

**GOVERNMENT NOTICE**

**RETIREMENT FUNDS**

**NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY**

**No. X**

**2018**

**STANDARDS MADE UNDER THE FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018**

The Namibia Financial Institutions Supervisory Authority has under section 410(6) of the Financial Institutions and Markets Act, 2018 (Act No. X of 2018), made the Standards set out in the Schedule.

**Gersom Katjimune**  
**Chairperson**

**Windhoek,**

**2018**

FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018 [Act No. • of 2018]

DRAFT STANDARD

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MATTERS TO BE INCLUDED IN AN INVESTMENT POLICY STATEMENT

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NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

**Standard No. RF.S.5.18**

**FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018 [Act No. • of 2018]**

**Matters to be included in an investment policy statement**

**Standard No. RF.S.5.18**

*issued by NAMFISA under section 410(6)(s) of the Financial Institutions and Markets Act, 2018*

**Definitions**

1. (1) In this Standard:
  - (a) “Act” means the *Financial Institutions and Markets Act, 2018* [Act No. • of 2018] and it includes the regulations prescribed under the Act and the standards and other subordinate measures issued by NAMFISA under the Act;
  - (b) “deferred member” means an active member who has not yet retired but has left the service of the employer concerned prior to the retirement date, as defined in the rules of the fund, leaving in the fund the rights of the member to such benefits as may be payable according to those rules;
  - (c) “life insurer” means a registered insurer that carries on life insurance business; and
  - (d) “Statement of Investment Policy” means a document written and adopted by the board of a fund that complies with the requirement of section 265(1)(c) of the Act and which defines the policy set by the board for purposes of managing the investments of the fund.
- (2) Words and phrases defined in the Act have the same meaning in this Standard, unless the context indicates otherwise, including without limitation, the following:
  - (a) as defined in section 1 of the Act:
    - (i) banking institution;
    - (ii) financial institution;
    - (iii) financial intermediary;
    - (iv) NAMFISA;

- (v) principal officer;
  - (vi) registered;
  - (vii) retirement fund;
- (b) “registered insurer” as defined in section 4 of the Act;
- (c) “life insurance business” as defined in section 8 of the Act;
- (d) “exchange” as defined in section 78 of the Act;
- (e) “collective investment scheme” as defined in section 168 of the Act; and
- (f) as defined in section 249 of the Act:
- (i) active member;
  - (ii) board;
  - (iii) defined benefit fund;
  - (iv) defined contribution fund;
  - (v) employer;
  - (vi) fund;
  - (vii) retired member;
  - (viii) retirement fund.

2. The board of a fund must develop and maintain a Statement of Investment Policy, and, unless exempted from this requirement pursuant to clause 5, in doing so may consider advice from the fund investment advisor, if applicable.
3. The Statement of Investment Policy of a fund which does not permit active members to direct the allocation of their contributions, or their contributions and those of the employer, i.e. member choice investments, must include the following:

- (a) a description of the fund's rate of return objective which may be expressed as either real or nominal rates and in either absolute terms (e.g. a real rate of return of 4% p.a. or a nominal rate of return of 6% p.a.) or relative terms (e.g. the nominal rate of return on long-term Government debt plus 3%);
- (b) a description of the fund's tolerance for aggregate investment risk (volatility of the portfolio rate of return), as low, moderate or high and must include an analysis of the risk structure of the portfolio that complies with clause 4(a);
- (c) an analysis of the reasonableness of the rate of return objective referred to in sub-clause (a), in light of the characterization of the fund's tolerance for aggregate investment risk referred to in sub-clause (b);
- (d) a description of the asset classes in which the fund may invest which must be inclusive and specific, together with an analysis and assessment of the portfolio's level of diversification (both as across and within asset classes) as low (relatively few asset classes and few sub-classes), moderate or high (a substantial representation of asset classes and sub-classes);
- (e) the target proportion of the portfolio (or range thereof) that each asset class is typically expected to represent;
- (f) the portfolio limits applicable to each asset class (the maximum proportion of the portfolio that each asset class may represent);
- (g) for each asset class, the statement must describe all prohibited investments (e.g. in the case of corporate debt, all securities rated less than AAA by recognized rating agencies);
- (h) for each asset class, the maximum exposures to a single investment within the class expressed as a percentage of the portfolio;
- (i) the limit applicable to the total exposure of the portfolio to a single entity (i.e. the maximum proportion of the portfolio that could be invested in the debt or equity of, or loans to, a single issuer or entity);
- (j) the limit applicable to the total exposure to currency risk (i.e. the maximum proportion of the portfolio that may be denominated in currency other than Namibian dollars);

4. To comply with clause 3(b), the Statement of Investment Policy must either:
  - (a) determine:
    - (i) the proportion of the portfolio typically represented by asset classes that include fixed-income investments (e.g. debt securities, certificates of deposit, first mortgages on real property);
    - (ii) the proportion of the portfolio typically represented by asset classes that include variable income investments (e.g. common equity shares, commercial real estate);
    - (iii) the ratio of (i) to (ii), and
    - (iv) must justify the characterization of the aggregate portfolio risk as low, moderate or high in relation to the value of (iii), having regard for the fact that a high value of (iii) (e.g. >1.5) represents low aggregate portfolio risk and a low value of (iii) (e.g. <.75) represents high aggregate portfolio risk;  
or
  - (b) provide an analysis on some other basis prepared by the fund investment advisor that justifies the assessment of the fund's tolerance for aggregate investment risk having regard for the asset classes in which the fund invests, the target proportions thereof, the limits on single investments within asset classes and the level of diversification of the fund.
5. The Statement of Investment Policy for a defined contribution fund may be prepared by its board without taking advice from a fund investment advisor, provided the Policy complies with clause 6 of this Standard and further restricts the investments of the fund to the following (excluding unlisted investments), all of which must be denominated in Namibian dollars, and, where applicable, have a term to maturity not in excess of 5 years:
  - (a) debt securities of the Government of Namibia;
  - (b) certificates of deposit or guaranteed investment certificates issued by a banking institution or a financial institution;
  - (c) equity shares of issuers listed on an exchange registered under the Act;

- (d) annuity contracts issued by a life insurer registered under the Act which must be guaranteed as to capital and rate of return; and
  - (e) units of:
    - (i) collective investment schemes; or
    - (ii) life insurance segregated funds of a life insurer registered under the Act, the investments of which comply with this clause.
6. Where the rules of a defined contribution fund permit active members to direct the allocation of their contributions, or their contributions and those of the employer, to funds managed by a fund investment advisor that is a registered financial institution or registered financial intermediary or to funds managed by some other registered financial institution or registered financial intermediary, the Statement of Investment Policy must stipulate that:
- (a) active members must receive clear descriptions, at least annually, of each of the various funds available to them, which descriptions must include their specific investment policies, their risk exposures, rate of return objectives and expense charges, including details as to periodic management fees and charges for inter-fund transfers and withdrawals;
  - (b) allocation options available to active members are suitably circumscribed so as to prevent imprudent risk exposure due to inadequate diversification or excess allocation among higher risk asset classes;
  - (c) the fund will provide investment counselling workshops for active members at least once every three years to provide guidance and training in the management of investments with emphasis on the risk and return relationship and the need to monitor and adjust asset class allocations over time; and
  - (d) the fund management will provide active members with comprehensive statements of their account activity, fund balance marked-to-market and net rate of return on a quarterly basis, as a minimum frequency, with such statements delivered either electronically or physically at the option of the active member.
7. Where the rules of a defined contribution fund permit active members to direct the allocation of their contributions, or their contributions and those of the employer, the Statement of Investment Policy must include the following:

- (a) a description of the fund's policy with respect to:
    - (i) the use of derivatives;
    - (ii) securities lending;
    - (iii) acquisition of unlisted shares/debt; and
    - (iv) participation in private placements;
  - (b) confirmation that the fund will not acquire the voting shares of a listed or unlisted entity that, in the aggregate, exceed the lesser of 30% of the outstanding voting shares of that entity or the amount of such shares that would or could confer voting control on the fund without the prior notification and approval of NAMFISA;
  - (c) a description of the processes the board has implemented to regularly review and assess the investments of the fund and the operational measures that are instituted to monitor and control the key investment risks – market risk, interest rate risk, credit risk and liquidity risk; and
  - (d) a description of the processes to be followed when appointing fund investment advisors, investment managers, appraisal of these service providers, how the appraisals will be conducted and by whom.
8. The Statement of Investment Policy of a fund that is a defined benefit fund must, with respect to its rate of return objective, have regard for the rate of return assumption adopted by the valuator of the fund based on the most recent valuation report on the financial condition of the fund, and must therefore include a description of the relationship between the fund's rate of return objective according to the Statement of Investment Policy and the rate of return assumption adopted by the valuator and, if the rate of return objective exceeds the rate of return assumption by more than 2% per annum, an explanation of the justification for the divergence in the rates must also be included.
9. The Statement of Investment Policy must:
- (a) include a summary substantially similar to that contained in Schedule 1 to this Standard;

- (b) be made available to active members, retired members and deferred members on request either electronically or physically; and
- (c) have regard to and comply with all legislative requirements pertaining to the investments of retirement fund.

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## **SUPPORTING SCHEDULES**

The following supporting schedule is attached to and forms part of this Standard:

**Schedule 1:** Sample summary of a Statement of Investment Policy of a retirement fund

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Schedule 1

Sample summary of a Statement of Investment Policy of a retirement fund

| Display of the Asset Allocation Structure of the Investment Policy<br>All Allocations and Limits Expressed as % of the Total Portfolio |                          |                                |   |  |
|--|--------------------------|--------------------------------|---|--|
| Asset Class  | Rate of Return Objective | Target Allocation to the Class | Acceptable Range of Allocation to the Class | Limit on Exposure to a Single Asset Within the Class |
| GON Securities <=5 years to maturity   |                          |                                |   |  |
| GON Securities > 5 years to maturity   |                          |                                |   |  |
| Bank demand deposits   |                          |                                |   |  |
| Bank certificates of deposit   |                          |                                |   |  |
| Other financial institutions' certificates of deposit  |                          |                                |   |  |
| Commercial paper and short term notes  |                          |                                |   |  |
| Corporate debt rated AAA or higher <=5 years to maturity   |                          |                                |   |  |
| Corporate debt rated AAA or higher > 5 years to maturity   |                          |                                |   |  |
| Corporate debt rated less than AAA   |                          |                                |   |  |
| Common equity shares- listed   |                          |                                |   |  |
| Preferred equity shares - listed   |                          |                                |   |  |
| Common equity shares – unlisted  |                          |                                |   |  |
| Preferred equity shares - unlisted   |                          |                                |   |  |
| Mortgage loans – residential   |                          |                                |   |  |

|   |  |  |  |  |
|---|--|--|--|--|
| Mortgage loans – residential – to members of the fund |  |  |  |  |
| Mortgage loans – commercial                           |  |  |  |  |
| Real estate – residential                             |  |  |  |  |
| Real estate – commercial                              |  |  |  |  |
|   |  |  |  |  |
| Other 1   |  |  |  |  |
| Other 2   |  |  |  |  |
| Other 3   |  |  |  |  |
|   |  |  |  |  |

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