

KWAP needs to grow 10% to 12% to meet future pension payments

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FUND management is certainly not for the tenderhearted. The hefty bonus and rewards may be over the top. But there are also tales of long nights number crunching and frequent high blood pressure checks.

Many would cringe at the thought of managing billions of ringgit of other people's money. A 2% drop in a RM100 billion investment means you are staring at a RM2 billion paper loss, about the same amount used to pay for the Petronas Twin Towers complex. Such loss could easily send someone into a cardiac arrest.

But for Retirement Fund Inc (KWAP) CEO Datuk Wan Kamaruzaman Wan Ahmad, "big money" has always been his candy.

"KWAP former CEO was about to retire and they were looking for a candidate to replace, and I took over.

"In EPF, the Treasury portfolio is much bigger than the entire KWAP fund size. The Treasury portfolio before I left was about RM180 billion, and KWAP up till today has a fund size of only RM125 billion. So I am used to managing bigger money," he told *The Malaysian*

Reserve in an interview recently.

The Johor Baru-raised lad, graduated with an economics degree from University Malaya at the age of 21 was part of the express-class student in 1981. Malayan Banking Bhd was his first career calling with two overseas postings in Hamburg, Germany (1984) and in London (1993-1994). He assumed the role of CEO at Affin Moneybrokers Sdn Bhd and other roles including his own venture before joining the Employees Provident Fund (EPF) as head of Treasury for 5½ years. Wan Kamaruzaman joined KWAP in May 2013.

Increasing the Fund Size

KWAP, the country's second-largest pension fund, gave the investment banker a new challenge.

EPF was a good learning ground, said Wan Kamaruzaman, giving him a perspective to the larger investment intricacies.

"In EPF, I was very specialised in doing treasury. But we were still involved in the management committee where we saw all the investment papers and all the asset classes. So that's where all the exposure was.

"The job scope here is entirely different. As the CEO, you are basically

the number one person who decides the future direction of the company.

"At EPF, it's just the particular department, which is the Treasury department. Here I get involved with all the asset classes."

In the last three years since helming the pension fund, he had increased the fund asset to RM125 billion as of June this year, compared to RM90 billion in 2013. He is optimistic that KWAP will reach RM130 billion by year-end.

"KWAP is actually growing about RM10 billion a year, but generally the higher your fund size, the lesser the growth will be in terms of percentage," he said.

That is where the challenge is for Wan Kamaruzaman. To give a 1% return, KWAP needs to generate RM12.5 billion.

The fund posted a return on investment (ROI) of 5.4% last year, lower than the 6.15% to 7.07% returns recorded in the previous five years. KWAP's average ROI between 2010 and 2014 was 6.68%.

With the ballooning civil servants, KWAP faces an even tougher challenge to ensure sufficient fund to pay for future pension.

"The sole purpose of KWAP is to also grow the fund size to meet the future pension payment and liability

and the fund size needs to grow by 10% to 12% or maybe even higher if the market permits.

"Otherwise the growth of the liability will be faster than of the fund size," he said.

A Challenging Time for Fund Manager

He believed KWAP needs to grow a bit more in terms of contribution to realise its ambition.

The topsy-turvy equity market had been a drag to fund managers like Wan Kamaruzaman. But the question is where to invest the money for the highest return?

The truth is that under the new normal where interest rates are low, gross domestic product (GDP) growths are also low, the ROI in fixed income in particular at this point is also low.

"But fortunately, in Malaysia the interest rate is still quite attractive compared to the global interest-rate level.

"So, when government bond gives us 3.6% right now, whereas if we talk about 10-year bonds or 10-year US Treasuries, they are about 1.7% right now. Even German bonds are probably near zero just like Japanese bonds."

He said KWAP has a "conservative

or moderate conservative risk appetite" either locally or abroad despite the desire to deliver higher returns.

"Malaysia bond market is still quite attractive where we can earn more and with a stretched duration, we can get slightly 4%-4.1%.

"Other countries bond market is not attractive at this point of time but the main kicker normally for KWAP to pay that kind of dividend, which is normally -5% and above previously, is the equity market.

"But unfortunately our concentration is very big on the domestic market," he said, adding that about RM40 billion of KWAP asset locations are in the domestic equity market.

"The domestic equity market for the past two years has been showing negative. This year until today it is still negative.

"The dividend yield is about 3.1%. So earning dividend yield, plus we take out maybe the negative return of 2% on the equity market I think we still have very small returns.

This is where we are trying to managed expectations to remain normal, probably gaining 5% return on the RM125 billion fund size is probably a very good performance.