The purpose of this policy is to provide guidance for investment of Retirement Funds. The investment function varies depending on the type of pension plan. In the case of defined benefit plans, the goal of the investment function is to generate the highest possible returns consistent with the liabilities and liquidity needs of the pension plan, and in light of the risk tolerances of affected parties.

In a defined contribution plan, the main goal of the investment function is to generate gains that accrue to individual member account balances in light of investment goals. The Guidelines start with the basic premise that the regulatory framework should take into account the retirement income objective of a pension fund. Two other essential aspects of the regulatory framework are the prudent person standard and the statement of investment policy. Regulations may also include quantitative limits, but only as long as they are consistent with and promote the prudential principles of security, profitability and liquidity pursuant to which assets should be invested. Minimum levels of investment on certain assets, for example, would not be considered consistent with these principles.

It is the Trustees responsibility to ensure that the fund investments are made with due care and responsibility. It is recommended that the Trustees form an Investment Committee to manage the investment of funds and deliberate on matters regarding the investment.

## Investment Committee

- **Composition**

  This should comprise of 4-5 persons who are Trustees or executives of the company having knowledge and experience in handling investments, finance knowledge and know how about the retirement funds. Members of this committee would generally include the CFO, HR Director, Accounts Controller, Treasurer and any other person appointed by the Trustees.

- **Meetings**

  The Committee should meet on quarterly basis to carry out the following functions:

  - Prepare investment guidelines /review it annually.
  - Review the cash flows available for investment/payment to outgoing employees. The cash flows should be prepared monthly and at least for the next one year.
  - Decide on where to invest i.e. prepare investment guideline, after assessing the cash flow and whether to invest in long term or short term investments.
  - Review the portfolio and its returns.
  - Authorize two persons to negotiate deals on behalf of the funds.

The Committee should document all discussions of their meetings and have the minutes circulated preferably within two weeks of the meeting.

**Investment Guidelines**

The Trustees should make detailed Investment guidelines keeping in view the following:

1) Risk appetite and consensus amongst the Trustees about the investment portfolio, i.e. whether they are keen to invest into investments which have a higher return and higher risk or with a lower return and lower risk.

2) The credit ratings as a criterion for placement of deposits at banks or in any securities.

3) The average age of the employees, i.e. a company with a large young staff could make an aggressive investment portfolio.

4) The required returns & local regulations for investments as specified in Income Tax Schedule & Provident Fund Rules.

5) In progressive companies, employees could also be given a choice on the various investment options, i.e. their choice of whether they have a risk appetite for an aggressive portfolio. The option to choice may be of greater relevance when a retirement fund is a Defined Contribution Plan.

6) With the increase of employees preferring their funds to be invested in Islamic modes of financing, the Company should consider the option of giving the employees their right to choose as to whether their funds should be invested in Islamic financing or not.

7) Exposure limits in various investment avenues should be defined.

8) The Trustees should make an Investment Plan to invest the portfolio under the following broad heads:

| | % |
|---|---|
| - Govt. Securities | |
| - Equities | |
| - Mutual Fund | |
| - Any other investment | |
| - Cash in hand/ Bank | |
| | 100 |
| | ==== |

The Securities that are available in the market are Defence Savings Certificates, Special Savings Certificate, Federal Investment Bonds, Treasury Bill, Term Finance Certificates, Mutual Funds, Equities, Bank Deposits, Purchase of Annuities, i.e. Insurance policies etc.

9) The Investment policy should establish clear investment objectives that are consistent with the retirement income objective of the pension fund and, therefore, with the characteristics of the liabilities of the pension fund, the acceptable degree of risk for the fund, the plan sponsor and the plan members and beneficiaries.

10) The approach for achieving those objectives should satisfy the prudent person standard taking into account the need for proper diversification, risk management, the maturity of the obligations, the liquidity needs of the pension fund, and any specific legal limitations on portfolio allocation.

11) The investment policy should at a minimum identify the strategic asset allocation strategy for the pension fund (the long-term asset mix over the main investment categories), the overall performance objectives for the pension fund, the means of monitoring and, when necessary, modifying allocations and performance objectives in the light of changing liabilities and market conditions.

12) The Investment policy should also include any broad decisions regarding tactical asset allocation, security selection and trade execution.

13) A sound risk management process that measures and seeks to appropriately control portfolio risk and to manage the assets and liabilities in a coherent and integrated manner should be established.

14) The investment policy for pension programs in which members make investment choices should ensure that an appropriate array of investment options, including a default option, are provided for members and that members have access to the information necessary to make investment decisions. In particular, the investment policy should classify the investment options according to the investment risk that members bear.

15) There should be procedures and criteria by which the governing body or other responsible party periodically reviews the effectiveness of their investment policy and determines whether there is a need to change the policy, its implementation procedures, the decision-making structure, as well as the responsibilities linked to its design, implementation, and review.

**Investment Manager**

Parties who are responsible for the overall implementation of the investment policy should be identified together with any other significant parties that will be part of the investment management process. In particular, the investment policy should address whether internal or external investment managers will be used, the range of their activities and authority, and the process by which they will be selected and their performance monitored. In case the funds are large in size, or the Trustees want to venture into Shares etc, the Trustees may hire professional experts as Fund Managers or Investment Managers. At times they may be appointed for a selective portfolio i.e. for purchase of shares or the entire portfolio. The experts may be on a discretionary or non discretionary terms.

An investment management agreement should be required if external investment managers are used, laying down the terms of reference, scope and authority given.

It is recommended that the Investment Manager is independent and is not a Director or Employee of an Investment Bank, Company or Brokerage house. In fact from an Internal Control perspective it is recommended that the Brokerage House should not be the Investment Manager or vice versa.
In case the Trustees have decided to invest in Shares they should appoint a Brokerage House to negotiate rates and deal on behalf of the Trustees or the Company.

**Portfolio limits**

The legal provisions may include maximum levels of investment by category (ceilings) to the extent that they are consistent with and promote the prudential principles of security, profitability, and liquidity pursuant to which assets should be invested. Legal provisions could also similarly include a list of admitted or recommended assets. Within this framework, certain categories of investments may be strictly limited. The legal provisions should not prescribe a minimum level of investment (floors) for any given category of investment, except on an exceptional and temporary basis and for compelling prudential reasons.

Portfolio limits that inhibit adequate diversification or impede the use of asset-liability matching or other widely-accepted risk management techniques and methodologies should be avoided. The matching of the characteristics of assets and liabilities (like maturity, duration, currencies, etc) is highly beneficial and should not be impeded.

Where the legal provisions establish maximum levels of investment by category (ceilings), there should be an established procedure for correcting excesses within specified time limits.

Self-investment by those, undertaking investment management of pension funds should be prohibited or limited, unless appropriate safeguards exist. Investment in assets of the plan sponsor, in parties related or affiliated with any pension entity or pension fund managing company is prohibited or strictly limited to a prudent level (e.g. 5 percent of the pension fund assets). When the plan sponsor, the pension entity or the pension fund managing company belongs to a group, investment in undertakings belonging to these same groups should also be limited to a prudent level, which may be a slightly higher percentage (e.g. 10 percent of the pension fund assets).

Investments in assets issued by the same issuer or by issuers belonging to the same group should not expose the pension fund to excessive risk concentration.

Investment abroad by pension funds should not be prohibited and, among other risks, should take into account the currency matching needs between pension plans assets and liabilities.

Legal provisions should address the use of derivatives and other similar commitments, taking into account both their utility and the risks of their inappropriate use. The use of derivatives that involves the possibility of unlimited commitments should be strictly limited, if not prohibited.

All legal provisions setting forth quantitative portfolio limits should be regularly assessed to determine whether they are unnecessarily inhibiting the ability of pension fund asset managers to implement optimum investment strategies and amended to the extent necessary.

**Benchmarking**

The Trustees should set a benchmark rate to judge and monitor the performance of the Fund, their investments and performance of Fund Managers at quarterly intervals. On a horizon of 3-5 years, the funds should exceed the average inflation level of the Country.

The basis of measurement of benchmarking should be agreed. (For e.g. Govt. T-bills or KSE Index could be considered).

In case an Investment Manager has been appointed, a benchmark should also be pre-agreed so that the performance of the Investment Manager can be judged.

**Internal Controls**

The Trustees should ensure that the following disciplines or internal controls are maintained.

- All requirements regarding the investment as laid down in the Rules of the Trust are properly implemented.
- A proper Investment Policy is made, detailing the authority limits for daily transactions etc.
- The Financial Statements of the Fund are timely audited.
- All payments or purchase of securities are made through crossed cheques signed by at least two signatories.
- At least two persons are nominated to negotiate any deals on behalf of the Trust. The Trustee may appoint the Treasury Manager to negotiate on behalf of the fund, after due authorization.
- All verbal dealings are subsequently documented properly;
- Proper reconciliations are made
- Proper records of the investment portfolio are maintained so that investments are renewed on timely basis.