



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Specialized Companies Division
Insurance Department

Circular No. 8 of 2005

No. ID-SEC/VPS/01/2005

July 15, 2005

Subject: Investment Policy under Rule 24(3) and Prescribed Allocation Policy for Selection by the Individual Participant under Rule 14(3) and 14(4) of the Voluntary Pension System Rules, 2005

Further to the notification of the Voluntary Pension System Rules, 2005, the Commission has prescribed the investment policy under Rule 24(3) (enclosed as Annexure - I) and prescribed allocation policy (enclosed as Annexure - II) under Rules 14(3) and 14(4).

2. All pension fund managers are advised to follow the aforesaid policies for investment as well as allocation of the contribution received from the participants/employers under Voluntary Pension System.

(SALMAN ALI SHAIKH)
Commissioner (SC)

Distribution:

1. Chief Executives of all Pension Fund Managers
2. Chief Executives of all Asset Management Companies
3. Chief Executives of all Life Insurance Companies
4. The Chairman, Mutual Funds Association of Pakistan



Annexure - I

Investment Policy under Rule 24(3) of the Voluntary Pension System Rules, 2005

The following investment policy shall be followed by the Pension Fund Managers to invest the contributions received from the participants under the Voluntary Pension System Rules, 2005.

- (1) The Pension Fund Manager shall make investments of the pension fund in a transparent, efficacious, prudent and sound manner.
- (2) The pension fund shall be divided into three sub-funds to be called the Equity sub-fund, the Debt sub-fund, and the Money Market sub-fund.
- (3) Investments by the Equity sub-fund shall be made as follows, namely:-
 - (a) The Equity sub-fund shall have a minimum investment in listed shares of ninety per cent of its net asset value;
 - (b) Investments in listed shares of any one company shall not exceed five percent of the net asset value of the sub-fund. In case of green field companies investment in any one company shall not exceed one percent of the net asset value of the sub-fund. However, total investment in green field companies shall not exceed five percent of the net asset value of the sub-fund;
 - (c) Investments in listed shares of any one sector as per classification of stock exchanges shall not exceed twenty percent of the net asset value of the sub-fund;
 - (d) Investment in shares or other listed securities of a particular company shall not exceed ten percent of paid up capital of that company;
 - (e) Any amount remaining un-invested shall be kept in treasury bills, securities of less than one year maturity or bank deposit;
 - (f) Investments shall be made in shares of listed companies, which have a minimum operational record of five years;
 - (g) No investment shall be made in shares issued by the Pension Fund Manager or any associated company thereof; and
 - (h) The sub-fund shall not enter into any transaction in any security other than a security which is listed on a stock exchange, or in the case of green field

companies, security for the listing of which an application has been made to a stock exchange.

Provided that if the limits prescribed in these guidelines are exceeded, merely due to price fluctuations in equities and/or the issuance of bonus shares/ right shares, no changes of investment in the sub-fund shall be required to be made.

- (4) Investments by the debt sub- fund shall be made as follows, namely:-
- (a) The debt sub-fund would consist of tradable debt securities with weighted average duration of the fund not exceeding ten years;
 - (b) At least fifty percent of the assets in the sub-fund will be invested in securities issued by the Federal Government; and
 - (c) Investment in all other securities, including those issued by government corporations, provincial or city governments, or by corporate entities would be subject to the following conditions, namely:-
 - (i) Securities carrying credit rating "AA" or higher, up to 5% of the sub-fund in any such security (or the aggregate of securities issued by a single issuer); and the investment shall also not exceed 5% of the size of the issue;
 - (ii) Securities carrying credit rating of "A" or "A-plus": up to 3.75% of the sub- fund in any such security (or aggregate of securities issued by a single issuer); and the investment shall also not exceed 5% of the size of the issue, and
 - (iii) Securities carrying credit rating of "A-minus" or "BBB" - up to 2.5% of the fund in any such security (or the aggregate of securities issued by a single issuer), provided that the outstanding life of the security does not exceed five years; and the investment shall also not exceed 2.5% of the size of the issue.
- (5) Investments by the Money Market sub-fund shall be made as follows, namely:-
- (a) The sub-fund would consist of short term debt instruments with average duration not exceeding one year;
 - (b) There would be no restriction on the amount of investment in securities issued by the Federal Government, and;
 - (c) Investment in all other securities, including those issued by government corporations, provincial or city governments, or by corporate entities,

would be allowed up to 20% of the sub-fund. These securities shall carry a minimum credit rating of "A-minus"; and

- (d) There shall be no restriction for amount of investment in bank deposits. However, investment in bank deposits of any one bank shall not exceed 25% of the sub-fund.
- (6) Any of the sub-funds may invest in Sharia compliant securities as they become available in the markets, subject to the provisions in rules (3), (4) and (5).
- (7) A Pension Fund Manager, after successfully managing the Equity, Debt and Money Market sub-funds of the pension fund for at least five years can apply to the Commission for establishment of additional sub-funds for investment in other classes of assets, including securitised investment in real estate or in assets outside Pakistan. The Commission may allow or disallow the establishment of such sub-funds taking into account the policy of the Federal Government.
- (8) Any investment made in a security for any of the sub-funds, for which any connected party of the Pension Fund Manager is or has been involved, during the past twelve months, as an arranger, manager, adviser, consultant or underwriter shall be reported to the Commission within six working days of entering into such transaction. The Pension Fund Manager shall also provide full justification for such investment. The Commission may, after giving the Pension Fund Manager an opportunity of being heard, direct him/her to dispose off such investments.

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Annexure - II

Prescribed Allocation Policy for Selection by the Individual Participant under Rule 14(3) and 14(4)

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

Allocation Scheme	Debt sub-fund	Equity sub-fund	Money Market sub-fund
Aggressive	min 20%	min 65%	Nil
Balanced	min 40%	min 35%	min 10%
Conservative	min 60%	min 10%	min 15%
Very Conservative	min 40%	Nil	min 40%

- (a) Given the above criteria, the Pension Fund Manager will choose the percentage of contributions that go into each sub-fund for individual allocation schemes. The percentages will not be changed more than once in a given calendar year;
- (b) If any Pension Fund Manager wants to provide additional allocation schemes or products (e.g. Lifecycle products), they can do so subject to approval by the Commission. Up to two additional schemes/ products may be approved in the first five years; and
- (c) The participant shall have the option to select any one of the allocation schemes/ products offered by the Pension Fund Manager.
- (2) Default option if participant fails to make a choice of scheme/ product - In the event of no choice made by the participant, the Pension Fund Manager will have the right to allocate the contributions to either the Conservative Allocation Scheme or the Very Conservative Allocation Scheme, as deemed fit.
- (3) The Pension Fund Manager would get an undertaking from the participant that he/she has no objection to the investment/allocation policy determined by the Commission and he/she is fully aware of the risks associated with his/her policy.

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