

This document outlines the investment approach, objectives and principles.

## **1. Investment Approach**

- 1.1 Khazanah's mission is to deliver long-term financial returns in order to actively foster Malaysia's economic development. Both pillars of this dual mandate are essential and interdependent.
- 1.2 Complexity is inherent to Khazanah's mandate and diversification across asset classes, geographies, sectors, and vintages helps mitigate the risks associated with complexity and improve risk adjusted returns.

## **2. Investment Philosophy**

- 2.1. Khazanah is a long-term investor with patient capital and will apply a time horizon aligned to the nature of the selected investment or developmental opportunities. This long-term investment philosophy and approach allow flexibility to navigate dynamic market conditions and selectively accepts short-term volatility as trade-offs for long-term value creation, while maintaining discipline in recognition of the leverage position and ongoing annual funding obligations.
- 2.2. Diversification is necessary to maintain the long-term sustainability of returns for the portfolio.
- 2.3. Markets are dynamic and can offer attractive investment opportunities but making opportunistic investments is difficult and should be done selectively.
- 2.4. During periods of high uncertainty, we remain grounded in our long-term portfolio goals.
- 2.5. Managing the complexity embedded in Khazanah's mandate requires deliberate investment in our resources and building capabilities where there are gaps. Outsourcing and partnerships are considered in efforts to build capabilities and enhancing the development of Khazanah's Institutional DNA.
- 2.6. We are disciplined in continually assessing our portfolio with an investor mindset. This includes actively engaging with our investee companies to ensure focus on delivering value to shareholders.
- 2.7. We advocate and demonstrate responsible and sustainable actions through our investments. We are committed to the Malaysian Code for Institutional Investors which promote the active integration of ESG considerations into investment analysis, decision-making, and asset ownership.



- 2.8. We maintain a strategic commitment to steward investments responsibly, with continuous emphasis to refine the sustainability priorities. This partnership allows us to drive long-term value creation and supports the national sustainability agenda.
  
- 2.9. In addition, we are a member of the International Forum of Sovereign Wealth Funds (“IFSWF”) which endorses the Santiago Principles (“Principles”), also known as the Generally Accepted Principles and Practices (“GAPP”) standards for governance, investment and risk management practices for sovereign wealth funds. They are designed to promote good governance, accountability, transparency and prudent investment practices.

### 3. Source of Funding

- 3.1. Our principal funding is in the form of shareholder equity. Khazanah may also receive additional inflow of capital.
  
- 3.2. We may also utilise debt financing and proceeds from our divestment activities to fund our investment activities.

### 4. Investment Structure

- 4.1. Khazanah pursues its overall mandate through the following investment structure:
  - a) **Investments Portfolio**
  - b) **Dana Impak Portfolio**
  - c) **Developmental Assets**
  - d) **Special Situation Assets**

### 5. Investments Portfolio

- 5.1. The Investments Portfolio is intended to be an intergenerational portfolio that seeks to generate risk-adjusted returns on a long-term basis, to preserve and grow the long-term value of our assets.
  
- 5.2. The Investments Portfolio targets to generate a return of at least the Malaysian Consumer Price Index + 3% on a long-term rolling basis. The Investments Portfolio’s return target is set by the Board and may be reviewed from time to time.



- 5.3. The annual returns of the Investments Portfolio will be reinvested into the Fund and distributed to the Government based on the payout framework approved by the Board.
- 5.4. The Investments Portfolio has the flexibility to invest across different geographies, sectors and asset classes.

## **6. Dana Impak Portfolio**

- 6.1. The Dana Impak Portfolio is intended to invest in fostering increasing Malaysia's economic competitiveness and building national resilience while delivering socioeconomic impact for Malaysians.
- 6.2. The Dana Impak Portfolio targets to generate a return of at least the yield of the 10-year Malaysian Government Securities and achieve its societal benefits and outcomes. The aforementioned returns target and pre-determined societal benefits and outcomes are set as per the SMB & LOA and may be reviewed from time to time.
- 6.3. The portfolio will invest and manage the assets according to investment themes for the benefit of the nation. The investment themes will be reviewed on a regular basis in line with global economic megatrends and national priorities, taking into account Khazanah's available resources and alignment with Khazanah's mandate.
- 6.4. The portfolio has the flexibility to invest across capital structures.

## **7. Developmental Assets**

- 7.1. The Developmental Assets is intended to deliver high economic impact through long-term developmental investments.
- 7.2. These assets will be developed to achieve commercial viability at which point value realisation options may be considered.
- 7.3. The assets are subjected to the target of generating a return of at least the yield of the 10-year Malaysian Government Securities and achieve its relevant national and/or societal benefits and outcomes. The aforementioned return target is set by the Board and may be reviewed from time to time.
- 7.4. Developmental Assets aim to be self-sustaining over time, while delivering net positive societal impact, and minimize opportunity cost to the overall portfolio.

## 8. Special Situations Assets

- 8.1. Special Situations Assets are defined and classified as assets that require turn-arounds in terms of profitability and sustainable operating cash flows.
- 8.2. These assets will have specific targets and action plans that are reviewed on an annual basis.
- 8.3. These assets may be reclassified when they achieve commercial viability or undertake a process to explore value realisation options as per the SMB & LOA.

## 9. Risk Management

- 9.1. Khazanah's risk appetite is an important component of the overall Khazanah risk management framework. The Audit and Risk Committee reviews and assesses the risk appetite on a periodic basis or when deemed necessary and recommends to the Board for final approval to ensure continued alignment with Khazanah's objectives and prevailing market conditions. The risk appetite is articulated through a set of Risk Appetite Statements for key material risks identified under the investment approach.
- 9.2. Khazanah's risk appetite allows the Board and Senior Management to communicate, understand and assess the types and level of risks that Khazanah is willing to accept in pursuit of its commercial, economic, and societal returns for the nation, while taking into consideration constraints under normal and stressed market conditions. The risk appetite provides a consistent and structured approach in understanding risk for the organisation, and it is embedded into the investment activities and decision-making process of Khazanah.
- 9.3. The Risk Appetite serves as a reference point to foster a culture where every decision balance risk and return, upholds accountability, and reinforces financial resilience and sustainability to fulfil our mandate. ALM risks are mitigated through prudent leverage and liquidity management, while portfolio-level risks are managed to reward well-governed active risk-taking.

**10. Governance**

- 10.1. Our Framework of Integrity, Governance and Risk Management (“FIGR”) establishes a clear responsibility, authority, and governance structure. It serves as a guide for the effective management of risks, and to inculcate a culture of good corporate governance and responsibility throughout Khazanah.
- 10.2. The Schedule Matters for the Board provides a structure of authority of the Board and its sub-committees, and the Limits of Authority enables execution of day-to-day transactions by the Senior Management of Khazanah. This outlines the oversight role in setting and ensuring alignment with Khazanah’s mandate, while maintaining commercial and strategic focus.

**11. Transparency and Disclosures**

- 11.1. As Malaysia’s sovereign wealth fund acting in the best interest of stakeholders, we are committed to publish our Funds’ investment activities and performance on an annual basis.