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PNB seeks opportunities amid trying times

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When Jalil Rasheed took on the role of president and group CEO at Permodalan Nasional Bhd (PNB), he was cognisant of the fact that the top job would come with its fair share of challenges.

Little did he know that, less than four months into the role, a virus would dwarf most challenges any leader has seen in a lifetime.

"I guess one doesn't have the luxury of choosing the right time to join an organisation or in which market conditions ... It has been challenging," Jalil says frankly, describing the past seven months at PNB. He adds, however, that he has enjoyed his time at the organisation thus far.

Despite these unprecedented times faced by organisations the world over, Jalil believes that, in a crisis, there are opportunities for companies to "take stock" and think about how they want to do things moving forward.

Last week, PNB unveiled its strategic plan for 2020 to 2022, known as "Focus 4", to steer the organisation in the next three years.

Focus 4 outlines four key areas: diversification, value creation, risk management and organisational transformation.

Indeed, Jalil and his team went straight to business, charting a direction for PNB amid the uncertain and fluid operating environment brought on by the pandemic.

From putting in place feedback loops to closing the gap of power distances as well as shortening the tenures of directors at its strategic investee companies, Jalil is stamping his mark.

In a virtual interview with *The Edge*, he shares that much has changed in how the government-backed unit trust company established four decades ago approaches and does things.

One of the first changes he made was to set up a treasury desk at PNB.

"We wanted to take all the treasury functions out of the various departments and put them under one unit so that we could have a holistic view of how the treasury operations were done at group level. Essentially, we are telling the investment teams: Focus on what you need to do; don't worry about where the money is coming from, as that is the job of the treasury," he says.

Because of this, PNB's view on capital management has changed. Today, it is looking at how to fund different asset classes in different ways.

Jalil points out that if PNB buys something overseas, it can tap overseas funding because the cost of funds is quite low.

In contrast, the fund was more equity-centric in the past when it came to foreign acquisitions.

He says, "There is no reason to take the ringgit and swap it out. We can raise something in the UK if we want pounds or raise something in the US if we want dollars. For asset classes like real estate and private equity, it is essentially a leverage play, where the equity element is much lower and the leverage is much higher ... And you get the IRR [internal rate of return] for that."

Another major change at PNB is the shift

towards performance and away from having assets under management (AUM) targets.

"It is important to have an aspiration of how big we want to be, but the objective of the firm shouldn't be solely driven into achieving that — or else you will motivate people the wrong way," explains Jalil, an accounting and finance graduate of the London School of Economics and Political Science (LSE).

On Oct 1 last year, he succeeded Datuk Abdul Rahman Ahmad, who had left after his three-year contract ended to join Sime Darby Bhd as chairman.

Last year, PNB's AUM surpassed the RM300 billion threshold to reach RM312 billion and it disbursed a total of RM13.2 billion in income distribution to its unitholders.

PNB has also accelerated its diversification strategy and now has a target to grow its global exposure to 30% by 2022. This is a significant increase from a global exposure of 8.5% as at end-2019 and 3.3% in FY2018.

Of PNB's global exposure in 2019, 70% was in public equity, 14% in real estate, 4% in private investments and 12% in cash.

In 2019, its growing base of international investments delivered a larger contribution to income.

According to PNB's 2019 annual report, its global diversification efforts saw its international public equity portfolio generating the highest returns — to contribute more than 11.6% to overall gross income in FY2019.

Gross income contracted 25.6% y-o-y to RM15.1 billion, from RM20.3 billion. Net income fell 36.7% y-o-y to RM10.7 billion, from RM16.9 billion. Meanwhile, return on assets declined to 3.5%, from 5.9% in FY2018.

PNB disbursed a total of RM13.2 billion in income distribution and bonus to its unitholders in 2019. For the year, its dividend rate of 5.5% per unit for Amanah Saham Bumiputera (ASB) was the lowest since the fund management company's inception. Cumulatively, PNB has a total income distribution of RM200.2 billion for all 14 unit trust funds since inception.

Building an 'all-weather' portfolio

Amid these turbulent times, PNB is looking to build an "all-weather" portfolio. Jalil says it aims to set up a portfolio that is a lot more resilient amid volatility.

'Focus 4' explained

Last week, Permodalan Nasional Bhd unveiled its "Focus 4" strategic plan, which outlines the state-owned fund management company's targets over the next three years. PNB group chairman Tan Sri Dr Zeti Akhtar Aziz said Focus 4 "articulates four priority areas for PNB to facilitate sustainable growth and unlock value".

"As we move ahead in 2020, our refined Focus 4 approach takes on an even greater relevance in the face of the market upheavals caused by the Covid-19 pandemic," she said at a press conference last week.

- Its key areas are:
- **Diversification** — Accelerate portfolio

diversification via investments in new asset classes and geographies, including global real estate opportunities with attractive yields;

- **Value creation** — Establishment of a proposed stewardship framework for strategic companies;
- **Risk management** — Inculcate a robust risk culture by enhancing key elements of enterprise risk management; and
- **Organisational transformation** — Improvements in people and culture, governance and processes, digital, and structure and key performance indicators.

"It doesn't mean that we will always outperform, but if the market falls, we should fall less," he adds.

He highlights that one of PNB's 15 funds — which is more diversified in terms of investments overseas — saw a decline of only 1% in 2019, compared with the benchmark FBM KLCI's decline of 6%.

"This shows that a diversification of portfolio across markets and asset classes does insulate your portfolio somewhat, when markets are weaker. We want to replicate that across the entire organisation for all the 15 funds [14 unit trust funds and one

proprietary fund] that we manage," Jalil says.

As at end-2019, domestic public equity accounted for the largest portion of its portfolio at 68% of its total AUM of RM312 billion, followed by cash and money market (13.4%), fixed income (6.4%) and international public equity (5.9%).

The rest of the portfolio is made up of real estate (3.4%), private investments (2.4%) and others (0.5%).

With RM40 billion in cash and liquid assets, PNB is in a "nice situation," Jalil says, as it can mobilise that dry powder fairly quickly. Even so, he reckons there is room to lower the proportion of cash (13.4%) in PNB's total assets.

Asset classes that will see an increase in weightage in the portfolio are fixed-income real estate and private equity (PE).

For real estate investments, PNB is looking to cast a wider net by investing in real estate funds rather than brick-and-mortar directly.

Jalil says this move will open up opportunities to branch out into other types of assets, including logistics and warehousing, compared with the typical sub-segments that PNB invests in. He adds that PNB will no longer be in property development once the Merdeka 118 and PNB 1194 projects are completed. It will continue, however, to support its strategic companies S P Setia and Sime Darby Property in this segment.

The 118-floor skyscraper Merdeka 118 was scheduled for completion by early 2021. Prior to the enforcement of the Movement Control Order on March 18, it was 50% complete and reaching 111 floors. Because of the operational delays caused by Covid-19 and the MCO, however, the new completion date has been pushed to end-2021. And, now, based on a preliminary review, it could take an additional two to three months to be completed.

PNB is taking a similar approach when it comes to PE, investing in more than 10 funds with limited partners, along with other sovereign and global funds, while fixed income will see a mix of internal and outsourced expertise.

As part of its diversification efforts, PNB aims to lower the percentage of its investments in equity to close to the 60% mark over the next three years.

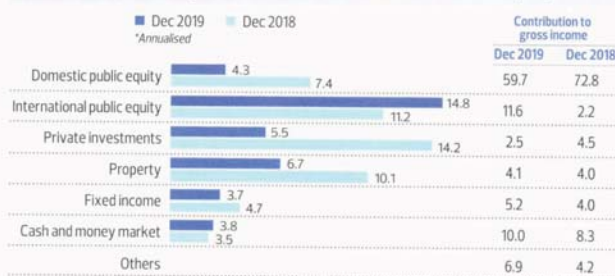
Jalil clarifies, however, that this does not necessarily mean PNB will be reducing its holdings in equities but could instead increase its exposure in other asset classes such as real estate or PE.

Jalil: If markets were to change drastically next year, we need to be nimble enough to move



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PNB asset class yield* and income contribution (%)



On its diversification to expand its global exposure, PNB will be working with external fund managers to bridge the skill or knowledge gap that it may have, as it is eyeing investments in Europe and Asia.

Jalil says PNB is not just purely outsourcing, as there is a knowledge transfer mechanism in place, whereby PNB will second its staff to be based with the fund managers to learn their best practices.

PNB is also rethinking how it approaches equity investing as it finds a balance between value-driven, momentum and quantitative-based investment strategies. The fund manager cannot adopt a purely value-driven approach, Jalil says, as value investing does not necessarily work well in a bull market nor can it take a fully quantitative approach, which is aimed at reducing the fund manager's exposure to volatility in the markets.

"That's what would change fundamentally over the next few years — not just the numbers, but also the sub-sleeves of equity investing, having a bit of a quant element and other different styles of investing as well," says Jalil. "This is what I mean by an all-weather portfolio. It's not just a simple case of changing the weightage around."

On targets, Jalil says the 15 funds do have internal targets, but he tells the teams that they should not live and die by them. "If markets were to change drastically next year, we need to be nimble enough to move."

'Moving the needle'

Jalil and his team often ask themselves, "How do we move the needle?"

"Moving the needle is a function of where you are exposed to the largest ... and the largest we are exposed to is Malaysian equities. If you break that down further, a lot of it is in our strategic companies in which we were the single dominant major shareholder ... And that is where we can play a role in value creation."

Which is why PNB launched its stewardship framework, he says, as this ensures companies within its strategic network are aligned in terms of thinking and the way it is governed at board level and with key performance indicators.

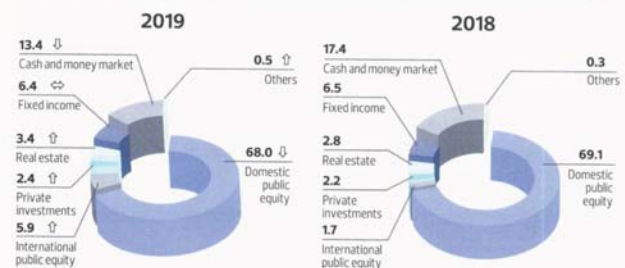
He signals that PNB wants to be a shareholder that is "a lot more engaged and present". "We will not take a back seat," he states.

Citing an example that the fund manager actively votes at every general meeting of its portfolio companies, Jalil says PNB will be voting against giving a blanket authorisation for companies to issue new shares.

PNB's local equity holdings are divided into two: strategic companies in which it is the single-largest shareholder, and core companies where the fund is the second- or third-largest shareholder.

Jalil says the value creation under Focus 4 will be targeted mainly at its strategic invest-

PNB group asset allocation by asset class (%)



ments, comprising Malayan Banking Bhd, S P Setia Bhd, Sime Darby Plantation Bhd, Sime Darby Bhd, Sime Darby Property Bhd, UMW Holdings Bhd, Velesto Energy Bhd, Sapura Energy Bhd, Duopharma Biotech Bhd, MNRB Bhd and Chemical Company of Malaysia Bhd.

"It is about making sure they are future-proofed for the challenges that lie ahead over the next 10 years," he says.

"There is a lot of value in these companies. It's really about how you crystallise those. So, we are working with the companies ... We have a dedicated team internally at PNB — a strategic investments team — and they work with our strategic companies."

Like most funds, PNB's portfolio has been hit hard by the Covid-19 pandemic.

Its 11 strategic companies have lost more than RM30 billion in market capitalisation since the start of the year (for more on its strategy for listed stocks and exposure to oil and gas, see "PNB charts its strategy in the downturn" in Issue 1317, May 4.)

Asked whether there could be more corporate developments among its portfolio of companies, Jalil says "there is opportunity and room", declining to offer specifics.

PNB also wants to see improvement at the board level in terms of governance, he notes.

It has reduced the tenure of its directors from nine years to six, to maintain their independence.

"We did studies on this ... From the studies, we found that, globally, boards that were most efficient had a constant refreshment of members every five to six years ... because anything above six years starts clouding your independence."

"That's not to say that, after six years, that is it. We find that our directors have accumulated massively good experience in terms of leading companies through restructuring, downturns and everything. And that skill set may now be required in another company. We want to play a role there by having, for lack of a better word, a science to mobilising people on boards."

Jalil says PNB is working closely with the major shareholders of its core investee companies, including Telekom Malaysia Bhd, Axiata Group Bhd, Tenaga Nasional Bhd, Gamuda Bhd and CIMB Group Holdings Bhd.

"What has changed now is the level of co-operation with the other GLICs. Since the end of last year, we have had regular engagements with each other on a much more formal and informal basis, just to talk about common issues we have in some of our companies and what we could do [together]."

Indeed, PNB continues to fulfil its mandate to grow unitholders' wealth under the current leadership even as it carries on the transformation process started in recent years.

VALUATOR

Company(Brand)	Mention	Tone	ROI
Amanah Saham Bumiputera (Amanah Saham Bumiputera (ASB))	1	0	RM 0
Axiata Group (Axiata Group)	1	0	RM 0
Bank Negara Malaysia (Bank Negara Malaysia)	1	0	RM 0
Bernama - MREM (Bernama - MREM 6)	3	0	RM 0
Bernama - MREM (Bernama - MREM 7)	1	0	RM 0
Chemical (Chemical)	4	0	RM 0
Chemical Company of Malaysia Bhd (CCM) (Chemical Company of	1	0	RM 0
CIMB Group (CIMB Asset Management/Private Equity)	4	0	RM 0
CIMB Group (CIMB Group)	1	0	RM 0
CIMB Investment Bank Berhad (CIMB - Banking & Finance Industry)	2	0	RM 0
Covid- 19 - Malaysia (Covid- 19 - Malaysia)	2	0	RM 0
Cultural Economy Development Agency (Cendana) (Activities related	2	0	RM 0
Eastern & Oriental Berhad - Industry News (Eastern & Oriental	5	0	RM 0
Gamuda Bhd (Gamuda Bhd)	5	0	RM 0
Hibiscus Petroleum Berhad (Hibiscus Petroleum - Sapura Energy)	1	0	RM 0
Industry News - Accounting (Industry News - Accounting)	1	0	RM 0
KWAP-Industry News (KWAP-Industry News)	2	0	RM 0
Mah Sing Group Berhad (Industry News) (Mah Sing Group Berhad	7	0	RM 0
Malayan Banking Berhad (Malayan Banking Berhad)	1	0	RM 0
MyCC-business (MyCC-business)	1	0	RM 0
Outsourcing (Outsourcing)	1	0	RM 0
Permodalan Nasional Berhad (PNB) (Permodalan Nasional Berhad	13	0	RM 0
Permodalan Nasional Berhad (PNB) (PNB Merdeka Ventures)	2	0	RM 0
PLUS - MCO (PLUS - MCO)	3	0	RM 0
PUB - Johor River Water Works (PUB JRWW) (Immigration &	1	0	RM 0
Public transport - Infrastructure (Public transport - Infrastructure)	3	0	RM 0
Race and Religion (Race and Religion)	1	0	RM 0
Randstad - Banking & Financial Services (Banking & Financial	3	0	RM 0
Randstad - Banking & Financial Services (Banking & Financial	3	0	RM 0
S P Setia Berhad (S P Setia Berhad)	3	0	RM 0
S P Setia Berhad Group (S P Setia Shares)	2	0	RM 0
Sapura Energy Sdn Bhd (Sapura Energy Sdn Bhd)	1	0	RM 0
SapuraKencana Petroleum Berhad (SapuraKencana Petroleum	1	0	RM 0
Scope International- Banking News (Scope International- Banking	3	0	RM 0
Securities Commission Malaysia (Equities)	2	0	RM 0
Securities Commission Malaysia (Fund Management)	2	0	RM 0
Securities Commission Malaysia (Malaysia Capital Market)	16	0	RM 0
Shared Services (Shared Services)	2	0	RM 0
Shell Industry News (Shell Industry News)	1	0	RM 0
Sime Darby Berhad (Sime Darby Berhad)	2	0	RM 0
Sime Darby Plantation (Sime Darby Plantation)	1	0	RM 0
Sime Darby Property - Gamuda Berhad (Sime Darby Property -	2	0	RM 0
Sime Darby Property (Sime Darby Property)	2	0	RM 0
SP Setia - Paramount monitoring (SP Setia - Paramount monitoring)	2	0	RM 0
Special Topic - Jabatan Penerimaan (Special Topic - Jabatan	2	0	RM 0
Star Reacher - Coronavirus (Star Reacher - Coronavirus)	3	0	RM 0
Telekom Malaysia Bhd (TM Berhad) (Telekom Malaysia Bhd (TM	4	0	RM 0
Tenaga Nasional Berhad (TNB) (Tenaga Nasional)	1	0	RM 0
The Edge Communications Sdn Bhd (The Edge)	1	0	RM 0
UMW Holdings Bhd (UMW Holdings Bhd)	1	0	RM 0
Velesto Energy Berhad (Velesto Energy Berhad)	1	0	RM 0