Performance Investment Management Survey

November 2020

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RISCURA

Global Themes:

Technology stocks' rally interrupted as Softbank emerges as NASDAQ "whale".

Heated first round of US presidential debates leaves investors fretting.

Global market themes

Global markets were unsettled during September against a backdrop of a second wave of coronavirus cases, mixed economic data and ahead of a contentious election in the United States. The MSCI World declined by 3.45%, while Emerging Markets fared better than developed peers, as the MSCI EM dipped 1.6%.

The S&P500 ended its five-month streak, declining by 3.8%.

Previously red-hot large cap technology stocks corrected during the month as stimulus negotiations continued to weigh on the markets. The large-scale sell-off in tech stocks was somewhat unexpected, with news of a NASDAQ "whale" creating jitters amongst investors. "Whale" is a term associated with market manipulators. Such manipulators will come into a market, buy up large amount of stocks and drive up prices. Once the stock has achieved their target price, they will attempt to liquidate their position, which will generally cause the stock to correct.

In the case of the NASDAQ, which has had a strong run, investors consequently feared that a correction was imminent, selling off stocks rapidly. The prophesy effectively became self-fulfilling. Early in September, news emerged that Japanese conglomerate Softbank was taking massive bets on Wall Street tech stocks. The firm bought roughly $4 billion in options tied to underlying shares it had earlier purchased in firms like Amazon, Microsoft and Netflix. The options generated an effective exposure of about $50 billion. The NASDAQ has been selling off since the news broke. Incidentally, Softbank investors were left flabbergasted at the immense risk such massive positions imply, and the company's share price initially fell by over 7%, but recovered to end only 0.5% lower over September.

Nonetheless, tech valuations remain elevated and some investors wonder whether there is much upside left, and whether it is not time to take profits.

Moreover, while there is not much that the political parties agree on, tech seems to be a target for both sides as well as being one of the most contentious issues in the Sino-US tensions. Higher taxation rates and stricter regulations are likely irrespective of the election outcome.

September saw the first round of presidential debates take place between challenger Joe Biden and incumbent President Donald Trump. Wall Street has become increasingly worried that uncertainty around the election will roil markets. And, the first in a series of three debates, acrimonious and chaotic as it was, did little to assuage these fears. Trump interrupted Biden on numerous occasions and repeated baseless claims about the proliferation of fraud tied to mail-in voting. Trump declared that he would not support the result "under certain circumstances", leaving investors worried that he would not concede the election if he loses. This could lead to a long period of uncertainty after voters have cast their ballots. It is the kind of rhetoric that leaves traders rushing to hedge bets in case market volatility spikes in the period surrounding the election. An interesting note around the election: In November 2008, a liberal Democratic President, regarded as anti-business, was elected. The S&P500 rose 26% in 2009. In November 2000, a pro-business conservative Republican was elected and in 2001 the S&P500 declined 16%, the central bank policy at the time is the key differentiating factor between these two periods. Currently, the US Federal Reserve Bank (the Fed), and other central banks, remain extremely accommodative.

After a two-day monetary policy meeting, Fed Chairman Jerome Powell emphasised the uncertain path of economic recovery.

While monetary policy remains supportive, as indicated at the previous meeting at Jackson Hole, Powell also emphasised that monetary policy alone could not support the economy in the absence of additional fiscal stimulus. And, whether additional fiscal stimulus will be forthcoming in the US is not yet clear. Democrats and Republicans were at loggerheads about another round of relief packages, with no formal negotiations since early August. In early September, Democrats blocked a pared-down Republican Party

Global Themes:

Uncertainty about further US fiscal stimulus.

European recovery tentative amidst second round of coronavirus-related lockdowns.

coronavirus relief bill in a bitterly disputed Senate vote. Many of the benefits approved by Congress in the $2 trillion Cares Act in March have run out, including small-business assistance, $600 weekly enhanced unemployment benefits and eviction protections. The failed bill would have authorised new support for small businesses and enhanced weekly unemployment benefits of $300. It did not include a second round of $1200 stimulus checks, although this is something that the White House supports. Following the death of Supreme Court Judge Ruth Bader Ginsberg, the prospect of a pitched battle over a Supreme Court candidate amid the election makes an agreement over additional fiscal stimulus even more unlikely. The process of electing a judge may absorb time and space on the US senate's docket at the expense of other items, such as a stimulus bill.

Elsewhere, in Europe, stock markets declined as the second wave of coronavirus infections took hold.

The STOXX All Europe lost 1.46%. Madrid was placed in partial lockdown and the alert level has been raised to the maximum in Paris. The United Kingdom (UK) has also enforced stricter lockdown measures. The FTSE100 lost 1.54% and Sterling lost ground against the dollar as the UK Parliament introduced legislation that would undermine the existing agreement with the European Commission and increase the likelihood of a no-deal Brexit. The recovery in both the Eurozone and the UK is tentative at best, and the parties can ill-afford to divert attention to political wrangling.

The flash Composite Purchasing Managers' Index (PMI) reached a three-month low, driven by a downturn in service sector activity.

In the UK, the index saw an even sharper decline, dipping by 3.4 points (although remaining in expansionary territory, albeit off a low base). Over in China, the recovery still seems to be on track. The Caixin Manufacturing PMI (which covers private and medium-sized companies) beat consensus estimates by posting the biggest improvement since 2011, driven by large increases in output and in new orders. The NBS Manufacturing PMI (which is the official government measure and largely covers state-owned enterprises) also beat estimates. Chinese markets, however, joined global peers in heading lower, with the MSCI China and MSCI China A Onshore closing 2.7 and 4.8% lower respectively. The Japanese Nikkei 225 managed to eke out a small gain of 0.8%.

This, as equities took support from the election of Japanese Chief Cabinet Secretary Yoshihide Suga as leader for the ruling party in a landslide victory. His election paves the way for Japan's first change in leadership in eight years, and he is seen to be particularly market-friendly.

Oil prices dipped during the month, losing 6.5%. Demand was sluggish amidst a resurgence in coronavirus infections. Libya's civil war has also abated, increasing production from that country. Iraq, one of the biggest players in the Organisation of Petroleum Exporting Countries (OPEC), has ratchetted up its oil exports. The supply-demand mismatch has consequently caused the drop in the price of black gold. Actual gold has also lost some of its lustre, with investors turning instead to other safe-haven assets such as government bonds and currencies such as the Japanese Yen. Gold prices dipped by 4% during September.

Sub-Saharan Africa Regional Review

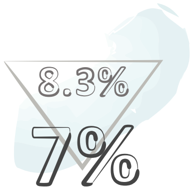
The COVID-19 pandemic has taken a large toll on economic activity in Sub-Saharan Africa, putting a decade of hard-won economic progress at risk. Economic activity in the region is expected to contract by 3.3% in 2020, confirming the prediction that Sub-Saharan Africa would suffer its first recession in a quarter-century in 2020. By the end of 2021, the region's real gross domestic product (GDP) per capita will likely regress 2007 levels. COVID-19 could push up to 40 million people into extreme poverty, erasing at least five years of progress in fighting poverty. Similarly, COVID-19 could set back progress in building human capital, as school closures will affect nearly 253 million students, potentially causing losses in learning.

Disruptions in the tourism industry and lockdowns will cause substantial slowdowns in Ethiopia, Kenya, and the island nations. On the other hand, in West and Central Africa, the decline in growth is projected to be driven mainly by oil exporters.

Sub-Saharan Africa's real GDP growth is projected to pick up to 2.1% in 2021, which is below the 2.4% achieved in 2019.

Kenyan Themes

Kenya's economic growth is expected to decline by nearly 50%, from 5.4% in 2019 to 2.6% in 2020.



The CBR dropped from 8.3% in Q1'2020 to 7% in Q2'2020.

Kenya Review

GDP

Kenya's economic growth is expected to decline by nearly 50%, from 5.4% in 2019 to 2.6% in 2020 – the disastrous impact of the COVID-19 pandemic.

The Ministry for National Treasury & Planning does however anticipate strong economic rebound for 2021, modelling the economy to grow by 5.3% in 2021 and 5.0% in 2022.

Kenya's Purchasing Managers' Index (PMI)—produced by IHS Markit and Stanbic Bank Kenya—climbed to 59.1 in October from September's 56.3. As such, the index rose further above the 50-threshold, marking the fourth month running of improved business conditions since the outbreak of the health crisis, and the highest reading since the series began in January 2014.

Inflation

CPI eased in Q3'20 from 4.4% to 4.2% in June. Inflation is expected to average 5% in 2020 and 2021 . A marginal increase in inflation was observed between March and April, this was attributed to demand-pull inflation as Kenyans were driven to panic buying and stocking of essential supplies such as food in anticipation of what would happen following the confirmation of COVID-19 in country. It is however important to appreciate that a spike in one component of the inflation basket (food), can be immunised by a downward movement of other components (beverage and transport), where bars were closed and because of lock-down, movement was also restricted.

Performance of the Kenyan Shilling

The Kenyan Shilling lost further value against the United States Dollar dropping to KShs 108.50 at end of Q3'20. This is partly attributed to the reduced demand for exports (restricted movement of goods due to COVID-19 measures) and a general risk-off sentiment towards emerging and frontier markets. The Kenyan Shilling has been buoyed by resilient diaspora remittances and careful management by the of forex reserves. Forex reserves were further bolstered by an IMF loan of KSh78 billion and a World Bank loan of Ksh100billion, all of which were used to help stabilise the country's external position.

Interest rates

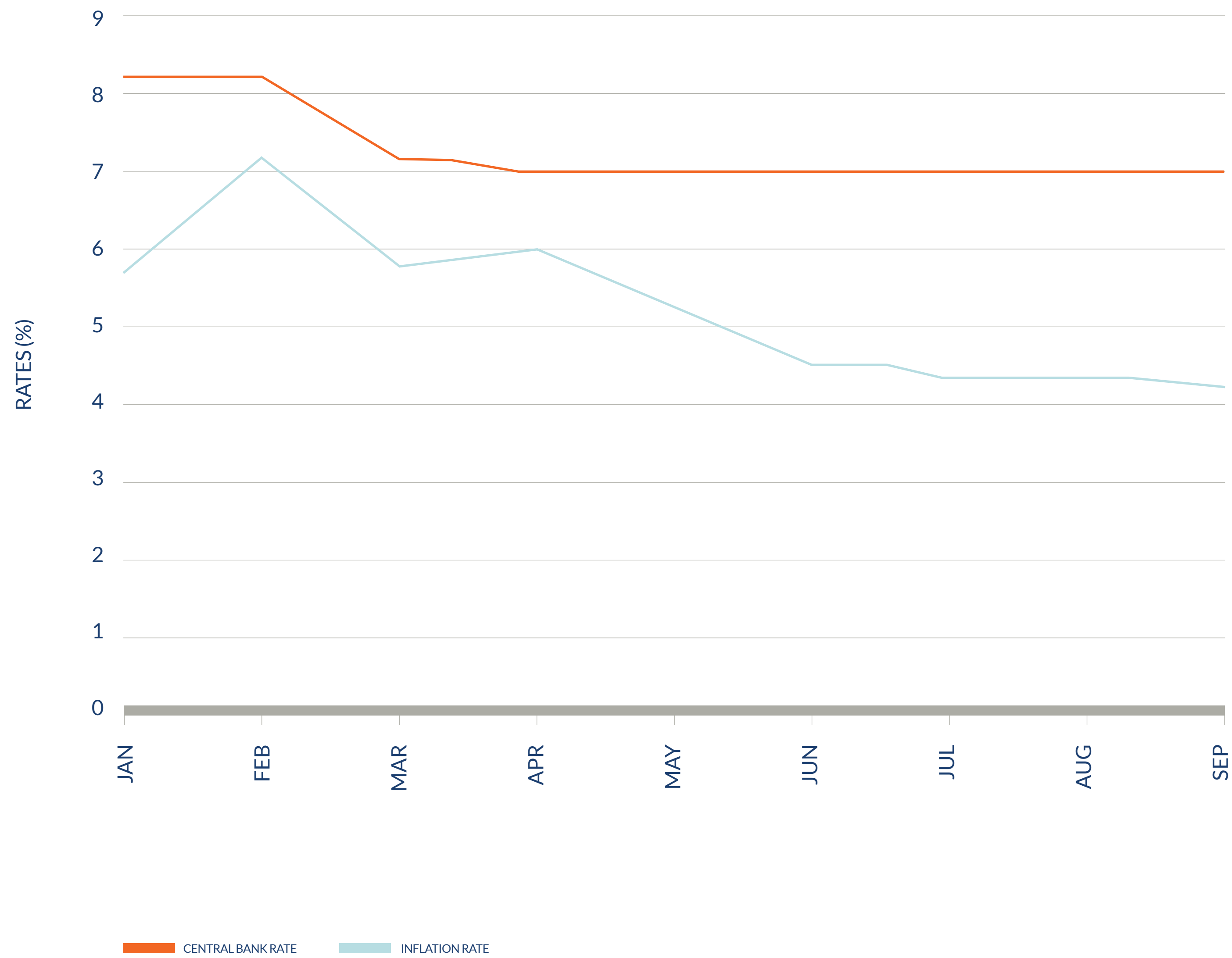
The CBR is the rate at which the Central Bank of Kenya (CBK) loans to commercial banks.

The CBR dropped from 8.3% in Q1'2020 to 7% in Q2'2020.

This rate has remained constant as a result of a decision made by the MPC to maintain the current monetary policy measures, citing the benign inflationary environment and extraordinary fiscal measures that have had to be taken as a result of the COVID-19 pandemic.

Monetary Indicators and Inflation

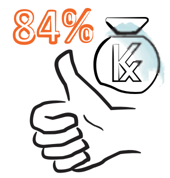
CENTRAL BANK RATE VS INFLATION RATES



* 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.

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

Asset Allocation Highlights:



84% of schemes surveyed followed a conservative investment approach.

11% of schemes surveyed followed a moderate investment approach.

5% of schemes surveyed followed an aggressive investment approach.

Kenya Pension Scheme Asset allocation

A new fund manager was added this quarter, GenAfrica Asset Managers. The survey now recorded an increase in assets under management of 39%, from 653 Billion Shillings in Q2'20 to 906 Billion Shillings in Q3'20.

84% of schemes surveyed follow a conservative investment approach. They aim to preserve their investment by investing in low-risk assets.

In the analysis performed, we have taken funds with at least 65% of assets under management invested in fixed income, as following a conservative investment approach.

These schemes had assets under management of approximately 69% of total assets under survey, an increase of 3% from the Q2'20 survey.

11% of schemes surveyed follow a moderate investment approach. They aim to construct portfolios that balance risk and return by investing in medium-risk assets.

In the analysis performed, we have taken funds with at least 45% to 65% of assets under management invested in fixed income, as following a moderate investment approach.

These schemes had assets under management of approximately 22% of total assets under survey, a decrease of 1% from the Q2'20 survey.

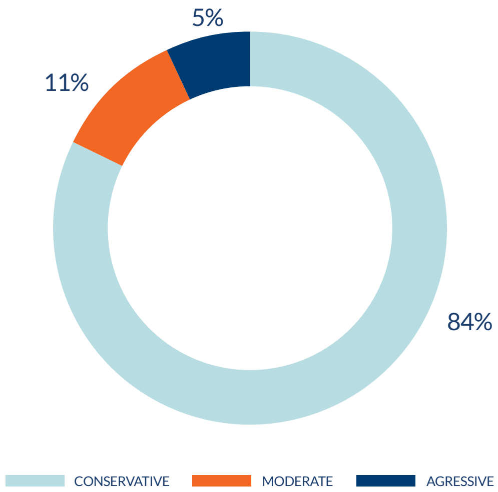
The remaining 5% of schemes surveyed follow an aggressive investment strategy. They aim to construct portfolios that optimise return, by investing a greater proportion of funds to return enhancing investments.

In the analysis performed, we have taken funds with less than 45% of assets under management invested in fixed income, as following an aggressive investment approach.

These schemes had assets under management of approximately 9% of total assets under survey, a decrease of 2% from the Q2'20 survey.

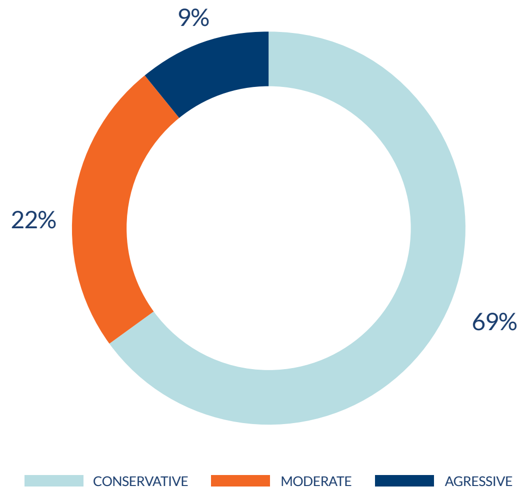
Pension Scheme

RISK PROFILE ASSET ALLOCATION



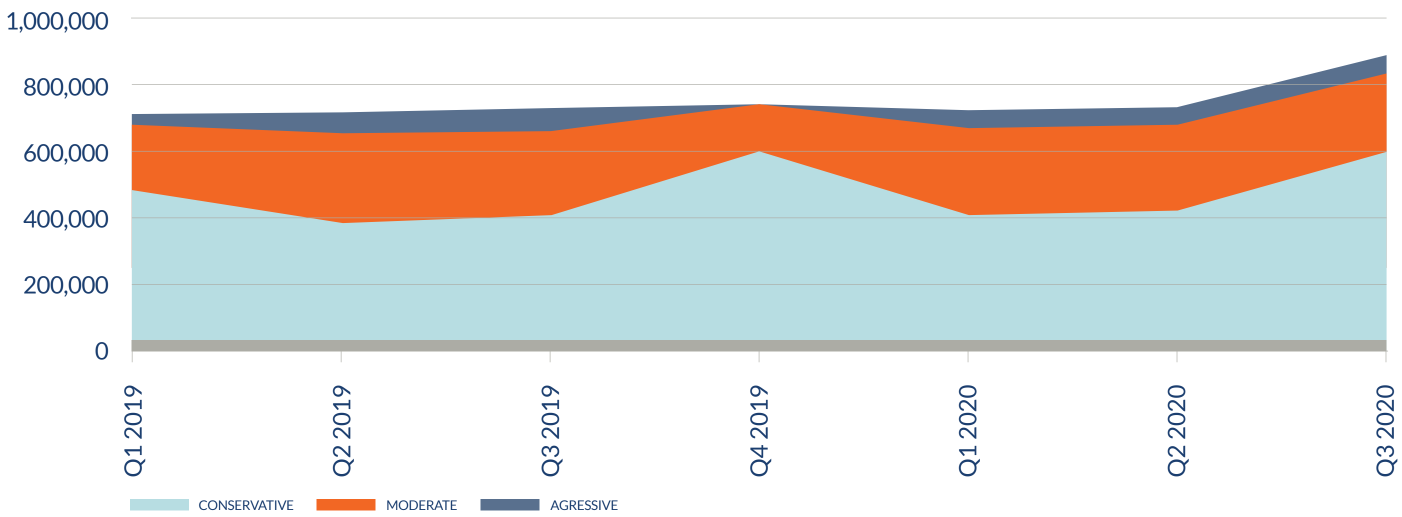
Pension Scheme

RISK PROFILE AS A PERCENTAGE OF AUM



Pension Scheme

TREND SUMMARY OF AUM ACCORDING TO RISK PROFILE



Kenya Pension scheme performance

The overall weighted average return of all schemes surveyed during this quarter (Q3'20) was 4.3%, compared to 4.0% in the previous quarter.

Despite Q3'20 being tumultuous for equity markets, the funds under review still achieved a positive equity return, recording a weighted average return of 5.2% and median of 5.4% vs the NASI which was up 1.6% in Q3'20.

Despite these positive gains on the equities market this year, over the medium-term period (one and three years), Kenyan equities are barely positive. On a one-year measure, Kenyan equities provide negative returns of -0.6%; we must look back 5 years to provide a positive return from equities, of 2.5%.

Fixed income returns rose from 3.7% in Q2'20 to 4.0% this quarter. Fixed income has proven a resilient asset class, providing positive inflation adjusted returns across all time horizons used in this survey. Whilst this asset allocation has proven the mainstay historically, due consideration should be given to debt sustainability and in-turn, the yields offered on Kenyan sovereign securities going forward.

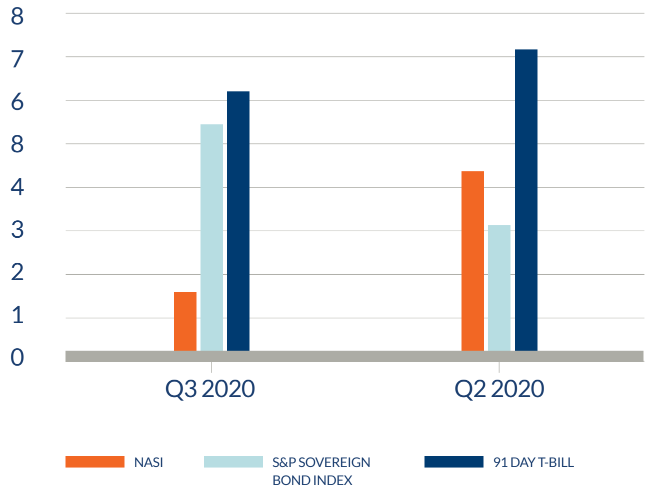
Offshore investments reflected profit taking post the strong Q2'20 performance of 23.0%, with returns for Q3'20, whilst still positive, up 11.6%, were half of the gains enjoyed in Q2'20.

DID YOU KNOW?

Did you know that the retirement benefits authority has clarified the measures taken to ensure individual pension plans are as safe as occupational pension plans?

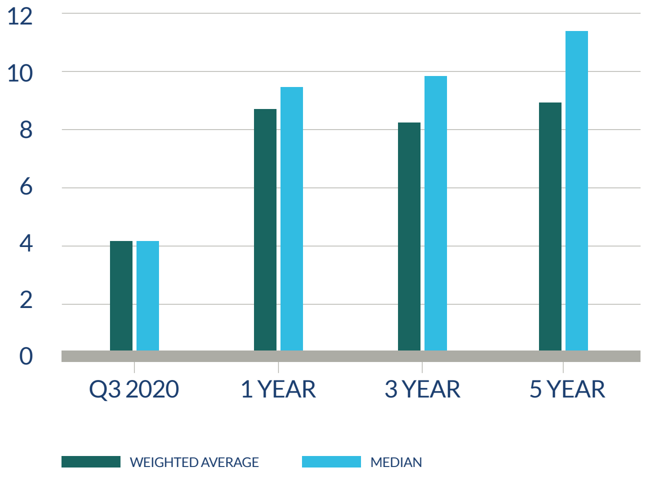
Capital Market Performance

PERFORMANCE OF SELECT BENCHMARKS & ECONOMIC INDICATORS



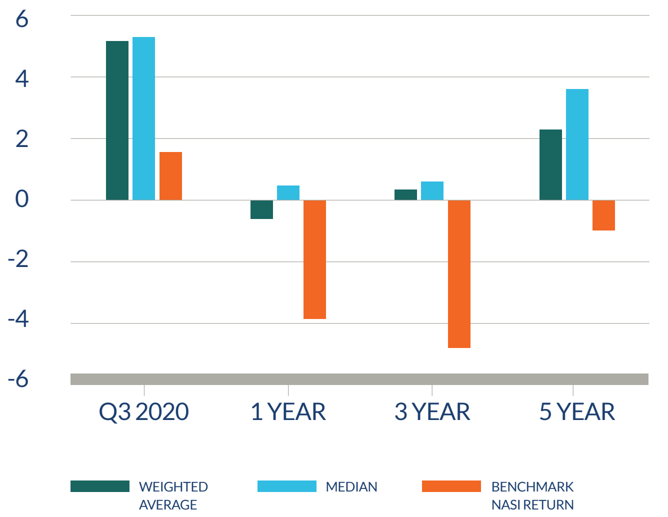
Investment Manager Performance

OVERALL PERFORMANCE ANALYSIS



Equity Performance

EQUITY PERFORMANCE



Fixed Income Performance

FIXED INCOME PERFORMANCE