

MESSAGE FROM THE CHAIRMAN



Dear Valued Stakeholders,

It has been two years since the pandemic hit the world, causing hardships, affecting economies, and forcing businesses and individuals to adapt swiftly to the challenges. Looking back, I am certain of two things: firstly, COVID-19 and its various permutations will continue shaping our lives far into the future; and secondly, the importance of sustainability will be proven to be a vital differentiator to building long-term resilience.

Despite the ongoing challenges of 2021 brought on by the pandemic and macroeconomic volatilities, I am pleased to report that Kumpulan Wang Persaraan (Diperbadankan) [KWAP] has delivered excellent performance, underpinned by our rigorous risk management and sound Strategic Asset Allocation (SAA) approach. We remain steadfast in our commitment to delivering long-term performance, underscored by our strong sense of purpose in helping our pensioners achieve their best financial position in retirement. ”

DATUK SERI ASRI BIN HAMIDON
@ HAMIDIN
Chairman



AN UNEVEN YEAR IN REVIEW

It was a year of both anticipation and uncertainty, with economies around the globe making huge progress adjusting to a post-pandemic world. As many economies reopened, the global economy rebounded with a 6.0% growth in 2021 against a contraction of 3.1% in 2020. At the same time, geopolitical tensions between China and the United States and Russia-Ukraine war worsened, had added further to economic and market uncertainties.

In Malaysia, the year under review continued to see prolonged movement restrictions amid new virus variant outbreaks, as well as devastating floods at the end of the year. Nevertheless, the Malaysian economy withstood the challenges relatively well, especially as the country moved into the recovery phase, underpinned by a resilient financial system that has benefitted from the buffers and structural strength built over the years. The fiscal policy continued to be supportive of the economy, with a total of RM530 billion in stimulus measures deployed since the onset of the pandemic.

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2021 KEY PERFORMANCE METRIC

Malaysia's Gross Domestic Product (GDP) increase

3.1%

year-on-year

KWAP'S FUND SIZE GREW TO

RM159.04 billion

as at 31 December 2021

This was an increase of

3.4%

from the

RM153.82 billion

recorded at the end of 2020

KWAP takes a dynamic approach in reviewing the interim SAA regularly to ensure that it reflects the changes in the investment environment that allows us to recalibrate risk appetite towards meeting the final SAA target by 2025. Against a turbulent backdrop of 2020 at the onset of the pandemic, we undertook the SAA transition plan review to enhance our investment strategy and readjust risk and long-term investment perspectives.

Malaysia's gross domestic product (GDP) returned to expansionary territory with a growth of 3.1%, after -5.6% in 2020, benefiting from the rebound in global trade and the relaxation of containment measures amid increasing vaccination rates.

SOUND INVESTMENT RETURNS

At KWAP, our organisational mandate and purpose, which is focused on securing the best financial future for our civil service members in retirement, acts as our North Star and helps us navigate the dynamic investment landscape. As the past several years have shown, the pace of change and disruption in our world has increased significantly, resulting in a more complex investment environment. It is precisely in such complex and turbulent times that our long-term strategy continues to prove itself.

We have emphasised that the Fund's performance must be measured over a period of time. Over the past 10 years, we have consistently outperformed the long-term return target with portfolio returns that have been stable at about 6% per annum. Our SAA framework, which is a long-term investment strategy, has allowed us to successfully maintain a diversified and well-balanced investment portfolio between growth and income that is resilient enough to withstand market turmoil and financial shocks.

I am, therefore, pleased to report that despite the volatile and unpredictable market conditions throughout the year, the Net Fund size grew to RM159.04 billion at the close of 31 December 2021. This was an increase of 3.4% from the RM153.82 billion recorded at the end of 2020.

The existing SAA allows the Fund to increase its international allocation from 19% to 30% of total assets. At the end of 2021, KWAP's asset allocation to international investments stood at 20.0% of total assets, which amounted to RM31.81 billion. This was higher than the 16.6% exposure to international investments at the end of 2020. We rebalanced the overseas asset allocation early in the year and were well-positioned to take advantage of the market rally, which was an important contributor to the overall performance of the Fund. With the revised asset allocation under the SAA, we will capitalise on further opportunities in the global investment landscape to maximise risk-adjusted returns over the long term.

SUSTAINABLE INVESTING - THE WAY FORWARD

The challenges of the past few years have certainly brought sustainability consideration into a sharper focus. The rapid transition towards sustainable and impact investing has been an elevated agenda for most investment managers for some time now. In

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fact, many large investment funds with Environmental, Social and Governance (ESG) criteria have proven to outperform the broader market during the pandemic.

At KWAP, sustainability has always been at the core of our purpose, in fact, it is clearly articulated in our Vision statement. We institutionalised tenets of sustainability when we were first established in 2007 by incorporating the ESG negative screening into our Investment Policy. Over the years, we have strengthened our sustainability approach in our investment practices as it plays a vital role in generating sustainable risk-adjusted returns and enhancing shareholder value in the long run.

The financial soundness of KWAP is linked to the sustainability of the companies that we invest in. As one of the larger asset owners with long-term investment horizons in diverse industries, I believe that our stance can strongly compel relevant changes towards greater sustainability adoption among our investee companies. We continue to practise proactive shareholder activism by monitoring our investee companies' ESG practices and engaging with them on our expectation of better ESG practices and performances.

As a signatory to the UN-backed Principles of Responsible Investment (PRI), we have integrated ESG into our investment analysis and decision-making processes. In 2021, we made further inroads in elevating considerations of climate change under the environmental pillar, and issues of human rights and forced labour under the social pillar, as part of strengthening our investment decision-making processes.

STRENGTHENING GOVERNANCE

Promoting strong governance and embedding a risk management culture throughout KWAP's operations and conduct are key priorities for the Board. We are committed to upholding the highest standards of corporate governance, ethics and integrity.

One of the most significant initiatives in 2021 was being certified with the ISO 37001:2016 Anti-Bribery Management System (ABMS) following the effective implementation of the ABMS, which commenced in 2019. We also launched KWAP Organisational Anti-Corruption Plan 2021–2025, aimed at addressing the corruption risks within the organisation.

"We are deeply honoured to be rated Malaysia's top and the world's top 100 asset allocators for responsible investing under the Responsible Asset Allocator Initiative (RAAI) 2021 Index."

The Board approved the Anti-Bribery and Corruption Policy in November 2021, which reflects our zero-tolerance stance on bribery and corruption. The policy also sets KWAP's position in matters such as sponsorship and donation, political contribution, facilitation payment, and dealing with third parties, among others, to ensure that our organisation preserves the highest standard of governance, integrity, accountability, and transparency in our operational and business activities.

IN CLOSING

Over the past year, we have seen many new faces joining Malaysia's public service and, consequently, will rely on KWAP to grow and pay pensions when due. As the custodian of Malaysia's largest public service pension fund, it is incumbent upon KWAP to help our stakeholders, the pensioners, achieve long-term financial well-being in retirement.

Looking beyond today, our priority remains to achieve optimal returns for the Fund and provide excellent service to our valued civil service pensioners. To do this, we remain committed to delivering on our strategic priorities to generate long-term, stable and sustainable growth of the Fund, which is underscored by efforts to build greater capability and agility within the organisation.

We are able to make great strides for the year because of the solid and steady support of many. I would like to thank my fellow directors for their valuable insights and guidance. My appreciation also goes to the team at KWAP for their utmost dedication and commitment. I am excited about what lies ahead and reaffirm our commitment to delivering on our mandate for the future prosperity of our stakeholders.

KWAP'S ASSET ALLOCATION TO
INTERNATIONAL INVESTMENT
STOOD AT

20.0%
of total assets, which
amounted to
RM 31.81 billion