



WE KNOW AFRICA

The Network Forum Africa Meeting 2023

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New Markets and New Asset Classes: Opportunities and Challenges

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AFRICA AT A GALANCE.....



The African Capital markets have seen numerous changes and growth patterns in the last decade:

Capital raised

- \$1 bn raised in 2021, \$8.1 bn raised between 2017 -2021

Pension Space

- a few large state-run schemes continue to dominate in several countries
- pension reforms generally have allowed a larger role for privately managed fund administrators

Growing Population

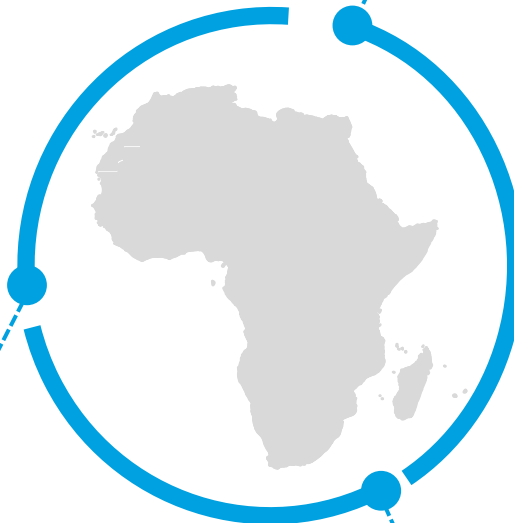
- increasing populations with growing middle classes and market reforms — have led to expanding pension systems across markets in the African region over the past decade and a half

New markets

- Foreign Investor Interest in markets like Angola, Mozambique, Tanzania, Ethiopia etc



great fundamentals to support interest in New asset classes



Stock Exchanges

- First stock exchange established in 1861 – over 15 decades later, 36 stock exchanges serving 43 economies..

Growth of Pension systems

- The continued growth of pension systems' assets under management has helped stimulate new demand and interest in new markets and new asset classes.

IPO's

- 7 IPOs in 2021, 71 between 2017 to 2021

Funding

- Africa has an Infrastructure funding gap of between \$130 - \$170 billion a year (2021/2022).

NEW MARKETS IN AFRICA



New Listings 2022

- Sub-Saharan Africa equity capital market issuances raised \$1.7bln
- Total of 8 issuances during the year, 3 follow on issuance

Stock Exchanges

- Several exchanges on the continent appeared only in the last two decades, including Angola, Cameroon, Lesotho, Libya, Rwanda and Seychelles
- Continent provided the market with several well-received green, blue and Islamic bonds in the last 2-3 years

Foreign Investments interest

- Angola – new interest even with looming change in regulation in the bond market
- Tanzania – Recent opening of local bond market for SADC investors and pending liberalisation of pension funds presents growth opportunities in coming years.
- Mozambique – anticipated oil and gas companies listing ?
- Ethiopia – Ethiopian Securities Exchange (ESX) aim to get it operating by end 2023 or in the first half of 2024.



Traditional Definition

- typically categorized as those investments falling outside of the “traditional” or standardized asset classes such as listed equities, “plain vanilla” bonds and short-term debt securities.

Africa dynamics

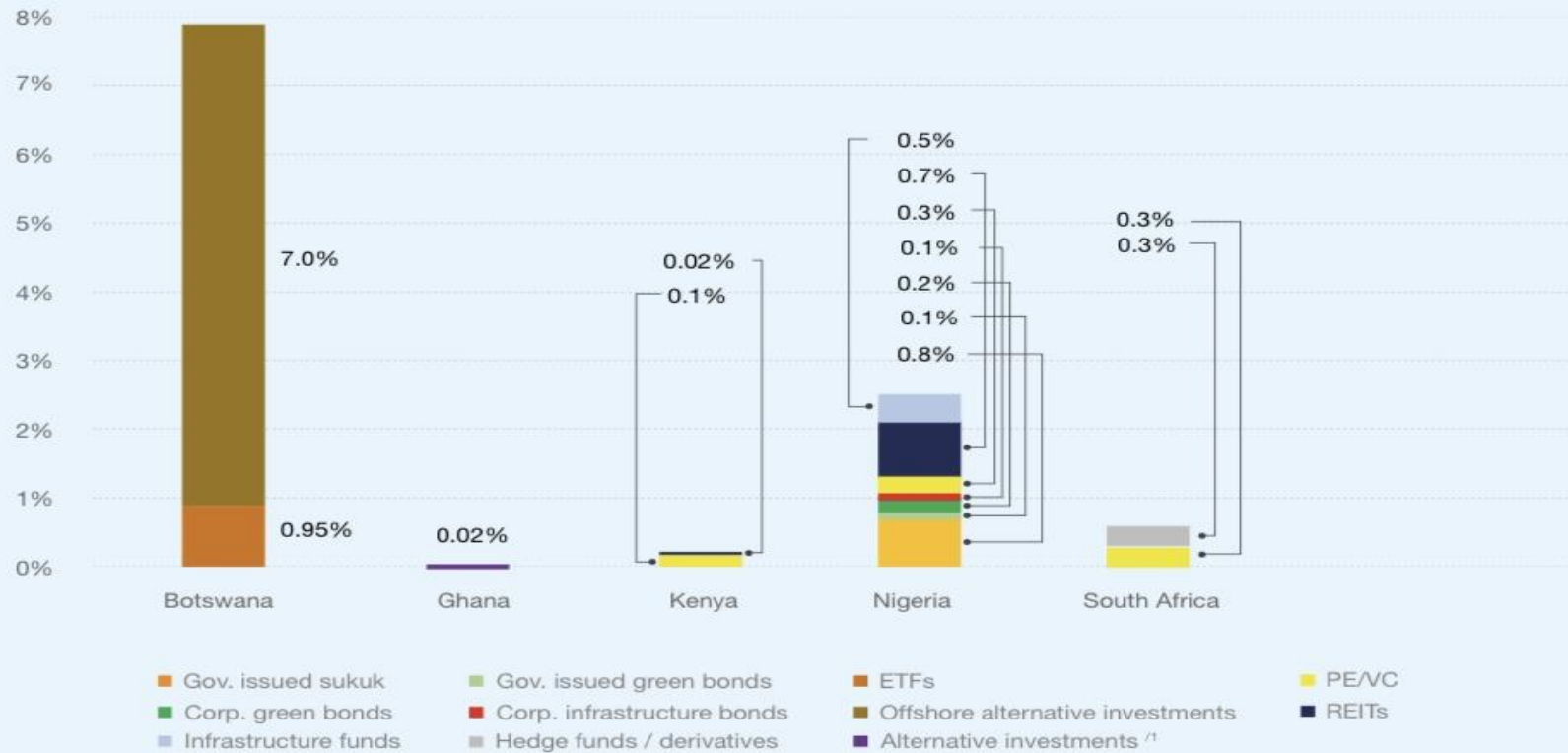
- defining alternative assets vary considerably across markets
- Some markets include foreign assets in a broad definition of “alternative asset classes
- **Ghana - the National Pensions Regulatory Authority (NPRA), defines “alternative investments” for its pension industry as comprising “external (cross-border)” investment, as well as REITs/REIT funds and PE.**

Alternative asset classes being considered

- private equity and venture capital (PE/VC);
- infrastructure financing;
- exchange-traded funds (ETFs);
- real estate investment trusts (REITs);
- financing affordable housing;
- ESG and green financing purposes;
- asset-backed securities (ABS); and other derivatives and foreign/offshore assets



Chart 1. Allocation to alternative asset classes is a very small share of total AUM (As of end-2020)



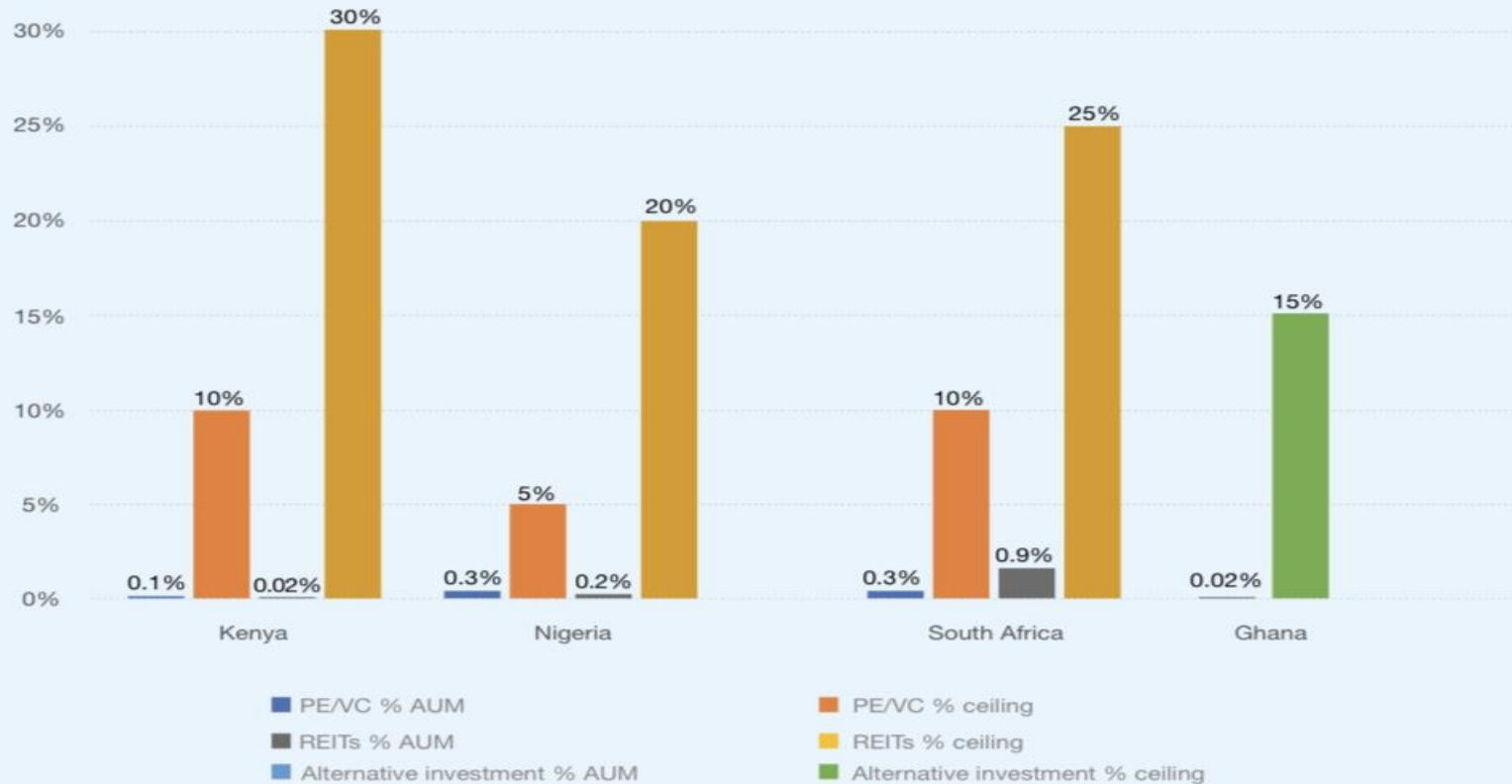
Sources: Pension fund regulators including their annual and other periodic reports.

Note:

^{/1} "Alternative investments", as defined by Ghana's NPRA, comprise REITs/REIT funds, PE, and external (cross-border) investment.



Chart 2. Alternative assets are still a very small share of AUM — and well below ceilings (% of AUM as of end-2020)



Sources: Pension fund regulators including their annual and other periodic reports.

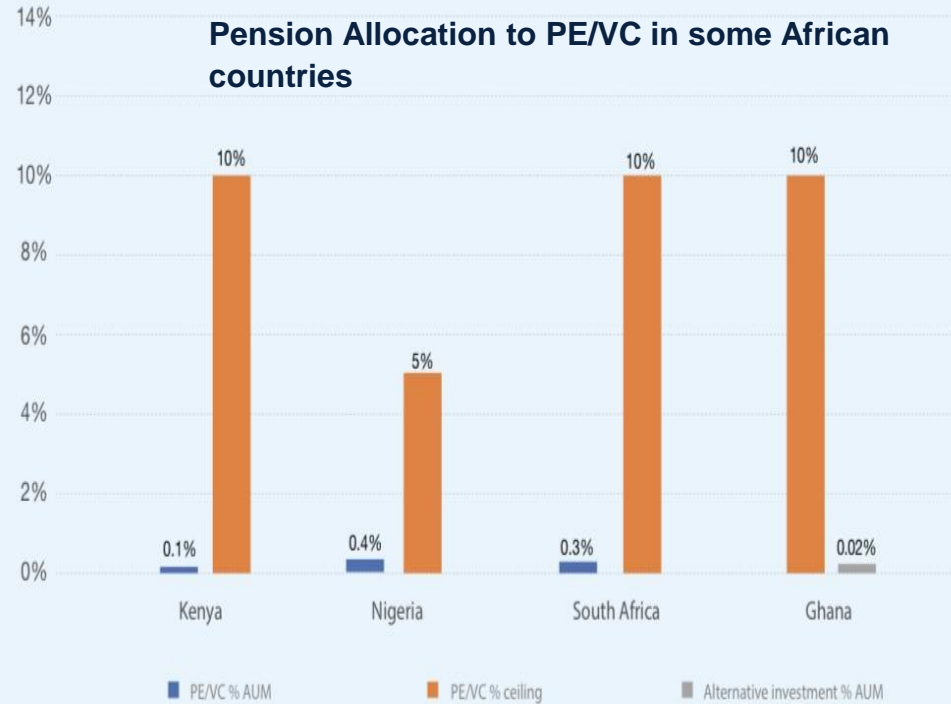
Note: For South Africa, chart plots % of AUM for “immovable assets” (instead of REITs); the REITs ceiling of 25% applies to pension fund investment in collective investment schemes in property listed on an exchange. In Ghana, a maximum of 15% of total AUM may be invested in “alternative investments”, as defined by the NPRA, which comprise REITs/REIT funds, PE, and external (cross-border) investment; the ceiling on share of AUM invested in any one alternative asset subclass is 10%.



EVOLVING INVESTOR APPETITE BY ASSET CLASS

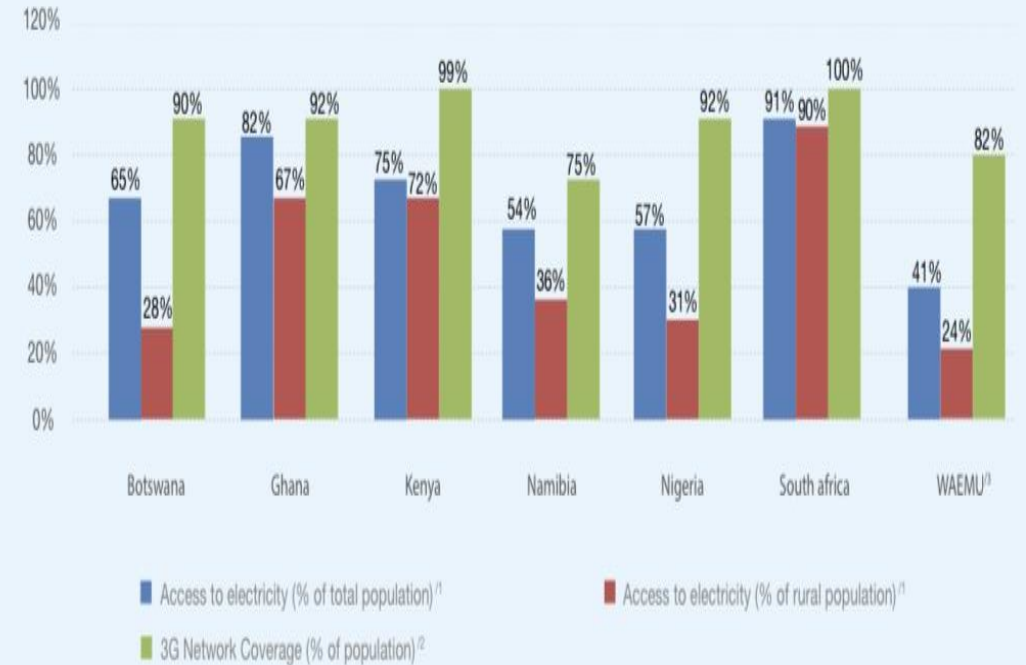
Private Equity/Venture Capital

Infrastructure



Sources: Pension fund regulators including their annual and other periodic reports.

Note: For South Africa, the chart plots end-2019 rather than end-2020 data. For Botswana, the chart plots unlisted equity as reported by the national regulator. For Namibia, the estimate is based on unlisted debt and equity, as reported by the national regulator.

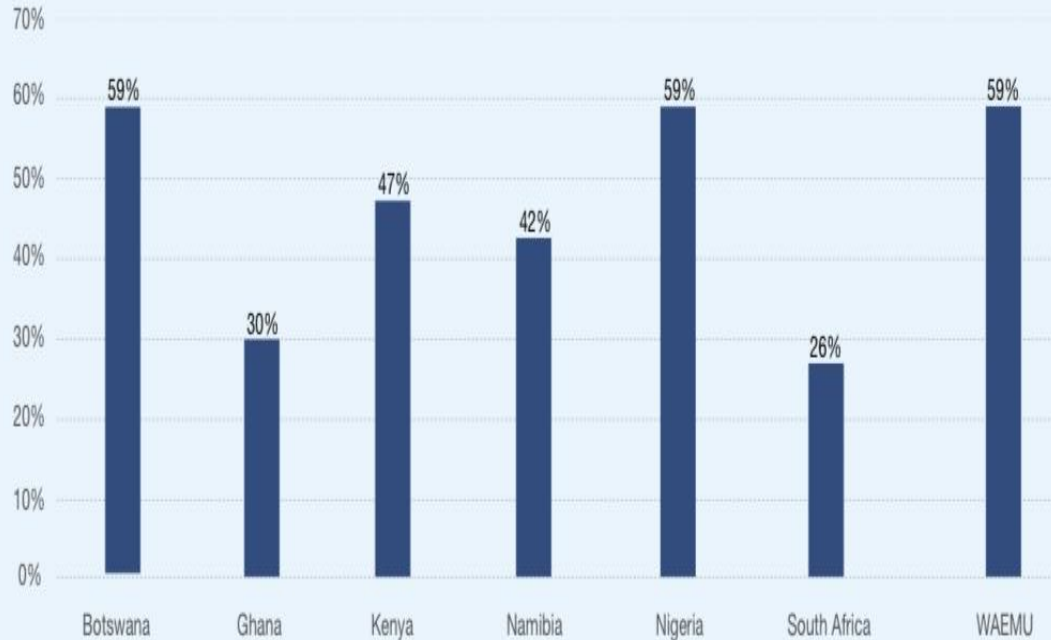


Source: World Bank, Infrastructure Global Indicators Dashboard (<https://datacatalog.worldbank.org/int/infrastructure-data/search/dataset/0038527/infrastructure-global-indicators-dashboard>).

Real estate and affordable housing

Real estate investment trusts (REITs)

Percentage of urban population living in slums



REITS in some African countries

	Regulatory framework introduced	Number of Registered REITs	Estimated size of REIT sector (USD million)	REIT subsectors
Botswana*	–	–	–	–
Ghana**	2018	0	–	–
Kenya	2013	4	35.5***	Commercial and residential
Namibia	–	–	–	–
Nigeria	2007	4	131	Commercial and residential
South Africa	2013	33	31,420	Commercial and residential
WAEMU	–	–	0	–

Sources: UN Habitat for a Better Urban Future; urban population for WAEMU member countries sourced from World Bank staff estimates based on the United Nations Population Division's World Urbanization Prospects.

Green asset classes and ESG considerations

- The market has seen an increase in the issuance of corporate green bonds in Africa, from Namibia in the South, through Kenya in the East to Nigeria in the West.
- Examples:
 - i. Nedbank- ZAR 1.6bn Climate Bonds Certified Renewable Energy Bond (2019,2020)
 - ii. Acorn Holdings issues first green bond from Kenya - \$ 40mn (2019)

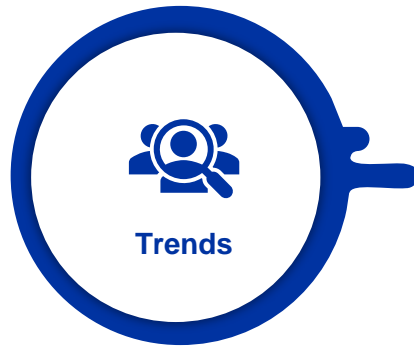
Asset-backed securities

- **Nigeria** example - the investment guidelines in Nigeria have provisioned well for this asset class, but supply has been very limited with only a few appropriate instruments available.
- **Ghana**, ABS lacks a specific framework that ensures the transparency of structures and, consequently, adequate trust on the part of investor.
- potential in **Kenya** for developing mortgage-backed securities as an ABS subclass,

ETFs and related products

- In recent years, pension funds and other local institutional investors in emerging and frontier markets have taken more note of ETFs as a vehicle for finding and choosing assets to invest in thereby enabling some “automatic diversification
- Regulators have focused attention on risks and costs inherent in ETFs as an investment instrument, including a potential mismatch between the liquidity of the ETFs and that of the assets they own
- Pension funds in **Ghana** await suitable ETF products with lower fees to come onto their local capital market
- **Botswana's** pension industry is the one of the few markets in Africa that provide disaggregated data on pension industry allocation to ETFs

WHY NEW MARKETS AND NEW/ALTERNATIVE ASSET CLASSES



- growth of pension systems' assets under management - helped stimulate new demand and interest in new markets and new asset classes.
- investment in alternative assets has remained well below national limits.
- impact of macroeconomic factors and the relatively underdeveloped nature of local capital markets.



- Huge infrastructure need across the continent
- The shift from defined-benefit to defined-contribution pension schemes
- introduction of newer kinds of structures and asset classes across Africa due to demand
- Regulatory reforms



- lack of capacity or familiarity with regards to evaluating associated risk.
- Slow change in regulatory or policy approaches to newer assets
- Mismatch of available