

## So what are you waiting for?

The case for Kenyan pension schemes to invest offshore is clear cut on diversification (the “free lunch” of investment) grounds alone. Analysis from Star Capital shows a pension scheme should be allocated around 50% offshore<sup>1</sup>. Analysis from the World Bank shows even higher<sup>2</sup>. The RBA allows 15% with potentially an additional 10% to go offshore. Amendments to Investment Policy Statements to change the strategic asset allocation to 15%-25% offshore should be made immediately.

The case for offshore can also be made on return grounds. Kenyan pension scheme returns in 2022 were abysmal thanks to over-concentration on domestic fixed income. The Kenyan yield curve has continued to rise. Page one of fixed income mathematics shows how “yields up, prices down”. So 2023 will show poor returns again; perhaps not negative like 2022 but poor nonetheless. And there will be no offset from domestic equity: year to date Safaricom has fallen a third from approx. KES 24 to KES 16<sup>3</sup>.

Year to date in 2023 the Kenyan shilling has devalued from 123.40 to 144.45 to the US Dollar<sup>4</sup>. This is a 17% return year to date. Or 28% annualised return. Add to that currency return the dollar return from Star Capital’s offshore fund you have a return year to date easily over 20% with forecast over 30% by year end. 15%, if not 25%, of a big positive number is still a big positive number<sup>5</sup>.

So what are you waiting for? That is the question pension scheme members will ask as they see trustees’ inaction erode rather than boost their pensions. That is a question I wouldn’t want to be in the firing line of.

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<sup>1</sup> Available from <https://starcapmt.com/>

<sup>2</sup> Source: <https://documents1.worldbank.org/curated/en/199811618928307743/pdf/Estimating-the-Gains-from-International-Diversification-The-Case-of-Pension-Funds.pdf>

<sup>3</sup> Source: <https://www.safaricom.co.ke/investor-relations-landing/stocks/shares>

<sup>4</sup> Source: <https://uk.investing.com/currencies/usd-kes-historical-data>

<sup>5</sup> Past performance is not a guide to future performance