

The alternative view
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EPF not to be blamed for leaving FGV

THAT the Employees Provident Fund (EPF) does not have any stake in Felda Global Ventures Bhd (FGV) is certainly something that could not have gone down well with some quarters in Putrajaya.

But for those who have been in awe of the EPF's splendid track record in declaring handsome dividends year after year, against the trend of the global capital markets, the news comes as no surprise. The writing was already on the wall more than two years ago that FGV was not a stock that fitted EPF's investment criteria.

When the FGV was listed in 2012, the EPF was the third largest shareholder of the plantation company with 7.95%. The FGV was sitting on a cash pile of more than RM5bil and its business model was pretty straight forward – which is to collect the fresh fruit bunches and process them into crude palm oil.

The risk was minimal for the EPF. As long as FGV keeps cutting its production cost and utilises its huge cash pile for re-planting activities there is very little to fear.

FGV has the biggest plantation hectareage in the world. However, the shortcoming was that the age profile of its palm trees was old. Hence the need for some intense re-planting activities.

The common view that institutional inves-

tors take was that the huge cash pile would serve the company as a buffer when replanting takes place. Once replanting is completed, there would be a five-year period of lull before the trees start to bear fruits. From the sixth year, the trees will yield for the next 20 years with minimum maintenance.

On that score, five years ago the FGV, a company with a RM5bil cash pile then, huge hectareage of oil palm and of importance to the government as it influenced more than 50 parliamentary seats, was a good investment.

However even then, there were some nagging issues especially when it came to some corporate governance practices.

For starters, FGV chairman Tan Sri Mohd Isa Samad is also the chairman of Federal Land Development Authority (Felda) which is the major shareholder of the listed company. Isa, who is also a politician closely aligned to Putrajaya, also sits on board of many subsidiaries.

The EPF generally likes to see a clear line separating the board and the management. It also tends to shy away from companies that have active politicians playing a major role in the company.

Isa is a non-independent and non-executive chairman of FGV. But his remuneration package suggests that he plays a major role in the company. According to the latest annual report, Isa's total package is RM1.8mil.

In comparison, Tan Sri Ghani Othman, a retired politician who is the chairman of Sime Darby Bhd, gets just below RM950,000 per

annum. Isa's package is double that of Ghani and is not far off from the remuneration of FGV president and chief executive officer (CEO) which came up to RM2.28mil.

If Isa was not playing a big role in FGV, it certainly does not warrant a RM1.8mil remuneration package.

There is nothing wrong with active politicians sitting on the board of companies.

However, for the FGV, which is already a political hot potato, it only makes it difficult to appease investors if the board is headed by an active politician. Controversial decisions that the board make would always be viewed sceptically.

Like all its investment companies, the EPF would have certainly voiced its concerns over FGV's board composition. Unfortunately, nothing has changed in the composition of the board since the day the company was listed.

Then came the dwindling cash pile, which has nothing to do with the current president and chief executive officer Datuk Zakaria Arshad, who replaced Datuk Emir Mavani nine months ago. During Emir's tenure, which started from Jan 1, 2013, FGV completed seven acquisitions forking out RM4bil.

Apart from plantations, the company had also acquired property assets, including three apartments in the vicinity of the KLCC.

The straw that broke the camel's back for many institution funds such as EPF was when FGV proposed to acquire a block in Eagle High Plantations from Indonesia's Rajawali Group in June 2015. One of the first things

Zakaria did when he assumed the top position was to state clearly that FGV would not proceed with the deal.

Although FGV has terminated the Eagle High deal, which is now being carried out by its major shareholder Felda, the damage was already done.

The EPF ceased to be a substantial shareholder of FGV, meaning it held less than 5%, in June 2015. Over the last one year the provident fund has gradually sold its stake and three weeks ago declared that it no longer has any interest in FGV.

Although the EPF has lost on this investment but overall it has gained from many other investments because of its strict policy of putting money into companies that adhere to high standards of corporate governance. Like other funds, its performance is based on a portfolio of investments.

Anyway, EPF's handsome annual dividend payout speaks for itself.

In the high world of finance where it calls for crisp and sharp decision-making, strong boards and management are key criteria for the long-term growth of companies. It is an enticing factor for investors.

In FGV's case, what comes as a surprise is that while the EPF has sold down its stake, Retirement Fund Inc and Lembaga Tabung Haji are maintaining their respective interest at 7.07% and 7.872%.

However, between the three funds, the EPF has proven itself time and again with its shrewd investment strategy.