to instil better governance practices in their investee companies. Government-linked companies (GLCs) in Malaysia are owned by the federal government through seven GLICs, namely the Employees Provident Fund, Permodalan Nasional Berhad, Kumpulan Wang Persaraan (Diperbadankan), Ministry of Finance Incorporated, Khazanah Nasional Berhad, Lembaga Tabung Angkatan Tentera and Lembaga Tabung Haji.

A key initiative was the 10-year GLC Transformation (GLCT) Programme launched on 29 July 2005 to drive large scale transformation of 20 GLCs which was then controlled by five GLICs, through a programme management approach chaired by the Prime Minister with Khazanah Nasional Berhad as its Secretariat.

Following the graduation of the 20 GLCs from the GLCT Programme on 28 July 2015, they have become more dynamic, performance-driven and well-governed organisations. From 14 May 2004 to 31 December 2015, market capitalisation of the 20 GLCs grew by 2.8 times from RM133.8 billion to RM375.0 billion while total shareholder return (TSR) grew by 10.5% per annum. Meanwhile, net profit of the 20 GLCs hit RM22.5 billion in FY2015, growing at a compounded annual growth rate (CAGR) of 7.8% from FY2004 to FY2015. They also represent more than half of the top 10 companies on the FTSE4Good Bursa Index, which recognises Malaysian companies with good corporate responsibility practices.

The transformation of GLCs into high-performing and regionally competitive entities was critical in driving the Malaysian economy forward for the country's future well-being. In the last decade, the GLCT Programme delivered economic and social benefits on many fronts, touching the lives of various stakeholders including investors, employees, suppliers, customers of GLCs and the public. They have developed new, knowledge-based and service-oriented industries and sectors, and have been involved in the development of the economic corridors. They contributed RM121.9 billion in dividends and RM69.6 billion in taxes from FY2004 to FY2015, providing returns to the investing public (including contributors to trust agencies such as Employees Provident Fund and Permodalan Nasional Berhad), the rakyat and country at large. They have also been actively involved in corporate responsibility initiatives, supporting education and graduate employability programmes and disaster relief networks, amongst other things.

Under the GLCT Programme Graduation Report it is expected that GLICs and GLCs continue to play a role in supporting and shaping national priorities. Historically, GLCs have long been strong supporters and shapers of many development programmes for the nation, such as being contributors to the Malaysia Plans, spearheading development of key economic corridors, and championing the establishment of a good regulatory environment (including regulatory bodies) to enable effective supervision and the planning of various industries and sectors so that they may thrive.<sup>11</sup>

It was recognised that the institutional investors had a critical and proactive role to play in the governance of their investee companies. Hence the formulation of the industry-led Code which had six principles of best practices as guidance to institutional investors to act as stewards of their investee companies. Subsequent to its launch, an advocacy programme was put in place to provide forums for discussions to familiarise themselves with the requirements of the Code. The first year saw six signatories from both local and global institutions becoming signatories to the Code and subsequently two local asset owners signed on to show explicit commitment to these principles.

The establishment of the IIC was an important milestone, being a platform for institutional investors in shaping and influencing the CG culture in Malaysia. The objectives of the IIC are as follows:-

- i. To represent the interest of institutional investors in Malaysia.
- ii. To be the platform to influence good corporate governance culture by public listed companies.
- iii. To advocate the adoption of the Code among institutional investors.

The members of the IIC are amongst the largest institutional investors in Malaysia (Appendix 2).

The Code, which pledges to create engaged and active institutional investors, has garnered eight signatories since its release. The overall uptake from institutional investors should be further improved to reflect institutional investors' commitment towards becoming effective stewards in their investee companies.

The IIC recognises the challenges faced by institutional investors, and efforts have been ongoing to push the stewardship and corporate governance agenda forward. These efforts include focus group sessions and closed door discussions on stewardship. In this regard, the IIC together with MSWG jointly organised a conference on stewardship issues in March 2016 for both institutions and corporates, to create awareness on the importance of stewardship and responsible investing.

The IIC has also outlined its strategic priorities to ensure that it can become an effective platform for institutional investors in Malaysia in pushing the institutional stewardship and corporate governance agenda.

#### THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS

Following the recommendations of the Corporate Governance Blueprint 2011, MSWG was entrusted to take the lead in the formulation of an institutional investors code for Malaysia. A Steering Committee for the Development of an Institutional Investors Code (Steering Committee) was formed to undertake the formulation of the code. The Steering Committee was headed by the Chairman of the MSWG while the Working Group was headed by the Chief Executive Officer of MSWG. The members of the Steering Committee comprised CEOs and key representatives from the institutional investors' fraternity in Malaysia namely the Employees Provident Fund, Permodalan Nasional Bhd, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, Social Security Organisation, Malaysian Association of Asset Managers, Malaysian Takaful Association and Private Pension Administrator.

Expert groups from Financial Reporting Council United Kingdom (FRC), International Corporate Governance Network (ICGN), Global Fund Manager – Governance for Owners, PricewaterhouseCoopers Malaysia as well as Observers from the Organisation for Economic Development and Co-operation (OECD), Securities Commission Malaysia and Bursa Malaysia Berhad also provided expert advice, comments and feedback to the Steering Committee in the development of the Code.

The Malaysian Code for Institutional Investors (Code) was launched by the Securities Commission Malaysia together with MSWG on 27 June 2014. Institutional investors were encouraged to be signatories to the Code and were also expected to encourage their service providers to be signatories to the Code.

The Code, which is voluntary, sets out six broad principles of effective stewardship by institutional investors, followed by guidance to help institutional investors understand and implement the principles.

#### The six key principles are:

- I. Institutional investors should disclose the policies on their stewardship responsibilities.
- 2. Institutional investors should monitor their investee companies.
- 3. Institutional investors should engage with investee companies as appropriate.
- 4. Institutional investors should adopt a robust policy on managing conflicts of interest which should be publicly disclosed.
- 5. Institutional investors should incorporate corporate governance and sustainability considerations into the investment decision-making process.
- 6. Institutional investors should publish a voting policy.

## Chapter 3 -

### Stewardship and Engagement

#### INTRODUCTION

In this Chapter the IIC will be gauging our members' views on the key areas of stewardship and engagement activities that have been undertaken. The aim was to see how these activities can be leveraged on to impact and enhance the level of CG practices of the investee companies.

#### STEWARDSHIP AND ENGAGEMENT PROCESS - AN OVERVIEW

The Code scoped the stewardship practices from the perspective of long-term institutional investors, such as pension funds. It includes the responsible management and oversight of assets for the benefit of the institutional investors' ultimate beneficiaries. The discharge of these stewardship responsibilities would typically include the development and application of policies, the oversight of agents, the communication of expectations and the reporting of such activities to their beneficiaries.

The Code advocates engagement which is a purposeful dialogue with investee companies, with the aim of preserving or enhancing value on behalf of their beneficiaries. It is an extension of monitoring activities and arises when institutional investors have a close and full understanding of the specific circumstances of the investee company in matters of performance, governance or risk management. It entails dialogue on matters such as strategy, long-term performance, risk, capital structure, and corporate governance, including culture and remuneration as well as on issues that are the immediate subject of votes at general meetings.

With respect to engagement, in a report on AGM Practices by Malaysian Companies<sup>12</sup> it was stated that AGMs were good platforms for boards of directors of companies to demonstrate their accountability to shareholders and vice-versa for shareholders to exercise their statutory rights to engage directly with the board of directors. It was also stated that the AGM platform was a vital organ of corporate governance where institutional investors can use these shareholders' meetings as an approach to effect necessary changes in their investee companies through the process of engagement. Thus, the institutional investors can continue to use these annual general meetings for more targeted engagements with their investee companies where the whole board and the top management would be present to bring about the changes in terms of corporate governance and performance.

<sup>12</sup> Rita Benoy Bushon & Salleh Hassan, Report of AGM Practices by Malaysian Companies

#### THE SURVEY

The IIC conducted a survey among its member organisations to gauge the level of stewardship activities undertaken by institutional investors. A questionnaire on stewardship and engagement was developed under the oversight of the IIC. The survey was structured in such a way as to obtain institutional investors' views on key areas of stewardship and engagement including details of stewardship activities in terms of having a stewardship policy, the level of implementation and challenges as well as methods of communication of such policies. Engagement activities with investee companies covered strategies, communication of concerns, reporting, types of issues, and their receptiveness as well as feedback.

The survey also sought to gauge whether institutional investors were behaving as responsible investors, addressing environmental, social and governance (ESG) issues with their investee companies in order to better manage risks. It also looked at how institutional investors embraced responsible investing practices and how they looked beyond financial aspects in their investment selection process. A copy of the *Questionnaire on Stewardship and Engagement* is enclosed in **Appendix 3(a)**.

To a great extent, their expectations can influence investee companies, including influencing corporate behaviour in the implementation of policies that would lead to the creation of sustainable shareholder value in the long term.

The survey provided some valuable insights outlining material drivers for investor engagement, and it is hoped that these insights could provide some useful approach and guide to engagement in the future. The outcome of this survey would also assist the IIC in delivering the right message, collecting and collating valuable feedback, consequently finding common grounds in challenging situations on stewardship and engagement.

#### **KEY INFORMATION FROM THE SURVEY**

#### **ENGAGEMENTS WITH INVESTEE COMPANIES 2015**

Items	Institutions Responses in Total
Total number of listed investee companies	683
Total number of AGMs/EGMs attended	545
Total number of other engagements with investee companies (e.g. analyst briefings/meetings)	3,571
Total number of management visits conducted (i.e. attended by CEOs, CIO and Senior Management)	191

Source: Information provided by the respective institutional investors

The table above sets out some key information in relation to engagements with investee companies in 2015. Further breakdown according to institutions are set out in **Appendix 1(a).** The findings have been summarised under the key themes of (i) Stewardship, (ii) Engagement and (iii) Resources for stewardship activities.

#### **SALIENT FINDINGS**

#### i. STEWARDSHIP

#### I.I DISCLOSURE OF STEWARDSHIP POLICY

Except for one institution, all others had stewardship guidelines in some form or another. KWAP, EPF and Aberdeen incorporated their stewardship activities explicitly in their corporate governance and voting guidelines document which were made available on their respective websites.

Khazanah and PNB had frameworks and guidelines for managing their investee companies which were in line with the Green Book issued by the Putrajaya Committee on GLC High Performance.

LTH has incorporated its stewardship policy and initiatives in the Statement of Corporate Governance in its Annual Report and has established explicit voting guidelines as part of its overall Investment Policy.

#### **CG Guidelines and Voting Policies**

In respect of voting guidelines mentioned above, EPF, KWAP and Aberdeen disclosed them on their websites, which is an encouraged practice as enshrined in the Code. Whilst LTH has established explicit voting guidelines in its Investment Policy, several were in the process of developing their own voting policy guidelines and stewardship activities, including ESG framework and policies.

Specifically, KWAP, EPF and Aberdeen made their voting guidelines known to the investee companies during engagements with their investee companies.

Institutions stated that their existing stewardship policies took into account the principles of the Code, albeit at varying degrees. Efforts had been made to apply the policy in every engagement with the investee companies, including application when voting for resolutions at shareholders' meetings. Others adopted and applied industry best practices which were customised to the needs of the institution and will also take into consideration the Principles enshrined in the Code moving forward.

#### 1.2 CASCADING OF STEWARDSHIP POLICY

Escalation and cascading of stewardship policies are pertinent in ensuring effective implementation of stewardship activities along the investment chain. The Code states that in the event where the stewardship activities are outsourced, institutional investors should explain in the stewardship policies what steps had been taken to ensure that the investment activities were carried out in line with their own approach to stewardship. Institutional investors effected the following actions in cascading their stewardship policies:

#### - Internal divisions

The policies were embedded in the internal processes and procedures framework, hence adherence to the policy was a Standard Operating Procedure (SOP) in the Investment Division.

Global asset managers such as Aberdeen leveraged on the strength of central teams in Group Headquarters and regional offices cascade their stewardship policies throughout the organisation.

#### - External fund managers (EFMs)

Stewardship and governance expectations were cascaded to EFMs through inclusion in the investment mandate as well as direct and regular engagements with EFMs.

For EPF, the EFMs were required to perform some level of shareholder activism such as voting in line with the institution's CG Voting Guidelines and attending AGMs/EGMs when necessary.

For three institutions, clauses on specific areas such as ESG aspects were included in investment mandates to EFMs. Meanwhile, certain institutions, particularly LTH, observed specific investment criteria, such as only investing in Shariah-compliant assets.

#### 1.3 POLICY ON MONITORING OF INVESTEE COMPANIES

All institutions practised active monitoring of their investee companies. For some, the degree of focus for monitoring were guided by the level of cumulative shareholding and exposure in terms of invesment costs. For certain institutions, board representation would be sought if the institutions had a very significant stake in the company.

Broadly, the monitoring activities included company visits at least twice a year, issuance of shareholder letters, engagement with board and management, attending analysts briefings, attending general meetings and exercising voting rights in line with the institution's voting policy.

Internally, monitoring activities undertaken by the investment teams included the review of quarterly results, peer benchmarking analysis, monitoring of news reports and discussion of resolutions to be tabled at AGMs/EGMs.

#### 1.4 STEWARDSHIP CHALLENGES

Institutional investors identified the following as being the challenges in applying the stewardship policy:-

- Co-ordinating communications between investment teams, custodian banks, trustees and company secretary in a timely manner
- Manpower constraints, especially during peak AGM season
- Engaging with board/management outside of AGMs/EGMs
- Handling special circumstances which does not fit into the existing CG Policy and Guidelines, with such needs to be assessed on a case-to- case basis
- Small stakes in investee companies vs. manpower to implement the policy
- Balancing the divergent interest between shareholders and the company
- Working together with other institutional investors could lead to perceptions of acting in concert

#### 2. ENGAGEMENT

The process of engagement was divided into different aspects — the engagement strategy, how companies were selected, why engagement was required as well as how it was done. In addition, protocols were needed to ensure that information given was not privileged, and how it was dealt with, if necessary.

# 2.1 ENGAGEMENT STRATEGY AND SELECTION OF INVESTEE COMPANIES

Various engagement strategies were adopted in line with the respective institutions policies on managing investee companies. Institutional investors' selection of investees to be engaged were based on various criteria.

Investees to be engaged were selected based on industry specific issues and information gathered from the public domain, level of cumulative shareholding and exposure in terms of investment costs as well as from constituents of the FBMT100 index.

Engagement methods include meeting with the board and management of investee companies at certain intervals, annual CEO visit program, participation of shareholders meetings and analyst briefings, sending annual shareholder letters to investee companies, close monitoring by research team and fund managers, and adopting a two-pronged strategy where the monitoring division and investment division engage with the investee companies separately.

Others selected the companies based on company performance and specific criteria set in the institution's internal investment framework.

#### 2.2 TOPICS COVERED DURING ENGAGEMENT

Topics covered include financial, strategic and business direction, risk management and internal controls, governance and sustainability issues. Financial issues include financial performance and long-term sustainability of the business model, returns to shareholders, balance sheet issues and debt composition.

Related party transactions, leadership, succession-planning and monitoring framework were also among the governance topics covered.

Generally the institutions raised ESG issues during engagements. Many of the institutions were beginning to undertake specific ESG analysis which were then raised at engagements.

The environmental issues raised were very much industry-specific, while examples of governance issues raised were on separation of roles of Chairman and CEO, tenure of independent directors, share issuance to directors and sustainable and responsible investment issues.

#### 2.3 COMMUNICATION OF CONCERNS

Institutions communicated their concerns to investees through various ways:-

- Expressing concerns in writing
- Meetings with Board and senior management
- Raising of concerns through nominee directors at board meetings
- Expressing concerns at general meetings
- Voting with their feet at general meetings
- Joint engagements with other institutions on particular issues

#### 2.4 REPORT ON ENGAGEMENT

Not all institutions reported their engagement activities in their annual reports or websites. Those which did, provided a summary of their engagement activities in their annual reports. Detailed reports on engagement activities or call notes appeared to be for internal use only.

#### 2.5 IMPROVEMENT IN CG POST-ENGAGEMENTS

Institutions felt the engagements were quite successful and well-received by their investee companies. For smaller companies, the senior management appeared stretched with normal day-to- day revenue generating activities. Several investee companies were unaware of the areas which displayed poor governance but had taken action to rectify the issues when highlighted by the institutional investors.

One institution commented that improvements were seen in terms of the background and skill sets of the Board of Directors, including having gender diversity. Improvements were also seen in the establishment of comprehensive risk management framework and policies as well as better disclosures in the companies' annual reports post-engagements.

#### 3. RESOURCES FOR STEWARDSHIP ACTIVITIES

#### 3.1 ALLOCATION OF RESOURCES

The majority of institutional investors allocated resources for stewardship activities although the mechanism varied from one institution to another. Aberdeen, KWAP and EPF had dedicated units/teams for handling stewardship and governance issues, while others were more general in nature under the purview of the Investment Department or together with several departments such as Corporate Finance Department, Risk Management Division and Shariah Divisions to monitor stewardship activities.

#### 3.2 PERSONS RESPONSIBLE FOR MONITORING INVESTEES

With regard to the monitoring of investee companies, the institutional investors employed different approaches. Those with global reach had investment managers put in-charge with the support of regional CG officers. For some, the Senior Leadership Team of the institution was responsible, with the support of investment teams, strategic/portfolio management teams and finance teams.

One institution had a dedicated team and a department to monitor the investee companies under the purview of Deputy CEO (Investment). For another, it was the CEO and Chief Investment Officer (CIO) together with the Equity, Research and Corporate Strategy and Performance Departments. Yet another had the CIO being put in charge, with the support of analysts in the research department.

One institution had a diverse group involving an internal committee, the Investment Department, Corporate Finance Department and senior personnel who were board members of the investee companies.

Another institution stated that the monitoring function was under the purview of the Deputy President, Corporate and Human Capital.

#### 3.3 SETTING UP OF DEDICATED UNITS

Three institutions stated that they had plans to set up dedicated units and/or increase the manpower for CG role in the near future. Aberdeen's regional CG office will be joined by a regional ESG officer by September 2017. KWAP and SOCSO also stated that they will be increasing their manpower for the CG role.

# Chapter 4 Observations on the CG of Investee Companies

#### INTRODUCTION

In Chapter 3 the IIC gauged the member institutional investors' collective views on the key areas of stewardship and engagement activities that had been undertaken. The ultimate aim of these stewardship and engagement activities was to determine how these activities can be leveraged upon and enhance the level of CG practices of the investee companies that they oversee.

In the last decade, Malaysian institutional investors, in particular, government-linked investment companies (GLICs), played a more prominent role in promoting good corporate governance in their investee companies.

The findings from a survey conducted by MSWG through the annual Malaysia-ASEAN CG survey benchmarked against the *OECD Principles of Corporate Governance* and other international best-practices were found to be instructive. It showed the average score for corporate governance practices of the top 100 Malaysian companies in 2015 rising to 80.41 points from 76.82 points in 2014 and 75.99 points in 2013<sup>15</sup>. Overall, it showed an upward trend in terms of improvement of corporate governance disclosures and practices.

#### THE SURVEY

The IIC conducted a survey to gauge the trends on corporate governance best-practices and the key drivers for performance in the investee companies. This would also enable the IIC to determine the areas which had shown progress and areas which needed further improvement.

A questionnaire was developed to identify the institutional investors' observations of the level of corporate governance in their investee companies. The survey provided an analysis of contemporary governance trends and emphasises institutional investors' views on how companies were reacting to a rapidly evolving governance landscape. It also provided some observations on how boards and management of companies reacted to the comments given by the institutional investors. A copy of the *Questionnaire on Observations on the CG of Investee Companies* can be found in **Appendix 3(b)**.

#### SALIENT FINDINGS

The observations of the members have been summarised under the key themes of pre-investment considerations, observation of corporate governance of investee companies, areas which had shown progress and, areas which needed further improvement.

#### I. PRE-INVESTMENT CONSIDERATIONS

The broad categories of considerations institutional investors took in the investment decision-making process include these four key areas:-

## I.I Business fundamentals and financial performance

- Sound business fundamentals and model
- Financial track record
- Financial management and debt level
- Future strategic direction and earnings visibility
- Dividend yield
- Risk framework
- Market capitalisation

#### 1.2 Management

- Quality of management including ability to deliver
- Quality of Board of Directors
- Track record of the personalities behind the company
- Reputation

#### 1.3 Governance

- CG standards and practices
- Board composition and diversity
- Succession planning
- Sound remuneration policies
- Minority interest protection

#### **1.4** ESG

- Good ESG practices that are well-articulated and disclosed
- Clear on how business is conducted in a responsible manner
- Fair practices in the social space
- Exclude investments which are not in line with the institution's ESG criteria

#### 2. OBSERVATIONS

#### 2.1 CG PRACTICES IN INVESTEE COMPANIES

The institutional investors stated that based on their observations, the level of CG in their investee companies has generally improved over the last three years.

Institutions stated that improvements were aligned to the revised Malaysian Code on Corporate Governance 2012 (MCCG 2012) i.e. separation of roles of Chairman and CEO, tenure limit for independent directors, and Board which were benchmarked with G20 countries.

One institution commented that all their listed investee companies had embraced gender diversity in which at least one female director was represented on the boards of their investee companies.

Institutions also commented that corporate announcements were timely and more informative in annual reports and websites, particularly on areas such as related party transactions, risks factors and operations performance.

There was improved transparency where institutional investors were allowed access to management via one-to-one meetings and analysts updates. Other areas of improvement included board charters accessibility, composition of board and other committees including gender diversity, as well as governance structures such as setting up of relevant committees.

It was observed that management of companies were generally acceptable to changes suggested by the institutional investors during their engagements, such as governance matters that were not aligned with best-practices.

Institutions also observed that although CG was improving in some companies, it was more form than substance, especially in the area of ESG where it was felt to be a passing fad. It was also perceived that these companies were not serious or did not understand the importance and ramifications of such matters.

There was also a comment that ESG involved considerable financial and manpower outlay and investee companies needed to see the advantage and benefits of improving ESG for their own companies before committing to it. Institutions also commented that environmental and social issues were relatively new to most investee companies and clearer guidance was required.

One institution commented that smaller listed companies had much more to be done in terms of enhancing their CG standards.

With regard to observations on practices relating to board diversity, remuneration, board evaluation process, succession planning, ESG practices as well as risk management and internal controls, the findings are as follows:-

• Board diversity: Most investee companies had gender diversity policies disclosed and those which did not have these policies indicated that they would be doing so in the future. Board diversity was seen to have improved but still lagged behind global peers. In addition, institutional investors felt that diversity targets should be disclosed clearly.



#### Companies should clearly disclose board diversity policies including gender diversity targets.

• Board remuneration: Institutional investors observed that the remuneration of the CEO was sometimes not aligned with the performance of the company including share price performance, especially in family owned companies. Some companies which granted Employee Share Schemes (ESS) did not disclose the broad Key Performance Indicators (KPIs) for the CEO. Some companies also paid gratuities to their non-executive directors which was a concern to the institutional investors. Many companies are still disclosing such information according to bands instead of payment to individual directors. There was a suggestion that companies should provide justification and comparative study for any proposed increase in directors' fees. Nevertheless, it was observed that the standard of disclosure had improved.



#### Remuneration of CEO must be aligned to company's performance and KPIs.

• Board evaluation process: Institutional investors indicated that it was not clear how board members were appointed, especially independent directors, as the criteria required was not disclosed in most Annual Reports. It was nevertheless observed that in several investee companies, third-party consultants were engaged to facilitate the board evaluation exercise to maintain professionalism.



#### Board evaluation process and criteria should be clearly disclosed in the Annual Report.

• Succession Planning: Some commented that there were weak disclosures in the area of succession planning although some family-controlled companies appeared to have clear succession plans in place with the family members as the successors.



#### There must be clear succession plans in place and the process stated.

• ESG practices: Generally, it was observed that most listed investee companies endeavoured to adopt best ESG practices. Those in the plantation sector were observed to be more active in taking action to address the environmental issues. Some companies also conducted periodical audits on the environmental impacts and engaged independent ESG rating agencies.

However, practices and reporting of 'environmental' and 'social' elements can still be improved upon, as current disclosures are not clearly articulated.



Institutions must influence investee companies to integrate ESG practices in their businesses and report the actions and efforts taken including the outcome.

- Management discussion and analysis reporting: It was commented that financial reporting
  was generally good with adequate disclosures provided by investee companies. Nevertheless,
  more detailed disclosures were needed to understand some of the financials by having a more
  comprehensive explanation in the management discussion and analysis sections in annual reports.
- **Risk management and internal controls:** It was observed that sufficient information on risk management and internal controls were provided in the Annual Reports of investee companies.

#### 2.2 CG CULTURE IN INVESTEE COMPANIES

As an overall observation, the institutions were of the opinion that the CG culture in their investee companies was positive. This was likely as the filtering was done from the onset on governance matters in the universe of portfolio stocks before the investment decision making process.

Some positive behaviour observed included greater ability to access management, with more companies disclosing their performance through proper presentations at shareholders' meetings. Generally, the Chairmen of companies were well versed about their companies and were able to respond to queries posted by shareholders objectively and confidently.

One of the institutions commented that certain investee companies engaged independent assurance providers to provide independent verification on their CG practices.

Investee companies also enforced strict closed periods ahead of result announcements, where trading in those stocks were suspended ahead of such announcements as part of standard operating procedures.

Other positives in terms of culture were the effort taken by companies to ensure better disclosures as well as establishing governance processes and structures. Efforts were also taken to increase awareness in Shariah compliance requirements.

#### 2.3 CG ISSUES BASED ON TYPE OF COMPANIES

The observations of CG issues based on different types of companies in the investment portfolio of the companies institutional investors monitored were summarised as follows:-

- Family-owned companies Opaque RPTs, low dividend pay-out, dominant controlling shareholder, long tenure of directors both independent and non-independent and succession issues, lack of board diversity and excessive remuneration.
- **Professionally managed companies** Excessive and often not transparent remuneration packages for senior management. Misalignment of interests between Board and shareholders.
- Multinational companies Dominant controlling shareholders but were generally good in ESG and management practices. Lack of willingness to engage with institutional investors on governance issues, board independence and transfer pricing issues.

• State-owned companies and GLCs – State-owned companies should look into improving the quality of their leadership (senior management and directors), accountability and transparency. Institutions also raised that they would like to see greater number of professional directors on the boards. Issues with regards to commercial versus social objectives and board composition were highlighted. For GLCs, implications of golden shares were highlighted and transparency should be further improved upon.

#### 2.4 QUALITY OF DISCLOSURES

It was commented that the quality of disclosures made by investee companies with regard to adherence to the MCCG 2012 had improved over the past three years in terms of timeliness and details. The areas where companies could improve further included providing details on the financial impact and rationale of transactions. It was also observed that the comments on earnings outlook appeared too vague and general.

A comment was made regarding investee companies that they should leverage on information technology for effective dissemination of information such as for the disclosure of minutes of the AGM and the Memorandum and Articles of Association (M&A) on the company website.

Disclosures on directors' remuneration were still lacking and better disclosures were required on the offer of Employees Share Scheme (ESS) to Executive Directors and Senior Management. Broad KPIs for the CEO should be disclosed and how it was tagged to the granting of shares under the ESS.

More information and explanation were also required for the management's discussion and analysis on the Company's quarterly and annual financial performance and details in financial statements with regard to Shariah Compliance review.

#### 2.5 OVERALL GAPS AND AREAS FOR IMPROVEMENT

Although it was noted that the CG culture has improved, there was still more room for improvement in this area. Thus, more effort was needed to incorporate this positive CG culture into the whole organisation which would benefit the company by creating more ethical behaviour throughout the organisation.

Other areas for improvement include the creation of platforms to encourage better engagement with shareholders, and to be responsive to the issues highlighted by shareholders including minority shareholders.

In the area of CEO's remuneration, it was expected that the remuneration should commensurate with the performance of the company and aligned to shareholders' interests. The CEO's remuneration should also be disclosed in the Annual Report.

More detailed explanations on the rationale and impact to the company on corporate proposals undertaken should be practised. With regard to related party transactions (RPTs), any negative perceptions should be taken into account seriously and ought to take precedence over business decisions. In such cases, investee companies needed to appoint credible independent parties to evaluate the RPTs.

Another issue noted when engaging some of the investee companies was that there appeared to be a sense of fatigue or a lack of drive amongst the company's top management in developing any kind of comprehensive long-term sustainability plans for the company.

#### 3. SUMMARY OF FINDINGS

A summary of the key areas which showed progress and areas for improvement identified by our member institutional investors in their investee companies are as follows:-

KEY AREAS WHICH SHOWED PROGRESS	KEY AREAS FOR IMPROVEMENT
<ul> <li>Openness towards engagement with investors to address pressing issues</li> <li>Board composition and structure with diverse skills, background, experience, independence and gender</li> <li>Separation of the roles of Chairman and CEO</li> <li>Disclosure of board charter and code of ethics</li> <li>Greater disclosures in annual reports, RPTs, risk management framework</li> <li>More disclosure on non-financial information and outcomes of various initiatives undertaken</li> <li>Better capital structure with dividend policy in place</li> <li>Implementation of poll voting and disclosure of proxy voting information</li> </ul>	<ul> <li>Incorporating positive CG culture in investee companies</li> <li>Not all investees provided the same level of disclosure. Minimum disclosure should be prescribed.</li> <li>Quality of CG disclosures to be improved upon: <ul> <li>Diversity policy and targets</li> <li>Board remuneration and nomination policies</li> <li>Board evaluation process and criteria</li> <li>Management discussion and analysis reporting</li> <li>Broad KPIs for the CEO under ESS</li> </ul> </li> <li>In terms of financials: <ul> <li>Risk impact on financials to be clearly disclosed</li> <li>Financial impact from legal suits to be clearly highlighted</li> </ul> </li> <li>Disclosure of AGM minutes<sup>14</sup> and M&amp;A</li> <li>Clear succession plans</li> <li>More clarity in RPT reports beyond just meeting the minimum standards, including having comparable market transaction data</li> <li>Pool of independent directors available to be increased</li> <li>Improving ESG practices &amp; reporting especially on environmental and social issues</li> </ul>

<sup>14</sup> Listed companies will be required to publish of a summary of key matters discussed at AGMs onto its website for AGMs held on or after 1 July 2016 as per amendments to Bursa Malaysia Main Market Listing Requirements relating to Disclosure & Corporate Governance Requirements

#### **INFLUENCING GOVERNANCE CHANGES**

Based on observations by our members, we have found that the role undertaken as fiduciaries is well understood. This includes encouraging and influencing good governance behaviour in the investee companies for the delivery of sustainable long-term value to their ultimate beneficiaries and clients.

Actively monitoring and engaging the investee companies to promote the adoption of the CG best practices were undertaken very seriously by our member institutions.

Our institutional investors advocated continuous engagement with investee companies on a regular basis outside the AGMs/EGMs to build long-term trust with the investee companies. Corporate governance concerns were escalated through dialogues with board and management as well as attendance at general meetings. One of our member institutions conducted frequent trainings for their nominee directors on the boards of investee companies covering a spectrum of topics, including CG best practices.

There were many challenges faced in encouraging management to adopt certain CG best practices despite the size of holdings of some companies. Influencing investee companies to embrace corporate governance in substance with emphasis on conduct and practices and clearer disclosures were needed.

Given the growing importance of the sustainability agenda as a competitive strategy for long-term success, clearer guidance needs to be provided to companies on ESG practices and disclosures. In this regard, Bursa Malaysia's Sustainability Guide and Toolkits provides listed companies with guidance and practical methods to embed sustainable business strategies into the company's processes. It also provides guidance on how to assess the impact of material economic, environmental and social risks and opportunities on the business and their stakeholders, as well as to report on them in a structured manner.

## Chapter 5 -

## Strategic Priorities (2016-2020)

The pursuit of the IIC's strategic objective is ongoing and is essential to the growth of IIC's reputation and resilience. As a dedicated industry-driven umbrella body for institutional investors in Malaysia, the IIC has a crucial and important strategic role to play in promoting and influencing governance in the capital market, particularly among its investee companies.

Based on observations of the state of play of institutional investor stewardship in Malaysia, the IIC has identified six strategic priorities for implementation in the short to medium term (2016–2020). These priorities are aligned with the objectives and terms of reference instituted during the IIC's establishment in July 2015. The priorities enumerated below are indicative of the commitment institutional investors have towards enhancing governance.

Realising these ambitions requires strategic enablers. This entails the involvement of quality people who share the vision, governance structures that are agile and responsive, and an infrastructure that can facilitate and evolve according to developing strategic needs.

The securing of greater coordination and collaboration between the institutional investors, the regulators and global governance institutions are crucial to the successful implementation of the strategic priorities outlined.

#### **STRATEGIC PRIORITIES**

Enhancing Governance in the Capital Market

Promoting ESG Agenda

Advocacy Agenda

Platform for Institutional Investors

Developing the Structure and Funding of the IIC

Building Global Relationships

#### I. ENHANCING GOVERNANCE IN THE CAPITAL MARKET

Enhancing governance in the capital market through multi-stakeholders driven approach.

#### I.I ENGAGEMENTS WITH INVESTEE COMPANIES

More influence is needed to be exerted by the institutional investors on investee companies to bring about better practices. Different types of institutional investors have different roles and purpose/mandate of set-up and this would definitely influence the level of stewardship that each institution undertakes. More work and effort is required to bring engagements up to par with international institutional investors in developed countries but at the same time must be cognisant of the local operating environment and needs.

#### 1.2 COLLABORATIVE ENGAGEMENT WITH REGULATORS

Regulators such as SC, Bursa Malaysia and Bank Negara Malaysia should provide an ecosystem which encourages companies and institutional investors to publish their governance policies and an environment in which the principles of good governance thrives. Regulators should continue enforcing CG standards and capital market breaches in order to encourage market discipline, establish avenues to help institutional investors and investee companies to understand stewardship and how both parties can work together. Collaborative efforts between the IIC, the institutional investors community and regulators are required to bring the level of stewardship up to par with international practices.

## 1.3 ENGAGEMENTS WITH THE GOVERNMENT AND OTHER STAKEHOLDERS

The IIC will also engage with the Government and other stakeholders such as professional organisations and opinion leaders, as this facilitates the inclusion of institutional investors as an important stakeholder group in the design of policies. This is an efficient and effective way to influence or raise awareness on issues affecting beneficiary or client interest.

## 2. PROMOTING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AGENDA

The sustainability agenda is growing in importance in the global landscape with ESG being an important business case shaping businesses today. The Code recognises the need for institutional investors to pave the way for greater integration of sustainable strategies in their investee companies and emphasises that institutional investors should incorporate corporate governance and sustainability considerations in their investment decision–making process. This can be achieved through a two-pronged approach:-

- (i) Developing an ESG framework and policy to incorporate ESG considerations into its decision-making process. The ESG framework and policy will then have to be internalised and also cascaded to the external fund managers through the investment mandates.
- (ii) Advocating ESG issues during engagements with investee companies and encouraging investee companies to adopt sustainability practices and making adequate disclosures. Bursa Malaysia's Sustainability Reporting Guide and Toolkits can serve as a guide for such purposes for listed companies.

#### 3. ADVOCACY AGENDA

The IIC is committed to encouraging institutional investors to becoming signatories of the Code to enhance the level of investor stewardship in Malaysia. Strategies to achieve this goal include:-

- (i) Undertaking focus group sessions with the institutional investors to promote the adoption of the Code.
- (ii) Creating and developing an IIC website as an important communication tool to disseminate information on the Code and institutional investor matters.

It is hoped that these advocacy efforts will bear fruit and the IIC will continue to monitor the level of adoption and implementation of the Code.

#### 4. PLATFORM FOR INSTITUTIONAL INVESTORS

The IIC is envisaged to become an important platform for discussion on common issues and challenges affecting institutional investors in various areas, for example, governance issues, market issues (e.g. liquidity issues) and broader industry issues (e.g. skill sets, talent management). In this regard, it is expected to be an effective platform for institutional investors in Malaysia to share experiences and exchange views.

This can be facilitated through development of infrastructure such as an online discussion platform or forums through which institutional investors can discuss governance and wider market issues. This also includes undertaking research on relevant topics and governance trends which would be beneficial to its members.

The IIC can also be a platform for collective engagement with other investors where appropriate, with due regard given to rules relating to such engagements.

#### 5. DEVELOPING THE STRUCTURE AND FUNDING OF THE IIC

Currently the IIC is not a corporate entity, and is made up of members comprising asset owners, asset managers, industry associations and other stakeholders. The Secretariat Office is currently funded by the Capital Market Development Fund until end 2016.

There are various models in different jurisdictions on the types of entities which undertake the monitoring of stewardship activities in their markets. In the UK, the monitoring of stewardship developments and the take-up and application of the UK Stewardship Code are undertaken by the FRC. The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC is accountable to Parliament and its wide range of stakeholders, and is funded through a collection of annual pension levy, insurance levy and preparers levy on organisations that are subject to, or have regard to, FRC regulatory requirements in preparing their accounts.<sup>15</sup>

In Australia, the Australian Council of Superannuation Investors (ACSI) provides independent research and advice to assist its member superannuation funds in managing environmental, social and corporate governance investment risks. ACSI's members currently represent more than AUD\$400 billion in funds under management and eight million superannuation fund members. The ACSI has a Board which charts the future direction of ACSI, oversees the finances and regulatory requirements, and appoints and reviews the performance of the CEO. They also have a Member Council which establishes the strategic direction of ACSI and serves as the policy making body of ACSI. ACSI became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in October 2006. ACSI is financed and governed by its member funds with the sole aim of assisting them in managing their ESG investment risks. Membership of ACSI is open to Australian profit-for- members superannuation funds and to international asset owners.<sup>16</sup>

In the US, the Council of Institutional Investors (CII) is a non-profit association of pension funds, other employee benefit funds, endowments and foundations which is a leading voice for effective corporate governance and shareowners rights. The CII is governed by a volunteer board of directors who represent independent persons from the public, union and corporate employee benefit funds across the country. Its members are made-up of voting and non-voting members. CII's voting members include more than 120 pension and other benefit funds with US\$3 trillion in combined assets under management. CII also has more than 140 non-voting members, whose ranks include more than 50 of the largest U.S. and non-U.S. asset managers, with combined assets in excess of US\$20 trillion. Other non-voting members include top law firms and other service providers. There are two types of membership, namely General Members or Associate Members where the annual fees will be charged based on asset under management (for General Members) or based on size of organisation (for Associate Members).<sup>17</sup>

The IIC in Malaysia will undertake a comprehensive study to consider the most appropriate legal and funding structure of the IIC to ensure its sustainability. Nevertheless, it is envisaged that the IIC will be an industry-led body representing institutional investors in Malaysia which is expected to be largely funded through subscriptions from members.

#### 6. BUILDING GLOBAL RELATIONSHIPS

The IIC will look into building relationship with similar global institutions particularly knowledge sharing in governance and institutional stewardship issues. Strategic partnership or alliances at various global and regional levels will need to take into account the needs and types of its members. Members will have the opportunity to network and learn from each other.

#### **MOVING FORWARD**

The IIC will facilitate the formation of working groups to further develop the specific action plans for these priorities to be implemented over the next five years and monitor the progress of implementation. In order to assure successful implementation of its strategic priorities it will endeavour to secure the collective commitment of institutional investors and support from the regulators and stakeholders in the whole investment chain and governance ecosystem.

## Highlights



Launch of the Malaysian Code for Institutional Investors by the Securities Commission Malaysia (SC) and Minority Shareholder Watchdog Group (MSWG) on 27 June 2014

From left: Dato' Wan Kamaruzaman Wan Ahmad, Chief Executive Officer, Kumpulan Wang Persaraaan (KWAP); Datin Paduka Kartini Hj Abdul Manaf, Deputy President, Group Corporate and Human Capital Development, Permodalan Nasional Berhad (PNB); Datuk Shahril Ridza Ridzuan, Chief Executive Officer, Employees Provident Fund (EPF); Tan Sri Dato' Seri Lodin Wok Kamaruddin, Chief Executive Officer, Lembaga Tabung Angkatan Tentera (LTAT); Tan Sri Dato' Seri Ranjit Ajit Singh, Chairman, Securities Commission Malaysia (SC); Tan Sri Sulaiman Mahbob, Chairman, Minority Shareholder Watchdog Group (MSWG); Datuk Dr Nik Ramlah Mahmood, SC Deputy Chief Executive; Rita Benoy Bushon; Chief Executive Officer, MSWG



#### Institutional Investors Malaysia Council Members

Standing from left: Gerald Ambrose, Chief Executive Officer, Aberdeen Islamic Asset Management Sdn Bhd; Nazaruddin Othman, Chief Executive Officer, Federation of Investment Managers Malaysia (FIMM); Mohd Rosdi Mat Yasin, Social Security Organisation (SOCSO) (representing Dato' Dr. Mohammed Azman bin Dato' Aziz Mohammed, Chief Executive, SOCSO); Dr Hans-Christoph Hirt, Director, Hermes Investment Management; Sairu Banu Chara Din, Lembaga Tabung Angkatan Tentera (LTAT) (representing Datuk Zakaria Sharif, Deputy Chief Executive, LTAT); Toi See Jong, President, Life Insurance Association of Malaysia (LIAM)

Seating from left: Jiv Sammanthan, Executive Director, Khazanah Nasional Berhad; Dato' Mohamad Nasir Ab Latif, Deputy Chief Executive Officer (Investment), Employees Provident Fund (EPF); Rita Benoy Bushon; Chief Executive Officer, MSWG; Dato' Wan Kamaruzaman Wan Ahmad, Chief Executive Officer, Kumpulan Wang Persaraaan (KWAP)(Chairman of IIC); Dato' Steve Ong, Chief Executive Officer, Private Pension Administrator (PPA); Azli Munani, Malaysian Takaful Association (MTA)(representing Muhammad Fikri Mohamad Rawi, Deputy Chairman, MTA)

Not in picture: Dato' Johan Abdullah, Group Managing Director and Chief Executive Officer, Lembaga Tabung Haji (LTH); Datin Paduka Kartini Hj Abdul Manaf, Deputy President, Group Corporate and Human Capital Development, Permodalan Nasional Berhad (PNB); Sharifatu Laila Syed Ali, Group Chief Executive Officer, ValueCAP Sdn Bhd



Kumpulan Wang Persaraan (Diperbadankan) (KWAP) became the first local asset owner to become a signatory to the Malaysian Code for Institutional Investors on 19 October 2015

From left: Rita Benoy Bushon, Chief Executive Officer, MSWG; Dato' Wan Kamaruzaman Wan Ahmad, Chief Executive Officer, Kumpulan Wang Persaraaan (Diperbadankan) (KWAP)



ValueCAP Sdn Bhd became the second local asset owner to become a signatory to the Malaysian Code for Institutional Investors on 8 December 2015

From left: Sharifatu Laila Syed Ali, Group Chief Executive Officer, ValueCAP Sdn Bhd (ValueCAP); Rita Benoy Bushon; Chief Executive Officer, MSWG; Dato' Hamzah Bakar, Chairman, ValueCAP



# Group photo of speakers and panelists with YB Senator Dato' Sri Abdul Wahid Omar at the MSWG-IIC Governance Week 2016 – "Stewardship Matters For Long-Term Sustainability" from 30 March to 1 April 2016

Standing from left: Ricardo Jacinto, CEO, Philippine Institute of Corporate Directors; Chandran Nair, Founder and Chief Executive, Global Institute for Tomorrow; Dr James Simanjuntak, Member, Board of Trustee, Indonesian Institute of Corporate Directors; Dr Hans Christoph-Hirt, Executive Director, Hermes Investment Management; Dato' Wan Kamaruzaman Wan Ahmad, CEO, KWAP and Chairman, IIC; Fatimah Merican, 30 % Club; Lya Rahman, General Manager, Corporate Services, MSWG; Sharifatu Laila Syed Ali, Group CEO, ValueCAP Sdn Bhd; Benjamin McCarron, Independent ESG Specialist

Seating from left: Kerrie Waring, Executive Director, International Corporate Governance Network (ICGN); Dato' Sri Mohd Nazir bin Tun Abdul Razak, Group Chairman, CIMB Group Holdings Berhad; YB Senator Dato' Sri Abdul Wahid bin Omar, Minister in the Prime Minister's Department; Tan Sri Sulaiman Mahbob, Chairman, MSWG; Rita Benoy Bushon, CEO, MSWG; Dr Hien Thu Nguyen, Vice Dean, School of Industrial Management, Vietnam National University of Ho Chi Minh

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# Glossary

Aberdeen Asset Management Sdn Bhd

ACSI Australian Council of Superannuation Investors

AGM Annual General Meeting

ASEAN Association of Southeast Asian Nations

CEO Chief Executive Officer
CG Corporate Governance
CIO Chief Investment Officer

Code Malaysian Code for Institutional Investors

IIC Institutional Investor Council Malaysia

CRISA Code for Responsible Investing in South Africa

**EFMs** External Fund Managers

EGM Extraordinary General Meeting

**EPF** Employees Provident Fund

ESG Environmental, Social and Governance

ESS Employee Share Scheme

FRC Financial Reporting Council (United Kingdom)

G20 International forum for the governments and central

bank governors from 20 major economies.

The members include 19 individual countries—

Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea,

Mexico, Russia, Saudi Arabia, South Africa, Turkey,

the United Kingdom and the United States along with the European Union.

# Glossary

**GLCT GLC Transformation** 

GLICs Government-Linked Investment companies

GLCs Government -Linked companies

ICGN International Corporate Governance Network

INED Independent Non-Executive Directors

Khazanah Khazanah Nasional Berhad
KPI Key Performance Indicator

KWAP Kumpulan Wang Persaraan (Diperbadankan)

LTH Lembaga Tabung Haji

MCCG 2012 Malaysian Code on Corporate Governance 2012

M&A Memorandum and Articles of Association

MSWG Minority Shareholder Watchdog Group

OECD Organisation for Economic Co-operation and Development

PNB Permodalan Nasional Berhad
RPT Related Party Transactions

SOCSO Social Security Organisation

SC Securities Commission Malaysia

SOP Standard Operating Procedure

UK United Kingdom

UNPRI United Nations Principles for Responsible Investment

## Acknowledgement

The IIC would like to thank and acknowledge the following Working Group members led by Puan Rita Benoy Bushon, Head of Secretariat and Working Committee Chair for their contributions and feedback in this Report:

- Puan Rita Benoy Bushon (Chairman)
- Mr Gerald Ambrose, Chief Executive Officer, Aberdeen Islamic Asset Management Sdn Bhd
- Dr Hans-Christoph Hirt, Director, Hermes Investment Management
- Encik Nor Azam Yahya, Head of Research, Employees Provident Fund
- **Encik Azhar Abdul Latif**, Senior Manager, Equity Research Department, Employees Provident Fund
- Ms Koh Hwee Ngim, General Manager, Industry Division, Federation of Investment Managers
   Malaysia
- Puan Suhana Dewi Selamat, Director of Investments, Khazanah Nasional Berhad
- Puan Maslina Mansor, Vice President, Managing Director's Office, Khazanah Nasional Berhad
- **Encik Ismail Zakaria**, Director, Corporate Strategy & Performance Dept, Kumpulan Wang Persaraan (Diperbadankan)
- Encik Rizal Mohamed Ali, Vice President, Corporate Strategy & Performance Dept, Kumpulan
   Wang Persaraan (Diperbadankan)
- Encik Ahmad Suhaimee Ismail, Head Equity Portfolio Management, Lembaga Tabung Haji
- Encik Mohamad Idros bin Mosin, Vice President, Office of President & GCE, Permodalan
   Nasional Bhd
- Puan Amizar binti Mizuar, Vice President, Corporate Finance Department, Permodalan Nasional Bhd
- Dr Suzana Idayu Wati bt Osman, Chief Investment Officer, Social Security Organisation
- Puan Noraida Maria Mohd Hatta, Associate, Minority Shareholder Watchdog Group (Secretariat)

# **Appendices**

Appendix I(a) : KEY INFORMATION ON INSTITUTIONAL INVESTORS

Appendix I(b) : GOVERNING STRUCTURE OF INSTITUTIONAL INVESTORS

- EMPLOYEES PROVIDENT FUND

- PERMODALAN NASIONAL BERHAD

- KHAZANAH NASIONAL BERHAD

- KUMPULAN WANG PERSARAAN (DIPERBADANKAN)

- LEMBAGA TABUNG HAJI

- SOCIAL SECURITY ORGANISATION

- ABERDEEN ASSET MANAGEMENT

Appendix 2 : INSTITUTIONAL INVESTOR COUNCIL MALAYSIA MEMBERS

Appendix 3(a) : QUESTIONNAIRE ON STEWARDSHIP AND ENGAGEMENT

Appendix 3(b) : QUESTIONNAIRE ON OBSERVATIONS ON THE CG OF INVESTEE

**COMPANIES** 

# Appendix I(a) Key Information on Institutional Investors

As at 31 Dec 2015	EPF	PNB	Khazanah	KWAP	LTH	socso	Aberdeen	Total
Total fund size (RM Billion)	685	268	150	118	63	24	13	1,321
Total fund size in domestic equities (RM Billion)	158	188	117	39	16	3	3	524
No. of listed investee companies in Malaysia	256	100	9	113	III	46	48	
Active monitoring of listed investee companies in Malaysia	113	100	9	113	III	46	46	
Domestic External Equity fund managers - in number	15	5	Nil	15	5	6	Nil	
- market value (RM Billion)	15.5	1.8	NA	6.47	0.5	1.7	NA	
Signatory to the Malaysian Code for Institutional Investors				V			V	
Stewardship Policy/CG Voting Guidelines	√	√	V	$\checkmark$	√	No formal policy	$\sqrt{}$	
Total no. of AGMs/EGMs attended	160	115	12	137	86	-	35	
% of AGMs/EGMs attended	100%	85.5%	100%	Almost 100%	77%	-	73%	
No. of other engagements with investee companies (e.g.analyst briefings/ meetings)	>1700	321	Not applicable	1,243	123	90	94	
Reporting of stewardship/ engagementactivities in annual report/ website	√	√	V	V	√	√	V	

Source: Information provided by the respective institutional investors

## Appendix I(b)

**Governing Structure of Institutional Investors** 

#### EMPLOYEES PROVIDENT FUND



#### **Profile**

The Employees Provident Fund (EPF), established in 1951, is one of the oldest and largest retirement funds in the world. EPF's mandate is not just to preserve but also grow members' assets. As at 31 December 2015, total investment assets stood at RM684.53 billion. Guided by stringent investment policies, the EPF invest its assets into a portfolio of safe yet, relatively high-yielding instruments. Its diverse asset classes comprise government bonds and securities, balanced by investments in equities, money market instruments and real estate and infrastructure. The EPF is based on a defined contribution model where both employees and employers contribute a fixed percentage of the employees' monthly salary into the employee's (member's) account.

#### **Board and Investment Panel**

Members of the Board and the Investment Panel, as well as the Chief Executive Officer (CEO), are appointed by the Minister of Finance. The EPF Act 1991 dictates that its Board membership should not be more than 20 persons, inclusive of the Chairman and CEO. In 2015, there were 18 members on the EPF Board representing various stakeholders which include:

- (i) The Chairman
- (ii) Five members representing the Government, including a representative of the Ministry of Finance as Deputy Chairman
- (iii) Four members representing Employers
- (iv) Four members representing Employees
- (v) Three professional members from various backgrounds
- (vi) The CEO as an ex-officio member

The EPF Act 1991 provides for the establishment of an Investment Panel to provide strategic direction on investment related issues. The Investment Panel determines and approves investment activities in line with existing guidelines, policies on risk control and asset allocation. The Investment Panel, headed by the Chairman of the EPF Board, comprises seven members:

- (i) The Chairman
- (ii) One representative from the Ministry of Finance as Deputy Chairman
- (iii) One representative from Bank Negara
- (iv) Three professional members
- (v) The CEO as an ex-officio member

#### Stewardship Policy/Guidelines

The EPF corporate governance standards are drawn from various best practices, particularly from the following references:

- (i) Malaysian Code on Corporate Governance
- (ii) CG Guide: Towards Boardroom Excellence by Bursa Malaysia
- (iii) Malaysian Code for Institutional Investors 2014

The EPF has developed and published its Corporate Governance Principles and Voting Guidelines in 2010. The updated version of the EPF Corporate Governance Principles and Voting Guidelines was made in 2014 and amendments to the voting guidelines in 2016. Voting decisions are made based on the EPF Voting Guidelines and with consideration of individual companies' unique attributes.

For the full version of the booklet on EPF CORPORATE GOVERNANCE PRINCIPLES AND VOTING GUIDELINES 2014 please visit:

http://www.kwsp.gov.my/portal/documents/1018 0/181298/Corporate\_Governance.pdf

For a summary of the revised EPF VOTING GUIDELINES 2016 please visit:

http://www.kwsp.gov.my/portal/documents/1018 0/5791298/VOTING\_GUIDEL-NES\_2016\_\_i\_\_25042 016.pdf

#### PERMODALAN NASIONAL BERHAD



#### **Profile**

Established and set up by Yayasan Pelaburan Bumiputera ("YPB") on March 17, 1978 Permodalan Nasional Berhad ("PNB") is one of the vehicles under the New Economic Policy, with its founding mandate to address the problem of socio-economic disparity between the different ethnic groups in Malaysia via:

- Restructuring of economic imbalance by promoting the ownership of share capital by the Bumiputera community in the corporate sector in Malaysia.
- Mobilising the savings of the people, especially the Bumiputera community, through unit trust funds in order to ensure the sharing and distribution of economic wealth ("National Agenda").

In line with the mandate above, the business operations and corporate responsibility activities of PNB, including corporate governance and stewardship activities, are designed and implemented towards promoting the said National Agenda.

In order to mobilise savings of the public, Amanah Saham Nasional Berhad (ASNB), a wholly-owned subsidiary of PNB, was incorporated on May 22, 1979 as a Unit Trust Management Company ("UTMC") to undertake the marketing and distribution of unit trust funds under the management of PNB. As at December 31, 2015, PNB has amassed more than 12.6 million unit trust accounts, with total units in circulation of more than RM209.8 billion. Through the savings mobilised via the unit trust funds, PNB has managed to acquire shares in sound companies with good growth and returns potential, subsequently fostering greater involvement of the public in the ownership of the corporate sector. Collectively over the past three decades, a total of RM143.6 billion worth of income had been distributed to all unit holders.

#### Governance

PNB was incorporated as a public company under the Companies Act 1965. It holds a Capital Markets Services License from the Securities Commission Malaysia ("SC") for fund management activities, which is a regulated activity under the Capital Markets and Services Act 2007 ("CMSA"). ASNB is also a licensed UTMC under the CMSA.

PNB is governed and guided by its Board of Directors. Checks and balances are provided in the form of various committees established by the Board such as:

- (i) Investment Committee
- (ii) Risk Management Committee
- (iii) Compliance Committee
- (iv) Audit Committee
- (v) Tender Committee
- (vi) Syariah Advisory Board
- (vii) Nomination Committee
- (viii) Establishment Committee

#### Stewardship

As the custodian for the wealth of the abovementioned unit trust accounts, PNB has always placed utmost priority on safeguarding the value of these investments, and have employed best practices in being a responsible shareholder of the companies in which it invests. To this end, PNB ensures that robust stewardship practices are implemented across its investment value chain, which includes investment decision, monitoring, communication and voting to create and extract value to its unit holders. The said practices are applied consistently, across the relevant investment functions.

PNB has developed its own Voting Guidelines and policy on the appointment and re-election of Directors. The abovementioned guidelines and policy were continuously improved by drawing from various best practices, including:

- (i) Enhancing Board Effectiveness ("Green Book") by Putrajaya Committee of GLC High Performance 2006
- (ii) Malaysian Code on Corporate Governance 2012
- (iii) Malaysian Code for Institutional Investors 2014

#### KHAZANAH NASIONAL BERHAD



#### **Profile**

Khazanah Nasional Berhad (Khazanah) is the strategic investment fund of the Government of Malaysia. Khazanah was incorporated under the Companies Act 1965 in Malaysia on 3 September 1993 as a public limited company and commenced operations a year later. Khazanah is owned by the Minister of Finance Incorporated, except for one share held by the Federal Land Commissioner.

Khazanah is a strategic investment house that creates sustainable value for a globally competitive Malaysia and plays a catalytic role in driving various strategic industries and national initiatives. This ranges from its role as the Secretariat to the Putrajaya Committee on GLC High Performance (PCG), coordinating the successful implementation and achievements of the 10-year GLC Transformation Programme, to making strategic investments in new sectors and geographies that are deemed important to Malaysia's future, and includes proactive management of existing investments. Khazanah is also involved in the active development of human, social and knowledge capital for the country.

#### Board of Directors and Senior Management

The Board of Directors comprises representatives from the Government and the corporate sector with diverse professional backgrounds and expertise. Dato' Sri Mohd Najib Tun Abdul Razak, the Prime Minister of Malaysia and Minister of Finance, is the Chairman. The Senior Leadership Team is collectively responsible for implementing and delivering on Khazanah's strategic and commercial objectives. The 19-member team is led by Tan Sri Dato' Azman Hj Mokhtar, who has served as Managing Director since June 2004. The Senior Leadership Team is part of the larger Strategic Planning Group, comprising about 100 senior staff from Senior Vice Presidents to Executive Directors.

#### Stewardship Policy/Guidelines

Khazanah has a Five-Point Engagement Framework that guides the collaborative investment approach with its investee companies, which is in line with the Green Book issued by the Putrajaya Committee on GLC High Performance (http://www.pcg.gov.my/trans\_manual.asp). The five points highlighted in the Framework are leadership bench, strategy, systems and controls, performance monitoring and industry structure.

As an active shareholder, Khazanah helps to ensure that there is strong and capable leadership within each investee company that will execute the appropriate business strategies. Khazanah works with them to implement key systems and controls such as governance and risk management frameworks and talent and performance management systems.

The development of regulatory structures and competitive environments is also contributed to, while promoting collaborations and synergies between investee companies.

This framework helps Khazanah monitor the progress of the companies while empowering them to become high-performing entities.

#### KUMPULAN WANG PERSARAAN (DIPERBADANKAN)



#### **Profile**

Kumpulan Wang Persaraan (Diperbadankan) (KWAP) was established on 1 March 2007 under the Retirement Fund Act 2007 (Act 662) ("the Act") replacing the repealed Pensions Trust Fund Act 1991 (Act 454). KWAP's primary responsibility is to manage and grow the RetirementFund which was established by the Federal Government in 1991 for the purpose of funding the public sector's pension liability. In November 2015, KWAP expanded its role ensuing from the takeover of selected functions of Post-Service Division of Public Service Department which are members administration, benefits processing and pension payment.

The Federal Government contributes 5% of the total annual budgeted emolument of the Federal Government employees while statutory bodies, local authorities and agencies contribute 17.5% of the basic salaries of their pensionable employees to KWAP on a monthly basis. The Retirement Fund is invested in asset classes in accordance with KWAP's Strategic Asset Allocation and Investment Policy & Guidelines which were approved by KWAP's Board and the Investment Panel.

#### **Board and Investment Panel**

As specified by Section 6 of the Act, KWAP's Board shall consist of the following members that shall be appointed by the Minister of Finance:

- (i) A Chairman who shall be the Secretary General of Treasury, the Ministry of Finance
- (ii) A representative from Bank Negara Malaysia
- (iii) A representative from the Ministry of Finance
- (iv) The Chief Executive Officer who shall be an ex-officio member
- (v) Three (3) representatives of the Government of Malaysia
- (vi) Three (3) other persons from private sector with experience and expertise in business or finance
- (vii) A representative of the contributories to the Retirement Fund other than the representative of the Government of Malaysia.

The Act also requires the establishment of an Investment Panel to provide strategic directions on investment matters. The Investment Panel shall consist of the following members who shall be appointed by the Minister of Finance:

- (i) A Chairman who shall be the Chairman of the Board or such other person as may be appointed by the Minister of Finance
- (ii) A representative from the Ministry of Finance
- (iii) The Chief Executive Officer of KWAP who shall be the secretary
- (iv) Four (4) other persons from the public or private sector with experience and expertise in business, investment, banking or finance.

#### Stewardship Policy/Guidelines

KWAP's corporate governance standards are drawn from various best practices, such as:

- (i) Malaysian Code on Corporate Governance
- (ii) Bursa Malaysia's CG Guide: Towards Boardroom Excellence
- (iii) Malaysian Code for Institutional Investors 2014

Since incorporation, KWAP has refrained from investing in alcohol, gaming and companies principally involved in armaments for military purposes. This is reflected in KWAP's Investment Policy & Guidelines.

As a responsible investor, KWAP depicts its effort in promoting good corporate governance via the publication of KWAP's Corporate Governance and Voting Guidelines ("the Guidelines") which was first released in 2011 and was revised in 2014. The Guidelines set out recommended corporate governance practices for entities that KWAP has interest in and guidance on its votings at AGMs/EGMs.

For the full version of the Guidelines, please visit:

 $http://www.kwap.gov.my/EN/Aboutkwap/Corporate/CorporateGovernance/Documents/CGPVG\_V2.pdf$ 

#### **LEMBAGA TABUNG HAJI**



#### **Profile**

Lembaga Tabung Haji – **TH** (Pilgrims Fund Board) was established in 1963 as a premiere economic-based Islamic financial institution inspired with a realization to help provide investment services and opportunities while managing pilgrimage activities for the Malaysian Muslim community. In addition to managing pilgrimage activities, **TH** operates as an alternative institutional body providing investment opportunities for Islamic depositors to save and invest in accordance to Islamic principles. Depositors' money is invested in selected investment establishments spread across a diverse range of investment portfolios based strictly on Shariah principles to preserve the purity and integrity of profits derived which is free from "riba" elements and to avoid trading in prohibited 'haram' products. The main objective of the investment is to generate competitive returns in line with appropriate levels of risk and to preserve the capital invested.

#### **Board and Investment Panel**

The appointment of the Board of Directors of **TH** (the Board) is in accordance to the guidelines stipulated under Section 6 of Tabung Haji Act 1995 (Act 535).

The Board comprises of a Chairman and not more than nine other members of the Board. The Chairman and not more than seven members of the Board are appointed by the Minister from the Prime Minister's Department (Minister) while the remaining two are representatives from the Prime Minister's Department and the Ministry of Finance. Members of the Board must be Muslim Malaysian citizens with vast experience in diverse areas including finance, economy, accounting, public administration and law. One of the members shall be appointed by the Minister as Group Managing Director and Chief Executive Officer who is responsible in managing **TH** and carrying out objectives as stipulated under Section 12 of Act 535. Other Members of the Board are Independent Non-Executive Directors.

As stipulated in Section II of Act 535, several Committees have been established to assist the Board in performing its functions and to ensure the implementation of sound corporate governance practices.

Each Committee is responsible to perform their duties according to the set terms of reference and these are reviewed from time to time to ensure that they are relevant and updated. Several committees were also set up without the participation of the Board of Directors to further enhance the effectiveness of **TH**'s managementand operations. This includes Investment Panel which the main objective is to advise the Board in assessing and recommending any viable investment proposals for **TH** prior submission to the Minister for approval.

The Investment Panel members consist of a Bank Negara Malaysia representative or a professional from the financial sector, a Shariah expert and not more than five other knowledgeable and experienced members. An Investment Panel member is appointed for a period of two years and is eligible for reappointment. The Investment Panel will meet at least six times a year. The quorum for each meeting is four members. The Investment Panel also advises **TH** Management on internal control effectiveness of investment-related matters in an effort to increase **TH**'s investment value and to ensure favourable and competitive returns.

Investment activities are implemented via a thorough process of approvals. All prospective proposals must go through the Risk Management Division, Portfolio Review Committee and subsequently to the Investment Panel for its views and advices before presenting them to the Board for initial approval. Consequently the proposed investments will be tabled to the Minister for final approval.

#### Stewardship Policy/Guidelines

The Board of Directors of **TH** (the Board) has given full attention and commitment to ensure effective applications of corporate governance are adhered to the highest standards and are in line with the governance practices incorporated in Tabung Haji Act 1995 (Act 535) and Corporate Governance Best Practice Principles as outlined in the Principles of the Malaysian Code of Corporate Governance.

#### SOCIAL SECURITY ORGANISATION



#### **Profile**

The Social Security Organisation (SOCSO) was established as one of the government departments under the Human Resources Ministry to administer, implement and enforce the Employees' Social Security Act 1969 and the Employees' Social Security Regulations (General) 1971. On 1 July 1985, SOCSO's status was changed to a Statutory Body and since 1 January 1992, SOCSO has implemented its own remuneration system known as Sistem Saraan Baru PERKESO (SSBP).

The main function is to ensure that employers and employees who are eligible under the Employees' Social Security Act 1969 are registered and contributing. Secondly to provide social security protection for workers and their dependents through the Employment Injury Scheme and Invalidity Scheme.

To grow its capital, SOCSO invests part of its assets in equities, fixed income and properties. In managing its internal equity investments, SOCSO adopts a buy and hold investment strategy where the equity portfolio is constructed to balance capital gains and dividend income. Companies with a healthy cash flow, high dividend pay-out policy and transparent corporate governance with a good business model which is defendable in most economic scenario are prioritised.

#### **Board and Investment Panel**

Members of the Board and the Investment Panel, as well as the Chief Executive Officer (CEO), are appointed by the Minister of Human Resources. In 2015, there were 16 members on the SOCSO Board representing various stakeholders which include:

- (i) The Chairman
- (ii) The CEO as an ex-officio member
- (iii) Three members representing the Government
- (iv) Four members representing Employers
- (v) Four members representing Insured Persons
- (vi) Three persons with experience in social security

The Employees' Social Security Act 1969 provides for the establishment of an Investment Panel to provide strategic direction on investment related issues. The Investment Panel determines and approves investment activities in line with existing guidelines, policies on risk control and asset allocation. The Investment Panel, headed by the Chairman of the SOCSO Board, comprises eight members:

- (i) The Chairman
- (ii) The CEO as an ex-officio member
- (iii) One representative from the Ministry of Finance
- (iv) One representative from Bank Negara (subject to further changes)
- (v) Two members with business and financial experience
- (vi) One member representing Employers
- (vii) One member representing Insured Persons

#### Stewardship Policy/Guidelines

The SOCSO corporate governance standards are drawn from various best practices, particularly from the following references:

- (i) Malaysian Code on Corporate Governance
- (ii) CG Guide: Towards Boardroom Excellence by Bursa Malaysia
- (iii) Malaysian Code for Institutional Investors 2014

The investment of the Fund is based on SOCSO's Investment Policy and Guidelines which is approved by the Ministry of Human Resources and Ministry of Finance.

#### ABERDEEN ASSET MANAGEMENT



#### **Profile**

Aberdeen Asset Management plc is a UK-listed company engaged solely in fund management for clients, both institutional and retail/wholesale. Aberdeen Asset Management Sdn Bhd (AAMSB) was the first fund manager wholly-owned by a foreign party to be licensed as a fund manager by the Securities Commission Malaysia in 2005 under the National Economic Action Council's (NEAC) special scheme. Its subsidiary, Aberdeen Islamic Asset Management Sdn Bhd, was licensed as an Islamic Fund Manager in 2009. Across all investment strategies, Aberdeen's investment process is based on fundamental research, transparency, simplicity and a collegiate approach. Staff core values are based on ambition, quality, teamwork, integrity and challenge.

#### Members of the Board

The Aberdeen Asset Management PLC Board comprises 13 members, namely the Chairman, five internal directors holding executive positions and seven Non-Executive Directors.

The Board has overall responsibility for the Group's strategy, including the setting of goals, objectives and budgets, as well as reviewing the Group's overall business and related matters including risk management, ensuring that internal controls are in place to manage all risks that can threaten the Company – business, operational, reputational, financial and compliance risks.

#### **Group Management Board**

The Group is run day to day by a Group Management Board (GMB) which reports to the Board of Directors of the quoted company. The GMB meets and sets the strategic direction of the business. Its members consist of the heads of the main operating units, namely: the CEO, Deputy CEO, Finance Director, Managing Director – Asia, Group Head of Risk, COO and Chief Technology.

Officer, Global Head of Aberdeen Solutions, Global Head of Fixed Income, Group Head of Equities, Global Head of Property, Global Head of Investment Solutions, Global Head of Quantitative Investments, General Counsel / Deputy Group Head of Risk; Global Head of Human Resources, Group Head of Product, Global Head of Investment Execution, Co-Head of Americas, Deputy Finance Director and Head of Aberdeen Digital. Below the GMB there are a number of senior executives in charge of national/regional functional areas and/or with executive responsibilities (such as running local offices).

#### Stewardship Policy/Guidelines

Aberdeen actively considers its obligations of ownership and stewardship on behalf of clients. With low turnover across our investment approaches, we prefer to hold our investments in companies for the long term and we are committed to performing the stewardship role actively to support the creation of long-term value by those investments. Aberdeen is committed to exercising responsible ownership with a convictionthat companies adopting best practices in corporate governance will be more successful in their core activities and deliver enhanced returns to shareholders. Aberdeen is a signatory to the International Corporate Governance Network (ICGN) and the Malaysian Institutional Investor Council and is an active member of the Asian Corporate Governance Association (ACGA).

Please refer to the following link for our statement in this regard: http://www.aberdeen-asset.com/doc.nsf/Lit/LegalDocumentation-GroupOtherStewardshipCodes



## Appendix 2

### Institutional Investor Council Malaysia Members

#### INSTITUTIONAL INVESTOR COUNCIL MALAYSIA MEMBERS

#### INSTITUTIONAL INVESTOR COUNCIL MALAYSIA

#### YBhg Dato' Wan Kamaruzaman bin Wan Ahmad

Chief Executive Officer Kumpulan Wang Persaraan (Diperbadankan) Chairman

#### Puan Rita Benoy Bushon

Chief Executive Officer Minority Shareholder Watchdog Group Head of Secretariat/Council Member

#### YBhg Dato' Mohamad Nasir Ab. Latif

Deputy Chief Executive Officer (Investment) Employees Provident Fund

#### YBhg Datin Paduka Kartini bt Haji Abdul Manaf

Deputy President, Group Corporate and Human Capital Development Permodalan Nasional Berhad

YBhg Dato' Johan Abdullah Group Managing Director and Chief Executive Officer Lembaga Tabung Haji

YBhg Datuk Zakaria Sharif Deputy Chief Executive Lembaga Tabung Angkatan Tentera

#### YBhg Dato' Dr. Mohammed Azman bin Dato' Aziz Mohammed

Chief Executive Social Security Organisation

#### Mr Jiv Sammanthan

Executive Director, Managing Director's Office Khazanah Nasional Berhad

#### Mr Gerald Ambrose

**Chief Executive Officer** 

Aberdeen Islamic Asset Management Sdn Bhd

#### **Dr Hans-Christoph Hirt**

Director

Hermes Investment Management

#### Encik Muhammad Fikri Mohamad Rawi

Deputy Chairman

Malaysian Takaful Association

#### Mr Toi See Jong

President

Life Insurance Association of Malaysia

#### Encik Nazaruddin Othman

**Chief Executive Officer** 

Federation of Investment Managers Malaysia

#### YBhg Dato' Steve Ong

Chief Executive Officer

**Private Pension Administrator** 

#### Puan Sharifatu Laila Syed Ali

Group Chief Executive Officer

ValueCAP Sdn Bhd

### Appendix 3(a)

Questionnaire on Stewardship and Engagement

#### QUESTIONNAIRE ON STEWARDSHIP AND ENGAGEMENT

#### NAME OF INSTITUTION:

 $Kindly\ complete\ the\ following\ sections\ where\ relevant/applicable.$ 

PART A: STEWARDSHIP POLICY IN YOUR ORGANISATION	Remarks/Guidance
I. Does your organisation have a stewardship policy/guidelines?	<ul> <li>i. Details of stewardship policy particularly relating to investee companies</li> <li>ii. The full policy can be appended with your response</li> </ul>
2. What is the level of application since the establishment of the stewardship policy? Does your policy take into account the principles espoused in the Malaysian Code for Institutional Investors (Code)?	
3. What are the three (3) biggest issues/challenges in applying the stewardship policy?	<ul><li>Internal challenges</li><li>External challenges</li></ul>
4. How do you cascade your stewardship policies to your internal investment division (up to the trading floor)?	Please state if you do not have such policy.
5. How do you cascade your stewardship policy to your external managers?	
6. Does your investment mandate for external fund managers (EFMs) include any clause on governance requirement? (e.g. to include ESG as part of the company evaluation process)	Are your EFMs required to perform shareholder activism?  e.g.: To attend AGMs, report to you on their engagement activities?

PART B: ENGAGEMENT WITH INVESTEE COMPANIES	Remarks/Guidance
- What is your engagement strategy with your investee companies?	Please provide a summary of your engagement strategy and engagement process/practices.
- How do you select investee companies to be engaged?	Example: using certain criteria/framework
- Do you report your engagement activities in your annual report/website?	
- Do you cover all aspects of Environment, Social and Governance (ESG) in your engagements with your investee companies?	
- Typically, what are the areas or topics that you cover during the engagements? How has the topics changed over the last few years i.e. topic range has widened to include new emerging areas by ESG?	Please also provide examples of ESG issues raised: (i) At AGMs (ii) At management visits
- How do you make your concerns known to the investee companies?	<ul> <li>Examples:</li> <li>Writing to the board</li> <li>Meeting the chairman/ board members/senior independent directors</li> <li>Engage jointly with other institutional investors</li> <li>Seek to remove poorly performing directors via general meetings</li> </ul>
- Do you have a Voting Guidelines? If yes, is it published/made available to your investee companies?	
- Are investee companies more receptive or open to engagements with institutional investors?	

#### STATISTICS: ENGAGEMENTS WITH INVESTEE COMPANIES

Please provide the following information pertaining to your engagements with investee

Items	2015	2014	2013	2012	2011
Total Number of Listed Investee Companies					
Total Number of AGMs/EGMs attended					
Percentage of AGMs/EGMs attended					
No. of environmental issues raised at AGMs					
No. of social issues raised at AGMs					
No. of governance issues raised at AGMs					
Total number of other engagements with investee companies (e.g. analyst briefings/meetings)					
Total number of management visits conducted (i.e. attended by CEOs, CIO and Senior Management)					
No. of environmental issues raised at management visits					
No. of social issues raised at management visits					
No. of governance issues raised at management visits					
Any annual shareholder letter issued? (please tick √)					
Total number of engagement letters issued (e.g. in event of red flags e.g. succession planning, governance issues)					

PART C: STATE OF PLAY AND THE WAY	Remarks/Guidance
- How successful has your engagements with investee companies been so far? Have your investee companies shown improvements in their Corporate Governance (CG) after your engagements with them?	
- What are the areas for improvements?	
- What are the main areas of concern/issues/hindrance?	
- What is your plan to overcome these issues?	
<ul> <li>Do you feel that your investee companies place sufficient importance on governance and issues raised by you pertaining to ESG?</li> </ul>	
- How much resources do you allocate to your stewardship activities?	
- Do you have a dedicated department/unit for corporate governance (CG) matters?	
Dedicated * Dedicated * Total Please manpower specify	
* Please tick (v) the appropriate box	
<ul><li>Who in your organisation monitor your investee companies?</li></ul>	Example: CIO,COO
- Do you have plans to set up a dedicated unit/increase the manpower for CG role in the near future?	
- What kind of improvements do you plan to make and what is the planned timeline (e.g.: a few months/ years etc.)	
- Do you have any recommendations on what the regulators (e.g. Securities Commission and Bursa Malaysia) can do to improve/facilitate the IIs to perform their stewardship responsibilities?	
- Are there any areas of potential collaboration amongst IIs that in your opinion can improve stewardship in the country (e.g. information sharing/joint visits/common CG Code)	
- What are the potential areas of importance in the future?	
- What is your view on the level of stewardship by institutional investors in Malaysia?	
- Has the level of stewardship improved since the launch of the Code and setting up of the Institutional Investor Council? If yes, please give examples and areas of improvements.	

PART D: COUNTRY ASSESSMENT 2016  Note: This section is inserted to reinforce awareness of the Country  Assessment with the aim of improving the country's ranking	Remarks/Guidance
Please state the initiatives you have undertaken/plan to undertake pertaining to the specified areas:	
- Do you exercise your voting rights? (please give example)	
- Do you actively vote against resolutions which you disagree with?	
- Do you often attend AGMs?	Details in Part B above
- Do you often nominate Independent Directors? If yes, please state the details (e.g. company name/ directors)	
- Do you have any corporate governance "focus funds"?	

## Appendix 3(b)

Questionnaire on Observations on the CG of Investee Companies

## QUESTIONNAIRE ON OBSERVATIONS ON THE CG OF INVESTEE COMPANIES

#### NAME OF INSTITUTION:

Details	2014	2015
No. of listed investee companies in Malaysia as at 31 December		
Total fund size as at 31 December (RM)		
Total fund size in equities as at 31 December (RM)		
Total market cap of listed investee companies in Malaysia as at 31 December (RM)		
Active monitoring* of companies (number of companies)		
External fund managers (in number value)		

<sup>\*</sup>Active monitoring based on respective institution's policy.

Kindly provide your responses to the following questions:

CORPORATE GOVERNANCE AND SUSTAINABILITY CONSIDERATIONS IN INVESTMENT DECISION-MAKING PROCESS	Remarks
I. What are the areas taken into consideration before you invest in companies?	Examples: - Financial performance - Sound CG practices - ESG considerations/ risks - Due diligence
2. What is your policy on monitoring of investee companies?	<ul> <li>Threshold on active monitoring, if any</li> </ul>

#### **OVERALL OBSERVATION OF CG IN INVESTEE COMPANIES**

- I. Generally, what is your observation on the level of CG in your investee companies for the last three years? (Please provide data to support your statement in macro terms, if any).
- 2. What is your observation on the CG culture in your investee companies? Please share three (3) positive culture behaviours and three (3) behaviours which requires improvement.
- 3. What is your view on the quality of disclosures made by your investee companies with regard to adherence to the Malaysian Code on Corporate Governance? Which are the areas which companies do not seem to comply?
- 4. What are the key CG areas in which your investee companies had shown progress? (At least three key areas)
- 5. What are the gaps and how can these gaps be improved? Please elaborate.
- 6. Can you please state your observation of your investee companies' practices in these areas:
- Board diversity targets and policies, including gender diversity
- Board remuneration
- Board evaluation process and succession planning
- ESG practices
- Financial reporting
- Risk management and internal controls
- 7. How do you encourage and influence good governance and behaviour in your investee companies to ensure delivery of sustainable long-term value for your beneficiaries/clients?
- 8. Can you please share one or two examples of your investee company(ies) which has/have shown significant CG progress over the last three years?

CG ISSUES BASED ON TYPE OF COMPANIES	Remarks
What are the CG issues which you observe in	Examples:
the following types of companies and what are	Opaque related party transactions
area(s) which you most like to see being	Low dividend pay-out
addressed?	Lack of strong leadership
- Family-owned companies	Lack of board diversity
- Professionally managed companies	Dominant controlling shareholder
- Multinational companies	Excessive directors' remuneration
- State-owned companies	Long tenure of independent directors
- Government-linked companies	Poor risk management and internal controls
	Poor accounting
	Others (please specify)
OTHERS	
Any other comments	



# INSTITUTIONAL INVESTOR COUNCIL MALAYSIA Secretariat Office Minority Shareholder Watchdog Group (MSWG)

11th Floor, Bangunan KWSP, No. 3 Changkat Raja Chulan, Off Jalan Raja Chulan, 50200 Kuala Lumpur

Tel: (603) 2070 9090 Fax: (603) 2070 9107 Website: www.mswg.org.my