



KWSP[®]
EPF

The background of the top half of the page is a photograph of the Petronas Towers in Kuala Lumpur, Malaysia, during sunset. The sky is a vibrant orange and red, and the towers are illuminated with warm lights. Other skyscrapers of the city are visible in the background.

STATEMENT OF COMPLIANCE WITH THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS FOR YEAR 2020

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Introduction

The Statement of Compliance with the Malaysian Code for Institutional Investors (Code) for year 2020 supports the objectives of the Code which is to enhance communication between institutional investors like EPF and their investee companies and to help enhance long term returns to shareholders. Encouraging the good governance practices/ highest standards of governance is essential to achieving this objective. We declare our compliance to the Code and below are our approaches to the Six (6) Principles of the Code.





WHAT IS THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS?

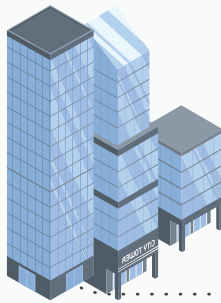


LAUNCHED
On 27 June 2014



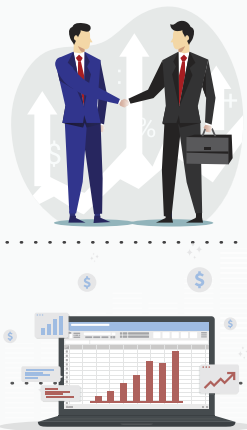
AIM

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



INSTITUTIONAL INVESTORS

Significant influence over investee companies due to substantial stake they hold



Sustainable long term value



INVESTEES COMPANIES

Practice good governance and behaviours



Based on one of recommendations from
CORPORATE GOVERNANCE BLUEPRINT 2011



6 PRINCIPLES
Of effective stewardship



INDUSTRY DRIVEN CODE



29 SIGNATORIES
To the code as at end-2020



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

CODE FORMULATION

by Steering Committee and Working Group comprising senior executives from:



KWSP
EPF

PNB
Permodalan Nasional Berhad



KWAP



PERKESO



MAAM
Malaysian Association of Asset Managers



TABUNG HAJI



MALAYSIAN TAKAFUL ASSOCIATION



PPA
PRIVATE PENSION ADMINISTRATION

PRINCIPLE 1

Disclosing Policies on their Stewardship

Institutional investors should disclose the policies on their stewardship responsibilities.



Since its inception in 1951, EPF invested its funds into a portfolio of diversified asset classes comprising government bonds and securities, private and public equities, money market instruments and real estate. EPF has a long standing commitment to solid governance structures as well as disciplined investment procedures and approval processes. The activities and operations of EPF are governed under the EPF Act 1991 whereby investments are made according to Section 26 of the Act.

The Act also provides for the establishment of an Investment Panel who is responsible in making investment decisions. The Investment Panel, which comprises of representatives from the Ministry of Finance, Bank Negara Malaysia and three others with financial and investment expertise, formulates investment policies, guidelines and criteria on all investment matters and closely monitors EPF's investment activities. It is also responsible to

ensure prudent management of EPF's investments on behalf of its members.

At the management level, before any investment is made, senior members of the investment departments will conduct professional and independent vetting of the investment proposals and resolve all investment matters through the Management Investment Committee (MIC). The committee, which

meets on a weekly basis, is also responsible for the day-to-day operations of the investment activities.

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

With the introduction of Simpanan Shariah on 8 August 2016, the EPF's current governance structure has been enhanced to incorporate the key components of Shariah governance framework. A dedicated team has been set up to monitor the Shariah compliance of investments and other operational matters. All activities related to Simpanan Shariah are reported in monthly meetings to the Shariah Advisory Committee (SAC) which consists of prominent Shariah scholars. The SAC is accountable for all decisions, views, opinions related to Shariah investment and operation matters.



The EPF Principles of Corporate Governance is set on four main pillars of good stewardship:

Effective Board

Effective and independent Board with highly competent and diverse members to exercise objective judgement.

Manage Conflicts

Reduce conflicts of interest between various stakeholders and related parties.

Efficiency

Efficient and productive use of resources in the best interests of shareholders.

Transparency

Transparency through timely and complete disclosure of important information for effective shareholder decisions.

PRINCIPLE 2

Monitoring Investee Companies

Institutional investors should monitor their investee companies.

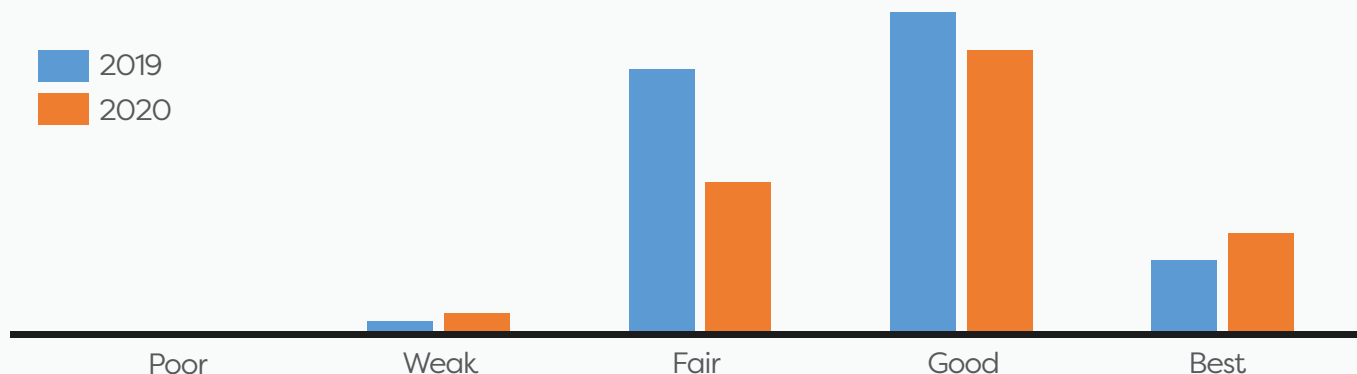
EPF's team of investment managers and research analysts rigorously monitor its investee companies. The monitoring process largely comprises meeting with management of the investee companies, analysing company annual reports and announcements, investment screening and studying external research. The team conducts frequent meetings with the investee companies and ask questions on the company's strategy, financial performance, current developments and other relevant issues related to environment, social and governance (ESG). Any areas of concern are monitored and raised at dialogue meetings and voting resolutions are analysed before decisions are made. If EPF believes that a decision or proposal by the company's management will negatively affect the company's long-term value, EPF will escalate the issues with written queries, meetings, dialogues or engagement between its investment officers and the company's management. EPF would monitor the company's response to ensure that steps are being taken to address the issues raised in order to protect and enhance shareholder value.

EPF has also developed its own internal rating tool to monitor and evaluate investee companies' performance in the aspect of ESG. The proprietary tool aims to assess the quality of ESG aspects in investee companies which is based on questions from how the company adhere to the CG code, disclosure standards and ESG integration. This tool is able to generate a quantifiable rating which can be considered when evaluating the companies in addition to the traditional quantitative analysis done on their financials. With improved ESG disclosure by investee companies under the sustainable reporting and/or integrated reporting initiatives by Bursa Malaysia, we are set for a

long-term journey to elevate the ESG standards in Malaysia.

In 2020, based on 100 companies under the EPF surveillance universe, we have seen significant improvement in their ESG scores. In 2020, 14% of the companies in our surveillance universe were rated Best (score > 90) as compared to 2019 at 9% while 53% were rated as Good (80 < score < 90) versus 48% in 2019. Meanwhile, 31% of the companies were rated as Fair (60 < score < 80) compared to 43% in 2019. 2 companies were rated Weak (45 < score < 60) versus 1 company in 2019 while no companies were rated Poor in both years.

ESG Rating Distribution in 2020 vs. 2019



PRINCIPLE 3

Engaging Investee Companies

Institutional investors should engage with investee companies as appropriate.

EPF believes that the alignment of interest between long-term shareholders and companies will fulfil its fiduciary duty to achieve sustainable financial performance by investee companies over the long term. EPF regularly engages with its investee companies which may relate to the company's financial performances, long-term strategic plans and ESG issues. Further engagement is escalated over time according to the nature and severity of concerns and the responsiveness of the companies to the issues.



EPF's approach to engagement activities are two-pronged:

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

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

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

ENGAGEMENT ACTIVITIES IN 2020

Despite difficulties and extreme challenges faced throughout the year due to Covid 19, we have managed to conduct several engagements with the companies and regulators focusing on the oversight of strategy, performance and various governance, social and environmental (ESG) issues.

As part of exercising our right as shareholder, EPF has participated in 116 shareholders' meetings and voted on 955 resolutions in 2020. The EPF Equity Research department analysed all the resolutions based on the 2020 EPF Corporate Governance Principles and Voting Guidelines. The guidelines are based on the best governance practices for PLCs and to align to EPF Principles of Corporate Governance.

In 2020, EPF engaged with its investee companies via letters and meetings on various governance, social and environmental issues. Among the issues that required greater attention were:

1

Governance

Excessive Remuneration

After various engagements with a conglomerate in 2019 on the issue of remuneration, the company established its Remuneration Committee at the Board level in 2020. In November 2020, we had a 1-on-1 engagement with the Chairman of the Remuneration Committee to discuss on the remuneration issue.

Board Composition

EPF has various policies in place to ensure that the board of directors of public-listed companies function optimally. EPF sends letters to its investee companies to remind them of the policies. If not adhered to, EPF will vote against the resolutions during the AGM/EGM.

In 2020, EPF wrote a letter to a KLCI company explaining its stance against having politicians on the board. EPF also voted against a resolution that was tabled by a conglomerate during the EGM which sought to award options to its employees exceeding the maximum 10% of outstanding shares limit as per EPF's policy. In addition, we also voted against the re-appointment of male directors of a utility company as there were no women representatives on their board, breaching EPF's board diversity policy. In the same year, EPF voted against the re-appointment of the chairman of a conglomerate who breached 80 years of age, exceeding the age limit for a director under EPF's voting guideline.

Related-party transactions

EPF makes careful decisions on every transaction proposed for shareholders' approval to ensure that the transactions are not detrimental to shareholders. EPF pays keen attention to transactions that involve related parties to ensure that these transactions are conducted at arm's length and for the benefit of the non-interested shareholders. During the year, EPF wrote a letter to a utility company which proposed a purchase of land from a related party. A detailed explanation was given by the company.

Mergers & Acquisitions

Mergers and acquisitions have the potential to create value but may also be seen as bailouts in some cases. During the year, a property developer proposed to merge with another listed company in the same industry. The said merger raised concerns among investors and EPF wrote a letter to the developer to seek clarification on the proposed merger.

Corruption

EPF takes a firm stance against corruption as it erodes shareholder value. During the year, a company in the aviation industry was in the news over corruption allegations. EPF wrote a letter seeking a detailed explanation over the issue. The company responded to EPF's letter with an explanation and also steps taken to address the issue.

2 Social

Treatment of workers

During the year, the US Customs and Border Protection (CBP) issued Withhold Release Orders to a disposable rubber glove company which was suspected to have mistreated its workforce. With a substantial stake, EPF wrote to the company requesting that the Executive Chairman address the public on the matters raised by the US CBP.

In the same year, the US CBP issued a similar order on a plantation company. EPF wrote a letter to the company seeking explanations on the issue. An NGO also raised forced labour allegations against one of the biggest palm companies. EPF discussed this issue at length with the top management of the company via a Zoom call.



PRINCIPLE 4

Managing Conflicts Of Interest

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

EPF is committed to adhering to the highest standard of corporate governance throughout the organization as a fundamental part of discharging its fiduciary duty to protect and enhance members' savings. EPF has put in place various policies to address potential conflicts of interest in relation to stewardship. This serves to maintain the integrity of decision-makers in EPF when dealing with and managing its investments.

In respect of conflicts of interest within the fund, members of the EPF Board, Investment Panel and sub-committees are required to make declarations of interest prior to meetings and abstain from taking part in the discussion and decision making. For example, if it concerns a related-party transaction in which a member of the EPF Investment Panel is also sitting in the public listed Board, the person will be excused from attending such discussions.

In addition, the following policies were also implemented to address possible conflicts of interest within EPF:

- Declaration of listed equity transactions by investment officers.
- Chinese Wall policy.
- No gift policy.
- Declaration of interest/relationship with panel equity brokers.
- Integrity code.
- Staff declaration of asset ownership.
- Nominee director declaration.



PRINCIPLE 5

Incorporating Sustainability Consideration

Institutional investors should incorporate corporate governance and sustainability considerations into the investment decision-making process.



Sustainability in investment is defined as the ability to continue doing business in a responsible manner, taking into account environmental and social issues while ensuring good long-term performance. Traditionally, EPF has been active in monitoring the governance aspect of investee companies ever since the establishment of the Malaysian Code of Corporate Governance in 2012. Over time, these considerations have evolved to include environmental and social aspects of corporate behaviours. EPF continues to believe that string governance practices, along with deep concerns for environmental and social risks are important drivers of investment value. In addition to the financial aspect of a company that EPF has focused on in the past, we also incorporate ESG aspects into our investment monitoring process that relates to how a company achieves its long-term financial goals and at the same time generate positive social and environmental impacts. With the commencement of Simpanan Shariah, the process of integrating ESG factors into our investment processes and decisions have been intensified.

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

In July 2020, the Sustainable Investment Centre (SIC) section was set under Investment Operation Department to review and enhance the EPF Sustainable Investment Framework and Policy and integrate ESG into EPF's investment decision making process. The SIC is also working together with the IIC to drive the sustainability agenda in the capital market

PRINCIPLE 6

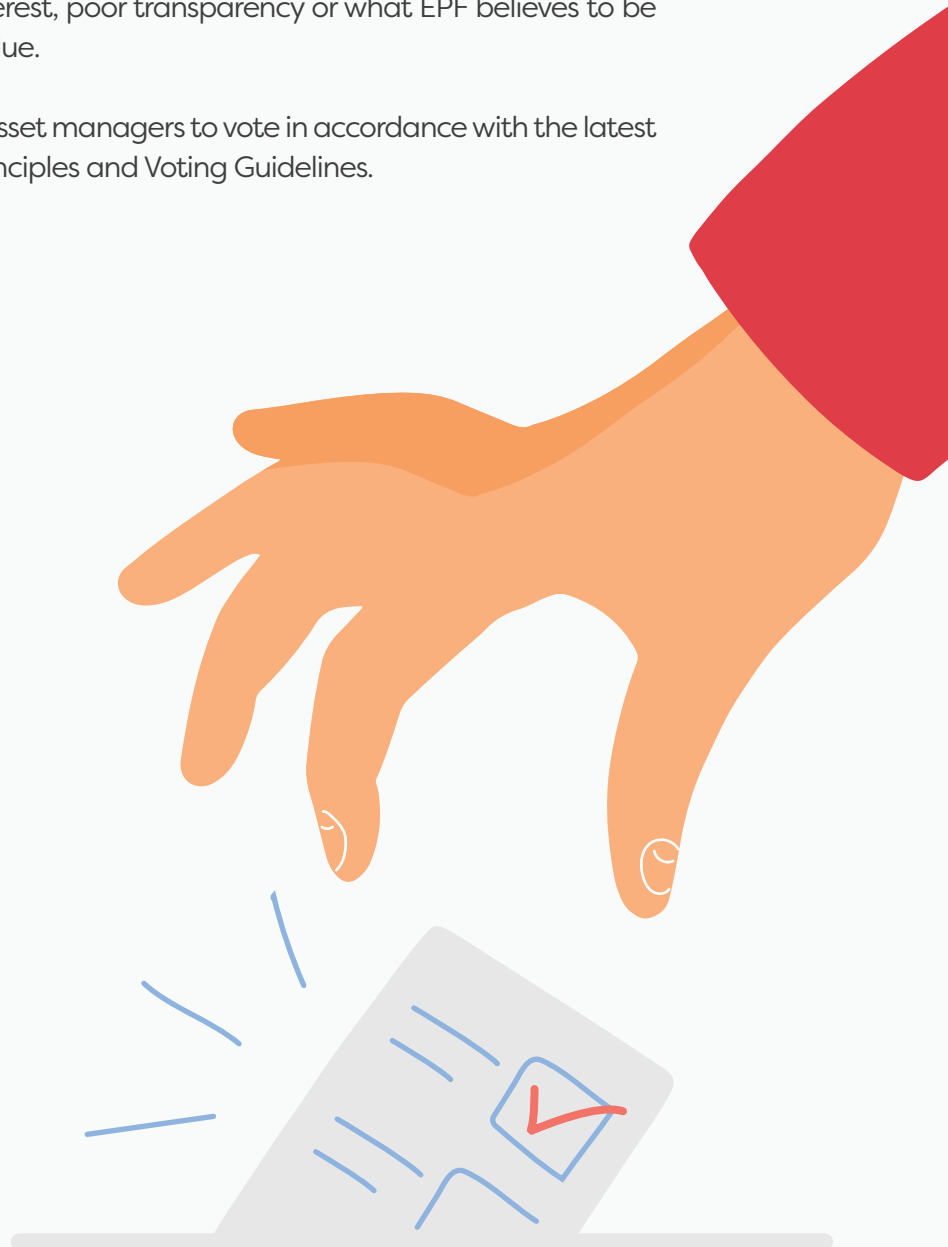
Publishing Voting Policy

Institutional investors should publish a voting policy.

EPF values the voting rights attached to its equity holdings in Malaysian listed companies and will always exercise those rights to ensure that its economic interest is protected. The latest EPF Corporate Governance principles and Voting Guidelines can be found [here](#). The guidelines are being reviewed and updated as necessary.

Essentially, EPF will generally vote in favour when resolutions which are in line with the Malaysia Corporate Governance Code and are in the best interest of all shareholders. EPF may also decide to vote against or abstain on resolutions which do not meet these guidelines and are deemed to have conflicts of interest, poor transparency or what EPF believes to be detrimental to long-term shareholder value.

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





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