URBRA

UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

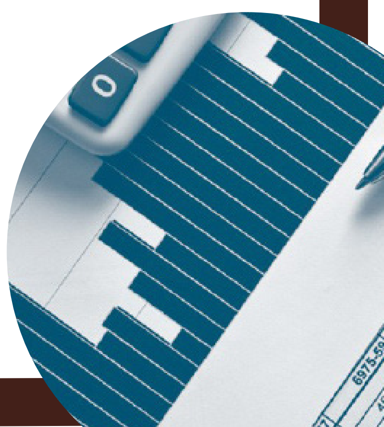
Retirement Benefits Sector

INVESTMENT SNAPSHOT

Quarter Ending December 2018

Total sector portfolio increased by 1.01 % from UGX 11.6 trillion to UGX 11.8 trillion.

Content



BACKGROUND

The Investment Returns Analysis Snapshot is compiled to provide consolidated statistics and analysis of the Schemes' Investments portfolio under management by licensed Fund managers and NSSF

The purpose of this snapshot is to provide industry investment statistics of the schemes' Asset Under Management (AUM) as well as trends, structure, performance and other developments in the Retirement Benefits Sector. This data enforces the supervisory role of the Authority in ensuring Stability and financial viability of Schemes in the Country. The report is based on the Quarterly Investment Returns provided by all Licensed Retirement Schemes.

Economic and Market Overview

Economic Growth/ GDP

Domestic economic activity is projected to remain on a steady expansion path in FY2018/ 19 and over coming years, keeping output slightly above the potential. A look at the BoU's Composite Index of Economic Activity (CIBA) indicated stronger economic performance in the first 10 months of 2018, with an annualized growth rate of 7 - 8 percent. This is an indication that economic growth in FY2018/ 19 could be higher than the previous projection of 6 percent

Outlook

The positive growth forecast is expected to be sustained over the coming years, partly driven by public infrastructure investment. The strong growth is in part supported by the accommodative monetary policy stance and the associated rebound in private sector credit extension, ensuring strong domestic demand conditions, multiplier effects of public infrastructure investments and improved agricultural productivity.

Inflation

The Annual Headline Inflation for the period ending December 2018 was recorded at 2.2 percent compared to 3.0 percent registered during the previous period.

The Annual Core Inflation declined to 2.8 percent in December 2018 from 3.9% in September 2018. This decrease was due to annual inflation of other goods Inflation that registered 2.2 percent for the year ending December 2018 compared to 3.4 percent recorded for September, 2018.

Outlook

Core and headline inflation are forecast to peak at 6-6.5 percent respectively and 5.1 percent in the second half of 2019, which are lower than the previous forecasts by 1 and 0.7 percentage points, respectively

Fixed income Market

Yields on government paper had a downward trend during the quarter. The 2 year, 5 year and 10 year paper fell by 25, 150 and 20 basis points. The short end of the yield curve also trended downwards by 0.975% for the 182 day, 0.6% for the 91 day and 0.25% for the 364 day.

Equities Market

	USE -ASI	USE-LSI Index	NSE-ASI Index	KNS-MIDX Index	DARS-DSEI Index	RSE-ASI Index
Qtr-End Dec 18	1649.39	400.6	140.43	2833.84	2045.54	131.2
Qtr-End Sep 18	1824.81	413.42	149.67	2875.51	2105.2	131.54

Source: Bloomberg LP

The USE ALSI was down 9.6% (down 18.9% YTD) while the LCI lost 3.1% in the quarter and was (up 4.8% YTD) . NSE ASI was down 6.1%.

CBR in quarter 2, 2018

Bank of Uganda maintained the Central Bank rate at 10% given that the inflation outlook remains relatively unchanged from the previous forecast. Inflation forecast is expected to converge to the BoU's target of 5 percent. However, there are nonetheless upside risks to the outlook including the future direction of food crops prices; the path of the exchange rate, which in part is contingent on external economic environment; and the ensuing demand pressures on account of the positive output gap.

Currency

UGX appreciated 2.8% within the quarter after coming under pressure against the against the USD in the first half of the year, the UGX recovered in the second half of the year. This was attributed to BOU's actions, cash inflows from coupons and exports.

Outlook.

The shilling continues to receive support from the recent monetary policy stance by BOU. However it remains volatile to market forces of demand and supply.

Growth in Assets

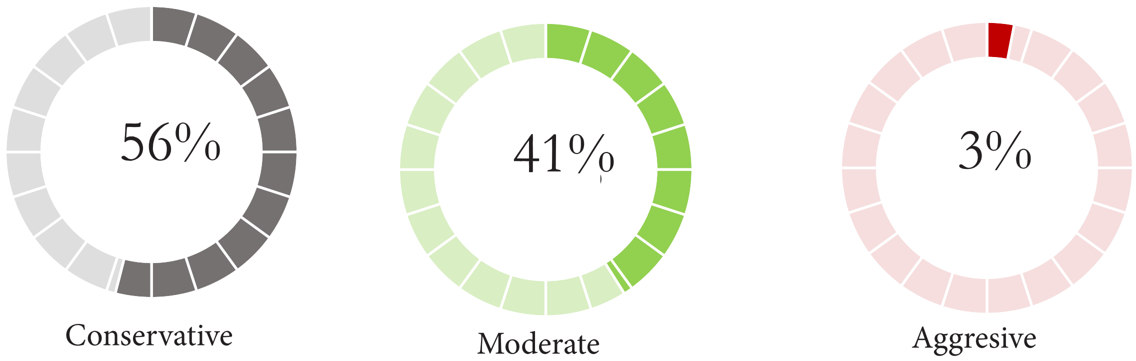
The Assets Under Management grew by 1.01 % to Ugx 11.8 Trillion on QoQ basis and 12.24% on an annual basis, attributed to growth in contributions and investment income which grew by 11.6% and 9.7% respectively.

Total Sector Portfolio

	Quarter Ending -Sept 18		Quarter Ending - Dec 18	
Asset Class	Amount (Million)	Proportion (%)	Amount (Million)	Proportion (%)
Cash and Demand	48,381	0.41	23,362	0.20
Fixed Deposit	157,521	1.35	202,002	1.71
Other Fixed Income	122,094	1.04	114,846	0.97
Government Securities	8,565,052	73.24	8,813,356	74.60
Quoted Equities	1,777,704	15.20	1,650,324	13.97
Unquoted Equities	351,394	3.00	334,207	2.83
Immovable Property	669,563	5.73	675,490	5.72
Other Investment	3,174	0.03	210	0.00
TOTAL	11,694,883	100	11,813,796	100

Other Fixed income Asset class represents (Commercial Paper, Corporate bonds, ABS, CIS)

Risk Profile

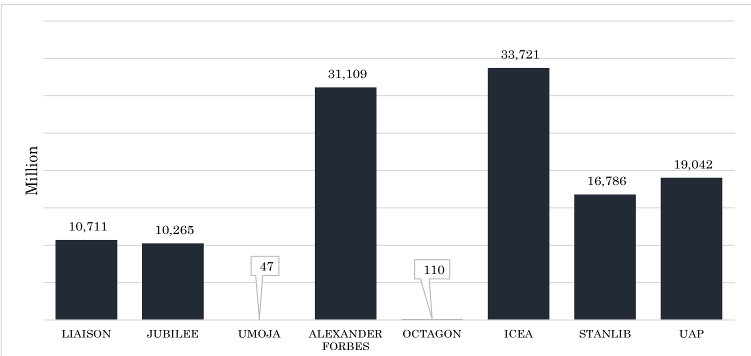


Scheme Funds Asset Allocation - Fund Managers (Million)

Fund Managers	Cash and Demand	Fixed Deposits	Other Fixed Income	Governement Securities	Quoted Equities	Unquoted Equities	Property	Other	AUM
Britam	883	4,567	207	44,948	13,747	0	0	0	64,351
Gen-Africa	749	8,133	185	278,610	88,766	0	0	0	376,443
ICEA	127	8,285	0	30,954	3,348	0	0	0	42,713
Sanlam	964	12,295	3,235	492,390	234,276	74	16,275	83	759,592
Stanlib	979	16,497	279	264,865	74,913	0	0	127	357,660
UAP	2,036	1,103	3,699	36,434	5,299	0	0	0	48,570
TOTALS	**5,738**	**50,879**	**7,605**	**1,148,201**	**420,349**	**74**	**16,275**	**210**	**1,649,330**

Proportion held by Umbrella Retirement Benefits Schemes

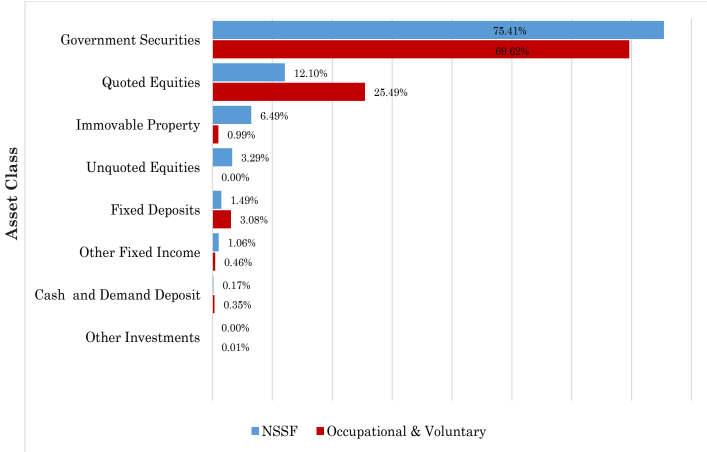
Sector Asset Value: 11.8 Trillion



UGX 121.8 Billion of the total occupational schemes' portfolio is held by Umbrella Schemes. ICEA Umbrella Retirement Scheme and Alexander Forbes RBS have the largest proportions i.e 28% and 26% respectively.

Asset Allocation : Distribution (Percentage)

Sector Asset Value: UGX 11.8 Trillion



Distribution is as a percentage allocation of Asset class per category

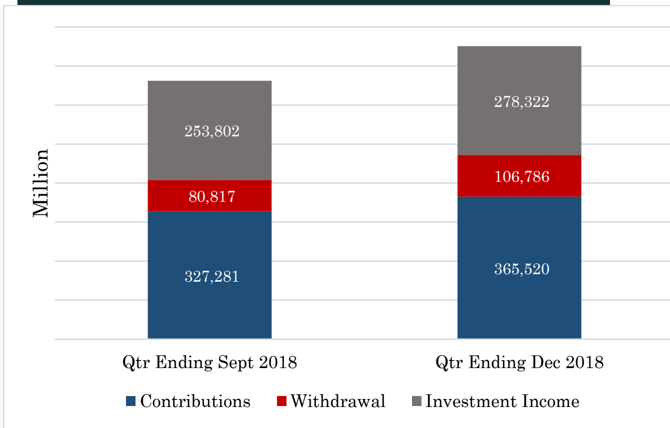
The ranking of the asset classes with regard to the proportion of investments continue to depict a conservative investment strategy adopted by schemes with 74% invested in Government securities.

The proportion of unquoted equities remained stable at about 2%, depicting a slow uptake of Unquoted equities in by the sector.

On a yearly basis, the overall growth in Assets under management is 12.24%

Contribution, Income & Withdrawal (Million)

Sector Asset Value: UGX 11.8 Trillion



Contributions and withdrawals

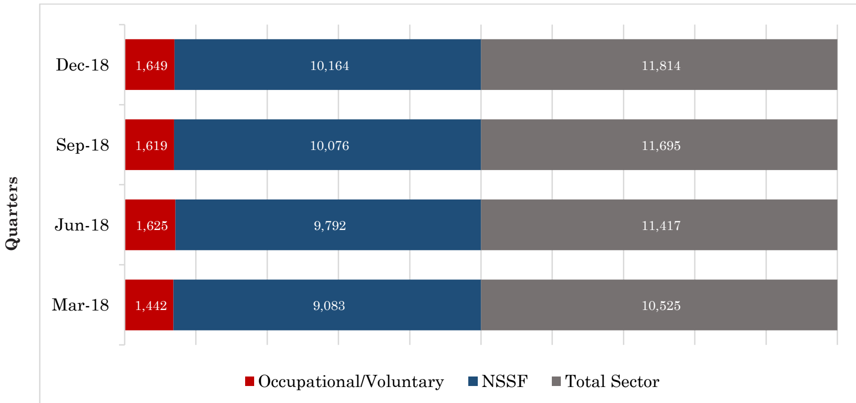
The total contributions made during the quarter increased by 11.6%, an increase of UGX 38.2 Billion from the previous quarter. The proportion of contributions made by NSSF was 81% while the remaining percentage was due to Occupational/ Voluntary schemes. The total withdrawals increased by 32 %.

Investment Income

Investment income for the period under review increased by 9.6% from the previous quarter.

Sector Asset Growth -QoQ

Sector Asset Value: UGX 11.8 Trillion



AUM Growth (Percentage)

	Mar-18	Jun-18	Sep-18	Dec-18	Annual Growth
Occupational/Voluntary	-1.38	12.74	-0.42	1.90	14.39
NSSF	5.83	7.80	2.91	0.88	11.90
Total Sector	4.78	8.47	2.43	1.02	12.24

The total sector continued on a positive growth trajectory. The growth rate for the reporting period was 1.02% compared to 2.43% in September 2018. This was attributed to growth in contributions and investment income of 11.6% and 9.7% respectively.

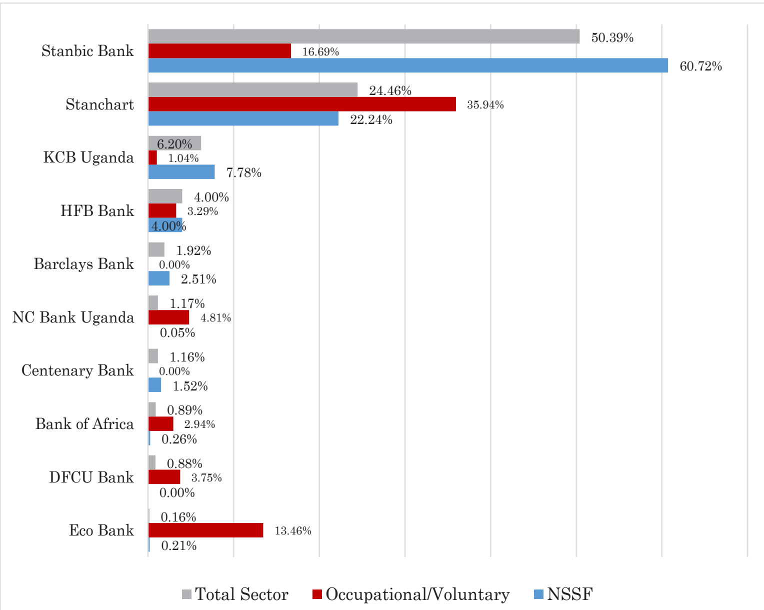
Performance

Voluntary schemes			3 months	6 months	1 year	3 years
	Equities	W.A.P	-7.66	-17.07	-4.26	0.93
		Median	-7.62	-16.79	-4.37	1.25
	Fixed Income	W.A.P	4.72	6.67	10.27	12.41
		Median	4.46	7.17	13.89	16.44
	Money Market	W.A.P	1.85	3.38	5.41	6.69
		Median	2.52	5	9.81	14.1
NSSF	Equities	As reported	-8	-4	2	1
	Fixed Income		3.72	3.75	0	0

Systemic Market Assessment

Cash and Demand (Percentage)

Total Value: Ugx 48.3 Billion



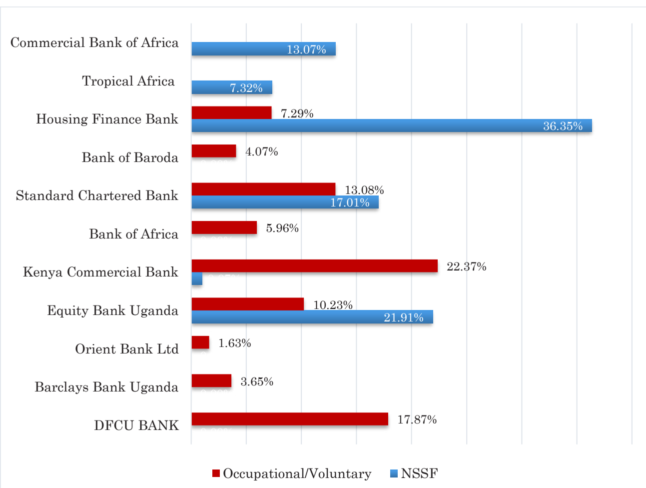
The total sector portfolio exposure in Cash and Cash equivalent is a portioned 50.39% to Stanbic Bank Uganda and 22.24% to Standard Chartered Bank.

Concentration by Region

7.4% exposure in the total cash and demand deposits (UGX 350 million) held by Occupational/Voluntary Schemes' is to NIC Bank Kenya.

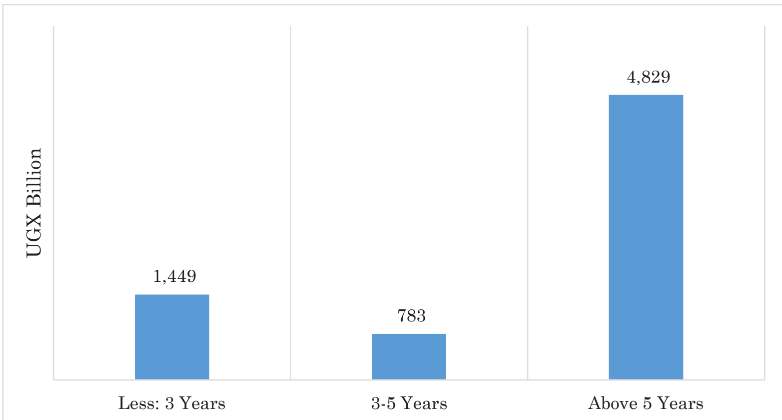
Fixed Deposit (Percentage)

Total Value: Ugx 157.7 Billion



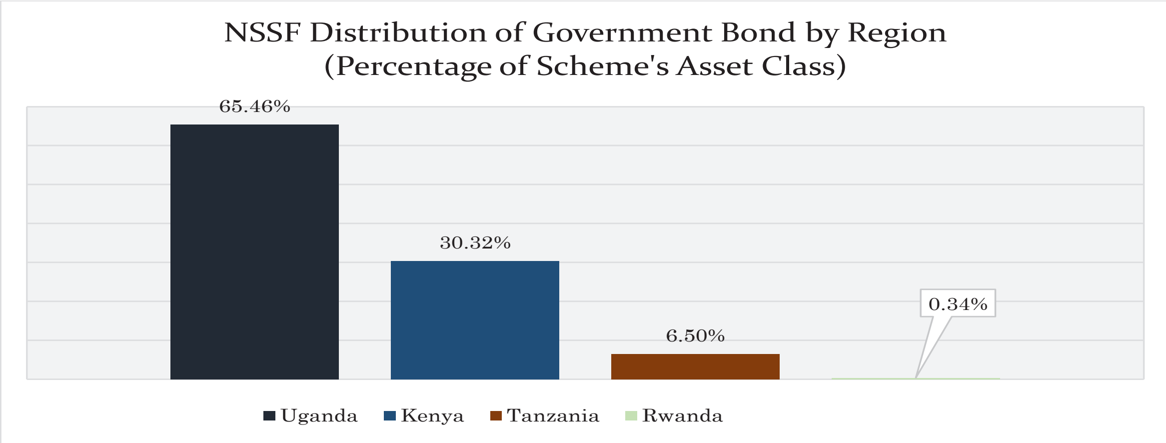
The exposure of NSSF to HFB fixed deposits was 36.3 %. Occupational/Voluntary Schemes maintained 22.37% in KCB Uganda limited as in the previous quarter.

Maturity Profile - Government Bonds



The weighted average maturity of the Government Bonds at the end of Quarter was 8.0 years.

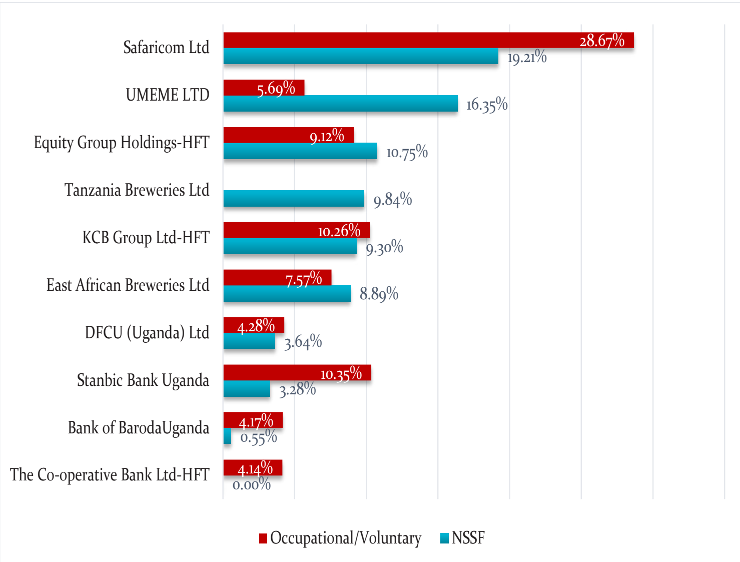
NSSF - BOND PORTFOLIO BY REGION



NSSF remains the only entity with investment in Infrastructural Bonds; The investment is in the Government of Kenya Infrastructural Bond with a market value of UGX 1.35Trillion. The different maturity ranges from 2-20 years with a yield range of 11%-12.50%.

Quoted Equities

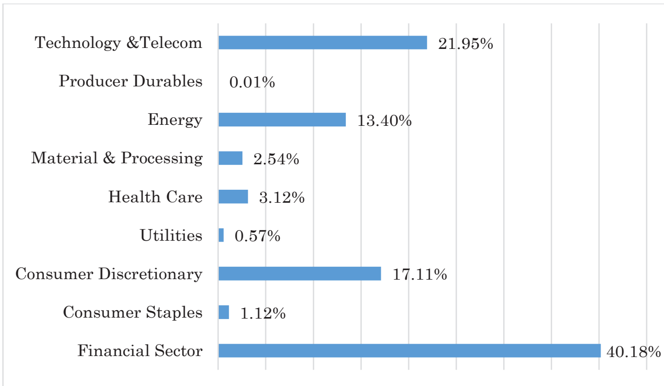
Total Value: Ugx 1.8 Trillion



Safaricom Ltd – HFT remains a top attractive investment in the stock market for both NSSF and Occupational/Voluntary schemes with proportions of 29.42% and 19.21% respectively. For the local listed securities, the Pension Sector is largely exposed to Stanbic Bank Uganda and UMEME Ltd.

NSSF remains the only entity with regional investments in listed stocks of the Dar-es-salam stock exchange and Rwanda Stock exchange i.e. 17.13% and 3.97% respectively.

Distribution of Quoted Equities by Sector



Concentration by Sector

The Authority requires all the scheme fund managers to report and classify quoted equities using the guiding principle of the Russel Global Sector Classification (RGS) defined under a Three tier system with 9 Sectors.

In quarter ending December 2018, the Financial and Technology/Telecom Industries maintained the largest distribution of quoted equities i.e. 40% and 21% respectively

SECTOR OUTLOOK

Fixed Income Securities	Similarly to Quarter Ending- September 2018, fixed income securities continue to account for over half of the sector portfolio with government securities remaining at 74%. We expect a market preference for longer dated bonds given that yields in government securities are expected to remain elevated as domestic borrowing is projected to continue in the short and medium term. Fund managers may also be selective with their investment decisions in offers that have a potential for better yields especially in the short term. The direction of the currency and inflation remain a key risk to this outlook.
Quoted Equities	Investments in quoted securities remain the second largest with a total investments accounting for 15% of the total industry. In Uganda, the LCI is expected to remain on a positive trend due to improving GDP growth as Financial services companies continue to consolidate this growth. However high interest rate of government securities could inhibit investor's appetite for Equities
Private Equities	The uptake in this asset class remains low as seen by the stable allocation of about 2%. NSSF and Voluntary schemes managed by Sanlam Investments East African Limited remain the only entities currently invested in this asset class. Further, all the investment in Private equity is held by SANLAM Investments which is in the ordinary shares of UAP Holdings Group. The slow uptake on this asset class implies that it's not sufficiently understood by the sector and its long dated in nature (e.g. 7- 10-year horizon) yet trustee terms are short thus trustees tend to have limited incentives to invest for the long term.
Real Estate	Limited innovation in the market, Lack of transparency in pricing and valuation remain the challenges to investments in this asset class.

Uganda Retirement Benefits Regulatory Authority (URBRA)
4th – 6th floor, Plot 1 Clement Hill Road
P.o Box 7561, Kampala – Uganda
Telephone: +256 417304500/ +256200513500/ +256312324500
Website:| www.urbra.go.ug|Twitter:@urbraUg |Facebook: urbraUg

DIRECTORATE OF SUPERVISION AND COMPLIANCE;
Risk and Investment Department
Email: investment@urbra.go.ug