

RETIREMENT BENEFITS INDUSTRY REPORT FOR JUNE 2017

1.0 OVERALL ASSETS UNDER MANAGEMENT

On overall the retirement benefits assets under management grew by 5.23 percent from Kshs. 912.66 Billion in December 2016 to Kshs. 963.05 in June 2017. Comparing with the same period last year (June 2016) the assets grew by 13.63% up from Kshs. 831.78 billion. The slight growth of the assets can be attributed to the gradual recovery in the stock market after the bank crisis in 2016 and the election fever.

The fund managers and approved issuers held majority of the assets amounting to Kshs. 811.17 billion. A total of Kshs. 63.25 billion of investments was internally administered by the National Social Security Fund (NSSF)¹, while Kshs. 88.62 billion of property investments were directly managed by the trustees of the various schemes². The assets under fund management include Kshs.133.62 billion of NSSF funds that are managed by 5 external managers. Assets managed internally by NSSF are majorly in immovable property³, quoted equities, fixed deposits, as well as unquoted securities⁴. The schemes continued to invest heavily in government securities with the asset class recording 36.7 percent of the total assets under management.

Most of the investments in the various asset categories showed slight growth except the guaranteed funds, listed corporate bonds⁵ and unquoted equities which slightly dropped in absolute terms. In terms of the percentage distribution per asset class category, government securities still accounted for the biggest share of the total assets at 36.7 percent, followed by property which accounted for 21.5 percent, investments in quoted equities shares accounted for 18.73 percent, investments in guaranteed funds accounted for 10.76 percent. Investment in alternative assets by schemes has gained

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

² Internally managed property is investments in Property not reported by Fund Managers but are in the Schemes Financial Accounts 2016.

³ The immovable property managed by NSSF includes investments under the Tenant Purchase Agreements

⁴ This includes property amounting to Kshs. 42billion, quoted equities Kshs. 13.1 billion; fixed deposits, Kshs. 6.67 billion and unlisted shares amounting to Kshs. 1.47 billion.

⁵ The drop in listed corporate bonds can attributed to the split between listed and unlisted corporate bonds.

traction with an inclusion of Private Equity & Venture Capital and Real Estate Investment Trusts (REITs) as separate assets classes constituting to around 0.03 percent and 0.09 percent of the total assets under management respectively.

The table below provides detailed aggregate investments by schemes by the various asset classes.

OVERALL INDUSTRY INVESTMENT PORTFOLIO (Kshs. Billion)

	Assets Category	December 2015		June 2016		December 2016		June 2017	
		Kshs	%	Kshs	%	Kshs	%	Kshs	%
1	Government Securities	242.43	29.78	211.85	25.47	349.15	38.26	353.47	36.70
2	Quoted Equities	186.81	22.95	129.68	15.59	159.07	17.43	180.35	18.73
3	Immovable Property	150.78	18.52	126.52	15.21	178.42	19.55	204.60	21.25
4	Guaranteed Funds	99.40	12.21	101.89	12.25	129.58	14.20	103.67	10.76
5	Listed Corporate Bonds	48.09	5.91	39.42	4.74	46.95	5.14	46.83	4.86
6	Fixed Deposits	55.61	6.83	28.31	3.40	24.57	2.69	45.49	4.72
7	Offshore	7.16	0.88	5.27	0.63	6.96	0.76	9.68	1.00
8	Cash	11.26	1.38	8.71	1.05	12.93	1.42	13.91	1.44
9	Unquoted Equities	2.77	0.38	62.57 ⁶	7.52	3.95	0.43	3.91	0.41
10	Private Equity	0.17	0.02	0	0	0.22	0.02	0.25	0.03
11	REITS			0		0.84	0.09	0.888	0.09
12	Commercial paper, non-listed bonds by private companies ⁷							0.002	0.00
12	U Classified/Others	9.62	1.18	117.56 ⁸	14.13	0		0	
	TOTAL	814.11	100	831.78	100	912.66	100	963.05	100

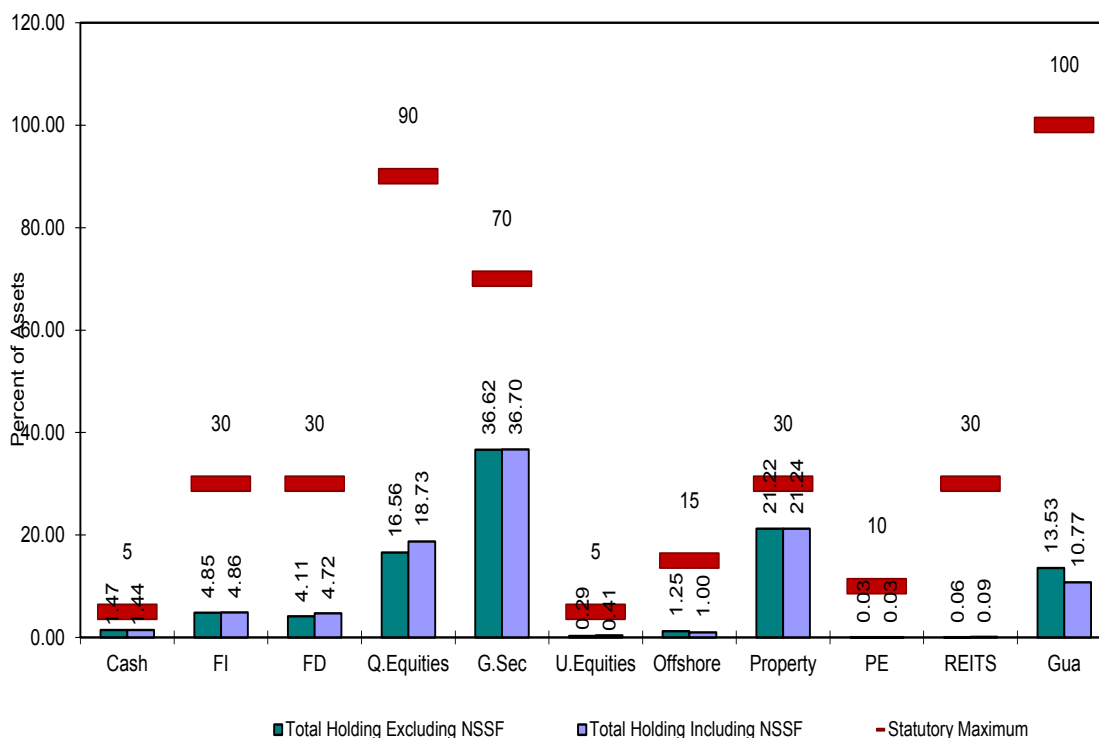
⁶ Incorporated investments in Alternative asset classes

⁷ Commercial paper, non-listed bonds and other debt instruments issued by private companies was introduced as a new separate asset class category in 2016 through the legal notice No. 107.

⁸ 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.

OVERALL INDUSTRY INVESTMENT VS STATUTORY MAXIMUM

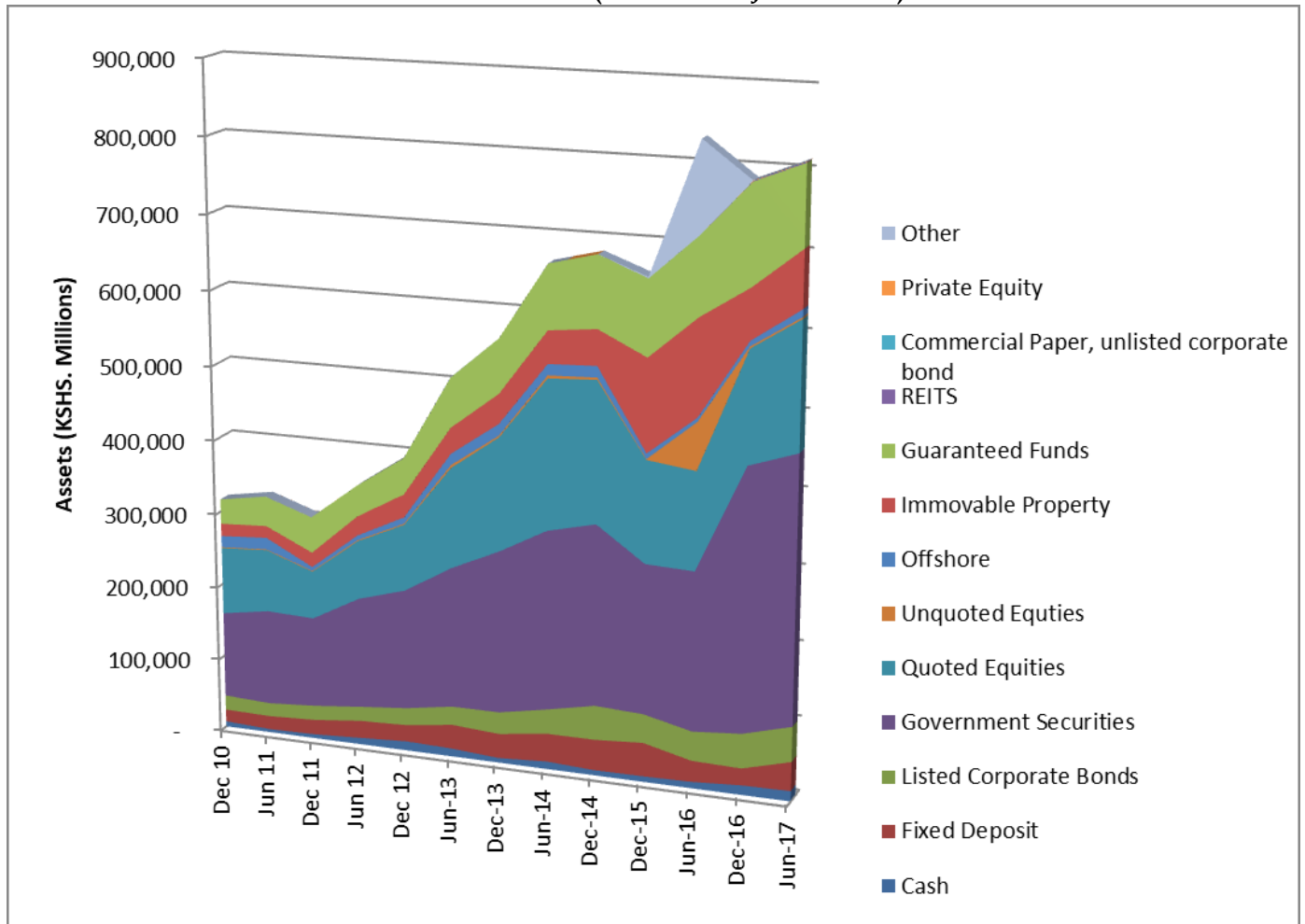


2.0 ASSETS HELD BY FUND MANAGERS AND INSURANCE ISSUERS

For the period ending June 2017, 14 fund managers and 10 insurance issuers, submitted 942 scheme reports with a total fund value of Kshs. 811.17 billion representing 3.37 percent increase in the total assets under fund management from the Kshs. 784.72 billion recorded in December 2016. The asset diversification remained similar to the previous periods with most of the asset classes recording minimal gains/losses. However, during the period, investment in guaranteed funds and unquoted equity decreased from Kshs. 129.58 billion in December 2016 to 103.67 billion in June 2017 and 2.48 billion in December 2016 to 2.44 billion in June 2017 respectively. Similarly, the fund managers did not report any investments under the “any other asset class category” during the period. This was a divergent from the period June 2016 where Kshs. 117.55 billion was reported unclassified and hence categorized as any other asset

class. The sharp drop in the investments under any other assets can also be attributed to the introduction of new assets classes⁹.

ASSETS UNDER FUND MANAGEMENT (DEC. 2010-JUNE 2017)¹⁰

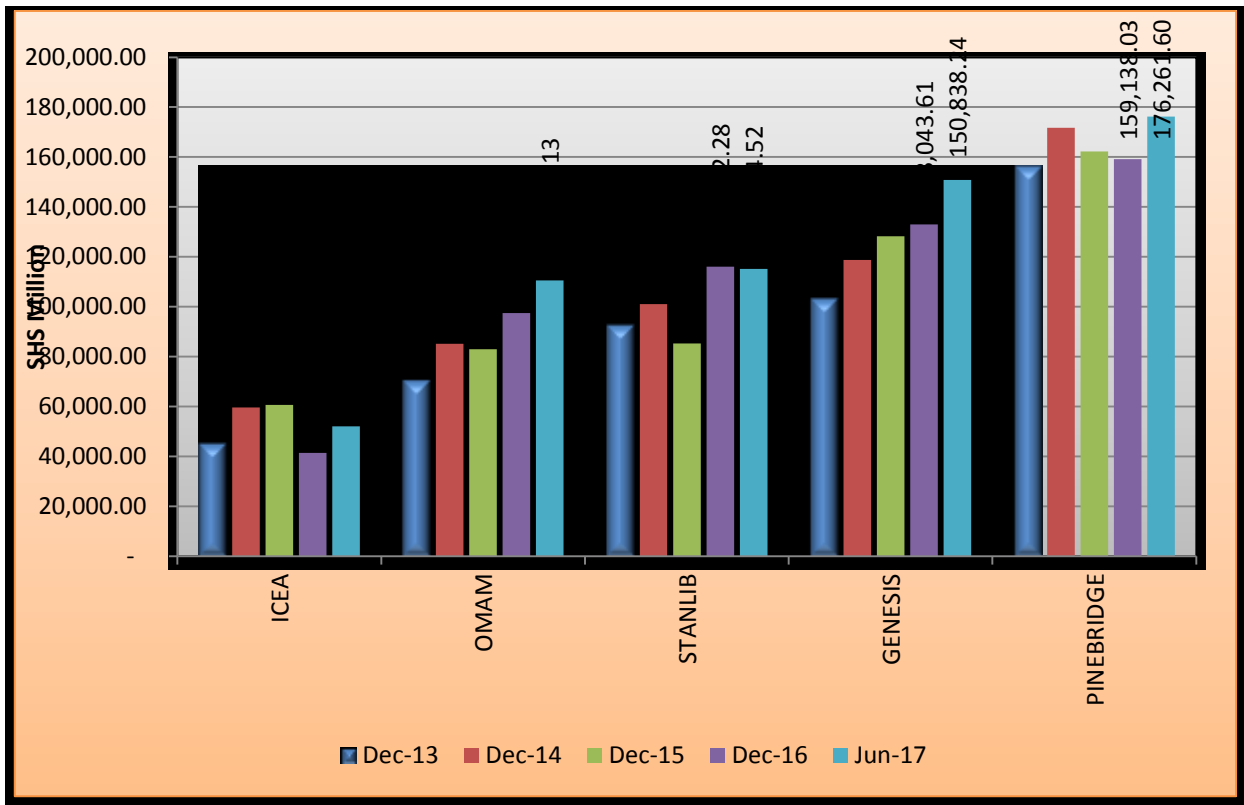


⁹ For more details see legal notice No. 107 on the Retirement Benefits (Forms and Fees) Amendment Regulations, 2016. Table G was amended to incorporate new assets classes.

¹⁰ During the period June 2016, a total of Kshs. 117.55 billion of investments was reported unclassified. However, during the subsequent periods, December 2016 and June 2017 all the investments were classified. Similarly, new asset classes (Private Equity, REITs and Derivatives) were introduced around this period.

In terms of investments by specific fund managers and insurance issuers, Pinebridge Investments East Africa Company limited still remained the fund managers with the largest assets under management with total assets under management at Kshs. 176.26 billion which constitute 21.73 percent of the total assets under fund management. The top five fund managers (Pinebridge, GENAfrica, Stanlib Kenya, Old Mutual Kenya and ICEA Lion Asset Managers) manages the bulk of the investments with the total assets under management amounting to Ksh.604.83 billion constituting 74.56 percent of the entire assets under fund management. The analysis reviewed each entity according to how it is registered hence, where a parent company has both an approved issuer and fund manager the two were considered as distinct entities.

ASSETS UNDER MANAGEMENT BY TOP FIVE MANAGERS (Dec. 2013 - June 2017)



3.0 ASSETS HELD BY NATIONAL SOCIAL SECURITY FUND (NSSF)

The total assets held by NSSF rose by Kshs. 28.39 billion in June 2017 from Kshs.168.49 billion in December 2016 representing a 16.84 percent growth in the total fund. Out of

the total amount of Kshs.196.88 billion, Kshs.63.25 billion¹¹ was internally managed by NSSF. The externally managed funds continue to increase over the period with a noted increase of Kshs.17.13 billion from 116.49 billion in December 2016 to Kshs.133.62 recorded in June 2017.

The table below shows the distribution of the funds to the various fund managers. Pinebridge Investments and Co-op trust Investments have not managed the NSSF fund for the last two years.

NSSF PORTFOLIO OF THE EXTERNAL MANAGERS (Dec.2014 -June 2017)

Assets in Millions					
Fund Manager	Dec-14	Dec - 15	Dec-16	Jun-17	Change (%)
British-American Asset Managers Limited	-	17,860	22,033	24,289	10.24
Gen Africa Asset Managers	13,125	30,096	31,667	36,009	13.71
ICEA Lion Asset Management Limited	13,269	18,058	20,534	23,826	16.03
Old Mutual Asset Managers (Kenya) Limited	13,352	17,945	20,620	24,190	17.31
Stanlib Investments Kenya Limited	12,246	18,494	21,639	25,316	16.99
Pinebridge Asset Managers	14,962	-	-	-	-
Co-op Trust	12,652	-	-	-	-
Total	79,606	102,453	116,493	133,630	14.7

The overall portfolio is heavily invested in government securities, quoted securities and immovable property at 37 percent, 27.14 percent and 21.34 percent, respectively. The portfolio allocation is in compliance with the investment guidelines.

4.0 FUTURE OUTLOOK

The retirement benefits sector is expected to grow with a slow pace given the current political environment. The political situation is expected to affect the capital markets hence the stock prices may be adversely affected. This however, depends on the outcome of the repeat presidential elections on 26th October 2017 and the events that

¹¹ These represent investments in immovable property (Kshs. 42 billion), unquoted securities (1.4 billion), fixed deposit (6.67 billion), and Kshs. 13.1 billion in quoted equities.

would follow. The schemes are also expected to venture into investing in alternative assets classes given the broadening of the allowable investment categories.

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