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A blueprint for sustained **dividends**

The Employees Provident Fund (EPF) delivered a strong performance in 2024 with solid dividend rates. However, with external pressures mounting in 2025, can the EPF maintain its performance?

EPF **diversified** strategy to withstand volatility

The EPF 2024 dividend briefing was led by CEO Ahmad Zulqarnain (second from left) at Menara KWSP Shah Alam on March 1. Looking on are (left to right) chief operating officer Sazaliza Zainuddin, chief investment officer Rohaya Mohammad Yusof and chief digital technology officer Muhammad Afhzal Abdul Rahman. — AZMAN GHANI/The Star

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WITH a storm brewing on the macro front due to US president Donald Trump's tariffs and trade restrictions, the Employees Provident Fund (EPF) will continue to seek shelter in the domestic market.

This raises questions whether the fund can match or beat the latest dividend returns of 6.3%, in 2025. It is the highest payout since 2017.

The fund appears confident of its strategic asset allocation (SAA).

"The EPF will continue to be guided by its SAA, which targets optimal returns within our risk tolerance as a long-term retirement fund," it says in a reply to *StarBiz 7*.

"The SAA is reviewed periodically to take into account latest capital market assumptions and the asset-liability profile of the EPF, which includes the growing asset size," it adds.

Under the present SAA, the provident fund has 46% of its assets in fixed income and 44% in equities. The 44% in equities includes 4% in private equity.

In addition to these investments, it has 6% in real estate and infrastructure, as well as 4% in money market investments. There is merit to the domestic angle in 2025, according to fund managers.

"The EPF's strategic allocation of 1:2 offshore:domestic may work well under the general market outlook. Given a relatively good 2024, a tactical allocation in 2025 for risk management may be a wise move. This is especially so with market uncertainty under Trump 2.0.

"Also, domestic investments may be of better value now," says Danny Wong, CEO of Areca Capital Sdn Bhd, a private wealth management company.

The local market could offer value with the benchmark FBM KLCI down 5% year-to-date as foreign fund outflows hit sentiment. Other local indices such as technology, industrial products and construction are worse off due to weak fourth quarter 2024 (4Q24) earnings and the threat of reciprocal tariffs by the US starting April.

Trump's tariff announcements are toxic to trade and investments, and causing fear of stagflation and recession in the worst case, but investors are bullish on global equity markets with major benchmark indices trading near record levels.

European Union (EU) equity markets in particular are posting double-digit gains year-to-date as the call by Trump to raise defence spending has seen the governments there respond.

Germany, for instance, has unveiled a fiscal bazooka worth €1 trillion, which is close to 20% of gross domestic product.

Hence, while Bursa Malaysia may be lower in the short term, the EPF's foreign allocation could provide the premium returns and ensure its 1Q25 investment returns remain strong, helped partly by the weaker ringgit.

"The EPF has been astute in managing risks. During Trump's first term from 2017 to 2020, the EPF managed to deliver a 5.9% dividend rate on average. In 2022, when both bond and equity markets broadly declined, it still managed to produce 5.35%.

"In the depths of the 2008 Global Financial Crisis, the EPF produced 4.5%. Today is no different. The EPF will continue to express its views of global volatility through its asset allocation.

"A bond-heavy domestic portfolio should provide stability to counter the volatility of its foreign equities," says Wong Wai Ken, country manager at StashAway Malaysia.

Danny of Areca is also not unduly worried about a concentration of local money driving up valuations on the local bourse.

"There are a few other segments where the EPF can invest other than listed shares, for example, private credit market and private equities.

"Furthermore, the valuation of Bursa is still not demanding but can improve with better earnings growth. It is not certain that domestic equities will underperform offshore markets," he says.

Wai Ken agrees. He notes that as at 2023, the EPF's holdings made up 12% of Bursa's top 100 listed equities. As such, while it is a major institutional investor, the crowding out effect is something that is not yet critical.

As of last month, foreign institutional investors accounted for 42% of the value traded. So clearly, there is an investment case for local equities, which is not hindered by excessive local institutional holdings, he explains.

He adds that due to the EPF's domestic asset allocation, which is more fixed income-focused, returns in 2025 could moderate if new investments are deployed locally.

However, domestic investments play a capital preservation role, and as such, would result in less volatility for the fund.

Dr Liew Chee Yoong, Associate Professor Finance, UCSI University Malaysia and Research Fellow at CME, says the EPF's prospects in 2025 will all boil down to global economic conditions, domestic political and economic stability as well as global and domestic interest rate movements.

"It is expected that the EPF might maintain stable but slightly moderate dividends in the next two to three years except if it is affected by any major global economic shocks," he tells *StarBiz 7*.

How will this pan out? Liew says the EPF's diversified, properly planned out long-term strategy with a focus on domestic market investments is a strength amid the volatility of global markets.

"Its strengths lie in its strong domestic investments in sectors like banking, utilities and consumer goods," he says.

This actually tallies with what EPF chief executive officer (CEO) Ahmad Zulqarnain Onn says – there is a strong performance record for certain sectors.

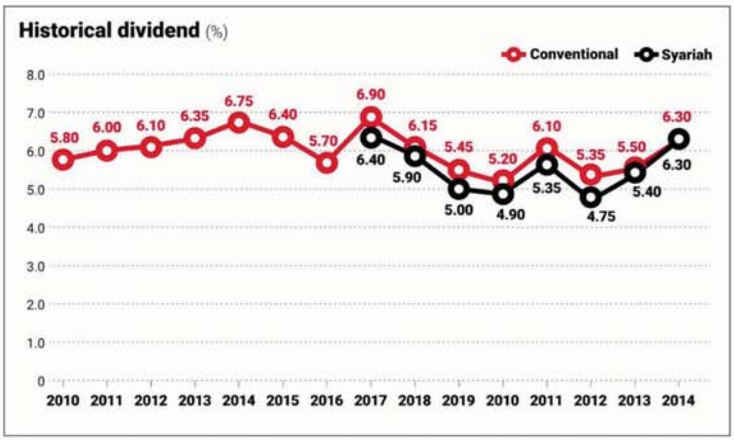
For instance, construction was up 61% in 2024, while utilities, property, healthcare and finance saw an increase that was evident in larger companies' 4Q24 results.

Liew says the idea of investing more domestically this year is a double-edged sword.

As more money is poured into the country, it helps support national development, strengthen local capital markets and help create jobs and infrastructure growth.

"The downside is that it limits diversification and increases exposure to local political and economic risks. It could also reduce returns should domestic markets underperform," he warns.

"Nevertheless, it's wise for the EPF to increase strategic



>6.3%
dividend is the highest since 2017

>12%
EPF's total investment in Bursa's top 100 companies

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domestic investments, especially in infrastructure, green energy and digital economy projects, but not at the cost of sacrificing global diversification, which protects against local downturns," Liew explains.

The provident fund had been widely expected to beat its 5.5% dividend payout in 2023 based on Khazanah Nasional Bhd and Permodalan Nasional Bhd's (PNB) year-on-year performance in 2024.

Managing one of the world's oldest and biggest provident funds (13th in the world, fifth in Asia) cannot have been easy for Ahmad Zulqarnain, especially since the ripples from Covid-19 are still felt today.

Having served as CEO of Danajamin Nasional Bhd and president of PNB, Ahmad Zulqarnain has proven himself capable of leading the EPF. He was appointed in February last year.

The fund's portfolio

The 6.3% dividend translates into a payout of RM73.24bil from the RM74.46bil investment income earned in 2024.

The payout rate of 98.4% is well above the fund's average of 87% in the six years before 2024. In some ways, the RM1.25 trillion asset-based fund has set a high bar for 2025.

In terms of income contribution from various asset classes, 67% of nearly RM50bil came from equities and 29% or RM21.9bil was from fixed income, while real estate and infrastructure contributed RM1.6bil and money markets RM1.1bil.

In terms of return on investment for the various asset classes, mixed income accounted for 4.3%, public equity 9.8%, private equity 11.3%, real estate and infrastructure 5.1%, and money market 1.9%.

This was the first year the syariah and conventional fund were split. Previously, they co-mingled and the income paid to syariah members was through mathematical computation of the syariah income ratio.

The two distinct funds are now managed independently of each other.

Ahmad Zulqarnain, a Harvard University alumni, says the higher dividend rate is underpinned by higher global and domestic markets, strong economic growth and an actively managed portfolio.

"Malaysia is growing at a faster pace than emerging markets at 4.2%. Asean as a whole is at 4.7%. The EPF benefited from strong domestic markets and steady growth in global markets. The US markets were very strong, up more than 20%, driven principally by the Magnificent 7 companies," he said at the briefing a week ago.

The FBM KLCI closed the year at 1,642, up 12.7% year-on-year, while market capitalisation securities in Bursa Malaysia grew to above RM2 trillion.

The EPF earned half of its investment income locally and half abroad. The foreign portfolio earns more dollar for dollar, since only 37% of EPF funds are invested abroad.

Essentially, as an absolute return fund, foreign investments have helped balance the EPF's investment income and manage currency risks, but in line with the call to invest more locally, 82% of its RM99.8bil in new investments in 2024 were deployed domestically and 18% in global markets, according to the EPF.

Ahmad Zulqarnain says the EPF is looking at long-term trends to invest.

The fund sees multi-year tailwinds in the healthcare sector where demand is forecast to increase year after year.

The fund is included in the RM120bil GEAR-uP programme, led by the Finance Ministry to invest in commercially viable sustainable healthcare solutions in partnership with the government, including building private wings in public hospitals.

This type of investment will match the EPF's asset allocation that has historically had 6% to 7% exposure to real estate and infrastructure assets, says Wai Ken.

"We are also seeing strong growth in artificial intelligence (AI) and data. The digitisation of economies will continue and generative AI will be another impetus in terms of a demand for data and digital assets," says Ahmad Zulqarnain.

Energy is another sector where the fund feels there will be a multi-year transition into clean energy.

The EPF CEO says the fund continues to believe the transition to cleaner forms of energy will materialise.

"It may slow down a little bit given the politics around it, but it will continue unabated because the cost structures of clean energy will come down faster than the cost structures of fossil fuel energy.

"Finally, we will continue to allocate to private markets, which have improved contributory income and give us relative stable income on a risk-adjusted basis.

"This will be supported domestically by the myriad of economy-minded banks that have been very well received by the investment community over the past two years," he says.

Another, somewhat welcomed, challenge for the fund moving forward could come from the rising amount of contributions.

The number of contributors is set to rise by some 2.5 million as foreign workers are estimated to add some RM2bil annually to the total fund size. This is besides the top-up from the higher minimum wage.

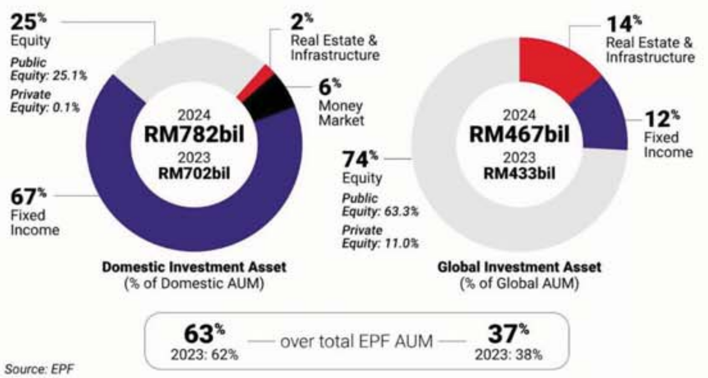
The space to move the money abroad is narrow as the EPF's foreign investment exposure is subject to an upper limit of 39% from the total investment asset.

Over the years, the EPF's role has continued to diversify from just delivering competitive dividends to perfecting a fine balance between safeguarding funds and making the right moves.

Ahmad Zulqarnain says the EPF has been in discussion with policy makers to determine how to redesign the retirement system in Malaysia.

"A good retirement system is like a bench with four legs. One leg would represent a skilled pension, another would be an occupational pension and one more a private pension.

Domestic investment plays an important role for capital preservation



Source: EPF

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EPF astute in managing risks

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"Ultimately, what is missing in Malaysia is a state pension," he opines.

He cautions it is a difficult method because state funds would then need to find partners, combining the public pension with a private-sponsored scheme.

Many countries, including the United Kingdom, Canada, Germany and even Singapore, use the state pensions method.

He says what the EPF is trying to do more immediately is to increase voluntary contributions.

Through Voluntary Excess and i-Saraan members, voluntary contributions hit some RM13bil in 2024 from 1.2 million members. The EPF has 16.2 million members.

The number of voluntary contributors also increased year-on-year from 902,000 members.

"The i-Saraan scheme increased 38% in terms of participation, and members who voluntarily contributed more than the statutory requirement increased 38%.

These are significant growth rates, and a result of active outreach by our EPF frontliners, both by engaging with communities and holding financial literacy campaigns," he adds.

"We are trying to make it easier for people. One of the two main things we are focusing on is how to increase coverage and adequacy," he says.

Nevertheless, Malaysia will be an aged nation by 2043, and be defined as a super-aged nation by 2057, according to the EPF. It is a demographic time bomb as only 37% of Malaysians have adequate savings.

The solution is straightforward. With life expectancy on the rise, it is important for those who can work longer to prioritise savings and spend within their means, according to Joseph Cherian, practice professor of Finance at the Asia School of Business.

Especially when it comes to retirement savings, he advises not living beyond one's means.

In addition, Cherian says there should be affordable asset monetisation schemes like reverse mortgages, which can supplement one's retirement income while guaranteeing a place to live.

"Singapore has one of the most generous state-sponsored reverse mortgage schemes in the world. Their CPF/HDB Lease Buyback Scheme provides up to S$7,000 per annum in retirement payouts for every S$100,000 set aside in its version of the reverse mortgage.

"This doesn't include the upfront cash bonuses provided by the government for joining the scheme. Malaysia should be agnostic – we should emulate and adopt from any good retirement scheme out there," he advises.

He says, however, a state pension system is neither a cure-all nor a definitive solution to the country's retirement challenges. Across the world, many state and private pension funds have collapsed. In the United States, reports indicate that over 60 pension plans closed or froze their accounts in 2023 due to unsustainability.

"Even Malaysia's KWAP, an exceptionally well-managed government pension fund, faces significant financial challenges.

Despite an impressive RM18bil in investment income in 2024, its liabilities far exceed its assets – through no fault of its own.

"My back-of-the-envelope calculation estimates its liabilities to be more than RM1 trillion, while its assets stand at just RM186bil, highlighting a severe asset-liability mismatch," he says.

Instead of introducing yet another unsustainable state pension system or a universal basic income for all, Cherian says the country should prioritise a needs-based or means-tested social security system to ensure support reaches those who need it most.

"Raiding individuals' hard-earned, defined contribution EPF accounts to support other people's retirement needs is not the answer.

"We can take inspiration from Norway, where Norges Bank through the Government Pension Fund Global uses state oil wealth as a long-term social security savings mechanism. Its assets under management grew to US$1.784 trillion as of the end of 2024," says Cherian.

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