



KHAZANAH
NASIONAL



2024

Shareholder Expectations and Investment Stewardship





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INTRODUCTION

Khazanah's mandate and responsibility as the sovereign wealth fund of Malaysia is to deliver sustainable value through our investments, which are aimed to provide returns for current and future generations of Malaysians. As steward of the nation's wealth, Khazanah has consistently emphasised this in engagements with our investee companies. Our objective is that through these frequent engagements, we can strive to Do Better – that is, to bring about improved outcomes in the key aspects discussed in the next section.

Our approach to corporate engagement follows from the Khazanah Investment Policy, which is to achieve long-term sustainable risk-adjusted returns from a portfolio that can withstand short-term market volatilities. To meet these objectives and embark on a journey of Just Transition¹ that achieves our Environment, Social and Governance (“ESG”) aspirations, we set out below our shareholder expectations to ensure that appropriate principles of investment stewardship are in place. Our approach is consistent with international and local codes and best practices such as the Malaysian Code for Institutional Investors (“MCI”), the IFSWF Generally Accepted Principles and Practices of Sovereign Wealth Funds (Santiago Principles), the Malaysian Code on Corporate Governance (“MCCG”), the UNPRI Principles for Responsible Investing, the OECD Principles of Corporate Governance and the ICGN Global Governance Principles.

Khazanah's expectations and stewardship principles applies generally in all instances and geographies. However, we are conscious of local conditions (e.g., social context, legal frameworks, sustainability policies and market practices) and where they fall short of our expectations, we will engage stakeholders to promote a reasonable, practical and equitable transition towards eventual alignment with these principles. In terms of voting, Khazanah may choose not to vote at the general meetings of companies within our Public Markets portfolio and in companies in which Khazanah owns less than 5% of voting shares. Furthermore, we are cognizant of the need for flexibility in dealing with unique circumstances and allow for exception on a case-by-case basis at our discretion, if there are compelling reasons to do so.

This Shareholder Expectations and Investment Stewardship document is intended to be a living document and may be subject to revision as and when necessary. It should be read in conjunction with the [Investment Policy Statement](#) , and the [Sustainable Investing Policy](#)  which are accessible on the Khazanah website (<https://www.khazanah.com.my/how-we-invest/investment-approach/>).

1. Just Transition refers to moving to higher standards of Environmental, Social and Governance practices while minimising and carefully managing any unintended consequences on relevant stakeholders.

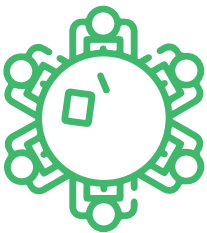
SHAREHOLDER EXPECTATIONS

This section describes Khazanah's shareholder expectations with regards to our investments.



1. Companies must generate long-term shareholder value

We maintain that the chief purpose of our investments is to generate long-term sustainable returns for our stakeholders, that is, the Malaysian people. In line with this purpose, Khazanah targets Total Shareholder Returns ("TSR") over the long-term, which are indicated by sustained performance in shorter term metrics such as profits and EPS. However, the achievement of short-term targets represented by these metrics should not be at the expense of long-term sustainable returns. Companies should consider social and environmental dimensions in addition to financial targets in order to seek optimal returns for its stakeholders without jeopardizing future value. Thereafter, companies must ensure that their strategies are supported by the right calibration of capabilities and resources, and that its internal policies, processes and controls are set based on best practices.



2. The Board of Directors hold ultimate responsibility for corporate strategy, monitoring and oversight

The Board of Directors ("Board") must ensure and communicate a clear vision when it comes to a company's mission and purpose. They must ensure that this vision is translated into the company's strategy, which should incorporate sustainability considerations to guarantee the long-term viability of the business. This is key to the company's ability to capitalise on emerging opportunities or to withstand any future volatility and uncertainty, such that stakeholder value is protected and grown in the long run.

Any corporate strategy approved by the Board, no matter how comprehensively thought through, is only meaningful if well executed. Hence, a critical step is the selection of a capable management team, led by a competent CEO, following a rigorous and transparent hiring process. The Board's role is to then hold that team to account by providing robust and constructive review of managements' proposals followed by close monitoring and oversight to ensure successful delivery of strategic plans.

In acting in the best interest of the company, the Board must be unconflicted, transparent and committed to the highest standards of integrity and accountability. Khazanah encourages a maximum of twelve (12) directors on the Board and a majority independent board in the interest of objectivity and effective check and balance. The Board needs to be supported by properly functioning Board Committees which may include the following functions with the corresponding general responsibilities:

- a. Audit: ensure accounts are up to standards, assure the integrity, quality and independence of audits, reporting and disclosures, and ensure the robustness of internal controls.
- b. Nomination: evaluate Board composition and lead the process for Board and top management succession planning and appointment.
- c. Remuneration: oversee the design, implementation and evaluation of remuneration policies and benefit schemes for all executives, to align with the company's long-term objectives.

The Board may also constitute other committees as it deems appropriate for the company.

To sustain its effectiveness in undertaking the above, the Board must regularly evaluate its performance and adequacy in skills, competence, diversity, experience, time commitment and independence, both as a collective and at the individual director level. As a matter of best practice, the board evaluation should periodically be conducted by an independent third party to ensure that the results remain robust and objective. Any gaps should be met with training, director refresh, or both, so that the board always maintains the right level of agility, acumen, and remains fit-for-purpose.



3. The Chairperson as a leader who sets the right culture

Our view is that the Chairperson of the Board is pivotal in bringing about the right culture of performance, duty and integrity. A good Chairperson engenders the sense of custodianship amongst his or her peer directors, and together the Board sets the tone from the top for the entire company. In doing so, the Chairperson is also the conduit for shareholders' and other stakeholders' concerns and grievances by facilitating well-functioning feedback channels. This is conducted in several ways, including performance reviews of the Board directors as well as the management executives.

In the spirit of objectivity in the provision of oversight and supervision of the company's management, the role of Chairperson of the Board should be separate from that of CEO/MD. An independent Chairperson is an ideal practice of good corporate governance, however if this is not the case then the presence of a Senior Independent Director is necessary to provide counterbalance. Ex-CEOs/MDs of the respective companies should not assume the role of the Board Chair until sufficient time has lapsed to completely avoid situations of conflict.



4. **The right management team must be selected and incentivised to be aligned with the company's success**

The right management team led by an able CEO must be selected following a rigorous and transparent hiring process. This is the primary responsibility of the Board, supported by the Nomination Committee (or equivalent) which must ensure that the policies concerning talent sourcing, review, evaluation and development are not only relevant based on market standards but also commensurate with the complexity and demands of the positions involved.

The design of remuneration policies must overcome the principal-agent problem inherent in companies by aligning the interests of management and stakeholders. This is typically done by linking compensation and benefits with the delivery of sustainable strategy and performance of the company. In addition, Khazanah is supportive of employee incentive schemes insofar as pay-outs being directly tied to the achievement of specific key performance indicators ("KPIs"). To avoid short termism, Khazanah recommends vesting periods of up to five (5) years in such employee incentive schemes. Finally, there must be consequences for executives who are involved in material risk failings, incidences of poor conduct and such consequences should be reflected in the scheme.



5. **Protection of shareholder rights**

Khazanah values the protection of the rights of the shareholder, including minorities. We believe in the equitable treatment of shareholders and protection of the capital they provide against misuse and misappropriation. Shareholders reserve the fundamental right to vote on changes that affect the company and matters that may impact their best interest, after sufficient time to consider resolutions and the opportunity to seek clarification from the Board and external auditors during general meetings. Each share should count for one vote to avoid disproportionate control to certain shareholders including through dual class structures, unless it is in the best interest of the company or there are compelling reasons that necessitate this.

In Khazanah's view, engagement will remain one of the most important tools to ensure that we are able to carry out our duty as steward for the nation's generational wealth. We will continuously engage with our investee companies regarding our expectations and collaborate for the best outcome. In all instances, we maintain that a vote at a general meeting should follow from productive engagements with our investee companies. To this end, our votes and the interests they represent are guided by the Khazanah Voting Guidelines provided in the next section.



6. Sustainability considerations to future-proof our investee companies

Khazanah encourages its investee companies to create sustainable impact and generate positive outcomes when capitalising on opportunities and managing risks arising from ESG factors. In line with our aim to Do Better, Khazanah will actively engage with our investee companies to provide support as they embark on their sustainability journeys, including transitioning responsibly.

Environment

Failing to consider the impact of climate is a costly risk both from a business perspective as well as from the standpoint of a global corporate citizen. Hence, sustainable business practices need to be incorporated throughout the value chain as well as in touchpoints with stakeholders so that the company is better able to cope with changes in factors of production, consumer preferences, or regulations. As a start, companies should assume responsibility to commit towards a common goal; that of reduction in emissions. On 10 June 2022, Khazanah had announced its own target of net zero greenhouse gas emissions by 2050, and our aim is for this target to be achieved at the portfolio level. Therefore, we expect our investee companies to have clear emissions reduction targets that are clearly articulated and periodically tracked.

Social

It is our belief that diversity on the Board, in the management and throughout the workforce is correlated with more resilient performance, creativity and agility in navigating a rapidly changing environment, and responsiveness to customers and other stakeholders. In line with the MCCG, we firmly believe that having diverse perspectives, skills, backgrounds, gender, ethnicity, age and other demographic factors equips a company with the proper makeup to serve a community that itself is diverse and ever changing. To this end, Khazanah's target is for investee companies to have at least 30% women directors on their Boards. In addition, companies should implement policies concerning Diversity, Equity and Inclusion ("DEI") that aims to remove discrimination while promoting participation and development.

Khazanah expects generational diversity on the Boards of its investee companies to ensure that they thrive in an increasingly complex world. Sustainability requires collaboration and mutual learning amongst different age groups to tackle disruptions and build resilience. Thus, while we do not place a limit to the age of directors on the board, each director must be able to perform their duties and contribute positively as described above.

Khazanah would like to emphasize the need for companies to honour the dignity and rights of workers. This includes aligning with appropriate standards on minimum age requirements, remuneration, health and safety of the workplace and living conditions when accommodations are provided by the employer.

Governance

Good corporate governance lays the foundation for financially strong and sustainable companies, which in turn, will perpetuate confidence throughout the wider ecosystem. As such, we expect our investee companies to exemplify the best practices set forth by international bodies and local regulators. In the Malaysian context, Khazanah views the MCCG as a key reference for our companies and expects extensive disclosures as part of compliance. However, we recognise that companies may be at different stages of the journey towards corporate governance maturity and therefore, we expect disclosures on compliance to be supplemented with quantifiable metrics and measurable targets, accompanied by meaningful descriptions of the company's progress. Nevertheless, we will continue to engage with those companies to ensure that progress towards compliance is proceeding according to plan.

Lastly, in line with linking remuneration to strategy, we expect that management KPIs be linked to ESG targets set at the corporate level. Such alignment of incentives closes the loop on the overall sustainability agenda by ensuring that every decision maker and strategy implementor acts to deliver the common goal as we embark on journey of Just Transition: to provide a better and more secure future for all.

VOTING GUIDELINES

This section outlines the guidelines with which Khazanah will exercise its shareholder right to vote at the general meetings of listed companies. To the extent that they are deemed applicable, the Voting Guidelines are also a useful tool to improve corporate governance in companies for which shares are not publicly traded or in which Khazanah is a majority shareholder. As such, the Voting Guidelines should still be considered in this regard.

No	Resolution type	Voting guidelines
1.	Director re-election	<p>A. On resolutions to re-elect a director, we will vote AGAINST the resolution if:</p> <ul style="list-style-type: none"> i. the director had attended fewer than 75% of the board meetings and/or relevant committee meetings respectively. ii. are deemed to be over-committed, where over-commitment is defined as: <ul style="list-style-type: none"> a) For non-CEO board members, serving on more than five (5) Boards of public-listed companies ("PLCs"), excluding the PLC's subsidiaries. b) For directors of public-listed companies with senior executive responsibilities (such as CEOs or MDs), serving on more than one (1) Board of a PLC, not including the Board on which they sit in their capacity as CEO or Managing Director. iii. it is to re-elect an independent director who has served for more than nine (9) years. iv. in the case of a resolution to re-elect a non-independent director, where the resulting Board consists of less than one-third independent directors. <p>B. On resolutions to re-elect the chairperson, we will vote AGAINST the resolution if:</p> <ul style="list-style-type: none"> i. the company does not have key committees with responsibilities for, at a minimum, audit, remuneration, or nomination matters. ii. the chairperson is the same person as the chairperson of any of the committees that cover audit, nomination, remuneration, investment or procurement functions. iii. the chairperson is the same person as the CEO / MD. iv. the chairperson is an ex-CEO / MD of the company. v. in the case of a non-independent chairperson, if there is no lead / senior independent director, unless the nomination was effected through the government's Special Share. vi. From 2024 onwards, there is no carbon neutrality and/or Net Zero 2050 greenhouse gas emissions target; or there is no demonstrated commitment shown towards meeting carbon neutrality and/or net zero greenhouse gas emissions targets. <p>C. When considering the Board composition and expertise, we will vote AGAINST a resolution to re-elect directors who are deemed:</p>

No	Resolution type	Voting guidelines
		<ul style="list-style-type: none"> i. not to have appropriate skills, experience and knowledge that fit the company's objectives and strategic goals; ii. to have poor reputation and conduct, and/or found to have not acted in the best interest of the company; iii. to have had a record of mismanagement or involvement in financial scandals in any other company; and iv. a politician, unless the nomination was effected through the government's Special Share. A "politician" is defined as an individual who holds a leadership position in a political party, whether at the national, state or district level, or is a sitting member of parliament or state assembly. <p>D. We will vote FOR proposals to re-elect:</p> <ul style="list-style-type: none"> i. a fully independent chairperson. ii. a lead / senior independent director. <p>E. We will vote AGAINST a proposal to re-elect the Chairperson and the Chairperson of the Nomination Committee if from 2025 onwards, the Board does not have at least 30% women directors, or a plan to achieve 30% women directors if this target has not yet been met.</p>
2.	Payment of non-executive director fees, allowances and benefits	<p>A. We will vote AGAINST a resolution to approve directors' fees if:</p> <ul style="list-style-type: none"> i. past decisions from the Board are shown to have brought the company into a position of financial distress. ii. the directors' fees are excessive and unreasonable compared to the benchmark and practices of the market and in relation to the performance of the company. iii. the resolution is for future services which the director(s) have yet to render, i.e., exceeding the time period starting from the conclusion of the current AGM until the next AGM of the company. iv. the resolution is to approve a general mandate that would give the Board or Board committees authority to determine the fees for non- executive directors without first getting consent from shareholders. v. the resolution proposes performance-based pay for non-executive directors and non-executive chairperson(s) as these too closely emulate management incentives. <p>B. We will vote FOR reasonable proposals of claw back provisions and restrictions on management and director incentive plans.</p>

No	Resolution type	Voting guidelines
3.	Accounts, audit and internal controls	<p>A. If any of the following events apply:</p> <ul style="list-style-type: none"> i. The Board has knowingly failed to uphold their duty regarding true and fair reporting. ii. The Board has knowingly failed to alert shareholders to the risk of liquidity or solvency. iii. The Board has failed to implement adequate internal controls. iv. We will vote in any one of the following ways, depending on the specific circumstances: <ul style="list-style-type: none"> a) We will vote AGAINST a resolution approving directors' fees; b) We will vote AGAINST a resolution to re-elect all directors; c) We will vote AGAINST a resolution to re-elect specific directors who are deemed to be at fault; or d) We will vote AGAINST a resolution to re-elect all directors on the audit committee. <p>B. We will vote FOR management's recommendation for the appointment of an external auditor, except for instances in which the external auditor also receives non-audit related fees (i.e. for other advisory services) that come to a total amount that is significantly more than audit and audit-related fees paid by the company to the external auditor. In this instance, we will evaluate on a case-by- case basis whether the remuneration arrangement has impaired the objectivity of the external auditor and represent a potential conflict of interest.</p>
4.	Allotment and issuance of shares	<p>A. We will vote FOR proposals for the issuance of new shares where:</p> <ul style="list-style-type: none"> i. there is clearly stated planned utilisation of proceeds; ii. the issuance would not lead to excessive dilution of existing share capital; and iii. the issuance is deemed to benefit the company and shareholders. <p>B. We will vote AGAINST a resolution if any the above requirements are not met, unless the issuance is done in order to comply with specific meet regulatory requirements or expectations.</p>
5.	Share repurchase or buy-backs	<p>A. We will vote FOR proposals for share repurchases or buy-backs where</p> <ul style="list-style-type: none"> i. it is deemed that the repurchase or buy-backs will be in the best interest of the company and all shareholders; and ii. the company's financial position is underpinned by a strong balance sheet and stable cashflows.

No	Resolution type	Voting guidelines
6	Dividend Reinvestment Scheme (“DRS”)	<p>A. We will vote AGAINST DRS proposals unless the following conditions are met:</p> <ul style="list-style-type: none"> i. The company (a) demonstrates potential for growth such that the proposed DRS is accretive on a per share basis; and (b) presents a balance sheet and cashflow position that warrants the DRS proposal; OR ii. The DRS enables the company to meet specific regulatory requirements or expectations.
7	Related Party Transaction (“RPT”) and Recurrent Related Party Transaction (“RRPT”)	<p>A. We will vote FOR management’s recommendation for RPT and RRPT(s) where the transactions have been:</p> <ul style="list-style-type: none"> i. conducted on sound commercial terms and in the best interest of the company. ii. reviewed and approved from independent and qualified experts (e.g., independent directors, specially formed committees and/ or advisor(s)). iii. completed on arm’s length terms. iv. publicly disclosed. v. submitted to shareholders for approval, where appropriate. <p>B. We will ABSTAIN from voting on RPT/RRPT resolutions where the related party in the RPT/RRPT involves Khazanah.</p>
8	Shareholder rights	<p>A. We will vote AGAINST resolutions that “bundle” voting items. Proposals subject to shareholder decision should be presented as individual items, unless the resolutions are inter-conditional or closely related such that the resolutions must be considered together.</p> <p>B. We will vote AGAINST all resolutions to introduce structures that diverge from “one share, one vote” unless it is in the best interest of the company or there are compelling circumstances that necessitate this.</p> <p>C. We will vote AGAINST any resolutions to introduce dual class share structures unless it is in the best interest of the company or there are compelling circumstances that necessitate this.</p> <p>D. We will vote AGAINST any resolutions to introduce anti-takeover defence mechanisms unless they are deemed to be in the best interest of shareholders and the company, and not to shield management and the Board from accountability.</p> <p>E. We will vote FOR proposals that are in line with our nominations, remuneration and audit committee principles.</p> <p>F. We will vote AGAINST all resolutions or management proposals that do not disclose adequate and relevant information relating to proposed transactions to all shareholders.</p>



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