ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department
30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.
Tel : 2477424, 2477423, 2477311
Fax: 2346257, 2477739
E-mail: dcommunications@cbsl.lk, communications@cbsl.lk
Web: www.cbsl.gov.lk

Press Release

Issued By Employees' Provident Fund Department
Date 21 May 2012

EPF rejects MP's allegations of frauds involving the EPF

The Employees' Provident Fund (EPF) categorically rejects the statement allegedly made by an Opposition Member of Parliament as reported in several news papers on 15 May 2012, where the EPF has been accused of fraudulent transactions in the stock market. Such statement, read in conjunction with several past statements of a similar nature made by the same MP, seems to be designed to systematically discredit the EPF, discourage its investment activities, and precipitate a collapse of the stock market. These vituperative and misleading attacks would have not normally evoked a response from the EPF due to its obvious political bias, but since there appears to be a clear and mischievous motive to tarnish the reputation of the country's largest retirement fund and to destabilize the economy through such a strategy, the EPF has decided to issue this statement.

As has been explained on several occasions, the EPF invests around 93 per cent of its funds in government securities, and around 6 per cent in the stock market. The balance 1 per cent is invested in corporate debentures and short-term government securities. The investments in the stock market are made with a long term focus to generate profit and enhance the Fund's capital base over the longer term. In that exercise, the EPF considers, inter alia, the intrinsic value of shares of companies and their longer term outlook, the possible enhancement of share value in the medium to long term, the company's governing structures, future plans, the quantity of shares available of such companies, the viability and growth potential of the relevant industry and the possible impact of the growing economy on the company. Further, as is practised by many large long term funds all over the world, the EPF maintains its equity portfolio as a pool of investments, which comprises of a varied collection of stocks representing key sectors, including banking and finance, diversified holdings, oil based enterprises, healthcare, land and property, telecommunication, plantations, power and energy, tourism and leisure, trading and manufacturing.

In the case of equity investments, it must be noted that the performance of different companies and the market values of the shares of companies within the portfolio at different times, depend on global, economic, political, financial, sector-specific and company-specific, factors. In that background, companies as well as the entire share market does not perform uniformly, nor does the market prices of shares continue to rise at all times. Accordingly, there may be times during which the value of certain stocks could be lower than the cost, but such situations are almost always reversed when external factors change for the better, over time. Therefore, it is in that background that the diversification of EPF equity portfolio has been done, so that the fund value will yield above-average results, over the longer term. To support this investment decision-making process of the EPF, a team of professional and well qualified staff assess and recommend the investment opportunities from the point of view of the several aspects as enumerated above, and thereafter such recommended investments are approved by the high level Investment Committee, and finally ratified by the Monetary Board. Therefore, a dynamic and diligent process is followed, so as to ensure that the investments are made with care, and in order to safeguard the Fund and ensure its profitability, stability and growth.

Such policy has resulted in the EPF recording substantial gains, and the EPF has realized Rs. 2,504 million as capital gains and dividends in 2011, and realized over Rs. 1,559 million as capital gains and dividends, so far in 2012. In fact, at the time when CSE’s ASPI reached a peak in the latter part of 2010 and early 2011, the EPF equity portfolio recorded a huge unrealized capital gain of Rs. 19 billion. Nevertheless, even in the face of such gains, the EPF was of the view that it would be more advisable to retain such stocks in its portfolio over the longer period, considering the probable gains that such portfolio could generate in the longer term, when the country’s economy grows substantially over the next 4 to 5 years.

From the above, it is clear that the MP concerned is now attempting to viciously attack the EPF with malicious statements, taking advantage of the temporary bearish environment of the stock market, where almost all investors are experiencing a downward trend in their investment valuations, and where some investors are compelled to take losses particularly due to calls on their margin accounts. However, as is quite normal in all stock exchanges in the world, the large scale institutional investors have the capacity and the ability to hold onto their portfolios without having to dispose of their investments during a downward trend in the market, and in Sri Lanka where the EPF is clearly one of the largest institutional investors, the EPF will act in a similar manner. Hence, there is clearly no risk of the EPF incurring any real loss during this bearish phase of the stock market. In these circumstances, the EPF wishes to reiterate that its portfolio of stocks has intrinsic value, and therefore would hold onto certain stocks where the market values may have temporarily reduced below cost, because such stocks have potential to yield satisfactory dividends, and also make substantial gains when the ASPI move up in due course.

The EPF also wishes to emphatically state that no fraudulent stock market transaction has ever been made by the EPF and that all transactions have been carried out with utmost care, diligence and professionalism. Further, all EPF transactions including its investments are audited by the EPF's internal auditor, which is a reputed audit firm, while in terms of Section 6 (1) of the EPF Act No.15 of 1958, the annual financial statements of the Funds are audited by the Auditor General. In that context, the financial statements for the year 2010 have been audited by the Auditor General, and the Annual Report of EPF for 2010 together with the Auditor General's report has already been published. In such Annual Report, information on stock market investments, comprising of the investment portfolio and trading portfolio, have been published where the names of companies, value of shares and year-end market values have been disclosed as is required by the Accounting Standards. At the same time, the financial statements for the year 2011 have been submitted for audit to the Auditor General by February 2012, and the EPF has published such unaudited income statement and the balance sheet in the newspapers in early May 2012, for the information of its stakeholders.

The EPF wishes to state that as a result of its prudent investments and sound management, it has been able to declare an impressive rate of return of 12.5 per cent in 2010 and 11.5 per cent in 2011. Such rates of return are substantially above the interest rates applicable to normal deposits in the financial market during the respective periods. Further, the EPF is confident that its sound investment decisions will be proved pragmatic, sensible and profitable over the longer time-frame, and therefore wishes to advise its millions of stakeholders not to be misled by this type of vituperative and politically motivated negative propaganda.