



## ANNUAL REPORT

The Management Committee of Punjab Pension Fund (PPF) is pleased to present to Government of the Punjab the Annual Report for the year ended 30 June 2015.

### FUND SIZE

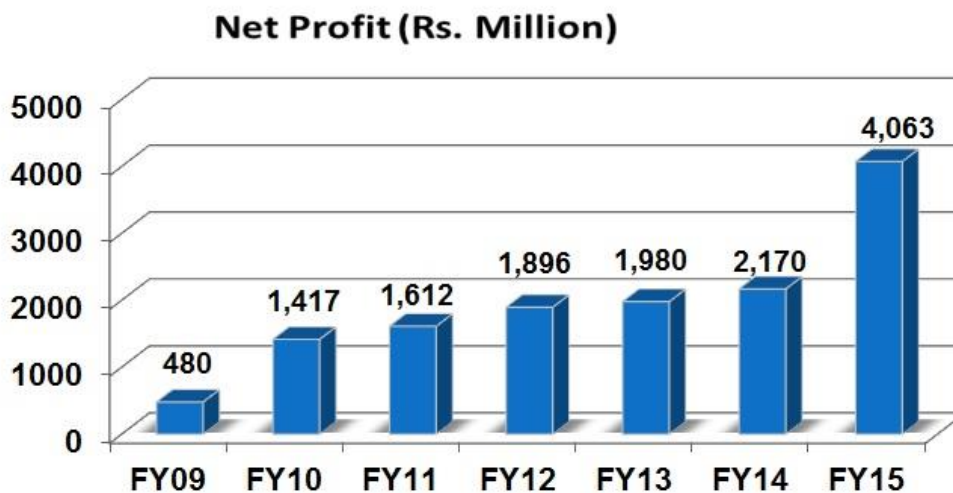
- A summary of changes in fund size during FY 2014-15 is given in the following table:

	Rs. millions
	<b>Jul 2014 - Jun 2015</b>
Beginning fund size (30 <sup>th</sup> June 2014)	24,555
Add: Contribution during the year	5,000
Add: Income during the year	4,106
Less: Expenses during the year	(43)
<b>Ending fund size</b>	<b>33,618</b>

The above numbers exclude unrealized capital gains. Market value of Fund's assets at 30<sup>th</sup> June 2015 is Rs. 35,299 million. Hence, the Fund is carrying unrealized capital gain of Rs. 1,681 million at 30<sup>th</sup> June 2015.

### PROFITABILITY

- The Fund made a net profit of Rs. 4,063 million during FY2014-15 which is almost double compared to net return of Rs. 2,170 million during FY2013-14 on the back of capital gains posted by the Fund during the year. A comparison of profitability with preceding years is as under:





## FUND'S PORTFOLIO

- The Fund's exposures to different investment types are summarized as under:

Amounts: Rs. millions

#: as percentage of Total Fund Size

	30 June 2013		30 June 2014		30 June 2015	
	Amount	%	Amount	%	Amount	%
PIBs	9,145	52.0	16,084	65.5	7,788	23.2
Corporate bonds/Term Finance Certificates (TFCs)	237	1.3	593	2.4	559	1.7
National Savings Schemes-Special Saving & Regular Income Accounts	1,800	10.2	1,000	4.1	16,286	48.4
Bank Deposits	5,799	33.0	5,300	21.6	8,100	24.1
T-Bills	-	-	493	2.0	-	-
Cash at bank	11	0.1	206	0.8	183	0.5
Accrued Markup	584	3.3	867	3.5	660	2.0
Other assets*	9	0.1	12	0.1	42	0.1
<b>Total Fund Size</b>	<b>17,585</b>	<b>100.0</b>	<b>24,555</b>	<b>100.0</b>	<b>33,618</b>	<b>100.0</b>

\*Other assets include prepaid operating expenses and book value of fixed assets of PPF.

- Long-term investments consist of Pakistan Investment Bonds (PIBs) and Term Finance Certificates (TFCs), medium-term investments consist of medium-term bank deposits and Special Savings and Regular Income Accounts and short-term investments consist of short-term bank deposits and Treasury Bills.
- In order to lock-in higher yields for longer period of time, the Fund has invested a large proportion of its assets in long-term & fixed-rate instruments consisting mainly of PIBs and National Saving Schemes (NSS). The Fund's combined exposure in long-term PIBs and NSS stands at 72% of Fund size at the end of June 2015.

## FUND'S PERFORMANCE

- Time Weighted Return (TWR) earned by PPF is summarized as under:

Period	Annualized Return for the period		Year End Discount Rate	YoY CPI Inflation	Long-term Benchmark CPI Inflation + 3%
	Gross Return	Net Return*			
FY 2008-09	15.21%	15.00%	14.00%	13.14%	16.14%
FY 2009-10	13.79%	13.61%	12.50%	12.69%	15.69%
FY 2010-11	13.48%	13.32%	14.00%	13.13%	16.13%
FY 2011-12	13.96%	13.79%	12.00%	11.26%	14.26%
FY 2012-13	12.85%	12.69%	9.00%	5.85%	8.85%
FY 2013-14	12.05%	11.90%	10.00%	8.22%	11.22%
FY 2014-15	15.88%	15.71%	7.00%	3.16%	6.16%
Jul 2008 - Jun 2015 (CAGR)**	13.88%	13.71%	11.20%	9.57%	12.57%

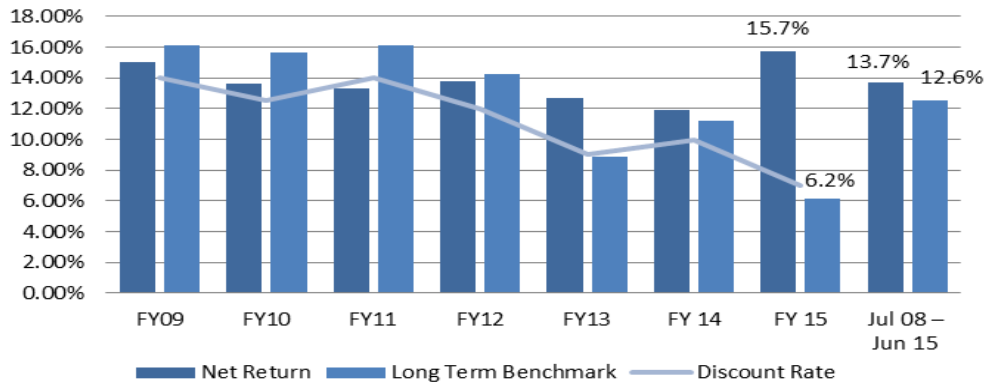
\*Net Return means the return after deducting expenses incurred on management of Punjab Pension Fund.

\*\*CAGR means Compound Annualized Growth Rate.

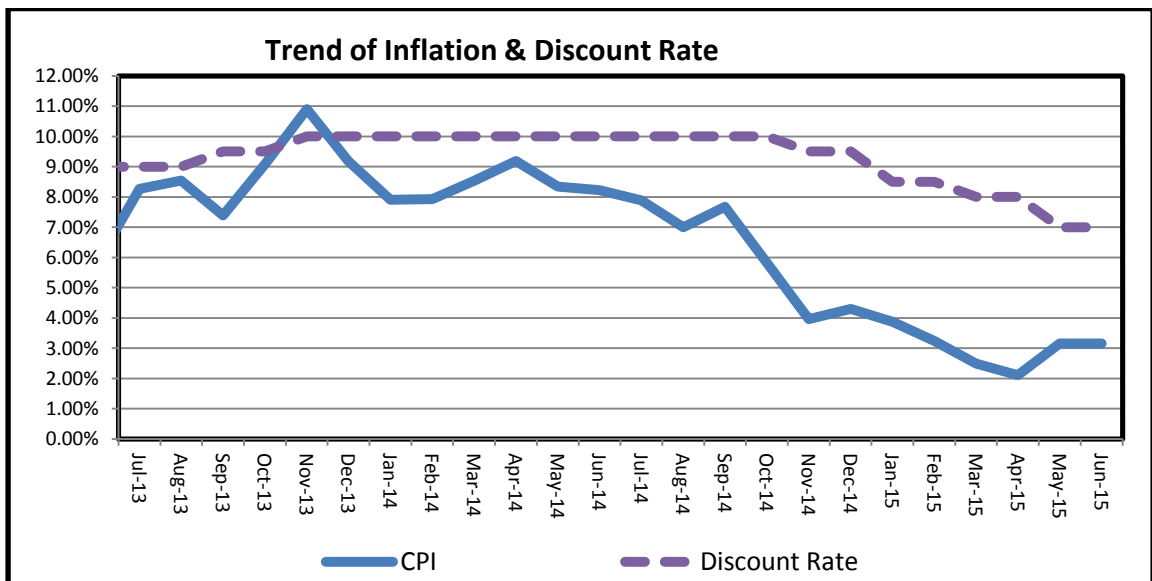


- FY2014-15 has turned out to be an exceptional year for the Punjab Pension Fund in terms of returns posted by it. The Fund posted a net return of 15.7% during FY2014-15 vs. 11.9% during FY2013-14. This is the highest single year return posted by the Fund in its seven years history despite the fact that the discount rate during the year declined from 10% to 7%. Performance history of the Fund is as under:

**Performance History**

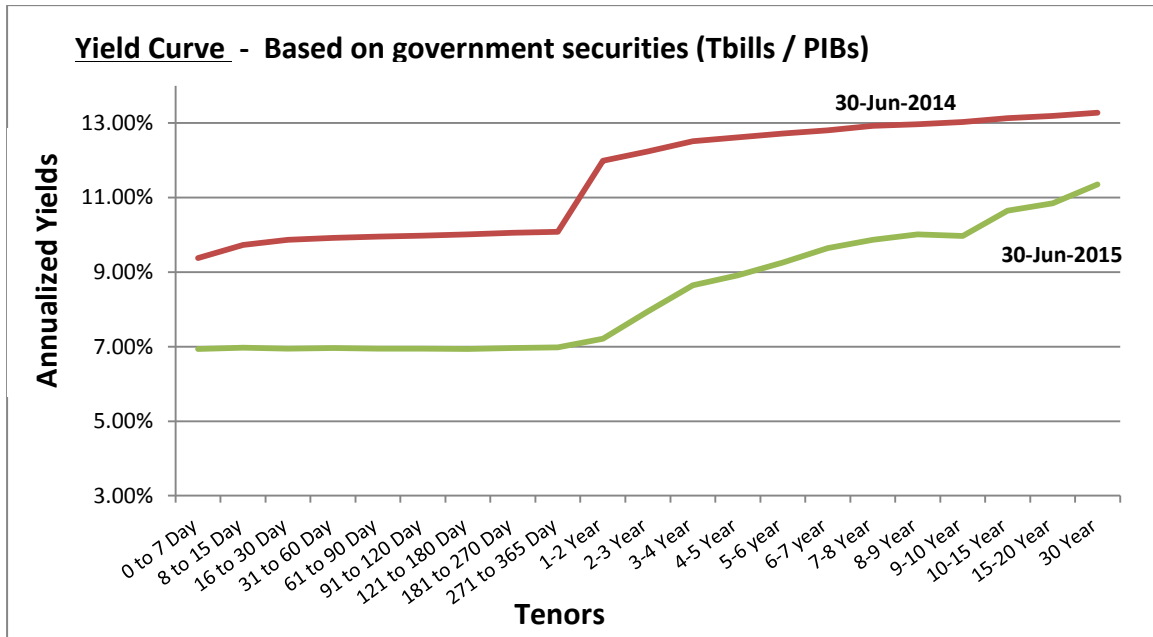


- During FY2014-15 the Fund made a gross return of 15.88% and net return of 15.71%. CPI inflation for FY2014-15 is 3.16%. Hence the Fund has made a return of 12.55% above CPI thus beating the benchmark return of 6.16% by 9.55%. Operating expenses of the Fund were 0.17% of the net assets compared to 0.15% in the previous year.
- In last seven years the Fund has managed to earn net cumulative average return of 13.71% against cumulative average CPI inflation of 9.57%. Hence the Fund managed to earn a real return of 4.14% in the last seven years beating the benchmark return of 12.57% by 1.14% despite the fact that the Fund remained invested in debt securities only.
- In FY2014-15, CPI Inflation rate declined sharply and closed at 3.16 percent on YoY basis. The following graph depicts movement in CPI inflation and changes in discount rate over last two years:





- The investment strategy followed over the past few years i.e. investment in long-term fixed-rate instruments at attractive yields, has paid off. Despite lower inflation and interest rates, the Fund continues to earn an attractive rate of return because of its fixed yielding portfolio of PIBs & SSA.
- During FY2014-15, SBP slashed its discount rate by 3%; as a result overall yield curve shifted downward. The following graph depicts the shift in yield curve during FY2014-15.



### GROWTH IN ASSETS vs. LIABILITIES AND FUNDING RATIO

- As per the last Actuarial Assessment Report, the present value of pension liabilities of the Government of the Punjab at 30 June 2010 stood at Rs. 688 billion. Although, a fresh Actuarial Valuation will provide a more reliable figure, a conservative estimate of the present value of the pension liabilities at 30 June 2015 is Rs. 1,366 billion.
- The market value of PPF assets at 30 June 2015 stood at Rs. 35.3 billion. This translates into a Funding Ratio (Assets / Liabilities) of 2.58%.
- If PPF were envisaged as a fully funded pension plan, the value of its assets would match the value of the total pension liability of the Government of the Punjab, and the Funding Ratio would equal 100%. This would mean that for the accrued pension liabilities, the Government of the Punjab would not have to earmark any budgetary resources because these would be met by PPF from the return on its assets.
- Currently the Government of the Punjab does not have an explicit target for the Funding Ratio. The desired Funding Ratio can be inferred from the projected injections of funds in PPF by the Government as stated in the White Paper to the Budget announced by the Government of the Punjab for the FY2015-16. If the injections of funds stay on course and there are no withdrawals then with 12% average rate of return on PPF funds, the projected funding ratio in 2019 will be 4.10%. During FY2014-15 the Government made a fresh contribution of Rs. 5.0 billion into the Fund.



- In order to properly manage a pension plan, two things are important.
  - Firstly, the Funding Ratio of the pension plan should be high so that sufficient assets vis-à-vis the liabilities are available. A Funding Ratio of 100% or more is ideal.
    - Currently, the Funding Ratio of the pension plan is 2.58% which means that the current level of assets is sufficient to meet only 2.58% of accrued pension liabilities of the Government of the Punjab.
    - This Funding Ratio is clearly quite low and the government may consider increasing this ratio. To make PPF fully funded would need an asset base of about Rs 1,366 billion at 30 June 2015. To achieve this magnitude of asset base, a long-term and sustainable plan of gradual injection of funds into the pension plan is required.
  - Secondly, the Fund should preferably make long-term fixed-rate investments whose maturity is as close as possible to the maturity of pension liabilities. With fixed-rate investments the rate of return on the assets of the Fund will be less vulnerable to the fluctuations in the market rate of interest.

## OUTLOOK FOR FY 2015-16

### Inflation:

- FY2014-15 started with an inflation rate in single digit and it continued to decline over the year. The YOY CPI for the year FY2014-15 has fallen to historical low of 3.16%, substantially lower than target of 8.0% set by the Government. Inflation has decelerated mainly due to the sharp decline in global oil prices, global economic slowdown and soft outlook on commodity prices.
- As far as inflation outlook in FY2015-16 is concerned, CPI is expected to remain on lower side in the first half of the year. However, inflation can pick up modestly in the second half of FY2015-16 mainly due to lower base effect. Moreover, upward adjustment in electricity and gas prices also poses upside risk to inflation. We expect average inflation for FY2015-16 will stay around 4 to 5 percent.

### Interest rates:

- In the last Monetary Policy Statement, announced on 12<sup>th</sup> September 2015, State Bank of Pakistan (SBP) revised its discount rate downward to 6.5%. As far as remaining part of FY2015-16 is concerned, we expect that interest rates have more or less bottomed out.
- Further, the Balance of Payment situation also seems manageable and SBP reserves are expected to increase further with IMF program on track and expected proceeds from privatization and official flows.



## INVESTMENT STRATEGY

- PPF started the year FY2014-15 with a high allocation to PIBs in overall portfolio. It increased it to the maximum allowed limit in the initial part of the year.
- In September 2014, yields of PIBs started declining and since then average PIB yields on different tenors have come down by 300-400 basis points. PPF sold out more than half of its PIB portfolio, realized the capital gain of around Rs. 860 million and switched the exposure into National Saving Schemes in order to hedge the Fund against any further decline in interest rates.
- Going forward, despite sharp decline in market yields, PPF's portfolio remained well-positioned to post a decent margin over YoY CPI.

## AUDITORS

The Government of Punjab appointed M/S KPMG Taseer Hadi & Co., Chartered Accountants, as Auditors of the Fund for the year ended 30 June 2015. Auditors have submitted financial statement of the Fund for the year ended 30 June 2015.


## TRUSTEE

The Management Committee has appointed M/s Central Depository Company of Pakistan Limited as Trustee of the Fund under Rule 18 of the Punjab Pension Fund Rules 2007. After signing of the Trust Deed custody of all the assets of the Fund rests with the Trustee. The Trustee has submitted its report for the year ended 30 June 2015 to the Management Committee under Rule 22(h) of the Punjab Pension Fund Rules 2007.

## ACKNOWLEDEMENT

The Management Committee takes this opportunity to thank its members for valuable contributions to the Fund.

The Management Committee also wishes to place on record its appreciation for the hard work and dedication shown by the employees of the Fund.

  
(Dr. Ayesha Ghaus Pasha)  
Minister of Finance, Government of Punjab/  
Chairman, Punjab Pension Fund

Place: Lahore

Dated: 30 September 2015