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Report on Investment Governance Model and Investment Diversification Strategy for the National Social Security Fund of the Lao People's Democratic Republic

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The authors assume no responsibility for any user of the report other than the NSSF and ILO and relevant parties as set out in the terms of engagement. Any other persons who choose to rely on the report do so entirely at their own risk.

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Acronyms and abbreviations

CPI	Consumer Price Index
ETF	exchange traded fund
GDP	gross domestic product
IC	Investment Committee
IPS	Investment Policy Statement
ISSA	International Social Security Association
LFTU	Lao Federation of Trade Unions
LNCCI	Lao National Chamber of Commerce and Industry
LSSO	Lao Social Security Organisation
LSX	Lao Stock Exchange
NISER	National Institute of Social and Economic Research
NPL	non-performing loan
NSSF	National Social Security Fund
T-Bill	Treasury Bill
T-Note	Treasury Note
YTM	yield to maturity

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Executive summary

Key takeaways

For social security schemes operating with a certain level of funding, investment income from the reserve fund is an important source of revenue to meet the legally required benefits. Achieving consistent returns on investment of the reserve fund can reduce the need to raise the contribution rates in the future. In many countries, social security funds also play an important role in supporting the development of the national economy and improvement of the overall quality of life in the country.

Since its implementation in 2001, the Lao People's Democratic Republic's National Social Security Fund (NSSF) pension scheme for private sector workers has accumulated significant reserves. As of September 2024, the reserve fund of the NSSF pension scheme for the private sector totalled 3,363 billion Lao kip, or 1.0 per cent of gross domestic product (GDP). However, the reserve fund (hereafter "the Fund") is not adequately diversified; more than 90 per cent of the Fund is invested in fixed-term bank deposits in kip and 6.6 per cent is in Lao government bonds.

In recent years, the reserves have lost considerable value in real terms, due to high inflation and the devaluation of the kip. While bank deposits earned interest rates between 5 and 9.5 per cent annually, inflation soared above 20 per cent annually from 2022 to 2024.

By limiting the Fund's investments to bank deposits and Lao government bonds, the Fund may not be able to achieve its return objectives and may face further risks from over-concentration in these assets given the expected growth of the Fund. The LSSO should strive to improve its investment programme through ongoing capacity-building, strengthening its investment governance framework and diversification of the investment portfolio to maximize total returns, consistent with the long-term liability profile of the NSSF pension scheme for the private sector.

This report has been prepared for the use of the Lao Social Security Organization (LSSO) to develop its **Investment Governance Model and Investment Diversification Strategy**, specifically within the context of current economic challenges and domestic investment constraints.

The implementation of an investment strategy requires a new type of competency for the LSSO to interact with the capital markets and to effectively manage investment risks. It is crucial to establish sound legal and institutional frameworks for good investment governance. Based on the recommendations from the Investment Committee, the LSSO Board of Directors (hereafter "the Board") should formulate the investment objectives and must act under fiduciary responsibilities. In making investment decisions, the Investment Committee and Board members must act prudently and independently, ensure safety, and diversify the investments in order to maximize risk-adjusted returns under the conditions of the domestic and global financial markets.


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High level journey and next steps

1. Update Investment Committee terms of reference
2. Adopt Investment Policy Statement and Governance Framework
3. Update Decree on National Social Security Fund Management
4. Diversify into return-seeking assets

Ongoing: Enhance investment governance and capacity-building (people, processes and systems)

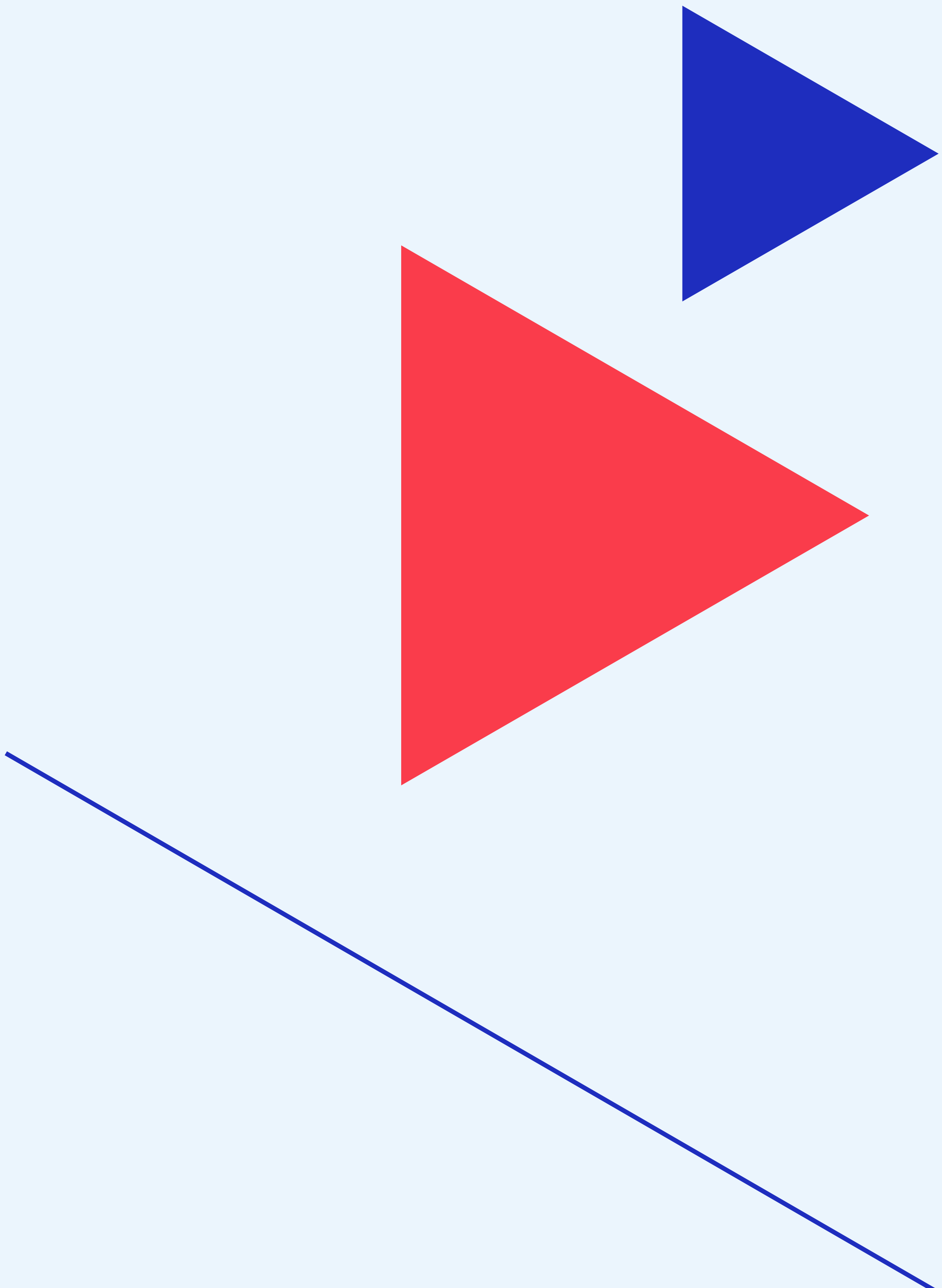
Recommended actions and prioritization

The following summarizes the recommended actions in the short, medium and long terms for the LSSO's consideration. The prioritization is intended to guide the LSSO's efforts to ensure that it has the best chance of successfully implementing the Investment Governance Model and Investment Diversification Strategy.

The reference numbers in the table below correspond to the recommended actions detailed in Chapter 1, which are grouped by topic.

	Short term (2025)	Medium term (2026–27)	Long term (2028 onwards)
Highest priority	**16.** Hold an Investment Committee/Board "retreat" to align all relevant stakeholders	**8.** Formalize investment, risk and compliance functions within LSSO	**10.** Appointment of external auditor
	9. Approve and implement the Investment Policy and Governance Framework	**1.** Appoint an independent fund administrator	**11.** Establish scheme safeguards
	17. Improve investment risk management capabilities[2]	**4.** Set "cost recovery" targets by scheme	
	6. Update the Decree[1] for investment roles and responsibilities	**5.** Create an Operational Management Agreement	**Additional considerations** As part of the next strategic asset allocation review (recommended every 3 years): ▶ We recommend that the LSSO considers the appropriateness of developing its own environmental, social and governance (ESG) framework and investment options. ▶ Furthermore, the LSSO may wish to re-evaluate the appropriateness of introducing domestic non-listed assets into the Fund (after considering factors such as its latest internal capacity, documented processes and procedures, and existing asset allocation/Fund size).
	12. Update the Decree[1] for qualifying investments	**14.** Update the Decree[1] to require timely and accurate quarterly reporting	
	15. Update the Decree[1] to specify no encumbrances on Fund assets	**13.** Appoint a custodian of the Fund assets	
	7. Establish an investment reporting framework[2]	**19.** Capacity-building: pre-requisite for further investment diversification[2]	
	2. Separation of accounting books of the LSSO and the NSSF		
	3. Segregation of administrative assets from investment assets		
Lowest priority	**18.** Gradually build hard currency reserves as an interim measure (if required)		

[1] The "Decree" refers to the Decree on on National Social Security Fund Management.
[2] Iterative process.



01 Recommended actions

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Recommendations: Administration of the National Social Security Fund

1. Appoint an independent fund administrator

- Appoint an independent fund administrator to provide **timely processing of income and tax reclaims/filings** (where relevant), **to reconcile records with external parties and to prepare monthly net asset value (NAV) calculations** for the reserve fund of the National Social Security Fund (NSSF).

- If fund administration services are not common to the Lao People's Democratic Republic, the Lao Social Security Organization (LSSO) Board of Directors (hereafter "the Board") may consider appointing a **reputable accounting firm** to provide equivalent fund administration/fiduciary services.

2. Separation of accounting books for LSSO and the NSSF

- Accounting should be prepared separately for the LSSO, in its capacity as manager of investment assets of the NSSF, and for the underlying investment assets of the NSSF to **enable the investment performance of each social security scheme to be calculated and the corresponding expenses charged to each scheme to be monitored**.

3. Segregation of administrative assets from investment assets

- Procurement of "**administrative assets**" used by the LSSO in carrying out their duties of managing the NSSF should form part of LSSO's operating budget and **be accounted for separately from the investment assets of the NSSF**.

  – For example, furniture, computers, office supplies and vehicles are not investment assets.

4. Set "cost recovery" targets by scheme

- Establish **cost recovery targets to be borne by each scheme** as part of the budgeting process to ensure that the long-term investment performance is not adversely impacted by costs.

  – This is particularly important given the Private Sector Long-Term Benefit Fund is currently paying all administrative expenses and there is no distribution between the different benefit branches and between the two sectors covered by the NSSF (public/private).

  – Subject to analysis of the administrative costs attributed to each scheme, consider whether a "total" cost recovery basis is appropriate or if there are other avenues to subsidize the administration of the NSSF (until it grows in size).

5. Create an Operational Management Agreement

- Based upon the Decree on LSSO Roles and Functions, consider creating an **Operational Management Agreement** between the LSSO and the NSSF reserve fund (hereafter referred to as "the Fund") to document the **agreed costs relative to the scope of agreed services** (to be approved by the Board). This enables the **independent fund administrator to verify the expenses against the Operating Manual prior to those expenses being charged to the Fund**, thereby providing a transparent framework with clear accountabilities.

Recommendations: Investment governance framework

6. Update laws and regulations for investment roles and responsibilities

- Chapter 9 of the Decree on National Social Security Fund Management (hereafter referred to as "the Decree") should be updated to include the **roles and responsibilities of various stakeholders** in relation to investment governance, such as: responsibilities for setting the risk appetite (that is, the willingness and ability to take on risk in the Fund); setting risk limits and tolerances; developing the investment strategy; implementation; and evaluating investment performance and operational effectiveness.

7. Investment reporting

- The independent fund administrator (or in the interim LSSO accounting team) should prepare at a minimum **quarterly statements of assets and income, as well as a balance sheet**.

- LSSO should maintain an **Investment Book of Records (IBOR)** (that is, a "live" record of all investment holdings/transactions), including tracking maturities of bank deposits and fixed income securities.

- **Investment reporting** should be evaluated by the Investment Committee relative to the Fund objectives (including target returns and risk parameters) during quarterly meetings.

8. Investment, risk management and compliance functions

- **Designate and upskill staff members to oversee investments, risk management, compliance and operations functions**.

- Consider retaining an **investment consultant or external expert** to advise the Investment Committee.

- Consider **secondment of designated staff to learn deskside** the investment process from peer social security funds in other countries in the Association of Southeast Asian Nations (ASEAN) region.

- Building the expertise of the team to oversee the investment programme will be a gradual process and may include **active participation in ASEAN and global investment communities** through conferences and exchange of intellectual content, practices and experiences.

9. Approve and implement investment policy and governance framework

- Prior to embarking on revisions to the investment strategy/asset allocation, **adopt the investment policy statement and updated investment governance framework** to ensure investment decisions are implemented in a consistent and risk-adjusted manner.

10. Appointment of external auditor

- Based on international best practices, particularly when managing private sector long-term benefits, it is recommended to appoint an **external auditor** (independent of the key stakeholders) **to audit the fund management activities and investment assets of the Fund**.

Recommendations: Decree on NSSF funds management

11. Establish scheme safeguards

- Establish scheme "safeguards" (where relevant[1]) for withdrawals of capital reserves to be approved by the Board (including independent directors) and the Ministry of Labour and Social Welfare. Prior to securing such approval, the Board and the Ministry should be provided detailed reports explaining why it is in the interest of the scheme to make the transfer, and this decision should be certified by an independent auditor.

  - These safeguards are intended to provide an additional level of governance for the withdrawal of capital reserves, given that expenditures are only expected to become larger than the total of contributions plus investment income in roughly 2045 (where the reserves will then start to decrease), as per the recent actuarial valuation report.

  - These safeguards are **intended to ensure sufficient reserves in the relevant scheme for an amount equal to the real value of benefits to be paid in later years** (or other targeted funding proportion as determined by the Board).

12. Qualifying investments

- Update article 21 of the Decree to allow investment into **US Treasury Bills**, to enable the Fund to build hard currency reserves (if required) as a downside **risk mitigation measure**, should the kip be subject to further **material devaluation** relative to the US dollar.

- **Further updates** will be required to article 21 over time in line with the **diversification road map and capacity-building** of key stakeholders.

13. Custody of assets

- Currently the assets of the Fund are kept in the National Treasury or Lao banks. Should new asset classes be introduced, the LSSO will **need to consider the appropriate party for safekeeping of these assets**.

14. Timely and accurate quarterly reporting

- Update the Decree to require **quarterly reports on the performance and activities of the Fund** by no later than 20 days after the end of the quarter.

  - Ideally these reports will be prepared by the independent fund administrator.

[1] Consideration may initially be given for the Private Sector Long-Term Benefit Fund.

15. No encumbrances on Fund assets

- Update the Decree to specify that **any amount invested shall at all times remain the property of the Fund**.

- Any contract, agreement or arrangement, to the extent that it purports to encumber the assets of the Fund, whether by way of guarantee, security, mortgage or any other form of encumbrance, is null and void.

Recommendations: Investment Diversification Strategy

16. Hold an Investment Committee/Board "retreat" to align stakeholders

- **Clarify the roles and responsibilities of key stakeholders in the investment process**, including the Ministry of Labour and Social Welfare, the Board, the Investment Committee and LSSO management.

- **Agree on risk appetite, investment objectives, risk tolerances and limits**.

- **Agree on the buckets of investments in the short to medium term**, that is, the income portfolio and return-seeking portfolio.

17. Improve risk management capabilities

- **Domestic investment programme** – capacity-building for risk management on bank deposits considering factors such as financial ratios, concentration risk, financial soundness and stress testing (refer to **Annex 1** for suggested risk indicators).

- **Domestic non-listed assets and/or overseas assets** – capacity building for people, processes and systems, including investment and operational due diligence, investment selection, and implementation and monitoring.

18. Build hard currency reserves as an interim measure (if required)

- Invest in US Treasuries to protect the Fund from imported inflation should there be further material devaluations of the kip relative to the US dollar. Since the data collection for the report was conducted in October 2024, the kip has been relatively stable (as at February 2025), therefore this interim measure may be considered by the Investment Committee and Board on a needs basis.

19. Capacity-building is a prerequisite for further diversification

- As a pre-condition to investing in domestic non-listed assets and/or global equities and investment grade global fixed income, all key stakeholders should ensure that they have the **requisite knowledge and documented institutional processes** to effectively implement such asset classes.

02

Investment governance framework

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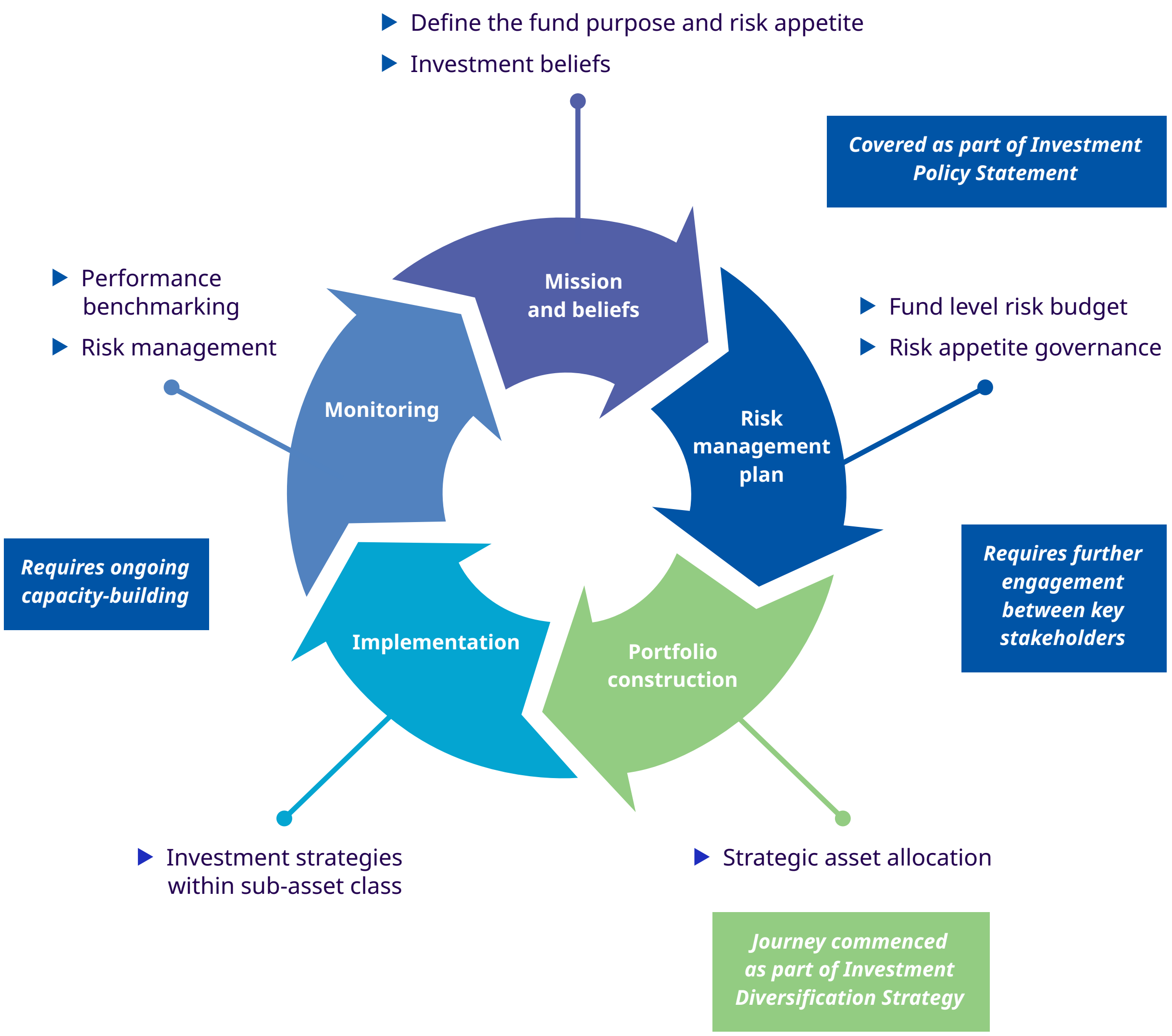
2.1. Investment strategy and governance

All funds, large or small, go through an **iterative process** to set their investment strategy and governance model. The typical journey that the **key stakeholders of the NSSF will need to continue to build upon** is detailed below (figure 1).

A high-level **indication of how various aspects of this report relate to the journey** is also provided in the figure below.

Figure 1. Setting the investment strategy and governance model



2.2. ISSA Guidelines on Investment of Social Security Funds

This section considers the roles and responsibilities of key stakeholders and interaction between stakeholders.

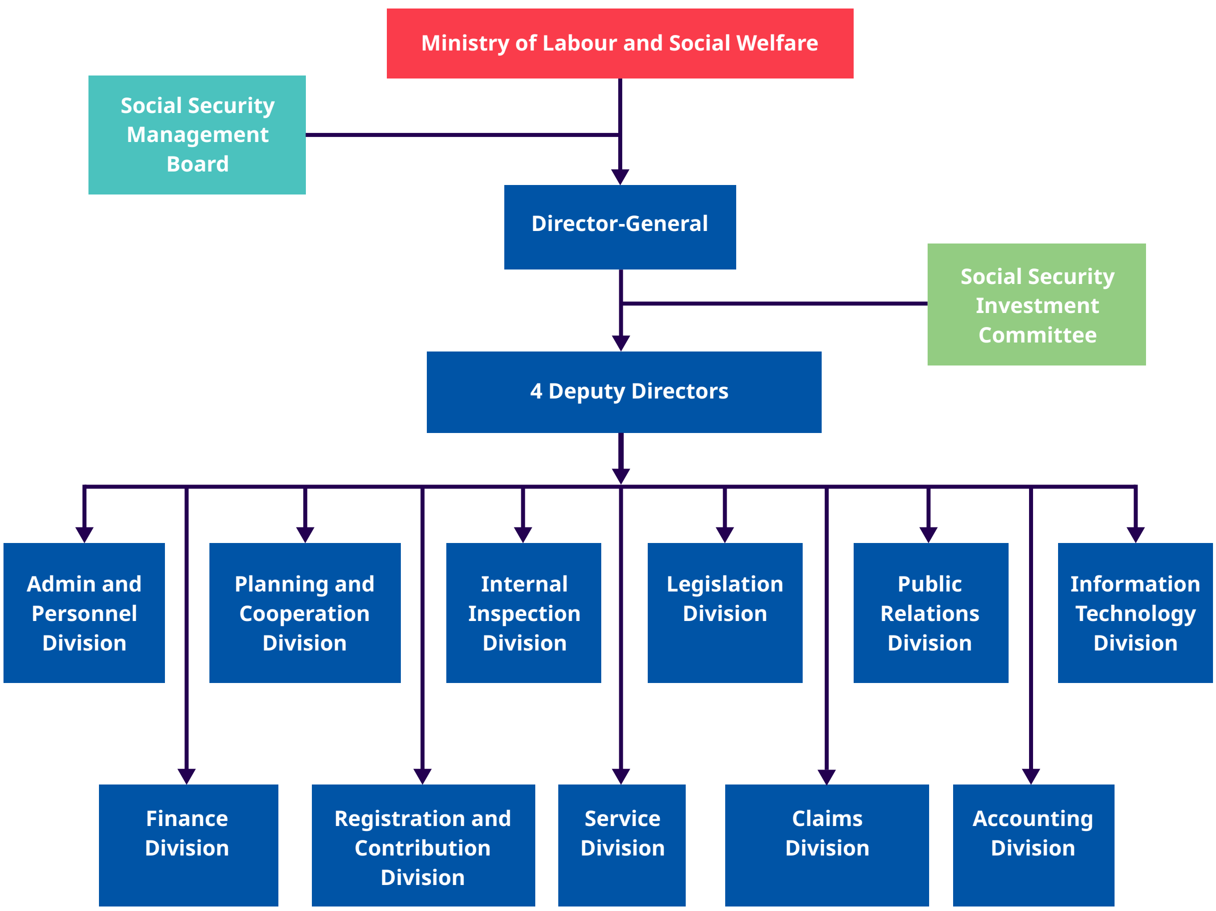
In doing so, **it considers the International Social Security Association (ISSA) Guidelines on the Investment of Social Security Funds, which are international best practices for social security administration**.

For example, **Guideline 3**:

- The Board or Governing body is given the responsibility to govern the social security institution and to exercise oversight of its administration and is ultimately responsible for the investment activities.
- The management is given the responsibility for the administration and daily operations of the social security institution and the investing institution.
- The investment committee is responsible for developing the investment policy and the investment strategy, recommending them to the governing body (or bodies), overseeing their implementation and evaluating their effectiveness.

2.3. Current roles and responsibilities

Figure 2. LSSO organization chart



Chapter 9 of the Decree on NSSF Fund Management and the Investment Committee Terms of Reference defines the current roles and responsibilities as:

Ministry of Labour and Social Welfare

- Summarize income–expenditure budget plan in line with contributions and report to the National Assembly for approval.
- Approve LSSO budget plans (operations and investment projects).
- Request budget from the Ministry of Finance in order to transfer into the income account of the NSSF at the National Treasury.
- Supervise, monitor and inspect the implementation of income–expenditure plan of the LSSO.

LSSO Board of Directors*

- Study and consider endorsing the income–expenditure budget plan of the LSSO.
- Consider and propose reforecasts to the social security budget plan (if any) to the Ministry of Labour and Social Welfare on a semi-annual basis.
- Consider and propose endorsing the new procurement budget plan for the LSSO and investment projects annually.
- Manage the accumulated money and other investments of the Fund.

** In the future, consideration may be given as to whether a separate Fund Board would be beneficial to overseeing the investments of the Fund, given the LSSO Board currently has a wide mandate administering the social security activities of the Lao People's Democratic Republic (acknowledging that there may be some overlap in membership between the LSSO Board and the new Fund Board).*

Investment Committee

- Ensure funds are managed in line with laws and regulations.
- Data collection and analysis, evaluation of risks, and pros and cons of investment options, as well as making proposals to the Board for consideration and endorsement.

Management of LSSO

- Create income–expenditure budget plan of the LSSO to present to the Board of Directors for consideration before being presented to the Ministry of Labour and Social Welfare for approval.
- Implement income–expenditure budget plan and provide reporting.
- Improve and manage systems of accounting and finance of the LSSO.

- Monitor and manage income–expenditure budget plan of LSSO offices.
- Study and explore investment options for fund reserves.

2.4. Effective investment governance starts with clearly defined roles and responsibilities

Top-down oversight based on risk appetite

Bottom-up based on investment opportunities and assessment of risk in line with risk appetite

Ministry of Labour and Social Welfare

- **Supervise, advise and monitor the NSSF's investment programme, including compliance with laws and regulations.**

The Board

- Approves the **target return objectives**
- **Sets the overall risk appetite (refer to Annex 2)**, which reflects the **investment objectives** and **stakeholder expectations**
- Approves risk tolerances and limits
- Approves investments exceeding the Investment Committee's delegated authority

Investment Committee (IC)

- Help to **define the NSSF's objectives in investment terms**
- **Ownership of investment policy/strategic asset allocation**-related matters
- **Approve investments within delegated authority**
- **Oversee risk appetite and allocation of risk limits**
- **Approve asset class risk and return assumptions**
- **Monitor exceptions** (through reporting), **control framework and other directives**

Management Committee (LSSO)

- **Assess investment proposals** made by LSSO department representatives and/or consultants
- **Monitor performance** against expected return
- **Independent risk review** on all new investment proposals, e.g. new asset classes, sectors, countries
- **Monitoring** of investment level **risks and returns**
- **Risk reporting**

Department Representatives (LSSO)

- Designated investment officer(s) to **assess and recommend investment opportunities** and risk management representative(s) to make **risk allocation recommendations** to the Management Committee/IC for approval.

2.5. Recommended enhancements to the Investment Committee

2.5.1. Current Investment Committee (IC) mandate

Composition

1. Vice-Minister of Labour and Social Welfare (Chair)
2. Director-General of the LSSO (Vice-Chair)
3. Director-General of the State Budget Department, Ministry of Finance (Vice-Chair)
4. Director-General of the Labour Protection Department, LFTU (Member)
5. Director-General of the Stock Exchange Committee, Bank of Lao PDR (Member)
6. Deputy Director-General of the National Institute of Social and Economic Research (Member)
7. Vice-Chair of the Employers' Committee, LNCCI (Member)
8. Deputy Director-General of the LSSO (Member)
9. Chief of Internal Audit Division, LSSO (Member)
10. Chief of Accounting Division, LSSO (Member)
11. Chief of Planning and Cooperation Division, LSSO (Member)

Roles and responsibilities

1. Explore and develop financing-related regulations that are in line with the legislation and propose these to Social Security Management Board for consideration of endorsement.
2. Collaborate with concerned sectors on data collection and analysis; analyse the risks, pros and cons of the investment options; and make proposals to the Social Security Management Board for consideration and endorsement.
3. The IC shall divide tasks among its members.

2.5.2. Proposed enhancements to Investment Committee mandate

COMMITTEE STRUCTURE

Committee makeup

- Controlled turnover of members to ensure well-informed IC members.

- Consider whether the members of the IC will be able to attend an increased frequency of meetings, that is, at least quarterly.
- Consider appointing a consultant/expert adviser with significant experience in social security investment management and asset allocation to guide the Investment Diversification Strategy and capacity-building.

GOVERNANCE

Meeting frequency

- Ideally meet quarterly, or more frequently depending on the circumstances.

Meeting preparation

- Formal agenda should be established and distributed to the IC – along with materials – at least one week in advance of the meeting.

Governance calendar

- Ensures significant fiduciary responsibilities/obligations are reviewed on a regular basis (that is, to cover all roles and responsibilities in the IC Terms of Reference).
- Allows for a structured long-term approach in the face of change and short-term challenges.

DOCUMENTATION

Investment Policy Statement (IPS)

- The IPS is the NSSF's blueprint and is recommended to be reviewed annually.
- Clarifies roles and responsibilities of key stakeholders.
- Establishes formal procedures for evaluating performance.

Meeting minutes

- Reviewed and approved by all IC members on a timely basis.
- Provides historical context for why/how decisions were made and educates newer members on past decisions.

Goals and objectives

- Clearly define and revisit periodically.

Please refer to Annex 3 for additional suggested enhancements to the IC Terms of Reference.

2.6. Capacity-building: People, processes and systems

2030 To be reassessed based on NSSF and LSSO needs.

2029 To be reassessed based on NSSF and LSSO needs.

2028 To be reassessed based on NSSF and LSSO needs.

2027
- **Strategic asset allocation review** with the support of an investment consultant.
- **Document institutional processes** for potential investment into non-listed assets (domestic and/or global).
- **Desk side training of LSSO staff**
- **Annual Board/IC "offsite"**.

2026
- Document **external fund manager** selection/evaluation framework with consultant support.
- Attendance of **online investment webinars / manager briefings**
- **Document institutional process** for investment grade global bonds/equities investment (or for non-listed assets if prioritized earlier by the IC).
- **Desk side training of LSSO staff and/or secondments (or virtual working groups)**.
- **Annual Board/IC "offsite"**.

2025
- **Board/IC "offsite"** – suggest to be facilitated by an investment consultant.
- Document detailed **risk management framework** and **risk oversight /selection process for fixed deposits**.
- **Document investment and operational processes** for US Treasury Bills (if required as an interim measure).
- **Desk side training of LSSO staff**.

2.6.1. Capacity-building and education commitment: Suggested channels

Consultant support

- Desk-side training and assist with the documentation of institutional processes and procedures (investment, risk, compliance and operational).
- Subject matter expert to advise the IC and/or the Board.
- External fund manager selection/evaluation framework.
- Help to facilitate external fund managers search and/or advise on investment into non-listed assets, including due diligence, negotiation and appointment.
- Other investment advisory services (on a needs basis).

Secondments / Virtual working groups

- Designated staff (with particular focus on investment and risk management) to explore collaboration with other social security funds and/or pension funds. This could be in the form of virtual working groups and/or exchanges.

Online webinars / Manager briefings

- Attend online investment webinars/manager briefings to learn and stay on top of market updates.
- Asset managers and investment consultants regularly host webinars, which would be helpful from both a top–down and a bottom–up perspective and assist to identify new and emerging risks.

ISSA (International Social Security Administration)

- Has over 100 member countries and provides detailed educational guidelines on all aspects of governance, administration, investments and risk management for social security funds. It is recommended that the LSSO becomes an ISSA member (if not already) and uses their guidelines and educational resources in daily operations as the LSSO builds its ability, scope and scale in the coming years.

International best practices

- Accessible by referring to annual reports and the websites of established social security funds, including those of Thailand, Malaysia, the Republic of Korea and Japan.

03
Investment Policy Statement

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3.1. Introduction and context

Purpose

The Investment Policy Statement (IPS) is intended to govern the investment objectives, as well as to measure the returns from – and appropriate risks of – the investments of the reserve fund of the NSSF pension scheme for private sector workers ("the Fund").

The IC is responsible for advising the Board on the need for changes in the overall investment strategy or management of the Fund, including the making of recommendations as to changes.

This section seeks to provide a transparent description of the investment government framework of the Fund, the types of investments that the Fund will invest in, the investment philosophy and the types of risks that are suitable for adoption by the Fund.

Legislative framework

The Fund operates according to the Law on Social Security (as amended). Specifically for investment, the Fund operates in accordance with the Decree on National Social Security Fund Management, dated 6 December 2021 (Ref. No: 4508/MoLSW), as amended from time to time.

Review

The IPS is intended to provide a transparent description of the framework within which the investment advice provided by the IC to the Board will be developed.

It is recognized that the theory and practice of investment will change over time, as will the capabilities of the Ministry of Labour and Social Welfare, the Board, the IC and LSSO management, and that accordingly this document will be subject to regular review and amendment as the details of the Fund's strategy are implemented.

3.2. Investment Policy Statement contents

1. Mission statement

The mission statement reflects the purpose of the Fund and provides a framework within which the investment strategy will be formulated.

> The Fund's mission is to invest scheme assets in a manner that maximizes the long-term value of the Fund in order to support social security benefit payments for current and future generations.

2. Investment objectives

The Fund should have its own investment objectives that maximize the benefits arising from its long-term investment horizon – having regard for the purpose for which the Fund has been established, the relevant legislative provisions and the Fund's mission.

The following long-term investment objective has therefore been established and is designed to maintain the real value of assets to meet current and future social security benefit payments.

The investment objective of the Fund is to achieve a nominal return of CPI + 2 per cent.

The investment objective has been set so that the Fund's assets can, with a reasonable probability over the long-term, be able to meet social security benefit payments while maintaining the real long-term value of the assets.

CPI = Consumer Price Index

3. Investment beliefs

Investment beliefs are working assumptions that underlie investment practices and considerations and which help to guide effective investment decision-making.

Investing involves taking an acceptable level of risk

- The Fund should take "acceptable but not excessive" levels of risk in targeting the investment objective of CPI + 2 per cent.
- There is a belief that prospective risks and returns vary over time, and the Investment Committee and the Board will regularly assess whether there is adequate reward for the risk inherent in market prices.
- The more risk that the Fund is willing to accept, the higher the potential return, so long as that risk is priced and evaluated properly.

Investing must be in the best interests of scheme participants

- The investment focus is on achieving the mandated target return on a forward-looking basis. Importantly, the Fund does not seek to correct for historical returns in order to achieve the target return over a fixed period.
- The Fund participants (contributors and beneficiaries) require safety, liquidity and transparency, as well as return on investments to minimize the need for increased contribution rates over time.

Minimize complexity

- As the Fund's investment governance structure is in its early stages, complexity shall be avoided.

- Complexity assessment includes, but is not limited to:
  - Ease of access to reliable information needed to assess risks.
  - Ease of transacting and access to reliable market values.
  - Access to diversification.
  - Governance requirements, implementation challenges (including due diligence), ongoing monitoring and reconciling performance.

Long-term investment horizon

- The relationship between risk and return becomes more stable over time as the average return over the period approaches the long-term mean.

- The Long-Term Benefit Fund, with long-term obligations, can be patient and optimize risk adjusted returns over a longer-term horizon (that is, it can accept short-term volatility).

Diversification provides a powerful risk management tool

- Significant concentration in a single asset class poses risk to Fund assets.

- By combining different assets, with diverse sizes, from different sectors and geographies, that vary in response to forces that drive markets, the LSSO is able to create more efficient portfolios for the Fund and individual schemes. Through appropriate diversification, a given level of returns can be achieved at lower risk.

Financial markets are currently limited in the Lao People's Democratic Republic

- At present, financial markets in the Lao People's Democratic Republic do not offer enough securities for the Fund to achieve a liquid and diversified portfolio. Liquidity requires regular trading. Diversification in the domestic context implies access to different assets classes and sectors.

- The Fund contributions are in Lao kip, so where possible local investments will be sought, so long as the Fund's investment risk parameters are not compromised (for example, through over exposure to bank deposits and government bonds) and the prevailing economic situation allows for such investments.

Transparency builds confidence and enables a long-term disciplined approach

- A transparent relationship between the stakeholders in the investment process and the stewards of the Fund (that is, between those who set the investment policies and those who put the policies into practice) means that the stakeholders will better understand the beliefs and principles adopted in the stewardship process.

- The Fund faces a wide variety of financial and operational risks, and transparency enables a disciplined approach to be maintained over time and minimizes the risk of emotionally-driven – and potentially costly – decisions being made during periods of market instability.

Asset allocation may vary over time

- The investment strategy aims to balance risk and reward by apportioning the Fund's assets, while also taking into consideration the economic situation in the Lao People's Democratic Republic and currency volatility. To this end, asset allocation is likely to vary over time as the economic landscape changes and in order to balance the Fund's goals, risk tolerance and investment horizon.

- Expected returns, asset volatilities and correlations also vary over time, and may necessitate rebalancing of and adjustments to the Fund's asset allocation.

4. Investment principles

While the investment beliefs for the Fund outline the fundamental beliefs regarding the financial market, the investment process, and risk and return factors, this section outlines the main investment principles that will drive the advice and recommendations provided by the Investment Committee to the Board and the Ministry of Labour and Social Welfare in the short and medium term.

The investment principles will evolve along with the level of "institutional investment capacity" and the size of the Fund, and will be subject to more frequent changes over time than the underlying investment beliefs (as detailed in section 3 above).

Strategic asset allocation is the first order decision

- The process of diversifying financial assets across different asset classes and risk factors is arguably one of the most important contributors to Fund performance over the long run.

- The Fund should therefore be constructed according to a long term, strategic asset allocation that aims for an expected return for a specific level of risk. This helps to remove any temptation to make ad hoc "switches" between investment asset classes, given that markets are difficult to predict and ad hoc approachs are generally unrewarded.

- It is understood that based on the current economic situation in the Lao People's Democratic Republic, there is an immediate need to consider such headwinds when implementing the investment diversification strategy for the Fund. It is recommended to review the strategic asset allocation when the economic situation in the Lao People's Democratic Republic changes and/or at least every three years.

"Capacity" is paramount to developing the investment strategy

- Developing the Fund's investment strategy requires increasing the capacity of all key stakeholders.
- Exposing the Fund to unnecessary risks is not appropriate before the Fund is able to manage these risks or before the key stakeholders understand investment risks (domestic and international) in the short and medium term. Hence, the investment strategy must be developed alongside increases in institutional capacity, and the strategy should be the product of a broad consensus among key stakeholders.
- The implementation of the investment strategy requires a degree of skill and experience. The internal investment process for each proposed asset class should be clearly documented to include investment selection criteria, performance monitoring procedures, rebalancing guidelines, review process, details on authorized investments; all clearly outlining the decision-making framework and parties responsible for managing such investments.
- External fund managers may be considered for specific asset classes to implement the diversification strategy in a prudent and responsible manner.

Risks must be managed

- Clear delineation of roles and responsibilities is required.
- The stakeholders will adopt a risk profile that is commensurate with the Fund's return objective and time horizon. That risk profile should be determined after careful analysis of the prospective risk and return characteristics of each asset class in which the Fund might invest.
- Concentration of risk should be avoided by ensuring there is adequate diversification between and within asset classes. It is acknowledged that concentration risk may only be fully addressed in the medium term, given the current investment constraints faced by the Fund.
- The composition of the portfolios should be monitored to ensure that there is no unintended bias away from the investment strategy.
- Investment consultants/advisors may be appointed to support the Fund for technical investment advice and comprehensive risk oversight.

The investment objective should be achievable through listed investments

- The Investment Committee believes that appropriate exposure to return and risk can be achieved by investing in bank deposits, government bonds, investment grade global bonds and global equities.
- Although in supporting the social objectives of the NSSF, investment into non-listed assets such as real estate, private equity and infrastructure may be considered over time, but only after addressing the required capacity building to provide such additional diversification.

Passive management should be the main investment style

- Systematic investment of the Fund in a diversified portfolio of assets exposed to a number of different asset classes and rewarded risk factors is expected to provide the great majority of returns over the longer term.
- On this basis, a passive management approach should be the main method of targeting most of the Fund's longer-term return objectives.
- Additional capacity would also be required prior to any allocations to opportunistic investments.

Structured review process to maintain discipline

- From time to time, investment portfolios move away from their strategic asset allocation benchmarks. This occurs because asset classes and sub-asset classes behave in different ways at different times. Their returns differ periodically (as intended), and therefore there will be a need to monitor and rebalance the portfolio back in line with its strategic asset allocation from time to time.
- There are many approaches to portfolio rebalancing. In general, automatic rebalancing regimes are preferable in order to avoid arbitrary tactical positions and the tendency to reduce market risk after market declines.

Evaluation to foster institutional learning

- The Fund should establish a database for all realized returns by asset class to facilitate future evaluation of its history, as well as to provide the basis for analysing and predicting performance under hypothetical scenarios.
- Investment portfolios should be constructed and maintained with the costs and taxes in various jurisdictions in mind. Costs and taxes may be implicit or explicit in an investment portfolio.

Cost-consciousness

- From a fund management perspective, the LSSO's objective is to achieve the highest possible investment returns after costs. All costs are to be scrutinized in the context of improving the Fund's risk-adjusted returns.
- The Fund is to be managed in a prudent and efficient manner. The LSSO aims to keep total internal management costs below [0.xx] per cent of assets under management.

5. Asset class-specific beliefs

The following section tailors some of the general beliefs and principles to address specific asset classes.

Investment universe: The Fund will invest in Lao bank deposits, domestic government securities and (over the medium term) global equities and investment grade global bonds. The Fund may consider investing into US Treasury Bills as an interim risk mitigation measure, if deemed required by the IC and Board.

Investment into other asset classes, including non-listed assets such as loans, non-listed bonds, non-listed equities, infrastructure projects and public–private partnerships to manage public investment projects in the Lao People's Democratic Republic will be re-evaluated by the Investment Committee and the Board on a periodic basis in line with capacity-building of key stakeholders and documented institutional investment processes.

Investment restrictions: The investment restrictions in place are to be described in a Risk Budget and Risk Management Policy.

The Fund will be initially comprised of **two portfolios/buckets**.

Income portfolio	Return-seeking portfolio
▶ Based on the current domestic investment constraints, **bank deposits and Lao government bonds** dominate the portfolio. ▶ The expected return on the domestic "income" portfolio is **the cash benchmark**. ▶ Subject to capacity-building, investment grade global bonds may also be added to the income portfolio.	▶ Diversified portfolio of investments abroad, including exchange traded funds (ETFs) and/or other fund arrangements in **global equities**. ▶ The expected return on the return-seeking portfolio is **the weighted composition of the specific benchmarks**. ▶ Subject to capacity building, **non-listed assets** may also be considered over the medium to long term within this return-seeking portfolio.

6. Investment return and risk objectives

The investment mandate

- To maximize investment returns on the Fund in a prudent and sustainable manner over the long term.
- Determine an "acceptable but not excessive" level of risk.
- Act in a way that:
  – is consistent with international best practice for institutional investment.
  – minimizes the potential to impact on the Lao financial markets.

Target Fund returns

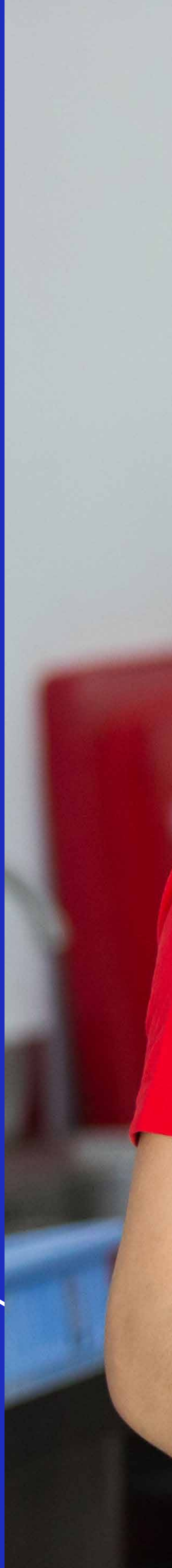
- The investment objective of the Fund is to achieve a nominal return of CPI + 2 per cent.
- From 2025, the Fund's target nominal return is 5 per cent per annum, comprised of the projected long-term inflation rate (3 per cent) + 2 per cent.
- The target return implies a moderate level of risk-taking on average over market cycles.

Lao People's Democratic Republic current economic situation and risk objectives

- The Lao People's Democratic Republic is currently facing economic challenges, including prolonged high inflation, devaluation of the kip and weaker GDP growth. While the target nominal return is based on long-term average inflation, the Fund will need to be managed in a way that addresses such headwinds over the next couple of years, before aligning the Fund to a longer-term target strategic asset allocation.
- The investment policy statement, target return and risk objectives will therefore need to be revisited when the economic situation changes and/or at least every three years.

04

Investment diversification strategy



4.1. Domestic investment landscape

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Description	▶ Lao banks offer **term deposits** between **1 month and 60 months** in **kip**, **US$ and Thai baht**. ▶ To date, the LSSO has invested in bank deposits with a **duration of up to 36 months in kip**. ▶ There is some scope to negotiate the terms of the **maturity and interest rate** with the banks. ▶ Based on the current **domestic economic landscape**, some banks have **limited capacity** to take on large amounts of new term deposits.	▶ A **fully functioning and liquid government bond market** is an important element to Lao capital market development and to **stimulate and support a smooth economic recovery**. ▶ **Issuances** are through: – **Bank of Lao PDR** (Treasury Bills) – **Securities firms** (Treasury Bills and budget-balancing bonds) – listed on the Lao Securities Exchange (LSX) – **Direct to investors** (development bonds, recapitalization bonds and arrears-clearance bonds) ▶ Issued predominantly in **kip**, but also issuances in **baht** and **US$**.	▶ **Only one US$ corporate bond has been issued on the LSX** – Souvanny Home Center Public Company (SVN) (4-year bond), **based on private placement**. ▶ **10 stocks are listed on the LSX**, however **1 is in a trading halt** and **1 under alert for maintaining status** (as of November 2024). ▶ **The total market capitalization is ≈14,631,286 million kip** and **the top 3 stocks represent ≈85 per cent of the market capitalization** (November 2024).	▶ Non-listed assets include **loans, real estate, private equity, infrastructure, public–private partnerships** to manage public investment projects, and **direct ownership of non-listed companies** (capable of providing diversification and development of the Lao People's Democratic Republic).

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Suitability	▶ **Lao banks are not rated by global ratings agencies and have differing levels of financial strength. Quarterly financial statements** are published on the bank websites. ▶ The Lao banking system operates in a Caa3 (Moody's) rated country (**non-investment grade**) and the **country relies strongly on foreign direct investment**. ▶ Private sector fund reserves are expected to accumulate over the next 5 years to ≈5,072,129 million kip (by 2030), implying **high concentration risk in the domestic banking system** (LSSO's total kip deposits as of 30 September 2024 stood at 3,020,839 million kip). ▶ Deposits in kip **align with the liability profile of the Fund**.	▶ Government securities are **intended to offer additional safety** because of the Government's ability to collect taxes to pay back investors. ▶ **Commercial banks** hold a large proportion of government securities, given that (unlike other markets) there is currently **limited participation from pension funds and life insurance companies**. ▶ High exposure to a single country's debt **exposes future benefits to the risk of a sovereign crisis**. Therefore, the LSSO needs to consider the current economic situation in the Lao People's Democratic Republic, external debt levels, and debt service obligations when determining the size of its allocation to Government securities. ▶ Government securities issued in **kip align with the liability profile of the Fund.**	▶ The limited investment universe, the **size of the economy and the quality of companies makes additional listings challenging**. ▶ **No research coverage** by banks or research houses. ▶ **Limited liquidity** based on the current market participants, which may result in **high bid-ask spreads** to purchase or sell positions. ▶ The listed companies have **not been paying consistent dividends** based on the recent economic situation.	▶ Management of such assets has **significant governance challenges**. The LSSO must have in place **rigorous control and decision-making mechanisms as well as an effective risk management framework**. ▶ **External expertise would likely be required** in the management of such risks. ▶ Relevant aspects for the **viable implementation of an effective investment strategy in infrastructures** include the existence of a well-functioning domestic public–private partnership model (for social infrastructure), a robust project bond market, a strong legal and regulatory framework, and long-term involvement of the insurance sector. ▶ **High concentration** of investments in a single country **exposes future benefits to the risk of a sovereign crisis**.

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Required governance capacity	▶ The key challenge to assessing and monitoring the ability of banks to pay back the principal and interest is to **assess the transparency of the banks' financial statements and the robustness of their internal control procedures**. ▶ **The LSSO does not currently have a formal risk assessment process governing its investments into bank deposits and ongoing monitoring of those investments**. – Please refer to **Annex 1 for sample risk indicator**s pertaining to bank deposits. ▶ Encouraging **competition and diversification** among banks is recommended, **subject to the formal risk assessment process**.	▶ The main concern is the **price in the primary market or in private placements of government securities**. The LSSO will need to demand a price aligned with market yields to maturity, however the **current market infrastructure sees the Government setting the price**. ▶ Governance becomes more **complex if longer-term bonds are issued aligned with the Fund's liability profile** due to interest rate risk management. ▶ The **local currency bond market is still developing**, and the LSSO will need to consider: **i.** market infrastructure **ii.** Treasury Single Account and fiscal information disclosure **iii.** primary dealers **iv.** expansion of the investor base **v.** coordination with and collaboration among authorities and stakeholders	▶ The LSSO would need to develop expertise to **research the company's fundamentals**, such as earnings per share, price-to-book ratio, price-to-earnings ratio, dividends, return on equity and so on. ▶ Governance should consider getting **comfortable with the industry**, the company's **market positioning**, **understanding what the company does, the key management**, transparency and timeliness of **financial statements**, as well as setting **entry price levels and target exit prices** (assuming there is market liquidity).	▶ The LSSO would need to develop internal resourcing to undertake **due diligence, risk management and accounting/valuation** for domestic investment in non-listed assets. ▶ **Required governance capabilities include: financial project risk assessment, analysis of regulatory frameworks, and capacity in initiating, developing, negotiating and managing the asset class/ projects**. ▶ Robust Investment Committee and Board framework to **avoid "ad hoc investments"** in public–private partnership projects.

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Risk profile	▶ Bank of Lao PDR reported **non-performing loans (NPLs) of 1.7 per cent in March 2024**. This compares to **regulatory requirements of less than 3 per cent**, and individual bank NPL rates and the size of their off-balance sheet debts should be monitored. ▶ **How banks utilize/on-lend the deposit monies** should be considered, for example, overleveraged financial systems and exposure to sectors such as construction and real estate.	▶ The size of the **Lao People's Democratic Republic's public and publicly guaranteed (PPG) debt to its economy is larger than neighbouring countries**, standing at 112 per cent of GDP in 2024. By way of comparison, in 2021 PPG debt in Thailand stood at 58 per cent of GDP, Cambodia at 38.7 per cent and Viet Nam at 40.2 per cent. Reliance on external financing is high, with **external debt standing at 88 per cent in 2024**, as compared to 2 per cent in Thailand and 36 per cent in Viet Nam (comparator data as of 2021) ▶ The Lao People's Democratic Republic's **debt service burden is significant, at around 44 per cent of government spending in 2024**, and is currently being **restructured**. ▶ **Arrears-clearance bonds** (usually issued to address liquidity issues and economic management) **represented ≈30 per cent of domestic government bonds outstanding** as of 2021; while **development bonds** (which should be exceptional, but large amounts were issued in 2021) accounted for ≈**45 per cent** as of 2021. **Debt and cash management** require improvements (including **tax collection**), and steps are underway, including the establishment of a Debt Management Department and by **publishing an annual bulletin with publicly guaranteed debt statistics**.	▶ At present, financial markets in the Lao People's Democratic Republic **do not offer enough securities to invest in a liquid and diversified portfolio**. ▶ **Liquidity requires regular trading. Diversification** implies access to different **assets, markets and sectors**. ▶ Participation in the development of the local securities markets should be **conditional on their liquidity, transparency and contribution to diversification**.	▶ **Non-listed assets are less liquid, harder to value** and can be affected by the **economic situation** within the Lao People's Democratic Republic. ▶ The private sector reserve fund may **not be large enough** in the near term to justify any meaningful allocation into non-listed assets to **achieve adequate levels of diversification**. ▶ Should this asset class be considered, **co-financing and co-investments in non-listed assets** may be considered in pari passu conditions with private investors.

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Liquidity	▶ Fixed-term deposits are **not tradeable**; however, the Fund is **not expected to have any net outflows until 2045**. ▶ **Early redemption** may result in a **loss of accrued interest and early exit penalties**. If an early redemption is large, it is also possible that the bank may need a longer lead time to process the early redemption.	▶ The secondary market is not well-developed; therefore, most investors **hold securities to maturity**. ▶ As a part of open market operations, the Bank of Lao PDR offers **repo and collateralized lending facilities** to commercial banks; however, they are **typically not utilized**. The Treasury Bills and budget-balancing bonds issued through securities firms have been **listed on the LSX** since December 2018, but there **have been few transactions**. ▶ A safer and more **efficient payment and settlement system** is required to attract more foreign investors.	▶ Liquidity requires regular trading, but **trading volumes on the LSX are low**.	▶ Non-listed asset classes are **hard to trade**, so the key challenges of such holding are the **collection of future revenues and finding a buyer to sell at fair market prices**. ▶ **Exit strategy(ies)** should be specifically considered as part of the business plan for non-listed assets.

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Diversification and expected return	▶ Domestic bank deposits **do not provide diversification at the total Fund level**. ▶ **Short maturity returns do not reflect potentially higher long-term returns**. ▶ The rates offered by domestic banks reflect the risk profile and higher cost of borrowing. For example, on a 36-month term, the **interest rate ranges from 5 per cent per annum (foreign banks operating locally) to 9.5 per cent per annum (local banks)**. However, based on the current economic situation and prolonged inflation in the Lao People's Democratic Republic, this return **does not protect the real capital value of the Fund**. ▶ For kip deposits, there is currently **very little spread** between 6-month deposits (9.5 per cent) and 36-month/60-month deposits (both at 10.5 per cent) (source: Lao Viet Bank).	▶ **The Ministry of Finance sets a coupon rate and sells at par only**, not through competitive price bidding. There is no room for auction participants to negotiate the price of the bond. ▶ **The Ministry of Finance seems to set coupon rate or price with reference to deposit rates**. ▶ The Government needs to consider a **long-term strategy**, including issuing long-term bonds. ▶ **Government bonds in countries with similar ratings to the Lao People's Democratic Republic are trading at similar yields**, for example, the short-term government bond yield in Pakistan is trading at 12 per cent and in Zambia at 10.80 per cent (as of September 2024).	▶ **Low capital appreciation and payment of dividends** since COVID-19. ▶ Investing in corporate bonds and equities on the LSX faces several **complexities** in the short to medium term: – Access to **reliable information** to assess the likelihood of recovering the money invested – **Ease of transacting** meaningful volumes and access to **fair market prices** – **Access to diversification** – **Governance and implementation challenges**, active monitoring of portfolio and reconciling performance.	▶ An **illiquidity return premium** is expected; however non-listed assets, such as infrastructures and public–private partnerships, imply significant amounts per investment, **leading to higher concentration risk**. ▶ Large pension funds in non-OECD countries **hold, on average, 6.5 per cent in alternative investments** (including land, private equity, infrastructures, hedge funds, other) (OECD 2023). ▶ Among other aspects, a **robust project bond market is relevant for the viable implementation of an effective investment strategy in infrastructure**. Without a well-developed long-term bond market, it is not possible to predict fair market expected returns for non-listed assets.

Topic	Bank deposits	Government bonds	Corporate bonds and equities	Non-listed assets
Overall conclusion	▶ **Suitable for investment**	▶ **Suitable for investment up to an agreed limit.**	▶ **Not yet suitable for investment** – The LSSO will need to develop its governance structure, and similarly, domestic capital markets need to evolve.	▶ **Not yet suitable for investment** – The LSSO would require significant development to its governance structure, due diligence, implementation and risk management capabilities.

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4.2. Current investment portfolio

4.2.1. Current investment portfolio as of September 2024

Table 1. Private sector scheme reserves

Asset class	Value (kip)	Value (US$)	Ratio (%)
Bank deposits	3 020 838 800 000	137 654 992	93.20
LSX government bonds	214 000 000 000	9 751 652	6.60
Fixed assets (2021)*	6 383 198 801	290 873	0.20
Total	**3 363 221 998 801**	**153 256 869**	**100.00**

* Please see table 2.

Table 2. Fixed assets

Asset class	2016	2017	2018	2019	2020	2021
Buildings	8 787 419 861	8 459 782 469	7 920 791 744	7 383 154 352	6 845 516 960	6 307 879 568*
Vehicles	2 516 938 107	1 549 677 294	760 464 742	188 539 602	94 244 802	-
Office supplies	1 189 373 574	886 258 365	557 141 499	318 403 785	170 651 832	75 319 233*
Government bonds	–	37 200 000 000	78 600 000 000	102 000 000 000	112 000 000 000	122 000 000 000
Total	**12 493 731 542**	**48 095 718 128**	**153 256 869**	**109 890 097 739**	**119 110 413 594**	**128 383 198 801**

– = nil. Note: Fixed assets as of 2024 were not available at the time of finalizing this report.

Fixed asset composition

- Fixed assets of the private sector fund include:
  - Assets provided by the Government, such as buildings, furniture and computers.
  - Purchase of buildings or building offices of provincial social security.
  - Purchase of vehicles.
  - Purchase of office supplies.
  - Purchase of government bonds (have been split out for the purpose of our analysis).

Findings and observations

- Buildings (without land), furniture and computers are **not considered investment assets capable of producing income and capital growth** in the best interests of the Fund. By way of example, the office building owned by the Fund **depreciated by 28 per cent of its value** between 2016 and 2021.

- To clarify:
  - Furniture, computers and vehicles are **depreciating assets**.
  - Office supplies are **consumables**.
  - Office buildings, without land ownership, are **depreciating assets**.

Recommendations

- The LSSO should consider establishing an **Operational Management Agreement** that details the services and costs attributable to each scheme.
  - Depreciating assets and consumables should be **separately accounted for within the administration budget of the LSSO**.

Revise **Chapters 4, 5 and 7 of the Decree** on National Social Security Fund Management to be clear on the segregation between "assets" procured by the LSSO for administrative activities and the investment assets of the NSSF.

4.2.2. Current investments in bank deposits and Lao Government bonds

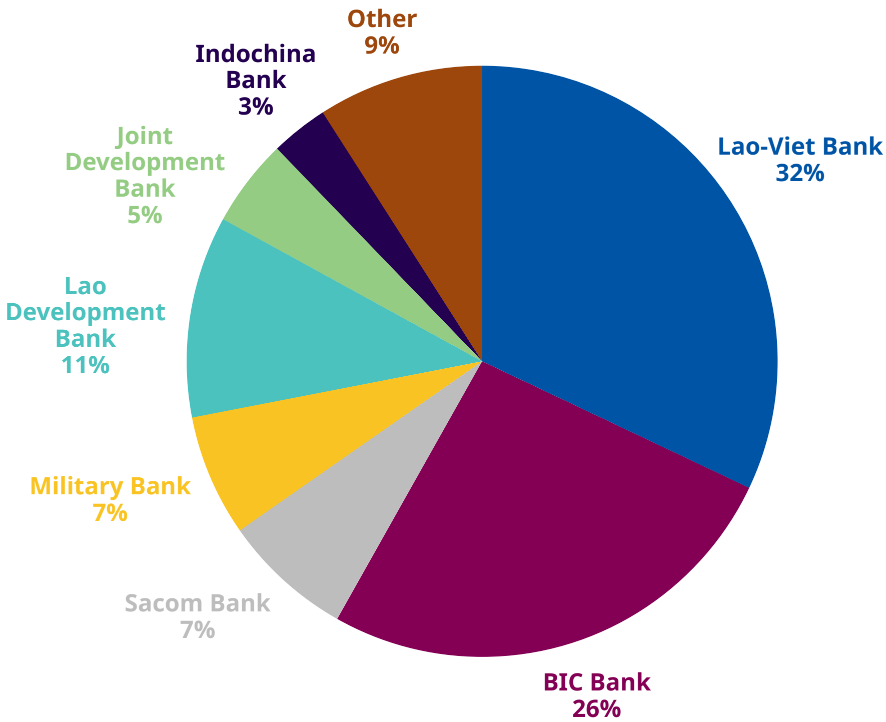
Table 3. Summary of investments in bank deposits and Lao Government bonds as of 30 Sept 2024

Account Name: ອົງການປະກັນສັງຄົມແຫ່ງຊາດ (LAO SOCIAL SECURITY ORGANISATION)

No.	Bank	No. of Accounts	Deposited amount (kip)	Interest (%)	As of total amount (%)
I	**Total fixed depositing amount**	**381**	**3 020 838 800 000**	**n/a**	**93.38**
1	Lao Viet Bank, 3 years	88	972 000 000 000	6.47–9.50	30.05
2	BIC Bank, 3 years	70	792 000 000 000	6.77–9.50	24.48
2.1	BIC Bank, fixed depositing of 3 years	65	742 000 000 000	6.77	22.94
2.2	BIC Bank, fixed depositing of 6 months	5	50 00 00 00 000	9.50	1.55
3	Sacom Bank, 3 years	43	211 000 000 000	6.50–9.00	6.52
4	ທະນາຄານຫຸ້ນສ່ວນການຄ້າທະຫານ 03 ປີ Military Bank, 3 years	23	203 000 000 000	6.90	6.28
5	Lao Development Bank, Vientiane Capital branch, 3 years	26	172 000 000 000	6.20–6.65	5.32
6	Lao Development Bank, Headquarters, 3 years	29	163 000 000 000	6.20–6.65	5.04
7	Joint Development Bank, 3 years	15	144 000 000 000	6.77	4.45
8	Indochina Bank, 3 years	18	100 000 000 000	7.00	3.09
9	Lao Agriculture Promotion Bank, Headquarters, 3 years	10	48 500 000 000	6.77	1.50
10	Lao Agriculture Promotion Bank, Vientiane Capital Branch, 3 years	5	36 000 000 000	6.77	1.11
11	ICBC, 3 years	8	36 000 000 000	5.00	1.11
12	ສະຖາບັນເງິນຝາກປະຢັດໄປສະນີ 03 ປີ Post Financial Institution, 3 years	14	35 338 800 000	6.00	1.09
13	Phongsavanh Bank, 3 years	8	30 000 000 000	6.77	0.93
14	Maruhan Japan Bank, 3 years	10	21 000 000 000	6.77	0.65
16	ST Bank, 3 years	4	20 000 000 000	6.85	0.62
15	Lao Agriculture Promotion Bank, Champasak Branch, 3 years	3	10 000 000 000	6.77	0.31
17	Vietin Bank, 3 years	2	11 000 000 000	6.77	0.34
18	Kasikorn Thai Bank, 3 years	3	9 000 000 000	6.80	0.28
19	Lao Agriculture Promotion Bank, Khammuane Branch, 3 years	1	5 000 000 000	6.77	0.15
20	ACLEDA Bank, 3 years	1	2 000 000 000	6.00	0.06
II	**Bonds, 47 accounts**	**47**	**214 000 000 000**	**6.80–7.60**	**6.62**
1	Lao Stock Exchange bonds	47	214 000 000 000	6.80–7.60	6.62
Total fixed depositing amount and bonds		**428**	**3 234 838 800 000**	**n/a**	**100**

n/a = not applicable.

Figure 3. Investment in bank deposits as of 30 September 2024



4.2.3. Domestic investment constraints

Prolonged high inflation	▶ Inflation soared on the back of rising global oil prices and a weak kip to an average of 23 per cent in 2022 and 31.2 per cent in 2023. ▶ Monetary policy tightened, with the policy interest rate shifting from 3 per cent in March 2020 to 7.5 per cent in February 2023. ▶ GDP growth forecasted to be 4 per cent in 2024/25, down from 8 per cent in the decade to 2016.
Devaluation of the kip	▶ The kip lost around 34 per cent of its value against the US dollar in 2022 and a further around 18 per cent in 2023, with currency depreciation estimated to explain 67 per cent of inflation. ▶ At present, only a little more than 30 per cent of export receipts enter the Lao People's Democratic Republic through the banking system (businesses prefer to keep in baht or US$). ▶ International reserves reached US$1.5 billion as of end of September 2023, or 2.3 months of import cover. ▶ External debt service payments coming due averages US$1.2 billion in 2024–27.

High public debt	▶ Pre-COVID growth relied on debt financing, for example, hydropower and mining, resulting in recent debt distress as growth has moderated. ▶ Public debt exceeds 112 per cent of GDP, with domestic debt equal to only 12 per cent of GDP. ▶ Debt servicing is now around 44 per cent of government expenditure. Debt restructuring plan with China is ongoing.
Bond market and finance sector deepening	▶ The Lao bond market mainly handles government securities that finance the budget deficit and repay public debt. ▶ Taxonomies and framework on principles governing green, sustainability and social bonds would help development. ▶ Deepening local currency bonds (with comprehensive legal framework and transparency) would build capacity to respond to shocks and provide stable and sustainable funding at reasonable cost and maturity.
Economic development	▶ Weak revenue collection linked to tax exemptions and rising debt service payments is constraining social sector spending. ▶ Enterprises are mostly small and informal. Only 30.4 per cent are registered and 12.9 per cent have a tax identification number (2020), and in the past three years, only 9.6 per cent obtained a loan from a formal financial institution – weakening the prospect for enterprise growth. ▶ Ratio of population employed was 46 per cent in 2022, most workers employed informally or engaged in subsistence agriculture. ▶ Investment in human capital set back by the pandemic.
Governance of public–private partnerships	▶ Key constraints on implementing public–private partnerships projects are: lack of capacity to appraise, screen and select investments; lack of skills and experience in preparing and developing public–private partnerships; and insufficient government funding. ▶ Three state-owned enterprises are responsible for almost half of external public debt through on-lending and debt guarantee arrangements.

4.3. Target diversification road map

4.3.1. Illustrative road map

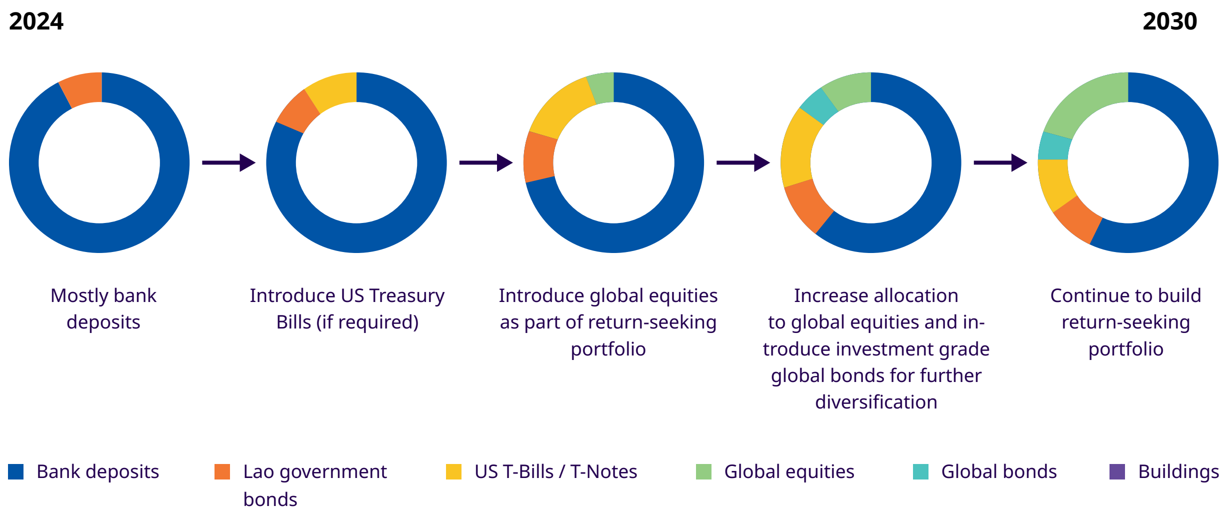
The Lao People's Democratic Republic is currently facing economic challenges, including prolonged high inflation, devaluation of the kip and weaker GDP growth. In the **short-term, the Fund will need to be managed in a way that addresses such headwinds**, while concurrently **strengthening the investment governance framework** to implement the Fund's diversification aspirations.

The initial goal will be to **address the risk of over exposure to bank** deposits given the expected growth of the Fund over the next five years. In doing so, it will be important to take gradual steps to diversify the Fund, given that an **enhanced investment governance framework** is required and the US dollar is currently very high relative to the kip if considering to invest abroad. Therefore, the **risk tolerances at the total Fund level are currently constrained**.

Should the kip continue to depreciate, the Fund may also wish **consider building up hard currency reserves as an interim measure**, and subsequently utilize the hard currency reserves to purchase return-seeking assets in line with the medium- to long-term strategic asset allocation.

The suggested diversification road map, detailed below, presents **targets for the LSSO to work towards** and will need to be reviewed if the Lao People's Democratic Republic's economic situation changes and/or be formally reviewed again in 2027.

Figure 4. Target diversification road map



Recommendations

- Utilize net cash inflows and a portion of maturing bank deposits **to implement changes in the strategic asset allocation**.
- If limitations in investments abroad are imposed (acknowledging that the Decree will need to be updated), the lack of **liquidity and diversification opportunities in domestic markets will result in excessive bank deposits and inefficient diversification**, adding to the level of risk in the Fund. This can in part be addressed by **immediate capacity-building** and **enhancements to the investment governance framework** to enable the Fund to consider investments into **domestic non-listed assets**.

4.3.2. Addressing the current economic headwinds should be the immediate focus, while preparing to implement the long-term strategic asset allocation

Table 4. Gradual allocation to return-seeking assets: An illustrative example

Asset class	2024	2025	2026	2027	2028	2029	2030
Bank deposits (%)	93.20	81.84	70.87	60.39	58.66	56.93	54.69
Lao government bonds (%)	6.60	8.00	9.00	9.50	8.75	8.00	7.75
Buildings (%)	0.19	0.16	0.13	0.11	0.09	0.07	0.06
US Treasuries (if required) (%)	–	10.00	15.00	15.00	12.50	10.00	10.00
Investment grade global bonds (%)	–	–	–	5.00	5.00	5.00	5.00
Global equities (%)	–	–	5.00	10.00	15.00	20.00	22.50

– = nil.

We recommend performing a Strategic Asset Allocation Review in 2027 to consider where the Fund stands in terms of its asset allocation, the Lao People's Democratic Republic's economic situation and the capacity of key stakeholders. This will also provide a natural point to revalidate the Fund's investment objective, risk appetite and investable universe (including consideration of investment into domestic non-listed assets).

Assumptions

- It is assumed that if US Treasuries are required to manage further downside risk of currency devaluation and imported inflation, this would be funded by **net cash inflows and maturing bank deposits**.
- It is assumed that **hard currency will be purchased at a pace that attempts to balance the immediate needs of the Fund with the current economic situation in the Lao People's Democratic Republic**.
- Following the initial build up of US$ exposure (if required), we have assumed that the Fund would then allocate to global equities, reflecting the Fund's long-term investment horizon, as this asset class represents a core component of a return-seeking portfolio and benefits from the expertise of appointing external fund manager(s).
- It is assumed that exposure to investment grade global bonds will be introduced in 2027 or beyond. The Fund is targeting to reach a 20 per cent exposure to global assets in 2026, after which it would be desirable to start investing in investment grade global bonds to provide additional diversification benefits at the total Fund level.
- For now, we have **not considered non-listed assets** (domestic or global) in the initial strategic asset allocation, **based on the institutional governance and financial management capacity required**. Furthermore, the sub-asset classes within non-listed assets are commonly subject to unsolicited proposals and require significant cost–benefit analysis and competitive benchmarking. That said, domestic non-listed assets may be appropriate to support the social objectives of the NSSF, which may inclide real estate, private equity and infrastructure over time.

4.3.3. Global asset classes for consideration

Topic	US Treasury Bills and US Treasury Notes	Global equities	Investment grade global bonds	Non-listed assets
Description	▶ US Treasuries are **debt securities issued by the US Government** that are considered low-risk investments. ▶ The most common US Treasuries are divided into three categories based on their maturity length: – **Treasury Bills** of 4, 8, 13, 17, 26 or 52 weeks. Issued at a discount to their face value (no interest payments). – **Treasury Notes** with maturities of 2, 3, 5, 7 or 10 years (interest payments every 6 months). – **Treasury Bonds**: long-term securities with maturities of either 20 or 30 years (interest payments every 6 months).	▶ Global equities portfolios typically include **both developed countries and emerging markets**. ▶ Global equities is a common asset class for social security funds to diversify their investment strategy and participate in the **growth of different economies and industries**, providing a balance of risk and potential returns as a long-term investor.	▶ Issued by **governments and corporations**. ▶ Typically bonds that are **issued and traded in multiple countries and in a currency that is not native to the country of issue**. ▶ Investment grade implies ratings of Baa (by Moody's) or BBB (by S&P and Fitch) or above. These bonds tend to be issued at lower yields than less creditworthy bonds. ▶ Provide **complementary sources of return** by investing in multiple country yield curves, as well as through prudent currency management.	▶ **Discounted due to current Fund size and institutional governance and financial management capacity required.**

Topic	US Treasury Bills and US Treasury Notes	Global equities	Investment grade global bonds	Non-listed assets
Suitability	▶ Low-risk option to commence **building exposure to hard currency**. ▶ May provide **interim downside risk mitigation** should the IC and Board expect further devaluation of the kip and elevated imported inflation ▶ The interest payments can be **reinvested to further create US$ reserves for the Fund's Investment Diversification Strategy**.	▶ Based on the size of the Fund and the risk appetite (to be formally agreed by the Board), the LSSO may wish to first consider a **large blended index portfolio(s)** (for example, All Countries World Index) and/or **diversified exposure to developed markets** to potentially reduce volatility. ▶ An allocation to global equities over time is suitable **given the long investment horizon** of the fund.	▶ Suitable when the Fund builds **sufficient hard currency exposure** and there is a desire for further **diversification**. ▶ Investors who focus on government bonds in a **single country are limited largely to binary duration decisions**, while global bonds can benefit from **country rotations and diversified sources of return**.	
Required governance capacity	▶ **Managing operational risk**: Can be purchased directly from the US Government (https://treasurydirect.gov), or alternatively through a bank or broker. ▶ **Selection and monitoring: The duration** will drive the type of US Treasury being selected and should be considered in the context of the overall diversification road map and interest rate risk. ▶ **Compliance and reporting**: US federal tax due each year on the interest earned (no state or local taxes), therefore the LSSO or its Fund Administrator would need to complete IRS Form 1099.	▶ **Strong investment governance framework** and fully functioning Investment Committee / Board to look **through short-term volatility and periods of long-term returns**. ▶ **Manager selection and/or ETF selection process**: Investment and operational due diligence process for the selection and ongoing monitoring of external fund managers/ETF providers.	▶ **Manager selection process** (similar to global equities). ▶ Ability to **monitor or evaluate changes in economic or other factors** that may affect the Strategy (and engagement with appointed investment manager). ▶ Strong **investment governance framework** and risk management capacity to understand drivers behind market, credit and interest rate risks.	

Topic	US Treasury Bills and US Treasury Notes	Global equities	Investment grade global bonds	Non-listed assets
Risk profile	▶ The US Government has **never defaulted** on its debt. ▶ While US Treasuries are considered low-risk, they **can be impacted by inflation and changes in interest rates**, particularly Treasuries with longer durations. For example, **interest rate risk**: – US Treasury Bills: Low – US Treasury Notes: Moderate – US Treasury Bonds: High ▶ **Competitive and non-competitive bids**: When purchasing via non-competitive bid via Treasury Direct, the investor agrees to accept the discount rate, yield or discount margin determined at auction.	▶ **Ability to withstand periods of underperformance (such as price volatility, currency risk, and so on)** to enhance long-term returns. For example, the All Country World Index had negative returns in 2022 (–17.96 per cent) and 2018 (–8.93 per cent), but had positive returns across 1-, 3-, 5- and 10-year timeframes. ▶ Selection of appropriate global equities fund(s)/ETF(s) (the LSSO does not have the scale for a separate mandate). **We recommend utilizing a consultant to ensure appropriate consideration of the risk/return trade-offs based on prevailing market conditions at the time**, for example, large cap investments in developed markets versus diversified global exposure.	▶ **Risk–return spectrum**: Intended to be higher risk than US Treasuries, but lower risk than global equities. ▶ **Risks considerations**: – **Interest rate risk**: Value can fall in the secondary market if newer bonds are offered at more attractive rates. – **Inflation risk**: Inflation can impact value. – **Currency risk**: Currency of a bond can impact value. – **Political and economic risk**: Instability in the country where the bond is issued can make it difficult for the issuer to meet debt obligations. – **Reinvestment risk**: Cashflow reinvested into new issues with a lower yield.	

Topic	US Treasury Bills and US Treasury Notes	Global equities	Investment grade global bonds	Non-listed assets
Liquidity	▶ US Treasuries can be bought and sold in the **secondary market**, which is **active** and makes them **highly liquid**. ▶ The US Treasury market is the **world's most liquid government bond market**. ▶ Liquidity on **Treasury Bonds is relatively lower** than Treasury Bills and Treasury Notes given their longer duration.	▶ Based on the size of the proposed allocation to global equities over time (tilted towards large caps in developed market), the units in the relevant fund/ETF are expected to be **highly liquid.**	▶ Based on the size of the proposed allocation to global bonds (over time), the units in the relevant fund are expected to be **highly liquid**. This is particularly the case for investment grade funds, which adhere to liquidity risk management policies and procedures to meet investor redemptions.	

Topic	US Treasury Bills and US Treasury Notes	Global equities	Investment grade global bonds	Non-listed assets
Diversification and expected return	▶ US Treasuries have **low correlation with other major asset classes**, which can help diversify an investment portfolio. ▶ Expected return commensurate with the **risk/return profile**, for example (as at November 2024): – 30-year bonds: 4.50 per cent – 10-year notes: 4.25 per cent – 1 year bill: 4.19 per cent to 4.388 per cent ▶ In addition to the nominal return, the Fund would benefit from **hard currency** exposure if there is a need to manage downside risk associated with any further devaluation of the kip.	▶ Investing in global index funds can provide **diversification from domestic and international cash and government bonds**, providing the Fund with an opportunity to increase returns from the **growth portion of the portfolio**. ▶ **Long-term investment horizon to realize expected returns**, for example, the All Country World Index returned 21.27 per cent over 1 year, 11.56 per cent over 5 years and 10.32 per cent over 10 years (as of 31 January 2025), but has had negative years of performance.	▶ Provides potential diversification benefits through exposure to **additional inflation risk factors, economic environments and market cycles, as well as market, sector and credit risk premiums**. ▶ Returns are predominately driven by yield curve positioning, asset allocation, sector allocation and security selection. The LSSO will need to choose a manager for the Fund that does not have high **annualized volatility to mitigate downside risk.**	
Overall conclusion	▶ **Suitable for investment in US Treasury Bills** (if required to manage further downside risks associated with the devaluation of the kip).	▶ **Suitable for investment up to an agreed asset allocation and with consultant support**.	▶ **Suitable for investment up to an agreed asset allocation and with consultant support**.	

4.3.4. Introduction to risk management principles

Credit risk Loss caused by a bond issuer not fulfilling payment obligations.	**Concentration risk** Absolute exposure to issuers, sectors, regions and other grouping levels.	**Liquidity** Risk of difficulties in liquidating, purchasing, or switching investment assets quickly and at or near their fair value.	**Inflation** Risk that the future real value (after inflation) of an investment, asset or income stream will be reduced by unanticipated inflation.
Duration/interest rate risk Chance that investments in bonds will suffer as a result of unexpected interest rate changes.	**Exchange rates** Risk that an investment's value may decrease due to changes in the relative value of the currencies involved.	**Credit spreads** Difference in yield between a treasury and a corporate bond of the same maturity.	**Correlation** Statistical measure that determines how assets move in relation to each other.

Multiple risk factors can affect asset classes being considered by the Fund.

For example, in relation to bond prices:

- The price of a bond corresponds to a hold-to-maturity implicit return called "yield to maturity" (YTM). The required nominal YTM of a bond is the result of adding local cash rates, a credit risk margin, an expected inflation margin, an inflation uncertainty margin, a capital gain margin and, in the case of international bonds, a currency risk margin. Until maturity, if investors in the market require a higher YTM, the price of the holding bond will decrease, because a lower return is embedded in the initial price. Conversely if the market required YTM decreases, the bond price will increase.
  - **Based on such risk complexities, we have only recommended investment grade global bonds once the institutional capacity and documented processes and procedures are in place.**

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Annex 1. Investment risk management

Bank deposits

The risk indicators below are not intended to be exhaustive, but provide relevant insights for LSSO Management and the Investment Committee to consider (that is, if such factors pose a risk to existing or future allocations into Lao bank deposits). Lao banks publish financial statements on their websites on a quarterly basis, and the investment risk analysis should be undertaken quarterly and provide the basis for setting risk limits and target exposures to individual banks.

	Bank A	Bank B	Computation
LSSO Investments			
Financial ratios			
Net interest margin			(Interest income – interest expenses) / average earning assets
Loan to assets ratio			Total liabilities / total assets
Return on assets			Net income / average total assets
Concentration risk			
LSSO deposit relative to bank equity			LSSO deposit amount / total bank equity
LSSO deposits as a % of customer deposits			LSSO deposit / total customer deposits
Financial soundness indicators			
Earnings			
– Gross profit margin			(Revenue – COGS) / Revenue
– Operating profit margin			Operating income / Revenue
– Net profit margin			Net profit/Revenue
Equity to asset ratio			Bank equity / total assets
Interest receivable as a % total assets			Interest and accrued income / total assets
Cash on hand as proportion of liquid assets			Cash on hand / cash and deposits at banks and financial institutions
Liquidity assets as a proportion of total assets			Cash and deposits at banks and financial institutions / total assets
Interest and arrears payable as % cash on hand			Interest and arrears / liquid assets

	Bank A	Bank B	Computation
Macroprudential surveillance			
Stress testing			
Bank equity			Total equity per balance sheet
Simulate non-performing loans on 3 per cent of loans to customers			Assume 3 per cent of customer loans are deemed non-performing
Minimum base capital (foreign commercial bank)			Base capital requirement – foreign branches
Minimum base capital (local commercial bank)			Base capital requirement – local commercial banks
Adjusted bank equity			Bank equity – NPL simulation
Excess/(shortfall) base capital			Impact on base capital

Note: GOGS = Cost of goods sold; NPL = non-performing loan.

A working spreadsheet has been provided to the LSSO to implement the investment risk management framework on bank deposits.

Annex 2. Setting risk appetite

The "risk appetite" refers to the ability and willingness of the Board (and the IC) to take on risk. In the diagram below, we have outlined the general process for setting the NSSF's risk appetite framework.

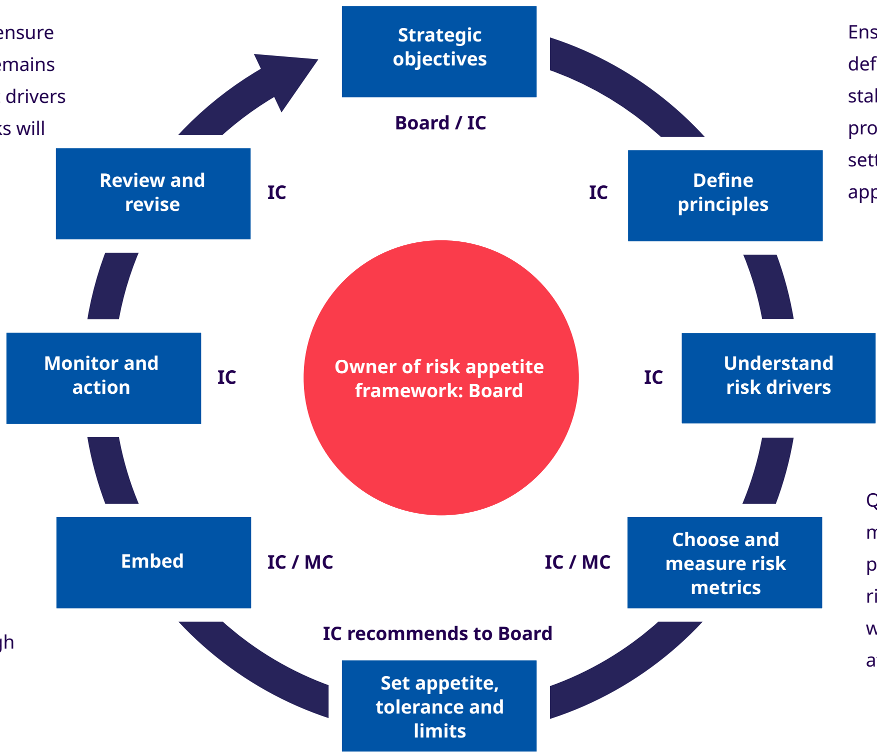
- Frame the objectives in risk appetite terms.
- Ability and willingness to take risk.

Regular review to ensure the risk appetite remains relevant given that drivers and impacts of risks will change over time.

Ensure consistent definitions, identifying stakeholders and process owners, and setting scope of risk appetite framework.

Continual monitoring and subsequent actioning, including escalation.

Ensure all significant risks are identified and considered.



- Establish risk management culture.
- Cascade risk appetite through the LSSO's business lines.

Quantification of material risks and potential downside risk – for instance, what can the Fund afford to lose?

- Align risk and return to the overarching strategy.
- In setting limits, consider risk tolerance as an upper bound to risk appetite (that is, the Fund's total risk limit).
- Quantify the risk limits and overlay with qualitative statements from management that use a tone that can be understood by all key stakeholders.

Key:

IC = Investment Committee

MC = LSSO Management Committee

Annex 3. Suggested enhancements to the Investment Committee's terms of reference

Duties and responsibilities

Area	Description
Investment Policy Statement (IPS)	▶ Review and recommend to the Board at least annually any changes to the IPS. ▶ Help to define the Fund's objectives in investment terms.
Implementation of the Fund's investment objectives	▶ Receive reports on the implementation of the investment programme, including performance measurement and relative risk exposures. ▶ Ownership of investment policy/strategic asset allocation-related matters.
Risk management	▶ Oversee the Fund's risk appetite and allocation of risk limits. ▶ Approve asset class risk and return assumptions. ▶ Monitor exceptions (through reporting), control framework and other directives.
Compliance with investment policies	▶ Review, evaluate and approve procedures that management has implemented to monitor compliance with the IPS and Risk Policy by receiving management's annual report on specified internal controls audited by the external auditor.
Appointment of external fund managers	▶ Oversee external fund manager selection framework. ▶ Review due diligence materials and recommend appointment of investment managers to the Board.
Monitoring of external fund managers	▶ Oversee LSSO monitoring process of external investment managers with discretionary authority to invest the assets of the Fund.
Investment transactions	▶ Approve all investment transactions up to approved delegation of authority limits set by the Board.
Capacity-building	▶ Review and recommend specific capacity-building initiatives to support the Fund's institutional practices and diversification road map.
Emerging risks and opportunities	▶ Consider market outlook, economic indicators, currency market and industry/regulatory developments that might affect the Fund and the investment strategy.
Other	▶ Carry out other duties as may be determined from time to time by the Board.

Accountability

The Investment Committee shall report its discussions to the Board by distributing the minutes of its meetings, and where appropriate, through an oral report delivered at the next Board meeting.

Committee timetable

Have a scheduled timetable throughout the year to address all duties and responsibilities detailed above.

Annex 4. Summary of stakeholder interviews

Date	Stakeholder
15 October 2024	Kick-off: Lao Social Security Organization, Investment Committee
5 November 2024	Market landscape: Jean-Claude Hennicot, Independent Consultant
6 November 2024	Workshop: LSSO IC
6 November 2024	Meeting: Stock Exchange Committee, Bank of Lao PDR
7 November 2024	Meeting: Lao Federation of Trade Unions (LFTU)
7 November 2024	Meeting: Lao National Chamber of Commerce and Industry (LNCCI)
7 November 2024	Meeting: National Institute of Social and Economic Research (NISER)
8 November 2024	Meeting: Department of State Budget, Ministry of Finance
8 November 2024	Closing meeting: LSSO IC

Investment Committee

IC composition: Pending appointment of a new Chair.	**Investment selection:** No documented criteria for the selection of bank deposits. Some banks have limitations to accepting deposits.	**Investment risk:** Risks discussed by the IC and Board, but no formal risk appetite and risk limits in place.	**Investment policy:** IC lacks experience to recommend risk appetite and investment strategy to the Board.	**Law and regulations:** Limits investment to domestic bank deposits and government bonds.
Role of IC: Research and present investment options to the Board for decision.	**Capacity-building:** Opportunity to strengthen capital markets research and risk analysis.	**Investment monitoring:** No formal investment monitoring.	**IC concerns:** High inflation and economic situation. Fund size is small, difficult to diversify assets.	**Investment priorities:** Grow the Fund and be sustainable in the long term.

Key takeaways:

- The IC was formed in 2023 and meets every six months. IC members do not have specific investment expertise, but all members provide their respective insights.
- A key focus is to develop an investment strategy, considering the current economic situation, to protect the real value of reserves in the Fund.
- Based on the investment belief survey, the concepts of risk appetite, risk limits and asset allocation strategy are relatively new concepts.
- The IC would like to develop a road map for its investment strategy.

Jean-Claude Hennicot, Independent Consultant

Counterparty risk: Concern on the capitalization of some banks and ongoing ability to accept deposits as the Fund grows.	**Bond markets:** Public debt a high percentage of GDP; mostly financed externally and need to develop the local bond market.
Economic situation: Exchange rate impacted by trade balance, which in turn is impacting inflation. A high proportion of labour is in agriculture and fisheries.	**Investment challenges:** Governance, limited choices outside of bank deposits and government bonds, real value of money based on inflation.

Key takeaways:

- Further pension reform may be required, for example, simplification of pension point system and high replacement rate.
- The governance structure and risk management framework may need to be revisited (including legal framework) to implement a new investment strategy.
- Change is required to protect the real value of the Fund.

Stock Exchange Committee

Limited listings:	**Liquidity:**
10 companies (1 recently delisted)	Trading volumes are low for equities. To date no secondary market for bonds.
Bond market:	**Market participants:**
Scripless for government bonds. Issued in kip twice per month, but have also previously issued in Thai baht and US dollars.	Primarily banks and securities companies (institutional) and small number of retail investors.

Key takeaways:

- The top three listings make up circa 85 per cent of the market capitalization of the Lao Stock Exchange – namely, EDL-Generation Public Company (EDL-Gen), Phousy Construction and Development Public (PCD), and Lao Asean Leasing Public Company (LALCO).
- Trading volumes are low, and payment of dividends limited since COVID-19.
- Size of economy and quality of companies makes additional listings challenging.
- Only one US$ corporate bond has been issued for Souvanny Home Center Public Company (SVN), for four years, based on private placement.

Lao Federation of Trade Unions (LFTU)

Risk appetite: Investments need to be "safe" and "secure", as well as potential for "moderate" level of risk for growth.	**Diversification options:** Corporate bonds, for example, companies with government concessions that may carry lower risk.
LSSO mission: Opportunity to invest in hospitals (such as a public hospital with a private wing) and education to support the overall mission of the LSSO.	**Investment challenges:** Real estate – small population and many new projects vacant. Corporate bonds – limited internal experience.

Key takeaways:

- Risk appetite is relatively conservative, with a view towards protecting fund reserves.
- Opportunity to explore corporate bond investments, particularly those with government concessions, but internal capacity-building is required.
- The LFTU believes there could be a better connection between the investment programme and the mission of LSSO, for example an LSSO hospital.

Lao National Chamber of Commerce and Industry (LNCCI)

Law and regulations:	Sustainability of fund:
Only one article on investments – could be clearer on how the fund reserves can be invested.	Discussed at quarterly board meetings. To date, unable to find a solution outside of bank deposits / government bonds.
Investment selection:	**Capacity-building:**
Priority given to reputable / well-known banks. Often negotiated by the Board with the banks.	Investment management, risk and performance are new concepts to all levels in the current governance structure.

Key takeaways:

- The investment governance framework and the LSSO law could be revised to provide greater clarity on the investment function, ensuring that investment of the private sector fund reserves are not impacted by changes in personnel.
- Given prolonged inflation, the duration of bank deposits and government bonds needs to be carefully considered.
- Sustainability of the Fund is important, including clear segregation of private sector reserves.
- The IC and Board are at the starting phase of exploring an Investment Diversification Strategy.

National Institute of Social and Economic Research (NISER)

Lower GDP Growth: Growth impacted by COVID-19, now around 4 per cent, and country still reliant on imports.	**Prolonged inflation:** Currently greater than 24 per cent. Difficult to forecast, but likely to remain in double digits for at least five years.	**Growth sectors:** Tourism (Government announced "Visit Laos 2024" campaign) and service sectors (such as. banking, logistics, cross-border transportation).	**Climate change:** Government is trying to promote the impact of climate change; previously monies redirected from debt servicing to disaster relief (floods).
Depreciation of the kip: Managing foreign exchange is a priority; currently a gap between bank and parallel bank. Tourism a key pillar to bring in foreign currency.	**Foreign debt:** Debt restructuring underway, as well as modernization of revenue collection systems.	**Net importer:** Importing commodities (can only produce ≈15 per cent of fuel). Underdeveloped sectors: logistics, agriculture, battery charging and energy.	**Banking sector:** Limited information publicly available, but the banks have their own boards of directors.

Key takeaways:

- The Lao Government is taking active measures to restructure its debt and stimulate growth sectors of the economy with a view to stabilizing the currency and inflation. For example, by increasing tourism, the Lao People's Democratic Republic can receive foreign currencies and create additional demand in areas such as agriculture, energy, transportation and so on.
- A key concern is inflation, but this is difficult to forecast due to internal factors and parallel market.
- NISER has not observed systemic issues in the banking sector and noted that the local banks seem to have been able to adapt, although there is limited information published.
- The Lao People's Democratic Republic is highly exposed to floods, storms and drought, for example, catastrophic flooding in 2018 caused damage equal to 2.1 per cent of GDP.

Ministry of Finance

Increased number of pensioners: Budget formulated with the LSSO as per the law, but funding has not been sufficient and there are no reserves.	**Government bond issuance:** Short-term bonds issued to support annual budget. Often difficult to drive domestic demand.
Alignment of opportunities: For domestic investments, it could be worth aligning to key mandates/policies, for example, those of the Ministry of Trade.	**Social security burden:** Investment objectives and global experiences should aim to reduce the burden of social security benefit payments on the Government.

Key takeaways:

- By having no public sector reserves, the long-term benefit payments burden on the Government is likely to continue to increase.
- The Lao People's Democratic Republic's government bond market is continuing to evolve.
- Should non-listed assets be considered in the future, the LSSO could benefit from aligning investment options to government policies and key mandates.
- To reduce public sector liability burden on the Government, a creative approach may be required. For example, once the economic situation stabilizes, there may potentially be budget for an additional allocation out of the State Budget to be managed by the LSSO (that is, for medium- to long-term growth) with the view of reducing future benefit payment burdens on the Government.
- The Ministry of Finance does not currently see systemic risks in the banking sector.

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