



# The Macro Context

A Pension Fund perspective in A changing Global Economy

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# RETHINKING PORTFOLIO DESIGN

"If pension funds were designed today..."

Would asset allocation look the same?

Legacy frameworks were built for a disinflationary regime that no longer exists. Today's trustees must challenge historical consensus to preserve purchasing power.



# WHY MACRO MATTERS FOR PENSION FUNDS

## Long-dated liabilities

Pension obligations span decades, requiring structured duration matching and inflation hedge mechanisms.

## Inflation-sensitive benefits

Real benefits erode rapidly without active positioning in real assets designed to compound with consumer price increases.

## Macro Dominance

In the new regime, macroeconomic shifts dominate individual asset security selection returns.

## "Pensions live and die by real returns."

In a volatile macro environment, ignoring macro trends becomes a fiduciary risk, not a neutral stance.

# THE END OF THE EASY INVESTMENT ERA

Falling interest rates, rising asset prices, easy diversification, and globalization defined the past. **That regime is over.**

1

## Low Inflation

(2000-2019)

A stable backdrop of predictable policy and global structural supply-chain optimization.

2

## Transition

(2020-2022)

Pandemic shocks, supply blockages, and unprecedented fiscal expansions.

3

## High Volatility

(2023+)

Sticky inflation, deglobalization forces, and structurally higher central bank rates.

# THE NEW MACRO REGIME

## Permanent Structural Shifts

- ✓ Persistent inflation pressures structurally undercutting cash investments
- ✓ Higher-for-longer interest rates altering asset valuations globally
- ✓ Frequent economic and geopolitical shocks requiring strategic buffer assets

### Fiduciary Takeaway:

These are permanent shifts, not temporary. Pension strategies must align structurally to withstand persistent inflation shocks.

### AVERAGE CPI (%) BY REGION



Source: SanlamAllianz Internal Estimates

# INFLATION: STRUCTURAL, NOT TRANSITORY

## Four Structural Drivers:

- ✓ **Energy transition:** Huge capital requirements for green power push input prices higher.
- ✓ **Demographics:** Global aging workforces structurally lower the availability of cheap labor.
- ✓ **Labour shortages:** Upward pressure on sticky core wage indexes.
- ✓ **Supply-chain reconfiguration:** Nearshoring and friendshoring prioritize security over low cost.

## Interest Rates Permanently Repriced

- The era of very low rates is behind us.
- Capital is more expensive, raising hurdles for debt roll-overs.
- Leverage-driven strategies face constant margin compression pressure.
- **Assets with stable real income will continue to outperform in this environment.**

# PUBLIC MARKETS ARE LESS RELIABLE

Traditional 60/40 correlations are breaking. Equities suffer higher volatility, while bonds fail to act as effective diversifiers during inflation shocks.

Asset	Volatility	Duration	Pension Fit
Listed Equity	High	Short-Medium	Growth-focused, but high near-term noise
Short Bonds	Low	Short	Capital preservation, poor inflation hedge
Infrastructure	Low-Medium	Very Long	Perfect real income match for liabilities

### Alternatives Move to Core

Alternatives are no longer just return enhancers; they are the foundation of portfolio resilience:

- Private Equity: Targeted Growth
- Private Credit: High Yield Carry
- Infrastructure: Asset Stability

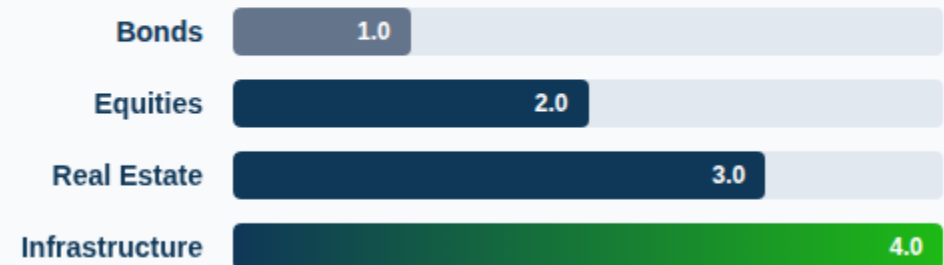
# WHY INFRASTRUCTURE IS DIFFERENT

## What Pension Funds Actually Need:

- ✓ Capital preservation across market cycles
- ✓ Sustained inflation protection over multi-decade horizons
- ✓ Predictable, contractually backed cash distributions

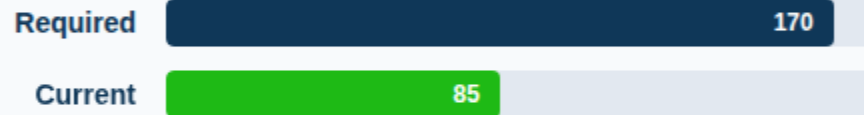
*\* Because these sectors possess essential and monopoly-like characteristics, downside risk is heavily reduced compared to standard listed alternatives.*

## RELATIVE STRENGTH AS INFLATION HEDGE



# THE GLOBAL INFRASTRUCTURE INVESTMENT GAP

## INFRASTRUCTURE FUNDING (USD BILLION)



Huge funding deficit means public-private partnership terms are increasingly favorable for institutional asset allocation.

## Key Drivers & Shortfall:

- ✓ Demand vastly exceeds government public balance sheet capacity.
- ✓ Emerging markets face the largest structural shortfalls, requiring massive private asset support.
- ✓ Sovereign-DFI blending of finance offers de-risked co-investment options.

# WHY AFRICA MATTERS FOR PENSION FUNDS



## Young Population

The world's largest, fastest-growing labor pool driving regional economic integration.



## Urbanization Hubs

Massive ongoing power, water, logistics, and housing requirements across cities.



## Energy Transition

Unparalleled potential for geothermal, hydro, and solar generation setups.

**Domestic Capital Accumulation:** Rapidly expanding local pension fund regulatory frameworks are allowing much higher allocations into real assets to hedge long-term liabilities.

# RISK MANAGEMENT IN EMERGING MARKETS

## Three Primary Risks:

### 1. Regulatory Risk

Tariff adjustments and policy continuity across government regimes.

### 2. Political Risk

Sanctity of concession contracts and sovereign counterparty guarantees.

### 3. Currency Risk

Hard-currency commitments vs local currency tariff revenue streams.

## Role of DFIs & Blended Finance

**Early-stage de-risking:** DFIs absorb initial high-risk project development and construction phases.

**Governance discipline:** Standardizing procurement and legal frameworks ensures transparency.

**Crowding-in pension capital:** Providing partial credit guarantees to institutional partners.

**\* Pension funds should enter once DFIs and sponsors have fully absorbed early risk.**

# EXIT DESIGN PRINCIPLES

## 1. Risk Sequencing

Match capital structures to early project de-risking milestones. Exiting owners must systematically retire technical, regulatory, and currency exposures before institutional handoff.

## 2. Governance

Embed independent boards, clear reporting, and minority protections from day one. Strong governance preserves optionality and value across changes in political leadership.

## 3. ESG Protection

View ESG as a capital preservation shield. Sustaining community social licenses and environmental resilience prevents operational disruptions during the hold period.

## 4. Market Optionality

Avoid overly customized concession agreements. Design structures that appeal to global concessionaires, institutional buyers, or secondary pension syndicates.

## 5. Strategic Timing

Pragmatically balance patience and decisiveness. Execute exits during stable macroeconomic and regulatory windows to maximize structural premium realizations.

PART II

# Kenya Fixed Income & Equities Performance

A historical review of yields, returns, structural changes, and the strategic asset allocation outlook.

Finnet Training, Naivasha • April/May 2026

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# FIXED INCOME STRUCTURING

## Types of Fixed Income Investments

### Money Market (Short Term)

- Fixed and call deposits with commercial banks
- Treasury Bills (91-day, 182-day, 364-day)
- High-quality Commercial Paper issuances

### Fixed Long Term

- Treasury Bonds (infrastructure & benchmark tenors)
- Corporate Bonds with credit enhancements

## Return and Risk Objectives

Fixed income objectives must align directly to quantitative liability streams:

- ✓ **Liability Matching (Cash objective):** Structuring coupon payments to match forecasted liability cash outflows.
- ✓ **Index Benchmarking:** Matching or outperforming index/reference security benchmarks by pre-determined basis points.
- ✓ **Tracking Error Management:** Monitoring standard deviations of active returns over index deviations.

# PRICE YIELD RELATIONSHIP OF BONDS

## Present Value Equation

$$P = \sum_{t=1}^n \frac{CF_t}{(1+y)^t}$$

If yield goes up, bond price goes down. The relationship between price and yield is not linear but **convex**.

Volatilities are driven by three variables: lower coupon rates, longer terms to maturity, and lower initial yields all increase volatility.

## Immunization Mechanics

Balances price volatility change against reinvestment yields:

### Scenario 1: Rates Rise

Reinvestment income increases; bond values decline. Gain in investment income > loss in portfolio value.

### Scenario 2: Rates Decline

Reinvestment income drops; bond prices rise. Loss in investment income < gain in portfolio value.

# KENYA FI STRATEGY DASHBOARD (30 APR 2026)

Statistic	31-Dec-25	30-Apr-26	QTD Change (bps)	YTD Change (bps)
Interbank Rate	9.0%	8.8%	1	-24
91 Day T-Bill	7.7%	8.0%	61	31
182 Day T-Bill	7.8%	8.2%	38	41
364 Day T-Bill	9.2%	8.5%	23	-70
<b>Inflation</b>	4.5%	5.6%	120	110
CBR	9.0%	8.8%	0	-25

## Market Analysis:

- Treasury bill rates edged higher as investors priced in increased risk from rising global oil prices and potential pressure on Kenya's foreign reserves.
- Economic growth slowed slightly to 4.6% in 2025 (from 4.7% in 2024), driven by weaker performance in agriculture, despite a rebound in the industrial sector.

# KENYA TREASURY BOND AUCTIONS PERFORMANCE



Tenor / ISIN	Due Date	Total Offered	Bids Received	Accepted Amount	Mkt Wtd Avg Rate	Coupon Rate
FXD1/2012/020 (KE4000003949)	01/11/2032	Kshs 80,000M	47,947.93M	47,529.93M	12.4655%	12.0000%
FXD1/2019/020 (KE5000009984)	21/03/2039	17,573.92M	14,539.36M	13.3141%	12.8730%	
FXD1/2021/025 (KE7000003652)	09/04/2046	40,496.64M	31,974.52M	13.7660%	13.9240%	

### Auction Breakdown:

- Total bids received: Kshs 106,018.49M (Performance Rate of 132.52%)
- Total accepted: Kshs 94,043.81M (Competitive: 74,606.76M, Non-competitive: 19,437.05M)

### Purpose / Application of funds:

- Redemptions: Kshs 57,134.55M
- New Borrowing / Net Repayment: Kshs 36,909.26M

Source: Central Bank of Kenya

# INFLATION AND SHILLING PERFORMANCE

## Inflation: Well Anchored but Pressured

- ✓ In April, headline inflation rose to 5.6%, driven by higher food and transport costs.
- ✓ Food prices increased more than expected, eroding CBK's room to cushion the anticipated rise in energy and transport expenses.
- ✓ The overall inflation outlook is expected to worsen in the near term, with headline inflation projected to range between **6.0%** and **7.5%**.

## Kenya Shilling Stability




**129.10 (-0.1% YTD)**

- Usable foreign exchange reserves declined to US\$ 13.2 billion (5.6 months of import cover) from US\$ 13.7 billion in early April 2026.
- *Decline driven by CBK currency market interventions and external sovereign debt repayment schedules.*

# KENYA ESTIMATED BOND RETURNS (2011-2025)

Year	Approx Return (%)	Year	Approx Return (%)
2025	~+14%	2017	~+12%
2024	~+16%	2016	~+14%
2023	~+12%	2015	~+15%
2022	~+10%	2014	~+13%
2021	~+9%	2013	~+12%
2020	~+11%	2012	~+13%
2019	~+12%	2011	~+18%
2018	~+13%	-	-

## Key Fiduciary Takeaways:

-  **Low Downside Risk:** Zero negative return years recorded in 15 years, proving structural stability.
-  **Carry Outperformance:** Average annual return of 11% - 13%, consistently outperforming volatile cash/equity structures.
-  **Macro Drivers:** Returns are structurally driven by domestic interest rate volatility and CBK liquidity adjustments.

# KENYA EQUITIES STRATEGY & VALUATION

## Highly Cyclical Market

Profound swings between long-term bull waves (2012-2014) and extended multi-year downturns (2015-2023).

## External Flow Sensitivity

Performance is heavily dominated by offshore capital allocations, exchange rate swings, and global rate policies.

## Cyclical Post-2023 Rebound

Index recovered strongly (over 50% YoY recently), driven by severe undervaluations and banks' strong earnings.

Valuation Metric (May 2026)	2008-2022 Average	2023 Nadir	2025 Current	12-Month Forward Consensus
NSE All Share P/E	12.5x	5.2x	7.4x	6.8x
NSE All Share Dividend Yield	4.2%	9.1%	6.4%	7.6%

# ASSET ALLOCATION OUTLOOK (NEXT 3-5 YEARS)

## Strategic Core Positioning

- ✓ **Equities (Positive):** High potential cyclical recovery. Valuations are deeply discounted, presenting entry points in banking and telecoms.
- ✓ **Fixed Income (Stable):** High yields (~10-13%) secure highly attractive real cash flow returns.
- ✓ **Real Assets (Mixed):** Slower urban real estate growth, offset by stable rental income (~6-9%) and USD hedges.

## 📍 The Case for Offshore Allocation

### Allocate 5% - 10% Offshore

- 1. Currency Protection:** Acts as a robust structural hedge against long-term Kenya Shilling depreciation trends.
- 2. Global Sectors:** Gain immediate access to technology and high-growth sectors absent in the domestic market.
- 3. Risk Diversification:** Mitigates regional systemic shock and liquidity risk concentration.

# REGIONAL INFRASTRUCTURE CASE STUDIES



## 1. Lake Turkana Wind Power

Overcame grid integration and transmission construction delays using strong PPAs and World Bank guarantees.

**Lesson: Durability converts difficult projects into pension-grade assets.**

## 2. Bujagali Hydropower (Uganda)

Restructured with new sponsors and World Bank risk backstops to revitalize baseload generation after early developer exits.

**Lesson: Strong multilateral alignment protects secondary buyers.**

## 3. Dar es Salaam Port

Transitioned from state-operator structures to global concessionaires, multiplying throughput efficiency and investment visibility.

**Lesson: Concession design is critical to mitigate asset handover risk.**

**Other Key Assets Monitored:** Nairobi Expressway (BOT, CRBC 80% funding, clear direct toll collection mechanism), Uganda Kampala-Jinja Expressway (established under specialized 2015 PPP Unit), and Tanzania SGR (hybrid regional corridor trade integration).

East Africa Concession Trends • May 2026

# DEFINING PENSION-GRADE ASSETS

## What to Actively Select

- ✓ **Stable cash flows:** Projects backed by enforceable long-term contracts and robust credit counterparties.
- ✓ **Inflation and FX indexing:** Mechanisms to adjust pricing relative to inflation or convert exchange rates securely.
- ✓ **Proven Governance & ESG:** Strong, non-political board representation and ESG risk management.
- ✓ **Succession paths:** Outlined rules for asset holding transition across generational mandates.

## ! What to Actively Avoid

- **Greenfield Construction Risk:** Expose portfolios to completion overruns beyond fiduciary mandates.
- **Weak Counterparties:** Off-takers facing structural distress without parent/sovereign guarantees.
- **Opaque Governance:** Structures lacking clear audits, minority protections, or operational visibility.
- **Rescue Capital Plays:** Assets with unresolved legacy structural problems demanding continuous fresh capital.

# SECTOR EXECUTION MATRIX

Infrastructure Sector	Preferred PPP Model	Pension Participation Mechanism	Key Risk to Avoid
Roads & Transport	BOT / Concessions	Brownfield concession equity, availability-payment debt	Greenfield traffic risk, political tariff regimes
Energy	IPP / Power Purchase	Post-COD IPP equity, senior project debt, regulated transmission	Weak offtakers (e.g. unsecured utility balance sheets)
Housing	Affordable Rental PPPs	Rental portfolios, KMRC / Boma Yangu platform credits	Uncapped construction cost overruns, title deed invalidity
Logistics & Trade	Concessions / REITS	Warehousing REITs, trade concession buy-ins	Throughput volatility, sudden concession renegotiation

*\* Multi-sector partnerships require bundled services or specialized sovereign subsidies to safely scale rural infrastructure assets.*

## SUMMARY & OUTLOOK

# "Infrastructure That Can Be Safely Held Across Generations"

### 1. Decadal SAA

Trustees must view infrastructure as a long-term strategic liability match, not as short-term opportunistic bets.

### 2. Governance First

Rigorous governance structures, contractual safety nets, and ESG discipline outperform high-yield projections.

### 3. Stage Discipline

Utilize DFI early risk buffers. Enter during stable, mature yield phases to lock in protected real cash flows.



5th Floor, Crescent Business Centre (CBC), Parklands, Nairobi.  
P.O Box 48179 -00100, GPO Nairobi, Kenya  
Call: +254 719 560 656, +254 740 257 777, +254 11 1052230  
Email: [insurance@finnettrust.com](mailto:insurance@finnettrust.com) | [info@finnettrust.com](mailto:info@finnettrust.com)

