



ANNUAL REPORT

The Management Committee of Punjab Pension Fund (PPF) is pleased to present to Government of the Punjab the Annual Report for the year ended 30 June 2016.

FUND SIZE

- A summary of changes in fund size during FY2015-16 is given in the following table:

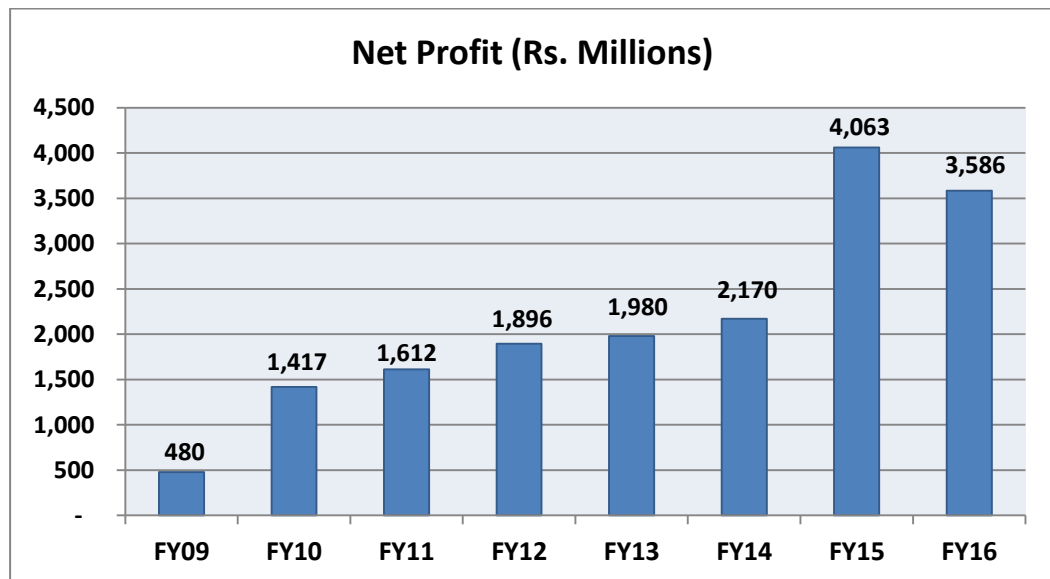
Rs. millions

	Jul 2015 - Jun 2016
Beginning fund size (30 th June 2015)	33,618
Add: Contribution during the year	1,000
Add: Income during the year	3,636
Less: Expenses during the year	(50)
Ending fund size (30th June 2016)	38,204

The above numbers exclude unrealized capital gains. Market value of Fund's assets at 30th June 2016 is Rs. 40,244 million. Hence, the Fund is carrying unrealized capital gain of Rs. 2,040 million at 30th June 2016.

PROFITABILITY

- The Fund made a net profit of Rs. 3,586 million during FY2015-16 which is around 12% lower than last year's net profit of Rs. 4,063 million. Last year's profit was highest in the history of the Fund mainly because of two reasons: 1) interest rates were at higher levels, and 2) the Fund realized a capital gain of Rs. 860 million on sale of PIBs. A comparison of profitability with past years is as under:





FUND'S PORTFOLIO

- The Fund's exposures to different investment types are summarized as under:

Amounts: Rs. millions
%: as percentage of Total Fund Size

	30 June 2014		30 June 2015		30 June 2016	
	Amount	%	Amount	%	Amount	%
PIBs	16,084	65.5	7,788	23.2	7,511	19.7
Corporate bonds/Term Finance Certificates (TFCs)	593	2.4	559	1.7	393	1.0
National Savings Schemes-Special Saving & Regular Income Accounts	1,000	4.1	16,286	48.4	17,600	46.1
Bank Deposits	5,300	21.6	8,100	24.1	10,800	28.3
T-Bills	493	2.0	-	-	-	-
Cash at bank	206	0.8	183	0.5	1,165	3.0
Accrued Markup	867	3.5	660	2.0	675	1.8
Other assets*	12	0.1	42	0.1	60	0.1
Total Fund Size	24,555	100.0	33,618	100.0	38,204	100.0

*Other assets include prepaid operating expenses and book value of fixed assets of PPF.

- Long-term investments consist of Pakistan Investment Bonds (PIBs) and Term Finance Certificates (TFCs), medium-term investments consist of medium-term bank deposits and Special Savings and Regular Income Accounts and short-term investments consist of short-term bank deposits and Treasury Bills.
- In order to lock-in higher yields for longer period of time, the Fund has invested a large proportion of its assets in long-term and medium term instruments at fixed-rate consisting mainly of PIBs and National Saving Schemes (NSS). The Fund's combined exposure in long-term PIBs and NSS stands at 66% of Fund size at the end of June 2016.

FUND'S PERFORMANCE

- Time Weighted Return (TWR) earned by PPF is summarized as under:

Period	Annualized Return for the period		Year End Discount Rate	YoY CPI Inflation	Long-term Benchmark CPI Inflation + 3%
	Gross Return	Net Return*			
FY 2008-09	15.21%	15.00%	14.00%	13.14%	16.14%
FY 2009-10	13.79%	13.61%	12.50%	12.69%	15.69%
FY 2010-11	13.48%	13.32%	14.00%	13.13%	16.13%
FY 2011-12	13.96%	13.79%	12.00%	11.26%	14.26%
FY 2012-13	12.85%	12.69%	9.00%	5.85%	8.85%
FY 2013-14	12.05%	11.90%	10.00%	8.22%	11.22%
FY 2014-15	15.88%	15.71%	7.00%	3.16%	6.16%
FY 2015-16	10.79%	10.63%	6.25%	3.19%	6.19%
Jul 2008 - Jun 2016 (CAGR)**	13.42%	13.25%	10.56%	8.75%	11.75%

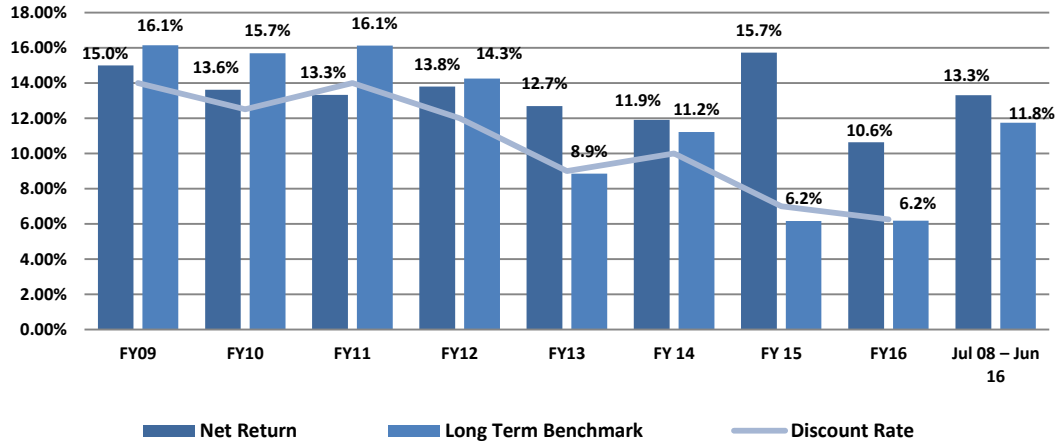
*Net Return means the return after deducting expenses incurred on management of Punjab Pension Fund.

**CAGR means Compound Annualized Growth Rate.

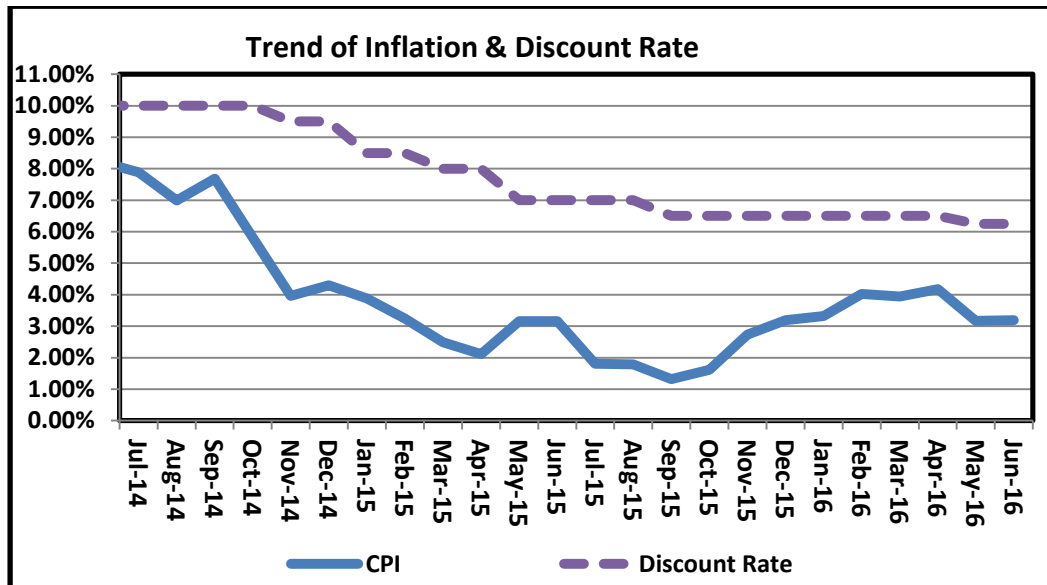


- The Fund posted a net return of 10.63% during FY2015-16. The Fund's performance remained quite satisfactory as it outperformed its benchmark (CPI+3%) by a margin of 4.4%. The discount rate during the year declined from 7% to 6.25%. Performance history of the Fund is as under:

Performance History



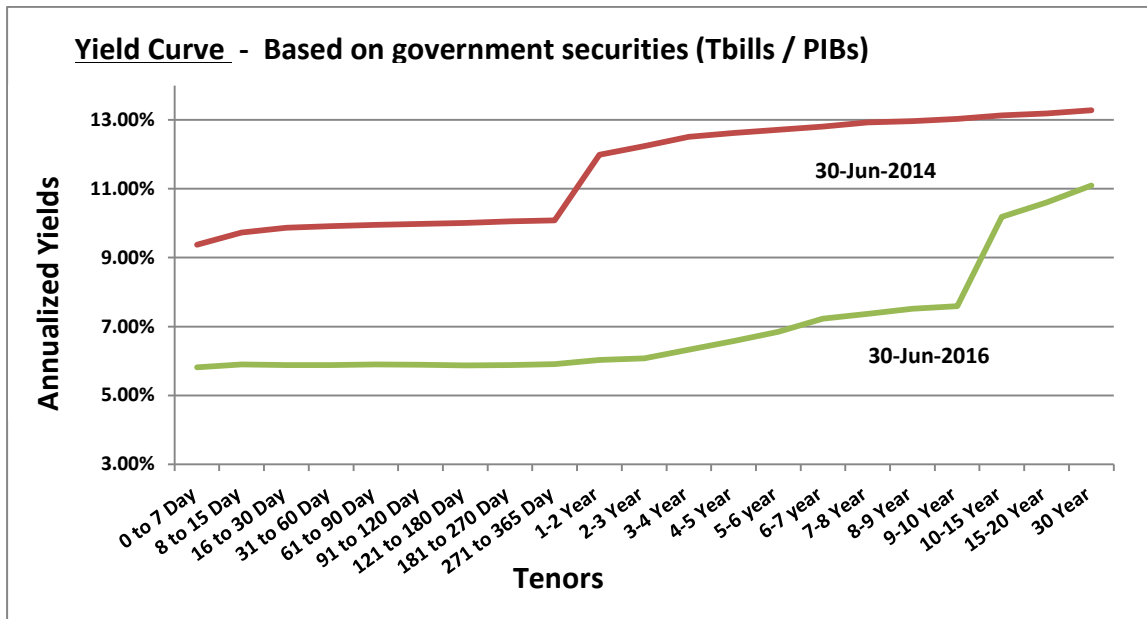
- In last eight years, the Fund has managed to earn net cumulative average return of 13.25% against cumulative average CPI inflation of 8.75%. Hence the Fund managed to post a real return of 4.5% p.a. in the last eight years; beating its benchmark return of 11.75% by 1.5% despite the fact that the Fund remained invested in debt securities only.
- In last couple of years, CPI Inflation rate declined sharply; the following graph depicts movement in CPI inflation and changes in discount rate over last two years:



- The investment strategy followed over the past few years i.e. investment in long-term fixed-rate instruments at attractive yields, has paid off. Despite lower inflation and interest rates, the Fund continues to earn an attractive rate of return because of its fixed yielding portfolio of PIBs & SSA. The Fund not only outperformed its benchmark in each of the last four years but it also outperformed its benchmark on cumulative basis, since its inception.



- During last two years, the SBP slashed its discount rate by 3.75% cumulatively; as a result overall yield curve shifted downward. The following graph depicts the shift in yield curve:



GROWTH IN ASSETS vs. LIABILITIES AND FUNDING RATIO

- As per the last Actuarial Assessment Report, the present value of pension liabilities of the Government of the Punjab at 30 June 2015 stood at Rs. 3,180 billion. The present value of the pension liabilities at 30 June 2016 is estimated Rs. 3,646 billion.
- The market value of PPF assets at 30 June 2016 stood at Rs. 40.2 billion. This translates into a Funding Ratio (Assets / Liabilities) of 1.10%.
- If PPF were envisaged as a fully funded pension plan, the value of its assets would match the value of the total pension liability of the Government of the Punjab, and the Funding Ratio would equal 100%. This would mean that for the accrued pension liabilities, the Government of the Punjab would not have to earmark any budgetary resources because these would be met by PPF from the return on its assets.
- Currently the Government of the Punjab does not have an explicit target for the Funding Ratio. The desired Funding Ratio can be inferred from the projected injections of funds in PPF by the Government as stated in the White Paper to the Budget announced by the Government of the Punjab for the FY2016-17. During FY2015-16 the Government made a fresh contribution of Rs. 1.0 billion into the Fund; and budgeted Rs. 8.0 billion for FY16-17 for the capitalization of PPF.
- In order to properly manage a pension plan, two things are important.
 - Firstly, the Funding Ratio of the pension plan should be high so that sufficient assets vis-à-vis the liabilities are available. A Funding Ratio of 100% or more is ideal.



- Currently, the Funding Ratio of the pension plan is 1.10% which means that the current level of assets is sufficient to meet only 1.10% of accrued pension liabilities of the Government of the Punjab.
- This Funding Ratio is clearly quite low and the government may consider increasing this ratio. To make PPF fully funded would need an asset base of about Rs 3,646 billion at 30 June 2016. To achieve this magnitude of asset base, a long-term and sustainable plan of gradual injection of funds into the pension plan is required.
- Secondly, the Fund should preferably make long-term fixed-rate investments whose maturity is as close as possible to the maturity of pension liabilities. With fixed-rate investments the rate of return on the assets of the Fund will be less vulnerable to the fluctuations in the market rate of interest.

OUTLOOK FOR FY2016-17

Inflation:

- FY2015-16 started with an inflation rate in single digit and it continued to decline during the year; the CPI rate touched the all-time low of 1.32% in September 2015. The YOY CPI for the year FY2015-16 has closed at 3.19%. Inflation has decelerated mainly due to the sharp decline in global oil prices, global economic slowdown, soft outlook on commodity prices and stable exchange rate.
- As far as inflation outlook in FY2016-17 is concerned, CPI is expected to remain on lower side; it may pick up modestly in the second half of the mainly due to lower base effect. Moreover, upward adjustment in electricity and gas prices and depreciation of Pak Rupee also pose upside risk to inflation. We expect average inflation for FY2016-17 will stay around 5 to 6 percent.

Interest rates:

- During the FY2015-16, the SBP reduced the Discount Rate by 75 basis points. It seems that interest rates have almost bottomed out and are not expected to go down further. However, a reversal is also not likely in near future.

INVESTMENT STRATEGY

- The OIC of the Fund is currently following a strategy of investing in short duration instruments and not taking exposure in long term instruments at currently prevailing lower yields. At the end of June 2016, the Fund has around 66% of its exposure in fixed rate PIBs and products of National Saving Schemes.
- Going forward, despite sharp decline in market yields, PPF's portfolio is well-positioned to post a decent margin over YoY CPI.



AUDITORS

The Government of Punjab appointed M/S KPMG Taseer Hadi & Co., Chartered Accountants, as Auditors of the Fund for the year ended 30 June 2016. Auditors have submitted financial statements of the Fund for the year ended 30 June 2016.

TRUSTEE

The Management Committee has appointed M/s Central Depository Company of Pakistan Limited as Trustee of the Fund under Rule 18 of the Punjab Pension Fund Rules 2007. After signing of the Trust Deed custody of all the assets of the Fund rests with the Trustee. The Trustee has submitted its report for the year ended 30 June 2016 to the Management Committee under Rule 22(h) of the Punjab Pension Fund Rules 2007.

ACKNOWLEDEMENT

The Management Committee takes this opportunity to thank its members for valuable contributions to the Fund.

The Management Committee also wishes to place on record its appreciation for the hard work and dedication shown by the employees of the Fund.

(Dr. Aisha Ghaus Pasha)
Minister of Finance, Government of Punjab/
Chairman, Punjab Pension Fund

Place: Lahore
Dated: 25 October 2016