



OECD/IOPS INTERNATIONAL PENSION CONFERENCE

Pension Funds Investment Landscape: Market Trends and Supervisory Challenges

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27 February 2020, Flic en Flac, Mauritius

Outline

- About Kenya
- Kenya's Pension Sector
- Market Trends
 - Equities Market
 - Bonds Market
- Pension Funds Investment
- Supervisory Challenges
- Conclusion

Key Facts About Kenya

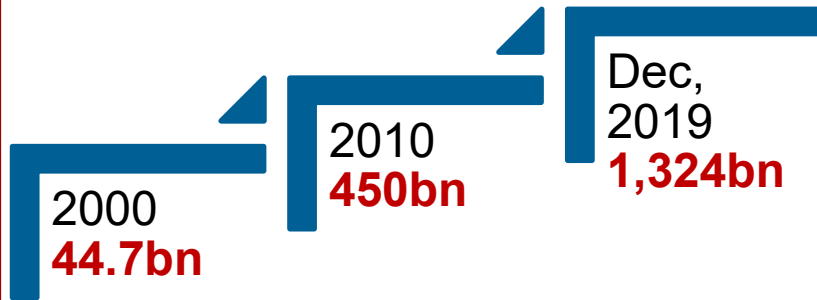


- ❑ Located in East Africa
- ❑ GDP is **US\$ 89 billion**
- ❑ GDP growth is **6.3%**
- ❑ Population is **47.6 Mn**
- ❑ Inflation Rate **4.7%**
- ❑ NSE 20 Share is **2,834**
- ❑ Main Economic Activities:
Agriculture, Tourism

Source: Economic Survey, 2019

Kenya's Pensions Sector

Assets in Kshs. Billions



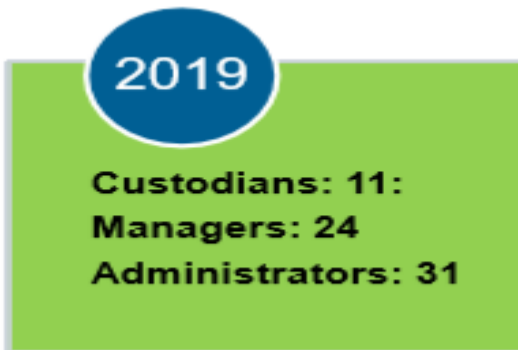
Members: 3.2 Million



Schemes: 1,258



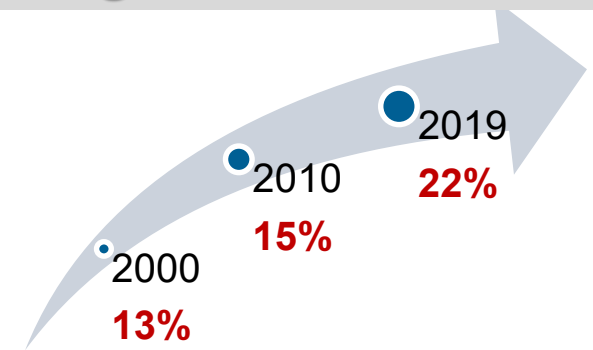
Registered Service Providers



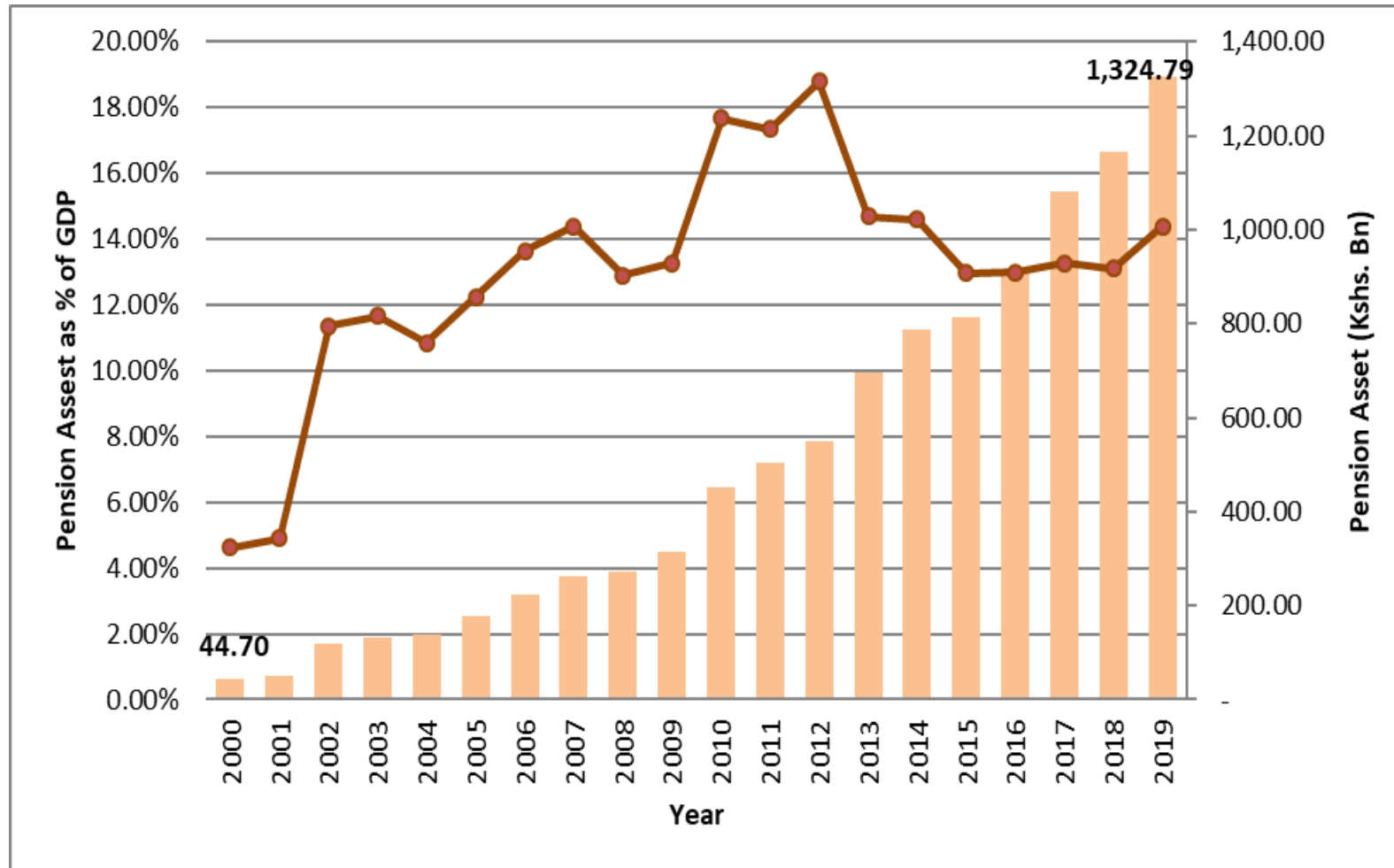
Trustees

Over 6000
Min-3/4
Max-9

Coverage: % of Labour force



Pension Assets Growth Trend



Source: RBA, 2019

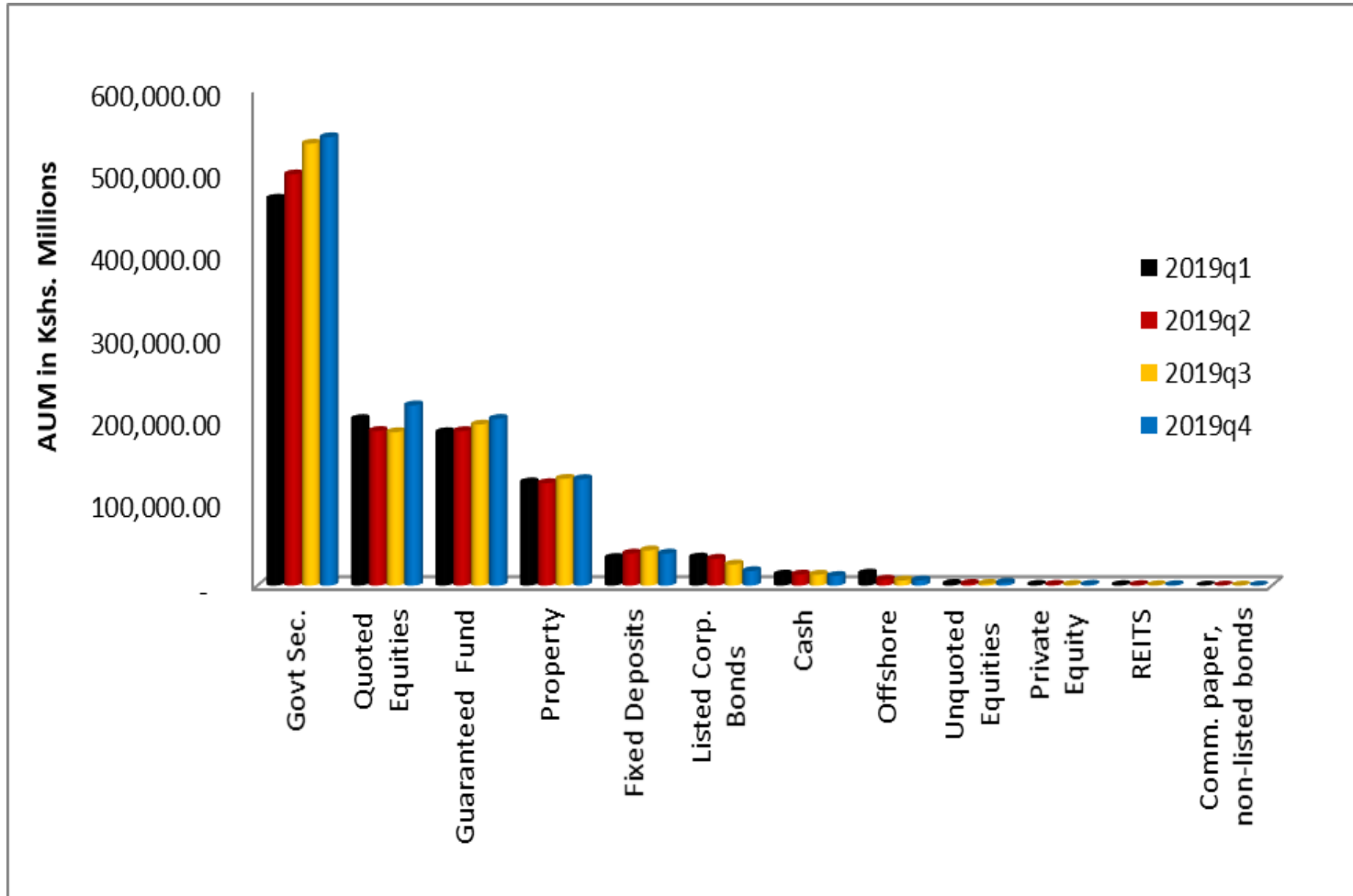
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Pension assets in Kenya have grown over the years from less than US\$1 billion in year 2000 to about US\$13.24 billion in Dec, 2019.

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However, the growth has been periodically affected by various economic shocks as well as market volatilities both global and local.

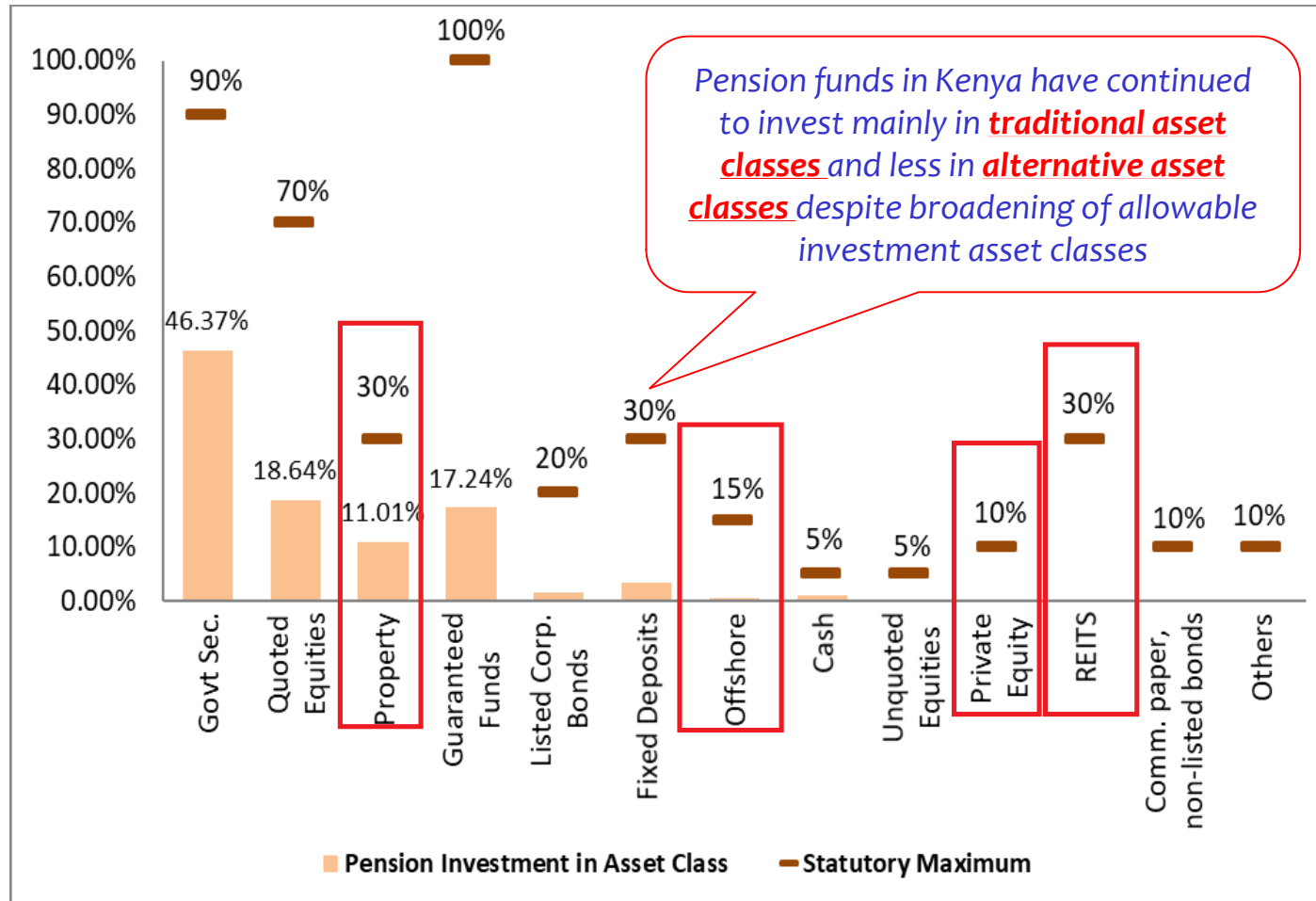
Pension Funds Investment Trends



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Despite growth in Assets, pension funds have invested in traditional assets classes [i.e Govt. treasury bill & bonds, quoted equities Guaranteed funds and a bit in property]

Pension Funds Investment Trends



Recently introduced alternative asset classes include REITs (development and income), private equity and venture capital, derivatives and exchange traded funds (ETFs)

However, uptake of these alternative assets classes remains relatively low

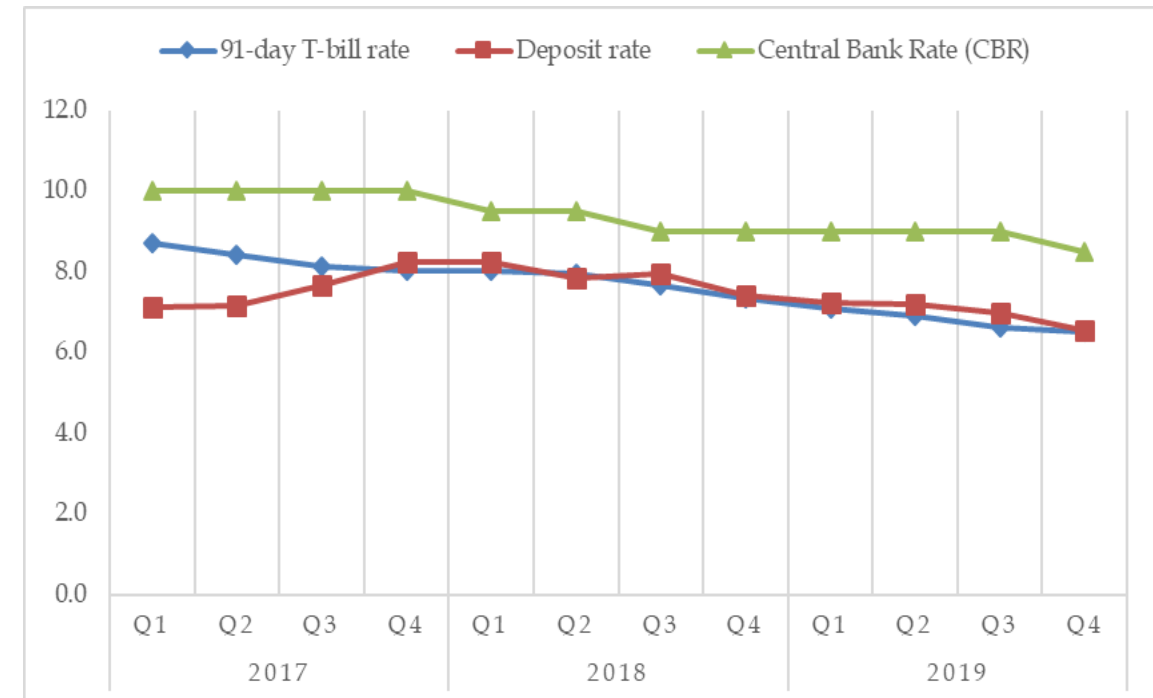
Market Trends

Bonds Market

The performance of bonds slowed down throughout the year 2019 with the total turnover closing at 106.5 in quarter 4 of 2019.

Bonds Turnover	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Govt. Bonds	161.43	201.42	182.97	105.53
Corporate Bonds	0.18	0.16	2.47	0.93
Total	161.63	201.71	185.44	106.46

Source: CBK, 2019

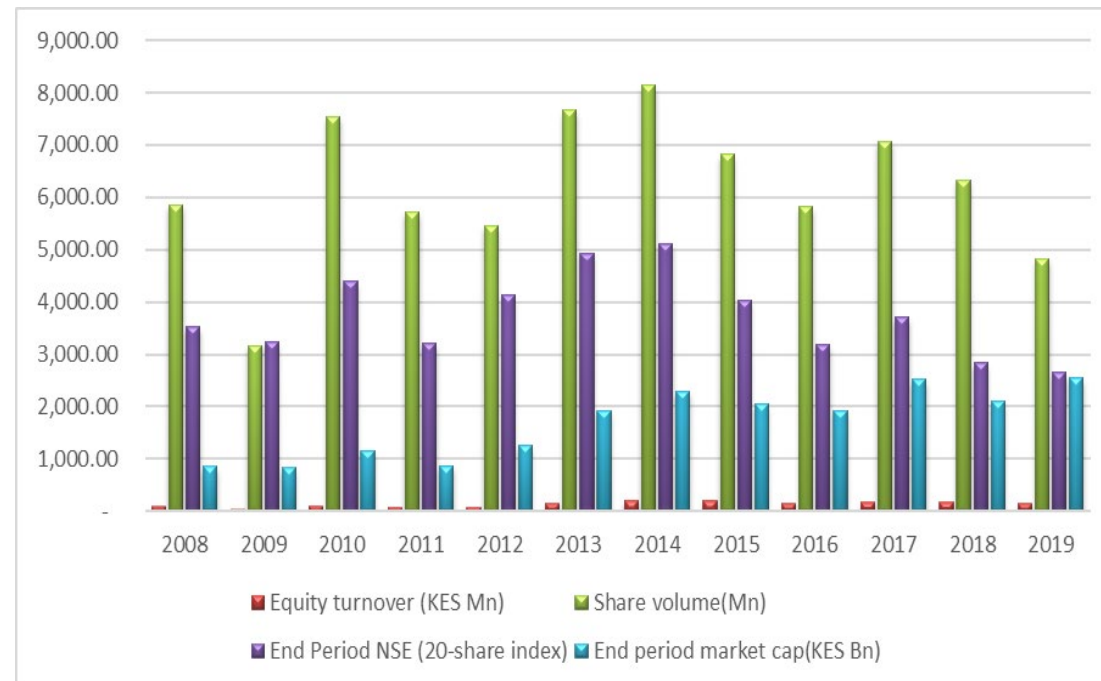


Market Trends

❖ Equities Market

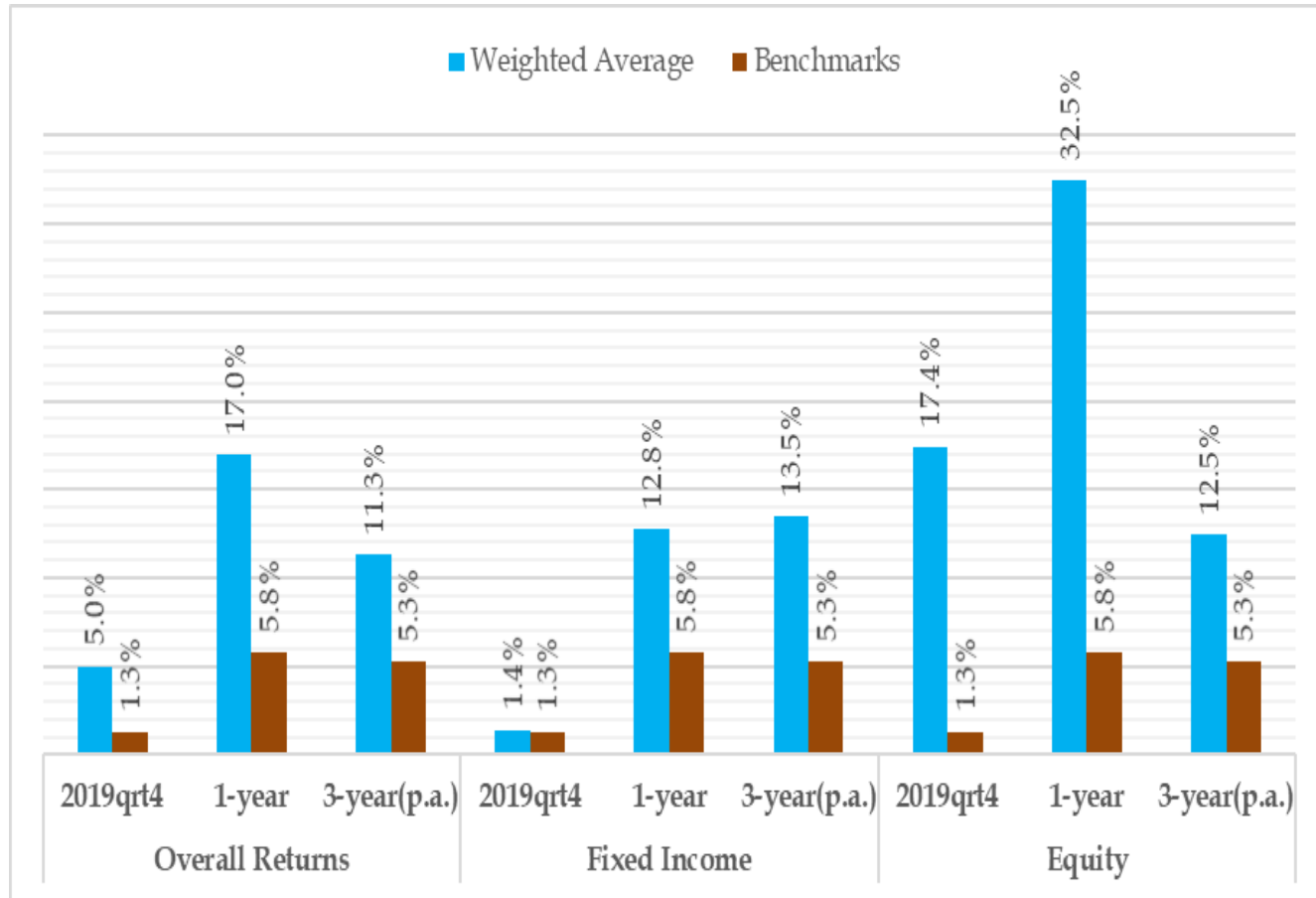
The performance in the equities market in quarter four of 2019 looked up due to gains in the banking and telco stocks following the repeal of the interest rates law capping.

Performance Indicators	2019 Q1	2019 Q2	2019 Q3	2019 Q4
NSE 20 Share Index	2846.35	2633.32	2431.97	2654.39
NSE All Share Index	157.66	149.61	145.46	166.41
Share Volume Traded	1673.55	1396.67	1060.81	1290.12
Equity Turnover (KES Mn)	452.5	328.97	306.6	450.1
Market Capitalization	2360.52	2278.89	2189.98	2539.98



Source: CMA, 2019

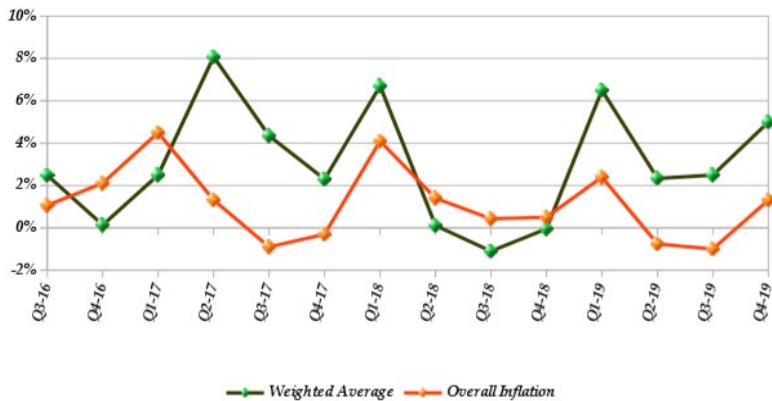
Pension Funds Performance



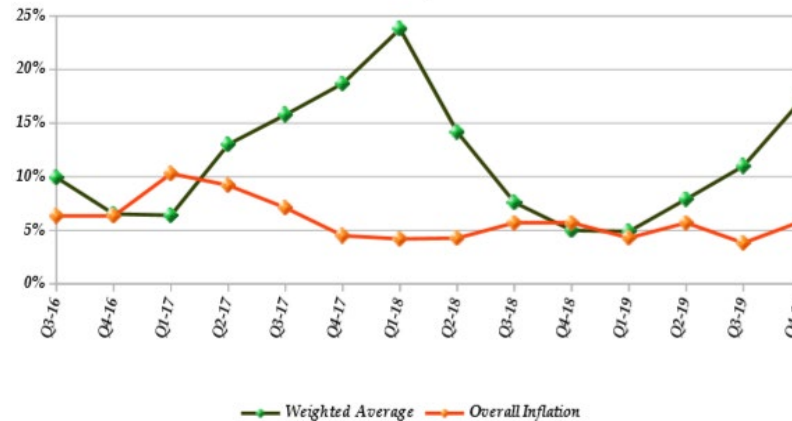
In 2019, Pension funds posted a weighted average return of **5.0%, 17.0% and 11.3%** for the quarter, 1-year and 3-year respectively compared to **-0.04%, 5.0% and 9.8%** recorded in quarter 4 of 2018

Pension Funds Performance Trends

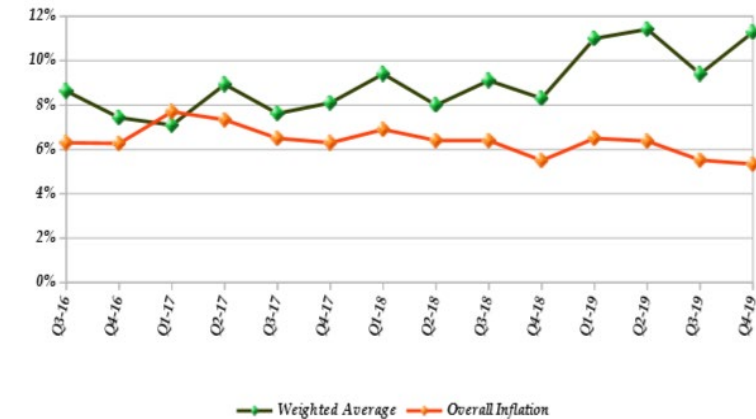
Overall Trend of Quarterly Returns



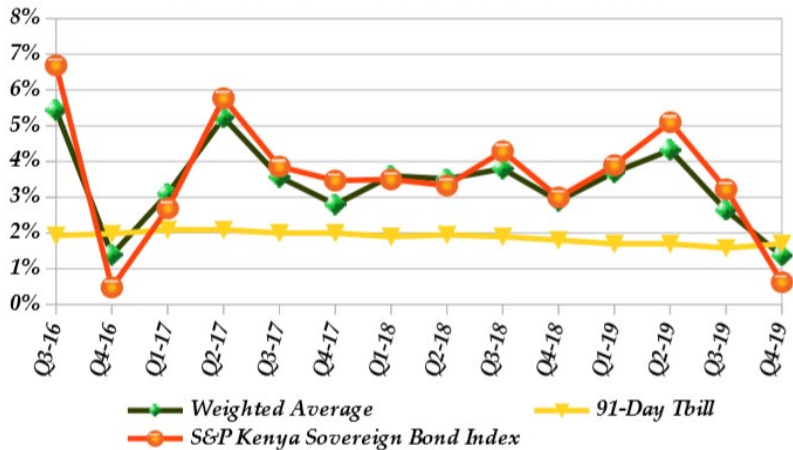
Overall Trend 1-year Returns



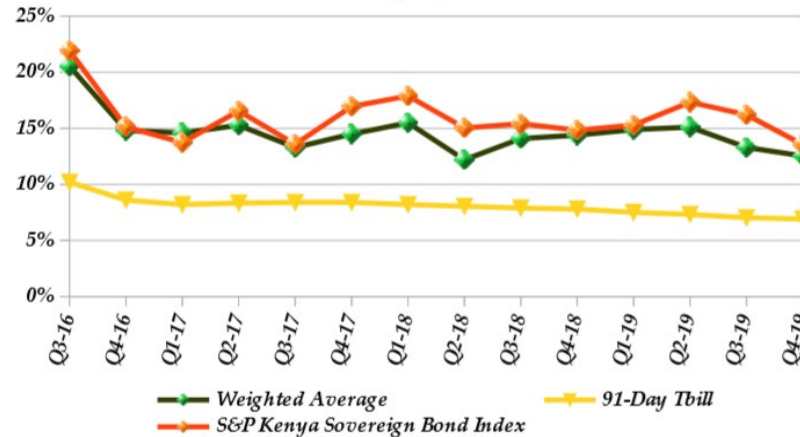
Overall Trend 3-year Returns



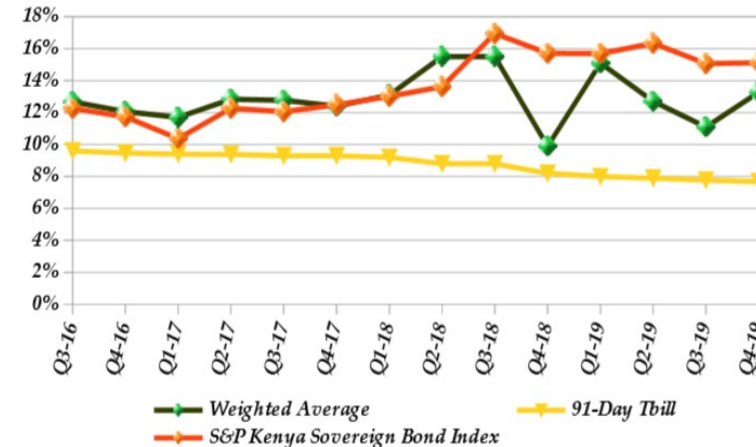
Fixed Income Trend of Quarterly Returns



Fixed Income Trend of 1-year Returns

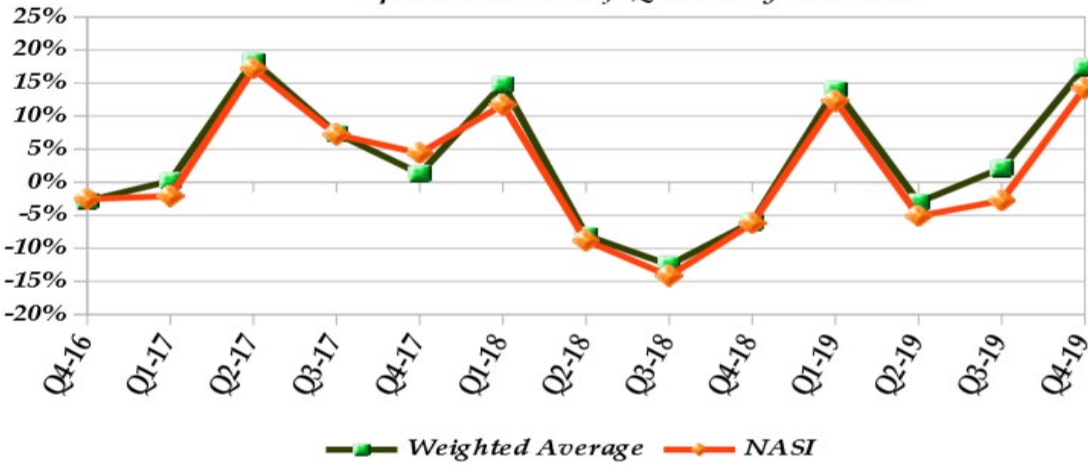


Fixed Income Trend of 3-year Returns

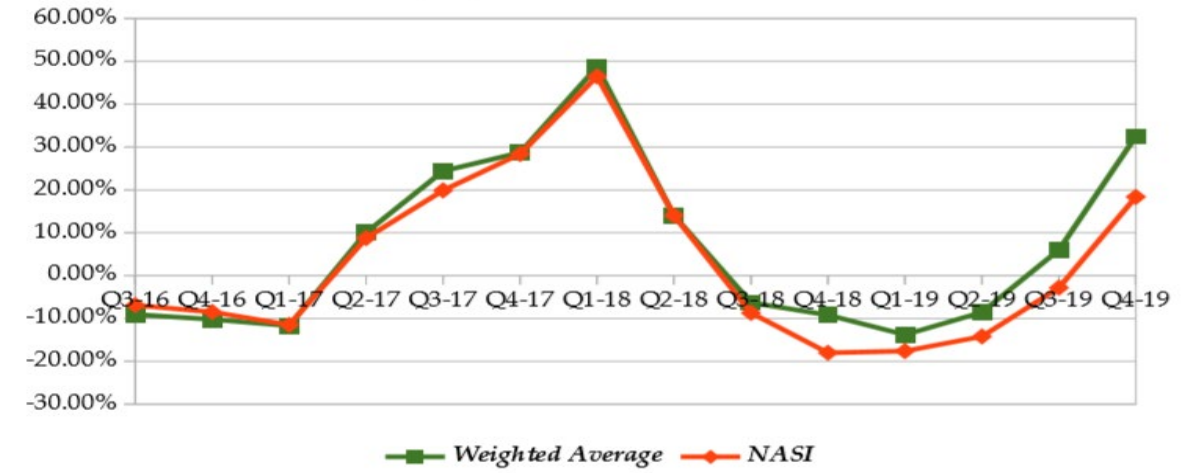


Pension Funds Performance Trends

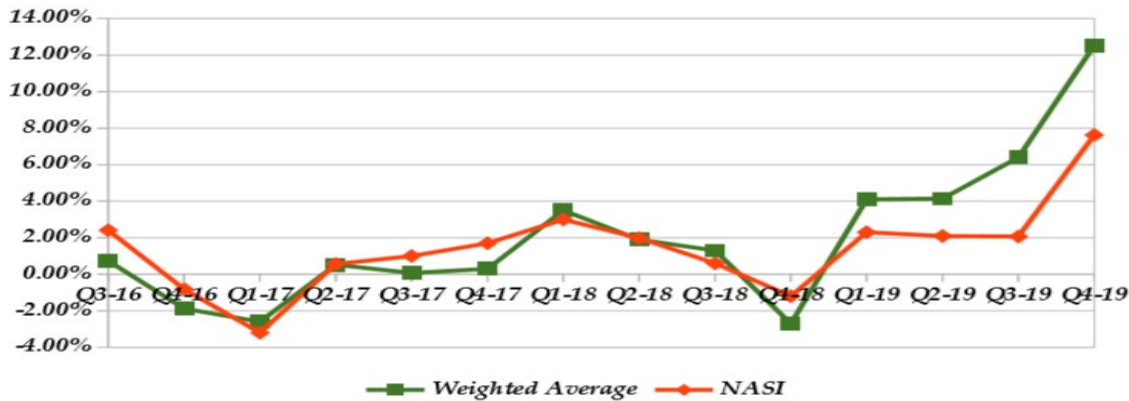
Equities Trend of Quarterly Returns



Equity Trend 1 year Returns



Equities Trend of 3 year Returns (p.a)



Supervisory Challenges

- ❖ High costs (both management and administrative) associated with pension funds investment
- ❖ Low uptake of alternative investment asset classes despite having such provision in the investment guidelines
- ❖ Low capacity of trustees to make investment decisions
- ❖ Trustees short-term investment horizon

Supervisory Challenges

- ❖ Market volatilities that erode pension funds investments
- ❖ Over concentration of schemes in specific service providers
- ❖ Poor exposure to international investment
- ❖ Rapidly changing investment environment requiring the regulator make frequent regulatory adjustments

Conclusion

As a pension regulator we are aware of potential regulatory hurdles to long-term investment by pension funds. We always work towards ensuring asset diversification to support portfolio diversification with a aim of delivering adequate pension to retirees

Thank you

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