

Unlocking New Listings on the Nairobi Bourse, & Cytonn Weekly #40/2018

Private Equity

Data released from the Retirement Benefits Authority (RBA) shows that investments in alternative assets by pension schemes in Kenya gained traction, with the inclusion of Private Equity & Venture Capital and REITs as separate classes in the regulations with Private Equity constituting 0.04% of the Kshs 1.2 tn total assets under management. Over one year to June 2018, pension funds increased their investments in Private Equity by 68.0% to Kshs 0.4 bn in June 2018 from Kshs 0.3 bn in June 2017. Over the six months to June 2018, pension funds' investment in Private Equity grew by 31.3% to Kshs 0.4 bn in June 2018 from Kshs 0.3 bn in December 2017, with the number of pensions, which have invested in PE firms growing to thirteen from two in 2015. This highlights the growing appetite for investments in the Private Equity sector as investors seek higher returns.

Notwithstanding the above increase, Private Equity investment is still dwarfed by investment in traditional asset classes such as Government Securities, Quoted Equities, Immovable Property and Guaranteed Funds. Investments in Government Securities had the highest allocation at 36.3% followed by Quoted Equities at 20.7%, Real Estate (Immovable Property) at 19.7%, REITS at 0.09%, with Private Equity at 0.04% against an allowable allocation of 90.0%, 70.0%, 30.0%, 30.0% and 10.0%, respectively. This was primarily due to the lower risk associated with these investments. However, we expect that Private Equity investments by pension funds will keep growing as pension funds seek the higher returns it offers.

The table below shows the overall industry investment portfolio:

Asset Category (Kshs bn)	Jun-16		Dec-16		Jun-17		Dec-17		Jun-18		Allowable %
	Kshs	%	Kshs	%	Kshs	%	Kshs	%	Kshs	%	
Government Securities	211.85	25.47%	349.15	38.26%	353.47	36.70%	394.19	36.50%	423.70	36.32%	90.00%
Quoted Equities	129.68	15.59%	159.07	17.43%	180.35	18.73%	210.17	19.46%	241.46	20.70%	70.00%
Immovable Property (Real Estate)	126.52	15.21%	178.42	19.55%	204.6	21.24%	226.72	20.99%	229.32	19.66%	30.00%
Guaranteed Funds	101.89	12.25%	129.58	14.20%	103.67	10.76%	142.97	13.24%	159.63	13.68%	100.00%
Listed Corporate Bonds	39.42	4.74%	46.95	5.14%	46.83	4.86%	41.99	3.89%	41.51	3.56%	20.00%
Fixed Deposits	28.31	3.40%	24.57	2.69%	45.49	4.72%	32.88	3.04%	31.62	2.71%	30.00%
Offshore	5.27	0.63%	6.96	0.76%	9.68	1.01%	12.77	1.18%	15.03	1.29%	15.00%
Cash	8.71	1.05%	12.93	1.42%	13.91	1.44%	12.95	1.20%	18.99	1.63%	5.00%
Unquoted Equities	62.57	7.52%	3.95	0.43%	3.91	0.41%	4.06	0.38%	3.780	0.32%	5.00%
Private Equity	0.00	0.00%	0.22	0.02%	0.25	0.03%	0.32	0.03%	0.42	0.04%	10.00%
REITS	0.00	0.00%	0.84	0.09%	0.89	0.09%	1.03	0.10%	1.01	0.09%	30.00%
Others e.g. Unlisted Commercial Papers	117.56	14.13%	0.00	0.00%	0.00	0.00%	0.06	0.01%	0.22	0.02%	10.00%

	Jun-16		Dec-16		Jun-17		Dec-17		Jun-18		Allowable %
Total	831.78	100.00%	912.64	100.00%	963.05	100.00%	1,080.11	100.00%	1166.69	100.00%	

Source: RBA

In terms of total assets in the industry, these increased by 8.0% from Kshs 1.1 tn in December 2017 to Kshs 1.2 tn in June 2018. Despite this performance, Private Equity funds still control a paltry 0.04%, of the Kshs 1.2 tn against an accepted investment limit of up to 10.0%. This can be attributed largely to; (i) little awareness among pension schemes trustees, which can be countered by creation of awareness by Fund Managers, and (ii) risk averseness among the pension scheme trustees and failure to think innovatively makes it very difficult for the trustees to see the opportunity in the Private Equity. In an effort to diversify their investment portfolios and increase returns, we expect pension funds to show stronger interest in Private Equity as an asset class, which is not correlated with other traditional investments and which offer higher returns compared to other traditional investments. According to a survey done by KPMG/ EAVCA, average returns for Private Equity was 19%, which is above the returns from traditional investments like Government Securities and Equities.

Cytonn Investments has entered into a transaction with its leading institutional partner, Taaleri of Finland, whereby Taaleri has acquired the option to subscribe for up to 20.0% of Cytonn. Taaleri is a financial group, whose parent company Taaleri Oyj's shares are listed on the NASDAQ stock exchange. Taaleri manages investments worth Kshs 813.0 bn and provides funding in the capital-intensive real estate sector in Africa.

This will be the fifth time the Finnish firm will be investing with Cytonn, having already committed over Kshs 5.0 bn towards projects and investments with Cytonn, namely The Alma, The Ridge, Situ Village and Amara Ridge, which has already been delivered to homeowners. In addition to their investments, Taaleri has already successfully received back its investments from Amara Ridge and The Alma, underlining Cytonn's commitment to deliver above-average returns in real estate for global institutional investors. For more information, see our [Cytonn Press Release](#).

Private equity investments in Africa remains robust as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization, a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.