

The spread and outbreak of the COVID-19 in 2020 led to a global crisis of unprecedented reach and proportion. However, in Malaysia, the EPF successfully overcame the challenges that arose from this pandemic to post a strong financial performance and maintain its track-record of excellent customer service.

Among the EPF's many notable achievements for the year are the extraordinary COVID-19 relief initiatives to assist members and employers impacted by the pandemic. To deliver these initiatives in record time, the EPF accelerated its digital transformation and swiftly adapted to new work-from-home norms.



Tan Sri Ahmad Badri Mohd Zahir
EPF Chairman

CONVERSATION WITH EPF CHAIRMAN

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We speak to EPF Chairman, Tan Sri Ahmad Badri Mohd Zahir, on how the EPF adapted to the pandemic, its robust financial performance and as well as its plans moving forward.

Q1 • The COVID-19 pandemic severely impacted the global economy as well as upended businesses and livelihoods. Government entities and institutions, including the EPF, were not spared from the business impact caused by this health crisis. Can you tell us how the EPF overcame the many challenges that marked 2020?

The devastation caused by the pandemic to people, communities, and economies is truly heart-wrenching. The corporate world, including government institutions such as the EPF, faced multiple challenges in 2020, but our primary concern was, and always will be, the wellbeing of our customers and, by extension, the *rakyat*.

We knew that many of our members experienced great financial hardship and that employers, especially those who were unable to operate during Government-mandated lockdowns, faced severe cash flow constraints.

The EPF has been a pillar of strength and certainty for Malaysians for decades and we had to rise to the occasion to meet the immediate needs of our customers at great speed. From the onset, our overarching goal for 2020 was to help our members and employers overcome the existential threat brought about by the pandemic.

➤ **We are proud to be among the first pension funds in the world to offer COVID-19 relief initiatives (refer to Special Report, page 18). Our extraordinary measures provided a lifeline to members who faced difficulties paying for their subsistence needs and brought some relief to businesses affected by the sharp slowdown in economic activity.**

As we served our members and employers during the twin health and economic crises, the EPF was moving mountains internally. During the first movement control order (MCO) in March 2020, we swiftly adapted to working from home. This was a sudden transformation from the traditional workplace, that we were used to.

To minimise disruption to our operations and service level, we raced to provide the necessary technology solutions and tools for EPF employees to remain productive while working from home. As we entered a new and exciting tech-enabled remote working environment, we fortified EPF's systems with extensive cybersecurity measures to safeguard our data in off-site workspaces and on online platforms.

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As I reflect on how 'business unusual' seamlessly transformed into 'business as usual', I believe that the EPF has shown that it is possible to be productive outside the workplace and that employees, regardless of age, can learn quickly and embrace remote working technologies.

Another critical obstacle that we had to surmount during the year was to manage our investments in volatile and unpredictable financial markets, locally and abroad. Global stock and bond markets were in turmoil as the pandemic unfolded across the world and asset values fluctuated wildly.

As the country's provident fund with approximately 15 million members, we had to deliver on our mandate to safeguard their savings at all times. This duty is of paramount importance during unprecedented events. To manage periods of volatility and uncertainty across global financial markets, we proactively adjusted our investment strategies and processes. This protected our investment portfolio and boosted returns for the year.

I would be remiss if I do not acknowledge the people who responded swiftly to the numerous challenges in 2020. The EPF management team and employees were its frontliners during the pandemic. They deserve immense credit for EPF's strong performance and accomplishments during this challenging year.

Q2. By registering a strong financial performance, the EPF withstood the trend of declining investment returns for 2020. Can you provide more details on the EPF's performance and how it was achieved?

We declared a 5.2% dividend for Simpanan Konvensional, and a 4.9% dividend for Simpanan Syariah for 2020. Total distribution amounted to RM47.64 billion for 2020 (RM42.88 billion for Simpanan Konvensional and RM4.76 billion for Simpanan Syariah), compared to RM45.82 billion for 2019.

Total investment assets grew 8.15% to RM1,000.10 billion. The EPF also recorded its highest-ever gross investment income of RM63.45 billion, out of which RM6.15 billion was allocated to Simpanan Syariah. Despite the challenging conditions, total contributions received in 2020 increased by 3.27% from 2019 to RM78.41 billion.

Our robust and resilient financial performance stems from a strong team of 250 investment professionals. As mentioned earlier, the team took careful and deliberate measures, early in the year, to adapt to the EPF's investment strategies and processes. Their efforts as well as our prudent investing approach minimised downside risks and optimised returns although global equity markets registered double-digit declines and global bond markets experienced heightened volatility.

➤ Total investment assets grew **8.15%** to **RM1,000.10 billion**

➤ Highest-ever gross investment income of **RM63.45 billion**

➤ **RM6.15 billion** was allocated to Simpanan Syariah

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I would like to stress the intrinsic qualities of the EPF's prudent investing approach. For several years, we have encouraged corporates and individuals to prepare for a world that is Volatile, Uncertain, Complex, and Ambiguous (VUCA). This prudent investing approach, guided by the EPF's Strategic Asset Allocation, reflects the steps that we have taken in anticipation of a VUCA environment and it has, undeniably, proven to be effective in the turbulent and unpredictable financial markets of 2020.

➤ **At the end of 2020, the EPF's total assets consisted of fixed income instruments at 46%, equities at 42%, while real estate and infrastructure, as well as money market instruments, stood at 5% and 7% respectively.**

Our robust financial performance shows that the EPF was able to strike a delicate balance between safeguarding our members' retirement savings while meeting their subsistence needs during a crisis. This balance was not easy to achieve. It often felt like we were walking a tightrope between supporting our members through difficult times and securing their savings for a dignified retirement in the future.



Q3. As the pandemic has yet to abate at the end of 2020, it seems likely that financially-strapped households are still compelled to use their retirement savings to pay for their immediate needs. This situation must be of pertinent concern to the EPF. Can you share your thoughts on this matter?

The EPF, a 69-year-old institution, is one of the world's oldest pension funds. Our vision and mission have always been to safeguard our members' savings to help them secure a better future.

In 2020, we realised that the economic and social disruption caused by the pandemic threatened livelihoods and the wellbeing of many Malaysians. Members of the public, especially vulnerable groups such as low-skilled workers and low-income workers, faced the risk of falling into extreme poverty while businesses, notably small and medium enterprises, struggled to survive.

Clearly, the EPF had to take immediate and purposeful action to assist our members and employers who faced financial hardship. By allowing them to access their EPF savings and/or reduce their contributions, we supported them in meeting their immediate needs. However, by doing so, there is a real risk that our members may not have enough funds for a dignified retirement in the future.

My view is that the harsh reality of the COVID-19 pandemic necessitated access to savings and that our members have spent wisely on their subsistence needs. Now, the focus should be on rebuilding retirement as well as emergency savings, once Malaysia emerges from this crisis.

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➤ Only **47.5%** of Malaysia's working adult population are covered by the EPF

It is important to note that only 47.5% of Malaysia's working adult population are covered by the EPF. A comprehensive and integrated social protection framework, which considers the most vulnerable groups, is needed to address the human dimension of a crisis.

COVID-19 has also shown that, more than ever, the Government, government agencies, corporations, and institutions, must come together as one. With supportive policies and complementary initiatives, we can overcome the social and economic impact of the pandemic, and support the *rakyat*, especially the most vulnerable groups, across the nation. By doing so, we can ensure that the post-pandemic new normal will be a better one for all Malaysians.

Q4. Tan Sri, what can we expect from the EPF in the coming years?

The challenges that we faced in 2020 has shown that the EPF's digital and strategic initiatives are on the right track. I expect that we must continue to operate and transact with our customers in a low-contact environment to minimise the transmission of infectious diseases. This means that we must consistently deliver great customer service in this environment, ensure that our platforms and digital solutions are up to expectations, and that our data and transactions are safe and secure.

The pandemic highlighted significant differences across our wide spectrum of customers. This has strengthened



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our resolve to instil a customer-centric mindset and approach throughout the organisation. For example, the needs and preferences of our members in rural areas with limited internet access is clearly different from those of our city-dwelling members.

Likewise, members of different age groups prefer to connect and transact with us in different ways. Moving forward, the EPF will plan and design our services and operations to cater to the unique circumstances and needs of our diverse member base. A digital EPF that is customer-centric, future-proof, resilient, and agile is well-positioned to meet the challenges of a VUCA world. I am confident that we will meet and, possibly even, exceed our stakeholders' expectations in the coming years.

Q5. Is there anything else that you would like to add?

On behalf of the EPF, I would like to thank Tunku Alizakri Alias, the previous Chief Executive Officer, who stepped down in March 2021. Tunku Alizakri has given invaluable leadership over his time with us and I wish him all the best in his future endeavours.

We welcome Datuk Seri Amir Hamzah Azizan, who takes over as the EPF's Chief Executive Officer. I believe that all of us will benefit greatly from his wisdom and experience.

➤ I would like to extend my appreciation and gratitude to members of the EPF Board for their guidance and support throughout the year. I would also like to thank the EPF's management and employees — the entire team of 5,811 people — for their hard work and dedication.



Their contributions have made it possible for the EPF to pivot to the new working norm, launch unprecedented withdrawal facilities, as well as upgrade our digital solutions and tools. Thank you for your efforts in serving our customers with excellence and dedication.

My heartfelt appreciation also goes out to the Ministry of Finance, government entities and agencies, and our members and employers. Thank you for your continued trust in us.

Despite the uncertain outlook and the prolonged pandemic, the EPF is committed to reaching greater heights as we deliver on our mandate.

CHIEF EXECUTIVE OFFICER'S STATEMENT

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KEY MESSAGES

The EPF has been a symbol of confidence for the rakyat for decades. It is an honour for me to be part of this prestigious provident fund since I took the helm of the EPF in March 2021. Until today, the EPF stands tall as a beacon of credibility and integrity.



Datuk Seri Amir Hamzah Azizan
Chief Executive Officer

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As I write this message, I realise the EPF has raised awareness about a heightened volatile, uncertain, complex, and ambiguous (VUCA) environment, years before COVID-19 wreaked havoc across the globe. Internal measures to prepare for the implications of VUCA enabled the EPF to rise to the occasion and overcome the challenges of the pandemic.

In 2020, we delivered innovative solutions for our members and employers. Despite the economic slowdown, the EPF posted a robust and resilient financial performance. I would like to share the EPF's many achievements and the contours of this 12-month journey in this Annual Report.

GUIDED BY A SENSE OF PURPOSE

I cannot discuss 2020 without first acknowledging the difficulties and the adversities that the pandemic has inflicted on us. The protracted uncertainty and confusion compounded this challenging period, and many of our members lost their jobs or part of their income as employers struggled to keep their businesses afloat.

The EPF has delivered on its mandate in 2020 by listening to its stakeholders, especially members and employers. Over the year, they brought up issues like severe cash-flow constraints that stemmed from job and/or income loss, housing, health, as well as financial and food insecurity.

It was clear then, as it is now, that we can only deliver on our vision of helping members to achieve a better future if we address the most pressing issues faced by Malaysians throughout the country. Helping members and employers gives the EPF a sense of purpose.

With a determination to meet the needs of our members and employers, we quickly stepped up and assisted those facing financial hardship. While our mandate is to help look after our members' retirement savings, we also understand that the pandemic was an unusual circumstance. So, we had to find a way within reason to allow members access to their savings.

We were mindful that our initiatives could impact the EPF's cashflow, so it was crucial that we manage and minimise the downside risk to our investments during this time. The EPF's robust and prudent investing strategy, backed by its Strategic Asset Allocation and a capable team, guided by the steady hand of a wise Investment Panel — benefited its portfolio during the periods of financial market volatility that characterised 2020. This is reflected in our strong financial results, as detailed in **Conversation with Tan Sri Ahmad Badri Mohd Zahir, EPF Chairman of the EPF** (refer to page 2), and in the **Investment Division Review** (refer to page 102).

To adapt to the challenges of the COVID-19 pandemic, the EPF had to be more agile and react decisively. Since we had started to digitalise our operations and processes before the crisis, we adapted quickly to the new normal by accelerating our digital transformation.

By leveraging on our digital platforms, we provided even more access points for customers to connect with us. We enhanced the capacity of our technological systems to accommodate the exponential surge in enquiries throughout the year. We also took preventive measures to boost cybersecurity and safeguard our customers' information from cyber threats.

We amplified communication strategies for all our stakeholders and relevant agencies so that they could better understand our standpoint, as well as the unprecedented and extraordinary solutions that we implemented.

The events of the past year have strengthened the EPF's deep-rooted responsibility to help our members live a meaningful life. By staying true to our purpose and vision, 2020 witnessed some of the proudest moments in the EPF's 69-year history.

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PROVIDING SOLUTIONS FOR THE MOST PRESSING ISSUES

Our team continued to serve our customers throughout the dual economic and health crises of 2020. As always, we held ourselves to high standards. Despite the headwinds, we delivered various initiatives for our members and employers.

Initiatives for Members

1 Initiatives to ease financial hardship



- Working members were given the option to reduce the employee's statutory contribution from 11% to 7% from April to December 2020. This enabled them to increase their take-home pay during the economic slowdown. At the end of the year, a total of 5.2 million members had opted for this reduction. The total value of their reduced contributions was RM13.6 billion (i.e. the amount not saved with the EPF).
- The i-Lestari withdrawal facility was developed in record time to help our members navigate the crisis. i-Lestari allowed members to withdraw between RM50 and RM500 monthly from their savings in Account 2. On the day of its launch, a total of 850,000 i-Lestari applications were recorded.

At year end, a total of 5.1 million i-Lestari applications had been approved, and RM14.55 billion disbursed. About 87% of i-Lestari applicants earned less than RM3,000 per monthly.

2 Initiatives to help our members invest for their future and manage their finances



- The upfront fee charged by Fund Management Institutions (FMIs) for investments made via the EPF's Members Investment Scheme (MIS) was reduced to encourage members who are financially secure to manage their own retirement savings. We also removed the upfront fee for investments transacted through the EPF's i-Invest facility using the i-Akaun digital platform. To provide our members with more options, we increased the number of FMIs available on the i-Invest facility to 10 institutions from just four institutions in 2019. During the year, a total of 24,000 members utilised the i-Invest facility and made approximately 73,000 transactions with a total value of RM685.6 million on this platform.
- The EPF's *Belanjawanku* expenditure guide has been updated and expanded. This has helped more Malaysian individuals and households to better manage their expenses and plan their budgets. In 2020, *Belanjawanku* was rolled out for five major areas namely the Klang Valley, Alor Setar, Kota Kinabalu, Kuala Terengganu, and Johor Bahru.

3 Fertility treatment withdrawal facility



- A fertility treatment withdrawal facility was launched in October to address the country's declining fertility rate. This facility is an extension of the EPF's Health Withdrawal facility, which enables members to access their savings in Account 2 to fund fertility treatments at local medical institutions. At the end of 2020, the Health Withdrawal – Fertility Treatment saw 114 applications approved with a total withdrawal amount of RM3.5 million.

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Initiatives for Employers

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An initiative to ease cash-flow constraints



- The Employer COVID-19 Assistance Programme (e-CAP) allowed eligible Small and Medium-sized Enterprises (SMEs) to defer or restructure their share of EPF contributions for April, May, and June 2020. The programme's aim was to support cash-strapped employers so they could retain their employees during the pandemic. In 2020, a total of 13,090 applications were approved amounting to RM84.95 million.

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Other key initiatives



- Enhancement of i-Akaun (Employer) to improve the online user experience for employers. In 2020, up to 99% of employers made their submissions on this platform.
- The development and pilot of a free payroll system for Small and Medium-sized Enterprises (SME) to digitalise their operational efficiency.
- The launch of the EPF's Employer Advisory Services (EAS) to support employers in fulfilling their statutory obligations with the EPF. EAS commenced in 2020 with 10 pioneer officers based in the Klang Valley.

ADVANCING SUSTAINABILITY TO DRIVE BETTER OUTCOMES

Despite the uncertainty, volatility, and complexity across financial markets in 2020, the EPF's investment assets increased by 8.15% from the previous year to reach RM1,000.10 billion. The next step is to keep growing the EPF's assets in an increasingly VUCA world.

Our strategy for long-term growth in a rapidly changing landscape, and to manage and minimise our financial and non-financial risk, is to leverage on best practices and step up our responsible investing by incorporating environmental, social, and governance (ESG) considerations into our investment process.

ESG assets generated between 5% and 7% in the long-term. This is in line with our overall approach as a "hyper long-term investor".

The impact of the pandemic on asset values in 2020 further confirms the resilience of ESG investments. At the height of the COVID-19 pandemic, ESG assets deteriorated at a lower rate compared to other assets. For example, public listed companies that embedded ESG elements into their business outperformed their peers in the stock market.

The EPF's commitment to responsible investing and ESG practices is driven by our conviction that integrating sustainability builds resilient investment portfolios and achieves better long-term, risk-adjusted returns. We aspire to base all our investing decisions on ESG elements by 2030.

We believe that further integration of ESG elements across the EPF's strategies and operations will strengthen its ability to effectively navigate subsequent phases of the pandemic and respond

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to future societal and environmental challenges. Furthermore, as a pioneer in responsible investing and ESG, the EPF becomes part of the solution to the biggest problems facing the world.

As we pursue investment stewardship, we plan to play a more active role in encouraging our investee companies to uphold their ESG principles. Key for us is engagement, and a lot of our voting guidelines were developed to ensure investee companies uphold their principles of corporate governance, such as having a good balance between independent and non-independent directors.

In line with our efforts to enhance our communication with members and broader stakeholders, we are embarking on our integrated reporting journey by adopting the International Integrating Reporting Council's (IIRC) International Integrated Reporting (<IR>) Framework. We have incorporated selected <IR> Framework content elements in this Annual Report to share the value that the EPF has created for its stakeholders. We intend to present our inaugural Integrated Report next year and will continue to improve our processes and practices to implement integrated thinking in our decision-making.

DIGITALISATION: A TRANSFORMATIVE FORCE

The COVID-19 pandemic has accelerated the adoption of technology and the trend of working remotely. When the pandemic hit with full force in March 2020, the EPF had to adapt its business and operations both to protect its employees and to continue serving its customers.

This was made possible by the EPF's ongoing digital transformation journey, which is encapsulated in its Digitise EPF 2025 roadmap, which aims to transform the EPF into an organisation that is powered by digital technologies by 2025.

In 2020, we accelerated the plans and activities outlined in this roadmap to serve our customers during the many lockdowns. Further information on the EPF's adoption of digital technologies is highlighted in our inaugural **Digital Technology Division Review** (refer to page 121).

➤ The overwhelming volume of customer inquiries and engagement in 2020 has shone a light on the increasing importance of digitalisation as an enabler. Out of the 218 million interactions between customers and the EPF during the year, a total of 207 million transactions took place on digital platforms. This is a colossal increase of 120.2% from the number of online transactions in 2019. In contrast, in-person (offline) transactions dropped 26.7% in 2020 from the preceding year.

The EPF has long-anticipated the importance of digitalising its products, services, and operations. A sizeable portion of the EPF member base consists of digital natives who are below the age of 20. This is why we recognise digitalisation as a strategic imperative, not just a way to socially distance or a source of cost efficiencies.

It is important to note that as we advance in our digital journey, the EPF will always recognise and embrace its customers' diverse needs and preferences. Consider *Janji Temu Online (JTO)*, a cloud-based solution that we launched in 2020. This solution provided a "low touch, high distance" service for customers who visited our branches, which ensured their safety as well as the safety of our employees during the pandemic.

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**BUILDING BACK BETTER**

Our success in 2020 positions the EPF strongly for the coming year. Nonetheless, we are aware of the uncontrollable and often unpredictable, external dynamics — characteristics of a VUCA environment — that can challenge our operations and investments.

Malaysians are still dealing with the impact of the pandemic, and have yet to return to normalcy. The hard truth is that the events of 2020 have put some people's financial wellbeing even further behind.

The loss of jobs may push some households into hardcore poverty. For others, retirement and emergency savings have been depleted and deprioritised to pay for their immediate subsistence needs.

The big ticket item for the EPF is to uphold its mandate, which has always been a key pillar of Malaysia's social protection system. The scale of the EPF's operations allows it to tap into opportunities to make life better for its members.

Because the environment we are in is rapidly changing, it is natural for the EPF to evolve its operations and look at how it can pivot and become more relevant to members throughout their lives, not just when they retire. We are deepening our commitment to helping and empowering Malaysians, members and non-members, to save for their retirement and have a dignified future. For members who have had to access their EPF savings, we want them to look to us on how they can work towards restoring and rebuilding their funds.

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Our plans for 2021 include:



Fortifying trust in the EPF and solidifying our reputation as a responsible social protection organisation in an environment where misinformation and 'fake news' spread at breakneck speed.



Championing social wellbeing efforts by advocating a comprehensive and integrated social protection framework that ensures vulnerable Malaysians are covered should they face financial hardship.



Leading the sustainability agenda by becoming a more sustainable and responsible organisation, and by using its position as the country's premier retirement fund to influence and advocate for sustainability.



Future-proofing the EPF by executing flagship strategic projects as it continues to enhance the capabilities of its employees.



Allowing members to purchase insurance and takaful products using their funds in Account 2, as announced in Budget 2021. These products, offered through i-Akaun, will be customised with additional features and affordable premiums.



Improving the quality of the EPF's reporting to stakeholders. Its future Annual Reports will adopt an integrated reporting model to provide greater insights into what the EPF has achieved and how it plans to deliver on its objectives.



Continuing efforts to develop the Kwasa Damansara township in Selangor, which will also house the EPF's new headquarters.

ACKNOWLEDGEMENT

Much of the EPF's successes can be attributed to its past leaders. I want to take this opportunity to thank Tunku Alizakri Alias, the EPF's previous CEO, who played a key role in preparing the organisation for a VUCA world, and integrating material ESG considerations into its investment processes and operations.

My heartfelt gratitude also goes to the EPF's Chairman Tan Sri Ahmad Badri Mohd Zahir, and to all members of the EPF Board who have shaped the fund's direction and drive for value creation.

To all employees, the EPF would not be able to adapt, evolve, and navigate the challenges of the pandemic without your resilience and dedication to the EPF's purpose and vision to help our members achieve a better future.

A huge thank you to all EPF members, employers, and stakeholders whose trust and confidence have fuelled us to work even harder in managing their retirement savings.

Datuk Seri Amir Hamzah Azizan

Chief Executive Officer
Since 1 March 2021