WEDNESDAY, 20 APRIL 2022

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

Early access to retirement savings provides a dual challenge for the retirement fund industry

CEO at Momentum Corporate Dumo Mbethe posits the pros and cons of early access to retirement, stressing that retirement funds will play a critical role in facilitating its success.

COVID-19 has highlighted a need for a greater savings culture to protect against financial stresses brought about in a challenging economic landscape – which has only further widened the retirement savings gap. Now, early access to retirement savings is being touted as a saving grace and is one of the most anticipated topics at this year's National Budget Speech. The Momentum/Unisa Consumer Financial Vulnerability Index (CFVI) research already highlights the desperate need for financial discipline and literacy in South Africa. The average South African employee does not have the know-how to navigate the complexities of the financial landscape in attaining financial success.

Yet, National Treasury, in December 2021, published an entire discussion paper on the proposed ‘two-bucket retirement system’ – acknowledging that giving struggling South Africans access to their retirement savings could reduce immediate hardships and perhaps encourage a greater willingness to utilise retirement funds. If we are going to start implementing early access, retirement funds will need to play a pivotal role in empowering employees to improve their financial outcomes through the provision of professional retirement benefit counselling and financial coaching.

Intense and effective member engagement and education are going to be critical to empower informed decisions and drive prudent behaviour to minimise long-term pain. These services will be instrumental in helping South Africans understand what is possible within the boundaries of the proposed legislative changes and how an early withdrawal will impact their financial situation and retirement prospects. So, Funds will now have this dual challenge. On the one hand, we need to help people save a lot more for retirement and on the other, provide some level of early access for the really cash-strapped. While we should be cautiously optimistic about how retirement funds can help members who are facing challenging times financially, we applaud the National Treasury for its prudent, carefully-considered and consultative approach because this concession needs to be implemented with great care.

If it drives the wrong behaviour, it can have dire long-term consequences for fund members who are already saving far too little for retirement as it is. It starts with understanding the reality of our current savings position.

The real plight of South African retirement savings

We have to acknowledge that early access to retirement savings has significant implications because, for most South African income-earners, their employer's retirement savings and insurance benefits are often the only savings and insurance they have. The reality is that most income-earners are already saving far too little for retirement. This is largely due to a widespread tendency to withdraw retirement savings when changing jobs to fulfil short-term financial needs and wants.

With the pandemic, we saw an increase in members getting retrenched or switching jobs and promptly withdrawing their retirement savings as cash. The introduction of early access to retirement savings could increase long-term pressure on the national social security infrastructure and reduce the pool of investments available for the development of the economy. It’s key to have the right guardrails in place to avoid a situation of short-term gain, long-term pain. As retirement fund and product providers, we are acutely aware of the lived realities many employees face in the current environment, which includes reduced salaries and retirement fund contributions that have been put on hold for a period of time due to companies’ cash flow pressures.

Many households also face the additional burden of supporting family members who have lost jobs. If we look at the retirement savings status of members on our FundsAtWork Umbrella Funds, with over 340 000 members across 4 700 employers spanning 21 broad industries, we see that the average amount they have saved for retirement as of 31 January 2022 is almost R190 000. Around 49% have saved more than R30 000, which means approximately 51% have less than R30 000 in accumulated funds.

The latest proposal is that 1/3 of the funds will be made available annually, with a minimum of R2,000 being withdrawn, up to 10% of the total, not exceeding R25,000. A second withdrawal can occur but only if it doesn’t exceed the limit stated above. Gaining access to a portion of their savings will deplete already low levels of retirement savings and will increase dependency on state-provided income when they do actually retire. So, it is important that we manage expectations.

There is a silver lining at the end of the day (career)

While several risks need to be carefully considered, prudent and careful implementation of early access to retirement savings, with the necessary checks, balances and guardrails, offer potentially positive outcomes. The introduction of some mandatory preservation, such as the proposed two-pot system, could contribute to countering the impact of early withdrawal by ensuring longer savings periods beyond just current employment and could take some of the burden off the state. However, when it comes to the two-pot system, people think there will be this large pot of money available, but in reality, the numbers will likely be smaller than expected. There are going to be many variables when it comes to this system, especially considering it will be applied prospectively rather than retrospectively.

Even though they may be justified in today's circumstances, we have to remember that changes to a long-term system such as saving for retirement are always ill-advised – unless all angles are considered. The long-term stability and objectives need to be clear to all stakeholders. But, we welcome the opportunity to engage on these matters to ensure an optimal outcome – which is exactly what we are doing. As Momentum Corporate, we will endeavour to guide our clients and their employees towards greater financial resilience. Early access to retirement and the two-pot system are simply be another opportunity for us to help educate South Africans and guide them to make sensible and rational financial decisions in challenging times.

FA News | 13 April 2022

Umbrella funds: Technology, market forces and innovation will improve member retirement outcomes

Umbrella funds are the single most effective vehicle for reforming the South African retirement fund industry. The opportunities that rest in their economies of scale - their ability to reach thousands of employers and hundreds of thousands of employees - will be the most efficient way to improve the retirement outcomes for South Africans. This is the view of David Gluckman, Chairperson of the Sanlam Umbrella Fund. The context for Gluckman's comments was a discussion paper entitled **Governance of Umbrella Funds** issued by National Treasury last December.

Gluckman congratulated the Treasury for the strong intent behind the paper. However, he echoed the view that "governance is the least pressing challenge in the retirement fund space". He said that he could not think of a single governance scandal among the major commercial umbrella funds in the past decade. He believes improving retirement outcomes will not come from more 'hoop jumping', it will come from allowing the market to be more competitive, vibrant and innovative.

#Reform

Speaking at a Batseta webinar entitled *Practical proposals for quick wins in the commercial umbrella fund market*, Gluckman said that, in his view, customers much prefer product offerings promoted and backed by well governed financial institutions rather than relying on a few trustees in their personal capacities standing as final guarantors for billions of Rands of members' money. This has also been borne out in the Sanlam Benchmark research findings. The major umbrella fund sponsors - of which he listed 12 currently dominating the market - have the resources and capital to invest in technology and other enhancements that will ultimately give members better outcomes.

These include four new sponsors that have entered the list over the past decade. Gluckman believes that the continued focus of regulation should be on further enhancing the economies of scale, competition and efficiencies which would continue the improvement trends evidenced over the past decade. "Ultimately it is customers not regulators or providers that determine the winners in a competitive industry. I differ from some who feel the private sector cannot be trusted. I trust market forces that naturally self-regulate in terms of prices, quality, service, etc." said Gluckman.

#Costs

Steven Nathan, founder and former CEO of 10X Investments who is currently on a sabbatical, highlighted the well quoted statistic that only 6% of South Africans retire comfortably, and explained that the reason this statistic is so difficult to significantly improve is that members need to save reasonable amounts for decades, preserve money on changing jobs, earn decent investment returns and keep costs under control. Gluckman noted that the Sanlam Umbrella Fund had been the industry leader in published research into member level costs, and the improvements achieved over the past decade.

He believes that "an industry-wide cost analysis using similar methodology would be very useful to even better appreciate the power of competition in our space". Gluckman and Nathan agreed that rather than increasing the onerous regulation around retirement funds which must push in the direction of higher charges ultimately being borne by members, the focus should be on improving efficiencies with time-consuming and onerous Section 14 transfer requirements highlighted as a major problem.

#PassiveInvesting

As evidence of retirement reform in action, Gluckman highlighted the tremendous growth of passive offerings within the Sanlam Umbrella Fund. The passive investments are managed by Satrix, the Morningstar Large Fund Manager of the Year for both 2021 and 2022. Clearly the increasingly competitive environment had resulted in customers being attracted to such cost-effective offerings. Gluckman mentioned that launching a new Satrix Umbrella Fund as a competitor to the Sanlam Umbrella Fund is one “crazy and ambitious” idea with which he is toying. Provided it can get to scale relatively quickly, he believes that such a new entrant could become a major player in the market, and that additional disruption must be to the benefit of South Africans.

FA News | 12 April 2022

Alexforbes Manager Watch™ Survey of Retirement Fund Investment Managers shows increased pace of transformation among large managers

• An impressive increase in the number of participating asset managers who were Level 1 BBBBE contributors from 21 to 36 of the 72 participating asset managers
• 7 of the top 10 asset managers were rated as Level 1 BBBEE contributors and the remaining 3 were Level 2 BBBEE contributors
• For the first time, there were 13 Level 1 BBBEE contributors in the top 20 managers ranked by size, an increase of 85.7% over the 2020 finding when there were just 7 Level 1 BBBEE contributors of the top 20
• Assets under Management of participants increased by 7.5% from June 2020 although the concentration was still among the top 10 asset managers
• 43 managers indicated that they were signatories to the United Nations Principle for Responsible Investing (PRI) up from 34 in 2020

The Alexforbes Manager Watch™ Survey of Retirement Fund Investment Managers has been published, showcasing the performance of institutional fund managers in South Africa, the largest and best asset managers, as well as their respective BBBEE ratings. The Alexforbes Manager Watch™ has tracked the retirement fund investment management industry since the dawn of democracy in South Africa and now includes 22 surveys: nine balanced, 12 specialists and a multi-manager survey. The survey provides a key reference point to all stakeholders in the South African retirement funding industry and is a demonstration of both the depth of research expertise at Alexforbes and our commitment to empowering retirement funds with insights that enable them to make informed decisions.

Here are the key survey findings:

Increased pace of transformation

An impressive 36 of the 72 participating asset managers were Level 1 BEE contributors compared to 21 in the previous comparative year’s survey. 7 of the top 10 asset managers were rated Level 1 BBBEE contributors and the remaining 3 were Level 2 BBBEE contributors. For the first time, there were 13 Level 1 contributors in the top 20 managers ranked by size; an increase of 85.7% over the 2020 number, when there were just Level 1 contributors out of the top 20.

Contributor levels	2019	2020	2021
Level 1	21	21	36
Level 2	26	28	22
Level 3	4	3	1
Level 4	3	5	4
Level 5	1	1	1
Level 6	2	1	*
Level 7	*	*	*
Level 8	2	1	1
Unrated	6	9	7

While the increased pace of transformation amongst the large managers is admirable and reflective of their appetite and intent to transform, we must also caution that emerging black asset managers still require support across various dimensions to further the organic transformation of the industry.

General

New strategies noted in the survey increased by 14% approximately compared to 2020 as reflected in the table below. This reflects the increased diversification of strategies within the participating manager base.

	2020	2021
Asset managers	77	79
Participating strategies	485	542

New entrants		
Global BIV (4)	BEE (23)	Multi-Manager (13)
Global Conservative (1)	Bond (4)	Property (4)
SA BIV (1)	Equity (11)	Shari’ah (1)
Absolute Return (4)	Money Market (4)	

Number of participants (portfolios) across surveys

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SA Equity – non-benchmark cognisant	37	33	31	28	24	22	21	28	30	27	26
SA Equity – benchmark cognisant	26	21	22	22	25	41	28	36	41	43	51
Total Equity	**63**	**54**	**53**	**50**	**49**	**61**	**49**	**64**	**71**	**70**	**77**
Global BIV	19	21	21	22	23	23	22	27	32	34	36
Specialist Bond	21	21	21	20	21	23	22	24	23	24	26
Property	10	11	12	13	13	14	14	14	13	13	17
Absolute Returns	35	43	41	44	42	31	34	31	31	44	48

The biggest increase in 2021 over 2020 was 18.6% shown among benchmark cognisant portfolios in the SA Equity survey. There has been a sustained downward trend in SA Equity non-benchmark cognisant portfolios over the period, potentially reflecting improved investment governance as well as reduced appetite among retirement funds for performance dispersion and risk.

AuM survey highlights (figures at June 2021)

Ninety-One was found to be the largest South African asset manager, moving up in the rankings over the year from second place with an increase in assets of 14% from June 2020 to June 2021. STANLIB AM was second, with an increase in assets of 15% over the period, while Coronation leapfrogged into the third spot, with an annual increase in assets of 20% from June 2020.

Total Assets under Management (AuM)

AuM of participants in the survey increased by 7.5% from June 2020, with the concentration still remaining among the 10 largest asset managers. The AuM held by this group constituted almost two-thirds (65.4%) of the assets for the total universe of 72 managers participating in the survey.

SA and Global Balanced Manager Watch™ – Best Investment View

The Global Best Investment View delivered a similar performance as the domestic mandates with a differential of only 10 basis points between the medians with returns of 22.3% and 22.2% respectively. The two best performers in the Global Best Investment View category of the survey were PSG and **ClucasGray** who returned 37.7% and 29.6% respectively for the year.

All the managers in the SA BIV category had positive returns for the year with 9 out of the 13 managers beating the BIV median of 22.2%.

Counterpoint and **MandG**, previously known as Prudential, were the two best performers for the year in the category with returns of 35.1% and 28.9% respectively. One of the best-performing asset classes for the year ending December 2021 was domestic property, with the SA Listed Property Index returning almost 37%. It was no surprise that **Counterpoint** was the best-performing SA BIV manager for the year after reversing its poor performance in 2020. The majority of **Counterpoint's** over-performance could be attributed to its overweight position in listed property with exposure of 19.6% at the end of the year.

Asset allocation of the Global Balanced Manager Watch™ – Best Investment View
For the year, most managers in this category kept their domestic asset allocation relatively stable with the exception of **Old Mutual Multi-Managers (Managed)** and **Prescient**, who increased their allocation to domestic equities by 20.7% and 12.8% respectively over their positions in December 2020. Most managers still remain close to the limits of 30% for investment in international assets allowed by Regulation 28 of the Pension Funds Act. Of the 36 managers, only 8 were lower than the limit of 30% by more than 5%.

Nedgroup (Balanced) was the lowest at 18.9% followed by **ClucasGray** on 19.3%. **Oasis** had the highest exposure to international assets at 38.5%, which we infer includes some exposure to Africa equities. During the annual Budget Speech delivered on 23 February 2022 the Minister of Finance, Mr Enoch Godongwana, announced an increase in the offshore allocation limits for institutional investors.

The offshore limit has been increased from 30% offshore plus an additional 10% Africa allowance to a single limit of 45%. It will be interesting to monitor how asset managers respond to this decision and future iterations of the Alexforbes Manager Watch™ will include such detail. For the year, most SA Best Investment View (BIV) managers kept their asset allocation stable with the exception of **Absa** and **Aeon** who increased their allocation to local equities by 6.3% and 8.4% over their position in 2020. **FULL REPORT:**https://www.fanews.co.za/article/retirement/1357/general/1358/alexforbes-manager-watch-survey-of-retirement-fund-investment-managers-shows-increased-pace-of-transformation-among-large-managers/34324

FA News | 13 April 2022

Can I borrow funds from my RA to renovate an unbounded property?

The only time you can access these funds before reaching age 55 is in the case of ill-health or financial emigration.

Can I borrow funds against a Liberty Life retirement annuity to renovate a property that is unbonded? I would like to add a room to my property for business purposes. How do I go about obtaining a loan? I am looking for a loan of R500 000.

Thank you for your question. Governed by the Pension Funds Act, a retirement annuity (RA) is an individual retirement fund available to anyone who wants to save for their retirement in a tax-efficient manner. In terms of legislation, members of a retirement annuity fund may not access their invested capital before age 55, subject to very few exceptions. For the purposes of answering your question, therefore, we have assumed that you are currently below this age limit.

As mentioned, the earliest age that you will be able to access your funds will be age 55, with the exceptions being in the case of ill-health and financial emigration. It is therefore not possible for you to borrow funds from your retirement annuity to pay for your home renovations. As a retirement annuity investor, you would have enjoyed a tax deduction on the contributions you have made towards your RA to date and would have also benefitted from the additional tax benefits of having your funds housed in this type of investment vehicle. The government has made these significant tax advantages available to investors to ensure that South Africans save toward their retirement, thereby alleviating the burden on the state when they retire.

Therefore, it makes sense that legislation would not permit early access to these funds to be used on something other than your retirement. You have mentioned that you do not have a home loan and we are therefore assuming that your property is fully paid for and can be used as collateral when applying for a loan. The interest charged on home loans is generally much more favourable than the interest charged on personal loans, and we therefore recommend that you consider the option of taking out a home loan to fund your renovations. The most efficient way of applying for a home loan is by using a bond originator.

When using a bond originator, they will help you prepare a single application which will then be submitted to a number of banks on your behalf. They will help you fix your credit score, put all the necessary documentation together, obtain pre-qualification, and secure the most favourable interest rate from among the banks applied to. Remember, you do not need to pay the bond originator anything as they will be paid a commission by whichever bank you choose to implement your home loan through. Your bond originator will try and find the most favourable interest rates on your behalf, keeping in mind that the interest rate quoted by the financing institution will depend largely on the risk that you pose – taking into account your earnings, debt levels, credit history, net worth, and how well you have managed your finances. When taking out a home loan, bear in mind that prime lending rates have just been increased and are set to increase a few more times during the course of 2022 and 2023. As such, be absolutely sure that you are able to afford your loan repayments.

Ideally, set your bond repayment higher than the minimum amount required to provide a financial buffer should interest rates increase at some point in the future. Where debt is incurred to achieve positive, longer-term goals, it can be considered 'good debt' – such as in your case where you are borrowing money to renovate your home for business purposes. Having said that, good debt should be affordable and the repayments must be within your means, keeping in mind that any late or missed payments will have a detrimental effect on your credit score. We wish you everything of the best with your home loan application and the renovation of your property.

Moneyweb | 12 April 2022

INTERNATIONAL NEWS

New York State pension fund urges bank shareholders to back climate resolutions

Proposals call on lenders to align fossil fuel financing policies with net zero emissions target

The New York State Common Retirement Fund has called on shareholders to back resolutions demanding stricter fossil fuel financing policies at some of the world's biggest banks, one of the first such moves by a major pension fund. The $280bn fund on Monday called on shareholders to vote in favour of proposals filed at six major lenders — including Bank of America, Goldman Sachs and JPMorgan Chase — asking the groups to align their fossil fuel financing policies with achieving net zero emissions by 2050.

That would mean ensuring that financing did not contribute to "new fossil fuel supplies" that would be inconsistent with achieving net zero, the proposals state. Shareholders should support these resolutions because "financial institutions have a key role to play in decarbonising the global economy and addressing the systemic risks posed by climate change," said the fund in a letter. The climate impacts of the lending and underwriting activities of big banks are increasingly under the spotlight, with pressure coming from shareholders, activists and celebrities. All six of the banks targeted by the New York State Common Retirement Fund, which also included Citigroup, Morgan Stanley and Wells Fargo, have joined Mark Carney's Net-Zero Banking Alliance (NZBA) that commits them to decarbonising their portfolios by mid century. "To ensure that those commitments are credible, they need to adopt policies that eliminate financing of new fossil fuel exploration and development," the pension fund said on Monday.

All six banks have recommended that shareholders vote against the fossil fuel funding proposals. Financial institutions have become a focal point for activists, and a raft of climate-related proposals have been filed ahead of banks' annual general meetings this season. Lenders including Royal Bank of Canada (RBC), the Canadian Imperial Bank of Commerce and Scotiabank last week fought off proposals calling for stricter climate policies, although one filed at RBC asking the bank to hold an annual vote on its climate plans won 22 per cent of the vote.

Pressure has also come from celebrities including the Hollywood actor Mark Ruffalo, who banks with RBC-owned City National Bank. A public letter signed by Ruffalo, as well as the actors Scarlett Johansson and Jane Fonda, calls on RBC to "stop funding fossil fuel expansion." "They haven't really engaged with us since that letter came out, which is really shocking to me," Ruffalo told the Financial Times.

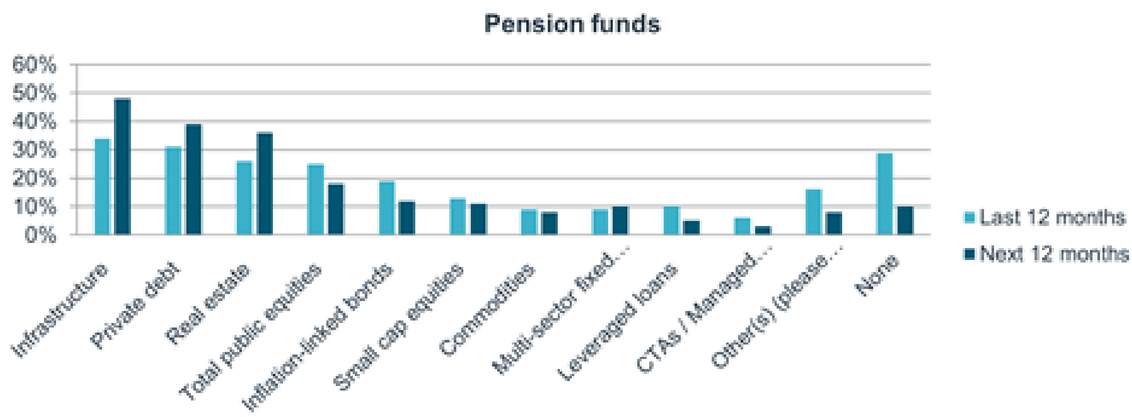
"For us to deal with climate change we have to deal with the financial system." Many polluting fossil fuel groups, such as Canada's tar sands oil producers, are betting on carbon capture and storage (CCS) technology, rather than a fall in production, to drive down emissions. But that would not necessarily help the banks meet their net zero goals: while CCS could reduce production emissions, substantial volumes of carbon would still be emitted when the fuel was used. Under NZBA rules, banks must count these emissions.

Financials Times | 12 April 2022

Pension funds turn to alternatives for inflation protection

More than four in 10 pension funds plan to increase the inflation sensitivity of their portfolio in 2022, according to a snap poll by investment consultancy bfinance. They want to do this by increasing exposure to infrastructure, private debt and real estate, the research found. According to the poll, which surveyed 162 pension funds, some 48% of pension schemes intend to increase the inflation sensitivity of their portfolio by increasing their allocation to infrastructure in the next 12 months. Private debt (39%) and real estate (36%) are also popular. Half of the pension funds surveyed were from Europe, with the rest from North America, Asia Pacific and the Middle East & Africa.

"To some extent, the asset allocation changes we are seeing here represent a continuation of some longer-term shifts, such as the shift in favour of illiquid strategies and real assets," said bfinance's Kathryn Saklatvala. She added: "Yet investors' concerns about inflation and rising rates – which come through in these statistics – are giving greater impetus to these trends." Some 84% of pension fund respondents are at least moderately concerned inflation will erode their ability to reach their investment objectives. Alternatives proved much more popular as an inflation hedge than equities (18%) and inflation-linked bonds (12%). A mere 8% of respondents are planning to increase exposure to commodities to increase the inflation sensitivity of their portfolios.

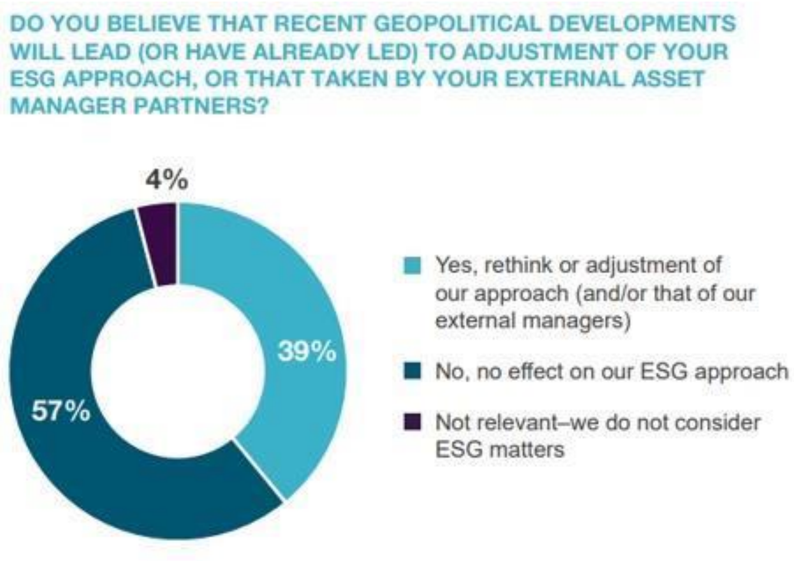


It seems commodities as an asset class has fallen out of favour indefinitely with pension funds, as only 9% of pension funds indicated they had increased exposure to the asset class over the past 12 months.

ESG adjustments

The hesitation to invest in commodities is striking, as how to respond to rising inflationary pressure is probably the most pressing concern on the minds of pension fund trustees. Perhaps it follows from the increasing importance attached to environmentl, social and governance

(ESG) considerations. Four in 10 pension funds said that recent geopolitical developments, notably the Russian invasion of Ukraine, will lead, or have already led to adjustment of their ESG approach, either in-house or via changes made by their external asset manager partners.



Several others cited that, while the conflict had not itself affected what they are doing, it reinforced the need for a sophisticated ESG approach. “Emerging market country exposures, controversial weapons and fossil fuel firms are coming under particular scrutiny,” said Saklatvala. An anonymous Dutch pension fund told bfinance the war in Ukraine has prompted it to rethink its controversial weapons exclusion list, adding: “We will also place more scrutiny on role of state-owned companies and companies that otherwise act as extensions of the state, where the state was blacklisted under our ESG policy, even though Russia wasn’t blacklisted under our criteria prior to the invasion.”

IPE Magazine | 11 April 2022