



# KNB 2016

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 on 3 September 1993 as a public limited company. Except for one share owned by the Federal Lands Commissioner, 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 Malaysian company 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 and in our Annual Reports: <http://www.khazanah.com.my/About-Khazanah/Corporate-Profile>

Principle 2

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

Our mission is clearly defined: To be a leading strategic investment house that creates sustainable value for a globally competitive Malaysia.

Our mandate is closely tied to the Government's long-term national development aspirations.

<http://www.khazanah.com.my/About-Khazanah/Corporate-Profile>

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 include representatives from the Ministry of Finance, ensuring consistency 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 accounts. We do not receive regular inflows of equity capital from our shareholders. In addition, we use a certain amount of debt financing to fund our investment activities.

Details on our shareholder's funds and borrowings are available in the annual report, annual review 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 realised profits.

#### 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 monthly, quarterly and annual financial and management performance reports 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.

#### 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.

Khazanah is governed by a Board of Directors under the Malaysian Companies Act 2016. Our Governance and Risk Management Framework includes a Schedule of Matters for the Board ("SMB") and Limits of Authority ("LOA") that provides a comprehensive governance framework and authority structure for the effective functioning and accountability of the Board, the Executive Committee ("EXCO") as well as senior management of Khazanah.

<http://www.khazanah.com.my/About-Khazanah/Our-Corporate-Governance>

#### 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 strategic mandate as detailed in GAPP 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.

<http://www.khazanah.com.my/About-Khazanah/Our-Corporate-Governance>

#### 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 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. 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 two subcommittees – the Executive Committee (EXCO) and the Audit and Risk Committee (ARC). The four-member EXCO comprises three Non-Executive Directors and an Executive Director, while the ARC consists of three Independent Directors.

<http://www.khazanah.com.my/About-Khazanah/Our-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.

Management proposes investment strategies and proposals to the EXCO and Board as approving authorities. Management is responsible for the execution and management of all Board approved investments. The Board subcommittees provide independent views to ensure proper governance in the investment decision-making process.

<http://www.khazanah.com.my/About-Khazanah/Our-Corporate-Governance>

#### 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.

#### 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 in January every year, followed by the publication of an annual report.

#### 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.

Our 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.

#### 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.

Our Board approved 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.

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

<http://www.khazanah.com.my/About-Khazanah/Our-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 invest. Investment, finance and legal 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 Governance and Risk Management Framework (“GRMF”) 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 comprises a Risk Management Policy, Schedule of Matters for the Board, Limits of Authority applicable to the Management, Code of Conduct as well as Policies and Procedures, which guide our employees in their actions and behaviour.

#### 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.

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

Our audited financial statements are filed with the Companies Commission of Malaysia.

#### 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.

Our investment policy clearly defines our risk appetite and 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.

The investment policy is currently not publicly disclosed.

##### 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 aim to maximise risk-adjusted return. We do also seek strategic returns in some of our investments, for example, by co-investing with a foreign direct investor in a new industry in Malaysia.

We disclose our investments which also have strategic intent in the "Catalytic Investments" section of our public disclosures.

Our assets are managed consistently with the generally accepted principles.

#### 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 GRMF provides a framework to prevent access to and use of privileged information.

#### 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. Our voting guidelines are defined in our investment policy, and are guided by obtaining outcomes which are in our best interest.

#### 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 (absolute and relative to benchmarks) are measured and reported to the Board 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.
- Net Worth Adjusted (“NWA”): RAV less Total Liabilities and adjusted to measure value created.

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.