

Institutional Investment

Standard GEN. 10-11

*made by NAMFISA under subsections 410(3)(i) 410(6)(s) 410(7)(j) and 410(8)(e) of the
Financial Institutions and Markets Act, 2021*

INSTITUTIONAL INVESTMENT

1. Citation of Standard

This Standard may be cited as Standard GEN. 10-11.

2. Interpretation of Standard

(1) This Standard applies to all insurers, registered insurers, beneficiary funds, retirement funds, and friendly societies, etc, registered under the Act or to which the Act otherwise applies (hereafter “Investing Institutions or Investing Institution”).

(2) This Standard sets out:

- a) the matters that must be considered in the investment process of an Investing Institution; and
- b) the matters that must be addressed in the Investment Policy Statement of the Investing Institution.

3. Transparency

(1) A Financial Institution must have a written investment policy statement (referred to in this Standard as the “Investment Policy Statement”), that -

- (a) identifies the investment decisions or categories of investment decisions of the Investing Institution that are required to be made, and identifies the person, whether the board, a member or members of the board, officer or officers of the Investing

Institution or outside experts, designated to take each decision or category of decisions, and the reason why this particular structure has been selected;

(b) sets out the investment objectives of the Investing Institution;

(c) sets out the Investing Institution's strategic asset allocation, including projected investment returns on each asset class, and how the strategic asset allocation has been determined;

(d) sets out the mandates given to all advisors, investment managers and other experts; and

(e) sets out the nature of the fee structures in place for all advisors, investment managers and other experts, and why these particular fee structures have been selected.

(2) An Investment Policy Statement must address all of the issues stated in this Standard, including but not limited to:

(a) investment, return and risk objectives;

(b) portfolio investment policies, including diversification;

(c) liquidity and cash flow requirements;

(d) organisational structure and investment procedures;

(e) exercise of voting rights, including proxy voting;

(f) valuation procedures or methodologies for unlisted investments;

(g) monitoring portfolio investments and performance;

(h) related party transactions;

(i) risk management;

- (j) quantitative asset exposure limits;
- (k) investment restrictions;
- (l) use of financial derivatives or structured products that have the economic effect of financial derivatives; and
- (m) the frequency with which the Investment Policy Statement and matters related thereto must be reviewed and revised.

4. Accountability

- (1) The board of an Investing Institution is ultimately responsible for the investment activities of the Investing Institution.
- (2) The board has a fiduciary duty to deal with investments with due care, skill and diligence and in good faith and to ensure that any investment activity complies with the Act, including this Standard, all other applicable laws and the Investment Policy Statement of the Investing Institution.
- (3) The guidelines contained in this Standard should be adapted by each board to suit the particular circumstances and objectives of the Investing Institution, taking into account all other factors that may affect the solvency (where applicable) and funding of the Investing Institution and its ability to meet its financial obligations.
- (4) The guidelines contained in this Standard are intended to serve as a guide only, without limiting the care that the boards of Investing Institutions are expected to take in the performance of their duties.

5. Effective decision-making

- (1) Decisions pursuant to the Investment Policy Statement of an Investing Institution must be taken-
 - (a) only by individuals or entities with the skills, experience, knowledge, information and resources necessary to take such decisions effectively; and

(b) only by persons authorised under the Act to do so.

(2) Where the board elects to take investment decisions itself, the board must make such decisions:

- (a) pursuant to and in furtherance of the Investment Policy Statement;
- (b) with due regard to the expertise of the board and any expert advice obtained;
- (c) in the interest of the Investing Institution and of persons deriving a benefit from, or vested with rights by the Act or any other law;
- (d) with due regard to the nature and extent of the risks involved; and
- (e) in accordance with the Act and any other applicable laws.

6. Clear objectives

(1) The board must set out an overall investment objective in the Investment Policy Statement of the Investing Institution that:

- (a) represents its best judgment of what is necessary to meet the Investing Institution's liquidity needs, liabilities (actual or contingent) and solvency requirements (where applicable); and
- (b) takes account of its attitude to risk, and specifically its willingness to accept underperformance due to market conditions.

7. Focus on investment strategy

(1) Strategic asset allocation decisions should receive a level of attention that fully reflects the contribution such decisions can make towards achieving the Investing Institution's investment objectives.

(2) The strategic asset allocation adopted by an Investing Institution will be a function of its liabilities, in particular:

- (a) the need to ensure that it holds sufficient assets to match its liabilities by nature, term and currency; and

(b) the need to balance its expected rates of return with the levels of risk that it is able to accept having regard to its financial condition.

(3) As a result of sub-clauses 6(1) and 7(1), in the case of Investing Institutions that are retirement funds that are not defined contribution funds and similarly structured Investing Institutions, detailed analysis and management of the asset/liability relationship will be a pre-requisite to the determination and review of the strategic asset allocation.

(4) The board must consider a full range of investment opportunities, not excluding from consideration any major asset class, including unlisted investments.

8. Expert advice

(1) The members of a board must collectively have sufficient expertise to understand the important issues relating to the investment process and should ensure that all individuals conducting and monitoring investment activities have sufficient levels of knowledge, skills and experience.

(2) In the event that a board does not have sufficient expertise, it must obtain expert advice and guidance from persons with the required qualifications and expertise and in this regard:

(a) contracts for experts should be open to competition; and

(b) the Investing Institution should be prepared to pay sufficient fees for each service to attract a broad range of experts.

9. Written mandates

A board must enter into a written investment mandate with an investment manager, which must be in accordance with Standard GEN. 10-12 – Content of Investment Mandate.

10. Activism

(1) A board must have an explicit policy on whether the Investing Institution allows shareholder or member activism and, if so, the terms and conditions of the activism.

- (2) If the board allows shareholder or member activism, the policy must be used solely to:
 - (a) promote the economic interests of the Investing Institution and its clients and beneficiaries;
 - (b) enhance the economic value of the Investing Institution's long-term or illiquid investments; and
 - (c) monitor and, where appropriate and possible, influence the management of entities in which the Investing Institution has invested.
- (3) The board must have a written policy on proxy voting generally, and specifically in respect of shareholder or member activism if allowed, which policy must be made with due regard to the costs (in both time and money) and the desirability of such a policy, and must specifically name the fiduciaries who may exercise such fiduciary authority.
- (4) In delegating shareholder or member activism decisions by way of a proxy voting policy, such a policy must require the named fiduciary to:
 - (a) make proxy voting decisions in the interest of the Investing Institution and its clients and beneficiaries;
 - (b) not subordinate the Investing Institution's interests to unrelated objectives or other interests;
 - (c) avoid conflicts of interest, including own interests; and
 - (d) report to the board on proxy voting decisions, including the rationale for the decisions (which must be to enhance the economic interest or value of the Investing Institution's investments in accordance with sub-clause 10(2)).
- (5) The board must periodically review the proxy voting decisions.

11. Appropriate benchmarks

(1) The board of an Investing Institution must:

- (a) set appropriate benchmarks against which to measure the investment performance of the Investing Institution;
- (b) in consultation with the investment manager of the Investing Institution, consider and review the appropriateness of benchmarks from time to time, and in particular, whether the benchmarks may lead to sub-optimal investment strategies;
- (c) if limits are set on divergence from an index, ensure that such limits reflect the approximations involved in index construction and selection;
- (d) where the board believes active management has the potential to achieve higher returns, set both target and risk controls that reflect this, giving the investment manager the freedom to pursue genuinely active strategies.

12. Performance measurement

- (1) The board of an Investing Institution must arrange, at least yearly, for the measurement of the performance of investments and assess investment procedures and decisions.
- (2) The board must arrange, at least yearly, for the formal assessment of performance and decision making delegated to an investment manager or other experts.
- (3) Where active portfolio management is chosen, the board must assess the performance of the investment manager in relation to the objectives and any benchmarks set, to determine:
 - (a) whether the performance has generated returns commensurate with the active investment mandate; and
 - (b) the risks taken to achieve such performance and whether the performance justifies the risks.

13. Investment control

- (1) The board of an Investing Institution must exercise sufficient oversight and control over the assets and investments of the Investing Institution.
- (2) In exercising oversight and control, the board must have regard to the provisions of the Act pursuant to which assets of Investing Institutions may not be alienated, hypothecated, pledged or otherwise encumbered to the detriment of the Investing Institution or its clients and beneficiaries.
- (3) The board must have a policy for custodial (and sub-custodial), settlement and securities administration arrangements which impact control over the Investing Institution's investments with a view to reducing the risk of alienation, hypothecation, pledging, or other encumbrance of assets.
- (4) The board must pay special attention to securities lending arrangements and decide whether the assets of the Investing Institution may be subject to securities lending (e.g. for portfolio management and yield enhancement purposes), and the terms and conditions (e.g. insurance, hedging) subject to which securities lending may be undertaken.
- (5) The board must have regard to the rights and obligations of the investment manager or other financial intermediary in managing or dealing with the Investing Institution's assets, especially with regard to the collection of income (dividends and interest), proceeds from securities disposals, investment of additional assets, and rights and bonus issues and in dealing with these funds in relation to the Investing Institution's bank accounts or otherwise.
- (6) The board must ensure that the assets and investments of the Investing Institution are at all times kept separate from the assets of fiduciaries or other persons, in accordance with the Act and any standard dealing with the segregation and separation of assets of financial institutions that may be issued by NAMFISA, and ensure that the assets of the Investing Institution are at all times recorded in the name of the Investing Institution, with due regard to e.g. pooled portfolios or arrangements.

- (7) The board must only enter into and maintain an arrangement for the safekeeping of the Investing Institution's assets with a person duly authorised under the Act, and must periodically review such arrangement.
- (8) The board must pay particular attention to the fitness and propriety of persons in foreign jurisdictions, including putting in place requirements for the custodian to conduct due diligence on any sub-custodian to be used in a foreign jurisdiction and to satisfy the board of the fitness and propriety of the sub-custodian, and ensure that the sub-custodian is a regulated entity.

14. Regular reporting

- (1) Where appropriate, the board of an Investing Institution must publish at least yearly, its Investment Policy Statement and the results of monitoring advisors, investment managers and other experts, and make the Investment Policy Statement and such results available to interested parties, including NAMFISA.
- (2) The board must explain to NAMFISA and any interested parties, any deviations from the Investment Policy Statement.