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GLIC Footprint in the Private Sector: Policy Dilemma

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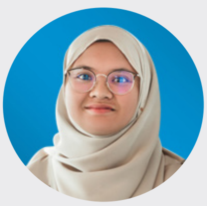

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1. Introduction

While the nation, like the rest of the world, is occupied with the most significant public health and ultimately economic challenge of our times, it is important to keep reminding ourselves that the structural issues of our economy around GLCs are not going to be withered away. The broad presence of government ownership in the economy, either directly or indirectly, is a double-edged sword. On one hand, GLCs can contribute to the country's developmental goals, and more recently being mobilised to support the government's stimulus packages. But, on the other hand, state intervention could also distort market outcomes and hamper competitiveness. This Monitor provides an update on some of these issues to better prepare our policy in uncertain times.

The broad presence of government-linked investment companies (GLICs)[1] in the private sector and the challenges that it poses to the long-term development of the economy have been both widely discussed and documented. In addition to serving as fund managers to public and private sector depositors, the responsibilities of GLICs are perceived by many to also include supporting the government's policy objectives on the labour market, industrial development as well as ensuring financial market stability.

Yet the increasing headwinds facing the Malaysian economy in recent years has raised concerns if the GLICs are too domestically-oriented and whether attempts to diversify abroad should instead be promoted. But, on the other hand, a reorientation of investments away from the domestic market may create disruption to not just the financial market, at least in the short-term, but also the longer-term economic development given the close proximity between the state, GLICs and businesses.

This paper aims to shed light on the footprint of GLICs in the private economy and discuss the implications of high concentration in certain sectors.

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[1] According to official definition, a GLIC has control over a government-linked company (GLC) when it is the majority shareholder or single largest shareholder and when it has the ability to exercise and influence major decisions such as appointment of board members and senior management. (Government Investment Company (GIC), 2019).

2. Institutional Objectives

Table 1. Institutional objectives of GLICs

GLICs	Established/ Regulated under Act	Summary of Institutional Objectives	Ministerial Reporting Line
Minister of Finance Incorporated (MoF Inc)	Minister of Finance (Incorporation) Act 1957	Bridging the market gap where the private sector gives less investment priority, mainly due to huge initial costs and high market barriers.	Ministry of Finance
Khazanah Nasional Berhad (Khazanah)	Company Act 1965	Growing long term wealth for the nation. Except for one share owned by the Federal Lands Commissioner, all the share capital of Khazanah is owned by the Minister of Finance Incorporated.	Prime Minister Department
Permodalan Nasional Berhad (PNB)	Company Act 1965	Promoting Bumiputera corporate ownership and developing opportunities for deserving Bumiputera professionals to participate in the creation and management of wealth in accordance to the New Economic Policy (NEP)	Prime Minister Department
Employee' Provident Fund (EPF)	Employees Provident Fund Act 1991	Safeguarding and growing members' retirement savings.	Ministry of Finance
Kumpulan Wang Persaraan (KWAP)	Retirement Fund Act 2007	Managing public sector retirement fund and assisting the Federal Government in financing its pension liability	Ministry of Finance
Lembaga Tabung Haji (LTH)	Tabung Haji Act 1995	Providing facilities for Muslims to save for hajj in the form of halal savings, hajj management and investment.	Prime Minister Department
Lembaga Tabung Angkatan Tentera (LTAT)	Tabung Angkatan Tentera Act	Providing superannuation and other benefits for contributors, and for the ancillary purposes of promoting the socio-economic development and welfare of, and providing other benefits for, retiring and retired personnel of the regular forces of Malaysia and designated members of the volunteer forces.	Ministry of Defence

Source: Based on publicly available information retrieved from official websites.
Note: Information on ministerial reporting line is retrieved from the GLC Monitor 2019: State of Play Since GE14. (IDEAS, 2019)

The MoF Inc. is the Ministry of Finance's investment arm that holds many key institutions such as Special Purpose Vehicles (SPV), Development Financial Institutions and a large number of commercial enterprises. Other GLICs, apart from LTH and LTAT, are also under the purview of the Ministry of Finance although ministerial reporting lines were reconfigured for Khazanah and PNB during the Pakatan Harapan administration (IDEAS, 2018).

On March 2019, Khazanah announced a refreshed mandate to grow Malaysia's long-term wealth via two investment objectives - commercial and strategic. Commercial objective focuses on growing financial assets and diversifying revenue sources for the nation, while the strategic objective is to hold assets that bring long-term economic benefits. As such, Khazanah needs to keep a balance between strengthening its own financial position and holding assets which are not necessarily performing but are deemed strategic to the country's long-term economic interest.

Similarly, PNB distinguishes its investment between strategic and core, but has an added social dimension to its objective.[2] Due to the origin of PNB's founding, its success is often linked to the dignity and economic position of the Bumiputera community. But PNB, through its wholly-owned subsidiary Amanah Saham Nasional Berhad (ASNB), holds a more diversified portfolio compared to Khazanah where the fund has equity stakes in a greater number of listed companies, especially industry leaders, to produce better risk-adjusted returns for its investors.

EPF, KWAP and LTAT are fundamentally retirement funds for the private sector, civil service and armed forces respectively. EPF and KWAP own a more diversified portfolio where the funds conduct regular financial asset trading and portfolio adjustments as means to deliver healthy investment returns for the preservation of members' savings. On the other hand, LTAT organises itself as a conglomerate through its near 60% stake in Boustead Holdings Bhd. (Boustead) which in turn makes up a third of its total exposure to listed equities. In addition, Boustead also plays an active management role in its various subsidiaries across different industries such as plantations and heavy manufacturing.

The stewardships of LTAT and LTH came into question in 2019 following reports of financial irregularities and mismanagement. LTH, which also exhibited conglomeration of businesses through various subsidiaries, is undergoing a restructuring process which entails transfer of financial assets and properties to a Urusharta Jamaah, a SPV wholly-owned by the MOF. The pilgrim fund is now put under the supervision of Bank Negara Malaysia.

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[2] *Strategic companies are those which PNB holds a majority or controlling stake, while core companies are those which PNB has more than 10% shareholding or exposure of more than RM1 billion.*

3. GLIC Footprint: What do they own?

Table 2: Average GLIC shareholdings in top 100 public-listed companies[3], by industry

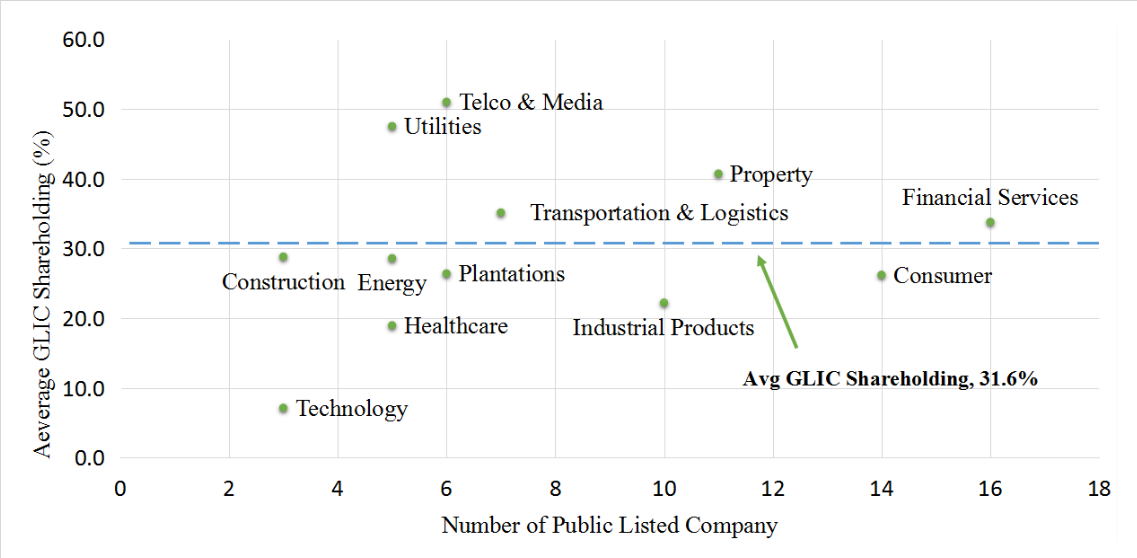
Industry	No. of PLC	Average GLIC Shareholdings (%)
Construction	3	28.8
Consumer	14	26.2
Energy	5	28.6
Financial Services	16	33.8
Healthcare	5	19.0
Industrial Products	10	22.2
Plantations	6	26.4
Property	11	40.7
Technology	3	7.1
Telco & Media	6	51.0
Transportation & Logistics	7	35.2
Utilities	5	47.5
Grand Total/ Average	**91**	**31.6**

Source: Bursa Malaysia, annual reports of top 100 public listed companies according to market capitalization, and IDEAS calculation
Note 1: Airasia is categorized under Consumer in Bursa Malaysia but is treated as Transportation in this study.
Note 2: The total PLC is less than 100 as GLICs do not own any shares in the following 9 companies (Carlsberg, Heineken, Hap Seng, Genting Berhad, Genting Malaysia, Genting Plantations, BJ Toto, Magnum and Leong Hup International)
Note 3: All data was taken from the annual reports available at the time of writing (i.e. 2018 or 2019) and may not cover all changes after the writing of this report is completed.

The GLIC shareholdings in the top 100 public listed companies are based on the substantial shareholders listed in each company's latest annual reports. So, it is possible that GLIC shareholdings are underestimated as the annual report is only required to make public the list of top 30 largest shareholders.

[3] *By market capitalisation that makes up the FTSE Bursa Malaysia Top 100 Index. See the list at mypf.my/investing/equities/bursa100/ (last updated on 6 November 2019)*

Chart 1: Average GLIC concentration in top 100 PLCs, by industry



Source: IDEAS author calculation

Chart 1 shows that in terms of investment exposure by industry, GLICs tend to have higher equity shareholding in capital-intensive sectors such as *Telecommunication and Media*, *Transportation and Logistics*, as well as *Utilities*. These sectors constitute basic infrastructure to the broader economy and are hence more driven by changes in national development policies than other consumer-driven sectors. But, on the other hand, GLICs also have relatively high presence in the Property sector which is not as capital-intensive and in turn has a lower entry barrier. So, the higher concentration of GLICs in the Property sector could be motivated by the search for consistent yield and tolerable risk-adjusted returns despite it not being capital-intensive and therefore requiring state-linked shareholdings.

GLICs also have high concentration in the *Construction* sector. Here, there is a need to distinguish between *Construction* and the *Property* sector despite companies within both sectors are sometimes involved in overlapping commercial activities, such as property development. The construction of public infrastructure undertaken by companies such as Gamuda Berhad and IJM Corporation Berhad is qualitatively different from pure property sector play in that the required engineering sophistication and associated risks, not mentioning a longer time horizon, could in itself result in huge barriers to entry. Also, as opposed to market-driven residential and office building, the demand for public infrastructure construction hinges more on national development needs and may therefore constitute the case for investment holding by the government.

The *Finance* sector is a unique case as there are a greater number of competitor firms in the top 100 list compared to the rest of the sectors which itself could be a sign for high firm efficiency and profitability. So, while the role of government in the banking and financial services, via GLICs, has not resulted in significantly adverse outcomes, the state-business link is however still important to be studied given the potential spillovers of the sector's excessive risk to the broader real economy.

4. Policy driven industries

Shareholdings by GLICs are particularly high in *Telecommunications & Media, Transport & Logistics*, as well as *Utilities*. These industries tend to exhibit similar market structure characteristics such as having lower number of firms, being capital-intensive and highly regulated. The high barriers to entry for these industries and the necessity for the government to play its role in addressing market failure, also documented in other countries, raise important questions on the need to balance between producing policy-driven and market-driven outcomes.

GLICs become substantial shareholders in some companies within these policy-driven industries when their individual shareholdings are combined (see Table 3 - 5). More intriguingly, in *Telecommunications & Media*, the GLICs are majority shareholders in Axiata, Telekom Malaysia and Time Dotcom who are competitors, among others, in the fixed broadband market. Elsewhere, the GLICs are also near majority shareholders in Malaysia Airports, in addition to fully owning national carrier Malaysia Airlines, which demonstrates their role in supporting the government's industrial policy. GLICs have substantial controls in the companies providing basic economic infrastructure such as power and electricity, not mentioning the strategic oil and gas commodity. It therefore raises concerns whether high degree of GLIC footprint in these industries poses concentration risk to depositors given that their savings through these institutions have investment exposure to similar company profiles. But at the same time, these companies have also strategic importance to the development and sustainability of the economy.

Table 3: GLIC's shareholding in Telecommunications & Media

Company	MOF Inc	EPF	Khazanah	KWAP	LTAT	LTH	PNB	Total (%)
Astro Malaysia	-	8.3	20.7	0.4	-	-	6.0	35.4
Axiata	-	16.2	37.2	4.2	-	2.6	18.4	78.6
Digi	-	12.4	-	3.5	-	-	10.4	26.3
Maxis	-	11.1	-	1.4	-	-	11.0	23.5
Telekom Malaysia	-	16.8	26.2	4.1	-	-	23.7	70.8
Time Dotcom	-	9.5	41.5	7.2	-	-	13.1	71.3

Note: All GLIC shareholdings included subsidiary companies

Table 4: GLIC's shareholding in Transport & Logistics

Company	MOF Inc	EPF	Khazanah	KWAP	LTAT	LTH	PNB	Total (%)
Airasia	-	5.2	-	-	-	-	2.7	7.9
Bintulu Port	-	5.2	-	-	-	-	6.3	11.5
Lingkaran Trans Kota Holdings	-	5.6	-	0.7	-	3.2	22.6	32.1
Malaysia Airports	-	10.3	33.2	2.3	-	-	3.6	49.4
MISC Bhd	62.7	5.8	-	2.9	-	-	9.8	81.2
MMC Corp	-	5.0	-	1.4	-	-	40.4	46.8
Westports Holdings	-	5.5	-	3.4	-	-	8.3	17.2

Table 5: GLIC's shareholding in Utilities

Company	MOF Inc	EPF	Khazanah	KWAP	LTAT	LTH	PNB	Total (%)
Gas Malaysia	14.8	-	-	-	-	7.8	12.6	35.2
Malakoff Corp	-	11.8	-	8.0	-	-	11.2	31.0
Petronas Gas	60.6	8.5	-	4.4	-	-	10.4	83.9
Tenaga Nasional	-	13.1	28.8	4.7	-	0.5	18.0	65.1
YTL Corp	-	5.9	-	-	-	-	3.2	9.1
YTL Power	-	4.8	-	0.5	-	0.6	7.5	13.4

The concentration risk facing GLICs is well-acknowledged by the senior management and mitigation steps have already been taken to ensure a more diversified portfolio across different asset classes. But, the more sustainable solution to insulating investment portfolios from high domestic exposure is to increase investment abroad. For instance, Khazanah aims to quadruple its share of overseas investment from 15% currently to 60%-70% of its total portfolio over the next decade.[4] Similarly, EPF set its 2019 target to increase its overseas investment to 32% of its total assets, but only managed to raise the level up to 30.3% from 28% previously.[5] But given the perceived development responsibilities of GLICs in addition to generating good risk-adjusted returns, would a reallocation of domestically-held assets towards the global markets result in greater risk and volatility to the local financial market?

According to news reports, GLIC leaders have cited regulation by BNM on foreign exchange as limiting their foreign investments drive.[6] EPF and KWAP chief executives also repeated this point at an event in March 2019 that both funds' mandates for overseas investments are subject to BNM regulations, and they are looking to engage with BNM to expand this mandate.[7]

Khazanah's overseas investment was 44% five years ago with the decline due in part to restrictions placed by the central bank on foreign outflows. Khazanah's Shahril also said that the sovereign wealth fund should have a bigger overseas presence like funds in countries such as Singapore which has an average foreign shareholding of 72.2%. On the other hand, Norway has two separate wealth funds, Government Pension Fund Norway which invests domestically and in Scandinavian investments and the much larger Government Pension Fund Global which invests fully abroad with over US$1 trillion in assets.

This policy dilemma of reducing domestic concentration risk and GLICs acting as stabilizers in the financial market locally has been tested more since the US-China trade war began in 2018 and the Covid-19 outbreak.

Table 6: Foreign Shareholding of Selected Sovereign Wealth Fund

Sovereign Wealth Fund	Khazanah	Temasek
2019	15%*	74%
2018	45%*	73%
2017	44.5%	71%
2016	46.1	71%
2015	44.9%	72%
Average	**39.1%**	**72.2%**

Source: Khazanah Annual Review, Temasek official website.
*Note: * denotes data extracted from news articles, as not available on annual reports.*

[4] *New Straits Times, 2019*
[5] *The Malaysian Reserve, 2020*
[6] *The Malaysian Reserve, 2019*
[7] *The Edge, 2019*

5. Banking

GLICs' relatively strong presence in the *Finance* industry, particularly in banks, is worth giving special attention to considering the sector's strategic importance in ensuring adequate liquidity to businesses as well as facilitating capital investment to promote trade and growth.

But, as we learn from past financial crises, the financial services industry is susceptible to excessive asset speculation which will ultimately spark loss of confidence and result in a meltdown that spreads to the real economy. The Malaysian economy recovered relatively quickly compared to others in the aftermath of the Asian financial crisis but not after massive capital injection was made using public funds to purchase non-performing loans from banks as part of the government's financial reconstruction plan. So, given the huge GLIC presence in the *Finance* sector today, what are the implications to the allocative efficiency and competitiveness of the financial market?

Table 7 shows that there is an anchor bank in the investment portfolio of every GLIC (except for KWAP) as measured by equity ownership. This ownership pattern is more likely to reflect the need for GLICs to exert control and influence over the banks that they own rather than purely on commercial driven terms which, if it was true, should have led to more shareholding diversification, and not concentration, in the *Finance* sector. As a result, questions arise if the GLICs' concentration in the sector creates any barriers to competition, especially to foreign-owned entrants, and also whether it will compete in marketplace that is traditionally the realm of development bank due to the search for profit by GLICs who also play a developmental role in the economy.

Table 7: GLIC and shareholding in anchor bank

GLIC	Anchor Bank	% Owned	Shareholding status
Khazanah	CIMB	26.8	Single largest shareholder
PNB	Maybank	49.9	Majority shareholder
EPF	RHB	40.6	Single largest shareholder
LTAT	Affin Bank	56.2	Majority shareholder
LTH	BIMB	27.5	Single largest shareholder

Note: According to Maybank's 2018 annual report, the equity stake by PNB and ASNB was 7.0% and 42.8% respectively.

The literature is inconclusive on the efficiency-competition link in banking as policymakers often seek to strike a balance between regulating market concentration by large firms and promoting scale efficiency, the latter is often the result of more efficient firms capturing a larger market share, resulting in a higher market concentration. In the case of Malaysia, it is important to relate the concentration by large firms in the finance sector to several episodes of policy-induced consolidations among industry players, and not necessarily due to a market-based outcome.

Empirical findings seem to support a "home field advantage" for Malaysian banks in terms of efficiency levels when competing with foreign counterparts although this same advantage could also be reversed when Malaysian banks compete abroad. But due to some large efficient banks having state-linked institutions as one of the largest shareholders, it is therefore not clear how much does the source of efficiency or "home field advantage" can be attributed to market-based rather than policy-driven factors.

6. Policy Dilemma

The current crop of GLIC leaders have demonstrated slight reluctance to assume a more active role in the economy through direct intervention in the management of the companies that they own. Some GLICs, for instance, LTAT and LTH are still struggling to resolve issues of financial irregularities and mismanagement inherited from previous leaderships while others like Khazanah continues to seek viable exit options for assets such as the ailing national carrier MAS Airlines which has impacted its overall profitability quite significantly. But more generally, the increasing economic headwinds pose a challenge to the ability of GLICs to meet twin public expectations on high annual dividends as well as supporting economic development.

Global production of goods and services is increasingly fragmented where companies are becoming more competitive through specialisation and also integration with regional supply chains. The combined impact means that the Malaysian government is paying a bigger economic price to continue enabling GLCs as a vehicle to pursue certain socio-economic policies, such as selective race-based preference in the labour market and public procurement, as well as picking winners to lead the development of new and existing industries. Broad equity ownerships by GLICs are therefore expected to continue in order to avoid causing shocks in the financial market and disrupting the sustainability of the GLCs, many of whom are direct subsidiaries of GLICs.

One important debate to have moving forward is the need for clear separation between ownership and regulation of GLICs. As this monitor reports, GLICs are investing in similar companies and sectors, thereby giving rise to concentration risk which may have spillover effects to the broader economy. While policymakers are grappling with the public health and economic challenges induced by the Covid-19 pandemic, it is important not to lose sight on the need to revisit the role of government in the economy and promote GLC reform as means to address structural issues facing the Malaysian economy.

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