

NPF-NSF Investment Committee

Press Meeting of Friday 4 March 2011

Brief

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

The National Pensions Fund was created in 1978 following the proclamation 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 was set up under the National Savings Fund Act, 1995, to replace the Employees Welfare Fund.

The NPF is a defined benefit scheme whilst the NSF is a defined contribution scheme. At retirement, beneficiaries of NPF would receive a monthly pension based on a fixed formula (approximately equivalent to a third of lifetime earnings) and NSF beneficiaries would receive a lump sum largely dependent on the contributions made by employers and the performance of investment made by the fund.

2.0 NPF/NSF investment of surplus funds

An NPF-NSF Investment Committee, holding full executive powers, has been set up under the Act for the purpose of determining the manner in which surplus funds of the NPF and NSF are to be invested.

In order to assist the Investment Committee in its decisions 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. G. Gopee, Director, Management Audit Bureau

Mr. S. C. Romooah, Deputy Accountant General

Mr. K. Bunjun, Director (Economic and Finance)

Employers' representatives

Dr. A. Jeetun, Director, Mauritius Employers' Federation

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

Mr. V. Bussawah, Manager, ACCA Mauritius

Employees' representatives

Mr. M. P. Odit, Lecturer in Finance, UTM

Mr. V. Naugloo, Finance Officer, MOFED

Mr. O. Boodhram, Financial Controller, Mauritius Telecom

3.0 NPF/NSF investment principles

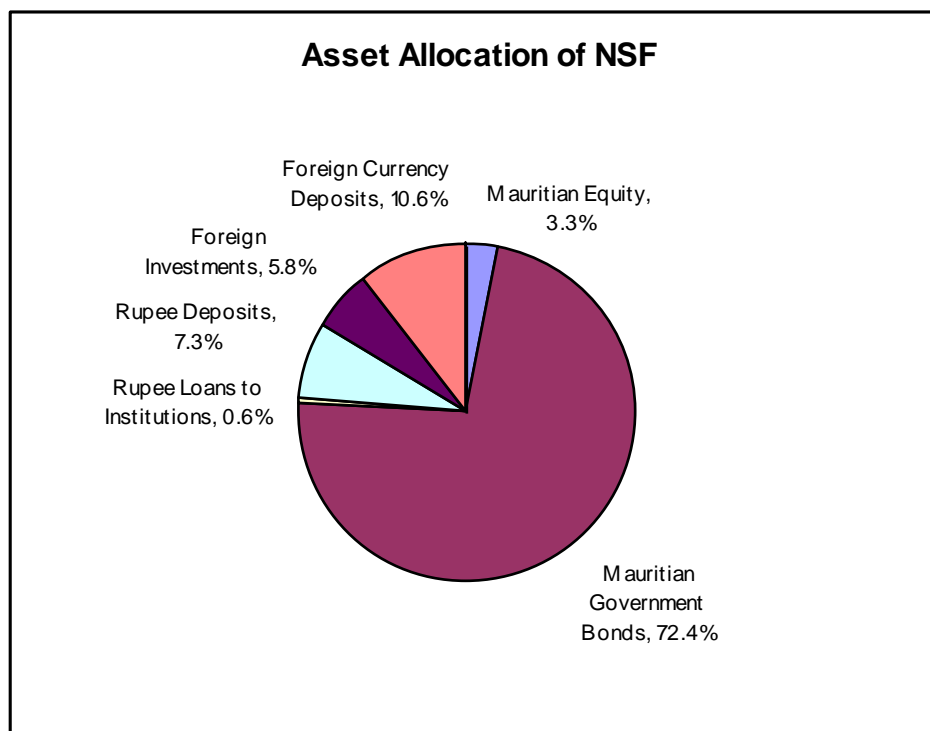
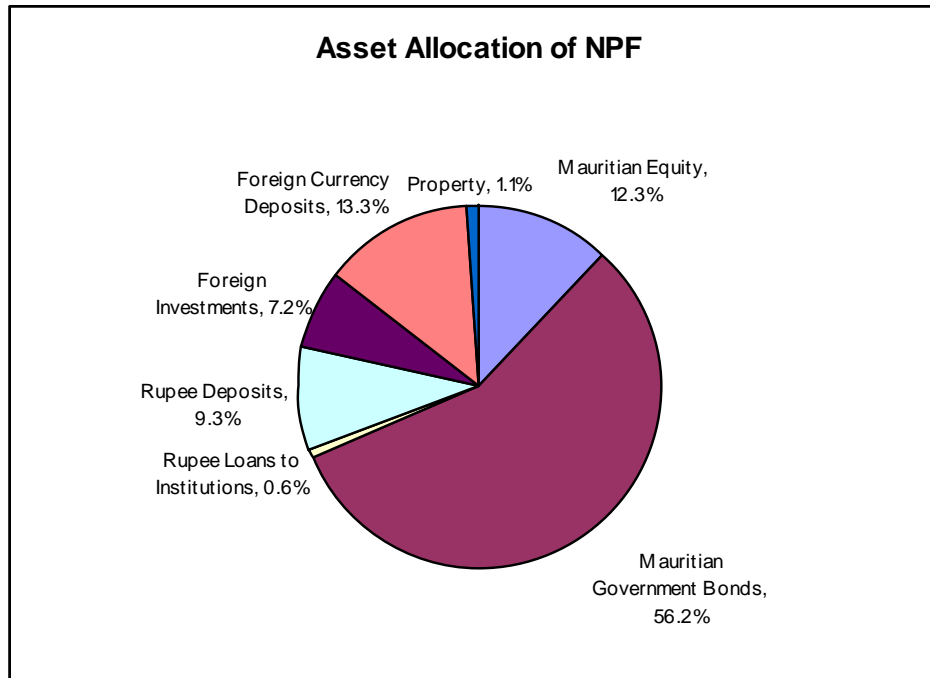
The objective of NPF investment process is to provide a level of return adequate to meet its long-term pension obligations and asset protection. As such all investment decisions are based on 3 basic investment objectives namely: return, security, and liquidity. These broadly reflect the needs as stipulated in the NPF legislation. The Investment Committee's approach to meeting these objectives and managing the risks involved as agreed and documented in the "Investment Guidelines of the National Pensions Fund" and "Investment Guidelines of the National Savings Fund".

Following the funding recommendations contained in the latest actuarial review of 2005 performed by the UK Government Actuarial Department ("the GAD") an investment return of **CPI inflation + 4%** and **CPI inflation + 3%** is targeted for the NPF and NSF respectively (a 4%/ 3% "real" return). Targeting a higher expected return would mean taking on more risk and the Investment Committee has deemed this imprudent in the light of its objectives. The process for the next actuarial review is due to start in 2011 and these targets will be reviewed (and amended if necessary), based on the findings of the GAD.

4.0 Position of the NPF and NSF at 30 December 2011 and changes during the year:

In order to meet its objectives, 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.

During the year, The Funds grew by MUR 7.3bn (NPF) and MUR 1.8bn (NSF) respectively. The asset allocations of the NPF and NSF (on a Market Value basis) as at 31 December 2010 were as follows:



We will give a brief review of some of the important investments for the past year:

- **Local Government Bonds and Bills**

As reported before, the core holdings for both Funds comprise of local treasury bills, treasury notes, and government bonds and both Funds have been active buyers of these instruments during the past year. This continues to be the largest investment of the NPF and the NSF as it has, in the past, offered the best match for the liabilities of the Funds. As local demand for these instruments have grown faster than supply, we have seen yields 1%-2% lower than a year ago. If the situation persists, the Funds will have to continue to look for attractive investment opportunities beyond this core holding.

In December 2010 the BOM held its second auction for inflation-linked bonds (the first having been held in July 2009) and both Funds were active buyers as these instruments offered good value and an ideal match for the liabilities of the Funds.

- **Property**

During the second half of 2010 the NPF purchased 2 buildings in Ebene, namely Altima Building and Ebene Heights. These acquisitions were made following a transparent process of 9 months which started in March 2010 with a request for proposal to which 7 proposals were received and subsequently evaluated, ranked and ultimately offers were made by the Investment Committee to the promoters/ owners of the final shortlist. During the same time the Investment Committee also evaluated a listed property fund and participated in a second capital raising in January 2011. This will be reflected in the current quarter's investment report.

These acquisitions form part of the diversification strategy of the investment fund, in order to optimize the return while being conscious of the need to protect the capital of the funds entrusted to the fund.

- **Private Equity**

As part of looking for investment opportunities which may add to the diversification of the Fund while still offering attractive risk-to-return profile, the NPF has added more, albeit small, private equity exposure during the year. This is an area where the Investment Committee believes it can use its size and long-term investment horizon to gain meaningful exposure to sectors or regions not represented in the listed market at a price which should provide good long-term yields for the Fund.

5.0 NPF/NSF performances during the year ended 31 December 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 31 December 2010

		1y	3y	5y
	NPF	10.9%	26.0%	60.6%
	NSF	7.6%	30.7%	60.5%
	Anglo-Mauritius Secure Fund	8.5%	30.1%	59.9%
	Anglo-Mauritius Mixed Fund	11.1%	19.7%	75.3%
	MCB Yield Fund	9.6%	33.5%	50.6%
	MCB General Fund	5.3%	0.1%	53.8%
	CPI (year-on-year)	6.1%	15.0%	39.8%

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 19.5%. The Fund also added 1.1% exposure to direct property. 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.

8.0 Concluding remarks

The NPF and NSF have combined assets of approximately MUR 83.6 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.

ANNEX

Status of the Funds as at 31 December 2010

The status of the portfolio of Investment as at 31 December 2010 is given in the tables below.

NATIONAL PENSIONS FUND

PORTFOLIO OF INVESTMENT AS AT 31 DECEMBER 2010

NPF	Market Value @ 31/12/2009	Market Value @ 31/12/2010	Percentage Of Portfolio @ 31/12/2010	Capital Gains during period	Income received during period	Net Inflow (outflow) during period	Return
	Rs.	Rs.	%	Rs.	Rs.	Rs.	%
Mauritian Government Bonds	34,165,776,630	39,560,222,439	56.2%	1,196,259,773	2,867,712,886	4,198,186,036	11.21%
Mauritian Equity	7,735,308,734	8,625,254,018	12.3%	938,757,644	542,225,850	48,812,360	19.21%
Rupee Loans to Institutions	514,428,714	441,591,028	0.6%	-	52,308,376	70,494,897	10.43%
Rupee Deposits	7,377,605,805	6,554,199,168	9.3%	24,175,215	306,986,545	799,231,421	4.05%
Foreign Investments	4,554,624,437	5,034,439,025	7.2%	423,410,085	-	56,404,503	9.24%
Foreign Currency Deposits	8,773,312,543	9,396,549,386	13.3%	547,954,913	275,593,023	75,281,929	9.35%
Property	-	780,000,000	1.1%	-	-	780,000,000	0.00%
Total	63,121,056,862	70,392,255,064	100.0%	3,079,864,411	4,044,826,680	4,191,333,790	10.92%

NATIONAL SAVINGS FUND

PORTFOLIO OF INVESTMENT AS AT 31 DECEMBER 2010

NSF	Market Value @ 31/12/2009	Market Value @ 31/12/2010	Percentage Of Portfolio @ 31/12/2010	Capital Gains during period	Income received during period	Net Inflow (outflow) during period	Return
	Rs.	Rs.	%	Rs.	Rs.	Rs.	%
Mauritian Government Bonds	8,197,811,011	9,535,665,686	72.4%	94,491,756	644,513,780	1,243,362,919	8.38%
Mauritian Equity	395,407,733	439,720,016	3.3%	42,247,079	4,795,280	2,065,204	11.87%
Rupee Loans to Institutions	79,540,956	79,540,956	0.6%	-	5,926,932	-	7.45%
Rupee Deposits	704,813,252	955,306,285	7.3%	0	16,990,748	250,493,033	2.05%
Foreign Investments	705,137,496	757,958,247	5.8%	52,820,751	-	-	7.49%
Foreign Currency Deposits	1,291,251,888	1,403,552,641	10.7%	-	12,884,353	82,167,164	5.12%
Property	-	-	0.0%	-	-	-	0.00%
Total	11,373,962,336	13,171,743,831	100.0%	176,675,233	754,393,904	1,621,106,262	7.64%