



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

No. SCD/CIRCULAR/215/2021

April 06, 2021

Circular No. 12 of 2021

Subject: Investment and Allocation Policies for Pension Funds Authorized under the Voluntary Pension System Rules, 2005

The Securities and Exchange Commission of Pakistan in exercise of powers conferred under section 282B(3) of the Companies Ordinance, 1984 read with sub-rule (3) of rule 24 of Voluntary Pension System Rules of 2005 (the 'VPS Rules') in supersession of Circular No. 36 of 2009 dated December 10, 2009, Circular No. 36 of 2012 dated November 26, 2012, Circular No. 6 of 2013 dated May 9, 2013, Circular No. 13 of 2013 dated July 31, 2013, Circular No. 19 of 2016 dated May 25, 2016, Circular No. 4 of 2018 dated April 27, 2018 and Circular No. 14 of 2020 dated April 16, 2020 is pleased to specify the following investment policy and allocation policy for Private Pension Funds: -

Investment Policy

- 1) The Investment Policy covers both conventional and Shariah compliant Pension Funds and the investment limits are relevant for both kinds of Pension funds unless specifically mentioned differently in the Policy stated herein below.
- 2) The Pension Fund shall consist of three or more sub-funds.
- 3) A PFM shall specify in the offering document the type of securities, each sub-fund shall invest in, and the risks associated with Investment in such securities.
- 4) A Pension Fund Manager (PFM) shall invest assets of the Pension Fund in a transparent, efficacious, prudent and sound manner.
- 5) The Pension Fund Manager (PFM) shall have at least one investment committee (IC) which shall be responsible for selecting and developing appropriate investment and risk management strategies for the proper performance of the pension fund. The IC will also be responsible for developing internal investment restrictions, limits and restrictions for pension funds and in case same IC takes decisions for both mutual funds and pension funds, the decision taken for each kind of funds shall be separately identified and recorded in the minutes. Further the PFM shall: -
 - a. act with due care, skill and diligence in carrying out its duties and responsibilities;
 - b. ensure that investment decisions are consistent with the objectives and investment policy of the Pension Funds;
 - c. ensure that investments do not deviate from the Constitutive Documents or the VPS Rules/Regulations or circulars or directions of the Commission issued from time to time;
 - d. develop and follow internal investment restrictions and policies; and
 - e. review the performance of the Pension Fund on a regular and timely basis;
- 6) A PFM shall be responsible for managing and meeting the liquidity requirements of the Pension Fund and the Participants thereof.
- 7) A PFM on behalf of a Pension fund shall not take exposure of more than 20% of net assets in any single group and the term "group" means persons having at least 30% or more shareholding in any other company, as per publicly disclosed information;
- 8) A PFM shall carry out necessary due diligence for executing investment and disinvestment decision(s) in a security. Rating of an issue or the issuer, wherever mentioned herein below, shall be only one of the factors to be considered by a PFM and it shall in no way be construed as a recommendation or permission of the Commission to any PFM to invest in any security solely on the basis of rating. However, a PFM shall ensure that the security and the issuer meet the minimum rating scale referred in the Investment Policy to stay qualified for continued investment.



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- 9) A PFM shall deposit or place assets of Shariah Compliant Pension Fund with Islamic Commercial bank or Islamic window of a commercial bank. A PFM may open current account with conventional bank if it is in the interest of the pension fund to do so. The conditions for opening of account with a conventional bank shall remain the same as specified herein above.
- 10) A PFM shall invest assets of Shariah compliant Pension Fund in those securities which are declared eligible by the Shariah Advisor of the Pension Fund.
- 11) A PFM shall not invest assets of Pension Fund in securities of a company if equity is less than paid-up capital of the company, irrespective of the limits stated in the Investment Policy.
- 12) A PFM shall not invest or deposit or place assets of PF if the issuer or the bank or the security does not fulfill the minimum rating specified in the investment policy.
- 13) A PFM shall adhere to the limits stipulated herein below; however, if the limits are breached merely due to corporate actions including take up of right or bonus issue(s) or due to change in Net Assets resulting from fluctuation in price of securities or due to withdrawals, the PFM shall regularize the deviation within four months of the breach.
- 14) Limits of investment relevant to each sub-fund are specified as follows: -

Equity Sub-fund

- a) Assets of an Equity Sub-fund shall be invested in equity securities which are listed on a Stock Exchange or for the listing of which an application has been approved by a Stock Exchange and Equity sub-fund shall be eligible to invest in units of Real Estate Investment Trusts and Exchange Traded Funds provided that entity/sector/group exposure limits as prescribed are complied with;
- b) At least ninety percent (90%) of Net Assets of an Equity Sub-fund shall remain invested in listed equity securities during the year based on rolling average investment of last Ninety (90) days calculated on daily basis;
- c) A pension fund manager may make investment maximum upto 5% of net assets of Equity Sub-Fund in units of Private Equity and Venture Capital Funds registered under Private Funds Regulations 2015;
- d) A pension fund manager may make investment maximum upto 10% of net assets of Equity Sub-Fund in public offering and pre-initial public offering of equity securities;
- e) Investment in equity securities of any single company shall not exceed ten percent (10%) of Net Assets for conventional and fifteen percent (15%) of Net assets for shariah compliant of an Equity Sub-Fund or paid-up capital of that single company, whichever is lower;
- f) A pension fund manager may invest up to thirty percent (30%) or the index weight, whichever is higher, subject to maximum of thirty-five (35%) of net assets of an Equity Sub-Fund in equity securities of companies belonging to a single sector as classified by Pakistan Stock Exchange and in case of a Shariah compliant Equity sub-fund, a PFM may invest up to 35% or index weight, whichever is higher, subject to maximum of 40%;
- g) A PFM may invest any surplus (un-invested) funds in government securities having less than one-year time to maturity or keep as deposits with scheduled commercial banks which are rated not less than "A"; and
- h) A PFM shall ensure that the investment in equity securities of the following companies shall not exceed 10% of the net assets of the equity sub fund on monthly average basis:
 - i. Securities which are not eligible for Central Depository System;
 - ii. Company is not traded on regular trading counter of the Pakistan Stock Exchange;
 - iii. The minimum free float of the company is less than 15% or 50,000,000 shares whichever is less;



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- iv. The securities of the company are traded less than 50% of the total trading days during the last six months or from the date of listing as the case may be;
- v. Company's paid up capital is fully eroded owing to accumulated losses as per the annual audited accounts or half yearly limited scoped reviewed accounts whichever is latest;
- vi. There are major non-compliance issues i.e. holding of annual general meeting, finalization of annual audited accounts, appointment of board of directors and non-compliance with any specific direction (s) of the Commission except those companies that have obtained relaxation or extension to comply with such regulatory requirements from the Commission.
For the purpose of this clause, the word "specific direction" shall mean an explicit direction issued to a particular company in a certain matter;
- vii. Auditor's report is qualified with respect to company's ability as going concern or contains adverse opinion or disclaimer of opinion; or
- viii. Winding up proceedings have been initiated against the company.

Index Sub-fund

- a) The Index Sub-fund shall strive to remain fully invested in accordance with the stated index, however, under no circumstances shall it be invested less than 85% of its net assets in securities covered in the index or its subset during the year based on monthly average investment calculated on daily basis. The uninvested amount shall be kept in cash and/ or near cash instruments where near cash instruments include cash in bank account (excluding TDRs), and treasury bills not exceeding 90 days maturity;
- b) Index Sub-Fund may select an index (or a subset thereof) established by a recognized independent third party;
- c) Exposure to securities issued by entities of a single sector shall not exceed weight of sector in the index or its subset; and
- d) Exposure to any security shall not exceed weight of security in the index or its subset.

Debt Sub-fund

- a) The Debt Sub-fund shall consist of government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, TFC/ Sukuk or any other Islamic mode of placement, reverse repo, deposits/placements with Microfinance Banks and any other approved debt/ money market security issued from time to time;
- b) Rating of any security in the portfolio shall not be lower than A+;
- c) Rating of any bank and DFI with which funds are placed should not be lower than A+;
- d) Rating of any NBFC and Modaraba with which funds are placed shall not be lower than AA;
- e) At least 25% of the net assets shall be invested in deposit with scheduled commercial bank (excluding TDRs) or government securities not exceeding 90 days' maturity;
- f) Exposure to any single entity shall not exceed 10% of net assets for conventional and 15% for Shariah compliant debt sub fund;
- g) Exposure in debt security of an entity shall not exceed 10% of net assets for conventional and 15% for Shariah compliant debt sub fund or 10 % of size of the issue of that debt security, whichever is lower;
- h) The limits specified in clause (f) and (g) above are applicable to all securities mentioned other than the securities issued by Federal Government;
- i) Exposure to securities issued by entities of a single sector shall not exceed twenty five percent (25%) of Net Assets of a Debt Sub-fund;



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- j) A pension fund manager shall not place funds (including TDR, PLS Saving Deposit, COD, COM, COI, money market placements and other clean placements of funds) of more than 25% of net assets of sub-funds with all microfinance banks, non-bank finance companies and Modarabas;
- k) The weighted average time to maturity of a Debt Sub-fund shall not exceed five (5) years and this condition shall not apply to securities issued by the Federal Government; and
- l) Rating of any Microfinance Bank with which funds are placed should not be lower than A+.

Money Market Sub-fund

- a) Investment avenues - government securities, cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM) or any other Islamic mode of placement, TDRs, commercial papers, reverse repo;
- b) Rating of any security in the portfolio shall not be lower than AA;
- c) Rating of any bank and DFI with which funds are placed should not be lower than AA;
- d) Rating of any NBFC and Modaraba with which funds are placed shall not be lower than AAA;
- e) At least 10% of the net assets shall be invested in deposit with scheduled commercial bank (excluding TDRs) or government securities not exceeding 90 days' maturity;
- f) Exposure to any single entity shall not exceed 10% of net assets for conventional and 15% for Shariah compliant money market sub fund;
- g) Exposure in security of an entity shall not exceed 10% of net assets for conventional and 15% for Shariah compliant money market sub fund or 10 % of size of the issue of that security;
- h) The limits specified in clause (f) and (g) above are applicable to all securities mentioned other than the securities issued by Federal Government;
- i) Exposure to securities issued by entities of a single sector shall not exceed twenty five percent (25%) of Net Assets of a money market Sub-fund;
- j) A pension fund manager shall not place funds (including TDR, PLS Saving Deposit, COD, COM, COI, money market placements and other clean placements of funds) of more than 25% of net assets of money market sub sub-fund with all microfinance banks, non-bank finance companies and Modarabas;
- k) The weighted average time to maturity of assets of a Money Market Sub-fund shall not exceed ninety (90) days, except for assets of Shariah compliant Money market Sub-fund, where time to maturity may be up-to one year; and
- l) Time to maturity of any asset in the portfolio of Money Market Sub-fund shall not exceed six (6) months, except in the case of a Shariah compliant Money Market Sub-fund, where the time to maturity of Shariah compliant Government securities such as Government Ijarah Sukuks may be upto five (5) years.

Commodity Sub-fund

- a) A Commodity Sub-fund of a Pension Fund shall invest only in those commodity futures contracts that are traded at the Pakistan Mercantile Exchange;
- b) A Commodity Sub-fund shall only invest in cash settled futures contracts, except for gold or any other commodity for which deliverable contracts and storage options are available for which a Commodity Sub-fund, in addition to the cash settled futures, may also invest in deliverable futures contracts;
- c) At least seventy percent (70%) of Net Assets of a Commodity Sub-fund shall remain invested in commodity future contracts during the year based on rolling average investment of last ninety (90) days calculated on daily basis;
- d) At least 10% of the net assets of the Commodity Sub-fund, based on quarterly average investment calculated on daily basis, shall remain invested in government securities having less than 90 days' time to maturity or kept as deposits with scheduled commercial banks which are rated not less than



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- AA (Double A) by a rating agency registered with the Commission. In case of Shariah compliant Commodity Sub-fund, funds may be deposited with Islamic commercial banks, having not less than A plus rating or Islamic windows of commercial/ banks, having not less than AA (Double A) rating;
- e) A PFM may invest any surplus (un-invested) funds in government securities having less than one-year time to maturity or keep as deposits with scheduled commercial banks which are rated not less than AA (Double A) by a rating agency registered with the Commission;
- f) Maximum exposure of the Commodity Sub-fund shall not at any time exceed 90% of its net assets to ensure no gearing/leverage by the Commodity Sub-fund. For this purpose, the difference between the contract price and upfront margin i.e. the "earmarked cash" shall be blocked in an earmarked account for settlement purposes and the Pension Fund Manager along with the Trustee of the pension fund shall ensure payment of settlement amount and margin calls on behalf of the Commodity Sub-fund within the time stipulated by the exchange;
- g) A Pension Fund Manager may invest the earmarked cash in the following manner:
- In cash and near cash instruments which include cash in bank accounts (excluding TDR) and treasury bills.
 - Rating of any bank with which funds are placed shall not be lower than AA (Double A). In case of Shariah compliant Commodity Sub-fund, funds may be deposited in Islamic commercial banks, having not less than A plus rating or Islamic windows of commercial banks, having not less than AA (Double A) rating.
 - Time to maturity of any instrument/asset shall not exceed 90 days. Further, maturity of each investment/asset shall not exceed the maturity of the corresponding commodity futures contracts for which the cash/assets have been earmarked;
- h) A PFM shall not sell commodity futures contracts on behalf of a commodity sub-fund without pre-existing interest of the Commodity Sub-fund;
- i) An Islamic Commodity Sub-fund shall invest only in Shariah compliant assets;
- j) PFM shall ensure that before launch of any Commodity Sub-fund, it possesses sufficient systems and employs capable human resource, which includes qualified fund managers with requisite skill set to understand and deal in commodities or commodity futures contracts; and
- k) PFM shall follow forward pricing mechanism for the Commodity Sub-fund and shall mark to market on daily basis the exposure of the Commodity Sub-fund in commodities or commodity futures contracts.

Allocation Policy

1. A Pension Fund Manager shall offer at least four allocation schemes for a Participant to choose from, based on the following criteria: -

Table 1: Allocation Schemes for a Pension Fund having three (3/4) Sub-funds

Allocation Scheme	Debt Sub-Fund	Equity and/or Index Sub-Fund	Money Market Sub-Fund
High Volatility	Min 20%	Min 65%	Nil
Medium Volatility	Min 40%	Min 35%	Min 10%
Low Volatility	Min 60%	Min 10%	Min 15%
Lower Volatility	Min 40%	Nil	Min 40%

** Volatility here means the downwards or upwards change in Principal amount invested owing to change in price of the securities in the portfolio of a sub-fund,*



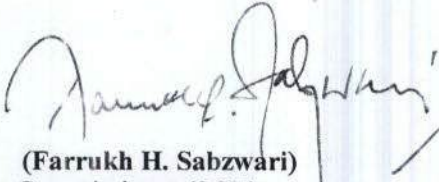
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Table 2: Allocation Schemes for a Pension Fund having four (4/5) Sub-funds

Allocation Scheme	Equity and/or Index Sub-Fund	Debt Sub-Fund	Money Market Sub-Fund	Commodity Sub-Fund
High Volatility	Min. 40%	Min. 20%	Nil	Max. 25%
Medium Volatility	Min. 20%	Min. 40%	Min. 10%	Max. 15%
Low Volatility	Min. 05%	Min. 60%	Min. 15%	Max. 05%
Lower Volatility	Nil	Min. 40%	Min. 40%	Nil

- Given the above criteria, a Participant will choose the percentage of contributions that go in to each sub-fund for individual allocation schemes. The participant may choose to freeze his portfolio allocation and percentages at a point in time and the allocation and percentages may be changed for future contributions. Such change will be allowed twice till retirement.
- If a Pension Fund Manager wants to provide additional allocation schemes or products (e.g. Lifecycle products), it may do so subject to the approval of the Commission. Up to two additional schemes/products may be approved in the first five years.
- A Participant shall have the option to select any one of the allocation scheme/ products offered by the Pension Fund Manager.
- In the event no choice is made by the Participant, a PFM, keeping in view the profile and age of the Participant, shall allocate the contributions preferably to an approved Lifecycle Allocation Scheme specified, and if such a scheme has not been offered, then allocate contributions to either Low Volatility (formerly Conservative Allocation Scheme) or Lower Volatility (formerly Very Conservative Allocation Scheme).
- A Pension Fund Manager shall get an undertaking from every Participant that he/ she has no objection to the investment and allocation policy determined by the Commission and he or she is fully aware of the risks associated with the investment policy and the allocation policy chosen by him or her.
- The Pension Fund Manager shall make reallocation of the units between the sub-funds at least once a year to ensure that the allocation of units of all the Participants are according to the percentages selected by the Participants or where no selection has been made according to the prescribed allocation policy.

This Circular shall come into force with immediate effect and existing Pension Fund Managers shall ensure compliance with these requirements within 90 days of issuance of this circular.


(Farrukh H. Sabzwari)
Commissioner (SCD)

Distribution:

- Chief Executive Officers, Asset Management Companies
- Mutual Funds Association of Pakistan
- Trustees of Collective Investment Schemes