FIDUCIARIES FACE INVESTMENT DILEMMA

WARNING FOR SA IN CHILE PENSIONS TURMOIL

Dec 2020 / Feb 2021

Today's Trustee

YOUR MONEY YOUR POWER

WHY GOVT MUST LISTEN TO PENSION FUNDS

. . . and not the other way around.

Today'sTrustee

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EXPERT OPINIONS

FIRST WORD

When fiduciary clashes with fiduciary

Offshore exposure versus SA infrastructure. Portfolio diversification versus national interest. What's the proper balance? Even the GEPF and EPPF are having to decide.

There's a debate that trustees might want as much as they might want a dose of Covid-19. Like the virus, which mutates through defences to contain it, so also there's the concept of fiduciary duty that mutates with circumstance in its application to retirement funds.

The spreading infection in the SA economy is growth-choking debt. This makes unavoidable the debate over fiduciary duty, both at the levels of individual funds and at the Financial Sector Conduct Authority as the regulator, in that retirement funds are virtually alone in their capacity to help relieve the national debt's worst consequences. But this isn't in the job description of fund trustees.

Because they're obliged by fiduciary duty to act in the best interests of their funds, the crisp issue is a value judgment on the composition of best interests. Asked specifically, it's whether trustees push for maximum exposure to offshore assets or plough members' savings into the domestic infrastructure projects that are presented as the flywheels for SA's economic expansion.

Not so simple

The cop-out answer is simply to comply with the Regulation 28 guidelines for prudential investment. But it's not so simple, even with the anticipated Reg 28 amendments to facilitate the investment by retirement funds in infrastructure.

Reg 28 defines maximum exposure to respective asset classes, leaving plenty of room for discretion and diversification in their weightings. At the extremes, trustees have been spoiled for choice between dollar-

Mabesa . . . into the deep end

denominated and rand-focused portfolios.

Performance of the former has been spectacular relative to the latter. Of course, this pattern needn't hold. But given the litany of woe that finance minister Tito Mboweni frequently and frankly presents, bets on the rand's longer-term direction are likely to be one-way only.

As it stands, Reg 28 allows retirement funds a maximum 30% of their assets in foreign portfolio investments. This stipulation, speaking politically, legitimises the ceiling.

On the other hand, 30% invested offshore is 30% less for investment in SA infrastructure. To get an idea of the scale, take R4 trillion as the asset value of SA retirement funds. Compare it to the estimated R2,3 trillion required for the 243 projects mooted in June.

Now to square the circle. If funds fail to exploit the offshore facility, their trustees are at risk of a breach in fiduciary duty by not pursuing optimal risk-reward returns.

But if they don't fill their boots with stock to build domestic infrastructure – they can put 100% of their portfolios into debt instruments guaranteed by the SA government, for instance -- they're at risk of a breach in fiduciary duty by constraining the potential for the SA economy to mutate from near-zero growth.

Then too there's the obligation on retirement funds to consider ESG (environmental, social and governance) criteria in their investment decisions. This they do over their SA investments, not least for the benefit of future generations. However, the requirements for ESG compliance cannot pressure them to shun high growth in Far East autocracies.

> *When money talks, it's lounder than ESG. Funds and their members usually prefer higher rather than lower returns.*

Money talks

So they won't, presumably. When money talks, it's louder than ESG. Funds and their members usually prefer higher rather than lower returns.

Private-sector retirement funds needn't confine their offshore decisions to bursts of patriotism. Under newly-appointed principal executive officer Musa

Mabesa, the huge Government Employees Pension Fund is in discussions with National Treasury on its asset-liability modelling. That's code for deciding when, where and how much the GEPF will invest offshore.

The GEPF is a defined-benefit fund, operating under its own law and not subject to supervision by the Financial Sector Conduct Authority. The better its investments perform, the better for its members' benefits. Conversely, were the GEPF unable to pay its members the defined benefits promised, taxpayers will have to make up the shortfall.

So good luck to the GEPF in its sortie abroad. Equally, it's been announced that the defined-contribution Eskom Pension & Provident Fund – the largest under FSCA supervision – plans to invest $170m in US infrastructure, private equity and real estate.

Huh? Like the US needs SA money for its infrastructure? And from the savings of employees in this state-owned disaster? Yet it can be argued that the rationale is wholly justifiable as portfolio diversification. The $170m is a tiny fraction of the R145bn ($8,7bn) in EPPF assets.

Still, lest they feel guilty in choices they make, the principle is a precedent for offshore decisions of private-sector SA retirement funds. The difficulty they face, in meeting government's expectation for them to invest heavily in infrastructure, relates less to quantum than to timing and liquidity. On an escalation of retrenchments, which sparks constant cash outflows, funds will need dollops of liquidity well before the proposed infrastructure projects begin to produce returns.

Lurking for ages has been the suspicion of an implicit trade-off for retirement funds. If they voluntarily invest in state-approved projects, the introduction of mandatory prescribed assets would be obviated. Under SA's current economic circumstances, such a suspicion mightn't be too far-fetched.

Reg 28 is amended from time to time, for instance on the level of offshore exposure permitted. In the foreseeable future, this level is more likely to go down than up. Similarly, at some unforeseeable point, the worst of all worlds could be an amendment setting out not the maximum but the minimum level for investment in asset classes that government will define.

Lurking for ages has been the suspicion of an implicit trade-off for retirement funds. If they voluntarily invest in state-approved projects, the introduction of mandatory prescribed assets would be obviated. Under SA's current economic circumstances, such a suspicion mightn't be too far-fetched.

In the desperation of the present, anything's possible. The trick is to make it look consensual.

Allan Greenblo,
Editorial Director.

ESG now part of mainstream investment process

Ringetani Ndlovu, Impact Credit Portfolio Manager at Ashburton Investments, outlines findings of independent research commissioned by her firm.

Over the past few years, ESG (environmental, social and governance) considerations have become part of the mainstream investment process. What was once seen as a specialist, segregated activity, is now recognised as an integral part of the risk management process.

This is emphasised in the Pension Funds Act where Regulation 28 broadens investment objectives beyond financial return only. It speaks to the consideration of factors that may materially affect the sustainable long-term performance of an investment, including ESG factors.

A key theme in the investment world is how to balance sustainability factors with return objectives. There is an outdated myth that sustainable investing comes with a trade-off between social and environmental return and risk-adjusted financial returns. The truth is that sustainability is becoming widely accepted as a source of downside protection against ESG risks.

Research shows that considering sustainability and ESG factors can enhance investment selection, reduce overall portfolio volatility and improve performance over time. A better understanding of ESG matters allows for improved portfolio risk management which ultimately supports stable returns.

Ashburton Investments commissioned research, carried out by financial research firm Intellidex, to assess the attitudes of South African institutional investors to impact investing. From August 2019 to December 2019, 49 South African pension funds -- representing

Ndlovu . . . conclusive evidence

combined assets under management (AUM) of R2,6 trillion -- were surveyed. This is equivalent to 65% of the total R4,3 trillion AUM in the pension fund industry.

Respondents have several clear investment objectives for their funds. Sustainability, diversification and high risk-adjusted returns were all considered important. The weighted results showed sustainability to be as important as risk-adjusted returns, with 73% of respondents saying it was "extremely important".

A majority of respondents (98.5%) indicated that they expect sustainable investing to play a more important role in the next five years, while ESG factors were acknowledged by 86% of respondents as a consideration for investment decisions.

Encouragingly, institutional investors are not just paying lip service to these factors. They are putting money behind them too. When asked about changes in portfolios over the past five years, 81% said they had changed their portfolios' exposures to help solve social and environmental challenges and 81% said that they made analysis of ESG risks and opportunities part of the fundamental analysis process.

While it is inspiring to see such high levels of understanding of these factors, the report also noted that pension funds consider difficulty in measurement and lack of transparency to be major challenges to increased sustainable investment. This is an indication that much more work is needed in this space.

It is clear that for pension funds, sustainability is an important concern. Investing in entities that deliver short-term profits at the expense of society and the environment does not serve investors who have a long-term investment horizon and are also concerned about the plight of future generations.

There may be some hurdles ahead, but there is positive momentum driving the growth and importance of sustainable investing in South Africa.

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STOCK EXCHANGES

Take on the JSE

Competition awakens. Most assertive of the new entrants is proud of its package and realistic in its intentions.

If fiduciary duty means anything in the context of stock-exchange trades, it's that trustees of pension funds be alive to the relative advantages of the A2X upstart against the JSE establishment. At the least, when there are cost savings and price improvements to be had, trustees could expect their asset managers to explore and explain why respective stockbrokers have preferred one to the other.

On the claims in its current presentation to analysts, A2X is a serious disrupter. It's likely to become significantly more so, both on criteria for best execution including costs as well as the scale of its listed universe. That much was intended by the advent of competition when the JSE deregulated, itself to become a profit-making entity for external shareholders.

Mendelowitz . . . promising start

Amongst the handful of licences issued, the rival exchange which so far seems to be making the most headway is A2X. Founders were Ashley Mendelowitz and Sean Melnick (both ex-Peregrine), with Kevin Brady (former head of institutional broking at Investec). Today Mendelowitz and Melnick are non-executive directors (Mendelowitz the chairman), and Brady the chief executive.

Five years ago, having assessed a strong appetite for competition with the JSE, they began the Financial Services Board process for a licence application. Head of the FSB capital markets division was then Bert Chanetsa, now head of the A2X regulatory committee. Anchor shareholder is African Rainbow Capital.

What alerted the founders to the opportunity was the introduction of competition to the centuries' old stock exchange in London, similar to developments in Australia a few years later. "These were classic disruption plays," says Mendelowitz. "Modern technology enabled them rapidly to capture market share with relatively low employee overheads."

So too with A2X. At present it carries secondary listings of 37 companies whose primary listings are on the JSE. Of the 37, nine are SWIX 40 constituents. Naspers, Standard Bank, Mr Price and Exxaro are amongst them.

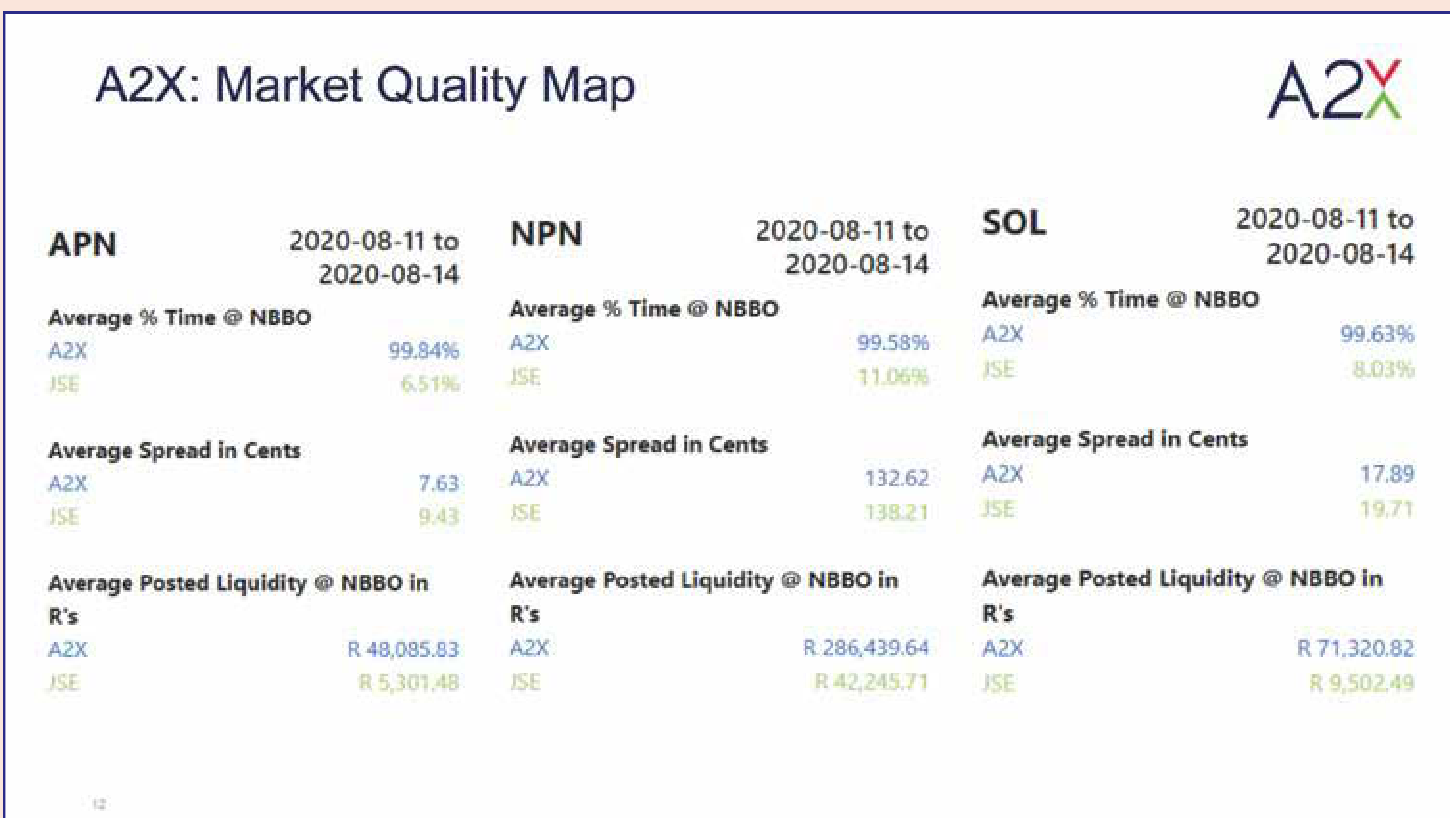
Once a company has a primary listing, Mendelowitz points out, there's no additional cost for a secondary listing. Neither is there downside in that the listing rules, having been adopted for the primary, are identical for the secondary. In essence, the secondary creates the competition.

This is because orders from stockbrokers are fed simultaneously into both exchanges. Within milliseconds, algorithms will decide the exchange to be used. Criteria relate to cost, liquidity and best price.

Once every second A2X takes a snapshot across the two markets to create a NBBO (National Best Bid & Offer), immediately displayed in a market quality map. A2X believes that it has an edge via more advanced software than the JSE legacy systems, as shown by the example for trades in Aspen, Naspers and Sasol at a particular moment (see slide).

Why then have relatively few companies on the JSE primary board elected not to list on the A2X secondary board as well? Perhaps it's simply that they couldn't be bothered to obtain sign-off from their boards or are unaware of benefits for shareholders. Or perhaps they worry about upsetting the JSE.

In time, it probably won't matter once SA follows European jurisdictions where the consent of companies for secondary listings isn't required. That alone, other things being equal, could quickly help A2X to jump from a start-up 1% market share to a lucrative 20%. ■



Performance sample . . . boasts to beat

LEGAL MATTERS

Steps forward and back

Good SCA decision perhaps to be countered by bad CoFI provision. Uncertainties still to be resolved.

A **judgment by the Supreme Court of Appeal,** dealing with the distribution of pension funds' actuarial surpluses, is perhaps a little less than the "legally ground-breaking" description applied. But practically it does reverse a peculiar deprivation.

For several years the validity of Regulation 35(4), under the Pension Funds Act, has been questioned (see box). Now the court has declared it invalid on grounds that the Minister of Finance had exceeded his powers in having promulgated it. An example of the judgment's effect is enabling funds to release to existing members and pensioners the monies of members who cannot be traced.

The Financial Sector Conduct Authority had opposed the appeal by three funds on grounds that the regulation prevented the funds from releasing the money except as payment to the Guardian's Fund or some other fund or, ridiculously, the uncontactable former members. But the SCA held that the regulation "intrudes upon the wide discretion" of a fund's board by compelling it to freeze in perpetuity "the monies from which past or present members can never benefit".

While attorney Graham Damant of Bowmans describes the judgment as a "substantial step in the right direction", he cautions that its effect might be short-lived. The draft Conduct of Financial Institutions (CoFI) bill, he points out, proposes that "unclaimed benefits may not be reduced or utilised for any other purpose by a fund". So, in a different guise, the invalid regulation might live on.

Further uncertainty over unclaimed/unpaid benefits arises from comments in the FSCA's latest annual report. It points out that there will be a single registry to consolidate unclaimed benefits in the retirement industry. "This should manage any perceived or actual conflicts of interest," it adds, and "the fund will be subject to the FSCA's supervision".

Hunter . . . wants better accountability

There lies the rub. Who'll appoint the trustees? Will the appointments process be open and transparent? What's to prevent funds from simply dumping their unpaid benefits, getting shot of an administrative headache, to no advantage for the unpaid beneficiaries e.g. by lethargic tracing and record keeping?

Rosemary Hunter, of the Fasken law firm, has made unpaid benefits her *cause celebre*. She wants "extra effort for people to be accountable" and asks whether all or only portions of unpaid benefits will have to be transferred to the fund.

The FSCA annual report, for the year to end-March 2020, shows that in funds under its supervision the total of unclaimed benefits stood at R43,6bn for 4,9m beneficiaries. But for the previous year, to end-March 2019, the respective figures were R42,1bn for 4,5m beneficiaries.

Strange is that, despite all the lip service, the situation has worsened.

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CURRENTS

Warmer in Chile

Model pensions system starts to melt. SA, take note.

From the time that SA started to get serious about retirement reform 15 years ago, a model most avidly studied for emulation was the private pensions system of Chile. Now, in a dire warning to similarities in SA, the system faces an existential threat as populist politicians allow savers to withdraw funds during the Covid-19 crisis.

In July and again in November the lower house of congress voted to allow two separate 10% withdrawals, and a third withdrawal of equal magnitude is up for approval in 2021. They're putting at risk a pool of savings that has driven the growth of Chile's capital markets and are jeopardizing future returns.

Populism takes hold

Investors are increasingly concerned that the country's famed economic model, that has driven decades of steady growth is disintegrating. A senior pensions industry executive told the Financial Times: "Chile is a country in Latin America but it is not a Latin American country because there have been no attacks on investors or crazy economic policies. This is exactly what's at risk now."

Established almost 40 years ago, Chile's defined-contribution model was the first private pensions system in the world. It was widely praised as key to the success of Chile's economy.

While it's generally acknowledged that reforms are now necessary, it's also feared that the hefty pensions pot is "an attractive prize for populist politicians that have their eyes set on presidential elections".

It's starting to sound too familiar for comfort, unfortunately.

Domestic pressures

If National Treasury was once guided by Chile's experience in what to do, it's now guided in what not to do. During this Covid period, there's no win-win in emergency withdrawals from retirement funds.

To allow them is to prejudice savers who'd have to continue from a lower base, losing out on tax incentives and compound interest. To disallow them is to withhold from savers their grips on basic necessities, but at least keeping fairly intact a large basket of the nation's capital stock and averting crises down the line in old-age provision.

The draft bill tabled in parliament by Dion George seems to attempt a middle course, allowing a tax-neutral loop for savers who can eventually replenish their emergency withdrawals (see '*Withdrawals*' in this edition). Treasury has begun to indicate its stance.

In the Medium-Term Budget Policy Statement it said that it had consulted with Nedlac partners "to introduce the necessary legislative amendments next year to allow for limited withdrawals under certain circumstances, but linked to mandatory pension requirements".

Writing elsewhere in this *TT* edition, pensions regulator Olano Makhubela notes that "because immediate accessing of retirement savings has not yet been enabled, it will protect the assets that people have already saved if they remain in employment".

Perhaps the operative words are "not yet", the timing to be determined by the amount of noise from Cosatu.

MTBPS changes

New tax rules for annuitization of retirement funds, with the streamlining of pension and provident funds, will become effective from March. These changes have been in the wind for the past seven years but were blown away in an outcry against mandatory annuitization, some parties fearing that it might be a precursor to nationalization of workers' savings.

Times have changed. Minister Tito Mboweni was happy to announce an "historic agreement" in

Burger . . . limited benefit

Nedlac and thanked "the labour constituency for identifying appropriate annuity products for low-income workers".

It has been a long journey to get the unions on board, notes Momentum Investments strategy head Rowan Burger. They'd claimed that the life annuity market did not represent good value for money, because of relatively higher mortality rates amongst members.

"This claim has yet to be demonstrated," he adds. "The purchase of annuities only applies to future contributions and persons now younger than age 55. It therefore seems that the benefit of this proposal will take a long time to be seen in annuity sales."

Why save?

Another question that begs is the legitimacy of retirement funds in an environment of zero growth, minimal returns, and denial of access to savings when needed.

The short answer is that these negatives are temporary, or assumed to be on historical patterns. Moreover, they do provide for tax-incentivized savings and allow for diversification of investment risk.

Not that such arguments will meet with applause from retrenched workers. Although they can take their whole fund credit on losing their jobs, the average amounts are tiny. And if those still in jobs needed emergency withdrawals, the most they can expect is a percentage of tiny.

Then what? A national social security system funded how?

Welcome nest egg

Still, having a retirement fund is better than not having one if only it means that there are some savings where otherwise there'd be none. As the pandemic has shown, it can be perilous to rely on salary increases and house-price appreciation.

The latest batch of annual research by Just SA shows that the age group whose confidence was hardest hit by the pandemic is the newly retired (ages 65-70). Amongst them, 78% expressed a lack of confidence that their incomes will cover their monthly expenses throughout their retirements.

Children and grandchildren, be prepared.

FSCA notes

First, there's another stage in the long-running saga over the **Public Protector's findings** against Dube Tshidi as executive officer of the old Financial Services Board (*TT* Sept-Nov). The Financial Sector Conduct Authority, successor to the FSB on whose interim board Tshidi serves, had taken the report on review.

Without comment on the contents of the report, the Pretoria High Court has set it aside on purely jurisdictional grounds. The Public Protector had not explained special circumstances to justify the investigation of matters more than two years old.

Tshidi . . . persistent PP

So it's perhaps premature for Tshidi, and attorney Tony Mostert who's been a favoured curator, to begin celebrations. In terms of the judgment, the door is open for Public Protector Busisiwe Mkhwebane to come back with a report providing the necessary explanation. She might wish to do so following her frustration at not obtaining disclosure – again to be requested? -- on FSB-approved fees paid to Mostert on his curatorships.

She might also wish to focus on recent judgments against Mostert where he'd been ordered personally to pay costs on the punitive attorney-client scale, so that pension funds wouldn't be "mulcted on costs" as the judge put it, and another where costs were similarly awarded against him for an urgent application that he'd unsuccessfully launched with two other pension funds under his curatorship.

Even if Mkhwebane doesn't survive as Public Protector, her successor would be entitled proceed. Expect that the Economic Freedom Fighters, a complainant and intervening party through the litigation, will insist on it.

Second, the good news. Having been under the curatorship of Tony Mostert since March 2003, the **SACCAWU National Provident Fund** is now back to normal governance. An interim board is in place.

Perhaps it will see fit to publish the fund's most recent financials. It might then be possible to get a handle on the costs against the benefits of 17 years under curatorship.

Public reporting on the FSCA website has been sporadic. The last three curatorship reports on the SACCAWU fund were published in February 2017, December 2014 and June 2012. None said anything about fees.

Global player

To meet the need for broader regional exposure, and also to manage risk through diversification, London-based heavyweight Schroders started

Nkosi . . . strengthened presence

operating on a permanent basis in SA five years ago. It now offers a broad range of 12 funds approved by the FSCA.

With 42 investment teams in 35 locations across the world, Schroders has roughly £526bn in assets under management. Says SA country head Kondi Nkosi: "There is recognition that investing locally is extremely important to propel economic growth and thereby generate good returns. At the same time, prudent investors are aware that they need to broaden their regional exposure to beyond SA which accounts for less that 1% of global gdp and around 1% of global stock markets' aggregate."

In the UK it is launching a trust to invest £50m to £2bn of equity capital into high-growth, high-quality companies hit by the Covid crisis. Schroders sees this as a "once in a generation" opportunity.

Although pension funds generally do not do country-specific allocations, Nkosi notes, "properly managed trusts are an efficient way for investors to access a listed vehicle into private and public companies".

FSTC goes limp

Now you see it, now you don't. Having launched in a blaze of colour, exemplified by its logo, the Financial Sector Charter Council is a blur.

It was supposed to be, in its words, "the most powerful driving force behind a transformed, transparent and accessible financial services in SA". Hardly has it turned out to be any of these things.

Its most recent annual report is for 2017-18. A later draft apparently contained too many serious inaccuracies to be signed off.

FSTC FINANCIAL SECTOR TRANSFORMATION COUNCIL

Unless the raw data is available, which it seems not to be at the FSTC, a report on the progress of transformation cannot proceed. Assembling what they can from their respective constituents, ASISA and the Banking Association are engaged in putting the picture together.

They are surely aware that it will have to be credible, not promotional.

Fit and proper

Back onto its hobbyhorse that trustees of retirement funds must have "certification", the FSCA has decreed that it be obtained -- within six months of their appointment to a board – by completion of the trustee training toolkit available on the FSCA's website.

While there is no examination to be passed, the exercise should be supervised by the fund's principal officer or board's chairperson. Also, there should be testimony of the assessment having been completed without assistance.

From the perspective of remuneration, it'll be worth trustees' effort. There was a time that they were expected to serve without pay, and many did. No longer.

For example, the recently published PwC retirement funds survey shows the average annual remuneration for chairpersons of specialist funds at R387k (2016: R153k) and for standalone funds at R337k (2016: R109k).

And for ordinary trustees, who aren't professional board members, the respective averages are R162k (2016: 79k) in specialist funds and R425k (2016: R63k) in standalones.

Chairpersons and independent professional trustees will now each cost funds between R3 000 and R3 600 per hour, or between R5 000 and R6 800 per meeting, the report adds. The maximum annual remuneration of a principal officer, by way of another example, was R2,6m.

These numbers might sound grand when compared with past levels but not, despite their similar responsibilities, when compared with directors of many JSE-listed companies. Just as well, at least for retirement funds.

ESG armoury

Chief executives of the "Big Four" accountancy firms have thrashed out a common framework for environmental, social and corporate governance. Motivated by the World Economic Forum, the firms will promote consistency in how companies inform investors over ESG norms.

Good luck to the accountants (and presumably their clients who'll be charged for the service). They'll add another level to the disharmony between, amongst others, the Sustainability Accounting Standards Board, the Global Reporting Initiative, the Task Force on Climate-related Financial Disclosures, and Harvard Business School's "impact weighted accounting".

Then there's the CFA Institute. Known for its prestigious 'Chartered Financial Analyst' designation, it's having less prestige in trying to produce a standardised format for ESG disclosures. A number of large asset managers have rejected the initiative on grounds that it will add confusion when the responses of global policymakers to ESG are still developing.

Meanwhile in SA, there's another addition. A partnership between global bank Standard Chartered and Genesis Analytics are working to design and then test "an evolved approach to impact reporting and measurement".

Next trick in the evolution will be the army of consultants and compliance officers, all motivated by the altruistic mission to do well for society and the planet. ■

IN MEMORIAM

Gumede . . . dedicated service

Johnson Msonwa Gamede, a leading trade unionist in the retirement-fund industry, has passed on at age 70.

Long-serving principal officer of the SATAWU national provident (set up by the SA Transport & Allied Workers Union for its members), he was also a trustee of the Road Freight & Logistics Industry Provident Fund as well as a director of Unite Inc (a not-for-profit fund management business owned by six trade unions).

A colleague remembers him for his integrity and passion: "As principal officer of the Satawu fund, one of his proudest moment was a compliment from the Financial Sector Conduct Authority for the board's excellent management."

COVER STORY

Go for prescription

Pension funds must specify to government precisely their terms and conditions for participation in infrastructure investment. The boot will then be on the correct foot.

In a state of disaster, as it's forlornly styled, a few good-news stories can relieve the protracted obsession with Magashule, Zuma and Zondo. There are some such items to provide a bit of balance.

For one, lest we forget, recently the M-Net television channel screened a documentary series entitled 'Chasing the Sun'. It's ostensibly about the Springboks' rise from underdogs to winners of the 2019 rugby world cup, but it's really about so much more.

There're several points it makes without having to spell them out: how fickle, comparing the elation of then with the despondency of now, is the SA national mood; how united the people of this country can actually be, when compared with the vitriol on talk radio and twitter feeds, in celebratory pursuit; how inspired leadership and team cohesion, which smash stereotypical barriers of ethnicity and experience, lead to triumph in reaching a desired goal.

It went without saying that the Springboks' achievement was not the result of government planning.

For another, a shining example of people coming together in common cause is success of the Solidarity Fund. Billions of rand were voluntarily raised, and efficiently spent on distribution of food and allocation of personal protective equipment, to alleviate plights occasioned by the Covid-19 pandemic.

Glaring, in the case of the Solidarity Fund as distinct from government, was the absence of corruption.

Then, as the supreme instance of private-sector support for infrastructure investment, there's the R200bn raised for the Independent Power Producer Procurement Programme. From it has come not only the generation of renewable energy but also multiplier spin-offs for economic activity without stressing the fiscus. The more that "bankable" projects are on offer, the more the private sector will come to the party.

What's come most recently, in the *Government Gazette* of July 24 to be precise, is a list of several dozen "strategic integrated projects" that the Presidential Infrastructure Coordinating Council has "designated". Potentially, with the emphasis on 'potentially', pulling it off will be the supreme good news story as government battles on the one hand to reduce its spending (economic contraction) and on the other to promote job creation (economic expansion).

President Cyril Ramaphosa hopes to "unlock R1 trillion in infrastructure investment over the next four years", he says, adding that the newly operationalized Infrastructure Fund "would be an important vehicle for de-risking projects and making them attractive for private-sector participation".

Government has committed R100bn to the fund for the coming 10 years, of which R18bn will be released over the coming three years. He considers it "significant, and most welcome, that the multilateral development banks, pension funds and commercial banks have agreed to participate in the governance structures of the Infrastructure Fund".

Having digested this mouthful, it might have been

Ramokgopa . . . big pool of liquidity

expected that in the weeks subsequent to July 24 there'd be elaboration of the projects prioritized as well as their estimated costs and timelines for completion. But no such luck.

It isn't as though the "designated" projects are sudden revelations. Most have been mooted for months and longer. Yet still the envisaged financing packages remain obscure except for general intimations that Regulation 28, which governs retirement funds, will be amended to facilitate their investment into infrastructure as an "asset class".

Kgosientsho Ramokgopa, head of investment and infrastructure in the Office of the Presidency, wants to access the "big pool of liquidity" in SA pension funds. Late in the day, industry spokespeople are the table.

Speculation is that government will increase the Reg 28 prudential limit for unlisted equity from 10% to 20%. That's a big number but perhaps academic for pension funds, considering that at present few of their portfolios are anywhere near the 10% ceiling anyway.

It's clear that government will be looking to include a gamut of savings vehicles, particularly pension funds. This is logical because they -- not government which sits as some sort of sleeping partner to "facilitate" or "enable" with minimal resources – that have the money.

It follows that the funds prescribe to government, not the other way around, on their terms and conditions to shovel cash. It means that the "bankable" projects will have to offer risk-reward returns commensurate with competitive opportunities. It also means the exclusion of decrepit state-owned entities from consideration.

However, it doesn't necessarily mean that a government guarantee will provide sufficient comfort for the investment return, given the parlous state of the fiscus, should say a toll road not produce the predicted revenues or a residential project fall short on income streams. An advantage of having representatives of pension funds negotiate from the front, project by project, is that they'll need to ratify the security, usually a prerequisite for "bankability".

There are other advantages. As stewards of pension funds (see *First Word*), they have duties of transparency and accountability with clear lines of sight into what and why they've invested under distinct mandates. They're also attuned to ESG (environmental, social and governance) criteria which refine those mandates, and are perfectly capable of initiating projects themselves.

Thus does impact investment join with social responsibility and the numerous other non-financial aims, such as clean energy, these days considered integral to decision-making. Moreover, their managers often have considerable experience and resource for evaluation.

In particular, such managers as Futuregrowth and Old Mutual Alternative Investments have led the field with projects of their own. Other large managers are increasingly focused on the unlisted space as an area of opportunity in that it broadens the investment universe, and several smaller players such as Mergence and Third Way have similarly developed specialist capabilities.

The generality is that long-term infrastructure projects eminently complement the long-term nature of pension-fund investment. There's the added dimension of social value such as development of schools and hospitals too (*TT* March-May).

That said, however, the investment capacity of pension funds should not be overestimated. Janina Slawski of Alexander Forbes, for one, cautions that the illiquid nature of infrastructure constrains liquidity requirements for funds to pay out on the liabilities side of their balance sheets. This is all the more piquant in periods marked by widescale retrenchments.

It's also a period of government walking barefoot on hot coals. There's perpetual ambiguity, even obscurity, in presentations of intent. It cannot proclaim a social compact between itself, business and labour when the three parties are themselves internally fragmented. Neither can it continue to speak in two voices, one for the ANC national executive committee and another for targeted investors.

To do so negates the policy certainty required for confidence. Politicization of investment hampers it. Kept tactfully but deceptively low-key are such terms as privatization, labour flexibility, skills deployment, transformation quotas, property security and even a market economy.

Upfront for admiration, and hopefully implementation, are impressive intentions (see box). Did pension funds have a say in their compilation? If the list is already too late to amend, then where and how to get started? So ambitious is the programme that it might be preferable to begin with a handful of pilots, to garner proficiency, like eating an elephant bite by bite.

Because of the heavy reliance of the infrastructure programme on pension funds, the occasion is opportune for them to force the pace and the policy. Uppermost driver is the funds' primary function to produce optimal pension benefits that derive from optimal investment returns, joined at the hip to economic recovery.

A modest suggestion to accelerate speed and promote simplicity: contemplate a committee of 10, one delegate from each of the five largest umbrella-fund sponsors and one from each of the largest standalones to refine the participation details.

If there are more authoritative groupings to speak not only for pension funds but also for their millions of members and dependents, creating the broadest compact imaginable, let them do it. One way or another, urgency for implementation dictates that it be done.

Once the army of unemployed extends faster than the state's capacity to extend social grants, choices will have run out. ■

Slawski . . . not so big

STRATEGIC INTEGRATED PROJECTS (SIPs)

The Presidential Infrastructure Coordinating Commission has designated SIPs and sub-projects in locations nationwide and across a broad range of services that include:

- Water and sanitation
- Energy
- Transport
- Digital infrastructure
- Agriculture and agro-processing
- Human settlements
- Rural bridges
- Rural roads
- Township roads
- Water savings in govt buildings
- Urban management
- Digitising of govt information
- Removal of alien vegetation
- Solar water initiatives
- Student accommodation

OLDMUTUAL

ACCELERATING INTO TOMORROW:

WHAT THE COVID-19 PANDEMIC MEANS FOR RESPONSIBLE INVESTMENT

By Khaya Gobodo, MD of Old Mutual Investment Group

Going into 2020, the asset management industry was already facing a series of structural changes brought on by shifts towards passive investing, fee pressure, competition for talent, the rise of artificial intelligence (AI), the drive towards responsible investing and the growth in alternative investments, to name a few. COVID-19 has hastened many of these trends, and in some cases, also enhanced the focus, particularly when it comes to the theme of Responsible Investing.

A unique opportunity to play a meaningful role

Asset managers are in the unique position to make decisions that influence the economy, the environment and society as a whole. As an industry, we direct a material portion of capital flows in the economy and so have a genuine interest in ensuring that the economy sustains itself. Critical in this work is an appreciation of the interconnected nature of the economy, society and the environment.

The current COVID-19 pandemic has heightened this awareness and laid bare the vulnerability of the economy to outside biophysical system shocks. A measure of this vulnerability is the scale of fiscal stimulus presently being rolled out around the globe. It's an amount that far outstrips the stimulus packages post the 2008 Global Financial Crisis. There are questions to be asked around how this capital will be deployed. Will it be directed to enable more of the same kind of economic growth and its attendant social and environmental system risk? Or will it be used to build back better and directed in a manner that drives socially inclusive, low carbon and resource-efficient growth?

The asset management industry is in the unique position to play a meaningful role in enabling a growth path that best sustains the long-term health of the economy, society and the environment. Asset managers will have to choose which side of the fence they sit on in respect of this issue. The side they choose could well define their future prospects. This is all while focusing on the fiduciary roles to act in the best interest of clients and deliver investment outcomes that meet or exceed their expectations.

INVESTMENT GROUP

175 YEARS OF DOING GREAT THINGS

Partnership across the value chain will be key

Capturing the green growth and build-back-better opportunity will require collective action by asset managers, asset owners and asset consultants. As industry partners, we have the responsibility to understand the impact of our investment and stewardship decisions on society and the environment. A critical element of this will be formulating long-term partnerships based on measurable sustainability outcomes. Asset managers will not only need to engage proactively with investee companies on sustainability issues, but will similarly need to engage asset owners on their views. Seeking alignment on these issues, through solutions that deliver appropriate risk-adjusted returns and impact, will remain at the forefront of innovation in the asset management industry for the foreseeable future. Long-term partnerships will be a key to success here, as will be the ability of managers to collect and report on environmental, social and governance (ESG) impact metrics.

For asset managers, it is clear that it's no longer enough to only focus on providing appropriate risk-adjusted returns, excellent client servicing and competitive fees. The type and scale of impact will rightfully also become an important consideration when selecting a long-term partner.

Aligning impact outcomes across asset classes

The SA government has made a commitment that our recovery plan will be infrastructure-led, with a focus on energy, water and sanitation, public transport, roads and bridges, human settlements, health and education and digital infrastructure. All these areas present great opportunities for long-term investors to align capital with green economy outcomes.

It is expected that the bulk of these opportunities will be best accessed via long-dated debt and private equity investments. Presently unlisted investments provide the most direct opportunities to contribute to green growth through themes like renewables energy, schools, housing etc. The economic structure of the SA listed markets means that opportunities to play the green growth theme are somewhat limited. However, investors shouldn't forget the opportunity to drive impact through the listed market. This can be done by investing in ESG indices in addition to the growing ranges of active investment solutions that leverage and integrate ESG data and insights.

Another important opportunity to drive impact in the listed markets is through active stewardship. We expect large-scale asset owners, with long-term time horizons, to start exercising their fiduciary right in a more coordinated fashion. We see this as a material opportunity to drive market transformation while, at the same time, reducing long-term systemic risk.

There are a diverse set of return, risk and ESG impact outcomes that can be achieved across the various asset classes in SA and globally. Having products and services that deliver measurable impact outcomes across asset classes will be a key competency for asset manager competitiveness going forward.

While we cannot possibly anticipate all the factors impacting the asset management industry going forward, we can be sure that the COVID-19 pandemic has strengthened and hastened the pre-existing trend of responsible investment and green growth.

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

Solution for the future

Retirement funds need a re-think, believes Momentum Investments deputy chief investments officer Eugene Botha.

Global risks, structural market changes and economic events have resulted in a need to design, construct and manage the retirement fund solution very differently for the future.

The first principle of investing says we should invest for the long term. Although the investment market is riddled with uncertainty, certain tried-and-tested principles can help investors boost their chances for long-term success. If your time horizon allows it, a focus on the future with an eye toward long-term investment can increase the likelihood of retiring more comfortably.

People tend to live longer than ever before. The importance of long-term investing therefore becomes even more important.

The problem is that the focus often becomes too short term; risk is not clearly defined or understood, and we get swayed by our emotions, making it increasingly difficult to remain invested or stick to a plan that is designed for the longer term.

As a result, behavioural biases creep in. They lead to irrational decisions.

We have done an enormous amount of research focused on understanding the detrimental effect that reaction to short-term risk events -- regret, the age-old peer-relative focus and a concentration on historical performance -- have on investor decision making and consequently on investment returns.

Short-term irrational decision-making and behavioural biases can have a detrimental effect on longer-term return outcomes for an investor in different market conditions. Investors tend to make more irrational decisions during periods of crises as well as periods when markets do not deliver on the handsome returns they perhaps have seen previously.

This behaviour erodes significant value. Our research shows that, on average, such behaviour annually destroys about 1% of value.

Botha . . . client objective foremost

How do we resolve our inherent biases? What does this mean for the retirement fund of the future?

The key is to have a clearly defined objective and a firm understanding from all parties (client, consultant and investment manager) of their expectations in terms of investment horizon, risk management focus and the resultant return objective. The client objective should therefore be front and centre of the solution.

Where retirement fund members are in their life cycle, their journey to retirement defines the objective. It is because of this phenomenon that we follow a client-centric approach to investing, making sure the investment proposition is personal. For younger members, the focus is about the accumulation of capital to ultimately increase the purchasing power of a post-retirement income. For members closer to retirement, the focus is on preserving the purchasing power of capital built over the years of retirement fund contributions.

The choice of the post-retirement income solution also plays an essential role in defining what is meant by the term 'purchasing power'. It is imperative that the advice processes are directly interlinked to the investment proposition, ultimately to deliver on the client goal most effectively.

An investment strategy or appropriate retirement fund solution can then be designed, constructed and managed in a way to deliver on the overall objective. It is therefore vital to understand risk in an appropriate and relevant way. Risk should be appropriately defined relative to the holistic objective and client goal.

Risk tolerance is about knowing where the line is drawn between acceptable and unacceptable outcomes. It should ideally reflect an investor's ability to take risk, and not the willingness to tolerate risk. If willingness is lower than ability, huge opportunity costs may be incurred.

Willingness to take risk is often wrongfully driven by emotions, peer pressure and herd behaviour as well as perhaps a misunderstanding of objectives. Risk should be proportional to the outcome required.

With the focus on increasing the purchasing power of a post-retirement income for members in a retirement fund, the investment strategy's ability to deliver on real returns (returns above inflation) is essential. In an age of inflation, the challenges associated with the management of retirement funds to deliver significant real returns are considerable.

For many years, it meant retirement funds were limited to investing primarily in government securities, listed equity and perhaps some additional debt and fixed-interest instruments.

Broader range

Changing market conditions – and the need to maintain a high enough rate of return – have resulted in evolving rules for retirement plans. They allow investments in most asset classes, including alternative assets and real assets such as infrastructure, renewable energy, direct property and private equity.

These asset classes are not only beneficial from a perspective of diversification and risk management in a holistic and robust multi-asset-class solution, but they also allow exposure to investments that can deliver on yields and returns that are different to the traditional asset classes.

This exposure is required to increase the ability of the solution to outperform inflation. It also allows retirement fund members to invest in companies that support sustainability and social responsibility, having a real and meaningful impact on the economy.

The ongoing Covid-19 pandemic has amplified the growing calls for resilient and adaptable infrastructure that effectively can operate during moments of crisis. Given this significant opportunity, it is imperative that we too look to embark on infrastructure investment programmes that strive to provide infrastructure that is sustainable, technologically advanced and resilient.

Responsible investment practices resonate with our outcome-based investing philosophy, and with the alignment of our clients' long-term goals to positively influence the world into which they will retire. It's a definite requirement for a retirement fund solution focused on the future.

When designing that solution to deliver on the holistic client goal, all the different asset classes and components of the investment strategy need to be aligned. The global component can be up to a third of the retirement fund solution, and it is not to be neglected. It is another piece of the same puzzle. By following a fully integrated process of co-creation with your global investment provider, we make sure the total solution is world class and aligned to deliver on the intended client goal.

One size does not necessarily fit all. But cost-effectiveness, sustainability and non-traditional asset classes are all key in a world of lower yields and increased longevity of retirement fund members.

We believe the retirement fund solution for the future should not only focus on investment returns, but also focus on the world we will retire to. We focus on all of this because our investors told us it is important to them that we do and therefore, with us, it is personal.

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https://www.momentum.co.za/momentum/invest-and-save

momentum investments

ASSET MANAGERS

Good, but not good enough

In this frank discussion with Sabelo Skiti, Fatima Vawda outlines important lessons drawn from the 2020 survey of black-owned firms.

Transformation in the asset management sector is about more than just putting larger amounts of money into the hands of black managers. So says 27four managing director Fatima Vawda, publisher of *BEE.conomics*, in reflecting on her latest annual survey for the year to end-June 2020.

Since launch in 2009, the report is widely hailed as the most comprehensive tracker of transformation amongst asset managers. On the numbers, this year's edition does record some progress in black representation and market access.

But Vawda, a mathematician grounded in activism, is frustrated that race representation still dominates the headlines in discussion of the report: "We've come to a point where we're tick boxing and losing focus on the real thing," she says. "Although there's progress in the numbers, nothing much has changed in terms of attitude."

For instance, she argues, black firms' supply chain expenditures remain largely white "indicating that things are still being done the same old way". Also, although black firms are increasing their market share, it has not translated to more jobs in the sector.

The report finds the that assets under management of the 51 black-owned firms (as defined) increased by nearly R100bn from 2019. Yet the increase hasn't translated into job creation. If anything, during the past year the firms shed 30 jobs.

The pool of money managed by the firms has grown by 15% to R668bn, and the number of firms reporting profitability has increased from 68% in 2019 to 76% this year. At the same time, Vawda notes, representation of women remains disappointingly low relative to other sectors.

Almost half of the surveyed market is shared between two companies, Taquanta Asset Managers (R217,6bn) and Prescient Investment Management (R100,7bn). A further five firms -- Vunani Fund Managers (R42,2bn), Kagiso Asset Management (R30,3bn), Mergence Investment Managers (R32,6bn), Argon Asset Managers (R25,3bn) and Aeon Investment Management (R12.4bn) -- each manage over R10bn.

"I think that the next step is for some consolidation," believes Vawda. "The survey demonstrates that we have a couple of big players, but then we have this long tail of managers that will not be sustainable. Small managers who're specialists will have to come together. This will help in offering clients the full suite of products. Consolidation speaks to scale, distribution and brand building."

She also points to contradictions in empowerment. On the positive side, she observes, some of the large institutions actually are transforming and creating jobs: "If you look at their investment teams, their directors and the like, they're trying all the time but we don't sufficiently acknowledge it."

On the other hand, she's critical that the acquisition by Patrice Motsepe's African Rainbow Capital of Sanlam's investment business is hailed as a major boost for transformation: "The reality is that two white men run ARC."

Vawda . . . consolidation needed

The bulk of the *BEE.conomics* 2020 report looks in detail at themes such as black firms' asset allocation trends, the scale and distribution of the R668bn across the firms, as well as their implementation of the UN sustainable development goals. These 17 SDGs are her yardstick for how asset managers ought to look.

Trying to play a role in meeting the 2030 goals is everybody's responsibility, she exhorts: "We need this new set of skills that can deal with our dynamically changing environment."

She seriously considers developments in asset management globally, notably the rises of BlackRock and Vanguard: "Driven by artificial intelligence and technology, big data and data science are taking over. They dictate the skills that we need to nature in our industry. That will be real transformation."

WITHDRAWALS

Pensions quandary

No easy way out in attempts to offer relief. Access to savings now or later is problematic either way.

For many individuals in this Covid-afflicted environment, retirement funds have come to serve as the provider of last resort. This was never their purpose.

But when people lose their source of income, so cannot put food on the table at age 45, they can hardly be told to wait for retirement at age 65 before they can access their accumulated savings. More often than not, their sole savings vehicle is the retirement funds they'd been obligated by employers to join.

That's just as well because, in all probability, multiples of cash-strapped individuals would now have nothing on which to fall back. On the other hand, the greater their immediate pre-retirement withdrawals the less awaits them on retirement.

Either way, the paramount question for policymakers is whether fund members will be permitted to confront the crisis of affordability sooner than later (see *currents*).

It gets worse. The dire economy has forced numerous employers to reduce group risk and contributions to their occupational funds, or to abandon them entirely. On the employee side, the more tragic when unemployment surges, the escape hatches into retirement savings are retrenchment or resignation.

On the former, few people have much choice. On the latter, desperation dictates its own course of events. Paradoxically, it's better to lose or leave a job – to access the retirement cash – than to starve. However, that's to prioritize the short term over the long. It's also to allow the cashing-in at the lowest point in the investment cycle, and to jettison the tax incentives designed to keep fund members in their retirement savings.

Is there a way to square the circle; in other words, to minimise the depletion of retirement funds and yet at the same time to release a lifeline? At present there's a loose proposal to allow the withdrawal of say 10%-15% from a member's fund value without adverse tax consequences.

Given the smallish amounts in workers' individual accounts, such a proportion might simply be insufficient to cut it for a reasonable time period. Conversely, run it through large numbers of members and the liquidation of investments could provoke a self-defeating crack in already-depressed markets.

A tighter proposal is from Dion George, a DA member of parliament who's apparently trying to put his Unisa doctorate on retirement funds to good use. Knowing enough to know that there cannot be a complete answer, he's put out for public comment the draft of an enabling bill that will permit fund members to borrow against their fund values in the same way as they can for home loans.

In this way, George argues, the money remains in the fund while the loan is repaid over extended periods as market conditions presumably improve. In this way could tax penalties be avoided, asset sales during a market low be averted, while the possibility of loan repayments from dividends and capital appreciation is facilitated.

The draft bill proposes that a registered pension fund offers a guarantee to pension fund members at a maximum 75% share of their value in the fund. As George explains: "By enabling a member to access a pension-backed loan, that member will be able to leverage his or her pension fund investment prior to retirement date, without eroding provision for eventual retirement."

Given that the loan is fully guaranteed, he envisages that lending institutions will be able to offer loans to pension fund members at competitive interest rates over extended or deferred repayment periods.

In theory, George's proposal appears an extension of the Pension Funds Act principle that allows use of fund values to back housing loans. In practice, it's more convoluted.

Application of the concept is limited to those who can afford repayments. If loans aren't or can't be repaid, constraints on affordability being what they are, widespread defaults can seriously impact on funds generally. Loans for consumption are consumed, unlike loans for houses that are investments.

Also, the Act and rules of respective funds will need to be amended. Fund trustees will then be hard-pressed to decide which loan applications are genuinely for life crises and which are for discretionary spend. Adding to trustees' pressure is that loans for avert life crises require much more urgent processing than loans for housing.

Under such circumstances, it could be that banks are much better placed to administer loans than pension funds. An executive at a large umbrella sponsor argues: "The role of funds should be purely to provide surety to the banks for these loans, as they are for pension-backed housing loans. Another reason to work via the banks is that they're better equipped to prevent mass abuse, even fraud."

George . . . emergency measure

An unnecessary complication is in the suggestion that the employer repays the loans by deductions from the employee's salary. As long as there is a bank to provide the loan, and a fund to provide the surety (not to settle any exit benefits until the bank gives clearance), it might be more efficient for the bank to work directly with individuals.

Much as regulators and institutions could be inclined to pooh-pooh a proposal that wasn't initiated by them, and least of all from within the DA, they cannot be seen as insensitive. There's real hardship on the part of those desperate for money due to them later when they need it sooner.

Interestingly, according to the 2020 Sanlam benchmark research undertaken before Covid, there was little support for a measure "to enable fund credits not only for housing loans". The finding was back then, in a different world. ■

When every cent counts

During this period it's all the more vital to understand preservation options. Liberty Corporate head of investments & annuity products Louis Theron explains why.

According to research done by Liberty Corporate to better understand retirement fund members' behaviours, it was found that a mere 6% of retirement fund members choose to preserve their savings when leaving their employers. The other 94% of members choose to withdraw their savings as cash and then have to restart their retirement savings journeys, often from zero.

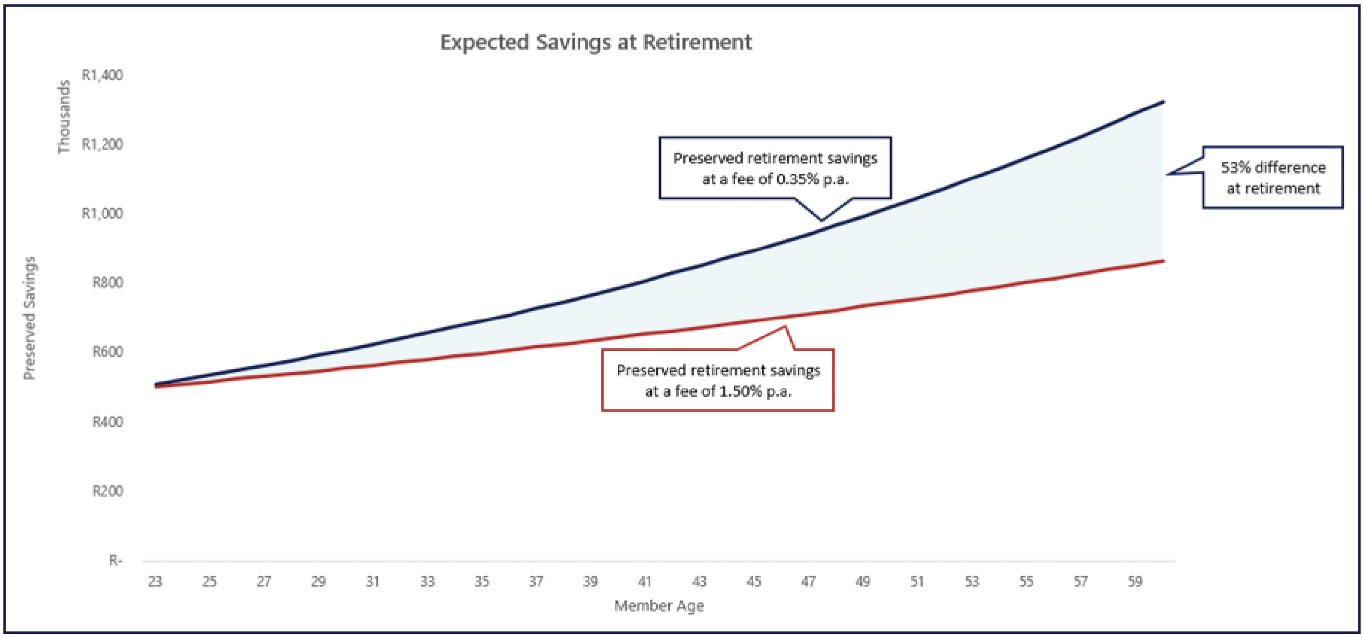
In this time when the impact of the COVID-19 pandemic has placed enormous financial strain on families, it has never been more important for members leaving their employer to preserve their retirement savings. In these challenging times, the important decision members have to make when choosing whether to preserve their funds or not cannot be underestimated.

In an attempt to improve preservation levels, Regulation 38 of the Pension Funds Act has required all retirement funds to make in-fund preservation available from 1 March 2019. This allows members who have left their employer to retain their savings in the fund whilst no longer contributing into the fund.

Some important differences exist between in-fund preservation and traditional "out-of-fund" alternatives such as preservation funds and retirement annuities. Understanding these can make a notable difference to a member's retirement journey.

In-fund preservation options typically charge lower fees

Regulation 38 specifically requires that, inside a fund, a preservation member continues to have access to the same list of investment portfolios at the same or a lower price. Fees could be substantially higher for some out-of-fund



Theron . . . relative values

alternatives. The accompanying graph illustrates the compounding effect that lower fees have on a member's preserved savings leading up to retirement.

Assuming the same investment growth and advice fees for both options, this example shows that the accumulated preserved retirement savings of a 22-year -old member can be 53% higher at retirement (i.e. the blue line is above the red line) as a result of the underlying fees charged.

The red line and blue lines assume an annual investment management fees of 1.5% and 0.35% respectively. In current economic times when investment performance is under pressure, lower fees can add substantial value for to a member.

In-fund preservation options do not require transfer forms

To choose in-fund preservation can be as simple as "ticking a box". As the member remains in the fund, they do not need transfer documentation such as recognition of transfer and Section 14 documents.

The COVID-19 pandemic has made face-to-face consultations with members difficult for financial advisers and product providers, so having a more seamless preservation process can benefit all parties.

Partial withdrawals and advice fees

Out-of-fund preservation options allow members to make a partial withdrawal from their preserved retirement savings. This can be at inception or a once-off before retirement. For in-fund preservation, the preserved member remains a fund member and, as such, is not allowed to make a partial withdrawal until a claim event happens, such as retirement, death or withdrawal.

Both in-fund and out-of-fund preservation options allow a member to pay negotiated advice fees to their financial adviser. In the case of in-fund preservation, it is up to the fund trustees to approve the facilitation of any advice fee payments as an expense from the fund. With an out-of-fund preservation option, legislation dictates the usual commission and ongoing adviser fee limits.

In current economic times it is important to carefully consider any payment from a member's preserved retirement savings against the value gained from doing so, and the longer-term impact it may have on the member's ability to retire comfortably.

A financial adviser can assist a member to better understand these trade-offs.

REGULATION

Trends that impact

Olano Makhubela, divisional executive for retirement funds supervision at the FSCA, takes a view on regulation in the time of Covid-19 and beyond.

There can be little doubt that the global Covid-19 pandemic, having posed health and economic crises globally, has also had an impact on the SA retirement-fund industry. Key trends emerge:

Financial distress is on the rise amongst SA employers and fund contributions declined during the height of the lockdown.

A survey run in June by the Financial Sector Conduct Authority shows that in nearly 40% of active retirement funds (and 47% if non-employer related funds are excluded), the employer was in some form of financial distress because either the employer or employee, or both, had approached the fund to ask for a temporary suspension or reduction in retirement contributions.

However, this financial distress should not necessarily be interpreted as financial unsoundness at fund level since most are defined-contribution funds. They involve employees contributing a selected percentage of salary each month. The ultimate retirement benefit depends on how much the employee and employer have paid into the fund and the market returns minus the costs.

Sectors worst impacted were the manufacturing and services industries, particularly smaller businesses which were participating in bargaining council or umbrella fund arrangements.

The risk to the employer's future impacts its employees, not only with regard to current income but also with regard to future retirement savings and security. The overall economic impact will be felt for a long time.

For the most part, larger employers staved off the effects of the pandemic. They managed to continue with payment of full salaries and to provide retirement fund benefits.

They were helped by temporary short-term regulatory compromises which allowed delayed submissions. There were also urgent changes to fund rules allowing suspension or reduced deductions and contributions.

These should not create long-term shifts in how funds are supervised. Because immediate accessing of retirement savings has not so far been enabled, it will protect the assets that people have already saved if the employee remains in employment. This will make the recovery to previous long-term expected income levels easier as the individuals do not have to start saving from scratch.

The FSCA has prioritised conduct supervision and the protection of financial customers with the advent of Treating Customers Fairly (TCF).

These principles are a cornerstone of what we do and are applicable to all industries. TCF is an outcomes-based regulatory and supervisory approach designed to ensure that regulated financial institutions deliver specific, clearly defined fairness outcomes for financial customers.

As a regulator, the FSCA is also becoming more pro-active, pre-emptive, intrusive and intensive (PPII).

This PPII approach is a cultural shift in how we aim to enhance our role as a protector of financial customers. It is a daily routine which forces us to think and act differently and to move away from a more reactive approach.

But the number of retirement funds poses a challenge. There are currently around 1 500 active funds and 3 500 dormant funds. Supervising dormant funds strains our already limited supervisory resources. We are therefore finalising an approach that will enable us and the industry safely to deregister retirement funds that are non-active and genuinely have no members, assets or liabilities.

Sustainable investing (SI) has become topical globally including SA.

It embraces green financing, climate-impact financing and the integration of environmental, social and governance (ESG) criteria into investment activities. As asset owners, retirement funds can use their financial muscle to influence how companies and projects approach ESG issues such as gender-pay inequality, pollution, impact investing and diversity.

There is also a growing (global and local) focus on alternative assets like private equity and infrastructure to diversify risk and return.

Makhubela . . . post-pandemic review

With proper due diligence, such long-term investments can naturally be suited for retirement funds and assist them in getting better returns. Ultimately, the decision to invest in any asset should rest with the fund and its trustees, as also prescribed in the Pension Funds Act.

A project to benchmark costs and fees in the retirement industry is underway.

Fees, if left unchecked, can erode a significant amount of retirement savings by reducing returns. However, fees must not be interrogated in isolation. Funds should assess and understand the value they get from the fees they are charged because not everything that is "cheap" offers value. ■

UNPAID BENEFITS

Righting a wrong

Liberty takes the lead on pension funds' erroneous deregistrations as amended Act kicks in.

It's stupefyingly complex – as well as expensive, time-consuming and frustrating – to join members or dependents with their money in the unclaimed benefit funds (UBFs) of various retirement-fund administrators. For such a long time has record-keeping been sloppy (going back in some instances to the 1990s), or inadequate (lacking ID numbers and contact details), that in overwhelming instances the odds are deeply stacked against the beneficiary being found for payment of the benefit.

At last count, according to the latest annual report of the Financial Sector Conduct Authority (formerly the Financial Services Board), there were 1 275 retirement funds owing an aggregate of R42,8bn in unclaimed monies to over 4,7m beneficiaries. Add funds that the FSCA does not regulate, such as the huge Government Employees Pension Fund and the Transnet funds, for the amounts respectively to shoot through these levels.

There are myriad reasons, in different combinations, for this unsavoury state of affairs. Members have not updated their contact details and employers haven't pushed them. Administrators have been lax. Funds have merged or disappeared, as have employers. And so on. The result is a stuff-up of note, resulting in financial prejudice to millions of people who're mainly poor.

Under the sheer weight of work, the wheels turn slowly. For one, according to its website, Liberty has some 100 000 members and R1bn of assets in its UBF. By virtue of previous corporate takeovers, which had ancillary fund-administration operations, Liberty became the biggest administrator by number (as opposed to value) of retirement funds.

Most were small and, like their then parents that Liberty had bought, not terribly well run. The biggest UBF by value is probably the R1,5bn at Alexander Forbes, now proposing that monies for beneficiaries considered untraceable be used in investment strategies to "promote decent outcomes for investors and greater benefits for society".

Should beneficiaries eventually show up, they could still be paid. In the Forbes experience, almost half of the money in its UBF has been there for over eight years during which tracing has been attempted more than once.

A tiny corner in the mountain of unpaid benefits comprises retirement funds which, deemed not to have assets or liabilities, had their registrations cancelled. That they represent merely a fraction of the R50bn industry problem doesn't lessen the deprivation of those to whom money is owed. A few thousand rand can make an appreciable difference to the life of a migrant who'd worked on the SA mines.

Are small amounts for small people in small funds worth chasing? Yes, said Rosemary Hunter. Having discovered that many deregistered funds in fact had assets and liabilities, making the cancellation of their registrations erroneous if not illegal, she was practically hounded from her position almost from the start of her appointment as FSB executive for retirement funds in 2013.

Yes, the Liberty group must have said too. At around the same time it began investigations into the funds it administered. From what was discovered, Liberty has taken the lead in effecting the reinstatement of wrongly cancelled funds. More than this, notes Liberty Corporate chief executive Tiaan Kotze, "we've been putting significant effort into enhancing the data to increase the likelihoods for successful tracing and paying".

Where the funds were found to have assets and liabilities, their registrations should never have been cancelled in the first place. So far Liberty is the only administrator to have pursued reinstatements. The necessary route has been through High Court applications that the FSCA has not opposed.

The first batch of successful applications, in 2018, was for 25 funds whose assets cumulatively amounted to some R35m. The second batch of 10 funds, for which applications will be heard in the High Court next April, together have about R33m in assets. Later there'll be a third batch of over 110 funds, with a combined asset value of perhaps R130m, depending on the progress in cleaning their records.

As the funds are brought back to life, for distribution of assets, the FSCA has placed them under "Section 26 trustees". These are trustees that the regulator is entitled to appoint, under s26 of the Pension Funds Act, where a fund has no properly constituted board or cannot properly constitute a board.

The gnawing frustration is the delay in getting benefits paid to members, finds Kotze: "The original 25 funds are in a position to start the distributions but the s26 trustees are required to hold back until there is full accounting for assets and liabilities. We'd be happy to make preliminary payments on the understanding that we'll make good on any additional assets that might still be found."

That seems a logical and painless way to break the deadlock between the administrator and the trustees. After all, the beneficiaries have already waited such a long time for their money that they shouldn't have to wait another day longer.

Next issue is whether other administrators of funds, which had been similarly cancelled in error, will have to follow Liberty's example. Better that they make the call for themselves than that the FSCA makes it for them. Some pretty large funds remain unattended.

STOP PRESS: A proposed amendment to the Pension Funds Act empowers the FSCA simply to re-register, with retrospective effect, funds whose registrations had been cancelled by the Registrar prior to April 2018 when they still had assets and liabilities. In effect, it allows the FSCA simply to reverse the Registrar's erroneous decisions without disclosure of reasons or accountability for them. ■

MUNICIPALITIES

Another sorry angle in local government

Two funds make gradual progress under curatorships. Scale of problems indicated.

Kapanong welcomes you

Given what municipalities owe Eskom and the like, take a look at another problem area for financial distress to mount.

First there's the Vrystaat Munsipale Pensioenfonds, a self-administered fund that's been under curatorship since 2017. It then had a total asset value of R3bn, now down to around R2,5bn.

Unlike certain other funds under curatorship, at least the regular progress reports of the Vrystaat fund are presented to the FSCA and published on its website. The latest, dated end-September 2020, is the 34th from curator M N Campbell.

It presents a most problematic scenario, coming atop the heavy bills owed nationwide by municipalities to service providers. In these quantifications, an area often overlooked is amounts owned by municipalities to their employees' pension funds.

In the Vrystaat fund there are seven municipalities together owing R1,56m in arrear contributions. Biggest offenders are Kopanong (Trompsburg), at R768 000 in arrears for the past 25 months, and Mafube (Frankfort) at R260 000 for the past 54 months.

So what's the poor curator to do? He dutifully has lawyers send letters of demand, and payments are perhaps predicably not received. Legal action, civil and criminal, is then threatened. Against whom? The municipalities?

Fat lot they seem to care for their workers if there's no personal liability and no prospect of jail time, unless a few trustees of old can be hauled out.

"Since the commencement of the curatorship," reports Campbell, "I have continued to execute the operations and management of the fund in order to meet the needs of the members."

Also noted is that the fund has 129 members, with total benefits of R14,6m, who need to be traced. That averages R113 500 per member. Hardly peanuts.

And then there's the fifteenth report of the 5 700-member Municipal Councillors Pension Fund, under curatorship of Juanito Damons and Sophie Kekana for the past three years.

Of the total 222 number of municipalities, 26 are in arears for more than three months and eight for three or fewer months. "The fund is regularly addressing letters to the municipalities and the individual councillors advising them of the non-payment of contributions and the implications of same," report the curators.

They continue to liaise with both the Hawks and the Legal Practitioners Council on their respective investigations. So presumably something will happen sometime from somebody being held to account.

Big questions are what will happen with municipalities that can't or won't pay, and by how much the unpaid amounts by municipalities to their pension schemes increase the total amount of nationwide municipal debt.

The Vrystaat and MCPF represent bleak omens. ■

Can traditional fixed-income funds have a social impact, regardless of their mandate?

Definitely yes! Angelique Kalam, manager for sustainable investment practices at Futuregrowth, explains how and why.

Most of the funds we manage have an element of social-impact exposure. This is a natural by-product of our investment philosophy and process. We consider it to be an added value.

Futuregrowth has a 25-year history of investing in developmental impact funds. Managing these complex investments has shaped the way we choose to invest. As an asset manager, we have focused on sectors that promote and facilitate social and infrastructure development while still ensuring that our client funds earn an appropriate risk-adjusted return. We also have the advantage of economies of scale when we invest on behalf of clients and have developed a fair allocation process to manage the apportionment of deals.

Our approach

Being a responsible investor is the cornerstone of our investment philosophy. Our approach to assessing risk is applied to all portfolios and client funds across the risk spectrum.

As it is our primary objective to earn appropriate risk-adjusted returns at all times for our clients, it is necessary that environmental, social and governance (ESG) screening and analysis form part of an integrated investment process across our wide range of mandates. In this way, non-financial ESG indicators are assessed along with financial and credit indicators in order to produce a holistic risk profile of any new or existing loan at any given time.

The fixed-income asset class is complex due to the wide variety of issuers. There is no 'one-size-fits-all' solution to analysing companies on sustainability issues.

Fair allocation

Futuregrowth manages an array of assets across fixed income. It ranges from money market, vanilla and inflation-linked bonds to high yielding credit bonds, and a suite of developmental impact funds across a variety of asset classes.

We conclude investments across diverse sectors, from financial services to commercial property and more, as well as a variety of social impact sectors, from affordable housing to renewable energy.

Kalam . . . fair process

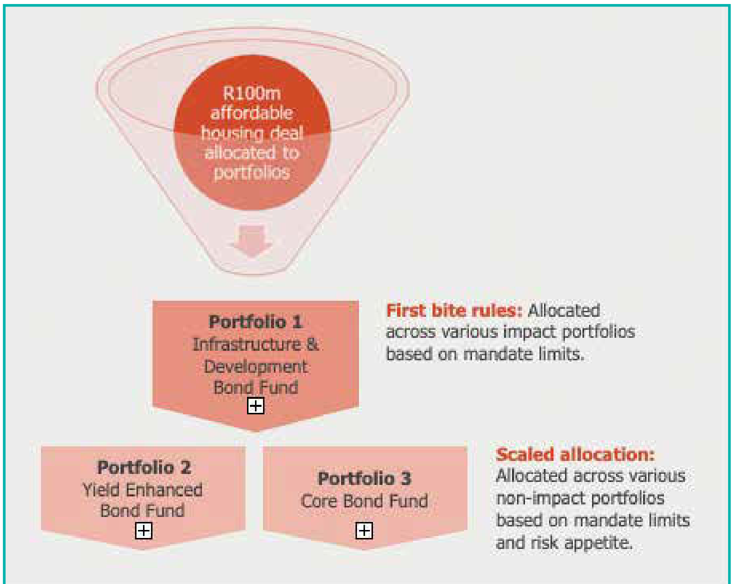
So how do we allocate deals to funds and ensure that no cherry-picking occurs?

This is achieved through our internal 'fair allocation' process. All investments are concluded on a commercial risk-adjusted basis and on their return merits.

Once our respective credit or investment committee approves an investment, we follow a fair allocation process that filters investments and allocates them to the portfolios according to each portfolio's respective mandate limits.

Example 1: Allocation of an affordable housing deal to a variety of portfolios

The accompanying illustration demonstrates how a R100m affordable housing investment was allocated to a variety of client portfolios according to their respective mandate limits. Since the investment has a social or developmental impact (it will address the affordable housing shortfall and facilitate access to funding to SMMEs), the impact funds had first bite due to their mandate requirements.



Next, if the transaction is sizeable and the full amount is not allocated to the impact funds (in this example the Futuregrowth Infrastructure & Development Bond Fund), then the transaction is also apportioned across various other client portfolios within their mandate limits and capacity for the investment. The sequence in which the allocation was made to each portfolio is indicated by the numbers in the illustration.

In this way, it is not unusual for the non-impact funds (Yield Enhanced Bond Fund and Core Bond Fund) to have exposure to high-impact investments such as affordable housing. This demonstrates the effectiveness and value of the fair allocation process.

Example 2: Comparison of three funds with different mandates

The table below compares the overall exposure of the three portfolios used in the previous example. Column 1 shows our flagship Futuregrowth Infrastructure & Development Bond Fund has a total of 60.30% exposure to a range of infrastructure and developmental sectors.

By comparison, the Yield Enhanced Bond Fund in Column 2 has 48.58% exposure, and the Core Bond Fund in Column 3 has 12.20% exposure, to infrastructure and developmental sectors. These exposures, despite the funds in columns 2 and 3 not having specific impact mandates, arise from our fair allocation process.

Example 3: Futuregrowth Infrastructure & Development Bond Fund vs Yield Enhanced Bond Fund vs Core Bond Fund

Exponential value

Our economies of scale, together with our preference for sectors that promote and facilitate social and infrastructure development, mean that more of our client portfolios have exposure to sectors and businesses that promote economic and social upliftment while still earning an appropriate risk-adjusted return for the funds.

These investments in education, health and infrastructure facilitate job creation and social upliftment. They contribute to a more sustainable future for all.

For unabridged article see www.futuregrowth.co.za/newsroom.

Futuregrowth Asset Management is a licensed discretionary financial services provider.

www.futuregrowth.co.za

SRI sector	Column 1 Infrastructure & Development Bond Fund	Column 2 Yield Enhanced Bond Fund	Column 3 Core Bond Fund
Agriculture	0.56%	0.03%	0.00%
BEE Finance	0.04%	0.00%	0.00%
Consumer & Business Access to Finance	0.17%	0.16%	0.00%
Environment Preservation	0.02%	0.01%	0.00%
Capital Market Development	0.00%	0.00%	2.29%
Communications	2.53%	2.41%	5.36%
Development Finance	2.53%	4.51%	0.00%
Education	0.08%	0.00%	0.00%
Energy (including Renewable Energy)	23.44%	21.55%	0.00%
Health	1.32%	0.52%	0.00%
Information Systems	0.00%	0.00%	0.02%
Safety & Security	0.00%	0.00%	3.01%
Tourism	0.83%	0.18%	0.30%
Transport	12.43%	8.32%	0.00%
Water & Sanitation	2.66%	1.52%	0.00%
Low Income & Affordable Housing	8.52%	6.09%	0.38%
Other Infrastructure	1.60%	1.49%	0.66%
SMME Finance	3.57%	1.79%	0.19%
Cash	0.07%	0.32%	2.89%
National Government	35.95%	29.79%	84.91%
Non SRI	1.06%	21.31%	0.00%
Total	**100.00%**	**100.00%**	**100.00%**

Data as at 30 September 2020

RESPONSIBLE INVESTMENT

To get started

Case study discussed by Shainal Sukha* highlights necessary steps along the way.

Trustees of the Consolidated Retirement Fund for Local Government (CRF) started their responsible investment (RI) journey nine years ago when Regulation 28 was amended. Since 2011 it has referred to "risk-adjusted return" and the preamble made it clear that ESG (environmental, social and governance) factors are a key part of the trustees' decision-making investment process.

By not considering ESG risks, the CRF trustees felt that they would be breaching basic risk management protocols as well as Reg 28. This timeline illustrates their reference points along the way:

The first step taken by the CRF board was to allocate an agenda item for risk management and ESG issues. Then, in 2013, the trustees implemented a separate RI policy for the fund on the back of the Batseta-published ownership guide. It was also decided to track the offshore MSCI ESG equivalent indices that have lower carbon emissions than the MSCI parent index.

In 2015 the fund started to invest in the local real economy, largely through alternative asset classes that would not only increase diversification but also earn good risk-adjusted returns. It viewed SA's large youth unemployment as a significant long-term risk to its members and felt compelled to support efforts that address this risk.

It did so by investing in an unlisted blended-finance fund that sought commercial returns but explicitly targeted job creation. CRF also made commitments to renewable energy debt and equity funds.

In July 2016, CRF became a signatory to the Principles for Responsible Investment. After its first PRI submission, the trustees realised that being an active owner was as important as allocating assets to impact funds.

Sukha . . . practical beacons

As a result, in 2017 the CRF commented on government's Integrated Resources Plan that would affect its investments and commitments to the renewable energy sector. CRF also stepped up its engagement with asset managers after the Steinhoff share price collapse in December 2017.

The release of the Financial Sector Conduct Authority (FSCA) notice on sustainability in 2019 validated the journey taken by the trustees to that point.

Over the past nine years the CRF has moved from a largely generic RI policy to a policy that is more specific and targeted. It incorporates principles of the SA National Development Plan and the UN Sustainable Development Goals.

Current policy takes a holistic approach to risk. Its stated objective is that CRF members should not only earn competitive risk-adjusted returns but also retire in a clean and stable environment, and in prosperous communities.

Other funds' RI journeys will be different and unique. But hopefully this CRF example will help them and their fellow trustees to take appropriate action. ■

** Sukha serves on the Actuarial Society of SA investments committee and is asset consultant to the CRF.*

PERSONAL FINANCE GUIDE

Guide through retirement funding vehicles

Although *TT* normally doesn't focus on matters of personal finance, such are the present changes underway that a back-to-basics understanding of the industry from the viewpoint of the individual fund member or retail investor should be helpful. It's hoped that this article, by CrueInvest financial planner Devon Card (pictured), will offer a ready reference.

Pension Fund

Contributions

Employee contributions towards a pension fund are tax deductible up 27,5% of pensionable income, subject to an annual maximum of R350 000. Many employers make it compulsory for employees to join their pension fund but provide staff with the option of contributing a percentage of salary, generally 5% to 15% of taxable income.

Withdrawals/Early terminations

Each pension fund is governed by its own set of rules. In the event of a member's resignation or retrenchment, he/she has the option to withdraw the funds saved. Withdrawal will be subject to tax. In general, a member of a pension fund may not access his/her capital prior to the retirement age set in the fund's rules. Exceptions could be made in cases of ill-health or disability.

Transfer

If you resign from your employer, you have the option to transfer your pension fund interests to a pension preservation fund or to a retirement annuity. If you are moving to a new employer which has a pension fund, you can transfer your pension fund interests to your new employer's fund (if the scheme rules allow for it). You may not, however, transfer your pension fund interest to a provident fund without paying tax on it. You cannot transfer pension fund interests into a provident preservation fund.

Retirement

When you reach the fund's set retirement age, you have the option of taking a one-third cash withdrawal which will be taxed according to the retirement tax tables. Thereafter, you are obliged to use the remaining two-thirds to purchase either a life or a living annuity to provide you with a regular income during your retirement years. There are no tax implications when using your pension interests to purchase a living or life annuity, although you will be taxed on the annuity income.

Provident Fund

Contributions

As with pension funds, employee contributions are tax deductible up 27,5% of pensionable income subject to an annual maximum of R350 000.

Withdrawals/Early terminations

As with pension funds, members are not permitted to make any withdrawals prior to normal retirement age. However, if a member resigns or is retrenched has the option of making a full withdrawal. Depending on the rules of the provident fund, a member who is ill or disabled and unable to work may apply for early retirement.

Transfer

Upon resignation or retrenchment from your employer, you may transfer your provident fund interest to a retirement annuity or a provident preservation fund. If you move to a new employer who contributes to a pension fund, you can transfer the funds without paying tax. It is not possible to transfer from a provident fund into a pension preservation fund.

Retirement

As it currently stands, when you retire from a provident fund you are able to take a full lump sum withdrawal subject to the retirement tax tables. However, it is government's intention to align the benefits of provident funds to those of pension funds.

Preservation Fund

Contributions

A preservation fund is a pre-retirement vehicle designed to preserve your retirement benefits when you leave your employer's pension or provident fund. Only money from an approved retirement fund can be invested in a preservation fund. It means that no other additional contributions can be made towards the fund.

Withdrawals/Early terminations

Preservation fund investors are able to make one full or partial withdrawal from the fund before retirement, which is normally set at age 55, subject to the withdrawal tax tables. This is a distinct benefit of a preservation fund, especially for those who are a long way from retirement and who fear they may need access to their capital sooner.

Transfer

A preservation fund investor can choose to transfer his fund to a different preservation fund, with no tax being payable on the transfer. A preservation fund can also be transferred tax-free to a retirement annuity.

Retirement

Members of a preservation fund can retire from the fund after the age of 55, bearing in mind that the rules differ for pension and provident funds' preservation. If you retire from a pension preservation fund, you are able to take a one-third withdrawal subject to tax, and the remaining two-thirds must be used to purchase an annuity. If you retire from a provident preservation fund, you still have the option to make a full withdrawal. Legislation, scheduled for March 2021, is intended to align the rules for pension and provident preservation.

Insurance RAs

Contributions

Traditional retirement annuities are actually insurance policies which take the form of a contract between the insurer and the policyholder. As such, the contributions form part of the policyholder's contractual obligations towards the insurance company. In the case of older policies, the policyholder might be contractually obliged to maintain his contributions at the contracted amount. However, newer products allow more contribution flexibility and choice. The tax-deductible contribution amount is subject to the 27,5% legislated amount of your taxable income. As such, it is important to fully understand an insurance policy before committing to it.

Withdrawals/Early terminations

As this type of retirement annuity is a policy, early termination is considered a break in the contract terms and the insurer may have the right to charge a penalty or early cancellation fees. If you are unsure what these fees are, your insurer should be able to provide you with a quote. An early termination does not allow you to withdraw your funds, but rather to stop your contributions.

Transfer

You are able to transfer your policy RA to a unit trust-linked RA. Such a transfer will need to take place via s14 of the Pension Funds and can take some months to complete. Before undertaking such a transfer, it is advisable to let your planner obtain a quote for the early termination of your policy to determine whether the transfer is in your best interests.

Retirement

Owners of RA polices can retire after the age of 55. They have the option of taking a one-third cash withdrawal from the fund subject to retirement tax tables , with the remaining two-thirds to be used for purchase an annuity income. Investors have the option of using the full amount to purchase an annuity, although it is important to check your retirement cashflow position before committing all the proceeds to a compulsory investment.

Unit trust RAs

Contributions

Contributions towards unit trust-linked retirement annuities are highly flexible. As an investor, you can set your contributions on a monthly, quarterly, bi-annual or annual basis, and you can make ad hoc contributions. As in the case of pension funds, contributions are tax deductible up to 27,5% of pensionable income subject to the annual maximum.

Withdrawals/Early termination

Investors in unit trust-linked RAs have complete flexibility when it comes to stopping their contributions, but they are not able to make any withdrawals from the fund prior to age 55.

Transfer

RA investors have freedom of choice when it comes to their investment platforms. As such, they can transfer their unit trust-linked RA to another RA as they wish. However, an RA cannot be transferred to a pension, provident or preservation fund.

Retirement

Investors can use the full amount to either to purchase an annuity or take up to a one-third lumpsum withdrawal subject to retirement tax tables.

General

All retirement funds which fall under the Pension Funds Act share certain attributes. For instance, assets housed in any approved retirement fund are outside of one's deceased estate. As such, they don't attract estate duty and are protected from creditors. Also, where the member of an approved fund emigrates prior to normal retirement age, he or she is permitted to access the full amount in the fund subject to SARS approval. ■

GOING ABOVE AND BEYOND IN ESG – THE NEGLECTED S

Fran Troskie, Investment Research Analyst, RisCura

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

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

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

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

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

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

- What are your gender empowerment strategies?
- What engagements do you have with investee companies and the community to support empowerment, job creation and education initiatives?
- How do you measure the socio-economic impacts generated by your company and investee companies and address any negative externalities?
- Do you strive to educate investors and trustees in a broader sense?

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

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

GRAVY

For the record, *TT* is again wholly owned by its founder. The shareholdings purchased three years ago by Alternative Prosperity and the ASISA Foundation have been bought back by the company.

Pity that the partnership didn't work. With the Foundation sitting quietly in the middle, it was mutually agreed that Apros and *TT* depart on their separate strategic directions.

As *TT* enters its sixteenth year of publication, this a good time for its renewal of vows. They couldn't be better illustrated than by the cover of this edition.

Put simply, what's good for pension funds is good for the country and vice versa; all the more so because pension funds are the largest single category of shareholders in the major JSE-listed corporates and the biggest owner of SA government bonds.

Fund members and their dependents – all 30m or so of them – are a hell of a lot more powerful than the ANC national executive members and their dependents. If only the funds realised it and, joined by mutual interest for best benefits, acted collectively as the most representative social compact in the land.

The struggle continues.

DA godmother Helen Zille isn't entirely correct when she compares, in their rises to prominence, Malema's redshirts with Hitler's brownshirts.

The latter didn't have the benefit of all three back-to-back domestic TV channels live broadcasting, relentlessly, each vitriolic press conference and display of racist aggression.

A modest question from one naïve about editorial independence: are Malema's pronouncements really worth more than about a minute per pop? Or is it that the journalists, professional to a fault, prefer events that come to them?

Written in 1984 by Harvard professor Neil Postman, *'Amusing Ourselves to Death'* resonates more now than then. For example:

What (George) Orwell feared were those who would ban books. What (Aldous) Huxley feared was that there'd be no reason to ban a book for there'd be nobody who wanted to read one. Orwell feared those who would deprive us of information. Huxley feared those who would give us so much that we would be reduced to passivity and egoism. Orwell feared that the truth would be concealed from us. Huxley feared that the truth would be drowned in a sea of irrelevance.'

Which takes us back to my comments above.

Tito Mboweni had to scrape the bottom of the barrel.

To give us a little encouragement when introducing his MTBPS, he recalled the days at the beginning of the Mandela era when SA's finances were last in such a parlous state. The implication was that SA could again get over it.

Unfortunately, the analogy doesn't hold. Back then we had loads of cheap electricity, SA Airways and the SABC and other state-owned enterprises were profitable, and the world was looking to give SA a lift. Now the reverse applies.

Of course we continue to laud the end of apartheid. But unless we can accept how and where we've mucked up, the grand unmucking can't begin.

Definition of coffee: The person upon whom one coughs.

KINGJAMES 51104/RR

Now is not the time to sit by idly.
Now is the time to question.
The time to challenge.
Now is the time to act.
To believe in something bigger than ourselves.
Now is the time to help small business.
Big business.
And nurture new business.
Now is the time to put our money where it matters.
By investing R2.25bn of our own capital.
To jumpstart the economy.
To keep business doors open.
And keep food on the table.
Now is the time to plan.

We know the importance of keeping as many businesses going as possible. That's why we're actively supporting businesses that have been negatively impacted by COVID-19 by creating the Sanlam Investors' Legacy Range – three impact funds with the core objective of helping to preserve current jobs and creating new ones. To find out more about the Sanlam Investors' Legacy Range, visit **www.sanlamintelligence.co.za/institutional/**.

Investments
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