

Message FROM THE CHAIRMAN

HIGHLIGHTS 2019

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INVESTMENT STRATEGY

Under the Board's oversight, the Management embarked on a high impact project in 2019 to enhance KWAP's Investment Approach, focusing on key areas such as Total Fund Investment Objectives, Strategy and Risk Appetite.

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INTEGRITY & GOVERNANCE

More anti-corruption measures are being established, improved and integrated into the existing internal control system of the organisation.

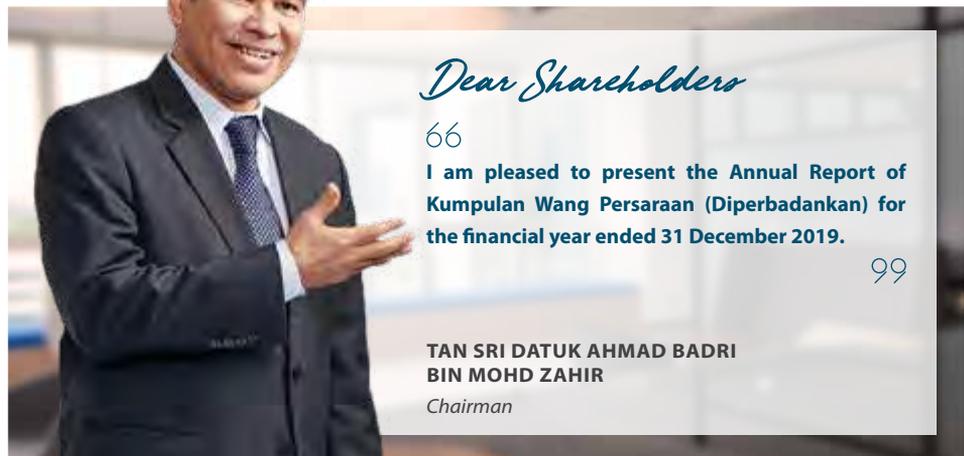
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ENGAGING WITH OUR STAKEHOLDERS

KWAP is also committed to supporting our core stakeholders, the pensioners, in other ways.

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A CHALLENGING EXTERNAL ENVIRONMENT

From a global perspective, 2019 was another year of moderate growth coupled with uncertainties on the trade front caused by the disagreements between US and China. Malaysia, being an open economy, was also affected by these external developments and volatility in portfolio capital flows. In such a scenario, conscientious efforts by the Government were needed to support growth and navigate the economy through a considerably challenging period.

To this end, Bank Negara Malaysia cut the overnight policy rate by 25 basis points in May 2019 to support the economy, as the central bank pointed out the downside risks stemming from the trade tensions. As oil prices fell significantly towards the end of the year, there was also greater concern that the economy might be further impacted. However, the country's strong macroeconomic fundamentals provided a certain degree of insulation from these challenges, as Malaysia's 2019 Real Gross Domestic Product expanded at a slightly slower rate of 4.3% compared to the 4.7% achieved in 2018.

COMMENDABLE PERFORMANCE

Despite the subdued growth prospects and uncertainties, KWAP registered yet another commendable performance in 2019, outperforming investment return benchmarks in every asset class we invested in. We have grown our total fund size by 8.04% to RM147.5 billion and exceeded our blended benchmark in terms of Time Weighted Rate of Return (TWRR) by an impressive 205 bps.

OUR INVESTMENT STRATEGY

The Board remains committed to guiding KWAP in achieving sustainable investment returns, which is executed by having a long-term investment perspective, enabling the Fund to diversify across a myriad of asset classes. This approach is necessary in order to generate optimal returns while maintaining a resilient, risk-efficient portfolio.

Under the Board's oversight, the Management embarked on a high impact project in 2019 to enhance KWAP's Investment Approach, focusing

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on key areas such as Total Fund Investment Objectives, Strategy and Risk Appetite. Strengthening these areas will enable KWAP to reinforce its role as a long-term pension fund, and gives us the opportunity to adopt a robust investment strategy expressed through our new Strategic Asset Allocation (SAA). Our SAA is in turn anchored to a strong emphasis on risk and a more liability aware investment mindset.

Concurrently, KWAP's strategy allowed us to navigate the various macro headwinds in 2019, ranging from slower global growth to heightened geopolitical tensions. Our tactical call to overweight fixed income and underweight equities against the backdrop of corporate earnings concerns has enabled KWAP to outperform our blended Domestic and International market benchmarks for both Equities and Fixed Income investment portfolios. The long-term performance for our investments in Real Estate and Private Equity were equally commendable as we managed to outperform our blended benchmark over a 5-Year Rolling period.

However, given the challenging outlook in 2020, compounded further by the adverse impact of the ongoing COVID-19 pandemic, KWAP will need to remain cautious and continue to manage its investments prudently while at the same time maintain its pursuit for sound and compelling investment opportunities.

INTEGRITY & GOVERNANCE

As part of KWAP's unwavering commitment to good corporate governance, we are giving greater emphasis on ethics and integrity in the management of our business activities. More anti-corruption measures are being established, improved and integrated into the existing internal control system of the organisation. The Board supports such endeavour through the expansion of the roles of Board Risk Committee, whose name has been changed to Board Integrity and Risk Committee (BIRC).

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KWAP's resolute performance, which directly benefits our civil service pensioners, will continue to be upheld through sound investment principles and responsible investment activities. Our prudent approach has clearly led to an exemplary investment track record that all our stakeholders can be proud of. In support of these outstanding results, we have also improved overall productivity in 2019, while providing better and more effective service to our pensioners.

BIRC is now responsible in overseeing matters pertaining to integrity in KWAP, including the functions of Integrity and Governance Office (IGO). IGO reports directly to KWAP Board and BIRC so as to ensure its independence as a dedicated entity that spearheads the implementation of KWAP's integrity and anti-corruption initiatives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In the context of Environmental, Social and Governance (ESG) initiatives, KWAP plays the role of an active shareholder by engaging with its investee companies regularly, and in 2019, conducted our first ever ESG engagement with selected investee companies. In addition, KWAP participates in engagements with regulators and strongly upholds the Malaysian Code

for Institutional Investors, of which we are a signatory. As part of the Institutional Investors Council (IIC), we are deeply involved in initiatives that drive responsible investments, promotes good governance and takes ESG issues into consideration.

This is in line with our commitment to the United Nations-supported Principles of Responsible Investment (UN PRI). As a signatory, KWAP has continued to work closely with representatives from UNPRI and in 2019, collaborated with the PRI to conduct a knowledge sharing session about ESG Integration with KWAP employees. Within KWAP itself, we rolled out ESG Guidelines for our private equity investments and we will continue to make enhancements to our Corporate Level ESG Guidelines to keep up with industry best practices.

TOTAL FUND SIZE



RM147.5

billion

GROSS INVESTMENT



RM6.07

billion

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ENGAGING WITH OUR STAKEHOLDERS

While we are cognisant of our overall mandate, KWAP is also committed to supporting our core stakeholders, the pensioners, in other ways. Throughout 2019, KWAP's corporate social responsibility programme has carried out wide-ranging efforts to reach out to retirees and pensioners through various events. This was eventually capped off with the two-day Carnival Rasa Sayang in October 2019 -- KWAP's signature event that promotes retirement preparedness and active ageing. Held for the second time, the carnival consisted of the inaugural Larian Rasa Sayang running event and various workshops, talks and exhibition booths about retirement and healthy living. This carnival serves as a significant touchpoint for KWAP to engage with our stakeholders, and to share the latest updates about our capabilities and functions.

ACKNOWLEDGEMENTS

As we enter far more difficult and uncertain times in 2020, I am pleased to note that we move into these uncharted waters with a resilient organisation, bolstered by robust policies and strong leadership.

I would like to record my sincere appreciation to all KWAP employees for their dedication and contributions to the organisation. The Board's gratitude also goes out to our Chief Executive Officer, Syed Hamadah Syed Othman, who has performed admirably in his first year of steering the management of the pension fund.

The Board has also seen changes in 2019. Thus, I would like to acknowledge our departing Board members, Dato' Gan Wee Beng, Dato' Siow Kim Lun and Datuk Saat Bin Esa who have all served with distinction, helping to guide KWAP and its management with their wisdom and insight. In their place, we warmly welcome Mohd

Ismadi Bin Ishak, Raja Teh Maimunah Binti Raja Abdul Aziz and Datuk Dr. Yacob Bin Mustafa, who is the Federal Government representative replacing Datuk Saat Bin Esa.

I would also like to recognise the good work executed by our Investment Panel, which underwent a substantial change in 2019 in terms of composition, due to the ending of appointment terms. We thank the five members of the panel who have since left, and the five who have taken their place in 2019, for all their contributions.

In closing, I am confident that KWAP will continue to meet its objectives and achieve its vision of becoming the trusted retirement fund for all our stakeholders, especially pensioners. The Board and I will ensure that we carry out this responsibility with great care and integrity, to enhance KWAP's contribution to the nation's shared prosperity.