PNB

International Voting Guidelines of PNB

Effective 1 January 2025

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Introduction

1. INTRODUCTION

PNB’s International Voting Guidelines are based on global standards for good corporate governance, including principles from the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA). These guidelines help ensure PNB's voting practices promote transparency, accountability, and protect shareholder rights, aligning with internationally recognised best practices.

1.1 CORPORATE GOVERNANCE

Strong corporate governance is crucial for building a trustworthy and open investment environment worldwide. On an international level, companies that follow global governance standards are on solid ground, instilling a high level of trust while allowing investors to be well informed, regardless of where the company is based. This boosts confidence in global markets, encourages investment across countries, and supports global economic growth and expansion.

1.2 PRINCIPLES OF THE VOTING GUIDELINES

The PNB voting guidelines underscores the organisation's commitment to be an effective steward as an institutional shareholder and investment manager for its Unit Trust Funds (“UTFs”), taking a transparent and principled approach towards proxy voting in investee companies. These guidelines also serve to manage risk, safeguarding our investments while generating long-term sustainable returns.

UTFs delegate their voting rights to PNB under Supplemental Investment Management Agreements, guided by these guidelines. While PNB may depart from guidelines on a case-by-case basis, we commit to transparently publish the reasoning for said departures.

Any departure from the established guidelines shall be valid from the date of the decision. After this period, the departure will be reassessed to determine its continued appropriateness. PNB reserves the right to maintain the departure, provided it remains aligned with the best interests of the unit trust funds and their beneficiaries.

In cases where a resolution or issue falls outside the scope of the Guidelines, PNB reserves the discretion to determine the appropriate course of action on a case-by-case basis, guided by our overarching commitment to responsible investment, corporate governance best practices, and the long-term interests of our stakeholders.

1.3 SUSTAINABILITY AND CLIMATE RELATED MATTERS

At PNB we aspire to achieve a balance between people, planet and profit by harmonising our approach to business with the environment we operate in, by ensuring an orderly and just transition to a more sustainable future for long-term resilience. Following the development of our Sustainability Framework, PNB has established its sustainability aspiration and commitments "Towards a Net Zero Future," through its three ESG pillars and ten ESG commitments. This includes the following environmental commitments: (1) becoming a net-zero enterprise by 2025, (2) attaining a net-zero portfolio by 2050, and (3) investing RM10 billion in New Green and Transition Assets by 2030. PNB recognises the importance of addressing climate change and transitioning to a net-zero economy. Additionally, we are committed to upholding responsible labour rights, enhancing our nature and biodiversity approach, and have integrated an NDPE (No Deforestation, No Peat, No Exploitation) and No Greenfield Thermal Coal commitments into our investment strategy.

The Board of a company plays a crucial role in evaluating material sustainability risks and understanding the broader environmental and social impacts of our operations and products. Sustainability disclosures should align with relevant global reporting standards and frameworks. Responsible organisations are those that effectively identify and manage material sustainability risks and opportunities within their operations. Integrating the oversight of these factors into a company's governance framework is essential for creating lasting financial value.

Board of Directors

2. BOARD OF DIRECTORS

2.1 BOARD INDEPENDENCE

Board independence is a cornerstone of effective corporate governance and an independent Board is crucial for providing objective oversight, ensuring accountability, and safeguarding the interests of shareholders.

2.1.1 Independent Directors

The majority of Board members in each company should be independent. Independence at the Board level ensures that directors can challenge management constructively and make decisions that are free from potential conflicts of interests.

To determine Board independence, we consider various criteria that align with relevant exchange listing standards, local regulatory requirements, and market best practices. These criteria that may include:-

i. **Current or Recent Employment**: Directors who have not been recently employed by the company or its subsidiaries are likely to have the objectivity needed for independent oversight.

ii. **Significant Business Relationships**: Directors without substantial business relations with the company, and who do not participate in related-party transactions, are less likely to face conflicts of interest.

iii. **Shareholding Interests**: Directors who do not represent shareholders with substantial holdings are more likely to act impartially.

iv. **Family and Personal Ties**: Directors without close family ties to company advisers, directors, or senior employees, are better positioned to act independently.

v. **Interlocking Directorships**: Directors who do not serve on multiple Boards with overlapping interests are more likely to maintain their independence.

vi. **Excessive Tenure**: Long-tenured directors may develop relationships that hinder their independence and effectiveness.

vii. **Other Relationship**s: Any other business or personal relationships that could materially interfere with a director's ability to act in the best interests of the company and shareholders.

2.1 BOARD INDEPENDENCE (CONTINUED)

In markets where a majority-independent Board is not ubiquitous, we encourage companies to progressively enhance Board independence. We also support independent leadership in the boardroom, which may be in the form of an independent chair or a lead independent director. This role should have clearly defined responsibilities to ensure effective Board functioning and transparency.

2.1.2 Independence of Committees

Board committees play a critical role in maintaining strong governance practices. Key committees, such as audit, nomination, and remuneration committees, should be composed of at least a majority of independent directors. This structure is essential for providing objective oversight, particularly in matters that may involve conflicts of interest or require enhanced scrutiny.

In many markets, audit and remuneration committees must exclude executives to ensure unbiased decision-making. A majority of independent directors on these committees is vital in maintaining their integrity and effectiveness. Additionally, the criteria for determining committee independence should align with those for Board independence, taking into account regional and market-specific practices.

2.1.3 Separation of Power between Chairman and Chief Executive Officer

The roles of the Chairman and CEO should be clearly separated to enhance Board independence and objectivity. Separation ensures the Board can make independent judgments on corporate affairs without undue influence from management. If these roles are combined, the Board should appoint a lead independent director to provide balance. This role is essential for ensuring shareholder interests are represented effectively. We support proposals to separate the roles of Chairman and CEO to strengthen governance structures.

Our approach to Board independence is rooted in a commitment to global best practices, recognising that effective governance requires adaptability to local standards. We are committed to engaging with companies to promote and uphold these principles, fostering a culture of accountability and long-term value creation.

2.2 BOARD COMPOSITION

Board independence, and a diverse skill set are crucial to driving long-term shareholder value. Board composition should align with corporate strategy and risk management, with an emphasis on evaluating the skills, expertise, and qualifications of its members.

Diversity in all aspects, including gender, age, professional experience, and skill sets should be prioritised, as it strengthens decision-making and risk oversight. A diverse Board enhances governance outcomes and provides more effective strategic direction.

The chair of the nominating committee is responsible for ensuring transparency in disclosing the Board's composition, including gender, age, experience, and relevant skills.

Additionally, the chair should actively promote gender diversity, recognising factors such as retirements, the company's new status in the public market, or an ongoing director search, while encouraging efforts to achieve diverse representation.

2.2.1 Time Commitment

Board's work, must devote a significant amount of time to perform their duties effectively.

Board members are expected to contribute to effective discussions and decision-making by attending all meetings.

Directors should also limit their commitments to fewer than five Boards and no more than two board chair positions to ensure they can effectively fulfill their responsibilities.

Additionally, directors are expected to attend at least 75 percent of board meetings, barring any reasonable justification, to demonstrate their dedication and accountability.

2.2.2 Industry Expertise

The Board is encouraged to cultivate a comprehensive understanding of the industry in which the company operates and to ensure sufficient industry expertise is present to effectively oversee the management's implementation of company strategy.

2.2 BOARD COMPOSITION (CONTINUED)

2.2.3 Diversity

Commitment to long-term shareholder value is supported by fostering inclusive organisations where individuals succeed based on merit, regardless of gender, professional experience, educational and cultural background, or age.

At the Board level, diversity in perspectives and opinions is essential for sound governance, effective risk oversight, and enhanced shareholder value. Diverse boardrooms drive better strategic decision-making and help navigate complex challenges such as geopolitical risks, regulatory changes, and disruptive technologies.

Recruiting individuals with the necessary skills, varied experiences, and diverse backgrounds should be fundamental to strengthening a business.

Boards are expected to adopt strategies to increase female representation and will face scrutiny where progress in this area is lacking. A strong commitment to diversity and inclusiveness should be evident across all levels of the organisation. Companies should transparently disclose how diversity is considered at the board, executive, and broader organisational levels.

Boards are encouraged to champion diversity by ensuring a broad range of perspectives, experiences, and backgrounds are represented. A diverse Board not only enhances decision-making and strengthens governance but also better reflects the interests of the stakeholders it serves.

2.3 BOARD ACCOUNTABILITY

Board Accountability is fundamental to the governance of any organisation, ensuring that the Board of Directors is answerable for its decisions and actions to stakeholders. This principle requires that the Board operates transparently, provides accurate and timely disclosures, and remains responsive to the interests and concerns of shareholders, employees, and the broader community. Additionally, the Board should be responsible for setting the company's strategic direction, overseeing risk management, ensuring sustainable practices, and maintaining the financial health of the Company.

2.3.1 Nomination and Election

i. Companies should implement a robust nomination and election process to ensure an effective board accountable to shareholders. The nomination process must be transparent, providing shareholders with a clear understanding of the criteria and procedures used to identify and select Board candidates.

ii. Shareholders should have the opportunity to participate in a unified election process, where all Board members are up for re-election regularly and frequently. We will not support the election of directors whose terms exceed local market requirements.

iii. Additionally, full disclosure of a director’s name and qualifications is essential, as insufficient information hampers the ability to properly assess their suitability.

2.3.2 Board Decisions and Conduct

Shareholders should have the right to propose changes to the Board if it fails to act in their best interests. When voting on a proposal to discharge the Board of its responsibilities, we will evaluate whether there is any reasonable doubt about the Board's actions. We will also consider factors such as unsatisfactory financial or strategic performance, mismanagement of risk, unacceptable treatment of stakeholders, or adverse environmental and social outcomes resulting from the Company's operations.

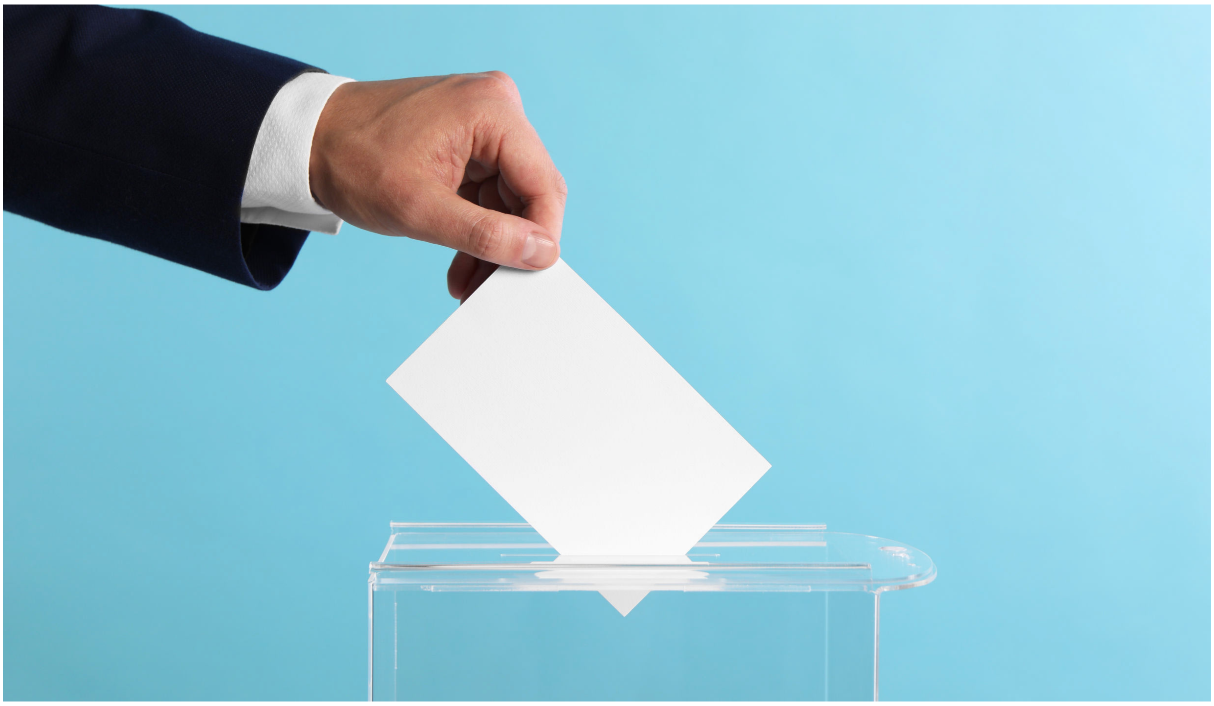
i. **Re-election of directors**: We will support re-election when the Company has effectively addressed material shareholder requests that received majority support in the previous year.

ii. **Criteria for re-election**: Directors should exhibit strong governance practices, uphold fiduciary duties, and maintain a sound legal standing. Individuals with a history of integrity and positive contributions on other boards are viewed favourably.

iii. **Audit committee members**: Re-election of audit committee members is encouraged if the company's financial statements reflect a positive audit opinion and if the Board has proactively addressed any concerns.

iv. **Reconsideration of support**: The re-election of directors or the Board may be re-evaluated if the Company has encountered significant failures in managing or disclosing environmental, climate, or social risks without providing reasonable justification.

All considerations are subject to the rules, regulations, and best practices specific to each country.



Capital Management

3. CAPITAL MANAGEMENT

Effective capital management is essential for fostering long-term value creation and ensuring equitable treatment of all shareholders. It encompasses maintaining transparency in financial decisions, adhering to fair governance practices, and safeguarding shareholder interests through proportionate and well-justified actions.

3.1 SHARE ISSUANCE

i. Company law requires that shareholder approvals be obtained to increase the share capital of a company and at the same time, shareholders need to be aware of the expected levels of dilution resulting from new equity issuance.

ii. Companies must ensure that any general authority to issue shares with preemptive rights will be proportional to the currently issued capital and not deemed excessive.

iii. Any general authority to issue shares without preemptive rights should be limited to no more than 20 percent of the currently issued capital.

iv. Additionally, share issuances should create long-term value for shareholders and ensure fair treatment for all.

3.2 MERGERS, ACQUISITIONS AND OTHER CORPORATE TRANSACTIONS

i. When evaluating corporate transactions, PNB Group encourages transparency to ensure fully informed decision-making.

ii. Mergers, acquisitions, and other corporate transactions will treat all shareholders equitably and be free from conflicts of interest that could negatively affect shareholders.

iii. PNB Group urges that such transactions be designed to create long-term value for shareholders.

3.3 RELATED-PARTY TRANSACTIONS

Related-party transactions ("RPTs") are common in a number of Asia-Pacific jurisdictions. These are transactions between a company and its related parties and generally come in two forms:

i. one-off transactions, typically asset purchases or disposals, and

ii. recurring transactions occurring during the ordinary course of business, usually in the form of the ongoing sale and purchase of goods and services.

Any shareholder who has a material interest in the transaction should abstain from voting on the resolution. If a RPT requires shareholder approval, the company should establish a board committee composed solely of independent directors and appoint an independent adviser to prepare a recommendation to minority shareholders.

PNB will assess one-off transactions on a case-by-case basis. Where we are convinced by the strategic rationale and the fairness of the transaction terms, PNB will vote in favour.

For recurring transactions, the details should be disclosed in the annual report, and that they be subject to shareholders' approval on a periodic basis, and all such transactions to have been conducted on an arm's-length basis, on normal commercial terms.

Other Matters

4. OTHER MATTERS

Protecting shareholder rights is crucial for minority shareholders in a publicly listed company. Shareholders should have the right to receive complete, accurate, and timely information about the company and to approve significant changes to it. This includes the right to approve alterations in capital structure that impact shareholders' cash flow or voting rights. It is anticipated that all shareholders will be treated fairly and equitably.

4.1 SHAREHOLDER PROTECTION - APPROVAL

4.1.1 Voting Rights

i. Shareholders should have the right to vote on fundamental corporate decisions, with voting rights proportional to their financial interest in the Company.

ii. Multiple share classes with differential voting rights may be adopted, but they should be designed to balance control with the protection of minority shareholders.

4.1.2 Shareholder Meeting

Shareholders should have the opportunity, in certain circumstances, to address issues of significant importance without having to wait for management to convene a meeting.

1. **Agenda Transparency**
   The general meeting agenda should be clearly outlined and provided in advance to all shareholders. This includes comprehensive details on each agenda item.

2. **De-Bundling of Agenda Items**:
   Proposal Support: Proposals to de-bundle resolution items are encouraged, allowing shareholders to vote on each item separately rather than as a bundled resolution. This practice promotes clarity and ensures that each issue is addressed individually.

3. **Shareholder Engagement and Voting Transparency**:
   a. **Speaking and Questioning Rights**: Shareholders will have the opportunity to speak, ask questions, and provide feedback during meetings.

   b. **Fair Voting**: Voting will be conducted in a fair and transparent manner, ensuring that all shareholder votes are accurately counted and reported.

4. **Communication of Voting Procedures**:
   Guideline Communication: Companies are expected to clearly communicate their voting procedures and guidelines to shareholders. This ensures that shareholders understand their rights and the processes involved in voting.

4.2 SHAREHOLDER PROTECTION – COMPANY REPORTING

4.2.1 Auditors

i. **Auditor Independence**
The external auditor must maintain independence in their role. PNB Group will evaluate the auditor's independence and address any concerns related to the accounts or audit procedures.

ii. **Auditor Rotation**
In order to safeguard the independence of the audit, companies should rotate their designated auditor over time and companies should put their external audit contract out to tender at least every 10 years.

iii. **Auditor Renumeration**
Companies should be encouraged to distinguish clearly between audit and non-audit fees. Auditor independence needs to be maintained by ensuring that fees for non-audit services do not exceed to the total fees paid to the auditor. Full details of all non-audit work should be disclosed

4.2.2 Amendments to the Articles of Association

PNB Group will review these proposals on a case-by-case basis, and support those proposals that we believe are in the best interests of shareholders.

4.2.3 Virtual General Shareholder Meetings

i. In certain markets, by-law changes have taken place to allow a company to hold virtual or hybrid general shareholder meetings.

ii. General shareholder meetings should be fair, constructive and foster dialogue between company management and shareholders.

iii. In principle, we are supportive of proposals allowing shareholder meetings to be convened by electronic means so long as the flexibility in the format of the meetings contributes to enhance access to the meetings and where shareholder participation rights are protected, regardless of whether physical or virtual.