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ACTUARIAL SOCIETY OF SOUTH AFRICA

Investing in Africa: A practical perspective for the South African Institutional Investor

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Agenda

1. Introduction
2. Rationale and risks
3. Financial market development
4. Asset manager survey results
5. Implications for trustees
6. Conclusion

Introduction

- The case for investing in Africa is increasingly well documented
- Regulation 28 has allowed retirement funds to invest 5% into Africa since 2008
- South African retirement funds have generally been slow to take up the Africa allowance
- The Government Employees Pension Fund has earmarked 5% of the fund for investment into Africa

Ways of getting exposure

- There are three ways to get exposure:
  1. Direct allocation
  2. Allocation through a balanced portfolio
  3. Indirect exposure

     12% of Shoprite earnings are from the rest of Africa
     Only 32% of MTN's income comes from SA

- To date, most allocations have been to listed equity, but growing trend to invest in bonds and private equity

- Those investors that have made allocations have been handsomely rewarded over the recent past

Rationale

- Economic prospects
- Demographic profile
- Urbanisation
- Rise of the African consumer
- Improving political outlook

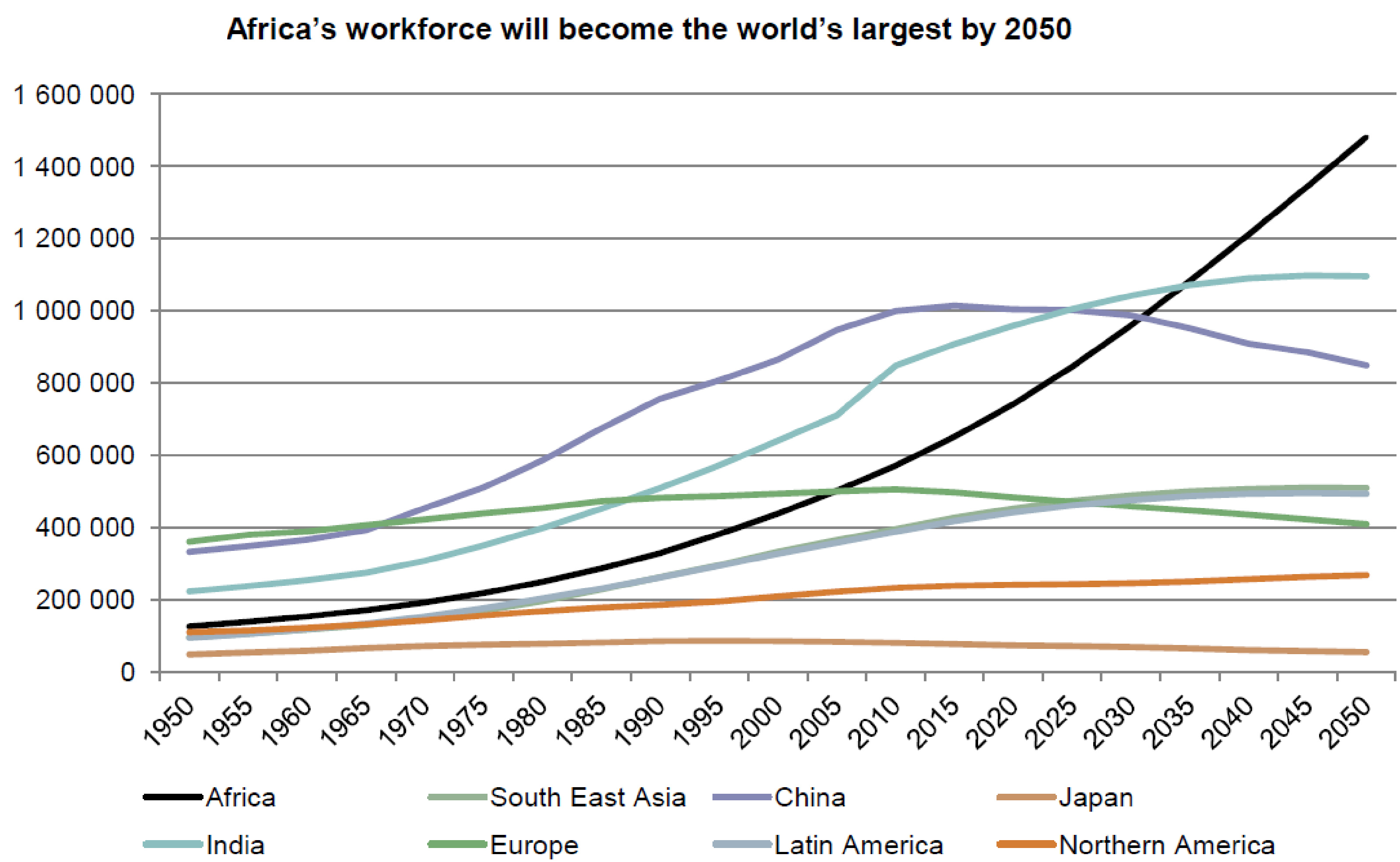
Rationale: Economic prospects

5.9%	Expected growth in GDP in 2014 for sub-Saharan African countries (versus 2.1% for developed economies)
11	Of the 20 fastest growing economies are in Africa
13	Number of African countries expected to grow at a rate faster than 7% in 2013
36.5%	Average gross debt-to-GDP for sub-Saharan African countries (versus 109% for developed countries)

Rationale: Demographic profile

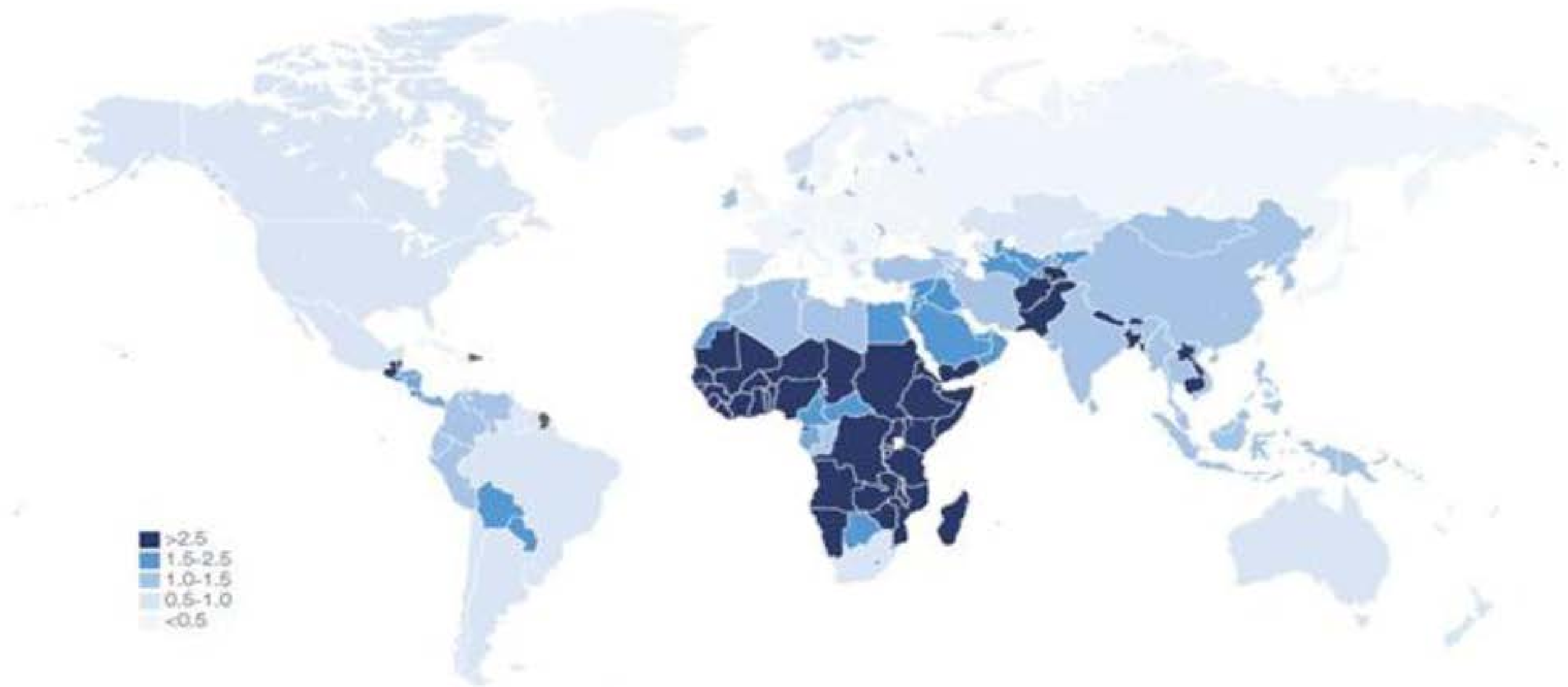
10	Countries with the youngest populations are all in Africa
41%	Proportion of African population under the age of 15
30 years	When Africa is expected to have the world’s largest working population

Rationale: Demographic profile



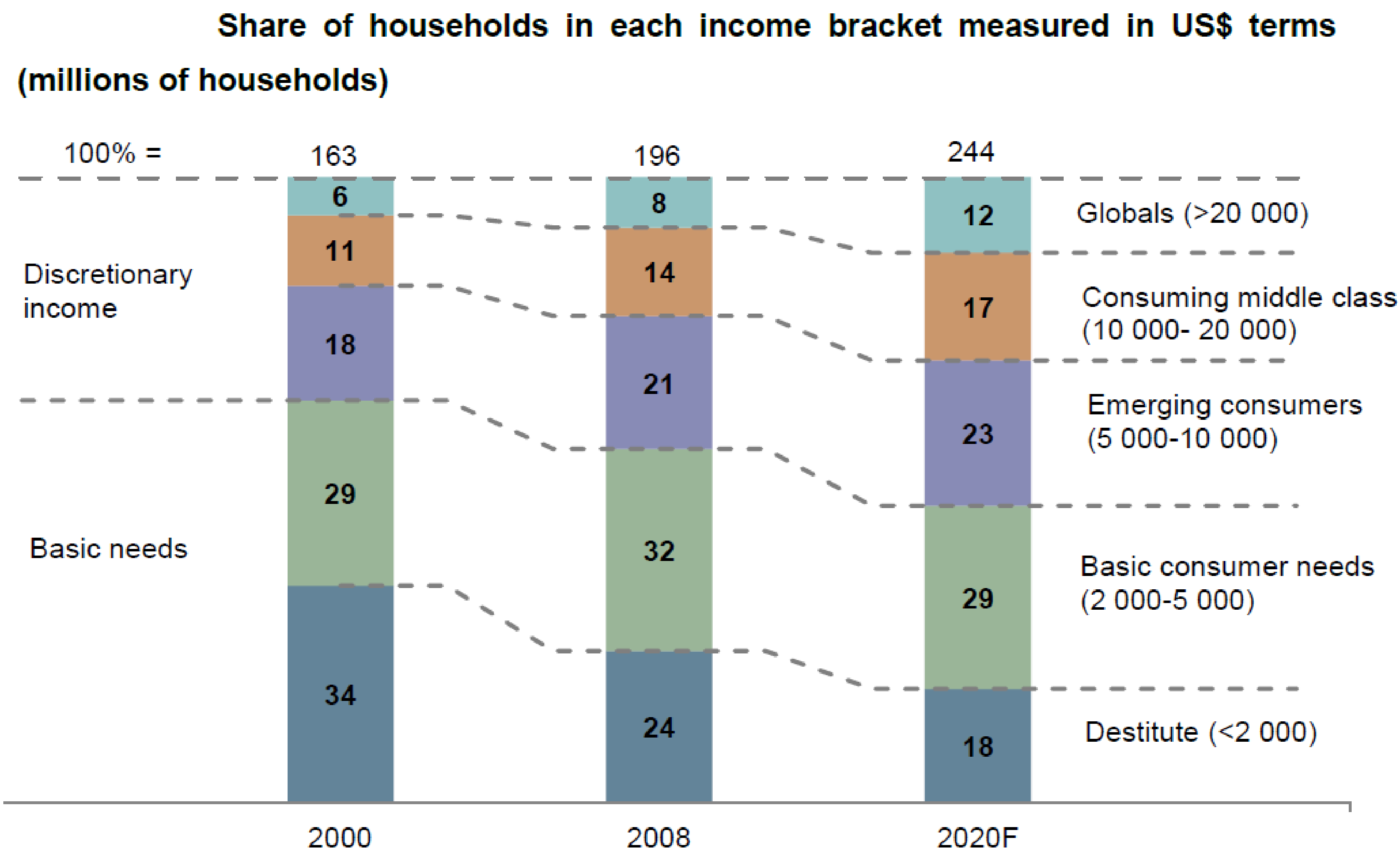
Rationale: Urbanisation

Expected annual growth rates in urbanisation (2010 to 2050)



Source: United Nations and Credit Suisse

Rationale: African consumer



Source: McKinsey, "A Continent on the Move", June 2010

Rationale: Political environment

11	Number of African countries considered free according to the Freedom in the World survey (2013)
70%	Proportion of African countries that have improved governance since 2006 (Ibrahim Index of African Governance)
14	Number of African countries that rank better than India n the Transparency International's Corruption Perception Index

Investment risks

In addition to the risks already highlighted, investors also face the following main risks:

- Volatility
- Low levels of liquidity
- High costs of investing
- Concentrated stock and sector exposure
- Capacity constraints
- Currency risk
- Poor corporate governance and corruption
- Default risk (when investing in government or corporate bonds)

Risk needs to be weighed up against potential returns

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Financial Market Development

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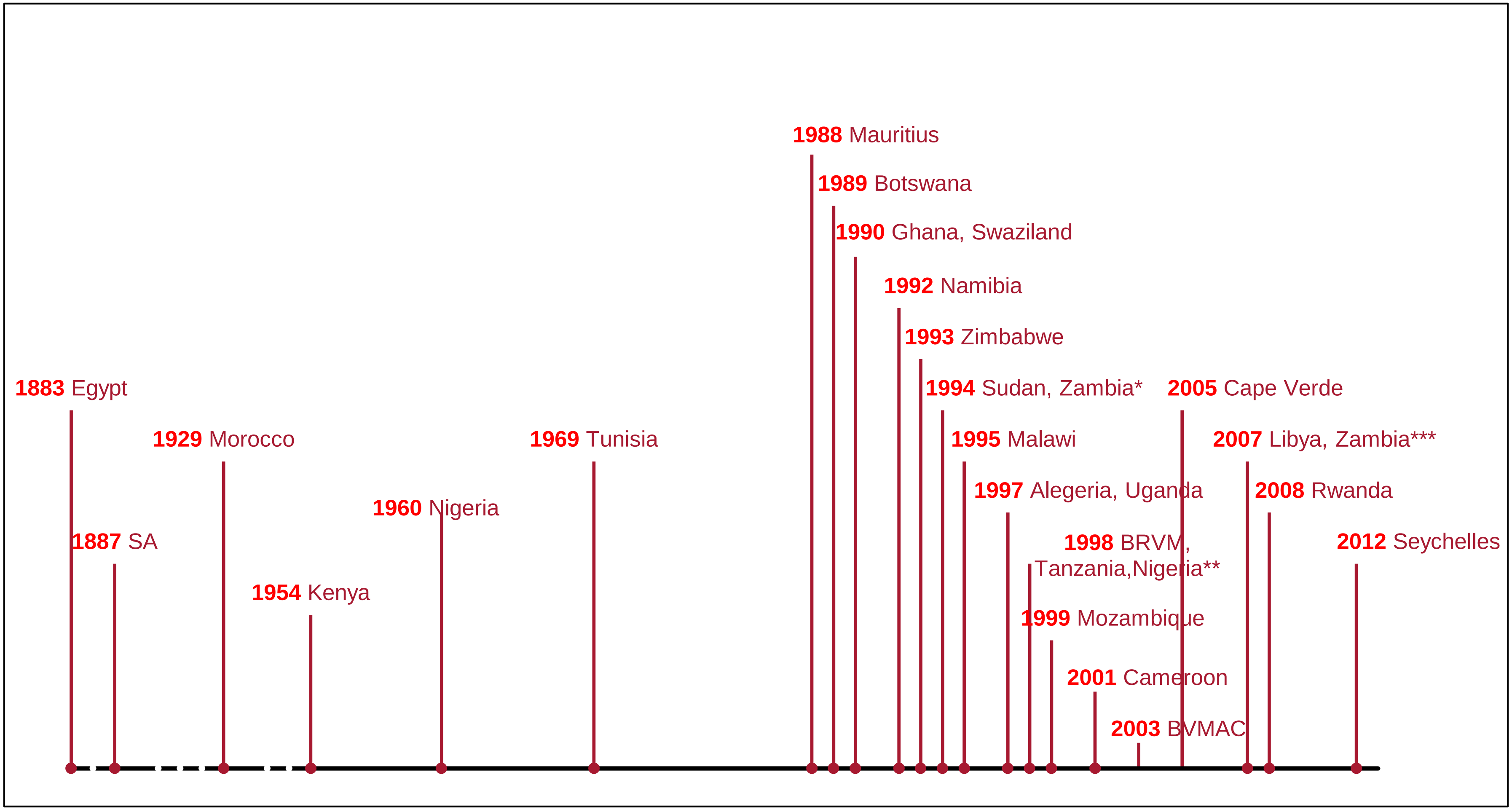
Equity market development



Source: Supplement to JSE Magazine: African Investment, Wikipedia and various stock exchange websites

* Lusaka Stock Exchange

** Abuja Securities and Commodities Exchange

***Agricultural Commodities Exchange of Zambia

Characteristics: Africa listed equity

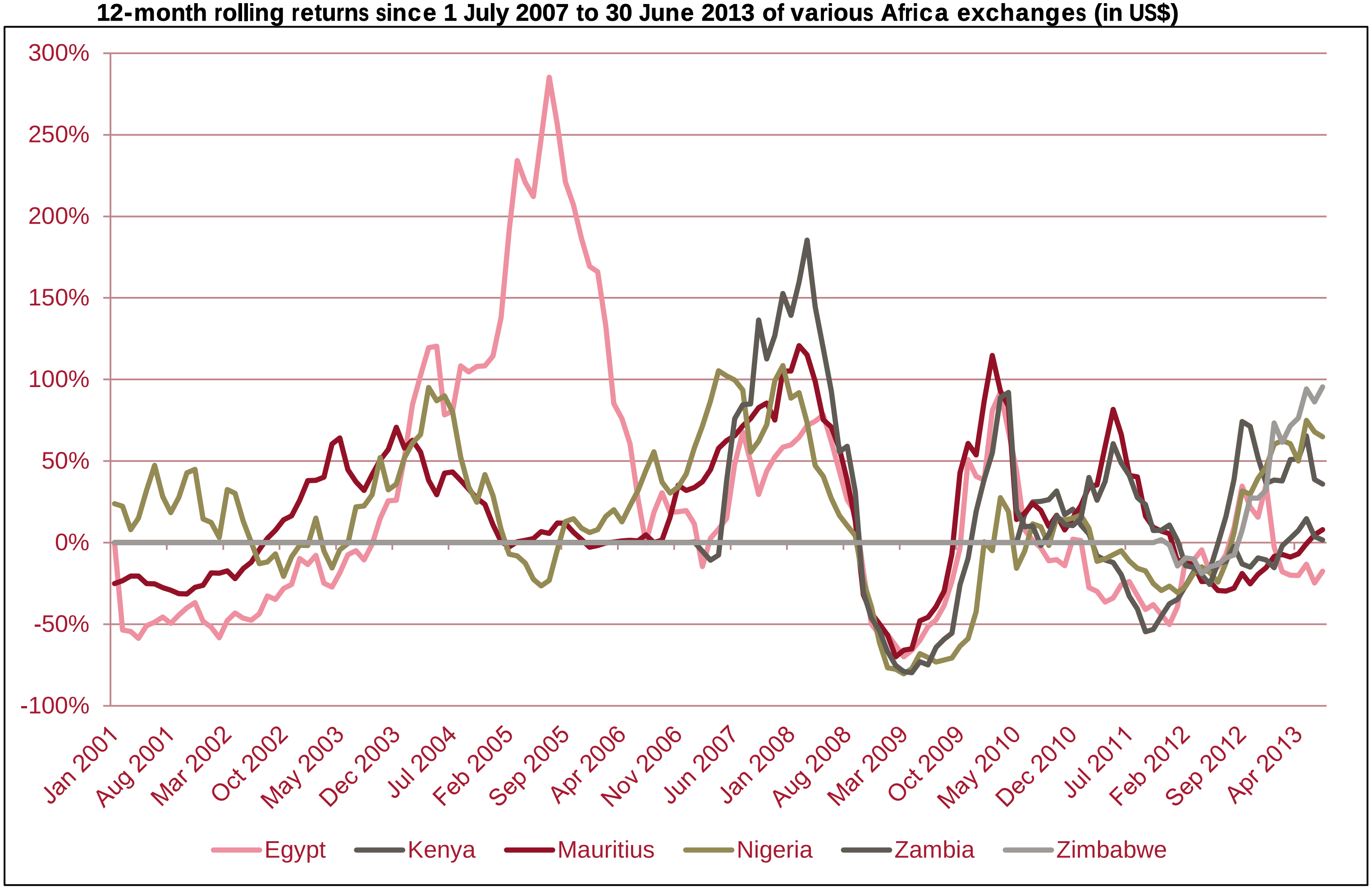
- Small in size and number of stocks
  - End 2011: Value of African stocks outside SA was 0.94% of world stocks and 2.14% of emerging market stocks
  - SA, Egypt and Nigeria account for more than 50% of equities
- Dominated by a few large companies
- Small relative to the size of their economies
- Thinly traded affecting liquidity
  - Some markets trade manually
  - Some markets trade over short periods of the day

Exchange	Time Zone	Trading Days	Trading Times	Settlement
Botswana	GMT + 2	Mon – Fri	07:30 - 08:15	T + 3
Egypt	GMT + 2	Sun – Thu	10:30 - 14;30	T + 0

Source: Old Mutual Investment Group South Africa and the Johannesburg Stock Exchange

Characteristics: Africa listed equity

- High volatility in equity market returns



Source: Bloomberg

Characteristics: Africa listed equity

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- Low correlation to local and global equity markets

Weekly correlations in US$ since 2007 (when Nigerian index was formed) to June 2013

	JSE All Share	Nigeria 30	Moroc-co	Egypt 30	Kenya	S&P Africa 40	S&P 500	Hang Seng	MSCI World	MSCI EM
JSE All Share	100%									
Nigeria 30	24%	100%								
Morocco	8%	59%	100%							
Egypt 30	6%	76%	83%	100%						
Kenya	20%	87%	56%	80%	100%					
S&P Africa 40	92%	22%	25%	16%	13%	100%				
S&P 500	77%	61%	4%	21%	55%	60%	100%			
Hang Seng	78%	56%	43%	55%	54%	74%	67%	100%		
MSCI World	69%	76%	33%	50%	77%	54%	93%	77%	100%	
MSCI EM	91%	49%	42%	44%	47%	88%	73%	94%	79%	100%

Source: OMIGSA

Characteristics: Africa listed equity

- Low correlation between African markets

Correlation matrix of various Africa exchanges (Based on data from 1 July 2007 to 30 June 2013 in US$)

	Egypt	Kenya	Mauritius	Morocco	Nigeria	Zambia	Tunisia
Egypt	100%						
Kenya	20%	100%					
Mauritius	0%	27%	100%				
Morocco	26%	24%	34%	100%			
Nigeria	32%	48%	24%	28%	100%		
Zambia	-25%	14%	36%	12%	-1%	100%	
Tunisia	8%	13%	48%	25%	-15%	13%	100%

Source: Bloomberg

Listed equity benchmarks

- There is no generally accepted standard benchmark to evaluate manager performance
- FTSE/JSE, MSCI, S&P, Dow Jones, Nedbank, Standard Bank and Merrill Lynch offer indices
- Some key considerations when choosing a benchmark:
  - Representative of the manager’s investment universe – should exclude South Africa
  - Exposure to stocks of African companies listed on exchanges in other markets

Listed equity benchmarks

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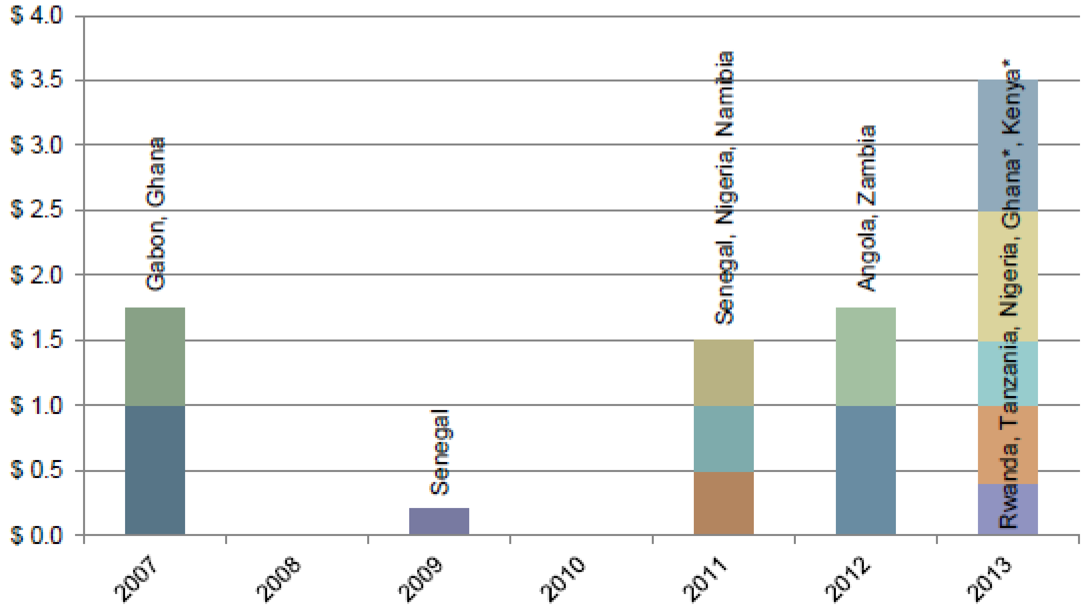
FTSE/JSE	MSCI	S&P	Dow Jones	Nedbank	Standard Bank	Merrill Lynch
FTSE/JSE All Africa 40 Index	MSCI EFM Africa Index	S&P Africa 40 Index	Dow Jones Africa Titans 50 Index	Nedbank Africa 100 Index	Standard Bank Africa ex-SA Index	Merrill Lynch Africa Lions
FTSE/JSE All Africa ex-SA 30 Index	MSCI EFM Africa ex-SA Index	S&P Africa Frontier Index				
	MSCI FM Africa Index	S&P Pan Africa Index				
		S&P Africa Access Index				

- FTSE/JSE and MSCI: Egypt, Kenya, Mauritius, Morocco, Nigeria, South Africa and Tunisia
- S&P: Botswana, Zambia, Tanzania, Congo, Sierra Leone, Gabon, Eritrea and Angola
- Nedbank: Malawi
- Merrill Lynch: companies listed on an African exchange or that derive a portion of their revenue from Africa

Bond market development

- Bond markets are in a nascent stage of development
- Growth has come from the government sector
- Debt market is dominated by foreign currency issuances

Annual global issuance by sub-Saharan sovereigns since 2007 (US$ billions)

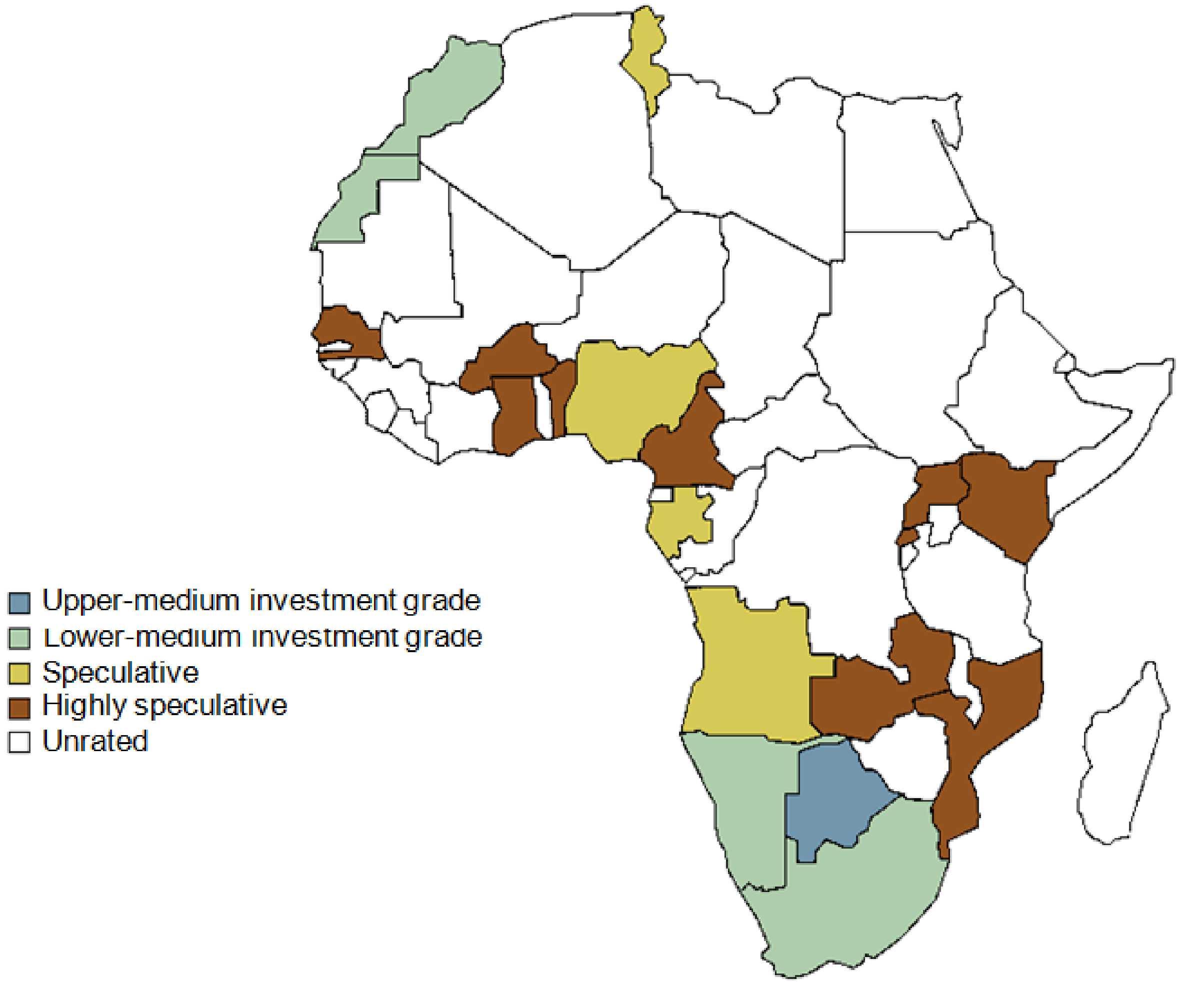


Source: Rand Merchant Bank

Eurobond issuances

Country	Year of issue	Maturity	Yield	Size of issue (US$ billion)	Purpose of issue	Subscription Level
Ghana	2007	2017	7.50%	0.75	Improving Infrastructure	4X
Namibia	2011	2021	5.75%	0.5	Financing TIPEEG (Targeted Intervention Programme for Employment and Economic Growth)	5.5X
Rwanda	2013	2023	6.88%	0.4	Using US$200 million to repay loans in relation to the Kigali Convention Centre and the RwandAir strategic development plan; US$150 million to finance the completion of the Kigali Convention Centre; and US$150 million to be used to pay for building a 28 megawatt hydro-power plant	8.7X
Zambia	2012	2022	5.63%	0.75	Financing the upgrading of infrastructure in the road and energy sectors and funding the country's budget and spending in social sectors (education and health)	15X

Credit ratings



Source: Rand Merchant Bank

Characteristics: Bond markets

- No secondary market exists

- Concerns around deployment of proceeds
  - Good corporate governance and debt monitoring structures needed to prevent excessive borrowing by corporates

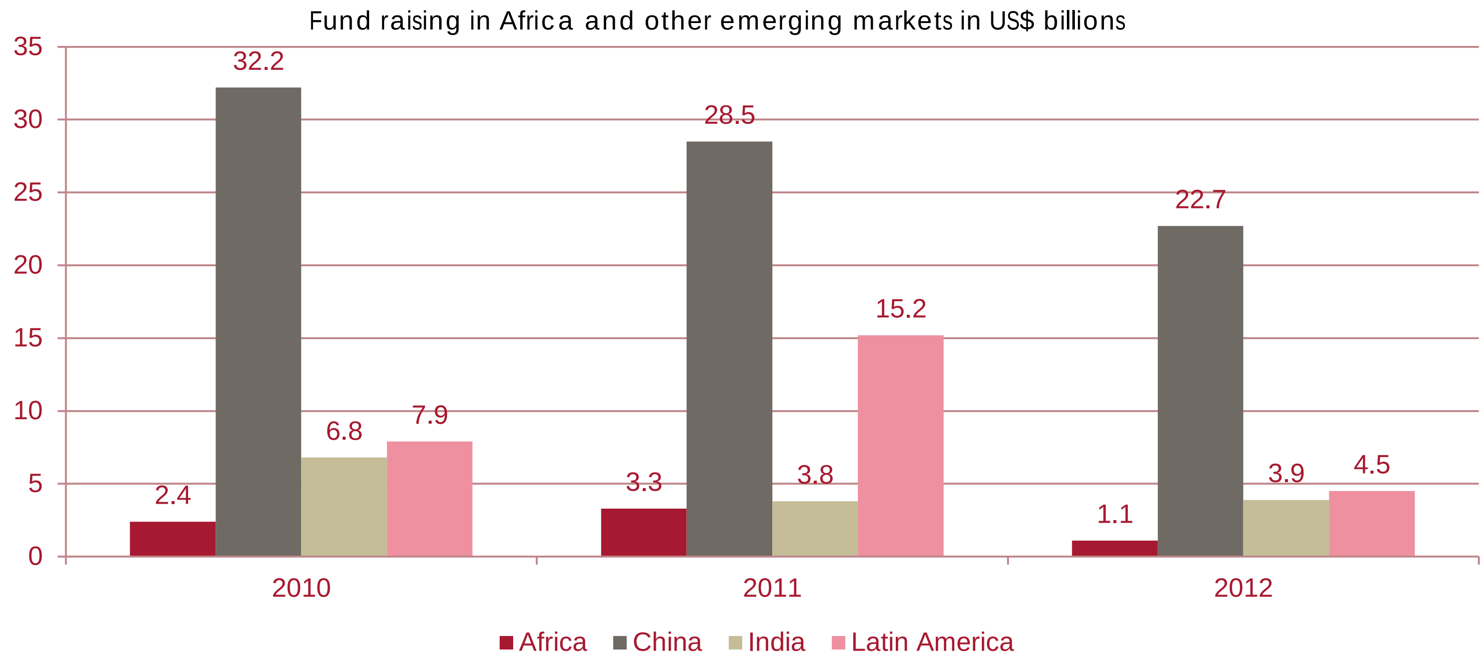
- Bond issuance is an important source of financing for both government and corporates

- Many countries are planning new or returning issuances
  - Cameroon, Angola, Nigeria, Kenya, Uganda, Senegal, Tanzania and Ghana

Private equity development

- In early stages of development

- Fund raising lags that of emerging economies



Source: KPMG Private Equity Roundup 2013

Characteristics: private equity

- Industry is small relative to developed markets
- Growing interest in private equity
  - 2006 to 2012 – 81 funds closed to new fund raising
  - 2012 – 45 new funds opened
- Market is dominated by generalist funds with an increasing trend towards sector-specific funds
- Deal sizes are small and investors can benefit from a first mover advantage
- The biggest challenge for investors is liquidity

African financial markets

- Foreign Direct Investment in Africa is growing
  - US$ 10 billion a year in the 90s to US$ 50 billion in 2012

- Benefits of emerging and expanding financial markets
  - Attract greater private investment
  - Integration into the global financial marketplace
  - Opportunities for local and global investors

- The risks are worth taking and listed equity is a good initial step to enter the market

Asset Manager Survey results
Implications for trustees
Conclusion

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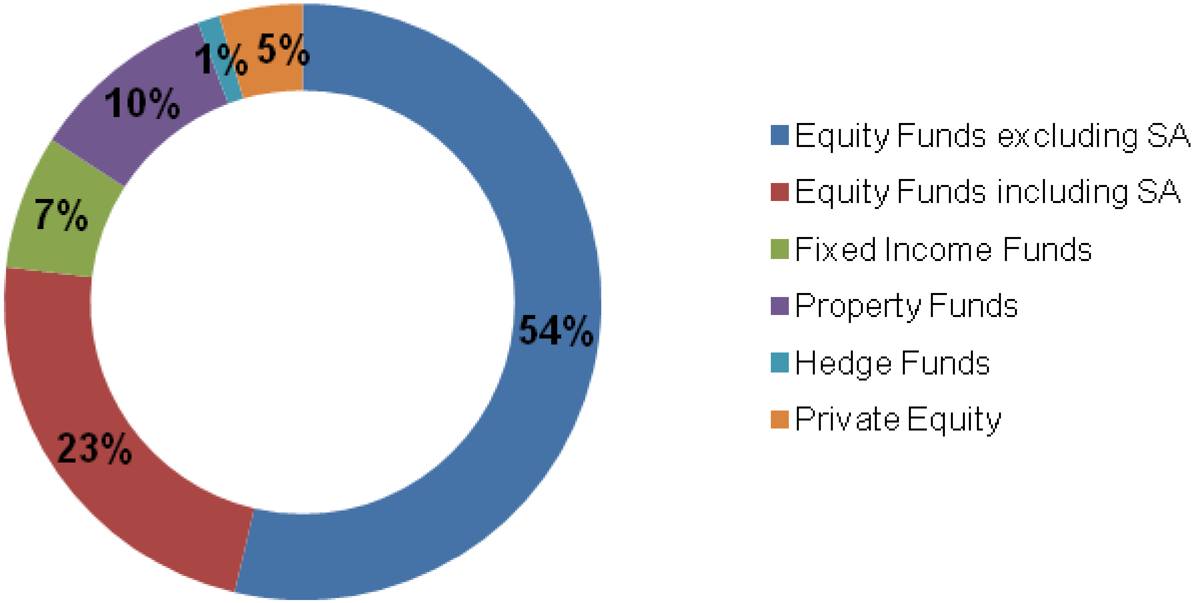
Survey of Africa Fund Managers

- 15 asset managers contacted and 12 responded
- Assets under management totalled $3.51billion
- Represents 80% of single-manager universe with Africa offerings

African assets under management

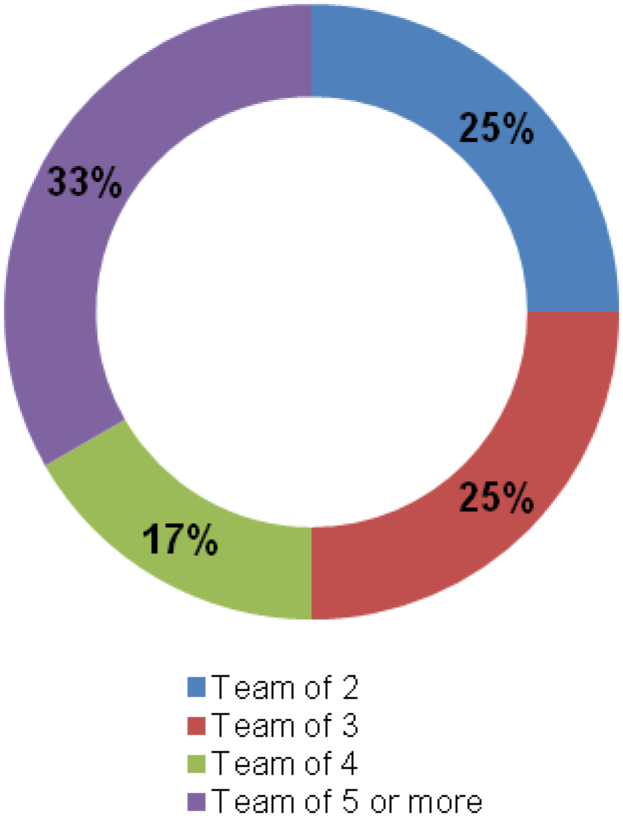


Managers Surveyed

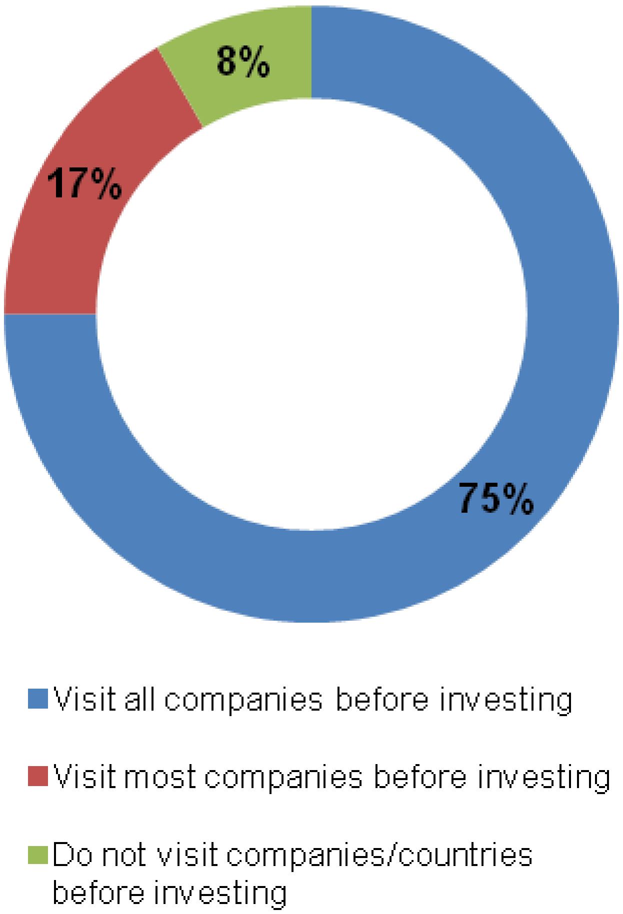
12 Respondents out of 15 Managers Surveyed

Investment teams and process

Dedicated Africa-focussed individuals



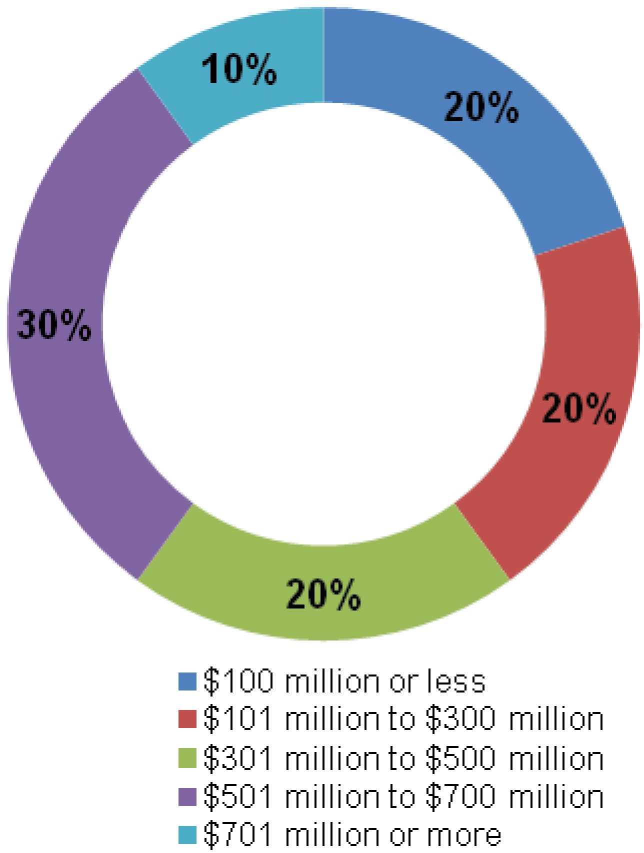
Investment process before investing in an African economy



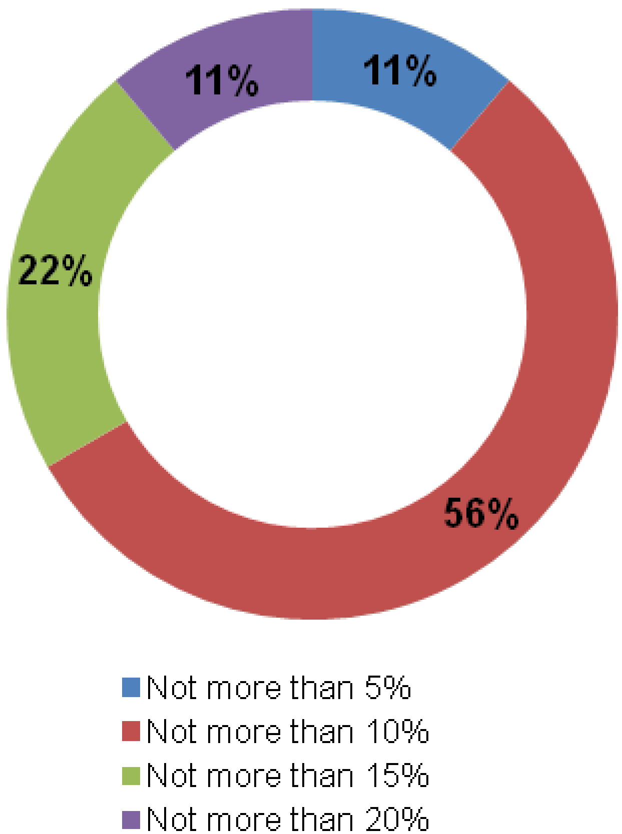
Capacity Constraints

- 10 of the 12 managers had fixed targets of assets under management

Target assets under management



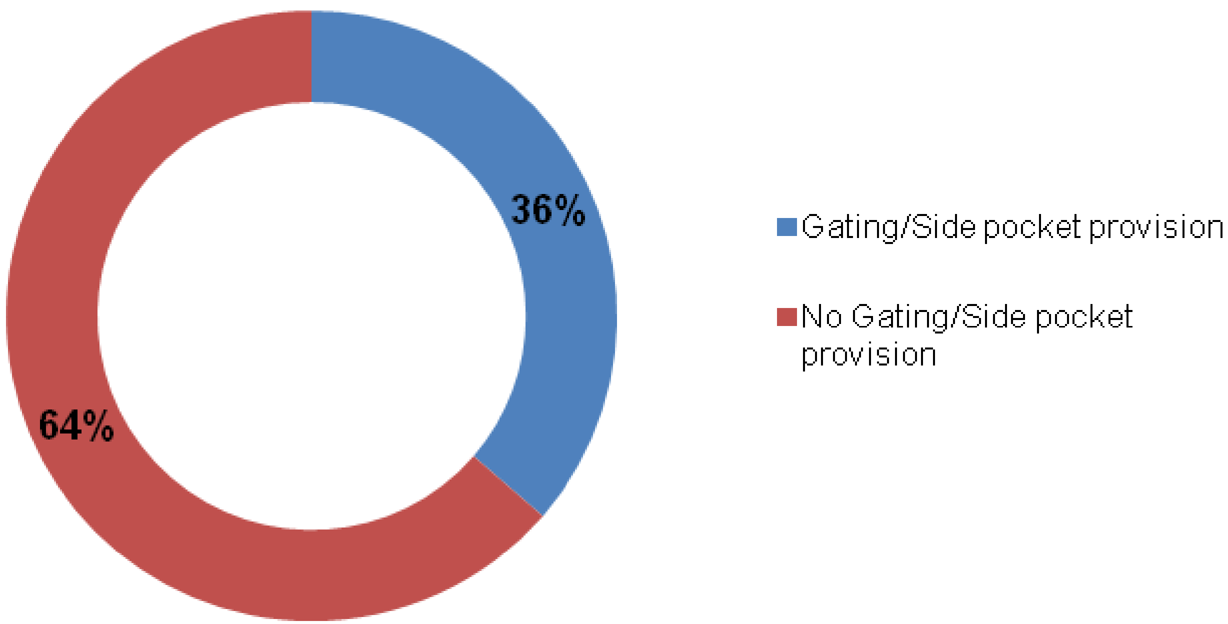
Expected cash holdings



Liquidity issues

- Gating: limit total redemptions to a percentage of the net asset value of the fund
- Side pockets: accounts created to house illiquid securities that cannot be valued or disposed of easily

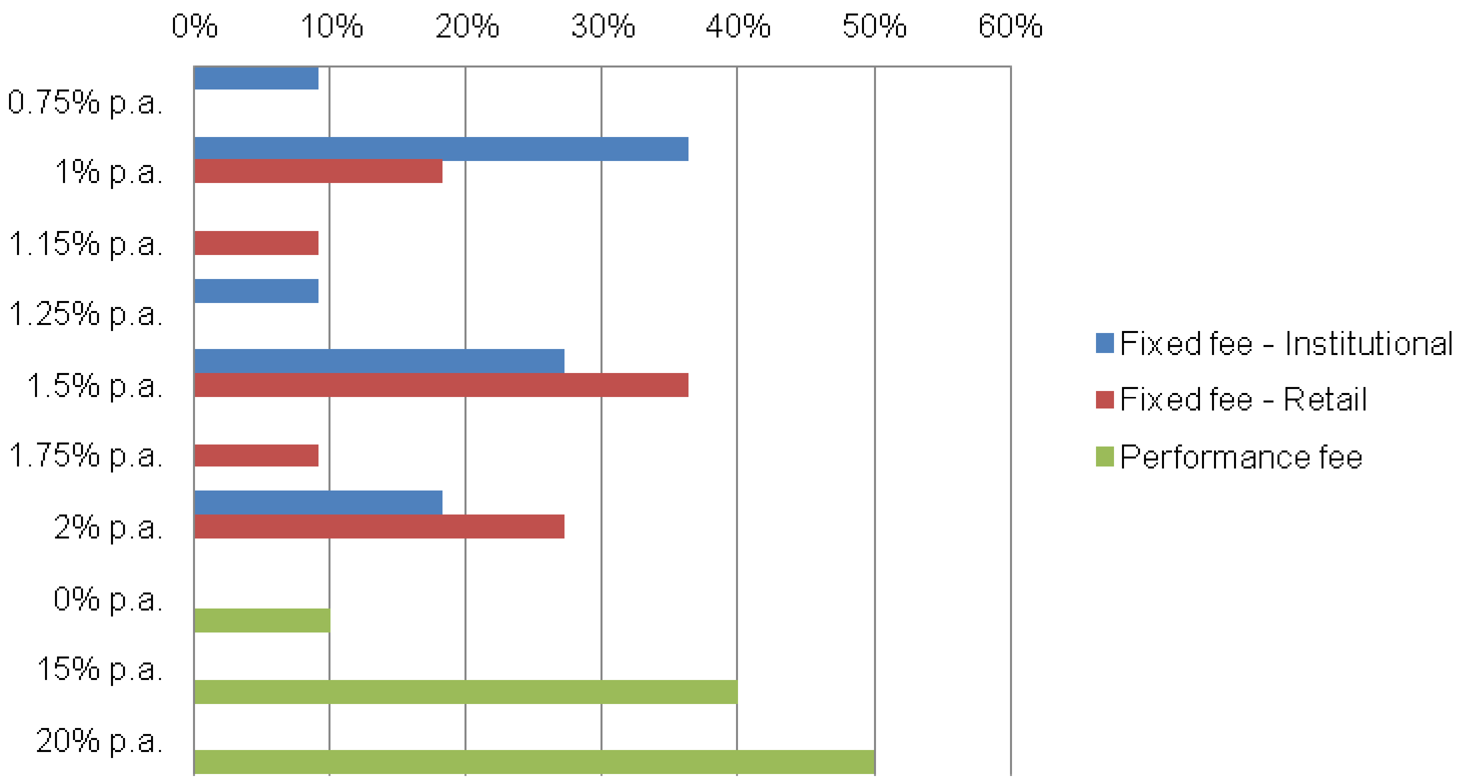
Use of Gating and Side pockets



Institutional and Retail Investors

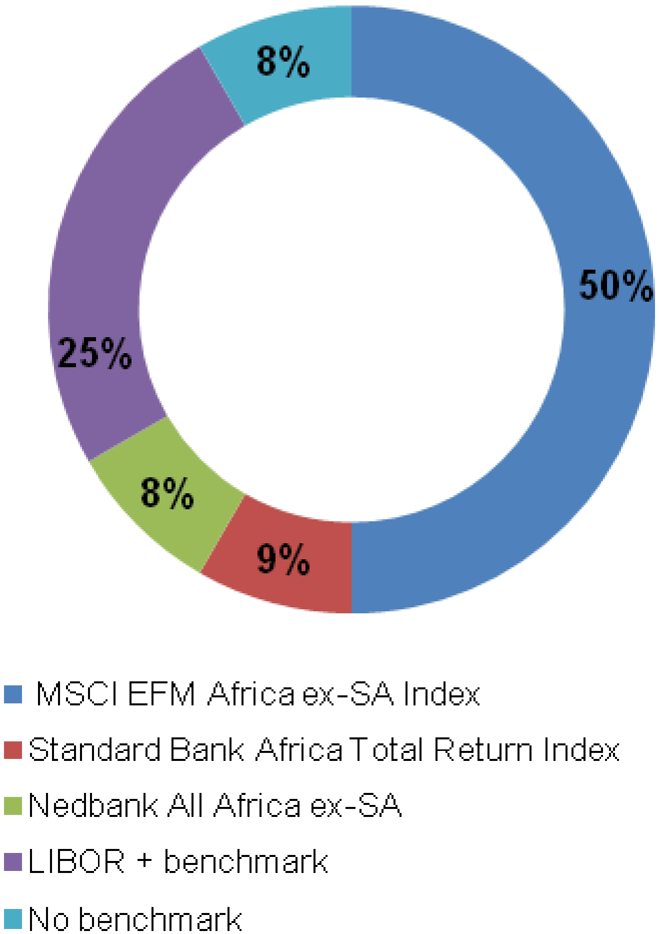
- Most managers offer both retail and institutional classes
- Minimum investment amounts ranging from $1000 to $5 million

Management and Performance Fees

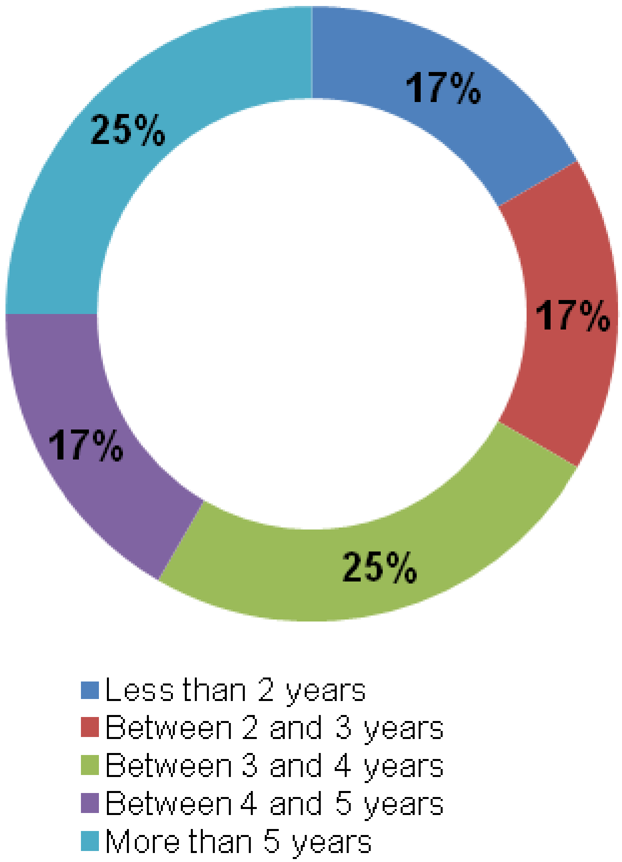


Benchmarks and Track records

Ex-SA Equity Fund Benchmarks

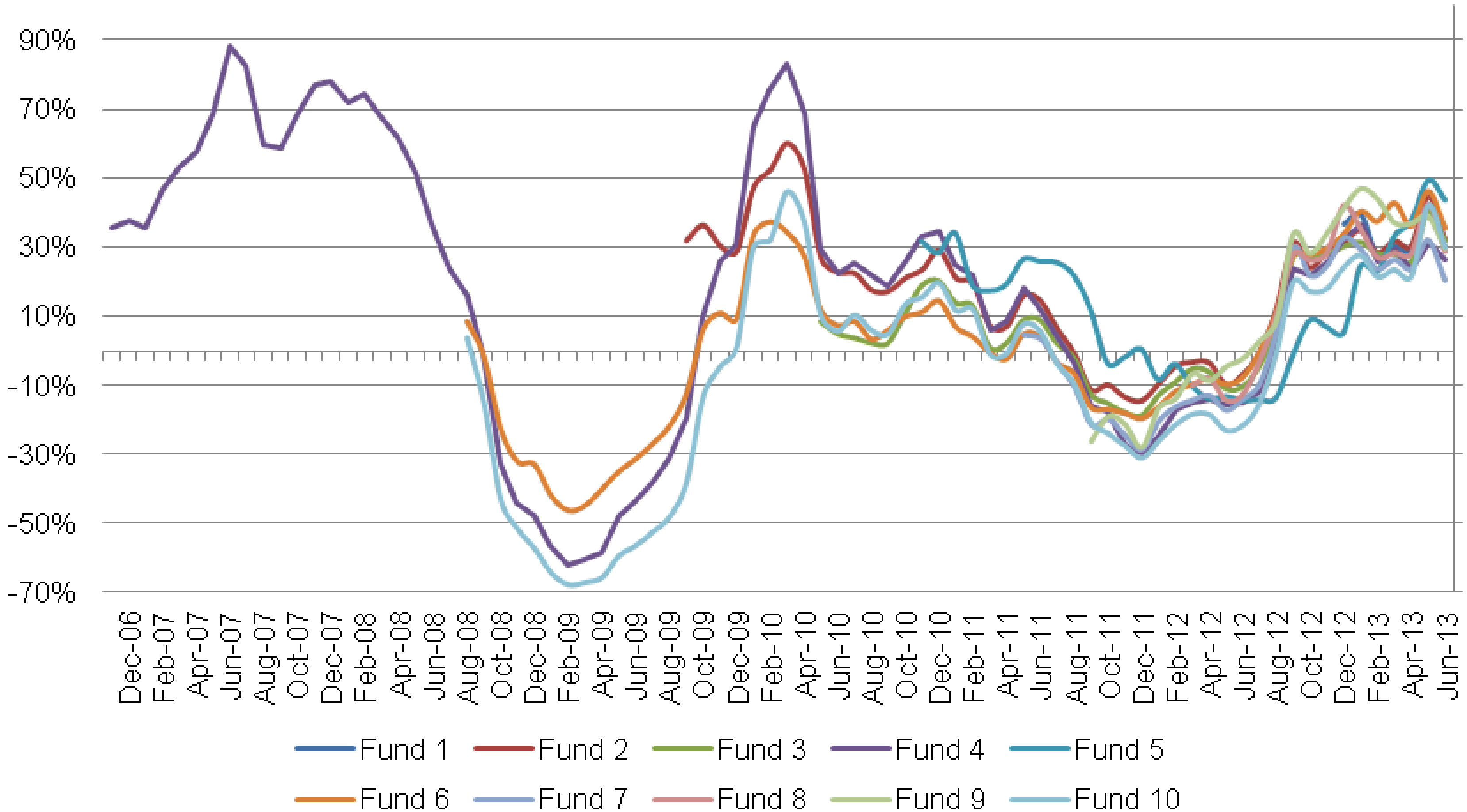


Track Records



Divergent returns

12-month rolling returns in US$



Implications for Trustees

- Pension fund liabilities are long-term in nature which require investment in asset classes where a long-term view is taken
- Increase in governance burden for the trustees
- Given the diversity in the funds available it is advisable to consider appointing more than one manager
- Choice of benchmark is important
  - Implications for performance fees
- Choice of investment vehicle, need to consider legal structure
- Rebalancing rules

Conclusion

- African markets are volatile
- Investments have higher risks than those in developed markets
- A small initial allocation is appropriate as part of a well-diversified portfolio
- Initially listed equities provide the easiest route to investing in Africa
- Areas of further exploration – development of real estate and agriculture investment universe

Thank you

Questions