The Ai-PPI Asset Owners survey on Investing in Africa

Kris Greenville and Shu Li Report

Following their high-level participation and partnership in the recent Ai African Sovereign Wealth and Pension Fund Leaders' Summit in South Africa, during May. The Pension & Investment Institute (PPI), collaborated with Ai to survey its asset owner members to better understand their current level of interest and investment exposure to Africa. The PPI is a global organization that comprises the largest and most innovative pension funds, sovereign wealth funds, endowments, foundations, commercial asset management and other investment institutions, representing more than USD15 trillion in assets under management, advisement and administration.

The sample size does not encompass all the PPI's asset owner members. However, the responses received are generally representative of a cross section based on geography. The respondents collectively manage a total of 404.1 billion USD in assets: 20% have assets under management (AUM) of more than $100 billion; 50% have AUMs between $10 - $50 billion; and 30% have AUMs of under $10 billion.

The results show that 70% of the respondents currently have investments in Africa, However, it should be noted that those with Africa investments would be more likely to respond to the survey. For those invested, Africa represents 5% or less of their total portfolios. All are invested in equities; 30% of them have investments in fixed income, and only 10% of them are in real estate. Most of the respondents are unlikely to further increase allocation in the near term, even if the opportunities were more aligned with their mandates. Infrastructure, private equity, consumer-related, real estate, natural resources, banking and finance, and telecom were all listed as sectors of interest to investors, provided that adequate investor rights and protections are in place. To motivate further investment in Africa, respondents primarily noted that they would like to see increased political stability and stronger governance structures.

PPI's members proposed other solutions to the challenges that they see affecting foreign investment: having more investment vehicles with good track records and peer endorsement, a clarified risk management process, an expansion of market exit opportunities, improved liquidity, and a wider range of financial products. To better understand Africa as an investment destination, there were calls for information about the experiences of peer funds including an honest discussion of recent failures, and on-the-ground experience. Additionally, investors seek an accessible and reliable source for information on the legal and political regimes and investor rights at play in the investment destination. Additionally, a listing of successful and credible third-party-managed vehicles, a robust risk analysis of infrastructure and private equity investing, and an overview of investment availability would help raise confidence in investors' thinking about Africa.

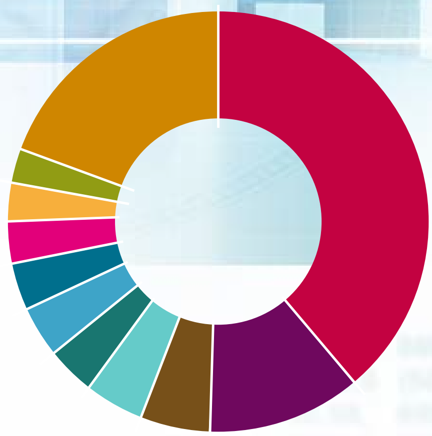
The survey generated a number of anecdotal insights: Responses from an Oceanian-based fund noted that finding the right vehicle is of critical importance when evaluating frontier markets in Africa. They are more inclined to deploy resources when there is peer participation, such as sovereign wealth funds. They are also mindful of the environmental and social impact that foreign investments might bring to local communities, so ESG considerations and integration are also important in their decisions. Countries that have investable potential include Nigeria, Morocco, Botswana, Ghana and Kenya, but correctly defining the country risk premium is key.

An Asian sovereign fund that has less than 5% of exposure to Africa, through a mix of asset classes including public equity, fixed income (mostly sovereign), private equity, and real estate holdings in countries including South Africa, Kenya, and Nigeria responded that Africa-domiciled investments still lack scalability; and while the continent is very interesting, it is hard to do much more in the near term.

One European pension fund told us that they only have very limited exposure to Africa, through emerging market index funds; they see little reason to change their strategy, which is to keep certain exposure in the region through funds in listed markets. Alternative investments in Africa are not viable for them currently. A second European pension fund candidly informed us that they do not have any investments in Africa at the moment and most likely will not change that in the near term. We suspect this response could be quite representative of the broader membership, especially among those who chose not to participate in the survey.

A U.S. pension fund with less that 5 billion USD commented that even though it is hard to make the investment case for Africa right now, especially for smaller asset owners like themselves, it is nevertheless intellectually interesting to keep track of the developments on the Africa continent; in fact, PPI's origins in monitoring the unfolding developments in Asia back in the 1990s was a similar exercise from which members benefited greatly.

Top Investing Countries in Africa by Capital Investment 2016

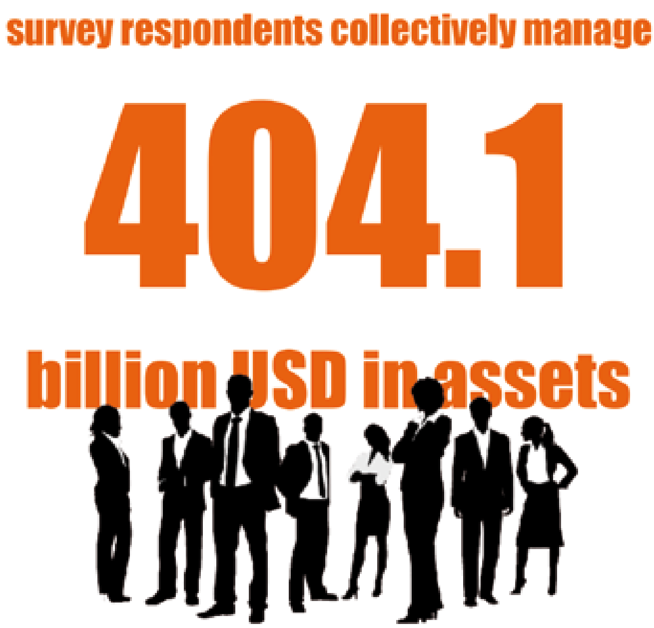


Market share	Capex ($bn)*	Country
39%	36.1	China
12%	11.0	UAE
5%	4.8	Morocco
4%	4.0	Italy
4%	3.8	Saudi Arabia
4%	3.4	United States
4%	3.2	Singapore
3%	3.1	Japan
3%	2.5	Malaysia
3%	2.3	UK
20%	18.1	Other

Sector Breakdown of fDi in Africa by Capital Investment 2016

Market share	Capex ($bn)*	Sector
40%	36.5	Real estate
13%	12.4	Coal, oil & natural gas
10%	8.9	Alternative/ renewable energy
8%	8.9	Transportation
6%	5.2	Warehousing & storage
5%	4.7	Chemicals
3%	3.2	Minerals
3%	2.3	Communications
2%	2.1	Automotive OEM
2%	1.6	Metals
9%	8.2	Other

Source: fDi Markets *includes estimates



In summary, PPI's asset owner members, all of which would be foreign investors, seem to view Africa in much the same way as African pension funds view their domestic opportunities – with mild interest but with an overabundance of caution.

The investment potential certainly seems to be growing, but fundamentally the investments have not been packaged and presented in a way that makes them attractive, especially to pension funds. The survey bears out that lack of data and concerns about governance and political stability are foremost among the concerns that dissuade a more robust flow of capital into the continent. The Institutional-Investor Public Partnerships (IIPP's) model, espoused by NEPAD and African asset owners (see cover interview), is viewed as a positive step to deepen the dialogue on knowledge sharing of successful investment frameworks and the creation of secondary markets and a sustainable pool of investable assets that align with long-term investors criteria and expectations. Ai