



ANNUAL REPORT - 2019

Section 13 (g) Punjab Pension Fund Act, 2007 requires that the Management Committee shall prepare an Annual Report for submission to the Government detailing the performance of the Fund. The Management Committee of Punjab Pension Fund (PPF) is pleased to present to the Government of Punjab the Annual Report for the year ended 30 June 2019.

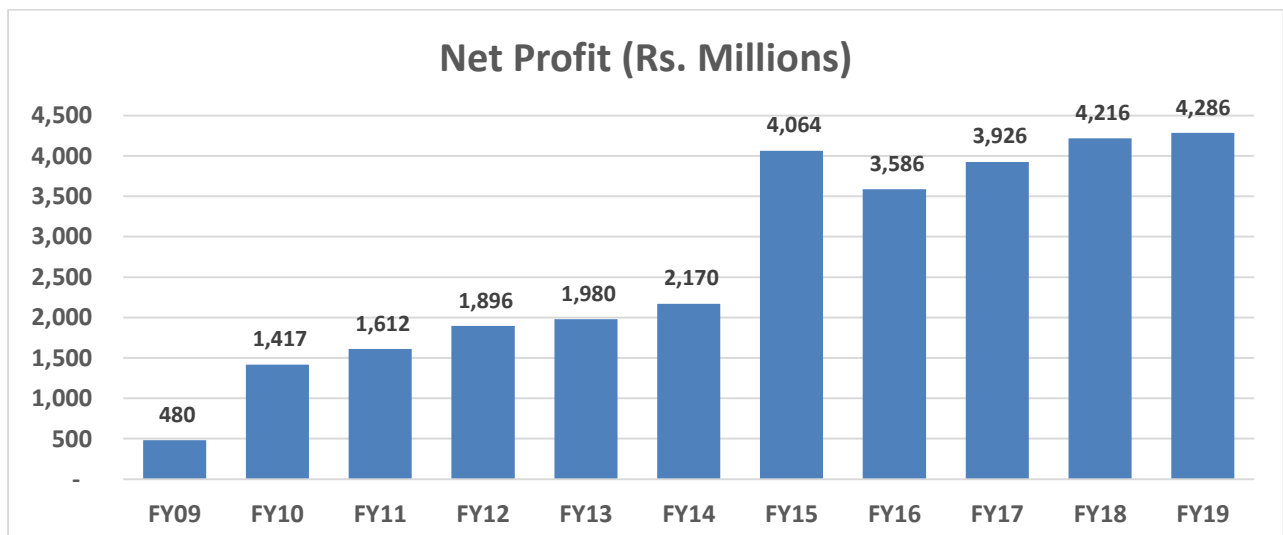
FUND SIZE:

- A summary of changes in fund size during FY2018-19 is given in the following table:

Rs. millions	Jul 2018 - Jun 2019
Beginning fund size (1 st July 2018)	53,195
Add: Contribution during the year	5,333
Add: Income during the year	4,339
Less: Expenses during the year	(53)
Less: Unrealized loss during the year	(3,541)
Ending fund size (30 th June 2019)	59,273

PROFITABILITY:

- The Fund made a net profit of Rs. 4,286 million during FY2018-19 which is 1.7% higher than last year's net profit of Rs. 4,216 million. The yields of PIBs were on a rising trend during the year, Punjab Pension Fund was on a strategy of accumulating high-duration PIBs at attractive rates; however, at the same time, the Fund was facing mark-to-market loss on its existing PIB portfolio. A comparison of profitability with past years is as under:





FUND'S PORTFOLIO:

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

Amounts: Rs. millions

#: as a percentage of Total Fund Size

	30-Jun-19		30-Jun-18	
	Amount	%	Amount	%
Pakistan Investment Bonds (PIBs)	32,386	54.6	12,790	24
Corporate Debt Instruments TFC & Sukuks	797	1.3	888	1.7
National Savings Schemes – DSC, RIC & SSC	-	-	14,971	28.1
Short term Bank Deposits	19,654	33.2	18,255	34.3
T-Bills	-	-	5,471	10.3
Mutual Funds - Equity	4,559	7.7	-	-
Accrued Markup	1,776	3.0	720	1.4
Other net assets*	101	0.2	100	0.2
Total Fund Size	59,273	100.0	53,195	100.0

*Other net assets (net of liabilities) include prepaid operating expenses etc.

- During the last couple of years, the OIC of PPF followed a strategy of investing in short-term investments to avoid losses due to reversal in interest rates.
- During FY19, the yields started increasing and PPF accumulated long-term fixed-rate PIBs at attractive yields; as a result, PPF's exposure in fixed-rate PIBs increased from 24% at the end of FY18 to 55% by the end of FY19.
- During FY19, the Fund also invested 10% of its size in the Stock Market through a diversified portfolio of Mutual Funds. The Equity Portfolio was carrying a loss at the end of FY19 because of a decline in stock prices across the board.
- During FY19, PPF's equity portfolio posted a return of -16.72% vs. its applicable benchmark return of -19.71%. The outperformance was primarily due to better timing of entry into the equity market decided by the Fund



FUND'S PERFORMANCE:

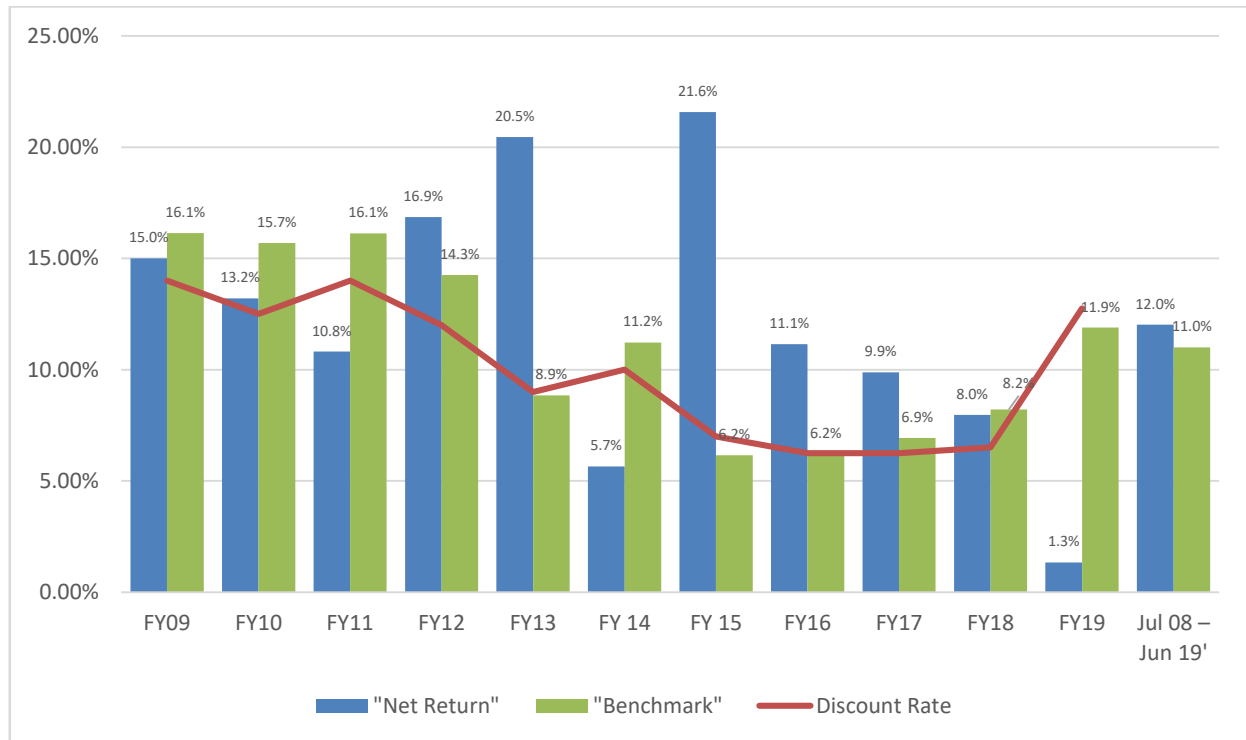
- Time Weighted Return (TWR) earned by PPF is summarized as under:

Period	Annualized Return for the period		YoY CPI Inflation	Long-term Benchmark
	Gross Return	Net Return*		CPI Inflation + 3%
FY 2008-09	15.21%	15.00%	13.14%	16.14%
FY 2009-10	13.39%	13.21%	12.69%	15.69%
FY 2010-11	10.96%	10.81%	13.13%	16.13%
FY 2011-12	17.03%	16.86%	11.26%	14.26%
FY 2012-13	20.62%	20.46%	5.85%	8.85%
FY 2013-14	5.80%	5.65%	8.22%	11.22%
FY 2014-15	21.74%	21.57%	3.16%	6.16%
FY 2015-16	11.28%	11.14%	3.19%	6.19%
FY 2016-17	10.01%	9.88%	3.93%	6.93%
FY 2017-18	8.08%	7.97%	5.21%	8.21%
FY 2018-19	1.43%	1.34%	8.89%	11.89%
Jul 2008 – Jun 2019 (CAGR)**	12.17%	12.02%	7.99%	10.99%

*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 1.34% during FY2018-19 against a net return of 7.97% during the preceding year.
- The SBP raised its Discount Rate by a cumulatively 625 basis point during the year from 6.5% to 12.75%. The performance history of the Fund is as under:



- In the last eleven years, the Fund has managed to earn a net cumulative average return of 12.02% against cumulative average CPI inflation of 7.99%. Hence the Fund managed to post a real return of 4.0% p.a. in the last eleven years; beating its benchmark return of 10.99% by 1.1% even though the Fund remained invested in debt securities only for the first 10 years.

OUTLOOK FOR FY2019-20:

Inflation

- FY2018-19 started with an increasing inflation rate. By the end of FY19, the CPI continued its upward trajectory and settled at 8.89% on a YoY basis compared to 5.21% during FY18.
- As far as the inflation outlook for FY2019-20 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 inflation pressure with higher oil prices and the effect of the recent rupee depreciation will push inflation upward in FY20 as well.

Interest rates

- During FY2018-19, Pakistan's entry into the IMF program resulted in a sharp increase in SBP's policy rate and consequently, in secondary market yields. The SBP increased the Discount Rate by a cumulatively 625 basis point during the year.



INVESTMENT STRATEGY:

During FY 2018-19, the Operational Investment Committee of the Fund started investment in long-term fixed-rate PIBs. The OIC was of the view that interest rates have peaked and now reversal is expected.

The OIC of PPF locked a major portion of its portfolio in long-term PIBs which will help Fund to outperform its benchmark during FY20. Going forward, PPF's portfolio is well-positioned to post a decent return over its benchmark.

AUDITORS:

The Government of Punjab appointed M/s Grant Thornton Anjum Rahman, Chartered Accountants, as Auditors of the Fund for the year ended 30 June 2019. Auditors have submitted their Audit Report for the year ended 30 June 2019.

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 2019 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 for their 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.

Place: Lahore

On behalf of the Punjab Pension Fund

Dated: