



“Towards Inclusive and Sustainable Rapid Economic Growth”

Investing in Private Equity – A Regulatory Perspective

Presentation By

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NIGERIAN PRIVATE EQUITY ROUNDTABLE, LAGOS

AGENDA

- Background
- Retirement Benefits Industry Investment Portfolio
- Regulatory Requirements – Private Equity
- Steps to Investing in Private Equity

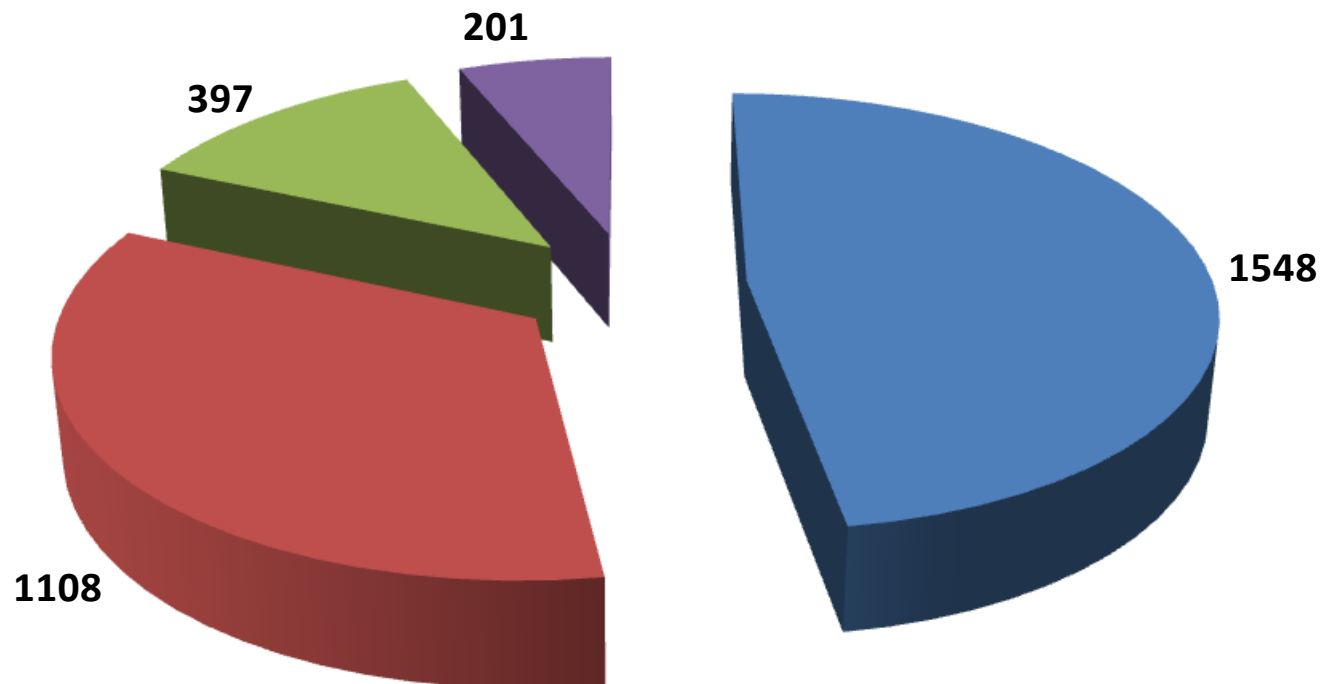


AGENDA

- Background

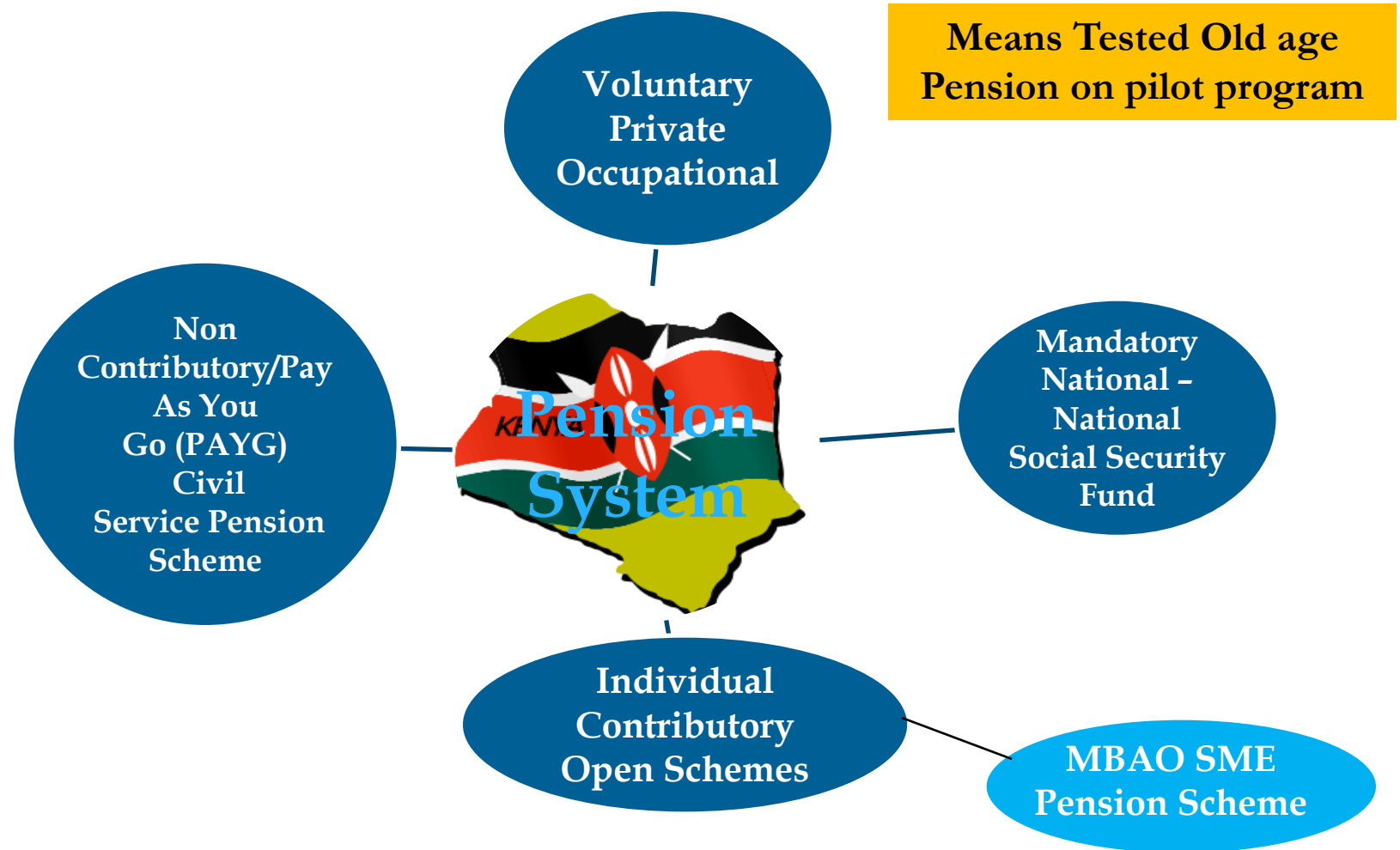
FINANCIAL SECTOR ASSETS IN KENYA

SHS BN, JUNE 2010



■ Banks ■ Stock Market ■ Pensions ■ Insurance

KENYA RETIREMENT SYSTEM

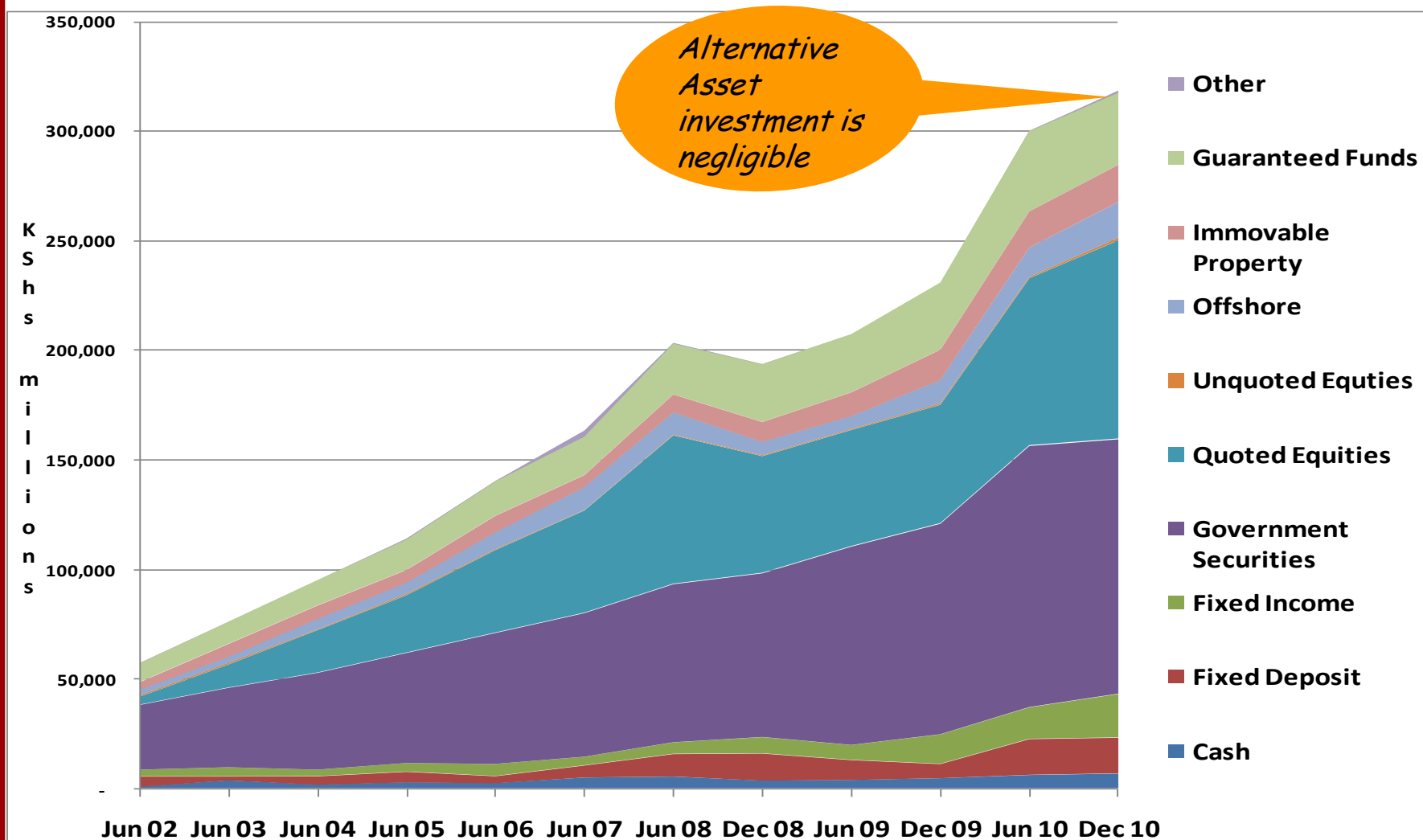




AGENDA

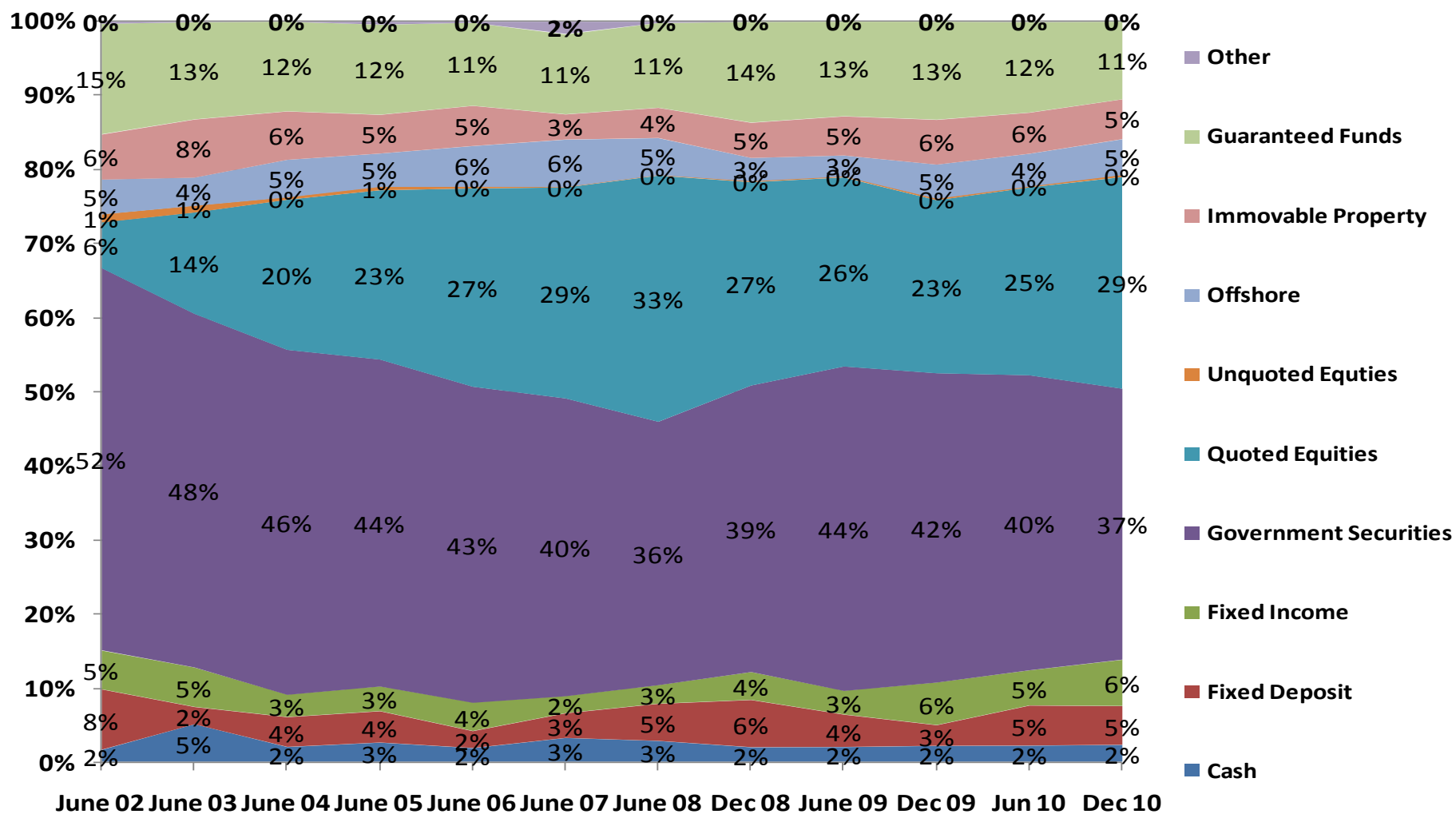
- Retirement Benefits Industry Investment Portfolio

OCCUPATIONAL SCHEMES' ASSETS



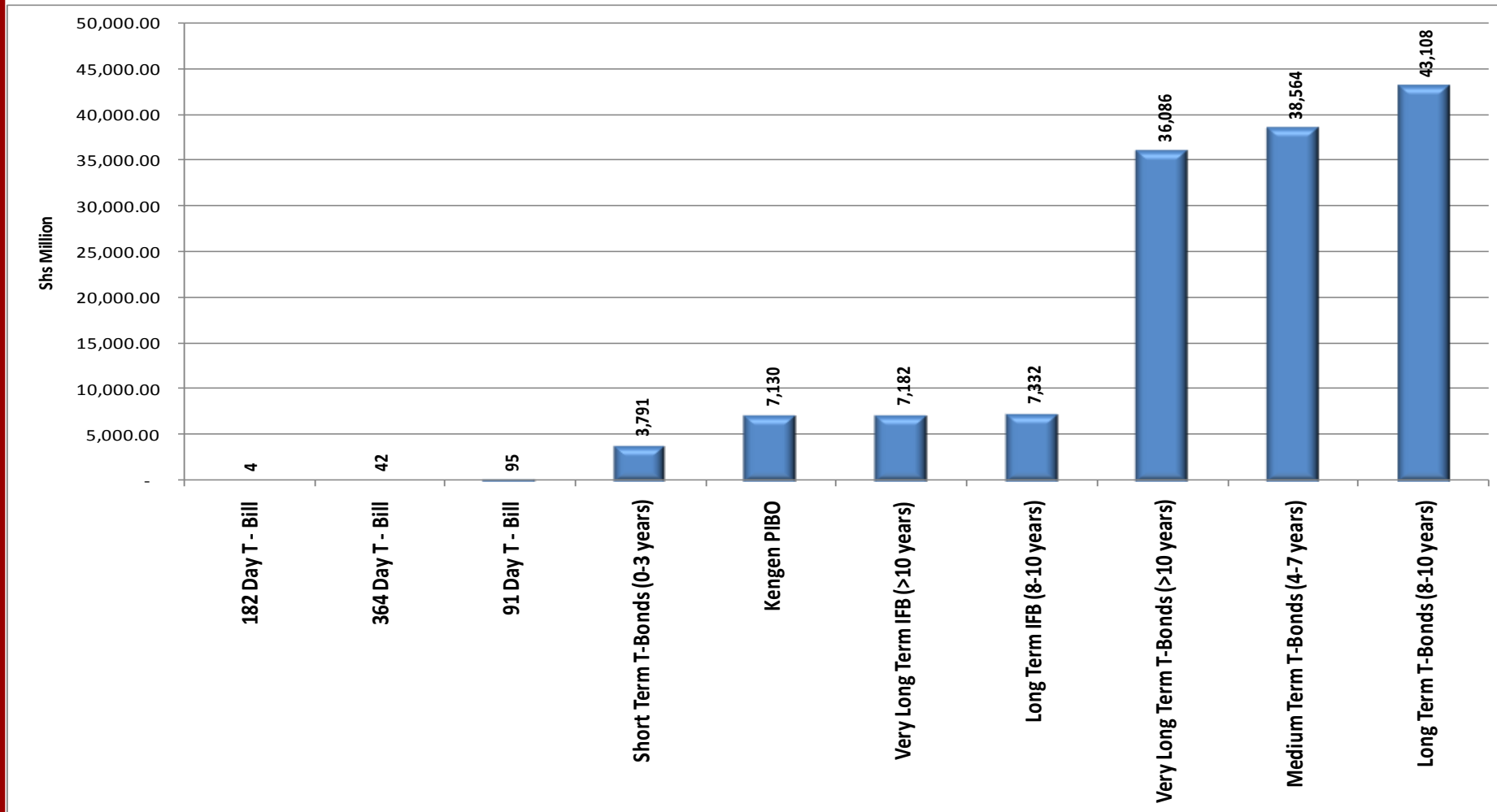


OCCUPATIONAL SCHEMES' ASSET DISTRIBUTION



INDUSTRY INVESTMENT IN GOVT DEBT

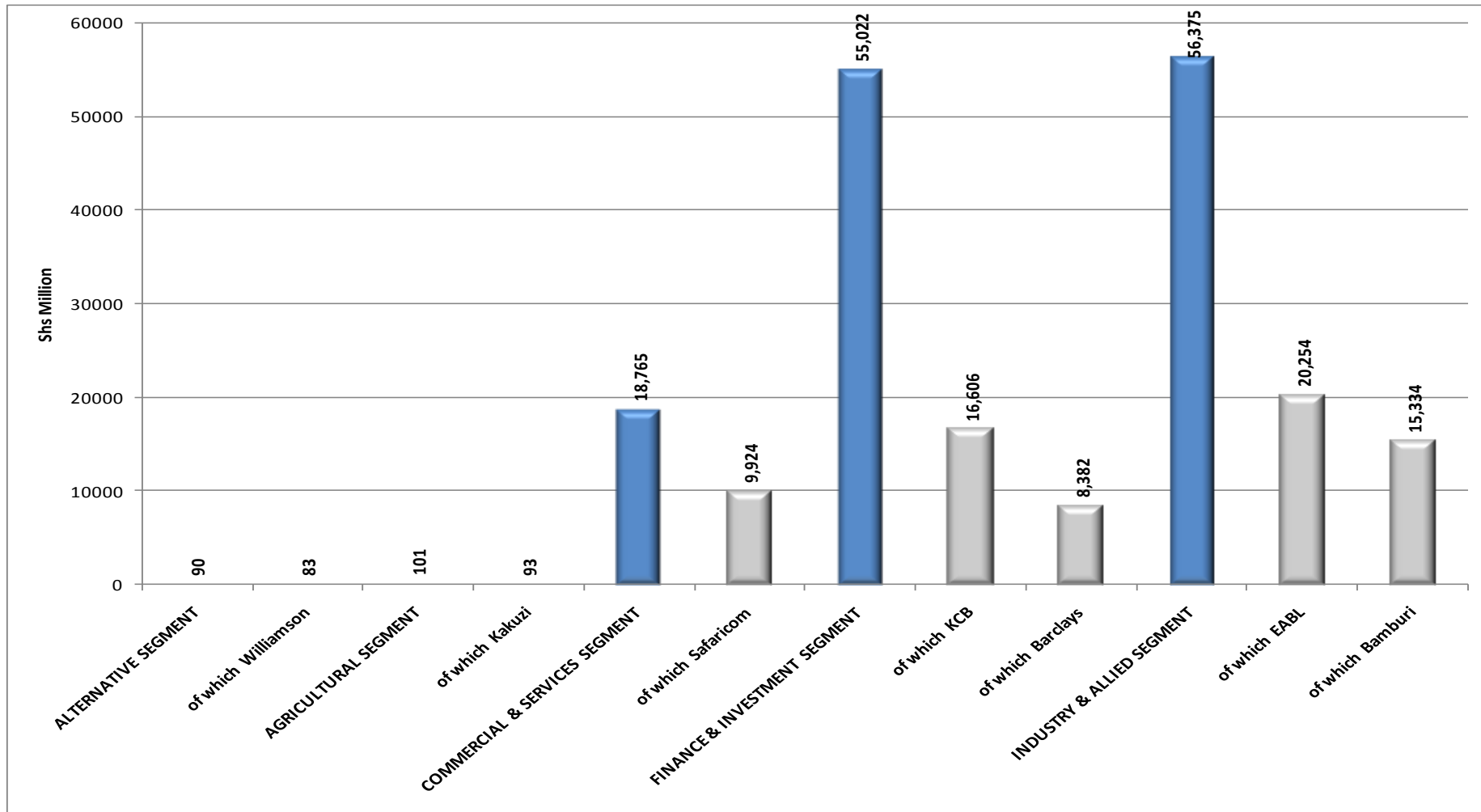
December 2010



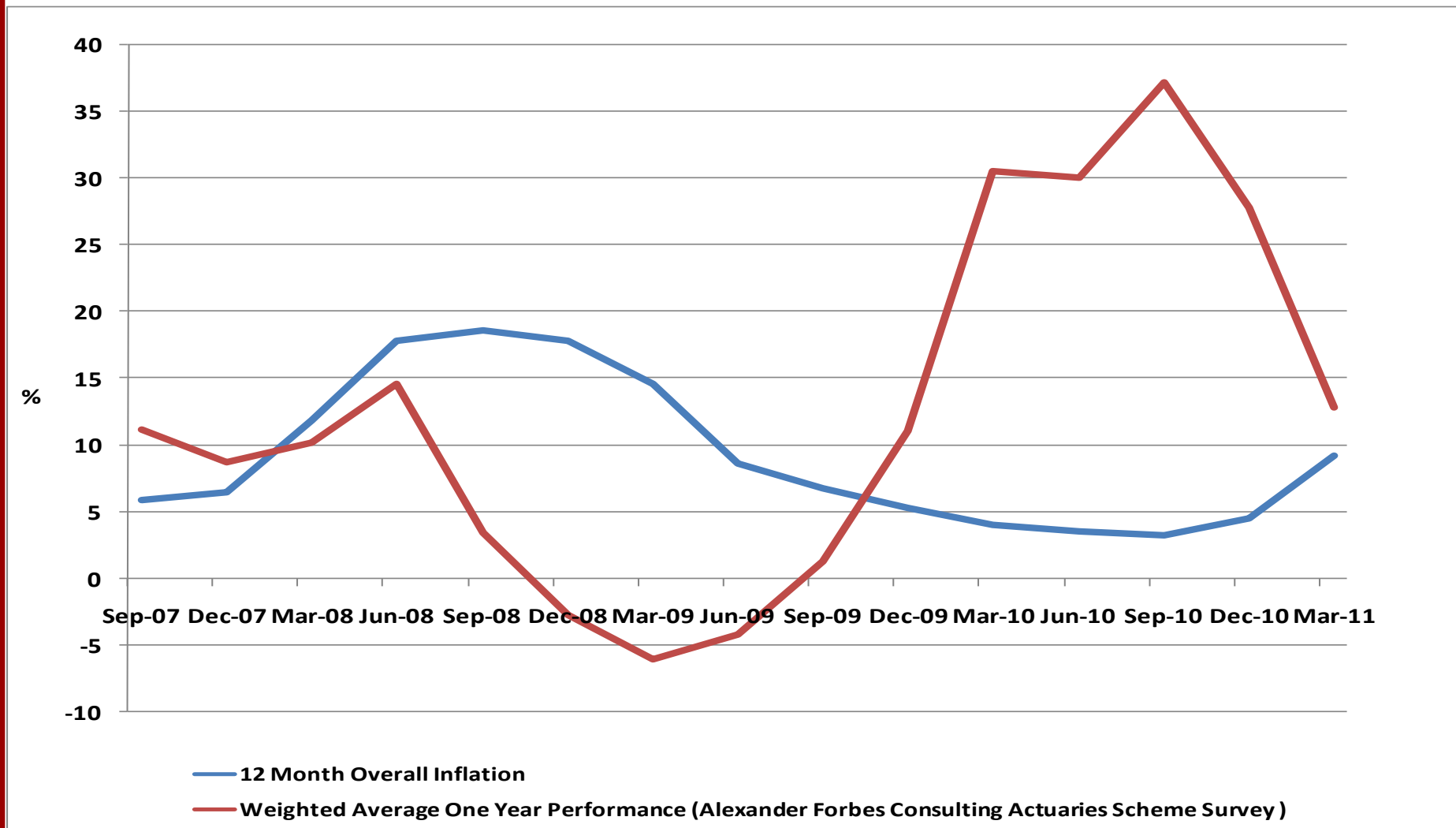
INDUSTRY INVESTMENT IN EQUITY

JUNE 2010

December 2010



VOLATILITY OF INVESTMENT PERFORMANCE





AGENDA

- Regulatory Requirements – Private Equity

INVESTMENT POLICY

A scheme shall prepare and submit to the Authority and after every three years revise and submit to the Authority a written statement of the principles governing investments decisions for the purposes of the scheme or the pooled fund.

The statement shall be signed by the trustees and the investment adviser and cover, among other things:-

- the policy of the scheme in compliance investment guidelines;
- the categories of investments to be held;
- risk;
- the realization of investments; and
- asset liability matching;

INVESTMENT GUIDELINES

A scheme shall invest only in an asset class referred to in column 1 of Table G as prescribed to the extent to which the market value of the investment in the class expressed as a percentage of the total assets of the scheme or pooled fund does not exceed the percentage listed in column 2 of Table G as prescribed in respect of such asset:

Provided that:

Investments in the category "Any other asset" shall be subject to prior written approval of the Authority, which shall be formally considered by the Authority within thirty days of application by a scheme

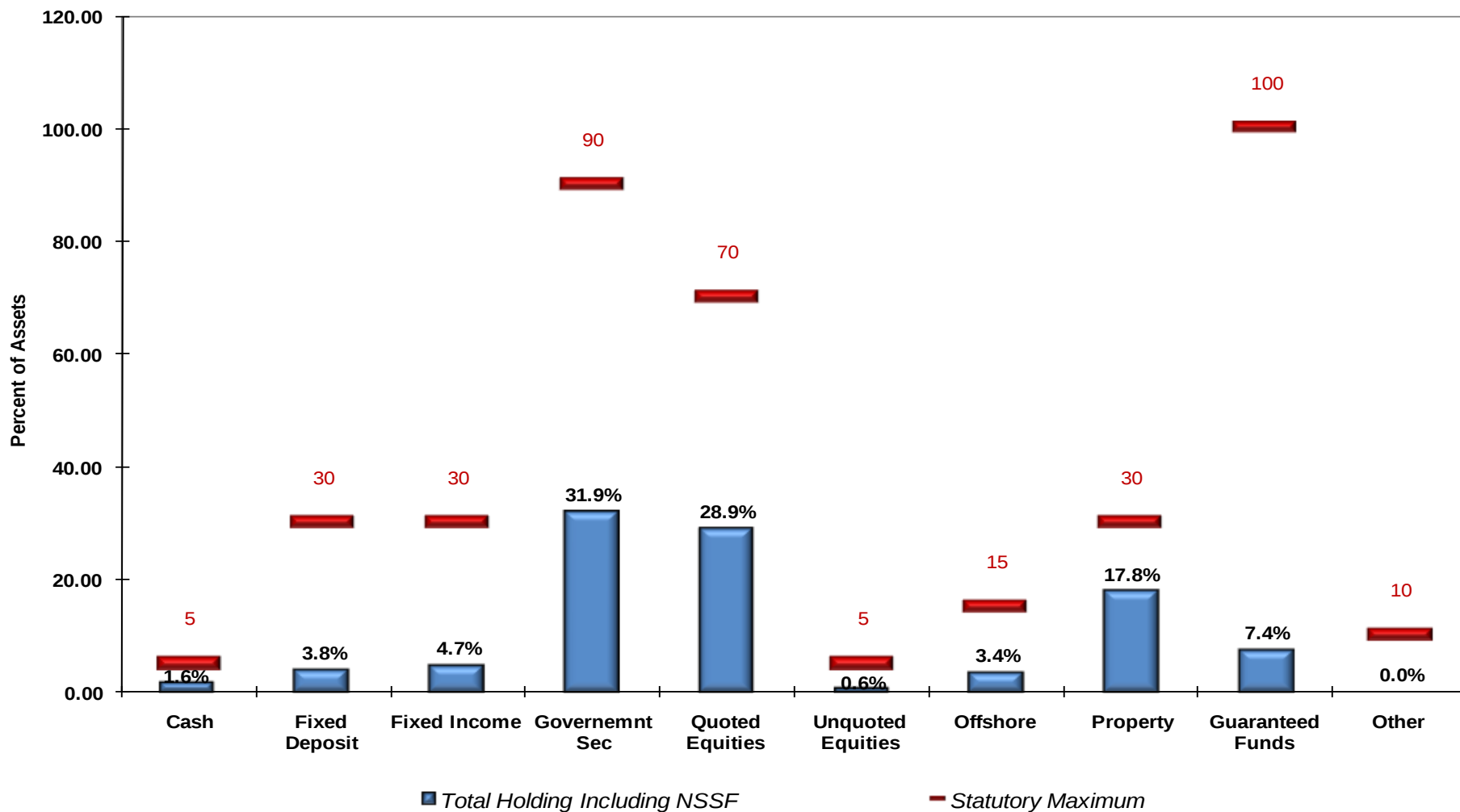


INVESTMENT GUIDELINES - TABLE G

	Column 1	Column 2
	Categories of Assets	Max %
1.	Cash and Demand Deposits in institutions licensed under the Banking Act of the Republic of Kenya	5%
2.	Fixed Deposits, Time Deposits and Certificates of Deposits in institutions licensed under the Banking Act of the Republic of Kenya	30%
3.	Commercial Paper, Corporate Bonds, Mortgage Bonds and loan stocks approved by the Capital Markets Authority non listed bonds and other instruments issued by private companies, provided that the bond or instrument has been given investment grade rating by a credit rating agency registered by the Capital Markets Authority, and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this Category	30%
4.	Kenya, Uganda or Tanzania Government Securities and infrastructure bonds issued by public institutions and collective investment schemes incorporated in Kenya, Uganda or Tanzania and approved by the Capital Markets Authority reflecting this category	90%
5.	Preference shares and ordinary shares of companies quoted in a stock exchange in Kenya, Uganda or Tanzania and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this category	70%
6.	Unquoted shares of companies incorporated in Kenya and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this category	5%
7.	Offshore investments in bank deposits, government securities, quoted equities and rated Corporate Bonds and offshore collective investment schemes reflecting these assets	15%
8.	Immovable property in Kenya and units in property Unit Trust Schemes incorporated in Kenya and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this category	30%
9.	Guaranteed Funds	100%
10	Any other assets	10%

INVESTMENT GUIDELINES - COMPLIANCE

DECEMBER 2010



INVESTMENT GUIDELINES – PRIVATE EQUITY

A direct investment in a investee firm in East Africa would be classified as “unquoted equity” and would be subject to the 5% maximum cap.

An investment through a General Partner (GP), Private Equity (PE) Vehicle or Fund of Funds would fall under the “any other asset” category subject to 10% cap and to prior approval of the Authority.

Private Equity investment is not one of the allowable investments under “offshore investments” as these are limited to equities and bonds, therefore, Private Equity outside of East Africa remains under “any other asset” category .



AGENDA

- Steps to Investing in Private Equity

SEVEN STEPS TO INVESTING IN PE

1. Obtain Board of Trustees Strategic Decision
2. Amend Investment Policy Statement to allow for PE investments and giving a strategic allocation range for PE
3. Submit updated IPS to RBA
4. Work with manager to identify General Partner(GP) or Fund of Funds to invest in
5. Undertake due diligence of the proposed investment
6. Trustees to submit written request to RBA to invest
7. Await RBA approval within 30 days:
 - RBA will confirm if proposal is allowed by IPS
 - RBA may check for excessive exposure to a correlated assets

GOING FORWARD

- RBA has proposed a separate investment category for venture capital and private equity with its own separate maximum percentage and removing need to seek prior approval.
- Financial sector regulators have proposed elimination of investment guidelines (pensions, insurance, capital markets) in line with risk based supervision models.

Asante

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