MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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SEVEN PRINCIPLES

THE STEWARDSHIP CODE

STEWARDSHIP, in the institutional investor context, refers to engagement with public companies to promote corporate governance and sustainability practices that align with shareholder values and promote long-term value creation for minority and majority owners. Accordingly, stewardship models provide opportunities to create value and deliver strong performance for shareholders.

THE MCII

The Malaysian Code for Institutional Investors (MCII) was published in September by the Institutional Investors Council (IIC). Signatories are expected to adopt the code. They will do this by highlighting measures that have been taken or will be taken, and the time frame required for full adoption of the code.

How institutional investors will behave going forward is beneficial for both investee companies (as to institutional investors' expectations) and other shareholders (as to the reasoning and voting stance adopted by the institutional investors).

As such, it is worthwhile to consider briefly the seven principles in the code so that signatories may be in full conformance with the code.

In her foreword, Rohaya Mohammad Yusof, the chairperson of IIC Malaysia, states that "the collective voice of institutional investors is an important lever in promoting good corporate governance and sustainability practices by investee companies".

THE SEVEN PRINCIPLES

Principle 1 requires the disclosure of policies on stewardship responsibilities and a review of stewardship activities. Institutional investors should make public their stewardship policies and they should be easily accessible. This provides transparency.

The second principle states that institutional investors should monitor their investee companies. The monitoring activities should also include attendance and active participation at general meetings where practicable as well as exercising voting rights. This is a call for more active rather than passive investing.

Principle 3 talks about the need to engage with investee companies and collaborate with other investors to enhance engagement outcomes. There is strength in numbers.

The other investors include fellow institutional investors and minority shareholders. This will enable a stronger investors' voice that can exert influence. This is possible as institutional investors are expected to provide their voting stance well ahead of the general meeting of their investee companies.

Principle 4 recognises that institutional investors can be caught in the web of conflict of interest. As such, they are asked to adopt a policy on managing conflict of interest and this policy should be publicly disclosed.

Principle 5 addresses the current issues in the sustainability agenda — a real and present risk. Institutional investors are asked to incorporate corporate governance and sustainability considerations, including climate-related matters into their investment decision-making process while seeking to deliver sustainable returns in the long-term interest of their beneficiaries or clients.

The next principle requires institutional investors to publicly disclose their corporate governance policy and voting guidelines. Some institutional investors have their own in-house voting guidelines or mandates.

However, if you are a signatory to the code, you are expected to apply the principles and voting stance outlined in the code.

The reasons for voting against or abstaining from voting at a general meeting should be communicated to the investee company and made public. This one requirement is a boon to shareholder activism and informed investment decision-making.

By communicating with the investee company, an opportunity is given to the investee company to engage with the institutional investor to clarify the investee company's position. Such engagement may very well change the mind, and the voting stance, of the institutional investor.

And if the voting decision differs from the voting policy, the reasons for such deviation should also be made public.

Principle 7 revisits the advantages of a collaborative response to corporate governance and sustainability issues or emerging risks.

The code echoes the chairperson of IIC's call that the collective voice and views of institutional investors are important levers in shaping behaviour and promoting good corporate governance and sustainability practices in investee companies and the overall market. This is critical to maintain market integrity and support responsible and sustainable growth.

The IIC recognises that the market, including investors, can be negatively impacted by poor standards of corporate governance and weak mitigation of sustainability risks by companies. As such, institutional investors should collectively take the appropriate measures, including communicating a common view to portfolio companies and the public on corporate governance and sustainability concerns or risks.

PRINCIPLES IN PRACTICE

In fact, there has been some adoption of the principles in the code. Some institutional investors have been publicly disclosing their voting stance ahead of general meetings. They have also stated the rationale for their voting stance.

This marks a shift from passive investing and divesting to a somewhat transparent and clarifying posture by institutional investors. Such transparency and clarity can only augur well for shareholder activism and a well-informed capital market.

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The writer is chief executive officer of Minority Shareholders Watch Group