NATIONAL SOCIAL SECURITY & INSURANCE TRUST

INVESTMENT STRATEGY AND PROGRAMME

2011 – 2013

JULY 2012

INTRODUCTION

The National Social security and Insurance Trust is developing a medium-term Investment Strategy and Programme for the period 2012 to 2014 to carry out Economically Targeted Investments (ETIs). ETIs are an important component in the investment of social security funds in developing economies, which are mostly characterised by narrow capital markets, weak economic infrastructure and low levels of employment.. The investment programme being developed within the context of this strategy aims at carrying out investments that ensure benchmark financial rate of returns, and at the same time generate collateral benefits to the economy and positive externalities to society in general and not exclusively to scheme members through financial return.

The investment portfolio of the Trust includes a wide range of investment assets such as fixed-income money market securities equities (listed and private equity); and non-fixed income such as commercial real estates. In addition to these common groups of assets, the Trust is willing to engage in extraordinary investments that are of project-nature, but which have the potentials to contribute to economic growth and development.

In order to ensure clarity of direction and efficient allocation of the investible resources, the Investment Committee needs to guide the Board of Trustees to develop a programme of Economically Targeted Investments (ETIs) to be implemented over a medium-term framework. The Programme will comprise a number of projects, selected from a wider range of project proposals and implemented with clearly defined financial and other objectives. The main objective of developing this programme framework is to minimise ad-hoc selection process of investment projects that are not well thought-out and very risky. It is expected that programming the investible funds will minimise the overall risk and define the medium to long-term expectations from such investments.

The Trust will continue investing in fixed income money market securities, following the broad asset allocation framework agreed within the Investment Policy.With the establishment of the Sierra Leone Stock Exchange, the some of the funds are invested in stocks listed on the exchange. The funds will also be invested in the stocks of Government-owned the companies earmarked for privatisation. Just as the previous, this strategy and programme is limited to ‘new’ sectors and projects that will be selected to support national economic growth. The Investment Policy refers to asset selection, asset allocation, investment risk analysis, and performance monitoring as guidelines to its investment decisions. The investment strategy and programme describes the Trust’s areas of intervention and provides the framework for the Trust’s investment in various sectors of the economy.

The strategy therefore:

i. Serves as a guide in the allocation of portfolio assets into Economically Targeted Investment projects; and
ii. Presents a rationale for decisions by the Trust to target investments in certain sectors.

ECONOMICALLY TARGET INVESTMENT (ETI) STRATEGY

Prior to 2009 the strategy for the selection of non-fixed income investments relied on proposals and investment offers made to the Trust by other corporate bodies. The experience to date indicates that this approach may have shortcomings. Firstly, the offers or proposals may not necessarily align with the Trust’s investment principles and philosophy in the area of risk and return and the structure of the investment. Additionally, the steps required to modify such options to suit the Trust may be inefficient in terms of time and cost. As a result, the Trust could not increase its non-fixed income portfolio composition.

The current portfolio structure, which is dominated by short-term fixed income assets, has inherent short-term interest rate and currency risks resulting from adverse fluctuations in the yields on these assets and currency inflation. Furthermore, it compromises the long-term real growth potentials of the Fund. The medium to long-term strategic portfolio management approach must focus on diversifying across assets, to include longer-term high growth assets. The diversification should also aim at providing a hedge against adverse variation in the value of some categories of assets.

Within the context of this strategy, the Trust continues to concentrate on identifying investment options that align with its objectives, while maintaining the option to receive offers of securities and proposals. These options shall be reviewed and appraised to ensure that they are consistent with policy prescriptions.

OBJECTIVE OF STRATEGY

The Trust's overall investment strategy is to enhance the development impact of the investments through a strategic allocation of resources and process improvements. The rationale for targeted sector investments is to ensure that returns from investments are maximised, while stimulating economic development by supporting key sectors that have significant growth impacts. The attainment of social and economic development objectives serves the overall objectives of social security.

MEDIUM TERM INTERVENTIONS

During the strategic plan period (2011 – 2013), the Trust shall target its investment interventions in the following sectors:

- **Commercial Real Estate**
- **Infrastructure Projects**
- **Tourism and Eco-Tourism**
- **Industrial Projects**
- **Insurance-Based Health Care Delivery**
- **Agriculture and Agro-Processing**

The strategy shall be carried out within the framework of an Investment Programme approved by the Board based on advice from the Investment Committee. The Investment Committee shall advise the Board with regard to the organisation of the investment process on projects selected by Management. The implementation and day-to-day management of the approved investments shall be delegated to Management. The investments entered into pursuant to the objectives of this Strategy shall be implemented by Management.

THE INVESTMENT PROGRAMME

The Trust will develop a medium-term Investment Programme as a way of ensuring sound investment decisions. The principal rationale for maintaining a programme framework for the investment is to help improve investment decisions in three respects: selection, modification and monitoring of investment assets. First, the programme framework enables the choice of assets that will meet the global portfolio objectives most effectively. Second, it aids in the modification of investment options in order to make their contribution more positive; third, it should assist in the monitoring of investments, especially during implementation and operation, to ensure that the business outcomes are consistent with the a priori projections.

The Trust's goal in the investment of its investable reserve funds is the optimal selection of assets and the efficient use of financial resources and other resources in the management of the assets. Given the operating environment in which the funds are invested and managed, it is essential to programme the allocation and use of resources in order to achieve planned goals and objectives.

Based on the experience from investing over the past years, it is evident that in addition to investing in money market securities for which there are regulated markets, the Trust may have to engage directly in alternative investments that are project-related. The development of a programme is a prerequisite for the meaningful management of the investment process. It is noteworthy, however that the objectives of this programme can be achieved if the appraisal and selection of these alternative investments are done based on a certain minimum reasoning rather than the result of an arbitrary exercise to prove their efficiency.

The programme is supplemented by other policies, strategies and procedures being used by the Trust in the investment and management of funds.

Programme Objectives

The investment programme 2011-2013 is proposed in order to achieve a set of goals and objectives set forth by the Trust in the investment and management of fund reserves. Achieving the objectives of this programme would not only contribute significantly to the attainment of the stated investment objectives, it will also support Government's effort for rebuilding the nation through improvements in various sectors of the economy.

The objectives of the programme can broadly be classified into two (2) categories:

(i) maximising the long-term real value of the Fund; and
(ii) contributing to the socio-economic development of the nation

a) Maximising the Real Fund Value

The primary objective, which is to maximise the real value of the Fund, can be attained by achieving positive real rates of return through substantial income earnings and long-term appreciation of portfolio assets. The incomes increase, while the values of certain components of the portfolio are expected to also increase significantly by the end of the period. The foregoing shall be achieved by the careful selection of assets based on analyses of risk and expected return of various asset classes and specific assets.

b) Socio-Economic Development

The second objective involves contributing to the socio-economic development of the nation. The program shall serve as a tool for promoting investments in various sectors of the economy. The activities envisaged in the context of this programme, as well as others to be determined, shall increase employment; enhance efficiency in production and business operations; contribute to international competitiveness, macroeconomic stability and gross domestic output. These can be realised through the following:

(i) Investment in projects that create new jobs as well as generate employment in other productive sectors.
(ii) Investment in projects that provide supporting infrastructure for manufacturing and other business operations, tourism, international conference and business activities.
(iii) Investment in import substituting industries for critical commodities in the economy as well as export promoting industries for commodities in which Sierra Leone has comparative advantage.

(iv) The provision of convenient and well planned commercial spaces to support offices, business shopping and recreation.

(v) Investment in agriculture and agro-processing industry.

c) Programme Indicators

It is envisaged that the successful implementation of this program will lead to significant benefits to the Trust and the nation as a whole. The performance of this programme shall be evaluated using key indicators, defined as follows:

- Return on Investments (AROI, RROI)
- Portfolio Growth (% increase over time)
- Employment created:
    - number of new jobs created (directly and indirectly)
- Other monitorable outputs, defined from specific investment interventions.

Programme Framework

The Trust is adopting a medium-term approach, while maintaining a long-term perspective in the planning of this programme. The implementation of the programme shall be done within the framework of the investment policy and strategy as well as the existing management operating procedures.

The investment policy aims at an acceptable trade-off between a positive long-term real rate of return on assets and the risks associated with investing in these assets. In order to achieve the long-term target for financial sustainability, a significant proportion of the fund has to be invested in real and long-term assets. The overall investment risk could be reduced through a diversification across geographical boundaries.

The diversification will therefore be implemented to include investments in economically viable projects, private equity and commercial property. The management of the funds will be done internally, as well as with the use of external consultants when necessary.

Projected Investment Reserves

The Trust maintains a pool of funds, which receives contributions and incomes from investments. Benefit payments, administrative expenses as well as other capital expenditures are made from the fund. As a result, periodic surpluses are accumulated in the investment reserve.

The accumulated surpluses at the end of each period add to the investment reserves. The investment reserves over the programme period are projected [i]as follows:

Table 1: Projected Reserves

	2011	2012	2013
	(Billions of Leones)		
Reserves	442.83	553.53	691.92

Market and Economic Variables

The projected yield on Treasury Bills and Treasury Bearer Bonds are derived from the projections of the national monetary and financial authorities. The interest rates on bank deposits are derived in line with the rates observed during the past three years. Projected trends in prices and output are also obtained from national financial authorities. Table 2 presents the projections in these economic.

Table 2: Projections in Economic and Market Parameters

Period	Inflation*	R. GDP (*growth*) *	Market Yields					
			TBs		TBBs		Fixed Deposits	
			Real	Nominal	Real	Nominal	Real	Nominal
2011	17.2	5.5	-3.59	9.06	-0.18	13.02	-2.2	11.0
2012	9.8	4.0	0.43	10.23	3.20	13.00	2.39	12.19
2013	8.0	4.0	3.01	11.01	4.96	12.96	4.96	12.96
2014	7.5	5.5	2.82	10.32	5.17	12.67	4.39	11.89
2015	7.0	6.0	4.34	11.34	5.35	12.35	5.22	12.22

*Source: Bank of Sierra Leone and Self Projection

Due to the random nature of real and nominal rates for Treasury bills, Treasury Bearer Bonds and Fixed Deposits, market yield projections were not available at the central bank However, guided by historical trend relating to recent past three years, conservative market-yield projections were made.

Sectors for Programme Intervention

Consistent with the priority sectors stated in the investment strategy, the medium-term investment programme shall focus investment activities in the following sectors:

- Commercial Real Estate
- Infrastructure Projects
- Tourism and Eco-Tourism
- Industrial Projects
- Health Care
- Agriculture and Agro-Processing

Programme Monitoring and Evaluation

The Performance Management System focuses on the overall portfolio outcomes as indicated by the rate of return on investments, as well as specific areas of asset allocation and management activities. By utilising the performance measurement system, the Trust and public will gain insight necessary to evaluate the management of invested funds.

The specific objectives of the investment performance measurement system are:

- To find out and benchmark the underlying investment management activities;
- To ensure that the Trust is equipped with reliable performance information for reporting and disclosure to its members and the public; and
- To maintain compliance with standards in the track record of the Trust's investment performance history.

The performance measurement indicators are classified into two categories, namely: (i) Portfolio Performance, and (ii) Project-Specific Performance Monitoring.

Portfolio Performance Monitoring

The individual as well as composite performance of portfolio assets is the most important measure of the investment management process. The performance management system sub-classifies this measure into three groups, to allow a better understanding of trends, casualties and correlation between and among assets. In this way, the Trust will be equipped to make strategic and tactical decisions relating to holding, movement and/or disposal of assets.

The following indicators shall be utilised to measure and monitor portfolio performance:

(i) AROI[1], which measures the nominal rate of return on the total assets invested during a particular period.

(ii) RROI[2], which measures the real rate of return on total assets invested during a particular period.

The above measurements shall be carried out for the principal asset classes via Fixed Income, Equity and Property.

Project-Specific Performance Monitoring

The medium-term programme requires direct investment in projects in various sectors of the economy. These investments require a series of activities in the area of technical studies and research, planning and due diligence as well as implementation and monitoring. The performance management system puts in place measures that ensure accountability in the execution of the programme at all levels.

The objectives of the activity progress monitoring system are:

(i) to enhance management supervision and control over planned investment projects;

(ii) to facilitate identification of problems limiting implementation of projects as well as provide opportunity for timely response to problems stalling programme implementation; and

(iii) to ensure regular reporting on progress made in programme implementation.

[1] Average Return on Investments
[2] Real Return on Investments

In this regard, an Activity Tracking System (ATS) has been developed to monitor progress in accomplishing routine and other activities stated in the programme. The key elements of the ATS are:

(i) Activity outcome and sub-outcomes;
(ii) Progress milestones and timelines for reaching those milestones; and
(iii) Responsible bodies for activities (or sub-activities)

PROGRAMME DEVELOPMENT ACTIVITY PLAN

The development of the Investment Programme should follow a logical sequence of project identification, appraisal and selection based on laid down financial and economic criteria. In this regard, all projects to be considered within the context of this programme should go through this planning process.

Annex 1 of this document presents a matrix of project concepts that may be considered for inclusion in the programme. These concepts, in addition to others that may be included should be subject to comprehensive technical feasibility and market analysis; economic and financial viability studies. The objectives of such studies are:

- To determine the technical feasibility of implementing projects to be undertaken by NASSIT, whether on its own or in partnership with other investors;
- To determine the market and business potentials of such projects;
- To carry out detailed investment cost analysis and estimated return on investment for each project using NPV, IRR and Payback methods, incorporating;
- To evaluate risks and recommend risk management systems for such projects; and
- To prepare bankable project proposals that could be used for sourcing financing from local and international financial markets for those projects that will be deemed to be suitable for inclusion in the programme.

The implementation of projects identified and selected within the programme framework could be financed and implemented within the framework of Public Private Partnerships (PPPs) and collaboration with various other funds providers

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[i] Annual Growth of Fund projected at 25%