



ANNUAL REPORT - 2023

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 2023.

FUND SIZE:

- A summary of changes in Fund Size during FY 2022-23 is given in the following table:

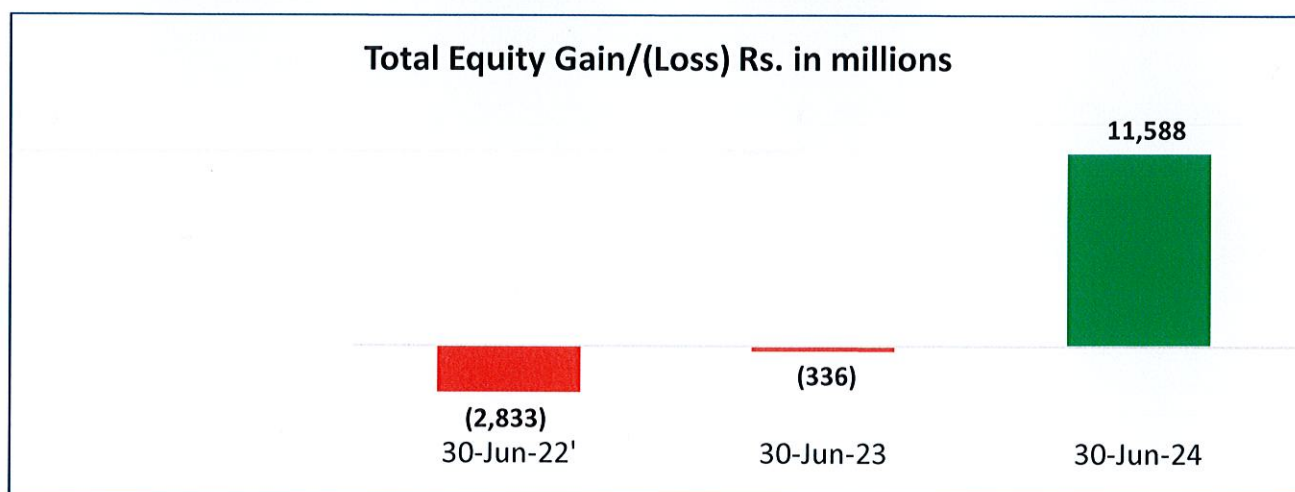
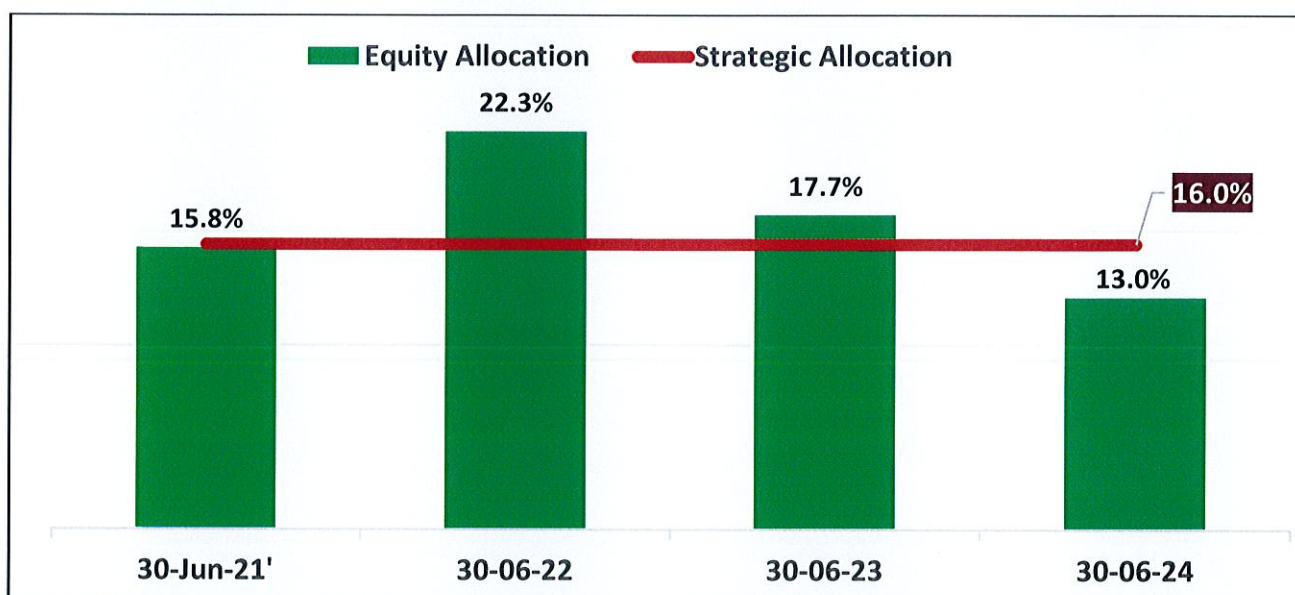
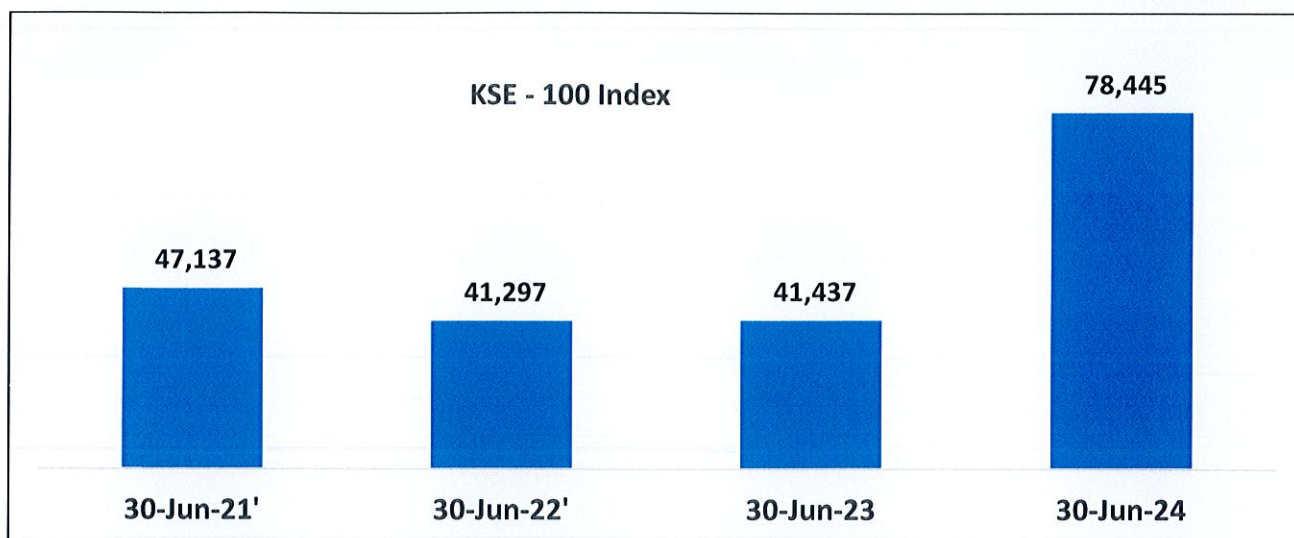
Rs. millions	Jul 2022 - Jun 2023
Beginning Fund size (1 st July 2022)	94,021
Add: Contribution during the year	3,500
Add: Gross Income during the year	12,153
- Less: Expenses during the year	(100)
- Less: Unrealized Capital Loss	(1,019)
- Net Income During the Year	11,034
Ending Fund size (30th June 2023)	108,555

The Performance Review of the Fund:

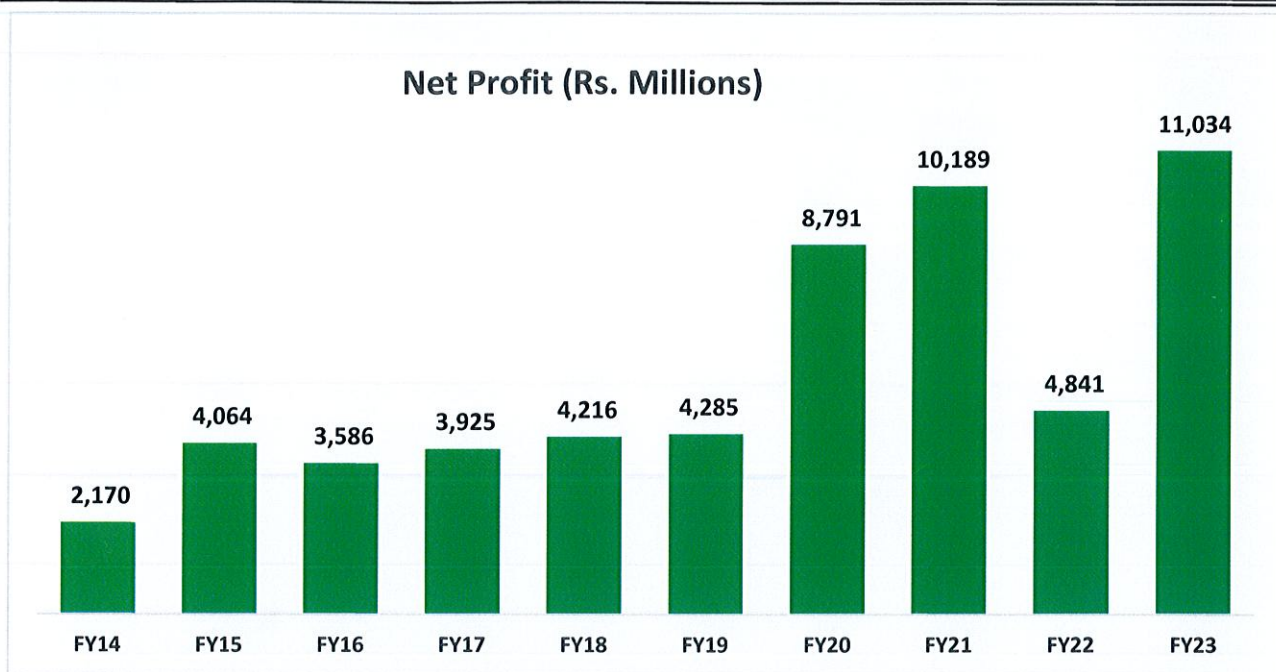
In the fiscal year 2022-23, the Fund recorded a net income of Rs. 11,034 million, marking a significant 128% increase from Rs. 4,841 million in the previous year. This surge in profitability can be attributed to a substantial increase in interest income, higher dividend income, and a decrease in unrealized losses from the prior year. Specifically, the Fund's interest income rose to Rs. 12,491 million, up from Rs. 8,177 million last year. This boost in profitability was not only due to a substantial increase in interest rates over the period but also to the Fund's strategic shift towards short-term investments.

During FY 2022-23, the Fund avoided interest rate risk by keeping its portfolio in short-duration instruments like Floating Rate PIBs, Treasury Bills, and short-term bank deposits, which provided attractive returns. These returns of the Fund's fixed-income portfolio were further enhanced as the rates adjusted upwards in response to changes in market interest rates.

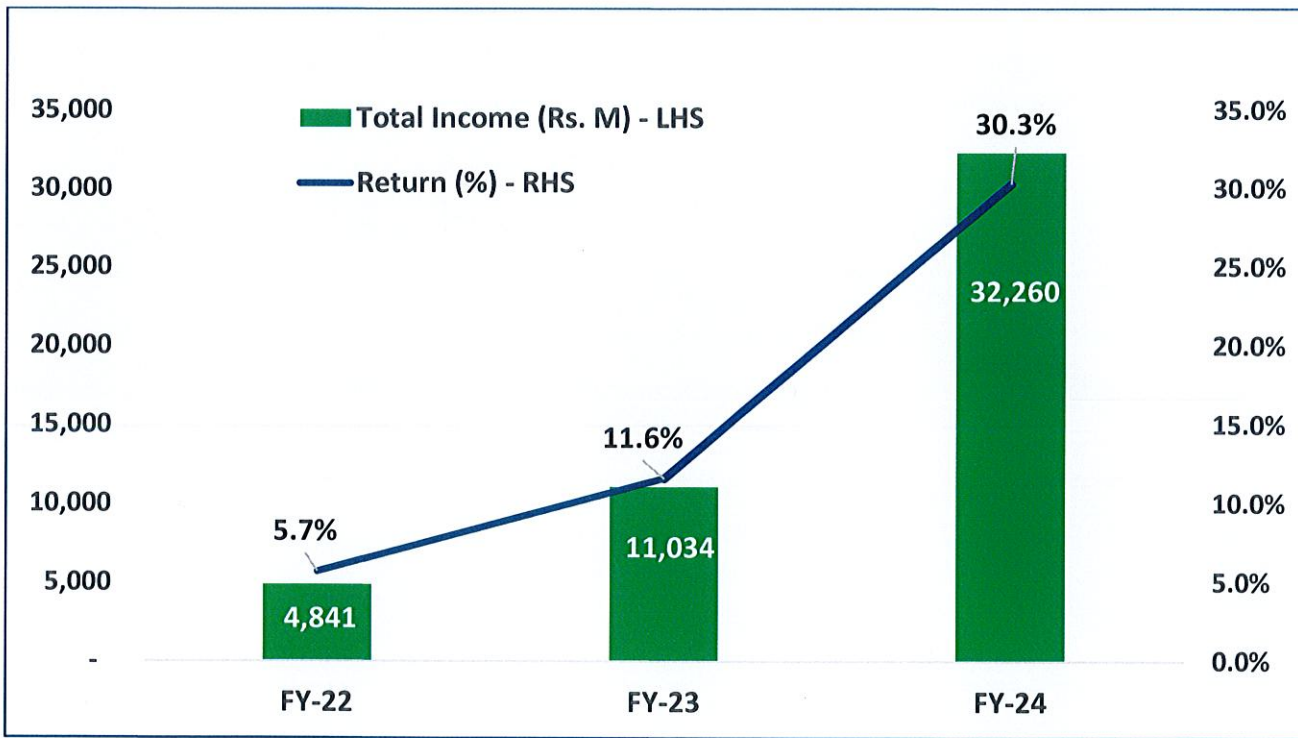
Regarding PPF's strategy concerning its Equity Portfolio, the Fund started with an allocation of 22.4% in equities (direct and through mutual funds) as of 30th June 2022 vs. the Strategic Allocation of 16%. The Fund followed a passive strategy approach regarding managing its Equity Portfolio, refraining from engaging in active trading. However, due to consistent and relatively better returns generated by the Fixed Income Portfolio, the relative weightage of the Equity Portfolio gradually decreased over successive quarters. At the end of Jun-23, the Equity Asset allocation decreased to 17.7% of the overall Fund size. 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

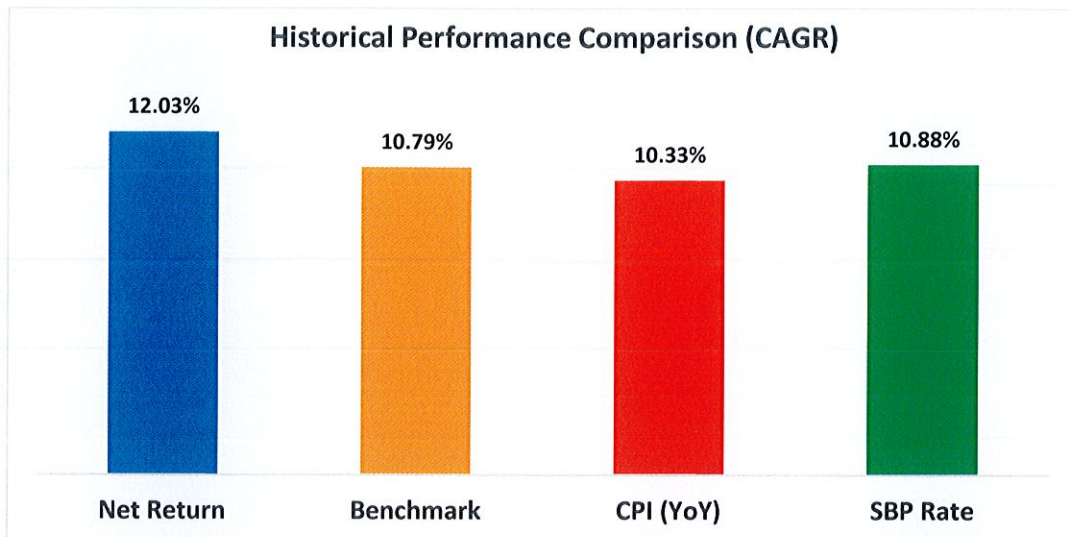
Investments in the Portfolio	30-Jun-23		30-Jun-22	
	Amount	%	Amount	%
PIBs - Fixed Rate	1,115	1.0%	771	0.8%
National Saving Schemes	24,552	22.6%	43,548	46.3%
PIBs – Floating Rate	47,879	44.1%	-	-
Term Deposits/Treasury Bills	0	0.0%	0	0.0%
Corporate Bonds	7,695	7.1%	3,545	3.8%
Mutual Funds - Fixed Income	2,080	1.9%	9,419	10.0%
Cash / Daily Deposits	3,953	3.6%	15,484	16.5%
Accrued Markup & Others	2,114	1.9%	250	0.3%
Mutual Funds - Equity	11,328	10.4%	13,052	13.9%
Shares of Listed Companies	7,839	7.2%	7,952	8.5%
Total Fund Size	108,555	100.00%	94,021	100.0%

- During FY 2022-23, the Punjab Pension Fund's portfolio grew from Rs. 94,021 million to Rs. 108,555 million. This increase was driven by Rs. 3,500 million in fresh contributions from the Government of Punjab and Rs. 11,034 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 anticipated 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 decreased its equity exposure from direct investments in shares and allocations to equity mutual funds. The overall exposure to equities declined from 22% of the portfolio to under 18% by FY 2022-23. This helped the Fund book capital gains and reduced market exposure close to its strategic allocation. In subsequent years, this strategy proved highly effective, as the Fund earned good accruals from floating bonds in a high-interest rate environment.
- 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.



THE FUND'S HISTORICAL 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 15 years since the inception of the Fund.



- Over the past fifteen years, from July 2008 to June 2023, the Fund has delivered a net cumulative average return of 12.03%, significantly outperforming its benchmark. The Fund also outperformed the average CPI Inflation, which indicates that it has consistently provided a positive real return, averaging 1.7% 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 than equities. Despite these conservative investment choices, the Fund managed to keep pace with inflation and generated real returns.
- The benchmark return during these fifteen years stood at 10.79%, highlighting the Fund's outperformance by approximately 1.24%. This consistent outperformance over such a long duration underscores the Fund's effective management strategy and focuses on risk-adjusted returns while navigating through varying economic conditions.

OUTLOOK FOR FY2023-24:

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

Inflation

- Inflation in FY2022-23 jumped to 29.9% YoY, up from 21.3% in FY 2021-22. We anticipate monthly CPI inflation to soften and gradually decline over the next 12 months. This is due to base effect along with tight monetary and fiscal policy. In the medium term, the SBP targets inflation to fall to the 5-7 percent range, driven by budgetary consolidation, moderating growth, normalization of global commodity prices, and higher base effects.



Interest rates

- During FY2022-23, the SBP raised its Policy Rate from 13.75% to 22.00% to accommodate the unabated inflation trajectory. Management believes inflation numbers and commodity prices will set the monetary policy path.
- The SBP expects monthly inflation to have peaked and is likely to decelerate from here onwards due to a high base effect, a drop in international commodity prices, reduced demand pressure, and a second round of reflection already reflected in core inflation. Thus, the forward real interest rates have turned positive, considering the current inflation estimates.
- The market expects rates to drop from the last quarter of the current financial year. However, the successful completion of the current SBA program of IMF and smooth transition to a new, longer programmer, the smooth transition of power after elections due within the current financial year, and not more than expected rise in commodity prices will be key drivers going forward.

AUDITORS:

The Government of Punjab appointed M/s BDO Ebrahim & Co. Chartered Accountants as Auditors of the Fund for the year ended 30 June 2023. Auditors have submitted their Audit Report for the year ended 30 June 2023.

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 2023 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