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NAJIB

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to represent a different side of Malaysia—and of Mr. Najib. Even as he was courting Goldman officials in the Alps, opposition politicians were raising questions about IMDB and how the billions it was raising were being used.

This year, the fund has become the center of a political scandal that has engulfed Malaysia's government. The fund is mired in debts of over \$11 billion. It is a subject of a raft of local and international investigations, including, in Malaysia, by the central bank, auditor general, anticorruption agency and a parliament committee. It has faced accusations that billions of dollars are missing and that money was misused for political purposes or siphoned off in corruption by individuals.

Center of storm

At the center of the storm stands Mr. Najib, a dapper 62-year-old Anglophile, the founder and chairman of IMDB's board of advisers.

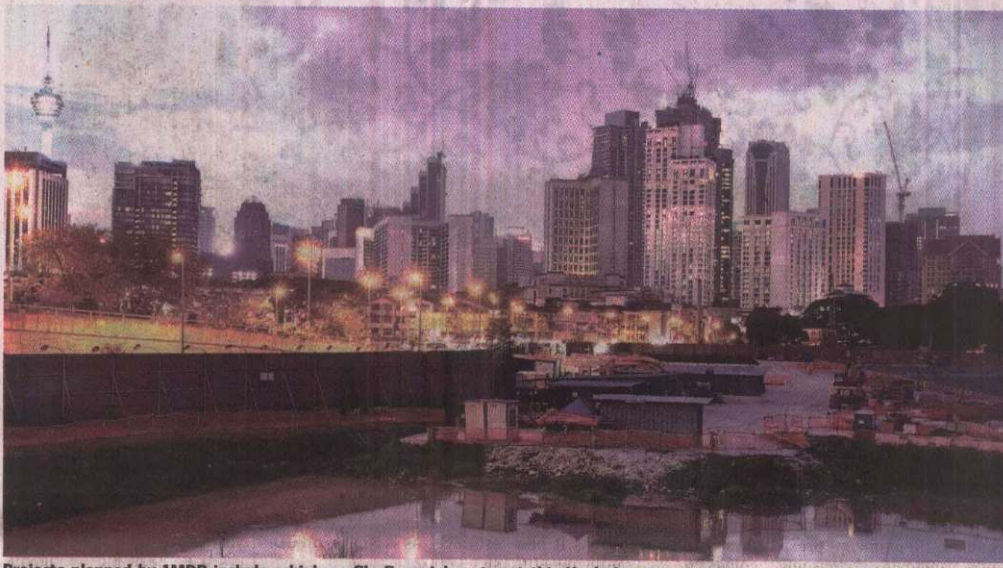
Mr. Najib declined multiple interview requests. He has denied any wrongdoing. Supporters say the accusations are a political plot to unseat him. They also have said that though head of the fund's advisory board, Mr. Najib wasn't intimately involved in its operations or management.

Investigative documents reviewed by The Wall Street Journal show Mr. Najib playing an important role at IMDB at key moments over several years. Among other things, he authorized several of its investments, according to documents that form part of Malaysia's official investigation of the fund.

He played a leading role in raising billions of dollars in financing for the fund, people familiar with the matter said, and Mr. Najib's cabinet approved the \$3 billion bond deal he enlisted Goldman to arrange in early 2013. That deal included a fee to the bank of nearly \$300 million, said people close to the bank, far above the \$1 million typical if a bank doesn't



Malaysian Prime Minister Najib Razak, shown in August, set up IMDB, a fund that has become the center of a political scandal engulfing Malaysia's government.



Projects planned by IMDB include a high-profile financial center at this Kuala Lumpur site, but progress on it has been minimal.

bought from Ananda Krishnan, a politically connected Malaysian tycoon, and one from Genting Group, a plantation company with ties to the ruling party.

Analysts said the price IMDB paid for Genting's plant was unusually high, since its operating license was running out. The IMDB fund later wrote down about \$285 million of the price it paid for all the plants. It has defended the purchase price as commensurate with the value of the plants.

Mr. Najib was facing the first test of his rule at the ballot box in those months of early 2013. Support was surging for the opposition, worrying the prime minister, say people who know him.

A Genting unit made a donation of about \$10 million to a Najib-linked charity, the Journal reported earlier this year. The charity and IMDB spent heavily in Penang, a

the \$1 million to several million typical if a bank doesn't have to take on the risk involved in getting it done fast.

Mr. Najib personally ordered the removal of the IMDB fund's auditors when they wouldn't sign off on its books, the government investigation found. He authorized the fund to make investments of millions of dollars although some board members had raised concerns about them, documents in the auditor general report show.

Malaysian investigators, the Journal reported in July, have traced deposits of almost \$700 million into the prime minister's alleged personal accounts via agencies, banks and companies linked to IMDB. The original source of the funds was unclear, and the government investigation didn't detail what happened to the money that allegedly went into Mr. Najib's accounts.

Malaysia's anticorruption agency has said the money was a donation from the Middle East but hasn't named the donor. Investigations continue. Mr. Najib has denied taking any money for personal gain.

The Journal reported earlier this year on how IMDB appeared to overpay for certain assets, with the seller later donating to a Najib-led charity that disbursed money on projects, such as schools, Mr. Najib could cite as he campaigned. The fund has said its decisions are driven by what is best for business and not political considerations.

The scandal is taking a toll on Malaysia and dividing Mr. Najib's party, the United Malays National Organization, which has ruled Malaysia since its independence from Britain in 1957. Malaysia's ringgit currency is one of the worst performers this year.

The affair also is proving an embarrassment to Goldman Sachs. As part of a broad probe into allegations of money laundering and corruption, investigators at the Federal Bureau of Investigation and the Justice Department have begun examining Goldman's role in transactions involving IMDB, the Journal reported last week. The inquiries are at the information-gathering stage, and there is no suggestion of wrongdoing by the bank, people familiar with the

matter said.

Malaysian investigators have also been looking at the financial affairs of Mr. Najib's wife, Rosmah Mansor, according to government investigation documents. Ordinary Malaysians have criticized her public displays of wealth, including appearances with Birkin bags that can cost tens of thousands of dollars.

Around half a million dollars was deposited into the private account of Ms. Rosmah between February and April by a personal assistant in the prime minister's office, according to documents recently reviewed by the Journal that are part of a Malaysian government investigation.

Efforts to reach Ms. Rosmah, who hasn't been accused of wrongdoing, were unsuccessful. She has denied going on spending sprees. After media reports on the bank ac-

The U.S. embraced Mr. Najib as it looked for Asian allies to counterbalance China.

count earlier this year, her lawyers denied their client had done anything wrong. The account was private and unrelated to IMDB, the lawyers said in a statement carried by local media.

An anti-Najib demonstration in August drew tens of thousands of supporters. A political faction headed by Mahathir Mohamad, a prominent former prime minister, is trying to unseat him.

Mr. Najib is digging in, attacking Western influences he once courted. After pressure from Western leaders to address graft in July, he lashed out in a Malay-language speech. "If an outsider, a white person, a foreigner is going to decide who should lead the country, I and the party cannot accept it," Mr. Najib said. "What right have they? We must be united in this."

In recent weeks, the prime minister suspended the publishing license of an independent media group—a move later overruled by a court—and removed from office a

deputy prime minister and the attorney general who questioned the government's handling of the affair.

Police detained a former party member who said he had been planning to hand over evidence to the FBI, as well as the man's lawyer. An anti-secession law that criminalizes discourse critical of the government, which Mr. Najib had said he would rescind, is instead being used to silence critics, human rights groups say. The government says retaining the law is necessary to ensure stability.

"I believe he genuinely wanted to change Malaysia," said John Malott, a former U.S. ambassador to Malaysia, but "he doesn't have the guts to carry out his own policies."

Mr. Najib, who wears bespoke suits and has a trim salt-and-pepper mustache, was born into a political dynasty in 1953. His father and an uncle were prime ministers.

He spent much of his youth studying in England, where he became an Anglophile, he said during a visit to his former boarding school this year.

At the event, he talked of his penchant for British television, including the sitcom "Yes, Minister." He thanked the school for teaching him "decency, discipline and perseverance." A politician needs at least two of these to win elections, he quipped to laughter.

When he became prime minister in 2009, Mr. Najib shocked the establishment by taking steps to unwind a system of preferential treatment for ethnic Malays, established by his father after race riots in the late 1960s. Critics of the system say it became a font for corruption, used to dole out patronage and tighten the party's grip.

Mr. Najib reduced the minimum Malays must hold in many companies to 12.5% from 30% and allowed greater foreign investment. He wanted to win back urban voters, especially Malaysians of Chinese and Indian ancestry disilluminated by graft, said a former political secretary of his.

"We must resolve to eradicate money politics right down to the roots," Mr. Najib told a party gathering before

he became prime minister. "If not, we will all be collectively responsible for the demise of this beloved party of ours."

He also pledged to rebuild relations with the West, which had suffered under Mr. Mahathir, who claimed Jews ruled the world.

The U.S. embraced Mr. Najib as it looked for Asian allies to counterbalance China. In April 2014, Barack Obama became the first U.S. president to visit Malaysia since the 1960s. Last Christmas, he and Mr. Najib golfed together.

Promising a new economic model, Mr. Najib set up IMDB, saying it would help race relations by involving all groups in contracts. One of its main projects was the financial center in Kuala Lumpur. Mr. Najib announced IMDB in July 2009 during a trip to Abu Dhabi, where he asked crown prince Sheikh Mohammed bin Zayed Al Nahyan to invest. The men met in Abu Dhabi's sumptuous Emirates Palace, with marble hallways and a cafe with cappuccinos sprinkled with gold flakes. The prince agreed to invest \$1 billion, Malaysian media reported.

The fund was put under Malaysia's finance ministry, which Mr. Najib heads.

Policies backfire

Other policies of his backfired almost immediately. Malay politicians in the ruling party, fearful of losing their perquisites, were furious. A hard-line Malay nationalist group protested plans for an equal-opportunity commission, and it was shelved.

The backlash taught Mr. Najib he needed to do more to bolster support among party chiefs, say people who know him. He unveiled plans for the state oil company to hand Malay businesses around \$6 billion annually in contracts.

The dealings of IMDB, meanwhile, grew murkier.

There is no indication in financial statements the \$1 billion Abu Dhabi investment ever materialized. A spokesman for the United Arab Emirates, of which Abu Dhabi is a part, declined to comment.

By 2011, the IMDB fund was facing questions from opposi-

tion politicians about its growing debt and its decisions, which included pouring money into a joint venture with a Saudi oil company that produced no oil. The fund's board approved a transfer of \$1 billion into the venture with PetroSaudi International Ltd., which is owned by a Saudi prince, according to a draft copy of a report by Malaysia's Auditor General on the fund's activities.

But hundreds of millions of dollars of the money went to another account, the Auditor General's draft report said. The account's ownership and location remain unclear.

In anger over that money, two senior Malaysian business figures on the fund's board resigned around the beginning of 2010. Attempts to reach them weren't successful.

Mr. Najib later authorized IMDB to lend money to the Saudi company, including \$125 million in October 2011, according to the report. The reason is unclear. According to a IMDB document signed by Mr. Najib that is now part of investigation materials, increased exposure to the firm made sense "in consideration of the government relationship between the Kingdom of Saudi Arabia and Malaysia."

A statement from PetroSaudi didn't go into details of the situation but said its relationship with IMDB resulted in a profit for the fund. The fund has called it profitable and has denied any wrongdoing.

The fund attracted attention from Wall Street banks because of its intention to issue bonds to further finance operations. Goldman and others pitched for the business. Goldman's top banker in Southeast Asia had deep relationships in Malaysia and was close to Mr. Najib, say people familiar with the matter.

The bank won the role of underwriting \$3.5 billion in bonds in 2012. Goldman initially put the whole issue on its own books, later selling pieces in private placements.

Rather than invest the money in new industries, the stated purpose of the IMDB fund, it used some of the money in 2012 for purchases of power plants. Some it

year. The ch&ry and IMDB spent heavily in Penang, a state with a large ethnic Chinese population, ahead of the voting. Genting and the charity declined to comment. Mr. Krishnaff-didn't respond to requests for comment.

It was several months before the election that Mr. Najib spoke at Davos to a Goldman executive about another bond issue. As before, Goldman initially bought the entire issue, a speedy process that put the proceeds in the fund's hands rapidly, but also entailed risk for the bank and thus resulted in a higher fee.

The IMDB fund said it needed the \$3 billion quickly as its share of a plan to jointly invest \$6 billion with Abu Dhabi's sovereign-wealth fund in projects including the planned Kuala Lumpur financial center, according to people close to the bank.

Abu Dhabi's Sheikh Mohammed went to Malaysia that month, March 2013, for a signing ceremony with Mr. Najib.

But Abu Dhabi never invested its share. And IMDB put half of the \$3 billion it had raised into overseas portfolio investments, according to the fund's financial reports.

Though a 70-acre Kuala Lumpur site was cleared for the financial center, little construction began.

The ruling party won just a third of the vote. Its coalition remained in power because of an electoral system that gives more parliamentary seats to Malay rural areas.

Investigations of IMDB continue. The FBI and Justice Department are looking at assets connected to Mr. Najib, say people familiar with the matter. Officials in Singapore and Switzerland are probing money flows related to IMDB. The fund has said it would cooperate with all investigations.

Mr. Najib is going about business as usual. In September, he gave a speech at a meeting of world leaders in New York chaired by Mr. Obama. Next month, Mr. Najib will host the president in Malaysia during a meeting of Southeast Asian nations.

While in the U.S., Mr. Najib also met investment-fund managers. The allegations, he told them, were just "noise."

—Celine Fernandez
contributed to this article.