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# MESSAGE FROM THE MANAGING DIRECTOR

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## 2018 WAS A HIGHLY EVENTFUL YEAR FOR KHAZANAH.

Following the General Election in May, the new Government ushered in reforms and changes that have had a significant impact on Khazanah as the sovereign wealth fund of Malaysia.

In July 2018, we welcomed a new Board of Directors comprising Prime Minister Tun Dr Mahathir Mohamad as Chairman, Minister of Economic Affairs Dato' Seri Mohamed Azmin Ali, Tan Sri Mohd Hassan Marican, Mr Goh Ching Yin, and Dr Sukhdave Singh. Over the rest of the year, the Khazanah Board of Directors and senior management worked together on the refresh of our mandate and objectives, which you can read more about in the following pages of this report.

Fundamentally, Khazanah has been tasked with growing the nation's long-term wealth by pursuing distinct commercial and strategic objectives. Reflecting this refocusing of the mandate, Khazanah today operates both a Commercial Fund and a Strategic Fund, each with its own investment rationale, commercial and/or strategic objectives and target portfolio returns.

Ultimately, our goal is to sustainably increase the value of our financial assets and enhance economic outcomes to meet the nation's needs over the generations to come.

As part of the overall reset of Khazanah, we also undertook a comprehensive review and evaluation of our investments. One of the outcomes of this exercise is that our portfolio is now better aligned with the refreshed mandate and objectives.

## MESSAGE FROM THE MANAGING DIRECTOR



Datuk Shahril at the launch of Khazanah Research Institute's (KRI) "The School-to-Work Transition of Young Malaysians" report in December 2018. With him are (far right) Dr Lim Lin Lean, author of the report; (second from right) Dr Nungsari Ahmad Radhi, KRI Chairman and (far left) Datuk Hisham Hamdan, KRI Trustee

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To better prepare our portfolios for this shift in mandate, Khazanah made provisions for impairments totaling RM7.3 billion in 2018. The impairments, together with lower dividend income from our investments and fewer divestments undertaken by Khazanah last year, were the primary contributors to the RM6.3 billion loss before tax that we reported for 2018, compared to a profit before tax of RM2.9 billion recorded for 2017.

That said, we expect to return to profitability in 2019 on the back of more active management of our portfolios. Our full financial statements for 2018 can be downloaded from our website, [www.khazanah.com.my](http://www.khazanah.com.my) or by scanning the QR code on page 24 in this report.

Economic uncertainties and disruption due to geopolitical tensions and a pessimistic outlook for emerging markets in 2018 led to the underperformance of global markets. Domestically, the subdued earnings outlook for Malaysian corporates, market volatility and regulatory changes have had an appreciable impact on the performance of the investments in our portfolio.

Largely due to these factors, our portfolio's value on a Net Worth Adjusted basis declined 21.6% to RM91 billion from RM116 billion in 2017. However, long-term growth remains positive, with a 10-year compound annual growth rate of 11% per annum. Despite the difficult macro environment, we had some notable achievements, highlighted by new investments in the healthcare and financial services sector, as well as the successful completion and launch of joint-development projects in Singapore. In addition, several of our investee companies were successfully listed on NASDAQ and the New York Stock Exchange.

Khazanah continues to roll out several initiatives in the social development and research spheres, including the official opening of Taman Tugu, the release of important research on households and school-to-work transitions by Khazanah Research Institute ([www.krinstitute.org](http://www.krinstitute.org)), and further corporate responsibility efforts in education, public spaces and knowledge via Yayasan Hasanah ([www.yayasanhasanah.org](http://www.yayasanhasanah.org)).

Following the reset of Khazanah, we will be focusing on several key transitional priorities over the next

five years. We need to strengthen our financial position, rebalance our Commercial Fund and further develop the Strategic Fund, review and enhance our governance structure and framework, and build the capacity of the organisation to execute the refreshed mandate. We believe that these efforts will put Khazanah on the appropriate footing to achieve the long-term goals that have been set.

The Board of Directors, management and staff have put in a tremendous effort to lay the strategic groundwork for us to move forward in the short space of time since the revamp was initiated.

In this regard, I would like to thank our Board of Directors led by Tun Dr Mahathir Mohamad for their steer and guidance, and our staff for their hard work. Obviously, there is still much more to do. Khazanah is blessed with people who collectively have the capability and the drive to see this through over the coming years and to deliver on the long term vision for our country.

**Datuk Shahril Ridza Ridzuan**  
Managing Director  
Khazanah Nasional Berhad  
May 2019