OECD/IOPS INTERNATIONAL PENSION CONFERENCE

Pension Funds Investment Landscape: Market Trends and Supervisory Challenges

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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

- 2000: 44.7bn
- 2010: 450bn
- Dec, 2019: 1,324bn

Members: 3.2 Million

Registered Service Providers

2019
- Custodians: 11
- Managers: 24
- Administrators: 31

Trustees

- Over 6000
- Min-3/4
- Max-9

Coverage: % of Labour force

- 2000: 13%
- 2010: 15%
- 2019: 22%

Schemes: 1,258
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.

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

Pension funds in Kenya have continued to invest mainly in **traditional asset classes** and less in **alternative asset classes** despite broadening of allowable investment asset classes.

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.

Source: RBA, Dec, 2019
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.

<table>
<thead>
<tr>
<th>Bonds Turnover</th>
<th>2019 Q1</th>
<th>2019 Q2</th>
<th>2019 Q3</th>
<th>2019 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt. Bonds</td>
<td>161.43</td>
<td>201.42</td>
<td>182.97</td>
<td>105.53</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>0.18</td>
<td>0.16</td>
<td>2.47</td>
<td>0.93</td>
</tr>
<tr>
<td>Total</td>
<td>161.63</td>
<td>201.71</td>
<td>185.44</td>
<td>106.46</td>
</tr>
</tbody>
</table>

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.

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

Source: CMA, 2019
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.

**Source:** Actserv Survey, 2019
Pension Funds Performance Trends

Source: Actserv Survey, 2019
Pension Funds Performance Trends

Source: Actserv Survey, 2019
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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