Z.A.P.F.
ZIMBABWE ASSOCIATION OF PENSION FUNDS

POST-CONFERENCE FIRST DAY EXECUTIVE SUMMARY

The Zimbabwe Association of Pension Fund hosted the 49th Annual Conference of the Zimbabwe Association of Pension Funds with the theme "VALUE CREATION FOR PENSION FUNDS IN ZIMBABWE" serving as its main focus. The intention of the theme was to introspect as an industry and a nation on how we can create and preserve value for members, pensioners and their beneficiaries.

We have witnessed a rapid decline of pensions value over the years, hence this theme. Ultimately the question being asked is are we doing enough for our members and pensioners to create and preserve value or we are presiding over a dying industry?

*Please note: presentation summaries below include paraphrased syntheses of plenary session remarks.

Green energy entrepreneurship

It was highlighted that there was need for firms for businesses to have a firm commitment towards sustainability. The fundamental crisis is that of rising temperatures and biodiversity since we have lost 70% of the planet's biodiversity since 1970.Due to the urgent nature of climate change and its far-reaching effects, governments and international agencies have been coming together to find solutions. The following investment vehicles were considered.

(i) Carbon Credits- Through forestry conservation, new biodiversity credits
(ii) Renewable energy- solar wind hydro
(iii) Green Bonds- increase availability of finance for green projects.

Private financing for climate has also been availed with 30billion being availed in Asia. Looking at the return on investment earned in 2011, wind and solar had produced ROI of 8%, coal and fossil fuels were 9%.

Enhancing Long-Term Returns: Impact Investing in Zimbabwe

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The key themes affecting our current operating environment include High inflation, Exchange Rate Volatility, prolonged currency problem, high market volatility, negative real returns on the investment markets and the impact of policy. Impact investing aims to achieve a dual objective of making a financial profit while also contributing to solving social or environmental challenges. Impact investment seeks to accomplish the twin goals of turning a profit and helping to address environmental or social issues. Impact investors ought to deliberately aim to generate a favourable influence in addition to monetary gains. Financial returns are anticipated by impact investors, albeit these returns may differ based on the particular investment and impact objectives. Impact investing offers a means of diversification to investors through the allocation of capital to asset classes that exhibit minimal connection to traditional asset classes and listed securities.

Where is my money? The mysteries of pension accumulation in Zimbabwe"

The speaker explained that members make contributions with the expectation that they will receive a handsome payout when they retire. The key question posed to the audience was "How much contributions do I get in?" A survey done indicated that on average members contribute USD37 per month which will be way less for low level employees. The expected monthly pension which varies with investment return earned will be $10. It was highlighted that members were supposed to be educated about the amount of contributions they are making and what they would expect to get so as to get rid of misconceptions. The Speaker also explained that the presence of buildings does not guarantee a return with reference to CBD Building in Harare town that have now lost value since 20% have no occupancy. The equities market invested in does not return positive returns all the time for example the VFEX currently yielding negative returns. It was highlighted that the compensation framework requires loading of 2014 prejudice with 3% per annum up to 31 December 2022 whereas on the contrary, ZSE returned -10.3% per annum over the period 1 January 2014 to 31 December 2022. It was also mentioned that when members contribute into a fund, they buy a proportional share of the assets and when they exit, they sell a proportional share of the assets to the remaining members. Effectively, there is a unit price to the proportional share of the assets. If you enter when the unit price is very low (assets are underpriced), you buy assets on the cheap and earn superior returns. If you exit when the unit price is very low (assets are underpriced), you sell your assets on the cheap to remaining members and lock in significant losses. For example, research done shows that actives bought equities on the cheap from exits especially 2005 to 2008. (Some actives have negative prejudice). This is effectively how financial markets work and pension funds aren't sparred. Timing can be fair over the long term but in the short term its very unfair. Suggested ways to correct the anomalies include taxing borrowers, having optimal contributions and strengthening of capital markets.

Value creation for Pension Funds – A case study for Ghana

It was highlighted that people assume that one needs to be working to get a loan and people are also unbanked because of bank charges. The total assets for the Ghana Pensions Industry for private pensions was 34.5billion with 219 private pension schemes having been registered. The speaker also looked at the contributions in Ghana where 6% informal sector coverage has been recorded with over 50% formal sector coverage. For Example, for Preretirement Tier 3, members can contribute up to to 16.5% of the basic salary and the contributions are exempt. If an individual has been in the scheme for 10 years or more, he or she will receive all contributions made under the scheme in addition to all returns earned tax free. In the event of an exit prior to the contributor's tenth anniversary, a marginal tax rate of 15% will be applied to the contributor's total redemption amount.

Capital preservation and value appreciation through property investment

In light of the market's volatility, Value Preservation and Capital Growth through Real Estate are key to ensure our pensioners live happily ever after. The RBZ 2024 Monetary policy aims to resuscitate the economy through a raft of policies, such as the introduction of Zig. Trends Shaping The Property Sector include Changing Customer Profile where:

- There a Youthful population that is influenced by global trends on taste and preferences and lives in a connected world.
- Increasing need to build shops, offices, schools and recreational facilities closer to residences.

- Cost conscious customers who want modern living spaces at an affordable price.
- Low rental yield due to migration of corporate offices from the CBD to suburbian offices. Repurposing of office buildings into retail spaces for yield enhancement.

Push and Pull Factors impacting the value of real estate include currency instability, cost inflation, limited investment options and limited high-quality products.

Given the shifting tastes, within the context of a strained macro environment, how can we manage value?

The two levers in which one can manage value is either at the construction level or market level by considering Design Consciousness, Procurement Efficiencies and Maintenance Costs. As long as supply/demand is not matched there is an opportunity for example there is widespread investment in REITS, Construction Finance and Mortgages.

Outlook

Demand will remain driven by structural forces for the medium to semi-long term. Real estate classes with these inherent structural demand and supply mismatches present the best sustainable opportunity for investors. There is need to create innovative funding structures to be able to tackle these opportunities. Real estate purchases are mostly funded via free income and cash vs mortgages.

Panel Discussion

The panel deliberated at length about the following:

(i) Practical experience, challenges and recommendations for the Zimbabwean pension industry?
Major challenges
(ii) Accounting for Long-Term Liabilities in a High-Inflation
(iii) S.I 162 of 2023 – The Pensioners Compensation for loss of value Conundrum
(iv) Demystifying Property Investments: Unlisted, Listed, REITs and Direct Property

It was noted that, given the assurance of funeral services, the majority of individuals had more faith in funeral assurers than in pension fund providers. The current environment no longer supports database schemes, so industry participants must collaborate to identify a workable replacement. Policy changes had an impact on the industry, and there were signs that the USD was now the functioning currency. There are some arguments over the discount rate used by Actuaries. Using listed property investments, it was necessary to diversify the Fund Assets' real estate investments. Although unlisted investments have a higher risk, they also offer bigger returns.

Regarding the Compensation Framework, it was brought to light that it was unclear exactly what role the other parties identified in the Justice Smith Report would have. Concerns were raised over the hefty actuarial fees as well as the DC schemes' 3% guaranteed return.