a₹tha

A NEWSLETTER OF THE FINANCE LAB

August 2020, Volume 6, Issue 2

8th Anniversary Issue

INDIAN INSTITUTE OF MANAGEMENT
CALCUTTA

INDIAN INSTITUTE OF MANAGEMENT CALCUTTA

FRTl
Financial Research & Trading Laboratory

ALUMNI CORNER

Demystifying Investment Opportunities for Retirement Fund

Varsha V. Pawar

Varsha V. Pawar is an alumna of IIM Calcutta Executive Education (2016-17, EPAF – Batch XI) and a Chartered Accountant. She has various Finance certifications to her credit over the years. She started her career with Tata Group after completing her CA. She is associated with the Group for approx. 18 years now. She has vast experience in the Treasury and Finance field, varying from Fund management and Fund placement- cash and liquidity, fixed income investments, Fund raising through IPO/ Rights issuances/ private placements/ Borrowings etc. and writing covered calls. She was a core team member for Tata Consultancy Services Limited, IPO in 2004.

As per Indian culture every individual is inculcated with the habit of saving money from early childhood. When the person takes up employment in an organization a part of his salary gets deducted as his/her contribution towards Provident Fund (PF). At the time of retirement, the amount accrued in the his/her PF is handed over to the employee as his/her social security. This article gives an insight on investment avenues that are used to generate a return on our savings and multiply the retirement fund of every employee over the years. The contribution of provident fund and interest thereon forms the retirement corpus of the individual. Further, this article throws light on how fund management activity can be carried out by a PF Trust.

Efficiencies in fund management of a PF can be evaluated with the surplus generated by the PF, whether the PF Trust can credit the employee PF account by the pay-out rate declared by Employees' Provident Fund Organisation (EPFO). The EPFO is one of the world's largest social security organizations and a retirement body that provides social security in India to the salaried class. It is similar to a 401 (k) plan which provides social security to employees in the US. The features of provident fund in India and 401(k) plan may vary. The guiding principle of the PF can be summed as safety, returns, and liquidity. Safety by investing in safe assets as permitted, returns which can be measured by being able to match EPFO pay-out rate and liquidity being assessed fund management skills of the investment officer managing the PF.

As per the Provident Fund Act, 1952 (the Act) an employer with 20 or more employees is under an obligation to register under the said Act and start a provident fund scheme for its employees. As per the Act, once an individual joins an organization, the employee contributes 12 % of the basic salary (plus dear allowances if any) towards provident fund. Similarly, the employer should be able to contribute an equivalent percentage i.e. 12% as the employer's contribution. Of this, 3.67% is the employer's contribution towards provident fund and balance 8.33% is the contribution to Employees Pension Scheme.

The employer may transfer the monthly provident fund contribution to the Employees' Provident Fund Organisation (EPFO) or manage the investment of the provident fund contribution in-house. In case, an employer decides to manage the provident fund in-house, the employer will have to set up a Trust entrusted with the responsibility of the management of the retirement benefits of its employees. This is done through the Board of Trustees who manage the day-to-day affairs of the Trust.

The investment of the surplus funds has to be as per the Investment Pattern prescribed by the Ministry of Labour and Employment. On 29th May 2015, the Ministry of Labour and Employment notified the prescribed investment pattern for investing the retirement funds of the employees. Irrespective of whether the employer manages the retirement corpus through its Trust or gives the fund management to EPFO, both are obligated to follow the Government prescribed Investment pattern.

The Employees Provident Fund money is sovereign-backed, and the interest earned is tax-free. Provident Fund enjoys the EEE (exempt-exempt-exempt) status. The employee's contribution is tax-deductible under Section 80C of the Income Tax Act, 1961. Hence, the money invested, the interest earned, and the money the employee eventually withdraws after the mandatory specified period (5 years) are exempt from income tax.

There have been major changes in the Investment pattern which was introduced in May 2015. The applicable Investment Pattern went through severe criticism from trade unions (Economic Times article Jun 2014 and others also) due to the introduction of investment in equity and equity-related instruments. However, the investment pattern was approved and is now is the applicable Investment Pattern for provident fund contributions.

Summarised investment pattern is as below:

Category of Investment	Description	Minimum investible (%)	Maximum investible (%)
I	Govt Securities and related instruments	45	65 ^
II	Debt Instruments and related investments	20^	45
III	Short-term Debt Instruments and Related Investments	0	5
V	Equities and Related Investments	5	15
VI	Asset-Backed, Trust Structured and Miscellaneous Investments	0	5

^ as amended from time to time

This pattern applies to the investible surplus for the year. How is investible surplus determined? The investible surplus is the provident fund contributions plus the interest inflows on the investment of the Trust so far plus the maturity proceeds of the existing portfolio less the outflows (i.e. pay-out obligations). Outflows are pay-outs towards retirement (settlements) or if the employee leaves the current organization, he would transfer the accumulated PF funds to his new organization. This is referred to as transfer out. The Act permits withdrawal for specific purposes only, such as education, marriage, housing loan, and medical reasons; this is referred to as non-refundable withdrawals. Primarily these are the only outflows – settlements, transfer outs, and non-refundable withdrawals. A PF Trust does not bear any expenses, the expenses are borne by the employer. These are reimbursed by the employer and typically would include audit fees/ bank charges.

Under Category I of Investment: Government Securities and related instruments:

The permissible investment papers are securities issued by the Government of India (GOI) and State Government. GOI issues securities to raise funds, and these securities can be subscribed by Provident Fund Trust. Similarly, State Governments also raises funds to meet their respective state finances, and this is done by issue of State Deployment Loans (SDL). Yields on a GOI paper is lower than that of SDL – GOI papers carry zero risks. The borrowings of the state, education, infrastructure, etc. would determine the quality of the State which would in turn determine the yield of SDL.[13]

Extracts from Negotiated Dealing System – Order Matching (NDS – OM), gives a perspective of yields for GOI /SDL (across states)

[13] Further reading of quality of state is available at www.rbi.org.in/Scripts/Annualpublications.

Market Session Open As on Jul 8, 2020 11:58:17 AM IST

Reserve Bank of India NDS - OM Negotiated Dealing System

Order Matching Segment

CG Mkt. Watch | SG Mkt. Watch | T-Bills Mkt. Watch | WI Mkt. Watch | Odd Lot Mkt. Watch | Market by Price | Individual Trades | Reported Deals | Mkt. Liquidity Indicators | Active Member List

CG S 2033 116.9000 6.3418 T 11:56:48 ◆ 06.45 GS 2029 103.9700 5.8854 T 11:56:31 ◆ 06.57 GS 2033 102.9000 6.2466 G 11:56:29 ◆ 05.22 GS 2025 101.1000 4.9650 G 11:56:29 ◆ 06.19 GS 2034 100.1500

SG/TB 100.5000 6.5111 T 11:56:15 ◆ 091 DTB 27082020 3.0500 99.5922 T 11:55:53 ◆ 182 DTB 26112020 3.2600 98.7650 T 11:54:19 ◆ 06.58 MP SDL 2035 100.6500 6.5114 T 11:54:14 ◆ 06.56 AP SDL 2031 1

Refresh

:: Regular Market ::

YTM Curve

Security Description	Trades	TTA	Open	High	Low	LTP			LTY
05.79 GS 2030	1059	13675.00	100.0000	100.2400	99.9425	100.1400	↓	G	5.7699
06.45 GS 2029	471	5460.00	103.8000	104.0400	103.7625	103.9700	↔	T	5.8854
06.19 GS 2034	345	3510.00	99.9200	100.2275	99.8750	100.1500	↔	G	6.1743
07.57 GS 2033	94	1765.00	111.1000	111.2200	111.0000	111.1500	↔	G	6.2966
05.22 GS 2025	64	1100.00	101.1200	101.1200	100.9900	101.1000	↔	G	4.9650
07.27 GS 2026	47	560.00	109.3500	109.4500	109.2800	109.4500	↑	T	5.3366
06.18 GS 2024	39	555.00	105.0000	105.0725	104.9950	105.0725	↔	G	4.8617
07.26 GS 2029	44	470.00	108.4500	108.6000	108.3450	108.5600	↓	T	5.9630
06.79 GS 2027	22	385.00	106.1500	106.3200	106.1500	106.2600	↓	G	5.6726
07.59 GS 2026	14	295.00	110.2900	110.3400	110.2700	110.3400	↑	T	5.3941
07.17 GS 2028	17	240.00	107.7500	107.9600	107.7500	107.9500	↓	G	5.8451
08.26 GS 2027	6	225.00	114.1000	114.1300	114.1000	114.1300	↔	T	5.7930
06.68 GS 2031	26	215.00	103.9000	104.2000	103.9000	104.2000	↔	G	6.1537
08.24 GS 2033	10	190.00	116.7000	116.9000	116.7000	116.9000	↑	T	6.3418
07.32 GS 2024	13	175.00	108.4500	108.5800	108.4500	108.5500	↔	G	4.6787
Total	**2452**	**31560.00**							

1 2 3 4 5

:: Odd Lot ::

¥ NDS OM- ccil.com

In the above extract, one may observe the following:

- All the papers under this Tab are Government papers.
- 5.79 GS 2030 – the 10YR GOI Security, LTY 5.7699% semi-annualised (5.85% annualised)
- Maximum trades and most liquid from the entire lot.
- LTY (represents the last traded yield).
- Yield in the above table is all semi annualized yield.

The other papers that can be invested under Category I are the SDL. Extract of the same is in the next table, which shows:

- All the papers under this Tab are SDL.
- MH represents papers issued by Maharashtra state, GJ represents papers issued by Gujarat state, and so on.
- Interest rate differential is due to the quality of state, and the tenor for which the paper is issued.
- Bid-ask spread indicates the liquidity of the paper.for 5.79 GS 2030 – the 10YR Gsec, LTY 5.7699% semi- annualised (5.85% annualised).
- Yield in the above table is all semi annualized yield.

Market Session Open | As on Jul 8, 2020 11:58:40 AM IST

Reserve Bank of India | NDS - OM | Negotiated Dealing System | Order Matching Segment

Home Page | CG Mkt. Watch | T-Bills Mkt. Watch | WI Mkt. Watch | Odd Lot Mkt. Watch | Market by Price | Individual Trades | Active Member List

State Government Market Watch

Security Description	Maturity Date	Bid Amt. (Cr.)	Bid Yield	Bid Price	Offer Price	Offer Yield	Offer Amt. (Cr.)	LTP	LTY	LTA	TTA (Cr.)
06.57 MH SDL 2031	03/06/2031	5.00	6.4514	100.9100	100.9500	6.4463	10.00	100.9500	6.4463	5.00	170.00
08.05 GJ SDL 2029	27/03/2029	0.00	0.0000	0.0000	110.5000	6.4538	10.00	110.2775	6.4855	25.00	125.00
08.53 MH SDL 2020OCT	27/10/2020	0.00	0.0000	0.0000	0.0000	0.0000	0.00	101.4975	3.4129	20.00	80.00
08.10 WB SDL 2025	28/01/2025	0.00	0.0000	0.0000	0.0000	0.0000	0.00	110.1075	5.5555	5.00	70.00
08.55 UP SDL 2020OCT	27/10/2020	0.00	0.0000	0.0000	0.0000	0.0000	0.00	101.5075	3.3996	5.00	65.00
06.56 AP SDL 2031	08/07/2031	5.00	6.4700	100.7000	100.9000	6.4445	5.00	100.8000	6.4572	25.00	60.00
06.60 TN SDL 2030	10/06/2030	5.00	6.4609	101.0000	101.1000	6.4472	30.00	101.0000	6.4609	25.00	25.00
06.50 AP SDL 2030	08/07/2030	10.00	6.4410	100.4300	0.0000	0.0000	0.00	100.4700	6.4355	5.00	20.00
06.65 PN SDL 2050	08/07/2050	10.00	6.6068	100.5600	101.0000	6.5732	10.00	100.5600	6.6068	10.00	20.00
06.58 MP SDL 2035	08/07/2035	5.00	6.5272	100.5000	0.0000	0.0000	0.00	100.6500	6.5114	5.00	15.00
07.59 KA SDL 2027	15/02/2027	0.00	0.0000	0.0000	0.0000	0.0000	0.00	107.0000	6.2765	5.00	10.00
07.37 MH SDL 2026	14/09/2026	0.00	0.0000	0.0000	0.0000	0.0000	0.00	106.9500	6.0049	10.00	10.00
06.64 TS SDL 2050	08/07/2050	0.00	0.0000	0.0000	0.0000	0.0000	0.00	100.6500	6.5900	10.00	10.00
09.19 KL SDL 2024	28/05/2024	0.00	0.0000	0.0000	0.0000	0.0000	0.00	113.1000	5.4044	5.00	5.00
08.01 TN SDL 2026MAY	11/05/2026	5.00	6.0673	109.4200	109.7500	6.0031	5.00	109.4200	6.0673	5.00	5.00
07.59 UP SDL 2027	25/10/2027	20.00	6.3311	107.2500	107.5500	6.2814	5.00	107.2500	6.3311	5.00	5.00
06.58 JK SDL 2030	08/07/2030	5.00	6.5111	100.5000	100.9000	6.4564	10.00	100.5000	6.5111	5.00	5.00
06.58 KA SDL 2030	03/06/2030	0.00	0.0000	0.0000	0.0000	0.0000	0.00	100.5900	6.4971	5.00	5.00
06.24 TS SDL 2026	27/05/2026	0.00	0.0000	0.0000	0.0000	0.0000	0.00	101.5000	5.9326	5.00	5.00
06.67 RJ SDL 2050	01/07/2050	10.00	6.6158	100.7000	0.0000	0.0000	0.00	100.7500	6.6120	5.00	5.00
07.05 TS SDL 2027	24/07/2027	0.00	0.0000	0.0000	0.0000	0.0000	0.00	104.1500	6.3102	5.00	5.00
07.16 MH SDL 2026	28/09/2026	5.00	6.1769	105.0000	0.0000	0.0000	0.00	105.9000	6.0066	5.00	5.00
07.20 AP SDL 2029	23/10/2029	0.00	0.0000	0.0000	105.5000	6.4033	5.00	0.0000	0.0000	0.00	0.00
07.22 TN SDL 2028	30/10/2028	0.00	0.0000	0.0000	105.5300	6.3511	10.00	0.0000	0.0000	0.00	0.00
07.23 KL SDL 2029	30/10/2029	0.00	0.0000	0.0000	105.6000	6.4196	5.00	0.0000	0.0000	0.00	0.00

1 2 3 4

This page will be automatically refreshed. | Source: NDS-OM hosted at CCIL

¥ NDS OM- ccil.com

Under Category II of Investment: Debt Instruments and related investments

The following are the key features that the debt security should have to qualify for investment by a PF Trust:

- Listed paper or proposed to be listed
- Residual maturity of not less than 3 years
- Dual rated
- Fixed deposits placed with bank qualify under this category, however, the following criteria are required to be met before placing deposits with banks
  - Should have declared profits in the preceding 3 years
  - Should have maintained Capital to Risk-weighted assets ratio of 9% or as prescribed by RBI from time to time
  - Non-performing assets should be less than 4%
  - The minimum net worth of not less than 200 crores.

The below extract gives bond yields which are traded;

bricsonline.net/bonds/BondsTradedToday

New folder Tata Mutual Fund N... Reliance ETF India Index Composition... Bonds Traded Today Black Scholes Calcu... NSE - National Stoc...

Corporate Bond Reporting on NSE Reporting Platform as of 08-07-2020 11:55:04

Table B1: Corporate Bond trades in listed bonds

ISIN	Description	Weighted Avg. Price	Weighted Avg. Yield %	No Of Trades	Trade Value (Crs)	Last Traded Price	Last Traded Yield %
INE081A08165	TATA STEEL LIMITED 11.8 NCD PERPETUAL FVRS10LAC	101.8124	9.2000	1	1.00	101.8124	9.2000
INE683A08051	THE SOUTH INDIAN BANK LTD. SR I 13.75 BD PERPETUAL FVRS1LAC	101.0000	13.3700	1	0.40	101.0000	13.3700
INE572E09429	PNB HOUSING FINANCE LTD SR-XXXII 7.8 LOA 07MY21 FVRS10LAC	98.0223	10.3500	1	0.20	98.0223	10.3500
INE941D07190	SIKKA PORTS & TERMINALS LIMITED SR PPD 11 7.20 LOA 16JU23 FVRS10LAC	103.1568	5.9925	1	5.00	103.1568	5.9925
INE540P07152	U.P. POWER CORPORATION LIMITED SR-IV-E 8.48 BD 14MR25 FVRS10LAC	99.1793	8.9910	1	5.00	99.1793	8.9910
INE245A08042	THE TATA POWER COMPANY LIMITED RR NCD 21AG72 FVRS10LAC	105.0032	4.2500	2	0.20	104.6103	8.5000
INE062A08223	STATE BANK OF INDIA SERIES II 8.50 BD PERPETUAL FVRS10LAC	104.9230	7.8987	3	0.50	103.5200	7.5000
INE540P07251	U.P. POWER CORPORATION LIMITED SR-I-H 9.75 BD 20OT26 FVRS10LAC	93.7618	11.6820	3	0.50	93.5072	11.7500
INE906B07EI0	NATIONAL HIGHWAYS AUTHORITY OF INDIA SR IIA 7.35 BD 11JN31 FVRS1000	123.5148	4.4900	1	1.00	123.5148	4.4900
INE733E07JG5	NTPC LIMITED SR-3A 8.66 BD 16DC33 FVRS1000	141.1935	4.5000	1	1.00	141.1935	4.5000
INE756I07CD9	HDB FINANCIAL SERVICES LIMITED SERIES A/0(ZC)/124 NCD 29OT21 FVRS10LAC	123.0697	5.1000	2	150.00	123.0697	5.1000
INE540P07228	U.P. POWER CORPORATION LIMITED SR-I-E 9.75 BD 20OT23 FVRS10LAC	96.9087	11.4680	2	0.50	97.0100	11.4200
INE020B08CL6	REC LIMITED SR 190B 6.32 BD 31DC21 FVRS10LAC	102.2048	4.7200	1	25.00	102.2048	4.7200
INE860H07FP8	ADITYA BIRLA FINANCE LIMITED SR-B1 NCD 18MY21 FVRS10LAC	121.5555	6.1000	1	100.00	121.5555	6.1000
INE039A09PO2	IFCI LIMITED 58(C) 9.9 BD 05NV32 FVRS25000 LOA UPTO 04DC12	92.5900	11.0000	1	0.10	92.5900	11.0000
INE160A08076	PUNJAB NATIONAL BANK 9.15 BD PERPETUAL FVRS10LAC LOA UPTO 12MR15	96.9823	9.9610	6	1.90	96.6696	10.0500
INE692A08029	UNION BANK OF INDIA SR-XX 9.5 BD PERPETUAL FVRS10LAC	100.3733	9.3319	5	1.30	101.2819	9.1215
INE572E09486	PNB HOUSING FINANCE LTD SR-XXXVI OPT B 7.59 LOA 27JL22 FVRS10LAC	95.2706	10.2500	2	0.20	95.2706	10.2500
INE140A07476	PIRAMAL ENTERPRISES LIMITED SR4 9.70 NCD 24DC20 FVRS10LAC LOAUPTO21MY19	99.8391	10.0000	1	1.00	99.8391	10.0000
INE848E07BM6	NHPC LIMITED SR AB STRPP D 6.80 LOA 24AP29 FVRS2LAC	102.5680	6.4000	1	4.70	102.5680	6.4000
INE020B08CX1	REC LIMITED SR 199 7.96 BD 15JU30 FVRS10LAC	104.0989	7.3563	3	8.90	104.0800	7.3589
INE036D08015	THE KARUR VYSYA BANK LIMITED TR A 11.95 BD 12JN29 FVRS1LAC	100.9500	11.5650	2	1.00	101.0000	11.5500
INE020B08CO0	REC LIMITED SR GOI-IX 7.14 BD 02MR30 FVRS10LAC	104.1843	6.6500	1	5.00	104.1843	6.6500
INE01E708032	ANDHRA PRADESH CAPITAL REGION DEVELOPMENT AUTHORITY STRPPs C 10.32 BD 16AG26 FVRS2LAC	99.7770	10.7720	6	15.30	99.7896	10.7700
INE540P07343	U.P. POWER CORPORATION LIMITED SR-II-H 10.15 BD 20JN27 FVRS10LAC	94.8789	11.8000	1	0.30	94.8789	11.8000
INE028A08182	BANK OF BARODA SR XI 8.99 BD PERPETUAL FVRS10LAC	103.1000	8.1000	1	0.10	103.1000	8.1000
INE906B07FE6	NATIONAL HIGHWAYS AUTHORITY OF INDIA SR III 7.17 BD 23DC21 FVRS10LAC	104.0702	4.2000	1	25.00	104.0702	4.2000
INE115A07OM1	LIC HOUSING FINANCE LIMITED 392 7.79 NCD 18OT24 FVRS10LAC LOAUPTO25FB20	103.5000	6.8000	1	4.00	103.5000	6.8000
INE540P07335	U.P. POWER CORPORATION LIMITED SR-II-G 10.15 BD 20JN26 FVRS10LAC	95.6580	11.7500	2	0.20	95.6580	11.7500
INE001A07RG8	HOUSING DEVELOPMENT FINANCE CORPORATION LTD SR-U-001 9.05NCD6OT28 FVRS10LAC LOAUPTO24OT18	112.7909	6.9500	1	5.00	112.7909	6.9500

¥bricsonline

The above extract gives a fair idea of the risk-return on a corporate bond. It is simple thumb rule, "higher the risk higher the return".

Under Category III of Investment: Short-term Debt Instruments and Related Investments

This is an optional category, as the minimum prescribed investment under this category is 0%. The instruments qualifying under this category are liquid mutual funds, commercial papers, certificates of deposits, and bank deposits of a tenor less than 1 year.

Under Category IV of Investments: Equity and related instruments

The permitted instruments under this category are as below:

- Equity shares listed on either National Stock Exchange (NSE) or Bombay Stock Exchange (BSE) with a market capitalisation of not less than Rs 5000 crs
- Derivatives with the shares as underlying traded in either of the exchanges, NSE/BSE
- Units of equity mutual fund, where the exposure to equity is not less than 65%
- Exchange traded fund that replicates either the BSE or the NSE Index

Under Category V: Asset-Backed, Trust Structured and Miscellaneous Investments

This again is an optional category where the PF Trust may opt for 0% of the investment of its investible surplus

Following securities qualify under this category of investment:

- Commercial mortgage-based Securities or Residential mortgage-based securities.
- Units of securities issued by the Real Estate Investment Trusts regulated by SEBI
- Asset-Backed Securities regulated by SEBI
- Units of Infrastructure Investment Trusts regulated by SEBI

Not many corporates have raised funds issuing securities which qualify under Category V. ILFS had raised some funds in the past which qualified the investment under this category

Investment Strategy

Now that the regulatory provisions are explained, I would touch upon, the investment strategy that an Investment officer/Fund manager managing the investments of PF Trust could follow. The strategy normally reflects the Fund manager's views on the market, his philosophy (aggressive/ passive/ safe bet). Each investment decision of the Fund manager/ Investment Officer will have to be approved by the Trustees who ideally should have safety as their guiding principle. They are entrusted with the responsibility of safekeeping the employees' retirement fund. Loss of revenue to PF Trust on account of incorrect investment decision/fraud etc is to be borne by the employer.

A PF Trust under Investment Category I may prefer investing in GOI securities, though the yield maybe a little lower than a State Development Loan paper (SDL). Here the guiding philosophy is the safety of the investment. Normally the yield difference is 50- 75 bps (One basis point is equivalent to 0.01%) for a like tenor. The Trust may also invest in SDLs issued by states with good credit quality. This may help in enhancing the overall portfolio yield. Category I has the highest percentage allocation of the investible surplus.

Under the Investment Category II, which permits investment in corporate securities, the investment manager must do a thorough analysis of the promoters/ Balance sheet analysis/ track news items, etc. The investment ,manager may invest for the bare minimum mandated by the pattern i.e. not less than three years. Higher tenor in corporate bonds could be avoided unless exceptionally good credit. Preferably stay away from perpetual, sub-debt, unsecured papers, etc.

Under the Category III, the PF Trust may invest in liquid mutual funds. The investment manager must do a thorough analysis of the liquid fund portfolio also. Preferably stay away from commercial papers or use the same checks and balances viz. promoters, balance sheet analysis, etc.

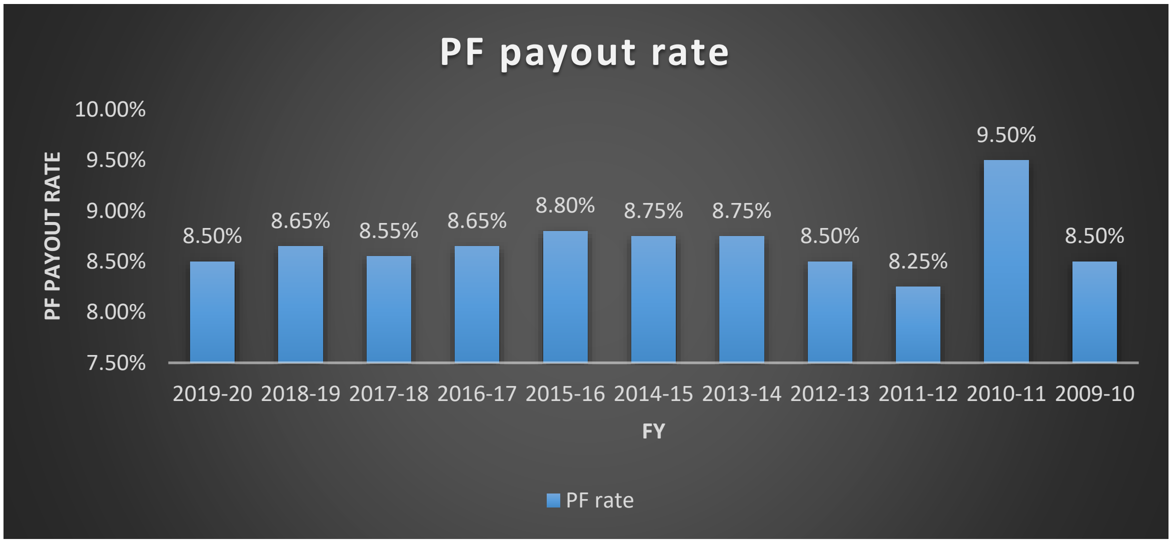
Under Category IV, Equity and related instruments, it may be safer to invest in Exchange Traded Fund (ETF), corporate officers managing the investments may not have the skill sets to do a thorough analysis for equity investment. So the Trust may adopt a NIFTY or a Sensex ETF. It is easier as these ETFs replicate the NIFTY 50 index or the Sensex. The Nifty 50 comprise of the Top 50 companies, so automatically the ETF replicates the investment in the Top 50 companies by buying an ETF unit.

Under Category V, still not fully developed in India so I may not express my views. Not analyzed a lot of papers under this category.

The investment strategy is largely dependent upon the expected pay-out rate by EPFO, as any PF Trust will have to match the rate declared by EPFO even though they may decide to manage investments in- house. They may opt to pay higher than the mandated. Since the Investment pattern permits the sale of securities the Investment officer may book profits during the year depending on his view on interest rate/equity markets. Adequate care has to be taken as every sale faces reinvestment risk. The sale of securities is a good way to build a surplus for the PF.

Over the years, EPFO has declared PF pay-out rate depending upon the interest outlook over the years. Based on the pay- out rate, I have prepared the pay-out graph to analyse the interest credited to employees' provident fund account each year. [14] EPFO pay-out rates for last 10 year are as follows (PF pay-out rate for FY 20-21 is not yet declared):

[14] The provident fund pay-out rate data is taken from https://www.epfindia.gov.in/site_docs/PDFs/MiscPDFs/InterestRate_OnPFAccumulationsSince1952.pdf



I now assess how the performance of an investment officer managing the PF may be evaluated. Primarily his performance would be assessed on surplus generated by the PF fund, portfolio yield, whether the PF Trust is able to match EPFO pay-out rate or the Trust can pay higher interest credit than mandated by EPFO.

Having explained the Investment Pattern that is required to follow by either EPFO or a PF Trust (which has decided to manage the funds in house) and also explained the investment strategy that may be adopted by the PF Trust, it is entirely the decision of the PF Trust (provided it gets approvals from EPFO) to manage PF funds in-house. This decision will be crucial as it is necessary that the investment officer has the necessary skill sets and expertise to safeguard the retirement fund of its employees.

^ References to Economic Times article

^ PF Act and related guidelines

^ NDS OM- ccil.com

^ bricsonline

****