

# **Pension Funds and Private Equity: Unlocking Africa's Potential**

23 July 2014



# Agenda

**4:30pm**

**Welcome**

Erika van der Merwe, *SAVCA*

**4:40pm**

**Presentation:**

David Ashiagbor, *Making Finance Work for Africa*

**5:00pm**

Panel discussion

David Ashiagbor, *Making Finance Work for Africa*

Dave Uduanu, *Pensions Alliance, Nigeria and  
Africa Pension Funds Network*

**5:30pm**

Refreshments

# Pension Funds and Private Equity: Unlocking Africa's Potential

**David Ashiagbor**

*Making Finance Work for Africa (MFW4A)*

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- 1. Overview**
- 2. The Role of Pension Funds in Private Equity**
- 3. Country Profiles**
- 4. Bridging the Gap between the Private Equity Industry and Africa's Pension Funds**
- 5. Looking Forward**

# 1. Overview

## The publication has its roots in:

1. The **Commonwealth Private Investment Initiative (CPII)**, which raised \$400 million for investment in Africa between 1997 and 2007 through a series of private equity funds;
2. A series of regional and country **Private Equity Roundtables** convened by the Commonwealth Secretariat (ComSec), which brought together PE industry, African pension funds and regulators to discuss local capital in Africa;
3. Research funded by ComSec and the **Making Finance Work for Africa (MFW4A)** Secretariat, and
4. **EMPEA** research, including the *Local Pension Capital in Latin America* report of 2011.

# 1. Overview

## The publication contains :

1. Several strands of information crucial to a better understanding and appreciation of the pensions industry in Africa including: *the latest data available on the **regulatory environment and investment policies, country-specific institutional knowledge, and asset allocations of key markets***
2. Insights from key stakeholders :
  - **Peter Anderson, Chief Investment Officer, Old Mutual Investment Group (Kenya) Ltd.**
  - **Michelle Kathryn Essomé, CEO, African Private Equity and Venture Capital Association**
  - **Eyamba Nzekwu, Founding Commissioner, Technical National Pension Commission, Nigeria**
  - **Sev Vettivetpillai, Partner, The Abraaj Group**

# 1. Overview

## Key facts

- ❑ Pension funds play a critical role in finance through the mobilisation and allocation of stable long-term savings to support investment
- ❑ Assets under management (AuM) in Africa are growing rapidly
- ❑ There is increased global interest in the African pensions industry and its role as a catalyst for African development

## The publication addresses two critical issues:

1. How much is potentially available from African pension funds to support private equity investment, and how much has actually been mobilised?
2. What are the barriers to greater participation in private equity by African pension funds?

# 1. Overview

The publication contains extensive and latest data on ten countries :

Botswana  
Ghana  
Kenya  
Namibia  
Nigeria  
Rwanda  
South Africa  
Tanzania  
Uganda  
Zambia





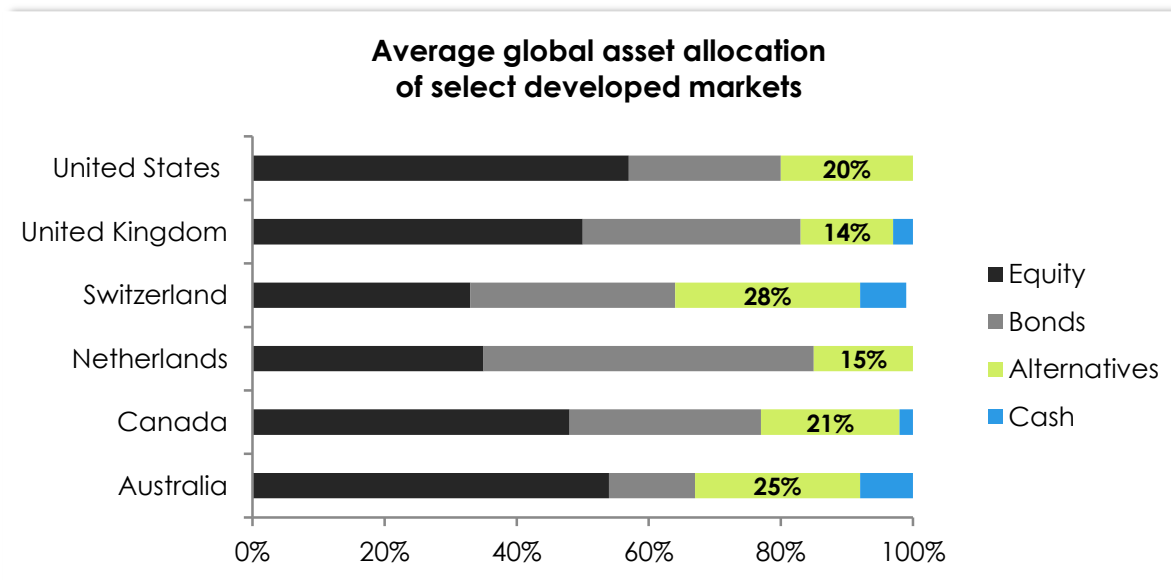
## 2. The Role of Pension Funds in Private Equity

### Private Equity is an asset class unlike any other

- ❑ When done well using various tools such as operational improvements, corporate governance enhancements or environmentally friendly renovations – it has the potential to do far more than generate significant returns
- ❑ With an average fund life cycle of 8-10 years, it is the long-term nature of private equity that makes it a particularly well-suited investment for pension systems
- ❑ PE creates a better alignment between long-term liabilities and incoming cash flows
- ❑ PE offers pension fund contributors an outperformance potential that is uncorrelated to other assets

## 2. The Role of Pension Funds in Private Equity

- Today, private equity is a small but core component of most developed market private equity pension fund portfolios
- In developed markets, it is often the potential for private equity to outperform that is the key driver of pension funds' allocation decisions



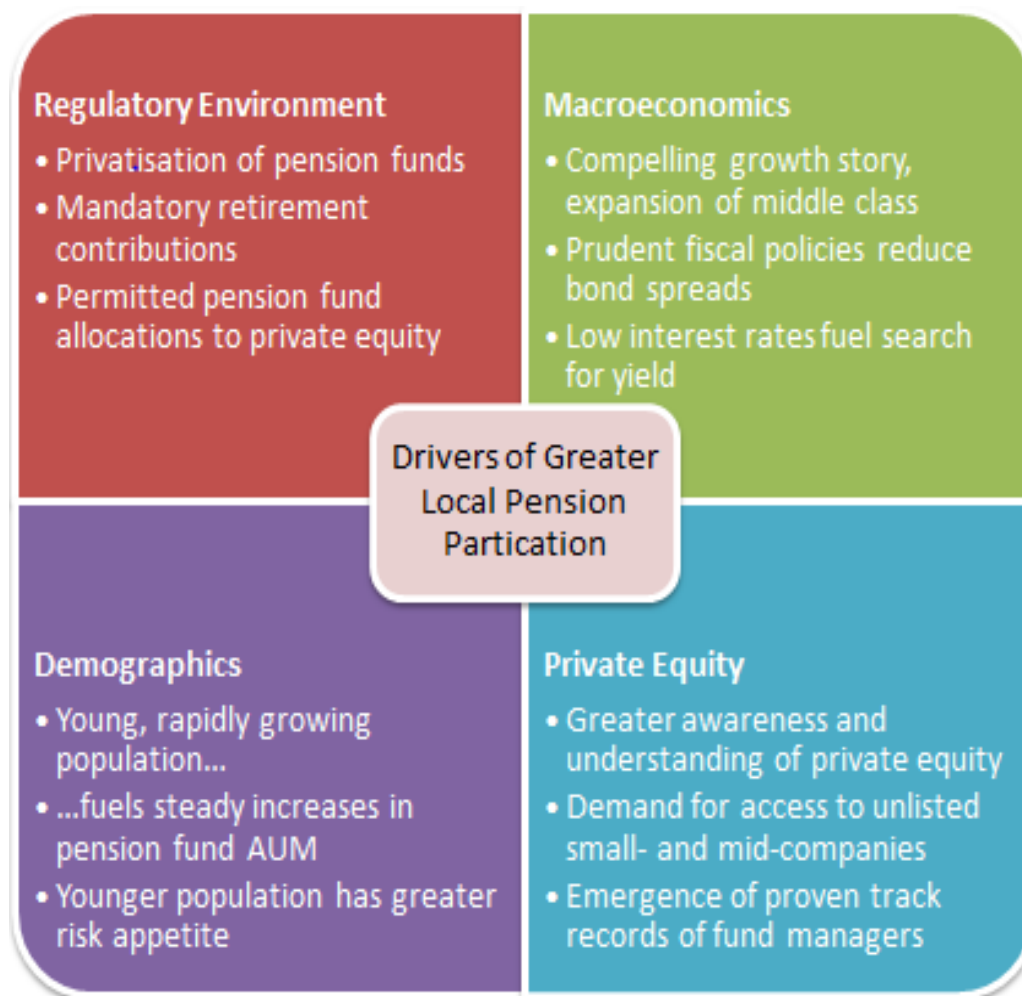
Source: Towers Watson Global Pension Assets Study 2014.

“A number of trends... are converging, forcing [emerging] markets to reconsider their investment approach to the asset class”

*Nadiya Satyamurthy, EMPEA*

## 2. The Role of Pension Funds in Private Equity

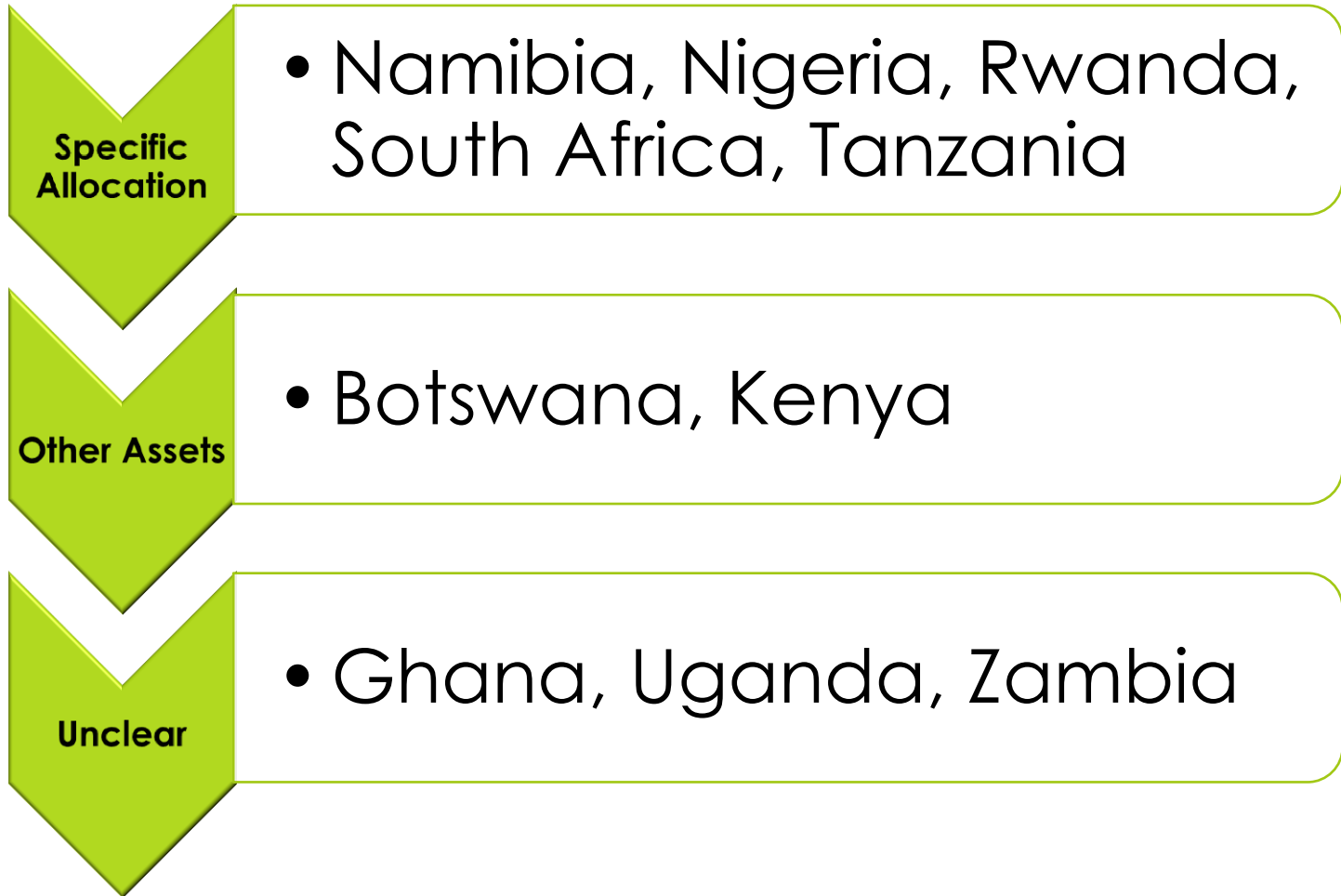
### Drivers of Pension Fund Participation in Private Equity



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

**Sev Vettivetpillai, Partner, The Abraaj Group**

### 3. Country Profiles



### 3. Country Profiles

#### Assets Under Management and Available for Private Equity \*

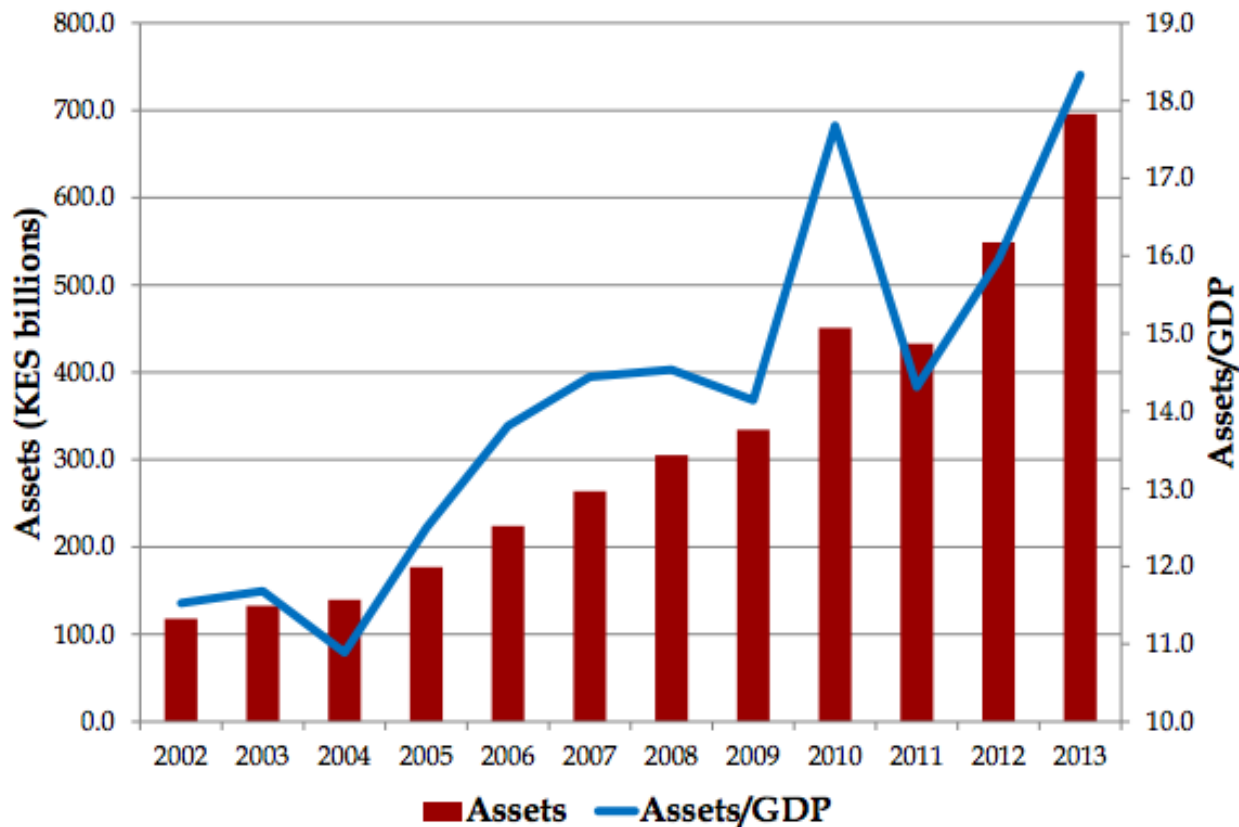
Country	AuM (US\$ m)	Allocation to PE (%)	Available for PE (US\$ m)
Botswana	6,000	2.5%	150
Ghana	2,600	Unclear	130
Kenya	7,280	10%	728
Namibia	9,960	1.75%-3.5%	345
Nigeria	25,000	5%	1,250
Rwanda	482	10%	48
South Africa	322,000	10%	32,000
Tanzania	3,100	5%	155
Uganda	1,500	Unclear	75
Zambia	1,800	Unclear	90
<b>Total</b>	<b>379,722</b>		<b>34,971</b>

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

### 3. Country Profiles

#### Case Study: Kenya

Industry Asset Growth (2002-2013)



Source: Retirement Benefits Authority.



### 3. Country Profiles

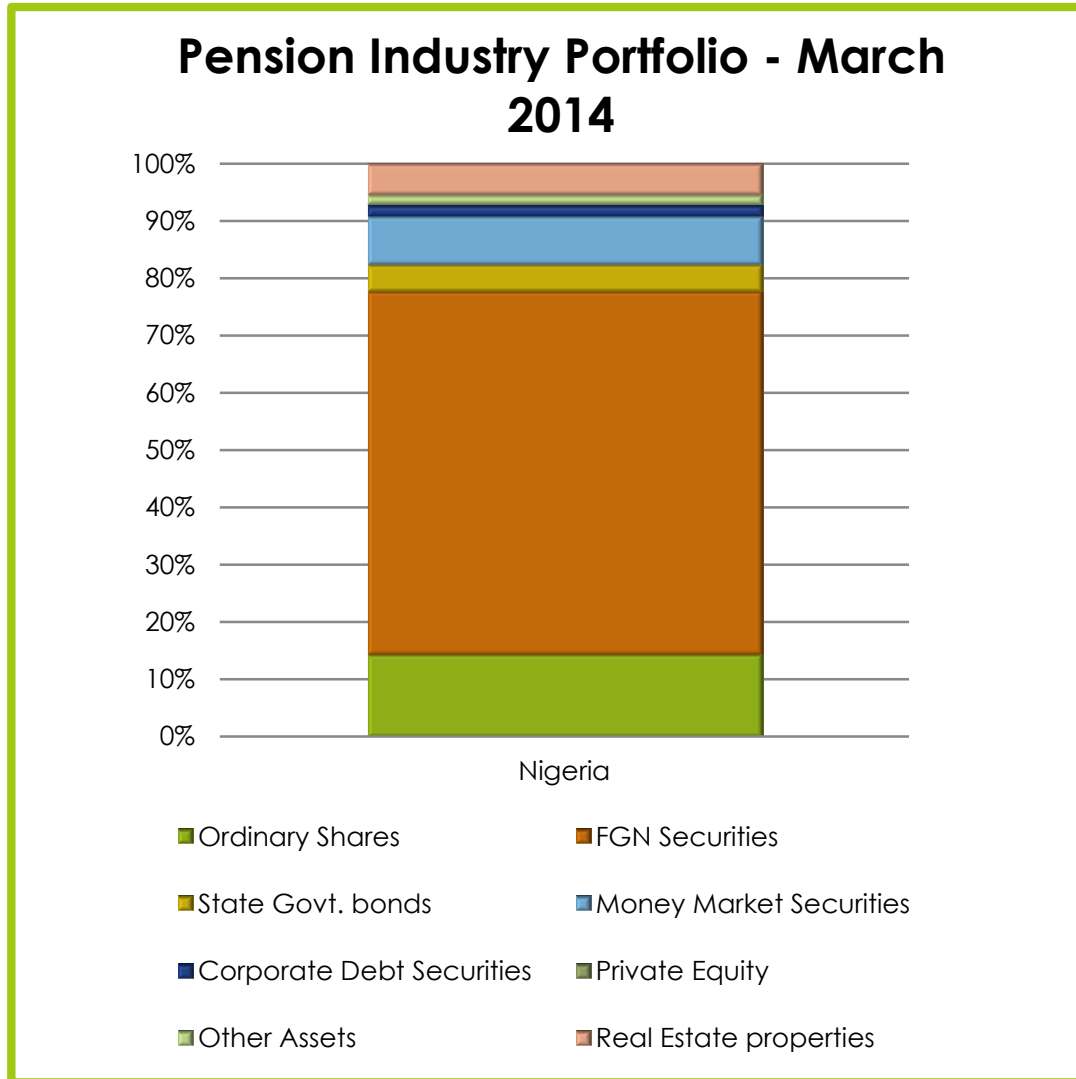
#### Case Study: Nigeria



# 3. Country Profiles

## Case Study:

## Nigeria



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

### A need for diversification and capacity-building

- ✓ The accumulation in AUM is leading to significant pressure on pension fund managers as well as regulators to diversify away from the traditional investments in government bonds and listed equities and allocate to new asset classes and geographies
- ✓ All the evidence points to African pension funds playing an increasing role in the private equity industry in the medium term. The growth in assets and recent regulatory changes under discussion in some countries support this thesis.

Based on the data gathered and discussions with various regulators and pension funds, there is an estimated US\$29 billion that African pension funds could potentially invest in private equity today – **This would almost double the size of the African private equity industry**

*“Does private equity make sense for our clients? It does ....we obviously need to diversify our portfolios and hold a greater number of lower- or un-correlated assets. However, there’s a bit of an educational hurdle”*

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

*“Private equity investing is an intricate process and the skills required to do so cannot be acquired overnight... co-investing with experienced development finance institutions (DFIs) would be beneficial”*

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

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

### Latin America offers a number of lessons for Africa :

- ✓ Pension reforms have the power to catalyse the professionalization of the fund management industry
- ✓ Adoption of internationally accepted best practices is the smoothest way to develop an industry seeking foreign investment
- ✓ International diversification can benefit the local community

### Mexico

Mexican Pension Funds are now using an innovative structure to commit funds to private equity funds via trusts that are listed on the Mexican stock exchange

## 5. Looking Forward

*“AVCA’s inaugural survey of the attitudes of LPs towards African private equity, conducted with RisCura and SAVCA in April 2014, demonstrated that, of the investors surveyed globally, African investors were, on average, expected to have the largest increase in allocation to African private equity (at a 2 per cent increase by 2016)”*

**Michelle Kathryn Essomé, CEO, African Private Equity and Venture Capital Association (AVCA)**

## 5. Looking Forward

*“In the next five years, I also see increased interest in private equity and other alternative asset classes including infrastructure”*

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



## 5. Looking Forward

*“The importance of African pension funds as a source of capital is not to be underestimated”*

Sev Vettivetpillai, Partner, The Abraaj Group.

# Acknowledgements

This publication would not have been possible without the generous support we received from pension fund regulators, industry associations and other stakeholders in Botswana, Ghana, Kenya, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia, who graciously donated their time and verified the numerous data points presented herein. We are also grateful for the support of The Abraaj Group.

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*Making Finance Work for Africa (MFW4A)*

**Thank you !**

The publication is available on

**[www.mfw4a.org](http://www.mfw4a.org)**



**Thank you**  
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MC: Alishia Sekham, from *Business Day TV*

Delegate and speaker list includes LPs and fund-of-funds from:

- African Development Bank
- Ashburton
- DBSA
- DEG
- Eskom Pension and Provident Fund
- GEPP
- IDC
- National Empowerment Fund
- Old Mutual
- PIC

Cocktails and networking on Thursday 7 August, from 4.30pm, hosted by Investec Bank