



# OECD/ IOPS CONFERENCE ON PRIVATE PENSION IN ASIA

## Outsourcing of the Investment of Public Pension Assets to Private Sector Managers – The EPF's Experience

BY

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**EMPLOYEES PROVIDENT FUND, MALAYSIA**

**Bangkok, Thailand,**

**27 – 28 April 2005**



# **THE EMPLOYEES PROVIDENT FUND**

## **BACKGROUND**

- **The EPF was established on 1<sup>st</sup> October 1951**
- **It is governed by the EPF Act 1991**
- **The EPF is a national compulsory savings scheme**
- **It provides retirement benefits for the private sector and non-pensionable public sector employees**



## KEY FIGURES (AS AT MARCH 2004)

<b>Total Members</b>	<b>=</b>	<b>10.7 million</b>
<b>Active Members</b>	<b>=</b>	<b>5.07 million</b>
<b>Coverage</b>	<b>=</b>	<b>92.6% of employees</b>
<b>Total Assets</b>	<b>=</b>	<b>RM240.4 billion (USD63.3 billion)</b>
<b>% of GDP</b>	<b>=</b>	<b>53.7%</b>
<b>% of Market Capitalisation</b>	<b>=</b>	<b>33.3%</b>

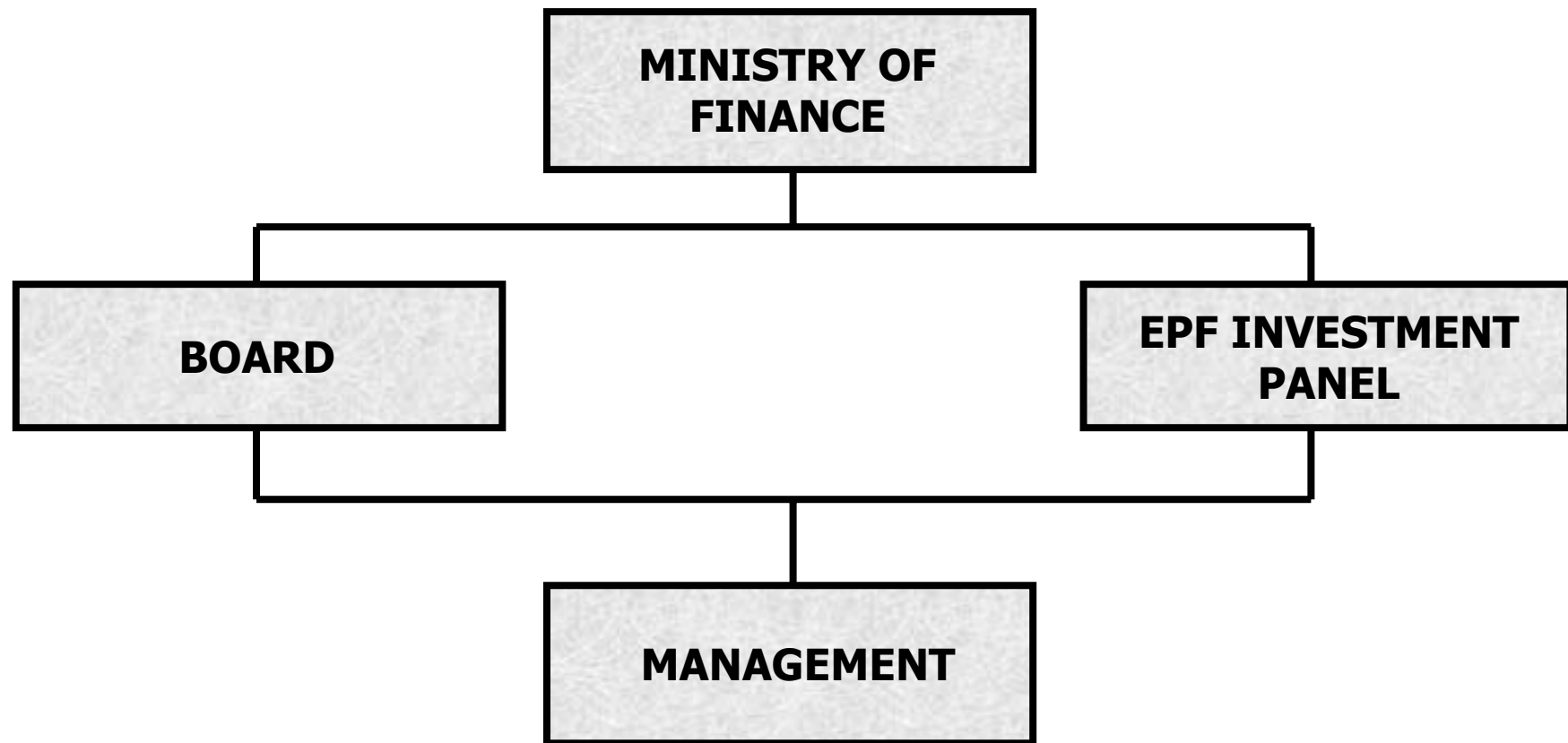
**Note:**

**Nominal GDP = RM447.5 billion**

**Total market capitalization = RM722.0 billion**

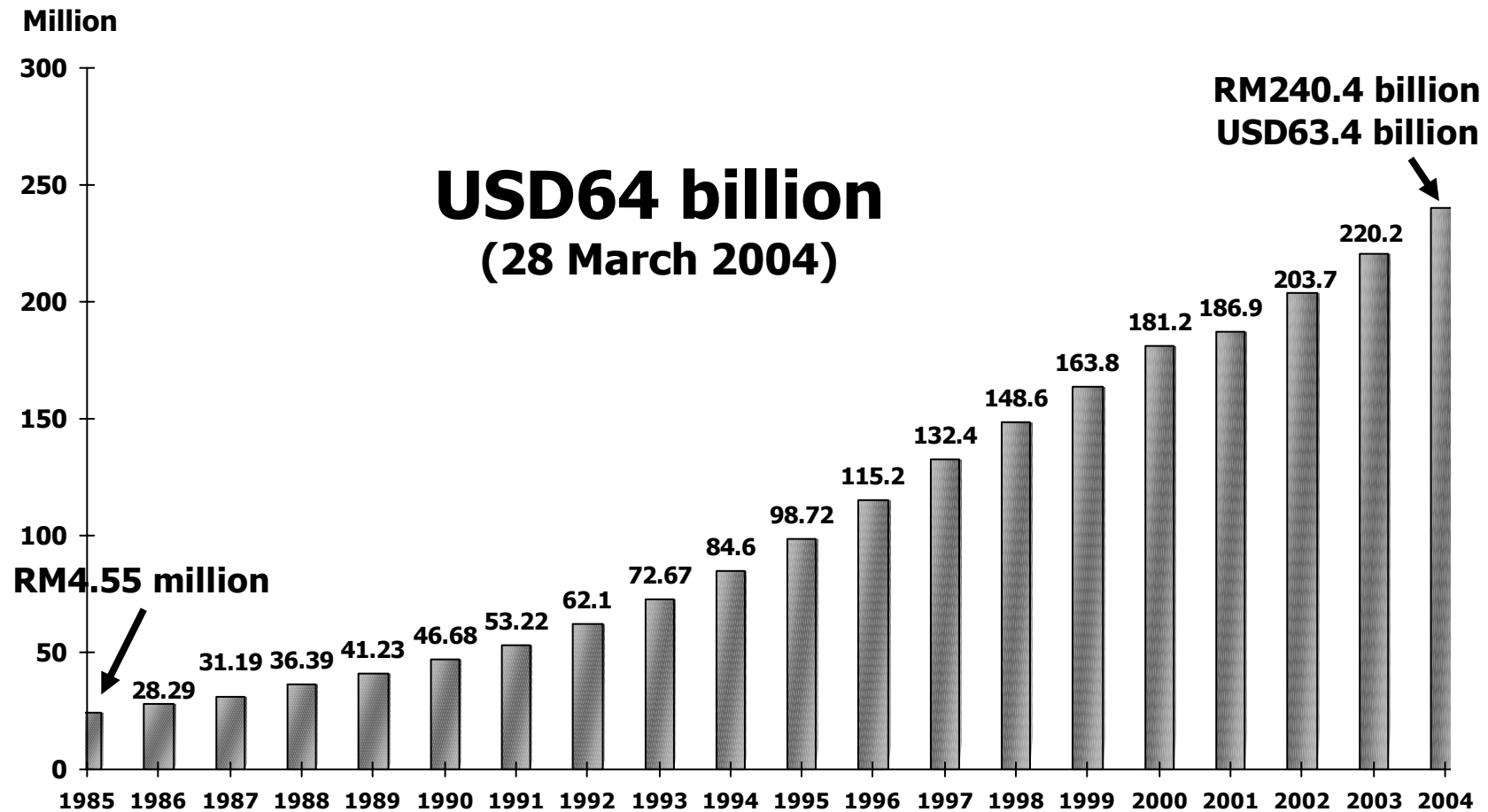


# GOVERNANCE STRUCTURE





# ASSET GROWTH (1985 – 2004)

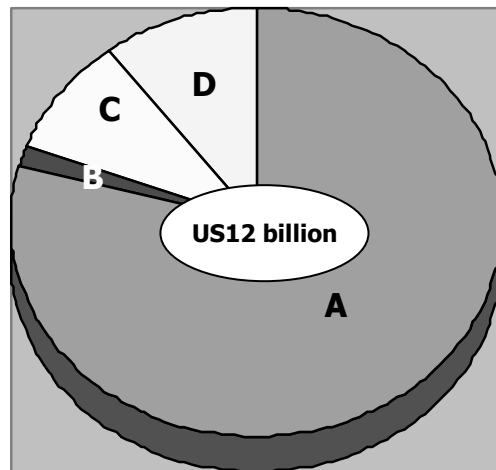




# INVESTMENTS

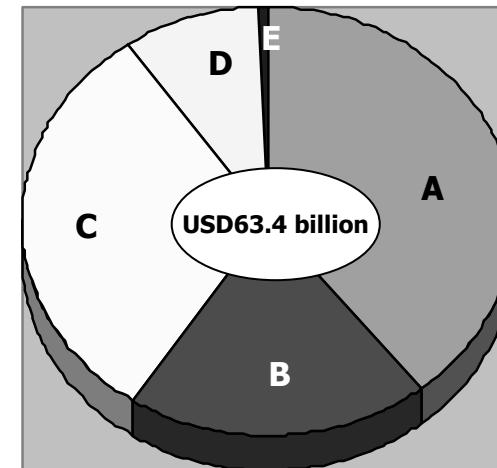
## ASSET ALLOCATION 1990 AND 2004

**1990**



- A Malaysian Government Securities - 79.2%**
- B Equity - 1.6%**
- C Loan & Debenture - 8.8%**
- D Fixed Income - 10.4%**

**2004**



- A Malaysian Government Securities - 39.03%**
- B Equity - 20.00%**
- C Loans & Bonds - 31.38%**
- D Money Market Instruments - 8.96%**
- E Property - 0.63%**



# **OUTSOURCING OF INVESTMENT**



# OBJECTIVE OF OUTSOURCING

**1. Add Value**

**2. Diversification**

- *Risks*
- *Resources*
- *Mandates*
- *Market*

**3. Assist the Local Capital Market Development.**

**4. To benchmark EPF performance.**





# **FORMS OF OUTSOURCING**

- 1. Direct – through Portfolio Managers.**
- 2. Indirect – through Members Investment Scheme.**



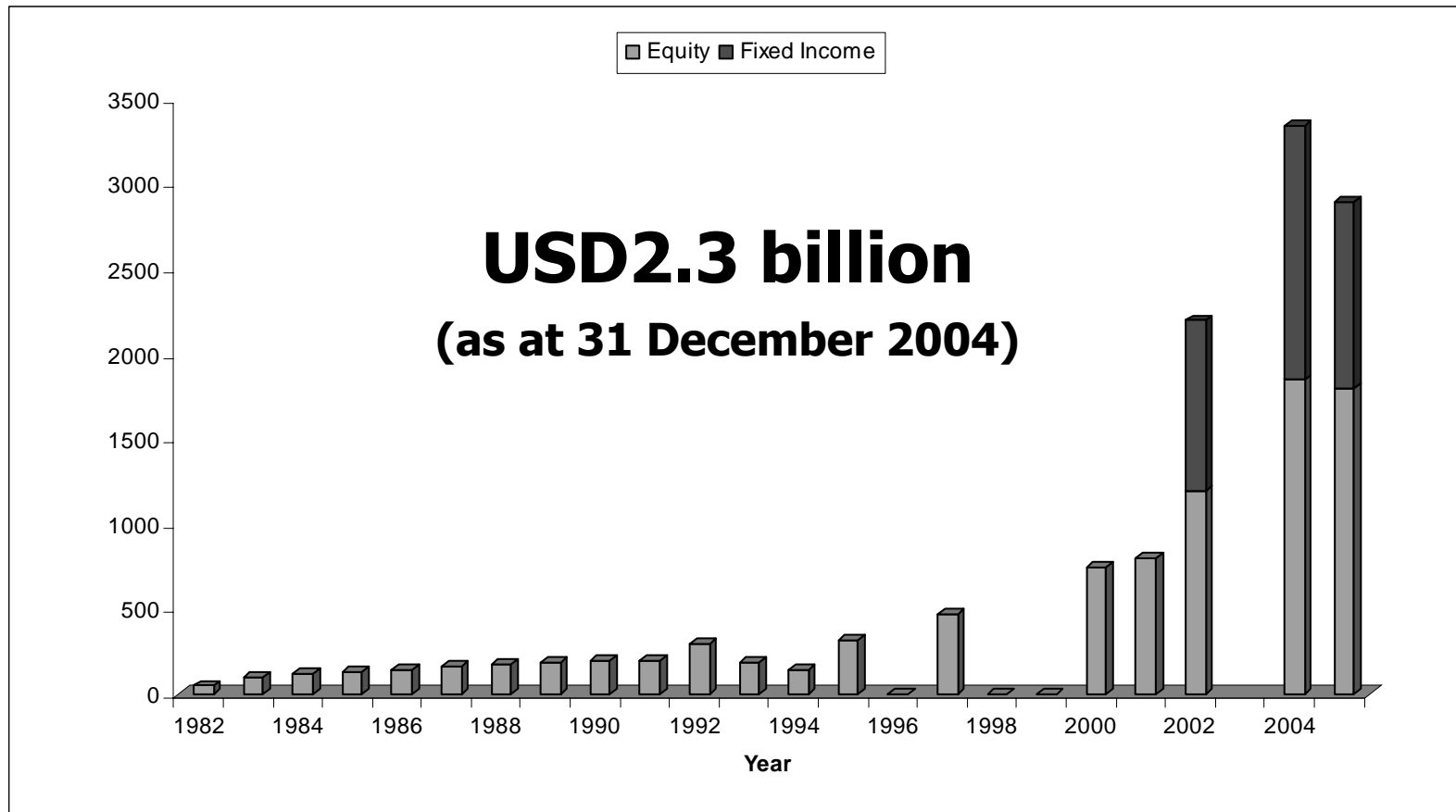
# HISTORY OF OUTSOURCING

## **1. Through portfolio fund managers.**

- **1982 first appointment of equity fund managers.**
- **Amount of funds RM90 million.**
- **2002 first appointment of 4 fixed income fund managers.**
- **Amount of funds was RM1 billion.**
- **As at 28 February 2005 a total of RM8.7 billion is being managed by 4 fixed income and 11 equity fund managers.**



# FUNDS OUTSOURCED TO EXTERNAL PORTFOLIO MANAGERS (BY YEAR)





**TOTAL FUNDS OUTSOURCED TO PORTFOLIO  
MANAGERS  
as at 31 December 2004**

*Continued...*

<b>Asset Class</b>	<b>Total Funds Outsourced RM (mil)</b>	<b>Market Value RM (mil)</b>
<b>Equity</b>	<b>6,265.00</b>	<b>7,519.00</b>
<b>Fixed Income</b>	<b>2,500.00</b>	<b>2,740.00</b>
<b>Total</b>	<b>8,765.00</b>	<b>10,259.00*</b>



# HISTORY OF OUTSOURCING

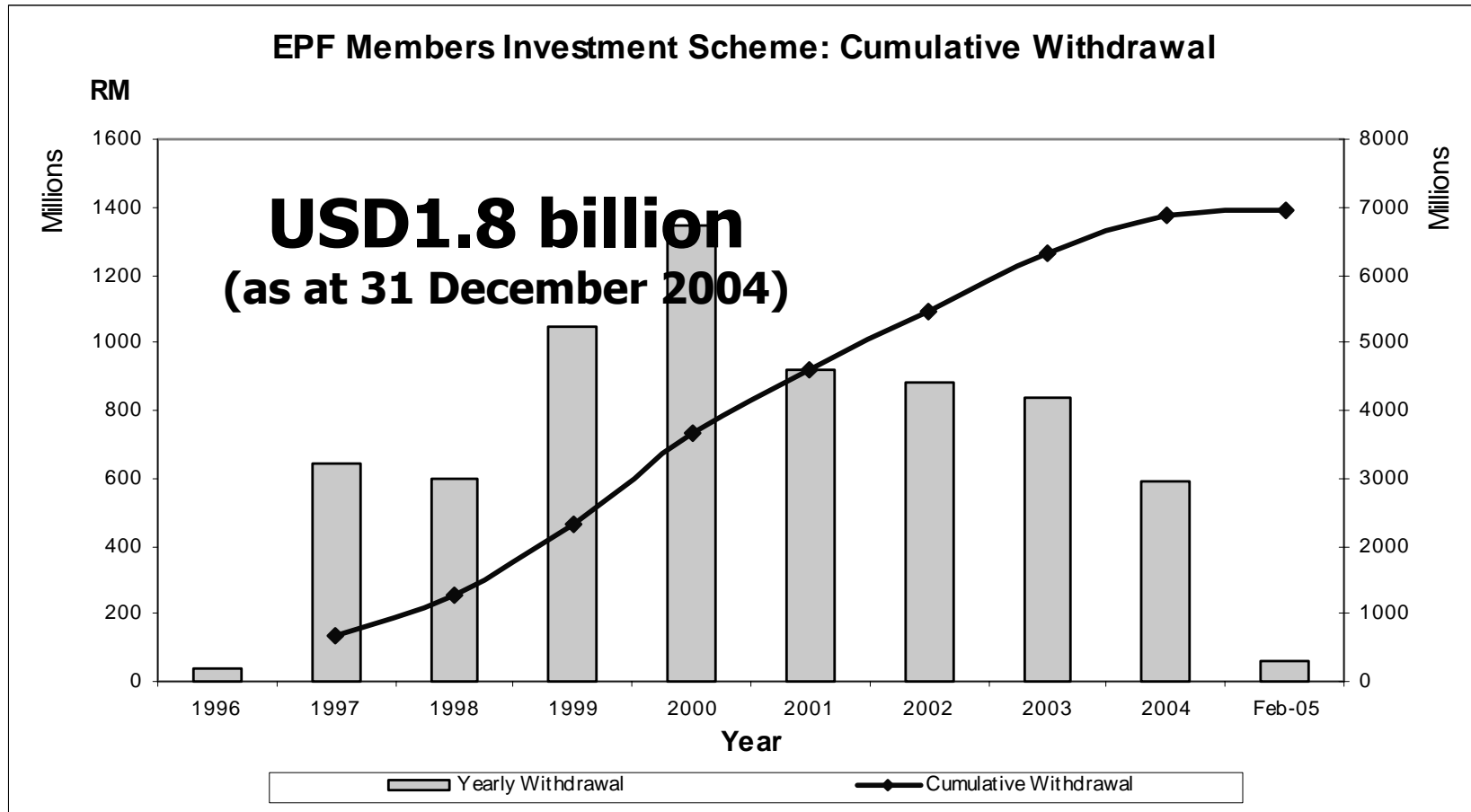
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## **2. Through Members Investment Scheme.**

- **Introduced in 1996. Members invested through 26 unit trusts companies approved by the EPF Board.**
- **As at 28 February 2005 a total of RM6.9 billion is being managed by 40 external managers.**



# EPF MEMBERS' INVESTEMENT SCHEME





## **TOTAL FUNDS OUTSOURCED as at 31 December 2004**

	<b>RM</b>
<b>Portfolio Managers</b>	<b>8.8 billion</b>
<b>Members' Investment Scheme</b>	<b>6.9 billion</b>
<b>Total</b>	<b>15.7 billion (USD4.1 billion)</b>



# MONITORING OF PORTFOLIO MANAGERS

## Criteria

- ***Time Weighted Rate Of Return (TWRR)***
- ***Information Ratio***
- ***Absolute Returns***
- ***Other services***





# **BENCHMARK FOR EQUITY MANAGERS**

**EPF Customized Index = KLCI minus excluded  
stocks**



## **BENCHMARKS FOR FIXED INCOME MANAGERS**

***a. Outperformance/Underperformance against  
RAM Quant Shop MGS Index (All)***

***= Portfolio Return – MGS Index (All)***

***b. Outperformance (Underperformance) against  
the Stipulated Benchmark***

***= MGS Index Return + 1.3% p.a.***



*Continued...*

# PERFORMANCE OF PORTFOLIO MANAGERS

## TIME WEIGHTED RATE OF RETURN (TOTAL FUND)

Manager/Fund	1 Year (% pa)		3 Years (% pa)		5 Years (% pa)	
	TWRR	Excess	TWRR	Excess	TWRR	Excess
A	--3.8	-18.7	7.5	-1.2	3.6	1.7
B	1.4	-13.6	8.9	0.2	-0.7	-2.7
C	-5.2	-20.2	8.1	-0.6	1.3	-0.6
D	1.7	-13.3	7.9	-0.8	2.5	0.6
E	8.2	-6.7	11.4	2.7	5.3	3.4
F	17.1	2.2	14.5	5.8	7.7	5.8
G	9.5	-5.5	15.2	6.5	7.6	5.7
H	14.3	-0.6	15.0	6.3	9.1	7.2
I	6.8	-8.1	11.8	3.1	na	na
J	13.4	-1.5	14.8	6.1	na	na
K	11.9	-3.0	na	na	na	na
<b>External Managed</b>	<b>6.80</b>	<b>-7.45</b>	<b>11.7</b>	<b>2.46</b>	<b>na</b>	<b>na</b>
<b>Internal Managed</b>	<b>16.43</b>	<b>2.14</b>	<b>13.14</b>	<b>3.90</b>	<b>4.69</b>	<b>2.46</b>
<b>KLSE CI</b>	<b>14.25</b>	<b>-</b>	<b>9.24</b>	<b>-</b>	<b>2.23</b>	<b>-</b>
<b>KLSE CI Adjusted</b>	<b>14.90</b>	<b>-</b>	<b>8.70</b>	<b>-</b>	<b>1.90</b>	<b>-</b>



## **LESSONS LEARNT**

- 1. Be selective – not all fund managers outperform.**
- 2. Internal monitoring capability/infrastructure is important.**
- 3. Have a larger pool of fund managers to optimise returns.**
- 4. Have a suitable benchmark.**

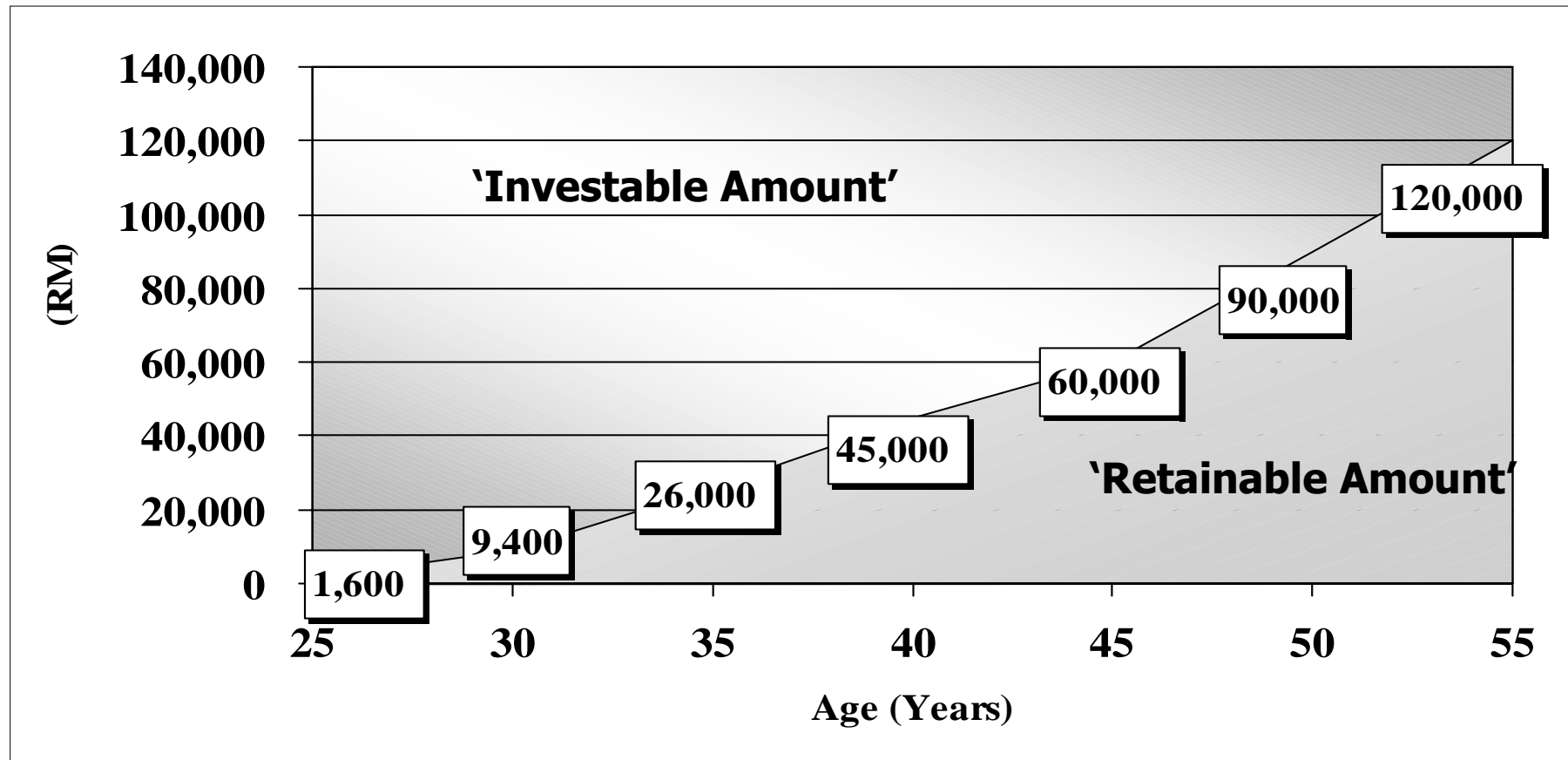


## **FUTURE DIRECTION**

- **To look into outsourcing to established foreign fund managers with local tie-ups.**
- **Increase amount of fund to be managed by fund managers – (RM12 billion or more depending on asset allocation over the next three years).**
- **To allow members to invest more through external fund managers by liberalising members investments' scheme.**



# MEMBERS' INVESTMENT SCHEME (ACCOUNT 1)





**Under the revised benefit scheme the investable amount can be invested through approved institutions and in approved products:**

- **Fixed Deposit**
- **Annuity**
- **Private Pension**
- **House/Property**
- **Insurance Linked Products**
- **Unit Trusts**

**THANK YOU**