



# UNDERSTANDING PFR2

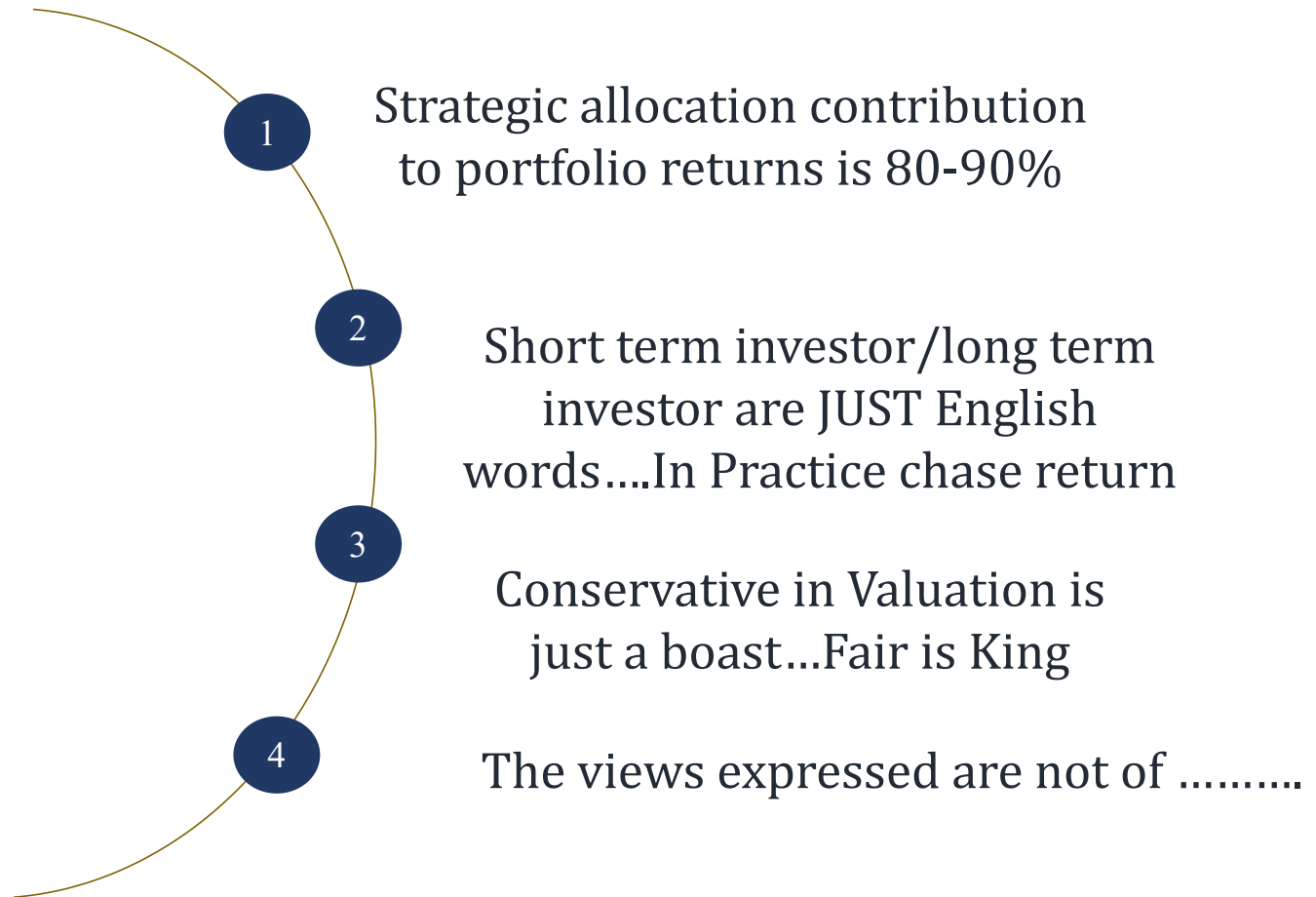
## PART 1

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## DID YOU KNOW



## **AGENDA**

- 1 INVESTMENT POLICY STATEMENT**
- 2 VALUATION OF ASSETS**
- 3 RISK MANAGEMENT**
- 4 INVESTMENT LIMITS**
- 5 REGULATORY EXEMPTIONS**

# INVESTMENT POLICY STATEMENT

## WHAT IS AN IPS

- ❖ IPS is a client-specific summation of the circumstances, objectives, constraints, and policies that govern a relationship between advisor(portfolio manager/ trustees in pension fund) and investor (client or member in Pension funds)
- ❖ IPS is a governing document for **ALL** investment decision making
- ❖ IPS operationalize the portfolio construction, monitoring and revision process

## **INVESTMENT POLICY STATEMENT (CONT)**

### **ELEMENTS OF IPS**

- ❖ I recommend.....
- ❖ INVESTMENT GOVERNANCE FOR FIDUCIARIES by CFA Institute Research Foundation 2019 version
- ❖ Elements of an Investment Policy Statement for Institutional Investor, 2010 CFA Institute

## **INVESTMENT POLICY STATEMENT (CONT)**

### **ELEMENTS OF IPS**

- ❖ Summary of typical elements (in case you don't want to accept recommendation to read)
- ❖ Brief client description: If the IPS is not talking to client then it is not IPS
- ❖ Purpose of establishing policies and guidelines
- ❖ Duties and investment responsibilities of parties involved

## **INVESTMENT POLICY STATEMENT (CONT)**

### **ELEMENTS OF IPS (cont)**

- ❖ Statement of investment goals, objectives and constraints
- ❖ Review of investment performance as well as IPS
- ❖ Strategic asset allocation
- ❖ Investment strategies
- ❖ Guidelines for rebalancing

## **INVESTMENT POLICY STATEMENT (CONT) REQUIREMENTS PFR2**

- ❖ You have to have an IPS
- ❖ Section 2.4 actually touches on Elements of IPS that are required as a minimum
- ❖ Review of strategy annually or when there is material change as per section 2.2
- ❖ Guidance of treatment of certain investment strategies in section 2.6
- ❖ Certification by the Actuary
- ❖ Communication with members





## **2 VALUATION OF ASSETS**

## VALUATION OF ASSETS

- ❖ A great business can become a terrible investment because of...
- ❖ We have attempted to make Valuation a science but it is nothing but perspective
- ❖ However it is extremely important and there is a need to regulate the field
- ❖ Recommendation 2 for the day.....the 2020 edition of the Global Investment Performance Standard are taking effect 1 January 2020

## **VALUATION OF ASSETS (cont.)**

- ❖ GIPS are a set of standardized industry wide ethical principles that guide investment managers and asset owners on how to fairly calculate and present their investment results with a goal of promoting performance transparency and comparability
- ❖ Unlisted Investment we have International Private Equity and Venture Capital Valuation Guidelines (IPEV)
- ❖ All the standards and guidelines intend to provide FAIR valuation



## **VALUATION OF ASSETS (cont.)**

### **PFR2 REQUIREMENT**

- ❖ Section 3 of PFR2 give guidance in terms of valuation
- ❖ Key thing is assets must be valued at fair value
- ❖ Where there is no reliable market price the valuation of an independent expert is required
- ❖ If NBFIRA is not happy with the valuation, they may define the valuation methodology to use



## **3 RISK MANAGEMENT**

## **RISK MANAGEMENT**

- ❖ Gone are the days where Risk management function are considered EXPENSIVE
- ❖ Every Fund shall appoint a Risk Officer, whose functions shall include the assessment and evaluation of potential risks facing the fund and identifying the risk mitigating strategies to be applied
- ❖ Every Fund shall appoint a Compliance Officer, whose role shall be to ensure that the fund is at all times, in compliance with relevant services law, international standards and acceptable business practices.

## **RISK MANAGEMENT**

- ❖ Establish Risk Management Committee (Principal Officer, Risk Officer and Independent Board Member)
- ❖ RMC may engage services of risk management professional if they find it necessary to do so.
- ❖ Board shall draw up a risk policy and submit for approval by NBFIRA
- ❖ Risk policy reviewed on a half yearly basis

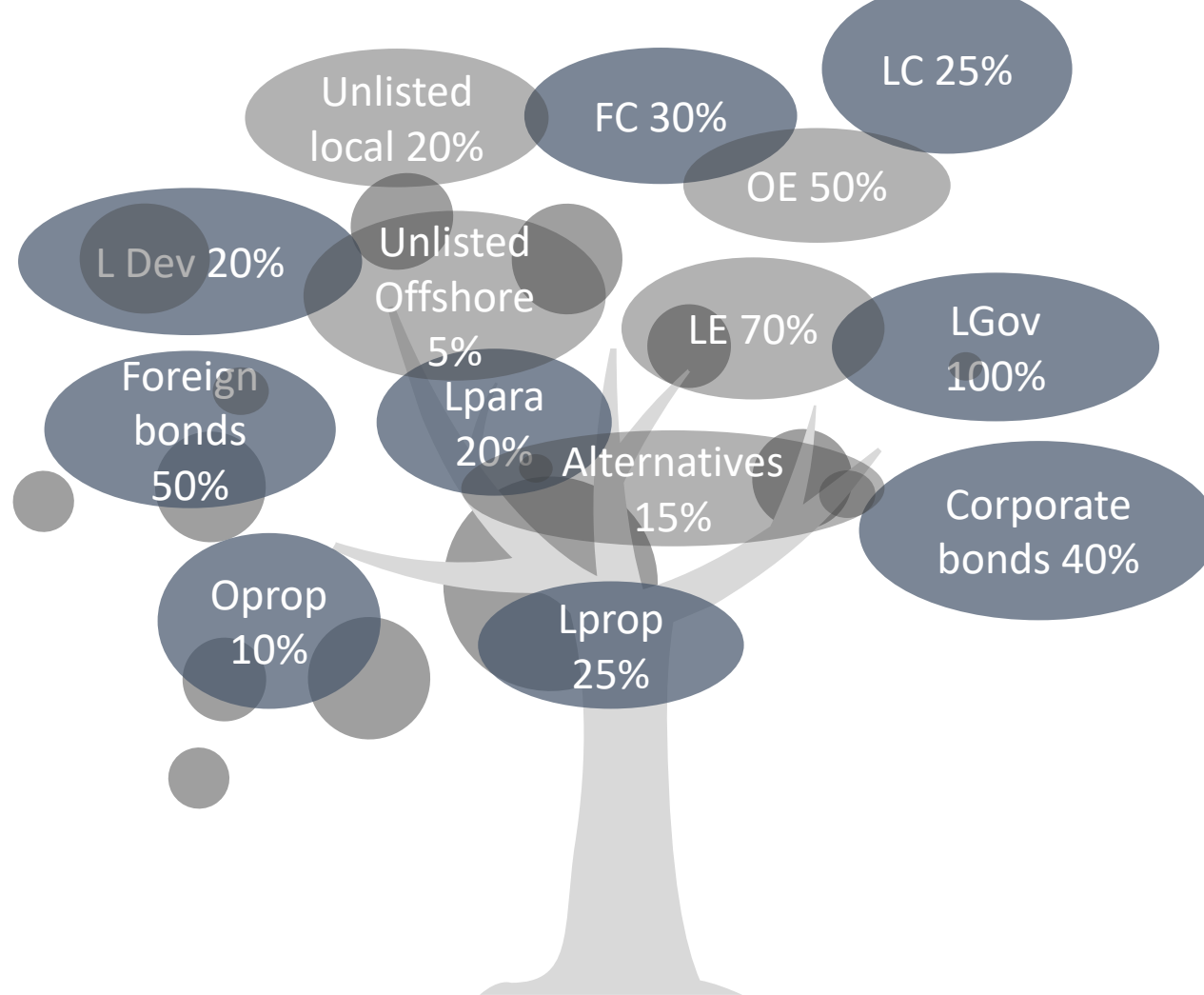


## **4 INVESTMENT LIMITS**



## INVESTMENT LIMITS

- ❖ Asset categories stated in the rules are given maximum permissible limits
- ❖ If the asset category is not listed it is in the Hedge fund pot and limited to 5%.
- ❖ Another disclaimer.....personal view alert
- ❖ The limits are GENEROUS + WAIVER + 3 MONTHS CORRECTION
- ❖ However....few areas to improve





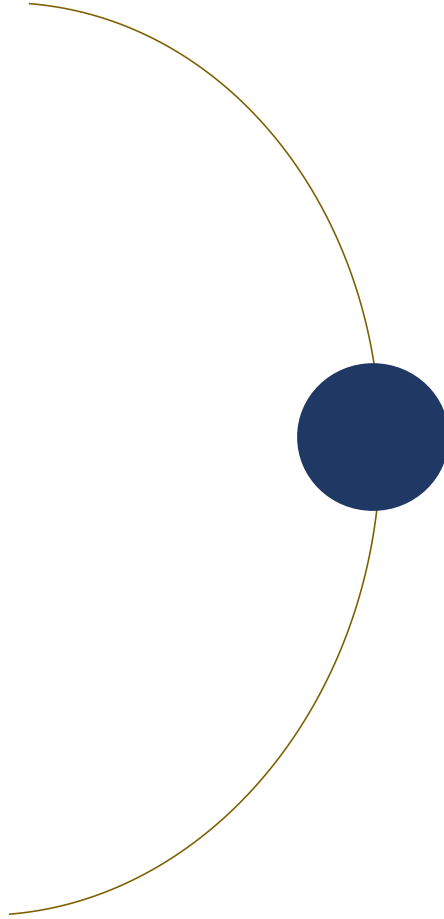
## **5 REGULATORY EXEMPTIONS**

## EXEMPTIONS

- ❖ The most beautifully crafted and welcome clause that each member of BPS and all industry participant should read and read and read...
- ❖ Disclaimer
- ❖ **The Regulatory Authority may on prior written application by a fund, grant such fund exemption from ANY of the provisions of this prudential rule upon such conditions as it may impose**

## EXEMPTIONS (CONT)

- ❖ Flexibility to accommodate the changing landscape...that is a plus
- ❖ The maximum permissible limits on asset classes can be exempted....that is a plus
- ❖ If exemption has not been granted but you breach the limit YOU have 3 months from the reporting date to comply.



THANK YOU