

# **Bangko Sentral ng Pilipinas External Fund Management Program**

2022 Asian Regional Forum on Investment Management of Foreign  
Exchange Reserves  
26-27 October 2022

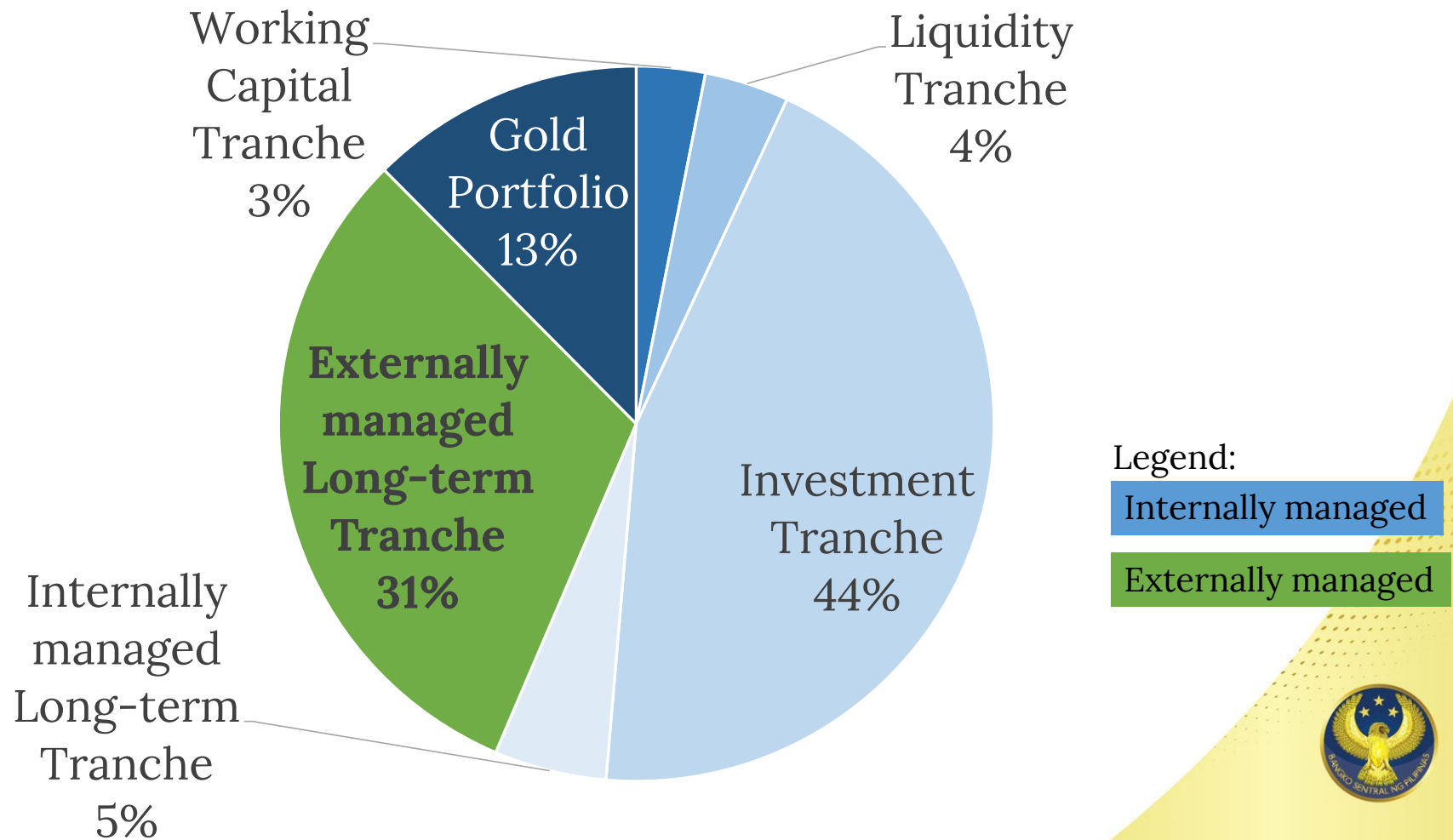


# Outline

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



## 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**

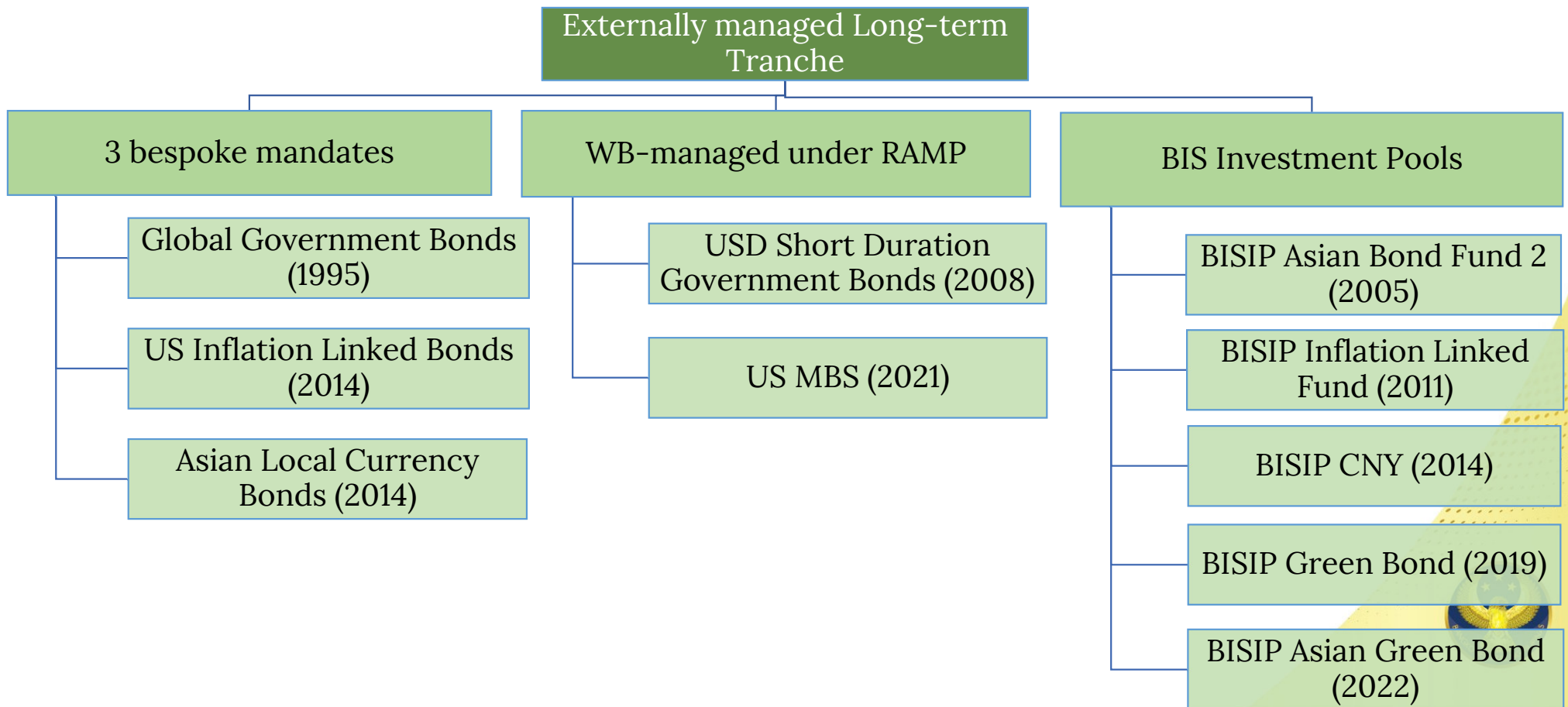


# 3. Strategic Asset Allocation and Investment Guidelines

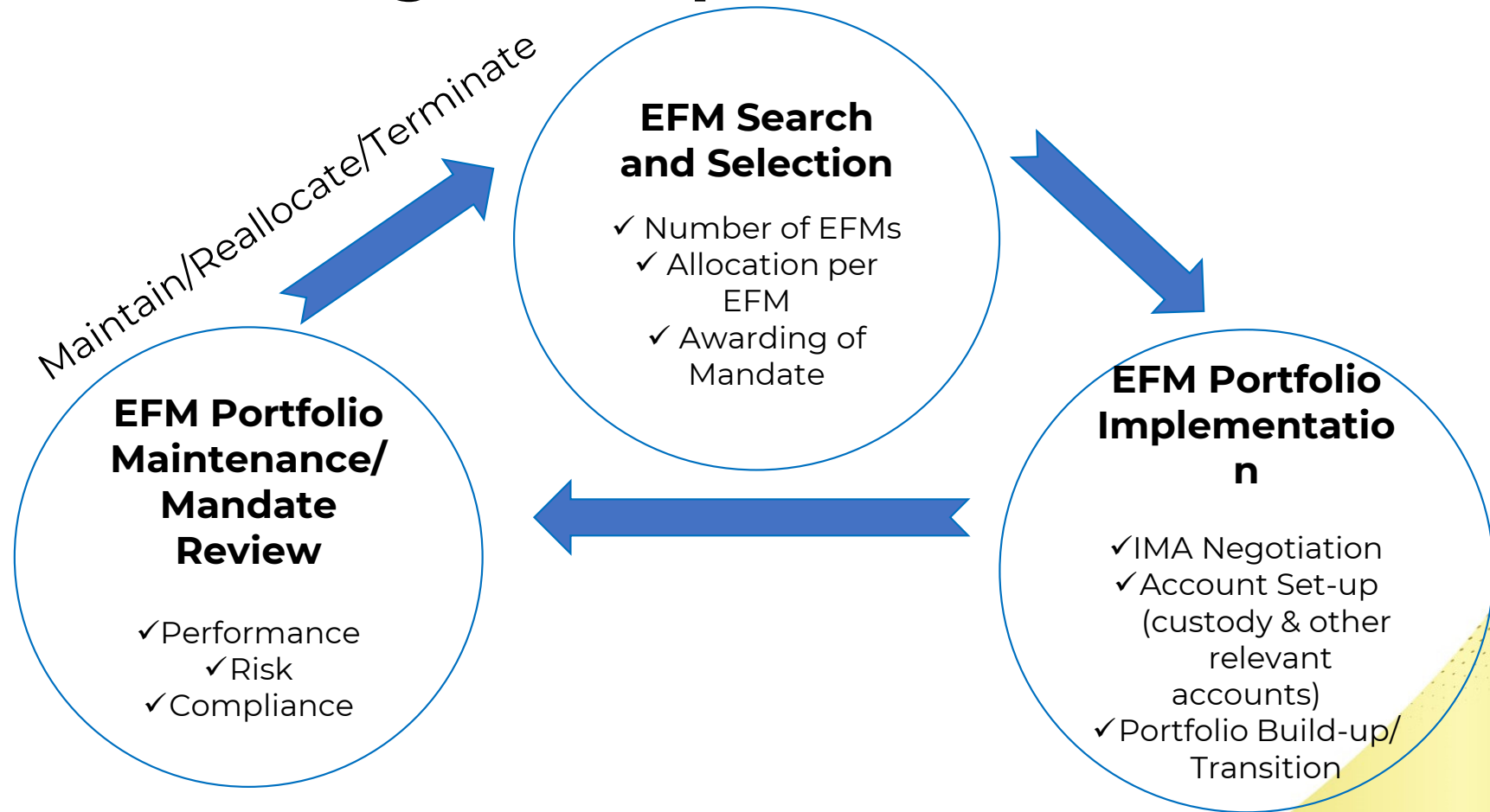
- The decision to outsource funds to external fund managers is highly dependent on the results of the SAA
- The BSP prefers to gain initial exposure into an asset class through EFMs
- Investment horizon of 3 years
- Investment Guidelines
  - Benchmark
  - Allowable markets and currencies
  - Allowable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



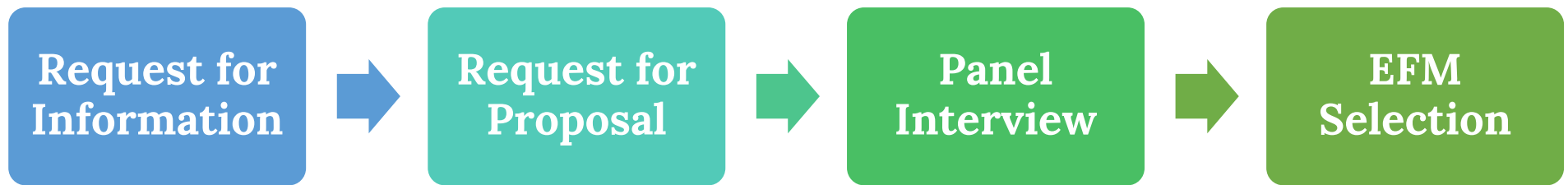
# 4. BSP's Externally Managed Portfolios



# 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

