Malaysia's $62 Billion State Fund Wants to Hold Less Cash

By **Elffie Chew**
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- PNB may invest in fixed income, property, private equity
- Weak ringgit, lack of attractive investments holding PNB back

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Malaysia's largest state-owned fund manager is looking to hold less cash even as it struggles to make acquisitions that would generate attractive returns.

A fifth of Permodalan Nasional Bhd.'s <https://www.bloomberg.com/quote/PNB:MK> 266 billion ringgit ($62 billion) of assets under management is in cash and money markets, and Chairman Abdul Wahid Omar said in an interview that the fund could reduce such holdings by at least 5 percentage points. That would free up about 13.3 billion ringgit, according to Bloomberg calculations.

Abdul Wahid Omar Photographer: Sanjit Das/Bloomberg

"Whilst we need to maintain a certain level of cash, it doesn't have to be 20 percent," said Wahid, a former cabinet minister who joined PNB a year ago. "We can easily go down to 15 percent and below."

Still, the ringgit is among factors holding PNB back from being more aggressive with acquisitions. The currency remains "relatively weak," Wahid said on Thursday, declining to specify what he thinks is a fairer value for the exchange rate. Earlier this year, the ringgit declined to levels not seen since the Asian financial crisis of the late 1990s. It has rebounded and was at 4.29 per dollar on Friday.

"The last thing you want is that you invest in a U.S. dollar asset at 4.30 and within a year, the ringgit strengthens <https://www.bloomberg.com/news/articles/2017-06-28/malaysia-shrugs-off-1mdb-scandal-to-become-second-quarter-star>, by say, 5 percent," Wahid said. That would render returns lower when earnings are converted back to the local currency and PNB is "mindful of that kind of situation," he said.

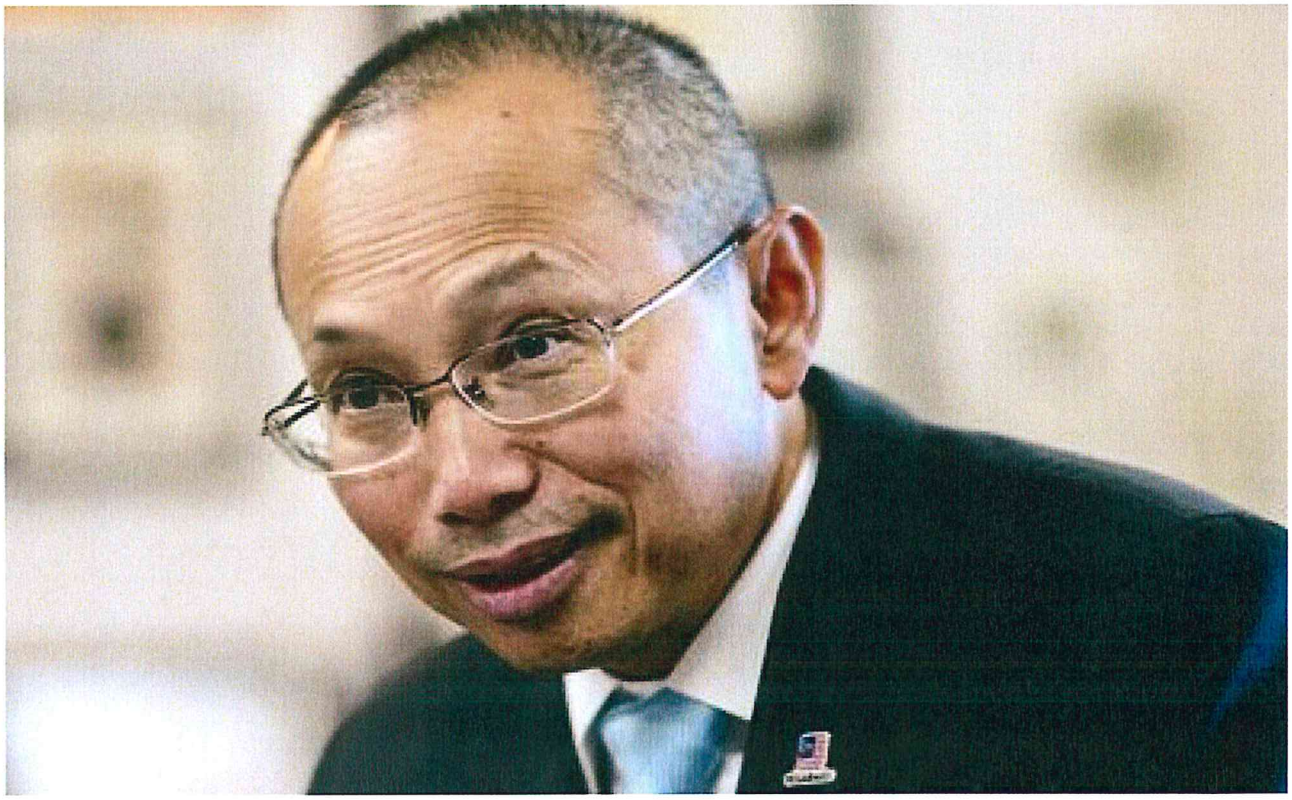
Domestic Giant

Set up by the government in 1978 to help boost the wealth of the country's ethnic Malay and indigenous people, PNB remains heavily invested in Malaysia -- home to 98 percent of its assets. The fund hasn't raised its offshore holdings also in part because of a lack of attractive investments, Wahid said.

"At the right time, at the right opportunity, then we will make those investments," he said. Even then, PNB isn't likely to hold more than 10 percent of its assets overseas because its liabilities are in ringgit, he said.

"It is very important for us to continue to invest mainly in Malaysia, not only from the asset-liability perspective, but also from the economic multiplier perspective," the chairman said.

About 69 percent of PNB's money is invested in equities. The fund may shift some of its cash into fixed income, private equity and property -- segments which currently make up just over a tenth of holdings.



Abdul Wahid Omar Photographer: Sanjit Das/Bloomberg

The fund wants to boost its assets under management to 350 billion ringgit by 2022, Wahid said.

PNB owns <http://www.pnb.com.my/about_e.php>stakes in some of the nation's biggest companies including Malayan Banking Bhd <https://www.bloomberg.com/quote/MAY:MK>., Sime Darby Bhd <https://www.bloomberg.com/quote/SIME:MK>. and UMW Holdings Bhd <https://www.bloomberg.com/quote/UMWH:MK>. Its domestic equity investments of 180 billion ringgit is equivalent to about 10 percent of the local stock exchange's market capitalization. It's also constructing what will be Malaysia's highest tower, with a completion date by the end of 2020, Wahid said.

PNB is targeting an initial public offering of its infrastructure unit -- Projek Lintasan Kota Holdings <https://www.bloomberg.com/quote/863527Z:MK>Sdn. -- in 2019, Wahid said. Another possibility is the listing of its real estate investment trust, though there is no definite plan to do so right now, he said.

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