

Coronation Economic Note

19 April '22

Double-digit growth in the assets of PFAs

The latest monthly report released by Nigeria's Pension Commission (PENCOM) report shows that the assets under management (AUM) of the regulated pension industry rose by 12.4% y/y to N13.8trn (USD57.3bn) in February and by 1.2% m/m. We note that over the past five years, growth in AUM has averaged 17% y/y. Growth was highest in 2018 (26.1% y/y) while 2019 recorded the lowest (12.2% y/y). FGN debt securities accounted for 61.8% of the total AUM in February this year, compared with 66.4% recorded in the corresponding period of 2021. In the same period, other assets such as real estate, private equity and infrastructure funds accounted for 1.1%, 0.3% and 0.5% of total AUM respectively. Typically, investments into these asset classes are hampered by the shortage of eligible instruments.

As at end-February, total FGN debt securities held by Pension Fund Administrators (PFAs) increased by 1.9% m/m and 4.6% y/y to N8.5trn. FGN bonds held by PFAs increased by 2% m/m and by 10.8% y/y to N8.1trn. This category accounted for 59.1% of total AUM, compared with 59.9% recorded in the corresponding period of 2021.

The Debt Management Office (DMO) has raised N883bn from bond auctions in Q1 '22 (including non-competitive bids from public agencies). Therefore, exceeding their borrowing target for Q1 by 84%. Furthermore, the DMO recently published its bond issuance calendar for Q2' 22 which shows the total volume on offer between N630-N720bn.

We note that the FGN's revised 2022 budget deficit financing from N6.4trn to N7.4trn results in an increase in the domestic funding target for this year to N3.5trn. Ideally, increased borrowing places pressure on yields, resulting in upticks. This bodes well for FGN bond holders. However, this is also dependent on liquidity level which could affect upward adjustment of the yields.

The PENCOM report shows that NTBs held by PFAs declined by -10.8% m/m and -74.3% y/y to N173.9bn in February '22. This represents just 1.3% of the total AUM. We note that in the corresponding period of 2021, NTBs accounted for 5.5% of total AUM. We attribute the slight shift from NTBs to the decline in the average yield by -81bps in February '22.

Meanwhile, state government securities held by PFAs declined by -0.9% m/m to N168.8bn. This asset class accounted for 1.2% of total AUM, compared with its share of 1.0% in February '21.

Domestic equity holdings rose by 1.5% m/m and 14.3% y/y to N1.1trn and accounted for 7.9% of total AUM, compared with 7.8% in February '21. This implies a slight shift towards domestic equities by PFAs. We note that the NGX All-Share Index (NGX-ASI) rose to 47,394.53 in February '22. This marked a 1.7% m/m gain for the index. Similarly, the NGX pension index increased by 2.9% m/m in February '22, outperforming the market benchmark index by 126bps.

The PENCOM report disclosed that the AUM recorded in February also comprised of N9.7trn in a retirement savings account (RSA) active funds, N1.1trn in RSA retiree fund IV, N1.5trn in closed pension fund administrator schemes (CPFAs), N1.4trn in approved existing schemes funds and N20.3bn for RSA Fund VI (non-interest fund), active and retiree.

As at end-February '22, total schemes membership increased by c.37,000 to 9.59 million. This growth in schemes membership was driven by the increase in the RSA scheme on the back of increased compliance by the private sector.

Indicators	NG
Inflation rate (March '22, %)	15.92
GDP (Q4 '21, %)	3.40
Gross Official Reserves (12 April '22, USD bn)	39.7
UK Brent (14 April '22, USD)	111.7

FGN bond yields (14 April '22, %)			
14.20%	13.98%	12.15%	12.40%
Mar-24	Feb-28	Jul-34	Mar-36
7.55	10.65	12.18	12.35

T-bill yields (14 April '22, %)			
12-	14-	13-	09-
May-22	Jul-22	Oct-22	Mar-23
3.13	2.90	3.22	4.37

Source: Bloomberg, CBN, NBS, FMDQ, Coronation MB Research

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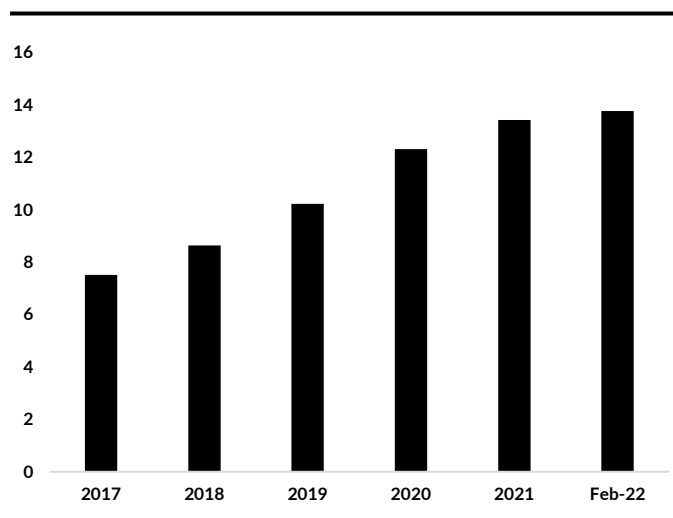
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In March '22 PENCOM revised its regulation on retirement and terminal benefits. This aims to eliminate the challenges faced by retirees under the contributory pension scheme in terms of pension enhancement, voluntary contributions, temporary access to RSA due to loss of job, payment under the micro pension plan as well as administrative sanctions for violations by PFAs, among others.

The CBN governor announced last week, that the Infrastructure Corporation of Nigeria (InfraCorp) would access about N8trn of domestic pension funds' assets. This is to be deployed into bankable infrastructure projects across the country. It is worth highlighting that in advanced economies, pension funds have been instrumental in infrastructure development.

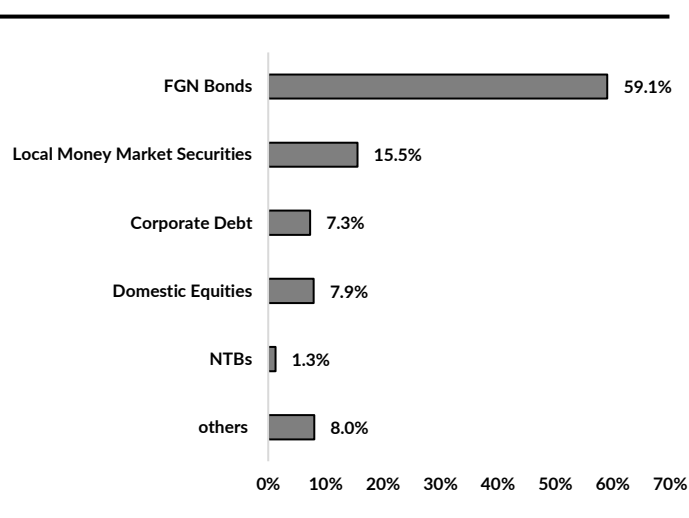
We expect the pension industry to continue building on existing successes as well as increase diversification of pension fund assets, expand pension coverage across all sub-nationals via public awareness campaign efforts with a keen focus on the informal sector.

Total pension industry AUM (N 'trn)



Sources: PENCOM, Coronation Merchant Bank Research

Distribution of pension industry AUM (February '22)



Sources: PENCOM, Coronation Merchant Bank Research

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