

CHAIRMAN'S MESSAGE



TAN SRI SAMSUDIN OSMAN
Chairman

The EPF is fortunate to have envisioned the necessity for all organisations to evolve and future-proof their strategies. We have drawn from almost seven decades of experience to help us plan for the future, knowing from past financial crises and recessions, that in every season of adversity, the winners have been those who were both prepared and agile. This has led us to ensure that we are at all times in a constant state of preparedness and to take a diligent approach in managing risks and crises.

2019 was a tumultuous year as we balanced our efforts in upholding our commitment to our members, employers, and staff, and at the same time, accelerating our efforts to propel EPF into the new decade.

SOLID PERFORMANCE IN SPITE OF A VOLATILE YEAR

The year was certainly volatile and challenging with many events driving market instability. Political tensions around the globe, including Brexit and the Hong Kong protests, added to the tensions arising from the ongoing economic standoff between the US and China. These slowed down the global economy and impacted almost all markets.

Despite the unstable environment, we managed to pull through with a reasonably solid performance to deliver a Simpanan Konvensional dividend of 5.45% and Simpanan Shariah dividend of 5.00%, substantially above the 2.50% minimum mandated by the EPF Act 1991. On a rolling three-year basis, the EPF declared beyond our target of 2.00% real dividend over three years. The real dividend for Simpanan Konvensional stood at 4.33%, which is 2.33% above our three-year rolling target of 2.00%. For Simpanan Shariah, the real dividend stood at 3.93%, 1.93% above the target.

Our results are a testament to the success of our strategies, combined with the commitment of the EPF staff, and anchored

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on our vision to achieve the very best that we can for our members' well-being and future.

Focus and determination were the two driving factors that guided the EPF workforce through 2019's many storms. The established legacy of our 69-year-old organisation also provided the much needed institutional knowledge and wisdom to guide our team.

We also had the continued backing of the deeply experienced and highly capable members of the diverse EPF Board, representing our primary stakeholders of employees, employers, and the Government. Thanks to them, we were empowered with the independence to make any difficult but necessary decisions.

However, it was our members who really pushed us to achieve our goals in spite of the many challenges. With their implicit trust, we were focused on ensuring that we fulfilled our mandate and were determined to not let them down.

Combined, these internal and external factors ensured that we saw through the storms of 2019 and rode the waves of opportunities whenever they arose.

Nevertheless, we remain acutely cognisant of the need and urgency to embrace the grit and ability to evolve, so that we remain relevant in a time when uncertainty and unpredictability are the new norms.

LEARNING FROM A DECADE OF CRISIS

When I first took the helm in 2007, the EPF was already a well-established institution with a reputation for stability. It was my



priority then to ensure we continue to uphold the trust of our members as we entered a decade marked by the Global Financial Crisis, which began just over a year into the start of my tenure, and the following seasons of slow economic growth.

Since early 2000s, the EPF's investment has been guided by a disciplined approach under its Strategic Asset Allocation (SAA) to ensure that the investment is optimised while ensuring its ability to meet its mandate despite the volatility in the market. Under the SAA in 2019, 51% of EPF's investment assets is allocated in Fixed Income Instruments, 36% in Equities, 10% in Real Estate and Infrastructure, and 3% in Money Market Instruments.

Our SAA has made us resilient as we navigated the turbulent markets of the 2010s. Having most of our money in government bonds and other fixed income instruments ensured a reliable stream of returns while keeping our members' hard-

earned capital preserved. At the same time, despite some years of lacklustre market performance, our investments have added value on top of these savings by delivering returns above inflation.

In 2019, our exposure to global assets, which stood at 30.3%, contributed to 41% of the total gross investment income, cushioning the declines and underperformance from the domestic markets. We also believe that our diversification efforts into global markets, which effectively began in 2006, continue to be an important factor contributing to our success through difficult periods. Nevertheless, we continue to be a major investor in the Malaysian market with almost 70% of our total investment assets invested domestically.

In our efforts to diversify our investments strategy, we also outsourced 14.4% of the total investment asset to external fund managers across multiple domestic and global mandates in equities and fixed income assets.

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I am pleased to record 2019 as the third consecutive year that the EPF recorded a gross investment income of over RM50 billion for the benefit of our 14.60 million members. This is equivalent to a 6.53% return on investments for over three years, a significant premium over fixed deposit rates.

SUSTAINABILITY AS THE WAY FORWARD

Towards the middle of the last decade, there was a growing global consensus in favour of sustainable investing being more crisis-resistant and the better performing option for the long term.

In 2016, we introduced Simpanan Shariah as an option for our members to grow their savings with only ethical investments that are Shariah-compliant, that is, without the elements of *riba* (interest), *maysir* (gambling), and *gharar* (uncertainty in contracts) often found in investments in conventional banking and insurance. Under Section 43A of the EPF Act 1991, we established a Shariah governance framework to oversee the Shariah compliance aspects of this scheme.

In just three years, the idea of Shariah compliant investing has gained significant ground as 880,375 of our members opted to switch to Simpanan Shariah, reaping a rolling average real dividend of 3.93%.

With the issues of climate change, good governance, and social responsibility



gaining ground, we eventually signed the United Nations-supported Principles of Responsible Investing (PRI) in April 2019. This displayed our commitment towards responsible investing and Environment, Social, and Governance (ESG) best practices while protecting the long-term interests of our members. We are very encouraged that our ethical principles are now recognised as a fundamental investment direction and governance practice for our investee companies.

EMPOWERING OUR MEMBERS WITH THEIR OWN FINANCIAL DECISIONS

While we keep every investment decision rooted in safeguarding our members' retirement savings, we have always understood that a significant number of our members wanted to personally manage some of their own investments. For many

years now, the EPF Members Investment Scheme (MIS) has been instrumental in allowing members the flexibility of managing a portion of their own EPF savings. As at end 2019, there were 0.96 million members under the scheme with total Assets Under Management (AUM) of RM53.6 billion.

In August last year, we took the opportunity to embrace financial technology by introducing i-Invest, a self-service online platform which allows eligible members to invest in unit trust funds from the i-Akaun, as an enhancement to the existing MIS. The move also bridged our ongoing efforts to improve members' financial literacy while making sure that they stay on course to reach the Basic Savings Level needed for retirement.

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EVOLVING THE EPF FOR THE FUTURE

Over the years, I have been privileged to witness the EPF growing into an organisation that accounts for more than 14.60 million members with over half a million employers, and approaching close to RM1 trillion in members' funds. While the EPF benefits from the scale that such a fund provides, there is also a real risk of being too rigid or too big to change. Hence, we have always recognised the importance of adaptability and the need to stay agile so that we are always relevant.

In this light, our willingness and commitment to move into digital solutions spearheaded by the Operations Transformation Agenda have reaped rewards. The i-Akaun, expanded into a mobile application in 2013, has enabled both members and employers to transact and monitor their contributions online. I am happy to report that as of December 2019, 52.06% of our members and 99.36% of our employers are registered with the i-Akaun.

Our efforts to digitalise our brick-and-mortar services have given us the opportunity to upskill our front counter personnel into Retirement Advisory Service (RAS) officers, leveraging on them as the face of EPF to help and guide our members in their financial planning. This transformation is a uniquely EPF one, and I am grateful that it has added value to the lives of not just our members, but our EPF family as well. Since

its introduction in July 2014, the EPF's RAS is now available in 52 branches with 83 qualified RAS officers across the nation. In 2019, a total of 82,958 members have received financial advice from our RAS officers.

REDEFINING A BETTER FUTURE

The EPF also embraces its mandate as a moral obligation to create the conditions for a quality retirement, for all Malaysians. As we come to terms with a combination of rising costs of living, high household debt, and stagnating wages, we no longer see growing retirement funds as the means to all ends. That would mean addressing all contingent needs such as shelter, healthcare, and nutrition, and making the necessary shift in focus to longer-term, wider-ranging issues surrounding the economy, environment, and society that require urgent attention.

Having this in mind, we convened the International Social Well-Being Conference 2019 (ISWC 2019) with the theme of *Shaping Destiny - Between Hope and Extinction*, to cover a multitude of well-being topics arising from real-world challenges, including the trust economy, talent strategies, ageing populations, and defining happiness. The conference was a renamed evolution of the former International Social Security Conference, reflecting our urgency to redefine social protection in an increasingly competitive, digitally-driven work environment.

We have also taken a step beyond the conventional to redefine who needs an EPF account. From our data, around 60% of Malaysians are not covered by any social security system at all, as they are either self-employed or working in the informal sector. We stand firm in the belief that their economic contribution deserves to be recognised, and that they be given access to the benefits of social security.

In the last couple of years, I am glad to say that our efforts to expand coverage to these groups have begun to gain ground, with the increased uptake of both i-Suri and i-Saraan schemes. In 2019, we recorded a 28.78% yearly increase in i-Suri registrations to 81,511 and a total of 120,738 registrations for i-Saraan, a 22.11% increase from 2018.

CONFRONTING A RAPIDLY CHANGING WORLD TOGETHER

As I write this, the world has been further plunged into even more turbulence as nations entered into various states of economic lockdown to prevent the spread of COVID-19. Countries once thought strong and mighty have fallen to their knees as they scramble their resources and adapt their healthcare policies in order to save lives. Businesses have been severely impacted, and whole industries such as tourism, hospitality, and aviation, have come to a complete standstill as countries closed their borders, rightly favouring the need for health and safety above the need for economic growth.

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The measures taken to stem the pandemic have had devastating effects on economies everywhere. In this time of severe crisis, the capacity to survive and prevail is highly dependent on the extent of preparedness together with the ability to quickly adapt and redirect our course, if need be.

The EPF is fortunate to have envisioned the necessity for all organisations to evolve and future-proof their strategies. We have drawn from almost seven decades of experience to help us plan for the future, knowing from past financial crises and recessions, that in every season of adversity, the winners have been those who were both prepared and agile. This has led us to ensure that we are at all times in a constant state of preparedness and to take a diligent approach in managing risks and crises.

For many years now, the EPF has embarked on its journey of transformation, having long had a view of how a digital world will impact its members. To this end, we have enabled ourselves with the systems, tools, and capabilities required in this demanding future. At the same time, knowing that we must leave no one behind, we have striven to also empower the EPF workforce with the means to reskill and upskill themselves, and provide them with the support infrastructure to help them adapt.

I am extremely proud of the EPF team whose spirit and desire have allowed them to provide their utmost excellence in service. This has helped further solidify the EPF fortress which will weather the storms to come.

A PERSONAL THANK YOU

The new decade has already proven to be unrelentingly volatile, and it is in this climate that I now leave the EPF in the hands of my younger but certainly very capable colleagues. I have served the EPF since 2007, and the past 13 years have been a most privileged journey of national service and personal achievement. I will always remember fondly the many moments that I have shared with my colleagues and now friends, and I thank you for the honour of allowing me to lead this rock that is the EPF.

To all of you working hard, day in and day out, to bring a better future for all members, I thank you. I also take this opportunity to express my gratitude to all our members, employers, and stakeholders for their trust and support, as well as our CEO, Management team, and the EPF Board and Investment Panel, for driving us toward our noble goals.

I look back with much pride and I look forward with much confidence, that the EPF will persevere and continue to be a beacon of stability through the decades to come.

TAN SRI SAMSUDIN OSMAN

Chairman

February 2007 – April 2020



CHAIRMAN'S MESSAGE



TAN SRI AHMAD BADRI MOHD ZAHIR
Chairman

It is truly an honour for me to be able to pen my thoughts for this year's Annual Report as the new Chairman of the EPF, an organisation with a proud past and an exciting future.

First and foremost, I want to extend my appreciation and acknowledge the good work and incredible achievements of our outgoing Chairman, Tan Sri Samsudin Osman, who has left behind big shoes to fill. Tan Sri's leadership was one that was steady, assured, and pragmatic, and I will strive to continue his legacy as we step into this new decade.

This handing-off of the baton comes at a time when we are entering a new era of change and disruption. Before the world was even aware of COVID-19, people were only just beginning to make sense of the impact of the Fourth Industrial Revolution on our way of life. Rapid advances in technology are pushing us into the exciting but uncertain future of a digitalised world, even as we continue to struggle with climate change, global political tensions, and economic challenges.

In such times, there will be a desire for a continued source of stability. For decades now, the EPF has been that pillar of strength and certainty for Malaysians. As the country's provident fund serving over 14.60 million members, the EPF's mandate to safeguard their savings, no matter rain or shine, will help our members secure a better future.

I have always known the EPF as successful in living up to the expectations of our stakeholders – members, employers, and our employees, and by extension, Malaysians.

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We owe our success to a strong chain of committed and capable people who have steered our organisation through many storms: from our wise Board members, to our dedicated Management, and not forgetting the real heroes – our staff. As we look to the future, I am confident that the EPF is more than able to build on its strengths to take on new capabilities and new directions to successfully achieve its vision.

As our country expects and our members demand, we must continue with everything that we have done well, while improving and innovating to keep up with the times. All these, while ensuring our high standards of governance, transparency, and accountability are maintained. Together, we can and will bring the EPF to greater heights.

TAN SRI AHMAD BADRI MOHD ZAHIR

Chairman

Beginning 1 May 2020

CHIEF EXECUTIVE OFFICER'S MESSAGE



ALIZAKRI ALIAS

Chief Executive Officer

As we left 2019 and entered 2020, the world was thrown into upheaval yet again, with the onslaught of the COVID-19 pandemic and the race for its elusive vaccine ushering us into the new decade. We ended 2019 cautiously, welcoming a new world that is truly VUCA, full of adversities and yet bountiful with opportunities.

2019 proved to be yet another eventful and tumultuous year. Tensions in the Middle East, uncertainties in Europe owing to Brexit, and continued escalations of the US-China trade war, were among the many contributors to a constant environment of economic and political turbulence. Ongoing political change, economic instability, and growing social unrest added to a discomfiting arrival of a new decade.

A RENEWED MISSION FOR A NEW DECADE

Towards the later years of the 2010s, it has become increasingly evident that in order for the EPF to achieve our vision of helping members achieve a better future in these complicated times, we must shift our focus beyond social security. We now firmly believe that a brighter tomorrow is only possible when the overall social well-being of our members is brought to the forefront of our mission.

As we left 2019 and entered 2020, the world was thrown into upheaval yet again, with the onslaught of the COVID-19 pandemic and the race for its elusive vaccine ushering us into the new decade. We ended 2019 cautiously, welcoming a new world that is truly Volatile, Uncertain, Complex, and Ambiguous (VUCA), full of adversities and yet bountiful with opportunities.

In this age of turbulence, we are more determined than ever to achieve our mission of bringing value to our members and become their beacon of certainty, in our pursuit of a meaningful, healthy, and sustainable future.

CHIEF EXECUTIVE OFFICER'S MESSAGE

FUTURE-PROOFING OPERATIONS FOR AN UNCERTAIN WORLD

With the only certainty we are confident of is that uncertainty will continue, the EPF accelerated its efforts to transform and future-proof the way we work and how we serve our members, in order to deliver our mandate to safeguard their savings. 2019 saw our Operations and Digital teams responding to members' demands, as well as leveraging on technology to innovate and improve our product offerings and service qualities.

Foremost of these is the continued digitalisation of our business model, a timely and necessary evolution to keep up with the rapid growth of our younger, more tech-savvy members, as well as the increasing spread of the gig economy. On top of this, we are committed to delivering on the Malaysian National Strategy for Financial Literacy 2019-2023, which the EPF undertakes to incorporate into its products and services at every opportunity. This is to impress upon our members the financial understanding and knowledge needed to make educated decisions for their own future.

We launched i-Invest in August 2019, after much planning, to empower our members with the ability to manage their own EPF savings under the Members Investment Scheme (MIS). A facility under i-Akaun, i-Invest is a digitised upgrade of the MIS, offered to members at near-zero cost, which also enables them to invest into unit trust funds without going through any agent. i-Invest was well received by members, with RM81.8 million transacted up to December 2019.

Meanwhile, our initiative for self-employed workers, i-Saraan, continued to gain ground

with 120,738 new registrations, including those coming from gig workers who work on contract or ply their trade as freelancers. Uptake for i-Saraan increased by 22.1%, with further growth expected as business models change and more Malaysians opt out of the formal workforce to become part of the gig economy.

Similarly, the i-Suri programme, targeted to ensure the social protection and well-being of women homemakers are also taken care of, received 81,511 registrations in 2019. We expect this number to increase over the next few years as the EPF continues to explore ways to further grow the programme's reach.

These efforts, among other ongoing refinements to our standard operating procedures and the continuous updating of our technology, will be key to us prevailing in the next 10 years.

STABILISING OUR INVESTMENTS FOR SUSTAINED RETURNS

Despite the uncertain outlook throughout the entirety of 2019, we need to ensure the sustainability of our returns. The EPF's investments continued to record reasonably solid numbers, largely owing to our Strategic Asset Allocation (SAA) and the vigilance of our capable teams and Investment Panel.

On top of this, having taken a measured view of the continued instability of market conditions both global and local, the EPF embarked on efforts to shift our approach to managing both our financial and non-financial risks.

In April 2019, we signed the United Nations-supported Principles for Responsible Investment (PRI), underlining our commitment towards responsible investing

and Environment, Social, and Governance (ESG) best practices while acting in the best long-term interests of our members. With climate change, environmental issues, and socio-economic challenges making headlines throughout the year, ensuring positive impact beyond profit across our investee companies has become vital in determining our decisions.

The evidence is in our favour, as ESG-compliant companies are proving to be more adaptable and future-ready, and in the longer term, more resilient and yield better returns. And, very recently, during the peak of the COVID-19 spread where lockdowns across the world severely slowed down the global economy, ESG-principled companies proved to be the most resilient in times of crisis. Because of this, we are ever more confident that our shift to focusing on responsible investing is the right call.

In light of the volatile market conditions of 2019, I am satisfied that we still managed to declare a solid dividend of 5.45% with a payout amounting to RM41.68 billion for Simpanan Konvensional, and 5.00% for Simpanan Syariah with a payout amounting to RM4.14 billion. This is a clear reflection of our strong fundamentals, strategic foresight, and most importantly, prudent management.

As of 31 December 2019, our overall investment assets stood at RM924.75 billion (including cash and bank balances), with 37% in the Shariah portfolio in line with the country's aspirations of becoming an Islamic finance hub. Our overseas holdings stood at 30.3% and contributed 41.0% to the overall gross investment income of RM50.91 billion, bearing returns from the plan to diversify our assets geographically. 2019 was also the third consecutive year that the EPF recorded a gross investment income of over RM50 billion.

CHIEF EXECUTIVE OFFICER'S MESSAGE



TRANSFORMING FOR THE NEXT DECADE

Even though we are one of the world's oldest and most successful provident funds, the EPF has never rested on our laurels. We have continued to improve on our ranking among global peers, moving up to 16th place from 20th in the Melbourne Mercer Global Pension Index (MMGPI) in 2019.

Still, the need to continuously reflect on our successes and failures while demonstrating the willingness to transform for the better, is very critical in the EPF's journey into the next decade. The coming years are already fraught with more unpredictability and even at the time of writing, we have barely come out of the first wave of the COVID-19 pandemic before a potential global second wave is threatening to derail economic recovery.

This is on top of Malaysia becoming an ageing population by the year 2025. We are expecting the general population to grow to nearly 33.3 million this year, with 7.5% of them aged 65 and above. Also, despite living longer, according to the latest Khazanah Research Institute study,

Malaysians lose more than one-fifth of a year to the burden of medical conditions such as non-communicable diseases and mental disorders. As we consider the fact that a significant number of Malaysians do not have enough savings to last through their golden years, this new reality will surely impact the quality of life of our members.

Considering these factors, coupled with an increasingly volatile global economy, high local youth unemployment, and the recent business slowdown in many industries, the EPF must therefore bolster its efforts to help members achieve sufficient savings to lead a meaningful life as they leave their working years.

The fast-changing work landscape and rise of the gig economy, as well as shifts in business models and global supply chains, will all factor into the EPF's long-term strategies. For now, our priority is clear: we want to strengthen a purpose-driven, values-based foundation, and evolve from being just a social security organisation to building a more inclusive social well-being ecosystem. Sustainability will be at the core of this framework, both in terms

of financial returns to our members and also in judging the impact of the EPF as an organisation, on the environment and society at large. We will hold ourselves to the same high standards which we apply to our investments.

All changes must start with a shift in mindset. As VUCA defines the new normal, the EPF in turn seeks to embrace our very own connotation of it, one that emphasises Vision and Values, Understanding, Compassion, and Adaptability. Towards this end, we will continue to uphold and preserve our corporate culture through the values that have proven resilient over the past decades: Customer Focused, Continuous Improvement, Integrity, and Teamwork.

Finally, I would like to extend my deepest appreciation to our Chairman, the EPF Board, our passionate and talented personnel, our partners, employers, and of course our members, for being on this journey towards creating well-being for all Malaysians. We will forge ahead into the new decade with a renewed sense of vigour and purpose to help our members achieve a better future.

ALIZAKRI ALIAS

Chief Executive Officer