

Launch of the Capital Markets Master Plan

*Strategies on developing a credible
market - learning lessons from peers in
the region*

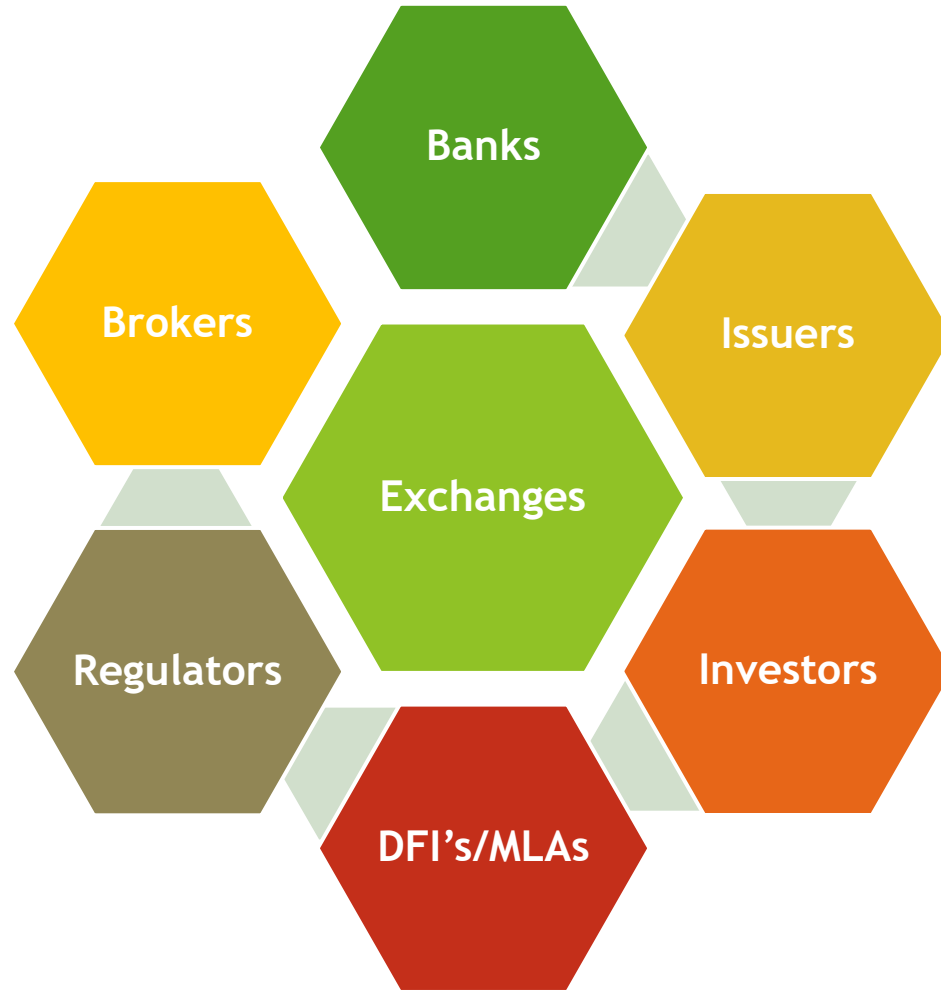
Tamsin Freemantle



The function of a securities exchange

- ▶ A platform for the efficient allocation of capital
- ▶ In the primary market, a place where long-term savings can be directed towards issuers that need capital
 - ▶ Governments
 - ▶ DFIs/MLAs
 - ▶ Corporates
 - ▶ Funds
- ▶ In the secondary market it provides mechanisms for pricing that are reflective of the value of the securities, as well as performance of the issuers

Capital markets ecosystem



Other advisors - corporate finance houses, auditors, lawyers

What do all members of the ecosystem want?

- ▶ Well-functioning markets that are trusted & operate efficiently & transparently (CMMP), enabling participants to mitigate risk
- ▶ What do we need to consider in order to put us on the road to the market that we want in Zambia?



What are some features of a credible market?

- ▶ Reliable trading, clearing & settling
- ▶ Certainty around laws, regulations and enforcement
 - ▶ Company
 - ▶ Tax
 - ▶ Initial & ongoing regulations
 - ▶ Corporate governance
- ▶ Ability to raise capital
- ▶ Institutional investors with a growing long-term capital base
- ▶ Liquidity
- ▶ Reliable and timeous data
- ▶ Share prices that reflect the activities of the underlying asset
- ▶ Strong institutions



TRANSPARENCY

CONFIDENCE

ACCESS

CERTAINTY

CLARITY

RELIABILITY

TRUST

Selected peers

FMDQ Group Nigeria

NSX Namibia

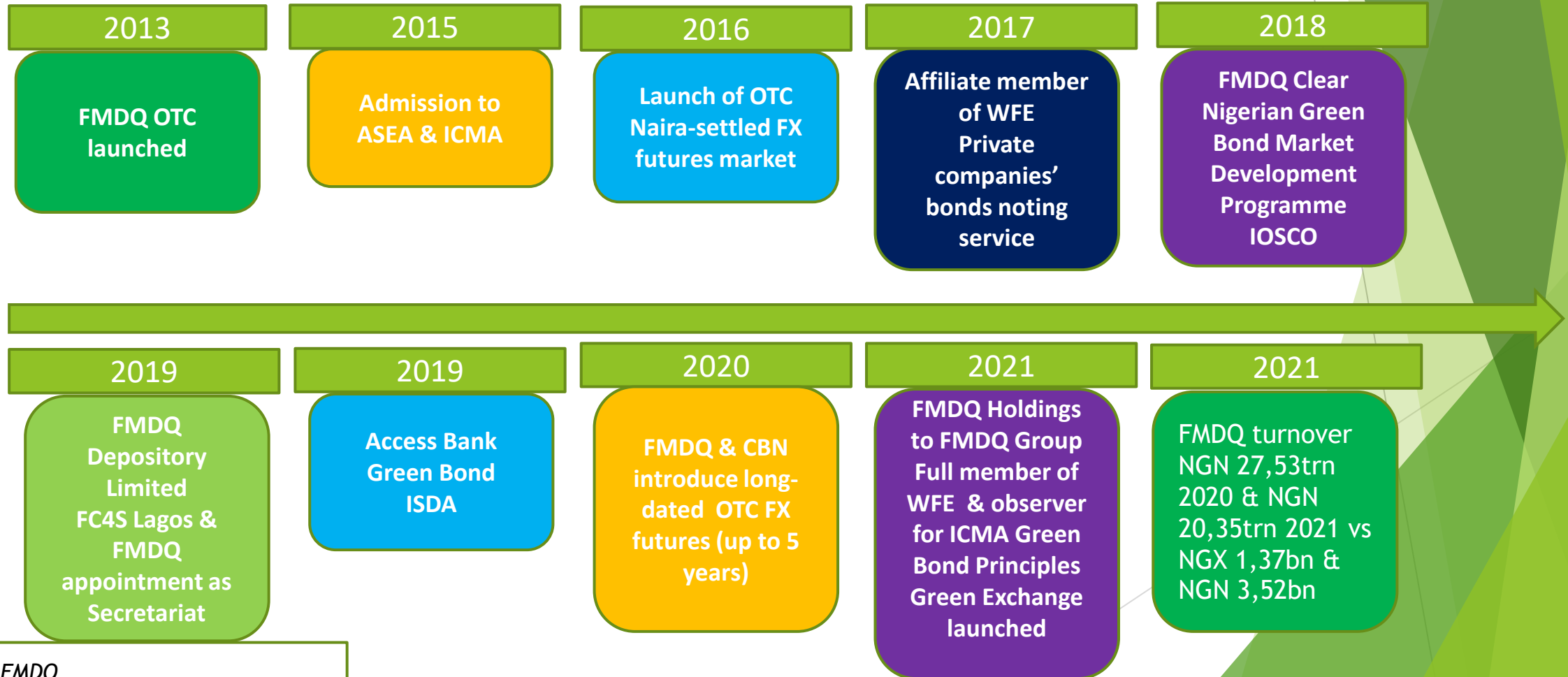
EABX East Africa



FMDQ



FMDQ milestones



What FMDQ leverage

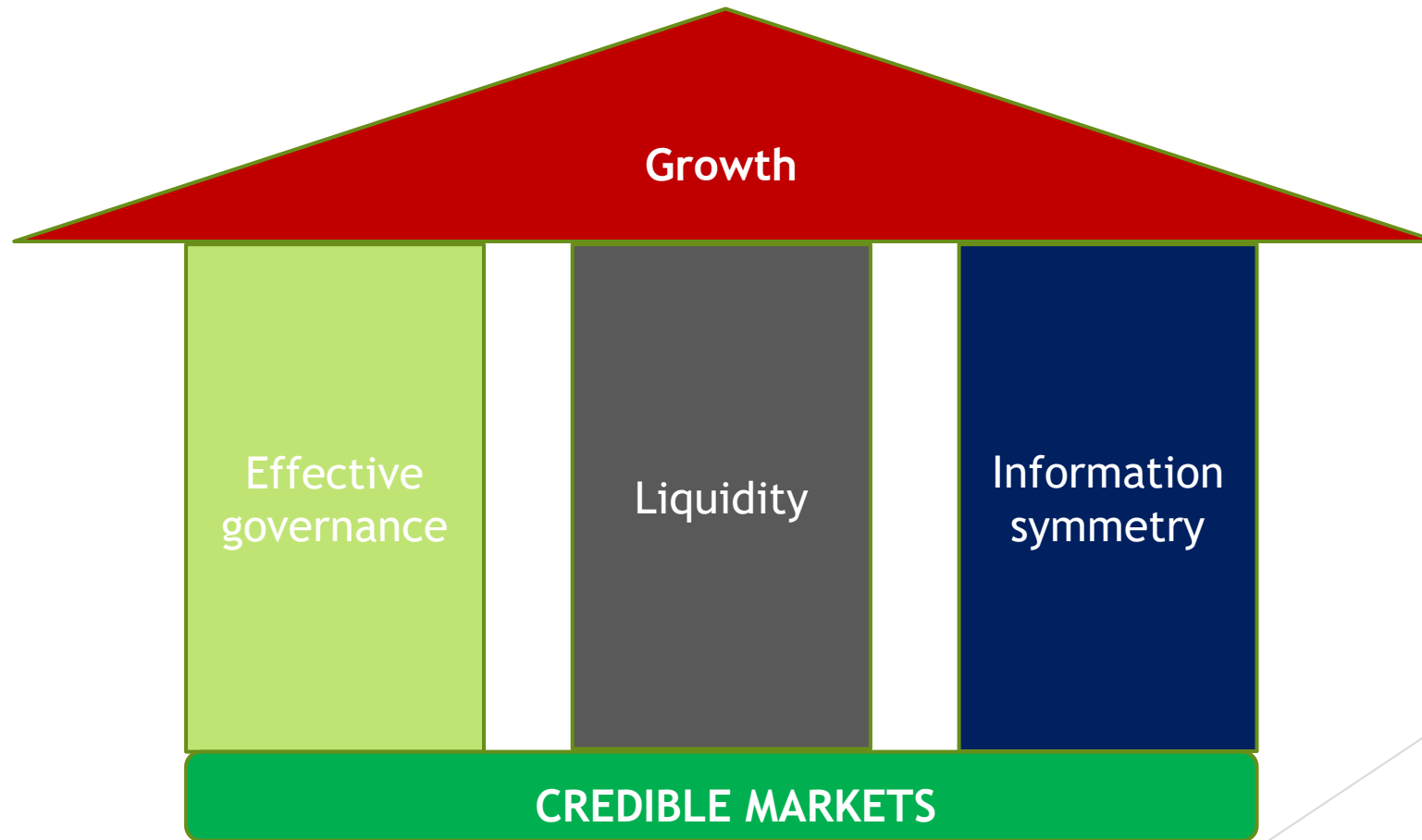
Team work and
collaboration -
internally &
externally

Innovation for
global
competitiveness

Integrity

Adding value

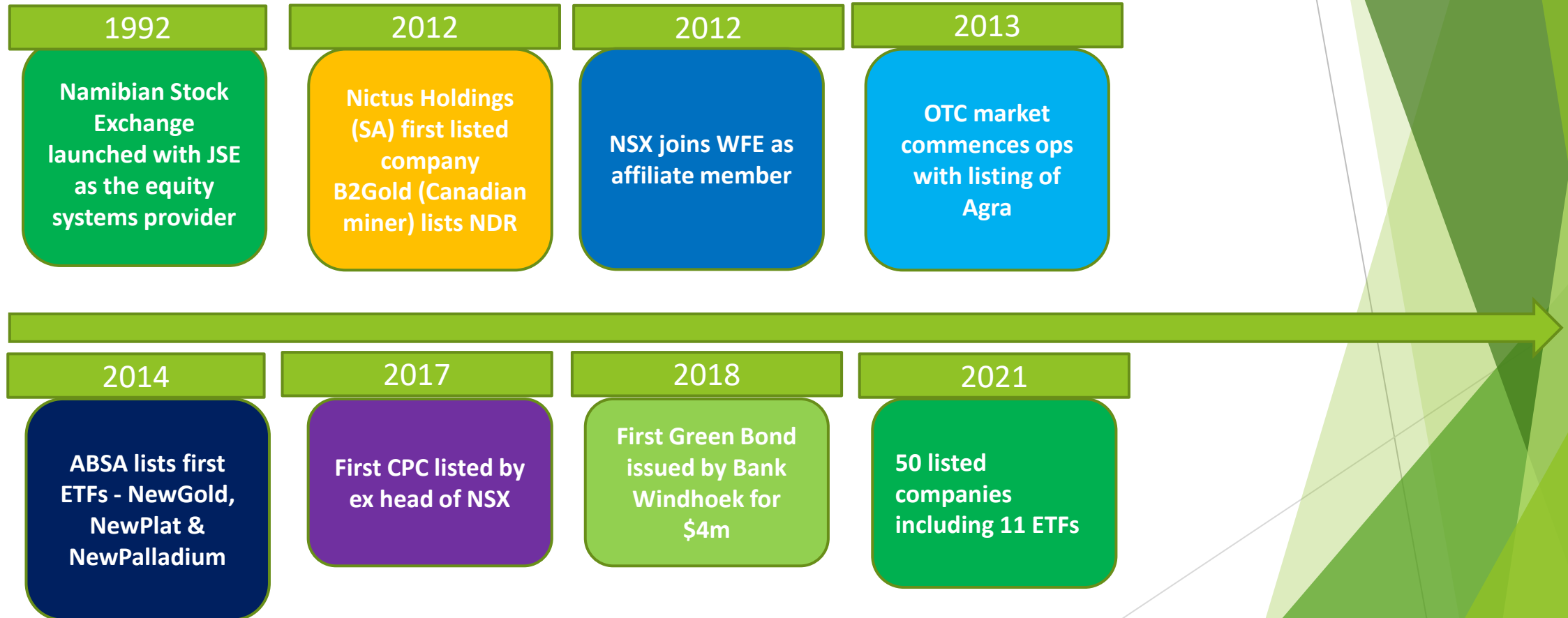
Key points





Namibian
Stock
eXchange

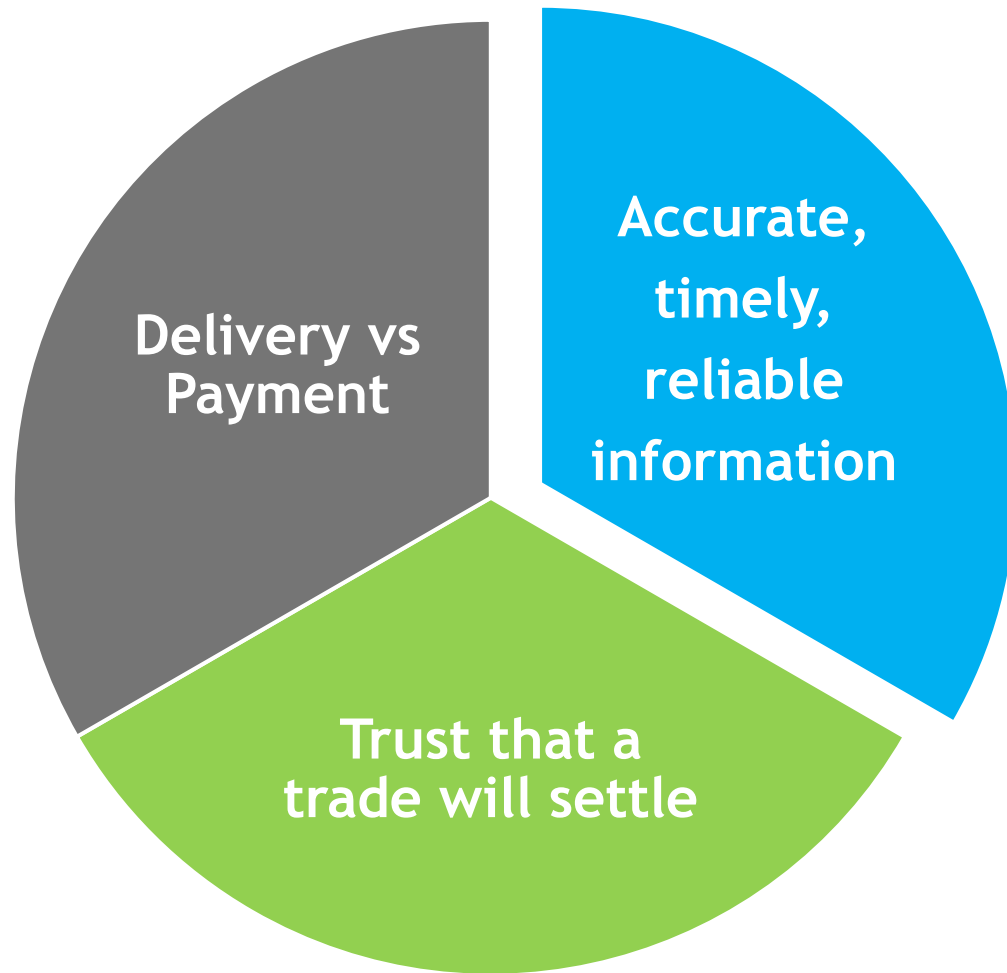
NSX milestones



What does the NSX leverage

- ▶ Collaboration with stakeholders including the Regulator
 - ▶ domestic element to dual-listed products increases asset pool for local institutional investors
 - ▶ Outsourcing equities trading platform
- ▶ Cross-listing of products from a bigger market
 - ▶ ETFs from JSE and elsewhere
 - ▶ Dual-listing of foreign mining companies with operations in Namibia
- ▶ Listing of innovative structures ie capital pool companies

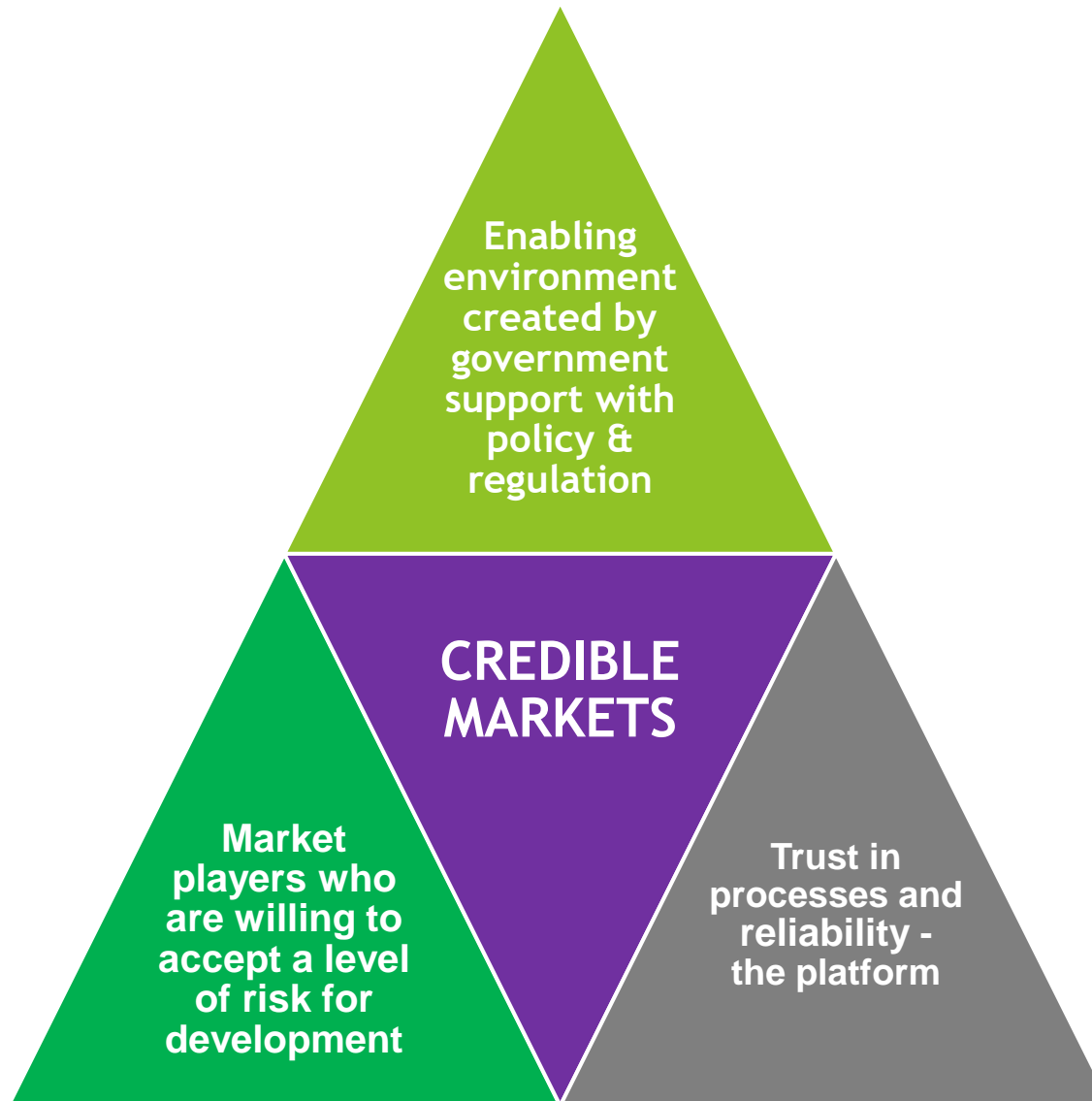
Key points





East Africa Securities Exchange

Key points



Important

- ▶ Enabling policy environment
- ▶ Reliable systems and processes
- ▶ Long-term capital
- ▶ Investors
- ▶ Issuers
- ▶ Liquidity
 - ▶ What measures?
- ▶ Corporate governance
 - ▶ Compliance with the Companies Act as well as with ongoing listing requirements
- ▶ Choice of securities
- ▶ Education

Long term capital creation

- ▶ Pension fund reforms
 - ▶ Making contributions mandatory
 - ▶ Providing portfolio choices for contributors in terms of risk:return
 - ▶ Nigeria has introduced a Multi-fund structure
- ▶ Insurance industry developments
- ▶ These are legislative changes and have been instituted but AUM of pension funds to GDP in Zambia are still low
- ▶ As has been identified by PwC, the investing behaviour of asset managers mitigates against growing liquidity in the local market and this is based on several factors, including the availability of investible assets

Pension fund statistics for select countries

Pension Fund Assets as a Percentage of GDP				
Country	Year	AUM (USDm)	GDP (USDm)	AUM % of GDP
South Africa	2020	227 000	335 440	68%
Kenya	2020	12 834	100 666	13%
Mauritius	2020	3 202	10 926	29%
Namibia	2020	12 245	10 562	116%
Botswana	2020	9 748	14 930	65%
Zambia	2020	448	18 110	2%

Source: Riscura Bright Africa
Pension Funds 2020

Investors

- ▶ Grow and diversify investor base
 - ▶ Domestic
 - ▶ International
- ▶ Sound and certain regulatory and policy environments
 - ▶ Investors will price in risk but don't like uncertainty
- ▶ Investors like accessibility to key information
 - ▶ Tax regimes
 - ▶ Exchange level information
 - ▶ Market cap
 - ▶ Values and volumes traded
 - ▶ Platforms such as the World Federation of Exchanges allow investors a broad view of your market

Exchange	Annual Report	Website	WFE
Argentina	☑	☑	☑
Botswana	☑	☑	☑
Brazil	☑	☑	☑
Chile	☑	☑	☑
Indonesia	☑	☑	☑
Kenya	☑	☑	☑
Malaysia	☑	☑	☑
Mauritius	☑	☑	☑
Namibia	☑	☑	☑
FMDQ (Nig)	☑	☑	☑
JSE (SA)	☑	☑	☑

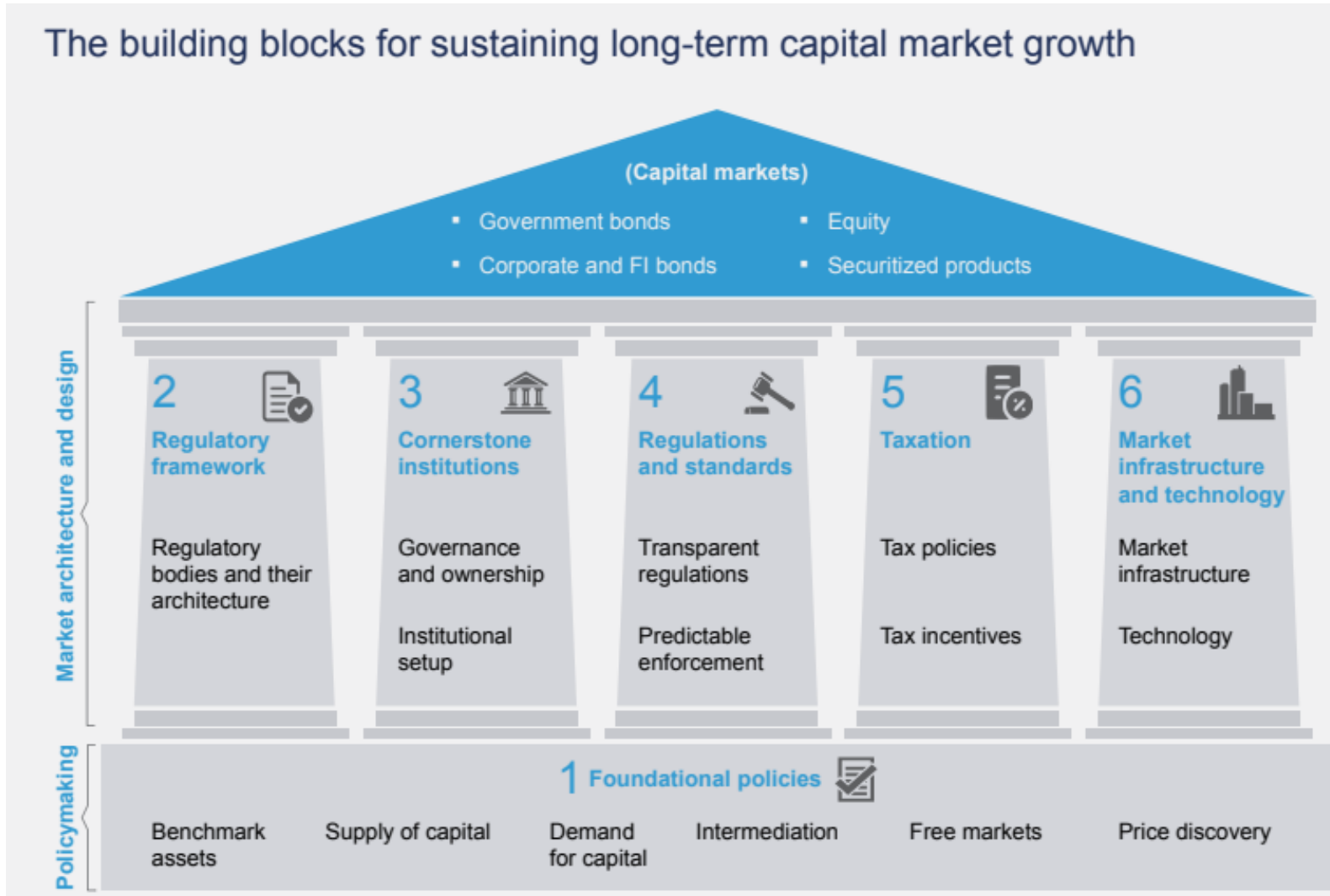
Issuers & corporate governance

- ▶ Issuers are in the market to raise capital and would like to do this as efficiently as possible in terms of
 - ▶ Cost
 - ▶ Time
- ▶ Listing and regulatory compliance is costly, both initially and on an ongoing basis so the cost-benefit analysis needs to favour listing
- ▶ Listing and ongoing requirements must be clear, enforced and enforceable as this reassures investors that this enforcement provides a level playing field for all investors - some exchanges issue guidance notes (JSE) on issues that are often raised by sponsors, and publish these on the exchange website
 - ▶ Regulators ensuring the enforcement of rules allows investors to make a call on whether or not a particular company is a good investment for them
 - ▶ Remember FMDQ's point about information symmetry

Liquidity snapshot - value traded % market cap

Liquidity	2 020	2 021	2 022
B3 - Brasil Bolsa Balcão	141%	177%	167%
Bolsa de Valores de Lima	5%	5%	4%
Botswana Stock Exchange	2%	5%	3%
Bursa Malaysia	58%	51%	31%
Indonesia Stock Exchange	32%	40%	
Johannesburg Stock Exchange	37%	32%	29%
Nairobi Securities Exchange	6%	5%	5%
Namibian Stock Exchange	35%	27%	37%
Stock Exchange of Mauritius	6%	4%	2%

Structural illiquidity of African markets



Source: WFE paper by Oliver Wyman

Increase investible securities per CCMP

- ▶ ETFs
- ▶ REITs
- ▶ Derivatives
- ▶ Sustainable issuances
 - ▶ Green bonds
 - ▶ Social bonds
 - ▶ Sustainability linked bonds
 - ▶ Transition bonds

Collaboration

- ▶ We don't have to invent everything ourselves
- ▶ Key partners for research and issuance include organisations such as FSD Africa, the African Development Bank and IFC
- ▶ World Federation of Exchanges (WFE) as this provides a platform to disseminate exchange level information (not individual stocks or bonds) and produces useful research for the market
- ▶ UN Sustainable Stock Exchanges Initiative is a great platform for peer to peer learning and benchmarking
- ▶ Exchanges in a more mature stage of development can provide technical assistance
 - ▶ LSE has partnered with the NGX, Morocco and Nairobi Securities Exchange
 - ▶ Luxembourg has partnered with FMDQ on dual listings to increase visibility of Nigerian listings

Frontier market status

MSCI

MSCI's market classification framework

Criteria	Frontier	Emerging	Developed
A Economic Development			
A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and Liquidity Requirements			
B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap)** Security size (float market cap)** Security liquidity	2 USD 1,171 mm USD 88 mm 2.5% ATVR	3 USD 2,343 mm USD 1,171 mm 15% ATVR	5 USD 4,685 mm USD 2,343 mm 20% ATVR
C Market Accessibility Criteria			
C.1 Openness to foreign ownership	At least some	Significant	Very high
C.2 Ease of capital inflows / outflows	At least partial	Significant	Very high
C.3 Efficiency of operational framework	Modest	Good and tested	Very high
C.4 Availability of Investment Instrument	High	High	Unrestricted
C.5 Stability of the institutional framework	Modest	Modest	Very high

* High income threshold: 2019 GNI per capita of USD 12,536 (World Bank, Atlas method)

** Minimum in use for the May 2021 Semi-Annual Index Review, updated on a semi-annual basis

MSCI market access criteria



MSCI size & liquidity requirements

Two companies listed on LuSE must meet the following requirements:

Full
market cap
USD1,171m

Free float
market cap
USD88m

Liquidity
2.5%

What companies meet this criteria?

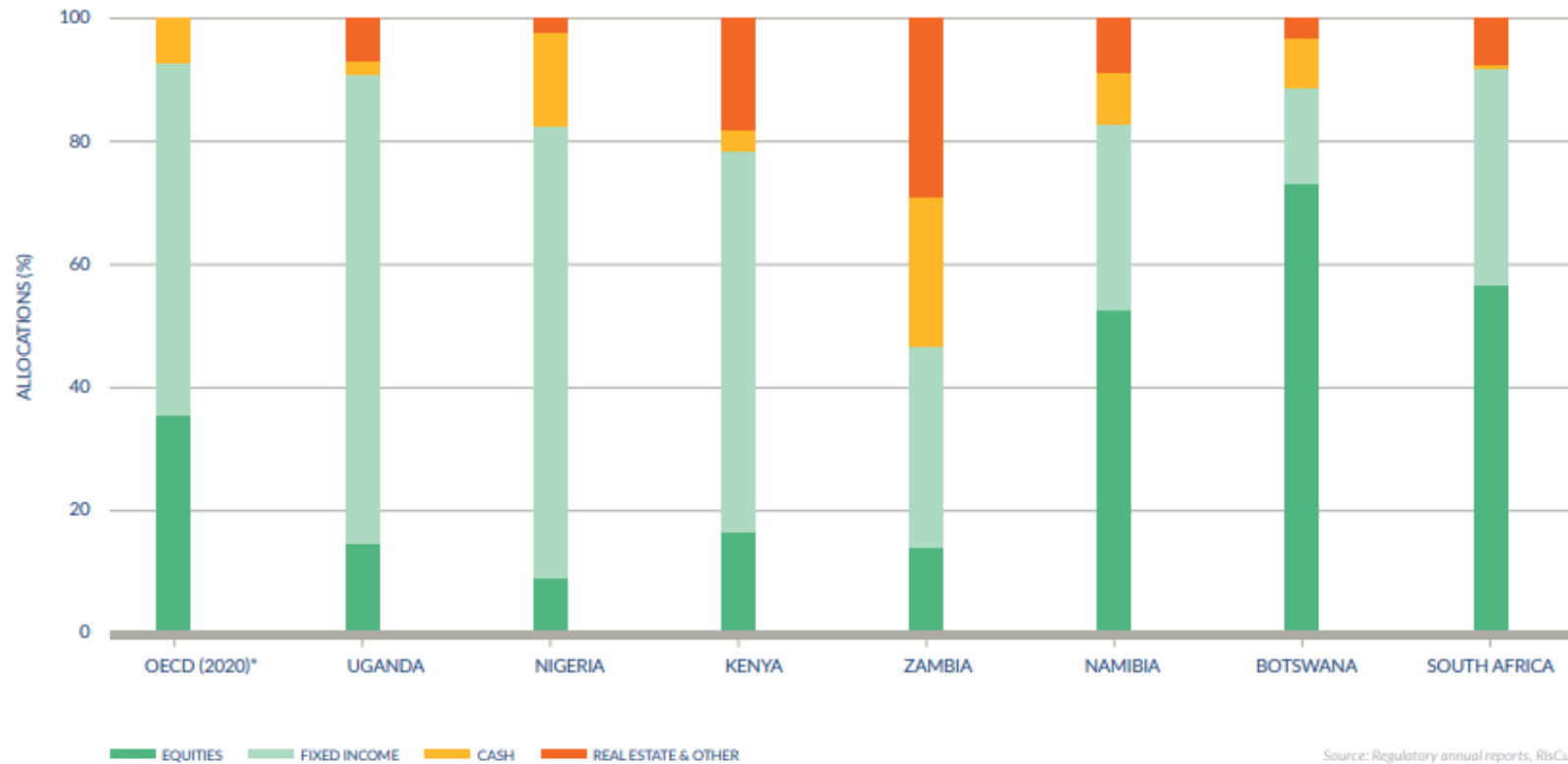
Company	Mkt Cap ZKM (21/2/23)	Mkt Cap USD (21/2/23)	Annualised value of trade ZKM	Liquidity	Liquidity adjusted for free float
Standard Chartered Bank	1 830 000 000	347 700	76 800 000	4.2%	4.2%
Zambian National Commercial Bank	4 590 000 000	872 100	161 600 000	3.52%	3.53%
Zambian Sugar	5 700 000 000	1 083 000	195 200 000	3.42%	3.46%

Assessment as per the criteria

- ▶ The criteria that need to be met for a frontier market classification are quite relaxed as can be seen by the standard
 - ▶ “At least partial”
 - ▶ “Modest”
- ▶ The criteria that aspiring markets should pay attention to are those around ease of accessibility of information such as corporate actions and dividends, stock exchange alerts and float information
- ▶ The other area of attention concerns market regulations
 - ▶ Weight is assigned to ease of access (including in English), lack of ambiguity and prompt enforcement of laws and regulations, also consistency over time
- ▶ Market infrastructure requires that there is the existence of a regulatory framework as well as an efficient mechanism allowing extensive use of stock-lending
- ▶ The area of significant focus is on the availability of investible instruments as the requirement for this is “high”
 - ▶ ETFs (inward listed such as the ABSA commodity backed ETFs to start
 - ▶ REITs
 - ▶ Sustainable instruments
 - ▶ This will all need the support of policy makers as the effect of inward listed instruments being viewed as domestic is to increase the universe for institutional investors – the sustainable instruments also may need some latitude and support

What asset classes are African pension funds investing in?

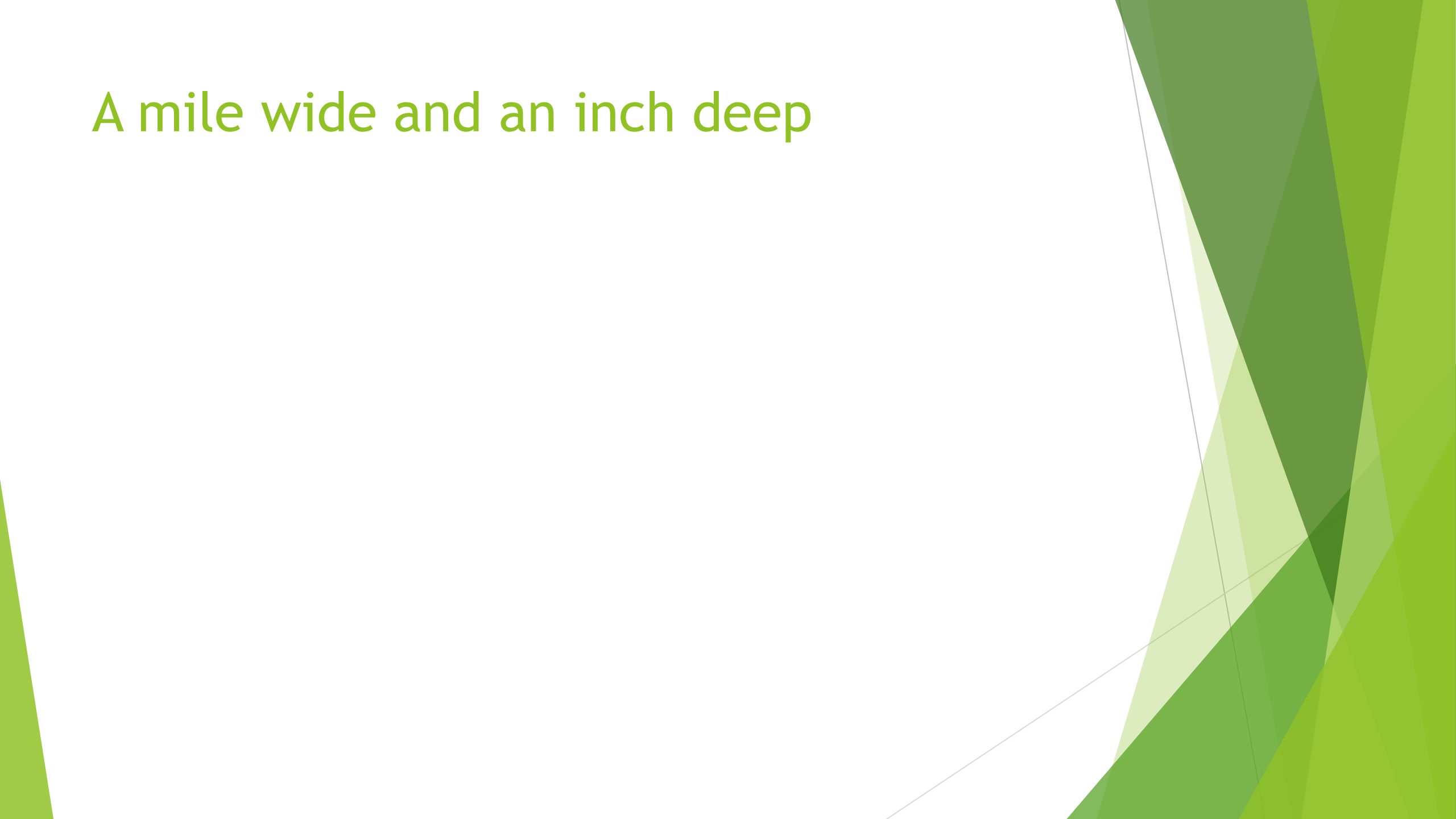
African Pension Fund Asset Allocation (2019/2020)



Source: Regulatory annual reports, RisCura

Source: Bright Africa Pensions 2021

A mile wide and an inch deep



What companies meet the criteria?

Company	Market Cap Feb 21 2023 ZMK	Market Cap Feb 21 2023 USD	Value of Trade ZMK	Annualised value of trade	Liquidity %	Free Float Market Cap ZMK	Free Float Market Cap USD	Adjusted liquidity
AECI	857 000 000	162 830	348 856	1 395 424	0,16%	285 600 000	54 264	
ATEL	1 880 000 000	357 200	55 285	221 140	0,01%		357 200	
BATA	194 000 000	36 860	6 810 000	27 240 000	14,04%			
BATZ	406 000 000	77 140	24 607	98 428	0,02%			
CCAF	1 070 000 000	203 300	28 136	112 544	0,01%	711 550 000	135 195	0,02%
CECZ	6 090 000 000	1 157 100	11 300 000	45 200 000	0,74%	4 049 850 000	769 472	1%
CHIL	2 680 000 000	509 200	4 170 000	16 680 000	0,62%			
FQMZ	514 000 000	97 660	21 200 000	84 800 000	16,50%	409 144 000	77 737	
INVE	204 000 000	38 760	59 991	239 964	0,12%			
MAFS	124 000 000	23 560	567	2 268	0,00%			
NATB	258 000 000	49 020	1 931	7 724	0,00%			
PMDZ	71 000 000	13 490	2 534	10 136	0,01%			
PUMA	810 000 000	153 900	12 900 000	51 600 000	6,37%	194 400 000	36 936	
REIZ	69 400 000	13 186	376	1 504	0,00%			
SCBL	1 830 000 000	347 700	19 200 000	76 800 000	4,20%			
SHOP	34 800 000 000	6 612 000	140 801	563 204	0,00%	29 545 200 000	5 613 588	0,002%
ZABR	3 820 000 000	725 800	16 700 000	66 800 000	1,75%			
ZCCM	6 110 000 000	1 160 900	40 942	163 768	0,00%	1 222 000 000	232 180	0%
ZFCO	1 010 000 000	191 900	30 830	123 320	0,01%			
ZMBF	645 000 000	122 550	491 412	1 965 648	0,30%	597 270 000	113 481	0%
ZMFA	127 000 000	24 130	12 148	48 592	0,04%			
ZMRE	84 000 000	15 960	-	-	0,00%			
ZNCO	4 590 000 000	872 100	40 400 000	161 600 000	3,52%	4 571 640 000	868 612	4%
ZSUG	5 700 000 000	1 083 000	48 800 000	195 200 000	3,42%	5 643 000 000	1 072 170	3%