

Headline	KWAP's role and the RM4b question		
MediaTitle	The Malaysian Reserve		
Date	13 May 2019	Language	English
Circulation	12,000	Readership	36,000
Section	Money	Page No	10
ArticleSize	834 cm <sup>2</sup>	Journalist	MARK RAO
PR Value	RM 23,601		



# KWAP's role and the RM4b question

*The exposé in the SRC trial raises the question from the public whether the pension fund is allowed to operate like a commercial lender*

by MARK RAO

THE Retirement Fund Inc (KWAP) was thrown into the spotlight. Its RM4 billion loan to SRC International Sdn Bhd and the revelations in former Prime Minister Datuk Seri Mohd Najib Razak's graft trial had dogged headlines.

A witness during Najib's trial had testified that the pension fund had breached its Investment Policy and Guidelines to approve the two loans, totalling RM4 billion to SRC. Details on the approvals were buttered to get the funds moving.

The exposé raised the question from the public whether the pension fund is allowed to operate like a commercial lender.

KWAP is tasked to manage pensions of Malaysia's civil servants, similar to what the Employees Provident Fund (EPF) does for the private sector.

The 12-year-old investment manager for the public employees is among the three government-linked investment companies, the other two being the EPF for private sector workers and the Armed Forces Fund Board for military personnel.

While the borrowers of KWAP's RM4 billion loan to SRC were guaranteed by the government, making any financial losses impossible, the investment manager has a bigger mandate to its rising pension recipients.

It is estimated that the government's annual retirement bill is around RM26 billion this year, benefiting about 810,000 pensioners and beneficiaries. These figures are expected to continue to rise as the government remains the largest employer with more about 1.7 million civil servants.

But KWAP does more than just that. Besides the money from the federal government, it also receives funds from statutory bodies, local authorities and government agencies.

In 2017, contributions from the federal government came in at RM500 million (3.99% of KWAP's total source of funds that year), while pension contributions was RM3.01 billion (24%).

The remainder of RM9.03 billion was derived from investments which it undertook to grow its fund size for better returns for its 186,679 contributors (as of March 2019).

As of March, KWAP's biggest contributors were Universiti Teknologi Mara (RM25.95 million), Majlis Amanah Rakyat (MARA) (RM20.98 million), Universiti Kebangsaan



Syed Hamadah says the fund is looking to do more abroad and is working with BNM to redraw its overseas investment lines in regard to future investments



The govt remains the largest employer with more about 1.7m civil servants

Malaysia (RM16.69 million), Kuala Lumpur City Hall (RM9.88 million) and Hospital Universiti Sains Malaysia (RMS27 million).

This is in contrast to other fund managers like the EPF and Permodalan Nasional Bhd whose funds are derived from members' contributions.

KWAP's key role is to generate sufficient returns to trim the government's pension liability.

## Power to Release Loans

Since its inception in 2007 under the Retirement Fund Act, KWAP grew its fund size at an annual 11.8% average growth to RM140.8 billion as at the end of 2017.

The statutory act permits the pension fund — the second-largest in the country behind the EPF — to place contributions in investment class such as loans which made up 7.8% or RM10.91 billion of its total RM140.8 billion fund size in 2017.

This comprises conventional loans and Islamic financing to the federal and state governments, public authorities, corporate bodies which the federal government has an interest in and companies approved by the KWAP's investment panel.

The panel, among others, determines and approves investment policy and guidelines, policies on risk management, asset allocation and

strategic directions for investments. It acts in accordance with the general policy issued by KWAP's board and approved by the finance minister.

The panel consists of a chair appointed by the finance minister, a representative from the Finance Ministry, the current KWAP CEO as secretary and four individuals from the public or private sectors. These members decide and approve each application including the RM4 billion loan to SRC.

## An Almost Successful 12 years?

In 2007, KWAP took over the powers, functions, activities, assets and liabilities of the now-defunct Pensions Trust Fund when the latter's 1991 statutory act was repealed. Apart from the civil servants' pension, since 2015, the fund also managed pension payments, gratuity and other benefits granted under the consolidated fund since taking over the Public Services Department's post-pension services unit.

KWAP has been generally successful in its mandate despite the pressure to ease the federal government's pension liabilities, having grown its fund size from RM41.9 billion in 2007 to RM140.8 billion as at the end of 2017.

Fixed income comprised 51.5% or RM71.91 billion of its total funds under management that year, followed by equity (42.8%), property (4.9%), and private equity and infrastructure (2.4%).

The fixed-income market brought

in RM2.94 billion in income in 2017, while maintaining an average annual growth rate of 9.44%.

This was largely made up of Malaysian Government Securities, government investment issues and quasi-government bonds, as well as corporate bonds and loans.

Equities remain an important asset class for the fund, contributing RM60.2 billion to its total investment portfolio that year. Domestic equities accounted for 86% of these investments, while foreign equities made up the remainder.

Today, the bulk of KWAP's total equity investments is in domestic financial stocks (37.8%) followed by industrials, consumer staples, communications and utilities at 10.4%, 10.3%, 10.2% and 10% respectively.

The fund's top five shareholdings are in blue-chip counters namely a 3.98% stake in Malayan Banking Bhd, 5.32% stake in Tenaga Nasional Bhd, 6.54% shareholding in CIMB Group Holdings Bhd, 3.12% stake in Public Bank Bhd and 2.55% stake in Petronas Chemicals Group Bhd.

Collectively, these shares were valued at approximately RM29.72 billion.

As it grew in size over the years, KWAP branched out into a wider range of asset classes and begun investing in international equity, fixed income and property since 2010.

The pension fund expanded abroad, betting on foreign equities in 2012. Today, the fund manager invests in some 31 countries spread across five regions, namely the US, UK, Europe, the Middle East and the Asia Pacific.

Most of the fund's equity investments abroad are managed by external fund managers such as Prima Ekuiti (UK) Ltd, which achieved a return of investment between 8.3% and 9.8% totalling RM351.2 million in 2017.

Internally managed foreign equity saw a 9.47% return on investment at RM395.08 million that same year. Meanwhile, the fund's alternative investments are predominantly domiciled in private equity and infrastructure.

Current KWAP CEO Syed Hamadah Syed Othman said the fund is looking to do more abroad and is working with Bank Negara Malaysia (BNM) to redraw its overseas investment lines in regard to future investments.

This will largely be in real estate as existing property investments, which include student accommodations and office blocks in the UK, Australia and Europe, provide stable rental income and yields, he was reported as saying earlier this year.

Nobody actually knows where the RM4 billion loan from KWAP to SRC ended, but for the investment manager, it is an episode it wants to erase sooner than later.