



KHAZANAH  
NASIONAL

# Khazanah Annual Review 2021

4 March 2021

**Investing for  
Our Future**



# Khazanah's Journey in Building an Institution for the long-term

## Transitioning

### Progress made under new mandate:

- ✓ Strengthened financial position
- ✓ Commenced rebalancing Commercial Fund portfolio with deployment into public markets – US, Japan, China and India
- ✓ New policies & processes rolled out, and talent development framework implemented
- ✓ Digital Strategy developed with key projects commenced



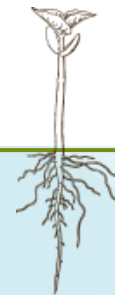
2018

## WHERE WE ARE

### Building

Continue with portfolio rebalancing, implementation of current initiatives, and embarking on new strategies to thrive amidst the economic uncertainty in the future

[More details](#)



2020

### Evolving

Continue our evolution as Malaysia's Sovereign Wealth Fund and deliver our objectives for the nation



2025 onwards



## OUR VALUES



We hold ourselves accountable



We respect different viewpoints



We support one another

## OUR PURPOSE

Investing to Deliver Sustainable Value for Malaysians



Apply long-term perspective to deliver sustainable risk-adjusted returns



Discipline in continually assessing our portfolio with an investor mindset



Advocate for responsible and sustainable actions



Develop our people

## OUR PHILOSOPHIES



# 2020 In Review



# Summary of Global Events and Economic Growth Indicators in 2020

## KEY EVENTS IN 2020



**Covid-19 pandemic and lockdowns globally**



**Biden won US elections**



**Turbulence in global oil market**



**GoM stimulus packages Malaysia implemented RM305bn**



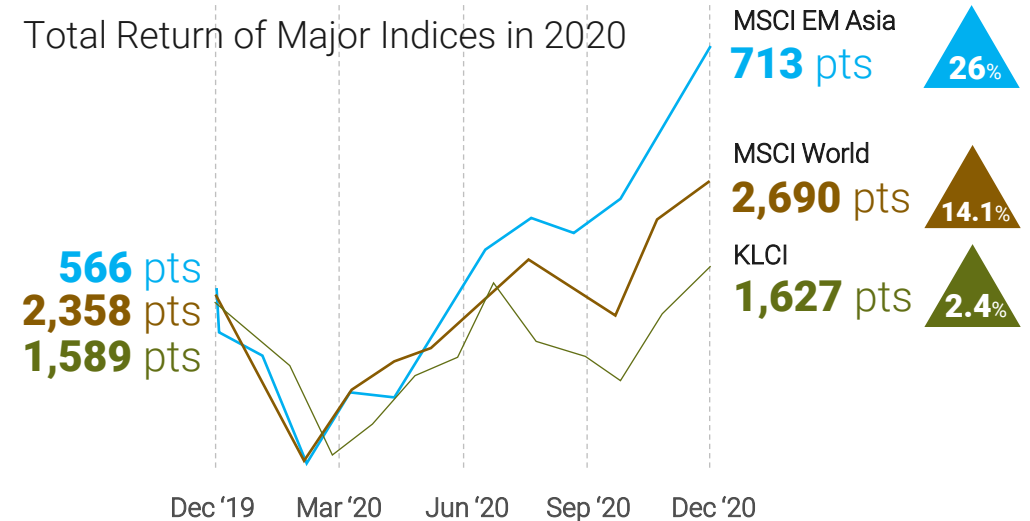
**Cumulative rate cuts of 125bps on Overnight Policy Rate by Bank Negara Malaysia**



**Budget 2021 Largest expenditure in Malaysia's history at RM322.5b**

## GLOBAL MARKET PERFORMANCE IN 2020

Total Return of Major Indices in 2020



## GLOBAL REAL GDP GROWTH (YoY) COMPARISON

Geography	2019	2020
Malaysia	4.3%	-5.6%
Emerging Markets	3.6%	-2.4%
Developed Markets	1.6%	-4.9%
World	2.8%	-3.5%



# Impact of Covid-19 Pandemic on Khazanah's Overall Strategy in 2020

## ECONOMIC UNCERTAINTY IN 2020



**Volatility in financial markets**



**Covid-19 significantly impacted aviation and tourism sectors**



**Business continuity and structural changes across multiple industries**

## IMPLICATIONS TO KHAZANAH

Continued **portfolio rebalancing** while **taking advantage of market volatility and opportunities**

**Need to support** some of our portfolio companies' **capital requirements**

**Assessed impact** of potential **long-term structural changes** on our investee companies



# Covid-19 impact on Malaysia's Aviation and Tourism Industry in 2020

## MALAYSIA AVIATION INDUSTRY



International Flight

-70%

Domestic Flight

-53%

International Passenger

-80%

Domestic Passenger

-63%

## MALAYSIA TOURISM INDUSTRY



Tourist Arrival<sup>1</sup>

-78%

Tourist Receipts<sup>1</sup>

-80%

Hotel Guests

-50%

Hotel Occupancy Rate<sup>2</sup>

-27%






2020 figures are compared against its previous 5Y average

<sup>1</sup> As of YTD Sept 2020; <sup>2</sup> As of YTD June 2020;

Source: Malaysia Airport Holdings Berhad, Tourism Malaysia, CEIC



# Khazanah's Achievements in 2020

	<p><b>Rebalance Commercial Fund</b></p>	<p><b>Targeted a return of Malaysian Consumer Price Index ("CPI") + 3.0%</b> 2-year rolling basis Time-Weighted Rate of Return ("TWRR") at <b>1.5%</b></p>		
	<p><b>Develop Strategic Fund</b></p>	<p><b>Undertook measures to preserve asset value amidst economic downturn</b> (TNB, TM, MAHB, MAGB and TAR&amp;H)</p>		
	<p><b>Strengthen Financial Position</b></p>	<p><b>Maintained OPEX</b> 40bps as of 2020</p>	<p><b>Prudent RAV* cover</b> 2.9x as of 2020</p>	<p><b>Managed debt level</b> RM45.8b to <b>RM43.1b</b></p>
	<p><b>Align Governance Structure and Framework</b></p>	<p><b>Completed implementation of new policies and processes</b> to enable organisation realignment to its new mandate</p>		
	<p><b>Build Organisational Capacity</b></p>	<p><b>Digital architecture strategy approved and commenced implementation of digital refresh</b> across the organisation</p>		

\* Realisable Asset Value



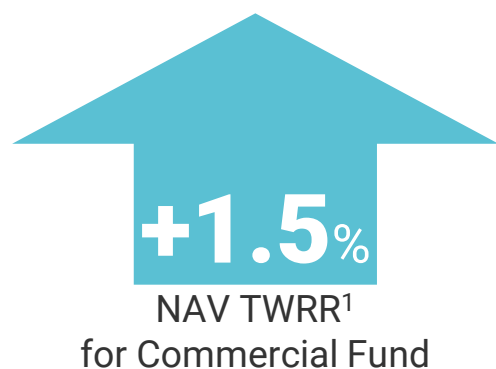


# Performance of the Commercial Fund



## Performance of the Commercial Fund

2020 Commercial Fund performance against targeted return of Malaysian CPI + 3% on a 5-year rolling basis



**RM 95.3<sub>b</sub>**  
2020 RAV<sup>2</sup>

### COMMERCIAL FUND FOCUS IN 2020

Continued rebalancing of PIPEs<sup>3</sup>  
in Commercial Fund portfolio

Deployment into Public DM and taking  
advantage of market volatility in EM

Discipline in executing on Private  
Markets investments programme

#### Selected Assets

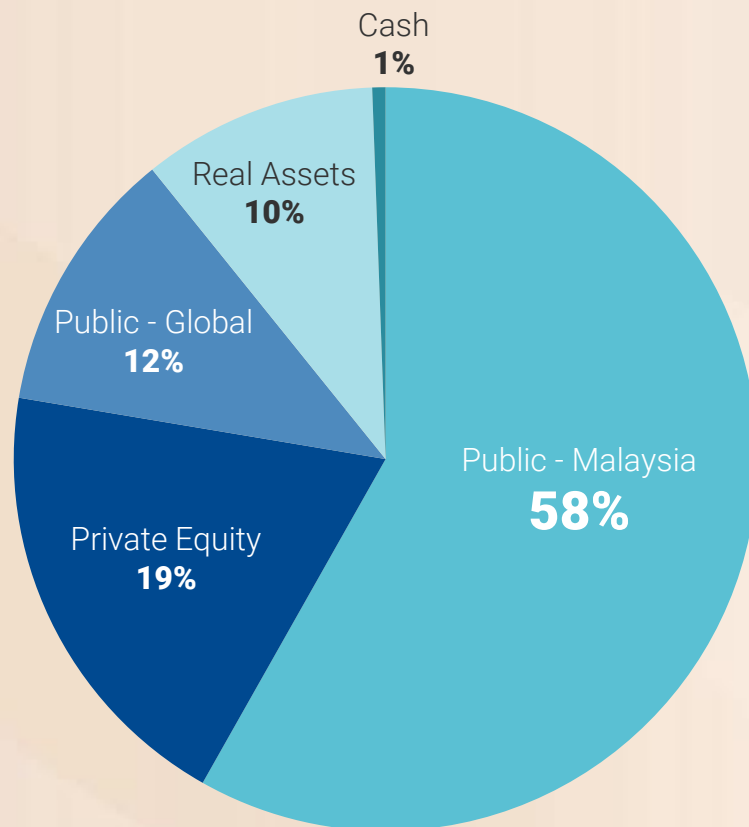


<sup>1</sup> Time-Weighted Rate of Return (TWRR) is calculated on 2-year rolling basis for Net Asset Value, against 2-year rolling Consumer Price Index (2019-2020) at -0.2%

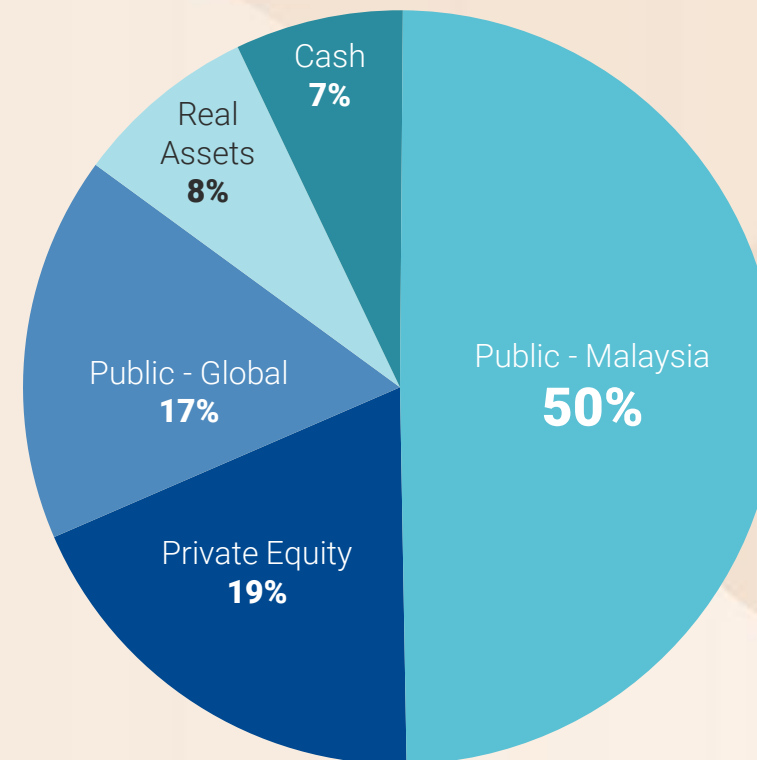
<sup>2</sup> Includes Cash and Cash Equivalents, and Other Current Assets

<sup>3</sup> Private Investment in Public Equities

## Khazanah's Asset Allocation for the Commercial Fund



31 December 2018



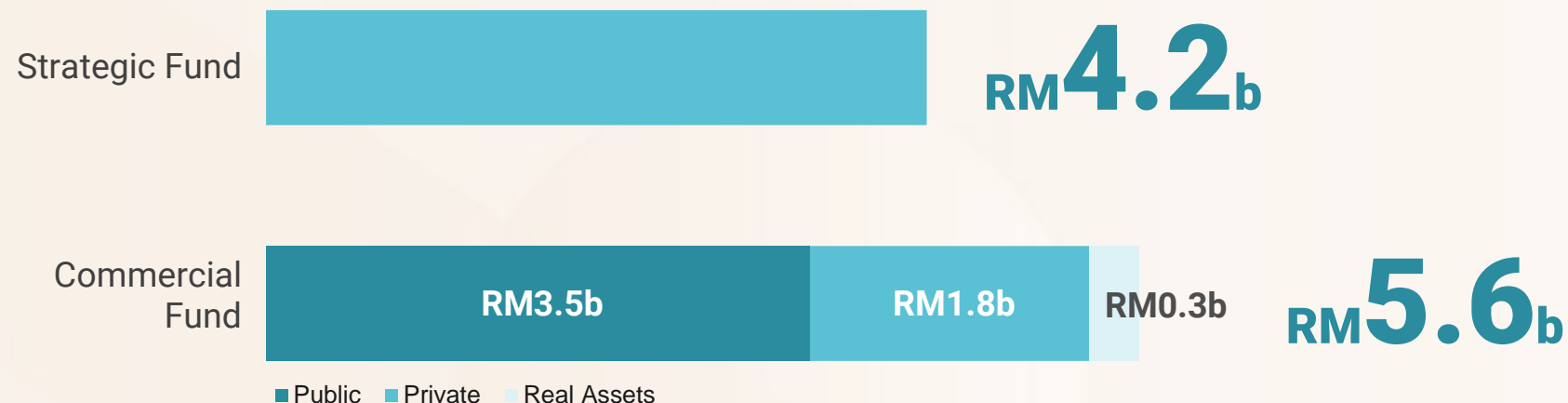
31 December 2020

Over last 2 years, we have commenced the rebalancing of our Commercial Fund portfolio, to diversify the portfolio and improve risk-adjusted returns



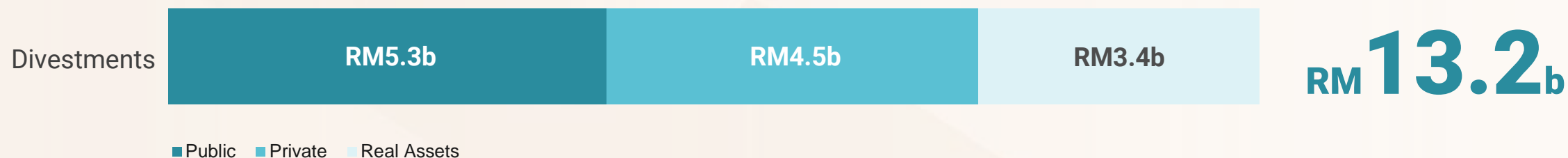
## Transactions Made in 2020

### TOTAL INVESTMENTS BY ASSET CLASS



Note: 0.3% of CF investments executed in Malaysia, the rest were deployed globally

### COMMERCIAL FUND DIVESTMENTS BY ASSET CLASS<sup>1</sup>



<sup>1</sup> No divestments were made by the Strategic Fund in 2020

# Commercial Fund Annual Returns<sup>1</sup> by Asset Class

Assets	2020	2019
Public Markets: Malaysia	<b>-7.8%</b>	<b>2.5%</b>
Public Markets: Global	<b>26.2%</b>	<b>27.5%</b>
Private Markets: Malaysia	<b>-6.4%</b>	<b>7.9%</b>
Private Markets: Global	<b>-1.3%</b>	<b>6.1%</b>
Real Assets	<b>0.1%</b>	<b>10.5%</b>



# Performance of the Strategic Fund



## Performance of the Strategic Fund (“SF”)

Targets a return of 10-year Malaysian Government Securities (“MGS”) yield on a 5-year rolling basis

Aggregate Net  
Profit/NTA ex-MAGB\*



Strategic Assets



Developmental Assets



### STRATEGIC FUND FOCUS IN 2020

**Engagement with regulators** to manage operating landscape for investee companies

**Commenced restructuring of balance sheet of selected assets** to preserve value due to impact of Covid-19 and market downturn

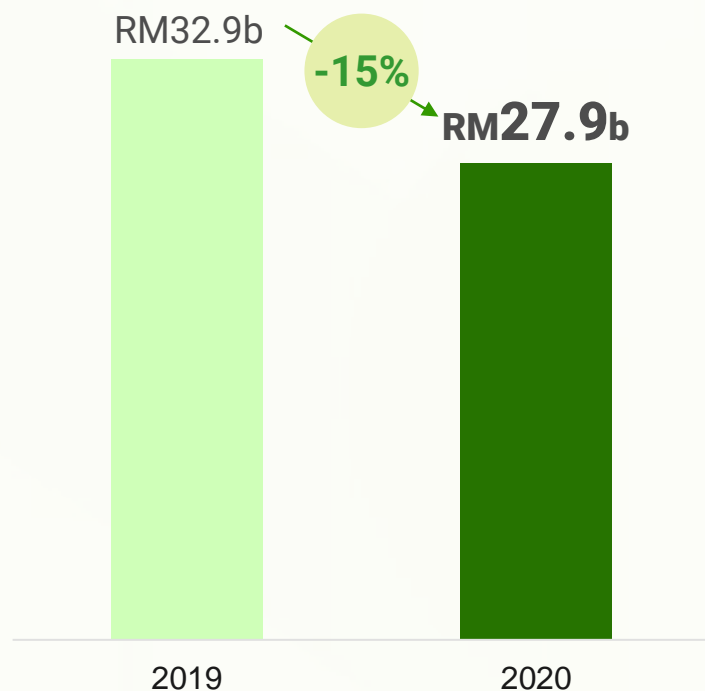
Refreshed and **strengthened leadership bench at operating companies**

**Continuous monitoring of Covid-19 impact**, made provisions for impairment on several assets (RM3.1b for MAGB, RM1.8b for TAR&H)



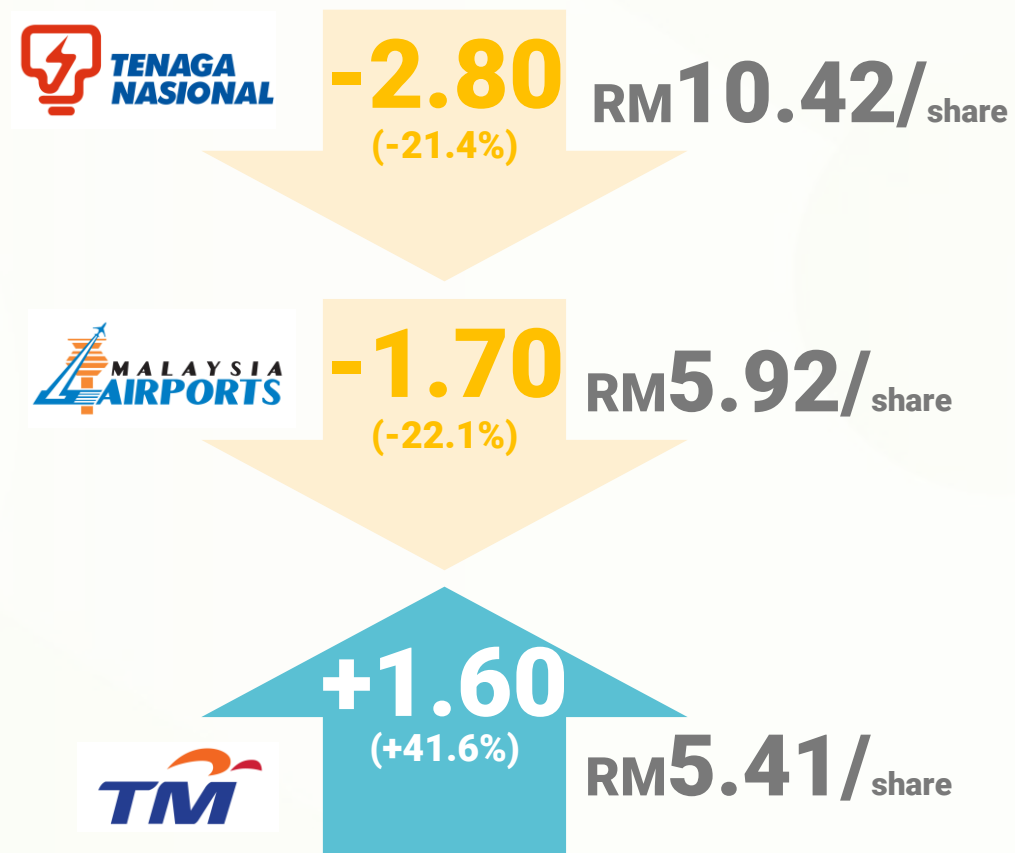
## Impact of Key Companies on Strategic Fund Portfolio Value in 2020

### Movement of Strategic Fund portfolio RAV



The portfolio value of Strategic Fund was heavily impacted by reduction in share price of key listed assets and provision made on impairments

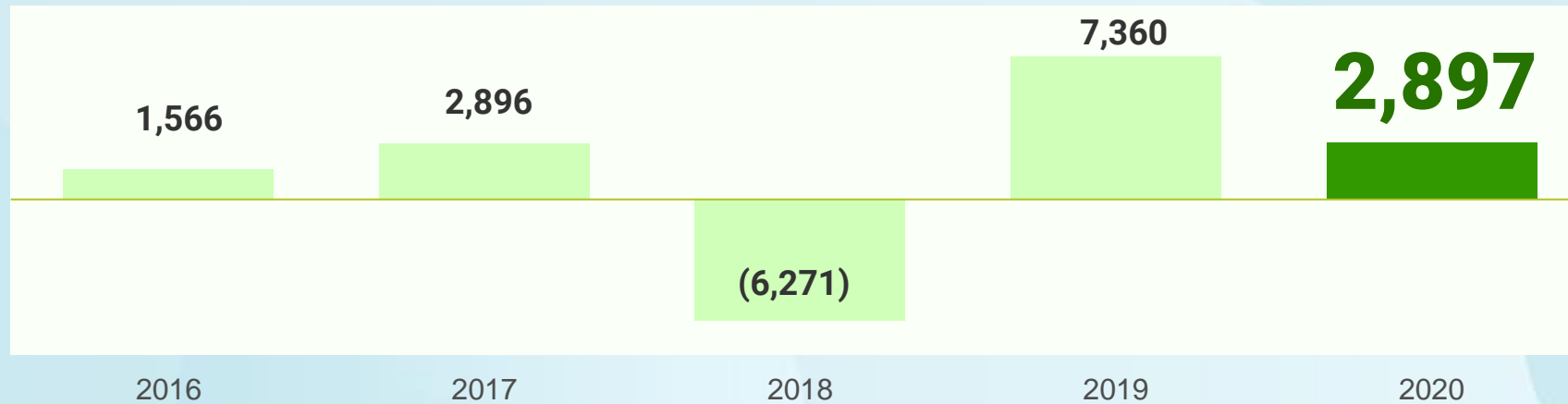
### 12-month price movement of listed companies in Strategic Fund





# Khazanah Achieved an Overall Profit of RM2.9b in 2020

## PROFIT/LOSS FROM OPERATIONS (RM m)



## CONTRIBUTIONS TO GOVERNMENT OF MALAYSIA

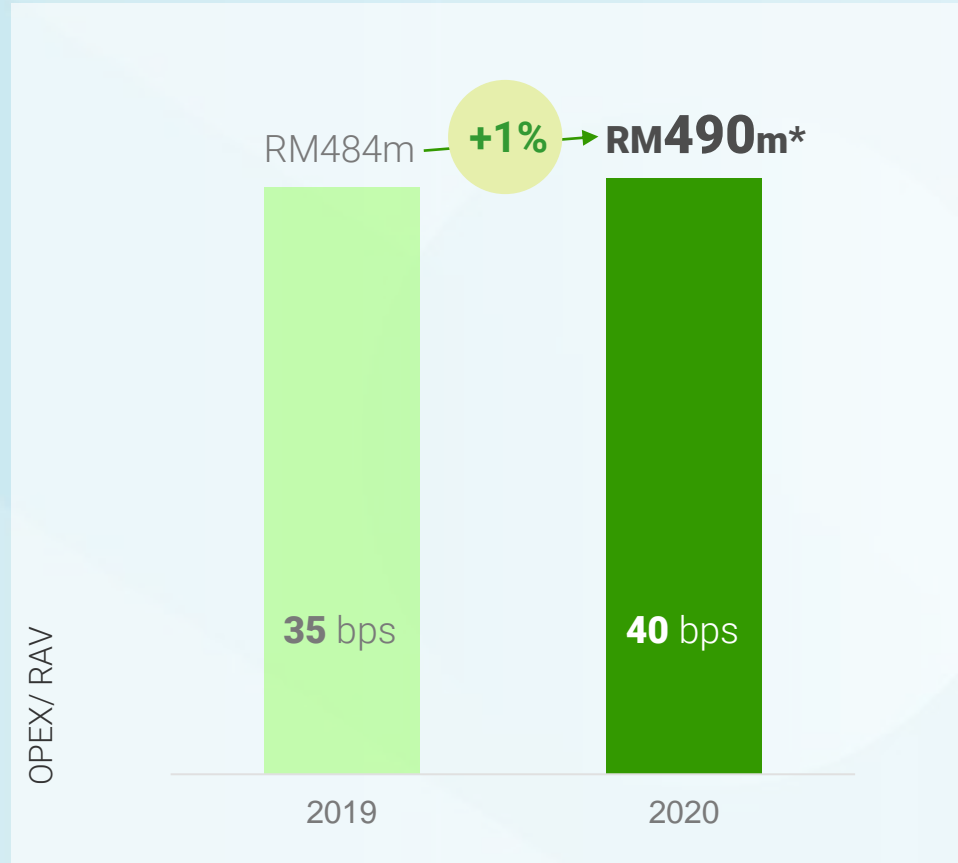
Financial Year (RM m)	2016	2017	2018	2019	2020
Dividends	650	1,000	1,500	1,000	2,000
Tax Paid	23	29	37	50	80
Contribution for Government Initiatives <sup>1</sup>	-	-	-	50	50
Contribution for Covid-19 Relief	-	-	-	-	20

<sup>1</sup>Contribution to Film in Malaysia Incentive

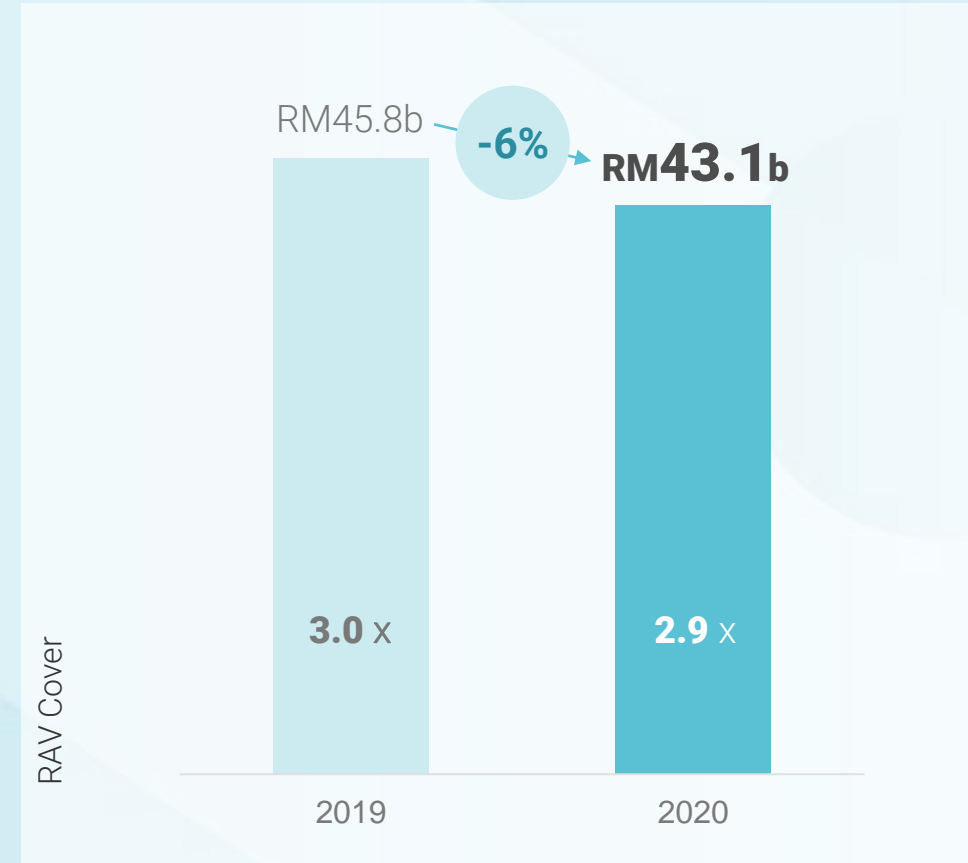


# Operating Expenditure and Debt

## OPERATING EXPENDITURE



## TOTAL DEBT



\* Includes Covid-19 relief contribution of RM20m

## OVERARCHING



### Asset-Liability Management

Liquidity and solvency limits monitoring in place by mid-2020



### Enterprise Risk Management (“ERM”)

ERM processes & policies approved and operationalised in June 2020

## INVESTMENT-RELATED



### Risk Limits

Approved new & revised risk limits for all asset classes



### ESG\* Implementation

Developed ESG screening framework for both investments in Public Markets and Private Markets

## INTEGRITY



### Independent Risk Assessments (“IRA”)

Risk assessments ensured to be prepared independently and within service standard



### General Integrity Policy

Finalised in 2020 and to be implemented in 2021



# Refresh of Digital Capabilities and Culture

## ARCHITECTURE



### Data

Use of data to improve the quality of our decisions



### Applications

Technology architecture to allow us to leverage tools to our advantage

## CULTURE



### Digital Culture

Ability to adopt, experiment, and innovate by leveraging digital tools



### Agile Ways of Working

Improve teamwork through collaboration, better awareness of our strengths

## ENABLEMENT



### Tech Capabilities & Service Model

Empower and enable staff to take control of our work through technology



### Governance

Leadership oversight to guide digital transformation journey



# Social Achievements & Contributions in 2020

## YAYASAN HASANAH

 A foundation of Khazanah Nasional

- **Spent RM98m for 44 projects** in pillars such as education, social development and **sponsored 402 scholars (64 awarded in 2020)**
- **4 major initiatives** amounted to **RM23m** related to mitigation of Covid-19 and floods; coordinated aid of **RM100m** across from GLICs, GLCs and private sectors

## KHAZANAH RESEARCH INSTITUTE

- **68 publications\*** released, with topics including Covid-19 in relation to social protection, digital policy, education, households



## TAMAN TUGU MALAYSIA

- **Visitor-ship increased 41%** despite park closure for ~3.5 months during MCO & CMCO
- Awarded the Honorary Recognition for Creating, Developing and Managing Taman Tugu from World Urban Parks
- Secured 1-year sponsorship of Nature Education Programmes (RM250k) and Trees Donation (RM40k)

\* Includes books, discussion papers and articles



# 2021 Focus



## Moving Forward, Our Focus Will be on These 5 Strategic Priorities

5Y GOALS/OUTCOMES



# Update on Malaysia Airlines Group Berhad

## 2020 RECAP: WEATHERING COVID-19



Realigned Long-Term Business Plan (LTBP 2.0) for long-term sustainability post COVID-19



UK Court sanctioned the scheme of arrangement on 22 Feb 2021 following unanimous voting support from all scheme creditors



### Key financial achievements of the Internal Restructuring:

- ✓ Achieved RM5.5b in **cost avoidance in 2020**
- ✓ Addressed over RM15b of **outstanding debt** on its capital structure
- ✓ Secured significant **liquidity support** from creditors
- ✓ Deferred delivery of new aircrafts
- ✓ **Variabilisation of fixed-cost structure**

## 2021 FOCUS: RESTRUCTURING



Khazanah committed to support MAGB to implement the Internal Restructuring

Moving forward, MAGB to focus on

- Working closely with Government and stakeholders **on restarting air travel and promoting industry recovery**
- **Implementing the Internal Restructuring**, continuing cash conservation initiatives whilst capturing demand recovery





# Continuing Efforts in 2021



1

**Continue to rebalance** commercial portfolio and diversification to prepare for a post-Covid world



2

**Undertake asset restructuring or value creation** to adjust for post-Covid structural changes



3

**Integrating Sustainability** across investment and operational activities








4

**Pursue investments in new sectors** with economic and social benefits for Malaysia

[Back](#)



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	<b>Align Governance Structure and Framework</b>	<b>Completed implementation of new policies and processes</b> to enable organisation realignment to its new mandate		
	<b>Build Organisational Capacity</b>	<b>Digital architecture strategy approved and commenced implementation of digital refresh</b> across the organisation		
<b>Profit Before Tax of RM2.9b and Dividends, taxes and other contributions<sup>2</sup> to Government of Malaysia of RM2.2b</b>				

<sup>1</sup> Realisable Asset Value

<sup>2</sup> Consists of contributions to Covid-19 relief efforts and Film in Malaysia Incentive





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# Thank You

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