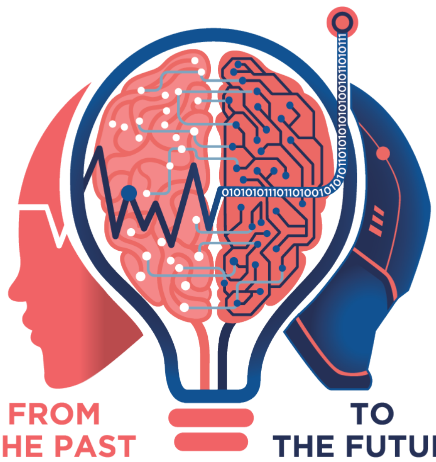
KHAZANAH NASIONAL

KHAZANAH MEGATRENDS FORUM 2019



FROM THE PAST TO THE FUTURE

BUILDING OUR COLLECTIVE BRAIN

DAY 1 SESSION SUMMARIES

OPENING ADDRESS
by YB Dato' Seri Mohamed Azmin Ali

Malaysia faces challenging global and structural economic issues.

Trade War has escalated since 2018.
The US-China Trade War has escalated with US imposing additional tariffs on $550 billion worth of Chinese goods in August 2019, and China letting the Yuan falling below the critical rate of 7 Yuan to a Dollar.

Global manufacturing is experiencing a slowdown.
As of June 2019, global manufacturing numbers fell to the lowest level since 2012, with new orders weakening sharply and business optimism at the lowest level on record.

Economy increasingly reliant on commodities.
The Malaysian economy has become increasingly reliant on commodities, as evidenced by the export contribution of oil and gas growing from only 6% in 1998 to 15.5% in 2018. According to Harvard's Atlas of Economic Complexity, Malaysia is ranked 28th out of 133 countries, having slipped 2 positions in the past 10 years.

Shared Prosperity Vision 2030 to chart new growth path for Malaysia.

Objective No. 1 is to restructure the Malaysian economy.
The first objective of the Vision is to restructure the Malaysian economy to be more progressive, knowledge-based and high-valued with full community participation at all levels.

Objective No. 2 is to address economic disparities among the rakyat.
The second objective of the Vision is to spur growth to address economic disparities across income groups, ethnicities, regions and supply chains to protect and empower the rakyat in ensuring that no one is left behind.

Objective No. 3 is to position Malaysia as an economic centre of Asia.
The third objective of the Vision is to enable Malaysia to become an economic centre of Asia. Malaysia can be developed as a united, prosperous and dignified nation, subsequently becoming an economic centre of Asia.

People still matter most of all.

Growth alone is insufficient.

A critical component of the Vision is that growth alone is insufficient. It is no longer acceptable to be concerned with growth alone without due regard to issues of poverty and the widening wealth disparities.

Solving inequality by avoiding 'Leftover' Economics is key.

The Vision argues that we cannot settle for trickle-down economics which is effectively "leftover economics" benefiting only a few at the expense of the majority or average citizen let alone the low-income group.

A more inclusive growth model needs to come also with growth.

To breathe life into this modern-day distributive justice, Malaysia cannot ignore the need to grow and enlarge the economic pie. At the same time, the Government is committed to a more inclusive growth model that would take care of the well-being of all the rakyat, and more so the less fortunate and the poor, be it rural or urban.

SPECIAL ADDRESS

'Evolving the Collective Brain' by Dr Joseph Henrich

Our Collective Brain is a cumulative body of cultural information, built through cultural adaptation.

Humans thrive by depending on our Collective Brain.

Our Collective Brain is a collection of knowledge, or what is known as our Culture, that we have accumulated over time. We depend on each other to survive by learning from one another.

Compared to other species, humans are better at social learning.

Humans learn by observing what others do and adapt the best practices from our Culture. Social learning as a cultural adaptation can also happen at a subconscious level.

What allows us to build a Collective Brain is our ability to accumulate knowledge over time, spanning generations.

Therefore, we tend to get better over time when we learn from groups as opposed to learning from individuals.

Our Collective Brain depends on the size and interconnectedness of the group.

The larger the population and the more inter-connected they are, the larger their Collective Brain can grow.

Societies with larger Collective Brains result in more experimentation and innovation. For example, past societies in islands with larger population and greater interaction with neighbouring islands tend to have a larger number of complex tools. Similarly, larger cities in the US spur more innovation as evidenced by the higher number of patents concentrated in those cities.

Drawing from our Collective Brain allows us to innovate by combining existing technologies to solve problems.

As we grow up with more exposure to diverse technologies and ideas, it becomes easier for us to combine existing ideas, resulting in more complex technologies. It tends to be easier to innovate with existing ideas as opposed to starting from scratch.

Larger societies with better interconnectedness can slow down the decay of knowledge of a society.

In a steady-state, societies find themselves at an equilibrium level of knowledge sustained by their size and interconnectedness.

We shape our Collective Brain, and in turn, we are shaped by it.

Our Collective Brain is defined both by Genetic-Cultural Co-Evolution.

We biologically adapt to cultural evolutions, while cultural practices also evolve to fit our brains. For example, the human brain grew in size as we acquire and store more information.

Culture becomes more refined as the Collective Brain grows.

Take language for example. Larger speaking communities can maintain more words and phonemes, and they tend to communicate more efficiently.

Trust becomes an important commodity for a society to grow their Collective Brain.

When members of society trust each other, knowledge-sharing and innovation become more prevalent, and hence societies progress faster.

CORE SESSION 1: MACRO AND MARKETS

10 Years of DM Overperformance vis-à-vis EM – What Do We Do?

EM Growth has underperformed DM in recent years.

The key aggregate demand that has benefitted EM in the past decade is mainly driven by Chinese urbanisation and US consumer demand.

However, these mega trends have tapered in the last five years, with US consumers and Chinese corporate deleveraging, with growth consequently easing as well.

Monetary policy to the rescue.

As global growth slows, investors are currently expecting central banks to ease monetary policy. But monetary policy has few bullets left after attempting to counter the 2008 Global Financial Crisis.

Investors should be cautious of high valuations in equity markets, especially in the US.

Low interest rates since the Global Financial Crisis have led global economies to be dependent on debt for growth.

It has also pushed equity market valuations higher. However, expensive valuation could be unsustainable as macro growth momentum is slowing.

Investors should tread with caution.

Key risks that could lead to a sharp equity market correction include the mismatch between investors' expectation of lower interest rate level versus Federal Reserve's guidance. Geopolitical risks such as the escalating Trade War or the US political landscape are also tilted to the downside.

There is value to be unlocked in Corporate Malaysia.

Corporate Malaysia, especially Government-Linked Companies (GLCs) have room for improvement in efficiency.

Major shareholders (EPF, PNB, Khazanah etc.) should focus on providing the right direction and leadership to improve GLC operations. If done right, it could lead to better returns to shareholders and uplift the Malaysian economy via higher wages to employees and a more vibrant economy.

Firms should be quick to adopt technology and respond to competition.

Fostering market competition and gradual adoption of automation could be catalysts to reinvigorate corporate Malaysia.

Know your investment objectives and your market.

Identify your fund's liability profile.

If the fund's objective is paying out a certain number of scholarships annually or to meet pension obligations, equity indices might steer asset allocation the wrong way, when buying bonds would have been a much more suitable choice of investment for such a fund.

Be prepared for future trends that incorporate an ESG (Environment, Social & Governance) perspectives.

ESG adaptation is coming either via litigation or regulation. Therefore, funds should incorporate a more holistic view of capital to include non-financial forms of capital (for example, social capital and knowledge capital).

Understand that each EM market has its own characteristics.

Malaysia has a high domestic institutional participation in the local stock market which makes it a good investment should it drop 30-40%, because it is like a "cash proxy". Whereas in China, high retail participation and lack of data quality make investing in the stock market more akin to gambling in a casino.

Adjust your expectations of future returns.

High EPS growth in EM countries pre-GFC is not a God-given right in the post-GFC era.

Before the 2008 Global Financial Crisis (GFC), nominal GDP growth rates for EMs were at all-time highs, and corporate revenue was highly geared to GDP growth. As a result, 10-15% EPS growth rate was expected, and investors thought this would be the case for the next 20 years. But the post-GFC environment proved to be lacklustre, with many corporates' supply chains not ready for margin compression when nominal GDP growth rates slowed down.

Clients are perpetually demanding even if returns expectations are unrealistic.

Even if you generate alpha of 10%, but if the broad market is down by -8%, your absolute return is only 2%, which makes it hard to justify to clients why they should be paying fees.

It is getting more difficult to find winners amongst equities in EM Asia.

If you want to find two- or three-baggers, they are still more likely to be found in EM Asia. However, this space is getting narrower and these companies are getting harder to find.

Execute with an open mind.

Know your strengths.

Are you good at picking fund managers or allocating assets? Fight the battles that you can – you cannot replicate what someone else is doing if you don’t have the same skillsets or talent.

Corporate debt space in EM Asia is booming.

Bonds can be as attractive a way to play EM Asia as equities, but fund managers who invest in EM Asia more often than not look mostly at equities. If you require only 4-5% return p.a. there’s no point in taking equity risks with 10-20% volatility when fixed income can achieve just that with lower risk.

Algorithms and AI can be used for both fundamental and technical analysis.

Machine learning can be used to uncover manipulations of companies’ financial statements, or to trawl Chinese social media to capture retail sentiment.

SPECIAL ADDRESS

‘India, Collective Intelligence, and The Next Stage of Globalisation’ by James Crabtree

Inequality, corruption and the investment boom-and-bust cycle India's history and trajectory.

“Bollygarchs” (Indian billionaires) have grown exponentially and at a much faster rate than China in a similar point in history.

India has experienced significant inequality with the top 10% controlling 55% share of the national income whilst the middle 40% only controls 40%.

The Indian corruption index has steadily risen.

Although Modi's new mandate of a clean government has resulted in a decline of large-scale corruption, it is not entirely clear that progress has been made. Exiled tycoons and businessmen such as Vijay Mallya epitomize the cesspool of corruption plaguing India and the excessive crony capitalism practiced in the past.

The boom-and-bust cycle in India's model has crippled the corporate sector with burdensome debt.

Rules were bent to accelerate growth over the last decade which resulted in a growth slowdown and a debt boom hangover. This is exemplified by India's non-performing loans which currently stands at 9% - this is higher than China at 1.8%.

> **Given the context highlighted above, India needs to better manage the next stage of globalisation and build state capacity to ensure vitality of its Collective Brain.**

All over the world, hyperglobalisation that started in the 1980s was not managed well.

In the developed West, the unequal redistribution of the gains from trade and immigration led to the rise of populist politics observed today. In India, poor management of re-globalisation since 1991, which gave rise to the above context, also led to the rise of populist politics in the country today.

The next stage of globalisation will be driven by digital goods, Chinese influence, climate change, and Asian urbanisation.

The next stage of globalisation will be driven by increased trade in digital goods rather than tangible goods while being shaped by Chinese rules, systems, and institutions rather than American ones. Moreover, climate change and increasing urbanisation in Asia will drive this next stage of globalisation.

One way of successful management of the next stage of globalisation is having strong state capacity.

How state capacity is used to manage the Collective Brain is useful for thinking about how low-income countries will grow over the next few decades. For India to go further, it would do well to learn from the experience of East Asian Tigers that have relatively high-quality public institutions that managed the process of development.

> **Looking ahead, India will not likely grow as fast as China, but its growth path could be more durable — which is a reason for optimism.**

India can mirror the transformation of US with political reforms.

India's experience today is similar to that of the Gilded Age of the US in the 1880s – India's GDP per capita today is similar to the US then. During that time, US was dominated by Robber Barons and corrupt politicians working together. However, excesses in that era was overturned by Progressive reforms that broke up trusts and created enduring institutions in the US today.

India has a more robust economic system and will likely be a wealthy economy by the middle of this century.

Given India's current low state capacity and vibrant democracy, it's not likely that India will grow as fast as China. However, being democratic could be the key to a more durable growth for India. But China's experience remains as a test case of the viability of authoritarian systems.

CORE SESSION 2: FIRMS AND TRANSFORMATION

The Upside of Blood in the Water – The Need for Corporate Shark Attacks

EM Public Equities have underperformed DM, but the inverse is true for Private Equity.

Malaysian Public market tend to be dominated by asset-heavy, Old Economy industries that result in low single-digit returns.

Malaysia's top 30 constituent companies have not changed from 10 years ago. This stagnant nature of Malaysian equity index signals that the country has not created or diversified its economic drivers over time.

The Public market has failed as a provider of capital in ASEAN.

The lack of shareholder activism in this region has led to complacency within Management. Public companies must also battle with the issue of capital hoarding which can hurt shareholder returns.

Private Equity investors can provide the flexibility and technical expertise for business to grow.

Many family-run businesses in ASEAN are slow in innovating and evolving even in the face of disruption. Private equity can help them re-pool and reallocate capital from non-performing core assets to growth areas.

Malaysia has the potential to be a more attractive hunting ground for Private Equity firms.

Corporate Malaysia needs to grow the footprint of our international business.

Malaysia should look outside for more cross-border business and increase trade exposure to China to ride their wave of growing consumer demand.

We also need to rethink the structure of our supply chain.

Malaysia needs greater downstream integration to extract more value from our economic activities. This calls for Malaysians to draw on each other's strengths to bring together different parts of the value chain.

ASEAN firms should aim for greater regionalisation and cross-border diversification.

ASEAN businesses need to think regionally and not just focus on their individual domestic markets.

Historically, companies within ASEAN countries have failed to capitalize on the opportunities provided by regional expansion. Instead, our own undoing comes from our tendency to view other member countries as competition. Corporate leaders must look regionally to replicate business models across ASEAN and capture the synergy across regional markets.

Corporate Malaysia can look to the rest of ASEAN for drivers of growth.

As the average GDP per capita of ASEAN approaches $4000 (with Malaysia standing at $10,000), the rest of ASEAN is experiencing a shift in consumption toward higher-end goods. This presents an opportunity for Corporate Malaysia as these neighbouring countries might not have sufficient capacity to meet their growing demand.

SPECIAL SESSION

In collaboration with TEDxKL: Innovation without Borders 4.0

Mr Sumant Mandal: The Future of Technology will be driven by our shift from the Internet to Artificial Intelligence (AI).

Growth in AI adoption will accelerate as services are now cheap enough for adoption by firms.

The rise of 5G technology and quantum computing will facilitate decentralisation of the ever more powerful computing power, benefiting firms and the people.

Enterprise software programs market will continue to grow rapidly.

Firms no longer need to build their own data centers but pay-as-you-go for digital cloud computing.

Individual and companies that embrace future technology can be more successful.

The future of computing will put more computing power into people's hands, where work will longer be tied to a physical location and play will become more exciting.

Dr Santitarn Sathirathai: Life-long learning is important to face the future of work.

The way we think about education today must change.

As content and answers become easier to obtain through the Internet, the education system will need to train and encourage the younger generation to ask questions, spurring creativity and getting out of their comfort zones.

Innovation is not just for entrepreneurs; every employee can be an entrepreneur.

Thus, organisations should empower and provide space for employees to innovate and be “Intra-preneurs”.

The private sector can contribute to the government’s effort to prepare the population for the future of work.

The private sector can contribute by supporting research, dissemination and providing policy options together with the government. In this spirit, SEA Group has launched a public-partnership program to upskill 10 million people in 10 years to increase digital inclusion and growth in Southeast-Asia.

Datin Paduka Dr Teo Soo-Hwang: We need to understand cancer in the Asian context.

As cancer is a genetic disease, it cannot have a one-size fit all detection and treatment systems.

Cancer manifests differently between race, gender and types of cancer, therefore requiring racial diversity in cancer research and clinical trials.

Understanding how cancer in the Asian population will be key to prevent and cure cancer amongst them.

Asians have been under-represented in cancer research when increasingly they will have higher risk of having cancer and will form one of the largest groups of cancer patients globally.

Corporations can play an important part in supporting the effort to research, cure and raise awareness on cancer treatments.

Putting charity and corporate social responsibility funding into medical research will go a long way in championing this effort.

Ms Laura Deming: How do we solve one of the biggest problems of human beings – Ageing?

Ageing is malleable.

Nature tells us that ageing is not inevitable, it can be regenerated and can be programmed. For instance, animals such as Hydras and naked mole-rat may be biologically immortal.

Ageing can also be engineered backwards.

Research found out that aging can be modulated. For example, C. elegans worms with mutated genes can live twice as long compared to normal worms.

The Longevity Fund is willing to invest in small companies and start-ups instead of Big Pharma companies as it wants to support companies with great passion and enthusiasm.

The fund also aims to create an ecosystem that allow knowledge transfer between companies that are working towards the same goal.

SPECIAL EVENT

Monday Night Live in Kuala Lumpur

In the established tradition of KMF, Monday night was reserved for the creative Special Event, to provide some right-brain stimulation after a day of serious socio-economic deliberation.

We were delighted to attend the talk show 'Monday Night Live', hosted by the bubbly Nabiya Anthony of Khazanah. Her special guests were Ronnie del Carmen – globally acclaimed film-maker and Oscar-nominated screenwriter – and Ahmad Izham Omar – CEO of Primeworks Studio and a real creative media industry veteran.

Alternating between conversation and individual presentation, Ronnie and Izham shared with us some of the experiences and learnings from their extraordinary careers. Sometimes things don't turn out how you wanted and expected – but better than you ever imagined. Sometimes what you were looking for was right in front of you all the time. Both compelling and often funny, Izham and Ronnie deeply moved the audience with their heartfelt narrations.

Music before, during and after 'Monday Night Live' was provided by the lively and charismatic 'Matahari' jazz band, who kept the audience hanging around long after the talk show ended.