

ALEXANDER FORBES PRESS RELEASE

MERCER'S ASSET ALLOCATION INSIGHTS 2021 PENSION ALLOCATION TRENDS IN AFRICA

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Johannesburg. Mercer's **Asset Allocation Insights 2021** report released today showed that most investors stayed the course with their asset allocation, even amid heightened volatility and uncertainty over the last year. **For international investors, foreign equities now represent 51% of aggregate equity allocations**, the first survey in which exposure outside of investors' home markets tipped over the midpoint.

The report also shows growing interest in **sustainable investing** across the regions, in some cases accelerated by the COVID-19 pandemic, as stakeholders sought to address both economic recovery and sustainability objectives.

Janina Slawski, Head of Investments Consulting at Alexander Forbes, Mercer's strategic partner in Africa, commented, "South African investors continue to make full use of their permitted 30% allocations to offshore assets, however within this allocation, there was a shift to foreign equities (+3.5%) at the expense of global cash as yields on international cash assets became increasingly unattractive." She adds, "Some South African asset managers took selective positions in corporate bonds during the year to benefit from widening credit spreads following the first quarter 2020 sell-off. Over the past year, The Government Employees' Pension Fund exposure to fixed income increased slightly (38% of the fixed income portfolio, up from 34%), whereas overall allocations to equity, fixed income and alternatives declined year-over-year."

Fiona Dunsire, Regional Wealth Leader at Mercer, noted that many international investors successfully pivoted towards new ways of providing governance and oversight of their investments. "Agile decision-making and oversight of investments became even more challenging in 2020," she stated, "although many international investors showed they were up to the task, many may have missed some of the opportunities which markets presented."

Mercer's report highlights how pension fund investors are evolving across the global investment landscape, while serving their beneficiaries and stakeholders locally. It summarizes the decisions investors in Latin America, the Middle East, Africa and Asia — representing more than US\$5.3 trillion in assets under management — are taking with their investment strategies.

Key Highlights

- **Overall international asset allocation was relatively unchanged over the past year.** On the margin, however, Mercer saw investors in some markets, such as Indonesia and Argentina, increase their exposure to lower-risk asset classes in 2020, evidenced by a mix of more conservative positioning as well as the need for liquidity to meet COVID-19-related outflows.

- However, increases into **equities** and decreases from **fixed income** for international investors are evident since the start of the survey, with fixed income decreasing from 56.7% in the inaugural period (7 years prior) to 50.9%.
- In aggregate for international investors, **equity portfolios** have been increasing their exposures to foreign equities and have now tipped over the midpoint, with slightly more foreign securities than domestic (51% versus 49%) — although home biases remain. With a domestically-focused portfolio, investors expose their portfolios to unnecessary risks and forgo beneficial sources of return. And even those that face home-country restrictions can gain valuable experience and better position themselves for future liberalization if they are able to access some level of global diversification.
- Shifts toward **alternatives** (4.2% of aggregate allocations in the survey) have paused over the past year overall, although there were increases in some areas. Peru has the largest allocation to alternatives in the survey, largely through private equity, including secondaries and real estate. South Korea, Colombia, and Taiwan also have relatively large exposures to alternatives, at or slightly above 10% of total assets. Mercer expects more interest in alternatives as investors seek to enhance diversification and risk-adjusted returns.
- Investors are shifting focus to address broad market trends, such as **sustainability/Environmental, Social, and Governance (ESG), plan governance and fees**, which have become even more important amid the challenges presented by COVID-19. Sustainability and responsible investing in particular have resonated broadly. Investors and governments across the entire footprint of this survey are increasingly making this a priority, although individual markets are at different places along the journey.

The analysis in this report incorporates inputs from 16 markets, including anecdotal insights and commentary for markets where external data is unavailable, including the Gulf Cooperation Council (GCC) region, Mainland China, the Philippines and Singapore.

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