Pension funds, private equity and private debt in Southern Africa

Policy & regulatory development to catalyse larger uptake of private equity and private debt investments by pension funds in SADC

Research Report
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Acronyms

AUM	Assets Under Management
AVCA	African Private Equity and Venture Capital Association
CRISA	Code for Responsible Investing by Institutional Investors in South Africa
BPOPF	Botswana Public Officers Pension Fund
DPF	Debswana Pension Fund
DB	Defined Benefit
DC	Defined Contribution
EU	European Union
FSD	Financial Sector Deepening
FSCA	Financial Sector Conduct Authority
FSRA	Financial Services Regulatory Authority
GEPF	Government Employees Pension Fund
GIPF	Government Institutions Pension Fund
GP	General Partner
IOPS	International Organisation of Pension Supervisors
IPEC	Insurance & Pensions Commission
IPO	Initial Public Offering
JSE	Johannesburg Stock Exchange
LPF	Large Pension Fund
NAMFISA	Namibia Financial Institutions Supervisory Authority
NAPSA	National Pension Scheme Authority of Zambia
NBFIRA	Non-Bank Financial Institutions Regulatory Authority of Botswana
NFMW	National Fund for Municipal Workers (NFMW)
PD	Private Debt
PE	Private Equity
PIA	Pension and Insurance Authority of Zambia
PRI	United Nations' Principals for Responsible Investing
PPRF	Public Pension Reserve Funds
PSPF	Public Service Pension Fund
SADC	Southern African Development Community
SAVCA	Southern African Venture Capital and Private Equity Association
SDGs	United Nations Sustainable Development Goals
OECD	Organisation for Economic Co-operation and Development

Executive Summary

In this report we examine the approaches to private equity and private debt investments by pension funds in Southern Africa. The primary objective is to review the status quo, understand opportunities and challenges and make recommendations for policy and regulatory development to enable the region's pension funds (and ultimately their members) to benefit from the returns and diversification options presented by these two asset classes.

The findings we present are drawn from questionnaires conducted with 52 funds in eight countries including Botswana, Eswatini, Lesotho, Mozambique, Namibia, South Africa, Zambia, and Zimbabwe. These funds represent about $160 billion in assets under management (AUM), which translates to 30% coverage of the full AUM of funds in the region. This was complemented by interviews with regulators, pension fund leaders and other experts to collect more specific data and to contextualise our findings.
Overall, our research paints a picture of a very diverse set of markets in the region with unique challenges (see Table 1). We aim to strike a balance between providing regional insights with specific issues and opportunities in each market for positive reforms.

Table 1: Snapshot of pension market context of selected countries in Southern Africa

	Pension Market State	No of active pension funds	Largest Fund	Regulatory Authority	Permitted allocation to PE & PD	Hinderance to PE/PD allocation
Botswana	Developed	86	Botswana Public Officers Pension Fund (BPOPF)	Non-Bank Financial Institutions Regulatory Authority (NBFIRA)	PE 2.5% PD 2.5%	Small market with limited investment opportunities
Eswatini	Nascent	106	Public Service Pensions Fund (PSPF)	Financial Services Regulatory Authority (FSRA)	Not clear	Informal market undermined by political instability
Lesotho	Emerging	100	Public Officers Defined Contribution Pension Fund	Central Bank	PE 10% PD 1%-5%	Political instability, lack of trust in government
Mozambique	Nascent	21	Central Bank of Mozambique Pension Fund	Central Bank	Not clear	Small opaque market & bank dominated
Namibia	Developed	135	Government Institutions Pension Fund (GIPF)	Namibia Financial Institutions Supervisory Authority (NAMFISA)	Min 1.75% Max 3.5%	Restrictive private equity market
South Africa	Mature	5,294	Government Employees Pension Fund (GEPF)	Financial Sector Conduct Authority (FSCA)	PE 15% (Reg 28 amend from 10%)	Deteriorating economic environment, political uncertainty
Zambia	Developed	243	National Pension Scheme Authority (NAPSA)	Public: NAPSA Private: Pensions and Insurance Authority (PIA)	Public: 10% Private: 15%	Informal market, dominated by SMEs
Zimbabwe	Developed	614	Zimbabwe Electricity Supply Authority (ZESA)	Insurance & Pensions Commission (IPEC)	PE 10% PD 20%	Political instability, hyperinflation & valuation dilemma

Key findings

1. **No clear taxonomy and lexicon:** most national statistical agencies do not collect data specifically on private equity assets, but the data is grouped together under "alternatives" or "other assets". The different options available to investors to gain exposure means that information is often buried under different categories.

   There is no precise definition of alternative investments. The nature of alternative investments is dynamic and ever evolving, and closely linked to the development of financial markets. So, while there is no official definition of alternative assets, the term is usually applied to instruments other than listed equities, bonds, and cash (IOPS, 2010).

2. **The vast majority of pension funds in the region are managed** by asset consultants or third-party advisers reporting to trustees, with only a small percentage employing in-house portfolio managers.

3. **Respondents have several clear investment objectives for their pension funds.** Sustainability, diversification, and high risk-adjusted returns are all considered very important.

4. **Most pension funds' investment policies allow for allocation to private equity and private debt**, yet equities and bonds remain the two most popular asset classes for pension funds. Bonds, particularly government-issued debt, have a high allocation in less developed markets.

5. **There is no sharp distinction between the liquidity of listed and unlisted equity in some markets,** particularly Botswana and Lesotho. These markets are very illiquid, so their listed stocks behave like a private equity portfolio in terms of the liquidity constraints. This suggests that the private/listed distinction for equity and debt is in practice not clear, even if it exists in regulatory approaches.

6. **Many pension funds allocate between 1% to 5% of their investments to the private equity asset class,** while more than 10% is often allocated to private debt.

7. **Most of the respondents in our survey answered "neither agree or disagree" when asked whether they would like to increase their asset allocation in private equity and private debt.** From our interviews, we gathered that there is limited understanding of the asset class, lack of experience, limited opportunities particularly in Botswana and Mozambique, and the asset class endures reputational risk - due to alleged fraud and misappropriation of funds (Botswana) and default of a private bond (Mozambique).

8. **Most respondents agree that the private equity and private debt markets offer good investment structures** (legal vehicles - partnerships, etc) for institutions to invest in, but, the availability of investment opportunities, limited familiarity with the asset class and regulatory issues affect respondents' interest in pursuing private equity and private debt asset classes, especially in countries outside of South Africa – this is explained in detail under the country profiles.

9. **Value proposition, proposed strategy and impact/ESG factors are highly ranked as priorities for pension funds**, and these are linked to private equity and private debt appetite.

10. **A substantial number of respondents expect sustainable investing to become more important in the next five years** and rated improving sustainability to be more important than generating risk-adjusted returns. Two thirds of respondents say their investment approach is influenced by the UN's Principles for Responsible Investing (PRI), followed by the Sustainable Development Goals (SDGs). In South Africa, the industry is mostly influenced by the Code for Responsible Investing by Institutional Investors (CRISA).

11. **While the South African pension industry has been at the forefront of global best practice** in terms of sustainable investment regulatory policy, the concept is still in its infancy in the rest of Africa, owing to a lack of knowledge about why and how ESG standards should be integrated into their funds.

12. **There is a "nationalist" mindset in the Southern Africa pension fund industry, that prevents economies of scale from being realised.** All markets have a sharp distinction between domestic and foreign asset allocation limits for funds, and none provides a regional allocation tranche. South Africa has recently removed a separate allocation tranche for African exposure, alongside its general foreign exposure category.
13. **Domestic listed markets are notably subscale in most economies,** except for South Africa, Namibia, and Botswana (to some extent), offering an opportunity for unlisted assets to be developed to meet domestic asset allocations. However, this depends on having a large enough unlisted assets ceiling, which most markets currently lack.

Recommendations for the region

Here we make general recommendations that are applicable to the region. In the country chapters that follow, we make specific recommendations at country level.

1. Increase permitted private equity asset allocation tranches

1. Regulation continues to be the single most important determinant of asset allocation decisions in African countries.
2. Globally, most large public pension funds allocate on average between 9% and 10.3% of their assets to private equity, while smaller funds hold on average 3.6% of their portfolio in these investment vehicles (American Investment Council, 2021) (Willis Towers Watson, 2020). Therefore, the maximum exposure limit to private equity investments should be increased, in line with global trends.
3. South Africa, Zambia and Zimbabwe have already made progress in this area and the ceiling amendment should be widely adopted on the continent. For example:
   - South Africa proposed amendments to Regulation 28 of the Pension Funds Act in February 2021 to increase the permitted asset allocation ceiling from 10% to 15%. Most institutional investors applaud this positive move. The amendments will take effect on 3 January 2023, to enable regulators and fund managers to comply with the new regulations.
   - Zambia's Pensions and Insurance Authority (PIA) welcomed the revision of the Pensions Scheme Investment Guidelines (S.I 141 of 2011) through the issuance of the Investment Guidelines (S.I. 50) by the Minister of Finance on 12th May 2021. The threshold of the private equity asset class was revised from 5% to 15%. The exposure revision is developed to be more responsive to economic and emerging investment opportunities in Zambia.
   - From our interview with the Insurance and Pensions Commission (IPEC) in Zimbabwe, it was confirmed that the Commission's board recently approved the amended investment guidelines to allow the maximum exposure limit in private equity to increase from 10% to 15%. This approved revision is yet to be released to the industry.
4. In most jurisdictions, private debt is categorised under non-listed debt and generally has sufficient allocation.

2. Disaggregate private equity from other and alternative asset classes

In most markets in the region, allocations to private equity remain mingled with the other and alternatives bucket that can include hedge funds, infrastructure, commodities, and in some markets, property. As such, private equity should be treated as a separate asset class category by decoupling it from the other or alternatives category. This will allow funds to explicitly declare their allocations to private equity, removing the taxonomy confusion that currently exists. Recent amendments to South Africa's Regulation 28, for example, have split the asset class "hedge funds, private equity and any other assets" into stand-alone asset classes.

3. Support private equity skills and capacity development on both the buy and sell sides

An increase in regulated ceilings won't necessarily translate into increased pension fund appetite for private equity. This lack of appetite has several varying drivers in different markets which each require focused interventions:

1. A lack of experience with the asset class, particularly at trustee and principal officer level. Many funds are heavily reliant on asset consultants (Namibia, South Africa) who take a traditional asset-liability and mean variance optimisation approach to portfolio planning. Typically, such an approach ignores alternative assets and focuses on listed, highly liquid, assets.
2. In some markets, pension funds are heavily exposed to government debt (Mozambique, Lesotho, Eswatini) which becomes a default asset. This exposure can crowd out other asset classes, particularly illiquid asset classes given that government debt tends to be held to maturity. As a result, funds direct the balance of their portfolios to money market assets and, in some markets, listed equities. Private equity funds receive limited interest in this context. It follows that some work must be done to help governments appreciate the importance of allowing pension funds to diversify into private equity.
3. The supply side is a particular problem in smaller markets such as Eswatini, Lesotho, Botswana and Mozambique where there is minimal local private equity activity. This lack of domestic private equity capacity is because of a lack of skills and a perceived lack of appetite from institutions, as well as limited investment opportunities for private equity.

4. Specialist mandates

Specialist mandates that encourage asset consultants/managers to invest in the private equity asset class are required to be built into pension fund's investment strategies.

5. Asset consultants and advisers

Asset consultants and advisers are a crucial and underdeveloped component of the ecosystem. As a result, there is a pressing need to equip these professionals because independent firms can create more diversified portfolios as they have a wider remit.

6. Market private equity as an ideal channel for domestic investment exposure.

Some markets (Namibia and Botswana most clearly) have substantial offshore exposures in their pension systems. To the extent that if there is any private equity exposure, this is via the offshore channel using funds domiciled in Mauritius and elsewhere. The high offshore allocations are often in tension with domestic policy goals but reflect the relative lack of domestic investment opportunities given the relatively thin capital markets. Private equity poses a potential solution in overcoming capital market constraints to offer domestic assets with substantial developmental impact.

7. Lastly, we suggest that consideration be given to a regional asset allocation bucket

For example, on top of domestic and offshore ceilings, SADC countries can set an allocation for their domestic institutional investors to invest in the region. This may solve for lack of capacity in private equity in individual markets. SADC-level private equity general partners (GPs) might be able to crowd in pension funds from local markets alongside offshore limited partners.

Domestic private equity offerings need to be created in several markets but to overcome skills constraints will need economies of scale that could be achieved through a regional approach. In our view, regulators should be encouraged to create an asset class tranche for regional exposure in private equity and private debt to support funds that could build regional portfolios.

Background and context

As long-term investors that handle enormous sums of money, pension funds dominate the world's financial markets, influencing national wealth, community development, industrial prosperity and the functioning of the global economy. Sanusi and Kapingura (2021) find that pension funds have grown rapidly over the past decades due to population growth and an expanding labour market. Several countries encourage investments into pension funds by offering tax exemptions. Tax incentives are commonly known to promote the capital mobilisation function of financial markets and raise overall investment levels in the economy, thus boosting economic growth (Nwidobie, 2020 and Siyanbola et al., 2017). In addition, Ruiz (2018) finds that institutional investors have a positive and statistically significant impact on economic growth in industrialised economies.

In the African context, however, there has been widespread concern, particularly among policymakers, that the growth of pension funds on the continent has not translated into an improved quality of life for fund members and the wider population (Sanusi and Kapingura, 2021). Fashola (2016) argues that the continent is plagued with deficient infrastructure despite the huge pool of pension funds available in most countries. For instance, there is currently no country-to-country rail service on the continent, highway corridors connecting countries are in poor condition and about 600 million people are still without electricity (OECD, 2018). This is not surprising when we assess where pension funds are being invested below.

Traditional portfolio theory divides the investment universe into listed equity and debt, and then alternative asset classes which include infrastructure, real estate, private equity, hedge funds, commodities and others (OECD, 2018). Globally, pension fund managers invest in several financial instruments such as fixed deposits, commercial paper, corporate bonds, and government infrastructure bonds among others (Sanusi and Kapingura, 2021). However, in recent years, pension funds' investments have transitioned into alternative asset classes such as private equity and infrastructure (Boyer, Nadauld, Vorkink and Weisbach, 2019). We see four reasons for this change:

1. **A growing need for diversification as public capital markets have become narrow**
2. **Search for higher yields**
3. **The development of valuation methodologies for unlisted assets**
4. **Improvements in distribution mechanisms for private debt and equity**

In Africa, pension funds are largely invested in debt assets, followed by listed equities. Pension fund managers on the continent cite the difficulties in allocating assets to economic-enhancing investments such as infrastructure or private equity because of an inability to meet regulated investment criteria (Sanusi and Kapingura, 2021). Moreover, African countries with well-developed pension systems, including South Africa, constrain the funds that institutional investors typically invest in to meet certain liquidity standards. For example, most countries cap exposure to unlisted equities while some completely forbid exposure to real estate (OECD, 2019).

Within the alternative asset group, private equity is a unique asset class that offers growth firms more than just capital. Private equity offers a unique solution of long-term capital, managerial and governance support. Investors take an active role in monitoring and creating firm value using various tools such as operational reforms, corporate governance enhancements or sustainable development strategies. Investors may even take a position on the board of directors to provide advice and support at the highest level of the company. In essence, when a private equity investment is concluded, a partnership is formed.

Today, private equity is a small but an important part of most pension fund portfolios in both developed and emerging markets. A recent OECD annual survey of 35 Large Pension Funds (LPFs) and Public Pension Reserve

Funds (PPRF), found that the asset allocation into the alternatives category including unlisted infrastructure increased from 14.9% of total assets in 2014 to 16.4% in 2017 (OECD, 2020)

Given the nature of their investments, pension fund managers need to be able to rely on long-term capital commitments, thus, the built-in typically eight to ten-year horizon of private equity makes the asset class a particularly well-suited investment for pension funds. The extended holding period attracts institutional investors, as fund managers can avoid the volatility that negatively affects public equities (Burdel, 2009). According to Sharpe and Tint (1990), private equity investments may provide a way to diversify pension fund portfolios and enhance their long-term asset-liability management. International regulatory and political discussions have also focused on directing institutional capital toward longer-term investments. For example, the UK's Patient Capital Review highlights that "the lack of patient capital is a significant impediment to UK entrepreneurs' success" (HM Treasury, 2017) while in the European Union, Long Term Investment Funds are intended to increase investment into infrastructure projects, real estate and SMEs (listed and unlisted) (EU, 2020). The "long-term" terminology reflects recognition that liquid capital markets are suboptimal for financing illiquid assets like infrastructure. And, in the context of underdeveloped capital markets, private equity is an attractive option for companies in search of growth capital (López-Villavicencio and Rigot, 2013).

Overall, private equity investing has a broader economic benefit because of the long-term investment horizon in real companies and the provision of equity to firms at different stages of their development using various funding models. When done well, private equity not only generates significant returns (López-Villavicencio and Rigot, 2013), but also helps in building better businesses (due to its active management approach) resulting in knock-on effects such as job creation, a broader tax base, and sustained economic growth.

Measuring the performance of private equity investments has traditionally only been possible over long horizons because a funds' return is only observable after its final distribution. However, several events might occur during this extended period to cause a desire or need to sell assets. For instance, changes in strategy, asset allocation revisions, reallocation across fund managers, balance-sheet constraints, mergers and acquisitions, and regulatory changes are just a few of the many valid reasons why institutional investors might want to sell their investments when their portfolios still have years to run (Burdel, 2009). As a result, private equity needs to be motivated by an exit, but exit opportunities are rare in most markets in Africa. The secondary market and the initial public offering (IPO) are two popular ways for private equity firms to exit an investment (Cumming and MacIntosh, 2003).

In recent years, the private equity secondary market has emerged as a tool that enables limited partners in private equity funds to manage a private equity portfolio flexibly despite its intrinsic illiquidity. Here investors in private equity funds can trade their stakes and prices from this market provide a source of data useful for measuring the risk and return of private equity funds in a similar manner to that commonly used to measure returns for other securities (Boyer, Nadauld, Vorkink and Weisbach, 2019). Burdel (2009) notes that the growth in secondaries brings liquidity to the asset class, making private equity a more compelling investment proposition. As such, the secondary market will continue to be a key driver for growth of the private equity industry.

An IPO as an exit option is not widely disseminated in most countries in Africa mainly due to a lack of awareness about the ease of listing and its various advantages which include resource mobilisation, corporate transparency, improved governance, tax compliance, and price discovery among other benefits. For instance, in Mozambique private companies view the stock market with scepticism, while, Lesotho currently has just one listing, making these capital markets extremely illiquid. In South Africa, there has been a decline in the number of IPOs and listed companies, particularly among small and medium-cap companies. Nonetheless, SAVCA regularly engages with the Johannesburg Stock Exchange (JSE) about the exit environment, but more recently about opportunities for the stock exchange as a fundraising mechanism for private equity and venture capital.

In this report, we aim to identify barriers that hinder pension funds' investment allocation to private equity and private debt in Southern African. We then seek opportunities to address these inhibitors to unlock more pension fund capital for local investment. We also provide several strands of information crucial to a better understanding and appreciation of the pensions industry in Southern Africa including the latest available data on the regulatory environment, investment policies and country-specific institutional knowledge.

Methodology

Online surveys were sent to over 120 funds in eight countries in Southern Africa including Botswana, Eswatini, Lesotho, Namibia, Mozambique, South Africa, Zambia and Zimbabwe. A total of 52 responses were received (comprising 49 registered pension funds and three regulatory authorities).

We found few direct respondents in Eswatini, Lesotho, Mozambique and Namibia, as a result, our analysts completed four surveys by compiling data on these markets from pension funds' annual results. In addition to the survey, we conducted eight interviews using semi-structured methods. Interviewees were sent a set of questions, but we also allowed for the interviews to steer the conversation to elicit their views, perceptions and interpretations. The interviews were carried out with principal officers, private equity fund managers and pension industry regulators in Botswana, Eswatini, Lesotho, Mozambique, Namibia, Zambia and Zimbabwe. They served to provide insight on each country's regulatory environment and their funds' preferences in investing in private equity and private debt.

The primary data collection was carried out between September and November 2021 and participation in the survey was voluntary. While there are more than 6,000 registered funds collectively in the countries we studied, many of these have insignificant assets. As a result, our focus was on the larger funds as judged by AUM. The 52 funds that participated in this study have combined AUM of about $160 billion.

- As the final step in the data collection process, we held three virtual stakeholder workshops from 1 to 3 March 2022. The three groups were split by common features of markets viz.,

- Group one: Botswana, Eswatini, Lesotho and Mozambique;
- Group two: Zambia and Zimbabwe; and,
- Group three: Namibia and South Africa.

These workshops were used to validate the findings we present in this report, and several additional insights provided in these workshops have been incorporated into this report.

Our approach to weighting the data

The graphics we present below include both weighted and unweighted data. Unweighted results are based on the absolute number of funds giving each response. Survey results were added or aggregated (depending on the context) with no further adjustment. For weighted results, a formula has been applied based on relative AUM. Each firm was weighted by the proportion of total assets out of the respondent base. The weight was capped so no fund was weighted by more than 25%. The weights were then applied to each response, then totalled or aggregated (depending on the context).

We present weighted and unweighted results for the region as a whole in the next section. In the country sections we present unweighted results because in smaller markets (Lesotho, Eswatini, Mozambique) there were few respondents and weighted data was therefore not meaningful.

Survey respondents

In total, 52 respondents completed an online survey that was conducted from September to November 2021. Respondents were solicited through e-mails, text messages, phone calls and via LinkedIn, and in some countries, we worked with the regulatory authorities to solicit funds to complete the survey. We present a summary of the pension fund industry coverage in the eight countries under review (see Table 2). The regional AUM coverage is indicative as data for Mozambique is partial (data only includes assets of private pension funds. Mozambique's state pension fund assets are not public knowledge).

Table 2: Summary of pension fund industry coverage in selected countries in Southern Africa

Country	No of active funds	No of responses	% of funds responding	Industry AUM	Sample AUM	AUM coverage
Botswana	86	3	3.5%	$9.0 billion	$8.72 billion	96.7%
Eswatini	106	2	2.9%	$2.1 billion	$1.66 billion	44%
Lesotho	100	1	1%	$929 million	$616 million	66%
Mozambique	21	0	0%	+$600 million	-	-
Namibia	135	9	6.7%	$11.07 billion	$8.89 billion	85%
South Africa	5,294	21	0.42%	$500 billion	$138 billion	28%
Zambia	243	21	8.64%	$5.4 billion	$587 million	11%
Zimbabwe	614	5	0.81%	$548 million	$218 million	40%
Total	6,562	52	0.79%	$529 billion	$160 billion	30%

Interview respondents

In many cases we consulted experts in the countries on our data, our analysis and to understand the specific issues they are dealing with. Considering the sensitivity and confidentiality of the information they discussed with us, we've opted to allow them to remain anonymous. Instead, we present a list of the interviewees by country, designation and organisation type.

Table 3: Summary of interviewees by country, designation and organisation

Country	Interviewees Designation	Organisation type
Botswana	1 x Senior pension fund consultant	Asset consultant
Eswatini	1 x Partner	Accounting and advisory firm
Lesotho	1 x Asset Manager 1 x Investment Manager	Asset manager Private equity manager
Mozambique	1 x Former CEO	Pension fund
Namibia	1 x Principal Officer	Pension fund
Zambia	1 x Portfolio manager	Asset manager
Zimbabwe	1 x Director Pension Supervision and team members	Regulator

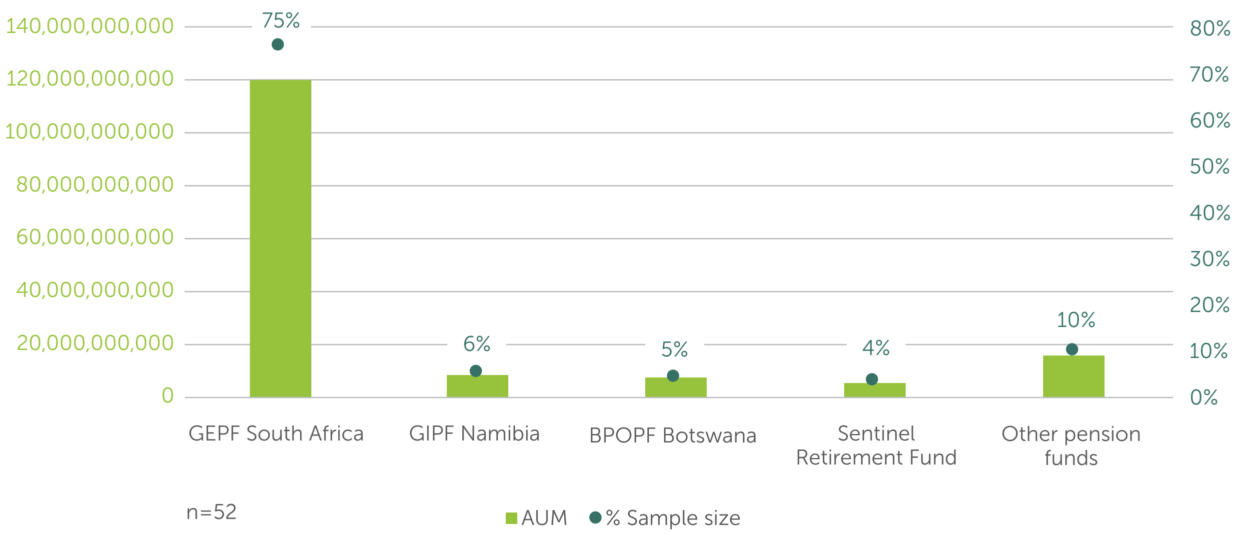
Consolidated Survey Results

Survey results of pension funds industry in Southern Africa

In this section we provide aggregate results to the questions asked in the survey on both a weighted and unweighted basis. For the unweighted data, the results from the survey were added or aggregated (depending on the context) with no further adjustment. For the weighted results, each firm was weighted by the proportion of total assets out of the respondent base. The weight was capped so no fund was weighted by more than 25%. The weights were then applied to each response, then totalled or aggregated (depending on the context).

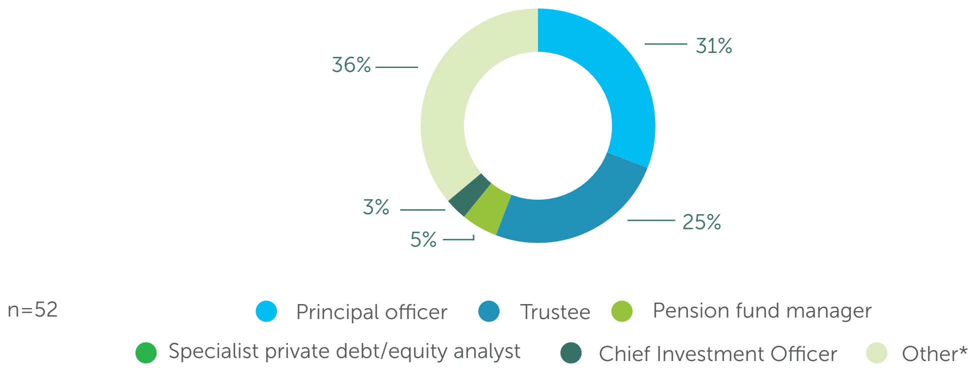
We provide country-level breakdowns of unweighted market feedback in the country sections that follow.

Figure 1: Assets under management (USD)



The 52 funds that answered this question manage a combined AUM of about $160 billion. South Africa's Government Employees Pension Fund (GEPF) accounts for 75% of the entire respondents' AUM, followed by Namibia's Government Institutions Pension Fund (GIPF) which accounts for 6%, Botswana's Public Officers Pension Fund (BPOPF) at 5% and Sentinel Retirement Fund at 4%. The remaining 48 pension funds account for 10% of the total.

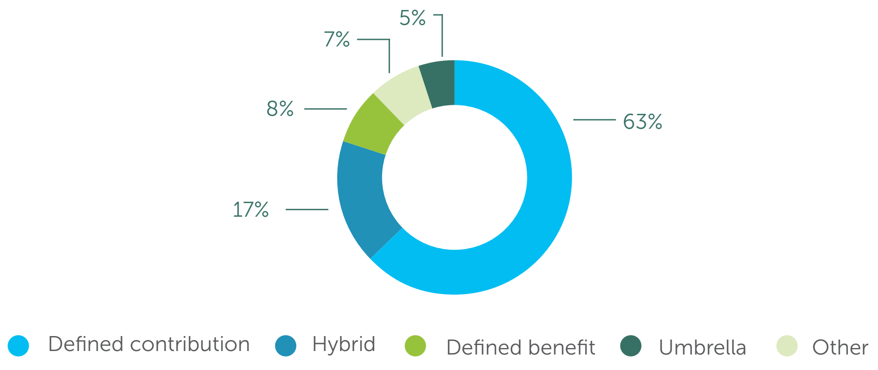
Figure 2: Main function of survey respondents



*Other includes Chairperson, Finance Director, Investment Manager, Compliance Officer, Chief Accountant, and Head of Finance and Investments.

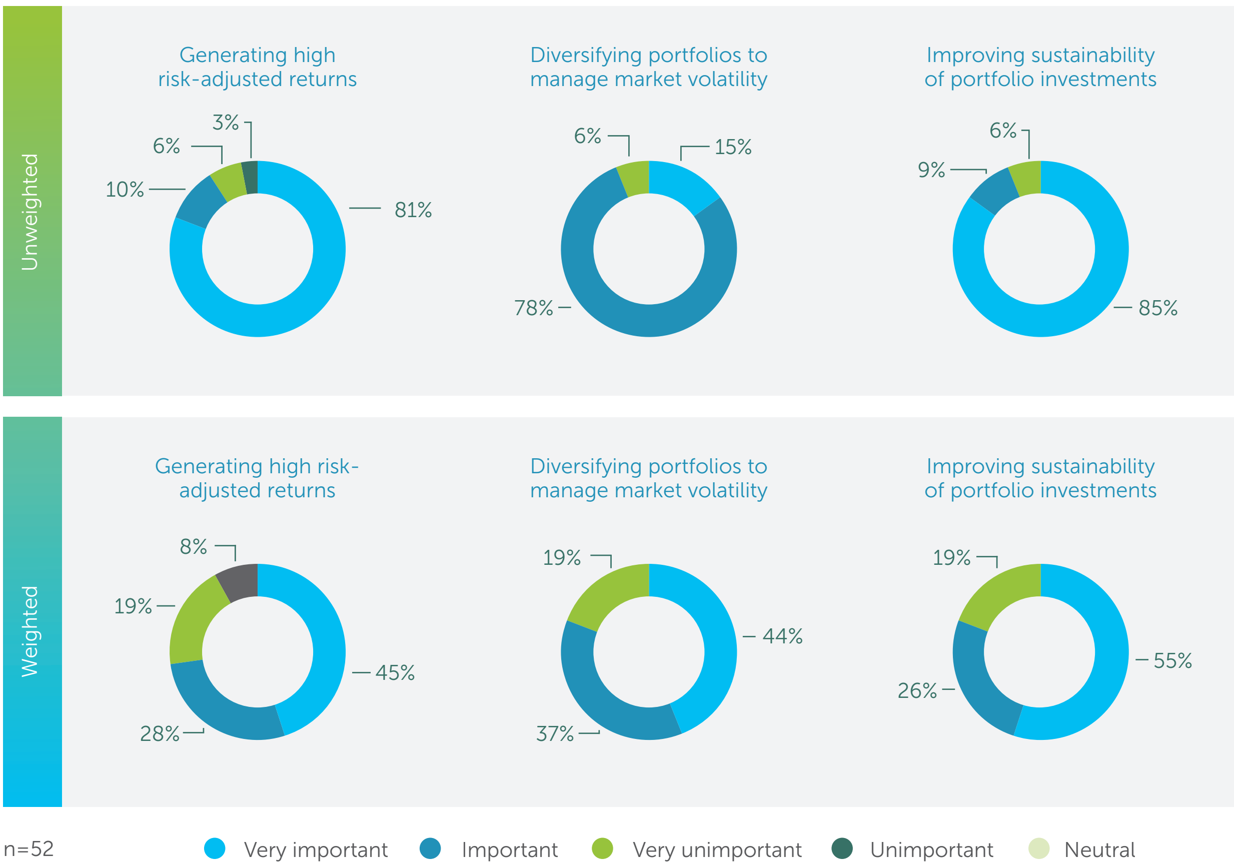
Principal officers and trustees were the desired respondent types, and they made up 56% of the respondents. In the end however, the largest group of respondents was much more varied. They opted for the "other" category and 36% identified themselves as Chairperson, Finance Director, Investment Manager, Compliance Officer, Chief Accountant, and Head of Finance and Investments.

Figure 3: Fund structure represented by the respondents



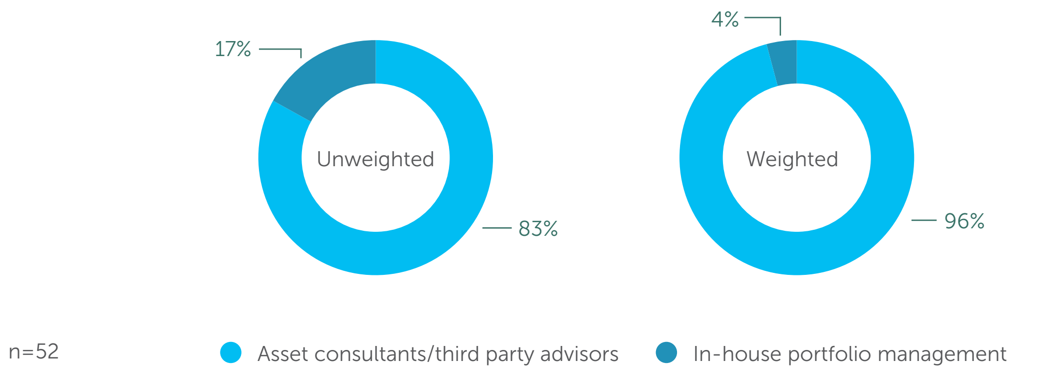
There has been a major shift in retirement plan schemes offered by both public and private-sector employers, from the traditional defined-benefit (DB) plan to the more modern defined-contribution (DC) plan, mainly because DC plans are more cost-effective and easier to manage than traditional pension plans. It is no surprise that 63% of the responses came from defined contribution pension funds, followed by hybrid plan schemes then defined benefit plan schemes.

Figure 4: How important are the following investment objectives for your organisation over the next 12 months?



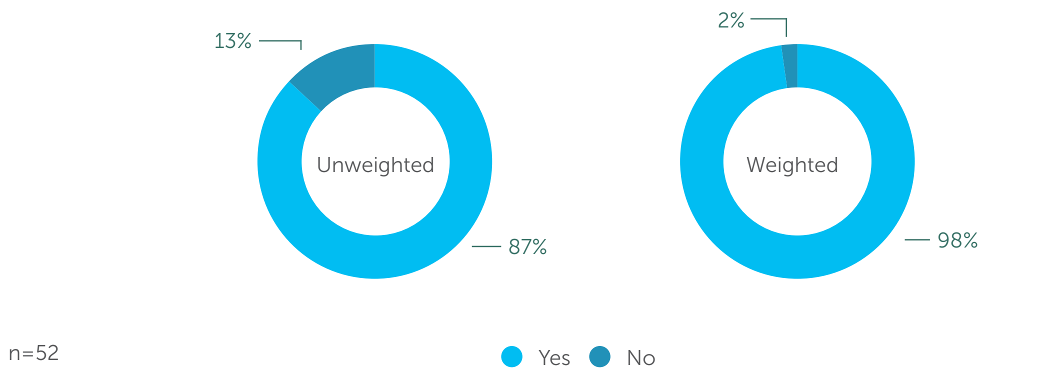
Respondents have several clear investment objectives for their pension funds. Sustainability, diversification and high risk-adjusted returns are all considered very important.

Figure 10: How does your fund obtain expertise for portfolio construction?



Small pension funds account for 86% of the respondent sample, and these funds may find it difficult to access a diverse range of investment instruments. However, pooled funds can increase access to these opportunities' vehicles. It's no surprise that the majority of respondents (83% unweighted, 96% weighted) utilise asset consultants and/or third-party advisers to manage their portfolios. As previously stated, pension funds in our survey strive to strike a balance between sustainability, diversification, and high risk-adjusted returns.

Figure 11: Does your investment policy allow for allocation to private equity or private debt asset class?

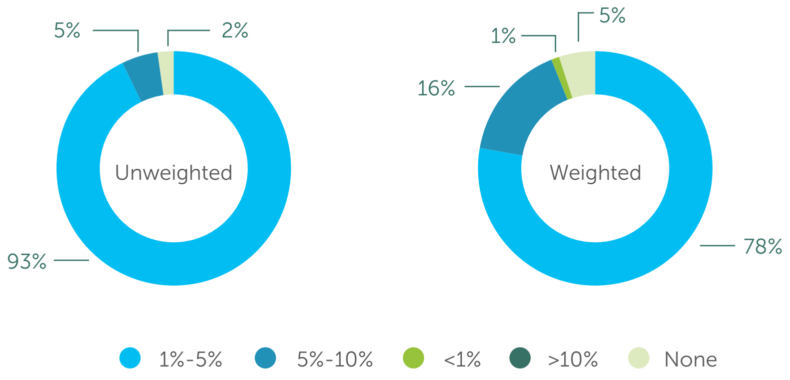


Most pension funds (87%) indicate that their investment policies do allow for investments in the private equity or private debt asset class. This is an indication that most pension funds consider private equity as a viable source of development finance.

Figure 12: Please specify your portfolio allocation between the following asset classes

Equities and bonds remain the two most popular asset classes for pension funds in the selected countries. However, countries such as South Africa and Zambia have progressively diversified their portfolios by increasing allocations to alternative investments such as private equity and infrastructure.

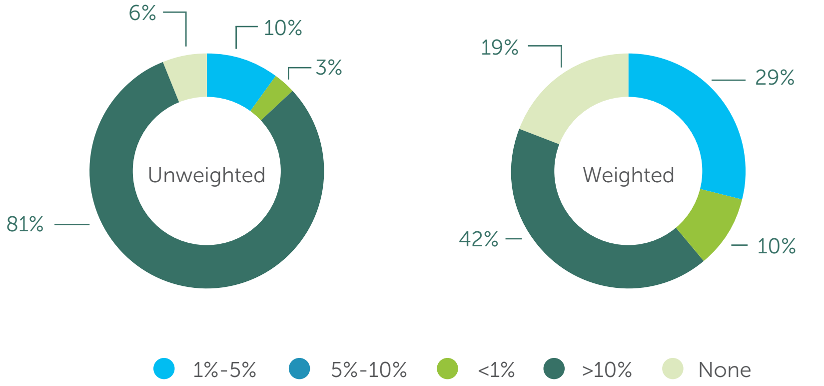
Figure 13: How much of your portfolio do you allocate to the private equity asset class relative to total AUM?



n=52

Most of the respondents allocate between 1% and 5% of their investment to the private equity asset class on both an unweighted (93%) and weighted (78%) basis.

Figure 14: How much of your portfolio do you allocate to the private debt asset class relative to the total AUM



n=52

Over 80% of respondents allocate more than 10% of their investments to the private debt asset class on an unweighted basis. However, on a weighted basis, the allocation to the private debt asset class is split with 42% allocating more than 10% and 29% allocating between 1% and 5%.

Figure 15: Please indicate how much you agree with each of the following statements regarding private equity

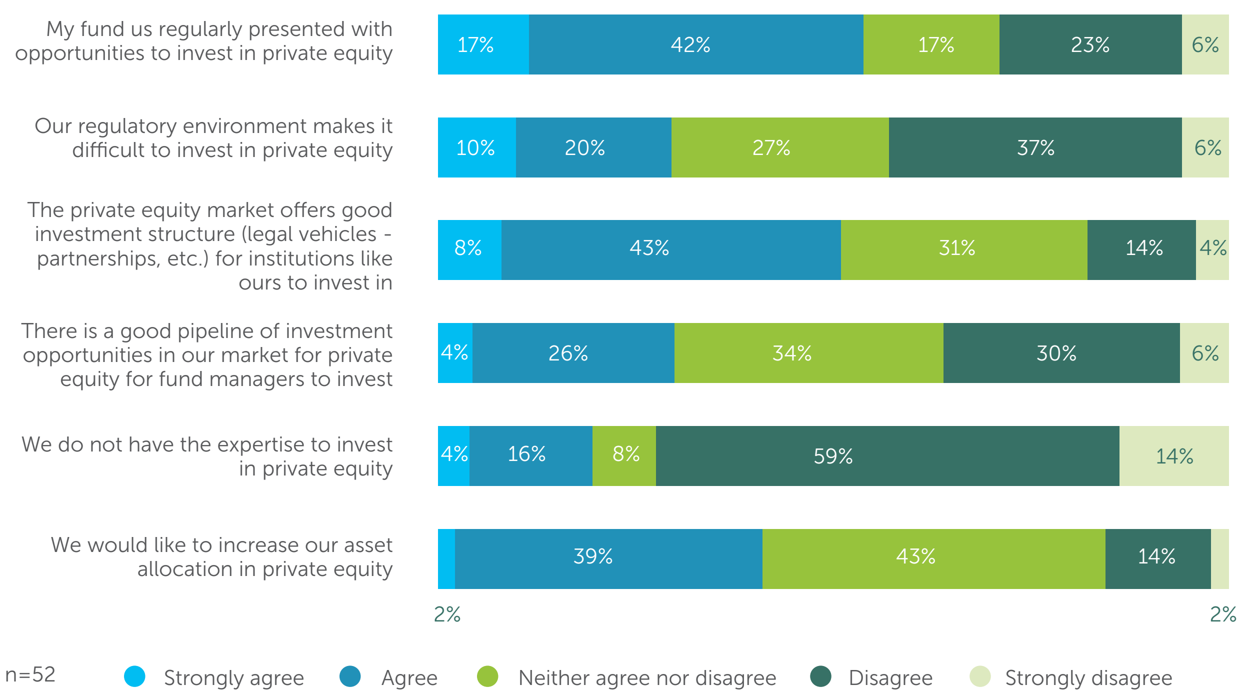
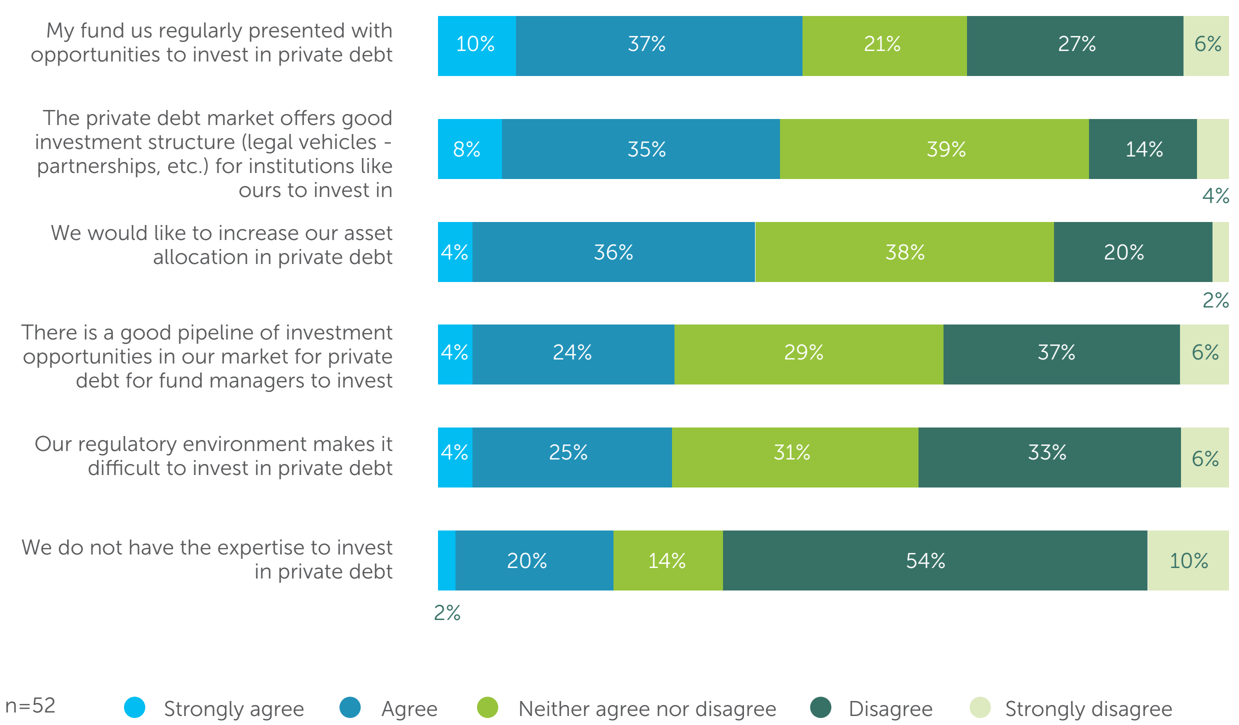
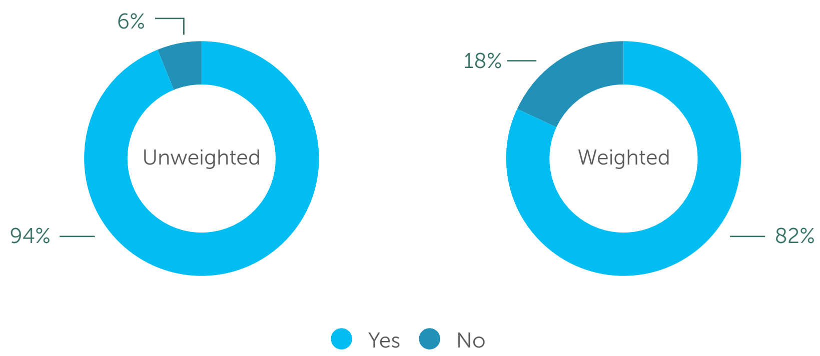


Figure 16: Please indicate how much you agree with each of the following statements regarding private debt investment



- Over 40% of respondents (mostly from South Africa) in our survey agree that their funds are regularly presented with opportunities to invest in private equity, while 37% of respondents agree that their funds are regularly presented with opportunities to invest in private debt.
- When it comes to the regulatory environment, a majority of respondents neither agree or disagree on whether regulation makes it difficult to invest in private equity and private debt, especially in countries outside of South Africa – this is explained in detail under the country profiles.
- Most of the respondents in our survey answered "neither agree or disagree" when asked whether they would like to increase their asset allocation in private equity and private debt. From our interviews, we gathered that there is limited understanding of the asset classes, lack of experience, limited opportunities and in Botswana and Mozambique, the asset classes endure reputational risk - due to alleged fraud and misappropriation of funds (Botswana) and default of a private bond (Mozambique).
- A majority of respondents agree that the private equity market offers good investment structures (legal vehicles - partnerships, etc) for institutions to invest in.

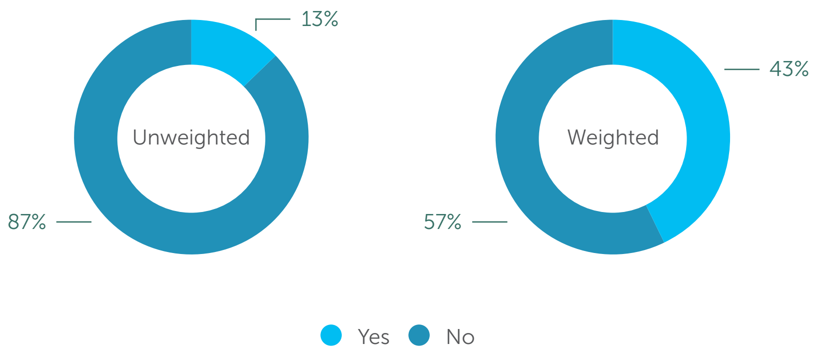
Figure 17: Do you have any private equity or private debt transactions that you are actively considering?



n=52

Many respondents are actively considering investments in the private equity and private debt asset classes (unweighted and weighted basis).

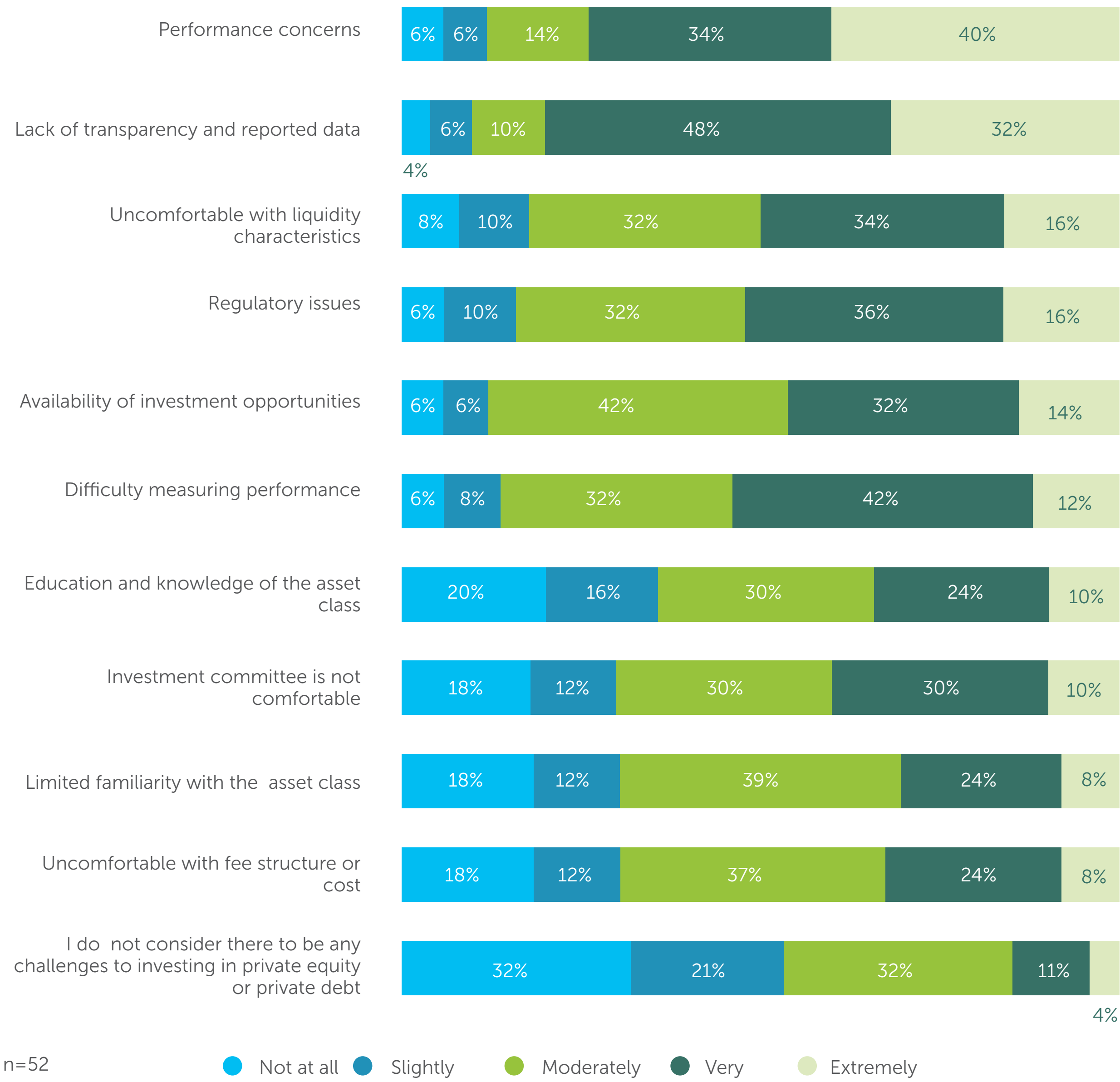
Figure 18: If yes, do you require any form of technical assistance in the transactions e.g structuring of the fund etc?



n=52

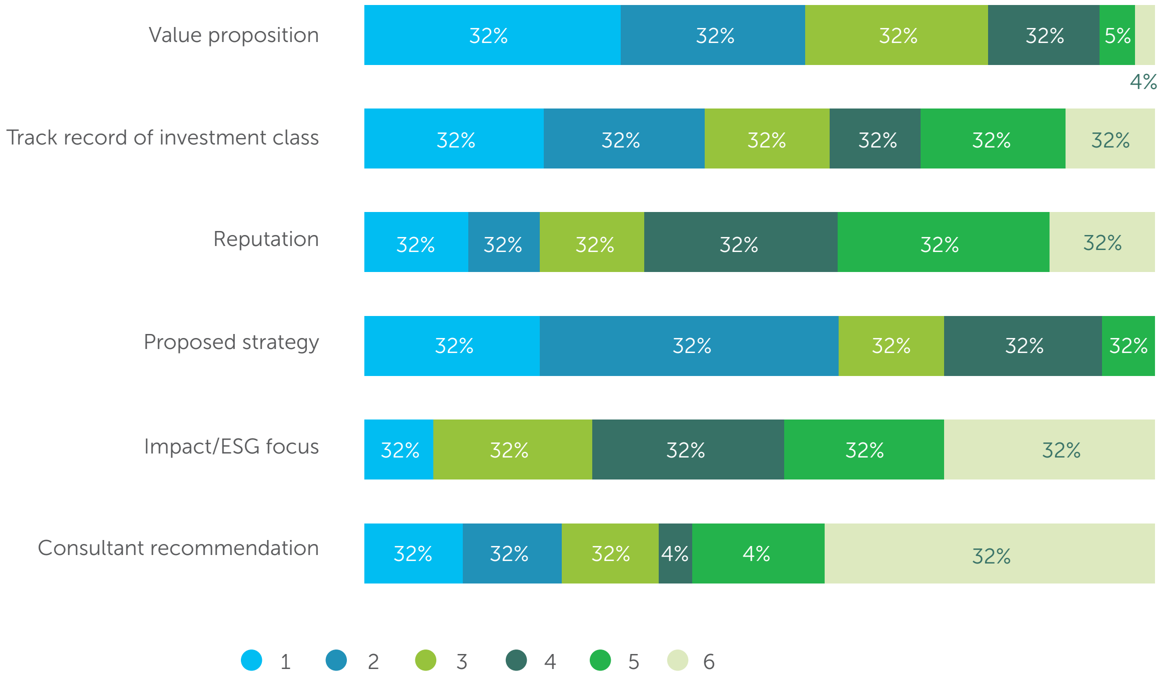
On an unweighted basis, 87% of the funds state that they do not require any form of technical assistance, but on a weighted basis, only 57% state that they do not require technical assistance, while 43% would appreciate technical assistance.

Figure 19: To what extent do each of the following challenges affect your interest to undertake private equity or private debt investments?



Respondents indicated a high concern with performance of the asset classes and a lack of data is a key challenge to investment in the asset classes. Familiarity with the asset classes and fees/costs ranked lower on concern priorities.

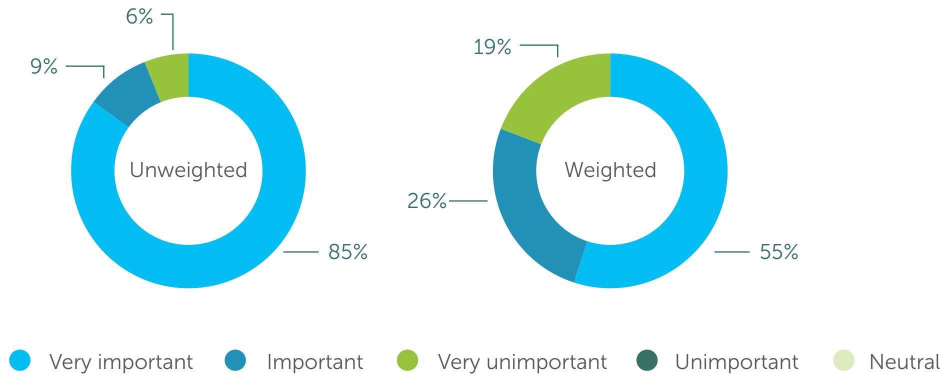
Figure 20: Rank factors that would most influence your decision to invest in private equity and private debt (with one being the most influential factor and six the least influential factor)



n=52

Value proposition, track record of investment class and proposed strategy are highly ranked factors that would most influence respondents' decisions to invest in private equity and private debt.

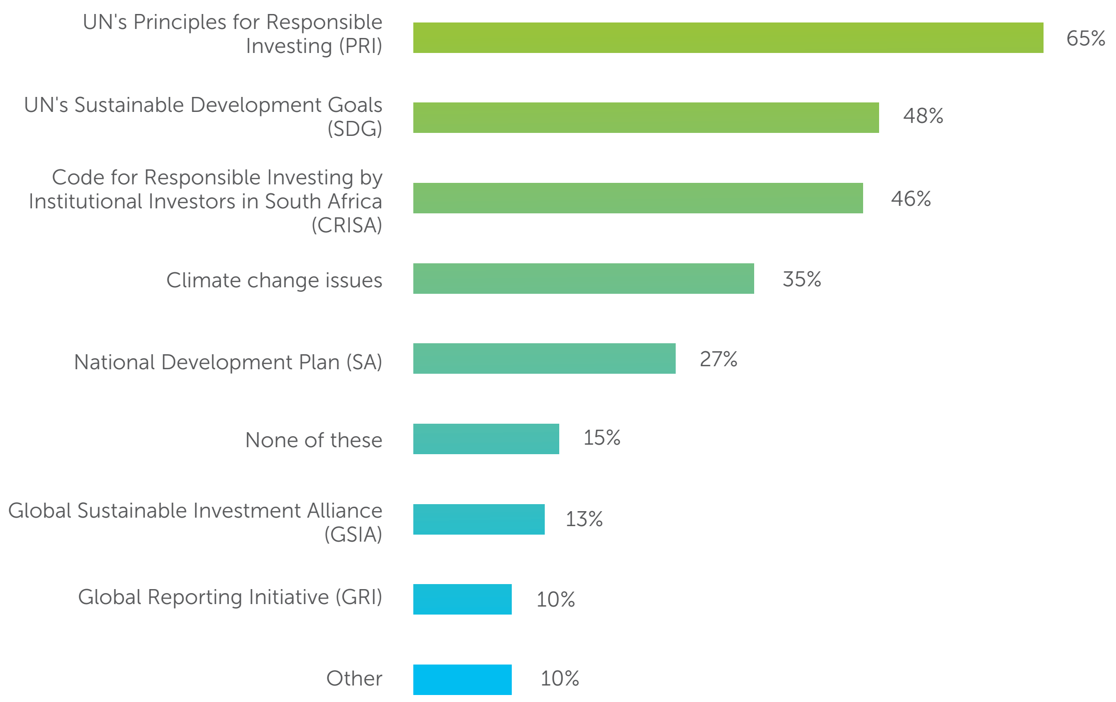
Figure 21: How do you expect the importance of sustainable investing to change in the next five years?



n=52

Over 80% of respondents expect sustainable investing to become very important in the next five years (unweighted basis). On a weighted basis, there is a notable split: 55% (very important) and 26% (important). These are striking results when considered in the context of climate change finance needs. Croce et al (2011) note that transitioning to a low-carbon, climate-resilient economy over the next 20 years will necessitate massive investments and private capital on a much greater scale than previously, especially given the current state of government finances. As a result, pension funds will be instrumental in financing green growth initiatives given their enormous asset base.

Figure 22: Which of the following policy positions has influenced your investment approach?

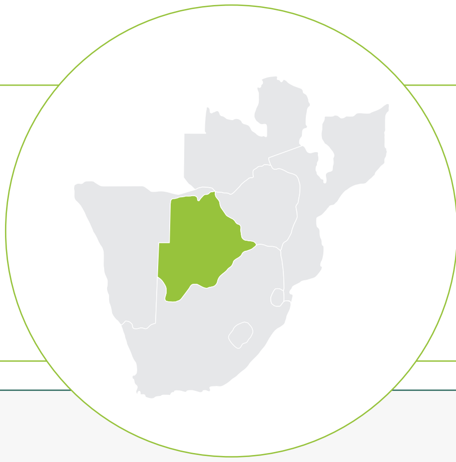


n=52

Most respondents (65%) say their investment approach is influenced by the UN's PRI, followed by SDGs. In South Africa, the industry is mostly influenced by CRISA. The South African pension industry is at the forefront of global best practice in terms of sustainable investment regulatory policy. Regulation 28 of the Pension Funds Act established the basis for South Africa's retirement funds industry to embed consideration of ESG risks and performance across all investment decisions (IFC, 2020). The concept of sustainable finance is nascent in the rest of Africa, due to a lack of knowledge about why and how ESG standards should be integrated into their funds.

Consolidated Survey Results

Botswana
COUNTRY PROFILE



State of Pension Market	Developed & diverse pension industry Industry AUM $9 billion
Number of active retirement funds	86
Largest Pension Funds & AUM	• Botswana Public Officers Pension Fund $7.91bn • Debswana Pension Fund $810mn • University of Botswana DC Staff Pension Fund
Regulatory Authority	Non-Bank Financial Institutions Regulatory Authority (NBFIRA)
Permitted allocation to private equity & private debt	• Max 5% exposure limit on private debt and private equity for domestic and offshore assets • Max 2.5% private debt • Max 2.5% private equity
Private Market Hinderance	• Restrictive maximum exposure limit for private equity and private debt • Reputational issues stemming from litigation over past private equity investments (alleged fraud and squandering of public pension funds) • Small market with limited investment opportunities
Recommendations	• Apply risk mitigating mechanisms such as due diligence, phased drawdown of project funds, monitoring of projects and active management. • Market private equity as an ideal channel for domestic investment exposure

Market context

Botswana has a developed and diverse pension industry, with a total of 86 registered retirement funds. The fund types include:

63	7	5	3	3	3	1	1
Stand alone funds	Umbrella funds	Preservation funds	Beneficiary funds	External funds	Individual retirement funds	Provident fund	individual retirement fund

The market is dominated by the Botswana Public Officers' Pension Fund (BPOPF) which holds by far the majority of assets in the country. The largest private pension fund is the Debswana Pension Fund (DBF) whose members are current and former employees of Debswana. The third largest is the University of Botswana Defined Contribution Pension Fund, followed by a long tail of smaller funds.

	Fund Structure	Contributing/ active members	Deferred benefit members/ pensioners	Pensioners in receipt of regular payments	Dependants & nominees	People entitled to unclaimed benefits
BPOPF	Defined contribution	144,394	9,326	9,256	0	0
DPF	Defined contribution	6,129	2,031	4,225	81	

Regulation

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) and the Retirement Funds Act of 2014, regulate the establishment, licensing, and operation of retirement funds in Botswana. NBFIRA was set up in April 2008 under the Authority Act, 2006.

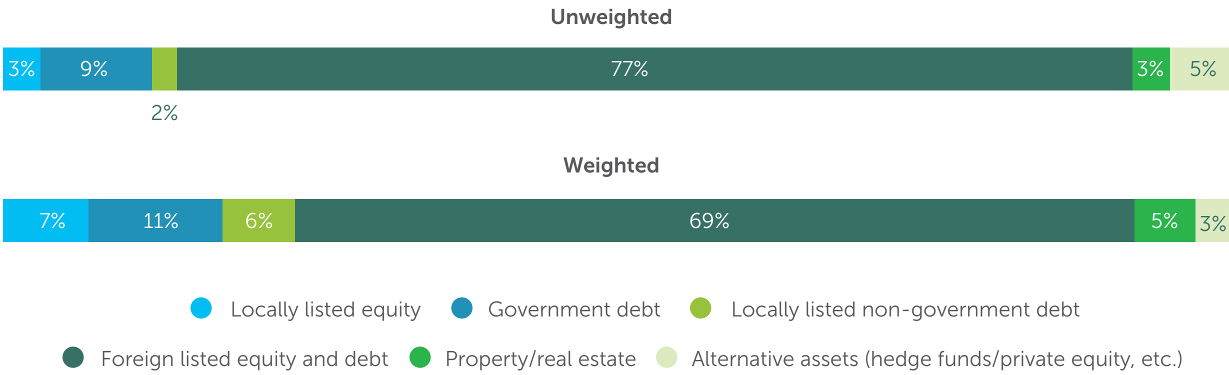
Pension funds in Botswana are currently allowed to invest up to 70% of AUM outside the country. However, NBFIRA has proposed a reduction of the offshore limit to 30% by 2050. Botswana's pension funds currently have an average of 69% of their assets invested in listed equities (weighted basis) and debt in foreign assets.

> *"The smaller pension funds don't hold a lot of private equity assets in their investment basket – it's not an asset class they prefer"*
>
> \- Interviewee in Botswana

Pension funds have historically been allowed to invest up to 2.5% in private equity under the 'other assets' investment category (AVCA, 2014). The maximum exposure limit of the 'other asset' class has since been increased to 5%, with 2.5% allocated to private debt and the remaining 2.5% allocated to private equity for both offshore and domestic markets (FSD Africa survey and interviews).

Analysis of survey feedback

Figure 23: Please specify your portfolio allocation between the following asset classes



The country has an average of 5% of their investments in the alternative asset class. Naturally, Botswana's BPOPF accounts for the most investment allocation in the asset class. Funds in Botswana have had exposure to the private equity asset class since 2004.

The BPOPF expressed in the survey that they employ a hybrid investment strategy that includes asset consultants, and/or third-party advisers and in-house portfolio management.

Figure 24: How much of your portfolio do you allocate to the private equity asset class relative to total AUM?

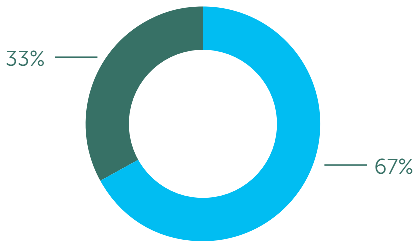
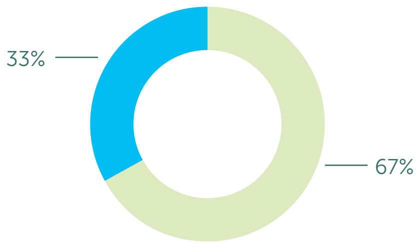


Figure 25: How much of your portfolio do you allocate to the private debt asset class relative to total AUM?



None <1% 1%-5% 5%-10% >10%

Most funds in Botswana allocate between 1% and 5% of their investments to the private equity asset class and over 60% of funds do not allocate any of their investments to the private debt asset class. From our interviews we learned that the domestic private equity market has a limited number of market players and investment opportunities. Bigger funds allocate investment in private equity via Mauritius and South Africa. There is also a limited understanding of the asset class, and the market predominately considers investing in existing brownfields projects and discards greenfield projects – thus, further limiting the investment opportunities.

> *"The most private debt that pension funds in Botswana hold is a mezzanine fund, which is South African and is well known"*
>
> \- Interviewee, Botswana

In efforts to increase investment opportunities in the private market, the BPOPF incubated two local private equity funds and seeded them with about $44 million (P500 million) each in 2015. Unfortunately, the funds are alleged to have been misappropriated, and the matter has been undergoing litigation since 2018. As a result of this experience, Botswana's private equity market faces serious reputational issues. In our conversations with fund managers, this previous experience stood out as a primary reason for low appetite among pension funds for additional private equity exposure. This is even though only the BPOPF had direct exposure to the funds in question, but the wider market has watched the events with alarm.

Figure 26: Do you have any private equity or private debt transactions that you are actively considering?

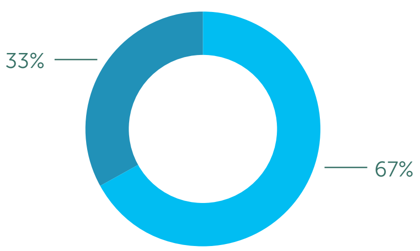
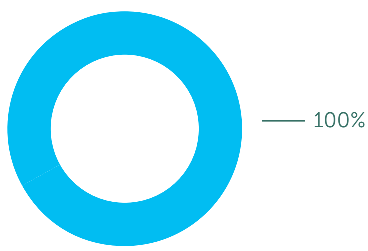


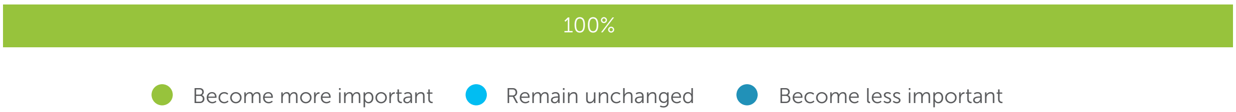
Figure 27: If yes, do you require any form of technical assistance in the transactions e.g structuring of the fund etc?



Yes No

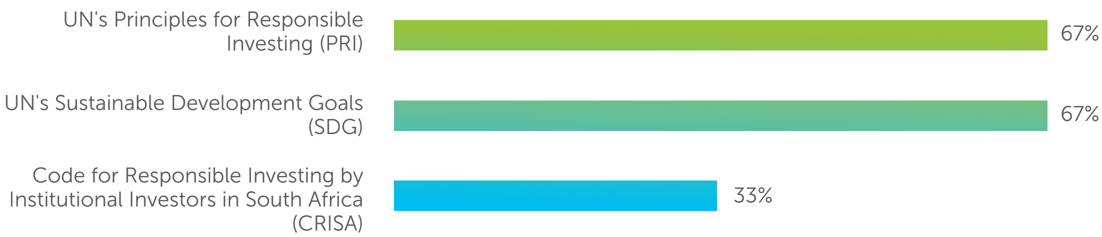
67% of the respondents indicated that they are actively considering transactions in private equity and private debt, and all respondents would appreciate technical assistance for these projects under consideration.

Figure 28: How do you expect the importance of sustainable investing to change in the next five years?



Sustainable investing is key to the Botswana pension industry. All respondents expect sustainable investing to become more important in the next five years.

Figure 29: Which of the following policy positions has influenced your investment approach?



Botswana's investment approach is mostly influenced by the United Nations SDGs and the PRI.

Do you publish your fund's sustainability policy for anyone to access?

Currently, none of the pension funds we interviewed in Botswana publish their sustainability policies for anyone to access.

Recommendations

Botswana's private equity market has been tarnished with allegations of fraud and the mismanagement of funds. Private equity has a "toxic assets" reputation in the country which pension funds immediately refer to in the context of increasing exposure. As such, there is a need to change the narrative primarily by highlighting risk-mitigating mechanisms such as due diligence, phased drawdown of project funds, monitoring of projects and active management. This could be complemented by demonstrating how private equity could align with the domestic development agenda, particularly to finance new companies and diversify Botswana's economy.

There is also a general skills shortage in the Batswana financial services industry. Our interviewees expressed doubts that there were appropriately trained people who could manage private equity GPs. Skills development might also therefore be important, although alternative solutions such as regional fund structures that incorporated Botswana could be considered.

Eswatini

COUNTRY PROFILE

State of Pension Market	Nascent pension fund market Industry AUM $2.1 billion
Number of active retirement funds	68 local retirement & 38 foreign funds
Largest Pension Funds & AUM	Public Service Pension Fund $1.66 billion
Regulatory Authority	The Financial Services Regulatory Authority (FSRA)
Permitted allocation to private equity & private debt	Pension funds do not currently invest in private equity
Private Market Hinderance	• Heavy exposure to in-country debt, results in inefficient asset allocations for pension funds. • Political instability and lack of confidence in government. • Small, informal market with limited investment opportunities. • Limited understanding of asset class.
Recommendations	• Pension system heavily influenced by SA firms who provide most of the fund management and advice - important to engage with these firms to determine greater allocations to private equity. • More appetite on the sell-side for smaller and start-up level investment of a venture capital orientation. Therefore, support these efforts as an initial step, assisting fund managers to develop and access pension savings. • Consider whether local community saving schemes, given the size of the SME market, can support private equity. • Support private equity skills and capacity development on both the buy and sell sides.

Market context

Eswatini's pension market is nascent, and the pension structure includes 68 local retirement funds and 38 foreign-managed retirement funds (South African pension firms).

The Public Service Pension Fund (PSPF) is the largest pension fund in Eswatini, with AUM at about $1.66 billion. All current participating employees of the Fund contribute 5% of their pensionable salaries and the government contributes 15% of their employees' pensionable salaries. According to the latest PSPF financials, current contributions are insufficient relative to liabilities, and a contribution rate of 38.1% is recommended for the fund to attain financial soundness over the next 15 years.

Regulation

The Financial Services Regulatory Authority (FSRA) is an integrated regulatory and supervisory authority for all non-bank financial services providers in Eswatini. The sector is governed by the Retirement Funds Act (2005) and Retirement Funds Regulations (2008).

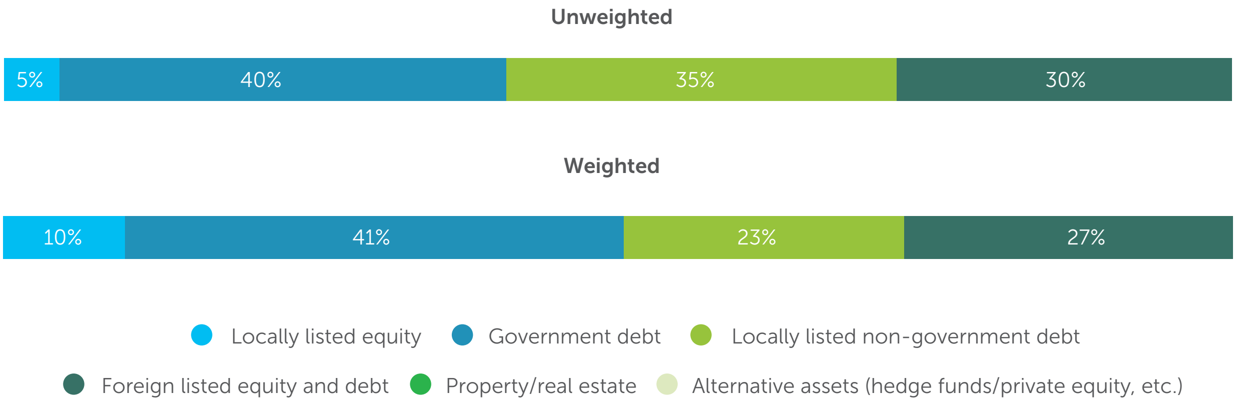
The public choice theory argues that a certain level of regulation is needed for the economy to grow (Di Vita, 2017), as this reduces uncertainty (Slemrod, 2005 and Graetz, 2007). The enactment of the Retirement Funds

Regulations triggered a process of formalisation of the private market in Eswatini and is still ongoing. However, the country is plagued by political uncertainty, thus undermining economic development and the quality of life in the Kingdom.

> *"There are very few corporates left in Eswatini."*
>
> \- Interviewee, Eswatini

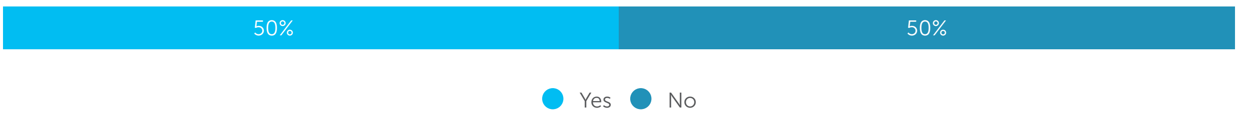
Analysis of survey feedback

Figure 30: Please specify your portfolio allocation between the following asset classes



- Eswatini's private equity market is nascent and there is currently no pension fund that allocates investments in the asset class. Most of Eswatini's pensions are invested in government debt (40%).
- The Public Service Pensions Fund makes use of its in-house portfolio managers and the private pension funds utilise asset consultants/third party advisers for their portfolio construction.

Figure 31: Does your investment policy allow for allocation to private equity or private debt asset class?



The Public Service Pensions Fund does allow investments in private equity and/or private debt. However, the private pension fund that answered this question indicated that their Fund does not allow investments in the asset classes.

> *"Eswatini needs economic development, Period!"*
>
> \- Interviewee, Eswatini

> *"There is an opportunity for local community savings schemes, given the size of the SME market"*
>
> \- Interviewee, Eswatini

> *"Most of the private pension funds in Eswatini are operated from South Africa"*
>
> \- Interviewee, Eswatini

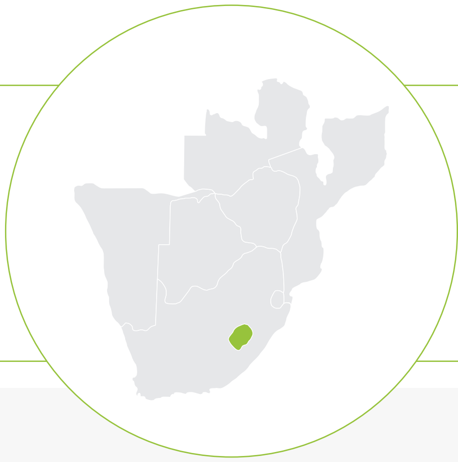
Recommendations

Eswatini's pension system is heavily influenced by South African firms who provide most of the fund management and advice. It is therefore important to engage with these firms to determine how greater allocations can be made to private equity. The heavy exposure to in-country debt of both government and domestic companies, results in inefficient asset allocations for pension funds, but will likely be seen as important to existing financing patterns in the market. A case will need to be made for the development impact of greater private equity allocation so as to reassure regulators that there will not be net negative consequences from reallocations from debt finance.

We detected more appetite on the sell-side for smaller and start-up level investment of a venture capital orientation. FSD may be able to support these efforts as an initial step, supporting fund managers to develop and access pension savings. Generally, greater private equity skills and capacity development is needed on both the buy and sell sides.

Lesotho

COUNTRY PROFILE



State of Pension Market	Emerging pension fund market Industry AUM $929 million
Number of active retirement funds	100
Largest Pension Funds & AUM	Public Officers Defined Contribution Pension Fund $616m
Regulatory Authority	Central Bank of Lesotho
Permitted allocation to private equity & private debt	Private equity max 10% Private debt between 1% and 5%
Private Market Hinderance	• The Pension Funds Act recently promulgated in 2019, but very restricted in allowing for exposure to private equity. • Currently no regulatory framework for private equity. • Political instability and lack of confidence in government. • Small market with limited investment opportunities, limited understanding of asset class and technical skills.
Recommendations	• Support private equity and private debt firms that are currently in the process of setting up operations in Lesotho. • Support private equity skills and capacity development on both the buy and sell sides. • Support the development of a regulatory framework for private equity.

Market context

Despite being a very small economy, Lesotho's pension fund market is emerging. The Public Officers Defined Contribution Pension Fund is the largest pension fund in the Kingdom, with AUM of about $616 million. The Fund has a total of 38,110 active members and 283 pensioners. Members contribute 5% of their pensionable salary and participating employers contribute 5% of the pensionable salary towards benefits and an additional 6.2% of pensionable salary towards fund expenses and insured benefits.

Regulation

The Central Bank of Lesotho is the regulator of pension funds, pension funds administrators and intermediaries in Lesotho. The Pension Funds Act was only promulgated in 2019 to provide for the regulation, registration, supervision, and dissolution of pension funds in Lesotho. The Act applies to all pension funds in the Kingdom and asset class ceilings are covered by subsidiary regulation. This regulation specifies that at least 30% of assets must be invested in Lesotho, and a maximum of 25% outside of the common monetary area. This implies that there is considerable scope for investment in South African assets. The regulation also implies a 10% asset allocation ceiling for "preference or ordinary shares of companies not listed on any stock exchange" and a 2.5% limit per entity. Given that most funds in Lesotho are small, this 2.5% single exposure would make it difficult for funds to meet other than the Public Officers Fund.

From our conversations with fund managers in Lesotho, it was made clear that there is currently no regulatory framework for private equity in the Kingdom and that the recently enacted law on pension funds is very restricted in allowing for exposure in the asset class.

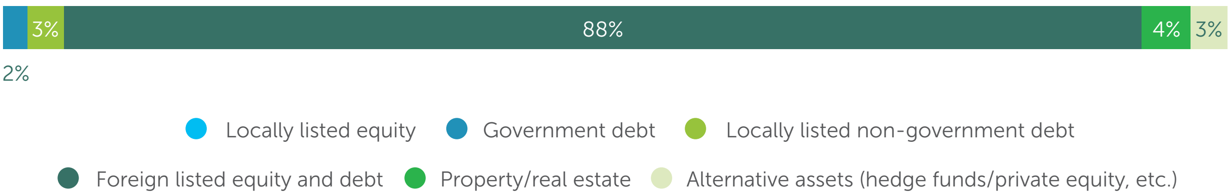
> *"There is currently no regulatory framework for private equity in Lesotho"*
>
> \- Interviewee, Lesotho

The Public Officers Pension Fund investment policy does allow for allocation to private equity or private debt asset classes. Currently, Mergence Investment Managers are the only fund managers in the country who invest in private equity. Aluwani Capital is in the process of setting up operations in Lesotho and its scope will be solely private debt. The two asset managers will essentially offer complementary services – private equity (Mergence) and private debt (Aluwani Capital).

The Law in Lesotho allows for private equity firms to raise capital domestically from institutional investors, including pension funds (30%), insurance companies (25%), banks (20%) and corporates use their own discretion.

Analysis of survey feedback

Figure 32: Please specify your portfolio allocation between the following asset classes



The Public Officers Fund is managed by several asset managers (mostly South African) and the Central Bank of Lesotho. Currently, Mergence manages the Public Officer's private equity allocation. To date, investments into the asset class are small (3%). Investments in private equity include projects in the healthcare sector, property, agriculture, infrastructure, and SMEs.

The Public Officers Defined Contribution Pension Fund allocates between 1% and 5% in both private equity and private debt.

Are there specific regulatory changes that would facilitate your ability to increase investment in private equity and private debt?

Fund managers in Lesotho emphasise the need for an improved and stable political environment, that will enable a conducive environment for private equity and private debt transactions. This is considered an overwhelming consideration, rather than regulatory development at pension fund level.

Do you have any private equity or private debt transactions that you are actively considering?

Fund managers that we interviewed revealed that they are pursuing opportunities in the education sector, hospitals and hotels.

"Pension funds are the biggest drivers of economic development in any economy. We need more asset managers coming into Lesotho to repatriate offshore assets back, and then redirect those assets into productive long-term instruments. Asset managers are the best people to create policies that can create stability in Lesotho"

- Interviewee, Lesotho

"Government needs to play an active role in the private equity market"

- Interviewee, Lesotho

"We are not confident to do business with government"

- Interviewee, Lesotho

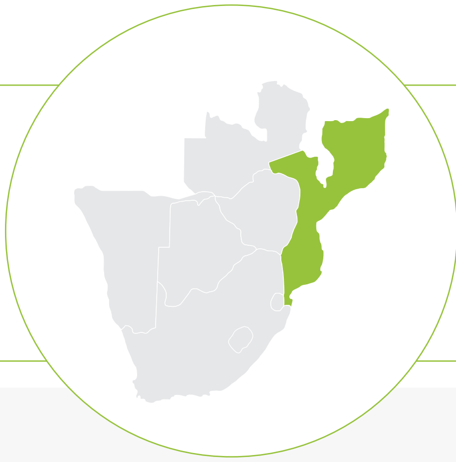
Recommendations

The wider political and economic environment is outside the scope of feasible interventions. The existing pension funds law, while still new, has not been developed with private equity as an asset allocation objective. Asset allocation ceilings are overly restrictive for small private funds. These could be adjusted upwards, for example by lifting the single issuer limit to 5%. They could also be improved by allowing for private equity funds so as to build sufficient scale for investment into a private equity fund portfolio.

However, the sell side would also require development. Again, a regional investment option might be a preferable mechanism to overcome in-country skills and capacity shortage.

Mozambique

COUNTRY PROFILE



State of Pension Market	Nascent industry but developing Industry AUM +$600 million
Number of active retirement funds	21 pension funds
Largest Pension Funds & AUM	• Central Bank of Mozambique Pension Fund • Kuhanha • INSS • Government Employees Pension Fund
Regulatory Authority	• Central Bank of Mozambique
Permitted allocation to private equity & private debt	• The law governing pension fund allocation in private equity is not very clear. • Currently no direct allocation to the private equity asset class by pension funds, although there is some investment directly in unlisted company shares.
Private Market Hinderance	• Linguistic and cultural differences - country still replicates the Portuguese system and does not follow international best practice on patient capital. • Bank dominance in the pension investment decision making and management process - banks mostly direct client flows toward deposit accounts or bonds. • Pension fund industry does not receive much attention from the regulatory authority. • Private debt market experiencing reputational issues following a bond default. • Small opaque market with limited investment opportunities and understanding of asset class.
Recommendations	• Align patient capital law in country with international best practice. • Engage with banks to accept the importance of private equity in the market and be actively involved in improving flows to the asset class. • Development of a regulatory framework for the private market to overcome reputational problems. • Support incubation hubs such as the Mozambican Association of Business Angels (AMBA), trying to mobilise capital and fund venture capital businesses. • Support private equity skills and capacity development on both the buy and sell sides. • Encourage transparency and reporting.

Market context

Mozambique's pension industry is nascent but gradually developing. The industry is only eight years old, and there are currently 21 pension funds in total, including four public pension funds and 17 private pension funds. The industry is managed by third party fund managers including Global Alliance (owned by Absa), Sanlam, Moçambique Previdente and Kuhanha among others.

The pension system consists of:

A mandatory social security scheme for the private sector managed by the Instituto Nacional de Segurança Social (INSS),	Mandatory schemes covering public sector workers	Voluntary private pensions currently offered by large employers (banks, manufacturing firms, transport companies)

An estimated 800,000 formal sector employees contribute to the mandatory INSS. The current contribution rate is 7%, where the employer contributes 4% of the pensionable salary and employees contribute 3% of their pensionable salaries. Employees of the Bank of Mozambique are exempted from contributing to the INSS scheme.

The Bank of Mozambique Pension Fund is managed by Kuhanha, however, information is not available to the public on current AUM or the Fund's investment strategy. Kuhanha is a fund manager in Mozambique, but also the third largest pension fund. Information on Kuhanha and the Government Employees Pension Fund is also not available to the public. The only available public information on the Government Employees Pension Fund is that the Fund is currently in a deficit of about $250 million, meaning that the fund's present value of future liabilities is larger than the current assets.

"The private pension fund industry in Mozambique is growing"

- Interviewee, Mozambique

Mozambique's pension industry has evolved over time. Previously, only banks or life Insurance companies could apply for a licence to manage pension funds. However, in 2009, the Pension Fund Decree was passed and Moçambique Previdente was established as the first private pension fund administrative and management company that was not part of a bank or insurance company.

Despite this scope for diversification, banks play a critical role in Mozambique's pension fund system, both as administrators, asset managers and advisers. Mozambique does not have an independent asset management industry and banks tend to be the main channel for both institutional funds and individual investors. According to pension industry respondents that we interviewed, the banks tend to direct client flows toward deposit accounts or bonds. There is limited appetite from banks to encourage the use of private equity funds because it would disintermediate them both on the liability and asset sides of their balance sheets.

Regulation

The Bank of Mozambique regulates pension funds and the Pension Funds Decree No. 25/2009:

- Establishes the legal regime for the constitution and management of pension funds, within the scope of complementary social security,
- Approves the Regulation on the constitution and management of pension funds within the scope of complementary social security; and,
- Supports the alterations of the constitutive contracts of pension funds and of the management regulations, as well as the transfer of pension funds management between management companies.

In our interviews the view was expressed that the pension fund system receives little oversight from regulators, who direct most of their attention to the insurance sector which is also under the remit of the same office. During the stakeholder engagement sessions, we were informed that the regulator is making good progress to reform the pension industry by changing the law to increase its attention on private equity – a positive and welcome development for the industry.

Private equity and private debt

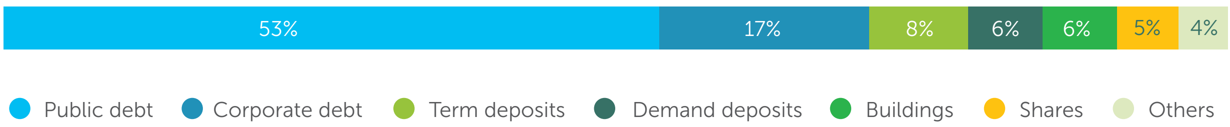
There is currently no direct allocation to the private equity asset class by pension funds in Mozambique, although there is some investment directly in unlisted company shares (though many of these may be property companies). The law governing pension fund allocation in private equity is not very clear – there is no specific asset class for it though some say it falls into the 40% allocation tranche for "shares" in general. The domestic capital market has almost no liquidity and is dominated by debt instruments. There is bank domination of the pension fund industry, and they manage most of the pension funds. As a result, banks heavily influence decisions to invest in private equity or not. Currently, pension funds in Mozambique are only allowed to invest in regulated assets which include:

Asset class	Investment exposure limit
Government Bonds	100%
Bonds and other debt titles	60%
Buildings, shares in property companies and real estate funds	50%
Shares, convertible bonds or subscription rights of mutual funds	40%
Fixed term deposits	35%
Assets denominated in a different currency	25%
Offshore investments	10%

From our interviews, investors in Mozambique are taking initiatives to raise more awareness of the asset class and are encouraging pension funds to allocate at least 5% of their AUM to private equity. These initiatives have taken some time to gain momentum as there is not a full understanding of the asset class. For example, the Mozambican Association of Business Angels (AMBA) is trying to set up an incubation hub, where members mobilise capital and fund venture capital businesses. Once the transaction reaches brownfield stage, the deals will be packaged and readied for the market.

There are currently two private equity firms in Mozambique which undertake direct investments, not necessarily via private equity instruments (through partnership funds, etc). They also mostly raise capital from Mauritius and South Africa. These private equity firms recently completed a direct investment transaction in a shopping mall in Mozambique.

Figure 33: Mozambique's investments in asset classes



Mozambique's pension fund investments are largely allocated to the public debt asset class (53%); from our interviews it was confirmed that is a strategic capital raising mechanism for government.

> *"Most of the fund managers do not have the vision of investing in new entities or start-up companies"*
>
> \- Interviewee, Mozambique

For the first time in early 2021, the market experienced a default on a private bond valued at $6.5 million. The bond was initially issued then listed on the Mozambiquan stock exchange. The default has, to some extent damaged the reputation of the private bond asset class.

Even though the Mozambiquan pension industry is not an easy and transparent market, things are changing, and the Bank of Mozambique is starting to open up. The Central Bank is also playing an active role in making efforts to increase market participation in the financial sector. For instance, the Central Bank gave one stockbroker a licence to operate on the stock exchange (commercial banks currently play a monopolistic role in the trading of stock on Mozambique's exchange). The Central Bank also recently gave licences to companies to develop payment solutions for the financial sector in the country. Lastly, the interviewees mentioned that the Central Bank recently started undertaking studies of the country's financial sector as a way to improve data collection, information, transparency and to gain a full understanding and appreciation of the economy.

Recommendations

Mozambique suffers a mix of skills shortages, regulatory constraints and a lack of transparency of the financial sector. The private debt market has a reputational problem due to the bond default that will require market development to overcome. The dominance of banks in the pension investment decision making and management process is also an obstacle to greater asset allocation to private equity.

Any intervention must aim to develop market insight into private equity and debt and its appropriate role in pension funds. This will need to include a process to convince key banks to agree to a certain asset allocation level for private equity and debt. In our view, banks need to accept the importance of private equity in the market and be actively involved in improving flows to private equity.

This would be helped by greater regulatory interest in both pension funds and private equity fund managers. Regulatory emphasis tends to be on pension funds as funding is raised from premiums charged, whereas funding for pension fund regulation is far smaller. It may be appropriate to reconsider the regulator's funding approach with a view to applying regulatory resources more actively in the sector.

Namibia

COUNTRY PROFILE

State of Pension Market	Developed & diverse pension industry Industry AUM $11.07 billion
Number of active retirement funds	135
Largest Pension Funds & AUM	Government Institutions Pension Fund (GIPF) $8.89 billion
Regulatory Authority	The Namibia Financial Institutions Supervisory Authority (NAMFISA)
Permitted allocation to private equity & private debt	• Min 1.75% unlisted investments • Max 3.5% unlisted investments
Private Market Hinderance	• Regulation 13 is very prescriptive in terms of exposure and forms of investment in unlisted investments, whether in private equity or private debt. • Small private equity market with limited investment opportunities, thus many funds fail to meet the minimum allocation levels due to lack of available feasible assets.
Recommendations	• Increase maximum exposure of permitted private equity asset allocation tranches. • Modernise the regulatory framework, particularly disaggregate private equity from other alternative asset classes. • Market private equity as an ideal channel for domestic investment exposure. • Support private equity skills and capacity development on both the buy and sell sides.

Market context

Namibia has a developed and diverse pension industry, with AUM valued at about $11.07 billion. There are currently 135 registered retirement funds, comprising of:

63	7	5	3	3
Retirement funds	Pension funds	Provident funds	Umbrella funds	Preservation funds

The Government Institutions Pension Fund (GIPF) is the largest pension fund in Namibia, with AUM at $8.89 billion. The GIPF's investment holdings account for 80% of the industry's investment holdings. GIPF members contribute 7% of their pensionable salary and participating employers contribute 16% of the pensionable salary on behalf of their employees each month.

	Fund Type	Contributing/ active members	Deferred benefit members/pensioners	Pensioners in receipt of regular payments	People entitled to unclaimed benefits
GIPF	Defined benefit	101,027		45,497	
NAMFISA	Defined contribution	180			

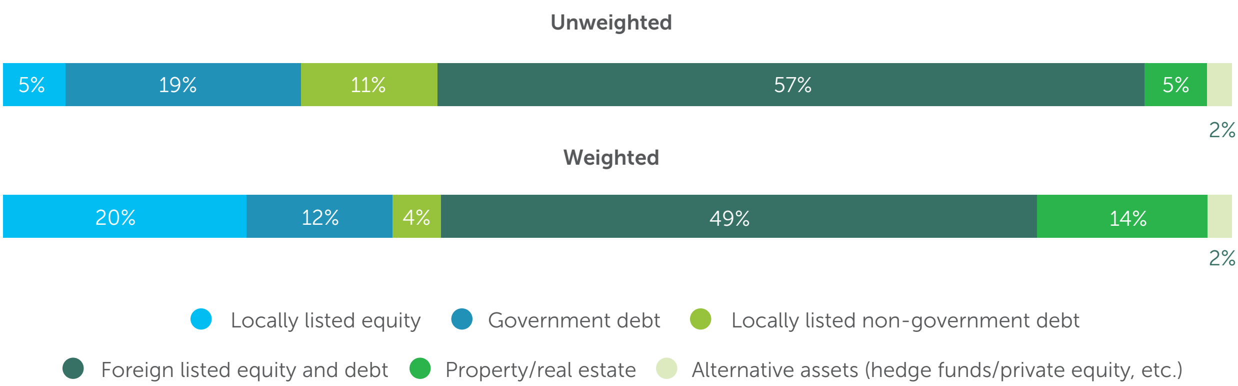
	Fund Type	Contributing/ active members	Deferred benefit members/pensioners	Pensioners in receipt of regular payments	People entitled to unclaimed benefits
RFLAUN	Defined contribution	4843	1787	1621	
Bidvest Namibia	Defined contribution	1240			232
NamWater	Defined contribution	629			4
Bank of Namibia	Defined contribution	334			1

Regulation

- Investments of retirement funds are subject to the provisions of Regulation 13 of the Pension Funds Act, and the limit for unlisted investments is stipulated at a minimum of 1.75% and a maximum of 3.5% of AUM (NAMFISA, 2021). This makes Namibia one of the few markets internationally that sets minimum asset class exposures as well as ceilings. Nevertheless, many funds fail to meet the minimum allocation levels due to lack of feasible assets available and there does not currently appear to be any sanctions for these failures.
- The geographical asset allocation of Regulation 13 came into effect from 31 March 2019 and stipulates that pension funds invest 45% of AUM in domestic assets.

Analysis of survey feedback

Figure 34: Please specify your portfolio allocation between the following asset classes



- All Namibian pension funds that completed the survey use asset consultants and/or third-party advisers for their portfolio construction. As of 31 March 2021, Namibia's pension industry was invested in 35 unlisted investment projects – including private equity firms, infrastructure funds, renewable energy projects and property funds.
- Foreign listed equities and debt dominate the asset class allocation, and in 2021, the industry held 49% of its investments in foreign assets class.
- Investments in unlisted investments consisted of drawn-down capital of 1% of industry AUM, while committed capital was 2.4% (within the allowable range of 1.75% to 3.5%) (NAMFISA , 2021).

All respondents from Namibia indicate that they allocate between 1% and 5% of their investments to private equity and private debt. The portfolio construction is primarily driven by the minimum asset class exposures as set out in Regulation 13.

Are there specific regulatory changes that would facilitate your ability to increase investment in private equity and private debt?

Most respondents specify that Regulation 13 is very prescriptive in terms of exposure and forms of investment in unlisted investments, whether in private debt of private equity. As a result, they request an increase in the maximum exposure limit.

Figure 35: Do you have any private equity or private debt transactions that you are actively considering?

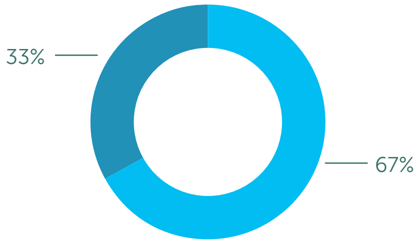
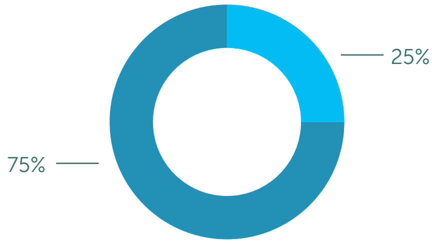
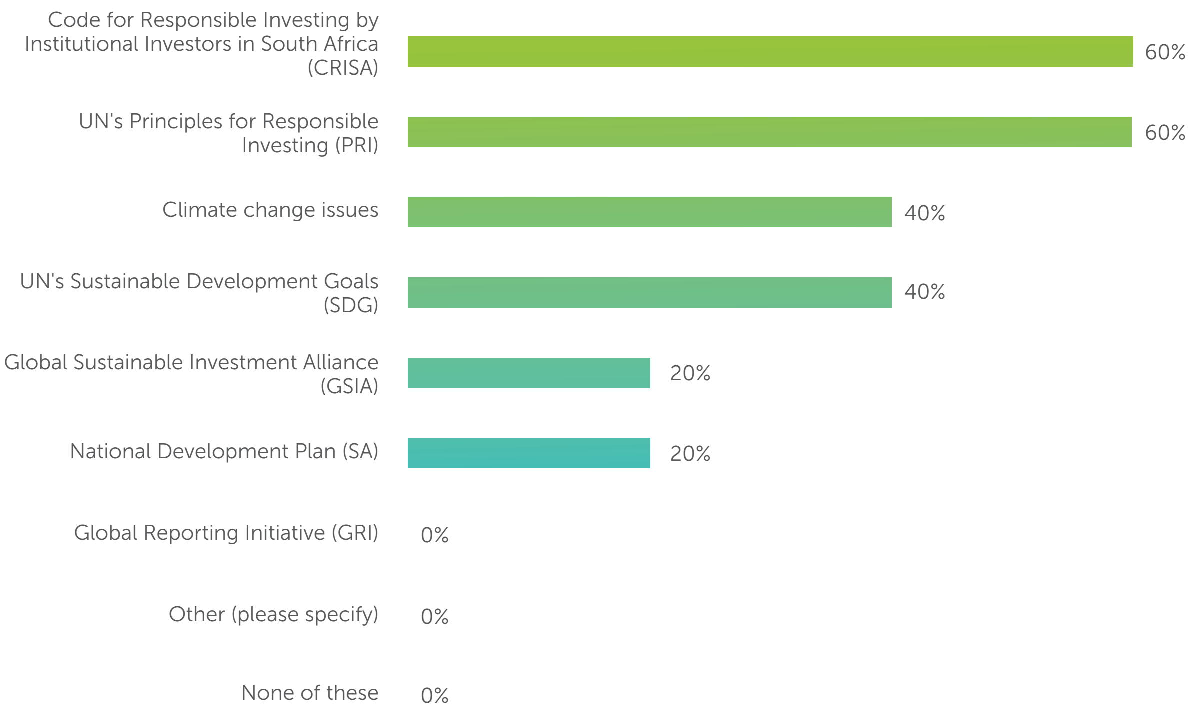


Figure 36: If yes, do you require any form of technical assistance in the transactions e.g., structuring of the fund etc?



67% of respondents are actively considering private equity and/or private debt transactions. 75% of respondents indicated that they do not require technical assistance but only 25% require some form of technical assistance.

Figure 37: Which of the following policy positions has influenced your investment approach? (You can choose more than one option.)



South Africa's CRISA and the United Nations PRI, play an important role in influencing Namibia's investment approach.

Do you publish your fund's sustainability policy for anyone to access?

Currently, none of the pension funds that were part of this research publish their sustainability policies for the wider public.

Recommendations

While Namibia is relatively well developed compared to the rest of the region, its regulatory framework requires some modernisation, particularly to disaggregate private equity from other alternative assets. This could then be given a high asset class ceiling to encourage more developed pension funds to hold greater exposures to private equity.

There are however significant skills and capacity constraints on both the buy and the sell sides domestically. This can be supported through interventions to improve pension fund insights into the private equity asset class. On the sell side, thought could be given to regional investment opportunities, although the Namibian economy should be capable of building a pipeline of private equity opportunities if the buy side was developed to meet such a pipeline.

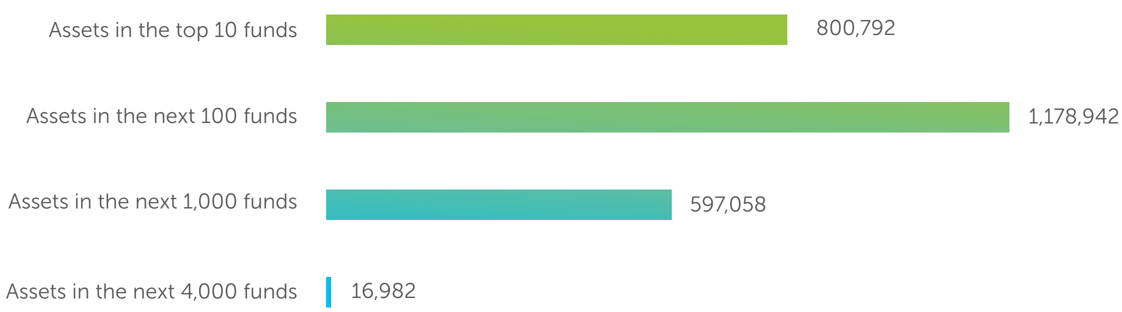
South Africa

COUNTRY PROFILE

State of Pension Market	Mature and advanced pension industry Industry AUM $500 billion
Number of active retirement funds	5,294
Largest Pension Funds & AUM	• GEPF $119.4 billion • Eskom Pension and Provident Fund $9.7 billion • Central Retirement Annuity Fund $7.27 billion • South African Retirement Annuity Fund $7.1 billion • Sentinel Retirement Fund $6 billion
Regulatory Authority	• Financial Sector Conduct Authority (FSCA)
Permitted allocation to private equity & private debt	• Private pensions: 15% (recent Reg 28 amendments from 10%). Effective 3 Jan 2023
Private Market Hinderance	• Deteriorating economic environment • Policy uncertainty • Recent civil unrest • No specific private equity regulated vehicles (common law partnerships)
Recommendations	• Support private equity industry capacity expansion to meet expended asset class exposure ceilings of pension funds. • Support asset consultants in factoring private equity exposure into portfolio modelling and advice. • Develop regulated fund options suitable for private equity.

South Africa has a developed and diverse pension industry, with over 5,000 registered retirement funds that comprise both public and private pension funds. The pension fund industry's combined AUM amounts to $500 billion (IFC, 2021) (FSCA, 2021). The GEPF is the largest pension fund in South Africa, with 1.2 million active members and $119.4 billion in AUM. Other LPFs include Eskom Pension and Provident Fund ($9.7billion), Central Retirement Annuity Fund ($7.27 billion), South African Retirement Annuity Fund ($7.1 billion) and Sentinel Retirement Fund ($6 billion). The industry is characterised by a high concentration among large funds but has a long tail of small funds (see Figure 38).

Figure 38: Concentration of assets in SA pension fund sector (Rm)

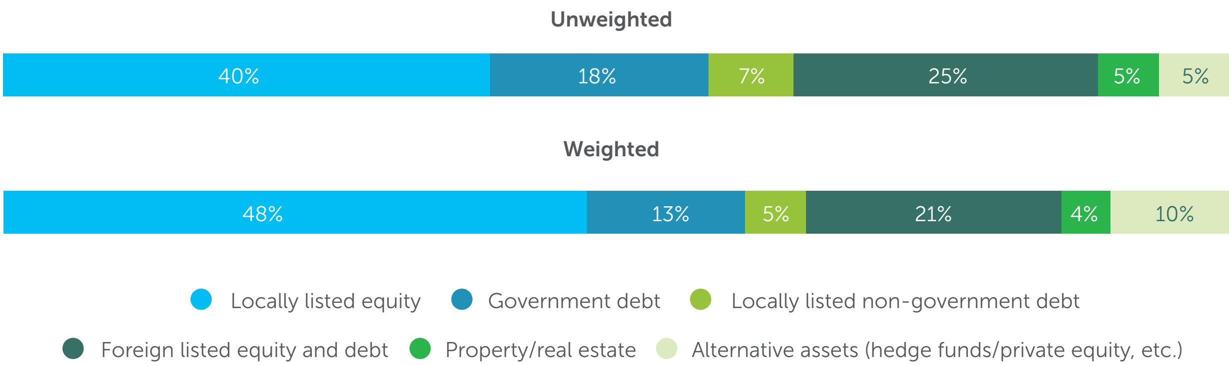


Regulation

- The Financial Sector Conduct Authority (FSCA) is the market conduct regulator of financial institutions that provide financial products and financial services, financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds and administrators, and market infrastructures.
- The Pension Fund Act of 1956 governs pension funds in South Africa and certain public sector funds are governed by their own legislation, such as the GEPF, and not subject to the Pension Fund Act.
- Regulation 28 of the Pension Funds Act governs the way managers of pension funds invest in various asset classes and its purpose is to protect investors against poorly diversified investment portfolios, and ostensibly aims to ensure that investors' hard-earned money is invested in a sensible way without too much exposure to risky assets.
- On 26 February 2021, The National Treasury published the draft amendments to Regulation 28 of the Pension Funds Act to encourage investments in infrastructure. The draft also included the splitting of the asset group "hedge funds, private equity and any other assets" to standalone asset classes of "hedge funds", "private equity" and "any other assets". Effective 3 January 2023, this amendment will allow for specific limits to each of these asset classes and the limit for private equity is now 15%, up from 10%. The limits of hedge funds and other assets remain unchanged at 10% and 2.5%, respectively. The overall or collective limit has also been removed.

Analysis of survey feedback

Figure 39: Please specify your portfolio allocation between the following asset classes



South Africa's pension funds like most African countries, allocate most of their investments to listed equity (about 50% of the assets are on the JSE). Investments in the alternative asset class is small, but larger than most African countries.

Figure 40: How much of your portfolio do you allocate to the private equity asset class relative to total AUM?

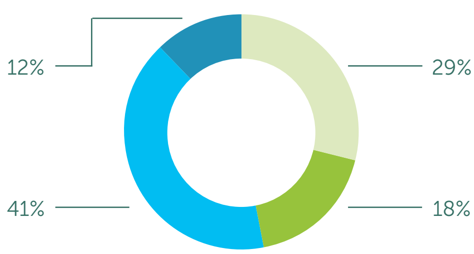
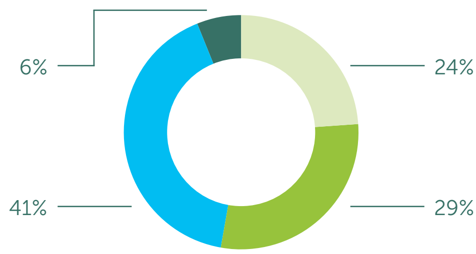


Figure 41: How much of your portfolio do you allocate to the private debt asset class relative to total AUM?

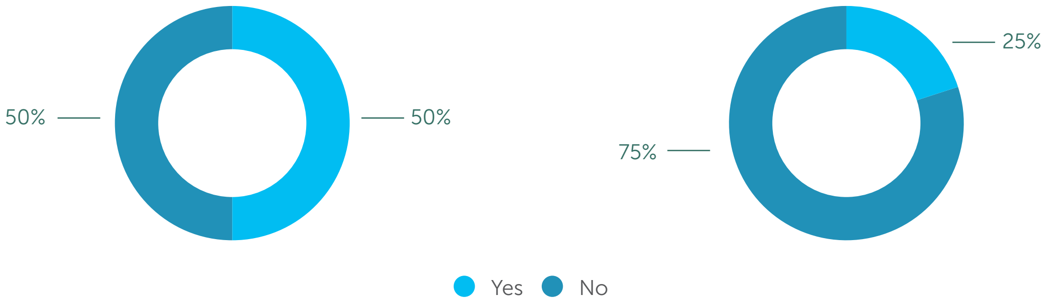


None <1% 1%-5% 5%-10% >10%

The majority of respondents indicate that they allocate between 1% and 5% to both the private equity and private debt asset classes. Almost 30% of the respondents do not currently allocate any of their investments to private equity, while 24% do not allocate to private debt.

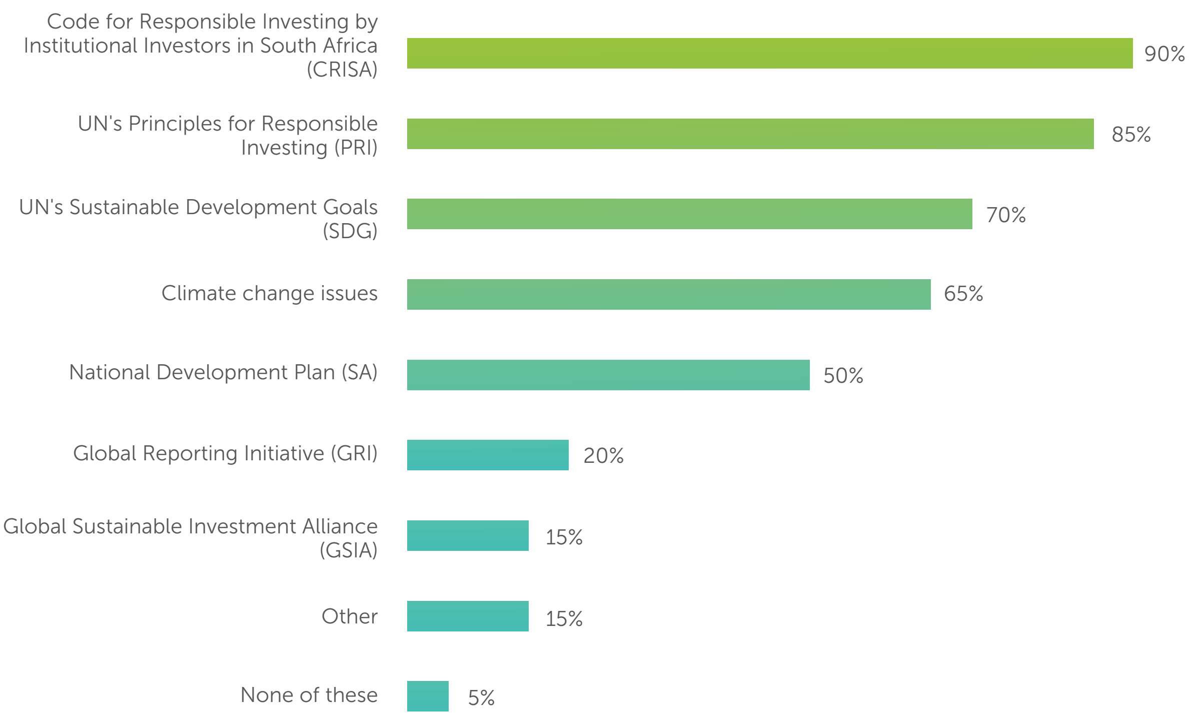
Figure 42: Do you have any private equity or private debt transactions that you are actively considering?

Figure 43: If yes, do you require any form of technical assistance in the transactions e.g., structuring of the fund etc?



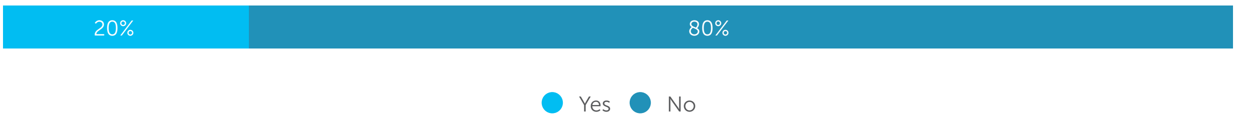
There was a 50:50 result when respondents were asked whether they were actively considering private equity and private debt transactions. Moreover, when respondents were asked whether they sought technical assistance in structuring the transactions, 80% answered no and only 20% answered yes. This might be a sign that the South African market is experienced in the private market.

Figure 44: Which of the following policy positions has influenced your investment approach? (You can choose more than one option.)



The South African pension industry is at the forefront of global best practice in terms of sustainable investment regulatory policy. Regulation 28 established the basis for South Africa's retirement funds industry to embed consideration of ESG risks and performance across all investment decisions (IFC, 2020). The concept of sustainable finance is nascent in the rest of Africa, due to a lack of knowledge about why and how ESG standards should be integrated into their funds.

Figure 45: Do you publish your fund's sustainability policy for anyone to access?



Whilst the country's sustainable investment regulatory policy is at the forefront in the African context, an overwhelming number of pension funds that answered this question still don't publish their sustainability policies for public access.

Are there any changes to Regulation 28 that you believe would improve your ability to allocate assets to private equity and/or private debt?

Respondents highlighted the following on this question:

> *"The challenge is that private equity requires a high governance budget when considering investment into single private equity managers, which is the case for our company -the Fund has chosen to adopt a low to medium governance budget.*
>
> *For low governance budget funds, the fund of fund options are limited and have not delivered solid returns over the last few years, when compared to listed equity considering the liquidity premium clients expect. While we understand why this is the case from a SA perspective, this has not been compelling to justify the additional effort required to invest a small portion of the Fund's assets in private equity."*
>
> – Respondent, South Africa

> *"There needs to be increased information and education with regards to the asset class to enable decision-makers (such as trustees) to adequately evaluate their inclusion in a portfolio and standardised data on reporting requirement."*
>
> – Respondent, South Africa

> *"The proposed regulation 28 amendment regarding defining infrastructure and de-linking private equity from alternatives/hedge funds, is a positive step. Funds will be able to more clearly define their allocations to alternative investments."*
>
> – Respondent, South Africa

> *"The main issue is the need to maintain high levels of liquidity in an open architecture and member choice environment. Private markets are illiquid."*
>
> – Respondent, South Africa

> *"The increase in the private equity allocation/investment limit from 10% to 15% is also positive and moving in the right direction with global markets."*
>
> – Respondent, South Africa

"We exclusively invest in exchange-traded products, so we would require the regulatory framework of both retirement funds and exchange-traded products to enable this for us."

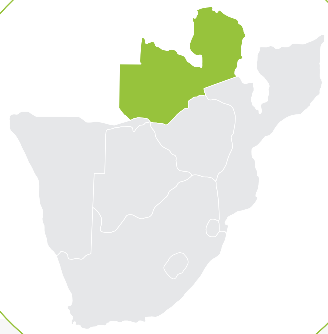
– Respondent, South Africa

Recommendations

Although South Africa has led the region in developing regulatory space for pension funds to invest in private equity, the market has yet to respond to this opportunity. Certain funds that have significant existing private equity exposure will no doubt use the additional regulatory space, but most funds have never had exposure, so the additional asset class ceiling will be of no significance. This lack of exposure is because of the key role of asset consultants in guiding investment strategy, but also the defined contribution nature of funds which leads them to avoid illiquid assets (as they must be able to maintain individual accounts and be required to pay out if the member leaves the fund). This illiquidity problem could be overcome by introducing lower liquidity fund vehicles, such as EU-style long term investment funds (or the UK's patient capital regime that is in development). We therefore recommend that interventions focus on working with asset consultants and regulators to identify mechanisms to overcome the illiquidity issues facing DC funds.

Zambia

COUNTRY PROFILE



State of Pension Market	Developed pension market, but informal economic structure and environment
Number of active retirement funds	243
Largest Pension Funds & AUM	• Public Funds: NAPSA Staff Pension Scheme $4.5bn • Private Funds: Mukuba Pension $35.3m
Regulatory Authority	• Public Funds - NAPSA • Private Funds - PIA
Permitted allocation to private equity & private debt	• Public Funds – Max 10% • Private Funds – Max 15% (recently revised from 5%)
Private Market Hinderance	• Repetitive history of pensions losing value as currencies decline, therefore a lack of trust in private equity and private asset classes. • Mature large pension funds have limited appetite for asset class (smaller funds not motivated to follow suit). • Informal market that is dominated by SMEs. • Limited technical skills and financial literacy. • Uncertainties in relative currency stabilities over time.
Recommendations	• Increased maximum limit exposure needs to be met by development of the market sell-side. • Help government appreciate the importance of allowing pension funds to diversify into private equity. • Market private equity as an ideal channel for domestic investment exposure. • Enhanced monitoring of investments in private equity projects.

Market context

Zambia's pension industry comprises both public and private pension funds. With a total of 243 registered pension entities, the pension types include:

201	**30**	**10**	**1**	**1**
Pension schemes	Pension Trust Schemes	Pension funds	Superannuation funds	Retirement funds

The industry has 113,175 members across registered pension schemes. Deferred membership reduced from 12,715 in 2019 to 5,782 in 2020. The drastic reduction was attributed to the abolishment of deferred membership by the Supreme Court of Zambia[1]). As a consequence, pension schemes started paying off benefits to deferred pension scheme members.

[1] Following the judgements in the cases of Richard Chama and 213 others Vs National Pension Scheme Authority and eight others (2020), and Standard Chartered Bank (Z) Plc Vs Willard Solomon Nthanga and others (2008)

Regulation

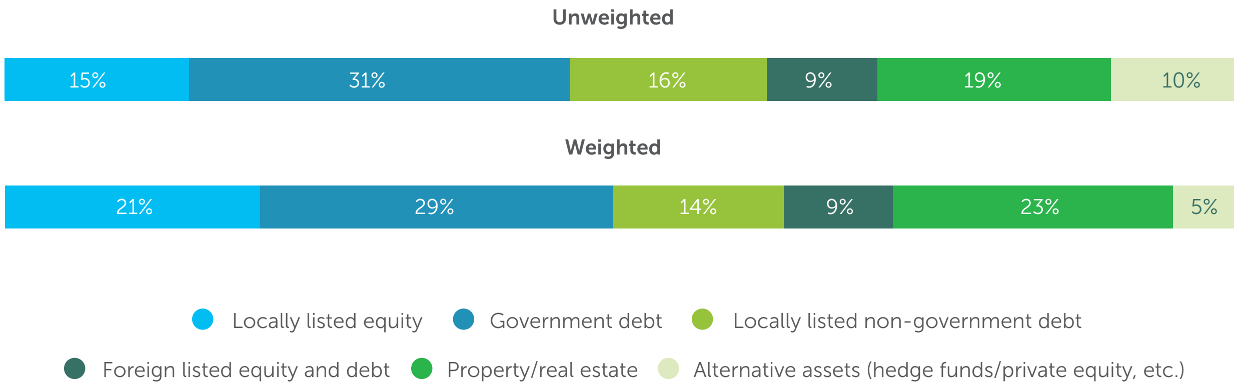
- The National Pension Scheme Authority (NAPSA) was established in February 2000 by the National Pension Scheme Act no. 40 of 1996, following the closure of the Zambia National Provident Fund (ZNPF). NAPSA's membership includes old members of ZNPF and new civil servants (including central and local government) who started work from 2000.
- NAPSA is a self-regulated organisation and is the official custodian and manager of ZNPF assets.
- The Pensions and Insurance Authority (PIA), regulates all private pensions in Zambia, including the conduct of the pension and insurance industry through prudential supervision to protect the interests of pension scheme members and insurance policyholders. This is done under the provisions of the Pension Scheme Regulation Act No. 28 of 1996.

The PIA welcomed the revision of the Pensions Scheme Investment Guidelines (S.I 141 of 2011) through the issuance of The Pension Scheme (Investment Guidelines) Regulations (S.I. 50) by the Minister of Finance on 12th May 2021. The threshold of the private equity asset class was revised from 5% to 15% and this revision is developed to be more responsive to economic and emerging investment opportunities in Zambia (PIA, 2021).

> *"The Zambian government is pro-private equity and private debt investments"*
>
> – Interviewee, Zambia

Analysis of survey feedback

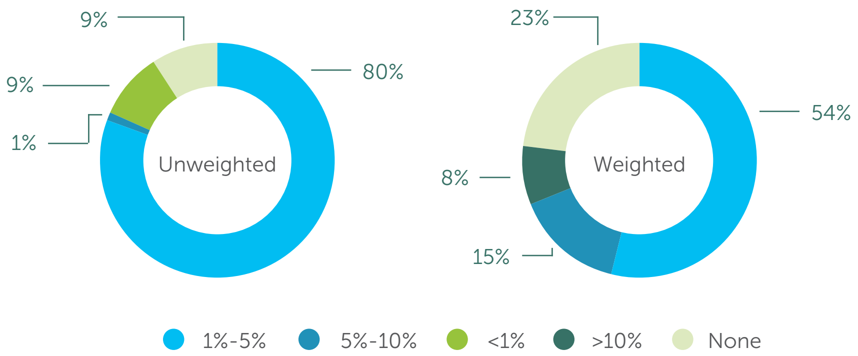
Figure 46: Please specify your portfolio allocation between the following asset classes



Pension fund investments in the alternative asset class accounts for 10% of the industry AUM on an unweighted basis and 5% on a weighted basis. It is worth noting that some pension funds invest directly in companies and projects that government considers strategic sectors (for instance tourism, real estate, and cement projects), and not necessarily via private equity instruments.

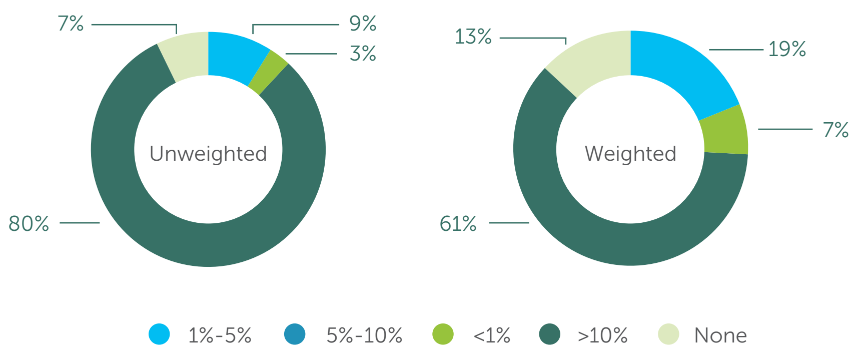
The Zambia State Insurance Pension Trust Fund and most of the private pension funds in Zambia have investments allocated to the private equity asset class. From our discussions with fund managers in Zambia, we established that NAPSA does not currently allocate any investments into the private equity and private debt asset class, however, the state pension fund is in talks with local private equity firms and development finance institutions to consider this asset class.

Figure 47: How much of your portfolio do you allocate to the private equity asset class relative to total AUM?



The majority of the respondents indicated that their pension funds currently allocate between 1% and 5% to the private equity asset class. Interestingly, the survey findings revealed that the Mukuba Pension Fund (the largest private pension fund in Zambia), currently allocates less than 1% to the private equity asset class, well below the industry average and the prescribed maximum coverage.

Figure 48: How much of your portfolio do you allocate to the private debt asset class relative to total AUM?



When it comes to private debt, most respondents indicated that their pension funds allocated more than 10% of investments to this asset class.

Are there specific regulatory changes that would facilitate your ability to increase investment in private equity and private debt?

Several respondents applauded the revised Pension Scheme (Investment Guidelines) Regulations, S.I. No. 50 of 2021, as private equity is a viable source of development finance. The amended threshold will see a surge in investments in the asset class. As a result, respondents emphasise the need for enhanced monitoring of investments in private equity projects.

Figure 49: Do you have any private equity or private debt transactions that you are actively considering?

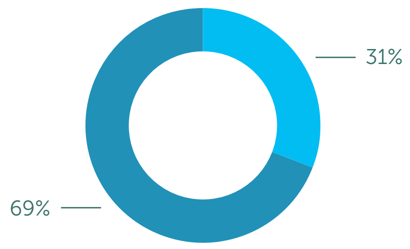
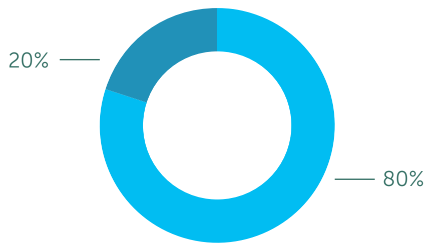


Figure 50: If yes, do you require any form of technical assistance in the transactions e.g., structuring of the fund etc?



Yes No

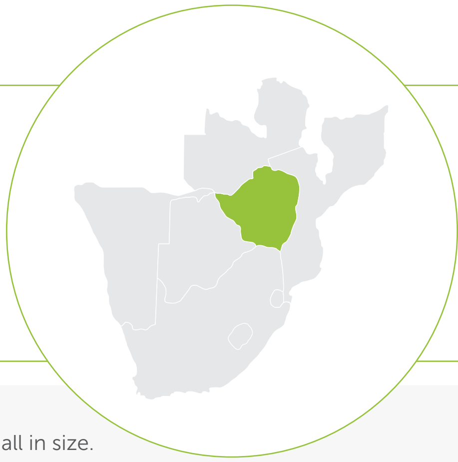
Some 69% of the respondents in Zambia indicated that they are actively considering private equity and private debt transactions. And from our interviews, we gathered that the country has quality pipelines in the green economy, especially hydroelectric and solar energy projects, and the circular economy. Moreover, 80% of the respondents indicate that they require technical assistance, as this will boost the success of their investment transactions in both private equity and private debt transactions.

Recommendations

Like South Africa, Zambia has led the region in increasing the regulatory exposure limits for pension funds to 15%. The increase, however, needs to be met by market opportunity. It is striking that the largest pension fund in the market as a public fund has not led the way in developing market interest in private equity. Large private pension funds have also limited appetite. We see opportunity in working with pension funds to increase private equity exposure, though the limiting factor is on the sell side where private equity activity has been limited. The green economy offers clear opportunity here and the high proportion of pension funds actively considering private equity suggests things will change. Interventions that worked with larger pension funds to understand the market and how to engage with opportunities would likely be catalytic.

Zimbabwe

COUNTRY PROFILE



State of Pension Market	Developed pension industry with a plethora of pension funds, but very small in size. Industry AUM $548 million
Number of active retirement funds	614
Largest Pension Funds & AUM	• Zimbabwe Electricity Supply Authority (ZESA) $150 m • Mining Industry Pension Fund $20 m
Regulatory Authority	• Insurance and Pensions Commission (IPEC)
Permitted allocation to private equity & private debt	• Private Equity – max 10% (15% proposal yet to be communicated to pensions market) • Private Debt – min 20% in prescribed assets (but industry largely non-compliant)
Private Market Hinderance	• Political instability, hyperinflation & lack of confidence in public sector • Limited investment opportunities • Asset valuation dilemma
Recommendations	• Development focus should be on the sell-side, assisting the market by developing private equity and private debt models that are resilient against inflation. • Significant resources will flow from pension funds if good value-preserving assets were created for them. • Support private equity skills and capacity development on both the buy and sell sides. • Market private equity as an ideal channel for domestic investment exposure.

Market context

With 614 registered funds, Zimbabwe has the most retirement funds outside of South Africa. The fund types include:

461
Insured funds
(357,614 members)

138
Self-administered funds
(118,738 members)

15
stand-alone self-administered funds
(412,751 members)

Zimbabwe's pension industry has 915,175 active members, that includes 26,072 beneficiaries. At 30 June 2021, the industry's AUM was $548 million – this is a 198.72% increase from $138 million in 2020. The increase in the asset base was mainly due to the revaluation of investment property and quoted equities, which constitutes over 90% of total industry assets.

Regulation

- The Insurance and Pensions Commission (IPEC) is a statutory body mandated to regulate, supervise, and develop the insurance and pensions industry for the protection of policyholders and pension scheme members in Zimbabwe. IPEC regulates both the private occupational pension schemes and the individual pensions policies.

- The Pension and Provident Fund Act is the primary legislation used to supervise industry activities.

The pension fund industry in Zimbabwe is showing increasing interest in private equity and private debt investment against the backdrop of the country's recent hyperinflation episodes. The first episode of hyperinflation occurred from the early 2000s to 2009 and was ended by the adoption of the US dollar as the functional currency. The second episode began in 2010 and continues to this day. Because most pension funds were invested in fixed income bearing securities, the value of their assets was eroded during these hyperinflationary periods. As a result, pension funds are now pursuing alternative assets, particularly private equity and private debt as a method of hedging their investments against inflation.

> *"There is renewed interest in private equity and private debt investment by the pension industry in Zimbabwe"*
>
> – Interviewee, Zimbabwe

Private debt

Section 18 of the Pension and Provident Fund Act is specific to pension fund investments and gives an overall general guidance on investing. Under section 18, the following considerations are noted:

- Investments must be realisable in Zimbabwe.
- Mandatory investment in prescribed assets. Prescribed assets include private debt and they are projects of national importance and are certified prescribed asset status by the Ministry of Finance.
- The minimum exposure limit is 20% of market value of pension fund assets.
- Due to the poor political environment, there is a preference for private debt in Zimbabwe and a very low confidence in public debt and government as the issuer (FSD Survey and interviews).

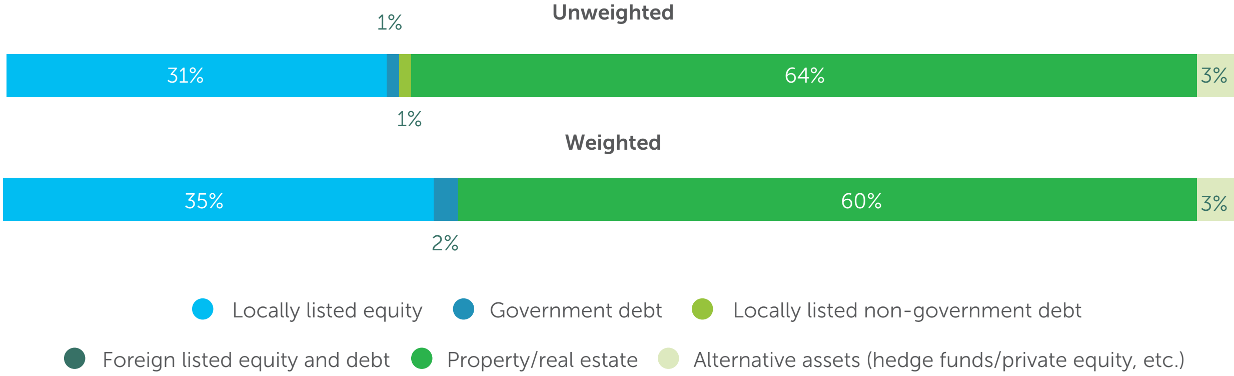
Private equity

- Circular 1 of 2013 together with Circular 1 of 2016 are investment guidelines for investments in private equity. The maximum exposure limit is 10%, and pension fund managers can exceed the 10% exposure limit by seeking prior authorisation from the Commission.
- Over the years, IPEC received an increasing number of applications from pension funds to breach the 10% maximum exposure limit in private equity, and since the Commission considers private equity a viable source, its board has approved the amended investment guidelines from a maximum exposure limit of 10% to 15% - the approved investment guidelines are yet to be released to the market.
- Currently, private equity transactions are prohibited in foreign jurisdictions as they are perceived as very risky. However, the country is reconsidering their position in offshore opportunities as the Trade and Development Bank (formerly PTA Bank) wants to raise funds through private equity instruments (FSD survey and interviews).

Overall, investments in private debt and private equity projects are not sector specific but they should have an economic impact on the country and be aligned with the government's developmental agenda as stipulated in the national blueprint.

Analysis of survey feedback

Figure 51: Please specify your portfolio allocation between the following asset classes



The alternative asset class accounts for only 3% of pension investments in Zimbabwe – the current exposure is well below the 20% prescribed asset minimum cap and the 10% maximum exposure in private equity, thus, making the pension industry non-compliant.

Figure 52: How much of your portfolio do you allocate to the private equity asset class relative to total AUM?

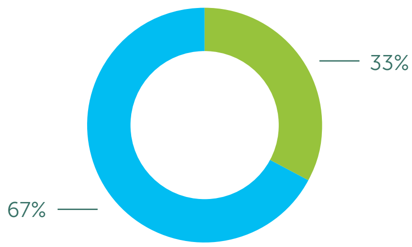
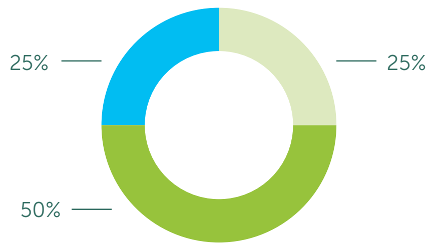


Figure 53: How much of your portfolio do you allocate to the private debt asset class relative to total AUM?



None <1% 1%-5% 5%-10% >10%

Many respondents (67%) specify that they allocate between 1% and 5% to private equity, and only 25% of the respondents allocate between 1% and 5% of investments to private debt.

Figure 54: Do you have any private equity or private debt transactions that you are actively considering?

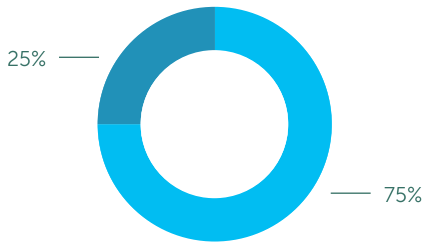
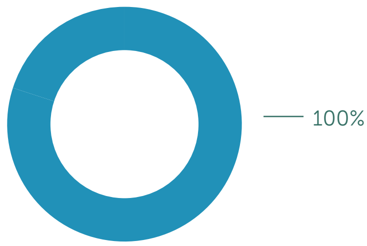


Figure 55: If yes, do you require any form of technical assistance in the transactions e.g structuring of the fund etc?



Yes No

A majority of respondents (75%) state that they are actively pursuing investments in private equity and private debt transactions in Zimbabwe, however, they do not require any form of technical assistance.

Recommendations

Through its prescribed asset regime, Zimbabwe should have far greater exposure to private equity and debt. However, the supply side has been a binding constraint, with funds simply unable to identify opportunities that meet risk appetite and deal with the clear priority of managing hyperinflation. Development focus should be on the sell-side, assisting the market by developing private equity and debt models that are resilient against inflation. There are significant resources that would flow from pension funds if good value-preserving assets were created for them.

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