FINANCIAL SERVICES AUTHORITY

SAINT VINCENT & THE GRENADINES

GUIDANCE NOTE: NO. 6

INVESTMENT GUIDELINES FOR PENSION FUND PLANS

Issued: May 16, 2017

INTRODUCTION

The regulation and supervision of non-banking financial services in St. Vincent and the Grenadines including pension plan services, is exercised by the Financial Services Authority ('FSA'/ 'Authority'), under the authority of the FSA Act, No. 33 of 2011.

The conduct of pension plan services in St. Vincent & the Grenadines is regulated under the *Insurance Act*, Chapter 306 of the Laws of Saint Vincent and the Grenadines, Revised Edition 2009 ('the Act').

The investment of pension assets is one of the core functions performed by private pension arrangements. In order to promote both the performance and the financial security of pension plan benefits, it is critical that this function is implemented and managed responsibly.

The investment function varies depending on the type of pension fund plan. In the case of a defined benefit plan, the goal of the investment function is to generate the highest possible returns consistent with the liabilities and liquidity needs of the pension plan, taking into consideration, the risk tolerance of the affected parties. In a defined contribution plan, the primary goal of the investment function is to generate returns that accrue to individual members.

This is one of the most important responsibilities that Trustees exercise in overseeing pension fund plans. It is very important that the investment choices available through these plans are appropriate and well designed and that members have a clear understanding of the risks they face.

PURPOSE

The purpose of these Guidelines is to assist trustees of pension fund plans and their advisers in the prudent and proper management of pension fund assets in the best interest of plan members.

These Guidelines provide general guidance and explanation of the law and are not intended to replace or override any legislative provisions in respect of investment of pension plan assets nor obviate the need for sound independent investment analysis. They should be read in conjunction with the provisions of the Act, as well as written directives, notices, circulars and other guidelines that the Authority may issue from time to time.

SCOPE OF APPLICATION

These Guidelines apply to privately administered pension fund plans, whether administered by individual trustees or by trust corporations.

LEGAL PROVISIONS

The provisions with respect to the investment of assets of a pension plan are set out in section 182 of the Act supported by Schedule 4.

DEFINITIONS

"***assets in any member state of the Caribbean Community***" means assets which - (a) originate, and are physically held in any of the member states of the Caribbean Community; (b) assets that are denominated in Eastern Caribbean dollars; or (c) where denominated in a foreign currency, are fully guaranteed by the Government of a Participating State.

INVESTMENT OBJECTIVE

The investment of pension plan assets should be guided by an established statement of Investment Policies and principles. The investment management of pension assets should give due considerations to principles of safety, yield, and liquidity. In addition, asset-liability matching and diversification should be included in the risk management process of the assets.

PRUDENT PERSON STANDARD

The Act includes specific requirements for investing the pension plan's assets in accordance with specific limits and restrictions. However, trustees are expected to apply care, diligence, skill and prudence in the management of investment of assets.

Prudent investment practices require appropriate processes that include thorough due diligence in selecting, reporting and monitoring investments. Where Trustees lack sufficient expertise to make fully informed decisions and fulfil their responsibilities, they should seek the external assistance of an expert.

STATEMENT OF INVESTMENT POLICIES AND PRINCIPLES

The Trustees of a pension fund plan should formulate a Statement of Investment Policies and Principles ('SIPP') as a documented guide for managing the investments of pension assets. The SIPP should establish clear and unambiguous investment objectives for the pension fund. The investment objectives should take account of the return requirements of the fund and the risk tolerance of the fund.

In setting the risk objectives, plan sponsors and Trustees must consider the plan status, sponsor financial status and profitability, pension fund risk exposures and the plan features. The return requirement should consider the current funded status, pension contributions in relation to the accrual of pension benefits, the characteristics of the liabilities of the pension fund and the risk tolerance of the pension fund. The SIPP should also provide information on some investment constraints. In particular, the SIPP should include:

- Liquidity Requirement- The need for pension fund to hold liquid assets to fund obligations. The funded status and characteristics of liabilities are critical determinants of the degree of liquidity requirement of the fund.
- Time Horizon- This refers to the duration of the plan liabilities. The duration of plan liabilities would take into account whether or not the plan is a going concern or plan termination is expected. In addition, the average age of the workforce, the proportion of

active lives to pensioners and whether the plan is open or closed for new entrants would give some indication of whether the duration of liabilities is long, short or medium term.

In formulating the SIPP, the Trustees and any other member serving on any Investment Committee should have regard to all factors that may affect the funding and solvency of the Plan and the ability of the Plan to meet its financial obligations.

The SIPP should at a minimum identify the strategic asset mix for the pension fund (long-term asset mix over the main asset classes, (for example, money market instruments including deposits, bonds, loans, equities and real estate), the overall performance objectives for the pension fund, the means of monitoring and reporting. The SIPP should be reviewed at least annually to take into account any significant or material developments relating to changing liabilities and market conditions.

The FSA recognizes that pension fund plans vary considerably in size and complexity and therefore, while not all of the considerations raised in this section will be relevant to all pension fund plans, the framework described will in any event be of significant value to Trustees in the proper performance of their fiduciary responsibilities.

CONFLICT OF INTEREST

In carrying out their responsibilities with respect to the investment of pension assets, Trustees shall at all times abide by the relevant provisions, guidelines and standards of professional conduct.

A Trustee should ensure that assets are managed in the interests of beneficiaries (pension plan participants) and safeguard against any conflicts of interest occasioned by investments either directly or indirectly in the sponsor company or its employees.

A Trustee should not invest the assets of a pension fund in equity, debentures, mortgage or other evidence of indebtedness of the employer or any subsidiary or associate of the employer or of any company of which the employer is a subsidiary or an associate.

PERMISSIBLE INSTRUMENTS

The assets of a pension fund plan shall be permitted to be invested only in the following securities[1]:

Bonds and Debentures

(a) the bonds, debentures and other securities, of or guaranteed by the Government of
  (i) Saint Vincent and the Grenadines, or
  (ii) any other country approved by the Minister.

(b) the bonds, debentures and other evidence of indebtedness of a corporation incorporated in the State as may be approved by the Minister.

[1]see Schedule 4 of the Act

(c) the bonds or debentures of a corporation incorporated in the following States, as approved by the Minister:

(i) CARICOM countries;
(ii) British overseas territories in the Caribbean;
(iii) Departments of France in the Caribbean;
(iv) Dutch Antilles;
(v) Regional member countries of the Caribbean Development Bank.

Ordinary and Preference Shares

(a) the fully-paid ordinary shares, of a corporation incorporated in the State or in any Commonwealth Caribbean State that during a period of the previous five (5) years prior to the date of purchase, has either paid a dividend in each year upon its ordinary shares or had earnings in each year available for the payment of a dividend upon the shares of at least four per cent of the market value of those shares;

(b) Ordinary shares, or preference shares, of a corporation incorporated in the State or in a Commonwealth Caribbean State and approved by the Minister.

Mortgages

(a) mortgages on real estate or leaseholds in the State if the amount of the loan does not exceed seventy-five per cent of the value of the real estate;

(b) a corporation or the trustees of a pension fund plan may invest in a mortgage if the amount of the loan does not exceed ninety per cent but where the portion of the indebtedness in excess of seventy-five per cent is guaranteed by an agency of or directly by the Government of Saint Vincent and the Grenadines, or by a company registered under this Act to carry on that class of insurance business.

Real Estate

(a) real estate or leaseholds in the State for the production of income if:

(i) the lease is made to or guaranteed by the Government of Saint Vincent and the Grenadines and provides for a net revenue sufficient to yield a reasonable interest return and to repay the amount invested over a period not exceeding thirty years;
(ii) the real estate or leasehold has produced over the previous three (3) years revenue sufficient to yield a reasonable interest return and to repay the amount invested for a period of the economic life time of the investment not exceeding forty (40) years;

(b) real estate in the State required by the company for its use or occupation reasonably required for the natural expansion of its business;

(c) real estate in the State acquired by foreclosure of a mortgage on real estate where the mortgage qualifies as an investment under this Act.

Deposit Certificates

Deposits for fixed terms in

(a) any bank in the State;

(b) any financial institution licensed under the Banking Act; or

(c) any other financial institution operating in the State and approved by the Minister.

Unit Trusts: Units in mutual funds and unit trusts approved by the FSA.

INVESTMENT RESTRICTIONS

The Trustees of a pension fund plan shall invest the assets of the Fund subject to the limitations or restrictions as follows:

Bonds and debentures

(i) A pension fund plan shall not invest in bonds and debentures on which payment of principal or interest is in default.

(ii) A pension fund plan shall not invest in bonds and debentures and other evidence of indebtedness of or guaranteed by any other country outside of St. Vincent and the Grenadines and the Caribbean Community ('CARICOM') with a credit rating below investment grade (for example a rating less than BBB+ or equivalent by a recognized rating agency).

(iii) A pension fund plan shall not invest in bonds and debentures and other evidence of indebtedness of or guaranteed by corporation incorporated outside of CARICOM and traded on a recognized stock exchange with a credit rating below investment grade (for example a rating less than BBB+ or equivalent by a recognized rating agency).

(iv) A pension fund plan shall invest an amount not more than fifty percent (50%), or such lower amount that the FSA approves, of its Fund in assets in any one member state of CARICOM.

(v) The total amount of investment in any one country or corporation outside of CARICOM shall be limited to twenty percent (20%) of the Fund.

Ordinary Shares

(i) A pension fund plan shall not invest more than thirty percent (30%) of its fund in ordinary shares.

(ii) A pension fund plan shall not purchase more than 30% of the ordinary shares in a corporation where those shares are to be included in the Fund.

(iii) A pension fund plan shall not invest in fully-paid ordinary shares or preference shares of a company incorporated outside of CARICOM and traded on a recognized stock exchange with a credit rating of less than BBB+ or equivalent.

Mortgages

No single mortgage included as an asset of a pension fund plan shall exceed ten per cent (10%) of the total assets of the Plan.

Real estate

(i) The total amount of investment in real estate must not exceed twenty percent (20%) of a pension fund plan.

(ii) At the discretion of the FSA, a pension fund plan, on the recommendation of a certified Actuary or qualified investment advisor (such as a CFA or any other recognized investment professional) may invest in real estate exceeding twenty percent (20%) of the Fund.

RATING REQUIREMENTS

The minimum rating specified above shall be maintained throughout the duration of the investments.

If at any time an existing investment is no longer authorized as a result of credit rating downgrade, resulting in a new rating that is not more than one grade below the stipulated minimum, the pension fund may retain such investment to maturity.

If at any time an existing investment is no longer authorized, as a result of either credit rating withdrawal or downgrade by more than one grade or for any other reason, the Trustees shall be required to forward their exit strategy to the FSA within ten (10) working days of the change in rating addressing the disposal and replacement of the investment.

COMMENCEMENT

This Guidance Note shall come into effect this **16th day of May, 2017.**

Issued by:

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