

NATIONAL PENSIONS REGULATORY AUTHORITY



NPRA/GD/INV/01/11

GUIDELINES ON INVESTMENT OF PENSION SCHEME FUNDS

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1. INTRODUCTION

- 1.1 The purpose of the Guidelines is to give a guide on investment of Pension Scheme Funds, pursuant to provisions of the National Pensions Act, 2008 (Act 766).
- 1.2 In developing these requirements, the National Pensions Regulatory Authority (NPRA) has provided minimum standards to achieve the prudential objectives of the requirements.
- 1.3 These Guidelines are not intended to be all encompassing, references to the Act and the regulations shall always be taken into consideration.

2. DEFINITIONS

- 2.1 "call warrant" means a security that confers a right (but does not impose an obligation) on its holder to purchase from the issuer of the security the ordinary shares of a company or companies or corporation or corporations on or before a specified date at a specified price or prices, whether or not the issuer retains the right to elect to give a cash payment equal to the excess (if any) of the value of those ordinary shares over the exercise price without the holder of the warrant receiving those shares from the issuer;
- 2.2 "collective investment scheme" has the meaning assigned to it by the Securities Industry Law, 1993(P.N.D.C.L 333) as amended.
- 2.3 "constituent fund" means a constituent fund of a registered scheme;

3. RESTRICTED INVESTMENTS

3.1 Limitations and prohibitions as to investment in restricted investments

The limitations and prohibitions set out in this section are the limitations and prohibitions with which the approved trustee of an employer sponsored scheme must comply for the purposes of Section 178 of the Act.

- 3.1.1 Invest more than 5 per cent of the net asset value of the scheme in other collective investment schemes;
- 3.1.2 make any investment that will result in the pension fund manager, approved trustee or the scheme gaining management control of a company in which the investment has been made;
- 3.1.3 make short sales of securities or maintain a short position;
- 3.1.4 acquire any securities which are unpaid or partly-paid for;
- 3.1.5 enter into underwriting or sub-underwriting contracts in relation to the subscription or purchase of any investment; or
- 3.1.6 invest more than 5 per cent of the total net asset value of the scheme in securities in other countries outside the Republic of Ghana in conformity with Section 177(2) of the Act.

3.2 General Restrictions – Spread of Investments

- 3.2.1 The total amount invested in securities and other permissible investments (excluding an investment permitted under Section 4.6 of this Guideline) issued by any one person must not exceed 10 per cent of the total funds of a constituent fund.
- 3.2.2 For the purposes of Subsection 3.2.1, where the funds of a constituent fund are invested in a relevant investment, the amount invested in the relevant investment is also to be taken into account in the manner specified by the Authority for the purposes of this subsection when ascertaining the total amount of the funds invested in the securities and other permissible investments issued by the person who issues the underlying investment of the relevant investment.
- 3.2.3 Not more than 10 per cent of the shares of a particular class, or the total amount of debt securities, issued by one person may be acquired for the purposes of a constituent fund.

3.2.4 In this Section:-

"relevant investment" means a permissible investment:-

- (i) the value of which is determined by reference to the value of another investment; and
 - (ii) which is specified, or belongs to a class of investment specified, by the Authority as a relevant investment for the purposes of this definition;
- "underlying investment", in relation to a relevant investment, means an investment-
- (a) by reference to the value of which the value of the relevant investment is determined; and
 - (b) which is specified, or belongs to a class of investment specified, by the Authority as an underlying investment for the purposes of this definition.

3.3 Restrictions on Borrowing and lending of securities

Securities must not be borrowed for the purposes of a constituent fund (whether for the purposes of selling the securities short or any other purposes).

3.4 Restrictions on Acquiring securities that carry an unlimited liability

- 3.4.1 A security involving the assumption of a potential liability that is unlimited must not be acquired for the purposes of a constituent fund.
- 3.4.2 A liability must not be incurred in respect of a constituent fund in excess of the total value of the accrued benefits of the scheme members in relation to the fund.

4. PERMISSIBLE INVESTMENTS

4.1 General Restrictions

The funds of a constituent fund may be invested only:-

4.1.1 in investments that satisfy the requirements of sub sections 4.2 to 4.6 of this Guideline;

or

4.1.2 in:-

(i) a collective investment scheme:-

(a) that satisfies the requirements of Section 5 of this Guideline;

and

(b) the underlying investments of which would comply with this Section if references in this Section to "constituent fund" were references to "approved collective investment scheme";

(ii) a collective investment scheme approved by the Authority for the purposes of Section 5 of this Guideline; or

(iii) a combination of an approved collective investment scheme falling within subparagraphs (i) and (ii).

4.2 Collective Investment Scheme

The funds of a constituent fund may be invested in a collective investment scheme which is:-

4.2.1 authorized by the Securities and Exchange Commission, within the meaning of the Securities Industry Law, 1993(P.N.D.C.L 333) as amended;

and

4.2.2 approved by the Authority for the purposes of this Section.

4.3 Debt Securities

4.3.1 The funds of a constituent fund may be invested in debt securities, redeemable preference shares and other debt instruments issued by corporate entities if;

a) they have clearly defined term/maturity features, periodic and terminal payout, as well as, interim, terminal and contingent redemption features except for zero coupon and convertible bonds.

b) they must have been lawfully issued.

c) they are listed/quoted on an approved Stock Exchange.

4.3.2 For the purposes of this Section, "debt security" does not include a document issued by a person as evidence of a deposit, within the meaning of sub section 4.6 of this Guideline that is placed with that person.

4.4 Equities and Other Securities

4.4.1 shares listed on an approved stock exchange;

4.4.2 a collective investment scheme authorized by the Securities and Exchange Commission, within the meaning of the Securities Industry Law, 1993 (P.N.D.C.L 333) as amended; and

- 4.4.3 approved by the Authority for the purposes of this Section.
- 4.4.4 The funds of a constituent fund can be invested in ordinary shares of public listed companies if:
- a) the public limited company has made taxable profits and paid dividends/issued bonus shares for at least two (2) in the five (5) years preceding the investment of the funds.
 - b) the issuing companies' shares are listed/quoted on an approved Stock Exchange.

4.5 Convertible Debt Securities

- 4.5.1 The funds of a constituent fund may be invested in a convertible debt security listed on the Ghana Stock Exchange.
- 4.5.2 For the purposes of this Section, "convertible debt security" does not include a document issued by a person as evidence of a deposit, within the meaning of Section 10 of this Guideline that is placed with that person.

4.6 Deposits

- 4.6.1 The funds of a constituent fund may be placed in bank deposits and bank securities.
- 4.6.2 The funds of a constituent fund must not be placed in bank deposits or bank securities if the total amount so placed would be more than 10 per cent of the issued capital and reserves of the institution or bank.
- 4.6.3 Funds of a constituent fund must not be placed on deposit with a group of associated authorized financial institutions if the total amount of funds so placed would exceed 15 per cent of the total market value of the constituent fund.

5. COLLECTIVE INVESTMENT SCHEMES

5.1 Collective Investment Schemes

- 5.1.1 Subject to subsection 5.1.2, the funds comprising a constituent fund may be invested in a collective investment scheme.
- 5.1.2 A collective investment scheme in which funds are invested as referred to in subsection 5.1.1 must comply with the following requirements:-
- (a) the fund must be authorized by the Securities and Exchange Commission in accordance with the requirements relating to collective investment schemes under Part IV of the Securities Industry Law, 1993(P.N.D.C.L333) as amended.
 - (b) the basis for all charges (including investment management charges, initial charges, annual and other periodic fees, surrender charges, surrender penalties and other deductions that may apply to that fund) must be disclosed to the holders of interests in the fund;

- (c) if the fund provides a guaranteed return of capital or of income on capital (or both), there must be full disclosure of main features of the guarantee, including a clear description of how the return is to be determined and the extent of any discretion that may be exercised in making such a determination;
- (d) if the fund is a unit trust or mutual fund, it must satisfy the requirements of Section 5.1.3 of this Guideline;
- (e) the trustee of the fund, and any fund manager or custodian appointed by the trustee in relation to the fund, must comply with such of the requirements of this Regulation as relate to an approved trustee of a registered scheme, and to an investment manager or custodian appointed by such an approved trustee, in so far as those requirements are relevant to the fund;
- (f) the financial statements, investment reports and auditor's reports of the fund must be lodged with the Authority and additional information relating to those statements and reports must be provided to the Authority whenever the Authority requests;
- (g) no additional initial charges may be imposed in relation to the management of the fund if the manager of the fund, or an associate of that manager, manages the relevant constituent fund;
- (h) if the fund is invested in another fund and the manager of the fund, or an associate of that manager, manages the other fund, no additional initial charges may be imposed in relation to the management of that other fund;
- (i) the fund must be governed by the laws of Ghana.

5.1.3 Unit Trusts and Mutual Funds

The funds of a constituent fund may be invested in a unit trust or mutual fund, but only if it is an authorized unit trust or an authorized mutual fund.

5.1.4 Real Estate Investment

Pension Fund Assets can be invested in real estate, only through instruments such as Mortgage Backed Securities (MBS) and Real Estate Investment Trusts (REITs).

Such REITs, shall satisfy the following requirements:

- a) the company managing the funds has minimum of one year continuous experience managing assets of third parties.
- b) the face value of the issue is not less than GHS 5million for Mortgage Backed securities, and GHS 1million for REIT.
- c) the Prospectus shall specifically state that the securities shall be subject to memorandum listing on an approved Stock Exchange.

- d) the fund has made taxable profits for, at least, one year immediately preceding the investment.
- e) the fund has paid dividends or distributed profits or issued bonuses for, at least, one year immediately preceding the investment.
- (f) the Authority shall come out with rules and regulations on the investments in Mortgage Backed Securities (MBS) and Real Estate Investment Trusts (REITs)

6. INVESTMENT LIMITS

- 6.1 Pension Fund Assets can be invested in bonds and other securities issued by the Government of Ghana.
- 6.2 A maximum of 30% of Pension Fund assets may be invested in Local Government securities. Up to 5% of pension fund assets can be invested in eligible bonds/debt instrument issued by any one Local Government.
- 6.3 A maximum of 30% of Corporate Bonds/Debt may be invested in Pension Fund Assets. Up to 5% of pension fund assets can be invested in eligible bonds, REITs, MBS, and debentures of any corporate entity.
- 6.4 A maximum of 35% of Pension Fund assets may be invested in Money Market Securities. Pension fund assets managed by approved trustee or pension fund manager can be invested in Certificates of Deposit and Bankers Acceptances of any one bank issued on its own behalf.
- 6.5 A maximum of 10% of Pension Fund Assets may be invested in ordinary shares of companies quoted on an approved stock exchange.
- 6.6 No more than 5% of the issued ordinary share capital of any one corporate Entity may be purchased by an approved trustee or pension fund manager.
- 6.7 No more than 2% of the value of Pension Fund Assets, managed by an approved trustee or pension fund manager, shall be invested in Close end, Open end and Hybrid investment funds established by any one Corporate Entity.
- 6.8 Limits imposed by these regulations may be temporarily violated in cases of asset revaluation, etc. However, where such violation results from market appreciation in the value of securities, the approved trustee or pension fund manager shall immediately notify the Authority and make no further purchases of such security until the portfolio is rebalanced.
- 6.9 The actual allocation of Pension Fund Assets in the allowable instruments, must make due allowance for the liquidity required to meet maturing obligations of the funds under management.
- 6.10 The Authority, in accordance with Section 177 of the Act, shall provide the necessary guidelines on the investment of Pension Fund Assets outside the Republic of Ghana.

The Investments Limits shall be as follows:

NO.	ASSET CLASS	MAXIMUM INVESTMENT AS % OF PENSION FUND ASSETS	PER ISSUER	PER ISSUE
1.	Government Securities	Government of Ghana - 75%	Maximum of 75% of total issue of GoG bond.	No Limit
		Local Govt.- 30%	Maximum of 5% of Pension Fund Assets in one Local Govt.	Maximum of 5%
2.	Corporate Bonds/Debt (including REITs, Mortgage and Asset Backed securities and debentures)	30%	Maximum of 5.0% of pension fund assets in any one corporate entity.	Maximum of 5%
3.	Money Market	35%	(a) Maximum investment of pension fund assets in all instruments issued by one bank shall be subject to a maximum of 5%. (b) Maximum of 2% of Pension Fund Assets in all instruments issued by Brokerage Houses	Not Applicable
4.	Ordinary Shares	10%	Maximum of 5% of Pension Fund Assets in one Corporate	Maximum of 10% of issued capital
5.	Open and Close-end Funds	5%	Maximum of 2% of Pension Fund Assets to one issuer	Maximum of 2% of any issued Close-end Fund Maximum of 2 % of Pension Assets in any Open/Hybrid Fund