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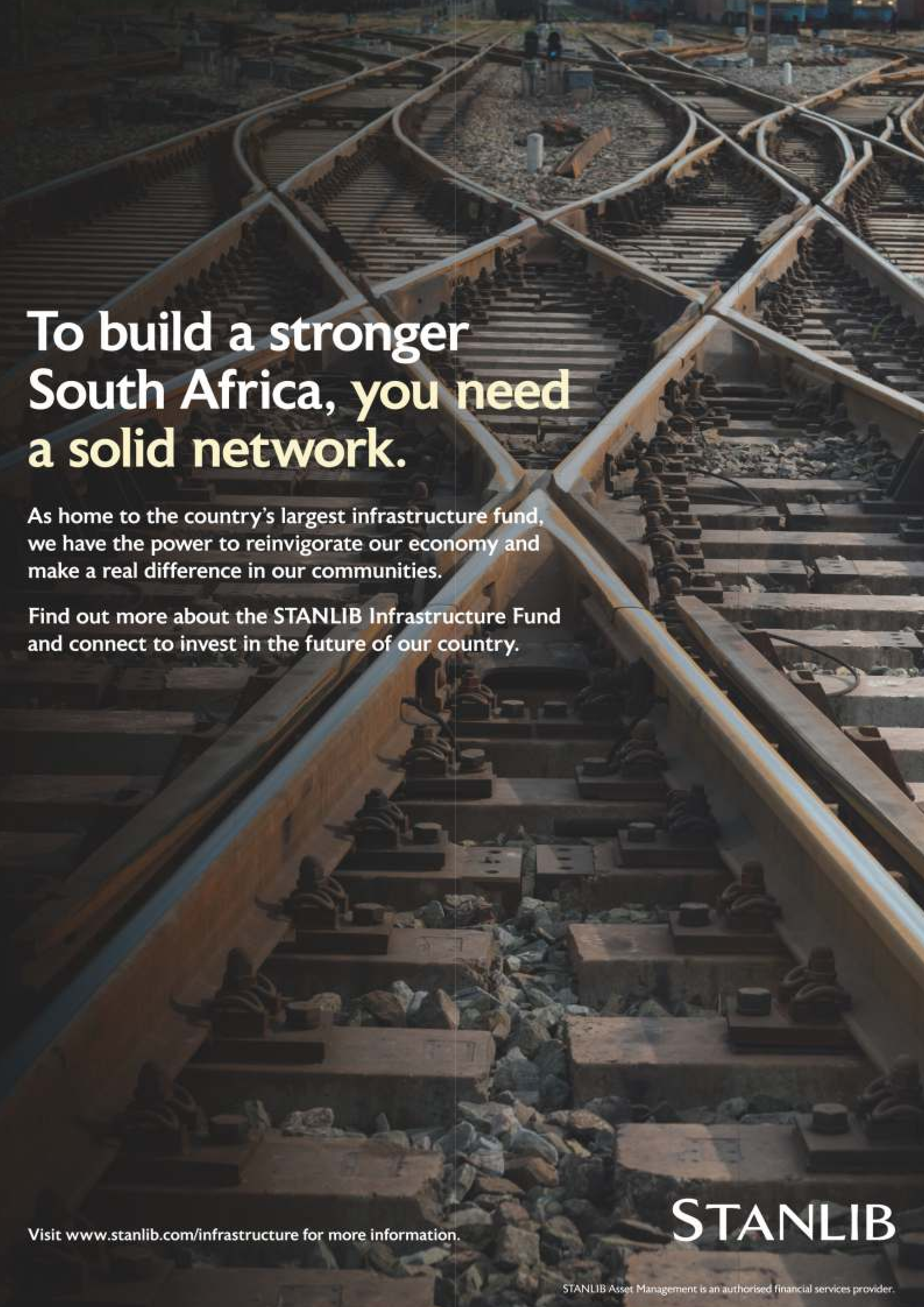
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Editor's Comment

David Weil, CEO ICTS Group of Companies

The last quarter has been an extremely eventful one with many things taking place in our country to give one food for thought. These events have indeed been well documented in the media and I am certainly not going to dwell on the subject of politics or looting. This has been an unsettling time for all South Africans and I am sure you have all taken time to analyse these events through the media and social media and the impact on your personal circumstances.

The South African markets remained remarkably resilient to the events that took place in our country. It did force me however, to take a long hard look at my retirement savings. At first there was an immediate question that was nagging me and that was whether I should be making any changes to my investments? After much analysis and debates with myself, I did as I always do and that was stick with my current long term strategy.

When contemplating the happenings in our country and their impact on me personally, I was struck by the number of avenues to "news" that were available to me and proliferated in my world – mainstream media, social media, friends, influencers, experts – it's difficult to keep track. What's more, we all have a personal experience of researching a particular topic online, and within the next few hours receiving similar content on our social media feeds. There is no doubt that this type of influence crafts our thinking and, therefore by extension, our behaviour. Our industry is abuzz with concepts like big data and the ideas around behavioural finance. Product providers feel that the deeper they understand their customers, the more they are able to connect with them and enhance their experiences.

One is left balancing the scales of philosophical thought – is it right to influence behaviours by using data? Some may argue that it is in the individual's best interests to, for example, default him or her into a specific investment portfolio, or to automatically recommend a certain bouquet of financial products – the premise being to support and encourage the correct financial behaviours that will lead to a more financially secure retirement.

We shape financial and investment solutions around what will resonate with the customer, all the while building privacy laws to protect personal information. The landscape is becoming more and more complex and fast-changing. We need to make sure we never lose sight of the reason for our existence: to build a strong and healthy financial system which provides individuals the ability to sustain themselves when they stop working.

As an industry, we need to challenge ourselves to be innovative – in ways we have not even yet imagined. Disruptors will enter our space offering creative solutions that meet real needs in a framework that we have not yet considered.

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

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

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BEYOND PROFIT
Schroders

The importance of managing retirement, group risk and healthcare arrangements together

Belinda Sullivan, Head of Corporate Consulting Strategy, Alexander Forbes

The Covid-19 pandemic and the lockdown measures to curb its spread have had a significant impact on the economy. This environment has elevated real daily needs such as healthcare, provision for emergencies, housing and transportation needs, and educational opportunities more than ever before.

The pressure to meet these needs affects how employees function from day to day. As a result, it is estimated that up to 35% of payroll costs are wasted because of poor productivity due to high levels of absenteeism and presenteeism[1].

An integrated employee benefit programme

A holistic employee benefit programme ensures easy access to retirement, group risk and healthcare benefits, among other benefits. Such group arrangements fulfil an integral need for employees and their families. All of these benefits are inextricably interconnected and should be managed in one cohesive programme.

Advice and benefits in relation to retirement, group risk and healthcare have historically been designed and managed in isolation, leading to mismatches and gaps in the overall benefit offering for employees. However, recent events following the Covid-19 pandemic support the need for these areas to be managed in tandem. The decisions around suitable solutions and relief can only be made if one considers all the various benefits in an integrated advice framework.

[1] *Sources: Alexander Forbes, LifeGauge Comprehensive, 2017; Alexander Forbes, Member Watch™ Analysis, 2017*

The importance of managing retirement, group risk and healthcare arrangements together

Retirement, health and financial well-being

Incorporating the employer's integrated health strategy into the advice and solutions offered through the workplace and the retirement fund is fundamental to supporting employees' well-being.

Health solutions and interventions at employer level assist the retirement fund trustees to:

- assess the appropriateness of the benefits provided through the fund
- manage the sustainability of the benefits and pricing
- ensure successful counselling and retirement fund communication policies aligned to the wider benefits programme offered by the employer

As an example, the pressure of the lockdown and recent events has not only weighed heavily on finances but also on the mental well-being of members. Physical and mental well-being affects the claims experience and therefore the pricing of group risk benefits. Recently disability premiums have increased significantly, which reduce the net amount allocated towards retirement savings. In order to reduce and manage these disability costs, specific health interventions are required.

Another example is in relation to retirement contributions. These are based on pensionable salary, which is often a percentage of a person's total income. A replacement ratio calculated on pensionable salary does not reflect an employee's real income needs. In addition, medical aid inflation and post-retirement medical aid savings are not included in these calculations. This leads to:

- insufficient income in retirement
- switching from a benefit-rich medical aid in retirement to an inferior but affordable offering – essentially reducing benefits when a more comprehensive offering is needed

Risk benefits and health

Group risk benefits are often the only benefits that employees have. Benefit design cannot be done in isolation from the overall employee benefit programme.

Prior to the pandemic, socio-economic conditions, increasing lifestyle diseases, and the ability to rehabilitate disabled employees had already begun to affect claims experience and risk benefit pricing. These benefits have proven to be indispensable to employees and their families in the pandemic.

The second wave resulted in significant increases in the claims experience and the claim values. As a result, insurers levied higher premiums as is evident from 2021 policy renewals. The third wave has added even further pressure.

Health management solutions help identify and manage the root causes of the group risk claims through the following interventions:

- Absenteeism management
- Incapacity and case management
- Disability claims management
- Employee assistance programmes (EAPs)

Including the above interventions in the review and management of the group risk arrangement means the claims experience can be analysed on an aggregated basis. This will assist the trustees and employer in assessing the design, expected trends, affordability and sustainability of the group risk offering.

Demonstrating early intervention and active management of claims may result in more favourable pricing from group risk insurers as future claims experience may improve.

Integrated communication and member support

Interventions should not only be triggered by a specific event. Instead, easy access to counselling, financial planning advice and solutions should be available on demand to empower employees throughout their lifetime. Formal access should be facilitated through the workplace at least annually to encourage employees to review their benefits holistically.

A coordinated financial plan considers employees' retirement, group risk and healthcare needs along with short and long term financial objectives. This ensures that employees derive the maximum value from the options available to them across the benefit spectrum. Employees will now better understand the implications of the choices they make today and begin to bridge their identified gaps.

Retirement funds need to provide access to retirement benefit counselling on joining, resignation, retrenchment and retirement. Including support in relation to healthcare decisions at the same time makes it a lot easier for individuals to look at all their employee benefits and make trade-offs between them.

Individuals assess their medical aid options annually when medical schemes announce their rate changes. This is an opportune time to offer employees health and financial planning advice to empower them to make better-informed decisions. They can redirect any savings, for example, towards retirement savings, emergency savings or debt repayments.

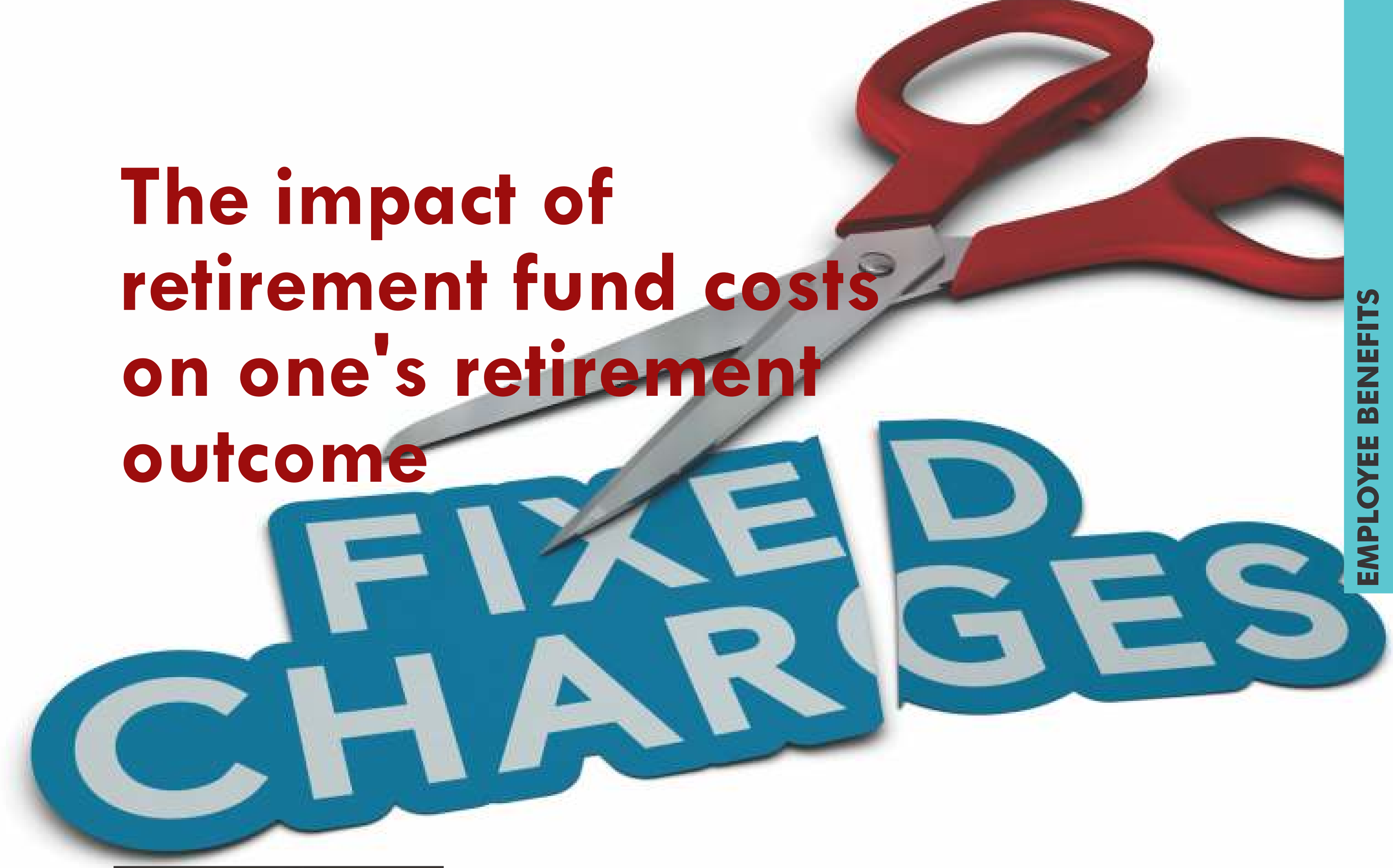
Combining these activities can reduce cost, time and effort spent by employers in managing these aspects separately. This approach also ensures ease of access to all employee benefit information and support and assistance from one place when needed.

Holistic outcomes

Each employee has different needs and outcomes throughout their lifetime. Providing access to benefits that offer meaningful value at any given point is critical to the success of the employee benefit programme.

This requires healthcare, group risk benefits and retirement provision to be integrated. There are significant benefits of doing so for trustees, employers and individuals.

The impact of retirement fund costs on one's retirement outcome



Alisha Corbett, Head: Liberty Corporate Umbrella Fund Solutions

It is essential to understand the impact of fees on one's retirement outcome and what could be done to influence this.

Costs incurred by retirement funds can have a significant effect on the final value of one's accumulated retirement savings.

As most employers fix the total contribution rates that they make to a retirement fund on behalf of employees, lower fees will result in higher net contributions to retirement savings. In other words, more money will be allocated to retirement savings and therefore a better final outcome.

For example, for every 1% more that is contributed towards retirement savings, the ultimate benefit at retirement increases by approximately 10%. This assumes that a member has worked for 40 years and that their investment has earned a real return of 3% per annum. Regularly reviewing the costs and options in one's retirement fund could have a substantial impact on a person's ability to retire comfortably.

Costs associated with retirement savings

To reduce costs associated with retirement savings, it is necessary to understand the levers to consider, by understanding the fees that may be charged. However, it is also important to keep in mind that the net investment return (investment return less fees) is key in what determines the accumulated value of retirement savings, so one should not just base one's choice solely on cost.

Investment management charge

The investment management charge is the total amount charged for managing the retirement savings investments and is dependent on the investment portfolio choice and level of assets. It includes investment management fees, any performance or guarantee fees, investment administration fees as well as asset handling fees in some instances.

Advice charge

The advice charge is the amount paid towards the provision of advice and intermediary services. It includes commission for the provision of advice by brokers or financial advisers, which is based on the total premium paid by the employer and is typically negotiable, as well as investment consulting fees not included within the investment management charge.

Other charges

These charges relate to the costs incurred from governing the retirement savings account (Governance levies) as well as levies imposed by the Financial Sector Conduct Authority (FSCA). It could also include other charges, where applicable, such as premiums or charges for guarantees.

An Effective Annual Cost (EAC) report provides a view of the current costs associated with existing retirement savings. You can request an EAC report from your adviser or service provider.

Cost of risk benefits

In addition to the above, risk benefit charges for insured benefits such as life cover, disability cover and funeral cover, may also applicable within umbrella fund solutions. These costs depend on the risk benefits provided or taken up within the umbrella fund options selected by employers on behalf of employees.

Because umbrella fund solutions are bundled offerings of risk and retirement products, the lower the premiums paid towards risk benefits, the higher the net contribution to member's retirement savings. This is because the risk benefit premiums are deducted from the total contribution amount paid, with the balance put towards the member's retirement savings account.

A possible reduction in risk benefits, and hence risk premiums, should be balanced with the need for adequate risk cover to provide for one's financial needs and those of their dependants in an unexpected life event. Additionally, it is important to review one's risk benefit cover levels after important life events, such as the birth of a child, or the purchasing of a new home.

One should also be aware that risk benefits are typically cheaper when taken up through an employee benefits solution, such as through umbrella fund solutions (for groups of employees priced together) compared to when purchasing individual cover.

An age-old conundrum meets the modern revolutions

Kenny Rabson, CEO, Discovery Invest

South Africa's retirement savings industry has failed to solve the problem that motivates for its existence.

According to National Treasury, only 6% of South Africans have enough savings for retirement. This suggests that the majority of our people simply do not have enough money to live out their lives in retirement without having to rely on their families, communities, the state or, at worst, extractive debt for survival.

While modern investment strategies and digital efficiencies have allowed investment managers to lower their fees, this is nowhere near what is needed to tackle a problem of this magnitude.

We would therefore be naïve to think that this situation is simply going to resolve itself.

This age-old conundrum is now colliding with the twin metamorphoses of population ageing and workplace insecurity. As people live longer, they are spending substantially less time earning an income as compared to their time spent in retirement. And as machines disrupt the workplace, those incomes are becoming less secure.

There is no doubt that these global phenomena will exacerbate the local situation.

Intuitively, most people know that they need to save for their futures. This, one might say, is intergenerational knowledge. We learn from our elders who have achieved financial freedom in retirement, and we learn from our elders who, sadly, have not.

But what many of us don't know is that we can no longer rely on a given set of skills to provide a consistent income into the foreseeable future. We have miss-learned from our elders who spent their lives at work in a given role. This can be referred to as the intergenerational fallacy.

Clearly, we need to shift paradigms when it comes to helping people achieve financial freedom.

Shared value is the solution

Shared value is the idea that when companies align their purpose and strategy with societal needs, they can become more profitable while simultaneously unlocking economic value for everyone.

There are, of course, various complex and fluid structural, societal and economic dynamics at play that inform retirement savings in South Africa.

Yet, when focusing our efforts to solve for the problem, the key insight we have found is that, in most cases, the problem is behavioural.

Inspiring healthy financial and physical behaviour through shared value

Historically in South Africa, people's savings behaviours have been poor. In fact, the primary driver behind the dismal retirement outcomes is mostly driven by poor investment behaviours, namely: people are starting to save for retirement too late and retiring too early, when people start saving they are not saving nearly enough, when South Africans change jobs they generally do not preserve their retirement savings and finally, when in retirement, South Africans are drawing far too much out of their savings for an income than will be sustainable.

Yet, when people invest earlier, invest more, and withdraw wisely in retirement, they do better, thereby solving for the problem of inadequate retirement savings.

Through powerful behavioural incentives, that are layered in addition to a best-of-breed investment offering, we, as an industry collective, can help inspire these behaviours. Creative and innovative investment and/or benefits boosts for individuals who engage in these healthy financial behaviours can then be amplified when individuals adopt healthy physical behaviours.

This is because when people are healthy, they not only enjoy, and are rewarded for enjoying, a better quality of life and improved economic output preretirement, but they live longer, healthier lives, in retirement.

Each person empowered to make better money decisions has an impact on their own and their family's lives – potentially for generations to come. And when enough people save adequately, they have the collective potential to change the development course of the country by providing an investment pool that funds economic growth.

Retirement savings are both a personal and national imperative.

Sanlam Benchmark 2021: The devastating impact of Covid-19 on retirement

Research released in June revealed just how the Covid-19 pandemic has impacted the employee benefits industry and retirement prospects of South Africans. For 40 years, the Sanlam Benchmark findings have helped the retirement industry navigate the complexities of the sector and guide members through the challenges they experience in planning for retirement.

Kanyisa Mkhize, Chief Executive Officer, Sanlam Corporate

Amidst the economic devastation and uncertainties presented by the Covid-19 pandemic, the 2021 Sanlam Benchmark report shed light on how the industry fared during this period that was characterised by retrenchments, company liquidations and salary cuts – all of which have a significant impact on members' long term savings.

The Benchmark Survey has been at the forefront of identifying and analysing trends for over four decades. Kanyisa Mkhize, who was appointed Chief Executive Officer (CEO) of Sanlam Corporate in 2020, says this year's findings were some of the most important ever. "We are seeing the devastating impact the pandemic has had on our industry and on employees and pensioners. We will need to work together with our peers and stakeholders to find urgent solutions to minimise these negative outcomes.

"With unemployment at an all-time high – and since funds and the broader retirement industry are dependent on the economy creating and maintaining jobs – we are in a very pressured position indeed. We've also seen death and funeral claims at levels that we could never have imagined, adding great pressure to funds."

She says, with the storm still raging, uncertainty remains around Covid-19 and the impact on risk pricing. "There are several views on future pricing but our commitment is that we will ensure that our pricing is both fair and sustainable, so that we can keep to our promise of providing protection to families when they need it.

"In a crisis, it is very easy to focus on surviving the short term (sometimes making decisions that are – in the long run – very costly). As an industry we need to keep our clients focused on the long term – and help our members and employers stay the course."

Some additional themes that emerged from the research include:

- Employers are more sensitive to the importance of providing holistic solutions, following the impact of the pandemic on employee mental and physical health.
- Cyber risk is a reality.
- Modest interest from funds in infrastructure investments after proposed Regulation 28 amendments.
- Low awareness as to whether funds are invested in impact and ESG type investment portfolios.
- Impact of default regulations.

Mkhize says the Sanlam Bench-mark Survey has driven thought leadership and collaboration in the industry for many decades. “It has provided guidance for regulators, trustees, employers, product providers and advisers. Many of the big and small innovations (including legislative changes) have been as a result of research insights.

“Over the years, the research has expanded to bring the voice of the pensioner, member, intermediary, employer and trustee into boardrooms and product factories, so it gives a view of the state of retirement from all perspectives.

“Ultimately, we believe that this is how we will enable people to live with confidence. We're investing in member engage-ment to make sure that our members have a good grasp of their financial circumstances and the benefits they have available. This will empower them to make the right decisions that will help protect their families and improve their retirement outcomes,” says Mkhize.

EMPLOYEE BENEFITS

How changes to provident fund annuitisation affect approved lump sum disability benefits

Dolana Conco, Regional Executive, Alexander Forbes Retirement Consulting

New tax rules on the annuitisation of provident funds and lump sum payouts made at retirement took effect on 1 March 2021. Fund members and trustees should be aware of additional implications for approved lump sum disability benefits.

On retirement, members of provident funds who were under age 55 on 1 March 2021 (known as T-day) may still take amounts which accrued prior to 1 March 2021, plus the fund return, in cash. Members over age 55 on T-day will have access to all amounts in the fund in cash when retiring from that fund. This is referred to as "vested benefits" as opposed to "non-vested benefits" where annuitisation rules apply to amounts above R247 500.

Approved lump sum disability benefits paid by a pension fund

The approved (provided by the fund) lump sum disability benefit in a pension fund was previously included as part of the fund benefit. It was normally treated in its totality as an ill health early retirement benefit from the fund. The cash amount was limited to a maximum of one third of the benefit, while the balance was used to buy a pension.

Approved lump sum disability benefits from provident funds

Those members who are under the age of 55 will have the same annuitisation requirements applied on their lump sum disability benefit as applies to pension funds, as follows.

- ***Members over age 55 on 1 March 2021***

The lump sum disability benefit will be part of the vested benefits in the provident fund of which the member had membership on T-day. This means that the member can receive this payment in cash, after tax.

But if the member transfers to a new fund after T-day, and is then disabled, any lump sum disability benefit paid out of the new fund will be a non-vested benefit. This means that the annuitisation rules will apply.

- ***Lump sum disability benefits under 55***

Only amounts which have accrued before T-day fall into vested benefits. If a member is disabled after T-day, the lump sum disability benefit payable will not fall into the vested benefits. The payment will be treated as a non-vested benefit. This means that the annuitisation rules, where the total benefit exceeds R247 500, will now apply to the lump sum disability benefit.

Reform

While the above may be an unintended consequence of the annuitisation rules, we should take a step back and reconsider the real intention of reform.

Various stakeholders in the industry introduced and agreed upon reform as it became evident that current regulations were failing the member. Almost 50% of members retire on less than one third of their final average salary, which renders a large part of people poor and dependent on the state. This is unsustainable and needs to change.

Reform has brought in different forms of laws to increase the savings culture and provide certain incentives – like a tax deduction if a member saves more, up to a certain limit.

With lump sum disability benefits now subject to annuitisation, retirement funds need to consider this question: Would an income structured benefit still meet the intention and expectations by members, the fund and the employer in terms of their incapacity procedure?

The trustees and employer will have to revisit why the approved lump sum disability benefit was selected in the first place. Was this to ensure that there would be a lump sum to:

- meet the cost of additional care or adjustments to the home to assist the disabled employee, or
- provide cash support ultimately to members who are found to be totally and permanently disabled?

If the above intent of providing a lump sum benefit still stands, the trustees and the employer may need to consider changing the tax status of this benefit from approved to unapproved. This will ensure that the initial intention and expectations are still met.

Caution is made that changing to an unapproved benefit would mean that the employee would need to pay fringe benefit tax on the monthly premium. However, the benefit would be paid as a tax free lump sum separate from the retirement fund for total and permanent disablement.

These discussions must therefore include decision makers on the employer side to:

- help facilitate the messaging to the employees,
- manage any payroll impacts, and
- align with their incapacity procedures.

Any benefit structure implemented must be well considered to best suit the needs of the members. This could enhance the financial well-being of employees and lead to the best retirement outcomes.

Retirement fund consolidation – charting a path for beneficiary funds

As a stated aim of the Regulator, consolidation of retirement funds is well on its way. It is no great surprise that the number of registered retirement funds in the country has fallen by over 30% in the last five years. The intention is to reduce the number of stand-alone funds from 1 600 to no fewer than 200.

David Hurford, Chief Executive Officer, Fairheads Benefit Services

The desire on the part of the Regulator to have fewer funds to regulate is understandable given the high level of complexity and sophistication of the industry.

There are both pros and cons of fund consolidation for members. Some obvious potential benefits are reduced costs and superior service offerings flowing from the benefits of scale. Umbrella funds also have the capacity to invest in the high cost of compliance, meaning that members may benefit from generally higher governance standards.

The downside of consolidation of course is the reduction in choice and competition, fewer opportunities for small to medium sized service providers to grow and contribute to the industry and, simply put, the commercialisation of pension funds away from not-for-profit enterprises.

Beneficiary fund umbrella trends

While consolidation plays itself out in the retirement fund industry, one would have thought that the same could be said of the number of beneficiary funds. However, this is not the case. In 2014 there were 19 registered beneficiary funds and today there are 24. 80% of assets were held by nine registered funds in 2014 and today nine funds still hold

80% of members' assets, albeit that they are different funds. This means that 20% of the assets are now shared by 15 funds, compared to 10 funds in 2014.

So the question that must be unpacked is how smaller beneficiary funds can remain sustainable and continue to deliver value to members' lives.

The nature of beneficiary funds

Beneficiary funds are not preservation funds. Their primary purpose is to ensure that members, predominantly minors, can benefit from the money left to them so that they can get the best education possible. It would be a tragedy to preserve a large amount of money for a child, depriving them of the use of that money during their formative years, only to pay it out to them when they reach the age of 18. I am absolutely certain that when I was 18, I would not have made the best decisions with a lump sum payout.

To grow and remain sustainable, beneficiary funds must attract new members at the same rate or a higher rate than the rate at which members are paid out. The payment outflows from a beneficiary fund are high and can take the form of regular income, ad hoc requests and final termination payment. Inflows need to keep up.

Trustees have a fiduciary duty to consider beneficiary funds and educate their members about the vital socio-economic role that beneficiary funds play. Vulnerable dependants of deceased retirement fund members need to be sustained and educated in a highly responsible manner, more than ever now during the COVID-19 pandemic. There must be a refocus on children's needs and the need to create a stable foundation during their formative years.

And so trustees of retirement funds need to carefully weigh up and use their discretion as to whether to pay out a lump sum directly to the guardian or rather put the lump sum into the child's name as a member of a beneficiary fund, safeguarding and professionally investing the funds. In this way, a monthly income can help supplement the government's child grant and professional trustees can help weigh up whether a capital outlay is justified, for example for the purchase of a computer for use by the child while schools are closed and remote learning is the only option during the lockdown.

Consolidation makes sense in the beneficiary fund industry too

The trend to consolidation in the retirement fund industry is not yet being reflected in the beneficiary fund industry. And yet the challenges beneficiary funds face to keep delivering on the promise to take care of members are growing. Because the socio-economic role played by these funds demands growth, smaller players will find it more and more difficult to keep up with the investment necessary. The legislative landscape is evolving rapidly and this requires funds to invest more into processes, systems and compliance. At the same time, urbanisation together with expanding access to online services means that members are becoming far more sophisticated, demanding much higher levels of access to their service provider.

Time will tell whether or not these smaller players will survive, but trustees must keep insisting on the highest standards from their beneficiary fund – after all there is no greater purpose than being part of preparing our children for the world that lies ahead.

How trustees can help to improve retirement outcomes for members

Governance & Regulation panel, Allan Gray's inaugural Retirement Benefits Conference

Investment performance, governance and communication are the key challenges trustees face in their efforts to ensure members of retirement funds get what they need from retirement.

This is according to Richard Carter, trustee of the Allan Gray retirement funds, while moderating the Governance and regulation panel at the inaugural Allan Gray Retirement Benefits Conference.

The panellists noted that communication is often too complex and members don't understand the steps they need to take in the run up to retirement to make sure they have enough. Employers and trustees need to do more to help members to engage with the end picture and what is a likely scenario for retirement, to enable them to prioritise their retirement savings or to think about supplementing their savings outside of their retirement funds.

“People often only wake up when it is too late to change the picture,” said Ayanda Gaqa, head of risk and compliance at the Eskom Pension and Provident Funds, noting that technology can help members engage with projections and understand the bigger picture.

“A simple rule of thumb is that you need 14 to 16 times your annual salary at 65; you don't need a complicated actuarial formula. If members have this at the back of their mind, they'll realise they need to have a plan from the time they start earning,” noted Jonathan Mort, founder of Jonathan Mort Inc, adding that trustees can help with reinforcing this message but it shouldn't only be only their responsibility. Employers can also play a role in helping employees get a sense of what is enough.

The importance of sound trustee oversight really comes to the fore in crucial matters like selecting the right investment managers and other service providers. The track records of the administrator and the investment managers matter. Trustees must take these into account when they make their appointments and must make sure that their decisions are sound, fair and transparent and focused on the long term. Trustees then need to monitor how the service providers are performing on an ongoing basis: many things can go wrong.

When it comes to investment performance, what ultimately matters to members is having as much money as possible at the end of their working lifetimes. But sustainability in investing is becoming increasingly important and environmental, social and governance factors need to be considered. Trustees must manage the trade-off of risk adjusted returns versus the impact of those investments.

“Returns are crucial because these are retirement savings; but it is no good achieving returns at the expense of terrible labour practices or living in a ruined environment,” said Mort. Gaqa agreed, noting that these issues have become a reality and there is a need to focus on long term sustainability.

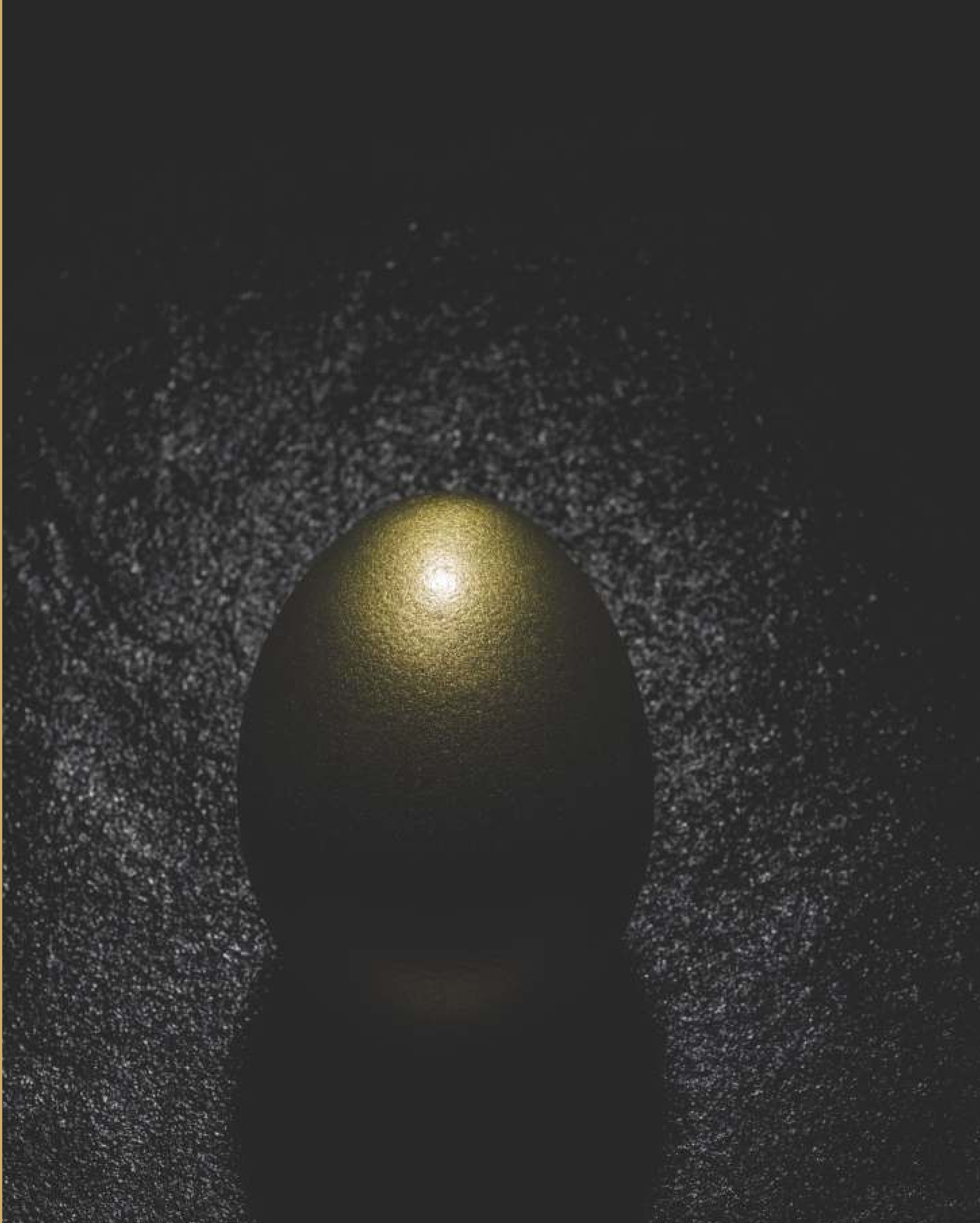
However, according to Muvhango Lukhaimane, the Pension Funds Adjudicator, this must be managed within the boundaries of a fund's investment policy. “A fund can't take members' money and not deliver; it must deliver the agreed return,” she stressed.

Another issue is infrastructure investing, in light of the proposed changes to Regulation 28 of the Pension Funds Act. According to Mort, infrastructure projects give funds the ability to invest locally and benefit the local community but Gaqa emphasised that, again, the member has to be put at the centre of the investment decision. “Is the investment going to benefit the member and is it in line with the fund's investment policy? On a risk adjusted basis, is the investment worth considering?”

The panellists all agreed that governance of the projects must be sound and there must be confidence in the valuation methodology. This applies to all investment decisions.

“At the end of the day, trustees need to be focused on improving outcomes for members. Only 6% of South Africans can afford to retire. We need to develop a culture of saving and encourage people to save. This is a challenge for the entire industry,” concluded Carter.

INVESTMENTS



The lay of the land

Izak Odendaal and Dave Mohr,
Investment Strategists, Old Mutual Wealth

It was a busy start to the third quarter in South Africa, with a worsening third wave of coronavirus infections, a deluge of economic data releases that provide detail on the nature of the recovery, a notable court case and a special birthday.

Starting with Covid-19, the continued increase in daily new infections to record levels and the pressure on hospitals, particularly in Gauteng, resulted in Level 4 and adjusted Level 3 lockdowns which continued the devastating impact of Covid-19 on the alcohol and hospitality industries.

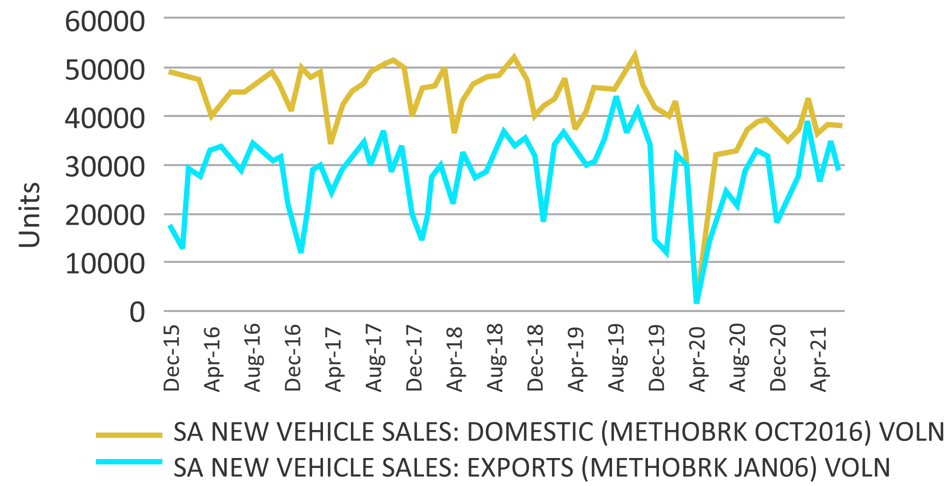
Although these lockdowns are clearly less disruptive to the broader economy than last year's hard lockdown, it's more urgent than ever before to vaccinate as many people as possible as quickly as possible. Life cannot return to normal until a substantial proportion of the population is immune. The Delta variant is rapidly becoming the dominant variant in both the UK and US, but with their advanced levels of vaccination, the impact is less severe.

The raft of data releases (mostly prior the aforementioned lockdown restrictions) still provide an update on the state of most aspects of the local economy. In a nutshell, the picture is mixed, still pointing to a K-shaped recovery in which some sectors and households are doing well, while others struggle.

Some salt

Some of these numbers need a pinch of salt. Any comparison from the low base of early last year when the country was in hard lockdown will look impressive. For instance, vehicle sales increased 20% year-on-year in June and 197% in May but that was because new car sales collapsed to only a few hundred units in April last year. Sales recovered to around 38 000 per month from September 2020 onwards. June 2021's sales numbers were in line with this trend. However, this is still below the roughly 45 000 units that were sold on average each month in 2019. One factor is that demand from car rental companies, usually a significant portion of total sales, is understandably still muted. On the other hand, vehicle exports are back at pre-pandemic levels in unit terms, and at record levels in value terms, which is good news.

Chart 1: New vehicle sales



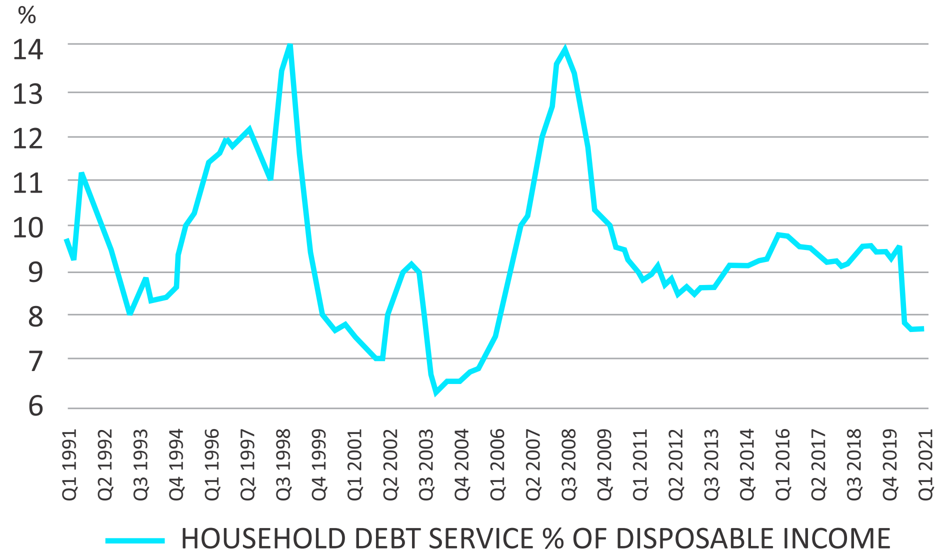
Source: NAAMSA The Automotive Business Chamber

Similarly, the arrival of tourists from overseas (in other words, not from elsewhere in Africa) surged over the past year, but that is because the borders were closed a year ago. The 19 915 overseas visitors in April 2021 reported by StatsSA is still only a fraction of the 217 131 arrivals in April 2019. The tourism industry sadly remains decimated. However, as a result, it probably has the best recovery prospects - but only once the pandemic is under control here and abroad.

Consumer with a K

Consumer confidence remains battered, understandably given the widespread job losses and uncertainties associated with the severe third wave of Covid-19 infections and more stringent lockdowns. The long running FNB/BER Consumer Confidence Index declined in the second quarter to -13 index points, close to all-time lows. Low income households in particular saw a sharp deterioration in confidence levels.

Chart 2: Household debt service ratio



Source: SA Reserve Bank

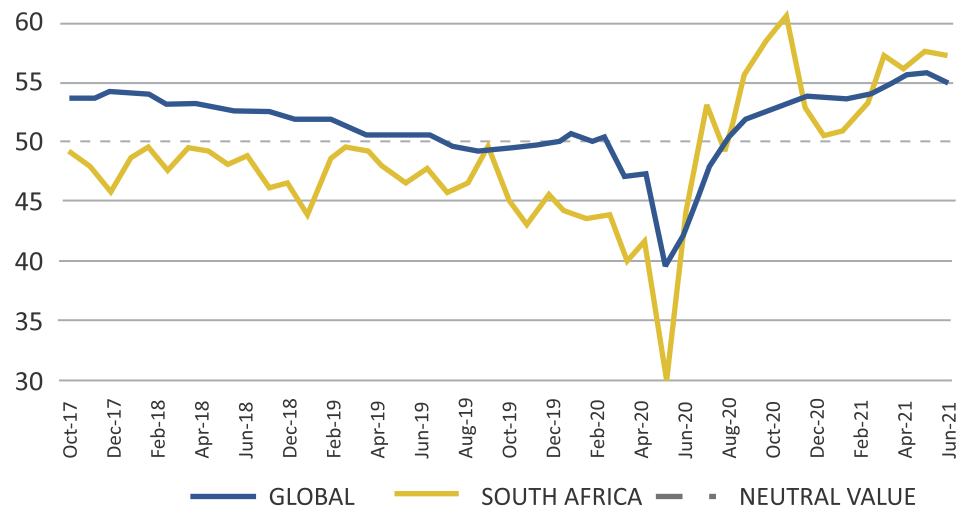
It is in household finances that the unequal K-shaped recovery is most evident. New data from the SA Reserve Bank shows that household net wealth – the difference between total household assets and liabilities – stood at a record high in the first quarter. This is in large part due to the improved performance of the equity market, while the growth in household debt has been muted. Clearly ownership of household assets is very concentrated, which is problematic in its own right, but does imply that more affluent consumers can continue supporting the recovery in overall household spending.

There is also the benefit of lower interest rates. The portion of after-tax income spent on making interest payments (the debt service ratio) was at a 15-year low of 7.7% in the first quarter, unchanged from the prior quarter. For those with existing debt (home loans in particular) it means extra income each month. New borrowing has been slower to increase, but seems to be picking up the pace. Overall household borrowing was 5.6% higher than a year ago in May 2020. Worth noting is that home loan growth is steadily picking up speed, rising to a decent, if unspectacular, 6% annual pace.

Manufacturing

The global manufacturing boom continues and South Africa is for once not missing out. The JPMorgan global manufacturing purchasing managers' index (PMI) was at an elevated 55.5 index points level in June 2021 (with 50 index points the neutral level). Similarly, the local Absa manufacturing PMI was at a robust 57.4 index points in June 2021, down only slightly from a month before. Local industry is experiencing a growth spurt not seen in several years, and the average PMI reading in the second quarter was also above that of the first, pointing to a positive quarterly contribution to the overall economy.

Chart 3: Manufacturing purchasing managers' indices



Source: Refinitiv Datastream

However, the big story for the local economy remains the commodity-driven export surge. May 2021 saw another massive R54 billion trade surplus, thanks to near record exports of R163 billion. The trade surplus for the first five months of the year was R202 billion, compared to a R10 billion surplus over the same period a year ago.

This is largely due to the substantial improvement in the terms of trade – the ratio of export prices to import prices. Neither the volume of exports nor the volume of mining production is meaningfully above pre-pandemic levels, but commodity prices are to a significant extent. Rhodium and palladium are at near record levels, while manganese, coal and iron ore prices are at decade highs.

This helps greatly, of course, but two news items early in July confirm how much work still needs to be done for South Africa to fully benefit from the global commodity boom before it inevitably peters out. Rio Tinto suspended operations at its mineral sands business in Richards Bay due to ongoing violence directed at its operations. It is not the only mine in South Africa where labour or community violence has recently disrupted production. The other news item was from coal miner Exxaro's results. Despite elevated prices, the company has not been able to ramp up foreign sales volumes, because of Transnet's limited and unreliable rail capacity.

Getting fiscal

As the economy recovers, so do government's tax revenues. For the first two months of the new fiscal year (April and May), tax revenue was 41% higher than the depressed base a year ago and 6% compared to the same period two years ago. In other words, total government revenue has recovered to pre-pandemic levels. The improvement is broad-based, with value added tax 19% higher than two years ago and company tax 10% higher. Personal income tax is only 1.5% higher than two years ago, but has increased strongly in recent months. It is the largest source of government revenue by far and expected to bring in R515 billion in the current fiscal year.

Spending growth has also moderated somewhat. While it is still very early in the new fiscal year, the data points to a budget deficit that could be smaller than was projected in February. The deficit will still be uncomfortably large, but the fiscal worst case scenarios that were spoken about last year – such as debt-to-GDP ratios jumping above 100% – now seem much less likely. The key determinant will be the size of the final public sector wage increase.

Institutions

When economists talk about institutions, they are referring to the structures that govern and influence economic activity, the 'rules of the game'. Some are formal agencies or organisations, while some are informal arrangements. Good governance and strong and stable institutions are crucial to long term economic development. The rule of law is right at the top of this list.

It is therefore significant that the Constitutional Court found former president Jacob Zuma guilty of contempt of court and handed him a jail sentence, showing importantly that no one is above the law. This is the most basic principle of the rule of law, and from it all others flow.

A credible and independent central bank is another key institution. The SA Reserve Bank celebrated its centenary on 30 June. It is among the most respected central banks in the world, and the envy of many emerging markets. Apart from implementing sound monetary policy and acting as the guardian and supervisor of the financial system, the Reserve Bank is also a valuable source of economic data and research.

The debate over nationalising the Reserve Bank seems to have died down, but it is worth emphasising that its private ownership structure, while somewhat unique globally, has no bearing on how it conducts its important functions. Its operational independence is guaranteed by the Constitution.

Alongside our independent judiciary, the Reserve Bank and South Africa's sophisticated financial system, we can also highlight a free and active media and a vocal civil society as important institutions that will prevent the country from falling apart. Competitive elections (though they may be postponed by the pandemic) are another, as is the country's many world class companies, universities and research institutions. For all the many and obvious problems we have – particularly the negative economic and social consequences of the numerous dysfunctional municipalities – there are mitigating factors as well as checks on the potential abuse of power by political elites.

The big rand hedge

And though it is strictly speaking not an institution, we can also add to this list South Africa's large and diversified global asset base, which offers a natural wealth hedge against any political, economic and social instability that causes the currency to weaken.

South Africa recorded another positive net international investment position in the first quarter of 2021, which simply means collectively we have more foreign assets than foreign liabilities. It implies that a weaker currency should increase national wealth (all else being equal) provided that inflation doesn't run away. Historically, inflation rises only 10 basis points for every 1% the rand weakens, and this has been declining over time, so currency weakness is not as destabilising for South Africa as it is for other emerging markets.

For many emerging economies, a weaker currency can be disastrous because of offshore borrowing, but also because most capital goods, sometimes even food, is imported. If you look up north into Africa, most currencies are pegged to create some stability. This works well until it doesn't. Usually, the currency becomes too strong relative to fundamentals and a destabilising and painful devaluation follows. Political elites in these countries tend to favour strong currencies as it lets them borrow cheaply abroad and import luxuries. Since hard currency is scarce, there is profit to be made from allocating it to associates or selling it on the black market. A free-floating currency like the rand therefore somewhat unexpectedly works against corrupt activities.

Returning to returns

In summary then, we know that there are ground rules in place that protect our investments (return of capital) and progress in terms of the economic recovery (leading hopefully to return on capital). South African assets are also still cheap compared to their global counterparts, despite decent returns over the past year. It means that, in the context of a diversified portfolio, we can be more optimistic about return prospects from local investments than has been the case for the past few years.

Emerging markets need an inclusive approach to net zero

Most reputable investment houses are committed to achieving net zero emissions. At the same time, many agree that decarbonising investment portfolios is not the same as decarbonising the real world.

Hendrik du Toit, Founder and CEO, Ninety One

Take the standard MSCI index of global equities. A portfolio manager need simply double the weight of Apple, Amazon, and Facebook to achieve the 7.6% annual reduction demanded by the most ambitious UN scenario. On the other hand, doubling allocations to three of the largest clean energy solution providers in the world - Enel, Nextera and Iberdrola - would actually increase emissions by 5%. In both cases I am referring to Scope 1 and 2 emissions.

Blunt net zero targets are not just perverse at the sector level. Worryingly, they are strongly correlated with regional allocations and therefore disproportionately burden emerging markets. Doubling the weight to EM stocks increases emissions by 10%. Doing the same thing in sovereign bond indices increases emissions per GDP by 22%. With those results, the temptation will be to halve and quarter allocations instead.

This problem only gets more difficult since 90% of future emissions growth is coming from the developing world. And it becomes tragic when one observes that even within emerging markets, wealth and ESG scores are linked. East Europe scores more highly than Southeast Asia, which has higher scores than sub-Saharan Africa.

If "sell Nigeria, buy Poland" is the approach to net zero the financial sector takes, global decarbonisation in large parts of the world will simply not happen. We will have created an investment concept that creates swathes of green assets in the richest countries, depriving everywhere else of green capital and leaving a permanent fog of grey - all while patting ourselves on the back.

The $2.5 trillion in annual investment that EMs need to decarbonise will not arrive; instead capital will cluster timidly in US tech stocks and the richest emerging markets. In effect, the places that need it least. Meanwhile, most of the world's 7.9 billion people will be starved of investment. This partial net zero, of course, is no net zero at all.

The unintended consequences of such an approach are already starting to materialise. Incentivised by asset managers and asset owners, a number of listed companies have divested their carbon-heavy assets at fire-sale prices and to less environmentally conscious owners. These carbon-heavy businesses continue to operate but outside the public eye. Anglo American is demerging its South African thermal coal assets into a new company, Thungela. Anglo has cleansed itself of coal but Thungela will continue to mine coal. This does not reduce one ounce of carbon even though Anglo management will have one less headache.

Similarly, some countries are “offshoring” carbon emissions to other countries without changing domestic consumption patterns—as if production has nothing to do with consumption.

Then there is the principled case for changing course. We know that some minerals, such as lithium, nickel and cobalt will be critical to meet climate goals, and the vast majority of these minerals are mined in emerging markets. For electric vehicle-related minerals, demand will increase by 45 times by 2050.

In effect, poorer countries will increase carbon footprints to allow richer countries to decarbonise, and then rich country investors will penalise them for those emissions. Even Swift could not have devised a better satire.

Every climate conference has a panel on ”a just transition” but what is the financial sector actually going to do to support the redeployment of Coal India's quarter of a million employees to other industries? In my native South Africa, unemployment even before the pandemic was a quarter of the labour force and over 100 000 people worked in extractive industries and electricity generation.

Finally, even if rich countries do not like to be reminded of it, emerging markets have not forgotten that this problem was caused by the countries who industrialised first. Data show that the largest source of cumulative historical emissions remain Europe and the United States, despite a strong recent showing by China. Finger pointing is not right but neither is historical amnesia. In our view, developed economies have an obvious obligation to support emerging markets through their transition.

The good news is that ultimately it is in their interests too. Since carbon is the ultimate global public good, today's grandchildren in Europe and the United States will live better or worse lives depending on whether and how quickly emerging markets decarbonise.

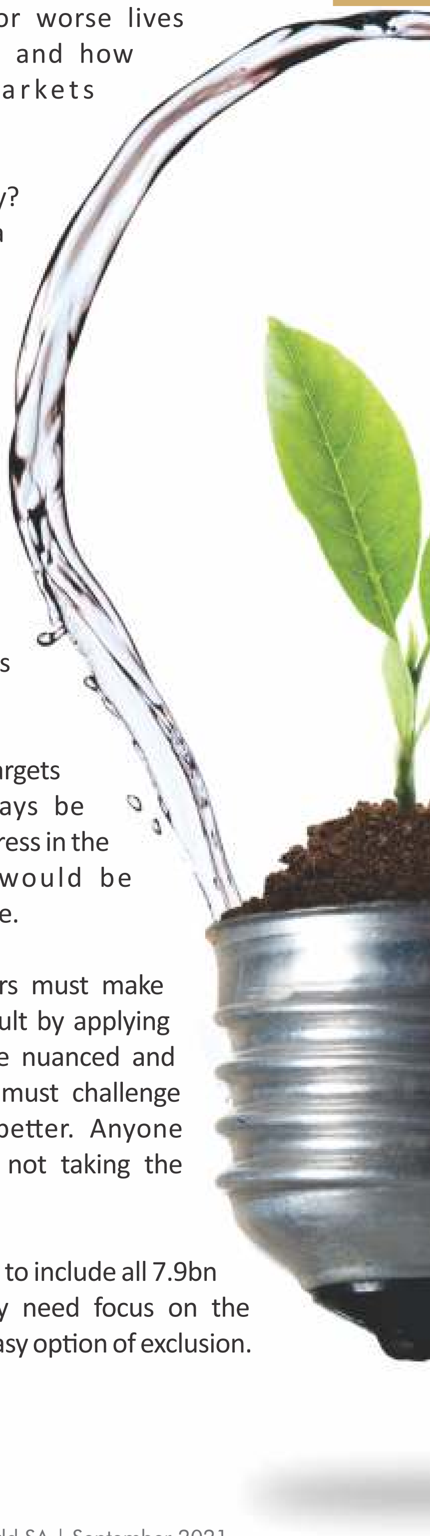
What must be done today? The solution is clearly not a wholesale rejection of the net zero aspiration - we all want to get there. Rather, net zero targets must reward both improvement and end-states, not just the latter.

To do this, they need to be calculated in a way that does not drive capital away from the sectors and regions which need to transition

In other words, net zero targets for portfolios must always be rooted in the reality of progress in the physical world. This would be sustainability with substance.

In a sense, asset managers must make their own lives more difficult by applying net zero targets in a more nuanced and data intensive way. They must challenge themselves to do ESG better. Anyone claiming success today is not taking the problem seriously enough.

Our net zero solutions need to include all 7.9bn people on earth and they need focus on the transition rather than the easy option of exclusion.



Access Africa's growth potential with a risk adjusted strategy

Jonathan de la Pasture, Portfolio Manager, Credit Alternatives, STANLIB

Over many years, the South African investor's preferred route into the rest of the African continent – equity instruments – has, unfortunately, failed to compensate them for the risks they have assumed.

Based on historic returns, African equity has consistently underperformed most other global asset classes in rand terms, whether on a three, five or ten year annualised basis. These returns may have jaundiced the investor's opinions on the benefit of committing a portion of their portfolio to Africa.

But equity is not the only asset class available.

African credit offers significant upside opportunity

Pension fund investors who wish to take advantage of the additional 10% offshore allowance under Regulation 28 of the Pension Funds Act for investing into Africa can look at other instruments. One of those is hard currency credit, which can be either listed or unlisted. Looking at historic returns over three, five or ten years, African sovereign Eurobonds have consistently been one of the highest returning asset classes globally, in rand terms. Between 2006, when the asset class was launched, and December 2020, it was the single highest returning asset class globally.

Mitigating local currency risk

By investing in hard currency credit, investors immediately fully mitigate local currency risk, which can be a significant limiting factor on equity returns. For South Africans, exposure to hard currency credit still leaves the investor with residual exposure to rand/dollar fluctuations, but historically this risk has generally been "right way round", as the dollar has appreciated against the rand over the long term, and boosted returns.

But that is not always the case when investing in African economies. Two of the largest equity markets in sub-Saharan Africa outside SA are Nigeria and Kenya. While the Nigerian Naira has lost over 20% of its value over a ten year period, the Kenyan Shilling has appreciated by 75% against the rand in the same period.

A related risk when investing in local currency instruments is the ability of the asset manager to convert local currency proceeds from a sale of instruments into the fund's currency.

This risk can be further broken down into the rate at which the conversion is effected and the time it takes, both of which will depend on the central bank in question. In Nigeria, for example, it can take weeks or even months for equity investors to receive their conversion proceeds, at a rate determined by the central bank rather than a true market rate. This can obviously result in an opportunity cost, because the asset manager is unable to redeploy those funds into other investments.

Opportunity and liquidity

The size of the investable universe and the liquidity of instruments within it are important considerations for an asset manager when constructing a portfolio. They affect the diversification that the asset manager can achieve and the strategy of the investment fund, in particular whether the manager will be able to trade in and out of positions when the portfolio needs to be rebalanced or relative valuation opportunities occur.

African sovereign Eurobonds now constitute a large and liquid asset class listed on global exchanges, with a total investable universe exceeding $130 billion. If non-sovereigns and the African Development Bank are included, this universe rises to over $215 billion. Many global and emerging market funds allocate a proportion of their portfolios to this asset class, which further enhances liquidity.

Other hard currency credit options

Unlisted credit is another asset class that benefits from many of the same characteristics as African Eurobonds, and it is worth serious consideration for inclusion in an African hard currency credit offering.

This is an often overlooked asset class, but it has a long history. For example, some issuers in Ghana and Angola have been successfully accessing the international syndicated loan market for almost thirty years and have a consistent track record of performance. Unlisted African credit has also become the market of choice for many sovereigns in Africa and some of the largest corporates on the continent.

There are also benefits to combining African listed and unlisted credit. Adding unlisted credit to African Eurobonds provides greater portfolio diversification, both by country and by sector. While many African sovereigns have issued publicly listed Eurobonds, many have not, including Tanzania and Uganda.

Apart from sovereigns, the only sectors that can really be accessed via the Eurobond market are African multilateral agencies and development banks, a few of Nigeria's financial institutions and some oil and gas and telecoms infrastructure entities.

Another significant benefit is the dampening effect that loans have on overall portfolio volatility, particularly when that volatility arises from sentiment driven movements in listed markets. Beyond that, two linked benefits result from the floating rate nature of unlisted credit markets. One is that investors benefit from rising interest rates on the loan element in the portfolio. The other is that the inclusion of loans reduces overall portfolio duration. This enables an asset manager to take higher duration positions elsewhere within the portfolio to enhance return, when doing so offers relative value.

Africa remains a viable investment destination

The many and diverse countries across the African continent remain viable investment destinations for South African retirement funds looking for portfolio diversification. But the way those opportunities are accessed will determine the risks in the portfolio. Credit markets allow investors to benefit from Africa's strong growth rates, while avoiding many of the risks inherent in an equity strategy. To paraphrase a famous quote from a former US Secretary of Defence: “there are known knowns and there are known unknowns.” In the context of investing in Africa, it is sensible to limit the risks to the “known knowns.”

Can authenticity in transformation change behaviour of asset owners?

Mark Davids, Motswedi Emerging Manager Strategists

In this article we highlight two trends we have observed in the SA asset management industry and how these trends may perhaps shape the industry over the coming years.

One of the first trends to talk about is the potential change in behaviour of asset owners resulting from the Financial Sector Transformation Council (FSTC) asset owner procurement scorecard. The reality is that scorecards have been around for some time, so there is nothing particularly new about this. In its current form, completing the scorecard is voluntary and has thus been largely ignored by most asset owners. In our view this will change very soon to a compulsory submission. What gives this scorecard the chance of being a game changer is that the Regulator has asked asset owners to disclose the percentage of assets that are owned by black people and that there is an onus on asset owners to disclose and report this to members and that any non-compliance will come with naming and shaming.

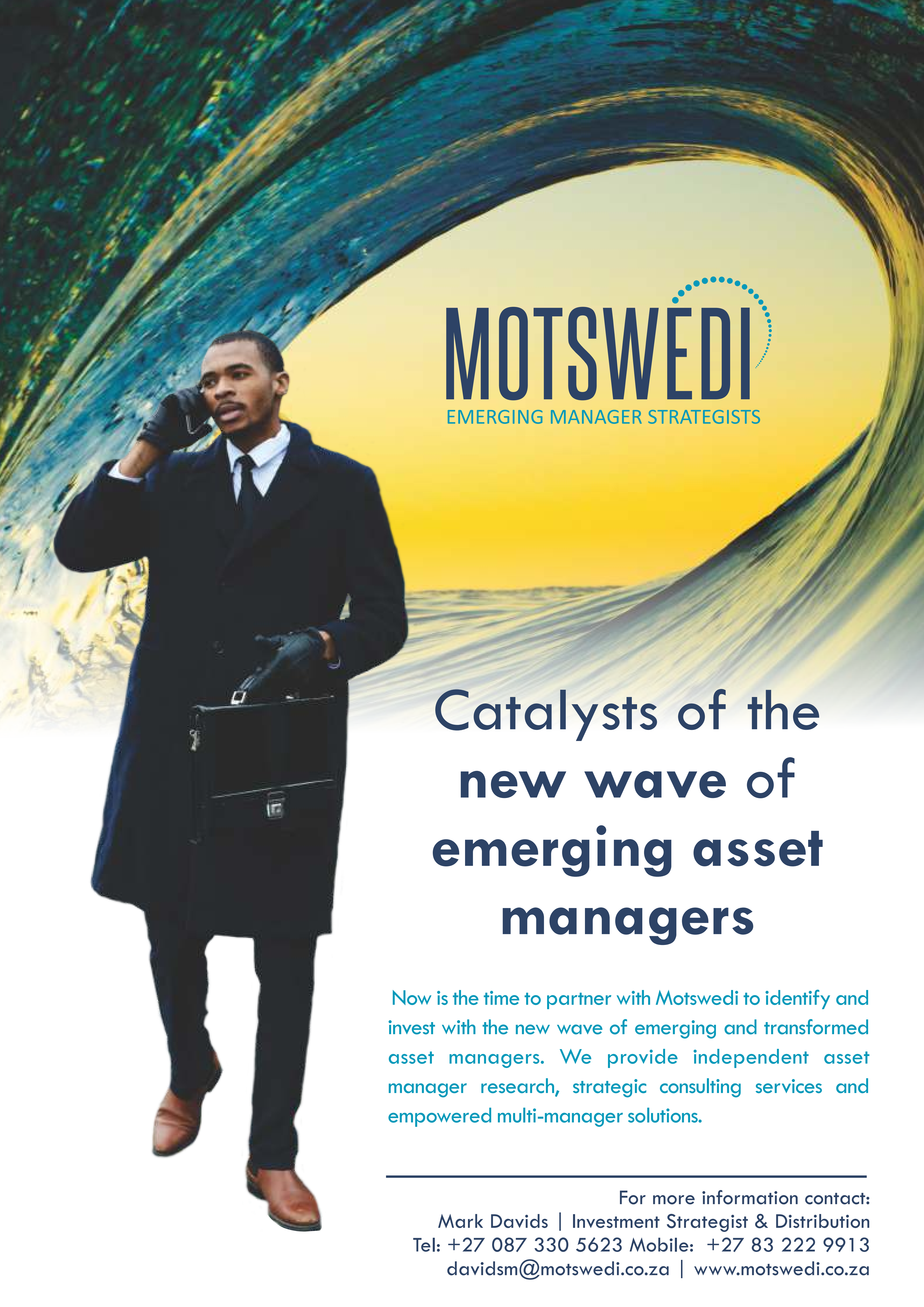
In our observation, this information allows for a potential tipping point of activism within funds where savers who were previously apathetic to Broad Based Black Economic Empowerment (BBBEE) and transformation of service providers may well become proactive in their engagements with management. The scorecard allocates scores to management of the asset owners and to procurement of service providers, with points to BEE level representation, use of small and medium sized asset managers, the use of asset managers with greater that 51% black ownership and greater than 30% black women owned businesses. The more transformed the asset owner, the better the score. Even umbrella funds and participating employers with their guided architecture will have to look through to the underlying asset managers making up their solutions. Legislation has in the past had intended and unintended consequences, in the case of the scorecard, our observation is that asset owners are having more formalised discussions about procuring services from black owned and managed providers.

Another trend we would like to look at is the number of BBBEE deals which have taken place in the asset management industry over the past 18 months. Again this is nothing new, BBBEE deals have been going on for some time. We've seen Sanlam Investment Managers enter a deal to become >50% black owned. Also, Prescient Investment Managers entered a deal to become >50% black owned. However, the deal I would like to focus on is the merger between Taquanta Asset Management and Ngwedi Investment Managers. Taquanta are an established R217 billion asset manager and concluded a BBBEE deal some time back to become >50% black owned. However, what the business struggled with was the perception that it was not transformed at all levels of the business, especially senior management. They were seen as not authentically transformed.

Ngwedi on the other hand were a young majority black owned asset manager started by several senior black investment professionals who grew the business from zero to over R7 billion in assets under management, in just over 3 years, at the time of the transaction.

Upon completing the merger, the Ngwedi professionals were absorbed into the senior management and board of Taquanta and immediately made a massive impact on the perceived transformation at the top levels of the company. In our view, this transaction has been a net positive for Taquanta and greatly assists them in shaking off the perception. The business is now in a much stronger position to be seen as an authentically transformed business in both the retail and institutional industries.

These trends combined with the ongoing discussion among asset managers about smart consolidation, could well see the representation of majority black owned asset managers becoming more meaningful over time and seeing them challenge the large dominant incumbents.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Investing in Asia

Anyone who has travelled to China recently will tell you that the scale and speed of development is mind boggling. The population of China is approximately 1.4 billion, which represents just under 20% of the global population. As illustration, Tencent in China (partially owned by Naspers and Prosus) has more than 20 times the number of customers of the entire South African population!

Willem le Roux, Principal Investment Consultant and Actuary, Simeka Consultants and Actuaries

Chinese listed shares currently make up about 4% of the MSCI All-Countries World Index, compared to the country making up 20% of the global population and 15% - 20% of global GDP. In contrast, US listed companies make up over 50% of the MSCI All-Countries World Index, whereas the US' share of GDP is similar to China's and its population is less than 5% of global population. This is a clear indication of under-utilised investment opportunities in China.

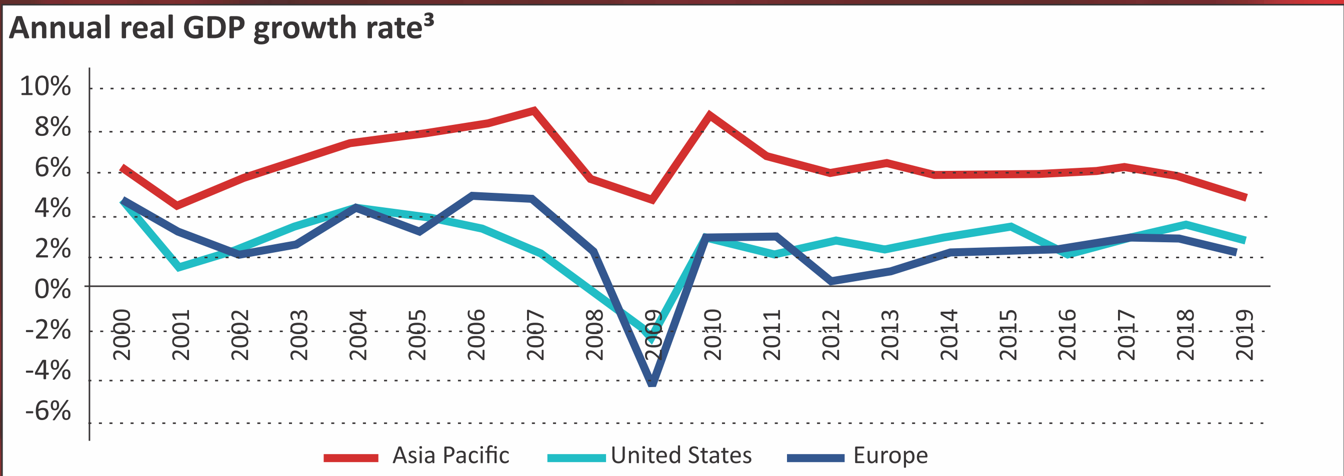
So, why invest in China?

- The massive population, including a strong, young middle class, offers a demographic dividend.
- Foreign Direct Investment stands to increase following restrictions being lifted for foreign ownership over the last number of years, with more relaxation expected.
- Nowhere in the world has an economy as large as China continued to grow consistently at high single digits for such a protracted period as China has done and expects to prolong.
- Although much of the past growth was funded by the government's infrastructure programmes, there is still much scope for growth in the policy of Xi Jinping's government, seeking to transition to a consumer led economy.
- China's exports and manufacturing is being transitioned from high volume / low technology to high technology, in a similar fashion to what Japan did very successfully a few decades ago.
- China has seen substantial productivity growth due to innovation and technology.
- China is explicitly targeting urbanisation as a further tailwind to economic growth, alongside a growing middle class with an increasing disposable income.

There are significant barriers for South African investors who would like to invest in China. These include, among others, the language barrier, lower governance requirements, many lower yielding capital intensive State owned enterprises listed in China and non-financial goals (often national interest) and priorities held by some executives. These challenges require skillful active asset managers to navigate.

Asia

A single minded focus on investing directly in China could result in missing out on the growth story in wider Asia outside of China. Many other emerging nations in Asia reflect the same (or at least very similar) characteristics to the points listed above in respect of China. India, for example, has a population almost the size of China, but its economy is only a shadow of China's. Much growth has been seen and much is expected. This is just one example. There are many others.



Asia Pacific is growing at a much quicker pace than the United States and Europe, as can be seen from the chart above. The need to allow for substantial investment in China, without excluding the rest of Asia, once more points to investors ideally identifying active asset managers who are skillful in the Asia region, with in depth experience and knowledge of local business, politics and other pertinent factors. Overemphasising a focus on one country will naturally lead to considering others down the line (such as India) and finally result in an investment strategy with a complex regional allocation. To take this one step further, emerging Asia makes up about 83% of the MSCI Emerging Markets Index, excluding South Africa. Therefore, any good emerging markets asset manager will have to be strong in the emerging Asia regions, including China. Additionally, the non-Asian emerging markets tend to offer other economic drivers, such as commodities, which gives an asset manager more tools with which to deliver outperformance.

South African investors, who are required to invest the majority of their assets in South Africa (itself an emerging market) often question whether they should allocate any of their foreign asset allowance to invest in other emerging markets (as opposed to the developed world only). However, the technological drivers leading growth in other emerging markets – particularly Asia – are very different from the more "old economy" drivers of the South African market (excluding Naspers and Prosus), as evidenced by the de-correlation of returns with South African equities.

Nonetheless, retirement funds are not likely to make larger allocations to emerging markets than developed markets. The amount of effort required to do the required research before investing is high and therefore retirement funds should consider investing via a multi-manager portfolio instead of simply ignoring the opportunity.

Private equity and venture capital in Asia

Private equity and venture capital provide greater upside in returns to compensate investors for certain restrictions and constraints. This investment class tends to offer the highest expected returns accessible by arms-length, third party investors.

Private equity (including venture capital) aims to capitalise on high growth opportunities and disruption. This is probably most pronounced in Asia, meaning that investors considering private market investment should at least offer consideration to Asia.

Top funds often give preference to "repeat investors" and are over-subscribed, creating barriers to entry for new investors. Investors should consider accessing this asset class through "multi-managers" with access to the top funds. This also makes the access substantially easier for investors, compared to doing due diligence on a large universe, directly.

Conclusion

It seems clear that investors should at least investigate closing their current "underweight" in global equities to China and the rest of (particularly emerging) Asia. The most logical way to do so seems to be through finding skillful active asset managers in global emerging markets. This is an area where a multi-manager approach is likely to be relevant, rather than simply ignoring the opportunity set.

There is no such thing as certainty in investment outcomes, but it does seem that private market exposure in Asia could be "the next gold rush", for investors with high enough governance budgets to investigate such opportunities.

Offshore Investing: Inflation and the road

Scott Cooper, Investment Professional, Marriott

The past 15 months have been an interesting but uncertain time in global markets. As several major economies started to emerge from the pandemic, the first quarter of 2021 was all about "reflation" – a belief that massive fiscal stimulus, historically low interest rates and the reopening of economies on the back of Covid-19 vaccinations will drive an economic boom placing upward pressure on inflation.

Although we expect a strong recovery in GDP growth and a pick up in inflation in 2021, we do not believe these inflationary pressures will be sustained. This belief is driven by four core considerations:

1. **Base effects.** Annual inflation statistics over the coming months will be distorted by the disinflation which occurred in many economies in March and April last year as Covid-19 took hold. In the USA, for example, base effects are expected to contribute approximately 1% of headline inflation in April and May 2021. The important consideration is that these base effects are transitory and do not indicate longer term inflationary pressures.

2. **Temporary upward pressure on inflation as economies begin to reopen.** It is expected that there will be some supply chain bottlenecks that cause temporary upwards inflation pressure. Importantly, however, it is expected that these will reduce over time as the bottlenecks clear.

3. **An uneven global recovery.** Much focus has been placed on increasing US inflation - as the vaccination levels increase, so the economy begins to reopen fully. The global recovery, however, is not equal. For example, the IMF, despite increasing global growth projections in April this year, noted that while China had already returned to pre-Covid GDP in 2020, many other countries are not expected to do so until well into 2023. This will act to curtail global inflation.

4. **Global debt levels.** The underlying health of the global economy has a major influence on how quickly it can recover from shocks. One concern is the relatively high amount of debt that was held prior to the pandemic (and subsequently increased by fiscal stimulus measures). The IMF notes, for example, that public debt-to-GDP of advanced economies was 105% in 2019 (in contrast to 72% before the 2008/9 financial crisis). This debt burden will likely prove deflationary in the years ahead.

The impact of these factors is perhaps most aptly summarised in the US Federal Reserve statement made on 28 April 2021. Despite undergoing an extended period of accommodative monetary policy the Fed believes "longer term inflation expectations remain well anchored at 2 percent".

Looking ahead, Marriott believes investors should consider their portfolio positioning for the inevitable fading of the "reflation trade" as the market comes to realise that the economic road ahead will be a challenging one. We continue to believe a portfolio of high quality, diversified, multinational companies with robust balance sheets and track records of delivering increasing dividend streams will serve investors well. Companies of this nature tend to be less volatile and more resilient, making them more predictable and less likely to come under pressure in the months and years ahead if growth and inflation do not live up to the elevated expectations currently being priced into the market.

Covid-19 intensifies spotlight on sustainable investing

Kondi Nkosi, Schroders Country Head in South Africa

Covid-19 has intensified the focus on sustainable investing both globally and in South Africa. On average, 52% of global institutional investors view the role of sustainable investing within their organisation as more important within the context of the pandemic. The challenge lies in measuring and quantifying the impact of investments and reconciling this newfound spike in interest around sustainability, with the instability of the global economic outlook, which remains one of the biggest concerns for portfolio performance over the next 12 months.

This premise lies at the crux of the findings reported by the 2021 Schroders Institutional Investor Study, which surveyed 750 institutional investors who are collectively responsible for $26.8 trillion in assets. The respondents represent a spectrum of institutions, including corporate and public pension plans, insurance companies, official institutions, private banks, endowments and foundations, of which 275 were based in the EMEA region, including South Africa.

"Investors on a global scale are waking up to the influence they have in terms of determining which factors should become focal points for the world's top performing companies. The results of this year's study demonstrate what I believe to be a necessary shift in consciousness. What investors are beginning to understand is that the wellbeing of the planet and the health of returns are not mutually exclusive," says Kondi Nkosi, Schroders Country Head in South Africa.

While appetite and knowledge for sustainability-centric investing may have been driven by regulatory requirements and corporate alignment in the past, this data suggests that investors have renewed their focus on sustainability because of an inherent desire to make an impact with their investments. In this year's results, more than half of institutional investors have highlighted that their primary driver to invest sustainably is the desire to positively impact society and the planet (54%), overtaking aligning to corporate/internal values (52%), which was last year's top choice.

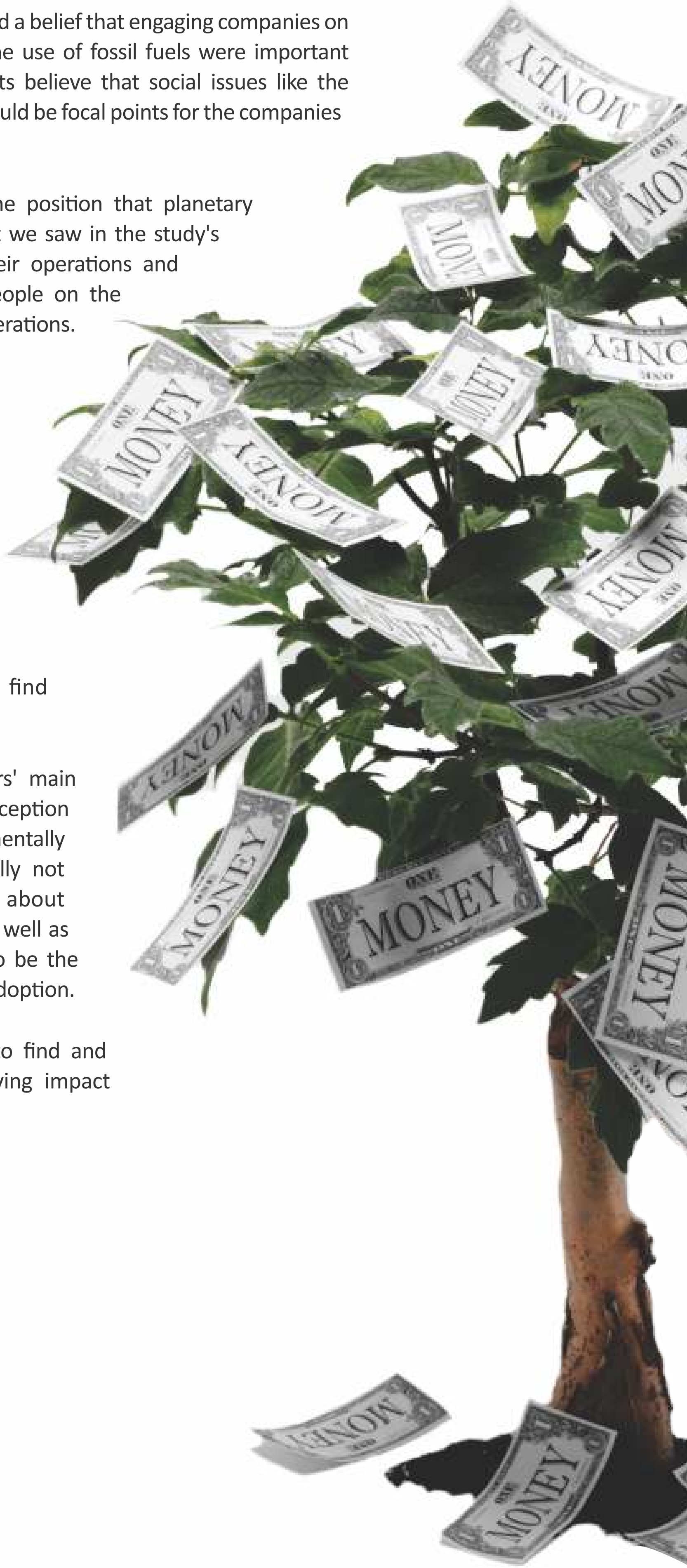
The opinions of investment managers and asset owners hold sway over the behaviours of the companies they invest in, so what they fundamentally believe to be important, makes a tangible difference on the ground. It is important to note that "sustainability," in the contemporary sense, includes environmental concerns as well as social issues and risks. 64% of respondents to this year's study expressed a belief that engaging companies on environmental issues such as climate change and the use of fossil fuels were important topics to engage businesses on. 61% of respondents believe that social issues like the treatment of staff as well as diversity and inclusion should be focal points for the companies they invest in.

As Nkosi elaborates: “We need to advocate for the position that planetary concerns are also people concerns. And this is what we saw in the study's findings. The values on which companies base their operations and systems need to have practical implications for people on the ground as well as on the wellbeing of future generations. Investing in sustainability is investing into that future.”

Although sustainability was shown to be a major consideration in the way in which institutional investors allocate their assets, the study's results have shown that there is still a high degree of complexity around sustainable investing. Measuring and understanding social and environmental issues through an investment lens is still very new to many investors. Combining that with the lack of consistency in definitions, data and methodologies, it is unsurprising that 80% still find sustainable investing at least somewhat challenging.

“Greenwashing,” was found to be one of investors' main concerns. The term describes the unsubstantiated perception created by companies who claim to be environmentally friendly and socially sustainable, but who are really not invested in these imperatives. Investor concern about greenwashing (59%) and the lack of transparency as well as data around sustainable investing (53%) continue to be the main concerns for successful sustainable investment adoption.

The challenge for our industry lies in being able to find and demonstrate new ways of capturing and quantifying impact through an investment lens,” concludes Nkosi.



Global and local market updates for Quarter 2 and beyond

Arno Lawrence, Chief Investment Officer, Sasfin Asset Managers

Global market developments

The global economy continues to recover in the aftermath of the Covid-19 crash, but the pace and distribution of the recovery remains highly uneven. Despite this, the continued message from fiscal and monetary authorities has been very supportive of equity markets in particular.

The S&P 500 rose by another 8%, bringing the return year-to-date to over 15%. Interestingly, the US 10-year bond yield declined during the 2nd quarter, ending below 1.5%, having peaked already at 1.75% at the end of March. This is instructive as the current narrative driving markets centres around the inflation outlook, and many analysts contend that we are about to enter a period of sustained higher inflation. However, the Federal Reserve's recent response to these fears has cooled expectations, and the bond market has responded accordingly. The risk does remain however that the normalisation of US monetary policy may cause some jitters in Emerging Markets over the course of the next few months.

The financial market outlook for the 2nd half of 2021 thus hinges on the global inflation trajectory and the prospect of Fed tapering. In Asia, China has been an anchor of stability and we expect this to continue. Notably, the continued growth in the Chinese bond market is an important marker for the future in terms of global bond market depth and liquidity.

The standout performer this year on the back of global recovery has been commodity price performance and they have extended their gains and still appear cheap versus financial assets, especially in some sectors such as the tech stocks. In a low yield world, there will always be demand for higher yielding assets such as Emerging Markets, and those countries that have a demonstrable economic recovery and policy stability are likely to attract capital flows.

Local market developments

The SA economy is also in a recovery phase but remains hamstrung to a large extent by local idiosyncratic factors such as the continued power supply shortages, a poorly implemented Covid-19 vaccine rollout and the constrained fiscal response to the slowdown. So while economic activity is higher than it was a year ago, the long term structural issues remain as headwinds. In this environment, the All Share Index delivered a remarkable 13.2% return year-to-date, it has been flat for the 2nd quarter. Certainly, the global commodity price rises have helped our market, as well as keeping the rand fairly strong.

In the bond market, we had a very strong quarter, as our high yield attracted the attention of foreign funds. In addition, we also had the benefit of the US bond yields topping out and falling somewhat during the quarter. The SA 10-year bond yield fell from 9.5% to 8.9% during the quarter, which helped drive solid positive performance in our fund.

Whilst global inflation fears may drive markets as a result of the transitory supply chain shortages, in South Africa, the inflation dynamic is substantially different. Current expectations still point to a well anchored inflation expectation locally, but at significantly higher levels than that of our trading partners. Accordingly, over time we do still expect the rand to depreciate in line with long run inflation differentials. Fiscal and socio-political issues will also continue to cloud the local outlook and the lack of growth vectors in the local economy may still point to heightened pressure on government to provide fiscal support at precisely the time when question marks remain about the sustainability of our economic trajectory. We, therefore, expect our bond market to remain trapped in a range reflecting the tension between long run fiscal sustainability and the short-term tailwinds of a recovering economy.

STOCK-TAKE

Gold: Cheap insurance at a time of heightened risk

Nicholas Hops, Investment Analyst, Coronation Fund Managers

Over the last two years, the gold spot price has risen strongly, from $1 200 to $1 800, after peaking at $2 035 an ounce. The uncertainty brought about by the Covid-19 pandemic drove a flight to safety into the yellow metal in 2020, as record capital flowed into gold-backed exchange-traded funds (ETFs).

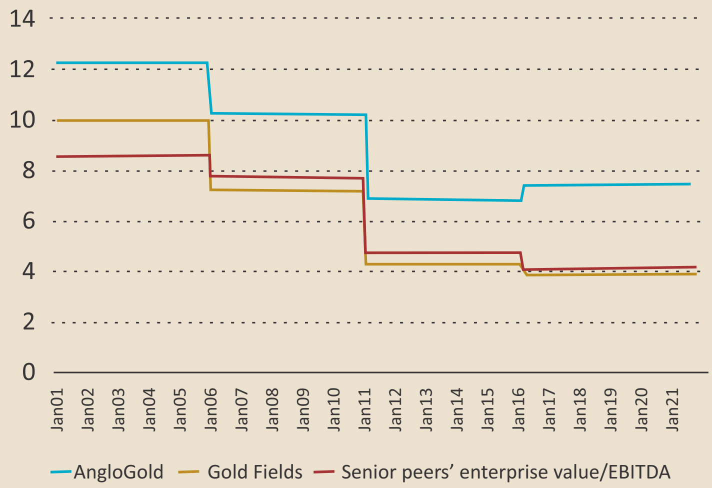
In addition to the pandemic itself, the policy response from governments and central banks stands to support the gold price over the medium to long term. The global policy response has seen dramatic money printing, the expansion of central bank balance sheets and novel fiscal policies that put money directly into consumer pockets. Combined with a 13-year global equity bull market, we think that risks in the system are high. Gold is an inexpensive insurance against risk and we believe that the gold equities currently provide historically cheap exposure to gold.

Viewed as a risk free/insurance asset, the zero yield on gold becomes more attractive as the real yield on other risk free assets, such as government bonds, goes more negative. With the potential for higher inflation in the coming years and greater central bank tolerance of this, we believe the environment for the gold price is supportive.

Elevated gold prices and negative real interest rates are both indicative of a desire for risk protection. Before the advent of gold ETFs in the early 2000s, if investors wanted risk protection through gold, the only way to access this was to own gold equities. For this reason, the premium paid for risk protection was particularly high, with investors accustomed to paying multiples of net present value for the privilege of gold exposure. ETFs provide the opportunity for exposure to the gold price without the cost inflation, capital allocation missteps and operational risk that have been endemic to the miners over time. Poor capital allocation over time from the gold miners and an attractive alternative in the ETF market contributed to a meaningful de-rating within the gold sector, with the South African (SA)-listed gold companies performing worse than their peers, and gold equities underperforming the gold price and the stock market over meaningful time periods. Multiples have come down dramatically and the premiums investors used to pay have now turned into discounts (Figure 1). At the end of June 2021, the top eight gold miners in the world had a combined market capitalisation of $153 billion, lower than the $180 billion invested in ETFs.

Figure 1

FIVE-YEAR AVERAGE ENTERPRISE VALUE: EBITDA*



*Earnings before interest, tax, depreciation and amortisation
Source: Bloomberg

Historically poor allocators of capital

At the top of the last gold bull cycle in 2012, the gold sector, on average, continued to invest heavily in growth projects, and mergers and acquisitions. When the gold price began to decline, these capital commitments were met with debt as operating cash flows subsided. This left the entire industry needing to reduce costs, which had run up aggressively with the gold price, and reduce debt over a multi-year period. The gold sector's poor cost control, poor capital allocation and high valuations all contributed to Coronation not having had a meaningful position in gold equities for nearly two decades. We believe a lot has changed.

In recent years, the gold industry has displayed better control over unit cost and capital expenditure, enabling companies and their shareholders to capture more of the rising gold price. Now that balance sheets are repaired and cost control has improved, the surplus free cash flow generated stands to be invested in smaller value-accretive growth projects and paid back to shareholders in the form of dividends. Several of the top global gold miners have increased their payouts to shareholders and we strongly believe there is further room for improvement.

Despite these improvements, investors are now able to buy the stocks at large discounts due to general disenchantment with the mining sector, and the gold miners in particular. We believe that the gold sector overall has learnt valuable lessons from the last few cycles, much like we have seen in the diversified miners. Figure 2 shows this very nicely.

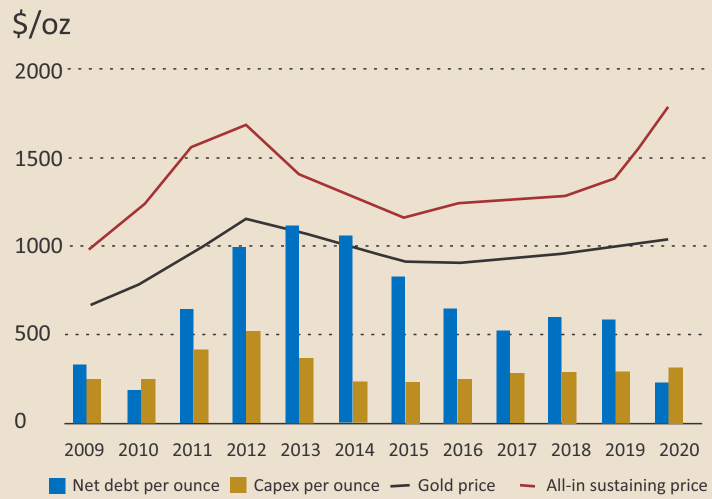
SA gold companies' improved relative position

The SA-listed gold stocks have long traded at large discounts to their global peers, something they have deserved until now. We believe a discount is warranted due to shorter mine lives and higher costs, but nowhere near the current c.50% discount. The relative discount stands at the widest it has ever been, at a point in time when we believe the relative differential is at its smallest. Our analysis shows that the primary drivers of rating differentials over time are production outlook and cost curve position. Over the next five years, the production and cost outlook for AngloGold and Gold Fields has not been this good for two decades, and they stand to dramatically improve their position versus their peers. This is not being reflected in valuations.

Both AngloGold and Gold Fields have projects available to them with the potential to boost production by 31% and 25%, respectively, from 2021 to 2025 (Figure 3). This is in contrast to the last two decades and, importantly, from a shareholder perspective, the projects are high quality and low cost, all with the potential to bring down average group production costs. Over the next five years versus their major international peers, AngloGold and Gold Fields have the strongest volume outlook; delivering on this could go some way to narrowing the rating differential.

Figure 2

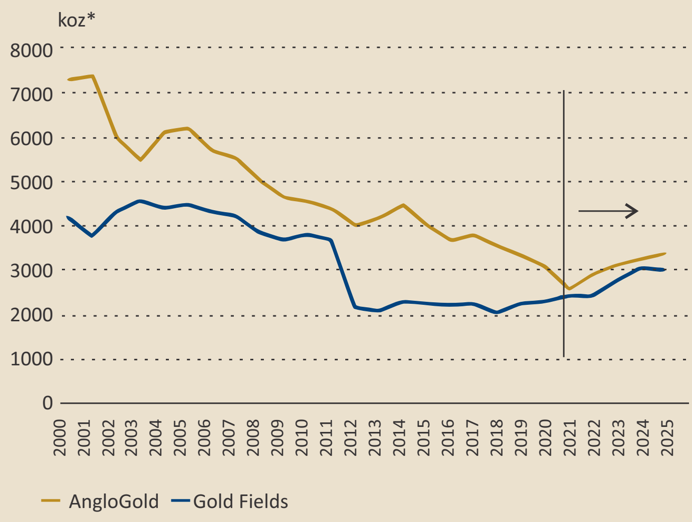
GLOBAL GOLD MINERS



Sources: Metals Focus, company reports

Figure 3

GROUP PRODUCTION (F2025)



*thousands of ounces

Sources: Company reports, Coronation forecasts

Over longer time periods, the overarching theme across AngloGold and Gold Fields has been a move away from their SA assets towards a more international portfolio. SA gold mines are incredibly deep, risky to operate and largely high cost. Through a combination of asset sales, spinoffs and mine asset closures, both companies have reduced their share of production from SA materially (Figure 4). This has been the right strategy, albeit a long one, and shareholders now stand to reap the rewards.

Figure 4

MOVING AWAY FROM SA

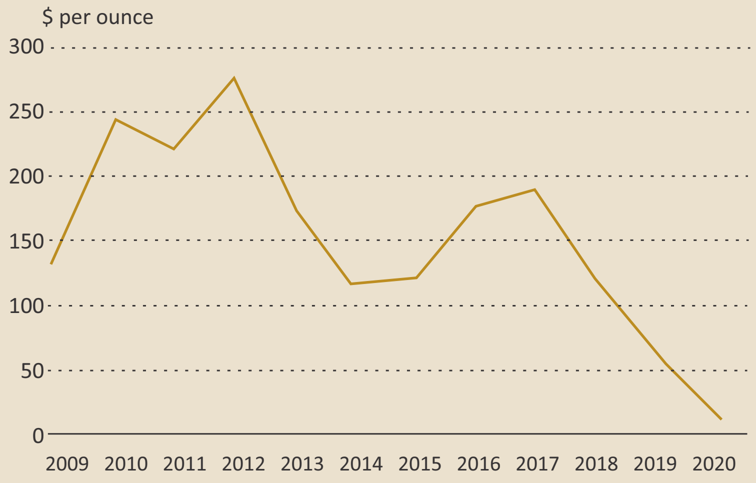
PRODUCTION FROM SA	2000	2010	2020
AngloGold	75%	40%	0%
Gold Fields	87%	50%	10%

Sources: Company reports

The average All-in Sustaining Cost (AISC) of the top eight gold producers in the world for 2020 was $1 050, with both these counters within a percentage point of this average. Additionally, they have both shown better cost control than their peers over the last decade, leading to a narrowing of the cost gap between them. Figure 5 shows how dramatically the cost gap has improved for AngloGold and Gold Fields versus their peers.

Figure 5

ALL-IN SUSTAINING COST GAP ANGLOGOLD/GOLD FIELDS VERSUS PEER GROUP

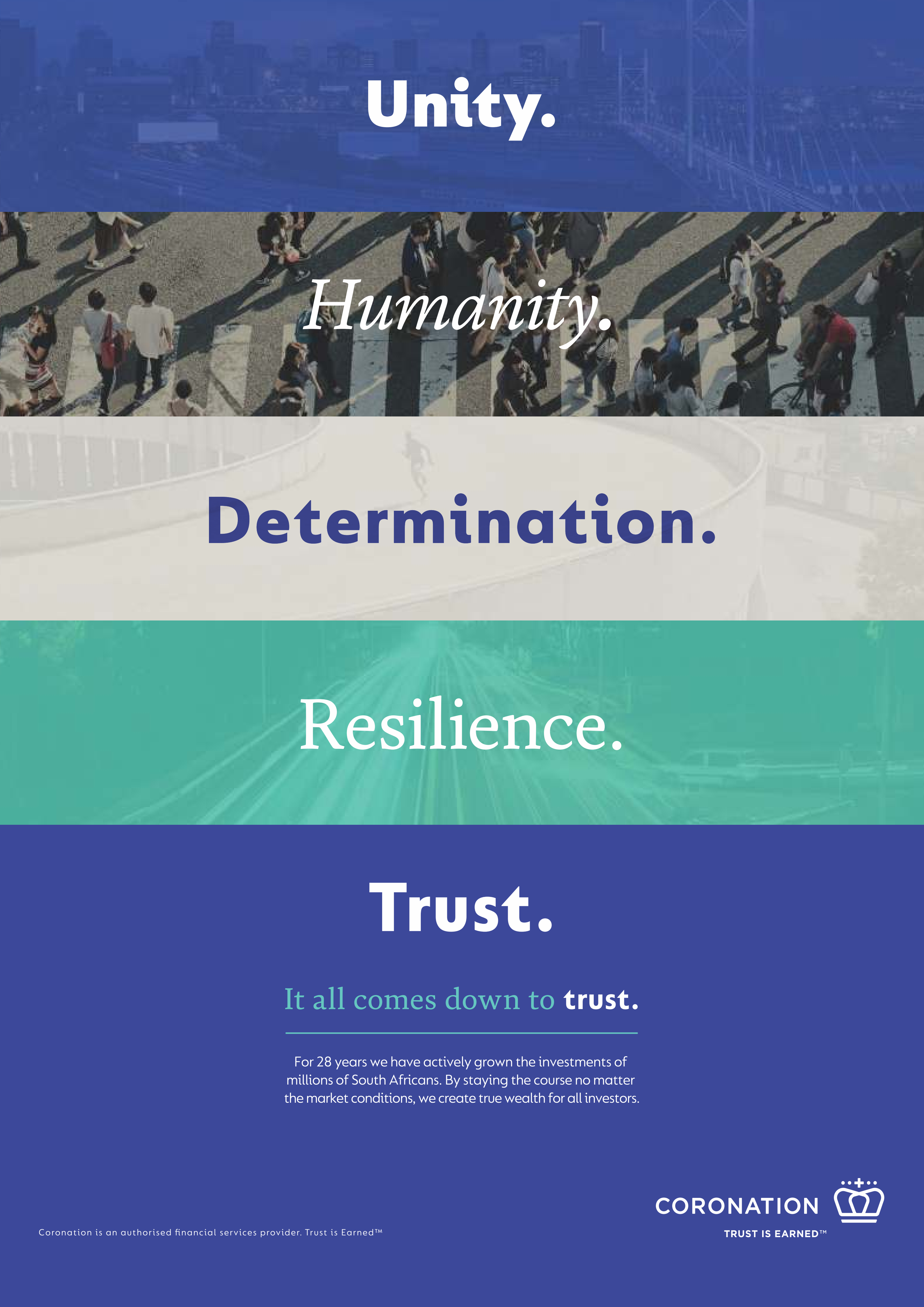


Sources: Metals Focus, company reports

Conclusion

Over the last decade, both AngloGold and Gold Fields have suffered from declining production, over-indebtedness and relatively high costs. As a result of recent and future investments, these drivers stand to reverse and improve dramatically going forward. Paradoxically, at the time where both of these businesses have the best forward looking outlook that they have had in two decades, the multiples one is paying have never been lower and the margin of safety never higher.

Combining the pricing of the gold equities with our view on the potential for a strong gold price environment, we believe the protection one buys through exposure to the gold price has never been cheaper than it is today.


Unity.
Humanity.
Determination.
Resilience.
Trust.
It all comes down to trust.
For 28 years we have actively grown the investments of millions of South Africans. By staying the course no matter the market conditions, we create true wealth for all investors.
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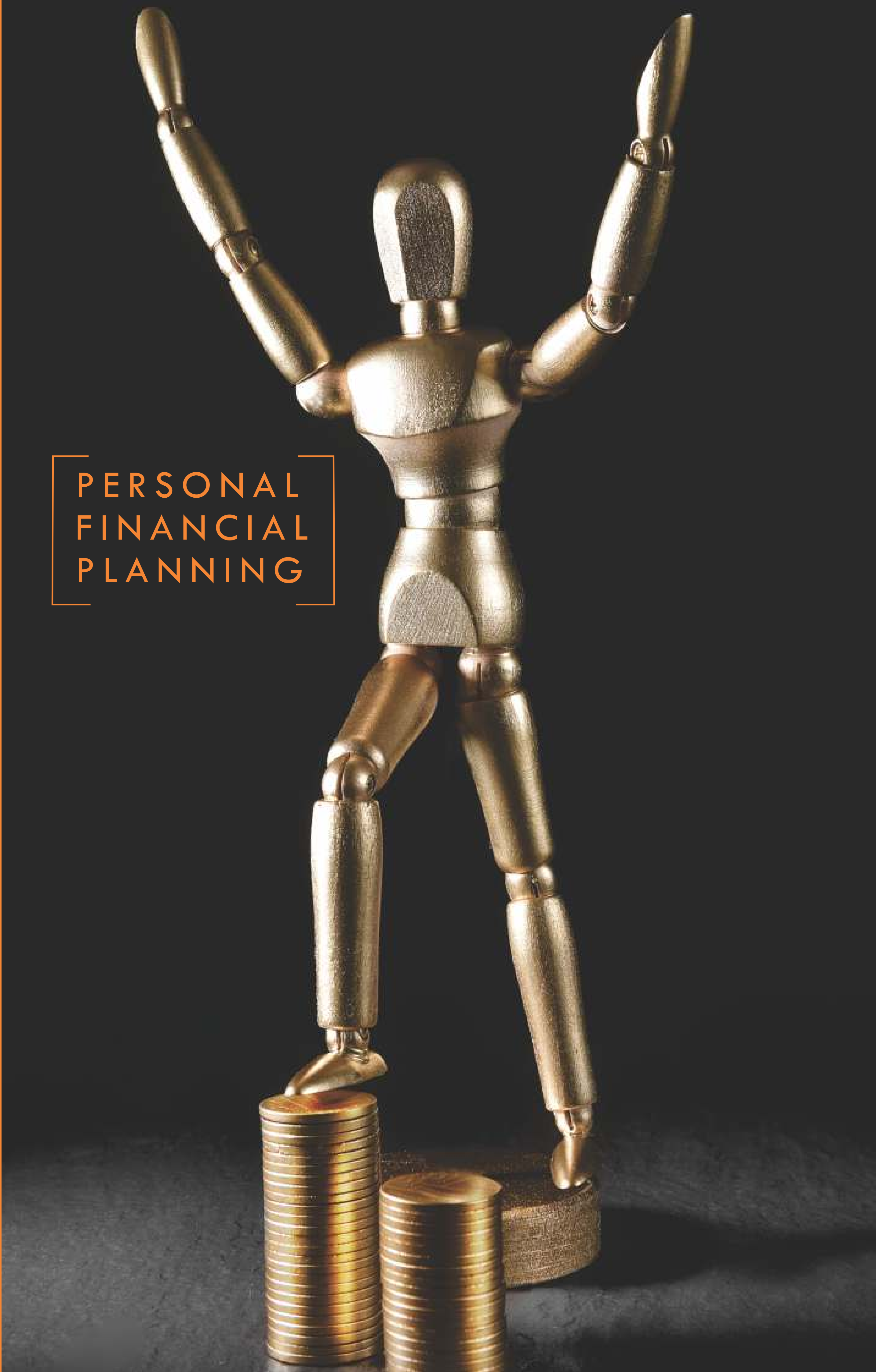


PERSONAL FINANCIAL PLANNING

Sculpting an 'optimal' strategic asset allocation for the future

Eugene Botha, Deputy Chief Investment Officer, MMI Holdings

Global risks, structural market changes, economic events and a focus on the future as well as the world we will retire into, have changed the way we should approach investing and investment planning.

Staying invested often sounds easier than it really is, due to our inherent desire to control our investment outcome. The problem is often that the focus becomes too short term, risk is not clearly defined or understood and we get swayed by our emotions, making it an increasingly difficult task to stick to a strategy that is designed for the longer term.

So, how do we plan and sculpt that 'optimal' asset allocation for an uncertain future? The key is to have a strategic asset allocation that assumes you don't know what the future is going to hold.

Asset allocation is simply a more scientific version of the old adage “Don't put all your eggs in one basket”. It's a way to potentially protect your investments against a major loss should things turn out differently relative to expectations.

Selecting the right asset allocation depends on several factors, including:

- **Time horizon:** The number of months or years to achieve your financial goal is the primary factor driving asset allocation.
- **Risk tolerance:** The second major factor is your ability and willingness to potentially lose a larger proportion of your original investment in exchange for potential greater returns.

The correct combination of different assets helps reduce investment risk through diversification. Historically, the returns of equity, bonds and cash have not moved in unison. Market conditions that lead to one asset class outperforming during a given timeframe might cause another to underperform. The combination of the asset classes results in less volatility for investors since these movements offset each other.

However, while the strategic asset allocation of a portfolio may be static, the risk of that strategic asset allocation is anything but static. It therefore no longer sounds intuitively sensible to describe a portfolio's risk and return expectations in the context of its strategic asset allocation. If a change in expected return on an asset class means it's significantly more likely to achieve the required return outcome relative to other asset classes then its weighting in the portfolio should change materially, if that means higher certainty to deliver on the client goals. The starting point for portfolio construction should therefore be dynamic.

Sculpting an 'optimal' strategic asset allocation for the future

Constructing an 'optimal' client focused strategic asset allocation is essential to make sure you achieve your financial goals. Investors who aren't taking on enough risk might not generate high enough returns to reach their goals, while investors who are taking on excessive risk may not have enough money when they need to access it. Selecting the right asset allocation helps avoid these issues by making sure a portfolio is ideally positioned to reach a goal.

The key here is to have a clearly defined objective to deliver on and a firm understanding of what the expectations are in terms of investment horizon, risk management focus and resultant return objective. Or in simple terms – the client goal.

An appropriate investment solution can then be designed, constructed and managed in a way to deliver on the overall objective. It's therefore important to understand risk in an appropriate and relevant way.

Risk tolerance is about knowing where the line is drawn between acceptable and unacceptable outcomes. Risk tolerance should ideally reflect an investor's ability to take risk and not their willingness to tolerate risk. If willingness is lower than ability, huge opportunity costs may be incurred. Willingness to take risk is often wrongfully driven by emotions, peer pressure and herd behaviour. Risk should be commensurate to the outcome required.

The investment strategy's ability to deliver on real returns (returns above inflation) is very important. In an age of inflation, the challenges associated with the management of a retirement fund to deliver significant real returns are considerable. For many years, retirement funds were limited to investing primarily in government securities, listed equity and perhaps some additional debt and fixed interest instruments.

Changing market conditions – and the need to maintain a high enough rate of return, as well as a core focus on responsible and impact investing – have resulted in rules that allow investments in most asset classes, including alternative assets and real assets like infrastructure, renewable energy, direct property and private equity.

These investments are not only beneficial from a diversification and risk management perspective in a holistic robust multi-asset-class solution, they also allow exposure to asset classes that can deliver on yields and returns that are different to the traditional asset classes. This is required to increase the inflation outperforming ability of the solution. At the same time, this also allows retirement fund members to invest in assets that support sustainability and to have a real meaningful effect on the economy from a socially responsible perspective.

The ongoing COVID-19 crisis has amplified the growing calls for resilient and adaptable infrastructure that can effectively operate during moments of crisis. Given this big opportunity, it is imperative that we too look to embark on infrastructure investment programs that strive to provide infrastructure that is sustainable, technologically advanced and resilient. It is the financially, environmentally and socially responsible thing to do for the world. Responsible investment practices resonate with the alignment of clients' long term goals to positively influence the world they will retire to.

So, looking at the most important aspects of the retirement fund for the future, becomes clear that it is an integrated process of a couple of aspects, with the client goal front and centre of the solution. As a result, one size does not always fit all. Cost effectiveness, sustainability and non-traditional asset classes are all key, alongside a disciplined and focused strategic asset allocation strategy.

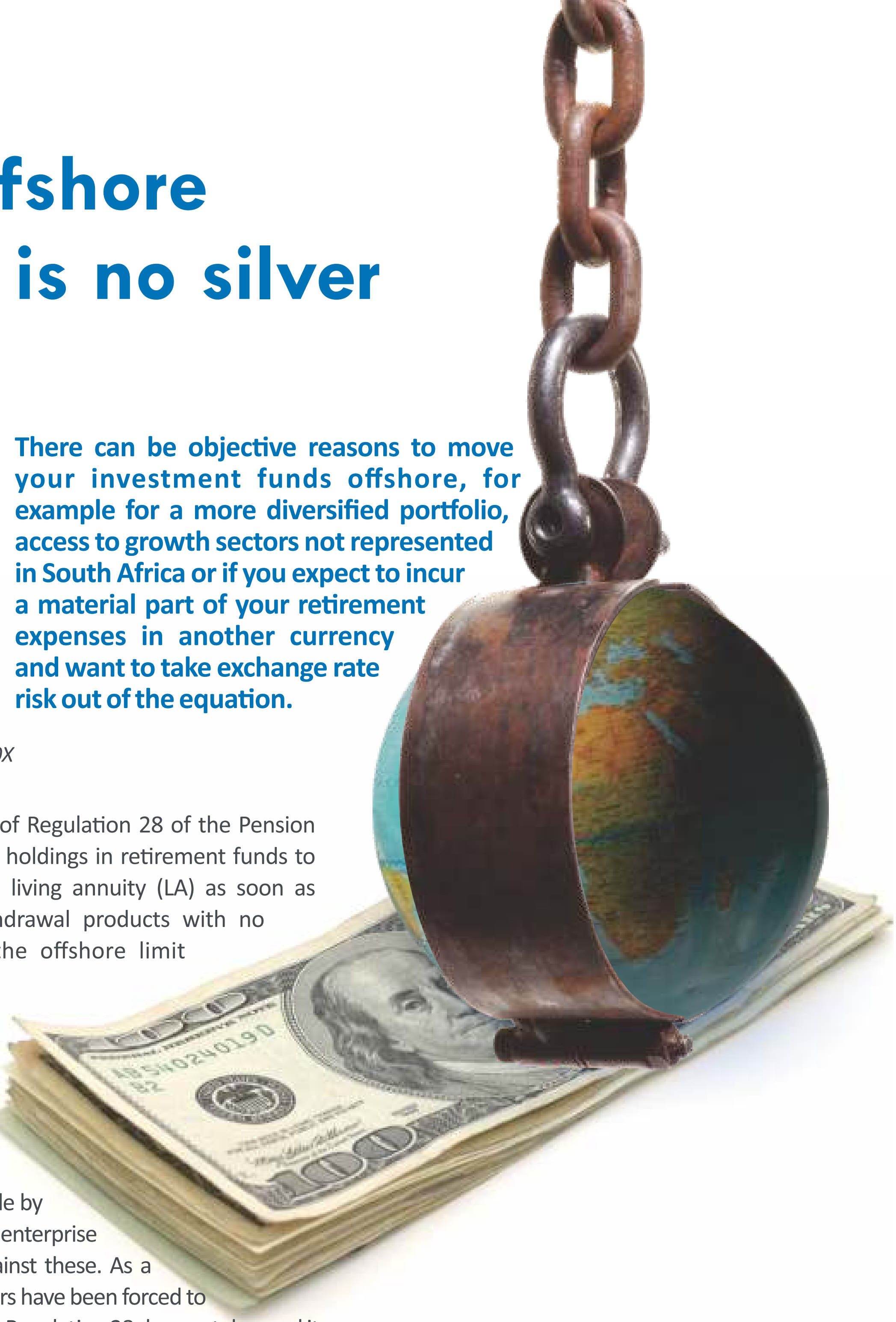
It can at times be frustrating to experience short term volatility, and the temptation will be to move more of your investment into the asset class that is doing the best. This is when it's important to remind yourself that maintaining an asset allocation strategy based on your risk tolerance, time horizon and goals is an established way to have more success with investing and ultimately deliver on your identified goals.

With so many things in life out of our control, it can bring comfort to focus on things we can control. Asset allocation is one of the few things that can be controlled when it comes to investing and it just may be one of the most important. Focusing on a disciplined asset allocation strategy rather than the whims of the market is a key component of achieving your personal financial goals.

Higher offshore exposure is no silver bullet

Chris Eddy, Head of Investments, 10X

There can be objective reasons to move your investment funds offshore, for example for a more diversified portfolio, access to growth sectors not represented in South Africa or if you expect to incur a material part of your retirement expenses in another currency and want to take exchange rate risk out of the equation.



One way to evade the shackles of Regulation 28 of the Pension Funds Act, which limits offshore holdings in retirement funds to 30%, is to move savings into a living annuity (LA) as soon as possible. LA's are phased withdrawal products with no investment restrictions, like the offshore limit imposed by Regulation 28.

Given the lacklustre performance of the JSE in recent years, investors have taken advantage, spurred on by rand strength, and moved their LA funds offshore. Their insurers must, however, abide by exchange control limits at the enterprise level and some now push up against these. As a result, many living annuity providers have been forced to impose offshore limits even where Regulation 28 does not demand it.

This might not be all bad though because, no matter how desirable the idea of 'escape from SA' might seem, moving more money abroad simply does not guarantee a higher return or a smoother ride. Rather, it is likely to stress retirees and test their commitment to their investment plan.

It can be hard to shake off the niggling sense that the rand is sure to lose value against hard currencies over time if the historical inflation differentials persist. Then there is the issue of concentration risk, being over exposed to an economy that is insignificant in the global context, a stock exchange that is poorly constituted and a bond market that is rated sub-investment grade.

Even if these arguments don't hold, there is the underlying fear that South Africa is in an irreversible decline and that the only safe investment is an offshore investment.

Higher offshore exposure is no silver bullet

Countering these perceptions is the fundamental problem of the asset liability mismatch (retirement income in a different currency from expenses). It's worse if the currency is as manic depressive as the rand and if investors are forced to draw down come what may.

There is also the historical evidence of how more global portfolios would have fared against the Regulation 28 edition. Although these trends don't necessarily point to the future, they do underline the risks of an aggressive offshore strategy.

What follows are four constructed portfolios invested in equities, bonds and cash, but with different local/international splits.

As an aside, there is a tendency to compare the return of local balanced funds to the US share market, as though that were the alternative. The US share market has delivered exceptional returns over the past few years but, in a properly constituted offshore portfolio, investors would be invested in global equities, bonds and cash.

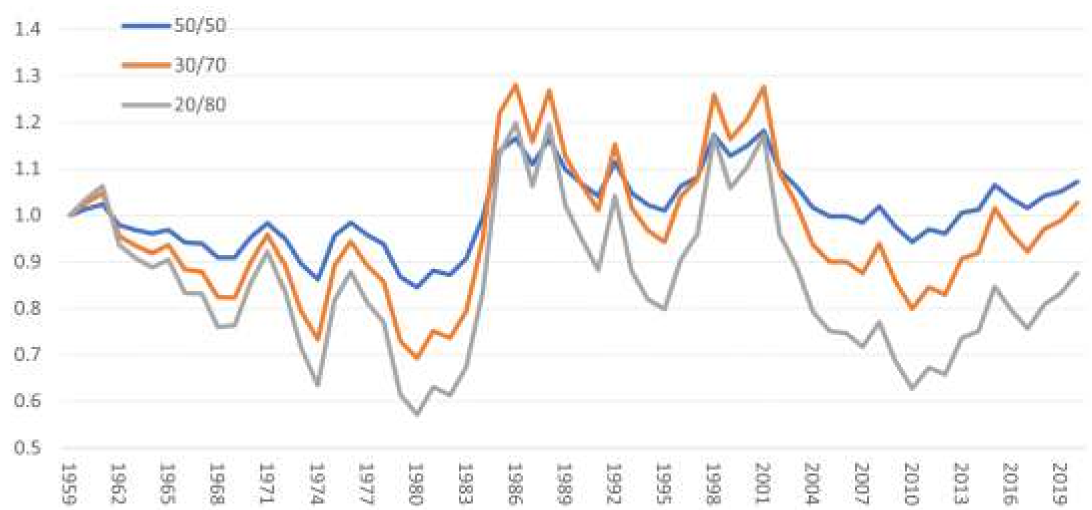
Over the past five years world equities excluding the US (as measured by the MSCI EAFE index, for example) have barely matched the JSE in rand terms, and global bonds and cash have performed far worse than their local counterparts.

Figure 1 shows the relative performance of three high equity portfolios with increasingly higher offshore exposure against the Regulation 28 standard (70% local/30% international).

An interesting observation upfront: measured backwards from 2020, the annual returns of the four portfolios over the last 60, 30, 20 and 5 years are very close. Only over the past 10 years would the higher offshore mix really have paid off.

Intermittently though, there are extended periods of out and under performance for all portfolio variants. The 50:50 local/offshore split still tracks the Regulation 28 portfolio quite closely, so it requires a more substantial increase to really impact the relative return.

Fig 1: Relative performance of a high-equity portfolio (75% equities, 18% bonds, 5% cash)



Source: Dimson, Staunton and Marsh, DataStream, 10X Investments

Higher offshore exposure is no silver bullet

Historically this has moved in cycles. For example, if investors had invested 80% offshore after the dot.com bubble burst in 2001 and the rand crashed, they would still be behind today. With compulsory drawdowns, they would have locked in a lot of that underperformance. But on a relative basis, they would have done much better since 2010.

The point is that it has not been a one-way bet, which means that switching to a higher offshore allocation comes with considerable timing risk. With hindsight the timing may look obvious, but it never is in the moment. Back in 2001 almost no one expected the rand to recover the way it did and in 2010, after we hosted a successful World Cup, no one saw this as a turning point in the other direction.

Simply following the curve will also not work because of the numerous short term trend reversals within the broader cycles. And when the critical trend reversals do happen, they tend to be sharp and quick.

The timing risk can be mitigated by approaching the targeted local/offshore mix with a phased, rules based approach that ignores market sentiment.

Part of the challenge will be to stick to the plan, even if it underperforms for many years. Few retirees, dependant on their savings for income, have the stomach for that. Many are spooked by a slight market correction and risk losing their nerve and switching at the wrong time.

Portfolios with higher offshore exposure have historically also presented with more volatile returns and, importantly, more extreme one year negative returns. Year-on-year, these portfolio losses are magnified by fees and withdrawals. Although negative return years are rare, one sharp drop in retirement savings invariably impairs future drawdowns.

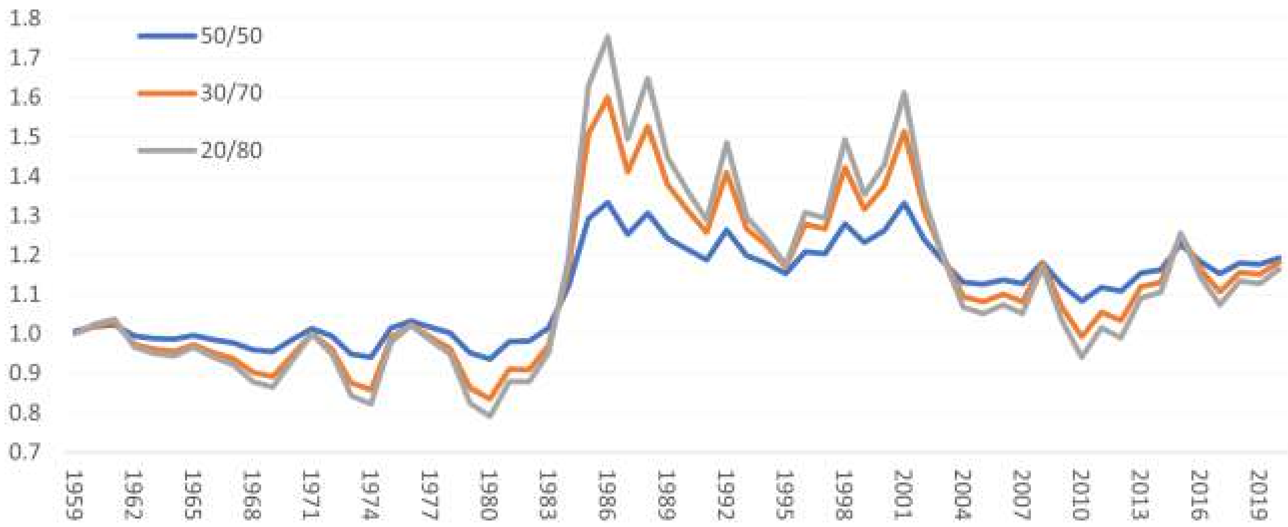
Some living annuity holders prefer to invest conservatively in a low equity portfolio, either locally or abroad. Here the exchange rate plays an even bigger role. Whereas the rand tends to moderate the return from international equities (strengthening when international equities do well and weakening when they are under pressure) it manifests or accentuates the performance (positive or negative) of defensive international assets. This increases the return volatility of low equity portfolios with high offshore exposure.

Such portfolios also recorded many more negative return years. The 20/80 portfolio posted six 'down' years since 2001, compared with just one for the Regulation 28 edition. Retirees looking for reliable, year-on-year positive returns would have been horrified.

Beyond that we observe the same cyclical tendencies, sharp turning points and short term trend reversals that make timing an offshore switch a game worth winning, but not a game worth playing.

Higher offshore exposure is no silver bullet

Fig 2: Relative performance of a low equity portfolio (30% equity, 45% bonds, 25% cash)



Source: Dimson, Staunton and Marsh, DataStream, 10X Investments

This is not a case against a higher offshore allocation but rather a caution that it is not a one-way bet. A gradual increase of international allocation for objective reasons only is advocated.

SA sceptics may disagree and argue that the trend reversal in 2010 was unlike the others, in that it was gradual and tracked the slow, steady decline of South Africa during the Zuma years. But we should also look at what happened elsewhere, particularly the US, and ask whether the drivers of that outperformance – low interest rates, the level of quantitative easing and economic stimulus and high valuations – are sustainable. No one knows.

What we do know is that just because it feels better to invest offshore does not mean it is going to be better.

So, you want to buy a living annuity at retirement?

Colin Hendriks, Actuary, Retirement Fund Valuator at SNG ARGEN Actuarial Solutions

On retirement, most retirees are required to, or choose to, secure an annuity to provide an income in retirement. There are two broad choices of annuity:

1. **a life annuity (or guaranteed annuity); and**
2. **a living annuity.**

A quick search for "life annuity vs living annuity" will reveal a number of articles setting out the characteristics of both types of annuities and I won't go into these details here.

Living annuities effectively put the investment risk, longevity risk (the risk that the retiree outlives their money) and decision risk (having to make decisions in old age) with the retiree. Under a guaranteed annuity (life annuity) these risks reside with an insurance company, which is far better placed to manage these risks.

The research available in South Africa shows that up to 90% of annuities purchased at retirement are living annuities i.e. 90% of retiring South Africans would appear to be comfortable managing investment risk, longevity risk and decision risk. In my view, the more plausible explanation is that most retirees have not had the risks explained to them properly and this reflects poorly on the retirement planning industry.

Set out below are some of the key issues that should be explained in more detail to a prospective retiree.

Who is the ideal living annuitant?

Given the risk posed by a living annuity, it is really only optimal in the following cases where the investment risk, longevity risk and decision making risk have little or no impact:

1. The retiree already has a stable source income to cover their basic ongoing expenses and can therefore take on the investment and longevity risk under a living annuity.
2. The living annuity investment account is large enough, that if the retiree takes an annual annuity payment of 4% or less, they can meet their ongoing expenses.
3. The retiree has a short life expectancy and has no dependants.

Very few South Africans will fall into the above 3 groups (probably less than 10%).

Investment risk

The medium to longer term investment return under a living annuity is crucial in delivering a sustainable annuity in retirement. This is well understood.

The investment return earned in the first few years is however also crucial to the long term sustainability. If initial investment returns are poor, the payment of the monthly annuity effectively locks in the poor return for a portion of the living annuity account (selling at a low price). Even if investment returns subsequently recover, the damage is done as the living annuity account has been depleted by the annuity payments made to date.

To mitigate this risk, some living annuities provide the option of drawing the monthly annuity from a stable or money market portfolio within the living annuity account. The inclusion of such a portfolio on the overall expected return under the living annuity should however be carefully considered. If the introduction of a stable portfolio reduces the overall return expectations, can the living annuity still meet the retiree's expectations?

I don't want to give my hard earned capital to an insurance company when I die

When a living annuitant dies, the remaining balance is available to the beneficiaries of the deceased. This is not the case under a life annuity and the perception is that the insurance company keeps the capital. This perception is not correct but unfortunately is often a deciding factor in a retiree electing a living annuity.

The insurance company effectively gives all life annuity purchasers a credit upfront for the fact that some of the purchasers will die earlier than expected. This credit is reflected in a higher initial annuity.

As an example, a life annuity that targets inflation related annuity increases for a married 65 year old male, will provide an annuity at about 6% to 7% of the retirement capital. Under a typical living annuity, an annuity income targeting inflation related increase would be 4% to 5% of the retirement capital. The extra 2% is the mortality credit.

Life annuities also allow the retiree to select a spouse's annuity and a minimum annuity payment period. This will however come at the expense of a lower initial annuity.

Decisions, decisions

With a life annuity all the decisions are made up front when the annuity is purchased (which insurance company, what type of life annuity, spouse's pension, annuity increases etc.). Thereafter no further decisions are required.

With a living annuity, decisions are required at least every year. This is the result of all the flexibility inherent in a living annuity, which is often touted as an advantage. These decisions include reviewing the investment strategy, reviewing the amount of the annuity and possibly reviewing the living annuity provider. While a good financial planner will assist with this, the retiree still needs to make the decisions. All these decisions might be manageable for a 65 yearold, but they may not remain manageable for many people as they get older.

Expenses / fees

The comparison of fees and expenses between life annuities and living annuities is complex. There are some low cost living annuities that are cheaper than life annuities and there are some that are far more expensive. The issue is to understand how the fee impacts on the annuity over time.

Under a life annuity, the upfront and ongoing fees and expenses are capitalised and reflected in the quoted monthly annuity amount (there are some exceptions). Under a living annuity, the fees and expenses are deducted as and when they are incurred. In considering the likely future annuity under a living annuity it is therefore important to consider the impact of fees (this might be less than 1% per annum but can be as much as 4% per annum). If the investment strategy underlying the living annuity is targeting a return of inflation plus 4% per annum but 3% of this is taken up in fees, even drawing the minimum annuity of 2.5% of capital will not keep up with inflation.

A recent trend, resulting from changes to the Pension Funds Act, is that some large retirement funds offer in-fund living annuities. These are often very cost effective. These living annuities tend to be less flexible in terms of underlying investment options and the maximum annuity amount (often well below the legislated 17.5% of capital).

This results in fewer decisions to be made by a retiree. An added advantage is that there is oversight of the underlying investments by the fund's trustees who are usually assisted by investment experts in this regard.

The monthly annuity under a life annuity is too low

A life annuity quotation will often show a monthly annuity that is far lower than what a retiree expects.

A living annuity allows the retirees to draw up to 17.5% of capital. A sustainable living annuity should take no more than 6% of capital, but this may not meet the retiree's income expectations. The problem here is not either of the annuity products, it is a lack of retirement capital.

Unfortunately, the result is often that the retiree takes the living annuity with a much higher monthly annuity than is sustainable over the medium to longer term. Effectively the proverbial can is kicked down the road.

Hybrid annuities

A recent trend is to include a life annuity as one of the investment portfolios under a living annuity. The idea is then that over time transfers can made be made from the other investment portfolios in the living annuity to the life annuity, thereby “locking in” more and more guaranteed income.

While this might reduce some of the risks under a living annuity, in my view it is still not preferable to a life annuity for most retirees. In addition to still needing to make all the decisions required under a living annuity, the retiree now also needs to decide when and how much capital to move from the living annuity to the life annuity.

Conclusion

Given the risk inherent under a living annuity, it is surprising that up to 90% of retirees elect this option. The retirement industry needs to understand and communicate these risks more effectively to retirees. It also needs to address some of the misconceptions surrounding both living and life annuities.

ALM for financial resilience in turbulent times

Warren Buffet, arguably one of the world's best investors, has one rule when investing: never lose money - great philosophy! But with worrying headlines about the recent (third) wave of Covid-19 and its implications for our economy, you may be questioning the reliability of your investments to continue delivering your retirement income needs.

Craig Kiggen, Managing Director & Advisory Partner, Consolidated Wealth

To help you stay financially resilient in these trying times, there are some strategies that you can adopt to safeguard your capital and manage your cash flow.

Following a year of see-saw markets in 2020, investors are naturally apprehensive says Craig Kiggen, Managing Director and Advisory Partner at Consolidated Wealth Group. "Last year's crash severely impacted financial markets and while this caused many investors to panic, our retired clients continued to receive their incomes," says Craig. "Despite the negative effects of the sharply declining global market, we saw very little capital erosion in the investment structures."

Craig shares his three key takeaways for using Asset Liability Matching (ALM) to cultivate financial resilience and put "shock absorbers" into your investment strategy, giving you the ability to protect your income during volatile times.

1. A powerful tool

Traditionally investors draw across their entire portfolio to give themselves an income. ALM is a powerful tool in this regard as it offers investors protection by allowing them to allocate capital according to their drawdown needs. While ALM is not common practice, a few financial advisors have been using it successfully to match their client's day-to-day living expenses – their liabilities – to their investments and assets, delivering the additional liquidity they require to meet their lifestyle expenses without placing unexpected strain on capital during negative market cycles.

2. The downside of protection of capital

Everyone wants their assets to be fruitful and multiply and the key to successful long term investing is protecting and preserving your capital in a negative market, without missing out on opportunities when the market starts appreciating. By using an ALM strategy, the growth assets are ready to participate in the market growth when the market moves.

3. Does ALM cause a lag in your performance?

ALM detractors argue that it could cause a lag on returns, specially when markets are in a bull run. In our experience, however, this only occurs if the balance between various asset classes are not appropriately managed and aligned with the investor's needs. To optimise returns, it is recommended that investors work with a financial adviser who is well versed in ALM strategies and has a proven track record working with client funds.

Craig concludes: "While there will never be a one-size-fits-all solution, Asset Liability Matching has proved to be a sound strategy for our clients during the COVID season. ALM has not only sustained their cash flow, it has delivered significant improvements in our client's portfolios."

Nedgroup Investments Behavioural Survey: First study of its kind in SA reveals insights into investor personalities

Amy Jansen, Head of Behavioural Solutions, Nedgroup Investments.

Nedgroup Investments has released the findings from its Nedgroup Investments Financial Personality Survey.

The survey, which assessed over 3 000 South African investors and advisors, is one of the largest surveys of its kind ever conducted in Africa. Amy Jansen, Head of Behavioural Solutions at Nedgroup Investments led the survey in partnership with Oxford Risk, specialist behavioural economists.

“We believe that in order for people to understand their investment journey they have to be comfortable enough on a personal level to firstly, invest in a certain portfolio and secondly, stay invested in it for the appropriate timeframe. If there is one thing this study showed us very quickly, it's that there is no one-approach that will achieve this. It's time for the investment industry to do things differently,” she says.

One of the key findings in the South African study, which assessed individuals against 12 defined personality traits that have been known to affect behaviour – was that there are multiple dimensions to risk attributes when it comes to investing for South African investors. There are also six identifiable personality archetypes that people tend to cluster around.

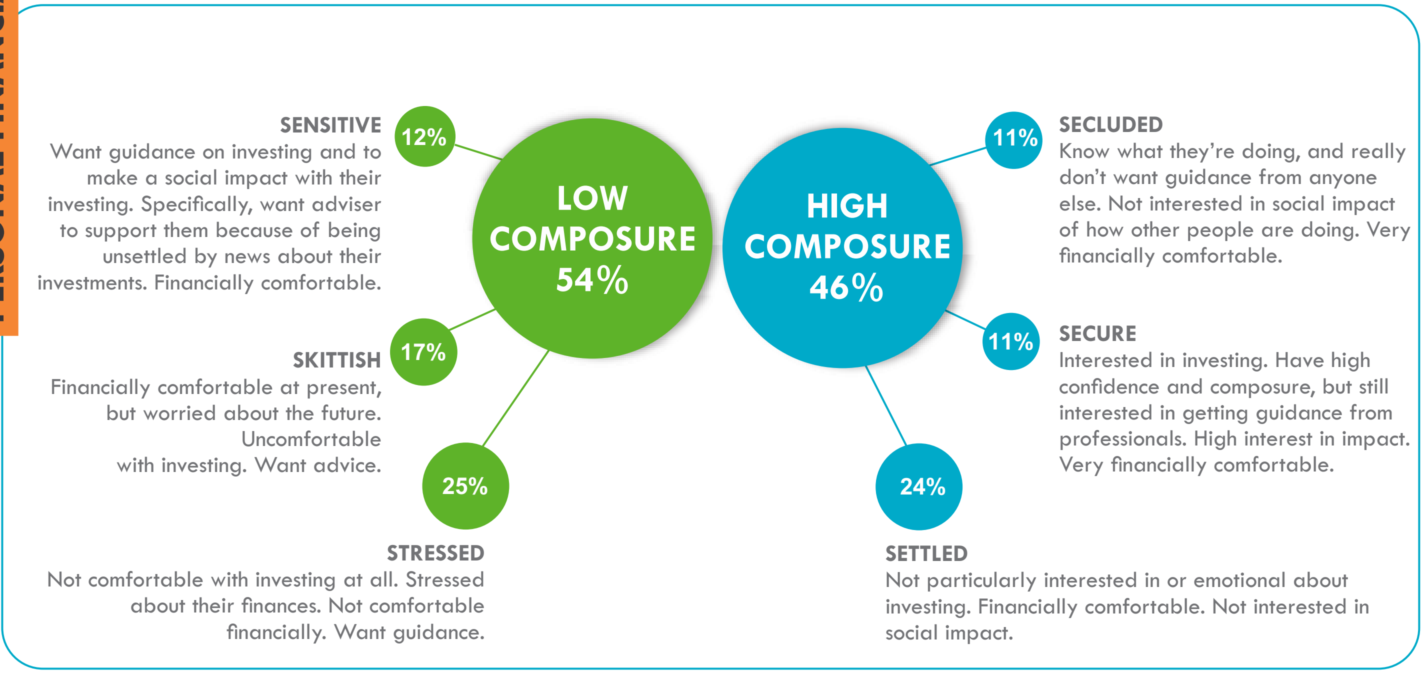
The South African study revealed some very interesting differences between our sample and the baseline studies which identified these traits:

- South African investors in this sample show a stronger link between low *composure* and high *desire for guidance*. This means that more nervous respondents tended in our study to have a higher desire for professional help with their investments when compared to the more nervous investors of other studies.
- A stronger link between *impact desire* and *impact trade-off*. The desire for investments to do social good, and a willingness to make sacrifices in order to achieve this good, were more closely correlated in our study compared with other surveyed populations.
- Higher scores on *Comparison Tendency*. The tendency for investors to compare investment returns with how the market, and others, have done, rather than just focusing on their own returns is significantly higher in this sample than in the UK baseline.
- Higher scores on *Internal Locus of Control*. The belief in skill and hard work, rather than luck as determinants of investment success is significantly higher in this sample than in the UK baseline.

Interestingly, when we investigate the demographics, we see that overall, the six investing personalities identified occur in all ages, and both genders.

Importantly, the six personality groups could be separated into two broader groups according to their level of composure – measured as someone's tendency to be emotionally engaged with the short term. “This is significant because it means we can identify people who are more likely to be emotionally distracted by what is happening around them, and we can make sure that we provide the necessary support for them instead of simply suggesting an investment portfolio. These groups will need varying levels of emotional support to feel comfortable,” says Jansen.

The Nedgroup Investments 6 S's of Investor Personality Archetypes



The low composure groups

The 'low composure groups' as identified by the study are groups that are easily affected by short term news about their investments. They also tend to want more guidance from professionals.

Within this, there is the 'Stressed' group who seem to be generally uncomfortable with investing – low *composure*, low *confidence*, and low *financial comfort*. This group would likely appreciate things being slowed down, spelled out and simplified for them.

The 'Sensitive' group have the highest *impact trade-off* and *impact desire*, as well as the highest *desire for guidance* and *locus of control.* This indicates that they are interested in doing social good with their investments and would appreciate active professional help to do so.

Meanwhile, the 'Skittish' group had the strongest response to questions indicating that although they are financially comfortable now, they fear a future event where they may need to draw down on their investments for income.

The high composure groups

The high composure groups are groups which are typically less unsettled by news that could affect their investments. They also have a more muted desire for guidance.

The 'Secluded' group have particularly high *composure* and the lowest *desire for guidance,* which indicates that essentially, this group is more than happy to look after themselves.

Meanwhile, as the name suggests, the 'Secure' group displayed a much more muted *desire for guidance* tendency far more muted preference. Interestingly this group also displayed a high interest in *impact*.

“Understanding the influence of personality on behaviour allows us to identify what could derail each investor's investment journey. Harnessing this insight, we can create the infrastructure to support those journeys that increases the likelihood that investors make choices through the journey that match their investment goal,” says Jansen.

“By using this kind of study”, Jansen says, “advisers can focus on adapting to the underlying personality of the investor and anticipate how they are likely to react and accommodate that rather than trying to change how they are feeling”.

in the NEWS

NEW DEPUTY OMBUDSMAN FOR LONG-TERM INSURANCE

The Ombudsman for Long-term Insurance (OLTI) has announced that their Council appointed Denise Gabriels as Deputy Ombudsman under Ombudsman Judge Ron McLaren, with effect from 1 August 2021.

Gabriels who has spent many years as a customer-centric legal professional in the life insurance and pension funds industries, has worked as an adjudicator at OLTI since April 2018. Prior to that she was employed at Old Mutual as a Senior Legal Adviser and manager.

Gabriels has demonstrated legal and business acumen; and skills in leadership, relationship building, mentoring, communication and decision-making.

She has a BA (Soc Sc), LLB and MBA as well as post-graduate diplomas in Legal Practice and in Financial Planning.

Gabriels will take over as the new Deputy Ombudsman from incumbent Jennifer Preiss who is retiring.

The Office of OLTI congratulates Gabriels on her appointment and is confident that she will excel in her new position.

SANLAM AND MTN GROUP ANNOUNCE A STRATEGIC INSURTECH ALLIANCE

Sanlam and MTN Group recently announced that they are joining forces in an exclusive strategic alliance (the Alliance) to distribute Sanlam Group insurance and investment products across Africa, further developing MTN's mobile financial services business.

The Alliance will build a digital insurance and investment business, which will be an integral part of MTN's fintech offering. It will provide people across the continent with easier access to these services, particularly those sectors of the population that have typically been unable to access traditional distribution channels for such products.

The Alliance has the potential to pre-empt and adapt to digital disruption in markets where both Sanlam and MTN operate. It will also enable MTN to accelerate and scale its InsurTech offering through its brand and reach and by leveraging Sanlam's licensing and geographical footprint, as well as its broad product capabilities and expertise. MTN InsurTech businesses currently have approximately 6 million active policyholders, with target of over 30 million policyholders by 2025 with this new Alliance.

The collaboration provides Sanlam with the opportunity to extend consumer access to its products and grow its Africa operations by providing insurance to MTN's customer base across the continent, thereby deepening its extensive footprint in Africa.

Commenting on the formation of the Alliance, Sanlam Group CEO Mr Paul Hanratty said: “We are excited by MTN's development of modern mobile financial services for the benefit and empowerment of the African consumer. It gives us great pride to be able to partner with MTN to build the best possible range of solutions in the insurance and investment arena for consumers. We anticipate strong long-term growth in mobile financial services and insurance and investments are no exception to this.”

The collaboration offers MTN the opportunity to provide more value-added services to its customers, enhancing its existing offering. “MTN Group is equally excited to be partnering with Sanlam in driving financial inclusion across the continent and providing customers with insurance and investment products tailored to the needs of the African consumer,” said MTN Group President and CEO Mr Ralph Mupita.

“Sanlam is the ideal partner as the leading insurance and investment business across Africa, and with partnership key to its strategic and execution approach. MTN has built a scale fintech business with over 100 million wallets, of which approximately half are actively using Mobile Money services every month, presenting a meaningful opportunity to further drive financial inclusion through the provision of appropriate insurance and investment solutions.”

The Alliance will build and leverage the strengths and assets of both Sanlam and MTN to establish a digital insurance and investment capability across Africa.

In the initial period, the Alliance will be chaired by Mr Mupita, with Mr Hanratty as Deputy Chair. While approximately 46% of Africa's population has access to and uses cell phone services, insurance penetration remains low at less than 5% in most markets except South Africa.

The transaction is subject to the parties concluding definitive agreements and completing the relevant suspensive conditions.

in the NEWS UPDATE

INSTITUTE OF RETIREMENT FUNDS AFRICA (IRFA): BEST PRACTICES AWARDS 2021

Award Winners (75% Plus)	Entry Title
GOLD STANDARD	
KwaZulu Natal Joint Municipal Pension and Provident Funds (Best in Class)	Excelling in uncharted waters
Transport Sector Retirement Funds	Moving our stakeholders to an inclusive economy
University of Johannesburg	Preparing for the post Covid life
STAKEHOLDER ENGAGEMENT	
SABC Pension Fund (Best in Class)	Endemic Pandemic
Sanlam Umbrella Fund	Establishment and Rollout of and integrated multichannel counseling framework
Transport Sector Retirement Fund/Retirement Wise	Communication on the move
ISASA Pension Scheme and Provident Fund/Retirement Wise	Beacon of Light
KwaZulu Natal Joint Municipal Pension and Provident Funds	Staying connected to members in a time of social distancing
SABC Pension Fund	The 6 year itch
KwaZulu Natal Joint Municipal Pension and Provident Funds	Committed to sustainability
Mineworkers Provident Fund	Gold
National Fund for Municipal Workers	Keeping members informed
Mercedes-Benz SA Pension and DC Provident Funds/Insite Education	Making members' lives simpler
FINANCIAL MANAGEMENT AND REPORTING	
KwaZuluNatal Joint Municipal Pension and Provident Funds (Best in Class)	Speaking finance is power
GOVERNANCE	
National Fund for Municipal Workers (Best in Class)	Sailing through uncharted waters
TRUSTEE TRAINING	
SABC Pension Fund (Best in Class)	Growing maturity
KwaZulu Natal Joint Municipal Pension and Provident Funds	NJMPF Trustee Evolution

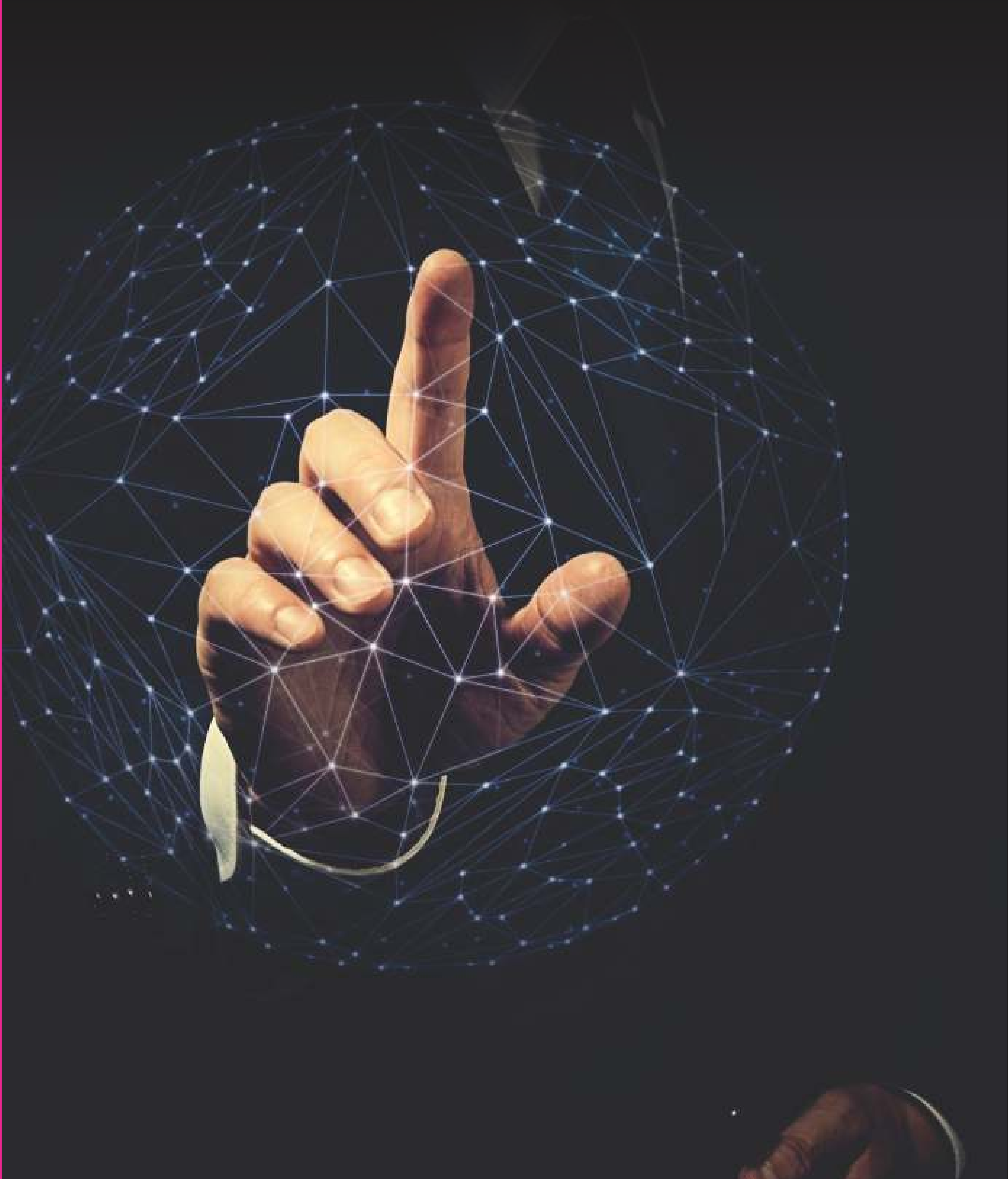
AON AND WILLIS TOWERS WATSON MUTUALLY AGREE TO TERMINATE COMBINATION AGREEMENT

In July 2021 Aon and Willis Towers Watson announced that the firms had agreed to terminate their business combination agreement and end litigation with the U.S. Department of Justice (DOJ).

"Despite regulatory momentum around the world, including the recent approval of our combination by the European Commission, we reached an impasse with the U.S. Department of Justice," said Aon CEO Greg Case. "The DOJ position overlooks that our complementary businesses operate across broad, competitive areas of the economy. We are confident that the combination would have accelerated our shared ability to innovate on behalf of clients, but the inability to secure an expedited resolution of the litigation brought us to this point."

In connection with the termination of the business combination agreement, Aon will pay the $1 billion termination fee to Willis Towers Watson. Willis Towers Watson's proposed scheme of arrangement has now lapsed, and both organisations will move forward independently.

INDUSTRY UPDATE



What's happening at the FPI?

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

FPI
Financial Planning
Institute of Southern Africa
THE PROFESSIONAL STANDARD

I am grateful that we seem to be through the third wave in most parts of the country and my thoughts are with every family who has been affected by this terrible virus.

We're still working remotely because of the Covid risk and I'd like to thank all our staff members for their dedication during this difficult time. Our staff values and principles at the FPI are the same as those we expect our members to adhere to: the client first, competence, confidentiality, diligence, fairness, integrity, objectivity and professionalism.

Another big thank you to members who have reached out on social media to congratulate particular staff members for the way they have assisted. We're one big family and I'm very proud of you all!

Changes to the board

Two new members have recently joined the FPI family. We had a great response to the call for new board members and I am pleased to welcome Jitesh Jairam and Olwethu Masanabo – both CFP® professional members of the FPI.

Jitesh has 24 years of corporate experience and has held leadership roles locally and internationally. Besides holding a Diploma in Financial Planning Law, he's a qualified chemical engineer with a B. Com and an MBA qualification behind his name. One of his many interests is broadening the outreach of financial planning using technology.

Olwethu has 14 years of experience as a financial planning coach, a CFP® professional and a certified integral coach. After previously studying Financial Management Sciences, she completed her MBA last year, and she's passionate about strategy, financial coaching, behavioural finance and diversity in the industry.

We're honoured to welcome Jitesh and Olwethu to the board of the FPI! Thank you to everyone who made themselves available for the elections – we will definitely pull you closer in our other committees. A body such as ours needs all the volunteers it can get to help us achieve our vision: professional financial planning and advice for all.

What's happening at the FPI?

Start getting excited...

We have finalised the dates and the programme for the FPI's flagship event – the 2021 FPI Professionals Convention. It will be held on 25 and 26 October at the Indaba Hotel and Conference Centre in Fourways, Johannesburg, and the theme is **The Future is Human.** The theme was chosen because now, more than ever, financial planners are using technology in every aspect of their practices, from practice management to CRM and financial modelling. It has all become a little impersonal and the time has come to redirect the focus back to the human side of the profession – most importantly, the relationship between client and advisor.

The FPI has lined up exciting guest speakers and thought leaders who will address key themes like behavioural finance, technology and ethics, the rise of coaching and how to build client trust in a virtual world. All new regulatory updates relevant to financial planners and advisors globally and locally will also be discussed.

Other dates to diarise

Continuous professional development is a vital part of any professional's competency levels and a core part of our mission at the FPI. CPD ensures that you remain relevant to your clients' needs, especially in the current times. Make a note of these workshops:

15 September 2021: Estates and Trusts workshop – this session focuses on the technical knowledge needed from an estate, tax, and trust planning point of view.
30 September 2021: Tax Planning workshop – this session will focus on immigration and foreign assets and new income tax deduction allowances for home office expenses as outlined by SARS.

Please go to https://www.fpicpd.co.za/cpd/eventa/face_to_face.aspx for bookings for the above mentioned seminars.

Integrated report

We have just released our 2020 Integrated Report – a comprehensive document that provides feedback to our stakeholders. Last year was a shaping year for us since we were forced into a completely different way of working. The report documents how we have adapted to the new normal and outlines how we will continue to move with the times so that we can offer the best service possible to our members. Find the report at https://www.fpi.co.za/FPI/FPI/About_FPI/Integrated_Reports.aspx

In closing

Even though we're apart, technology has brought us closer and we continue to have robust stakeholder engagements. We are grateful for our members' support and we will continue to serve and deliver excellent customer service.

All the best for the second half of 2021. Stay safe.

Looking at a post-Covid world

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

The IRFA is focussed on being a voice for positive change. We have launched our November 2021 conference theme: The Retirement Industry Beyond Covid: Lessons For A New World. The event will be hosted in Johannesburg on 8 and 9 November 2021 and in Cape Town on 10 and 11 November 2021.

Our conference will build on the themes from our Imbizo hosted on 1 June 2021. The Imbizo provided an opportunity to learn more about on investment options that work towards creating the bricks and mortar needed for communities to flourish. Another important discussion dealt with how the greater inclusion of women in the economy promotes economic growth, and the added significant benefits this brings for society at large. These discussions and more information about the tools needed to work towards better retirement outcomes for all members and the society we live in.

August is also Women's Month in South Africa and the discussion points chosen for our November 2021 conference deals directly with gender issues. We would like to celebrate the contribution that women have made to our society and at the same time recognise the work that still needs to be done to allow all women to participate in our economy and society, free from the prejudices that have historically held us women back.

In closing, I would also like to recognise the winners in our Best Practices Industry Awards (BPIA). The IRFA BPIA provides funds and service providers the opportunity to showcase their practices and be recognised for the work they do. We hosted the awards event in July 2021 and the many deserving winners were announced. I want to congratulate the KwaZulu Natal Joint Municipal Pension and Provident Funds who won the Gold Standard Award for their excellent work and high standards, and remind everyone that the Gold Standard Award recognises excellence in all the awards categories.

We look forward to the upcoming events and in particular our November 2021 conference, which we hope will be in-person and the first step towards a post-Covid world we need to shape for the better.

Actuaries joining forces with experts across the retirement industry

A lawyer, a pharmacist, an anthropologist and a financial planner walk into a bar full of actuaries and the first actuary says......?

Corné Heymans, Member of the Actuarial Society of South Africa's Retirement Matters Committee

This may sound like the start of another bad actuary joke, but this is no joke and the scene did not play out in a bar. It was rather the scene of the recent virtual seminar hosted by the Actuarial Society of South Africa's Retirement Matters Committee (RMC). This is an annual event for actuaries operating in all spheres of the retirement industry to share information, have constructive discussions regarding methodology and best practice and to interact with their peers.

Regardless of the actuary's fancy formulae, noble intentions, robust theoretical debates and eloquent valuation reports, in the end individuals retire in the real world, facing real challenges and actuaries can only add real value when they are in touch with all the practical aspects of life. In order to ensure the best possible retirement outcome for each individual, it is crucial that actuaries do not work in isolation from other experts but that that the joined efforts are properly aligned and coordinated. And yes, it may be a cliché, but the whole is indeed bigger than the sum of its parts (or, to stick to the actuarial theme, $\theta > \sum_{i=0}^{n} parts_n$).

The golden thread through this year's seminar was therefore a reminder to pensions actuaries of the value of joining forces with other experts towards maximising the benefits that we can bring to retiring members.

A word from the Regulator

The day was opened by Giulia Tognon, Head of Actuarial: Pensions at the Financial Sector Conduct Authority (FSCA), providing insights into the FSCA's views on the future of retirement funds in South Africa. Close alignment between actuaries, other retirement industry role players and the Regulator is critical to ensure that stakeholders are treated fairly in a well governed environment.

A general move away from a rules based to a principles based regulatory environment is busy taking shape. This approach will require a major mind shift which is likely to challenge both the Regulator and the broader industry to strike the right balance between having enough rules to protect everybody's interests, while allowing more freedom in pursuit of the best possible outcomes.

COVID-19: What next?

At this point in history no gathering of any sort, whether it is an internal meeting (of 50 or less!), an international convention or just a weekend braai, would be complete until the Covid-19 pandemic became the main topic for discussion.

Stavros Nicolaou from Business 4 SA, a pharmacist and Senior Executive of ASPEN Pharmacare Group, shared some insights on, amongst others, the practical complexities of a successful vaccine roll out program.

Without making too many assumptions, and actuaries love their assumptions, it is becoming clear that there is light at the end of the tunnel in terms of controlling the spread of the virus and that the world should get back to some normality in the not too distant future. This glimmer of hope was certainly welcomed compared to the state of complete uncertainty that the world was in when this same seminar was held a year ago.

However, even if this virus should eventually be eradicated altogether, we are all too aware that this is likely to be a "new normal". The impact that this pandemic had, and will continue to have, on the local and global economies and on every household, might not yet be fully comprehended at this stage.

A holistic view of retirement planning requires actuaries to understand and consider all relevant factors and how it will impact on retirement provisioning. For example, in the case of a worldwide pandemic, the impact on mortality rates, group life premiums, employment patterns, market returns and stability, to name but a few. Ongoing collaboration between actuaries and medical experts is therefore imperative for providing reliable actuarial advice going forward.

Considering a member's point of view

During the course of the past year the RMC signed a Memorandum of Understanding with the Financial Planning Institute (FPI). The purpose of this arrangement is to forge a closer working relationship between the actuaries, who are often removed from the end users of the products they design and manage, and the financial advisors who need to implement retirement solutions for individuals.

As they would say on the TV news *"... and from our correspondent on the scene"*, Hester van der Merwe, the FPI's financial advisor of the year in 2020, shared some of her daily experiences with clients. Hester gave examples of how inadequate retirement provision is unfortunately a reality for many South Africans, even those who think that they are currently actively saving for retirement and should therefore be ok.

She challenged the actuaries to develop retirement products that are simple and understandable to members from all walks of life. This may be easier said than done in a highly complex, regulated and competitive market, but the views from someone at the forefront of individual retirement planning should not be taken lightly by those working behind the scenes.

Taking responsibility for personal information

Actuaries use vast amounts of personal data on a daily basis from various sources, including members, employers, administrators, etc. It is critical that each link in this chain of personal information sharing knows and understands their duty to ensure that the integrity and security of this data is maintained as the data changes hands from one party to the next.

Continuing on the general theme of calling on the relevant experts, Leanne van Wyk from ICTS Legal Services was invited to give practical guidance on the implementation of the POPI Act for actuaries. It is clear that this Act will have far reaching operational implications across the retirement industry and cooperation between the respective players will again be the key towards protecting our members' valuable personal information.

Challenging the current approach towards investment management

Returning to more technical matters, Anne Cabot-Alletzhauser (a developmental anthropologist by training!) and Deslin Naidoo, are co-founders of the Responsible Finance Initiative at the Gordon Institute of Business Sciences. They posed the question "*How can we rethink finance and the financial services industry to create more meaningful outcomes for developing economies?*". In their view, and they made compelling arguments in support of this view, there needs to be a radical shift in the structure of our capital markets and financial ecosystems if we are going to address the issues of inequality and social mobility head on.

Members of the wider Actuarial Society of South Africa have been invited to participate in this daring initiative to change the way that we look at retirement fund investments.

Concluding remarks

This seminar illustrated the importance of partnerships between all players in this industry. The old saying that "It takes a village to raise a child" is very much relevant in the retirement industry as it takes a team of experts to service the retirement industry for the benefit of each individual member.

We trust that other experts in their respective fields will join the RMC next year to share their knowledge and build on what we believe should be a Village of Experts. Together serving the people of South Africa towards achieving the best possible retirement outcomes for all.

Delayed government payments impact on pension fund contributions

Having been inundated over the last several years with volumes of complaints against the Private Security Sector Provident Fund (PSSPF) and its participating employers, the Pension Funds Adjudicator, Adv Muvhango Lukhaimane has in a recent determination called into question the viability of the fund that is compulsory for employers of private security guards, and has asked the Financial Sector Conduct Authority to assess such viability.

Adv Muvhango Lukhaimane, the Pension Funds Adjudicator

Ms Lukhaimane was commenting in a matter in which KL Gcaba complained of the failure of the second respondent (Izikhova Security Services) to register her as a member of the first respondent (PSSPF) and pay contributions due on her behalf.

Employers in the private security sector are compelled by a Collective Agreement to register their employees with the PSSPF and pay monthly contributions to the fund on behalf of their employees.

Compliance with this legal obligation has proved to be challenging for many employers in the sector which is exacerbated when in turn fees for their services provided are not timeously by their clients which are sometimes government departments.

Such was the case in the recent determination by the Pension Funds Adjudicator where she ruled that Izikhova Security Services was still legally obliged to pay over pension contributions to the PSSPF and provide contribution schedules notwithstanding that it had alleged not to have been paid for its services by the Department of Social Development and had applied in 2019 to the Department of Employment and Labour for an exemption from the

obligation to pay pension contributions. According to Izikhova, there had been no response to its application for an exemption.
In making her determination, Ms Lukhaimane said: “The issue raised by the second respondent (Izikhova Security Services) is very pervasive in this sector as employers conclude contracts with government departments and other clients, who delay with the payment for the services rendered.

“This is a cause for concern as it means that the second respondent would be unable to honour its obligations, including the payment of salaries to employees and provident fund contributions to the first respondent.

“Therefore, notwithstanding the nobility of a compulsory fund, the question that follows is whether this model of retirement funding, and the nature of the business of the employers in the sector, is the best suitable vehicle to realise the objects of a compulsory fund and the Act.”

She went on further to state that the PSSPF “...cannot fulfil this objective as its capacity is impaired by the late payment and/or non-payment of services provided by the employers to their clients, including government departments.

“This Tribunal has observed a trend (in several complaints it adjudicated upon against various employers) which is cumbersome on the employer's ability to efficiently to comply with section 13A of the Act. Furthermore, central to the matter is the ultimate prejudice faced by the vulnerable employees in this sector. Thus, it is noteworthy for this Tribunal to refer its concerns in this regard to the Financial Sector Conduct Authority (FSCA) in order for the latter to perhaps assess the viability of a compulsory fund within the nature of business rendered by employers in the sector.”

What was also concerning is the conduct of the PSSPF in taking legal action against defaulting employers. The fund is currently under statutory management after findings of alleged abuse by the previous trustees of the PSSPF were made through an onsite inspection of the fund by the FSCA.

Those findings caused the FSCA to launch a High Court application to place the PSSPF under curatorship, however, those proceedings resulted in an agreed outcome between the then board of the PSSPF and the FSCA, placing the fund under statutory management.

Under those circumstances, it would be reasonable to expect that the PSSPF is being closely monitored by the FSCA, and given the regularity with which the Adjudicator receives complaints relating to the non-payment of contributions in the private security sector, it should be a focus area and cause for concern.

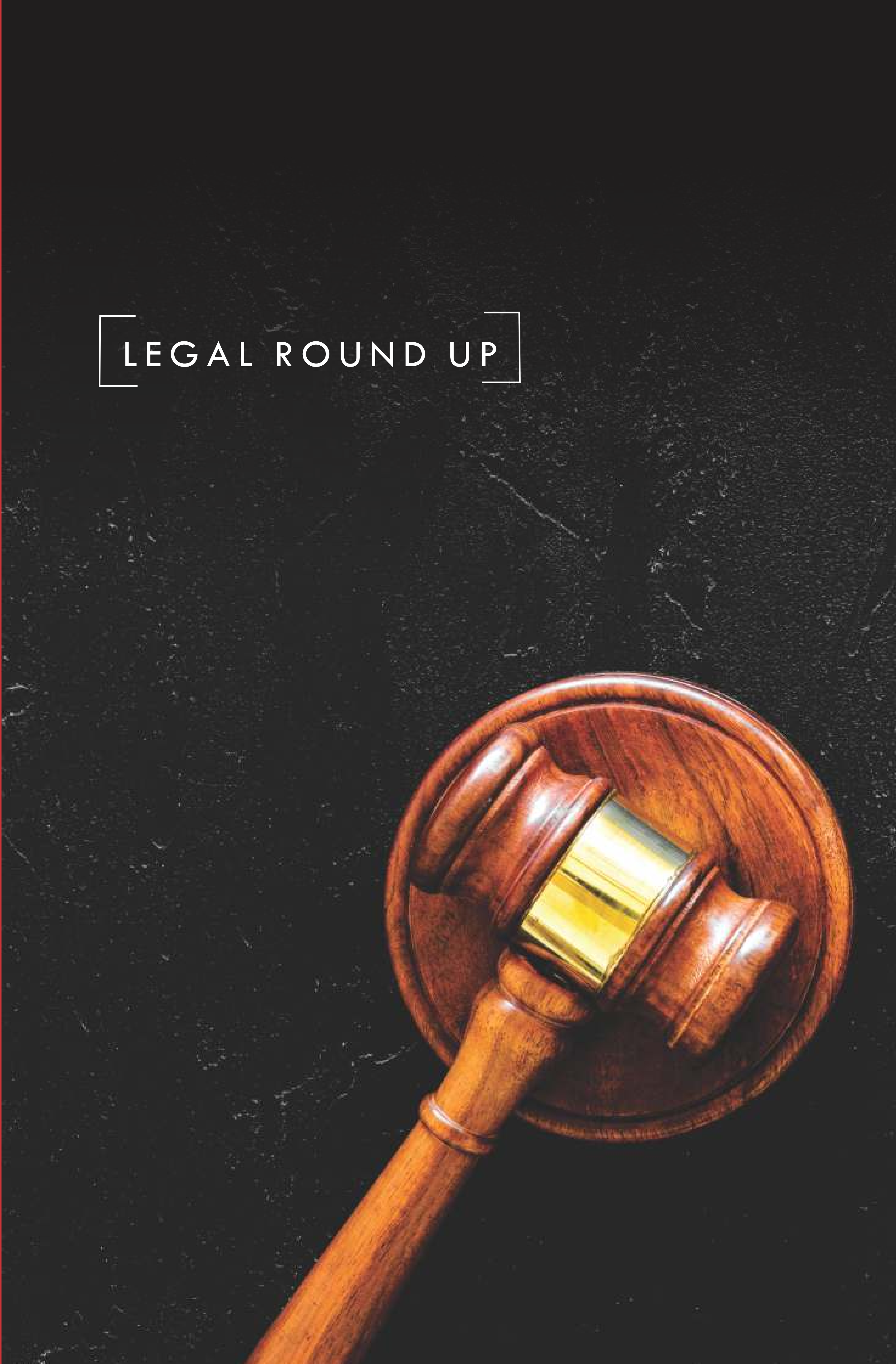
However, the Adjudicator emphasised that the PSSPF “has a fiduciary duty to act with care and due diligence to protect the interest of its members. Further, section 13A(6) of the Act places a further obligation on the first respondent (PSSPF) to report such non-compliance with the provisions of section 13A of the Act with the FSCA.

“The first respondent may also take other legal steps to deal with the second respondent's default. There is no evidence that the first respondent initiated any action in terms of the Act. Thus, the first respondent failed to discharge its statutory obligations conferred by the Act,” said Ms Lukhaimane.

She ordered the first respondent to register the complainant as its member from 1 October 2018.

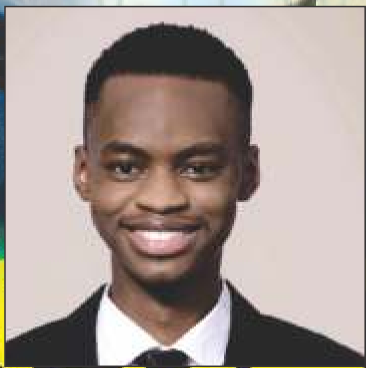
The second respondent was ordered to commence making provident fund deductions from the complainant's salary with effect from April 2021. The second respondent was also ordered to pay to the first respondent the complainant's outstanding contributions plus late payment interest.
The first respondent was also ordered to provide the complainant with her latest benefit statement, and one annually thereafter as long as her membership subsists.

LEGAL ROUND UP



Decrypting and decoding Cybercrimes Act in three key takeaways

Jesicca Rajpal (Partner), Emma Alimohammadi (Associ
and Giscard Kotelo (Candidate Attorney), Fasken



The 21st century has hastened the cyberworld reaching of its zenith, with ceaseless innovations unfathomable to even the brightest modern day pioneer.

With our society becoming more sophisticated by the hour, it is easily forgotten that the "underworld" is becoming just as sophisticated as the world of law and order, perhaps even more so. Cybercrimes have thus posed a challenge to traditional legal systems around the world, requiring a robust approach to creating offences for crimes of the 21st century.

In addressing this global phenomenon, the South African Parliament passed the Cybercrimes Bill, which was assented to by President Cyril Ramaphosa and signed into law as the Cybercrimes Act on 26 May 2021. This piece of legislation is South Africa's national and global effort to curb and criminalise theft and interference of data, thus bringing its cybersecurity laws in line with global legal and data protection trends.

The purpose of the Cybercrimes Act

The three main purposes of the Cybercrimes Act are:
1) the criminalisation of the disclosure of harmful data messages,
2) the creation of new cyber and data related offences and
3) the imposition of penalties and the reporting obligations of financial institutions.

We take a further look at these points below.

Takeaway 1: Criminalisation of the disclosure of harmful data messages (malicious communications)

The Act criminalises the disclosure of certain types of data messages in South Africa, namely those which are classified as harmful. These data messages are often shared on social media platforms and other communication platforms on a regular basis. Data messages which are considered to be harmful in terms of the Act include, among others, data messages which:

- incite damage to property or violence;
- threaten persons with damage to property or violence; and
- unlawfully contain an intimate image without the data subject's consent.

Disclosure is broadly defined and includes (section 13):

- sending the data message to the intended recipient or any other person;
- storing the data message on an electronic communications network (such as WhatsApp), where the data message can be viewed, copied or downloaded; or
- sending or making available a link to the data message that has been stored on an electronic communication network.

Criminalising the disclosure of harmful data messages acts as a lesson for the general public to “think before you click send, post or share” as there are severe penalties for disobeying the law by disclosing such data messages. It is therefore recommended that one errs on the side of caution and makes a value judgment on whether the disclosure of a particular data message would bring harm to anyone and thus contravene the Act. If this is the case, rather not disclose the data message.

Takeaway 2: The creation of further new cyber and data related offences

With criminals finding new ways to commit cybercrimes, unscathed by outdated laws, the Act creates further new offences and criminalises certain acts relating to cybercrime. Some of the new offences created by the Act relate to data, messages, computers and networks including, among others:

- Hacking (unlawful and intentional access to data, a computer program, a computer data storage medium or a computer system) (section 2);
- Unlawful interception of data (which includes acquiring, viewing, capturing or copying of data of a non-public nature through the use of hardware or software tools) (section 3);
- Cyber fraud (fraud committed by means of data or a computer program or through any interference with data, a computer program, a computer data storage medium or a computer system) (section 8);
- Cyber forgery (the unlawful and intentional creation of false data or a false computer program with the intention to defraud) (section 9(1));
- Cyber uttering (the unlawful and intentional passing-off of false data or a false computer program with the intention to defraud) (section 9(2)); and
- Malicious communications (the distribution of data messages with the intention to incite the causing of damage to any property belonging to, or to incite violence against, or to threaten a person or group of persons) (sections 13 to 16).

Takeaway 3: The imposition of penalties and reporting obligations of financial institutions

The Act prescribes penalties that offenders will be liable for on conviction of the cybercrimes created by the Act. These penalties include fines and/or imprisonment ranging up to 15 years of imprisonment.

In addition, the Act imposes obligations on financial institutions to assist in the investigation of cybercrimes by reporting offences to the South African Police Service. The Act provides that financial institutions who fail to report such offences are guilty of an offence and are liable to a fine not exceeding R50 000.

Conclusion

The Act will impact everyone in South Africa and the way in which we interact with data or use electronic devices. With the advent of the age of remote working emanating from the Covid-19 pandemic, cybercrime is rapidly becoming the latest “pandemic” and it takes a global and *legal* effort to “curb the spread” of cybercrime and breaches of cybersecurity.

A legal update for retirement funds

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

A. Ombud Council
B. Death benefits case
C. Case – emails and signatures

A. The Ombud Council

The Minister of Finance, Mr Tito Mboweni, has appointed the first Ombud Council Board and a Chief Ombud for the Council, giving effect to the new financial Ombud system under the Financial Sector Regulation Act (FSRA).

The Minister has appointed Ms Eileen Meyer as a Chief Ombud for the Ombud Council, as a transitional measure, until a full-time Chief Ombud is appointed.

Objective

The objective of the Ombud Council is to assist in ensuring that financial customers have access to effective, independent, fair and affordable alternative dispute resolution processes for complaints when interacting with financial institutions.

The Council will recognise industry schemes, set governance procedures, enhance accountability requirements, and align the standards of practice for each Ombud scheme through rule-making and enforcement powers. It will also ensure there is a uniform framework of external dispute resolution mechanisms that can be applied with consistency across the financial services sector.

The Council is essentially the 'Regulator' of all ombud: and will standardise best practice as well as promote and coordinate cooperation amongst ombud. One of the goals is to have a single point of entry for complaints and then allocate these complaint to the relevant Ombud.

Oversight powers

The Ombud Council will have oversight powers over both the statutory and industry Ombud, that is:

- Office of the Pension Fund Adjudicator
- Office of the Ombud for Financial Services Providers (FAIS Ombud)
- Office of the Credit Ombud
- Ombudsman for Long - Term Insurance
- Ombudsman for Short - Term Insurance
- Ombudsman for Banking Services
- Johannesburg Stock Exchange Ombud

Started work

The Ombud Council has commenced its work to fulfil its statutory mandate, with the Ombud Council Board holding its first meeting on 26 May 2021. The Ombud Council is now giving effect to its legal establishment and developing an operational plan to establish its office and fulfil its functions. Communication with existing financial sector ombud schemes will take place in due course.

All financial sector industry ombud schemes already recognised under the Financial Services Ombud Schemes Act before that Act was repealed will be recognised for a period of 12 months, up to 1 November 2021, after which a renewal process will be instituted. The Council has stated that it will try to start the recognition process of new financial sector industry schemes on 1 November 2021.

Board of directors

The Council's Board of Directors includes:

Deanne Wood – Chairperson	Adv Dikeledi Chabedi – Vice Chairperson
Emmanuel Lekgau	Silindile Kubheka
Adam Horowitz	Charmaine Soobramoney

Katherine Gibson will be replaced by Unathi Kamlana, who is the newly appointed FSCA Commissioner.

B. A death benefits case

In the recent matter of Swart N.O and Others v Lukhaimane N.O and Others (54157/2019) [2021] ZAGPPHC 124 (12 February 2021), the High Court considered aspects of section 37C of the Pension Funds Act.

Background facts

- The member died leaving a wife and two major children. The fund allocated 100% of the benefit to the wife.
- The children alleged financial dependency.
- The children were beneficiaries of a family trust.
- After the member's death, the wife remarried. She was employed and 39 years of age. She claimed maintenance from the member's estate.
- The Pension Fund Adjudicator ordered the fund to reconsider its decision. The fund did so and made the same decision again, that is, to allocate 100% of the benefit to the wife. The fund was of the view that the children would be taken care of by the trust and were not factually dependant on the deceased.
- The fund did not take into account the member's beneficiary nomination form in its first decision. The member had nominated his wife for 50% and the trust for 50% of the death benefit.
- The matter was taken to the High Court.

High Court findings

- The solvency of the estate and the trust were relevant factors that the fund should have taken into account.
- The fund had not investigated the wife's and children's circumstances sufficiently to conclude that the wife was in need of maintenance and the children were not.
- The fund had ignored the fact that the wife had remarried and not considered the impact of the wife's remarriage on her financial position and maintenance requirements.

The nomination of beneficiary form
The Judge made the following points:

- The fund is not bound by the wishes of the deceased;
- The "wish" expressed in a nomination form or will should not to be lightly ignored;
- A nomination form is one of a number of factors to be taken into account, but it is a "substantial factor";
- The fund needs "compelling reasons" to ignore the nomination. For example, if it would result in an injustice or be inequitable should the member's wishes be given effect to, then the find would be "justified in deviating from the member's wishes"; and
- There was no evidence that the fund placed any weight at all on the nomination form.

The court found the fund's decision to be irrational and not rationally connected to the section 37C purpose to look after dependants and set aside the fund's decision.

C. Emails and signatures – a Supreme Court of Appeal case

Global & Local Investments Advisors (Pty) Ltd v Fouché (71/2019) [2019] ZASCA 08 (18 March 2020)

This case dealt with a client who appointed a financial services provider, by way of a mandate, to invest money on his behalf. The written mandate from the client provided that:

> 'All instructions must be sent by fax to 011 [...] or by email to [...]@[...].co.za with client's signature.'

Fraudsters hacked the client's gmail account. The financial services provider received a fraudulent email from the fraudsters using the client's authentic gmail address, pretending to be the client and instructing it to pay to third parties. The financial services provider wrongly paid out R804 000 of the client's funds to the fraudsters. The email did not look fraudulent and the fraudsters (pretending to be the client) "signed" it (ended the email) with the client's abbreviated first name.

The client claimed payment of the amounts transferred to the third party accounts on the basis that the financial service provider had transferred the monies contrary to the written mandate with the financial services provider. The High Court found in the client's favour on the basis of breach of the mandate. The matter was taken on appeal to the Supreme Court of Appeal.

In the Supreme Court of Appeal, the financial services provider argued that it had acted in terms of the written mandate in that the instructions came from the authentic email address of the client and that the client's name at the bottom of the email satisfied the signature requirement in the mandate, when considering the Electronic Communications and Transactions Act 25 of 2002 (the ECTA). The client argued that the mandate required his signature and the instructions did not bear his signature, whether manuscript or electronic. The Supreme Court of Appeal found that the email was not a signature.

It is important to understand why the court found that this email did not amount to a signature as this will not always be the case in relation to emails and signatures.

Section 13(3) of the ECTA provides that:

> "Where an electronic signature is required by the parties to an electronic transaction and the parties have not agreed on the type of electronic signature to be used, that requirement is met in relation to a data message if -

a) A method is used to identify the person as to indicate the person's approval of the information communication; and
b) Having regard to all the relevant circumstances at the time the method was used, the method was as reliable as was appropriate for the purposes for which the information was communicated."

The court said that:

- The decision turned on the proper interpretation of the written mandate and whether the financial services provider acted in breach of the mandate.
- Context is an important factor when construing the mandate given that signatures serve an established purpose in the commercial and legal world - “Signatures are used as a basis to determine authority and can be checked for authenticity”.
- The financial services provider could not rely on the ECTA because it would have to show that the mandate specifically required an “electronic signature” but the words “electronic” were never used to qualify the term “signature” in the mandate.
- The High Court was correct in finding that in the specific circumstances of this case a signature was required in manuscript form, even if that manuscript signature was transmitted electronically, for purposes of authentication and verification. The instruction was not accompanied by such a signature and, thus, the funds were transferred without proper instructions and contrary to the mandate.

The court distinguished the judgment in *Spring Forest Trading 599 CC v Wilberry (Pty) Ltd t/a Ecowash and Another* with the current case. In the Spring Forest case the issue was whether emails between the contracting parties could satisfy the contractual requirement that consensual cancellation of their contract be 'in writing and signed' by the parties. The court found that the names of the parties at the bottom or foot of each email did constitute the required consensual cancellation of the agreement. This judgment was not applicable to the present case because the authority of the persons who had actually written and sent the emails was not an issue in the Spring Forest case, as it was in the current case. In Spring Forest, contrary to the current case involving fraud, the reliability of the emails, accuracy of the information communicated or the identities of the persons who appended their names to the emails were not disputed. In the current case, the emails were fraudulent as they were written and dispatched by a person or persons without authority and were not binding on the client.

The Supreme Court of Appeal dismissed the appeal with costs stating that the emails:

> “were not written nor sent by the person they purported to originate from. They are fraudulent as they were written and dispatched by person or persons without the authority to do so. They are not binding on Mr Fouché [the client].”

This case is important on a number of levels:

- It demonstrates the vulnerability of online transactions to hacking and the importance of verification techniques such as one-time pins or written documentation;
- Section 13 (3) of the ECTA is not applicable where a mandate requires a 'signature' (which signature serves an authentication and verification purpose); and
- Consider the specific circumstances of the case and be careful of when electronic signatures may be accepted or not.

TRUSTEE AND MEMBER EDUCATION

(SPONSORED BY ICTS TRAINING)

Trustee Tutor: Issue 7

The protection of personal information in retirement funds

The Protection of Personal Information Act 4 of 2013 (POPIA) came into force on 1 July 2021.

POPIA legislates a person's constitutional right to privacy by setting out the legal framework for the collecting, processing, sharing, storing and destroying of personal information. The intention is to prevent harm to people by protecting their personal information from, for example, falling into the wrong hands and being used to steal their identity or money.

By now most trustees of retirement funds have been exposed to the legal constructs and requirements of POPIA but may be finding it difficult to distil and prioritise what is applicable to their funds. In this Trustee Tutor, we unpack the eight conditions in POPIA which trustees need to consider in fulfilling their responsibility to protect their members' and other persons' personal information.

The information flow in a retirement fund

Retirement funds regularly process the personal information of their members, beneficiaries and others. Retirement funds often use appointed third party service providers to process personal information for them.

Some important definitions:

Personal information is information relating to an identifiable, living person and includes, but is not limited to, information relating to gender, marital status, pregnancy, age, disability, language, culture, education and employment, identity number, contact details and personal opinion. It also includes personal information about juristic persons like companies and retirement funds.

Some important definitions cont:

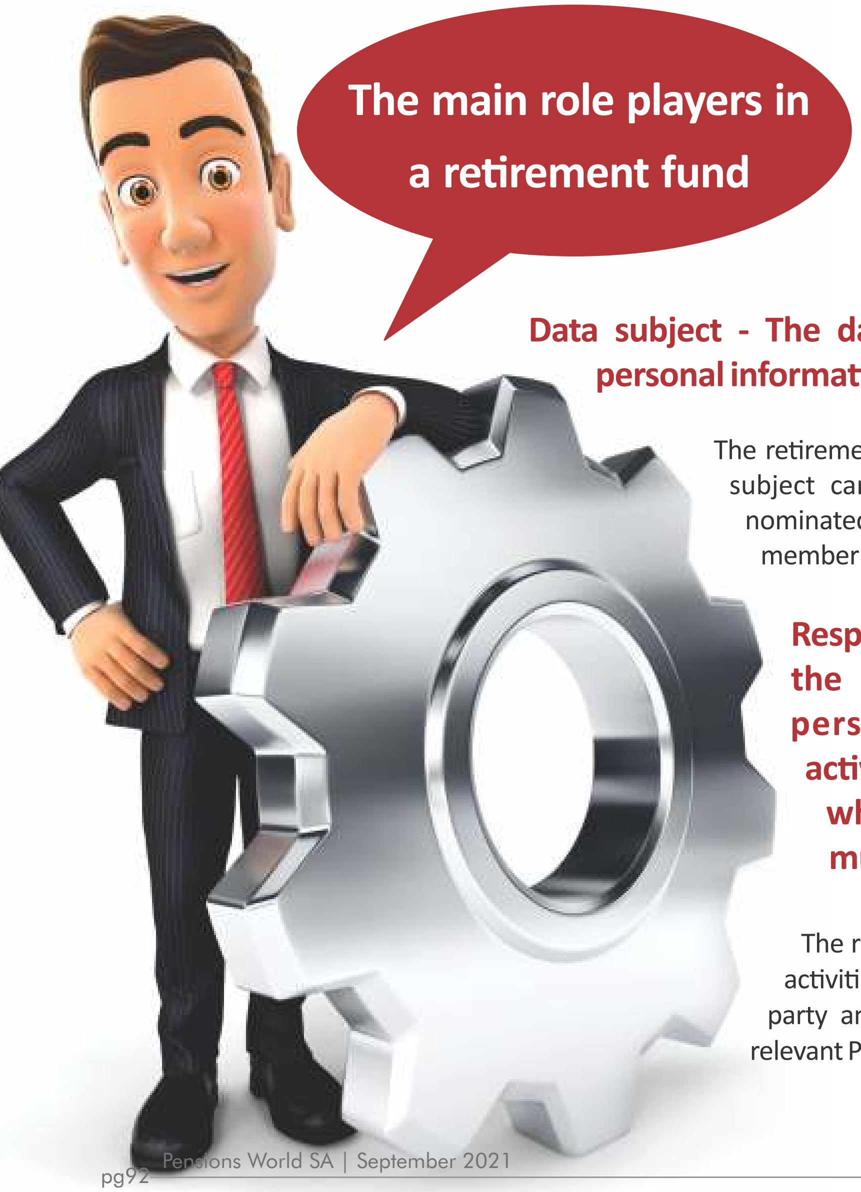
Special personal information is sensitive personal information about a person's religious or philosophical beliefs, race or ethnic origin, trade union membership, political persuasion, health or sex life, biometric information or criminal behaviour.

Personal information of children (ie, any person under the age of 18 years) is specifically defined and regulated in POPIA as they are vulnerable persons. Children's personal information may only be processed in certain instances.

Processing means any activity (including by automatic means) concerning personal information, and includes the collection, receipt, recording, organisation, collation, storage, updating or modification, retrieval, alteration, consultation or use, distribution by means of transmission, distribution or making available in any other form or merging, linking, and restriction, degradation, erasure or destruction of information.

From these definitions, trustees may immediately recognise the large amount of personal information needed to ensure the effective administration of their retirement fund. For example, a retirement fund will collect names, identity numbers, salaries and contact details to process the correct contributions for the right individual, or age (for any lifestage investment model). In addition, special personal information and personal information relating to children is often considered when distributing death benefits under Section 37C of the Pension Funds Act.

Because of the amount, nature and frequency of personal information being processed by retirement funds, it is essential that trustees have a working knowledge of POPIA and a clear compliance framework covering not only the fund but also all the role players involved in the management of the fund.



Data subject - The data subject is the person to whom the personal information relates.

The retirement fund member is a data subject. Interestingly, data subject can also include the member's dependants and/or nominated beneficiaries and other persons such as a non-member spouse.

Responsible party is the party who determines the purpose of and means for processing personal information for the particular activity. In other words, it's the person/party who decides what personal information must be processed and how it is processed.

The retirement fund is the responsible party for most of its activities. The proverbial buck stops with the responsible party and it is accountable for its compliance with all the relevant POPIA requirements.

An operator - is the party who processes personal information for a responsible party in terms of a contract or mandate, but does not come under the direct authority or control of the responsible party. Many functions in a retirement fund are outsourced to third parties and some of these third parties would be an operator of the fund. Importantly, the fund is responsible for its operator's compliance with the POPIA conditions (principles) discussed later.

The retirement fund administrator (or certain other service providers, for example, a tracing agent) is an operator for many of the activities they perform for the fund.

In other words, although a retirement fund outsources the administration of the fund to an administrator, the fund (as the responsible party) decides what personal information must be processed, and how this information will be processed, by the administrator (the operator).

In summary, for most of their activities in relation to the fund:

Fund role player	Responsible party or operator
Retirement fund	Responsible party
Employer	Responsible party (but may also be an operator for activities it performs on behalf of the fund)
Member	Data subject
Administrator	Operator
Benefits/investment consultant	Operator

Because the Information Regulator can hold a responsible party liable for contraventions of its operator, it is crucial that proper contracts or service level agreements are signed between the fund and its service providers that are operators.

Not all service providers of the fund will be operators, some of them will be responsible parties. For example, it is likely that the fund's valuator, auditor and attorney would be responsible parties and not operators of the fund in relation to the activities they perform for the fund.

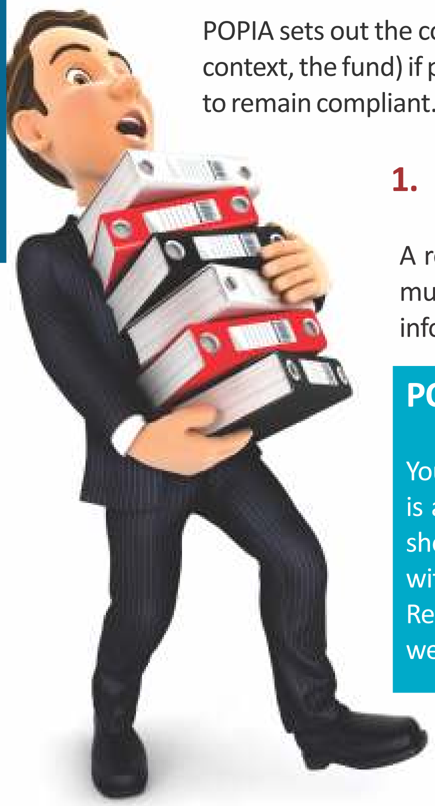
POPIA compliance in your fund:

Trustees must take special care that agreements between the fund and its operators:

- Ensure that the operator maintains the necessary confidentiality and security measures,
- Place a duty on the operator to immediately advise the fund of any unauthorised access to or sharing of personal information,
- Provide that the operator will only process personal information with the authorisation of the responsible party,
- Stipulate that the operator will treat personal information as confidential at all times (unless this information is required by law or used in the course of their contracted duties), and
- Ensure the operators tells the responsible party about any third parties it is using to process personal information of the responsible party.

Once trustees have a clear understanding of the information flow in their fund and the roles of each party, they need to be clear on when and how a fund may process personal information.

The eight conditions in which a retirement fund can lawfully process personal information



POPIA sets out the conditions for lawful processing that need to be met by the responsible party (in this context, the fund) if personal information is to be managed and used correctly and all the role players are to remain compliant.

1. Accountability (section 8 of POPIA)

A retirement fund (as a responsible party) is accountable for POPIA compliance and must make sure that the conditions (principles) for the lawful processing of personal information are complied with every time personal information is processed.

POPIA compliance in your fund:

Your retirement fund (as a responsible party) has a 'default' **Information Officer** who is accountable for POPIA oversight and compliance. Your fund's Information Officer should be reporting back to the board regularly on the status of the fund's compliance with POPIA. The fund's Information Officer must be registered with the Information Regulator (you can use the online portal available on the Information Regulator's website).

2. Processing limitation (sections 9 to 12 of POPIA)

Personal information may only be processed in a reasonable and lawful manner that does not infringe on the privacy of the data subject.

POPIA takes it one step further in Section 10 by stipulating that personal information may only be processed if, given the purpose for which it is processed, it is adequate, relevant and not excessive. For example, the fund should not collect and process personal information it does not need.

POPIA compliance in your fund:

Section 11 of POPIA sets out that personal information may only be processed if:

- the data subject has given consent; or
- processing is necessary to carry out actions for the conclusion or performance of a contract to which the data subject is party; or
- processing complies with an obligation imposed by law on the responsible party; or
- processing protects a legitimate interest of the data subject; or
- processing is necessary for the proper performance of a public law duty by a public body; or
- processing is necessary for pursuing the legitimate interests of the responsible party or of a third party to whom the information is supplied.

Your fund must be able to show that it is processing members' personal information on at least one of these grounds.

You can see that the fund does not always need a member's (or data subject's) consent to process his or her personal information.

Practical examples of a fund processing personal information and the reasons (other than consent) therefore are:

- the processing of monthly contribution information is undertaken by the fund to meet its obligations in terms of law, or
- the fund provides information to SARS to comply with the law, or
- the fund traces beneficiaries for the payment of death benefits to meet its obligations in law and to protect the beneficiaries' legitimate interests.

In terms of section 12 ***personal information must be collected directly from the data subject***, unless one of the following exceptions apply:

- Where the information is contained in or derived from a public record or has deliberately been made public by the data subject; or
- The data subject has consented to the collection of information from another source; or
- The collection of information from another source would not prejudice the legitimate interest of the data subject; or
- Where collection of information from another source is necessary:
  - o To avoid prejudice to the maintenance of the law by any public body;
  - o To comply with an obligation imposed by law;
  - o For the conduct of court proceedings;
  - o In the interest of national security; or
  - o To maintain the legitimate interests of the responsible party or a third party to whom the information is supplied.
- Compliance would prejudice a lawful purpose for collection; or
- Compliance is not reasonably practical in the circumstances.

POPIA compliance in your fund:

Funds often collect personal information from persons other than the data subject themselves, for example, funds collect personal information about their members from the employer when they receive the monthly contribution schedules. Funds, thus, collect personal information from another source so as to comply with their obligations in law under section 13A of the Pension Funds Act.

3. Purpose specific (section 13 & 14 of POPIA)

Personal information may only be processed for specific, explicitly defined and legitimate reasons. In terms of this section of POPIA, responsible parties must explain their reasons for processing personal information in a such a way that the data subject can understand why the information is being collected and what it will be used for. The responsible party must then ensure that it processes the personal information just for those purposes.

Retention of records: responsible parties are not allowed to retain records for longer than is required to fulfil the purpose of processing the personal information.

In section 14, POPIA provides guidelines on the retention and restriction of records.

POPIA compliance in your fund:

A retirement fund can't hold records that it no longer needs to be able to run effectively, unless:

- the retention of the record is required by law (for example, under FAIS certain records are to be kept for five years); or
- the retirement fund reasonably needs the record for lawful purposes relating to its functions or activities (for example, to be able to deal with complaints or to defend legal claims); or
- keeping the record is required by a contract between the parties; or
- the data subject has consented to the fund keeping the record.

Records of personal information can also be kept for longer than the purpose if kept for historical, statistical or research purposes. In this case, the responsible party must have appropriate safeguards against the information being used for any other purpose.

Once the retirement fund may no longer hold the personal information, the fund must destroy, delete or de-identify this information as soon as reasonably possible. Destruction or deletion means that the personal information cannot be reconstructed afterwards.

Restriction of processing applies if:

- the accuracy of the personal information is disputed by the data subject (for the period enabling the responsible party to verify accuracy);
- the responsible party no longer needs the personal information for achieving the purpose for which it was collected (or subsequently processed), but it must be maintained for purposes of proof;
- the processing is unlawful and the data subject opposes its destruction or deletion and requests the restriction of its use instead; or
- the data subject requests the transmission of the personal information to another automated processing system.

Where processing is restricted, it may only be processed:

- with the data subject's consent or
- for protection of the rights of another person (or if this processing is in the public interest).

Once restricted, the responsible party must inform the data subject before lifting the restriction on the processing.

POPIA compliance in your fund:

Because of the complex requirements around the retention and restriction of records, retirement funds should have data retention, restriction and destruction policies in place that set out the legal requirements applicable to the fund, the processes the fund will follow in ensuring that it complies with these requirements and the rights of members in the collection, use and storage of their personal information. Often these requirements are set out in the fund's privacy/data protection/personal information protection policy.

4. Further processing limitation (section 15 of POPIA)

Personal information may not be processed for a secondary purpose unless that processing is compatible with the original purpose.

To establish if further processing is compatible with the original purpose, trustees must consider:

- the relationship between the initial purpose and the further purpose;
- the nature of the information;
- the consequences of the further processing for the data subject;
- the manner in which the information has been collected; and
- the contractual rights and obligations between the parties.

And very importantly, when considering further processing, the trustees must also take the reasonable expectations of members into account, as well as whether further processing is required by law or is in the public, or the member's, interest.

5. Information quality (section 16 of POPIA)

The responsible party must take reasonable steps to ensure that the personal information collected is complete, accurate, not misleading and updated where necessary.

POPIA compliance in your fund:

In all communication issued by the trustees, it is worth reminding members to keep their personal information updated.

6. Openness (sections 17 & 18 of POPIA)

The condition of openness links to section 51 of the Promotion of Access to Information Act, 2000 (PAIA). PAIA requires that the retirement fund must keep documentation of all processing operations under its responsibility. PAIA also enables fund members to access information (including personal information) held by the fund. The records referred to in PAIA include the documentation of processing operations referred to in POPIA.

Notifying the data subject when collecting personal information

The data subject whose personal information you are collecting must be notified of and aware that you are collecting the relevant personal information and for what purpose the information will be used.

When personal information is collected, the responsible party must take reasonable steps to ensure that the data subject is aware of:

- the information being collected (and, if not collected directly from the data subject, the source from which it is collected);
- the name and address of the responsible party;
- the purpose for which the information is being collected;
- whether or not the supply of the information by the data subject is voluntary or mandatory;
- the consequences of a failure to provide the information;
- any particular law authorising or requiring the collection of information;
- the fact that, should it be applicable, the responsible party intends to transfer the information to a foreign country or international organisation (and the level of protection afforded to the information by that foreign country or international organisation); and
- any further information which is necessary under the specific circumstances to ensure reasonable processing.

POPIA compliance in your fund:

Retirement funds must have a process to ensure that data subjects can make requests of it under POPIA (and PAIA). Funds are currently exempted from having a PAIA manual (which informs data subjects how they can access information in the fund's possession). However, it is likely that from 1 January 2022 funds will be required to have manuals. It is expected that the Information Regulator will issue a revised format of the manual. Manuals will not have to be submitted to the Information Regulator but (once the exemption expires) will have to be maintained and provided upon request and on the fund's website (if any).

7. Security safeguards (sections 19 to 22 of POPIA)

Responsible parties must keep personal information secure against the risk of loss, unlawful access, interference, modification, unauthorised destruction and disclosure.

In order to do this, a responsible party must put in place reasonable measures to:

- identify all reasonably foreseeable internal and external risks to personal information in its possession or under its control;
- establish and maintain appropriate safeguards against these identified risks;
- regularly verify that safeguards are effectively implemented; and
- ensure safeguards are continually updated in response to new risks.

POPIA compliance in your fund:

Trustees must understand whether the fund's information is open to vulnerabilities like being lost, damaged, destroyed or easily accessed by a third party (in other words hacked) as well as weaknesses in the fund's data protection systems and processes.

Trustees should then implement the necessary steps and security protocols to protect the fund's vulnerabilities. And thereafter monitor that these protocols are effective in mitigating the risks identified.

In this context, trustees should keep in mind the generally accepted information security practices and procedures that apply to the retirement funds industry.

The following are examples of measures to safeguard personal information:

- physical measures (for example, locked filing cabinets or access control at offices);
- technological measures (like implementing firewalls and anti-virus programmes, using passwords and encrypting removable devices used for taking personal information out of the office); and
- organisational measures (such as requesting staff sign appropriate confidentiality undertakings, training staff on the importance of protecting personal information and amending processes to better secure personal information).

Where a responsible party outsources to a third party certain services which involve the processing of personal information, the responsible party remains responsible and liable for the protection of that personal information.

POPIA compliance in your fund:

In most funds, the trustees appoint a professional third party administrator to administer the fund. It is important that the written contract between the fund (responsible party) and the administrator (operator) provides that:

- the administrator sets up and maintains the required confidentiality, safeguards and security measures which apply to the fund, and
- a contractual obligation is placed on the administrator to immediately inform the fund if there is unauthorised access to or disclosure of personal information, and
- the administrator may only process personal information with the knowledge and authorisation of the fund (and treat personal information as confidential).

Notification of security breaches

Where there are reasonable grounds to believe that personal information has been shared with or accessed by an unauthorised person, the responsible party must notify the Information Regulator and the data subjects affected as soon as reasonably possible after the compromise. This notification must comply with the reporting requirements as set out in POPIA.

8. Data subject participation (sections 23 to 25 of POPIA)

Data subjects (or their authorised representatives) have the right to ask what personal information is held about them by a responsible party (or any other third parties) and who that personal information has been provided to.
Data subjects also have the right to request the correction and/or deletion of any personal information held about them.

The responsible party may refuse to provide the information on the grounds for refusal set out in PAIA.

POPIA compliance in your fund:

A fund member can ask the fund to:

- correct or delete personal information about the member that is inaccurate, irrelevant, excessive, out of date, incomplete, misleading or obtained unlawfully; or
- destroy or delete a record of personal information which the fund is no longer authorised to keep in terms of section 14 POPIA.

When the fund receives a request, it must as soon as reasonably practical:

- correct or destroy the information, as the case may be;
- notify the member of the actions taken as a result of the request and provide evidence in support thereof (or notify the member if the fund refuses to make the correction);
- where the fund is unable to agree to the member's request, and where the member so requests, flag the information as having been challenged.

The data subject can also ask the fund to tell them what personal information it has about them and who it gives the personal information to.

The fund should maintain a request process for the above requests.

POPIA is a complex piece of legislation and an ongoing journey towards compliance. It is a principle- based law, meaning that trustees can't simply tick the boxes. Trustees should rather strive for a deep awareness of their responsibilities and ongoing vigilance when either the fund or any third party service providers process personal information.

Trustee Tutor: Issue 7

The protection of personal information in retirement funds

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. The intention of the Protection of Personal Information Act 4 of 2013 (POPIA) is to:

a. Legislation a person's right to privacy.
b. Set out the framework for the processing of personal information.
c. Prevent harm to people by preventing personal information falling into the wrong hands.
d. All of the above.

2. A person's fingerprint is considered to be special personal information.

a. True
b. False

3. Who are the data subjects in a retirement fund?

a. The trustees.
b. The members.
c. The employer.
d. The employee benefits consultants.

4. Choose the incorrect answer:

Agreements between a retirement fund (responsible party) and its administrator (operator) must:

a. Provide that the administrator will only process personal information with the authorisation of the fund.
b. Ensure that the administrator maintains the necessary confidentiality and security measures.
c. Place a duty on the administrator to advise the fund of any unauthorised access to or sharing of personal information within a reasonable amount of time.
d. Ensure the administrator tells the fund about any sub-contractors it is using to process personal information of the fund.

5. In terms of Condition 2 of POPIA (processing limitation), personal information may only be processed its purpose is:

a. Adequate
b. Relevant
c. Not excessive
d. All of the above

6. In terms of section 14 of POPIA, a fund may hold on to records longer than it needs to provided:

a. This retention is requested by the non-member spouse.
b. This retention is requested by SARS.
c. This retention is requested by a tracing agent.
d. None of the above.

7. Which of the following statements is incorrect.

When personal information is collected, the fund must take reasonable steps to ensure that the member is aware of:
a. The information being collected.
b. The name of the retirement fund only.
c. The purpose for which the information is being collected.
d. The fact that, should it be applicable, the responsible party intends to transfer the information to a foreign country or international organisation.

8. The retirement fund must have a process in place to ensure that the personal information collected from/about its members is complete, accurate, not misleading and updated where necessary.

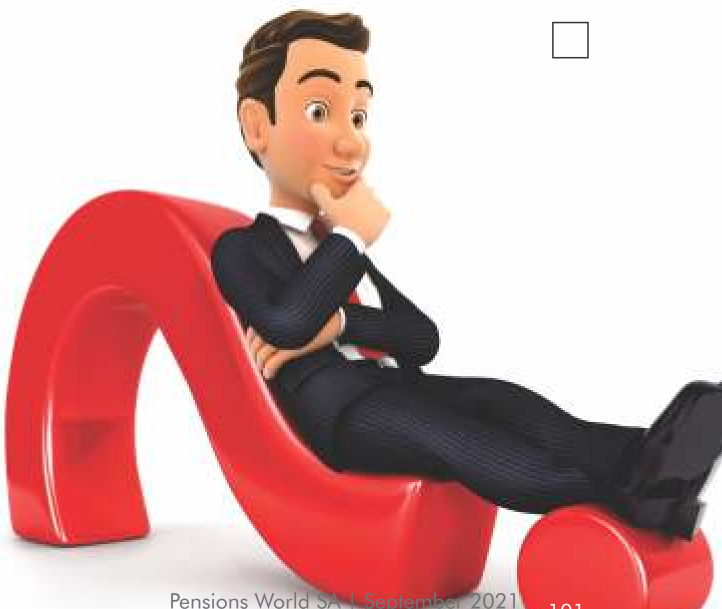
a. True
b. False

9. In order for retirement funds to keep personal information secure against the risk of loss, unlawful access, interference, modification, unauthorised destruction and disclosure, they must put in place reasonable measures to:

a. Identify all reasonably foreseeable internal and external risks to personal information in its possession or under its control.
b. Establish and maintain appropriate safeguards against these identified risks.
c. Regularly verify that safeguards are effectively implemented against current and identified future risks.
d. All of the above.

10. A retirement fund member can ask the fund to:
a. Correct or delete personal information about another member.
b. Correct or delete personal information about the fund's Information Officer.
c. Correct or delete his or her personal information that is inaccurate, irrelevant, excessive, out of date, incomplete, misleading or obtained unlawfully
d. Only collect personal information with his or her consent.

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



Please contact Toni-Leigh Cantin on 087 702 3821 or cantint@icts.co.za for more information or visit our website www.icts.co.za

Stay updated and in the know about who is moving up the corporate ladder in the pension fund industry.

MOVING UP

Viresh Maharaj
Executive: Strategy & Customer Experience, Alexander Forbes

Viresh joined Alexander Forbes at the group executive leadership level in May 2021. He is responsible for driving the growth strategy of Alexander Forbes by taking ownership of strategic initiatives, customer experience, marketing, and stakeholder management. His 16-year career includes holding several senior executive roles at Sanlam Corporate spanning product development, sales, strategic projects and marketing.

Belinda Sullivan
Head of Corporate Consulting Strategy
Alexander Forbes

Belinda develops and implements integrated best-advice frameworks and technical consulting support across all corporate consulting businesses. Facilitating all aspects of a key account with Alexander Forbes nationally, she ensures that appropriate solutions are in place or new solutions are sourced for the benefit of the employer and employees. Belinda joined Alexander Forbes in 2004 and has consulted to employers, trustees and management committees in implementing appropriate investment strategies.

Scott Harvey, Head of Memberships
NMG Benefits

Scott has 23 years' experience in retirement funds, insurance, financial planning and asset management. Before joining NMG Benefits, he worked for Alexander Forbes Consultants and Actuaries, STANLIB Asset Management and Just Retirement SA. Scott leads the Membership Team at NMG Benefits, which covers business development, key account management and retail services. He holds a post graduate diploma in Financial Planning and is a Certified Financial Planner®. The label of Membership Team, rather than Distribution or New Business Team, better reflects our purpose which is to Find a Better Way to serve the needs of our clients and prospective clients.

Amy Jansen: Head of Behavioural Solutions
Nedgroup Investments

Amy Jansen was recently appointed to head up behavioural solutions at Nedgroup Investments. With over 12 years in financial services, including in investment banking, investment management, insurance, pensions and retail banking, she has extensive experience in applying behavioural science to support financial wellbeing and improve financial decision making. Having completed her M.Phil. at the University of Cambridge, she's currently completing her Ph.D. at the University of Groningen. She is a CFA charterholder, Commonwealth scholar and fellow of the Young African Leadership Initiative ("YALI").

Stay updated and in the know about who is moving up the corporate ladder in the pension fund industry.

MOVING UP

Gudani Mukatuni, Chief Information Officer Glacier by Sanlam

Gudani has over 16 years of working experience, prior to joining Glacier, she acquired her IT leadership and transformation experience working for WesBank as their CIO; AIG Middle East & Africa Region as their Head of IT for Africa and Nedbank Financial Planning / Wealth Management as the Head of IT.

Gudani has a Bachelor of Science degree in Computer Science and Mathematics from the University of the Witwatersrand, and an MBA from Henley Business School, University of Reading (UK).

Norah Sehunoe Head of Human Capital, Sanlam Corporate

Norah Sehunoe joined Sanlam in March, where she took on the role of Head of Human Capital at Sanlam Corporate. She is a 40-year-old HR professional with over 15 years of experience in the field. Norah previously headed up the Centre Unit Human Capital at Hollard Insurance and has deep experience in Financial Services. She is an avid reader, enjoys spending time with her family and loves to travel. Norah believes that she can make a difference in the EB industry by empowering people through talent management, transformation and development practices.

Beverly Jubane, Specialist: Customer Service Liberty Corporate

Beverly was recently promoted to Specialist: Customer Service, Employee Benefits/Benefit Consulting in Liberty Corporate. She has 6 years of experience in the Employee Benefits industry. Beverly is responsible for a portfolio of clients with her focus being on consulting services, advice and intermediary services.

Shauntal Subrayan, Senior Specialist: Corporate Consulting Liberty Corporate

Shauntal was recently promoted to a Senior Specialist role at Liberty Corporate. She has over 25 years' experience in the pension funds and employee benefits industry. Shauntal is currently responsible for the direct consulting to over 25 funds which comprises of both large and SME clients. Her main responsibilities include providing best advice to clients together with all round intermediary services.

Stay updated and in the know about who is moving up the corporate ladder in the pension fund industry.

MOVING UP

Sinethemba Khoabane
Actuarial Manager: Risk Product Development, Liberty Corporate

Sinethemba joined Liberty Corporate as an actuarial manager for risk product development, following three years at FNB where he worked as a pricing analyst.

His career has encompassed a wide range of roles having worked for financial services companies such as Towers Watson and Metropolitan, where he contributed to product development, pricing and health. In his current role, Sinethemba is responsible for developing and reviewing the pricing basis for all risk products and conceptualising new benefits and product packaging, amongst others.

Charl De Villers, Head of Equities
Ashburton

Charl will be joining Ashburton Investments in September as the Head of Equities from Sanlam Investments where he was a member of the Model Portfolio Group and a Senior Equity Portfolio Manager. Charl has sixteen years industry experience and holds a degree in engineering, an MBA and is a CFA charter holder.

Thato Khaole, Credit Analyst
Ashburton

Thato was appointed as a Credit Analyst at Ashburton Investments. She has experience in procedural and risk management support, unlisted trading and valuations, structuring and fundamental analysis within the South African listed and unlisted credit market. She holds a BCom (Hons) in Corporate Finance and Investments from the University of the Witwatersrand.

Precious Monareng, Credit Analyst
Ashburton

Precious has been appointed as a Credit Analyst at Ashburton Investments. She was previously with Sanlam Investments. She holds a BCom Honors in Economics from the University of Pretoria and is currently pursuing her Masters in Applied Development Economics at the University of the Witwatersrand.

Stay updated and in the know about who is moving up the corporate ladder in the pension fund industry.

MOVING UP

Heather Sonn, Non-executive Director at RisCura

Heather Sonn has been appointed as a non-executive director to the RisCura group. The RisCura group is made up of investment advisory, analytics, alternative investment and investment management businesses focused on frontier and emerging markets. She has held notable previous positions including CEO of a stockbroking business, Legae Securities and deputy CEO of women's investment firm, Wipcapital, among other roles. Heather brings a wealth of financial services and governance experience with her, which will further enhance RisCura's vision for the company, and of diversity for the industry.

Glenn Silverman, Investment Strategist at RisCura and a Director of RisCura Invest

Glenn Silverman joins investment firm, RisCura as an investment strategist for the Group, and a director of their investment management business, RisCura Invest. He was the chief investment officer at Investment Solutions (now Alexander Forbes Investments) for 17 years, and part of the highly regarded team that built the country's largest multi manager, from a modest R10bn to over R300bn, during his tenure there. He brings with him over 30 years' experience working in the global asset management industry, spanning manager selection, portfolio management, investment process evaluation, design, and more.

Phumla Radebe, Investment Consultant RisCura Solutions (Pty) Ltd

Phumla has over 16 years' experience in the financial services industry with a close focus on retirement funds and medical schemes. In her new role at RisCura, Phumla will oversee all client deliverables and is responsible for providing clients with innovative investment solutions. Prior to joining RisCura, Phumla worked at Novare as an investment consultant, where she was involved in providing investment advice, support, monitoring, and reporting to clients. Phumla also worked at the Independent Actuaries and Consultant as an investment consultant.

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Sanlam Benchmark Research 2021

Key take-outs from the 40th retirement industry survey

1 Cost of retirement fund administration

0.55%
Cost for stand-alone funds (slight reduction since 2019)

0.59%
Cost for participating employers in umbrella funds (the same as 2020)

R52
average cost for stand-alone funds in rands

R41
average cost for participating employers

2 Contribution trends

Stand-alone funds and participating employers' employer contribution levels are **steadily increasing again since a drop in 2018.** However, 2021 recorded a slight drop in employee contribution levels in umbrella funds of 0.7% although still up from 2018 levels.

Employer contribution

10.8% average employer's total contributions in stand-alone funds

9.4% average employer's total contributions in umbrella funds

Member contribution

Ave 6.6%
of total package contributed by members in stand-alone funds

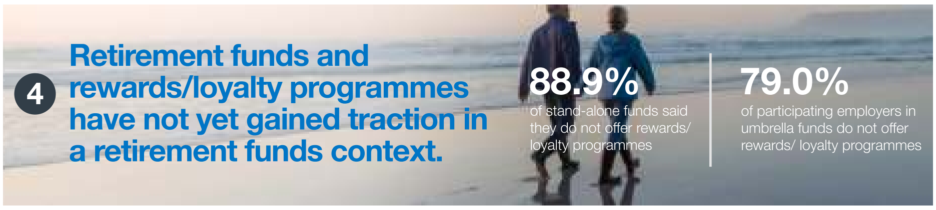
Ave 6.3%
contributed by members in participating employers in umbrella funds

3 Contribution suspension

41.0%
of participating employers in umbrella funds suspended retirement contributions due to Covid-19

27.0%
in stand-alone funds

4 Retirement funds and rewards/loyalty programmes have not yet gained traction in a retirement funds context.



88.9%
of stand-alone funds said they do not offer rewards/ loyalty programmes

79.0%
of participating employers in umbrella funds do not offer rewards/ loyalty programmes

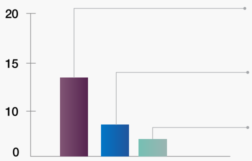
5 Health integration

49.0%
of stand-alone funds and,

36.0%
of participating employers believe a holistic, integrated health and financial wellness programme delivers higher productivity and staff happiness.

6 Investments

More funds and employers are selecting a combination of default investments with and without member choice



Less (10.0% to 13.0%)
funds and employers are offering default investment portfolio plus member choice.

Proposed changes to Regulation 28

Only 6.6% of stand-alone funds and,

4.7% of participating employers will be investing in infrastructure investments.

7 Default regulation and member behaviour

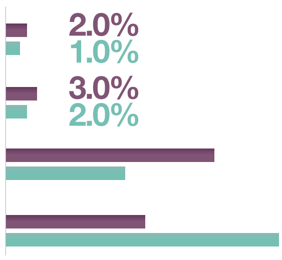
Stand-alone funds have not seen a significant improvement in member behaviour since the implementation of default regulations.

57.0%	46.0%	25.0%
Preservation	Annuitisation	Retirement Benefit counselling

- Base: All those who have not seen an improvement in member behaviour
- Stand-alone funds

8 Retirement benefits counselling outcomes

Impact of Retirement Benefit Counselling at retirement



	Retirement counselled	Retirement not counselled
In-fund	2.0%	1.0%
Phased Retiree	3.0%	2.0%
Out-of-fund	55.0%	27.0%
Cash	35.0%	70.0%

- Retirement counselled
- Retirement not counselled

The Sanlam Umbrella Fund data indicates that members that are counselled at withdrawal are twice as likely to preserve

9 Impact of Covid-19

Impact of Covid-19 on cyber security

Increase in the risk of cyber security as a result of staff working remotely.

46.0%
41.0%

- Stand-alone funds
- Participating employers

Impact of Covid-19 on Members' Finances

31.0%
of participating employers reported retrenchments at the workplace.

For 40 years, the Sanlam Benchmark Survey has been South Africa's most comprehensive retirement industry research.
In 2021, 90 stand-alone funds, 10 stand-alone union funds and 100 participating employers in umbrella funds were surveyed.

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