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URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

The Perspective

INSIGHTS INTO RBS INVESTMENTS

Inside...

OPERATIONAL COSTS
Eroding Accrued Wealth for Retirement and Why Schemes Should Pursue Cost Efficiency

SECURITIES LENDING
Can it add value to the scheme's investment portfolio?

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Issue 01 | October 2020

RETIREMENT BENEFITS SECTOR INVESTMENTS

- Sector Outlook & Developments
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Content

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In equipping Trustees to effectively monitor schemes' investments, URBRA issued The URBRA (Investment of Scheme Funds Regulations) 2014 that provide for the allowable investment limits for schemes. URBRA also approves all Investment Policy Statements (IPS), and conducts regular trainings of Trustees and stakeholders on all aspects of scheme management including investments

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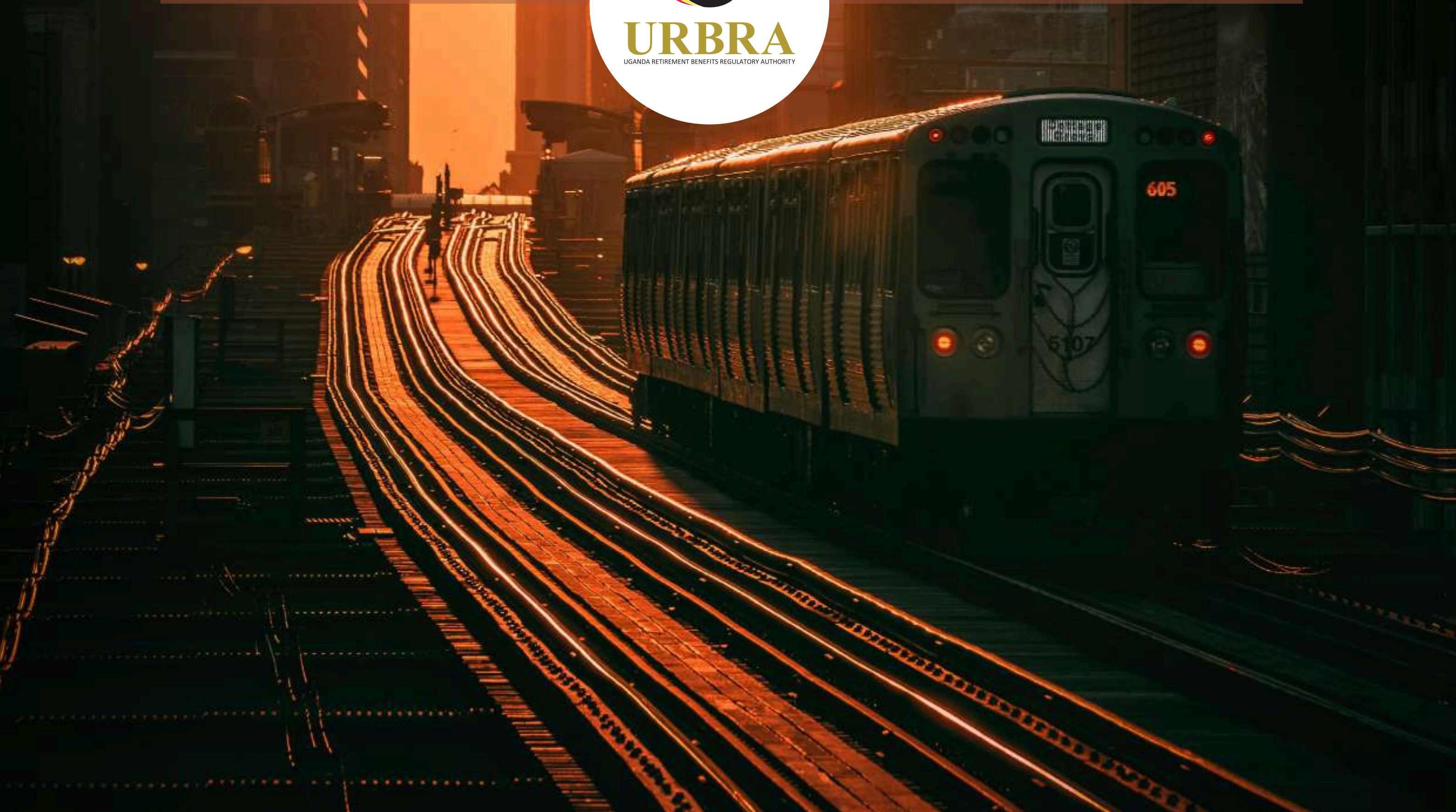


Foreword

Welcome to the 'The Perspective'

It is an absolute pleasure to welcome you to the first edition of our Magazine;- 'The Perspective' ;- Retirement Benefits Sector Investments. This magazine, which will be published annually, brings you an insight into the sector's investments performance, asset allocation, risk profile, growth of the different asset classes as well as the historical return against inflation with a 3 year trend.

This 1st edition also includes articles on topical areas of interest contributed by key sector practioners, representatives from the World Bank group and the EAC region, in addition to a summary on all the licensed Fund Managers including; their key investment staff, investment philosophies and Assets Under Management.

The sector's total Assets Under Management currently stands at 15.2 trillion covering 64 licensed schemes from 7.2 trillion with 43 schemes in June 2017, representing a growth of more than 100% over the three year period. To sustain and further grow the sector, URBRA in conjunction with Capital Markets Authority (CMA) made significant progress to enhance Schemes'reporting parameters by introducing an online reporting platform to ensure consistent reporting, timeliness, comparability and depth of information reported by Fund Managers.

To ensure pro-active surveillance and assessment of schemes' investment and financial performance, URBRA commenced the publication of the Quarterly Investment Snapshot in 2018. The Snapshot presents the economic market sentiment with a forecasted outlook, growth, distribution and performance of the different asset classes, as well as, general investment trends within the sector. Published quarterly, the snapshot has become the accepted industry benchmark and guide for Trustees in schemes' investment management and monitoring.

Effective monitoring and assessment of performance of schemes' assets by URBRA helps ensure Trustees undertake their fiduciary duties and responsibilities prudently. The Authority draws from submitted statutory returns and other supervisory approaches to ensure that the Trustees are acting in the best interest of members. Resultantly, we have noted a shift over the years, with Trustees focusing on longer term performance and appreciating the role of diversification on their overall scheme's performance.

Going forward, we will deliver greater comparability of the sector's investment performance as we introduce new data parameters and standardize the valuation methodologies for the different asset classes applied by Fund Managers in the sector. For this reporting period, we have begun making public our view on trend of scheme performance over a three-year period as we build into a decade in the subsequent publication.

We hope you will find the inaugural edition of 'The Perspective' useful and look forward to your feedback and comments.

Martin Anthony Nsubuga
Chief Executive Officer - URBRA

"We have noted a shift over the years, with Trustees focusing on longer term performance and appreciating the role of diversification on their overall scheme's performance.

Market Commentary and Outlook

Global Economy

In the January 2020, the IMF World Economic Outlook (WEO) projected global growth for 2019 and 2020 at 2.9 percent and 3.3 percent, respectively. Global growth for 2021 was projected to edge up to 3.4 due to the end of slowdown in the global economy that started in 2018.

Following the outbreak of the COVID-9 Pandemic and the resultant consequence on global economic activities, the global growth was anticipated to slow down to 1.5 Percent from the previous projection of 3 percent according to the Organization for Cooperation and Development (OECD).

The International Monetary Fund (IMF) World Economic Outlook (WEO) for April 2020 projected that the global economy will contract by 3 percent in 2020. In particular, developed countries were projected to contract by 6.1 percent compared to 1.9 percent by developing economies.

The global economy was however projected to recover in 2021, growing by 5.8 percent provided that the containment measures are eased in H2-2020 and market confidence restored through policy support measures implemented to limit household and business financial distress.

Uganda's Economy

Economic growth at the beginning of the Financial Year (FY) 2019/20 was projected at 6 - 6.3 percent, supported by an accommodative monetary policy stance that had resulted in stronger growth in private sector credit, expansionary fiscal policy and ensuing strong domestic demand conditions and improved agricultural performance.

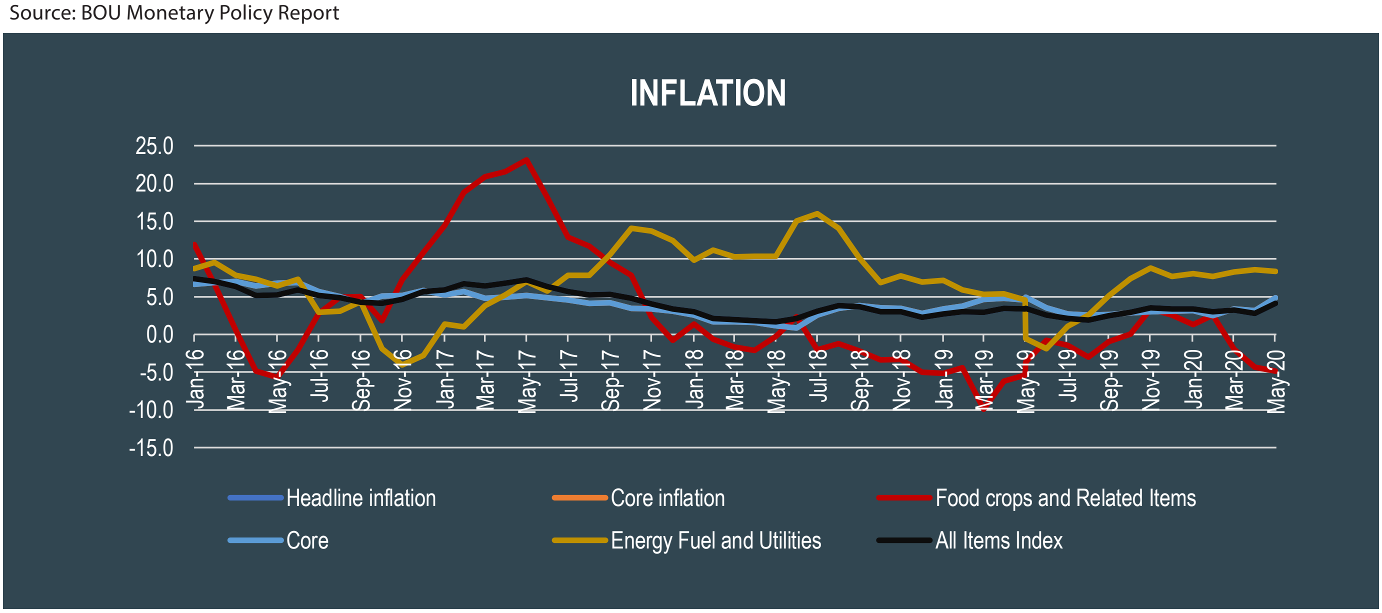
Following the Outbreak of the COVID-19 pandemic in the second half of the financial year, global economic activity experienced unprecedented contraction due to global supply chain disruptions, travel restrictions and the sudden decline in demand. Consequently, the Ugandan economy slowed down to 3.1% in the Financial year 2019/20 down from the projected 6.3%.

While the economic slowdown is anticipated to be severe in the second quarter of 2020, a gradual recovery is expected to set in during the third and fourth quarters. Accordingly BOU projects the economy to expand by 4% - 5% in the FY 2020/21. The Downside risks to the growth outlook remain increased until the pandemic is contained globally.

Inflation

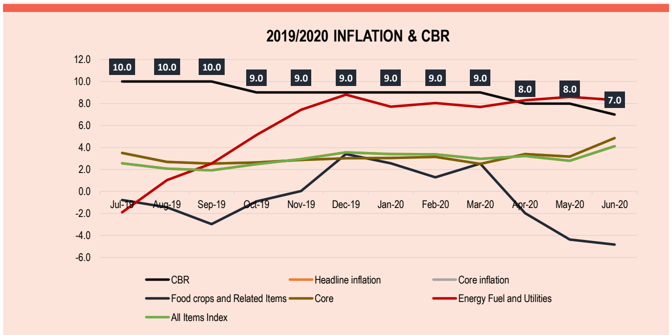
The annual headline inflation rose to 4.1% in June of 2020 compared to 3.4% in June 2019 after hitting a seven-month low of 2.8% in the previous month. This was driven largely by hiked transport fares following the ease of some of the lockdown measures. The economic slowdown and a gradual recovery is anticipated to keep inflation below the medium-term target of 5 percent in the near term (12 months ahead). Moreover, external sources of inflation are likely to remain weak in the near term amid the global economic downturn.

Source: BOU Monetary Policy Report



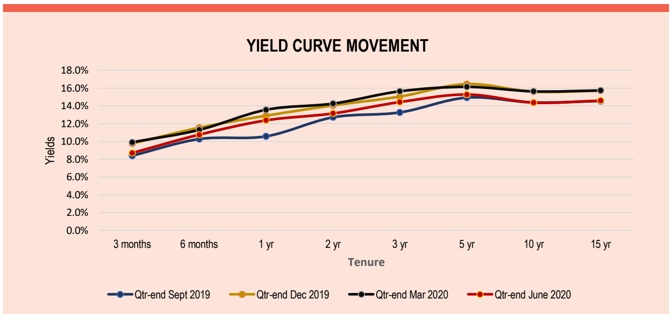
Central Bank Rate

The Bank of Uganda cut its benchmark interest rate by 100bps to 7% in June 2020, aiming to curb the coronavirus-induced deterioration in macroeconomic conditions and in order to ensure adequate access to credit and the normal functioning of financial markets; This follows a similar cut in April 2020 and October 2019 bringing down the cost of borrowing to its lowest since at least 2011.



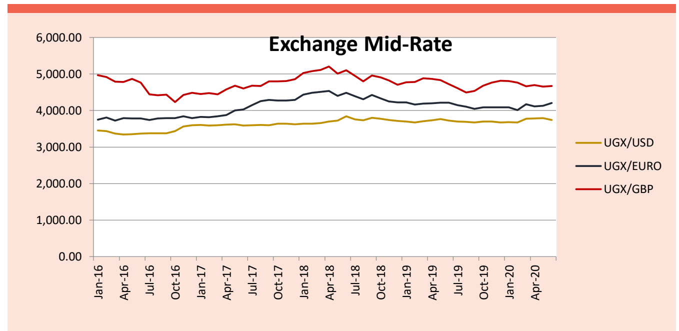
Financial Market -Fixed Income

On QoQ basis, there was a general decline in yields across all the tenors, the biggest being that of the 91D paper that lost 120.4 basis points (-12.04%)



Exchange Rate

The Uganda Shilling appreciated by 1.4% against the US Dollar, to an average midrate of 3,737.94 per US dollar. The KES-UGX cross closed at 35.02 in June 2020 compared to 36.10 in June 2019. It however depreciated against the Euro by 1.8% and the pound sterling by 0.4%.



Financial Market -Quoted Equities

YoY	USE ASI	USE LSI	NSE ASI	DARS ASI	RSE-ASI
Quarter End June 2019	1,614.82	375.97	149.61	1,892.27	136.15
Quarter End June 2020	1,369.84	339.17	137.68	1,830.13	150.19
Change (%)	-15.2%	-9.8%	-8.0%	-3.3%	10.3%

QoQ	USE ASI	USE LSI	NSE ASI	DARS ASI	RSE-ASI
Quarter End March 2020	1,305.34	342.21	131.92	1,747.70	150.19
Quarter End June 2020	1,369.84	339.17	137.68	1,830.13	150.19
Change (%)	4.9%	-0.9%	4.4%	4.7%	0.0%

The USE, NSE and DARS All Share indices rose by 4.9%, 4.4% and 4.7% respectively. The exceptions were the DSE that slightly reduced by 0.9% and the sector's least volatile market (RSE) which had a constant index (150.19) throughout the last two months of the Quarter.

INVESTMENT SNAPSHOT

This snapshot is compiled to provide consolidated statistics and analysis relating to Schemes' Investments under management. The purpose of this snapshot is to provide industry statistics as well as the industry trends, performance and other developments. The report is based on the Quarterly Investment Returns for Quarter ended June 2020 provided by all Licensed Retirement Benefits Schemes and the supervisory & enforcement work conducted by URBRA.

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

Asset Allocation and Distribution (FY 2019/20)

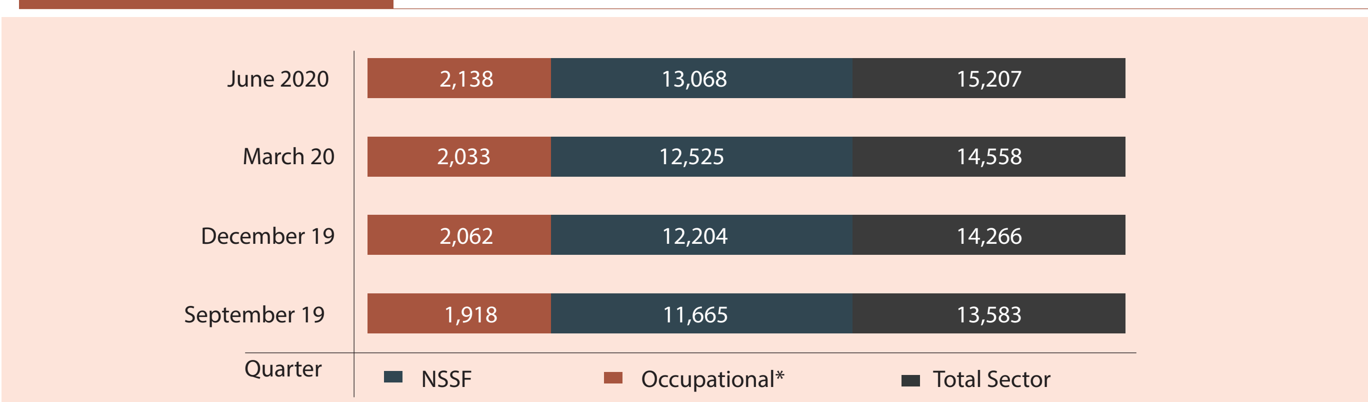
Total Sector Portfolio - June 2020

	Quarter Ending -June 19		Quarter Ending - June 20		
Asset Class	Amount (UGX Million)	Proportion (%)	Amount (UGX Million)	Proportion (%)	Y.o.Y %age change
Cash and Demand	58,460	0.4	58,641	0.4	0.3%
Fixed Deposit	246,344	1.9	330,185	2.2	34.0%
Other Fixed Income	105,071	0.8	97,734	0.6	-7.0%
Government Securities	9,705,014	74.6	11,538,847	75.9	18.9%
Quoted Equities	1,756,119	13.5	1,877,743	12.3	7.0%
Unquoted Equities	339,116	2.6	362,522	2.4	6.9%
Immovable Property	788,405	6.0	929,215	6.1	17.7%
Other Investment*	16,706	0.1	11,884	0.1	-28.9%
TOTAL	13,015,236	100	15,206,771	100.0	16.84%

Other investments* is comprised of guaranteed funds and other approved investment vehicles.

	NSSF		Parliamentary Pension Scheme		Occupational Schemes	
Asset Class	Amount (Million)	Proportion (%)	Amount (Million)	Proportion (%)	Amount (Million	Proportion (%
Cash and Demand	45,992	0.4%	1,234	0.4%	11,415	0.6%
Fixed Deposit	203,010	1.6%	4,499	1.5%	122,676	6.7%
Other Fixed Income	73,862	0.6%	6,924	2.3%	16,948	0.9%
Government Securities	9,964,418	76.2%	228,230	75.3%	1,346,200	73.4%
Quoted Equities	1,515,487	11.6%	50,262	16.6%	311,994	17.0%
Unquoted Equities	361,889	2.8%	-	-	633	0.0%
Immovable Property	903,773	6.9%	142	0.05%	25,299	1.4%
Other Investment	-	-	11,746	3.9%	139	0.0%
TOTAL	13,068,431	100%	303,036	100%	1,835,304	100%

Asset Trend (UGX Billion)



*Occupational Scheme portfolio includes the Parliamentary Pension Scheme.

Total Sector Portfolio - June 2020 (Million)

Umbrella Schemes	June-19	June-20	Growth (%)
Liaison Umbrella Fund	10,977	13,061	19%
Jubilee Life Umbrella Retirement Scheme	11,307	17,943	59%
Umoja Umbrella Retirement Benefits Scheme	62	1,057	1599%
Zamara Retirement Fund	28,616	38,155	33%
Octagon Uganda Umbrella Retirement Benefits Scheme	200	7,862	3840%
ICEA (U) Limited Retirement Benefits Scheme	35,516	45,351	28%
Stanlib Uganda Umbrella Pension Scheme	20,753	19,362	-7%
UAP Umbrella Retirement Benefits Scheme	20,893	25,010	20%
Sara Umbrella Retirement Benefits Scheme	1,459	2,141	47%
Enwealth Uganda Umbrella Retirement Scheme	-	58	-
Britam Umbrella Scheme	-	2,886	-
Total	129,784	172,887	33%

During the year, Umbrella Schemes grew by 33% with significant growth noted by Octagon umbrella retirement benefits scheme and Britam umbrella retirement benefits scheme due to increased contributions and transfer(s) majorly in Q4 ended June 2020.

Scheme Risk Profile

Risk Profile	Fixed Income Allocation	Scheme Proportion	AUM (Million)
Conservative	Over 70%	48.5%	14,302,897
Moderate	50% - 70%	41.2%	754,636
Aggressive	Less than 50%	10.3%	149,237
Total			15,206,771

The Conservative is composed of schemes with allocation of over 80% in fixed income; moderte 60% - 80% while Aggressive less than 60%

Fund Managers' Holdings as at June 2020 (Millions)

Fund Managers	Cash and Demand	Fixed Deposits	Other Fixed Income	Government Securities	Quoted Equities	Unquoted Equities	Immovable Property	Other Investments	AUM
Britam	1,921	20,992	17,956	244,949	32,996	34	142		318,990
GenAfrica	1,484	12,594	106	505,969	133,105		11,773		665,032
ICEA	1,752	7,142		61,321	4,008				74,223
Sanlam	4,275	65,259	1,283	658,065	184,845	599	13,526	139	927,992
Xeno			23	9					31
UAP	3,217	21,188	4,504	10,4116	7,301				140,327
Other								11,746	11,746
Total	12,649	12,7175	23,872	1,574,429	362,256	633	25,441	11,884	2,138,340

Tier Distribution of Occupational Scheme Assets

	Below 20 Billion	20 - 50 Billion	50-80 Billion	Above 80 Billion	Totals
SANLAM	107,517,353,910	259,904,282,180	124,714,208,297	435,855,979,637	927,991,824,024
UAP	31,959,209,717	46,720,544,029	61,646,900,167	-	140,326,653,913
Xeno	31,442,942				31,442,942
ICEA	28,871,603,266	45,351,474,339	-	-	74,223,077,605
GEN AFRICA	128,280,969,109	-	-	536,750,733,512	665,031,702,621
BRITAM	49,327,627,581	68,303,553,677	63,364,752,531	137,993,918,961	318,989,852,750
Other	11,745,675,302				11,745,675,302
Total	357,733,881,827	420,279,854,225	249,725,860,995	1,110,600,632,110	2,138,340,229,157

Growth, Income and Benefits Paid FY- 2019/20

Growth in Total Sector Portfolio

	Sept -19	Dec -19	Mar -20	June-20
Occupational	4.07%	8.45%	-2.31%	5.24%
NSSF	4.42%	4.61%	2.63%	4.34%
Total Sector	4.37%	5.16%	1.91%	4.46%

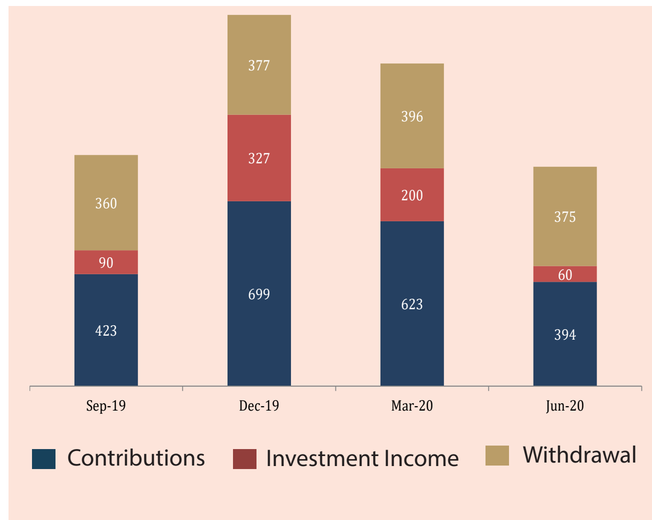
Total AUM grew by 4.5% in Q4 compared to 1.9% in Q3, 5.2% in Q2 and 4.4% in Q1. Occupational schemes grew by 5.2% in the reported quarter compared to a 4.32% growth by NSSF in the same period. However, overall, total sector AUM grew by 16.8% in the FY 19/20. In the past three years, schemes's assets have grown at an average of 20%.

Following the reduction in AUM in the quarter-end March 2020 attributable to the decline in the value of the equity portfolio due to the pandemic, there was a gradual recovery in the market during this reporting quarter- end June 2020. Total value of the equity portfolio of occupational schemes reduced by 2% compared a reduction of 15.5% in the previous quarter while the equity portfolio of NSSF increased by 9% compared to reduction of 6% in the previous quarter.

The growth in AUM over the year was also supported by quaterly growth in the portfolio of Umbrella schemes at an average of 8.7% due to increased contributions from new schemes.

Contribution, Income and Withdrawal (UGX Billion)

	June-19	June-20	Growth(%)
Contribution	417,244	393,739	-5.6%
Investment Income	352,980	374,830	6.2%
Withdrawal	111,942	60,184	-46.2%



Scheme contributions and Investment income declined by 37% and 11.7% respectively while withdrawals increased by 16.6% on QoQ basis.

Performance FY- 2019/20

Quarter End June 20 Perfromance (%)

	Quoted Equities				Fixed Income				Money Market			
	3 Mon	6 Mon	1 Year	3 Year	3 Mon	6 Mon	1 Year	3 Year	3 Mon	6 Mon	1 Year	3 Year
25' Percentile	-17.50	-7.59	-10.43	0.00	1.97	4.25	13.80	14.52	2.58	5.21	10.49	0.00
Median	-14.32	-6.26	-8.44	2.96	3.34	5.71	14.29	15.76	2.70	5.40	10.95	10.35
75' Percentile	-10.10	-3.67	-6.68	4.57	3.52	6.45	15.23	15.98	2.85	5.58	11.33	11.59
Range	22.26	19.39	19.67	16.77	3.64	5.69	6.57	18.11	1.87	11.78	13.43	13.71
Average	-13.83	-5.94	-7.94	1.89	2.90	5.43	14.44	14.02	2.70	5.37	9.73	7.16
W.A.P	-6.93	2.11	-0.05	4.94	0.34	0.54	1.58	1.18	3.09	5.51	10.71	7.16

Market Performance

Quoted Equities	NSSF (%)	Occupa-tional (%)	Market Value (30th June 19)	Market Value (31th Mar 20)	Market Value (3oth June 20)	Capital Gain/Loss (%)	Dividend per Share	Dividend Yield (%)	Net Return (%)
Safaricom (K) Ltd	21.6%	25.6%	28.10	26.45	28.65	8.32%	1.40	5.3%	13.6%
Tanzanian Breweries	15.4%	5.5%	11,400.00	10,900.00	10,900.00	0.00%	500.00	4.6%	4.6%
UMEME	15.3%	3.2%	300.00	245.00	245.00	0.00%	41.30	16.9%	16.9%
Equity Bank(Kenya)	9.6%	9.9%	38.95	33.95	34.70	2.21%	2.50	7.4%	9.6%
KCB Kenya	8.2%	10.1%	38.25	35.00	36.35	3.86%	2.50	7.1%	11.0%
EABL	6.8%	7.3%	199.75	149.50	162.50	8.70%	3.00	2.0%	10.7%
Stanbic Bank Ltd	3.4%	7.7%	29.00	24.00	24.00	0.00%	5.06	21.1%	21.1%
CRDB Bank Tanzania	3.1%	1.5%	110.00	140.00	145.00	3.57%	17.00	12.1%	15.7%
Bank of Kigali shares	3.1%	0.0%		260.00	260.00	0.00%	14.40	5.5%	5.5%
Vodacom Tanzania	2.7%		800.00	850.00	850.00	0.00%	12.26	1.4%	1.4%
DFCU Bank	2.5%	7.8%	670.00	645.00	645.00	0.00%	33.01	5.1%	5.1%
Twiga TPCC	2.4%		2,000.00	2,200.00	2,200.00	0.00%	290.00	13.2%	13.2%
CIPLAQC	1.9%	0.0%	160.00	102.00	100.00	-1.96%	0.00	0.0%	-2.0%
Co-operative Bank of Kenya Ltd (COOP)		4.0%	12.00	12.85	12.15	-5.45%	1.00	7.8%	2.3%
Barclays Bank Kenya		3.2%	10.45	10.10	10.00	-0.99%	0.90	8.9%	7.9%
Bank of Baroda Uganda - HFT	0.4%	2.7%	128.73	124.00	110.00	-11.29%	10.00	8.1%	-3.2%
CFC Stanbic Holdings Plc (SBIC)		2.7%	99.00	92.00	84.25	-8.42%	5.80	6.3%	-2.1%
Diamond Trust Bank Kenya Ltd (DTK)		2.1%	117.75	88.00	70.75	-19.60%	2.70	3.1%	-16.5%

The financial and capital markets experienced unprecedented volatilities since the global Pandemic, resulting into significant loss in value of assets. The key drivers in the expected decline in prices include rising NPLs, lower loan growth for banks, lower demand for consumer staples (beverages-EABL,TBL), dampened demand in discretionary sectors like hotels, airlines, insurance claims.

Over the FY 2019/2020 the equities market remained volatile with a plunge in the quarter-end March 2020. Occupational schemes declined by 14.5% compared to 6% by NSSF. During this period, the large decline in the Equities portfolio of occupational schemes was attributed to its huge allocation to the financial sector (about 57% compared 37.2% allocation by NSSF). The financial sector recorded the largest decline in market value (about 20%) compared to other sectors like utilities which recorded increases.

During the reported quarter (June 2020), the volatility in equities market bottomed out with a decline of 6% for Occupational Schemes and an increase of 9% for NSSF. However,we have noted a general recovery of stocks across all counters.

Quarter End June 20 Perfromance (%)

Tenors	Q1- (Sept-19)	Q2- (Dec-19)	Q3- (Mar-19)	Q4- (June-20)	% Change (QoQ)
91D	8.406%	9.778%	9.914%	8.710%	-12.14%
182D	10.273%	11.545%	11.304%	10.765%	-4.77%
364D	10.580%	12.898%	13.566%	12.376%	-8.77%
2Y	12.717%	14.058%	14.258%	13.150%	-7.77%
3Y	13.267%	15.050%	15.642%	14.433%	-7.73%
5Y	14.933%	16.458%	16.142%	15.283%	-5.32%
10Y	14.383%	15.600%	15.633%	14.375%	-8.05%
15Y	14.550%	15.717%	15.733%	14.592%	-7.25%

Yields on Government securities declined in April, May and June 2020, having risen substantially in Quarter end March 2020 as largely driven by market sentiments and panic as investors were pricing in a large risk premium due the Covid-19 outbreak and thus market sentiments that Interest rates would be expected to remain high or even pick up. At the short end, the yields on the 91-day and 364-day Treasury bills declined to 12.14 percent and 8.7 percent, respectively during the quarter.

As long-term investors, the risks to investmenting in the fixed income market is reinvestments of coupons at a lower rate in the declining interest rate enviroment during which Investors are expected to cherry pick securities depending on their individual prospects, go short end of the curve and/or look for competitive yields in the rest of the region.

Asset Class Concentration FY- 2019/20

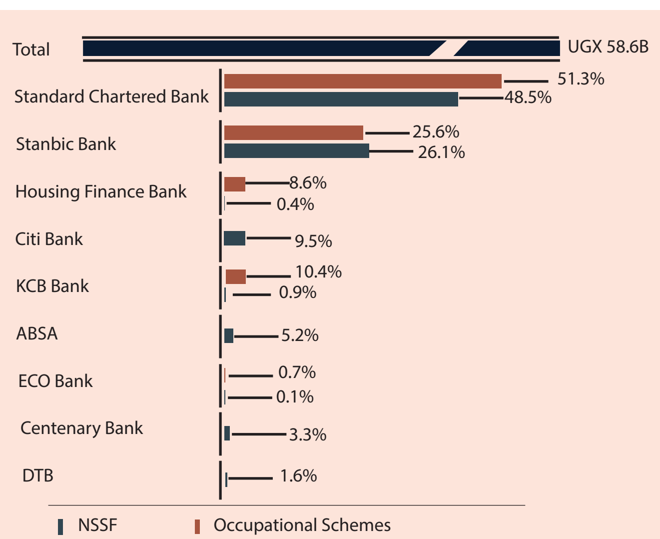
Quoted Equities - Distribution by Sector (%)

	Occupational	NSSF	Total Sector
Financial Sector	56.4	35.6	49.1
Consumer Staples	3.2	0.3	1.1
Consumer Discretionary	10.8	21.1	23.7
Utilities	2.1	0.0	0.5
Health Care	0.1	2.8	2.8
Material & Processing	0.4	2.2	2.3
Energy	1.3	13.4	13.8
Producer Durables	0.1	0.0	0.0
Technology and Telecom	25.6	24.5	30.6

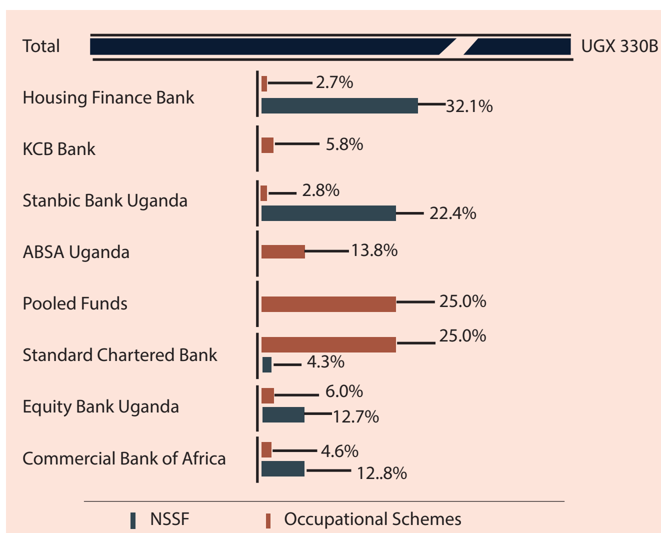
Occupational schemes continue to hold over 50% in the financial sector compared to a 35.6% allocation by NSSF.

YoY - On average there was a drop in prices across all sectors following the plunge in the market during Q3 due to covid-19 pandemic except the Technology and Telecom sector.

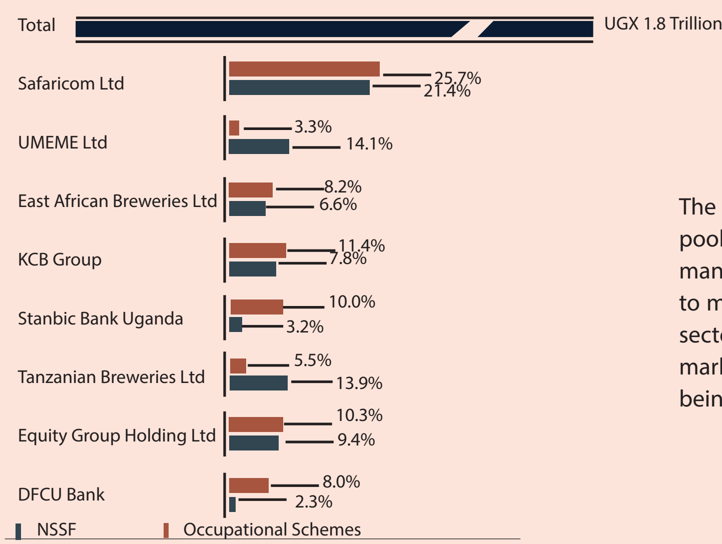
Cash & Demand (Percentage)
Sector Asset Value: 58.6 Billion



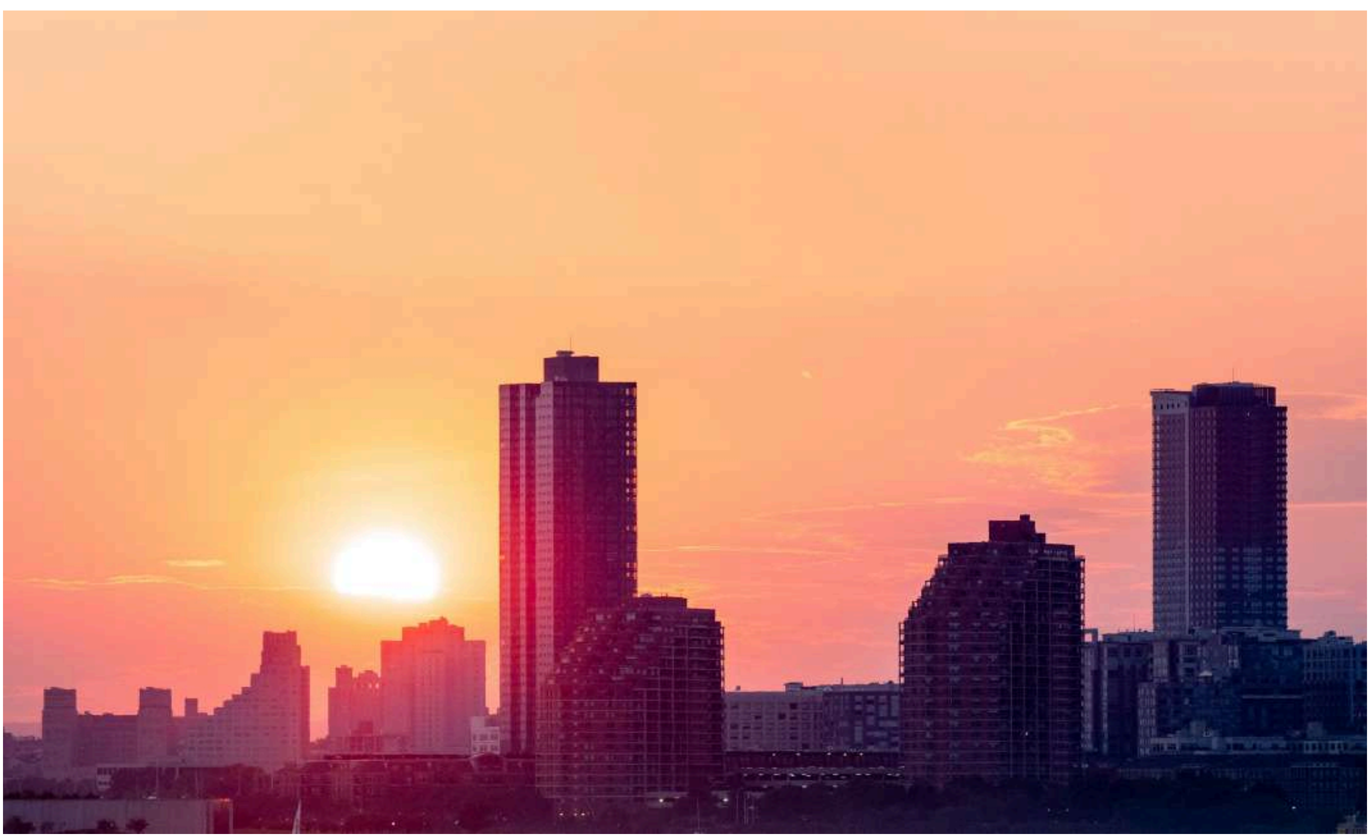
Fixed Deposit (Percentage)
Sector Asset Value: 330 Billion



Quoted Equities (Percentage). Sector Asset Value: 1.8 Trillion



The fixed income portfolio consists of 21.6% investment in pooled funds like CIS, Unit trusts and the Britam wealth management fund; the Quoted equities performance continue to mirror the performance of NSE given that 70% of the total sector investments in quoted equities is held in the Kenyan market compared to 22.6% held in Uganda with Safaricom being the dominant stock.

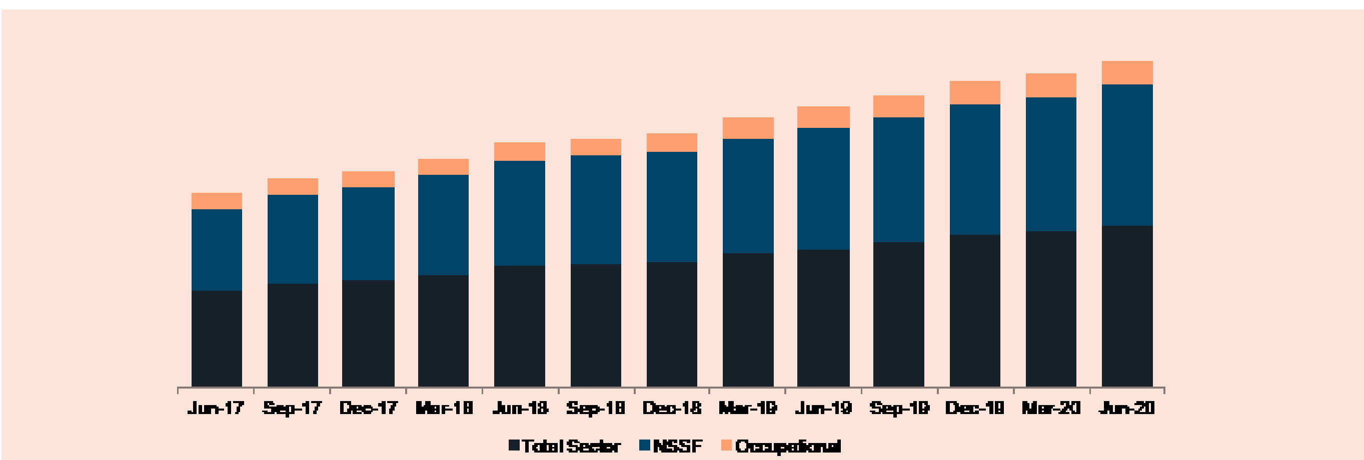


3-Year Historical Trend

Asset Allocation

	June-17	Sept-17	Dec-17	Mar-18	June-18	Sept-18	Dec-18	Mar-19	June-19	Sept-19	Dec-19	Mar-20	June-20
Asset Class	Amount (Million)												
Cash and Demand	68,160	14,280	135,142	25,850	35,598	47,001	23,362	46,497	58,460	70,853	46,389	67,682	58,641
Fixed Deposit	306,617	285,811	261,517	166,056	172,011	158,956	202,002	193,737	246,344	326,945	266,128	249,848	330,185
Other Fixed Income	102,359	128,271	124,300	124,800	121,699	122,094	114,846	116,858	105,071	105,718	94,297	102,443	97,734
Government Securities	6,512,078	6,965,213	7,150,292	7,673,644	8,274,540	8,531,741	8,813,356	9,387,175	9,705,014	10,175,089	10,688,455	11,037,460	11,538,847
Quoted Equities	1,224,011	1,432,295	1,528,143	1,776,577	1,963,148	1,681,814	1,650,324	1,813,704	1,756,119	1,710,380	1,921,017	1,768,399	1,877,743
Unquoted Equities	1,776	232,490	215,476	210,306	237,739	349,891	334,207	324,307	339,116	332,243	372,275	382,887	362,522
Immovable Property	528,807	530,304	531,243	547,661	610,701	669,563	675,490	675,478	788,405	845,154	877,626	935,707	929,215
Other Investment	687	626	1,357	158	1,468	12,424	210	13,208	16,706	17,256	17,803	12,895	11,884
TOTAL	8,744,494	9,589,290	9,947,468	10,525,210	11,416,905	11,573,483	11,813,796	12,579,645	13,015,236	13,583,638	14,283,989	14,557,321	15,206,771

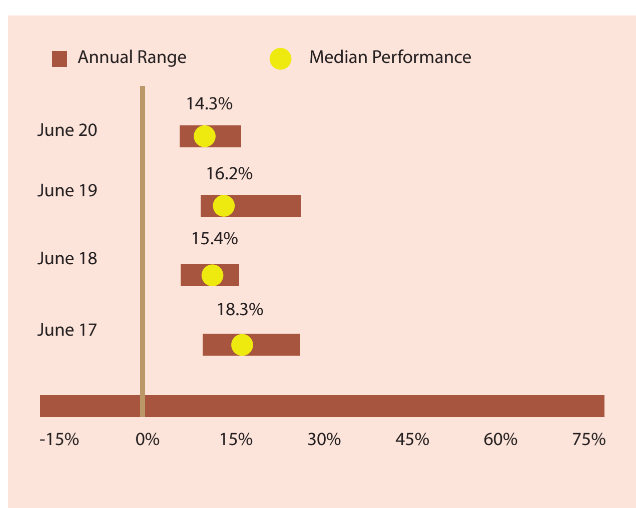
Asset Allocation Trend



Fixed Income

	June 20	June 19	June 18	June 17	3 - Year Annualised
25'Percentile	13.80	14.51	14.61	14.78	14.52
Median	14.28	16.22	15.37	18.28	15.76
75' Precentile	15.23	17.10	16.31	19.61	15.98
Range	6.57	10.45	8.27	10.28	18.11
Average	14.44	16.07	14.79	17.76	14.02
WAP	1.58	15.45	9.54	15.46	1.18

- The fixed income portfolio has continued to perform positively over the years.
- Over 50% of the schemes performed above the total sector median rate
- The annualised fixed income median return for the sector was 15.7% over the last 3 years



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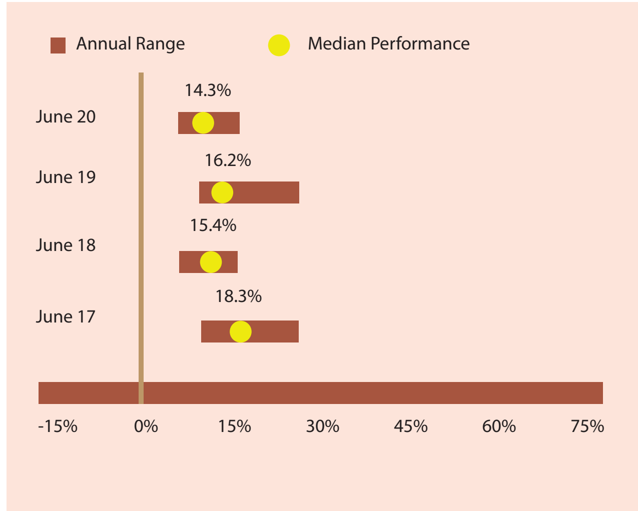
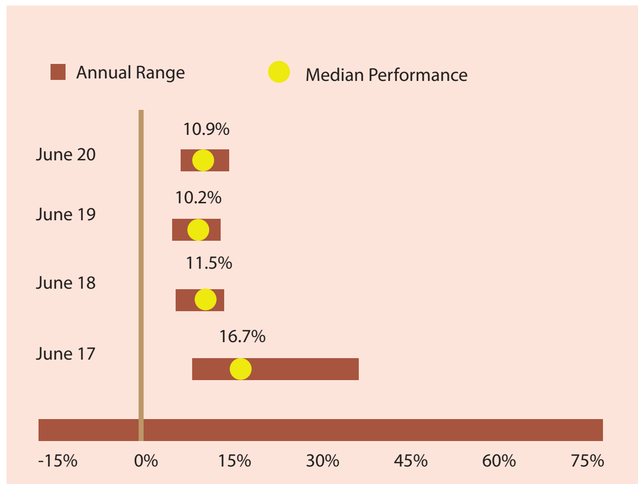
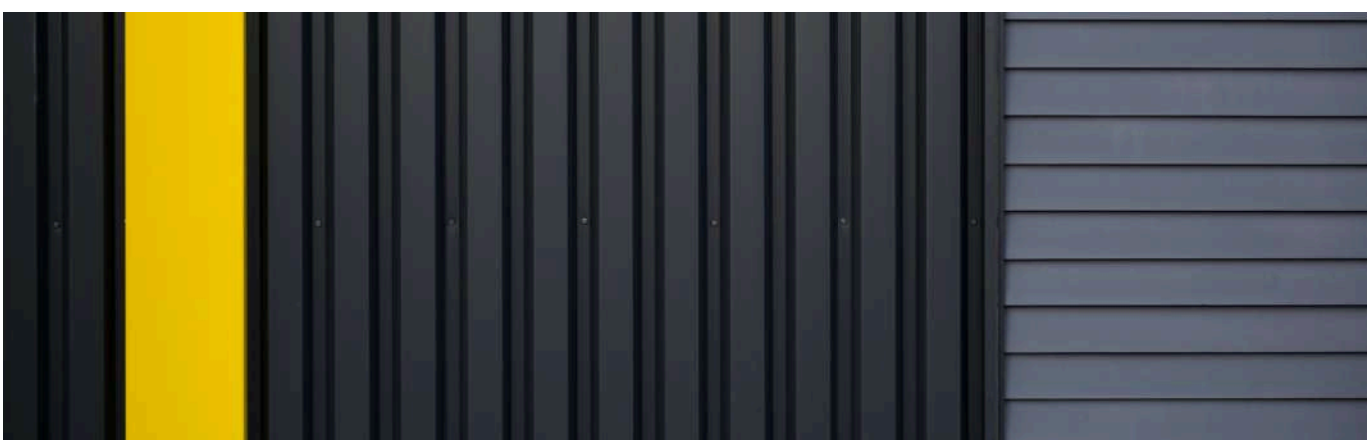


Money Markets

	June 20	June 19	June 18	June 17	3 - Year Annualised
25'Percentile	10.49	9.88	10.45	13.81	3.75
Median	10.95	10.23	11.48	16.69	3.91
75' Precentile	11.33	10.88	12.02	17.38	5.03
Range	13.43	6.36	4.83	28.26	6.54
Average	9.73	10.42	11.21	16.78	4.14
WAP	10.71	4.56	3.41	3.24	0.32

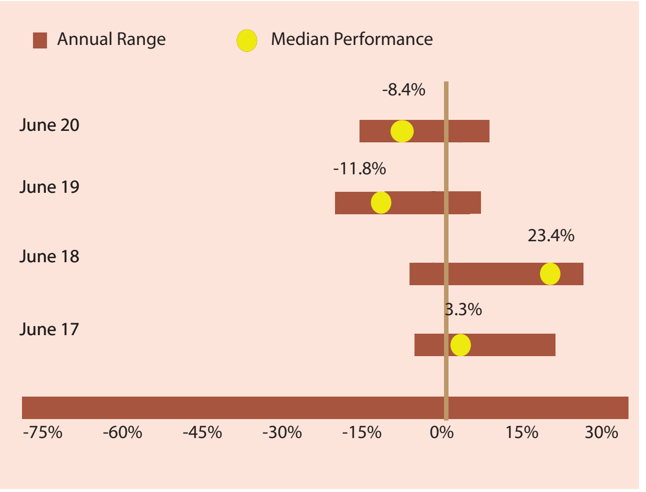
The median performance of money markets was positive throughout the years.





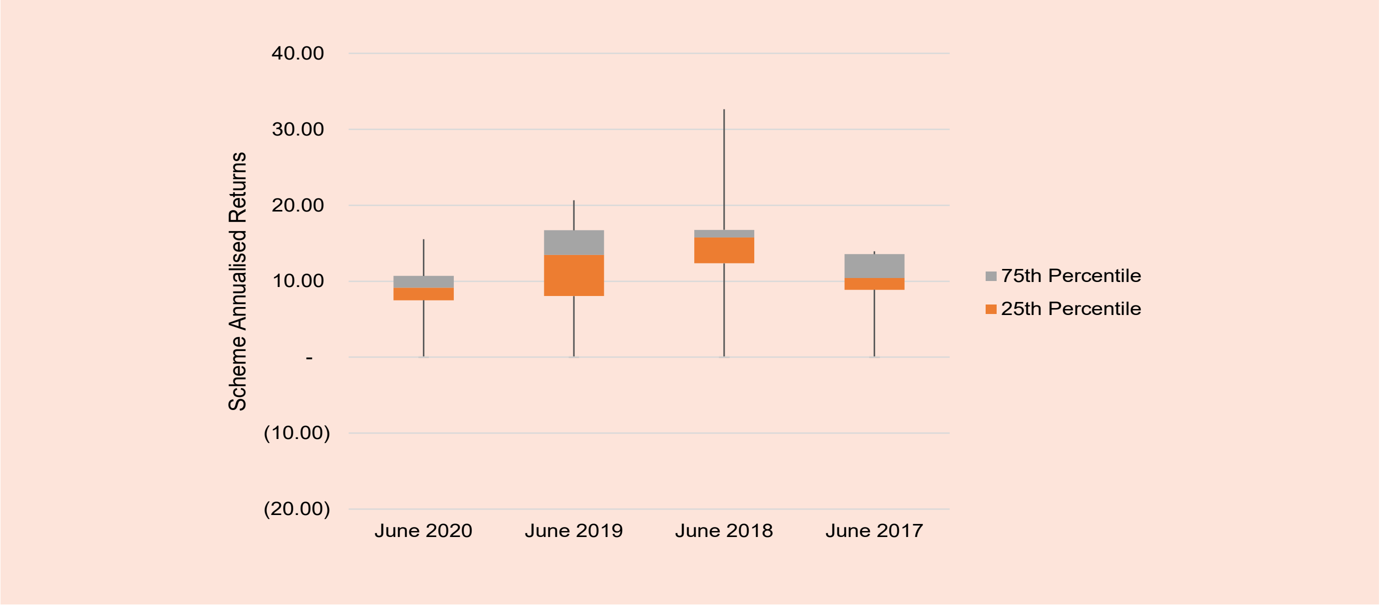
Historical performance of Quoted Equities

	June 20	June 19	June 18	June17	3 - Year Annualised
25'Percentile	-10.43	14.51	14.87	0.39	0.00
Median	-8.44	16.22	23.34	3.27	2.955
75' Precentile	-6.68	17.10	24.91	9.44	4.57
Range	19.67	10.45	36.56	27.90	16.77
Average	-7.94	16.07	20.62	4.90	1.89
WAP	-0.05	15.45	16.15	2.17	4.95



- The quoted equities market remained volatile over the years with a strong negative performance in 2019 and 2020.
- The 3-year annualised median return remained on a positive trajectory.

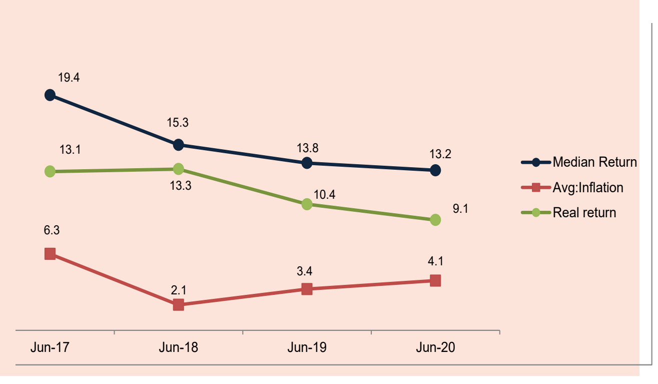
All Schemes' Performance



Overall Schemes' return Vs 10 year-Average inflation

Quarter	Median Return	Average Inflation *	Real Rate
June 2020	13.2	5.8	7.4
June 2019	13.8	6.2	7.6
June 2018	15.3	7.1	8.2
June 2017	19.4	7.7	11.7

Schemes outperformed inflation over the 3 years and attained over 5% real returns throughout the period.



The question isn’t at what age I want to retire, it’s at what income.

George Foreman

Investment of Scheme Funds

The URBRA (Investment of Scheme Funds) Regulations, 2014 amongst others, requires that every Retirement Benefits Scheme should have an Investment Policy Statement (IPS) signed by all the Trustees with a copy submitted to the Authority for approval.

The Regulations also require that all schemes assets be invested according to the prescribed limits and categories in Schedule two of the Regulations or any other investment approved by the Authority.

The Regulations also state that advice from an independent Financial Advisor must be sought in the development of the IPS and the IPS is reviewed atleast once every three years.

Investment Policy Statement

The IPS is the starting point of the portfolio management process. Without a full understanding of the client's situation and requirements, it is unlikely that optimal results will be achieved.

The IPS must be developed following a fact-finding discussion with the Trustees. A well-constructed IPS for all schemes should be the standard guiding procedure for a Fund Manager.

The major components of the IPS as required in the regulations include;

The Investment objectives,

- Investment horizon,
- Risk tolerance,
- Asset allocation policy
- Strategies that will be used to meet these objectives given the acceptable level of risk.

The Regulations require the Board of Trustees to review the investment policy of the scheme at least once every three years and submit to the Authority for approval.

Categories of Assets Classes	Maximum percentage
Cash and demand deposits in institutions licensed under the Financial Institutional Act 2003 or other similar institutions licensed in the East African Community.	5%
Fixed deposits, time deposits and certificates of deposits in institutions licensed under the Financial Institutions Act 2003 or other similar institutions licensed in the East African Community.	30%
Commercial paper, corporate bonds, mortgage bonds and asset backed securities and collective investment schemes approved by the Capital Markets Authority.	30%
Government securities in the East African Community	80%
Shares of companies quoted in a stock exchange in East Africa and collective Investment Schemes approved by the Capital Markets Authority.	70%
Immovable property in Uganda; real estate investment trusts and property unit trust approved by the Capital Markets Authority.	30%
Private equity in the East African Community	15%
Any other assets classes approved by the Authority	5%

In the Pipe Line

The Authority is in the process of reviewing the current Regulation governing the Investment of Scheme Funds; This will cover;

1. Review of the existing asset allocation categorization as well the prescribed limits to taking into consideration the evolving financial market.

2. Introduce new investment vehicles; - Securities Lending; URBRA has had a couple of engagements with stakeholders on the approval of securities lending as an allowable mechanism given that over 70% of the Scheme assets are invested in government securities, 60% of which is held to maturity. The Authority has since developed a concept paper on the same which will be considered in a wider stakeholder engagement. The approval of securities lending requires a review of Reg 14(1). of the Investment of Schemes' Fund Regulation that states that -

"There shall be no borrowing or lending of the securities of a scheme either for speculative investments or any other purpose and Reg 14 (2)- The securities of a scheme shall not be used as collateral for any borrowing"

3. URBRA has also commenced the development of an industry directive and guideline on standardization of the valuation methodologies applied by the different Fund Managers to enable comparable and consistent reporting. The standardization is expected to be applied to valuation of Fixed Income and Equities as well enforce additional reporting on holdings in Private Equity and Corporate Debt.

Behavioural Factors and how they affect

Trustees decision making.

We know from different research, individuals are very poor at making rational investment decisions. When faced with a decision or choice, people are assumed to be fully informed and knowledgeable.

Lisa Betty Oyella

Senior Risk & Investment Analyst, URBRA

In reality though, with uncertainties coupled with limited access to information, individuals may not have either the time or the ability to arrive at an optimal decision but rather one that is good enough.

All Retirement Benefits Schemes are managed by Boards of Trustees that range from three to nine people. Their decisions can move markets and influence the retirement outcomes of thousands of scheme members. URBRA Regulations state that at least one third of trustees be nominated by the members of the Scheme (typically the employees of the company associated with that scheme), with the remainder being appointed by the employer. Some of the Trustees are professional Trustees, however, most of the remainder do not have a good understanding of the financial markets.

While URBRA provides training to all Trustees on their fiduciary duties, the training provided tends to be very limited, and likely falls short of creating truly sophisticated financial experts, with trustees lacking sufficient financial and investment knowledge.

> By understanding the available behavioural biases that affect Boards of Trustees, the Boards are made aware of the biases that could possibly impact optimal decision making as well as ways to mitigate it.

These coupled with some behavioural factors can lead to suboptimal outcomes. By understanding the available behavioural biases that affect Boards of Trustees, the Boards are made aware of the biases that could possibly impact optimal decision making as well as ways to mitigate them.

First, I will describe the behavioural biases that affect individuals and are relevant to investment decisions made by individuals whether they are private or professional investors. This can help Trustees assess decisions made by their fund managers

- Individuals can be overconfident in their ability to forecast earnings or pick winning investments.
- They can be anchored by some value and when required to estimate a value with unknown magnitude, people generally begin by envisioning some initial default number (an "anchor "such as past stock prices), which they then adjust up or down to reflect subsequent information and analysis,
- Too conservative and fail to modify their beliefs and actions to the extent rationally justified by the new information, such as earnings forecasts.
- They can inhibit confirmation bias, in which they look for and notice what confirms their beliefs, and tend to ignore or undervalue anything else that contradicts their beliefs
- They can be loss averse and reluctant to close out a position at a loss, even if on an objective basis the future prospects of the investment have deteriorated.

As we consider investment committee decision making, we need to evaluate the implications of these individual biases for group decision making. The group process may mitigate a bias or it may exacerbate it. How can behavioural factors influence decision making process of investment committees?

- Committees are often made up of individuals with similar backgrounds who are likely to approach decisions in a

similar way. Committee decisions are discussed and debated, and as a result, individuals may moderate their own views to fit in with the consensus or may feel pressure to agree with views expressed by powerful individuals on the committee thus exibit social proof bias.

- Overconfidence. Like individuals, groups tend to be overconfident,

Finally, how can we ensure optimal board decision making; the chair of the Board plays a critical role in ensuring optimal Board decision; this can be by-

- Assembling a diverse group of individuals with relevant skills and experiences and creating a culture in which members can express dissenting views. The chair is also responsible for ensuring that the committee sticks to the agenda and making sure a clear decision is reached after the various opinions have been heard.

- The chair should actively encourage alternative opinions so that all perspectives are covered. In turn, committee members have a responsibility to actively contribute their own information and knowledge and not simply fall into line with the consensus for the sake of harmony.

- Teams that are diverse in skills, experience, and culture may be less prone to social proof bias. Different perspectives and contrary views are more likely to emerge in a diverse group. Ensuring professional respect between all members of the group and maintaining analysts' self-esteem can help each member contribute to group judgment, even if the views expressed are contrary to group norms.

- An individual expressing strong contrarian views within the group can help in avoiding too quick of a move to consensus before all the evidence is discussed. The risk of suppressed privately held information by individuals can be reduced if a group leader collects some of the individual views in advance of a discussion.

The concept of Behavioural biases and its impact on Investment decision making is adopted from the CFA institute - Behavioural Finance Perpective.

PRIVATE EQUITY:

As at June 2020, retirement benefits scheme investment in Private Equity stood at UGX 362 Billion; more than 90% comprised of NSSF's investments in Trade & Development Bank (formerly PTA), Housing Finance Bank and Serena (TPS) Ltd

The total sector uptake in this Asset class remains low as seen by a stable allocation of about 2%. The slow uptake in this asset class implies that it is not sufficietly understood by the sector and its long dated nature (7-10) year horizon misaligns with the Trustees'short term tenure and hence limited incentive to invest for the long term.

Pension Funds, Alternatives Investments & African opportunities

Global pension funds have traditionally been investors in two main asset classes – bonds and equities.

Fiona Stewart

Lead Financial Sector Specialist,Finance, Competitiveness & Innovation
World Bank Group

However, major trends – including the low interest rate environment, increasing correlation of financial markets and the growing interest in impact investing - have been pushing funds to invest more in 'alternative' assets[1].

This trend is spreading to the African continent, where pension and social security funds are often the largest source of long-term, domestic capital which will be needed to finance the significant development needs of the region – even more so in the face of stretched government budgets which will have to cover the costs of the COVID-19 pandemic response and recovery programs.

The benefits to investing in such alternative asset classes is that they are largely unlisted, 'real' assets, which provide a steady cashflow. This means that they have a low correlation to the rest of a pension fund's portfolio and can provide diversified returns, which also match the long-term liabilities of pension funds, thereby reducing risk. The challenges with such investments are that they are often large-scale investments, which require a different set of skills to analyze and assess than more traditional asset classes. They are also illiquid, difficult to value and can raise governance issues. These challenges can be overcome if investment vehicles are structured to package investment opportunities to meet pension funds risk and return requirements. However, it takes specialist managers and relatively developed financial markets to do so.

1 Whilst there is no official definition of 'alternative' assets, the OECD annual Survey of Large Pension funds considers the definition to cover: hedge funds, private equity, real estate, infrastructure, commodities and "other" (other includes: timber and currency/interest rate overlays).

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The OECD's annual survey of large pension funds[2] is one of the most comprehensive sources of information on pension fund investment into alternative assets. The survey shows the trend of pension funds increasing exposure to these assets in recent years, at the expense of fixed income, cash and equities. This trend was strongly observed in funds based in Australia, Canada and parts of Europe. Within alternatives, pension funds have generally decreased their exposure to land and buildings and increased allocations to infrastructure – with funds expressing the intention to increase infrastructure exposure more in future as the absolute levels are still low (4% on average). Private equity holdings are flat, with private debt holdings rising. Though observed in many regions, the trend is not universal (e.g. Brazilian funds have been moving back into fixed income).

When it comes to the African region, pension funds from South Africa, Botswana and Nigeria take part in the OECD survey.

2 2file: ///C: /Users/wb437888/OneDrive%20-%20WBG/Africa/Survey-of-Large-Pension-Funds-2019.pdf

The following chart shows that, compared with other non-OECD funds, the Botswana Public Officers Pension Fund and the Government Employees Pension Fund (GEPF) of South Africa still have relatively high exposure to listed equities and limited exposure to alternatives to infrastructure – with funds expressing the intention to increase infrastructure exposure more in future as the absolute levels are still low (4% on average). Private equity holdings are flat, with private debt holdings rising. Though observed in many regions, the trend is not universal (e.g. Brazilian funds have been moving back into fixed income).

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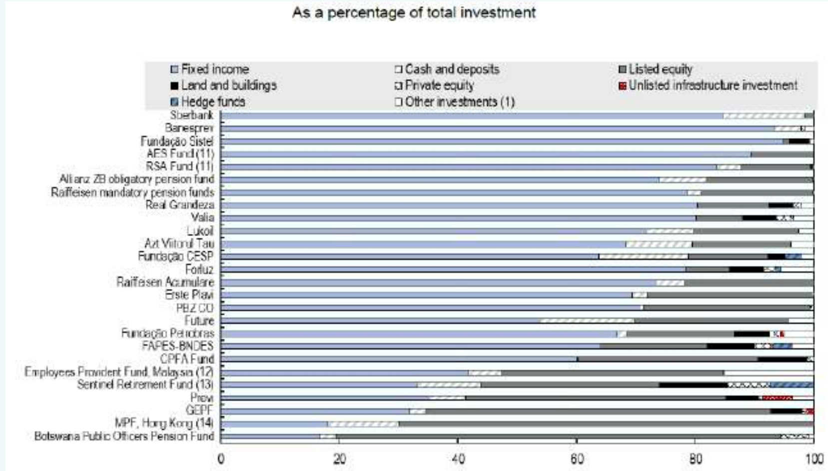
Given the African region in general has relatively underdeveloped capital markets and concentrated exposures due to limited stock exchange listings, the diversification which such alternative investments can bring is even more sought. Combined with the immense investment which will be required to meet the Sustainable Development Goals (SDGs) and other targets, the question is why African pension funds are not investing more into alternatives? The answer lies in three main parts. First, the region has the opposite challenge to much of the rest in the world in that interest rates are high rather than low.

When pension funds can gain a double digit return on 'risk-free' government bonds, there is little incentive for them to seek alternative investments, which cannot compete. Secondly, even in the macro conditions are stable, there is often a lack of so-called 'investible' opportunities, with many infrastructure and other projects not generating commercially viable returns (along with governance and transparency challenges). Thirdly, even when the macro conditions are favorable and investment opportunities arise, the pension sector does not have the expertise (and in many countries the scale) to take advantage of them.

Selected Pension Funds in OECD Countries Portfolio Allocation (2017)



Source: OECD (Survey of Large Pension Funds 2019)

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What are pension fund regulators around the region doing to support pension funds diversification into such alternative assets and provide the long-term domestic capital which African countries need? Many authorities have supported these investments by amending the pension fund investment regulations to allow at least part of the pension fund portfolios to gain exposure to these asset classes. For example, the Retirement Benefit Authority (RBA) in Kenya allows investment in private equity, whilst the National Pensions Commission (PenCom) in Nigeria now allows pension funds to invest in infrastructure. The Namibian Financial Sector Supervisory Authority (NAMFISA) has taken a different approach, creating an alternative investment, 'special purpose' vehicle (SPV) structure, which allows the pension funds to invest in different types of domestic, real assets.

Pension funds across the region are also coming together to share costs and resources and to join as one voice to gain more access to alternative investment opportunities. For example, the Kenyan Pension Fund Investment Consortium (KEPFIC) is a group of domestic pension funds which have

Box 1: Namibia's Regulation 29

Following independence in 1990, Namibia inherited large and fast-growing pension assets, to a large extend as a result of the funded defined benefit public sector pension scheme, most of which were invested offshore due to limited investment opportunities in domestic markets. Highly unusual for developing countries at the time, Namibia's high level of contractual savings of over 50 percent of GDP put it alongside the highest saving countries alongside Netherlands and Singapore. In the decade post its independence Namibia continued to generate substantial amount of savings from pension and life insurance funds.

This savings' growth, however, did not translate into higher levels of domestic investment and economic growth. The review of the reasons for the capital outflow revealed that the off-shore investments by pension funds and insurance companies constituted a major component of the capital outflow from the economy.

As Namibia's faced the imperative to revive and sustain economic growth, to create employment, to reduce inequalities in income distribution, and to reduce poverty, the policy makers recognized that Namibian savings institutions should play an important role in the development of the country's financial system. As the challenge for Namibia was to utilize its abundant savings for productive domestic investments without compromising the returns on the invested savings, Namibia's policy makers sought to develop an appropriate policy solution tailored to Namibia's circumstances, given the imbalance of domestic institutional investors assets and the size of the domestic capital markets, as well as their level of underdevelopment.

In line with international market experience, investment limits were concluded to be necessary to direct domestic savings toward domestic investments and further regulatory intervention was seen as required in order to develop domestic private market, given Namibia's controversial legacy of direct investments undertaken by Government Institution Pension Fund (GIPF) – the largest pension fund in Namibia and the market leader- through its Development Capital Portfolio (DCP) during 1996-2010.

Through the introduction of Regulation 29 in 2014, the Government's objectives were: to increase domestic economic and social development by utilizing contractual savings based on lessons learned from DCP experience; enable local projects struggling to acquire funding and bolster promising investment projects; formalize the unlisted investment market and create specialized intermediaries; develop pipeline for the domestic capital market; and – most importantly - provide a framework for the regulatory authority to regulate these activities.

It is still too early to evaluate the investment impact of the regulation 29 on pension fund performance and on the private industry as a whole due to the long-term nature of these types of investments. However, overall, NAMFISA recognizes the positive impact of Regulation 29 on catalyzing the nascent private market industry and contributing meaningfully to addressing issues related to governance of and within pension funds, improving due-diligence of unlisted investments, investment process, active management and perception of corruption.

Early observations from Namibia experience with the Regulation 29 offers insights relevant to other countries that consider deploying the country's pension fund assets effectively for the benefit of national economic development:

1. Domestic investment should be undertaken within fiduciary role of pension funds
2. Develop appropriate investment structures
3. Appropriate level of regulation
4. Development of a project pipeline
5. Communication and development of skills for market participants
6. Evolutionary process

Taken from 'Pension Fund Investment and Domestic Development: Namibia's Regulation 29 Approach', World Bank Working Paper. http: //documents.worldbank.org/curated/en/125241594367606090/Leveraging-Pension-Fund-Investment-for-Domestic-Development-Namibia-s-Regulation-29-Approach

agreed to establish a co-investment vehicle to invest in infrastructure, housing and other investment opportunities in Kenya. They are working in partnership with leading international investors, from the US and Europe, who are experienced investors in these asset classes. Similar initiatives are underway in South Africa and West Africa.

What can Uganda learn from this global and region experience? From the regulatory side, URBRA (working with the Capital Market Authority) can support diversification into well-structured alternative investments through revised pension fund investment regulations.

From the pension fund industry side, the NSSF, along with other leading domestic funds and fund managers, can learn from international and regional groupings, building knowledge and expertise in investing in these new asset classes to make the most of investment opportunities as they arise.

Fiona Stewart works for the World Bank's Global Capital Markets, Non-bank Financial Institutions group, which provides policy advice on pension reform to governments around the world. Previously, she worked for the OECD's Financial Affairs Division for eight years and led the Secretariat of the International Organisation of Pension Supervisors (IOPS), an international body representing over 70 countries, dedicated to cooperation and research on pension supervisory issues.

COVID -19 / SAFETY TIP

PRACTICE RESPIRATORY HYGIENE

Make sure you, and the people around you, follow good respiratory hygiene. This means covering your mouth and nose with your bent elbow or tissue when you cough or sneeze. Then dispose of the used tissue immediately.

Source: WHO novel-coronavirus-2019/advice-for-public

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URBRA

UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

SECURITIES LENDING:
FINANCIAL SECURITIES LENDING AND BORROWING (SLB)

Securities Lending and Borrowing (SLB) is the temporary transfer of securities from a lender, to a borrower, with a simultaneous agreement to return the securities either on-demand or at a future date. The URBRA Investment of scheme funds regulations 2014 currently doesnot provide this among the allowable investment vehicles;

Securities Lending: Can it add value to the portfolio?

Markets are places that connect sellers and buyers to facilitate a trade or transaction. In financial markets, investors are buyers and sellers at the same time with dealers and/ or broker dealers doing the intermediation.

Gerald Paul Kasaato, CFA
Chief Investment Officer, NSSF Uganda

The existence of a vibrant or liquid secondary market is fundamental for market integrity and depth. However, this is not always the case in financial markets. In certain instances, the investor may still want to hold onto the security, and this may make it impossible for other investors interested in the same security to get access to it—especially if it is scarce. One could argue that there will always be that price that would induce the seller to let go of their asset. But this is not always the case, for several reasons: regulatory constraints, liquidity concerns, lack of adequate or better alternatives, risk—return imbalance, to mention but some.

Over time, market players have come up with innovations that allow trading to continue without the owner of the security necessarily giving up their rights and benefits while at the same time, allowing another player access to the same security. Securities lending is one such innovation or product. For example, if an equity security is borrowed over an announced cash dividend record date, then the borrower must 'manufacture' back the dividend to the original owner of the securities through a dividend payment—the same logic applies for a coupon on a fixed income security.

The historical evidence on record suggests that securities lending dates to 1776 on U.S. war debt following the declaration of independence. In the 1970s, the current form of the industry began in the U.S. where custodians started lending for beneficial owners. In the1980s, several European countries, Japan and Australia introduced the legal and regulatory framework to allow for the development of the industry. Today, the size of lendable assets is estimated at approximately 10% of global financial assets.

Securities Lending and Borrowing (SLB) is the temporary transfer of securities from a lender, to a borrower, with a simultaneous agreement to return the securities either on-demand or at a future date. This lender can be an individual or institution holding a substantial number of securities on a long-term basis. The securities can be either bonds or equities. Essentially, securities lending is a form of collateralized lending and is closely linked to the repurchase agreement (repo) market.

The primary motive of securities lending transactions is to facilitate short sales, which involve the sale of securities the seller does not own. A short seller must borrow the securities he has sold short in order to deliver them upon trade settlement. To the extent that the security lent is fully collateralized (often in the form of cash or high-quality bonds), the risk is reduced. Yet the lender gets an opportunity to generate income from the collateral and fees.

While repo markets primarily enhance the efficiency of fixed-income markets, securities lending markets play central roles for both fixed-income and equity markets. However, unlike repurchase agreements, securities lending transactions are typically open-ended. The securities lender may recall the securities at any time, forcing the borrower to deliver the securities by buying them back or borrowing from another

> The primary motive of securities lending transactions is to facilitate short sales, which involve the sale of securities the seller does not own. .

lender. Similarly, the borrower may deliver the borrowed securities back to the lender at any time, forcing the lender, or its agent, to return the collateral and search for another borrower. This further reduces the risk profile of the transaction. The low risk profile makes such transactions attractive to long-term investors like pension funds, sovereign wealth funds and central banks because it enhances the investment return on securities that would have otherwise been hoarded. Such hoarding is pronounced in frontier markets where the liquidity in the secondary market is very low.

The biggest drivers and benefits of SLB can be categorized into two broad categories: macro and micro. On the macro side, it promotes market efficiency and stability. It is an integral component of developed markets. It allows price discovery on securities which are difficult to obtain in the market and the arbitrage of pricing inefficiencies. It supports the development of the capital markets by facilitating various investment strategies. And finally, it improves liquidity in the market place.

On the micro side, it provides incremental returns to a portfolio. The fees enhance returns to otherwise dormant securities. The fees further offset custody and management fees. Moreover, the lent securities remain in the lender's books, and a statement of the lender's account will reflect the securities out there.

The biggest risks are nonperformance of contractual obligations and monitoring of contractual obligations. This is usually mitigated by having a custodian as an intermediary between the lender and borrower or some other platform provider

> Securities Lending and Borrowing (SLB) is the temporary transfer of securities from a lender, to a borrower, with a simultaneous agreement to return the securities either on-demand or at a future date.

that connects the lender and borrower. Indeed, leading global custodians or players are investing in such platforms. The development of innovative, market-leading technology is a critical for success. For example, Northern Trust, a leading securities lending intermediary has invested heavily in a proprietary lending platform that takes advantage of new and emerging technologies. Emerging trends include having a securities lending pricing engine that utilizes machine learning and statistical analysis to more effectively forecast market rates for a wide range of securities.

As a result of its many advantages and less risks, the securities lending market has grown over the years and is growing steadily as many investors and regulators begin to understand it better. Globally, the U.S. accounts for approximately 55% of the value of the market. Global revenue for the industry is over US$5 billion annually—the industry generated US$3.89 billion in revenue for lenders in the first six months of 2020, according to Datalend.

In Africa, several countries have embraced securities lending. For example, in early August 2020, the Kenya's Central Depository and Settlement Corporation (CDSC) recently launched the pilot phase a securities lending platform. The platform will officially go live later in 2020. Other African counties that have securities lending in place include; South Africa, Nigeria and Mauritius.

According to Bank of Uganda domestic debt statistics, as at 31st December 2019, pension and provident funds owned 50.9% of the stock of treasury bonds (with NSSF owning 45% or 88.41% of the stock held), banks 27.1%, insurance companies 1.7%, offshore investors 8.3%, and other investors12.10%. In Kenya, banks account for about 54.88% of the stock of Government treasury bonds and bills, compared to insurance companies (6.03%), parastatals (5.72%), pension funds (29.09%) and other investors (4.29%).

SLB is not only beneficial for the market in Uganda, but specifically for retirement saving schemes—both mandatory and occupational. For retirement schemes, the main impediment is the Uganda Retirement Benefits Authority Act (URBRA) investment guidelines where securities lending is one of the prohibited investments by the regulations (Part V, Restrictions on Investment of Scheme Funds—Regulation 14). Moreover, even the stock exchange rules do not cover securities lending. In fact, although Kenya has moved faster than the rest of East Africa in allowing securities lending, the situation in Uganda is probably more compelling because of what the pension funds and provident funds hold (particularly NSSF) compared to the banks.

In sum, SLB is not only beneficial for the market in Uganda, but specifically for retirement saving schemes—both mandatory and occupational. Securities lending is a relatively low-risk product that can generate significant returns for beneficial owners through a well-managed programme.

In an environment where cost pressure is increasing and returns are more difficult to generate, securities lending can make a difference to asset owners and asset managers by offsetting those costs and providing a useful source of income that contributes to portfolio performance.

Save now,
retire with peace of mind

Old age is inevitable, it's on you to make your retirement enjoyable.
Sign up with a Retirement Benefits Scheme licensed by URBRA today
and start saving from as little as USh.1000 daily to live an enjoyable retirement.

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This is a message from the Uganda Retirement Benefits Regulatory Authority.

URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

Operating Costs Eroding Accrued Wealth for Retirement

Why Schemes Should Pursue Cost Efficiency

Retirement benefits schemes are meant to guarantee financial security in retirement by providing a source of income in old age. This goal is realized through collection of contributions, returns through prudent investments and payment of benefits upon retirement.

Dr. Shem Ouma

Chief Manager - Research & Strategy, Retirement Benefits Authority (Kenya)

Leonard Audi

Senior Research & Strategy Officer, Retirement Benefits Authority (Kenya)

This entire process involves some intricacies and brings along various players thus attracting costs in terms of operational expenses for pension schemes. The total operating costs of private pensions systems include all costs of administration, investment management, safe custody of schemes assets, taxation, regulatory levy, etc.

The business of transforming pension contributions into retirement benefits, particularly for private pension systems, implies that in most instances, pension schemes are required to seek the services of investment managers, administrators and custodians and whose fees they must meet. The fees charged by these service providers constitute the bulk of costs to retirement benefits schemes.

Fund management fees, for instance, is a charge levied by a fund manager for managing pension fund investment. The fee is intended to compensate the manager for the time and expertise for selecting investment assets and managing the portfolio. In Kenya, the regulations provide that "an agreement between a scheme or pooled fund and a fund manager shall make provision for the computation of the fees in respect of management services."

The decision on which model investment fees is charged is left open for schemes to choose and specify in their contractual agreement with the fund manager. The fees can either be performance based, tiered, or flat. Performance-based fee funds have been found to perform significantly better, e.g., for mutual funds in Spain implying a more efficient management of the funds. A survey by RBA in 2015 on schemes' operating costs revealed models based on fixed fees or tiered structure of fees charged as a percentage of assets under management (AUM) where trustees are asked to choose the option that works better for them were prevalent. The tiered model is then reclassified to fixed percentage of total AUM plus an out-performance fee based on an agreed benchmark.

In addition, the survey also revealed that reputation of the fund manager plays a role in determination of fees and charges levied. A manager with higher market share charges more, whereas smaller players charge less to attract more clients and retain existing ones. The average management fees charged by fund managers in Kenya as percentage of AUM is about 0.39%.

The fees, however, differ significantly among fund managers. The variation is brought about by the absence a benchmark or even regulation requiring service providers to publish their fees. The existing information asymmetry brings about market imperfection since a fund manager has no way of knowing the fees charged by other players hence undercutting and unethical competition is prevalent in the market.

The only protection provided by the regulator is licensing of service providers so that trustees are restricted to the services of the licensed service providers only. This safeguard has been hailed as a suitable mechanism against exploitation by quacks.

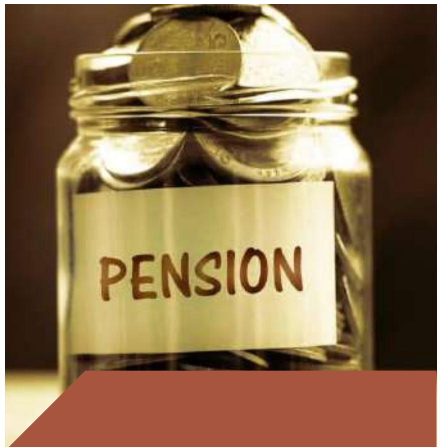
> Higher operating costs reduce income for schemes eventually depleting retirement benefits payable to members.

Operating costs which comprise fees and charges, which manifest in terms of administrative expenses incurred for record keeping, investment management fees, professional fees, custodial fees, regulatory levies, taxes and penalties for non-compliance with regulations among others, are an integral component in sustaining retirement benefits schemes. The costs vary greatly across pension jurisdictions and types of retirement benefits schemes and are either fixed or variable. Fixed fees are neither dependent on size of scheme by membership nor fund size. Variable fees, nonetheless, may take the form of a percentage of the inflow of contributions, fund size managed, or investment returns on the assets under management. Significant variations in operating costs exist between Defined Benefits (DB) and Defined Contributions (DC) schemes.

For DC schemes in particular, costs are incurred though payment of service providers involved in the day-to-day operations of the schemes namely: administrators, auditors, fund managers, actuaries, legal counsels, and custodians. These service providers come with different models of charging professional fees making it difficult to determine if the costs they charge are fair, reasonable and accords value for money to schemes.

Studies done in a number of pension jurisdictions including Kenya, OECD countries and many more, reveal that on average, operating costs as a proportion of total assets is estimated at 1.8% for Kenya; range between 0.1% - 0.2% in the Netherlands; and between 0.1% - 1.5% in selected OECD countries. It is notable, therefore, that operating costs incurred by schemes should be of great interest and importance not only to pension schemes but also pension supervisory authorities because of their significant impact on the amount of retirement income delivered to individual members upon retirement, particularly in the case of defined contribution (DC) pension schemes. The costs have the potential to reduce pension value substantially by affecting the rate of return on investment of pension funds and consequently raising cost of retirement security.

Higher operating costs reduce income for schemes eventually depleting retirement benefits payable to members. For instance, a change on assets by 1% can reduce the value of pension by causing a difference in benefit pay-out ranging between 10% and 20%. The operating costs can significantly erode accrued benefits for members, particularly when returns from pension funds' investments are poor. Costs incurred by pension schemes thus play an important part in attrition of pension fund wealth hence fees and charges should never be excessive, neither should they be opaque.



In the current era of demand for greater accountability from institutions, retirement benefit schemes are required to be transparent by declaring costs incurred in scheme operations in their annual financial statements.

In the current era of demand for greater accountability from institutions, retirement benefit schemes are required to be transparent by declaring costs incurred in scheme operations in their annual financial statements. The urge is even greater for DC schemes that are fully funded through contributions by sponsors and members and particularly after a wave of reforms in the pension industry across the globe witnessed a widespread conversion of DB schemes to DC schemes since the year 2000.

Some of the factors that have been identified as influencing operating costs to retirement benefits schemes include; size of a scheme in terms of membership or total assets; investment strategy adopted and choice of service providers. Previous studies indicate that the relationship between costs and scheme size can either be positive or negative with large schemes being likely to achieve cost efficiency through economies of scale. Likewise, the relationship between costs and the investment strategy adopted by a scheme indicate that a more aggressive investment strategy is likely to attract higher investment income/returns and costs too.

Given the significant costs differences across pension schemes and the huge cumulative impact of operating costs to pension schemes, cost minimization should receive keen attention. To minimize operating costs, therefore, retirement benefits schemes should explore a number of options, some of which have proven to work effectively, for example, consolidation of small schemes with high operating costs.

Such action is justified under the pivotal role played by economies of scale in explaining differences in costs across pension schemes. Consolidation of schemes has been implemented in Kenya, for example, through the development and operationalization of a legal framework allowing the establishment of Umbrella retirement benefits schemes. This framework allows sponsors with small schemes, and small and inefficient schemes to fold up their operations and join umbrella schemes and benefit from economies of scale.

Other options that could be explored to bring down operating costs for schemes is the use of co-fund management by schemes with high asset values; initiation by Scheme Trustees value for money audits and carefully selecting service providers and negotiating fees charged carefully.

There have been calls to regulatory bodies to regulate fees charged by service providers across various pensions jurisdictions, but hey have showed reluctance to implement in preference for market forces, which should ensure efficiency because of completion amongst service providers.

FUND MANAGERS PROFILES

Britam Asset Managers Co. (U) Ltd

Britam
With you every step of the way

Investment Philosophy

We are committed to and passionate about delivering superior long-term returns to our investors. Our investment approach is supported by robust and rigorous investment analysis and portfolio management capabilities.

For our pension clients, we differentiate our services with our diverse product set capabilities, such as property and private equity, which are essential to long-term portfolios such as pension portfolios.

Investment Mandate

AUM	
Pension:	UGX 328 Billion
CIS:	UGX 23.5 Billion
Wealth Management:	UGX 66.7 Billion
No. Retirement schemes:	14

Key Investment Personnel

Name	Title
Kenneth Kaniu	Chief Executive Officer
Ronald Timothy Kasolo, CFA	General Manager
Jude Anyiko, CFA	Group Investments Officer
James Mose	Chief Investment Officer
Amanda Bbosa Rabwoni	Porfolio Manager
George Njunge, CFA	Portfolio Manager
Emma Mugo, CFA	Portfolio Manager
Nicholas Sang, CFA	Portfolio Manager
Vernon Kihuguru	Investment Analyst

GenAfrica Assets Managers

GenAfrica
ASSET MANAGERS

Investment Philosophy

We are style agnostic long-term investors focused on capital preservation whilst aiming to achieve consistent and superior investment returns without exposing clients' assets to unnecessary risk. Our investment style is based on disciplined, in-depth, analytical research, taking a long-term horizon of up to 5 years.

The aim is the construction of client portfolios that consistently outperform their market benchmark. The analysis of all assets available to the Fund is grounded on both qualitative and quantitative fundamental analysis.

Investment Mandate

AUM	
Pension	UGX 665 Billion
Retail, Insurance, CIS etc.	UGX 352 Billion
No. Retirement schemes:	17

Key Investment Personnel

Name	Title
Charles Ogalo	Group Managing Director
Patrick Kariuki	Ag.Chief Operations Officer
Steve Biko	Chief Investment Officer
George Mulindwa,CFA	Country Manager - Uganda
Bachu Mtsumi, CFA	Porfolio Manager
Joshua Ekajait, CFA	Portfolio Manager
Mohammed Abdi, CFA	Porfolio Manager
Escar Namiremebe, CFA	Porfolio Manager
David Luwigi	Head Property
Felix Maloba	Property Manager
Elizabeth Wangechi	Head Research
Sarah Katuramu	Analyst and Portfolio Administration

ICEA Asset Management (U) Ltd

Investment Philosophy

We are a multi-asset fund manager with developed investment approaches that guide each of the asset classes that we invest in ensuring that we mainly focused on the outcome and not be influenced by short ter m or transient factors on any of the asset classes we are invested in.

We front a fully-fledged skilled and experienced research department giving us a strong advantage for the unparalleled research output with crisp investment recommendations.

Investment Mandate

AUM	
Pension:	UGX 74 Billion
CIS	UGX 62 Billion
No. Retirement schemes:	3

Key Investment Personnel

Name	Title
Einstein Kihanda	Chief Executive Officer (ILAM)
Emmanuel Mwaka	Executive Director
Elizabeth Irungu, CFA	Business Dev't & Client Relations
Barack Obatsa, CFA	Chief Investment Officer
Peter Ndirangu Kariuki	Head of Finance
Abraham Bakunda	Portfolio Manager
George Kamau	Snr. Portfolio Manager
Judd Murigi	Head of Research
Henry Kabue	Research Analyst
Edward Okab	Snr. Portfolio Administrator

Sanlam Investments East Africa

Investment Philosophy

SIEAL invests across the entire growth to value spectrum and therefore do not exclude potentially lucrative investment opportunities due to style biases.

At Sanlam, our Pan-African presence offers us insights and knowledge that gives us an advantage in understanding and uncovering investment opportunities. This has been instrumental in generating performance for our clients' portfolios.

Investment Mandate

AUM	
Pension	UGX 927 Billion
Retail, Insurance, CIS etc	UGX 572 Billion
No. Retirement schemes:	19

Key Investment Personnel

Name	Title
FA Jonathan Stichbury, ASIP,CIFA	Group Managing Director
FA Nicholas Malaiki, CFA	Chief Investment Officer
FA Shritesh Nanji, CFA	Senior Portfolio Manager
Mugalya Mubbale, CFA	Country Manager Uganda
Gloria Ahikiiza	Assistant Portfolio Manager
Eileen Ninsiima	Investment Assistant
Rhion Kambabazi	Investment Analyst

UAP Old Mutual Financial Services

Investment Philosophy

In order to achieve consistent, superior risk-adjusted returns, we follow an active, disciplined research process. Our investment strategy is formulated using a combination of top down (for the asset allocation decision) and bottom up for individual security selection within the various assets classes. We believe that our investment decision-making processes ensures superior investment performance with an acceptable level of risk for each of our clients, based on a pragmatic investment philosophy and a thorough understanding of the client's objectives

Investment Mandate

AUM	
Pension:	UGX 142 Billion
Unit Trusts	UGX 296 Billion
Insurance Fund	UGX 227 Billion
No. Retirement schemes:	9

Key Investment Personnel

Name	Title
Peter Anderson, CFA	Group Managing Director
Simon Mwebaze, CFA	General Manager
Eric Ndichu	Research
Kevin Nyaga, CFA,	Portfolio Manager
David Kyalo	Porfolio Manager
Kevin Lugonvu, CFA	Portfolio Manager
Mohammed Abdi, CFA	Porfolio Manager
Zac Kisesi	Porfolio Manager
Eric Karimi	Porfolio Manager

Xeno Investment Management

Investment Mandate

AUM	
Pension	UGX 50.5 million
Retail/Individual	UGX 8.3 Billion
Institution	UGX 6.3 Billion
No. Retirement schemes:	2

Investment Philosophy

XENO pursues a goal-based investment approach to help all clients achieve their investment goals. A goal-based approach evaluates every investment, asset and/or strategy based on its ability to help you reach your financial goals. Your objective might be to have a secure retirement, fund your child's university education, or save up for a down-payment on a home. Each of these goals has a different time horizon, risk tolerance, and level of priority. Success is defined by how well the investment helps you reach your goal within the desired time horizon, and not by earning the highest returns in any given year. Risk, on the other hand, is defined by the failure to meet the stated goals

Key Investment Personnel

Name	Title
Aeko Ongodia, CFA	Chief Executive Officer
Philip Kiwanuka	Fund Accountant
Brian Ongodia, CFA	Investment Associate
Esther Nakangu	Associate Product Manager

URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

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