



# KNB 2019

Khazanah Nasional Berhad

## Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

### Principle 1

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

Khazanah Nasional Berhad ("Khazanah") was incorporated under the Malaysian Companies Act 1965 (now Companies Act 2016) on 3 September 1993 as a public limited company. Except for one share owned by the Federal Lands Commissioner (Incorporated), all the share capital of Khazanah is owned by the Minister of Finance Incorporated, a body incorporated pursuant to the Ministry of Finance (Incorporation) Act 1957.

Khazanah is governed by the Malaysian Companies Act and other applicable laws, and various internal governance and accountability frameworks that establish a clear structure of responsibility, delegated authority and accountability.

Khazanah's legal relationship with the Government of Malaysia is disclosed on our website.

<https://www.khazanah.com.my/who-we-are/about-us/>

### Principle 2

The policy purpose of the SWF should be clearly defined and publicly disclosed.

In 2018, the Government of Malaysia initiated a corporate restructuring and reorganisation of Khazanah, which involved leadership changes in the Board of Directors and Management as well as a refresh of Khazanah's mandate and objectives.

Khazanah's mandate is to grow Malaysia's long-term wealth. Grow in this context is to sustainably increase the value of our investments while safeguarding the financial capital injected into the fund. Long-term refers to a period spanning generations and focuses on ensuring future generations' ability to meet their needs.

Wealth refers to the value of Khazanah's financial assets and economic development outcomes for the nation.

The refreshed mandate and objectives are available in our annual report and our website.

<https://www.khazanah.com.my/how-we-invest/investment-approach/>

### Principle 3

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

Our Board of Directors includes a representative from the Ministry of Economic Affairs, ensuring consistency and alignment of our investment activities with national economic policies.

### Principle 4

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

Our principal funding is in the form of shareholder equity, as disclosed in our audited financial statements. We do not receive regular inflows of equity capital from our shareholders. In addition, we utilise a certain amount of debt financing as well as sale proceeds from divestments to fund our investment activities.

Details on our shareholder's funds and borrowings are available in the annual report and rating agency reports.

As we are incorporated as a public limited company, returns to our shareholders are made in the form of dividends, which are paid out of our retained earnings.

### Principle 5

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

We provide periodic financial and management performance reports, including audited financial statements to the Ministry of Finance, and an annual report to the public with a summary of our audited financial statements.

Our audited financial statements are filed with the Companies Commission of Malaysia and available on our website: <https://www.khazanah.com.my/our-performance/financial-highlights/>

## Pillar 2: Institutional

Institutional Framework and Governance Structure.

### Principle 6

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

The Board of Directors (Board) governs our operations and is ultimately accountable and responsible for Khazanah's overall governance – this includes both performance and conformance matters.

A Board Charter sets out the roles and responsibilities of the Board in overseeing the management of Khazanah.

The Board is assisted by three subcommittees – the Executive Committee (EXCO), the Audit and Risk Committee (ARC) and the Nomination and Remuneration Committee (NRC).

In addition, a Management Committee (MC) and a newly formed Investments Committee (IC) were established in September 2018 to assist the Board in managing and overseeing operational and investment-related matters.

Our Framework of Integrity, Governance and Risk Management (FIGR) includes a Risk Management Policy, Schedule of Matters for the Board (SMB), Limits of Authority (LOA) for the Management, a Code of Conduct and the appropriate policies and procedures.

#### Principle 7

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

Khazanah's objectives are set out by our mandate as detailed in Principle 2. The Board of Directors governs our strategy and operations. The Board members consist of representatives from the Government and private sector with diverse professional backgrounds and expertise.

#### Principle 8

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

The Board of Directors meets regularly and is ultimately accountable and responsible for Khazanah's overall governance and performance.

A Board Charter sets out the roles and responsibilities of the Board in overseeing the management of Khazanah. The directors have a fiduciary responsibility as stipulated by the Malaysian Companies Act 2016 to act in the best interests of Khazanah.

The Board is assisted by three subcommittees – the Executive Committee (EXCO), the Audit and Risk Committee (ARC), and the Nomination and Remuneration Committee (NRC). The four-member EXCO comprises three Non-Executive Directors and an Executive Director; the three-member ARC consists of three independent Non-Executive Directors, and the NRC comprises three Non-Executive Directors. In addition, a Management Committee (MC) and a newly formed Investment Committee (IC) were established in September 2018 to assist the Board in managing and overseeing operational and investment-related matters.

<https://www.khazanah.com.my/who-we-are/corporate-governance/>

#### Principle 9

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

In line with Khazanah's SMB and LOA, Management proposes investment strategies and proposals to the Investment Committee, EXCO and Board as approving authorities. Management is responsible for the execution and management of all approved investments. The Board subcommittees provide independent views to ensure proper governance in the investment decision making process.

#### Principle 10

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Khazanah's accountability framework is defined in our Board Charter.

Similarly, relevant Charter and Terms of Reference are in place for the Board Committees and Management Committees.

#### Principle 11

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

We disclose a summary of our financial statements during the Khazanah Annual Review briefing in the first quarter of every year, followed by the publication of an annual report. In 2019, the audited financial statements were made available on our website after they were approved by the Board of Directors.

#### Principle 12

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

Khazanah's financial statements are audited by an independent external auditor (Ernst & Young) as well as the Auditor-General's Office, and our audited financial statements are submitted to the Companies Commission of Malaysia annually.

The statements are published on our website: <https://www.khazanah.com.my/our-performance/full-financial-statement/>

#### Principle 13

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

The Board and/or relevant Board committees approve company-wide policies, while the Management Committee and/or Head of Division approve relevant processes and procedures.

All policies, processes and procedures clearly define parameters and operational guidelines to serve as a guide to employees for the purpose of compliance with internal controls and applicable laws.

All employees are provided with a Code of Conduct handbook which sets out Khazanah's standards for ethical business practices.

#### Principle 14

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

Khazanah clearly defines the principles for conduct and selection of third parties in our Supplier Code of Business Ethics. These principles are further enforced in our legal terms of engagements with all third parties.

<https://www.khazanah.com.my/who-we-are/corporate-governance/>

#### Principle 15

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

We comply with the appropriate regulatory and disclosure requirements in the countries in which we operate. Investment, Finance, Legal as well as Governance, Risks and Compliance teams, together with external advisors, work closely to manage potential legal, regulatory and compliance risks.

#### Principle 16

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

Our Framework of Integrity, Governance and Risk Management (FIGR) serves as a guide for the effective management of risks, and to inculcate a culture of good corporate governance and risk management throughout the institution. The framework, adopted by the Board in 2004, was updated in November 2018 to highlight the Board's oversight function and Khazanah's core values.

The FIGR includes a Risk Management Policy, Schedule of Matters for the Board ("SMB"), Limits of Authority ("LOA") for the Management, a Code of Conduct and the appropriate policies and procedures which guide our employees in their actions and behaviour. It is available on our website:

<https://www.khazanah.com.my/who-we-are/corporate-governance/>

#### Principle 17

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

Khazanah's summary audited financial statements and performance information are available publicly in our annual report, the Khazanah Annual Review briefing and our website. We provide adequate and frequent disclosure of our financial position through rating agencies.

Our audited financial statements are filed with the Companies Commission of Malaysia and the financial statements for 2018 are available on our website: <https://www.khazanah.com.my/our-performance/financial-highlights/>

#### Pillar 3: Investment

## Principle 18

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

The Investment Policy Statement (IPS) clearly outlines our Investment mandate, objectives and principles as well as our risk appetite. Our portfolio and funding strategies incorporate parameters and limits as stipulated by our Asset-Liability Management framework.

The large majority of our investments are conducted using in-house capabilities. Where we do engage external managers, we have a framework for the selection and monitoring processes which is currently under review to reflect the new mandate.

The IPS is in our annual report and available on our website: <https://www.khazanah.com.my/how-we-invest/investment-approach/>

## Principle 19

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

Our investment decisions are consistent with our Investment Policy Statement. The Commercial fund aims to achieve optimal risk-adjusted returns, whilst Strategic fund, undertake strategic investments and hold strategic national assets with long-term economic benefits.

We disclose selected companies in both our Commercial and Strategic Funds in our annual report.

Our assets are managed consistently with generally accepted principles. We also abide by responsible investing practices that take into account environment, social and governance (ESG) factors to better manage risk and generate sustainable, long-term returns. We are signatories to the UN Principles for Responsible Investment (UNPRI) and the Malaysian Code for Institutional Investors, which promote the active integration of ESG considerations into investment analysis and decision-making, and asset ownership.

## Principle 20



20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

We do not have, nor do we seek access to privileged information or seek to apply inappropriate influence through the Government.

Khazanah's Information Barrier Policy provides further guidance to control the flow of Material Non-Public Information ("MNPI") within Khazanah to minimise the risk of breach of relevant Insider Trading provisions and to generally protect information confidentiality.

#### Principle 21

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

We exercise our ownership rights in our investments, where appropriate, to protect our interests in our investments.

Khazanah's Voting Policy has been approved by EXCO in August 2019 and relevant implementation plan is currently underway.

#### Principle 22

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

#### Principle 23

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

Our assets and investment performance are measured and reported to the Board and the Government according to clearly defined principles or standards.

We measure our financial performance primarily through two main indicators:

- Realisable Asset Value (RAV): Market value of all equities, securities and cash held. Where no market price is available, a conservative estimate of value is used and will be subject to fair value adjustments
- Net Asset Value (NAV): RAV less total debts

RAV and NAV changes are measured using Time-Weighted Rate of Return (TWRR).

#### Principle 24

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

We conduct an annual review of our implementation of the GAPP.