

Carlyle Partners
Health - Life - Pensions

CARLYLE PARTNERS MONTHLY NEWSLETTER

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SPECIAL EDITION



Carlyle Partners Pension Fund Training

By ***Nadia Nunes**

Carlyle Partners, the only consultant and broker specialized in Complementary Pension Funds in Mozambique, hosted on October 22nd a training workshop on Complementary Pension Funds at the Radisson Maputo.

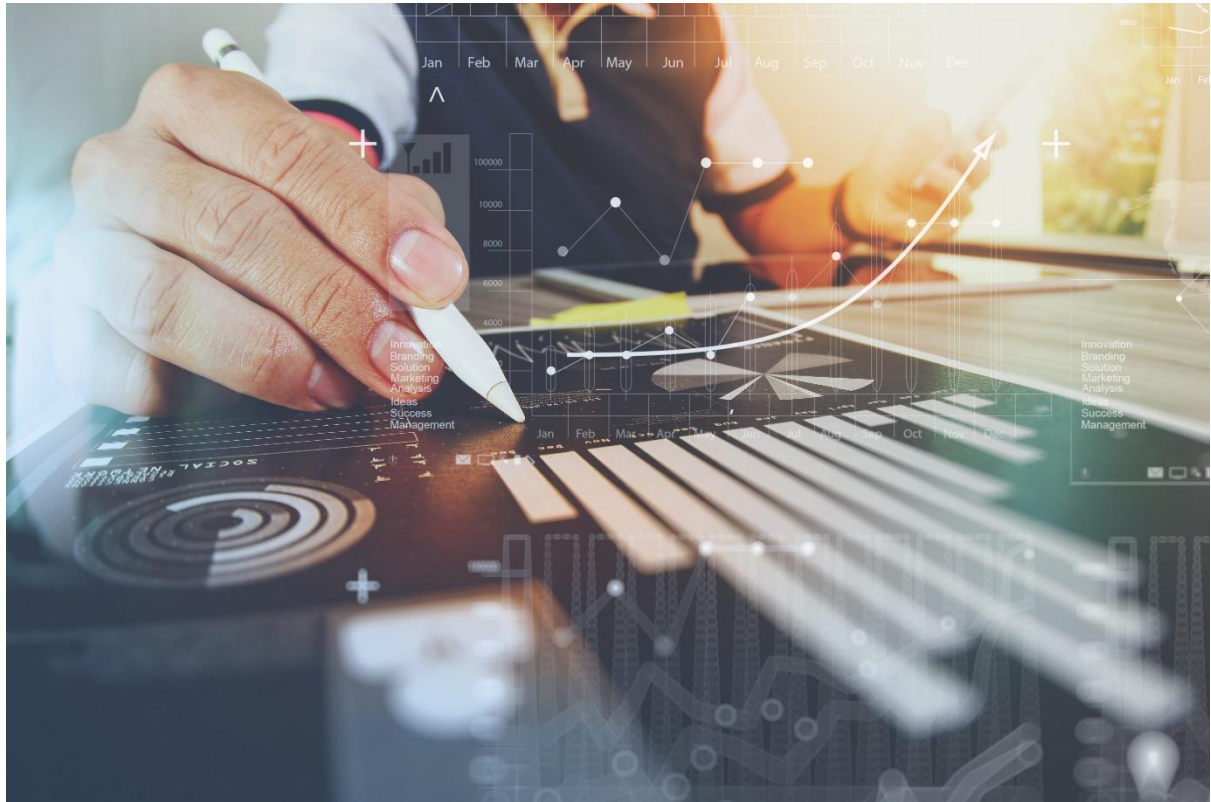
The training had the technical support of some of Carlyle Partners strategic partners, including lawyers, insurance companies, pension fund managing entities, and banks. Namely Global Alliance, Hollard, NBC and Sanlam, and Banco de Investimento Global (Banco BiG). The workshop also included a lecture by Eduardo Madope, who focused on the legal framework of the funds, structure, and other aspects.

Although the legislation on complementary pension funds in Mozambique is from 2009, there has been a growing interest on the subject. Carlyle Partners has worked hard to help to spread information about pension funds in Mozambique, and while much remains to be done, we have been successful in this regard. We have helped companies and their employees implement their funds, and we have also had educational initiatives such as trainings and a monthly newsletter.

Our event has been very well received by clients and participants in general, so much so that we have decided to make it an annual event.

For companies that have not participated, but are interested in learning more about complementary pension funds in Mozambique, we are open to sharing information. You can contact us through our e-mail: corporate@carlylepartners.llc

*Manager | Carlyle Partners



Banking as a Leverage to Promote Pension Funds

By Yuler Neves*

Pension funds are ring-fenced assets aimed at financing pension plans. In other words, these are investment products with the aim of promoting savings that should meet the financial needs of individuals at retirement age, in case of partial or permanent disability, death or loss of employment.

Pension plans can be contracted on an individual or collective level. On an individual level, each individual is responsible for managing his or her own plan, and on a collective level, management is done by the employer. Here, contributions are agreed between companies and their employees and delivered to a pension fund management company whose main mission is to oversee the investments, managing the contributions of the various investors in exchange for management fees.

In their responsibility to make these contributions profitable, pension fund management companies can make use of the following instruments provided by financial institutions:

- Government Bonds
- Shares, corporate bonds and other debt instruments
- Real Estate
- Cash

Accordingly, banking plays an extremely important role in the sector, as it allows access to a large part of these instruments, with the possibility of negotiating fees and other considerations that will determine the profitability of the assets in question.

Through Investment Banking, pension fund management companies may have access to financial markets to invest in bonds, commercial paper, as well as equity with access to global stock exchange.

Pension fund managers are responsible for managing and diversifying the risk associated with each of the instruments available in the market, advised by investment banking managers. Most Investment Banks have dedicated managers well versed in financial markets.

In Mozambique, pension fund management companies are governed by Decree 25/2009 from 17 August and by Ministerial Diploma 261/2009 from 22 December, which establishes the administration of pension funds as well as asset allocation guidelines.

Banking institutions can structure the most varied financial products, with fees and maturities adjusted to the needs of the funds, however, there is a need for a less limited regulation because in the current perspective, the investment of assets allocations are subject to instruments and limits in line with the legislation. The diversification of financial products will allow the sector to grow, save more and invest more in our country.

Pension funds are also an excellent channel for attracting deposits, enabling more loans in the financial system, and also complementing social security contributions, providing better quality of life and financial stability for the population during retirement.

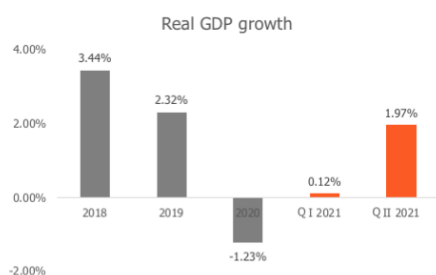
*Head, Product Development | Access Bank Mozambique

Financial Markets and Literacy

By Banco BiG Moçambique



▲ Economic Growth & Inflation

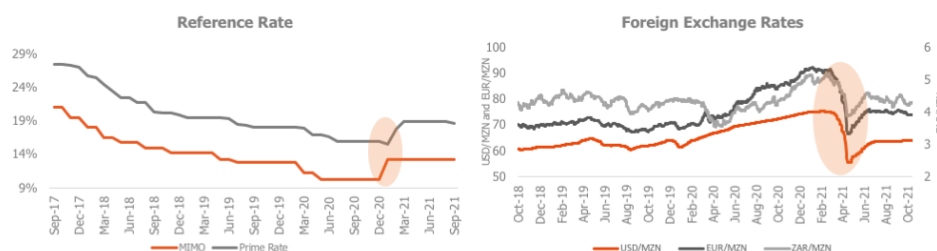


- Economic recession in 2020, with GDP contracting -1.23%
- GDP growth recovery in the 2nd quarter of 2021 to 1.97%
- Improved IMF growth estimates to 2.5% this year



- Acceleration of year-on-year inflation which reaches a maximum of 6.04% in September
- analysts predict maintenance of inflation in 2022 and stability in the following years

Monetary Policy and Exchange

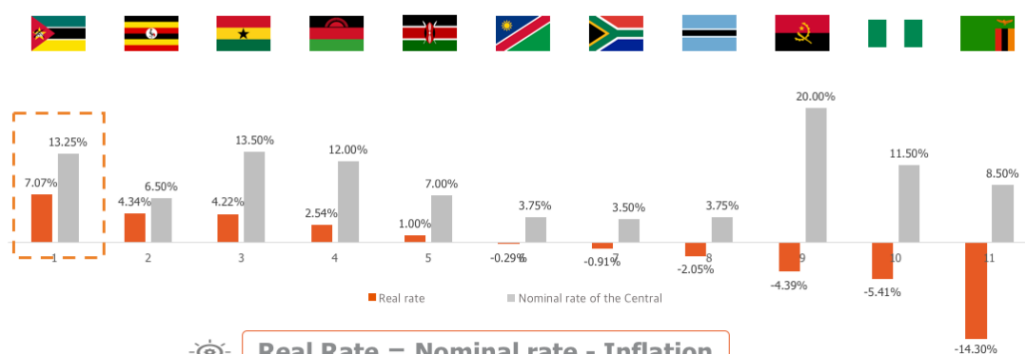


- Unexpected increase in reference rates in January 2021 to contain inflationary pressures
- Current Reduction of RO Coefficients for Meticals and Foreign Exchange
- Reduction of the risk premium that allowed the Prime Rate reduce - 30bps in September, to 18.30%

- In the 1st semester, Metical registered a strong appreciation as a response to the reversal of the Bank of Mozambique's monetary policy
- Ministry of Economy and Finance – MEF in 2022 Tax Risk Report estimates that the USD/MZN exchange may reach 68 until the end of the year

Attractive Real Interest

At the moment, Mozambique offers **controlled and stable inflation rate**, with **higher real rates** of the region.



▲ Savings vs Investment



Savings is the money left to an individual by subtracting expenses from his disposable income in a given period.

An **investment** is an asset or item acquired for the purpose of generating revenue or appreciation (increase in value over time).



The difference between savings with and without investment will be greater as time goes by due to the impact of **compound interest**.



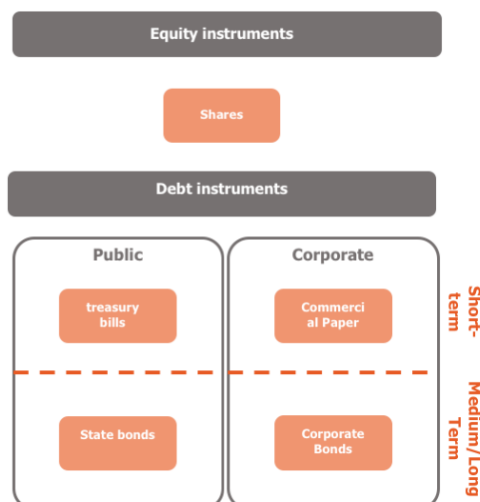
▲ CAPITAL MARKETS

An **investor** is any person or entity (such as a company or fund) that commits capital with the expectation of receiving financial returns.



The **issuers** are companies or public institutions that issue debt or equity securities in the market with the aim of attaining financing.

Financial Instruments



Investment Allocation

The **portfolio allocation** should take into account the investor's preference for:

- Purpose of Investment (Maturity)
- Risk profile
- Expected Return
- Exposure limits
- Liquidity level

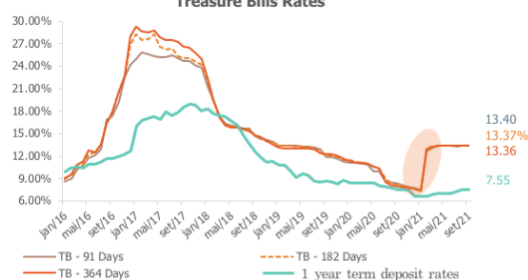
Investment Options: Treasury Bills

Treasury Bills vs Term Deposits

+	Risk profile	+
+	Yield	+
+	Liquidity	+

Treasury Bills are short-term Public Debt bonds, issued by the Central Bank whose maturities are of **91, 182 and 364 days**. These bonds are used as **Monetary Policy Instruments**.

Treasure Bills Rates



Interest rates of Treasury Bills presented in early 2021, the first rise since January 2017. The rise of MIMO in early 2021 led to a sharp rise close to **500 bp** in TB rates.

Investment Options: Bonds

State bonds

At **State Bonds** represent **96%** of the total value of available bonds at Stock Exchange of Mozambique – BVM

They are issued by Mozambican State as a way to finance in Meticals

Advantages

Medium/Long term bonds with more **Liquidity in Secondary Market**, and present a **sovereign risk profile**

Corporate Bonds

At **corporate bonds** are issued by companies as an alternative to bank credit

These bonds may have real assets given as collateral as a way to reduce risk

Advantages

Due to their risk profile, they have **more attractive yield** compared to Treasury Bonds

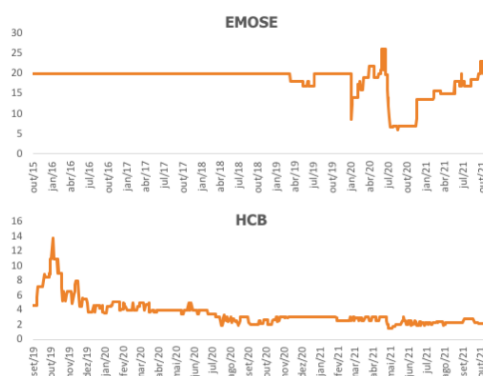
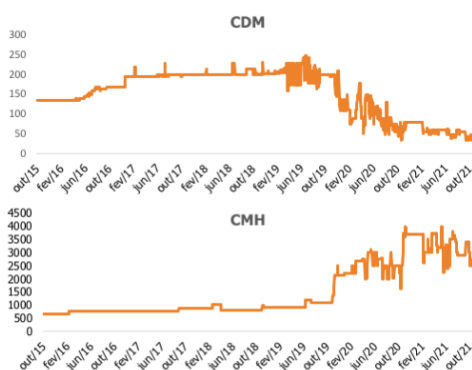
Existing Maturities



Existing Maturities



Investment Options: Shares



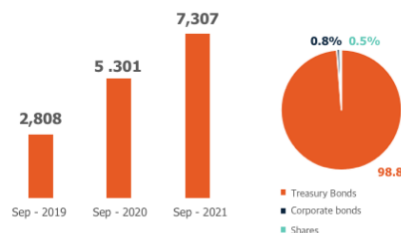
Shares are units of shareholding in the share capital of a company that are traded on the stock exchange. Being shareholdings in the Capital of a Company, they **value or devalue depending on the company's financial performance**, and entitle their holders to participate in the profits of the same through **dividend distribution**, as well as participating in the company's corporate life through the AGs

Capital Market in Mozambique

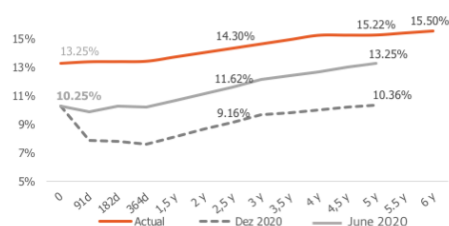
- The accrued volume traded in the secondary market between January and September 2021, was + 37.7% higher than the same period last year
- Treasury Bonds are the most traded secondary bonds, with 98.8% of the market volume

- The *yields* of Long-term public debt continues to show a **uptrend**
- The Treasury issued this year for the first time, **6 years**, and has not yet issued any **TB with Flat Rate Coupon**

Secondary Market Volume (MZN million)



Yield Curve of Mozambican Public Debt



Allocation in 2022

Mozambique	Reduce --	Neutral	Increase ++
Monetary System Interest rates rose sharply in early 2021 due to a change in monetary policy by Bank of Mozambique. The banking sector, in turn, has taken more time to adjust interest rates. We recommend reducing exposure to DPs and increasing exposure to TBs.		Term deposits (7%-9%)	Treasury bills (13%)
Bonds We recommend an increase in exposure to Treasury Bonds after the steady rise in long-term interest rates during 2021. Positive view on corporate debt , but less interesting than in 2020 due to the reduction of the differential compared to public debt.			Corporate debt 16/19 State bonds 14 (16)
Shares After the drop observed in prices in 2020 and 2021, it is estimated that the shares of CDM and HCB may have a rise in 2022 , with recovery of the confidence of business operators.		EMOSE CMH	HCB CDM
FX Neutral perspective on Metical after the rise in the first quarter of the year, it is expected that with the increase in exports, the good level of reserves and the interventions of the Central Bank, the Metical will remain stable over the next year.		USD / MZN ZAR / MZN	

Post of the Month



Carlyle Partners is an insurance advisory brokerage specialized in Health, Life and Pensions, licensed under the Insurance Supervision Institute of Mozambique (ISSM).
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