TURKS AND CAICOS ISLANDS NATIONAL INSURANCE BOARD

INVESTMENT POLICY STATEMENT

TCI National Insurance Investment Policy Statement (IPS)
As Approved by Honourable Sharlene Cartwright-Robinson, Minister Responsible for National Insurance

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I MISSION STATEMENT

The Mission of the Turks and Caicos National Insurance Board (NIB) is to be fiscally prudent in the provision of dependable, transparent and excellent Social Security Services to Beneficiaries.

II STATEMENT OF PURPOSE

The National Insurance Board of The Turks and Caicos in accordance with the National Insurance Ordinance Cap. 137 of 1991, has established the following statement of investment policies and guidelines for the management of its Fund (the investment assets of the NIB). The purpose of this statement is to set out the investment philosophy and the objectives for the Fund and the strategy to be applied in the management of the Fund to achieve those objectives.

This document:

1. Sets out the investment philosophy, objectives, strategy and risk parameters for all fiduciaries.
2. Identifies the roles and responsibilities of those involved in the management of the Fund.
3. Establishes the target rates of return for the various asset classes and for the Fund in aggregate that are expected to be achieved over time.

In developing the Investment Policy Statement (IPS), the Investment Committee considered factors such as the following:

- the nature of the Fund's liabilities;
- the funded and solvency positions of the Fund;
- the net cash flow position of the Fund;
- the investment horizon of the Fund;
- the historical and expected capital markets returns;
- the benefits of investment diversification;
- the acceptable levels of risk and associated required returns;
- the availability of local investments that meet the appropriate investment criteria;
- the availability of local investment expertise and
- best practices in investment management

III DEFINITIONS

1. "Fund" shall mean the investment assets of the NIB.
2. "Investment Committee" shall refer to the sub-committee established by the Board of Directors to recommend strategies for the administration of the Fund as specified by the applicable Ordinance.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over the management, disposition or administration of the Fund.
4. "Investment Manager" shall mean any individual, group or entity, employed to manage the investments of all or part of the Fund.
5. "The Investment Consultant" is an individual or organisation retained to advise the Fund.
6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
7. "Investment Horizon" is the time period over which the investment objectives are to be met. While the true time horizon of the Fund is perpetual, the Fund seeks to attain the desired results over a full market cycle, typically 5 to 7 years. However, monitoring of investment

performance is on a quarterly basis and on a rolling 3 years basis. It is not expected that all investment objectives will be attained in each year. Over various time periods, investment advisors/managers may over or underperform relative to securities market indices. However, 3 years of underperformance would not be acceptable.

IV INVESTMENT MISSION, PHILOSOPHY & OBJECTIVES

MISSION

The mission of the Fund is to provide a reliable source of assets to pay promised benefits. A second-order mission is to preserve the purchasing power of the Fund's assets and to achieve long-term growth of capital.

PHILOSOPHY

Integral to this Investment Policy Statement is a set of investment beliefs that reflect the overall strategy of the Fund and underpins all investment policies of the Fund:

- Though social security systems are typically partially funded systems, we believe in prudent investing toward closing the funding gap as far as it is practically possible.
- The Fund's perpetual nature allows it to take a long-term view in setting current investment policy.
- Strategic and tactical asset allocation account for the majority of investment returns.
- Prudent diversification can reduce risk and increase return.
- The Fund maintains a bias toward active management which in combination with passive mandates aim to surpass the portfolio benchmark.

INVESTMENT OBJECTIVES

The primary objective of the Fund is to outperform on an annual basis, net of cost, a blended custom benchmark based on the current asset allocation policy. A secondary objective is to earn at least an average annual total return of US CPI plus 3%.

V RISK

The Fund should be managed conservatively with appropriate aversion to risk/volatility.

The NIB realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Fund understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment philosophy as set out in this Investment Policy Statement. The NIB defines risk as the potential volatility (fluctuation) of investment returns.

The risk exposure of individual investment managers, as measured by various metrics such as the Sharpe ratio and the Standard Deviation of its returns, will be evaluated on a quarterly basis. The risk profiles of the investment manager(s) will be evaluated relative to an appropriate peer group.

The principal risks that impact the Fund are as follows:

Systematic (Market) Risk:

- Capital Market Risk - the risk that the investment returns associated with the Investment Committee's strategic asset allocation are not sufficient to provide the required returns to meet the NIB's investment objectives.

- Interest Rate Risk - the chance that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

- Foreign Exchange risk – the risk of foreign currency movements adversely affecting returns

Non-Systematic (Diversifiable) Risk:

- Investment Style Risk – the risk associated with an active management investment style, such as biasing the portfolio to large companies, small to mid-sized companies, 'value' stocks or 'growth' stocks.

- Tactical/Strategic Risk – the risk associated with the performance difference between 1) the target policy allocations for the NIB's asset categories and 2) the actual allocations.

- Credit Risk - the possibility of a loss occurring due to the financial failure to meet contractual debt obligations.

- Political Risk - the financial risk that a country's government will suddenly change its policies.

- Headline Risk - the possibility that a news story will affect the value of an investment.

VI INVESTMENT GUIDELINES

MONEY MARKET INSTRUMENTS

Cash and cash equivalent investments shall mean debt obligations with a maturity of 3 months or less at the time of issue. The portfolio may include cash on hand, demand deposits, treasury bills, commercial paper, short-term notes, bankers' acceptances and other such very low risk cash instruments.

Cash and near cash deposits may be held at designated reputable local and international banks and institutions. Such depositary institutions will be specifically nominated by the Investment Manager and recommended by the Investment Committee, periodically and at least annually. Each nominated institution will also have a credit limit approved by the Investment Committee which may not be exceeded.
From time to time cash may be held by external managers. Such cash may be invested only in money markets or short-term Investment Fund (STIF) funds. Equity managers are expected to

be fully invested at all times; therefore, residual cash should make up no more than 5% of the account with the investment manager at any time.

FIXED INCOME

Debt shall mean marketable debt securities issued by either (1) Governments of the G8 countries, (2) Agencies of the Governments of G8 countries that are backed by full faith and credit i.e. fully guaranteed, (3) Corporations. All debt instruments should be of investment grade having a minimum quality rating of 'BBB-' or equivalent as rated by Moody's and Standard and Poor's. High yield debt is allowed in the portfolio but is restricted to 15% of the fixed income portfolio. Regional Governments and all others require specific Investment Committee approval. All securities held by the Fund must be priced on the basis of actual market transactions, not theoretical models. All securities to be purchased on behalf of the Fund are to be readily marketable.

EQUITIES

All securities to be purchased on behalf of the Fund are to be readily marketable and traded on major recognized exchanges or securities markets. In the case of International Equities, investments shall be in markets represented in the MSCI All Country World Index. Non-US Equities may not exceed 30% of the Fund because the Fund's ultimate liabilities are in US Dollars and hedging foreign exchange is regarded as expensive in the long term.

REAL ESTATE AND REITs

The Fund may invest in Real Estate such as commercial, office, retail and development properties. Such investments may be investment properties or development properties. Physical property assets must be in the Turks and Caicos Islands or, if overseas, have a TCI connection such as an office occupied by a TCI Government agency. The Fund may also invest in Real Estate Investment Trusts (REIT's), and other entities which invest in real estate and distribute income to investors. The Fund may only hold REIT's and other real estate investment entities that are listed on a recognized exchange.

ALTERNATIVE STRATEGIES

Investments in the following alternative strategies are permitted:

Private Equity
Principal Protected Securities
Hedge Funds
Fund of Funds
Exchange Traded Funds
Managed Futures
Commodities diversified funds, Exchange Traded Funds (ETFs) but not directly in Commodities themselves.

Alternative strategies can comprise a maximum of 25% of the Fund. The same due diligence and care employed to select a traditional investment manager will be exercised to select an alternative strategy manager.

VII INVESTMENT CONSTRAINTS

The Fund may not be invested in

1. Margin Transactions. The Fund may not invest using borrowed monies or securities.
2. Acquisition of shares that would permit the portfolio to exercise control over the issuer
3. Uncovered speculative positions.
4. Direct investments in physical commodities

With the exception of the Alternative Strategies and Convertibles asset classes that may employ some of these vehicles, the Fund may not invest in the following without the specific approval of the Investment Committee:

1. Futures Contracts.
2. Options
3. Derivative Investments - Derivatives are defined as synthetic securities whose price and cash flow, usefulness and marketability are based on the cash flows and price movements of other underlying securities. Most derivatives securities are derived from equity or fixed income securities and are packaged in the form of options, futures, Collateralized Mortgage Obligations (Interest Only, Principal Only, and residual bonds, etc.) and interest rate swaps among others. The Fund is permitted to utilize derivatives for hedging and income enhancing strategies. However, derivatives may not be used to expressly employ leverage or other speculative strategies. Therefore unless a specific type of security is allowed in this document, the Investment Manager(s) must seek permission from the Investment Committee to include derivative instruments in the Fund.

DOMESTIC INVESTMENTS

The Fund may invest in domestic based investments if risk adjusted returns are expected to be acceptable through: loans, fixed income, equity, real estate and fixed deposits. It is the Board's intention to earn competitive risk-adjusted investment returns regardless of where the investment opportunity resides. The decision to invest in a domestic investment shall be made only after the opportunity is deemed acceptable exclusively on its investment merits. Local economic benefits are a further consideration. Domestic investments shall receive the proper level of due diligence and evaluation consistent with all other investment opportunities. Investments must be in accordance with international governance and ethical standards.

Domestic investments are categorized within the asset classes in the table in the Section VIII Asset Allocation Guidelines (such as cash, fixed income, equity and real estate).

Criteria for domestic investments are as follows:

- Up to 10% of the total value of the Fund may be invested in domestic investments (excluding short term cash on deposit with local banks).

- The Investment Committee will review and recommend which reputable banks may be used for local banking deposits and recommend a credit limit for each bank.
- No more than 2% of the total Fund may be invested in any one domestic investment (excluding cash and cash equivalents with banks).
- The Fund may invest in both public and private sector projects.
- The Fund may only invest in projects where there is steady, positive income and a defined payback period.

Public Investments

- Public investments must have a minimum rate of return of inflation plus 1%, subject to a floor or minimum nominal rate of return of 3%. Inflation is defined as the US Consumer Price Index (CPI) as a proxy until a reliable Turks and Caicos CPI is developed and produced on a consistent basis.
- In public sector projects, loans or debt instruments will require a guarantee from the TCI Government.
- The NIB may invest in both debt instruments and equity in public sector investments. Debt instruments may include bonds and loans.
- In public sector investments, debt instrument investments may be up to 100% of the loan or bond issue.
- Equity investments in public sector investments may include preferred shares.
- The NIB must consider the marketability and liquidity of an investment and an exit strategy.

Private Sector Investments

- Private sector debt investments may be syndicated or direct. Debt investments may include bonds and loans.
- The maximum loan to value ratio must not exceed 60%.
- A loan must be secured on assets with first charge (such as in the case of a debenture) or rank pari passu in exceptional circumstances approved by the Board. Examples of assets to secure a loan include real estate, fixed assets and financial assets.
- Loan guarantees are required, such as from a parent company, partners or directors.
- A loan requires a defined cash flow to repayment cover ratio.

- The NIB may invest in both debt instruments and equity in private sector investments.

- It is not NIB's intention to build a portfolio of small, insignificant investments that require extensive and copious amounts of administration and due diligence. Therefore, the minimum investment in a domestic debt instrument will be no less than $1m. The lower limit for an equity stake in the domestic private sector is $250,000. The NIB may consider providing wholesale funds through an intermediary body for small loans and small business financing rather than directly.

- An investment in the shares of a company may not exceed a limit that allows the NIB to exert "significant influence" such that it requires the NIB to account for the entity under the equity method under International Accounting Standard (IAS) 28.

- The NIB may only invest in established and continuing businesses and not start-ups. Criteria for established businesses include a 5 years record of continuous operations, the last 3 years with positive cash flow.

- The NIB may only invest in private companies incorporated or registered and operating in the Turks and Caicos Islands.

- In approving domestic investments, the NIB must consider the marketability of an investment and exit strategy.

VIII ASSET ALLOCATION GUIDELINES

Strategic and Tactical Asset Allocation are highly important in generating investment returns. Academic research suggests that the decision to allocate total assets among various asset classes will far outweigh individual security selection and other decisions in respect of impact upon investment performance. For example, a study by Blake, Lehmann and Timmermann of the Pensions Institute at Birkbeck College, London University (1999) decomposed the median total return of a sample of pension fund managers into its components such as Asset Allocation, Stock Selection, Market Timing and Others. They found that Asset Allocation explained 99.47% of the total return.

The Fund's Asset Allocation Guidelines are determined by a capital asset pricing model, a risk and return optimization process. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behaviour, an optimization process determines the asset allocation. The process considered expected rate of return, standard deviations and correlation of and amongst various asset classes. The optimization process was modelled under various assumptions, constraints and risk tolerance/investment return scenarios. The asset class policy allocation below represents a target allocation with a long term estimated return of 6.8% p.a. with higher/ aggressive risk and is designed to achieve the stated investment objectives and guidelines as set out in this document.

STRATEGIC ASSET ALLOCATION TARGETS

ASSET CLASS	STRATEGIC ASSET ALLOCATION
CASH & MONEY MARKET INSTRUMENTS	5%
FIXED INCOME	18%
CONVERTIBLES	8%
EQUITIES	44%
HEDGE FUNDS	15%
PRIVATE EQUITY	10%
COMMODITIES	0%
TOTAL	100%

Within the Equities asset class (44%), there is a target ratio of 50:50 US Equities: Non-US Equities over time.

Tactical Asset Allocation takes into account the states of the markets and the stages in the economic cycles of the various economies. From time to time, Asset Allocation may be changed within the lower and upper limits in the following table.

ASSET CLASS	LOWER LIMIT	STRATEGIC ASSET ALLOCATION	UPPER LIMIT
CASH & MONEY MARKET INSTRUMENTS	0%	5%	10%
FIXED INCOME	10%	18%	40%
CONVERTIBLES	2%	8%	8%
EQUITIES	15%	44%	70%
HEDGE FUNDS	5%	15%	15%
PRIVATE EQUITY	0%	10%	10%
COMMODITIES	0%	0%	8%
TOTAL		100%	

Within the Equities asset category, US Equities will have a lower and upper limit range of 10% to 40%. Non-US Equities will have a minimum of 5% and an upper limit of 30%. Within the US Equities, to achieve diversification, the Fund will invest in large, mid-sized and smaller capitalization equities. The target asset allocations for these (based on a 26% mid-point) are as follows: US Large Cap Value 10.5% (lower and upper limit range 6% to 15%), US Large Cap Growth 10.5% (range 6% to 15%), US Mid Cap 2.5% (0% to 5%) and US Small Cap 2.5% (range 0% to 5%).

BENCHMARKS

As a component of the due-diligence process performed in reviewing and analyzing the quantitative characteristics of external investment manager investment decisions, each manager will be measured against generally accepted international benchmarks as are appropriate given their individual investment mandates.

The benchmark to be applied against a manager will be detailed in his/her terms of engagement. In addition, investment management style attribution analysis will be applied