



# Pensions and Grants Fund of the Personnel of Cyprus Telecommunications Authority

*Statement of Investment Beliefs (SIB)*

*Administrative Committee's Objectives, Beliefs and  
Constraints document*

*07 December 2016*

## Table of Contents

<u>Introduction</u>	3
<u>The metric to be used in optimizing the SAA</u>	4
<u>Statement of Investment Beliefs (SIB)</u>	5
<u>Constraints</u>	7
<u>Summary of Beliefs and Constraints</u>	9

## Introduction

This document is the Statement of Investment Beliefs (SIB) of the Administrative Committee (AC) of the *Pensions and Grants Fund of the Personnel of Cyprus Telecommunications Authority* ("Fund"). This has been formulated by the AC in their meeting of 29/11/2016 and it is considered in setting the new long term Strategic Asset Allocation ("SAA") of the Fund.

The SIB is an informal piece of the governance framework. It is intended primarily to establish a set of basic, guiding principles to add cohesion to the AC's decision-making process regarding the investment of the assets of the client.

It sets out the following:

- The metric that will be used in optimizing the SAA
- The fundamental investment beliefs of the AC
- The applicable constraints imposed either by legislation, practically or otherwise, when setting the SAA of the Fund

This SIB supports the formal Statement of Investment Principles (SIP) of the Fund and it is dynamic. It is reviewed on a regular basis. In particular, it will be revised if the AC makes a fundamental change in its investment philosophy.

## The metric to be used in optimizing the SAA

There are a number of different metrics that can be used for measuring the success and failure of a SAA. The AC has set the following primary metric which will be optimized in order to derive to the SAA of the Fund:

<b>Horizon</b>	<b>10 years</b>
<b>Primary Metric</b>	<b>The Funding Level of the Fund at the time horizon based on the Actuary's Funding Basis</b>

This means that the SAA to be adopted by the AC aims at improving/optimizing the Funding Level of the Fund (as calculated using the actuary's Funding Basis) in 10 years-time

## Statement of Investment Beliefs (SIB)

The table below stipulates the beliefs of the AC. These beliefs help the AC to make coherent investment decisions.

<b>BELIEFS:</b>
<p><b>Best Practice and Quality :</b></p> <p>The AC strives to continuously improve the quality of its investment decision-making</p>
<p><b>Governance:</b></p> <p>Clear governance and decision making processes add value to the client thus adopting a clear and defined governance framework is important</p>
<p><b>Asset Classes:</b></p> <p>All asset classes are appropriate and will be examined in setting the Asset Allocation of the Fund"</p> <p>Optimal Asset Allocation will be set without any lower/upper limits on asset classes subject to adhering to legal and practical constraints</p> <p>Asset Class Strategy (ACS) makes the risk-return trade-off even more efficient thus before considering implementation the ACS of each asset class will be examined based on prevailing market conditions</p>
<p><b>Strategic Asset Allocation:</b></p> <p>Investors with a long-term horizon can outperform more short-term focused investors over the long-run. Asset allocation decisions have the most impact on long-term performance</p>
<p><b>Medium Term Asset Allocation</b> can add value and will be examined once the strategy is fully implemented</p>
<p><b>Risk Premia:</b></p> <p>Real assets (Equities, Alternatives) should provide a higher return than bonds in the long-term i.e. an equity risk premium exists i.e. Investment risk is rewarded</p> <p>There is a premium for illiquidity and complexity which will be explored</p>

**Risk Management**

The AC recognizes that the Fund can be exposed to several sources of risk, all of which ought to be addressed in setting investment policy.

Investment risk is reduced by diversification

Risks which are not expected to be rewarded should not be taken

**Active vs Passive:**

Financial markets are not perfectly efficient and the AC believes it can benefit from this ie It is possible for an active manager to consistently outperform the index and thus active management will be deployed.

**Manager Selection:**

It is possible to identify top quartile managers who add value over time if a strict selection process is followed.

**Home bias:**

Investment in global markets is beneficial and the AC will consider global assets.

It was agreed that no Home Bias was to be set.

## Constraints

The AC will need to record the constraints arising either from the needs of the Fund or from other exogenous factors. The following constraints have been set.

### Minimum cash allocation

The AC examined the need of maintaining a minimum level of cash. In order to derive this, the AC examined the cash flows from and to the Fund over the next 3 years. The liquidity of the current investments was also considered. Given that the illiquid part of the Fund is small (only the local property allocation is considered illiquid), the AC have set the following minimum level of cash to be adopted in the development of the SAA:

<b>Minimum cash allocation</b>	<b>Estimated <u>net</u> cashflows out of the Fund over the next 3 years (currently 13%)</b>
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### Range from mid-point

Rigid implementation of a SAA can be difficult and costly as continuous rebalancing would be required. It also does not allow the AC to implement shorter term views on the market and thus not benefit from opportunities that may arise. On the other hand, allowing too much flexibility in the management of the assets may result in materially changing the risk profile of the Fund. The AC decided to set a reasonable range around a mid-point of the SAA in order to allow the necessary management flexibility but also retain appropriate control.

Generally, a  $\pm 5\%$  range from the mid-point was agreed for all asset classes as it is believed that this range will not materially change the risk profile of the long term SAA.

## Legal Constraints

The strategy takes into consideration the investment guidelines as these are defined by the Law 208 and Directives 1/2010 and 2/2010. These are:

Asset classes	Max permitted by Law, %
Assets denominated in any one foreign currency	10
Total assets denominated in foreign currency	30
Total investment in shares and non-government bonds	70
Assets denominated in total issuance of each bond issuer	10
Assets denominated in issued share capital of each listed company	5
Exposure to each property	10
Total exposure to assets in non-regulated assets	40
Maximum allocation to alternative investments not including property	15

## Specific Constraints

Local property is considered illiquid and as such the AC agreed that the SAA will be constrained by the current level allocate in local property. Thus the SAA will examine portfolios with minimum allocation of 18% in local property (which is the current property allocation).

<b>Minimum property allocation</b>	<b>18% (current allocation)</b>
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## Summary of Beliefs and Constraints

Belief/Constraint	Comments
Asset Classes to be included	All asset classes to be included
Liquidity	The Fund can invest in illiquid and complex assets classes to benefit from illiquidity premium
Home Bias	No home bias
Active vs Passive	Active management would be considered
Minimum allocation to cash	Set at estimated net cashflows out of the Fund over the next 3 years (currently 13%)
Minimum allocation to local property	Set at the current level of 18%
Maximum allocation to hedge funds	Legal limit of 15%
Total exposure to assets in non-regulated assets	Legal limit of 40%
Total investment in shares and non-government bonds	Legal limit of 70%

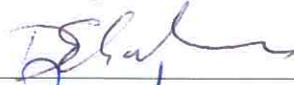
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**Name**

**Signature**

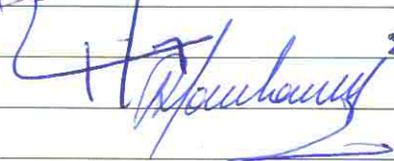
**Date**

Demetris Eliades, Treasurer



14/2/2017.

Paris Menelaou, Secretary



28/2/2017

Michalis Moushattas, Chairman

28/3/2017