PENSION FUNDS & ALTERNATIVE INVESTMENTS AFRICA

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OFFICIAL CONFERENCE REMARKS

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1. Director of Ceremonies, I am delighted to be speaking at this conference on behalf of the African Securities Exchanges Association (ASEA). It was in November 2016 that I was nominated into the ASEA Executive Committee, therefore, it gives me great purpose and pleasure to be able to contribute in this role on behalf of the Securities Exchanges in Africa. It is a role I could not have turned down given the importance of the pensions industry to the continued survival and evolution of Stock Exchanges and to the successes of economies anywhere in the world.

2. This conference being the first annual conference, brings a lot of excitement as it seeks to provide a comprehensive view of the pension fund landscape in Africa and the potential for African capital markets to drive economic growth. It demonstrates the need for participants from all over the world to converge on a platform like this to build capacity by exchanging ideas, expertise and best practises on how the African pension industry can unlock value from the emerging trends or megatrends; and on how to optimally position Africa to benefit from future issues within the pension industry and networking.

3. According to research from PwC in South Africa, global Assets under Management will rise by a compound annual growth rate of nearly 6% from a 2012 total of $69.9 trillion to over $100.0 trillion by 2020. Although Africa's share of this pie is relatively small, traditional Assets under Management in 12 markets across Africa is expected to register a compound annual growth rate of nearly 9.6%, rising to $1.98 trillion by 2020, from a 2008 total of $293 billion. As a matter of fact, Emerging

Markets are expected to experience faster growth rates of AuM compared to Developed Markets, leading to 2020 and beyond.

4. Better still, over a longer term horizon, Emerging Market specialists estimate that assets will swell to $7.3 trillion by 2050. By definition this trend implies that, over the years, there have been, and will potentially be new pools of assets to exploit by pension funds, insurance companies and sovereign wealth funds, among others.

5. The question we should answer is **HOW CAN AFRICAN ECONOMIES POSITION THEMSELVES TO OPTIMISE GROWTH OPPORTUNITIES PRESENTED BY THIS AVALANCHE OF INSTITUTIONAL FUNDS**. This is a question we should address as African Securities Exchanges, Investment Institutions and Capital Markets Authorities. Again this a question we should deliberate on as we unpack the theme of this conference which is "**INSTITUTIONAL INVESTMENTS IN EMERGING ECONOMIES**".

6. Africa has experienced tremendous growth in pension fund assets over the recent past. Much of the growth has been attributed to the shift from Defined Benefit or DB plans to Defined Contribution or DC plans and extended coverage to more working population, among other factors. For example, assets in East Africa have grown in excess of 20% on a consistent basis; sub-Saharan Africa has experienced growth rates of between 8% and 18%; Ghana's pension fund industry grew by 400% from 2008 to 2014; and the Nigeria's industry has seen growth rates between 20% and 30% annually. Despite the growth accumulated over the years, African pension funds have been less successful at deploying their capital. By default, the capital has predominantly found its nest in traditional assets such as bonds and equities, with little to no allocation to alternative investments such as private equity and infrastructure which have the capacity to power economic growth. In this light, we need to find ways through which we can enable the growth in pension fund assets to filter constructively into the development of African economies.

7. The mismatch between the abundance of capital and the limited deployment of capital needs to be narrowed significantly. Without a doubt, Africa's capital markets provide a key opportunity for Africa to take charge of financing its own development, thus reducing dependence on foreign aid.

8. The current backlog for infrastructure in Africa is estimated at $93 billion per annum. Against this backdrop, pension funds have enjoyed periods of phenomenal growth in African regions as I have mentioned. This has, therefore, meant that the excess capacity in some countries has been exported outside the continent without creating significant value domestically.

9. Looking ahead, many African countries are still projected to sustain strong levels of economic growth over the longer term, an indication that a huge demand for capital will prevail. The key trends with respect to demographics, urbanisation and private-sector growth have not been adversely changed by the economic slowdown in some of the major economies in Africa. This growth therefore urgently requires savings, long-term risk capital for private sector growth, and long term capital for infrastructure investment.

10. Having said that, we can deduce that there is increased responsibility on Securities Exchanges across Africa to pioneer growth by providing efficient and cost effective platforms for raising long term capital through debt and equity. Even so, there is need for robust pension regulation reforms in order to allow pension funds also to invest in long-term growth through private equity and infrastructure funding. These reforms should be undertaken, taking into account the need to promote stability and growth of pension assets themselves.

11. In essence, Trustees must continue to exercise due care and diligence and upskill themselves in the manner in which new emerging assets classes such as alternatives have the potential to be both a friend and enemy to the assets of the beneficiaries. By extension, pension funds and other investment institutions as well as their regulators need to build, develop and enhance capacity and their skills set in order to comprehend productive allocation of these funds, and to adequately empower and take investment decisions that are in the best interest of their members.

12. As we are aware, capital markets integration has taken a phenomenal shape across regional markets in Africa over the years. This has affected growth and accessibility of investments, technology transfers, skills sharing, trade openness, and has stimulated the development of domestic financial markets and economic growth.

13. Subsequently, this has brought about efforts to harmonize African Securities Exchanges to harness liquidity, economies of scale, technology and regulatory frameworks; and to impact positively on efficiencies of African Securities Exchanges as well the efficiencies of the large pools of institutional funds.

14. As the African Securities Exchanges increasingly work together, through harmonization or integration, or through interconnectivity, it will become highly imperative for policy makers to open up cross-border investments by pension funds particularly given the aforementioned background that

pension funds have not managed to deploy their savings at the rate at which they have grown, in order to contribute significantly to economic development.

15. Before closing my official remarks, I wish to highlight the following trends which I believe shall become important considerations for the African pension fund industry over the coming years:

    a. Traditional active management will continue to be the core of the asset management industry but alternative investments and passive investments such as ETFs are expected to grow at a rapid pace. The key reason being cost considerations, diversification, as well as hedging against currencies especially currencies of Emerging and Frontier Markets;

    b. African pension fund assets will continue to experience rapid growth rates, particularly due to the dividend demographic of Africa's growing middle class, its increased use of technology and its rapid urbanisation.

    c. Technology shall become critical for driving customer engagement, data analytics, operational efficiencies, and regulatory reporting. Over and above operational risk, market risk and performance risk, cybercrime will become one of the key risks for the pension fund industry;

    d. Transparency and compliance will have an important bearing on the cost structure and these will become increasingly critical in aligning manager interests to those of the beneficiaries.

    e. Innovation must be at the forefront especially with respect to relevant investment instruments that speak to our African economies.

16. Clearly, there are a lot of megatrends impacting the pension fund industry here at home and elsewhere. The reason for highlighting a few among others is to summarise this presentation with this thought that **AFRICAN ECONOMIES MUST OPTIMISE THE CAPACITY OF THE AFRICAN CAPITAL MARKETS FOR ECONOMIC DEVELOPMENT AND SHOULD EXPLORE REGULATORY REFORMS THAT PROMOTE DIVERSIFICATION THROUGH ALTERNATIVE INVESTMENTS AND DO SO WITH AN OVERARCHING PURPOSE OF PROMOTING PENSIONS' STABILITY, EFFICIENCIES AND ALIGNMENT OF INTERESTS WITH THE MEMBERS**.

17. I wish to leave you with this thought.

18. In closing, on behalf of the African Securities Exchanges Association (ASEA) let me thank you for your attention and wish you a successful conference.

Delivered by Mr. Thapelo Tsheole, CEO of Botswana Stock Exchange and Executive Committee Member of the African Securities Exchanges Association (ASEA) at the Pension Funds & Alternative Investments Africa Conference in Balaclava, Mauritius on 15 March, 2017.