
Investment Policy and Strategy

Maldives Retirement Pension Scheme (MRPS)

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Aims and objectives of MRPS

- Important pillar of Maldives Pension System
- To alleviate old age poverty and provide a social insurance during old age
- MRPS
 - To address the income smoothing objective.
 - Mandatory by Law for all employed individuals.
 - Minimum of 14% on pensionable wage as pension contributions per month
- Old-age Basic Pension
 - To address poverty elevation objective of the pension system.
 - Funded through government budget
 - Is universal, inflation adjusted and uniform

Contributions and Payouts

- During 2015, total pension contributions collected amounted to MVR 893.81 million, up from MVR 809.55 million in 2014.
- During the past three years, contributions have on average increased at a rate of 8% per annum for the scheme.
- Pensions paid out during 2015, MVR 48.84 million

Member Profile



Over 117,600
members

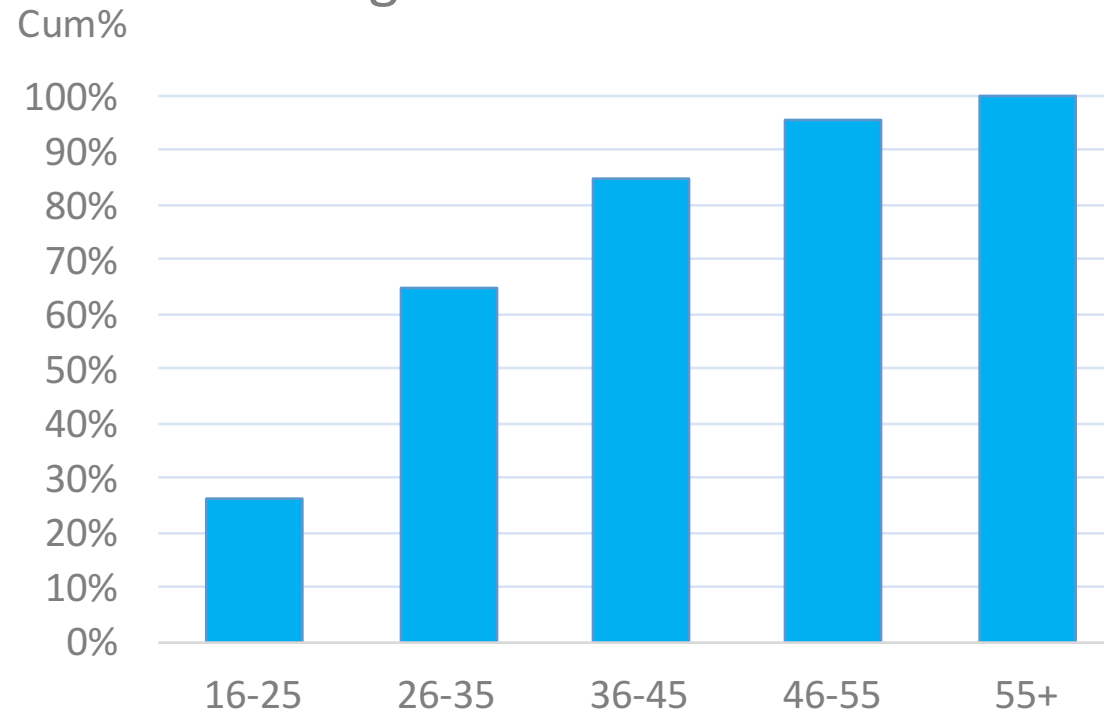


68%



32%

Age Distribution



Composition and Size

- MRPS comprises of the following sub funds;
 - **Pre-retirement:** Investment Fund, Sharia Fund
 - **Post-retirement:** Conservative Fund, Sharia Conservative Fund
- Total Value of Funds Under Administration: MVR 7.85 Billion, (YE15)
- Inception Year: 2010

Investment Policy

Pension Act

Pension Supervision
Department at CMDA

Board of Pension Office

Investment
Committee

CEO

Custodian

Investment Management
Investment Operations

Investment Objectives

- MRPS is a DC scheme, the aim is to accumulate savings that would enable purchase of an pension product (annuity) that is adequate at retirement.
- MRPS does not guarantee the pension amount.
- The objectives of MRPS is defined in the SOIP and the objective of MRPS is to generate above inflation returns and minimize the downside risk when members approach retirement.
- The present SOIP does not specify the expected return above inflation rate.
- Challenging to implement because of several external factors.

Investment Strategy

- The investment strategy is based on generating maximum return to the participants of MRPS taking into consideration diversity, security and liquidity of assets in which MRPS invests in.
- The investment objectives of MRPS will be achieved by investing in the following asset classes locally (conventional and Sharia).
 - Listed Equity and Bonds/Sukuk
 - Government Securities
 - Mutual and Investment Funds
 - Bank Deposits
- Investing overseas (in the long run).

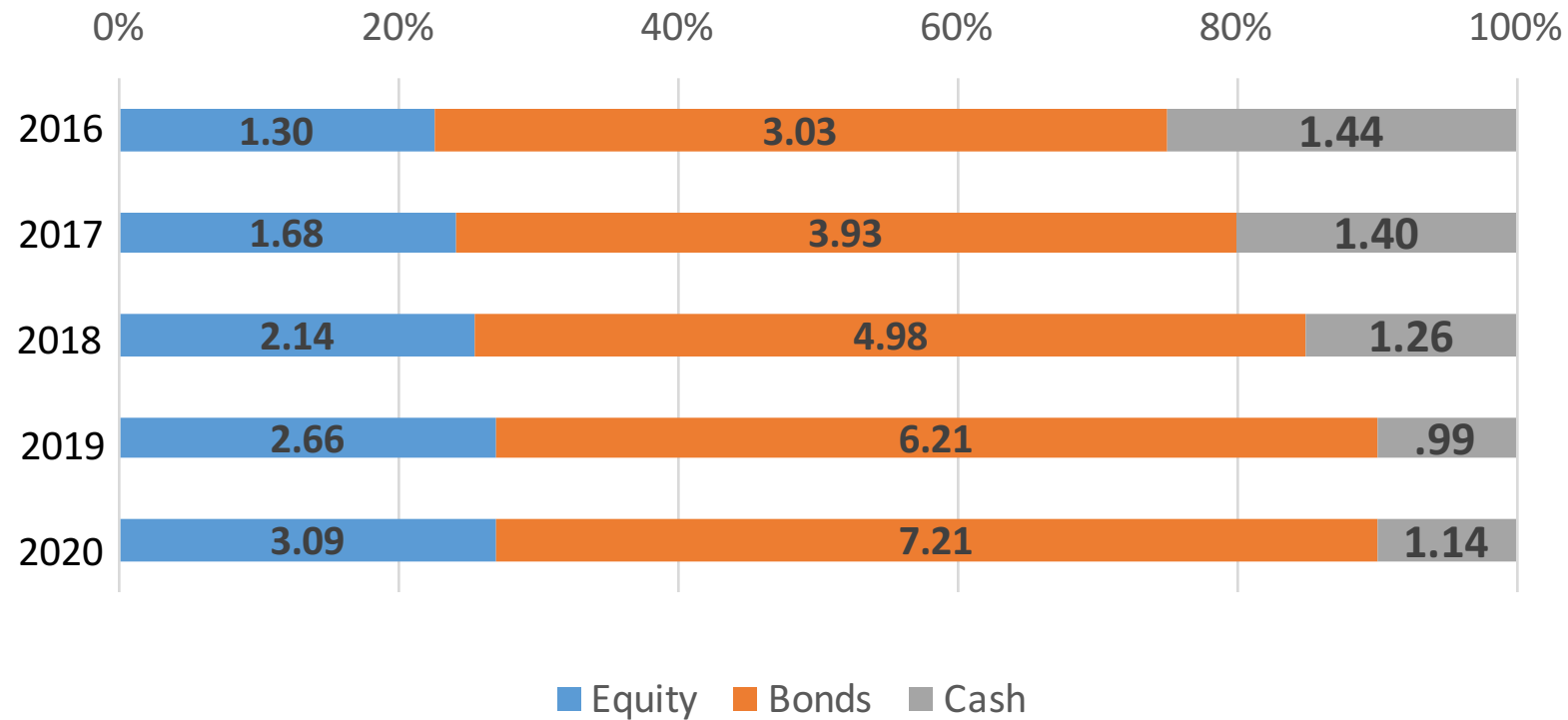
Current Strategic Asset Allocations

- Simplicity and risk avoidance was the overriding concern during the initial strategic asset allocation design.
- MPAO started the asset allocation practice with minimum and maximum investment limits for two categories of assets;
 - minimum of 60% should be invested in CCE and the maximum exposure to GA should be 40% of the fund
 - with further limits within each category and single party exposure limits.
- During the first quarter of 2015 the asset allocation practices were reviewed and a new asset allocation was approved until 2020.
- During this review it was decided that, the switch from short term instruments to long term instruments should be gradual in tandem with investment and risk management skills.
- The new SSA envisages just 10% exposure to CCE by 2020. The new SAA would enable the large fund flows to the equity and bond markets.

Expected Strategic Asset Allocations

Expected Asset Allocation
2016 – 2020

Figures in MVR, Bln



Unique Circumstances

- Limited Financial Market Activity
 - There are only six companies listed on the Maldives Stock Exchange (MSE).
 - The total market capitalization of MSE is MVR 8.1 Billion (USD 535 Million)
 - free float is just above 26% of the total issued capital.
 - The trading volume is also very low. The market is illiquid.
 - Except for Dhiraagu, BML and STO, the market capitalization is too small for MPAO to invest. The candidate companies would then be Dhiraagu, BML and STO.
 - The total market capitalization of these three companies would be in the order of MVR 7.02 Billion (95% of the total market capitalization of the MSE).
 - Limited Sharia Investments

Unique Circumstances (cont...)

- Single Asset Class Reliance
 - Over 90% of MRPS assets exposed to public sector debt.
 - the introduction of tap system in the treasury market, starting with second quarter of 2014 and further reduction on treasury rates in the last quarter of 2015 have posed a serious challenge to the returns enjoyed by MRPS since its inception.
 - manifested the huge risk of reliance on a single instrument to generate returns.

- The Government Bond Program Starting 2014
 - MPAO anticipated the reduction in short term rates and the associated risk and was successful in negotiating a long term bond series by the Government to insulate the fund from any future decline in short term rates.
 - A positive step for development of private bond market

Strategic Outlook:

Equity and debt financing to public sector including SOEs

- the public 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 should be further expanded and better structured to deepen the investor base, improve pricing efficiency and ensure supply certainty.
- Investing in SOEs would achieve asset class diversification as well as industry diversification, enabling the development of reliant portfolios.

Strategic Outlook:

Collective Investment Schemes

- The availability of different funds for MPAO to invest in would be another opportunity for MRPS.
- Fund of different objectives, categories and investment styles would further expand the investment choices available for MRPS.
- Enables further diversification and reduction of administration costs.

Strategic Outlook:

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 (illiquidity and valuation risk).
- Requires legislative changes.

Strategic Outlook:

External Asset management

- strategic importance for MRPS to develop the asset management industry.
 - enable the nurturing and development of talent in investment management and investment operations.
 - the emergence of innovative financial products to the market.
- International diversification is also of strategic importance. The development of the asset management industry would make it possible for MRPS to invest in overseas markets through expertise and market based solutions to address the foreign currency issues involved with investing overseas.

Final Thoughts

- The MRPS has huge investment appetite and thus a catalyst for financial market development.
- Setting investment objectives and asset allocation process will continue to evolve in tandem with the development of financial market and investment management expertise.
- There are three key important factors;
 - **talent development, policy backing and conducive rather than restrictive legal and regulatory regime.**
- The financial market development requires a concerted effort by policy makers, regulators, and institutional investors and well as the private sector.
- A champion should emerge and dynamism should be brought into the process.

Thank You