

**PRESENTATION TO
ASSOCIATION OF RETIREMENT BENEFITS
SCHEME
(ARBS)
BREAKFAST MEETING**

“GUARANTEED VS SEGREGATED FUNDS”

Definitions

GUARANTEED FUND

A guaranteed fund refers to a retirement scheme whose underlying security is an insurance policy issued by a registered insurance Company which guarantees members of a minimum return per annum and capital

Value of the fund + credited interest is guaranteed against subsequent impairment by investment loss.

SEGREGATED FUND

A segregated fund is a retirement scheme whose assets are held as a separate entity in the form of a TRUST with full rights to all the benefits that accrue to the investment assets.

Value of fund & credited interest is not guaranteed. Fund value fluctuates with asset prices.



Comparison Between Segregated and Guaranteed Funds



1. FUND VALUE & CREDITED INTEREST

GUARANTEED FUND

Value of the fund + credited interest is guaranteed against subsequent impairment by investment loss.

SEGREGATED FUND

Value of fund & credited interest is not guaranteed. Fluctuates with asset prices.

2. INVESTMENT MANAGEMENT

GUARANTEED FUND

The Trustee's select the Guaranteed fund option.

The insurance company then *manages investments in accordance with investment policy of the pooled guaranteed fund* and in line with the provisions of the Insurance Act.

SEGREGATED FUND

In consultation with scheme manager, the Trustees agree on the investment strategy.

The investments are then *managed by a manager, in accordance with agreed strategy, under Contract to the Trustees* and in line with the provisions under Retirement Benefits Act & regulations.

3. INVESTMENT DECISIONS

GUARANTEED FUND

The *insurance company makes all investment decisions and declares credited rate annually*, comprising the minimum guaranteed rate plus bonus rate.

SEGREGATED FUND

The *trustees appoint a fund administrator, manager, custodian.*

Also contract other service providers and make all investment decisions *subject to advice of fund manager.*

4. INVESTMENT POLICY

GUARANTEED FUND

Investment policy *tends to be conservative.*

SEGREGATED FUND

Investment policy *more aggressive and demonstrate appetite for high risk.*

5. RATE OF RETURN

GUARANTEED FUND

A minimum rate of return is *normally guaranteed*. Bonus rate is also declared.

Investment returns reflect a bit of a *conservative approach*.

SEGREGATED FUND

No guarantee of returns.

Returns can be very high in good years but drop significantly in bad years e.g. 2008, 2009, 2011, 2015.

Segregated funds have outperformed guaranteed funds on a long term basis

6. GOVERNANCE & TRANSPARENCY

GUARANTEED FUND

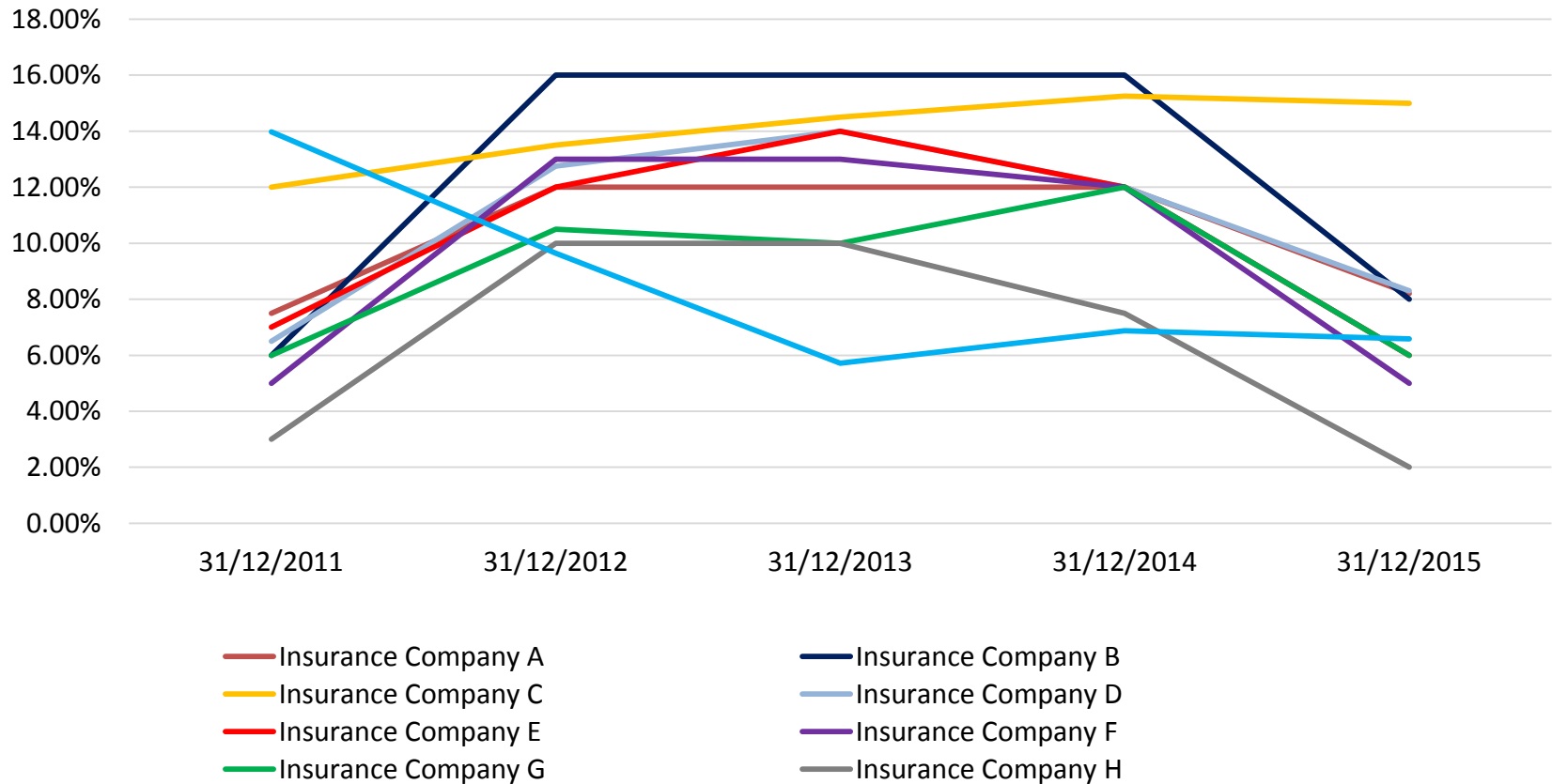
The insurance company is fully responsible for the governance and investments of the funds

SEGREGATED FUND

The sponsor company through appointed sponsor trustees and elected member trustees are responsible for the governance of the scheme. They appoint all the other service providers. This structure tends to be more transparent to members

PERFORMANCE: GUARANTEED FUNDS

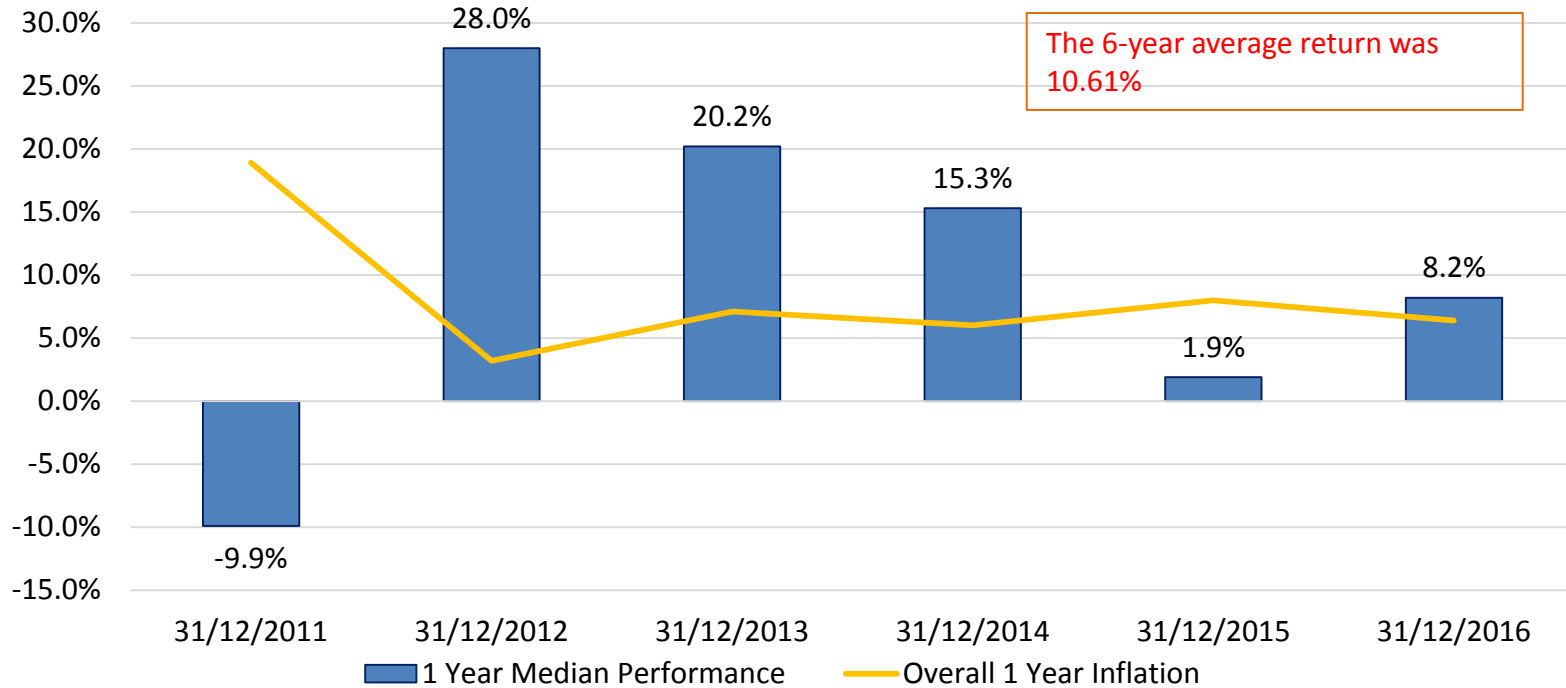
Performance trend for Guaranteed Funds



Source: ICEA LION Life Assurance & Kenya National Bureau of Statistics

PERFORMANCE: SEGREGATED FUNDS

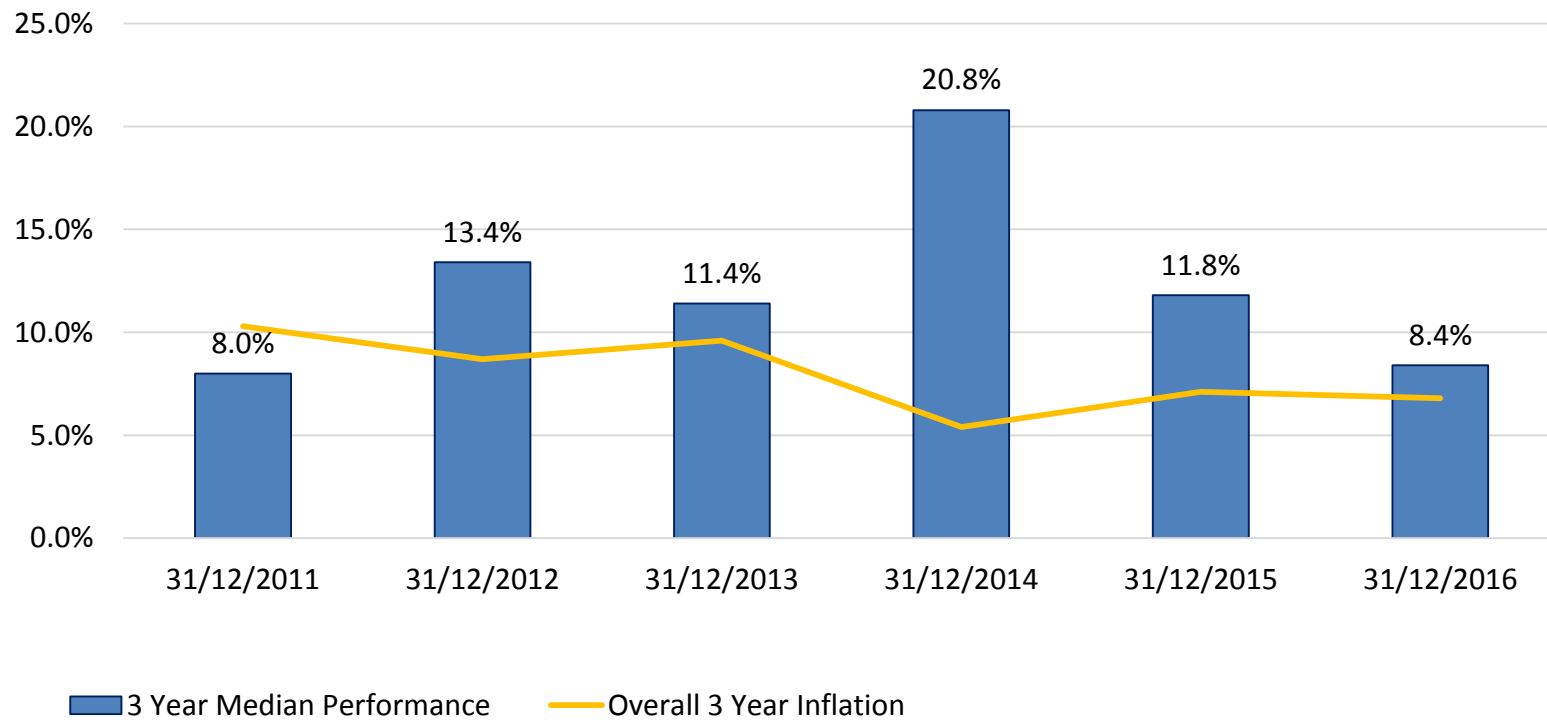
1 Year Median Performance for Segregated Funds



Source: Alexander Forbes Consulting Actuaries Schemes Survey

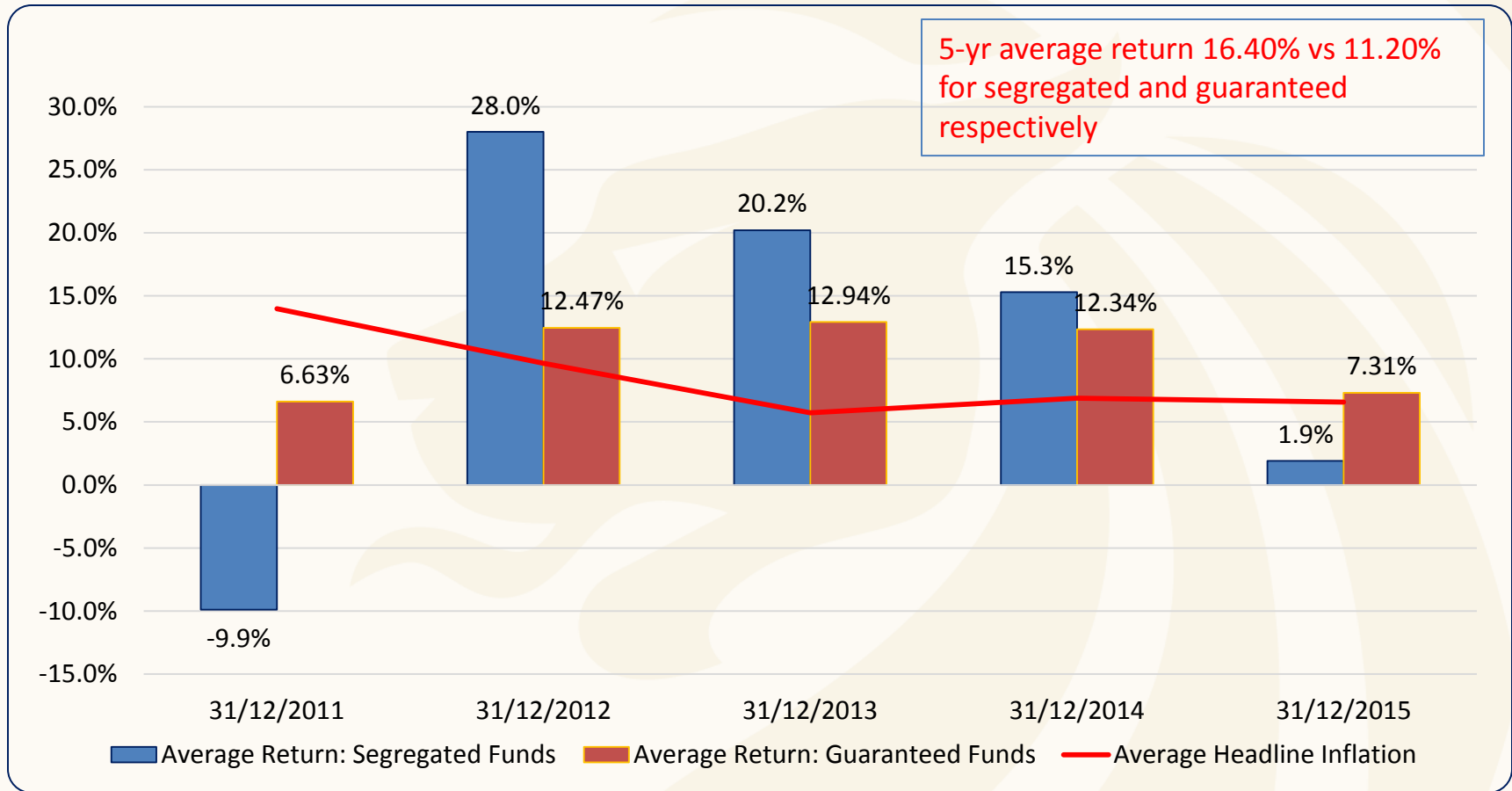
PERFORMANCE: SEGREGATED FUNDS ...cont.

3 Year Median Performance for Segregated Funds



Source: Alexander Forbes Consulting Actuaries Schemes Survey

COMPARATIVE PERFORMANCE



Sources: Alexander Forbes Consulting Actuaries Schemes Survey and Kenya National Bureau of Statistics



PERFORMANCE OUTLOOK

- ASSET ALLOCATION
- MARKET VOLATILITY
- ISSUER (INSURANCE COMPANY) STRENGTH
- BUSINESS STRATEGY