# RWANDA SOCIAL SECURITY BOARD (RSSB)

Our Health
Our Future

# INVESTMENT POLICY STATEMENT FOR MEDICAL SCHEME

| | |
|---|---|
| **Name of policy** | **Investment Policy Statement** |
| **Author** | **RSSB** |
| **Policy approved by** | **Board of Directors** |
| **Approval date** | |
| **Policy effective date** | |
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# Definition of key terms

**Fiduciary:** shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Total Fund assets.

**Investment Manager:** shall mean any individual, or group of individuals, employed to manage the investments of part of the Total Fund assets.

**Investment Consultant:** shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

**Securities:** shall refer to the marketable investment assets which are defined as acceptable in this statement.

**Investment Horizon:** shall be the time period over which the investment objectives for each fund, as set forth in this statement, are expected to be met.

**Investment Committee**: The governing body that is charged with overseeing corporate investments and developing investment policies for board approval.

**Actuary**: shall mean an individual who deals with the measurement the long-term risk profile of RSSB

**Risk tolerance**: The degree of variability in investment returns that RSSB is willing to withstand for a given return. Risk tolerance is an important component in investing.

# 1. Introduction

Rwanda Social Security Board (RSSB), hereinafter referred to a public institution was established by the law No.45/2010 of 14/12/2010, after the merger of Social Security Fund of Rwanda (SSFR) with Rwanda Health Insurance Fund (RAMA). With the integration of CBHI into RSSB, the law No 04/015 of 11/03/2015 modifying and complementing the law No.45/2010 of 14/12/2010 that determines its mission, organization and functioning was passed.

RSSB as a financial institution is supervised by the National Bank of Rwanda according to the banking law N°55/2007 of 30/11/2007 whereas its activities are overseen by the Ministry of Finance and Economic Planning.

The Government of Rwanda, in its framework to improve the welfare of its employees, has put in place a health insurance scheme with the purpose of collecting members 'subscriptions, ensure treatment of affiliated members and their insured dependents, pay for the treatment of its beneficiaries, to be a signatory to all important agreements and to do what's necessary for the scheme to fulfill its responsibilities. Investment is part of other necessary activities that the scheme needs.

The law no 24/2001 on the establishment, organization and functioning of a health insurance scheme for Government employees has been modified and completed by law no 29/2002 concerning affiliated members as follow:

An affiliated member of the scheme is any Government, public project and all other public institution employee, whose remuneration comes from the Government funds. However, private institutions may apply for admission of their employees to the health insurance scheme of RSSB.

## 1.1.Stakeholders of RSSB

The Board of Trustees fully understands their fiduciary duties to the Stakeholders of the Rwanda Social Security Board. The Board acknowledges the following Stakeholders and considered their stakes when preparing this Investment Policy Statement:

### 1.1.1. Contributing Members

Contributing members of the medical scheme and their dependents expect to receive promised medical benefits once they fall sick. Contributing members are therefore most interested in the security of that promised medical benefits. Consequently, it is critical to preserve capital while maintaining a strong funding ratio. Short and medium term growth is a fundamental investment objective.

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### 1.1.2. Pensioners and Other Beneficiaries

Pensioners who retire when they were in the medical scheme expect to continue receiving their promised medical benefit payments throughout their eligible life. Beneficiaries are most interested in the security of their income stream. Consequently, it is critical to preserve capital to create an income flow that keeps up with inflationary pressures over time, since RSSB will subsidize the pensioners' medical benefits.

### 1.1.3. Employers

Employers want to control labor costs. As such employers are interested in the financial stability of RSSB such that rates of contribution will not increase, making the cost of labor prohibitive relative to their competitive position within the East African Region. Consequently, it is critical to preserve capital and to maintain a strong funding ratio.

### 1.1.4. Government of Rwanda

The Government of Rwanda, as the "sponsor" of RSSB bears many risks with regard to the proficiency of the organization and the security and investment performance of the investment portfolio. Sufficient investment returns earned at an appropriate risk levels will ensure social benefits are secure, while the Government is also interested in seeing long-term investments made to build the nation. Consequently, it is critical to preserve capital, have a strong funding ratio, with focus on both long-term capital gains as well as sufficient income revenue to sustain real benefits.

## 1.2. Objectives of the Fund

When determining the asset allocation and investment parameters appropriate for the Fund, the Board analyzed the various Objectives of the Fund.

The Medical scheme's main objective is to:

Protect members and their families from financial hardship of huge medical bills and provide access to good health care services.

### 1.2.1. Funding Objectives

The main funding objective is to ensure that at any point in time all accrued benefits of the Funds are fully funded by the actuarial value of the Funds' assets given normal market conditions. For active members, benefits are based on service completed also taking into consideration expected future salary increases.

### 1.2.2. Investment Objectives

Taking into consideration the above objectives, the Board has agreed the following investment objectives:

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1. To achieve both Short and medium return on the Funds' investment portfolio sufficient to meet the funding objective;

2. To optimize return within the defined risk parameters in a prudent and cost efficient manner while ensuring legal and regulatory compliance is met.

## 1.3.Factors Affecting Ability to Achieve Objectives

External factors on which the Funds have little or no control can affect their likelihood of meeting their objectives. These include the following:

Unforeseen economic downturn – Investment performance is often negatively impacted by any economic downturn. As a result, it is necessary to look at long-term investment returns rather than laying emphasis on year-on-year returns.

High inflation – High inflation can cause costs to skyrocket and real investment returns to fall. Again, it is appropriate to look at the long-term ability of the Fund to beat inflation by achieving a positive real rate of return.

Lack of available product – Due to Rwanda's nascent capital market, there are severe limitations as to the type of investment asset classes as well as the number of available instruments within each asset class. As a result, diversification is harder to achieve to help reduce risk. This will likely result in more investments made within illiquid asset classes; e.g. real estate and private equity.

Illiquidity of financial instruments – Investments in illiquid asset classes will increase the risk of the Fund while not necessarily increasing return in line with the higher risk.

Benchmark limitations – Again, due to Rwanda's nascent financial markets, local benchmarks for the setting of performance measurements are limited, and may not be beneficial in helping to monitor the ability to achieve the Funding and Investment Objectives.

Difficulty of matching the Funds' risk tolerance to available assets - It may be difficult to match the risk profile of the Investment Portfolio with the availability of asset classes and financial instruments due to cited factors above.

Structural weaknesses - The structural limitations of the Fund as cited by the Actuary (administration costs, high replacement costs and the Imbalance Spread) may put pressure on expected investment returns. This could result in the Fund taking higher risk than what the Risk Tolerance of the Fund would normally allow.

Demographic Changes – Currently the demographics of the Fund favor high returns with relatively young workforce and low dependency ratios. Any aging of the workforce will change the risk profile of the Fund and hence expected investment returns.

# 2. Policy Statement

All measures to ensure prudence are documented throughout this Investment Policy Statement. It is the prime responsibility of the Board to guarantee the investment portfolio of RSSB is managed in a prudent way, to safeguard the interests of the various stakeholders. To do otherwise put the organization at risk as the ability to sustain the Fund and its ability to pay benefits could be jeopardized.

The Board recognizes perception is a powerful force. Therefore, not only must the investment portfolio be operated in a prudent manner, it must be perceived by its members to be run in a prudent manner. In this regard, Members and Beneficiaries must be continually updated on the performance of the investment portfolio.

## 2.1.Objective of the Policy

The objective of this Investment Policy Statement is to lay a strong foundation from which investment decisions can be made to ensure the overall funding and investment objectives of the organization are met. It establishes guidelines for RSSB's medical Scheme in areas that most influence investment returns. It incorporates accountability standards that will be used to monitor assets allocation and evaluation of portfolio performance.

The IPS serves as a guide to the Board and RSSB Management when making all investment decisions. It provides a clearly defined plan that balances the need for long-term return while minimizing short-term volatility taking into consideration the liquidity requirements as well as the nature, size, type and maturity profile of the Fund.

## 2.2. Specific objectives of the IPS

This Investment Policy Statement has these specific objectives:

- Ensure all agents involved in the investment decision making process clearly understand their fiduciary duties.
- Ensure that clear communication procedures are established.
- Setting benchmarks regarding asset allocation.
- Set criteria for evaluating Investment performance.

## 2.3.Classification of investments

Investments that the Funds are allowed to undertake are categorized as follows:

**Local and Foreign Fixed income investments**

- Government securities
- Fixed deposits
- Corporate Bonds

**Local and Foreign Non-Fixed Income Investments**

- Publicly listed equity
- Private equity
- Real Estate

## 2.4.Scope of the Policy

This policy applies to all Fixed and Non fixed Income Investments owned by RSSB under the medical Scheme. The Board, Management, Investment Department, Investment Committees, Treasury Committee, Fund Managers and all Fiduciaries will conform to this Investment Policy.

**This IPS replaces any previous investment policies in place with immediate effect.**

## 2.5.Roles and Responsibilities

To ensure a successful investment strategy, all parties involved must understand their roles and duties. The roles and duties (not necessarily all encompassing but the basis for the minimum responsibilities) for all the agents involved are listed below:

### *2.5.1. Board of Directors – Trustees*

Overseeing the overall portfolio process and the making of investment decisions rests with the Board of Directors or Trustees. While the Board is allowed to delegate the authority it remains with absolute responsibility. Specifically, the board is responsible for the following:

- Approving the Investment Policy Statement;
- Determining and overseeing long-term funding and investment objectives;
- Determining and monitoring long-term risk tolerance;

- Determining long-term strategies for investments;
- Monitoring of investment performance
- Approving local and foreign equity Investments that are out of the jurisdiction of the Board Investment Committee upon recommendation of the Board Investment Committee.

When delegating authority it is also the Board's duty to provide a written mandate to management clearly citing its expected role and responsibilities. The mandate also includes a reporting mechanism such that the Board can assure that it is fulfilling its fiduciary duty to its members.

The Board of Directors must meet quarterly and whenever necessary to discuss investment issues.

The Board shall nominate qualified and competent members of the Board to sit on the Investment Committee of the Board who shall offer expert advice, commentary on strategies; review, consider, and authorize proposed investments while ensuring adherence to established benchmarks

### *2.5.2. Board Investment Committee (BIC)*

The primary roles and responsibilities of the Board Investment Committee are as follows:

- To give guidance to the Board on investment policies and procedures, including asset class strategies;
- The Board Investment Committee shall have the power to authorize the purchase or sale of publicly traded stocks in the EAC region as long as the investment amount does not account for more than 5% of all outstanding shares of the company and does not exceed 10% of the scheme's asset class being invested in. The BIC shall then immediately inform the board of such transactions in writing.
- To vet investment proposals not mentioned above before going to the Board for approval;
- Monitoring changes in Fund's circumstances and constraints;
- Monitoring market and economic changes;

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- To evaluate and recommend to the Board any investment related third party managers and/or consultants;
- To report on a quarterly basis to the Board; and
- To help monitor investment performance and compliance with the Investment Policy Statement
- Avoid prohibited transactions and conflict of interest

The Investment Committee must at a minimum meet quarterly, prior to the quarterly Board of Directors meeting. The Board Investment Committee reports directly to the Board of Directors.

### *2.5.3. Management*

The Director General and Deputy Director General Fund Management have a fiduciary responsibility to manage the Fund according to the Board's policies, relevant regulations and laws. The Management may advise and inform the Board about investments and recommend modifications to the Investment Policy Statement whenever necessary

Management shall oversee the creation of an Internal Investment Committee (IIC) to which they will be members. The committee's responsibility would be to critically review and recommend all investments and related undertakings to the Board Investment Committee.

The top management shall at their discretion have the right to veto any investment proposal from being passed by the Internal Investment Committee. However they will be required to present a reasonable explanation to the Board Investment Committee whenever they discretionary use their veto powers.

Management shall be responsible for presenting all decisions made by the IIC to the Board Investment Committee. For all investment related decisions (with the exception of periodic reports and any other reports requested by the Board), Management shall report exclusively to the Board Investment committee

### *2.5.4. The Internal Investment Committee (IIC)*

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The IIC membership shall be composed of the Director General and Deputy Director Generals in charge of Benefits and Fund Management, Director of Investments Department, Director of Corporate Planning Division, Legal Advisor, Director of Finance and Contributions Department, Investment Analyst and any available Board Investment Committee member. For every sitting in which an equity or corporate bond is to be discussed, the IIC shall inform the Board Investment committee of such meeting to which any available and willing Board Committee Member shall be allowed to attend as a voting member. The Internal Investment Committee shall have the following responsibilities:

- The IIC shall have the power to invest in listed Corporate Bonds.
- The IIC shall also have the power to make decisions on additional capital contributions in companies in which RSSB has a stake as long as the investment amount does not increase RSSB's stake in the company and the investment amount is not more than 15% of RSSB's initial investment value in the company. Such transaction will be subject to a board resolution of the respective companies calling for such payment from all shareholders.
- Analyzing and recommending investment opportunities to the Board Investment Committee.
- Ensure that all proper due diligence has been conducted on each investment proposal.
- Ensure the absence of conflict of interest of any kind among individuals involved in the analysis of the investment proposal.
- Work hand in hand with the treasury management committee to ensure availability of funds enough to execute the transaction before presenting the proposal to the Investment Committee of the Board.
- Perform all necessary verification of the accuracy of the information provided in the investment proposal before presenting it to the Investment Committee of the Board.
- Disposal of assets and securities shall also be approved by the same organ.

### *2.5.5. Treasury management Committee*

The role of treasury committee is to;

- The Treasury Management Committee shall have the power to invest the fund surplus in short term fixed income investments (i.e. Term deposits, treasury bills/bonds;) All corporate bonds however shall be approved by IIC.
- Analyse the projected liquidity requirements;
- Analyse the current liquidity situation and the surplus;
- Analyse fixed income investments
- Call for bank deposit rates and Treasury bill/bonds rates;
- Analyse and Recommend Corporate Bonds and other investment opportunities to the internal investment committee.

This Committee consists of the following members

1. Deputy DG of Funds Management who is the chairperson.
2. Director, Investment Department
3. Director, Finance and Contributions Department
4. Director, Portfolio Management Division
5. Director, Finance Division
6. Director, Budget and Treasury Unit
7. Director, Non Fixed Income Investments Unit
8. Director, Fixed Income Investments Unit who is the Secretary

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### *2.5.6. Investment Department*

The investment department is responsible for initiating and executing transactions, perform risk management functions, perform due diligence, assess the progress of the Fund in meeting its investment objectives, monitor and ensure that assets and returns are within the established benchmarks and targets and prepare investment reports.

The Investment department's responsibilities are as follows:

- To keep track of economic and investment conditions;
- To make investment proposals for the consideration of Management ensuring the investments meet the requirements of the Investment Policy Statement;

- To undertake due diligence exercises, to understand risks and potential returns of existing and potential investments;
- To create and keep up to date, financial models of current investment portfolio investments as well as prospective investments.
- To undertake periodic industry and economic studies;
- To perform due diligence exercises and manage any investment related third party managers to ensure their terms of reference are carried out as contracted;
- To report on a monthly and quarterly basis the performance of the investment portfolio and give indications as to general investment conditions going forward;
- To work with the Finance Department to manage cash and liquidity requirements;
- To ensure the recording and safeguarding of all investment information in the database. The Investment Department must ensure all data, report and financial models are backed up such that the data is readily accessible by all members of each team at all times, even when personnel are out of the office. This requires coordination with the IT Department to ensure an appropriate disaster recovery program is in place.

The Investment Department reports directly to the Deputy Director General in charge of Fund Management.

### *2.5.7. Third Party Service Providers*

Any third party service provider such as fund managers and/or stockbroker must be on a list of services providers approved by an authorised local authority. They must ensure best execution and fair dealing when undertaking investment related services. Any rebates from services rendered must be for the account of the Fund. Reports must be submitted periodically and the periodicity of these reports shall be determined by the set contractual obligations.

#### *2.5.7.1. Fund Managers*

RSSB shall hire Fund Managers after thorough due diligence and negotiations to manage portions of RSSB assets. The Board with the help of management shall with maximum precaution establish procedures and guidelines that will be followed to hire a Fund Manager.

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Fund Managers shall have complete discretion in acquiring and disposing of any type of asset, subject to the terms of their mandate. However all such decisions shall be taken within the overall operating framework and guidelines which will be developed by RSSB management and approved by the Board.

Fund Managers shall have the following responsibilities:

1. Select, purchase, dispose and or loan specific securities pursuant to this investment policy and guidelines and according to the terms of their contracts and the overall operating framework as approved by the Board.

### *2.5.8. Compliance and Monitoring*

The risk management and compliance unit shall be responsible for assisting in identifying, quantifying and creating mitigation strategies for risks in RSSB investments.

- The risk management and compliance shall:
- Review the risk management plans in the investments appraisals.
- Assist in performing due diligence
- To ensure the investment decisions are within the parameters of the Investment Policy Statement. Review adherence to the asset allocation limits set in the investment policy.
- Check for any exposure to concentration risks in investments.
- To ensure conflicts of interests are handled in a proper manner
- Ensure third party contractors are fulfilling their obligations.

### *2.5.9. Actuaries and Consultants*

Actuaries are responsible to help the Board of Directors/Trustees establish an appropriate Investment Policy Statement given the determined financial status and liability duration of the Fund. Reviews are mandated to be at five-year intervals, or shorter if required.

## 3. Status of the of the fund

The Board of Trustees viewed the following information when determining the requirements of Medical scheme Fund as reflected within the Investment Policy Statement.

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## 3.1. Structure of the Fund

The Medical scheme is a statutory medical insurance scheme with the following features:

- Current contribution rate is 7.5% each from member and employer;
- Contributions remittances are paid monthly;
- Affiliates and their dependents are eligible for medical services after 1 month of contributions and their rights stop after 1 month when affiliates are no longer contributing;
- Medical services (packages) and list of medicines reimbursable by medical scheme are annually updated;
- Approximately 41 % of contributions are paid out as benefits;
- Approximately 13% of contributions are utilized to pay for administration costs; and
- Approximately 46% of contributions are added to the technical reserves and investments.

### 3.1.1. Age Profile of Membership

| Affiliates | | | | | Dependents | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Age group | Female | Male | Total | % | Age group | Female | Male | Total | % |
| < 25 | 3,203 | 5,018 | 8,221 | 6.0% | 0 -14 | 66,406 | 73,046 | 139,452 | 57.4% |
| 25 -34 | 27,350 | 41,207 | 68,557 | 50.2% | 15 -24 | 19,049 | 17,139 | 36,188 | 14.9% |
| 35 -44 | 14,912 | 22,818 | 37,731 | 27.6% | 25 -34 | 24,072 | 14,129 | 38,201 | 15.7% |
| 45 -54 | 5,076 | 8,911 | 13,987 | 10.2% | 35 -44 | 8,726 | 9,201 | 17,927 | 7.4% |
| 55 -64 | 1,891 | 3,359 | 5,250 | 3.8% | 45 -54 | 4,120 | 2,986 | 7,106 | 2.9% |
| ≥ 65 | 1,053 | 1,818 | 2,871 | 2.1% | 55 -64 | 1,991 | 1,384 | 3,374 | 1.4% |
| **Total** | **53,486** | **83,131** | **136,617** | 100% | ≥65 | 278 | 583 | 860 | 0.4% |
| | | | | | **Total** | **124,642** | **118,466** | **243,108** | **100%** |

At the end of June 2015, dependents were approximately 243,108 and contributing affiliates were 136,617.

The majority of affiliates approximately 50.2% are within 25-34 in age group and the majority of dependents are between 0-14 with approximately 57.4%.

### 3.1.2. Liability Aspects of the Medical Scheme

The pending or accrued liabilities of the Medical Scheme are based on the existing benefit structure as follows:

- All public servant are subjected (mandatory) to join the medical scheme and private servants can join the scheme after deliberation whereby set criteria are compiled;
- Medical benefits are delivered to affiliates and their dependents , according to the agreed medical package;
- There is no Covered Earnings Ceiling;
- Dependents are eligible up till the age of 25 years if student and 18 years if not, spouse is always eligible till affiliate stops contributing;
- Permanent disability medical benefit is offered to a disabled person no age limit except the affiliate is no longer contributing to RSSB.

### 3.1.3. Current Financial Status

According to the actuarial report for June 2012, the medical scheme is financially stable and some points have to be considered such as, trend of contributions, trend of benefits and level of salaries. However, it is estimated that benefits increase by 7.7% while contributions are increasing by 6% and this can lead to financial deficit in the future.

Another emphasis is required in private health facilities where the scheme has to set monitoring standards in order to regulate prices and avoid price fluctuation.

Currently, the scheme is offering medical services to 2,732 retirees and their dependents; the expected increment rate is 12% per year, therefore, this new system, according to projections made is in deficit because of their low level of contributions according to the low income (pension benefits). There are no employers' contributions for pensioners hence subsidies from RSSB.

The main problem straining the financial health of the medical scheme program is the high and ever increasing medical expenses.

Due to the above problem high investment returns are required to be able have a long term financial stability of this scheme.

**Details of Current Investment Portfolio**

The total medical scheme investment is Rwf 118,6 billion and the Asset Classification of the investment portfolio based on data as at end June 2015 is as follows:

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| Major asset classes (Rwf billion) | | |
|---|---|---|
| Non -Fixed income | Rwf | % |
| Real estate | 8,399 | 7% |
| Equity(Local) | 16,053 | 14% |
| Equity(Foreign) | 7,190 | 6% |
| **Sub-total** | **31,641** | **27%** |
| Fixed income | | |
| Bank term deposits | 74,000 | 62% |
| Corporate loans/bonds | 2,500 | 2% |
| Treasury bonds | 9,600 | 8% |
| Treasury Bills | 933 | 1% |
| **Sub-total** | **87,033** | **73%** |
| **Total** | **118,675** | 100% |

# 4. The Funds' Risk Tolerance

When determining the asset allocation, and investment parameters appropriate for the Fund, the Board takes into consideration the Fund's Risk Tolerance.

A Fund's risk tolerance can be classified as either low, moderate or high. Low risk tolerance means that the entity can only undertake investments that have low risk whereas high risk tolerance means that the entity can undertake more risky investments without causing financial stress to its operations.

The Board has been determined the Fund's risk tolerance lies between Moderate to High due to the following factors:

## 4.1.Moderate Risk Tolerance

- Defined Benefit Fund Structure where risk of funding is borne by Sponsor; Government of Rwanda;
- Allowable early retirement;
- Financial Status, as per previous section, with projected Funding Ratios declining;
- High administration costs; and
- High Replacement Ratios.

## 4.2.High Risk Tolerance

- Relatively young average age of active members; and
- Current low dependency ratio.

The following strategy reflects the need to balance the two types of risk tolerances to achieve the expected outcome.

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The Board recognizes it must continually assess the risk profile of the Investment Portfolio and stipulates that when making investment decisions the implemented Risk Management Policies and Procedures will be followed at all times. The Risk Management Policies and Procedures give guidelines on the following:

- Identifying risks;
- Analyzing risks;
- Evaluating risks; and
- Monitoring and managing risks.

The Board has directed the Compliance Manager to consistently monitor the risk profile of the Fund's Investment Portfolio to assure the Board and Investment Committee that the Risk Management guidelines are being regularly followed.

## 4.3.Risk Management

It is widely acknowledged that diversification plays a critical role in the management of risks. Thus the identification and implementation of asset allocation limits, as well as limits on various exposures such as economies, industries, any one business, currency, etc. plays a substantial role in allowing the Fund to manage risks.

In addition to a diversification plan, as shown in a subsequent section, the Investment Department is directed to carry out the following minimum risk mitigation processes to address identified possible risk exposures:

| Investment Vehicle | Possible Risk Exposures | Risk Mitigation |
|---|---|---|
| Money Market | Short-term deposits in commercial banks are subject to credit risk i.e., delay in settlement of interest amount, default on obligations, insolvency of banks, lock-up of assets during the term of investments. | Credit/CAMEL analysis to be undertaken on all banks and deposits are only made with those institutions on the approved list of eligible banks. The analysis and report should be reviewed at a minimum semi-annually.<br><br>Stringent contractual safeguard clauses with counterparts. |
| Debt Securities | Debt securities subject the Fund to credit risk, interest rate risk, and prepayment risk. | A credit analysis is undertaken semi-annually. Issuers must give audited accounts and half-year management |



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| | securities may not be sufficiently marketable, default or delay of interest payments by counterparties who have issued bonds, inflation risk, | accounts to enable analysts to perform analysis. Analysis should be continual regarding economic prospects to understand interest rate direction. |
| Commercial Mortgages | Mortgages are subject to credit risk, interest rate risk, prepayment risk and real estate risk. | A prudent underwriting policy is implemented with due diligence and credit analysis undertaken on the mortgagor.<br><br>A full analysis of the real estate industry is undertaken annually to help determine expectations for property valuations.<br><br>The Board notes that it is beneficial to move away from Commercial Mortgages due to their inherent high default risk and associated political and reputational risks regarding foreclosures and high services costs. |
| Public Equities | Public equity is subject to market risks (interest rates, currency, inflation etc), operational risks, political risks, etc.<br><br>Public equities are also subject to liquidity and settlement risks. | Ensure wide diversification of markets as well as industries in addition to extensive financial analysis to ensure a good understanding of the market and the company prior to investing.<br><br>Managers have a thorough understanding of the rules and procedures of each exchange. Only brokers on the approved list of brokers are utilized to execute trades. |
| Real Estate | Demand may change from inception to the time the project is | A very thorough business plan and analysis is undertaken to fully understand market condition and demand for |

| | | |
|---|---|---|
| | completed.<br><br>Costs may escalate during construction due to foreign exchange rate risk.<br><br>The buyer may not be able to procure the necessary financing to close on the purchase. | properties as well as expected yields.<br><br>Due diligence regarding consultants is also undertaken to ensure successful projects in terms of market acceptability of the finished product.<br><br>Contractual exit clauses and other safeguards for counterpart risk. |
| Private Equity/Joint Ventures | Private equity is one of the riskiest of all asset classes due to the limited amount of transparency, access to information, governance issues, restricted exit strategies, as well as normal equity risks.<br><br>Markets not able to hand adequate volumes without affecting the price.<br><br>High inflation eroding the real value of assets.<br><br>Insufficient investment research coverage<br><br>Liquidity risk | All shareholders' agreements include provisions for the Management to provide frequent and consistent financial reports and management reports.<br><br>Exit strategies should be agreed in advance (should be encouraged to go through an IPO listing for support of capital market development).<br><br>In addition, the Fund should require a board seat and independent directors to be appointed.<br><br>All private ventures are undertaken on a commercial basis with a private sector strategic partner that can provide the necessary technical and managerial experience required. Due diligence regarding the project and the potential partner are critical to ensure a successful relationship.<br><br>Financial analysis to be done at least semi-annually to |

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| | | measure performance and to determine if prospects are being threatened. |
| Offshore Investments | In addition to the underlying risks associated with type of instruments that is being invested in, there are additional risks including but not limited to: exchange rate risk, political, regulatory, nationalization, etc. | The Fund must completely understand its rights in the market it invests as well as the risks associated with the particular investment. Offshore investment should be through pooled funds to benefit from professional fund management, local knowledge and custodianship. |

# 5. Constraints

When implementing this Investment Policy, the Board takes into consideration the following constraints faced by the scheme:

## 5.1.Time Horizon

The Medical scheme has a relatively short to medium term time horizon given the structure of the scheme, where people contribute only for 1 month to start benefiting from the scheme. Currently, the scheme has a 1 -year time horizon. As the economy becomes more developed with increasing number of people joining the formal work force, the average members of the active members could increase.

People who retire while they have been members of the medical scheme will remain beneficiaries of the scheme and only contributing 7.5% to the scheme. This forces the investment horizon to long-term, as the other 7.5% will be covered by the scheme, from its long -term investments.

The medical scheme has accumulated some reserves since its inception because the benefits that were paid are lower than the medical contributions paid to the scheme. Hence the investment time horizon would be medium to long term for the surplus funds.

Overall, given a time horizon of roughly 1 - 15 years indicates the medical scheme has the ability to take on risk.

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### 5.2.Liquidity

Liquidity requirements of the medical scheme are currently not very high given that contributions are covering benefit payments and administration costs; i.e. there is a net contribution to the Investment Portfolio on an annual basis. It is necessary to continually monitor this for any changes that may occur as a result of increasing benefits paid out and. the Finance Department is responsible for monitoring the liquidity needs of the medical scheme along with the Benefits Department.

It is also necessary to manage the cash and cash equivalents within the Investment Portfolio to plan for upcoming cash outlays as a result of buying additional financial instruments including any expected capital calls. This is to help maximize return on cash without being subject to penalties from cashing in a fixed deposit or selling a treasury instrument before it reaches maturity due to the need for cash.

### 5.3.Legal/Regulatory

The Rwanda Social Security Board is regulated through Decree Law of 22/08/1974 and Law No60/2008 and falls under the supervision of the Ministry of Finance and Economic Planning. This Investment Policy Statement is in compliance with all current regulations and legislation concerning the same.

## 6. Investment Philosophy

RSSB's guiding principle is to carefully blend theory and practice to systematically allocate funds between different classes in a way that ensures sustainability and achievement of the Funds' financial goals. It takes into account the size of the Funds, the frequency of payments of their expected liabilities versus expected income, their current size and financial position and the risk to that financial position that may arise by investing in different asset classes.

### 6.1. Asset allocation

The Investment Department will assist the Board to review asset classes, return risk assumptions and correlation of returns with applicable benchmarks and across asset classes whenever necessary. The key objective of this exercise shall be the development of a diversified portfolio that specifies ranges of prudent portfolio exposures and a long-term target position for each asset class while taking into consideration the return objectives, risk tolerance and constraints of the Fund.

### *6.1.1. Diversification*

Diversification is universally recognized to play a major role in reducing risk while increasing return potential. To maximize diversification, investments within the portfolio should be spread across:

- Asset classes;
- Financial structures;
- Maturities;
- Geographical location including overseas
- Industries; and
- Companies.

The Board's role in determining an appropriate asset class mix is critical. As such, the Investment Department plays an important supporting role in estimating asset class future performances while understanding their risk profiles.

Where possible, the maturities and duration of assets shall match those of the liability structure of the Fund. To help to undertake this exercise, actuaries are instructed to determine the duration of assets and liabilities such that asset-liability matching is optimized as best as possible.

### *6.1.2. Asset Allocation guidelines*

To ensure a well-diversified portfolio the Board of Directors have agreed the asset class mix as found below. Optimum asset allocation targets are specified by the Strategic Allocations. Tactical Allocations represent the range within which the allocations are allowed. The tactical ranges for fixed income and cash are purposely wide to allow room to rebalance to more conservative investments in times of volatile financial markets.

| Exposures | Holding Limits/Rebalancing Requirements |
|---|---|
| ***Single Equity Issue*** | The book value shall not exceed 20% of the total value of an asset class – Any excess holding shall be reduced within a maximum period of 18 months. |
| ***Fixed Income Securities*** | Except for Government securities, no single fixed income issue, shall exceed 30% of the total value of fixed income securities portfolio value. Any excess holdings shall be reduced to within the maximum limit within two years. |
| ***Fixed Deposits*** | Exposure to any one bank should not exceed 35% of the |

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total cash and cash equivalent (excluding government securities) portfolio.

| | |
|---|---|
| ***Public Common Equity*** | An equity stake in any entity shall not exceed 30% of the outstanding voting shares of that entity. Any amount over this restriction is required to be reduced to within the maximum amount within two years. |
| ***Private Equity*** | An equity stake in a private firm shall not exceed 30% of the outstanding voting shares. Any amount over this restriction is required to be reduced within the maximum limit within 18 months. Exception is given to special purpose vehicles whose mandates are to implement RSSB projects. To this effect equity stake in SPVs is limited to 60%. |
| ***Foreign Investment*** | An equity stake in a private or public firm shall not exceed 15% of the outstanding voting shares.<br>In case a fund manager is used, no single portfolio manager can control more than 50% of the offshore portfolio at any one time. |
| ***Regional Investments*** | An equity stake in a private or public firm shall not exceed 30% of the outstanding voting shares. |
| ***Joint Ventures*** | Joint ventures are restricted to 50% stake. Any amount higher than this maximum must be reduced to within the limit within one year. |
| ***Any Single Entity*** | Maximum exposure to any one entity (across asset classes) shall not exceed 5% of the overall portfolio value with the exception of government interests. |
| ***Derivatives*** | Investment in derivatives will be done within the confines of a balanced unit trust/mutual fund that is managed by professional fund managers with such capability. |
| ***Security Lending*** | With the exception of a directly related real estate investment, no security should be lent or used as |



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collateral for any reason.

***Prohibited Investments*** Any investment that is or is likely to irrevocably harm the environment and/or puts the labor force at undue risk without the necessary measures to control such risk.

### *6.1.3. Allowable Asset Classes*

| Investment Class | Percentage of Market Value of Portfolio | | |
|---|---|---|---|
| | Strategic Policy Weight | Tactical Policy Weights | |
| | | Minimum Weight | Maximum Weight |
| **Fixed Income** | | | |
| Treasury Bills | 3% | 0% | 10% |
| Treasury Bonds | 15% | 10% | 50% |
| Fixed Deposits | 25% | 10% | 70% |
| Remunerable Cash Accounts | 2% | 0% | 5% |
| Foreign Fixed Income Investments | 10% | 0% | 20% |
| Corporate Bonds and Commercial papers | 5% | 0% | 10% |
| **Total Fixed Income** | **60%** | | |
| | | | |
| **Non-Fixed Income** | | | |
| Real Estate | 10% | 5% | 30% |
| Equity Public | 10% | 5% | 50% |
| Equity Private | 5% | 3% | 30% |
| Foreign Equity investments | 15% | 5% | 30% |
| **Total Non-Fixed Income** | **40%** | | |
| **Total Portfolio** | **100%** | | |

The Board notes the allocation represents a policy shift away from mortgages due to the specific risks they carry that are difficult and/or expensive to manage; i.e. high default risk with associated political and reputational risks regarding foreclosures and high services costs. The Board feels it would be more beneficial to the development of the financial market to support the banks through purchasing bonds issued to fund mortgages.

If and when the legal foundations are put into place for banks to assign mortgages it may also be beneficial to purchase mortgages from the banks on a recourse basis with the banks remaining as the collection agents (development of a secondary mortgage type structure), thus allowing the Fund to obtain higher yields at lower risk levels.

# 7. Investments Selection

## 7.1.Investment assessment

The Investment Committee of the Board is responsible for reviewing all investment proposals prepared by the Investment Department and forwarding them to the Board for approval. Therefore the investment proposals should be informative regarding the expected return and risks involved in a way that the members can clearly understand the exposure involved. The investment proposal reports should include the following items:

| Item | Description |
| --- | --- |
| **Executive Summary** | Makes the recommendation and substantiates recommendation |
| **Highlights of the Investment** | Gives salient details of the company or project |
| **Fit within the Overall Portfolio** | Does the investment fit within the parameters of the Investment Policy Statement? |
| **Exit Strategy** | Show the anticipated how and when. |
| **Proposed Capital Structure** | Description of capital and sources of capital |
| **Proposed Equity Structure** | Description of Shareholders and value of input |
| **Evaluation of Business/Industry** | Anticipated growth prospects, SWOT analysis |
| **Pro Forma Financial Ratio Analysis** | Commentary regarding trend analysis and industry benchmarks |
| **Risk Assessments** | Lists top three risks of business, sensitivity analysis, etc. For each risk factor, methods to mitigate the risk should be proposed and discussed to determine effectiveness. |
| **Expected Investment Return** | Includes Company Valuation, NAV, IRR, PBP, with list of assumptions used. |

All investment decisions are to be recorded and analytical background supporting the investment decisions kept on file.

Prior to bringing an investment proposal to the Investment Committee a thorough due diligence exercise should be carried out. At a minimum the due diligence report should assess the following (covers both financial and non-financial risks):



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| Item | Description |
|---|---|
| **Project/Company Overview** | • What is the project/company?<br>• What purpose does/will it serve?<br>• Within what industry?<br>• Who will be the customers? Local or foreign?<br>• What are the inputs? From where are they sourced?<br>• What is the marketing plan?<br>• What are the company's competitive advantages?<br>• How has the company evolved over last five years?<br>• What is the Corporate Strategy for next five years? |
| **Industry/Economic Overview** | • How has the industry performed over the last five years?<br>• What are the industry and economic prospects?<br>• How will these prospects serve the project/company?<br>• How well developed is the industry?<br>• What impact will inflation have on the industry?<br>• What impact will any economic downturn have on the company's business? |
| **Capital Structure** | • How much capital is involved?<br>• What debt to equity ratio?<br>• What are terms and conditions of capital? |
| **Ownership Structure** | • Who are the owners<br>• Are the owners like-minded in objectives<br>• How much capital are they injecting/have at risk?<br>• What are their backgrounds?<br>• How is the Board of Directors constituted?<br>• Who sits on the Board?<br>• What are their backgrounds?<br>• What are the Corporate Governance policies? |
| **Management Background** | • Who will run the business?<br>• What are their backgrounds?<br>• Are they able to run the business smoothly<br>• Are the managers trustworthy? |
| **Legal Position** | • How is the company legally constituted?<br>• What are labor relations?<br>• Are taxes fully paid to date?<br>• What are future tax liabilities?<br>• What licenses are required?<br>• Does the company have the proper licenses? |
| **Regulatory Exposure** | • Is the Company subject to regulations?<br>• If so, how does it impact the running of the business? |
| **Competition** | • Who are the competitors? |

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|---|---|
| | • What percentage market share do they have?<br>• What are the competitive forces in play?<br>  ○ Bargaining Power of Buyers?<br>  ○ Bargaining Power of Suppliers?<br>  ○ Intensity of Rivalry?<br>  ○ Ease of entry?<br>  ○ Threat of substitute products/services |
| **Historical Financial Analysis with ratio and trend analysis** | • How has the company performed in the past?<br>• Has the company been able to stick to budgets?<br>• What does the trend analysis show?<br>• What events have altered strategies |
| **Five-Year Financial Projections with Ratio analysis** | • What assumptions are realistic to use?<br>• How is the company expected to perform over the next five years?<br>• How sensitive are the projections to changes in assumptions?<br>• What is the anticipated rate of return on investment? |
| **Risk Assessment** | • What are the likely risks faced?<br>• How can these be mitigated?<br>• How have managers handled risks in the past?<br>• What are the outcomes of scenario analysis and stress testing of the financial model?<br>• Are the likely risks within the limits of the portfolio? |

## 7.2.Financial market investments

The Treasury Management Committee is entrusted with making decisions on investments related to treasury bills/bonds and term deposits. The acquisition or disposal of shares on secondary market shall be done by the Internal Investment Committee.
All investment decisions made by the treasury committee shall always be reported to the Board of Directors on a quarterly basis.

## 7.3.Rebalancing Requirements

Given the illiquid nature of the majority of investments likely to be held within the portfolio and the passive investment style it will be difficult to undertake a "constant mix strategy" (buying and selling on a continual basis) to ensure the strategic allocation is always met. Therefore, proceeds from contributions and investment income should be utilized to make investments only within those asset classes, where possible, that are below the strategic asset allocation. If this cannot be done on a regular basis due to the unavailability of potential investments, the portfolio



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should be rebalanced with consideration to the impact of the sale price when liquidating, the market timing, and any associated costs with the transactions to ensure investment returns are not jeopardized for the sake of rebalancing.

Any time the asset allocations reach rates higher or lower than the tactical asset allocation range, the Fund should rebalance within a 12 month period or sooner if possible.

### 7.4.Management Style

Given the development stage of the financial and capital markets of Rwanda, it is likely the overall management style will tend to be more passive than active. Investments are likely to be held to maturities in the case of fixed-income and held until an IPO or other long-term exit strategy is implemented for equity.

Offshore investment, however, can take a more active style given the liquidity, depth and breadth of those markets. However, any offshore investments must keep transaction costs to a minimum, thus an active management style may not be best suited for the Fund. When considering a pooled offshore investment, the turnover ratio must be reasonable low.

## 8. Performance Evaluation

The Investment Performance must undergo a quarterly evaluation using the following reporting guidelines:

### 8.1.Performance Monitoring and Reporting

The purpose of monitoring and reporting on investment performance is for the Board to be able to ensure compliance with system policy and applicable law, manage the risk of the portfolio and assess the performance of third party asset managers that may be retained by RSSB. The Investment Portfolio's performance must be calculated on a quarterly basis with the following minimum requirements:

- Performance measurements exclude external cash flows not related to investments; e.g. contributions;
- Returns are calculated on a total return basis; i.e. includes investment income and capital gains/losses;
- Total Portfolio Returns include returns from cash and cash equivalents held in the portfolio;
- Returns are calculated using time weighted rates of return;

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- Returns are calculated on an annualized basis, or geometric mean return;
- Returns are calculated after actual trading expenses and transactions costs incurred in the purchase or sale of investment;
- For traded investments, trade-date values are used (as opposed to Settlement date)
- Accrual accounting is used for fixed income and for dividend income declared and approved.
- Valuations will be based on marking to market, fair values and historical costs, depending on available data, and/or nature of investment (trading or being held to maturity).

## 8.2.Benchmarks

The Investment Portfolio will use the following benchmarks to determine if the Performance has met with the Investment Objectives:

| Investment Vehicle | Benchmark |
|---|---|
| **Fixed Term Deposits (local and foreign)** | The agreed rate should reflect (a) inflation rate (b) market risk free rate (c) financial health of the bank and (d) risk premium. |
| **Debt Securities** | |
| Government securities | Average weighted T-bill/bond rate over a similar period |
| Commercial debt | T-bond rate plus a risk premium basing on the credit rating of the issuing company. |
| Commercial Mortgages | The Board notes that it is beneficial to move away from Commercial Mortgages due to their inherent high default risk and associated reputational risks regarding foreclosures and high services costs. |
| Offshore | The National Stock Exchange Index of the country being invested in. |
| | MSCI Bond index, |
| **Equities** | RSE index |

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RSE all share index

MSCI Emerging Market Index

Required rate should equal the 5 year T-bond rate plus a risk premium

## 8.3.Reporting Requirements

The Investment Department prepares investment performance report on a quarterly and annual basis to the Board of Directors which is reviewed and approved by the Director General before its submission.

The Report should include comments regarding the following:

- Overall performance of the Portfolio with comparative benchmarks
- Major gaps in Revenue generation
- A breakdown of performance per asset class
- Return on Investment in general
- Overall economic performance over the last quarter including information regarding GDP trend, inflation, interest rate and Exchange rate movement etc.
- Industry trend pinpointing those industries experiencing growth or contractions;
- .
- Market analysis of financial/capital markets in countries where invested;
- Indicative cash outlays over the next period; and
- Investment performance over period relative to previous period, annual, 3-year and 5-year returns with comparative benchmarks

## 8.4.Compliance Monitoring

Compliance monitoring should be carried out on a regular basis to ensure that the guidelines of this Investment Policy Statement are followed. Explicit and written prior permission from the Board must be obtained before any deviation from this Investment Policy Statement is allowed.

## 8.5.Treatment of Conflicts of Interests

Fiduciaries must disclose all conflicts of interest including any potential conflicts on a timely basis. Disclosure must be done in writing and submitted to the Chairman of the Board. Oral disclosure is required at the time any conflict arises when discussing the Fund's transactions. A written submission must follow within two days.

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Any person having a conflict of interest must either exclude himself/herself or be excluded from taking-part in any analysis or decision-making pertaining to the area of conflict. All decisions and transactions must protect and put the interests of the Members and Beneficiaries of the Fund first and foremost.

Agents must also agree not to front run or trade on insider information.

## 9. Review of Investment Policy Statement

The Board has stipulated the following types of reviews of the Investment Policy Statement:

The Board shall conduct an in-depth review of the Investment Policy Statement whenever necessary. If any of the following events take place, the Investment Policy Statement will be reviewed within six months of the event, to determine if any changes are required:

- Legislative changes;
- Any structural changes in the Fund e.g. changes in contributions rates or defined benefits, etc.
- Large anticipated withdrawal of cash due to early retirements or disability payments;
- Introduction of new financial instruments;
- Upheavals in the economy or financial markets;
- A new actuarial valuation; and/or
- A substantial change in the financial status of the Fund.

## References

Law nº 45/2010 of 14/12/2010 establishing Rwanda Social Security Board and determining its mission, organization, and function.

Law no 24/2001 on the establishment, organization and functioning of a health insurance scheme for Government employees

Law no 29/2002 concerning affiliated members of health insurance scheme

Actuarial Valuation of the Medical Scheme of June 2012.

RSSB enterprise risk management and procedure manual

RSSB procedure manual

Nicholas Greifer (2003): A Guide for Establishing a Pension Investment Policy. Published by Government Finance Officers Association of the United States and Canada.

RSSB Investments Trends Report 2015

## Statement of the Board

The Board has thoroughly discussed the issues pertaining to the objectives, risk tolerances and constraints with regard to the investment portfolio of the Rwanda Social Security Board, Medical Schemes. The Board confirms this Investment Policy Statement reflects an appropriate methodology to manage the portfolio.

| | |
|---|---|
| ---------------------------------------- | ---------------------------------------- |
| **Mr. Jonathan GATERA** | **Dr. Innocent GAKWAYA** |
| **Director General** | **Chairman** |
| 13-01-2016 | 13.01.2016 |
| **Date** | **Date** |