

**QUARTERLY STATISTICAL BULLETIN  
1<sup>ST</sup> JANUARY 2016 - 31<sup>ST</sup> MARCH, 2016**



**CAPITAL MARKETS DEVELOPMENT DIVISION**



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## 1. EXECUTIVE SUMMARY

The Financial Services Regulatory Authority (FSRA) will issue a Quarterly Bulletin to provide timely and reliable data on the financial sector, which relates to regulated entities within the Capital Markets Development Division (CMDD). The bulletin is aimed at providing a snapshot of the financial climate within the Capital Markets Industry in Swaziland for all stakeholders.

In Q1-2016, Assets under Management (AUM) and Assets under Advisement (AUA) grew by 1% to **E22 981 974 329.00** from Q4-2015. Assets under Advisement speaks to assets that Investment Advisors simply advise on but do not take custody of. This represents an 11% growth from Q1-2015.

In Q1-2016 the FSRA issued Circular No. 2/2016 which informed the Capital Markets Industry that Section 71 of the Securities Act 2010 was now in full effect. Previously, Collective Investment Scheme Managers were able to invest only 30% of the total assets in their portfolios in Swaziland. However, as of the 31<sup>st</sup> March, 2016 all Collective Investment Scheme Managers had to comply with the 50% local asset requirement for the funds under their portfolios. The CIS Managers made appointments with the Regulator to present their plans on how they would comply with the Circular mentioned above.



## 2. INVESTMENT MANAGEMENT

Assets under Management (AUM) by Collective Investment Scheme Managers (CISM) and Investment Advisors (IA) grew to E 22 981 974 329 in Q1-2016. This represents a 0.60% increase in AUM from Q4-2016. In the quarter, funds sourced from Pension and Retirement Funds continued to dominate the Capital Markets space. This emphasized the interconnectivity of the Non-Banking Financial Sector in Swaziland. Figure 1 below illustrates the source of funds for AUM within Capital Markets.

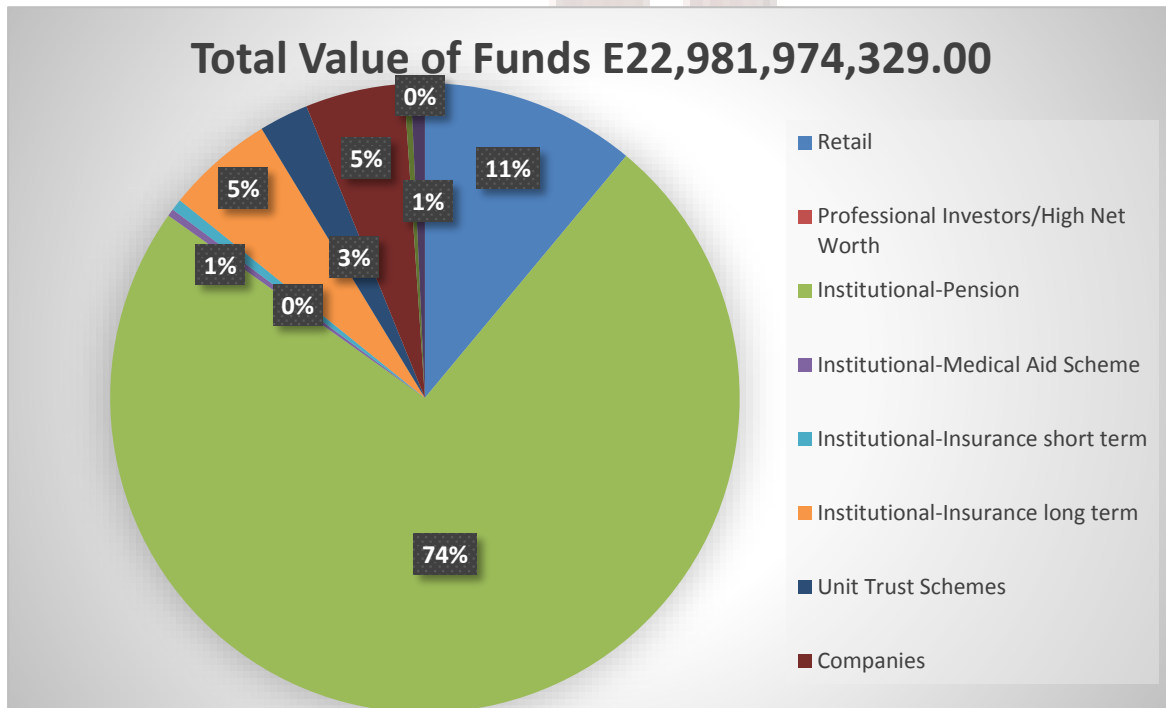


Figure 1

### 2.1. Assets under management per geographic allocation

Figure 2 below illustrates the geographic allocation of assets by fund managers. As seen below, the industry as a whole was compliant with the then 30% local asset requirement for Collective Investment Scheme Managers (CISM). However, in light of Circular No: 2/2016 which stipulated that all CISM's would have to comply with the 50% local asset requirement, we anticipate that the graph below will be significantly different in Q2-2016 than Q1-2016. In Q2-2016, we anticipate that the Domestic Gross Assets will climb closer to 50% as stipulated by the Securities Act.



Table 1.1 below illustrates the absolute values of assets held by geographic allocation:

<b>Domestic Assets</b>	<b>Gross</b>	<b>CMA Assets</b>	<b>Gross</b>	<b>Offshore Gross Assets</b>	<b>TOTAL</b>
<b>3 808 163 837</b>		<b>11 746 113 688</b>		<b>7 427 696 804</b>	<b>22 981 974 329</b>

Table 1.1

The reason behind CMA Gross Assets having such a great proportion of AUM is that local fund managers tend to access the more developed, larger and more liquid financial markets in South Africa. This leads to a trend of the Collective Investment Schemes in Swaziland generally becoming funds of funds. That is to say, the local fund tends to invest their funds in other CMA funds, often in South Africa; or the funds are managed by a South Africa-based fund manager on behalf of the local funds.

Lack of liquidity and depth continues to be a challenge in the local financial markets. To this end, the FSRA has planned a Capital Markets Indaba slated to take place in Q3-2016 in order for the industry and all its stakeholders to discuss how to 'Develop a Strong and Stable Capital Markets for Swaziland.' This event will bring together Government officials, the FSRA, capital markets regulated entities, and major stakeholders in the industry.

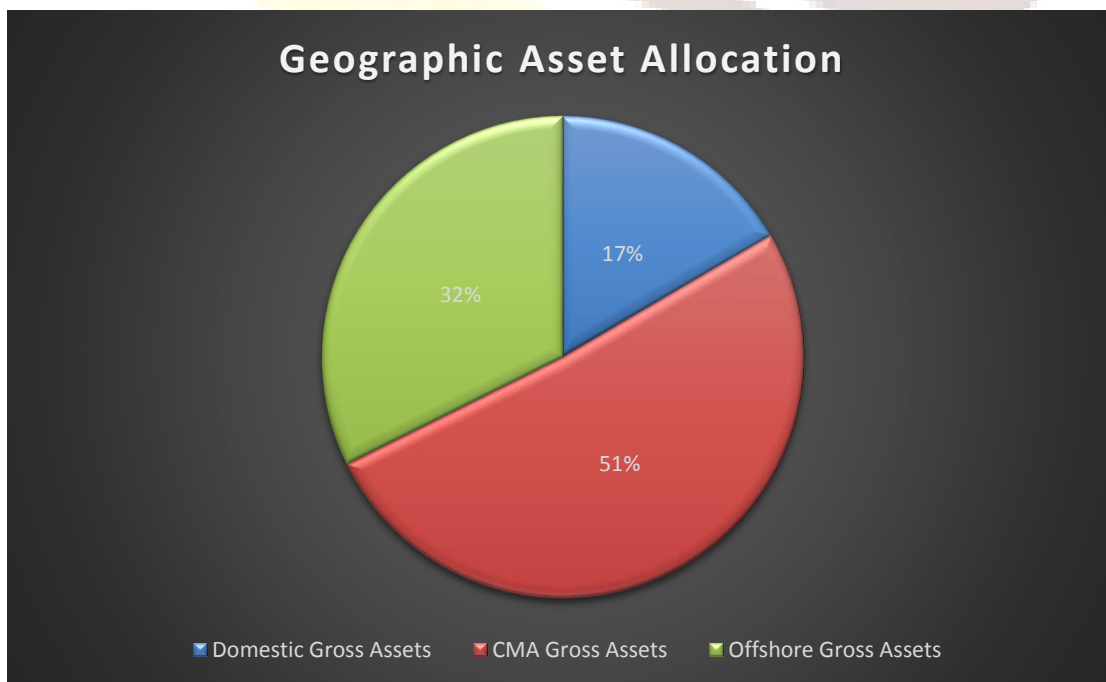


FIGURE 2

## 2.2. Asset allocation

At the close of Q1-2016, the fund managers held E3 533 020 522.00 in money market instruments; this represents 15.37% of all AUM. This may be driven by the dearth of other liquid and investable instruments in Swaziland. Figure 3 illustrates the asset allocation for all assets under management.



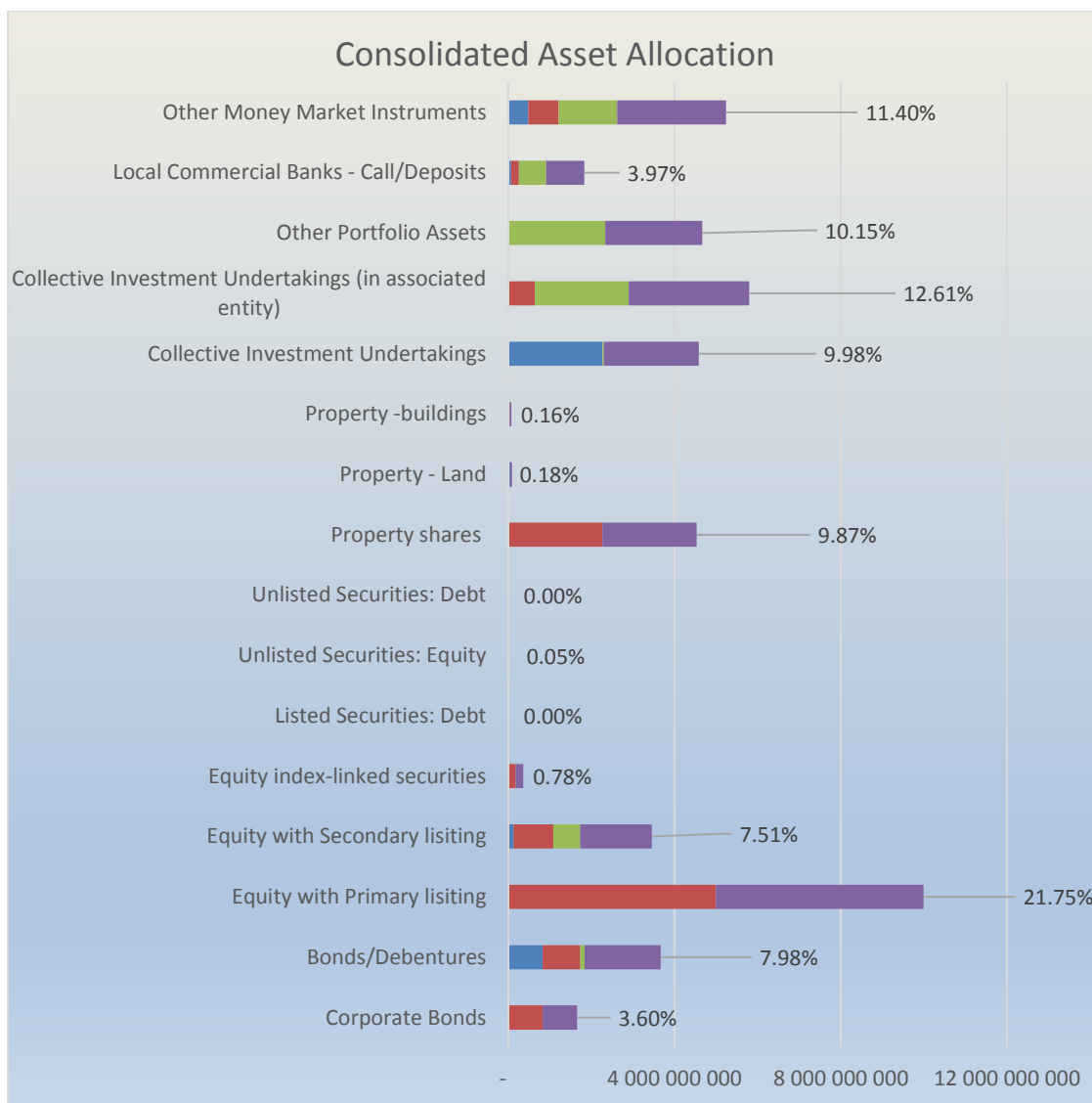


FIGURE 3

### 2.3. Sources of Funds

AS illustrated by Figure 1, Pension Fund Assets continued to be the largest institutional investor with assets totaling E16 958 027 172.00 or 74% of total assets under management. Walk-in retail was the next most dominant source of funds with assets totaling E2 538 656.593.00 or 11% of AUM. Worth noting is that companies have assets of E1 166 075 116.00 in AUM within capital markets. This may represent some excess working capital or retained income that is being saved by private companies in Swaziland.

### 3. FINANCIAL MARKETS

The equities market in Swaziland has continued to be limited as investors have implemented a buy and hold strategy as they seek local investable instruments. This has contributed to a general illiquidity in the Swaziland Stock Exchange (SSX),



characterized by limited trading activity. Despite this, the SSX All Share Price Index (CPI) has continued to grow in the quarter under review, beating the consumer price index. The SSX All Share Price Index tracks the average growth in share price for all listed equities on the SSX Main Board. In the quarter under review, this index grew from E299.67 to E335.09 per share, which represents a 10.5% growth; CPI closed the quarter at 7.3%.

Figure 4 below illustrates a comparison of the All Share Index in Q1-2015 and Q1-2016. As evidenced below, despite the liquidity challenges, the SSX All Share Index continues to experience significant growth.

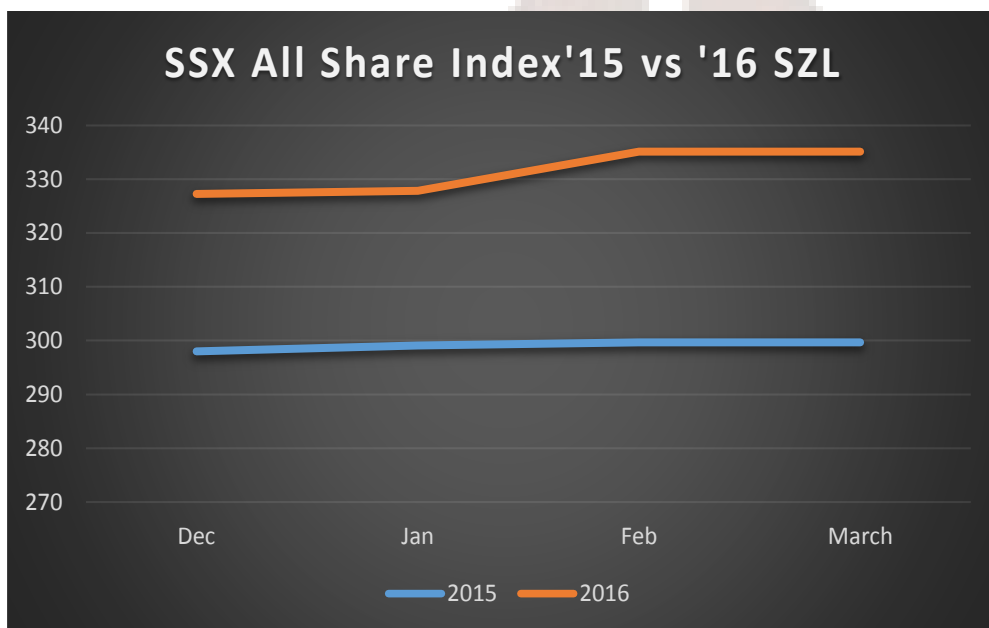


FIGURE 4

Share prices can fluctuate up and down over a given time; this is the risk that investors in equities take into account when investing. However, it is generally understood that in the long term, the market will increase its capitalization and outperform other instruments such as government bonds, property and other instruments. Investments in equities have the ability to provide returns in two forms: annual dividends, and capital gains. Dividends are the payments made to shareholders from the profits generated by a company; these dividends must be declared by the company board in order for them to be binding on the company. Capital gains on the other hand are realized when there is an appreciation of the share price.

However, worth noting is that four (4) of the seven (7) listed equities had zero gains in their share price. That is to say that their price did not change over the quarter under review. The main contributing factor for this stagnation is that these shares were not traded at all during Q1-2016. This is a further symptom of the buy and hold strategy implemented by investors in the equities market. As at 31<sup>st</sup> March, 2016 there were seven (7) companies listed on the SSX Main Board; currently there are no



listings on the SSX Alternate Board. There were no new listings in the quarter under review. The SSX market capitalization grew to E2 830 725 322.00 at the end of Q1-2016.

The growth was driven by upward movements in the market capitalization in Nedbank Swaziland, Greystone Partners limited, and SBC Limited.

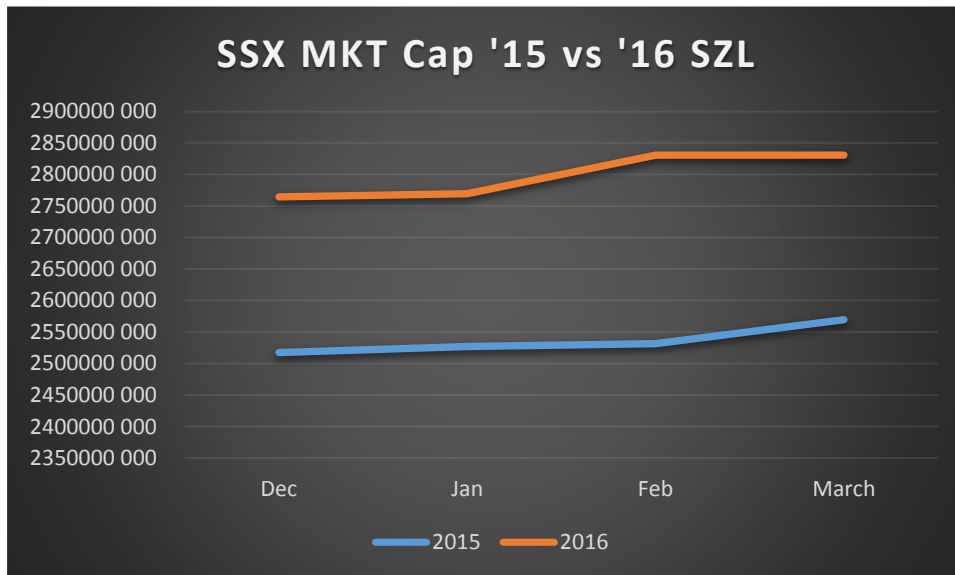


FIGURE 5

Figure 5 above illustrates the difference in market capitalization between Q1-2015 and Q2-2016.

The Royal Swaziland Sugar Corporation (RSSC) continues to dominate the market capitalization of the Main Board, accounting for 46% of the market capitalization at the close of the quarter under review. RSSC is in the business of producing and processing sugar and ethanol products in the Lowveld of Swaziland. Figure 6 below illustrates the breakdown of the market capitalization of the SSX Main Board as at 31<sup>st</sup> March, 2016.





## Market Capitalization by Company as at 31 March 2016

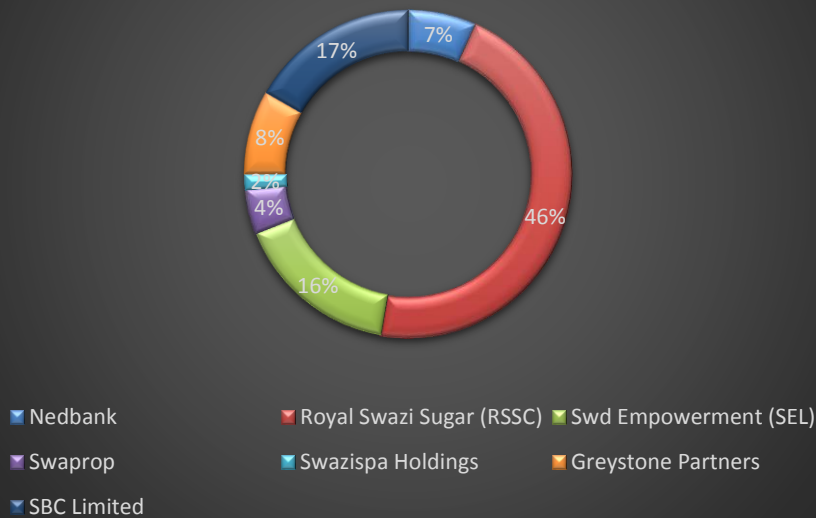


FIGURE 6

### 3.1. Debt Instruments

The SSX allows for the listing of corporate bonds. This function allows for companies to raise capital through listed bonds that the public can buy. Corporate bonds are an alternative means of raising financing to bank loans and equities. A number of local companies have used this method to source the funding that they need for capital projects, expansion, and other financial needs that they may have.

In Q1-2016, the total value of corporate bonds outstanding was E673 009 651.00; this is evidence that the listing of bonds is a viable way to raise capital for companies. A E20 million bond matured in the quarter, with a further five (5) expected to mature in Q2-2016. A three-year E40 million corporate bond was issued in the quarter under review.



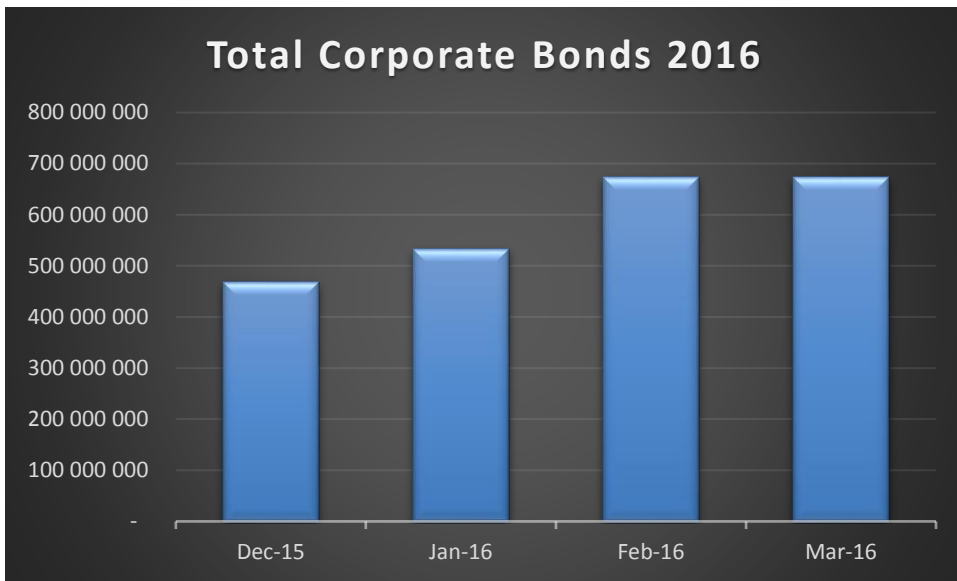


FIGURE 7

Figure 7 above illustrates the total value of outstanding corporate bonds in Q1-2016.

The Central Bank of Swaziland will from time to time issue Government Bonds on behalf of the Government of Swaziland in order to finance government activities. As yet, these instruments are not listed on the SSX, however, the SSX does keep track of them as well. These government bonds tend to have 3, 5, 7 and 10 year maturities.

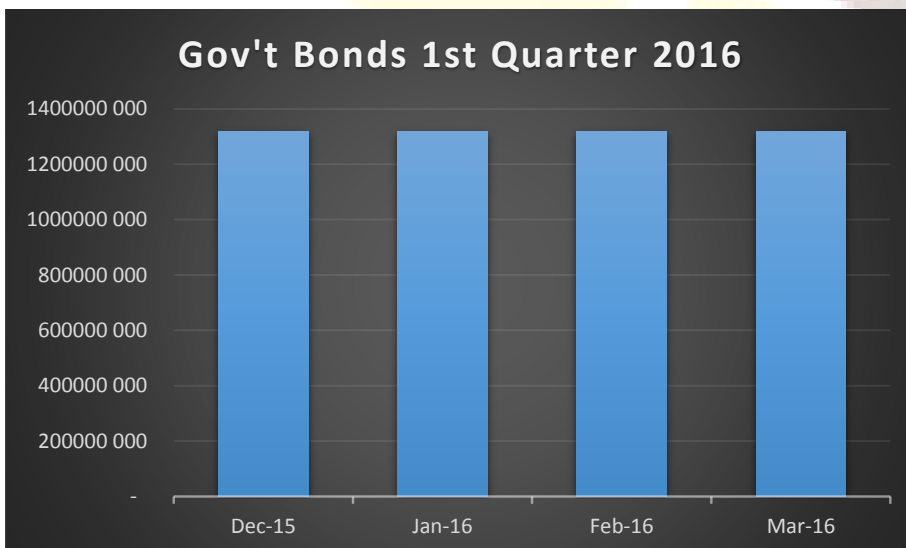


FIGURE 8

Figure 8 above illustrates the total value of outstanding government bonds in the quarter under review. Government and corporate paper chases and competes to attract the same funds in the economy. AS alluded to earlier, the enforcement of the 50% local asset requirement for Collective Investment Scheme Managers will mean that over E11 Billion will need to be invested locally from Q2-2016 onwards. This is an opportunity for companies to make and refine expansion plans in order to



attract some of those funds as fund managers seek the best returns for their clients, all the while spreading risk.

#### **4. Challenges**

The capital markets industry continues to grow in terms of assets under management, market participants, and market capitalization. However, there are prevailing challenges that the industry, regulator, and Government will have to work together to overcome. For instance, the relatively low liquidity of the SSX, Primary Dealers not bringing government paper to the secondary market, the lack of different types of market intermediaries such as Investment Banks, and other intermediary functions. This has raised the issue of CISM's and Unit Trust Managers having to create new instruments in which to invest funds under their management in order to spread risk. This may actually increase risk to the market through conflicts of interests as fund managers invest assets under their management in their own products.

However, the industry has made significant strides in improving both regulation and, in turn, the capital markets industry in Swaziland. The FSRA will be bringing the capital markets regulated entities onto the newly acquired electronic supervision system which will allow these entities to interact and return to the FSRA electronically. The system should improve risk based supervision and reporting for the industry.



## 5. Capital Markets Regulated Entities as at 31<sup>st</sup> March 2016

License Type	Entity Name	License Number
Collective Investment Scheme Manager	African Alliance Swaziland Management Company	CISM/0009/13
	Sanlam Swaziland	CISM/0015/13
	Stanlib Swaziland	CISM/0010/13
	JM Busha	CISM/0012/13
	Old Mutual Unit Trust Swaziland	CISM/0013/13

License Type	Entity Name	License Number
Investment Advisor	Inhlonhla	IA/0018/13
	Imbewu Yesive	IA/0005/13
	Allan Gray Swaziland	IA/0007/13
	Ecsponent Swaziland	IA/0020/14
	African Alliance Swaziland Management Company	IA/0003/13
	African Alliance Swaziland Limited	IA/0002/13
	Sanlam Swaziland	IA/0014/13
	Stanlib Swaziland	IA/0001/13
	Old Mutual Investment Group Swaziland	IA/0008/13
	Momentum Asset Management Swaziland	IA/0013/13
	BLZI	IA/0004/13

License Type	Entity Name	License Number
Stock Broker	African Alliance Securities	STB/0016/13
	Swaziland Stock Brokers Limited	STB/0017/13

License Type	Entity Name	License Number
Trustee	Nedbank Swaziland	TR/0002/13
	Standard Bank	TR/0004/15

Table 1.2

Table 1.2 above lists the entities regulated within the Capital Markets Development Division as at 31<sup>st</sup> March 2016. The list only shows licenses that were active at the close of the period.

It is anticipated that in either Q2 or Q3, Exempt Dealers and the Central Securities Depository will all be fully licensed by the FSRA.



## 6. Q1-2016 EVENTS

In Q1-2016 the Capital Markets Development Division of the FSRA hosted a Stakeholder Meeting with the aim of bringing the industry together in order to discuss pertinent issues. Among the topics discussed were levies, base capital, 50% local asset requirement, E10,000.00 annual registration fee, exempt dealers, capital markets regulations, automation of the SSX, automation of the FSRA, capital markets indaba, industry association, and the end of the grand-fathering period; and the treatment of non-compliance going forward.

Some of the outcomes of the meeting were as follows:

- a. Q2-Q4 will see the finalization of the levy formula, taking into account contributions from the industry. The new formula will be implemented from Q1-2017.
- b. From 1<sup>st</sup> April 2016, all Collective Investment Schemes must comply with the 50% local asset requirement or apply for and present plans to meet this requirement in the earliest possible time.
- c. Exempt dealers will be licensed by the FSRA in the coming months.
- d. The FSRA will be implementing an electronic supervision system in Capital Markets Development Division and Insurance and Retirement Funds Division. This will automate the industry's reporting to the FSRA.
- e. The SSX will be automated in the coming quarters, allowing for electronic trading, record keeping, and reporting.
- f. The industry players were encouraged to form an Industry Association in order to establish a forum where they could discuss issues offering the industry as a collective.



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*If it sounds too good to be true... it probably is.*

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The Financial Services Regulatory Authority is the Regulator of the Swazi non-banking financial services industry.

