PERFORMANCE INVESTMENT MANAGEMENT SURVEY

June 2020

RisCura Solutions (Kenya) Limited, Ruparelia Consultants Limited, Octagon Africa

Global Themes:

The US Fed and other central banks pump liquidity.

GLOBAL MARKET THEMES

June proved to be a good month for risk assets, as global economies cautiously started reopening and against the backdrop of continued monetary support from central banks.

The US Federal Reserve Bank (the Fed) maintained interest rates at near-zero. It also indicated that it would be targeting monthly purchases of USD 80 billion of Treasuries and USD 40 billion of mortgage-backed securities. In addition to bond ETF purchases, it would also begin buying individual corporate bonds.

The European Central Bank (ECB) maintained interest rates at previous lows and increased bond purchases by €600 billion, bringing the total post-pandemic purchases to €1.35 trillion. It also announced that the new bond purchasing programme would last until June 2021. The Bank of England followed suit at its June Monetary Policy Committee meeting: It maintained interest rates at 0.1%, while increasing the target stock of purchased UK government bonds by a further £100 billion. The committee expects that the programme will draw to a close at the end of 2020, with the total stock of asset purchases reaching £745 billion.

The Bank of Japan, whilst leaving its monetary policy unchanged, has boosted its coronavirus lending programme to over USD 1 trillion. The programme provides zero interest rate loans to banks, if they boost lending to companies. Its governor Haruhiko Kuroda also sent a strong signal that rate increases would be unlikely through 2021 to 2022.

The People's Bank of China (PBOC) somewhat confounded market-watchers, who were expecting further meaningful easing measures. While the bank announced that it would purchase up to 400 billion yuan (approximately USD 56 billion) in bank loans made to micro-and-small enterprises in 2020, no further stimulus was forthcoming.

Stock markets for the most part rallied on the glut of liquidity being pumped into the market. Emerging markets meaningfully outperformed their developed counterparts, with the MSCI EM up 7.35% against the 2.54% achieved by the MSCI World. Amongst developed markets, Europe saw COVID-19 measures ease up most significantly. European stocks consequently outperformed and the STOXX All Europe rose by 2.8%, versus 1.99% for the S&P500 and 1.66% for the FTSE 100. Emerging markets saw the biggest gains in China and Brazil (the MSCI China A Onshore rose by 9.99% and the BOVESPA by 8.76%).

Despite the rally in riskier asset classes, traditional portfolio hedges such as government bonds and gold have held up well. The strategic case for holding developed market government bonds has diminished as yields get ever-closer to perceived lower bounds. Conversely, high yield and investment grade corporate credit, and emerging markets offer relatively attractive yields. The sizeable spread can act as compensation for risks of default and potential downgrades. The measures being implemented by central banks worldwide – including significant purchases of corporate debt – remain supportive.

The spot-gold price rose by 2.9% for the month, bringing year-to-date gains in the precious metal up to 17.3%. Copper prices, which fell to multi-year lows in March due to suppressed demand amidst wide-spread lockdowns, are recovering well. Copper prices are sensitive to the global economic growth cycle. An increase in demand from China and a rapid drawdown of global copper

Global Themes:

An uneven and unpredictable road to recovery.

Global bodies predict record contractions in GDP for 2020.

Economic indicators show a few encouraging signs.

Markets swing between exuberance and caution amidst second wave of Coronavirus infection fears.

inventories saw prices jump by 12.1% during the last month. As demand ticks up, oil prices too continued to claw back losses, gaining 9% during June. Optimism regarding the compliance of OPEC + countries with the agreed-upon production-cut deal spurred further gains.

The picture for global growth is rather gloomy, although analysts differ on the expected recovery rate at of the global economy. The Fed has predicted a 6.5% contraction for US GDP in 2020; the latest official data from the UK shows that GDP shrank by a record 20.4% in April (month-on-month data).

The Bank of France estimates a 15.3% contraction in the second quarter and foresees a 10.3% contraction in GDP for 2020; the European Central Bank (ECB) predicts a 8.7% contraction in 2020 for the region overall. The International Monetary Fund (IMF) recently slashed its outlook for global growth, forecasting a contraction of 4.9% for 2020, while the Organization for Economic Cooperation and Development (OECD) and the World Bank are more pessimistic, predicting 6% and 5.2%, respectively.

This calls into question the V-shaped recovery vaunted by market pundits, and seemingly priced in by the S&P500 inter alia. In support of this theory, there are signs of an economic revival as lockdown measures continue to ease. For example, US retail sales bounced back strongly and rose 17% for May, while UK sales rebounded by 12%. US unemployment data is steadily improving. Even though weekly jobless claims are still sitting at above 1 million (unheard of in the pre-pandemic era), the unemployment rate has fallen to 13.3% from 14.7% and the labour force participation rate saw a noticeable improvement.

China, where GDP declined by a record 6.8% for the first quarter, saw the release of some positive economic data points. Industrial output increased by 4.4% in May, the Caixin/Market Manufacturing Purchasing Managers' Index (PMI) rose to 50.9 in June (a six-month high) and car sales in China surged by 11% year-on-year.

The data suggests that momentum is picking up in China. Investor confidence in a sustainable recovery is shaky, however. Beijing saw a return to lockdown amidst a renewed outbreak of the virus, while infection and death rates in the US are still rising rapidly, and some emerging markets are believed to have not yet hit their peak.

There are also other risks looming on the horizon. Potential fiscal fatigue may set in, particularly in less developed or less well-funded monetary policy regimes. Emerging economies are often already dealing with high levels of government debt, tight budgets and insufficient funding for social development programmes. The fiscus has little fat built in to continue to fund extraordinary COVID-related funding. The fear is that governments roll back their fiscal stimuli too soon before the virus is fully contained and before economies have been allowed to recover meaningfully. Political risks remain, particularly when it comes to the strained relationship between the US and China. US incomes have thus far been supported by stimulus cheques and generous unemployment benefits. But, these are due to expire at the end of July, and it is not yet clear whether the Trump administration will extend the programme. Brexit is fast approaching, as is the US election. Against the backdrop of a second wave of infections, markets are likely to remain choppy in the coming months.

SUB-SAHARAN AFRICA REGIONAL REVIEW

The World Bank revised its GDP forecasts for sub-Saharan Africa (SSA), citing a deep contraction for the region for H1'20 due to the COVID-19 pandemic. The impact has affected African trade (border closures, person movement restrictions and broad disruption to supply chains). Key sectors that were materially impacted by COVID-19 include tourism and travel, whilst the concurrent depressed commodity price has impacted commodity exporting countries.

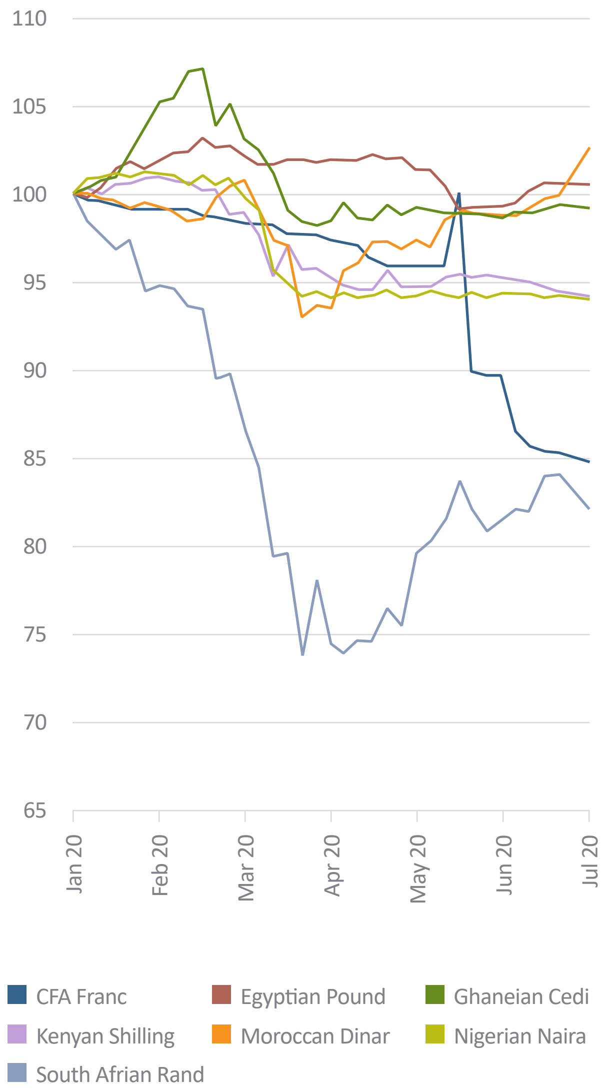
The COVID-19 pandemic has sparked the region's first recession in 25 years, with a projected 2.8% economic growth decline. Comparatively, the International Monetary Fund (IMF) revised the sub-Saharan regional GDP growth to a 3.2% contraction from its April estimate of 1.6% . Things will get worse before they get better.

Most of the major SSA currencies weakened against the US Dollar over the period from June 2019 to June 2020. The Malawian Kwacha saw a contrasting performance of their currency, largely owing to their high forex reserves, which acts as a cushion against exchange shocks.

CURRENCIES

Description	USD	GBP	EUR
Angola	578.92	715.32	650.22
Botswana	11.81	14.59	13.26
Egypt	16.14	19.94	18.13
Ethiopia	34.97	43.21	39.27
Ghana	5.79	7.15	6.50
Kenya	106.55	131.65	119.67
Mauritius	40.28	49.76	45.23
Morocco	9.71	12.00	10.91
Nigeria	386.58	477.66	434.19
South Africa	17.38	21.47	19.51
Tanzania	2 318.00	2 864.12	2 603.46
Uganda	3 727.39	4 605.57	4 186.42
Zambia	18.14	22.42	20.38

USD VS AFRICAN CURRENCIES



Kenyan Themes:

Real GDP grew by 4.9% during the review period compared to 5.5% growth in the first quarter of 2019.

8.2%
7%

The CBR dropped from 8.2% in the first quarter of the year to 7% in this quarter.

KENYAN MARKET THEMES

GDP

The macroeconomic environment that prevailed in the first quarter of 2020 was premised on the need to cushion the economy from the potential COVID-19 pandemic shocks. Economic performance in most sectors slowed in the first quarter of 2020 compared to the corresponding quarter of 2019. Real GDP grew by 4.9% during the review period compared to 5.5% growth in the first quarter of 2019. Though Kenya was somewhat spared the brunt of the COVID-19 pandemic in the first quarter of 2020, the economy was affected by the resultant uncertainty that was already slowing economic activity in some of the country's major trading partners. During the quarter under review, heightened agricultural activities significantly anchored the overall economic performance.

Inflation rate

CPI has eased in Q2'20 from 5.8% in March to 4.5% in June and inflation, around 5% in 2020 and 2021.

Performance of the Kenyan Shilling

The Kenyan shilling (KShs) has been gradually depreciating against the US Dollar. At end June, the Kenyan dropped further to KShs 106.52 against the US Dollar as the country's central bank limited its intervention by balancing the need to strengthen reserve buffers, whilst attempting to mitigate resultant impact of risk aversion pressure on the KShs due to the COVID-19 pandemic.

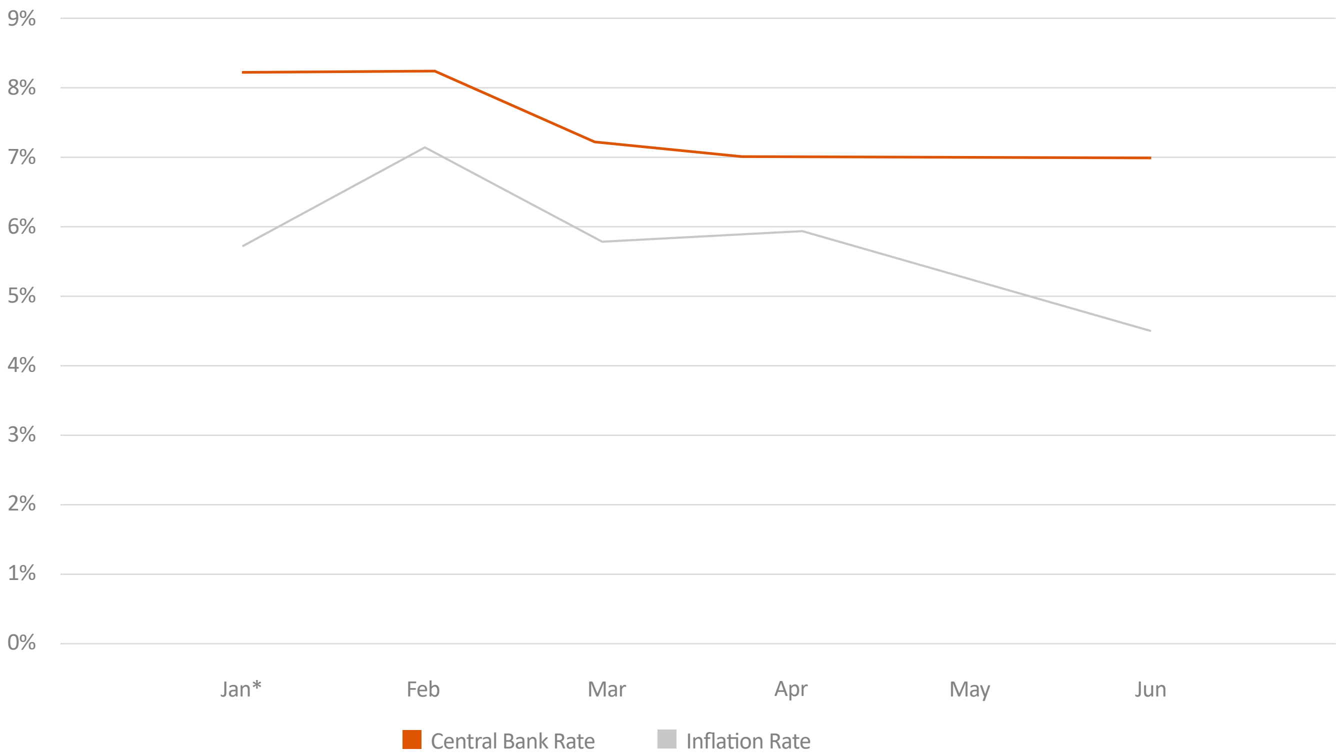
Interest rates

The CBR is the rate at which the Central Bank of Kenya loans to commercial banks. In general, the CBR dropped from 8.2% in the first quarter of the year to 7% in this quarter. This was a measure by the Monetary Policy Committee to cushion the financial shock and pressure raised by the COVID-19 pandemic by injecting liquidity into the Kenyan economy in support of the current accommodative monetary policy. (Statistics, 2020)

The National Treasury recently reopened three fixed coupon treasury bonds, FXD1/2020/05, FXD2/2018/10 and FXD1/2019/15 with effective tenors of five years, 10 years and 15 years respectively, for budgetary support purposes. The period of the sale is from 6 July 2020 to 21 July 2020. The coupon rates for the bonds are 11.7%, 12.5% and 12.9%, for the five-year, 10-year and 15-year bonds, respectively.

MONETARY INDICATORS AND INFLATION

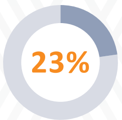
Central Bank Rate vs Inflation Rates



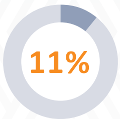
** The inflation rate for Jan was based on the old CPI basket while Feb onwards was based on the new following the rebasing exercise done every 10 years.*

Asset Allocation Highlights:

A conservative investment approach accounted for 66% of assets under management within this survey.



A moderate investment approach accounted for 23% of assets under management within this survey.



An aggressive investment approach accounted for 11% of assets under management within this survey.

KENYA PENSION SCHEME ASSET ALLOCATION

The assets under management surveyed increased by about 2% from the previous quarter from 637 billion to 653 billion Kenyan shillings.

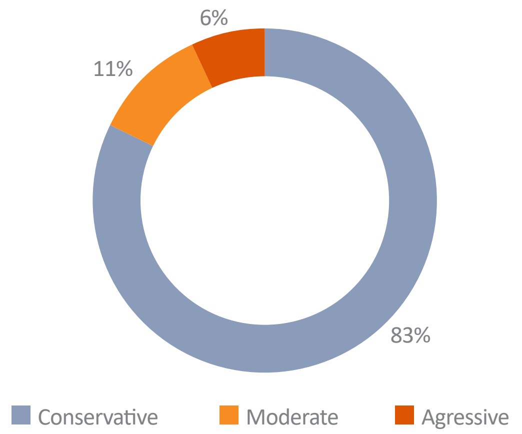
A slight increase in the proportional number of pension funds that fell into the conservative investment approach was recorded in this quarter, increasing from 82% to 83%. By value, the schemes categorized as following a conservative investment approach accounted for 66% of assets under management within this survey. By way of reminder, the objective of a conservative investment strategy is preservation of the investment principle by investing in low-risk securities. We ascribe the classification of “conservative”, where the asset allocation of a pension scheme is weighted to 65% or more to fixed income securities. In this survey, an investment portfolio is considered conservative, where 65% (or more), of scheme assets under management are invested in fixed income securities.

The proportional number of schemes surveyed that were classified in the moderate risk profile category, were 11%. By value, the schemes categorized as following a moderate investment approach accounted for 23% of assets under management within this survey. By way of reminder, the objective of a moderate investment strategy, focuses on medium risk securities with the intent of presenting a balanced risk vs. return outcome for the scheme. We ascribe the classification of “moderate”, where the asset allocation of a pension scheme is weighted between 45% to (not more than) 65%, fixed income securities.

The proportional number of schemes surveyed that were classified in the aggressive risk profile category, were 6%. By value, the schemes categorized as following an aggressive investment approach accounted for 11% of assets under management within this survey. By way of reminder, the objective of an aggressive strategy exposes the Fund to a greater allocation to growth assets such as equities and higher yielding instruments. We ascribe the classification of “aggressive”, where the asset allocation of a pension scheme is weighted to a maximum 45% allocation to fixed income securities.

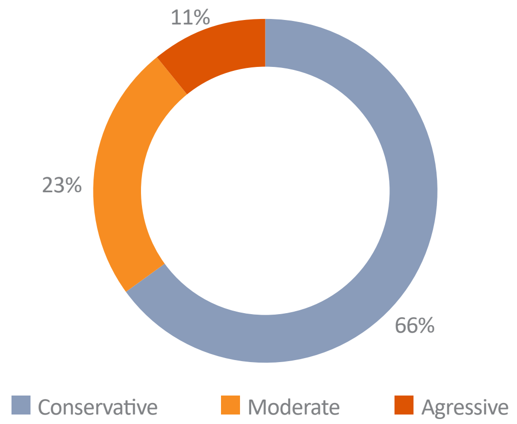
PENSION SCHEME

Risk Profile Asset Allocation



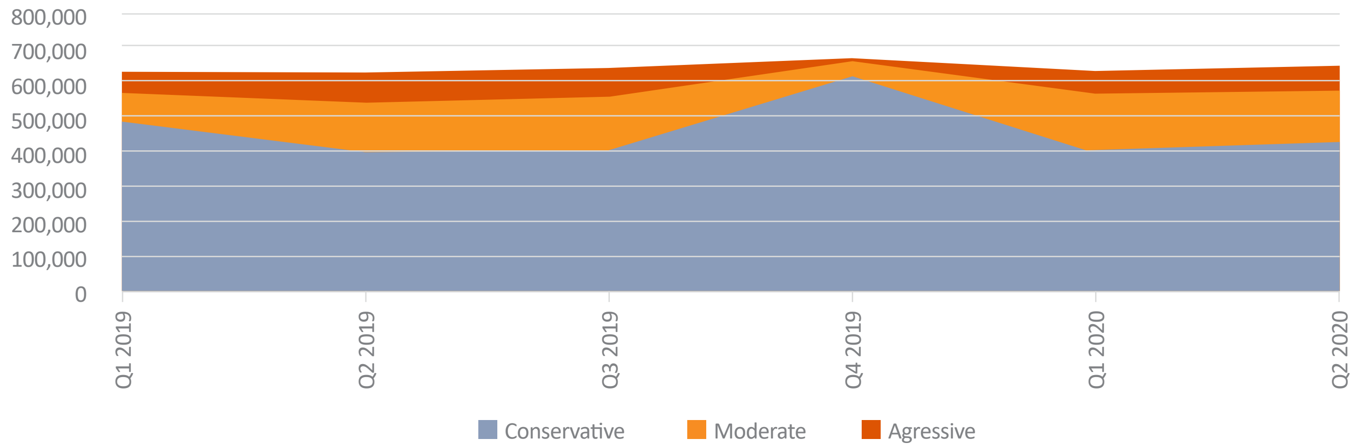
PENSION SCHEME

Risk Profile as a Percentage of AUM



PENSION SCHEME

Trend Summary of AUM according to Risk Profile



Performance Highlights:

Reversal in performance from equities.

KENYA PENSION SCHEME PERFORMANCE

The average investment return of schemes surveyed during Q2'20 was 3.9%, whilst the weighted average investment return weighted by asset size was slightly higher at 4.0%. Evidence of the volatility in capital markets, we recall the average investment return reported (way back) in Q1'20 was (3.6%), whilst the weighted average investment return was (4.2%).

What difference can three months make?

Based on the reported returns from the investment managers, the swing from negative investment performance to positive, was mainly attributed to the strong reversal in performance from equities, where the weighted average investment return of (23.6%) in Q1'20 turned to a positive weighted average of 5.2% in Q2'20.

The manager's fixed income portfolios also provided positive returns, delivering in Q1'20, a weighted average investment return of 2.6%, that tracked to a weighted average investment return of 3.7% in Q2'20.

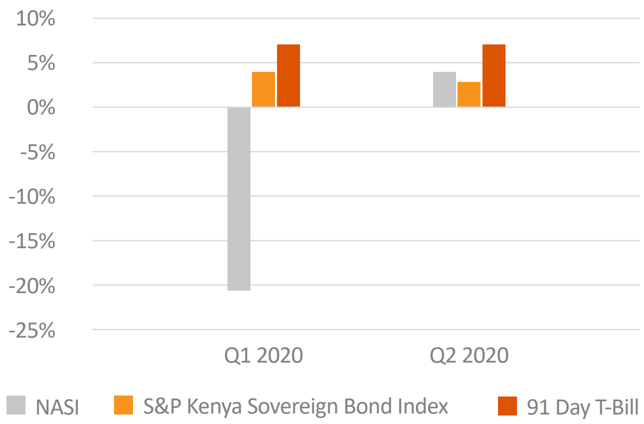
The performance of offshore investments significantly rose from a weighted average of (16.6%) in Q1'20 to 23% in Q2'20.

DID YOU KNOW?

You may utilize a proportion of your accrued benefits in purchase of a residential house?

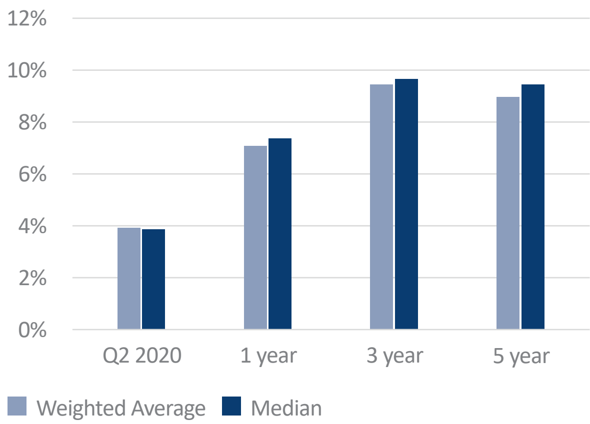
CAPITAL MARKET PERFORMANCE

Performance of select benchmarks & Economic Indicators



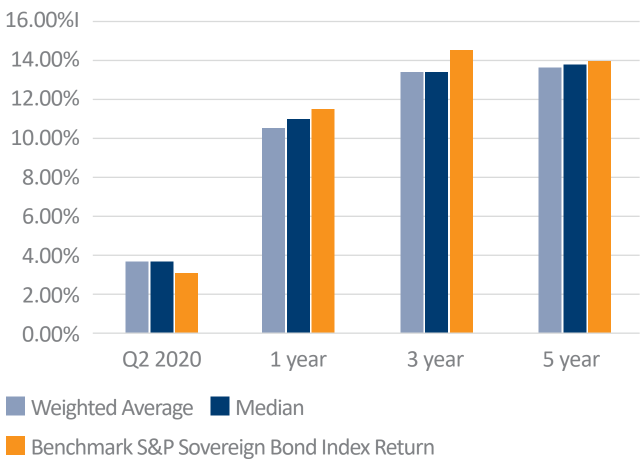
INVESTMENT MANAGER PERFORMANCE

Overall Performance Analysis



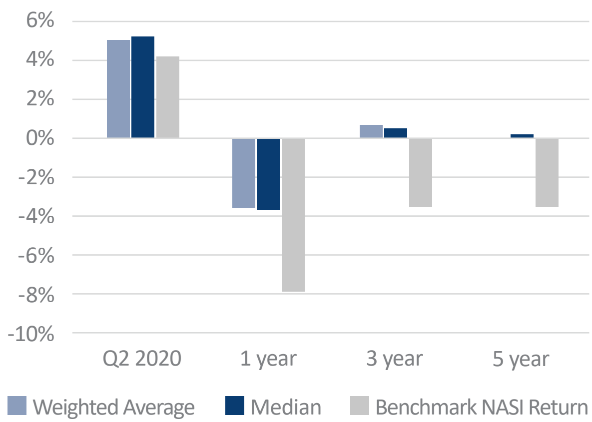
INVESTMENT MANAGER PERFORMANCE

Fixed Income Performance



INVESTMENT MANAGER PERFORMANCE

Equity Performance



We would like to thank the participating schemes for the help they accorded in preparing this survey.

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