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Nik Amizan Mohamed, the new chief executive of the Armed Forces Fund Board (LTAT), sits in her new office adorned by gifts from her ex-colleagues at Retirement Fund Inc (KWAP) when she left her job to head for new responsibilities at LTAT.

Hanging on the wall behind her desk is a huge portrait of Arabic words that translate to "Almighty God, Give Me Ease", which is among a sprinkling of objects placed throughout her office.

The meaning of the words carry significance to the task ahead for her. Nik Amizan's job is not easy and will require a complete overhaul in how the fund operates.

Change is inevitable, but for LTAT, it is a rarity. For the first time over the past 36 years, the RM10bil pension fund has changed its chief executive officer (CEO).

The former chief investment officer (CIO) of KWAP took over the helm of LTAT in October last year from Tan Sri Lodin Wok Kamaruddin, who had helmed the top post in LTAT since 1982.

Nik Amizan, who started at LTAT in October last year, has over 20 years of experience in equity investment under her belt. She felt the job at LTAT was one that she could not pass up on, and appears energetic and driven in explaining her plans to transform LTAT to make the fund more sustainable in deriving its income.

For LTAT, the diversification of its investment portfolio would be a historical change, as it has long been known as an equities investor with much of its exposure in having controlling stakes in a handful of companies.

Shockingly, Nik Amizan reveals that LTAT has very little exposure in the fixed-income market and that 60% of the fund's investment is in the equity market.

"Almost 28% of our AUM (assets under management) is in the Boustead group alone, and yes, we are looking at ways to balance this portfolio," she says, adding that the fund is looking to invest in more listed companies.

"We need to be agile enough to move in line with the market. I'm bullish on the market for the long term, so I need to get LTAT ready when the opportunity comes," she adds.

At present, LTAT has invested in around 30 companies on Bursa Malaysia and aims to spread its resources to 50 companies.

For the sake of comparison, the Employees Provident Fund (EPF), which has RM461.4bil in AUM, has invested 50.3% of its money in fixed income and 41.9% in equities. Meanwhile, KWAP, a RM145bil fund, has invested 40% in fixed income and 40% in equities.

LTAT owns controlling stakes in Boustead Holdings Bhd, Affin Bank Bhd, Boustead Plantations Bhd, Boustead Heavy Industries Corp Bhd (BHIC) and Pharmaniga Bhd.

Nik Amizan describes LTAT's portfolio as a "concentrated investment", which in the past had worked for LTAT in churning out income through dividend payments from those companies.

But the share prices of those investee companies have been trading at their lowest for some time now and their earnings are on the decline. These factors will pose a risk to LTAT's investments.

Boustead, for instance, in which LTAT owns a 59.45% stake, saw its earnings falling into the red by posting a RM469.3mil loss for its financial year ended Dec 31, 2018 (FY18) compared with RM436.2mil in profits a year earlier. Its share price is trading at an all-time low of RM1.25.

"One of the major risks identified is the concentration risk. The fund's investments are highly con-

# Winds of change in LTAT

New CEO takes on task of transforming the Armed Forces Fund Board

centrated in very few investments," Nik Amizan says.

While Nik Amizan wants to increase the fund's exposure to fixed income and other listed companies, the process has to be done gradually.

"We can't just do it for the sake of diversification. We have to look at the timing and, of course, the pricing."

"At the end of the day, we need to ask if that would benefit the soldiers and enhance returns," she says.

She says it is also useful to have controlling stakes in some of its investee companies for stable dividends and having access to the companies' directors.

"Going forward, LTAT must be independent and generate its own income. We can't just depend on the government, if we get that, then it is a bonus."

One of the key changes is the check and balance that will go into the institutionalised structure of governance within the fund.

In the past, decisions were made from a single chair and that cannot continue. LTAT set up an investment committee last year to deliberate on all proposals that come to its door.

"One person can't think for all. We are taking a top-down kind of approach and our officers would need to make their own proposals and not only for me to approve. It must be deliberated at the management level before it is brought up to the investment panel and then to the board," she says.

Looking forward to the changes in the organisation, "But it's not going to be that simple. It's like changing the car while it is moving. We need to enhance returns while making all these changes in the organisation," she says.

Nik Amizan is confident that the worst is over for LTAT despite the challenging market outlook. Over the past five years, the FBM KLCI has only posted a positive return in 2017 after three years of decline. Since the beginning of 2018 up till now, the market is down 9.14% to its lowest since 2016.

The concerns about a potential short-term weakness in the ringgit or Malaysia's lower weight in the MSCI Emerging Market indices may lead to short-term outflows of foreign funds and heightened volatility in the market, according to CMB Research.

The fear of exclusion of Malaysian bonds from the FTSE World Government Bond Index has created fresh fears in the local capital market.

With the equity market in the doldrums, the performance of LTAT could be affected.

Nonetheless, Nik Amizan is bullish on the market for this year, as she feels an upturn is imminent and will be led by corporate earnings.

"At the end of the day, companies need to deliver earnings. But overall, I am optimistic that the market will do better this year as it is targeting a 16% growth in corporate earnings due to a low base effect," she says.

On stealth mode  
 The changes she speaks of are important, given what has transpired in LTAT. Shrouded in military-like secrecy, there has been an omission of transparency. Decisions were made by a single



Nik Amizan: At the end of the day, we need to ask if that would benefit the soldiers and enhance returns.

person with the previous CEO helming the fund and its investee companies for more than 36 years.

Questions were raised on a number of deals in the past such as the takeover of the Automated Enforcement System (AES) project, as well as its ability to keep proper records.

It was said that the original cost of the AES project was RM40mil and LTAT had bought it for RM250mil back in 2015, which is 14 times the original cost.

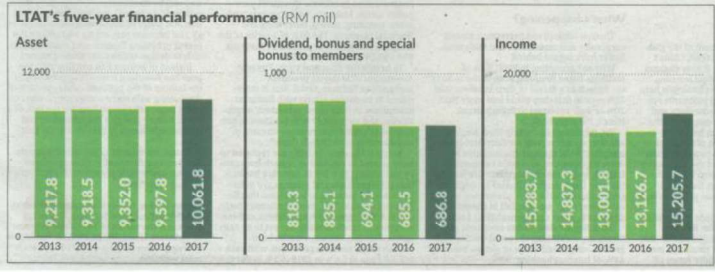
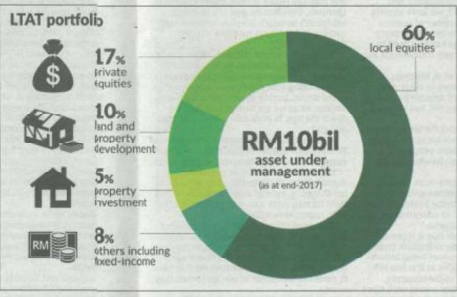
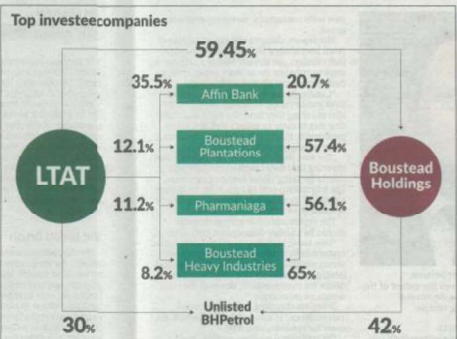
The latest issue surfaced last week when LTAT was found to have overstated its net profit by 44% for its FY17 ended Dec 31.

The National Audit Department issued a qualified opinion that refers to the proceeds from land sales worth RM202.7mil, which could not have been taken into account in the FY17 financial statements.

It also stated that LTAT had unrecognised impairments of RM88.9mil for two stocks held by the fund. In its FY17 financial statement, LTAT only recognised a total impairment of RM18.46mil instead of RM107.36mil.

The financial discrepancy has led to LTAT's retained earnings dropping drastically to a retained loss of RM31.6mil from a positive retained earnings of RM259.99mil previously.

"The negative retained earnings would have an impact on LTAT's FY18 results," Nik Amizan says, adding that the fund would be implementing a new accounting standard for its FY18 results.



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"2018 would be the point that we get the numbers we are supposed to have and for us to move forward," she says.

She acknowledges that LTAT would need to improve on its governance and accounting standards.

"When I stepped in, the 2017 annual report wasn't completed yet. It didn't follow the standards needed and we are working on the changes to strengthen our investment structure and decision-making process," she says.

Meanwhile, on the AES, it was agreed previously that the government would take over the project from LTAT at the investment cost, as well as a 12% annual return for the two and a half years that LTAT had owned the concessionaire.

However, last August, the current administration agreed to pay LTAT RM555mil for the AES, which was LTAT's initial cost.

Nik Amizan is quick to point out that LTAT is still negotiating with the government on the AES takeover price.

She adds that the fund is also looking to improve its talent management, as there is no proper succession planning in LTAT.

LTAT requires RM300mil to RM400mil to meet withdrawals by its members. To meet its obligations, the fund has tapped into its retained earnings to the extent that it was in deficit for the first time in FY17.

LTAT simply cannot sustain the way it is being operated. Reforms are needed and fast.



## PRESS CLIPPING

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### Nik Amlizan's challenge is like trying to change tyres while the car is moving

THE Armed Forces Fund Board (LTAT) is set for a historical transformation. Despite the RM10bil size of its asset under management, the fund plays a significant role in the local stock market with its controlling stakes in some of the major listed companies. There is great interest in what kind of changes chief executive Nik Amlizan Mohamed will embark on. With her experience in Retirement Fund Inc (KWAP), the country's largest pension fund, her role in LTAT marks a new era for the fund. She believes that putting the right framework in place and tweaking the investment portfolio is vital for the fund to move forward. The following are excerpts of an interview with her.

**What are some of the new aspects you have introduced as part of LTAT's transformation?**

We recently set up a human resources (HR) department. In the past, HR functions mainly revolved around administrative work and not from a strategic perspective.

We have also set up a Legal and Secretarial Department, which is important as we need to get the house in order.

Our compliance function did not exist. Hence, we needed to create a compliance function inside risk management.

That was part of the reason why LTAT was found to be not keeping up with the standards of compliance as per our announcement pertaining to our financial year 2017 (FY17) results in Parliament last week.

We revisited the risk enterprise framework and when I asked for this, I was informed that it was introduced in 2004 and had not been revisited since.

There are so many new risks which have evolved since then. How do you address Black Swan events? We have to prepare ourselves for the future.

LTAT has been doing well in the past and when you are experiencing good times, you may not necessarily want to think about the bad times. But that has to change because the future looks nothing like the past. Is the fund agile enough to face that?

One of the major risks is that the fund's investments are highly concentrated in very few investments.

**LTAT is known for its dividend payments of an average of 11.3% per annum in the last 45 years. Can it keep up with the dividend payment track record?**

In 2017, LTAT announced a 6% cash dividend based on both the full members' and government's contributions amounting to RM498mil. The 6.5% special bonus, which is based only on the members' contribution and paid in the form of a unit trust fund managed by Affin Hwang Unit Trust, amounted to RM188mil.

What is important to note here is that the first 6% payout amount is a lot larger than the second 6.5% payout amount. This is because there is a different base used.

Therefore, we cannot simply add both amounts when the base is different.

For example, if you use your car 30% of the time and I use my car 20% of the time, I cannot say

that we both use our cars 50% of the time. It is simply incorrect. We have rebased, with the 6.0% plus 6.5% in this case actually being equivalent to 8.3%, which is still highly commendable.

**So, it was not 12.5% in dividends that was given in 2018?**

It was not 12.5% because the bases were different. The amount of dividend paid for FY17 was RM686mil and this was higher than the income for the year – particularly after it was adjusted. The money for the dividend came from retained earnings and it is alright to do so, because it is also to manage the volatility in terms of dividends. But it should not cause retained earnings to fall into negative territory.

**With the negative retained earnings, what do you do from here, moving forward?**

This question keeps me up at night – it is my bread-and-butter question. We need to work very, very hard to recover the accumulated losses.

**Being a passive fund manager, does LTAT need to have controlling stakes in listed companies including Boustead Holdings Bhd, Boustead Plantations Bhd, Pharmaniaga Bhd and Affin Bank Bhd?**

If passive here means buying and holding for the long term, then LTAT would need to review and rebalance intermittently to ensure the decision to hold these securities remains intact.

This may not necessarily work anymore in this day and age.

Essentially, we are waiting for the dividends to come in. We should not be at the mercy of our investee companies.

It cannot be the case that due to the heavy exposure that we have in one company, we are unable to be flexible with our investments.

To have control over our investee companies is good, but to allow them to control LTAT funds simply because of our high exposure to them is unwise.

High holdings of the investee companies' paid-up capital is different from high fund exposure to the investee companies.

That is to say that LTAT should not hold more than 10% of its fund size in one single company for prudence and diversification purposes.

**How much is your exposure in Boustead? Are you looking to reduce your stake in it?**

We own 59.4% of Boustead Holdings. From our fund size, approximately 28% is placed here.

Moving forward, the market will be volatile and we need to be ready to be able to move our funds.

LTAT is a pension Fund. LTAT is not Boustead and Boustead is not LTAT. The same applies to Affin. These are our investee companies.

If they perform well, which they have done in the past, we will keep them, to a certain level. Not to a level where we cannot move.

We would not undertake or change anything that would not benefit the soldiers.

We can take our time...not right now. When the time is right, we may look at scaling down, as the current stake is high.

There are ways to do it. For example, increasing other invest-

ments using new funds so that the exposure percentage will effectively be lower.

**As a fund, do you steer the direction of your investee companies?**

As a shareholder, we practise shareholder activism via engagements. It would be very irresponsible for us not to do so.

We would not want to just buy and not do anything. We have been and will continue to engage with the Affin Bank and Boustead management and their respective boards to ensure they are clear on our expectations.

Moving forward, they cannot be worse off than the market. It needs to be better. There is deep value in both Boustead and Affin. It is a matter of unlocking it and looking at ways to create value.

**LTAT is also involved in property development and recently submitted a new proposal to win back the Klang Valley Double Track Phase 2 (KVDT2) contract. Why is a fund management house involved in such projects? What role does LTAT play and what kind of returns are you aiming for?**

For KVDT2, LTAT is a minority shareholder with a 20% stake in the joint-venture company. We envisage receiving some returns from the project if we are successful in our bid.

Currently, it is still premature to talk about it, as we only recently resubmitted our bid to the government.

Our investment philosophy moving forward is to look at brownfields and no longer greenfields. I want us to participate in businesses that are already generating an income stream, or better still, bottom-line growth.

**Have you received payment for your Bandar Malaysia project?**

LTAT's wholly owned subsidiary - Perbadanan Perwira Harta Malaysia (PPHM) - was tasked with the relocation and construction of eight bases. Except for some balance for the final works done, PPHM has been reimbursed for the bulk of the work done.

**When you came into office in October last year, how did you describe LTAT and what was your impression of the firm? Was there any proper handover done by your predecessor?**

LTAT reminds me of KWAP back in 2007 when I first joined as the head of equity. My 11 years at KWAP taught me a lot about leadership and organisational structure. I am hoping to do the same, if not more, for LTAT.

The responsibilities are a lot more here and I am trying to do it within a shorter period of time.

It's like "trying to change the tyres while the car is moving".

My first two weeks were spent speaking to our 260 team members here at LTAT. I knew then that they have been looking for change.

In the past, heads of departments had never presented to the board. Now, they have to do so to the board and the investment panel.

Currently, we do not have succession planning and we do not have talent management in terms of up-skilling and reskilling.