

**RETIREMENT BENEFITS INDUSTRY PERFORMANCE REPORT FOR JUNE -  
DECEMBER 2013**

**1.0 OVERALL ASSETS UNDER MANAGEMENT**

Total Industry assets grew by 9.9 percent in the second half of the year 2013 to stand at **Kshs.696.68** billion as of December 31<sup>st</sup> 2013. Compared to last year, December 2012, the assets under management have grown by 27 percent from **548.7** Billion to **696.68** Billion. The amount was composed of the **Kshs.564.82** billion held by the fund managers and insurance issuers, **Kshs.92.86** billion that is internally administered by National Social Security Fund (NSSF) and an additional **Kshs.39** billion of property investments directly managed by scheme trustees<sup>1</sup>. The assets under fund management included **Kshs.43.4** billion of NSSF funds that are externally managed by the 6 contracted managers. Similar to other periods, fund managers continued investing heavily in Government Securities and Quoted Securities with the two investments constituting the largest share of the industry assets at 59.2 % of total assets under management. In the period under review, there was a marked growth across all asset classes except in the cash and property asset classes which registered negative returns at -16.37% and -1.21% respectively.

**OVERALL INDUSTRY INVESTMENT PORTFOLIO (Billion's)**

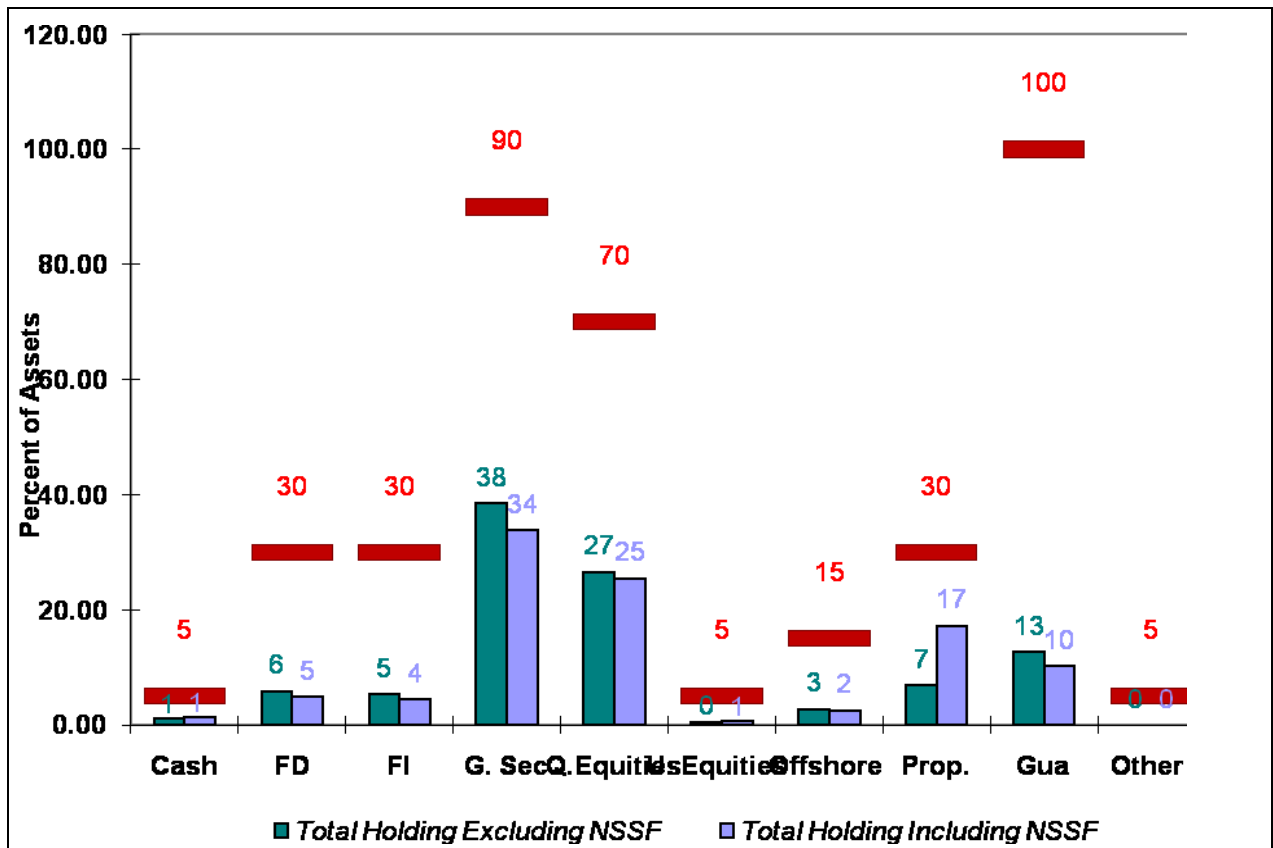
		December 2012		June 2013		December 2013		Change 2013- 2013 June December
		Kshs	%	Kshs	%	Kshs	%	
1	Government Securities	190.3	35	211.0	33.31	235.16	33.75	11.45
2	Quoted Equities	130.4	24	147.69	23.31	177.41	25.47	20.12
3	Immovable Property	101.6	19	121.30	19.15	119.84	17.20	-1.21
4	Guaranteed Funds	48.1	9	65.41	10.33	71.46	10.26	9.25
5	Fixed Income	26.7	5	25.24	3.98	30.38	4.36	20.37
6	Fixed Deposits	27.1	5	32.92	5.20	34.17	4.91	3.80
7	Offshore	8.5	2	14.90	2.35	15.29	2.19	2.62
8	Cash	12.9	2	10.80	1.70	9.03	1.30	-16.37
9	Unquoted Equities	3.1	1	3.75	.59	3.94	.57	5.04
10	U Classified	-	-	.45	.07	0	0	0

<sup>1</sup> The amount was consolidated from schemes Financial Accounts for the year 2012

	TOTAL	548.7	100	633.46	100	696.68	100	9.98
						<sup>2</sup>		

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

### OVERALL INDUSTRY INVESTMENT VS STATUTORY MAXIMUM



On a scheme to scheme basis, there was a marked improvement in scheme breaches for the period ending December 2013. There was an overall scheme breach status of 23% as 104 schemes of the 453 schemes who submitted returns had breached the guidelines. This is an improvement from the 27% and 48% marked breaches in June 2013 and December 2012 returns respectively. In similar pattern to other periods most breaches were detected in the short term and fixed deposits asset classes with the two contributing to 66% of the total breaches in the investment guidelines.

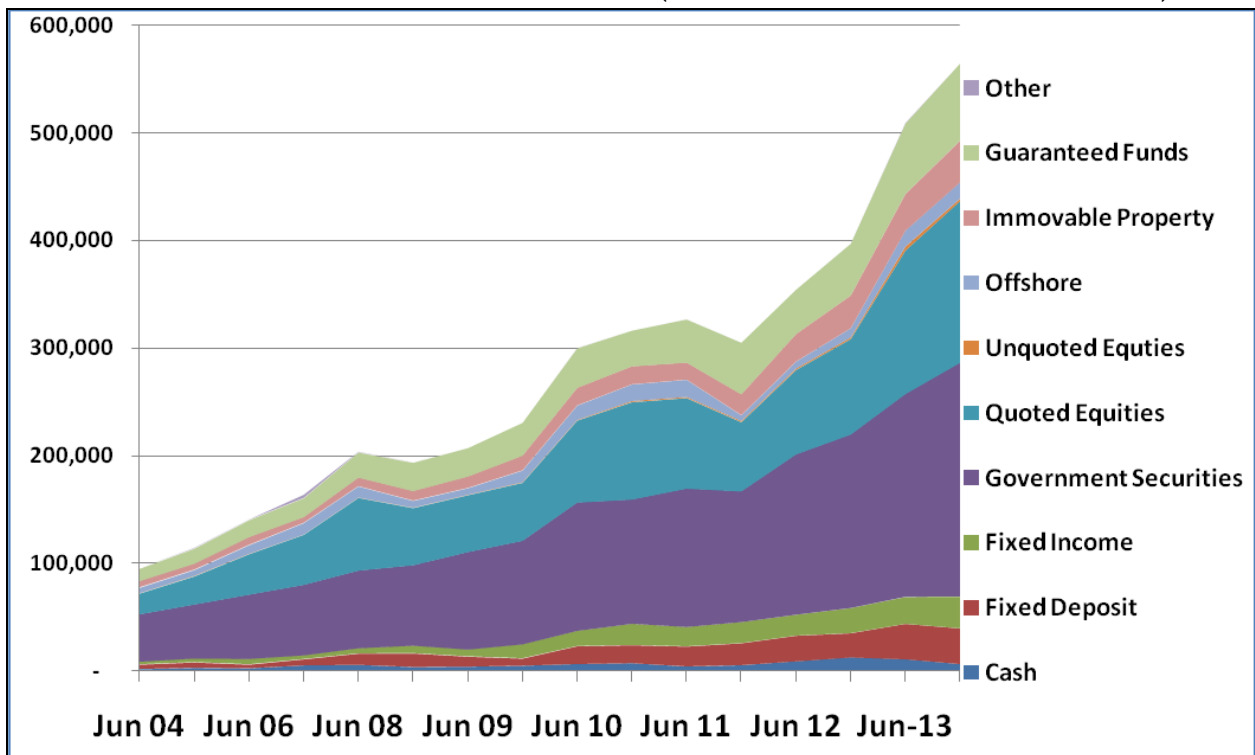
<sup>2</sup> The Internal administered funds of NSSF are from the June 2013 Financial Accounts

Comparatively, CFC Stanbic and Genesis Kenya continue to exhibit the highest non compliance to the investment guidelines with both fund managers having more than 20 percent of the schemes under their management with breaches for the period ending December 2013.

## 2.0 ASSETS HELD BY FUND MANAGERS AND INSURANCE ISSUERS

For the period ending December 2013, 16 fund managers and 1 insurance issuer (Kenya Alliance) submitted 1304 scheme reports with a total fund value of Ksh.565 billion. This is an increase of 11 percent of the total fund value from the Ksh.509 billion registered in June 2013. Over a one year period the asset fund value has increased by 19% from 474B recorded in December 2012. The growth of the industry was as a result of a stable performance of the Nairobi Securities exchange, revaluation of the assets held under property investments and good performance of the bond market.

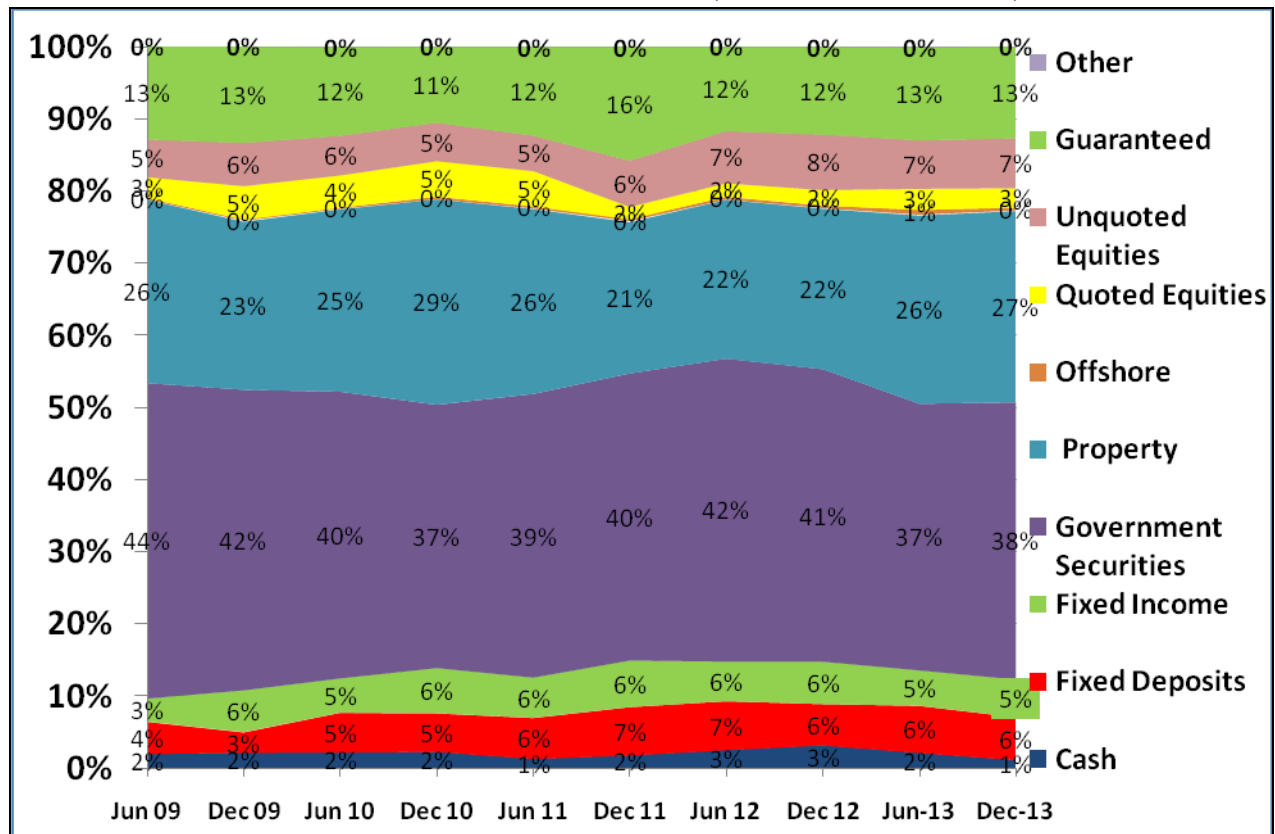
**ASSETS UNDER FUND MANAGEMENT (2004 - Dec. 2013 in Kshs. Millions)<sup>3</sup>**



<sup>3</sup> Figures exclude funds internally managed by NSSF and Internally managed investments in Property

Asset classes with considerable growth within the half year period between June to December 2013 were fixed income securities, government securities and immovable property with 18%, 15% and 14% increase in assets respectively. However investments in short term deposits (cash, demand and call deposits) and unquoted equity shrank by 41% and 37% respectively. This is attributed to some managers divesting the funds in more long term investments.

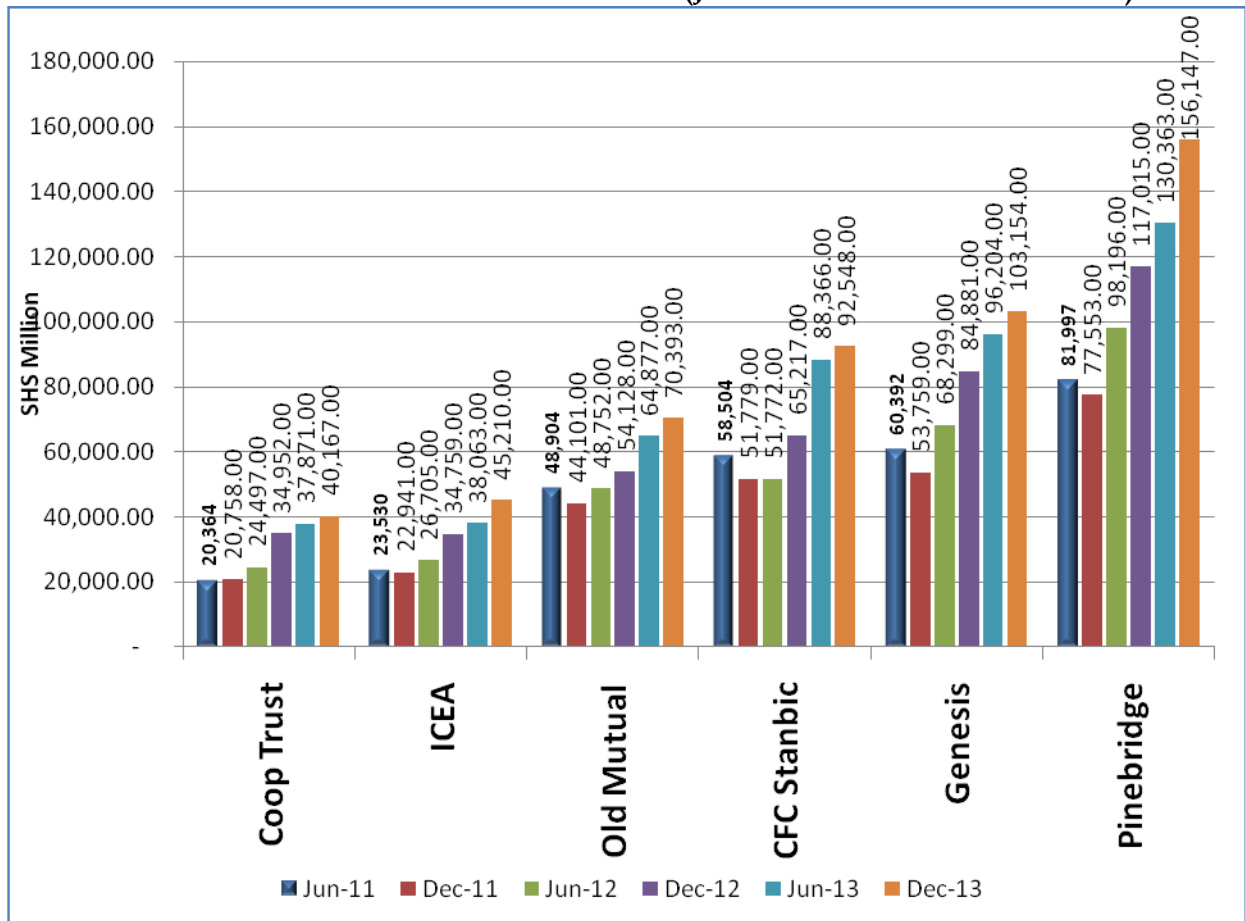
**PORTFOLIO DIVERSIFICATION (June 2009- Dec. 2013)**



The fund manager managing the largest market share in terms of schemes under management was ICEA Lion with 356 schemes, or 27.3% of total schemes under management of which 324 were guaranteed and 32 were segregated schemes. However the manager with the largest assets under management remained AIG Pinebridge with 27.6% of the market share at **Ksh.156.1** billion of assets. Compared to the previous period the top tier fund managers (AIG Pine Bridge, Genesis Kenya, CFC Stanlib Kenya, and OMAM Kenya) continue to account for 75% of the total investments under management accounting for **Ksh. 422** billion.

The diagram presents 6 of the largest fund managers, who manage more than Kshs.20 billion, for a 3 year period from June 2011 to December 2013.

**RETIREMENT ASSETS- BY MANAGER (JUNE 2011- DECEMBER 2013)**



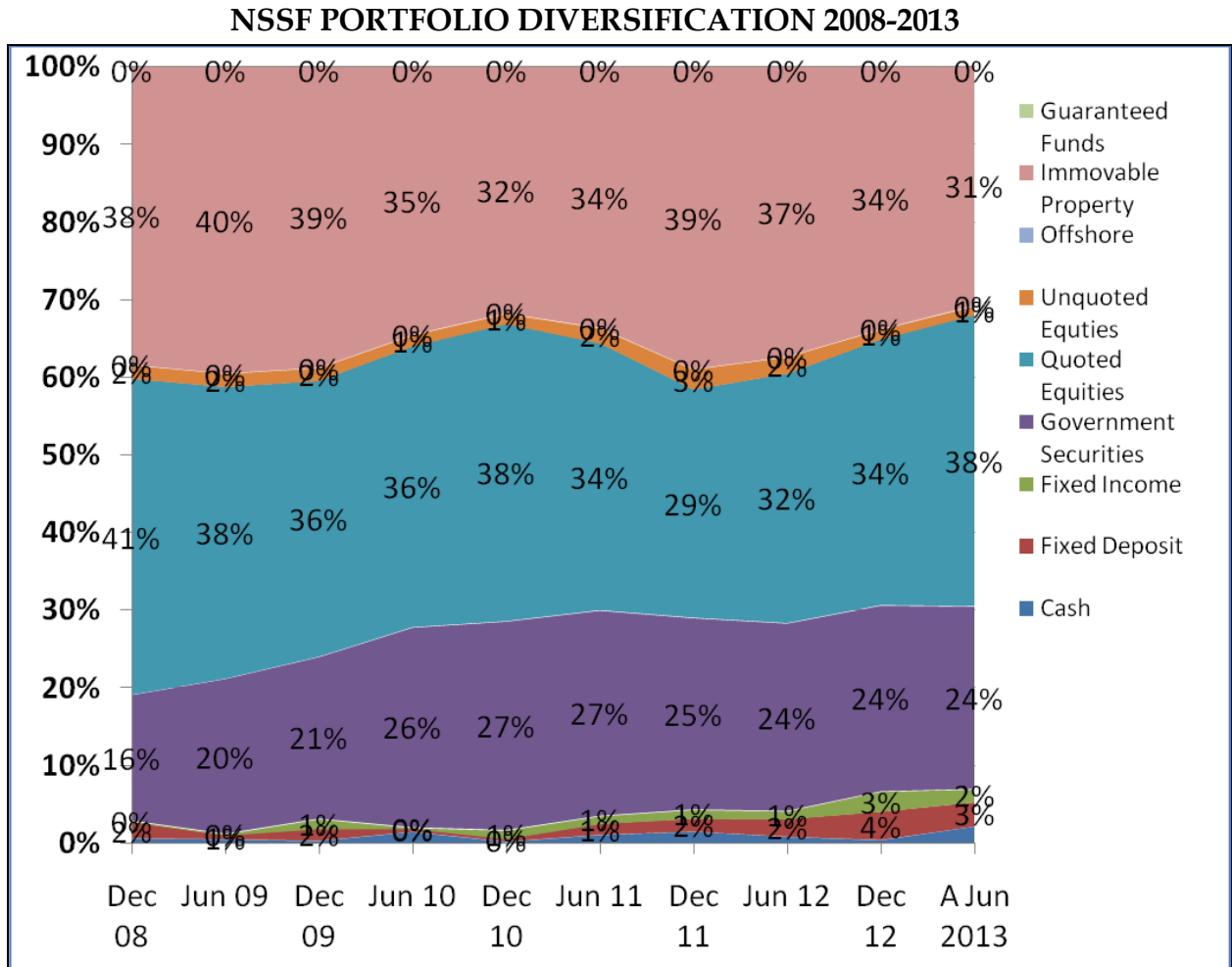
### 3.0 ASSETS HELD BY NSSF

Total assets of the NSSF rose from **Kshs.121.5 billion** in December 2012 to **Kshs.136.2 billion** in June 2013 representing a 12% growth in the total fund. Of this amount, **Kshs.92.9 billion**<sup>4</sup> was managed in-house and **Kshs.43.3 billion** managed by the registered fund managers<sup>5</sup>. There was a **Kshs.6 billion** increase or a 16% growth in the assets managed externally from **Kshs.37.3 billion** to **Kshs.43.3 billion**. The total funds under the managers were well diversified though heavily in quoted equities and government securities at 55.4% and 32.6% respectively.

<sup>4</sup> The fund value is compiled from the June 2013 Financial Accounts

<sup>5</sup> AIG Pinebridge, Co-op Trust, CFC Stanbic, Genesis, ICEA, Old Mutual

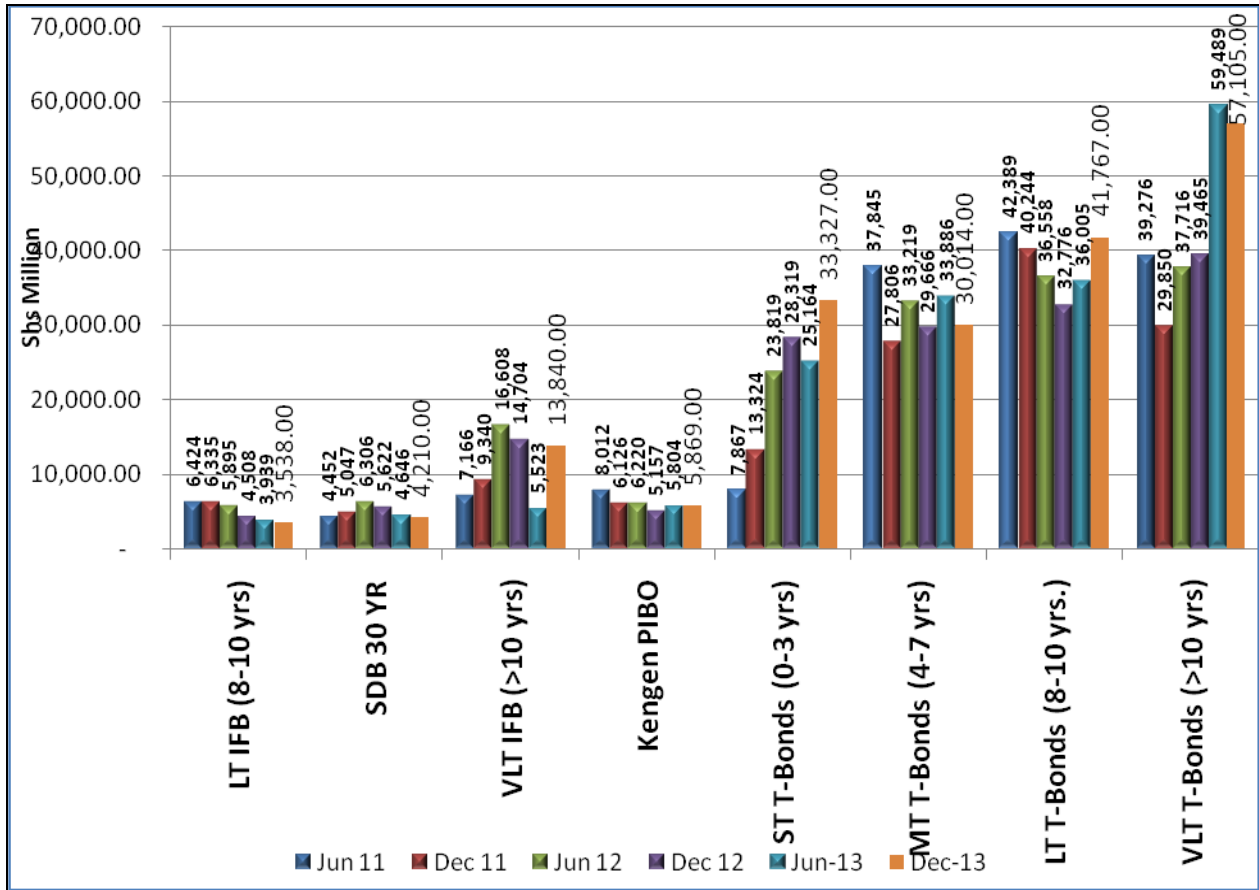
The overall portfolio was diversified and is in compliance with the investment guidelines except for the immovable property assets which at 31% of assets was above the statutory maximum of 30 percent.



#### 4.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN GOVERNMENT SECURITIES

Government securities accounts for the largest portion of investment at 33.75 percent of the total assets under management. The industry total holdings of government securities stood at Kshs.235.16 billion as at December 2012 compared to Kshs.211 billion as at June 2013 an increase of 11.45%. As indicated before, schemes moved back in investing in the 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 indicated in the diagram below.

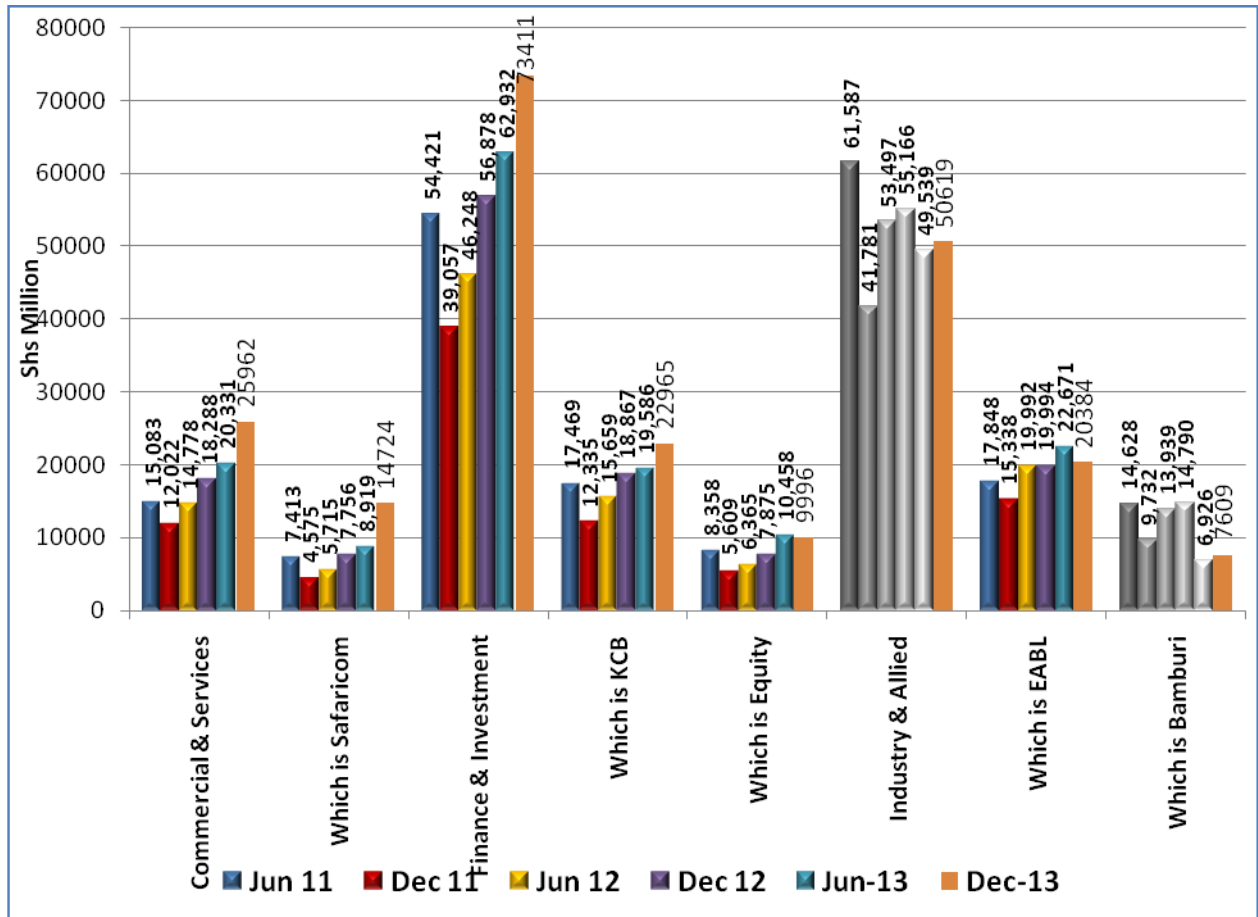
## RETIREMENT BENEFIT INDUSTRY HOLDINGS OF GOVERNMENT SECURITIES



### 5.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN QUOTED EQUITIES

Industry investments in quoted equities rose by 20.12% from Ksh.147.69 billion in June 2013 to Kshs.177.41 billion in December 2013. Marked by a stable market, investment in this asset class continued to register positive returns with all fund managers increasing the investments in this asset class. Investments in this asset class constituted 25.47% of all assets under management. Similar to last year and the period ending June 2013, most investments were made in the banking and manufacturing and allied sectors constituting 66% of all investment in quoted equities. However, the most stocks held by schemes were Kenya Commercial Bank, and East African Breweries Limited and Safaricom Limited at 23 billion, 20.4 billion and 14.7 billion respectively as represented in the table below.

## RETIREMENT BENEFIT INDUSTRY HOLDINGS OF QUOTED EQUITIES<sup>6</sup>



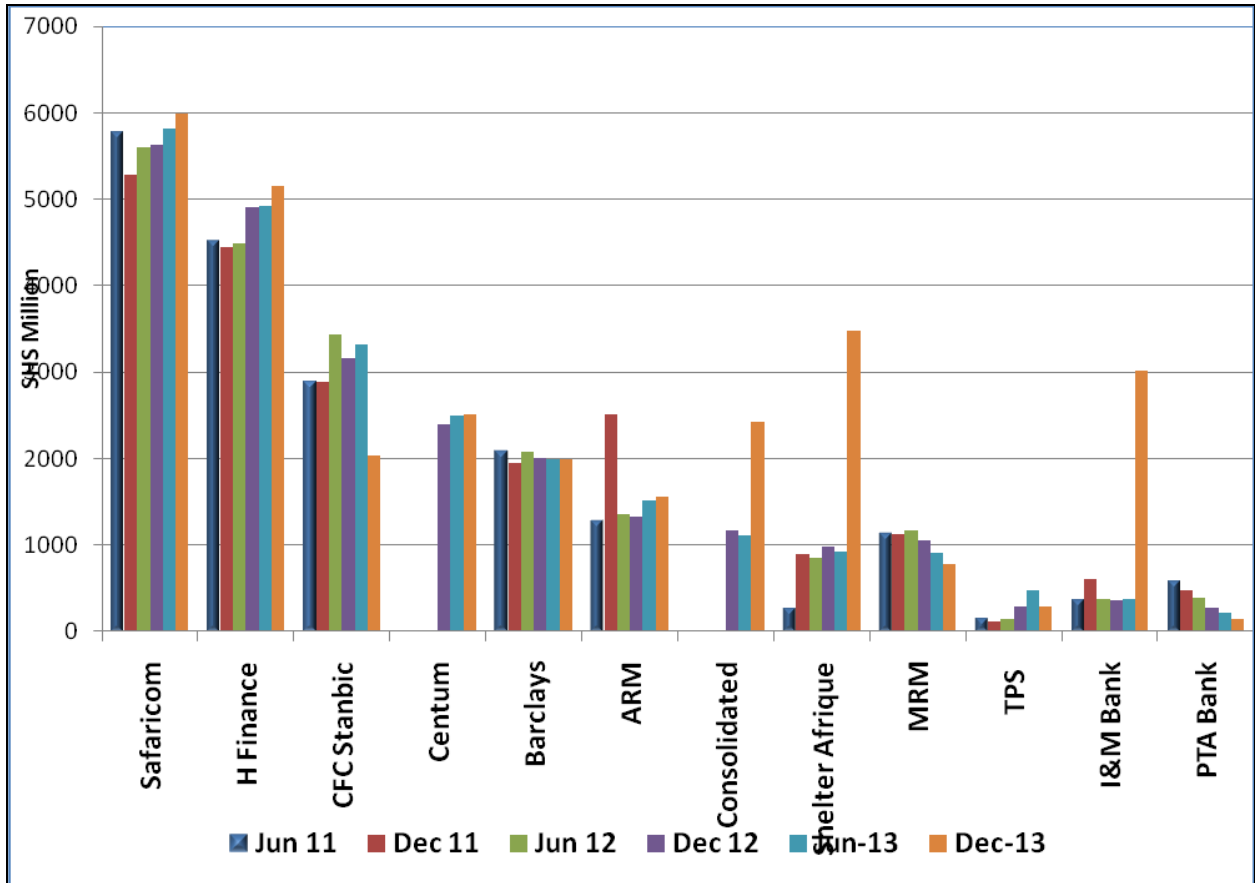
### 6.0 RETIREMENT BENEFITS INDUSTRY INVESTMENT IN CORPORATE BONDS

Investments in this asset class increased by 18.01%, from Kshs.25.2 billion invested in June 2013 to Kshs.29.8 billion in December 2013. The same trend was experienced over a one year period where the investments in this asset class increased by 21%. This asset class represents 5.2% of the total fund value. Similar to other periods, most fund managers invested in Safaricom, Housing Finance, and Shelter Afrique constituting 49% of all investments in this asset class. The table below shows investments in this asset class over 3 year period with more than 100 million investments.

<sup>6</sup> The analysis does not include Ksh.27.1 Billion internally held by NSSF



## RETIREMENT BENEFIT INDUSTRY HOLDINGS OF CORPORATE BONDS



### 7.0 INDIVIDUAL RETIREMENT BENEFITS SCHEMES SECTOR

The individual retirement benefits schemes membership continued to grow steadily by 28% from 88,509 members in December 2012 to 113,316 registered members in December 2013. The total assets under individual retirement benefits schemes also grew by 27.5% over the year to stand at Kshs.17.4 billion largely driven by contributions within the period and marked reduction in withdrawals out of the schemes. A significant part of the growth in membership of this sub sector has come from the Mbao SME pension scheme targeting the informal sector which had 50,057 members as at December 2013 which was 44.2% of the total membership in individual pension plans. However, in terms of assets, the Mbao SME scheme has Kshs.64.4 million in assets which is only 0.37% of the total assets of the individual pension plans.

**INDIVIDUAL RETIREMENT BENEFITS SCHEMES DATA IN KSHS.BN  
(JUNE 2010- JUNE 2013)**

	<b>Total Membership</b>	<b>Total Assets</b>	<b>Contributions (6 Months)</b>	<b>Benefits Paid out (6th Months)</b>	<b>Transfers In (6 Months)</b>	<b>Transfers Out/Withdrawals (6th Months)</b>
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

**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 and Fixed Income securities- Corporate Bonds 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 14 entities that had an exposure of more than 1 percent of total assets under management with Kenya Commercial Bank, Safaricom Limited, East African Breweries and Equity Bank having the greatest exposures as illustrated below.

**RETIREMENT BENEFITS INDUSTRY OVERALL EXPOSURE TO SINGLE ENTITY AS AT JUNE 2013, Kshs.Million**

	Amount Invested					<i>As a Percentage of overall Industry Assets</i>
	Cash	Fixed Deposits	Corp. Bonds	Quoted Equities	Total	
Kenya Commercial Bank	275.00	5,293.00		22,965.00	28,533.00	<b>5.05</b>
Safaricom Limited			5,996.00	14,724.00	20,720.00	<b>3.67</b>
EABL				20,384.00	20,384.00	<b>3.61</b>
Equity	469.00	1,331.00		9,996.00	11,796.00	<b>2.09</b>
Barclays Bank	1,008.00	2,690.00	1,990.00	5,662.00	11,350.00	<b>2.01</b>

NIC Bank	929.00	3,430.00		6,289.00	10,648.00	<b>1.89</b>
Standard Chartered	838.00	1,585.00		7,594.00	10,017.00	<b>1.77</b>
Co-op Bank	408.00	2,058.00		6,330.00	8,796.00	<b>1.56</b>
DTB	1,090.00	3,483.00		3,620.00	8,193.00	<b>1.45</b>
Housing Finance	382.00	2,136.00	5,153.00	115.00	7,786.00	<b>1.38</b>
Bamburi				7,609.00	7,609.00	<b>1.35</b>
BAT				7,117.00	7,117.00	<b>1.26</b>
NMG				6,847.00	6,847.00	<b>1.21</b>
I & M Bank	9.00	1,543.00	3,013.00	2,198.00	6,763.00	<b>1.20</b>
CFC Stanbic	390.00		2,037.00	3,602.00	6,029.00	<b>1.07</b>
ARM			1,563.00	4,258.00	5,821.00	<b>1.03</b>

## 9.0 OUTLOOK FOR SECOND HALF 2014

According to the African Development Bank, the economy is expected to grow at 5.7% in 2014 backed by most sectors of the economy registering positive growth. However, there is potential to increase the rate of growth if the government addresses the challenges in the energy and mining sector and utilizes the opportunities that exist in mining of minerals and the discovery of oil and gas.

In the pension sector the assets under management are set to increase with targeted campaigns at employers to encourage participation and financial literacy programs that will encourage potential members to save towards retirement. The introduction of new assets such as Private Equity, Real Estate Investment Trusts (REIT's) and other alternative investments is set to diversify the investment portfolio hence reducing the systemic risk as well as increasing members' benefits.

**JUNE 2014**  
**RESEARCH & STRATEGY DEPARTMENT**