

## **NPF-NSF Investment Committee**

**Press Meeting of Friday 20 August 2010**

### **Brief**

#### **1.0 The National Pensions Fund (NPF) and National Savings Fund (NSF) – An overview**

The National Pensions Fund was introduced in 1978 by means of the National Pensions Act 1976. It is based on a two-tier system in which Government finances payment of the universal basic pensions whilst earnings-related contributory benefits are paid to insured persons or their dependents, on the basis of contributions paid to the scheme by the insured persons and their employers. The National Savings Fund on its part has been set up under the National Savings Fund Act, 1995, to replace the Employees Welfare Fund.

The main difference between the NPF and the NSF is that whereas the NPF is a defined benefit scheme the NSF on the other hand is a defined contribution scheme. At retirement, beneficiaries of NPF would receive a monthly pension based on a fixed formula (roughly equal to 1/3 average lifetime earnings) and NSF beneficiaries would receive a lump sum that is not fixed by any formula. The lump sum would be largely dependent on the contributions made by employers and the investment performance.

#### **2.0 NPF/NSF investment of surplus funds**

For the purpose of determining the manner in which surplus funds of the NPF and NSF are to be invested, an NPF-NSF Investment Committee has been set up under the National Pensions Act. The NPF-NSF Investment Committee is given full executive powers under the Act to make investment decisions.

In order to assist the Investment Committee in its decision making process, the services of an external Investment Adviser, Hewitt LY Ltd, has been hired.

The Investment Committee is a tripartite body, comprising representatives of Government, Employers and Employees. The Committee is chaired by the Financial Secretary.

The current members of the Investment Committee are as follows:

##### **Chairman**

**Mr. Ali Mansoor**, Financial Secretary

##### **Government representatives**

**Mr. Geeanduth Gopee**, Director, Management Audit Bureau

**Mr. Sunil Romoah**, Deputy Accountant General

**Mr. Krishna Bunjun**, Director (Economic and Finance)

##### **Employers' representatives**

**Dr. Azad Jeetun**, Director, Mauritius Employers' Federation

**Mr. Pierre du Mée**, Estate General Manager, The Constance & La Gaité S. E.

**Mr. Vinod Bussawah**, General Manager, LCA Mauritius

##### **Employees' representatives**

**Mr. Oodithsingh Boodhram**, Financial Controller, Mauritius Telecom

**Mr. Noor Ul Amin Rajabalee**, Senior Analyst, Ministry of Finance and Economic Development

**Mr. Dhuneerow Luximon**, Senior Financial and Management Analyst, Ministry of Finance and Economic Development

### **3.0 NPF/NSF investment principles**

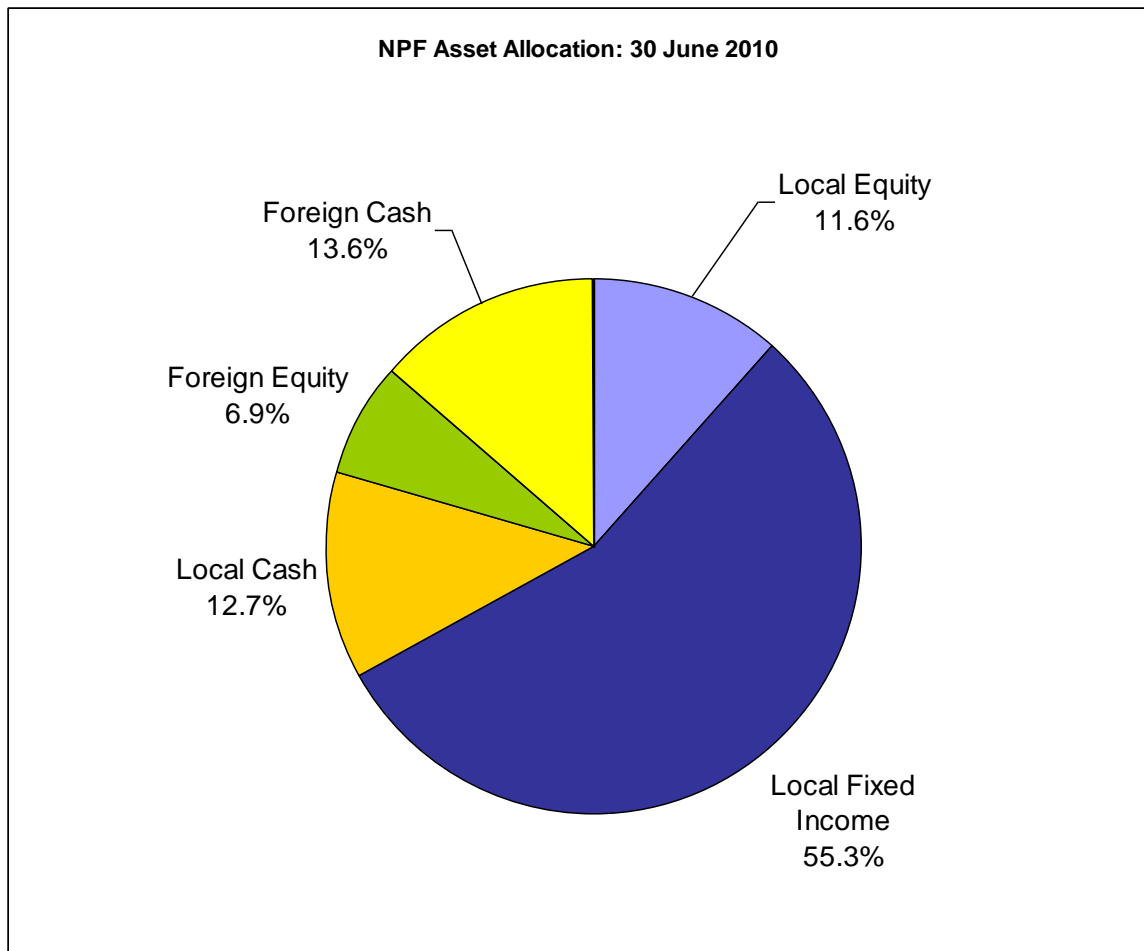
In the process of managing the Fund's assets, the Investment Committee has developed a series of guiding principles which is specified in the "Investment Guidelines of the National Pensions Fund" and "Investment Guidelines of the National Savings Fund". Contained in the Investment Guidelines are the 3 basic investment objectives of the NPF/NSF namely: return, security, and liquidity. These broadly reflect the needs as stipulated in the NPF legislation. In practice, the objective of NPF investment processes is therefore not to maximize returns on an absolute basis, but instead, to provide a level of return adequate to meet its long-term pension obligations. Targeting a higher expected return would mean taking on more risk and the Investment Committee has deemed this imprudent in light of the other objectives.

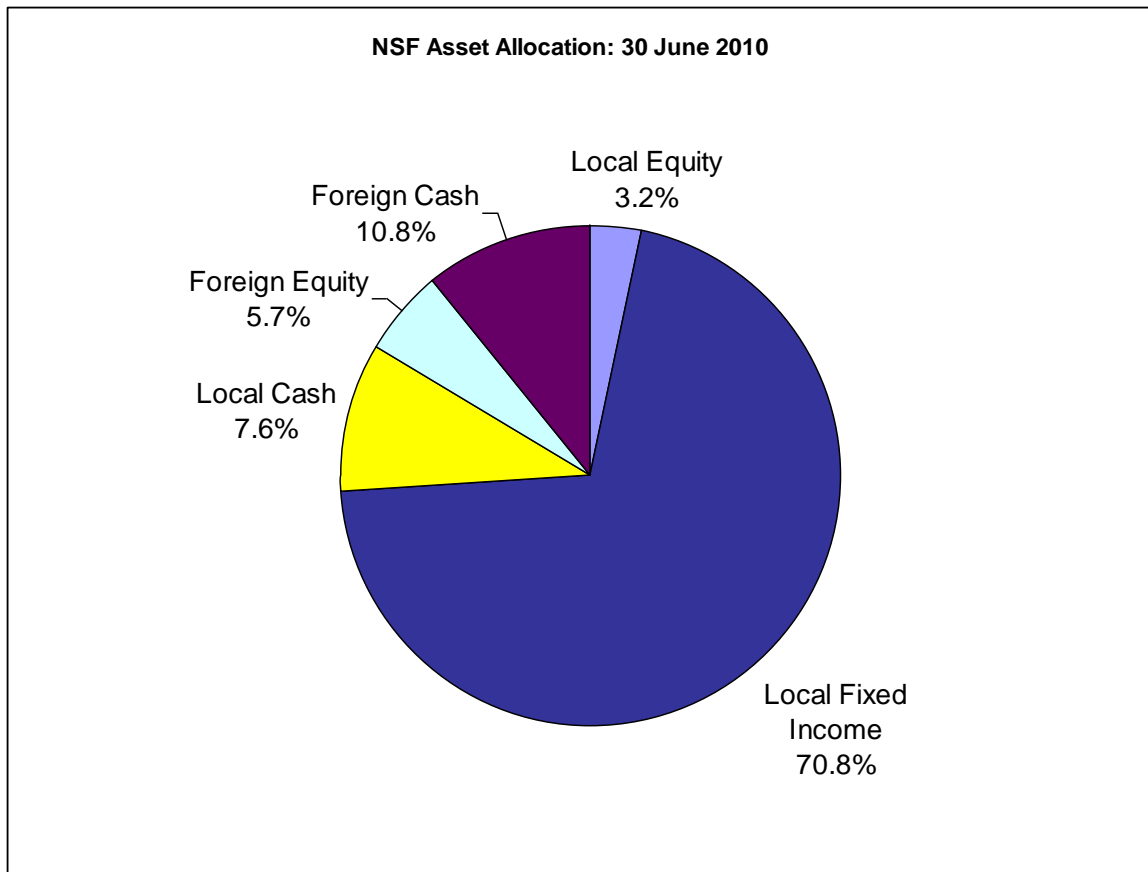
This policy is not legislated but are self-imposed by the Investment Committee in accordance with generally accepted principles of good governance.

**4.0 Position of the NPF and NSF at 30 June 2010 and changes during the year:**

During the year, The Funds grew by MUR 7.1bn (NPF) and MUR 1.9bn (NSF) respectively. In both cases the growth was largely driven by capital gains and interest income rather than net new contributions to the funds, with net contributions for NSF equaling MUR 950m and being negligible for the NPF (net contributions = annual contributions less benefit payments).

The asset allocation of the NPF and NSF (on a Market Value basis) as at 30 June 2010 was as follows:





The objective of NPF investment process is to provide a level of return adequate to meet its long-term pension obligations. Following the funding recommendations in the latest actuarial review performed by the UK Government Actuarial Department (“the GAD”) an investment return of **CPI inflation + 4%** is targeted (a 4% “real” return). In the long-term, this can’t be achieved by investing in local bonds or interest bearing instruments only. It is also not possible, or prudent, to aim to achieve this return by investing in the local market only.

Furthermore, the NPF Investment Committee aims to hold a well-diversified portfolio comprising of many investment classes, currencies and regional exposures. Diversification helps reduce the impact that a single, poorly performing investment can make on the overall portfolio. The NPF remains of the opinion that holding a well-diversified portfolio, containing a mix of different local and global asset classes, is the best way for the NPF to achieve its investment objectives. Given the nature of the liabilities of the NPF, the core holdings for both Funds comprise of local treasury bills, treasury notes, and government bonds. This continues to be the default investment of the NPF and the NSF. It means that in the absence of any identified opportunity or request for loan, money from contributions and maturities are systematically invested in government securities. However, there is no obligation for the NPF or NSF to continue to invest in government securities should the yields become inadequate relative to the Funds’ investment targets.

Both Funds are also significant holders of foreign currency deposits in USD, EUR, GBP, AUD and ZAR. The Investment Committee continues to hold these deposits for their capital security, yield potential and diversification from local holdings. During the year and going forward, the deposits will also be used to take advantage of international investment opportunities.

## 5.0 NPF/NSF performances during the year ended 30 June 2010

Both Funds showed positive returns over the last year. Performance has been good across the spectrum of asset classes, but as noted in previous briefs, the overall returns are dominated by the substantial holdings in local fixed income instruments, especially Government of Mauritius Bonds and Treasury Notes.

In the table below, we show the performance of the NPF and NSF over the short-, medium- and long-term. We have also shown how the Funds' performance compared to some local investment funds commonly used by pension schemes. The full performance of the Funds by asset class is given in the attached Appendices.

**Summarised Cumulative Returns to 30 June 2010**

		1y	3y	5y
	NPF	11.4%	32.6%	61.4%
	NSF	8.0%	32.3%	59.8%
	Anglo-Mauritius Secure Fund	8.3%	30.8%	61.8%
	Anglo-Mauritius Mixed Fund	11.6%	20.2%	76.0%
	MCB Yield Fund	7.9%	29.9%	46.5%
	MCB General Fund	3.2%	-5.5%	53.0%
	CPI (year-on-year)	2.4%	16.0%	37.2%

## 7.0 Future Strategy

In accordance with section 38 of the NPF Act, the NPF/ NSF Investment Committee is tasked with the investment of any surplus assets held by the NPF and NSF. When taking decisions, it needs to balance the following investment objectives:

- The need to maximize return
- The need for security
- The need for liquidity
- The need for national development
- Any advice from the NPF Board.

As it stands, the portfolio of the NPF is reasonably well diversified with international (incl. foreign currencies) exposure at 20.5% and Equity (incl. alternatives) exposure at roughly 18.5%. We believe that given the current financial situation and future projections, these exposures should be increased over the coming months and is actively working on finding opportunities to increase the Funds' equity exposure at attractive prices.

The Investment Committee is also continuously looking for attractive investment opportunities as well as the chance to diversify its holdings in order to better meet the stated objectives. As such, it is in the final stages of adding approximately MUR 850m worth of property exposure in the portfolio with a further potential MUR 300m in the pipeline.

Following the growth in the NPF and NSF and the increasing importance of these funds, the Investment Committee has sought external advice to improve the general management and governance structures used in managing the NPF and NSF asset portfolios. The result of the

consultation process has been a clear action plan designed to streamline the management process. The plan involves various facets such as restructuring the NPF Investment Management to segregate decision, implementation and reporting/ compliance functions, developing capacity so that valuation of the fund may be done taking into consideration market risks such as changing interest rates, equities, rental yields, etc. and further in-house capacity building.

## **8.0 Concluding remarks**

The NPF and NSF have combined assets of approximately MUR 78.8 billion and represent a tremendous fiduciary responsibility. The Investment Committee, through its ongoing efforts, aims to ensure that the expectations of all stakeholders are met by employing an independent and professional approach in line with best international practice.

We are currently living through exceptional times for investors as 2008 will be remembered for the upheaval in the financial markets which threatened the entire global financial system and as the worst year for equity investments since the Great Depression. This was, however, followed in 2009 by arguably the best year for equity investment in recent times. When looking at the year ahead, the NPF Investment Committee aims to base its decisions on the medium to long-term prospects of assets now, rather than to be influenced by their short-term price movements or past performance. Volatility is seen as an opportunity by the long-term investor rather than something to be feared.

## ANNEX

### Status of the Funds as at 30 June 2010

The status of the portfolio of Investment as at 30 June 2010 is given in the tables below.

#### NATIONAL PENSIONS FUND

##### PORTFOLIO OF INVESTMENT AS AT 30 June 2010

<b>NPF</b>	<b>Market Value @ 30/06/2009</b>	<b>Market Value @ 30/06/2010</b>	<b>% Of Portfolio @ 30/06/2010</b>	<b>Capital Gains during period</b>	<b>Income received during period</b>	<b>Net Inflow/ (outflow) during period</b>	<b>Return</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>%</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>%</b>
<b>Mauritian Government Bonds</b>	29,289,396,028	36,446,401,087	54.5%	1,359,246,511	3,527,361,952	5,797,758,548	15.18%
<b>Mauritian Equity</b>	7,010,392,752	7,735,117,847	11.6%	724,165,633	538,361,320	559,462	18.01%
<b>Loans to Institutions</b>	1,307,360,320	477,349,171	0.7%	10,611,052	80,609,821	-840,622,201	10.28%
<b>Rupee Deposits</b>	9,142,495,336	8,482,817,622	12.7%	-39,450,585	461,424,603	-620,227,129	4.78%
<b>Foreign Investments</b>	3,714,700,160	4,624,106,688	6.9%	277,348,676	-	632,057,852	6.88%
<b>Foreign Currency Deposits</b>	8,899,367,911	9,064,032,352	13.6%	-114,208,639	278,873,080	278,873,080	1.82%
<b>Other</b>	358,083,000	-	0.0%	-	-	-358,083,000	0.00%
<b>Total</b>	<b>59,721,795,508</b>	<b>66,829,824,768</b>	<b>100.0%</b>	<b>2,217,712,648</b>	<b>4,886,630,777</b>	<b>4,890,316,612</b>	<b>11.43%</b>

**NATIONAL SAVINGS FUND**  
**PORTFOLIO OF INVESTMENT AS AT 30 June 2010**

NSF	Market Value @ 30/06/2009	Market Value @ 30/06/2010	% Of Portfolio @ 30/06/2010	Capital Gains during period	Income received during period	Net Inflow/ (outflow) during period	Return
	Rs.	Rs.	%	Rs.	Rs.	Rs.	%
<b>Mauritian Government Bonds</b>	7,076,377,204	8,819,378,718	70.2%	297,400,955	622,613,487	1,445,600,558	11.80%
<b>Mauritian Equity</b>	353,143,396	404,452,770	3.2%	51,309,374	12,744,613	-	18.14%
<b>Loans to Institutions</b>	79,540,956	68,540,275	0.5%	-	4,255,293	- 11,000,681	5.75%
<b>Rupee Deposits</b>	1,141,464,297	1,198,679,073	9.5%	-	21,082,974	57,214,776	1.80%
<b>Foreign Investments</b>	502,646,306	712,876,148	5.7%	50,664,380	-	159,565,462	8.70%
<b>Foreign Currency Deposits</b>	1,532,298,303	1,353,914,818	10.8%	- 281,996,153	143,837,668	103,612,668	-8.72%
<b>Other</b>	-	-	0.0%	-	-	-	0.00%
<b>Total</b>	<b>10,685,470,464</b>	<b>12,557,841,803</b>	<b>100.0%</b>	<b>117,378,557</b>	<b>804,534,035</b>	<b>1,754,992,783</b>	<b>7.97%</b>