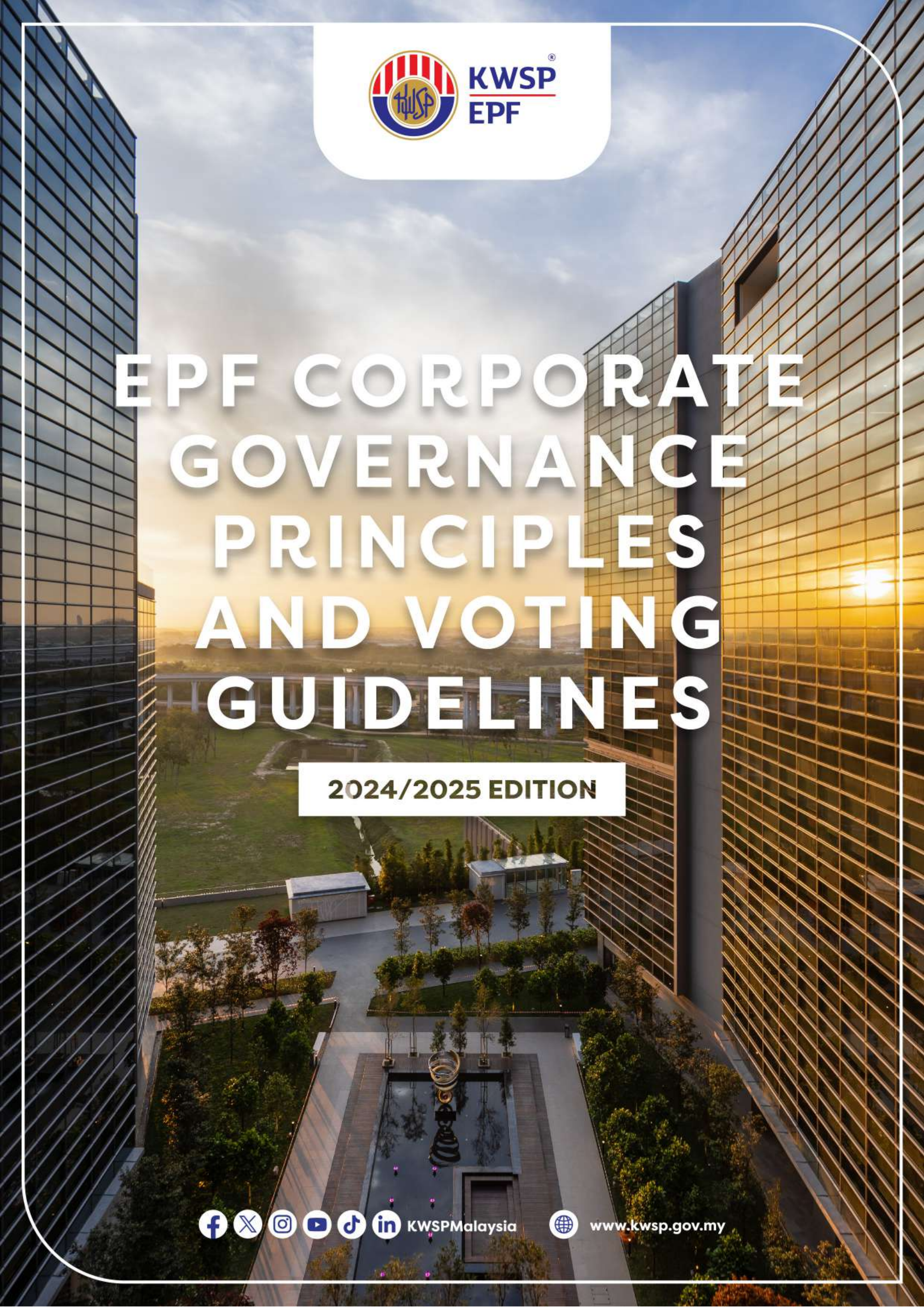

EPF CORPORATE GOVERNANCE PRINCIPLES AND VOTING GUIDELINES

2024/2025 EDITION

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Message From CEO

Dear Stakeholders,

I am honoured to present the Employees Provident Fund (EPF) Corporate Governance Principles and Voting Guidelines (2024/2025 Edition), a testament to EPF's dedication to strong corporate governance and the sustainable advancement of the capital market. With more than RM1.2 trillion in assets under management, the EPF is proud to stand as one of Malaysia's largest and responsible shareholder, safeguarding the retirement savings of its members.

As a founding member of the Institutional Investors Council (IIC), the EPF remains at the forefront of promoting responsible investment practices. Its involvement with the IIC highlights its commitment to the highest standards of governance, ensuring its investee companies exemplify transparency and resilience amidst market uncertainties. The EPF understands that governance lapses carry significant financial and reputational risks, which is why it is dedicated to nurturing strong, effective Boards within its investee companies. This commitment aligns with initiatives from the regulators such as the Malaysian Code of Corporate Governance issued by the Securities Commission Malaysia in 2021.

This document serves as a comprehensive guide for EPF's investee companies. For the 2024/2025 Edition, the EPF has escalated its voting stance regarding female directors, reflecting its commitment to gender diversity and inclusion at the Board level. Additionally, the EPF has enhanced its existing corporate governance expectations and voting stances, ensuring they align with the latest best practices and standards. The overall main content of this booklet has been improved to provide stakeholders with clearer and more detailed insights.

It is hoped that publicly listed companies on Bursa Malaysia will find this document invaluable as they work to strengthen their Boards. The EPF's collective effort is essential for advancing effective stewardship and contributing to the sustainable growth of our vibrant market landscape.

Thank you for your unwavering support and dedication to excellence.

Sincerely,

Ahmad Zulqarnain Onn
Chief Executive Officer
Employees Provident Fund (EPF)

Part 1: **Introduction**

1.1 Corporate Governance

Corporate governance encompasses the system of principles, rules, and practices that guide the direction and oversight of a company, ensuring that its Management acts in the best interests of shareholders and stakeholders. This framework underscores the core tenets of transparency, accountability, and ethical behaviour, affirming the commitment to sound corporate stewardship.

1.2 EPF Corporate Governance Principles

The EPF Corporate Governance Principles incorporate a collection of fundamental expectations established for its investee companies. These principles outline a set of guidelines and standards that govern the conduct and practices expected from the companies in which the EPF invests in, which are as follows:

1. **The Board of Directors should always act in the best interest of the company.**

   This principle underscores the fiduciary duty and legal responsibility of directors to prioritise the well-being of the company and its shareholders. This commitment is pivotal in maintaining good corporate governance and building trust in the business community.

2. **The company should conduct all of its businesses in a lawful and ethical manner.**

   It is a commitment to responsible and sustainable business practices that protect the company's reputation, build trust among stakeholders, and contribute to its long-term success. This principle guides the company in achieving its goals while upholding the highest standards of integrity and social responsibility.

3. **All rights of shareholders should be clearly defined and communicated to public.**

   This principle emphasises the importance of transparency on the rights of shareholders by clearly defining these rights and communicating them openly to the public to ensure a more accountable and trustworthy relationship between the company and its shareholders.

4. **All shareholders should receive fair treatment from the Board and Management.**

   This principle underscores the importance of equitable and impartial treatment for all shareholders by the Board and Management. This practice enhances investor confidence, reduces the risk of disputes, and contributes to the long-term success and sustainability of the company.

5. **The Board and its Committees should be structured to allow for independent decision-making.**

   This principle is to ensure decisions are made free from any influence by the Management or conflicts from other entities or individuals, guaranteeing they are always in the best interests of the company.

6. **Appropriate controls and procedures should be put in place to guide the Management's activities in running the day-to-day operations of the company.**

   Establishing appropriate controls and procedures is essential for effective management and smooth day-to-day operations within a company. These controls serve as a framework to guide and govern managerial activities, ensuring that they align with the company's goals, comply with regulations, and promote efficiency.

7. **The company's operating and financial activities, as well as its governance, should be reported to the shareholders in a transparent, accurate, and timely manner.**

   This commitment to transparency, accuracy, and timeliness in reporting to shareholders is foundational to building trust and maintaining a healthy corporate relationship.

8. **The Board should be free to compel the Management to explain its decisions and actions that are seen as not in the best interest of its shareholders.**

   This open line of communication between the Board and the Management ensures a robust system of checks and balances, promoting a culture of accountability and ultimately safeguarding the long-term success of the company.

1.3 EPF Sustainability Commitments

In line with its corporate vision and mission that aims to deliver sustainable returns for its members, the EPF has embarked on the journey to be a sustainable investor through the integration of Environmental, Social, and Governance (ESG) considerations into its investment decision-making process. The pathway is further defined by its commitment to two sustainable investment targets of having a fully ESG Compliant Portfolio by 2030 and a Climate Neutral Portfolio by 2050.

The EPF believes that the adoption of good sustainability practices by companies are essential to ensure business resilience. Therefore, we hold the following expectations on investee companies:

1. Companies should comply with the corporate governance code of the country where it operates, including expectations on sustainability matters.
2. The EPF outlines several expectations that are deemed foundational for effective management of material sustainability issues under the EPF Priority Issue and Priority Sector Policies (refer to the EPF website for the full policy documents). As such, companies are expected to fully comply with all core requirements under the policies within the stipulated timeframe of the phased approach.

Since the launch of the policies in 2022, the EPF has been actively communicating its ESG expectations through engagements with companies in its portfolio. Effective 2025, the EPF's voting guidelines will take into account investee companies' progress in meeting the EPF's ESG expectations as stated in its Sustainable Investment (SI) Policies and will progressively step up its voting decisions in line with the phased implementation of EPF SI Policies.

1.4 Shareholder Activism

Shareholder activism emphasises on sustainable and ethical business practices, long-term value creation and enhanced corporate governance. In order to optimise its financial returns, the EPF advocates for its investee companies to adopt best corporate governance standards that prioritise transparency, accountability, and responsiveness to protect shareholder interests.

The EPF's investee companies are expected to embrace these principles, engaging in transparent communication, and proactive dialogue with shareholders to build stronger, more resilient businesses that are poised for sustained success amidst evolving market dynamics and growing investor conscientiousness.

The EPF will also publish its voting decisions five days prior to the AGM. In instances where the EPF votes against a shareholder resolution, it will provide the rationale for its decision.

Part 2: **Board of Directors**

2.1 Board Composition

- The Board should ideally comprise of Independent, Non-Executive members with the relevant skills and experience.
- A Board candidate should go through a formal, rigorous, and transparent process to determine their suitability for the role. This process should be guided by clear criteria as required under Bursa Malaysia's Listing Requirements and Malaysian Code on Corporate Governance (MCCG) 2021.
- Assessment of each Director's performance and contribution to the Board is encouraged to be disclosed in the Annual Report.
- The EPF recommends having only one CEO (or equivalent) as an ex-officio member on the Board to represent top executives, while other executives may participate in Board discussions.
- If the Director is an active politician, the EPF has taken the stance to discourage such appointments, as recommended by the MCCG 2021.
- The Board of Directors is accountable for the effective oversight of sustainability performance and long term strategy of the company.
- The EPF has set a 30% target for female Directors on the Board and companies are required to set a plan to achieve this goal. Beyond gender, the EPF also promotes diversity in skills, experience, age, and cultural background to minimise 'groupthink' in decision-making.
- If necessary, the EPF may suggest a list of potential candidates as a Nominee Director to the Board to align shareholder objectives with the investee companies' strategic direction.

2.2 Board Size

- The Board size should balance diversity by including individuals with unique skills, expertise and experience.
- It should not be too large to ensure efficient decision-making, yet not too small to miss diverse perspectives. Directors should actively participate in Board decisions.

2.3 Board Committees

- The Chairman of the Board should refrain from being a member in any Board committees to facilitate open, thorough and more comprehensive discussions, particularly the Executives Committee (or equivalent and if applicable).
- Boards are recommended to establish Board committees such as Audit Committee (AC), Nomination Committee (NC), Remuneration Committee (RC) and Risk Management Committee (RMC), based on the following common criteria:
    - Each Committee (except for RMC) should consist of Non-Executive Directors only, while the majority of the Committee should be Independent Directors;
    - Each Committee should be chaired by an Independent Director; and
    - Members of the Committee should comprise of relevant skills, knowledge and experience for the best interests of the organisation.

Audit Committee

- Members should be financially literate, with at least one being a member of an accounting association.
- Significant audit findings should be disclosed in the Audit Committee Report in the company's Annual Report.
- The Board must ensure that the Internal Audit function directly reports to the Audit Committee.

Nomination Committee

- The company should grant its shareholders the flexibility to nominate new Directors to meet changes in the industry from time to time.
- If necessary, the EPF may suggest a list of potential candidates as a Nominee Director to the Board.
- The Annual Report should provide detailed information on:
    - Criteria for appointment of new Directors.
    - Composition, background and expertise of existing Directors, and how new appointments align with the Board's talent mix.
    - Thorough evaluation of Directors' independence.
    - Attendance records of Directors at regular and special meetings.
    - Succession plans for Senior Management and the Board.

Remuneration Committee

- The Remuneration Committee should ensure that the compensation structure motivates the Management and employees to enhance the company's long-term profitability and value.
- The Committee should also ensure that the total remuneration, including incentives such as share options and bonuses, aligns with executive responsibilities and reflects the company's performance.
- Non-Executive Directors should receive fair compensation based on their experience, contributions to the Board, and responsibilities to shareholders.

Risk Management Committee

- Risk Management Committee should be established at the Board level.
- The Committee is responsible to oversee all risk management activities, identifies key organisational risks, establishes necessary internal controls, and reports findings to the Board.
- The Committee should continuously carry out enterprise-wide programmes to create risk awareness through policies, procedures, organisational structure, trainings and defined responsibilities.

2.4 Board Meetings

- The Board should meet regularly, depending on the issues, size, and complexity of the company.
- Directors' attendance and the frequency of Board and Board Committee meetings should be disclosed in the Annual Report.

2.5 Separation of Power between Chairman and Chief Executive Officer

- The EPF believes that the combination of the two roles may impair the ability of Independent Directors to discharge their fiduciary duties.
- The separation of roles will promote healthy debate and discussion at Board level.
- The EPF encourages Chairman to be independent, if not, there should be a Senior Independent Director and the majority of Board must be independent.

2.6 Directorship Limit

- The EPF advocates for limiting the number of directorships in public-listed companies (PLCs) with a market capitalisation of over RM2 billion (large cap companies).
- Currently, the Main Market Listing Requirements (MMLR) allow individuals to hold up to five directorships regardless of market capitalisation. Given the significant commitment and complexities of overseeing large market cap companies, the EPF recommends capping the number of directorships in large cap companies at three. This ensures the Directors can dedicate adequate time and resources to their duties. For instance, Directors may hold a mix of three large cap and two small-mid cap directorships.
- The EPF recommends that companies disclose Directors' involvement in private companies, foundations, non-profits, NGOs, and charities in the Annual Reports to evaluate their time commitment.

2.7 Re-election of Directors

- Directors shall seek re-election once every three years.
  The EPF generally supports re-electing directors with the relevant qualifications, skills, and experience. Only in specific instances as outlined in the EPF's Voting Guidelines that it may object the re-election of directors.

- The EPF acknowledges incomplete disclosures in Annual Reports, such as omissions of information about Directors' interests or relationships that could impact their impartiality. To promote informed decision-making, the EPF strongly urges comprehensive and accurate disclosure of Directors' profiles, without material omissions.

2.8 Independent Directors' Tenure

- The EPF believes a Director's independence may be compromised after nine (9) years of service.

- Should the Board concludes or deduces that the Director is still able to contribute positively, the EPF will support re-election as a Non-Independent Director. However, the Board must ensure that independence is not compromised in such cases.

2.9 Directors' Remuneration

- The EPF requires transparent disclosure of remuneration for all Directors (Executive and Non-Executive).

- For Non-Executive Directors, past Board decisions affecting company performance will be considered when approving fees.

- For Executive Directors, the compensation should be fair, and not excessive, aligning with company performance and industry norms.

- If the Executive Director's pay is deemed excessive, the EPF will proactively discuss the matter with the company and the Board's Remuneration Committee.

- The EPF encourages its investee companies to table the resolution on Directors' fees separately instead of combining it together as a single resolution. This ensures transparency, allowing shareholders to evaluate and vote on Directors' fees at the individual level.

- The EPF is of the view that gratuity payments should not be excessive and should not have a significant financial impact on the company. Such payments should only be considered when the company's financial status is healthy and contributes to enhanced shareholder value. It is essential for companies to establish relevant metrics to evaluate the appropriateness of granting gratuities and a formal policy.

Part 3: Capital Management and Reward Mechanism

3.1 Employees Share Scheme

- This section concerns the Employees Share Schemes (ESS) or other equivalent share schemes to employees such as Long Term Incentive Plans (LTIP), involving new share issuance or granting existing shares to employees.
- The EPF emphasises linking these plans to individual performance or meeting group financial targets. A vesting period should be set, and awards should extend to all performing employees, not just the top Management. The EPF regards a 10% share issuance plan sufficient.
- The ESS should be limited to eligible employees, excluding Non-Executive Directors (NEDs) who have separate compensation (fees and allowances). This ensures fairness and transparency in the company's compensation structure based on individual contributions.

3.2 Share Buy-Back Scheme

- The company must ensure that the share buy-back scheme is conducted in the best interest of the company.
- The EPF is of the view that excess cash should be prioritised for dividend payment, instead of share buybacks.

3.3 New Share Issuance

- The EPF generally supports new share issuance for expansion but will evaluate if it leads to unnecessary and excessive dilution and if it is in the best interest of the company.
- The EPF believes that shareholder interests should be a priority, and dilution of ownership and control should be avoided unless essential.
- The EPF may vote AGAINST the authority for the company to issue up to 10% of paid-up capital in the company, in accordance with Section 75 and 76 of the Companies Act 2016, unless the issuance is done in order to comply with certain regulatory requirements or expectations.

3.4 Dividend Policy

- The EPF views a consistent dividend payment as a reflection of a fundamentally healthy company.
- The EPF recommends that companies establish and disclose a clear dividend policy in the Annual Reports.
- The EPF is supportive of a dividend reinvestment plan.

Part 4: Other Matters

4.1 Auditors

- The EPF will assess the auditors appointed by investee companies annually based on the following criteria:
  - There is a regular rotation of audit partners (at minimum following the Malaysian Institute of Accountants, MIA By-Laws requirement) to ensure independence and objectivity, reducing risks from long-term associations. It is important to ensure the independence and objectivity of auditors, which is crucial for maintaining the integrity and credibility of the audit process; and
  - The audit fees are fair and justifiable based on the scope and complexity of the work and subsequently, upholding their ethical responsibilities while providing reliable and valuable audit services to their clients.

4.2 Related Party Transactions

- The Board should disclose all information on transactions with related parties in a transparent, accurate, and timely manner.
- For significant transactions, the information provided should adhere to the Listing Requirements. However, the EPF encourages companies to exceed the minimum disclosure as required under the Listing Requirements.

4.3 Corporate Transactions

- The EPF will assess transactions that require shareholder's approval. Any corporate restructuring, mergers and acquisitions, or capital raising exercise should align with the company's long-term strategy and deliver sustainable value to shareholders.
- Any transactions that result in dilution to the EPF's shareholdings or expansionary exercise that requires new capital injection will require more detailed disclosure from the Board and the Management.

Part 5: Voting Guidelines at Shareholders Meeting

NO.	PROPOSED SHAREHOLDER RESOLUTIONS	GUIDELINES AND VOTING STANCE
1.	Re-election of Chairman	The EPF to vote **AGAINST** if: a. The Chairman and CEO/Managing Director is the same individual. b. The Chairman is a member of Audit, Nomination and/or Remuneration Committee.
2.	Re-election of Directors	The EPF to vote **AGAINST**: a. If the EPF deems the Director: i. Has a poor reputation or history of corporate misconduct; ii. Does not act in the best interest of the company. b. If the Director was involved in activities that may be defined as corrupt practices under the MACC Act 2009. c. If the Director failed to attend at least 75% of the Board and all Committee meetings, where applicable. d. If the Director is an active politician[1]. e. If the Director is an Independent who has served on the Board for more than nine (9) years. f. The Chairman of the Nomination Committee (or its equivalent) in the event where: i. There is an Independent Director who served more than nine (9) years on the Board; ii. The Board consists of less than 30% female Directors, lacking a defined action plan and committed timeframe to achieve gender diversity[2]. iii. The Board consists of Director who is an active politician.

NO.	PROPOSED SHAREHOLDER RESOLUTIONS	GUIDELINES AND VOTING STANCE
		[1] Active politician as defined under the Malaysian Code on Corporate Governance (MCCG) 2021 where a person is considered politically active if he/she is a Member of Parliament, State Assemblyman or holds a position at the Supreme Council, or division level in a political party. [2] The EPF on a case-to-case basis may consider an exception in the event of a sudden departure or passing of female Directors, 6 months prior to the re-election of the Chairman of Nomination Committee.
		The EPF to **ABSTAIN** if: a. The Director is an Independent who has served on the Board for more than eight (8) years.
3.	Directors' Remuneration	The EPF to vote **AGAINST**: a. On any proposal concerning the advance payment of Directors' fees where the EPF proposed to vote against his/her re-election during the meeting[3], as per the criteria outlined under the Re-Election of Directors. b. If the EPF deems the amount of Directors' fees is excessive against the industry benchmark and is not aligned with the performance of the company. The EPF may consider long-term investment return to shareholders as a factor in assessing the reasonableness of Directors' fees. c. A gratuity payment proposal if the EPF finds the gratuity amount to be excessive during a period of poor company performance and does not translate into the creation of shareholders' value. It is essential for companies to establish relevant metrics to evaluate the appropriateness of granting gratuities and a formal policy. [3] Only applicable for separate resolutions on the advance payment of fees to each director.
4.	Employees Share Scheme (ESS)	The EPF will vote **AGAINST** the ESS proposal if it encompasses any of the following terms: a. Granting of ESS to Non-Executive Directors. b. Total ESS issued exceeds 10% of the company's paid-up capital. c. No cancellation of outstanding ESS that is not yet exercised to ensure the dilution is capped.

NO.	PROPOSED SHAREHOLDER RESOLUTIONS	GUIDELINES AND VOTING STANCE
		d. Detailed criteria and basis of ESS allocation are not disclosed in the circulars or are not performance-based. The entire ESS issue is vested immediately and not on a staggered basis.
5.	Share Buy-Back Scheme	The EPF to vote **AGAINST** under all or the majority of the following circumstances: a. Companies exhibiting a weak balance sheet and high gearing ratio compared to their industry peers; b. Companies perceived as unable to generate sufficient cashflows to fulfill its current and future financial obligations; c. Declining trend in dividend payout ratio over the past three (3) years compared to their industry peers; and d. Historical evidence of the company's failure to utilise the share buyback mandate in the best interest of shareholders.
6.	New Share Issuance	The EPF may vote **AGAINST** granting the authority for the company to issue up to 10% of paid-up capital in the company, in accordance with Section 75 and 76 of the Companies Act 2016, under the following circumstances: a. Inadequate disclosure regarding the intended use of proceeds linked to the issuance of new shares; or b. The EPF deems that the company lacks an immediate necessity to raise capital through new share issuance and believes it is not in the best interests of the company.

NO.	PROPOSED SHAREHOLDER RESOLUTIONS	GUIDELINES AND VOTING STANCE
		For avoidance of doubt, the EPF would be **supportive** of the proposal in the event the issuance of new share is to comply with the regulatory requirement set by relevant authorities. Regarding new share issuance under the Dividend Reinvestment Proposal ("DRP"), the EPF generally **supports** it as long as the company discloses the rationale for DRP, demonstrates sound financial performance and would be able to deliver positive shareholder return over time.
7.	Transactions and Related Party Transactions ("RPT")	The EPF to vote **AGAINST** any sort of transactions under all or the majority of the following circumstances: a. Inadequate disclosure relating to the transactions and lack of responsiveness to shareholders' queries prior to the meeting; b. The EPF believes that the transaction would negatively impact the financial performance and result in a negative return for shareholders; and c. For RPT, if such transactions are not conducted at arm's length, are more favourable to the related parties than those generally available to the public and detrimental to the shareholders of the company. In this regard, the EPF expects the Board to scrutinise the RPT transactions in greater detail and to appoint relevant independent advisors where is necessary to assist the Board in making informed decision.

Annex: **Best Practice For The Conduct of General Meetings**

A.1 Voting Results

By digitising the voting process, the time taken to compile and calculate voting results has been significantly reduced. The company should share the overall voting results with shareholders during the shareholders' meeting.

A.2 Minutes of Meeting

The EPF expects the minutes of shareholders' meetings to be made available to shareholders. This will allow shareholders to keep track of issues raised during the meetings, and hold the Board accountable in future meetings.

A.3 Combined Resolutions

When combining resolutions for General Meetings, the company should seek shareholders' permission. However, the EPF suggests that votes on Director re-elections be done individually. The EPF recommends presenting each Director's fees separately at the AGM so that shareholders can have a clearer understanding of the remuneration structure and make an informed decision on whether to approve the fees. While not mandatory, adopting this practice enhances corporate governance and fosters trust with stakeholders.

EPF **Contacts**

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Disclaimer

- The views expressed by the EPF in the Employees Provident Fund (EPF) Corporate Governance Principles and Voting Guidelines (2024/2025 Edition), ("this Document") is valid as at 27 September 2024.
- The EPF reserves full right to revise the provisions in this Document or adopt any other views from time to time, and the EPF may or may not issue subsequent publications on the subject matter under this Document.
- The EPF has no obligation to update this Document in the event of a material change to the information contained in this Document. It is also not the obligation of the EPF to check or ensure that the contents of this Document remain current, accurate, complete, reliable or relevant.
- Notwithstanding the publication of this Document, the EPF reserves full right to vote in shareholders meeting in accordance to the facts in hand and making its own judgement in order to serve the best interest of the EPF. For the avoidance of doubt, the EPF may depart from any of the provisions in this Document and vote in a way that it deems appropriate, on a case-by-case basis.

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