ILO SSO Project

Investment Governance Workshop

Day 2: : Investment management processes

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Date: Friday 18th December

What we will cover

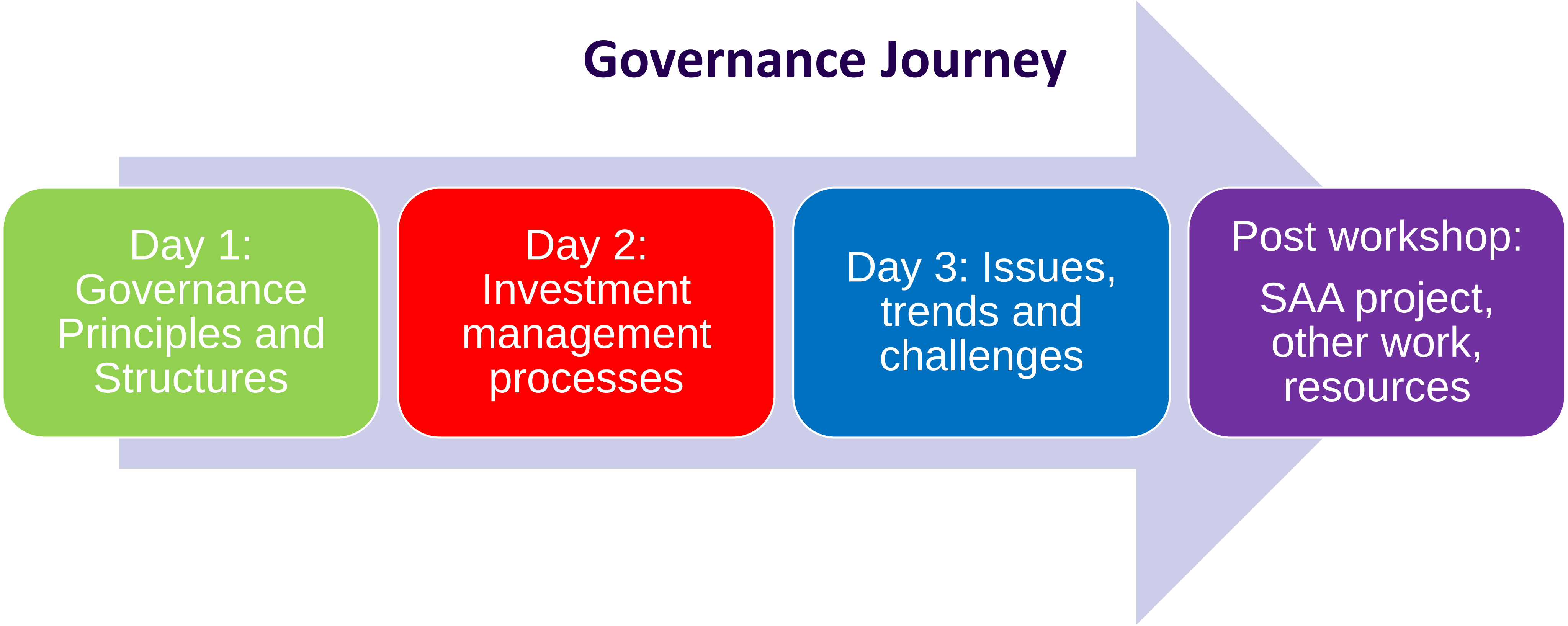
- Taking into account liabilities and developing a Funding Policy
- Defining the risk budget

Investment Constraints

- Portfolio construction, strategic and dynamic asset allocation
- Valuation, reporting, disclosure and monitoring performance
- Case Studies 3 and 4

9:00 – 9:10	**Overview and Introduction to the day** Outline, aims and agenda
9:10 – 09:30	**The Governance Journey** Recap of day 1 and what will be covered on day 2 .
09:30 – 10:00	**Taking into account liabilities in defining a funding policy and implementing an investment policy**
10:00- 10:30	**Defining a Risk Budget**
10:30 – 10:45	**Coffee Break**
10:45 – 11:25	**Portfolio construction, strategic and dynamic asset allocation**
11:25 – 12:15	**Break out session: Case Study 3 and 4** • *The Risk Budget and Dynamic investment* • *Portfolio Construction*
12:15 – 13:30	**Lunch break**
13:30 – 14:45	**International experience – presentation by Compenswiss**
14:45 – 15:15	**Feedback from Breakout session (if not completed before lunch)**
15:15 – 15:30	**Tea break**
15:30 – 16:25	**Valuation, reporting, disclosure and monitoring performance**
16:25 – 16:35	**Discussions , questions and final points**
16:35 – 16.45	**Sum up of the day**

Structure of SSO Investment Governance Workshops



ILO SSO Project: Investment

SSO ILO PROJECT: INVESTMENT WORK AND TRAINING

This workspace contains resources related to investment and financing work under the ILO SSO project: "Strengthening Social Security Office Capabilities in Policy Design with a Focus on Research and Actuarial Services".

The project plan provides for the following work under the overall objective 2.6 , (The development of a Funding Policy and reviewing the Investment Policy):

- Activity 2.6.1 - Workshop with SSO Board and Management on financial governance of social security and the importance of a coordinated management of benefits, funding and investment policies
- Activity 2.6.2 - Create link from actuarial valuation projections to investment management
- Activity 2.6.3 - Training on ISSA Investment Governance Guidelines
- Activity 2.6.4 - Assessment of current regulations, assessment of international practice and recommendations
- Activity 2.6.5 - Drafting of a funding policy
- Activity 2.6.6 - Collection of data on assets classes available to invest SSO funds
- Activity 2.6.8 - Recommend an Optimal Asset Allocation based on either an efficient frontier or a stochastic model, and implementation plan depending on availability of data

Private

CONTENT

List

- Main page
- Investment Governance Workshops
- Other resources related to the investment work

SECTION

- Resources
- News

Workspace: one SSO investment log in will be circulated

https://www.social-protection.org/gimi/ShowProject.action?id=3113

How much do you know about investment ?

Which region has had the highest real return on equities since 2000?

Europe	2.4%
US:	4%
Japan	1.5%

What does this say about future investment assumptions ?

Review of Day 1

1. How could the current organisational structure change for the better ?

2. What do you think of the current investment mission and objectives ?

Structure


คณะกรรมการ
ประกันสังคม
คณะอนุกรรมการ
บริหารการลงทุน
คณะอนุกรรมการ
บริหารความเสี่ยง
คณะกรรมการลงทุน
Investment Committee (IC)
กองบริหารการลงทุน
• กำหนดระเบียบการลงทุน แผนยุทธศาสตร์และให้คำแนะนำ
• กลั่นกรองนโยบาย แผนและกลยุทธ์การลงทุน
• ให้คำแนะนำต่อคณะกรรมการฯ และสำนักงาน
• กลั่นกรองนโยบายหลักเกณฑ์การบริหารความเสี่ยง
• ให้คำแนะนำต่อคณะกรรมการฯ และสำนักงาน
• เห็นชอบ แผนการลงทุนประจำสัปดาห์
• ดำเนินการลงทุนภายใต้ระเบียบ นโยบาย และแผนการลงทุนที่ได้รับความเห็นชอบ

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SSF Fund

The SSO Executive Board of Directors

– To frame investment regulations and strategies.
– To provide broad views on investment.

The Subcommittee on Investment Management

– To scrutinize investment policies, plans and strategies.
– To provide advices on detailed investment strategy to the SSO and the Executive Board.

The Subcommittee on Risk Management

– To scrutinize risk management regulations and policies.
– To provide advices on detailed investment strategy to the SSO and the Executive Board.

The Investment Committee

– To approve weekly investment plans.

Investment Bureau

– To execute investment operations under the regulations, guidelines & approved investment plans.

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SSF Fund

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Current Investment Framework

All investments of the SSF must comply with the SSO Executive Board’s Regulation on Investment Management of the Social Security Fund B.E.2559 (2016).

This stipulates that the SSF must invest not less than 60% in secured assets and not more than 40% of the fund in risky assets .

The SSO will strictly follow the SSO Executive Board’s Regulation and the annual strategic investment plan by carefully considering expected returns, investment risks, and as well long-term financial sustainability.

WCF Fund

All investments of the WCF must comply with the WCF Committee's Regulation on Investment Management of the Workmen's Compensation Fund B.E.2547 (2004) and the Compensation Act B.E. 2537 (1994) in Section 29, which stipulated that the receipts, payment and safekeeping of the Fund and investment of the Fund shall be in accordance with the regulations prescribed by the Committee with the approval of the Ministry of Labour.

The SSO shall invest in the following securities.

1) At least 60% in secured assets

2) At the most, 40% in risky assets

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Learning Objectives

Understanding the key constraints impacting investment policy and practice

Understanding the importance of the risk budget, and how risk budget is defined, analysed and used.

Ensuring that appropriate assumptions underlying the investment process are set.

List of Relevant Guidelines

Guideline 6. Taking into account social security liabilities and funding policy in the determination of investment policy

Guideline 7. Defining the risk budget

Guideline 8. Restrictions on investments

Guideline 9. Socially responsible investing and environmental, social and corporate governance

Guideline 10. Investment assumptions

Guideline 11. Risk budget analysis and utilization

List of Relevant Guidelines

Guideline 12. Dynamic investing

Guideline 13. Strategies to rebalance risk levels

Guideline 16. Approaches to portfolio construction

Guideline 14. Selection of appropriate benchmarks

Guideline 20. Valuation of the investment portfolio

Guideline 21. Performance and risk analysis monitoring and reporting

Guideline 23. Policy on disclosure

Guideline 6. Taking into Account Liabilities and Funding Policy in Determining Investment Policy

Investment decisions and strategy take into account the level and timing of liability cash flows.

Actuarial *modelling* of long-term liabilities should be undertaken

Funding policy will affect the investment policy and strategy.

Proposed return target and risk management should be prepared by management and approved by the board.

Questions

How should you take into account long-term liabilities?

How are the SSO liabilities different from other institutional investors?

How do you ensure assumptions are consistent for asset and liability projections ?

How does the Funding Policy impact investment choice ?

Guideline 7. Defining the Risk Budget

The risk budget is the amount of “investment” risk an investing institution wishes or is able to take.

It should be assessed in relation to the level and nature of liabilities

The risk budget is defined and allocated among different investments in the most efficient manner.

Risk budgeting typically has a shorter outlook than asset liability modeling.

Questions

List the most important risks faced by

1. **All investing institutions?**
2. **Social security institutions?**

Now rank the risks from most important to least important

How does this ranking change when talking about the SSF and the WCF ?

Guideline 8. Restrictions on Investments

Legal or regulatory restrictions on certain investment instruments should be documented and included in the investment strategy.

Restrictions on levels and types of investments should be imposed only *when necessary.*

Investment in an individual asset, security or entity should be limited as a proportion of total portfolio.

Investment in government bonds is not limited, but risks (including sovereign risk) should be assessed.

Questions

Detail all the investment restrictions you currently face

What was the motivation for having investment restrictions?

Guideline 9. Socially Responsible Investing and Environmental, Social and Corporate Governance

The Board should consider the role of socially responsible investing (SRI) and environmental, social and corporate governance (ESG).

Social and economic utility of investments should be taken into account as financial sustainability depends on national economic growth.

ESG is the global standard and the vast majority of institutions and investment managers are integrating ESG into portfolio management

Question

Which of the following most closely reflects your view.

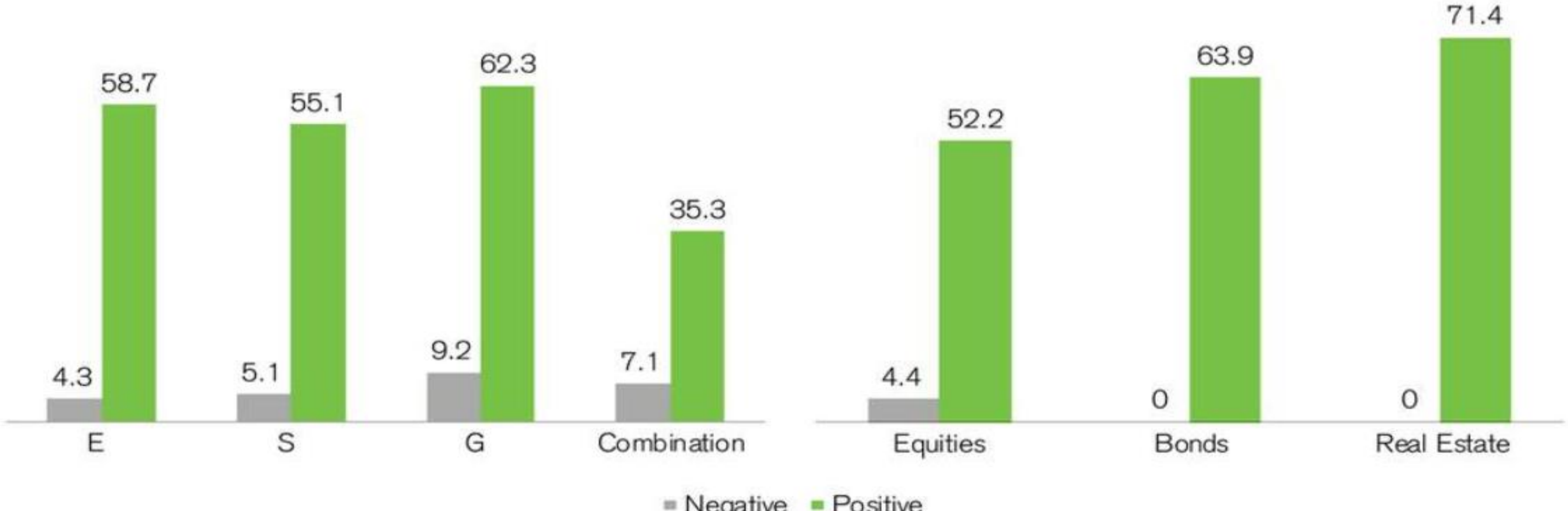
Incorporating ESG criteria means

1. Lower returns* but a better image for the organisation so overall it is important
2. Lower returns which means we shouldn't consider ESG criteria as it's not in the interest of beneficiaries
3. Higher investment returns and an approach consistent with country aims
4. Broadly similar returns therefore it is worth incorporating as we don't lose anything by doing so

*Compared to non ESG criteria

MSCI: a group of 20 ESG funds had higher returns than the index. From December 2009 to December 2019, the ESG factor cumulatively contributed 1.88% to the top 20 ESG funds' returns.

Credit Suisse: Practical experience confirms that ESG criteria are core hallmarks of long-term enterprise quality. They are better managed and do business with the future in mind. Companies with high ESG ratings are more crisis-resistant and achieve better performance marks on average than their peers.



Questions

What is your opinion on socially responsible investing within the SSO?

What is the current proportion of assets that currently respect SRI principles ?

What is the required reporting for SRI ?

ESG and PRI

The UN Principles for Responsible Investment were launched in 2006

Set out principles, evidence and plans for implementation

Most leading institutions and managers have signed up: nearly 200 in Asia .

There is an increasing supply of sustainable and climate investment funds. For SSO to be an ASEAN leader, ESG integration is essential

Consistent with national climate change plan

Guideline 10. Investment Assumptions

Investment assumptions used in determining investment strategy should be appropriate.

Assumptions should be up to date and considered over an appropriate time frame.

Assumptions should be based on sound current and historical data

They should reflect current and future economic and market information and updated annually.

Guideline 11. Risk Budget Analysis and Utilisation

Conducted to better understand

- *the level of investment risk being taken*
- *how it can be managed, and*
- *to determine an appropriate strategic asset allocation considering the risk budget established.*

Risk budget analysis is typically done annually.

Risk budget should be conducted to understand the level of investment risk being taken and where the concentrations of risk lie.

Guideline 12. Dynamic Investing

Ability to exploit variations in market valuations as asset market values change over time, by moving away from the strategic asset allocation, while respecting the risk budget

The management or investment committee should seek approval of the board before deviating from the approved strategic allocation.

The management or investment committee may exploit variations in market valuations by deliberately adjusting the asset allocation of the portfolio away from the strategic asset allocation.

However, dynamic investing brings a number or risks to an investing institution

Questions

What is your view on dynamic investing at the SSO?

What governance structures are required to carry out dynamic investing?

What are the key risks ?

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Guideline 13. Strategies to Rebalance Risk Levels

It is possible to take advantage of asset market movements and changes in the value of the investing institution’s portfolio to implement a dynamic de-risking or re-risking strategy.

If, after movements in asset markets and fund values, the asset allocation is no longer aligned with goals and restrictions, the board, management and investment committee should consider rebalancing the portfolio accordingly to reflect this new situation.

Question

How frequently you think the risk levels of an investment fund are / should be rebalanced?

Guideline 16. Approaches to Portfolio Construction

Strategic asset allocation already ***approved*** should be used as the framework for portfolio construction.

Portfolio should be constructed to achieve the required return and risk objectives.

The responsibility for portfolio construction is ***assigned*** to either the management or investment committee, or both jointly.

Case Studies

The case studies are based on two fictional social security provision frameworks

Strackland,

Defined Benefit system, retirement based on salary, normal retirement age 62

Financed by employee (8%) and employer (10%) contributions

Dinaterra

Provident Fund system financed by employee (5%) and employer (7%) contributions

Minimum return of 7% per annum, normal retirement age 60

Asset class	%
Equities – domestic	15
Equities – global	30
Domestic bonds	30
Global investment grade credit	12
Property – domestic	5
Hedge funds	5
Cash	3
Total	*100*

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Case Studies

We will look at two case studies today in four groups:

Case Study 3: The Risk Budget and Dynamic Investing (Guidelines 7,11,12)

Group 1: Risk budgeting and analysis

Group 2: Dynamic asset allocation

Case Study 4: Portfolio Construction (Guideline 16)

Group 3: Stages in portfolio construction

Group 4: Beliefs and asset classes

Refer to the Case Study Word document for questions and detailed information on appropriate responses

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Example: Restrictions on Investment

Internally imposed limits:

Limits recognise governance capacity and consistent with investment missions and goals

A minimum level of cash assets should be held

Investment in any single asset should be limited

Institution should not hold more than a specific proportion of the total market value of a given type of asset

Externally imposed limits:

Proper disclosure of nature of limit

Impact on risk and return profile of portfolio assessed

Independent assessment if possible

Application and Examples

Internal limits

What is appropriate will vary greatly depending on the institution and asset market environment

Examples include:

- Permitted categories (eg Cash, Fixed income)
- Acceptable ranges of portfolio percentages

Documented process for setting, monitoring and changing these limits

External Limits

If these move institution away from optimal risk/reward position, they will impact on risk or return

Valuation, reporting, disclosure and monitoring performance

Relevant Investment Guidelines

Guideline 14. Selection of appropriate benchmarks

Guideline 21. Valuation of the investment portfolio

Guideline 22. Performance and risk analysis monitoring and reporting

Guideline 24. Policy on disclosure

Questions

1. How often should you undertake asset valuations?
2. Do you appoint an independent performance measurer to undertake the performance and risk analysis?
3. What are the key features to look for in an appropriate benchmark? Which benchmarks to SSO use ?
4. What type of information should an investing institution disclose to stakeholders? Name the SSO stakeholders
5. Provide two examples of a “conflict of interest” when reporting ?

Guideline 24. Policy on Disclosure

The board should establish a policy on disclosure of information

The public should be informed of the policy on disclosure of investment information (consistent with SSO policy on disclosure of information).

There should be complete transparency between the board, management and investment committee.

High-level information regarding institution’s investments and performance should be disclosed to (all) stakeholders.

Good practice on reporting

Choose a good example of investment reporting for a social security institution (CPPIB, ATP, Compenswiss etc)

Highlight:

1. Good practices in the reporting identified
2. Where it meets (and diverges from) ISSA Investment Guidelines
3. Identify the differences with SSO investment reporting and suggest moving towards better SSO reporting practice

Day 3 of Investment Governance

- Passive versus active and choice of external or internal managers
- Different approaches for internal and external managers
- Selecting, monitoring and hiring and firing external managers
- SRI, currency hedging, infrastructure investment
- Next steps and action points
- Case Studies 5 to 7

Wrap up of workshops and transition to SAA work

Key activities ahead

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- Structures and responsibilities
- Beliefs, Missions and Goals
- Investment Policy and Funding Policy
- Risk Budget
- Liability driven investment

These steps to be addressed over the next few months

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Thank you

Simon Brimblecombe