

MONTHLY NEWSLETTER

ISSUE 7 VOL.1



What is your Investment Profile? The importance of time horizon on asset returns.

By Alberto Pitoro*

In newsletters 4 and 5, we discuss asset diversification in investment portfolios and the risk and return characteristics for different asset classes. Given this diversification, the question is: how to determine an optimal asset allocation?

Each investor, private or institutional, is unique. An asset allocation that is suitable for one investor may not be suitable for another. Two factors are quite crucial in determining the type of investments appropriate for an investor – the time horizon (term) of the investment objectives and the risk tolerance (of the investor).

Time horizon is the period of time that an investor expects to hold an investment. It is a fundamental element in determining the investor's ability to take risks, and is therefore a constraint on asset allocation. As a general rule, and keeping the rest constant, the longer the time horizon considered, the greater the weight of risky assets may be, without compromising the investment objectives. Here, the assumption is that the investor with a long-term horizon can make investments in riskier assets because he is in a position to face and cross adverse market conditions, while the investor with a short-time horizon has to make safe investments because, if the market goes against him, he cannot wait for things to change to recoup his investment.

The investment objectives can be short or medium term, such as creating savings to buy a property, a car or take a trip; or long-term, such as savings to pay for their children's education or retirement pension.

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Models for micro-pensions schemes

By Lemmy Manje*

Micro pensions provide a new opportunity and platform for a just and equitable distribution of income among the aged population and for all ages as well. The overarching purpose of micro pensions is to shield low-income earners against poverty in their aging years and provides them with some form of financial independence. Some countries have implemented varying models of micro-pension systems. The article discusses and provides insights into three of the main existing models:

Centralized Nation-Wide Model: This model involves having one micro-pension that serves all the informal sector workers with or without regional branches. The micro pension scheme is operated by the government on behalf of the members. The key features of the model are; it has a defined contribution scheme, has a custodian, administrator, and a fund manager who runs the scheme; alternatively, these functions can be performed by a department within the organization, the rules for admission, withdrawal, and separation are enabled in regulation and are enforced by the government.

Public-Private Partnership Model: Under this model, a central pension scheme is maintained by the government but there are public or private agents who provide services to enhance the operations of the pension scheme. The key characteristics of the model are; the scheme is voluntary and there is a defined contribution funded plan.

There is a network of bank branches, microfinance institutions, post offices or mobile network agents that are used to collect contributions and interact with participants. Paying contributions using mobile payment is an option. There is also an independent centralized record-keeping agency is maintained to ensure administrative efficiency and to consolidate account statements, each member has a unique number that records contribution savings regardless of the agent used and members of the scheme may be allowed to switch between competing agents.

Multi-Employer Model: Under the multi-employer model; employers in a certain industry, profession or cluster create a common pension plan and assume the roles of the sponsors. Such a plan would be formed as a voluntary, defined contribution pension plan with no limit on contributions. The scheme may have regional offices depending on the sector's geographical distribution. Once formed, the rules of the single employer pension schemes may operate in terms of registration of members, general management, and compliance requirements. Ideally, the model enables pooling together of contributions hence the economies of scale, addresses industry concerns, can take up relatively higher-income earners, can allow employer contributions especially in the case of the large SMEs, the schemes are not likely to grow "oversize" thus limiting the diseconomies of scale inherent in the centralized systems, the idea is easy to market to various business associations.

To make any micro pensions scheme successful and reach commercially viable, implementing the right distribution model is highly critical. The distribution model must be efficient, trustworthy and have elements of education on the value proposition. The certainty and consistency of contributions largely rely upon constant alerts and education and appropriately of the mode or platform for contributions. Increasing usage of digital platforms such as mobile money is proving to be effective as it provides easy accessibility and enrolments. Examples can be drawn from the Mbao scheme in Kenya, Ejo Heza Scheme in Rwanda as well as micro pension schemes in Nigeria, Ghana and Benin. Some of the models have also integrated or bundled pensions with other financial services. In Rwanda, the model includes insurance while Benin's ARCH micro pensions scheme is a 4 inter-linked component programme with health, pensions, micro-finance and training. This approach is based on the realization that it is often not so easy to sell the value proposition of taking long-term especially among low-income earners. Any country or organisation contemplating investments in micro pensions schemes make a strategic decision on which model would be best suited to explore. Such a decision is depended on the type of stakeholders interested in implementing the micro pensions scheme. Central to all the models, is customer-centricity; it is important to fully understand the characteristics of the targeted market segments.

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Eligibility, Pension Funds Benefits

By Leonido Banze*

For all forms of group benefit provision, the sponsor may, where legal, wish to discriminate between individuals. This discrimination may be:

- in the level of benefits or
- form of benefits to be provided or
- between providing or not providing benefits.

The eligibility conditions should reflect the sponsor's objectives.

For example, let's consider a company that provides a defined contribution scheme for its staff. If the company's most important objective is to attract senior managers, it may decide to:

- establish a separate defined contribution scheme for senior managers with more generous benefits than the staff scheme (i.e. discriminate in the level of benefits)
- establish a defined benefit scheme for senior managers (i.e. discriminate in the form of benefits)

- provide additional benefits not available to the other members of staff (i.e. discriminate between providing and not providing benefits). When setting the eligibility conditions, the sponsor will need to consider:
- who should be eligible to receive the benefits?
- whether membership should be voluntary or compulsory for those members who are eligible (if voluntary/compulsory membership is permitted)
- the conditions that need to be satisfied for entry into the scheme
- whether all members should receive the same level or form of benefits.

The sponsor must strike a balance between setting criteria that are too restrictive (which may prevent many individuals becoming members) and criteria that are too wide (which may result in high costs if benefits are provided to a wider set of individuals than intended).

The discrimination may be, for example:

- based on age,
- period of employment,
- types of work or
- hours worked.

The options are endless except to the extent that:

- the law,
- business ethics or
- industrial relations (including competitors' practices) restrict them. For example, in most countries it is illegal or unethical to discriminate by sex, race or religion.

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Market Intelligence

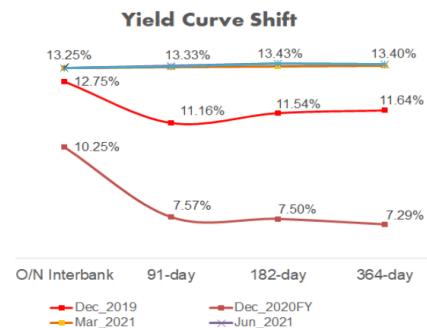
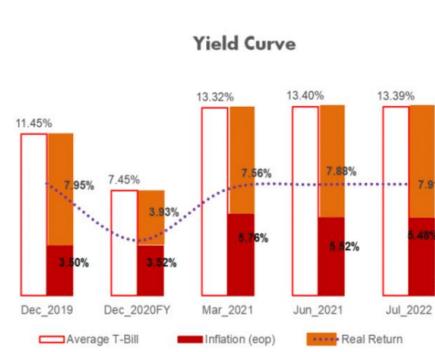
By Absa Bank Mozambique



Macroeconomic Indicators

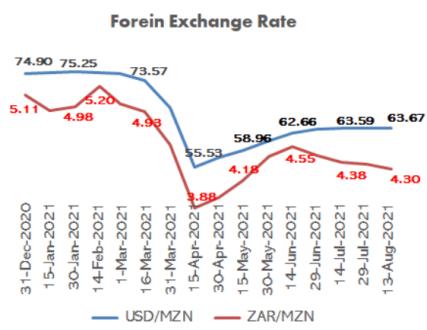
Source: Central Bank, INE, MEF, Absa Research

	2018	2019	2020E	2021F	2022F	2023F	2024F
Real GDP (% y/y)	3.3	2.2	-1.3	3.0	4.5	5.4	6.3
GDP (USD bn)	14.8	15.3	13.9	13.8	14.6	16.1	15.9
Current Account Balance (% GDP)	-30.3	-19.7	-27.7	-31.1	-30.6	-30.2	-29.2
Fiscal Balance (% GDP)	-5.3	-0.2	-10.8	-8.5	-7.8	-5.9	-4.8
Public Debt (% GDP)	110.0	104.0	117.0	116.3	113.1	103.1	99.4
CPI (% Dec/Dec)	3.5	3.5	3.5	4.8	5.2	5.7	6.7
CPI (p aveg.)	3.9	2.8	3.2	5.5	4.2	6.0	6.0
Policy Rate (MIMO, % eop)	14.25	12.75	10.25	13.25	13.75	14.75	14.75
USD/MZN (eop)	61.63	61.64	74.60	77.80	82.10	80.50	80.00
USD/MZN (avg)	60.34	62.43	69.87	77.85	80.49	81.10	80.25
	Q4 20	Q1 21F	Q2 21F	Q3 21F	Q4 21F	Q1 22F	Q2 22F
CPI (% y/y, eop)	3.5	4.8	6.1	6.6	5.3	4.0	3.6
Policy rate (% eop)	10.25	13.25	13.25	13.25	13.25	13.75	13.75
	Stop	Q1 21F	Q2 21F	Q3 21F	Q4 21F	Q1 22F	Q2 22F
USD/MZN	73.57	76.20	78.00	79.40	77.80	78.88	79.95
ZAR/MZN	4.98	5.08	4.95	4.96	4.79	4.79	4.76



Source: Bank of Mozambique

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Source: Bank of Mozambique

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The Carlyle Partners Pension Fund Training was designed for Trustees, HR and other professionals that may already be working with pension funds in their companies or are looking to implement one.

The training will provide an overview of the current legal framework, governance, open funds, and group life insurance, and it will be facilitated by industry experts from Namibia, South Africa and Mozambique.

Due to restrictions, the training will be in-person but limited to 25 attendees, at the Radisson. Covid and social distancing protocols will be followed and seats organized in accordance.

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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