

STATEMENT OF COMPLIANCE WITH THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS



PNB
Permodalan Nasional Berhad

STATEMENT OF COMPLIANCE WITH THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS

Background

- PNB was established on 17 March 1978 as one of the instruments of the Government's New Economic Policy. Over the years, PNB has grown to become one of the largest fund management companies in Malaysia and steadfastly adhere to the tenets of integrity, good governance and trust.
- The Board recognizes the importance of maintaining a standard of good Corporate Governance (“CG”) that is robust and sound to promote a culture of integrity, honesty and transparency throughout the organization. PNB has always placed utmost priority on safeguarding the value of its investments and have employed best practices in being a responsible shareholder of the companies in which it invests.

Principle 1 - Disclosing Policies on their Stewardship

- The PNB Board Charter was approved by the Board in 2009 and further refined on October 19, 2020 sets out strategic intent, authority and terms of reference of the Board of Directors and its Committees.
- The Board has established several committees to assist the Board in dealing with specific functions or areas in a more efficient manner. There are ten committees under the purview of the Board, as follows:
 - Audit Committee
 - Compliance Committee
 - Risk Management Committee
 - Investment Committee
 - Appeal Committee
 - Nomination & Remuneration Committee
 - Tender Committee
 - Shariah Advisory Committee
 - Art Committee
 - Property Investment Committee

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Principle 1 - Disclosing Policies on their Stewardship

- The specific investment activities and related matters of PNB's proprietary funds and the Unit Trust Funds ("UTFs") are presented to the Investment Committee of the Board of Directors of PNB and the UTFs. The duties and responsibilities of the authorized body is to ensure that investments of PNB and the UTFs are undertaken in accordance with the investment mandate and in line with all relevant rules, laws and regulations. In addition, the Strategic Asset Allocation Framework was established to guide the decision-making process of setting optimal longer-term capital allocation targets. It plays an essential part in PNB's initiative to achieve better diversification of risk across different asset classes.
- The Nomination & Remuneration Committee identifies and recommends suitable candidates for appointment as Nominee Directors on the Boards of Directors of the investee companies.
- The PNB Shariah Advisory Committee, which consists of prominent shariah scholars also was set up in order to give advice as well as opinions and guidance on matters pertaining to Shariah compliance issues for the investments made by PNB, and to assist PNB to comply with Shariah principles at all times.
- Through its overall governance structure, as well as internal policies and processes, PNB ensures conformance to the highest standard of CG, consistent with the principles and best practices outlined in the MCCG 2017. Pursuant to that, PNB had unveiled its Strategic Plan for 2020-2022 known as "Focus 4" in May, 2020 which includes the PNB Stewardship Framework and Voting Guidelines.
- The PNB Stewardship Framework and Voting Guidelines aims to articulate PNB's philosophy and expectations of the companies within its investment stable, with a view to promoting a performance-driven culture and improving the respective companies' organizational health.
- In addition, PNB's Voting Guidelines also serves as a guidance for PNB to play an effective stewardship role as the institutional shareholder and the investment manager for the UTFs. Such guidelines act as a risk management tool in ensuring that the investments of PNB and UTFs are adequately protected and capable of generating sustainable returns in the long term.
- Meanwhile, the Strategic Investments ("SI") Framework sets out a structured approach on how PNB can best add value and transform the performance of our companies as well as how to engage with the investee companies.

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Principle 2 - Monitoring Investee Companies

- The investment portfolios of PNB and the UTFs are actively monitored and managed by the respective departments under the Strategic Investments and Public Markets Divisions.
- The monitoring team undertakes active monitoring of PNB's investment with an objective of safeguarding and ensuring optimal returns through the extraction of dividends, whilst maintaining close engagement with stakeholders.
- The monitoring process is conducted in accordance with the SI Framework, which amongst others targeted the following objectives:
 - Maximizing long-term value creation towards generating sustainable returns to PNB and funds.
 - Having structured approach in identifying and executing Value Creation Plans.
 - Optimizing level of strategic shareholding with opportunity to monetize investments.
- The monitoring process conducted includes analyzing, evaluating, initiating and executing Value Creation plans for Strategic and Core listed investments and recommending appropriate corporate exercises to be implemented in order to continuously enhance shareholders' value and create industry leadership in key economic sectors.
- The monitoring activities related to the monitoring of investee companies largely comprises keeping track of Bursa announcements on a daily basis, analyzing quarterly financial performances and the annual report of the companies. This is to evaluate the financial health and operational efficiency of the companies in order to enhance the investment value to a targeted level based on the value-creation plan or exit/monetize strategy. Thereafter, feedback and commentary of the companies' performance on a periodical basis or at any key events and strategic direction are given, if necessary.

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Principle 2 - Monitoring Investee Companies

- PNB also undertakes its strategic human capital review and assessment at the Board level for companies which the PNB and the UTFs have strategic and significant equity interest to ensure the right mix of skills, experience and adequate core competencies, board size, women representation along with compliance with the relevant rules and regulation.
- PNB aims to pursue continuous tracking of the performance of the investee companies against peers and industry players to ensure that the investee companies are delivering competitive long-term return to their shareholders.
- Appointment of PNB nominees on the Board of investee companies is targeted to enhance the institutional capabilities of the companies to deliver and grow their core earnings towards greater sustainability.
- In 2019, there are 30 nominee directors, 21 of which are external nominee directors while 9 are staff members, representing PNB on the Board of 20 public listed investee companies.

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Principle 3 - Engaging Investee Companies

- The monitoring team conducts frequent meetings and engagement sessions with the Board, the management and PNB nominees to address company-specific issues while raising concerns pertaining to the strategic direction, performance, long term shareholder value, risk management and governance.
- Such an engagement also enables mutual exchange of inputs, feedbacks and suggestions from the perspective of the shareholders to enhance the performance of the companies or to prevent deterioration of the investment values.
- This is carried out through a scheduled engagement by the monitoring team as outlined in the SI Framework.
- In 2019, the monitoring team has conducted a total of 40 engagements with the Board and nominee directors of PNB, in addition to 159 engagements with the management of the investee companies.
- The nature of the engagements undertaken throughout the year includes attending the general meetings, brokers and analyst briefings, internal meeting with investee companies and frequent interactions with other substantial shareholders. In undertaking the said engagements, due care is exercised by PNB in order to ensure that such engagements are in accordance with the relevant rules and regulations.
- PNB and UTFs exercise their voting rights at the general meetings in accordance with the Voting Guidelines of PNB. In 2019, PNB and the UTFs have attended 57 general meetings of its 53 investee companies.

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Principle 4 - Managing Conflicts of Interests

- PNB has put in place various policies to ensure that the conduct of PNB's business is always in accordance with all applicable laws and regulations. PNB also embraces the highest standards of business ethics to address any potential conflicts of interest as well as maintaining integrity in the decision-making process throughout the organization.
- PNB has established "The Chinese Wall Policy" for the guidance of all staff, directors and Investment Committee members as a mechanism to avoid any potential conflicts of interest and insider trading. It is intended amongst others to shield and protect the PNB Group against committing insider trading offences and restricting the flow of price sensitive information between departments.
- As part of best practice and good corporate governance, the members of the Board and its committees are required to disclose any actual or potential conflict of interest which may exist or perceived to exist as soon as they become aware of the issue.
- PNB staff are required to observe proper conduct at all times in accordance with professional ethics and prudence for the benefit of the company.
- PNB staff in asset management or investment related areas are prohibited to trade in shares or any other investment instruments for their personal advantage by using the information obtained while performing their official duties.
- In addition, the following policies were also implemented to address any possible conflict of interest within PNB:
 - No Gift Policy.
 - Declaration of Interest ("DOI") – PNB staff are required to declare their interests at least once a year or as and when required by the company through DOI system.
 - Red List Register – The Company Secretary Department shall maintain a register containing a list of company(ies) of which dealing (buy or sell transaction) in the securities of the said company(ies) is/are prohibited by PNB and all the funds under its management.

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Principle 5 - Incorporating Sustainability Considerations

- PNB takes a comprehensive approach in its investment decision-making process. It covers comprehensive analysis of the prospective investment proposals which comprises of financial performance, sector leadership, management reputation and key considerations under PNB's portfolio management strategy. Risk management considerations are also an integral part of any investment decision making at PNB.
- Currently, PNB has not formally incorporated ESG practices into its investment decision process. However, PNB's current policy is not to invest in any non-ethical investments or businesses such as tobacco, gambling, alcohol and others.
- PNB is currently developing the Sustainability Framework of which the implementation will be made on a gradual approach. Going forward, full implementation of ESG framework will incorporate the ESG considerations in PNB's investment analysis and decision-making process.

Principle 6 - Publishing Voting Policy

- The Voting Guidelines of PNB serve as a guideline in the manner that PNB votes at the general meetings of the investee companies and is made available in our website. PNB, generally votes based on the PNB Voting Guidelines.

