

GOVERNMENT OF ZAMBIA

STATUTORY INSTRUMENT NO.19 OF 2017

The National Pension Scheme Act
(Laws, Volume 15, Cap. 256)

**The National Pension Scheme (Investment)
Regulations, 2017**

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In Exercise of the powers contained in section 53 of the National Pension Scheme Act, the following Regulations are made:

Title	1. These Regulations may be cited as the National Pension Scheme (Investment) Regulations, 2017.
Interpretation	2. In these Regulations, unless the context otherwise requires—
Act No. 3 of 2012	“ associate ” has the meaning assigned to the word in the Anti-Corruption Act, 2012;
	“ asset allocation ” means the division of investments among different kinds of assets in order to optimise the risk and return tradeoff based on the management objectives of the Scheme;
	“ asset class ” means a group of securities, investments or products that have similar financial characteristics, behave similarly in the market place, and are subject to the same laws and regulations;
Cap. 387	“ bank ” has the meaning assigned to the word in the Banking and Financial Services Act;
	“ collective investment or mutual fund ” means a company that collects funds from individual investors and invests the funds in a wide range of securities or other assets;
	“ corporate bond ” means a listed or unlisted debt security which has a tenor of more than one year and includes a term note issued by a corporation and sold to an investor in order to raise funds or capital in the capital markets;
	“ diversification ” means a portfolio mix designed to reduce exposure to risk;
	“ economically targeted investment ” includes risk adjusted rate investments done for economic stimulation purposes;
	“ financial institution ” has the meaning assigned to the word in the Banking and Financial Services Act;
	“ green field investment ” means an investment in a startup company that is in the initial stage of its operations;
	“ government bond ” means a debt security with a tenor of more than one year issued by the Bank of Zambia on behalf of the Government;
	“ government security ” means a government bond or treasury bill;

“ infrastructure ” means structures, systems and facilities serving the economy of the Republic and includes roads, utility lines and public buildings;

“ investment advisor ” means a person or a management company affiliated with that person appointed to provide investment advisory services to the Authority;

“ investment funds ” means a pool of capital that is available for investment in securities;

“ investment manager ” means a company or institution appointed by the Authority to make investments in securities on behalf of the Authority;

“ relative ” means

(a) a person’s son, daughter, brother, sister, nephew, niece, parent, uncle, aunt, grandparent or cousin; or

(b) a person’s spouse or the spouse of the persons mentioned in paragraph (a);

“ socially targeted investment ” includes an investment made in order to bring about social good and improve the human condition and intended to enable citizens, groups, organisations, cultures and society have a more positive future and expected to be enjoyed by a large number of citizens on a large scale;

“ special purpose vehicle ” means a subsidiary company with an asset and liability structure that makes its obligations secure even if the parent company becomes insolvent; and

“ treasury bill ” means a debt security with a tenor of less than one year issued by the Bank of Zambia on behalf of the Government.

3. (1) The Authority shall, in making and maintaining investments, be guided by the following principles: Investment principles

(a) capital preservation;

(b) investment returns and liquidity; and

(c) asset-liability matching.

(2) The Authority shall ensure that investment funds are managed prudently.

(3) Without limiting the generality of subregulation (2), the Authority shall—

- (a) segregate its investment funds into separate portfolios each governed by its own operational guidelines issued by the Board;
- (b) develop a list of asset classes which a portfolio will be permitted to hold;
- (c) establish detailed asset allocation rules for its investment managers which
 - (i) specify the extent of a portfolio that can be invested in a single class of assets;
 - (ii) ensure that investments conform to a portfolio's investment objectives;
 - (iii) provide for the rebalancing of a portfolio over time and give investment managers a reasonable time within which to attain compliance.

Prudential
investment
management
principles

4. The Authority shall prudentially manage the Scheme and—

- (a) act in the sole interest of the members;
- (b) maximise the Scheme's or Authority's investments;
- (c) diversify the Scheme's portfolio and limit its risk of loss attributable to investment in a company or group of companies;
- (d) ensure liquidity of the Scheme;
- (e) invest with due regard to the duration or term of the Scheme's liabilities; and
- (f) appoint suitably qualified professionals to the Authority to manage the Scheme and ensure that investment managers have suitably qualified professionals for purposes of making investments in securities on behalf of the Authority.

Fiduciary
duties

5. (1) The Authority shall discharge its fiduciary duties as a trustee of the Scheme.

(2) The Authority shall not invest in a—

- (a) company in which a member of the Authority, committee of the Authority, Director-General, Secretary or other members of staff of the Authority or a relative or associate of any of these persons holds more than ten percent of that company's shares; or
- (b) an entity that is the Authority's investment manager or associated with a company referred to in paragraph (a).

6. The Authority may invest any liquid assets of the Scheme that are not immediately required to meet any charges or obligations in—

Allowable investment

- (a) securities listed on the Lusaka Securities Exchange or such other Securities Exchange as the Authority may designate;
- (b) nonlisted equities;
- (c) bank deposits in a bank or financial institution licensed or established under any written law of the Republic of Zambia or by the laws of the United Kingdom of Great Britain and Northern Ireland;
- (d) underwriting.
- (e) collective investments;
- (f) infrastructure;
- (g) socially and economically targeted investments;
- (h) special purpose vehicles created by the Authority; and
- (i) green field investments.

7. The following are the allowable investment limits for the asset classes referred to in section 41 of the Act and regulation 6:

Limits of allowable investments

- (a) a minimum of two and a half percent of the Scheme's investment portfolio size for lending to the Government;
- (b) a maximum of twenty-five percent of the issued shares per entity for listed equities, except that not more than seventy percent of the investment funds shall be invested in listed equities;
- (c) a maximum of ten percent of the total investment portfolio size for non-listed equities;
- (d) a maximum of twenty-five percent of the issue in any one listed bond by the same issuer for listed debt securities other than bonds issued by the Government under paragraph (a);
- (e) bank deposits not exceeding five percent of the investment portfolio in a single financial institution, except holdings in the Bank of Zambia or premium settlement account for money pending investments elsewhere;

- (f)* a maximum of thirty percent of the size of the investment portfolio for real estate;
- (g)* a maximum of five percent of the investment portfolio for underwriting of transactions but to be undertaken as a sublimit within the equity limit;
- (h)* in relation to collective investments, a maximum of—
 - (i)* five percent of the investment portfolio; or
 - (ii)* two and half percent of the investment portfolio;
- (i)* a maximum of fifteen percent of the investment portfolio size in relation to infrastructure;
- (j)* a maximum of one and half percent of the investment portfolio size for economically targeted investments and a maximum of one percent of the investment portfolio size for socially targeted investments;
- (k)* a maximum of ten percent of the investment portfolio size in equity in a special purpose vehicle created by the Authority to the exclusion of any other body; and
- (l)* a maximum of fifteen percent of the investment size in green field investments subject to the approval of the Minister.

Prohibited
investments

8. (1) Despite the generality of allowable investments provided for in regulation 6, the Authority shall not—

- (a)* engage in equity investments or direct lending in companies that are listed but have not operated profitably for the immediate past three years as confirmed by financial statements audited by an audit firm recognised by the Zambia Institute of Chartered Accountants;
- (b)* engage in speculative investments involving forward contracts or derivatives;
- (c)* engage in direct lending to nonlisted companies where the Authority's indebtedness is subordinated to the companies' other liabilities; or
- (d)* hold a stake of more than fifteen percent in any group of associated companies.

(2) The Authority may use a derivative instrument to hedge against an identified risk.

9. (1) The Authority shall appoint persons licensed as managers under the Pension Scheme Regulation Act investment managers to manage the investment portfolio of the Scheme.

Appointment
of
investment
managers
Cap. 255

(2) An investment manager shall be appointed on the basis of a competitive tender process that takes into account history and past performance, and experience, size and assets to be managed, quality and proposed fee structure, except that investment managers shall not have access to the actual funds or securities.

(3) The Authority shall not appoint, as investment managers, persons who have a financial relationship or are related to the Authority's trustees or managers.

10. (1) The Authority shall develop and establish market benchmarks to assess the performance of its investment managers.

Establishment
of market
benchmarks

(2) The Authority shall communicate with its members—

(a) in the form of a booklet that explains the provisions of the Scheme, summarises the rights of members and delineates the responsibilities of the Authority;

(b) by providing annually to its members contributions statements at such intervals as the Authority may decide; and

(c) by publishing audited financial reports on an annual and timely basis.

11. The Authority may appoint custodians for its investment activities of the Scheme.

Appointment
of
custodians

12. Subject to the Public Audit Act, 2016, the Authority shall appoint an auditor for each financial year who shall not

Appointment
of auditor
Act No. 29
of 2016

(a) be a shareholder in a company or in any way be associated with any person providing asset management or other services to the Authority;

(b) have any financial relationship with any member of the Authority, the Director-General, Secretary or other staff of the Authority or any service provider to the Authority.

Appointment
of
professional
advisor

13. The Authority may, for purposes of performing its functions, appoint an appropriately experienced independent advisor to advise the Authority in relation to the prudential principles and investments.

General
offence and
penalty

14. A person who contravenes a provision of these Regulations commits an offence and is liable, upon conviction, to a fine not exceeding two thousand five hundred penalty units or to imprisonment for a term not exceeding two years, or to both.

LUSAKA

27th February, 2017

[MLSS.101/12/9]

L. J. SICHALWE,

*Acting Minister of Labour and
Social Security*