



Pensions World[®]

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**RISK MANAGEMENT'S
REWARD: BETTER
ALIGNMENT BETWEEN
FUND MANAGERS AND
THEIR CLIENTS**

**STATUTORY
MANAGEMENT OF
SECURITY SECTOR FUND
FAILS TO IMPROVE
EMPLOYER COMPLIANCE**

**IMPROVING OUTCOMES FOR RETIREMENT
FUND MEMBERS IN A POST-COVID WORLD:
THE TREND TOWARDS AN INTEGRATED
APPROACH**

**REG 28 AMENDMENTS:
TIMELY GIVEN THE NEED
FOR ECONOMIC GROWTH
POST-COVID**

**THE IMPACT OF COVID-19
ON GROUP LIFE ASSURANCE**

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Editor's Comment

David Weil, CEO ICTS Group of Companies



As I reflect on what will soon be the first half of 2021, I am struck not only by how much has changed but also how quickly changes seem to be coming at us.

The legal and regulatory landscape is very different to where it was only 12 short months ago. It seems no area of our industry has been spared from some sort of change. Notable are the compulsory annuitisation of provident funds, the looming implementation deadline of the Protection of Personal Information Act (POPIA), what the changes to the Insurance Act mean to unapproved group insurance benefits and considerations currently underway on Regulation 28. These changes compound into a multitude of ripples that reach every corner of our landscape.

I'm sure I'm not alone when I admit to a feeling of quiet surprise as I noted the one-year anniversary of the great lockdown. Changes to work patterns and ways of work are no longer "temporary" but becoming entrenched into our daily routines and even our mindsets. Asynchronous work and communication have become the buzzwords of the beginning of this decade. The ability to schedule our work over times that are most suitable to us represents a flexibility and convenience we've never experienced before. And with it comes a new skill set and discipline required to manage ourselves, those around us and the processes to delivering to work outcomes. For some, the personal management of work life balance is very difficult.

Business has also been changed forever, and the future is certainly not what it used to be. The "new normal" has made way for the "never normal". It seems that the most successful will be those who are able to demonstrate the agility to deal with unexpected and unpredictable changes. The concept of "never normal" frames our minds to be open to changing the way we think. And time to think and reflect is becoming a key priority. The moment you acknowledge the never normal, you free yourself up to think creatively about your business and about the industry and opportunities out there.

The seasons have changed and will keep changing, and the only choice one has is to adapt, keep learning and keep looking for new opportunities to stay relevant. The never normal represents a fundamental shift in society and business and it's here ... ready or not.

I trust you find this issue thought provoking, until the next time, keep safe.

Please note that this publication has been approved by the FPI for CPD purposes.

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Improving outcomes for retirement fund members in a post-covid world: the trend towards an integrated approach



John Anderson, Executive: Investments, Products & Enablement, Alexander Forbes

Life has changed. The world of work too.

The Covid-19 pandemic is not like anything we've experienced. It has affected us all, but it also has affected some more than others. The world has changed and with it, a new landscape of work and way of living. Places of work, our roles and relationships, our health and well-being, and our futures have all shifted.

For employees, the change has brought about unexpected financial, personal and health pressures. A recent TransUnion study found that almost everyone surveyed was experiencing some financial pressure and that most people saw themselves struggling financially. It is clear that real day-to-day needs such as emergency savings, housing and transportation demands, education and health requirements will be competing more than ever for a share of employees' wallets.

For employers, the change has brought about a much bigger focus on the need to transform their organisations in a post-Covid world, using their resources and employees to propel them into the future. How employers manage and care for their employees' well-being needs will define their competitive edge for siding with productive employees, attracting talent, driving strategic value and growing their businesses.

For retirement funds, a post-Covid world has called upon fiduciaries to deliver more meaning and better value by offering employee benefits that matter in addressing the financial and personal well-being pressures of today's unique environment. Accommodating members' real and immediate day-to-day needs with long term savings will be key to defusing tensions around compulsory long term savings that support retirement readiness.

From whichever perspective you look at it, the future world of work has set in motion an important need to focus on people. Unless focus is placed on adding meaning to employees' or members' lives, getting commitment towards achieving common goals will be difficult.

It is time to connect the dots

Employees are facing a myriad real time pressures now, which are affecting confidence levels in their work, life and retirement readiness. If the real value of an employer sponsored retirement fund is measured by the success of meeting members' needs, then fiduciaries of these employer sponsored retirement funds will be increasingly being called upon to shape a better future retirement whilst accommodating today's working and life experiences.

Improving outcomes for retirement fund members in a post-covid world: the trend towards an integrated approach

For example, there is no point in focusing on helping employees save more towards retirement if you cannot help them address the funding demands over their personal lifetime. There is no point in offering employee benefits if employees view the status quo of undifferentiated benefits as mandatory grudge purchases void of fulfilling immediate needs that matter most to them. Similarly, there is no point in focusing on the investment returns that your investment strategies can offer employees if you cannot help them preserve their wealth and make the right financial choices along the journey.

Poor retirement outcomes are an ailment of not fully understanding and tackling the real stresses employees are faced with in their everyday working and life experiences.

A lesson from medical centres

Medical centres have become a powerful addition to the suite of medical care options. What has made them so successful at changing community level health is that they have facilitated access to various components of everyday healthcare, all through one convenient touchpoint.

You have access to your GP, specialist physicians, various testing labs (X-ray, CAT scan, blood tests) and a pharmacy that will fill your prescription right there and then.

The point is, by making it easy for individuals to exercise each step in the process of addressing a physical ailment or pursuing proactive healthcare, the success rate for community healthcare increased exponentially.

We believe retirement funds should work on a similar model

There is ongoing debate around the service models best placed at helping fiduciaries of employer sponsored retirement funds deliver better outcomes for members. In split-service models, different service providers render a specific service. In integrated service models, a single, multi-networked provider renders core servicing functions.

Like medical centres, we believe that in order to move the dial towards better retirement outcomes, retirement funds require a more holistic prescription. Employees need more than just a retirement fund and retirement funds need to mean more than just a pension. This demands that fiduciaries think differently about short term and long term funding needs. They need to recognise that managing these two imperatives simultaneously, as part of a more holistic, integrated financial well-being programme, can be tremendously beneficial in driving maximum value.

The fragmented nature of split-service models has become so complex that it is quite likely that what employees really need might be falling through the cracks. Too many decision makers in employee benefits delivery and uncoordinated service providers (often in opposition to each other) have perpetuated a sub-optimal framework in trying to accommodate both short term and long term savings.

Fortunately, bridging the gap between employees' short term and long term funding is more feasible than you might think. An integrated approach can help retirement funds expand the funding environment beyond just long term savings. It could help employers and fiduciaries deal with two of their greatest challenges:

- Getting their employees to see real value in their employee benefit programmes.
- Helping employees genuinely address their lifetime savings needs in a more cost effective and structured framework.

An integrated approach can help employers and fiduciaries get the most out of their employee benefits and employees make the most of their financial futures by:

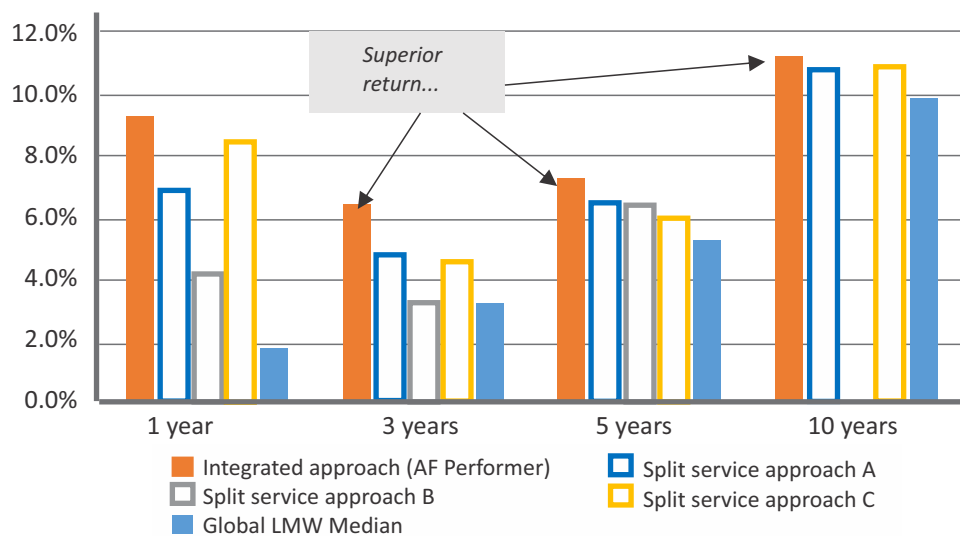
- Making it easy for employees to access various components of everyday financial well-being,
- Prescribing the right remedial action, and
- Offering fully portable solutions in each step of the process leading up to retirement.

When you start to look holistically at the retirement problem and begin to connect the dots, advice-led solutions can really take shape meaningfully to make it much more likely that employees and their families will meet their lifetime goals.

Case in point: Achieving good returns on retirement savings whilst saving during employment

Below we have analysed the net returns over the 10 year period to 31 December 2020 for various growth portfolios used to accumulate savings before retirement. The analysis was based on available information on large retirement funds using a split-service approach. This was then compared to the average retirement fund (as measured by the Alexander Forbes Global Large Manager Watch™ median returns), as well as an integrated multi-manager approach as represented by the Alexander Forbes Investments Performer portfolio.

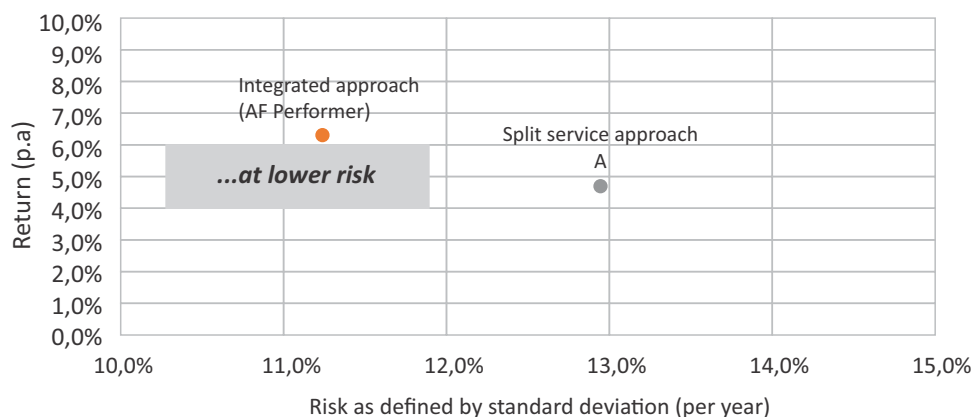
Integrated versus split-service model: returns comparisons



Source: Alexander Forbes analysis, December 2020

We also analyse the risk and returns for the 3 year period where the information was available.

Three-year risk and return scatterplot



Source: Alexander Forbes analysis, December 2020

Both approaches have fared well across all time periods compared to the Alexander Forbes Global Large Manager Watch™ median returns. However, the returns across all periods over the 10 year period show that the integrated approach consistently outperforms the split-service approach, and at lower risk according to more recent information.

Improving outcomes for retirement fund members in a post-covid world: the trend towards an integrated approach

An integrated approach ensures that the following areas are addressed more effectively:

- The increasing complexity of the investment market and the need to respond to these changes more quickly.
- The increasing specialisation in specific areas such as private markets, infrastructure and incorporating ESG into investment processes.
- The need for pooling assets for liquidity purposes and to reduce overall transaction costs.
- The associated skillsets needed to research the various areas in the market.
- Accountability for the end outcome and removing the risk of different providers blaming each other when things go wrong.
- The ability to more quickly adapt to any regulatory changes and changes requiring quick decision making to respond to developments in the market.
- The ability to more make quicker decisions and implement them in response to developments at asset managers.

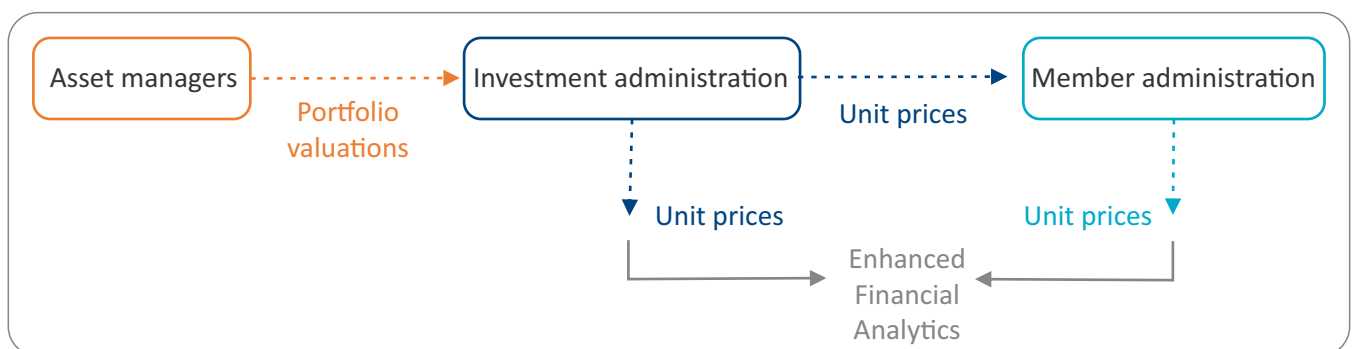
We therefore expect that an integrated approach will continue to provide higher returns at lower risk whilst providing an impact and doing good. This approach helps trustees and employers simplify how they run their arrangements, reducing the time and effort they spend on complex investment issues and allowing them to focus on other strategic areas to improve member outcomes.

Case in point: Ensuring efficient and secure administration is critical for a good outcome

The recent Covid-19 pandemic has shown the importance of ensuring that systems can withstand shocks. This requires integrity of systems and full ongoing alignment between assets and liabilities.

Three key operational components need to be in place in retirement funds to ensure sound administration of members' retirement savings:

- A member record administration system that can accommodate daily unit prices.
- An investment administration platform that can calculate daily unit prices.
- An ongoing monitoring framework to ensure that a fund's underlying assets (as reflected by the investment administration platform) matches its liabilities (as reflected by the member record administration system)



Why should the member and investment administration systems be integrated?

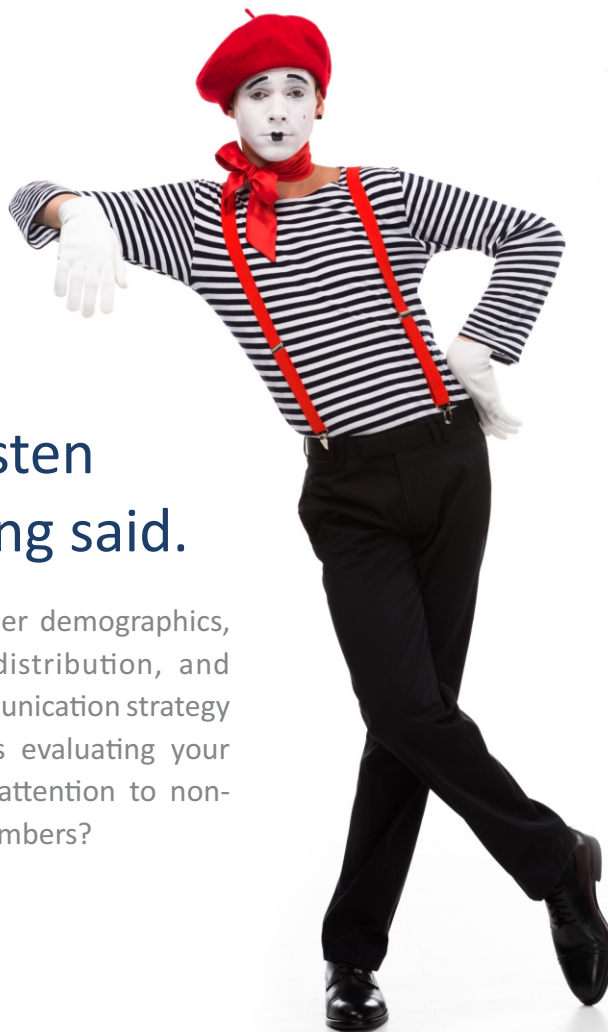
- With the member and investment administration systems being compatible, reconciliations of transactions between them can be done on a real time basis, significantly reducing the risks of any mismatching between these two systems and enabling transparent reporting.
- All systems are appropriately amended in unison where regulations change, such as the default regulations introducing default preservation and annuity strategies.
- The time lag is reduced between when unit prices are calculated and when those unit prices are applied to member records.

Improving outcomes for retirement fund members in a post-covid world: the trend towards an integrated approach

- All checks between assets and liabilities factor in any changes or enhancements across either the member administration or investment administration systems.
- There is accountability for errors. Where multiple providers are appointed, errors may prompt providers to blame each other rather than putting members in the position they should have been.

One fine-tuned and orchestrated framework

The examples used above shine a light on how the interconnectedness and strategic-sync of various businesses can unlock value for employer sponsored retirement funds. Key to the success and advantage of an integrated model is leveraging a holistic offering that embodies collective wisdom, insights and expertise, all of which are focused towards achieving better outcomes. Everything is intertwined and nothing functions as well as when all of the pieces are working together to help clients address their needs and improve outcomes, simply and cost effectively. Overall, the appropriateness of a split-service or integrated approach should be based on which approach best connects the right network of advice to the solutions and services that help shape a better retirement by tackling the real stresses employees are faced with in their everyday working and life experiences today.



Funds need to listen to what isn't being said.

Taking into account your member demographics, literacy levels, geographical distribution, and preferences and curating a communication strategy around that is as important as evaluating your success levels. Are you paying attention to non-reactive communication from members?

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Mandi Roberts on robertsm@icts.co.za

Changes to group life insurance: Has the law sacrificed fairness outcomes?



Rowan Burger, Head of Strategy, Momentum Investments



New requirements for unapproved group life insurance products can erode some of the cost benefits of these arrangements.

Group life insurance refers to insurance provided to groups, normally employers, and is often provided alongside a retirement fund in an employee benefit programme (unapproved). Each life insured in this unapproved policy must now complete a nomination form for this policy, which adds to the complexity and cost.

A clear benefit of a group insurance arrangement is that people with poorer health receive cover based on the group's average, often securing cover when they may otherwise be uninsurable on an individual basis. As one policy covers many lives, the cost of setting up the policy, distributing the policy and administering it is lower, resulting in lower premiums. It is therefore clear that there are compelling advantages to group insurance arrangements because of scale.

Group life insurance arrangements (or group death benefit cover) can either be paid as a retirement fund benefit (referred to as approved death benefit) or be paid outside of the fund by an insurer (referred to as unapproved benefit).

Recent changes to the Insurance Act, aiming to treat unapproved group benefits as a collection of individual ones in an attempt to improve ownership and governance, have unfortunately also created unintended and adverse consequences for employees in unapproved group schemes. These changes affect all types of unapproved insurance, including education and funeral benefits.

The changes to the definitions of 'group' and 'group life' in the Insurance Act essentially require that the insurance benefits are payable to the beneficiary of the unapproved life benefit (that is, the employee) and not to the policyholder of the unapproved group insurance scheme (that is, the employer). In turn, this requires that all employees must complete a nomination of beneficiary form. Absent the nomination form, or where there is an invalid nomination form, the unapproved life insurance benefit will have to be paid to the deceased employee's estate, or even worse, the benefits may end up being paid to the Guardians Fund.

A considerable number of employers have had unapproved group life insurance schemes with an 'employer discretion'. This discretion allows the benefit to be paid to the employee's dependants as deemed equitable by the employer if no valid nomination has been made by the employee, rather than to the estate or Guardians Fund.

Changes to group life insurance: Has the law sacrificed fairness outcomes?

These policies operated on a very similar basis to the discretion exercised by a board of a retirement fund under section 37C of the Pension Funds Act.

If no nomination is made and the benefit must be paid to the estate it will create additional costs within the estate, especially the legal costs of winding up the deceased estate, and may delay the process of the deceased's beneficiaries receiving the proceeds.

In practice, many (probably most) employees in group schemes fail to complete (and update) nomination forms because:

- Employees often do not understand the difference between insurance (especially approved compared to unapproved) and pension savings benefits, thus the need for two separate forms will be confusing.
- Beneficiary nominations tend not to be updated, even after significant changes in their lives, such as divorce.
- Dependants are often not recorded to keep their existence private.
- Employees sometimes fail to complete the nomination forms correctly, for example percentages do not add up to 100%.
- A new form was not required every time the underlying insurer changed.

Retirement funds struggle to collect nomination of beneficiary forms but the discretion under section 37C allows these potential deficiencies to be corrected. On the face of it, this change to the Insurance Act is positive, as any malicious employers cannot skim or withhold some of the proceeds. It does, however, create administrative complexities and does not address the plight of employees who fail to accurately complete or update their beneficiary of nomination form.

For all unapproved group insurance contracts, a new process will need to be implemented requiring that nomination forms are completed when employees join the scheme and whenever the insurance company underwriting the benefit changes. Emerging insurance companies challenging the large

established players are less likely to have the digital capabilities to efficiently collect nomination forms and to make sure they are updated regularly.

Unapproved group risk contracts are renewable every year as the insurance premium rate is reviewed based on changes to demographics and experience in the scheme. When an unfavourable premium rate is tendered, it is often likely that a market test by the adviser leads to a change in the underwriter (product provider) of the insurance benefits. This would require that everyone covered under the unapproved insurance scheme would have to submit new nomination forms to the new product provider.

The consequence is far higher costs because of this additional administrative burden but also as employers will be reluctant to move schemes given this additional process resulting in higher premiums as these are not market tested.

The industry already finds itself in the crossfire of regulation. Although we understand and agree with the clear imperative of the changes to improve governance and the protection of the beneficiary of insurance benefits, as well as the imperative of financial inclusion and value for money to insurance product customers, these changes will certainly lead to more expensive insurance cover and further claims that the insurance benefit system is expensive, while fairness outcomes to the end customer (beneficiary) may be compromised. In this regard, we feel that allowing for 'employer discretion' in unapproved life insurance policies will without a doubt lead to fairness outcomes for the beneficiaries of unapproved insurance benefits. We can only imagine the pain and cost to beneficiaries of reporting deceased estates on the death of a member who failed to complete a nomination form.

It is essential that National Treasury takes the lead and sets out a clear vision and objectives for the pension and insurance system for the next decade so the industry can enable fairness outcomes to end customers, strong governance, customer value for money and transformation.



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The impact of Covid-19 on group life assurance



Dirk Oosthuizen, Head: Research and Development and Principal Consultant, and Shaun Howe, Benefit Consultant, Simeka Consultants and Actuaries

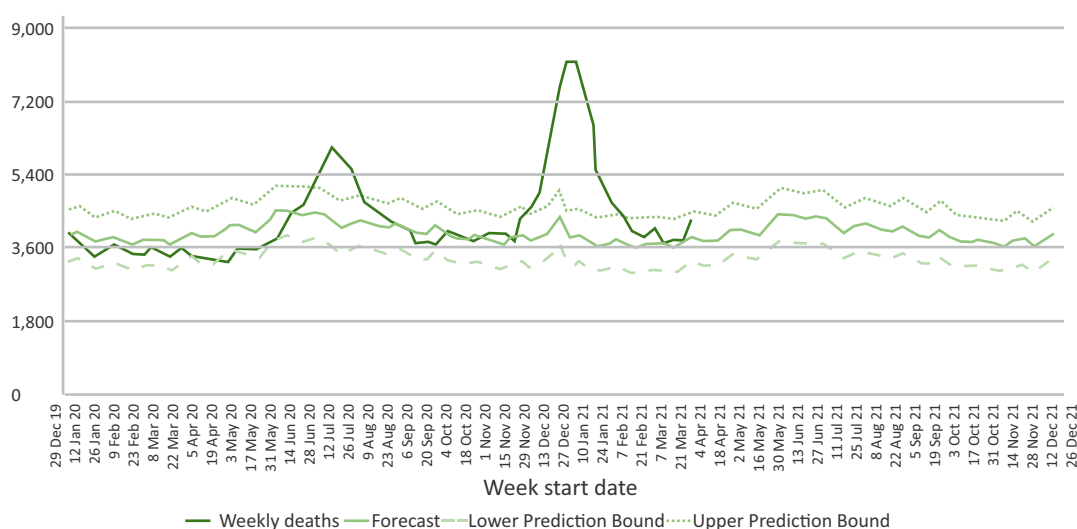
A little more than a year ago, we were hearing rumblings of a virus spreading in Wuhan, a large city in China. The Chinese government soon locked down this city. The virus then spread to Northern Italy and soon thereafter we had our first cases in South Africa - and suddenly we also had to adapt to a whole new way of living and working.

Towards the latter half of 2020, many of us started to hear of somebody we know or loved ones who lost their battle against the virus. Retirement funds, and

the associated employee benefits such as group life and disability assurance, are designed to assist dependants and families in times like this ... but how will this pandemic affect group life assurance in the future?

It is now clear that, in the past year, South Africa experienced more deaths than it has been used to, as illustrated by the graphic on the right, produced by a study group of the SA Medical Research Council. In the context of group life assurance, we are looking at lives younger than age 60.

South African Weekly Deaths from Natural Causes 1 - 59 years: 29 Dec 2019 - 10 Apr 2021



Source: <https://www.samrc.ac.za/reports/report-weekly-deaths-south-africa>

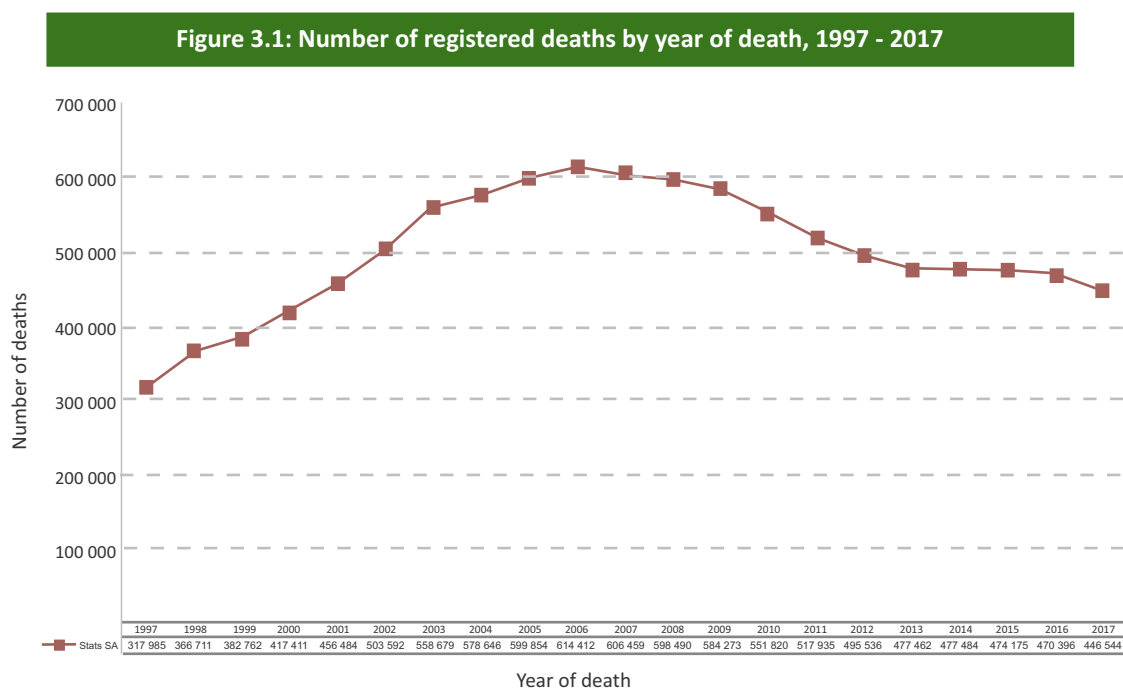
The impact of Covid-19 on group life assurance

Reports from the large SA life insurers are that their group life mortality experience followed the national experience shown in the graph above. There are two distinct waves of more than expected deaths – the first, in the winter of 2020, and then again from November 2020 to January 2021. Therefore, the question is whether this higher mortality is a long term trend and how life insurers will react.

A further reference point is provided by Stats SA in their report “Mortality and causes of death in South Africa, 2017: Findings from death notification”, which was released on 26 March 2020. The report is based on the death records of the Department of Home Affairs as registered on the civil registration system. Legislation requires all deaths to be reported within 72 hours and funerals may not be held without the appropriate documentation being in place. The documentation includes a detailed report by a medical practitioner on form DHA1663. In rural areas, where a medical practitioner is not available to complete this form, traditional leaders may perform the task. The quality of the causes of mortality statistics depends on the completeness and accuracy of the certified death notification forms. Also worth noting is that Stats SA includes all deaths, irrespective of the deceased's citizenship status, for processing and the analysis of mortality and causes of death information.

The number of registered deaths in South Africa from all causes steadily increased from 1997 and peaked in 2006 at 614 412 and has since been in steady decline to 2017. In the 2017 calendar year, the number of deaths in South Africa was 446 554 or approximately 8 600 per week – despite an increasing population. An important factor to explain this trend was the change in the treatment of HIV/Aids. The number of deaths amongst those younger than 60 in 2017 was 246 297 or approximately 4 700 per week.

It is therefore not unexpected that new viruses temporarily disrupt the downward long term trend in mortality.



Source: Stats SA, P0309.3, Mortality and cause of death in South Africa, 2017: Findings from death notification <https://www.statssa.gov.za/publications/P030932017.pdf>

It is common for life insurers to use various rating factors in determining premium rates for group life assurance arrangements – for example, industry, salary, gender, age etc. – and only use limited medical underwriting for the higher earners. In a quick survey conducted in March 2021 amongst the large group life insurers in South Africa, no clear, consistent trend could be identified to establish which industries have been particularly hardest hit in terms of mortality experience during 2020/21 so far, and the impact of the Covid-19 virus seems to have been felt across the board. It is to be expected that older ages are more vulnerable than younger ages.

The impact of Covid-19 on group life assurance

An interesting aspect is that non-natural deaths due to causes such as accidents and violence decreased significantly due to the hard lockdown and fewer cars on the roads. As soon as the lockdown intensity was lifted, the number of non-natural deaths increased again. In the period from 1997 to 2017, non-natural deaths as a percentage of total deaths fluctuated between 9% and 17% of total deaths in an inconsistent pattern. In general, it seems that the non-natural death percentage of total deaths has been increasing since 2006, though.

Group life assurers are expected to start raising their premium rates in response to the increase in expected mortality rates for the period after 2020/21, in order to maintain the sustainability of their assurance businesses. It is unlikely that reserves to deal with epidemics will last with a sustained increased mortality experience. Employers and the boards of management of retirement funds will then be faced with the economic dilemmas of:

- an increased cost of employment; and/or
- less saving towards retirement; and/or
- a reduction of death benefits.

It is likely that a combination of these measures will be required to deal with increasing premiums. It will be a careful balancing act and in some respects difficult to implement, especially as a reduction in the definition of death benefits constitutes a change in employment conditions.

Group life assurers are similarly concerned about an increase in morbidity on disability benefits. A particular concern is the psychological impact of lockdowns and working alone at home. Furthermore, the impact of prolonged Covid-19 (for example, partial recovery after sickness) on disability experience is uncertain.

The financial impact of Covid-19 on the finances of many individuals and businesses has been severe. It is likely to be even more far-reaching for years to come. In such tough times, the purpose and perceived value of group assurance benefits are even more pronounced. Trustees of retirement funds and employers, who are responsible for maintaining appropriate risk benefits for their employees, have their work cut out.





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*Manja Serfontein & Corné Heymans of SNG ARGEN
Actuarial Solutions, for the Retirement Matters Committee
of the Actuarial Society of South Africa*

The liquidation process – How long is that piece of string?

The all-important question that tends to be first on members' lips when it comes to a fund liquidation is always: "How long before I get my money?" Unfortunately, there is no simple answer to this seemingly simple question.

Just like the answer to the question, "How long is a piece of string", it all depends on the piece of string in question. The duration of a liquidation similarly depends on the circumstances of the liquidation in question and can vary between 6 months (in rare cases) to several years. This is not really an acceptable answer to a member waiting for his or her benefits.

The process outlined

To get a better understanding of this very unpredictable timeframe, one needs to understand each step in the process. Each of these highly regulated steps must be completed before the Financial Sector Conduct Authority (FSCA) can give the go ahead to commence with member payments.

The respective components of the liquidation can, broadly speaking, be summarised as follows:

- A liquidation is triggered by a Trustee resolution and an application to the FSCA to place the fund in liquidation and appoint a liquidator.
- Once the FSCA approves the appointment of the liquidator, the liquidation process is officially kicked off. All assets of the fund are then frozen until such time that the FSCA approves any payments.
- The liquidator, together with the Auditors, administrator and/or valuator, then needs to bring all outstanding statutory requirements up to date. This could be, for example, outstanding annual financial statements or actuarial valuations.
- Thereafter the preliminary liquidation accounts are prepared and submitted to the FSCA for approval to advertise the accounts for public inspection.
- Once approval for advertisement has been given, the accounts must lie open for inspection at the relevant addresses as specified in the Act for a period of 30 days.
- After the inspection period has lapsed, stakeholders of the liquidation have a further 14 days to lodge any objections that they may have in writing with the FSCA.
- The FSCA can then, after satisfying themselves that there were no objections against the proposed liquidation accounts or that all objections have been adequately dealt with by the liquidator, give approval to start with the distribution of benefits.
- Only then may the liquidator settle debtors and creditors, and distribute all the benefits in accordance with the approved preliminary distribution accounts.
- Once all assets and liabilities have been settled, the liquidator will close the bank accounts and compile and submit the final liquidation accounts to the FSCA together with a request for the fund to be cancelled.

The liquidation process – How long is that piece of string?

Each step unpacked

Looking at this summary of the process, it should in theory be possible to get to payment stage within 4 months from the appointment of a liquidator. This perfect world can exist and there have been the odd exceptional cases where this was achieved in practice. But the devil is in the detail which can, in our experience, cause extensive delays. To understand this detail, one needs to unpack the process a bit further.

Liquidator appointment

There are various factors that can cause delays even at this very first stage of the process. For example, the appointment of the liquidator will be delayed if there are any outstanding regulatory issues, like historic unapproved rule amendments or Section 14 transfers that need to be concluded first. It is often a major stumbling block in umbrella funds where dormant participating employers were never properly deregistered.

Statutory requirements

If the last set of annual financial statements were completed more than 6 months prior to the liquidation date, a separate set of financial statements is required as at the liquidation date. This step normally takes between 3 to 6 months depending on whether the statements need to be audited. This could be even longer if multiple sets of financials are outstanding.

Any outstanding actuarial valuations can cause further delays as these valuations can typically only be performed once the financial statements have been completed. These valuations normally take about 2 months to complete from receipt of all data. Approval of the valuations are further subject to the turn-around times at the FSCA, which for statutory actuarial valuations are 60 days according to their Service Level Commitment with the industry (assuming that there are no queries).

In some cases, actuarial valuations or reviews will be needed even if it is not a statutory requirement in terms of the Act, for example, if:

- the fund is defined benefit in nature;
- there are reserve accounts for which reconciliations and distribution recommendations are required; or
- if the movements in the fund since the last valuation warrants further investigation to confirm the financial position of the fund.

In the case of an active fund the Act allows trustees 6 months to finalise annual financial statements and a further 6 months to submit actuarial valuations. It could therefore take up to 12 months before the liquidator can start with liquidation accounts.

Liquidation accounts

Once the annual financial statements and actuarial valuations (if applicable) have been completed and approved, the liquidator is then in a position to compile the preliminary liquidation accounts. This could be finalised within a month depending on the complexity of the liquidation and availability of the required data.

Approval of these accounts is a critical step in the process and is therefore also the most unpredictable phase of the process. This is the final opportunity for the FSCA to assess whether the proposed distribution of assets complies with the fund's rules and the requirements as set out in the Act. The Authority further needs to be satisfied that all stakeholders' reasonable expectations are met.

The FSCA's published turnaround time for liquidation related matters, including the consideration of preliminary liquidation accounts, is 30 days. However, this is not always achievable in practice, especially for the more complex cases where there may be many conflicting interests to consider.

The liquidation process – How long is that piece of string?

Advertising

The liquidation accounts must be made available for public inspection which needs to be advertised in the Government Gazette as well as a newspaper circulated in the district in which the registered address of the Fund is situated. The timeframe for this part of the process is relatively fixed and takes about 2 months (1 – 2 weeks for arranging the advertisements, 30 day inspection period and another 14 day objection period).

Payment approval

At the end of the inspection and objection period the liquidator will request approval from the FSCA to commence with the payment of benefits. This approval is usually given within no more than a couple of weeks, provided that no objections have been lodged.

Distribution of benefits

There is no set indication of how long this process should/can take. Many funds have an explicit period defined in the termination section of the rules after which unclaimed liquidation benefits may be transferred to an unclaimed benefits fund. This period is usually 6 months and is also often used as a general rule of thumb before transferring liquidation benefits to an unclaimed benefits fund.

The distribution period can be much shorter or can stretch over well more than a year, depending on the number of claims received (if any) and the specific circumstances of a fund.

Final accounts

The liquidator should submit the final liquidation accounts and cancellation request within 60 days of completing the liquidation, that is, after assets and liabilities have been reduced to zero. The FSCA is then expected to approve the cancellation within 30 days of receipt of the final accounts, provided that they are satisfied that the liquidation was concluded in accordance with the preliminary accounts as advertised.

Unexpected delays

There are several issues that could cause substantial delays in the liquidation process. Some of the more common issues that we have encountered in the past include the following:

- Administrative delays in compiling the annual financial statements have proven to be a major setback in the liquidation process in some cases, especially where the fund's affairs were not in order prior to liquidation.
- The liquidator has a duty to recover any arrear contributions from the employer(s) of a fund. Any past losses suffered by the fund due to maladministration must similarly be recovered from the administrator. Such claims can result in lengthy legal battles, especially if the employer or administrator is also being liquidated at the same time.
- The validity of all debtors and creditors must be established when compiling the liquidation accounts. In some instances, investigations need to be done in respect of unknown deposits received, reinsurance claims that have not been settled, etc. which have been carried forward in the fund for many years.
- Monies due to, or receivable from, the South African Revenue Services in respect of Pay-As-You-Earn balances can be another contributor to delays.
- Each step in the liquidation process is subject to approval from the FSCA which makes the total duration of the liquidation very dependent on turnaround times from the FSCA. Any queries raised by the FSCA will further extend the total period in liquidation as these queries need to be investigated, responded to and those responses then need to be considered by the FSCA.
- While objections against the liquidation accounts are generally few and far between, it can require additional time to assess the validity of any such objections and to resolve it to the complainant's and/or the FSCA's satisfaction. We have had instances where a valid objection resulted in amended liquidation accounts whereafter the inspection and objection period needed to be repeated. Even completely invalid objections have been known to result in extensive delays since these objections need to be similarly assessed to be sure that nobody is prejudiced.

The liquidation process – How long is that piece of string?

- We usually find that the bulk of all benefits are paid within the first month or two after permission is granted to make benefit payments. However, the tail end of these benefit payments can often be extensive. For example, we have had cases where payment of benefits in terms of divorce orders or death benefit distributions were challenged which could add up to a year to the benefit distribution process. Individual members' tax problems also often prevent the liquidator from making final benefit payments within a reasonable period of time.

Best estimate time frame

Theoretically it should take between 6 to 9 months to conclude a liquidation. Our own record is to get an almost 8 000 member fund with more than 80 participating employers to payment stage within less than 4 months! However, this is by far the exception to the rule and was only possible due to particularly close collaboration between trustees, member representatives and the FSCA throughout the process.

In our experience, there are only a small number of liquidations that reach payment stage within 6 months. A more realistic timeframe is between 9 months and 12 months and, where there are any complexities or unexpected delays, it ranges between 1 and 2 years.

There have unfortunately also been liquidations that took more than a decade to conclude as a result of very specific circumstances.

How to shorten the string

The trustees could further contribute to shortening the timeframes by bringing the fund's affairs in order before the liquidator is appointed.

Once in liquidation, the onus is on the liquidator to ensure that each step of the process is completed as efficiently as possible. Appointment of an experienced liquidator, who may be able to proactively address potential pitfalls and delays, is key. However, delays that are not in anybody's control are often inevitable.

The liquidation process is to a large extent dependent on service providers and the Authority. A liquidation is therefore a team effort and requires each role player's best efforts and commitment to complete the liquidation in the shortest possible time.

It is important to note that there is no room for shortcuts and if the process needs to be delayed to protect all stakeholders' interests, then some patience may be required to achieve the best possible outcome for all concerned.

So how long is the liquidation process? Much like a piece of string, it is as long as it needs to be to serve its purpose! The sole purpose of a liquidation is to distribute all assets of the fund fairly and equitably. This is unfortunately a highly regulated and often complex exercise which does take time to do properly.

There is therefore no simple answer when members invariably ask the simple question "When will I receive my money?". The best that any liquidator can do is to manage expectations by keeping members fully informed of any progress or delays through regular transparent communication.





What's up with WhatsApp?

Hayden Naidoo, The Benefits Counsellor

In the beginning of 2021 WhatsApp released a privacy policy update that sent their over 2 billion user population into a spiral. This, along with a media hype, had threatened their position as market leaders against other instant messengers.

This privacy policy was ill explained and thus caused WhatsApp to delay their initial deadline for the new policy to the 15 May 2021. By the time you read this, the policy might already be implemented without the hype and media storm of the early January attempt.

WhatsApp have declared that they will not delete accounts who do not accepted their ultimatum, however, these users will not have full functionality of the application. For an unspecified period, users may still receive calls and notifications but will not be able to read or send messages from the app.

Before the 15 May, users still had the opportunity to accept the changes or download their data and delete the associated account. (This is permanent and any user who returns will no longer have their old chat history.)

What's the fuss about?

WhatsApp is owned by Facebook. Facebook, like most social media providers on the internet, require data and information about their users to improve their products and services. This information is often used to provide targeted advertisements and content designed to keep a user engaged and earn Facebook revenue.

What's up with WhatsApp?

Think of your online persona as a digital puzzle but the pieces are scattered across your online activity. What you watch or read, who you talk to or how you spend your money are all dispersed into the various apps and websites that you visit.

Businesses want to use that information to better target their products to you and your network and the more complete that puzzle is, the more effective their efforts could be.

Facebook has used its position as parent company over apps like Instagram and WhatsApp to further build that digital puzzle. It is worth noting that this is an industry standard – other companies such as Apple and Google are also building that puzzle. In 2016, WhatsApp began sharing phone numbers and profile photos in efforts to improve friend recommendations and ad targeting.

The problem with the latest privacy update from WhatsApp is that people believe this to be a further invasion of privacy. People feared that WhatsApp exposing their information to Facebook could cause a security risk and that their personal messages would be exploited for commercial gain and this is the misunderstanding.

Personal messages are end-to-end encrypted on WhatsApp. What this means is that messages between users cannot be intercepted or read by any other person or system. Each conversation receives a security key that is unique to the sender and recipients. This is WhatsApp's main defense against security vulnerabilities.

However, WhatsApp also has WhatsApp for Business, which is a commercial tool that allows businesses and users to interact with their customers. Messages between a user and a business are also end-to-end encrypted but only between the user and the destination specified by the business and may be subject to further privacy policies.

Digital Change

With digital transformation being the hot topic of the modern era, all industries are targeting this change. The retirement industry has long been behind the eight ball, however, in recent years, stakeholders have pressed towards effective and efficient methods to engage members. This has led to the exploration of digital channels such as mobile and web apps, instant messenger bots, social media communication and so forth.

WhatsApp has thus become a leading channel of communication and satisfying stakeholders across the board. In the retirement industry, WhatsApp has created avenues to increase member engagement, provide information and reduce strain on legacy systems such as call centers.

Digital innovation does carry digital risks and security vulnerabilities. Since the dawn of the internet, scammers and fraudsters have exploited technology systems to obtain information and use this for personal gain. In order to protect members' privacy and provide secure systems, software developers and firms put in a great deal of effort to prevent security vulnerabilities and it is important to note that these WhatsApp messages are still subject to the strict privacy policies upheld by retirement funds and their intermediaries. The information seen is encrypted and not available to Facebook for targeted ads.

In the aftermath of the initial privacy storm, most users have continued to use WhatsApp with only a small portion opting for alternative solutions like Telegram and Signal.

WhatsApp has proved to be one of the most effective channels to reach and engage members in the digital transformation wave. The ease of access has created opportunity to reach members from wherever they are. However, the recent dive into privacy and security has had FinTech and financial institutions exploring methods to improve security to reduce the risk of fraudulent activity.

With WhatsApp users forced to accept the new terms, an exodus to rival platforms might happen again. Is this perhaps an overreaction to a tool that has provided opportunity to how retirement funds interact with members?

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Reg 28 Amendments: timely given the need for economic growth post-covid

The decision to invest in infrastructure – or not – remains up to the board of trustees

Malusi Ndlovu, Director of Large Enterprises at Old Mutual Corporate

National Treasury's proposal to amend Regulation 28 to allow investment in infrastructure within the various asset categories is a step in the right direction, according to Malusi Ndlovu, Director of Large Enterprises at Old Mutual Corporate.

The proposal, if implemented, would permit overall investment in infrastructure across all asset categories up to 45% in terms of domestic exposure and an additional 10% in terms of exposure in the rest of Africa.

"This is intended to make it easier for retirement funds to offer members the better investment growth and improved diversification that come with infrastructure investments, particularly in the context of low economic growth and a shrinking local equity market as seen in South Africa," says Ndlovu.

Trustees remain firmly in the driving seat

He points out that according to the proposal, the decision to invest in infrastructure (or not) will remain the prerogative of the board of trustees.

"The proposal to amend Regulation 28 is not the prescription of assets. It has nothing to do with the controversial proposal that would force retirement funds to invest in specific government-approved instruments. This is a relief, as there is ample evidence that the previous prescribed assets regime in South Africa that existed up until the 1980s resulted in significant opportunity cost for investors," he says.

The purpose of Regulation 28 is rather to protect investors against inadequately diversified investment portfolios, and ensure that trustees protect investors against unnecessary risk.

The investor benefits from infrastructure investments

"Alongside other asset classes like bonds, equities and property, infrastructure offers members in retirement funds decent diversification, particularly in the context of the comparatively small local equity markets.

"This is because infrastructure assets are less volatile than equities and show a lack of correlation with traditional assets like property. Moreover, infrastructure can deliver inflation beating returns over the long run if properly structured and managed," says Ndlovu.

He adds: "The great thing about infrastructure is that you are physically building something from scratch, buying land, buying materials, hiring people who would have been unemployed, bringing in different suppliers, bringing in professionals, architects, engineers, lawyers and others.

"It really is the very essence of creating economic activity when you put up infrastructure assets. Not only that, once it's up and running, it makes economic activity easier." This makes it one of the investment themes that generate not only good financial returns for investors, but also improves society's productive capacity.

One step of many

Ndlovu's only reservation is that the current proposal is not enough to unlock the full investment opportunity envisaged in the Minister of Finance's speech.

"According to McKinsey, Africa is suffering from an infrastructure backlog of at least US\$70bn per annum, representing a significant opportunity for long term investors such as retirement funds.

Closing this gap requires a number of aspects in the investment ecosystem to further improve – a steady flow of well structured investable projects, security of revenue for investors, enabling partnership models with the public sector, skilled professional advisors to help investors navigate the associated risk and enabling state involvement, among others.

"However, I'm optimistic that more precise measurement of retirement funds' current infrastructure investments, which is part of the proposal, will raise the visibility of this asset class and spur more interest among trustees and investment consultants.

"The proposal is timely, given the need to stimulate economic growth after the 2020 lockdown recession," he says.

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Considering infrastructure in a Regulation 28 compliant portfolio

*Carolyn Rath, CFA, Senior Investment Consultant,
Mentanova*



The draft amendments to Regulation 28, which include an increase in the limit on investment in domestic infrastructure across all asset classes to 45%, have been welcomed by industry bodies and commentators as Treasury proceeds with the consultation process. But what is the investment case for investing in infrastructure?

Infrastructure is a big part of our everyday lives and includes 'real assets' that we are all very familiar with, such as roads, ports, railways, bridges, and so on. However, investment in infrastructure assets is a less familiar topic as these assets are often classified as alternative investments and are less commonly seen in portfolios made up of predominantly traditional asset classes.

For the purposes of Regulation 28, infrastructure is not classified as an asset class in its own right, but rather as an investment that is most frequently accessed through unlisted investments like private equity funds or listed investments like stocks and bonds.

Ultimately, investors will assess a potential infrastructure investment like any other investment opportunity in the market, so there should be a clear rationale and strong investment case for investing in infrastructure. With this in mind, some of the key characteristics of infrastructure include:

1. Long term time horizon

The long average life span of infrastructure projects means that these investments typically have a long term investment horizon. While private equity funds may exit this type of investment before the end of the asset's life span, the average life of an infrastructure asset is many years and liquidity tends to be low. This makes infrastructure assets a good prospect for long term investors.

2. Attractive risk return profile

It is widely believed that infrastructure offers stable and predictable cash flows, given the bond-like characteristics of this investment. However, one of the biggest challenges that must be faced in considering this type of investment is the lack of available data. While empirical evidence is somewhat mixed, the economic use of infrastructure assets (inelastic demand) and the fact that these projects often come with a contracted revenue model that will inform the pay-off profile over time suggest that these investments offer some degree of predictability. An example of this is an established toll road that has a steady traffic flow profile. The cash flows and revenue from infrastructure are also often linked to inflation (such as inflation-linked rental agreements), offering some degree of protection against rising costs.

Considering infrastructure in a Regulation 28 compliant portfolio

Infrastructure risks meanwhile include risks related to regulatory changes, the behaviour of government contracting authorities, exposure to business cycles, finance risk, as well as risks related to the specific infrastructure project and management thereof.

Understanding these risks is the first step in considering whether or not to pursue an infrastructure investment and will depend on factors such as geography, industry sector and the specific infrastructure project. Furthermore, the investment vehicle utilised to access the investment will influence its risk and return profile.

3. Use of leverage

The cash flow profile and asset backed nature of infrastructure investments mean that these projects are often financed with high levels of debt. While debt financing is a common characteristic of infrastructure investments, it does present a potential risk should the revenue generating abilities of the infrastructure project not be sufficient to cover the cost of that debt.

4. High barriers to entry

The large scale nature of most infrastructure projects creates high barriers to entry for most investors. However, the collective investment of institutional investors, such as retirement funds, can be a major competitive advantage in this space, facilitating access to these large scale projects.

5. Diversification benefits

The diversification benefits of infrastructure vary, depending on the type of infrastructure investment. For instance, a correlation analysis since 2001 shows that there is as much as a 90% correlation (in USD) between the S&P Global Infrastructure Index and the MSCI World Index as well as the S&P Global Property Index. Conversely, an analysis of several private market funds available domestically shows that unlisted infrastructure has a much lower correlation with traditional assets. This suggests that certain infrastructure investments can offer diversification benefits, which can help to improve the risk adjusted return profile of a portfolio.

While we have highlighted some of the key characteristics of infrastructure, it is important to note that these characteristics will vary depending on the stage that the infrastructure project is in, that is, whether the project is in the construction stage or fully operational. Furthermore, the project type and investment vehicle utilised to gain access to infrastructure could have a significant bearing on the benefits/risks of this type of investment and inclusion should thus be considered on a case-by-case basis.

Utilising investment managers who have the necessary expertise and understanding of available infrastructure projects, as well as the ability to access these opportunities, is therefore key. Diversification within an infrastructure portfolio is another important means to limit concentration risk in one particular infrastructure type or industry.

At this stage, nothing is compelling local institutional investors to invest in infrastructure. However, the draft amendments to Regulation 28 suggest that this is something that the government is prioritising in the context of weak domestic growth, which has been exacerbated by the COVID-19 pandemic. This could present investors with an exciting opportunity to gain greater exposure to infrastructure investments, for the ultimate benefit of the broader economy. However, project specific risks, political and regulatory risks as well as business risks need to be carefully weighed up.

Finally, investing in infrastructure should be considered within the context of an investor's holistic portfolio. In other words, the investment should be viewed relative to the asset class that the investor would be turning away from in order to determine if he/she would be in a better position from both a risk and return perspective. This ensures that the investor will remain optimally positioned to achieve his/her investment objectives.



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Multi-management: taking the hassle out of investing



*Riccardo Fontanella, Head of Technical Marketing,
Alexander Forbes Investments*



We have had the privilege of working with institutional clients of different sizes, across different sectors and regions, understanding their goals and challenges. Every client is different, with unique circumstances, needs and aspirations. Yet, through our many conversations with fiduciaries and employers, there exists a shared commonality when it comes to managing retirement savings on behalf of members – it is not getting any easier.

The reality is that prudently overseeing retirement savings is challenging today. The investment industry is shifting and evolving at warp speed. Fiduciaries need to understand and navigate an increasingly complex landscape on behalf of their members. The pressures, challenges and complexities brought about by volatile markets, changing regulation and innovative solutions have greatly shifted the agility and diversification requirements of portfolios and their ability to deliver on their objectives.

In this environment, fiduciaries are facing increasing pressure to have their members' savings work even harder to deliver better value. This means that portfolios have had to diversify much more than before to achieve certain risk adjusted returns, expanding the capabilities, time and expertise required to manage members' investments. These days, building real investment value over the long term makes the fiduciary role a daunting one to fulfil.

Many trustees have noticed a shift in their committee's fiduciary concerns and have asked for help. Now more than ever, we have witnessed a gravitation toward more support in investment management functions from fiduciaries where time, expertise or cost pressures have become burdensome. Fiduciaries are looking to service providers for a more dynamic approach to administering, managing and monitoring their members' investment portfolios holistically.

Multi-management: taking the hassle out of investing

In the pursuit of taking the hassle out of investments, there is a growing interest in multi-managed investment solutions across the broader market, globally. This makes sense for a number of reasons:

The choice paradox: too much choice is not always a good thing

Fiduciaries are simply overwhelmed by choice. It is a juggling act and they are increasingly being asked to juggle more at the same time with less. Not having to make difficult decisions is a luxury. What many fiduciaries are seeking is “bandwidth” to help them streamline their decision making process – and for good reason. Too much choice and complexity can compromise the agility of fiduciary decision making and lead to poor outcomes. For fiduciaries tasked with numerous difficult decisions, the answer is not having more options to choose from but rather being better at choosing.

Multi-managed portfolio solutions can help fiduciaries delegate day-to-day investment decisions to industry experts who monitor investments in real time and take decisions on time. Decisions are leveraged using the insights and expertise surrounding each core area of investment management and grounded in industry best practice. Importantly, streamlining the investment decision making process offers fiduciaries more time to rededicate their committee's focus on influencing better financial behaviour and decisions that have a far greater impact on members' outcomes.

A tall order: the heavy burden of fiduciary responsibilities

Positively influencing members' ability to successfully prepare for retirement is a remarkably noble cause to have – with serious responsibilities attached to it. Fiduciaries carry a heavy responsibility for the prudent handling of their members' savings, investments and nest eggs.

Today's fiduciaries are required to be gifted multi-taskers – portfolio manager, asset manager researcher, administrator, economist, analyst and legal consultant, all wrapped into one. Our experience shows that most fiduciaries tasked with multiple complex responsibilities are stretched, often while balancing the demands of a full-time position elsewhere. Being a fiduciary is a tall order to fill, but fiduciaries don't have to do it alone.

Multi-managed portfolio solutions help lighten the load by making investments easier. When fiduciaries choose to invest in a multi-managed portfolio solution, they are in effect onboarding a dedicated industry expert as a co-fiduciary into their committee. Dedicated investment professionals, operational specialists and legal teams are equipped to handle the complexities of today's marketplace on a committee's behalf, effectively and cost efficiently. Ready access to these investment-related services means that fiduciaries spend less time thinking about how to build, manage and monitor portfolios for the future and more time ensuring their members receive the attention they need to adequately plan for their own financial well-being and retirement.

The governance gap: solving the governance puzzle

Good governance means having the right people, processes and systems in place to successfully manage a retirement fund on behalf of members. It is about how well a committee can respond to unexpected events, understand risks and how to manage them, monitor compliance, enhance transparency and optimise operations.

Multi-management: taking the hassle out of investing

Fortunately, bridging the governance gap for members is more feasible than one might think. A good governance structure around your members' investments is like a jigsaw puzzle. It consists of several pieces – investment management, asset allocation, manager selection, market awareness, regulation and risk and operations control – that need to be joined together to form an integrated governance system.

Multi-managed portfolio solutions can provide fiduciaries with a full suite of high quality governance and risk mitigation and management services. Although some fiduciaries are concerned that delegation to a multi-managed portfolio solution would cause them to lose control, the reality is that this move usually helps them broaden and strengthen their committee's governance framework. This means that members stand a much better chance of realising better outcomes through funds that are managed to the highest standards.

Managing expectations: the real costs of emotional investing

Poor investment decisions undermine good investment returns. Fiduciaries have realised that they need to be doing something differently to help members crowd out harmful investment decisions within and across their member bases. Previously, the focus has been predominantly on investment performance. However, even the best performing investment is constrained by the decisions and actions of its investor. The rate of return earned on members' investments is important, but only in the context of keeping them invested and on track to reaching their investment objectives by not letting their emotions win over reason.

Multi-managed portfolio solutions aim to manage members' savings and investments in a way that is tied to expectations and comfort levels. The best skills and investment strategies of more than one asset manager, across different investments and regions, are carefully blended to produce a smoother return stream relative to other market-linked portfolios. This is because the poor performance of one investment is compensated for by the good performance of other investments in the multi-managed portfolio solution. If fiduciaries can provide more comfort and certainty to their members by keeping their emotions in check in the pursuit of their investment objectives, then they have done their job well.

Multi-managed portfolio solutions provide a unique opportunity for fiduciaries to optimise the holistic investment management of their investment portfolios. This article has just highlighted a few key areas where multi-managed portfolio solutions can help fiduciaries address investment-related risks, pressures and challenges and, at the same time, allow fiduciaries to spend more time promoting improved outcomes for their members.



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What 73 years of multi-asset investing has taught us



Ugo Montrucchio, Head of Multi-Asset Investments, Schroders Europe

Much has changed in financial markets over the last 73 years since Schroders launched its first balanced mandate, and there are a number of lessons we can take from past experience that could be helpful in navigating the future.

1) Diversification still matters...

Looking back, history suggests that during periods of low and stable inflation, a negative correlation between equities and bonds exists. The resulting low and relatively stable interest rates have amplified the diversifying role of bonds in a portfolio.

However, in a world in which inflation comes back, this role may be challenged. When inflation is high, history suggests there's a positive correlation between equities and bonds. In this environment bonds may struggle to be as effective diversifiers. Investors will therefore need to think harder about how to go about creating a diversified portfolio – they can no longer rely on bonds to diversify equity risk.

2) ...as does flexibility in asset allocation

Our analysis suggests that during an economic recession or recovery, the dispersion of returns from various asset classes increases and asset allocation matters more than stock selection does. Meanwhile, when an economy is in its expansion phase, history tells us that stock selection contributes more to returns than asset allocation.

This is why we believe there's merit in being flexible with one's investment strategy, varying asset allocation throughout the economic cycle.

3) Monetary support likely to give way to fiscal support...

Liquidity has been a major driver of financial market returns, especially over the last 10 years. Prior to the last crisis (the global financial crisis of 2007-2009), the US Federal Reserve's balance sheet was fairly stable, but in 2008 it started pumping liquidity into the financial system in order to rebuild banks' balance sheets. This fed through into financial markets but not into the real economy.

This time around, with monetary policy accommodative in most of the world, the baton has passed to fiscal policy to support ailing economies. We're likely to see this transition from monetary expansion to fiscal support play out over the next five years.

What 73 years of multi-asset investing has taught us

4) ...this could lead to inflation further out (although it's too early to tell)

The combination of monetary and fiscal stimulus could create inflation. But inflation is notoriously complicated to predict.

With generous fiscal measures directed at consumers rather than the financial system, we could see inflationary risks increase in the developed world. Especially as this money feeds through to significant consumer spending over the next few years.

But it's too early to predict whether this will happen with any certainty.

Pre-Covid, the prevailing view was that the global economy was facing secular stagnation. In other words, poor growth and low inflation as demographics and a technological revolution conspired to structurally depress economic and price growth.

These structural forces still exist. The combination of these and the transition to huge fiscal support means that the upside risk to inflation appears more balanced, in my view.

5) Regulation and cost pressure here to stay

Regulation and cost pressure have characterised the asset management industry over the past decade or so and they're not going anywhere anytime soon.

One aspect of this is the debate about active versus passive management.

However, the debate misses the point that there's space for both active and passive in a portfolio. They are not mutually exclusive, and you don't have to pick one over the other. There's a very strong case for using a blend of active and passive.

A passive approach is very effective in providing access to efficient markets such as those in the US, while active managers can add value particularly in inefficient markets like emerging markets, credit or distressed debt.

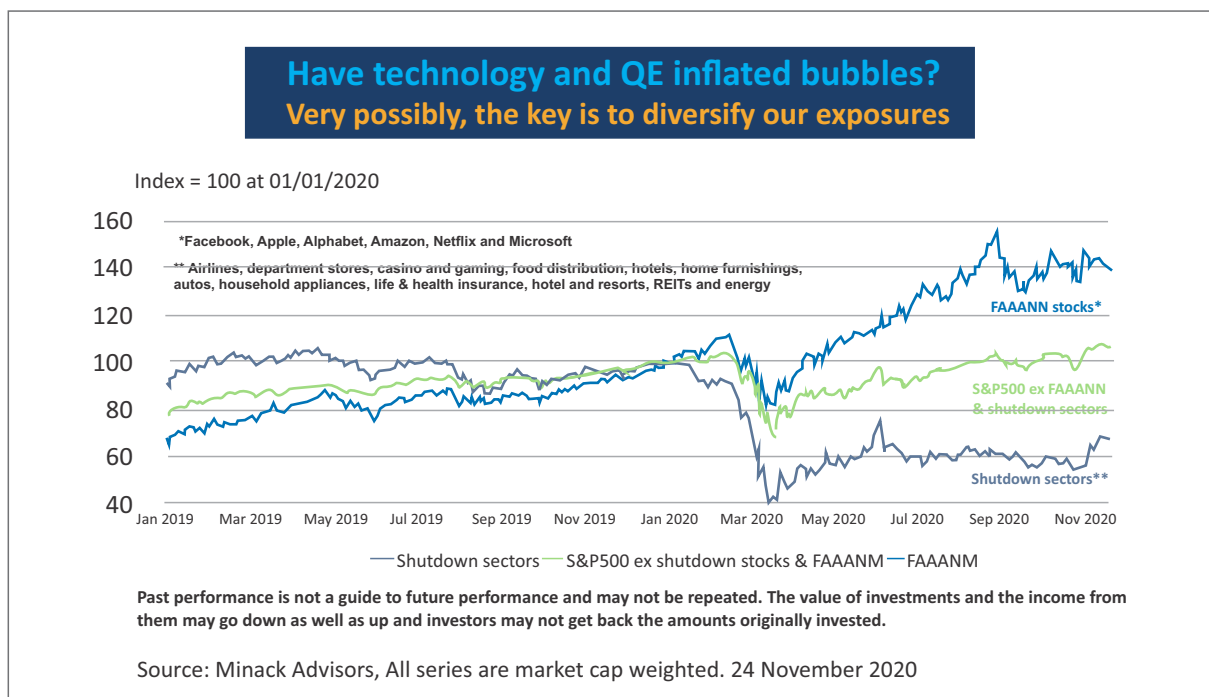
6) We may be in bubble territory so diversify your exposure

There's also no clear cut answer to the question of whether technological advancement and quantitative easing have inflated markets to bubble territory. In my experience, identifying bubbles in stock markets is only possible with the benefit of hindsight. A stock market bubble happens when stock prices rise significantly and no longer reflect what the company is really worth.

That said, I do believe we could very well be in a bubble, but it is localised in certain areas of US technology stocks. These have been beneficiaries of significant investment but trade at excessive and unsustainable multiples. To my mind, the bubble is not so much in the large cap technology stocks, the FAANG (Facebook, Apple, Alphabet, Amazon, Netflix and Microsoft) stocks of this world. While they do trade on expensive valuations, they also have a long history of producing very strong margins year after year.

Rather I think the bubble could be in the second tier tech stocks which are trading at lofty valuations and whose revenue projections are overambitious.

If we strip out technology and the stocks that have been worst hit by global economic shutdowns as per the chart on the next page, we can see that valuations (represented by the middle green line) are not excessive. Looking at the sectors that did badly last year because of the pandemic and didn't participate in the rally we've seen since November 2020 (in other words. the "shutdown sectors", dark blue line on the bottom), valuations are still very much acceptable.

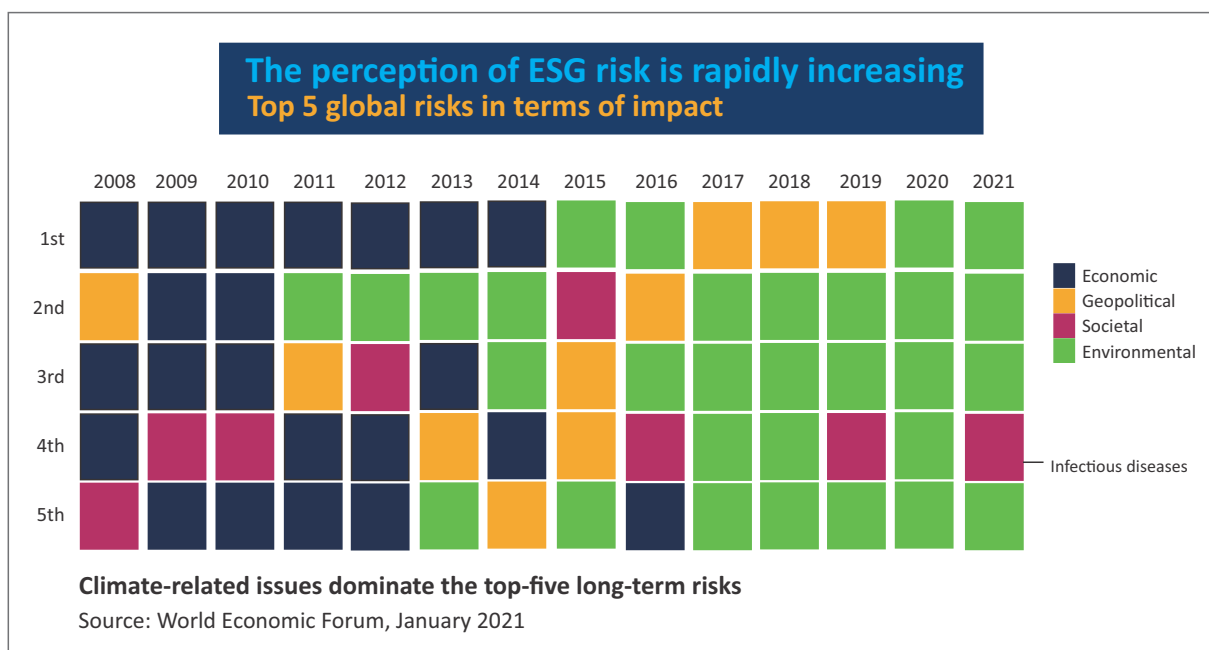


A way to navigate through what may well turn out to be a bubble, is to diversify your exposure and cast your investing net as wide as possible.

7) Sustainability will only grow in importance

As investors we will have to tackle important issues like stakeholder management and how we navigate the transition towards a low carbon economy.

The below chart shows how people around the world are increasingly becoming aware of ESG risks. It comes from the World Economic Forum and shows how since the financial crisis 14 years or so ago, the top five long term risks facing society have evolved from being economic in nature to nearly exclusively environmental.



What 73 years of multi-asset investing has taught us

It's very clear to me from my conversations with clients that people are taking more active steps to move towards more sustainable investment approaches. It's equally clear to me that the scale of the problem we face is immense and that it will have profound implications for how we allocate capital in the years to come.

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Narayan Vyas, Risk Analyst, Ninety One

Risk management's reward: better alignment between fund managers and their clients

Risk has always been a primary consideration for fund managers and their clients. However, what each party has in mind when thinking about risk, and how to manage it, can be quite divergent.

Clear and thorough communication around risk is therefore an integral part of the arrangement between clients and fund managers in order to align the two perspectives as much as possible. In the following discussion, we consider some of the main aspects of risk from the client's perspective, the dimensions a fund manager can and should analyse as part of their risk management framework, and finally conclude with some real world observations.

A key determinant of risk from the client's perspective is the investment benchmark: whether one is specified or not, and if so what type of benchmark it is (market index, risk free rate, real return target, etc.). This decision dictates whether risk is viewed in an absolute or relative context, which will in turn inform all criteria around risk tolerance and acceptable limits the manager will be required to abide by. Consequently, it is important that the benchmark choice is consistent with the type of portfolio concerned, the investment strategy, and the return target. Once this is in place, attention can be turned to the corresponding parameters of the investment management agreement. This can entail anything from limits on total risk, maximum position sizes on both an individual instrument level and sector or subsector level, to quantifying deviation in positioning from the benchmark and limiting that. However, viewing the dogmatic process of monitoring a portfolio against a list of risk limits as the risk management process in its entirety is misguided as it disregards the nuance and judgement that is inherent in true risk management.

Risk management's reward: better alignment between fund managers and their clients

From the portfolio manager's side of the investment management relationship, the many types of risks embedded in the various instruments that make up the client portfolio are well known. From events that result in permanent loss of capital such as defaults on debt instruments or degradation in company values due to changing competitive dynamics, to more transitory movements like short term market trends, there is much for the manager to contend with on an ongoing basis in the quest to deliver on the client's return objective. A fundamental principle underpinning financial markets is the positive relationship between risk and expected return, meaning that in most cases there are risks that must be accepted in order to generate anything higher than a risk free rate of return. These are the risks the manager deems appropriate and worth being exposed to, in other words intended risks. One of the most important functions of risk management is to detect any *unintended* risks, those that are a side effect of portfolio construction and not expressly part of the investment process.

There are various techniques available to detect unintended risks. The most straightforward of these is simply to be aware of what the major contributors to portfolio risk are. In most cases, these should be the instruments that have the most potential to contribute to the portfolio's return, and that the manager has the most conviction in, thereby justifying the risk being taken. On the other side of the spectrum, the manager should similarly be aware of the instruments that are reducing or could reduce total risk the most. These instruments may well be the first port of call if or when risk needs to be reduced in response to market developments.

Next, the sensitivity to various market indices or events should be understood in order to give an indication of what the major determinants of the portfolio's behaviour are. In the case of specific market indices, the beta coefficient is an appropriate metric. Most easily thought of as the coefficient of the regression between the portfolio's returns and those of a specific index, this metric can be positive or negative and its magnitude indicates the portfolio's sensitivity to the index in question. Another method for evaluating portfolio sensitivity is through scenario analysis or stress testing. This entails subjecting the current portfolio to an extreme set of market conditions that can either be a hypothetical one devised by the manager or a replication of a past period of market volatility to get a sense of how the portfolio would have behaved in those conditions. In both beta and scenario analysis, pre-existing expectations of portfolio behaviour can be compared with the results of the analysis and major discrepancies can then be analysed further.

An additional aspect for fund managers to consider is that of style risk. History has shown that any investment strategy will have periods of underperformance across a full market cycle. The nature of the analytics we now have access to in the realm of risk management has made it possible to isolate style factors and map these to various approaches such as value, growth, momentum, or some hybrid of these. With the increasing availability of this data, it is important for managers to understand where they fall in relation to the style factors present in their investment universe. This can provide objective insight into whether actual positioning is consistent with the stated investment philosophy that is communicated externally. In addition, a manager's style signature provides some indication of the conditions in which their portfolios may be expected to perform above, in line or below benchmark.

Once these risk metrics are implemented, understood and monitored by the manager, the next step is to engage with clients on the output. This will go a long way to demonstrating the manager's commitment to understanding and managing risk in a formalised and professional manner. This is not to oversimplify the nature of the subject matter, however. Because risk management is done in the face of uncertainty, judgement will always play a significant role in how output is used. Risk management tools typically make use of statistical models that rely on historical data to generate risk estimates, and we know that the past does not always resemble the future. It is important to remember that risk management is not an attempt to predict the future; rather it is the process by which important risks are identified and quantified before the fact so that both client and manager can build a picture of how the portfolio might react to future market conditions.

All of this means there is unfortunately no quick and easy solution to ensure risk is managed at all times. No amount of box ticking and sweeping regulation can eliminate the probability of unexpected losses when the next market crisis hits. However, an investor with well thought out objectives and a clear idea of their risk tolerance contracting an investment manager with a rigorous and formalised risk management process together stand a much better chance of agreeing on the correct set of investment objectives to begin with, and then maximising the probability of reaching them, regardless of the market conditions they may encounter. This is the basis of a mutually beneficial investment management relationship and is the type all industry participants should strive for to contribute to a healthy and robust investment industry.



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Investing for a
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In this article we discuss how smart consolidation may be the solution for many black owned and managed businesses to becoming significant competitors to the large incumbent mainstream asset managers. You may well be aware of the acquisition of start-up black owned and managed asset manager Ngwedi Investment Managers (R7.7 billion AUM) by another majority black owned asset manager, Taquanta Asset Managers (R217 billion AUM). This represents the most prominent transaction in recent memory, involving two majority black owned asset managers. The question we ask is, is this the beginning of more to come? There is a lot to be said for strength in cooperation.

Smart consolidation in this context is a concept which describes the combining of assets under management (AUM) and complimenting skills of asset managers to create combined multi-strategy and multi-skilled investment firms, enhancing their ability to deliver a diversity of investment capabilities.

Black asset managers are too fragmented to challenge.

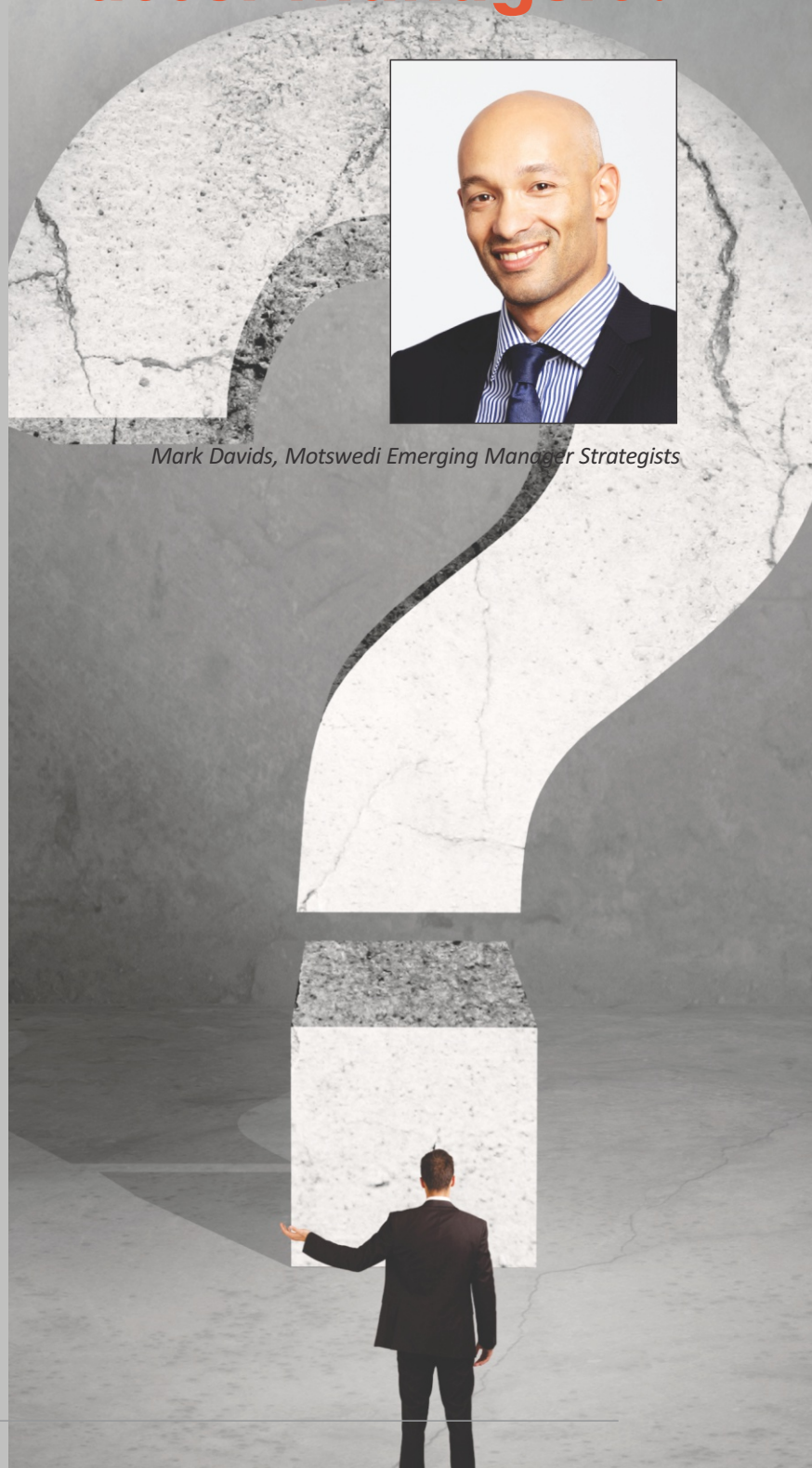
It is well known that the value of representation of majority black owned asset managers had reached approximately R600 billion by mid-2019 – shared by approximately 42 black asset managers. For an idea of the scale, Ninety One (previously Investec Asset Management) alone had AUM of R604 billion at the same date. This is relative to the total long term savings and investment industry size, available for private asset managers to manage, of around R5.5 trillion excluding the Public Investment Corporation (PIC) assets.

The ongoing question industry observers have been asking is are there too many small black asset managers to meaningfully challenge the few large asset managers? It is a known fact that these large managers have a choke hold on the long term savings and investment industry.

Will consolidation of black asset managers challenge the large incumbent asset managers?



Mark Davids, Motswedi Emerging Manager Strategists



Forms of consolidation

We have observed three different types of consolidations happening in this space. The first being a large asset manager acquiring a small asset manager, like the Taquanta and Ngwedi transaction. This type of consolidation sees the acquiring firm being the beneficiary of excellent skills which can slot into senior and executive level and immediately have an impact on the black representation at those levels. The professionals from the acquired firm tend to be happier to park their egos as the size of the pay cheque is generally enough to compensate for any loss of title. For larger asset managers finding black professionals with the combination of investment and management skills is generally more difficult. For them to grow these skills internally is virtually impossible as the senior management layers in their businesses are clogged by non-black management, which generally occupy these positions and find skills transfer a challenge and, at worse, a threat.

The second kind of consolidation is small business to small business mergers. An example of this is the Jophi Capital (R0.2 billion AUM) and Legacy Africa Investment Management (R3.7 billion AUM) merger in 2019. These transactions are much more difficult to navigate for the merging entities and are notorious to tie down. In small businesses the personalities of the founders are still very entrenched in the businesses and the personal sense of ownership and control is strong - often they find it much harder to let go of aspects of control.

The relative size of the businesses means that the size of the cheques may not be enough to placate the egos of the founders when it comes to giving up titles and responsibilities. A case of “two bulls in one kraal”, means that the issue of leadership becomes a thorny one. Proactive humility in leadership and change management become critical aspects in the negotiations to ensure the resulting organisation structure and business conduct is optimal for the success of the merged entity.

The third kind of consolidation is the mergers between large asset managers. To put this in context, large refers to asset managers between the size of R10 billion in AUM to beyond R30 billion in AUM. To date, we have not seen any consolidation in this space, which in our view is the area where there is the highest opportunity for consolidation. The institutionalisation of these businesses would be further down the line,

hence the sense of giving up ownership control is easier managed and the cheque book sizes are big enough to manage egos.

The smart consolidation of three black asset managers in this size category would have the potential to create a combined majority black owned asset manager the likes of which has not been seen before. A force to be reckoned with, capable of taking on the larger established names in the industry. This entity would allow the investment professionals to focus their energies on investment decisions and allow the business professionals to manage the consolidation and growth of the entity.

Interestingly some of the businesses in this space have already given up stakes in their business to outside investors (like Rand Merchant Investments – RMI) with the aim of growing their business through the glass ceilings they collectively found themselves under. Time will tell whether these decisions will reap the rewards expected.

Solutions to consolidation

The biggest challenges facing consolidation are job losses, the fact that a high percentage of mergers actually fail and the managing of personalities is not an easy task. Change management can allow for zero job losses during consolidation but will require egos to be checked at the door – certainly easier said than done. Leaders require humility and vision to lead their teams through change. Having a talented team may be to the firm's advantage, but unless these can be harnessed to work collectively, it is a wasted opportunity.

Perhaps a solution lies with incentivising smart consolidation where larger pension funds encourage conversations around consolidation between managers and dangle the proverbial carrot of assets to be managed should asset managers successfully come together. This incentive can come in the form of “smart seeding”, that is, to strategically assist asset managers with getting newly created capabilities off the ground in order for these managers to achieve product diversification.

We believe consolidation as a clear way for emerging asset managers to grow their businesses to higher levels of competitiveness and sustainability among the incumbent large asset managers.



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Collaboration is key in solving for effective stewardship to drive impactful change



Robert Lewenson, Head of ESG Engagement at Old Mutual Investment Group

At last year's virtual Global ESG Impact Summit one of the panel discussions asked the question: "While measurable impact metrics have mostly been standardised and accepted for unlisted investments, what about measurable impact outcomes in the listed space?" After some discussion, the group of panellists agreed there is still much room to develop a global standard relating to outcome based stewardship (the term encompassing proxy voting and engagement activity by shareholders when it comes to driving ESG factors) within listed investments.

The United Nations Principles for Responsible Investment (UNPRI) article, "Active Ownership 2.0" makes the case for a vision of an evolved standard in stewardship. It explicitly and actively prioritises critical systemic goals and collective effort aimed at concrete outcomes, rather than processes and activities or narrow interests. The article identifies three areas of focus:

1. Outcomes are key, not inputs or processes.
2. The need for common goals that are not individual, but society and economy wide.
3. Improved collaboration, not just with investors and capital allocators, but among communities as well.

Taking into account discussions with colleagues and learnings from the Impact Summit, I'm of the opinion that if we truly wish to harness the power of stewardship to drive impactful change, then it is necessary for all providers of capital (debt or equity, listed or unlisted) to collaborate with each other and engage the investee company in order to reach a common goal – be that better ESG risk management practises or seeking opportunities in the green economy.

Collaboration is key in solving for effective stewardship to drive impactful change

Shortcomings of the current framework

In my experience, in the post investment decision environment it is rare for capital providers from different asset classes to systematically share stewardship strategies and work collaboratively with the borrower/issuer to address material ESG risks, even though these risks are held jointly across a number of asset classes. Among other things, different approaches to asset classes (such as investment methodology, time horizon, security ranking), are raised as barriers to collaboration. In addition, capital providers remain fearful that collaboration may trigger regulatory repercussions, such as acting in concert or obtaining inside information. Lastly, the simple competitive environment of the financial system often means that capital providers want to hold their cards and “know how” of the borrower/issuer very close to their chests. Sharing relevant information with competitors and sometimes even within different investment divisions is completely discouraged.

In my opinion, this way of doing things creates a perverse incentive for the borrower/issuer/investee company to engage with its capital providers differently, whereas the opposite should be true, especially regarding ESG issues.

Creating an environment for collaboration

In setting a global framework for multi-asset class stewardship to firmly take root, many countries are now redrafting their stewardship codes to include guidelines for different assets classes to work together towards stewardship outcomes. In addition, many private equity and debt provider investment firms are joining international organisations, like the UNPRI and the International Corporate Governance Network (ICGN), with stewardship as one of the founding tenets of these organisations. As the multi-asset class members of these organisation swell, so too have the so called “impediments” to collaboration, as described in the previous section, been reduced.

However, to truly transition to an evolved standard of stewardship, along with guidelines and regulatory simplification, global players like the UNPRI and the ICGN need to play an enabling role by crowding in various providers of investment capital using their collaboration platforms and thought leadership to advance specific goals. In this way, the outcome is the key factor and any capital provider member of the organisation can rally behind a specific ESG cause.

In addition to providing the platform for multi-asset class collaboration, the UNPRI and ICGN must also ensure that all participants follow the rules of engagement with the issuer/borrower in a transparent and equitable manner such that all participants are able to distil the most material ESG risk and its effect on their investment. This may entail a ranking system of those investors who would lead the engagement, those would have the most influence on the issuer/borrower and those who would be tracking the engagement process in terms of milestones and further review.

These actions, I believe, strengthen the likelihood of a global standardised stewardship framework focused on impactful outcomes. Ultimately, though, it is for each capital provider to reflect on the value of its stewardship activities to better the performance of its investment portfolio and acting in its clients' best interests.



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Dr Michael P. Streatfield, Senior Quantitative Strategist, STANLIB

US stock market capitalisation makes up nearly half of the world index. Understanding the actions of the US Federal Reserve (Fed), and how its policy stance impacts markets, is critical for investors worldwideⁱ. We have paid close attention to Fed behaviour and observed a profound change post-pandemic.

There is now a focus on unemployment and inclusivity, and under a new more liberal Democratic US government, we expect the Fed to worry about unemployment first, and then inflation second. The market impact is an increase in volatility and a reprise of inflation risk for bonds.

Over the past decade, Fed action has been predominantly focused on prices and inflation. This changed when it dusted off the longer run goal framework (initially drafted in 2012) and made substantive changes on 26 January 2021ⁱⁱ.

Phrases such as the following were introduced, showing the Fed is clearly concerned about the low level of rates, and reminding people of its dual mandate around employment and not just inflation:

“Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that **downward risks to employment and inflation have increased**. The Committee is prepared to use its full range of tools to achieve its **maximum employment and price stability** goals.”

In January 2012, the then Fed's chair, Ben Bernanke made explicit the previously implicit inflation target of 2%, so market participants were able to predict that the Fed would raise interest rates when the 2% line was crossed. The watershed moment under current Fed chair Jerome Powell was the Fed switching from a threshold target to one that is assessed on average.

Notably:

“In order to anchor longer term inflation expectations at this level, the **Committee seeks to achieve inflation that averages 2 percent over time**, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to **achieve inflation moderately above 2 percent for some time**.”

We believe this is a market game changer. Markets will struggle to adjust to the more nebulous concept of an average inflation target, especially with an unclear time period for the average calculationⁱⁱⁱ. The US economy is thus going to run hotter than in the past.

ⁱ The Federal Reserve is the US Central Bank governing the country's monetary policy and interest rates.

ⁱⁱ Fed's 'Statement on Longer-Run Goals and Monetary Policy Strategy' can be found at https://www.federalreserve.gov/monetarypolicy/files/fomc_longerrungoals.pdf. One can see the changes marked up here: <https://www.federalreserve.gov/monetarypolicy/guide-to-changes-in-statement-on-longer-run-goals-monetary-policy-strategy.htm>

ⁱⁱⁱ Jerome Powell explicitly said in his August 2020 Jackson Hole speech “In seeking to achieve inflation that averages 2 percent over time, we are not tying ourselves to a particular mathematical formula that defines the average.” (<https://www.federalreserve.gov/newsevents/speech/powell20200827a.htm>)

The huge impact on the labour market brought about by the global pandemic and lockdowns has put employment and getting the US 'back to work' at centre stage. Janet Yellen, ex-Fed chair and now the more leftist Democratic Party's Treasury Secretary has voiced her support of pro-employment policies due to her past academic interest in labour market hysteresis (the persistence of economic effects). Periods of low unemployment can create other persistent positive effects such as raising skills levels, bringing previously side-lined people into the labour force, and raising living standards.

In a post-COVID world, stubbornly high unemployment grimly threatens the reverse - persistent negative effects. Despite the eye-watering levels of stimulus and fiscal support in the US, unemployment has not returned to the 3.9% level of December 2019. Although it has fallen from the shutdown peak of 14.8% to 6.2% in March 2021, Powell warns that the actual unemployment rate is misestimated and could be “closer to 10%”. With the current labour market distortions in play, policymakers clearly remain concerned about these elevated levels.

However, the Fed has taken this one step further and introduced into the Fed goal framework:

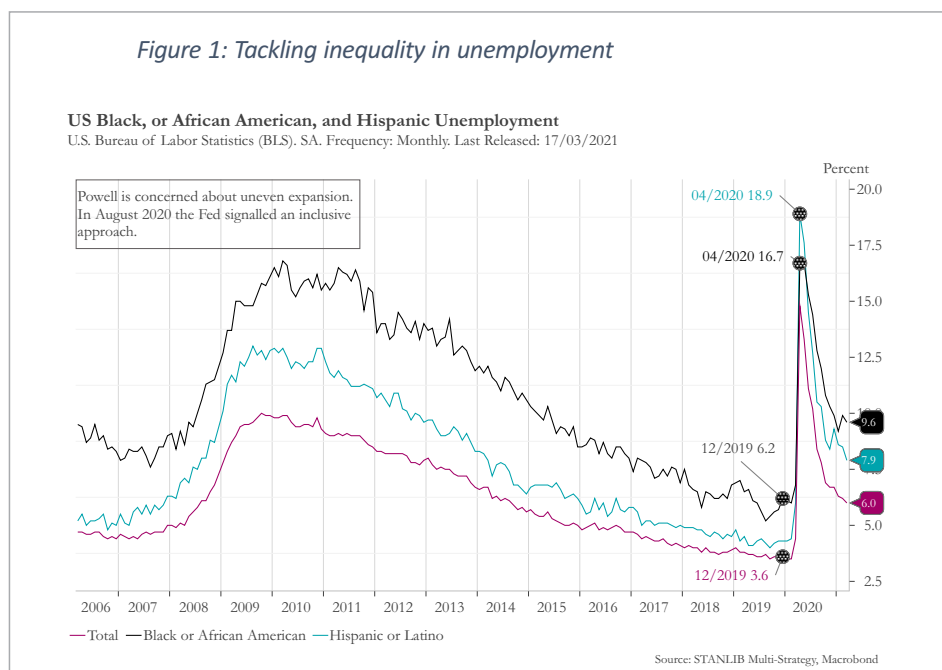
“The maximum level of employment is a **broad-based and inclusive goal**”.

These are laudable ideals, but risk the Fed getting drawn into the political goals of the administration. Fiscal policy is undoubtedly a better tool to deal with this than monetary policy. Nevertheless, Jerome Powell has been very vocal on the need to tackle wider social imbalances.^{iv}

Powell's speeches have covered improving wage growth in the lower quartile of workers, tackling inequality by monitoring the higher levels of unemployment amongst minorities like Black African-Americans, and observing through labour participation rates how less educated (non-college) workers are kept within the workforce.

For example, in the levels of African-American and Hispanic unemployment are much higher than the 6% rate of total US employment.

The Fed's approach to steer the US economy has clearly become more complex. The policymaker shift of focus from Wall Street (investors and the markets) to Main Street (the man in the street) over the next decade is a theme that we signalled at the start of 2020.



^{iv} Refer to Bloomberg news. For example, 7 March 2021, Powell's dashboard how far US economy has to go on jobs

Not your grandfather's Fed...



Impact on markets

This as yet untested Fed reaction function comes at a difficult juncture for markets. Interest rates are close to their lowest level in many markets globally as governments are trying to kickstart fragile economies. Rates close to zero means traditional behaviour may not work as intended. So, old rules of thumb are out of the window. This is new territory for policy makers and investors alike.

Investors are also unclear about the Fed's reference points. Our premise is that increased US market volatility will be a consequence of the Fed's policy and behaviour change. Must total unemployment return to the level in December 2019 of, say, 3.6%, or is a higher rate more likely, given the tremendous structural change created by work from home under COVID-19? How much must minority unemployment improve? In the past, these rates have always been higher than the total unemployment rate. Is the Fed looking to just get back to the past differentials, or completely close the gap? Or target somewhere in-between? And when does inflation and not employment retake the focus? None of this is known.

Foreseeably, inflation will drift higher than expected by the market before the Fed starts to react. High inflation can rapidly get out of control, so should investors be pricing in potential policy mistakes?

This is a great concern for bond investors, who are paid set nominal amounts in the future and are exposed to unanticipated inflation. If we are moving into untested, yet higher, inflation waters, then it seems rational that bond rates must rise (and bond prices tumble) as a new inflation risk gets 'priced' into markets.

This continues to underline the weakness of a 60/40 'passive' bond holding to control risk in a balanced portfolio. More comprehensive multi-strategy approaches, that can draw on other asset classes and strategies, aim to provide more diversification and risk mitigation. The Fed's new framework puts investors into new waters, and all we can be sure of is some rapids ahead.

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[STOCK - TAKE]



Emerging market exchanges and the rise of retail investing



Suhail Suleman, with contributions from Paul Neethling, Lisa Haakman, Iakovos Mekios and Danie Pretorius, Coronation Fund Managers

The past quarter saw significant attention drawn to retail investors in the developed world and how their coordinated activities resulted in wild swings in the prices of heavily shorted shares.

Promising long term growth seen in emerging equity markets

GameStop was the most prominent example of this. In emerging markets, the long term trend of greater retail participation in several countries off a very low base is something we have highlighted before. We like the business models of securities exchanges as they tend to dominate trade in their local markets and are akin to a local monopoly. If run correctly, they can build significant moats around their respective businesses and earn very high returns on capital, while generating cash that is distributed to shareholders. The primary driver of these high returns is scale, as the majority of costs are fixed in nature. As volumes increase – either through new listings or through greater turnover (liquidity) of existing listings – the incremental profits on these volumes tend to fall through to the bottom line. In our coverage list, most exchanges earn EBITDA margins well in excess of 50%.

Figure 1 shows the margins of four emerging market exchanges, as well as selected peers in the developed world. Strictly speaking, one cannot compare margins between exchanges to measure relative efficiency, as their offerings differ in terms of securities traded and ancillary services offered. Yet even in highly competitive jurisdictions like the US and Europe, where firms have any number of exchanges from which to choose, high profitability is the order of the day. In this article, we highlight a few emerging market exchanges and briefly touch on how retail investing is impacting their business.

Figure 1
MARGIN COMPARISON OF EMERGING MARKET EXCHANGES

Exchange	EBITDA margin (Fy2020)
B3 (Brazil)	80%
BMV (Mexico)	59%
Moscow Exchange (Russia)	72%
HKEX (Hong Kong)	77%
LSE (UK)	54%
CME (derivatives, US)	67%
Nasdaq (US)	55%
Xetra (equities only, Germany)	66%

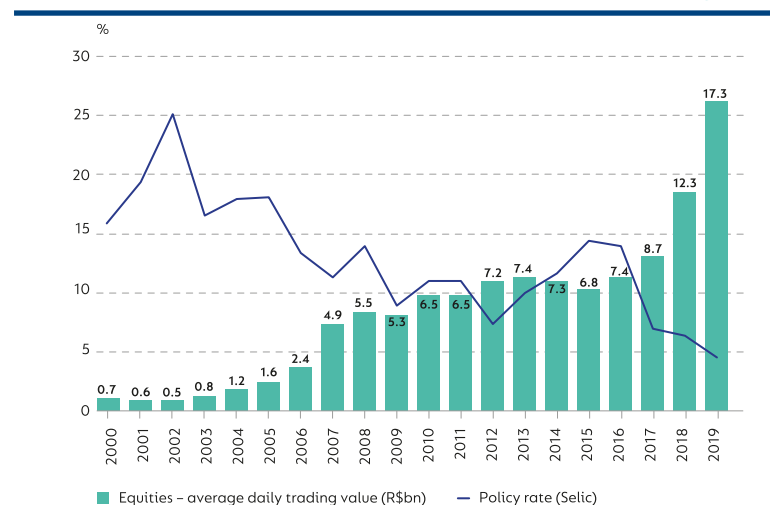
Sources: Bloomberg, company reports

Brazil

B3 is the largest cash, equities, derivatives exchange and depositary company in Latin America. The company enjoys a quasi-monopoly position with high barriers to entry, leading to strong underlying returns on invested capital and great cash generation. Margins are geared toward increasing volumes on the exchange and B3 has undertaken to share the upside on increasing volumes with customers in the form of reduced pricing. By deliberately foregoing some pricing power, they have made it more difficult to be disrupted.

Figure 2

B3 ANNUAL VOLUMES VS. BRAZIL TARGET POLICY RATE (SELIC)



Sources: Company data, Brazil Central Bank

A big historical disincentive for retail investors to be in the equity markets was the easy money that could be made in the fixed-interest market, due to Brazil's very high real interest rates. As interest rates have declined without an uptick in inflation, retail investors are being enticed into the capital markets and daily liquidity has improved (see Figure 2).

Moscow Exchange

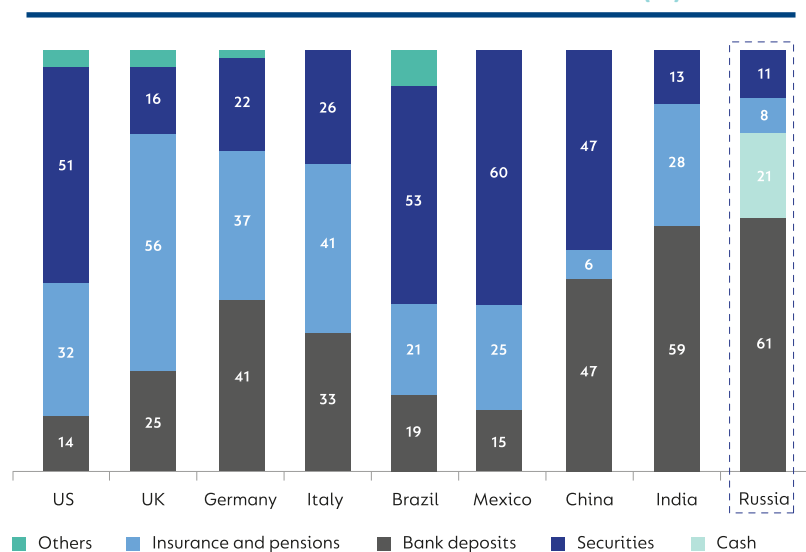
The Moscow Exchange is the largest exchange in Russia and trades the full suite of products, including equities, bonds, foreign exchange, derivatives and commodities. As with Brazil and other emerging markets, declining rates in Russia have led to a search for yield. Investors can no longer earn a decent yield by holding their assets in cash deposits at banking institutions, as rates in Russia have declined from a high of 17% in 2014 to just 4.5% today. The average bank deposit yields just 2.5%.

As a result, the country has seen a steady flow of assets from bank deposits to the markets, but this structural tailwind still has a long way to go. Russia's entire stock market capitalisation is RUB6 trillion (\$78 billion), in contrast with bank deposits of RUB34 trillion (\$444 billion).

Expressed as a percentage of GDP, which is the more meaningful metric, Russia's ratio of stock market capitalisation to GDP is only 5%, compared to over 100% in the US. Equity ownership is still extremely low in Russia, with most Russian investors holding a far greater weighting in bonds and other interest bearing instruments relative to other countries (see Figure 4).

Figure 4

BREAKDOWN OF ASSET CLASS HELD BY COUNTRY (%)



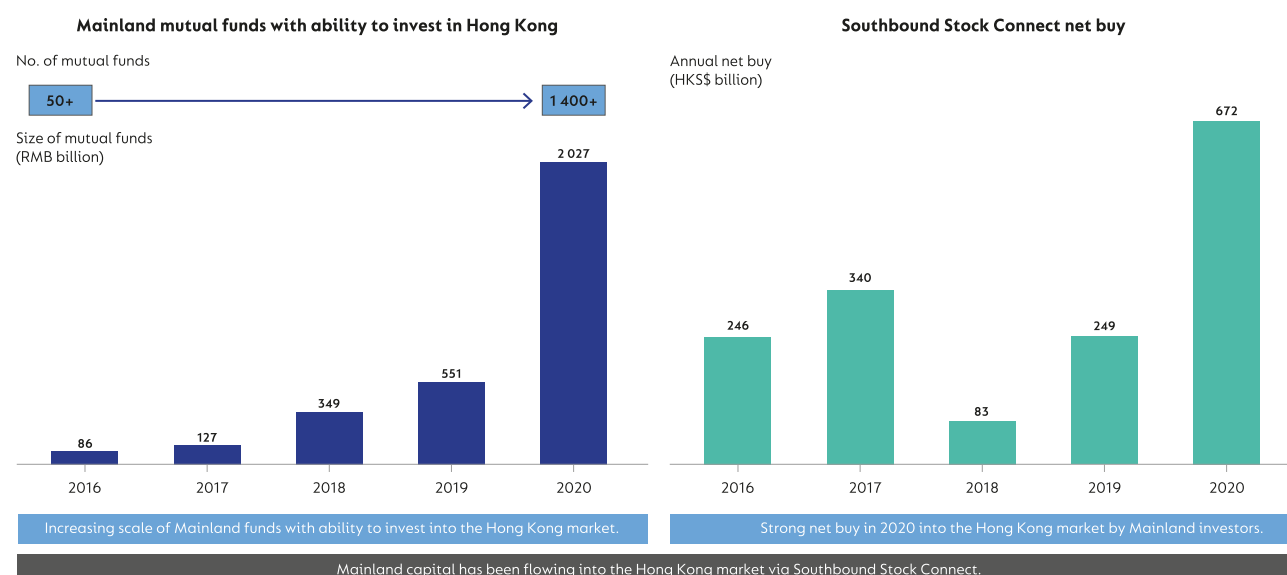
Source: Moscow Exchange

Hong Kong exchanges

Hong Kong Exchanges (HKEX) has seen a significant increase in trading activity in recent period. The drivers of this are both structural and specific to Hong Kong as the gateway to China.

First, increased tension between China and the US, and the subsequent threat of the potential de-listing of Chinese companies from US exchanges, has prompted many of these firms to seek a secondary listing in Hong Kong. Over the past year, high profile names, such as Alibaba, Netease and JD.com, have tapped Hong Kong for a secondary listing. Secondly, Hong Kong's Stock Connect system allows Chinese investors to trade Hong Kong listed shares and non-Chinese to access shares listed in Shanghai and Shenzhen. Southbound trading grew by 90% in 2020, and by close to 200% in the first few months of 2021, and now accounts for 30% of the volume traded in Hong Kong.

Figure 7
STRUCTURAL SHIFTS ATTRACTING SOUTHBOUND CAPITAL INTO HONG KONG



Sources: HKEX, WIND, CICC

Mexico

Grupo BMV is the dominant securities exchange, hosting >85% of equity transactions. There are only 500 000 retail stock trading accounts open, which are less than 1% of Mexico's population vs an equivalent figure of 50% in the USA. Mexico's financial system is thus substantially less developed than its northern neighbour.

A recent overhaul of savings laws should see greater contributions toward pension funds and is expected to raise assets held by pension funds from 35% to 56% of GDP by 2040, benefitting the domestic securities market. Revenues from data sales are still only 11% of revenue and management is investing in this segment to grow its revenue share over time.

The overall theme that should be apparent from the examples above is that the runway for long term growth in equity markets in emerging markets is very promising. Financial systems have strong tailwinds driving higher participation in equity markets, and we expect these to persist for many years ahead. Where exchanges are trading at attractive valuations, we will invest in them selectively.

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In the past, agile change was often described as “fixing the plane while it flies”. However, the Covid-19 pandemic has rewritten the rules of chaos in modern times.

A major drawback of the pandemic is the increased risk that South Africans will not be able to save enough for their retirement. Member education and advice typically focuses on building wealth ahead of retirement. While it is mandatory that this takes priority, greater emphasis must be placed on choosing the right annuity at retirement - this is the single most important decision that will influence your retirement. Choosing the right annuity can bring you sufficient and regular income throughout your retirement.

Financial decision making at retirement is a complex and stressful event for most people, as individuals must decide how to convert their lifetime savings into an income for life. For many, this is uncharted territory, and the threat of poor financial literacy and inadequate advice could negatively affect their retirement. In the financial services industry, it's been an interesting challenge for actuaries to design annuity products that remain attractive. Products need to factor in challenges like volatile financial markets, returns well below the traditional norms and of course people living longer, stacked up against sharp increases in healthcare costs. Given the combination of needs that individuals will have and risks that they will face throughout their retirement years, a single retirement product is unlikely to be appropriate.

At retirement, individuals have the following needs:

- Access to good returns with some investment choice.
- Protection of risks and in particular market and longevity risks.
- Access to capital, before and after death.

The single most important financial decision anybody will ever make!

In a recent PhD study by Dr Jeannie de Villiers-Strijdom (US), 63% of respondents indicated an intent to annuitise into a guaranteed life annuity, while the remaining 37% opted for a living annuity. In reality, at retirement, only 4% of the sample actually purchased a guaranteed life annuity. 20% of respondents opted for a composite strategy and the rest of the sample purchased a living annuity.

In South Africa the average replacement ratios are around 25% to 30%, resulting in retirees simply concluding that they cannot survive on the starting pension offered by a guaranteed annuity. For many people reaching retirement with insufficient capital has meant the most attractive option has been to place funds in a living annuity in order to be able to drawdown sufficient income to maintain their lifestyle.

As an industry, we are all acutely aware of this as we experience the same behavioural patterns. However, what we haven't grasped sufficiently well enough is the huge responsibility we have as an industry to make every effort to steer members in the right direction and prevent them from making the wrong long term decisions with their funds. The industry needs to place more emphasis on the conversations with annuitants a few years after their retirement rather than simply concentrating on advice at the point of retirement. That would be a more efficient use of counselling and advisory resources.

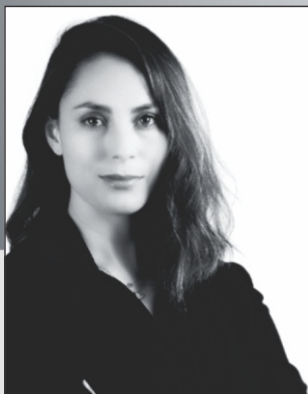
In another case study, we found that, with the appointment of a salaried adviser, member behaviour changed drastically. With the particular fund, previously more than 65% of members elected a living annuity but with proper financial advice, the majority of members are now selecting a life annuity.

Financial advisors and benefit counsellors have a joint responsibility and an important role to play in helping clients objectively consider their annuity decisions and to think rationally about their alternative options. Perceiving a guaranteed annuity contract as fair and equitable, depends largely on the annuitant's understanding of longevity risk and pooling of risk. Financially literate retirees who are aware of the pitfalls in annuity decision making, will be able to make optimal decisions that are in their best interest over the long run, with the desirable outcome of a fulfilling and financially secure retirement.



Divorce and your retirement savings

Jaya Leibowitz,
senior legal adviser at Allan Gray



Although the official statistics for South Africa's divorce rate during Covid-19 are yet to be released, globally, the pandemic sent divorce rates soaring by up to 30% or more during 2020. According to DIY Legal, South Africa ranks in 83rd place out of 154 countries for divorce.

"An issue that is often overlooked in the process leading up to divorce, but equally messy to navigate, is what the implications of such a decision are on a couple's financial affairs," says Jaya Leibowitz, senior legal adviser at Allan Gray.

Leibowitz says that divorce is a traumatic and life altering experience with wide ranging implications, especially when it comes to retirement savings.

"A 'pension interest' deduction allows a non-member spouse to be eligible for a pension benefit from the member spouse's pension from the date of divorce. It doesn't take into consideration the duration of the marriage or whether you were married when you first became a member of the retirement fund," she says.

A pension interest distinguishes between pension interest in a retirement annuity fund, and pension interest in any other retirement fund (for example, a pension fund, provident fund, pension/provident preservation fund).

"It is therefore important to be aware that a 100% pension interest deduction from a retirement annuity fund may not be the full value in the fund. Furthermore, if a member has multiple accounts in a retirement fund, pension interest is calculated at fund level and not at account level. The divorce order must therefore refer to the fund and not an individual account. However, the member may elect which account in the retirement fund the pension interest deduction must be made from," says Leibowitz.

Does pension interest apply to all matrimonial property regimes?

Leibowitz explains that the three different matrimonial property regimes in South Africa are:

1. marriage in community of property,
2. marriage out of community of property without accrual, and
3. marriage out of community of property with accrual.

“The default if you marry without concluding an antenuptial contract is a marriage in community of property. In this regime, you and your spouse each own 50% of the assets and liabilities in the estate (joint estate), and upon divorce each spouse has a 50% claim against the other,” she says. “If you do not want to have a joint estate you must conclude an antenuptial contract, either with or without accrual.”

If without accrual, each spouse keeps their own assets and there is no claim against the other's assets. If accrual is included, at divorce, the spouse with the larger estate (assets less liabilities) must pay the difference between her/his estate and the estate of the other spouse with to the spouse with the smaller estate.

“Importantly, if you are married out of community of property without accrual after 1 November 1984, your spouse has no claim for pension interest from your retirement savings.”

Leibowitz urges couples to consult with a lawyer and financial planner before deciding which matrimonial property regime is best suited.

Who is responsible for the tax?

In terms of the provisions of the Income Tax Act, if the non-member spouse elects to take a cash lump sum, the benefit will be taxed in his/her hands. However, if the benefit is transferred to another retirement fund, the benefit will be transferred tax-free. When the non-member retires or withdraws from that retirement fund, he/she will be liable for tax on the retirement or withdrawal benefit.

What about living or life annuities purchased with retirement benefits?

Pension interest deductions only apply to retirement funds and do not apply to compulsory annuities, such as living annuities. Once a member has exited the fund, the pension interest in the retirement fund no longer exists. Despite the annuity policy not being a consideration for pension interest, a recent court judgement held that the future value of annuity income forms part of the policyholder's estate and must be included when calculating the accrual for a marriage out of community of property with accrual.

“Most importantly, if you are in the process of a divorce, ensure that the wording of the court order and settlement agreement is in line with legal requirements. If the order is granted and the wording is not competent, the fund will not be able to give effect to the order. This will require the court to formally amend its original order, which is a lengthy and costly exercise,” concludes Leibowitz.



Whether you have a lot of capital or a little - it's a good time to invest in property



Ernest Zamisa, Financial Adviser, Momentum

Nobody can deny the devastating impact that Covid-19 has and will continue to have on the global economy. Our personal finances are threatened from all ends, as the lockdown has left millions of South Africans desperately seeking additional sources of income.

For those who have access to the capital and want to own a property, Financial Adviser at Momentum, Ernest Zamisa recommends investing in property as a good way to create an additional revenue stream.

“With interest rates at record lows, coupled with keen sellers; investing in property in South Africa seems to be a very enticing prospect at the moment,” says Zamisa. “If you were ever looking to invest in property either by purchasing a property or through investing in a property fund, now would be the time to do it.”

You don't have to buy, to invest in property

Although there are distinct advantages to investing and owning your own property, if you don't have the capital – or are a little more risk averse – but still want the investment exposure that property brings, the property market is still ripe with investment opportunities. Through a property unit trust, you can invest your money into a fund that is dispersed across a wide variety of properties, which is managed and run by analysts and investment experts.

On the most recent episode of money show Geldhelde on VIA (DStv channel 147), Deputy CEO of Momentum Metropolitan and CEO of Momentum Investments Jeanette Marais said, “Investing in a property unit trust will give you the opportunity to benefit from the growth in property - without the physical hassle that often goes with a house, like maintenance or difficult tenants.”

Zamisa adds that you don't need a huge amount to invest in these unit trusts. “You can invest as little as R1 000 per month to get a good return on investment,” he says

A top rated property trust fund in the country can help you broaden and diversify your property portfolio, allowing you to invest in multiple property types from commercial properties to shopping centres and even residential developments. With a much lower barrier to entry, a property unit trust gives you access to a proven team of analysts and fund managers who have the capabilities and expertise to help you grow your investment.

Whether you have a lot of capital or a little - it's a good time to invest in property

For the buyers - lower interest rates mean property is less expensive

Zamisa says that South Africa is now in what the industry is calling an unprecedented buyers' market. "Banks are actually quite willing to offer 100% home loans, and with the recent reduction in interest rates, the market is well positioned for recovery."

This provides a lucrative opportunity, also for first time buyers, advises Zamisa, who indicates that the prime interest rate currently sitting at 7% makes home loan repayments much more affordable. 'Prime' refers to the rate of interest that commercial banks charge their most creditworthy clients, so it provides a good baseline to predict the interest that you will be paying - provided you have a good credit record.

As an example, it wasn't two years ago when repayments on a home loan of R1m would have cost R10k a month. With the current prime interest rate, this repayment value is closer to R7 600 a month.

However, Zamisa warns that the purchase of a physical property will leave you exposed to the financial elements as interest rates inevitably rise again and the hidden costs of property like maintenance, rates, taxes and municipal accounts management take their toll.

"On the plus side, you can rent your property out and make a more immediate and tangible extra income. Property has shown to be one of the more stable investments over longer time periods," says Zamisa.

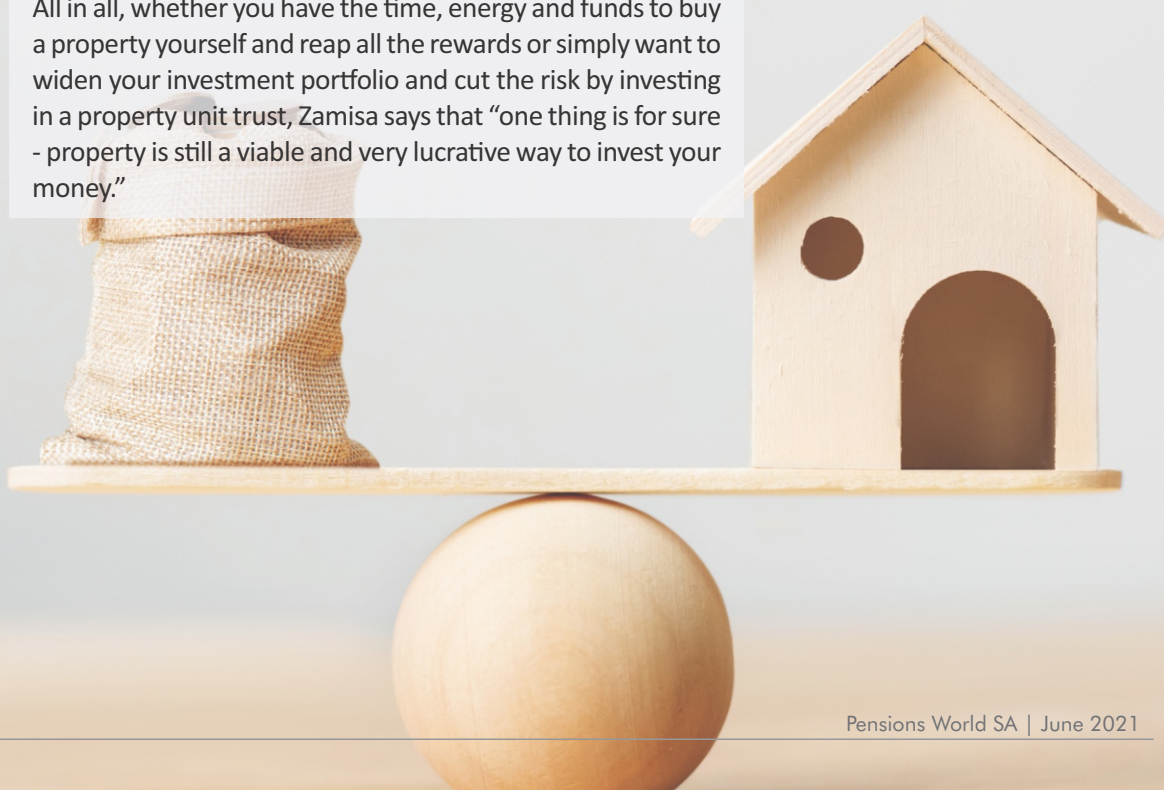
The power of the right advice

Whether you want to buy a physical property or invest in a fund, Zamisa advises potential property investors to seek out a qualified financial adviser.

"If you want the right directions on your journey to success then speak to people who understand the market and will help you draw up a realistic financial plan, he says. "A good financial adviser will assist you by conducting an affordability assessment of your finances and will assist you in calculating what you can reasonably ask for rental, taking the current market into account."

Zamisa says a financial adviser may even advise you to hold off on buying a property and rather focus your available funds into a property unit trust as an alternative way to take advantage of this boom in the market.

All in all, whether you have the time, energy and funds to buy a property yourself and reap all the rewards or simply want to widen your investment portfolio and cut the risk by investing in a property unit trust, Zamisa says that "one thing is for sure - property is still a viable and very lucrative way to invest your money."



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Five trends that will influence post-pandemic business strategy



David Shapiro, Chief Global Equity Strategist; Sasfin Wealth

As South Africa heads into winter, the northern hemisphere heads into summer – but regardless of where you live, everything is different all over again, with experts seeming to agree that we're closer to the end of the pandemic than we are to the beginning.

Global markets are already showing positive signs, with reflation continuing apace, and the IMF anticipating a 6% global growth for the remainder of 2021. What does the landscape against which that growth will take place look like – and what will the main trends leading it be?

Revenge socialising

People have been isolated from their friends and family for more than a year and have had to stay away from public spaces, hospitality locations and entertainment destinations. The rollout of the COVID-19 vaccine means that everyone's going to be able to let off steam as confidence grows - travel, shopping and socialising are going to be big themes in the next 12 months and beyond.

Shopping will look different – for shoppers and retailers

While many customers who turned to online shopping during the pandemic will return for an in-store experience, retailers are going to have to adapt to the changing environment, balancing the costs of brick-and-mortar stores with slick and effective online environments, and dynamic advertising and marketing tactics. Social media has brought producers and consumers closer together too, eliminating middlemen (like wholesalers), as seen in the shift by brands like Nike and Adidas to sell directly to end-users rather than via retailers. E-commerce sites will evolve even more, with chatbots and virtual assistants becoming more commonplace. Augmented reality will help online shoppers better understand what that clothing items, make up or furniture will look like in their environment.

Cashless will be king

Cashless transactions have jumped in leaps and bounds, rapidly becoming more sophisticated as people have sought ways to avoid touching public surfaces. So much more will be made possible as 5G rolls out, with this transformative tech bringing even

more new opportunities for ventures from remote surgery to driverless vehicles.

Renewable energy shines bright

With China leading the way in developing clean air solutions and actively promoting the adoption of electric vehicles in its cities, the shift to using renewable energy at home, at work, and in transport will increase at pace. Battery manufacturers are working hard to increase the efficiency of their products, while soaring demand has raised interest in metals like nickel, cobalt and lithium. It also means that global co-operation on setting standards in this sector, whether for the devices themselves or for charging stations, will be essential.

Investment in infrastructure

President Biden is proposing massive infrastructure projects as part of his stimulus programme in the United States, but it's also a theme being promoted here in South Africa and elsewhere. There's so much that needs to be built, whether it's digital infrastructure, housing or manufacturing facilities that will underpin the demand for commodities. This element is essential for continued growth and future success.

In conclusion, none of this is possible without the successful rollout of COVID-19 vaccines, which is vital to lift business and consumer confidence. However, with some countries lagging, like South Africa, the inequality gap is likely to widen. Countries with slow or ineffective vaccine strategies will remain blacklisted for travel by those who have had more effective programmes.

Business strategies will have to reflect the changed conditions. While many are heading back to restaurants and holidays to recapture the kinds of experiences we had pre-pandemic, the world will never be the same again. This could be for positive reasons – like the pace at which we have adopted technology – or on the harmful side, like the widening inequality gap between population groups and countries too.

[INDUSTRY UPDATE]



in the NEWS



FAIRHEADS LEADERSHIP TRANSITION



Ethan Dube

Fairheads Benefit Services has long been on a transformation journey, achieving an existing B-BBEE rating of Level 2, with the mandate to reach Level 1 within the coming 12 months. At the ownership level, our rating was enhanced by the majority stake taken in Fairheads by Vunani Limited in 2015.

In continuing this journey, it is with some sadness that our current CEO Richard Krepelka and current CFO Marilyn Brown will be retiring in the coming months.

Richard and Marilyn will help to transition new leadership into their positions in a measured and seamless manner. To this end, they will stay on as non-executive directors on the Fairheads Benefit Services board.

David Hurford, currently Director: Marketing and Consulting, has been appointed as CEO Designate and Zukiswa Peter as CFO Designate. The broader senior management team is highly diverse and strong, backing up the appointment of Hurford as CEO. As far as clients and staff are concerned, it is very much business as usual.

The Fairheads board has the greatest confidence in David and Zukiswa in the roles they are assuming. David has more than 20 years of experience as a senior manager in the banking and finance sectors in South Africa, the UK and Australia. He joined Fairheads in 2011 and was appointed to the Fairheads Board of Directors in 2015. Zukiswa has worked in financial management for 10 years prior to joining Fairheads in 2011 and was appointed to the position of Financial Manager in 2013.

We wish David and Zukiswa well as they take up their new roles.

I look forward to Fairheads remaining steadfast in their position of being Southern Africa's leading independent service provider to the retirement and fiduciary industries.

Regards
Ethan Dube
Chairman, Fairheads Benefit Services



David Hurford



Zukiswa Peter

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UPDATE



Contact:

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David Weil | 082 445 8852 | weild@icts.co.za

TAQUANTA ACQUIRES NGWEDI INVESTMENT MANAGERS FOR STRATEGIC CONSOLIDATION

Taquanta acquires the entire issued share capital of Ngwedi Investment Managers (NIM) in a transaction that fosters strategic transformation and consolidation in the South African black-owned asset manager domain.

Taquanta and Ngwedi are exceptionally pleased to announce the planned coming together of two formidable investment teams which will ultimately give rise to an even more transformed, scalable, dynamic and sustainable business.

Taquanta Investment Holdings has acquired 100% of NIM's issued share capital from Ngwedi Capital Holdings (NCH). Under the terms of the transaction, NIM will be merged into Taquanta Asset Managers (TAM). The highly regarded Ngwedi investment team of Moneimang Pudumo-Roos (Monei), Raphael Nkomo, Farzana Bayat and Teresa Lu, will, for the time being, continue to manage the affairs of NIM, wholeheartedly supported by Taquanta's various operational divisions. These investment professionals will likewise continue to diligently manage the NIM client assets throughout the merger process.

Monei will be appointed to the board of TAM, fulfilling the role of Executive Director, amongst others focusing on business development as well as strategic initiatives. Monei brings a wealth of knowledge across all asset classes and provides a fresh face to promote a more appropriately transformed TAM business. Both Farzana and Teresa

will not only continue to manage Ngwedi's existing client assets but will take on further responsibility in the combined investment team.

Furthermore, Raphael will assume the role of TAM's Chief Investment Officer. Ray Wallace (TAM's current CIO) will remain very involved in the overall investment process, with a significant emphasis on cash and related assets, the largest pool of assets currently under management at TAM. Ray will lead the strategic direction of the team responsible for cash and related investment products. In line with TAM's much emphasised "changing of the guard" strategy, Ray is thrilled to be handing over the CIO role to an accomplished investment professional such as Raphael who shares a similar investment philosophy, thereby ensuring the necessary continuity for all stakeholders.

The skills of the combined team and the introduction of fresh ideas will enhance the investment outcomes for all clients and present an incredible opportunity for all our staff. The merger will allow TAM to not only maintain its position as the leading independent, black-owned fund manager in South Africa but likewise position the business for sustainable growth into the future. We believe that collectively we present the most dynamic and transformed investment team in the industry.

Leading industry body will be harnessing thought leaders to find practical solutions to critical issues plaguing South Africa



Geraldine Fowler, President of the Institute of Retirement Funds Africa (IRFA)



Industry invited to form part of the discussion.

The Covid-19 pandemic has put a spotlight on the need for positive change. South Africans are all impacted by the pandemic, climate crises, gender inequity, social injustice, a struggling economy and unemployment. How should or could the retirement sector bring meaningful and practical change?

IRFA's online Thought Leadership Imbizo, to be held on 1 June 2021, will pose these questions and encourage collaboration amongst industry players to be part of the solution.

According to Geraldine Fowler, the President of the Institute, "The primary objectives of the Imbizo are to identify themes and sector based projects which IRFA will champion with partners from the retirement sector, as well as to harness the power of collaboration with win-win projects to benefit all sector stakeholders and the economy at large".

The Imbizo will feature panel discussions driven by thought leaders, regulatory and governmental representatives and subject matter experts on the following topics:

- The intersection of alternative investments and environmental, social and governance principles and the increasing use of purpose driven outcomes.
- Women in Finance and the World economy: The often overlooked role of women in change, how to unlock this powerful force in contributing significantly to economic development.
- Infrastructural investments for retirement funds.
- Accelerating innovation in investment in education.

The final session will be to leverage the information presented to set partnership goals and objectives.

Fowler continues, "IRFA, as the leading industry body, should lead the charge in harnessing the power of the retirement sector for the greater good. IRFA sees its mandate as accessing and providing the knowledge, as well as uncovering and harnessing the resources to achieve societal and economic change."

"In opening the online event to the greater retirement sector for input and discussion," Fowler concludes, "IRFA has built credible relationships and partnerships over the years which enables it to bring thought leaders, government and leading industry players together to achieve this. IRFA will actively partner and collaborate on change initiatives identified at the Imbizo."

As a key media partner, Pensions World will provide full coverage of the outcomes of this crucial initiative.

Registrations for the IMBIZO can be made on the following link. <https://confco.eventsair.com/irfa-thought-leaders-imbizo/irfathoughtleaderimbizo2021/Site/Register>

For further information, please contact Wayne Hiller Van Rensburg on wayne@irfa.org.za.

The roller coaster year continues



Lelané Bezuidenhout CFP®, the CEO of the Financial Planning Institute



Financial Planning
Institute of Southern Africa

THE PROFESSIONAL STANDARD

I can't believe we're already nearly in the middle of 2021. How did that happen?

Last year presented serious challenges to every industry, including ours. As I reflect on the first quarter of 2021, I'm amazed at how far we've come and how much we have achieved, thanks to the support of our members, our corporate partners and our professional practices. You all turned out in force for the Annual Refresher, the Budget Trilogy and our POPIA online webinars. (The POPIA webinars especially received excellent feedback. If you missed any of them, you are able to listen to the recordings online – a free service for professional members of the FPI.)

I also want to congratulate all the professionals who have renewed their membership and encourage those who have not yet renewed to do so with haste. It is not too late to renew your membership for 2021! Contact membership@fpi.co.za and refer to membership regulations at www.fpi.co.za.

Public policy and pension matters

We have responded to quite a few regulatory matters recently, including amendments to the General Code of Conduct for Authorised Financial Services Providers and Representatives; the fit and proper requirements; critical skills and a call for comment on government's plan to professionalise civil servants with the assistance of SAQA-recognised professional bodies. We also responded to the proposed amendments to Regulation 28.

It's important that all financial planners take note of the changes that came through via the Taxation Laws Amendment Act 2020, and how those changes have impacted clients who belong to a provident or provident preservation fund. These changes are necessary and part of the ongoing retirement reform process that will better regulate retirement funds in South Africa.

Put simply, benefits from provident or provident preservation funds will now be treated the same way as pension funds at retirement. A member of a provident fund will only be able to withdraw a third of the value of the fund in cash and must use the remaining two thirds to purchase an annuity.

There are a few exceptions to be aware of, so make sure you read all about the changes at www.treasury.gov.za.

PCE goes online

In March, we hosted a successful sitting of the Professional Competency Examination (PCE). The exam was completed online using a combination of artificial intelligence (AI) and live invigilating. Candidates were monitored during the full duration and they had access to an invigilator if they had any questions.

We had been planning to take our exams online in two to three years' time, but Covid fast-tracked this process and we are now way ahead of where we wanted to be.

The next sitting is in June and the final sitting for 2021 is in October. Candidates will be interested to note that we have introduced a Recognition of Prior Learning (RPL) concept this year. If you wrote in February and you failed one case study, you need only rewrite that particular case study in June. The same applies if you write in June – you can rewrite in October. (The RPL exemption only applies if you rewrite in the same academic year; results for the February exam will be released in late April 2021.)

What's in the pipeline?

The FPI is currently upgrading membership systems and we're renovating our offices. A year from now, the FPI will have a completely new look and feel – online and offline – that will revolutionise the member experience. The new system will make it much easier to renew your membership and obtain your CPD hours.

Our websites (www.letsplan.co.za and www.fpi.co.za) are also getting a facelift. Thanks in advance for understanding that it will take a bit of time to put all these new systems in place!

The Retirement and Investments face-to-face event is in the planning phase – find out more about this in the next FPI update in May 2021.

Book your place for the FPI Professionals Convention

Our biggest event of the year is set to take place on 25 and 26 October 2021. If you haven't booked your place yet, act swiftly to avoid disappointment. There will only be a limited number of seats available for the face-to-face event, and these will be allocated on a first-come-first-serve basis. Everyone else will have to register for the online event.

The FPI is turning 40 this year and we're pulling out all the stops! Entries for the Financial Planner of the Year award (and all our other awards) are open – the winners will be announced at the gala dinner on the evening of 25 October.

Time is flying – make the most of every second! All the best for the second quarter of 2021 and beyond.

Lelané



Statutory management of security sector fund fails to improve employer compliance

Muvhango Lukhaimane, Pension Funds Adjudicator

A pension fund has been requested by the Pension Funds Adjudicator (PFA) to notify some of its members of the failure of their employer to pay contributions on their behalf and to report the non-compliance with the Act to the National Prosecuting Authority.

Muvhango Lukhaimane, the PFA, said regulation 33(5) of the Pension Funds Act authorised the Private Security Sector Provident Fund (first respondent) to lay a criminal complaint against defaulting participating employers.

An employee complained to the PFA about the failure of his employer, Huntrex 116 (Pty) Ltd (second respondent), to pay all provident fund contributions on his behalf to the first respondent.

“The said regulation stipulates that if any failure to transmit contributions continues for 90 days, the monitoring person shall report the matter to the National Prosecuting Authority.

“It does not appear that the first respondent laid a criminal complaint against the second respondent for non-compliance with the provisions of section 13A and Regulation 33(1) of the Act to the NPA.

“Thus, the first respondent must notify its members of the failure of the second respondent to pay contributions on behalf of its employees and report it for non-compliance with the provisions of section 13A and Regulation 33(1) of the Act to the NPA,” Ms Lukhaimane ruled.

Ms Lukhaimane further indicated that, even under statutory management, the first respondent continues to fail to take action against defaulting employers and to discharge its obligations conferred in terms of the Act.

The complainant, who has been employed with the second respondent from 1 March 2018, submitted that he was dissatisfied that the employer deducted monthly provident fund contributions from his salary and failed to consistently remit same to the first respondent.

The first respondent submitted that it commenced receiving provident fund contributions on behalf of the complainant from 31 March 2018 and the last contribution on his behalf were received on 31 January 2019.

The second respondent was granted an opportunity to resolve the complaint and a further opportunity to comment on the allegations made against it. However, no response was received.

In her determination, Ms Lukhaimane said the second respondent owes provident fund contributions on behalf of the complainant for the period February 2019 to date. Thus, the second respondent failed to comply with rules 4.1.1 and 4.1.2 of the first respondent's rules and section 13A of the Act.

She ruled that the complainant must be placed in the position he would have been in had the second respondent paid all the contributions due on his behalf to the first respondent.

The second respondent was ordered to pay the first respondent the complainant's arrear contributions, plus late payment interest.

LEGAL ROUND UP



Providing useful services backed by outstanding expertise



We provide services associated with the legal, legislative and regulatory aspects of employee benefits to mostly financial services companies and funds. Our clients trust us because we have deep expertise, long experience and understand what they do. We make legislative and regulatory complexity easier for you to understand and implement. We work closely with you to achieve your goals.

Our services include assistance with:

- Agreements and forms
- Rules drafting and submission
- Training and publications on legislative, regulatory and other legal issues
- Regulatory compliance for example POPIA and complaints management
- General queries, guidance, investigations, complaints and litigation support
- Section 37C and 37D decisions
- Independent board or principal officer positions

RETIREMENT INDUSTRY
LAW



Please contact Leanne van Wyk on 083 257 8468 or vanwykl@icts.co.za for more information or visit our website www.icts.co.za



Legal Update, Qtr 2, 2021

Leanne van Wyk, Director, ICTS Legal Services (Pty) Ltd

In this issue of *Pensions World*, we summarise a number of legal issues relating to retirement funds:

- A. Withholding benefits under section 37D – recent Tribunal decisions;
- B. Compulsory annuitisation and withdrawals from retirement funds;
- C. Protection of Personal Information Act (POPIA) update: facts about fund information officers; and
- D. POPIA update: prior authorisation by the Information Regulator.

A. Withholding benefits under section 37D – recent Tribunal decisions

Withholding of benefits by retirement funds, in the context of allegations of damages to an employer by the member, has lately become a fraught area of decision making for retirement fund boards. In a previous *Pensions World* edition we discussed the *SA Metal Group (Pty) Ltd v Deon Jeftha and others*¹ High Court case which has led to changes in processes and factors considered by funds when making a section 37D withholding decision. Recent Financial Services Tribunal decisions have dealt with another issue in relation to the withholding of benefits. The main question that has arisen is whether or not a fund can make a decision to withhold a benefit if an employer has not instituted civil action against the member.

The Tribunal has made the following points, amongst others:

- The Tribunal referred to the Supreme Court of Appeal (SCA) matter, *Highveld Steel and Vanadium Corporation Ltd v Oosthuizen*² which dealt with the withholding of payment of a benefit pending the finalisation of civil proceedings. The relevant case law is not authority for the contention that the mere opening of a criminal case at the police station will suffice for the purposes of section 37D. The Tribunal stated that the SCA did not hold that a fund is entitled to withhold payment because a criminal case has been opened or even upon conviction. This is because a conviction is not a judgment against a member that quantifies compensation in respect of damages caused.
- Since the employer did not inform the fund of a civil action or even an intention to claim, a jurisdictional fact for the exercise of its discretion by the fund was absent. This applies notwithstanding that in terms of section 300 of the Criminal Procedure Act a criminal court is empowered, upon conviction of an offence that has caused loss, to award damages (on application to the court).
- “[T]he potential prejudice to the employee who may urgently need access to his funds ... dictate that civil proceedings ... must at least have been instituted otherwise, the provisions of section 37D will be abused by employers who have no genuine claim against the employee or have no serious desire to pursue a claim for compensation”.
- The principles set out in the Tribunal cases would apply to decisions by fund boards that had already been made prior to the date of the *Highveld Steel* judgement.

Thus, as there were no civil proceedings by the employer claiming loss, the fund could not exercise its discretion to withhold the member's benefit under section 37D.

¹ unreported, 20298/2019

² [2009] 1 BPLR (SCA)

Legal update, qtr 2, 2021

Tribunal decisions are not precedent (unlike court judgements) and, thus, funds are not bound by the Tribunal's interpretation of the law. However, funds often take guidance from Adjudicator and Tribunal determinations.

Funds will have to make up their own minds as to the interpretation of section 37D. If they are unsure, they should seek expert legal advice. While noting these Tribunal decisions, employers will also need to take decisions as regards any civil action against members.

B. Compulsory annuitisation and withdrawals from retirement funds

When a member withdraws from a fund (for example, due to resigning from employment), the member may decide to take some of the withdrawal benefit in cash and transfer the rest to another approved fund. The member's fund credit could be made up of a vested portion and a non-vested portion. Should the cash payment be taken from the vested portion or non-vested portion first? The more cash that is taken from the non-vested portion (and not the vested portion), the more cash the member will be able to take when retiring from the fund to which the benefit is transferred. Administrators of funds are currently making decisions in this regard (as to how their systems will operate) and retirement funds will, no doubt, receive communication from their administrator in this regard.





C. Protection of Personal Information Act (POPIA) update: facts about fund information officers:


- Every fund has an automatically appointed, default information officer by operation of law.
- Funds usually (but not always) interpret the law to mean that their default information officer (“head” of a fund) is the principal officer of the fund.
- Default information officers may authorise another person to exercise the powers, duties and responsibilities conferred or imposed on them.
- The authorisation of another person to be the information officer must be in writing using a template that is substantially similar to the authorisation template annexed to the Information Officer's Guidance Note about information officers (available on the Information Regulator's website).
- Even if another person is authorised, the default information officer retains the accountability and responsibility for any power or function authorised to another person.
- If the default information officer of the fund is authorising another person to be the information officer, it must be a natural person within the fund, for example a board member.
- If an employee of the fund is authorised to be the information officer, then the employee must be in a position of management or above. (This is an interpretation of the Guidance Note.)
- Information Officers can take up their duties after they are registered with the Information Regulator. Their duties under Regulation 4 to POPIA commenced on 1 May. These two statements together are confusing, but the idea is to register your Information Officer soon so they can take up their duties before 1 July 2021, even though their duties will only be enforced as from 1 July 2021.
- Information Officers can be registered now through email and post and shortly (probably the end of April) using online registration available from the Information Regulator's website. The prescribed format for this application is in the Guidance Note at: <https://www.justice.gov.za/InfoRegSA-GuidanceNote-IO-DIO-20210401.pdf> will appear on the Information Regulator's website.

D. POPIA update: prior authorisation by the Information Regulator

The Information Regulator has also issued a Guidance Note about prior authorisation applications (available on the Information Regulator's website). In terms of POPIA, a fund must obtain *prior authorisation* from the Information Regulator prior to any processing if the fund plans to process certain categories of personal information. These categories are:

- (a) any unique identifiers of data subjects for a purpose other than the one for which the identifier was specifically intended at collection; and with the aim of linking the information with information processed by other responsible parties. (Unique identifiers include bank account numbers, policy numbers, identity numbers and telephone numbers);
- (b) processing of information on criminal behaviour or unlawful or objectionable conduct *on behalf of third parties*. This would apply to any person contracted to conduct a criminal record enquiry or reference check about past conduct or disciplinary action;
- (c) where there is processing of information for the purposes of credit reporting (for instance credit bureaus); and
- (d) where a responsible party transfers special personal information or the personal information of children *to a third party in a foreign country* where that country does not provide an adequate level of protection for the processing of personal information (that is, the recipient of the information must be subject to a law, binding corporate rules or binding agreement which provides a level of protection that effectively upholds principles for reasonable processing of personal information that is substantially similar to the conditions for the lawful processing as mentioned under POPIA).

Funds should consider category (d) in particular as this is a wide category and funds do usually process special personal information and children's information.



A fund (responsible party) who processes personal information requiring prior authorisation *before* authorisation is granted by the Information Regulator will be guilty of an offence and liable for a fine of up to R10 million or imprisonment for a period not exceeding 12 months (or to both).

TRUSTEE TUTOR

(SPONSORED BY ICTS TRAINING)





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Trustee Tutor: Issue 6

The role players involved in your fund investments

Reduce the costs

Earn higher investment returns

Contribute more each month to your savings

There are only three ways to save more in your investments:

The vast majority of trustees oversee defined contribution funds, meaning that it is not possible to insist that members contribute more. This leaves the reduction of costs and the maximising of investment returns as the remaining two levers trustees can pull to ensure the best outcomes for their members.

Most often trustees are budget-wise in managing the fund's costs. They regularly test administration (and other service) fees as well as insurance premiums against the market and negotiate with providers to keep these costs as low as possible.

What trustees possibly don't understand in great detail are all the role players involved in the investments of their funds and what value these parties add to members' ultimate benefits.

Let's look at these role players in detail to understand the expertise they bring to the table.

Fig 1: The retirement fund investment ecosystem



The investment manager

Also known as an asset manager or a fund manager.



The investment manager is the entity responsible for implementing a retirement fund's investment strategy. These are the professional experts who research and decide the most appropriate shares, bonds and other assets to invest in that best fit the strategy of the chosen investment portfolio. And then they trade (buy and sell) them. The investment manager handles all the activities associated with the management of investment portfolios, from the day-to-day buying and selling of shares to portfolio monitoring, transaction settlement, performance measurement, and regulatory and client reporting.

Some investment managers may be selected for their specialist skill in managing a particular asset class (specialist mandate) while other managers may be chosen to invest across various asset classes (balanced mandate).

An investment manager must be licensed as a Financial Services Provider (FSP) under the Financial Advisory and Intermediary Services (FAIS) Act and needs to comply with many legal requirements in order to manage investments on behalf of the man in the street. These licensing requirements means that investment management is a very specialised and onerous activity and trustees need professional investment managers to invest their retirement fund's assets.

The local investment manager



These are investment managers who invest in shares and other asset classes in the country in which they are based. In this portfolio, you would find a South African investment manager invested (or trading) in South African shares, bonds, cash, property and other assets in the local economy.

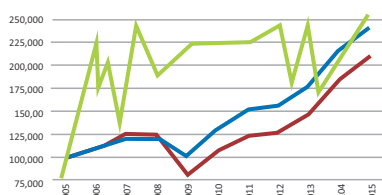
It is unusual for your local team of investment professionals to also have the required skills and experience to manage the offshore portion of a retirement fund's investment portfolio. Most often, there will be a separate team within the local investment manager who focus on offshore (overseas) investments, or the local investment manager will partner with an international investment manager.

The offshore investment manager



The offshore investment manager invests in asset classes outside of the retirement fund's local jurisdiction, in other words, investments made outside of the country in which the retirement fund operates.

Investing overseas is complicated as local managers and their clients need to understand the regulatory and market environments outside of their "home base". For this reason, specialist offshore management teams will be set up within the local manager's team or strategic partnerships with overseas investment managers will be formed. It is usual for a retirement fund's offshore portion to be invested in similar asset classes overseas, as the local portion of the portfolio.

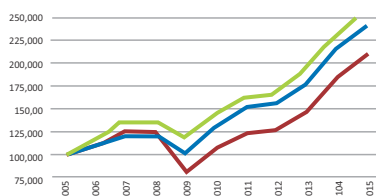


The active manager

In an investment portfolio with an active mandate, the investment manager will actively trade shares and other asset classes in an attempt to outperform a specific benchmark. The success of the portfolio depends on the expertise and experience of the investment team in using detailed research and market forecasting.

Active managers take into account market trends, changes in the economy, shifts in the political landscape and the myriad of factors that affect the companies in which they invest. This information is used to buy or sell the underlying assets in the investment portfolio.

These managers assert that their processes result in higher returns than can be achieved by an investment portfolio that simply invests in an index.



The passive manager

Also known as an index tracking investment.

The passive investment manager designs a portfolio to track the returns of a particular market index or benchmark as closely as possible. For example, each stock listed on an index is weighted and the passive manager will use the same weights in their investment portfolios.

The purpose of a passive investment portfolio is to generate a return that is the same as the chosen index.

The multi-manager



A multi-manager is a manager of investment managers. They offer value to trustees (and members) by reviewing and selecting the investment managers to use for various investment mandates. The multi-manager pools the investments they receive and splits them across a number of investment managers they believe are best placed to meet those mandates. This offers trustees meaningful diversification not only across asset classes, but also across different investment managers who, when blended together, provide the optimum combination of skills to meet an identified investment objective.

Using a multi-manager strategy shifts the responsibility for researching, choosing and monitoring investment managers from the trustees to an expert multi-manager who has resources to dedicate to this process. Many retirement funds invest in portfolios set up by multi-managers.

The investment mandate - segregated or pooled

An **investment mandate** is an instruction to manage a pool of capital—a particular pile of funds—using a specific strategy and within certain risk parameters.

All retirement fund investments are either in segregated or pooled investment portfolios.

A **segregated portfolio** is an investment portfolio structured by the trustees for their retirement fund's investments only. In a segregated investment portfolio, the trustees mandate the investment manager on exactly what type of investments they wish to invest in. These investments are in the retirement fund's name and the investment performance is specific to that retirement fund. In a segregated portfolio the trustees have a considerable amount of input and are responsible for monitoring that the investment manager keeps to the mandate that has been set and is not taking excessive risk (or taken any decisions outside of the set mandate).

Because segregated portfolios are personalised and specific for each retirement fund, investment managers have a minimum value of investment they require from a fund. This minimum investment value is usually quite substantial and therefore generally only larger retirement funds will have the ability to set up their own personalised segregated investment portfolios.



Pooled investment portfolios are “off the shelf” portfolios offered by investment managers either through a life license or a unit trust license. These licenses allow the investment manager to bring together (or “pool”) various investors' assets and invest them together under one common mandate. Trustees usually look for a mandate that meets their fund's needs and invest with a particular manager, rather than structuring their own mandate. In a pooled portfolio, the investments are held in the insurer or the investment manager's name and each investor in the pool earns the same return.

There are generally no entry or exit costs to investors in pooled portfolios and the costs of the portfolio are split amongst the larger pool, making them generally more cost effective than segregated portfolios (unless you have a very large retirement fund). This makes pooled portfolios very attractive to retirement funds.

The custodian



A custodian or custodian bank is a specialised financial institution that holds customers' shares for safekeeping to prevent them from being stolen or lost. The custodian may hold these shares, and other assets, in electronic or physical form. (most companies have dematerialised and are therefore held electronically)

The custodian keeps proper records of ownership, valuation, accounting and reporting of assets owned by an investment manager. They also process trades, which involves tracking, settling and reconciling assets that are bought and sold by the manager.

The authorities



South African Reserve Bank



Financial Sector
Conduct Authority

In South Africa we have a twin peaks model of regulation of financial services.

The **Prudential Authority (PA)** is tasked with overseeing the system wide safety and soundness of financial institutions.

The **Financial Sector Conduct Authority (FSCA)**, the market conduct regulator, is tasked with overseeing system wide efficiency and integrity of financial markets and affording greater financial consumer protection.

Between these two authorities, investment managers are regulated and monitored to ensure that they remain financially sound as financial institutions and that they conduct themselves appropriately in the marketplace. The FSCA monitors whether retirement funds comply with the prudential investment guidelines set out in Regulation 28 of the Pension Funds Act, and issues guidance notes to the industry on best investment practices.



The investment consultant, and other expert advisers

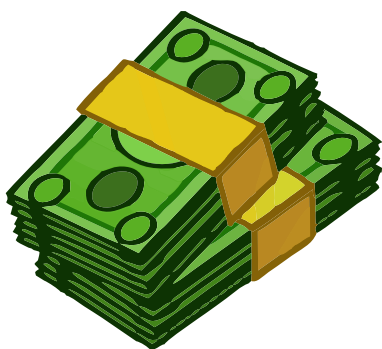


In the context of retirement funds, an investment consultant (also known as an asset consultant) is an investment professional who advises the trustees on the most appropriate investment strategy for their retirement fund, the most suitable investment managers and portfolios to select and the ongoing monitoring and evaluation of performance to objectives. In addition, the investment consultant will assist the trustees in drafting their Investment Policy Statement (IPS) to meet the requirements of PF 130.

The trustees should also expect their employee benefits consultant to have some experience and expertise in investments. A trustee could reasonably expect the fund's consultant to draft the IPS and provide high level feedback on the fund's investments, particularly if the fund's assets are invested in pooled portfolios.

Please always check the categories of products your advisors are accredited to advise on as well as the signed mandate you have in place with them setting out your expectations of services to be provided.

Fees



Investment managers are paid a fee for their work, which is a percentage of the fund's average assets under management (AUM).

Fees may be fixed as a percentage of the value of assets under management or linked to performance - where the investment manager earns a higher fee for outperforming a particular benchmark – or a combination of the two. The complexity of the investment mandate will also have an impact on the level of the fees. It is reasonable to assume that a more complex, actively managed mandate with more complicated investments (like hedge funds, or offshore investments) will be more expensive for investors.

To achieve the aim of greater fairness and transparency in the South African investment space, standardised disclosures and ways of reporting these costs have been developed.

Total expense ratio (TER) - is a measure of the *total* costs of managing and operating an investment portfolio. These costs consist primarily of management fees and additional *expenses*, such as trading fees, legal fees, auditor fees and other operational *expenses*. TER is the global standard used to measure the impact that the deduction of management and operating costs has on a portfolio's value. The TER does not include the investment portfolio's transaction costs.

Total investment charge (TIC) – is a more comprehensive calculation of charges that takes into account the TER and the transaction costs (TC). The TC includes things like VAT, brokerage, securities transfer tax (STT) and exchange rate costs. The TIC expresses the total value of an investment portfolio that is lost to fees.

Trustees are encouraged to make sure they understand all the fees paid in respect of investment services provided to their retirement fund. Obviously the more complicated their investments (segregated, offshore, active mandates) will be more expensive than simpler pooled or passive type investment portfolios.

Furthermore, investment consultants or advisors will also charge the fund for the advice and monitoring services they provide.

Trustees should also regularly review an investment manager's performance, preferably over a period of at least five years to understand the manager's performance in the context of various market environments.

By looking at both the fees and the performance, trustees will get the full picture of how the investment manager adds value to fund members – to enable them to achieve the financial outcomes they are wanting at retirement.

A **benchmark** is a standard against which the performance of an asset class, an investment portfolio or an investment manager can be measured. A simple example, would be to consider how the local equities in your retirement fund performed relative to the JSE index.





Trustee Tutor: Issue 6

The role players in your fund investments

3.5 CPD Points

For an on-line version of the required reading material as well as electronic CPD Submission form, go to

<https://www.pensionsworldsa.co.za> or <https://www.ebnet.co.za>

How to?

Answer all the questions by inserting the correct answer(s) into the block provided next to each question, scan the pages and email to Toni Cantin at ICTS, using cpd@icts.co.za

1. Members can increase their savings by:

- a. Paying more in contributions every month.
- b. Earning higher investment returns.
- c. Paying less in fees to their service providers.
- d. All of the above.

☐
☐
☐
☐

2. Trustees are generally very budget-wise in managing costs but don't always appreciate the costs of all the investment role players.

- a. True
- b. False

☐
☐

3. Who is responsible for implementing a fund's investment strategy?

- a. The trustees.
- b. The investment consultant.
- c. The investment manager.
- d. The investment multi-manager.

☐
☐
☐
☐

4. Choose the most correct statement/s. An investment manager:

- a. Is the entity responsible blending the appropriate managers in a portfolio.
- b. Is the entity responsible for holding the customers' shares in safekeeping.
- c. Is the entity responsible for reporting back to the trustees on portfolio performance.
- d. Does not give advice and thus does not need to be licensed under FAIS.

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5. Choose the most correct statement/s. An active investment manager:

- a. Can be found in both pooled and segregated mandates
- b. Can only be found in a pooled mandate.
- c. Can only be found in a segregated mandate.
- d. Actively follows the JSE all share index weightings in their portfolios.

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Trustee Tutor: Issue 6 - The role players in your fund investments

6. An example of an index is:

- a. The FTSE/JSE all share index.
- b. The FTSE/JSE all bond index.
- c. The FTSE/JSE all property index.
- d. All of the above.

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7. Which of the following statements is incorrect.

- a. A multi-manager is a manager of investment managers.
- b. A multi-manager is linked to your administrator.
- c. A multi-manager offers both active and passive portfolios.
- d. A multi-manager provides meaningful diversification across asset classes.

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8. Using a multi-manager strategy shifts the responsibility for researching, choosing and monitoring investment managers from the trustees to experts.

- a. True
- b. False

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9. Choose the most correct statement/s: An investment consultant will guide trustees in:

- a. Setting the most appropriate investment strategy for their fund.
- b. Choosing the best investment managers or multi-managers for their fund.
- c. Updates in legislation and how to implement these.
- d. All of the above.

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10. Choose the most correct statement.

- a. Investment fees in South Africa are standardised.
- b. The total expense ratio (TER) is the global standard used to measure the impact that the deduction of management and operating costs has on a portfolio's value
- c. The total expense ratio (TER) is a more comprehensive calculation of charges than the total investment charge (TIC).
- d. Trustees should regularly review the performance of their investment portfolios over a maximum period of 12 months.

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MOVING UP



Sumendren Naidoo
Head of Sygnia Umbrella Retirement Funds Consulting

Sumendren Naidoo has specialised in employee benefits for the past 12 years, working as a senior employee benefit consultant to large multinational corporates and financial service providers in both standalone and commercial umbrella retirement funds. Sumendren joined Sygnia in 2016, having previously worked at Alexander Forbes Financial Services and Cadiant Partners Consultants and Actuaries. He was recently appointed as the Head of Sygnia Umbrella Retirement Funds Consulting in Johannesburg.



Ridwaan Kajee
Private Market Investments, 27 Four Holdings

Ridwaan is a qualified CA(SA) with over 7 years of experience across auditing, M&A advisory and private equity. Having begun his career at PwC, Ridwaan spent the bulk of his career in the M&A space with Deloitte's Corporate Finance team, supporting clients across a range of transaction services. Ridwaan joined 27four Investment Managers in October 2020 to further his passion for deal making and private equity. He is part of the Private Markets investment team, who are currently focussed on executing the strategy of 27four's Black Business Growth Fund.



Kinola Pather
Head of Strategic Marketing, NMG

Kinola joined NMG in November 2020 as Head of Strategic Marketing, following ~6 years at Absa. She holds a BCom (Honours) in Business Management and Marketing from the University of KwaZulu Natal and an MBA from the Gordon Institute of Business Science. Her career experience spans over a multitude of sectors, with exposure in B2B and B2C milieus across financial, government, medical, hospitality & entertainment, travel, aviation and retail.

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MOVING UP



Naseerah Sayed
Practice Manager Retail division, NMG

Naseerah Sayed holds a BCom Law degree (NWU-Potchefstroom) and a Post Graduate Diploma in Financial Planning (UFS) and has been registered previously as a Certified Financial Planner (CFP). For the past 6 years she has been heading up the Trust Department at an attorney firm and managing their trust investment prior to which she worked in the Financial Planning industry in various roles including amongst others Financial Planner and Para Planner.



Raazia Ganie
Head of Investments, NMG

Raazia joined NMG on 1 February 2021 as the Head of Investments, following 10 years at Alexander Forbes as a Principal Consultant. Prior to this, she spent 8 years in the UK where she advised both complex and smaller clients on various strategy, manager selection and other investment issues. Raazia is focused on improving member outcomes by implementing global best practices and most economic cost, with specific focus on ESG factors. She holds a B Comm. from the University of Cape Town and is also a CFA Charterholder, who currently serves on the board of the CFA Society South Africa.

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