Insurance & Pensions Commission

Circular 2 of 2022

18 January 2022

TO: **Zimbabwe Association of Pension Funds (ZAPF)**

Life Offices Association of Zimbabwe (LOA)

Insurance Brokers Association of Zimbabwe (IBAZ)

Pension Fund Administrators

Self-Administered Pension Funds

Issuance of Investment Guidelines for the Pensions Industry

In pursuit of its mandate to promote growth of the pensions industry and safeguard pension values for the protection of the interests of fund members and their beneficiaries, the Commission hereby issues the Investment Guidelines for the Pensions Industry.

This Guideline is issued in response to the need to review the current investment guidelines with a view to making the prescribed investment threshholds relevant in the obtaining environment.

The prescribed limits have been informed by input from the industry, experiences of regional and international markets as collated by international bodies, as well as the need to protect pension scheme members

The Guideline is attached to this Circular for your further reading and implementation. The Guideline becomes operational from the date of issuance. The Commission recognises that funds may need to disinvest and switch to other investment classes to comply with the requirements stated in this Guideline. Cognisant of this fact, all funds that hold investments that are in breach of this

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Guideline shall have two years, from the date of issuance of the Guideline, to restructure their investment portfolios to make it compliant with this Guideline.

Please be guided accordingly.

Yours Sincerely

Muradzikwa

Grace Muradzikwa

COMMISSIONER OF INSURANCE PENSION AND PROVIDENT FUNDS

INSURANCE AND PENSIONS COMMISSION (IPEC)

INVESTMENT GUIDELINES FOR THE PENSIONS INDUSTRY

AUGUST 2021

Authorisation

The Investment Guidelines for the Pensions Industry (hereafter referred to as the "Guideline") is issued in terms of section 3(1) of the Insurance and Pensions Commission (Issuance of General Guidelines and Standards) Regulations, 2020, published in Statutory Instrument 69 of 2020, which empowers the Commission, whenever it considers it necessary, convenient and in the best interest of pension and provident fund members, to issue general guidelines and standards in relation to risk management to be observed by the pensions industry.

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1. Background

1.1. In 2013, the Insurance and Pensions Commission issued Circular 1 of 2013 on Investment Guidelines to the Pensions Industry. The industry was to comply with the prescribed thresholds by 1 April 2016. Following representations from the industry, the guidelines were further enhanced through Circular 1 of 2016. In terms of Circular 1 of 2016, entities were to submit investment policy statements in line with their risk profile. Any deviation from the prescribed thresholds were to be authorised by the Commission.

1.2. Notwithstanding the guidelines outlined in the two Circulars, the Commission has observed breaches of the thresholds prescribed and the challenges some funds have experienced owing to non-compliance with the Circulars. In addition, new asset classes have emerged which were not provided for in the guidelines

1.3. It has, therefore, become necessary to review the prescribed thresholds with a view to making them relevant in the obtaining environment.

1.4. The prescribed limits have been informed by input from the industry, experiences of regional and international markets as collated by international bodies, as well as the need to protect pension scheme members.

2. Objectives of the Guideline

2.1. The objective of the Guideline is to guide the pensions industry on matters relating to investments by:

a) Prescribing investment limits on asset classes for the following purposes:

i) To guide the pensions industry on matters relating to investments

ii) To ensure that funds do not overinvest in one asset class resulting in concentration risk.

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iii) To ensure diversity in investments as a way of managing liquidity risk which may arise when investments are concentrated in illiquid assets.

b) Aligning the previous thresholds set out in Circular 1 of 2013 and Circular 1 of 2016 with developments in the market which include the introduction of new instruments such as Real Estate Investment Trusts (REITS), Exchange Traded Funds (ETFs, the creation of new securities exchanges and the widening of the prescribed asset framework to include private equity and issuances of prescribed assets by the private sector.

3. Scope and Effective Date

3.1. This Guideline shall be applicable to all pension and provident funds. It shall be read with all other legislation pertaining to insurance and pension fund activities carried out in Zimbabwe, including Circulars and other directives issued by the Commission.

3.2. The Guideline becomes operational from the date of issuance. The Commission recognizes that funds may need to disinvest and switch to other investment classes to comply with the requirements stated in this Guideline. Cognisant of this fact, all funds that hold investments that are in breach of this Guideline shall have two years, from the date of issuance of the Guideline, to restructure their investment portfolios to make it compliant with this Guideline.

3.3. The Commission reserves the right to amend this Guideline from time to time after necessary consultations with key stakeholders.

3.4. This guideline shall not be construed in any way as derogating from the Board of a fund its responsibility to ensure that the fund has an Investment Policy Statement that not only complies with this guideline but also takes into account all prudential requirements related to responsible and effective investment of fund assets, as well as asset

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liability matching. Any variation from the Guidelines should be approved by the Commission.

4. Prescribed Limits

	Type of Investment	New Upper Limit	Current Upper Limit
A	Prescribed Assets	40%	40%
B	Bonds/Stocks	40%	40%
C	Property	40%	50%
D	Local listed Equities	60%	50%
E	Foreign Investments	15%	**N/A**
F	Unquoted shares/Alternative Investments	15%	10%
G	Money Market & cash	20%	45%
H	Other	5%	10%

Notes to the Prescribed Limits

1. The limits set above are proportions of the market value of each investment class to the market value of the total asset portfolio.
2. Prescribed assets include all financial instruments issued by the Central Government and any other financial instrument or project by parastatal or private company conferred prescribed asset status by the Minister of Finance and Economic Development.
3. Property includes Real Estate Investment Trusts (REITS).
4. Local listed equities are shares that are tradable on any of the securities markets registered in terms of the Securities and Exchange Act *[Chapter 24:25]*. Current registered exchanges are the Zimbabwe Stock Exchange, the Victoria Falls Forex Exchange, and the Financial Securities Exchange (Private) Limited. These also include Exchange Trade Funds (ETFs).
5. Unquoted shares are shares in private companies. These include those shares that might be accorded prescribed asset status as private equity.
6. To encourage diversity for the funds:
   (i) B+C should not exceed 75%
   (ii) B+C+E should not exceed 80%

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7. Cash in any one bank should not exceed 5% of total investments.
8. No more than 15% of a fund should be invested with a single bank.
9. Limits to exposure to a single listed counter should be 15%.
10. The limit on unquoted equities applies even to those financial instruments with Prescribed Assets Status.

5. Foreign Investments

5.1. In terms of Section 18 (1) of the Pensions and Provident Funds Act *[Chapter 24:09]*, a registered fund may hold investments outside of Zimbabwe, assets as authorised by the Commission. Empowered by this provision, the Commission hereby authorises funds to hold assets outside Zimbabwe.

5.2. This authorisation should not be construed as absolving a fund from complying with requirements relating to exchange control.

5.3. In investing offshore, funds shall be guided by the following:-

i) The investments shall not, at the point of investment, exceed 15% of a registered fund's assets as set out in its audited accounts of the immediate previous financial year;

ii) a registered fund may only invest in regulated markets.

iii) Investments shall be in equities that are listed on exchanges that are members of the World Federation of Exchanges and the regulator for the respective capital markets must be a member of the International Organisation of Securities Commissions.

iv) Investments in Collective Investments Schemes, Exchange-Traded Funds that are regulated. The regulator for the respective capital markets must be a member of the International Organisation of Securities Commissions.

v) Investments in bonds/stocks/private equity shall be in regional financial institutions or multilateral financial institutions with an international and national rating scales of at least BBB or BB,

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respectively, which indicates adequate levels of obligor/obligation creditworthiness i.e., moderate financial security characteristics. The ratings shall be conducted by reputable credit rating agencies.

vi) No fund shall invest in private equity in a foreign country, with the exception of private equity in item (v) above.

vii) Investments in sovereign bonds shall be in countries with sustainable debt levels as guided by Debt Sustainability Analysis (DSA) Reports conducted by the International Monetary Fund (IMF). The respective countries should have debt levels within their debt carrying capacity thresholds as indicated in the DSA reports. These ratios include Debt to GDP, Debt to Exports and Debt Service to Exports.

viii) Money market Investments or cash investments shall be in banks that are part of an international group.

ix) No fund shall invest or continue invested in countries blacklisted by the Financial Action Taskforce (FATF) or FATF regional style bodies as posing risk to the integrity of the global financial system.

The limits for offshore investments shall be as follows :-

Instrument	**Upper limit**
Foreign listed equities	60%
Regional and International Financial Institution Bonds	40%
Sovereign bonds	30%
Money market instruments	10%

Notes to the Prescribed Limits

1. The upper limits shown above are a percentage of each assets class to the total offshore investments (15% of total assets).
2. Limits to exposure to a single listed counter should be varied according to market capitalisation. Counters in the Top 10 index can allow up to 15%, mid-tier 10% and small caps 5%.

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3. Investments in sovereign bonds shall be no more than 10% in one country.
4. Entities that require to depart from the prescribed limits must apply to the Commission for exemption.

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Grace Muradzikwa

COMMISSIONER OF INSURANCE, PENSION AND PROVIDENT FUNDS

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