

PENSION FUNDS INVESTMENT IN PRIVATE EQUITY

FT/EMPEA – PE IN AFRICA 2014

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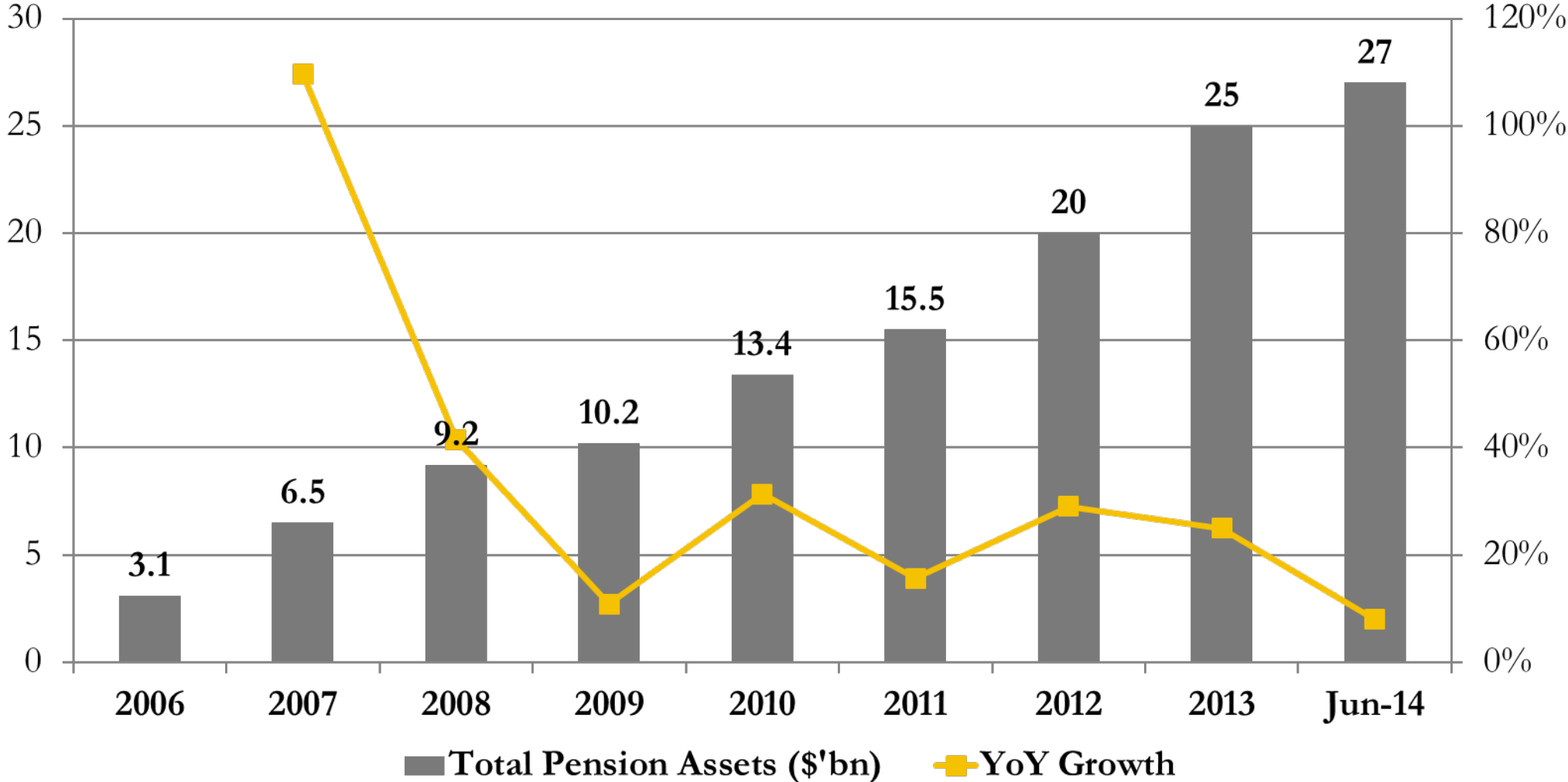
OUTLINE

- ❖ Introduction
- ❖ Asset Allocation Structure of Pension Funds
- ❖ A Case for Increased Investments in Alternative Assets
- ❖ How to Approach the PE Space...
- ❖ How to Manage PE Risks
- ❖ Conclusion

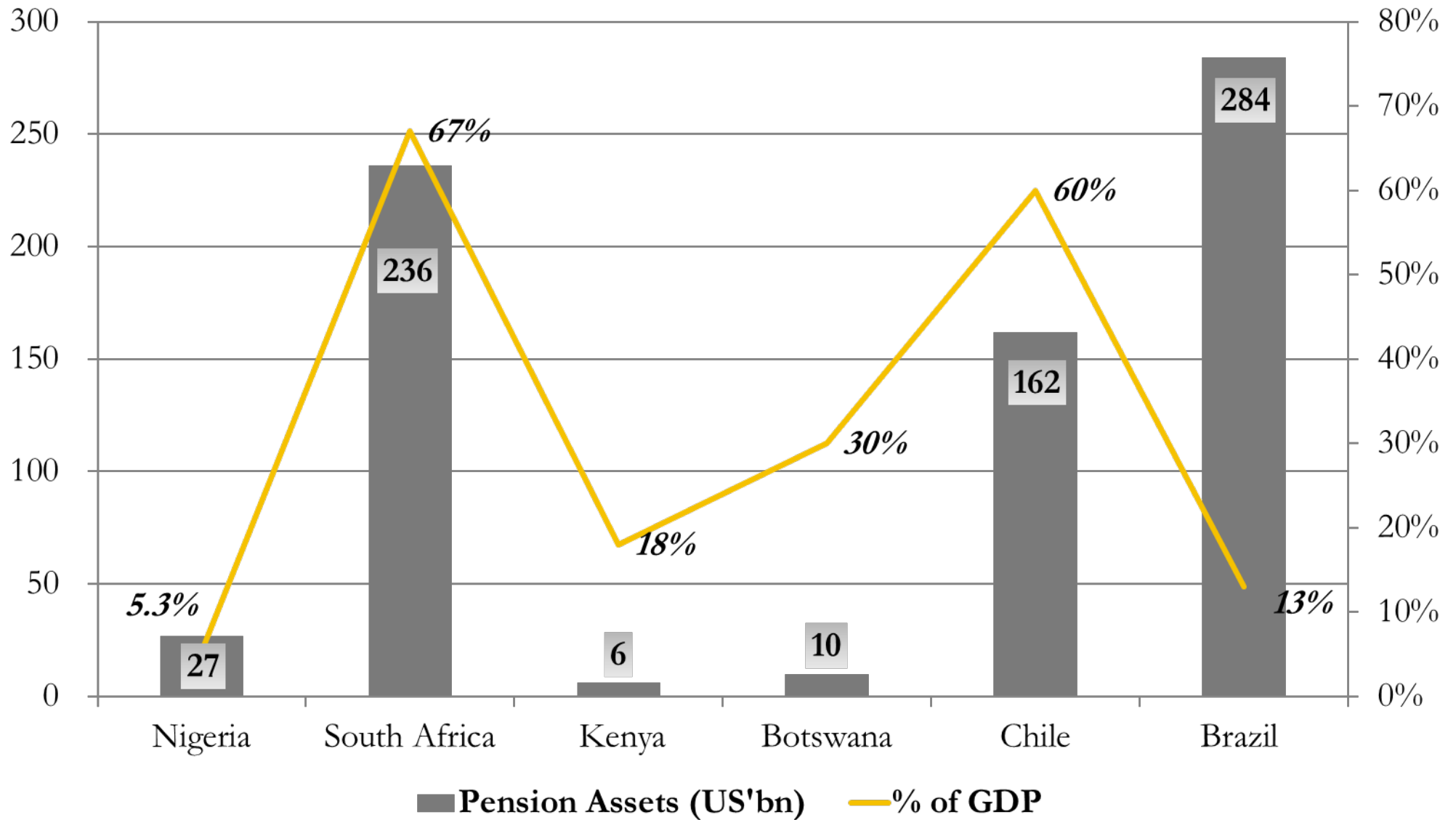
Introduction

- ❖ The industry has witnessed rapid growth and changes since the passage of the PRA 2004 (now revised to PRA 2014).
- ❖ Pension assets have grown from about \$4bn in 2006 to \$27bn as at 30/06/2014
- ❖ Industry CAGR is approximately 25% while the economy is growing at 6%
- ❖ Penetration remains low at 5.3% of (revised) GDP with a coverage ratio of about 10% of the working population (about 6million out of estimated 60 million working population)
- ❖ However average monthly contribution is a healthy \$200million with the industry adding around \$5billion per annum.
- ❖ Industry is comprised of 32 Operators – 21 Open PFAs, 7 Closed Pension Fund Administrators and 4 Pension Fund Custodians

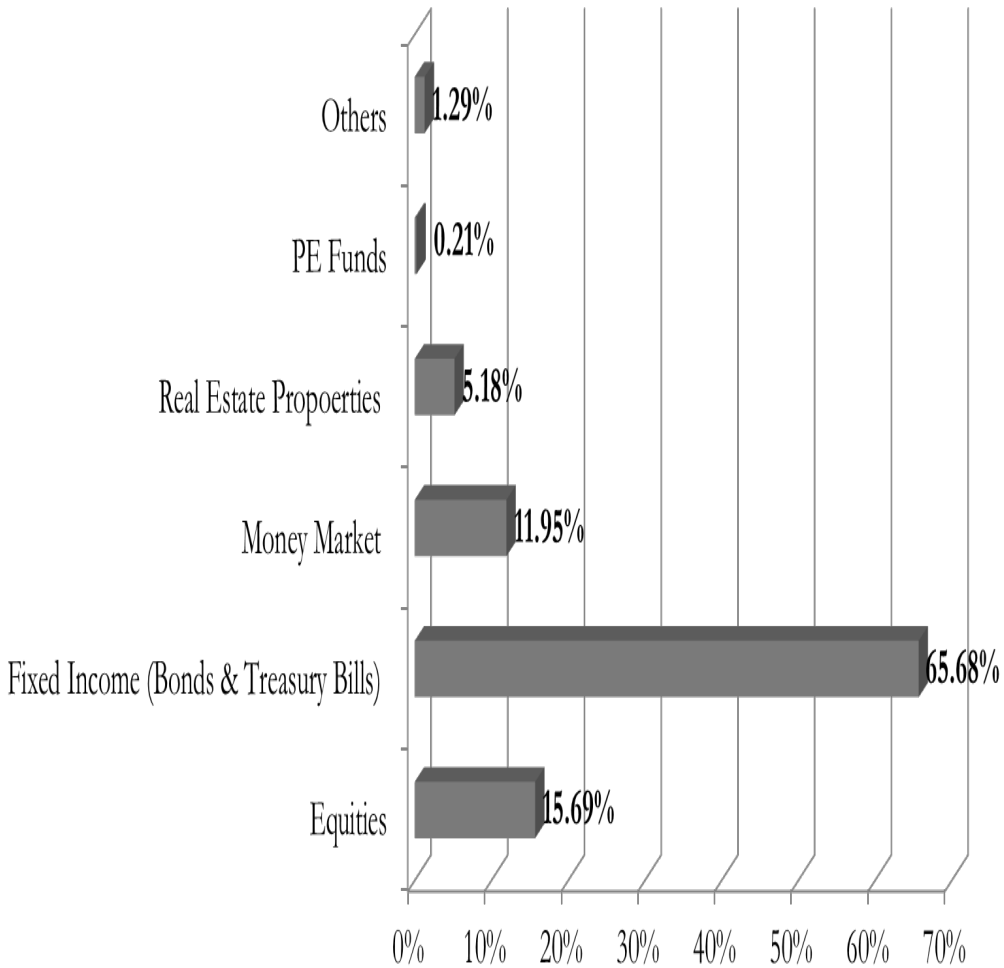
Industry Size & Structure



Comparative Analysis

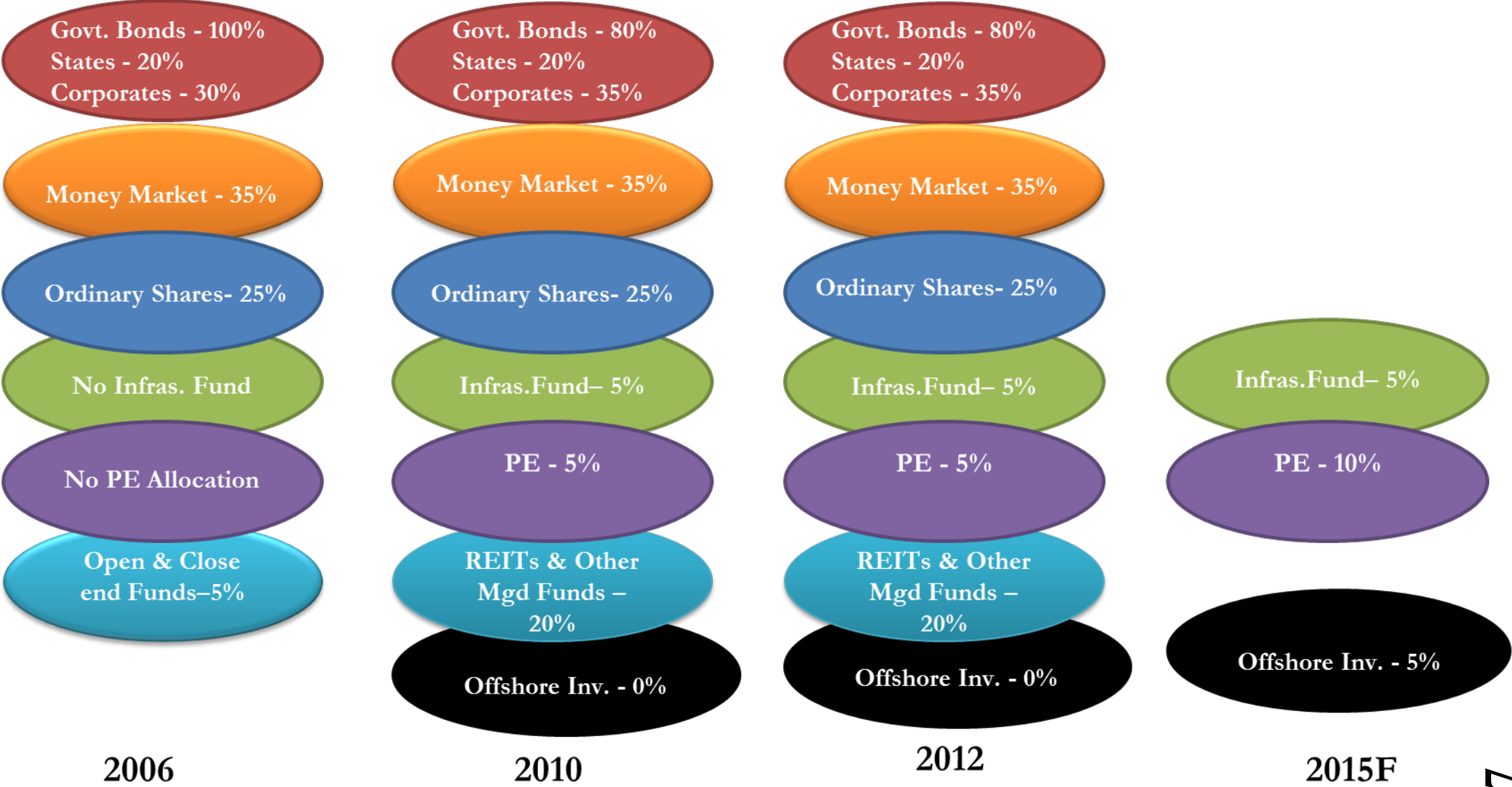


Current Asset Allocation structure

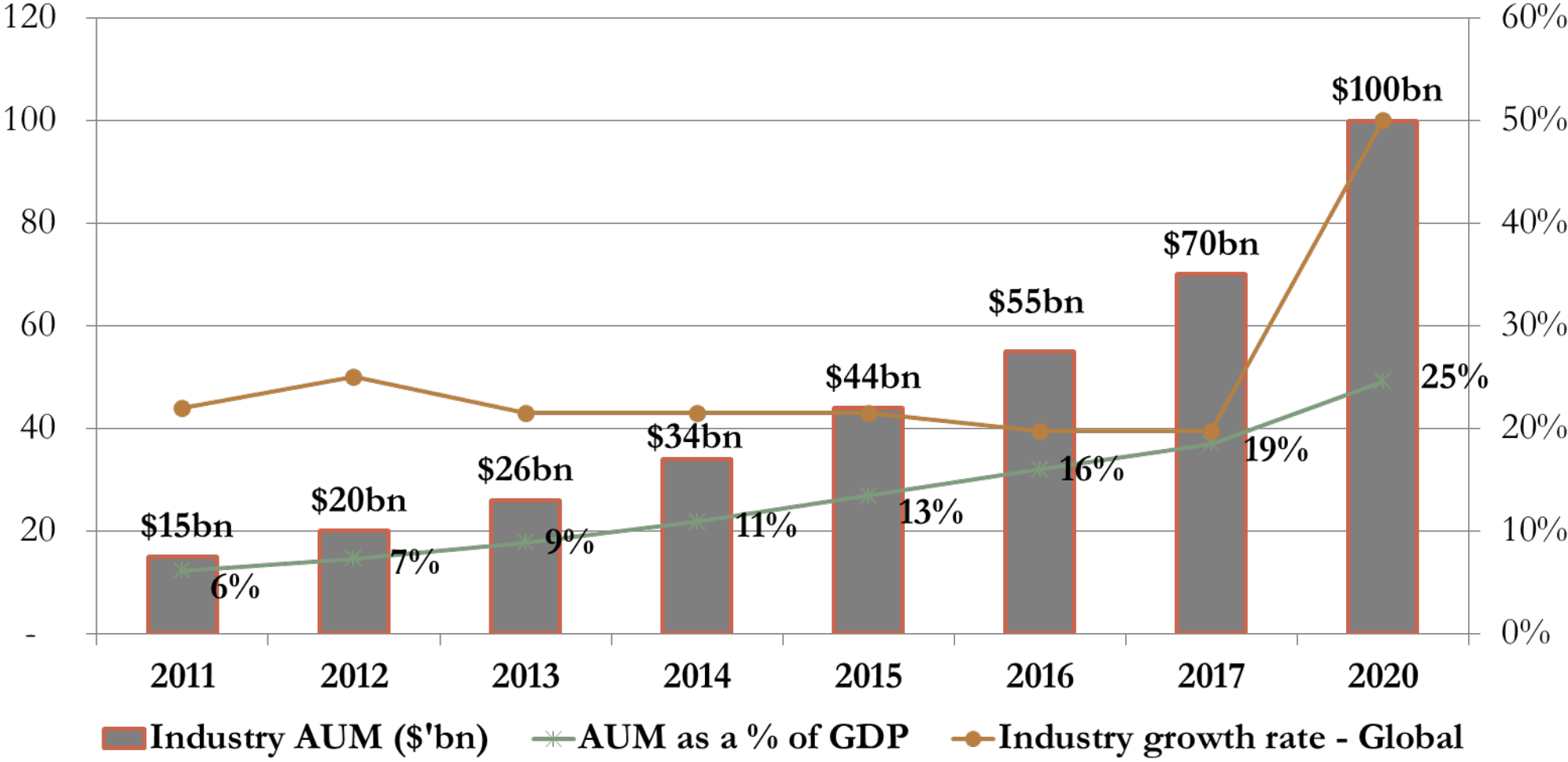


	Assets (\$'mn)	% of Total
Equities	4,255.91	16%
Fixed Income (Bonds & T-Bills)	17,806.39	66%
Money Market	3,238.80	12%
Real Estate Prop.	1,403.19	5%
PE Funds	56.16	0.2%
Others	350.74	1.3%
Total	27,111.18	100%

Nigeria - Evolution of the Investment Guideline



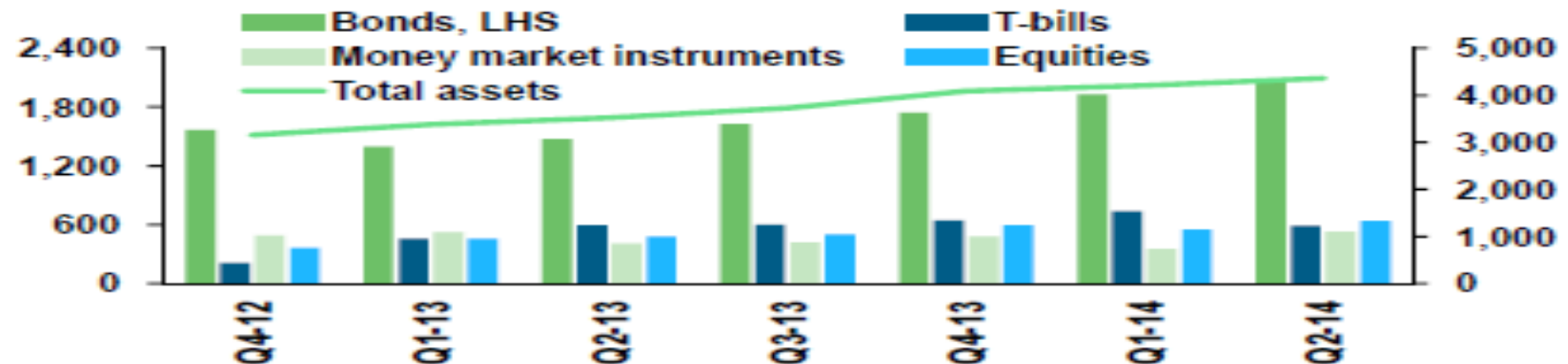
Industry Projections



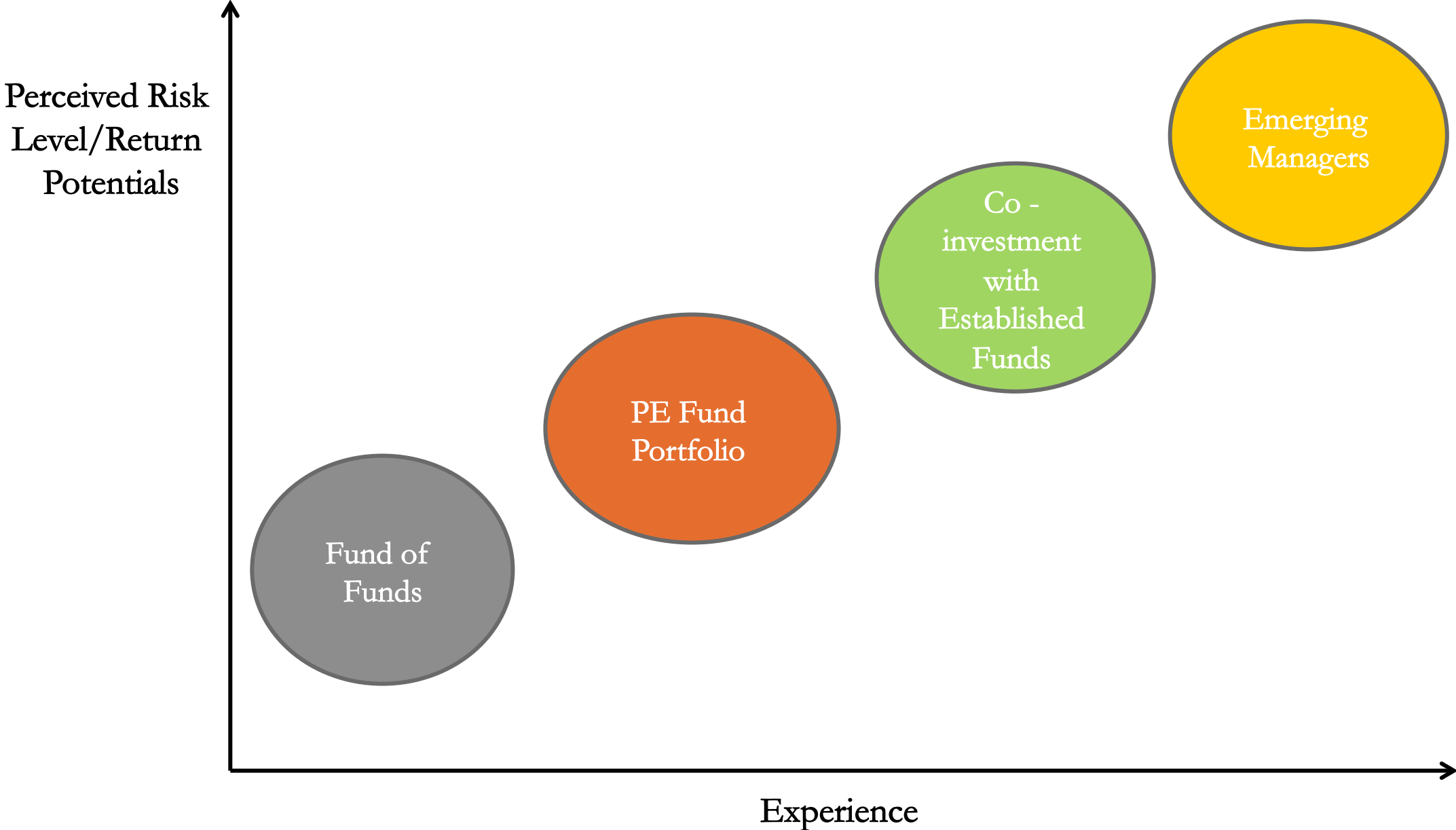
A Case for Increased Allocation to Alternative Assets

- Approximately 70% of pension assets is invested in Government Securities
- Nigeria Government plans to reduce Bond issuance by 70% in 2016
- There are no new listings on the NSE & the corporate bond market is moribund
- The result is a potentially disastrous asset price bubble!!!!
- Big risk is that continuous reduction in bond yields will lead to negative real rate of returns....

Pension fund asset allocations
*Asset allocation, NGN bn (LHS),
Total assets, NGN bn (RHS)*



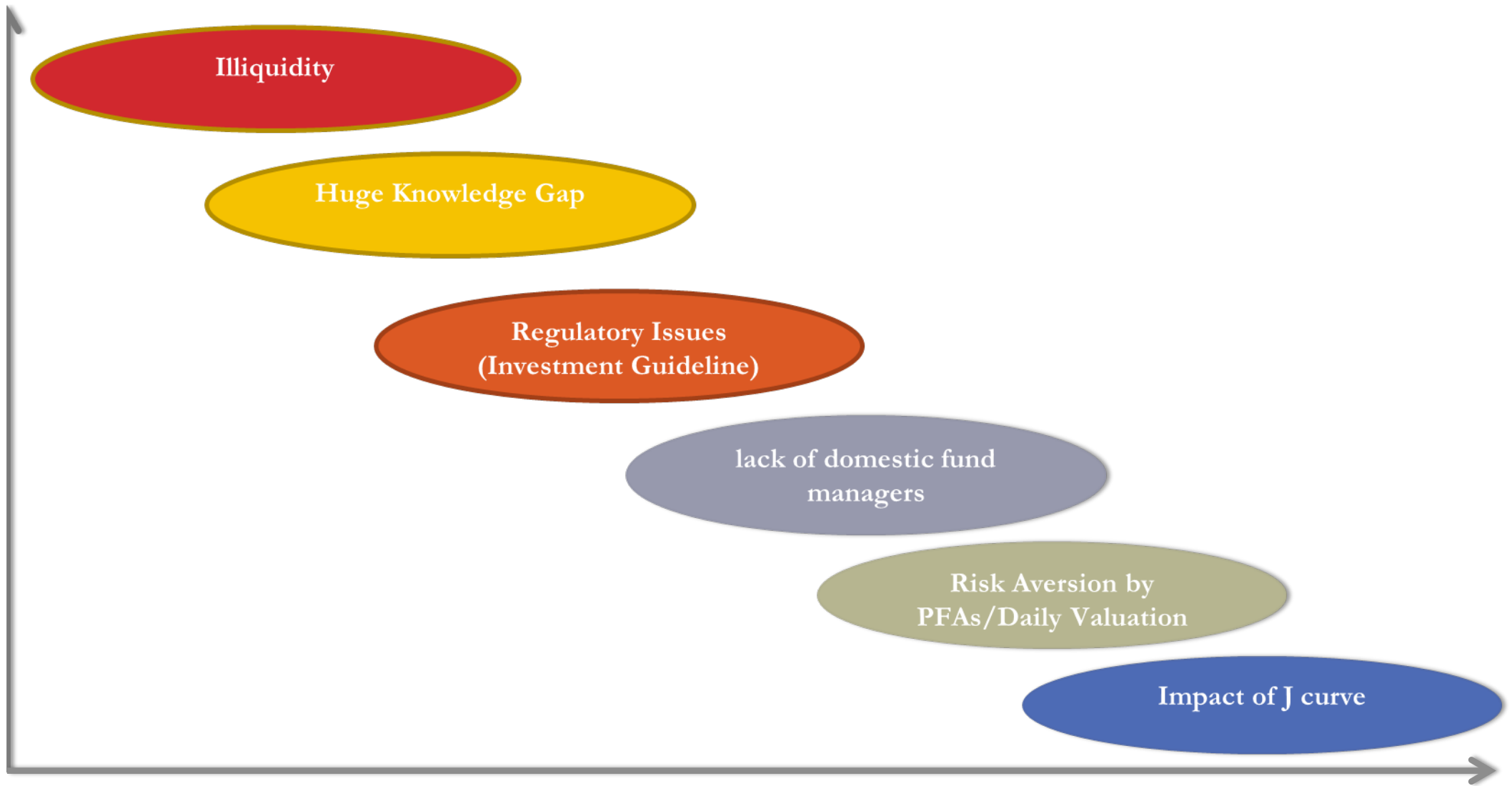
Approaches to PE



Approaches to PE...cont'

- ❖ PE is an Alpha Asset Class -
- ❖ Core Satellite Approach
 - ❖ Allocation to PE Portfolio either through FoF or Portfolio of experienced managers with proven track record
 - ❖ Satellite Approach
 - ❖ Emerging Managers
 - ❖ First time Funds
- ❖ Co-investment/Direct Investment

Why PFs Don't Invest in PE.....



Risk & Mitigants

Liquidity

- The LP structure is a way to harvest the Illiquidity premium
- Globally Pension Funds do not exceed 10% allocation PE
- In Europe it is about 5%

Capital Loss

- Build a diversified portfolio – Vintage year, sector, stage & Country OR invest in a Fund of Fund

Valuation/ J Curve

- EVCA Valuation guideline
- Quarterly valuation/ Independent valuation
- Secondary transactions

Exit

- Trade Sales (most prominent)
- IPOs