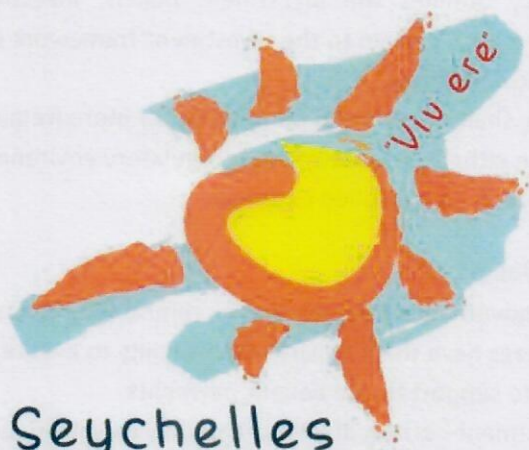




## SEYCHELLES PENSION FUND

Title	Investment Policy
Policy Number	SPF/Policy/Investment/1/2021
Effective Date	November 2021
Review Year	2022
Approved by	Chairman - Board of Trustees
	<i>John</i>

NOVEMBER, 2021



# Seychelles Pension Fund

## INVESTMENT POLICY INVESTMENT SECTION

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## 1. Introduction

- 1.1 This Investment Policy (the Policy) is prepared by the Investment Section and is approved by the Board of Trustees (the Board) of SPF. It is formulated in accordance with Seychelles Pension Fund (SPF) Act 2005 as last amended in 2019 (the Act).
- 1.2 The Policy outlines the investment beliefs, investment objectives and other key parameters that pertain to the investment framework of SPF, within the scope of sound governance practices.
- 1.3 The Policy shall be reviewed periodically, or more frequently, should there be substantial changes in either the investment or regulatory environments that SPF operates in.
- 1.4 The Policy will be published externally.

## 2. Investment Beliefs

- 2.1 A robust governance framework is a premise for good fund management practices.
- 2.2 The Trustees have the fiduciary responsibility to ensure that surplus funds are effectively invested to support future benefit payments.
- 2.3 The investment horizon of SPF is guided by its liability profile.
- 2.4 There is a trade-off between returns and risks. Assets with lower liquidity and credit quality as well as longer maturity exhibit higher risk premiums.
- 2.5 The strategic asset allocation (SAA) determines portfolio risk and return, which may be implemented through a combination of active and passive management.
- 2.6 The costs of investing matters in determining long term investment success.
- 2.7 SPF's investments should play an important development role in the Seychelles economy.
- 2.8 Diversification is made possible by investing in less correlated assets which provides risk reduction benefits.
- 2.9 Environment, Social and Governance (ESG) consideration in investments provide a robust investment management framework and supports the long-term sustainability of SPF.

## 3. Investment Objective and Horizon

- 3.1 SPF will seek to maximise long-term returns in Seychelles Rupees (SCR), being the base currency, over an investment horizon of 10 years by targeting a real rate of return of 3 % p.a., consistent with prudent levels of risk as quantified by the risk tolerance.

## 4. Risk Tolerance

- 4.1 The risk tolerance of SPF is determined by considering the target expected return for the overall investment portfolio and the downside risk, such as the expected drawdown (CVaR) at 95% confidence level. It is quantified as the annualised asset volatility over the long-term, centred on a target of 12% with an indicative band of +/- 2%.

## 5. Permitted investments

5.1 The permitted asset classes of SPF align with the requirements of the investment objective.

### 5.1.1 Cash and Cash Equivalents

- Bank balances, Certificate of Deposits (up to 3 months maturity), Treasury securities (up to 3 months maturity)

### 5.1.2 Fixed Income (Domestic and International)

- Fixed-term Deposits, Certificate of Deposits, Treasury and Government-agency securities, Supranational debt securities, securitised debt instruments and Corporate debt securities.

### 5.1.3 Equity (Domestic and International)

- Global equities, Emerging Market equities.

### 5.1.4 Real Asset (Domestic and International)

- Real Estate
- Commodities
- Infrastructure

### 5.1.5 Alternative Investments

- Private Equity

5.2 Derivatives on the allowable asset classes can be used for the purpose of hedging risk exposures.

## 6. Prohibited Investments

6.1.1 Direct lending, with the following exceptions:

- a) facilities that are outstanding.
- b) for the exclusive purpose of divesting real estate properties.

6.1.2 Structured products, with the exception of collateralised securities, such as securitised debt instruments and the assets permitted under section 5.0, as approved by the Board.

## 7. Risk Management

### 7.1 Diversification

7.1.1 Investments across various asset classes shall be managed in line with the SAA and provides for risk reduction benefits through diversification.

7.1.2 Financial derivatives may be used to mitigate market, credit and liquidity risks.

### 7.2 Credit Risk

7.2.1 Domestic investments shall carry at least the sovereign rating and/or shall be supported by the advice of an independent expert.

7.2.2 Foreign investments in:

- a) Government, Government-agency securities and Supranational entity securities shall have a minimum credit rating of BB, or the equivalent, as per the most recent rating issued by at least one of the following credit rating institutions; Moody's, Standard & Poor's or Fitch Ratings. If more than one rating is available, the lowest rating will be applicable.
  - b) Corporate debt and equity securities shall have a minimum credit rating of BBB, or the equivalent, as rated by at least one of the following credit rating institutions; Moody's, Standard & Poor's or Fitch Ratings.
  - c) Securitised debt instruments shall have a minimum credit rating of AAA, or the equivalent, as rated by at least one of the following credit rating institutions; Moody's, Standard & Poor's or Fitch Ratings.
- 7.2.3 With the exception for the Government of Seychelles, investment exposures in any credit asset and/or a corresponding counterparty, shall be limited to not more than 15% of the overall portfolio.

### 7.3 Liquidity Risk

- At least 30% of the asset portfolio shall be invested in liquid assets, which are assets that can readily be converted to cash at negligible or no loss.

### 7.4 Market Risk

- Market risk shall be managed by the defined risk tolerance under clause 4.1, by the pursuit of diversification of investments across asset classes, currencies, factor exposures and investment strategies, and by monitoring the compliance to the approved limits defined in this policy and in the investment guidelines.

### 7.5 Valuation Risk

- Valuation of investments shall be done in line with the Valuation Policy for Investment Assets of SPF, which ensures that investment reporting is transparent, fair and reliable.

### 7.6 Operational Risks

- Investment processes shall be managed through the segregation of responsibilities, adherence to a code of ethics governing the conduct of staff members as well as having adequate infrastructure.
- Developing a culture of risk management for all staff within the organisation and a continuous cycle of risk identification, assessment, response, monitoring and reporting

## 8. Strategic Asset Allocation, Investment Benchmarks and Risk Tolerance

- 8.1 The SAA shows the long-term risk-return relationships between different asset classes and how the risk budget of SPF should be allocated in the long-run between various asset

classes for a given set of constraints. The long-term performance target numbers are backed by a set of capital markets and economic assumptions.

8.2 The SAA shall be reviewed annually.

Asset Classes	Min	Target Allocation	Max	Long term performance Target (net of fees)	Asset Class Benchmark
Cash and Cash Equivalents	4%	5%	6%		
<b>Fixed Income</b>	<b>10%</b>	<b>25%</b>	<b>35%</b>		
<i>Domestic Fixed Income</i>	10%	15%	25%	CPI+1% p.a.	
<i>International Fixed Income</i>	0%	10%	15%	1.5% p.a.	Bloomberg Barclays Multiverse Global Aggregate Total Return Index Value Unhedged USD.
<b>Equity</b>	<b>0%</b>	<b>29%</b>	<b>55%</b>		
<i>Domestic Equity (Listed and Unlisted)</i>	0%	15%	25%	6% p.a.	
<i>International Equity</i>	0%	14%	30%	6% p.a.	
<i>*Global</i>	0%	4%	15%		MSCI All Country World Index – ACWI 100% Hedged to USD
<i>*Emerging Markets</i>	0%	10%	15%		S&P All Africa Ex-South Africa Capped TR index Unhedged
<b>Real Asset</b>	<b>0%</b>	<b>40%</b>	<b>60%</b>		
<i>Real Estate</i>	0%	30%	50%	8% p.a.	
<i>Commodities</i>	0%	5%	5%	5% p.a.	Dow Jones Commodity Index
<i>Infrastructure</i>	0%	5%	5%	5% p.a.	

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Alternative Investments	0%	1%	2%		
Private Equity	0%	1%	2%		

Expected Real Return (10 years.) <sup>1</sup>	3%
Asset Volatility	12.7%

### 8.3 Passive and Active asset management

- SPF may adopt passive and/or active management strategies across asset classes.
- A risk budget measured as the annualised tracking error will be defined by specific investment guidelines for actively managed portfolios.
- Temporary breaches of the asset allocation benchmarks are allowable only if caused by sudden total market price (including currency) movements and portfolio rebalancing operations are outside the control of SPF.

## 9. Environment, Social and Governance (ESG)

9.1 ESG factors should be considered in investments, which aligns with SPF's strategy to further increase its engagement in sustainable development practices as a means to further support its long-term sustainability.

9.2 SPF shall strive to become signatory of the United Nations Principles of Responsible in the foreseeable future.

## 10. The Investment Governance Process

10.1 The Board shall approve all investments made by SPF, except for those exceeding the value of SCR75 million, which requires the approval of the Minister responsible for the Finance portfolio.

10.2 The Board shall approve the disposal of investment assets held by SPF, except for those valued for SCR15 million or more, which requires the approval of the Minister responsible for the Finance portfolio.

10.3 The requirements of sections 10.1 and 10.2 are not applicable for transactions in Treasury Bills and Bonds.

10.4 The Board shall appoint all investment-related engagements with service providers, such as external asset managers, consultants, brokers, dealers, and custodians. The process must be undertaken in line with the procurement policy of SPF.

10.5 The Finance and Investment Committee, as vested by the Board, shall review the investment practices of SPF whenever deemed necessary by the Board.

10.6 In line with the Act, the advice of independent persons having expertise in the relevant field into which an investment is to be made, shall be sought in order to support the decision-making process of the Board.

<sup>1</sup> Assumption of projected 3% inflation rate over the next 10 years

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10.7 Under all circumstances, SPF should strive to get representation on the Board of Directors of all its target companies, especially for those that SPF is expected to have more than 20% ownership of the share capital.

10.7.1 The nominations of potential representatives of SPF for such roles, shall be submitted by the Finance and Investment Committee to the Board for its approval.

## 11. Reporting

- 11.1 The Investment Department shall report on the portfolio composition, market conditions, investment risk, performance as well as short-term operational strategies to the Management Investment Committee and/or the Chief Executive Officer on a monthly basis, and to the Finance and Investment Committee of the Board on a quarterly basis.
- 11.2 The Risk Division must report on operational and enterprise-related investment risks to the Risk Management Committee on a monthly basis and to the Board on a quarterly basis.
- 11.3 The Board must submit an annual report on the investment activities of SPF to the Minister responsible for the Finance portfolio and to the national authority supervising SPF.





