

# GOVERNANCE AND ACCOUNTABILITY FRAMEWORK

**WE ARE GUIDED BY A FRAMEWORK THAT ESTABLISHES A CLEAR RESPONSIBILITY, AUTHORITY AND GOVERNANCE STRUCTURE.**

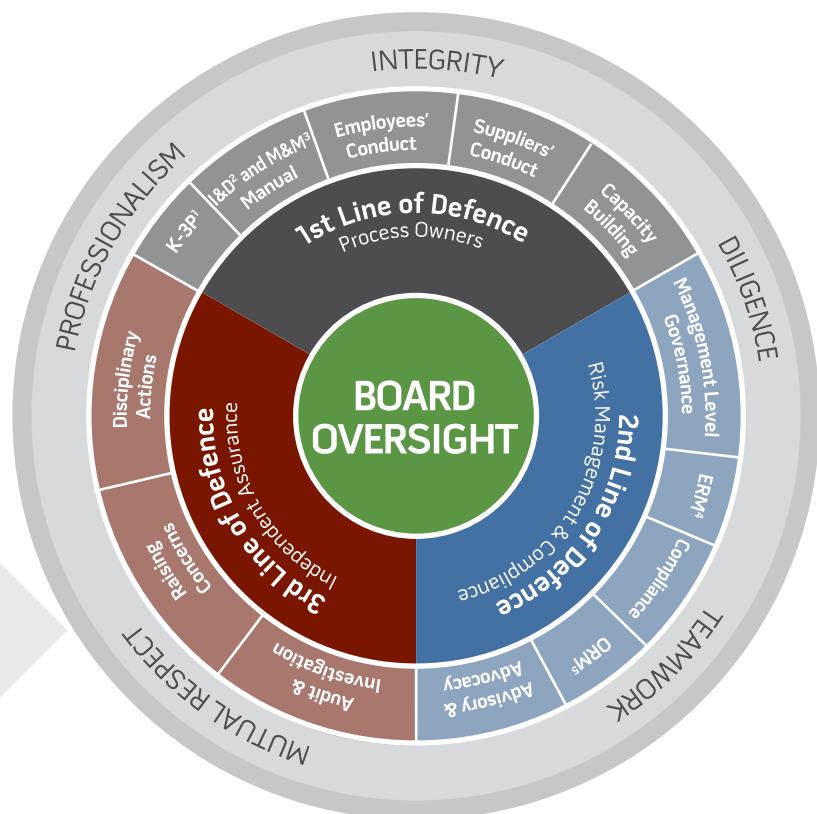
We operate within the framework of a clearly defined mandate that is aligned with the national development objectives of the Government.

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. Tun Dr Mahathir Mohamad, the Prime Minister of Malaysia, is the Chairman of our Board and supported by a group of qualified individuals with diverse professional backgrounds and expertise as Board members. 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). 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 three-member NRC comprises three Non-Executive Directors. 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)* (Figure 1) 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, Limits of Authority for the Management, a Code of Conduct* and the appropriate policies and procedures.

**Figure 1: Framework of Integrity, Governance and Risk Management**



<sup>1</sup> K-3P - Policies, Processes & Procedures  
<sup>2</sup> I&D - Investment & Divestment  
<sup>3</sup> M&M - Management & Monitoring  
<sup>4</sup> ERM - Enterprise Risk Management  
<sup>5</sup> ORM - Operational Risk Management

## GOVERNANCE AND ACCOUNTABILITY FRAMEWORK

We comply with statutory public disclosure requirements concerning our investments, divestments, and capital-raising exercises. Further to the same, we make appropriate disclosures of our performance and operations, be they required by law and the relevant authorities or voluntary dissemination of information to our stakeholders, including the public, across various platforms and forums.

Our accounts are audited by an independent external auditor, and the audited financial statements are submitted to the Companies Commission of Malaysia. Financial data are disclosed to our shareholders (Minister of Finance, Inc), Bank Negara Malaysia and the Department of Statistics on a regular basis. We also make public key information on our official website and through annual publications including *The Khazanah Report*.

In our ongoing efforts to further enhance our governance and accountability framework, we also support and contribute to initiatives and best practices that promote good governance, strong risk management, and long-term sustainability, at both domestic and international levels. Such initiatives include:

1. Member of the International Forum of Sovereign Wealth Funds (IFSWF), where we voluntarily endorse the Santiago Principles promoting transparency, good governance, accountability and prudent investment practices whilst encouraging a more open dialogue and deeper understanding of SWF activities.



*Gemma James, Senior Manager, Principles for Responsible Investment (PRI) sharing her views at the Khazanah Sustainability Circle #1 on 19 July 2018*

2. Signatory of the United Nations-supported Principles for Responsible Investment (UNPRI), where we subscribe to the six principles that provide options for incorporating Environmental, Social and Governance (ESG) elements into our investment practice.
3. Member of FCLTGlobal (Focusing Capital on the Long Term), where we contribute to efforts in developing and encouraging a longer-term focus in business and investment decision-making.
4. Signatory of the Malaysian Anti-Corruption Commission's (MACC) Corporate Integrity Pledge, which underlines our firm commitment to integrity and good governance.
5. Signatory of the Malaysian Code for Institutional Investors (MCII) and a member of the Institutional Investors Council Malaysia (IIC).



GOVERNANCE AND ACCOUNTABILITY FRAMEWORK

**COMMITMENT TO INSTITUTIONAL GOOD GOVERNANCE**

KHAZANAH IS A SIGNATORY OF THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS AND A MEMBER OF THE INSTITUTIONAL INVESTORS COUNCIL MALAYSIA.



We fully support the six principles of the Code and our full Statement of Compliance is publicly available through our website.

**1. Institutional investors should disclose the policies on their stewardship responsibilities**

Our FIGR provides a clear responsibility, authority and governance structure for Khazanah; and guides all our investments activities and business conduct.

**2. Institutional investors should monitor their investee companies**

Khazanah’s investment portfolios are actively monitored and managed by investment teams in accordance with our *Statements of Practice for Management and Monitoring*. This includes the development of *Value Creation Plans* and monitoring of performance against identified targets.

**3. Institutional investors should engage with investee companies as appropriate**

We are guided by a *Five-Point Engagement Framework* in our collaborative value creation

approach with our investee companies. The framework helps us to monitor the progress of the companies while empowering them to become high-performing entities.

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

Khazanah has robust policies and processes in place to manage conflicts, which include our *Staff Code of Conduct Handbook* and the *Supplier Code of Business Ethics*. Both documents are publicly available through our website.

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

**6. Institutional investors should publish a voting policy**

Khazanah is currently putting in place the relevant policies and frameworks for Principles 5 and 6.



Suhana Dewi Selamat, Chief Risk Officer of Khazanah, graduates as a Certified Integrity Officer accredited by the Malaysia Anti-Corruption Academy on 6 September 2018

## GOVERNANCE AND ACCOUNTABILITY FRAMEWORK

## COMMITMENT TO RESPONSIBLE INVESTMENT

KHAZANAH IS A SIGNATORY OF THE UNITED NATIONS-SUPPORTED PRINCIPLES FOR RESPONSIBLE INVESTMENT. AS MALAYSIA'S SOVEREIGN WEALTH FUND AND GUARDIAN OF MALAYSIA'S INTERGENERATIONAL WEALTH, WE HAVE A DUTY TO ACT IN THE BEST LONG-TERM INTERESTS OF OUR BENEFICIARIES.



We believe that environmental, social, and corporate governance issues affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time. We also recognise that applying these Principles may better align investors, including ourselves, with broader objectives of society.

Therefore, where consistent with our fiduciary responsibilities, we commit to the following:



### 1 We will incorporate ESG issues into investment analysis and decision-making processes.

Our *Investment Policy* outlines our commitment to sustainability as a long-term investor and to consider environmental, social and governance factors in the investments we undertake.



### 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

We actively exercise our ownership rights and apply various methods of engagement with our key investee companies to drive responsible business practices and deliver sustainable returns.



### 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

As part of our active engagement initiatives, we continuously advocate for better disclosure and transparency.



### 4 We will promote acceptance and implementation of the Principles within the investment industry.

We promote inclusive development and the sustainability agenda with the investment sector in Malaysia through sharing of insights and experience at industry events and in knowledge sharing platforms.



### 5 We will work together to enhance our effectiveness in implementing the Principles.

We take a collaborative stance in partnering, sharing and learning best practices as we believe in harnessing our collective knowledge to improve the investment ecosystem.



### 6 We will report on our activities and progress towards implementing the Principles.

We will start reporting on our responsible investment measures and progress on an annual basis in 2019.