The New York Times - EPF looks abroad to boost returns

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THE Employees Provident Fund (EPF) plans to increase its investment abroad after the stuttering local equity market and the poor stocks' performance slapped the country's largest pension fund with an RM8.05 billion impairment bill.

Share prices for firms like Felda Global Ventures Holdings Bhd (FGVH), Malayan Banking Bhd and other stocks had been poor, forcing EPF to make provisions.

Dividends from these companies had also been tepid, as profits dropped and firms struggled to meet earnings targets.

EPF CEO Datuk Shahril Ridza Ridzuan said foreign holdings accounted for 29% of its investment last year.

He said EPF aims to grow its investment abroad to 30% — with developed regions like Europe, the US, Japan and Australia as the main targets.

"These are well-regulated markets and provide regulatory stability, while allowing the fund to maintain diversification across many asset classes and markets to offset volatility," Shahril Ridza said at a media briefing in Kuala Lumpur yesterday.

EPF announced a dividend rate of 5.7%, the lowest since 2009, despite gross investment income increasing 5.25% year-on-year to RM46.56 billion. It is allocating RM37.08 billion for the dividend payment.

The hefty RM8.05 billion impairment loss, more than double compared to in 2015 with 73% contributed by the domestic mar-

EPF told to diversify its strategy with real estate

Pic by Muhd Amin Naharul

Shahril Ridza claims the fund incurred 'minimal losses' from its investment in FGVH

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He also said that the pension fund is ready to capitalise on its overseas assets.

"We will constantly review the assets we have (overseas) and sell it off when we assess the asset as having reached its peak, and then reinvest in better opportunities," he noted.

RHB Islamic International Asset Management Bhd CEO Sharizad Jumaat said EPF needs to diversify its strategy to cope with the rise of its investment assets that grew to RM731.11 billion last year — or an annual growth of 9.5% since 2001.

"The RM731.11 billion is too big of a figure for the local market. Venturing into developed markets can contribute to EPF's returns due to its regulatory soundness, sophistication and transparency," Sharizad told *The Malaysian Reserve*.

"Even though foreign holdings accounted for only 29% of the fund's investment portfolio, it contributed about 40% of the income in 2016," Sharizad said.

EPF benefitted from the poor ringgit as the disposal of foreign assets offered higher returns in the local unit.

Sharizad pointed out that EPF should also look at real estate.

"The real estate sector in Malaysia is relatively small. Buying properties overseas will help the fund increase its

has gone up to RM6.5 billion," Mohd Redza said in Kuala Lumpur yesterday.

"The issue is the amount of money coming in while the commitment needed to reach that target is quite an uphill task, considering the amount of payouts needed to maintain the current dividend rate or a higher rate," he added.

Meanwhile, Shahril Ridza claimed the fund incurred "minimal losses" from its investment in palm oil firm FGVH.

It was reported that EPF, a cornerstone investor in the oil palm planter, had reported a RM500 million loss from its investment in FGVH. EPF had exited from FGVH at the end of last year after the latter's shares continued to plummet.

The pension fund has a 3.85% stake in FGVH as of March 18, 2016.

"We have always been very clear that we have been selling down (our stake in FGVH) for a fairly long time.

"We have been trading the stock as well. Sometimes when the stock was below what we expected, we bought back in and then sold it back later."

EPF also plans to divest its 7.64% interest in Shell Refining Co (Federation of Malaya) Bhd (SRC).

"We have been selling down our stake in SRC, especially as with 75% contributed by the domestic market, had forced the private pension fund to ease its dividends to about 12 million members.

Shahril Ridza added that FTSE Bursa Malaysia KLCI (FBM KLCI) yielded negative returns for the third consecutive year and closed at -3% for 2016.

However, he said EPF should see a recovery in growth if the domestic market holds steady or improves in 2017, with the FBM KLCI currently performing above the 1,700 level.

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presence in real estate and infrastructure, both of which have room to grow," she said.

MIDF Amanah Investment Bank Bhd deputy head of research Mohd Redza Abdul Rahman said it is hard to predict if EPF can achieve a 6% dividend return for 2017 due to the huge profit it must generate.

"If you look at the numbers given by EPF, to generate a 1% return in 2003 it must generate a profit of RM1.9 billion. Now it

results for the company were not great over the years," Shahril Ridza said.

China-based Shandong Hengyuan Petrochemical Co Ltd had previously made a mandatory general offer for the shares in SRC at an offer price of RM1.92 per share.

"However, since the offer is not an attractive price based on our assessment, we still hold a stake in SRC," Shahril Ridza stated.