



KNB 2022

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 Malaysian Companies Act and other applicable laws, and various internal governance and accountability frameworks that establishes 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.

Khazanah's mandate is investing to deliver sustainable value for Malaysians. We strive to find a balance between growing financial returns and being a

responsible organisation for future generations of Malaysians to benefit from what we do today.

The mandate is to be achieved by pursuing commercial investments to preserve and grow long-term value of our assets, as well as undertaking investments that deliver economic or societal returns for the nation.

The mandate and objectives are available on our website and Investment Policy Statement:

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

<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 currently includes representative from the Ministry of Finance, Ministry of Economic Affairs, and is also chaired by the Prime Minister of Malaysia. This ensures 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.

Our overall portfolio consists of:

- Investments Portfolio – intergenerational portfolio that seeks to generate risk-adjusted returns on a long-term basis
- Dana Impak Portfolio – invests in increasing Malaysia's economic competitiveness and in building national resilience while delivering socioeconomic impact for Malaysians
- Developmental Assets – intended to deliver high economic impact through long-term developmental investments
- Special Situation Assets – assets that require turn-arounds in terms of profitability and sustaining operating cash flows

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

<https://www.khazanah.com.my/our-performance/the-khazanah-report/>

<https://www.ram.com.my/>

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. We have a Shareholder Distribution Framework which governs Khazanah's annual payout for distributions to Government, other obligations, as well as national and social initiatives.

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 quarterly financial and management performance updates, including audited financial statements to the Ministry of Finance. We also provide our annual report and audited financial statements to the public.

Our audited financial statements are prepared in accordance with the provision of the Companies Act, 2016, and available in our website.

<https://www.khazanah.com.my/our-performance/our-financials/>

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, and the Framework of Integrity, Governance and Risk Management (FIGR) includes a Schedule of Matters for the Board (SMB), Limits of Authority (LOA) for Management, a Code of Conduct and other relevant matters.

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

At the management-level, a Management

Committee (MC), and Investments Committee

(IC) are in place to oversee the operational &

investment-related matters.

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 (currently the Prime Minister, Ministry of Finance, and Ministry of International Trade and Industry), and private sector with diverse professional backgrounds and expertise. Appointments are in accordance with the provisions of the Constitution of the Company.

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 on a quarterly basis 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.

At the management-level, a Management

Committee (MC), and Investments Committee

(IC) are in place to oversee the operational &

investment-related matters. Additionally, the FIGR stipulates a clear division of roles and responsibilities through the 3 line model, and is available on our website:

<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 Schedule of Matters for the Board (SMB) and Limits of Authority (LOA), the Management proposes investment strategies and proposals to the Investment Committee, EXCO and Board as approving authorities. The 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.

The Investment Committee and Asset-Liability Management Committee reports to the EXCO. Governance, Risk & Compliance reports to the ARC, while the Talent Council reports to the NRC. The Management Committee is a forum for operational management matters.

There are currently a total of nine Board Members and all Members receive one vote respectively. The majority of Board Members (5) are independent.

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 [Framework of Integrity, Governance and Risk Management \(FIGR\)](#) is defined in our Board Charter.

Board is the focal point of the Company's corporate governance system; it is ultimately accountable and responsible for the performance, management of business and affairs of the Company. The Board establishes its Committees, which is governed by their respective Terms of Reference and approved by the Board to assist itself in discharging its duties, providing the oversight function as well as expediting decision making process. As for the Board, it is governed by the Constitution and the Board Charter.

The Code of Conduct is also in place as a guide for staff.

Each Management Level Committee (Management Committee, Investment Committee, Talent Council, Asset-Liability Committee) have their own respective Terms of Reference.

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. The audited financial statements are made available on our website after approval by the Board of Directors.

<https://www.khazanah.com.my/our-performance/our-financials/>

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 prepared in accordance with the provisions of the Companies Act, 2016 and comply with the Malaysian Financial Reporting Standard ("MFRS"), which is in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The Financial Statements are audited by Ernst & Young PLT.

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.

[Khazanah's Code of Conduct is available online](#)

[Code of Business Ethics](#)

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's Procurement Principles provides a guidance tool for Khazanah's employees when exercising procurement functions as part of their professional activities. Khazanah expects all employees to adhere to the Procurement Principles as a demonstration of its commitment to uphold the standards of good corporate governance.

The [Code of Business Ethics](#) (for third parties) provides guidance to both Khazanah officers and Business Associates on what Khazanah believes to be sustainable business relationships based on the key principles of integrity, honesty, accountability and compliance with applicable laws and regulations.

If any employee fails to meet the standards set in the Procurement Principles or Code of Business Ethics, anyone can report any matters involving transgressions of integrity or improper conduct through Khazanah's Whistleblowing Channel.

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

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, Risk 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 June 2021 to highlight the Board's oversight function and Khazanah's Core Values.

The FIGR includes a Schedule of Matters for the Board ("SMB"), Limits of Authority ("LOA") for Management, a Risk Management Policy, a Code of Conduct, and other relevant matters. It is available in 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 prepared in accordance with the provisions of the Companies Act, 2016, and the financial statements are available on our website.

<https://www.khazanah.com.my/our-performance/our-financials/>

Pillar 3: Investment

Investment and Risk Management Framework.

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.

Khazanah's mandate is investing to deliver sustainable value for Malaysians. The mandate is to be achieved by pursuing commercial investments to preserve and grow long-term value of our assets, as well as undertaking investments that deliver economic or societal returns for the nation.

Khazanah pursues its overall mandate through the following investment reporting structure:

Investments Portfolio – intergenerational portfolio that seeks to generate risk-adjusted returns on a long-term basis

Dana Impak Portfolio – invests in increasing Malaysia's economic competitiveness and in building national resilience while delivering socioeconomic impact for Malaysians

Developmental Assets – intended to deliver high economic impact through long-term developmental investments

Special Situation Assets – assets that require turn-arounds in terms of profitability and sustaining operating cash flows

Our risk appetite is articulated through a set of Risk Appetite Statements for key material risks identified under the investment mandate, which is approved by the Board Audit and Risk Committee.

The large majority of our investments are conducted using in-house capabilities. Where we do engage external managers, the selection and monitoring processes and policies are included in the respective asset

classes' Investment & Divestment and Management & Monitoring manuals.

The IPS is in our annual report and available in [our website](#).

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.

Khazanah makes investment decisions consistent with our mandate, objectives and principles as detailed out in the Investment Policy Statement.

The Investments Portfolio seeks to generate risk-adjusted returns on a long-term basis, to preserve and grow the long-term value of our assets.

The Dana Impak Portfolio, Developmental Assets, and Special Situation Assets aims to deliver economic or societal returns and impact for the nation.

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. This is further detailed out in our [Responsible Investments Policy](#).

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 is proactive in making sure that its voting policy is updated and consistent with the latest provision in Malaysia Code of Corporate Governance. This Policy was approved in 2019 and is available on [Khazanah's website](#).

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.

Our Framework of Integrity, Governance and Risk Management (FIGR) serves as a guide for the effective management of risks. The FIGR provides a three-line model which separates the first line of defence (business units), second line of defence (Governance, Risk & Compliance) and the third line of defence (Independent Assurance). This is the structure by which risks are identified, assessed and managed.

Governance, Risk & Compliance and Independent Assurance have their own respective independent budget to fund its people, systems and resources, including talent development and digital innovation.

At the Board level, Governance, Risk & Compliance independently reports to the ARC every quarter.

At the Management level, Operational, Investment, Asset & Liability and Strategic Risks are presented regularly to the respective management level committees.

The FIGR is available in our annual report and website.

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

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 Santiago Principles (i.e. GAPP).