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GLICs' risky rush overseas

Government-linked investment agencies buying more in foreign markets but higher yields are far from certain



By Khairul Khalid

A SLUGGISH domestic economy is one of the main reasons why many government-linked investment companies (GLICs) are increasing their portfolios in non-traditional investments overseas such as private equity and property, hoping for better returns.

Although GLICs are looking to diversify their investments under current economic conditions, the rush to invest overseas does not necessarily guarantee better yields, a local investment bank-based analyst tells *FocusM*. In fact, there could be higher risks attached to some of these investments.

"It is not a sure thing. Due to unfavourable economic conditions such as the weak economy and stock market, many GLICs are venturing further abroad for higher returns on their investments. One of the non-traditional investments is private equity.

"The underlying rationale is higher risks for higher rewards. But there are no guarantees that investing in these foreign

ventures will give better returns.

GLICs' growing investment in overseas deals could be seen as contradictory to Prime Minister Datuk Seri Najib Razak's call last year for government-linked companies (GLCs), statutory bodies and subsidiaries to repatriate their assets to help boost the economy.

"It sends conflicting signals to the market. The PM wanted GLCs and related agencies to slow down acquisition overseas, whereas they are doing the opposite.

"There is nothing wrong with investing public funds overseas if it is beneficial to the country and there are clear strategic policies, but there has to be a consistency in implementing these policies," says the analyst.

Hunt for better yields

GLICs such as Khazanah Nasional Bhd, Employees Provident Fund (EPF) and Kumpulan Wang Persaraan (Diperbadankan) (KWAP) have been increasing their portfolios overseas in the hunt for better yields amid challenging market conditions.

Other GLICs include the Minister of Finance Incorporated (MoF Inc), Permodalan Nasional Bhd (PNB), Lembaga Tabung Angkatan Tentera (LTAT) and Lembaga Tabung Haji (LTH).

Last month, EPF CEO Datuk Shahril Ridza Ridzuan said the pension fund is targeting to increase its investments in private equity, property and infrastruc-

ture from 6% to 10% in three years.

It currently manages an estimated RM700 bil worth of assets in its portfolio with 41% allocated to equities and 52% to fixed income.

Recently, KWAP announced that it was buying a stake in ride-sharing application Uber for an undisclosed amount, its first direct investment in a foreign company.

KWAP is the second-largest pension fund with RM120 bil in assets and allocates around 52% of its total funds to fixed income instruments, followed by equities (37%) and other asset classes such as cash, private equity and real estate (10%).

One of the biggest GLICs investing overseas is Khazanah, the strategic investment fund of the government. It is owned by MoF Inc except for one share held by the Federal Land Commissioner.

Last year, Khazanah's realisable asset value (the market value of all equities, securities and cash held) was RM150.2 bil with 55.1% invested in the domestic market and the balance overseas.

Some of the public-listed companies in Khazanah's portfolio include Axiata Group Bhd, CIMB Group Holdings Bhd, Tenaga Nasional Bhd, IHH Healthcare Bhd, UEM Sunrise Bhd, Telekom Malaysia Bhd and Malaysia Airports Holdings Bhd.

Between 2014 and May, Khazanah was involved in acquisition deals overseas worth RM17.7 bil in various countries such as the US, Singapore, China, Hong Kong, the UK, India,

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Canada and Jordan (*see table*).

Regulatory constraints

In 2012, Khazanah invested US\$400 mil (RM1.68 bil) in Chinese e-commerce company Alibaba before it went public two years later. Khazanah reportedly sold some of its shares after the IPO, making more than US\$1 bil in profit. Last year, Khazanah also invested an undisclosed amount indirectly into Uber.

According to another research analyst, one of the main reasons GLICs are investing more in non-traditional segments overseas is the fact that there are simply more opportunities in foreign markets.

“For example, there are more private equity opportunities overseas than in Malaysia. This is due to the fact that their private equity markets are bigger, freer and more sophisticated, compared to Malaysia.

“Also, one of the main problems in private equity deals in Malaysia is there are too many regulatory constraints,” says the analyst.

A fund manager tells *FocusM* that a possible reason for GLICs such as KWAP and Khazanah investing in private equity deals is to take advantage of a potential listing.

Aberdeen Islamic Asset Management Sdn Bhd CEO Gerald Ambrose says that it is not just the domestic market that is facing difficulties in generating good returns, it is also a global phenomenon.

He points out that GLICs have to generate good returns but currently it is a difficult scenario where interest rates

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KWAP raises eyebrows with Uber investment

► From page 18

and returns are so low, not just domestically but around the world too.

“For example, 20% of European sovereign bonds as well as corporate bonds now have negative returns. Considering the bulk of many GLIC portfolios are in fixed income and equities, you’re not going to get much returns.

“Traditionally, returns are higher if you buy into a company before it lists. You get in at an earlier stage and the returns can be significantly higher than at the initial public offering [IPO]

stage,” says Ambrose, referring to KWAP’s investment in Uber.

KWAP raised eyebrows with its recent investment in US-based Uber with some questioning whether it is a risky investment worth taking.

Bleeding money

One industry player tells *FocusM* that although Uber currently has an estimated market valuation of over US\$60 bil, the fact that it has lost massive amounts of money since it started business should be of concern to KWAP.

“Although Uber is a popular ride-sharing application, it has lost more than US\$1 bil this year alone. The money that KWAP is investing can be considered a small amount compared to its total portfolio.

“But the fact that Uber is bleeding money should still raise flags for KWAP nevertheless,” he says.

Although Uber does not publicly disclose its accounts, a Bloomberg report in August stated that Uber lost US\$1.27 bil for the first half of this year. The report also said Uber lost at least US\$2 bil before interest, taxes, depreciation and amortisation last year, and has lost an estimated US\$4 bil since it began operations.

KWAP’s investment in Uber was confirmed by both parties. Although neither have disclosed the total amount invested, it is said to be around US\$30 mil.

At press time, KWAP has not responded to questions by *FocusM* on this matter.

An economist with a local bank concurs with Aberdeen’s Ambrose and feels that KWAP’s investment in Uber is driven mainly by the possibility of an imminent IPO. “Uber is probably the largest Silicon Valley unicorn (industry terms for startups worth more than US\$1 bil in market capitalisation) that has still not gone for an IPO.

“KWAP could make a killing if Uber can keep up its momentum and then go for IPO. It would be a similar strategy to Khazanah’s previous investment in Alibaba,” he says.

The economist also says that Uber’s current valuation is questionable and it would be hard to predict how Uber would perform.

“Facebook did not monetise before IPO, so it might be the case with Uber. But Uber seems too overvalued now at over US\$60 bil. It seems to be based on hype and the application’s popularity,

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not on sound financial fundamentals. Its recent exit from China is also not a good sign."

In August, Uber announced that it was exiting the China ride-sharing market estimated to be worth US\$8 bil after its merger with China's largest taxi app firm, Didi Chuxing (formerly known as Didi Kuaidi).

Didi Chuxing is investing US\$1 bil in Uber and in return Uber is taking up a 20% stake in the Chinese ride-hailing firm valued at US\$35 bil. Uber has reportedly lost an estimated US\$2 bil since it started operations in the Chinese market in 2014.

Uber will be KWAP's first direct investment in a foreign company and the pension fund's CEO Datuk Wan Kamaruzaman Wan Ahmad says it is part of an effort to "become a diversified global investor".

In an interview with **FocusM** in July, the KWAP CEO said that the pension

fund was trying to diversify its investments into other non-traditional asset classes abroad due to unfavourable economic conditions such as a stagnating domestic stock market, weaker ringgit, low interest rates and sluggish corporate earnings.

Wan Kamaruzaman also said that it was hoping to venture further into investments in international technology companies, although he did not mention any specific targets. He explained KWAP's main criteria when investing in private equities are targeting companies that are not yet listed as well as having strong cash flows.

An analyst says that KWAP could have opted to go for home-grown ride-sharing application Grab instead of foreign-based Uber. "Although Uber is a global brand for ride-sharing and far exceeds Grab in terms of market valuation, Grab is also growing rapidly in the region.

"If KWAP had invested in Grab, it could be seen as a vote of confidence in local products, instead of a foreign competitor."

Grab (formerly known as MyTeksi) was founded by Anthony Tan and Tan Hooi Ling. The former is the son of Datuk Tan Heng Chew and Datuk Khor Swee Wah @ Koh Bee Leng, president and executive vice-president of Tan Chong Motor Holdings Bhd respectively.

After it re-branded into Grab and went regional, the company has raised US\$700 mil from venture capitalists and funds such as Vertex Ventures Holdings (Temasek) and Didi Chuxing.

Privately-owned Grab has an estimated valuation of about US\$1.6 bil. Like its main rival Uber, it is still struggling to find its way to profitability.

For the year ended Dec 31, Grab's Malaysian operations GrabCar Sdn Bhd and MyTeksi Sdn Bhd posted net losses of RM67.53 mil and RM44.04 mil respectively. **FocusM**



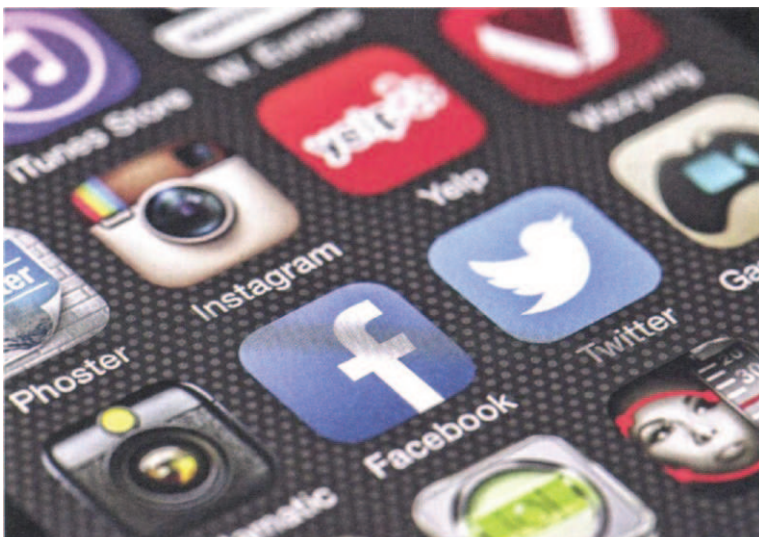
Wan Kamaruzaman says KWAP is targeting companies that are not public listed yet



Ambrose says GLICs are facing difficulty getting good returns at current low interest rates



Shahril plans to increase investments in private equity, property and infrastructure to 10% of total portfolio



Many internet-based mobile applications find it difficult to monetise their services

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Khazanah Nasional Bhd – Overseas deals since 2014

| Announcement date | Target company | Country | Acquiring parties | Total value (RM mil) | Deal status |
|-------------------|---|-----------|---|----------------------|-------------|
| May 10, 2016 | Fractal Analytics Inc | US | Khazanah Nasional Bhd | 405.22 | Pending |
| April 4, 2016 | Garena Interactive Holding Ltd | Singapore | Khazanah Nasional Bhd, Private Investor | 663.41 | Completed |
| March 9, 2016 | Zhejiang Cainiao Supply Chain Management Co Ltd | China | GIC Pte Ltd, Khazanah Nasional Bhd, Temasek Holdings Pte Ltd, Alibaba Group Holding Ltd, Yunfeng Capital Co Ltd (Fund: Yunfeng Capital Fund II), Primavera Capital Ltd (Fund: Primavera Capital Fund II LP) | 6,292.8 | Completed |
| March 2, 2016 | Blippar.com Ltd | UK | Khazanah Nasional Bhd, Private Investor | 223.73 | Completed |
| Jan 20, 2016 | WeiLab Ltd | Hong Kong | ING Groep NV, Khazanah Nasional Bhd, Guangdong Technology Financial Group Co Ltd | 705.44 | Completed |
| Jan 12, 2016 | Skyscanner Ltd | UK | Khazanah Nasional Bhd, Yahoo Japan Corp, Baillie Gifford & Co, Artemis Advisors LLC, Vitruvian Partners LLP (Fund: Vitruvian Investment Partnership II LP) | 813.99 | Completed |
| Sept 18, 2015 | Growthways Trading Pvt Ltd | India | Khazanah Nasional Bhd, Tata Consultancy Services Ltd, JS Global Capital Ltd, Helion Venture Partners LLC, Capricorn Investment Group LLC, Createthe Group Inc | 288.97 | Proposed |
| Aug 14, 2015 | Actoserba Active Wholesale Pvt Ltd | India | Khazanah Nasional Bhd, Private Investor, IDG Ventures India Advisors Pvt Ltd (Fund: IDG Ventures India LP), Kalaari Capital Partners (Fund: Kalaari Capital Partners II LLC), Unilazer Ventures Pvt Ltd, Zodiuss Advisors Pvt Ltd (Fund: Zodiuss Capital II) | 156.61 | Completed |
| May 19, 2015 | General Fusion Inc | Canada | Khazanah Nasional Bhd, GrowthWorks Ltd, Entrepreneurs Fund, Cenovus Energy Inc, Braemar Energy Ventures, Sustainable Development Technology Canada, Chrysalix SET, Bezos Expeditions, SET Venture Partners/Netherlands, BDC Venture Capital | 79.81 | Completed |
| May 12, 2015 | Fine Hygienic Paper Co Ltd | Jordan | Khazanah Nasional Bhd, Unnamed Buyer, Standard Chartered Private Equity Ltd | 629.76 | Completed |
| Aug 28, 2014 | China Huarong Asset Management Co Ltd | China | CITIC Group Corp, Khazanah Nasional Bhd, COFCO Corp, China Life Insurance Co Ltd, Fosun International Ltd, Goldman Sachs Capital Partners (Fund: GS Capital Partners VI LP), Warburg Pincus LLC (Fund: Warburg Pincus Private Equity XI LP), China International Capital Corp Ltd (Fund: CICC Jiatai Industry Integration Fund) | 7,474.65 | Completed |