

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

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Dear Valued Stakeholders,

The pervasive impact of the pandemic, combined with geopolitical unrest, continued to rock the world off its axis. While the world adapted to new ways of living and working throughout these uncertain times, one thing remains for certain, and that is KWAP's steadfast commitment to delivering on the Fund's long-term and stable performance.

Aligned with our definitive mandate and purpose to achieve sustainable benefits and optimise good returns on the pension Fund, we continue to take a long-term perspective on markets in our diversified portfolios. I am pleased to report that the Fund and our organisation stood resilient in a challenging 2021 environment, outperforming its targets to deliver optimum returns.”

NIK AMLIZAN MOHAMED
Chief Executive Officer

GROSS INVESTMENT INCOME OF

RM
6.33 billion
in 2021

TIME WEIGHTED RATE OF
RETURN (TWRR)

of approximately
4.22%
for Public Asset Classes and

5.99%
for the Total Fund

LONG-TERM DRIVEN INVESTMENT STRATEGY

The financial and investment environment is naturally volatile in the short term. As KWAP takes a long-term approach to the investment management of the Fund, volatility like the one we have been experiencing over the past few years does not present a major risk to the Fund. Our investment strategy and portfolio choices are designed with the long-term perspective in mind. The Fund has been well placed to weather and even benefit from the volatility we have been experiencing.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

KWAP's dynamic yet prudent investment approach, as outlined in our Strategic Asset Allocation (SAA), considers and anticipates the various and unpredictable shifts in market conditions as well as market opportunities on the horizon. A detailed assessment of the SAA is conducted once every 3 years or as required, ensuring a thoughtful and dynamic investment strategy that meets the long-term aspiration of KWAP's mandate in the context of the changing world that we are operating in. These hallmarks of the SAA's forward-looking and risk-aware investment strategy are intended to ensure that KWAP is well-positioned to manage for today, but also to grow the Fund size to RM200 billion by 2025.

The resilient performance of the Fund in 2021 is a result of the considered and measured response undertaken with respect to the volatility of the market. We continue to upskill our people's capabilities as we increase the weightage of investments into the international portfolio to capture greater market opportunities.

The KWAP InnoLab, which was set up in 2021 and serves as a platform to explore, research and provide seed funding for new innovative investment strategies in domestic and international markets, has seen good traction towards our aims to enhance KWAP's risk-adjusted total return and improve investment diversification.

As our investment portfolio grows in size and complexity, we will be looking to build up and enhance our resources, skills and capabilities to ensure we are well-positioned to successfully deliver on KWAP's mandate. We introduced the KWAP Learning, Engagement, and Advisory Programme (LEAP) in 2021, which aims to upskill our people in areas relating to investment management. We also further strengthened our research acumen to ensure deep-dive insights that are vital to making informed investment decisions, by assessing the uncertain market conditions and made the optimal strategic calls.

These approaches are testament to our commitment to preserve, protect and grow the Fund in a sustainable, informed and responsible manner.

EXCEPTIONAL FUND PERFORMANCE

Given the challenging operating and investment environment of 2021, I am pleased to report that KWAP maintained the sustainability of the Fund, which performed exceptionally well. Our investment team surpassed many of the targets set for the year. 14 years ago, when we were first established under the Retirement Fund Act in 2007, the Fund size was RM41.94 billion. We closed 2021 with a fund size of RM159.04 billion, growing at an annual 9.1% since 2007, and up by 3.4% compared to the previous financial year of RM153.82 billion in 2020. This is a testament to our commitment to deliver on the long-term sustainability of the fund. We generated a Gross Investment Income of RM6.33 billion in 2021 with a Time Weighted Rate of Return (TWRR) of approximately 4.22% for Public Asset Classes, and 5.99% for the Total Fund.

Equities

The Fund's investment in Equities performed commendably for the year in review, generating a total gross income of RM4.06 billion in 2021 and surpassing the target set by RM1.57 billion. KWAP's exposure to the equity assets class as of 31 December 2021 stood at RM77.23 billion, which accounted for 48.5% of KWAP's total assets. Of this, 74.3% of our total equity exposure was in the domestic market, while the balance was in the international equity markets. The overall equity portfolio recorded a total return of 7.69% versus the blended benchmark of 1.27%, which translates into an outperformance of 642 bps.

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Fixed Income

Despite market headwinds, KWAP's Fixed Income portfolio remained steady. The Fixed Income portfolio registered a commendable realised gross income of RM2.53 billion in 2021, lower than RM2.87 billion in 2020, after taking into account the RM1.43 billion realised loss from the restructuring of one of its investee companies. As a result, this translated to a Return on Investment (ROI) of 2.15% in 2021 compared to 4.41% in 2020, and a TWRR of 0.78%, an underperformance of 33 bps against the blended benchmark as at 31 December 2021.

Private Equity And Infrastructure

Private Equity and Infrastructure, which makes up our Alternative Investments portfolio, performed remarkably well for the year in review, capitalising on the recovery from the regions that the portfolio has exposure to. For 2021, Private Equity and Infrastructure generated a total income of RM637.52 million, with a breakdown of 97.1% from fund investments and 2.9% from direct investments. The portfolio also outperformed the 10-year Net Internal Rate of Returns (IRR) Preqin benchmark of 13.9% by 320 bps, and closed the year at Net IRR of 16.2%.

During the year, we received approval from the Ministry of Finance (MOF) to increase the fund commitment from USD50 million to USD100 million, building the foundation for more efficient capital deployment for private equity investments. We also embarked on our first Separately Managed Accounts (SMA) strategy with a commitment size of USD100 million in an Alpha-focus mandate that provides diversified exposure with a minimum Net IRR target of 16%. From a strategic perspective, the mandate will also provide KWAP with access to high-quality hard-to-access global private equity managers and a dedicated upskilling and transfer knowledge programme to KWAP.

Property Investment

KWAP closed out 2021 with 23 properties on its portfolio, and generated a net income of RM313.3 million or 4% net income yield on investment cost. We continue to enhance the value of the properties in our portfolio by embracing Environmental, Social and Governance (ESG) principles in our



**Renewal Agency Agreement that is effective
from 1 November 2021 until 30 October 2026**

property investment considerations. Eight of the properties in the portfolio are accredited with environmental and energy efficiency certifications.

Among the notable initiatives in 2021 was the acquisition of a logistics asset in Amazon Coalville, United Kingdom, for £158.9 million; and the divestment of KWAP's Australia logistics asset 1 Griffin Crescent in Brisbane for AUD160 million.

TRANSFORMING FOR EXCELLENCE

We continue with efforts to improve the organisation's capability and agility, as we expand on our transformation journey as articulated in our Vision 2025 strategy. This Vision strives to elevate KWAP as the sole pension fund manager for the nation's public sector, while enriching the retirement experience and growing our assets sustainably.

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KWAP capitalised on Robotic Process Automation (RPA) to replace manual operations with intelligent software

THE WEIGHTED SLA SCORES
RANGED FROM

94.38%
to **99.81%**

with an average

98.26%

We have made good strides in executing initiatives that support the five focus areas of Vision 2025, which are to strengthen our collaboration with the Public Service Department on strategic pension matters, enhance engagement and communication with current and future pensioners, refine investment strategy and enhance capabilities, internalise sustainability and ESG practices, and build knowledge for internal development and external collaborations.

Pension Services Management

We have made excellent headway in our service delivery and overachieved the Service Level Agreement (SLA) targets and objectives. We instituted several business process improvements, which included process rationalisation through the re-alignment of SLA-based functions with non-SLA-based functions. This effectively lifted work productivity and operational efficiency, raising the number of applications processed by 67% and unit productivity by 122%.

We have consistently outperformed the weighted SLA score of delivering timely and quality services to our stakeholders throughout a year riddled with the pandemic and flood challenges. The weighted SLA scores ranged from 94.38% to 99.81%, with an average of 98.26%. Given that we had diligently over-delivered on the set 90% minimum SLA threshold set by the Public Service Department, the SLA target has now been revised to 95%, with more focus placed on customer experience. This new target and expectations were sealed under a renewal Agency Agreement that is effective from 1 November 2021 until 30 October 2026.

Digitalisation Journey

Digitalisation has been highly leveraged to embed operational efficiency throughout the user engagement value chain, and we implemented several digital initiatives throughout the year. We undertook to make it easier and more efficient for MyPesara app users intending to engage with KWAP physically by deploying new functionalities on the appointment service feature. We also rolled out a digital document management initiative to facilitate users to provide relevant documents by leveraging the existing customer relationship management (CRM) system to cater to the application for information updates, post-retirement processing and pre-retirement processing. We capitalised on Robotic Process Automation (RPA) to replace manual operations with intelligent software, which is also part of our digital transformation initiative.

Notwithstanding the pandemic, KWAP has already commenced an IT transformation strategy, ensuring our IT infrastructure is relevant, stable, secure and scalable. We have embarked on a three year roadmap to enhance the IT infrastructure through cloud and hybrid cloud adoption, allowing KWAP to create the right mix of cloud and traditional technologies to suit business needs. This initiative will promote greater efficiency, reliability and agility.

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PEOPLE AND PERFORMANCE

The strength of KWAP has been in our people. The events of the last few years have affected many and caused significant disruptions. In the face of the rapid changes in the work environment, we continue to support and invest in our people in order to protect our work culture and strengthen our business performance forward.

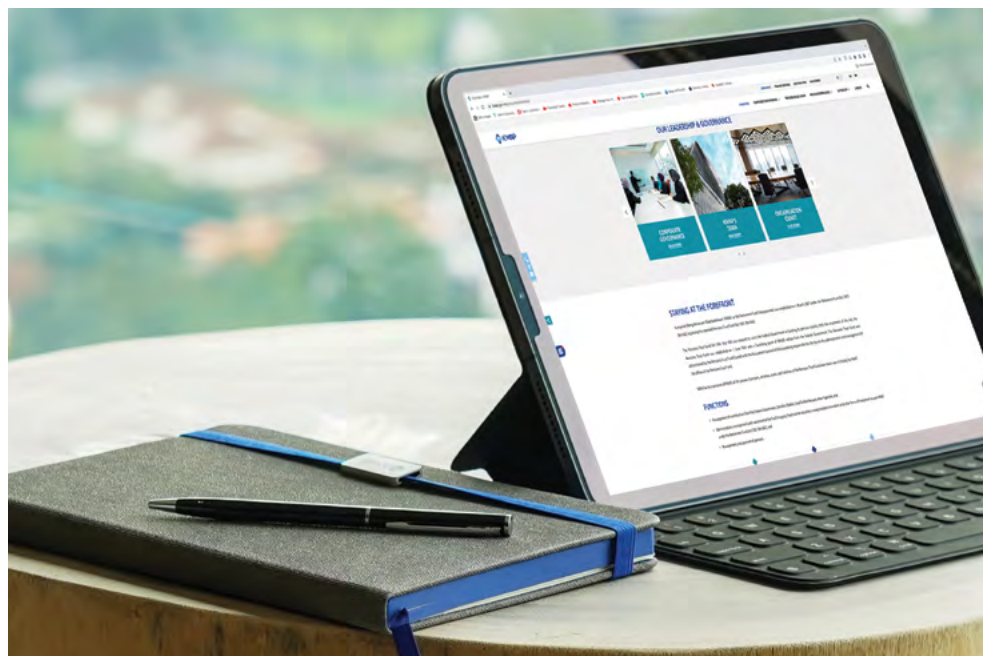
The pandemic changed the way we work and engage with our people. We leveraged digital capabilities to ensure that our employees continued to have access and opportunities to learn and upskill themselves. We introduced the Learning Zone in April 2021 which is a digital-based learning platform under KWAP's Learning Management System. Through the Learning Zone, employees will be able to access, learn and complete their courses at their convenience, without place and time constraints. There are currently 40,000 training courses on the Learning Zone platform. Since its launch, over 4,060 modules have been completed with a 96% completion rate.

We also believe in investing in bright, young talents with potential and guiding them in the world of management and investment, while at the same time, building a robust talent pipeline of future leaders. The KWAP Young Talent (KYT) programme is a Management Trainee Programme that provides career enhancement and learning opportunities through various interventions to increase the young talent's competencies as well as build business and leadership savviness. The programme was revised in 2021 to enhance the current talent development programme, address issues

of graduate unemployment in Malaysia and assist the government in finding jobs for recent graduates, and create a talent pipeline for KWAP in particular and for Malaysia in general. We welcomed 29 talents under the KYT programme through our doors and look forward to their eventual contribution to the organisation.

Our unwavering priority remains on ensuring the well-being of our people. Regular communication and townhalls are key to fostering a culture of support and ensuring that everyone is aligned with the aspirations of the organisation. We leveraged virtual engagements to conduct teambuilding, team mingling or networking, and wellness programmes, just to name a few. The increased engagement with senior leadership has encouraged constructive feedback, which we then addressed, where relevant. We conducted the KWAP 360-degree evaluation exercise, which aims to assess and provide an understanding of the critical competencies within KWAP's leadership. The top three competencies demonstrated by the KWAP leadership bench are Integrity, Professionalism and Synergistic Leadership.

Ensuring our people's health and well-being during a global health crisis was another top priority for us. We launched our employee mobile engagement application in September 2021, under the *Dana Yang Berkat* programme, as part of our aim to inculcate a culture of wellness and well-being. Since its launch, we have seen the utilisation of 72% of active users accessing programmes.



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LOOKING AHEAD

Our focus for 2022 remains resolute on executing the strategies outlined in Vision 2025 to deepen the retirement experience and grow our assets sustainably, to play our role meaningfully as the nation's public sector pension fund manager.

In strengthening our investment approach, we will be looking at enhancements to the upcoming cycle of the Interim SAA which include reducing equity allocation from 48.5% to 45%, increasing fixed income allocation from 35.3% to 38%, and proposing to increase total international allocation target at 23% for 2022.

We remain committed to investing in the domestic economy. Subject to the availability of investment opportunities, we look to support Malaysia's private capital market development by tripling the size of our private investments from RM3.5 billion to RM12 billion by 2025, which is premised on a fund size target of RM200 billion.

ESG and tenets of sustainability will remain important considerations in our investment decisions to deliver responsible and sustainable returns. We recognise that managing ESG is a progressive process, and we will continue to enhance the management of ESG in our investment decisions and organisation management. Likewise, we aim to use our considerable influence as an asset owner and voting shareholder to advocate investee companies to adopt and integrate sustainability strategies within their business operations.

APPRECIATION

As an organisation, we remain committed to staying true to KWAP's purpose for pensioners to achieve their best financial position in retirement. I would like to record my deep appreciation to the Board and the Investment Panel for their wise counsel and guidance. I also acknowledge the hard work and commitment of our employees, who stepped up with passion and dedication. I am proud to have the opportunity to lead this esteemed organisation into the next phase of its evolution, and I look forward to charting more meaningful milestones and delivering greater growth for the Fund.

