



KHAZANAH  
NASIONAL

**Responsible Investment Policy**

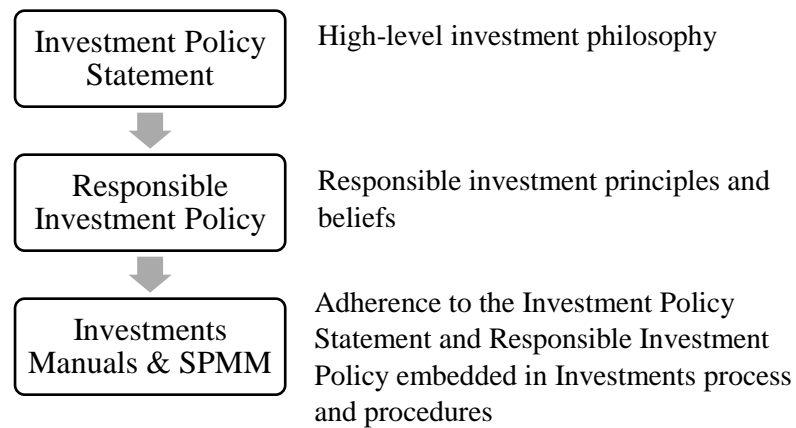
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This Responsible Investment (RI) Policy will evolve over time as we refine our approach to integrating material governance, environmental, and social issues into investment decision-making across a range of different sectors and asset classes.

## 1. Purpose of document

**1.1** The purpose of this Responsible Investment (RI) Policy is to outline Khazanah’s principles and commitments in relation to responsible investment. “Responsible investment” is investment that seeks to generate financial returns while better managing risk and generating sustainable long-term value. This policy anchors upon our investment philosophies in the *Investment Policy Statement*.



## 2. Responsible investment principle

**2.1.** The RI Policy is grounded in Khazanah’s overall investment mandate, which is to sustainably grow Malaysia’s assets and economic development outcomes to ensure that present and future generations have the ability to meet their needs.

**2.2.** It is a widely recognised principle that investing responsibly through considering environmental, social and governance (ESG) factors aids management of risk and generates sustainable, long-term returns.

As part of that principle, we believe that the future state of the workforce, society and economy will be the result of complex and changing factors in the present such as resource scarcity, technological change, environmental conditions and income disparity. Firms that consider and respond to this operating environment through an ESG lens will ensure that satisfying the requirements of the present will not compromise the ability of future generations to meet their needs and be more sustainable and high-performing in the long run.

**2.3.** Hence, the consideration of ESG risks and opportunities in Khazanah’s investment processes and decision-making is consistent with our responsibility to present and future Malaysian

generations. Appendix 1 further discusses our responsible investment principles through a holistic perspective of our stakeholder universe.

**2.4.** In line with the above, we will not invest in companies which violate our commitment to responsible investment, including those which are directly or indirectly linked to:

- a. Products or activities that are illegal in their host country;
- b. Repeated and unmitigated incidences of forced labour, harmful child labour, or human trafficking;
- c. Serious violations of the rights of individuals in situations of war and/or conflict;
- d. Repeated and unmitigated incidences of severe environmental damage;
- e. Repeated and unmitigated incidences of bribery, corruption, or money-laundering;
- f. The production of alcohol, tobacco, or gambling operations;
- g. The production, distribution or other operations related to weapons, arms or other military equipment that are prohibited under international conventions to which Malaysia is a party;  
or
- h. Other products, activities or sectors that are prohibited by national policy.

**2.5.** Khazanah's responsible investment principles are in line with the responsible investment principles of the membership networks and normative codes we subscribe to. We are subscribed to the United Nations-backed Principles for Responsible Investment ("PRI"), the Malaysian Code for Institutional Investors and The Santiago Principles. Refer to Appendix 2 for a comprehensive account of the principles.

### **3. Responsible investment approach**

**3.1.** Our approach sets out how we apply our responsible investment principles. We aim to integrate responsible investment into investment processes and decision-making, including:

- a. Considering ESG issues and ethical considerations prior to making all decisions to invest,
- b. Embedding ESG considerations into the monitoring of our investments;
- c. Where applicable, exercising our shareholder rights to improve investee companies' responsible business practices;
- d. Seeking to incorporate ESG requirements into contractual arrangements with external investment managers and;
- e. Reporting on our responsible investment activities and outcomes to key stakeholders.

**3.2.** We strive to be both principled and pragmatic, taking into account various factors which may differ between the Commercial Fund and the Strategic Fund, such as investment mandate, investment horizon, degree of influence, and asset class. The extent to which we integrate responsible investment in processes and decision-making is predicated on such factors.

**3.3.** In the event existing portfolio companies disclose ESG issues, in general, Khazanah's approach is as follows:

- **Escalation:**
  - ESG breaches by company are to be raised by the owners of responsible investment to Management subject to materiality
  
- **Probation and/or engagement:**
  - Company of concern may be placed under heightened observation within a reasonable probationary period
  - Where we have influence, issues with potential for corrective measures may be addressed through active exercise of our ownership rights or other forms of engagement with management, to formulate and implement a plan of improvement
  
- **Divestment:**
  - In instances where issues further deteriorate below a minimum acceptable threshold, company of concern may be divested at the discretion of Management and/or Board

#### 4. Responsible investment governance

4.1. Implementation and oversight of responsible investment within Khazanah shall be managed at various levels through the functions below:

| Investment function  | Responsible Investment function  | Management function<br>[Investment Committee]   | EXCO/ARC function   |
|--|--|---|---|
| <ul style="list-style-type: none"> <li>• Evaluate ESG factors and ethical considerations in decision-making and monitoring of investments</li> <li>• Ensure the inclusion of ESG provisions in investment documentation</li> <li>• Engage with the management of investee companies on ESG issues</li> </ul> | <ul style="list-style-type: none"> <li>• Formulate and implement the responsible investment plan in line with the policy</li> <li>• Enforce RI Policy and identify potential responses, or escalate non-compliance issues to Management, and ARC as necessary</li> <li>• Spearhead knowledge development and training on responsible investment</li> <li>• Manage ESG-related investor-relations activities, including that of the memberships and networks we subscribe to</li> </ul> | <ul style="list-style-type: none"> <li>• Integrate responsible investment principles into corporate strategy</li> <li>• Deliberate on appropriate responses to ESG issues that have been escalated</li> </ul> | <ul style="list-style-type: none"> <li>• Approve responsible investment policy</li> <li>• Deliberate on appropriate responses to ESG issues that have been escalated</li> <li>• Responsible for oversight and accountability</li> </ul> |

## 5. Control and maintenance

This policy is the property of Khazanah Nasional Berhad. The Responsible Investment team is the custodian of this policy and is responsible for its maintenance. All amendments made to this policy are to be tracked. Relevant information such as the document's version control number, dates of amendment and provisions amended are to be recorded in the amendment schedule below.

| Version number | Date     | Removed   |                | Inserted  |                |
|----------------|----------|-----------|----------------|-----------|----------------|
|                |          | Provision | Comments(page) | Provision | Comments(page) |
| 1.0            | 17/06/19 |           |                |           |                |

## Appendix 1

We view responsible investment through a holistic perspective on our stakeholder universe:

### a. Management

As an investor, we expect our investees to uphold a corporate governance framework that aims to deliver sustainable financial performance and responsible business conduct. The role of management is instrumental to maintain a high level of integrity, adherence to relevant laws and regulations, and commitment to inclusive and sustainable business policies.

### b. Employees

People are assets to an organisation, driving the day-to-day operations that allow the organisation to function and flourish. We believe that an effective human capital strategy includes promoting inclusion and diversity to encourage innovation, providing learning opportunities to enhance skills, fostering a positive work culture, and compensating employees fairly to drive productivity. As technology evolves through innovation, businesses also need to invest in the future workforce.

### c. Customers

We believe that businesses that consistently deliver competitive and high-quality products and services, and achieve a high degree of customer satisfaction, will benefit from strong brand loyalty and an increase in market share. This requires a commitment to continuously innovate product or service offerings, measure and deliver excellent customer service, and conscientiously maintain high standards at all times.

### d. Suppliers

We believe that businesses must implement transparent and fair practices in the selection of suppliers, vendors and partners. We also believe that a responsible business will ensure an alignment in sustainable and responsible philosophies within the supply chain.

### e. Environment

We believe that it is the duty of all to manage our natural resources efficiently and commit to the preservation of resources to the best of our ability. A responsible organisation will always evaluate the potential environmental impact of its business decisions and seek alternative methods to reduce or offset any negative impact.

### f. Society

Practising responsible social values is crucial to gain the trust of the wider community and the social license to operate. All business conduct and decisions should not adversely impact either present or future societies. Conversely, companies are encouraged to “Do Good”, above and beyond financial gains to enhance societal development when they are in a privileged position to do so.



## Appendix 2

a) ***United Nations-backed Principles for Responsible Investment (“PRI”).*** The Principles require signatories to:

Principle 1: Incorporate ESG issues into investment analysis and decision-making process.

Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: Promote acceptance and implementation of the Principles within the investment industry.

Principle 5: Work together to enhance our effectiveness in implementing the Principles.

Principle 6: Report on our activities and progress towards implementing the Principles.

b) ***Malaysian Code for Institutional Investors:***

Principle 1: Disclose policies on Stewardship

Principle 2: Monitor Investee Companies

Principle 3: Engage Investee Companies

Principle 4: Managing Conflicts of Interest

Principle 5: Incorporate Sustainability Considerations

Principle 6: Publish Voting Policy

c) ***The Santiago Principles,*** whose objectives are to:

- Maintain a stable global financial system and free flow of capital and investment.
- Comply with all applicable regulatory and disclosure requirements in the countries in which SWFs invest.
- Ensure that SWFs invest on the basis of economic and financial risk and return-related considerations.
- Ensure that SWFs have in place a transparent and sound governance structure that provides adequate operational controls, risk management and accountability.