

RETIREMENT BENEFITS INDUSTRY REPORT FOR THE YEAR 2016

1.0 OVERALL ASSETS UNDER MANAGEMENT

Although the year saw the stock market record slow gains, the half year growth of assets under management grew by 9.7 percent from 831.78 Billion recorded in June to 912.66 Billion. In comparing with the previous year, the overall yearly growth increased from 3.3 percent recorded in December 2015 to 12.1 percent recorded in December 2016, a change of Kshs.98.55 Billion from 814.11 Billion recorded in December 2015. The year 2016 was characterized by a steady capital market and movements of investments from long term asset classes to shorter term asset classes where schemes derived value from investments.

From the recorded Kshs.912.66 Billion, fund managers and insurance issuers held majority of the assets at Kshs. 784.72 Billion, Kshs.52.01 Billion internally administered by the National Social Security Fund¹ (NSSF) and an additional Kshs.75.93 Billion of property investments that are directly managed by the trustees of various schemes². The assets under fund management include Kshs.116.49 Billion of NSSF funds that are managed by 5 external managers. Assets managed internally by NSSF are majorly in immovable property³, quoted securities as well as unquoted securities. Schemes continue to invest heavily on government paper with the asset class recording 38.26 percent of the total assets under management. However, percentage distribution of other asset classes changed with more investments in property than in Equity shares compared to other periods. Property accounted for 19.55 percent while investments in shares accounted for 17.43 percent in 2016 as compared to 19 percent and 23 percent in December 2015. Investments in guaranteed funds mark the other asset class where most schemes have invested in with a 14.20 percent representation. Albeit slow, schemes are venturing into alternative assets with an inclusion of Private Equity & Venture Capital and Real Estate Investment Trusts (REITs) contributing to around 0.22 percent of the total assets under management.

¹ The amount is the difference of the funds accounted by Fund Managers and the total assets under management reported by NSSF

² Directly managed property are all investments in Property not reported by Managers but in Financial Accounts 2015

³ Inclusion of Tenant Purchase Agreements

The table below provides more details on how investments were made in the available asset classes. In the one year period, assets under management grew by 12.1 percent; represented by significant growths in government securities, guaranteed funds and immovable property at 44 percent, 30.4 percent and 18.3 percent respectively. There were marked decline changes in investments in fixed deposits, quoted securities, and offshore securities at 55.8 percent, 14.8 percent and 2.7 percent, respectively.

OVERALL INDUSTRY INVESTMENT PORTFOLIO (Kshs. Billions)

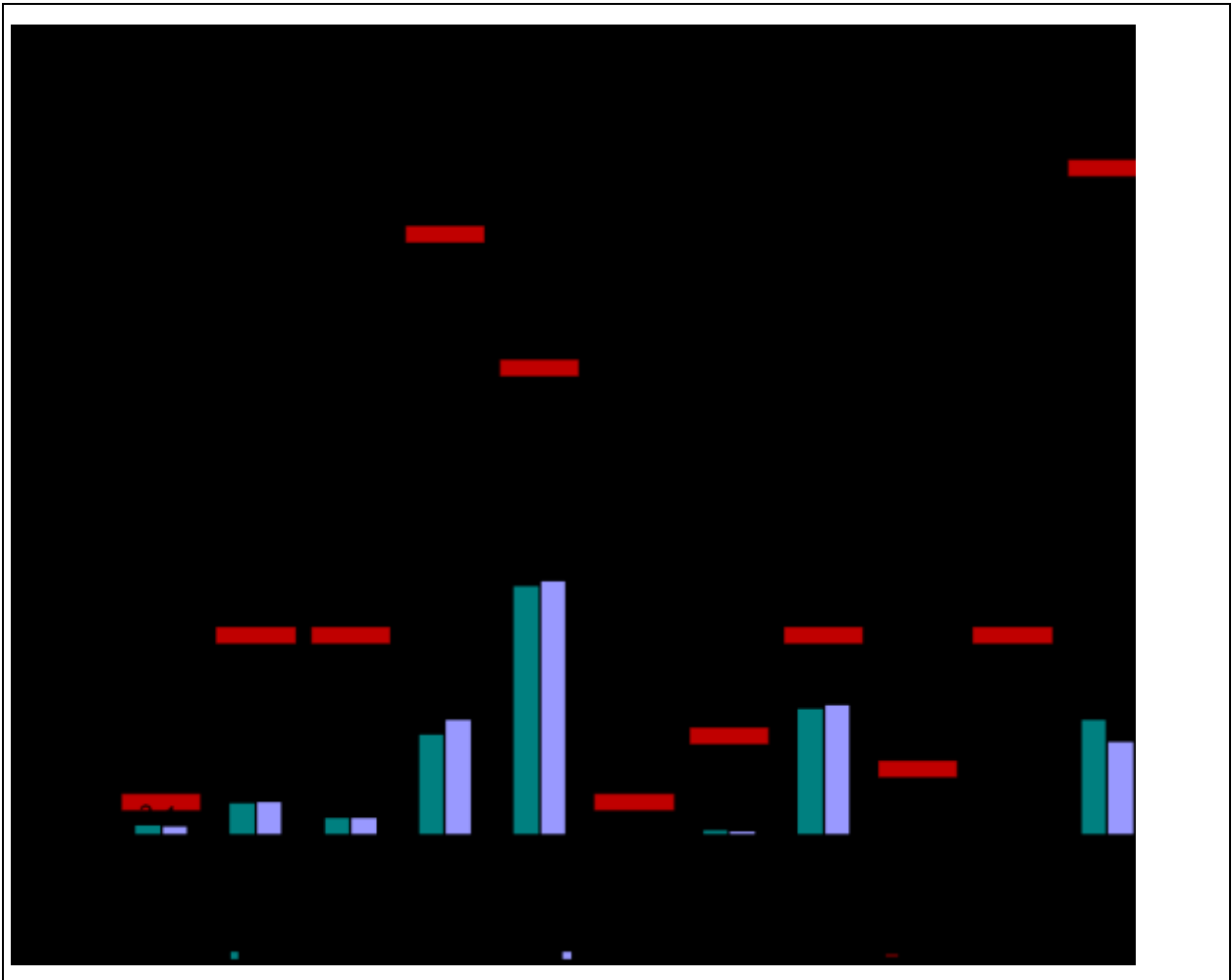
| | | December 2015 | | June 2016 | | December 2016 | | Half year change | | Year Change | |
|----|-----------------------|---------------|------------|---------------------|------------|---------------|------------|------------------|------------|--------------|-------------|
| | | Kshs | % | Kshs | % | Kshs | % | Kshs | % | Kshs | % |
| 1 | Government Securities | 242.43 | 30 | 211.85 | 25 | 349.15 | 38 | 137.29 | 64.8 | 106.72 | 44 |
| 2 | Quoted Equities | 186.81 | 23 | 129.68 | 16 | 159.07 | 17 | 29.40 | 22.7 | -27.74 | -14.8 |
| 3 | Immovable Property | 150.78 | 19 | 126.52 | 15 | 178.42 | 20 | 51.90 | 41 | 27.64 | 18.3 |
| 4 | Guaranteed Funds | 99.40 | 12 | 101.89 | 12 | 129.58 | 14 | 27.70 | 27.2 | 30.18 | 30.4 |
| 5 | Fixed Income | 48.09 | 6 | 39.42 | 5 | 46.95 | 5 | 7.53 | 19.1 | -1.14 | -2.4 |
| 6 | Fixed Deposits | 55.61 | 7 | 28.31 | 3 | 24.57 | 3 | -3.74 | -13.2 | -31.04 | -55.8 |
| 7 | Offshore | 7.16 | 1 | 5.27 | 1 | 6.96 | 1 | 1.69 | 32.2 | 0.19 | -2.7 |
| 8 | Cash | 11.26 | 1 | 8.71 | 1 | 12.93 | 1 | 4.22 | 48.5 | 1.67 | 14.8 |
| 9 | Unquoted Equities | 2.77 | | 62.57 ⁴ | 8 | 3.95 | | -58.62 | -93.7 | 1.18 | 42.6 |
| 10 | Private Equity | 0.17 | | 0 | | 0.22 | | 0.22 | 100 | 0.05 | 30.6 |
| 11 | REITS | | | 0 | | 0.84 | 1 | 0.84 | 100 | 0.84 | 100 |
| 12 | U Classified/Others | 9.62 | 1 | 117.56 ⁵ | 14 | 0 | | -117.5 | -100 | -9.63 | -100 |
| | TOTAL | 814.11 | 100 | 831.78 | 100 | 912.66 | 100 | 80.88 | 9.7 | 98.55 | 12.1 |

⁴ Incorporated investments in Alternative asset classes

⁵ Unclassified asset classes represents investments in Collective Investment Vehicles

On average, all categories of investment were within the statutory investment limits provided in the Retirement Benefits Regulations. The year 2015/2016 saw the introduction of new asset classes such as Real Estate Investment Trusts (REITS); Private Equity and venture capital; Derivatives and global depository Notes.

OVERALL INDUSTRY INVESTMENT VS STATUTORY MAXIMUM

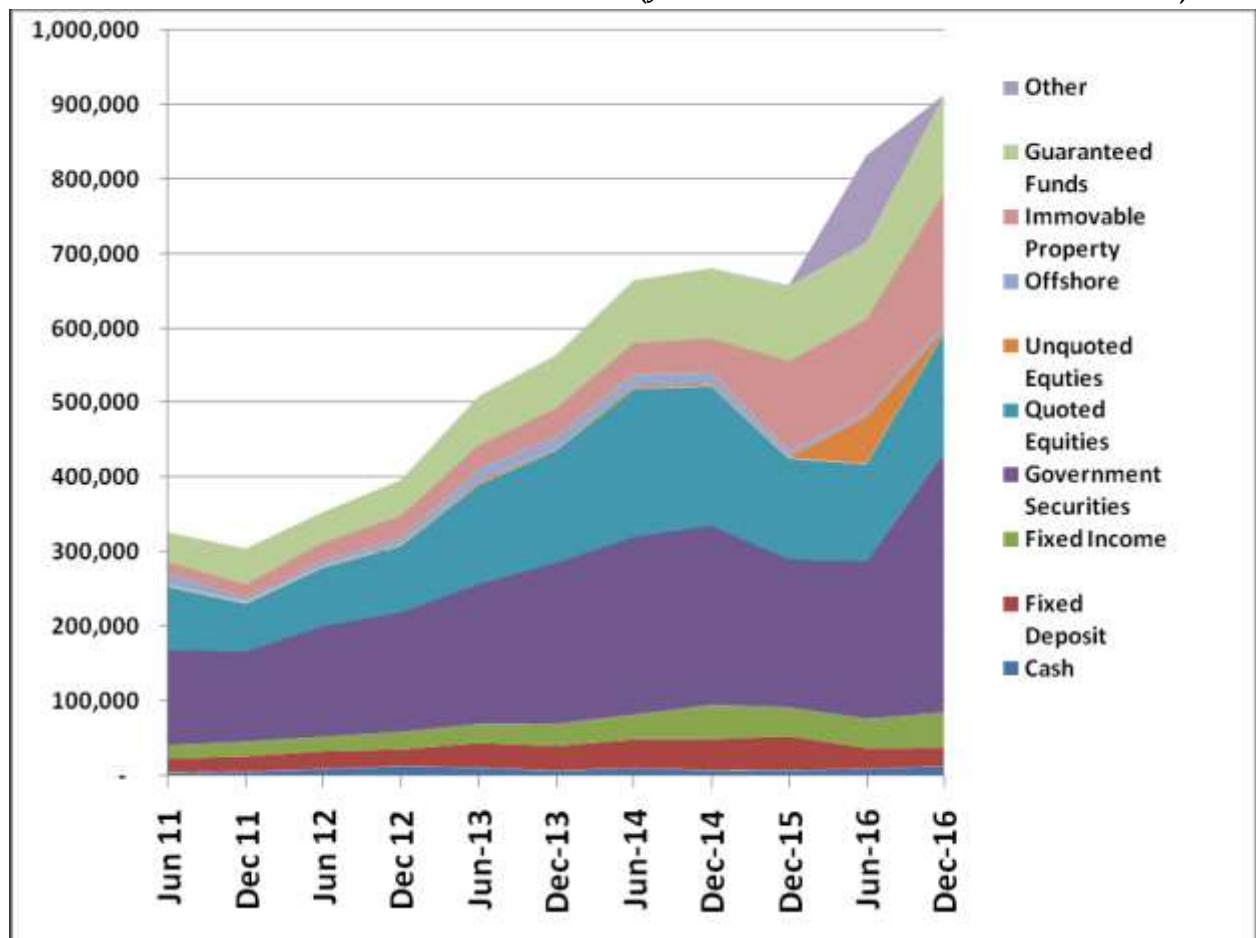


2.0 ASSETS HELD BY FUND MANAGERS AND INSURANCE ISSUERS

For the period ending December 2016, 16 fund managers and 6 insurance issuers, submitted 1241 scheme reports with a total fund value of Kshs.784.72 Billion representing 19.3 percent increase in the total assets under management from the Kshs.657.78 billion recorded in December 2015. The increase in the growth of funds over the period can be attributed to increased submission rates where there were 23 more scheme reports that reported in December 2016. In the period under review

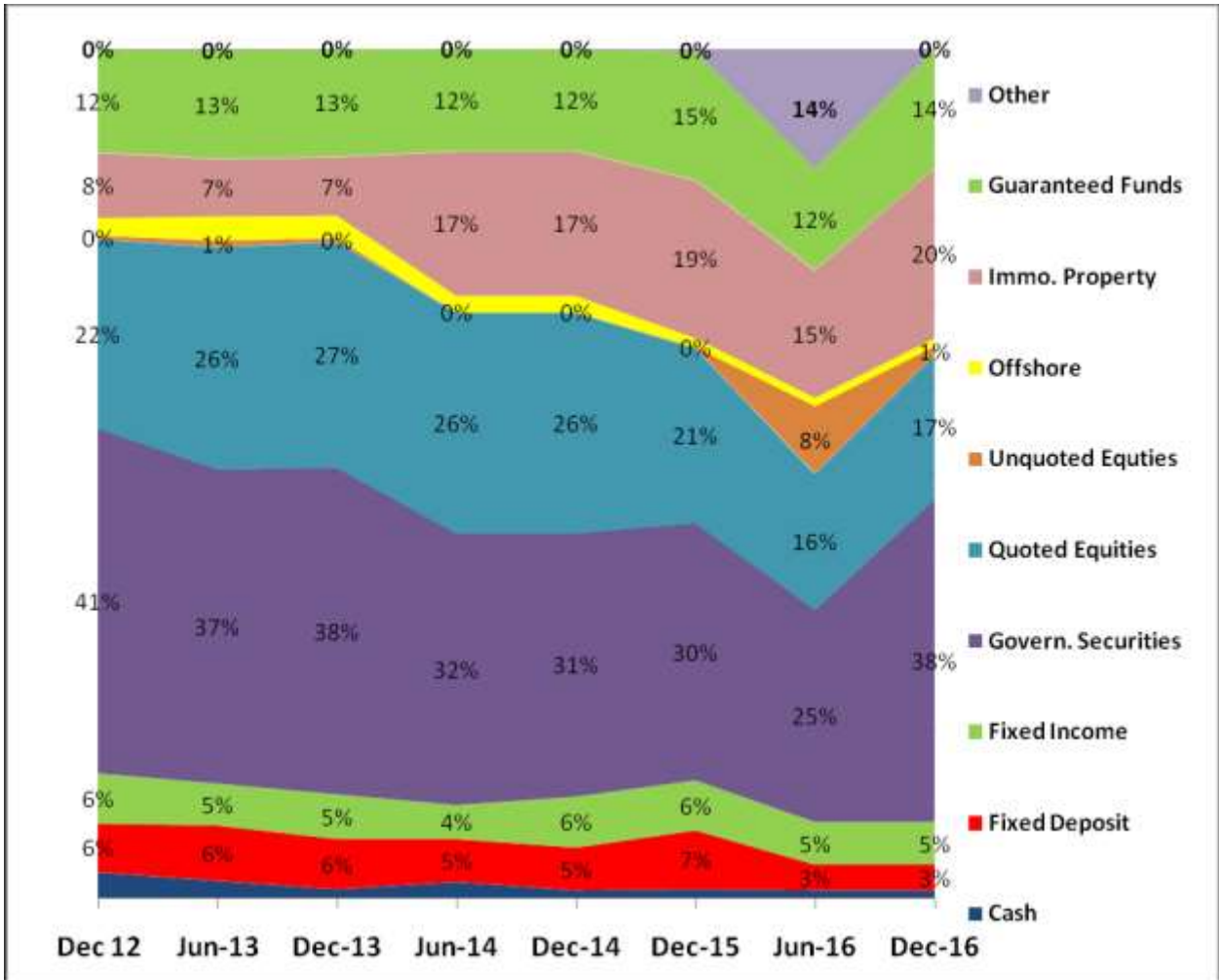
there were more investments in government securities. The debt market has been an attractive avenue for investing giving investors' double digit returns. Though there are marked reductions in investments in the stock market, the year has seen a resilient market, where most counters have been stable or grown in value. Investments in this asset class have grown by 22.7 percent over the half year period. Valuation of land and property is one of the attributes that can be linked to the increase in total assets under immovable property.

ASSETS UNDER FUND MANAGEMENT (Jun. 2011-Dec.2016 in Kshs. Millions)⁶



⁶ Figures exclude funds internally managed by NSSF

PORTFOLIO DIVERSIFICATION (DEC. 2012- DEC.2016) in Percentage



Asset portfolio diversification remained similar to previous periods with most of the asset classes recording minimal gains. However, some of the marked changes during the year were allocations in the unquoted securities as well as other asset classes. 14 percent investments in other asset classes represented investments in collective investment vehicles that were not clearly defined. 8 percent of investments in unquoted security represent a fraction of investments in REITS as well as private equity. Inclusion of separate investment classes has reduced the investments in other asset classes over the year.

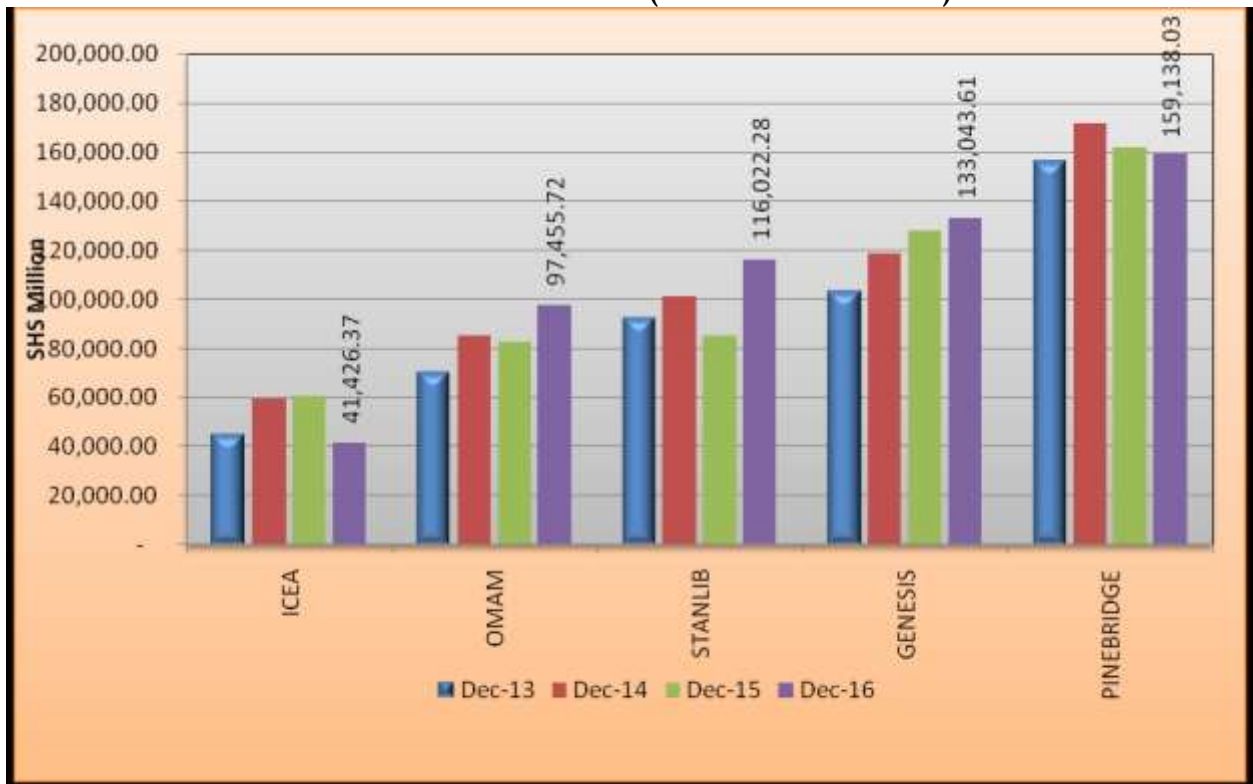
During the year, asset classes with highest representation was on investments in government securities, immovable property, quoted securities and guaranteed funds at 38 percent, 20 percent, 17 percent and 14 percent respectively. This represents

more than 80 percent of the total assets under management. The year saw investments in government securities increase the most by 44 percent from the recorded Kshs.242.43 billion in December 2015 to Kshs.349.15 billion in December 2016. In rankings investments in quoted equities ceded ground to immovable property with total investments in this asset class reducing from 21percent as at December 2015 to 17 percent in December 2016. An overall investment in this asset class has reduced by Kshs.27.74 Billion representing a -14.8 percent reduction for the year. This reduction has been caused by a divesture of investments as well as a bearish run of the market.

In total there were 1154 schemes that deposited investment reports for the period ending December 2016. In the reporting period, schemes with more than one manager were merged and considered as one scheme marking a divergence of procedure from other periods. 31 percent of the 1154 schemes were segregated schemes with the rest accounting for guaranteed schemes. However, segregated funds account for 85 percent of total assets under management for the period under review.

Pinebridge Investments Asset Managers is the manager with the largest share of the market with total assets under management at Kshs.159.2 billion, 20 percent of the total assets under fund management. Top tier fund managers (Pinebridge Investments, Genesis Kenya, Stanlib Investment Kenya, OMAM Asset Managers, British American Asset Managers and ICEA Lion Asset Managers) continue to manage the bulk of the investments with the total assets under management at Ksh.594.7 billion accounting for 75.8 percent of the entire assets under management. The analysis reviews each entity according to how it is registered hence, where a parent company has both an approved issuer and fund manager the two will be considered as distinct entities. Other than ICEA Lion Asset Managers and Pinebridge Asset Managers, all other large tier fund managers had an increase on the total assets under management as depicted by the diagram

RETIREMENT ASSETS- BY MANAGERS (Dec. 2013- Dec.2016)



3.0 ASSETS HELD BY NATIONAL SOCIAL SECURITY FUND (NSSF)

Total assets of NSSF has risen by Kshs.12.16 billion in December 2016 from Kshs.156.33 billion in December 2015 representing a 7.3 percent growth in the total fund. Out of the total amount of Kshs.168.49 billion, Kshs.52.01⁷ billion was internally managed by the NSSF. The externally managed funds increased over the period rising by Kshs.14.04 billion from Kshs.102.5 billion in December 2015 to Kshs.116.49 recorded in December 2016.

The table below shows the distribution of the funds to the various fund managers. In the year there was a noted increase in assets under management in British American Asset Managers with more than Kshs.4.1 billion increase over the year. Pinebridge Investments and Co-op trust Investments have not managed the NSSF fund for the last two years.

⁷ These represent investments in immovable property, unquoted securities as well as other investments in the capital markets not transferred to the External fund Managers

NSSF PORTFOLIO OF THE EXTERNAL MANAGERS (Dec.2014-Dec. 2016)

| FIGURES IN MILLIONS | | | | | |
|---|---------------|----------------|----------------|---------------|--------------|
| Fund Manager | Dec-14 | Dec-15 | Dec-16 | Year Change | % Change |
| British-American Asset Managers Limited | - | 17,860 | 22,033 | 4,173 | 23.37 |
| Gen Africa Asset Managers | 13,125 | 30,096 | 31,667 | 1,571 | 5.22 |
| ICEA Lion Asset Management Limited | 13,269 | 18,058 | 20,534 | 2,476 | 13.71 |
| Old Mutual Asset Managers (Kenya) Limited | 13,352 | 17,945 | 20,620 | 2,675 | 14.91 |
| Stanlib Investments Kenya Limited | 12,246 | 18,494 | 21,639 | 3,145 | 17.01 |
| Pinebridge Asset Managers | 14,962 | - | - | - | |
| Co-op Trust | 12,652 | - | - | - | |
| Total | 79,606 | 102,453 | 116,493 | 14,040 | 13.70 |

The overall portfolio is heavily invested in government securities, quoted securities and immovable property at 42 percent, 27 percent and 22 percent, respectively. The portfolio allocation is in compliance with the investment guidelines.

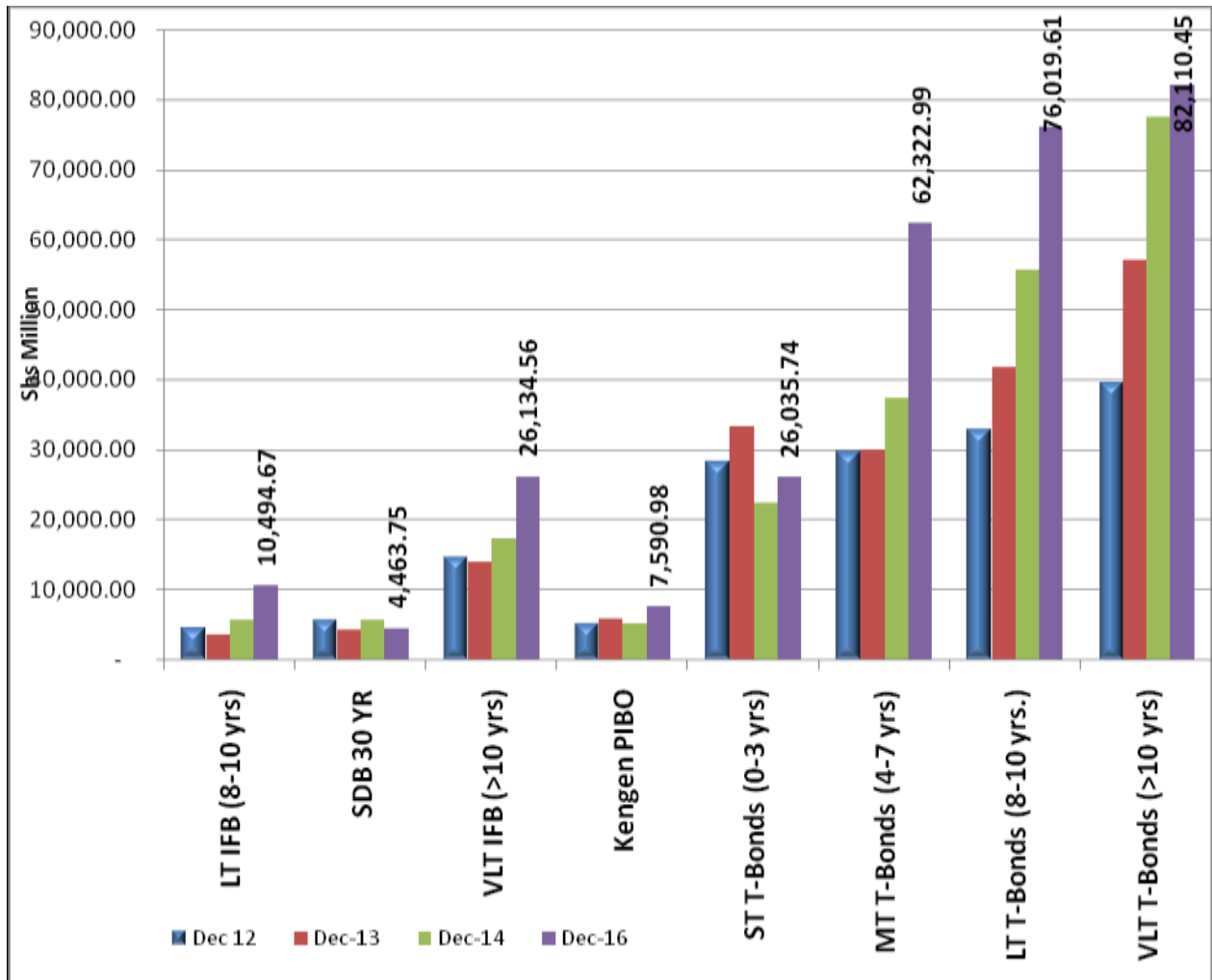
4.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN GOVERNMENT SECURITIES.

The government securities accounted for the largest portion of the overall investments at 38 percent of the total assets under management as at December 2016 a rise of 8 percent from the recorded 30 percent in December 2015. During the year the asset class recorded the highest increment of 44 percent to stand at Kshs.349.15 billion of the total assets under management as at December 2016. The growth of Kshs.106.72 billion can be attributed to many schemes opting to invest in longer term bonds issued by the government that give schemes minimal but predictable returns with low risks of default. The slump of the stock exchange has seen many schemes opting to invest in the debt instruments offered by the government.

Schemes invested more in the longer term instruments with majority investing in mid-term bonds, long term bonds and very long term bonds at Kshs.62.32 billion,

Kshs.76.02 billion and Kshs.82.11 billion, respectively. There was also increased investment in the very long term investments in Infrastructure bond by Kshs.8.92 billion from the Kshs.17.21 billion as at December 2015. In total schemes heavily invested in longer term debt instruments with a maturity date of more than 5 years offered by the government as the diagram below depicts.

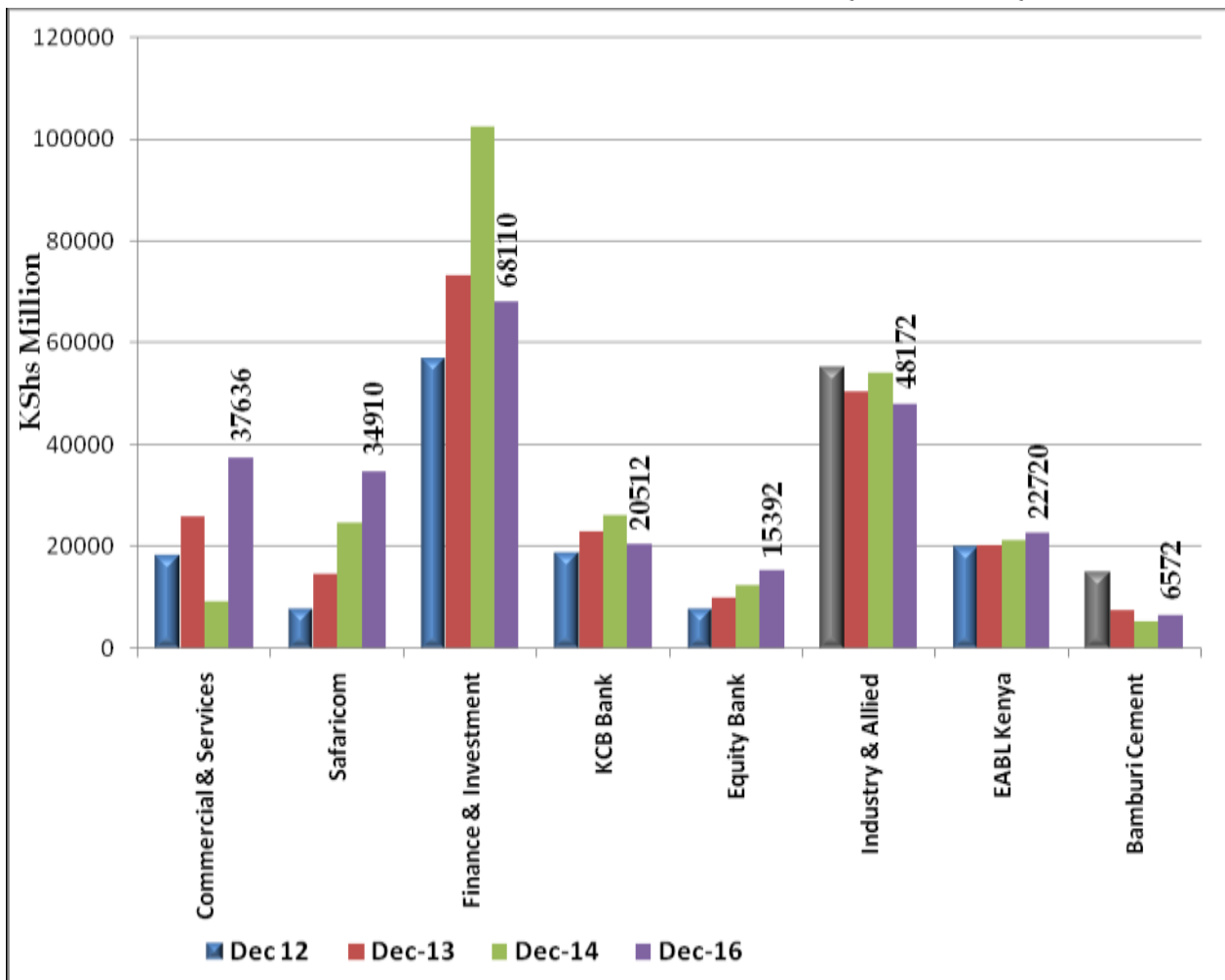
RETIREMENT BENEFIT INDUSTRY HOLDINGS OF GOVERNMENT SECURITIES



5.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN QUOTED EQUITIES

Investments in quoted securities were the third largest with total investments accounting for 17.43 percent of the total assets under management. In the half year period investments in this asset class rose by 22.7 percent from Kshs.129.68 billion in June 2016 to Kshs.159.07 billion in December 2016. However, in the 1 year period there was a noted reduction of 14.8 percent which saw the total investments in equities reduce by Kshs.27.74 billion from recorded Kshs.186.81 billion as at December 2015. The decline in value can be attributed to the bearish market that has seen most of the counters in the Nairobi Stock exchange loose in value especially in the first half of the year 2016.

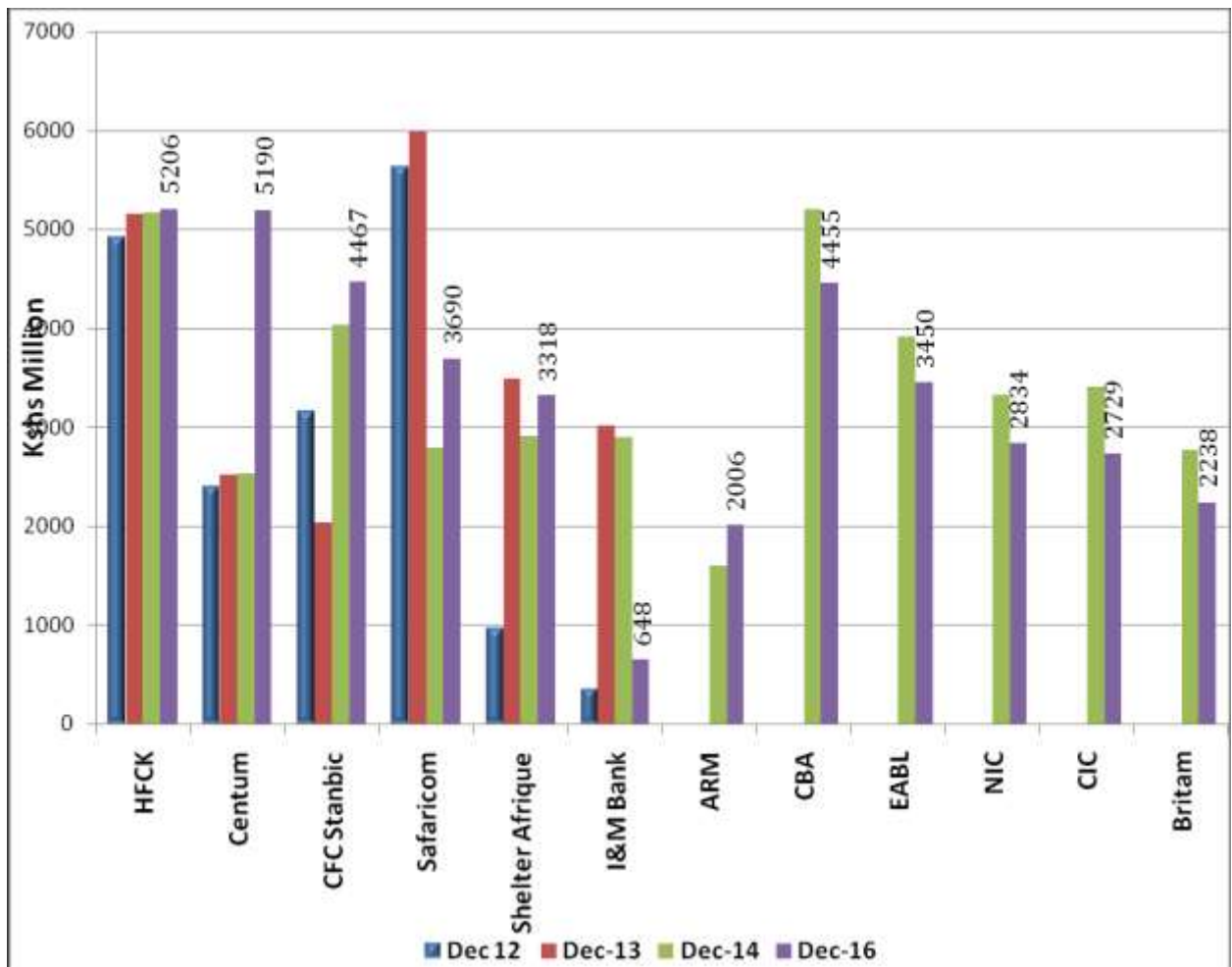
RETIREMENT BENEFIT INDUSTRY HOLDINGS OF QUOTED EQUITIES



6.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN CORPORATE BONDS

In the period under review investments in this asset class marked a marginal decline of 2.4 percent for the 1 year period from the Kshs.48.09 billion reported in December 2015 to Kshs.46.95 billion reported in December 2016. This marks a total representation of 5 percent of the total assets under management. The year saw a marked investment in Centum Investments, CFC Stanbic, Housing Finance and Safaricom corporate bonds. The year under review saw schemes acknowledging losses due to investments in Imperial Bank and Chase Bank corporate bonds that were suspended from trading in the market by CMA. However, the Kshs.1.1 billion decrease is as a result of reduced investments in the corporate debt market as witnessed in most of the investments shown below.

RETIREMENT BENEFIT INDUSTRY HOLDINGS OF CORPORATE BONDS



7.0 INDIVIDUAL RETIREMENT BENEFITS SCHEMES SECTOR

The membership and assets of individual retirement benefits schemes continued to grow considerably. The membership grew from 144,640 members in December 2014 to 162,882 and 196,028 members in December 2015 and December 2016, respectively. In the one year period the assets have grown from Kshs.28.83 billion to Kshs.34.49 billion representing a 19.63 percent asset growth. The growth in the sector has emanated from the various sensitization forums RBA holds encouraging individual membership in pension arrangements. The Blue MSME's Jua Kali Retirement Benefits Scheme, commonly known as the "Mbao Pension scheme" continues to be the largest scheme in membership with a representation of 48 percent, with a total membership of 94,185. However, in terms of assets, the largest individual pension plan is Jubilee Individual pension plan with a membership of 21,795 members and a total value of Kshs.8.78 billion as at December 2016.

INDIVIDUAL RETIREMENT BENEFITS SCHEMES DATA IN KSHS.BN (JUNE 2010- December 2015)

| | Total Membership | Total Assets | Contributions (6 Months) | Benefits Paid out (6th Months) | Transfers In (6 Months) | Transfers Out/Withdrawals (6th Months) |
|---------------|------------------|--------------|--------------------------|--------------------------------|-------------------------|--|
| Jun-10 | 25,289.00 | 7.00 | 1.70 | 0.60 | 0.60 | 0.08 |
| Dec-10 | 38,608.00 | 9.10 | 2.20 | 0.40 | 1.10 | 0.50 |
| Jun-11 | 43,737.00 | 8.60 | 2.10 | 1.40 | 0.60 | 0.07 |
| Dec-11 | 61,240.00 | 11.00 | 2.60 | 0.80 | 0.90 | 0.70 |
| Jun-12 | 75,402.00 | 12.10 | 3.20 | 1.90 | 0.50 | 0.30 |
| Dec-12 | 88,509.00 | 13.60 | 3.20 | 1.00 | 0.90 | 0.90 |
| Jun-13 | 103,978.00 | 16.58 | 2.65 | 1.37 | 0.82 | 0.29 |
| December 2013 | 113,316.00 | 17.40 | 2.79 | 1.25 | 0.86 | 0.34 |
| June 2014 | 127,475.00 | 20.56 | 3.37 | 1.52 | 0.71 | 0.59 |
| December 2014 | 144,640.00 | 22.93 | 5.20 | 1.43 | 1.04 | 1.87 |
| December 2015 | 162,882.00 | 28.83 | 5.76 | 2.08 | 1.73 | 2.07 |
| June 2016 | 165,480 | 31.28 | 4.01 | 1.60 | 0.87 | 0 |
| December 2016 | 196,028 | 34.49 | 6.25 | 2.88 | 2.24 | 0 |

8.0 INDUSTRY EXPOSURE TO A SINGLE ENTITY

Other than the government securities, the retirement benefits industry has also invested heavily in property, Quoted securities, Fixed Income securities as well as Fixed Deposits. In this analysis, industry exposure is the overall exposure to a single entity of more than 0.5 percent of the total assets under management. This analysis excludes investments in Property. Similar to other periods, the entities/groups that had issued debt instruments, were trading in the stock market and had given out deposits had the largest exposure. There were 13 entities that had an exposure of more than 0.5 percent of the total assets under management. The entities with the most exposure were Safaricom Limited, Kenya Commercial Bank, East African Breweries Limited and Equity Bank as illustrated below.

| SPECIFIC ENTITIES | Amount Invested | | | | | As a Percentage of overall Industry Assets |
|---------------------------|-----------------|----------|-------|--------|--------|--|
| | Cash | Deposits | Bonds | Shares | Total | |
| Safaricom | | | 3.69 | 34.91 | 38.60 | 4.92 |
| Kenya Commercial Bank | 1.00 | 8.30 | | 20.51 | 29.81 | 3.80 |
| EABL | | | 3.45 | 22.72 | 26.17 | 3.33 |
| Equity | 1.40 | 2.95 | | 15.39 | 19.74 | 2.52 |
| Co-op Bank | 1.18 | 3.16 | | 6.31 | 10.64 | 1.36 |
| NIC Bank | 0.64 | 1.04 | 2.83 | 2.93 | 7.44 | 0.95 |
| Commercial Bank of Africa | 1.21 | 1.19 | 4.46 | - | 6.85 | 0.87 |
| Standard Chartered | 0.92 | | | 5.58 | 6.50 | 0.83 |
| Centum | | | 5.19 | 1.03 | 6.22 | 0.79 |
| CFC Stanbic | 1.62 | 0.69 | 1.84 | 1.95 | 6.09 | 0.78 |
| BAT | | | | 5.81 | 5.81 | 0.74 |
| Housing Finance | 0.05 | 0.10 | 5.21 | 0.35 | 5.71 | 0.73 |
| DTB | 0.32 | 1.63 | | 3.71 | 5.66 | 0.72 |
| TOTAL AUM'S | | | | 100.00 | 784.72 | |

MAY 2017
RESEARCH & STRATEGY DEPARTMENT