



ANNUAL REPORT - 2018

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 2018.

FUND SIZE

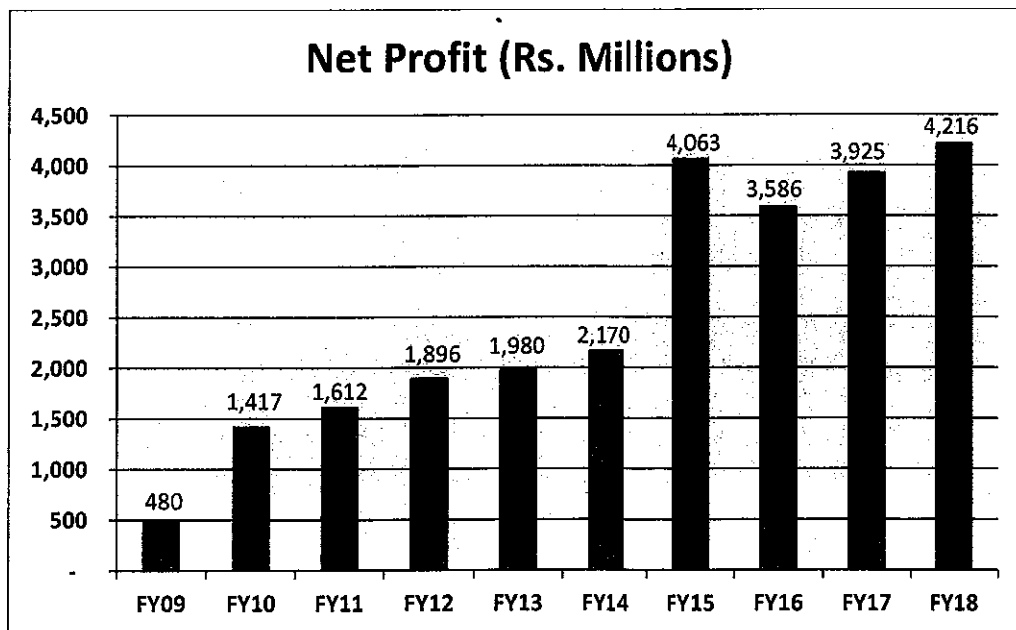
- A summary of changes in fund size during FY2017-18 is given in the following table:

	Rs. millions
	Jul 2017 - Jun 2018
Beginning fund size (1 st July 2017)*	47,129
Add: Contribution during the year	-
Add: Income during the year	4,274
Less: Expenses during the year	(58)
Ending fund size (30 th June 2018)*	51,345

* The above numbers exclude unrealized capital gains. Market value of Fund's assets at 30 June 2018 is Rs. 53,195 million. Hence, the Fund is carrying unrealized capital gain of Rs. 1,850 million at 30 June 2018.

PROFITABILITY

- The Fund made a net profit of Rs. 4,216 million during FY2017-18 which is 7.4% higher than last year's net profit of Rs. 3,925 million. As yields of fixed income instruments remained low during the year, Punjab Pension Fund continued its strategy of investing in short term instruments yielding comparatively lower returns. A comparison of profitability with past years is as under:





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FUND'S PORTFOLIO

- The Fund's exposure to different investment types is as under:

Amounts: Rs. millions
%:as percentage of Total Fund Size

	30-Jun-17		30-Jun-18	
	Amount	%	Amount	%
Pakistan Investment Bonds (PIBs)	7,526	16.0	10,941	21.3
Term Finance Certificates (TFCs)	322	0.7	886	1.7
National Savings Schemes-Special Saving & Regular Income Accounts	19,058	40.4	14,971	29.2
Medium term Bank Deposits	1,000	2.1	1,000	1.9
Short term Bank Deposits	10,800	22.9	12,400	24.1
T-Bills	-	-	5,472	10.7
Cash at bank	7,621	16.2	4,855	9.5
Accrued Markup	735	1.6	720	1.4
Other assets*	67	0.1	100	0.2
Total Fund Size	47,129	100	51,345	100

*Other assets include prepaid operating expenses etc.

- Long-term investments consist of Pakistan Investment Bonds (PIBs) and Term Finance Certificates (TFCs); medium-term investments consist of Special Saving and Regular Income Accounts and medium-term bank deposits; and short-term investments consist of short-term bank deposits and Treasury Bills.
- During the last couple of years, the OIC of PPF followed a strategy of investing in short term investments in order to avoid losses due to reversal in interest rates. During FY18, the strategy paid off as most yields of PIBs increased in a range of 1.5% to 1.8%. PPF's average exposure in PIBs during the year remained less than 20% which saved major portion of its portfolio from interest rate risk.
- The OIC of PPF shifted its strategy from long duration investments to short duration investments in FY15. As a result, the exposure in PIBs declined from 65% in FY15 to 21% by the end of FY18. During this period fresh contributions from the Government and coupons received were invested in short term treasury bills and bank deposits.



FUND'S PERFORMANCE

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

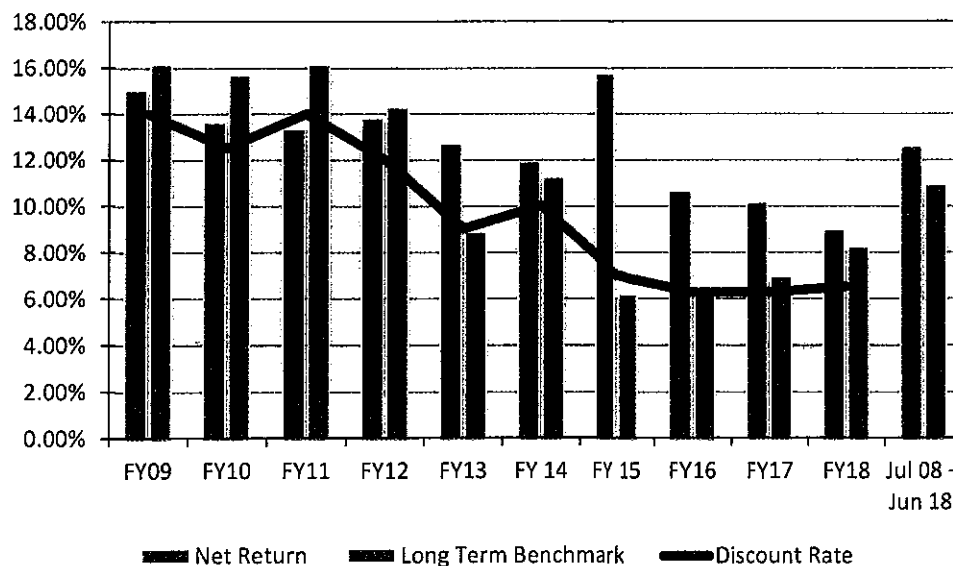
Period	Annualized Return for the period		Year End Discount Rate	YoY CPI Inflation	Long-term Benchmark CPI Inflation + 3%
	Gross Return	Net Return*			
FY 2008-09	15.21%	15.00%	14.00%	13.14%	16.14%
FY 2009-10	13.79%	13.61%	12.50%	12.69%	15.69%
FY 2010-11	13.48%	13.32%	14.00%	13.13%	16.13%
FY 2011-12	13.96%	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%
FY 2015-16	10.79%	10.63%	6.25%	3.19%	6.19%
FY 2016-17	10.28%	10.14%	6.25%	3.93%	6.93%
FY 2017-18	9.07%	8.95%	6.50%	5.21%	8.21%
Jul 2008 - Jun 2018 (CAGR)**	12.71%	12.55%	9.71%	7.90%	10.90%

*Net Return means return after deducting management expenses of Punjab Pension Fund.

**CAGR means Compound Annualized Growth Rate.

- The Fund posted a net return of 8.95% during FY2017-18 against a net return of 10.14% during the preceding year. The Fund posted a real return of 3.74% over CPI inflation during FY2017-18 and outperformed its benchmark (CPI+3%) of 8.21%. The Fund also outperformed its market based benchmark i.e. 1-year treasury bill's yield which averaged at 6.2% during FY18.
- The SBP raised its Policy Rate by a cumulatively 75 basis points during the year from 5.75% to 6.50%. Performance history of the Fund is as under:

Performance History



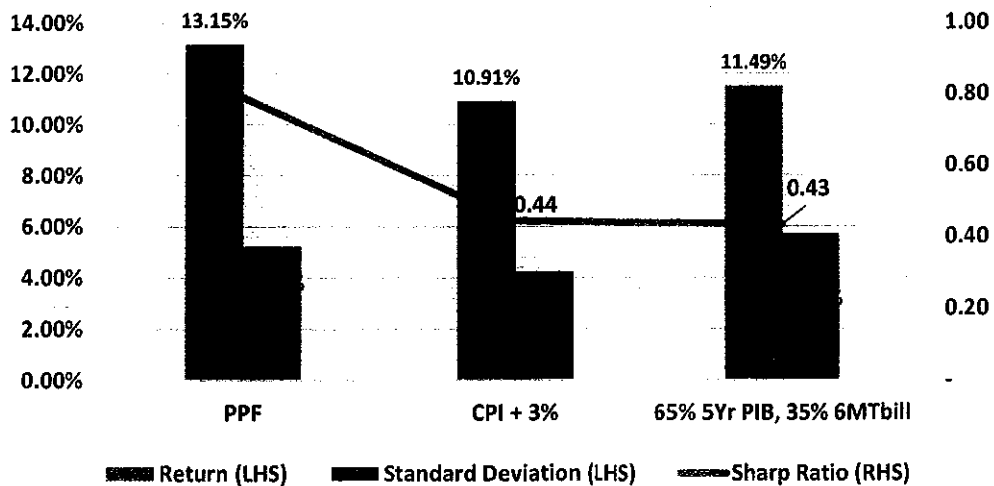


- In last ten years, the Fund has managed to earn net cumulative average return of 12.55% against cumulative average CPI inflation of 7.9%. Hence the Fund managed to post a real return of 4.65% p.a. in the last ten years; beating its benchmark return of 10.9% by 1.65% despite the fact that the Fund remained invested in debt securities only.

FUND’S PERFORMANCE IN COMPARISON WITH CPI BASED AND MARKET BASED BENCHMARKS

- At the end of June 2018, the Fund completed ten years of its operations. In its decade long history, Punjab Pension Fund posted annualized return of 13.15% on mark-to-market basis.
- During last ten years, PPF out-performed other valid benchmarks as well. PPF’s performance gets amplified when seen in risk-adjusted terms measured by the Sharp Ratio. A comparison of Punjab Pension Fund’s performance with some other valid benchmarks is as under. For this comparison PPF’s return has been taken on mark-to-market basis.
- Performance Comparison of Last Ten Years (from July-08 to June-18)

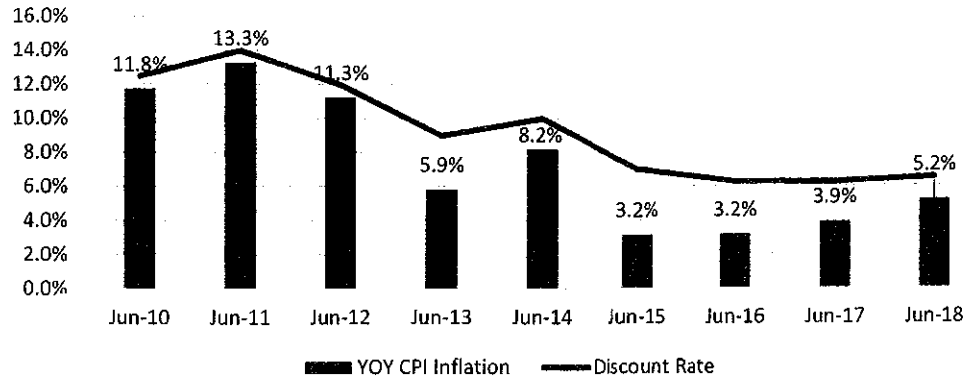
PPF Performance Comparison vs Various Benchmarks



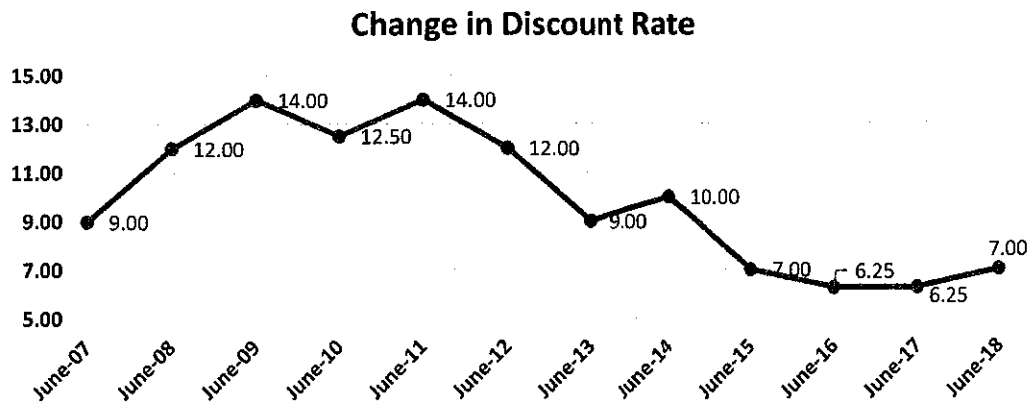
- The above graph shows that PPF not only outperformed various other benchmarks in absolute terms but also in risk adjusted terms which is measured by the Sharp Ratio.



- The economy is passing through a low inflation cycle since FY12. As a result, yields on Fixed Income Instruments were prevailing at historically lower levels. YoY CPI for the last four years averaged at 3.9% as against its long term average of 8.0% - 9.0%. A graph depicting the shift in CPI is shown below:

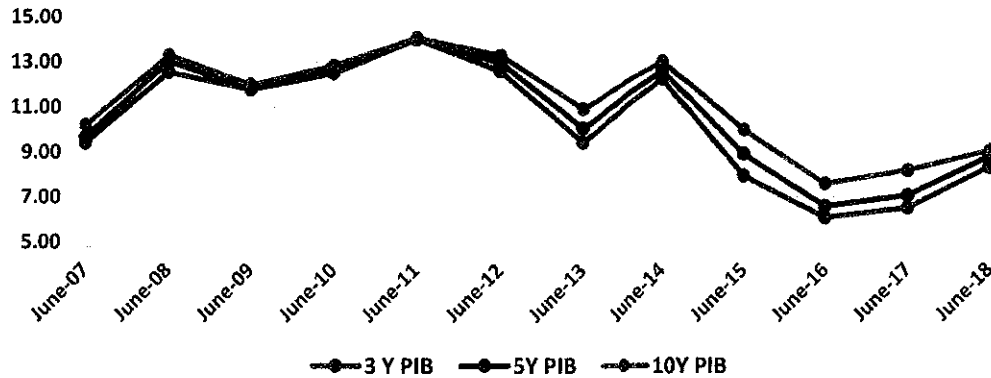


- During FY18, the current account deficit ballooned to USD 18 billion from USD 12.1 billion in FY17. As a result, the FX reserves depleted sharply and Pak Rupee has shown a sharp depreciation of 15-20% in recent months.
- As a result of lower inflation cycle started in FY12, the SBP slashed its discount rate from 14.0% in June-11 to historically lower of 6.25% (Policy Rate of 5.75%) in May-16 which remained unchanged for about year and a half. In January 2018, the SBP raised the policy rate by 25 basis point; and another 50 basis points in May 2018. Recent shift in policy rate has also shifted the yield curve.





Pakistan Investment Bond Yields



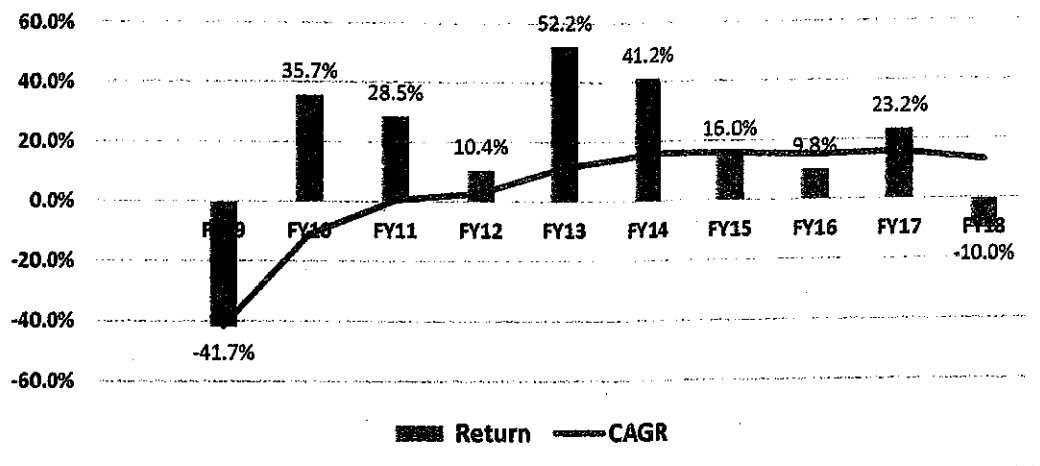
- The Fund shifted its investment strategy towards short term securities in order to avoid risk of locking in lower yields for longer time period and to grasp opportunities of interest rate reversal. This strategy has worked well as interest rates are now on the rise and the Fund, with a large proportion in short term investments, will benefit from this situation.

EQUITY MARKET OVERVIEW:

- The Management Committee of Punjab Pension Fund in its 22nd meeting held on 23.06.2017 approved 10% allocation in equities. However, by the end of June 2018, the Fund did not invest in equities. An overview of the stock market is given below:
 - In FY17, Pakistan Stock Exchange was one of the best performing markets as the KSE-100 index rose by 23.2%. However, due to multiple economic and political factors, the market could not keep its momentum in FY18 and posted a negative return of 10% during the year.
 - The reasons due to which the equity market faltered were the expected currency devaluation, deteriorating balance of payment situation, unfavorable geo-political environment and domestic political uncertainty.
 - In last 10 years, KSE-100 index posted a Compounded Annual Growth Rate (CAGR) of 13.05% ranging from -41.7% in FY09 to 52.2% in FY13. Performance of the equity market, indicated by KSE-100 index, in last 10 years is as under:



KSE-100 Index Performance in last 10 Years



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 2015 stood at Rs. 3,866 billion. The present value of the pension liabilities at 30 June 2018 is estimated at Rs. 5,264.5 billion.
- The market value of PPF assets at 30 June 2018 stood at Rs.53.2 billion. This translates into a Funding Ratio (Assets / Liabilities) of 1.01%.
- 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.
- The Government has approved Rs. 20 billion as contribution, each year, for the Punjab Pension Fund. This amount has been provided in the FY18-19 budget. Increased contribution coupled with policy reforms resulting in slowing growth in pension liabilities will improve funded status of the Fund.

OUTLOOK FOR FY2018-19

Inflation:

- FY2017-18 started with low inflation rate which remained within the range of 3%-4% during the year. However, by the end of FY18, the CPI started its upward trajectory and settled at 5.21% on YoY basis. Transport and Housing, Water, Electricity & Gas Indexes were main drivers for increase in inflation rate towards the end of the year.
- As far as inflation outlook for FY2018-19 is concerned, CPI has already shown trends of reversal. The core inflation is showing persistent demand side pressure, although supply side conditions are still subsiding pressure on inflation but higher oil prices and effect of recent rupee depreciation will push inflation



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upward in FY19. Major pressure will be exerted by external sector as widening current account and trade deficit will put pressure on rupee.

Interest rates:

- During FY2017-18, the SBP maintained its Policy Rate for first half of the year; however, change in stance was made in January'18 policy review wherein the SBP raised its Policy Rate by 25 basis points. The SBP raised its policy rate by another 50 basis points in May'18.
- In first five Monetary Policy Statements of FY19, the SBP increased its Policy Rate by 425 basis points. Going forward we expect another 25 to 50 basis points increase in Policy Rate during rest of FY19.

INVESTMENT STRATEGY

- During the last few years, the Fund remained invested in short term investments because interest rates were lower than long term averages. However, in third quarter FY19, as the interest rate cycle is nearing its peak, the Fund has started accumulating long term PIBs at attractive yields. The allocation of the Fund in long term PIBs has increased to 58% by the end of Mar-19 against 23% at the end of Jun-18.
- Going forward, PPF's portfolio is well-positioned to post a decent return over its benchmark in FY19.

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 2018. Auditors have submitted their Audit Report for the year ended 30 June 2018.

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 2018 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.


(Makhdum Hashim Jawan Bakht)

Minister of Finance, Government of Punjab/
Chairman, Punjab Pension Fund

Place: Lahore

Dated: 6 May 2019