

Fund Scandal Looms in Malaysia
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Political insiders in Malaysia say Prime Minister Najib Tun Razak could be facing a fresh political crisis due to the murky dealings of a sovereign fund established five years ago to drive investment in strategic domestic industries.

A widening circle of critics, fed in part by exhaustive reporting on independent news sites such as Malaysiakini, say the fund may have run up as much as RM40 billion (US\$12.18 billion) in debt and has few assets to show for it beyond what are described as overpriced acquisitions of independent power producers in Malaysia.

On Feb. 18, opposition MP Tony Pua of the Democratic Action Party announced on the floor of Parliament that the fund, 1Malaysia Development Bhd, known as 1MDB, had yet to file accounts for the financial year ended March 2013 and that KPMG, the independent auditor, had suddenly resigned. Deloitte Malaysia has since taken over the accounts.

In 2012, 1MDB made a US\$1.75 billion private bond placement, one of the biggest private US dollar bond placements on record from Asia, through Goldman Sachs, to acquire a portfolio of power assets. Other bond placements also have been made. According to US laws, failure to file financial accounts is a violation of the law, which should be raising concerns among the bondholders.

‘Bold and Daring’

A United Malays National Organization operative told Asia Sentinel a major scandal is lurking in the fund, which is wholly owned by the country’s Ministry of Finance, although no clear evidence has emerged of the exact nature of the scandal.

Former Prime Minister Mahathir Mohamad and former Finance Minister Daim Zainuddin, both of whom have soured on Najib, are said to be questioning the operation of the fund. There has been a rising tide of gossip about the fund’s political connections, particularly to Najib’s wife, Rosmah Mansor, and a close friend, Low Taek Jho, who was active in founding the fund.

Jho Low, as he is known, has become a New York social figure, seen out with Paris Hilton and pouring Cristal champagne for a succession of showgirls. He and Rosmah’s son by her first marriage, Riza Aziz, produced *The Wolf of Wall Street*, a major box office success that has been nominated for a Best Picture Oscar. Ironically, the film can’t be shown in Malaysia because of its excess profanity.

Low reportedly was behind Wynton Group, which showed an interest in bidding for the

famed Claridge's, Berkeley and Connaught hotels in London. According to a Malaysian website, in a court document filed in Ireland, Low made the approach in 2010. According to the court filing, Low was said to have had the backing of an unnamed Malaysian "sovereign wealth fund," which was not named. Low has acknowledged having friends in Khazanah Nasional Bhd, another Malaysian sovereign wealth fund. The 1MDB fund wasn't mentioned

Little is known of 1MDB's operations. As [Asia Sentinel reported at the time](#), it raised hackles when it started in April 2009 as a fund arranged by Jho Low and started by the Terengganu state government, which borrowed RM10 billion (US\$2.87 billion at 2009 rates). Critics questioned why an oil-rich state with revenues of RM5-7 billion a year would have to borrow money to start a sovereign fund rather than using windfall revenues from oil and other commodity bonanzas.

The Terengganu fund morphed into 1MBD under the Ministry of Finance in September 2009 to "focus on strategic development projects in the areas of energy, real estate, tourism and agribusiness." The fund's website quotes Najib saying its mission is to "be bold and daring... to break new ground and do things differently."

1MDB soon acquired a strategic partner in an obscure Saudi firm, PetroSaudi International, headed by Tarek Essam Ahmad Obaid, a member of the vast Saudi royal family. Reports indicated that PetroSaudi had signed a memorandum of understanding with Ghana National Petroleum Corp. although the MOU has apparently not resulted in a major project.

According to a statement by Azmi Khalid, the chairman of the parliament's Public Accounts Committee, 1MDB loaned PetroSaudi about US\$1 billion, leading to additional questions over why a government fund set up to explore investment in Malaysia was loaning money to a joint venture in Africa. PetroSaudi, despite rumored ties to the Saudi royalty, was unable to come up with its own cash in the joint venture but got 1MDB to accept a potential oil site in Turkmenistan. Subsequently, the loans to PetroSaudi climbed to US\$1.7 billion.

Debt and not much else

An exhaustive probe of the sovereign fund by writers Ho Kay Tat and Afiq Isa for the Malaysian publication The Edge, found that about all 1MDB has to show so far "is a multi-billion ringgit debt portfolio, the bulk of which was used to buy several independent power producers at hefty price tags."

Its main asset is a 48-hectare chunk of land passed to the fund by the government when the Malaysian Air Force closed its base at Sungai Besi, near downtown Kuala Lumpur's Golden Triangle. It is a near-priceless plot that 1MBD is to develop as a financial center called the Tun Razak Exchange, named for Najib's late father. That work hasn't started yet.

Through a series of complicated financial engineering moves in 2012, the loan to PetroSaudi was prematurely terminated and redeemed, according to Tony Pua's presentation on the floor of Parliament.

“However,” Pua said, “the repayment of US\$2.32 billion (RM7.93b) was made in a perplexing manner in a “segregated investment portfolio” based in the Cayman Islands. To date no one has been able to verify with any certainty who the investment portfolio manager is, the fund’s performance or for that matter, if the money actually exists.”

The “investment” in the Cayman Islands, Pua said, “raises highly suspicious questions as 1MDB is desperately trying to raise funds through new bond issuance in Malaysia to fund its aggressive acquisitions of independent power producers as well as its mega-projects in Bandar Malaysia and Tun Razak Exchange. In fact, 1MDB is already laden with an estimated more than RM40 billion in debt, and hence such investments is a luxury that 1MDB does not have.”

KPMG, in 1MDB’s first financial statement in 2010, raised an “emphasis of matter” over a US\$1 billion investment in the PetroSaudi joint venture, which was subsequently converted into a US\$1.2 billion (RM3.95b) loan within a period of less than six months. The “emphasis of matter” was removed in subsequent financial accounts as the joint venture was servicing the loan with interest payments, it was also highlighted that 1MDB extended an additional US\$700 million (RM2.3b) in loans to the JV, despite receiving less than US\$200 million in interest between 2011 and 2012.

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