

## Annual Report 2009



**KWAP**

Kumpulan Wang Persaraan (Diperbadankan)  
RETIREMENT FUND INCORPORATED

**A JOURNEY TOWARDS NEW HORIZONS**

## COVER RATIONALE



### A JOURNEY TOWARDS NEW HORIZONS

The concept on the cover features the expanse of the horizon, a symbolic representation of KWAP's ultimate aim of becoming a 'High Performance Organisation'. An aim which commenced in early 2008. The rays of light signify commendable progress on various fronts. In complement, the imagery of the sea reflects vast opportunities which the organisation can leverage upon and turn into a source of strength to realise our main objective.



Annual Report 2007



Annual Report 2008



Website: <http://www.kwap.gov.my>

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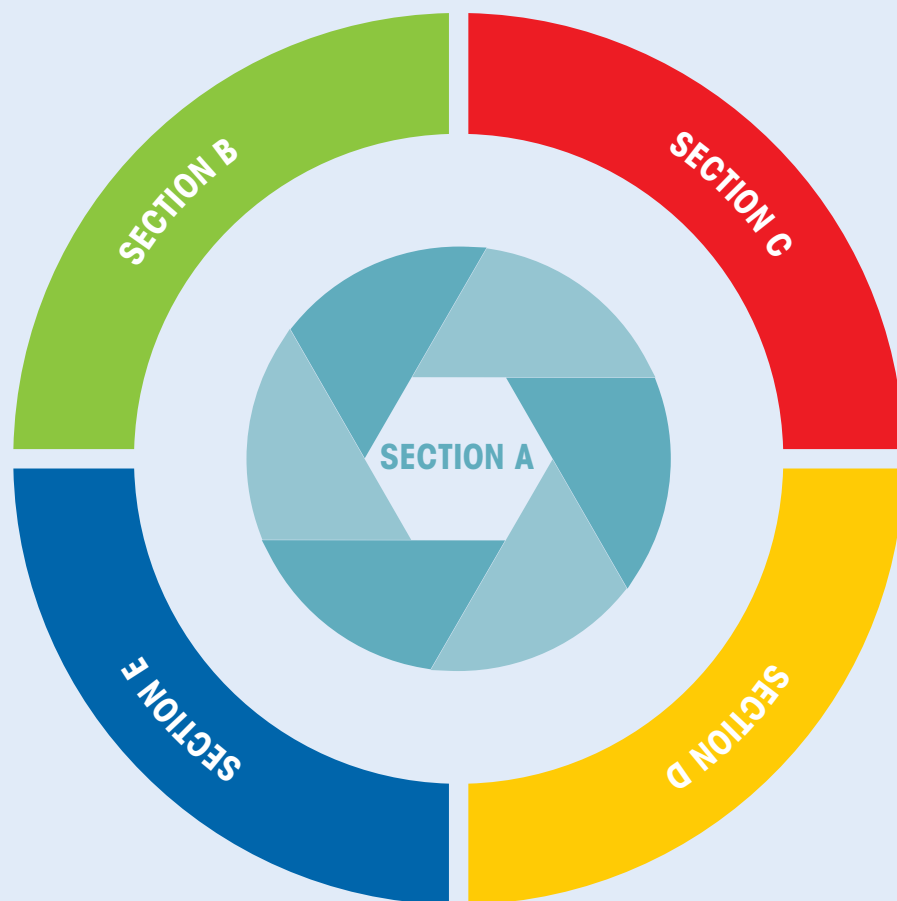
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## SECTION A

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- Chairman's Statement • CEO's Statement • Future Direction

# HIGHLIGHTS OF 2009

## ENHANCING OUR RELATIONSHIPS WITH KEY STAKEHOLDERS

- Collaborated with Ministry of Finance and Public Service Department in undertaking Pension Liability Study with the aim to establish options available for KWAP to assist the Federal Government in funding its pension liability.
- Held a dialogue session with Securities Commission and Bursa Malaysia on corporate governance and issues related to equity and fixed income markets.
- Contributed articles to a major business publication to promote greater understanding of investment related subjects.
- Held a one-day 'Financial Planning for Retirement' seminar for Government employees approaching retirement age.
- Participated in 'A Day With Industry' program at a leading local university by holding a talk entitled 'An Insight to Fund Management Industry'.

## STRENGTHENING OUR RISK MANAGEMENT AND OPERATIONAL INFRASTRUCTURE

- Completed the new dealing room and officiated by Minister of Finance II, Y.B Dato' Seri Ahmad Husni Bin Mohamad Hanadzlah.
- Initiated and developed Integrated Fund Management System.
- Implemented Business Continuity Management Framework.
- Implemented Operational Risk Event Reporting.

- Established Investment Settlement Department and Custodian Department to enhance segregation of duties and internal controls.

## CONTINUOUS LEARNING AND GROWTH

- Introduced Chartered Financial Analyst (CFA) Financial Incentive Scheme for investment staff.
- Key learning programs participated by KWAP employees during the year:
  - Advanced Management Program at Harvard University, USA.
  - Asset Allocation for Long Term Investors Workshop organised by the World Bank.
  - Pension Fund Symposium organised by the World Bank.
  - Securities Commission Licensing Examination Program.
  - Full implementation of Performance Management Processes.

## HIGHLIGHTS OF 2009

- 2009 was a challenging year characterised by a low interest rate environment and weak stock market in the first half of the year. The domestic economy was badly affected in the first quarter as a result of the slow global economic recovery but soon gained some momentum as the impact from the massive stimulus packages began to be felt. The stimulus packages also helped restore order which in turn helped the equity market register a strong rebound in the second half of 2009.
- Total fund size grew by 18.18% from RM52.04 billion to RM61.50 billion in 2009.
- Gross investment income increased to RM3.24 billion from RM2.98 billion registered in 2008.
- Net income rose by RM5.14 billion from RM0.56 billion to RM5.70 billion in 2009 partially due to the write back of diminution in value allowances.
- Achieved Net Return on Investment (ROI) of 10.04% and Total Weighted Rate of Return (TWRR) of 11.64%.
- Employers' contribution (excluding Federal contribution) increased by RM0.90 billion from RM1.77 billion in 2008 to RM2.67 billion in 2009.
- All asset classes outperformed their respective benchmarks as detailed below:

ASSET CLASS	BENCHMARK	OUTPERFORMANCE
Equity	KLCI and FBM100	0.92%
Malaysian Government Securities	Quantshop MGS (All) Yield	1.34%
Private Debt Securities	Quantshop Corp (Medium) Yield	0.91%
External Fixed Income	Quantshop MGS (All) Index + 130 bps	5.53%
Loans	Quantshop MGS (All) Yield + 50 bps	0.84%
Money Market	3-month KLIBOR	0.61%



## 3-YEAR OVERVIEW

	2009 (1 Jan - 31 Dec)	2008 (1 Jan - 31 Dec)	2007 (1 Mar - 31 Dec)
<b>Fund Size as at 31 December at cost (RM)</b>	61.50 bil	52.04 bil	48.08 bil
<b>Income and Expenses (RM)</b>			
Gross Investment Income*	3.24 bil	2.98 bil	3.44 bil
Operating Expenses	25.63 mil	28.17 mil	18.33 mil
Net Income	5.70 bil	0.56 bil	3.67 bil
<b>Income and Expenses (%)</b>			
Gross Return on Investment*	5.62%	5.86%	9.21%
Net Return on Investment	10.04%	1.12%	9.79%
Operating Expenditure to Gross Investment Income	0.79%	0.95%	0.53%
Operating Expenditure to Average Fund Size	0.05%	0.06%	0.04%
<b>Return and Risk (%)</b>			
Time Weighted Rate of Return (%)	11.64%	N/A	N/A
Volatility (%)	2.64%	N/A	N/A
<b>Contribution (RM)</b>			
Pension Contribution	2.67 bil	1.77 bil	1.29 bil
Federal Government's Contribution	1.10 bil	1.65 bil	1.18 bil
<b>Investment Portfolio Composition at cost (RM)</b>			
Equity	16.16 bil	13.52 bil	11.54 bil
Private Debt Securities and Loans	18.16 bil	15.85 bil	13.66 bil
Malaysian Government Securities	14.72 bil	10.06 bil	8.74 bil
Money Market	11.69 bil	14.17 bil	13.00 bil
Alternative Investment	0.52 bil	0.52 bil	0.48 bil
<b>Management of Fund (%)</b>			
Internally-Managed	95.25%	94.69%	94.98%
Externally-Managed	4.75%	5.31%	5.02%
Number of Contributing Employers	538	493	475
Number of Members	121,572	106,944	104,081
Number of KWAP's Employees	108	99	93
Income Per Employee (RM)	30.33 mil	30.41 mil	39.99 mil

\* Including income from associate

## SUMMARY OF ETHICAL PRACTICES

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“KWAP is committed to the highest standards of honesty, integrity and accountability in its business and operations. It is determined to maintain these standards among its employees and ensure that the interest of the organisation is upheld at all times.”

As a trusted custodian and manager of the retirement fund established under Section 3 of the Retirement Fund Act 2007 (Act 662), the key asset of KWAP is its integrity and reputation for professional and ethical conduct in all of its business activities and dealings. The credibility of the organisation and the stakeholders' confidence in the organisation are vital to its success.

KWAP is committed to the highest standards of honesty, integrity and accountability in its business and operations. It is determined to maintain these standards among its employees and ensure that the interest of the organisation is upheld at all times.

As a statutory body, KWAP has adopted the Statutory Bodies (Discipline and Surcharge) Act 2000 as part of its Terms and Conditions of Employment to all employees that forms KWAP's Code of Ethics and Conduct (the Code). The Code aims to create awareness of the standard of conduct among all employees and outlines the principles they are committed to in discharging their duties. Through this Code, KWAP is able to foster a healthy and professional corporate environment.



# VISION, MISSION AND CORE VALUES

## VISION

A high performing fund assuring sustainable pension benefits

## MISSION

Maximising returns through benchmarking, dynamic investment framework and sound risk management

## CORE VALUES

### Achievement Oriented

- Create and sustain a culture of continuous improvement where all members of the organisation, individually or as a team, demonstrate initiative, drive and resilience to do their best
- Putting in our best efforts to obtain the desired results
- Continuously challenge ourselves to deliver results that exceed benchmark

### Professionalism

- Adhere to a high ethical and moral standards
- Subordinate our own interest to the interest of the organisation
- Demonstrate a continuing commitment to excellence
- Reflect critically upon our actions and decisions for continuous improvements
- Accept and respond positively to feedback
- Competent in the body of knowledge for which we are responsible

### Integrity

- Firm adherence to moral and ethical principles, soundness of moral character and honesty
- To challenge and be challenged
- Listen with an open mind, respect the views, ideas and experiences of others

### Transparency

- Openness, clear communication and accountability
- Act visibly and consistently

### Teamwork

- Work together for success to achieve our common goal
- Embrace diversity and promote an environment that enables us to reach our full potential
- Collaborate across teams to share ideas and achieve great outcomes

### Continuous Learning

- To continuously learn, relearn and unlearn

# BACKGROUND AND ROLE OF KWAP

## BACKGROUND

The Pensions Trust Fund Act 1991 (Act 454) was enacted to assist the Federal Government in funding its pension liability. With the enactment of this Act, the Pensions Trust Fund was established on 1 June 1991 with a launching grant of RM500 million from the Federal Government. The Pensions Trust Fund was administered by the Pensions Trust Fund Council with the Accountant General of Malaysia being responsible for the day to day administration and management of the affairs of the Pensions Trust Fund. On 1 March 2007, the Retirement Fund (Incorporated) (KWAP) was established under the Retirement Fund Act 2007 (Act 662) replacing the repealed Pensions Trust Fund Act 1991 (Act 454). With the incorporation of KWAP, all powers, functions, activities, assets and liabilities of the Pensions Trust Fund were taken over in totality by KWAP.

## OBJECTIVE

The objective of KWAP is to manage the retirement fund (the Fund) established under Section 3 of Retirement Fund Act 2007 (Act 662) towards achieving optimum returns on its investments. The Fund shall be applied towards assisting the Federal Government in financing its pension liability.

## FUNCTIONS

The functions of KWAP are as follows:

- Management of contributions from the Federal Government, Statutory Bodies, Local Authorities and other Agencies; and
- Administration, management and investment of the Fund in equity, fixed income securities, money market instruments and other forms of investments as permitted under the Retirement Fund Act 2007 (Act 662).

## Managing Contributions

The Federal Government contributes 5% of the total annual budgeted emolument of the Federal Government employees while statutory bodies, local authorities and agencies contribute 17.5% of the basic salaries of their pensionable employees respectively to KWAP on a monthly basis.

## Setting Investment Policy And Guidelines






The Investment Panel and the Board are responsible to set, approve and review periodically KWAP's Investment Policy and Guidelines which govern KWAP's investment activities.

## Investment Management And Monitoring

The Fund is invested in asset classes in accordance with KWAP's Strategic Asset Allocation and in accordance with the Investment Policy and Guidelines as approved by the Investment Panel and the Board. The investment activities of the Fund are carried out by a team of competent and experienced investment professionals. The status and performance of KWAP's investments are reported monthly to the Investment Panel and the Board. The performance analysis includes relative performance against benchmark indices as well as absolute target return for each of the asset classes.

# OVERVIEW OF PENSION SYSTEM IN MALAYSIA

The old age pension system in Malaysia is made up of four components:

COMPONENTS	PENSION MANAGEMENT ENTITIES	TYPE OF PENSION SCHEME
Pensionable public sector employees	 Public Service Department  Kumpulan Wang Persaraan (Diperbadankan)	Defined benefits
Armed forces	 Armed Forces Fund Board	<ul style="list-style-type: none"> <li>• Non pensionable compulsory contribution</li> <li>• Pensionable compulsory contribution</li> <li>• Voluntary contribution</li> </ul>
Private and non-pensionable public sector employees	 Employees Provident Fund	Defined mandatory contribution scheme
Self-employed and individuals without fixed monthly income	 Employees Provident Fund	Voluntary contribution scheme

## A) Pensionable public sector employees

The pension scheme of pensionable public sector employees is managed by the Public Service Department which is responsible for setting up the pension scheme policy and managing payment of retirement benefits to members. Currently, payment of the retirement benefits is fully funded by the Federal Government. Forming part of the pensionable public sector employees' administration structure is KWAP with functions as prescribed in the preceding page.

## B) Armed forces

Retirement benefits policy of armed forces is administered by the Ministry of Defence with contribution collection and management of members in service managed by the Armed Forces Fund Board. Upon retirement, the administration of members' account is managed by the Veteran Affairs of Ministry of Defence.

## C) Private and non-pensionable public sector employees

Retirement scheme of private and non-pensionable public sector employees is managed by Employees

Provident Fund (EPF). EPF is a social security institution formed under the Employees Provident Fund Act 1991 (Act 452) which provides retirement benefits for members through management of their savings in an efficient and reliable manner.

The retirement scheme managed by EPF is a defined contribution pension scheme whereby members have to make monthly mandatory contribution calculated based on their monthly wages. The current rate of contribution is a minimum 20% of the employee's wages of which 8% is from the employee's monthly wage while 12% is contributed by the employer.

## D) Self-employed and individuals without fixed monthly income

Following the announcement by the Prime Minister, Y.A.B Datuk Seri Najib Tun Razak in the 2010 Budget, the 1 Malaysia Retirement Savings Scheme has been introduced to ensure the self-employed and individuals without fixed monthly income have their own savings plan upon reaching the retirement age. This is a voluntary contributory scheme in which members can contribute voluntarily based on what they can afford and the contribution is managed by EPF.

## CHAIRMAN'S STATEMENT

“KWAP demonstrated commendable long-term performance on its investments with an average net ROI of 6.98% since inception. I am fully confident that the organisation will continue to exhibit exemplary investment performance in the years to come.”

**TAN SRI DR. WAN ABDUL AZIZ  
BIN WAN ABDULLAH**  
Chairman

On behalf of the Board, I am pleased to present our Annual Report for the financial year ended 31 December 2009.

2009 has been an extraordinary year as far as the world economy was concerned. Indeed, the year was perceived to be a year which was replete with challenges and uncertainties. The crisis had already taken on historic proportions. Governments and central banks across the globe worked round the clock to contain the extensive damage, revive sentiments and bring sense and order back into financial markets.

Despite many attempts to rejuvenate the world economy, many questions loomed on whether the trillions of stimulus dollars infused into the financial system were effective macro-economic tools. These questions lay bare the level of pessimism which prevailed at the time. Gestures made by the financial markets during the first few months of the year showed that it was

less than convinced with the new developments. The level of scepticism was simply overwhelming although the level of policy innovation was highly ingenious.

The impact from the crisis was bound to hit Malaysia eventually and we knew that it would come primarily from the trade channels given our high dependency on exports. However, unlike the last crisis, our banking sector this time was in a much more solid standing and far more resilient than the strained banking systems in the developed economies.

For Malaysia, several policies were introduced to avert a deeper crisis. The Government's decision to announce a stimulus package amounting to RM7 billion in November 2008 was timely. The Government augmented these measures with another stimulus package which was relatively more sizeable in March 2009 to further reinforce and support the domestic economy, at the same time restore confidence in the financial markets.

As I mentioned in our Annual Report last year, there was bound to be opportunities in times of crisis and it was important that KWAP identify and capitalise on them as they avail. The fact that equity markets had fallen considerably provided us the comfort to begin repositioning the fund to take advantage of an impending rebound. Notwithstanding this strategy, there was still a fair amount of apprehension as market players continued to question the sustainability of the recovery. For KWAP at least, we stood our ground and timed our strategy well. As a result, we managed to turn the volatility to our advantage and obtained an impressive total return of 45.83% on our equity investment in 2009. Our investment performance would not have been so enticing had we waited for the market to turn. More importantly, the economy has also shown encouraging trends in subsequent quarters as the pace of economic contraction slowed.





## CHAIRMAN'S STATEMENT

I am also happy to note that KWAP demonstrated commendable long-term performance on its investments with an average net Return On Investment (ROI) of 6.98% since inception in March 2007. I am fully confident that the organisation will continue to exhibit exemplary investment performance in the years to come. As it stands, KWAP will look for new opportunities both locally and abroad to ensure that its stream of investment returns are not only sustainable but are also well diversified.

As Chairman, I have always emphasised the need for the organisation to constantly better and challenge itself in order to pursue all-encompassing excellence. This is what I envision KWAP to be in the coming years: a High Performance Organisation (HPO) which constantly exceeds expectations and not one merely regarded as an outstanding investment body. The approach towards HPO must be wholesome and embraced at all levels.

Last year, KWAP developed and successfully implemented a new business model which inter alia contained new Strategic Asset Allocation, investment policies and processes, improved risk management, new organisational structure and systematic transformation plan. This business model encapsulates the concept of HPO.

KWAP now has a solid foundation in the form of four strategic pillars namely 'Enhanced Returns', 'Risk Awareness', 'Performance Culture'

and 'Talent Organisation'. In cognisance of the importance of a well structured implementation to reap the best results, a two-year transformation program containing twenty initiatives was initiated to complement the new business model.

To ensure a sustainable result and long lasting impact, the transformation program was supported by a structured change management program which in turn introduced enhanced work processes, new systems and various campaigns to motivate and embed the core values into the work culture.

The implementation aspects of a number of these initiatives are progressing well with a majority of the initiatives having been completed or are on track. As a pension fund, KWAP is exposed to a multitude of risk arising not only from its investments, but also from its operations. Despite the need to sustain and deliver high performance on a consistent basis, it is imperative that such pursuits are accompanied by a sound risk management framework. To accomplish this, KWAP adopted the Enterprise Risk Management (ERM) methodology to identify, evaluate, monitor, manage and report risks. In addition, our Operational Risk Management (ORM) was significantly improved with the implementation of Operational Risk Event (ORE) reporting and Business Continuity Management (BCM) that have been successfully implemented in 2009.

Against the backdrop of our good performance in 2009, KWAP remains focused on its long-term goal to grow its fund size to fund or finance the Government's pension liability. In 2009, the Board endorsed the appointment of an actuarial firm to identify options for KWAP to meet its goals. The study is a comprehensive exercise as it is jointly conducted by all three main bodies involved with the Federal Government pension namely the Ministry of Finance (MOF), Public Service Department (PSD) and KWAP.

At KWAP, we realise the importance of constantly improving our most valuable asset, our people. In late 2008, KWAP's new detailed organisation structure was approved by the Board. Subsequently, a competency and talent assessment exercise was conducted. Upon a thorough assessment of the result, KWAP migrated to its new grading, compensation scheme and organisation structure in 2009.

In 2009, KWAP fulfilled its aspiration to feature a high level of employee engagement and volunteerism in all its Corporate Social Responsibility (CSR) activities as demonstrated by its staff's hands-on approach to the CSR programs.

I am also pleased to note that several of our employees have also leveraged on their expertise in investment by contributing articles in financial publications as a means to educate the public. In fact, as part and parcel of our CSR program, our managers have conducted a financial planning seminar on

## CHAIRMAN'S STATEMENT

retirement for future Government retirees. For the purpose of creating greater awareness amongst undergraduates, we have played an active role in the local academia scene by conducting a career talk on the fund management industry at one of the local universities.

From a global perspective, the pace of recovery will proceed at varying pace as the recovery in most developed economies is expected to remain sluggish. In contrast, emerging and developing economies will likely exhibit robust recovery trends by virtue of their more buoyant domestic demand. I am optimistic that the Malaysian economy will return to growth in 2010. The Government has put in place several policies to help support the recovery on the domestic front. The rebound in the global economy and trade will also aid the recovery of our exports. The services sector will increasingly be an important segment of the economy. The Government is very committed to attract foreign investments and provide the necessary incentives to promote private investments from within as a driver of growth. Despite the improving macro environment, 2010 will undoubtedly have its fair share of challenges. For this, KWAP will remain vigilant and agile to adopt proper strategies to enhance its performance and meet its objectives.

On behalf of the Board, I would like to thank the management team and all employees of KWAP for their contribution, dedication and commitment throughout the financial period. With the

commitment of the Board, the Investment Panel and all employees, we will achieve our aspiration to transform KWAP into a HPO. KWAP will continue to work hard to make 2010 another year of achievement.



## CEO'S STATEMENT

“For an organisation which envisions itself to be a HPO, it is important for us to project the core values that we espouse as well as the culture that we aspire to embrace, consistent with our role as custodian of one of the largest public funds in the country.”



**DATO' AZIAN BINTI MOHD NOH**  
Chief Executive Officer

## CEO'S STATEMENT

### Investment Return

In 2009, the world experienced one of the most profound economic and financial crisis in history. Since the collapse of Lehman Brothers, capital markets were put under immense pressure and expectedly, leaving an indelible mark on the real economy. The impact was felt the world over with only a few countries managing to skirt the recession. Unfortunately, our own economy was not spared and succumbed to these adverse conditions. The sharp 6.20% contraction in real GDP in the first quarter and double digit decline in exports as well as industrial production over several months highlighted such vulnerabilities.

Similarly, the investment climate proved to be equally daunting as we not only had to contend with heightened risk perception amid distressed markets but also faced a perceivably extended period of low interest rates. By March 2009, the KLCI slumped to a low of 838.39 points, a decline of more than 40% from a high of 1516 points in 2008. The Overnight Policy Rate was cut by 125 bps causing bond yields to drift to fairly unattractive levels. At the very outset, the odds were already working against us.

Being a pension fund, it was necessary for us to take a long-term view. This orientation coupled with lessons learnt from past events provided us with the conviction that the crisis will eventually come to pass. As history has proven, value would emerge especially in

a distressed market environment or in times of crisis. Timing was equally crucial as financial markets began to rebound in late March 2009. As markets stabilised, it was important for us to position the portfolio to take advantage of an impending recovery.

Against such backdrop, KWAP was able to navigate through the year. On this note, I am pleased to report that KWAP achieved a net return on investment (ROI) of 10.04% and gross ROI of 5.62% in 2009. The gross ROI surpassed our stretch target of 5.40%. Over a 3-year period, our net ROI averaged 7.02%.

All our asset classes performed commendably in 2009. Such performance was achieved against a blended FBM KLCI index which rose 44.91% in 2009 while yields on 5 year MGS averaged 3.60%. The equity portfolio outperformed the benchmark by 92 basis points. Both our MGS and PDS portfolios also outperformed their benchmarks by 134 and 91 basis points respectively, despite the low interest rate environment.

### Contribution

Managing pension contribution is one of our main responsibilities and is crucial in the context of growing the size of the fund. In 2009, we received a total contribution of RM3.77 billion which represents an increase of 10% over the pension contribution received in the preceding year. This increase was attributed to the active role played by our Contribution

Department which continuously engaged with the relevant organisations and authorities. The department undertook initiatives in the form of conducting compliance and enforcement visits to contributing employers to ensure compliance with the relevant acts.

### Risk Management

Risk management has always been a central theme and important focus area for KWAP. Towards this end, KWAP continued to improve and strengthen its risk management practices and standards. We implemented most of our operational risk standards in 2009. Other risk related initiatives included the establishment of Business Continuity Management framework and the ongoing installation and commissioning of KWAP's Disaster Recovery Center.

### Initiatives for 2009

Much attention has been devoted to carrying out several initiatives throughout the year. Some of the initiatives were continuation of our Business Model project which cut across many areas. These included the enhancement of operational processes, improvement of investment capabilities and the strengthening of internal governance.

Amongst the first few initiatives undertaken were the development of both equity and fixed income models. These models were designed to focus on key investment

## CEO'S STATEMENT

deliverables. Another investment related initiative involved the setting up of Business Performance Department which is responsible for measuring and monitoring the performance of our funds. In 2009, the department rolled out the first phase of its business plan focusing primarily on performance measurement and key return metrics.

It was also crucial for us to look closely at our internal processes and procedures. To reflect our commitment to continuously strengthen these areas, we have formalised our Standard Operating Procedures (SOPs) as well as our desk files. By the end of 2009, a total of 179 SOPs were finalised and compiled.

For an organisation which envisions itself to be a HPO, it is important for us to project the core values that we espouse as well as the culture that we aspire to embrace, consistent with our role as custodian of one of the largest public funds in the country. As part of our knowledge sharing exercise, some of our articles were published by a renowned publication.

### Shareholder Activism

KWAP fully supports the idea that shareholder activism can enhance shareholders' value in the long run. Apart from routinely engaging with companies within our portfolio, KWAP has taken a step further by holding dialogues with several parties to better understand the concept of shareholder activism and how it is applied to protect

the interest of investors. In 2009, we conducted a series of discussions with several parties such as the Putrajaya Committee on GLC High Performance, Bursa Malaysia and Securities Commission. Such discourse will enable us to make necessary changes which are in line with best practices. We hope to intensify efforts to promote shareholder activism in 2010.

### Summary of Pension Liability

KWAP has always been cognisant of its role in the broader public pension fund landscape and continuously held discussions with key stakeholders from the Ministry of Finance (MOF) and Public Service Department (PSD). As a result, KWAP together with the MOF and PSD has jointly embarked on a Pension Liability Study. This comprehensive study will enable KWAP to evaluate the funding adequacy of its pension liability via conducting an actuarial valuation exercise. More importantly, this study is intended to identify options which would help KWAP develop a liability assumption plan and subsequently design strategies which best match our assets with those liabilities.

### Employees - Our Most Important Resource

KWAP places a strong emphasis on a wide spectrum of human resource management ranging from selection and recruitment, performance management to training. In a knowledge intensive organisation like KWAP, it is vital that each employee's

unique abilities are identified, utilised to their full potential and continuously developed. Hence, in KWAP we devote a great deal of attention in building our talent pool. Having a solid performance appraisal system is also crucial to sustain morale and boost productivity.

The Human Resource Department has been busy with recruitment exercise following the organisation-wide restructuring embarked upon in early 2009. This recruitment drive will remain a focal point of human resource activities in the months to come as we bring in more professionals with the right experience into the organisation. We have managed to fill up key posts which include the Head of Risk Management and Head of Business Performance. As at end 2009, our staff size has grown to 108 employees from 98 in 2008.

One of the landmark initiatives undertaken in 2009 was the roll out of our new compensation structure which was intended to align our remuneration scheme with market standards. Training programs also constitute an important part of our human resource process.

Another key highlight was the introduction of the financial assistance programme extended to our investment personnel who registered for the CFA Financial Incentive Scheme. I am proud to say that a number of our employees succeeded in the early phase of these exams and we hope to provide similar assistance to others within

## CEO'S STATEMENT

the organisation who are willing to take up the challenge to improve themselves professionally.

### Corporate Social Responsibility

KWAP has always been conscious of its role to contribute and give back to society. 2009 was no exception as we managed to organise several Corporate Social Responsibility (CSR) activities. Some of these CSR programs were an extension to what was carried out in 2008 which included developing underprivileged communities by improving their quality of education. We also participated in career day at a local university to provide greater insight as well as prospects of the fund management industry for career development. To instil and develop a strong sense of awareness amongst civil servants, we conducted a seminar which focused primarily on the importance of retirement planning.

### Moving Forward

As we enter 2010, I am pleased to observe that much of the fear and pessimism which was so prominent during the earlier stages of the crisis have now receded. I am also particularly comforted by recent developments which suggest that the global economy is beginning to show signs of recovery. This was also evident in Malaysia as revealed by recent economic data. More importantly, the forecast for both global and domestic growth implies a return to growth in 2010.

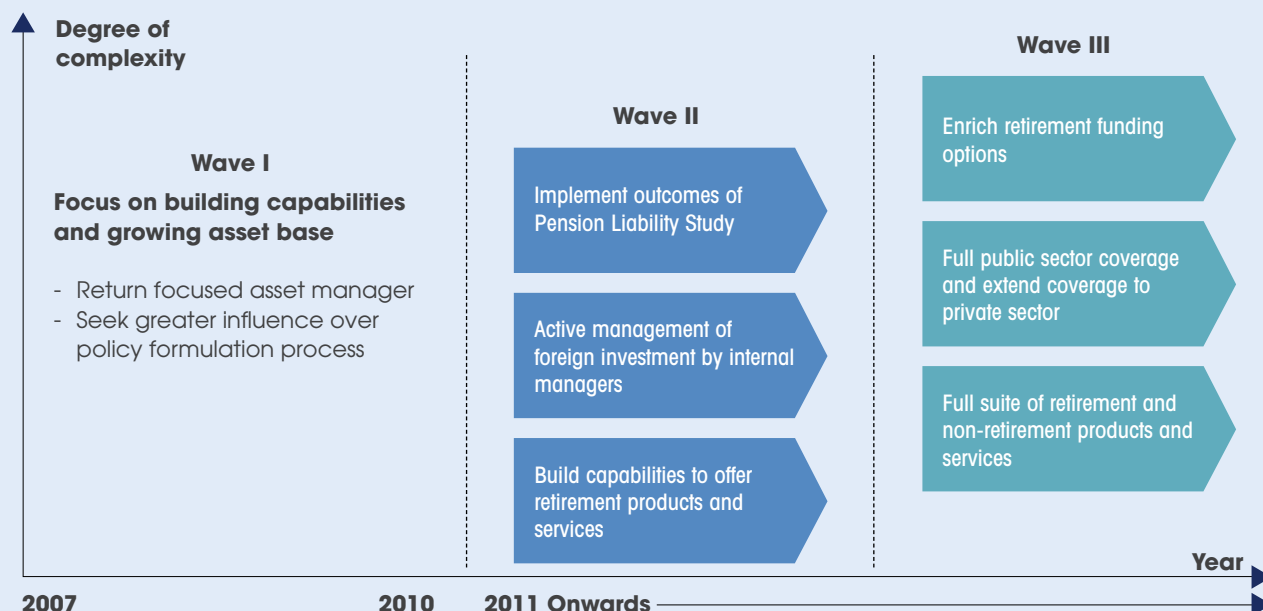
While I am optimistic of what the year 2010 has in store for us from an economic standpoint, the remarkably strong performance in key markets in the latter part of 2009 compels us to scrutinise fundamentals with greater intensity. Fears of asset bubbles, worries over sovereign debt and a reversal in interest rate cycles will likely have a great bearing on the overall market dynamics in 2010. We will be alert and mindful of the impending risks which could lead to a relapse in the path towards recovery.

On that note, we will continue to tread carefully into the new year by meticulously looking for opportunities to enhance our investment performance. To seek better returns, we also plan to diversify our asset base and look beyond the traditional asset classes to help generate superior income performance. We have identified foreign investments as a new asset class, implementation of which will be performed meticulously. These new initiatives represent a significant segment of our plans for 2010 apart from reviewing and refining our overall Strategic Asset Allocation.

KWAP managed to rise above many challenges thanks to a strong sense of camaraderie and team work. We realise that none of the initiatives undertaken can be fulfilled had it not been for the commitment and hard work of all our employees. I am grateful for their dedication and confident that KWAP will continue to traverse the journey ahead with even greater success.

Finally, on behalf of KWAP's Management, I wish to thank the Chairman and Members of the Board as well as the Investment Panel for their wisdom, insights and commitment towards KWAP. I would also like to express my heartfelt gratitude to the Ministry of Finance and other government agencies for their constant support and cooperation, all of which have helped us immensely in carrying our function more effectively.

# FUTURE DIRECTION



Post incorporation in 2007, KWAP launched a Business Model Study to review and enhance its existing business model and capabilities to enable the organisation to fulfill its vision of becoming a high performing fund that assures sustainable pension benefits.

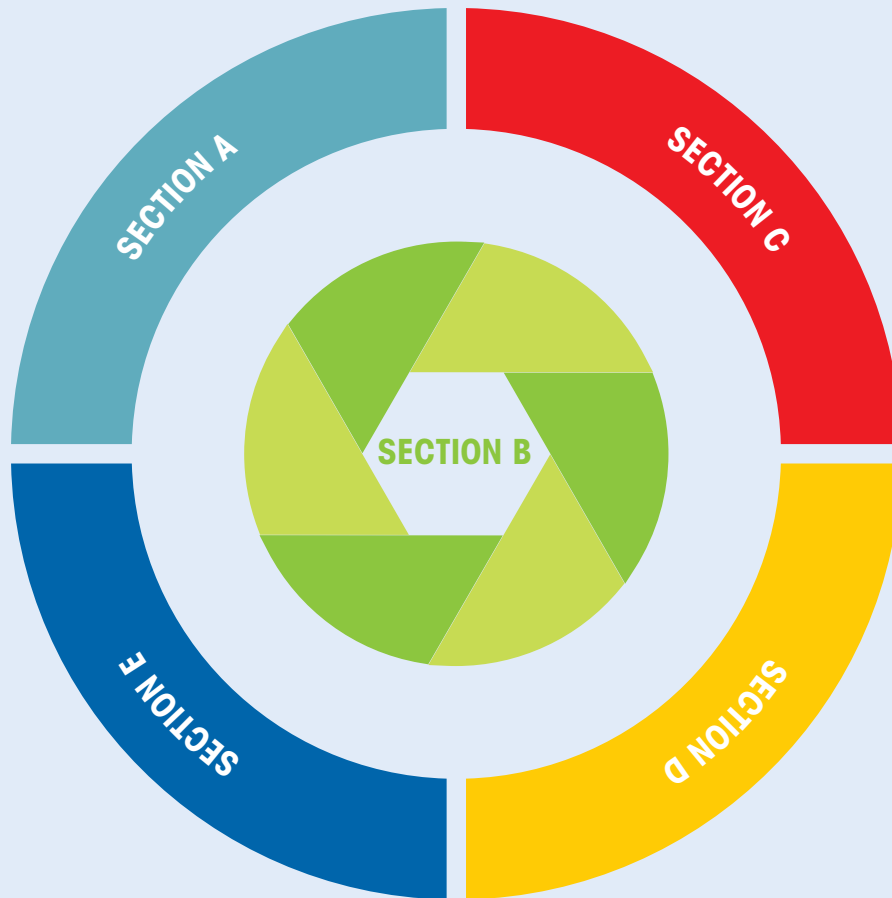
The focus for the period between 2008 up to 2010 or designated as Wave I are building capabilities to enhance return on investment and initiate engagement process with stakeholders over pension policy formulation. The dual-focus of Wave I is elaborated in this Annual Report under the sections titled 'Aim to Become a Return-Focused Manager' and 'Aim to Fund Government's Pension Liability'.

Wave II would leverage on the developed capabilities and relationship established with related stakeholders under Wave I by focusing on:

- Continuing the implementation of Strategic Asset Allocation's 3-Year Transition Master Plan;
- Initiating active management of foreign investment by internal managers;

- Implementing the outcomes of Pension Liability Study (which will be completed in 2010) such as:
  - Aligning KWAP's Strategic Asset Allocation and investment strategies against the formulated liability assumption plan
  - Greater coordination with strategic stakeholders in relation to the Federal Government's pension scheme policy management
- Exploring the possibility of managing third party funds by leveraging on developed capabilities; and
- Build capabilities to offer retirement products and services.





## SECTION B

- Aim to Become a Return-Focused Manager • Overall Progress of Transformation Program
- Aim to Fund Government's Pension Liability • The Pension Fund Demands High Returns
- Strategies to Achieve Long-Term Return Target

# AIM TO BECOME A RETURN-FOCUSED MANAGER

In the pursuit to become a return-focused manager, four strategic pillars have been established which serve as a guiding principles for KWAP in formulating its strategic or operational initiatives. The four strategic pillars are as illustrated below:



## ENHANCED RETURNS

In order to enhance our risk adjusted returns, KWAP shall diversify its investments into new asset classes including foreign ones. This will be achieved through reviewing its existing Strategic Asset Allocation (SAA) and migrating towards a new SAA which would enhance its returns within the permissible risk parameters.

## RISK AWARENESS

Risk management is not only limited to setting up a risk management function within the organisation but is fundamentally about inculcating risk management practices in every aspect of the organisation's activities. Taking cognizance of the above and reinforced further by potential investment complexities which KWAP may face in the future, inculcating a risk culture was chosen as one of KWAP's strategic pillars.

Such approach towards risk management, combined with the increasing complexities of future investments, provide a strong basis for KWAP to adopt greater awareness and culture of risk as one of its strategic pillars.

## PERFORMANCE CULTURE

Having the right investment and risk management tools would not guarantee the success of the organisation unless there is an alignment between the organisation and employees' goals. To achieve this, it is imperative for KWAP to create a working environment characterised by clear accountabilities, Key Performance Indicators (KPIs) and appropriate performance-linked reward scheme.

## TALENT ORGANISATION

Recognising that employees are KWAP's most important asset or enabler in achieving its goals, effective talent management has been set as another strategic pillar. This necessitates KWAP to look at how it should optimally grow its internal talent whilst attracting new talent, underscored by the organisation's demand for specific technical skills and expertise as well as overall leadership to bring the organisation to the next level.

To support the realisation of the four strategic pillars, a transformation program with 20 initiatives has been identified to be implemented over a period of 2 years as shown on the next page.



## AIM TO BECOME A RETURN-FOCUSED MANAGER

To ensure effective implementation of the transformation program, Project Management Office (PMO) was set up in August 2008 which is primarily responsible to:

- Identify and prioritise key initiatives for implementation;
- Monitor and report the progress of implementation of the initiatives;
- Facilitate and resolve road-blocks, if any, on the implementation of the initiatives; and
- Develop communication plan and assist with communication to stakeholders.

PMO reports directly to the Chief Executive Officer and updates the Board monthly on the progress of the Transformation Program, highlighting major issues or concerns for guidance and decision.

As change management is integral to the transformation program, the focus of change management in 2009 was directed towards:

- Equipping the organisation with tools such as enhanced work processes and new systems to implement change;
- Inculcating KWAP's core values through the launch of a two-month campaign for each core value; and
- Appointment of change leaders to assist in communicating key messages and provide feedback to the Management.

The progress and outcomes of the transformation program in 2009 are discussed in the Overall Progress of Transformation Program on the next page.

ORGANISATION	INVESTMENT MANAGEMENT	RISK MANAGEMENT
<p><b>OR-1</b> Revise grading, compensation and KPIs</p> <p><b>OR-2</b> Move to new organisation structure</p> <p><b>OR-3</b> Redesign office layout</p> <p><b>OR-4</b> Develop management trainee programs and scholarship</p>	<p><b>IM-1</b> Amend investment policy guidelines</p> <p><b>IM-2</b> Migrate to the new Strategic Asset Allocation</p> <p><b>IM-3</b> Adopt new equity investment model</p> <p><b>IM-4</b> Adopt new fixed income investment model</p> <p><b>IM-5</b> Set up EFM function</p> <p><b>IM-6</b> Set up business performance function</p> <p><b>IM-7</b> Implement portfolio management system</p> <p><b>IM-8</b> Set up Custodian Department and Investment Settlement Department</p> <p><b>IM-9</b> Set up portfolio strategy function</p> <p><b>IM-10</b> Set up Tactical Asset Allocation (TAA) function</p>	<p><b>RM-1</b> Build up risk management function</p> <p><b>RM-2</b> Implement operational risk standards</p> <p><b>RM-3</b> Implement business continuity plan</p> <p><b>RM-4</b> Implement strategic risk plan</p> <p><b>RM-5</b> Implement risk management system</p> <p><b>RM-6</b> Set up internal audit function</p>

### CHANGE MANAGEMENT AND COMMUNICATION

## OVERALL PROGRESS OF TRANSFORMATION PROGRAM

As described under the preceding section titled 'Aim To Become A Return-Focused Manager', 20 initiatives under the Transformation Program have been progressively implemented since 2008. Highlighted below are the progress status and outcomes of the respective initiatives:

NO.	INITIATIVE	PROGRESS STATUS	OUTCOMES
<b>ORGANISATION</b>			
1.	Revise grading, compensation and KPIs	New salary scheme approved in July 2009 with implementation conducted in stages to link salary migration with work performance	Positive changes in work culture as salary migration is linked with performance and implemented on staggered basis. This has tremendously raised awareness among employees on the impact of their actual performance towards rewards.
2.	Move to new organisation structure	6 new key positions filled up in 2009	Enabled operationalisation of new functions such as Risk Management and Compliance, Business Performance and Credit Analysis of Fixed Income.
3.	Redesign office layout	New dealing room completed in March 2009	The dealing room which houses Equity Department, Fixed Income Department and Portfolio Strategy Department offers greater synergy in terms of sharing of market information between the different departments. This has enhanced investment decision making process.
4.	Develop management trainee programs and scholarships	Approved by the Board in December 2009	Implementation is scheduled in 2010.

## OVERALL PROGRESS OF TRANSFORMATION PROGRAM

NO.	INITIATIVE	PROGRESS STATUS	OUTCOMES
<b>INVESTMENT MANAGEMENT</b>			
1.	Amend Investment Policy and Guidelines (IPG)	Amendment completed in January 2009	IPG aligned to new investment model enables effective implementation of investment decision making process.
2.	Migrate to the new Strategic Asset Allocation (SAA)	New SAA and Transition Masterplan approved by the Investment Panel and Board in November 2008	<p>The key objective of the new SAA is to enhance returns within tolerable risk parameters by investing in new asset classes including international investments. Currently, KWAP's portfolio is highly concentrated towards domestic market.</p> <p>There has been gradual alignment of investment strategies towards the new SAA.</p> <p>Selection of fund managers to manage the international mandate commenced in 2009 with appointment to be completed in 2010.</p>
3.	Adopt new Equity Investment Model	Implementation completed in January 2009	<p>Creation of sub-portfolios has created clear accountability as each Portfolio Manager manages his own dedicated portfolio where he is accountable for the respective performance.</p> <p>Co-location and same reporting line for Research Analysts and Portfolio Managers have created seamless synergy between both disciplines and enhanced decision making process.</p>
4.	Adopt new Fixed Income Investment Model	Implementation completed in January 2009	Recruitment of Credit Analysts enabled Fixed Income Department to enhance its credit and interest rate analysis and monitoring process with regard to investment in loans, Public Debt Securities, Malaysia Government Securities and money market instruments.

## OVERALL PROGRESS OF TRANSFORMATION PROGRAM

NO.	INITIATIVE	PROGRESS STATUS	OUTCOMES
<b>INVESTMENT MANAGEMENT</b>			
5.	Set up External Fund Management (EFM) function	Implementation completed in November 2008	Completion of EFM's Standard Operating Procedures enabled systematic monitoring process of the performance of appointed external fund managers and appointment of new external fund managers.
6.	Set up Business Performance function	Implementation completed in July 2009	Setting up of Business Performance function enabled performance of investment departments to be independently and objectively measured in line with best practice.
7.	Implement Integrated Investment Funds Management System	System development completed in December 2009	Embedded with pre-determined and automated internal controls and risk management features, the system enabled more effective risk management of overall investment operations.
8.	Set up of Custodian Department and Investment Settlement Department	Implementation completed in May 2009	Clear segregation of duties between front office and back office in terms of back room processing activities such as payment settlements and custodian of assets.
9.	Set up Portfolio Strategy function	Implementation completed in January 2009	The setting up of the function enabled close tracking and monitoring of the implementation of SAA Transition Masterplan vis-à-vis prevailing investment scenarios and stakeholders' expectations.
10.	Set up Tactical Asset Allocation function	Function has been performed by respective Investment Departments	Equity Department has successfully utilised allocated Tactical Asset Allocation which partly contributed towards realisation of ROI 9.77% for internal equity investment.

## OVERALL PROGRESS OF TRANSFORMATION PROGRAM

NO.	INITIATIVE	PROGRESS STATUS	OUTCOMES
<b>RISK MANAGEMENT</b>			
1.	Build risk management function	60% completed	<p>The establishment of Risk Management and Compliance Department enabled gradual implementation of risk management practices with key outcomes in 2009 included:</p> <ul style="list-style-type: none"> <li>a) Periodic monitoring of Corporate Risk Profile which evaluates corporate level risk areas in terms of status and workability of established mitigating controls; and</li> <li>b) Operational risk events are systematically tracked and reported with remedial actions taken on timely basis.</li> </ul>
2.	Implement operational risk standards	80% completed	<p>There are 24 operational risk standards aimed at enhancing risk standards across various operational areas of the organisation. In 2009, 21 standards were implemented from which the benefits or outcomes are expected to be more evident in 2010.</p>
3.	Implement Business Continuity Plan	Implementation completed in December 2009	<p>Business Continuity Management Framework was established to outline the broad framework on how the organisation would continue its operations in the event of crisis. The framework has several components which include:</p> <ul style="list-style-type: none"> <li>a) Incident Management Plan;</li> <li>b) Incident Communication Plan;</li> <li>c) Disaster Recovery Plan;</li> <li>d) Business Continuity Plan; and</li> <li>e) Awareness and Training</li> </ul> <p>With regard to Disaster Recovery Plan, KWAP has established its Disaster Recovery Centre (DRC) in December 2009 with application and full swing testing to be conducted in 2010. The establishment of DRC would ensure business continuity during crisis.</p>

## OVERALL PROGRESS OF TRANSFORMATION PROGRAM

NO.	INITIATIVE	PROGRESS STATUS	OUTCOMES
<b>RISK MANAGEMENT</b>			
4.	Implement Strategic Risk Plan	To be fully implemented in 2010	N/A
5.	Implement risk management system	To be fully implemented in 2010	<p>In the absence of risk management system (IT based application), a third party service was engaged to produce periodic Market Risk Metrics Report. In total, there were 24 reports produced in 2009.</p> <p>The report, which forecasted 12-month ahead probable risk metrics for respective asset classes, was discussed regularly at Management and Risk Management Committee levels.</p> <p>At Management level, the report was used as part of investment decision making process.</p>
6.	Set up internal audit function	To be fully implemented in 2010	In the interim, a professional external audit firm was appointed to perform KWAP's internal audit function. In 2009, 4 operational areas were audited. The outcomes are discussed in the Risk and Corporate Governance Section of this Annual Report on page 54.

## AIM TO FUND GOVERNMENT'S PENSION LIABILITY

Parallel to KWAP's aim to become a return-focused manager as described in the preceding section, is to assist the Federal Government in funding its pension liability. In the pursuit of achieving this objective, KWAP has initiated a joint pension liability study together with the Ministry of Finance and Public Service Department in the last quarter of 2009.

The primary objective of the study is to identify options available for KWAP to assist the Federal Government in funding future pension liability. The initiation of this study demonstrates KWAP's proactiveness in engaging its stakeholders towards realising the Federal Government's aspiration for KWAP to progressively undertake greater role in funding public service pension scheme.

To facilitate the study, an actuarial valuation has been commissioned which would address the following dimensions:

DIMENSIONS
Review adequacy of Federal Government, statutory bodies and local authorities' contribution rates vis-à-vis future pension liability and growth of KWAP's fund.
Explore alternative pension schemes for costs and benefits benchmarking purposes through reviewing other countries' civil servants pension scheme.
Appropriate commencement point and quantum of payment by KWAP to the Federal Government, taking into account its current and projected fund size.
Return on investment on its fund which broadly driven by its Strategic Asset Allocation and capabilities of its investment managers.

The results of the actuarial valuation will be used as a basis to identify options available for KWAP to assist the Federal Government in funding its pension liability.

The study is expected to be completed by mid 2010 and KWAP will put forward the recommendations to the Federal Government for consideration.



## THE PENSION FUND DEMANDS HIGH RETURNS

KWAP orientates its investment strategy towards being a return-focused asset manager as it does not have an immediate obligation to assume pension liabilities. The medium-term emphasis on returns will enable the fund to build its fund size over time to ensure that it will have developed the scale and capacity to sufficiently fund those pension liabilities once such obligations become due.

KWAP has conducted a preliminary study on projected liabilities given the expected trends in contributions, pension demographics and wage growth. The outcome of the study suggests that KWAP should produce a long-term rate of return of 8% to sustainably assume pension liabilities at some point. The 8% nominal return target is based on a 5-year rolling average target.

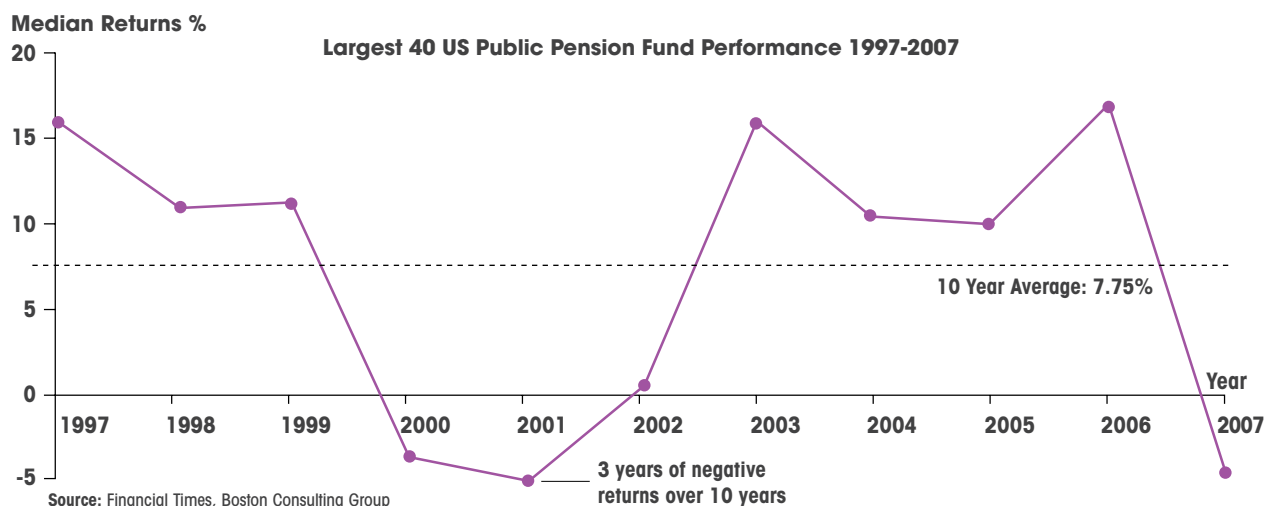
The other key determinant behind the formulation and construction of our portfolio is risk. In essence, KWAP acknowledges the significance of generating an investment return which best commensurate with the risk level the fund can tolerate. Managing returns requires a certain degree of risk tolerance. As shown

in the diagram below, major pension funds have experienced high volatility of returns.

Each asset class has their own unique and distinct risk return profile and would interact and correlate differently with each other at a portfolio level. This logical framework serves to explain how our new Strategic Asset Allocation (SAA) was formulated. Assessments of the SAA will be conducted periodically to ensure that our objectives remain realistic and implementable given market dynamics (please refer to the next page).

The findings from the business model that we commissioned in 2008 showed that it is possible to generate a higher level of return with the same level of risk. This means that KWAP can maximise its returns objective without taking excessive risks. To do this, diversification into new asset classes and markets are required. The study also revealed that foreign investments and alternatives have exhibited superior risk-adjusted return over time.

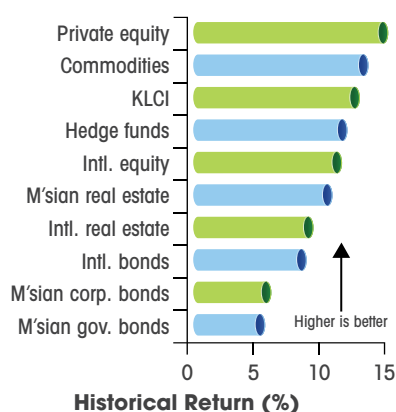
### PERFORMANCE OF LARGEST US PUBLIC PENSION FUNDS



## THE PENSION FUND DEMANDS HIGH RETURNS

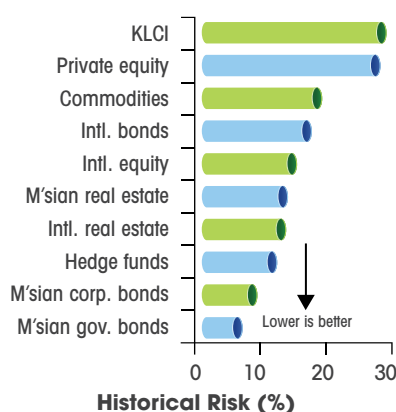
### SUPERIOR RISK-ADJUSTED RETURN OF ALTERNATIVES

#### Alternatives have shown strong returns...

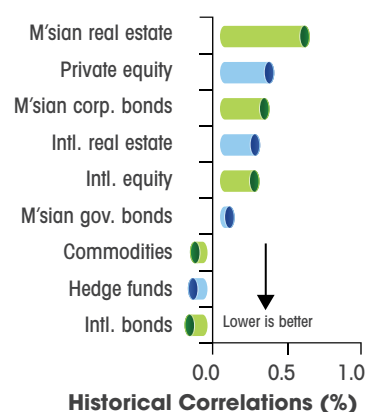


Source: Boston Consulting Group Analysis, 2008

#### with lower risk than KLCI...



#### and low correlations with KLCI.



Studies have shown that equities will likely generate higher returns compared to fixed income securities in the long run. The relative prominence of equities as an asset class compared to fixed income securities is further accentuated by the prevailing low interest rates environment. Conventional theory also points out the fact that equities tend to have a wider dispersion of returns, hence risks, compared to fixed income instruments. However, we believe such risks can be mitigated and managed by instituting and embedding the proper controls and risk mechanisms within each asset class. Given its risk reward profile, equities will feature considerably in our investment strategy especially in the context of meeting our long-term investment objectives.

KWAP's list of investible asset classes is clearly stipulated in the Retirement Fund Act 2007 (Act 662). With the new SAA, KWAP is now able to diversify its asset base beyond domestic borders and also in non-traditional asset classes such as real estate and private equity. Any decision to invest globally or to invest beyond the list of allowable investments will require approval from the Ministry of Finance.

#### Rules which dictate our investment strategy

- KWAP can only invest in stocks which are within the approved list of stocks
- Up to 15% of the fund can be invested overseas
- KWAP cannot invest in commodities or hedge funds
- KWAP may invest up to 10% of the total market value of its domestic equity portfolio in a single listed company
- KWAP shall not invest more than 15% of the total market value of its domestic equity portfolio in a single group of listed companies
- Subscription to a particular corporate bond issue shall not exceed the higher of 10% of the total amount offered in the subscription or 25% of shareholder's fund of the issuing corporation
- KWAP can invest in corporate bonds rated at least P2/MARC 2 for short-term holdings and at least A3 or A- for long-term holdings
- KWAP shall limit its investments in domestic and foreign property in the form of direct investments
- Exposure to any single property shall be capped at 30% of KWAP's property investment portfolio

## STRATEGIES TO ACHIEVE LONG-TERM RETURN TARGET

KWAP has adopted the Strategic Asset Allocation (SAA) as a key element in its investment decision making process. The importance of having an appropriate SAA is crucial in terms of deploying the right mix of funds to asset classes which best demonstrates the most optimal risk return trade-off. As asset allocation is identified as the prime driver of investment performance compared to market timing and security selection, KWAP endeavours to build and develop a better appreciation and greater understanding of the SAA, taking into account both the practical and dynamic evolution of the concept.

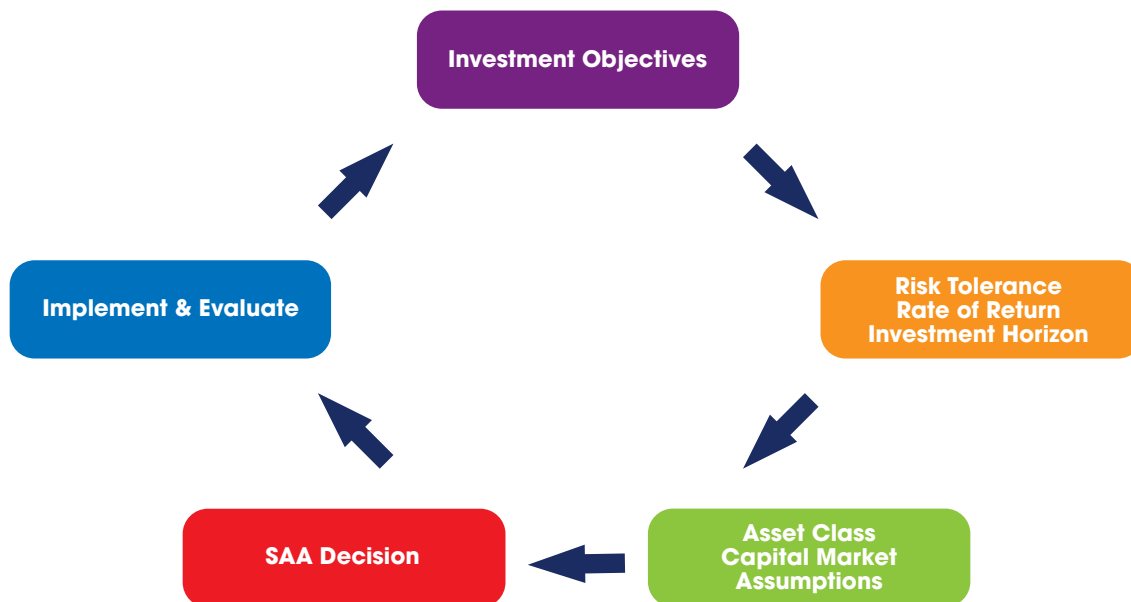
### WHAT DETERMINES KWAP'S SAA

The core essentials behind designing and formulating a proper SAA framework involve importantly, a thorough understanding of the organisation's investment objectives, risk tolerance and investment

horizon. These three elements provide the structural drivers for the SAA and to a greater extent, describe how risk is defined at KWAP.

In general, the process begins with the collation of views and strategic direction from the Board. Typically, the broad view and broad set of beliefs are then articulated as the fund's investment objective which is then cascaded down to the investment process in the form of the fund's investment objective and philosophy. These objectives combined with the risk tolerance of the fund become the major motivation behind the fund's investment goal and asset allocation process. The SAA is a key performance enabler and is aligned with KWAP's aspiration to become an effective institutional investor. In the pursuit of embracing this idea, KWAP will constantly engage with our major stakeholder particularly in investment related matters.

**Diagram of a Typical Asset Allocation Exercise**



## STRATEGIES TO ACHIEVE LONG-TERM RETURN TARGET

The mechanics behind the SAA regime at KWAP thrives on the Markowitz's Mean Variance Optimisation technique and the Efficient Frontier. However, the thinking that goes into the process allows some element of subjectivity, and in that sense becomes moderately flexible. It is important to emphasise that such optimisation processes are complemented by subjective and qualitative overlays and decision factors which range from experiential to scientific. The process culminates in the SAA which implicitly embodies KWAP's asset class preferences based on its unique return aspirations and risk tolerance.

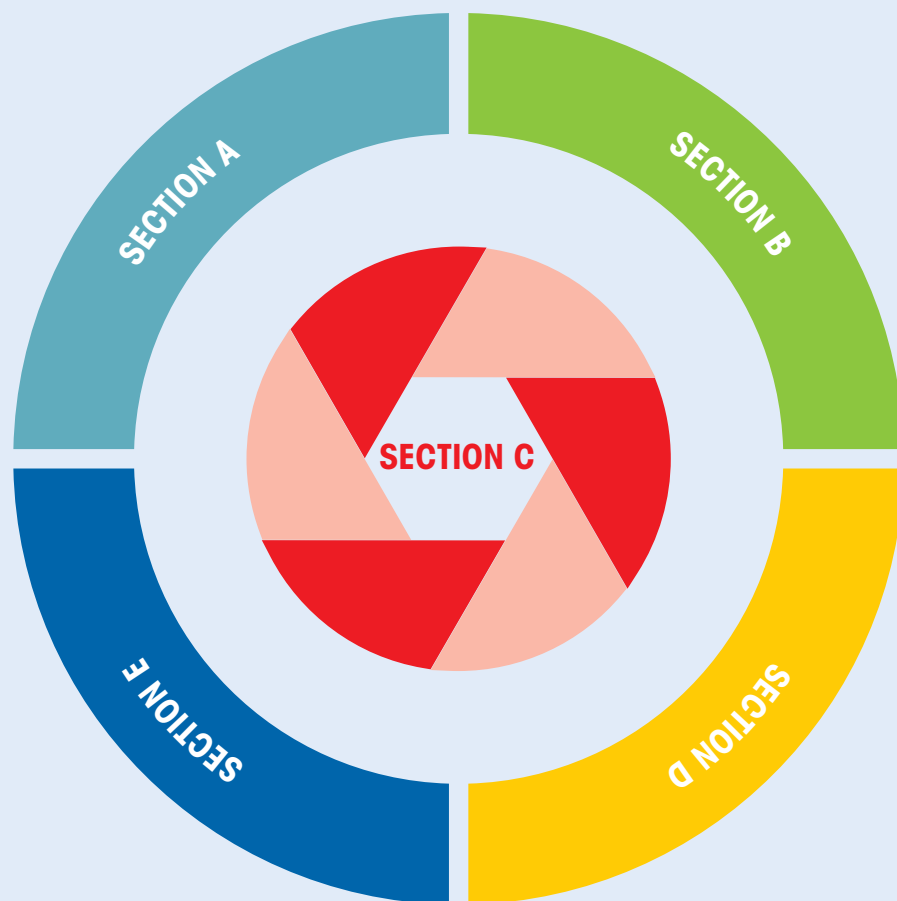
It is also important to acknowledge that KWAP as a pension fund has an ultimate objective of funding the government's pension liabilities. Although there is no explicit timeline for the organisation to take on this role yet, KWAP has proactively held discussions with the respective parties on the future direction of the public pension industry. KWAP has in fact spearheaded a joint-initiative toward this end by appointing an actuarial firm to conduct a study.

In this respect, the link between liabilities and the entire investment process that covers return, risk and SAA becomes all the more important as it helps provide more clarity to the decision making framework. In fact,

efforts are already underway to help KWAP form a better understanding of the public pension liability profile and quantum. In the final analysis, the eventual assumption of liabilities holistically encapsulates and defines KWAP's existence as a pension fund in the long-term.

Although KWAP has put in place plans to diversify its portfolio by shifting the composition of its asset allocation, the management took a gradualist and prudent approach in 2009. Much of this had to do with the unfolding of the economic and financial crisis which continued to unsettle market sentiments and elevate risks. As the markets began to stabilise in late March 2009 and unusual market volatilities subsided, we dispensed more of our cash and moved into better yielding asset classes such as equities. The decision to increase the tactical asset allocation band in equities during the year was done with a view to enhance the fund's income and return. From a strategic asset viewpoint, KWAP remains committed to find ways by which it can further improve its ability to find and generate 'alpha'. The alignment of asset allocation, both strategically and tactically, with the organisation's investment orientation and risk thresholds is a vital and critical driver of KWAP's long-term goals of generating consistent and superior returns.

ASSET CLASS	END STATE ALLOCATION	BENCHMARK
<b>Domestic</b>	<b>85%</b>	
Equity	24%	FBM 100
Fixed Income – MGS	29%	Quantshop MGS (All) Yield
Fixed Income – PDS and Loans	27%	Quantshop Corp (Medium) Yield
Real Estate	3%	Return by Property Class
Treasury	2%	3-Month KLIBOR
<b>International</b>	<b>15%</b>	
Equity	2%	MSCI World
Fixed Income	1%	Barclays Global Aggregate Index (Formerly Lehman Global Aggregate Index)
Private Equity	6%	PIPE Buyouts
Real Estate	6%	Return by Property Class



## SECTION C

- Review of Corporate Scorecard 2009 • 2009: A Recovery Year • Strong Investment Performance
- Contributions Management • Risk and Corporate Governance • High Performance Culture
- A Caring Organisation • 2009: An Eventful Year • Corporate Scorecard 2010

# REVIEW OF CORPORATE SCORECARD 2009

## A. STAKEHOLDERS

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
1.	To grow our asset base	Fund size: Value (RM billion) and percentage growth (%)	Increase the fund size by 10% from opening balance of RM52.04 billion in 2009	Outperformed the target by achieving 18% growth rate or an increase of RM9.46 billion
2.	To become a return-focused asset manager by building our capabilities	Initiatives implemented as per the approved timeline and milestones	Implement 20 initiatives as outlined under the Transformation Program  Implement 8 additional initiatives identified under Business Plan 2010	Met the target with: <ul style="list-style-type: none"> <li>• 8 initiatives fully completed</li> <li>• 6 initiatives on track</li> <li>• 3 initiatives reprioritised with 60% completion</li> <li>• 3 initiatives reprioritised for implementation in 2010</li> </ul> Successfully initiated 8 additional initiatives

## B. FINANCIALS

1.	To achieve the targeted absolute investment income	Actual absolute investment income (RM)	Actual absolute investment income higher than Stretch Target	Outperformed Stretch-3 Target by 4.01% or RM125 million (Actual investment income is RM3.24 billion vs Stretch-3 Target of RM3.17 billion)
2.	To outperform benchmark	Return on Investment (ROI) compared against benchmark (%)	Actual ROI outperforms benchmark	ROI for 2009 of 5.62% outperformed the benchmark
3.	To reduce the volatility of portfolio returns (standard deviation) at fund level	Standard deviation (%)	Not to exceed maximum standard deviation of 10.4%	Met the target by achieving a standard deviation of only 7.4%

## REVIEW OF CORPORATE SCORECARD 2009

## B. FINANCIALS

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
4.	To complete the transition to new Strategic Asset Allocation (SAA)	To meet the milestones of SAA Transition Masterplan	Meet deliverables as per SAA Transition Masterplan	<p>SAA Transition Masterplan is currently being reassessed due to:</p> <ul style="list-style-type: none"> <li>• The global economic uncertainty and market volatility</li> <li>• Impact of the above on the risk return trade-off of each asset class</li> </ul> <p>KWAP is in the process of reviewing and refining the SAA in 2010</p>

## C. OPERATIONAL

1.	To improve our investment decision making process by setting up new investment capabilities	<p>a) Number of investment proposals approved by the Investment Panel</p> <p>b) Number of information database established</p> <p>c) Timely issuance of information</p>	<p>a) 90% approval rate</p> <p>b) Database for 2 asset classes</p> <p>c) As per Standard Operating Procedures of each report</p>	<p>a) Outperformed the target by achieving 93% approval rate</p> <p>b) Met the target by completing database for 2 asset classes which are Property and External Fund Management</p> <p>c) Outperformed the target with issuance of prompt and timely reports including new key reports initiated in 2009</p>
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## REVIEW OF CORPORATE SCORECARD 2009

C. OPERATIONAL				
NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
2.	<p>Assimilate risk management culture and practices via:</p> <p>a) In-house Risk Awareness Training</p> <p>b) Implementation of operational risk standards</p>	<p>a) Risk awareness index (measuring staff understanding of risk programs conducted during the year)</p> <p>b) Number of operational risk standards implemented</p>	<p>a) 50% of staff to achieve at least 70% scoring points</p> <p>b) To commence implementation of 24 operational risk standards</p>	<p>a) Outperformed the target with 71% of staff achieved more than 70% scoring points</p> <p>b) Met the target with 19 operational risk standards completed, 2 in progress and 3 rescheduled to 2010</p> <p>In addition, KWAP completed the following initiatives under Risk Management and Compliance:</p> <ul style="list-style-type: none"> <li>Operational Risk Event Framework</li> <li>Compliance Report</li> </ul>
3.	<p>To enhance operational efficiencies</p> <p>a) Implement new IT systems</p>	<p>a) To meet the implementation milestones of each IT System</p>	<p>a) 100% completion of development of Integrated Fund Investment Management System (IFIMS) by end of 2009</p>	<p>Met the target by fully completing the development of IFIMS with system commissioning to take place in 2010</p>

## REVIEW OF CORPORATE SCORECARD 2009

## C. OPERATIONAL

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
			b) 100% completion of development of Request for Proposal (RFP) for Contribution Management System, Risk Management System and Business Performance System by end of 2009	Met the target for Contribution Management System  The development of RFP for Risk Management System and Business Performance System have been rescheduled to 2010
	b) To fully develop the Standard Operating Procedures (SOPs)	Timely completion of development of SOPs	February 2009	Met the target by developing the SOPs in February 2009  In addition, KWAP commenced the initiative to develop detailed job manual for each job function
		Compliance rate to established SOPs	95% compliance for high risk areas	Outperformed the target by achieving 100% compliance for high risk areas under investment operations
		Number of internal audit observations	The number of internal audit observations shall not exceed the 2008 level of:  <ul style="list-style-type: none"> <li>Total : 27</li> <li>High : 6</li> <li>Medium : 18</li> <li>Low : 3</li> </ul> To achieve a clean Audit Certificate for the Financial Statements 2008	Met the target with total number of observations for 2009 as follows:  <ul style="list-style-type: none"> <li>Total : 22</li> <li>High : 7</li> <li>Medium : 10</li> <li>Low : 5</li> </ul> Met the target with a clean Audit Certificate obtained on 1 April 2009 for Financial Statements 2008 and Annual Report tabled in Parliament in June 2009

## REVIEW OF CORPORATE SCORECARD 2009

## C. OPERATIONAL

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
	c) Contribution management	<ul style="list-style-type: none"> <li>To ensure timely collection of contributions</li> <li>To ensure the accuracy of Employers Contribution Reports (as prepared by employers)</li> </ul>	<ul style="list-style-type: none"> <li>90% compliance by collecting the contributions within the prescribed period of 30 days</li> <li>100% accuracy</li> </ul>	<ul style="list-style-type: none"> <li>KWAP outperformed the target by achieving 97% compliance rate</li> <li>KWAP met the target by achieving 98.5% accuracy level as at 31 December 2009</li> </ul> <p>Note: As at 18 January 2010, the 1.5% error / shortfall has been recovered from employers</p>

## D. LEARNING AND GROWTH

1.	To attract, develop and retain talent	Talent turnover rate	Staff turnover shall not exceed 10% of the talent pool	<p>Outperformed the target with 0% turnover rate for critical posts</p> <p>KWAP also implemented the following Performance Management Processes:</p> <ul style="list-style-type: none"> <li>KPIs developed for all levels and agreed upon between superiors and subordinates</li> <li>Inter-departmental Challenge Session on KPIs to ensure robustness</li> <li>Mid Year KPIs Review introduced</li> <li>Self assessment on KPIs performance during year end review prior to discussion with superiors</li> <li>Workshop on Managing High Performance &amp; Results through KPI conducted</li> </ul>
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## REVIEW OF CORPORATE SCORECARD 2009

## D. LEARNING AND GROWTH

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
2.	To remain as a continuous learning organisation	Average training days per employee	Minimum 7 days per employee per year	<p>Outperformed the target with actual average training days in 2009 per employee of 10.2 days with key certification programs conducted:</p> <ul style="list-style-type: none"> <li>• 3 employees passed CFA Level 1 Examination in June 09</li> <li>• A Property Department employee obtained International Certificate of Valuation issued by INSPEN</li> <li>• A Risk Management employee obtained Business Continuity Management Professional Certification</li> <li>• 11 employees passed Module 9 and 9 employees passed Module 10 of SC Licensing Examination Course</li> <li>• Conducted various knowledge sharing programs such as: <ul style="list-style-type: none"> <li>- Dialogue with Bursa Malaysia and Securities Commission</li> <li>- 2 Leadership Series</li> <li>- 2 lectures on Core Values</li> <li>- 9 Golden Hour Series</li> <li>- 20 Knowledge Sharing Sessions (sharing of the knowledge acquired from external trainings)</li> <li>- 2 Harvard Case Study discussions</li> <li>- 5 Management Visits to investee companies</li> </ul> </li> </ul>

## REVIEW OF CORPORATE SCORECARD 2009

## D. LEARNING AND GROWTH

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET	FULL YEAR PERFORMANCE
3.	<p>To enhance KWAP's Corporate Social Responsibility (CSR) program</p> <p>a) To conduct financial planning program for government employees</p> <p>b) To participate in investment related educational programs organised by higher learning institutions</p>	Number of initiatives conducted	4 initiatives	<p>Met the target by conducting:</p> <p>a) Seminar on financial planning for future government retirees</p> <p>b) Talk entitled 'An Insight to Fund Management Industry' at a local higher learning organisation</p> <p>c) Fund-raising exercise and donation to Sekolah Kebangsaan (A) Bukit Tampoi, Selangor</p> <p>d) Contributed 4 articles related to investment to a leading local business daily</p>

## 2009: A RECOVERY YEAR

### ECONOMIC REVIEW

2009 has been an interesting year for the Malaysian economy especially after what had transpired in 2008. Mindful of the historical parallel made with the present crisis, the economic outlook was undoubtedly downbeat.

While the origins of the financial crisis came about from the systemic failures in the US after years of unbridled excesses in its housing and financial markets, it quickly turned into a global phenomenon. The ensuing impact on the real economy was significant and affirmed the adage that whenever the US sneezes, the world will invariably catch a cold. Understandably, the level of pessimism was at full pitch and sentiments were in disarray.



Even after policymakers and central bankers around the world started to roll up their sleeves and introduced an unorthodox blend of policies to arrest the slump, it took a while before the economic free fall could be stabilised. For the most part, the global economy remained sluggish, spiraling from bad to worse. As a result, one region after another reported dismal numbers and the sharp contraction in first quarter GDP all around the world bore evidence to this.

Asia's financial and banking system did not have the same chronic problems as in the West and as a result, was left relatively unscathed. But the impact on the real economy was triggered more by the sharp decline in global trade

and commerce as credit conditions tightened. From thereon, both exports and production trends throughout the region including Malaysia suffered extended periods of double digit declines.

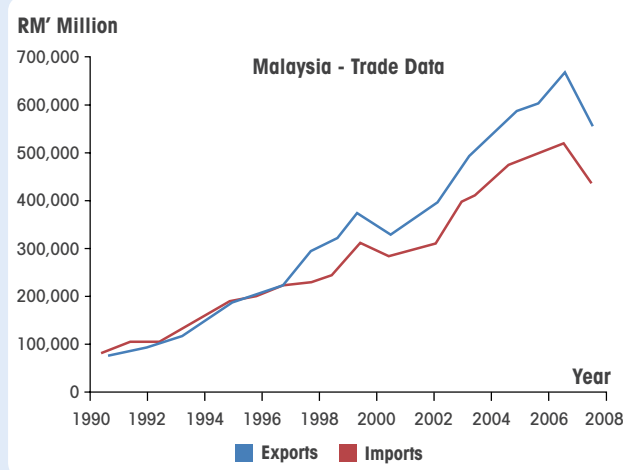
As economic conditions deteriorated, Malaysia too began to roll out another stimulus package in March 2009 up to the tune of RM60 billion to augment the earlier RM7 billion package announced in November 2008. At the time, the US was already committing substantial amount of resources to support its banking sector salvaging some distressed financial institutions in the process. Nearby, China's massive fiscal injection of USD585 billion was beginning to work its way through the economy.

Given the vulnerability of Malaysia's exports to global trade, the domestic economy contracted sharply by 6.2% in the first quarter. The manufacturing sector was badly hit and registered a decline of 17.9% over the same period.

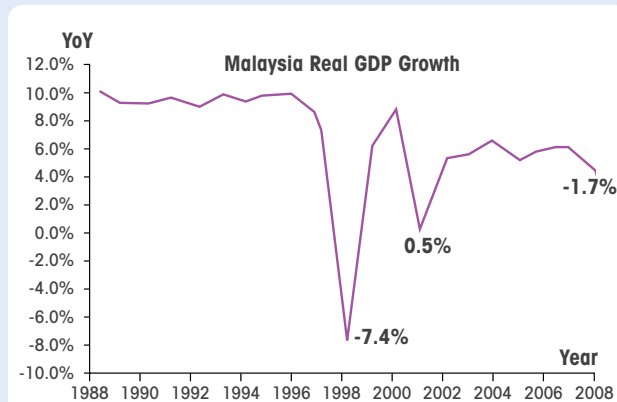
But as with any accommodative fiscal and monetary exercises, its impact on the real economy was not immediate. There was bound to be a lag in transmission. However, it helped restore calm and sense of order to the marketplace and led to a remarkable reversal in financial markets. By late March 2009, markets began to stabilise and resumed their trend throughout the year. By this time, the impact of the stimulus plans together with an inventory up-cycle became increasingly evident as most economic indicators began to show constructive momentum. China played a particularly important role in stimulating regional growth dynamics through its own reflationary efforts.

The impact was also felt in Malaysia as export and production numbers moved favorably back in contention. The rate of contraction soon reversed as both numbers rebounded firmly by 18.7% and 7.5% respectively in December 2009 compared to the large double digit declines observed over the preceding 11 months.

## 2009: A RECOVERY YEAR



In fact, the pace of economic contraction began to soften and as it turned out, the Malaysian economy returned to growth as it expanded by an impressive 4.5% during the final quarter. For the year, the economy contracted by 1.7%, nearly half the rate of contraction initially anticipated by most economists.



## What we did

We had anticipated that 2009 would be a difficult year for the financial markets based on the severity of the financial crisis and economic downturn. The degree of uncertainty was intense and risk appetite was anything but weak. It helped prepare us for all eventualities.

At the turn of the year, our investment strategy initially focused on capital preservation, targeting primarily on high dividend yielders and quality plays. However, lessons learnt from past crisis have led us to believe that the market will eventually return to its senses as values and opportunities emerge. Markets are forward looking and tend to move ahead of fundamentals. We were optimistic that the massive and concerted attempts by governments around the world to bolster their economies will eventually stem the free fall.

The investment environment was rendered more complex with interest rates lowered to 2%. This had a significant impact on our portfolio and hence returns, given our fairly large exposure in fixed income securities and cash. It also meant that we had to take a trading stance on our fixed income holdings in search of a pick-up in yields. In view of the acute steepening of government yield curve, we adopted a defensive trading stance by shortening the portfolio duration and focusing on the belly of the curve to take advantage of the attractive yield carry and roll. Given the accommodative monetary stance taken by Bank Negara Malaysia, the opportunity to adopt such strategy proved rewarding. In line with the Government's intention to reduce its financial burden as well as cater to taxpayers' demand for quality infrastructure assets and services, KWAP had assisted several national projects by providing financing and loans. At the same time, we also optimised our cash holdings which remained sizeable by actively locking in returns based on the requirement dates, our general view of market conditions and interest rate dynamics.

The low interest rates environment also meant that we had to look for other means to enhance the return on our portfolio. Hence, when market conditions began to exhibit signs of normalisation after a period of high volatility, it warranted a shift in strategy. By April 2009, we became slightly more aggressive and raised our tactical exposure in equities. By then, we utilised the tactical ceiling for equity up to the allowable limit of 5% to help position the portfolio for an impending recovery in the equity market.



# STRONG INVESTMENT PERFORMANCE

## OVERALL FUND PERFORMANCE

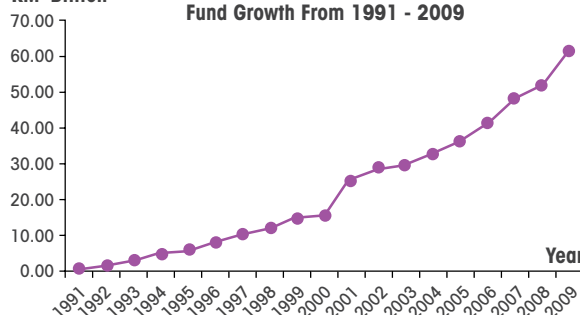
KWAP's fund registered an increase of 18.18% or RM9.46 billion from RM52.04 billion in the previous year to RM61.50 billion in 2009. Strong income performance coupled with steady contribution streams by the Federal Government, Statutory Bodies, Local Authorities and Agencies have significantly boosted the asset size. The asset growth in 2009 was attributed to the Federal Government contribution of RM1.10 billion, employers' contributions of RM2.67 billion, gross investment income of RM3.24 billion and write back of diminution in value allowances amounting to RM2.48 billion.

Over the past 3 years, the bulk of KWAP's asset growth was predominantly contributed by investment income. The average annual contribution size, which comprised Federal Government and pension contributions were on the uptrend except for year 2009, when the Federal Government reduced its annual contribution to RM1.10 billion. The continued increase of the pension contributions was due to receipt of Government portion mainly from the Employees Provident Fund (EPF) and Armed Forces Fund Board (LTAT). In order to effectively assist the Federal Government in funding its pension liability, it is extremely crucial for KWAP to grow its asset base perpetually, primarily because a larger base will boost the potential to generate stable income flow in many years to come.

KWAP has adopted a prudent investment strategy with long-term investment objectives. Besides growing the fund, KWAP acknowledges the risk associated with managing the fund and therefore maintains a sound risk management framework. This is reflected by the heavier weightage of the fixed-income instruments compared to the more volatile asset classes, which is in line with the long term SAA of KWAP.

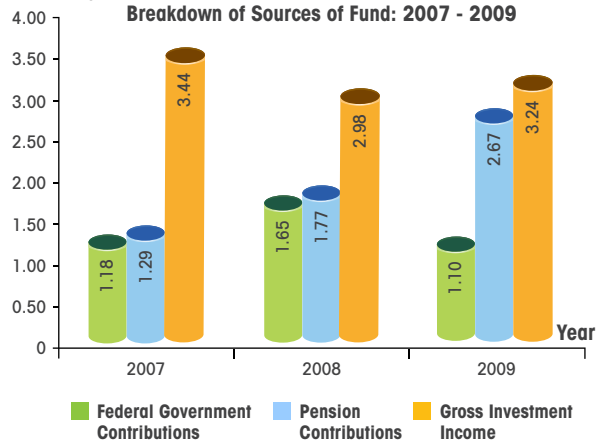
RM' Billion

Fund Growth From 1991 - 2009



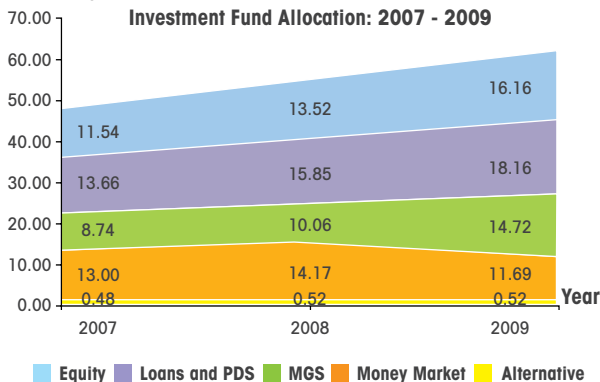
RM' Billion

Breakdown of Sources of Fund: 2007 - 2009



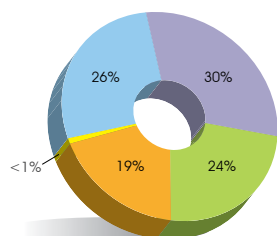
RM' Billion

Investment Fund Allocation: 2007 - 2009

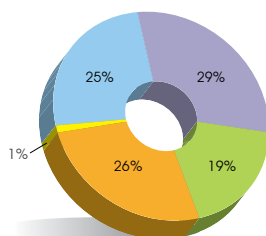


## STRONG INVESTMENT PERFORMANCE

Investment Allocation 2009

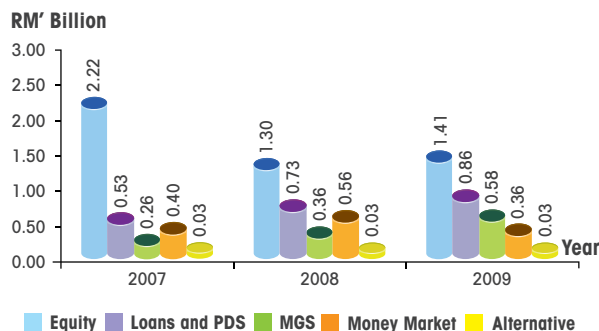


Investment Allocation 2008

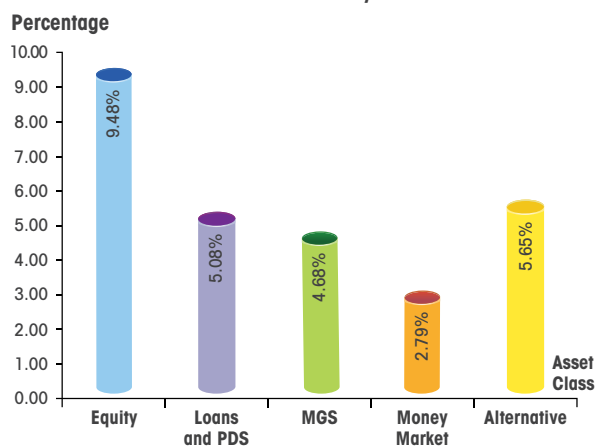


Equity Loans and PDS MGS Money Market Alternative

Gross Investment Income: 2007 - 2009



Gross Return on Investment by Asset Class 2009



In 2009, KWAP accumulated gross realised investment income totalling RM3.24 billion. This is an increase of RM0.26 billion or 8.72% against the previous year. Investment in equities chalked the highest return by contributing RM1.41 billion, followed by Loans and Private Debt Securities (PDS) at RM0.86 billion, Malaysian Government Securities (MGS) at RM0.58 billion, money market instruments at RM0.36 billion and alternative investments made up the balance.

Interest income and dividend formed the largest portion of 2009 income with an amount of RM2.24 billion or 69% of the total. On the other hand, RM1.0 billion or 31% of total income was derived from capital gains.

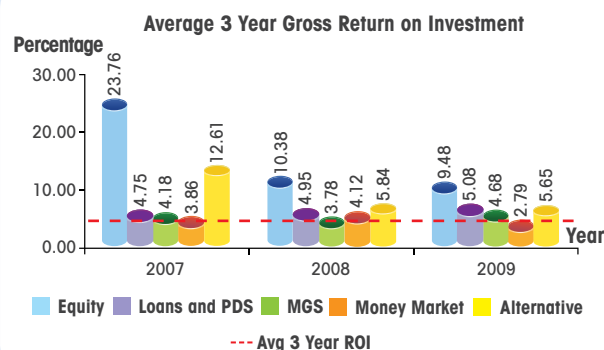
KWAP recorded a gross ROI of 5.62%. The highest gross ROI contributor was Equity at 9.48% followed by Alternative investment and Loan and PDS investments at 5.65% and 5.08% respectively. Strong equity market performance coupled with timely implementation of TAA has significantly enhanced the overall ROI achievement. Fixed-income instruments comprising MGS, Loans and PDS showed a less volatile ROI mainly due to the smaller yield fluctuations throughout 2009.

KWAP believes in stretching its potential to the fullest. For the financial year 2009, stretch targets were introduced to take into account the changing dynamics of the different asset classes. KWAP has successfully surpassed all the stretched targets.

Since the incorporation of KWAP on 1 March 2007, the highest recorded gross ROI was 9.21% annualised in year 2007. The average 3 year gross ROI was 6.90%.

Due to the rebound of the stock market, KWAP was able to reverse the provision made in year 2008. Therefore the net ROI for year 2009 after taking into consideration the reversal was 10.04%. This indicates a difference of 8.92% against the previous year net ROI of 1.12%.

## STRONG INVESTMENT PERFORMANCE



### TOTAL RETURN

Apart from measuring investment performance on realized basis represented by gross ROI and net ROI,

KWAP also measures the total return performance of each asset class relative to the respective benchmark indices.

Total return for internally-managed fixed income securities comprising MGS, PDS, Loan and Money Market is based on accrued basis with the securities valued at cost. Externally-managed fixed income total return is benchmarked against the Quantshop MGS (All) Index plus 130 basis point as per the investment mandate. Total return for internally and externally-managed equity is measured against a blended benchmark which represents the combination of FBM100 and KLCI indices.

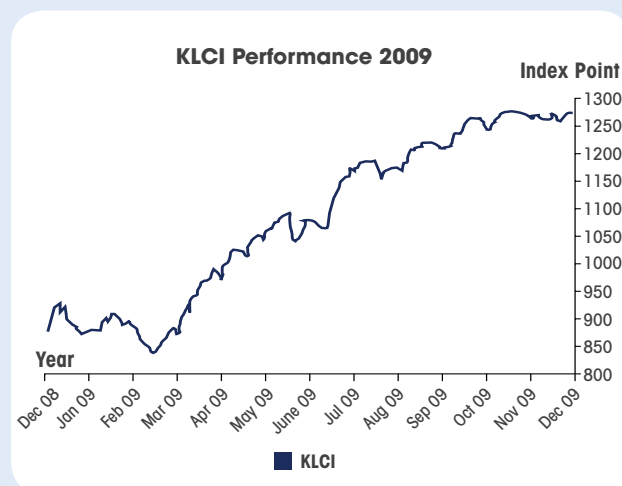
Total return for actively-managed equity was 45.83%, which outperformed the benchmark by 0.92%. Total return for internal fixed income (MGS, PDS, Loans and Money Market) stood at 4.25% as at 31 December 2009 whilst the total return for external fixed income was 6.98%.

	TWRR (%)	BENCHMARK (%)	OUTPERFORMANCE/ (UNDERPERFORMANCE) (%)	GROSS ROI (%)
<b>Equity</b>				9.48
Core	45.83	44.91	0.92	10.66
Khas	6.96	N/A	N/A	4.04
<b>Malaysian Government Securities and Government Investment Issues</b>	4.68	3.34	1.34	4.68
<b>Public Debt Securities</b>	5.37	4.46	0.91	5.37
<b>External Fixed Income</b>	6.98	1.45	5.53	5.50
<b>Loans</b>	4.68	3.84	0.84	4.68
<b>Money Market</b>	2.79	2.18	0.61	2.79

\*Blended benchmark is a blend between the former KLCI Index and FBM100 Index.

## STRONG INVESTMENT PERFORMANCE

### INTERNAL MANAGEMENT



Against the backdrop of a recovery in the global and local economy, 2009 proved to be a better year for investors. Pent-up demand and ample liquidity fuelled the domestic market, triggering the KLCI to rebound sharply from a low of 876.75 points at the end of March 2009. Sustained by rising optimism amongst investors and growing evidence that the global economy has emerged from its worst recession, the KLCI surpassed the 1,200 psychological barrier to peak at 1,279.95 points on 17 November 2009 before closing the year at 1,272.78 points.

In line with KWAP's investment monitoring process, regular meetings and visits were conducted with its investee companies and counterparties throughout the year.

### Equity

Centered on the philosophy of maximising returns via dynamic investment approach, KWAP's internal equity adopted an active investment strategy. Through refined stock selection with emphasis on companies with stable cash flow and high dividend yields, KWAP's internal equity was able to take advantage of the uptrend in the domestic equity market in 2009.

Following the introduction of risk budgeting in KWAP, the Equity Department had incorporated risk adjusted return targets where equity investment to achieve not only ROI targets but also to outperform the blended benchmark. For the year 2009, KWAP's actively-managed internal equity portfolio registered a time weighted rate of return (TWRR) of 45.63% outperforming the blended benchmark which registered a return of 44.91%.

As at 31 December 2009, KWAP's exposure to the domestic equity market expanded to RM14.27 billion or 23.30% of total fund size at cost compared to RM11.88 billion or 21.95% in 2008. The recovery in the local equity market enabled KWAP's internal equity to achieve an investment income of RM1.28 billion or ROI of 9.77%. Out of the total investment income, RM759.42 million or 59.5% was derived from the sales of shares with the balance of RM517.57 million from dividend income net of tax.

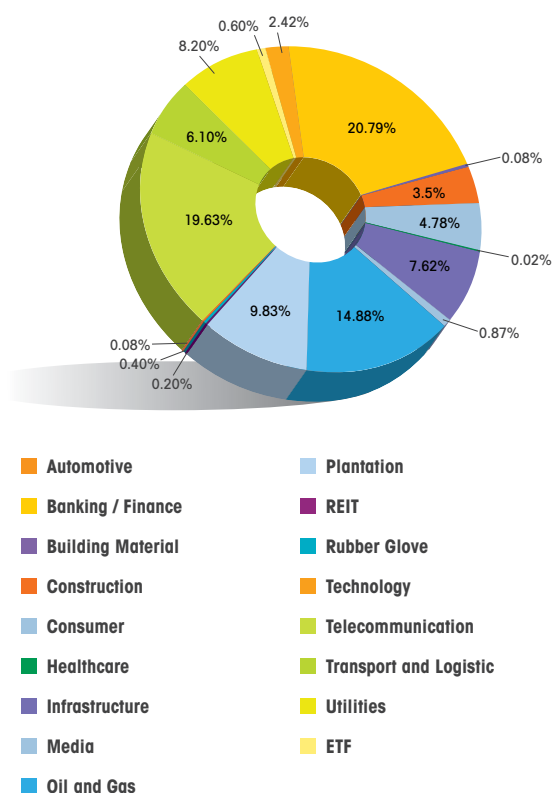
In terms of sector allocation, 20.79% of KWAP's internal equity portfolio was invested in banking and finance sector, 19.63% in telecommunication, 14.88% in oil and gas, 9.83% in plantation, 8.2% in utilities, 7.62% in infrastructure, and 6.10% in transportation and logistics. KWAP's largest holding in terms of listed companies' total share issued include Bintulu Port Holdings Berhad (10.55%), Petronas Gas Berhad (9.53%), Time Dotcom Berhad (9.13%), Plus Expressways Berhad (6.66%), Star Publications (M) Berhad (5.15%) and UMW Holdings Berhad (5.06%).

### List of Investments with Substantial Shareholdings in Companies Listed on Bursa Malaysia as at 31 December 2009

NO.	COMPANY	HOLDING (%)
1.	Bintulu Port Holdings Berhad	10.55
2.	Petronas Gas Berhad	9.53
3.	Time DotCom Berhad	9.13
4.	Plus Expressways Berhad	6.66
5.	Star Publications (M) Berhad	5.15
6.	UMW Holdings Berhad	5.06

## STRONG INVESTMENT PERFORMANCE

**Sector Allocation 2009**



### FIXED INCOME

It was an interesting year for fixed income market in 2009, with Overnight Policy Rate (OPR) slashed by as much as 125 basis points in 1Q09 by Bank Negara (BNM) to 2.00% in just two consecutive policy meetings. They aimed to ward off the worst global synchronised financial meltdown in history. The rate cuts spurred bond rally and flattened the yield curve as investors were uncertain about the depth and breadth of the rates easing cycle and the prospect of economic growth. Following the signs that BNM had 'front loaded' its policy easing in early 2009, coupled with the announcement of the second economic stimulate package, the concerns

of MGS/GII oversupply dominated the market trading sentiment, pushing up government yields especially the longer ends. To contain the oversupply issue and keep yield curve from steepening further, BNM rescheduled its MGS/GII auction calendar and reintroduced private placements. Subsequent to these measures, the yield curve had stayed rather steady for the rest of the 2009.

Throughout 2009, Fixed Income Department introduced initiatives to fortify its investment process and boost returns. These include effecting Institutional Securities Custodian Programme (ISCAP), which helped enhance secondary bond trading and increase KWAP's fee-based income. In addition, KWAP is also considering venturing into new instruments, namely foreign currency bonds and interest rate swap to boost returns and protect the existing bond portfolio. A new credit unit was set up to strengthen the credit assessment and investment monitoring for Fixed Income Department.

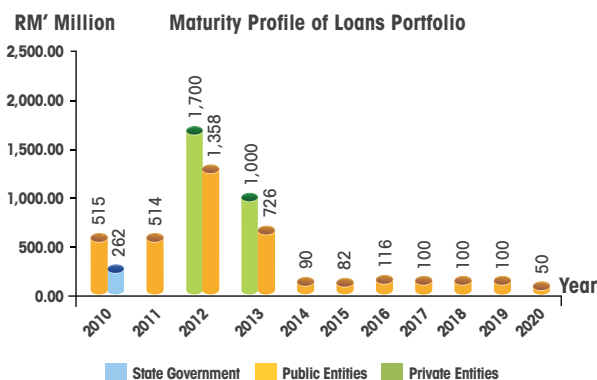
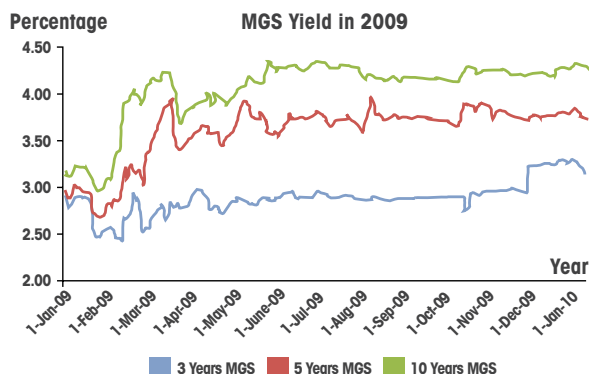
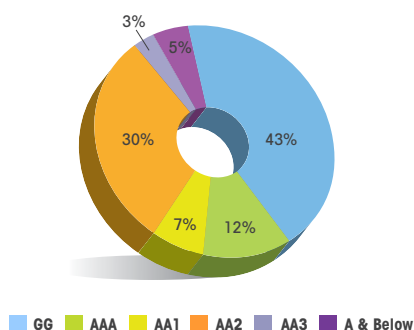
Four fixed income sub-categories namely corporate bonds, government securities, loans and money market have chalked up commendable performance despite facing a low-yield investing environment. Overall return on investment (ROI) posted was 4.25%. ROI for corporate bonds and government securities improved to 5.37% and 4.68% respectively, from 4.99% and 3.78% in the previous year whilst the performance for loans and money market moderated to 4.68% and 2.79% respectively, from 4.96% and 4.13% a year ago, amid shorter loan tenures and sharply lower OPR.

### Corporate Bonds

Corporate bond portfolio grew by 32.11% from RM7.94 billion in 2008 to RM10.49 billion at the end of 2009, taking advantage of rising high-grade issuance to build up the portfolio. In the same vein, investment income surged by as much as 45.08% to RM494.74 million, against RM341.01 million reported in the previous corresponding year. In terms of rating composition, 'AAA' credits formed the largest chunk of the slice, followed by 'AA3' credits, where the 'AA3' investment was primarily involved in banking and telecommunication industries. Meanwhile, 'A' and below bonds were minimal at less than 3%, predominantly in banking papers.

## STRONG INVESTMENT PERFORMANCE

**Corporate Bonds Portfolio Rating Distribution Profile 2009**



### Government Securities

In light of higher government expenditure to buffer the slowdown in private spending, total gross issuance of MGS and Government Investment Issues in 2009 amounted to RM88.5 billion, a rise of 47.50% from 2008. In tandem with the larger government issuance in 2009, KWAP's investment in government securities rose by 46.32% to RM14.72 billion from RM10.06 billion in 2008. Total income registered a jump of 63.41%, from RM355.13 million to RM580.33 million, contributed by both coupon and trading income whereby coupon contributed 85% of the income and trading income made up the balance of 15%.

### Loans

Total loans outstanding in 2009 reduced slightly from RM7.41 billion in 2008 to RM7.17 billion. Consequently, loan income contracted to RM341.41 million from RM368.41 million in 2008. Loans extended to Federal and State Government remained unchanged from 2008 at RM262 million. Similarly, loans disbursed to private entities remained at RM2.7 billion. Meanwhile, loans to public authority and corporations reduced to RM4.21 billion from RM4.45 billion in the preceding year as a result of debt redemption exercise that occurred during the year.

### Money Market

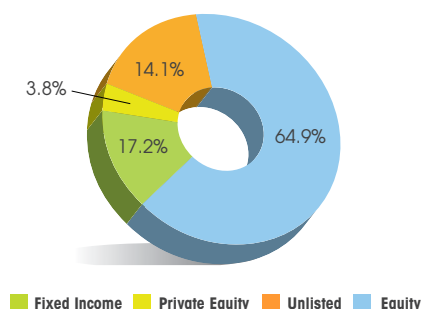
The reduction in asset allocation for money market instruments coupled with lower Overnight Policy Rate led to lower income generated by Money Market. KWAP's total outstanding balance in money market fell from RM14.16 billion in 2008 to RM11.69 billion in 2009. Meanwhile, gross income shrank by 35.60% from RM560.33 million in 2008 to RM360.87 million. Majority of the income was derived from term deposit, whilst Negotiable Islamic Debt Certificate and Bankers' Acceptance contributed less than 30% of income. Deposit mix for below and above 3 months to maturity is roughly balanced at 52:48.

## STRONG INVESTMENT PERFORMANCE

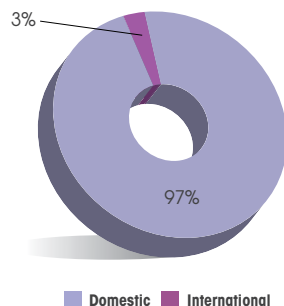
### EXTERNAL MANAGEMENT

Pursuant to KWAP's new business model, External Fund Management (EFM) Department was set up in January 2009 to be primarily responsible for KWAP's external investments via outsourcing to external equity fund managers, fixed income managers and private equity investments. As at 31 December 2009, total fund managed by external fund managers stood at RM2.91 billion or 4.8% of the total fund size at cost with 64.9% in equity, 17.2% in fixed income, 14.1% in unlisted investments and the balance 3.8% in private equity funds. In terms of geographical exposure, 97% of the externally-managed assets were invested in the domestic markets and the remaining 3% invested globally by foreign fund managers.

**Externally-Managed Funds Breakdown By Asset Classes 2009**



**Externally-Managed Funds Breakdown By Geographical 2009**



### List of External Fund Managers by Asset Classes as at 31 December 2009

#### EQUITY

Aberdeen Asset Management Sdn Bhd
Avenue Investment Berhad
CIMB-Principal Asset Management Berhad
Nomura Asset Management Sdn Bhd
RHB Investment Management Sdn Bhd

#### FIXED INCOME

AmlInvestment Management Sdn Bhd
CIMB-Principal Asset Management Berhad

#### PRIVATE EQUITY

Actis ASEAN Fund LP
CIMB-Mapletree Real Estate Fund 1
IDB Infrastructure Fund LP
Lombard Asia III

#### DIRECT INVESTMENTS

Malakoff Corporation Berhad
Valuecap Sdn Bhd

### Equity

Funds allocated to the external equity fund managers increased from RM1.64 billion to RM1.89 billion as at 31 December 2009 due to additional capital injection of RM250 million. As part of KWAP's monitoring process, performance meetings were regularly held with all external equity fund managers and audit visits were conducted at the respective external equity fund managers' offices.



## STRONG INVESTMENT PERFORMANCE

Throughout the year, 20 quarterly meetings, 4 compliance audits and 1 due diligence audit were conducted to observe their compliance with relevant internal control procedures and best business practice with regard to day-to-day trading activities and back office operations.

As part of KWAP's initiatives to expand its investments on international front, Request for Proposals (RFPs) were issued to selected foreign external fund managers with strong indexing expertise. The final selection and appointment process is slated for the first quarter 2010.

For the year 2009, external equity fund managers realised an aggregate income of RM130.49 million, representing an average ROI of 7.38% with RM87.34 million derived from capital gains from the sale of shares, RM38.51 million from dividend income and the balance RM4.64 million from interest income.

### Fixed Income

KWAP's exposure to fixed income investments managed via external fund managers remained at RM500 million throughout 2009. The investment process and activities of external fixed income fund managers were also closely monitored through regular meetings and visits at fund managers' offices. Throughout the year, 8 quarterly meetings and 2 compliance audits were conducted to observe their adherence with the relevant control procedures and guidelines.

In 2009, external fixed income fund managers recorded an aggregate realised income of RM27.48 million representing an average ROI of 5.50%. The aggregate realised income was derived from capital gains of RM2.48 million, coupon interest of RM24.57 million and interest on repo of RM0.43 million.

### Private Equity

As at 31 December 2009, KWAP's total drawdowns for its 3 foreign and 1 domestic private equity investments funds amounted to RM215 million. During the year, RM8.40 million was drawn down for the 4 private equity funds.

### Investments in Private Equity Funds

FUND'S NAME	VINTAGE YEAR
IDB Infrastructure Fund LP	2001
CIMB-Mapletree Real Estate Fund 1	2005
Actis ASEAN Fund LP	2004
Lombard Asia III LP	2006

For the year 2009, KWAP received distributions in the form of capital gain amounting to RM3.02 million and dividend income of RM1.23 million.

### Unlisted Equity

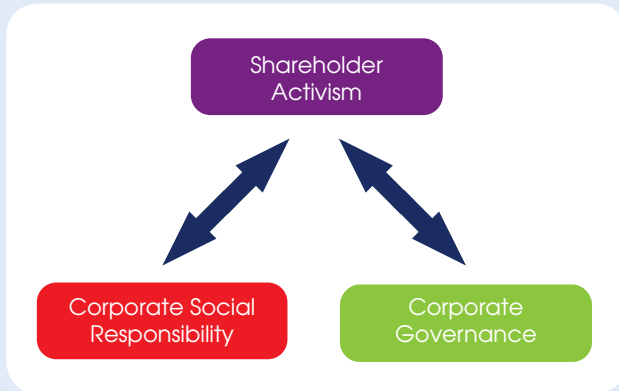
In 2009, total investment in unlisted equity dropped by a marginal RM8.4 million from RM418.21 million to RM409.81 million at cost due to redemption of Redeemable Preference Shares in Malakoff Corporation Berhad. Dividend income received amounted to RM25.17 million.

### PROACTIVE SHAREHOLDER ACTIVISM

Based on the belief that investments in companies that are well managed from corporate governance perspective will provide higher return and lower risk in the long-term, KWAP is proactive in shareholder activism. In this context, proactive shareholder activism refers to close monitoring of investee companies' corporate governance and issues related to companies' responsibility for socially and environmentally related aspects of their operations.

The importance is further amplified in the present volatile economic environment where shareholder activism, vis-à-vis its impact on corporate governance will ensure only well managed investments both in terms of efficiency and adherence to strict ethical values are retained.

## STRONG INVESTMENT PERFORMANCE



KWAP's commitment to corporate governance rests on its rights as a shareholder of the companies to vote on key issues at general meetings. In addition, it closely monitors and recommends improvements to companies with the intention to enhance the effectiveness of the company's corporate governance. Aside from participating in and voting at general meetings, KWAP conducts discussions with companies and other shareholders prior to general meetings.

In addition to being a return-focused organisation, KWAP's commitment to environmentally and socially responsible companies is not neglected. As outlined in its Investment Policy and Guidelines, KWAP refrains itself from getting involved in gambling and liquor related companies.

KWAP's fund management team has been tasked with identifying investment assets that meet the stringent criteria set by KWAP to ensure optimal returns. In addition to monitoring all its investments closely and diligently, KWAP plays an active role in all its investments, ensuring that the shareholders' rights are upheld through dialogues with investee companies and regulatory bodies, and via active participations in AGMs/EGMs.

In 2009, KWAP attended 63 AGMs/EGMs and bondholders' meetings. KWAP's officers also conducted more than 127 company and management visits to its investee companies to ensure that every investment call is made not only based on figures but also substantiated through its conduct. Such company visits and close monitoring enables KWAP to maintain a close engagement with its investee companies.

	AGMs / EGMs	COMPANY / MANAGEMENT VISITS
<b>TOTAL</b>	<b>63</b>	<b>127</b>

KWAP's Investment Analysts are constantly looking into companies with good shareholders' orientation which are:

- Consistent and aligned with the respective management strategies and policies;
- Reputable and governed by proactive Board members with the ability to fulfill their roles in monitoring and governing the management of the company; and
- Prompt with sufficient disclosures and announcements

KWAP strongly advocates the notion that shareholder activism is not a task to be borne solely by the regulators such as Bursa Malaysia and Securities Commission. While the policies and regulations have been put into effect by the regulators, it is the shareholders who are in the best position to enforce their rights.

KWAP ensures that its investee companies not only continuously make improvements to the long-term financial sustainability of the companies but more importantly:

- Constitute a strong component of corporate governance reform as and when required
- Fulfillment of KWAP's Corporate Social Responsibility (CSR) objective

As a result of KWAP's structured and systematic approach to shareholder activism, it is able to reap holistic financial and non-financial results and at the same time meet its CSR objectives.

## STRONG INVESTMENT PERFORMANCE

### KWAP'S PROACTIVE SHAREHOLDER ACTIVISM: CHARACTERISTICS AND RESULTS

#### BASIC SHAREHOLDER ACTIVISM ACTIVITIES

- i. Ad-hoc Reaction
- ii. Respond on a case-to-case basis
- iii. Short-term policy

#### KWAP'S PROACTIVE SHAREHOLDER ACTIVISM

- i. Prompt and regular monitoring
- ii. Strategic and structured approach
- iii. Hands on and active engagement
- iv. Long-term policy and goals

#### RESULTS:

- i. Enhanced returns
- ii. Improved Corporate Governance
- iii. Corporate Social Responsibility
  - E.g. Protection for the environment, moral and social obligations
  - E.g. No investments in gaming and alcohol companies

# CONTRIBUTIONS MANAGEMENT

## Pension Contributions

One of KWAP's functions is to manage pension contributions remitted by contributing employers in accordance to the Statutory and Local Authorities Pensions Acts 1980 (Act 239) and Service Circular No 12/2008 on the Policy and Procedure of Appointment of Secondment, Temporary and Permanent Transfer. As stipulated by the Act, contributing employers comprising Statutory Bodies, Local Authorities and Agencies shall remit pension contributions to KWAP for employees who have been granted pensionable status by the Public Service Department (PSD). Apart from employers' contributions, KWAP also receives Government's portion from agencies such as Employees Provident Fund (EPF), Armed Forces Fund Board (LTAT) and Teachers' Provident Fund (KWSG).

In 2009, KWAP received a total of RM3.77 billion comprising Federal Government's Contribution of RM1.1 billion, receipts of Government's Portion of RM2.10 billion and employers' contributions totaling RM0.57 billion. This represents an increase of 10% compared to the total pension contributions of RM3.42 billion received in 2008.

## Statistic of Contributing Employers and Members

Throughout 2009, there was a considerable increase in contributing employers and members with KWAP. As at 31 December 2009, there were 45 new employers and 14,628 new members with KWAP that resulted in an increase of 9% and 14% respectively in the total number of contributing employers and members. There was also significant increase of 24% in the number of agencies contributing to KWAP in 2009. This is attributed to the close monitoring and frequent meetings with the relevant agencies on the implementation of Service Circular No. 12/2008 which enforced the payment of pension contributions for seconded staff.

## Total Number of Contributing Employers

	2009	2008	2007
Statutory Bodies	175	173	172
Local Authorities	145	144	143
Agencies	218	176	160
<b>Total</b>	<b>538</b>	<b>493</b>	<b>475</b>

## Top 20 Contributors

EMPLOYERS	ANNUAL CONTRIBUTION 2009 (RM MILLION)
Mara Institute of Technology (UiTM)	54.74
Majlis Amanah Raya (MARa)	34.61
Universiti Kebangsaan Malaysia (UKM)	29.64
Kuala Lumpur City Hall (DBKL)	25.16
Technological University of Malaysia (UTM Skudai)	23.90
Universiti Putra Malaysia (UPM)	20.16
University of Malaya (UM)	19.12
Universiti Sains Malaysia (USM)	15.69
Hospital Universiti Sains Malaysia (HUSM)	13.57
Rubber Industry Smallholders Development Authority (RISDA)	13.48
Federal Land Development Authority (FELDA)	13.06
Malaysian Agricultural Research and Development Institute (MARDI)	12.14
Universiti Utara Malaysia (UUM)	10.85
Farmers' Organisation Authority Malaysia (LPP)	10.73
Universiti Malaya Medical Centre (PPUM)	7.89
Malaysian Palm Oil Board (MPOB)	6.78
Ipoh City Council (MBI)	6.03
Tun Hussein Onn University of Malaysia (UTHOM)	6.01
Federal Agriculture Marketing Authority (FAMA)	5.94
Sultan Idris Education University (UPSI)	5.41

## CONTRIBUTIONS MANAGEMENT

### Total Number of Members

	2009	2008	2007
Statutory Bodies	86,421	74,420	73,292
Local Authorities	34,497	31,991	30,274
Agencies	654	533	515
<b>Total</b>	<b>121,572</b>	<b>106,944</b>	<b>104,081</b>

### Compliance and Enforcement Visits in 2009

STATES	NUMBER OF EMPLOYERS VISITED	DATES OF VISIT
Johor	12	February 2009
Sabah	1	March 2009
Kedah	10	April 2009
Perlis	4	April 2009
Selangor/ Kuala Lumpur	4	June 2009
Kelantan	1	November 2009
Terengganu	14	November 2009

### New Statutory Bodies Incorporated In 2009

- Intellectual Property Corporation of Malaysia (MyIPO)
- Malaysia Cooperative Commission; and
- Islamic Religious Council of Federal Territory

### Compliance and Enforcement

One of the initiatives undertaken by KWAP in 2009 was to conduct compliance and enforcement visits to Statutory Bodies, Local Authorities and Agencies. The objective of these visits was to ensure total compliance with the relevant Acts and Government circulars and to further educate and enlighten contributing employers

on issues relating to pension contributions. Compliance and enforcement visits were conducted in the states of Selangor, Johor, Kedah, Perlis, Kelantan and Terengganu and Kuala Lumpur involving 41 contributing employers and 5 State Secretary offices in Johor, Kedah, Perlis, Kelantan and Terengganu.

### Refund

There are 3 categories of refund where payments for government shares are made to PSD, EPF, employers and individuals. Total disbursement of refund in 2009 is RM10.57 million involving 3,403 applications.

	2009	2008	2007
Amount of Refund (RM million)	10.57	14.91	10.95
Number of Applications	3,403	5,008	3,985

### Planning For 2010

KWAP will be implementing the Integrated Contribution Management System, a new contribution system to replace the present system in order to improve functionality and job efficiency. With its implementation, KWAP will be introducing employers' guidelines, new contribution forms and multiple channel payment system as a value-added service to the contributing employers. In order to facilitate employers' co-operation and understanding, Employers' Regional Workshops will also be conducted alongside the implementation of the new contribution system.

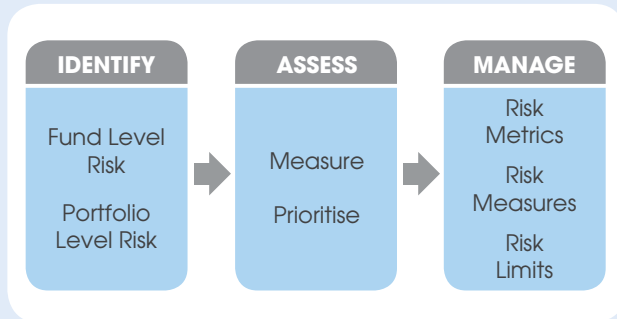
# RISK AND CORPORATE GOVERNANCE

## A. RISK SEGMENT

### Risk Management

As elucidated in KWAP's mission statement 'Maximising returns through benchmarking, dynamic investment framework and sound risk management', sound risk management is a key pillar in its drive to achieve its stated vision of becoming a high performing fund assuring sustainable pension benefits.

As a pension fund, KWAP is exposed to various risks arising from its investments, contributions management and daily operations. KWAP defines risk as 'a threat, event or action that might hinder the organisation from achieving its goals or successful implementation of its strategies'. KWAP also recognises that the emphasis is not on risk avoidance but on the identification, assessment and prioritisation of risks followed by a coordinated and effective application of resources to minimise, monitor and control these risks.

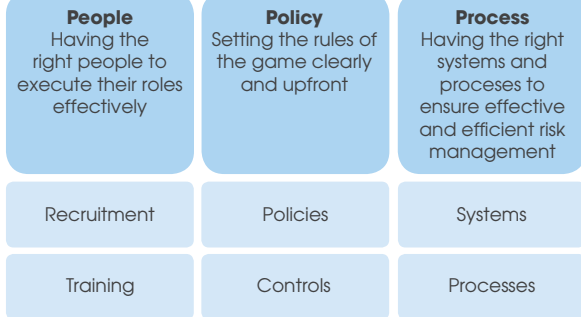


The Risk Management and Compliance Department (RMCD) is entrusted with ensuring a proper risk management framework is in place. RMCD's goal is to ensure that KWAP adopts 'Effective Risk Management' that recognises People, Policy and Processes as 3 critical pillars.

### Risk Management Framework

The Board is ultimately responsible for the management of risks. The Board, through the Risk Management Committee (RMC) maintains overall responsibility for risk oversight within KWAP.

### EFFECTIVE RISK MANAGEMENT



The RMC's responsibilities include inter-alia reviewing and approving risk management policies and procedures, reviewing risk exposure, and ensuring that infrastructure, resources and systems are put in place for risk management activities.

The Board is also supported by the Audit Committee whose responsibility is to provide an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

The dedicated independent risk management and control functions, namely the RMCD and Internal Audit functions are responsible for ensuring the approved risk management framework and policies are implemented and complied with. They are also responsible for facilitating the risk management processes with business units which include risk identification, measurement and monitoring.

Being the first line of defense against risks, business units are responsible for identifying, mitigating and managing risks within their operations. They are to ensure all daily activities are carried out within the established framework and comply with the policies, procedures and limits.

## RISK AND CORPORATE GOVERNANCE

**Enterprise Risk Management (ERM)**

KWAP adopts the Enterprise Risk Management (ERM) methodology for the management of its risks which involves an integrated process of identifying, evaluating, monitoring, managing and reporting significant risks affecting KWAP.

The key milestone in the implementation of ERM is the introduction of Corporate Risk Profile (CRP). CRP is a tool that helps in the management of key risks, taking into consideration the changes in risk profiles, current operating environment, business strategies and regulatory environment and functional activities throughout the year.

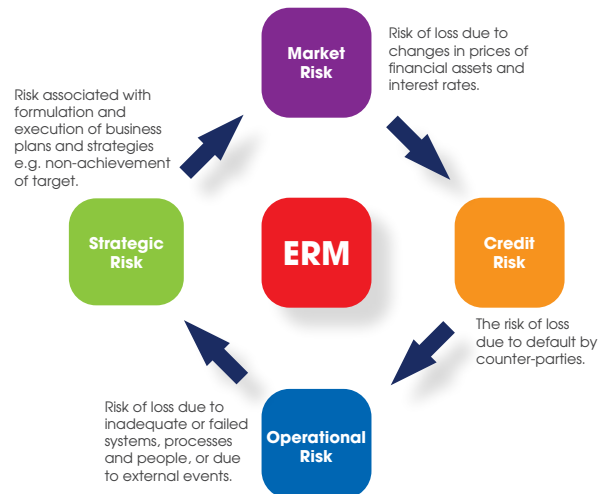
In essence, CRP enables Management to obtain an overview of the inter-dependencies between risks, determine the aggregated exposure and impact to KWAP and decide the necessary actions required to improve the management of risks.

The CRP is a living document maintained by RMCD with inputs from the operating units. It is presented to the Management and RMC periodically for deliberation and recommendation to further improve the overall risk management practices.

To further inculcate the culture of risk management, RMCD facilitates the implementation of risk profile in all departments. This approach enables risks identified at corporate level to be cascaded down to operating units ensuring top-down alignment of risk strategies and practices.

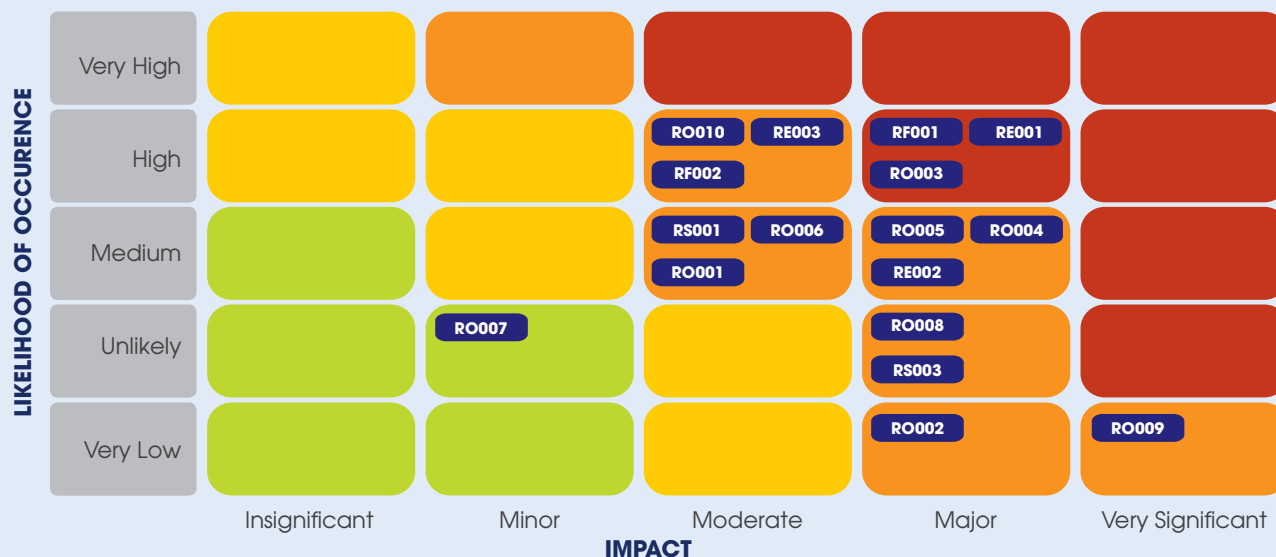
**CRP as at 31 December 2009**

Formulate Strategic Objectives	<b>Executive</b>
Establish Risk Management Framework and Policies	1. Board 2. Risk Management Committee 3. Audit Committee 4. Senior Management
Ensure Implementation of Risk Management Framework and Policies	<b>Risk Management and Control Functions</b>
Implement and Comply with Risk Management Framework and Policies	1. Risk Management and Compliance Department 2. Internal Audit
	<b>Operating Units</b>
	1. Investment Departments 2. Contribution Department 3. Accounts and Management Services Department 4. Human Resource Department 5. Others

**Key Risk Areas**



## RISK AND CORPORATE GOVERNANCE



RISK LEVEL	DESCRIPTION
<b>VERY HIGH</b>	Risk may cause severe impact on the stability of KWAP's operation and achievement of overall objectives. Immediate attention and corrective actions are critical.
<b>HIGH</b>	Risk may cause high impact on KWAP or may eventually cause disruption to business operations. Management's attention and corrective action are required.
<b>MEDIUM</b>	Risk may cause medium impact on KWAP or affect the smooth running of business operations. Monitoring is required and internal control procedures need to be strengthened (where needed).
<b>LOW</b>	Risk may cause minimal impact on KWAP or cause minor disruption to business operations. Risk management by routine procedures required.

KEY RISK AREAS			
<b>RF001</b>	Market Risk	<b>RE002</b>	Concentration Risk
<b>RE001</b>	Application of Risk Management Best Practices within Operations	<b>RO004</b>	Transaction Risk
<b>RO003</b>	Business Continuity Management	<b>RO008</b>	Protection of Company's Interest in Legal Aspect
<b>RO009</b>	Compliance with relevant Acts	<b>RS003</b>	Reputation Risk
<b>RO005</b>	Fraud Risk	<b>RO002</b>	Staff Turnover (Key Personnel)

## RISK AND CORPORATE GOVERNANCE

### Market Risk Management

Market risk is the risk of unexpected losses resulting from changes to and volatility in market prices. KWAP's market risk exposure is mainly from its investment activities concentrated in the following types:

- **Interest Rate Risk**

Risk arising from exposure to interest rate related instruments such as bonds, treasury bills, medium term notes and commercial papers, as well as money market instruments such as fixed deposits, interbank placements and repos. Fluctuation in interest rates as well as changes in its term structure affects KWAP's income both from the interest income perspective and capital gains.

- **Equity Price Risk**

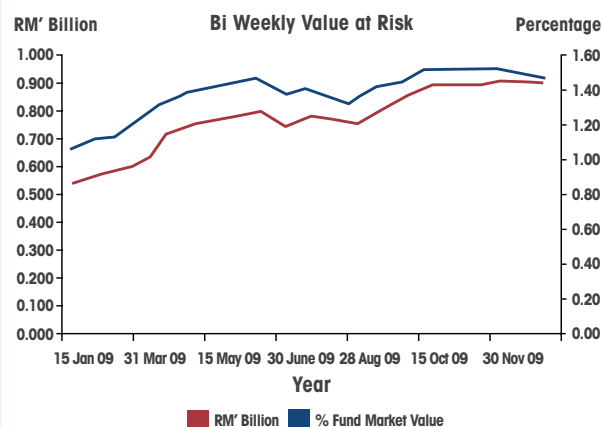
Risk arising from the holding of shares listed on Bursa Malaysia. Changes in the general equity market as well as specific stocks and shares affects the value of KWAP's portfolio. In addition, the diversification of KWAP's portfolio via selection of specific counters is crucial to avoid concentration of risks.

- **Credit Spread Risk**

Risk arising from changes in credit spreads affects the market value of KWAP's corporate bond investment and subsequently reflect the inherent volatility in the corporate bond markets.

KWAP's well-defined Strategic Asset Allocation strategy drives its risk return profile and broadly defines the type of risk KWAP is willing to take. The risk reporting which includes Value-at-Risk (VAR), volatility projections, ex-ante tracking error and specific asset class sensitivity measures such as Beta and duration is conducted at the fund and asset class levels. These risk metrics are measured and reported periodically to assess KWAP's key risk drivers and trends. The risk metrics are overlayed with market review and outlook for a more qualitative forward-looking assessment on risk return profile.

KWAP's investment policy and guidelines further defines specific risk measures to manage risk on a more granular level such as single counter limits for equity or single issue limits for bonds and commercial papers.



VAR calculates the maximum loss expected (or worst case scenario) of an investment, over a given time period and a specified degree of confidence. KWAP monitors the VAR on its portfolio over a 2-week holding period (10 working days) at 95% confidence level. All models are a simplification of a more complex and dynamic reality and divergence of the underlying assumptions from normal expectations may result in over or under statement of VAR numbers.

KWAP'S VAR FOR 2009		
	RM' Billion	% of Fund Market Value
Minimum	0.534	1.04
Maximum	0.911	1.51
Average	0.778	1.39

For 2009, KWAP's VAR averaged 1.39% of fund market value. There was a potential loss of 1.39% of the fund's market value due to market risk. Alternatively the 95% confidence level indicates that there is a 5% chance of losses exceeding 1.39% of fund market value. This was a relatively prudent risk profile in view of the uncertain economic outlook for most of 2009.

## RISK AND CORPORATE GOVERNANCE

### Credit Risk Management

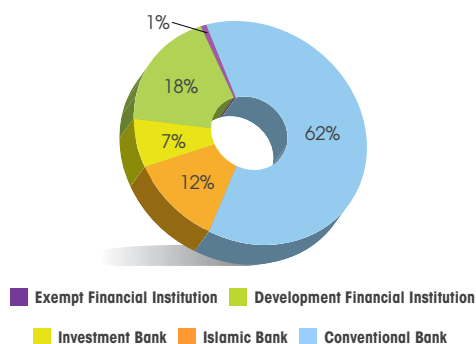
KWAP is an active player in the local fixed income and money markets with participation in both primary and secondary markets. In addition, KWAP actively provides liquidity to the market via placements of deposits which expose KWAP to credit risk.

Credit risk is the risk of losses as a result of defaults by KWAP's counterparties, i.e. bond issuers, deposit taking institutions, brokers and other intermediaries. Investment decisions are made after credit risks on corporate bond issues are thoroughly scrutinised. Besides relying on external rating agencies such as RAM and MARC, KWAP has an internal team of credit analysts responsible for analysing and monitoring the individual credits and assessing credit worthiness. The credit decision goes through a stringent internal vetting process prior to submission of proposal to the Investment Panel.

KWAP's selection of deposit taking institutions and counterparties is based on prudent policies as majority of our exposure is in the local banking institutions. Nonetheless, these institutions are subjected to a stringent regulatory supervision by Bank Negara Malaysia (BNM) and Securities Commission (SC).

Internally, KWAP distributes its fund among deposit taking institutions and counterparties to different levels of perceived risk. This allows dynamic exposure management and timely adjustments of strategies.

**By Institution Type**



### Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or system failure or from external events. The primary responsibility of managing operational risk rests with each department. Nevertheless, the execution of risk management methodology is supported and guided by RMCD.

#### • Operational Risk Event (ORE) Reporting

Operational risk is highly dependent on people, processes and systems. To some extent, these dependencies can be controlled and directed towards desired outcomes through such measures such as segregation of duties, authorisation levels and process automation. However, there may be events which will test and validate the measures employed.

ORE reporting was introduced to capture such events and where prompt, accurate and comprehensive collection of data will help KWAP learn more about the risks involved and decide on the necessary actions or controls to mitigate the risks.

The operating units are required to report any occurrence of ORE to RMCD on a timely basis. The report will also be escalated to the Management and Risk Management Committee where strategic and financial impact of such ORE are assessed.

Since the introduction of ORE reporting, RMCD and the respective departments have managed to resolve a number of operational gaps through improved work processes and introduction of new internal controls.

#### • Business Continuity Management (BCM)

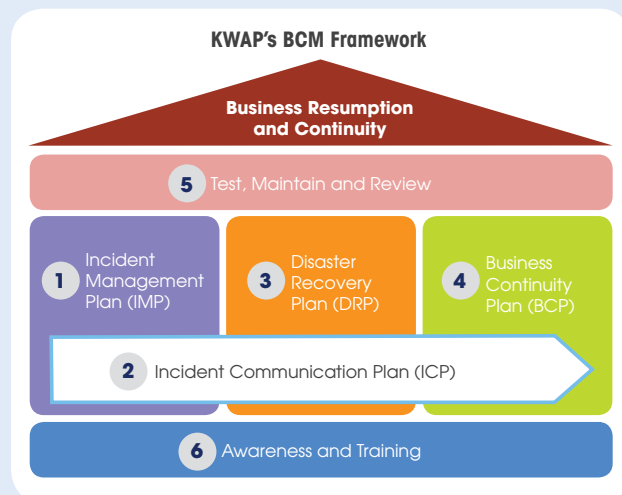
Business Continuity Management being an integral part of operational risk management requires KWAP to have internal capabilities and competencies to mitigate the risk of severe operational disruption.

## RISK AND CORPORATE GOVERNANCE

BCM is a holistic management process that identifies potential threats, provides a framework for building resilience and the capability for an effective response to safeguard the interests of key stakeholders, reputation and value creating activities.

One of the key milestones that Kwap undertook in 2009 was the engagement of an independent and reliable Disaster Recovery Centre (DRC) company that provides necessary infrastructure and services for business resumption activities. The DRC serves as an alternate site to Kwap's office in the event of emergencies or disasters.

In addition, Kwap has also made arrangement to ensure the availability of critical information through on-line data replication for core investment system and off-site storage for back-up of other systems.



### Strategic Risk

Strategic risk encompasses risk related to the formulation and execution of business plans and strategies. Kwap through its Corporate Planning and Development Department monitors and assesses the ongoing implementation of its strategic objectives and goals. Kwap also conducts regular reporting to the Board and continuously reviews and assesses the progress made as well as a broader assessment of the macro and micro economic conditions. Periodic review of the Strategic

Asset Allocation in tandem with reassessment of our internal skill sets and capabilities is crucial in our drive to achieve our strategic goals.

### Overall Risk Assessment

Since its incorporation, Kwap has actively sought ways to improve its operations through process improvement, deployment of IT systems, rigorous recruitment and training which in turn translates into value creation. Kwap is also committed in preserving the values created through sound risk management practices across the organisation. Kwap has established and formulated necessary risk and internal controls that include guidelines, policies and procedures.

Taking cognisance of Kwap's aspiration to become a high performing fund, there will be continuous aim to enhance its risk management practices and capabilities.

## RISK AND CORPORATE GOVERNANCE

### B. CORPORATE GOVERNANCE

#### a) The Board

The Board recognises the importance of the principles of Corporate Governance in conducting the affairs of KWAP. Integrity, transparency and professionalism are believed to be the key components in contributing to the continued progress and success of the organisation in achieving the optimal governance framework, maximisation of the stakeholder's value and assurance of the smooth running of its business.

KWAP acknowledges the important roles played by the Board members, the Investment Panel members and the Management in the formulation and determination of its direction and operations. KWAP is led and managed by experienced and competent Board members with varied background from the Government, private sector, Bank Negara Malaysia and contributor's representative.

KWAP is in the process of establishing its Board Governance Policy which is anchored in the Retirement Fund Act 2007 (Act 662) (the Act), Board Charter and other related statutes. The Board Charter outlines the key corporate governance principles including roles and responsibilities as a guide for members of the Board, Investment Panel and Board committees.

#### Composition of the Board

The Board comprises the following members who are appointed by the Minister of Finance:

- A Chairman who is the Secretary General of Treasury from the Ministry of Finance;
- A representative of Bank Negara Malaysia;
- A representative of the Ministry of Finance;
- The Chief Executive Officer of KWAP who is an ex-officio member;
- Three (3) representatives of the Government of Malaysia;
- Three (3) representatives of the private sector with experience and expertise in the area of business or finance; and

- A representative of the contributories to the Retirement Fund other than the representative of the Government of Malaysia.

The Chairman is primarily responsible for the orderly conduct and function of the Board. The Chief Executive Officer of KWAP, duly appointed by the Board with the approval of the Minister of Finance, is responsible for the overall operations of the business, the implementation of decisions of the Board and the investment decisions of the Investment Panel in accordance with the Act. The Chief Executive Officer is assisted by the Management in the daily administration of KWAP and management of its employees.

A brief profile of each Board member is presented in this Annual Report.

#### Responsibilities and Accountabilities of the Board

The Board is established for the administration and management of KWAP in a manner that would further enhance the respective interests of the contributors as well as the stakeholders. The function of the Board is to formulate administrative and management policies and procedures as well as to ensure that KWAP achieves its objectives with success and excellence.

The Board assumes a number of specific tasks such as overseeing the proper conduct of operations, identifying principle risks areas and ensuring the proper implementation, adequacy and integrity of the systems of internal controls in the management of risks as specified in the Act and the Board Charter.

## RISK AND CORPORATE GOVERNANCE

### COMPONENT OF AN EFFECTIVE BOARD

<b>1.</b>	Structuring a high-performing Board	<ul style="list-style-type: none"> <li>Structures the Board to match the organisation's requirements</li> <li>Defines committees' role, structure and composition to complement the Board's requirements</li> <li>Selects and nominates Board members using a disciplined process</li> <li>Evaluates the Board as a whole and each Board members regularly</li> </ul>
<b>2.</b>	Ensuring effective Board operations and interactions	<ul style="list-style-type: none"> <li>Makes every Board meeting productive</li> <li>Ensures the quality and timeliness of all Board information</li> <li>Builds trust via positive Board interaction dynamics and open communication within the Board and with management</li> </ul>
<b>3.</b>	Fulfilling the Board's fundamental roles and responsibilities	<ul style="list-style-type: none"> <li>Contributes to developing corporate strategy and setting of targets</li> <li>Upholds a strong corporate performance management approach</li> <li>Oversees development of the organisation's future leaders and human capital</li> <li>Understands and manages the organisation's risks</li> <li>Adopts a shareholders' perspective when making decisions</li> <li>Balance valid stakeholder interests</li> </ul>

### Board Meeting Attendances

There were eleven (11) board meetings throughout 2009, including two (2) special board meetings. The attendance record is as follows:

NO.	BOARD	BOARD MEETING ATTENDANCES
<b>1.</b>	Tan Sri Dr. Wan Abdul Aziz Bin Wan Abdullah (Chairman)	<b>11/11</b>
<b>2.</b>	Tan Sri Ismail Bin Adam	<b>6/11</b>
<b>3.</b>	Datuk Idrus Bin Harun	<b>9/11</b>
<b>4.</b>	Dato' Mohd Salleh Bin Mahmud	<b>7/11</b>
<b>5.</b>	Datuk Latifah Binti Datuk Abu Mansor	<b>5/11</b>
<b>6.</b>	Dato' V. Danapalan	<b>9/11</b>
<b>7.</b>	Dato' Siow Kim Lun	<b>9/11</b>
<b>8.</b>	Dato' Izzaddin Bin Idris	<b>4/11</b>
<b>9.</b>	Dato' Muhammad Bin Ibrahim	<b>7/11</b>
<b>10.</b>	Tuan Haji Omar Bin Haji Osman	<b>7/11</b>
<b>11.</b>	Dato' Azian Binti Mohd Noh (ex-officio)	<b>10/11</b>

## RISK AND CORPORATE GOVERNANCE

NO.	SCOPE OF THE BOARD'S RESPONSIBILITIES AND ACCOUNTABILITIES AS PROVIDED BY THE ACT	BOARD'S DUTIES/ACTIVITIES FOR YEAR 2009
1.	To establish procedures with respect to financial and accounting matters, including bookkeeping, closure and audit of the accounts and the creation of its own financial and accounting procedures.	<ul style="list-style-type: none"> <li>• Approved and endorsed the Internal Audit Plan.</li> <li>• Approved the Proposal for the Enhancement of Accounting Policies.</li> </ul>
2.	To prescribe the responsibilities of the employees including matters in respect of remuneration, terms and conditions of service, period of service and leave of its employees.	<ul style="list-style-type: none"> <li>• Approved the Mandatory Leave Policy.</li> </ul>
3.	To establish appropriate disciplinary authorities with respect to the conduct and discipline of the employees.	<ul style="list-style-type: none"> <li>• Approved the Adoption of the Statutory Bodies (Discipline and Surcharge) Act 2000.</li> </ul>
4.	To establish operational committees and procedures of such committees.	<ul style="list-style-type: none"> <li>• Formation of the Special Committee to oversee the adoption and migration to the Performance-Linked Compensation Scheme.</li> <li>• Formation of the Steering Committee to conduct a study on available options for KWAP to assume Government's pension liability. The Steering Committee comprises representatives from KWAP, Public Service Department and Ministry of Finance.</li> </ul>



## RISK AND CORPORATE GOVERNANCE

NO.	SCOPE OF THE BOARD'S RESPONSIBILITIES AND ACCOUNTABILITIES AS PROVIDED BY THE ACT	BOARD'S DUTIES/ACTIVITIES FOR YEAR 2009
5.	To regulate the internal procedures including procedures relating to operational matters.	<ul style="list-style-type: none"> <li>• Revised the Investment Policy and Guidelines.</li> <li>• Implementation of Strategic Asset Allocation Transition Master Plan.</li> <li>• Revision of the Board Charter in line with changes made to the               <ol style="list-style-type: none"> <li>i. Investment Policy and Guidelines;</li> <li>ii. Risk Management Framework; and</li> <li>iii. Discretionary Authority Limits.</li> </ol> </li> <li>• Approved the Information and Communication Policy.</li> <li>• Approved the Salary Migration and Implementation Strategy. The same has been approved for implementation by the Minister of Finance with effective from July 2009.</li> </ul>
6.	To prescribe the manner in which documents, cheques and instruments of any description shall be signed or executed on behalf of KWAP.	<p>Apart from the Act, the Board approved the following policies, guidelines, rules and regulations to administer and manage the Fund in accordance with the provisions of the Act since its incorporation:</p> <ul style="list-style-type: none"> <li>• Investment Policy and Guidelines</li> <li>• Financial Procedures</li> <li>• Authority Limit</li> <li>• Discretionary Authority Limits</li> </ul> <p>No new procedure was approved for implementation in 2009.</p>
7.	To prescribe the circumstances of emergency as envisaged in the Act.	Approved the guidelines and preventive measures to handle H1N1 cases.

## RISK AND CORPORATE GOVERNANCE

### b) Investment Panel

The Act requires the establishment of an Investment Panel to provide strategic directions on investment matters. The Investment Panel is primarily responsible for the establishment and approval of investment policies and guidelines, policies on risk management, asset allocation and strategic directions of investments.

#### Composition of the Investment Panel

The Investment Panel consists of the following members who are appointed by the Minister of Finance:-

- A Chairman who is the Chairman of the Board or such other person as may be appointed by the Minister of Finance;
- A representative of Bank Negara Malaysia;
- A representative of the Ministry of Finance;
- The Chief Executive Officer of KWAP who is the secretary; and
- Three (3) representatives of the private sector with experience and expertise in the area of business or finance.

A brief profile of each Investment Panel member is presented in this Annual Report.

#### Primary Duties and Responsibilities of the Investment Panel

The Investment Panel is generally responsible to approve inter-alia KWAP's strategic directions on investment matters, investment policies and guidelines, asset allocation and investment proposals. In executing its function, the Investment Panel reports its activities to the Board and acts in accordance with the general policy issued by the Board and subsequently approved by the Minister of Finance.

#### Investment Panel Meeting Attendances

There were nine (9) Investment Panel meetings held throughout 2009. The attendance record is as follows:

NO.	INVESTMENT PANEL	INVESTMENT PANEL MEETING ATTENDANCES
1.	Tan Sri Dr. Wan Abdul Aziz Bin Wan Abdullah (Chairman)	9/9
2.	Dato' Sri Abdul Wahid Bin Omar	5/9
3.	Tengku Dato' Azmil Zahrudin Bin Raja Dato' Seri Abdul Aziz	2/9
4.	Encik Cheah Tek Kuang	4/9
5.	Cik Che Zakiah Binti Che Din	8/9
6.	Puan Komalam a/p R. Kesawan (retired on 1 June 2009)	3/3
7.	Datuk Nozirah Binti Bahari (appointed on 2 June 2009)	5/9

#### Summary of Investment Panel Activities in 2009

The Investment Panel deliberated and discussed forty six (46) proposals whereby thirty eight (38) proposals were subsequently approved.

### c) Board Committees

There were two (2) Board Committees established to assist the Board in the discharge of its duties and responsibilities, namely the Audit Committee and Risk Management Committee.

#### Audit Committee

The Audit Committee (AC) was established to ensure formation, adequacy and integrity of the system of internal controls of KWAP.

## RISK AND CORPORATE GOVERNANCE

### Membership

Currently, the AC comprises four (4) Board members, a Chairman and the following three (3) other members who were appointed by the Board:

- Tan Sri Ismail Bin Adam – Chairman
- Dato' Mohd Salleh Bin Mahmud – Member
- Datuk Idrus Bin Harun – Member
- Dato' Izzaddin Bin Idris – Member

Dato' Mohd Salleh Bin Mahmud and Dato' Izzaddin Bin Idris are also members of the Malaysian Institute of Accountants (MIA).

### Duties and Responsibilities of AC

The following are the duties and responsibilities of the AC:

- To recommend and review financial regulations, accounting regulations, policies and practices;
- To review and discuss the nature and scope of internal and external audit plans and ensure co-ordination of approach between the internal and external auditors;
- To review the financial statements with the management and auditors prior to the approval of the Board;
- To discuss issues arising from the interim and final audits as well as any matters that the auditor may wish to discuss;
- To review the audit observations of the external and internal auditors and management's response in regards to the said observations;
- To consider the major findings of internal investigations, if any, and management's response in regards to the said investigations;
- To direct any special investigations by the internal auditors and review the outcome of the said investigations;
- To consider any related party transactions that may arise within KWAP;

- To provide independent assessment of the adequacy and reliability of the risk management processes and system of internal controls and compliance with risk policies, laws, internal guidelines and regulatory requirements;
- To review changes to the Financial Procedures; and
- To consider other issues as defined by the Board.

The external auditor of KWAP is the Auditor General of Malaysia as stipulated by the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240).

### Audit Committee Meeting Attendances

There were three (3) Audit Committee meetings held throughout 2009. The attendance record is as follows:

NO.	AUDIT COMMITTEE	AUDIT COMMITTEE MEETING ATTENDANCES
1.	Tan Sri Ismail Bin Adam (Chairman)	3/3
2.	Datuk Idrus Bin Harun	3/3
3.	Dato' Mohd Salleh Bin Mahmud	2/3
4.	Dato' Izzaddin Bin Idris	2/3

### Summary of Audit Committee Activities in 2009

Among the proposals approved and endorsed by the Audit Committee were the adoption of KWAP's Accounting Policies, Internal Audit Plan for 2009 and the Financial Statements of KWAP for Financial Year Ended 31 December 2008.

### Internal Audit

The Internal Audit plays a significant role in the corroboration and substantiation of Management's responsibility in regards to the sufficiency of design and operational effectiveness of KWAP's system of internal control. The Internal Audit supports the supervisory

## RISK AND CORPORATE GOVERNANCE

function of the Audit Committee via provision of independent and objective opinion as well as the evaluation of the efficiency and sufficiency of Management's implementation of the system of internal control, risk management, business processes and procedures. Subsequently, the Internal Audit provides recommendations and improvements, when necessary, on the effectiveness of the systems' internal control and risk management measures to mitigate identified risks, assure proper business governance and foster a stronger management control environment.

For the financial year ended 31 December 2009, the Internal Audit of KWAP was outsourced to and undertaken by Messrs Ernst & Young Advisory Services Sdn. Bhd. The appointment of Messrs Ernst & Young was recommended by Management, the Audit Committee and subsequently approved by the Board. As the appointed internal auditor, Messrs Ernst & Young reports directly to the Audit Committee. The consultancy and advisory services provided by Messrs Ernst & Young is in accordance with the Board-approved audit plan. Audit visits performed were in accordance with the terms and conditions set out in the terms of reference between KWAP and Messrs Ernst & Young dated 24 December 2008. The outcome of the fieldwork and audit conducted by Messrs Ernst & Young highlights the overall effectiveness of the system of internal control of audited areas and consolidated in the audit report which incorporates the following:

- Validation and verification of the existing internal controls of audited areas;
- Identification of the audit issues, findings and observation via assessment of risk and controls of audited areas;
- Evaluation of risk and control deficiencies in relation to the audit issues, findings and observations of audited areas;
- Recommendation and improvement of internal controls and mitigation measures of identified risk; and

- Management's response and remedial actions in relation to the audit issues, findings and observations of audited areas.

The overall performance of Messrs Ernst & Young is reviewed and monitored by the Audit Committee to ensure effectiveness of the performance as the Internal Auditor of KWAP as well as the adherence to the Board-approved audit plan.

### Internal Audit Review of KWAP for Financial Year End 2009

For the financial year ended 31 December 2009, the audit review carried out by Messrs Ernst & Young was in accordance with the Board-approved audit plan. The audited areas for 2009 encompassed the operational activities and the system of internal control of the Contribution Department, Human Resource Department, Investment Department and the Information Technology Department of KWAP. The fieldwork and audit of the selected audit areas were conducted via three (3) separate visits by Messrs Ernst & Young throughout 2009.

The audit approach employed by Messrs Ernst & Young was via the verification of existing internal controls within the audited processes, assessment on the effectiveness of internal controls and identification of potential improvement of audited areas as well as the remedial measures of prior year internal audit findings or issues, if any. Audit reports generated by Messrs Ernst & Young were subsequently reviewed and evaluated by the Audit Committee of KWAP taking into consideration all remedial actions undertaken and implemented by the Management within the stipulated time frame.

In 2009, Messrs Ernst & Young noted the enhancement of the internal control processes and mechanisms of KWAP whereby prior year's internal audit issues or findings had either been successfully resolved or is currently being addressed by KWAP's Management. Moreover, the following key policies, practices and processes were subsequently established and incorporated into the system of control of KWAP:

## RISK AND CORPORATE GOVERNANCE

- The organisational structure of KWAP was formulated and duly segregated to allow for optimal effectiveness of management and operations as well as to allow employees the sufficiency of time and resources in carrying out their duties;
- The Succession Planning Program was developed and formalised for key management positions as a guide for retention of dedicated, highly-skilled and professional employees as well as maintenance of operational efficiency. Concurrently, the Leadership Competencies Framework and the Individual Development Plan were developed and formalised for the purpose of enhancing the learning and growth of employees;
- The recruitment process was improved and expedited together with the identification of potential candidates for the remaining vacant positions for further improvement of the operational efficiency;
- New modules within the human resource system (EP2P), were finalised and implemented to increase and maximise the overall system utilisation;
- The Investment Settlement Department was established with the functionality of the middle office and incorporated independent of the investment functions for improvement of the overall investment operations and the segregation of functions and duties;
- The Custodian Department was established to cover all asset classes for all internally-managed investments;
- The monitoring mechanism and reports of External Fund Managers were standardised to further enhance the accuracy and quality of information provided;
- The overall IT Governance Framework, Policies and Rules were formulated incorporating the overall functions of the IT Department, segregation of duties, detailed security framework including IT housekeeping review and administration of IT systems and databases in support of the improvement of the overall operational efficiency;
- System Development Life Cycle (SDLC) Framework and Vendor Management Framework were developed in reference to all new and upcoming IT systems which aim at monitoring the services delivery and quality of services of IT vendors; and
- The Disaster Recovery Procedures of the IT systems were developed concurrently and in consistent with the overall development of Disaster Recovery Plan of KWAP.

### Risk Management Committee

Risk Management Committee (RMC) was established to assist the Board in discharging its functions with regard to risk management.

### Membership

Currently, RMC comprises three (3) Board members and one (1) Investment Panel member. The Chairman and three other members appointed by the Board are:

- Dato' Muhammad Bin Ibrahim – Chairman
- Dato' V. Danapalan – Member
- Dato' Siow Kim Lun – Member
- Tengku Dato' Azmil Zahrudin Bin Raja Dato' Seri Abdul Aziz – Member

### Duties and Responsibilities of RMC

The following are the duties and responsibilities of RMC:

- To formulate and execute the risk management strategies and policies;
- To assess and approve proposal on risk management policies and procedures in business and financial risk areas such as market risk, credit risk, strategic risk, and operational risk;

## RISK AND CORPORATE GOVERNANCE

- To determine the risk appetite and tolerance and subsequently recommend to the Board for adoption;
- To evaluate new and existing policies and controls and subsequently recommend to the Board for final approval and adoption;
- To ensure the adequacy of risk management policies and systems and its operational efficiency;
- To ensure the establishment of relevant infrastructure, resources and systems are in place to identify, measure, monitor and control risks;
- To determine risk exposure and risk management activities;
- To formulate Business Continuity Management (BCM);
- To recommend to the Board any changes to the Risk Management Framework; and
- To consider other risk related issues as defined by the Board.

### Risk Management Committee Meeting Attendances

There were four (4) Risk Management Committee held throughout 2009. The attendance record is as follows:

NO.	RISK MANAGEMENT	RISK MANAGEMENT MEETING ATTENDANCES
1.	Dato' Muhammad Bin Ibrahim (Chairman)	4/4
2.	Dato' V. Danapalan	4/4
3.	Dato' Siow Kim Lun	3/4
4.	Tengku Dato' Azmil Zahrudin Bin Raja Dato' Seri Abdul Aziz	0/4
5.	Dato' Azian Binti Mohd Noh	4/4

### Summary of Activities of RMC for 2009

Among the major issues deliberated and approved by the Risk Management Committee were:

- Corporate Risk Profile
- Market Risk Report
- Proposal for Disaster Recovery Center
- Proposal for Information and Communication Policy
- Proposal on Business Continuity Management Framework
- Establishment of the Enterprise Risk Management Committee
- Compliance Report
- Operational Risk Event Reporting

### d) Appointment and Remuneration of the Board and Investment Panel

The Board and Investment Panel are appointed for the period not exceeding three (3) years and on the expiry thereof are eligible for reappointment. The remuneration of the Board and Investment Panel is determined from time to time, subject to the approval of the Minister of Finance.

In 2009, the Board and Investment Panel received a total remuneration of RM259,500 and RM83,367 respectively.

### e) State of Internal Control

#### Responsibility

The Board has the overall responsibility for the effectiveness and integrity of the system of internal control and the risk management of KWAP. The Board recognises and is aware that the system of internal control and risk management are designed to manage and mitigate risk within acceptable risk profiles rather than the entire elimination of risk of failure to achieve the policies, objectives and statutory mandate. Accordingly, the system of internal control assists in the provision of reasonable – but not absolute – assurance against any material misstatement, mismanagement or losses.

## RISK AND CORPORATE GOVERNANCE

The Board has established a continuous process in the evaluation of the effectiveness and integrity of the system of internal control via the on-going process of identification, assessment and management of risks faced by KWAP. The system of internal control is reviewed and updated, when necessary, upon any changes in the business environment or the overall risk faced by KWAP.

KWAP's Management provides assistance to the Board in the implementation of policies, procedures and processes as well as the enhancement of existing financial and operational capabilities to mitigate and minimise risks faced by KWAP. In view of the system of internal control and risk management established for the year under review up to the date of the issuance of the Financial Statements of KWAP, the Board acknowledged that a sound and sufficient system of internal control and risk management within KWAP have been established.

### Key Internal Control Processes

The following key policies, processes and procedures were established in the review of the effectiveness and integrity of the system of internal control and risk management of KWAP:

- Audit Committee was established to ensure the formulation, adequacy and integrity of the system of internal controls of KWAP;
- Risk Management Committee was established to assist the Board in discharging its functions with regards to risk management. The RMC also formulates and executes the risk management strategies and policies;
- Investment Committee comprises key investment personnel convenes regularly to decide on investment related matters;
- Internal audit function of KWAP is essentially responsible for the monitoring of compliance and adherence to the policies, procedures and processes as well as the overall efficiency and sufficiency of the system of internal control of KWAP;
- Enterprise Risk Management (ERM) is a methodology adopted by KWAP for the management of its risks. ERM involves an integrated process of identifying,

evaluating, monitoring, managing and reporting significant risks affecting KWAP;

- Investment Panel is primarily responsible for the establishment and approval of investment policies and guidelines, policies on risk management, asset allocation and strategic directions of investments;
- Management Committee is mainly responsible to execute and evaluate key operational and management decisions as well as ensure that they are clearly communicated across the organisation;
- The annual business plan and annual budget of KWAP are prepared and tabled to the Board for approval. Actual performance of KWAP is assessed against the approved budget by the Board on a monthly basis and explanation on significant variances were provided by the Management;
- The proper guidelines for the employment and termination of employees, avoidance of conflict of interest, declaration of assets and liabilities, semi-annual and annual performance appraisals as well as training programs were formulated for the assurance of the competency, capabilities and performance of employees in executing their professional responsibility; and
- Policies, procedures and processes were established in the operation manuals and guidelines and reviewed on a periodic basis for the evaluation and adherence to the system of internal control of KWAP.

### f) Procurement Policies

KWAP established a procurement policy and standard operating procedures to facilitate and guide the organisation in matters related to the subject matter. As we recognise the significance of having a transparent procurement policy, we review our procurement procedures periodically so that it is aligned with best practice.



## RISK AND CORPORATE GOVERNANCE

The followings are the key elements and features of our procurement policy.

### Direct Purchase

The Procurement Policy with regard to direct purchase of goods and services amounting to the maximum of RM50,000 is as follows:

- Direct purchase of an item with annual procurement value amounting to RM10,000 or less per item is allowable from any supplier or company; and
- Direct purchase of procurement item with annual procurement value exceeding RM10,000 to the maximum of RM50,000 per item is allowable from any Bumiputera supplier or company registered with the Ministry of Finance.

### Quotations

The Procurement Policy in regard to purchase of goods and services with annual procurement value exceeding RM50,000 to the maximum of RM200,000 is via quotation whereby a minimum of five (5) quotations are required from suppliers or companies registered with the Ministry of Finance. Suppliers or companies are allowed a minimum of three (3) days for the submission of their quotation to KWAP. In the event that the minimum required number of quotation is unattainable, the Quotation Committee of KWAP may proceed with the quotation process with the provision that all required quotation specification set out by KWAP is fulfilled by the supplier or company.

### Tender

The Procurement Policy in regard to purchase of goods and services with annual procurement value exceeding RM200,000 is via tender. The types of tenders are categorised as follows:

- **Open Tender**

Tenders in which participation is open to contractors and suppliers registered with the Ministry of Finance for the supply of goods and services and registered with the Construction Industry Development Board for works.

- **Open Tender for Bumiputera Contractors**

Tenders in which participation is only open to Bumiputera contractors.

- **Pre-qualified Open Tender**

Pre-qualified open tender is subject to Tender Board's approval. The pre-qualified contractors are subject to criteria such as required experience, technical, financial and management capabilities. Only the pre-qualified contractors may participate in tender.

- **Restricted Tender**

Tenders in which participation is restricted to the minimum of five (5) locally-based Bumiputera suppliers or companies for the supply of goods, services and works amounting to less than RM10 million subject to the approval of the Tender Board.

Local tenders are required to be advertised in at least one local Bahasa Malaysia newspaper. International tenders are required to be advertised in a minimum of two newspapers one in Bahasa Malaysia and another in English respectively. Suppliers and companies are allowed a minimum of seven (7) days for the submission of their tenders to KWAP.

The quotation, tender processes and specifications are as stipulated in the Board-approved Finance Procedures of KWAP.

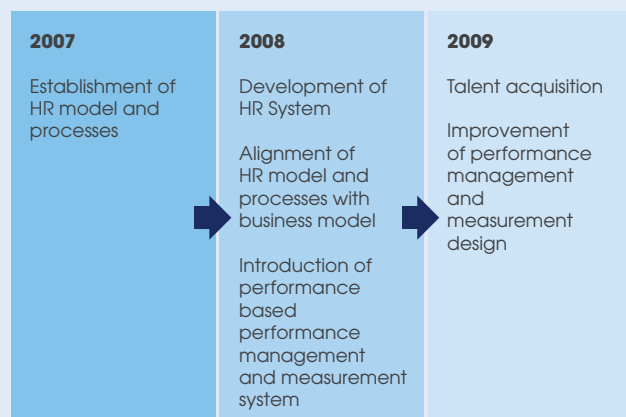


# HIGH PERFORMANCE CULTURE

## OUR PEOPLE

The development of our workforce is of utmost importance to KWAP. Our ability to achieve our goals and objectives is largely attributed to the quality of individuals who work within the organisation. Competent, trained, motivated people are our principal asset. Hence in 2009, we focussed on talent acquisition and improving our performance management and measurement system.

### Human Resource Journey from 2007 to 2009



It is therefore our absolute duty to recruit, retain, develop and motivate individuals. We focus on hiring the best and continuously improve the skills and capabilities of each employee. We believe that we must have the right leaders with the right people in the right roles.

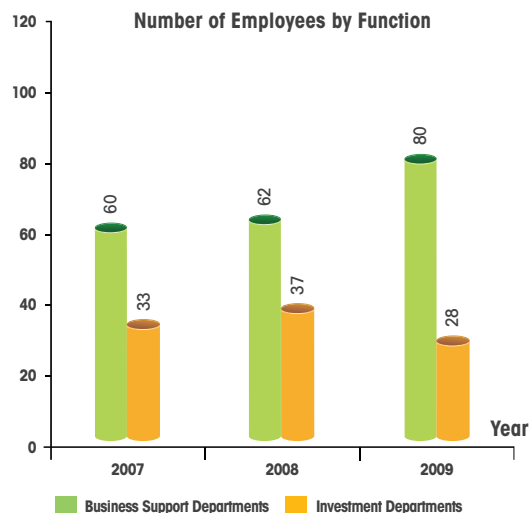
Our commitment towards our people is evidenced by our Employee Value Proposition in that we provide an opportunity for employees to contribute towards the growth of the nation's pension fund, personal and professional growth, and we offer competitive rewards and a conducive work environment.

## 2009 Employee Statistics

EMPLOYEE STATISTICS	
Average number of employees in 2009:	102
Total number of employees as at 31 Dec 2009:	108
Average age:	
1) Women	35.79 years
2) Men	35.84 years
Average years of service: (since incorporation on 1 March 2007)	2.34 years

In line with KWAP's transformation agenda, 2009 saw some key changes made to the organisation structure. The rationale for the changes was to enhance teamwork and common objectives, establish clearer performance accountability and increase capability development. Despite the challenges that come with changes, our employees remained committed to the organisation as evidenced by our low employee turnover rate of only 0.33%.

### Employees



## HIGH PERFORMANCE CULTURE

There was an overall increase in KWAP's workforce in 2009 whereby 3 employees were recruited for the senior management positions, 4 employees were recruited for middle management positions and 6 employees were for non-executive positions.

KWAP believes in equal opportunity in employment and our approach to employee recruitment is based on merit. This approach resulted in a 30% increase in the recruitment of a more diverse workforce. The employees' composition ratio illustrates that more than 50% of KWAP employees are females. Out of which more than 40% of employees performing management level are also female.

### Performance Management

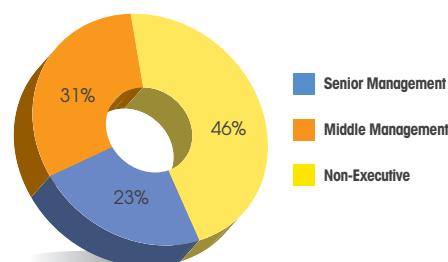
KWAP's focus is to become a High Performance Organisation, inculcating a performance-driven culture with clearly-defined accountabilities and KPIs. As an improvement to the existing performance management system, employees' involvement in the performance management process was further expanded via a self-appraisal mechanism. This allows employees to establish a greater sense of responsibility towards their own performance and to improve their overall understanding of their roles and contribution to the organisation.

Focus was also given towards enhancing the capabilities of our managers in performing effective performance reviews and developing their coaching skills. This is to ensure the overall success of the performance management system.

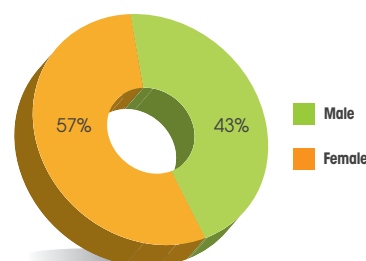
### Training and Development

In order to support the growing workforce and increased responsibilities of our investment functions, training and development programs in 2009 were focused on financial, economic and investment areas. In addition, allocation was also made for support programs such as leadership and soft skills programs, IT programs, human resource and administration programs, risk management and compliance programs.

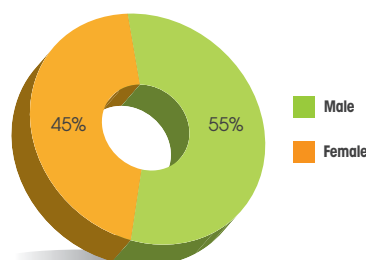
**Additional Employees 2009**



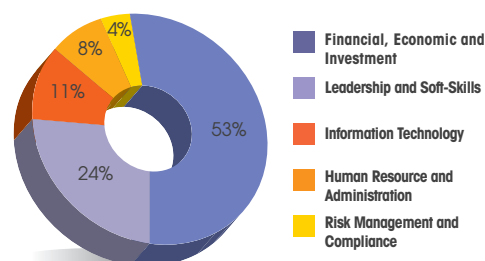
**Overall Employees Distribution by Gender 2009**



**Employees Distribution by Gender for Management Level Jobs 2009**

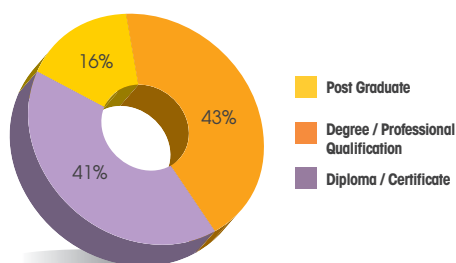


**Training Breakdown 2009**



## HIGH PERFORMANCE CULTURE

**Employees Breakdown by Academic Qualification 2009**



High potential employees were given opportunities to participate in international seminars and conferences across Asia, Europe and the United States.

KWAP's Chartered Financial Analyst Incentive Scheme (CFAIS) which provides financial support to employees pursuing the Chartered Financial Analyst (CFA) qualification continued to receive favourable response. The scheme enables employees to receive support in terms of in-house preparatory and revision classes, purchase of books and reimbursement of examination fees upon passing the CFA examinations. In order to encourage participation, employees are also given study leave and examination leave.

As part of our constant pursuit to become a High Performance Organisation, KWAP invited Mr Lim Beng Choon, Accenture's Country Managing Director, to deliver a lecture on High Performance Organisation.

The KWAP Leadership Series which began in 2008 is a major event that has been receiving good turnouts from employees and counterparts in the investment industry. In 2009, the Leadership Series featured Y.Bhg. Dato' Sri Nazir Bin Tun Abdul Razak, Group Chief Executive Officer of CIMB Group and Y.Bhg. Dato' Sri Jamaludin Bin Ibrahim, Managing Director, President and Group Chief Executive of Axiata Group Berhad.

### Employees' Safety and Health

KWAP is dedicated in its commitment towards employees' safety and health. Several major initiatives were carried out in 2009 such as prompt response and enforcement of preventive and precautionary measures during the H1N1 pandemic outbreak. A special briefing to all employees on the H1N1 pandemic was conducted by Qualitas Medical Group. With the assistance of Health Department Kuala Lumpur, KWAP also provided a free influenza vaccination program for all employees in order to reduce the risk of H1N1 infection. Posters, free face masks and hand sanitizers were distributed to all employees.

A health awareness talk on diet management which is aimed at inculcating a healthy lifestyle conducted by Hospital Kuala Lumpur received encouraging response from KWAP's employees.

With the cooperation of the Malaysian Fire and Rescue Department, a fire and safety briefing as well as an emergency evacuation drill were also conducted.

### Balancing Work and Life

Achieving employee work-life balance and providing a conducive working environment is one of KWAP's aspirations. We believe that employees' performance is directly connected to their ability to maintain a balanced state between their professional and personal lives. Activities organised included monthly public speaking sessions and weekly fitness and sports activities. The Annual Sports Carnival and inaugural Family Day received overwhelming response from KWAP's employees and their family members.

Y.B Dato' Seri Ahmad Husni Bin Mohamad Hanadzlah, the Minister of Finance II officiated KWAP's new dealing room in 2009. The new concept and design were aimed at encouraging positive work environment and interactions amongst employees, thus further improving employee productivity as well as the overall performance of the organisation.

## A CARING ORGANISATION

The prosperity of the society in which a business operates determines the activity and growth of the economy. The interdependence between business and society forms the basis for contribution to society which is defined as an activity undertaken by a business where the primary objective is to benefit the society in which it operates, or to benefit groups of individuals or communities within the society.

Throughout 2009, KWAP as a responsible corporate citizen had undertaken several activities directed towards the provision for employees welfare, involvement and contribution to the community and protection of the environment.

### RESPONSIBILITY TO THE EMPLOYEES

It is our belief that human capital is one of our key assets and we are committed in providing for the development and welfare of our personnel. This was carried out through several programs namely:

- The introduction of CFA Financial Assistance Scheme for the purpose of motivating the employees to continuously improve their skills and knowledge as well as promoting personal growth;
- KWAP Sports and Recreational Club or SPARC, a club run by KWAP's employees with the objective to foster close relationship among KWAP employees and their families through sports, recreation, social, culture, economy and charitable activities;
- SPARC organised a sports carnival from April to July 2009 comprising a total of 12 games. The highlight of the sports carnival was the announcement of the team champion and best sportsman and sportswoman of the year. SPARC also took part in futsal competition organised by Inland Revenue Board on 5 December 2009. To further inculcate team spirit, SPARC also organised a paintball game which saw 20 people taking part. On a weekly basis, 'Fitness After 5' is held to promote a healthier lifestyle and achieve a more harmonious work-life balance.



KWAP Sports and Recreational Club logo

## A CARING ORGANISATION

- Corporate recreational activities held in collaboration with SPARC such as Family Day and Hari Raya Gathering for the employees of KWAP were also attended by Board Members, Investment Panel Members and their respective families. The activities were directed to foster a closer relationship between different quarters;
- Rewards were awarded to the children of employees in recognition of their academic achievement and excellence while compassionate gifts were given to those who lost their immediate family members; and
- In response to the threat of H1N1 pandemic, several preventive measures were implemented such as the vaccination program for employees, distribution of face masks and availability of hand sanitizers and thermometers at various strategic locations around the office.



### RESPONSIBILITY TO THE COMMUNITY

KWAP's Board members, Investment Panel members and employees have generously donated a total sum of RM10,000 to the NST Fund for Gaza in aid of the affected Palestinians. In addition, the employees, through various fund raising activities, purchased reading materials for Sekolah Kebangsaan (A) Bukit Tampoi's resource centre for the benefit of its Orang Asli students. The funds raised were also utilised to purchase sports equipments for the school to encourage more participation and improved excellence in extra-curricular activities.

KWAP periodically contributed articles to financial publications to propagate issues within the fund management industry by leveraging on investment knowledge, expertise and experiences of its employees. The articles were also posted on KWAP's web portal.

A one-day seminar on Financial Planning for Retirement was organised at KWAP's office to create awareness among future retirees on the importance of financial planning. A total of 50 participants from the Public Service Department, Accountant General Department



## A CARING ORGANISATION

and Inland Revenue Board took part in the seminar. A talk entitled 'An Insight to Fund Management Industry' was delivered to undergraduates by employees of KWAP during 'Day with Industry' organised by University Malaya's Faculty of Business and Accounting intended to provide the undergraduates with better understanding of the fund management industry.

KWAP also initiated an internship program which was offered to local university students for exposure to various investment-related departments.

Management visits were also conducted throughout the year to reinforce KWAP's stance in quality and community-friendly investments. Direct access to the top management of investee companies enabled KWAP to obtain accurate business insights and formulate better investment decisions.

### RESPONSIBILITY TO THE ENVIRONMENT

In fulfilling its obligation to save the environment, KWAP focused on promoting efficient use of resources while reducing wastage. This was achieved through simple yet effective activities including the use of notebook computers in meetings, recycling of paper products, collecting used books and items for jumble sale, electronic leave application as well as energy conservation by switching off lights and electrical equipment when not in use.



KWAP Corporate Social Responsibility logo

## 2009: AN EVENTFUL YEAR

### CEO MANDATE 2009



**Date :** 13 January 2009  
**Venue :** KWAP Multipurpose Hall

The Chief Executive Officer announced the financial performance for 2008 and her expectations for performance in 2009.

### IFIMS KICK OFF MEETING



**Date :** 4 February 2009  
**Venue :** KWAP Board Room

The IFIMS Implementation Project Kick Off Meeting discussed the project overview, organisation chart, timeline, roles and responsibilities between KWAP and the selected vendor. The system will provide an integrated solution for KWAP's fund management activities and help to improve effectiveness and efficiency.

### CUSTOMER SERVICES AND INNOVATION AT WORK WORKSHOP



**Date :** 17 – 18 April 2009  
**Venue :** JW Marriott, Putrajaya

A workshop was organised with the objective to facilitate the transformation of attitude, mindset and performance of non-executive employees towards creating a high performance culture.

### COMPLIANCE & ENFORCEMENT VISIT - NORTHERN REGION



**Date :** 20 – 23 April 2009  
**Venue :** Kedah & Perlis

Perbadanan Kemajuan Ekonomi Negeri Perlis, LADA and Majlis Perbandaran Kangar were among the employers visited during the Compliance & Enforcement Visits in Kedah and Perlis.

### VISIT TO ELEPHANT SANCTUARY



**Date :** 25 April 2009  
**Venue :** Kuala Gandah, Pahang Darul Makmur

A visit was organised by SPARC to educate its employees and family members on the importance of conserving flora and fauna.

### SPORTS CARNIVAL



**Date :** April to July 2009  
**Venue :** Several Locations in Kuala Lumpur

The carnival was held throughout April until July 2009 with employees grouped into 3 teams which competed against each other in sports such as carom, scrabble, badminton, futsal, dart, congkak, dam haji, bowling, ping pong, chess, netball and volleyball.

## 2009: AN EVENTFUL YEAR

## KWAP ICT POLICY PRESENTATION



**Date** : 21 May 2009  
**Venue** : KWAP Multipurpose Hall

The IT department briefed all KWAP employees on the new ICT Policy which was approved by the Board and to be adhered to as part of KWAP's transformation journey.

TALK BY  
MR. LIM BENG CHOON

**Date** : 24 June 2009  
**Venue** : KWAP Multipurpose Hall

Mr. Lim Beng Choon, Country Managing Director of Accenture Malaysia presented a talk on 'High Performance Organisation'.

## KWAP FAMILY DAY 2009



**Date** : 4 - 5 July 2009  
**Venue** : Felda Hot Spring, Sungai Klah, Perak Darul Ridzuan

KWAP's Family Day organised by SPARC created closer bonds between KWAP's employees and family members through various activities.

MINISTER OF FINANCE II  
OFFICIATING OF DEALING ROOM

**Date** : 13 July 2009  
**Venue** : KWAP Dealing Room

The Minister of Finance II, Y.B. Dato' Seri Ahmad Husni Bin Hanadzlah was given the honour to officiate KWAP's new Dealing Room in line with its transformation program.

## EQUITY VISIT TO PORT KLANG



**Date** : 14 July 2009  
**Venue** : NCB Holdings, Port Klang

As part of KWAP's research and investment practices, the Equity Department organises company visits for KWAP's Senior Management throughout the year to companies that KWAP invests in.

LEADERSHIP SERIES III BY DATO' SRI  
NAZIR BIN TUN ABDUL RAZAK

**Date** : 31 July 2009  
**Venue** : KWAP Multipurpose Hall

Y. Bhg. Dato' Sri Nazir Bin Tun Abdul Razak, Group Chief Executive Officer of CIMB Group presented a talk titled 'Our Journey Towards High Performance'.



## 2009: AN EVENTFUL YEAR

AN INSIGHT TO FUND MANAGEMENT  
INDUSTRY TALK**Date** : 6 August 2009**Venue** : Faculty of Business & Accountancy, University of Malaya

The talk was presented by Mr. Ambalagam R. Marappan as part of the faculty's 'Day with the Industry' and KWAP's CSR program.

SPORTS CARNIVAL 2009 PRIZE  
GIVING CEREMONY**Date** : 20 August 2009**Venue** : KWAP Multipurpose Hall

KWAP's sports carnival ended with a prize giving ceremony for the best sports team, sportsman and sportswoman.

## TOWN HALL MEETING

**Date** : 21 August 2009**Venue** : KWAP Multipurpose Hall

The Chief Executive Officer announced interim results of financial performance for 2009 and expressed the need for high performance culture.

IFTAR WITH BOARD AND  
INVESTMENT PANEL MEMBERS**Date** : 4 September 2009**Venue** : KWAP Multipurpose Hall

The Board and Investment Panel members joined the management and employees to break fast/iftar.

## CSR JUMBLE SALE

**Date** : 14 September 2009**Venue** : KWAP Reception Area

A jumble sale was organised by the CSR Committee to promote volunteerism and raise donation amongst KWAP employees for CSR purposes.

## EIDULFITRI CELEBRATION 1430H

**Date** : 8 October 2009**Venue** : Felda Villa, Kuala Lumpur

The Eidulfitri celebration was a memorable one as KWAP's family members were invited and children received 'duit raya' from the Chairman.

## 2009: AN EVENTFUL YEAR

### DEPUTY MINISTER OF FINANCE II'S VISIT TO KWAP



**Date** : 12 October 2009

**Venue** : KWAP Multipurpose Hall

KWAP's employees were honoured to have Deputy Minister of Finance II, Y. B. Senator Dato' Dr. Awang Adek Bin Hussin visit KWAP.

### FINANCIAL PLANNING FOR RETIREMENT SEMINAR



**Date** : 29 October 2009

**Venue** : KWAP Multipurpose Hall

The seminar was organised by the KWAP CSR Committee for would-be retirees from the Public Service Department, Accountant General's Department and Inland Revenue Board.

### CSR CHARITY GIVING DAY



**Date** : 20 November 2009

**Venue** : SK Bukit Tampoi (A), Dengkil

As part of KWAP's CSR donation drive program, a charity giving day was held to present books and tokens for SK Bukit Tampoi (A) and its students.

### LEADERSHIP SERIES IV BY DATO' SRI JAMALUDIN BIN IBRAHIM



**Date** : 16 December 2009

**Venue** : KWAP Multipurpose Hall

Y. Bhg. Dato' Sri Jamaludin Bin Ibrahim, President/Group Chief Executive of Axiata Group presented a talk on 'The Making of Champions'.

# CORPORATE SCORECARD 2010

## A. STAKEHOLDERS

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET
1.	To grow asset base	Growth of fund size in percentage	Targeted percentage of between 9.4% to 9.9%
2.	To engage stakeholders on pension liability management	Meet initiative's milestones	Complete Pension Liability Study as per milestones

## B. FINANCIALS

1.	Return on Investment (ROI) to outperform benchmark	ROI compared against benchmark of 3-Year MGS +150 bps	Actual ROI outperform benchmark
2.	To enhance capital preservation measures	Percentage of fund size permanently diminished in value	Less than 1% of total fund size permanently diminished in value
3.	To accelerate portfolio diversification	Percentage of fund size invested in new asset classes	Targeted percentage as per SAA Transition Masterplan

## C. OPERATIONAL

1.	To implement new business development initiatives	Number of innovative proposals closed	2 innovative proposals closed
2.	To improve investment management practices	Meet initiative's milestones	Continuous improvement of Performance Measurement Phase and initiate Performance Attribution Phase
3.	To strengthen risk management practices		
	a) To conduct testing of Business Continuity Plan	a) Percentage of target results	a) Meet 90% of target results
	b) To enhance compliance function	b) Percentage of non compliance issues resolved	b) 90% resolution of non compliance issues

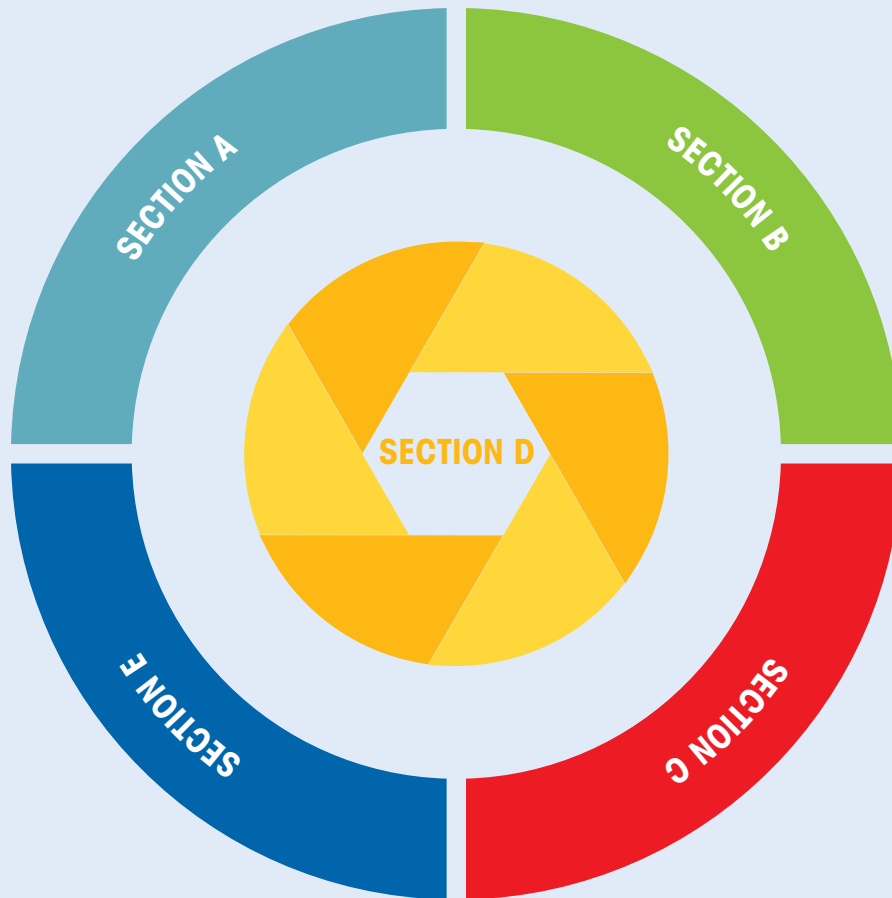
## CORPORATE SCORECARD 2010

## C. OPERATIONAL

NO.	CORPORATE OBJECTIVES	KPI MEASUREMENT	ANNUAL TARGET
	c) To implement market, credit and operational risk initiatives	c) Meet initiative's milestones	c) Implement Market Risk Management System, Credit Risk Scoring Methodology and Enterprise Risk Management System
	d) To conduct in-house Risk Awareness Training	d) Number of risk seminar conducted	d) 4 seminars
<b>4.</b>	Enhance operational efficiencies and corporate governance practices		
	a) Compliance	a) i. Compliance rate ii. Percentage of audit observations iii. Opinion by statutory auditor	a) i. 100% compliance to regulations and legislations ii. 100% audit observations closed over stipulated timeline iii. Unqualified Audit Certificate for the Financial Statements
	b) Contribution management	b) i. Meet initiative's milestones ii. Timely collection of contributions	b) i. Implement Contribution Management System ii. 90% compliance within the prescribed period of 30 days
	c) Annual Report	c) Timeline	c) Annual Report tabled in Parliament during Second Sitting (June 2010)

## D. LEARNING AND GROWTH

<b>1.</b>	To implement performance and talent management practices		
	a) Performance management and recruitment processes	a) i. Talent turnover rate ii. Achievement of performance target	a) i. Shall not exceed 10% talent pool ii. Majority of employees perform above average performance target
	b) Continuous learning organisation	b) Average training days per employee	b) 7 training days per employee
<b>2.</b>	CSR programs	Number of completed CSR programs	At least 3 CSR programs completed



## SECTION D

- Board, Investment Panel, Audit Committee, Risk Management Committee, Senior Management and Key Personnel
- Organisation Chart

## BOARD



KWAP has capable and supportive Board members who thus far have contributed to our success. Individually and collectively, our Board members will continue to guide KWAP in achieving its objectives.

### **TAN SRI DR. WAN ABDUL AZIZ BIN WAN ABDULLAH**

Secretary General of Treasury  
Chairman

Appointed as Chairman to the Board and Investment Panel on 1 March 2007.

He is the Secretary General of Treasury, Ministry of Finance. He is also Board Member of Federal Land Development Authority, Malaysian International Shipping Corporation, Inland Revenue Board, Malaysian Airline System, Petroliaam Nasional, Malaysian Industry-Government Group for High Technology, Malaysia Venture Capital Development Council, Multimedia Development Corporation, Syarikat Bekalan Air Selangor, Pembinaan BLT, Cyberview, Bank Negara Malaysia, Pelaburan Hartanah Bumiputera and Malaysia Deposit Insurance Corporation. He represents Ministry of Finance as member in PEMUDAH (Special Taskforce to Facilitate Business), Iskandar Malaysia, Regional Corridor Development Authority Sarawak, East Coast Economic Region and Economic Council Meeting.

He obtained Bachelor's Degree with Honours in Applied Economics from University of Malaya, Masters in Philosophy (Development Studies) from University of Sussex, United Kingdom and Ph.D (Business Economics) from University of Leeds, United Kingdom. He completed Advanced Management Program, Harvard Business School, Harvard University, USA.

## BOARD

**TAN SRI ISMAIL BIN ADAM**

Federal Government Representative

Appointed to the Board on 1 March 2007. He is the Director General, Public Service Malaysia. He is also Board Member of Inland Revenue Board, Employees Provident Fund, Kumpulan Wang Pecen Balu dan Anak Yatim (Sabah & Sarawak) and Dewan Bahasa dan Pustaka. He obtained Bachelor's Degree with Honours in Economics from University of Malaya, Masters in Economics from Vanderbilt University, USA and completed Advanced Management Program, Harvard Business School, Harvard University, USA.

**DATO' MOHD. SALLEH BIN MAHMUD**

Federal Government Representative

Appointed to the Board on 1 March 2007. He is the Accountant General of Malaysia. He is also member of Inland Revenue Board and Kumpulan Wang Persaraan Guru-Guru. He obtained Bachelor's Degree with Honours in Accounting from University of Malaya and Masters in Business Administration from Universiti Kebangsaan Malaysia.

**DATUK IDRUS BIN HARUN**

Federal Government Representative

Appointed to the Board on 1 March 2007. He is the Solicitor General of Malaysia. He is also Board Member of Companies Commission of Malaysia, the Malaysia-Thailand Joint Authority, Perbadanan Tabung Pendidikan Tinggi Nasional and Director of Amanah Raya Capital. He obtained Bachelor of Laws (LL.B) with Honours from University of Malaya.

**DATUK LATIFAH BINTI DATUK ABU MANSOR**Deputy Secretary General Treasury (Policy), Ministry of Finance  
Federal Government Representative

Appointed to the Board on 17 October 2008. She is also Board member of Lembaga Tabung Haji, Employees Provident Fund, National Trust Fund, Malaysian Co-operative Commission, Capital Market Development Fund, UDA Holdings and Syarikat Jaminan Pembiayaan Perniagaan; Alternate Board Member, Malaysian International Shipping Corporation and member, Malaysian Venture Capital Development Council (MVCDC). She obtained Bachelor's Degree in Economics with Honours from University of Malaya and Masters in Business Administration from Universiti Kebangsaan Malaysia.



## BOARD



### DATO' V. DANAPALAN

Private Sector Representative

Appointed to the Board on 1 March 2007. He is also Board member of Telekom Malaysia, Universiti Telekom, SIRIM QAS International, Bank Simpanan Nasional, Affin Trust Management, Malaysian-American Commission on Educational Exchange, Tun Sambanthan Scholarship Fund and the Malaysia University of Science & Technology Foundation. He obtained Bachelor's Degree with Honours from University of Malaya and Masters in Public Administration from Pennsylvania State University, USA.



### DATO' SIOW KIM LUN

Private Sector Representative

Appointed to the Board on 1 March 2007. He is also Board Director of Citibank, UMW Holdings, WZ Steel, XingQuan International Sports Holdings and MainStreet Advisers. He obtained Bachelor's Degree with Honours in Economics from Universiti Kebangsaan Malaysia, Masters in Business Administration from the Catholic University of Leuven, Belgium and completed Advanced Management Program, Harvard Business School, Harvard University, USA.



### DATO' MUHAMMAD BIN IBRAHIM

Central Bank of Malaysia Representative

Appointed to the Board on 15 May, 2007. He is also Assistant Governor, Bank Negara Malaysia; Trustee, Tun Ismail Ali Chair Council and Shariah Fund; Commissioner, Securities Commission of Malaysia; Former member, Malaysian Institute of Accountants; Associate Fellow, Institute of Bankers Malaysia; Council member, Malaysian Bankers Institute and Member, Monetary Policy Committee. He obtained Bachelor's Degree in Accounting from University of Malaya, Masters from Harvard University and a postgraduate diploma in Islamic Banking and Finance from the International Islamic University of Malaysia.



### DATO' IZZADDIN BIN IDRIS

Private Sector Representative

Appointed to the Board on 1 March 2007. He is also Group Managing Director/CEO, UEM Group and Fellow of CPA Australia and Malaysian Institute of Accountants. He obtained Bachelor of Commerce Degree with First Class Honours in Finance from University of New South Wales, Australia.



## BOARD

**TUAN HAJI OMAR BIN HAJI OSMAN**

Contributor Representative

Appointed to the Board on 1 March 2007. He is also President, CUEPACS; Honorary Advisor, Kesatuan Kakitangan Am Universiti Putra Malaysia; Chairman, Gabungan Presiden/Setiausaha Kehormat Kesatuan-Kesatuan Universiti; Deputy Chairman, National Council for Science & Technology and Representative of CUEPACS in National Labor Advisory Council, Ministry of Human Resources.

**DATO'AZIAN BINTI MOHD NOH**

Chief Executive Officer

Appointed as the Chief Executive Officer and ex-officio member of the Board on 1 March 2007. She is also Chairman, i-VCAP Management; Director of Valuecap, Malakoff Corporation and TIME dotCom and Member, Malaysian Institute of Accountants. She obtained Bachelor's Degree with Honours in Economics majoring in Accounting from University of Malaya, Masters in Business Administration from Universiti Kebangsaan Malaysia and completed Advanced Management Program at Harvard Business School, Harvard University, USA.

## INVESTMENT PANEL



### **TAN SRI DR. WAN ABDUL AZIZ BIN WAN ABDULLAH**

Secretary General of Treasury  
Chairman

Appointed to Investment Panel as Chairman on 21 March 2007.



### **CIK CHE ZAKIAH BINTI CHE DIN**

Central Bank of Malaysia Representative

Appointed to Investment Panel on 15 May 2007. She is also Director, Financial Conglomerates Supervision Department, Bank Negara Malaysia. She obtained Bachelor's Degree with Honours in Economics from University of Malaya.



### **PUAN KOMALAM D/O R. KESAWAN**

**(Retired w.e.f. 1 June 2009)**

Ministry of Finance Representative

Appointed to Investment Panel on 21 March 2007. She is also Board Member of Kumpulan Modal Perdana, Intellectual Property Corporation of Malaysia and Johor Port. She obtained Bachelor's Degree with Honours in Economics from University of Malaya and Master of Arts in Economic Policy from Boston University, USA.



### **DATUK NOZIRAH BINTI BAHARI**

**(Appointed w.e.f. 2 June 2009)**

Ministry of Finance Representative

Appointed to Investment Panel on 2 June 2009. She is also under Secretary of Loan Management, Financial Market and Actuary Division, Ministry of Finance. She obtained Bachelor of Social Science in Urban Studies from Universiti Sains Malaysia and completed Global Leadership Development Programme organised by International Centre for Leadership in Finance (ICLIF) and Advanced Management Programme in Harvard Business School, Harvard University, USA.

## INVESTMENT PANEL

**DATO' SRI ABDUL WAHID BIN OMAR**

Private Sector Representative

Appointed to Investment Panel on 1 May 2008. He is also President & CEO, Maybank Group; Board Member of Bursa Malaysia and Perbadanan Usahawan Nasional; Investment Panel Member, Lembaga Tabung Haji; Fellow of the Association of Chartered Certified Accountants, UK and a member of the Malaysian Institute of Accountants.

**TENGGU DATO' AZMIL ZAHRUDDIN BIN RAJA DATO' SERI ABDUL AZIZ**

Private Sector Representative

Appointed to Investment Panel on 21 March 2007. He is also Managing Director and CEO, Malaysian Airline System; Chartered Accountant and Associate Member of Malaysian Institute of Accountants, Institute of Chartered Accountants (England and Wales); Associate, Association of Corporate Treasurers (United Kingdom) and Member, Issues Committee, Malaysian Accounting Standards Board. He obtained Bachelor's Degree in Economics with First Class Honours from University of Cambridge, UK.

**ENCIK CHEAH TEK KUANG**

Private Sector Representative

Appointed to Investment Panel on 21 March 2007. He is also Group Managing Director, AMMB Holdings; Board Member of Employees Provident Fund and Bursa Malaysia and Alternate Chairman, Association of Merchant Banks in Malaysia. He obtained Bachelor's Degree with Honours in Economics from University of Malaya.

**DATO' AZIAN BINTI MOHD NOH**Chief Executive Officer  
(Secretary for Investment Panel)

Appointed to Investment Panel on 21 March 2007.

# AUDIT COMMITTEE AND RISK MANAGEMENT COMMITTEE

## AUDIT COMMITTEE



1.



2.



3.



4.

from left to right

**1. TAN SRI ISMAIL BIN ADAM**  
Chairman

**3. DATUK IDRUS BIN HARUN**  
Member

**2. DATO' MOHD. SALLEH BIN MAHMUD**  
Member

**4. DATO' IZZADDIN BIN IDRIS**  
Member

## RISK MANAGEMENT COMMITTEE



1.



2.



3.



4.



5.

from left to right

**1. DATO' MUHAMMAD BIN IBRAHIM**  
Chairman

**4. TENGKU DATO' AZMIL ZAHRUDDIN BIN RAJA  
DATO' SERI ABDUL AZIZ**  
Member

**2. DATO' V. DANAPALAN**  
Member

**5. DATO' AZIAN BINTI MOHD NOH**  
Member

**3. DATO' SIOW KIM LUN**  
Member

## SENIOR MANAGEMENT



**NIK AMLIZAN BINTI MOHAMED**

Director of Equity Department since 2007. Responsibilities include strategising to maximise return for equity investment within given risk parameter. She has over 18 years work experience. She obtained Bachelor's Degree in Economics, Claremont McKenna College, USA.



**AHMAD NORHISHAM BIN HASSAN**

Director of Fixed Income Department since 2007. Responsibilities include developing investment strategy and objective. He has 17 years work experience. He obtained Bachelor's Degree (Hons) in Business Administration (Finance) and MBA (Finance), from Western Michigan University, USA.



**AMBALAGAM S/O R. MARAPPAN**

Director of External Fund Management Department since 2007. Responsibilities include developing action plan to invest fund with external fund managers. He has vast experience in Federal Government. He obtained Bachelor's Degree (Hons) in Accounting and Masters Degree in Finance and International Studies, University of Malaya. He is a Chartered Accountant with the Malaysian Institute of Accountants.



**KHAIRUL AZWA BIN KAMALUL BAHRI**

Director of Risk Management and Compliance Department since 2009. Responsibilities include oversight of the enterprise risk management and compliance. He has over 16 years work experience. He obtained LL.B (Hons), University of Liverpool, England; MBA Management, University of Wales, Cardiff, UK and Financial Risk Manager Certification.



**SUDIRMAN BIN MASDUKI**

Director of Accounts & Management Services Department since 2007. Responsibilities include oversight of overall financial, accounting and administrative affairs. He has over 34 years work experience. He obtained MBA, Universiti Kebangsaan Malaysia, Certified Financial Planner and Member of Association of Chartered Certified Accountants (ACCA).



**MD SAFFI BIN NADZIR**

Director of Contribution Department since 2007. Responsibilities include increasing fund size through maximising collection of contributions. He has over 25 years work experience. He obtained Bachelor's Degree in Accounting, Universiti Teknologi MARA and MBA, Universiti Utara Malaysia.

## KEY PERSONNEL

NO.	NAME	ACADEMIC ACHIEVEMENT	POSITION
1.	Ahmad Zahir Bin Mohd Tabri	B.Sc in Business Administration - Management Science, University of Illinois, Urbana-Champaign, USA	Vice President / Senior Portfolio Manager, Fixed Income Department
2.	Mushida Binti Muhammad	B.Sc in Business Administration (Accounting), California State University, Bakersfield, USA	Vice President / Senior Portfolio Manager, Equity Department
3.	Norani Binti Mustapha	B.Sc (Hons) in Estate Management, Northumbria University At Newcastle, England	Vice President, Property Department
4.	Azizan Bin Abdul Rahman	B.Sc in Business Administration (Economic & Finance), University of Hartford, USA	Vice President / Head, Business Performance Department
5.	Md Hayrani Bin Mireso	MBA (Finance), International Islamic University Malaysia B.A. (Hons) Accounting, Universiti Kebangsaan Malaysia Chartered Accountant, Malaysian Institute of Accountant (MIA)	Vice President / Senior Portfolio Manager, Fixed Income
6.	Nazaiful Affendi Bin Zainal Abidin	MBA (Finance), International Islamic University Malaysia BBA (Hons) in Finance/ Economics, International Islamic University Malaysia	Vice President / Economist, Portfolio Strategy



## KEY PERSONNEL

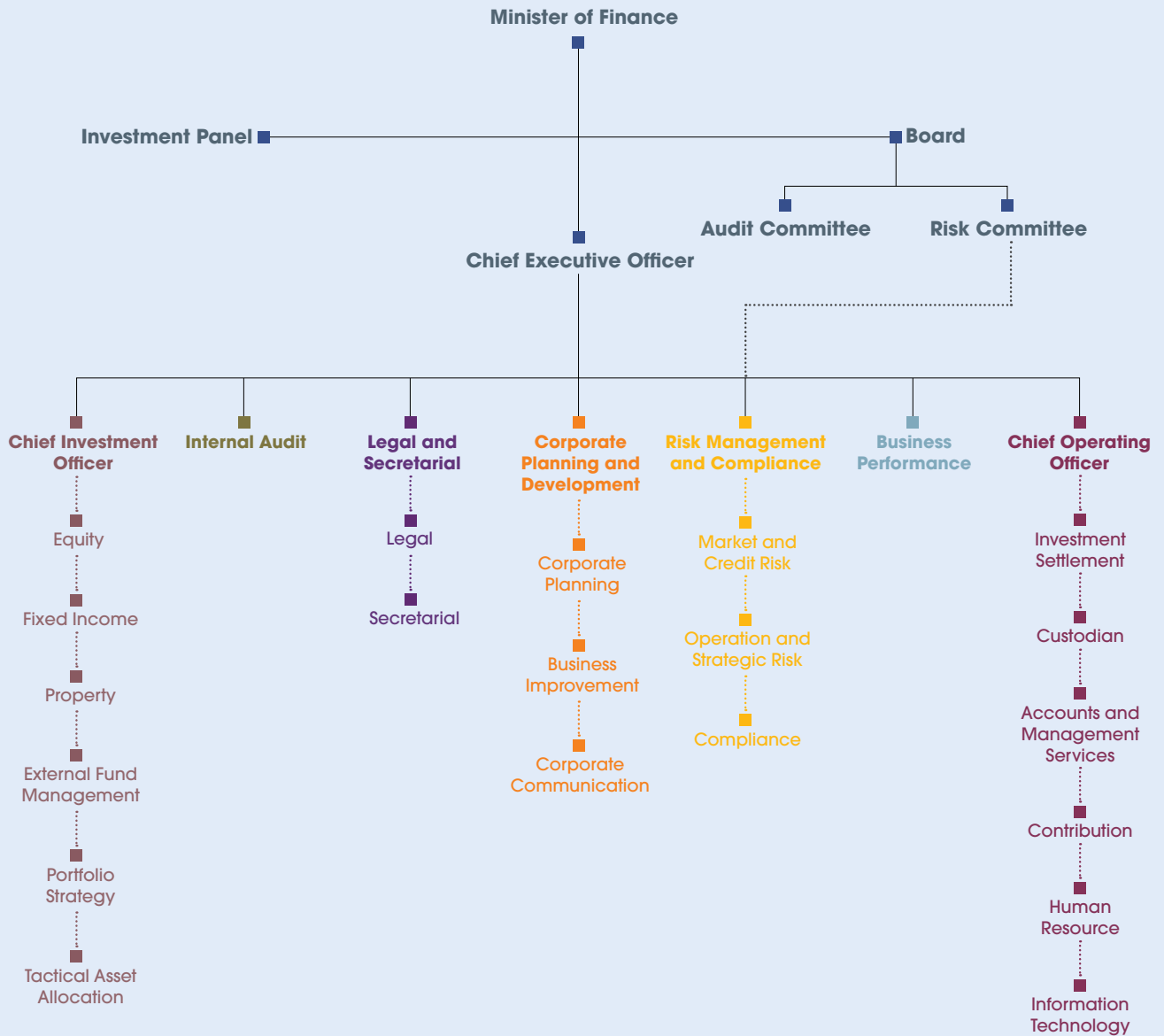
NO.	NAME	ACADEMIC ACHIEVEMENT	POSITION
7.	Amirah Binti Muhamad Nor	MBA (Accountancy), University of Malaya Advanced Diploma in Accountancy, MARA Institute of Technology Chartered Accountant, Malaysian Institute of Accountant (MIA)	Vice President / Head, Investment Settlement Department
8.	Kamariah Binti Ghazali	MSc (Accountancy), Oklahoma City University, USA B.A. (Hons) Accountancy, Universiti Kebangsaan Malaysia	Vice President, Corporate Planning and Development Department
9.	Tan Mee Choo	B.A. (Hons) Accountancy, University of Malaya	Vice President, Account and Management Services Department
10.	Siti Ilmiah Binti Ramli	LL. B (Hons.), University of London Certificate in Legal Practice (CLP)	Vice President, Human Resources Department
11.	Ismail Bin Zakaria	B.A. Commerce (Accounting & Finance), University of New South Wales, Australia	Vice President, Corporate Planning and Development Department

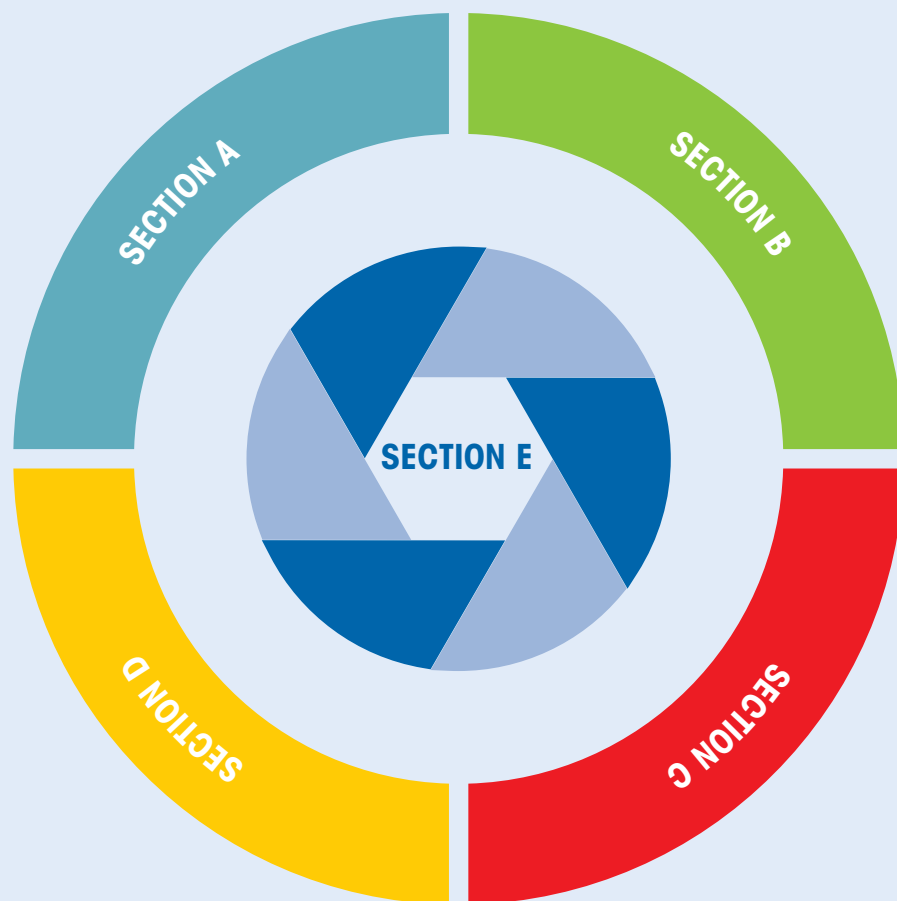
## KEY PERSONNEL

NO.	NAME	ACADEMIC ACHIEVEMENT	POSITION
12.	Muhamad Hafiz Bin Abas	MBA (Finance), International Islamic University Malaysia  B.Sc Business Administration (Finance & Economic), New York University, USA	Vice President, Risk Management and Compliance Department
13.	Abdul Razak Bin Jabar	BIT (Information Systems), Charles Sturt University, Australia	Vice President, Information Technology Department
14.	Najihah Binti Mohamad Norwi	B.A. Business (Accountancy & Finance), Monash University, Australia  CPA, Australian Society of Certified Practicing Accountant (ASCPA), Australia	Vice President, Accounts and Management Services Department



# ORGANISATION CHART





## SECTION E

- Certificate of the Auditor General on the Financial Statements of Kumpulan Wang Persaraan (Diperbadankan) • Statement by the Chairman and a Member of the Board of Kumpulan Wang Persaraan (Diperbadankan) • Statutory Declaration by the Officer Primarily Responsible for the Financial Management of Kumpulan Wang Persaraan (Diperbadankan) • Balance Sheet
- Income Statement • Statement of Changes in Reserves • Cash Flow Statement
- Notes to the Financial Statements



**CERTIFICATE OF THE AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF THE  
KUMPULAN WANG PERSARAAN (DIPERBADANKAN)  
FOR THE YEAR ENDED 31 DECEMBER 2009**

I have audited the financial statements of the Kumpulan Wang Persaraan (Diperbadankan) for the year ended 31 December 2009. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

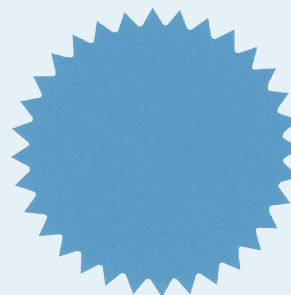
The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing. Those standards require an audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement or omission. The audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessment of the accounting principles used, significant estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements give a true and fair view of the financial position of the Kumpulan Wang Persaraan (Diperbadankan) as at 31 December 2009 and of the results of its operations and its cash flows for the year ended in accordance with the approved accounting standards.

**(TAN SRI DATO' SETIA HAJI AMBRIN BIN BUANG)**

AUDITOR GENERAL  
MALAYSIA

PUTRAJAYA  
16 APRIL 2010

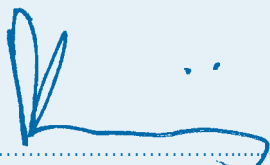


## STATEMENT BY THE CHAIRMAN

and a member of the Board of Kumpulan Wang Persaraan (Diperbadankan)

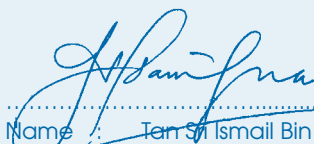
We, Tan Sri Dr. Wan Abdul Aziz Bin Wan Abdullah and Tan Sri Ismail Bin Adam being the Chairman and a member of the Board of Kumpulan Wang Persaraan (Diperbadankan) respectively, do hereby state that, in the opinion of the Board of Kumpulan Wang Persaraan (Diperbadankan), the Financial Statements, consisting the Balance Sheet, Income Statement, Statement of Changes in Reserves and Cash Flow Statement together with the Notes to Financial Statements therein, are prepared in accordance with the Retirement Fund Act 2007 (Act 662) and applicable Private Entity Reporting Standards (PERS), which are the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Private Entities, so as to give a true and fair view of the state of affairs of Kumpulan Wang Persaraan (Diperbadankan) as at 31 December 2009 and of its operating results and the cash flow of Kumpulan Wang Persaraan (Diperbadankan) for the year ended on that date.

Signed on behalf of the Board,



Name : Tan Sri Dr. Wan Abdul Aziz Bin Wan Abdullah  
Title : Chairman of the Board  
Date : 31 March 2010  
Venue : Putrajaya

Signed on behalf of Board,



Name : Tan Sri Ismail Bin Adam  
Title : Member of the Board  
Date : 31 March 2010  
Venue : Putrajaya

# STATUTORY DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE

for the financial management of Kumpulan Wang Persaraan (Diperbadankan) 2009

I, Dato' Azian Binti Mohd Noh, being the officer primarily responsible for the financial management of Kumpulan Wang Persaraan (Diperbadankan), do solemnly and sincerely declare that the Financial Statements set out on pages 100 to 120 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared )  
by the above named )  
At Kuala Lumpur )  
On 31 March 2010 )

  
.....  
Before me,



Level 16, Menara TM Asia Life,  
188, Jalan Tun Razak,  
50400 Kuala Lumpur

.....  
COMMISSIONER FOR OATHS

# BALANCE SHEET

as at 31 December 2009

	Note	2009 (RM '000)	2008 (RM '000)
<b>Assets</b>			
Property And Equipment	3	8,949	7,198
Investment	4	49,100,991	37,021,221
Investment In Associate	5	16,670	16,670
		49,126,610	37,045,089
<b>Current Assets</b>			
Trade Debtors	6	642,139	552,234
Other Debtors	7	61,234	273,194
Deposit And Prepayments	8	8,894	14,421
Cash And Cash Equivalents	9	11,685,411	14,165,829
		12,397,678	15,005,678
<b>Current Liabilities</b>			
Trade Creditors	10	25,204	2,440
Other Creditors	11	-	274
Accrued Expenditure	12	2,517	3,954
Finance Creditors	13	133	320
		27,854	6,988
<b>Net Current Assets</b>		12,369,824	14,998,690
		61,496,434	52,043,779
<b>Financed By:</b>			
Allocation Of Statutory Fund	14	17,101,944	16,001,944
Pension Contribution	15	26,740,653	24,083,052
Deferred Income	16	2,797	6,653
Reserves		17,651,040	11,951,997
		61,496,434	52,043,646
<b>Long-Term Liabilities</b>			
Finance Creditors	13	-	133
		61,496,434	52,043,779

The notes on pages 105 to 120 form an integral part of these financial statements.

# INCOME STATEMENT

for the year ended 31 December 2009

	Note	2009 (RM '000)	2008 (RM '000)
Gross Investment Income	17	3,225,085	2,958,379
Write Back Of Allowance For Diminution / (Allowance For Diminution)		2,478,691	(2,386,579)
Income From Associate	18	16,670	16,670
Net Investment Income		5,720,446	588,470
Non-Investment Income		4,231	1,555
		5,724,677	590,025
Operating Expenditure	19	(25,634)	(28,168)
Net Income		5,699,043	561,857

The notes on pages 105 to 120 form an integral part of these financial statements.



# STATEMENT OF CHANGES IN RESERVES

for the year ended 31 December 2009

	Accumulated Surplus	Accumulated Surplus
	2009 (RM '000)	2008 (RM '000)
Balance As At 1 January	11,951,997	11,438,690
Prior Year Adjustment	-	(48,550)
Restated Accumulated Surplus Brought Forward	11,951,997	11,390,140
Net Income For Current Year	5,699,043	561,857
<b>Balance As At 31 December</b>	<b>17,651,040</b>	<b>11,951,997</b>

The notes on pages 105 to 120 form an integral part of these financial statements.

# CASH FLOW STATEMENT

for the year ended 31 December 2009

	Note	2009 (RM '000)	2008 (RM '000)
<b>Cash Flow From Operating Activities</b>			
Receipt Of Launching Grant		-	10,000
Cash Receipts From Customers And Employees		1,055	785
Cash Payment To Suppliers And Employees		(22,369)	(21,750)
<b>Net Cash Used For Operating Activities</b>		<b>(21,314)</b>	<b>(10,965)</b>
<b>Cash Flow From Investment Activities</b>			
<b>Receipts</b>			
Gain From Stock Market		10,414,544	14,409,774
Stock Market Dividends		492,580	508,222
Tax Claim On Dividends		261,543	188,581
Income From Equity Fund Manager		133,390	3,707,769
Repayment Of Loan		568,769	6,758,178
Sale Of Malaysian Government Securities		8,150,834	74,926
Interest From Loans		358,709	359,666
Gain On Disposal Of Private Debt Securities		2,061,292	10,578,935
Private Debt Securities Interest		422,097	306,719
Income From Bond Fund Manager		24,815	11,265
Fixed Deposit Interest		205,431	335,918
Short Term Money Market Interest		156,329	286,551
Malaysian Government Securities Interest		545,140	392,707
Money Market Current Account Interest		111	4,099
Bank's Current Account Interest		121	185
IDB Fund Income		1,336	472
CMREF 1 Fund Income		3,717	-
Lombard Fund Income		413	-

The notes on pages 105 to 120 form an integral part of these financial statements.

## CASH FLOW STATEMENT

for the year ended 31 December 2009

	Note	2009 (RM '000)	2008 (RM '000)
<b>Payments</b>			
Quoted Shares		(12,051,979)	(15,547,655)
Fund Managers		(250,000)	(3,631,271)
Fund Managers Fee		(4,565)	-
Custodian Fee		(149)	(70)
Loans		(324,850)	(6,728,699)
Malaysian Government Securities		(12,750,429)	(1,477,434)
Bonds		(4,565,418)	(12,738,841)
Malaysian Government Securities Advances		(59,095)	(27,029)
Private Equity Fund		(8,153)	-
Purchase Of Fixed Asset		(3,236)	(547)
<b>Net Cash Used For Investment Activities</b>		<b>(6,216,703)</b>	<b>(2,227,579)</b>
<b>Cash Flow From Financing Activities</b>			
Receipt Of Federal Government Contribution		1,100,000	1,645,000
Receipt Of Pension Contribution		2,668,171	1,776,161
Repayment Of Pension Contribution		(10,572)	(14,909)
<b>Net Cash From Financing Activities</b>		<b>3,757,599</b>	<b>3,406,252</b>
<b>Net (Decrease) / Increase In Cash</b>		<b>(2,480,418)</b>	<b>1,167,708</b>
<b>Cash And Cash Equivalents As At 1 January</b>		<b>14,165,829</b>	<b>12,998,121</b>
<b>Cash And Cash Equivalents As At 31 December</b>	9	<b>11,685,411</b>	<b>14,165,829</b>

The notes on pages 105 to 120 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

## 1. PRINCIPAL ACTIVITY

Retirement Fund (Incorporated) (KWAP) was established on 1 March 2007 under the Retirement Fund Act 2007 (Act 662) with a launching grant of RM27 million from the Federal Government of Malaysia.

The principal responsibility of KWAP is to manage the Retirement Fund (the Fund) established under Section 13 of Retirement Fund Act 2007 (Act 662) towards achieving optimum returns on its investments. Sources of the Fund are primarily allocation from the Federal Government and pension contributions which consist of contribution from Statutory Bodies and Local Governments, other Agencies, contribution from Government's share, gratuities and other deduction as well as investment income. The Fund is invested in Asset Classes in accordance with Strategic Asset Allocation and Investment Policy and Guidelines upon the recommendation of KWAP's Investment Panel and approval of the Board. The Fund shall be applied towards assisting the Federal Government in financing the Government's pension liability.

KWAP is a statutory body, incorporated and domiciled in Malaysia. The registered office of KWAP is located at Level 4, 5 & 6, Menara Yayasan Tun Razak, 200, Jalan Bukit Bintang, 55100 Kuala Lumpur.

The financial statements of KWAP were approved and authorised for issue by the Board on 31 March 2010.

## 2. ACCOUNTING POLICIES

### 2.1 BASIS OF ACCOUNTING

Financial statements have been prepared under the historical cost convention and in compliance with the Retirement Fund Act 2007 (Act 662). As a matter of policy, the financial statements have been prepared in compliance with the applicable Private Entities Reporting Standards (PERS) being the approved accounting standards for private entities in Malaysia.

The presentation of the financial statements is in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand Malaysian Ringgit unless otherwise stated.

### 2.2 ASSOCIATED COMPANIES

Associated companies are enterprises in which KWAP has significant influence but not control, generally where KWAP has a long term equity interest and voting rights of between 20 percent to 50 percent. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not the power to exercise control over the policies.

Investment in associate companies is recognised in KWAP's financial statements using the cost method. In accordance with MASB 12, KWAP is not required to issue consolidated financial statements due to the fact that KWAP does not have any subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

## 2. ACCOUNTING POLICIES (CONT'D)

### 2.3 PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are recognised at cost less accumulated depreciation and accumulated impairment of losses, if any. The policy for the recognition and measurement of impairment losses is provided in the event the carrying value exceeds the recoverable value of the asset in accordance with Note 2.4. Work in progress and paintings are not depreciated. Depreciation is provided on a straight line basis calculated to write off the cost of the assets to its residual value over the term of the estimated useful lives of the assets.

Depreciation rates for property and equipment are as follows:

i. Building Renovation	16.67% per annum
ii. Furniture	15.00% per annum
iii. Office Equipment	15.00% per annum
iv. Computers	20.00% per annum
v. Computer Software	20.00% per annum
vi. Vehicles	20.00% per annum

Net residual value, useful lives and depreciation method of assets are reviewed at each financial year end to ensure consistency of the amount, method and period of depreciation with previous estimates.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, with the net carrying amount of the asset is recognised in the Income Statement.

### 2.4 IMPAIRMENT OF ASSETS

Assets with indefinite useful life are not subjected to amortisation but reviewed at each financial year end to determine whether there is any indication of impairment. Assets subjected to amortisation will be revised for impairment when events or changes in circumstances indicate that the carrying value is unlikely to be recoverable. Upon any indication of impairment, the recoverable amount of the asset is estimated to determine the amount of impairment loss.

Loss from impairment is recognised when the carrying value of the asset exceeds the recoverable value and is charged to the Income Statement. Recoverable value is the higher of fair value of the assets less sales costs or value in use. Any increment in the recoverable value amount is recognised in the Income Statement. Reversible loss from impairment over asset revaluation is recognised under the Revaluation Surplus of the Balance Sheet.

For impairment evaluation purpose, assets are grouped at the lowest level where cash flow is separately identifiable.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 2. ACCOUNTING POLICIES (CONT'D)

#### 2.5 INVESTMENTS

Investments comprise primarily of Quoted Shares, Malaysian Government Securities (MGS), Private Debt Securities, Private Equity Funds and Properties.

##### 2.5.1 Quoted Shares

Details of accounting and recognition of quoted shares are as follows:

- i. **Disclosure Of The Value Of Investments In Quoted Shares In Financial Statements**  
Investment in quoted shares is disclosed in financial statements at the lower of cost and market value at each financial year end. Cost value is determined based on net purchase value of shares. Market value is based on the closing price of shares as at Balance Sheet date.
- ii. **Determination Of Allowance For Diminution In Value**  
Allowance for diminution in value of investment in quoted shares is determined and provided for at 100% of lower of cost and market value on a portfolio basis at financial year end in accordance with IAS 25. Book value of quoted shares is written down through allowance for diminution in value. In the event of sale or increase in market price (higher than the initial cost price) of the quoted shares in the subsequent financial year, the adjustment to the allowance for diminution in value of investment will be made to the Income Statement with the adjustment amount being limited to the balance of allowance for diminution in value previously recognised.
- iii. **Accounting For Sale Of Investments In Quoted Share**  
In the event of sale of investment in quoted shares, the difference between net disposal proceeds and the carrying amount of the investment is recognised in the Income Statement in the financial year that it is incurred.

##### 2.5.2 Malaysian Government Securities

Malaysian Government Securities, which are intended to be held to maturity, are recognised at book value calculated from its cost and adjusted, where necessary, for amortisation of premium and accretion of discount from the date of purchase till the date of maturity.

##### 2.5.3 Private Debt Securities

Private Debt Securities such as Bonds, Medium Term Notes and Commercial Papers, which are intended to be held to maturity, are recognised at book value calculated from its cost and adjusted, where necessary, for amortisation of premium and accretion of discount from the date of purchase till the date of maturity.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 2. ACCOUNTING POLICIES (CONT'D)

#### 2.5 INVESTMENTS (CONT'D)

##### 2.5.4 Private Equity Funds

Investment in Private Equity Funds is recognised at cost less repatriation of capital, if any.

#### 2.6 FOREIGN CURRENCY

##### 2.6.1 Functional And Presentation Currency

The financial statements of KWAP are presented in Ringgit Malaysia (RM), which is the currency of the primary economic environment in which KWAP operates (functional currency).

##### 2.6.2 Foreign Currency Transactions

Transactions in foreign currencies other than KWAP's functional currency are translated and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Items denominated in foreign currency are translated at the closing exchange rate ruling at the Balance Sheet date.

Exchange differences arising from the settlement of monetary items, and the translation of monetary items at Balance Sheet date are recognised in the Income Statement. Exchange differences of non-monetary items are directly recognised in equity if the gain or loss on the non-monetary item is recognised in equity. Likewise, exchange differences of non-monetary items are directly recognised in the Income Statement if the gain or loss on the non-monetary item is recognised in the Income Statement.

#### 2.7 ALLOCATION OF STATUTORY FUND

KWAP receives annual allocation from the Federal Government in accordance with Section 13 of the Retirement Fund Act 2007 (Act 662).

#### 2.8 PENSION CONTRIBUTION

Pension contributions are recognised upon receipt of contributions from Statutory Bodies, Local Authorities and other Agencies as well as Government's share, gratuities and other deductions in accordance with the Statutory and Local Authorities Pensions Act, 1980 (Act 239) and Services Circular No. 12/2008.

#### 2.9 RECOGNITION OF INCOME AND EXPENDITURE

All income and operating expenditures are recognised on an accrual basis.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 2. ACCOUNTING POLICIES (CONT'D)

#### 2.10 TAXATION

KWAP is exempted from income tax in accordance with Section 127(3A) of the Income Tax Act 1967.

#### 2.11 FINANCE LEASE

Finance lease is classified as leases whereby KWAP is a lessee and assumes substantially all the risks and ownership. Assets acquired under finance lease agreements are recognised at purchase cost and depreciated on the same basis as owned assets. The outstanding amounts under the finance lease agreements are recognised in the Balance Sheet as finance lease creditors.

#### 2.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash on hand, deposits held at call with banks and other financial institutions and short term, highly liquid investments with maturity of within 1 year from the date of holding that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

The Cash Flow Statement is prepared using the direct method.

#### 2.13 EMPLOYEE BENEFITS

##### 2.13.1 Short Term Benefits

Wages, salaries, bonuses and social security contributions and other benefits such as medical coverage benefits and allowances are recognised as expenditure in the year in which the associated services are rendered by the employees of KWAP. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation. Short term non accumulating compensated absences such as sick leave are recognised when the absences occur.

##### 2.13.2 Defined Contribution Plan

As requested by law, KWAP made contributions to the Employees Provident Fund (EPF) and Social Security Organisation (SOCSO). Such contributions are recognised as an expense in the Income Statement as incurred.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 2. ACCOUNTING POLICIES (CONT'D)

#### 2.14 OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

KWAP is exposed to various financial risks including credit risks, liquidity risks and cash flow risks. Generally, the objectives and policies of financial risk management are aimed at optimising returns to KWAP.

##### 2.14.1 Financial Risks

Financial risk management is carried out by reviewing the risks, internal control systems and compliance to financial risk management policies. The Risk Management Committee of KWAP are continuously reviewing and monitoring the risks.

##### 2.14.2 Credit Risks

KWAP ensures credit risks are under control by the continuously monitoring the financial position and credit performance of counter parties and issuers.

##### 2.14.3 Liquidity And Cash Flow Risks

KWAP manages its liquidity and cash flow risks by ensuring that cash is sufficient at all times and providing sufficient funds to meet the projected commitment for the operating expenses and financial liabilities.

#### 2.15 GOVERNMENT GRANT

Government grant in relation to assets is recognised as income in the Income Statement on a monthly basis with the balance classified in the Balance Sheet under equity as deferred income. Income is recognised using the straight line method on the basis of the estimated useful life of the assets in accordance with MASB 31.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 3. PROPERTY AND EQUIPMENT

	Building Renovation RM '000	Furniture RM '000	Office Equipment RM '000	Computer RM '000	Computer Software RM '000	Vehicle RM '000	Work In Progress RM '000	Total RM '000
<b>Cost</b>								
<b>Balance As At 1 January 2009</b>	4,420	1,440	718	2,190	382	147	-	9,297
Addition	259	137	134	775	541	-	1,734	3,580
Adjustment/Disposal	-	-	-	(6)	-	-	-	(6)
<b>Balance As At 31 December 2009</b>	4,679	1,577	852	2,959	923	147	1,734	12,871
<b>Accumulated Depreciation</b>								
<b>Balance As At 1 January 2009</b>	1,054	330	110	512	45	48	-	2,099
Current Year Charge	767	221	113	595	98	30	-	1,824
Adjustment/Disposal	-	-	-	(1)	-	-	-	(1)
<b>Balance As At 31 December 2009</b>	1,821	551	223	1,106	143	78	-	3,922
<b>Net Book Value</b>								
<b>Balance As At 31 December 2009</b>	2,858	1,026	629	1,853	780	69	1,734	8,949
<b>Cost</b>								
<b>Balance As At 1 January 2008</b>	4,343	1,410	570	2,075	208	147	-	8,753
Addition	78	30	150	115	174	-	-	547
Adjustment/Disposal	(1)	-	(2)	-	-	-	-	(3)
<b>Balance As At 31 December 2008</b>	4,420	1,440	718	2,190	382	147	-	9,297
<b>Accumulated Depreciation</b>								
<b>Balance As At 1 January 2008</b>	323	117	17	96	2	19	-	574
Current Year Charge	731	213	93	416	43	29	-	1,525
Adjustment/Disposal	-	-	-	-	-	-	-	-
<b>Balance As At 31 December 2008</b>	1,054	330	110	512	45	48	-	2,099
<b>Net Book Value</b>								
<b>Balance As At 31 December 2008</b>	3,366	1,110	608	1,678	337	99	-	7,198

Net book value of computer as at 31 December 2009 includes asset held under finance lease arrangement of RM537,411 (2008 : RM656,722).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 4. INVESTMENTS

	2009		2008	
	Cost/ Book Value (RM '000)	Market Value/Net Tangible Asset (RM '000)	Cost/ Book Value (RM '000)	Market Value/Net Tangible Asset (RM '000)
Quoted Shares	16,160,338	16,174,052	13,524,323	10,613,399
Allowance For Diminution	(425,009)		(2,923,009)	
	15,735,329		10,601,314	
Unquoted Shares	393,136		401,536	
Malaysian Government Securities	14,766,384	14,844,311	10,096,770	10,677,527
Accretion Of Discount / Amortisation Of Premium	(47,652)		(40,668)	
	14,718,732		10,056,102	
Private Debt Securities	10,852,654	11,131,463	8,337,822	8,503,146
Accretion Of Discount / Amortisation Of Premium	138,994		106,011	
Impairment Of Investment	(19,310)		-	
	10,972,338		8,443,833	
Participation In Private Equity Fund	111,807		104,867	
Guaranteed Loan	7,169,649		7,413,569	
Maturity Within 12 Months				
	49,100,991		37,021,221	

Gross maturity structure for Malaysian Government Securities and Private Debt Securities (not including External Bond Fund Manager) are as follows:

	2009 (RM '000)	2008 (RM '000)
Maturity Within 12 months	723,761	2,359,828
Maturity After 12 months	24,395,277	15,574,764
	25,119,038	17,934,592

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

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## 5. INVESTMENT IN ASSOCIATE

	Note	2009 (RM '000)	2008 (RM '000)
Unquoted Shares At Cost	20	16,670	16,670

If the equity method of accounting had been applied, the carrying amount of investment in associated company for the period ended 31 December 2009 is as follows:

	2009 (RM '000)	2008 (RM '000)
Unquoted Shares In Associated Company, At Cost	16,670	16,670
Share Of Post-Acquisition Retained Profits	1,670,925	650,484
	1,687,595	667,154
Represented By:		
Share Of Net Assets Of Associated Company	1,687,595	667,154

## 6. TRADE DEBTORS

	2009 (RM '000)	2008 (RM '000)
Income From Disposal Of Shares	70,869	29,002
Dividend Income	14,762	9,130
Income From External Equity Fund Managers	128,135	137,103
Interest On Malaysian Government Securities	158,382	120,221
Income From External Bond Fund Managers	27,484	24,815
Interest On Corporate Bonds	100,662	71,703
Interest On Loans	81,200	98,497
Interest On Short Term Money Market	13,959	23,500
Interest On Fixed Deposit	46,686	38,263
	642,139	552,234

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 7. OTHER DEBTORS

	2009 (RM '000)	2008 (RM '000)
Income Tax Receivable	53,960	265,907
Investment Receivable*	7,254	7,254
Miscellaneous	20	33
	61,234	273,194

\*KWAP is currently pursuing legal action against an asset management company for an investment claim.

### 8. DEPOSITS AND PREPAYMENTS

	2009 (RM '000)	2008 (RM '000)
Interest On Malaysian Government Securities	7,250	14,165
Other Advances	18	20
Other Prepayments	216	173
Other Deposits*	1,410	63
	8,894	14,421

Deposits, prepayments and advances are expected to mature in 12 months.

\*Other Deposits include the amount of RM1,346,625 (2008:RM-) being the deposit for legal consultancy fee for a legal firm.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

## 9. CASH AND CASH EQUIVALENT

	2009 (RM '000)	2008 (RM '000)
Cash And Bank Balance	53,740	19,264
Deposits With Financial Institutions		
- Merchant Bank	6,031,734	7,922,721
- Islamic Bank	1,874,053	2,530,943
- Development Bank	2,589,890	1,226,190
- Investment Bank	1,015,950	1,044,703
- Bank Negara Malaysia	44	2,008
- Other Financial Institutions	120,000	1,420,000
	11,685,411	14,165,829

## 10. TRADE CREDITORS

	2009 (RM '000)	2008 (RM '000)
Fund Managers' Fee	2,579	2,440
Stock Brokers' Fee	22,625	-
	25,204	2,440

## 11. OTHER CREDITORS

	2009 (RM '000)	2008 (RM '000)
Suppliers	-	262
Others	-	12
	-	274

## 12. ACCRUED EXPENDITURE

	2009 (RM '000)	2008 (RM '000)
Provision For Bonus	2,215	3,643
Provision For Services	38	61
Provision For Fund Managers' Fees	264	250
	2,517	3,954



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 13. FINANCIAL CREDITORS

	2009 (RM '000)	2008 (RM '000)
Short Term Creditors	133	320
Long Term Creditors	-	133
	133	453

### 14. ALLOCATION OF STATUTORY FUNDS

	2009 (RM '000)	2008 (RM '000)
Balance As At 1 January	16,001,944	14,356,944
Add: Allocation For Current Year	1,100,000	1,645,000
Balance As At 31 December	17,101,944	16,001,944

### 15. PENSION CONTRIBUTIONS

	2009 (RM '000)	2008 (RM '000)
Contribution From Statutory Bodies, Local Authorities And Other Agencies	5,928,536	5,365,281
Contribution From Government's Share, Gratuities And Other Deductions	20,812,117	18,717,771
	26,740,653	24,083,052

#### 15.1 CONTRIBUTION FROM STATUTORY BODIES, LOCAL AUTHORITIES AND OTHER AGENCIES

KWAP receives monthly contribution for permanent employees with pensionable status from their respective employers such as Statutory Bodies, Local Authorities and Agencies where the officers are seconded. Contributions made are based on 17.5% of the fixed monthly salary of the employees.

	Accumulated Contribution 01/01/2009 (RM '000)	Receipts 2009 (RM '000)	Balance 31/12/2009 (RM '000)	Accumulated Contribution 01/01/2008 (RM '000)	Receipts 2008 (RM '000)	Balance 31/12/2008 (RM '000)
Statutory Bodies	4,203,704	441,037	4,644,741	3,800,369	403,335	4,203,704
Local Authorities	1,106,860	116,283	1,223,143	1,000,165	106,695	1,106,860
Other Agencies	56,788	5,998	62,786	51,349	5,439	56,788
	5,367,352	563,318	5,930,670	4,851,883	515,469	5,367,352
Less: Repayment Of Claims	(2,071)	(63)	(2,134)	(1,998)	(73)	(2,071)
	5,365,281	563,255	5,928,536	4,849,885	515,396	5,365,281

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

## 15. PENSION CONTRIBUTIONS (CONT'D)

## 15.2 CONTRIBUTION OF GOVERNMENT'S SHARE, GRATUITIES AND OTHER DEDUCTIONS

Contributions of Government's share, gratuities and other deductions submitted to KWAP when retired public officers make withdrawals under the Withdrawal Scheme for Pensionable Employees and Pension Withdrawal Scheme are as follows:

	Accumulated Contribution 01/01/2009 (RM '000)	Receipts 2009 (RM '000)	Balance 31/12/2009 (RM '000)	Accumulated Contribution 01/01/2008 (RM '000)	Receipts 2008 (RM '000)	Balance 31/12/2008 (RM '000)
KWSP	14,606,373	1,750,675	16,357,048	13,667,370	939,003	14,606,373
KWSG	145,668	927	146,595	144,767	901	145,668
KWSG - Sabah	13,236	-	13,236	12,479	757	13,236
LTAT	3,259,481	328,805	3,588,286	2,986,619	272,862	3,259,481
SESCO	45,309	-	45,309	45,309	-	45,309
JPA - Gratuities	677,212	23,660	700,872	631,640	45,572	677,212
Others	27,679	787	28,466	26,471	1,208	27,679
	18,774,958	2,104,854	20,879,812	17,514,655	1,260,303	18,774,958
Less: Repayment Of Claims	(57,187)	(10,508)	(67,695)	(42,352)	(14,835)	(57,187)
	18,717,771	2,094,346	20,812,117	17,472,302	1,245,468	18,717,771

## 16. DEFERRED INCOME

Deferred income is in relation to the grant received from the government utilised for the purpose of fixed asset purchases.

	2009 (RM '000)	2008 (RM '000)
Deferred Income	6,653	8,177
Less: Amortisation Of Deferred Income	(3,856)	(1,524)
Deferred Income After Amortisation	2,797	6,653

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 17. INCOME

	2009 (RM '000)	2008 (RM '000)
Gain On Disposal Of Shares	759,423	594,902
Share Dividends	481,543	469,301
Tax Claim On Dividends	49,597	112,269
Income From External Fund Managers	151,905	156,551
Interest On Malaysian Government Securities	517,292	362,578
Profit On Sale Of Private Debt Securities	90,319	15,457
Interest And Dividends On Private Debt Securities	451,055	320,356
Accretion Of Investment Discount / (Amortisation Of Investment Premium)	16,404	(2,250)
Income / Capital Gain From Private Equity Fund Investments	4,253	472
Interest On Loan	341,411	367,658
Interest On Deposits	360,641	556,046
Interest On Bank Balances	232	4,284
Other Investment Income	1,010	755
	3,225,085	2,958,379

### 18. INCOME FROM ASSOCIATED COMPANIES

Income comprises of dividend income received from associate company.

	2009 (RM '000)	2008 (RM '000)
Dividend Income From Associate Company	16,670	16,670

If the equity method of accounting had been applied, the Income Statement of KWAP will be as follows:

	2009 (RM '000)	2008 (RM '000)
Gross Investment Income	3,225,085	2,958,379
Write Back Of Diminution / (Allowance For Diminution)	2,478,691	(2,386,579)
Income From Associate	180,947	166,462
Net Investment Income	5,884,723	738,262
Non-Investment Income	4,231	1,555
Operating Expenditure	5,888,954 (25,634)	739,817 (28,168)
<b>Net Income</b>	<b>5,863,320</b>	<b>711,649</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

## 19. OPERATING EXPENDITURES

	2009 (RM '000)	2008 (RM '000)
Salaries And Allowances	8,410	8,875
Contributions To EPF	1,849	1,325
Contributions To SOCSO	48	26
Services And Supplies	13,483	16,418
Gifts And Donations	22	-
Depreciation On Property And Equipment	1,822	1,524
	25,634	28,168

Total number of KWAP's employees stood at 108 as at 31 December 2009 (2008 : 99).

## 20. ASSOCIATE AND ACTIVITY

	Effective Percentage Holding		Principal Activity
	2009	2008	
Valuecap Sdn Bhd	33.34%	33.34%	Investment in listed securities on Bursa Malaysia

## 21. CAPITAL COMMITMENT

Property And Equipment	2009 (RM'000)
Contracted	2,029
Work In Progress	(1,734)
Contracted But Have Not Been Accounted For In The Financial Statements	295

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

### 22. COMPARATIVE FIGURES

The following comparative figures are reported to reflect the changes in the presentation as well as the reclassification of the related items in the current year's financial statements:

	2009 As Restated (RM '000)	2008 As Previously Reported (RM '000)
<b>Balance Sheet</b>		
Investment	37,021,221	37,037,891
Investment In Associate	16,670	-
Trade Debtors	552,234	559,488
Other Debtors	273,194	265,940
Cash And Cash Equivalent	14,165,829	-
Short Term Investments	-	5,249,025
Fixed Deposits	-	8,895,533
Cash And Bank Balance	-	21,271
<b>Income Statement</b>		
Gross Investment Income	2,958,379	-
Income From Associate Companies	16,670	-
Non-Investment Income	1,555	-
Income	-	3,010,811
Amortisation Of Premium	-	(34,207)

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