

Message

FROM THE CHIEF EXECUTIVE OFFICER

HIGHLIGHTS 2019

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INVESTMENT PERFORMANCE

Our fund registered a strong performance across all asset classes in 2019. For 2019, our target Strategic Asset Allocation comprised 44.0% Equities, 45.5% Fixed Income and 10.5% Alternative Investments.

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IMPROVING SERVICE PERFORMANCE

As KWAP builds on its investments and track records, we have also turned our attention to strive for operational excellence, better productivity and efficiency.

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It gives me great pleasure to present this annual report on behalf of KWAP. This report will outline the pension fund's overall performance in carrying out its investment mandate while also playing a critical role in servicing our valued civil service pensioners. This report also marks my first full year in the position of CEO, and I am pleased to note that I have overseen the achievement of strong returns, greater productivity and continued enhancement of the organisation's resilience.

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SYED HAMADAH BIN SYED OTHMAN

Chief Executive Officer

As a result, KWAP's fund size grew by RM10.97 billion or 8.04% from RM136.5 billion in 2018 to RM147.5 billion in 2019. The increase was attributed to Total Comprehensive Income of RM7.8 billion and Total Contribution of RM3.1 billion. In terms of Time-Weighted Rate of Return (TWRR), the Fund recorded unhedged return of 5.91%, outperforming the benchmark return of 3.86% by 205bps. Additionally, on a 5-year rolling basis, the total fund outperformed the reference portfolio return by 390bps.

INVESTMENT PERFORMANCE

With the combination of strategies adopted by KWAP, I am happy to note that the fund registered a strong performance across all asset classes in 2019. When investing, we are guided by our Strategic Asset Allocation (SAA), which is reviewed regularly to reflect changes in the investment environment, enabling us to optimise returns reflecting our risk tolerance. For 2019, our target SAA comprised 44.0% Equities, 45.5% Fixed Income and 10.5% Alternative Investments.

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Despite the economic uncertainty and volatile market backdrop, KWAP delivered a stellar performance in 2019 due to our approach of focusing on a diversified portfolio of asset classes in line with our strategic asset allocation. In addition, our consistent strategy of taking a long-term investment view stood us in good stead in riding out turbulent market conditions.

Message from the Chief Executive Officer

2007 - 2019

Average Growth of Fund Size

10.29%

Average Gross Investment Income

RM5.60

billion

Average Gross Return on Investment

Average ROI from 2007 to 2017 was at

6.42%

KWAP shifted to measuring Total Returns (TWRR) from 2018 onwards.

EQUITY

Total Portfolio

RM68.31

billion

Total Income

RM2.30

billion

FIXED INCOME

Total Portfolio

RM68.42

billion

Total Income

RM3.05

billion



In terms of Equities, the team's strategy managed to deliver good results via its focus on growing the portfolio's net asset value and realising sustainable income from dividends. As at end 2019, KWAP has RM68.31 billion in Equities, accounting for 46.35% of total assets. Total income realised stood at RM2.30 billion of which 81% was from the domestic market. The total return of 5.92% in 2019 outperformed the blended benchmark of 1.15% as Equities continued to exceed the blended benchmark for the longer three- and five-year periods.

Meanwhile, the Fixed Income team also delivered commendable returns in 2019 as the decline in government bond yields lifted the value of our fixed income universe. Additionally, compression in credit spreads boosted our returns in credit markets. Our strategy of going long duration in the early part of 2019 also paid off in returns.

Our Fixed Income investment market value fell by RM0.15 billion to RM68.42 billion in 2019, as a result of portfolio rebalancing from an allocation of 49.69% in 2018 to 46.67% in 2019. In line with the reduction

in portfolio allocation, fixed income investments delivered slightly lower gross income of RM3.05 billion in 2019 compared to RM3.14 billion in 2018. In terms of total returns, this marked a 6.79% increase compared to the 4.58% recorded in 2018. Over a 5-year rolling period, total fixed income investments returned 5.40% annualised. We continue to protect the value of our international investments utilising various hedging instruments, such as foreign exchange forward contracts (FX Forward) and cross-currency swaps (CCS).

KWAP's Alternative Investments demonstrated strong returns for the year as the private equity and infrastructure portfolios, and the property portfolio generated significant income. Both private equity and infrastructure combined generated a 10-year rolling return of 33.8%, contributing RM318.6 million to KWAP. In the property portfolio, we continue to expand domestically with the acquisition of the Mydin Commercial Centre in Skudai, Johor. Internationally, we divested a 10-storey office building in Melbourne, Australia and acquired an office building in London, UK. Our Alternative Investments generated income totalling RM596.4 million in 2019.

Message from the Chief Executive Officer

ALTERNATIVE INVESTMENTS

Total Portfolio

RM9.71

billion

Total Income

RM596.40

million

Productivity levels for pension services operation increased by

11.5%

in 2019

Number of transactions of employee increased to

61,880

as compared to 55,518 in 2018

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To unlock further productivity gains, KWAP has put in time and effort to cultivate our talent through a variety of training and coaching programmes in 2019. I strongly believe that having strong talent is the bedrock of any organisation's success and we have an obligation to encourage learning and skill improvements to build a truly sustainable organisation. To motivate our employees, KWAP also organised the year-long "Home Run to Health" engagement programme that addressed employee wellbeing in a holistic way.

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IMPROVING SERVICE PERFORMANCE

As KWAP builds on its investments and track records, we have also turned our attention to strive for operational excellence, better productivity and efficiency. In this regard, we have made significant improvements across the organisation and with tangible outcomes to show for it.

For example, our pension services operations scored an average of 98.08% on the Service Level Agreement (SLA) index, its highest since KWAP took over this function from the Public Services Department (JPA) in 2015. It has not only exceeded the minimum 90% SLA as required under JPA-KWAP

Agency Agreement, but also outperformed 2018's SLA achievement of 95.2%.

Meanwhile, productivity levels for pension services operation increased by 11.5% in 2019 compared to 2018 as a result of several transformational initiatives undertaken by KWAP to modernise and digitalise pension services operation. The operational improvements involved the Contributions Department, the Pension Services Department and the Investment Support Services Department, as well as enhancements to KWAP's overall IT system. This led to an increase in the number of transactions of employee to 61,880 as compared to 55,518 in 2018.



Message from the Chief Executive Officer



INTEGRITY AND GOVERNANCE

We firmly believe that integrity is one of the values that drives KWAP into becoming a more efficient and competitive organisation. We have been continuously undertaking relevant initiatives to strengthen ethics and governance in order to maintain a working culture that is built on the foundations of transparency and trust.

In addressing corruption risk, we have chosen to create awareness among KWAP employees on the importance of integrity and the adverse effects of corruption through our 2019 Risk Awareness Week activities. Organised by the Risk Management and Compliance Department in Q1, the said theme was an appropriate prelude to the establishment of KWAP's Integrity and Governance Office (IGO) which came into fruition in July.

Through IGO, works on Corruption Risk Management were commenced in Q4. A gap analysis on KWAP's existing control system in comparison to the requirements of global standard anti-corruption measures was also conducted by the Office. In progressing these initiatives, all/various departments in KWAP would be involved at both development and implementation stages. This, undoubtedly, manifests our unison in efforts to uphold integrity and coherence on intolerance to corruption.

APPRECIATING OUR PENSIONERS

In giving back to society, KWAP has created the Anugerah Ikon Pesara (AIP) to recognise public sector pensioners who have contributed to education, community and entrepreneurship. Aimed at identifying excellence and promoting productive ageing and active retirement, the award also serves as a platform to extend our appreciation towards retirees who have demonstrated outstanding stewardship in these fields.

The winner of the inaugural AIP 2019 was Puan Sariah Binti Amirin, who has made significant contributions in the field of education and impacted thousands of dyslexic children through her dyslexia centres and books. As the founder and President of Persatuan Dyslexia Malaysia, Sariah runs 15 dyslexia centres in Malaysia with over 600 students and has written 10 books in Bahasa Malaysia for dyslexia schools.

KWAP also recognised nine other pensioners for their contributions in education, social & community development and entrepreneurship. The award, which attracted 66 individuals who were nominated by a third party, was opened to Malaysian pensioners age 55 years and above.

LOOKING FORWARD

While 2019 was a challenging year, 2020 is certainly set to be even more so following the onset of the COVID-19 pandemic. The world has entered a new era in which social distancing, limits on physical mobility and other restrictions were instituted for the sake of protecting health and saving lives.

The restrictions also had the unintended effect of severely dampening the demand and supply of goods and services, thus bringing economies to a standstill worldwide. The unprecedented lockdowns will cause contractions in economic growth across the world, and has been accompanied with a simultaneous surge in unemployment and market volatility, all taking place within a short period of time.

Against this backdrop, global growth prospects remain highly uncertain. This is combined with a resumption of trade tensions between the US and China, an exacerbation of deflationary pressures amid depressed demand and a decline in crude oil prices, and a downturn in the corporate earnings cycle. In the face of such challenges and uncertainties, KWAP will continue to adopt a cautious strategy but at the same time remain focused on looking for compelling investment opportunities.

Meanwhile, as a long-term investor, we continue to carefully tread through volatility, risk and uncertainty by adopting the appropriate strategy, anchored on our new strategic asset allocation which continues to focus on achieving sustainable investment returns while maintaining a resilient, risk-efficient and liability aware portfolio.

ACKNOWLEDGEMENTS

I wish to express my gratitude to the Board and Investment Panel for guiding the management team through what has been a busy and testing year. It has been my honour to steer the management of the fund and I am fully committed to building an even stronger organisation in the years to come.

In closing, I would like to sincerely thank all of our employees for their hard work and dedication. Your sacrifices have not gone unnoticed and you can in fact be proud of all of KWAP's achievements since the fund was established in 2007. I look forward to working closely with all of you as we continue on our journey of helping the nation and its people prosper.