

# Malaysian Code for Institutional Investors.

**“Stewardship” is investor stewardship from the perspective of a long-term institutional investor in particular asset owners such as pension funds. It includes the responsible management and oversight of assets for the benefit of the institutional investors’ ultimate beneficiaries or clients. The discharge of effective stewardship responsibilities would include development of a set of principles/policies, application of the principles/policies, oversight of agents, communications of expectations and reporting to their clients or beneficiaries. These activities also include monitoring and engagement with the investee companies on matters relating to strategy, performance, risk management, voting, corporate governance or sustainability issues’. (Malaysian Code for Institutional Investors, Minority Shareholder Watchdog Group, 2014)**

Legal & General Investment Management (LGIM) believes it is important for investors and companies to form a trusting long-term relationship and enter into constructive dialogue on contentious issues. This is mutually beneficial to both parties as there is a better understanding of views and expectations which forms the basis of high-quality decision making and good judgement. As a strong supporter of the Stewardship Code, LGIM feels that it is its duty to be accountable for its clients’ assets and ensure that it upholds the highest corporate governance standards in global financial markets.

As an institutional investor, LGIM has a fiduciary duty to clients to exercise its voting rights responsibly. The right to vote represents a basic privilege of share ownership and is important given the division of control between the owners of a company (shareholders) and the agents appointed to manage the company in their interests (directors). In addition, voting is a fundamental tool used by investors to signal support or concern with management actions. This mechanism is one of the valuable methods of promoting good corporate governance in the marketplace.

LGIM endorses the principles of the Stewardship Code, in the UK, Japan and Malaysia, and is fully committed to them as they intend to protect the integrity of clients’ assets and enhance long term value for shareholders.

## PRINCIPLE 1: DISCLOSING POLICIES ON STEWARDSHIP

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

LGIM’s **“Corporate Governance and Responsible Investment Policy – General document”** sets out its expectations of investee companies in terms of corporate governance and outlines how LGIM exercises its voting, engagement and monitoring activities.

Voting policies are publicly disclosed and can be found on LGIM’s website:

[www.lgim.com/corporategovernance](http://www.lgim.com/corporategovernance)

Our commitment to stewardship responsibilities, particularly in relation to the Malaysian Stewardship Code, as well as the UK and Japan is published on the Policy section of the website:

<http://www.lgim.com/uk/en/capabilities/corporate-governance/policies/>

## PRINCIPLE 2: MONITORING INVESTEE COMPANIES

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

LGIM actively monitors investee companies in order to ensure that they act in the best interest of shareholders and create long term value for its clients.

There are a number of resources which the corporate governance team draws from that form the basis of LGIM's monitoring process. These include company disclosure, external corporate governance networks, proxy voting advisors raising concerns, collaborative engagement with other shareholders and market news.

We have built an in-house tool that brings together a myriad of external data points to score issuers based on Environmental, Social and Governance (ESG) performance, Controversy levels and ESG country exposure. They serve to:

- Highlight key ESG indicators pertinent to each sector
- Help with fundamental analysis of issuers by allowing peer group comparison on ESG performance
- Better integration between corporate governance and the investment teams

Qualitative analysis is carried out by each investment team which will lead to investment and engagement decisions.

## PRINCIPLE 3: ENGAGING INVESTEE COMPANIES

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

The ultimate objective of engagement for LGIM is to enhance the value of the companies invested in, over the long term for the benefit of its clients.

The approach to engagement is to have an open dialogue that is constructive and helpful, and aimed at deepening LGIM's knowledge of investee companies.

LGIM has an established policy based on the escalation of engagement. If constructive engagement fails to result in improved practices, or if LGIM's concerns fail to be addressed, then LGIM will usually escalate the issue. Escalation of engagement can also result in a collaborative engagement initiative which allows LGIM to forge alliances with other investors on common goals to improve market performance. Escalation is vital in making engagement effective, as engagement without consequences may be disregarded by companies.

LGIM considers collaboration with other like-minded investment institutions on specific topics to be highly valuable to enhance the quality of corporate governance practices in investee companies. Engagement with other investors may be on topics that are specific to a company or in response to an industry consultation. It should not, however, be confused with consortiums, as each investment house would retain the decision making power to act in the best interests of its clients.

## PRINCIPLE 4: MANAGING CONFLICTS OF INTEREST

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

There are a number of potential conflicts of interest inherent in the corporate governance activity at LGIM. The corporate governance team receives and processes a great deal of "inside", or price sensitive information relating to a company's activity, such as management succession, financing or M&A activity.

While non-price sensitive knowledge is fluidly shared between the corporate governance team and fund management teams, Chinese walls ensure the independence of the corporate governance team. The Director of Corporate Governance reports directly to LGIM's Chief Executive Officer (CEO). There is a Corporate Governance Board consisting of five directors, including two independent non-executive directors from outside the organisation. The Board meets periodically and is chaired by one of the independent directors. This structure ensures that potential conflicts of interest are appropriately managed.

Details of how we manage our potential conflicts can be found at:

<http://www.lgim.com/library/capabilities/Conflicts-of-Interest.pdf>

## PRINCIPLE 5: INCORPORATING SUSTAINABILITY CONSIDERATIONS

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

As a major global investor, LGIM has a fundamental interest in ensuring that shareholder value is not eroded by a company's failure to manage its impact on its natural and social environment. At the same time, LGIM believes that a company's value can be enhanced over time through taking advantage of opportunities which arise from identifying efficiency in its operations.

While there is no "one-size-fits-all" solution to building a sustainability business model, LGIM looks for the following commitment from the companies to demonstrate that sustainability is effectively integrated into the company's long term strategy.

- Identification of material risks
- Linking sustainability to overall business strategy
- Accountability at board level
- Policies to mitigate key risks
- Demonstrative management systems
- Meaningful and challenging targets
- Public disclosure
- Industry and regulation engagement

LGIM are committed to enhancing long term shareholder value by engaging with companies on a range of issues that are specific to each sector. We look for evidence that they are operating appropriately within the social and natural environment while maximising opportunities as they develop. We engage directly and through collaborative means with the ultimate objective of helping companies build a more sustainable model, which will be of longer term benefit to shareholders.

## PRINCIPLE 6: PUBLISHING VOTING POLICY

**Institutional investors should publish a voting policy**

As a principle, LGIM applies its global corporate governance and responsible investment policy in all markets. The General Policy summarises the overall principles LGIM abides by in voting and engagement activities worldwide. The policy sets out broad principles on board structure, shareholder rights, remuneration, sustainability, audit and risk management.

Voting policies are publicly disclosed and can be found on LGIM's website:

[www.lgim.com/corporategovernance](http://www.lgim.com/corporategovernance)

These policies are an evolving process which are reviewed regularly to ensure that the guidelines are applicable to the changing corporate landscape and specifically address regional differences.

## CONTACT US

For further information on anything you have read in this policy, please contact us at [corporategovernance@lgim.com](mailto:corporategovernance@lgim.com). Please visit our website [www.lgim.com/corporategovernance](http://www.lgim.com/corporategovernance) where you will also find more information including frequently asked questions.

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