INVESTMENT POLICY STATEMENT
2011 - 2013
(Revised)

July 2012

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1.0 INTRODUCTION

1.1 Background

1. This statement outlines the investment policy statement and strategies of the Board of the National Social Security and Insurance Trust **("NASSIT"**) developed to serve as a basis for the management of assets of the Trust.

2. The National Social Security and Insurance Trust (NASSIT) is a social risk manager providing coverage against the main contingencies affecting the insured workers and their families at old age, invalidity and survivorship. Thus, NASSIT's financial policy is founded on a prudent and conservative approach through the creation of reserves to ensure solvency in the long and medium term and to be able to meet the risks facing the insured working population.

3. The Governing Board of Trustees ensures that the assets of the fund are invested prudently. In general the Board ensures that investments are made exclusively in the interest of the members in the pension fund; notwithstanding, the Board may also consider special purpose investments with social and economic utility that contribute to long term national growth. The Board also determines what risks it is prepared to accept in the investment of the reserves. Subject to these risk parameters, the Board aims to maximise return on its investments for the benefits of the insured members.

4. Each of the various arms of the Trust (Board of Trustees, Investment Committee, and Management) has its own duties and responsibilities in the investment process. In broad terms, policy and strategic decisions are the responsibility of the Board of Trustees. These decisions are influenced by the Investment Committee, which advises the Board of Trustees on risk-return matters for all investment proposals. The Board has the ultimate decision regarding investments. The Investments and Projects Division is responsible for the organisation and day-to-day management of the investment process.

5. The investment of the reserves is fundamental to attain long-term equilibrium and financial soundness of the scheme. The objectives for the investing of the fund include:

i. to maximise the real value of the Trust's assets and provide current income consistent with capital preservation and appreciation, as well maintain liquidity;
ii. to minimise the costs and risks associated with investments; and
iii. to contribute to the economic and social development of the country

6. The Board seeks to achieve these objectives by a careful selection of investments that guarantee requisite returns, ensure long-term capital appreciation and minimise overall risk while targeting crucial sectors of the economy with high growth potentials. Therefore, it is fundamental to put in place appropriate mechanisms to manage the investment process, in terms of risk management, to make appropriate decisions concerning the strategic allocation of assets and the tactical management of daily investments.

2.0 INVESTMENT RESPONSIBILITIES

2.1 The Board of Trustees

7. The Board of Trustees is ultimately responsible for the investment of all NASSIT funds. It has the responsibility for establishing broad policies for all aspects of investment operations; including overseeing and ensuring the application of the policy. The Board maintains a 'macro' perspective, focusing on important policy issues, monitoring progress and evaluating performance

8. Acting within their investment powers, the Board of Trustees uses current portfolio theory which focuses on the risk levels of the entire portfolio rather than on the risk attaching to each investment taken in isolation. In the exercise of its fiduciary duties, the Board of Trustees may take the view of plan members and beneficiaries into consideration but the investment decision is the exclusive prerogative of the Trustees alone. The Board ensures that all aspects of the investments and related issues are thoroughly researched and adequate consultation with experts is done in the process of making an informed decision.

9. In general, the Board of Trustees may not delegate their fiduciary responsibility to an agent. However, without prejudice to the generality of the principle of non-delegation and giving due regard to the complexity of administering such large Trust funds, the Board may in the following circumstances assign responsibility to a monitored agent. These are:

i. Where it is satisfied as to the suitability of the agent for the requisite task;
ii. It can prudently supervise the agent; and
iii. It retains control over policy setting and monitoring compliance.

2.2 Investment Committee

10. The Investment Committee consists of members who are independent of the Trust and are experts in the area of investments or financial markets. Its specific responsibility is to advise the Board on the investment strategy and serves as forum for discussing market conditions and tactical asset allocation decisions.

11. The Investment Committee:

- Conducts periodic and regular reviews of the Investment Policy'
- Recommends on viability of investments to the Board
- Advises the Board on the asset allocation policy
- Evaluates investment and portfolio performance
- Advises on extraordinary investment intentions

2.3 Management Committee

12. The organisation and overall coordination of the investment process is the responsibility of Management. Management through the Investment and Projects Division will conduct necessary research and obtain expert advice by making necessary inquiries and reaching an independent decision for all investment decisions prepared for the Investment Committee. The Investment and Projects Department will ensure that care and due diligence is applied in evaluating an investment decision.

13. In general, the Investments and Projects Division is responsible for operationalizing the Trust's investments. It also:

i. Conducts research and preliminary reviews of investment options;

ii. Advises management in selecting among the available options for investing funds;
iii. Maintains records on all investments and develops appropriate criteria, including statistics for tracking and reporting performance; and
iv. Supervises, coordinates and monitors the performance of the Fund's active investments.

3.0 PORTFOLIO MANAGEMENT

3.1 Background

14. The Board addresses issues of portfolio management with a disciplined approach to ensure that the investment objectives of the Trust are met without undue exposure of the assets to risk. The objective is to achieve maximum returns at a controlled level of risk, relative to the long-run global benchmark of the fund. The strategy builds on a careful study of the characteristics of different assets in the economy.

15. For the investment of the funds, the Board recognises that the most important element affecting future portfolio performance is the asset mix. Given "information inefficiency" in domestic markets and high transactions costs, the Board will contribute to the development of a sound capital market in Sierra Leone.

16. Whilst no minimum limits would be set for any given category of investment, except on exceptional or temporary basis and for compelling prudential reasons, the Board may set maximum levels of investment by category with reference to prudential principles. Such ceilings may be exceeded under special conditions (eg time limits) and possibly subject to prior authorisation by the Board.

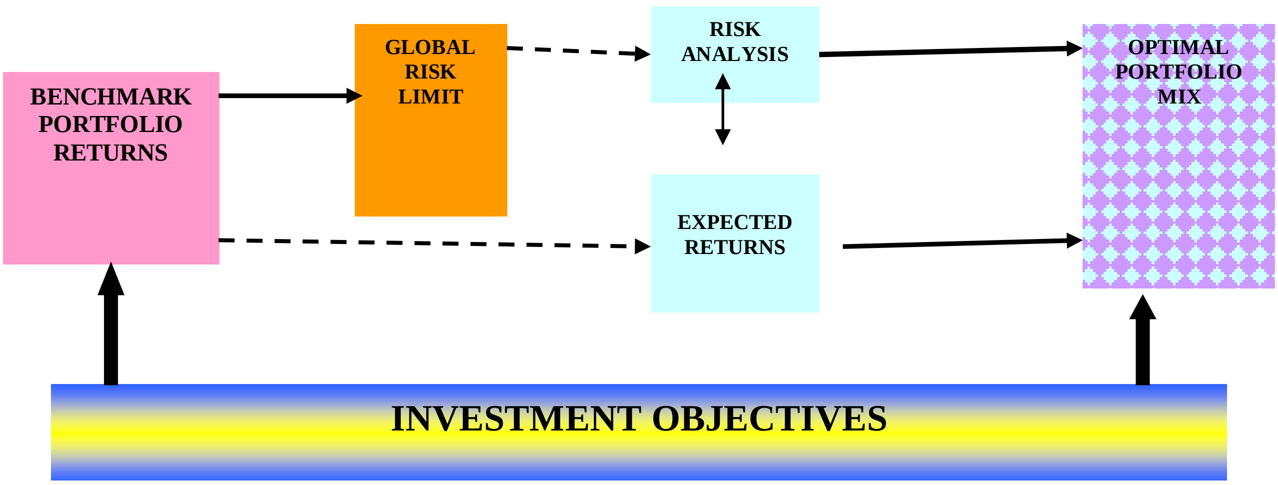
17. Finally, underpinning the investment process is a commitment to apply modern portfolio theory and standard valuation methods. The Board will also ensure cost-effective measures in the implementation of investment decisions.

3.2 The Portfolio Construction Process

18. The actuarial valuation establishing the scheme recommends return on the fund investment of 2 percent above the average increase in members' salary. The first actuarial valuation of the scheme maintains the same target. Using this minimum level of return, a **risk limit** is determined to guide asset selection and allocation. Hence, the Board selects and allocates assets in the portfolio based on the risks and returns associated with each asset.

19. The construction and management of the Trust's asset portfolio is based firmly on its stated investment objectives. The steps involved in constructing the portfolio are described as follows. First, the Board defines the objectives, which the Trust should achieve from the investment of funds over a specific horizon. The objectives will be indicated by specified rates of return as well as other socio-economic indicators. Second, on the basis of the defined objectives, the Board establishes targets for the portfolio rate of returns and other socio-economic objectives. Third, the Board agrees on the overall portfolio risk limit, to guide decisions for the selection and inclusion of assets in the portfolio. Fourth, based on the approved portfolio risk limit, the various asset classes shall be appraised on the basis of *a priori* risk measurements and expected returns for each asset class; and finally, the Board approves the global asset mix in the portfolio, which sets targets and limits for the different asset classes. This is illustrated in Figure 1 below.

Figure 1: The Portfolio Construction Process



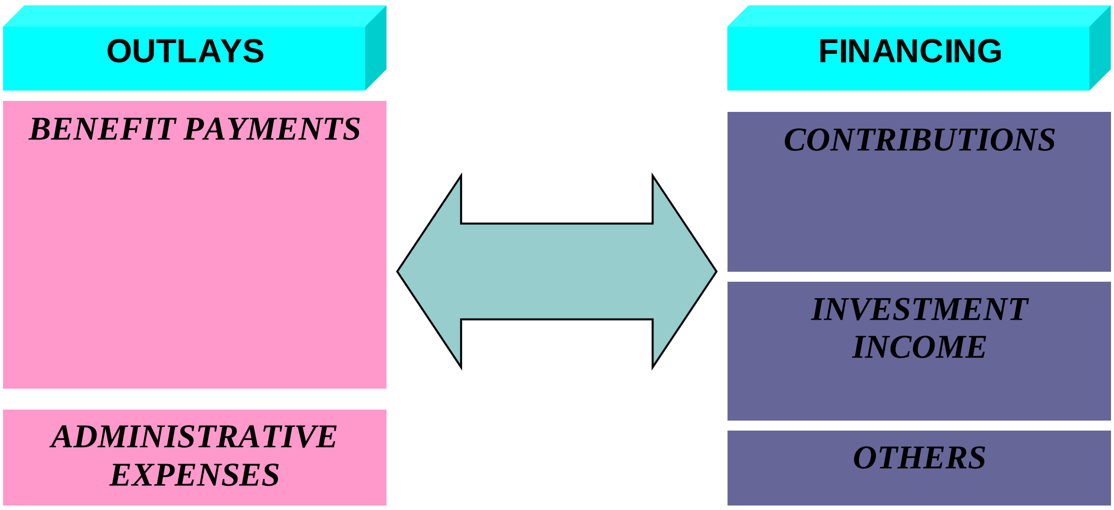
20. Key aspects of the asset allocation and investment management process are:

- The long-term nature of the Fund
- Setting acceptable risk limits, subject to the benchmark returns
- Determining an optimal portfolio through diversification
- Tracking the performance of the assets in the portfolio through periodic reviews

3.3 The Fund

21. The scheme is financed by **contributions** from employers and employees; **interest and penalties** from delinquent institutions and **investment income**. The Trust expenditures are in the form of benefit payments to insured members and administrative expenses for the administration of the pension fund. The financing and expenditure structure of the scheme is depicted in Figure 2 below.

Figure 2: The Fund: Financing and Outlays



3.3.1 Reserves

22. The reserves of the Fund primarily consist of accumulated surpluses of contribution over benefit payments and administrative expenses plus income from investment. Since the scheme is partially funded, the objective of the investment of funds is to match assets to current and future liabilities.

23. In the medium-term, only an insignificant fraction of the Trust's liabilities are expected to fall due. Thus, for this period, the portfolio may go overweight in potentially high risk investments with significantly higher long-term returns.

4.0 MEDIUM-TERM GLOBAL STRATEGIC ASSET ALLOCATION

24. The portfolio mix is determined against the backdrop of the Trust's **Investment Objectives**, the **Risk Limits,** and **Liquidity Requirements** of the Scheme. Since contributions are projected to be higher than expenditures for sometime to come, a long term investment strategy is to be adopted.

24. By 2011, the Trust's global asset allocation should comprise Fixed Income Assets (40%); Equity (25%); and Real Estate/Property (35%). This projection is based on the assumption that all current investments will yield income. The medium-term global asset allocation is provided in Table 1 and illustrated in Figure 3 below.

Table 1: Medium Term Global Asset Allocation Targets *(2011 – 2013)*

	Strategic Weight (%)			
Asset Class	**2011**	**2012**	**2013**	**Tactical Range (%)**
Fixed Income Assets	40	35	35	+/- 2
Equity	25	25	25	+/- 5
Real Estate/Property	35	40	40	+/- 5
Total	**100**	**100**	**100**	+/- 5

Figure 3: Medium Term Global Asset Allocation

4.1 Rebalancing Policy

25. The Board, having established policy targets and tactical ranges, will periodically rebalance across asset classes (e.g. quarterly or annually) preferably across the equity/fixed income allocations and much less within equity or fixed income.

4.2 Risk Analysis

26. The approach for managing the portfolio involves:

i. Determining an acceptable risk limit for long-term management of NASSIT funds. Taking risk beyond acceptable levels should be done only if the expected additional returns justify the investments or if they are crucial to serving other critical objectives;

ii. Recognizing that within the context of the Sierra Leonean market, there is a thin line between greater *(scale)* returns associated with large positions in certain assets and greater risks due to high exposures in these assets; and

iii. Being aware that despite the short-term random behaviour of markets, there is long-term predictability.

27. The medium-term policy is to diversify current and future assets to include real estate and equity given the significant reserves projected in the medium-to-long term. Thus, in determining an optimal diversification of the portfolio, the Board is guided by basic principles and considerations of risk and risk management. As the expectations of risk and return change over time, this will be matched by shifts in the relative magnitude of asset holdings in the portfolio to maintain an optimal asset mix.

4.2.1 Risk Management

28. Risk can be measured in terms of events that may go wrong that can result as well in unattained or partially attained objectives or objectives that have been attained with great difficulty. Risk management is a process by which this situation can be identified, measured and controlled.

29. Social security institutions generally face the following types of risk:

- Operational risk, derived from administrative failure;
- Fulfilment of obligations risk, derived from higher than predicted life expectancies, invalidity rates or from regulatory changes;
- Economic risk, related to lower income because of economic cycles, changes in demand for services and benefits, inflation, etc.;
- Catastrophic risk, considers natural disaster or major accidents; and
- Investment risk, derived from lower than expected returns due to market conditions, incorrect investment strategies, or poor choice of individual investments. These include concentration risks, lack of sufficient diversification, and inadequate match between liabilities and assets.

30. In managing the portfolio, the Board considers three main types of investment risks:

- Credit risk, due to the inability of the other party to comply with its obligations;

- Liquidity risk, present when a transaction cannot be carried out at market prices due to a low operation in the market; and,
- Market risk, derived from changes in the prices of financial instruments.

31. Additionally, there are two other risks that the Board may face:

- Operative risk, due to failures or deficiencies in information systems, internal control systems or operations processing; and,
- Legal risk, due to legal controversies.

32. To monitor risks in the investment process, the Board will annually review the risk profile of the portfolio, as well as the approved risk limits. For the domestic market, a **risk-matrix,** shown below, has been developed showing the risk levels of each asset class selected in the global asset allocation.

Table 2: Domestic Market Risk Analysis

Asset	**Scaled Risk Levels *(By Risk Parameter)***							
	Liquidity	**Currency**	**Int. Rate**	**Business**	**Financial**	**Ops.**	**Agency**	**Total**
Cash	*Low*	*High*	*Low*	*Low*	*Low*	*Low*	*Low*	*Low*
Fixed Income (Short-Term)	*Moderate*	*Moderate*	*Low*	*Low*	*Low*	*Low*	*Low*	*Low*
Fixed Income (Long-Term)	*High*	*Moderate*	*Moderate*	*Low*	*Low*	*Low*	*Low*	*Moderate*
Private Equity	*High*	*Moderate*[1]	*Low*	*High*	*High*	*Moderate*	*High*	*High*
Property	*High*	*Low*	*Low*	*Low*	*Low*	*Moderate*	*Low*	*Low*

SOURCE: NASSIT INVESTMENTS DIVISION

33. As the Risk Matrix in Table 2 shows, varying levels of different risk parameters are associated with each class of asset. Total risk is highest for equity investments followed by corporate debentures and long-term debentures. Property investments have a low risk. Short-term Government securities are the least risky investment in the domestic market.

4.2.2 Diversification as a Risk Mitigation Measure

34. Diversification implies reducing market and credit risks by spreading the assets across different categories, counterparts and markets. Thus, the Board diversifies the portfolio by holding a range of asset classes and investments with

different risk/return characteristics in terms of greatest objectivity, prudence and transparency. Hence, the Trusts investments are being diversified to cover potentially viable sectors in the domestic economy as well as offshore investments. In this regard, the Trust may hold between 15 -20 percent of its investment funds in offshore fixed income securities.

5.0 ASSET SELECTION

35. Asset selection by the Board is guided by three principles: **safety of the investment; required yield;** and **harmony with public interest** of the investment. To ensure consistency between investment objectives and the short-to-medium and long-term financing objectives *(cash flow needs),* the investments take into account the financial system under which the scheme is operating.

36. In selecting assets for inclusion into the portfolio, the Board considers the following:

i. the growth potentials of the investment;
ii. the contribution to economic growth and development; and
iii. the potential tradability/liquidity of the investment

37. The key objective is to seek the highest rate of return, but this strategy has to be weighted against other objectives. Thus, there is a trade off between expected returns, security and liquidity of the investments. Assets which are less secure or less liquid will carry a premium in terms of their expected returns. In our situation, with low depth of the capital market, it may not be possible to avoid high-risk assets. The challenge for the Board is to mitigate the risks associated with these investments.

5.1 Special Purpose Investments

38. While the Trust shall ensure that investments are exclusively in the interest of the scheme's members as a matter of priority, the Board may also consider investing in Socially Responsible and Economically Targeted Investments. Such special purpose investments that deliver on ethical and development oriented objectives aim at addressing critical social issues and/or enhancing economic growth.

Where these investments are considered desirable but the returns likely to be achieved are below market norms, the investment shall be structured so that the subsidy is made from other resources in order to avoid compromising the fiduciary responsibilities of the scheme.

However such investments by contributing to long term national economic growth, can improve the financial soundness of the scheme in terms of number of members, the amount of their insurable earnings and the rate of return on the schemes investments.

The factors that may guide the selection of these projects should include but not limited to the demand of stakeholders, the Trust's vision/mission, risk management and political expediency.

Investments in these kinds of projects shall be closely monitored to ensure they deliver the intended objectives.

5.2 Asset Mix

39. The Asset mix focuses on short-term liquidity, ensures long-term capital appreciation and minimises risk. Thus, subject to a proper assessment on an individual case-by-case basis, the Board may invest in the following mix of assets:

- **Cash Investments**
- **Fixed Income Instruments**
  - 91-Day Treasury Bills
  - 1-Year Treasury Bearer Bonds
  - Other Government of Sierra Leone Bonds
  - Corporate Bonds
- **Equities**
  - Quoted Securities
  - Private Equity
- **Property (Real Estate)**
- **Offshore Investments**

5.2.1 Cash Investments

40. To maximise the utilisation of cash and near cash assets, an effective treasury management system has been adopted. In this regard, effective use of money market investment options are utilised to maximise capital gains from cash movements and speculation.

5.2.2 Fixed Income Securities

41. The only traded securities in the market are short-term Government fixed income securities. To deepen the financial market, the Board will collaborate with other stakeholders in the financial sector and policy makers to establish a stock exchange. The Board will also trade in longer-term fixed income securities from both Government and private corporations when available and subject to tolerable risk limits.

5.2.3 Equity

42. In the absence of a regulated equity market, investments in equity will be in the form of private equity. For investments in existing companies, several requirements, including profits and dividends for the last three years, must be met.

43. The Board may also participate in venture capital investments directly and/or indirectly. The provision of **direct venture capital** through private equity will target investments that require substantial capital inputs; investments where the promoters of the concept are knowledgeable in the operations of the business; and where the expected financial returns from the investment are significantly high.

44. The Trust shall also participate in indirect investments in venture capital by financing a **Fund** or **Company** established specifically for providing venture capital to Small and Medium scale Enterprises (SMEs). In this regard, it will collaborate with local institutional investors as well as International Financial Institutions (IFIs) in the financing and governance of a Venture Capital Fund incorporated in Sierra Leone. In addition to providing requisite venture capital for Small and Medium Scale Enterprises, the Venture Capital Company will also focus on building management capacity of these enterprises to prepare them for public offerings.

5.2.4 Property Investments

45. Property investments are the primary **real return assets.** They have the greatest potential for long-term portfolio growth. The general trend in real estate indicates significant appreciation in the value of such assets in the medium to long term. The Board may undertake these investments to achieve the growth objectives of the Trust fund.

46. The Board may invest directly in certain classes of property, in order to maximise the value of total assets in the portfolio. Such direct investments are limited to commercial properties including Office Tower Blocks, Public Parking Lots, and Shopping Malls/Plazas. The Board's investment in housing and other forms of real estate development will be through equity holdings of real estate developers.

5.2.5 Offshore Investments

The Trust funds may be invested in offshore fixed income securities or equity that is traded in regulated stock markets. In this regard, the Trust will utilise the services of professional Fund Managers. The Board may periodically review the exposure limits in this area giving due regard to global economic trends.

6.0 Priority Investment Sectors

47. A critical objective of the overall investment strategy is to enhance the development impact of the investment through a strategic allocation of resources. To ensure this, the Board shall target critical sectors that will enhance the maximization of overall returns, while making meaningful contribution in certain sectors of the economy. The following sectors shall be considered priority investment sectors:

- Tourism
- Health
- Financial and Corporate Sector
- Value Added Industrial Production
- Real Estate and Housing
- Agro Processing Industry

7.0 MONITORING PORTFOLIO PERFORMANCE

48 The Board monitors and evaluates portfolio outcomes using two benchmarks. These are the actuarial and policy benchmarks.

7.1 Actuarial Benchmark

49**.** The actuarial benchmark is the most vital investment return objective used in evaluating investment performance since this rate of return must be achieved for the scheme to meet its long-term obligations and remain financially sound. The actuarial valuation report recommends a **Benchmark Rate of Return** of Wage Inflation + 2 percent.

7.2 Policy Benchmark

50. The policy benchmark is the primary determinant and control mechanism of the risk-return expectations. The policy benchmark will be determined annually based on long-term assets and long-term liabilities assumptions and socio-economic considerations of the investments. The Board determines this portfolio-wide benchmark during annual strategic reviews of the investment process.

51. The Policy Benchmark takes into consideration the asset allocation profile, the expected returns on each investment and the relative weights of the various assets held. Other market parameters shall, however, be utilised to measure the performance of the various asset classes as follows:

Table 3: Asset Allocation Profile and Expected Returns

No.	Asset Class	Performance Benchmarks
1	Fixed Income Assets	Period Average Yields on the similar investment instruments in Market
2	Equity	5% Real Rate of Return
3	Property	Growth in nominal GDP *(to be measured every three (3) years)*

7.3 Asset Valuation

52. The Fund carries on its balance sheet the fair market value based on the Trust's external audit. The Board uses this fair market value to arrive at a valuation of its investments. However, recognising that valuing investments not traded in a well established and regulated market is subjective, the Investment Committee

advises the Board on values of investments based on appraisals or carrying values reported by the Trust's **Independent Valuators.**

8.0 CORPORATE GOVERNANCE, VOTING RIGHTS AND PUBLIC DISCLOSURE

53. The Board recognises the need to improve corporate governance practices among companies. In this regard, the Board will develop guidelines that would serve as a frame of reference for persons/institutions representing the Trust in Boards of Companies in which it maintains an interest.

54. The guidelines will be based on the principal codes of best practice in corporate governance, including promoting transparency and public disclosure of information. In particular, information on the audited Annual Accounts and Reports of the Trust, as well as its portfolio companies, will be published periodically. The Trust will also publicly make available its Investment Policy and Strategy, as well as the Strategic Plan for executing its mandate.

9.0 SOCIAL RESPONSIBILITY

55. The Trust recognises the need to fulfil its social role in its investments consistent with the principles of social utility. The Trust will, therefore, ensure that its investments are in harmony with public interest.

56. Specific areas for such social investments will be in the areas of research and public infrastructure. The Board establishes the criteria for the selection of investments with high social utility.

10.0 PERIODIC REVIEWS

56. The Board has approved that various aspects of the investment process shall be reviewed as follows:

Aspect	**Review Schedule**
Investment Performance	Quarterly/Annually
Investment Policy/Strategy	Annually
Global Asset Allocation	Every Three years

GLOSSARY OF TERMS

Act: This refers to the Sierra Leone Act of Parliament No. 5 of 2001, which established the National Social Security and Insurance Trust

Actuarial Report: The Report on the "Design and Financing of the National Social Security and Insurance Trust Fund: Sierra Leone";

Benefits: The benefits defined under the NASSIT Scheme

Benchmark Rate of Return: This was estimated as Wage Inflation + 2%

Contributions: 5 percent Payroll taxes plus 10 percent employer contributions on behalf of their employees

Cash: Refers to cash holdings, current account and call accounts held by the Trust

Equilibrium Period: A period of twenty years over which, based on last actuarial estimates, current contribution levels may remain unchanged if other assumptions on investment returns and demographic conditions hold.

Equity: The broad asset class that, ideally, should include both private and quoted stocks. In the absence of a regulated stock market, holdings will be limited to private equity.

Fixed Income Securities: This currently includes only Government of Sierra Leone 91 Days Treasury Bills and 1 Year Bearer Bonds.

Investment Income: Returns on investments *(realized and unrealized)*

Investment Statement: Written summary statement of investment policies and procedures as approved by the Board of Trustees and implemented by Management

Real Return Asset: An asset that is inflation-sensitive. A broad class includes Real Estate, Infrastructure and Inflation Pegged Bonds.

Risk Limit: Maximum permitted holding of an asset, or exposure to an asset class, due to the inherent risks of such an asset in the domestic market or expected changes in the operating environment.

Liquidity Risk: Refers to risk of not having enough liquid assets from an investment at any time the Trust may wish to convert such assets to cash, due to poor marketability of the asset.

Currency/Inflation Risk: Considers the probability of the real value of the assets being eroded by inflation or by depreciation of local currency.

Interest Rate Risk: Refers to the potential risk of making capital losses from holding certain assets due to changes in market rates of interest.

Business Risk: Considers the overall efficiency of the investments in terms of consistency or volatility of earnings.

Financial Risk: The risk of insolvency, where the total liabilities arising from an investment may exceed the assets therein.

Operational Risk: The risk linked to non-financial matters such as fraud, accidents and other breaches associated with an investment.

Agency Risk: The risk that agents (managers) of the Trust's assets will not act in the best interest of the Trust in an investment venture.