COVER STORY

PNB on the cusp of change

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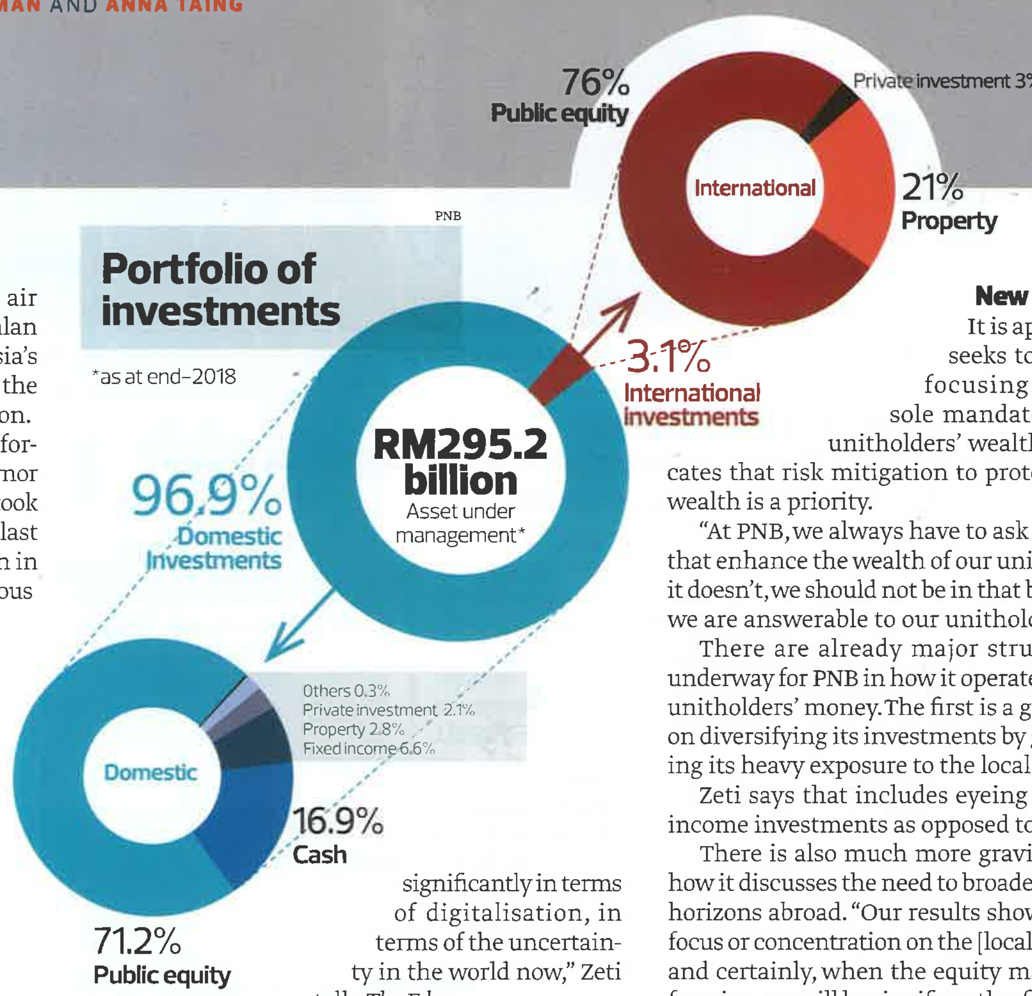

For decades, there had been an air of immutability about Permodalan Nasional Bhd (PNB). But Malaysia's largest fund manager is now on the verge of a historic transformation.

Firmly in the driving seat is former Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz, who took over as PNB chairman on July 1 last year. She is the second chairman in three years. Before that, the previous chairmanship change was in 1996.

Speaking in her first interview since taking the role, it is evident that the septuagenarian is a woman on a mission, no less driven than she was during her 16-year stint as the head of the central bank.

In her own words, Zeti reveals that she had overseen three rounds of organisational transformation in her 16 years at the helm of Bank Negara. Clearly, the mission at PNB is to drive the same, although if Zeti has her say, it would take far less time this time around.

"So, in a way, PNB can leverage that [accumulated] knowledge and move faster and not take 16 years, certainly," says Zeti with a hint of wry humour.

"The three things that I look to do is the diversification of our portfolio; the second is in terms of the risks that we are managing, and then also the liquidity management; and finally, the organisational transformation to create the capability to deliver these."

On paper, the lifelong central banker may seem out of place in the corporate sector. But Zeti sees many similarities in the task ahead for her at PNB with what she did at Bank Negara.

She also draws heavily on her experience on the board of Pengurusan Danaharta Nasional Bhd, which was set up in the aftermath of the 1997/98 Asian financial crisis. Danaharta was tasked with buying non-performing loans from banks at the time and to recover as much value as possible from these distressed assets.

The first order of business, however, is to take stock of PNB and review an ongoing six-year transformation programme called STRIVE-15, slated to run from 2017 to 2022.

"It's a good time to review it because it is at the mid-point. Secondly, the environment has changed significantly in terms of digitalisation, in terms of the uncertainty in the world now," Zeti tells *The Edge*.

"So, with this environment change, the execution of many of the strategies in that framework has yet to be carried out significantly because you don't want to be disruptive. So, it has to be a gradual adjustment."

To recap, STRIVE-15 is broadly aimed at enhancing PNB's sustainable returns, promoting effective investment management and driving operational excellence.

Among the key deliverables slated for 2022 is to have PNB's assets under management (AUM) hit RM350 billion. As at Dec 21 last year, its AUM stood at RM295.2 billion. The programme was implemented by her predecessor, Tan Sri Abdul Wahid Omar.

Meanwhile, PNB's flagship fund, Amanah Saham Bumiputera, had 9.6 million unitholders who owned 155 billion units at the last count.

It is worth noting that the dust had settled on much of the early thrusts of the six-year strategic plan well before Zeti came into the picture. These included the break-up of Sime Darby Bhd, UMW Holdings Bhd and Chemical Company of Malaysia Bhd; the injection of privately held developer I&P Group into S P Setia Bhd; and the RM380 million acquisition of Lingkaran-Lebuhraya Kajang Sdn Bhd.

New horizons

It is apparent that Zeti seeks to steer PNB into focusing firmly on its sole mandate of enhancing unitholders' wealth. She also indicates that risk mitigation to protect unitholders' wealth is a priority.

"At PNB, we always have to ask ourselves, 'Does that enhance the wealth of our unitholders?' And if it doesn't, we should not be in that business because we are answerable to our unitholders," she says.

There are already major structural changes underway for PNB in how it operates and invests its unitholders' money. The first is a greater emphasis on diversifying its investments by gradually reducing its heavy exposure to the local stock market.

Zeti says that includes eyeing more recurring income investments as opposed to capital gains.

There is also much more gravity these days in how it discusses the need to broaden its investment horizons abroad. "Our results show that we have a focus or concentration on the [local] equity [market] and certainly, when the equity market is not performing, we will be significantly affected," says Zeti.

"So, diversification is the other area, not only to go global but also in the domestic market and [going into] different asset classes like the bond market and other asset classes like REITs (real estate investment trusts) and so on."

For PNB, the diversification agenda is a pivotal shift in direction. Turning 41 this year, PNB has long been a heavy domestic equities player that accounts for about a tenth of the local stock market's capitalisation. In turn, much of that exposure lies in controlling stakes in a handful of "strategic" companies that make up the bulk of its dividend income — in other words, bulky investments.

It is part of a longstanding concern among investors on the outsize presence of institutional investors in the Malaysian market. While the heavy presence brings stability, liquidity suffers.

Even as PNB tried to invigorate its investment returns in the couple of years prior to Zeti's appointment, the focus had remained mostly on enhancing returns from the local stock market.

For perspective, PNB's domestic investments had reduced from 98.1% to 96.9% over the 12 months

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'Malaysia's fundamentals still solid'

The Malaysian economy, mired in weakening growth and transitional issues amid a global slowdown, is in need of pro-growth policies to give it a leg-up.

Concerns over the country's performance, however, may be overdone as it has the ability to bounce back, as seen in the past. Tan Sri Dr Zeti Akhtar Aziz says Malaysia's fundamentals are still solid and its underlying growth remains stable.

"I have always said that a steady growth path [for the country] is between 4% and 6%. We are still in that range, so I'm not too concerned ... what we need now is to implement pro-growth policies to get the economy on a stronger growth track," she says.

"If we slip into much slower growth, then yes, I would be concerned because it is always harder to drive growth when it has slowed significantly. But Malaysia is not in that situation. We are still having growth and 4.7% is good growth, considering the circumstances."

The government recently set up the Economic Action Council to help stimulate growth and to address the economic problems besetting the people. A widely held view is that economic reforms are not happening fast enough.

On this, Zeti, who is a member of the EAC, says Malaysia has the elements and resources to move things along faster. "We have the potential ... it has to be focused on undertaking measures [to address the issues] and some of them have been undertaken. More can be done. I am optimistic it can deliver the kind of results we want."

A dampener on global growth is expected to come from a slowdown in China but Zeti is optimistic that the country can manage its growth to avoid a sharper-than-expected downward trend.

"While others say there will be an accelerated slowdown, I am confident that China has the resources and policy space to avoid this despite facing problems like trade tensions with the US. If it (the situation) is prolonged, I think China will be able to sustain the current range of growth that it is experiencing. It is aware, for example, of the non-bank issues but its banking system is actually very well regulated and is performing. I still have confidence in China's capability to manage its economic situation." E

'PUTTING THE RIGHT CULTURE IN PLACE IS ALL-IMPORTANT'

Three years after she stepped down as governor of Bank Negara Malaysia, a post she held for 16 years, Tan Sri Dr Zeti Akhtar Aziz is in the thick of things again.

Meeting up with her in her office on the fourth floor of Balai PNB, *The Edge* finds Zeti looking her vintage self, dressed in an elegant baju kurung in one of her signature colours, dark blue.

Now 72, Zeti emerged from "retirement" last year when she was made a member of the Council of Eminent Persons, set up after the historic victory by Pakatan Harapan in the 14th general election.

What she did not expect, she says, was being offered the post of chairman of PNB. "When I left the bank (Bank Negara), I felt it was the best position that I could have had because it provided me with an opportunity to make a contribution. I was by then 70, I didn't think that I would take on another position."

But fate had other plans for her. "I was overseas when I got the call and I said, 'Can it wait until I come back?' They said 'No, we're going to call you tomorrow for your decision.' I reflected on it and accepted." She took over from Tan Sri Abdul Wahid Omar on July 1.

And Zeti found herself wearing many hats and working at a hectic pace again. She was kept on her toes with her work as PNB group chairman, chairman of Sime Darby Property, board member of the Asia Business School and so on.

At the heart of it all, Zeti comes across as still the quintessential central banker, peppering the interview with anecdotes from her Bank Negara days. This is to be expected, given that her stint in the central bank was for more than three decades. She joined the bank in 1985 as deputy manager of the economics department.

Zeti acknowledges that it has been challenging "juggling the hats". After all, when she left Bank Negara, never in her wildest dreams did she think she would be serving in government again. In fact, she had already decided three years before stepping down as governor that she did not want to renew her tenure for another five years.

"I had done everything I had wanted to do, so it was time for me to go and I prepared the bank for that for at least three years."

In fact, since leaving the central bank, she received invitations from all over the world to speak at conferences and panels, something she enjoyed doing. "I met my old friends in the central banking community and it was great. And on the home front, I helped out with the education arm of the bank, where I still had the Asia School of Business and the leadership centre, and INCEIF (International Centre for Education in Islamic Finance). I was happy with that arrangement."

Her focus now, of course, is PNB. "I have reduced my speaking engagements. I won't accept new subject areas, so I've slowed down on that front. And the business school, it's just started, so we're very excited about what we're delivering to the world and I will support it for a little while."

If her stint at the central bank is any indication, Zeti will run PNB with the same determination — to do her best in whatever she does. Throughout her career as a central banker, there was not a day that she did not work hard and intensely, she explains. "I always had a great sense of purpose about what had to be achieved and I was very ambitious about what had to be achieved as well."

And it is this palpable sense of purpose that comes across when she talks about her plans for PNB, going forward.

How has her transition from central banker to "fund manager" been so far, so to speak?

"Not a difficult one," Zeti replies, explaining that there are several parallels between the central bank and PNB. Both, she says, are managers of large funds. "At the central bank, of course, it was managing the reserves ... we had about US$100 billion equivalent. In PNB, the fund is about RM300 billion. The central bank is at the frontier of the investment of the reserves and, I should say, it is as good as any international investment bank. We reached that level in terms of asset allocation, in terms of risk management, in terms of managing liquidity. So, in that respect, there are many similarities."

A difference, she notes, is that Bank Negara has multiple mandates whereas in PNB, it is a single one: to enhance the wealth of the unitholders.

Zeti joined PNB with high expectations. "This organisation was chaired from the beginning by the pioneer, Tun Ismail Ali, and he had the highest standards of excellence and integrity. So, PNB already has those values."

She believes that the PNB she has inherited has the potential to achieve a higher level of performance. "It was the same with Bank Negara; when I became the governor, it was a good organisation. It was already up there. It had good talent, it was well run. Back then, we could really be ambitious. We wanted to be at the frontier of central banking, so we did three rounds of organisational transformation during the 16 years to improve ourselves in terms of governance, risk management, talent development and management, and original technology to become a knowledge and performance-based organisation."

At PNB, she believes that putting the right culture in place is all-important for the company to move in the right direction amid a very challenging environment.

Zeti does not have a time frame for her stint at PNB but she assures us that she will continue to work as long as her health permits. "It depends on what I want to achieve and also on my health. I'm happy to do this because many [of our clients] are small unitholders. When you take on a position, you must know what your obligation is, and work towards achieving that mandate. So, if you know you can no longer do so, you should give way to someone else who can."

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Why the ex-central banker became a developer

Tan Sri Dr Zeti Akhtar Aziz was aware that when she became the first female chairperson of Sime Darby Property Bhd, she would have her work cut out for her. It was certainly not the best of times, with the sector facing a very challenging period.

In a way, it is ironic for the property industry. Developers and Bank Negara Malaysia — which Zeti led as governor for 16 years — have had a long-running disagreement on whether housing loan rules are too restrictive.

As she sits down with *The Edge* in an exclusive interview, Zeti reveals that taking the role at Sime Darby Property was not originally part of her plans. "I was asked whether I would chair more than one of these companies. At first, I did not consider taking on any of the other companies, and finally, I decided to lead Sime Darby Property," she says.

It is obvious during the conversation that she did not do so just to add another high-profile position to her résumé. She has a clear vision of what she wants to achieve, and this involves tackling three issues head-on.

First, she wants to steer the developer away from conventional products and "to discover the new frontiers of property development".

"There is a role for property companies, and it should not be [just] to build high-rise condominiums and commercial spaces," she remarks.

Second, Zeti wants to address the legacy challenges faced by the developer. These obstacles include its unsold properties, some of which are more than a decade old.

"While they may look at me as a regulator, as I said, my two or three years with Danaharta [had] dealt with this [inventory] issue and ways to resolve it, and what strategies are needed while minimising the adverse implications for the organisation," she adds.

Interestingly, in the six months ended Dec 31, 2018, Sime Darby Property booked a sizeable inventory write-down that amounted to RM210.64 million.

That left some RM2.13 billion worth of old inventory on its balance sheet as at Dec 31.

The developer is changing its financial year end from June 30 to Dec 31.

Between July 1 and Dec 31, 2018, the developer suffered an unaudited net loss of RM318.7 million due to a more than fivefold increase in tax expenses compared to a RM559.77 million net profit in the previous corresponding period.

In the same reporting period, its revenue rose to RM1.27 billion from RM1.18 billion.

The market reaction was immediate. As trading resumed after the financial results and the write-down were announced, the counter fell 14.53% over two trading days to hit RM1 on March 1.

Zeti's third task is to whip Sime Darby Property into better operational shape. That means driving organisational reforms in the company "to achieve much more with less".

The simplicity of her goals belies the difficulty of execution, given the sheer scale of Sime Darby Property.

Its developable land bank stood at 20,695 acres as at June 2018, worth RM96 billion in estimated remaining gross development value.

As at last Wednesday, its market capitalisation was RM7.35 billion, the second largest among the pure-play property development counters.

Once these three goals are achieved, Zeti sees no further reason to linger in the role. "I want to achieve these three things that I mentioned. Once they have been achieved, I will hand it over to somebody with expertise in property and just focus on PNB," she says. E

Zeti's 10 elements in PNB's organisational transformation for greater institutional effectiveness and excellence

1 Becoming a strategically focused organisation (SFO)
Having clarity of purpose on the results to be achieved and having clarity on the distinct outcomes to be achieved. Every part of the organisation is to be aligned to achieving these identified outcomes.

2 Becoming a knowledge-based organisation (KBO)
Leveraging technology to manage the massive information and knowledge that is vital for effective decision-making. Equally important is the information that is drawn from greater engagement.

3 Transforming working arrangements in the organisation
Moving from being tasked-based to outcome-oriented. Moving from operating in silos to achieving greater collaboration and having a more committee-driven process. Also, becoming less hierarchical, operating more as project teams and having a more committee-based decision-making process.

4 Becoming a performance-based organisation (PBO)
The introduction of goal setting and a culture of accountability. This is reinforced by a rigorous appraisal system.

5 Investing in talent
Talent development to be given greater priority. This provides high payoffs almost in the immediate term as staff are empowered to self-develop.

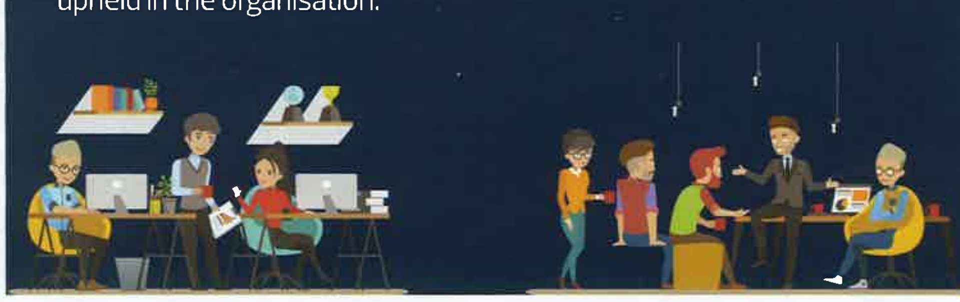
6 Strengthening governance arrangements
This is about how an institution is being governed and how decisions are made. Lapses in governance have seen large-scale destruction of wealth and erosion of confidence.

7 Strengthening risk management
It is all about identifying what could go wrong and having the organisation in a state of preparedness to manage any eventuality.

8 Enhancing internal and external communications capability
Awareness that communication needs to be with all the stakeholders and to all the target groups. Additionally, we have to leverage all communication channels.

9 Space management to enhance performance
Provide a great sense of arrival. This should project what the business stands for. The space arrangements should also reflect the nature of the work, which would in turn lead to greater efficiency.

10 The climate in the corporation — the corporate culture
This gives guidance on how to handle the business. It builds the organisational energy and generates the professional will to exercise sound judgement to doing what is right. It involves the shared beliefs and attitudes, as well as the principles and values being upheld in the organisation.



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up to end-November 2018. Yet, the public equity proportion of its domestic investments had actually increased from 70.4% to 71.2% in that time.

In contrast, the Employees Provident Fund (EPF) had gone abroad much earlier in search of better returns. Last year, 26.7% of EPF's assets were invested outside Malaysia and overseas income made up 37.52% of its gross investment income, down from a previous high of 48% back in 2015.

While PNB also wanted to increase its international exposure, there was much less urgency and much more cautiousness prior to Zeti's tenure. She acknowledges that PNB had been a laggard when it comes to international diversification. However, she indicates that even as the fund manager strives to catch up, the process would be undertaken with care.

"We recognise that PNB has already reached a size that will make it too vulnerable being in the domestic market, so that is another reason for diversification," says Zeti. "International diversification is important, but we have to look at the timing and then manage the currency exposure as well."

While some may see the continuous growth of PNB's AUM as putting pressure on stepping up the international diversification, Zeti points out that the incoming funds also help. It is easier to invest new funds than to redeploy existing investments.

That said, Zeti believes it remains useful for PNB to have majority stakes in a handful of companies for stable dividends. But she also feels it is unnecessary beyond a small group of core firms.

Another area of focus for her would be the ongoing reduction of PNB's cash holdings, which were as high as 20% of its AUM not too long ago. As at Dec 21 last year, the proportion had fallen to 16.9%.

"In those days, it was appropriate, but now, there are many instruments to manage liquidity in the market and so on that generate returns. So, the other area that I hope to bring value-add is liquidity management," says Zeti.

Managing risk

As PNB sets out to diversify its portfolio and better manage its liquidity, its risk management capabilities and framework are key areas that Zeti aims to enhance.

There are two layers to the approach. One is that PNB will adopt a more cautious men-