



KHAZANAH
NASIONAL

Khazanah Annual Review

2 March 2020

© All Rights Reserved.

This material is confidential and proprietary to Khazanah Nasional Berhad. No part of this material should be reproduced or published in any form by any means, nor should the material be disclosed to third parties without the consent of Khazanah.



Agenda

1	2019 Global Markets	3
2	Summary of Khazanah's 2019 Achievements	4
3	2019 Financial Highlights	5-6
4	Performance of Commercial Fund	7
5	Performance of Strategic Fund	8
6	Khazanah's 5 Strategic Priorities (SPs)	9-17
7	2020 Focus	18
8	2019 Takeaways	19



Global market performance in 2019

Brexit



New Government under PM Boris Johnson pushed for Brexit

US-China Trade War



Continued tariff escalation impacting USD460bn worth of goods

2019 Macroeconomic Recap

Low Interest Rate Environment



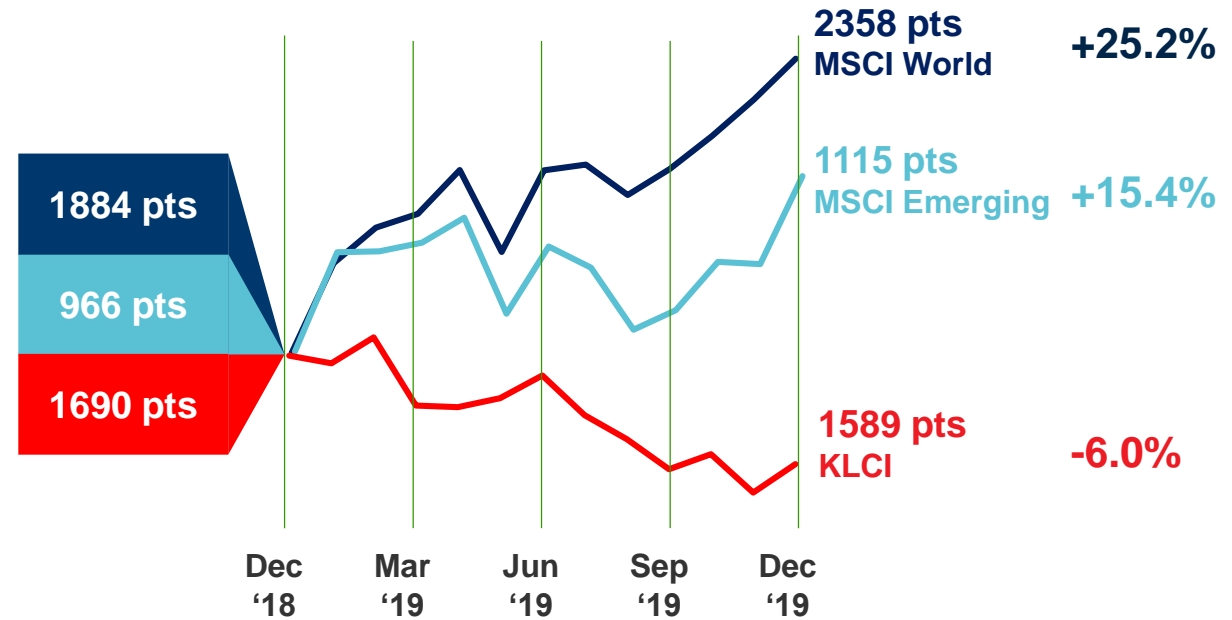
US rate cuts with other central banks following suit

Global growth slowing, especially Malaysia



Global trade, investments were weaker-than-expected early 2019

Total Return of Major Indices in 2019





Khazanah's achievements against 2019 targets



**Rebalance
Commercial
Fund**

Targeted a return of Malaysian Consumer Price Index (CPI) + 3.0%

2019 NAV TWRR* at 8.3%



**Develop
Strategic
Fund**

**Achieved asset specific financial and strategic outcomes despite sluggish market
(TNB, TM, MAHB, MAGB and PLUS)**



**Strengthen
financial
position**

Reduced OPEX

50bps to 35bps

Increased RAV cover**

2.4x to 3.0x

Managed debt level

RM55.2b to RM45.8b



**Align governance
structure and
framework**

**Approved and implemented new policies and processes
to assist the organisation in realigning to the new mandate**



**Build
organisational
capacity**

**Outlined digital strategy and
governance framework**

**Implemented individual development
plan for employees**

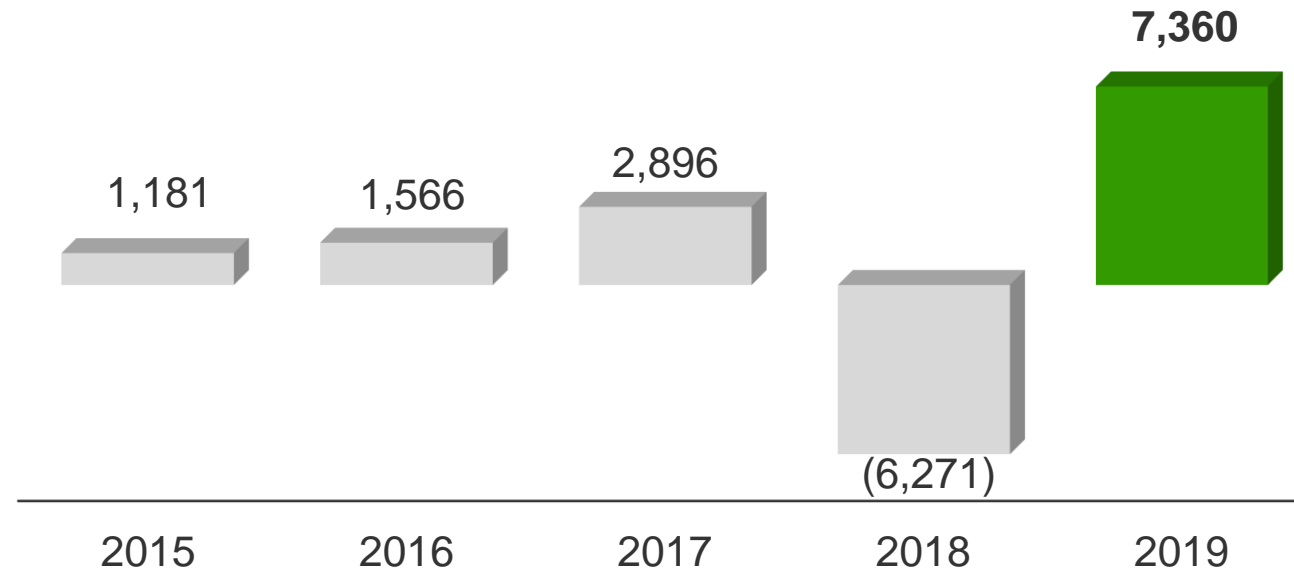
* Net Asset Value Time Weighted Rate of Return

** Realisable Asset Value



Financial performance and contributions to Government

Profit from Operations (RM million)



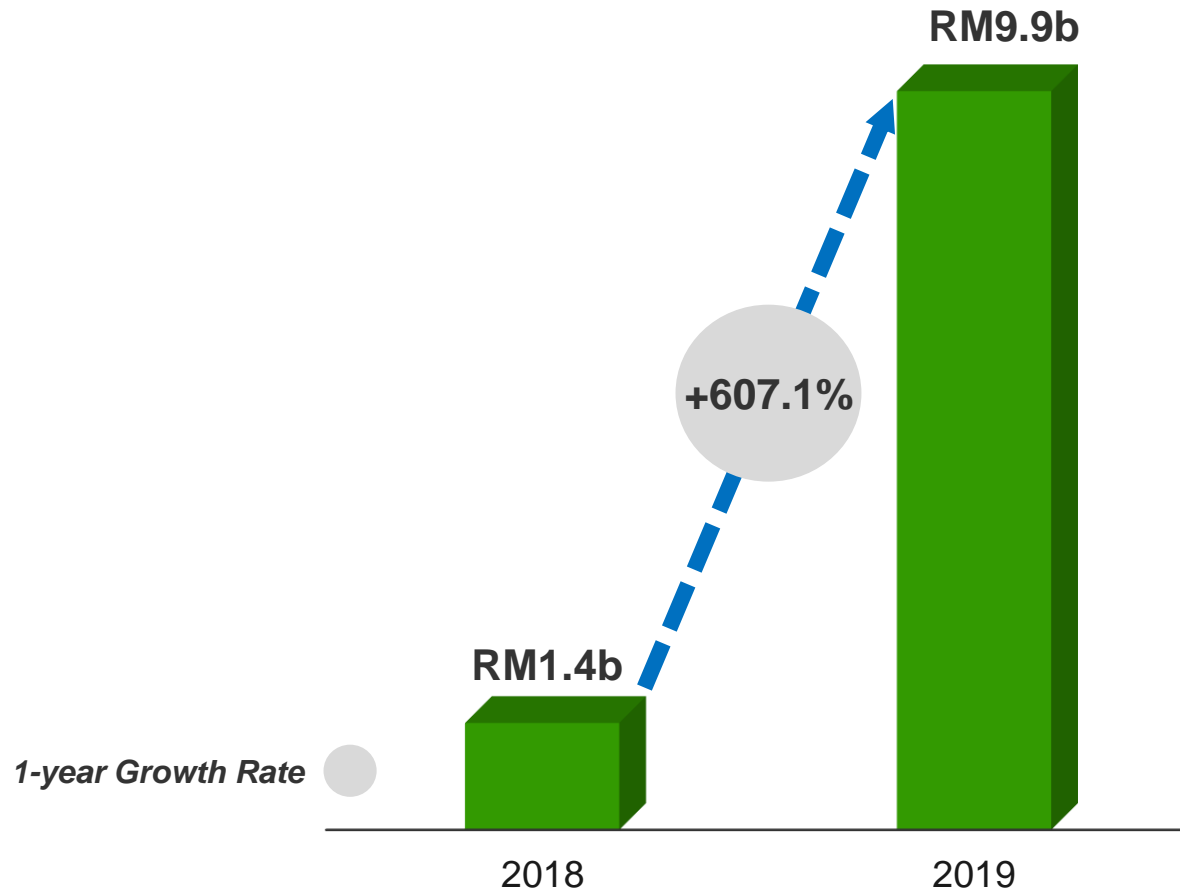
Contributions to Government of Malaysia

Financial Year (RM 'm)	2015	2016	2017	2018	2019
Dividends Declared	1,050	650	1,000	1,500	1,000
Tax Paid	19	20	24	29	30
Contribution for Government Initiatives	-	-	-	-	50

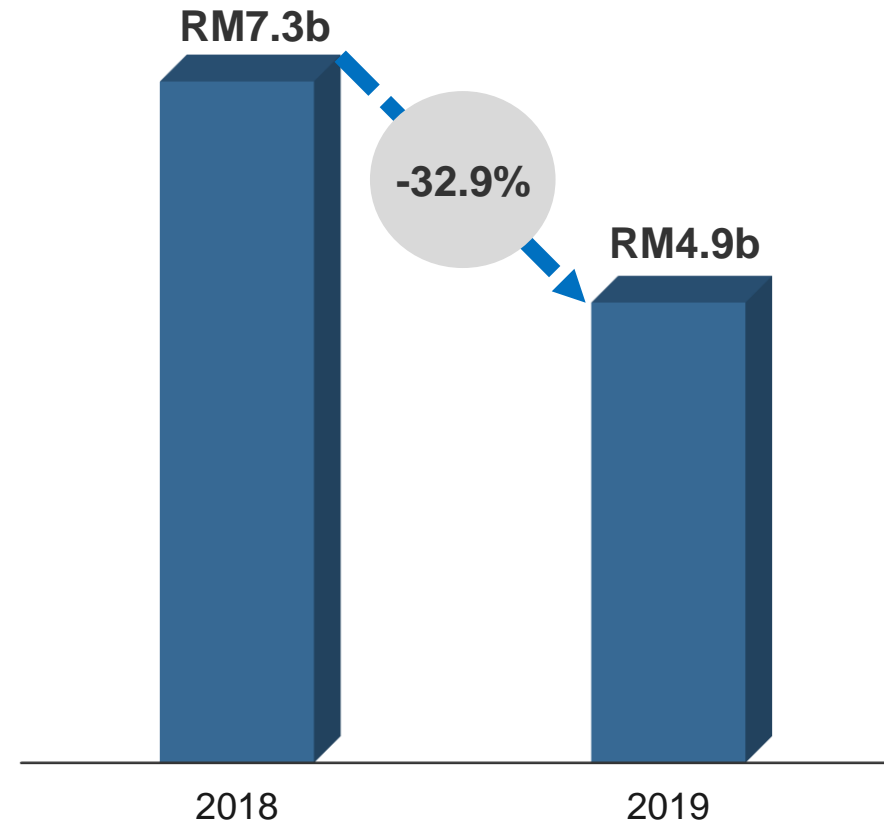


Divestment gains and impairments

Total Gains on Divestments



Total Impairments





Performance of the Commercial Fund

COMMERCIAL FUND

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

8.3%
2019 NAV
TWRR** for
Commercial Fund

RM73.1b
2019 NAV*

Public Assets



Private Assets



* Net Asset Value is adjusted for movements in cash and debt attributed to the fund

** NAV Time Weighted Rate of Return equivalent to CPI + 7.6% for 2019



Performance of the Strategic Fund

STRATEGIC FUND

Targets a return of 10-year Malaysian Government Securities (MGS) yield on a 5-year rolling basis

2.9%

Aggregate Net Profit/NTA ex-MAS*

Strategic Assets



Strategic Assets



2019 Focus in our Strategic Assets

Conducted regular engagements with Government to enhance regulatory landscape

Refreshed and strengthened leadership bench at operating companies

Commenced restructuring initiatives to improve financial performance and unlock value

* 2019 Aggregate Net Profit/Net Tangible Asset ex-MAS is a full year estimate as at 31 December 2019

* 10-year MGS yield was 3.3% as of 31 December 2019



5 Strategic Priorities (2019 – 2023)









Operating expenditure as a percentage of assets

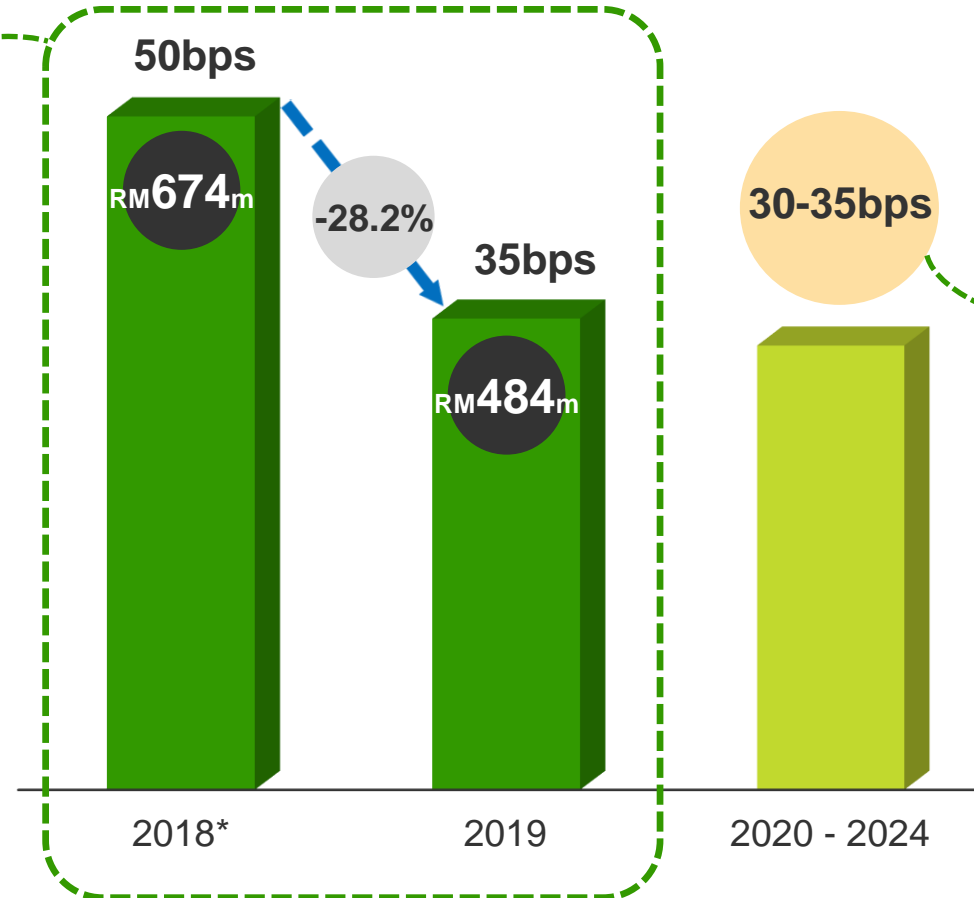


OPEX / RAV

Several factors contributed to lower OPEX, e.g.

- Reduction in non-recurring costs
- Lower investment advisory fees
- Closure of selected regional offices

Actual 
Forecast 
Total OPEX 
1-year Growth Rate 

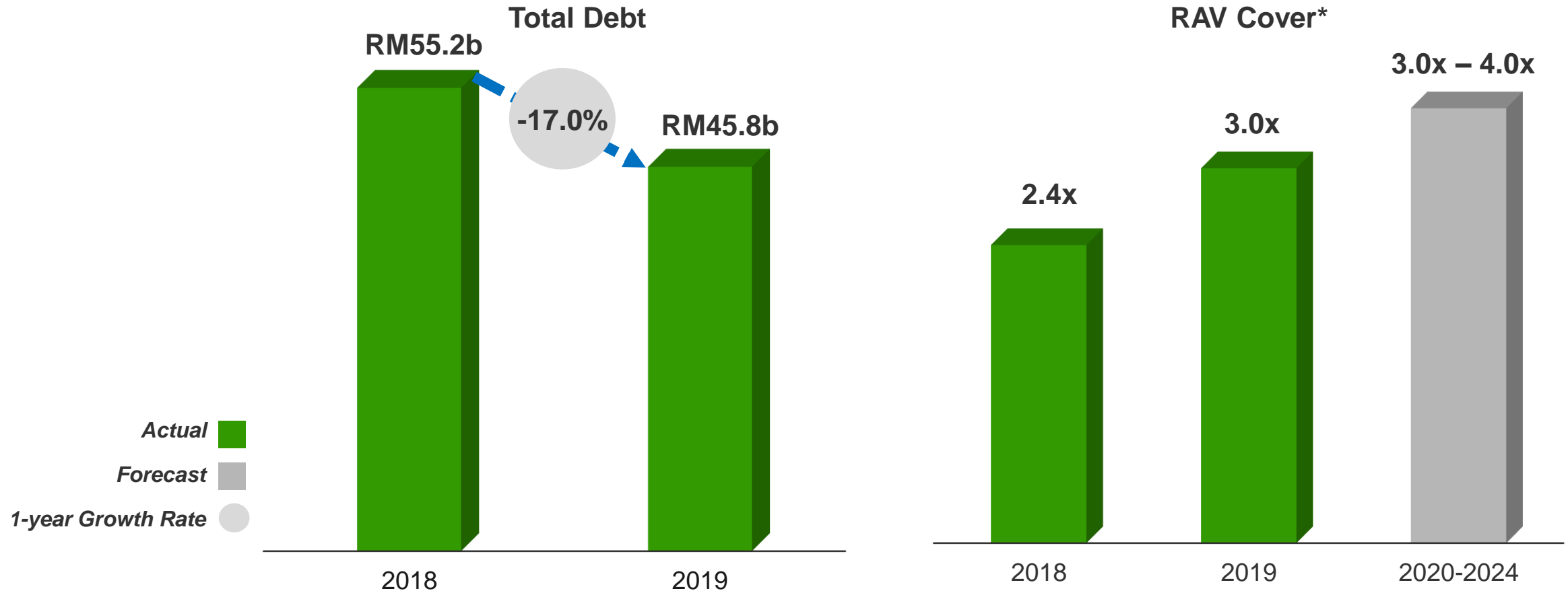


We will continue to manage our OPEX / RAV** levels within 30-35 bps range for 2020 and beyond

* 2018 OPEX excludes reversal of accrued expenses
** OPEX over Realisable Asset Value



Debt and RAV Cover



* RAV over Total Debt

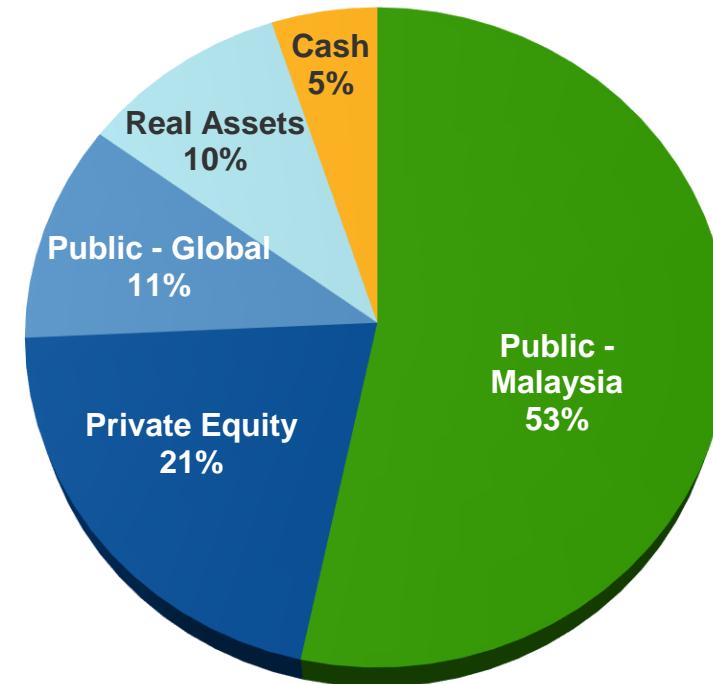
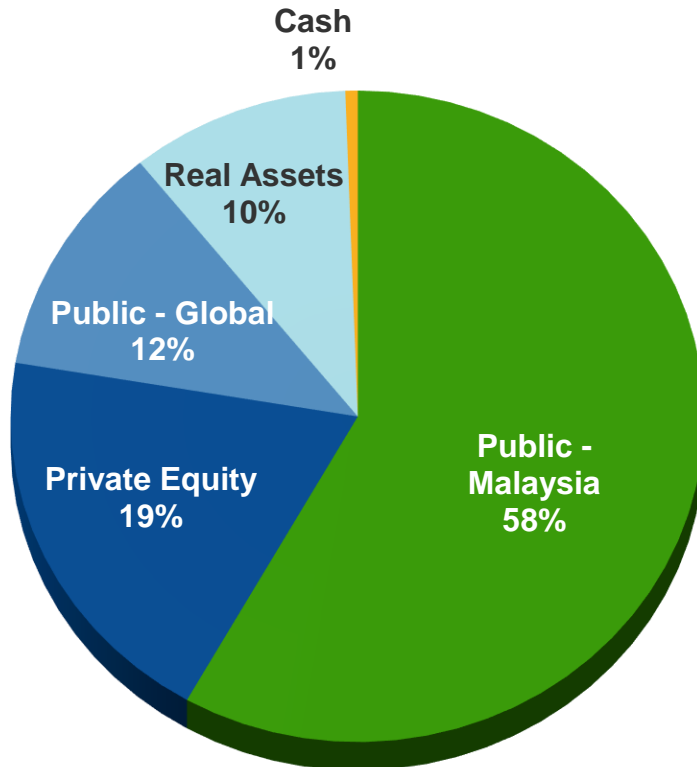


Commercial Fund portfolio rebalancing



Start of 2019

As at end Dec 2019



Khazanah is one year into its portfolio rebalancing exercise to diversify the Commercial Fund under the new mandate, and is positioned to deploy its cash to new investments in 2020



Evaluate strategic options for Malaysia Airlines



Identifying Solutions

1H 2019

Evaluated options & pathways to resolve key issues facing MAB

- Industry overcapacity & declining yields
- Structural issues (e.g. legacy liabilities)

Evaluation of Strategic Partners

2H 2019

Launched process to evaluate potential partners

- Evaluation of partner's strategy, operational expertise, track record
- 9 proposals received, 4 shortlisted

2020

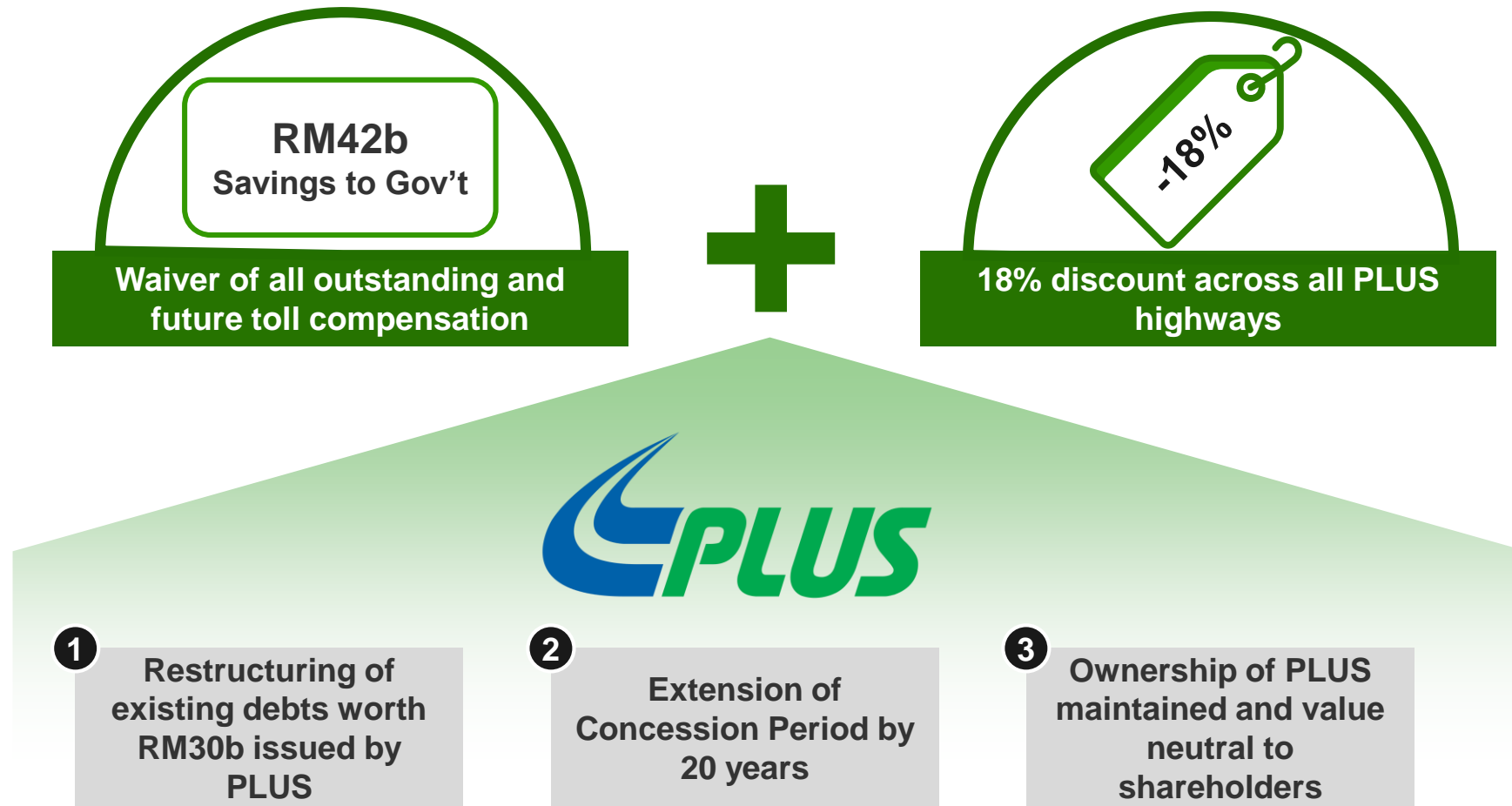
Review of proposals

- Continue to work closely with Government and MAB
- Finalise decision on strategic option for MAB





Achieve resolution on PLUS toll restructuring





Governance policies and increased transparency



Overarching

Responsible Investments

Outlines Khazanah's principles and commitments in relation to responsible investments for our investment decision making processes

Voting Policy

Overall voting principles and guidelines in line with our mandate to grow Malaysia's long-term wealth

Investments-related

Information Barrier Policy

Managing and safeguarding material non-public information ("MNPI") which may give rise to conflicts of interest

Investment Valuation Manual – FV of Assets

Provides a holistic view of the investments and divestments processes within Khazanah

Integrity

Khazanah Integrity & Anti-Corruption Plan

Overall scheme outlining Khazanah's integrity guidelines

Declaration of Interests & Ikrar Bebas Rasuah

Pledge of anti-corruption conduct and behaviour when serving Khazanah



Development of our people and digital strategy



Reorganised to align Khazanah to the new dual-fund structure



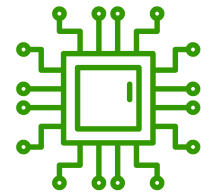
People Strategy: Talent Development & Organisation Culture



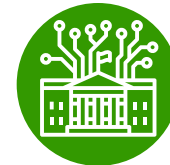
Individual Development Plan
Enhanced monitoring of staff learning & development



Employee Value Proposition
Emphasising Khazanah's clear purpose and strong value proposition for all staff



Digital Strategy: Enterprise Architecture



Governance Framework
Established in 2019, along with a new Digital & Technology Unit



Digital Strategy Formulation
Conceptualisation of IT landscape to support business needs in the future



Khazanah's other notable contributions



- ~5km of forest trails open to public
- *Amanah Warisan Negara* (“AWAN”) transfer in progress
- ~800 tonnes CO₂ offset per annum

- RM105.9m on education and social development programmes
- Waste reduction exercises saved 8,599kg of CO₂

- KMF 2019 “From the Past to the Future: Building Our Collective Brain”

- 39 publications*, topics include:
 - Housing
 - Income inequality
 - Gender inequality



* Includes books, discussion papers and articles



Our focus for 2020



*Expanding investments
to further diversify
our commercial
portfolio*



*Enhancing
regulatory
framework with
Government*



*Embedding
ESG across all
investment
activities*



IHH Healthcare Berhad

*Engaging investee
companies on
value creation
initiatives*



Key Takeaways from 2019

Strengthened Financial Position

Profit
RM7.4b

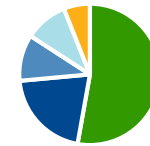
OPEX
35bps

Debt
3.0x RAV Cover

Further Diversification of Investment Portfolio

NAV Returns
8.3%

Portfolio Rebalancing



Enhancement of Strategic Assets


Restructuring


-18% tolls

 
Regulatory Engagement



KHAZANAH
NASIONAL

Thank You

Visit our website at
www.khazanah.com.my

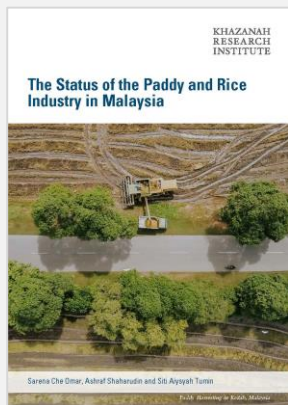
© All Rights Reserved.

This material is confidential and proprietary to Khazanah Nasional Berhad. No part of this material should be reproduced or published in any form by any means, nor should the material be disclosed to third parties without the consent of Khazanah.



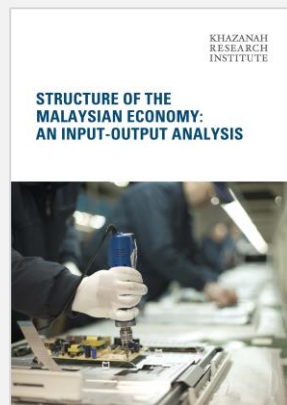
Appendix I: Selected publications by Khazanah Research Institute in 2019

Agriculture



The Status of the Paddy and Rice Industry in Malaysia

Economy



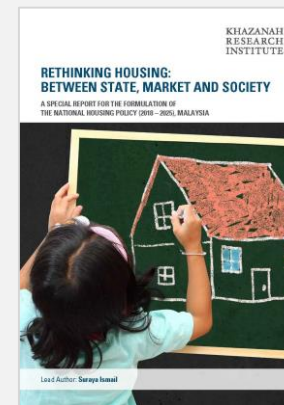
Structure of the Malaysian Economy: An Input-Output Analysis

Gender



Time To Care: Gender Inequality, Unpaid Care, Work and Time Use Survey

Housing



Rethinking Housing: Between State, Market and Society

Wealth & Inequality



Demarcating Households: An Integrated Income and Consumption Analysis

6 books and more than 30 articles and discussion papers released in 2019