

RETIREMENT BENEFITS INDUSTRY PERFORMANCE REPORT FOR JUNE - DECEMBER 2014

1.0 OVERALL ASSETS UNDER MANAGEMENT

Total Industry assets grew by **5.1** percent in the second half of the year 2014 to stand at **Kshs.788.15** billion as of December 31st 2014. Compared to last year, December 2013, the assets under management have grown by 13.1 percent from **Kshs.696.68** Billion to **Kshs.788.15** Billion. The amount was composed of the **Kshs.681.29** billion held by the fund managers and insurance issuers, **Kshs.61.83** billion internally administered by National Social Security Fund (NSSF) and an additional **Kshs.45.02** billion of property investments directly managed by scheme trustees¹. The assets under fund management included **Kshs.79.6** billion of NSSF funds externally managed by the 6 contracted managers. Similar to other periods, Government Securities and Quoted Securities had the majority of investments with the two accounting for **57 percent** of total assets under management².

The table below provides more details on how investments were made in the different asset classes. In the period under review, there was a marked growth across all asset classes especially in the fixed income and guaranteed funds asset classes at 40% and 11%, respectively. Investments in the unquoted securities also increased as a result of new investments in this asset class.

OVERALL INDUSTRY INVESTMENT PORTFOLIO (Billion's)

		December 2013		June 2014		December 2014		Change June- Dec. 2014
		Kshs	%	Kshs	%	Kshs	%	
1	Government Securities	235.16	33.75	239.04	32	241.97	31	1.22
2	Quoted Equities	177.41	25.47	198.73	26	203.73	26	2.51
3	Immovable Property	119.84	17.20	127.52	17	130.39	17	2.25
4	Guaranteed Funds	71.46	10.26	84.65	11	94.09	12	11.15
5	Fixed Income	30.38	4.36	33.23	4	46.52	6	40.01

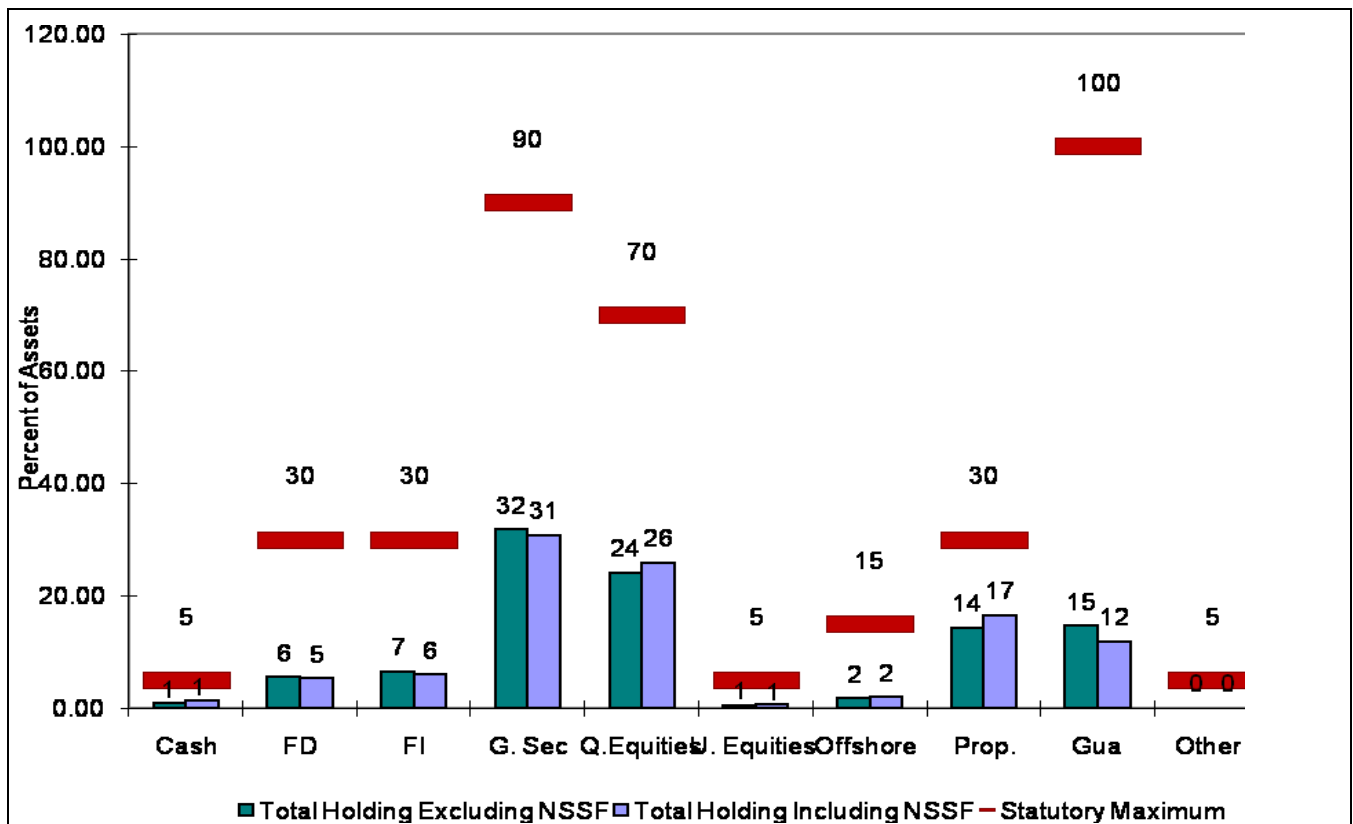
¹ The amount was consolidated from schemes Financial Accounts for the year 2013

² There was a variance of Ksh.12 Billion from the NSSF reports and Fund Managers reports

6	Fixed Deposits	34.17	4.91	38.05	5	41.47	5	8.99
7	Offshore	15.29	2.19	14.57	2	14.68	2	0.74
8	Cash	9.03	1.30	10.35	2	10.74	1	3.74
9	Unquoted Equities	3.94	.57	3.90	1	4.55	1	16.72
10	U Classified/Others	0	0	0	0	0.01	0	
	TOTAL	696.68 ³	100	750.04 ⁴	100	788.15	100	5.08

On average, all categories of investment were within the statutory investment limits provided in the Retirement Benefits Regulations.

OVERALL INDUSTRY INVESTMENT VS STATUTORY MAXIMUM



During the period under review, the overall scheme breach status was 22% with 104 out of the 469 segregated schemes being in breach. Compared to previous periods the breaches have been consistent with investments in short term and fixed deposits

³ The Internal administered funds of NSSF are from the June 2013 Financial Accounts

⁴ Difference in Decimal points as a result of rounding off

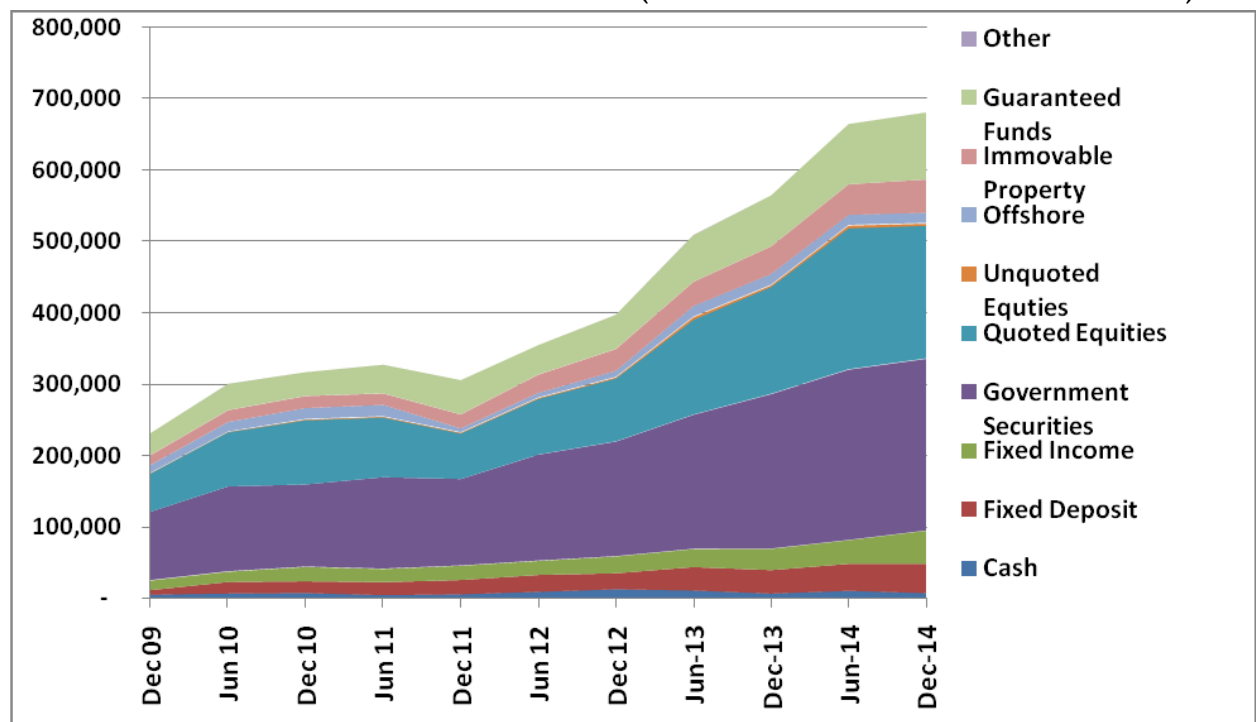
having the most number of breaches with 52 and 26 breaches representing 69 percent of the total breaches.

A comparative breach status from December 2013 to date shows that the overall comparative breaches has continually improved by 1% over the 1 year period with only 114 breaches across the different asset classes. However, there were changes in the distribution of breaches amongst asset classes with noted increases in the schemes breaching the property asset class.

2.0 ASSETS HELD BY FUND MANAGERS AND INSURANCE ISSUERS

For the period ending December 2014, 14 fund managers and 3 insurance issuers, submitted 1297 scheme reports with a total fund value of Ksh.681.29 billion. This is an increase of 8.5 percent of the total fund value from the Ksh.628.18 billion registered in June 2014. Over the one year period the asset fund value has increased by 20.6 percent from Kshs.564.82 billion recorded in December 2013. The decline in the growth of the industry assets can be attributed to the poor performance of the bourse and the changing interest rates in the market that have affected the debt instruments.

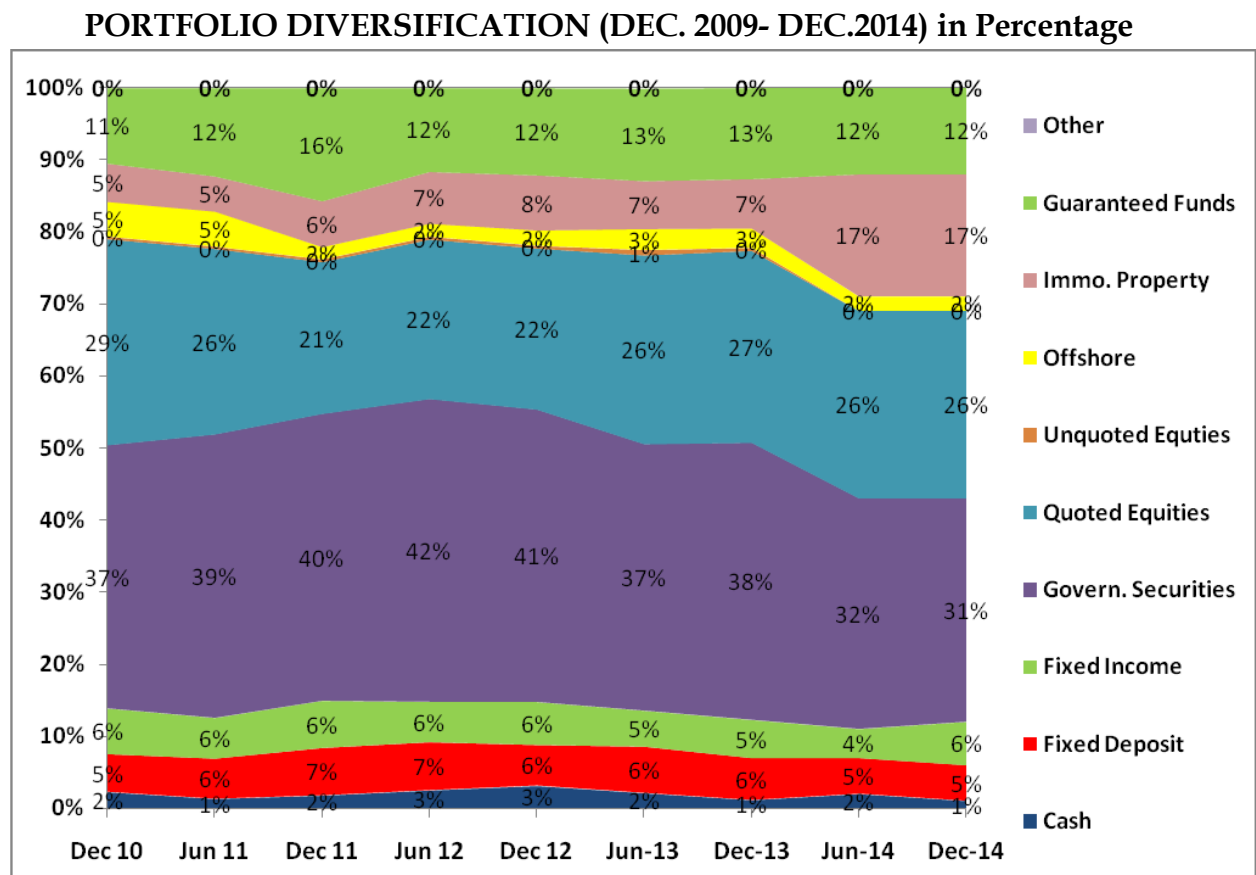
ASSETS UNDER FUND MANAGEMENT (Dec. 2009-Dec.2014 in Kshs. Millions)⁵



⁵ Figures exclude funds internally managed by NSSF and Internally managed investments in Property

Asset portfolio diversification remained similar to previous periods with only a marked growth in the fixed income securities and funds invested in the guaranteed funds. The increase in investments in fixed income securities is as a result of floating of bonds in the market that included Britam, CIC, NIC, EABL and Centum Investments. The investment in this asset classes saw an increase of 2 percent from the initial 4 percent recorded in June 2014.

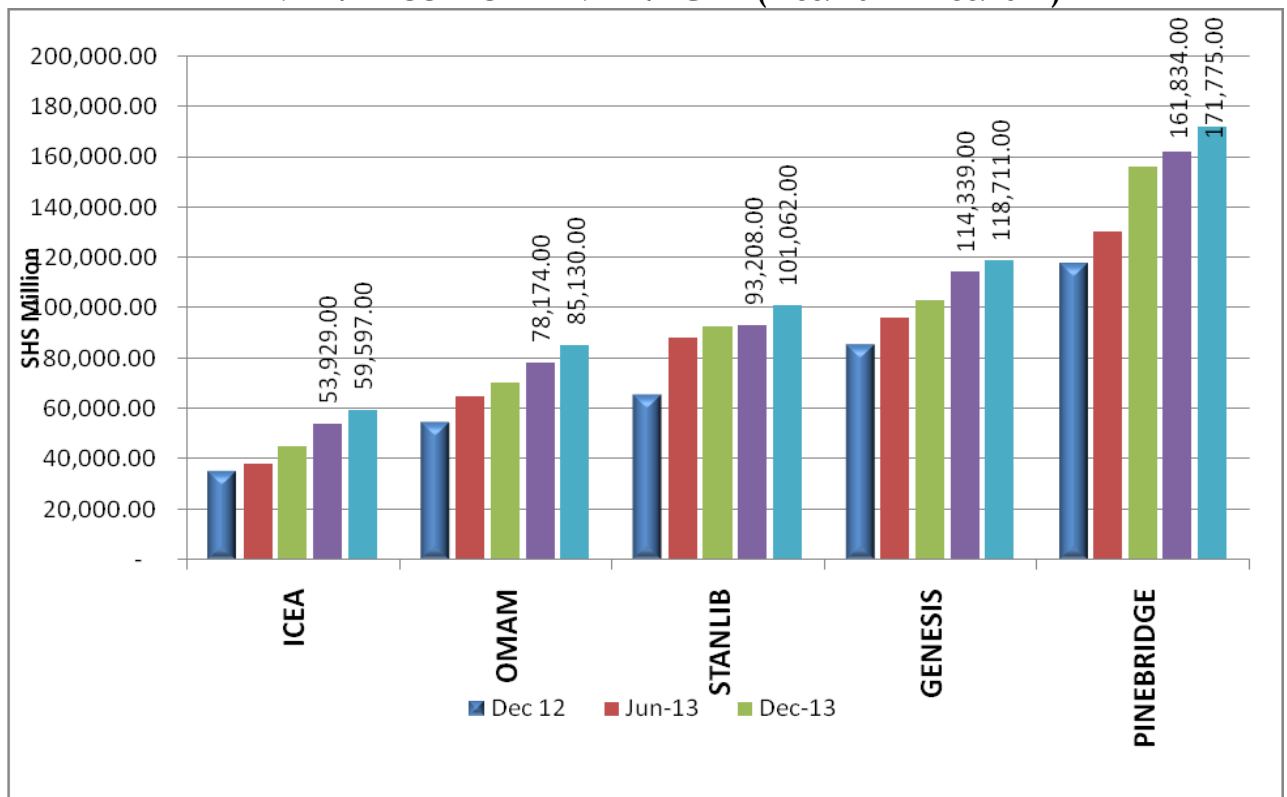
Due to the rising interest rates offered by banks in the first half of the year, there was a notable decline of investments in treasury bills that ultimately have reduced the percentage investments in government securities from 32 percent in June 2014 to 31 percent in December 2014. The trend of portfolio diversification remained the same in all other investment asset classes as depicted in the table below.



The number of schemes under management increased by 23 schemes to 1297 registered schemes as at December 2014. 468 were segregated schemes and 829 were guaranteed

funds⁶ managed by fund managers and insurance issuers respectively. Pinebridge Investments is the manager with the largest assets under management with total assets under management at Kshs.171.8 Billion, 24 percent of the total assets under fund management. Compared to previous periods top tier fund managers (Pinebridge Investments, Genesis Kenya, Stanlib Investment Kenya, OMAM Asset Managers and ICEA Lion) continue to manage the bulk of the investments with the total assets under management at Ksh.536.3 billion accounting for 73 percent of the entire assets under management. A pictorial presentation is shown below indicating each fund managers' holdings over a 2 year period from December 2012- December 2014.

RETIREMENT ASSETS- BY MANAGER (Dec. 2012- Dec.2014)



3.0 ASSETS HELD BY NSSF

For the half year period total assets of NSSF rose from **Kshs.137.98 billion** in June 2014 to **Kshs.141.44 billion** in December 2014 representing a 2.5 percent growth in the total fund. Of this amount, **Kshs.61.8 billion**⁷ was managed in-house and

⁶ The number of schemes may be exaggerated as there are schemes with more than 1 Manager

⁷ 61.8 Billion represents 49.5 billion in property and Securities; and 12 billion of other investments

Kshs.79.6 billion managed by registered fund managers⁸. Over a one year period externally managed funds increased the assets by Ksh.36.2 billion or 84 percent growth from 43.4 billion reported in December 2013 to 79.6 billion in December 2014. The table below shows the distribution of the funds to the various fund managers. Stanlib investments posted the lowest increase in the funds under its management for the one year period.

NSSF PORTFOLIO OF THE EXTERNAL MANAGERS (Dec.2013-2014)

Fund Manager	14-Dec	14-Jun	13-Dec	Year Change	% Change
PINEBRIDGE	14,962	12,917	8,001	6,961	87
OMAM	13,352	11,788	7,231	6,121	85
ICEA	13,269	11,439	6,888	6,381	93
GENESIS	13,125	11,403	6,816	6,309	93
COOP	12,652	11,467	7,188	5,464	76
STANLIB	12,246	11,821	7,249	4,997	69
TOTALS	79,606	70,835	43,373	36,233	84

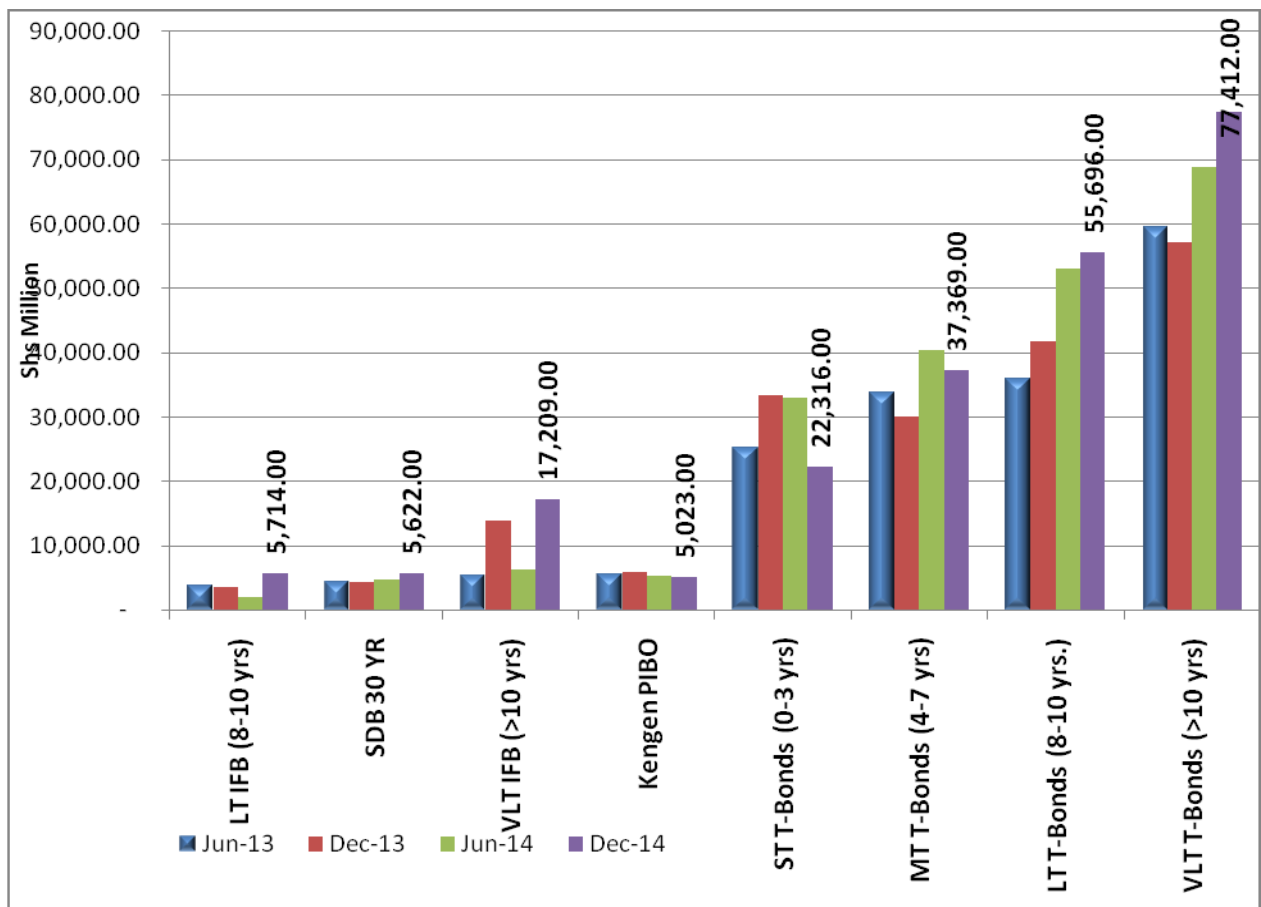
The overall portfolio was well diversified though with heavy investments in Quoted securities, immovable property and government securities at 41.8 percent, 27.3 percent and 24.8 percent, respectively. The portfolio allocation is in compliance with the investment guidelines.

4.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN GOVERNMENT SECURITIES

Similar to other periods, government securities accounted for the largest portion of overall investments at 33 percent of the total assets under management. The industry total holdings in government securities increased by 3.5 billion from Kshs.238.5 billion reported in June 2014 to Kshs.242 billion in December 2014. Over a one year period investments in this asset class increased by 11.4 percent from 217.2 billion reported in December 2014. Schemes invested in longer term government securities with most fund managers investing in bonds with maturity rates of more than 10 years and between 8 to 10 years as highlighted in the table.

⁸ Pinebridge, Co-op Trust, Stanlib, Genesis, ICEA, & OMAM

RETIREMENT BENEFIT INDUSTRY HOLDINGS OF GOVERNMENT SECURITIES



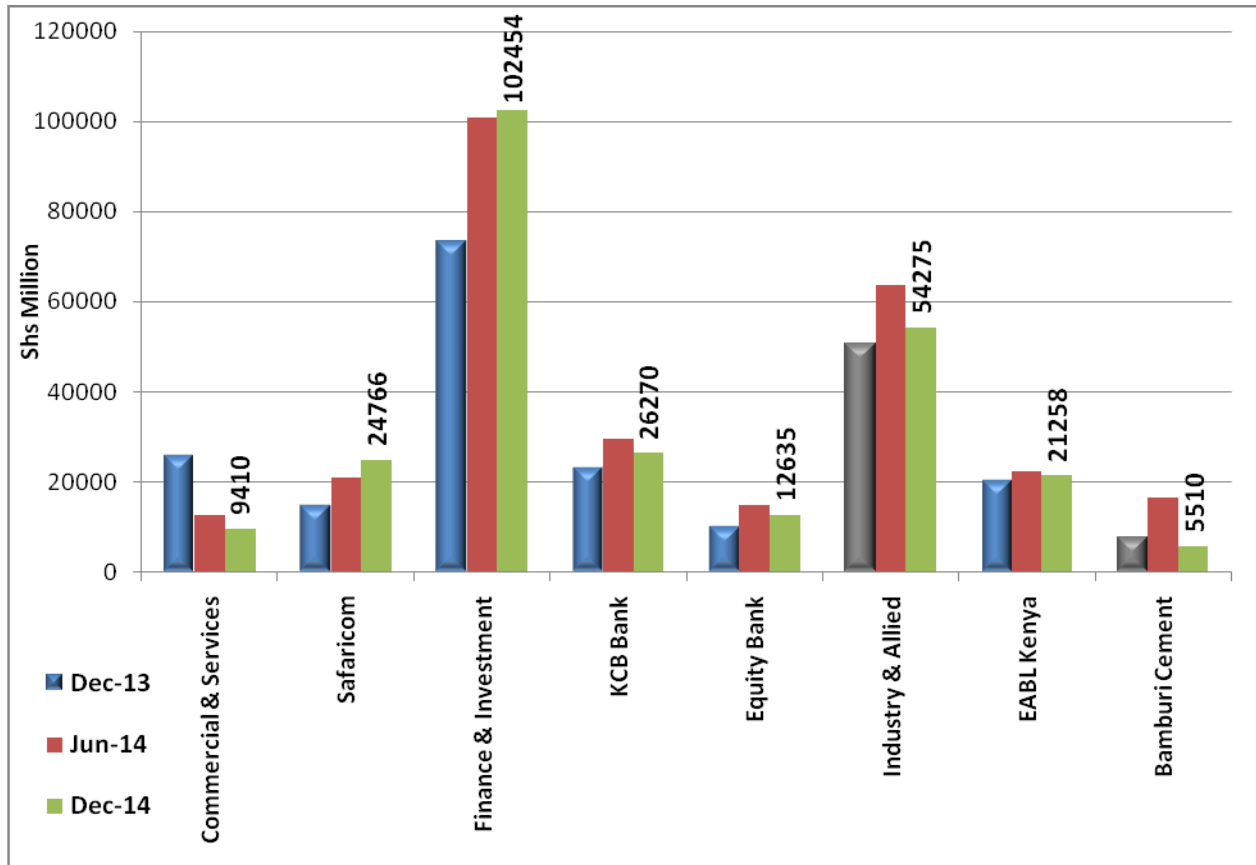
5.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN QUOTED EQUITIES

Investments in quoted securities are the second largest with the total investments accounting for 26 percent of the total assets under management. Investments in this asset class rose by 14.8 percent from 177.4 billion in December 2013 to 203.73 billion in December 2014. There was a slow increase in the investments in this asset classes exuberated by bearish market that has seen most counters in the exchange losing in value, especially in the final quarter of the year 2014.

Schemes invested in 59 counters with majority investments in the Banking, Manufacturing and allied, Telecommunication & Technology and Construction counters all accounting for 86.2 percent of investments in quoted equities. However, the most stocks held by schemes were Kenya Commercial Bank, Safaricom Limited, East African Breweries Limited and Equity Bank at Kshs.26.3 billion, Kshs.24.8

billion Kshs.21.3 billion and Ksh.12.6 billion respectively as represented in the table below.

RETIREMENT BENEFIT INDUSTRY HOLDINGS OF QUOTED EQUITIES⁹



6.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN CORPORATE BONDS

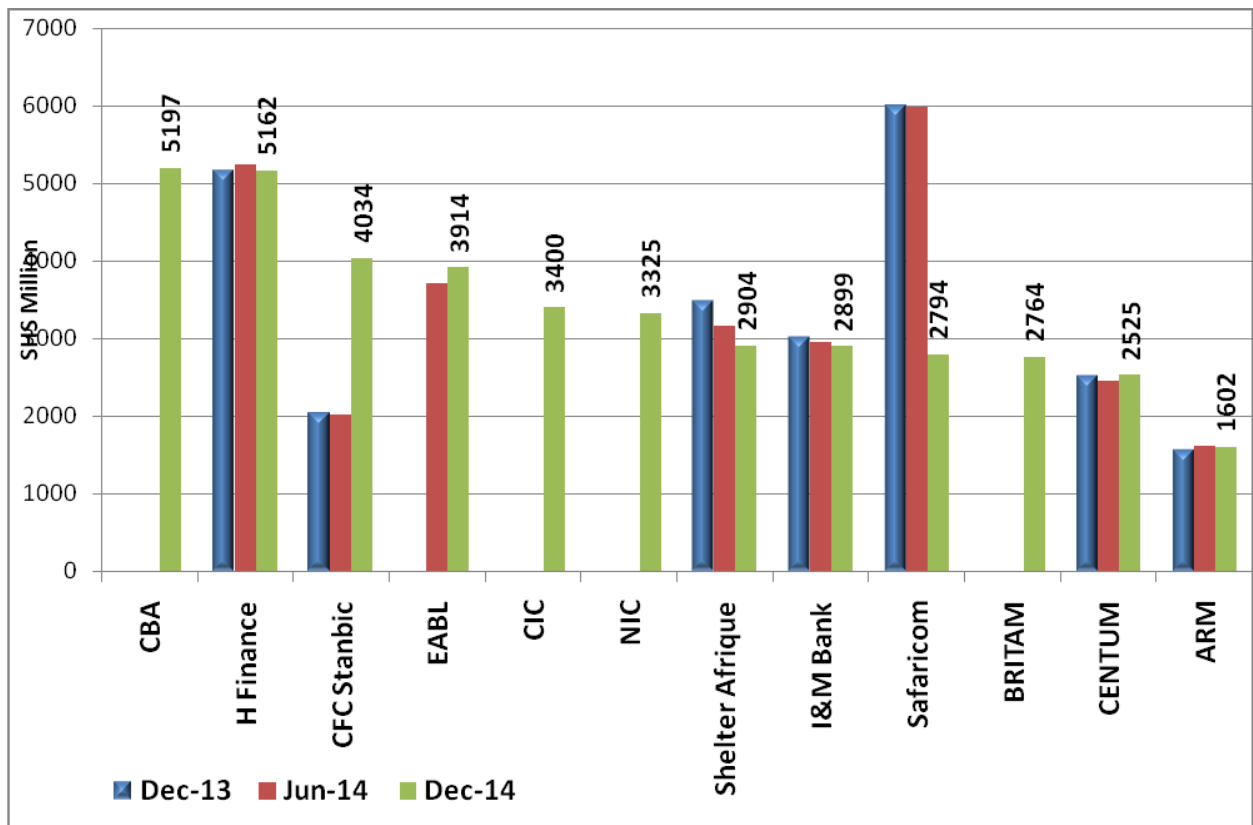
Investments in this asset class increased the most in the period under review. Investment in this asset class has increased by 40 percent, from Kshs.33.1 billion in June 2014 to Kshs.46.5 billion in December 2014. Over a one year period a similar trend has been experienced with investments increasing by Kshs.16.1 billion, 53 percent increase from December 2013 to December 2014.

The increase in this asset class has been as a result of new corporate bond issues during the year in review. From the EABL bond issue that saw schemes invest up to Kshs.3.7 billion to the current issues of C.B.A, C.I.C, Britam, U.A.P and Centum

⁹ The analysis does not include Ksh.12.3 Billion internally held by NSSF

investments that attracted more than 18 billion of pension funds, there has been a continuous investment in this asset class. In terms of the total assets under management, investments in this asset class surpassed fixed deposits to stand at 6 percent of the total funds under management. The table below depicts the commercial papers that majority of the schemes have invested in.

RETIREMENT BENEFIT INDUSTRY HOLDINGS OF CORPORATE BONDS



7.0 INDIVIDUAL RETIREMENT BENEFITS SCHEMES SECTOR

The membership and assets of individual retirement benefits schemes also continued to grow considerably. The membership grew from 113,316 members in December 2013 to 127,475 and 144,680 members in June and December 2014, respectively. In the one year period the assets have grown from 17.4 billion to 22.9 billion representing a 31 percent asset growth. A significant part of the growth in membership of this sub sector has emanated from the Blue MSME's Jua Kali Retirement benefits schemes popularly known as the "Mbao Pension scheme" which targets the informal sector. The scheme had 66,228 members as at December 2014

which represents 45.8 percent of the total membership in individual pension plans. However, in terms of assets, the largest individual pension plan is Jubilee Individual pension plan with a membership of 17,000 members and a total value of Kshs.5.6 billion as at December 2014.

**INDIVIDUAL RETIREMENT BENEFITS SCHEMES DATA IN KSHS.BN
(JUNE 2010- December 2014)**

	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

8.0 INDUSTRY EXPOSURE TO A SINGLE ENTITY

Other than the government of Kenya, the retirement benefits industry has also invested heavily in Cash, Fixed Deposits, Fixed Income securities- Corporate Bonds/Papers and Quoted Equities. In this analysis, industry exposure is the overall exposure to a single entity of more than 1 percent of the total assets under management. There were 12 entities that had an exposure of more than 1 percent of total assets under management with Kenya Commercial Bank, Safaricom Limited, East African Breweries Limited and Equity Bank having the highest exposures as illustrated below.

RETIREMENT BENEFITS INDUSTRY OVERALL EXPOSURE TO SINGLE ENTITY AS AT DECEMBER 2014, Figures in Kshs.Million

SPECIFIC ENTITIES	Amount Invested					As a Percentage of overall Industry Assets
	Cash	Deposits	Bonds	Shares	Total	
Kenya Commercial Bank	1,092.00	5,684.00		26,270.00	33,046.00	4.52
Safaricom			2,794.00	24,766.00	27,560.00	3.77
EABL			3,914.00	21,258.00	25,172.00	3.44
Equity	1,641.00	2,154.00		12,635.00	16,430.00	2.25
Co-op Bank	600.00	5,696.00		9,713.00	16,009.00	2.19
NIC Bank	618.00	3,195.00	3,325.00	7,393.00	14,531.00	1.99
DTB	196.00	2,172.00		11,938.00	14,306.00	1.96
Standard Chartered	844.00	4,091.00		8,781.00	13,716.00	1.88
Housing Finance	495.00	3,532.00	5,162.00	934.00	10,123.00	1.39
Barclays Bank	91.00	2,309.00	1,410.00	5,466.00	9,276.00	1.27
CFC Stanbic	234.00	37.00	4,034.00	3,943.00	8,248.00	1.13
BAT				8,066.00	8,066.00	1.10
TOTAL FM AUM'S				100.00	730,820.00	

**MAY 2015
RESEARCH & STRATEGY DEPARTMENT**