



Securities and Exchange Commission of Pakistan
Specialized Companies Division
Pensions Wing

Circular No. 36 Of 2009

No. SCD/PW/IP(R-24)

December 10 2009

Subject: Investment and Allocation Policies For Pension Funds Authorized Under The Voluntary Pension System Rules, 2005

The Securities and Exchange Commission of Pakistan (the 'Commission') is pleased to specify the following investment policy and allocation policy for Private Pension Funds in pursuance sub rule (3) & (4) of rule 24 of the Voluntary Pension System Rules of 2005 (the 'VPS Rules') in supersession of Circular 8 of 2005 dated July 15, 2005:-

Investment Policy

- 1) The Investment Policy covers both conventional and Shariah compliant Pension Funds and the investment limits are relevant for both kinds of Pension funds unless specifically mentioned differently in the Policy stated herein below.
- 2) The Pension Fund shall consist of three sub-funds, namely the Equity Sub-fund, the Debt Sub-fund and the Money Market Sub-fund.
- 3) A PFM shall specify in the offering document the type of securities, each sub-fund shall invest in, and the risks associated with investment in such securities.
- 4) A Pension Fund Manager (PFM) shall invest assets of the Pension Fund in a transparent, efficacious, prudent and sound manner.

- 5) All investment and disinvestment decisions shall be taken by an Investment Committee (IC) to be constituted by all PFMs. In case same IC takes decisions for both mutual funds and pension funds, the decision taken for each kind of funds shall be separately identified and recorded in the minutes.
- 6) Conditions of membership and conduct of business by an Investment Committee shall be the same as provided in regulation 37 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 till such time separate regulations are notified for pension funds.
- 7) A PFM shall open or close or arrange to open or close an account with a bank, broker or depository for the Pension Fund with the approval of its board of directors. Where PFM has obtained approval from the board to open account(s) with a particular bank, it may open accounts with any branch of that bank with approval of the Investment Committee and shall obtain approval of its board of directors in the subsequent meeting.
- 8) A PFM shall not invest assets of Pension Fund in securities of the PFM or any of its associated companies;
- 9) A PFM shall be responsible for managing and meeting the liquidity requirements of the Pension Fund and the Participants thereof.
- 10) Exposure to a single group shall not exceed twenty per cent (20%) of the Net Assets of a Pension Fund. [for the purposes of this limit the group shall have the same meaning as provided in the 'Explanation' to clause (a) of sub regulation (10) of regulation 55 of the Non Banking Finance Companies and Notified Entities Regulations, 2008].
- 11) A PFM shall carry out necessary due diligence for executing investment and disinvestment decision(s) in a security. Rating of an issue or the issuer, wherever mentioned herein below, shall be only one of the factors to be considered by a PFM and it shall in no way be construed a recommendation or permission of the Commission to any PFM to invest in any security solely on the basis of rating. However, a PFM shall ensure that the security and the issuer meet the minimum rating scale referred in the Investment Policy to stay qualified for continued investment.



- 12) A PFM shall deposit or place assets of Shariah Compliant Pension Fund with Islamic Commercial bank or Islamic window of a commercial bank. A PFM may open current account with conventional bank if it is in the interest of the pension fund to do so. The conditions for opening of account with a conventional bank shall remain the same as specified herein above.
- 13) A PFM shall invest assets of Shariah compliant Pension Fund in those securities which are declared eligible by the Shariah Advisor of the Pension Fund.
- 14) A PFM shall not invest or enter into contract to invest assets of a Pension Fund in securities for which the PFM or any of its connected party is or has been involved, during the past six months, as an arranger, manager, adviser, consultant, underwriter or sub underwriter.
- 15) Investment in securities issued by companies of any one sector (sector shall be same as classified by the Stock Exchanges) shall not exceed twenty percent (20%) of the Net Assets of a Pension Fund unless specified otherwise in the Investment Policy specified herein below. These limits shall, however, be reviewed for adjustments as and when classification of sectors is changed by the stock exchanges.
- 16) A PFM shall not invest assets of Pension Fund in securities of a company if equity is less than paid-up capital of the company, irrespective of the limits stated in the Investment Policy.
- 17) A PFM shall not invest or deposit or place assets of PF if the issuer or the bank or the security does not fulfill the minimum rating specified in the policy or has not been assigned stable or positive outlook.
- 18) Limits of investment relevant to each sub-fund are specified as follows.



Equity Sub-fund

- a) Assets of an Equity Sub-fund shall be invested in equity securities which are listed on a Stock Exchange or for the listing of which an application has been approved by a Stock Exchange.
- b) Assets of an Equity Sub-fund shall primarily be invested in securities of those listed companies, which have minimum operational record of five (5) years subject to conditions stated in paragraph c) below.
- c) A PFM, for the reasons to be recorded by its Investment Committee in the minutes for the decision, may invest up to five per cent (5%) of Net Assets of an Equity Sub-fund in securities of listed companies having operational record of less than five years and where the paid up capital of a company is less than equity but investment in securities of any one such company shall not exceed one percent (1%) of Net Assets of an Equity Sub-fund or the paid-up capital of that company; whichever is lower.
- d) At least ninety percent (90 %) of Net Assets of an Equity Sub-fund shall remain invested in listed equity securities during the year based on quarterly average investment calculated on daily basis;
- e) Investment in equity securities of any single company shall not exceed five percent (5%) of Net Assets of an Equity Sub-fund or paid-up capital of that single company, whichever is lower. A Shariah Compliant Fund may invest in equity securities of any single company up to ten percent (10%) of Net Assets of an Equity Sub-fund or paid-up capital of that single company, whichever is lower;
- f) A PFM may invest up to twenty five percent (25%) of Net Assets of a Shariah compliant Equity Sub-fund in equity securities of companies belonging to a single sector as classified by Stock Exchange(s). The limit shall, however, be reviewed for adjustments as and when classification of sectors is changed by the stock exchanges;
- g) A PFM may invest any surplus (un-invested) funds in government treasury bills or government securities having less than one year time to maturity or keep as deposits with



scheduled commercial banks which are rated not less than "A" by a rating agency registered with the Commission.

Explanation: Deposits up to ten percent (10%) of Net Assets of a Pension Fund with scheduled commercial banks for a period of less than ninety (90) days shall not be counted towards exposure limits.

- h) A PFM shall not deposit more than ten per cent (10%) of Net Assets of the Equity Sub-fund in a single bank.

Explanation: The above-mentioned limit shall not apply during initial six months of the launch of the Equity Sub-fund if the amount is deposited with a commercial bank owned by Federal Government or scheduled commercial bank rated "AA^{plus}" or above with stable outlook.

A PFM shall adhere to the limits stipulated herein above; however, if the limits are breached merely due to corporate actions including take up of right or bonus issue(s) or due to change in Net Assets resulting from fluctuation in price of equity securities, the PFM shall regularize the deviation within three months of the breach unless, on a written application of PFM, the said period of three months has been extended by the Commission.

Debt Sub-fund

- a) The Debt Sub-fund shall consist of debt securities and such other assets as specified herein below.
- b) The weighted average time to maturity of securities held in the portfolio of a Debt Sub-fund shall not exceed five (5) years provided however a sub fund already in operation but not complaint shall adhere to this clause within one year of the issue of this Circular;
- c) At least twenty five per cent (25%) Net Assets of the Debt Sub-fund shall be invested in debt securities issued by Federal Government and up to 25% may be deposited with banks having not less than "AA^{plus}" rating with stable outlook so that both these investments shall make up a minimum fifty per cent (50%) of Net Assets of a Debt Sub-fund.



- d) In case the Shariah compliant securities issued by Federal Government are not available to comply with clause c) above, the assets of a Shairah Compliant Debt Sub-fund may be deposited in Islamic commercial banks, having not less than "A^{plus}" rating or Islamic windows of commercial banks, having not less than "AA" rating, or may be invested in Islamic bonds or Sukuks issued by entities wholly-owned by the Federal Government or in such Islamic securities which are fully guaranteed by the Federal Government.
- e) Investment in all other securities including those issued by provincial government, city government, government corporations and by corporate entities shall be subject to the following conditions:-

Credit Rating	Investment Limits
Rating of security "AA" or higher. Rating of the issuer (excluding provincial or city government) "AA" or higher	Exposure up to 7.5% of a) Net Assets of a Debt Sub-fund; or b) size of any issue; or c) size of total issues by one issuer. whichever is lower.
Rating of security "A" to "A ^{Plus} " or higher. Rating of issuer (excluding provincial or city government) "AA" or higher.	Exposure up to 5% of a) Net Assets of a Debt Sub-fund; or b) size of any issue; or c) size of total issues by one issuer. whichever is lower.
Rating of the security "A ^{Minus} " or higher. Rating of the issuer (excluding provincial or city government) "A ^{Minus} " or above.	Up to 2.5% of a) Net Assets of a Debt Sub-fund; or b) size of any issue; or c) size of total issues by one issuer; or d) paid-up capital of the issuer; whichever is lower. The outstanding life of the security rated "A ^{Minus} " shall not exceed five years.



- f) Exposure to securities issued by companies of a single sector shall not exceed twenty percent (20%) except for banking sector for which the exposure limit shall be up to thirty percent (30%) of Net Assets of a Debt Sub-fund.
- g) Deposits in a single bank shall not exceed ten per cent (10%) of Net Assets of the Debt Sub-fund.

Explanation: The aforesaid limit shall not be applicable during initial six months of the launch of a Fund if the amount is deposited in a scheduled commercial bank owned by Federal Government or a scheduled bank having "AA^{plus}" or higher rating.

Money Market Sub-fund

- a) The weighted average time to maturity of Net Assets of a Money Market Sub-fund shall not exceed ninety (90) days;
- b) Time to maturity of any asset in the portfolio of Money Market sub fund shall not exceed six (6) months ;
- c) The following limits on investment shall be followed by a Money Market Sub-fund:-

Entity/ Security	Investment
Federal Government securities	No limit.
Deposits with Commercial Banks having "A ^{Plus} " or higher rating	No limits: provided that deposit with any one bank shall not exceed 20% of Net Assets of a Money Market Sub-fund.
Provincial or city government or government corporations or corporate entities	Up to 20% of Net Assets of the sub-fund subject to the limits specified below for each category:-
i) Provincial government	Up to 10% of Net Assets of a Money Market Sub-fund or the issue, whichever is lower.
ii) City government	Up to 5% of Net Assets of a Money Market Sub-Fund or the issue, whichever is lower.



iii) Government corporations with "A" or higher rating of entity and the instrument.	Up to 5% of- a) Net Assets of a Money Market Sub-fund; or b) size of the issue; c) size of all issues of one issuer. whichever is lower.
iv) Corporate entities with "A Plus" or higher rating of entity and the instrument	Up to 5% of a) Net Asset of a Money Market Sub-fund; or b) size of the issue; or c) size of all issues of one issuer. whichever is lower.

Note: Rating agency must be duly registered with the Commission and the rating scale shall include equivalent ratings denoted by whatever letters or symbols.

Allocation Policy

- 1) A Pension Fund Manager shall offer at least four allocation schemes for a Participant to choose from, based on the following criteria:-

Allocation Scheme	Debt Sub-Fund	Equity Sub-Fund	Money Market Sub-Fund
High Volatility	Min 20%	Min 65%	Nil
Medium Volatility	Min 40%	Min 35%	Min 10%
Low Volatility	Min 60%	Min 10%	Min 15%
Lower Volatility	Min 40%	Nil	Min 40%

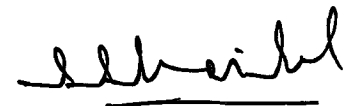
** Volatility here means the downwards or upwards change in Principal amount invested owing to change in price of the securities in the portfolio of a sub-fund.*

- 2) Given the above criteria, a Participant will choose the percentage of contributions that go in to each sub-fund for individual allocation schemes. The allocation and percentages will not be changed more than twice in a financial year.
- 3) If a Pension Fund Manager wants to provide additional allocation schemes or products (e.g. Lifecycle products), it may do so subject to



the approval of the Commission. Up to two additional schemes/ products may be approved in the first five years.

- 4) A Participant shall have the option to select any one of the allocation scheme/ products offered by the Pension Fund Manager.
- 5) In the event no choice is made by the Participant, a PFM, keeping in view the profile and age of the Participant, shall allocate the contributions preferably to an approved Lifecycle Allocation Scheme specified, and if such a scheme has not been offered, then allocate contributions to either Low Volatility (formerly Conservative Allocation Scheme) or Lower Volatility (formerly Very Conservative Allocation Scheme).
- 6) A Pension Fund Manager shall get an undertaking from every Participant that he/ she has no objection to the investment and allocation policy determined by the Commission and he or she is fully aware of the risks associated with the investment policy and the allocation policy chosen by him or her.
- 7) The Pension Fund Manager shall make reallocation of the units between the sub-funds at least once a year to ensure that the allocation of units of all the Participants are according to the percentages selected by the Participants or where no selection has been made according to the prescribed allocation policy.



Salman Ali Shaikh
Commissioner SCD

10/12/2009.