URBRA

UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

Retirement Benefits Sector

Photo: NAB Group Economics

# INVESTMENT SNAPSHOT

## Quarter Ending March 2019

Total sector portfolio increased by 6.48 % from UGX 11.8 trillion to UGX 12.5 trillion.

Content

## OVERVIEW

We present the Investment Returns Analysis Snapshot for the quarter ended March, 2019. This snapshot is compiled to provide a consolidated statistics and analysis relating to the Schemes' Investments under management by licensed Fund managers supervised by URBRA. The purpose of this report is to provide industry statistics as well as the latest industry trends, performance and other developments. The report is based on the Quarterly Investment Returns of Quarter ending March 2019 provided by all Licensed Retirement Schemes and on the supervisory and enforcement work conducted by URBRA.

The quality and depth of analysis depends on the data availed and the accuracy of the data submitted by the Schemes.

## Fund Manager Pension Holding

| Fund Manager | Number of Schemes | AUM (Million) |
|---|---|---|
| Britam | 7 | 73,738 |
| Sanlam | 21 | 800,478 |
| GenAfrica | 11 | 424,626 |
| Xeno | 0 | 0 |
| UAP | 7 | 131,130 |
| ICEA | 3 | 35,081 |
| Stanlib | 11 | 376,615 |
| NSSF Internal management | 1 | 10,728,024 |

The report covers 61 of the 63 licensed Retirement Benefits Schemes with a total of 12.5 trillion Ugx Assets Under Management as at End March 2019

## Cummulative Growth Rate (%)

| | 1 Year CAGR (17-18) | 1 Year CAGR (18-19) | 2 Year CAGR (17-19) | QAGR (18-19) |
|---|---|---|---|---|
| Occupational | 18.4 | 28.4 | 23.3 | 6.6 |
| NSSF | 25.7 | 18.1 | 21.9 | 4.3 |
| Total Sector | 24.7 | 19.5 | 22.9 | 4.6 |

CAGR: Cummulative Annual Growth rate: QAGR: Quarterly Average Growth Rate

Total assets grew by an average of 4.6% over the past 4 Quarters.

## Median Performance

| 1 Year Median Performance | Quoted Equities | Fixed Income | Money Market |
|---|---|---|---|
| Median | -8.83 | 10.80 | 9.69 |

The 1 Year median return for Quoted Equities, Fixed income and money markets was -8.83%, 10.9%, 9.69% respectively compared to -4.37%, 13.89% and 9.81% in the previous quarter.

## Economic Growth/ GDP

Year on Year Quarterly GDP growth for the Q3 of F/Y 2018/19 stood at 5.6 percent compared to the growth of 6.9 percent (revised) registered in Q3 of the previous year. The Agriculture sector continued to show a strong increase in growth estimated at 4.8 percent in Q3 of F/Y 2018/19 compared to a growth of 1.6 percent in the Q3 of F/Y 2017/18. This was mainly due to an increase in Food and Cash Crop growing activities that grew at 5.2 percent and 12.0 percent in Q3 F/Y 2018/19 respectively as a result of favourable weather

### Outlook

High frequency real economy indicators project that domestic economic growth momentum continued into the first half of FY 2018/19. The economy is projected to grow by about 6.3 percent in FY 2018/19 and remain on a steady growth trajectory over the coming years, with output trending above potential. This is in part supported by accommodative monetary policy stance and favorable financial conditions, fiscal impetus and multiplier effects of public infrastructure investments, ensuring strong domestic demand conditions and improved agricultural performance.

### Inflation

The Annual Headline Inflation for the year ending March 2019 was recorded at 3.0 percent. The Annual Core Inflation increased to 4.6 percent for the year ending March 2019 from 3.7%, approaching the BoU's medium term policy target of 5%. Low headline inflation continues to be supported by low food crops inflation which declined to minus 9.9% in March 2019 from minus 4.4 percent in February 2019.

### Outlook

Overall, inflation has developed in line with the forecast. The conditions for inflation to remain within the 5% range (2-3 years) have not changed to any great extent. Annual Headline and Core inflation are now forecasted to peak at 6.3% and 6.4% in the subsequent quarter.

### Currency.

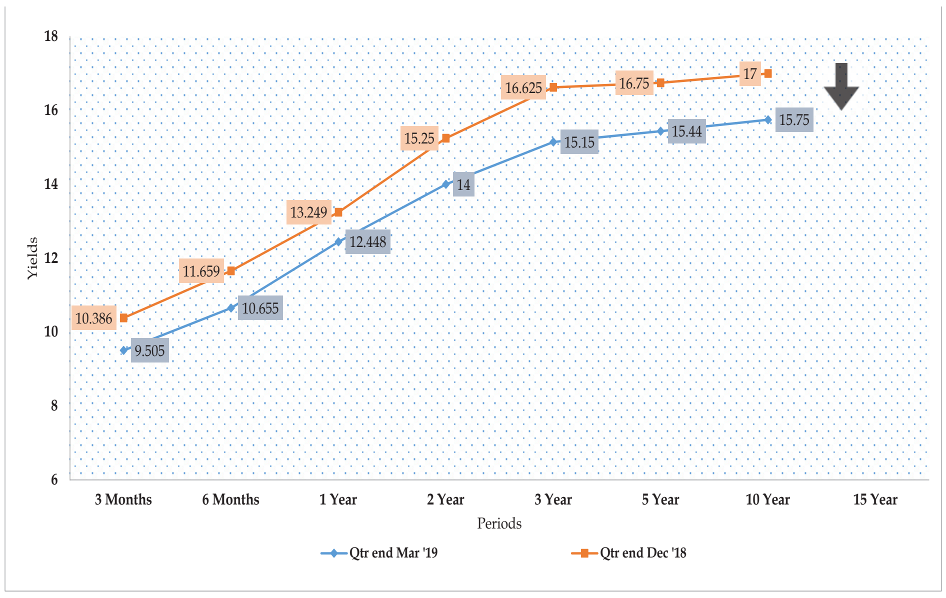
The shilling depreciated by 0.23% against the US Dollar and across the major currencies; 2.14% against the GBP and 1.58% against the Kenyan shillings

### CBR

Bank of Uganda maintained the Central Bank rate at 10%. The medium-term (2-3 years) inflation outlook remains relatively unchanged from December, with inflation projected to converge to the BoU's target of 5 percent and similarly the economy and remain on a steady growth trajectory over the coming years and is projected to grow by about 6.3 percent in FY2018/19.

There are nonetheless risks to the projected economic growth momentum including weather-related constraints to agricultural production.

### Financial markets – fixed income.




*Source: Bank of Uganda*

During the quarter, there was a decline in yields at the short end of the yield curve by 80 bps. The 91D bill fell by 88 bps, the 182D bill by 100 bps.
The 10 year benchmark bonds also declined by 125 bps during this period.

### Financial markets- Equities Market

| | USE -ASI | USE-LSI Index | NSE-ASI Index | DARS-DSEI Index | RSE-ASI Index |
|---|---|---|---|---|---|
| Qtr-End Dec 18 | 1649.39 | 400.6 | 140.43 | 2041.39 | 128.78 |
| Qtr-End Mar 19 | 1749.27 | 380.63 | 157.66 | 2060.29 | 124.81 |

*Source: African Market Terminal LP*

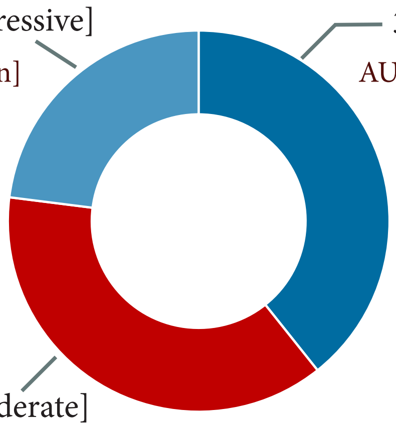
The USE LSI decreased by 4.985%. Equities markets in Uganda, Kenya, Tanzania and Rwanda recorded a mixed performance i.e. +6.06%, +12.27%, +0.93% and -3.08% respectively.

## Total Sector Portfolio

| | Quarter Ending -Dec18 | | Quarter Ending - Mar 19 | |
|---|---|---|---|---|
| Asset Class | Amount (Million) | Proportion (%) | Amount (Million) | Proportion (%) |
| Cash and Demand | 23,362 | 0.20 | 46,497 | 0.37 |
| Fixed Deposit | 202,002 | 1.71 | 193,737 | 1.54 |
| Other Fixed Income | 114,846 | 0.97 | 116,858 | 0.93 |
| Government Securities | 8,813,356 | 74.60 | 9,387,175 | 74.62 |
| Quoted Equities | 1,650,324 | 13.97 | 1,813,704 | 14.42 |
| Unquoted Equities | 334,207 | 2.83 | 324,307 | 2.58 |
| Immovable Property | 675,490 | 5.72 | 675,478 | 5.44 |
| Other Investment | 210 | 0.00 | 13,208 | 0.10 |
| TOTAL | 11,813,796 | 100 | 12,579,645 | 100 |

*"Other Fixed income" Asset class represents (Commercial Paper, Corporate bonds, ABS, CIS), "Other investments" represent guaranted funds and other approved assets structures.*

## Risk Profile




| Risk Profile | Fixed Income Allocation | Number of Schemes | Scheme Percentage | AUM (Million) |
|---|---|---|---|---|
| Conservative | Over 70% | 24 | 39.3% | 11,466,873 |
| Moderate | 50% - 70% | 21 | 34.4% | 746,349 |
| Aggressive | Less than 50% | 16 | 26.2% | 366,423 |
| Total | | | | 12,579,645 |

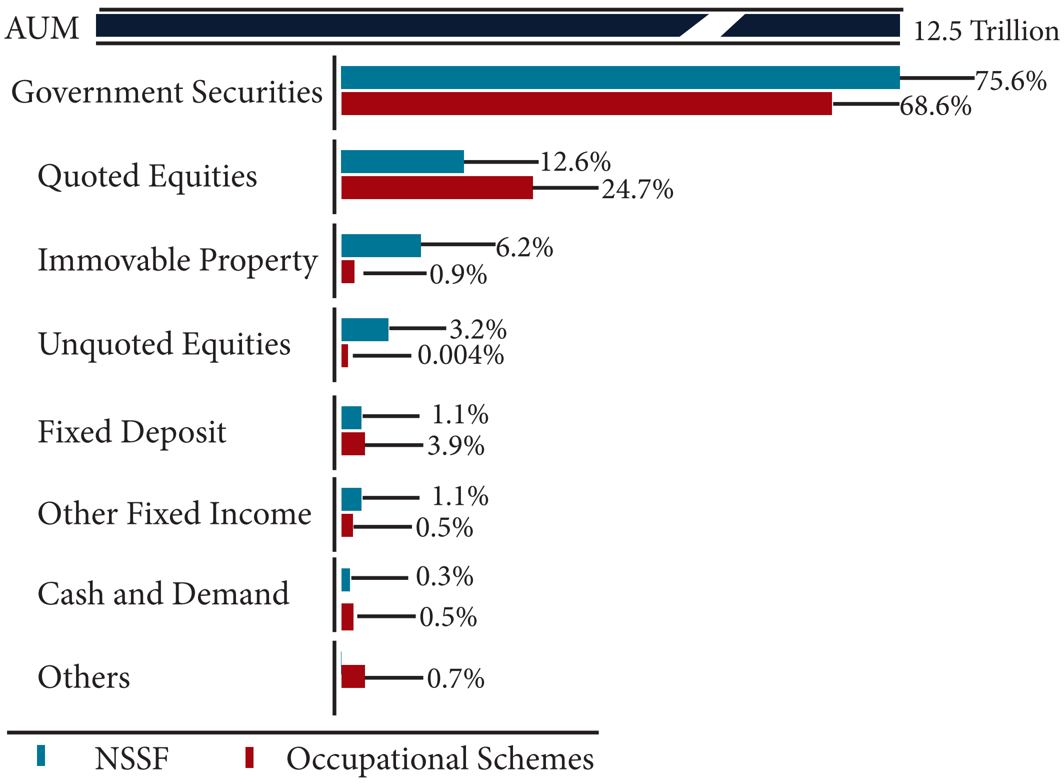
Conservative schemes hold 91% of Assets under management , with about 39% of schemes having over 70% of portfolio holding in fixed income securities.

| Mandatory Schemes | NSSF | | Parliamentary Pension Scheme | |
|---|---|---|---|---|
| Asset Class | Amount (Million) | Proportion (%) | Amount (Million) | Proportion (%) |
| Cash and Demand | 35,964 | 0.34 | 200 | 0.09 |
| Fixed Deposit | 120,427 | 1.12 | 13,932 | 5.99 |
| Other Fixed Income | 107,317 | 1.00 | 386 | 0.17 |
| Government Securities | 8,116,414 | 75.66 | 154,655 | 66.49 |
| Quoted Equities | 1,355,791 | 12.64 | 50,315 | 21.63 |
| Unquoted Equities | 324,228 | 3.02 | 0 | 0.00 |
| Immovable Property | 667,883 | 6.23 | 0 | 0.00 |
| Other Investment | 0 | 0.00 | 13,118 | 5.64 |
| TOTAL | 10,728,024 | 100 | 232,607 | 100 |

| Fund Managers | Cash and Demand | Fixed Deposits | Other Fixed Income | Governement Securities | Quoted Equities | Unquoted Equities | Property | Other | AUM |
|---|---|---|---|---|---|---|---|---|---|
| Britam | 780 | 8,348 | 172 | 50,360 | 14,076 | 0 | 0 | 0 | 73,738 |
| Gen-Africa | 753 | 6,474 | 154 | 292,568 | 111,558 | 0 | 0 | 0 | 411,508 |
| ICEA | 76 | 9,082 | | 32,479 | 3,398 | 0 | 0 | 0 | 45,034 |
| Sanlam | 3,851 | 17,964 | 2,871 | 517,015 | 242,333 | 79 | 16,275 | 90 | 800,478 |
| Stanlib | 2,412 | 28,525 | 232 | 264,538 | 80,908 | 0 | 0 | 13,118 | 389,733 |
| UAP | 2,661 | 2,915 | 6,112 | 113,801 | 5,640 | 0 | 0 | 0 | 131,130 |
| **TOTALS** | **10,533** | **73,310** | **9,541** | **1,270,761** | **457,913** | **79** | **16,275** | **13,208** | **1,851,621** |

Sanlam Investments East Africa holds the largest portfolio of pension funds among the licensed fund managers.

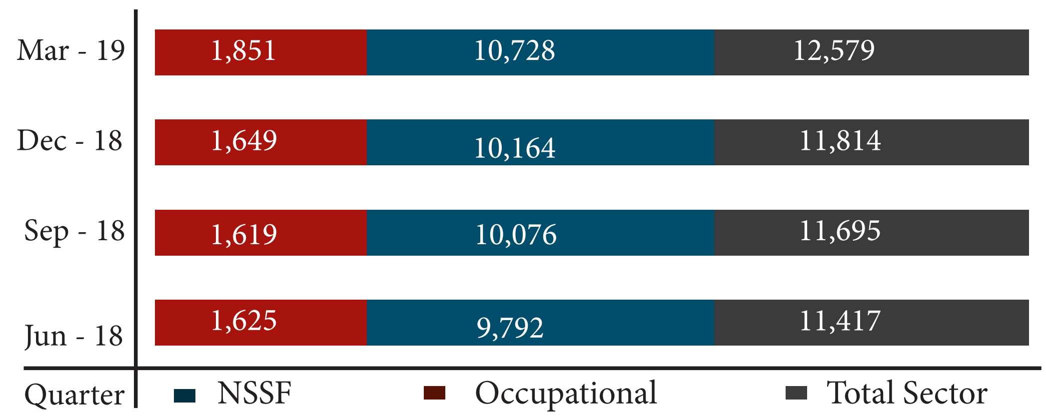
## Asset Allocation (Million)



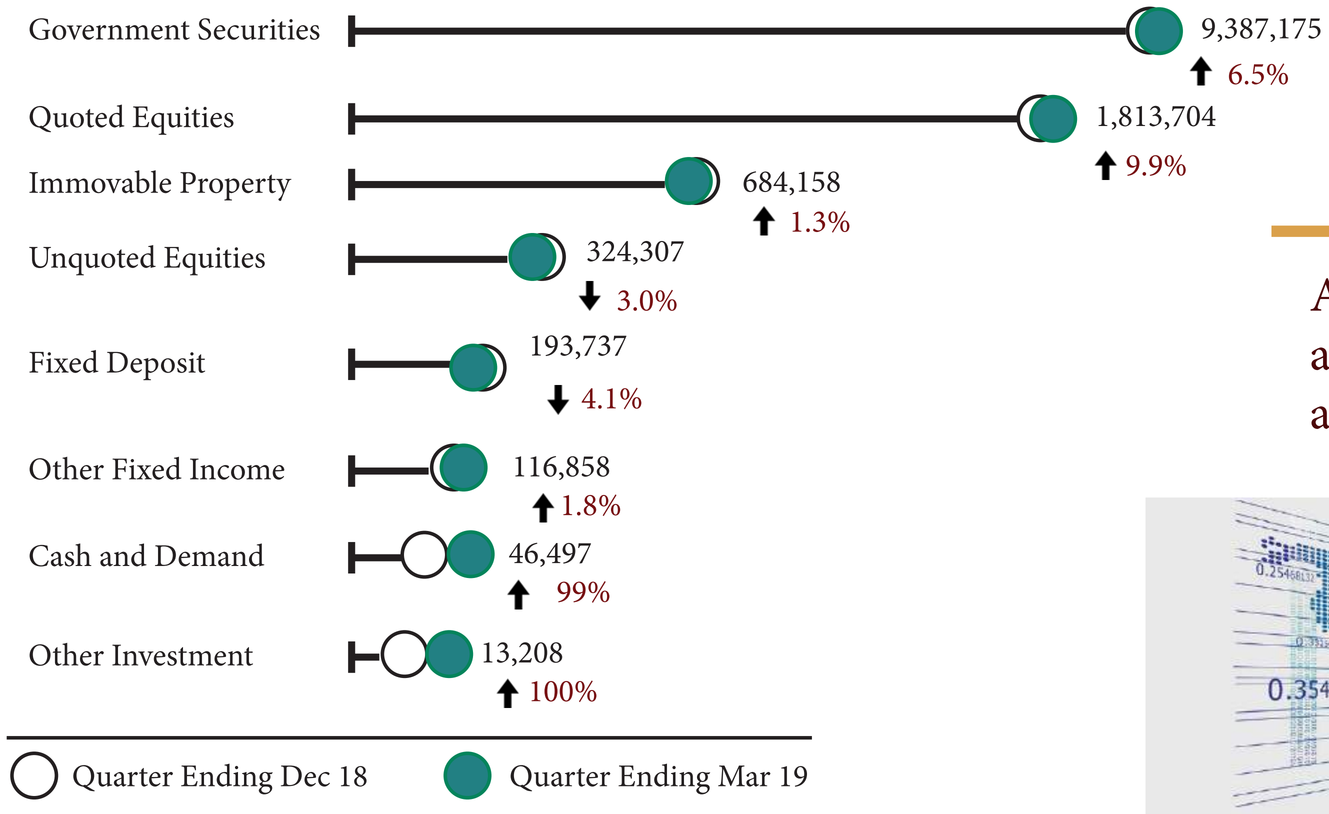

Over 91% of scheme funds are invested in traditional asset classes

**Investment of Scheme Funds**
The URBRA Investment of Scheme Funds Regulations define the legislative scope that informs schemes on maximum limit for each asset class.

## Quarterly Asset base (Million)



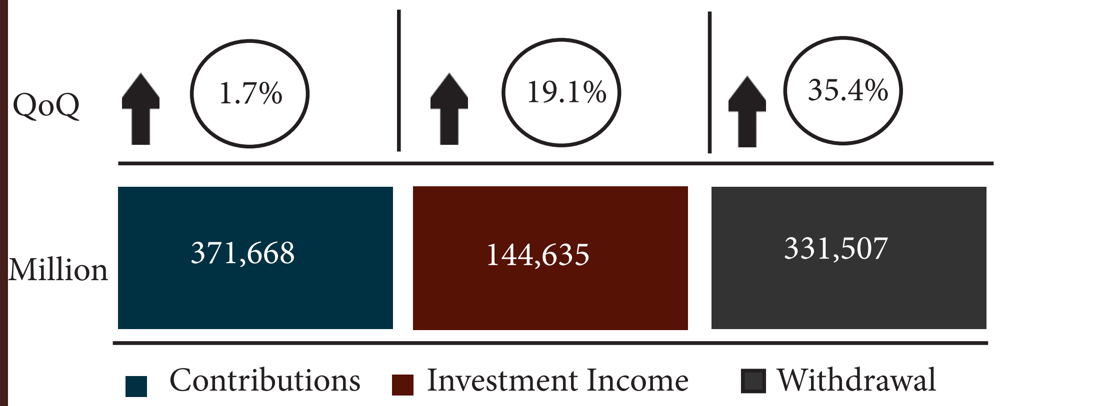

## Asset Class Movement (Million)




Allocations to unquoted equities and fixed deposits reduced by 3% and 4.1% respectively.

## Contribution, Income & Withdrawal (Million)

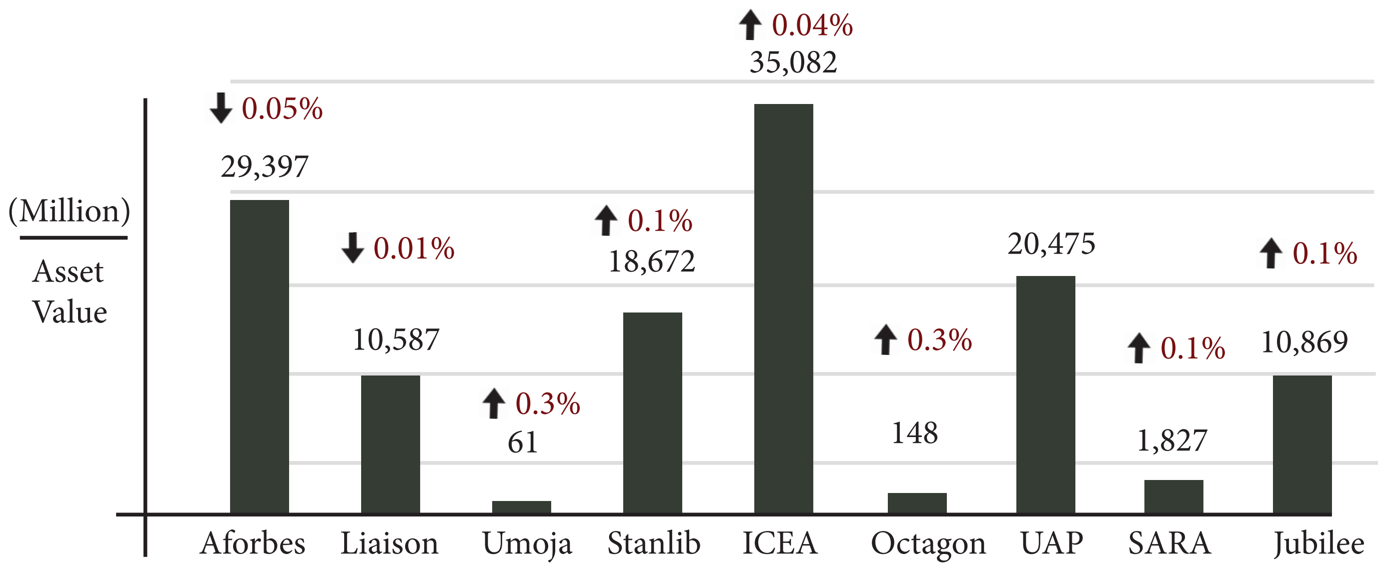
Sector Asset Value: UGX 12.5 Trillion




The total contributions made during the quarter increased by 1.7%, an increase of UGX 6 Billion from the previous quarter. NSSF maintained the biggest proportion of contributions received.
The total withdrawals increased by 35 %.

Investment income increased by 19.1% compared to an increase of 9.6% in the previous quarter.

## Assets Held by Umbrella Schemes (Million)




Total assets held by umbrella schemes increased from 121 Billion to 125 Billion during the quarter.

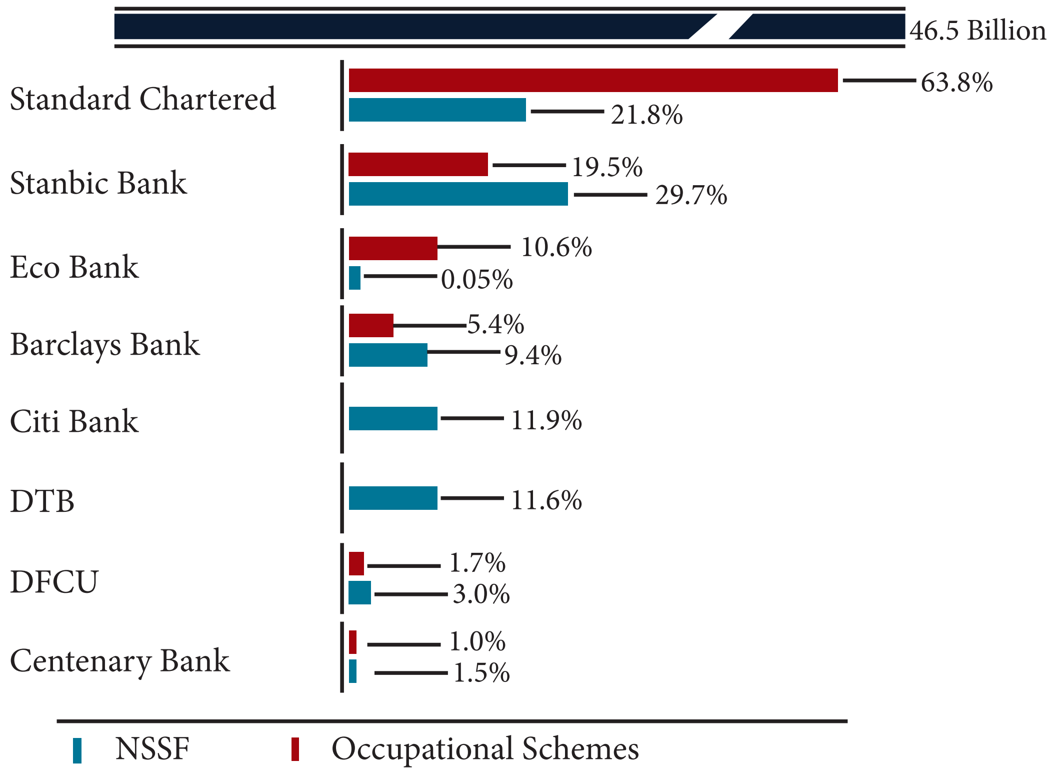
## Quarterly Sector Growth (%)

| | June - 18 | Sept -18 | Dec - 18 | Mar -18 | QAGR |
|---|---|---|---|---|---|
| Occupational | 12.7% | -0.4% | 1.9% | 12.3% | 6.6% |
| NSSF | 7.8% | 2.9% | 0.9% | 5.5% | 4.3% |
| Total Sector | 8.4% | 2.4% | 1.0% | 6.5% | 4.6% |

## Performance

| | Quoted Equities | | | | Fixed Income | | | | Money Market | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3 Months | 6 Months | 1 Year | 3 Year | 3 Months | 6 Months | 1 Year | 3 Year | 3 Months | 6 Months | 1 Year | 3 Year |
| 25' Percentile | 3.17 | -1.73 | -11.6 | 0.00 | 3.84 | 6.73 | 4.98 | 0.00 | 2.36 | 0.00 | 0.00 | 0.00 |
| Median | 6.95 | -0.04 | -8.83 | 0.00 | 4.44 | 8.75 | 10.8 | 0.00 | 2.62 | 5.03 | 9.69 | 0.00 |
| 75' Percentile | 9.48 | 0.77 | -2.26 | 2.6 | 5.96 | 10.65 | 15.73 | 15.22 | 2.80 | 5.34 | 10.40 | 13.28 |
| Range | 28.9 | 21.86 | 28.91 | 19.15 | 16.25 | 16.05 | 18.66 | 18.29 | 13.00 | 12.50 | 13.20 | 15.50 |
| Average | 6.38 | -0.35 | -7.76 | 1.78 | 5.49 | 8.14 | 9.81 | 7.03 | 3.36 | 4.33 | 7.13 | 5.46 |
| W.A.P | 2.14 | 0.05 | -2.26 | 0.54 | 0.72 | 1.18 | 1.46 | 1.07 | 1.66 | 2.86 | 5.28 | 3.43 |

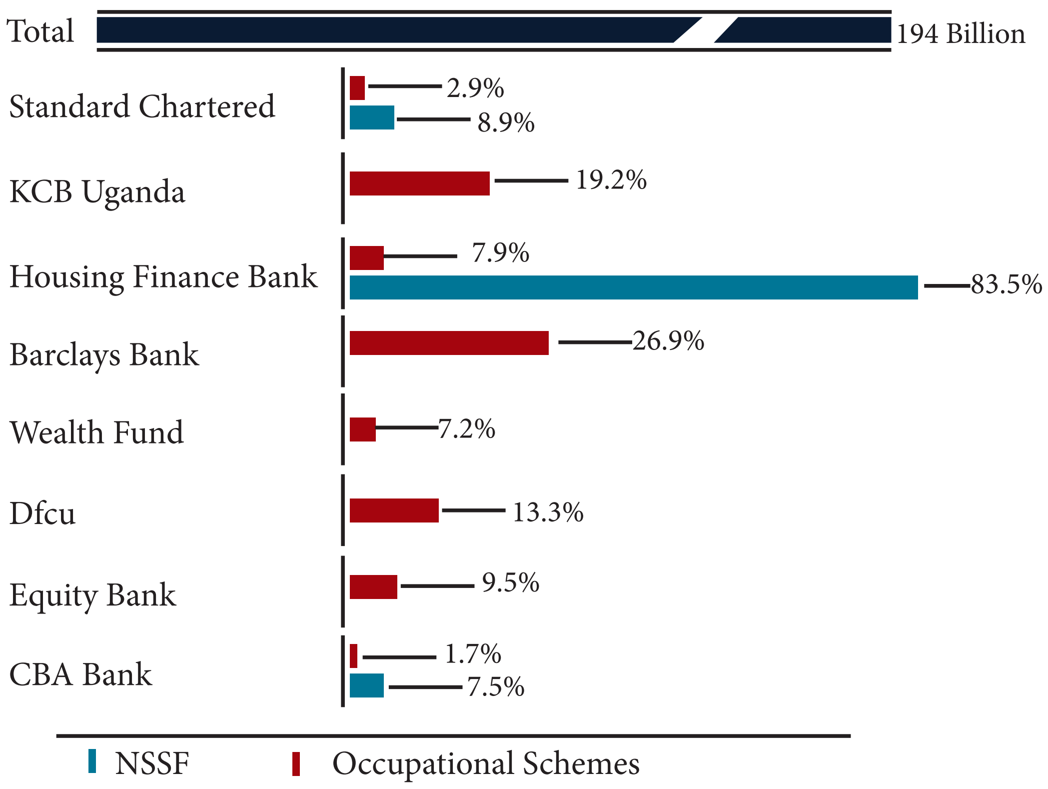
**Cash and Demand (Percentage)**
Total Value: Ugx 46.5 Billion




The total sector portfolio exposure to cash and cash equivalent continued to be majorly portioned to Standard chartered Bank and Stanbic Bank.

There was a signifcant increase portioned to Citi Bank and Diamond trust Bank by NSSF.

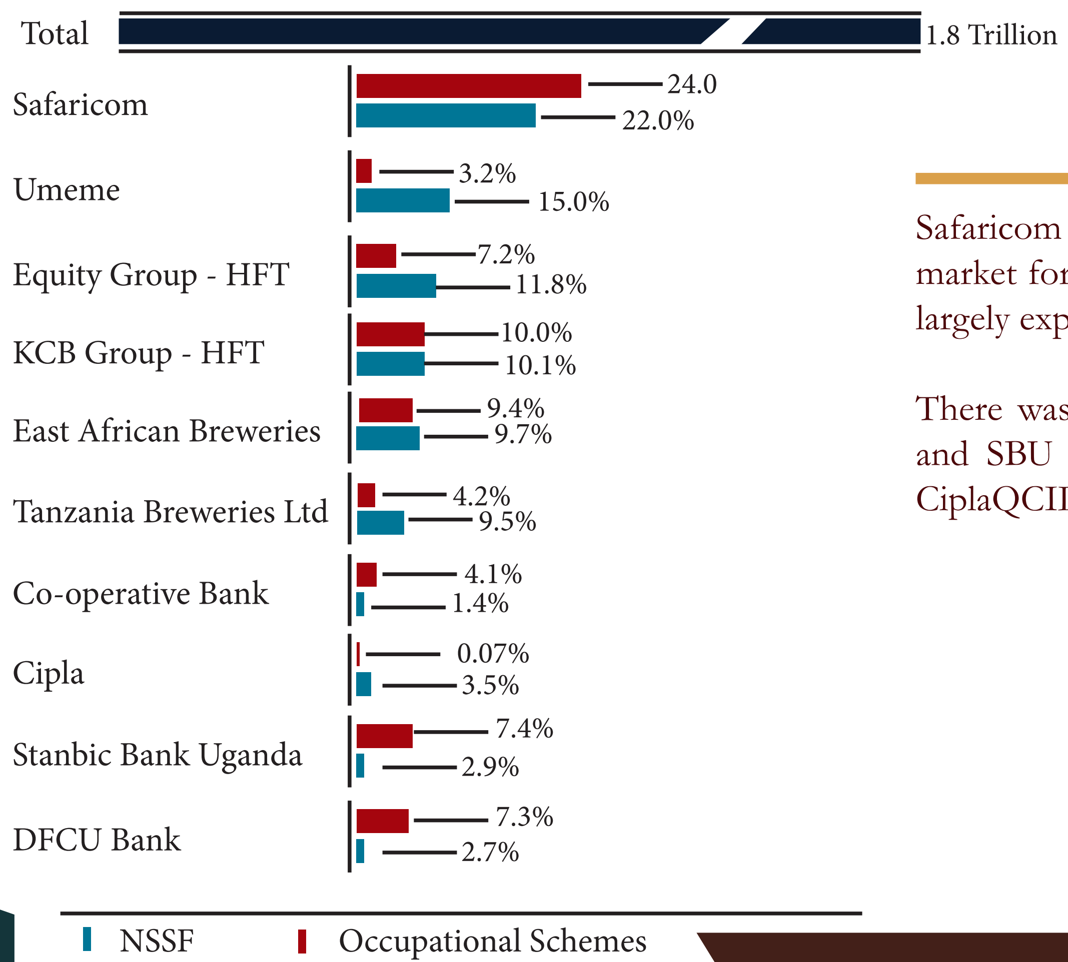
**Fixed Deposit (Percentage)**
Total Value: Ugx 194 Billion




NSSF's exposure to HFB fixed deposits positively increased to 83.5% up from 36.3% the previous quarter.

Barclays Bank now holds 26.9% of Occupational Scheme funds up from 3.65% the previous quarter.

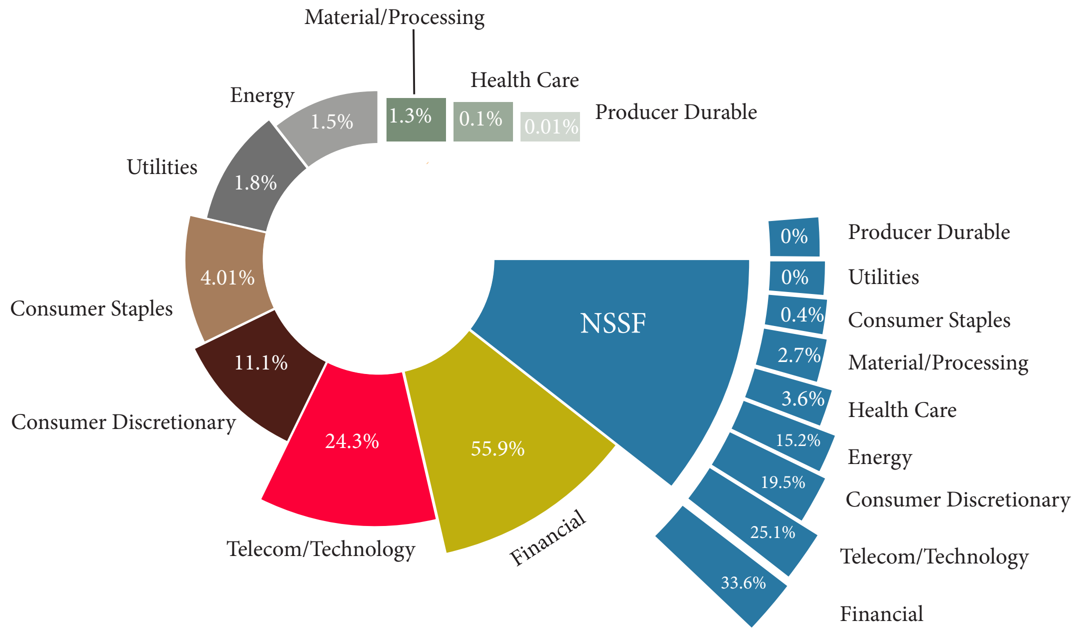
**Quoted Equities (Percentage)**



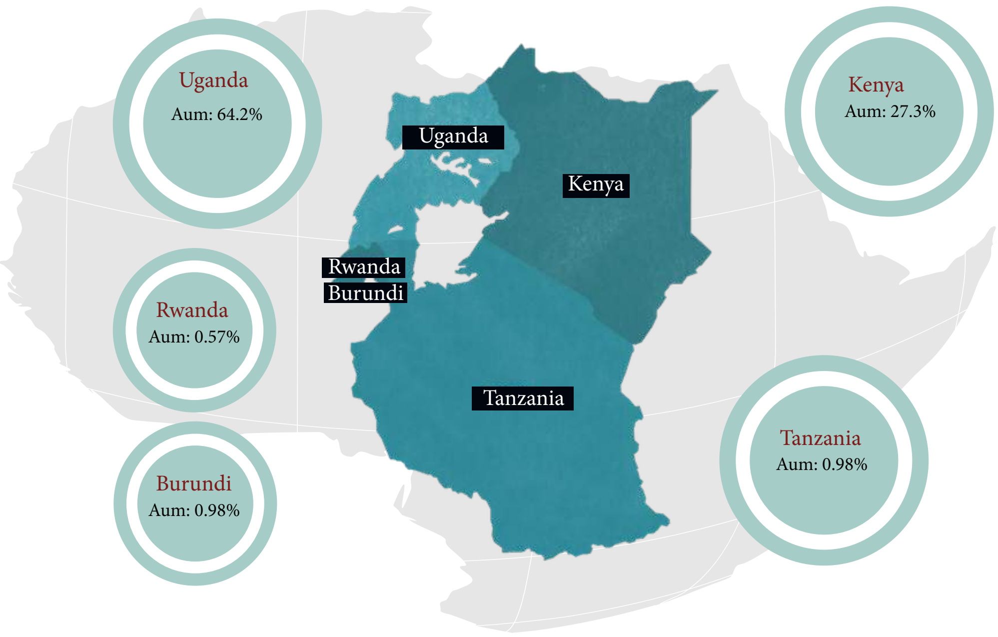

Safaricom Ltd – HFT remains a top attractive investment in the stock market for schemes. For the local listed securities, the Pension Sector is largely exposed to Stanbic Bank Uganda, DFCU and UMEME Ltd

There was a general decline in the USE LSI with DFCU, UMEME, and SBU prices dipping by 18.59%, 6.88% and 3.23% respectively. CiplaQCIL profit after tax fell by 84.8% to $ 1.79 million

## Distribution of Quoted Equities by Sector




## Regional Distribution of Pension Funds (East Africa) Sector: UGX 12.5 Trillion

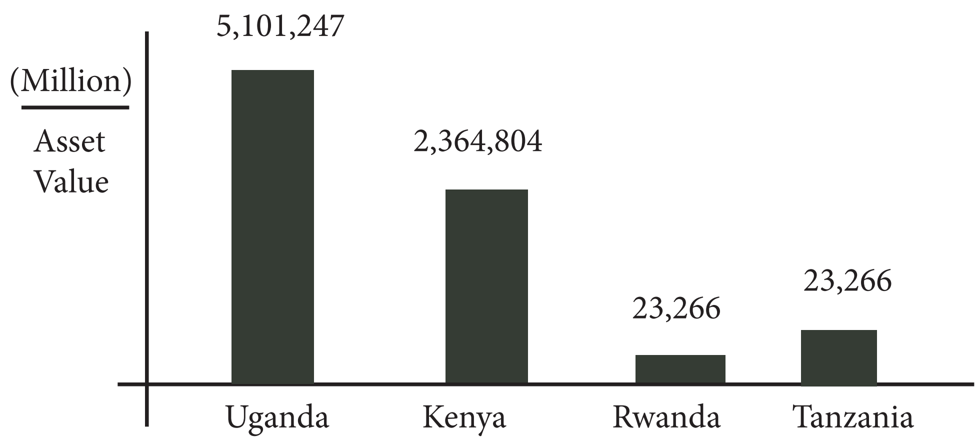



The Authority requires all the scheme fund managers to report and classify quoted equities using the guiding principle of the Russel Global Sector Classification (RGS) defined under a Three tier system with 9 Sectors.

Financial sector and Technology sector continue to dominate with quarter ending march highligting a positive change of 15.8% and 2.4% respectively from the previous quarter.

The pension fund proportion in Burundi is attributed to unquoted shares in PTA Bank held by NSSF. Other investments within the region constitute majorly quoted equities.

## Regional Distribution of Government Securities by NSSF




NSSF exposure to Government securities in Kenya represent investment in Infrustructural Bonds, with an allocation of 36.6% of aggregate holding in Government securities.

URBRA Investment of Scheme Funds Regulations prescribe the maximum percentages for investment of scheme funds.

| Asset Class | Maximum percentage (Aggregate Market Value) |
|---|---|
| Cash and demand deposits | 5% |
| Fixed deposits, time deposits and certificates | 30% |
| Commercial paper, corporate bonds, mortgage bonds and asset backed securities and collective investment schemes | 30% |
| Government securities | 80% |
| Quoted Equities | 70% |
| Immovable property in Uganda, real estate investment trusts and property unit trust | 30% |
| Private Equity | 15% |
| Other Approved assets | 5% |

Source: URBRA Investment for scheme funds regulations 2014


The Authority undertook a Trustee training on "Capital Markets and Investment opportunities for Pension funds". This is part of sector development and capacity building of Trustees intended to equip them with the requisite skills to handle their fiduciay responsibilities.

## SECTOR OUTLOOK

| | |
|---|---|
| Fixed Income | Retirement benefits schemes asset allocation continue to depict a heavy bias towards fixed income securities with government securities accounting for 75%. Yields during the quarter trended downwards and we expect this trend to continue in the coming quarter<br>Fund managers therefore are expected to be selective in offers that have potential for better yields especially in the short term.<br>The upcoming election, direction of currency and inflation remain a key risk |
| Quoted Equities | Investments in quoted securities remain the second largest accounting for 14% of the total sector investment. This is 1% decline from the last quarter.<br><br>With 70% of Quoted equities allocated in Kenya, we expect the performance of equities to mirror that of the kenyan market. |
| Alternative Investment | The volatility in traditional investments (Fixed Income and Quoted Equity) further emphasizes the need to diversify through real estate and private equity. We continue to see a slow uptake of private equity same as the previous quarter; NSSF and Voluntary schemes managed by Sanlam Investments East African Limited account for those invested 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