

Pension Funds and Private Equity: Unlocking Africa's Potential


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Pension Funds and Private Equity: Unlocking Africa's Potential



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Researched and edited by David Ashiagbor (MFW4A),
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(EMPEA)

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The Making Finance Work for Africa (MFW4A) partnership is dedicated to supporting the efforts of African countries to strengthen their financial sector by co-ordinating and facilitating financial sector development initiatives, promoting closer collaboration among development partners and fostering exchanges among African stakeholders.

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The Emerging Markets Private Equity Association (EMPEA) is the global industry association for private capital in emerging markets. We have over 300 member firms, comprising institutional investors, fund managers and industry advisors, who together manage more than US\$1 trillion of assets. Our members share EMPEA's belief that private capital is a highly suited investment strategy in emerging markets, delivering attractive long-term investment returns and promoting the sustainable growth of companies and economies.

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The Commonwealth is a voluntary association of 53 independent countries. It is home to 2.2 billion citizens and over 60% of these are under the age of 30. The Commonwealth includes some of the world's largest, smallest, richest and poorest countries, spanning five regions. Thirty-one of its members are small states, many of them island nations. The Commonwealth's guiding principles are in its Charter. Commonwealth policies are shaped by member countries, who have an equal say on decisions affecting them. Commonwealth organisations put these decisions and plans into action.

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Acronyms and Abbreviations

AUM	Assets under Management
AVCA	African Private Equity and Venture Capital Association
BOT	Bank of Tanzania
BPOPF	Botswana Public Officers Pension Fund
BWP	Botswana Pula
CalPERS	California Public Employees' Retirement System
CalSTRS	California State Teachers' Retirement System
CDC	CDC Group plc
CMA	Common Monetary Area
CPII	Commonwealth Private Investment Initiative
DFI	Development Finance Institution
EAC	East African Community
EMPEA	Emerging Markets Private Equity Association
EPPF	Eskom Pension and Provident Fund
ERISA	Employment Retirement Income Security Act
ESG	Environmental, Social and Governance
FSB	Financial Services Board (South Africa)
GEPF	Government Employees Pension Fund (South Africa)
GHS	New Ghana Cedi
GIPF	Government Institutions Pension Fund
GP	General Partner
KES	Kenya Shilling
KPTF	Kwacha Pension Trust Fund
LP	Limited Partner
MFW4A	Making Finance Work for Africa
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NAPSA	National Pension Scheme Authority (Zambia)
NBFIRA	Non-Bank Financial Institutions Regulatory Authority (Botswana)
NGN	Nigeria Naira
NPRA	National Pensions Regulatory Authority (Ghana)

NSSF	National Social Security Fund
PE	Private Equity
PFA	Pension Fund Administrator
PenCom	National Pension Commission (Nigeria)
PIA	Pensions and Insurance Authority (Zambia)
PIC	Public Investment Corporation
PSPF	Public Service Pensions Fund (Tanzania)
PSRA	Pensions Scheme Regulations Act (Zambia)
RAMA	Rwanda Health Insurance Fund
RBA	Retirement Benefits Authority (Kenya)
RSSB	Rwanda Social Security Board
RWF	Rwanda Franc
SSFR	Social Security Fund of Rwanda
SSNIT	Social Security and National Insurance Trust (Ghana)
SSRA	Social Security Regulatory Authority (Tanzania)
TZS	Tanzania Shilling
UGX	Uganda Shilling
URBRA	Uganda Retirement Benefits Regulatory Authority
VPPS	Voluntary Private Pension Scheme
ZAR	South Africa Rand
ZMW	Zambia Kwacha

Regulatory reforms are a must; but reform is an ongoing process. It doesn't stop.

There is a further US\$29 billion that African pension funds could potentially invest in private equity today... it would almost double the size of the African private equity industry.

One of the key challenges is how to encourage the portfolio diversification necessary for these systems to manage risk, whilst ensuring that diversification in itself does not become a source of risk as pension funds venture into hitherto unknown asset classes and markets.

Getting the pension fund managers to understand how to build their private equity portfolios is the biggest challenge.

Private equity, when done well, has the potential not only to generate significant returns – its hands-on nature also helps build better businesses.

Section 1: Introduction



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1. Pension Funds and Private Equity: Unlocking Africa's Potential

This publication includes several strands of information crucial to a better understanding and appreciation of the pensions industry in Africa.

The Commonwealth Secretariat and the Making Finance Work for Africa Partnership (MFW4A) are pleased to present this publication on pension funds and private equity in Africa as part of our efforts to support financial sector development on the continent.

Pension funds play a critical role in finance through the mobilisation and allocation of stable long-term savings to support investment. Recent reforms in many African countries have created private pension systems, which are rapidly accumulating assets under management (AUM). The Nigerian pension industry, for example, grew from US\$7 billion in December 2008 to US\$25 billion in December 2013.¹ Similarly, Ghana's pension industry is expected to expand by up to 400 per cent in the four years from 2014 to 2018.² Pension assets now equate to some 80 per cent of GDP in Namibia³ and 40 per cent in Botswana.⁴

In this context, there is increased global interest in the African pensions industry and its role as a catalyst for African development. How can Africa mobilise these domestic resources to support private sector development, as well as the investment in infrastructure and social services that it so desperately needs to drive continued growth and transformation? How can these long-term savings support the development of capital markets on the continent?

¹ National Pension Commission Nigeria (PenCom).

² According to National Pensions Regulatory Authority officials, pension industry assets could grow from ₵1.06 billion to ₵5.5 billion in this period.

³ Namibia Financial Institutions Supervisory Authority Annual Report, 2013.

⁴ Based on Non-Bank Financial Institutions Regulatory Authority (NBFRIA) and World Bank figures.

There is surprisingly little collective and well-collated information on the African pensions industry. Where information does exist it is often unclear and dispersed. This publication helps to address this lacuna. For the Commonwealth Secretariat, it is the culmination of work done over several years beginning with the Commonwealth Private Investment Initiative (CPII), which raised more than US\$400 million⁵ for investment in Africa between 1997 and 2007. The CPII pioneered private equity in Africa, demonstrating that frontier markets could offer attractive returns to private investors.

This publication provides a critical foundation for MFW4A's emerging work on capital markets and institutional investors. MFW4A's recently launched Africa Pension Funds Network, for example, provides a platform for peer learning and exchange. For the first time African pension funds have space to engage with each other, free from the pressures of commercial conferences, on issues ranging from pension reform to investment and governance.

The publication focuses on private equity in particular because the asset class offers a unique combination of long-term finance, managerial assistance and governance support. In so doing, private equity addresses two major issues that undermine private sector development in Africa, namely limited access to finance and poor capacity. In the context of underdeveloped capital markets and a lack of long-term financing, private equity is an attractive option for African companies in search of growth capital and can be a catalyst for job creation and economic growth.

The publication contains several strands of information crucial to a better understanding

⁵ Commonwealth Secretariat figures.



and appreciation of the pensions industry in Africa – the latest data available on the regulatory environment and investment policies, country-specific institutional knowledge, asset allocations of leading funds and interviews with key stakeholders.

We have tried to understand what resources could be available to support private investment in ten African countries, based on their pensions industries and related regulations. We estimate how much of this has actually been mobilised, and through interviews with private equity fund managers, industry associations, pension fund regulators and African asset managers, identify the main barriers to unlocking the US\$29 billion that is potentially available for private investment in these markets. Domestic resources are a key part not only of the African investment opportunity, but also of the broader financing for development agenda. Africa can and must invest in its own development if its current growth rates are to be sustained.

Whilst this publication focuses on private equity, the lessons learned are applicable to other sectors such as infrastructure and housing, as well as how these long-term savings can be used to support the development of capital markets. These are lessons that apply to all stakeholders – policymakers, regulators, development partners, international and African institutional investors, and the private equity industry and beyond. We hope that the information and lessons shared through this publication will help to deepen the dialogue that is already beginning on how to unlock Africa's enormous potential to mobilise its domestic resources for development.

Cyrus Rustomjee

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Commonwealth Secretariat

Stefan Nalletamby

Co-ordinator
Making Finance Work for Africa
African Development Bank

2. The Role of Pension Funds in Private Equity

Nadiya Satyamurthy, EMPEA

Private equity is an asset class unlike any other. Whereas most traditional investments focus on providing funding to entities that have the potential to grow, private equity offers something in addition to capital – private equity investors are active investors. When a private equity investment is made, a partnership is formed and the investor is motivated to work with a company's management team to create value. Using various tools such as operational improvements, corporate governance enhancements or environmentally friendly renovations, private equity, when done well, has the potential not only to generate significant returns – its hands-on nature also helps build better businesses, leading to numerous knock-on effects including job creation, a broader tax base and sustained economic growth – and it is committed to doing so over several years.

With an average fund life cycle of 8-10 years, it is the long-term nature of private equity that makes it a particularly well-suited investment for pension systems that are required to manage the accounts of participants so they can ultimately meet their retirement goals. In addition to creating a better alignment between long-term liabilities and incoming cash flow, private equity offers pension fund contributors an outperformance potential that is uncorrelated to other assets. A 2006 study on the suitability of private equity investment for South African pension funds, presented at the Convention of the Actuarial Society of South Africa, concluded that '...long-term savings vehicles such as pension funds are uniquely positioned to manage the long investment term and limited liquidity of private equity investment to capture what appears to be a significant performance premium and diversification benefits.' Several decades earlier, pension funds across North America and Western Europe reached the same conclusion, and today they represent the largest investors in the asset class in their markets.

2.1 The pension fund catalyst: The rise of private equity in developed markets

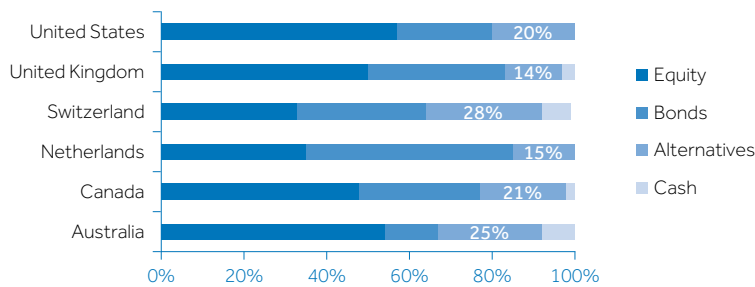
US pension funds were allowed to invest in private equity for the first time in 1978 as a result of reforms to the US Employment Retirement Income Security Act (ERISA) guidelines. Under the 'prudent man rule', pension fund managers were given discretion to make a variety of investments in addition to bonds and public equities, so long as these investments did not endanger an entire portfolio. At the time, pension investments in private equity totaled US\$64 million; by September 2013, private equity investment from the top 200 US pension funds had reached over US\$300 billion.⁶ With the introduction of these new and significantly sized pools of capital, the domestic private equity and venture capital industry, as measured by the number of funds and fund managers, exploded.

Pension funds throughout the developed world followed suit. In 2001, the Government of the United Kingdom commissioned a review of institutional investment in non-listed companies, also known as the Myners Report, which is largely credited for encouraging pension fund participation in private equity. While pension funds in the United Kingdom had dabbled in the industry in the mid-1980s, it was not until the release of the report that private equity as an asset class fully developed. In 2003, the European Union adopted a directive that embraced the 'prudent man rule', declaring that member states should not prevent pension funds from investing in private equity and venture capital. In these and other markets, including Australia, Canada and New Zealand, pension fund reforms had a catalytic effect on local private equity industries.

Today, private equity is a small but core component of most developed market pension fund portfolios

⁶ Burr B and Jacobius A, "Witness to a Revolution: Myriad innovations, changes and events have shaped the pension industry in the 40 years since P&I launched." *Pensions & Investments*, 14 October 2013.

Figure 2.1. Average global asset allocation of select developed markets



Source: Towers Watson Global Pension Assets Study 2014.

(see Figure 2.1). Private equity is typically bundled with the likes of real estate, hedge funds and commodities in an alternatives bucket, which is as high as 28 per cent of the average pension fund portfolio in Switzerland and 25 per cent in Australia. In the United States, the average allocation to alternatives is approximately 20 per cent, of which private equity is only a portion. As of October 2013, the average target allocation to private equity of US pension funds was 8.3 per cent of total assets,⁷ with the three largest private equity investors – California Public Employees’ Retirement System (CalPERS), California State Teachers’ Retirement System (CalSTRS) and Washington State Investment Board – posting target allocations of 14 per cent, 13 per cent and 23 per cent, respectively.

In developed markets, it is the potential for private equity to outperform that is the key driver of pension funds’ allocation decisions. In a global low-interest rate environment, institutions

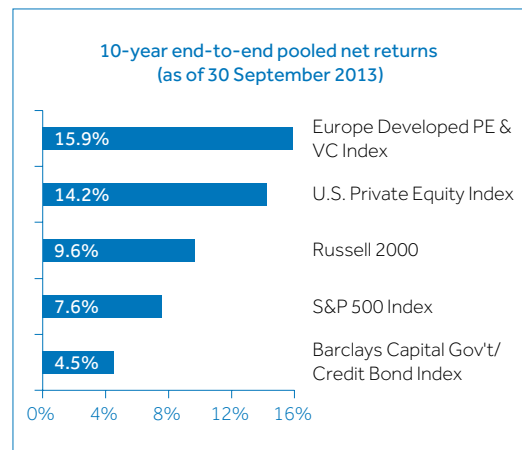
over-weighted to treasury bonds or fixed income struggle with the question of how to produce the minimum returns necessary to cover liabilities. US public pension funds are currently funded at a ratio of approximately 70 per cent, meaning they have cash on hand to pay only 70 per cent of their expected liabilities. A study of 90 public pension funds conducted by the Private Equity Growth Capital Council revealed a median actuarial targeted return of 7.8 per cent for their overall portfolio versus an actual median return of 5.7 per cent over a 10-year period. Private equity is helping these institutions bridge the gap (see Figure 2.2).

The relationship between pension funds and private equity in developed markets has become a symbiotic one. Fund managers look to these institutions as a key source of financing and, in return, private equity offers pension funds a vehicle to help them meet their objectives. As noted by Christopher E. Gonzales, the Chief Investment

Figure 2.2. Private equity performance

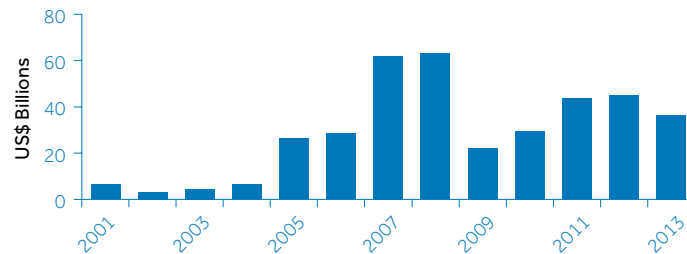
Sampling of leading pension funds by private equity returns

Public Pension Fund	10-Year Annualized PE Return
Teacher Retirement System of Texas	15.5%
Massachusetts Pension Reserves Investment Trust Fund	15.4%
Minnesota State Board of Investment	14.4%
Iowa Public Employees’ Retirement System	14.1%
Houston Firefighters’ Relief and Retirement Fund	13.6%
Utah Retirement System	13.5%
San Francisco Employees’ Retirement System	13.1%
Pennsylvania Public School Employees’ Retirement System	13.0%
Contra Costa County Employees’ Retirement Association	12.7%



Source: Private Equity Growth Capital Council, Cambridge Associates; specific pension plan returns based on reporting dates between March and September 2012.

⁷ Preqin, "Increases in Private Equity Target Allocations from US Public Pension Funds – October 2013." Available at: <https://www.preqin.com/blog/101/7686/us-pensions-private-equity>.

Figure 2.3. Emerging markets private equity fundraising (2001-2013)

Source: Emerging Markets Private Equity Association (EMPEA).

Officer of the Houston Firefighters' Relief and Retirement Fund, 'Our goal is simple: make the smartest investment decisions we can to maximise returns, control risk and meet our obligations to our members. Private equity investment is one critical tool we use to fulfill this mission. The strong performance of our private equity portfolio is helping us to strengthen the retirement security of our members and lower the cost to taxpayers and the city. That's a winning formula for everyone.'

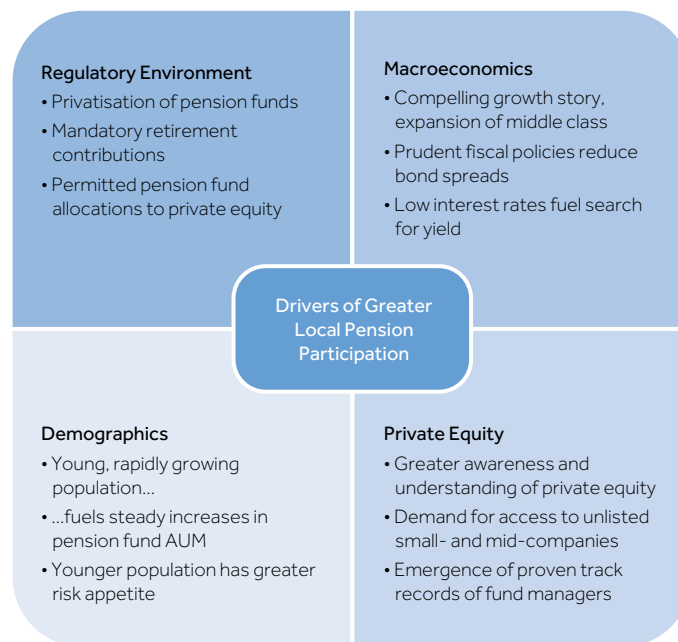
2.2 Rise of the local pension fund investor in emerging markets

Private equity has been slower to develop in emerging markets. With the earliest pioneers exploring private equity and venture capital investing in these economies in the late 1990s

and early 2000s, it wasn't until 2008, just before the onslaught of the global financial crisis, that the asset class peaked with nearly US\$63 billion raised (see Figure 2.3). Since 2001, institutional investors have committed over US\$375 billion to emerging markets-focused private equity funds. However, this is still a fraction of the capital flowing into developed markets. In 2013, fundraising for emerging markets represented just 12 per cent of the global private equity fundraising total.

Whereas in developed markets, pension funds have been a key driver in the deepening of the private equity industry, it is the development finance institutions (DFIs) that have led the way in emerging markets. In fact, domestic institutions have historically played a marginal role in the asset class, with appetite amongst pension funds in



Figure 2.4. Drivers of pension fund participation

emerging markets particularly slow to develop, in part due to historically conservative regulations. However, a number of trends – including improving regulatory environments, growing pools of capital in line with demographic shifts seeking yield, compelling macroeconomic fundamentals and an overall greater understanding of private equity – are converging, forcing these markets to reconsider their investment approach to the asset class (see Figure 2.4). With each emerging market progressing at its own pace, initial signs of pension fund participation have been encouraging.

Of the emerging market regions, Latin America has the longest history of pension fund participation in private equity. Chile set off a wave of reforms across Latin America in 1980 starting with the privatisation of pension plans. Regulators subsequently allowed, and then gradually increased the ceilings for, investments in equities and foreign assets, leading up to the introduction of provisions for private equity in 1985. Twelve years later, Brazil's pension funds were permitted investments in domestic private equity funds, and Colombia and Peru followed in 2005 with the added flexibility of being able to invest in international funds. More recently Mexico entered the field; pension funds in the market use an innovative structure to commit funds to local private equity vehicles that are listed on the Mexican stock exchange via a public security.

In each of these markets, the private equity industries have benefited from increased

participation by local institutions, first and foremost due to a greater amount of capital being raised for investment into these economies. EMPEA data show that in the six years since 2008, Latin American funds have raised over US\$31 billion, with a significant portion coming from local sources. Local institutional participation has served as a catalyst for greater foreign investment; the presence of local limited partners provides a certain measure of validation for international investors who may be less familiar with the idiosyncrasies of the particular market or who are seeking signals regarding the credibility of a specific fund manager.

The case of Latin America offers a number of lessons for Africa on how to begin creating a stronger and mutually beneficial relationship between pension funds and the private equity industry. For example:

- **Pension reforms have the power to catalyse the professionalisation of the fund management industry.** A greater awareness of, and focus on, portfolio management has led to a significant increase in the level of skills displayed by pension fund managers, including a greater incorporation of portfolio management theory and tools in their practices. This improvement in skill sets has resulted in a positive cycle in Latin America marked by greater liberalization and new asset classes being opened up for investment, which in turn drives even stronger professional development. Signs of such a

cycle are beginning to emerge in a handful of African nations, including Nigeria where pension fund managers have been slowly learning about private equity since they were first allowed to invest in December 2010. As one of the founding commissioners of the National Pension Commission of Nigeria, Eyamba Nzekwu, notes in her interview (p. 33), local regulations only permit investments in private equity funds that have multilateral development finance institutions among their limited partners, in part, to encourage a transfer of knowledge and skills from these experienced investors to the local pension fund managers.

- [The combination of moving to defined contribution plans and providing a menu of risk appetite options for pensioners has proven effective in giving pension fund contributors the flexibility to invest in a broader array of asset classes with the potential to generate higher returns.](#) Chile, Colombia and Peru have each adopted a 'multiple funds' approach whereby pensioners who previously lacked choice in the management of their retirement plans can now select conservative, moderate or aggressive funds, with many of their younger participants opting for a higher risk/return profile. While several African pension funds have moved to a defined contribution model, including those in South Africa and Nigeria and the privately managed schemes in Ghana, choices at the pensioner level regarding risk profile remain relatively limited.
- [Adoption of internationally accepted best practices is the smoothest way to develop an industry seeking foreign investment.](#) In the case of Brazil, several private equity fund managers encountered a significant hurdle over the past few years when pitching their funds to international limited partners because their local pension fund investors were insisting on a seat on the investment committee. This proved to be a deal-breaker for a large number of foreign institutional investors because they felt such a seat would negatively impact the governance structure and ultimately jeopardise the fiduciary line between the general partner and the limited partner.

Mexico offers another case study. While Mexican pension funds can now invest in private equity through a listed trust vehicle called a *Certificado de Capital de Desarrollo*

(CKD), this unique structure is presenting real challenges for a number of domestic fund managers. With significant amounts of local capital coming into their funds signaling a stamp of approval, international LPs are beginning to pay attention. However, the listed trust vehicle does not integrate easily with the structures conventionally used for international investors, thus forcing Mexico's GPs to add a layer of complexity to their operations and raising questions over how costs and distributions will be managed over the life of the fund. So while the CKD innovation has been a great stimulus for the local industry, it only goes so far because it runs counter to international best practices. International best practices offer a road map for the many pension fund regulators in Africa that are just now seeking to clarify regulations around private equity investing, including in Kenya and Uganda. For instance, Kenya is one market where some private equity participants have claimed that it might be easier to raise local capital through the creation of a listed vehicle on the stock market due to the difficulties of overcoming internal regulatory hurdles. For them, a closer look at the pros and cons of such a structure in Mexico may be advisable.

- [The ability to invest internationally decreases risk.](#) It is natural and defensible for countries to want their domestic institutions to invest back into their home economies and support local growth and development. However, while local content rules can work if enforced in a large economy that can offer diversification by sector, smaller and less diverse economies will struggle with such regulations, as concentration in a limited number of investment options is a high-risk strategy. Shortly after they were allowed to invest in local private equity, the Peruvians recognized that they were taking on a high degree of country risk having already been heavily skewed toward the local stock market, so they pushed for regional investments. Even in the case of Brazil, which is rich in resources while also having a robust services and financial sector, the country's pension funds are now actively seeking to diversify their holdings internationally for the benefit of their pensioners.

As assets under management (AUM) in Africa grow at a rapid pace, the burden is on local country regulators to ensure that a sufficient number of instruments are available to absorb

these funds and generate the appropriate and desired level of ongoing returns. Given the small size of many of the economies of these markets, looking abroad is one way to bridge the gap. In Africa, some of the smaller markets are leading the pack in terms of opening their regulations in favour of international diversification. For instance, in Botswana, 70 per cent of a fund's AUM can be invested abroad, while in Namibia, 35 per cent of AUM can be allocated outside of the immediately surrounding Common Monetary Area (inclusive of Lesotho, Namibia, South Africa and Swaziland). However, a number of markets are restricted, including Ghana where presidential approval is required for international investments.

- [International diversification can benefit the local community](#). This is evident in the case of Peru and Colombia, where local pension funds

are actively committing capital abroad. As a result, regional and global private equity GPs are arriving en masse in Lima and Bogota to pitch their funds, and while they are in town they are also taking a look at local businesses in search of promising investment opportunities.

Countries can learn a great deal from one another as they move toward greater implementation of policies geared toward private equity investment. In Latin America, Chile's regulators had significant experience – both positive and negative – with private equity by the time Colombia and Peru started their investment programmes. By being in dialogue with one another, these markets were able to learn from the successes and failures of their counterparts. Similarly, Africa's regulators can benefit by conversing with one another as well as with regulators from other emerging market regions. This publication hopes to serve as a catalyst for some of these discussions.





3. Bridging the Gap between the Private Equity Industry and Africa's Pension Funds

David Ashiagbor, MFW4A

Recent reforms across Africa have created private pension systems that are rapidly accumulating assets under management (AUM) in line with the continent's explosive demographics. A number of dynamics currently underway on the continent – expanding populations, increasing urbanisation, rising per capita incomes, and a growing and consuming middle class – are all contributing to a pension fund industry that urgently needs to diversify its investment portfolios.

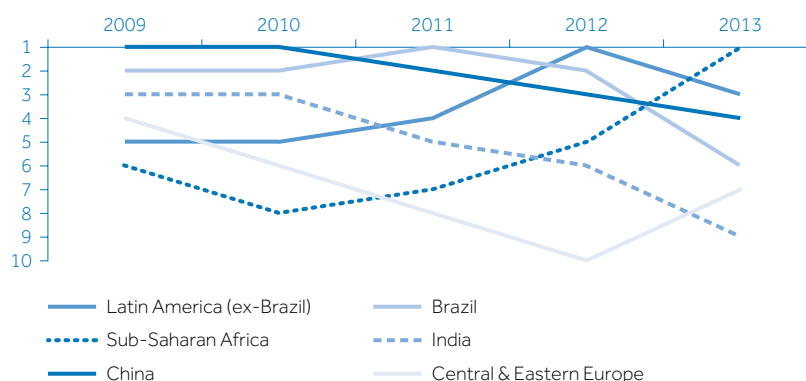
The recent growth in the African pensions industry has created opportunities to fund the long-term investment in infrastructure and other sectors that the continent so desperately needs. This is especially true given the current context of dwindling overseas development assistance budgets that have traditionally funded such investments. The growth in assets, which must be carefully managed, also brings supervisory and regulatory challenges. One of the key challenges is how to encourage the portfolio diversification necessary for these systems to manage risk, whilst ensuring that diversification in itself does not become a source of risk as pension funds venture

into hitherto unknown asset classes and markets.

With the region's underdeveloped capital markets and lack of long-term finance, private equity provides an attractive solution for African companies in search of growth capital. This is supported by data from the Emerging Markets Private Equity Association (EMPEA), which show private equity investment in Africa (including North Africa) rising from US\$1.5 billion in 2012 to US\$1.8 billion in 2013. Private equity interest in Sub-Saharan Africa, in particular, is at an all-time high. According to the EMPEA 2013 annual survey of global institutional investors, for the first time the region ranked as the most attractive emerging market for GP investment (see Figure 3.1).

Investors across the globe are clamouring to learn more about these markets and growing numbers of global fund managers are hopping on flights to Nairobi, Accra, Lagos, and other key cities to check out the region's investment opportunities. However, much of this interest has not yet translated into capital commitments – 'LPs are bringing their notebooks, not their cheque

Figure 3.1. Market attractiveness rankings, greatest shifts



Source: EMPEA 2013 Global Limited Partners Survey.

books,' is an observation frequently heard on the continent. With more than US\$7 billion raised in the five years from 2009–2014 – much of which was spurred by the development finance institutions (DFIs) that continue to support both first-time and established GPs – Sub-Saharan Africa represents on average roughly 4 per cent of the total private equity amounts flowing to emerging markets during this period.

With increased foreign interest in African private equity, and the exponential growth in pension assets on the continent, it is no surprise that local capital (or the lack thereof)⁸ has become a hot topic for the industry. What will it take to unlock the significant amounts of capital available for private equity from Africa's pensions industry?

3.1 Ability and willingness

If African pension funds are to become a viable source of capital for private equity, they need to have the ability and the willingness to invest in the asset class. Their ability is affected by regulation. For instance, are they allowed to invest in alternative assets? If so, under what conditions, and how much of their AUM can they allocate? The willingness of African pension funds to invest in the asset class is affected by their understanding and evaluation of private equity and the risks involved, their assessment of how the asset class fits with their investment policy and strategy, as well as their ability to identify managers they are willing to back.

Regulation has long been seen as the main stumbling block to African pension funds' investment in private equity. However, reforms in some of the continent's key markets are making it possible for local institutional investors to participate in private equity. South Africa is playing a leading role in this regard, with the promulgation of a revised Regulation 28 of the Pensions Fund Act in 2011. This revision allows retirement funds to invest up to 10 per cent of AUM in private equity, up from a historical figure of 5 per cent for all alternative asset classes.

In 2004, Nigeria established its National Pension Commission (PenCom) to regulate and supervise the pension fund industry, as part of wide-reaching reforms. Under regulations issued by PenCom in 2010, prudential limits for private equity have been set at 5 per cent of AUM. Other requirements

include a minimum ten years of experience for key principals of the private equity fund manager, a minimum of 75 per cent of the private equity fund to be invested in Nigeria, registration of the fund with the Nigerian Securities and Exchange Commission, and a minimum GP investment of 3 per cent⁹ in the fund. Such qualitative restrictions, especially with respect to geography and jurisdiction, are typical on the continent.

Some commentators argue that conditions like these are unnecessary and pose problems for GPs and pension funds alike. A requirement of 75 per cent exposure to Nigeria effectively creates a Nigerian fund, concentrating country, currency and political risks. Their argument is that regulators should be encouraging pension funds to use private equity to diversify risks, and that the 75 per cent requirement in particular achieves precisely the opposite effect.

However, the first duty of the regulators is to protect the pensions of their fellow citizens. In that context, it would be unwise to allow pension funds unfettered access to invest in an asset class that neither they nor the regulators fully understand. The idea behind such conditions is therefore to have the pension funds learn first from experienced limited partners (hence the requirement for DFIs), and then slowly and carefully liberalise. The strategy is designed to increase the willingness of local LPs to invest in private equity over the long term.

Whilst pension fund regulations in the region are far from perfect, none of the ten countries surveyed for this publication expressly prohibit investment in private equity. Five of them (Namibia, Nigeria, Rwanda, South Africa and Tanzania) have specific allocations whilst others (Botswana and Kenya) allow it within their 'other assets' category. In other markets the regulation is either unclear (as in Zambia where there is neither a specific prohibition of, nor allocation to, private equity in the regulations) or in preparation (for example, Ghana and Uganda). It is worth noting that a few pension funds in some of these countries are known to have invested in private equity despite the ambiguous rules.

The next issue that affects the ability of African pension funds to invest in private equity is assets under management. Do they have sufficient AUM to invest in the asset class? How much can they

⁸ The African Private Equity and Venture Capital Association estimates that up to 75 per cent of funds raised for private equity investment in Africa comes from development finance institutions.

⁹ This is reduced to 1 per cent in circumstances where DFIs are invested in the fund.

Table 3.1. Assets under management and available for private equity¹⁰

Country	AUM (US\$ m)	Allocation to PE (%)	Available for PE (US\$ m)
Botswana	6,000	2.5%	150
Ghana	2,600	unclear	130
Kenya	7,280	10%	728
Namibia	9,960	1.75%–3.5%	348
Nigeria	25,000	5%	1,250
Rwanda	482	10%	48
South Africa	322,000	10%	32,000
Tanzania	3,100	5%	155
Uganda	1,500	unclear	75
Zambia	1,800	unclear	90
Total	379,240		34,974

realistically allocate to private equity overall and to a specific fund? Assets under management in the ten countries covered in this publication range from US\$322 billion in South Africa to US\$482 million in Rwanda, as summarised in Table 3.1.

Table 3.1 also estimates the amount available for investment in private equity in each country based on the limits prescribed in the relevant regulations. For markets where the law is unclear we have assumed a 5 per cent allocation, which is consistent with the finding that there is historical exposure to private equity in most of these countries. Based on this rough and very unscientific calculation, almost US\$35 billion is available for private equity within the pensions system of these countries.

How much of this capital is actually deployed in private equity? Despite the flurry of interest in private equity in Sub-Saharan Africa, local investors, particularly outside of South Africa, appear to have largely remained on the sidelines. Hard figures are not available for most of the countries covered, but based on the data gathered in our research and discussions with various regulators and pension funds, an estimate of between 1 per cent and 1.5 per cent of AUM (US\$3.8 billion to US\$5.7 billion) seems reasonable. On that basis, there is a further US\$29 billion that African pension funds could potentially invest in private equity today. Whilst this amount may seem insignificant in comparison to larger Western LPs (the US-based California

Public Employees' Retirement System alone has a US\$50 billion allocation to private equity), it would almost double the size of the African private equity industry.

The absence of significant local capital in African private equity raises questions about whether pension funds are missing out on the distinct and unique benefits that private equity can bring to their portfolios. Outperformance was the key driver of pension fund investments in private equity in developed markets (and to some extent in other emerging markets, such as Latin America, where low interest rates have prompted a search for yield). However, the role that private equity can play in generating returns on the African continent is less of a factor – as of April 2014, the 10-year government bonds in South Africa, Kenya and Nigeria were yielding 8.4 per cent, 11.4 per cent and 14.1 per cent, respectively. With such alternatives, the case for private equity for Sub-Saharan Africa's pension funds is more about diversification, access and concentration risk.

3.2 A need for diversification and capacity-building

With AUM in countries like Nigeria growing at approximately 30 per cent on an annual basis, portfolio managers need additional products in which to invest. Such growth without accompanying investment outlets could have serious implications from a risk management point of view. Having idle assets – in cash or government bonds – is not ultimately in the best interest of the pension scheme members.

Assets under management in countries like Namibia or Botswana now respectively represent 80 per cent and 40 per cent of GDP; with less than 5 per cent of the population of Sub-Saharan Africa covered by pension plans, there is obvious scope for significant growth in these figures. The accumulation in AUM is leading to significant pressure on pension fund managers as well as regulators to diversify away from the traditional investments in government bonds and listed equities and allocate to new asset classes and geographies. The apparent reluctance to embrace private equity (and other alternative asset classes) is due more to a lack of familiarity with, and experience in, private equity than an aversion to the asset class per se. This is evidenced in stepped up demands from pension funds and their regulators for more training and information on private equity and other alternative asset classes.

¹⁰ Data gathered from regulator websites, annual reports and other industry sources.

Investments in listed equities are permitted across Africa, and allow for some diversification beyond government bonds. However, in some cases, even these are restricted to equities 'with a good dividend record' (i.e., mature companies) and therefore limit the ability of pension funds to tap into a large number of promising investment opportunities in their markets. Home to some of the most entrepreneurial and innovative small- and medium-size businesses on the planet, Sub-Saharan Africa offers limited opportunities for these groups to go public with only 1,122 companies listed on 19 stock exchanges supporting a combined market capitalisation US\$1.4 trillion as of September 2013. With South Africa alone accounting for close to 70 per cent of the total market capitalisation and 388 of the listed companies, opportunities are even more restricted in other countries. Being constrained to a limited number of investment options, and then having few choices within those options (such as public equities), puts the region's pension funds in danger of concentration risk. A greater focus on the development of new investment options, such as private equity (both domestically and abroad) has the potential to mitigate some of this risk.

Diversifying investment portfolios will, however, not be easy. The regional pension industry figures for Africa hide wide variations across and within

countries. Industry fragmentation is an issue in some countries, with assets split across dozens of small pension funds. South Africa is a good example of this with the Government Employees Pension Fund (GEPF) alone representing close to half of all AUM. National social security schemes in some countries represent as much as 90 per cent of AUM. Smaller funds can only make tiny private equity investments, often below the minimum ticket size of many general partners. To address these issues, discussions are underway in countries like Kenya and Nigeria about building local funds of funds or locally listed vehicles to create liquidity.

Limits on foreign investment also make it difficult for many of Sub-Saharan Africa's pension funds to invest in anything other than country specific funds. However these restrictions are expected to ease with time. As assets under management grow to significant proportions of GDP (as in Namibia and Botswana), there will be fewer domestic opportunities able to provide the capital protection and level of returns necessary to meet their obligations. Some countries in East Africa already treat investments in the East African Community (EAC) as domestic investments, and countries like South Africa, Botswana and Zambia already allow offshore investments.

So what does the future hold for the African pension funds and private equity? All the evidence



points to African pension funds playing an increasing role in the private equity industry in the medium term. The growth in assets and regulatory changes under discussion in some countries support this thesis.

The private equity industry can and should take the lead in providing research and analysis that pension funds (and other stakeholders such as regulators) need to better understand the asset class and on which to base investment decisions. In this regard, the first African private equity benchmark study is a welcome step. Developed by Cambridge Associates in collaboration with the African Private Equity and Venture Capital Association (AVCA), the study was launched in 2013.

And while it is not, and arguably should not be, a primary focus for pension funds, a further benefit of private equity in Africa is its potential to support economic growth development and growth. The impact that private equity can have on the retirements of local teachers or government employees investing in these funds is important

but there is also a larger catalytic effect that private equity can have on Africa's markets. Sticky, long-term private equity flows have a role to play in supporting growth-oriented companies and consequently contributing to job creation and poverty alleviation in local economies – and ultimately adding to the number of contributing members within a pension fund. Africa's pension funds will not become mainstream private equity investors overnight. Building capacity within the region for private equity investment will take time. General partners need time to continue to build their track records, regulators need time to better understand the risks, and pension fund managers need time to build up their skill sets to properly identify and evaluate private equity opportunities. But now is the time to start pushing for greater integration between pension funds and private equity (and other alternative assets more generally), building on the exponential growth in AUM, the urgent need for diversification of investments, and growing support from the global investment community.



Section 2: Local Capital in African Private Equity: Stakeholder Insights



4. The Industry Association Perspective

Michelle Kathryn Essomé, Chief Executive Officer, African Private Equity and Venture Capital Association



Michelle Kathryn Essomé has 20 years of investment banking experience covering marketing and origination roles in equities, fixed income and investment management at Merrill Lynch, Goldman Sachs, JPMorgan, Lehman Brothers and

Nomura, including two years marketing private equity in the UK. Michelle has an MBA in finance from Columbia Business School, where she was a Robert F. Toigo fellow, a BBA in Finance from Howard University, and has completed an executive education course in private equity and venture capital at Harvard Business School. She has worked in the US, UK and in France, and is fluent in French.

Africa's resilience to the global economic slow-down, its attractive demographics, and its many economic, political and social reforms have all contributed to cementing the continent's place as one of the most attractive investment destinations for global emerging market private equity investors.

It is unsurprising that these factors are attractive not only to international limited partners (LPs), but increasingly also to local African LPs. In addition, barriers to private equity investment amongst African pension funds are being relaxed in some countries thanks to recent regulatory changes, which permit private equity allocations.

From the fund managers' or general partners' (GP) perspective, the fact that these local investors provide an additional source of capital for African private equity is just one reason for their growing interest in African LPs. There is also a strong view amongst our membership that international investors gain confidence from the knowledge that African institutions are investing in their own opportunity, allowing international LPs to leverage local knowledge and networks. As such, local LPs are increasingly sought-after in a fund portfolio or a co-investment vehicle.

The huge opportunity for growth in local capital providers, such as African pension funds whose capital will continue to increase as the expanding workforce makes additional contributions, is extremely attractive to GPs who are incorporating raising local capital into their core strategy. GPs recognise that in a decade or less, local capital will most likely provide a significant portion of their funding base. As evidenced in private equity training sessions at AVCA's annual conferences, the pool of available local capital, although still relatively small, is expanding. This trend will continue as the asset class becomes better understood, and, in the case of pension funds, as more countries follow the examples of Botswana, Namibia, Nigeria, and South Africa in allowing private equity investment.

AVCA's inaugural survey of the attitudes of LPs toward African private equity, conducted with RisCura and SAVCA in April 2014, demonstrated

that, of the investors surveyed globally, African investors were, on average, expected to have the largest increase in allocation to African private equity (at a 2 per cent increase by 2016). This indicates they believe African private equity will outperform other emerging markets due to the scale of opportunity. In addition to this local capital, global investors – including funds of funds, pension funds, foundations and endowments, and the development finance institutions – will all continue to be important contributors to private equity in Africa.

Of course, there are some remaining challenges that GPs are likely to encounter when courting

local capital managers. For example, there are various levels of understanding of the asset class, and differing approaches to effectively building a diversified private equity portfolio. We at AVCA play an important role in helping to address these challenges by facilitating private equity training for African investors. We bring together leading industry experts to share their knowledge on the asset class and how to invest in private equity, from conducting due diligence and selecting fund managers, to monitoring one's portfolio. We, and our members, are committed to helping to close any knowledge gaps in order to better equip local LPs to invest in private equity.





5. A General Partner's Perspective

Sev Vettivetpillai, Partner, The Abraaj Group



Sev Vettivetpillai is a Partner at The Abraaj Group and a member of its Executive and Investment committees, with over 20 years of direct private equity investing experience. Mr Vettivetpillai previously held

the positions of Chief Executive Officer of Aureos Advisers Ltd. and Chief Investment Officer for the Aureos Group, where he was instrumental in implementing the Aureos investment philosophy and strategy of investing in small- and medium-sized companies across global emerging markets. Prior to joining Aureos, Mr Vettivetpillai was a Senior Investment Executive at CDC Group plc. His other appointments were at Vanik Incorporation (Sri Lanka) as a Portfolio Manager and Mott Macdonald Group (United Kingdom) as an Engineer. Mr Vettivetpillai holds the designation of Chartered Financial Analyst (CFA) and a BEng. (Hons) in Civil Engineering from Imperial College of Science, Technology and Medicine in London, UK.

You have been investing in Africa for two decades and pride yourself on being local as opposed to GPs who manage their funds out of London or New York. How much local capital financing have you mobilised for your African funds to date?

Over the years, we have raised about US\$150 million from local institutional investors, representing a mix of banks, pension funds, social security funds and corporates. We raised some local capital in the 1990s with CDC Group plc, and, in the last ten years, we have secured commitments from the likes of the National Pension Fund of Mauritius, South Suez, which has several of the local pension funds in southern Africa in their investor base, and Nigerian banks, which came into our funds under the Central Bank initiative.

How significant is the unlocking of huge amounts of local capital across Africa to your strategy, particularly with your funds going forward?

Local capital is an important part of the overall story in Africa. If Africans and African institutions are not investing in their own markets, why should somebody from outside the region think there is an opportunity here? To give credibility to the story they must invest, otherwise the story doesn't hold together.

The markets in Africa are all at different stages of development in terms of regulation and knowledge about this asset class. For example, in Nigeria, the regulatory framework has changed considerably and pension funds are increasingly able to invest in different asset classes. South Africa and Botswana may be a bit ahead of the game; however, Botswana's internal markets lack depth, so the investment strategy is oriented more externally. Then you have the South African pension funds, which have a lot of capital and are now starting to look beyond South Africa. As you can imagine, South Africa combined with the rest of Africa is a great story. So for them, understanding the challenges and the characteristics of investing outside of South Africa is their learning curve.

Local capital is an important part of the overall story in Africa. If Africans and African institutions are not investing in their own markets, why should somebody from outside the region think there is an opportunity here? To give credibility to the story they must invest, otherwise the story doesn't hold together.

Limited partners in these markets face different issues, but I can see them all converging to form a very big investor group in the next five years. They are starting from virtually zero in terms of exposure to private equity, so allocations are going to go up from 0-5 per cent to maybe 10 per cent or 15 per cent of their portfolio. On the other hand, pension fund assets under management are increasing at exponential rates because their markets are growing, and more people are coming into the workforce. The importance of African pension funds as a source of capital is not to be underestimated.

What are some of the key challenges in raising local capital in Africa?

Getting the pension fund managers to understand how to build their private equity portfolios is the biggest challenge. I was at the Private Equity Master Class for Pension Funds at the African Private Equity and Venture Capital Association's Annual Conference in Cape Town in 2013, which was organised in conjunction with the International Limited Partners Association. There were about 30 pension fund analysts in the room and the question was asked: how many have a private equity programme already? Only one put a hand up. How many have started to invest? Three more hands went up. How many are yet to start? The balance of the hands went up. So imagine the J-curve effect of investing in a private equity programme – these funds are going to have to commit capital based on their own risk/reward profile, and there's going to be a net cash outflow for a period of time until the cash flow starts to mature. That learning curve is going to be a challenge for many of them.

African pension funds often have concerns around liquidity, transparency and lack of benchmarks

when it comes to private equity. How do you respond to them?

Pension funds should be looking at fund managers that have raised their third fund or beyond, because a first-time fund manager is a high-risk strategy. For pension funds, the loss of capital is a much bigger issue than the need for liquidity in the short term, relatively speaking. Each private equity fund is illiquid; you are tied in for 8-10 years. But the returns and the cash multiples should compensate for that illiquidity. If they don't, you are choosing the wrong private equity fund managers. One way to manage illiquidity is to have a co-investment program, and invest alongside the GP in larger deals. This gives you the ability to adjust the cost and liquidity because you're not tied up for ten years; you can sell your stake and get cash back.

You need to invest in GPs that provide you with the level of transparency that you need. If they don't, then you shouldn't invest with them. Look at the reports that they give on their fund, and understand how much of that information is transparent and can give you visibility of the underlying portfolio. This should be a key part of the due diligence process.

On lack of benchmarks, the first AVCA/Cambridge Associates benchmark study has been presented, and while it does not yet cover all the private equity funds in the region, what we saw was that performance is in line with Asia and Latin America. African funds are not doing any worse. The average returns, over the last ten years, of the industry are 10-12 per cent. As more information becomes available, this benchmark point will be further addressed. In addition, data from RisCura in South Africa show that the growth in the public equities market is not as strong as it is in the private markets. Pension funds have to get into this asset class or they will lose out on this significant growth.

What advice would you offer pension funds about risk and risk mitigation?

It is important to be aware of all risks – from financial to reputational. Please remember that the higher your returns, the more risk one assumes, and risk does change. Look to get back your capital and protect your downside on each investment. Look at the structures and the terms. Make sure they are applicable to you based on your risk/return profile. Don't partner with the wrong people; test the intent of your sponsors through negotiations

to ensure that they are aligned with you and share the same values. And don't follow a herd mentality because LPs have done so in the past and burnt themselves badly.

Markets by their very nature tend to be volatile. We can expect one, maybe two, cycles minimum in a 7-10 year period. So building a portfolio to weather those cycles is key to ensuring that this volatility does not significantly affect your pension fund. I would encourage every fund manager to look at diversifying by country and sector, and to also look at splitting invested capital to receive returns in the form of income contractually built into the structure and capital gains. This allows you to de-risk your investment as quickly as possible, because you are not waiting for a single liquidity event to get your original invested capital back. It also helps deal with exchange risk because of currency devaluation in these markets.

How well aligned is private equity with the long-term obligations of African pension funds?

The average pension contributor in Africa today is very young, so pension fund liabilities are going to increase further down the road. The pension

funds, therefore, have to invest in assets that will build long-term value, like private equity. At the same time, GPs need to understand the pension funds' level of experience and not take advantage of them. For instance, I know of managers in other markets that have gotten away with deal-by-deal carry as opposed to a full fund pay-out carry, because the pension funds were not aware of the consequences of this misalignment. Of course, this may be to the managers' advantage initially, but it will eventually be a disadvantage to everybody.

Do you think that GPs are doing enough to encourage pension funds to look at private equity, or can they do more?

GPs can and need to invest more in educating local pension funds. We at Abraaj are prepared to do so – we travel to every pension fund event to which we are invited and provide any information that we can. These investors may not commit immediately, or even invest in an Abraaj fund, but that's fine. This is bigger than that – it's about increasing the pool of capital available to the whole industry. If we as managers do not get on board now, in five years it will be a much harder job.



6. An Asset Manager's Perspective

Peter Anderson, Chief Investment Officer, Old Mutual Investment Group (Kenya) Ltd



Peter Anderson has been the Chief Investment Officer at Old Mutual Investment Group (Kenya) since March 2011, heading up the asset management team responsible for managing US\$1

billion of assets invested in the East Africa region. Mr Anderson joined Old Mutual in September 2008 having previously worked in various capacities in the United Kingdom in investment management and private wealth management. He has a BA in Economics and MA in Development Economics from the University of Leeds in the United Kingdom and is a CFA Charter holder.

Please walk us through the evolution of the pension fund industry in Kenya.

It has been about 14 years since the operational establishment of the Retirement Benefits Authority (RBA). Before then, the industry was unregulated and suffered various transgressions. Pension funds are now required to register with the RBA and to appoint independent, professional fund managers and custodian banks to hold assets. If they so choose, pension funds may appoint a third-party administrator to look after member records. The RBA sets out limits in terms of what managers are allowed to invest in, for example, setting maximum exposure to equities at 70 per cent. They are also a co-licensor of the asset managers, along with the Capital Markets Authority. There are now around 20 asset managers that are licensed to conduct business within the pension space, of which Old Mutual Investment Group is one of the longest established.

Assets under management (AUM) have grown over the past 14 years with the evolution, expansion and performance of the capital markets, particularly in equity listings, and more recently with the deepening of the government securities, corporate bond and credit markets. Right now, within Kenya, we have AUM of about KSh700 billion (approximately US\$7.92 billion),¹¹ of which about KSh140 billion (US\$1.58 billion) is with the National Social Security Fund (NSSF). The NSSF is a compulsory contributory scheme with coverage across the formal sector, which has outsourced a significant part of its portfolio to private fund managers.

Each pension fund elects an independent Board of Trustees, and that Board has a mandate to contract a qualified independent adviser to design the investment policy statement, which is reviewable usually every three years. This policy forms the basis of the contract with the appointed fund manager, which tries to perform according to the mandate and is assessed against benchmarks over a period of time. The Board of Trustees must meet

¹¹ OANDA exchange rate of US\$1/KSh88.37, accessed 25 April 2014, <http://www.oanda.com/currency/converter/>

quarterly. The custodian, the fund manager and, if appointed, a third-party administrator will also meet with them to discuss how the pension fund is doing. We are also obliged to attend an annual general meeting, which allows the members of the occupational pension scheme to get more information on performance and understand how their assets are being managed to secure their retirement needs.

Does Old Mutual invest in, or have you considered, private equity or alternative assets?

Old Mutual does not currently invest in private equity, although numerous private equity fund managers have approached us over the last several years. Does private equity make sense for our clients? It does in that we obviously need to diversify our portfolios and hold a greater number of lower- or uncorrelated assets. However, there's a bit of an educational hurdle. The asset manager is generally required by most investment policy statements to seek the approval of the Board of Trustees for non-traditional assets, so it requires a lot of groundwork to put across the view that an investment like private equity will provide a good return and diversify risk from the more vanilla asset classes like equities, bonds, offshore exposure and cash. The slow maturity period for private equity's returns, the so-called J-curve effect, is also a barrier. This is something that Boards of Trustees must get their heads around, keeping in mind their tenure is typically three years, and they would like to leave saying that they did a good job and achieved the targeted returns.

My personal view is that this is a big hurdle to overcome. The larger asset managers are running books on the basis that we want to be able to replicate appropriate strategies across all their portfolios. Kenya is a country with young demographics so generally no matter which company you are managing pension money for, the average age of members within the fund is fairly young. Most companies have a retirement age of 60, so private equity fits perfectly into that time horizon. But educating our clients would require going to each Board of Trustees, or presenting a different investment proposition to each scheme based on their risk appetite, which is a costly exercise.

Another issue is that the private equity fund managers will have, presumably, built their track records either in the rest of Africa, or in North America or Europe. But people want to see a track record here – and you can't get a track record

Does private equity make sense for our clients? It does in that we obviously need to diversify our portfolios and hold a greater number of lower- or uncorrelated assets. However, there's a bit of an educational hurdle.

unless you start and this market is not particularly deep. There is a sense of: 'If we're going to give you money, we want the investment mandate to be restricted as much as possible to this region', or 'We want to develop our markets, so why are we raising money to develop others?'

The last point I'll mention is about returns. If you are looking to hold an asset for ten years, as you would in private equity, and the risk-free return over that period is currently 12 per cent, you've got to ask what more are we getting out of this, particularly when we are going to be one layer away from the investment decision.

How could some of these concerns be addressed?

The investment policy statement (IPS) is drawn up by a third party; I'd prefer that all the investment decisions be moved to the investment manager. If I could make these decisions, I could ask the Board to appoint someone to do a multi-year projection of pension cash flows and an asset-liability analysis of the pension scheme, and then I could confidently say we can commit X amount, based on what the portfolio is generating in income over the next ten years. But I could do all that, and the Board of Trustees could still say they are not comfortable due to being cautious about stepping into an unknown or new asset class. We therefore have to be considerate of what's achievable. The design of investment policy statements has really precluded participation in certain asset classes and hopefully, as these statements are renewed, they will be adjusted to put the ball more in the court of the investment fund manager. If not, things will move slowly.

What advice would you give to private equity fund managers raising capital in your market?

In Kenya, you have to be visible and understand the multiple audiences with which you are dealing. It's fine to speak to pension fund managers – we are

always happy to have a chat – but you also need to meet the Boards of Trustees and consultants who design the investment policy statements. You've got to keep knocking at the door until it cracks.

You also need to educate. What often happens is that people come saying that they want to educate on private equity, but at the same time they are promoting their fund. You need to distinguish between the two and you need to come to educate, full stop. The regulator's effort to get all the Boards of Trustees to attend mandatory trainings provides a perfect forum for the introduction of the asset class to a large number of these individuals.

What do you think is the biggest challenge facing the pensions industry in Kenya?

It's largely about fees. Fees are currently low – and being driven lower by some market participants and trustees. They fixate on the fact that a lower fee means you are doing a credible job for the Board of Trustees, rather than looking for the overall value addition you may get by having better performing managers and fully resourced investment teams, as well as stronger risk management and oversight. That's one challenge. The other challenge is trying to broaden the pension industry. We currently have around 1,400 private-sector schemes covering the formally employed sector, which is a small part of the working population. The recent changes to retirement provision legislation will broaden participation to ensure all companies provide a minimum level of retirement provisions for their employees. This will obviously benefit the industry because it will help provide more for people's futures. Right now, there is not enough provision being done; the regulator has stated in recent years that when individuals retire, they have not accumulated enough assets in their pension pool to have a decent income in retirement.

Why has this happened? First, established blue chip companies have only been running pension schemes for the last 20-30 years or so. Second, legislation hasn't helped; it has actually allowed people access to pension money before retirement. Once you take that lump sum of capital out before retirement and spend it, you are going to need to contribute a lot more over a shorter investment timeframe, and hope to earn higher returns to get back to where you were previously. Those are some of the challenges that have caused the pension industry to stagnate a bit and, ultimately, may have hurt people's ability to fulfill their retirement ambitions or dreams. On average, people retire with less than 15 per cent of their pre-retirement salary on an income replacement basis, when the standard advised goal would be to achieve two-thirds of your final salary.

How do you see the industry evolving over the next five years?

Regulations over the last 14 years have been strong and stringent, and are now moving to ensure that all companies provide pension schemes as part of the government's desire for adequate pension provision for all individuals. It is possible that the regulator may ease back on the guidelines of limiting the exposure to certain asset classes as the compliance on developing and adhering to unique investment policy statements improves.

As Kenya continues to develop, it will require significant infrastructure investment over the next few decades. The area of public private partnership investment as an investable asset class should grow, and alongside it, longer-term asset classes with different payout profiles like private equity will become more accepted.



7. A Regulator's Perspective

**Eyamba Nzekwu, Founding Commissioner,
Technical National Pension Commission, Nigeria**



Mrs Eyamba T Nzekwu is a Chartered Accountant who obtained her ACCA qualification in 1981 and joined the London office of PricewaterhouseCoopers where she served until moving to PwC's Nigerian office in 1983. In 1984, she commenced her

banking career with Continental Merchant Bank Limited Nigeria (formerly Chase Merchant Bank Ltd) where she served for nine years across all major departments of the bank. In 1993, she set up a consultancy from where she was appointed the first female Accountant General of the Cross River State of Nigeria in 1999, a position she held until her appointment by the President of the Federal Republic of Nigeria as one of the pioneer Commissioners of Nigeria's National Pension Commission (PenCom) in 2004. She held this position until the end of her second term in 2012.

Would you walk us through the genesis of Nigeria's pension reforms, which started in 2004; why were they necessary? What did they aim to achieve? What were the key pillars of the process?

The overall objective of the reforms was to put in place a sustainable pension system for both public and private sector workers. The reforms sought to address a totally unfunded defined benefit pension scheme in the public sector, and the absence of adequate schemes in the private sector.

Prior to June 2004, there were huge backlogs in the payment of public pensions, and inadequate data available on the beneficiaries, leading to major administrative problems. In addition, the private sector schemes were not standardised and, in most cases, were non-existent. It therefore became necessary to set up a new system that would seek to address these problems and streamline pension operations in Nigeria.

A law was passed introducing a mandatory contribution pension scheme for employees in all unfunded public- and private-sector organisations. Essentially, employees in organisations that had no funds set aside for pensions had to subscribe to the new mandatory scheme.

For those companies that had funded schemes in operation in 2004, the reforms mandated that they be fully funded if they sought to continue their schemes, and to transfer all the assets to the newly licensed pension fund custodians. All those who had retired as of the enactment date of the new law, and all those who were to retire up to June 2007, were to continue to derive their benefits under the defunct schemes. For the reform implementation, standardisation and monitoring, the National Pension Commission (PenCom) was established as the regulator and supervisor for all pension matters in the country.

The reforms were based on the Chilean model, is that correct?

The Chilean model was the first system that Nigeria evaluated. We went on to examine the Mexican model, which we believed to be an improvement on the Chilean system, and eventually adapted these models to what we saw as appropriate for Nigeria's specific needs. So, similar to the Latin American models, under the new Nigerian system, individuals

must register with a pension fund administrator (PFA) of their choice and take full responsibility for their pension, as opposed to the defunct employer-based schemes.

How has the industry evolved since these reforms in terms of strategy, assets under management and investment portfolios?

PenCom has licensed 23 PFAs and three custodians to drive the process. The administrators deal with all the issues that pertain to the contributors and retirees, while the custodians hold the funds nationwide. By the end of December 2013, there were about six million contributors – 60 per cent aged 40 and under – and assets under management exceeded four trillion naira (approximately US\$25 billion).

Current investments are predominantly in government bonds, some corporate bonds, public equities and bank paper. There is a bit of concentration in government paper at the moment, given the attractive yield in the market.

How do you view alternative assets such as private equity? Should pension funds consider them?

Alternative assets are critical for economic development, especially in a country like Nigeria where we have a very large, young and unemployed population. Private equity provides growth capital for businesses and creates jobs, which is a priority for the government and critical for Nigeria's future.

However, whilst private equity's long-term nature clearly matches the long-term liabilities of pension funds, there are several concerns that limit the pension operators from taking positions in private equity assets. Initially, people did not understand the actual workings of the asset class, and so they didn't even want to look at it, never mind invest! Even after educating pension managers, we found resistance from the Boards of Trustees. The fundamental concerns revolve around valuations and why they have to wait so long for returns. They are used to investing in assets like bonds and commercial paper, which give returns on a regular basis.

Are there any regulatory issues that make the asset class less attractive?

Private equity only became an approved asset class in 2010 for pension funds, as neither the regulator nor the operators in the pension industry understood the asset class before then. It took a *lot* of capacity building, which was achieved with the support of partners like the Commonwealth

Alternative assets are critical for economic development, especially in a country like Nigeria where we have a very large, young and unemployed population. Private equity provides growth capital for businesses and creates jobs, which is a priority for the government and critical for Nigeria's future.

Secretariat and the World Bank/International Finance Corporation to get the pension fund administrators interested in private equity. In addition, the regulatory requirement for daily pricing of pension fund portfolios created some challenges for investing in private equity, as the contributors of the pension assets did not readily understand why their administrators were reflecting depressed unit prices in comparison to competitors who did not invest in private equity assets.

This J-curve effect is a barrier for most of the PFAs but I believe that over time, every asset manager that seeks to distinguish itself will have to take the plunge and look seriously at private equity. In fact, we are already seeing this. The PFAs started investing in funds toward the end of 2012, and current investments (November 2013) stand at about NGN8.8 billion (US\$55.2 million). It took some time because the private equity fund managers had to be registered with our Securities and Exchange Commission, and adopt structures in line with the regulations on pension fund investment.

How do you respond to those within the private equity industry who say that regulations in Nigeria impose unnecessary restrictions – for example, that 75 per cent must be invested in Nigeria, the presence of development finance institutions (DFIs) in the fund, and so on – that limit the ability of PFAs to invest in private equity, since few funds meet these criteria?

I disagree with their line of thought, as private equity investing is an intricate process and the skills required to do so cannot be acquired overnight. In drafting the investment regulations we sought

to fast-track early participation of pension fund managers in the process and believed co-investing with experienced DFIs would be beneficial.

The presence of DFIs in a fund would enable the PFAs to understand the due diligence process, give them confidence, and see a fund through a full cycle. Once they have done that a few times, it becomes easier for them to make their own decisions.

The requirement that 75 per cent of the investment must be in Nigeria stems from a law requiring presidential approval for investment of pension assets outside Nigeria. Being a relatively new scheme, coupled with the huge infrastructure deficit in Nigeria, it would be a tall order to allow the funds to be invested abroad. That regulation was relaxed a bit specifically for private equity because we understand that funds need to diversify geographically; but we could not remove it completely. Given the social and economic impact of pensions, you can't afford to make any major mistakes.

What do you think are the key challenges facing the Nigerian pensions industry today, and how do you see the industry evolving over the next five years?

We have approximately six million contributors in the new scheme, but we need to get the large number of informal sector employees who remain outside the scheme on board for effective coverage. Skills development needs to continue at all levels – that includes greater public awareness and improved financial literacy for all stakeholders. On the investment front, savings are growing much faster than products are being brought to the market to absorb these funds.

In the next five years, we expect to see continued growth in assets under management – especially if we can get the informal sector to engage. I see regulation and asset allocation policies being liberalised as the market develops and as more products are created to absorb savings. I also see increased interest in private equity and other alternative asset classes including infrastructure.

The long-term savings available in pensions will be critical to these developments.

Do you think further regulatory reforms are needed in Nigeria? What advice would you give other African countries that are embarking on pension reforms? Is there anything you know now that you wish you had known then?

Regulatory reforms are a must; but reform is an ongoing process. It doesn't stop. We are very flexible and will evolve with the markets.

In advising fellow African countries, I would say that we all adopted a lot of policies from our colonial heritage. This extends to pensions and, as we can all see, developed markets are battling to reform their pension schemes, and are being forced to increase the retirement age and make other painful changes. So there is an urgent need to review the existing pension systems in Africa and to evaluate their sustainability and suitability to our needs.

I think African countries should look at the reforms taking place in Nigeria as well as those in Eastern Europe and Latin America, and evaluate how they can be tweaked and applied to meet their local needs. Pensions need to be given priority as they have an impact on the political, financial and social fabric of any country. Wherever they need help from Nigeria, we would be more than happy to oblige. We have received enquiries from Tanzania and Ghana, and are happy to share our experience with others.

In terms of lessons, with hindsight we probably should have given a two-year period for implementation. We started immediately because that's what the law said, but this created a backlog as it took us about 18 months to license the operators. Having a longer implementation period would have been helpful. Also, think about the concurrent reforms that are needed on the sales side of the market, the capital markets, and other parts of the financial sector. All these need to be co-ordinated so you don't start accumulating assets only to discover that you don't have enough products to invest in.

The markets in Africa are all at different stages of development in terms of regulation and knowledge about this asset class.

If African pension funds are to become a viable source of capital for private equity, they need to have the ability and the willingness to invest in the asset class.


A number of trends – including improving regulatory environments, growing pools of capital in line with demographic shifts seeking yield, compelling macroeconomic fundamentals and an overall greater understanding of private equity – are converging, forcing [emerging] markets to reconsider their investment approach to the asset class.

Alternative assets are critical for economic development, especially in a country like Nigeria...Private equity provides growth capital for businesses and creates jobs, which is a priority for the government and critical for Nigeria's future.

Section 3: Country Profiles



8. Country Profiles

Botswana			
Overview			
Assets under management, 30 June 2013	(BWP) 53.2 billion	(US\$) 6 billion	
Permitted allocation to private equity	2.5 per cent under 'other assets'. Proposals under discussion to increase to 5 per cent under 'private equity, hedge funds and other assets'. The date for implementation of these proposals is not yet known.		
Total assets committed to PE by local pension funds	Unclear		
Regulatory bodies	Non-Bank Financial Institutions Regulatory Authority (NBFIRA), www.nbfira.org.bw		
Regulatory history	NBFIRA was established as an independent regulatory authority in April 2008 under the Non-Bank Financial Institutions Regulatory Authority Act, 2006. Pension funds have historically been allowed to invest up to 2.5 per cent in private equity under the 'other assets' investment category.		
Commentary	Pension fund assets amount to approximately 48 per cent of GDP. The Botswana Public Officers Pension Fund (BPOPF), with assets under management of P39.6 billion (US\$4.5 billion) as of 30 June 2013, is the largest single fund. BPOPF has had exposure to private equity since 2004.		
Local vs international	Unusually for Africa, pension funds in Botswana are currently allowed to invest up to 70 per cent of their assets under management outside the country. As of 30 June 2013, offshore investments of Botswana's pension funds were P28 billion (US\$3.2 billion) or 53 per cent of total pension assets. NBFIRA has proposed a timetable for the reduction of the offshore limit to 30 per cent by 2050.		
Sample list of pension schemes			
Name	AUM - Local Currency and US\$	Public / Private	Website
Botswana Public Officers Pension Fund (BPOPF)	P39.6 billion (US\$4.5 billion), June 2013	Public	www.bpopf.co.bw

Ghana



Overview

Assets under management, 31 December 2013

(GHS) 6.3 billion

(US\$) 2.6 billion

Permitted allocation to private equity

Pension funds are not specifically authorised to invest in private equity, but the regulator has the power to authorise such investments under the 'other investment options' category.

Total assets committed to PE by local pension funds

The operator of Ghana's mandatory social security scheme, Social Security and National Insurance Trust (SSNIT), has previously invested in private equity, although the actual amount committed is unclear. The newly licensed occupational and voluntary schemes have yet to invest in the asset class.

Regulatory bodies

The National Pensions Regulatory Authority (NPRA), www.npra.gov.gh

Regulatory history

The National Pensions Act, 2008 (Act 766) was passed in December 2008. The Act established the NPRA as an independent body to regulate both public and private pension schemes in Ghana. Ghana now runs a three-tier pension scheme comprised of a mandatory social security scheme, occupational pension schemes, and voluntary provident fund and personal pension schemes. The mandatory social security scheme is managed by SSNIT, a statutory public trust, also regulated by the NPRA. Occupational pension schemes are mandatory, fully funded and privately managed schemes, which are registered by the NPRA. Voluntary provident fund and personal pension schemes, also privately managed and registered by the NPRA, are supported by tax incentives for workers in the informal sector and provide additional funds for those workers in the formal sector who want to make voluntary contributions to enhance their pension benefits.

Commentary

Regulatory guidelines make no mention of private equity, although it could be allowed subject to regulatory approval under the 'any other assets' investment category. The general tenor of the National Pensions Act favours investments in government and securities listed on stock exchanges approved by the Securities and Exchange Commission. The guidelines partially limit the flexibility of pension fund managers to invest in private equity funds. It is worth noting that SSNIT has invested in private equity in the past, including in pan-African vehicles.

Local vs international

Pension fund investments outside Ghana are subject to presidential approval upon recommendation by the NPRA through the Minister of Finance. Such investments must also comply with the relevant exchange control regulations.

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
Social Security and National Insurance Trust (SSNIT)	GHS5.1 billion (US\$2.1 billion), December 2013	Public	www.ssnit.org.gh

Kenya



Overview

Assets under management, 30 June 2013	(KES) 633.46 billion	(US\$) 7.28 billion
Permitted allocation to private equity	10 per cent under 'other assets'. There is no separate category for private equity.	
Total assets committed to PE by local pension funds	Unclear	
Regulatory bodies	Retirement Benefits Authority (RBA), www.rba.go.ke	
Regulatory history	<p>The Kenyan retirement benefits industry is regulated by the RBA, a statutory government agency established in 1997 under the Retirement Benefits Act. Participation in occupational schemes and pooled funds is not compulsory in Kenya. The National Social Security Fund (NSSF) is a statutory pension scheme established under the National Social Security Fund Act. The NSSF Act of 2012 has recently been enacted into law by Parliament transforming NSSF from a provident into a pension fund, which is likely to see contributions increase to a maximum of 6% of formal sector wages. In addition to NSSF, there are 1,400 private sector schemes. Each pension scheme is required to prepare and lodge an investment policy with the RBA. The law also requires that the investment policy be reviewed every three years.</p>	
Commentary	<p>A private equity investment requires approval of the regulator, who will verify that it conforms to the pension fund's investment policy but will not get involved in the investment decision. Despite the allocation for private equity under 'other assets', commitments remain negligible. The RBA is considering a separate investment category for venture capital and private equity, with its own limit, which would remove the need to seek prior approval.</p>	
Local vs international	<p>The 'offshore investments' category is limited to equities and bonds, and therefore excludes private equity. A direct investment in an East African (e.g., Tanzania, Uganda) company would be considered as an 'unquoted equity' and subject to a 5 per cent cap under the investment regulations.</p>	

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
National Social Security Fund (NSSF)	KES122.3 billion (US\$1.06 billion), June 2013	Public and private	www.nssf.or.ke

Namibia



Overview

Assets under management, 31 December 2013	(NAD) 105.3 billion	(US\$) 9.96 billion
Permitted allocation to private equity	1.75 per cent–3.5 per cent	
Total assets committed to PE by local pension funds:	As of 31 March 2013, the Government Institutions Pension Fund (GIPF) had invested NAD938.14 million (US\$101.98 million) in private equity. Of this amount, the equivalent of NAD616.49 million (US\$67.01 million) was invested in Africa-focused private equity funds, and the balance locally.	
Regulatory bodies	Namibia Financial Institutions Supervisory Authority (NAMFISA), www.namfisa.com.na	
Regulatory history	NAMFISA is an independent institution that was established to regulate and supervise the non-banking financial sector in Namibia. The Financial Institutions and Markets Bill, drafted under NAMFISA, aims to consolidate a variety of acts, including the Pension Funds Act, into one. Components of the Pension Funds Act have recently been revised and rewritten, and define how unlisted investments can be made and managed. The regulation requires a minimum of 1.75 per cent and a maximum of 3.5 per cent of a fund to be invested in unlisted investments.	
Commentary	The GIPF is the largest pension fund in Namibia, and implemented its own unlisted investment programme in 2010. This programme provides for the investment of 5 per cent of the fund in unlisted investments in Namibia, 5 per cent of the fund in unlisted property in Namibia, and 5 per cent of the fund in unlisted investments in the rest of Africa.	
Local vs international, as of 31 March 2012	Pension funds are allowed to invest up to 35 per cent of their assets under management outside the Common Monetary Area (CMA: Lesotho, Namibia, South Africa and Swaziland), provided no more than 30 per cent is invested outside of Africa.	

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
Government Institutions Pension Fund (GIPF)	NAD62.47 billion (US\$6.79 billion), 31 March 2013	Public	www.gipf.com.na

Nigeria

Overview

Assets under management, 31 December 2013	(NGN) 4.1 trillion	(US\$) 25 billion
Permitted allocation to private equity	5 per cent	
Total assets committed to PE by local pension funds	Nigerian pension fund administrators (PFAs) have been allowed to invest in private equity since December 2010. Some made their initial investments in private equity in early 2012. As of 30 November 2013, PFAs had invested N8.8 billion (US\$55.2 million) in the asset class.	
Regulatory bodies	National Pension Commission (PenCom), www.pencom.gov.ng	
Regulatory history	The Nigerian pensions system underwent reform in 2004 leading to the Pension Reform Act 2004, which established PenCom as the independent regulator of the pensions industry. The Regulation on Investment of Pension Fund Assets, published in December 2010 by PenCom, allows pension fund administrators to invest up to 5 per cent of their assets under management in investment funds with underlying assets that are 'tangible physical assets'.	
Commentary	The investment regulations impose a number of restrictions on private equity investment, including: (1) private equity funds and fund managers are required to have well defined and publicised investment objectives and strategies; (2) they should also have satisfactory pre-defined and pre-disclosed liquidity and exit routes; (3) all private equity fund managers should be registered with the Securities and Exchange Commission; (4) each of the key principals (such as the CEO and CIO) are required to have a minimum of ten years of relevant experience in managing private equity investments; (5) the fund managers shall invest a minimum of 1% of the PE fund in circumstances where investors include multilateral development finance institutions (DFIs), or 3 per cent in circumstances where there are no such investors; (6) private equity funds should have multilateral development finance institutions as limited partners; and, (7) PE funds are required to have an advisory board with representatives of institutional investors in the majority.	
Local vs international	A minimum of 75 per cent of private equity fund investments should be in companies or projects within Nigeria. However, the Pensions Reform Act 2004 allows PenCom to recommend the investment of pension fund assets outside of Nigeria to the President of Nigeria for approval.	

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
Aiico Pension Managers Limited	NGN1.1 billion (US\$6.9 million), December 2012	Private	www.aiicopension.com
Apt Pension Fund Managers Ltd	NGN11.5 billion (US\$72.5 million), December 2012	Private	www.aptpensions.com

Rwanda



Overview

Assets under management, 30 June 2012	(RWF) 301.1 billion	(US\$) 481.8 million
Permitted allocation to private equity	15 per cent	
Total assets committed to PE by local pension funds	Unclear	
Regulatory bodies	National Bank of Rwanda, www.bnr.rw	
Regulatory history	<p>The pension industry is regulated by the National Bank of Rwanda. The Rwanda Social Security Board (RSSB), which was established in 2010 after the merger of the Social Security Fund of Rwanda (SSFR) with the Rwanda Health Insurance Fund (RAMA), is mandated to administer social security in the country, including pensions, occupational risks and health insurance. RSSB is also regulated by the National Bank of Rwanda. Pension fund contributions are compulsory and managed by the RSSB. In April 2012, the RSSB issued a three-year investment policy that guides investment decisions between July 2012 and June 2015. This investment policy sets out the optimum asset allocation targets or strategic allocations for each asset class, and includes an allocation of 15 per cent for public and private equity.</p>	
Commentary	<p>RSSB's investment policy outlines specific risks and mitigation measures for each asset class. It states that private equity is one of the riskiest of all asset classes due to limited transparency and access to information, governance issues, and restricted exit strategies as well as normal equity risks. The risk mitigations outlined are: (1) all shareholder agreements should include provisions for the management to provide frequent and consistent financial and management reports; (2) exit strategies should be agreed to in advance; (3) the fund should require a seat on the board and the appointment of independent directors; (4) all private ventures should be undertaken on a commercial basis with a private sector strategic partner that can provide the technical and managerial experience required; and, (5) financial analysis should be done at least quarterly to measure performance and to determine if prospects are being threatened. Additional restrictions state that an equity stake in a private firm shall not exceed 30 per cent of the outstanding voting shares. Any amount over this restriction is required to be reduced within the maximum limit within two years.</p>	
Local vs international	The RSSB investment policy indicates a strategic allocation of 10 per cent for foreign/offshore investments (fixed income and equity).	

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
Rwanda Social Security Board (RSSB)	RWF301.1 billion (US\$481.8 million), 2012	Public and private	www.csr.gov.rw

South Africa



Overview

Assets under management, 31 December 2012	(ZAR) 2.7 trillion	(US\$) 322 billion
Permitted allocation to private equity	10 per cent	
Total assets committed to PE by local pension funds	ZAR4.7 billion (US\$549 million) as of December 2012	
Regulatory bodies	The Financial Services Board (FSB), www.fsb.co.za . [Note: the Government Employees Pension Fund (GEPF) is not regulated by the FSB, but follows its guidelines voluntarily.]	
Regulatory history	The South African pension industry is regulated by the FSB, an independent institution formed by statute to oversee the country's non-banking financial services industry. In 2011, the FSB issued revised investment guidelines for pension funds, which increased the maximum limit for private equity investment from 2.5 per cent to 10 per cent. In addition, the revised Regulation 28 requires retirement funds to 'give appropriate consideration' to any factor that may materially affect the sustainable long-term performance of all fund assets, including environmental, social and governance (ESG) concerns.	
Commentary	GEPF is the largest pension fund with assets of US\$124 billion. The Public Investment Corporation (PIC) manages the majority of GEPF's assets. Established in 1911, PIC is one of the largest investment managers in Africa today. Some of the larger South African pension funds have a history of investing in private equity, mainly in the domestic market. However smaller pension funds have limited exposure to the asset class.	
Local vs international	The revised investment guidelines of 2011 provided for the first time an allocation of 5 per cent to invest in Africa outside of South Africa in equity not listed on an exchange.	

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
Government Employees Pension Fund (GEPF)	ZAR1.1 trillion (US\$124 billion), 2012	Public	www.gepf.gov.za
Telkom Pension Fund	ZAR312 million (US\$36.6 million), 2012	Public	www.telkom.co.za
Eskom Pension and Provident Fund (EPPF)	ZAR481 billion (US\$48.3 billion), 2013	Public	www.eppf.co.za

Uganda



Overview

Assets under management, 31 December 2013	(UGX) 3.9 trillion	(US\$) 1.5 billion
Permitted allocation to private equity	No restriction, dependent on fund's investment policy.	
Total assets committed to PE by local pension funds	Unclear	
Regulatory bodies	The Uganda Retirement Benefits Regulatory Authority (URBRA), no website.	
Regulatory history	<p>The pension sector was reformed by the Uganda Retirement Benefits Regulatory Authority Act (URBRAA) 2011, which empowered the URBRA to regulate the establishment, management and operation of retirement benefit schemes in Uganda, in both the private and public sectors. Previously, the different public and private sector pension schemes were regulated separately: the National Social Security Fund (NSSF) was regulated by the National Social Security Fund Act, the Public Service Pension Scheme (PSPS) by the Pensions Act Cap 281, and the Voluntary Private Pension Schemes (VPPS) were unregulated. The industry is dominated by NSSF and PSPS, and funded by annual government tax revenues. NSSF is a quasi-government compulsory contributory provident fund, which covers all eligible employees in the private sector, including non-governmental organisations and parastatal bodies that are not covered by the government pension scheme. The PSPS is the government pension scheme for persons employed in the public service.</p>	
Commentary	<p>The URBRAA provides that every retirement benefit scheme shall have a prudent investment policy, so as to preserve capital and secure adequate returns on investments. Therefore the proportion permitted to private equity is guided by the investment policy of each pension fund. It is important to note that URBRAA prohibits 'speculative investments'. Therefore, private equity investments may be subject to the test of whether or not the private equity fund's investments are speculative.</p>	
Local vs international	Under Rule 68 of the Uganda Retirement Benefit Authority Act 2011, the funds of a retirement benefit scheme shall not be invested outside of East Africa.	

Sample List of Pension Schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
National Social Security Fund (NSSF)	UGX3.9 trillion (US\$1.5 billion), June 2013	Private	www.nssfug.org

United Republic of Tanzania



Overview

Assets under management, 31 December 2012	(TZS) 5.2 trillion	(US\$) 3.1 billion
Permitted allocation to private equity	5 per cent	
Total assets committed to PE by local pension funds	There is no known history of Tanzanian pension fund investment in private equity.	
Regulatory bodies	Social Security Regulatory Authority (SSRA), www.ssra.go.tz	
Regulatory history	<p>The SSRA was established under the Social Security Regulatory Act No. 8 of 2008 to regulate, supervise and promote the social security sector in Tanzania. The Social Security and Retirement Benefits Act provides that the Bank of Tanzania (BOT) shall, in consultation with the SSRA, issue investment guidelines regarding social security scheme funds including pension funds. According to the Investment Guidelines, 2012, equities shall include ordinary and preference shares of private companies or public companies listed on the Dar es Salaam Stock Exchange and that any such investments must be made through a fund manager. The permitted 5 per cent allocation to the private equity asset class may be exceeded in the event of an increase in the market price of assets, bonus issues or the transfer of an investment from one category to another – provided that the excess does not continue for more than 90 days and is reported to the BOT with an action plan of how the Board of the pension fund intends to return the scheme to being within its approved limits.</p>	
Commentary	<p>Although private equity investment is allowed, section 18 of the guidelines prohibits investment in venture capital. The guidelines also provide general restrictions with respect to investments as follows: (1) real returns on investments should be positive; (2) minimum real returns should not be less than 1 per cent; and, (3) any investment different from Treasury instruments shall have a return that is higher than the return on treasury bills and treasury bonds at the time of investing, depending on the maturity.</p>	
Local vs international:	Offshore investments are prohibited; however, the guidelines are unclear as to whether this applies solely to Tanzania or the East African Community.	

Sample List of Pension Schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
National Social Security Fund (NSSF)	TZS1.4 trillion (US\$867.8 million), July 2011	Public and private	www.nssf.or.tz
Public Service Pensions Fund (PSPF)	TZS1.2 trillion (US\$732.8 million), 2012	Public	www.pspf-tz.org

Zambia



Overview

Assets under management, June 2013	(ZMW) 10.1 billion	(US\$) 1.8 billion
Permitted allocation to private equity	Permitted under 'other assets'; proportion unclear.	
Total assets committed to PE by local pension funds	ZMW205 million (US\$38.6 million) in unlisted equity as of December 2012.	
Regulatory bodies	Pensions and Insurance Authority (PIA), www.pia.org.zm	
Regulatory history	<p>PIA is the regulatory and supervisory authority for the pensions industry in Zambia. It was created by the Pension Scheme Regulation Act (PSRA) of 1996, which applies to all pension schemes except the National Pension Scheme Authority (NAPSA), to which contributions are compulsory. The PSRA governs the establishment of private occupational pension schemes and requires that all pension schemes be established under an irrevocable trust, and that their rules adequately protect the rights and interests of the sponsors and members of the scheme. The pension system comprises three pillars: (1) public pension schemes established by acts of parliament; (2) private or occupational pension schemes, which vary from employer to employer; and, (3) personal pension plans through private annuities under various insurance companies. The legal framework for retirement and pension benefits in Zambia is contained in various pieces of related legislation. This has created a complex network of relationships and led to some contradictions and conflicts in application of the law. Current pension sector reforms are aimed at the public pension schemes with the government collaborating with key stakeholders in order to attempt to address certain challenges, namely the low levels of pension fund contributions, actuarial deficits of the funds and the consequent delayed or non-payment of pension benefits. Work on the reforms began in 2011. Headed by the Ministry of Labour and Social Security, it is currently at the consultative and design stage.</p>	
Commentary	<p>Although there is no specific allocation for private equity, such investments are allowed under 'other assets'. If a fund is interested in investing in a private equity fund or fund of funds, it must first seek approval of the registrar, who in his/her discretion may set conditions to such investment. The registrar has granted approval for investment in unlisted securities in the past. In addition, investments in private equity funds could also fall under the category of 'collective investment schemes'. Not less than 2 per cent or more than 10 per cent of a fund shall be invested in a single unit trust. The guidelines prohibit speculative investments, which causes further restrictions if private equity falls under this category.</p>	
Local vs international	A fund may not invest more than 30 per cent of its fund size outside of Zambia ('fund size' meaning the net aggregate fair value of assets).	

Sample list of pension schemes

Name	AUM - Local Currency and US\$	Public / Private	Website
Kwacha Pension Trust Fund (KPTF)	ZMW416.2 million (US\$80 million), 2012	Private	www.kptf.org.zm

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