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'We have an exit plan for portfolio'

With a fund size of RM23 billion and growing, Lembaga Tabung Haji (LTH) is one of the country's more prominent institutional investors.

But some of the pilgrim fund's investments have come under the spotlight for the wrong reasons, with many questioning the motives and wisdom behind them.

In particular, LTH's investment in Ramunia Holdings Bhd, where it is the single largest shareholder, brought the pilgrim fund into the limelight last year. Ramunia was a takeover target, but the deal did not materialise and its share price dived along with the value of the pilgrim fund's investment.

LTH senior general manager for corporate finance and services Datuk Syed Saleh Syed Abdul Rahman says the fund's investments go beyond one stock. LTH has a mix of dividend-paying stocks, he says, as well as some it has invested in for a long-term strategic presence.

"Although LTH's investment is large in some of the stocks we own for strategic reasons, we have an exit plan," Syed Saleh says in an interview with *The Edge*.

Below is an excerpt of the interview.

The Edge: What is the investment mandate for LTH?

Syed Saleh: We have to go back to why we were established in the first place... it was because of the government's concern for the welfare of the pilgrims in the holy land as well as their economic well-being. That is why LTH was established in 1953, and all our activities are governed by the Tabung Haji Act 1995.

One of our main objectives is providing excellent services for Malaysian pilgrims on the Haj.

We manage their courses, their classes, their health screening, their passports and even their transport and accommodation.

The other objective is to provide competitive, halal returns to our depositors. Every year we try to give them what we call a bonus. Our investments are syariah-compliant, and we look to getting competitive returns based on current market

practices.

When you say competitive returns, is there a benchmark? Are they based on the CPI or a minimum of 2.5%?

It depends on which asset class you are in, but the guiding principle is that the minimum rate will be whatever we pay out as a bonus to our depositors every year after we cover our operational costs and keep some as reserves. With that we have a minimum rate.

So the guiding return is not stated in black and white?

Internally we do [have it written in black and white]... for different asset classes.

But generally nothing is stated? Like your bonus cannot be less than 2% or anything like that?

No... even in the Act it is not mentioned how much we should pay to our depositors.

Have there been instances where LTH's returns have been less than the inflation rate? The average inflation rate has been 2% to 2.5%.

The last few years we gave out 5%... Even in 2007 we gave 5% with an additional 2% bonus. And that is taking into consideration that we have paid our zakat (tithes) for the depositors.

What is the allocation of assets by asset class? How many per cent goes into equities and fixed income?

Actually, we have four main asset classes. One is equities... listed as well as private equity. Then we have properties, fixed income and cash. Of these, equities is the biggest portion. At the moment, we have 43% of our asset allocation invested in the equity side. The rest are about the same. So, slightly less than half goes into equities and the rest into properties, fixed income and cash.

So in the years that the equity market has not done well, your returns have been lower?

Obviously there will be some impact but... a chunk is in long-term investments. So the returns are more in terms of dividend yield.

When you talk about dividend yield, what are some of the dividend-paying stocks in your portfolio? If you strip out TH Plantations, which is within your group of companies, what do you have?

KFC Holdings (M) Bhd, Nestle (M) Bhd... but all have to be syariah-compliant at

the end of the day. I am sure you have a list of our investments.

LTH also has Ramunia, Silver Bird (Group Bhd), Lityan (Holdings Bhd). We don't see these companies yielding any dividends, so how do you justify this investment strategy?

We have classifications for our long-term core stocks. These are dividend-paying companies that have track records that have been dividend yielding for sometime now... like KFC and Nestle.

There are also stocks we buy for strategic purposes, based on our focus on certain sectors. We have seven focus sectors: plantations, Islamic finance, construction, property development, services and IT, and two new areas — food and beverages and services in the oil and gas industry.

It will take us some time to nurture these strategic investments before we start seeing value... we will grow with the companies.

Are you looking at a time frame to grow these companies?

It's long-term play — more than five years. Some are not listed companies and spearheaded by our own subsidiaries... like in plantations we have

TH Plantations, Islamic finance we have BIMB Holdings Bhd. For IT, we have Lityan and for properties, we have TH Properties, Sdn Bhd and the new businesses of food and oil and gas services.

So, your time frame is more than five years before the investment becomes a strategic holding with some returns, or dividends and you can realise your investments... But isn't five years a long time?

We are long-term players.

In some companies where you have some strategic shareholding and you plan to hold it for a long period of time, you have board representation, like in Ramunia and Silver Bird. Is that adequate to steer the the company in the right direction?

We do put our people in some companies. Like in Silverbird we have our representative in management... but that doesn't mean we get involved in the day-to-day running of the company. It is more for enhancing our contribution as a shareholder in the company.

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As for Ramunia and Lityan, do you have anyone in management, and do you plan to have someone in management?

No, we don't, and we don't plan to at the moment. Although we have substantial stakes, we have our directors who are quite actively involved and they can give us feedback. And we do have meetings with the management of these companies.

Is there a benchmark, especially when you buy into a listed entity, for example, a 5% dividend yield? It depends on our strategy when we go in. If it is long term, one of the criteria will be dividend yield. Apart from that, all the others are fundamental criteria. If it is for short-term trading, it depends on how we want to approach it.

In Lityan, the investments were already provided for. Then LTH restructured it and put in some good assets... can you explain the rationale?

Because we already had a stake in Lityan and we saw that there was potential in the company. That is why we did the restructuring, and we successfully relisted the company. It has shown value with the market price holding between RM1.80 to RM2. But to say we pumped in assets is not very accurate... we only pumped in a very small business.

Your properties, what kind of yields do they generate?

It depends... most of the properties are owner-occupied. But for the portfolio as a whole, those that are rented out are at the market rate.

Can you tell us generally your yield for properties?

I don't think I can share that information. If you know the market yields for an office tower in PJ, in KL... that is also our yield. In terms of numbers, a large number of our properties are owner-occupied, but in terms of space, a substantial amount is also for investment.

Are you planning a REIT by any chance?

We don't see a reason for one yet.

Are your yields higher than that of REITs? Some pay 9%.

REITs are leveraged, which is why they can give out a better rate... we are not leveraged.

In terms of returns to your depositors, would it be acceptable if you make a return of less than 4%? What is the lowest you have paid out?

The lowest is 3.25% or 3.5% I can't remember. It was back in 2000 or 2001. Our depositors were okay with it. From there on, our savings fund has been growing. They see other things in LTH as well... they are very concerned about syariah compliance as well... and zakat is taken care of.

So, lower than average returns are acceptable?

We try to pay more than what they can get from Islamic savings accounts. For instance, when we announced our 2009 bonus of 5%, a fixed deposit in an Islamic institution was 3.02% on average.

Do you do a comparison with other funds such as the Employees Provident Fund or even Permo-

dalan Nasional Bhd? Some PNB funds are syariah-compliant, are they not?

I don't think so. Do they have any syariah-compliant funds? If you compare to ASN, they gave 6.25%. In 2008, ASN gave 5.5% and we gave out around 5%... it's around there.

But the fact is our fund size is growing, as are our depositors. I think they [the depositors] are happy and that is why there is an increase. **E**



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