

STATEMENT OF INVESTMENT PRINCIPLES



MALDIVES PENSION ADMINISTRATION OFFICE
February 2013

1 INTRODUCTION

- 1.1 The Pension Act (08/2009) requires the establishment of an Investment Committee to prepare maintain and publish a Statement of Investment Principles (SOIP) governing the decisions about investments of Contributions made by the Members of the Maldives Retirement Pension Scheme (MRPS). MRPS is a Defined Contribution Scheme funded by fixed percentage contributions from employees and employers.
- 1.2 Under the Pension Act, it is obligatory for both the employer and the employee to participate in the MRPS. Each person who is considered a Member of the MRPS shall pay a minimum of 7% of the employee's pensionable wage, and the employer shall also pay a minimum of 7% of the pensionable wage to the scheme. Such contributions to the scheme shall be made by employees aged 16 to 65 years. No contributions shall be made for employees who are more than 65 years of age.
- 1.3 The policies determined by the Investment Committee shall be executed upon approval of the Board of the MPAO. The Board of the MPAO shall review and revise the SOIP within a specified period of time on a regular basis. The Investment Committee may seek local and foreign expertise in order to formulate policies on investment as stipulated in the Pension Act.
- 1.4 The SOIP explained in this document has been approved by the Board on 11 February 2013 and is fully implemented from that date.

2 SPECIFIC DUTIES

- 2.1 The Investment Committee is mandated to formulate basic investment guidelines in compliance with the regulations of the Securities Market Regulator, the Capital Market Development Authority and with independent professional advice.
- 2.2 The SOIP constitutes the manner in which requirement of Pension Act shall be fulfilled, instruments in which the Pension Assets may be invested, the performance benchmarks to be achieved from the investment of pension, identification of the major risks involves in investing the pension assets and risk management strategies, determines the investment methods and means of profit yields, and the method of reviewing the guidelines on investments.
- 2.3 With the approval of the Board of the MPAO, the Investment Committee shall review the guidelines of investments on a regular basis to ensure that Pension Assets are invested in a manner to maximize profits for the Members of the Scheme, with due regard to risk. Accordingly, investment decisions shall take into consideration security of assets, diversification of investments, risk and return trade-off and maintenance of adequate liquidity.

3 INVESTMENT OBJECTIVES

- 3.1 The Investment Objectives of the MRPS are met through a range of Investment Portfolios suitable to meet the needs of the Members of the MRPS that ensure as far as practical in the circumstances the following outcomes to
 1. Maximize the value of the Pension Contributions to the MRPS, with due regard to risk;
 2. Maintain the purchasing power of Members' savings in real (i.e. post-inflation) terms;
 3. Provide reasonable benefits commensurate with the cost of living at retirement; and to
 4. Provide protection for accumulated assets in the years approaching retirement against a sudden (downward) volatility in the capital value.
- 3.2 Each Investment Portfolio is part of the MRPS and will be separately valued and unit prices for contributions and withdrawals will be published daily, except for Fridays, Saturdays and public holidays.
- 3.3 The Investment Portfolios and their objectives and investment policy are described in Section 9 of the SOIP.

4 GOVERNANCE

- 4.1 The MPAO governance philosophy is to continuously strive to attain high levels of accountability, transparency, responsibility and fairness in all aspects of operations. The MPAO will remain committed towards protection and enhancement of overall long term value to MRPS Members and society.
- 4.2 The MPAO will continue its pursuit of achieving these objectives through adoption of competitive strategies, prudent planning, strategic monitoring and mitigation of risk. The MPAO will follow sound practices and conduct its operations in a transparent manner. The MPAO will remain committed to ensuring observance of corporate governance principles in its all dealing.

- 4.3 As part of the governance process and following the policy of ensuring transparency, accountability, integrity and compliance of law, the MPAO has constituted the Audit Committee of the Board.
- 4.4 The strategic management of MRPS assets is fundamentally the responsibility of the Board of the MPAO. Accordingly, the Board of the MPAO takes expert advice on strategic issues from their investment experts. The Board of the MPAO is also responsible for the executive decisions, such as tendering to select External Asset Managers, Custodians, Open-ended Vehicles; contracting with the fiduciaries; demanding and receiving information from the fiduciaries with respect to information regarding all transactions related to the Scheme.
- 4.5 The Pension Act 2009 allows the Board of the MPAO to make direct investments. These are investments made by the discretion of the Board of the MPAO directly, not through an Asset Manager. The Board of the MPAO will ensure that the MPAO have sufficient skills and resources to carry out the investment policy being applied at any one time.
- 4.6 Subject to the appropriate regulatory structure being in place, the majority of investment activities will be undertaken through suitably qualified Asset Managers. Where the day-to-day management of those assets is delegated to professional asset managers, the Investment Committee will ensure that the Investments will conform with the requirements of the Pension Act and do not contravene the Investment Policy and Strategy in the SOIP.
- 4.7 Additionally, the Investment Committee is responsible for monitoring the qualitative performance of the Asset Managers employed to ensure that they remain suitable for the MRPS. These qualitative measures include, inter alia, changes in ownership, changes in personnel, standard of administration, and compliance with regulatory bodies/best practice guidelines.

5 RISK MEASUREMENT AND MANAGEMENT

- 5.1 The Investment Committee is mindful of the following risks:
- Risk of not meeting the reasonable expectations of Members;
 - Risk of asset managers not meeting their performance targets;
 - Risk of an Investment Portfolio being unsuitable for the requirements of some Members;
 - The risk of fraud, poor advice or acts of negligence.
- 5.2 The Board of the MPAO have put certain measures in place to reduce the possibilities of risk affecting the value of assets of MRPS and its Members.
- 5.3 The Board of the MPAO ensures that all appointed Asset Managers, Custodians, advisers and other third party service providers are suitably qualified and experienced through rigorous due diligence.
- 5.4 Asset Managers, Custodians, advisors and other third party service providers are appointed through competitive bidding, the terms, conditions, procedures and other requisites of which are determined by and subject to approval by the Board of the MPAO. Members of the Scheme will be indemnified through inclusion of suitable liability and compensation clauses in all contracts for professional services received.
- 5.5 In addition, risk measurement in terms of the performance of the assets compared to the benchmarks will be reviewed quarterly, along with monitoring any significant issues with the Asset Managers that may impact their ability to meet the performance targets agreed in the respective agreements.
- 5.6 As a further risk mitigation measure, the Board of the MPAO shall make adjustments to the investment of the pension assets within six (6) months from the date on which the policies of the SOIP were breached or on the date when valuation of assets indicated that there had been such a breach of the policies of the SOIP, whichever comes later.
- 5.7 Moreover, the Board of the MPAO makes adjustments to the investment of pension assets taking into account changes in financial market prices, foreign currency exchange rates, economic relations and organizational arrangements between entities in which pension assets are invested, and circumstances arising beyond control of the Asset Managers.

6 SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

- 6.1 The MPAO wishes to promote corporate social responsibility and good practice amongst all entities in which it invests. Thus, the Investment Committee monitors investee organizations and companies to ensure they meet standards of acceptable practice in relation to their business, employees, customers and key stakeholders.
- 6.2 The Investment Committee considers that the pursuit of the following standards aligns the interests of the Members with those other stakeholders and society as a whole over the long term.
- Corporate environmental policy;
 - Human Rights;
 - Employment Standards.

7 REGULATORY STRUCTURE

- 7.1 The investment of MRPS assets is subject to the Maldives Pension Act, the investment strategy as determined by the SOIP, recommendations within that strategy made by the Investment Committee and approved by the MPAO Board and within the regulatory structure determined by the Securities Regulator, the Capital Market Development Authority.
- 7.2 The regulatory structure for custodians, asset managers, approval of collective investment funds in the Maldives, and suitable regulatory structures for investing overseas is determined by the Securities Regulator, the Capital Market Development Authority.
- 7.3 On the publication date of this SOIP, no regulations had been published on asset managers, approval of collective investment funds in the Maldives, and suitable regulatory structures for investing overseas.
- 7.4 A custodian was appointed on 31st August 2010
- 7.5 Until further notice, investments will be made as direct investments by the MPAO.

8 ON INVESTMENTS

Investment Policy is subject to the Regulatory Structure outlined in this SOIP, taking account of the interests of Members and applied to each Investment Portfolio. As such, in all investments and dealings, transparency, prudence, accountability and due diligence will be strictly adhered to in the overall framework of diversification, liquidity, security and maximum return with due regard to risk for the Members

8.1.1 HOW MRPS ASSETS MAY BE INVESTED

- a. Investment returns are a combination of interest, dividends and capital gains/losses.
- b. The present investment policy is shown in 9.1.1. and may be expected to last until a superseded by amendments to SOIP. This is a more restrictive policy than is allowed under the Maldives Pension Act outlined below. This policy may be further restricted by the Board in establishing minimum and maximum interests by value or percentage of both MRPS assets and the four individual Portfolios.
- c. The major types of investment and their characteristics that may be considered for the MRPS in due course, allowed in the Maldives Pension Act and subject to the Regulatory Structure being in place are:
 - i. Equities investments in locally listed companies: these allow an investor to participate in the development of companies listed in the Maldives. Income is provided through share dividends which may vary in amount from year to year. Investing in equities produces capital gains/losses as share prices reflect investors' expectations of the prospects of a specific company, sector or market.
 - ii. Investment in international equities; this is additionally subject to currency risk, depending where the equity is listed. The investment returns can be enhanced, or reduced, by the appreciation or depreciation respectively of the market currency against Rufiyaa.

- iii. Bonds; these are debt instruments issued by Governments and a variety of other borrowers. Bonds generally provide a fixed rate of interest and are generally redeemed at a pre-determined level on a particular date. Their market prices tend to fluctuate less than the prices of equities prior to their redemption dates.
 - iv. Sharia Compliant Investments and Islamic finance; these are products are alternatives to the conventional investments where both upside and downside risks are shared between the Members and Investors.
 - v. Cash; this is usually deposited with institutions for short periods and will attract interest at market rates.
- d. Based on the Maldives Pension Act, Contributions will not be invested in the following;
- i. Investments which are not listed or traded publicly;
 - ii. Assets which are not capable of alienation from other assets by law;
 - iii. Real estate and other assets not listed on a regulated market and for which valuation is uncertain;
 - iv. Activities those are considered profane, immoral and illicit.

8.1.2 DIVERSIFICATION OF INVESTMENTS

- a. The MPAO will ensure that investments are diversified to reduce the various risks identified in this SOIP.
- b. Within the overall strategic asset allocation, the MRPS may pursue a policy of lowering risk through the appointment of a number of asset managers each of whom is expected to maintain a diversified portfolio in terms of sector and assets, where the Asset Manager has an element of discretion in its asset mix and individual stock selection subject, at all times, to any constraints in their respective Management Agreements and any prevailing legislation. Asset Managers will have a remit to outperform prescribed benchmarks while operating within broad ranges for individual asset categories, the details of which will be prescribed in the respective agreements entered for the purpose.

8.1.3 LIQUIDITY OF INVESTMENTS

The overriding intention is to invest in readily marketable investments. Asset Managers will be instructed not to hold any investment inappropriate in terms of marketability.

8.1.4 EXPECTED INVESTMENT RETURN

The investment policy of each MRPS Portfolio will differ and the expected investment returns will differ accordingly. The investment objectives and policy of each MRPS Portfolio is described in Section 9.

8.1.5 INVESTMENT IN DERIVATIVES

Managers are permitted to invest in Financial Futures, Options and other Financial Instruments which are approved by the Securities Regulator, the Capital Market Development Authority) subject to control levels as outlined in individual Asset Manager Agreements.

8.1.6 SHARIA COMPLIANT INVESTMENTS

Sharia Compliant Investments are alternatives to conventional investments. The Members of the Scheme will be given the choice to select Sharia Compliant Investment Portfolios. These are described in Section 9.

9 INVESTMENT OBJECTIVES AND POLICY

From 1st May 2010 and prior to this revision of the SOIP it was the policy of the Board to restrict the direct investments for what is now called MRPS Investment Portfolio to the lowest risk category of the investments such as domestic bank deposits and Treasury Bills.

The Investment Committee and the Board of the MPAO have considered that this investment policy be modified with effect from 27th June 2011, and further modified on 31st October 2011 to allow some prudent diversification by introducing additional appropriate investment opportunities that may become available in the Maldives for the MRPS Investment Portfolio.

Four investment choices for MRPS members

Considering the Regulatory Structure, available investment returns and the early development of financial markets in the Maldives, the Board sees that it is both prudent and pragmatic to have four separate investment choices with distinct and separate investment strategies.

The four Portfolios with the four separate investment choices are as follows

Portfolio name	Investment Objective	Current Investment Policy	Applicability
MRPS Investment Portfolio	Generally grow in line with the Maldivian economy and at rate higher than domestic inflation	To invest in Interest bearing and non-interest bearing deposits in Maldives currency with banks in the Maldives licensed by the Maldives Monetary Authority. Treasury Bills issued by Maldives Monetary Authority Equities listed on the Maldives Stock Exchange, Bonds listed on the Maldives Stock Exchange and Bonds and other evidence of debt in Maldives currency issued or guaranteed by The Government of the Maldives, or	For members up to age 65, default Portfolio unless members choose MRPS Sharia Portfolio

		A Statutory Body established by legislation in the Maldives,	
MRPS Sharia Portfolio	To achieve positive returns through investing in Sharia Compliant assets	To invest in assets that are advised by competent national sharia bodies to be Sharia compliant and which are expected to include investment in Accounts in Maldives currency at banks in the Maldives licensed by the Maldives Monetary Authority, and Bonds listed on the Maldives Stock Exchange	For members up to age 65
MRPS Conservative Portfolio	To preserve capital and achieve investment returns comparable to those available from bank deposits	To invest in interest bearing and non-interest bearing deposits in Maldives currency with banks in the Maldives licensed by the Maldives Monetary Authority, and Treasury Bills issued by Maldives Monetary Authority	This is a default Portfolio for those members age 65 and over who do not choose the MRPS Retirees Shariah Portfolio
MRPS Retirees Shariah Portfolio	To achieve positive returns with minimum risk to capital through investing in Sharia Compliant assets	To invest in assets that are advised by competent national sharia bodies to be Sharia compliant and which are expected to include investment in Accounts in Maldives currency at banks in the Maldives licensed by the Maldives Monetary Authority	For members age 65 and over

Regarding investment objectives and policy the Board remains mindful of the need to develop the in-house asset management capacity to the satisfaction of the Board of the MPAO.

Third party Asset Managers will not be appointed until further notice and investments will be made as direct investments by the Board of the MPAO.

9.1.1 LONG-TERM INVESTMENT STRATEGY

The Investment Committee and the Board of the MPAO will continue to develop a long term strategy that is appropriate to the investment objectives in this SOIP and to the Investment Portfolios offered to members. The implementation will be subject to the regulatory structure being in place, the suitability of investments both in the Maldives and overseas, in both bond and equity markets and the appointment of a suitably qualified asset manager or managers.