

This document outlines the investment mandate, objectives and principles.

## 1. Investment Mandate

- 1.1. Khazanah's mandate is to grow Malaysia's long-term wealth. Grow in this context is to sustainably increase the value of investments while safeguarding financial capital injected into the fund. Long-term refers to a period spanning generations and focuses on ensuring future generations' ability to meet their needs. Wealth refers to the value of Khazanah's financial assets and economic development outcomes for the nation.
- 1.2. The mandate is to be achieved by pursuing the following investment objectives:
  - a) **Commercial objective:** Achieve optimal risk-adjusted returns, to grow financial assets and diversify sources of revenue for the nation.
  - b) **Strategic objective:** Undertake strategic investments with long-term economic benefits for Malaysia or Malaysians, including holding strategic national assets.

## 2. Investment Philosophy

- 2.1. In accordance with our mandate to grow Malaysia's long-term wealth, we will invest only where an appropriate risk-adjusted financial return can be achieved. In addition, strategic investments must also deliver identified economic impact outcomes.
- 2.2. We believe in creating sustainable value through appropriate engagement with the companies we invest in and the external investment managers and advisors we use.
- 2.3. We will abide by responsible investing practices that take into account environmental, social and governance (ESG) factors to better manage risk and generate sustainable, long-term returns. We are committed to the UN Principles for Responsible Investment (UNPRI) and the Malaysian Code for Institutional Investors which promote the active integration of ESG considerations into investment analysis and decision-making, and asset ownership.

### **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 will pursue its overall mandate through a two-fund investment structure. The two funds, the Commercial Fund and the Strategic Fund, are established with distinct objectives, policies and strategies, and are to be managed separately via separate investment management divisions.

### **5. Commercial Fund**

- 5.1. The Commercial Fund is intended to be an intergenerational fund that seeks to generate risk-adjusted returns on a long-term basis, to grow financial assets and diversify sources of revenue for the nation.
- 5.2. The Fund targets to generate a return of at least the Malaysian Consumer Price Index + 3% on a 5-year rolling basis with a moderate risk tolerance level as follows:
  - a) Underperformance: No more than 10% chance of a 30% annual loss.
  - b) Funding: No more than 10% chance of not achieving 1.5% portfolio yield.

The return target and risk tolerance are set by the Board and may be reviewed from time to time.

- 5.3. The annual returns of the Fund will be reinvested into the Fund and distributed to the government based on an identified payout ratio. Any additional inflow of capital will be subject to approval of the Board.
- 5.4. The Fund has the flexibility to invest across multi-asset classes in accordance to the strategic asset allocation.
- 5.5. The Fund has the flexibility to invest across different geographies with a preference for active and direct investment strategies.

## 6. Strategic Fund

- 6.1. The Strategic Fund is intended to be a developmental fund that seeks to undertake strategic investments, with long-term economic benefits, including holding strategic national assets.
- 6.2. The Fund targets to generate a return of at least the yield of the 10-year Malaysian Government Securities on a 5-year rolling basis and achieve its strategic objectives. The Fund's return target is set by the Board and may be reviewed from time to time.
- 6.3. The Fund intends to be self-sustaining, with the primary source of funding for the Fund's activities to be generated from any internal surplus; any additional capital required above this available amount will be subject to the approval of the Board.
- 6.4. The Fund will invest and manage strategic assets as defined and classified below:
- a) *Strategic assets:*
    - i. Domestic assets of national importance, such as critical infrastructure.
    - ii. Held on behalf of the Government of Malaysia for the long-term.
  - b) *Developmental assets:*
    - i. Long-term developmental investments with potential to deliver high economic impact.
    - ii. These assets will be developed to achieve commercial viability at which point value realisation options may be considered.
  - c) *New strategic assets:*
    - i. Either national infrastructure related or developmental in nature.
    - ii. Clearly defined economic benefit targets and commercial viability plan identified.
- 6.5. The Fund will pursue opportunities with the potential to become commercially viable or will earn sufficient returns to operate without recourse to its shareholders.
- 6.6. It is anticipated that larger-value transactions will generally be undertaken by the fund.
- 6.7. The Fund has the flexibility to invest across capital structures.



- 6.8. There is a preference for co-investment and partnerships in entering all new developmental investments.
- 6.9. Value realisation options can be considered when possible, on commercial arms' length basis.
- 6.10. The investment themes will be reviewed on a regular basis based on global economic megatrends and national needs, and investment assets within the portfolio will be similarly reviewed and assessed for relevance to strategic targets.

### **7. Governance**

- 7.1. The Schedule Matters for the Board ("SMB") provides a structure of authority of the Board and its sub-committees, and clarity on matters that require escalation by Management. This structure is supplemented by the Terms of Reference for each Board sub-committee, comprising the Executive Committee ("EXCO"), the Audit & Risk Committee ("ARC") and the Nomination & Remuneration Committee ("NRC").
- 7.2. The Limits of Authority ("LOA") provides the high-level limits of authority applicable to the Senior Management of Khazanah, ensuring that the right authority is associated with the right level of limits for execution of day-to-day transactions.
- 7.3. Management is entrusted with empowerment and accountability for day-to-day corporate level activities, with EXCO and Board as oversight.

### **8. Transparency and Disclosures**

- 8.1. 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.
- 8.2. Further, as a signatory to the UN Principles for Responsible Investment (UNPRI), we will also disclose and report on our responsible investment measures to on an annual basis.