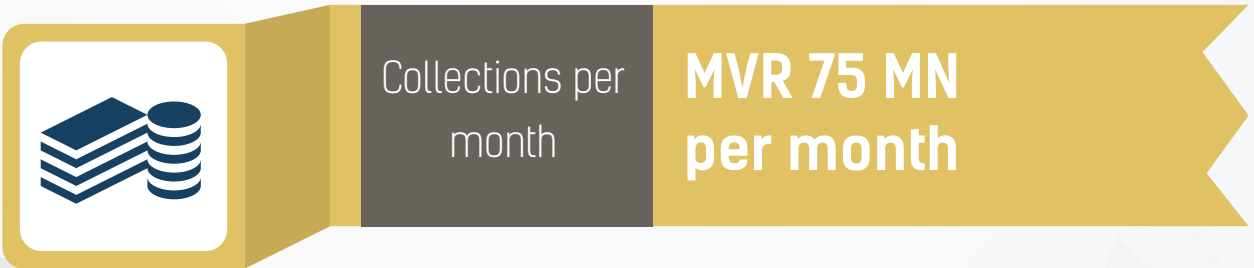
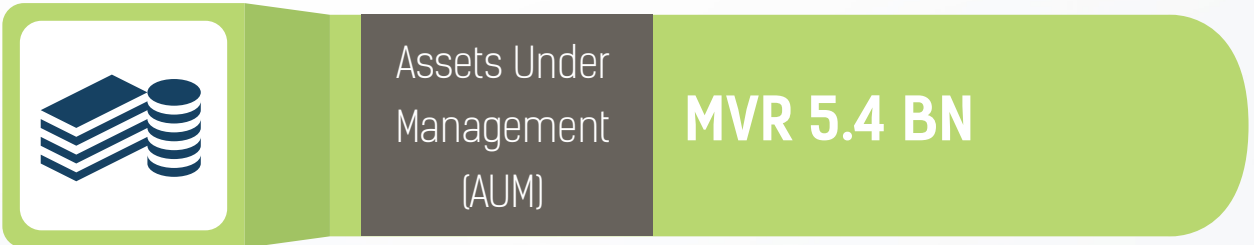
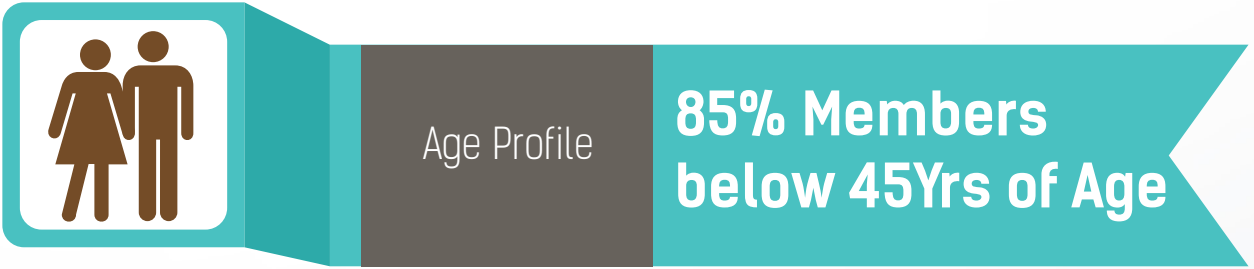
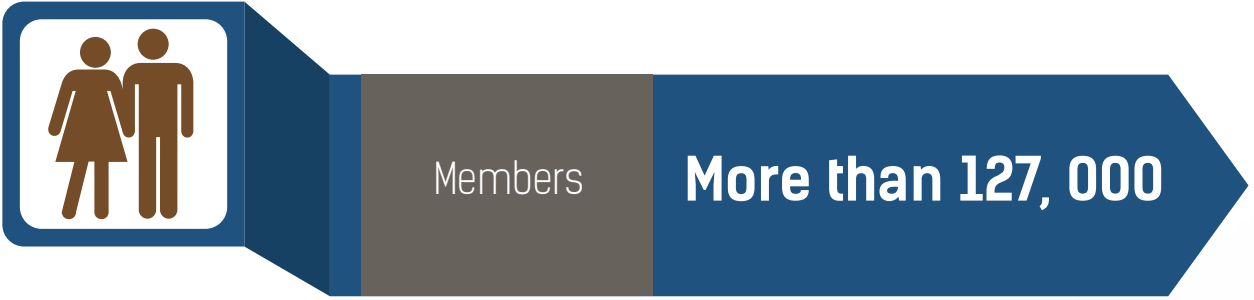


# HOW WE **INVEST** **PENSION ASSETS**

A guide to raising finance through pension fund



# INTRODUCTION

Under the Pension Act of Maldives, The Maldives Pension Administration Office (MPAO), administers the Maldives Retirement Pension Scheme (MRPS), the largest pool of pension assets in the country. At present, MPAO is the asset manager of MRPS as well.

Maldives Retirement Pension Scheme (MRPS) is the first defined contributory pension scheme in the Maldives, funded through contributions from both employees and employers. By the end of June 2016, the total funds under administration is over MVR 8 billion. The net inflow of the fund is currently MVR 75 million per month. MRPS will become the fastest growing and soon would become largest asset pool in the nation, capable of providing the much needed long-term finance for both public and private sector.

This booklet is prepared to assist the government and business entities to raise finance through the pension fund.

# GOVERNANCE OF PENSION ASSETS

Pension assets are invested based on the investment policy formulated by the Board of MPAO in accordance with the Pension Act. The investment policy is covered in the Statement of Investment Principle (SOIP), which is publicly disclosed and is available from MPAO website. The Investment Committee of the Board reviews the Statement of Investment Principles, provide investment policy guidance to the board and ensures the operational due diligence of potential investments.

The supervisory responsibility of the pension schemes is undertaken by the Pension Supervision Department, a department of the Capital Market Development Authority (CMDA), which is the regulator of the capital market.

The Custodian appointed by the Board of MPAO is responsible for safekeeping of investments, settlement and pre and post trade compliance.

The pension fund is prohibited by law from investing in assets other than those allowed under the Pension Act.

## INVESTIBLE ASSET CLASSES

The Pension Act specifies five asset classes in which the pension fund can invest;

1

Bank accounts and monetary funds such as bank deposits

2

Securities issued by a relevant body of the Government of Maldives and to the extent guaranteed by such a body

3

Securities issued by business entities listed on a licensed stock exchange in the Maldives

4

Mutual and investment funds duly approved in the Maldives

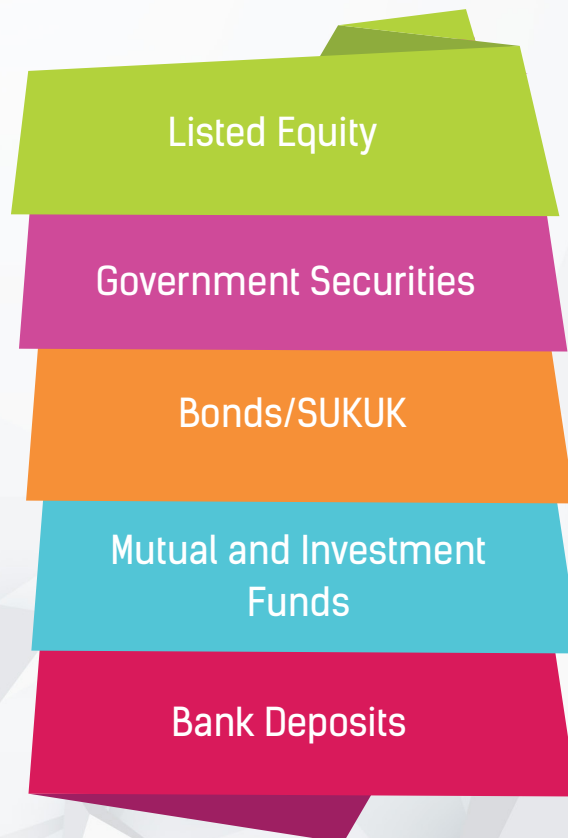
# INVESTMENT OBJECTIVES AND STRATEGY

The pension assets are invested in a manner that would maximize the benefits to the scheme members keeping in mind the retirement objective of the members. MPAO follows a prudent approach to achieve the investment objectives by taking into consideration the following;



MPAO's investment horizon is long term. The investment strategy is to grow the pension savings of individual members and provide protection against sudden fall of pension savings close to retirement. It is estimated that the pension fund will have a maturity of 40 years where the inflows would level against the outflows of the fund.

MPAO invests in both conventional and Sharia Compliant assets. MPAO would continue to invest in the following classes of assets;



# ASSET ALLOCATIONS

The current asset allocation of pension is over weighted towards short term government securities, simply because there is no any other investable asset class available. During the first quarter of 2015 the asset allocation practices were reviewed and a new asset allocation was approved until 2020.

The new policy envisages just 10% exposure to short-term securities by 2020. The new SAA would enable the large fund flows to the equity and bond (Sukuk) markets.

## IMPORTANCE OF STATE SECTOR FOR THE PENSION FUND

The biggest challenge faced with MRPS is the limited investible universe as a result of legal restrictions and limited investable instruments within the legally allowable asset classes.

In our view, the state sector, including SOEs will be the single largest borrower in the economy and most of the growth in demand for long term finance will come from this sector.

The continuance of the bond issuance program by the government should be further expanded and better structured to deepen the investor base, improve pricing efficiency and ensure supply certainty.

The SOE sector is of significant interest to MPAO. Investing in SOEs would achieve asset class diversification as well as industry diversification, enabling the development of resilient portfolios.

A well-structured financial market expansion program with policy backing, initiated by MoFT, as the agent representing government's ownership interest in SOEs, would be crucial to further development of the financial sector. Apart from such a financial market development program being beneficial for pension fund, this initiative would become the catalyst for further financial market development through private sector participation.



# DIRECT INVESTMENT

Direct investments in commercial infrastructure development, real estate, land, tourism are of strategic benefit to MPAO. Mindful of several risks involve in direct investments, including that of construction risk, operational risk, political risk, liquidity risk and any other inherent risks and with adequate risk mitigation and management direct investments have the potential to generate very lucrative returns to the pension fund.

This asset class is currently not allowable under the Pension Act.



## REGULATORY AGENCIES FOR PROSPECTIVE ISSUERS

By law pension fund can only invest in assets classes and issuers fulfilling certain regulatory requirements. The following regulatory agencies are important players in this respect.



MoFT as the issuer of Government Debt and the representative shareholder for SOEs



MoFT as regulator for companies



CMDA as regulator for capital market



Maldives Stock Exchange as the license exchange for listed financial securities

# OPERATIONAL DUE DILIGENCE FRAMEWORK

We welcome potential issuers of securities and would be happy to provide all necessary assistance. Potential investments should be submitted to MPAO in writing for a formal evaluation process.

To ensure that investment decisions are made in objectively and accordance with the Pension Act and Investment Policy, MPAO employs Operational Due Diligence (ODD) Framework to vet the potential investments. The components of ODD are as follows;

## 1. ANALYST REPORT

The analyst report is a comprehensive report covering the following aspects and makes a recommendation on fair value

Industry Analysis	Significance of the Industry in GDP	Forward looking growth prospects
	Future growth prospects	Market share of investee in the industry
		Company specific factors challenges and opportunities
Company Analysis	Management Quality	Operating history and experience
		Ownership structure
		Reporting structure and staff experience
	Core Business	Business model and expansion plans for future
		Compliance with the regulatory environment of industry
	Performance	Historical financial performance
		Forecasted earnings growth
		Financing structure
	Business Risk	Capacity to service debt
		Quality of earnings disclosure
		Dividend policy
		Competition and other challenges for future expansion

## 2. INVESTMENT COMMITTEE DELIBERATIONS

Investment Committee ensures that operational due diligence report is complete and requires justification of the analysts' recommendations. Members with potential conflict interest situations abstain participation as per board's rules of procedure.

## 3. MPAO BOARD

The analyst report and Investment Committee Recommendations submitted to the board. The board makes the final decision on the matter. Members with potential conflict interest situations abstain participation as per board's rules of procedure.



# BENEFITS OF SOURCING FINANCE FROM PENSION FUND

Article 16 of the Pension Act states that pension assets can be invested in instruments issued by listed entities on a licensed stock exchange in the Maldives. The SOEs and other private sector entities can either list a bond or its equity to access the pension fund to secure long term funding.

Meeting the listing requirement and raising capital from the pension fund has a number of advantages:

## Funding for big projects



The pension fund collects on average MVR 75 million on a monthly basis, and has the ability to meet the capital requirements of larger projects

## Longer term finance



Pension funds typically have longer investment horizons than banks and other lending institutions and hence can lend for very long periods of time (25-30 years), potentially making debt affordable.

## Attracting additional Finance



Having a pension fund as an investor is often seen as a sign of financial strength of the company, as pension funds have rigorous due diligence processes in place before investing in companies and hence, this can help to attract additional finance from other large investors.

# LISTING REQUIREMENTS OF MALDIVES STOCK EXCHANGE

According to the Maldives Stock Exchange, there are a number of ways that a company can be listed. A company may obtain a listing for a security by one, or a combination of more than one, of the methods described below:

The following information is provided to MPAO by the Maldives Stock Exchange

## Option 1

### Fansaas Board



This is introductory method of listing that allows a company to comply with full listing and disclosure requirements of MSE, and ultimately issue securities in a period of 3 years.

Companies choosing to list in this board can take advantage with regard to the relaxed disclosure requirements, CG code compliance and MSE fees.

### First and Second Board



Companies that are willing to fulfill the disclosure requirements and all other CG requirements can list either of these boards via given that the companies go for an IPO in a year.

The decision to introduce to the respective boards will be made based on the issue size and other relevant factors, on a case by case basis in consultation with CMDA.

## Option 2

### Offer for Sale



Under this method a company can seek the services of an intermediary such as an investment bank to sell shares to public.

## Option 3

### Offer for Subscription



Under this method a company can directly offer shares to public.

A company which has a paid up capital or shareholders fund greater than MVR 5 million can either issue debt or equity instruments under this method.

## LISTING PROCEDURES AT MALDIVES STOCK EXCHANGE

A company wishing to list shall complete the initial listing application and shall submit the relevant paper work to MSE and issue a prospectus, which shall comply with the prospectus requirements of the Companies Act 1996 and any other regulation regarding issue or offer of securities to the public, and the requirement of these Rules.

## COST OF LISTING AT MALDIVES STOCK EXCHANGE

Companies which choose to get listed are required to pay the following fees to MSE as per Listing Rules.

DETAILS	FANSAAS BOARD	OTHERS
Application process fees	0.05% of the amount to be listed. With a min of MVR 100,000/- and Max of MVR 250,000/-	0.05% of the amount to be listed. With a min of MVR 100,000/- and Max of MVR 250,000/-
Annual Listing fees	Waived in year 1	Minimum of MVR 45,000 based on the securities listed.
Custody fees	50% of custody fees	Minimum of MVR 45,000 based on the securities listed.

**PRODUCED BY**

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