TWIN PEAKS INSIGHTS FROM OZ

BIG PROBLEMS FOR ADJUDICATOR

July/Sept 2019

Today's Trustee

YOUR MONEY YOUR POWER

SOCIAL GRANTS cannot be allowed to FAIL

Today's Trustee

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EXPERT OPINIONS

FIRST WORD

To be great again

SA democracy gets a second chance. It's not up to Cyril on his own. Key role for private sector.

In the wave of post-elections relief, that President Cyril Ramaphosa has emerged triumphant, the predominant question is whether he can "deliver" on promises made. It's the wrong question. Instead, the private sector should be preoccupied with asking how it can assist delivery through the intellectual and financial strength at its command.

Retirement funds, for one, have huge capacity with their trillions of rand under management. For far too long they've been frustrated by the lack of such 'bankable' infrastructure projects as renewable energy and water supplies. Advance them and any argument for prescribed assets evaporates. The unleashing of job creation must accompany the confidence, previously absent, that people's savings won't be squandered.

Ramaphosa has a tight window of opportunity, to prevent a return of investor scepticism and quell a regroup of party hacks, for confidence in his administration to be stimulated and belief in a trajectory for economic growth to be entrenched. The one is reliant upon the other, and neither can be effected from within government alone.

Under the Zuma regime, government and the private sector were in an abusive relationship of waste and worse. The advent of Ramaphosa, steeped in the legacy of Nelson Mandela, is marked by a love affair that anticipates proper consummation.

Needed now is less a new dawn than a reinvigoration of the old, from the early days of democracy, when the towering influence of Mandela inspired the nation with a sense of morality and purpose, of service and vision, of overcoming racial polarisation and galvanising potential for achievement.

All were waylaid in the back-biting and self-seeking that followed. All can be restored, and must be, by a return to the values of Mandela. Ramaphosa is the only hope, not least to draw back into the public sector the calibre of talent which it then attracted; put differently, to uplift the competence while simultaneously to root out the Zuma minions and stymie their capacity for ambush.

Unless he succeeds, SA fails. The choice is binary, as much for government as its citizens, and not to be offered again anytime soon.

Rating agency Moody's is spot-on with its warning that policy changes must be executed for the disaster of a sovereign-debt downgrade to be averted. But policy changes cannot happen on unilateral action. At the ANC's end-2017 national conference, just in case Ramaphosa won the election, booby traps were set for him.

To date he has handled them with aplomb. Take land expropriation without compensation. His frequently-repeated assurances – adherence to the Constitution, prevention of land grabs, promotion

Through-and-through a Mandela man

of food security – are presaged in the proposed Expropriation Bill (*TT* April-June).

They're a far cry for the expectations of populists, impervious to consequences, who'll continue to test him in the run-up to next year's meeting of the ANC's general council. Such noise – as with interference in the independence of the Reserve Bank and non-interference in the structures of Eskom – are being prepared for short shrift.

Policy change requires attitudinal change. Here too the ground is prepared.

The commissions of inquiry into state capture and corruption, as well as the SA Revenue Service, have been accompanied by new appointments respectively to head the National Prosecuting Authority (with a specialist anti-corruption division established) as well as SARS. More than sufficient evidence has seemingly been produced for arrests quickly to follow.

The quicker the better for a change in attitude that overrides the constraints of party factionalism. From what's been revealed to date, the genie is out of the bottle. From what's been set up at the NPA and SARS, prosecutorial decisions aren't for Ramaphosa to take.

Public perceptions are fundamental. Merely a handful of high-profile arrests, for a start, will demonstrate the seriousness of intent to attack societal cancers. The world needs to see, and the locals need to learn, that in SA the era of tolerance for stealing is over. Rhetorical pleas for a turnaround in morality are abetted by a big stick.

Actions by the NPA will necessarily find their way into the public domain, but this is not necessarily so with SARS. Bound by taxpayer confidentiality, its work is usually below the radar. However, tax evasion – such as non-declaration of income illegally accrued -- invites court appearances and criminal penalties. As in the manner that Al Capone was nailed, there's a potent weapon for SARS to use in the public interest.

The clean-out of corruption by the state, prioritised by Ramaphosa, is a prerequisite for the build-up of confidence. At the same time comes the imperative for private-sector support. How?

Companies still cash-rich are itching for the confidence to deploy resources, with multiplier effects for economic expansion, on the back of business-friendly policy signals. More than this, formal mechanisms are in place.

Prime amongst them is the Financial Sector Code. It commits the supposed institutional moneybags -- banks, insurers, asset managers and the rest -- to social expenditures on a vast scale. Whereas previously the sector's contributions might have been viewed as a compliance obligation, to temper government, it can be morphed by fresh circumstances into a platform enthusiastically to partner with government.

Grounded in B-BBEE considerations, the code's application goes beyond them by escalating the number of participants in the mainstream economy: for instance, through improved access to financial services; acceleration of skills development, and leg-ups for smaller businesses. These give meaning to the "inclusion" objective of a "transformed" landscape.

It's further underpinned by provisions for the financial education of retirement funds' members and trustees. They embrace not only routines essential for governance but extends, by an awareness of rights, to the building of a stakeholder democracy.

Resistance to Ramaphosa will come from cadres who're understandably averse to the prospects of refunding ill-gotten gains, paying tax and going to jail. In the bigger scheme of things, they're blots methodically to be blotted out.

His battle is less against them than against time, specifically time to get the economy moving. It's doable, given infusions of positivity, the beleaguered Eskom and a troubled world outlook notwithstanding.

Allan Greenblo,
Editorial Director. ■

New evaluation tool to transform and strengthen retirement fund benefits

Launched by Old Mutual, Andrew Davison (Head of Advice at Old Mutual Corporate Consultants) explains the intent to transform and strengthen retirement-fund benefits.

Not all employees are fortunate enough to have a retirement fund as part of their employment package. Membership of a well-managed retirement fund is undoubtedly a valuable employment perk, but it does not guarantee a comfortable retirement. Yet the mistaken belief amongst many employees is that mere membership of a retirement fund will ensure that they will be looked after in retirement.

There are many reasons why people fail to accumulate sufficient assets to be able to continue to enjoy the same standard of living in retirement. Some of these reasons relate to poor decisions on the part of the members themselves – decisions about the level of contributions to make, the choice of investment strategy, whether to preserve savings when changing jobs or how to convert accumulated savings to a sustainable, inflation-adjusted income in retirement are all important decisions.

A crucial factor, difficult to assess, is whether the particular retirement fund to which a member belongs is actually delivering for the member while he or she is a member of the fund.

In order to assist decision-makers in retirement funds (trustees or management committees within umbrella funds) Old Mutual Corporate Consultants (OMCC) has developed an evaluation tool that takes the pulse of a retirement fund and provides a report on its effectiveness in delivering sound retirement benefits for its members.

Andrew Davison . . . delivery tests

This consulting tool, called OnTrack™, is delivered in the form of a detailed report containing valuable insights for the decision-makers in relation to the benefit design of the fund, the expected level of pension that can be expected from a fund and the impact of decisions being

made by both trustees and members.
All of this culminates in an OnTrack™ rating where a score of five is an excellent fund, and a score of one is a poor fund. This provides a stamp of quality (or lack thereof) for the fund. In addition, OnTrack™ benchmarks the fund against other funds providing the employer and the fund's decision-makers with valuable information about how they measure up to their competitors.

OnTrack™ is a consulting tool. So, in the hands of a skilled consultant, it has the ability to transform the conversation to be much more focused on delivering better outcomes for members. OnTrack™ provides a health check but this is only the beginning. It then assists fund boards to put measures in place to 'improve their fund's effective delivery of superior retirement benefits and hence their OnTrack™ rating.

In this context, 'delivering for members' is about more than just investment returns. Simply put, OnTrack™ assesses each member's actual accumulated assets against a target based on their length of membership of the fund. This is used to determine the percentage of members who are on track to achieve the required level of savings at retirement age to be able to provide a pension that is about 70% of the salary they were earning in the year before retirement.

This assessment encompasses the benefit design, contribution rates as a percentage of salary, choices offered to members, default investment strategy, fees and costs as well as member communication. It is about knowing where the members of a fund are going, monitoring progress against clear targets and making informed decisions that drive better outcomes.

A fund's OnTrack™ rating will compare it with other funds in the OMCC database. This will include funds in a similar broad industry as well as funds of a similar size in terms of membership.

In so doing, funds (and the employers backing them) will be able to see how their employee benefits stack up against other employers. We expect that this will motivate boards to improve their rating by revising their fund's benefit design, enhancing communication with members and increasing the support and education provided to members.

The OnTrack™ analysis will be completed on an annual basis and will be shared with clients in an annual fund health report. OnTrack™ is not aimed at individual members so it is not about projecting replacement ratios for individuals.

Rather, it is a fund report aimed at the board and equipping its trustees to understand their fund and its ability to deliver sound retirement benefits to members. It aims to empower them with the necessary insights to make better decisions for the benefit of their members.

By providing retirement funds with a clear measure of their effectiveness and enabling decision-makers to focus on the impact of their decisions and the actions they can take to improve outcomes for their members, OnTrack™ has the potential to drive improvements in South Africans' retirement wellbeing.

For truly member-centric retirement funds we believe that OnTrack™ isn't merely a nice-to-have. It's an imperative.

For more information, please contact Andrew on adavison@oldmutual.com or visit www.oldmutual.co.za/omcc

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FINANCIAL SECTOR CODE

Compulsion on the way

In the name of transformation, it seems inevitable that retirement funds will be whipped into line. Please pause to consider whether it's really necessary.

For an otherwise excellent Batseta winter conference, the start was frustrating. Its opening panel discussion, on transformation in the retirement-fund industry, was marked by a harangue about slowness and shoddiness in retirement funds' compliance with the amended Financial Sector Code.

Horror of horrors that merely a handful of the top funds had reported to the Financial Sector Transformation Council on the FSC's implementation. The message drawn by the panel – facilitated by a moralistic Andile Kumalo with a hardline Jan Mahlangu of Cosatu and an elegant Asief Mohamed of ABSIP amongst the participants -- is that the funds are generally and unacceptably unenthusiastic about transformation.

A consequence of the poor report-back is almost certainly that the FSC, in keeping with Mahlangu's argument, will soon become mandatory for retirement funds. In its first year of operation, for them the code was voluntary but subject to review thereafter (*TT* April-June).

Unrevealed is how mandatory compliance will be enforced. By fines on funds, and thus effectively on their members? By disbarment of trustees, and thus effectively exacerbating their scarcity? Unclear then is how mandatory compliance will make a

Khojane . . . industry perspective

difference.

More significant than the rounds of clichés were what wasn't said: no definition of transformation; no clarity on the desired end-game; no presentation of facts and figures; no analysis of progress to date; no suggestions for improvement; no mention of member outcomes; no larger institutions to air contra views.

This is a great pity for the opportunity lost. Fairly new in its gazetting, the FSC deserved better. The majority of funds, implicitly the industry itself, were pummelled by sweeping platitudes.

Meanwhile, in the background is the Department of Trade & Industry's amendments to the generic B-BBEE codes of good practice which in turn could presage a movement in the FSC's goalposts. Procurement remains the heaviest weighting on the overall B-BBEE scorecard. Now its weighting is to increase. There's also a refocus on skills development to include higher education.

As the FSC stands for retirement funds, preferential procurement gets more points than black participation on funds' boards (made rather complex when half of the trustees can be elected by members) and executive management (which presumes an availability of qualified principal officers).

Reporting requirements are detailed and onerous in a good and necessary cause. However, what's aspirational shouldn't be confused with what's practical.

Funds can burnish their credentials, for example, by heftier allocations to black-owned asset managers. The idea is to encourage the younger and smaller, since most of the established and larger are usually at a minimum of Level 2.

For a little illustration on transformation's present state of play, contrast the hubbub at the conference with performance from the larger asset managers who'd remain contenders in retirement funds' procurement stakes. Compliance with the FSC's seven pillars – enterprise and supplier development,

Pillay . . . risk management

empowerment financing and the like – falls substantially on them or the financial-sector groups of which they form part.

The illustration can be made by analogy. Of SA's 20 largest unit trusts, 10 out of 44 (23%) of portfolio managers are black and six out of the 44 (14%) are women. More significant, there's a promising pipeline (see chart on page 10).

Thabo Khojane, chief executive of Investec Asset Management and recently appointed chairman of ASISA, points out that trustees typically support both big and boutique asset managers: "They aren't mutually exclusive. But a fund can get a low score if the manager lacks the critical mass to apply such B-BBEE elements as training. Perhaps the smaller managers should not be scored on the same basis as the larger, and instead be allowed to apply for

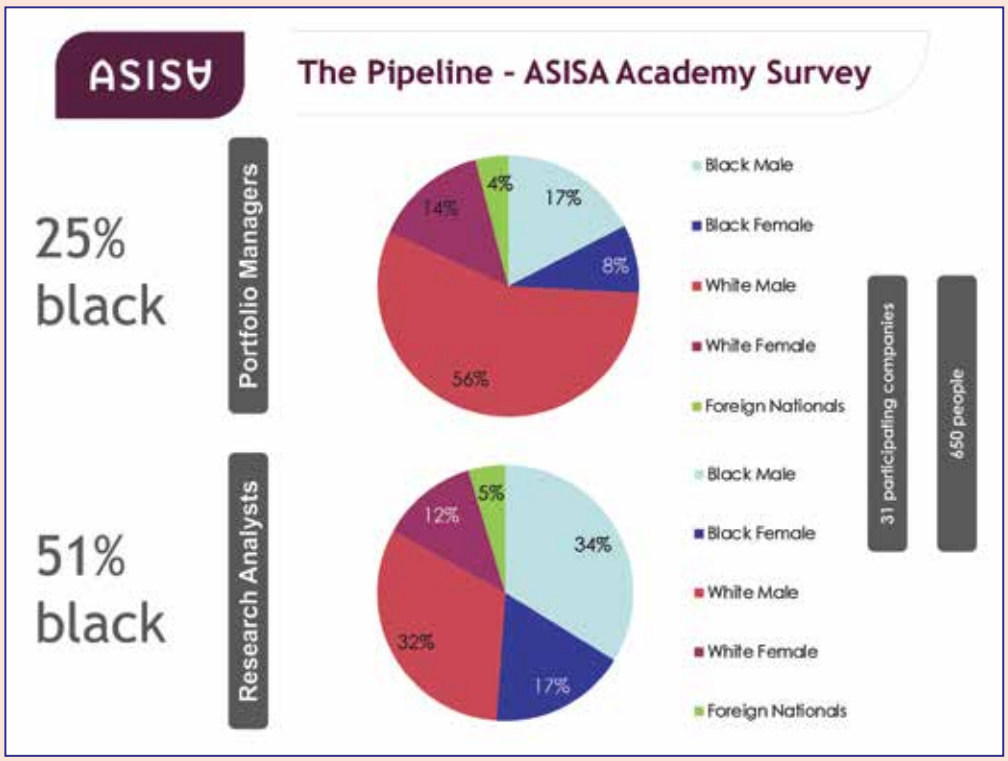
exemption until they've reached a size when they can choose to opt in."

He notes that IAM annually recruits for training five to 10 young black professionals that it doesn't need: "We recognise that we'd eventually have to let some of them go and are happy for our competitors to benefit from the training we've provided."

Big isn't bad, argues Coronation chief executive Anton Pillay. Given the seven pillars for FSC measurement, he believes it critical to ask who is actually doing what work: "Different clients have different requirements. The first step is to look after portfolios in terms of risk management."

The point is similarly emphasised by Stanlib chief executive Derrick Msibi: "We impact more people by caring for clients' assets than any other aspect of transformation. When there are millions of beneficiaries in retirement funds, collective investment schemes and insurance policies, financial wellness depends much more on looking after them than on changing the industry's ownership structures."

Msibi . . . clients first



And all this at a time when retirement funds are under exceptional pressures from diminished investment returns and retrenchment-driven member withdrawals in a persistently low-growth economy.

Also, bound by fiduciary duties (merely as a reminder) and regulatory layers (which come at a cost), trustees' heads must spin. For the FSC to become mandatory on retirement funds will make the job of the trustee no easier. ■

FINANCIAL SERVICES TRIBUNAL

Adjudicator in a quandary

Process to reconsider a determination is a mystery, even to the appeal body. From an early decision, confusion rules over clarity. Problems with legislation, previously unforeseen, lie in wait.

Feelings of sympathy might be extended to Vivian Cohen, the actuary appointed as valuator to the Amplats Group Provident Fund, who'd been ordered by the Pension Funds Adjudicator to pay the fund R40,5m plus interest as compensation for a loss that the fund had allegedly suffered (*TT* Nov '18-Jan '19). Having applied to the Financial Services Tribunal, for it to reconsider the Adjudicator's determination, Cohen is left in suspense.

All the tribunal has done, and apparently could do, is refer the order for payment back to the Adjudicator for further consideration. At this stage the limited relief for Cohen, until there's final settlement, is the tribunal's finding that the loss to the fund "was less than that set out in an actuarial report on which the Adjudicator relied".

The tribunal, chaired by retired judge Louis Harms sitting with Neo Dongwana and Ndumiso Nxumalo, made clear that its remarks referred to the office of the Adjudicator and not to a particular person in the office. This is just as well because of

Cohen . . . not yet off the hook

scathing observations about the office headed by Adjudicator Muvhango Lukhaimane. She's left with bruises and little guidance on how they must be

attended.

Almost as a sideline, the tribunal laid into the office for its presentation of the records that had been signed off by an unnamed senior assistant Adjudicator. Of the 2 228 pages, only about 10% were relevant to the application and all had been "dumped" at the tribunal to appear as a "shuffled pack of cards".

So much for the past. For the future, the Adjudicator has bigger problems. First, there's still a hole to be filled in the fund's assets. Second, since the tribunal's decision didn't analyse the merits of the Adjudicator's determination, what's to be the correct process in reconsidering it?

> *The main object of the Adjudicator is to dispose of complaints lodged in terms of the PFA. Yet in the legislation the jurisdictional requirements for the disposal of complaints are "simply absent".*

The tribunal lacked the power to substitute the Adjudicator's decision with its own, it found. Having looked at a plethora of case law and statutes – the Financial Sector Regulation Act, the Promotion of Administrative Justice Act and the Pension Funds Act – Harms seemed to throw up his hands: "How, in the light of this mix of provisions, the process may unfold hereafter is a mystery to us."

Harms . . . hard findings

It must therefore be a mystery to the Adjudicator too. Now in the hands of Lukhaimane is the unfolding of this mysterious process.

Appointed by the Amplats fund as its valuator in terms of the Pension Funds Act (PFA), Cohen had undertaken to conduct unit-price calculations on behalf of the fund (see box). It was alleged that a R40,5m loss to the fund had been caused by the breach of his duty to perform this function without negligence.

However, the tribunal stated, the failure to execute the mandate with the necessary diligence, skill and care – required of a reasonable professional – was not to be resolved by delict (civil claim to compensate for a loss). It had to be resolved by the principles of contract.

Cohen did not perform a duty under the PFA when committing the error, the tribunal continued: "The question arises whether the complaint of the fund against Mr Cohen fell within the jurisdiction of the Adjudicator, something which must be found within the four corners of the PFA."

But does it? Not necessarily.

The tribunal held that the Adjudicator does not have any inherent jurisdiction. Although in respect of matters that fall within his (sic) jurisdiction, the Adjudicator has the power to make an order which any court of law may make. But this did not mean that the Adjudicator is a court of law.

The main object of the Adjudicator is to dispose of complaints lodged in terms of the PFA. Yet in the legislation the jurisdictional requirements for the disposal of complaints are "simply absent".

Moreover, citing precedent, a "complaint" refers to prejudice suffered by a complainant as a result of the fund's maladministration. Because Cohen was not administering the fund or performing any function prescribed in the PFA, or even the rules for an actuary, his role fell outside this definition.

Put differently, the Amplats fund's complaint to the Adjudicator did not relate to the investment of funds or to the interpretation and application of the fund's rules. Accordingly, said the tribunal, in the present instance the Adjudicator did not have jurisdiction to make a determination against Cohen. There was also a lack of due process.

Although the Adjudicator has a wide discretion in adopting a procedure considered appropriate, the procedure must be fair. In this matter the Adjudicator had decided the matter on paper "but was not able to have done so because the essential disputes fell beyond the capability of his expertise".

The Adjudicator had also realised that "he did not have the expertise" to decide whether or not Cohen had been negligent. Not even a High Court would decide a damages claim on paper. It requires a full-blown trial hearing with legal representation.

Instead, without notice to any party, the Adjudicator had obtained the services of an 'independent actuary' for advice and opinion, and had based the determination on this advice. "To obtain evidence without due notice to the parties is irregular," noted the tribunal.

And for fairness, Cohen's side had to be heard. That it wasn't heard by the Adjudicator made it unsurprising that, in his appeal to tribunal and without dispute, he was able to show incorrect assumptions in the conclusions of the 'independent actuary'.

For example, in the calculation of loss, the actuarial report on which the Adjudicator relied had failed to take into account that part had been recovered by the fund. Another part had been caused by the fund's failure to stop overpayments once the error had been detected.

Fundamentally emphasised by the tribunal was the "fatal flaws" in the proceedings before the Adjudicator. Because of them "we do not deem it our function to deal with the issue of liability any further".

So back the matter goes to the Adjudicator. Best of luck to Lukhaimane. ■

WRONG CELL

The substance of the Amplats fund's claim against Cohen was that he had erroneously used the same opening balances in the calculation of unit prices in a specific portfolio over four months to December 2012. The result was that the members' fund credits were overstated, causing these members to be overpaid their benefits.

The error in the calculation had arisen because one cell in the particular spreadsheet was inadvertently hard-coded at the value on end-July 2012. It should correctly have referred back to the value from the previous month's balance by means of a standard excel formula.

This value was then carried over from month to month until the error was discovered.

FINANCIAL REGULATION

A guardian of the guardians

Oversight body, higher than the twins, proposed in Oz. For consideration in SA too?

When a Twin Peaks regulatory regime was being considered for SA, much focus was on the appropriateness of the model in Australia. It was seen to work well.

Not so any longer. Appointed to investigate the Australian experience with Twin Peaks was a Royal Commission into misconduct in the banking, superannuation (pensions) and financial services industries, it has produced a forensic report with far-reaching recommendations for reform and restructure.

Many findings are unflattering, to put it mildly, of financial institutions and of their regulators. Best then for SA policymakers to take a close look. The commission has done work that resonates in countries, SA definitely included, which have significantly emulated Australia.

Both the interim and final reports of the commission, respectively tabled last year and this, are voluminous. Their detail is intense. The conclusions are thoroughly argued and several are radical.

Prominent amongst them is the motivation for a permanent oversight body that sits above the twin peaks – the Australian equivalents of SA's prudential and market-conduct authorities – to monitor and publicly report on their performance. The body's essential role would be to assess:

Hayne . . . deep digs

- The effectiveness of each regulator in discharging its functions and meeting its statutory objectives;
- The performance of the leaders and decision-makers within the regulator;
- How the regulator exercises its statutory powers.

The task entrusted to each regulator by statute must be the foundation of any assessment. In most cases, the commission believes, assessment will not be capable of measurement or quantitative expression. For example, the number of proceedings filed or infringement notices issued will not say anything about the regulator's enforcement culture unless the decisions behind those numbers are evaluated.

While the "broad contours" of the enquiry areas would be largely obvious – licensing, enforcement, consumer protection, regulatory cooperation and market supervision – an important consideration will be how effective the agencies are in enforcing the laws within their remit. This will determine whether more radical steps, such as creating a civil enforcement agency, should be considered.

"I consider that a new (oversight) body is required," said commissioner Kenneth Hayne, a former judge in Australia's highest court. "It should be established by legislation and be independent of government."

The requirement would be unnecessary if the two regulators were operating as effectively as needed. Clearly, they aren't.

With the Twin Peaks model having operated for many years, the report noted that both the Australian Securities & Investments Commission and the Australian Prudential Regulation Authority recognised that their approach to enforcement must change: "That change cannot be effected by the passing of legislation. It must come from within the agencies. But it is also important to strengthen the accountability of both...by both being accountable to a new oversight body."

The central task of the commission was to inquire into whether any conduct of financial-services entities might have amounted to misconduct in falling below community standards and expectations. Innumerable instances of common practice are cited and condemned. The commission's analysis produced four observations:

ANYTHING LOOK FAMILIAR?

Probably yes, for a SA retirement-fund industry constantly on the receiving end of regulation upon regulation. In its interim report, the Australian commission began from the premise that breaches of existing law are not prevented by passing some new law.

Any new layer will add to cost and complexity, it warns. This should not be done unless there is a clearly defined advantage. Otherwise it serves only to distract attention from the simple ideas that must inform the conduct of financial-services entities.

These ideas are: obey the law; do not mislead or deceive; be fair; create products fit for purpose; deliver services with reasonable care and skill; when acting for another, act in the best interests of that other.

The simplicity of these ideas points firmly towards a need to simplify existing law rather than add new layers. The more complicated the law, the easier it is for compliance to be seen as asking 'Can I do this?' rather than 'What is the right thing to do?' "There is every reason to think that the (mis) conduct examined in this report has occurred when the only question asked is 'Can I?'"

Regulatory complexity – labyrinthine and overly detailed – may foster a box-ticking approach where entities focus on internal procedures intended to fulfil various complicated legal obligations. Not only is this at the expense of considering the circumstances in each matter on their merits, it finds, "but also at the expense of measuring what is proposed against these simple ideas".

- In almost every case, the conduct in issue was driven not only by the relevant entity's pursuit of profit but also by individuals' pursuit of gain. Providing a service to customers was relegated to second place. Sales became all-important. Advisers became sellers and sellers became advisers. Rewards have been paid regardless of whether the persons rewarded should have done what they did;

- Entities and individuals acted in the ways they did because they could. Entities set the terms on which they would deal. Customers often had little detailed knowledge or understanding of the transaction and next to no power to negotiate the terms. At most, a consumer could choose from an array of products. There was a marked imbalance of power and knowledge between those providing and those acquiring the product or service;

- Consumers often deal through an intermediary. In many cases, the intermediary is paid by the provider and may act in the interests of the provider or only in the interests of the intermediary. The interests of client, intermediary and provider are not merely different but are opposed;

- Entities that break the law are too often not properly held to account. Misconduct will be deterred only if entities believe that misconduct will be detected, denounced and justly punished. It is not deterred by requiring those who are found to have done wrong to do no more than pay compensation and wrongdoing is not denounced by issuing a media release.

The misconduct identified in the report has caused large damage to individuals as well as the overall health and reputation of the financial services industry, the commission finds: "The industry is too important to the economy to allow what has happened in the past to continue or to happen again."

SA policymakers can take another good, hard look at Australia. It previously spared them the trouble of reinventing the wheel. ■

DELEGATED INVESTMENT SERVICE PUTS RETIREMENT FUND MEMBERS FIRST

David Potgieter, Head of Operations, RisCura

Smaller pension funds are finding it difficult to comply with ever stricter regulatory and governance requirements, particularly since the 'default' regulations came into effect in September 2017.

As a result of this and other factors, many trustees are considering shutting down their standalone funds and moving their members into pooled solutions like umbrella funds. While this is certainly one option, it might not be suited to every fund nor to specific needs of members.

Trustees of standalone funds can determine their own benefit regime and investment strategy, tailored specifically to their members' needs. In a large pooled structure with a wide cross-section of members, members tend to get exposure to a more generic, off-the-shelf offering. It may look cheaper in the short-term, however, what is the cost to members in the long-term? Will they end up with the pensions they need for a decent lifestyle later in life?

Additionally trustees of smaller, standalone funds generally feel more responsible towards members as often they know many of them personally, and are frequently, members themselves. This makes it easier to fulfil the fiduciary goal of looking after the fund "as if it were your own".

So, are there other ways a standalone fund not wanting to join an umbrella scheme can retain its independence while reducing compliance complications, governance burden, and costs?

Delegated Investment services

One way is through a delegated investment solution, which allows funds to remain standalone and retain the benefits that brings, whilst reducing the burden of governance and compliance and lowering costs to members.

In this solution, trustees retain full control of their fund's strategic direction, assisted by the delegated investment service provider, who carries out member and fund risk profiling, asset-liability modelling, and provides an Investment Policy Statement (IPS) and relevant trustee training, as required.

The fund's assets are invested into a managed portfolio of investment manager funds, including cash and derivatives, as appropriate. Trustees can also delegate the often difficult and time-consuming task of choosing, managing and monitoring their asset managers. In addition, tactical asset allocation decisions (within the bounds of the strategically agreed IPS) could be made by the delegated investment service provider on a discretionary basis and executed timeously to optimise performance and manage risk more effectively. This ensures that market valuation dislocations are responded to swiftly. Accounting and other investment administrative functions are also handled by the delegated investment services provider, ensuring full investment regulatory compliance and satisfying audit requirements.

What about fees?

With delegated investment services, several economies of scale apply, such as being able to negotiate better manager fees with investment managers, common processes and controls across funds. This enables the service provider to charge for services, inclusive of asset manager fees, with a single flat fee, at a highly competitive rate, that ultimately saves funds money. ■

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CURRENTS

Bigger and bigger

Umbrella arrangements are on a one-way trajectory. Their efficacy deserves ongoing scrutiny.

The consolidation of standalone funds into umbrella arrangements is proceeding apace. The last annual report of the old FSB, and first of the new FSCA, shows the number of active funds down to 1 647 by end-March 2018 from 1 758 the previous year.

But the sting is really in the contrast with five years ago when there were over 5 000 funds. Ideally, the FSCA would like the number consolidated much further to match its capacity for supervision; perhaps to 200 mega-funds although a recent count suggests that there are more than this number of umbrellas alone. Most of these are smaller and newer.

A pattern of the major sponsors of commercial umbrellas is emerging (see chart). However, these FSCA figures are about a year out of date. For instance, as mentioned at the Batseta conference, Sanlam is now approaching the R50bn mark. Also, according to the latest Sanlam benchmark survey, there are now only about 1 100 funds that can broadly be categorised as standalone (compared to some 13 000 in 2005), and roughly 350 of them are busy transferring primarily into umbrellas.

The chart nonetheless shows the huge gap between the upper and lower 10 sponsors, together accounting for 98% of the umbrellas. Old Mutual, having abandoned administration of standalones, leads the pack.

As consolidation progresses, there are at least three issues around umbrella funds that need to be properly clarified:

The top 10 commercial umbrella funds

COMMERCIAL UMBRELLA FUNDS			
RANK	SPONSOR	ASSETS	MEMBERS
1	Old Mutual	R 110,836,377,720	442,145
2	Alexander Forbes	R 78,584,521,915	374,682
3	MMI	R 52,818,894,445	386,348
4	Liberty	R 36,649,408,982	356,613
5	Sanlam	R 32,091,496,403	229,380
6	Willis Towers Watson	R 6,710,441,509	13,402
7	NMG	R 6,225,235,002	41,727
8	Grant Thornton	R 5,895,264,445	36,741
9	Sygnia	R 3,584,651,424	15,528
10	10X	R 3,499,033,092	32,320
	% Top 15 Sponsors	98%	98%

- What is meant by "independent" directors when they're appointed by the sponsor;
- Whether management committees should be mandatory at participating employers in order that their workplace link to employees isn't compromised;
- How the economies of scale are comparatively reflected in cost advantages.

Not so great

For the 2019 Sanlam benchmark survey, 100 principal officers were asked for their wish lists. Coming out tops were compulsory preservation and regulatory simplification. Sadly, believes Sanlam's David Gluckman, neither is likely to happen.

He added: "If we want to make retirement great again over the next decade, we need to win the battle against the armies of compliance and risk managers that make providers and trustees too scared to do anything positive."

When an actuary is not allowed to talk to a member about financial matters for fear of straying into advice, or when people claim that no one aside from a financial adviser is allowed to indicate to a member such basic information as to how tax benefits work, "then something has gone very wrong with our industry".

Grey matter

The commissioner of the Financial Sector Conduct Authority was supposed to have been appointed by October last year. But it still hasn't happened. The role is filled by Abel Sithole who variously signs FSCA documents as commissioner, acting commissioner and representative of the transitional management committee.

So that's Peculiarity No 1. Peculiarity No 2 was raised by Gill Marcus who sits with Judge Mpati at the inquiry into the Public Investment Corporation.

She asked whether Abel Sithole, who is the "interim person" as FSCA commissioner, is the same

Marcus: different hats

Abel Sithole who simultaneously serves as chief executive of the Government Employees Pension Fund (the PIC's largest client).

Nomkumbulo Tshombe, head of the FSCA legal department, replied that the GEPF is not regulated by the FSCA whereas the FSCA regulates the PIC and the GEPF governing structure is its board of trustees: "Mr Sithole is the principal officer of the GEPF which is different from a chief executive in the traditional sense."

Marcus: "It doesn't necessarily resolve the conflict....Given the same personality, all I'm doing is pointing out that there is a grey area in relation to Mr Sithole."

Now to await the Mpati recommendations and the actions to follow. Never a dull moment.

Bad play

Unless newspapers in Independent News & Media SA have miraculously turned to profit, with each day that passes the group's exposure to the PIC must compound. So long as the group's daily and weekend titles continue hit the streets, as they do without interruption, the PIC is between a rock and a hard place.

The PIC can cut its losses by folding the newspapers. On the other hand, closures will kill prospects to find potential buyers which – presuming they exist outside the PIC's imagination – are taking inordinately long to come forward.

Such is the PIC state of paralysis that it does nothing at all. It doesn't even answer questions on how INMSA's debt is escalating. After the disclosure in parliament late last year that INMSA had not repaid to the PIC a loan of R253m due in August 2018, think in more hundreds of millions.

There's clearly a price to be paid for media diversity, as much for INMSA as for the SABC. Less clear is who'll pay it, as much for them as for other iconic titles whose futures are threatened.

Wake-up call

For so long has Regulation 28 required that pension funds "give appropriate consideration" to environmental, social and governance (ESG) factors in their investment decision-making that it's become one of those things without consequence if not taken seriously. Okay, trustees could say, we've "considered" these factors so we've done our bit.

The guidance note issued by the Financial Sector Conduct Authority tries to put meat onto the bones of Reg 28. But it's merely a guidance note, with no penalties for non-compliance, where "consideration" is upscaled to "encouragement" and "expectation".

In the UK, by contrast, the pensions regulator will sanction trustees who don't follow the ESG rules that came into force last year. Guy Opperman, speaking in parliament for the pensions ministry, described as "utterly wrong" the perception amongst many trustees that they needn't worry about ESG: "They'd be breaching their statutory and potentially their fiduciary duties not only to current but to future members".

Eskom bonds...ESG test

The value of the guidance note is in the FSCA specifying what it encourages and expects of trustees, to focus their minds in the compilation of their regulatory investment policy statements (IPS) and on their oversight of outsourced service providers. For consultants, who know more about ESG than most trustees, and asset managers, for whom ESG promotion is a selling point, the guidance note must be a joy to behold. They'll be loaded with fees-earning work.

Implementation of the guidance note's principles relies on transparency and disclosure to the regulator and stakeholders who'd include fund members. The regulator must anticipate that more funds will promptly file their annual reports and stakeholders might hope that more funds actually create informative websites.

Information requirements are demanding. As an example: "Where a fund holds assets that limit the application of ESG factors, sustainability criteria or the full application of an active ownership policy, the IPS should also state the reasons as to why this limitation is to the advantage of both the pension fund and its membership. Alternatively, the IPS should set out the remedial action (or) where no remedial action is taken, the fund should set out the reasons therefor."

The stage is set for delicate debates, not least being the myriad conflicting factors over Eskom: fossil fuels versus climate change versus jobs for coal miners versus poor governance versus national energy supplies vs financial viability.

These are issues that government is battling to resolve. Maybe, just maybe, the clout of pension funds can help.

Internationally, according to the Global Sustainable Investment Alliance, assets invested sustainably have passed the $30tn mark based on a classification that encompasses funds (including pension funds) using ESG criteria. Today there's a plethora of ESG indices.

Useful tool

It's well worthwhile for trustees to invest the time – no money is required – for taking the e-learning course offered by the toolkit on the FSCA website. Whether as an introduction or refresher, be tempted to explore www.trusteetoolkit.co.za.

It's made delightful by the case-study games that complement the basics you thought you knew, from board governance to stakeholder relationships.

In fact, the toolkit shouldn't be for trustees only. Members of pension funds, and consumers of financial products at large, will equally derive knowledge and pleasure from it.

Tax at Alex

Still there's residue, after all these years, over the profits taken by Alexander Forbes from its controversial "bulking" operations. It was back in 2006 that Forbes had "bulked" the bank accounts of numerous pension funds in order to earn interest for itself from the banks.

These were considered "secret" profits that should rightfully have belonged to the affected funds. But then Forbes reflected them as its own profits and paid tax on them. However, once Forbes subsequently passed the "bulked" profits onto the funds, what's to happen with the tax?

Because the profit belonged to the funds, Forbes shouldn't have paid tax on it. And once the profit had been passed to the funds, it should have been only for the pre-tax amounts as the funds aren't liable for tax.

The "bulking profits" were not in themselves assets of the funds. Rather, they'd accrued from an agreement reached between Forbes and the banks. As the base of the profit was pension funds, these profits should be distributed – where they haven't already -- to funds that are still active.

Within this shambles there's another poser. It's the destination of profits belonging to funds that are no longer active but, in future, will have assets in the form of these profits.

Dream city

In his SONA address, President Cyril Ramaphosa spoke of the new post-apartheid cities that he envisioned. He was accused by critics of fantasising.

The critics might be wrong. They should look back to the well-advanced plans announced by Paul Mashatile, as the then chair of the Gauteng ANC and in charge of the province's human settlements, to launch a R1,8 trillion public-private partnership for precisely this purpose (*TT* Sept-Nov '17).

Now that Mashatile is in the ANC's top six, as its treasurer-general, he's strategically positioned to give these extensive plans the oomph they need.

Mvunonala again

"One of SA's biggest unions was used as a conduit to launder about R65m in pensions allegedly plundered from impoverished orphans of deceased mineworkers," reported *City Press* in June.

The fund is identified as the SA Transport & Allied Workers Union. The matter dates back to unfolding scandal at Mvunonala which involved, amongst others, the Bophelo Beneficiary Fund (*TT* May-July '18).

And still nobody's been arrested. ■

COFI to include alternative investments

There are far-reaching implications. Certain clarities are urged by Rowaine Naidoo, legal advisor at Ashburton Investments.

The Conduct of Financial Institutions Bill ('COFI'), likely to be tabled in Parliament this year, is said to represent the next phase of legislation aimed at remodelling the financial-sector framework toward a Twin Peaks model.

It is expected to replace and improve the conduct requirements in existing financial-sector laws by addressing aspects of the current multi-pronged policy approach through building a market conduct legislative framework for all institutions performing financial activities.

Background

The Financial Sector Regulation Act of 2017 was the first step in implementation of the long-awaited Twin Peaks model. This model, based on the Australian regulatory system, seeks to strengthen and address the gaps in the regulation of South African financial markets by polarising the financial market into two 'peaks' and regulating for them accordingly.

The emphasis will move away from a regulator being responsible for a type of entity but rather a type of activity. The two 'peaks' are system stability and market conduct. COFI will be the legislation that enables the conduct pillar.

What does it mean for us?

COFI seeks to regulate all market conduct dynamics, including treatment of customers. Treatment of customers had previously been codified in certain pieces of legislation such as FAIS, the Consumer Protection Act of 2008 and the National Credit Act of 2005.

Naidoo . . . market dynamics

However, all these acts had taken different approaches as to how this objective is to be

achieved. They've failed to keep up with the ever-changing landscape and realities of South African financial markets.

The result of this disparate regulatory system was an uneven playing field across the various financial institutions, with some financial institutions having a much higher standard with which they needed to comply in comparison to others. Yet the risk or prejudice faced by all of them was equivalent.

The Financial Sector Conduct Authority tried to address this by issuing papers and guidance notes on standards/considerations relating to treating customers fairly (TCF) and retail distribution. But as these were not codified into law, the application and acceptance of what these papers and guidance notes sought to achieve continued to be an afterthought for many financial institutions.

It is important to note that the outcomes of COFI are broader than the TCF outcomes. The TCF outcomes are aimed mainly at retail customers, whereas COFI is intended to have scope of jurisdiction across the financial sector and is not limited to the retail environment.

Aligned with the spirit of the Twin Peaks model, COFI has been drafted on the premise of four interdependent approaches. These are principle-based, outcomes-based, activity-based and risk-based and proportionate.

A principle-based approach seeks to set principles that specify the intention of regulation, rather than set rules for financial institutions. An outcomes-based approach enables the regulator to focus on the outcomes that they require institutions to achieve, rather than setting overly prescriptive process requirements.

An activity-based approach seeks to regulate an activity notwithstanding the financial institution performing such activity. Lastly, a risk-based and proportionate approach requires the regulator to assess risks (now and in the future) and apply/enforce appropriate measures.

To achieve these principles, COFI has been drafted on the basis that it will contain minimum principles and expected outcomes. Also where they're required, conduct standards, interpretation rulings and guidance notices will be used to address the nuances in each sector.

This approach is also seen as supporting sector diversification and competition by recognising that, while uniformity is crucial, a one-size-fits-all approach would be catastrophic to the South African financial market system.

Inclusion of alternatives

The current market dynamics have seen a shift towards alternative assets classes. These have to date been regulated very differently to traditional financial products.

Consistent with the theme of uniformity, COFI seeks to include alternative investment funds. While this approach is applauded, the current definition in COFI has perhaps taken it a step too far by defining an alternative investments fund as including one or more investors whereas a collective investment scheme is defined as including two or more investors.

It is unclear if it was the intention of the regulator to catch bilateral contracts such as investment management agreements, or if the intention was to only catch alternative investments funds used for pooling such as a private equity fund.

We don't believe it is the intention of the regulator to catch all relationships under this definition, especially those between two financial institutions. But until the next draft of COFI is circulated, we can only hope that clarity will prevail.

www.ashburtoninvestments.com

ASHBURTON INVESTMENTS

COVER STORY

Unsocial scenarios

There are warnings after warnings of a 'ticking time bomb'. The ticking is heard but inadequately heeded. Throwing money at the problem won't resolve it.

The sustainability of Eskom is marked as the greatest risk to the SA economy. But there's another risk, perhaps equally great. In circumstances of pitiful economic growth, it's the perpetuation on its present trajectory of the social-grants system that shields swarths of the population from starvation.

Retirement funds are obliged by regulation to consider environmental, social and governance (ESG) criteria in making investment decisions. Of the three, the S gets the least attention. This isn't as it should be because it can rock investments the most.

Latest figures from Stats SA put unemployment amongst black youths at 34,2% in the 25-34 age group and 55,2% in the 15-24 age group. To describe this situation as explosive is to state the obvious. When people have no incomes they must rely on those who do, however meagre, or take to the streets.

Riots and robberies, dangerously prevalent, won't be thwarted by improved policing alone. Neither can they be mitigated by the maximum hand-outs that the state can afford. For the present, social grants are a kind of palliative that keeps the poorer in relative calm and the richer in relative comfort.

The latter daren't gripe because, in a way, they're paying an insurance. In the current fiscal year, government allocated R175bn in social grants for 17,6m people. Against this, there are 7,6m individual taxpayers from whom R553bn is extracted.

So a hefty chunk of individual taxpayers' contributions are absorbed by social grants. In a national budget that's highly redistributive, of the 7,6m individual taxpayers there are a mere 121 000 (1,6%) who pay R160bn (30%) of the total. The equivalent of their entire payments, and then some, go to social grants.

Heavy burdens

Despite redistribution, which in itself is unarguable, the social-grant system has failed to generate upliftment from destitution. The new mandate of the Social Development Department is "to provide social-protection services and lead government efforts to forge partnerships through which vulnerable individuals, groups and communities become capable and self-reliant participants in their own development".

Were it to happen, it will be a reversal from what's been happening. Bring on the "partnerships",

Dlamini . . . failure

presumably with the private sector, and pray for success.

When the dispensation of cash lacks a multiplier, it is limited to serving consumption. The vital means of support for grant beneficiaries, it extends to support for dependents in the swollen ranks of the jobless. Poverty grinds on.

The point is made in the National Development Plan which aimed to eliminate poverty and unemployment by 2030: "Children, the aged and people with disabilities are the groups most likely to be unemployed and bear the brunt of poverty and inequality. Their dependence on family networks is precarious given the extent of unemployment and underemployment.

"High unemployment rates mean grant recipients have to use their grants to support other household members as grants are often the main source of income in poor households."

Released in 2012, the NDP was produced by a panel on which Cyril Ramaphosa served as deputy chair. In his inaugural address as SA president, Ramaphosa emphasised his determination to reverse the trait of too much talk and too little action. The NDP will need to be dusted off, inclusive of its concerns with social protection.

Thin as the grants are – people older than 60 get R1 780 a month, for example -- they hit disconnects. One is that the number of beneficiaries increases faster than tax revenues. Another is that joblessness proceeds in the wrong direction, compounding the number of dependents.

The inadequacy of social grants, relative to need, is accentuated if each of the 17,6m recipients is conservatively assumed each to have an average of two dependents. This implies that the greater proportion of SA's population relies on the grants, capped at around 3,2% of gdp.

National Treasury projects that there'll be 18,6m recipients within the next two years. As gdp declines – it slumped in the first quarter of this year, causing growth forecasts for 2019 to halve from the already-distressed 1,5% -- there must either be less money available for social grants or the state will need to prune from other essential expenditures. The plight of Eskom, for one, gives it little leeway.

For a further perspective, go back at little. In a 2004 judgment, the Constitutional Court ruled that there were circumstances which entitled non-citizens to social-security benefits. This was despite the arguments of National Treasury that the extension to permanent residents was unaffordable.

Treasury had pointed out that, in the previous three years, expenditure on social grants (excluding administration costs) had increased from R16,1bn to R26,2bn. It was contemplated that over the next three years the amounts would increase from R26,2bn to R44,6bn.

That was long ago. The figures are miniscule when compared with the subsequent ballooning. Back then, the court had considered that the inclusion of permanent residents would have minimal impact because of an effective immigration policy which sought "to exclude persons who may become a burden on the state and thereby to encourage self-sufficiency among foreign nationals".

Did it? There aren't analyses to say. But it would be a red herring anyway. Joblessness in SA is joblessness in SA, a matter of scale irrespective of nationality.

The overarching evidence is that the numbers keep going up with few interventions to make much difference. This is despite the plethora of green papers, white papers, academic research and recommendations into what should be done. Thankfully, long-serving Social Development Minister Bathabile Dlamini has been relegated for uselessness.

She's had no more severe critic than Sipho Shezi. Her fulltime special advisor from 2013, she fired

him in 2017 for his objections to her defiance of a Constitutional Court decision over irregularities in the department's contract with Cash Paymaster Services.

Shezi, a retired director-general of Public Works – he was the youngest DG when appointed by Nelson Mandela – is a steadfast critic of the system that's evolved. Quite fundamentally, he warns, the system "is unsustainable in the manner being executed".

When he headed Public Works under minister Jeff Radebe, he recalls, its programmes were meant to have money flowing into delivery of services while simultaneously to develop skills and jobs. These intents, formulated as policy in 1997, must be revived.

But in the years that have passed, under Social Development the system has garnered the sense of a right to receive something for nothing in exchange. Perhaps it's a legacy from the 1980s' mobilisation against the old regime carried into an anticipation for the new.

This culture, which accommodates zero return on government's investment, has to be turned around. "As the social grants come in, most of it goes out for the purchase of perishables manufactured and distributed by large JSE-listed groups," he points out.

Not that Shezi has anything against Tiger Brands and Shoprite, amongst others, but he'd far rather see the grant money circulating optimally in the communities themselves; for example, "where local people grow vegetables that they sell to local stores which in turn supply local customers and such public institutions as schools".

At the policy level, there has to be a welfare net. But at the same time, he urges, it must provide for a transition: "When people are in the net this component of civil society has to be consciously mobilised with capacity to look after itself."

He wants an exit strategy from social grants. The more that people are "capacitated" to produce their own incomes, the more they can become taxpayers who contribute to the revenue base. The welfare net is there for those don't make it, or until they do.

It cannot be said that the present system is sustainable when active citizenry is virtually zero, Shezi suggests, and children are coming from collapsed family structures.

Shezi . . . culture shift

To be sure, there are myriad proposals for reform. The committee of inquiry into a comprehensive social-security system was established by the Social Security Department in 2001. It concluded: "The urgent need to address deepening social exclusion and alienation of those households living in destitution cannot be ignored." Some urgency.

In 2016 there was the updated iteration, under UCT professor Viviene Taylor, for "transforming the present, protecting the future". Like the NDP, it's been gathering dust.

And proposals for a National Social Security Fund remain in the wings, almost is if its central feature of "social solidarity" is too contentious to confront. The term is a diplomatic way of phrasing the subsidisation of people not in retirement funds by those who are, with concomitant effects on fund benefits that otherwise contradict efforts to improve them.

But structural reform should be subordinated to the larger reform of diminishing dependence on hand-outs, not to be consumed as an end in itself but as a stimulant for economic activity. This will require a radical change in culture, which serves an aspiration for self-reliance, much more difficult to achieve.

Unless there's a new leadership committed to achieving it. To be hoped is that the new mandate of Social Development, articulated in a bill being developed for parliamentary approval, will represent the start. ■

LimaMbeu

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Active management's changing face

Ndina Rabali, chief investment officer of Lima Mbeu Investment Managers, discusses advantages of the 'quant-amental' approach.

As far back as 1974 Keith Ambachtsheer – currently a professor of finance at the University of Toronto – observed: "Active management is under serious attack because, as evidence knows, it has produced not over-performance but underperformance." This statement still rings true.

Active management finds itself under significant pressure from passive funds because most active managers have produced long-run underperformance of their benchmarks. Competition from passive funds is forcing active managers to justify not only their fees but also their existence. In this context, it's vital that active managers evolve and capitalise on advances in technology for delivery of better client outcomes.

Active management is the process of building an investment portfolio where the weights of individual securities differ from the market. In the long run, investors expect a reward for taking on more market risk. Because of the higher risk that comes with investing in equities, they expect a higher return for investing in equities as opposed to cash.

Unfortunately, the same relationship does not necessarily hold when applied to active management. Investors will not always receive a higher return for building a portfolio that looks very different from the market.

Why have active managers performed so poorly?

Active management is about one thing – information. Active managers believe that they can access and process information better than others to build investment portfolios that add value.

However, critics believe the failure of most asset managers to outperform their benchmarks is evidence that active management is a futile exercise. This view has led to the increased popularity of passive funds.

Rabali . . . fresh views

Of course, traditional approaches to active management have weaknesses that may often lead to poor outcomes for clients. The two main approaches used in the selection of investments in actively managed portfolios are fundamental and quantitative.

Fundamental approach has flaws

For many years, analysts and portfolio managers have

conducted fundamental research. They make buy or sell recommendations based on their knowledge of companies. This is a highly subjective approach that often leads to errors. For example, analysts are generally overconfident and believe their forecasts to be more accurate than what they actually are.

Eric Sorensen, chief executive of Boston-based PanAgora Asset Management (over $46bn assets under management) argues that fundamental active managers cannot analyse a vast number of opportunities. Their analytical framework is also susceptible to emotional errors such as falling in love with a stock. Unless fundamental portfolio managers find ways to reduce such errors, the trend of disappointing client outcomes may continue.

Quantitative investing also imperfect

Quantitative portfolio managers try to predict future prices of securities by looking at historically recurring patterns, based on analyses of various datasets. This approach is not susceptible to the emotional errors of the fundamental analyst. Unfortunately, it does not have the human insight required to adapt to changing trends.

For example, most quantitative funds were slow to react to the spike in volatility during the 2008 global financial crisis. The funds were still making decisions based on the data observed during prior years and were unable to realise that the environment had instantly changed. Quantitative investors must explore ways to incorporate human foresight into their strategy if they are to enhance their chances of delivering outperformance.

Quant-amental investing the solution?

It's possible for active managers to develop an approach that does not have the weaknesses of either the fundamental or quantitative methods. Globally, a new breed of active managers has emerged. They have taken advantage of the rapid advances in technology to develop an investment approach that harnesses the best elements from the two traditional methods.

Quant-amental investing is an approach that combines quantitative and fundamental techniques to make superior investment decisions. It leverages the power of data without abandoning the positive aspects of fundamental analysis.

For example, a quant-amental investor might use a statistical model to generate investment ideas but use fundamental analysis to decide which of these ideas to include in a portfolio. It reduces the level of bias that affects the generation of investment ideas while retaining the human foresight that is necessary to capture new trends.

Today, with the advances in technology, analysts can use sophisticated models to tap into multiple data sources. Access to unique data gives them an information advantage over those who remain rooted in traditional methods.

It is therefore possible to construct an approach that has numerous strengths relative to conventional approaches. This is the quant-amental approach that combines the best of both worlds.

Strengths/ Weaknesses	Quantitative	Quant-amental	Fundamental
Depth	✗	✓	✓
Human Insight	✗	✓	✓
Breadth	✓	✓	✗
Discipline	✓	✓	✗
Adapt to trends	✗	✓	✓

Source: Lima Mbeu Research

In conclusion

Active management faces numerous challenges due to the delivery of disappointing outcomes for clients. In response, investors are beginning to favour the use of passive funds.

But before sounding a death knell for the active-management industry, investors should consider improvements that can be made to traditional approaches. Quant-amental investing harnesses the benefits of traditional investment approaches without their baggage.

Active managers who use the same tools and techniques from the past will limit their ability to deliver investment outperformance. As Sorensen puts it: "New approaches with depth, breadth and focus will be the hallmark of tomorrow's successful active managers."

IMPACT INVESTING

Fair's fair

Look to profit with purpose. Funds must help to prepare for the sort of country in which they want members to retire.

With the launch of its education series for institutional investors, consultancy RisCura is performing a service for them and implicitly also for their clients in the formulation of mandates. The first in the series of seminars posed the question of whether investing for a better SA required prescription.

Certainly not. Were government to prescribe where retirement funds had to invest portions of their assets, there's no saying where they might end up; for example, pouring into the black holes of badly-governed state enterprises at disastrous returns. By contrast, impact investment (II) is what it says it is; a deliberate means whereby investors act to improve the society in which they operate and earn at least market-competitive returns.

The one is not an alternative for the other, much as the seminar theme suggested that II could stave off the threat of prescription. They're different animals.

Opening the seminar, DNA Economics head Elias Masilela put it this way: "Applied correctly, II has the potential to make a significant contribution to important outcomes and improve human conditions. The application framework required a strategy, origination and structuring, portfolio management, an exit and ultimately independent verification."

Growing economic imbalances were a hotbed for instability that threatened future profits, he warned, and called for a "swift and innovative" response.

It's only the speed that needs acceleration, for II isn't exactly innovative. Around the world, it's recognised and applied to good effects including financial. In SA too.

RisCura managing director Malcolm Fair cited local initiatives: Futuregrowth's Infrastructure & Development Fund for top-quartile bond performance while developing infrastructure; Ashburton's Jobs Fund for enhanced cash returns while creating jobs, and Mergence's Infrastructure & Development Equity Fund for rolling outperformance (see graph).

Such issues as climate change, labour relations and executive remuneration carried investment risks that had to be managed, Fair argued.

Around the world, II has become the hot area for money managers looking to burnish their ethical credentials. The Financial Times reports: "The allocation of funds to projects that put societal and environmental outcomes on a par with financial returns has become one of the fastest-growing parts of the asset-management industry."

But it's not without problems. In a survey, institutional investors and consultants said that their top biggest challenge was finding unlisted companies that fulfil the idea of an appropriate mission and provide a suitable place to park funds. While large institutions could allocate capital to publicly-listed companies, it then became harder for them to show a direct link between money spent on buying these shares and any positive impact on the business.

Of course, one way is for the investors to hold the

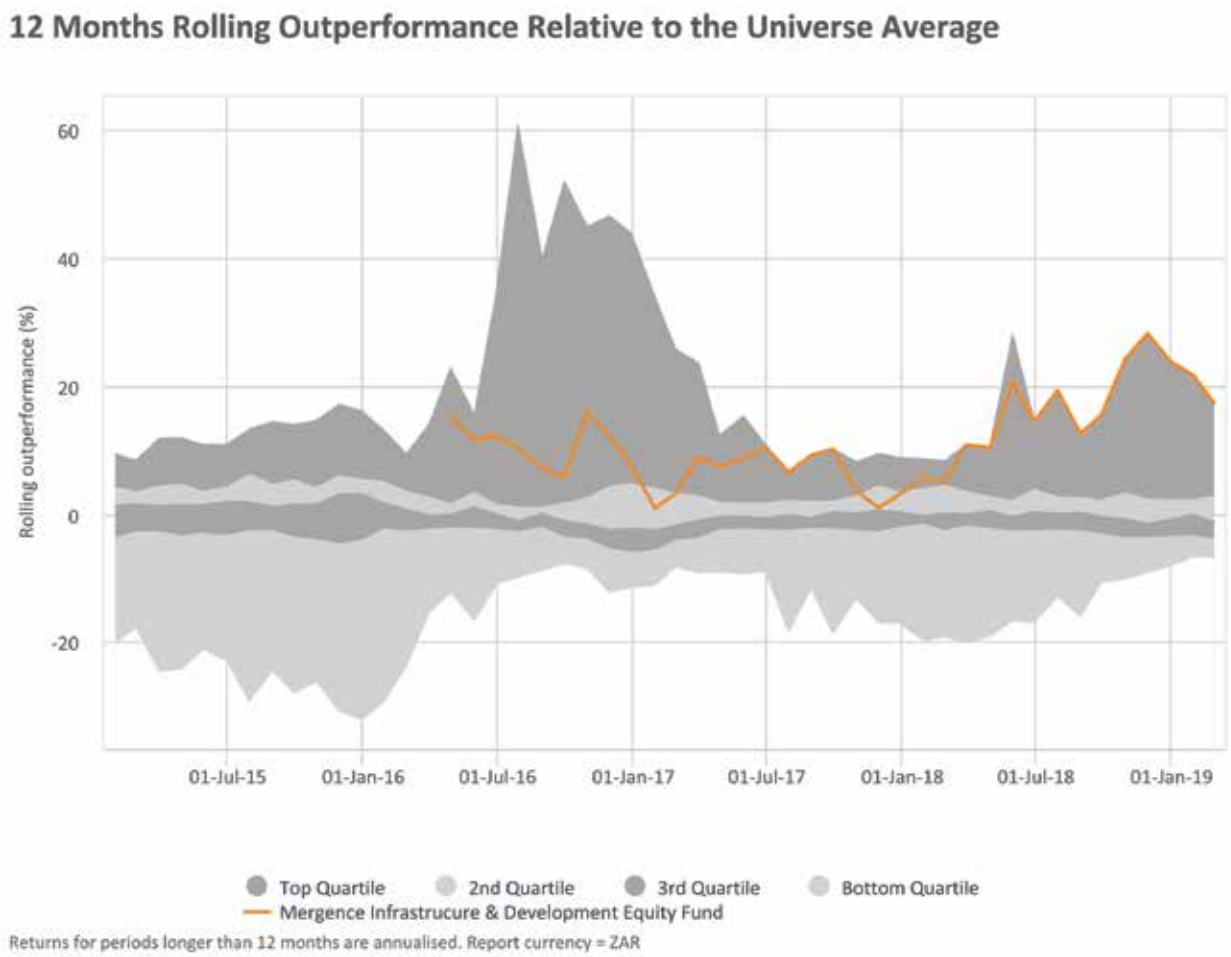
companies' boards accountable for their social and environmental actions. An incentive is to get on with it is that, as a mountain of research is beginning to show, the younger generation of clients demands that their investments show positive impacts which alter the practice of capitalism from greed to good.

For making investment decisions, profit and purpose are one and the same. Enough then of slow adherence to the United Nations' 17 social development goals which set an inclusive growth agenda for the years until 2030. Businesses and financial institutions such as retirement funds are seen to have a major role for the achievement of these goals, in SA as elsewhere.

SA funds might be paying members far into the future, Fair pointed out. Some of today's younger members will be receiving payments in 2085 and even those close to retirement will still be receiving pensions in 2050.

Think of the environment into which they'll retire if the goals aren't achieved. Or better, think of it if they are. ■

Developmental Investing – SA Equity



▶ Shorter track record, but showing great promise.

Source: RisCura

FSB/FSCA

Credibility at stake

For the accuser as much as the accused. A fight that neither the Public Protector nor the financial regulator can afford to lose.

Tshidi . . . wronged?

Mostert . . . wronged?

The mission and vision statements of the Financial Sector Conduct Authority are explicit. They're about financial-sector customers being kept "informed and protected", and to hold accountable "those that jeopardise the financial wellbeing of consumers". Put to the test by Public Protector Busisiwe Mkhwebane, they're found wanting.

Encouraging for the FSCA is that the findings were made by Mkhwebane. Her limited abilities have been exposed when far-reaching determinations were thrown out by the courts.

This alone could make the FSCA confident of success in taking on review her report into maladministration and the like at the Financial Services Board, predecessor to the FSCA (see next article 'Scathing report', an opinion piece on which the FSCA declined a post-publication invitation to

GLOVES ARE OFF

Nothing less than a stinging rebuke of the Public Protector's report was expected from Dube Tshidi. As this *TT* edition approached deadline, it came. So strong is his 55-page retort, in an application for review by the Pretoria High Court, that he asks for a personal costs order against Mkhwebane on the punitive attorney-client scale.

Had she performed her duties and functions reasonably and in good faith, he argues, this application would have been unnecessary and the report would never have seen the light of day: "The levy-paying institutions subject to the FSCA's supervision and regulation, and which fund the FSCA's operations, ought not to be saddled with the costs of the application."

Supported by FSCA acting commissioner Abel Sithole, Tshidi argues that it was immediately apparent that the report's conclusions and findings about his conduct are entirely unreasoned. They'd been made without any explanations as to how they'd been reached and why his responses had been rejected.

She'd failed to have proper or any regard to the extensive information that he and the FSCA had put before her. She'd also failed to give any reasoned justification for her findings. They were arbitrary as well as substantively and procedurally irrational.

"The public Protector failed to address or discuss the credibility of the various sources of information she considered, their reliability or the probabilities when faced with mutually destructive versions," he adds. "It is therefore impossible to discern whether her findings are pursuant to deductive reasoning, inductive reasoning or any reasoning at all."

The FSB, when previously approached directly by the Economic Freedom Fighters, it had engaged with the EFF in response to the allegations. During these engagements it emerged that the true source of the EFF's allegations was Simon Nash, a chief participant in a criminal surplus stripping scheme related to pension funds of which Tony Mostert was the curator.

Tshidi says that when he'd met with Julius Malema and other EFF officials to address their allegations, they were accompanied by Nash. Tshidi insisted that Nash be excluded from the meeting because of pending litigation between him and the FSB.

It had been explained to the Public Protector and the EFF that the impropriety allegations by Nash against Tshidi and Mostert were "unfounded and motivated by an ulterior purpose" to obstruct his prosecution and the civil claims against him. Mostert is "actively pursuing the recovery of millions of rand of misappropriated assets" from Nash and his company.

The application by the FSCA and Tshidi is for the Public Protector's report to be reviewed and set aside, and declared constitutionally invalid, for lack of jurisdiction. In the alternative it wants specific findings and conclusions reviewed, set aside and declared invalid, unlawful and unconstitutional.

If there is no notice of an intention to oppose the application, by the Public Protector and/or presumably the EFF, the notice of motion by the FSCA and Tshidi can be made a court order in November.

comment).

However, there is at least one Mkhwebane observation that the FSCA might be hard-pressed to refute. It's that attorney Tony Mostert and then FSB executive officer Dube Tshidi "steadfastly refused to make any disclosure whatsoever of the amounts earned" by Mostert in the numerous funds where he'd been appointed as curator.

> *Also raised in Mkhwebane's report is the Saccawu national provident fund, an umbrella arrangement of employers and largely trade-union members, now entering its seventeenth year under Mostert's curatorship.*

If the review process doesn't manage to prise open the secrecy over Mostert's fees, nothing will. To be sure, over many years *TT* tried often and hard enough (*TT* May-July '18). Indeed, why there should be secrecy seems itself to be a secret.

With publication of Mkhwebane's report, we tried again. And once again there's no joy.

On her conclusion that Tshidi had misled then Minister of Finance Pravin Gordhan on information that the FSB had supplied to him for answering a parliamentary question, we asked the FSCA whether it wanted to correct the schedule previously published (*TT* Sept-Nov '11) and further to provide the most recent schedule of fund curatorships undertaken by Mostert that also involved his law firm.

This schedule should include the name of each fund, date of Mostert's appointment, date of appointment's termination, recoveries to fund, fees paid by fund to Mostert and fees paid to Mostert's law firm as well as any comments the FSCA might wish to make on them. Again, no response was received.

Also raised in Mkhwebane's report is the Saccawu national provident fund, an umbrella arrangement of employers and largely trade-union members, now entering its seventeenth year under Mostert's curatorship. For this fund, Mostert's most recent report published on the FSCA website is dated 17 February 2016. It contains no mention of fees that have been charged to the fund.

Perhaps all will be revealed during the review proceedings, to be launched by end-June. There's much more to this dispute than fees – allegations of legislative contraventions, irregularities in practices and bullying of two financial institutions amongst them – that make for fiery confrontations.

Mkhwebane must be desperate for a win. But then so too must the FSCA, Tshidi and Mostert.

An open question is whether, or when, EFF leader Julius Malema will join them in the ring. Having succeeded with his complaint to the Public Protector, it's out of character for him to have remained silent for so long. ■

PUBLIC PROTECTOR

Scathing report

It's not over until it's over.
For the sake of its credibility,
the FSCA simply must win the next round.

Amidst the outpourings of capture and corruption at state agencies, it would have been a relief to discover that it least one is unblemished. But now there's a cloud of "systemic corporate-governance deficiencies" that hangs over even the Financial Services Board.

The cloud is created by the report of Public Protector Busisiwe Mkhwebane into allegations of maladministration, abuse of power and improper conduct by former FSB executive officer Dube Tshidi. So damning are her conclusions that the Financial Sector Conduct Authority has no choice than to take the report on review.

Were the report's findings allowed to stand – they might or might not, partially or fully, depending on the review's outcome – the damage to the credibility of the FSCA would be indelible. And this for a new body, the successor to the FSB, charged with supervision of the financial sector's market conduct and which continues its role as regulator of retirement funds.

Here is a test for the efficacy of the Public Protector's supervision of the FSCA's supervision; a salutary instance of the guardian's guardian. Tshidi is a member of the FSCA transitional management committee, set up to smooth the transition from FSB to FSCA. While the cloud hangs, and Tshidi isn't suspended from the committee, the intended smoothness can roughen.

The report represents a storm cloud already broken by the fact of publication. Whatever happens with the review, there'll be a time delay for the mud to stick. National Treasury, midwife to the FSCA, should think harder than the review for remedy to the reputational damage duly done.

Some proactive suggestions:

- Say good-bye to Tshidi. He's way beyond retirement age and, for avoidance of interest conflicts, shouldn't be near the committee that makes decisions about a report largely centred on his behaviour;

- Explain whether legal fees for the review will be paid by the FSCA (funded by levies on regulated institutions, significantly including retirement funds) or by identified parties in their personal capacities;

- Conduct an independent inquiry into the circumstances by which many millions of rand were claimed respectively from Old Mutual, Sanlam and Alexander Forbes, and how these monies were disbursed;

- Commission a forensic audit that will quantify the amounts paid to attorney Tony Mostert and his law firm, in respect of the fund curatorships for which he'd been appointed, and disclose these relative to the benefits received by the numerous funds.

Mkhwebane . . . for review yet again

The report avers that, by 2011, Mostert and his firm had earned some R240m over the previous six years. The fees earned subsequent to 2011, it's submitted, is not known because both Mostert and Tshidi "steadfastly refused to make any disclosure whatsoever". During the entire period up until the present, might something around R400m – give or take a few tens of millions here and there – sound too outrageous a guess?

The report avers that, by 2011, Mostert and his firm had earned some R240m over the previous six years. The fees earned subsequent to 2011, it's submitted, is not known because both Mostert and Tshidi "steadfastly refused to make any disclosure whatsoever".

For the FSCA, reliance on the review carries risk. In court actions, outcomes are uncertain until arguments are adjudged. And the arguments of the FSCA might well be countered in defence of the Public Protector. That the FSCA has applied for review on grounds that the report is "riddled with inaccuracies" and "did not take into account any of the submissions made", the Public Protector has yet to respond.

In the FSCA's favour is Mkhwebane's shoddy record. But on the face of it, this 96-page report is in marked contrast. It's accompanied by an extensive list of documents examined and interviews held by her. In response to the allegation by Tshidi that she had not heard evidence under oath and that hearsay remained untested by cross-examination, she insisted: "I follow an inquisitorial process in my investigations."

Presumably, she'd been well fed by representatives of Simon Nash whose criminal trial for the stripping of

pension-fund surpluses has entered its ninth year. The contention of Tshidi and Mostert that the real complainant to the Public Protector was Nash, rather than Economic Freedom Fighters leader Julius Malema, Mkhwebane dismissed as "immaterial".

Against the FSCA is the risk of what might emerge during the review proceedings. Amongst the missiles possibly lying in wait are a report by investigator Paul O'Sullivan supported by financial statements of the A L Mostert law firm, as well as legal examinations of the Public Finance Management Act and the Inspection of Financial Institutions Act in the context of suspected collusive activities.

Malema . . . victory for now

Key findings of Mkhwebane include:

- Improprieties and/or irregularities in the nomination of curators by Tshidi;
- A failure by Tshidi to discharge his regulatory duty "to properly manage the possible or perceived conflict of interest between Mr Mostert's role as curator and the appointment of his own law firm to assist in the administration of pension funds placed under curatorship";
- When written questions were posed to the Minister of Finance, the answers that Tshdi provided had caused the minister to mislead parliament.

Substantiating the broad compliant of improper conduct, the report opined: "Due to the nature of the position that (Tshidi) held, he was required to always act with the utmost integrity and in a manner which encouraged a high level of ethics and trust. As the 'face' of the Regulator, he was required to hold himself to a higher standard than those that he regulated."

Under the circumstances of such a wallop, Mkhwebane has come up with remedial actions that seem surprisingly mild. Fair enough that there should be a wider pool of prospective curators from which to draw through a competitive and transparent bidding process, and that the FSCA adopts a policy to regulate the nomination process of curators.

These are hardly the bombshells requiring review. Neither is the remedial action that the FSCA commissioner – Abel Sithole, who also chaired the FSB board -- takes "corrective action against the officials implicated in this report and puts in corrective measures to avoid recurrence". The officials and measures aren't specified.

That's so up-in-the-air, especially with no attempt to follow the money. The excitement will be in the review process when the FSCA's defence of its reputation is put to the test. Until then, Mkhwebane has handed a victory to Malema. ■

- *This article, by the TT editorial director, was first published by the FM on April 15.*

Vital pointers

Sanlam executive Viresh Maharaj discusses key findings for fund members' financial resilience.

In the megatrend of consolidation from standalone funds into umbrella arrangements, shown in our benchmark survey, we must caution that one structure is not necessarily better than the other. Trustees and employers must apply themselves to considering various dimensions such as governance, member engagement and cyber security. The ultimate question is how best to enable financial resilience for fund members.

For some, this means enhancing existing frameworks within standalone funds; for others it means transitioning from standalones to high-quality umbrella funds, and increasingly it also means switching from one umbrella to another.

This speaks to our findings among the umbrella respondents. It indicates that employers are now beginning to review their existing providers and are engaging on potential switches between providers. A maturing and competitive market is reflected.

Our survey of professional independent employee-benefits (EB) consultants suggests that they see great potential in newer umbrella funds. They should actively be comparing these to the large incumbents. With greater competition there's greater attention to reviewing the choice of umbrella providers that can enhance financial resilience for more members.

Group Risk

On group risk, we asked the EB consultants to provide the top advice themes. Uppermost for their clients were increases in funeral cover, increases in insurance rates and introduction of severe illness benefits.

Half of the consultants have experienced large rate increases and more claims being declined by insurers. This indicates extreme pressure across the group-risk industry that requires collective attention.

Average contributions into funds are broadly similar between umbrellas and standsalones at about 16% annually. Taking this a bit further, we've estimated an average net contribution of 13% based on the average risk premiums, administration fees and estimated consulting fees. So what does 13% actually mean to the average member?

On this basis a new employee with a 40-year investment horizon would anticipate a net replacement ratio of 56%. An older employee with 10 years to retirement and no other savings would expect a ratio of 9%. The average on its own does not provide significant insight as it means different things to different individuals, and average net contribution levels are too low irrespective of age.

Individuals have many levers to affect their replacement ratios. These include starting to save earlier, delaying retirement or contributing more. A popular lever applied in our industry is to reduce costs. So let's consider it. If we reduce the average administration and consulting costs to zero, will this have a material effect on member outcomes? In short, no.

Waiving fees

The impact of waiving average admin and consulting fees over a 40-year period is just a 5% uplift on a 20-year old person's replacement ratio. The impact on a 50- year-old is just 1% more.

Then, assuming a total investment cost of 1%, the complete removal of investment fees adds another 13% for the 20-year-old and 1% for the 50-year-old. So there'd be a total uplift ranging from 2% to 18% over a period of 10 to 40 years if average investment costs are completely waived.

This is hardly realistic and frames the limited potential for reduced costs to improve outcomes. Once costs are in the zone of reasonability and competitiveness, marginal differences in fees do not meaningfully affect retirement outcomes. Yet they occupy a disproportionate amount of attention.

The fixation on costs can distract from more impactful issues such as healthcare which is seen by the EB consultants as slightly more important to members than retirement funding. This arises from the increased drawdown on salaries due to the ever-higher costs of healthcare, the impact of medical debt as well as paying for parents' healthcare. It was significantly indicated that integrated employee benefits, not retirement funding alone, would have a large impact on the financial resilience of members.

We see this as a sign for the future.

For more information on Sanlam Benchmark, visit: www.sanlambenchmark.co.za

PROFILE

Same dedication, another direction

The past few years have been tumultuous but ground-breaking for 37-year old John Oliphant. He reflects on them.

***TT:* As principal executive officer of the Government Employees Pension Fund, to which you were appointed before age 30, you achieved significant impact particularly by having championed such public causes as stakeholder activism and the Code for Responsible Investing in SA. Is this a world you've abandoned?**

Oliphant: I'm still actively involved with CRISA as its committee chairman. The main focus for CRISA has been internal, strengthening its governance structures and trying to improve its funding. My belief is that the CRISA initiative should be led by the asset owners such as pension funds. Hopefully, once this situation is reviewed, I'll be able to step back for asset owners to take the lead. The GEPF, the largest asset owner, had helped to start CRISA. Since then, however, most signatories are asset managers.

Are you happy with CRISA's acceptance and implementation by the retirement-fund industry? If more must be done, then by whom?

The preamble to Regulation 28 states: "Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character." This consideration has laid the foundation for responsible investment within the pension-fund regulatory framework.

Because what gets measured gets done, the Financial Sector Conduct Authority should consider requiring pension funds to submit reports on their active-ownership records; for example, as complementary to their investment policy statements, on their proxy-voting policies and implementation of these policies.

Perhaps the FSCA could also develop templates for funds to report in a cost-effective way on ownership responsibilities. Most pension funds, through investment mandates or agreements, have delegated these ownership responsibilities to their asset managers. It should be for the funds appropriately to monitor and report on this delegated responsibility themselves.

Since leaving the GEPF five years ago, you've launched a new business. What is it and what does it do? How does it relate to your previous experience?

I started an investment holding company. Called the Thirdway Investment Group (TWIG), it is aimed at making investments in asset-management businesses. The focus is on responsible and high-impact investing. We partner with entrepreneurs who share visions and values similar to my own.

Such as what?

Having been instrumental in getting responsible-investment policies into the mainstream, and creating developmental-investment policy frameworks in SA, I wanted to build a business that allowed me to express this passion. I could not achieve my broader vision without sustainable partnerships. So far we've built or repositioned:

- Third Way Investment Partners, a fund-of-funds investment platform. TWIP launched its flagship infrastructure debt fund, under founding partner Fulu Makwetla, with total commitments of R2,5bn. It assists smaller pension funds cost-effectively to gain exposure to infrastructure investments that

Oliphant . . . pastures new

have high social and economic impacts;

- Then we created RHBophelo, launched in 2017 as a public company, with founding partner RH Managers. We seek to play a transformative role by making healthcare affordable to the majority of South Africans while generating sustainable returns for our investors. This is still a fledgling entity. I'm the non-executive chair and RH serves as management;
- All Weather Capital is an emerging asset manager. As the holding entity we had an opportunity to buy into All Weather and to reposition it in line with our philosophy of responsible investing. I'm the executive chairman and founding partner Shane Watkins is chief investment officer;
- Boxwood Property Fund, emerging and unlisted, initially focuses on high-impact redevelopments in Cape Town's inner city. We founded the business with experienced commercial property manager Rob Kane;
- South Point provides quality, affordable accommodation for students. I chair the investment committee. We intend to create opportunities for pension funds to invest alongside us in student accommodation.

Are you the sole TWIG shareholder or are there other investors?

Through family trusts, I'm the sole shareholder. Underlying investments and boutiques are co-owned with their founding partners.

During the five years that TWIG has been operative, by what measures would you say that the business has grown? How did you identify the opportunity for it and why did you call it Third Way?

I see myself as an accidental entrepreneur. My GEPF exit was not well managed and made it difficult for me to find a job, so I was forced into the route of entrepreneurship.

My contentious exit, where I and then GEPF chairman Arthur Moloto couldn't find middle ground, proved a major lesson in leadership. When we reflect on it today, as friends, we both recognise this. It was his way or my way, not a third way. My company's name is a constant reminder always to consider different angles and options in making decisions.

During your protracted scrap with the GEPF, how did you mainly use your time?

I attained an MSc in finance from London University.

Can you describe your business philosophy?

It's anchored on partnerships. My strength is mostly big-picture but I fall short on detail. The partnerships combine vision with implementation capability. It's virtually impossible to succeed alone.

Your biggest disappointments?

One was a JSE-listed entity that I helped create but had to leave. Another was losing a founding partner to an established listed company.

You've been something of a role model for younger blacks wanting to climb the ladder in asset management and related fields. Some advice for them?

There are no substitutes for hard work, passion and dedication.

In a tight marketplace, is the financial sector able to offer sufficient career opportunities? Any ideas how industry 'transformation' might be accelerated?

We need to see more young black investment professionals. They'd be advantaged by completing studies in problem-solving type courses such as accountancy, actuarial science, maths and engineering.

Also crucial is reaching out to players in the sector for mentorships. The student chapter at the Association of Black Securities & Investment Professionals could play an increasingly important role and we must ensure its continuous success. ■

momentum

Meaningful employee financial literacy requires going beyond default regulations.

So argues Ronelle Kind, the Momentum Corporate GM for member engagement solutions.

The default retirement-fund regulations introduced in March are aimed at supporting members of retirement funds to make better decisions at various points during their working lives. An important enabler is the introduction of compulsory benefit counselling services which need to be offered to members by their fund.

While it's still early days, simply ticking regulatory blocks is not enough. For example:

- Nearly 25% of members don't know they can preserve their retirement-fund benefit when changing employers;
- Two out of every five people surveyed are unfamiliar with investment terms.

A key driver of continued vulnerability is lack of financial literacy. The longer consumers' personal finances remain under pressure, the harder it will be to recover. Momentum Corporate launched a first of its kind in South Africa, face-to-face member conference.

Our industry must go beyond the legislative requirements meaningfully to address the illiteracy issues. To do this, benefit counselling needs to take the form of a multi-channel approach that caters for a changing workforce.

We've developed a multi-channel strategy to maximise benefit counselling for our FundsAtWork Umbrella Fund members. Our objective is effectively to partner with members, their employers and financial advisers on the members' journey to financial success.

Kind . . . breakthroughs

A core component of the omni-channel strategy, and one which supports members' need for face-to-face engagement, is the FundsAtWork Umbrella Funds Member Conference. Six face-to-face conferences were held in Durban, Johannesburg and Cape Town. Members unable to attend could tune into the live webcast.

Topics included dying without a valid will and how this impacts your family, choosing the best annuity for your needs and how to start planning for retirement, even if you start later than expected. The highly interactive forum gave members an opportunity to ask questions and engage with various presenters throughout the sessions.

Going beyond what is required legislatively has clearly been well received. We've been overwhelmed by our members' response. The conference content is available for anyone through the links https://bit.ly/2WmSd5z & https://bit.ly/2IjwMbo.

A key component of our strategy is the role of the benefit counsellor in relation to the scheme's financial adviser. The role of a benefit counsellor should be to help members better understand their financial situations including their FundsAtWork benefits. This will ensure improved outcomes for members over the long term.

Once members are well-informed and need to make financial decisions, they should then speak to their financial adviser. This will ensure that the scheme's financial adviser focuses on providing best-advice solutions at group level while having the peace of mind that members are being supported to make smart financial choices during key phases of their working lives.

A multi-channel benefit counselling approach further improves employee engagement and financial literacy. It also ensures that employees understand and appreciate the benefits available. Over time this will reduce employee apathy. We want members to have the right information at the right time to make the right decision.

Getting our model right has meant really understanding who we're talking to. This has resulted in our multi-faceted communication approach – digital, face-to-face and telephonic. When looking at employee benefits, we have to apply a generational filter to understand the different dynamics and how each generation wants to consume the information we want to share.

We've spent a lot of time understanding the changing workforce and the issues at play. This journey has begun. It's rewarding to see the impact we've already had since the default retirement fund regulations were introduced.

Momentum is a part of MMI Group, an authorised financial services and registered credit provider. MMI Holdings is a Level 1 B-BBEE insurer.

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CYBER SECURITY

Frightening stuff

As the risks of hacking mount alarmingly, service providers to retirement funds must take them much more seriously than they now do.

Not a moment too soon has Sanlam executive Viresh Maharaj highlighted the real and present danger that poor resilience to cyber attacks can threaten SA's entire retirement-fund industry.

In a presentation to the annual Sanlam benchmark symposium, he didn't mince his words: a breach found in the systems of any one service provider would cause ripples of anxiety throughout the industry, which depends on customer trust, and it was possibly only a matter of time before a hacker breaks through.

If the industry did not address the high risks posed by cybercrime, he warned, within the next 10 years at least one SA retirement fund could lose all its investments. And yet, as the benchmark research shows, recognition of the risks is not commensurately accompanied by preparations to avoid them.

According to the benchmark research, consultants consider the evaluation of cyber risk as the least important business challenge and employee-benefits consultants rank cyber security as the lowest risk. They overwhelmingly believe that a fund's administrator or sponsor should be held liable for losses in the event of cyber crime.

Okay, so hold them liable. But what then? How is the liability to be transacted when records have disappeared? Or when the administrator is faced with compensation claims in billions of rand? And what liability, if any, rests with advisers (where data loss can also occur) on whom employers and trustees rely in selecting their fund's administrator?

One way to find out, of course, is the hard way. Another way is to mitigate the risks, so far as practically possible, by much higher levels of awareness. This implies, in the first and most urgent instance, that advisers insist on comparisons of administrators' cyber proficiencies. It should open the way for competitive pressures to promote an industry-wide address of the control systems to avert worst-case scenarios including widescale identity theft.

Collective effort and far greater discipline are required to evaluate and monitor cyber resilience, Maharaj urges. He points out that only on a few

Maharaj . . . dangerous omens

occasions, across 8 000 quotes, has Sanlam been asked about it.

The research uses a 2018 Refinitiv survey to reveal the cost of financial crime. Of 2 373 global respondents (123 from SA), some 20% had experienced financial loss from cyber crime. The average cost, typically at $4bn per breach, has increased by 62% over the past five years. It most recently aggregated an annual $600bn, roughly three times the annual loss from natural disasters.

Specifically in the UK, the *Financial Times* reports, last year financial-services companies saw a five- fold increase in data breaches compared with the previous year. This is "seen as the latest sign of how the sector is under relentless attack from hackers".

In 2018 the companies reported 145 breaches to the Financial Conduct Authority, up from 25 in 2017. Investment banks reported the highest number of incidents at 34, up from just three the previous year, while retail banks saw the sharpest rise in percentage terms, from one to 25 incidents.

Last April it emerged that seven UK retail banks, including Royal Bank of Scotland and Barclays, had to limit or shut down their systems. This was after sustained attacks that cost them hundreds of thousands of pounds to remedy. In October, the FCA fined Tesco Bank £16,4m as a result of a cyber attack which saw £2,26m stolen from current accounts across 34 transactions.

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In Europe, the Dutch pensions supervisor is concerned that the risk of data-security incidents is increasing as pension funds insufficiently factor cybersecurity into their risk assessments. It also noted that pension funds often did not have sufficient knowledge of security measures at their outsourced service providers: "As a consequence, (pension) schemes are unable to show that they are in control or make clear that measures are effective."

It's scant comfort that SA isn't alone. Forewarned, Maharaj is hoping that consultants will stimulate a "herd immunity" across the sector for better protection of fund members. ■

LIBERTY

Next level for employee benefits

Companies that take better care of employees also perform better in business. Linda Schroeder, divisional director for corporate sales and servicing at Liberty Corporate, explains what her group is doing.

Schroeder . . . extended services

People magazine, partnering with research and consulting firm Great Place to Work, has found companies that scored highest in being attentive to their employees made four times the revenue than those that were neglectful of their workers.

The highest scorers in leadership effectiveness made five times the revenue than those that didn't, according to *People*. Companies that sought employee opinions and prioritised worker opportunities to innovate made 5,5 times more.

Liberty has conducted research of its own and arrives at the same conclusion. Based on our research, we found that smaller and medium-sized companies (SMEs) struggle to attract good talent and then retain them when it is competing against bigger companies with deeper pockets. We've used our research to re-orient our employee benefits for addressing this need.

Our research shows companies that take better care of employees suffer less absenteeism, improved productivity and greater company loyalty. Taking better care of employees does not necessarily mean paying them more.

SMEs battle to compete with larger companies in the area of employee benefits due to lack of resources. Their human-resource divisions are generally small and under-resourced. Also, they lack the scale to compete in terms of staff facilities such as canteens and gyms.

One of the biggest issues facing SMEs is the call from employees for company loans because their wages are insufficient to cover their expenses. Rather than being a sign that employees are not being paid enough, the demand for month-end loans suggests bad financial planning.

Employee benefits have become a highly-commoditized offering built around investments, umbrella funds, consulting services and risk protection such as death, disability and dread disease cover. This is the standard employee benefits package.

Though employees are the beneficiaries, the purchasers of these packages are employers. Sales teams from benefits providers tailor their sales pitches to the language of those who make the companies' financial decisions.

Measured by the number of participating employers, Liberty operates South Africa's largest umbrella fund for SMEs. An umbrella fund is established to accommodate individual companies who are not related to one another. Their assets are held in sub-funds of the umbrella fund.

Liberty decided to differentiate itself by looking at employee benefits as a life journey. One of the key elements missing from traditional employee benefits offerings is education. Liberty launched the "Mind my Money" programme to fill this gap.

It involves educating employees on the basics of financial planning, such as how to understand their pay slips, how to file tax returns, monthly budgeting and the importance of drafting a will.

Experience shows that employees properly educated in financial basics are more likely to live within their means, pay down debt and accumulate savings.

We help employees understand their credit ratings, and how to improve them. This may seem like an obvious thing that everyone should understand. But in truth it is poorly understood, potentially creating huge problems for employees and their families.

We have also identified the need to provide assistance to members during life events and have teamed up with an external professional service provider to provide our members, their spouses and their dependents under age 21 with much-needed telephonic assistance. These services are available 24 hours a day, 365 days a year in the member's language of choice.

The professional counsellors are trained in a range of disciplines such as legal advice, emergency medical information and trauma assistance. Included are body repatriation and emergency ambulance services. When responsible for the overall wellbeing of employees, it's essential to offer guidance and advice through a wide range of different areas.

Liberty would like to partner with employers to ensure that they look after the wellbeing of their employees. This will not only enrich the lives of employees in their organizations but will improve their bottom lines.

www.liberty.co.za

UNCLAIMED BENEFITS

A higher standard

Better processes in place for uniting money with its owners. ASISA is off to a good start.

Rather proud of its members is the Association of Savings & Investment SA. During last year, it reveals, they got R8,1bn returned to their rightful owners.

Every little bit helps, as it's said. Relative to the many billions of unpaid assets sitting in pension funds (*TT* April-June), and the additional untold billions of unclaimed amounts sitting elsewhere (see box), R8,1bn is a little bit.

However, the payments do show a serious intent for monies not to remain indefinitely where they shouldn't. More than this, R8,1bn is quite a lot relative to the estimated R17,1bn held in 147 221 products of ASISA members that still need to be paid over.

A good start has been made. The R8,1bn in "forgotten assets", as ASISA describes them, were held in 71 233 risk (group life and disability) policies, savings and investment policies, annuity policies and accounts in the portfolios of collective investment schemes.

No breakdown of the respective categories is available. Neither is there disclosure of amounts held by pension-fund administrators who are ASISA members. The explanation is that the ASISA standard on unclaimed assets doesn't apply to retirement-annuity policies and preservation-fund products as these are separately handled under the Pension Funds Act.

The standard, when first introduced in 2013, applied only to long-term insurance members. In

Lightbody . . . valuable progress

2016 it was extended to include the management companies of collective investment schemes and linked investment service providers. Its purpose is to encourage the use of enhanced tracing procedures so as to keep unclaimed assets at a minimum and guide ASISA members on how to treat them.

Encouraging is that, as ASISA senior policy adviser Rosemary Lightbody notes, members will honour claims on unclaimed policy benefits and investment proceeds no matter how long it takes for the policyholder, beneficiary, investor or heir to come forward. Members won't rely on the Prescription Act where it might apply to valid claims.

She adds: "When customers reach an advanced age, for example, our members cannot assume that they've died. They may be alive and wanting their policies or investments to remain in place. Or, if they have passed away, their beneficiaries and heirs might be unaware that a policy or investment exists. Unclaimed assets aren't defined by the standard as it's expected that members will investigate the actual positions."

The standard encourages member companies to remind customers of their entitlements on appropriate trigger events such as a policy reaching maturity date, a risk-benefit claim having been approved, communication marked as undelivered or a customer reaching age 80.

It also encourages members to be proactive; for example, by making contact with individual customers and tracing them through the various means available.

Once an ASISA member company concludes that all reasonable tracing efforts have been exhausted over a three-year period, the unclaimed assets may be used for socially-responsible investments with commercial returns. But valid claims will still be met.

For products where the investment risk is carried by the company, it may invest the assets as it considers appropriate. Where the risk is carried by the customer or beneficiary, the company must aim for investment returns in line with reasonable expectations.

These are distinct positives in a saga too neglected for too long. ■

TIP OF AN ICEBERG

Safely assume that the total amounts in unclaimed/unpaid accounts is scary. But they will be difficult to quantify unless or until ASISA's lead is followed by others, specifically:

- Banking Association (for bank accounts including custody accounts where dividends are held);
- Guardians' Fund (number of beneficiaries, categories of amounts and their aggregate values);
- Department of Justice for third-party funds (such as unclaimed bail money, put at R18m in 2018);
- Compensation for Occupational Injuries & Diseases Fund (number of beneficiaries and aggregate value of benefits per category);
- Unemployment Insurance Fund (number of beneficiaries and aggregate value of their unclaimed benefits);
- Road Accident Fund (number and aggregate value of unpaid benefits);
- SA Social Security Agency (number of beneficiaries, categories of grants and aggregate value of benefits unpaid);
- SA Board of Sheriffs (unclaimed monies in their trust accounts).

That should be sufficient to get going. It all comes atop the unpaid R50bn-plus in pension funds

ESG: What to ask your manager

Angelique Kalam, manager for sustainable investment practices at Futuregrowth, offers the essential pointers.

As a fiduciary asset manager, Futuregrowth believes that environmental, social and governance (ESG) criteria are important sustainability issues that should be considered as part of a holistic investment and decision-making process.

With an increased prevalence of corporate-governance failures, environmental non-compliance, corruption and fraud, it has become apparent that non-financial issues -- which include ESG – are significantly affecting companies' long-term sustainable performance. Here are some useful questions and requirements we have collated from a combination of client interactions and the UNPRI investor toolkit.

These questions and requirements aim to assist pension funds when assessing the integration of ESG into the investment decision-making process and in fulfilling their reporting requirements as outlined in the Guidance Notice 1 of 2019 (PFA): Sustainability Reporting for Pension Funds.

1. Responsible Investment Policies

Do you have a policy or set of policies that make specific reference to Responsible Investment (RI) practices and, in particular, ESG issues? If yes, provide an outline of the policy objective;

Do you have a corporate governance and voting policy? If yes, provide an outline of the policy objective;

Do you have an exclusion list or policy that references specific exclusions, e.g. controversial weapons, human rights violations etc.? If yes, list the exclusions and rationale.

2. Integration of ESG and decision-making

Have there been any changes to your ESG integration process over the reporting period (e.g. additional resources, information sources)? If so, why?

What are some specific examples of how ESG factors are incorporated into your investment analysis and decision-making process? Outline which ESG factors were relevant to the investment company/sector and why;

Provide some specific examples of major ESG risks that you identified in the portfolio over the reporting period. What you have done to mitigate these risks?

Do you assess the investments' exposure to climate risk in your portfolios? If yes, then provide a recent example.

3. Active ownership & Voting

What public disclosures are available on your voting policies and voting outcomes?

How frequently are these voting decisions reported and disclosed?

4. Bond holder & Equity engagement

Do you have an engagement policy or other document that outlines direct engagement with listed fixed income or listed equity issuers on ESG issues? If yes, then describe your approach to ESG engagement:

How is the engagement defined?

What is the objective?

How is the engagement measured?

With how many fixed income or listed equity issuers have you engaged in total on ESG issues during the past year? Outline the issues of engagement.

5. Reporting

What type of ESG reporting is available to clients?

Are any of these reports available on your website? (If so, please provide a link.)

Futuregrowth is a signatory to the **UN Principles for Responsible Investment (PRI).** We also endorse the **Code for Responsible Investment in South Africa (CRISA).**

Source: UNPRI; Futuregrowth

Futuregrowth is a licensed Financial Services Provider.

www.futuregrowth.co.za

PRI Principles for Responsible Investment

FUTUREGROWTH / ASSET MANAGEMENT

FINANCIAL EDUCATION

Hard questions

Work through the high-mindedness to explain precisely the promises and practicalities of the myriad courses on offer.

Trustee training has become a hot topic. First there's the draft standard released by the Financial Sector Conduct Authority to prescribe the minimum skills for the board members of pension funds. Second there's the anticipation by training providers of scorecard points under the Financial Sector Code.

The draft standard wants trustees at least to complete the FSCA's trustee toolkit. They'll gain certification merely for having completed it. Additionally, the draft wants trustees to undertake "further skills and training from credible providers as deemed necessary by (the fund's) board".

These "credible providers" would include the institutions committed to compliance with the FSC. Much money must be allocated for it and benefits are within the grasp of providers who satisfy the stipulated conditions (see elsewhere in the *TT* edition).

Prominent industry bodies, institutions and others have been at it for some time. During the Batseta winter conference, several were represented on a panel -- Batseta itself, the ASISA Academy, Inseta and private company Six Capitals – to describe the "avenues" for retirement-fund fiduciaries to "sharpen their skills in this ever-changing industry".

Their session was more explanatory than anything else. Description is well and good, as is the FSCA's draft, but it opens for debate a variety of issues that beg interrogation because they run deeply and often controversially to the heart of fund governance.

It relies on trustees and aspirant trustees drawn to serve on boards. They might usefully ask:

- When the fund industry talks of "professionalisation", for the courses being provided, what exactly is meant?
- Are different levels of professionalisation applied in training? If so, what would be the highest and lowest levels for acceptance to serve on boards?
- What advantages are there for the individual in moving from the lowest to the highest?
- Any indications of the time and effort required to attain professionalisation at the different levels? Can this reasonably be expected of people in fulltime employment?
- Is there some minimum educational requirement to embark on a course for professional qualification? What of say a shop steward who doesn't have matric but is keen to become a trustee?
- Can members of a fund elect as a trustee a person who has no professional qualification? If so, is it a good or bad thing?
- Can't one rely on the sponsors of umbrella funds to ensure that the trustees appointed are competent,

for instance to appoint an experienced actuary who has no "professional" qualification as designated in terms of the training being offered for CPD (continuous professional development) points?

- Why should an aspirant or incumbent trustee embark on training at all? Would he or she expect higher remuneration the higher the professional qualification or otherwise be rewarded for training courses completed?

- How would the trustee and trainer know where to start e.g. with basic economics and fund administration or with drafting an IPS (investment policy statement), appointing asset managers (amongst others in the services chain) and engaging with investee companies on ESG (environmental, social and governance) matters?

- Is the FSCA draft conduct standard (published in May) likely to serve its intended purpose if people who use the toolkit be certified as having used it but not be marked for having passed it? Will use of the course qualify a person to become a trustee?

- Is this FSCA toolkit a necessary starting point or can it simply be overlooked by trustees who prefer other means of being trained e.g. by Inseta or private-sector courses?

- Who appraises the performance of trustees and who can dismiss them for poor performance? What are the carrots and sticks respectively to ensure that trustees properly serve fund members?

Answers are invited. ■

MOTOR INDUSTRY RETIREMENT FUNDS

Delivering on members' expectations

Galvanised by the Department of Trade and Industry's recently launched South African Automotive Masterplan (SAAM), which followed an extensive stakeholder engagement process and resulted in the tabling of clear objectives through to 2035, South Africa's automotive industry is poised for positive growth in the medium to long-term.

Andrew Kirby, chairman of the National Association of Automobile Manufacturers of South Africa, commenting at the NAAMSA automotive conference late last year, endorsed the DTI's efforts by saying: "Despite the many challenges we face, there is an air of optimism amongst all members of the South African motor industry regarding the aspirational vision of the upcoming Automotive Masterplan as the path to the future."

Back Row Left: Radesh Maharaj - Principal officer, Gerald Leith – Trustee; Chairman of the Administration and Communication Committee, Anesh Soonder – Chairman of the Board, Jakkie Olivier – Trustee; Chairman of the Remco, Kutlwano Mokhele – Trustee. **Font row Left:** Ettie Claassen – Chief Operating Officer and Chief Financial Officer, Mantuka Maisela – Independent Trustee; Chairman of the Investment Committee, Hermann Köstens – Trustee, Mike Motsoane - Trustee. Absent – Basil Cele - Trustee.

This positive prognosis, however, is coupled with the challenge of rapid technological developments in vehicles, and an apparent need for the SA industry to focus on the rest of Africa as the only ready market for the significant increase required in production output for the industry to sustain itself. And this, combined with the growth of web-based ride-sharing and car-hailing apps, means the industry has to adapt to an era of unprecedented change.

These positive and challenging developments have not gone unnoticed by the forward thinking board of the Motor Industry Retirement Funds (MIRF). Realising that their retirement products and service offering — aimed exclusively at the specific needs of automotive industry employees — need to keep pace with the changes forecast, the board has embarked on a brand reengineering drive they believe will further enhance their relationship with their 250 000 members.

"In order to avoid confusion with similar sounding acronyms in our industry, the board has also decided to rebrand the funds to Motor Industry Retirement Funds (MIRF)," says Radesh Maharaj, recently appointed Principal Officer of the fund. Maharaj says he is acutely aware that the funds' current culture needs to move with the times and its board needs to ensure it makes sound and transparent decisions in keeping with market changes and members' expectations.

"Because of the need to up our game before announcing our intentions to our members and the automotive industry at large, we are embarking on a comprehensive staff education and motivation programme to ensure we can deliver what we promise," recently appointed COO and CFO of the Motor Industry Funds Administrator Pty (Ltd) (MIFA) Ettie Claassen concludes.

As part of their determination to keep up with the times and better communicate with their members, MIRF will also soon launch a significantly more user-friendly website as well as an app aimed at better assisting their members with product information and queries.

Although MIRF already boasts assets in excess of R36 billion and has a board loaded with automotive industry leaders, the funds are clearly not content to rest on their laurels. The board believes the positive growth forecast for SA's automotive industry could make for a significant increase in their member base and the size of the portfolio they administer; but only if they evolve and actively engage with the fast-changing landscape.

Asked for their opinions on ways to best improve MIRF's growth over the next 5-10 years, Board members, Kutlwano Mokhele and Jakkie Olivier, said MIRF could best capitalise on the predicted industry growth if they can stave off market share challenges from competing umbrella funds by continuing to provide consistently good returns and even better value for money to their members through cost reductions.

SIYAENZA 345

Retirement funds that deliver

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UMBRELLA FUNDS

Warts and all

If the law and practice were started afresh, how should the governance of umbrella funds look? Well, in a nutshell, different from what now exists.

At this year's conference of the Pension Lawyers Association, that's about all on which the panellists – Rowan Burger of Momentum Investments and lawyer Jonathan Mort – could agree. But their provocative discussion did highlight areas for ongoing debate.

Burger: We got to where we are because there'd been a proliferation of retirement funds. They had poor economies of scale and were not always well governed. The intention had to be a reduction in the number of funds, lower costs and better governance. But service providers don't like "commoditisation", so there's been little innovation and tax structures inhibit further progress.

Mort: There are numerous problems with the commercial umbrellas. Amongst them, the sponsor is able to benefit at the expense of the member by the sponsor's control of the benefit-provision process and through control of the fund. The sponsor benefits by locking in its service providers at fees not negotiated at arm's length and by determining the investment arrangements. The relationship is between the participating employer and the sponsor, not with the fund, and the employer's role is passive. It's difficult for trustees to be truly independent of the sponsor.

Burger: Be careful not to add layers of governance complexity. They increase costs. Oversight is surely the role of the regulator.

Mort: There should be an oversight board, separate from the trustee board, comprising member-appointed directors and a minority of employer representatives. A trustee, whose fiduciary duties are unconstrained, cannot be a member of the oversight board. It would report to trustees on, amongst other things, the engaging of service providers. Powers would include the hire and fire of trustees, appraisal of their performance and approval of the governance budget.

Burger: Do away with management committees (comprising employers and employees). They create additional cost and governance problems because of different asset charges, benefit structures and insurance conditions. Clients can vote with their feet. There are sufficient safeguards already in the system.

Mort: Before the transfer from a standalone to an umbrella, the employer should confirm in writing to employees that it has performed a due diligence on the systems of the administrator, has reviewed the costs and is happy with their reasonableness. The employer should also report annually to members that he is happy with the fund's governance, costs and investment arrangements.

Burger: Many employers will outsource the due diligence. To the employee-benefits consultant, the auditor or the valuator? There's a need to drive standardisation and to make participation in the

Burger and Mort . . . salient arguments

umbrella less onerous for the employer. There's also a need to ensure portability i.e. seamless movement between funds with no penalties or lock-ins.

Mort: The sponsor should have the right to attend trustee meetings except when issues around the sponsor are being discussed. A sponsor can market a fund at the sponsor's expense.

Burger: Many sponsors have significant commercial interests in the umbrella arrangement. When they use life licences there can be governance conflicts. ■

- *The Association for Savings & Investment SA has announced that, from October next year, people in umbrella funds will be able to assess the total impact of charges on their individual retirement benefits. This is in terms of a standard, recently approved by the ASISA board, by which member companies will have to start developing systems for implementation at the level of individuals.*

Funds geared for Millennials?

Characteristics that will shape the retirement funds of the future are outlined by Nomha Kumalo, public sector executive at Momentum Corporate.

Kumalo . . . necessary adjustments

Workplace representation of Millennials (25- to 34-year olds) is growing rapidly. This group is expected to make up almost a quarter of the global workforce by 2020.

Based on data analytics, Momentum Corporate is already seeing the generational shift in the profile of retirement-fund membership. Some 52% of members are Millennials, an increase from 39% in 2013.

To keep up with the changing world of work, the retirement-fund industry needs to reconsider its offering and adapt. The shift in our member profile has given us unique insight into this important demographic which is set to shape the workplace for many years to come.

It is critical that employers, consultants, principal officers and trustees understand the psychographics of this generation. There are certain broad characteristics:

1 Health, wellness and technology

Millennials prefer to pursue their dream careers with employers whose missions match their values. They also place high premiums on their health and wellness, and on having a healthy work-life balance.

Millennials embrace technology in every sphere of their lives. They expect highly personalised customer experiences from the brands with which they interact.

#2 Job-hopping impacts retirement outcomes

Millennials are inclined change jobs every two to three years. Job-hopping is their norm, unlike Baby Boomers and other previous generations.

Millennials seek immediate gratification and view retirement as a transition phase, not necessarily a set end-date of their formal working careers. This means that they access their retirement savings more than once during their working careers to pay off debt or to pursue international travel. Such behavior severely compromises the likelihood of Millennials maintaining their standards of living during retirement.

Only 2% of Millennials save enough for retirement. The majority may only be able to replace 31% of their last pre-retirement salary. However, Millennials have a better potential of reaching their retirement outcomes because they have a longer period to save. They can change the outcomes by making sure that they start saving when they are young, ensuring their retirement contribution is appropriate and that they keep their retirement savings invested when they change jobs instead of taking cash.

#3 Low levels of financial literacy and savings drive high financial vulnerability

The Momentum/Unisa Consumer Financial Vulnerability Index reveals that, for the last two years, SA consumers' finances have been under severe pressure. While Millennials are the most financially vulnerable age group, a lack of financial literacy is a key driver of continued financial vulnerability in addition to low savings (see #2) and high debt levels. These factors are exacerbated by a weak local economic environment.

The lack of financial literacy is of particular concern. Momentum Corporate's employee-benefits terminology research reveals that only 16% of Millennials understand the concept of a retirement replacement ratio. Fewer than 44% are aware of investment-related terminology such as investment allocation, future contributions and fund credit.

Funds must be geared for Millennials

This growing demographic will require flexible and innovative product solutions from retirement funds to address Millennials' specific needs. In addition, service experiences and engagement must create tangible value in the eyes of the Millennial in the present.

Vital for reducing Millennials' financial vulnerability is financial education. Retirement funds should offer financial education and benefit counseling through a multi-channel approach. These include digital platforms such as access to live webcasts or video content.

Also, it is not only about what you provide but how you engage. It's imperative that retirement funds offer smart, intuitive and personalised digital services across a range of touch points, from medical underwriting to assistance to members when they change employers.

It is particularly important that these smart digital platforms facilitate more informed decision-making at the time of resignation. This increases the probability that Millennials will preserve their savings, ultimately helping them to be financially independent when they retire.

Retirement funds that offer Millennials a programme which rewards healthy lifestyles, creates platforms for meaningful engagement and ultimately demonstrates value, will be successful in attracting Millennial members.

Our new buzz word at Momentum Corporate is #YORO - You Only Retire Once. We cannot sufficiently stress the importance of planning for retirement and want Millennials to understand why it is never too soon to start.

Retirement funds must ensure that the solutions available to Millennial employees are appropriate. Communication about the value of retirement savings must be engaging and meaningful. One size has never fitted all, and it definitely is not going to fit in the future.

Momentum is a part of MMI Group, an authorised financial services and registered credit provider. MMI Holdings is a Level 1 B-BBEE insurer.

www.momentum.co.za

momentum
corporate

Extended offering by *Today's Trustee*: Financial Sector Code and potential benefits for advertisers

Shares in Today's Trustee Publishing are now held in equal proportions between the ASISA Foundation, Alternative Prosperity and founder Allan Greenblo. This restructure preceded the gazetting of the amended Financial Sector Code (FSC), and in many ways is related to it (see our refreshed website www.totrust.co.za for more information).

As part of our extended service, we're pleased to let you know that *Today's Trustee ('TT')* can increase the value-add for its advertisers. Under specific conditions, companies in the financial sector – such as life offices, asset managers, consultants, administrators, employee-benefits operators, stockbrokers, private-equity firms and other service providers to retirement funds -- have the opportunity to earn B-BBEE scorecard points by their spend.

The points can be claimed under the FSC's Consumer Financial Education (CFE) element. Spend on CFE, which includes financial education for retirement-fund members and trustees, is a FSC requirement.

Advertising in *TT* magazine

Contributors of educational advertorials, styled in the main magazine as 'Expert opinions', can potentially claim B-BBEE points. The ability to claim points will depend on:

- The educational nature of the content that the advertiser provides/sponsors;
- The advertiser's willingness to keep branding and advertorial requirements, specifically around financial products and services, within the FSC rules.

Regular and potential advertisers are welcome to engage with us so that we can unpack the opportunities. Please be in touch for a discussion on your FSC compliance needs to see how best we can accommodate them within the main publication.

Today's Trustee CFE Offering	**How this works**	**Benefits**
Expert opinions, with limited branding in dedicated sections of the main magazine	Since advertisers' needs and contributions will differ: 1. We shall engage advertisers on the outcomes they want to achieve. To be considered are FSC criteria for compliance, branding and impact; 2. Our B-BBEE advisor will then evaluate how these needs can be met and content presented in the magazine to meet FSC rules; 3. Once agreed with client, we'll design and incorporate content for forthcoming editions the magazine. *Please note that there will be an hourly charge for additional customisation and FSC advisory.*	- Limited branding within the FSC rules - B-BBEE points under CFE awareness component of FSC - Thought leadership exposure and impact

Additional educational offerings:

These new offerings enhance our ability to provide awareness and educational services to trustees. It builds on the main publication's coverage of the retirement-fund industry.

For the extension of reach, we offer the platform for companies in the financial-services sector to co-sponsor these offerings. At present the ASISA Foundation is our main sponsor. The benefits when sponsoring include brand exposure, compliance fulfilment and impact assessment.

Today's Trustee CFE Offering	**How this works**	**Benefits**
Trustee and/or member events	We can co-design and host events targeted at trustees that combine salient news and trustee education. **Financial Sector companies can co-sponsor and/or host events.**	- Branding exposure as prescribed by FSC rules - Partial B-BBEE points under CFE face-face component - Thought leadership exposure
Today's Trustee educational supplements and online learning platform	From June 2019 we'll present regular educational supplements that complement the content of the Today's Trustee magazine. These supplements are guided by industry education priorities, as well as topics covered in the magazine. The supplements link to an online learning platform where trustees can engage in further learning and track outcomes. **Financial Sector companies can contribute content and/or sponsor supplements/online courses.**	- Supplements' topics can be aligned to sponsors' material issues - Branding exposure, but limited by FSC rules - Full B-BBEE points under CFE awareness component - Monitoring impact: Increased trustee awareness/education - Credible industry partners
Customised face-to-face trustee training	In partnership with shareholders ASISA Foundation and Alternative Prosperity, we can offer bespoke one-day and two-day trustee workshops. We currently work with labour federations, focusing on worker-elected or nominated trustees, around investment fundamentals and responsible investment. **Financial Sector co-sponsor training events.**	- Access to range of courses developed by the ASISA Academy - Brand exposure, but limited by FSC rules - Full B-BBEE points under CFE awareness component of FSC - Monitoring impact: Increased trustee awareness/education - Credible industry partners

For initial queries, Rudolph Fourie of Alternative Prosperity is available to assist.
He may be contacted on rudolph@apros.co.za or 021-851-0091.

ASISA FOUNDATION

Today'sTrustee

alternative prosperity transforming our common future

GRAVY

The quick way for government to turn the national mood is merely a sample of arrests and extraditions for people against whom the evidence of corruption has been revealed. From the public inquiries, there's already more than sufficient.

It's unnecessary to await the inquiries' findings and recommendations. This can take months. Trial courts make the decisions on guilt or innocence.

The urgency is that, for so long as the Zuma faction can regroup (as with the appointments by extra-parliamentary influences of chairs to parliamentary committees), the anti-corruption intents of President Ramaphosa will weaken and the confidence injection required for a debilitated economy will stall.

If the problem is a lack of capacity at the National Prosecuting Authority, then pass the hat around private-sector donors for engagement of competent counsel in private practice to assist the state officials. Such is the horror at what's going on – or not going on – that it will probably take less than a week to fund a war chest.

It's time for action, not words, as Ramaphosa has said.

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There seems a sudden hysteria about an imminent introduction of prescribed-asset requirements for pension funds. Social media have been awash with warnings that savings will be exported to avoid it. Relax.

As *TT* has frequently pointed out, prescribeds have been up for investigation in ANC-speak for as long as anybody.

They're no closer now than they were then. It's a bit of popularist garbage more suited to the EFF.

Years ago, a leading proponent of prescribeds was trade unionist Ebrahim Patel. Now the minister of trade and industry, Patel delivered the keynote address to the recent Batseta winter conference.

Prescribeds didn't get a mention, directly or implicitly. Neither was there even a remote suggestion that pension funds might be forced to invest in such blighted state-owned enterprises as Eskom, SAA or the SABC.

In fact, so reasoned was Patel's call for greater attention to alternative-asset classes such as infrastructure, and his focus on good governance, that his address was met with enthusiastic applause from the pension-fund representatives who filled the auditorium.

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Perhaps 'expropriation without compensation' has an upside.

Apparently there are many owners of holiday homes, fearing they're the most vulnerable, looking to dump their properties. A contrarian will see never-to-be repeated buying opportunities.

A gamble worth taking? And better still with all the KZN stands released by Tongaat that, left unpaid, can be coming up for resale?

Now that there's a new and uncorruptible head of SARS, a little reminder to explore the R50m-plus in fringe benefits that a certain taxpayer ostensibly owes on Nkandla.

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Great moves at Old Mutual on interest conflicts, first with the investment division's vote against the group's investment policy and then with the firing by the board of group chief executive Peter Moyo. Chairman Trevor Manuel would surely have no problem with the former and himself instigated the latter, both exhibiting consistency with principle.

They set fine examples, and high time too. The levels of remuneration, from which Moyo benefited handsomely, enjoyed fillips when Mutual's relocation to the UK put them on a par with UK levels. It was a distortion that impacted on SA's whole financial sector, not necessarily to the benefit of clients.

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The ravings of the EFF are immensely dangerous.

They're news, sure, but undeserving of the airtime quantities generously provided by media lacking the resources otherwise to fill empty space.

Why else play into their hands?

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I too used to believe in freedom of expression. But then I started listening to the phone-ins on radio talk shows. ■