

MESSAGE FROM THE CHAIRMAN



TOTAL FUND SIZE
**RM158.10
billion**



GROSS INVESTMENT
INCOME
**RM7.01
billion**



5.3%
ANNUALISED TIME-WEIGHTED
RATE OF RETURN, OVER
A 10-YEAR ROLLING PERIOD

TRANSFORMING FOR THE BETTER

Dear Valued Stakeholders,

Marking our constant desire to grow better every year, Kumpulan Wang Persaraan (Diperbadankan) [KWAP] has made strides in service and value delivery in 2022, anchored on the TERAS 5 operating model transformation programme. I am pleased to present the Annual Report for KWAP for the financial year ended 31 December 2022.

FINDING BALANCE AMIDST VOLATILITY

The expected post-pandemic recovery in 2022 was overtaken by geopolitical uncertainties such as the Russia-Ukraine hostilities, heightened inflation, supply chain disruptions and complications surrounding the prolonged COVID-19 pandemic. Heightened global market volatility and strong headwinds across multiple asset classes led to global Gross Domestic Product (GDP) growth slowing to 3.4%, from 6.3% in 2021.

Domestic growth, in contrast, was pleasantly robust. Malaysia recorded an annual GDP growth of 8.7% in 2022. Export trade activity grew 25% year-on-year (YoY) to a record high of RM1.6 trillion in 2022. Additionally, increased foreign investor activity and confidence saw Malaysia's net foreign direct investment (FDI) inflows surging to RM73.3 billion for 2022 compared to RM48.1 billion recorded in 2021. Supported by this recovery, Malaysia's RM3.6 trillion capital market remained resilient in 2022. In fact, total funds raised of RM179.4 billion is the highest ever, led by a record amount of corporate bond and sukuk issuances. Exchange-traded derivatives also registered a record volume of 18.8 million lots traded, though overall weaker valuations resulted in a dip of assets under management (AUM) to RM906.5 billion.



MESSAGE FROM THE CHAIRMAN

Completed the first phase of TERAS 5 initiatives

New SAA to achieve higher Return Target of 7% per annum by 2025

Successfully completed the first ABMS Surveillance Audit last year with no issuance of Non-Conformance Report

However, amidst the positive recovery, cost of living woes were on the rise as inflation increased from 2.5% in 2021 to 3.3% during the year, which led to Bank Negara Malaysia (BNM) raising the Overnight Policy Rate (OPR) four times at 25bps each, from 1.75% in 2021 to 2.75% in 2022.

Amidst these push and pull factors, KWAP resiliently maintained balance between pursuing growth and adopting prudence in the face of uncertainties. The focus for the year was devoted to sustaining net income while achieving 44% completion rate of KWAP's multi-year TERAS 5 programme to catalyse operational agility and future-readiness.

STRENGTHENING VALUE DELIVERY

Focused on fortifying core strengths, KWAP sustained a fund size of RM158.10 billion, while the annualised time-weighted rate of return (TWRR), over a 10-year rolling period (%) was 5.3%, exceeding the benchmark by 55 bps. Meanwhile, in term of gross investment income, KWAP recorded RM7.01 billion, an increase by 10.7% against RM6.33 billion in FY2021.

Outreach and communication was prioritised, KWAP reached out with educational and informational programmes that help increase financial security upon retirement through physical and online engagements with external and internal stakeholders. I am proud to say we connected with 28,243 individuals throughout the year that represent 114% of our target group.

Our outreach success is a good lead up to KWAP's new Brand Strategy Plan & Roadmap which was approved in October 2022 to enhance targeted publicity and engagement efforts towards KWAP's key stakeholders with the new tagline – Your Retirement Companion. This aptly conveys the improved relationships we seek to forge as we work for the betterment of our stakeholders' future.

On the service front, the year saw KWAP receiving an international recognition award from the ASEAN Social Security Association (ASSA) for the implementation of a Business Intelligence dashboard to enable monitoring of pension processing in real-time. This boosts KWAP's reputation among international peers in the Social Security industry, and is a precursor to many more TERAS 5 digital initiatives that are set to enhance customer experience.

OUR INVESTMENT STRATEGY

At its core, KWAP's role is to deliver the best investment returns. To this end, KWAP's Strategic Asset Allocation (SAA) is continually reviewed against changing market environments for optimum returns.

With our goal set towards recording gross fund size of RM200 billion by 2025, from the current gross fund size of RM175.60 billion, the SAA review was conducted this year to propel KWAP to achieve higher risk-adjusted returns at 7% per annum as compared to returns of 5% to 6% per annum under the previous SAA. This was carried out with the oversight of the Board and Investment Panel and focused on fortifying KWAP's overarching investment strategy taking total risk appetite and long-term investment perspectives into consideration.

To achieve the higher return target, the new SAA has allowed for an increase of the fund allocation on international and private market investments to 30% and 24% respectively, as well as diversifying its portfolio into new higher-yielding return asset classes to adapt to the volatile macroeconomic and capital markets landscape.

Increased allocation to private markets was initiated by introducing private credit into KWAP's portfolio of domestic and international equities, fixed income securities, private equity, infrastructure and real estate.

Investments were prudently focused on companies with strong fundamentals such as those with strong balance sheets and solid cash-flow positions, while capitalising on prevailing market trends by making tactical calls to take advantage of sudden market movements and opportunities that may arise in the short-term.

As a whole, KWAP's domestic investments, which make up 81% of KWAP's total investment assets, saw a better return in comparison with global market indices.

FORTIFYING INTEGRITY

Integrity is critical in KWAP's operations as the custodian of Malaysia's biggest pension fund. As an organisation certified with ISO 37001 Anti-Bribery Management System, or ABMS, since 2021, the Board ensures that robust standards of corporate governance and the highest principles of integrity, transparency and accountability anchor its operations. We successfully completed the first ABMS Surveillance Audit last year with no issuance of Non-Conformance Report.

KWAP achieved 56% completion rate, in which 32 out of 57 initiatives of the Organisational Anti-Corruption Plan (OACP) have been completed.

KWAP had also completed its first organisation-wide integrity assessment by using Integrity Assessment Tool (IAT), introduced by the Malaysian Institute of Integrity (IIM). According to the IIM scoring result, KWAP achieved a total score of 84.17% from the survey, putting it at the high level of an organisation "that has best practices in ethics and integrity."

As part of KWAP's Business Associates Outreach Programme, 2022 also presented the first-ever physical session for KWAP's broker fund managers and vendors to raise their awareness of corruption and their understanding

on the importance of observing KWAP's related anti-corruption policies and practices. On the same note, KWAP had collaborated with Khazanah Nasional, Kumpulan Wang Simpanan Pekerja, Lembaga Tabung Angkatan Tentera and Permodalan Nasional Berhad in organising the inaugural Government-Linked Investment Companies (GLICs) Integrity Event 2022 with the objective to uphold the national integrity agenda among the GLICs.

ENHANCING GOVERNANCE & RISK MANAGEMENT

Progress was also made in uplifting the efficacy of KWAP's risk and governance frameworks. The Enterprise Risk Management Framework was upgraded from the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2004 to ISO31000:2018 standards during the year. A comprehensive Corporate Governance Framework, was also consolidated and approved later in the year. This was accompanied by a review of the many committees in KWAP and streamlined into a compact and more comprehensible framework with only one single authority responsible for governing the creation or disbandment of any committees. The Investment Risk Policies and Guidelines were also streamlined into a consolidated document for better comprehension and efficacy.

As part of our continuous review and improvement of oversight duties, talks were organised for our Board and Investment Panel members on the 'Fiduciary Duties of the Board and Investment Panel' and on 'Environmental, Social & Governance: Improving the Quality of ESG Data and Its Impact'.

It was a busy year on the governance front. As at end December 2022, a total of 130 Board, Investment Panel, Board Committees, Executive Committee and Investment Committee meetings were organised.

MESSAGE FROM THE CHAIRMAN

GROWING A SUSTAINABLE IMPACT

Progressing our journey, we target to open up spaces and opportunities to advance Malaysia's retirement fund ecosystem and create long-term sustainability. To this end, KWAP continues to drive ESG impact through its investing strategy which expanded to include fixed income asset class in 2022. This is referring to enhancement of our Standard Operating Procedures (SOP), with the incorporation of ESG Credit Rating Impact Score in our investment analysis.

Regular ESG-specific engagements and ESG screenings were held with investee firms in accordance to the ESG tracking methodology. Companies with issues were placed on an ESG Watchlist for further monitoring and guidance to align them with KWAP's sustainability and ESG objectives.

In 2022, KWAP conducted four ESG engagements and one follow up ESG Engagement with its investee companies. In addition, KWAP's research analysts conducted a total of 811 engagements comprising 450 domestic and 352 international throughout the year. KWAP is also signatory to the United Nations Principles for Responsible Investment (UNPRI), which encourages investors to make responsible investments in order to increase returns and more effectively manage risks. Additionally, we keep up active interactions with the authorities and contribute to the conversations on climate change in the financial sector through our participation in sustainability-related working groups and involvement as guest speakers in numerous ESG-related events throughout the year.

ACKNOWLEDGEMENTS

Every year we welcome approximately 25,000 new pensioners. Our role in securing their future is increasingly vital and the Board is honoured to helm KWAP through this period of dynamic growth.

I take this opportunity to extend my appreciation to the KWAP family - the strong leadership team and capable workforce - for their steadfast service in growing KWAP's stature as the trusted custodian of this pension fund and their cooperation and willingness to transform for the better.

On behalf of the Board, I would like to express our gratitude to Datuk Seri Asri Bin Hamidon @ Hamidin for his exemplary leadership during his tenure as Chairman. His commitment to excellence will be remembered and cherished as we move forward. We also acknowledge the contributions of Tan Sri Mohd Khairul Adib Bin Abd Rahman and Dato' Sri Mohd Shafiq Bin Abdullah who have respectively retired and resigned as Board members during the year. We thank them for their dedicated service to KWAP and wish them well in all future endeavours.

On a final note, I would like to express my deepest thanks and gratitude to the Government and regulators as well as our industry partners for their continued support which have been crucial to our ongoing journey, and to our stakeholders whose trust allow us to continue to improve our performance.

Moving forward, the Board is committed to review our business model and build our fundamentals to be able to better serve KWAP's mandate. In doing so, we build a better tomorrow for the community and the nation as a whole.

DATUK JOHAN BIN MAHMOOD MERICAN

Chairman