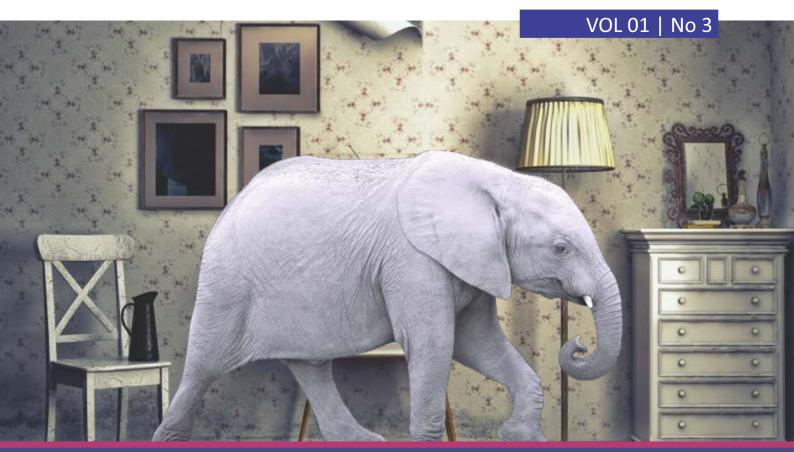


Pensions World[™]

SOUTH AFRICA



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Editor's Comment

David Weil, CEO ICTS Group of Companies











Dear readers

I would describe our current moment in history as a slow return to normal.

But what is normal and do we want to return there?

Where investment markets are concerned, the answer is a resounding yes! After the unprecedented market crash in March 2020, Quarter 2 saw the JSE rebound by almost 26% in the three months to the end of June 2020. This is the strongest quarterly market rally in 19 years. The market to date is back to its previous COVID-19 levels. The index can be misleading as the resources and industrials have led the comeback, while retailers and financials have been left behind.

Return to normal for our economy? The South African economy was already fragile before COVID-19 hit our shores. Many business commentators are expecting that the economy will take at least two years to get back to pre-Covid-19 levels. I'm not sure, though, that we want to return to that normal. Business confidence remains at an all-time low and economists see government getting the fiscal situation under control as a non-negotiable to change the narrative about our economic future. There is no doubt that all South Africans would like us to far exceed our previous normal. Government, business and labour efforts to get the infrastructure programme off the ground is an important step towards redirecting South Africa's future. Rejuvenating the economy and rebuilding our country requires our collective focus in the future to accelerate inclusive economic growth and employment.

Back to our normal impact on the environment? Global lockdowns, quarantines and closing of borders have led to lower levels of pollution given decreased travel and production. Although these positive environmental effects are likely to be temporary, they serve as a valuable real life lesson that changes in our way of life do have a positive impact on the environment. Perhaps we don't want to go back to the old normal on this one.

Take a moment to think about returning to your normal work routine? Lockdown introduced many of us to the sudden reality of working from home (WFH). In the beginning WFH sounded idyllic - there was no rush to be anywhere, no more traffic jams and no more time pressure. But as this situation has extended over a longer period of time, we're all experiencing definite downsides. The separation of work and personal life is blurred now more than ever and the lack of social interaction with work colleagues has both mental wellness implications and does seem to make doing business more difficult. Maybe normal should be the flexibility of a combination of working from home and going in to an office.

Everyone seems to be mourning normal. But the old normal was hardly optimal in all aspects. Let's maybe use 2020 as an opportunity to celebrate our resilience and our ability to embrace new ways, and strive for a new better.

Keep safe until we meet again next quarter.

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

Are umbrella funds as simple as they seem?





Umbrella fund marketing literature will tell you that the costs are lower, the communication is better, and the funds are better governed by professional trustees. This sounds right, but is it reality?

Andrew Crawford, CEO of Seshego Benefit Consulting, a Citadel Holdings company

The Compass survey undertaken by ASISA over a decade ago revealed that umbrella funds had a substantially higher cost than free standing funds. The survey revealed that the average umbrella fund cost was R62.37 per member per month against the average of R37.44 per month for a free standing fund. A large portion of the umbrella fund costs was attributable to distribution commissions and South Africa showed costs higher than the rest of the world. These numbers are now outdated, but at the time one of the explanations for the high umbrella fund costs was that they still needed to capture efficiencies through economies of scale. During the subsequent period, the number of funds registered with the regulator (the Financial Sector Conduct Authority) has decreased from approximately 13,500 to a little over 1,000 active funds. Most of this industry consolidation has been into umbrella funds. So, are umbrella funds now the more cost effective option?

The largest of these commercial umbrella funds (excluding industry funds) are those operated by Old Mutual, Alexander Forbes, Momentum, Liberty Life and Sanlam. These funds account for the majority of the umbrella fund members, and the largest 15 umbrella funds account for 98% of that membership. Big should be the best value for money through their economies of scale?

The question is, however, not as simple as it seems. Last year ASISA released the Retirement Savings Cost (RSC) disclosure standards, which is an improvement. This analysis has its flaws, and not all umbrella funds are bound by this disclosure standard, but it is a step in the right direction to address the

historical challenge of trying to compare different umbrella fund costs on a like for like basis. The different charges one may find for an umbrella fund can include an administration fee, a participation fee, a payroll fee and an asset based fee, among others. Some of these costs are not explicitly disclosed, and are buried deep in the fine print. Too often an employer elects to participate in an umbrella fund because of a low administration fee, say R40 per member per month, but the low administration fee is linked to the umbrella fund's investment products being used. Many of these "institutional" investment fees are well over 1% pa and are closer to "retail" investment fees. Where administration and investments are provided by the same company, the cross subsidisation of a lower administration fee is pretty standard practice. Some of the financial services companies even manage these group scheme offerings within their retail distribution areas. To rub salt in the wound, after moving to an umbrella fund, the previous free standing fund then takes months or years to close down, and during this time the members are paying duplicate administration costs. Those funds that did not do a comprehensive cost analysis and made a decision to move to an umbrella arrangement based on the administration cost quoted, have usually ended up paying a higher fee than previously.

So, looking forward can one expect to pay lower charges in an umbrella fund? The intuitive answer is again yes, but it is not that simple. The inspiration for this article was a recent real life experience with a company of just over 100 staff, and retirement fund investments of R50 million.

Are umbrella funds as simple as they seem?

Through a systematic review of the various cost components, a fee reduction of R1 million per annum was secured. This cost savings represented 2% pa of the entire investment! The cost reduction could have been a further R120 000 pa if a lesser known insurer had been selected for the group disability insurance scheme. How was this massive savings possible in what is supposed to be an efficient structure?

Firstly, incremental cost increases over time are usually unnoticed. A periodic review by an independent party is the best protection against cost creep. Because an umbrella fund is the choice of an employer, it stands to reason that the employer has an obligation to monitor the umbrella fund it has chosen for its staff. In a free standing fund, where the 1998 amendments to the Pension Funds Act require at least half the trustees to be member elected, the employer's obligation is to set the retirement age and pay the contribution defined in the fund rules. Once the contributions are paid, the governance of the fund is undertaken by the board of trustees where the staff who are members have a say in the decisions that are made.

Secondly, and most importantly, are the umbrella fund participation requirements. If the company does not maintain control over important cost levers, the staff are exposed to future cost increases. Statistically, most will receive a resignation or retirement benefit from their fund, with only around 4 in 1,000 fund members being paid a death benefit (and with a similarly low statistic for disability benefits). The vast majority will receive the savings benefit, and therefore the investment charges are critical. Because these investment costs are directly debited against the investments, they are not always visible. Industry disclosure around performance fees and investment returns shown as net of fees, complicate the analysis. The final wording of Regulation 37 did not eliminate this disclosure challenge for the default investment portfolios. A prominent umbrella fund administrator has pointed out that a 1% pa savings in the investment charges equates to a 40% bigger benefit by retirement. This extrapolation is obviously based on certain assumptions, but the point is that a low investment fee can compound to a major difference by the end of a fund member's working life. In the recent example I described, the investors could get a lower charge by directly accessing their investment managers through a smaller umbrella fund. The large umbrella funds do not seem to pass on the benefit of economies of scale to the members, and in many instances their investment charges are higher (possibly to cross subsidise other charges). In the case of the major umbrella funds, they all use their in-house investment products as the default investment choices, and if they do allow outside investment products, there is an additional administration charge of, for example, 0.2% pa. This pricing makes it difficult for an employer who participates in one of these umbrella funds to control the investment fees their staff pay.

Still on the subject of the employer keeping control of the cost levers, the largest cost deduction from the monthly contributions is usually the group insurance premiums. These insurance premiums can vary dramatically from year to year, and companies participating in umbrella funds that do not allow much choice in insurer have few options when, for example, premium adjustments from COVID-19 claims impact on the premium rates. Some umbrella funds allow a limited choice of insurer, but on closer analysis it is not the non-sponsor insurer that is setting the premium rates. I had an example where the premium rate quoted by Capital Alliance was significantly lower than the umbrella fund's Capital Alliance option. The reason for this is that the umbrella fund is running a Capital Alliance insurance pool where the umbrella fund is setting the premium rates against their own company's premium rates. For the uninitiated, these subtleties are lost and the employer thinks that they are receiving market comparisons.

The key factor to enable an employer to keep control of the staff's retirement fund costs is to use an umbrella fund that allows the employer to control the placement of the investments and the group insurances via an open market review process. This open architecture is the most critical tool in cost management and extracting better value from umbrella funds. Without being able to easily change either of these major cost inputs, the alternate is to change umbrella funds. The Sanlam Symposium has noted the churn around umbrella funds, but this can be avoided if a proper understanding is obtained at the outset.

Next, is the label true when it comes to better communication? Here the answer is yes. The large umbrella funds tend to have bigger communication budgets and they communicate more frequently at a higher standard. The one caveat is the content of the communication, and whether it is educational or sales driven. Here a common-sense assessment of the fund's past communications can provide insight on the content of the communication.

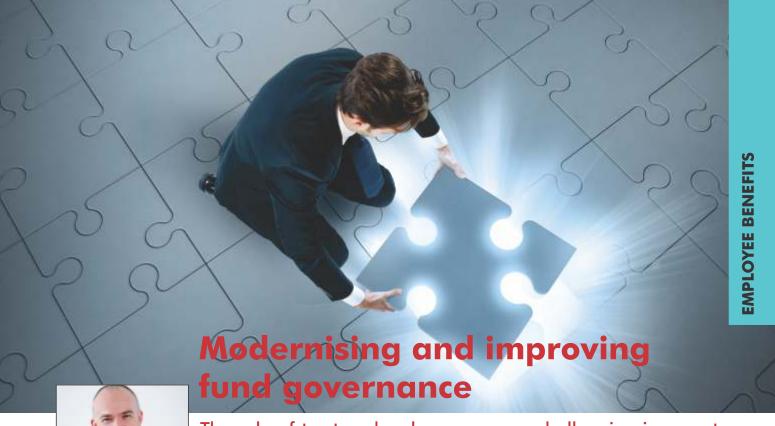
Are umbrella funds as simple as they seem?

And then there is the question of whether there is better governance. The regulator is now insisting that umbrella funds can only get an exemption from member elected trustees if at least half the trustees are independent of the sponsor. This should improve governance, since a single independent trustee is unlikely to sway decision making. However, having independent trustees does not always lead to better governance, and since the umbrella fund sponsor appoints the independent trustees, their continued appointment is dependent on a cordial relationship with the umbrella fund sponsor. Member elected trustees, on the other hand, have a direct interest in the management of a fund for their benefit. However, even with the regulator's new minimum education standards required by January 2021, this is not a sufficient grounding to deal with the more complex retirement fund issues. In the substance over form debate, a blend of technical skills together with member interest is possibly the better approach. There are major umbrella funds with half their trustees being independent professionals that show some remarkable governance concerns, for example one major umbrella fund does not allocate the interest in the fund's bank account, and this interest is credited to a reserve account that is used to compensate members for mistakes made by the umbrella fund administrator. It is hard to see this is an independent application of the trustees' fiduciary obligations.

Another consideration around governance are the fund rules. Employers tend to know the content of their Special Rules with regard to contribution rates, retirement age, death benefits and other employer specific issues, but very few have ever looked at the Main Rules of the umbrella fund. It may not be interesting reading, but it is important reading.

In conclusion, umbrella funds can be a much better value proposition for employees, but a proper evaluation is not as simple as one thinks. This is an area where many advisors don't have the experience to effectively assist their clients, and the company would do well to engage a consultant who understands what issues to look out for. The umbrella fund is a great option if you know what you are looking at.





The role of trustees has become more challenging in recent years, with increased governance and oversight requirements. More recently, the spotlight has been shone specifically on retirement fund trustees and how they run their funds – from member administration to investment management.

John Anderson, Executive: Investments, Products and Enablement at Alexander Forbes

In addition, the Covid-19 pandemic has shown the importance of ensuring that systems can withstand unexpected shocks. This requires integrity of systems and full ongoing alignment between assets and liabilities. It has also highlighted that funds need to leverage available technology to engage with individual members on an ongoing and timely basis. This can only be done when systems are fully modernised, using the latest processes, governance and engagement tools.

1. What is unitisation?

When you invest in any of your retirement fund's nominated investment portfolios, your money is placed in a pool of investments along with the money of every other member who's chosen the same investment portfolio as you.

Unitisation is the process whereby every investment portfolio is valued and assigned a unit price. All the investments you make buys units in the investment portfolio you have chosen. The number of units you purchase for each rand contribution is dependent on the investment portfolio's underlying unit price. Unitisation gives members a clearer picture of the value of their share in an investment portfolio by taking the number of units assigned to them and multiplying it by the unit price.

How often are investment portfolios unitised?

The unitisation of the underlying investment portfolios can either be performed monthly or daily.

2. Key trends shaping the retirement fund industry

Over the last few years, fund administration has started shifting from being unitised monthly to being unitised daily. Some of the key drivers for this have been:

Greater fairness for all members

- Changes in pension fund legislation introduced a greater emphasis on providing minimum benefits to members, which in the context of a defined contribution fund implies a need to accurately allocate the actual net investment return earned on the underlying assets to members on the fund.
- The need to allocate investment returns accurately to individual members in line with their specific investment options, where member investment choice is available.
- Flexibility to switch your investment portfolio options when you want to rather than once a month.

Real-time transacting

- The need to provide members with more accurate and upto-date returns, fund credit balances and portfolio information.
- The need for more timeous investment of contributions and payment of benefits.
- Shorter turnaround times in processing member claims.

Modernising and improving fund governance

Risk management

- The desire for funds to reduce processing errors, mismatching and data reserves, essentially releasing these reserves for the benefit of members.
- The need to remove or streamline manual processes, thereby reducing the possibility of errors.

Consider this:

 The unit trust industry (which represents a significant proportion of savings in South Africa) is unitised daily, as a best-practice standard.

So, why are some monthly unitised retirement funds not changing with the times?

- Investment administration platforms are not geared to price investment portfolios daily.
- In-house administration systems cannot cater for daily unitisation and transacting.
- Third party providers continue with monthly unitisation and reporting.

3. Getting future-ready: key components for retirement funds to modernise

Three key operational components need to be in place for sound risk management and governance:

- 1. A member-record administration system that can accommodate daily unit prices.
- 2. An investment administration platform that can calculate daily unit prices.
- 3. 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).



4. The importance of enhanced financial analytics

The function of enhanced financial analytics is to reconcile transactions between the member administration system and the investment administration platform.

- Improved and more timeous reporting of a fund's assets and liabilities. This means better oversight of a fund's financial soundness.
- Ability to identify errors and mismatches between a fund's assets and liabilities. This means better responsiveness in implementing corrective actions.
- Regular return declarations to address mismatches between a fund's assets and liabilities. This means equitable return distributions between active and exiting members.
- Independent checks to improve a fund's year-end audit and asset-liability reconciliation. This means greater integrity of a fund's financial soundness.
- Improved transparency between a fund's assets and liabilities. This means more scrutiny around the accuracy of unit prices.
- Reduced capital reserves required to offset potential data processing errors. This means releasing idle funds and redeploying them across initiatives that benefit members.

5. The importance of enhanced financial analytics – cases in point

Because there's more in it for members

Funds typically have processing error reserves of up to 1% or sometimes 2% of assets in case of data and processing error mismatches. Best practice is to set a tolerance level for unreconciled items as 0.05%. This means that funds can accurately reconcile the assets and liabilities to within 0.05%. Enhanced financial analytics has helped funds reduce their reserves and perform regular allocations between actuarial valuations, to the benefit of members.

Because accountability is a reality

An umbrella fund administered by a provider of consulting and actuarial services experienced a mismatch between assets and liabilities that resulted in a 2.5% adjustment to member records. This mismatch ultimately affected over 200 participating employers and over 11 000 members. Numerous court cases ensued, spanning several years in which the trustees were ultimately held accountable for R20 million in losses. This demonstrates the significant risk to members, employers and trustees where assets and liabilities are not properly monitored.



Because the right systems and process matter

Issues in relation to governance were recently highlighted in an adjudicator's case against an actuary who made an error on monthly unit price calculations. The adjudicator instructed the actuary to pay R40 million, plus interest, back to the fund. This case was subsequently appealed, and the adjudicator's ruling overturned. What this means is that the shortfall or loss experienced by the affected fund has yet to be recouped. This illustrates the importance of ongoing monitoring built around market leading systems and processes.

Because picking up errors quickly saves time and money

A unit price error was identified on a fund, requiring an adjustment of R17 million. Had this error been left unchecked until the fund's next statutory evaluation, it would have meant losses for the fund's active members as well as requiring the fund to rectify historical member records.

Because mistakes do happen, and often

Experience shows that, when monitoring the assets and liabilities of more than 240 stand alone funds on an ongoing basis, over the 12 month period ending 30 April 2020, over 600 errors were identified with the potential of resulting in significant losses for clients. Proactively identifying errors provides trustees with a head-start in addressing them before they manifest into actual losses.

The importance of integration

For ongoing monitoring to be successful, the member administration system and investment administration platform must be compatible and allow the enhanced financial analytics function to integrate across each area's systems and processes.

Key reasons for integration:

- All systems are appropriately amended where regulations change (such as the default regulations introducing default preservation and annuity strategies) leaving no gaps in the ultimate implementation in relation to a fund's chosen strategy.
- Time lag is reduced between when unit prices are calculated and when those unit prices are applied to members' records.
- 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. This is a major risk.

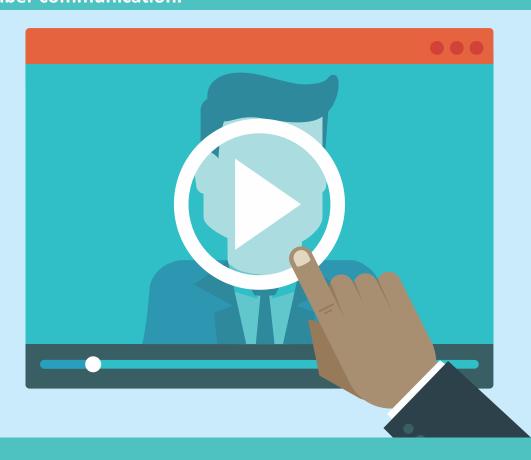
In summary, funds should have a careful end-to-end review of their systems and processes to ensure they are using the latest approaches and technology. In this way, members will receive better protection and outcomes and trustees will meet their fiduciary duties in managing the operations of a retirement fund.



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Making it easier for people to fund their tomorrow, today

Guy Chennells, Head of Product at Discovery Employee Benefits

There's a reason dieticians suggest not stocking up on junk food at home – without the temptation of instant gratification, we're less likely to binge on bars of chocolate late one night. "Make the healthy option the easy option", they say – and the same principles apply across all fields of human activity.

Behavioural economists Thaler and Benartzi stunned the retirement industry in 2003 with their paper 'Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving'. Through a real world experiment, they proved that allowing people to sign up to automatically increase savings in the future dramatically improved their savings rates.

Behavioural incentives work when presented effectively

The experiment involved educating members about the likely outcome of their low savings rates, and then presenting different groups with different options for how to respond. The member engagement was very high touch - that is, it required a lot of human interaction.

This in itself tested the impact of small group or one-on-one member counselling on willingness to take action. The research found that, when appropriately informed and given an action that can be taken immediately, people are more willing to make a change than one might think.

- The contribution rates for those who were offered and signed up to the Save More Tomorrow plan increased from 3.5% to 13.6% over four years.
- For those who were offered only an immediate increase, rates went up to 6.1% but decreased from 6.1% to 5.9% over the same period.

Both groups, then, recorded very high increases in savings. The one group, however, was able to get to savings levels that could result in a funded retirement. The other group will still end up extremely disappointed at retirement, with less than half the savings of the first group.

The key: engaging people personally and persuasively on a large scale

If you have been in the retirement funds industry for any length of time, you may think such a result is impossible. That judgement is correct if it is within the old paradigm of trying to get members to increase contributions through mass, generic communications, requiring them to take active steps of their own initiative in response, and requiring an immediate tradeoff between current take home pay and retirement contributions.

By being personal and specific, offering immediate one click actions, and presenting plans that only come into effect in the future, you can get very different results. By helping people make smart decisions in the present that guard against future temptations to spend 'spare' income, it's clear that getting people to save more is not impossible.

Unfortunately, changing behaviour on a large scale means engaging personally and persuasively with individuals on a large scale. It is clear that advisers and employers cannot get to everyone, and, as anyone trying to run a corporate communications strategy has discovered, email or workplace posters do not often persuade effectively.

Make the easy choice the one that leads to a funded retirement

Traditional communication structures are important, but these alone, without well designed digital journeys, have not succeeded to the extent that is needed. In a 2017 Harvard Business Review article, the same Benartzi mentions a number of experiments he and others are working on to bring these and other techniques to life digitally, seeing this as the only way to get the mass impact that is so needed.



This is the world that retirement funds need to enter – a world of rapid prototyping and ever improving excellence in helping people to make better financial decisions. Their individual decisions matter. And when it comes to employee benefits, impactful behaviour change requires engagement at employee level, not just at employer level.

When systems are in place to nudge people positively and continually, and these systems are engaging and easy to use, you're effectively replacing that late night bar of chocolate with a bunch of blueberries. It is now possible to make the easy choice the one that leads to a funded retirement.

An appeal to decision makers to actively help people counter their biases

What stands in the way, then, of millions of people being helped to a better outcome using these powerful techniques? It is no longer the technology - we already have that. It is not digital adoption. If the global lockdowns of 2020 have shown us anything, it is that we are now thoroughly in the digital age. The only barrier is the willingness of retirement fund decision makers to embrace, or at least to curiously assess, what is now possible out there.

Retirement fund members are not the only ones influenced by their behavioural biases. Retirement fund and employer stakeholders are as likely as anyone else to be biased towards what they know, to be less than enthusiastic about change, and to conclude from observing peer groups that the status quo is acceptable.

There is no shame in being human – these biases all come with the skin. But for the diligent and the passionate, naming and counteracting biases is necessary work. In this case, such work could result in putting your members onto totally different retirement savings trajectories.



In the Pension Funds Act, this termination of a retirement fund is referred to as a liquidation of the fund. The word liquidation commonly refers to an entity in financial distress or bankruptcy, but this is not the case with the liquidation of a retirement fund. Such a liquidation is merely the formal process of distributing the fund's assets to all stakeholders in a fair and equitable way.

The various stakeholders involved in the termination of a retirement fund should be acutely aware of their rights and responsibilities during this process. The liquidator should manage and communicate the process clearly to avoid unrealistic demands and general levels of frustration during the liquidation process.

Trustee responsibilities

Trustees have a fiduciary duty to take decisions that are in the best interest of members and the fund. Deciding to liquidate a retirement fund is no small decision, even though the current circumstances might leave them with no choice in the matter. In most cases, the rules of a retirement fund will dictate the termination process. It is up to the trustees to nominate a reputable liquidator to conclude the process in the shortest possible period.

Trustees should ensure, as far as possible, that all statutory affairs of their fund are in order since any outstanding issues will cause the termination process to be prolonged. Some of these matters can be handed over to the liquidator to conclude in liquidation, for example to bring valuations or financials up to date, while something like outstanding rule amendments may need to be finalised before the fund can be placed in liquidation.

It is recommended that trustees engage with an experienced liquidator prior to the fund being placed in liquidation. The liquidator can then provide input in advance on how to manage the liquidation process as efficiently as possible given the fund's specific circumstances.

Liquidator

A retirement funds liquidator is an expert who has to be vetted and approved by the Financial Sector Conduct Authority (FSCA). This can be an actuary, attorney or another industry expert. A liquidator gets appointed in his/her personal capacity by the FSCA to a specific retirement fund and takes over all responsibilities for the fund. A liquidator's main responsibility is to distribute the remaining assets and liabilities in the fund to the various stakeholders in a manner that is fair and equitable while taking into account the reasonable expectations of all stakeholders.

The liquidation process is a well documented and regulated process and the liquidator is bound by the fund's rules and the Pension Funds Act. Even though there is some discretion of what might be considered fair and equitable, a liquidator can only distribute the liquidation benefits to stakeholders within the boundaries set by the rules and the Act.

Members

The fact that the liquidation process is so highly regulated should give members comfort that their rights are protected. A member's retirement fund benefit is ring-fenced and secure and will not be eroded by whatever might be simultaneously happening at the employer. Members generally receive liquidation benefits at least equal to their full share of fund and a share of any continence reserves in the fund.

When the liquidation of a retirement fund becomes inevitable

This benefit is usually available as a cash payment, even where members are still employed by the same employer. In best case scenarios, where all statutory affairs of the fund are in order and there are no unexpected delays, liquidation benefits might only be payable after 6 months from date of liquidation. There are also instances where liquidations have taken well in excess of a year to conclude. Liquidation should therefore not be seen as a solution to members' immediate cash flow needs.

Members should keep in mind that the liquidation benefit paid from the fund was always intended to be a retirement benefit. Therefore members should be encouraged to seek professional financial advice and counselling before deciding to cash in on the benefit that may become available upon liquidation.

Employer

The liquidation of an employer's retirement fund is not a business rescue option and employers should not expect or rely on getting any funding from the fund, other than assets that are ring-fenced in an employer surplus account. In terms of Section 15J of the Act, the employer can withdraw amounts from the employer surplus account prior to liquidation, but only if required to prevent job losses.

Any balance in the employer surplus account is protected for the benefit of members if the business should be liquidated before the fund is placed in liquidation. In such cases the company's liquidator and their creditors will have no claim against any balance in the employer surplus account.

Employers should be aware that where an actuarial valuation showed the fund to be in a deficit at the time of going into liquidation, such a deficit will become a debt owed by the employer.

Liquidation process

The liquidation process can be broadly summarised as follows:

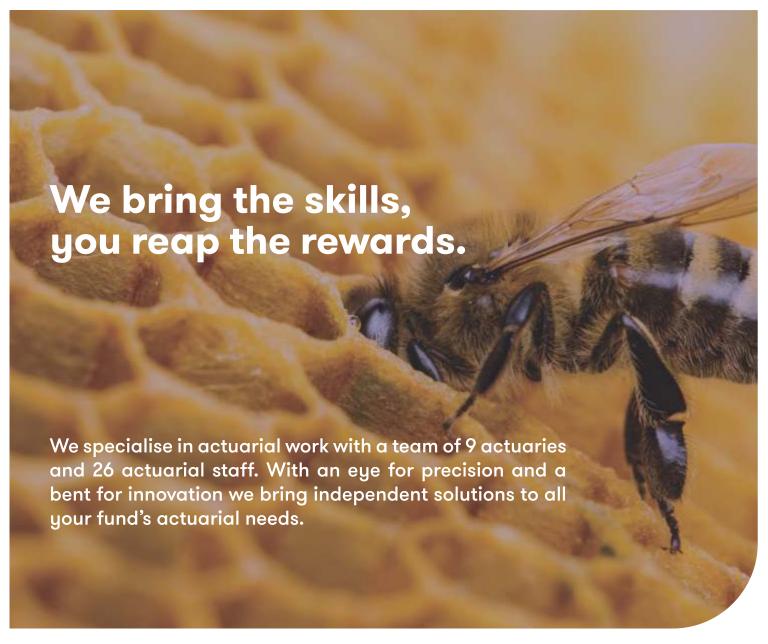
- The Trustees appoint a liquidator and apply to the FSCA for the fund to be placed in voluntary liquidation.
- The FSCA approves the liquidation and the appointment of the liquidator. The date of approval becomes the liquidation date, at which time the liquidator takes over the responsibility of the fund from the trustees.

- If any statutory requirements are outstanding, these will have to be submitted to and approved by the FSCA. This is often the key driver of how long the liquidation will take and it requires careful planning to manage this part of the process.
- Preliminary liquidation accounts are submitted to be approved by the FSCA, who will assess whether the proposed distribution of assets meets the applicable regulatory requirements and whether the rights and expectations of all members are adequately protected.
- There is a 6 week period during which the preliminary liquidation accounts can be inspected by stakeholders. Any objections during this period need to be dealt with by the liquidator to the satisfaction of the Authority and/or the person who lodge the objection. Any unresolved objections can result in material delays to the process. However, most objections can be managed through proper communication will all stakeholders before and during the liquidation process.
- The distribution of assets can commence as soon as the Authority gives the liquidator approval to do so. No further objections or changes to the distribution schedules may be made after this approval is granted.
- Once all liquidation benefit payments have been completed, the final liquidation accounts will be submitted to the FSCA where the final distribution of assets are documented. Thereafter the liquidator can apply for deregistration of the fund.

Any delays in the process will have a direct impact on when the assets can be distributed with a corresponding opportunity cost to all concerned. Getting to the payment stage in the shortest possible time is most probably the single biggest consideration by all stakeholders.

The liquidation process is a rather tedious process with a number of different variables that could cause extended delays. However, these variables can be managed to some extent by ensuring that the fund's statutory affairs are in order, managing all stakeholders' expectations and by appointing an expert liquidator who can execute the liquidation process efficiently while ensuring that the rights and expectations of all concerned remain adequately protected.





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Mark Swanepoel, Senior Associate, Axiomatic Consultants

During these particularly extraordinary circumstances we find ourselves in at the moment, many retirement fund members are now, more than ever, thinking about how to derive short term benefit from their retirement fund savings.

This is due to increasing short term financial pressures on individuals given reduced pay measures and/or temporary lay-offs put in place by many employers in trying to minimise their own financial pressures as a business and the aim to ensure their own survival as a going concern once economic activity normalises.

Many employers have provided the option to members, for a limited period of time, to elect to have their monthly retirement fund contributions reduced or suspended to help mitigate the negative implications on net pay as a result of the effect of lower (or no) pay. It is our understanding that the Financial Sector Conduct Authority has been inundated with rule amendments to this effect.

A retirement fund, by its very nature and legalities, is intended to meet long term savings objectives and acting on a shorter term financial view ultimately harms a member's longer term financial health.

Given the inherent structure of retirement funds (pension, provident and retirement annuity funds) briefly described above, it is absolutely critical that one understands the longer term implications of suspending contributions for a period of time or worse still cashing out. Generally speaking, cashing out retirement fund savings is never viewed as a "good" idea.

However, a member finding him/herself in dire financial need, who cannot afford to put food on the table, put their children through school or even provide a roof over their family's head, may now unfortunately have no other option.

I would agree that if it is at all avoidable, members should do their best to avoid cashing out their retirement savings. In any case, as aforementioned, one should understand the long term effects of any financial decision.

The significant long term impact of a short term view of your retirement fund

I'll explore two different scenarios in this case being the implications of:

- Suspending retirement fund contributions for a short period of time; and
- 2. Cashing out retirement savings.

Scenario 1: assuming you have the option to suspend retirement contributions for 6 months, what will this mean?

Two scenarios looking at two members at different ages are considered, taking into account the assumptions that the member:

- contributes into the retirement fund from 25 to 65 at a rate of 10% of pensionable salary
- starts on R120 000 annual pensionable salary which increases by 6% year on year
- enjoys a 10% annualised investment return over the 40 year period

The modelling has been done on a fairly rudimentary basis and does not account for the many variables involved that result in the retirement outcome over 40 years, for example the sequence risk of returns. However, it does provide a powerful indication of the effects.

With this in mind, the outcomes at retirement, for a member may look something like this:



I personally don't believe that the impact of suspension of contributions for a short period of time on a member's ultimate retirement benefit is significant in the grand scheme of things. Certainly, this is nowhere near as negatively impactful than the huge implication of time out of the market.

Importantly, in this first scenario, the member's accumulated retirement savings remains fully invested during this time and hopefully still grows!

It is also possible for the member to make up this shortfall by making additional voluntary contributions or increasing his contribution rate when remuneration normalises again. Most retirement fund rules allow for additional voluntary contributions and contribution rate flexibility, making it relatively easy to pay additional contributions when personal finances allow.

Scenario 2: cashing out your savings from your retirement fund, what will this mean?

There have been growing calls for government to allow members to access some of their savings for emergency cash relief during the COVID-19 pandemic. It is understandable that in the current circumstance, this is becoming more and more relevant to members, and there are many other countries who have done so.

The significant long term impact of a short term view of your retirement fund

It will be interesting to see how the South African Government responds to these calls, if at all, and how the practicalities of this would be dealt with.

Suspending contributions does not necessarily unlock value though. Members have only one option to gain access to part or all of their accumulated retirement savings, and that is by leaving employment and withdrawing from their retirement fund. The ramifications of doing so are massive and generally strongly discouraged for several reasons, primarily the taxation on withdrawal benefits and having to start saving for any form of half decent retirement outcome all over again.

Until we see any change to legislation allowing access to retirement savings in some way or other, it is vital that members understand the significant impact that cashing out retirement fund savings actually has for the long term, notwithstanding the serious tax implication.

Using the exact same assumptions as the previous scenario, cashing out at certain points in time may have the following effect on a member's retirement outcome:



Clearly if you are thinking about cashing out your retirement savings because you believe that you can "make up for it" in future, you should think twice. There are various factors influencing your retirement outcome, some of them, like time, you can't undo or cover up for later. Once time has passed it's gone forever. Most importantly, one of the key ingredients to create the magic of compounding, is time.

Furthermore, to access your savings in your retirement fund you'd have to leave your job and right now, finding another one might be challenging.

To sum up the options, retirement savings are long term savings. In other words, it is money you put away now while you are working to support your lifestyle when you are no longer working. During a crisis like the COVID-19 pandemic, you might be tempted to access these savings now – either by reducing your monthly contributions or by "cashing out" your accumulated benefit. It is very important that you understand the financial implications of both of these decisions.



The Financial Sector Conduct Authority (FSCA) in May 2019 published a draft Conduct Standard on minimum skills and training requirements for board members of pension funds.

Carina Wessels, Executive: Governance, Legal and Compliance Alexander Forbes Group Holdings Limited

Section 7A(3)(a) of the Pension Fund Act¹ sets the framework for this and requires that members of the board of a pension fund must attain such levels of skills and training within six months after the board member's appointment, as may be prescribed by the FSCA. Section 7A(3)(b) further determines that board members must maintain their skills and training throughout their term of appointment.

After public consultation, the FSCA, on 10 July 2020, finally published Conduct Standard 4 of 2020 (Conduct Standard) requiring trustees to obtain a certificate on the Trustee Training Toolkit within six months from their date of appointment.

The Toolkit training programme is a free development programme based on the FSCA's guidelines on good governance for retirement funds and is directed at assisting trustees to gain a better understanding of their role and function and ultimately to better exercise their fiduciary duties for the benefit of the fund and its members.

The Trustee Training Toolkit includes two assessments for completion:

- Initial assessment completion of tutorials, case studies and formative assessments.
- Final assessment completion of summative assessment under the supervision of the principal officer or chairperson to ensure that it is completed without any assistance.

The FSCA has the right to amend the Trustee Training Toolkit to prescribe additional modules to be completed in the same manner as the final assessment. This is critical to ensure trustees keep up to date with regulatory changes.

¹²⁴ of 1956, as amended

Is mandatory pension fund trustee training, only, enough?

This is however not the only instance where regulation of this kind has been considered. Influenced by Steinhoff and several other corporate scandals that shook the South African financial market, the JSE Limited, on 19 September 2018, issued a consultation paper on possible regulatory responses. Amongst several other potential amendments to the JSE Limited Listings Requirements (LRs), it included the potential introduction of mandatory and formal training for specifically audit committee members and company secretaries.

In this proposed amendment to the LRs, they intended requiring all the members of a company's audit committee to undergo formal training on their responsibilities pursuant to the provisions of the Companies Act², and the LRs and for all company secretaries to undergo formal training on the LRs:

- Prior to listing and as a continuing obligation post listing (for new members / new appointees respectively).
- On a continuing basis should there be material amendments to the LRs.

After much consultation, the JSE in March 2019 however advised that they would not be proceeding with the proposed amendments. Some of the arguments raised against had included the additional burden, requirements already in place through the Companies Act³ dealing with audit committee minimum qualifications and the annual evaluation by the board of the company secretary's competence, qualifications and experience, as well as guidance and support provided by the sponsor.

It was also suggested that compulsory training may lead to an artificial result with cumbersome practical implications regarding scheduling and availability of directors and company secretaries. It was suggested that the quality of audit committees and company secretaries may not necessarily improve as a direct result of imposed mandatory JSE training.

There were of course also concerns raised during the FSCA consultation process in finalising the Conduct Standard, but more importantly in their Consultation report⁴, the FSCA touches on the rationale, need and intent of the Conduct Standard, principally to address the regular knowledge and experience gap of primarily member elected trustees, but also sometimes fund or employer appointed ones. Some of the challenges highlighted in discharging trustee duties and responsibilities effectively, which had required regular remedial action, included not understanding conflicts of

interest, failing to implement and monitor controls and processes to ensure proper management and administration of the fund and failure to objectively assess financial statements and proposals made by service providers.

Case of déjà vu...how many of our corporate challenges and failures do not also often involve issues of conflict of interest, failure in implementing and managing internal controls or financial disclosure or mismanagement.

The importance of pension funds in our financial markets is undeniable. Globally, according to a 2019 OECD report on the owners of the world's listed companies⁵, institutional investors hold 41% of global market capitalisation and a significant portion of that is held by pension funds, whilst 14% of global market capitalisation is held by the public sector, of which *circa* 11% are held by public pension funds. Overall pension fund assets accounted for 50.7% of the gross domestic product (GDP) in the OECD area as a whole in 2017 and in some countries their assets exceeded GDP.

The importance and relevance are even more fundamental if you consider the ultimate pension fund beneficiaries and their livelihoods. It therefore absolutely follows to focus on the skills and experience required to effectively operate as a pension fund trustee. But eventually, it is the actual performance of the companies in which the pension fund invests that have a much greater effect on the ultimate outcomes and hence one cannot help but to question the narrow focus. It brings to mind the analogy of mixing in the perfect mix of ingredients, but not ensuring the oven's thermometer or timer is set properly to ensure a perfectly baked cake. Admittedly, even if the full value chain is better governed and optimised, load shedding may still cause the cake to flop, but we would have at least tried to proactively quality control the inputs as best as possible.

It is a common misconception that the quality of decisions made by boards is determined by the quality of the debate and the time allocated to the discussion at a particular meeting. Even though these are extremely important and indeed necessary, it is not in itself sufficient. The factors determining whether any specific decision was the best in any particular situation are often influenced much more by actions prior to, and after, the actual debate and decision.

² 71 of 2008, as amended

³ 71 of 2008, as amended

⁴ Consultation Report on draft Conduct Standard

⁵ De La Cruz, A., A. Medina and Y. Tang (2019), "Owners of the World's Listed Companies", OECD Capital Market Series, Paris, www..oecd.org/corporate/Owners-of-the-Worlds Listed Companies.htm

Is mandatory pension fund trustee training, only, enough?

Some of these factors are self-evident, while others are quite surprising and often not explicitly considered by boards. One of these self-evident ones is specifically the board skills set⁶. King IV⁷ details the responsibility of the board towards ensuring, inter alia, appropriate skills and experience when considering their composition and also, in addition to the continuous development proposed, specifically recommends that directors with no or limited governance experience be provided with mentorship and encouraged to undergo training.

One can therefore of course argue that establishing the knowledge should be manageable through recommended induction, including sponsor LRs induction and general ongoing director development and there may be instances where this would be the case. But this largely leaves this critical aspect up to the chair or the company secretary and may, like many other recommended best governance practices, be deprioritised or delayed for various reasons. Continuing director exposure and development are also of course managed very differently from company to company and therefore does not ensure a basic minimum standard for all listed company directors.

For these reasons, I am of the view that the conversation regarding some form of mandatory training for the directors of listed companies should be re-opened.

The JSE already requires all AltX company directors to attend a directors' induction programme to ensure they are up to date on the LRs, the principles and practices of corporate governance, the Companies Act⁸ and other relevant topics. The assumption or rationale supposedly that AltX directors specifically would need such intervention, but that main board directors would not.

As company secretary, I've lived through a number of new directors having been appointed to listed boards and although many of course joined with appropriate experience, a large proportion were also nominated by shareholders from within their respective beneficial or internal structures, with zero listed experience and, on occasion, no prior board experience.

Often, even where directors joined with appropriate overall experience and knowledge, they had not necessarily remained sufficiently up to date with regulatory changes and developments, critical to the effective execution of their fiduciary duties.

Furthermore, we need to acknowledge that, as companies fully embrace age diversity as part of nomination considerations, there will be an increasing shift from directors with years of experience to younger, less experienced directors.

Am I suggesting mandatory director training as the silver bullet to board efficacy, company sustainability and performance, corporate failures...absolutely not, but, as with pension funds and AltX companies, it is a reasonable and proactive response to the actual issues and failures we have seen and, in my view, a rational evolution of the recommended best practice of continued professional development.

Many of the concerns raised during the JSE consultation included the broad-brush approach equally painting (supposedly) highly experienced directors in the same light. I'm sure, many pension fund trustees, in their context, would have argued the same. In reality, some may regard it as quite an outrageous assumption that pension fund trustees require training interventions, but directors of listed boards do not. I therefore think this is a navigable concern that could be addressed through, inter alia, some form of personalisation and a range of correspondent training requirements if necessary.

Although the JSE and our other exchanges, ZAR X, 4 Africa exchange and A2X markets could independently choose to pursue this suggested change to their listings requirements, it is held that a consistent enforced requirement would be more appropriate.

In terms of section 107 of the Financial Markets Act9 (FMA), the Minister may make regulations not inconsistent with the FMA on, inter alia, any matter necessary for the better implementation and administration of the FMA or a function or power provided for in the FMA. The objects of the FMA as detailed in section 2. inter alia. include:

- Ensuring that the South African financial markets are fair, efficient and transparent.
- Increase confidence in the South African financial markets by, inter alia, contributing to the maintenance of a stable financial market environment.
- Promote the protection of regulated person, clients and investors.

Ensuring better equipped listed company directors surely fall within these objectives and it is therefore suggested that regulation requiring all South African exchanges to amend their listings requirements to include mandatory director training is responsible and appropriate.

⁶ Prozesky, V and Wessels, CH (2017) "On the art of boardroom decision-making"

King IV Report on Corporate Governance for South Africa, 2016

^{8 71} of 2008, as amended

^{9 19} of 2012, as amended



A retirement savings solution for South Africa

Johan Gouws, Head of Advice, Sasfin Wealth

The challenge of solving South Africa's lack of retirement savings is a complex one and the problem is about more than not starting to save from early enough in one's life.

Solving the retirement challenge requires a multi-faceted solution that asks for the commitment of every party involved in the retirement value chain. A solution that gives South Africans the necessary motivation, endurance and comfort to save sufficiently for their retirement.

Government has in recent years made a great effort to provide a sound framework for retirement savings in South Africa. It has taken a big step forward by introducing Retirement Reform through the Taxation Laws Amendment Act, 2015 that took effect on 1 March 2016. The objective of the new rules was to harmonise the tax treatment for all types of retirement funds; in other words pension, provident and retirement annuity funds..

The new laws resulted in various benefits for retirement fund investors. The reference to "taxable income" effectively enables pension and provident fund members who receive outside income, for example rental income or investments, to claim a pension fund deduction against such income. Previously such "outside" income could only be used to claim deductions on retirement annuity (RA) contributions and members who wish to top up their retirement fund savings will no longer need to take out a separate RA. Investors in RA's also benefitted from these changes as they now receive the same tax deductions as other savers. They are will also be able to claim RA deductions against pensionable or retirement funding income. Provident fund members now also benefit from a larger tax deduction on contributions made to their provident fund.

In addition to retirement reform, National Treasury also introduced tax free savings accounts on 1 March 2015 to encourage saving among South Africans, specifically targeting the low to medium income segments. Default regulations was the next piece of legislation to be introduced by National Treasury from 1 March 2019 and has the aim of ensuring that members of retirement funds get good value for their savings and are able to retire comfortably. Greater transparency and simpler fee structures together with free counselling services offered to members should result in better preservation and more informed retirement fund members.

While government has played its part, it is also important that platform and product providers make a contribution to the South African savings environment. Technology and innovation

is driving down the cost of investment administration while the increased use of passive investing strategies is leading to a decline in asset management fees. Sponsorships for initiatives that seek to enhance financial literacy is a worthy social investment to be made by SA's corporate citizens. Treating Customers Fairly (TCF) is an outcome based regulatory and supervisory approach designed to ensure that regulated financial institutions deliver specific and clear fairness outcomes for financial consumers. Financial service providers should wholeheartedly embrace the TCF principles to ensure that any obstacles to achieving financial independence is removed.

Employee Benefit and Investment Consultants need to work closely together as service providers to retirement funds. They must empower the Boards of Trustees and Management Committees to make sound decisions on behalf of fund members when it comes to appropriate investment strategies and default solutions. Individuals and fund members should seek sound and independent advice from a financial advisor that will provide them with the best chances of achieving their financial objectives at and during retirement. These financial advisors need to upskill themselves by developing the ability to correctly profile their clients from a behavioural perspective. This will enable them to manage the expectations of their clients and help investors to maximise their investment returns by staying the course on their long-term retirement savings journey. Members and individuals should also take personal ownership for their financial future by educating themselves on all matters relating to their retirement savings.

Last but not least, government needs to provide a clear signal when it comes to matters such as economic and fiscal policy as well as highly emotive topics such as prescribed assets. If government send the incorrect or no signals, this can easily erode sentiment amongst local and foreign investors and keep the local economy from solving South Africa's fiscal and unemployment woes. It can also result in members terminating or reducing their regular retirement fund contributions and choosing not to preserve assets when changing jobs. In order to address a growing retirement crisis, it is critical that all stakeholders in the local retirement fund industry focus their collective efforts on the shared goal of making financial independence during retirement a reality.

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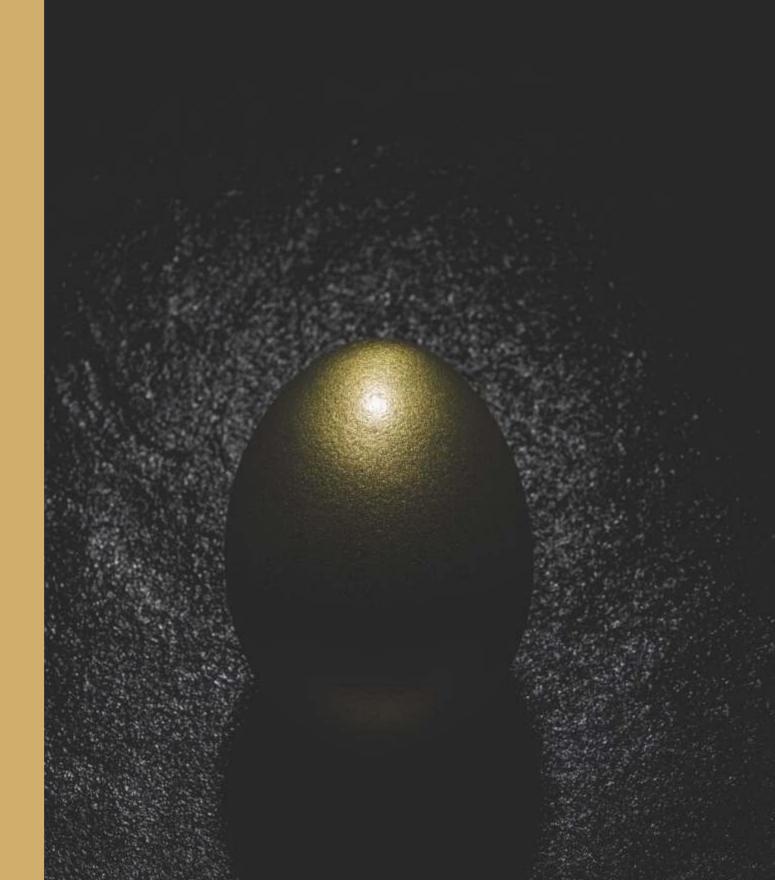




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INVESTMENTS





Alan Wood, Head of Investment Consulting, Simeka Consultants and Actuaries

"The sustainable financing of South Africa's economic recovery plans will require close co-ordination of fiscal and monetary policy to ensure ongoing access to capital markets and to reduce the cost of borrowing... $m{"}^1$

Economic backdrop

South Africa is knee-deep in the COVID-19 storm. Based on total reported cases so far, we are firmly in the top 5 worst hit countries in the world. At the time of writing this article, our daily reported COVID-19 cases had not yet peaked, but total reported cases already far exceeds countries like the UK, France, Spain and even Italy, where panic over the pandemic started earlier this year. Thankfully, our death rate is low, especially when compared with countries in Europe that have an ageing population.

By the time you read this article, if we follow international trends, the peak of the COVID-19 storm in South Africa will be behind us. Some argue that the pandemic will accelerate our inevitable economic demise, others optimistically hope it will prove to be the catalyst for much needed structural changes in our economy. Unfortunately, our track record over the last decade supports a lower road, rather than a higher road scenario.

At the beginning of 2020, the world economy appeared to be robust. Upon closer examination, it had been fraying at the edges for some time. In 2018, the US started a process to unwind unsustainably low interest rates. However, a US/China trade war ensued, there was rising populism in Europe and uncertainty created by unresolved Brexit issues put a halt to that strategy. In a surprise move, the US Federal Reserve (the Fed) changed course early in 2019, easing monetary policy in an attempt to ward off a possible recession in the US in 2020 or 2021. Despite the frayed economic edges, in the latter stages of 2019, global equity markets began to discount a very favourable economic environment for 2020. In South Africa, there was even a hint of optimism that the worst would be behind us and we would enter a period of positive economic structural reforms, tilted in a market friendly direction.

The Great Lockdown that started in March 2020, brought about by the COVID-19 pandemic, brutally destroyed any hint of economic optimism in the world and hit us hard in South Africa.

In April 2020, the International Monetary Fund (IMF) reduced its base case 2020 global economic growth forecast from +3.3% to -3.1%. This number has since been reduced to -4.9% in June 2020, because "The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated."² The outlook for 2021 was also moderated from +5.8% to +5.3%. Based on these estimates, the size of the global economy at the end of 2021 will still be smaller than it was at the beginning of 2020, with China being the only country in the world with a growing economy over this period.

Global equity market response

At a headline level, global equity markets appear to be discounting a much more optimistic outlook, believing that the worst of the pandemic is behind us and we should be a lot more optimistic on the bounce back in economic activity into 2021.

When we dig a bit deeper beyond the headlines, we find much more nuanced details. Unpredicted, massive global fiscal and monetary stimulus has driven the equity recovery. At the same time, even though the earnings of most companies around the world will be decimated by the lockdown, the pandemic has in fact been a tailwind for some companies, especially dominant technology platforms. The "FAANG's" - Facebook, Amazon, Apple, Netflix and Google (Alphabet) – supported by Microsoft have driven a large part of the equity market recovery, to the extent that the top 5 companies by market capitalisation now make up more than 20% of the S&P 500 Index. In South Africa, thanks to the stellar performance of Tencent, Naspers and Prosus collectively make up over 30% of the SWIX.

¹ Reconstruction, Growth and Transformation: Building a New, Inclusive Economy – A discussion document prepared by the ANC's Economic Transformation Committee (ANC, July

² IMF World Economic Update, June 2020: A Crisis Like No Other, An Uncertain Recovery (IMF, June 2020)

Life beyond COVID-19

Graph 1: S&P 500 and SA Equity from January 2020 to date (USD and ZAR)



Source: IRESS

Graph 2: FAANG performance YTD



Source: IRESS

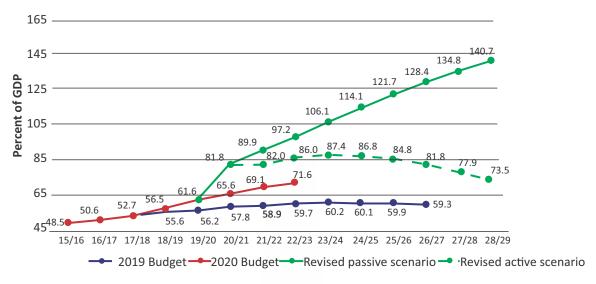
Life beyond COVID-19

Turning to the South African economy – a debt trap

The economic situation for South Africa is worse than for the rest of the world. Our business confidence index slumped to its lowest level ever recorded since the index started in 1985, and even optimistic forecasts are predicting -8% GDP growth for the year, the worst ever recorded.

South Africa was already in a very weak economic position at the start of the year, thanks to bad economic policies over the past decade. Perhaps COVID-19 will prove to be the "straw", or maybe the "log", which "breaks the camel's back". Graph 3 shows that our debt level, which had already been revised upwards in the 2020 National Budget, is expected to skyrocket due to the impact of financial support and a decline in taxes, because of the COVID-19 lockdown. Many governments around the world are also facing increasing debt levels, but our debt levels are much higher than those of other emerging market peers and the additional debt burden is not being deployed into improving our production capacity.

Government gross debt to GDP trajectory - 2019 and 2020 budget projections



Sources: National Treasury & Prescient Asset Management

National Treasury pointed out in a Supplementary Budget Review, released in June 2020, that if nothing is done about the current situation undesirably low economic growth will persist even after the COVID-19 crisis, and the cost of servicing debt will increase to crowd out other public spending on health, education and other policy priorities. They have termed this the "passive scenario", where debt levels are projected to spiral out of control as shown by the graph above.

The passive scenario will lead to a vicious cycle where Government will be unable to pay its debt. Business confidence will plummet further, the private sector will be reluctant to invest in the economy and there will be a flight of capital. It is scary to consider that National Treasury has openly admitted that we are already on a path to destruction, which they say we need to reverse through active intervention. The alternative scenario is an "active scenario" under which Government stabilises debt and speedily implements substantial reforms to boost economic growth.

It is clear that our country requires substantial economic structural reforms to be implemented, to move closer to the active scenario. Detailed proposed reforms have already been put forward by National Treasury in 2019.3 The ANC has recently issued a discussion document to outline an economic transformation plan supported by large scale investment into infrastructure.

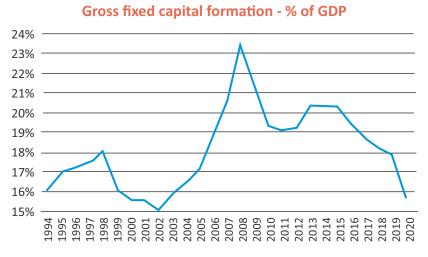
Infrastructure spending is a powerful tool that can be used by an efficient government to stimulate economic growth. Now, more than ever, South Africa needs to make use of this tool. Infrastructure spending has been declining significantly since the run up to the 2010 FIFA World Cup as indicated in the graph 4.

³ Economic Transformation, Inclusive Growth, and Competitiveness (National Treasury, August 2019)

Life beyond COVID-19

Unfortunately, the spike in our government debt burden will now make it impossible for Government to make use of this policy tool without accessing other pools of capital. If Government is able to facilitate an efficient process to access private capital, this could be a catalyst for growth.

Graph 4: Fixed Capital Formation Insert fixed capital formation graph



Source: The World Bank, 2020 number is our own estimate

Discussions on implementing a sustainable infrastructure programme to be supported by private pension funds started gaining traction in February 2020. In his address during the Sustainable Infrastructure Development Symposium of South Africa in June 2020, President Ramaphosa mentioned that infrastructure spending could reduce the cost of doing business, create jobs, increase capacity in the economy, increase productivity and improve sentiment and business confidence. It could even attract foreign investment into South Africa.

Retirement funds are very long term investors. It is important that trustees carefully consider long term infrastructure investment opportunities that will emerge from this initiative. For anyone who is able to look beyond a "failed state" scenario for South Africa, these opportunities should provide healthy long term risk adjusted returns.

It is important to consider broad scenarios within which possible investment opportunities can be outlined. The fact that National Treasury has labelled the low road scenario as "passive" is worrying. This implies that we are already on the path to a failed economic state and positive interventions are required to change course. Any rational long term investor has to assign a meaningful probability to a low road scenario. This is problematic, because rational investors do not willingly invest in a failed economic state, which may explain why there has been so much discussion and debate around prescribed assets.

An alternative scenario is the active strategy, where Government is able to implement economic policies that enable the economy to grow and contain debt levels. Under this scenario, business confidence improves and investors become willing participants in helping the economy recover from the destruction of the past decade followed by the sudden, massive impact COVID-19 has had.

As with all scenario planning, it is likely that we will end up somewhere in between the two extremes. However, sentiment is unfortunately currently swayed towards the low road scenario. Investment opportunities built around the South African economic recovery theme are emerging from the private sector and Government.



"It will be necessary for leaders in society to articulate the interests of the country and the economy as a whole, rather than sectoral interests. Short term tactical compromises are required from all stakeholders, in order to achieve longer term strategic goals and objectives. In this regard, business will be required to look beyond profits, workers beyond the next round of wage negotiations, and Government must have the capability to reprioritise and restructure where needed."

For a long time, retirement funds have participated in infrastructure funding such as electricity, water and road projects. The return profile of these projects matches the liability profile of the retirement fund.

We know that the South African retirement savings pool is not adequate to provide sufficient pension income for most members. Requiring retirement funds to compromise on their reasonable return objectives will worsen the problem of inadequate retirement provision and poverty in the country.

It will be necessary for trustees to step out of their comfort zones and seriously consider impact investment opportunities that will emerge around the theme of "rebuilding and restructuring our economy to achieve inclusive growth" without comprising on an adequate risk adjusted, return seeking objective.

We also need Government to act decisively and speedily to build an investment friendly and enabling environment and unambiguously clarify that prescribed assets are not the answer to solve their funding needs.





Going above and beyond in ESG – the neglected S

Fran Troskie, Investment Research Analyst, RisCura

"These are unprecedented times," currently seems to be a catchphrase. The COVID-19 pandemic has easily outstripped any previous crisis in its impact on the global economy, and on the livelihoods of millions of people worldwide. The South African economy, which was already struggling, is certainly no exception.

The International Monetary Fund (IMF) recently slashed its outlook for global growth, forecasting a contraction of 4.9% for 2020, while the Organization for Economic Cooperation and Development (OECD) and the World Bank are more pessimistic, predicting economic contractions of 6% and 5.2%, respectively. The World Bank forecasts that South Africa's growth rate will contract by an alarming 7.1% in 2020. Recent data shows that the country has already entered a recession: South Africa recorded its third consecutive quarter of negative economic growth, with GDP falling by 2% for the first quarter of 2020. These figures do not yet reflect the impact of the lockdown. It is expected that second quarter figures will make for stark reading.

And so, in these unprecedented times, can investors be expected to pay any attention to Environmental, Social and Governance (ESG) considerations? Arguably, they should be paying even more attention, particularly to the S. South Africa's unemployment rate hit a new high of 30.1% in the first three months of 2020, even before the COVID-19 related job losses were accounted for. The emergency budget made it clear that the government faces some tough decisions as the country teeters on a fiscal cliff. Gross national debt will reach an estimated R4 trillion by the end of this fiscal year and government's debt servicing cost will spiral upward to 5.4% of GDP. To put this into context, debt servicing is likely to amount to nearly 21% of government expenditure, the single largest component and far weightier than allocations to health, education and social assistance.

Going above and beyond in ESG – the neglected S

Public-private partnerships are now more important than ever. There have been some developments in this regard, with many South African pension funds undertaking investments into infrastructure and energy-related funds (the E in ESG). There has also been an increased focus on governance (the G in ESG) when it comes to where and how institutional investors deploy their money. Social considerations (the S) have been taken into account but for the most part the focus is on the low hanging fruit, as it were, in targeting asset managers who have gone some way on the transformation scale. BBBEE credentials have taken centre stage here. And they are important, but they are not the only aspect of socio-economic change that investors can target.

We believe that there are areas that have not yet received the attention they merit, and which require a fillip from institutional investors. Some of these are job creation, education, gender empowerment and equity. In saying this, we can't ignore that a handful of asset managers have created funds that are tailored to focus on exactly these aspects. We easily think here of Ashburton with their Jobs Fund, Old Mutual with their Schools Fund, Victus Global (which focuses on transforming agriculture in Africa, with a particular emphasis on gender equity) and the newly launched Maia Capital, which focuses on social infrastructure, clean technology and financial inclusion, all overlaid with a gender equity lens. But, beyond investing in targeted funds, which is also necessary, we feel that responsible investing requires these aspects to be included in a holistic assessment of all intended investments.

Retirement funds can afford to hold South African asset managers to high standards of accountability. We don't advocate that every South African asset manager launches a targeted social impact investment portfolio. It is a complex undertaking and requires a specific skill set. We do feel, however, that as part and parcel of a decision to allocate capital, trustees should pose a basic set of questions to their asset managers, and even to other service providers (consultants, auditors, administrators, custodians) who they deal with. A definitive set of questions has yet to be formulated, and there should be some flexibility so that retirement funds can focus on a particular social target, with the aim of making a meaningful difference with dedicated resources and focused investment.

Examples of questions, ranging from the most basic to some more complex, could be:

- What is the percentage of female ownership/management/investment staff/support staff in the business?
- What is your intention regarding gender empowerment goals? And what is your strategy to achieve your intention?
- How do you engage with investee companies to ensure that they are moving toward empowerment goals?
- How are you engaging with investee companies to ensure skills transfer within companies?
- How are you encouraging skills transfer within your own company?
- What education initiatives do you support?
- How are you engaging with the broader community to ensure skills transfer?
- Does the company employ graduates and trainees?
- Does the company support job creation initiatives and how?
- Do you measure any negative socio-economic impacts generated by investee companies, and potentially address them in engagements with management?
- Do you strive to educate investors and trustees in a broader sense?
- How do you measure the social impact of your investments? Which impacts are measured?

This is certainly not an exhaustive list but it does illustrate that institutional investors can, and must, take broader socio-economic aspects of their investments into account. Paying lip service, or targeting only one area, should no longer be an option, particularly not in an economy that will struggle to shrug off the deep impact of COVID-19.

An article on ESG in the pension fund space would be remiss if it did not consider the important topic of prescribed pension fund assets. It is a widely publicised topic and is surrounded by much debate. In the latest news South Africa's ruling party, the ANC, contemplates possible amendments to Regulation 28 of the Pension Fund Act to allow direct investment in infrastructure. While the ruling party has commented that the issue of prescribed assets is not on the table at this stage, the point to be made here is that investors need to be proactive about ESG impacts. In this way, the changes, and the intentions behind targeting social, infrastructure, and related investments not only make sense from an investment perspective (generating the required return while fitting into their risk profile), but also make sense from a personal, ethical and moral standpoint.



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The framing fallacy

In a highly uncertain world, we crave certainty. We have a natural tendency to avoid situations that threaten our wellbeing and we prefer choices that allow us to avoid pain.

Rory Kutisker-Jacobson, Portfolio Manager, Allan Gray

When a risk seems benign, we may overlook or underestimate it, but when a risk becomes front and centre, we will often prioritise minimising that risk at the expense of all other action – more so if the risk is vivid and visceral. Depending on how we have framed the problem, there is little or no consideration of the consequences of one action over another. Poor framing can result in far from optimal decision making.

The current COVID-19 crisis provides a classic example.

At first, most countries underestimated the risk of COVID-19, but once the vivid and very real images of overwhelmed hospitals in Northern Italy emerged on our TV screens, the pendulum swung in the opposite direction. Faced with the real and imminent threat from the pandemic, governments around the world responded by making the minimising of COVID-19 deaths the singular focus of all subsequent decisions.

When President Cyril Ramaphosa announced a national lockdown on 23 March, he spoke of this decision as "a decisive measure to save millions of South Africans from infection and save the lives of hundreds of thousands of people". While acknowledging that sacrifices would need to be made, and that these measures would have a considerable impact on peoples' livelihoods, he stated with a certainty that he could not have, that "the human cost of delaying this action would be far, far greater".

While our knowledge of the virus was highly limited then (and still is today), we sought certainty in uncertain epidemiological forecasts that framed the pandemic solely in potential COVID-19 deaths, which created panic from governments and society at large. We sought social proof from other countries and instinctively replicated actions undertaken elsewhere, seemingly without due consideration of whether lockdowns would be effective in our respective countries, given our existing socio-economic structures. This risk became the frame for every decision, be it minimising the spread, flattening the curve, or increasing hospital capacity. There appeared to be much less consideration of the cost of these actions, or what the repercussions would be if the forecasts were wrong.

As countries around the world went into lockdown, everyone created dashboards that focused solely on statistics pertaining to COVID-19: daily tests conducted, confirmed cases, active cases, hospitalisation rates, patients in ICU and deaths. CNN went so far as to permanently have a case and mortality counter on their news broadcasts.

There was no mention of the lives that we anticipated losing due to increases in domestic abuse, or mental health or medical treatment foregone due to lockdown restrictions. No mention of the economic cost and the subsequent lives we anticipated losing due to increases in job loss, poverty, and food insecurity. No discussion about how we would measure whether lockdown was actually being effective in reducing or eliminating the spread, or simply delaying the inevitable. No open assessment of whether the lives saved in the short term were worth the potential long term cost of lives lost.

Reframing the risks

How different would our perspective be if these daily dashboards reported all the related impacts and the cost of lockdown on society at large? Examples of measures against which the potential benefits of lockdown could be measured in South Africa are described overleaf.

The framing fallacy

Overall health and wellbeing

As at 30 June, 2 657 South Africans had lost their lives to COVID-19 and this number is likely to climb materially. Current studies estimate that the final range of deaths is likely to be anything between 20 000 and 48 000.

As a comparison, on average, over 31 000 South Africans die from tuberculosis (TB) each year. TB is one of the top 10 causes of death in children, and each year, approximately 17 500 children are treated for TB. TB deaths are highly preventable if diagnosed early and treated appropriately, yet under lockdown, overall TB testing has declined by 50% at a national level. How many additional child deaths are we potentially going to experience as a result? How might we evaluate lockdown measures differently if government reported COVID-19 cases alongside TB tests not conducted and additional lives lost to TB?

Over the last five years, an average of 19 370 South Africans have been murdered each year. In total, over 51 000 South Africans die from non-natural causes each year. All deaths are tragic, but these are arguably more so as almost all non-natural deaths are preventable.

Household income and education

The correlation between poverty and increased mortality is well known. There are a number of studies that indicate a decline in economic wellbeing materially reduces one's life expectancy. In turn, the primary determinants of economic wellbeing are household income and education.

Over two million South Africans have already claimed from the Unemployment Insurance Fund (UIF) since South Africa went into lockdown, and over 160 000 companies have reported being in financial distress. Many of these companies and jobs will never return: National Treasury now estimates that permanent job losses will be anything between 690 000 and 1.79 million. For a country that employed 16.4 million people and had a 29% unemployment rate prior to lockdown, this is material. Taking into consideration the dependants of those with an income, millions of South Africans will permanently move further into poverty, with the pain likely to be felt more acutely in the already marginalised parts of our society.

As schools begin to open, many parents are concerned about sending their children back into the classroom but the morbidity risk from COVID-19 for children under the age of 19

is very low. In any one year, a South African child has a one in 1 000 chance of dying. Based on what we now know about COVID-19 and how it disproportionately affects older people, one study estimates that the risk of those under 19 dying from COVID-19 is one in 76 878. A child is more likely to die en route to school than from a communicable disease picked up at school.

At the same time, keeping our schools closed is having a permanent impact on many of our children in South Africa and it is disproportionately impacting the poor. The National School Nutrition Programme supports over 19 000 schools, feeding over nine million children each day. An estimated one in five South African learners do not eat breakfast at home. Under lockdown, many of these meals are not finding their way to the children most in need.

Similarly, depending on how consistently schools can go back to teaching for the rest of this year, children will have lost between 14% and 33% of the regular academic year. Children from wealthy households have been able to substitute school learning with online classes in the convenience of their own homes, but these facilities are not available to many of the poorest in our country. As a result, one study indicates that the education gap between the wealthiest and poorest is likely to widen by between 11% and 75% this year. This gap is unlikely to ever be closed, further exacerbating inequality for these learners.

Framing in investment decision making

Understanding and avoiding these cognitive biases has several parallels in investment decision making. It is important to consider risk from multiple perspectives.

The most obvious risk is likely to be the most recently experienced but it is unlikely to be the only risk. The single largest determinant of future investment returns is the price you pay today. Irrespective of the underlying quality of a company, pay too high a price at inception and the subsequent investment returns will be disappointing.

Similarly, when a company is undergoing difficulties, investors tend to only see risks and therefore price the company as if the current turmoil is permanent. At times they will be willing to sell at almost any price. This creates opportunities for long term investors, who are happy to buy such shares if we are adequately compensated for the risks. All too often, the future only has to turn out marginally better than what is currently expected for the subsequent returns to be excellent.

The framing fallacy

Be careful about making decisions based on expert mode

In highly uncertain environments like today, we gravitate towards people who speak with confidence and provide us with assurance based on models or other compelling forecasts. But forecasting is an inexact science and it is important not to place excess confidence in the predictive ability of models. The future is inherently uncertain and risk means that more things can happen than will happen. As US economist John Kenneth Galbraith once said: "We have two classes of forecaster: Those who don't know—and those who don't know they don't know."

So how does an investor get around this

Invest with a multidisciplinary view and a margin of safety. Not knowing what the future holds requires an investor to consider a number of potential outcomes and opposing risks. This requires one to be rational, seek out dissenting opinions and consider incomplete and often conflicting information. We acknowledge that we don't know what the future holds and so seek to buy companies trading at a significant discount to the estimate of fair value to account for a variety of outcomes.

Frame and reframe

All too often, our choices involve trade-offs. The world is complex, and our instinctive reactions fail to adequately account for the interplay between various elements. You cannot eliminate all risks. Overestimating the risk in one area may result in us materially underestimating the risk and costs in others.

As investors, we constantly need to balance the risk of loss against the risk of losing out. We need to be as conscious of the limits of our knowledge as we are of what we know. We need to approach problems from multiple angles and be comfortable making sometimes counter-intuitive and uncomfortable decisions.



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Investment notes for surviving a crisis

Anet Ahern, CEO, PSG Asset Management

When investors start out, most say to themselves "I have a long term plan". But just as often, our thinking about what is long term changes as soon as we experience the first market dip. Faced with volatility and uncertainty, our first impulse is to flee to safety.

The most recent statistics from ASISA underscore this tendency to flee to perceived safer assets. Not only did we see an industrywide outflow of R24.44 bn for the quarter ended 31 March 2020 (the largest outflow for the past 10 years) but investors continue to abandon equities and multi-asset portfolios in favour of money market and other fixed income investments. This is a pity, since selling at these low levels not only crystallises what have largely been paper losses, but investors are also likely to be sitting in cash when the market rebounds. While it is impossible to predict market moves, it should be noted that, by 30 June 2020, the market (as measured by the FTSE/JSE All Share Index) has already rebounded 43% from the low on 23 March 2020. Moreover, the best time to buy (and grow your wealth in the long run) remains when markets are low, however uncomfortable this may feel. An equally important fact of today's local and US equity markets that is masked by index moves, is that only a few shares have driven the market recovery, meaning that most shares remain at depressed levels. Thus, the market recovery has been sharp but not broad or well spread. This creates opportunity for stock pickers.

Uncertainty is a feature of our current environment and is sure to be with us for years to come yet. Volatility will come and go, and investors will experience many ups and downs in the future. With the benefit of hindsight, however, we may all despair that we did not act more decisively when quality was to be found abundantly at these low levels. Investors wanting to grow their wealth in real terms, may be well reminded that the best advice is to be greedy when others are fearful.

Investment notes for surviving a crisis

Staying focused on the long term should always be the crux of the retirement investor's approach. However, the current crisis is generally referred to with a disconcerting adjective: unprecedented. Because of this, many investors are at risk of thinking "this time is different," and many clients have asked what we predict for the short term – say a year from now.

Here is what we expect to see if we wind the clock forward a vear:

- A lot of incorrect predictions, including some of the ones I'm making here, with many vocal forecasters quietened, especially those who were wrong! Always be aware that a forecast is just an opinion based on a specific viewpoint, and no-one knows exactly how the future will look. A welldiversified portfolio with some built in flexibility and the right long term risk profile might just do best when largely left alone. There will be no straight lines and even a low risk solution is likely to be more volatile than what we are used to as the new normal sets in, so it is wise to be prepared for ongoing uncertainty and volatility.
- We will look back on many decisions that were made based on emotion and, particularly, fear. Some of these may even seem right for a while, but in the years to come they may lead to significant opportunity costs for many investors.
- Sequencing risk (the impact of a market decline close to retirement) will have spiked, leading to adjustments in living standards, delaying retirement dates where possible and lowering expectations of living annuity payouts. Inflation around the globe is lower, so return assumptions and the rate at which capital is accessed to live from also need to be reviewed.
- While the equity market remains fraught with risk, challenges and uncertainty, it is unlikely that cash alone will achieve the goal of earning a return above inflation.

- What we have seen so far has mostly been a demand shock as we literally shut down entire economies. The impact of the supply side, with capacity and competition being taken out of the market will only be felt in the months to come as the free market does its job. Back in the 80s when we had sanctions, import replacement was an investment theme. We could see a similar boost for local manufacturers given the slowdown in international trade and the weak rand, and our policymakers have alluded to this. Globally there is also the possibility of increased inward industrialisation and a trend towards supporting local businesses.
- We should see the impact of lower interest rates, lower oil prices, some return of business activity and continued lower inflation on our pockets, and a post-lockdown burst of spending could happen. As President Ramaphosa indicated in his address on 21 April, the interest rate cut can potentially channel R80 billion into the real economy, although lockdown muted some of the initial impact of rate cuts.
- There will be more COVID-19 deaths, and more businesses will close. This will take an emotional toll as well as a financial one. Together with the uncertainty we already face, this may make all of us vulnerable to irrational decision making.

Who are the winners likely to be? Investors who start with a plan that incorporates a diversified approach, slow their thinking down, calmly assess factual information, raise their awareness of current valuations and ratings in a historic context, think longer term and use their advisers to help with this process. To quote Warren Buffett, "If you cannot control your emotions you cannot control your money".





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Mobilising the long term savings pool to help restore SA's economic health - and achieve a positive return

Nazmeera Moola, Head of SA Investments, and Simon Howie, co-Head of SA & Africa Fixed Income, Ninety One

South Africa's GDP looks set to contract by 8% in 2020. In an ideal scenario, we would see a sharp V-shaped recovery in 2021, resulting in an expansion of 8% or more.

For this to occur, we need two things. Firstly, we need a return of confidence. Remember, South Africa entered the COVID-19 pandemic in recession. A decade of President Zuma's economic mismanagement means that private sector fixed investment has been contracting since 2014. To boost confidence, we need to see three or four tangible reforms (not just talk about reforms) in the next six months.

The second requirement is for South Africa to protect as much productive capacity as possible. This will be partially met by the wage support measures and loan guarantees that have been implemented. However, even if the loan guarantees begin to function as envisioned, that will not be enough. They are targeted at helping companies with turnover up to R300million per annum. There are many large private companies and small listed companies that turn over more than that – but could still struggle to find appropriate funding during this crisis.

South Africa faces a dire capital shortage. The government will run a budget deficit of around 14.5% of GDP in the current year - this is one of the largest in the world. Unfortunately, the bulk of this is due to a collapse in tax revenues as economic activity looks set to contract by the greatest amount since the 1920s.

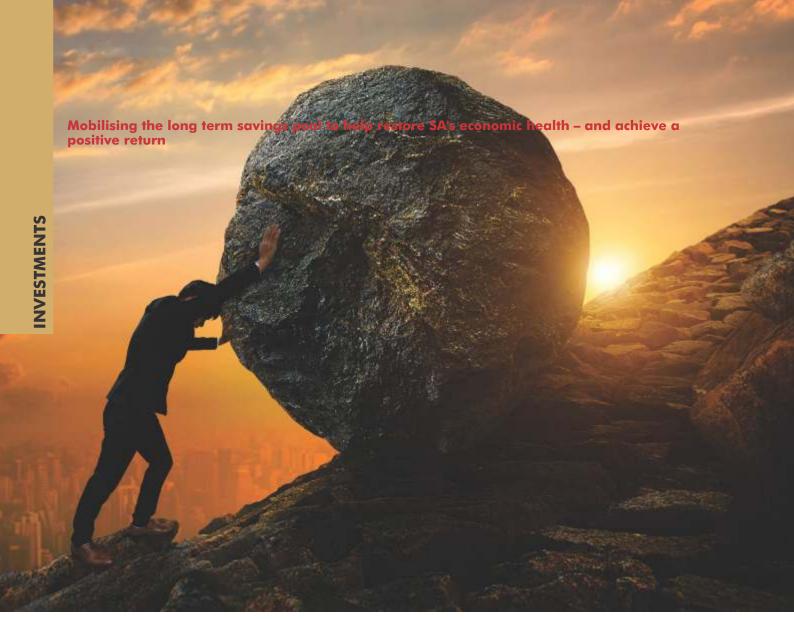
Given the constraint, it is critical that the long term savings industry plays a role in protecting the country's productive capacity during the next 24 months in order to support the long term recovery, preserve jobs and protect permanent loss of equity value.

There are however structural factors that currently limit the long term savings industry's ability to contribute to the current crisis.

- Long term savings are typically managed by investment managers in specific mandates or funds which are constrained by asset class and/or credit ratings;
- Most funds managed by investment managers allow clients to withdraw at short notice, requiring a bias to liquid investments;
- Most investment managers are measured on short term performance, creating a bias towards current momentum and thus limiting the exposure to investments with a strong South African exposure when other markets are outperforming.
- Most investment managers' funds have limited liquidity to contribute meaningfully.

Within these constraints local managers can provide some support. Equity funds can participate in rights issues to help businesses that require additional capital. Fixed income funds can provide debt to companies through the listed bond market and there are a handful of niched private market strategies that can provide some unlisted debt and equity. But this support is clearly not enough and is likely to reflect poorly on the long term savings industry. Supporting South African businesses through the current crisis should not be the sole responsibility of the banking sector and Government.

The long term savings industry needs a more flexible approach to help mitigate the economic impact of COVID-19. Current strategies alone are not enough. In this respect it has been encouraging to note that some investment managers are coming to market with initiatives aimed at tackling this challenge head-on. These initiatives aim for more flexibility than traditional mandates typically have to allow them to help businesses – thus achieving a positive impact while providing a commercial return.



Initiatives like these provide a tangible, scalable impact investment vehicle. However, they have prompted a rethink for many institutional asset owners, as they require them to consider an allocation to unlisted investments across the capital structure in a locked up structure — a clear departure from their standard asset allocation decisions. This longer time horizon is critical as companies that are viable on a three- to five-year basis may present too much risk for a manager of listed equities or credit with a twelve- to 24-month time horizon.

Companies that would fit the bill would be those that entered COVID-19 with strong fundamentals, have a solid management team, have the ability to contribute to South Africa once the economic recovery commences and have a clear path to post-COVID-19 recovery with the necessary financial resources.

The increased flexibility in mandates is key to the success of these new initiatives as there will be an element of finding the right solution in different circumstances. Some businesses may simply require short term liquidity to support them through the crisis, while others may take longer to recover and will need more patient capital in the form of equity or subordinated debt with easier repayment terms.

The key to the success of such impact initiatives will be the balance between financial returns and socio-economic imperatives. There is a clear impact goal: protect productive capacity, jobs and the country's tax base. While it would be naïve to assume that these funds can ensure zero job losses in the companies in which they invest, providing support to businesses and helping them through the current crisis will have a direct benefit to both job preservation and the protection of productive capacity that should help with employment growth as the economy recovers. Therefore, performance reporting on these funds will include both commercial and impact outcomes.

The COVID-19 pandemic presents an economic situation never before experienced – the lockdowns were effectively an induced coma. Unfortunately, the businesses' revenues were in a coma, not the costs. The result is a severe and negative impact on society, individuals and businesses.

To mitigate the effect, long term savings capital has a material role to play to help in the rebuild. Importantly, early action will have a large positive impact and provide solid potential returns.



Responsible investment – time for talk is over, let's take action now

Shainal Sukha Managing Director, Sukha and Associates

The Covid-19 pandemic will no doubt teach us many lessons and we will analyse its effects for years to come.

My key message to you today is not just to analyse and comment but to learn from this experience and to start taking positive action (no matter how small) towards changing our system to make it more transparent, equitable and sustainable.

After reading this article, as a trustee, make a commitment to study the Sustainable Returns Guide on Responsible Investment and Ownership, and/or reports from the

Principles of Responsible Investment (PRI) or CFA Society once a week, and debate these reports with your asset consultants. Or appoint a Responsible Investing ("RI") champion within the Board of Trustees to ensure that time is set aside for this important issue.

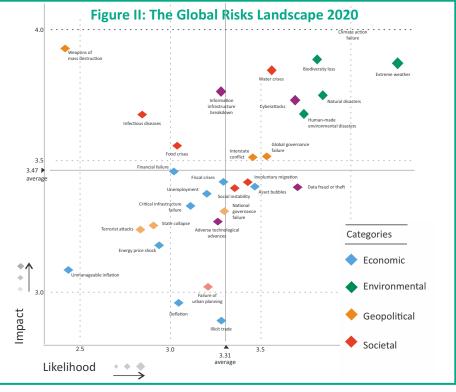
Such a commitment will ensure that you build up knowledge about RI and Environmental, Social and Governance issues, and thereby contribute to the pressing changes needed in the Responsible, Sustainable and Impact Investing field.

What Covid-19 has shown us and the risks ahead

The pandemic has shown us just how vulnerable and unprepared most countries around the world are to external shocks and how easily

human rights such as the freedom of movement can be suspended by Governments at a whim. Capetonians are all too familiar with the fear and anxiety that the water shortages brought to the City more recently, and how everyone was forced to adapt to the situation for the greater good. According to some experts, the pandemic seems to be a "dry run" for what is to come if we don't improve the way we consume resources and operate on this planet.

The World Economic Forum's 2020 global risks report (released before Covid-19) showed that – for the first time - the top 5 risks in terms of likelihood are all environmental risks. In the chart below, notice how social risks such as water crises, food crises and infectious diseases were mentioned as having a high impact. Just a few months after the report, an infectious disease has indeed had a high impact, causing one of the worst global economic crises in our history.



Source: World Economic Forum Global Risks Report 2020

Covid-19 also brought to the fore the weaknesses of our current political, economic and social systems and how unsustainable they are. These include:

 Structural racism and a lack of transformation in the US is in the spotlight after being "dusted under the carpet" for centuries. As we saw through global protests, this issue has not been adequately addressed in many countries and speaks directly to the transformation agenda in South Africa.



- Paternalism and a lack of gender equality has reared its head in Mexico, Iran and South Africa as we saw an increase in honour killings and unprecedented violence against children and women.
- Some scientists believe that the frequency of pandemics will increase due to the way humans farm and consume animals and encroach on animal habitats. The loss of biodiversity impacts the environment in ways we do not fully understand.
- Our ongoing and endless consumption of resources and forests and the large amount of waste (particularly plastic) that we produce and simply dump in our oceans is just not sustainable.
- Capitalism needs redefining to make it more inclusive and sustainable. Even in wealthy societies, income and wealth inequality are serious moral issues but also act to destabilise almost all parts of a functioning society if left unchecked. The move to stakeholder capitalism has already started and long term investors such as retirement funds should support such initiatives.

Crises give us an opportunity to pause, reflect and learn from the experience but to also to reinvent ourselves, renew the way we do things and to improve the system. Often, we come up with our best ideas when we just pause and think. The key, however, is to act on those ideas. No matter how small the action is in relation to the wider system, it is often a series of small individual actions that gather momentum and spark system change.

How can retirement fund trustees become change agents?

Many of us have been talking about sustainability and responsible investing for years but taking action, no matter how small, is now critical.

The following may assist trustees of retirement funds:

- We are all on our own Responsible Investing (RI) journeys some further than others. There are a lot of free resources available online, including the Sustainable Returns Guide on Responsible Investment and Ownership, and reports from the Principles of Responsible Investment (PRI), CFA Society, Actuarial Society and SAVCA. Start by reading and debating such reports with your asset consultants. In this way, you can build up knowledge and capacity at the Board of Trustees level or Investment Committee level.
- While we fully understand that the Responsible, Sustainable and Impact Investing field is evolving rapidly with new developments and it can feel overwhelming at times. My advice would be to just start your RI journey. The sooner you start, the better. Like CPD, it requires continuous reading and development.
- Consider signing up to the Principles of Responsible Investment. Not only do you get access to global best practice, but also the support from the PRI.
- Batseta and the IRFA can also provide support and assist in facilitating collaboration with other retirement funds that are further along in their RI journey.
- Consider setting a separate Responsible Investing Policy but don't let perfection be your enemy – just get started. As you build up knowledge over the years, you will see how the quality of the RI policy improves.
- Engage with asset managers, regulators and civil society to get a broader understanding of the financial system and how it can be improved. Retirement funds have a lot of power so use your influence to ensure that RI becomes embedded across the entire value chain.

The above are some practical suggestions to ensure that you, the trustee, can take action immediately and become a change agent in the Responsible, Sustainable and Impact Investing field. Covid-19 has shown us that the time for talk is over. We require urgent action to transition to a more sustainable system.

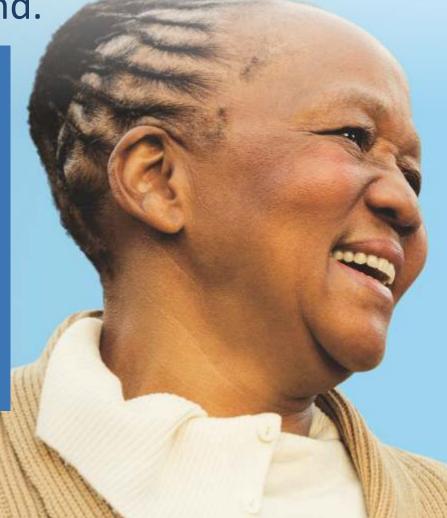
ICTS death benefit distribution



Make sure she is taken care of in her golden years in the event that you

are not around.

Our team of experts provides a full, outsourced death benefit service to trustees, in the provision of death benefit distribution in terms of Section 37c of the Pension Funds Act.





The pandemic of fear and greed

Paul Nixon, Head of Technical Marketing and Behavioural Finance, Momentum Investments

Warren Buffett has described fear and greed as hyper contagious and almost pandemic-like on a number of occasions – something that has hit a little close to home of late and certainly shone some light on decisions investors have made this year.

Recent research shows the extent of greed and fear as key drivers of our investment preferences. Our Fear and Greed Index shows what the dominant sentiment is for investors during any particular market environment.

The theory behind investment prospects or choices

To establish the difference between the two states (fear and greed), the work of professors Daniel Kahneman and Amos Tversky from the late 1970s, challenging utility theory was applied.

Traditional economic and finance theory assumes we are socalled rational agents and will therefore make decisions to maximise the benefit (or expected utility) from making that decision. However, there are two problems here. Firstly, human rationality is restricted, because there are limits to our thinking capacity, available information and time. The second problem concerns utility itself. Utility theory was applied to economics as the satisfaction or happiness derived from consuming a good or service and expressed as the willingness to pay for this consumption.

In the field of finance, modern portfolio theory proposed the maximum utility for investors as the option that provided the maximum return for a given level of risk aligned with the investor's risk aversion or preference. As a normative model that explains what the answer should be, utility theory is sound. As it turns out, however, it does not really assist much in explaining investor behaviour in the real world.

The real world is a place where peoples' preferences violate standard utility theory:

Our preferences can be swayed by the way a choice is worded or framed. We think of a 50% chance of surviving differently to a 50% chance of dying, for example.

- We are not great at evaluating probabilities correctly and would pay more to shift the probability of an event from 99% to 100% than from 10% to 11%. Think of what you would pay to shift the probability of successful heart surgery in the above cases for example.
- People would prefer to bet on events related to their field of expertise, even if the odds of success are far worse.
- When exposed to uncertainty, we would expect people to try and lower that uncertainty (risk aversion), but observation shows that we actually look for risk if it means we can avoid a loss.
- We look at gains and losses completely differently. Finding R100 in the street is not the same as finding R200 and losing R100 on the way home, although the economic reality is precisely the same.

What the research found

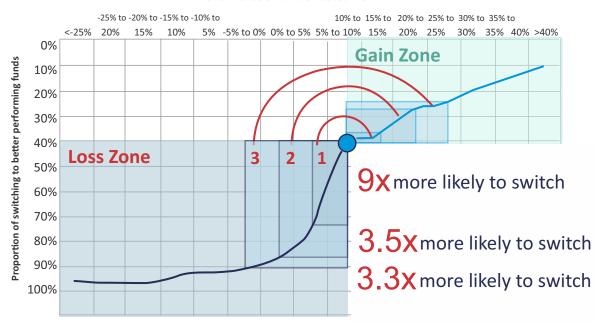
When examining the investment choices or preferences of about 20 000 South African discretionary investors from 2006 until the start of 2018, we observed a very similar value function that emerged in Kahenman and Tversky's prospect theory. Plotting investor utility as a function of the unit trust returns they receive in a discretionary unit trust environment, the following fascinating insights were found:

- Investment returns of less than about 12.5% per year place South African investors in the 'loss zone', which is the centre point of the diagram overleaf.
- In this 'loss zone', investors become increasingly sensitive to investment returns and are nine times more likely to switch to another unit trust, when compared to investors in the 'gain zone' to the right of the centre point.
- Fear is the dominant investment motivator, with 60% of the population performing switch transactions in the loss zone.

The pandemic of fear and greed

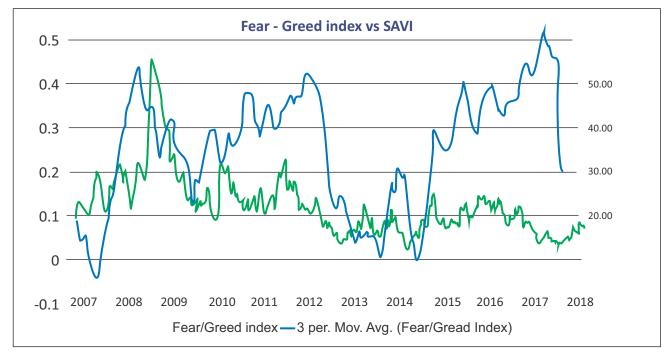
% of switches to better performing funds (% chasing past performance)

Performance of Fund Switched From



To bring these investor preferences into the spotlight, a Fear and Greed Index for South African investors is being published. To estimate when investors' decisions are driven by fear or greed, an index for both of these underlying emotions has been quantified. An algorithm that weights if the investor is operating in the gain or loss zone, with the returns from the unit trust(s) being switched from and to, provides the mechanics for a revealing indication of sentiment in discretionary investments. The final step is taking the difference between the fear and greed levels to get to a single index, revealing dominant sentiment.

As expected, we see a strong correlation from the figure below between the index and the SA Volatility Index (SAVI), noting that a decrease in fear (the bull market before the financial crisis in 2008) represents an increase in greed and vice versa. A fascinating insight is the decoupling between volatility and fear levels in South African markets from mid-2014 onwards — the point where South African equity markets begin to stagnate. There is significantly more fear, when compared to actual levels of volatility and is perhaps reflective of the heightened political uncertainty in our landscape.



The pandemic of fear and greed



Further research in this area is certainly warranted. Why the seemingly high centre or inflection point separating the gain and loss zones? Could this be explained by investor expectations, when they participated in regular double-digit returns in South African financial markets in the past? This 'switch itch' is a sobering gauge of South African risk preferences and rather revealing when considering the investor's ability to stay the course of an investment strategy. Unfortunately, this switching activity often trades off current emotional comfort levels for long term investment returns.

While the returns for this research were based on discretionary retail investors, there is a reasonable case to be made that this behaviour should also be expected in the institutional settings, as retirement funds are aggregators of individual members' savings and the same emotional drivers will be present.

What is the useful utility of this research? In decision making, a foundational starting point is to "know thyself". These metrics can start playing a role in understanding your own behavioural biases and should start to play a role in the decision making and advice process, as investors become more aware of the consequences of their investment preferences. The key to success is to keep all investors aligned and focused on their long term financial goals. This is the ultimate secret to financial success.

With us, it's personal

Through meaningful partnerships, we believe in delivering personal investment goals together.



With the world in constant flux, we have the solutions to help you stay invested on the journey to achieve your retirement fund or business goals.

Contact us at emailus@momentum.co.za or visit momentuminv.co.za for more information about outcome-based investing.

momentum investments

STOCK-TAKE





Aspen Pharmacare Holdings

The defining aspect of Coronation's investment philosophy is our long time horizon. A common sense, valuation driven process is followed in an attempt to cut out the noise and buy undervalued stocks that offer a large margin of safety.

Unfortunately, this usually coincides with periods when the share price is under pressure, either due to negative news or the share falling out of favour with investors. These long term time horizons, spanning at least five years, often accept short term underperformance in seeking to deliver market beating returns over meaningful periods.

Let's take a look into the long term performance of Aspen. Coronation bought Aspen as the business was transformed from SA Druggists into the leading South African generics company. From there, Aspen grew further into a global specialist pharmaceutical company. From a base of R5, the share outperformed for more than a decade. Selling early meant missing much of the upside in later years. From October 2012 the share continued to outperform, returning more than double that of the market between 2013 and mid-2015 when the price peaked at nearly R440. While the underlying fundamentals of the business remained unchanged, it continued to enjoy healthy returns and generate significant amounts of cash; this was more than discounted in its rating, with the share trading above assessments of its fair value. In short, some believed the share price offered no margin of safety.

Around 2009, Aspen concluded the first of three transformational deals with GlaxoSmithKline (GSK). From 2010 it

globalised at a rapid pace, concluding several large acquisitions with Pfizer, Merck, AstraZeneca and Nestlé. Today, the business is focused on three main therapeutic classes:

- Anticoagulants Aspen is the second largest provider of injectable anticoagulants worldwide;
- Anaesthetics Aspen has a 20% market share in anaesthetic products worldwide (ex-US); and
- High potency and cytotoxic products, with a focus on oncology and female health.

These therapeutic classes have the following in common:

- They are niche and post-patent, which means that there is no pending earnings cliff and ensures predictability of future cash flows.
- Multinationals dispose of these products as they are regarded as non-core, which can result in product volumes declining over time. This presents Aspen with an opportunity to arrest the decline and eventually grow volumes.
- The products are complex to manufacture. Manufacturing
 is the cornerstone of Aspen's business model and it
 leverages its scale to reduce the cost of goods through
 better procurement and improved production efficiency.
 This is key to protecting gross margins.

Aspen Pharmacare Holdings

The transformation into a global pharmaceutical company was overseen by two of South Africa's most entrepreneurial managers, who together own 16.5% of the company, aligning their interests with those of shareholders. Aspen's track record of earnings delivery is impressive. The company has grown earnings at just over 21% per annum since its listing (although there has been a significant slowdown in earnings growth over the last three and five years).

Unfortunately the combination of a high price earnings multiple and weak earnings growth resulted in the share de-rating relative to the market and in 2018, the share price collapsed, due to concerns about:

- A stretched balance sheet and the short tenor of debt borrowed.
- The purchase of anticoagulant products from GSK has disappointed.
- Organic earnings delivery in developed markets has disappointed.
- The impact of African swine fever on the anticoagulants business as an input.

These issues have called into question Aspen's business model of using debt to acquire post-patent products and growing them in emerging markets.

Coronation started buying Aspen in late 2016 as the share price continued to come under pressure due to the aforementioned concerns. Coronation believed they were adequately discounted. At its low, Aspen's price earnings rating collapsed to just below five times, providing a significant margin of safety. The share now offered an attractive risk adjusted return for the long term investor.

Some think the market has underappreciated the efforts to address investor concerns:

- Net debt levels have been significantly reduced following several large disposals, which reduced Aspen's net borrowings, thereby creating some covenant headroom. Furthermore, cash-flow generation in its most recent results was very strong. Aspen's capital expenditure cycle reduces significantly from 2020, which should allow debt to be paid down faster.
- Management has a stated target of reducing the net debt to earnings before interest, taxes, depreciation and amortisation ratio. Coronation believes this is achievable given the focus to unlock the investment in working capital and the reduction in future capital expenditure requirements.
- It has a significant buffer in heparin stock and has nearly two years of supply. The buffer stock protects it from short term spikes in heparin prices caused by African swine fever and reduces the risk of stock-outs.
- There are plans to address the weak performance from its anticoagulant's division in Europe.

Furthermore, increased use of anticoagulant use per capita should support growth in emerging markets. Demand for Aspen's sterile portfolio of anti-coagulants (used to treat blood clots) and anaesthetics (administered to patients on ventilation) has increased due to the Covid-19 pandemic. This should support volume growth for the foreseeable future until such time that a vaccine is developed. Aspen is also a major manufacturer of dexamethasone which has proven to reduce Covid-19 deaths in patients on ventilators and reduce fatalities among patients who were receiving oxygen support. Coronation had no special insights into these developments, and simply owned Aspen given the view that the risk-adjusted returns and resultant margin of safety were attractive.

At the time of writing (June 2020), the Aspen share price had recovered to R150, after a low of R65. Aspen trades on an attractive one year forward price earnings multiple of 9.3 times and just under nine times Coronation's assessment of normal earnings and remains a 4.2% holding in their investment portfolios.



Humanity.

Determination.

Resilience.

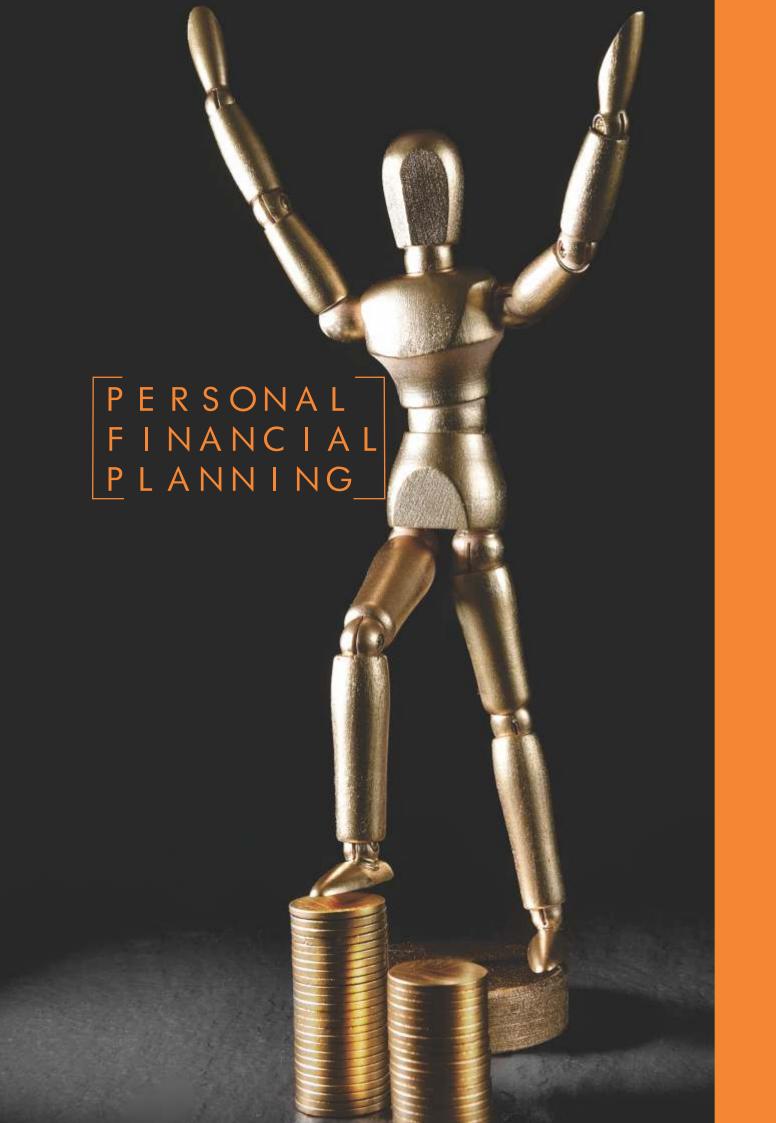
Trust.

It all comes down to trust.

Particularly when it comes to investing.

In 1993, we committed to work tirelessly to grow the long-term wealth of everyday South Africans. Today, this commitment is more important to us than ever.







Costa Economou, Chief Executive Officer, Colourfield Liability Solutions (Pty) Ltd

Whilst stock markets around the world have recovered following their collapse in March and whilst economies are slowly beginning to open, most of the world's real economies are dealing with the dire reality that they are in recession.

Continued volatility is expected as further waves of infection are likely. In other words, much uncertainty about COVID-19 still remains. The widespread use of social media means that negative news headlines dominate our news feed throughout the day. The result...PANIC!

How the Virus Can Destroy Your Retirement **Savings**

It is not the virus but your reaction to it that could derail your retirement plan. It is precisely at these moments that members of retirement funds often do more damage to their retirement provision than the crash itself. They do what every rational human does in the situation - they respond emotionally. Even though logic tells you that a long term perspective is required for investment in equities, fear makes people switch out of their investment strategy into asset classes like cash when markets fall. Even though the history of the stock markets shows that most crashes are followed by recoveries, fear makes people feel that this time is somehow different and they should get out now.

Nobel prize winning psychologist Daniel Kahneman and Amos Tversky discovered that the pain that is caused by a portfolio fall is about twice as great as the pleasure caused by an equivalent gain. This is referred to as our "loss aversion". Loss aversion explains why the default (unintentional) approach by the average member is to "sell low and buy high". It explains a member's compulsion to switch out of their investment strategy into asset classes like cash when market fall.

Objectivity When We Need it Most!

As difficult as it is, you need to disentangle your emotional self from your rational self. With an objective assessment of your financial reality you will be able to take appropriate steps and more importantly, avoid acting when it feels like you have to.

Innovation?

There has been very limited innovation in recent years when it comes to retirement provision. The irony is that two such innovations might actually make the panic of market crashes more acute. These are member having online access to the value of their retirement account balances in real time, as well as the ability to make switches to their investment portfolios.

The effect of COVID-19 on your retirement fund savings

Without any context, a member logging into an online fund portal is presented with an account balance that has likely fallen significantly over the period concerned. For many members, it is the fall in account balance rather than the implications of that fall that causes the most concern.

Members of any retirement system should be targeting an income goal at retirement. When considering the impact of a market fall on his or her retirement benefits, the member should be focusing on the impact of such a fall on their long term retirement funding goal. Specifically, the member should rather concern themselves with the implications of such fall on the amount of income they are likely to retire on when they reach retirement. It is this goal that is important as this is the goal that will rightly allow members to focus on their ability to retire with dignity and maintain their standard of living.

For example, it is likely that a member has no idea of the actual implication on their ability to retire of a fall in their retirement fund credit from R1 000 000 to R750 000. However, by focusing on the income goal of the individual, the member has meaningful context.

We illustrate the importance of a holistic goals based framework with two different examples below:

A Member Aged 30:

Lindiwe is 30 years old retiring at age 65. She is invested in the retirement fund's default investment strategy and has an accumulated fund credit of R45 000 at the end of February 2020. Within the goals based investment framework, Lindiwe knows that she is expected to receive R33 675 per month when she retires.

Lindiwe logs on to the fund's online member portal three weeks later when she sees the news that world equity markets are crashing. She sees that her fund credit has fallen by 25% and is worth R11 250 less! Panic would set in if this was the only information available to her. However, she is also able to see that her expected income has only fallen by 1.5% (or R488 per month) and that she is on track to receive a monthly retirement income of R33 187. Armed with this information, Lindiwe is less likely to make any rash decisions.

A key reason for the relatively small reduction in income is that the majority of Lindiwe's assets are in her future contributions towards retirement savings (otherwise called her "human capital"), and not her fund credit. This is the main reason that a large exposure to equities is appropriate for younger members. There is also time for the market to recover.

A Member Close to Retirement:

Richard is 64 years old and is one year away from retirement. He too is invested in the retirement fund's default, which is a

goals based investment solution. Retirement is foremost on his mind and he believed that until recently he was on track to achieve his retirement goal and expected to retire with an income of R35 053 per month.

If Richard focused on only his fund credit balance, he would be very concerned that his savings had fallen by 12% (or 000) since the end of February 2020. However, he is immediately reassured when he sees that the level of expected income has not changed very much despite the relatively large fall in his retirement provision. He is on track to retire with an expected income of R34 516 per month, which is 1.5% less than before and still more than his income goal of R34 000 per month

This is because a correctly structured goals based investment strategy defaulted Richard into the appropriate de-risking portfolio as he approached retirement. The fall in his account balance was offset by a reduction in the cost of the income that he can purchase in a year's time. It is precisely at this time that a shift to cash can cause irreversible damage. A fall in yields from this point might result in an increase in the cost of an annuity by as much as 30% when he retires. He might protect his capital with cash but he will put the level of income he receives at risk.

Recovery

As we have seen markets have since recovered, and from an investment point of view, the fall in March has been more than offset by subsequent gains. Those members who did panic and moved into cash portfolios would have missed the recovery and would have caused long term damage to their retirement benefits. Further volatility is expected as so much uncertainty remains. It is true that the employer sponsored pension or provident fund is the primary source of retirement benefits for many individuals. It is therefore understandable for these members to panic in times of financial market volatility.

In addition to giving us an appreciation for our health, loved ones and what really matters to us, COVID-19 has also given us time. As volatility is expected to continue, do not make rushed and panicked decisions. Having a goals based investment framework helps to provide meaningful context to your financial position. It does this by focusing on the likely income you are expected to retire on. Consider the impact of falls in market values on this income before making any rash decisions. A correctly structured goals based framework also maximises the likelihood of achieving your income goal by seamlessly shifting your asset allocation to the appropriate portfolios through time and as circumstances and market events change.





If retirement is an issue of mind over matter, your mind is the matter

Lucia Viegas, Actuarial Society of South Africa

Anecdotal evidence tends to suggest that a large proportion of people over retirement age will experience at least some degree of cognitive decline.

During the COVID-19 pandemic, I, like many others, have been tasked with taking care of an elderly parent. Over the past few months I have had the experience of being able to make real time direct comparisons between the cognition of my young children who are both under the age of 6 and my most senior family member. It has been a challenging and eye-opening experience that has only intensified my interest in finding out more about the effects of cognitive decline at older ages and exactly what that means for retirement.

Raymond Cattell, an American psychologist, was the first to identify two distinct effects of cognition. The first, fluid intelligence, can be described as one's ability to reason and complete basic activities that depend very little on prior learning and experience. The second, crystallised intelligence, builds upon fluid intelligence by incorporating aspects of learning such as formal education and occupational experience. There is evidence to show that fluid intelligence starts to decline as early as age 20. Crystallised intelligence naturally increases with age in adolescents and young adults, however the earliest signs of decline related to this effect seem to become evident around age 40. A dramatic increase in cognitive decline, at a more general level, is apparent from age 70 onwards. In a world where life expectancies continue to increase under normal circumstances, one is confronted

with their own vulnerability to the effects of cognitive decline later on in life.

The effect of retirement on cognitive decline

There are two schools of thought on how retirement affects one's cognitive ability. On the one hand, retirement can be viewed as beneficial since it relieves much of the stress associated with working. On the other hand however, retirement can be viewed as a time of disengagement from others and a sudden stop in activities that stimulate the cerebrum. If a retired person becomes aware of their disengagement, they can be absorbed into a vicious cycle that accelerates the process of decline. The cycle begins with the retiree believing that they have a reduced ability to engage with society. The resulting lack of confidence results in further disengagement which ultimately leads to actual cognitive decline - and the cycle repeats itself. Overall, evidence suggests that the longer an individual spends in retirement, the higher the level of cognitive decline experienced. This begs the question: In the current age of longevity, have the costs of cognitive decline been factored into retirement planning?

If retirement is an issue of mind over matter, your mind is the matter

The costs of cognitive decline

The costs of cognitive decline can be categorised in at least two ways. Firstly, there is the financial cost associated with special care that may be required in moderate to severe cases and secondly there is the opportunity cost that comes with making poor financial decisions. The first cost can be estimated by analysing the average cost of care at various levels of severity and assessing the likelihood that an individual will reach each level over time, admittedly probably easier said than done. The latter cost, however, can only be determined after the fact, in other words, by the time you realise the cost of making a poor financial decision the damage has been done.

There are a series of options available when it comes to long term care, ranging from home based care to full scale frail care within the confines of a retirement home. The financial costs associated with cognitive decline will therefore vary depending on the level of care required and the option chosen. Tariffs associated with similar options vary dramatically across different long term care suppliers which may suggest that the quality of care that one can expect is "priced in". A middle class retirement home that offers the option of assisted living or frail care has a starting cost level of approximately R25 000 per month, with the monthly cost increasing with increasing levels of care. A high class retirement home can cost up to three times as much. Depending on when you think you might need higher levels of care and where it will come from, you may need to save at least between R3 million and R10 million by the time you retire.

When it comes to making financial decisions, the cost of "getting it wrong" cannot be quantified or insured against. The high proportion of defined contribution retirement funds in the South African market means that most retirement fund members have a high burden of decisions before, at and after retirement. Furthermore it is widely reported that most South African retirees opt for living annuities at retirement, perpetuating the need for financial decision making well into their golden years. These decisions are not limited to those of a financial nature, they also include the decision of who to trust with one's finances in the later stages of cognitive decline. Elderly people tend to be more susceptible to scams and other types of financial mistreatment – even in cases in which they rely on family members or close friends for assistance.

It's not all bad

Research has shown that one may be able to delay or even reverse cognitive decline by engaging in certain activities such as intellectually stimulating or physical exercises. However, simply being aware of the level of risk faced with respect to cognitive decline, for example known family history of Alzheimer's disease or dementia, can activate improved retirement planning. Senior years may bring with them uncertainty and vulnerability but your most trustworthy financial decision maker is your current self. The time is now.





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Six steps to start off investing

Kondi Nkosi, South Africa Country Head, Schroders

The global outbreak of COVID-19 has taught us many things, but one of the biggest lessons learnt is the importance of preparing and saving for the future.

For some people this means putting money away on a regular basis into an interest paying savings account, for others it means investing in the financial markets. If you're new to the investing world, you might find all the choices quite daunting.

The following six steps might help you get started.

Step one - decide how much you can invest

If you don't have a lump sum (say from an inheritance), as is likely the case for most South Africans, then you need to work out how much you can afford to invest. You must look carefully at your overall financial picture.

You might have debts that should be paid down first. You might be better off paying more into your company pension, which is a way of investing in itself. It is also advisable to have a cash buffer in an accessible savings account, most financial advisers suggest a minimum of three months' salary.

Taking all this into account, if you decide that you have leftover cash each month that you can lock away for a longer term—great, go to step 2.

Step two – decide how much risk you want to take and how long you want to be invested for

These two decisions are inextricably linked, the longer you can lock away your funds, the more risk you can sensibly take in the search for higher returns. If you do not need to access your money for 20 years, then shares become a more attractive investment.

But if you might need your money in five years' time, then a larger chunk of your portfolio might be devoted to other assets like government bonds, which are deemed more stable than company shares. Also bear in mind that the volatility of the asset varies depending on the specific instrument you invest in or purchase.

With all investments, the value and the income from them may go down as well as up, and as an investor you may not get back the amounts you originally invested. There are online tools that can help you assess your attitude to risk. And there is also a new and growing breed of investing platforms that offer basic financial advice and tailored portfolios by asking you a series of questions. This is called "robo-advice" and ranges from the very basic to quite sophisticated.

Six steps to start off investing

Step three – decide how you are going to invest

As I've mentioned, it may be that the best thing for you to do is to increase your contributions to the company's retirement fund rather than set up a separate investment account. There are tax advantages to retirement saving, and commensurate employer contributions could mean that this is the obvious step for you. But take care to note that your cash is then locked away until you are allowed to access your retirement pot at the retirement age stated in the rules of your fund or employment contract. If you are not sure then seek financial advice. But even if this is the step you do take, then you are still investing and, more importantly, you still have some control over what you invest in.

You can contact your company retirement fund provider and find out what investment portfolios your savings are being invested in. If your retirement fund allows for member level investment choice (some do, some don't), you are often able switch your savings around to other investment portfolios if you wish and adjust where your future contributions are invested – subject to the rules of the fund.

If you decide to invest outside your retirement fund, then you may wish to consider step four.

Step four – open a Tax Free Savings Account or a normal unit trust account without a tax wrapper

A Tax Free Savings Account is simply an investment account that you do not pay tax on the income or the profits that you earn. The current tax free investment limits are R36 000 per tax year and R500 000 over your lifetime. There are many providers out there that offer these accounts.

They are relatively simple to open and give you easy access to your money with no tax payable. But they all charge fees (although they are not permitted to charge performance fees) in one way or another and your choice of who to go with will be determined by how you wish to start investing.

Do you have a lump sum to invest? Or are you putting away a portion of your salary each month? Or just saving a few rands each month for a rainy day? Do you want to invest in a lot of different funds or just a few? And how frequently do you wish to trade or switch around your money? For instance, some platforms charge a flat fee and some charge for each transaction. Whatever your choice, your next step is the tricky one.

Step five – choose your investments

Much of this will depend on your answers to step two. Unit trusts offer an easy way to diversify for many beginner investors.

So called "actively managed" unit trusts are managed by professional fund managers with the aim of delivering good returns back to the investors.

You could choose a mixed or balanced investment portfolio that offers immediate diversification across shares, government bonds, property and other asset classes. Those assets could also be based in or outside South Africa, providing you even more diversification. Or you could choose a number of investment portfolios, each specialising in one asset class.

Some equity portfolios are quite defensive – holding secure stocks that aim to protect against volatile swings in the market - while some are more adventurous, focusing on high growth sectors and markets that carry more risk.

Some equity portfolios focus on income from dividends and some focus on the capital growth of the companies they are invested in. Some portfolios focus on geographical regions like risky emerging markets or less risky UK and US equities. Remember as with all investments your originally invested capital is exposed to risk.

Investing in individual company shares is potentially rewarding but also quite risky. How you make your choice depends on how confident you are about doing your own research. There is a lot of information online – take care to choose reputable sources. You might decide that it's all too much and you have to pay for financial advice. Or you might go the middle way and allow one of the increasingly sophisticated robo-advisers out there to tailor a portfolio to your risk profile and goals. At all points, watch out for the fees charged, whether these fees are charged by the investing administration platform or by the investment portfolio itself.

Step six – monitor your investments

It is generally advised that beginner investors should not trade too often, in other words decide where you want to be invested and stick to it. But you should always monitor your portfolio as some tinkering might be necessary at times. If you are not looking to access your money for a very long time – like 15 to 30 years - then even a stock market crash is not necessarily the end of the world: in fact if you are investing regular amounts each month it will mean that you are buying shares on the cheap, that in 15 years' time could be worth a lot more.

Some geo-political and economic shifts, however, might require that you adjust the proportions in your portfolio. Also, as you get older, or closer to the point where you want to access your savings, you should be moving funds out of riskier assets and into more stable ones.

BUILDING BACK BETTER FOR AN INVESTABLE FUTURE

Hywel George, Director of Investments, Old Mutual Investment Group



The COVID-19 emergency has accelerated the already growing focus on environmental, social and governance (ESG) performance within asset management. Even before the outbreak, 2020 had looked set to be a watershed year for ESG with climate change putting the industry at the edge of a fundamental reshaping of the finance sector. The ability to deliver against an ESG agenda will come to define outstanding performance and provides a significant opportunity for fund development and investment differentiation in a post-pandemic world.

WHY DOES ESG MAKE GOOD FINANCIAL SENSE?

Quite simply, we know that long-term sustainable growth is not possible unless people save and insure; and this serves as a departure point for the Old Mutual Investment Group (OMIG) business with Rith in funds under management. In this way, we pool customer premiums and direct them through the investment business where we focus our efforts on pursuing appropriate risk-adjusted returns in a way that builds system resilience to make the world a better place through solid and applied asset management expertise. Essentially, the more people involved, the better the economy becomes.

OPERATING WITH PURPOSE



- Inclusive products & services that enhances the savings of the nation
- 2. Responsible investments that drive low carbon, resources effecient & socially inclusive growth.
- 3. Corporate social investments/enterprise development to uplift the communities we serve.

HOW IS ESC CHANGING INVESTOR PRIORITIES?

ESG is setting new benchmarks for investment where in addition to lower fees, investors expect transparency, engagement and the assurance of stable leadership structures, a clear strategy and for talent and operational capabilities to help steer them through the storms ahead.

HOW HAS OMIG INTEGRATED ESG INTO THEIR BUSINESS?

At OMIC we have continued our journey centred on integrating ESC into our investment processes and going to market as an asset management business that actively invests for a future that matters. Over the past decade, we have successfully executed on strategic decisions that drive sustainable outcomes and bolstered a committed team of ESC specialists on the forefront of innovation to bring green economy products to market. This has led to the investment of some RI31bn in the green economy.

TELL US ABOUT VOUD INNOVATIONS IN ESC

We have pioneered ESG indices (R30bn assets under management) and recently launched the Old Mutual ESG Equity Fund, which targets a 40% reduction in carbon intensity versus the capped SWIX benchmark of choice as a starting point in the investment process. The launch of this innovative fund hinges on our deep belief in sustainable companies and their ability to impact positive change. It's sustainable investments like these, that will make it easier for economies and societies to rebuild a better place post COVID-19.

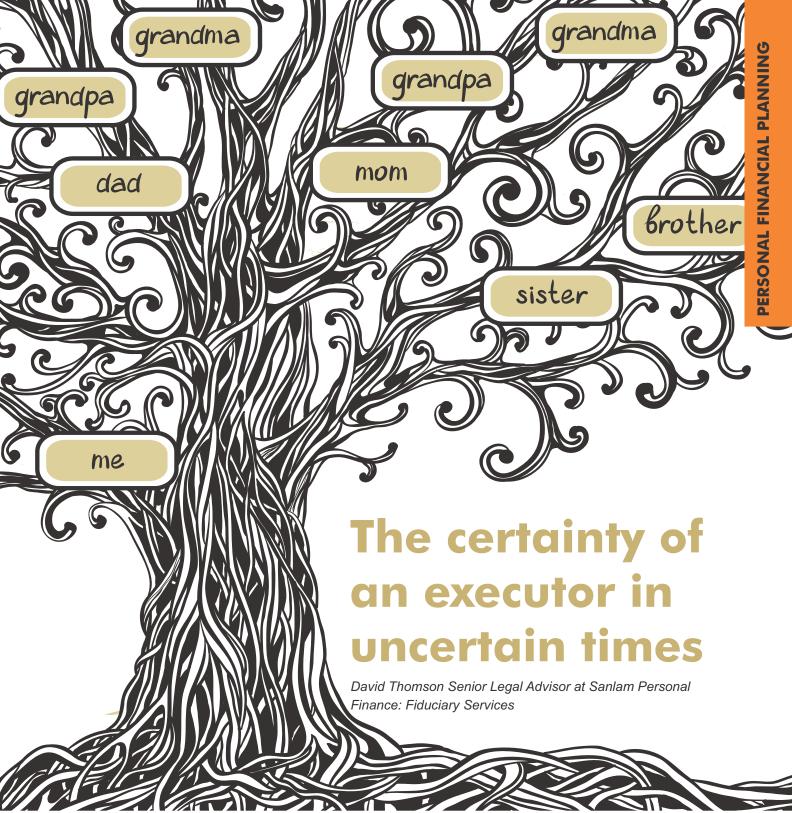
To answer more of your investment questions, contact us at listening@oldmutualinvest.com or visit oldmutualinvest.com



INVESTMENT GROUP

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While the COVID-19 pandemic has made many people reflect on their estate planning, it's also added some complications to this process. Estate executors may have a tough task ahead, this will make it critical to nominate the right person to act in a way that will protect your legacy.

The certainty of an executor in uncertain times

David Thomson, Senior Legal Advisor at Sanlam Personal Finance: Fiduciary Services, says that the national lockdown can make being an executor a difficult task. While the Masters Office has reopened with skeleton staff, it still requires hard copy documents such as the original will and the death certificate. If the executor is a family friend, he or she may struggle to get these documents given social distancing rules right now.

Thomson notes that being an executor comes with many responsibilities and it should not be taken for granted. "The administration of a deceased estate often involves a highly technical process, so the executor you appoint needs to have the requisite knowledge and experience for the role."

Last Will and Testament

YOUR NAME. Testator/Testatrix

Closing the deceased's bank accounts, collecting the assets, and advertising for debtors and creditors of the estate are among the responsibilities expected to be completed by the appointed executor.

Below, Thomson explains two executor scenarios:

1. Not appointing an executor:

If you choose not to appoint an executor in your will (or leave no valid will), the Master of the High Court will appoint one for you, based on the recommendations of interested parties (surviving spouse; heirs and creditors), which could be a long, onerous process. The Master may

call a meeting to decide on the appointment but still has the right to appoint a total outsider.

2. Appointing a family member as the executor of your estate:

Often the nominated executor is a family member who lacks sufficient knowledge to be an executor. Should the nominated executor not be suitable, the High Court may nominate an attorney of their choice or appoint the surviving spouse. Unless you are acquainted with your responsibilities as an executor and how to execute them, nothing will happen to the estate. An agent would then have to be appointed to administer the estate on behalf of the nominated executor.

Sometimes, the Masters Office may ask a seemingly inexperienced executor to provide security as insurance for the estate assets. Thomson notes that security is quite onerous and means that if you were to be nominated as an executor, you may be required to take out an expensive insurance policy for the estate in case the assets are stolen or paid to the wrong person. When your nominated executor is a trust company, it does not require an insurance policy. The trust company has the capacity to put up a bond and the financial strength to meet any claims should mistakes be made.

Should you want peace of mind, ensure that there is a clause that allows the executor to consult and appoint an attorney or a company as their substitute, who would be legally able to take over the executor's duties, if required.

Appointing a trust or attorney

Another option is for you to nominate your own attorney or a company directly in your will. If you so wish, you can nominate joint executors, for example your spouse and the professional. Thomson concludes this as an extremely reassuring option, "The executor you appoint should be the person you are willing to give your bank cards, insurance policies and most personal information to. It is important that you make the right choice and make provision for the cost implications that will be involved, whether or not you nominate an executor for your estate."

A guardian's guide to help children cope with loss



By Madi Carsens National Head of Sales: Sanlam Trust Beneficiary fund

Children have an awareness of death, even though they may not always understand the concept of death.

They may know of a death of a grandparent or a farremoved family member; it could be something that may not have had a direct impact on them. However, the death of a parent or close relative could be a different and often confusing experience. We cannot protect a child from the pain of loss, but we can help them feel safe.

I often get requests from Principal officers and Employers to provide information they can share with guardians to help them cope with the loss of a loved one and more importantly how to help a small child understand and deal with such loss themselves.

Talking to a child about death

Smaller children could have a different grasp of the topic of death compared to older children. You will not know how your child will react until you talk to them, because each child reacts differently. When talking to a child, allow them to ask questions providing more clarity in the process. Help them understand the permanence of death without overwhelming them.

Be honest

Don't try use softening words to describe that someone has died - for instance, saying they "went to sleep" or "they were called home". This could scare the child to go to sleep.

What happens after death?

Share your beliefs of the afterlife with the child. Comfort them. Tell them that they will remember the deceased and that the deceased will live on in their heart. Give examples of great people who we still remember.

Be comfortable showing your grief

The emotions you display will allow the child to feel free to express their own emotions. However, avoid displaying angry or abrasive emotions.

Treating serious problems

It's a good idea to consult your child's doctor if you feel your child isn't recovering from a loss in a healthy way.

How to help them cope



Allow them to react to death in their own way and grieve in their own way



Encourage them to talk about their feelings and concerns



Relax the anxious child



Build feelings of trust and safety and security, reassuring your child



Encourage sports or physical activity



Build a future make plans, set goals



Avoid watching harsh or overly emotional movies



Create a stressrelease, playful environment



Get some fresh air take a walk



Eat healthily home-cooked

Helping children grieve

What NOT to do...

- Don't avoid the child
- Don't pretend that everything is normal
- Don't overshare



Don't say

- "Now you have to be the big boy/girl."
- "Remember, now he/she is in heaven."
- "It's a blessing that God took your mother because she's not suffering any more."
- "Don't cry. Your family needs you to be strong



What to do...

- Be available
- Be patient
- Be honest and open
- Be aware of warning signs
- Be respectful
- Express your sympathy





The biggest misconception about wealth

Ray Mhere, Head of Momentum Investments Distribution

While financial wealth means different things to different people, most will agree that having more money allows for greater flexibility in our life choices.

That said, there is a major misconception that this flexibility is purely a function of income; that with increased income comes greater wealth. In reality, this just isn't the case.

This is according to Ray Mhere, Head of Momentum Investments Distribution, who argues that wealth is far more a function of people's spending habits, than their income.

"This is a reality that I have always known to be true in theory, but it has become abundantly clear amid the COVID-19 crisis, with many of us cutting back expenses under lockdown by foregoing certain luxuries," says Mhere. "The overpriced coffees; meals at restaurants and weekly haircuts—are all these luxuries really necessary?"

In support of growing his wealth, here are five good spending habits that Mhere is taking with him into life after lockdown.

1. Planned weekly grocery shops

Rather than popping into the shops every other day, Mhere says he has committed to continue doing his grocery shopping on a weekly basis, with a planned list. "I had gotten into the unhealthy habit of just stopping by the shops on my way home from work and grabbing whatever I needed on that day. In doing bigger, less frequent shops during lockdown, I found that I got far more bang for my buck and even saved on petrol driving to and from the shops daily."

2. Mindful purchasing

Early this year, my wife and I had our second little girl. One of the things that I thought would make our lives easier was buying a bigger car. I had even spoken to one or two dealerships and was starting to picture myself in a shiny new upgrade. Then, lockdown happened and everything

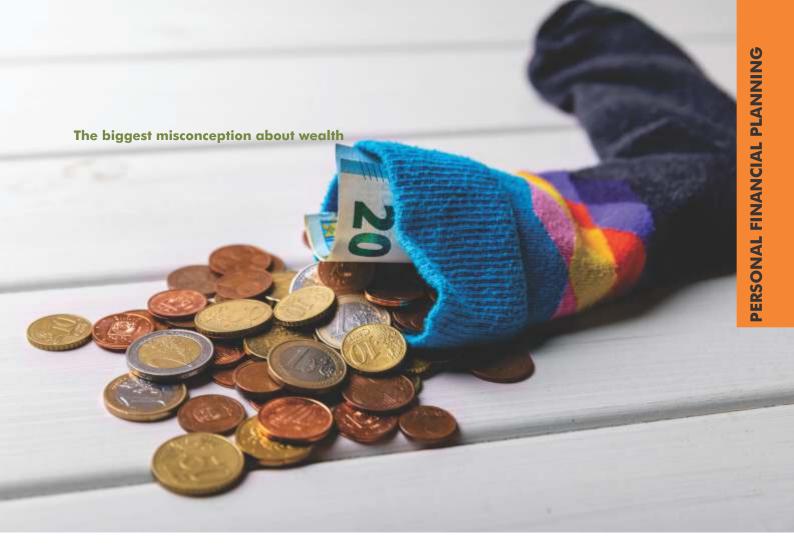
was put on hold. The news cycle became worse and it then dawned on me that a new car would be the last thing I wanted if I lost my job. That put everything in perspective for me and I am happy to say that I am still the proud owner of a 2008 hatchback. When making big purchases, rather wait a few days or even months before swiping your card. That way you will avoid making impulse purchases and only end up with things you really need.

3. Understand your Rewards Programmes

These days almost all product and service providers have some sort of rewards programme. Do you fully understand how they work in order to take full advantage of them? Some of these programmes are designed to be very beneficial if you simply change your behaviour in a way that benefits you and the product provider. This is called shared value. Make sure you understand your rewards programmes, and where it makes sense, why not change your behaviour in order to get the maximum value out of something that you are paying for anyway?

4. Comb through your expenses

During lockdown, I've had a bit more time to reflect on my spending habits. Starting with a scan of my bank statement on a monthly basis. While doing this I found a subscription to a news app that I had been paying for but never used. My wife also found that she had recently been debited for something that was advertised as a free trial but the fine print stated that you would start paying after the first month. In this day and age of multiple swipes of your debit card a day, it is quite easy to miss certain line items, especially if they are not large sums. Take a fine-tooth-comb to your statements and scrutinise every line item.



5. Review your debit orders

Often, we see a line item such as insurance or cell phone contract on our bank statements. We pay very little attention to them because these are essentials that cannot be cut from the budget. You may not be able to cut them but in many circumstances, there is room to trim them. I'm fortunate enough to have my father-in-law as my short term insurance broker. He reminds me every year to update my policy in order to be fully covered should anything happen. He also adjusts the value of our vehicles annually so that we aren't over insured for something that the insurer will only pay so much for. So, although the premium goes up every year, it goes up less than inflation because of the adjustment to the cost of our vehicles that are a year older.

Similarly, with phone contracts, don't just renew them. Check to see if you are in fact, using all the data and minutes that you are paying for. If not, reduce the contract at the next upgrade date.

Just by consistently practising these five simple spending habits, Mhere says that people will be surprised by how much they can save over time. "It may seem like little bits of insignificant savings here and there, but it really does all add up. These cumulative savings can then be put towards a tax free savings account, a retirement annuity or a long term investment, and you can sit back and watch your wealth grow," he concludes.





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INDUSTRY UPDATE







What's happening at the FPI?

Lelané Bezuidenhout, CFP® CEO, Financial Planning Institute of Southern Africa

Hello from my home office. So much has changed since I last wrote to you... I hope you are all coping with the ever-changing world we find ourselves in.

The Financial Planning Institute of Southern Africa (FPI) is blessed to be able to work remotely. In fact, we've been more productive than ever! I'd like to take this opportunity to thank every single member of my fantastic team for their incredible productivity during this trying time.

We asked our members how they're coping with the pandemic

In the last week of April, we surveyed more than 750 CFP® Professionals across Southern Africa on the effects of the pandemic on their businesses, their plans for the future and their clients. The results make for fascinating reading.

Underlining the fact that our industry has not been as hard hit as some, 56% of respondents said the pandemic would not change their long term professional or personal goals. In fact, 61% of financial planners believe that there will be a growing demand for financial advice in the wake of COVID-19. Furthermore, more than two thirds of the CFP® Professional respondents feels that we all need to "sit tight and wait until volatility decreases before making any major financial decisions".

We're helping to feed vulnerable South Africans

As the economic impact of the pandemic deepens, we all need to do everything we can to assist those in need. When the lockdown was announced, the FPI decided to put our weight behind Food Forward SA

(https://foodforwardsa.org/), a ground-breaking charity which distributes surplus food from supermarkets, farms and factories to over a quarter of a million needy South Africans.

Two months down the line I can honestly say it was one of the best decisions we've ever made. With hunger rates soaring, the charity is now more relevant than ever, and I'd like to personally urge anyone who can afford to make a donation to do so now. Food Forward's innovative model means that every R1 you donate puts R15 worth of food in the mouths of the people who need it most. It's tax deductible too.

We've taken our annual convention online

When the pandemic first reared its head, we acted decisively to postpone our FPI Professionals Convention and to extend the deadlines for entry into our various award categories. Now, we've decided that the entire event will take place online on 27th and 28th of October 2020. The FPI is committed to doing the right thing – for the country and for the health and safety of our members.

The convention's theme – Future Proof Your Business – is now more relevant than ever. I can't wait to hear what our stellar line up of speakers, including but not limited to Bruce Whitfield, Rob McDonald and Juanita Vorster, will have to say about taking the financial planning industry forward in a post-Covid world.

We've applauded two positive changes to Linked Living Annuity legislation

As a body that is deeply concerned about the financial wellbeing of all South Africans, we are grateful for further tax relief measures introduced by Government to try and combat the effect of COVID-19 on household budgets.



FPI supports the (temporary) proposed changes to Linked Life Annuity (LLA) regulations which give retirees more control over drawdown rates. While the changes are only supposed to last for the duration of the pandemic, we will be engaging with National Treasury via FPI's advocacy arm and public policy to make some of the changes permanent, as we believe that South Africans deserve more freedom in deciding what to do with their hard earned retirement savings (like keeping the minimum drawdown rate at 0.5% p.a).

Another exciting matter is the precedent setting Montanari Supreme Court of Appeal case (1086/2018 (2020) ZASCA in which the ZASCA overturned findings of the high court with regards to living annuities and the calculation of accrual claims at the date of divorce. The mentioned case has a noteworthy impact on the future treatment of living annuity income payments at divorce and makes it clear that the value of an annuitant's future annuity payments is regarded as an asset in his/her estate for the purposes of calculating the accrual at the date of divorce.

We've launched a CFP® Ambassador Programme

As part of our ongoing mission to make all South Africans aware of the value of the financial planning process and the CFP® certification, we're launching a CFP® Ambassador Programme. Ambassadors will promote the financial planning profession in the mainstream media, on social media and at conferences and events. The first wave of ambassadors are all previous winners of the Financial Planner of the Year award, but we'll soon be expanding the net to ensure that our ambassadors are engaging with people from all corners of The Rainbow Nation.

We're dreaming of a brighter future

The Covid-19 crisis has galvanized us to work even harder to grow the financial planning industry in South Africa. I wholeheartedly believe that our industry has a pivotal role to play in helping South Africans to deal with the economic fallout of the pandemic. If you or any of your friends or family need the assistance of an FPI professional, please visit www.letsplan.co.za to find a trusted expert in your area.

Wishing you good health during these turbulent times.



Leap frogging into new ways of engagement and service delivery



Enos Ngutshane, President of the Institute of Retirement Funds Africa (IRFA)

The Institute of Retirement Funds Africa (IRFA) has always been committed to providing our members with information and services that allow them to best serve their stakeholders. Over the years we have done this with mostly face-to-face engagements.

The COVID-19 pandemic and the increasing use of technology by our members has shown us that we need to review how we serve. It is for this reason that I want to discuss two of our initiatives that are underway. The first is a stakeholder survey where, we want to learn what is required from the IRFA to better serve our members. All our stakeholders are requested to participate in the survey. The second initiative is our first virtual conference that we are hosting in November 2020.

Stakeholder survey

COVID-19 has had a negative impact on the way we engage and provide services to our members. While the IRFA remains at all times committed to world class product and service delivery and recent events have forced everyone to find new ways of working and engaging. During this period we have successfully used technology to create engagement, information and learning platforms which have been met with high participation and sound acknowledgement by the sector at large.

Looking to the future, we have decided to take advantage of this productive engagement process to ask our stakeholders how they would like us to structure our service and delivery platforms as we move forward. The retirement sector plays a crucial role in socio-economic development and upliftment. We recognise that our stakeholders need support in working towards the best possible outcomes for retirement fund members and society at large.

The research survey will be open for participation until 15 August 2020 and we welcome your participation. The survey can be accessed at http://cohesioncrd.co.za/irfa/irfa.htm.

Conference 19 and 20 November 2020

We shared previously that our September 2020 conference had been cancelled and replaced by two virtual conferences. The first of these virtual conferences will be held in November 2020, with the second scheduled for March 2021. We hope we will be able to host our September 2021 conference in a venue where we can all safely meet face to face once again. We continue to monitor the international best practice for conferences like ours.

We are very excited to host our first fully virtual conference in November 2020. As with all things new, there is some apprehension, but we are excited by the challenge of doing things differently. Our commitment is to retain the highest standards when it comes to our conference content we are looking forward to the new way we are going to share this content with you. All our conference presenters are going to take the opportunity to use new visual aids in getting impactful messages across.

Another anticipated highlight of our conference is seeing our colleagues and peers in a virtual space. Our virtual conference will be using communication tools that will allow for high levels of interaction. In this virtual venue, we are all going to learn about this new world. For some of our older community members, this space may be a bit scary, like when we had to learn how to use emails or cell phones for the first time. Very few of us can now imagine what our lives would be like without emails or cell phones.

Online registration will open from Wednesday, 15 July 2020 and will close on Thursday, 12 November 2020 at 12h00. All the necessary processing will be done by the start of the conference and all participants will have their login ready to participate in the virtual conference. The conference registration can be accessed at the following address: https://www.irf-conference.co.za.

We will be having information session about the content and format of the conference over the next couple of months to ensure that our community understands what to expect and what they need to do to get the most out of this new way of learning. We will be sharing the program topics and speaker's information with you over the course of the next few months and look forward to hosting you virtually!

Experts have been telling us for a long time that lifetime learning is an essential life skill for our new world and for many of us a global pandemic has forced us to leapfrog our knowledge and the use of technology. The IRFA is learning as well and we want to bring all our stakeholders with us on this journey, learning from you what you need from us to enable you to do your best. We look forward to you participating in our survey and conferences.



An office like ours serves almost as a pulse for the retirement funds industry - reporting on the life, health and well-being of the implementation of rules and regulations once the rubber hits the road – in practical measure.

The data itself tells an unsettling story – one of an area of the financial sector that needs to confront whether its solutions are fit for purpose and admit that one size fits all is not going to address the social security needs for South Africans to provide for their retirement. Instead of pushing products, the retirement funds industry need to introspect or listen more to what customers need and are prepared to pay for. This only works if all role players play their part efficiently and timeously. On this score, the OPFA has not been able to consistently meet its mandate of resolving complaints expeditiously. Partly, owing to the number of complaints received - but more significantly owing to the dilatory manner in which retirement funds and employers file responses with us.

As I write this, Gauteng is at the beginning of its peak in Covid-19 cases – a pandemic that has exposed in all aspects of South African life, from healthcare, to education, to infrastructure development; that a failure to plan properly and do the right things during "normal times" will not save you in an emergency situation, no matter how strict or forceful your interventions might be. This has been a pandemic that exposed our collective failures as citizens to abide by the law and do the right things, whilst it is an

indictment on the government, regulators, business, organised labour and civil servants on the inability to focus on the right things at the right time, given our populace and the limited resources that the country has.

You might ask, what does this have to do with the retirement funds industry? Well, everything. If you look at the data from the OPFA over the past five years, it shows a worrisome trend. A trend of an increase in complaints, whilst the nature of the complaints remains the same. The top three highest categories of complaints we received had to do with governance issues, namely the failure to pay full withdrawal benefits due to outstanding contributions, ongoing fund management issues and the failure to provide basic fund information to members, for example benefit statements.

A cursory glance at these aspects that account for 82% of complaints lodged with the OPFA, tells you that normal, dayto-day, regulatory compliance is not taking place at fund level. Whilst the highest number of complaints received from a single retirement fund are those of the Private Security Sector Provident Fund (PSSPF), the situation is not different in the other five large commercial umbrella funds. It is just that in the latter instance instead of enforcing the mandated regulatory compliance, the employer's participation is terminated and the members would receive the liquidation benefits. So, a member is literally left in the lurch, despite all the service providers assigned to protect his/her interest getting paid.

A time to reflect

Therefore, what I would say about the PSSPF is equally applicable to the large umbrella funds to the extent that it is valid in that environment. The high number of complaints against this fund points to an inability to serve the interests of the primary stakeholder, the member. Ordinary members have experienced repeated failures of the board to act in their interest and continue to suffer from the pillaging of their contributions by the impenitent employer. Whilst the Financial Sector Conduct Authority (FSCA) intends to publish conduct standards relating to the payment of retirement fund contributions — to improve levels of compliance — the question to ask is whether there is nothing, in the FSCA's arsenal today, that can improve the lot of these members.

Over the years, the OPFA has forwarded complaints relating to the following on the fund to the regulator:

- Board failure to collect contributions
- Fund's failure to allocate contributions properly and timeously
- Different administrators' failure to
 *file responses timeously with the OPFA
 *file accurate responses
- Board's failure to keep proper records
- Board's failure to communicate basic information to members, for example benefit statements and the employer's non-compliance with its obligations to pay provident fund contributions.

In the meantime, this fund has changed administrators with no respite in complaints received on the OPFA's side. The recent inauguration of the National Bargaining Council for the Private Security Sector, with the deliberate exclusion of any obligation towards monitoring compliance with the rules of the PSSPF, whilst making membership compulsory, is a further lost opportunity to protect the indigent member. Especially because in other industries, where there are bargaining councils, these are charged with the responsibility to collect contributions and/or monitor the employer's compliance in respect of the payment of contributions. It simply makes sense.

This all brings the OPFA to the uncomfortable question – is this fund fit for purpose? If all those who have been involved with the regulation and administration of this fund were to proffer an honest answer – it would be a resounding NO. There is sufficient data to back this up. Which then begs the question – why continue with a compulsory fund through a

Collective Agreement that is clearly serves no purpose? If the problem has persisted over all these years, why keep on going?

What the Covid-19 pandemic has exposed for all of us to deal with is that everyone involved with the management, regulation or oversight of a retirement fund should do their work properly and diligently without fear or favour on a daily basis. For an Ombud office, like the OPFA, this is quite easy—we focus on the complaints in front of us, invite parties to respond thereto, resolve the complaint and where applicable advise third parties on trends and concerns noted from such complaints. Covid-19 offers everyone involved with the management of any fund an opportunity to "never let a crisis go to waste" by reviewing our processes and procedures, and regaining our focus to do the things we did not do before, that is, address that which is important to an ordinary member of a retirement fund.

Same question needs to be asked of the boards of umbrella funds out there. Are umbrella funds really fit for purpose, is there not a little bit more work required of the consultant, board, employer and members to understand the benefits and protections offered before onboarding? When considering the number of liquidations owing to the employer's failure to pay contributions, do boards interrogate the data to ascertain whether this was fit for purpose to start off with? If, like statistics indicate, approximately one million members joined the big umbrella funds over the past decade, what has been the compliance rate therein especially as the employer is a bit removed from the management of such funds?

Those of us collecting levies, administration fees, board fees and consulting fees need to ask ourselves the same thing—is there value and protection for the member in the retirement vehicle we have provided. The answer might provide us with a better approach to fulfilling our responsibilities.

I leave you with one thought, given that it was recently Nelson Mandela International Day. If some families get to give their lives to make a better society — which is the ultimate sacrifice; then those of us in the public service or in positions of serving others with fiduciary responsibilities, that are only asked to give our best professionally and ethically, should be able to answer this call profoundly, as it is a very small ask.

LEGAL ROUND UP



Legal Update, Qtr 3, 2020

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

In this article, I deal with just two legal matters out of the multitude of new legal and regulatory issues from which we could have chosen. The first is the Protection of Personal Information Act and the second is a High Court case dealing with the withholding of benefits under the Pension Funds Act.

1. The Protection of Personal Information Act (POPIA)

Finally, the remaining provisions of POPIA have become effective as of 1 July 2020. We all now have one year to reach a state where we are compliant with this legislation. This period could be extended, but we cannot rely on an extension being forthcoming.

POPIA applies (with exceptions) to the processing of personal information in a record by, or on behalf of, a responsible party.

It is important to understand the terms in bold in this sentence.

Personal information is widely defined and includes almost all information you can think of about a living, identifiable person (and where applicable juristic persons), including race, gender, pregnancy, marital status, medical history, contact details, biometric information, their personal opinions amongst other information (note for POPIA purposes personal information about a deceased person is not personal information).

Processing is also widely defied and includes almost anything one does with personal information, including receiving or collecting it, storing it (electronically or physically), filing it or destroying it.

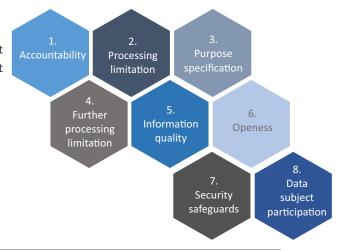
A record means any recorded information regardless of the form in which it is recorded. So a record includes electronic and paper information, x-rays, photos, labels, drawing, graph, map, etc which is in the possession of the responsible party (whether or not they created it).

A **responsible party** means the person who determines the purpose and means for processing information. In the retirement funds context, it will be primarily retirement funds (and employers) that are responsible parties. Their service providers, such as administrators and consultants, are referred to as operators. Operators process information for, or on behalf of, responsible parties. As an example, a retirement fund determines how its operators will process the personal information of the fund's members (and others). Thus, the fund enters into an administration agreement with the administrator determining the purposes for which that administrator will process personal information on its behalf.

As an example, an administrator (operator) processes personal information for and on behalf of a retirement fund (responsible party).

The Eight Conditions

Responsible parties are required to comply with the Eight Conditions when they process personal information for the first time and every time. The Eight Conditions are very simply:



Legal Update, Qtr 3, 2020

You will often see the Eight Conditions described this way. However, in my view, this is not very helpful as it doesn't clearly explain what each conditions means, for example what does Condition 3: "purpose specification" mean? So, it is necessary to dig a little deeper to understand the Eight Conditions. One quickly realises that the Eight Conditions are made up of a lot more than eight requirements - there are in fact a number of requirements grouped into the Eight Conditions. The diagram below shows that the number corresponds to the Condition number but there is often more than one requirement per Condition.

The other notable feature of POPIA, is that it often provides us with a conditions or a "rule" and then provides a number of 'exceptions' or 'authorisations' whereby if you fall into one of these 'exceptions' or 'authorisations' the rule does not apply. This makes POPIA fairly complex to implement.

In more detail, the Eight Conditions with which responsible parties must comply when processing personal information appear below.

Accountability of Responsible Party

To ensure conditions for lawful processing are complied with:

- When determining purpose and means of processing, and
- During the process.

Processing of PI: Lawfulness

And in a responsible manner that does not infringe on the privacy of a data subject.

Processing of PI: Minimality

Given the purpose for which it is processed, the processing is adequate, relevant and not excessive.

Processing of PI: Consent and justification

- Data subject consent OR
- It's necessary to carry out actions for a contract with the data subject OR
- It complies with an obligation imposed by law on the RP, OR
- It protects the legitimate interest of the data subject OR
- It's necessary to perform a public law duty of a public body OR
- It's necessary to pursue the legitimate interests of the RP or a 3rd party to whom the information is supplied

RP bears burden of proving consent

Data subject can withdraw consent at any time (subject to provisos).

Processing of PI: Objections

A data subject may object to processing of PI at any time subject to certain limitations and procedures.

Processing of PI: Collection from data subject

Personal Information must be collected directly from the data subject.

Purpose: Collection for a specific purpose

Personal Information is collected for a specific, explicitly defined purpose related to your function or activity.

Legal Update

Purpose: Retention, destruction and restiriction of records

- Records must not be retained longer than necessary to achieve the purpose for which they were collected or subsequently processed (except for a few reasons).
- Personal information must be destroyed, deleted or de-identified once the RP is no longer authorised to keep it.
- Destruction must be done so that it can't be reconstructed intelligibly.
- Personal information must be restricted in certain circumstances and is then subject to procedural requirements for access.

4 Further processing limitation

Further processing of personal information must be compatible with the purpose for which it was collected collection. A test is set out for this.

5 Information quality

Reasonably practicable steps to ensure that personal information is complete, accurate, not misleading and updated where necessary (having regard to the purpose).

6 Openess - documentation

Documentation must be maintained for all processing operations specified in its manual.

Openess - notification when collecting

If information is collected the data subject must be aware of certain specified information at specified times/timeframes.

- **Security safeguards:** Integrity and confidentiality
- Secure integrity and confidentiality of PI under its control/ in its possession by taking appropriate, reasonable technical and organisational measures to prevent loss, damages, unauthorised destruction and unlawful access or processing.
- A process is set out for this.
- Due regard to generally accepted information security practices and procedures that apply to it/ the industry and professional rules and regulations.
- **Security safeguards:** Operators or persons acting under authority

Operators and anyone processing for a RP or operator must mostly:

- Process only with the knowledge/authorisation of the RP.
- Treat information as confidential and not disclose it.
- Security safeguards: Operators
- In terms of a written agreement the operator must establish and maintain specific security measures.
- Operator must notify Responsible Party immediately if it believes that PI has been accessed/acquired by unauthorised person.
- Notifications of security compromises to the data subject and Regulator
- Where there are reasonable grounds to believe that personal information of a data subject has been accessed/acquired by unauthorised person this must be notified (generally) as soon as reasonably possible to: the Regulator and the data subject.
- Notification to data subject must be in writing, communicated in a specified way and include prescribed information.
- The Regulator may direct publicity of the compromise.
- Data subject participation -Access, correction and manner of access
- A data subject may:
 - o Request a RP to confirm that it holds personal information about them or request that information.
 - o Ask for deletion, destruction or correction of certain information.
- There are some prescribed actions for the responsible Party.
- Procedures and fees may be prescribed.
- The Promotion of Access to Information Act applies to the requests.

Legal Update

It is not enough to simply comply with the Eight Conditions. There are many other provisions of POPIA, for example about children's information, special personal information, account numbers and personal information leaving the country, that we need to understand and with which we need to comply. However, we will leave that for a subsequent article.

2. High Court case - withholding a benefit (section 37D of the Pension Funds Act)

SA Metal Group (Pty) Ltd v Deon Jeftha and others, case number, unreported, 20298/2018 (Judgement 12 December 2019)

This is an important case for boards of retirement funds to note and I anticipate that this case will lead to a change in processes of retirement funds (and their administrators) when they are exercising their discretion as to whether or not to withhold benefits.

Background

The fund in which the employer participated ("the Fund") had made a decision to withhold the benefit of one of its members, Mr. D Jeftha ("Jeftha"). Jeftha complained to the Adjudicator and the Adjudicator found in his favour. The High Court case was an application by SA Metal Group (Pty) Ltd ("the Employer") to set aside the determination of the Adjudicator.

The Judge states that Jeftha, in his complaint to the Adjudicator, alleged that the Fund had:

- Improperly acquiesced to the withholding request,
- Not considered his version,
- Not investigated the allegations (indicating bias towards the employer),
- Not considered his interests; and
- Not considered the prejudice to him.

The High Court

- Jeftha's circumstances legally and morally required consideration by the Fund, but that he was not given this courtesy.
- When making a withholding decision, a fund is required to apply its mind appropriately, impartially and in a balanced
- Any claim against the benefit must be carefully scrutinised and the possibility of financial prejudice must be considered.
- It is not enough, when making a withholding decision, that the fund may rely on allegations put before them by the employer, which if true would show damages arising from dishonest conduct by the employee.

- It is important to afford a party affected by an exercise of a discretion which may result in severe prejudice to his rights, a proper opportunity to be heard.
- The employer's case (as related to the fund) must be put to the employee to afford him an opportunity to respond before the fund makes its decision (this is especially so where the employee has put forward a spirited defence).

The finding

The Judge stated that he agreed with the Adjudicator's findings for the reasons she stated and that the trustees did not comply with their fiduciary duties and were not impartial or independent. The application was dismissed with costs.

Learnings

Funds will need to consider amending their section 37D withholding processes and documentation so that they:



Scrutinise withholding claims very carefully, especially where the member has put up a spirited defence



Apply their mind appropriately, impartially and in a balanced manner and consider the interests of both the employer and the member



Specifically consider the possibility of financial prejudice to the member



Correspond with the member (or his/her representative)



Put the employer's case (as related to the fund) to the employee to afford the employee an opportunity to respond before the fund makes its withholding decision



Are careful to note when a withholding decision is made, and the reasons for it



Follow their own processes and receive regular information from the employer and member

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



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





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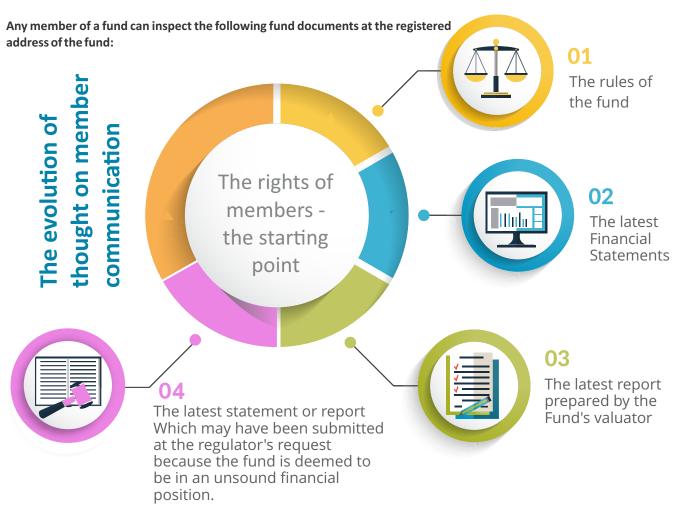
Trustee Tutor: Issue 3 Member Communication

Trustees of retirement funds have a number of responsibilities when managing these funds in the interest of all fund members and stakeholders. While we can't prioritise one duty or responsibility above another, 2020 has really highlighted the need for member communication in a retirement fund. Now more than ever, members must have access to meaningful fund information to make the best financial decisions.

Whilst all trustees appreciate the importance of communication and want to deliver the best, many are unsure of what their duties are, how to go about putting together a communication framework and how to squeeze out the most value from any communication initiative.

The member communication duties and requirements placed on trustees have been refined over the last 30 years. It is a story that unfolds through a number of different pieces of legislation and practice notes.

Good communication is the bridge between confusion and clarity. Nat Turner



The Pension Funds Act 24 of 1956 (the Act) – what the law requires from trustees

In terms of Section 7D(c) of the Pension Funds Act, trustees must "ensure that adequate and appropriate information is communicated to the members and beneficiaries of the fund, informing them of their rights, benefits and duties in terms of the rules of the fund, subject to such disclosure requirements as may be prescribed."

Section 7C(2)(a) of the Act specifically requires that trustees keep members informed during amalgamations or transfers, the splitting of the fund, changes in contributions or the withdrawing of an employer.

Specific events that will have an impact on the fund:



Restructuring of the fund, such as voluntary termination of the fund, conversion from a defined benefit to a defined contribution arrangement, reduction or increase in benefits or contributions, and transfer of the business of the fund to another fund.

The trustees need to give reasonable notice of not less than 60 days to the members of the intention to restructure the fund in order to allow members the time to object if they want to.

Of After the trustees have decided to whom a death benefit is payable, they must communicate to all beneficiaries notifying them of their decisions and set out all the available options.



ABC Fund

Booklet

New members should be given an explanatory document within three months of joining the fund.



05

Before retirement, funds should provide members information explaining their options. PF Circular 86 – the minimum disclosure requirements to active members of a fund (issued August 1995)



04

On withdrawal, the trustees must explain to the members all the withdrawal options set out in the rules of the fund and providing details where the member may seek financial advice before a cash payment is selected.



03

An annual report from the trustees updating members on changes in the fund (including changes to the rules), and reminding them of important contact details should they have questions or complaints.

02

An annual benefit statement must be given to each active member not later than six months after the financial year end of the fund and this statement must include:

Fund details: the name and registered address of the fund, the name and contact details of the person who will answer queries with regard to the fund and the fund's FSCA registration number

Benefit details: the member's name, date of birth, admission date and the member's pensionable salary.

Rate of contributions: the current contributions payable by members and the employer and the frequency thereof.

General information: details of how and where to complain, the importance of nominating beneficiaries, any terms and conditions around insured death and disability benefits the fund may provide.

O6 Special disclosures sharing details of any special event, for example conversion of the fund from a defined benefit to a defined contribution fund. The trustees must explain what effect, if any, it will have on the pensioners, deferred pensioners or dependants. They must include information about any action or recourse that may be taken if the person is dissatisfied with or aggrieved by such special event. Initial disclosure to pensioners showing the pensioner's full name, date of retirement and date and frequency of monthly pension payments. Circular PF 90 disclosure requirements 02 to pensioners, deferred General information, including the name pensioners and and registered address of the fund, the name of the principal dependants of deceased officer, the names members (issued May of the trustees and 1997) brief information Annual disclosure should on the policies of include the date of annual the fund. disclosure as well as details of all variations to the initial disclosure. Initial disclosure to deferred pensioners showing the name of the deferred Initial disclosure to dependants pensioner and the date when disclosing the name of the active membership of deceased member, the date of the fund ceased. the member's death, the dependants' full names and date and frequency of payments.

> Circular PF 130 every fund must have a communication policy (issued June 2007)

> > **Standards** for fund communication

A fund's communication policy must set out how the fund intends to share information to its members. The fund must recognise the minimum requirements to members and beneficiaries as set out by the Regulator. Other information may relate to:

The fund's cash flow

The fund's investment

policy

statement

Any other information the board considers appropriate, relevant or useful

Fund membership details

PF 130 then sets out the following information that trustees should communicate to members and beneficiaries:

- Aspects of the **operation of the fund**, including the performance of the fund's investments, which are of relevance to members and which will assist fund members to assess the credibility and trustworthiness of the administration of the fund and the delivery of the benefits.
- All communication with members, beneficiaries and the stakeholders should be responded to promptly with thoroughness and respect. In particular, **complaints** should be treated seriously and noted by the trustees.
- Where the fund offers **investment choice**, the details of the investments in respect of which members may make an election should be described setting out the severity of any associated risk and the performance benchmarks, as well as the underlying type of investments. Members should be able to make an informed decision from such information. Defined contribution funds should make it clear that the member bears the investment risk.
- The fund should communicate to all stakeholders any Pension Fund Adjudicator determinations against the fund, regulatory issues raised by the Regulator and all deviations from policy, rules, etc.
- The trustees should consider holding an annual general meeting at which fund issues can be discussed, provided this is practical and cost effective.
- The fund's investment performance, the average costs per member and also, in respect of any fund which has independent board members, the fees and disbursements paid to in respect of them must be communicated to members at least once a year.
- The fund's service providers.

Information Circular 2 of 2016 – funds must keep members' updated contact details This circular requires that funds keep their members' latest contact details on their records in order to be able to communicate with their members. The intention behind this being to reduce unclaimed benefits and complaints relating to members not being properly informed of their rights benefits and duties.

Retirement funds must be able to contact their members.

Funds must keep members' contact details

In terms of TCF member communication must be current, appropriate, clear and understandable.

The Treating Customers Fairly framework was introduced to ensure that the fair treatment of customers is embedded within the culture of regulated financial firms. Although retirement funds had commenced embedding the six TCF outcomes from 2014, in 2017 the Regulator issued a guidance note to retirement funds on the practical implications of TCF for these funds.

Outcome #3 of TCF has application for a retirement fund's communication efforts. This outcome requires that customers be given clear information and are kept appropriately informed before, during and after the time of contracting. This means that members and beneficiaries of retirement funds should receive clear and appropriate information on the fund's benefits and operations, before joining (where applicable), on joining and regularly during their membership.

Treating customers fairly (TCF) (FSCA's 2017 guidance note to retirement funds on implementing TCF)

Funds must keep members appropriately informed.

Specifically this includes:

- On joining, members must be provided with appropriate fund information.
- Timeous and appropriate information must be provided as and when important events or changes take place.
- Members must be advised on the process to be followed in the rules and with the Pension Funds Adjudicator to lodge a query or complaint.
- Annual benefit statements must be provided.

- Fees, costs and charges, the long term impact of not preserving and the tax impact of taking a cash benefit on withdrawal, the late or non-payment of contributions must be disclosed.
- The risks of the fund's investments must be made clear to members, especially for funds with member investment choice
- Any change in policy or legislation that might have an impact on retirement savings must be communicated to members.

impacted what and when retirement funds should communicate to their members. Most trustees would automatically recite the need for retirement benefits counselling, but

regulations (effective 1 March 2018 for new funds and 1 March 2019 for existing funds)

requirements set out in the default regulations to make sure that members understand the options and solutions available to them.

Regulation 37 default investment strategy

At a high level, members should be provided with suitable communication in relation to the fund's default investment strategy, including fees and performance, on an ongoing basis.

Specifically, a fund should communicate with its members at least once a year, the asset composition, performance of the default investment portfolio/s compared to appropriate benchmarks, top 10 holdings by value and fund returns for the current and at least two previous years.

Regulation 38 default preservation strategy

Paid up membership certificates must be provided to a member within 3 months of becoming paid up in the fund. The Regulator has provided a sample template of the information this certificate should contain.

> The aim: helping members make informed decisions and choices

Regulation 39 annuity strategy

Trustees are expected to communicate their annuity strategy to members in an understandable manner. Specifically where living annuities are included in the annuity strategy, funds should communicate the asset class composition of the investments. For infund living annuities, members must be made aware if their drawdown rates is deemed not to be sustainable.

Retirement benefits counselling (RBC)

RBC is essental to ensure that members are able to make the important and necessary decisions when they get close to retrement. RBC should be designed to help members understand the available investment options, the costs and the risks.

RBC can be provided in person or in writing. And if provided in person, the counsellor does not need to be a registered Financial Services Provider or a financial adviser in terms of the Financial Advisory and Intermediary Services Act.

Members must be expressly informed that RBC does not include advice.

It is recommended that access to RBC be provided no earlier than 6 months before the member's retirement age and that the information provided still be relevant at retirement age.

Disclosures and informaton must be given to members in clear and understandable language. It must include the risks, costs, fees and charges of all the items set out in the definition of retirement benefits counselling.

FSCA's draft conduct standard – communication of benefit projections to members of pension funds (issued 8 June 2020)

The period for comments on this draft onduct standard closed on 31 July. While we're waiing for the final version, there are a couple of important guidelines in the draft that trustees may already wish to consider and implement.

Plain language is defined as communication that:

- · Is clear and easy to understand;
- · Avoids uncertainty or confusion; and
- Is adequate and appropriate in the circumstances,
- taking into account the factually established or reasonably assumed level of knowledge of the person or average persons at whom the communication is targeted.

Projection statements should be:

- Given to a member on joining the fund, once a year (the information could be included in the annual benefit statement instead of a separate projection statement) and on withdrawal.
- Provided to manage members' expectations and behaviours (contribution rates, period of saving, level of risk) by educating members regarding realistic expectations of their future benefits.
- In plain language to assist the member in making informed decisions.

Projection statements should show members:

- The value of his projected benefit at retirement as a multiple of salary (cost to company) not of pensionable salary;
- The projected monthly pension in current day terms; and comparing this to the projected monthly salary as a cost to company (representing the replacement ratio). For provident funds and defined contribution funds, this projected pension is the monthly pension that could be purchased with the projected lump sum available; and
- The risks and underlying assumptions, indicating that the final actual value will be different based on actual experience.
- Appropriate notes and disclosures, including the purpose of the statement (to provide guidance) and pointing out that the member should take all his savings into account, not only the savings in the retirement fund.

The conduct standard also sets out the assumptions and methodologies funds should use when providing these statements.

Funds will soon have to show members not only their current savings balances, but also their expected future fund values.

One can see the definite refinement of thought and practice around member communication. It started with very rudimentary, simple disclosures of static information and has developed into the provision of more sophisticated information designed to educate members around appropriate choices and decisions to impact their retirement benefits in the future.

What is plain language?

Communication in the new normal

There is little doubt that the COVID-19 pandemic has impacted the world around us. In the retirement fund communication context, funds have had to deal with a number of challenges:

- The volatility of investment markets.
- Members' emotions and fear not only around their retirement funds but on their continued employment.
- The increase in governance regulations placed on trustees when communicating to fund members.

This translated into a very busy first half of 2020 for many retirement fund trustees as they grappled with keeping members informed of the (almost daily) changes that were unfolding and will continue to impact the short to medium term future.

As we face this future, trustees must ensure that they:

Have a communication policy that clearly sets out their understanding of their members' demographics and links these to clear communication objectives and relevant practices.

Are able to reach all their members by continuing to focus on collecting up to date contact details, information and preferences (email, sms, post, etc).

Embrace all mediums of communication – but arguably electronic forms are emerging as the most effective. Sms'es, emails, websites and webinars are all proving to be pillars of any communication campaign in 2020.

Put together communication that is in simple plain language but also educates members and clearly shows the consequences of any decisions they may make.

Disclose all charges and fees members may pay.

Advise members how to raise any queries or complaints the member may have.

Appoint, mandate and monitor all service providers to the fund to make sure that all parties subscribe to the same communication philosophy and objectives, meaning that members will receive consistent messaging from all those involved in their retirement fund.

Measure and monitor the success of their communication efforts to enable them to refine their messaging to target specific behaviours. The monitoring of communication effectiveness has been a long standing dilemma for retirement funds. Formal measurement is expensive but trustees need to ascertain whether their messaging and methods are effective. Diagnostic tools exist to allow funds to see who has opened their emails and how long they spent reading its contents. Other indications may be to monitor preservation rates, the number of members making additional voluntary contributions, the number of members actively switching out of the fund's investment default and the complaints lodged – both formally to the Pension Funds Adjudicator and to various service providers.

Keep engaging with members.

To conclude, meaningful understandable communication is imperative to educate members on the options available to them and guide appropriate decision making before, during and after fund membership. Trustees should appreciate the importance of their duties and the legislated requirements, and put together a meaningful framework to meet the unique needs and expectations of their fund membership.





Trustee Tutor: Issue 3 - Member Communication

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. Mem	bers have the right to inspect the following documents at the registered address of the fund at no charge:				
a.	The financial statements.				
b.	The rules.				
c.	The statutory valuation.				
d.	All of the above.				
2. The F	Pension Funds Act requires that trustees must communicate to members and their beneficiaries.				
a.	True				
b.	False				
3. Section	on 7C(2)a of The Pension Funds Act requires that communication must be specifically provided on:				
a.	Transfers, amalgamations and the implementation of investment choice.				
b.	The implementation of flexible risk benefits and contribution rates.				
c.	c. The splitting or liquidation of a fund.				
d.	When the rules of the fund change.				
4. Mem	bers must be given days' notice of any material change in the fund:				
a.	No notice is required.				
b.	30				
c.	60				
d.	90				
5. A fun	d's annual benefit statement must display:				
a.	The name and registration number of the fund.				
b.	The member's name and salary information.				
c.	The current value of all the member's benefits in the fund.				
d.	All of the above.				

Trustee Tutor: Issue 3 – Member Communication

	equirement that fund communication must be appropriate, timely, accurate, complete, consistent, cost effecti comprehensible and accessible is found in:	ve,
c.	PF 86 PF 90 PF 130 Outcome 3 of Treating Customers Fairly	
7. Retire	ement benefits counselling:	
a. b. c. d.	Must be done face to face. Must be done by a certified financial planner. Must be done within a year of the member retiring. None of the above.	
8. The F	SCA wants all funds to keep updated contact details for every member.	
a. b.	True False	
9. A reti	irement fund's communication policy must include:	
a. b. c. d.	The types of communications the trustees may wish to issue. The language the fund chooses to communicate in. The channels the fund will use to get communication to members. All of the above.	
	ich statement is incorrect: In terms of the conduct standard issued by the FSCA in June 2020, retirement funds d to issue annual statements to their members showing:	will
a. b. c. d.	The value of the member's benefit at retirement as a multiple of cost to company. The member's projected death benefit requirements at retirement. The projected pension the member could purchase with his projected lump sum at retirement. The risks and underlying assumptions that the projections are based on.	

Email to Toni Cantin at ICTS, using cpd@icts.co.za



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Publication of FSCA Conduct Standard 4 of 2020 (RF) - Minimum skills and training requirements for board members of Pension Funds.

In accordance with the FSCA Conduct Standard 4 of 2020 (RF) - effective 10 July 2020, a board member contemplated in section 7A(3)(a) of the Act must attain the certification of the Trustee Training Toolkit within a period of 6 months from date of appointment to the board. A board member appointed prior to this date must complete the Trustee Training Toolkit within 6 months of the effective date.





THE UNIQUE BENEFITS OF SANLAM'S SMOOTHED BONUS PORTFOLIOS

A volatile investment can be compared to a wave with peaks and troughs, where the size of the wave represents volatility.

A bigger wave carries more energy.



You want to reduce or avoid volatility because it could be uncomfortable, or even dangerous, similar to rough waves on the ocean. Removing volatility by investing in cash is similar to removing energy; if you reduce risk or growth assets, long-term performance can suffer.

Can we possibly smooth volatility in a clever way, without putting the long-run sustainability or growth potential of the portfolio at risk? The answer is yes!

At Sanlam Corporate we have been expertly managing volatility for retirement fund members for over 50 years. During this time, thousands of retirement fund members have been able to face retirement without having to experience a negative return due to a market downturn – and there have been many of these market downturns along the way.

Our range of smoothed bonus portfolios are designed to provide members with more stable, predictable returns than they can expect from an average balanced fund. It is for this reason that the Sanlam Umbrella Fund extensively utilises these portfolios in its default strategies, including:

The crucial years leading up to a member's retirement. During this time, members have accumulated their biggest retirement nest egg and do not want to be exposed to negative returns just before retirement. At the same time, members understand that they simply cannot miss out on earning decent market-related returns by being too conservatively invested. Sanlam's house view is to use a smoothed bonus portfolio as the final stage in our lifestage strategies.

As the default portfolio for retirement funds with a large blue-collar membership. These members are vulnerable to economic downturns and potential layoffs and these funds are often characterised by significant member turnover. These members often have industry-specific skills and they find it difficult to translate these skills to employment opportunities in other industries, potentially leading to extended periods of unemployment. Such members often rely on their accumulated retirement savings during these times and do not want to see their fund value decreasing in times of economic upheaval. A portfolio that combines smoothing and protection on benefit payment events (where a member leaves a fund) is often popular with these members.

As part of a living annuity strategy for members post retirement. These members are susceptible to negative returns early in retirement when they start making regular withdrawals for retirement income. This sequence of return risk has the potential to significantly reduce the member's likelihood of having a successful retirement outcome. At the same time, members cannot afford to be too conservatively invested as they still have a 20 – 30 year investment horizon ahead of them. A smoothed bonus portfolio, either on its own, or in combination with more aggressive portfolios, can significantly reduce the risks that these members face.

The benefit of using Sanlam's smoothed bonus portfolios can easily be seen when considering how one of our portfolios, the Stable Bonus Fund, protected member's savings during the last two market downturns.

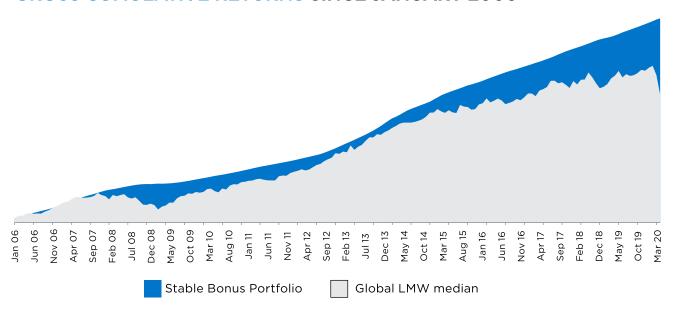
Sanlam Stable Bonus Portfolio	During Great Financial Crisis (2007 - 2009)	During COVID-19 crisis and Great Lockdown (Jan 2020 - Jul 2020)
Number of months with a zero net bonus	3 months	1 months
Number of months with a negative bonus	0 months	0 months
Number of months with a funding level below 90%	1 month	1 month

Members retiring during March 2020 had the benefit of knowing that their fund value would not decrease due to the COVID-19 linked market downturn.

Additionally, Sanlam was not forced by either of the above market crises into a position where we needed to close our existing portfolios / bonus series.

The above was achieved without sacrificing significant long-term returns. This can be seen from the graph below, which compares the returns of our Stable Bonus Portfolio with the AF Global LMW median (A survey representing an average South African balanced fund).

GROSS CUMULATIVE RETURNS SINCE JANUARY 2006



SANLAM'S SMOOTHED BONUS PORTFOLIOS

The end result is that a member invested in the Stable Bonus Portfolio, as well as many others investing in any of our smoothed bonus portfolios, could face retirement with confidence, knowing their retirement savings survived the Great Lockdown and is not languishing in quarantine.

SANLAM CORPORATE SMOOTHED BONUS RANGE FOR RETIREMENT FUNDS

Sanlam Corporate has a long history of providing smoothed bonus portfolios, the first to be launched where the Alpha Bonus Portfolios more than 50 years ago, these portfolios closed and clients transferred into the Stable Bonus Portfolio in 2010. We were the first in South Africa to launch a smoothed bonus portfolio which has exclusively black underlying asset managers, the Progressive Smooth Bonus Fund.

	Monthly Bonus Fund	Stable Bonus Portfolio	SMM Vesting Fund	Progressive Smooth Bonus Fund
Inception	1999	1986	2003	2017
Vesting style	Fully vesting	Partially vesting	Fully vesting	Partially vesting
Guarantee level	100%	100%	100%	80%
Manager type	Single manager	Single manager	Multi-manager	Multi-manager
Key Feature	Comprehensive guarantees	Non-vesting component for higher returns	Exposure to top fund managers	Investment by top black asset managers

Sanlam Corporate Investments

sebinvestments@sanlam.co.za

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