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National Insurance Scheme

INVESTMENT POLICY STATEMENT

July 28, 2010

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Investment Policy Statement

1.0 INTRODUCTION

1.1 MISSION STATEMENT

The mission of the NIS is to provide for efficient payment of relevant benefits and provision of other services to stakeholders in a customer-focused environment through effective collection of contributions and prudent management of funds with highly trained staff using innovative technology.

1.2 BACKGROUND

This statement outlines the Investment policy and strategies of the National Insurance Scheme Grenada (NIS) developed to provide a basis for the investment and management of the National Insurance Fund.

The National Insurance Law #14/1983 establishes the National Insurance Scheme through the collection of contributions and other income, for the payment of various benefits including, sickness, invalidity, maternity, survivors, age and funeral. Thus, the NIS shall invest its funds to enable it to meet its present and future financial liabilities, that is the payment of benefits.

The primary objective of investments is to ensure that the condition of solvency necessary to achieve the Scheme's obligations always exist.

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1.3 STATEMENT OF PURPOSE

The purpose of this Statement is to create a general framework within which the Fund can be invested in accordance with modern portfolio theory and efficient portfolio management and to document the investment management process by:

- a) Identifying the key roles and responsibilities relating to the ongoing management of the Board's Assets by recognizing and specifying the different parties responsible for various aspects of investment management;
- b) Establishing objectives, expectations and guidelines for managing the Investment portfolio of the Board;
- c) Setting forth an investment structure for the Board's Assets which structure includes various asset classes and acceptable ranges/percentages that, in aggregate, are expected to produce a sufficient investment return over the long term while prudently managing risks;
- d) Establishing criteria to measure and monitor
- e) Evaluating the Fund's performance on a regular basis based on actuarial performance as set out on page 17 hereto;
- f) Encouraging effective communication among all fiduciaries including the Board, the Investment Committee, Management and appointed staff including external managers selected and appointed to represent and work for and on behalf of the Board on the international market.

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2.0 SOURCES OF FUNDING AND OBLIGATIONS OF THE SCHEME

a. The National Insurance Scheme is financed through the following sources:

- a. contributions;*
- b. rents, interest, dividends or other income derived from the assets of the Fund;*
- c. sums properly accruing to the Fund under this Law, including the repayment of benefits;*
- d. sums properly accruing to the Fund under this Law, including the repayment of benefits;*
- e. such other sums as may be provided by Cabinet for the purposes of this Law or as may be received and accepted by the Board on behalf of the Fund;*
- f. the assets and all other funds held in trust or otherwise by the Provident Fund Board at the Appointed Day;*

c. The obligations of the Scheme are:

- (a) to pay out benefits;*
- (b) To collect salaries rents expenses and allowances properly incurred in the administration of this law;*
- (c) Deal with all liabilities incurred by the Provident Fund Board;*
- (d) Facilitate training of staff officers and employees of the Scheme so long a the Board is of the view that the training is necessary;*

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(e) To expend any sums expended for carrying out any surveys or research for the purpose of gathering any data which the Board considers necessary for the performance of their functions under the Law;

(f) To pay any fees subscriptions or sums for membership, affiliation or contribution to or in any local, regional or international body concerned with national insurance;

(g) To use all other moneys which the Board may consider to be reasonable and necessary for the proper and efficient performance of their functions;

(h) To use monies from the Fund to make any other payments authorized under this Law

b. The surplus moneys of the Fund may be invested in any of the following ways:

- The acquisition of land
- The purchase or construction of buildings
- Loans
- Government bonds and securities
- Shares and debentures in bodies corporate
- Bank deposits

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3.0 INVESTMENT OBJECTIVES

The main purpose of investing the National Insurance Funds is to ensure that the welfare of the members of the Scheme is protected. The strategic objectives of the investments include:

a) **Safety**

The fact that the NIS has been entrusted with the management of the contributors' money, safety must be the foremost requirement in investing the fund in order to ensure the preservation of capital in the overall portfolio.

b) **Yield**

For any partially funded pension scheme like the NIS, it is required that a minimum acceptable rate of return be achieved. In the development of this policy a minimum rate of return of 6% per annum on the overall portfolio was considered. Any variations above this bench mark have to be based on the risk appetite of the Scheme given its overall circumstances.

c) **Liquidity**

The investment portfolio must ensure an adequate level of liquidity to meet all short to medium cash requirements by ensuring that certain investments mature concurrent with such cash needs. However, given the stage of maturity of the Scheme, liquidity is not the foremost priority in this period.

d) **Socio Economic Utility**

After achieving the basic objectives of safety, yield and liquidity, the question of social and economic utility may be considered as an investment objective in as much as they contribute to improving the condition and quality of life of the citizens as well as influencing some level of economic activity in the country.

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These once achieved do contribute in a positive way to the overall performance of the Scheme through increased contributions.

The NIS as much as is possible should facilitate economic and social development through prudent investment in pertinent projects (education, housing etcetera, while at the same time ensuring maximum returns and security to its contributors.

It should seek to achieve the above objectives by careful selection of investments that guarantees requisite short term liquidity, ensure medium to long term capital appreciation and minimize overall risk while targeting crucial sectors of the economy with growth potential. The Board, Investment Committee and Management should therefore utilize an investment strategy underpinned by prudent asset allocation and targeted investments in critical sectors to:

- Achieve a rate of return that would guarantee the Scheme's ability to meet its liabilities as they fall due.
- Mitigate existing market risk
- Respond to critical social and economic needs.

4.0 Governance

The National Insurance Board is established as the entity in which the Fund shall be vested, and which shall be responsible for administering the Fund in accordance with the National Insurance Law.

Section 19 (1) and (2) of the National Insurance Law No. 14 of 1983 states that *"The Investment Committee shall have power to give from time to time general or specific directions to the Director, subject to the concurrence of the Board, on the investment of moneys in the Fund which are surplus to current needs; and the*

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Director shall give to the Investment Committee any information necessary for the proper discharge of their functions”.

The Director of the Fund is the Chief Administrative Officer of the Fund and is responsible for, among other things, the investment of surplus moneys in the Fund as directed from time to time by the Investment Committee.

5.1 Structure

Investment Committee

The National Insurance Law provides for an Investment Committee which shall consist of five members to be appointed by the Minister as follows;

- a) an officer of the Ministry of Finance nominated by the Minister of Finance, which officer shall be appointed Chairman;
 - b) a member of the Board other than the Director;
 - c) two other members, who appear to the Minister to be experienced in finance, accountancy, business administration, industrial relations or other related subjects, one of whom shall represent the employers and employees;
 - d) the Director.
- The Investment Committee shall have a quorum of three members and the Secretary of the Board shall be the Secretary of the Investment Committee and shall keep adequate records of the decisions made.
 - The Investment Committee shall meet at such times and places as the Chairman shall appoint, or upon the request of any two members thereof.

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- The Investment Committee shall appoint their own Deputy Chairman and regulate the procedure at their meetings.
- The members of the Investment Committee shall hold office for a term not exceeding three years and shall be eligible for re-appointment

The duties/responsibilities of the Investment Committee include:

- Setting investment policy statement and guidelines based on recommendations of the Management and the Board of Directors.
- Meets at least once a month to review all the proposals submitted by the Investment Department and to make recommendations on them to the National Insurance Board.
- Provide general and strategic direction/suggestion to the Investment Department on investment matters.
- The Investment Committee shall submit to the Board at the end of every quarter a report of its activities over the preceding quarter.

6.0 INVESTMENT PROCEDURES FOR THE FUND

6.1 Fiduciary Oversight Procedures

The following procedures for the management of the Fund's Assets outline the specific responsibilities of the Investment Committee, Board and other fiduciaries.

- ❖ The Investment Committee, Board and Management will exercise their fiduciary responsibilities in regard to the investments of the fund in accordance with the Scheme's Mission and Laws.

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- ❖ The Investment Committee, Board and Management, in realizing any investment, shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of managing such a fund with like character and like aims.
- ❖ The Investment Committee, subject to concurrence from the Board, and with input from the relevant investment personnel, managers and consultants, will approve specific allocation of the investments among the various asset classes considered prudent given the fund's investment objectives, time horizon, constraints and multiple measures of investment risk. The asset allocation shall be expressed in terms of a normal percentage allocation and ranges for each asset class.
- ❖ The Board, Investment Committee and Management shall review the asset allocation, asset class and current market trends annually to ensure that the current asset mix can reasonably be expected to achieve the long-term goals of the Scheme.
- ❖ The Board, with input from the Investment Committee and Management, may appoint external investment managers, consultants and due diligence firms to assist in the development and management of its foreign investment portfolio.

6.2 Fiduciary Considerations

- ❖ The asset allocation shall be sufficiently diversified to enable the appropriate fiduciary to manage risk without imprudently sacrificing return. At all times, risk of loss should be minimized while rate of return be maximized.

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- ❖ The fund should be invested to ensure adequate liquidity to meet all expected and unexpected cash flow requirements.
- ❖ The Investment Policy Statement would be reviewed at least every three years to ensure its conformity with current market trends and modern portfolio theory.
- ❖ Investments shall not be made for any other purpose, objective or reason other than in the best interest of the Fund and the sole purpose of providing long-term security, continuity, capital preservation and growth of the fund.

7.0 Asset Allocation

The asset allocation is of paramount importance in implementing the strategy to meet the investment objectives. In satisfying these objectives it is necessary that the Scheme adopt a multi-asset approach on a total return basis (capital preservation and capital appreciation). This process demands that the Board, Investment Committee and Management review the portfolio at least annually prior to formal submission of the Business Plan and rebalance same as often as necessary to ensure that the optimal asset allocations are maintained at all times.

The following factors are to be considered in revising the asset allocation:

- Changes in the assumed actuarial rate of return.
- Significant changes in liquidity or income requirement.
- Changes in the investment horizon
- Changes in the status of the fund between actuarial valuations.

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- Governmental/regulatory policy changes with respect to taxation, interest rate and exchange rate policies

Asset allocation is a very important element of policy determination since it involves the determination of how much of the portfolio should be invested in each major asset category. The process in determining same includes a number of steps namely; determining the class of assets for investment and identifying the relevant factors to be considered so as to determine the optimal asset allocation.

In order to effectively achieve the Board's investment objectives the following asset classes are recommended:

- Cash & cash equivalents
- Fixed income securities
- Equities
- Real Estate

Cash & Cash Equivalents

The securities included in this asset class are as follows:

- Savings account
- Term deposits
- Treasury Bills

Fixed Income Securities

The securities included in this asset class are as follows:

- Local Government bonds

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- Sovereign Bonds issued on the Regional Government Securities Market
- Sovereign bonds issued by regional governments
- Bonds issued by established regional/corporate institutions
- Local corporate bonds
- Annuities from local/regional financial institutions
- Bonds issued by International Federal Government/Agency
- Mortgage Loans
- Economically targeted loans
- Corporate Loans

Equities

Equities can be purchased in the following institutions/industries:

- Utilities
- Banks
- Financial Institutions
- Corporations
- International equities

Real Estate

This refers to land and all developed properties that can generate rental income.

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8.0 Current Portfolio

Table 1 shows the existing asset allocation as at May 31, 2010.

TABLE 1			
INVESTMENT CATEGORY		ACTUAL ALLOCATION	
Cash & Cash Equivalent	29.8		
	Cash	26.7	
	Treasury Bills	3.1	
Fixed Income Securities - Bonds	28.3		
	Domestic	Government	14.4
		Other	5.6
	Regional		8.3
	International		0
Fixed Income Securities - Loan	27.7		
	Statutory		11.7
	Domestic Loans		6.3
	Mortgage Financing		9.7
Equities	10.2		
	Domestic		10
	Regional		0.1
	International		0

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Real Estate		4.1
Domestic 91.18%	External	8.82%

The proposed asset allocation on page 20 highlights a marked shift in a number of asset classes:

- a) **Cash & cash equivalents** reflect a reduction from 29.8% to 5 - 10 %. The excessive holdings in cash and cash equivalents expose the National Insurance Board to a number of risks including interest rate risk as well as risk of political interference

- b) **Fixed Income Securities - Bonds:** The current asset allocation has 28.3% of the portfolio invested in Fixed Income Securities. The majority of which, 14.4% represent holdings in Government Securities. With the restructuring of Government bonds in September, 2005 the newly issued bond of \$92.2 million has increasing interest rate as it matures. The table below highlights the changes in the rates;

YEARS		INTEREST RATE
15-Sep-05	15-Sep-08	1.00%
15-Sep-08	15-Sep-11	2.50%
15-Sep-11	15-Sep-13	4.50%
15-Sep-13	15-Sep-15	6.00%
15-Sep-15	15-Sep-17	8.00%
15-Sep-17	15-Sep-18	8.50%
15-Sep-18	15-Sep-25	9.00%

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The targeted allocation represents an increase in this category to 35 - 40%. The increase is based on an increase in regional fixed income securities in the vicinity of 10% and a provision for international securities of 1-3%.

The increase in this category is expected to achieve the objectives;

- 1) Reduce the current exposure in cash and cash equivalent from its current 25.8% to the targeted 5 -10%.
- 2) Align the investment portfolio in keeping with the long-term cash flow needs of the N.I.S
- 3) To assist with increasing the yield on the Reserve
- 4) To ensure that the NIS engages in substantial long-term investments in mitigation of the projected cash flow needs particular in the period 2021 to 2025.

The maturities of fixed income securities must be consistent with the above mentioned period

c) **Fixed Income Security – Loans:** The NIS portfolio currently holds 27.7% of its investment in this category. While the targeted allocation remains the same at 25-35%, the intention is to do the following:

- ✚ Reduce the percentage allocation in Statutory Bodies from 11.7% to 5-10%
- ✚ Increase the percentage allocation in domestic loan from 6.3% to 7-10%
- ✚ Increase the percentage allocation in mortgage financing from 9.7% to 10-15%

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d) **Equities**:- The current allocation in equities amounts to 10.2% of the investment portfolio. The targeted allocation is 10-15% with increases in the regional equities from 0.1% to 1-3% and provision of 1-2% for International equities.

e) **Real Estate**:- The current allocation in real estate is 4.1%. The intention is to increase investment in this asset class to 5-10% of the portfolio.

Actuarial Considerations

The 8th Actuarial Review outlines the long-term sustainability of the NIS and provides guidance for investing NIS funds. The projections were based on some key assumptions on the population, the economy and NIS demographic and finances. On the economy the review assumes the following:

- ✚ Real GDP growth in the medium term of 2.5% and in the long-term of 1.25%
- ✚ Inflation of 2.75%
- ✚ Slow mortality improvements and
- ✚ Real increases in wage of 1.0% and positive net migration going forward

The key results of the projections of the 8th Actuarial Review noted the following; At as December 31, 2006 the Reserve at the end of the year totaled \$523 million. The review projects that the Reserve will grow to 1.1 billion in 2021.

However, at that point the rate of growth would have slowed as expenditure primarily from pension payments increases significantly.

The number of pensioners is expected to increase from just over 5,000 at the end of 2006 to 7,500 in 2016, and 14,500 in 2026. Corresponding pension expenditure is expected to increase from \$23.05 million in 2006 to approximately \$192 million in 2026.

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The strain brought on by increasing pensioners and the declining number of contributors as fertility rates fall will see expenditure exceeds contribution for the first time 2016 to 2017.

Expenditure will exceed total income for the first time between 2021 to 2025 forcing the NIS to liquidate some of its investments.

The NIS must therefore ensure that its assets allocation during this period reflects the particular need it will experience then.

If the institution continues to ignore its sustainability issues and does not make the relevant adjustments the review predicts that the fund will be 2031 to 2038.

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9.0 Recommended Asset Allocation

TABLE 1					
INVESTMENT CATEGORY		ACTUAL ALLOCATION		Minimum Accepted Rate of Return (%)	Actual Rate of Return
Cash & Cash Equivalent		5-10		5	
	Cash	3-5			
	Treasury Bills	2-5			
Fixed Income Securities - Bonds		35-40		6	
	Domestic	Government	10-15		
		Other	0-5		
	Regional		5-15		
	International		1-5		
Fixed Income Securities - Loan		25-35		7	
	Statutory		5-10		
	Domestic Loans		7-10		
	Mortgage Financing		10-15		
Equities		10-15		7.5	
	Domestic		5-10		
	Regional		1-3		

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	International	1-2			
Real Estate		5-10	10		

10.0 Investment Guidelines

Cash & Cash Equivalents

- **Term Deposits**

For investing in term deposits the investment committee and the Board must take into consideration the following factors in determining where these deposits should be placed:

- The management structure, historical performance and current financial strength of the institution in which the deposit would be placed.
- The perceived risk with respect to interest and principal.
- The interest rate being offered taking into consideration the established benchmark.
- As much as is possible verify the areas in which such funds would be invested by the receiving institution.
- Deposits must not exceed more than 10% of the assets of any deposit taking institution.
- Deposits must be diversified across banks and no more than 5% - 7.5% of the total portfolio should be held in any one bank.

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- **Treasury Bills**

This investment instrument may be considered by the Investment Committee/Board when the yield approximate the rate offered on term deposits.

Fixed Income Securities

- **Sovereign Bonds**

When investing in sovereign bonds the country must be investment grade i.e. BBB or above by Standard and Poors or Baa or above by Moody's Investment Service or CariBBB by CariCris.

When such ratings are below that specified by the NIS policy the Board may consider the country's progress towards achieving the ECCB's recommended targets as stated below.

However, in instances where there are no published ratings for the sovereign debt a thorough assessment must be made of the country's debt servicing history as well as its future ability to honor its debt obligation.

The monetary Council of the ECCB has established and recommended the following targets countries should work towards achieving:

- Outstanding debt as a percentage of GDP should be less than 60%.
- Overall fiscal deficit not to exceed 3% of GDP
- Debt service as a percentage of current revenue must be less than 15%.

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- Current account surplus must be at least 4% of GDP.

No more than 3% of the total portfolio should be invested in treasury bills and sovereign bonds in any one country.

- **Corporate Bonds**

The following particulars of the applicant, where applicable and relevant, must be considered before an application can be approved:

- (i) Character
- (ii) Capacity
- (iii) Capital
- (iv) Collateral
- (v) Condition
- (vi) Compliance
- (vii) Company

In general, the maximum maturities of these securities would not exceed twenty five (25) years, and holding per issue is restricted to not more than 10% of the issue size. In addition holdings would be diversified across issuers, countries and maturities. No more than 1% of the total portfolio should be held in any one company.

For investing in loans the conditions required for investments in corporate bond and equities would apply. In addition, the Scheme should not by itself make loans exceeding 2% of the portfolio to any single borrower. If a borrower wishes a loan in excess of this amount, the Scheme should participate as part of a syndicate.

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Investments in tourism, health and education would only be undertaken as part of a consortium.

The funds of the National Insurance Board should not be invested in venture capital.

The inherent risk associated with Start-up projects must be considered.

Equities

When considering investments in this type of instrument, the Investment Committee/Board must take into account the following criteria:

- a) Listed on the regional securities exchanges or some near prospect of being listed or an exceptional business track record verified by audited financial statements.
- b) Analysis of the company's performance over a period of at least five (5) years.
- c) A risk analysis of the company's business.
- d) The scheme must hold no more than 10% of the common shares of any institution, and the holdings must be diversified across sector and industries.
- e) Equity by its nature is very risky and the risk increases where the equity is of a newly formed company with no track record. Given the significant percentage of start-up companies that fail the NIS should avoid investing in the shares of such companies.

Real Estate

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Investment in real estate provides the Board with the potential for long term portfolio growth. Historically the trend in real estate indicates significant appreciation in the value of such assets in the medium to long term.

Investment in real estate is essential in providing an avenue for diversification due to its low correlation with other asset classes which provide exceptional benefits to the portfolio and an excellent hedge against inflation. This is an illiquid investment, which is associated with a high degree of risk and high levels of return.

11.0 Investing on the Eastern Caribbean Securities Exchange

The following are the guidelines for investing on the Eastern Caribbean Security Securities Exchange:

A committee comprising the Director and personnel from the Investment Department would approve investments based on the following guidelines:

1. Investments must be traded on the ECSE and RGSM.
2. The investment must be a sovereign fixed income security (bond & treasury bill)
3. In the case of bonds the following must be satisfied:
 - a. Amount: Up to \$5 million
 - b. Tenure: Up to 10 years
 - c. Interest: Minimum of 6.50% per annum
4. In the case of treasury bills the following must be satisfied:
 - a. Amount: Up to \$3 million
 - b. Tenure: Up to 365 days
 - c. Interest: Should not be less than the highest rate offered on one year term deposits with local commercial banks
5. Recommended Sovereigns – Grenada, St. Lucia, St. Vincent and Anguilla

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6. The committee would not have the authority to approve amounts that fall outside of the approved asset allocation.
7. Investments would be done on a case by case basis depending on the country rating and the financial situation of the institution.
8. The internal auditor would be required to check to ensure that the investment was in conformity with the above guidelines. In the absence of the Internal Auditor, the Chairman of the Board or the Audit Committee would conduct the check.

12.0 Investment Process

The Investment process commences from the receipt of a written request or proposal sent by potential investors/applicants or obtained through pro-active activities by the Investment Department.

These proposals are first submitted to the Director of the National Insurance Scheme and later forwarded to the Investment Department that would then review, analyze and prepare a written proposal to the Director for his review.

If this written proposal meets all the investment criteria it is then submitted to the Investment Committee for its review and submission with a recommendation to the Board of Directors for its final approval.

Every investment proposal prepared by the Investment Department to be submitted for consideration by the Investment Committee must include a recommendation.

In cases where the National Insurance Board does not concur with the recommendations of the Investment Committee the Board will advise Investment Committee of its reasons in writing.

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Investment Department

The duties of the Investment Department involves firstly a thorough analysis of all investment proposals/requests sought or received to determine whether they meet the investment criteria set out by the Investment Policy Statement of the Board.

Once the criteria is met the department would conduct its own independent research of the company, institution or sovereign Government to understand its historical, current and future performance with a view to verifying its ability to service the specific investment request.

In addition, the investment department is involved in managing the portfolio, monitoring and balancing the portfolio's performance in accordance with the mandate from the Board and carrying out due diligence checks to ensure that the existing investments are performing to the satisfaction of the Board.

13.0 DELEGATION AND MANAGEMENT OF INVESTMENT DECISIONS

13.1 Internal Investment Management

The terms and conditions for the functioning of any internal investment manager are distinctly different and separate from that of an external manager, and must be clearly defined.

The internally managed funds refer to that portion of the fund where the primary responsibility for all aspects of its review, submission and approval are done by the in-house Investment Personnel, Investment Committee and Board.

This would typically be all investments like fixed income (local and regional), cash and cash equivalents, equities (local and regional), and real estate.

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13.2 External Investment Management Consultant

While the need for foreign investment has for sometime been recognized, no external management consultant has been selected as yet and no investments have been made in the international foreign market.

The primary role of a foreign management consultant is to provide information to, and advise the Board of the types of investments available and suitable to its investments needs, the selection of the correct manager/s, supply market intelligence as well as review the work of any external manager/s hired by the Board.

In addition, the external management consultant, because of their knowledge of the foreign markets, their experience, contacts and access to market intelligence, will provide the Board with strategic direction and general advice related to the investment of its Funds.

13.3 External Investment Partnership

The Board may seek to explore Investment partnerships with credible institutions such as the IFC and ECCB and other initiatives such as the pooling of resources with other sister Schemes.

14.0 Conflict & Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment programme, or that could impair their ability to make impartial decisions.

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Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business.

They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

Employees and officers shall refrain from undertaking personal investment transactions with the same person with whom business is conducted on behalf of the entity.

GENERAL

Investments shall be made with the same judgement and care which persons in prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of their capital as well as the income to be derived.

Investment officers exercising due diligence and acting in accordance with this Investment Policy shall be relieved of personal responsibility in the event of loss or diminution of value of an investment undertaken in accordance with this policy.

15.0 REPORTING

i) Legal Framework

In accordance with the National Insurance Laws and Regulations of 1983, the Investment Committee shall submit to the Board at the end of every quarter a report of its activities over the preceding quarter.

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ii) Investment Proposals Considered

A report of all investment proposals submitted to the Investment Committee along with the recommendation from the committee.

iii) Pipeline

The Investment Department must prepare a report to the Investment Committee on all investment proposals being worked on that is not ready for submission.

iv) Observations

Any policy considerations.

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Definition of Terms

Safety

The requirement that funds be safely invested refers not only to formal safety i.e. the certainty of recovering the investment capital, but also real safety which refers to the maintenance of the real value of such invested funds and their return in the face of inflationary movements in the market.

Cash & Cash Equivalents

These are instruments that by nature are very short term with maturities that typically do not exceed one (1) year. They are very liquid instruments characterized by relatively low credit risk and low returns.

The rate of interest earned on those instruments depends on the maturity (longer tenure, higher interest rate), excess liquidity in the banking system (low liquidity, higher interest rate) and the credit profile of the specific institution (high credit profile, low interest rate).

Fixed Income Securities

These are longer term investments with maturities exceeding one (1) year that pay a fixed rate of return. They usually refer to government or corporate bonds which pay a fixed rate of interest until the bonds mature. These investments are advantageous in a time of low inflation.

It also includes loan approved to quasi government institutions, local private/other entities and contributors to the National Insurance Fund.

The term structure of interest rate would normally indicate a correlation between the interest rate and the tenure of maturity in that the longer the tenure the higher

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the rate of interest. Generally, the rate of interest earned on this type of investment is higher than that earned on cash and cash equivalents.

Loans to quasi Government institution are generally secured by Government Guarantees and mortgages.

While the interest rates on these investments may not be as high as those to be generated by other instruments in this asset class such interest rate should not be lower than the minimum established bench mark.

Equities

These involve the purchase of shares in a corporation/entity whereby partial ownership is acquired by receiving a share certificate/ statement.

These instruments are characterized by high levels of risk and high rates of returns that historically have outperformed every other asset class over a prolonged period.

Due to the high level of volatility associated with these types of securities, in order to achieve maximum level of returns, a portfolio of equities should normally have a holding period of no less than seven (7) years.

In this asset class there are typically two types of shares, either ordinary or preference shares. Preference shares usually pay a fixed dividend. These shares are ranked higher than common shares in the event that a company has to repay its liabilities.

Common shareholders are the lowest ranking shareholders in the event of liquidation of the company and participate in the residual value after the settlement of other creditors.

These shareholders usually receive dividends annually, with the dividend payout being dependant on the financial performance of the firm.

Investment Policy Statement

Character

Character refers to reputation. One must examine the company's past behaviour for signs of 'good character' especially its willingness to repay. The background of the firm, its related businesses and company structure can also reveal aspects of the firm's character.

Capacity

Capacity is the track record and prospects of the company and its ability to meet its financial obligations. Use will be made of the financial statements to quantify the firm's ability to borrow.

Different measures of soundness will be used to establish capacity. At its simplest it involves the ability of the company to generate the required cash flow to service the additional obligation.

Capacity also covers the legality of the transaction for the company or its agent.

Capital

Capital refers to the amount of equity in a company. It is the cushion or risk capital element that is available to absorb losses. All other things being equal, the more the equity in the business, the safer the investment.

Collateral

Collateral refers to the amount of security provided in a credit or loan situation. The degree to which an investment is secured will have an impact on the potential risk since the amount of recovery (albeit at the potential cost) will be higher the greater the degree of protection.

Investment Policy Statement

Condition

Conditions are composed of the national, regional and local economic and business environment as well as potential changes in fiscal policy, regulations and technology. These are outside the control of the company but may have a severe impact on its prospects.

Compliance

Compliance with the law must be taken into account to avoid any legal risk. Confirmation must be received that the company has the legal right to undertake the transaction (i.e. avoid the ultra vires problem).

Company Structure

An assessment of the skill, experience and integrity of the company's principal officers as well as the soundness of the company's internal control system should be undertaken.

Asset allocation

Dividing of investment funds among several asset classes to achieve diversification or the process of deciding how to distribute an investor's wealth among different asset classes for investment purposes.

Investment Policy Statement

Asset class

Securities that have similar characteristics attributes, and risk/return relationship.

Bond

A long term debt security with contractual obligations regarding interest payments and redemption.

Capital Appreciation

A return objective in which the investor seeks to increase the portfolio value, primarily through capital gains, over time to meet a future need rather than dividend yield.

Capital Preservation

A return objective in which the investor seeks to minimize the risk of loss; generally a goal of the risk-averse investor.

Credit Rating

An assessment of the credit worthiness of individuals and corporations. It is based upon the history of borrowing and repayment, as well as the availability of assets and the extent of liabilities.

Due Diligence

An investigation or audit of a potential investment. Due diligence serves to confirm all material facts in regards to a sale / investment opportunity.

Investment Policy Statement

Diversification

A risk management technique that mixes a wide variety of investment instruments within a portfolio.

The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated.

THIS POLICY WAS APPROVED BY THE NATIONAL INSURANCE BOARD AT ITS MEETING HELD ON JULY 28TH 2010.

.....
PHILBERT LEWIS

CHAIRMAN

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ALFRED P. LOGIE

DIRECTOR