



**“A Dynamic and Secure Retirement Benefits Sector”**

***The Role of Retirement Funds in Achieving GOK Agenda Four  
(Low Cost Housing)***

**The Association of Retirement Benefits Schemes (ARBS)**

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Retirement Benefits Authority**

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Nairobi**



## OUTLINE

- ❖ Overview
- ❖ Growth in the Sector
- ❖ Property Investment
- ❖ Challenges in Property Investment
- ❖ Addressing the Challenges
- ❖ Enhancing Contribution to Low Cost Housing

## OVERVIEW

- ❖ The Retirement Benefits sector in Kenya is covered under the Retirement Benefits Act No. 3 of 1997 .
- ❖ The Act also establishes the Retirement Benefits Authority (RBA), which is the retirement benefits regulatory body under the National Treasury.
- ❖ Section 5 of the Act defines the objects and functions RBA as follows:

### REGULATE & SUPERVISE

Establishment and Management of retirement benefits schemes

### PROTECT

Interests of scheme members and sponsors

### DEVELOP & PROMOTE

The Retirement benefits industry

### ADVISE

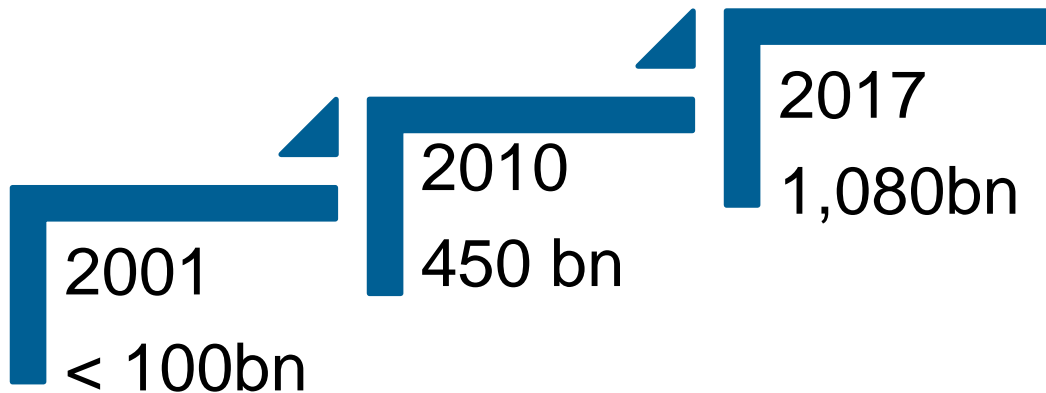
The Cabinet Secretary to The National Treasury on national policy relating to the industry

### IMPLEMENT

All government policy relating to the industry

# INDUSTRY PERFORMANCE

## Assets: Kes



## Schemes: 1,300



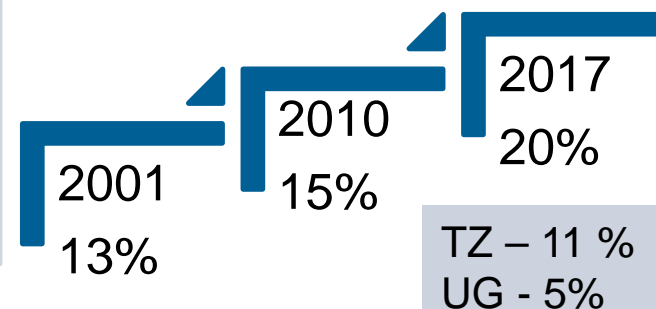
## Members: 3.0 Million



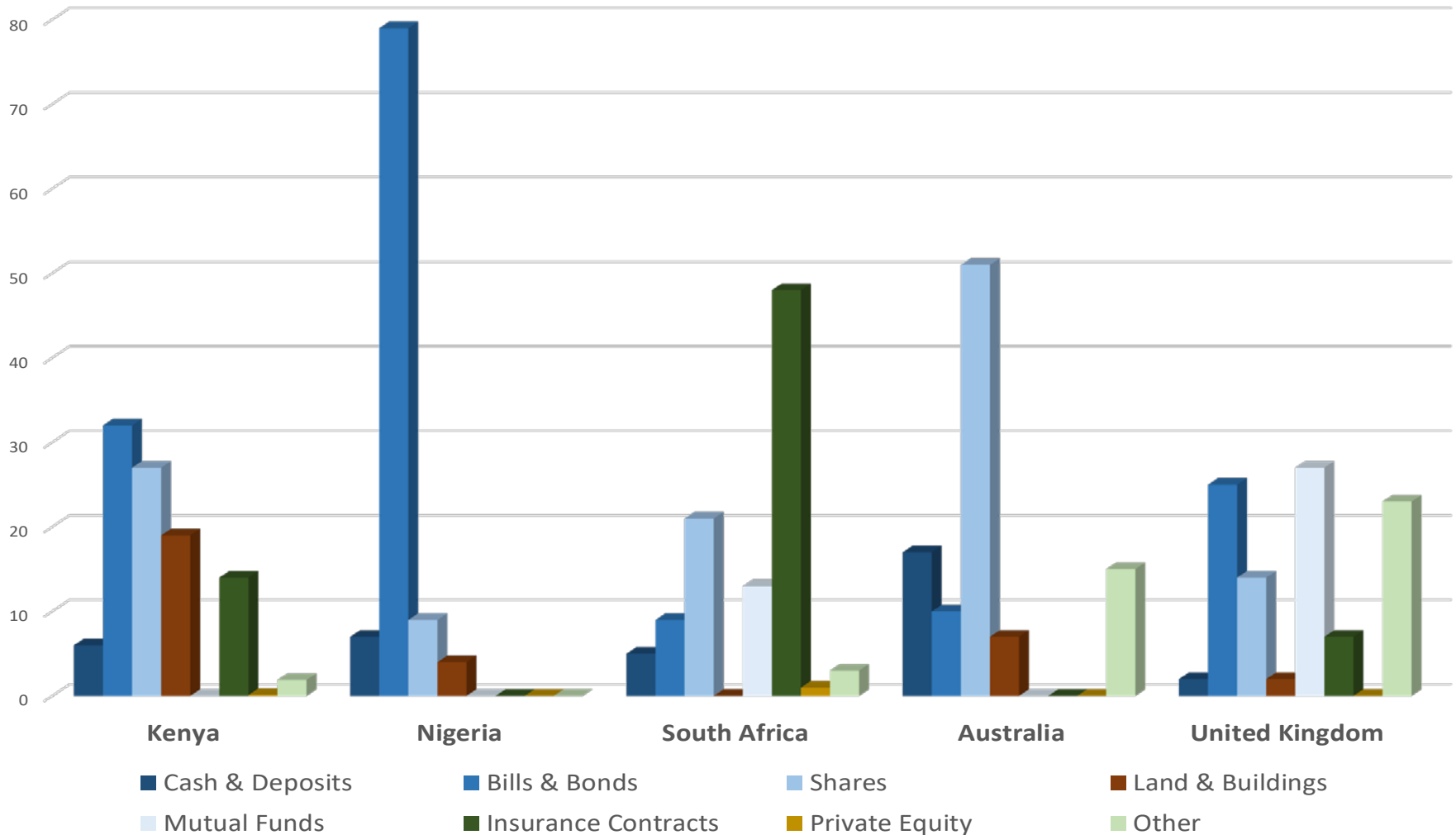
## Registered Service Providers



## Coverage

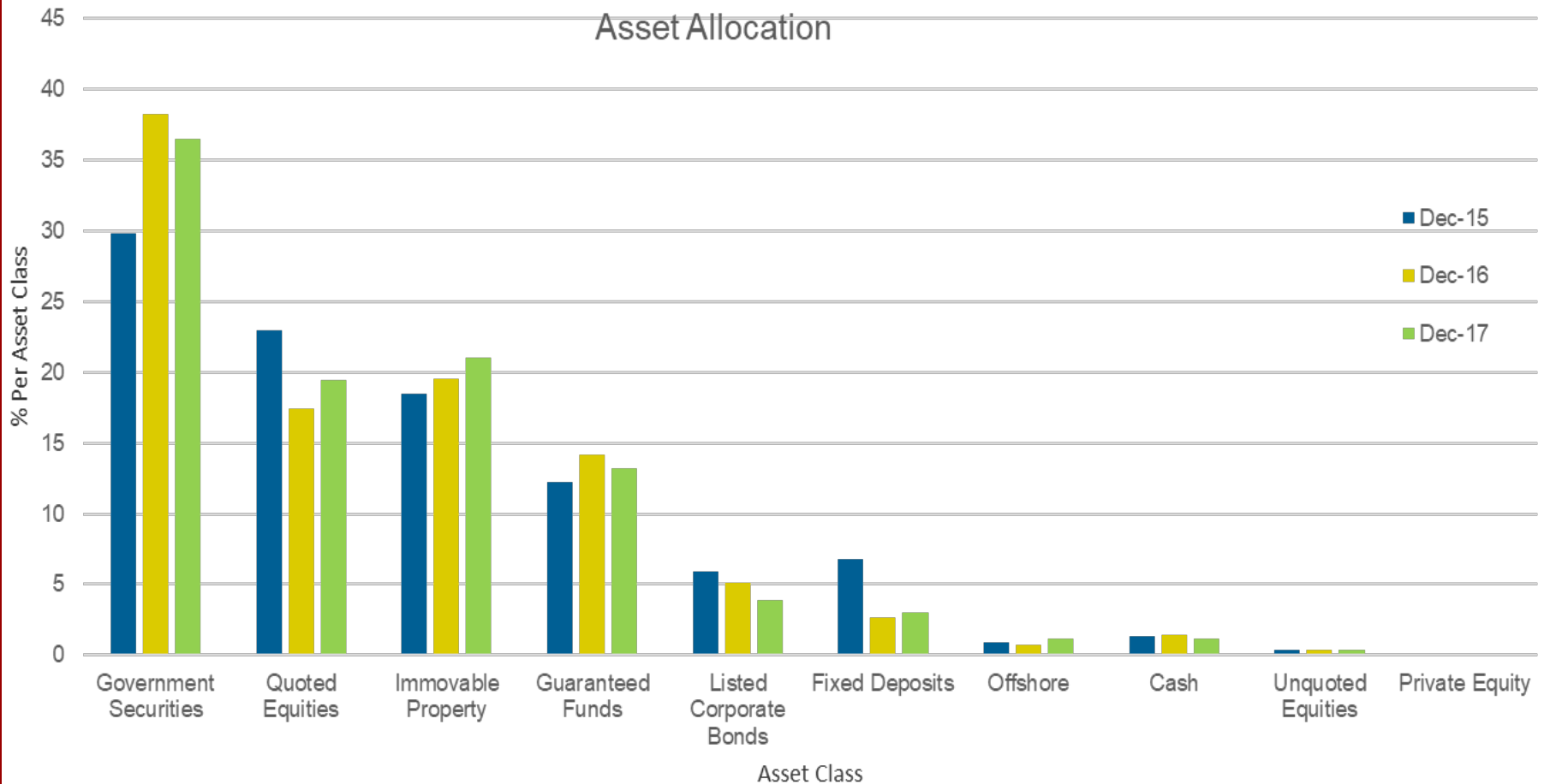


## KENYA HAS A DIVERSIFIED INVESTMENT PORTFOLIO





# INVESTMENT IN REAL ESTATE INCREASING





## WHY REAL ESTATE?

- ❖ Real estate is viewed as an important asset for pension funds due to its investment characteristics of **high quality, income producing**, and its **low risk** and **portfolio diversification** benefits
- ❖ Investment in real estate has been shown to reduce risk; enhance returns; act as a **hedge for inflation** and deliver **strong cash flows** to the investor
- ❖ Real estate also has been shown to have **low correlation to other financial assets**
- ❖ Hence it is a good diversifier within a mixed-asset portfolio.
- ❖ However, barriers to investments in real estate by pension funds still exist.

## CHALLENGES OF PROPERTY INVESTMENT

- ❖ Investments in real estate are **illiquid**, thinly traded and lacks information transparency
- ❖ “Bite size” is **large** therefore **locking out many small schemes**.
- ❖ Direct real estate investment also **require special management skills**
- ❖ Lack of adequate data to calculate a reliable property index.
- ❖ Lack of clear guidelines on the valuation of property investments and different property managers use different valuation and performance measurement methodologies.
- ❖ Investments in real estate by pension funds have also been **dogged by controversies and governance issues** Starting from acquisition, management and disposal of real estate investments.





## REAL ESTATE INVESTMENT GUIDANCE

- ❖ Authority guidance on investment in real estate - March 19, 2018:
  - ❑ It's the duty of trustees to ensure that all scheme funds are invested by the manager, appointed by the trustees in compliance with the investment policy statement of the scheme.
  - ❑ The manager shall advise the trustees on the asset class available for investment. This shall include property investment.
  - ❑ The manager shall not engage the services of the property manager on behalf of the scheme without the prior written approval of the trustees.
  - ❑ The custodian shall transfer, exchange or deliver in the prescribed form securities held upon receipt of proper instructions from the manager.
  - ❑ The role of the administrator shall be as provided under the Retirements (Administrators) Regulations and not as property consultants.
  - ❑ Any property transaction initiated by trustees without the written advice of the manager and not in compliance with the scheme's investment policy statement shall be deemed to contravene Section 38 of the Act.

## ADDRESSING CHALLENGES – ASSET CLASSES

ASSET CLASS	Max	ASSET CLASS	Max
Cash and Demand (Fixed and Time) Deposits in Institutions Licensed under the Banking Act in Kenya	5 (30)%	Unlisted Shares and equity including CIS	5%
		Exchange Traded Derivatives	5%
Listed Corporate Bonds, Mortgage Bonds and Fixed Income instruments, loan stocks approved by CMA including CIS and GDRs	20%	<b>Real Estate Investment Trusts</b>	<b>30%</b>
		Private Equity & Venture Capital	10%
Commercial Paper and other private company debt instruments with investment grade rating	10%	Offshore Investment in bank deposits, government securities, equities, rated corporate bonds including CIS	15%
		<b>Immovable Property in Kenya</b>	<b>30%</b>
EAC Government Securities and Infrastructure Bonds issued by public institutions including CIS	90%	Guaranteed Funds	100%
		Any Other Assets	10%
Shares listed in EAC securities Exchanges including CIS, ETFs and GDRs	70%		

## REAL ESTATE INVESTMENT TRUSTS (REITs)

- ❖ There are three types of Real Estate Investment Trusts (REITs):
  - ❑ **Equity REITs** which purchase, own and manage real estate properties (they may also develop properties);
  - ❑ **Mortgage REITs**, which invest in loans secured by real estate;
  - ❑ **Hybrid REITs**, which generate income from rent and capital gains, like equity REIT, as well as interest like a mortgage REIT.
- ❖ In Kenya, the REITs regulations were gazetted on 18<sup>th</sup> June 2013 through the legal notice No. 116.
- ❖ Investment through REITS will address many of the challenges of direct property investment

## BIG FOUR – LOW COST HOUSING

- ❖ Industry has invested more than **Ksh 200 bn** in Real Estate which is 20% of industry assets compared to the global average of 4.5 % investment in Real Estate.
- ❖ Many smaller schemes do not have any Real Estate exposure and can now access through REITS.
- ❖ NSSF has been exempted from Section 38 (1c)) with regard to placement of deposits at low interest rate to secure member mortgages.
- ❖ Pension schemes will be able to invest upto 90% of their assets in the proposed Housing Bond if issued by public sector company or 30% if issued by private sector companies.
- ❖ RBA has proposed a new class in the Investment guidelines for investment in Public Private Partnerships for housing and infrastructure.
- ❖ Pensions schemes will be able to invest in Bonds to be issued by the Kenya Mortgage Refinance Company.



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