Superannuation Fund in PNG
Past, Present and Future

Presented by:
Garry Tunstall (CEO)
Date: 3 November 2016
AN OVERVIEW

Nambawan Super Limited (‘the company’):

- Is a licensed independent trustee company;
- Fund was established on the 1st January, 1972;
- 1984 - the Fund became a statutory corporation;
- 1991 - State Services and Statutory Authorities Superannuation Fund;
- 1993 - Public Officers Superannuation Fund (POSF);
- 2000 - Superannuation General Provisions Act = POSF Limited as Trustee of the Fund and the Bank of Papua New Guinea as regulator. POSF Limited rebranded to **Nambawan Super Limited** in June 2007; and
- Currently 5.6 Billion Kina Fund.
OUR MISSION & VISION

VISION

“Long kamap nambawan pren bilong yu na famili; halivim, strongim na lukautim moni gaden bilong yu nau na bihain.”

MISSION

“ To provide financial security for our members and their families”
Financial Performance and Perspectives
## Fund Financial Performance

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Investment Income</td>
<td>K(m)</td>
<td>241</td>
<td>313</td>
<td>72</td>
<td>412</td>
<td>477</td>
<td>422</td>
<td>393</td>
</tr>
<tr>
<td>Total Expense</td>
<td>K(m)</td>
<td>35</td>
<td>36</td>
<td>34</td>
<td>45</td>
<td>50</td>
<td>56</td>
<td>53</td>
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<tr>
<td>Income Tax Expense</td>
<td>K(m)</td>
<td>16</td>
<td>14</td>
<td>14</td>
<td>16</td>
<td>18</td>
<td>27</td>
<td>59</td>
</tr>
<tr>
<td>Net Profit after Tax</td>
<td>K(m)</td>
<td>190</td>
<td>263</td>
<td>24</td>
<td>351</td>
<td>411</td>
<td>339</td>
<td>281</td>
</tr>
</tbody>
</table>
Fund – Net Profit After Tax

Kina in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>190</td>
</tr>
<tr>
<td>2010</td>
<td>263</td>
</tr>
<tr>
<td>2011</td>
<td>24</td>
</tr>
<tr>
<td>2012</td>
<td>351</td>
</tr>
<tr>
<td>2013</td>
<td>411</td>
</tr>
<tr>
<td>2014</td>
<td>388</td>
</tr>
<tr>
<td>2015</td>
<td>280</td>
</tr>
</tbody>
</table>
## Fund Financial Performance

<table>
<thead>
<tr>
<th>BALANCE SHEET</th>
<th>UNIT</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets</strong></td>
<td>K(m)</td>
<td>3,093</td>
<td>3,235</td>
<td>3,743</td>
<td>4,268</td>
<td>4,764</td>
<td>5,171</td>
</tr>
<tr>
<td><strong>Net Asset Growth</strong></td>
<td>%</td>
<td>9</td>
<td>5</td>
<td>15</td>
<td>14</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>K(m)</td>
<td>79</td>
<td>47</td>
<td>47</td>
<td>47</td>
<td>91</td>
<td>102</td>
</tr>
<tr>
<td><strong>Reserves as a % of Net Assets</strong></td>
<td>%</td>
<td>2.54</td>
<td>1.46</td>
<td>1.24</td>
<td>1.1</td>
<td>1.9</td>
<td>2</td>
</tr>
<tr>
<td><strong>Retirement Savings Account</strong></td>
<td>K(m)</td>
<td>61</td>
<td>81</td>
<td>89</td>
<td>107</td>
<td>114</td>
<td>133</td>
</tr>
</tbody>
</table>
Fund – Net Assets Growth

<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>2010</td>
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<td>2014</td>
<td>4,764</td>
</tr>
<tr>
<td>2015</td>
<td>5,171</td>
</tr>
</tbody>
</table>
Fund – Reserves Growth

Year | Reserves Growth
--- | ---
2009 | 73
2010 | 79
2011 | 47
2012 | 47
2013 | 47
2014 | 91
2015 | 102
## Fund Financial Performance

### Key Highlights

<table>
<thead>
<tr>
<th>RETURN TO MEMBERS</th>
<th>UNIT</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Return on Funds Employed</td>
<td>%</td>
<td>13.3</td>
<td>7.9</td>
<td>6.8</td>
<td>11.79</td>
<td>10.3</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Interest Credited to Members</td>
<td>%</td>
<td>10</td>
<td>10</td>
<td>2</td>
<td>11</td>
<td>11.25</td>
<td>7</td>
<td>5.8</td>
</tr>
<tr>
<td>Headline Inflation Rate</td>
<td>%</td>
<td>5.7</td>
<td>7.2</td>
<td>6.9</td>
<td>1.6</td>
<td>4.7</td>
<td>6.6</td>
<td>6.4</td>
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<tr>
<td>Real Return to Members</td>
<td>%</td>
<td>4.3</td>
<td>2.8</td>
<td>-4.9</td>
<td>9.4</td>
<td>6.55</td>
<td>0.4</td>
<td>0.6</td>
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</tbody>
</table>
Fund – Interest Credited to Members

- 2010: 10
- 2011: 2
- 2012: 11
- 2013: 11.25
- 2014: 7
- 2015: 5.8
## Comparison with PNG funds

<table>
<thead>
<tr>
<th>PNG FUNDS</th>
<th>Unit</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nambawan Super</strong></td>
<td></td>
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<td></td>
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</tr>
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<td>23</td>
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<tr>
<td>Net asset Value</td>
<td>K(b)</td>
<td>3.093</td>
<td>3.253</td>
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<td>4.764</td>
<td>5.171</td>
</tr>
<tr>
<td>Net Asset Growth</td>
<td>K(m)</td>
<td>263</td>
<td>160</td>
<td>490</td>
<td>525</td>
<td>495</td>
<td>407</td>
</tr>
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<td>Interest credited to Members</td>
<td>K(m)</td>
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<td>269</td>
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<tr>
<td><strong>Nasfund</strong></td>
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<tr>
<td>Net Profit after Tax</td>
<td>K(m)</td>
<td>295</td>
<td>-8.836</td>
<td>223</td>
<td>331</td>
<td>258</td>
<td>151</td>
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<tr>
<td>Net asset Value</td>
<td>K(b)</td>
<td>2.221</td>
<td>2.388</td>
<td>2.779</td>
<td>3.357</td>
<td>3.719</td>
<td>3.936</td>
</tr>
<tr>
<td>Net Asset Growth</td>
<td>K(m)</td>
<td>442</td>
<td>167</td>
<td>394</td>
<td>578</td>
<td>362</td>
<td>217</td>
</tr>
<tr>
<td>Interest credited to Members</td>
<td>K(m)</td>
<td>207</td>
<td>255</td>
<td>227</td>
<td>301</td>
<td>264</td>
<td>266</td>
</tr>
<tr>
<td><strong>CTSL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit after Tax</td>
<td>K(m)</td>
<td>20.8</td>
<td>10</td>
<td>37.1</td>
<td>39.8</td>
<td>5.9</td>
<td>42</td>
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<tr>
<td>Net asset Value</td>
<td>K(b)</td>
<td>0.347</td>
<td>0.362</td>
<td>0.4</td>
<td>0.44</td>
<td>0.448</td>
<td>0.461</td>
</tr>
<tr>
<td>Net Asset Growth</td>
<td>K(m)</td>
<td>26</td>
<td>15</td>
<td>38</td>
<td>40</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Interest credited to Members</td>
<td>K(m)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Net Asset Value in Kina Billions

- **Nambawan Super**
  - 2010: 3.093
  - 2011: 3.253
  - 2012: 3.743
  - 2013: 4.268
  - 2014: 4.764
  - 2015: 5.171

- **Nasfund**
  - 2010: 2.221
  - 2011: 2.388
  - 2012: 2.779
  - 2013: 3.357
  - 2014: 3.719
  - 2015: 3.936

- **CTSL**
  - 2010: 0.347
  - 2011: 0.362
  - 2012: 0.4
  - 2013: 0.44
  - 2014: 0.448
  - 2015: 0.448
Net Asset Growth in Kina Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Nambawan Super</th>
<th>Nasfund</th>
<th>CTSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>263</td>
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<td>362</td>
<td>8</td>
</tr>
<tr>
<td>2015</td>
<td>407</td>
<td>217</td>
<td></td>
</tr>
</tbody>
</table>
Comparison with Australian Funds

5 year per annum ROR
2010-2014

Nambawan Super Limited
AON Master Trust
Australian Super
CSS Fund
HOSTPLUS
Retail Employees Super
State Super Retirement Fund
WA Local Government Super


NSL ROR per annum is calculated using the interest crediting rate plus reserves

There are significant challenges in...
Comparison with Australian Funds

10 year per annum ROR
2005-2014

NSL ROR per annum is calculated using the interest crediting rate plus reserves.
There are significant challenges.
Financial Governance of the Fund

- **Board of Directors**
  - Full Board of 9 Independent Directors

- **Audit and Risk Committee**
  - Quarterly review of Fund Performance
  - Independent Advisor on A&R Committee

- **Investment Committee**
  - Monthly review of Investments and Strategic Asset Allocation monitoring

- **BPNG Reviews – Assets and Administration**
  - Completed twice a year
  - Prudential Guidelines Administration

- **IRC Reviews**
  - Full Compliance audits undertaken
Taxation of Member Funds

- Fund is taxed at 25% on Prima Facie income (*Income Tax Act*).
- Members are taxed based on Time in Fund and Age at time of exit.
- Marginal Rates of Tax apply when Age in Fund < 5 years.
- Taxation is applied only on Employer Contributions and Interest Earned.
- Employee Contributions are after tax.
## Taxation benefits of salary sacrificing

<table>
<thead>
<tr>
<th>Age in Fund</th>
<th>Normal</th>
<th>Salary Sacrifice Arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In 5 years</td>
<td>In 10 years</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>Marginal</td>
<td>15%</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Salary Sacrifice</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Taxable salary</td>
<td>90,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Tax</td>
<td>37,226</td>
<td>33,066</td>
</tr>
<tr>
<td>Net After Tax</td>
<td>52,774</td>
<td>46,934</td>
</tr>
<tr>
<td>Salary Sacrifice (after tax)</td>
<td>-</td>
<td>8,522</td>
</tr>
<tr>
<td>Full Benefit</td>
<td>52,774</td>
<td>55,456</td>
</tr>
</tbody>
</table>

### Additional Interest earned

|             | 14693 | 21589 | 31722 | 31722 |
How we ensure Member Funds are safe:

- licensed fund (governed by Central Bank – Regulator).
- separate Fund Administrator.
- diversification of investments (portfolio of different assets including properties).
- professional people running the organisation.
How we ensure Accuracy and promptness in payments:

- Application submitted are run through the Employer Verification to ensure accurate disbursement of payments.
- Streamlined processes through technological enhancements.
- Applications in Case 360 (software application) have visibility throughout the entire process for each member.
How we ensure Accuracy in Member accounts:

- Provide updated member statements (mobile applications/sms).
- Compliance division checks for discrepancies with any Employer.
- Members have real-time access to their accounts through Acurity online.
How Employer Members can support efficiency:

- Provide accurate bio data.
- Have valid ID process to verify their employees.
- Automate remittance processes.
- Pay super contributions on time.
- Maintain Salary History cards.
- Ensure all employees have access to super online.
- Providing minimum bio data must be a prerequisite for employment.
PNG and Global Economy
PNG Economy

- Strong growth in 2015 amid the general slowdown in the global economy and the low commodity price environment coupled with a few domestic supply issues,
- Total real GDP grew by 11.8% in 2015 compared to 2014 growth of 13.5% while the 2016 Budget estimate was 9.9% and since been revised down to 2.2%,
- The major driver of this strong growth in 2015 was the ramp up of full-year LNG production (Source: PNG Treasury, 2016 MYEFO),
Recent downward revisions to growth indicate an economy that is struggling to cope with a decline in demand, and many businesses that NSL has interaction with tend to indicate that the economy is experiencing quite low levels of demand, and

However, the next LNG development will see some modest increase in growth, towards the end of the calendar year of 2017.
PNG growth is traditionally better than most economies, however has seen moderation of late.
savings in superannuation funds

NG GDP and Superannuation as a percentage of GDP

Source: World Bank database, NSL, NasFund, CTSL

GDP in million PGK (lhs)  % of Superannuation Saving to Total savings (rhs)

Date

PNG GDP (Million PGK)  Percentage of GDP in superannuation

0%  5%  10%  15%  20%  25%

-10,000  20,000  30,000  40,000  50,000  60,000

Comparison of GDP per capita

- Amongst PNG’s trading partners Australia has the largest GDP per capita, however has steadily declined following the downturn resource prices, amongst other things.
- PNG has experienced somewhat steady growth in GDP per capita over the last 10 years, however there is considerable scope for improvement.

Source: World Bank
Commodity Price Developments

Commodity prices low and appear to be stabilizing at historically low levels.

Source: Department of Treasury, Macroeconomic Policy Division
Global Economy: Recent Past

- Below average growth in global industrial production, manufacturing activity and global trade,
- Advanced economies have experienced a slow recovery in investment, from the GFC,
- Low economic growth across many countries, especially Europe and Japan, has been recorded,
- Unemployment has been gradually moderating, with some economies, such as the US, near full employment,

Source: RBA
Some stabilization in commodity prices has recently become evident,

Most central banks maintain a very easy monetary policy setting, and have maintained this setting for several years, and

Low global inflation is expected, where inflation is expected to remain below the target levels of many central banks around the world.

Source: RBA
Global Economy: China

A key component of the growth outlook is determined by the forecast for China, which is experiencing a substantial decline in private sector investment, as indicated in the enclosed graph, with the significantly declining blue line. While public sector investment is offsetting the decline in private sector investment, the collapse in private sector investment remains disappointing.

Source: RBA, August Statement on Monetary Policy, p.7
Global Economy: Outlook

- Growth in China is expected to gradually improve over the next few years, as current declines in private sector investment are gradually reversed,
- In other east Asian economies, the ongoing weakness in external demand conditions is likely to continue,
- European growth is expected to remain below trend, with deflationary conditions persisting, and with the ECB continuing to apply quantitative easing,

Source: RBA
Cont... Global Economy: Outlook

- Japan will continue to struggle to generate adequate inflationary outcomes, and adequate growth outcomes,
- The US economy is expected to grow at, or slightly above, the trend rate, over the next couple of years, and
- There is considerable risk that emanates from how the outcome of the UK referendum will impact the UK economy.

Source: RBA