Headline	EPF has to diversify its investments, says economist		
MediaTitle	Malay Mail		
Date	29 Dec 2016	Language	English
Circulation	100,000	Readership	300,000
Section	Money	Page No	34
ArticleSize	723 cm²	Journalist	N/A
PR Value	RM 24,783		

EPF has to diversify its investments, says economist

By Hakim Hassan
hakim@mmail.com.my

KUALA LUMPUR — Amid criticism against the Employees Provident Fund (EPF) for its investment in Felda Global Ventures Holdings Bhd (FGV), a local economist told *Malay Mail* that the pension fund should diversify its investment portfolio to protect its members.

"EPF is a very large entity, they have to diversify their investments with the hope that when they invest in FGV, the prices would go up and they would reap the rewards," said Tan Sri Ramon Navaratnam.

He added that the authorities need to give more detail on EPF investments as its investments are not those of a purely private enterprise since the money comes from contributors' pockets.

"The government must justify its investment into FGV because there would be a lot of uncertainties," he said.

Navaratnam also said that the dividends paid to settlers from FGV do not appear attractive, questioning why do farmers get such low dividends.

"What assurance (does anyone have) that the dividends would be higher in the future?"

FGV's dividend policy is set at 50% of net profits, in line with other government-linked counters like Malayan Banking Bhd (40% to 60% long-term payout policy, actual payout over 70% in the past five years) while Tenaga Nasional Bhd recently announced a dividend policy ranging between 30% and 50% of net profits.

The main issue of contention is prior to the accounting of net profits, as FGV pays Felda (which represents settlers' interests) RM248.4 million annually in cash plus a 15% share of operating profit from the sales of fresh fruit bunches (FFB) derived from the estate land leased from Felda.

FGV is the only plantation company in the world that adopts this land lease agreement (LLA) model, which paved the way for its listing in 2012.

Felda, by virtue of the Land Settlement Act 1960, was given more than 800,000 hectares by the state governments in the 1950s. Of the total, some 479,765 hectares went to the smallholders and the remaining 355,000 hectares of oil palm estates, were managed by Felda Holdings Bhd on behalf of Felda.

During the listing exercise, Felda Holdings was parked under FGV. In return, Felda gets paid through an LLA plus a 15% share of the sales of FFB.

A local plantation analyst told *Malay Mail* that the LLA means a higher cost base for FGV, on top of making it more sensitive to crude palm oil (CPO) price changes.

This is reflected in the highly volatile patterns of payments FGV has had to fork out since its listing in 2012 (as seen in the table above).

She said plans to renegotiate the LLA terms to a flat, or a more predictable, rate have been bandied about ever since the company was listed — notwithstanding the fact that the LLA was a major reason why settlers greenlighted the listing in the first place.

"No one would agree to it now because CPO prices are now at RM3,134 for the March 2017 contract, which is quite high. So, it would be difficult for both parties to negotiate for a revised LLA rate," the analyst said.

Other analysts and economists refused to comment on EPF's investment in FGV and whether it was a risky venture as expressed by critics of the pension fund.

According to previous reports, the LLA factor in practice has disrupted the flow of profit which has been pulled down in recent financial results.

FGV's lower revenue and profit before tax for the third quarter of 2016 was due to higher fair value in LLA of RM105 million compared to RM12 million in the previous quarter.

However, the lower profit was compensated by higher volume of FFB processed by 15%, which led to higher CPO production by 18%, higher estate yield of 4.14 metric tonnes per hectare, and lower CPO production cost.

FGV defenders, however, said that the

Headline	EPF has to diversify its investments, says economist		
MediaTitle	Malay Mail		
Date	29 Dec 2016	Language	English
Circulation	100,000	Readership	300,000
Section	Money	Page No	34
ArticleSize	723 cm²	Journalist	N/A
PR Value	RM 24,783		

pension fund would have bought and sold shares in the planter over the years at different prices and timing.

"EPF is a professional portfolio fund manager. Its performance should be based on its overall performance of all its investments. It is foolish to make conclusions about EPF based a single investment.

"EPF's investment assets as at end-September were at RM712.5 billion — thus a loss of RM575 million from FGV's falling share prices since listing, only amounts to 0.08% of fund size and does not affect EPF much.

"To give you an idea of the scale, EPF reported profits of RM12.32 billion for the quarter ended September 2016 alone," a blogger said.

FGV LLA payments to Felda: 2013-2016

Year	2013	2014	2015	2016 (end-Sept)
Profit sharing	RM77.5 million	RM88.0 million	RM30.1 million	RM12.1 million
Lease rental	RM248.4 million	RM248.4 million	RM248.4 million	RM183.3 million
Total payment	RM325.9 million	RM336.4 million	RM278.5 million	RM195.4 million

The LLA means higher cost base for FGV, making it more sensitive to CPO price fluctuations. — Picture by Reuters