

INTRODUCTION

In this edition of the SSNIT Investments Series, we continue with the ISSA guidelines on investment of social security funds focusing on Guideline 2; Investment Mission and Goals.

Guideline 2 communicates an organization or a pension fund's reason for investing and how it aspires to serve its key stakeholders. The mission and goals guide strategy development, help communicate purpose for investing and inform the objectives set to determine whether the adopted strategy is on track. Members of the scheme want to know their contributions are managed well and will lead to future financial security for themselves and for their dependants. A well-written mission statement earns the trust of current and prospective members by defining goals that speak to this need.






Guideline – 2: Investment Mission and Goals

The investment mission and supporting goals are clearly defined and have commitment from the relevant stakeholders.






For social security institutions that have an investment mandate, legislation, policy or decree may establish the general direction of the investment policy and prescribe the types of investment instruments allowed. Furthermore, in order to maximize the long-term rate of return on reserves while at the same time mitigating investment risks and taking into account the nature of liabilities, the range of instruments allowed for investment has to be sufficiently diversified.

There are a number of factors that influence the investment strategy of an institution including the security of investments, expected rates of return, cash flow issues and the nature of the liabilities of the organization. For institutions using external managers, the missions and goals are clearly defined and communicated appropriately.

Structure

-  The board should adopt a clearly defined and well-specified investment mission agreed by all stakeholders with prioritization of each component.
-  The investment mission shall respect relevant legislation, policy or decrees.
-  Abstract objectives such as maximizing beneficiary welfare should be supplemented by second-order mission statements such that the board, management, investment committee and stakeholders inside and outside the institution are able to match the objectives with an accepted operational goal, such as a target annual real rate of return, while allowing for liabilities and subject to agreed risk parameters.
-  A set of supporting goals should be developed to support success of the investment mission.
-  The board should establish the investment time horizon in the investment mission. This should balance the advantages of a long time horizon, understanding of the need to be able to act swiftly and decisively when opportunities arise, and the need for measured responses to short-term changes in conditions and performance.

Mechanism

-  The investment mission should be complemented by explicit goals that specify financial “success” over defined time periods.
-  The investing institution’s resources should be aligned with the importance of each component of the mission, with frequent references to the priorities set out in the mission.
-  The investment process should be framed by reference to a risk budget aligned to the investing institutions goals incorporating an appropriate and integrated view of return and risk.
-  When an institution uses an external body for investment, a document clearly setting out the mission and goals of the institution should be drawn up and communicated to the external manager(s). When these goals change, this should be reflected in an updated document.
-  A clear belief system should be established with regard to why a long-term approach to investment is important and creates value, coupled with recognition that there will be short-term opportunities that present themselves and require a swift and decisive response from the management or investment committee.

CONCLUSION

It has been established that, investment mission statement encapsulates an enterprise’s core values and beliefs. In addition to expressing a firm’s goals and objectives, an effective mission statement also provides operational and service standards for employees to follow to achieve the goals and objectives. When employees know what is expected of them, they enjoy a greater sense of purpose, and can better focus on daily tasks that will help them realize role and organization-related goals.

The next edition of the SSNIT Investment Series will focus on the first two guidelines under Investment Governance Structures: Bodies and their responsibilities and Fiduciary responsibilities.