

# THE AXIS PENSION

## • BULLETIN •

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2ND ANNUAL  
PENSION  
STRATEGY  
CONFERENCE

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# EDITOR'S NOTE

**T**his issue of The Axis Pension Bulletin is dedicated to the 2020 edition of the Pension Strategy Conference which was held on the 25th of February 2020 at the Fiesta Royale Hotel in Accra. A collaboration between Axis Pension Trust and CFA Society of Ghana, the conference brought together Key stakeholders; Trustees of leading pension funds, Fund Managers, Custodians, Capital Market Regulators as well as Think Tanks to take stock and strategize for the future as we mark the tenth anniversary of the implementation of Act 766.

Readers of this issue will learn details of the thought provoking insights from the presentations as well as the discussions at conference. To properly usher you into the spirit of the conference, this issue begins with excerpts of Mr. Afriyie Oware's address titled "A Sustainable Approach to Improve Informal Sector Inclusion." A fitting follow up to that is the write up on the "Economic Outlook for Ghana: 2020 and Beyond" by Mr. Courage Martey which provides us with an understanding of the economic environment that investors and fund managers operate in.

Do you want to know the thoughts and positions of your money managers as they make investment decisions on your behalf? If yes, then you will want to read Mr. Nana Wiafe Boamah's piece which summarizes the findings from the Investment Strategy Survey. It was also quite enlightening to discover that Pension Funds in developing countries are increasingly allocating capital abroad. However, 0% of Ghanaian Pension Funds are allocated for capital abroad. If this intrigues you as well then you will want to read "Frontier Markets: Opportunities to Diversify" by Frank Dewortor.

Overall, it was a pleasure putting this issue together for our readers. Have a great time reading this issue and discovering the highlights of the conference. Axis Pension Trust...your reliable partner in Pensions.

Albert Boateng  
*Editor*



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DON'T JUDGE EACH DAY BY  
THE HARVEST YOU REAP BUT  
BY THE SEEDS THAT YOU PLANT.

- ROBERT LOUIS STEVENSON

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## A Sustainable Approach to Improve Informal Sector Inclusion – Afriyie Oware, Axis Pension Trust

Participants of the 2nd Annual Pension Strategy Conference were welcomed with opening remarks from Mr. Afriyie Oware, CEO of Axis Pension Trust. His remarks put into perspective the progress that the industry has made since the enactment of Act 766 10 years ago. Mr. Oware, who spoke to some key statistics in his remarks, pointed out that pension assets as a percentage of GDP has increased from 5.59% in 2013 to 7.4% in 2018. With over GHS 13b mobilized after 10 years of implementation of Act 766, the pension reforms can be deemed a success. Three key risks facing the pension industry were highlighted in his remarks:



- Contributors are exposed to loss of purchasing power.
- The sustainability of the SSNIT scheme is in question because it faces high benefit cost
- Low pension coverage – 1.6 million out of an estimated 10 million people in the labor force are covered by pension schemes.

As an industry there is the need to think seriously about asset allocation and the consequential impact on scheme assets particularly giving the current heavy exposure to government instruments. Retirement income is low and regulators need to start the conversation on prudent ways to increase retirement income – such as increasing contribution to Tier 2. Finally, pension schemes targeted at the informal sector are a step in the right direction. However, a more sustainable approach is to formalize the informal sector to increase pension coverage in Ghana.



## Economic Outlook for Ghana: 2020 and Beyond – Courage Kingsley Martey, Databank

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Participants were walked through the economic environment that investors and fund managers operate in. The presentation by Courage Martey sought to explain economic performance over the period 2017 to 2019 as well as to discuss the risks associated with economic management.

Revenue underperformance remains a risk to 2020 outlook on account of:

- Oil revenue risk due to a fall in production from the jubilee field.
- Shortfall in non-tax revenue.
- Political factors in an election year.

Fiscal management has improved but risk to the outlook persist on account of:

- Financial sector cleanup.
- Energy sector obligations.
- Foreign currency effect on public debt – external debt stands at 52%.
- Maturity refinancing risk.

Performance of the Cedi so far in 2020 amongst many other factors underscores the resolve to ensure prudent fiscal management. Though election related risk remain, the outlook on the economy is positive.



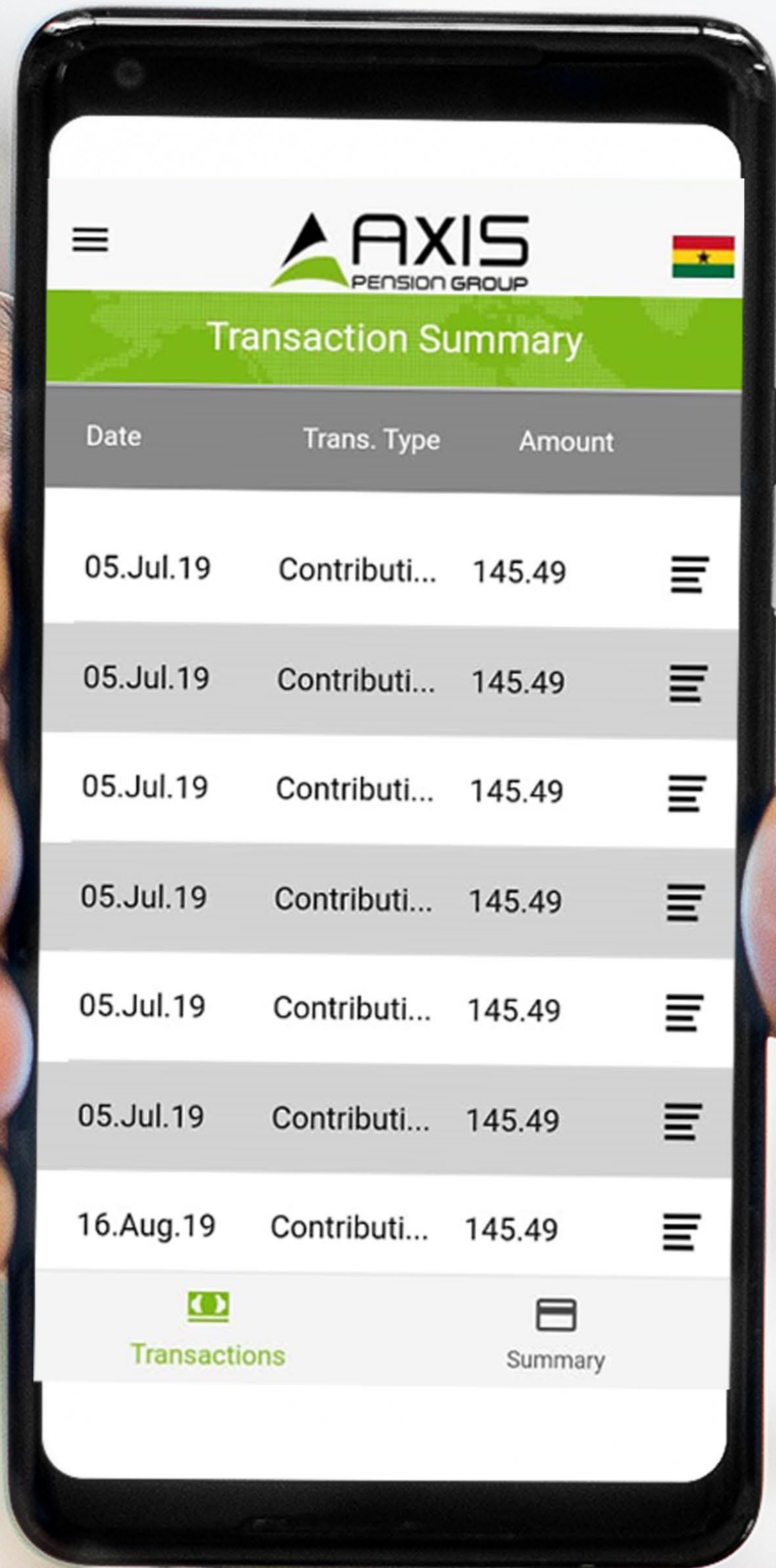
## Investment Strategy Survey Findings – Nana Wiafe Boamah, Axis Pension Trust

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Money managers were surveyed to find out key macro-economic themes that will shape investment outlook in 2020. The importance of this exercise is underscored by the work of Ritong Qu, Allan Timmermann, and Yinchu Zhu which demonstrates that investors should rely on the wisdom of the crowd and follow the expert consensus forecast rather than any individual prediction. The presentation discussed findings on GDP growth outlook, Fiscal Policy, Equity Market Outlook and Multi-asset strategy among others.



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### Key Insights from the survey include:

- Fiscal deficits on a cash by cash basis will top government forecast of 4.7% of GDP albeit below the 5% stipulated by the Fiscal Responsibility Act, 2018 (Act 982).
- There was overwhelming consensus that the GHS will weaken against the USD. Forecasted depreciation against the USD is expected within the band of 7% to 15%.



- General view is that equities should be under-weighted relatively to short term treasury bills.

Giving the outcome of the survey, the recommendation is for trustees and fund managers to explore alternative investments such as private equity and real estate because of their unique diversification potential long term risk adjusted profile.

### Frontier Markets: Opportunities to Diversify – Frank Dewortor, New-market Asset Management

Regulations in Ghana allow Pension funds to invest up to 10% of their assets abroad but according to the Keynote Speaker Frank Dewortor, this is yet to be taken advantage of in any meaningful way. Ghanaian pension funds have over 70% allocation to government debt.

The resource person mentioned that Ghanaian pension funds are poorly diversified by international standards due to:

- Lack of properly regulated alternatives.
- Competition driving fixation on short-term low volatile returns.
- Poor local stock market returns and liquidity in recent years.
- Limited regulatory driven behavioral change towards better asset allocation.
- Capital controls.

He noted that it assumed that Government debt is risk free however, events in Zimbabwe prove this notion to be a false sense of security. Public debt service costs as a proportion of government revenues have been rising since 2008 and are now well above Pre-HIPC levels and the minimum threshold recommended by the IMF for low income countries. Ghana's debt sustainability in the medium to long-term is significantly dependent on the government's ability to improve revenue collection and raise revenue to GDP ratio to around 20% from the current 15%



# Putting It All Together



Significant progress has been made in the pension industry since the National Pensions Act, Act 766 came into force. Testament to that success is the growth in pension assets to over GHS13bn. The governance of pension assets as initially designed by stakeholders to ensure safety has largely been attained.

However, the conservative nature of pension assets – over 70% invested in government securities could derail growth of the industry. In addition, Pension coverage is woefully inadequate and at 1.6% penetration rate which could exacerbate the issue. To boost coverage, formalizing the informal sector could provide the answer and in that vein the ongoing efforts to digitize the economy would be an important enabler in formalizing the economy.

The general consensus was the need to consider increasing exposure to non-sovereign assets that offers higher risk adjusted return such as equities, Private Equity and Real Estate.

The right regulatory framework should be instituted for these asset classes to exist in the ecosystem and practitioners must ensure that capacity is built in-house in order to evaluate these assets on behalf of scheme members/beneficiaries. The government can go a step further by providing incentives to promote the development of these asset classes.

In addition, taking into account that 100% of pension assets are invested in Ghana and with over 70% exposed to government securities, assets face huge concentration risk. Looking at government's debt level it will be prudent to start the conversation exploring offshore options for diversification.

Reflecting on events that led to the financial crisis, it was concluded that financial practitioners should not relent in their efforts to spread and enhance financial literacy in Ghana.



# Conference in Pictures

Pictures showing a cross-section of Speakers and Participants at the 2020 Pension Strategy Conference







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