

NATIONAL BANK OF CAMBODIA

Riel. Stability. Development.

EXTERNAL FUND MANAGEMENT-NBC

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the NBC.

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III. EXTERNAL FUND MANAGEMENT

IV. Q & A



I- STRUCTURE

Directorate General of Central Banking

Banking Operation
Department

Exchange
Management
Department (EMD)

Economic Research &
International
Cooperation Dept.

Statistic Department

Payment System
Department

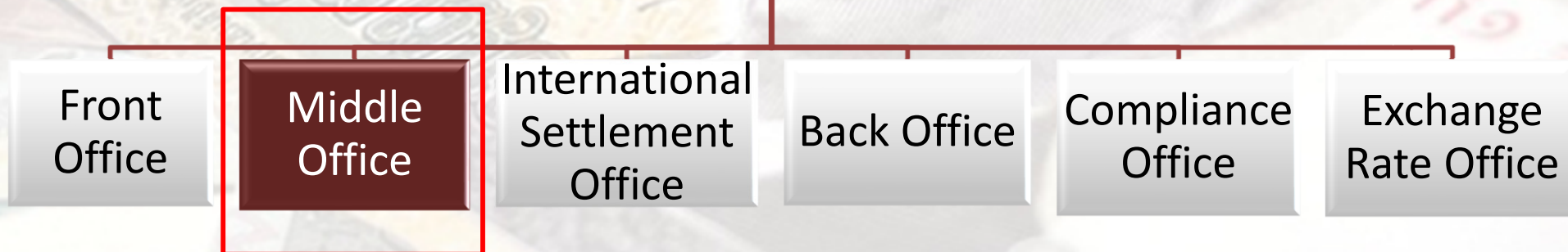
Functions and Duties:

- International reserve management
- Exchange rate monitoring and publishing
- Foreign aid monitoring
- Import-Export Bank Notes
- Market intervention in term of currency exchange

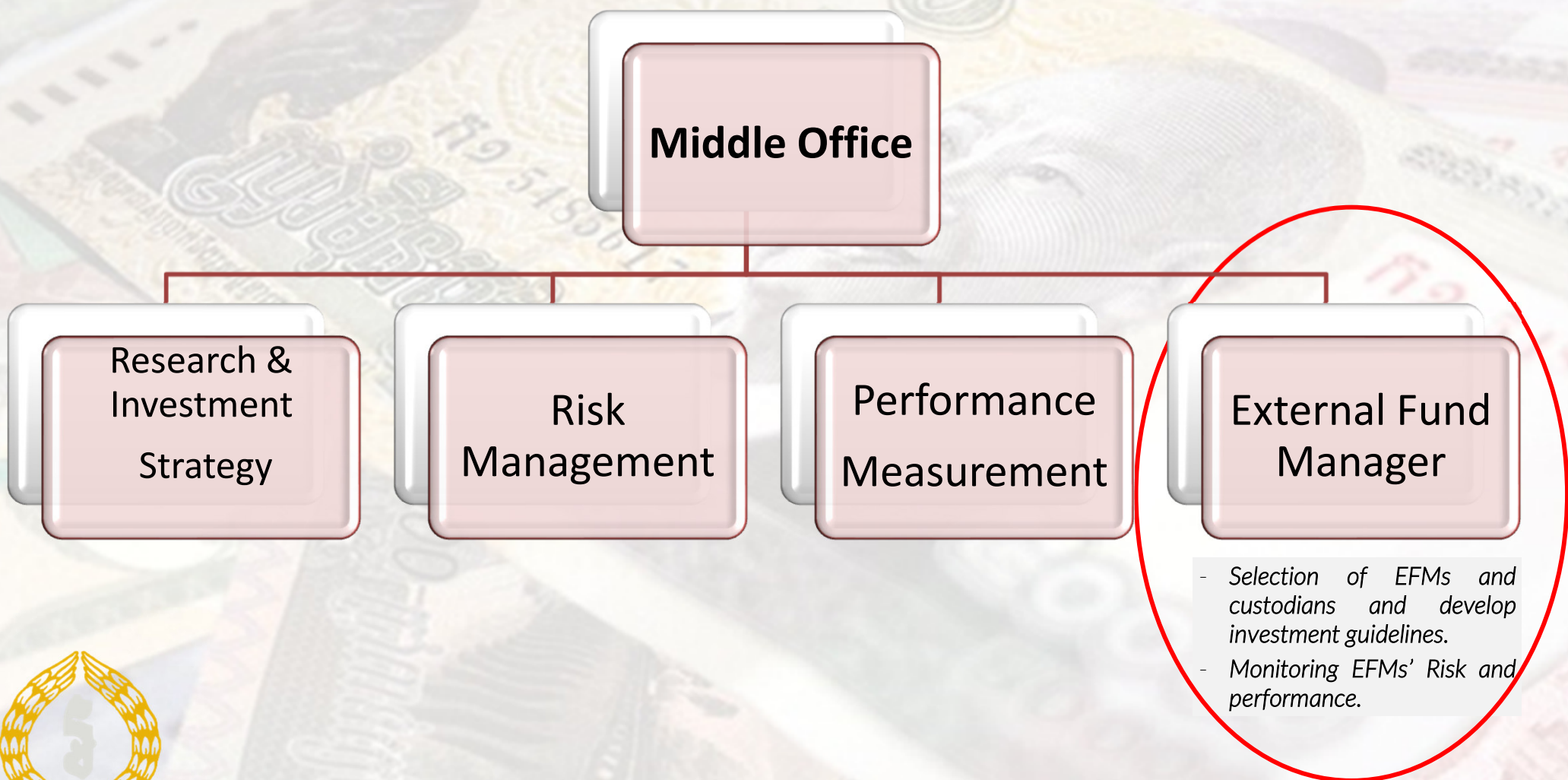


I- STRUCTURE EMD STRUCTURE

Exchange Management Dept



MIDDLE OFFICE STRUCTURE



II. FX RESERVES GOVERNANCE



Laws

Law on the Organization and Conduct of the NBC



Board of Director

Approves the Investment Policy (IP)



Investment Committee

Approves the Investment Guidelines (IG)



Exchange Management Department

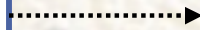
Implements the approved IP and IG



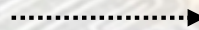
II. FX RESERVES GOVERNANCE

WHO DEFINE WHAT?

Board of Director



Investment
Committee



Exchange
Management Dept.



- Articulate objectives and investment horizon
- Set the Investment Policies
- Define Risk Tolerance & Risk Budget
- Determine the size of tranches
- Eligible Asset Classes
- Currency Composition
- Asset Allocation and Benchmark
- *Tactical Currency Composition*
- *Tactical Asset Allocation*
- Active Investment Decision
- Yield Curve Exposure
- Sector Allocation
- Security Selection



III. RESERVES STRUCTURE

DIVISION OF RESERVES TRANCHES

Liquidity Tranche

- Reserve a certain level of liquidity to meet sudden demand
- USD current account and money market products (US T-bill, O/N, FD)

Investment Tranche

- Focus on higher returns while maintaining safety
- Short term to Medium term bonds of major sovereign
- Mainly for Internal Management Portfolios

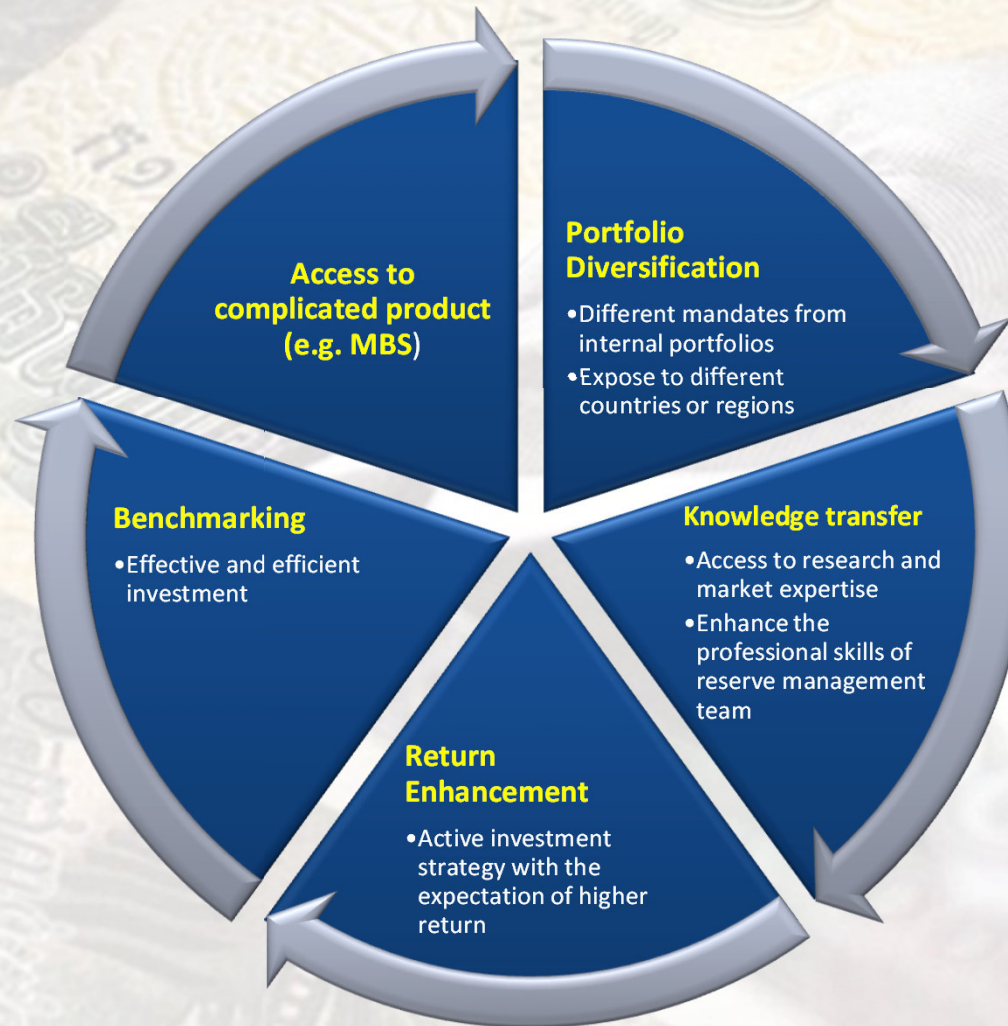
Long Term Tranche

- **Mainly focus on External Fund Manager**
- Exposure to new products and advanced investment techniques
- Broader investment universe and more flexible guidelines
- Mainly, this tranche is using for ample reserve to **enhance portfolio Return and capacity building**



III. EXTERNAL FUND MANAGER (EFM)

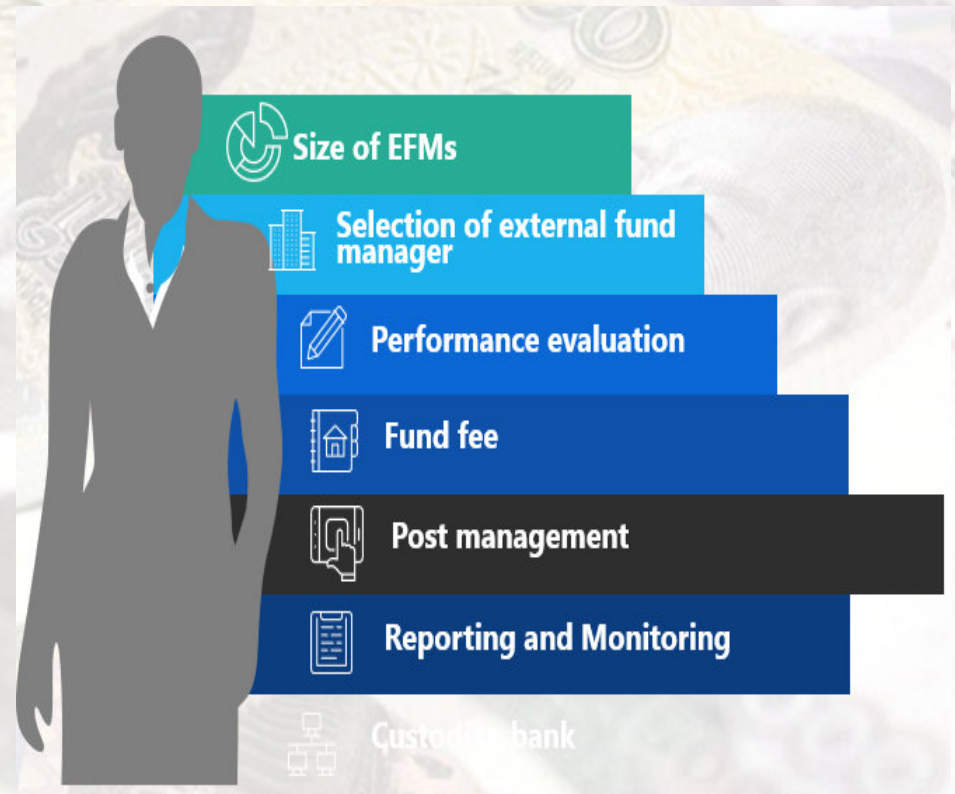
1)- The Purposes of having EFM



III- EXTERNAL FUND MANAGER (EFM)

2- EFM DIRECTIVE

- ❖ We have its own “Directive” or so called EFM Framework
- ❖ The Directive sets clearly the framework for managing EFMs including;
 - ✓ Selection
 - ✓ Monitoring and
 - ✓ Evaluation procedures.
- ❖ The aggregate size of EFM is capped at 30% of the total reserve.



2.1- SELECTION PROCESS

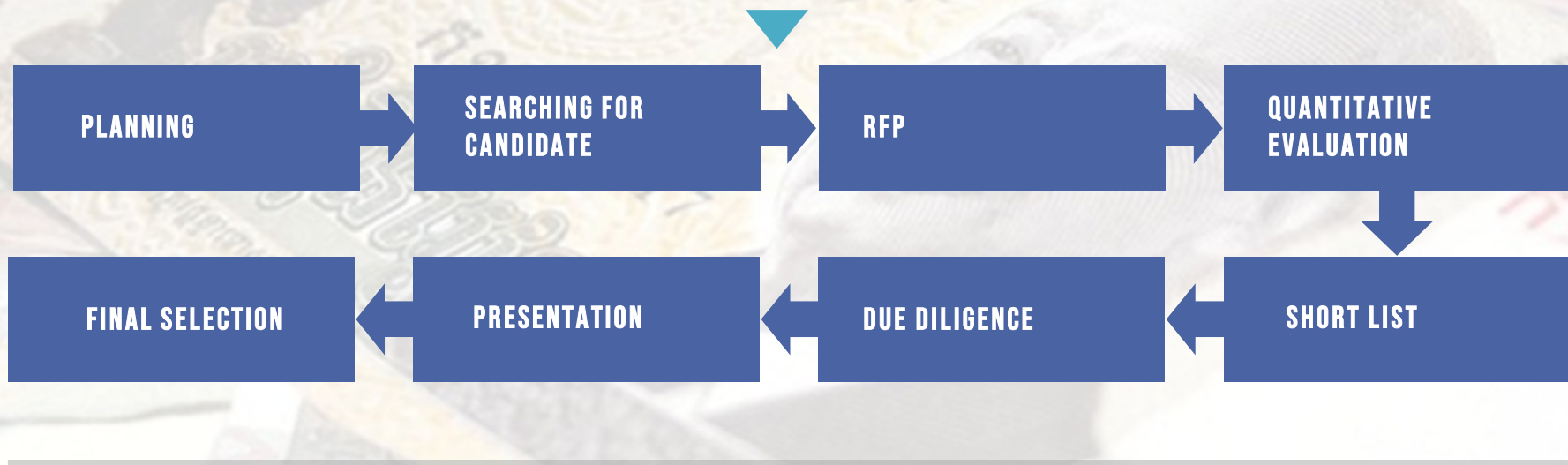
PLANNING

RFP



2.1- SELECTION PROCESS

8 STEPS TO SELECT AN EXTERNAL MANAGER



2.1- SELECTION PROCESS

Looking for the candidates from the various sources (Mercer, websites, Forums...etc.)

Criteria for Shortlisted candidates

Company Profile
(Assets, AUM,
Management
structure)

Credit rating

Historical
performance

Experiences and
Professionals

Request For Proposal (RFP)



2.1- SELECTION PROCESS

Selection Approaches

- **Quantitative**
 - RFP
 - Other additional information
- **Qualitative**
 - Due diligence and
 - Oral presentation

Scoring factor

Capacity (Professionals)

Experience

Investment process

Strategy and Decision-making process

Risk management

Performance

Supporting service and Post service



2.2- MONITORING

Investment Guideline for EFM must be consistent with the NBC's investment policy such as instruments, risk and return.

Investment Guideline

- Investment objective: eg. The portfolio shall achieve 30bps excess the BM in 3 years rolling period.
- Eligible Instruments
- Benchmark
- Management Fee
- Custodians
- Performance measurement
- Risk tolerance
- Knowledge sharing program



2.2- MONITORING

POST MANAGEMENT AND REPORTING



Performance Measurement

- Comparing the Portfolio vs Benchmark return



Risk Measurement:

- Market and Credit risk such as Duration, VaR, TE and Credit rating ...etc.



Reporting:

- Weekly, Monthly, Quarterly and Yearly



2.2- MONITORING

POST MANAGEMENT AND REPORTING

- **Compliance monitoring:** whether the portfolio comply with the IG
 - ✓ Reported by the custodian
 - ✓ NBC request/discuss with the manager to adjust the portfolio and gives **30 days** for the adjustment
 - ✓ In Case the cost of the adjustment is huge impact, NBC can instruct the manager to hold the position and wait for the good time to dispose.

- *Conduct frequently meeting with the Managers both virtually and physically to discuss on Strategy, Performance, Risk and the challenges.*



2.3- EVALUATION

PERFORMANCE EVALUATION

- ✓ NBC Evaluate the EFM for every 3 years based on the Performance Evaluation Methodology;
 - ✓ The indicators;
 - Risk Adjusted Performance
 - Consistency of Return
 - Level of Downside Risk
- Giving the weight for each indicator*
- ✓ Ranking the Managers by 1)-Own Improvement & 2)- Peer Comparison
 - Based on the result, we will decide to Continue/Terminate/Withdrawal.

WE ALSO CONSIDER THIS

Fund Withdrawals

- If 30bps Underperform BM in 3 consecutive years
- If 130bps Underperform BM in 1 year



3- COST AND BENEFITS ANALYSIS OF EXTERNAL MANAGERS

Benefit	Cost/Challenges
Access to resources (knowledge sharing)	Risk are more difficult to control
Access to best practice in the market and investment strategies	Require experiences in managing external managers
Access to asset classes outside internal mandates to manage risk/return	Slows down the possibility of implementing changes in the portfolio
	Higher cost



Q & A

