

**Najib feels the heat as 1MDB melts down**  
**The Malaysian Insider**  
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In the spring of 2013, Song Dal Sun, head of securities investment at Seoul-based Hanwha Life Insurance, sat down to a presentation by a Goldman Sachs banker.

The young Goldman salesman, who had flown in from Hong Kong, made a pitch for bonds to be issued by 1Malaysia Development Bhd, a state-owned company closely tied to Prime Minister Datuk Seri Najib Razak.

It was enticing. The 10-year, dollar-denominated bonds offered an interest rate of 4.4%, about 100 basis points higher than other A-minus-rated bonds were yielding at the time, he recalls.

But Song, a veteran of 25 years in finance, sensed something was amiss. With such an attractive yield, 1MDB could easily sell the notes directly to institutional investors through a global offering.

Instead, Goldman Sachs was privately selling 1MDB notes worth US\$3 billion backed by the Malaysian government. "Does it mean 'explicit guarantee'?" he recalls asking the Goldman salesman, whom he declined to name.

"I didn't get a straight answer," Song says. "I decided not to buy them."

The bond sale that Song passed up is part of a scandal that has all but sunk 1MDB, rattled investors, and set back Malaysia's quest to become a developed nation.

Najib, who also serves as finance minister, sits on 1MDB's advisory board as chairman. The scandal's aftershocks have rocked his office, his government, and the political party he leads, Umno.

A state investment company trumpeted as a cornerstone of Najib's economic policy after he became prime minister in April 2009, 1MDB is now mired in debts of at least RM42 billion.

Former prime minister Tun Dr Mahathir Mohamad, a one-time political mentor who's turned on Najib, says "vast amounts of money" have "disappeared" from 1MDB funds. 1MDB has denied the claim and said all of its debts are accounted for. The prime minister's office declined to comment for this article.

From the moment in 2009 when Najib took over a sovereign wealth fund set up by the oil-rich state of Terengganu and turned it into a development fund owned by the federal government, 1MDB has been controversial.

Since the beginning of this year – with coverage driven by the Sarawak Report, a blog, and The Edge, a local business weekly – the scandal has moved closer and closer to the heart of government, sparking calls for Najib's ouster and recalling Malaysia's

long struggle with corruption and economic disappointment.

Dr Mahathir, who was prime minister from 1981 to 2003, now accuses Najib of "hijacking" the Terengganu Investment Authority, or the TIA, from the state government. Not so, 1MDB said in a statement: the state government willingly "decided to withdraw from the TIA" after the federal government guaranteed the TIA's bonds.

That didn't end the argument. Beginning in March, as public pressure grew, the country's auditor-general, Parliament's Public Accounts Committee, central bank and police have all homed in on 1MDB.

The force of the scandal helped topple the ringgit, the worst-performing currency in Asia as of July 16, down 8.1% against the dollar since the start of the year. Foreign reserves plunged 20% in June from a year earlier.

On July 2, The Wall Street Journal, citing documents from government probes, reported that investigators believe almost US\$700 million in cash moved through state agencies, banks, and companies linked to 1MDB before eventually finding its way into Najib's personal accounts.

The money reportedly included two transactions of US\$681 million (RM2.6 billion) made in March 2013, two months before a general election returned Najib to power as part of Barisan Nasional.

In a country with no public campaign financing and few strictures on political donations, the alleged cash flows caused alarm.

Before the 2013 elections, on March 12, 1MDB chairman Tan Sri Lodin Wok Kamaruddin and Khadem Al Qubaisi, then chairman of Abu Dhabi's Aabar Investments, signed an agreement to form a joint venture.

The following month, 1MDB announced it had raised US\$3 billion for its share of the partnership.

"1MDB opted for a private placement to ensure the timely completion of this economic initiative," the company said in a statement on April 15 of that year.

The timing was controversial. "1MDB may have been created with one of the key objectives being to raise a slush fund to finance Barisan Nasional's election campaigns," said Petaling Jaya Utara MP Tony Pua.

A statement from the prime minister's office dismissed the allegations WSJ, saying they amounted to "political sabotage" at the hands of "certain individuals to undermine confidence in our economy, tarnish the government, and remove a democratically elected prime minister".

In a statement, 1MDB said it "has never provided any funds to the prime minister".

Malaysia's biggest-ever financial scandal has spotlighted a colourful cast of characters – some connected to 1MDB, some not.

A politician since the age of 23, Najib is the eldest son of the country's second prime minister following its independence from Britain in 1957, Tun Abdul Razak Hussein, and a nephew of the third, Tun Hussein Onn.

Najib's wife, Datin Seri Rosmah Mansor, is an influential figure in her own right. A former executive at Island & Peninsular, a real estate company, she's often lampooned in the local media for her bouffant hairstyle and penchant for luxury.

Riza Aziz, Rosmah's son from her first marriage, is close to a Kuala Lumpur man about town who's been linked to 1MDB named Low Taek Jho. Jho Low, as he's known, is a whiz-kid dealmaker who exploded onto the gossip pages in 2009.

One photo shows the moon-faced Low partying with California socialite Paris Hilton and clutching a bottle of Cristal champagne. The prime minister's stepson co-founded a Los Angeles company that produced *The Wolf of Wall Street*, the 2013 film about lifestyle excesses and criminal exploits in the world of finance; Low got a full-screen "special thanks" credit at the end of *Wolf*.

Low helped set up 1MDB's first joint venture, with PetroSaudi International, according to reports in *The Edge* and the *Sarawak Report*.

An additional touch of glamour comes from Goldman Sachs executive Tim Leissner, a lanky, blue-eyed German who's married to former US fashion model and designer Kimora Lee Simmons, the ex-wife of Russell Simmons, co-founder of New York hip-hop music label Def Jam Recordings.

In September 2013, when Najib and Rosmah travelled to San Francisco to open a new office of Khazanah Nasional, Malaysia's sovereign wealth fund, Rosmah and Simmons were photographed together.

Leissner, now Goldman's Southeast Asia chairman, was a fixture in Malaysian deal-making in the late 2000s. Goldman helped manage billionaire T. Ananda Krishnan's 2009 initial public offering of Maxis, Malaysia's biggest mobile phone service provider.

Goldman established a close and profitable relationship with 1MDB. From 2012 to 2013, the bank arranged three bond sales for the company, totalling US\$6.5 billion. Fees, commissions, and expenses for Goldman totalled US\$593 million – about 9.1% of the money raised – according to a person familiar with the sales.

"These transactions were individually tailored financing solutions, the fee and commissions for which reflected the underwriting risks assumed by Goldman Sachs on each series of bonds, as well as other prevailing conditions at the time, including spreads of credit benchmarks, hedging costs, and general market conditions," says

Hong Kong-based Goldman spokesman Edward Naylor.

In 2013, Goldman arranged 1MDB's US\$3 billion bond sale, the one passed up by Song. The note is included in JPMorgan's benchmark Asian and Emerging-Market Bond indexes.

Goldman's commissions, fees, and expenses from the sale were US\$283 million, or 9.4% of the amount raised, according to the prospectus. The person familiar with the transaction says Goldman's take was high because the bank bought bonds from 1MDB, assuming the risk, and then resold them to customers.

In many ways, 1MDB's star-crossed existence mirrors the misfortunes of this country of 30 million people. Najib set up 1MDB at a time when the Malaysian economy was on the mend: it expanded by 7.4% in 2010, becoming one of the fastest growing in Southeast Asia.

The company – supported by the advisory board chaired by Najib and including high-ranking government officials from China, Saudi Arabia, and the United Arab Emirates – set out to be a state-owned strategic development company that would forge global partnerships, draw foreign investment to Malaysia, and build up the country's industrial base.

Early on, 1MDB formed joint ventures with Saudi and Abu Dhabi companies. On a visit to Malaysia in July 2013, Japanese Prime Minister Shinzo Abe attended a signing ceremony that was meant to initiate discussions on 1MDB's plan to issue Samurai bonds guaranteed by the Japan Bank for International Cooperation.

None of these plans panned out as they were supposed to. Over time, to its growing number of detractors, 1MDB looked more and more like a giant black box, its inner workings echoing the mysteries suggested by the wayang kulit, traditional shadow puppets, which frolic on the office walls of the Kuala Lumpur-based company.

1MDB, which has announced plans to wind itself down, is reducing its debt, according to president Arul Kanda Kandasamy.

"1MDB has undertaken various initiatives to reduce the company's debt levels and ensure that maximum value is generated for its 100% shareholder, the Ministry of Finance," Arul Kanda said in a statement to Bloomberg Markets on July 16.

As part of the plan, 1MDB has repaid a US\$975 million loan, while more than 40 potential investors have shown interest in one of its property developments, Bandar Malaysia. He said the company also intends to sell its power plants. "We are focused and are making good progress," he said. – Bloomberg, July 22, 2015.

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