

Executives at 1MDB declined interview requests. The fund denies its business decisions were driven by politics and has pledged to cooperate with investigations. It said in a statement: “We note with surprise that The Wall Street Journal continues its campaign to malign 1MDB, a campaign based on old and recycled allegations.”

A spokesman for UMNO, whose financial reports aren't required to be publicly disclosed, didn't respond to requests for comment.

A U.S. Federal Bureau of Investigation probe into 1MDB is looking at assets owned by Mr. Najib and his family, including luxury real estate in New York and Los Angeles, according to people familiar with the matter. These people said the agency is also looking at the funding of a film-production company, Red Granite Pictures, which was set up by Mr. Najib's stepson and produced *The Wolf of Wall Street* starring Leonardo DiCaprio.

These inquiries are at an information-gathering stage and neither Mr. Najib nor any of his family members have been accused of wrongdoing. Red Granite Pictures, in a statement to the Journal, said that neither the stepson nor the company engaged in any “inappropriate” business activities.

Tens of thousands of [protesters took to Kuala Lumpur's streets](#) in August to call for Mr. Najib's ouster over his handling of the economy and management of 1MDB. Some lawmakers are still calling for him to resign.

Activities like the use of personal bank accounts to fund election spending don't happen in “most decent democracies with an element of accountability,” said Lily Zubaidah Rahim, a University of Sydney professor who is involved with the Electoral Integrity Project, a survey of voting standards with Harvard University.

Mr. Najib's UMNO party, founded in the 1940s to represent ethnic Malays, has ruled for decades in coalitions with parties drawing support from ethnic Chinese and Indian minorities.

UMNO benefited from an affirmative-action program it set up in the

1970s that reserves an outsize proportion of state jobs, school places and government contracts for Malays, who make up just over half of Malaysia's 30 million people.

Opposition critics say UMNO doled out contracts to Malay companies in return for donations to fund election spending. Ruling coalition politicians confirmed the practice in interviews but emphasized it is legal.

There are no laws in Malaysia on how much a company or individual can give to a party or politician, and neither is required to report who donated. Candidates are limited to spending \$47,000 during election periods, but there are no caps on what a party can disburse. There are no laws against tapping state resources for campaigns.

Disbursing money or other favors to sway an election, known as vote buying, is prohibited but widespread, politicians say. Malaysia's election watchdog has no legal power to investigate complaints.

After 2008 elections in which the ruling coalition lost its two-thirds majority in parliament, the UMNO ditched its leader and elevated Mr. Najib, then deputy prime minister. He pledged to end corruption and improve transparency. He promised a Malaysia in which all citizens benefited, dubbing the effort "1Malaysia."

He also talked about the need to break UMNO free from dependence on corporate donations, said people who interacted closely with him. Yet Mr. Najib knew he needed funding sources, they said.

An opportunity presented itself when Jho Low, a Malaysian financier then in his late 20s, appeared.

Hailing from the Malaysian state of Penang, Mr. Low studied in England and befriended Mr. Najib's stepson in London, according to people who know him. He later attended the University of

Pennsylvania's Wharton School.

In Malaysia, he helped set up an investment fund for the oil-rich Terengganu state, he told a Malaysian newspaper in 2010. Mr. Najib turned the fund into a federal entity and 1MDB was born.

Mr. Low, whose full name is Low Taek Jho, would later help direct election-related spending, despite not holding a formal title within UMNO, said a former Malaysian ruling coalition politician interviewed by the Journal.

Mr. Najib and 1MDB executives said the fund was supposed to attract investment in energy, real estate and tourism, with no mention of charity spending.

Opposition parties pointed out that Malaysia already had a sovereign-wealth fund pursuing similar aims, Khazanah Nasional Bhd., and asked why 1MDB was put under Mr. Najib's control.

Nurul Izzah Anwar, a lawmaker and daughter of Malaysia's opposition leader, called 1MDB's setup an "absolute sham" and "a blatant attempt by the PM to have direct intervention in the management of the wealth fund."

The prime minister told parliament that his stewardship of 1MDB was to ensure it spurred economic development and foreign investment so that wealth "can be distributed equally regardless of race and ethnicity, but for 1Malaysia."

From the outset there was an air of secrecy. Senior management shot down suggestions to share documents on Google, arguing Malaysia's political opposition might access them, a former employee said.

Mr. Low dialed in to conference calls but was referred to by a code name, "UC," the person said.

In September 2009, 1MDB signed its first major deal, a joint venture with Saudi oil firm PetroSaudi International Ltd. to invest in energy

projects.

Of a \$1 billion investment from 1MDB, approximately \$700 million instead moved to another company's bank account, according to a draft report into the fund's activities by Malaysia's auditor general, a copy of which was reviewed by the Journal.

The account was owned by Good Star Ltd., a Seychelles-based firm set up by Mr. Low, according to the person who was involved with the formation of 1MDB.

FULL COVERAGE: MALAYSIA'S 1MDB

[ENLARGE](#)

OLIVIA HARRIS/REUTERS

What happened to the money is unclear. The following year the joint venture was wound up without investing in any major energy projects.

The 1MDB fund denies wrongdoing and says it made a profit on the venture. The Saudi company says the venture was profitable for 1MDB.

Two board members, including 1MDB's chairman, resigned in 2009 and early 2010 over the way the fund handled the venture, the auditor general report said. Attempts to reach them were unsuccessful.

In early 2010, Mr. Najib authorized creating a 1MDB charity arm that gave \$140 million for corporate social responsibility spending up until the 2013 elections, the fund's board minutes show. None of it was required to be reported in 1MDB financial accounts, though some projects were publicized in fund promotional materials.

The prime minister's office viewed 1MDB as a way to finance projects aimed at boosting UMNO's popularity, said Oh Ei Sun, who at the time was Mr. Najib's political secretary. Money from 1MDB was available for projects drawn up by staff in the prime minister's office, he said.

“If we thought it could help the incumbent government pull in some votes, we could propose that,” said Mr. Oh. He said he helped give scholarships to ethnic Chinese students, but said he later quit, citing his concern about lack of transparency in the government.

1MDB’s management proposed the spending should only happen when the fund made profits, but asked for a waiver of the rule to allow immediate spending on schools, the minutes say.

In July 2010, the prime minister traveled to Sarawak, a rainforest-covered Malaysian state on Borneo island whose voters include members of indigenous tribes. Ahead of the visit, 1MDB’s board of directors approved around \$540,000 in financial aid to build shelters for tribal people, among other uses.

The board’s chairman “noted that it is vital for the company to win the support of Sarawakians, particularly the natives,” the minutes said.

There was wasteful spending. Malaysia’s government in 2010 sold prime land in Kuala Lumpur to 1MDB at below-market rates to develop a financial center, in a joint venture with a subsidiary of an Abu Dhabi sovereign-wealth fund.

After spending almost \$2 million to organize a launch party, 1MDB ditched the event when the Gulf emirate’s crown prince decided not to attend, according to board minutes.

Local media began criticizing the fund.

“The company is perceived as a secretive cloak-and-dagger setup with sinister motives to benefit cronies and not the Malaysian people,” read a plan submitted to the board in October 2010 by 1MDB’s management to improve the fund’s image.

The solution was a media blitz to promote 1MDB’s focus on “new sources of growth,” the plan said. Mr. Najib, in other minutes, ordered the board to better promote 1MDB education scholarships.

To book profits, the fund took the land it bought cheaply from the government and marked it up to market prices. In the financial year ended March 31, 2011, the fund revalued the land by 426%, even though it had neither sold nor developed it.

The fund also borrowed heavily. [Goldman Sachs Group](#) helped it raise \$6.5 billion in bond issuances in 2012 and 2013. Some money was used to buy power plants.

A \$3 billion bond two months before the 2013 elections was supposed to fund development of the Kuala Lumpur financial center, according to offering documents. The project stalled and the money was used for other purposes, including working capital, according to a 1MDB financial statement.

A Goldman spokesman declined to comment.

As elections approached in 2013, the fund began transferring hundreds of millions of dollars to politicians to spend on their campaigns, said the person who helped set up the fund.

Mr. Najib began pushing out checks from his accounts to politicians, according to a lawmaker quoted in local media and the cabinet minister interviewed by the Journal.

Shahrir Abdul Samad, a UMNO parliament member, was quoted saying he was given over \$300,000.

“To whom else can I ask for financial assistance for administration expenses if not from the party president himself,” Mr. Shahrir said in an interview with an official website run by the ruling coalition. “That explains the money the party president received is for party use,” not Mr. Najib’s enrichment, he said.

Mr. Shahrir didn’t respond to requests for comment.

Mr. Najib announced projects like hospitals and low-cost housing across the country.

The 1MDB fund financed free trips to Mecca for more than 1,000 village headmen. Letters to the recipients came from the prime minister's office.

Mr. Najib has said such projects show that 1MDB is beneficial to Malaysians. Local media reports note the program, started in 2011, is adding more pilgrimages annually.

Perhaps the biggest UMNO effort to win back votes was in Penang, a historic trading entrepôt won by the opposition in 2008.

Mr. Low, the financier, returned home to Penang before the May election and acted as a senior strategist, according to the former ruling-coalition leader in the state.

Coalition candidates were told by Mr. Low they could request money for their campaigns and he would deliver it, the politician said. Candidates asked for money to paint voters' houses and give out free food and other favors, the politician said.

The source of the money, which didn't flow through official UMNO channels, and its total size were unclear, ruling-coalition politicians said.

Another former coalition lawmaker said he assumed the funds came from corporate donors. "The money was flowing like hell," he said.

A school friend of Mr. Low's, Geh Choh Hun, organized a group called 1Malaysia Penang Welfare Club, which hired a hotel ballroom and handed out checks for hundreds of thousands of dollars to nongovernment groups, according to people who attended. It is unclear where the money came from. Mr. Geh declined to comment.

Loh Cheng Kooi, executive director of the Women's Center for Change, a female-empowerment organization, said she got almost \$70,000 from the welfare club.

She said she assumed the government was financing the event because of "1Malaysia" slogans at the ballroom.

In the days before voting on May 5, UMNO supporters organized free dinners and gave out cash, according to people who attended.

UMNO lost the popular vote and failed to win Penang. But its coalition won enough votes to hold on to power nationally.

After the victory, 1MDB had only about \$20 million in cash compared with liabilities of over \$10 billion, board minutes show. 1MDB says the value of its assets covers the fund's debt.

Deloitte Touche Tohmatsu Ltd., the fund's current auditor, told 1MDB's board in February 2014 it had received emails and letters alleging "financial reporting fraud" in connection with the PetroSaudi deal, the changing of auditors and alleged overpayment for power-plant assets, the board minutes show.

The auditor said there was no evidence of wrongdoing, according to the minutes, and signed off on 1MDB's accounts. The fund reported a net loss of around \$200 million in the year to March 31, 2014, the last available results. Deloitte declined to comment.

A few months later, a UMNO politician filed a report with police over alleged financial mismanagement by 1MDB, according to board minutes from December 2014. Officers visited 1MDB's headquarters but left without taking away evidence.

One board member worried whether they could be charged for "criminal breach of trust." The fund's general counsel answered it was unlikely given no one on the board had personally benefited from 1MDB's activities, the minutes say. The board's chairman suggested convening in the future outside of 1MDB's offices to "reduce the risk of bugged meeting rooms."

The fund is now trying to wind down operations by selling assets to pay down debt. In November, it agreed to sell its power plants to a Chinese state-owned company for \$2.3 billion, almost 20% less than it had paid for them. 1MDB says it "essentially broke even" given that the buyer also assumed some debt.

The prime minister told parliament in November there was nothing unusual about government-controlled companies donating money to political parties.

But he has vowed to change the system, setting up a bipartisan parliamentary panel to look at election reform.

“There is an urgent need to regulate political financing to ensure accountability and transparency,” Mr. Najib said.

He promised new laws would come into effect before the next elections, in 2018.