



ANNUAL REPORT - 2022

Section 13 (g) of the Punjab Pension Fund Act, 2007 requires that the Management Committee of the Fund prepare an Annual Report for submission to the Government of Punjab detailing the performance of the Fund. This report presents the Annual Report for the year ended 30 June 2022.

FUND SIZE:

- A summary of changes in Fund Size during FY2021-22 is given in the following table:

| Rs. millions | Jul 2021 - Jun 2022 |
|---|---------------------|
| Beginning Fund size (1 st July 2021) | 85,180 |
| Add: Contribution during the year | 4,000 |
| Add: Gross Income during the year | 5,344 |
| - Less: Expenses during the year | (252) |
| - Less: Unrealized Capital Loss | (251) |
| - Net Income During the Year | 4,841 |
| Ending Fund size (30th June 2022) | 94,021 |

The Performance Review of the Fund:

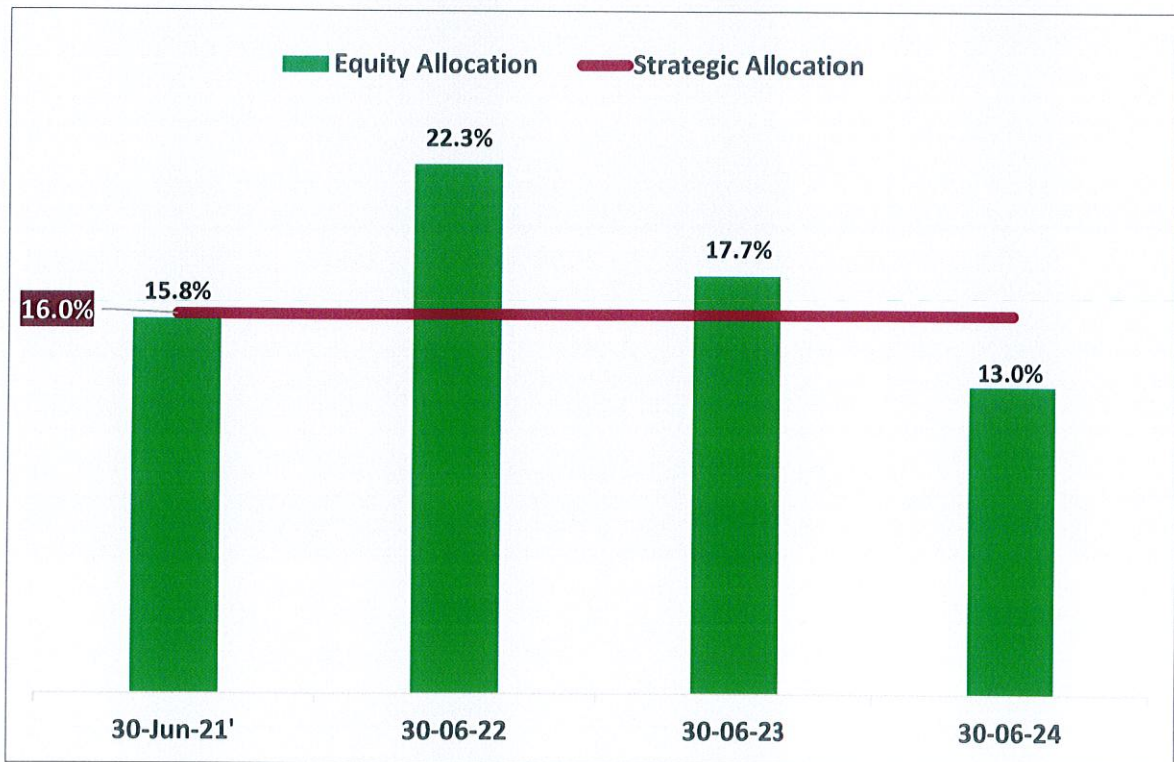
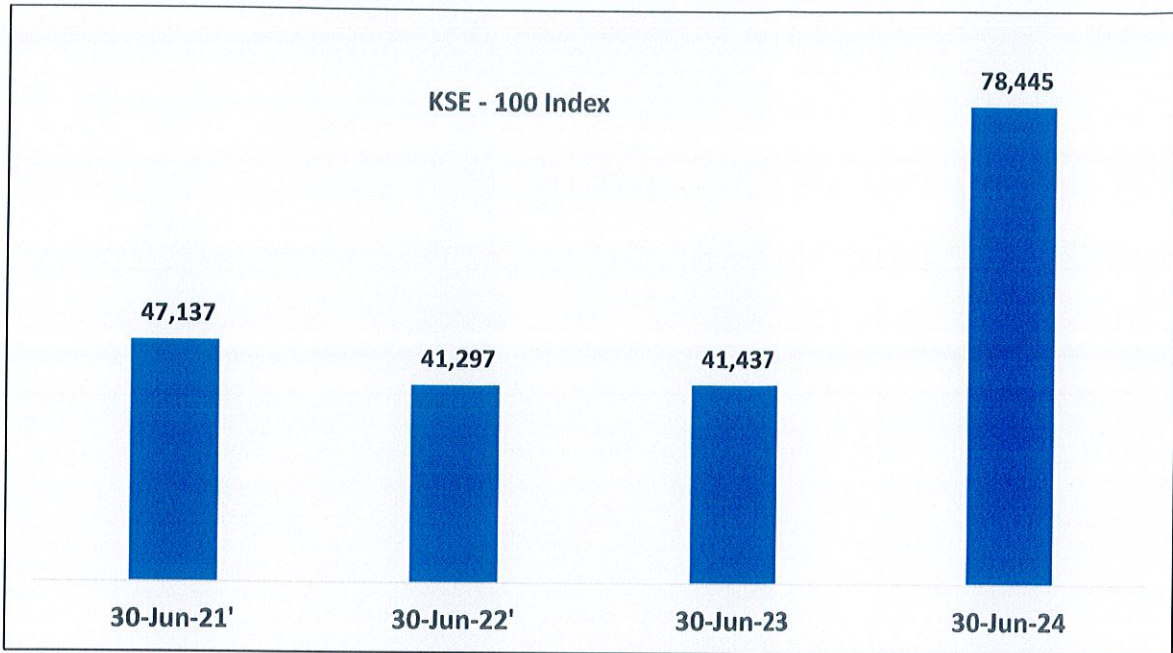
The Fund made a net income of Rs. 4,841 million during FY2021-22 vs Rs. 10,191 million last year. This decrease in profitability during FY 2021-22 was primarily due to unrealized losses in the Fund's Equity portfolio. The Punjab Pension Fund adopts a long-term approach to equity allocation, recognizing the inherent short-term volatility of stock markets. This strategy consistently proves effective over time, as equity investments deliver higher real returns (above the CPI inflation rate). Such higher real returns align well with the Fund's objectives, ensuring sustainable growth to meet pension obligations.

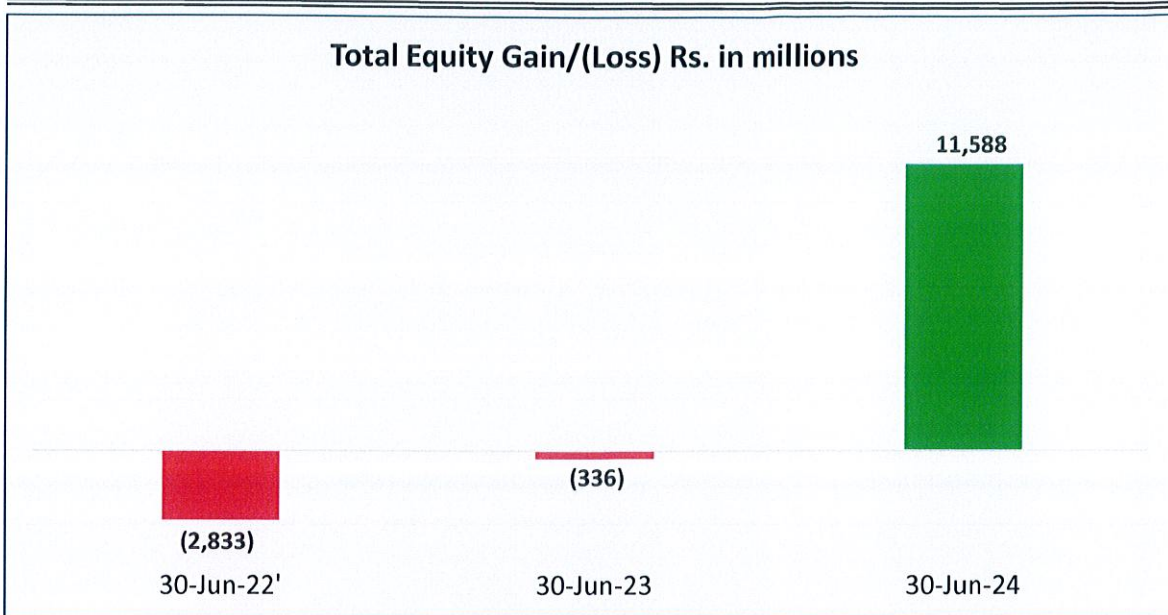
Additionally, there was an unrealized loss of Rs. 251 million on fixed-rate PIBs due to rising interest rates, which inversely affected the Fund's bonds portfolio. However, these losses were unrealized and subsequently transformed into profits. The Fund has already realized a large portion of these gains. The Fund realized a capital gain of Rs. 328 million in FY 2022-23 and Rs. 3.33 billion in FY 2023-24, a total realized gain of more than 3.6 billion rupees. In addition to this gain realized on the sale of securities, there was also an unrealized gain of Rs. 7.4 billion on the Fund's equity portfolio as of 30th June 2024.

The Stock Markets, by nature, are volatile in the short run. The Punjab Pension Fund invests in equity investments with a long-term perspective. The Strategic Allocation of the Fund in Equities is 16% of fund size as decided by the Investment Sub-Committee of the Fund. The Fund overweightes the allocation when the Equity Market declines and becomes attractive in valuations, as the Fund did in

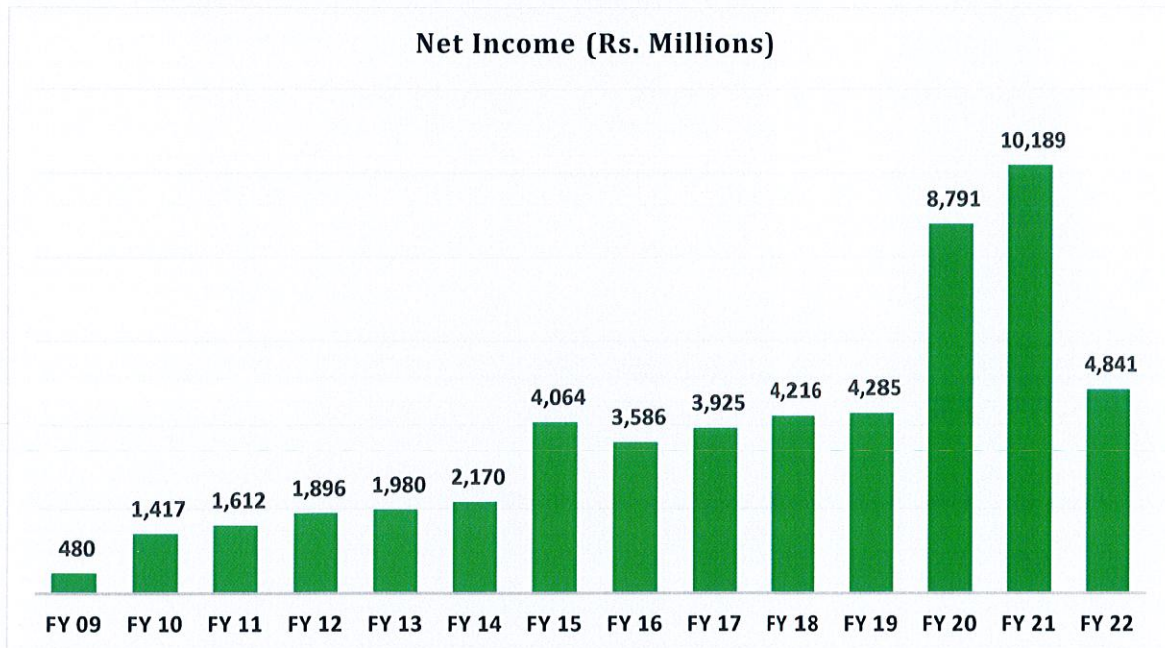


FY22, and underweights when it increases and becomes expensive, as it did in FY24. The following graph explains the Fund's strategy and performance of its Equity Portfolio:

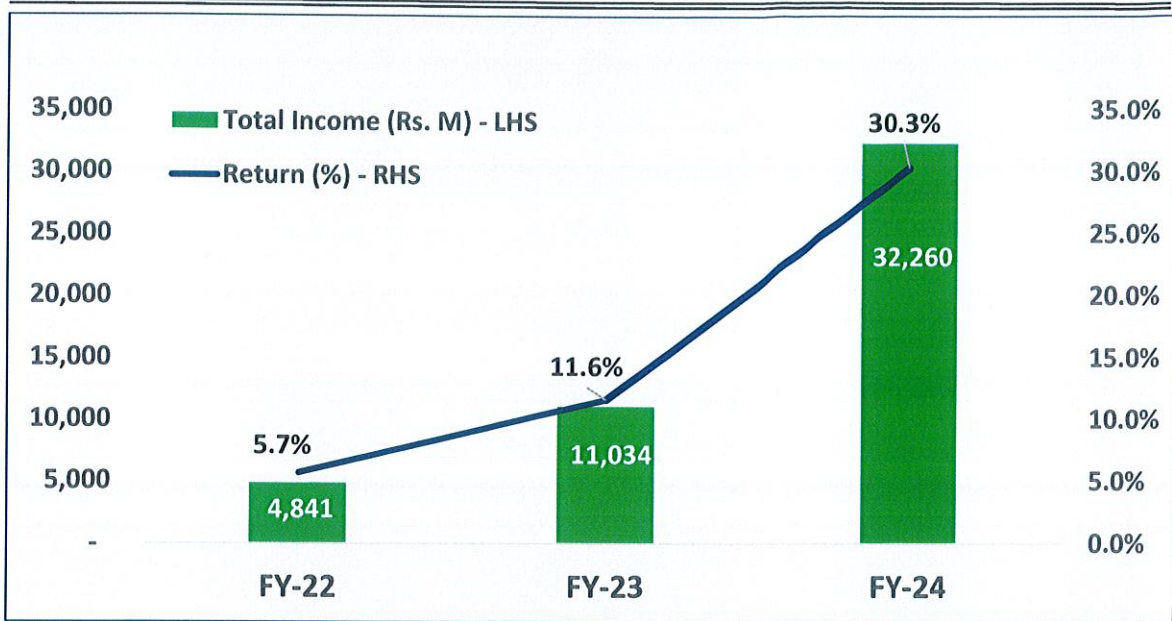




A summary of the Fund's profitability over past years is as follows:



In alignment with the Fund's long-term strategic approach, the Fund's profitability has experienced significant growth in the subsequent years. This growth reflects the Fund's disciplined focus on capitalizing on favorable market valuations. This strategic focus has positioned the Fund for sustained growth, underscoring its ability to deliver strong long-term results. The following graph explains the results:



FUND'S PORTFOLIO:

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

Amounts: Rs. millions

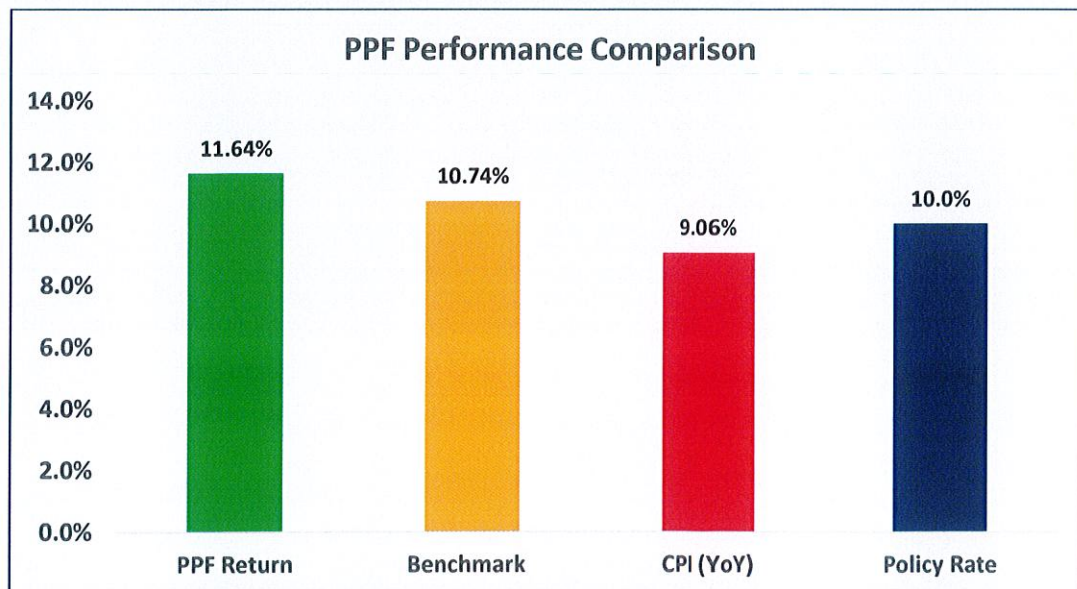
| Investments in the Portfolio | 30-Jun-22 | | 30-Jun-21 | |
|---|---------------|--------------|---------------|--------------|
| | Amount | % | Amount | % |
| National Savings Schemes – DSC, RIC & SSC | 43,548 | 46.3 | 54,743 | 64.3 |
| Pakistan Investment Bonds (PIBs) | 771 | 0.8 | 10,947 | 12.9 |
| Mutual Funds – Equity | 13,052 | 13.9 | 8,505 | 10.0 |
| Mutual Funds – Fixed Income | 9,419 | 10.0 | 922 | 1.1 |
| Shares | 7,952 | 8.5 | 4,913 | 5.8 |
| Corporate Debt Instruments TFC & Sukuks | 3,545 | 3.8 | 3,283 | 3.9 |
| Short term Bank Deposits | 15,484 | 16.5 | 1,307 | 1.5 |
| Accrued Markup & Others | 250 | 0.3 | 560 | 0.7 |
| T-Bills | - | - | - | - |
| Total Fund Size | 94,021 | 100.0 | 85,180 | 100.0 |



- During FY 2021-22, the Punjab Pension Fund's portfolio grew from Rs. 85,180 million to Rs. 94,021 million. This increase was driven by a Rs. 4,000 million fresh contribution from the Government of Punjab and Rs. 4,841 million in net income generated by the Fund over the year.
- A significant portfolio adjustment was made during the year as the Fund strategically reduced its exposure to fixed-duration instruments, opting to increase allocations to short-duration investments. This decision was in anticipation of a volatile economic environment and a rising interest rate scenario, which could have negatively impacted longer-duration assets through mark-to-market losses. The Fund mitigated potential interest rate risk by focusing on short-term money market instruments.
- Additionally, the Fund significantly increased its equity exposure through direct investments in shares and allocations to equity mutual funds. The overall exposure to equities rose from 16% of the portfolio to over 22% by the end of FY 2021-22. This tactical shift capitalized on attractive market valuations and provided a strong position for future growth. In the subsequent years, this strategy proved highly effective, as the Fund realized substantial gains from its equity investments, enhancing overall portfolio performance.
- These strategic adjustments in fixed-income and equity investments underscore the Fund's proactive management approach, aligning asset allocations with market conditions to optimize returns and safeguard against risks.

FUND'S PERFORMANCE:

- The graph below provides an annual average performance comparison of the Punjab Pension Fund against its average annual benchmark and the average CPI inflation rate and Policy rate over the last 14 years since the inception of the Fund.





- Over the past fourteen years, from July 2008 to June 2022, the Fund has delivered a net cumulative average return of 11.64%, significantly outperforming its benchmark. The Fund also outperformed the average CPI Inflation, which indicates that it has consistently provided a positive real return, averaging 2.58% annually. This achievement is particularly notable, considering that for the first ten years of its operation, the Fund's investments were exclusively in debt securities, which are typically more conservative and yield much lower real returns compared to equities. Despite these conservative investment choices, the Fund managed to keep pace with inflation and generate real returns.
- The benchmark return during these fourteen years stood at 10.74%, highlighting the Fund's outperformance by approximately 0.9%. This consistent outperformance over such a long duration underscores the Fund's effective management strategy and focus on risk-adjusted returns while navigating through varying economic conditions.

OUTLOOK FOR FY2022-23:

During the upcoming years, the Fund's strategy will continue to be shaped by the challenging macroeconomic environment, particularly inflation and interest rate dynamics.

Inflation

- Inflation in FY2021-22 jumped to 21.3% from 9.65% on a YoY basis in FY21. The headline inflation rose to a two-year high. The outlook assumes continued engagement with the IMF. Under these assumptions, headline inflation will likely increase and remain elevated throughout the next fiscal year. In the medium term, the SBP targets inflation to fall to the 5-7 percent range, driven by fiscal consolidation, moderating growth, normalization of global commodity prices, and beneficial base effects.

Interest rates

- During FY2021-22, the SBP raised its policy rate from 7.25% to 13.75% to accommodate the unabated inflation trajectory. Management believes inflation numbers and commodity prices will set monetary policy paths.
- Interest rates will be linked to policy rates to strengthen monetary policy transmission. At the same time, the urgency of strong and equitable fiscal consolidation complements the monetary tightening actions. The interest rate outlook will depend on international commodity prices and fiscal measures taken by the government to comply with IMF conditions.

AUDITORS:

The Government of Punjab appointed M/s BDO Ebrahim & Co. Chartered Accountants as Auditors of the Fund for the year ended 30 June 2022. Auditors have submitted their Audit Report for the year ended 30 June 2022.



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 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 2022 to the Management Committee under Rule 22(h) of the Punjab Pension Fund Rules 2007.

ACKNOWLEDGEMENT

The Management Committee takes this opportunity to thank its members and employees for their valuable contributions to the Fund and to express appreciation for their hard work.

On behalf of the Punjab Pension Fund