

Bangko Sentral ng Pilipinas External Fund Management Program

2023 Asian Regional Forum on Investment Management of Foreign
Exchange Reserves
25-27 October 2023

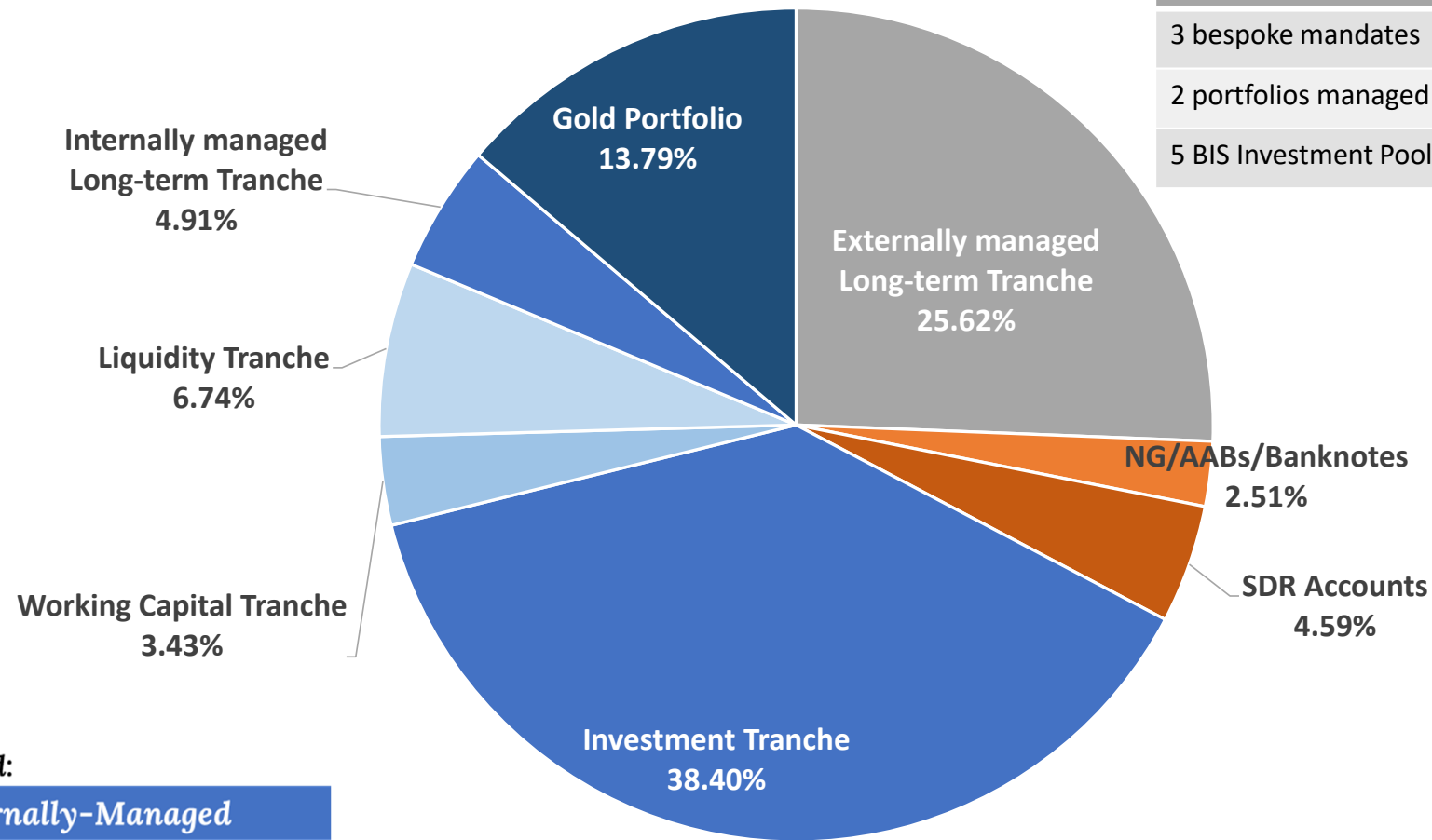


Outline

1. Tranching of Reserves
2. Objectives of the BSP's External Fund Management Program (EFMP)
3. Strategic Asset Allocation and Investment Guidelines
4. BSP's External Mandates
5. EFMP Implementation
 - 5.1. EFM Search and Selection
 - 5.2. Fee structure
 - 5.3. Grounds for EFM Termination
6. Closing Remarks



1. Tranching of Reserves



Externally managed Long-term Tranche
3 bespoke mandates
2 portfolios managed by the WB
5 BIS Investment Pools

Legend:

Internally-Managed

Externally-Managed



As of 31 August 2023

2. Objectives of the BSP's External Fund Management Program

- **Return enhancement**
 - Diversification
 - additional asset classes
 - different investment styles
 - Generate alpha over time
- **Knowledge transfer and capacity building**

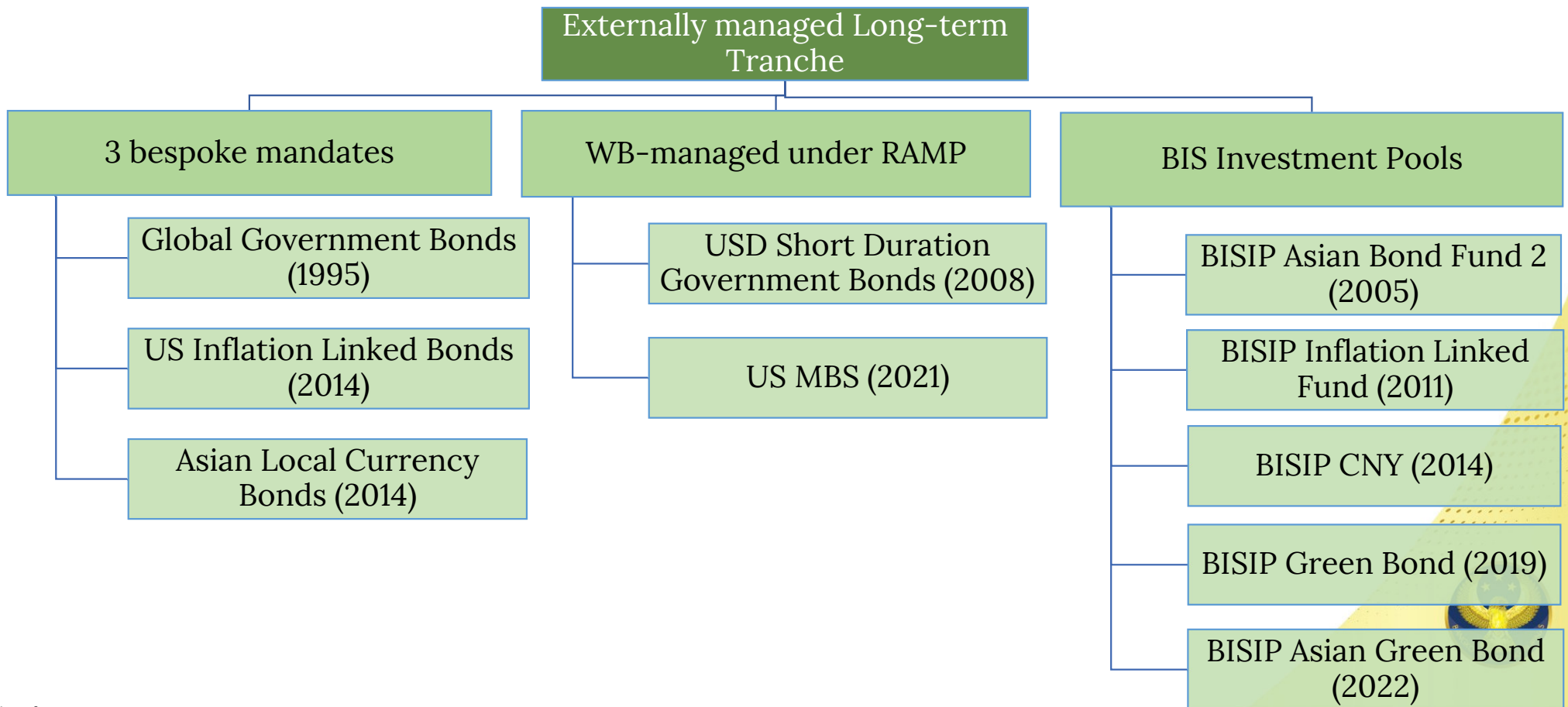


3. Strategic Asset Allocation and Investment Guidelines

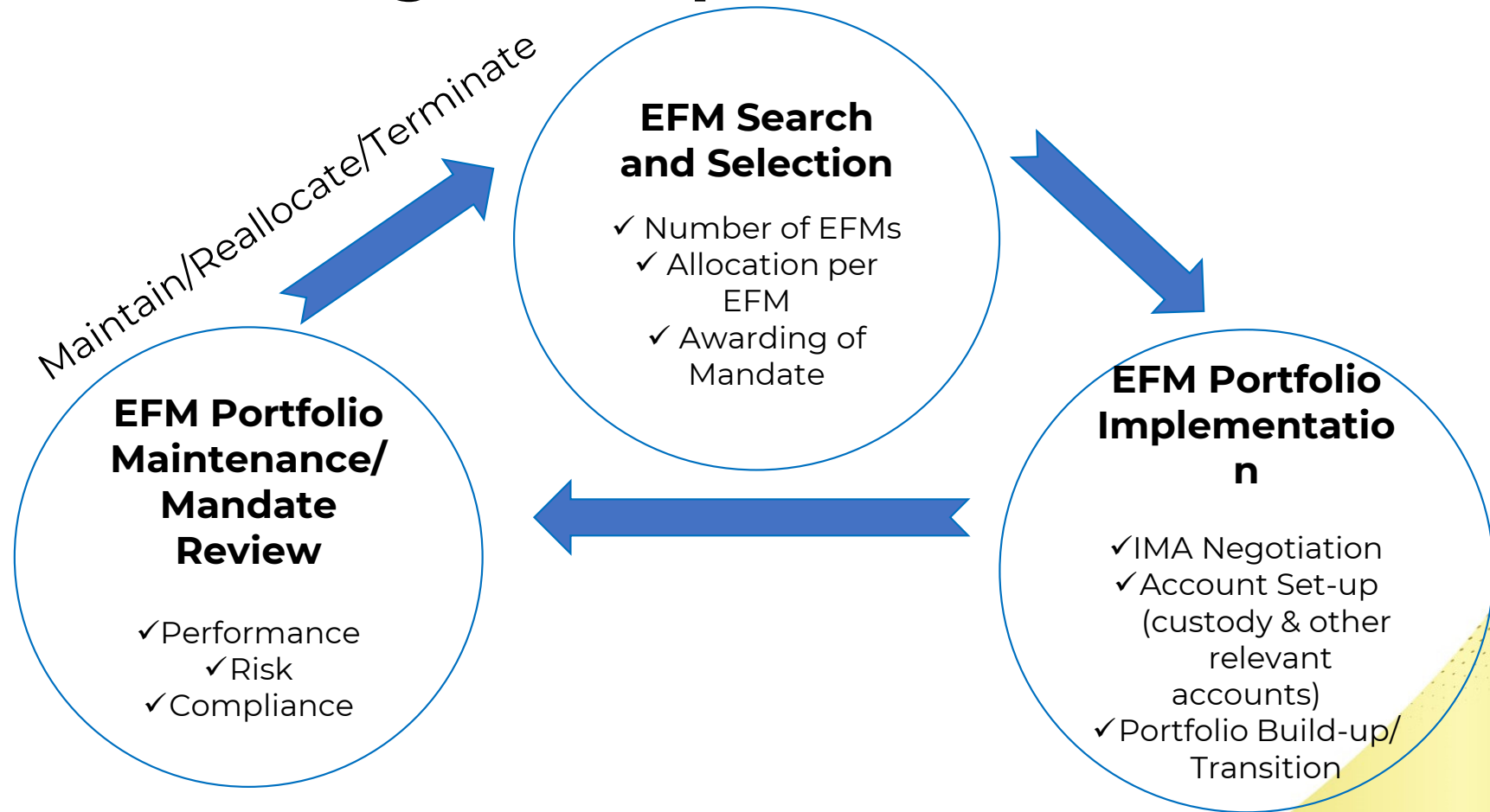
- The decision to outsource funds to external fund managers is highly dependent on the results of the SAA
- The BSP prefers to gain initial exposure into an asset class through EFMs
- Investment horizon of 3 years
- Investment Guidelines
 - Benchmark
 - Allowable markets and currencies
 - Allowable investments and restrictions
 - Derivatives investing
 - Risk limits (duration, ex-ante tracking error limit)



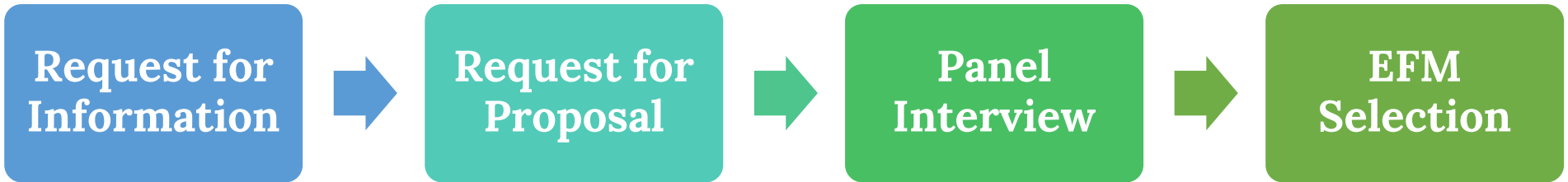
4. BSP's Externally Managed Portfolios



5. EFM Program Implementation



5.1. EFM Search and Selection



5.2. Fee structure

Asset-based fees	Performance-based fees
Fixed fee based on AUM	Base fee + Performance fee
5-20 bps depending on AUM and asset class	Base fee: 4-12 bps depending on AUM and asset class
	Performance fee: 10%-20% of net alpha
	High water mark
	Fee cap



5.3. Grounds for EFM Termination

- a. Gross violation of the Investment Guidelines or the provisions of the IMA;
- b. Commission of acts inimical to the interest of the BSP or the Republic of the Philippines; or
- c. Underperformance relative to the benchmark
- d. Termination without cause – 30-day notice



6. Closing Remarks

- The BSP deems that hiring EFMs is beneficial to the BSP
- Apart from **enhancing the risk-adjusted return** on the reserves, the BSP greatly benefits from the **knowledge transfer** especially on their views and market insights
- The BSP has a **dedicated department** that handles the implementation of the External Fund Management Program
- Successful implementation of the EFMP involves the **coordination** between several BSP departments and the EFMs

