Investment Policy

Aba Ali Habib Securities Private Limited

Approvals & Amendments

Approvals	Title	Signature
Prepared By	Internal Audit	Afras & Company
Reviewed By	CEO	Zahid Ali Habib
Approved By	BOD	BOD Meeting

Version	Effective Date	Description of Change
1st	30 November, 2019	Updates in AML laws and regulations
2nd	31 May, 2020	Updates in Laws and regulation
3rd	10 August, 2020	Change in Laws and regulation

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PREAMBLE

Purpose

The purpose of the Investment Policy is to provide a framework within which the assets of the Aba Ali Habib Securities Private Limited (Company) are to be invested and managed.

Company's Objective

The objective of the Company is to generate revenue for the discharge of the company liabilities. Hence, it is desired to achieve financial equilibrium in assets portfolio and the company liabilities in accordance with actuarial assessment.

Operational Framework

The **Management Committee** shall:

- Approve an Investment Policy and make amendments thereto.
- Appoint an Operational Investment Committee for day to day investment decisions of the Company.
- Approve proposals for investments / disinvestments put up by the Investment Committee for portfolio investments and investments through a third party.
- Approve proposals for addition / deletion of securities put up by the Investment Committee.
- Approve proposals for appointment of Investment Advisor put up by the Investment Committee.
- Review performance of the Company on periodic basis and ratify investments / disinvestments made by the Investment.

Methodology

Investment Policy shall provide guidelines to the Management Committee, Investment Sub-Committee, Operational Investment Committee and all the staff members and participants who are involved in the investment activity.

INVESTMENT OBJECTIVES:

While minimizing risk the Company will endeavor to generate sustained earnings consistent with reasonable concern for safety of principal amount. However, the Company's management must acknowledge the existence of risks associated with investments as is universally known, greater the risk greater the return.

PERMISSIBLE INVESTMENTS

The Company shall make investments in following class of assets:

1. Government Securities.
2. National Saving Schemes.
3. Government Bonds.
4. Corporate Bonds, Term Finance Certificates and other forms of Debt.
5. Shares listed on a stock exchange.
6. Unit trusts, mutual Companies and other collective investment schemes.
7. Deposit with scheduled banks.
8. Third Party Products.

INVESTMENT CRITERIA:

The Company shall make investments on the basis of following criteria:

1. Government Securities:
    a) Securities as defined in the Securities Act, 2015 and includes securities repayable or irrevocably guaranteed to be paid by a Provincial Government or the Federal Government.
    b) Securities could be at a fixed or variable rate of interest.
    c) Return offered by the Government Security compared to other modes of investment.
2. National Saving Schemes:
    a) Of the Federal Government at a fixed or variable rate of interest.
    b) Return offered by the National Saving Scheme compared to other modes of investment.
3. Government Bonds:
    a) Issued by or under the authority of the Federal Government, a Provincial Government or by a body or entity owned or controlled by the Government or a prescribed body or entity.
    b) Listed on a stock exchange or issued under a prospectus approved by the Securities and Exchange Commission of Pakistan.
    c) Return offered by the Government Bond compared to other modes of investment.
4. Corporate Bonds, Term Finance Certificates and other forms of Debt – New Issue as well as through secondary market:

a) [2][Listed on a stock exchange or issued under a prospectus approved by the Commission or issued with approval of the State Bank of Pakistan.]
b) The Issuer and the Security to have a minimum rating of "AA-" assigned by a credit rating agency operating in Pakistan.
c) Last three years performance of the Issuer, wherever applicable.
d) Financial projections for three years of the Issuer, where available.
e) Total Issue size.
f) Tenor of the Security.
g) Return / yield offered by the corporate bond / term finance certificate / other forms of debt compared to other modes of investment.
h) Market reputation of the Issuer, Advisor and Arranger, if applicable.
i) Latest Research Report.

5. Shares listed on a stock exchange – New subscriptions as well as through stock exchanges:
   a) As part of portfolio investment.
   b) Investment will be made in scrips approved by the Management Committee.

      The Management Committee shall approve scrips based upon latest research report which will cover following criteria:
      i) Priority will be given to blue chip scrips.
      ii) Payouts in the last three years, where applicable.
      iii) Share price trend of the scrip.
      iv) Turnover of the scrip in the Ready Market.
      v) Market reputation of the Company/Group.
      vi) Expected dividend / capital gain.

   c) Investment in spread transactions will form part of the portfolio investment.

      The Company will invest in spread transactions by buying in Ready Market and selling in Future simultaneously, depending upon the return available in the market.

      If liquid Company are available in bank accounts then option of investment in spread transactions may be exercised if the return is better than return on amount kept in banks' daily product account / deposit account.

      Criteria for selection of scrips for spread transaction will be same as defined in Para (b) above and listed in Annexure-I.

   d) Pre-mature closing of spread transactions may be done if the return exceeds the return on spread transactions.

      Pre-mature closing of spread transactions may also be undertaken to generate liquidity in the Company.

6. Unit trusts, mutual Company and other collective investment schemes:

   a) Investment will be made in open-end unit trusts, mutual Company and other collective investment schemes authorized by the Securities and Exchange Commission of Pakistan.
   b) Asset Management Company to have minimum rating of "AM2".
   c) Where applicable, a Unit Trust / Company to have JCR-VIS minimum Stability Rating of "A(f)" or PACRA minimum Company Rating of "4-Star".
   d) Unit trusts / Company and their Asset Management Companies who qualify under the above criteria are listed in Annexure-II.
   e) Expected dividend / bonus / capital gain.
   f) Market reputation of the Unit trust / mutual Company / collective investment scheme and the Asset Management Company.

7. Deposit with scheduled banks:

   a) Investment will be made in scheduled banks having a minimum Long Term rating of "AA-". Scheduled banks which qualify under this criteria have been listed in Annexure-III.
   b) Return offered by the scheduled bank compared to other modes of investment.
   c) Market reputation of the scheduled bank.

8. Third Party Products of Life Insurance Companies:

   a) Investment will be made in third party products having a minimum rating of "AA-". Life Insurance Companies which qualify under this criteria have been listed in Annexure-IV.
   b) Expected return from the third party products.

   Market reputation of the third party.

EXPOSURE LIMITS:

No investment shall be made from the Company for a period of more than three years or in any foreign market or firm, except with the prior approval of Investment Committee.

The Company shall not take exposure of more than [3][20%] of the value of the Company in any single group.
Explanation: For the purpose of this exposure requirement "group" means persons having at least 30% common directors or 30% or more shareholding in any other company, as per publicly disclosed information.
[4] ['Exposure' for the purpose of computing exposure limits on investments includes investment in all asset classes, securities, instruments, deposits etc. allowed by the Investment Policy but does not include:

a) Lending to a counter party, having a minimum credit rating as approved by the Management Committee, through REVERSE REPO transaction where the underlying securities are government securities eligible for statutory liquidity requirements;
b) Deposit with Schedule Banks, having a minimum credit rating as approved by the Management Committee, with remaining time to maturity of three months or less; and
c) Investment in Government Securities with remaining time to maturity of three months or less.]

Exposure limits for each class of asset is as follows:

1. Government Securities and National Saving Schemes:
   The Company shall not invest in the Government Securities or the National Investment Schemes, if at the time of investment:
   a) it would result in any such [5][security] exceeding 25% of the value of the Company; or
   b) the cumulative investment in such investments exceeds 75% of the value of the Company.
2. Corporate Bonds, Term Finance Certificates and other forms of Debt:
   a) No investment shall be made for an amount of more than 5% of the value of the Company per issue of the Bond or the instrument.
   b) Investment shall not exceed 5% of the total Issue amount.
   c) Cumulative investment in Corporate Bonds, Term Finance Certificates and other forms of Debt shall not exceed 20% of the value of the Company.

4. Shares, Unit Trusts, Mutual Company and other Collective Investment schemes:
   a) The Company shall not invest in Shares, Unit Trusts and Mutual Company and other Collective Investment Schemes if at the time of

making an investment the aggregate of such investments exceeds 40% of the value of the Company.

The Company shall not invest in Unlisted Equity Securities unless an application for listing of such securities has been accepted by the stock exchange.

Provided that the Company may make total investments in pre-initial public offerings (Pre-IPO's) upto 10% of the value of the Company, subject to the exposure limits prescribed under this Investment Policy.

b) Shares –

i) Investment in Shares of a company shall not exceed 5% of the value of the Company.
ii) Investment in Shares shall not exceed 5% of the Paid-up Capital of the Invested Company.
iii) Investment in Shares of any one sector shall not exceed 20% of the value of the Company at the time of making such investment, as per classification of the Stock Exchange.

c) Unit Trusts, Mutual Company and other Collective Investment Schemes:

i) Investment in each Unit Trust/Mutual Company/Collective Investment Schemes shall not exceed 5% of the value of the Company.
ii) Investment in a Unit Trust/Mutual Company/Collective Investment Scheme shall not exceed 5% of the total Company size of the Unit Trust/Mutual Company/Collective Investment Scheme.

5. Deposit with Scheduled Banks:
   a) No investment shall be made for an amount of more than 5% of the value of the Company per instrument.
   b) At the time of making an investment, the aggregate of deposits in a scheduled bank shall not exceed 20% of the value of the Company.

6. Third Party Products:
   a) No investment shall be made for an amount of more than 5% of the value of the Company in third party products, unit trust or through managed portfolios in each case.

EXCEPTION TO EXPOSURE LIMITS:

In the event the exposure limits laid down in the Investment Policy change as a result of the relative movement in the market prices of the investments or through any disinvestments or through corporate actions, the Management Committee shall bring excess exposure within the prescribed limits within three months of the event. However, this restriction of further investment shall not apply to any offer of right shares or bonus shares.

RESTRICTIONS ON CONNECTED PERSONS:

Any member of the Management Committee or officer of the Company shall not invest in any security owned by the Company. If the member or officer owns any security before the Company makes its investment in the same security, the member or officer shall disinvest the same within a period of one month from the date of investment of the Company.

For the purpose of this restriction the term member and officer shall include spouse, lineal ascendants and descendants, brothers and sisters.

PROHIBITED INVESTMENTS:

The Company shall not invest in:

1. land, buildings or real estate of any kind including buying or making loans of any description except for its official use or in shares as part of its portfolio;
2. exploration or exploitation of minerals or petroleum including buying or making loans of any description other than in shares as part of its portfolio;
3. a real estate investment trust or other investment company that is not listed on a stock exchange;
4. bearer securities;
5. securities which result in assumption of unlimited or undetermined liabilities (actual or contingent); and
6. Commodities and commodity contracts.

GENERAL RESTRICTIONS ON THE COMPANY:

The Company shall not:

a) merge, acquire or take over management of any other pension Company unless it has obtained prior approval of the Government for the merger, acquisition or take over;
b) pledge securities owned by the Company except for the benefit of the Company and with prior approval of the Government;
c) make a loan or advance money to a person except in connection with the normal business of the Company;
d) participate in a joint account with a person in any transaction;

e) invest in the real estate except that it may purchase or rent real estate for its official use;
f) employ as a broker, directly or indirectly, a Member, the General Manager or an employee or a member of the family of such a person;
g) acquire, purchase or sell any security to a Member, the General Manager or an employee or a member of the family of such a person;
h) enter into a short sale transaction in any security, whether listed or unlisted;
i) enter into transactions with any single broker that accounts for 20% or more of the Company's brokerage commission in any one Accounting Year of the Company;
j) lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. However, sale and repurchase transactions involving Government Securities or listed debt securities can be made;
k) seek to acquire a controlling interest in any enterprise in which it has invested or has any other interest, which would give it primary responsibility for management, except where it is necessary to protect its investments;
l) purchase shares on leverage i.e. through CFS;
m) accept deposits from a company, unit trust, mutual Company, collective investment scheme or a third party;
n) undertake brokerage services on stock exchanges or in the money market; and
o) enter into underwriting or sub-underwriting contracts.

BENCHMARK RETURN:

The purpose of benchmark return is to gauge performance of the Company over a period of time. It also reflects on the performance of the General Manager, Chief Investment Officer/Company Manager, Operational Investment Committee, Investment Sub-Committee and the Management Committee.

While establishing a benchmark return, associated risks must be taken into consideration. Greater risk in pursuit of higher benchmark return may be counterproductive to the establishment of the Company. Hence, sustained earning over a period of time is preferred to unusual returns over a short period.

Monetary policy of the State Bank of Pakistan (SBP) has a direct bearing on the returns of different class of assets. Hence, continuous review of the benchmark return needs to be made based on inflation rate, SBP's discount rates etc.

The Company will adopt inflation rate based on Consumer Price Index (CPI) as criteria for establishment of overall bench mark return. The Company will endeavor to generate an annual return equal to inflation rate of that year plus 3%. For this purpose inflation rate will be taken from the Federal Bureau of Statistics.

In addition to a single benchmark return for the Company, we have set following benchmark returns for each class of asset:

	Class of Asset	Benchmark Return
1.	Government Securities	Being a risk free asset, the SBP decides the return.
2.	National Saving Schemes	Being a risk free asset, the Federal Government decides the return.
3.	Government Bonds	If guaranteed by the Government of Pakistan then return offered by SBP on Government Securities.
4.	Corporate Bonds, Term Finance Certificates & other forms of Debt	6-Month KIBOR (offer side) + 0.5% p.a. The return will vary if tenure of the coupon is other than 6-months.
5.	Shares listed on a stock exchange	KSE 100 index
6.	Unit trusts, mutual Company & other collective investment schemes	Average return of all the Company in the category i.e. income Company, stock Company etc.
7.	Deposit with scheduled banks	6-Month KIBOR (offer side) + 0.75% p.a. The return may vary depending upon the liquidity with the banks.
8.	Third Party Products	Average return of the product in the last six months.

RISK DISCLOSURE:

Investment in all securities, except risk free securities, is subject to market risks. The benchmark return cannot be guaranteed. It should be clearly understood that investments of the Company are subject to market fluctuations and risk inherent in all such investments. The risk emanates from various factors that include, but are not limited to:

a) **Credit Risk** – Comprises of default risk, credit spread risk and downgrade risk. Each can have negative impact on the value of fixed-income securities including money market instruments.
b) **Default Risk** – The risk that the Issuer will not be able to pay the obligation, either on time or at all.
c) **Credit Spread Risk** – The risk that there will be an increase in the difference between the return / markup rate of an Issuer's bond and the return / mark up rate of a bond that is considered to have little associated risk (such as a government guaranteed bond or treasury bill). The difference between this return / mark up rates is called a credit spread. Credit spreads are based on macroeconomic events in the domestic or global financial markets. An increase in the credit spread will decrease the value of fixed income securities including money market instruments.
d) **Downgrade Risk** – The risk that a credit rating agency such as PACRA or JCR-VIS or any other reputed credit agency will reduce the credit rating of an Issuer's securities. Downgrading in credit rating will decrease the value of those fixed income securities including money market instruments.
e) **Derivative Risk** – Derivatives may be used to limit or hedge potential losses associated with stock markets and return / mark up rates The process is called hedging. Derivatives may also be used for non-hedging purposes to reduce transaction costs, achieve greater liquidity and create effective exposure to financial markets or increase speed and flexibility in making portfolio changes. Any use of derivatives has risks, including:

    i) The hedging strategy may not be effective. There is no guarantee that a market will exist when a Company wants to buy or sell the derivative contract. A large percentage of the assets of the Company may be placed on deposit with one or more counter parties, which expose the Company to the credit risk of those counter-parties. There is no guarantee that an acceptable counterpart will be willing to enter into the derivative contract.
    ii) The counter-party to the derivative contract may not be able to meet its obligations. The Exchanges on which the derivative contracts are traded may set daily trading limits, to close out its position in that contract. If an Exchange halts trading in any particular derivative contract, a Company may not be able to close out its position in that contract. The price of a derivative may not accurately reflect the value of the underlying security or index.

f) **Return / Mark-up Rate Risk** – Fixed income securities including money market instruments, which include treasury bills and commercial paper, pay fixed rate of return / mark-up. The value of the Company, due to its holdings in fixed income securities including money market instruments, will rise and fall as return / mark-up rate changes. For example, when return / mark-up rates fall, the value of an existing bond will rise because the coupon rate on that bond is greater than prevailing return / mark-up rates.

g) **Government Regulation Risk** – Government policies or regulations are more prevalent in some sectors than in others. Company that invest in these sectors may be affected due to change in these regulations or policies, which directly or indirectly affect the earnings and/or the cash flows and/or any governmental or court orders restraining payment of capital, principal or income.

h) **Voluminous Transfer to Reserve Company Risk** – Any significant transfer made to Reserve Company could significantly impact Company's cash flow. If the Government transfers large amounts, the Company could temporarily have a high cash balance. Conversely, if the Government recalls large amounts, the Company may be required to Company by selling securities at an inappropriate time. This unexpected sale may have a negative impact on the performance of the Company.

i) **Repurchase, Reverse Repurchase Transactions and Securities Lending Risk –** The risks with these types of transactions are that the other party may default under the agreement or go bankrupt. In a reverse repurchase transaction, the Company may be left holding the security and may not be able to sell it at the same price it paid for it, plus return/mark-up, if the market value of the security has dropped. In the case of a repurchase or a securities lending transaction, the Company could incur a loss if the value of the security sold or loaned has increased more than the value of cash or collateral held.

j) **Other Risks** – Other risks involve mismanagement of the investee company, third party liability whether through class action or otherwise or occurrence of other events such as strike, fraud etc., in the company in which the investment is made or break-down of law and order, war, natural disasters etc.

RISK MITIGATION STRATEGY:

The Company shall endeavor to mitigate risk through:

i) Diversification of investment in different class of assets permitted under the Punjab Pension Company Act, Rules and the Investment Policy.

ii) Investment criteria and limit exposures for each class of asset enable the Company to mitigate risk.

iii) Certain investments have been prohibited for the Company in the Investment Policy. Likewise, general restrictions on the Company have been defined in the Investment Policy. These measures help to avoid undue risk.

SELECTION OF BROKER:

The Company will require both type of brokers i.e. Money and Capital Market. Money market brokers provide services with regard to investment in Government Securities, Government / Corporate Bonds, Term Finance Certificates, Bank Deposits and other debt instruments. Capital market brokers provide services with regard to investment in shares, spread transactions etc.
In order to invest in Money / Capital Market, the Company will have an approved panel of brokers who are active in Money / Capital Market. It is the intention of the Company to build business relationship with only reputable corporate brokerage houses.

The following criteria shall be observed in selecting a broker:

- Only corporate brokerage houses shall be considered.
- Brokerage houses with good reputation and integrity shall be considered.
- Minimum paid-up capital requirement for Capital Market Broker will be Rs. 50 million.
- Minimum paid-up capital requirement for Money Market Broker will be Rs. 20 million.
- Track record of brokerage house in terms of quality of service, execution time and transparency etc. shall be considered while selecting a broker.
- Quality of Research and daily market report will be given due weightage while selecting a broker.
- Client profile of the brokerage house shall also be reviewed while selecting a broker.
- The number of professionals, experience and quality of management will also be considered while selecting a broker.

The criteria for selection of a broker and the commission charged by them shall be approved by the Management Committee.
The Chief Investment Officer will put before the Operational Investment Committee any proposal for addition / deletion of a broker. The Operational Investment Committee shall vet it and forward the same to the Investment Sub-Committee for making recommendations to the Management Committee for approval.
The Company shall not enter into transactions with any single broker that accounts for 20% or more of the Company's brokerage commission in any one Accounting Year of the Company.

A list of brokers approved by the Management Committee is enclosed as Annexure-V.

SELECTION OF INVESTMENT ADVISOR:

The Management Committee may appoint:

a) a non-banking finance company to provide investment advisory services, or
b) a person as an investment advisor, being a person approved by the Commission for such activities, to give advice to the Company on selection of a third party and portfolio.

The person appointed as investment advisor shall attend such meetings and prepare such reports as the Management Committee may direct.

The Management Committee shall determine terms and conditions of an investment advisor.

The Investment Sub-Committee and the Operational Investment Committee shall assist the Management Committee in selection of an investment advisor.

PROHIBITION OF INSIDE TRADING:

The provisions of Chapter III-A of the Securities and Exchange Ordinance, 1969 (XVII of 1969), shall apply, *mutatis mutandis*, to the Members, employees, or any other person associated with the Company.

DELEGATION OF POWERS:

The Management Committee may delegate to the General Manager, a Sub-Committee or a Member, any of its powers or functions. Provided that it shall not delegate the power to –

a) adopt, amend or repeal regulations;
b) approve the investment policy, standards and procedures for the operation of the Company; or
c) fill a vacancy in a Sub-Committee.

In order to facilitate decision making at the Investment Sub-Committee and the Operational Investment Committee levels, the Management Committee delegates investment / disinvestment powers in the following manner. The philosophy of delegation is to keep the long term investment decisions with the Management Committee while the Investment Sub-Committee and the Operational Investment Committee will take medium and short term investment decisions. The powers delegated shall be subject to review from time to time

Committee	Investment / Disinvestment Limit
a) Investment Sub-Committee	- upto 20% of the value of the Company for Bonds, TFC's and other debts, - upto 40% of the value of the Company for shares, - upto 40% of the value of the Company for unit trusts/mutual Company and other collective investment schemes, - upto 100% of the value of the Company for deposit with scheduled Banks, and - upto 10% each for other class of assets.
b) Operational Investment Committee	- upto 10% of the value of the Company for Bonds, TFC's and other debts, - upto 20% of the value of the Company for shares, - upto 20% of the value of the Company for unit trusts/mutual Company and other collective investment - upto 50% of the value of the Company for Deposit with scheduled banks, and - upto 5% each for other class of assets.

All the investments / disinvestments made by the Investment Sub-Committee or the Operational Investment Committee shall be ratified in a subsequent meeting of the Management Committee.

FREQUENCY OF MEETINGS:

In normal course of operations the frequency of meetings shall be as follows:

- Investment Committee Quarterly

However, a Committee may meet earlier if so desired by the Government or the General Manager. If it is not possible to convene a meeting of the Management Committee the General Manager may get approval from the members of the Management Committee on any pressing matter through circulation of the same.

QUORUM OF THE MEETINGS:

The quorum for the meetings shall be as follows:

➢ Operational Investment Committee	Any two members
➢ Investment Sub-Committee	Majority of members including a Member from the private sector and the General Manager.
➢ Management Committee	At least four ex-officio members Including the Chairman or the Vice-Chairman, two members from the Private sector and the General Manage