



KHAZANAH  
NASIONAL

# **KHAZANAH ANNUAL REVIEW 2019**

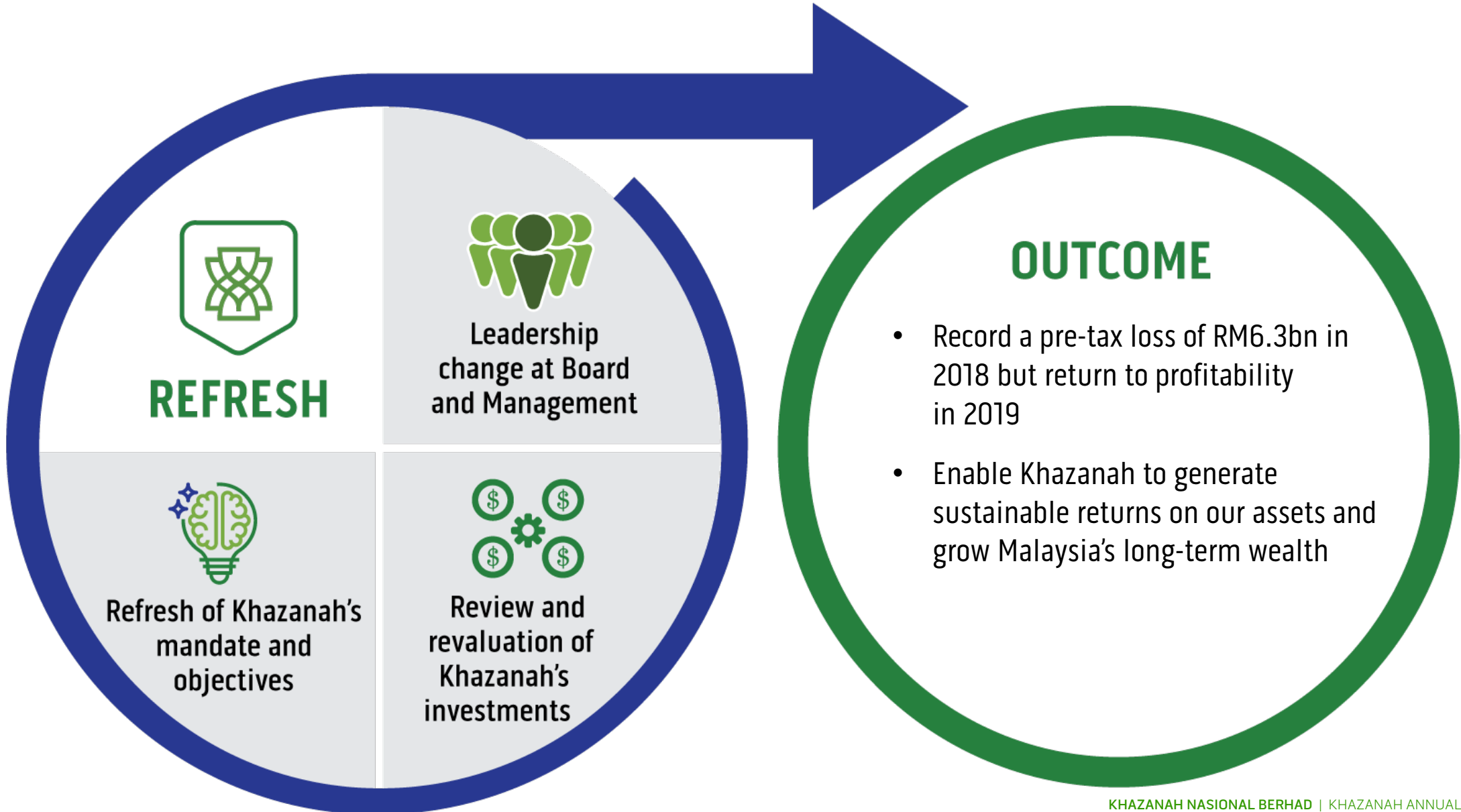
2018 in Review & Khazanah's Refreshed Mandate

5 March 2019

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# In 2018, the Government initiated a corporate restructuring and reorganisation of Khazanah

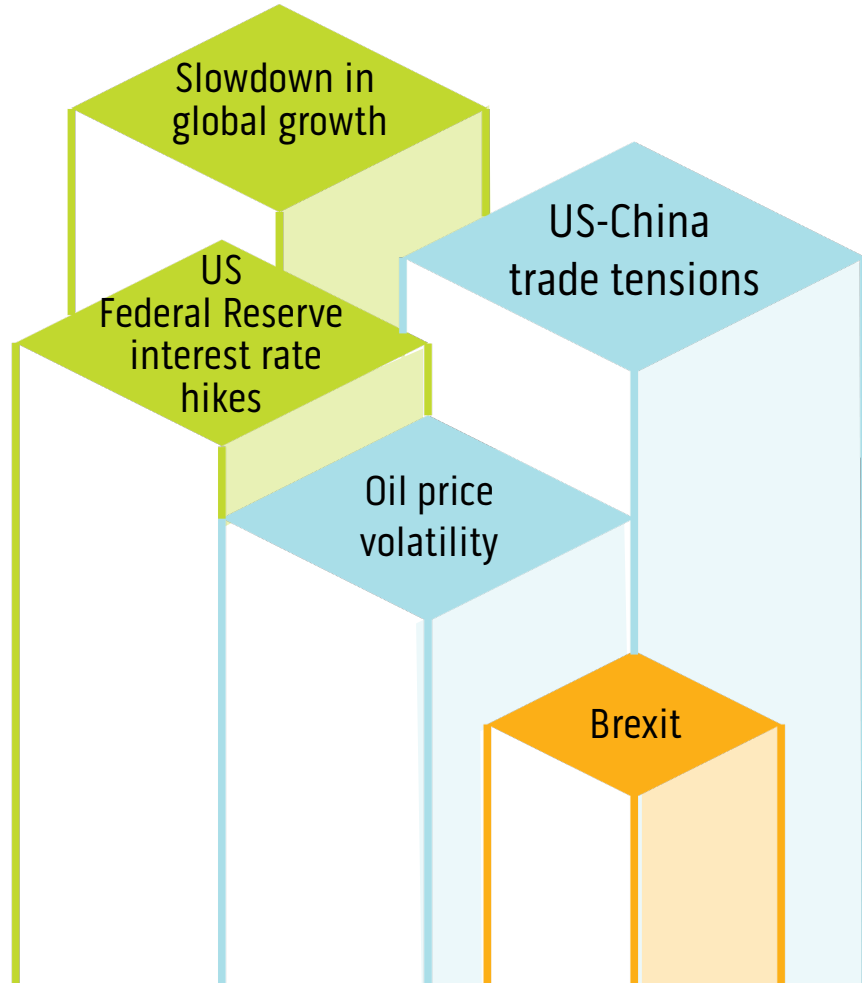


# 2018 IN REVIEW

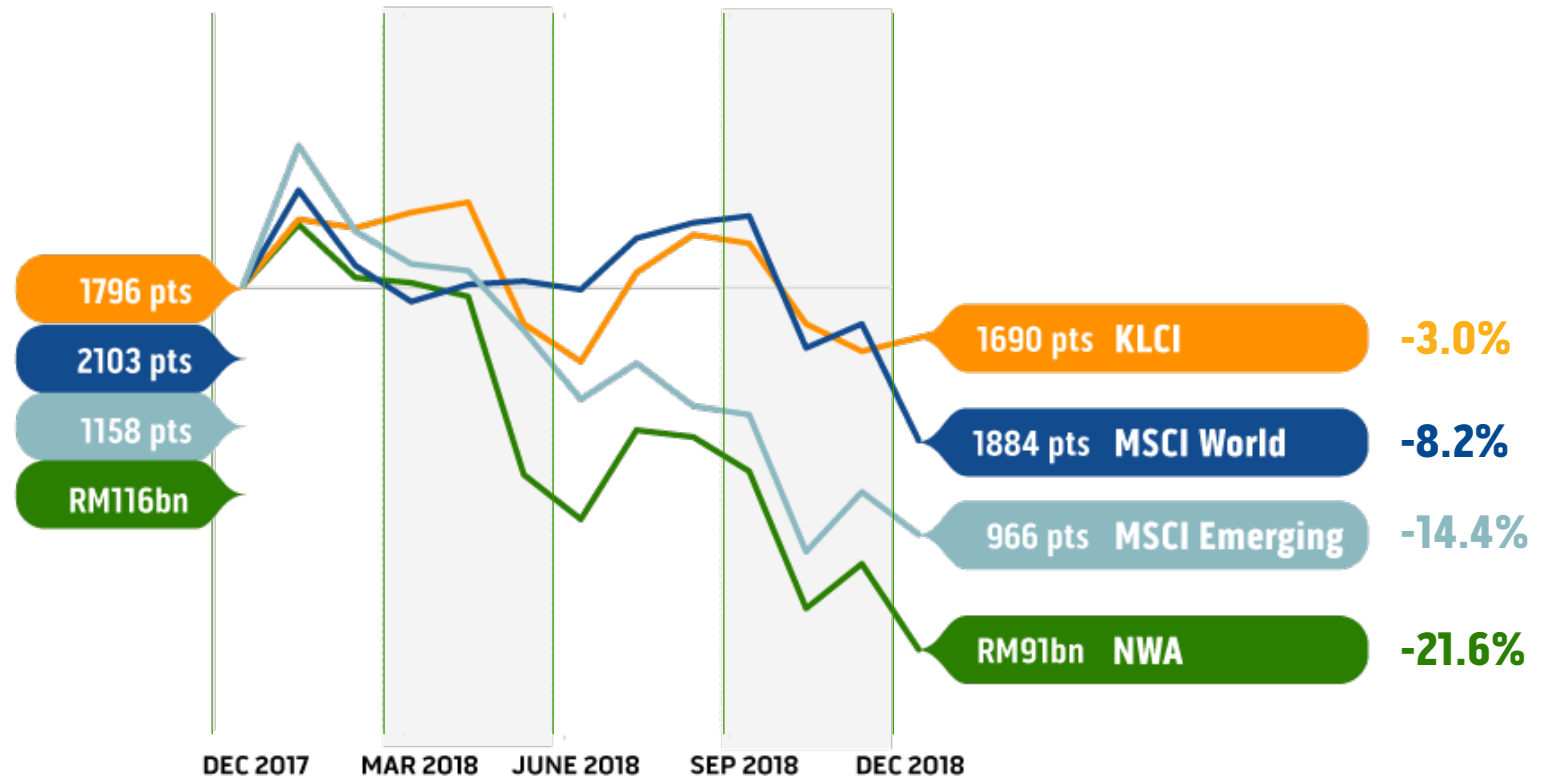




# Global markets underperformed in 2018 due to geopolitical tensions and a pessimistic growth outlook for emerging markets



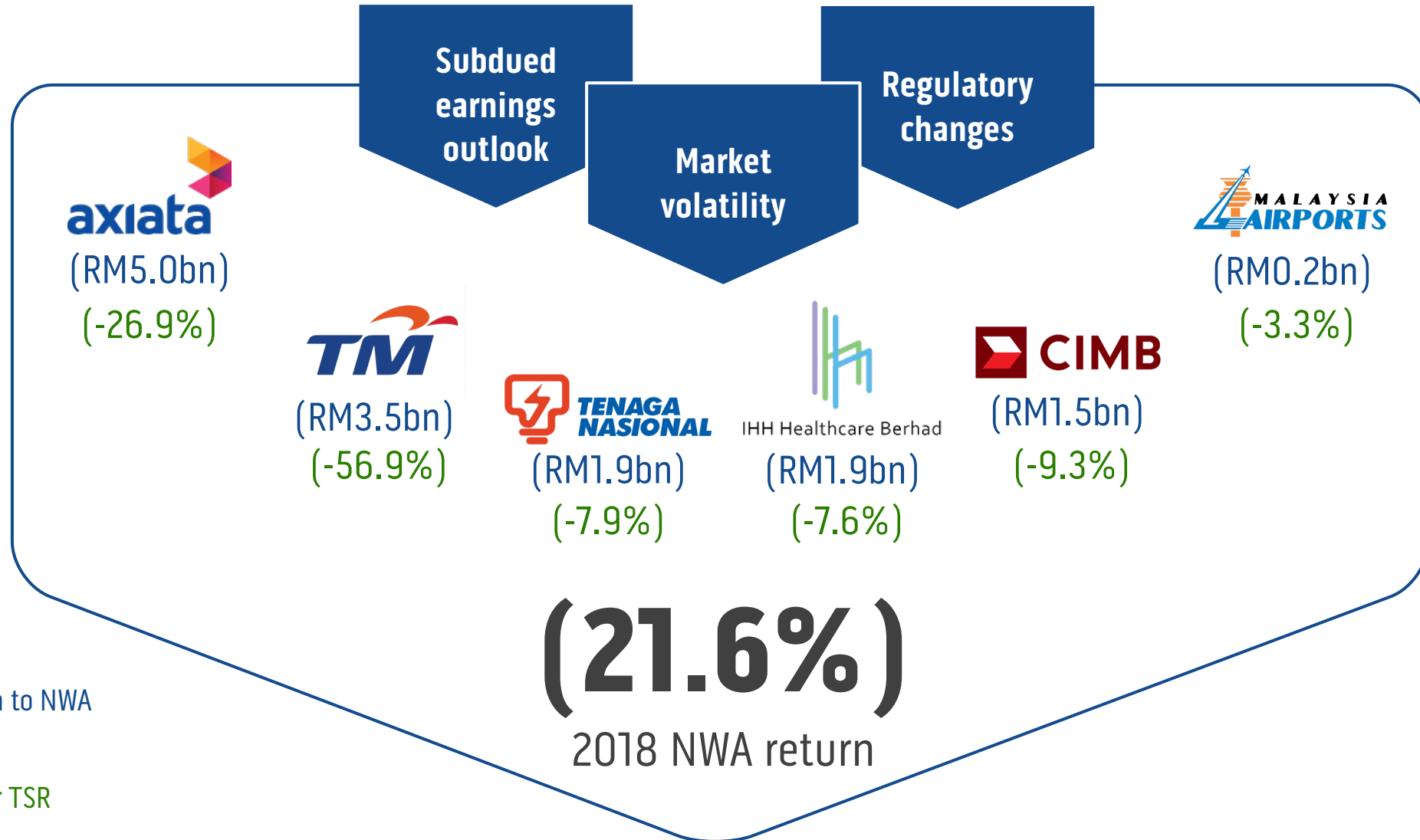
Total Return of Major Indices and Khazanah's NWA<sup>1</sup> in 2018  
(in local currency)



1. Net Worth Adjusted: Realisable Asset Value less Total Liabilities and adjusted to measure value created



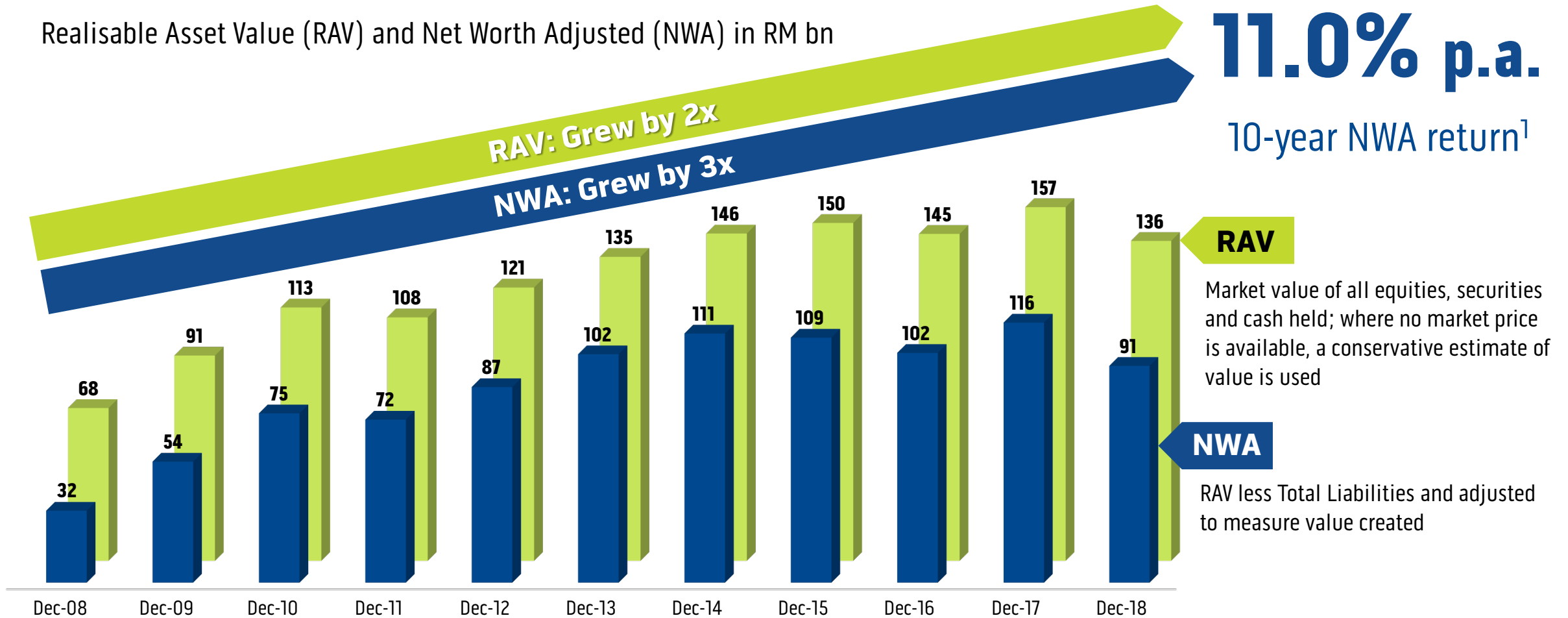
## Khazanah's portfolio was further impacted by domestic developments in 2018





## Long-term performance remains positive, achieving a 11.0% p.a. 10-year return

Realisable Asset Value (RAV) and Net Worth Adjusted (NWA) in RM bn

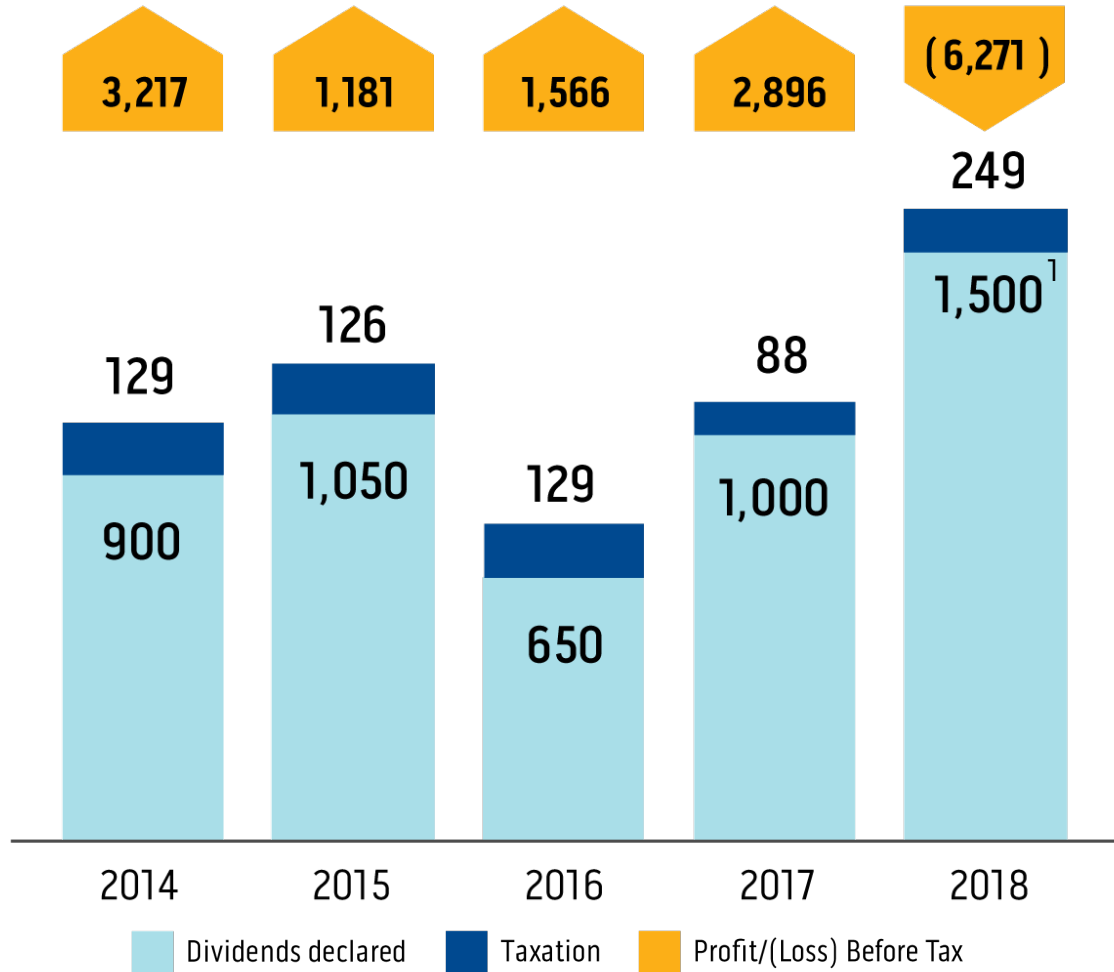


1. 10-year return is based on compound annual growth rate



## Profitability declined due to fewer divestment transactions, less dividend income and higher impairments during period of transition and unfavourable market conditions

Profit/(Loss) before tax, dividends declared and taxation (RM m)



# (RM6.3bn)

2018 Loss Before Tax

| (RM bn)           | 2018  | 2017  |
|-------------------|-------|-------|
| Dividend received | 2.8   | 3.1   |
| Divestment gains  | 1.4   | 2.8   |
| Impairment        | (7.3) | (2.3) |

Malaysian Aviation Group Berhad :  
-RM3.1bn

1. Dividend to government is paid from retained earnings



## Notable achievements attained in 2018

### Key achievements

#### Selected highlights



平安好医生  
要健康 上平安好医生

Investment in online-to-offline  
healthcare servicing platform



PUSAT PERUBATAN  
PRINCE COURT  
MEDICAL CENTRE

Investment in private  
healthcare facility



Investment in online  
payment services provider



Successful completion and  
launch of Marina One and DUO

#### Value creation



IPO on NASDAQ



IPO on NYSE



IHH Healthcare Berhad

Partial divestment<sup>1</sup>



中信证券  
CITIC SECURITIES

Issuance of USD321m  
exchangeable sukuk

1. Transaction is subject to relevant regulatory approvals



# OUR REFRESHED MANDATE





## Khazanah's mandate and objectives were refreshed in 2018

### COMMERCIAL

Grow financial assets and diversify revenue sources for the nation

### STRATEGIC

Hold strategic assets that bring long-term economic benefits

### OBJECTIVES

### OUR MANDATE

**Khazanah's role is to grow Malaysia's long-term wealth**

### OUR PHILOSOPHY

Attain appropriate risk-adjusted financial returns

Generate sustainable returns

Integrate ethical and responsible investing considerations



# Khazanah will pursue its two distinct objectives through a dual-fund investment structure

## COMMERCIAL FUND

An intergenerational wealth fund to meet Khazanah's commercial objective

Targets a return of Malaysian Consumer Price Index (CPI) + 3.0% on a 5-year rolling basis

### Public assets

### Private assets



## STRATEGIC FUND

A developmental fund to meet Khazanah's strategic objective

Targets a return of:

- 10-year Malaysian Government Securities (MGS) yield on a 5-year rolling basis; and
- Measureable economic benefits

### Strategic assets

### Developmental assets





## Khazanah will execute its transitional priorities in the next five years

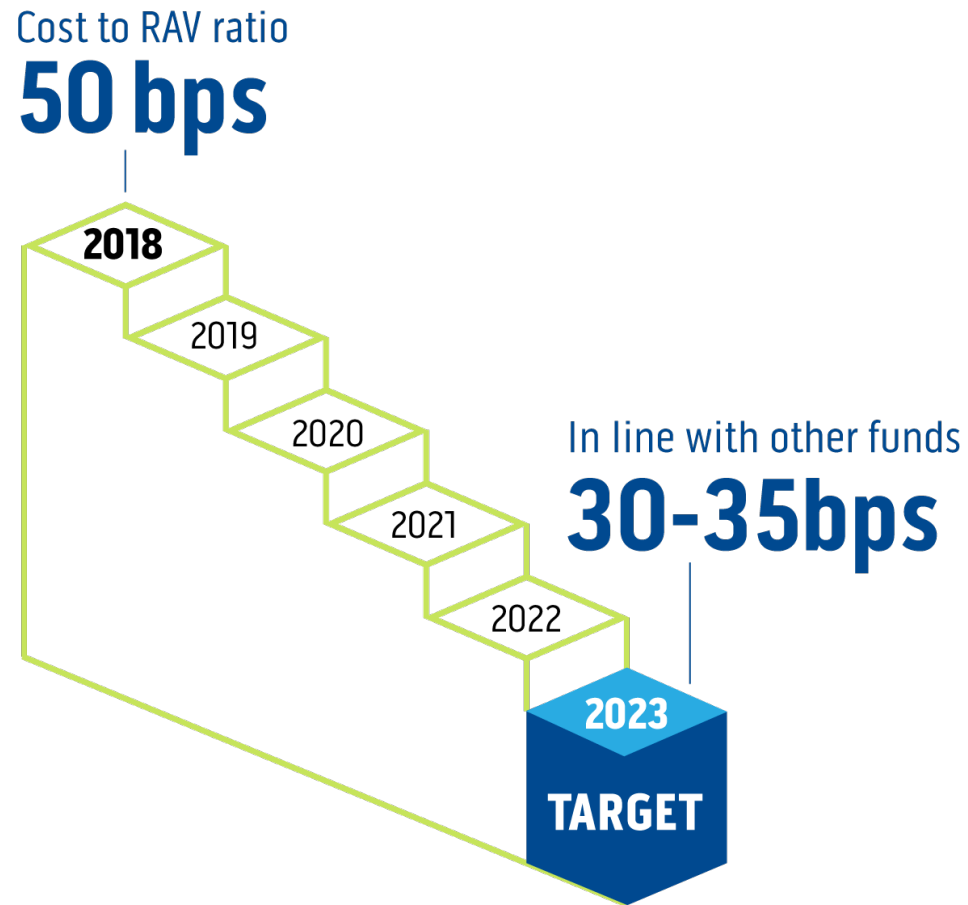




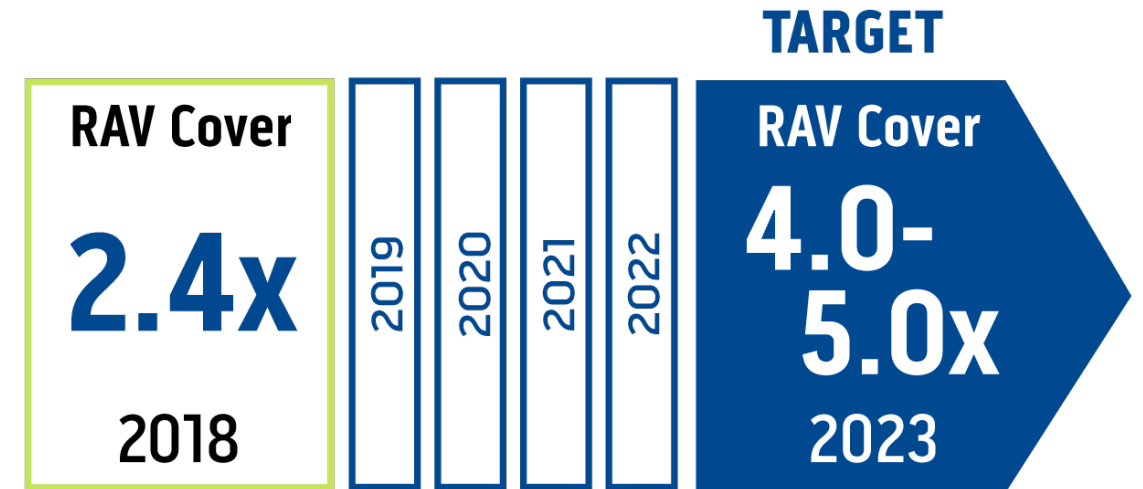
## Transitional Priority 1: Strengthen financial position



### A. Improve operating cost-efficiency



### B. Enhance capital structure through debt reduction





## Transitional Priority 2: Rebalance the Commercial Fund



1



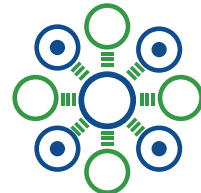
Shift to long-term strategic asset allocation

2



Diversify portfolio to be more balanced across geographies and sectors

3



Improve risk diversification



## Transitional Priority 3: Develop the Strategic Fund



### STRATEGIC ASSETS



SILTERRA



ISKANDAR MALAYSIA  
STUDIOS



ISKANDAR  
INVESTMENT  
Catalyst of Change



THEMED ATTRACTIONS  
RESORTS & HOTELS

MEDINI  
ISKANDAR MALAYSIA



### DEVELOPMENTAL ASSETS

**1** Generate enhanced shareholder return for strategic assets

**2** Achieve commercial sustainability for developmental assets and deliver economic impact

**3** Identify new strategic investments with capacity to deliver economic benefit



## Transitional Priority 4: Review governance structure and framework



**1** Update policies, procedures and processes in line with new mandate and dual-fund structure

**2** Enhance transparency to stakeholders

### Investment Policy Statement

Responsible Investment Policy

Treasury Policy

Asset-liability Management Policy

**Divisional processes and procedures**





## Transitional Priority 5: Build organisational capacity



### A. Optimise talent for identified business needs



- Realign staffing needs with new structure
- Training on critical skills
- Revise performance management system

### B. Enhance IT infrastructure to meet requirements of dual-fund structure



- Redesign business processes and information architecture
- Upgrade systems and applications to support investment operations



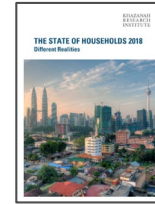
## Khazanah remains committed to delivering its initiatives

### Selected activities in 2018



- 40-acres of forest park with 4 km of forest trails opened in 2018
- Inaugural Taman Tugu Eco Day held in September 2018

KHAZANAH  
RESEARCH  
INSTITUTE



- Published two reports in 2018
- The State of Households 2018: Different Realities
  - The School-to-Work Transition of Young Malaysians



- RM119m spent in 2018, in Education (75%), Public spaces (14%) and Knowledge (11%)
- Hari Hasanah 2018 held with 22 Hasanah efforts delivered



- KMF 2018 held on 8-9 October 2018 with the theme "On Balance – Recalibrating Markets, Firms, Society and People"



- Graduation of first cohort with Demo Day held on 14 May 2018
- 26 out of 30 finalists have launched products with 21 teams generating revenue



## 2019 Outlook In Summary

### Our focus for 2019

- Executing portfolio rebalancing
- Strengthening financial position through cost-optimisation and debt reduction
- Developing policies, guidelines and processes for new dual-fund structure
- Restructuring organisation and enhancing capabilities to support the refreshed mandate

# APPENDIX





## Khazanah's Cashflow Framework

As an investment house, Khazanah's cashflows consists of the following:

### Inflow

- Dividend income
- Proceeds from divestments



### Outflow

- Reinvestments
- Operating expenses including debt servicing
- Dividend to government



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**Thank You**

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