

Highlights on GOSI's Investment Experience

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1. Introduction

The General Organization for Social Insurance (GOSI) is considered one of the largest institutional investors in the Kingdom of Saudi Arabia. Typically, investments of a social security fund (SSF) play a significant role in the financial sustainability of its scheme. In fact, GOSI has started, since its formation in 1973, undertaking different types of investments, ranging between domestic and International, such as bonds, equities, cash (time deposits), and real estate. Also, GOSI has participated in the formation of many financial, industrial, and service entities.

However, professional management of the fund is needed to ensure achieving target investment return, over the long run, which represents a major source of income for any SSF.

Accordingly, I will be highlighting GOSI's experience in managing its investment fund throughout this paper, more specifically, GOSI's experience in developing its Strategic Asset Allocation Plan (SAAP).

2. Investment Process:

Although GOSI is a semi-government organization, it enjoys both administrative and financial independence according to the Saudi Social Insurance Law. GOSI's board of directors which is composed of 11 members (representing related-government officials, employers, and contributors) has full authority to

undertake investment decisions. The board has established an investment committee of five board members to take responsibility of most of the investment-related authorities. Execution of investment plans is conducted by the following three departments.

- The Financial Investment Department.
- The Real-Estate Investment Department.
- Investment Studies Department.

3. GOSI's Strategic Asset Allocation Plan (SAAP):

GOSI has realized the need for developing a Strategic Asset Allocation Plan (SAAP) to enhance the performance of the portfolio by extending investments into a variety of asset classes. Hence, since 2002, GOSI has professionally outlined SAAP with consultation of well-experienced international investment advisors, taking into consideration the results of the actuarial study conducted on GOSI every three years. In fact, the process of drafting SAAP has gone through four stages;

- A. Objectives Setting: Defining the Funds' investment objectives, taking into consideration GOSI's risk tolerance and future cash flow requirements.
- B. Strategy Formulation: Deciding on the investment classes, strategies and investment guidelines that will achieve the fund's objectives in the most efficient way.
- C. Implementation: SAAP is implemented through either

1. Assigning appropriate in-house divisions to implement local equity, fixed income, and real-estate investments.
2. Or searching for reputable investment managers, with proven track records, to utilize international traditional and alternative investments.

D. Performance Review: Monitoring and taking corrective actions towards the performance of the investment portfolio through periodic evaluation conducted with the help of our investment advisor.

In 2006, SAAP was updated to accommodate the results of the latest actuarial study on GOSI. Thus, I would like to highlight the updated objectives and assumptions:

- GOSI targets a return of 7.3% per annum with a moderate risk tolerance that is comparable to similar institutional investors.
- Target solvency level is 110%-120% as it is a key financial measure for SSFs.
- Implementation of SAAP requires long-term time horizon to achieve the targeted return.
- GOSI's allocation to equity should be more diversified in terms of geography and managers. The risk of higher equity allocation can be further reduced by including diversifying assets such as hedge funds and private equity.

As of today, GOSI is moving successfully towards its investment objectives. The fund is currently investing, domestically, in cash, bonds, equity and real estate. Internationally, the fund has a wider range of investment classes that extends to private equity, hedge funds, and commodities.

4. **Risks & Mitigations:**

- **Manager Risk:** The risk of a manager's underperformance can be mitigated by:
 - Clearly define the manager's targets and responsibilities through investment guidelines.
 - Diversification of managers in terms of geography and strategy within an asset class.
 - Limiting the size of investment with each manager.
- **Macroeconomic Risk:** inflation and deflation risks could be minimized by allocating appropriate weight to inflation-hedging asset classes such as commodities and real estate.
- **Other risks:** There are several other types of risks that GOSI takes into consideration when making its investment decisions. Those are country, currency, interest rate, credit, and actuarial risks. Protection against such risks is enhanced through diversification and taking more conservative approach in evaluating investment opportunities.

5. Concluding Remarks:

As GOSI's strategic asset allocation plan (SAAP) has been implemented for seven years, the following closing remarks can be drawn;

- Strategic asset allocation provides social security funds with clear long-term investment plan, and it serves as a tool to balance assets with future liabilities.
- The role of asset allocation is to deliver a return consistent with both benefits and contribution levels.
- Risk management must ensure that the target return is feasible within a moderate level of risk.
- In order to ensure financial stability, the following must be achieved:
 - ✓ Asset allocation delivers a return, high enough, to meet the liabilities at the current contribution level.
 - ✓ Asset allocation must minimize risk through diversification by geography, asset class, and investment manager.
- Periodic reviews ensure that the strategic asset allocation plan efficiently maintains its objectives and be modified according to new updates.