BLUE CHIP

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FPI Financial Planning Institute of Southern Africa
THE PROFESSIONAL STANDARD

1 CPD POINTS
FPI members can claim 1 CPD point for this edition.

Added depth, added value
The role of Discretionary Fund Managers

FPI
Strategy, events, professional development

Employee Experience
Lyn Muzondo, Human Capital Executive, on how Metropolitan is changing the game

METROPOLITAN

Together we can

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BLUE CHIP

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Editor: Greg Penfold
Art Director: Brent Meder
Design and Layout:: Monique Petersen
Client Liaison: Lizel Olivier
Project Manager: Chris Whales, *Global Africa Network*
Advertising Executives: Bayanda Sikiti, Sam Oliver, Gavin van der Merwe, Jeremy Petersen

Subscriptions: Lee-Ann Lawrence
Fax: +27 (0) 21 683 4364
RSA: R125.70, Foreign: R335.70

Distribution Manager: Edward MacDonald

Circulation: Lee-Ann Lawrence

Accounts Department: Chevonne Ismail (accountant), Brigitte Eberbach
Debtors Department: Nadeema Abdullah
Printing: FA Print

CAPE MEDIA CORPORATION

Managing Director: Robert Arendse

Financial Director: Andrew Brading

Head Office:
Cape Media House, 28 Main Road,
Rondebosch 7700 Cape Town
Tel: +27 (0) 21 681 7000
Fax: +27 (0) 21 685 4448
info@capemedia.co.za
www.bluechipjournal.co.za

Lelané Bezuidenhout, CFP®, CEO, FPI

To 2020 and beyond!

An exciting year lies ahead for the financial planning profession

Welcome back from a well-deserved rest into a new month, new year and a new decade. I am personally very excited about new opportunities for the financial planning profession and the importance that consumer education is receiving via professional bodies like FPI, National Treasury and the Financial Sector Conduct Authority (FSCA). Before we move into 2020, let's recap some important recent events.

What happened in December 2019?

Besides the festive season, FSCA blessed us with the following discussion documents for comment:

1. Proposal TT Discussion Document with feedback template – feedback is due 28 February 2020.
2. Advisor Categorisation Discussion Document with feedback template – feedback is due 31 March 2020.
3. 2nd Investments Related Matters Discussion Document with two annexures – feedback is due 31 March 2020.
4. Equivalence of Reward Position Paper – not for comment.
5. Intermediary Segmentation and Related Matters paper – not for comment.
6. General RDR Status update document – not for comment.

Of particular importance is the Advisor Categorisation Discussion Document. I only refer to a few proposals as space does not permit a full discussion.

In a nutshell: FSCA basically moved away from the initial three types of advisors as per Proposal K in the 2014 RDR document (Independent financial advisor ("IFA"); Multi-tied financial advisor or Tied financial advisor) to an apparent less complex two-tier advisor categorisation model. The mentioned tiers are "product supplier agent" (PSA) and "registered financial advisor" (RFA).

These terms/tiers have been around since the 2015 Phase 1 RDR update. Then, the regulator already recognised that these terms may not necessarily be appropriate as customer-facing titles and that further work is needed to establish descriptions of these type of advisors (PSA and RFA) that will promote an understanding of the tiered categories.

After the regulator did some independent consumer research during 2018, some "designations" to describe the two tiers are:

Designations to describe PSA tier	Designations to describe RFA tier
Product supplier agent (take note of a footnote in the paper)	Registered financial advisor
Product supplier advisor	Licensed financial advisor
Tied financial advisor	Non-tied financial advisor
Restricted financial advisor	Non-restricted financial advisor
Aligned financial advisor	Non-aligned financial advisor
Financial consultant	Financial broker

I note with concern that reference is made to "designations". We must bear in mind that designations have a particular meaning in law, specifically the National Qualifications Framework Act: "professional designation" means a title or status conferred by a professional body in recognition of a person's expertise and right to practice in an occupational field.

To prevent even further consumer confusion, one should perhaps rather refer to "regulatory category" than designation. Additionally, the Organising Framework for Occupations (OFO) describes these categories differently. OFO has descriptions from Insurance Agent, to Investment Broker to Insurance Representative / Salesman / Advisor. (OFO codes are updated by Sector Education Training Authorities (SETAs) and in our instance, INSETA.)

Financial Services Providers (FSPs) must also take note of the Group structures proposed in this document – it proposes quite significant changes to PSA ("Tied") and RFA ("Broker") channels.

Against this background, it is imperative that the industry and profession comment on these discussion papers.

The terms "financial planner" and "financial planning"

What really excites me is that RDR proposals T, U and S are coming into play in Section 5 of the Advisor Categorisation Discussion Document. FSCA confirms the intent to acknowledge the professional status of qualified financial planners by reserving the use of the designation "financial planner" for those holding a formal professional designation in this discipline. FSCA proposes that persons designated as CFP® professionals by FPI will be the only ones who may call themselves financial planners. FSCA furthermore suggests that not only the designation "financial planner" but also the terms "financial plan" and "financial planning" or other derivatives be reserved for the use by qualified CFP® professionals only.

Section 5 also states that distribution channels describing themselves as "financial planning divisions" will not be permitted to do so unless all advisors operating at that channel are duly qualified. Here, one should also look at the individuals on the pathway to CFP® certification (i.e. someone still studying towards a Post Graduate Diploma in Financial Planning / BCom Hon in Financial Planning or someone who obtained the qualification but still needs to complete the FPI mentorship programme or obtain relevant financial planning experience or write the CFP Professional Competency Examination (PCE)).

This is a great victory for the financial planning profession and testimony to years of hard work.

2020 and beyond at FPI

As shared with our members at the 2019 Annual Refresher – FPI's long-term strategic goals can be summarised as LARS (leadership; awareness, recognition and standards).

FPI's top priorities for the next three years are:

- Revenue mix: FPI requires a revenue mix that is not just from member dues to remain sustainable. FPI is looking at additional income lines like sponsorship, CPD events, CPD activity approvals, and growing FPI's other membership categories. More focus will be given to ensuring a growing professional membership base which will include retaining existing members and growing the pipeline (students and candidates, converting affiliate members and exploring the younger generations (Millennials, Gen Z and Alphas)). (L)
- Organisational sustainability: Strong governance structures and robust risk management. Full implementation of King IV (keeping the principle of proportionality in mind).
- Legislative protection of the terms "financial planning" and "financial planner" and ensuring that FPI is recognised as the standard-setting authority for financial planning and advice. (R)
- Greater consumer/public awareness of the benefits of dealing with a professional member, specifically a CFP® professional of FPI. (A)
- FPtech: Incorporate FPtech abilities, skills and knowledge into existing financial planning and advice competency profiles, curriculums and practice standards in collaboration with FPSB global network and be seen and recognised as the standard-setter for FPtech. (S)
- Develop marketing and communication strategy to raise the profile of the profession, professional certification and FPI. (A&R)

Here are some of the strategies that FPI is employing to assist with the above:

- Diversity and inclusion strategy (L)
- Relevance strategy (AR)
- FPtech strategy (AR)
- Young professional and youth strategy (YFPO) (AR)
- Certification and standards strategy (S)
- Membership hub strategy (members, retention, technical support and CPD) (L)
- Marketing and Communications strategy (L)
- Business development strategy (L&AR)
- Information technology and governance (ITG) strategy (L)
- Governance, compliance and risk (GCR) strategy (L)
- Human capital management (HCM) strategy (L)
- Financial risk management strategy (L)

In closing

As one can see, 2020 is already a jam-packed year. This is a time to be excited about the financial planning profession! FPI looks forward to working side by side with all members, committees and stakeholders in delivering on our vision and mission statements, achieving strategic objectives and moving the profession forward.

Wishing you a blessed 2020 and beyond,
Lelané

Gregory Penfold, Editor

A burning issue

Catastrophic bushfires in Australia and the threat of war between Iran and the USA – January 2020 certainly got off to a respectably apocalyptic start. The repercussions will be felt everywhere, not least in the financial services, where a dramatic sea change has just taken place.

As the smoke from New South Wales and Victoria loops back to where it began, forming a circuit of the Earth, Larry Fink – CEO of BlackRock, the world's biggest investment fund – placed climate change at centre stage of the world's financial theatre. In his annual letter to executives, entitled "A Fundamental Reshaping of Finance", Fink reminded his readers of their obligation to create long-term value and stated that "climate change has become a defining factor in companies' long-term prospects". To put the matter plainly, Fink stated, "Climate risk is investment risk." Burning issues are pressing to the forefront of consciousness with questions that cannot be postponed or denied:

"Will cities, for example, be able to afford their infrastructure needs as climate risk reshapes the market for municipal bonds? What will happen to the 30-year mortgage – a key building block of finance – if lenders can't estimate the impact of climate risk over such a long timeline, and if there is no viable market for flood or fire insurance in impacted areas? What happens to inflation, and in turn interest rates, if the cost of food climbs from drought and flooding? How can we model economic growth if emerging markets see their productivity decline due to extreme heat and other climate impacts?"

When the world's largest megafund prioritises climate change, expect rapid changes in asset allocation. How long before fossil fuels turn into stranded assets? However much Australian PM Scott Morrison may love coal, it's hard to see a future for the black stuff. What changes will Australia have to implement to reshape its economy – and how will asset location patterns reflect those changes? How long will coal-guzzling South Africa bow to the pressure of vested interests and cling to carbon against the long-term interests of every private and corporate citizen? It is time for asset managers to take a sharp look at where their clients' assets are located and take decisive action in the interests of preserving value in the long term.

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Blue Chip Journal – official publication of FPI

Blue Chip is a quarterly journal for the financial planning industry and is the official publication of the Financial Planning Institute of Southern Africa NPC (FPI), effective from the January 2020 edition.

Blue Chip carries contributions from FPI, carrying FPI branding, and other leading industry figures, covering all aspects of the financial planning industry.

A total of 10 000 copies of the publication are distributed directly to every CERTIFIED FINANCIAL PLANNER® (CFP®) in the country, while the *Blue Chip* e-newsletter (launch date January 2020) reaches the full FPI membership base.

FPI members are able to earn one non-verifiable Continuous Professional Development (CPD) hour per edition of the print journal (four per year) under the category of Professional Reading.

Blue Chip is also distributed at key FPI events including the FPI Professionals Convention, the Financial Planner of the Year Awards Dinner and regional FPI Masterclasses.

Special advertising packages in *Blue Chip* are available to FPI Corporate Partners, FPI Recognised Education Providers and FPI Approved Professional Practices.

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On the money

Making waves this quarter

Growing demand for DFMs

Key to an advisor's value proposition

Although RDR hasn't yet been formally legislated in South Africa, we have seen tremendous growth in the demand for Discretionary Fund Managers (DFMs) with over 100 DFMs operating in this market. Some offer the full spectrum of services (manager research, asset allocation, portfolio construction, administrative services on multiple platforms, production of monthly fact sheets, portfolio attribution, compliance monitoring, rebalancing and performance reporting) while others offer only some of these. There is a difference between those that use their Category II licences mainly to create efficiencies for their own network of advisers and those who offer services to third party advice businesses. There is a wide range of discrepancy between DFMs in terms of true independence.

At Momentum Investment Consulting (MIC), we usually provide the full range of services for our Category I clients using our outcome-based investing philosophy to construct funds that are fully aligned to the adviser's advice process. The funds can cater for each adviser's preferred funds and LISP platforms – provided that they are on our buy list. Our manager research team is involved in approximately 250 manager interactions every year, something most advisers do not have time for while still giving advice.

For advisers with their own Category II licences, we would become the sub-investment adviser and build funds using their preferred investing philosophy. Category II advisers can select to use the full range of services or only those services that they are unable to provide themselves. Our Category II licence gives us the flexibility to make changes in both the underlying asset classes and funds across multiple clients simultaneously, freeing up time for advisers regardless of whether they are growing their books or looking to exit the industry. Advisers also partner with an independent DFM to simplify their offering and cater for the increasing compliance burden. DFMs could also assist advisers looking at buying or selling books, or to develop a succession plan.

MIC's assets have more than doubled over the past two years and we are now managing assets in excess of R7bn. We are constantly monitoring the funds to ensure that they are robust and built to deliver on the desired outcomes over the longer term, while taking into account any shorter term market conditions. Our offering consists of various combinations of active, passive and smart-beta solutions. DFMs are becoming key to an adviser's value proposition to their clients.

Florbela Yates, Head of Momentum Investment Consulting at Momentum Investments

Study at USB – Africa's most accredited business school

Shaping great leaders through higher learning

The University of Stellenbosch Business School was the first business school from an African university to achieve all three major international accreditations – AACSB, EQUIS and AMBA. These accreditations give students an independent and world-benchmarked view of USB's programmes. The accreditation bodies ensure that what we teach is research- and practice-based, and that our lecturers continually discover new knowledge and bring these new insights into the classroom. It also means that our programmes are updated all the time to remain relevant and leading-edge.

USB's programmes are underpinned by a global perspective of business knowledge combined with unique African contextualisation. Our programmes are offered in various formats, supported by innovative learning technology, to make them accessible to students from all over South Africa, other African countries and beyond. Our alumni regularly cite collaborative learning with fellow students from different industry backgrounds and geographies as one of the highlights of their learning journeys. USB is part of the 100-year-old Stellenbosch University, an international institution of distinction and the top research university in Africa. USB's campus is on the hill centrally located in the Tyger Valley business district in Northern Cape Town.

Find more information at www.usb.ac.za.

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On the money

Making waves this quarter

Cutting-edge thought leadership

The Investment Forum turns 10 in 2020

The Investment Forum celebrates its 10th anniversary this year with a programme packed with cutting-edge thought leadership. No fewer than 43 financial professionals from 25 leading investment management companies will be participating. Delegates can expect interactive presentations and rigorous debates on the state of play in domestic and international financial markets as well as what to expect regarding investment returns for 2020. Ultimately financial advisors will take home an enriched and balanced perspective to better manage their clients' portfolios.

Co-located in Cape Town (16-17 March at the Century City Convention Centre) and Johannesburg 19-20 at the Sandton Convention Centre), the 2020 edition of the Investment Forum will introduce a number of innovations. A CEO Forum hosted by Stanlib's Kevin Lings will air the views of JSE-listed CEOs such as Mike Brown (Nedbank), Richard Brasher (Pick n Pay), Dr Chris van der Merwe (Curro Holdings) and Dr Leila Fourie (JSE) on how to sail out of the economic doldrums. New Breakaway Workstreams will allow delegates to select from the workstreams relevant to their needs. Find out more about multi-assets, equity building blocks, fixed income and property and new investment ideas. Learn what industry trends are reshaping financial advice. Get to grips with rules-based investing, alternative investments strategies and real assets, Asia/ China insights and discretionary fund management.

If you are a registered financial advisor, secure your CPD points and register for the event at www.theinvestmentforum.co.za

An event not to miss

Workshop: 2020 Budget Review Trilogy

The 2020 Budget Review Trilogy will be taking place in Johannesburg, Cape Town, Durban and Johannesburg on 19, 20 and 21 February 2020, respectively.

Join FPI, SAIT and SAIBA at the event to find out what South Africa's economic future holds for you and your business.

The event will include three panel discussions:

1. Highlights of 2020 Budget: Our panel of economists will pinpoint the highlights of the 2020 Budget Speech.
2. Investments and Savings: On a personal level, the economy has a real impact on our future. Our panel of experts will deliberate investment and saving issues.
3. Key Tax Amendments: In our final segment, our speakers will provide a rundown of the key tax amendments proposed and highlight the subtleties that are easily overlooked.

Hedge News Africa Symposium and Awards 2020

The cutting edge of hedge

Taking place on 20 February 2020 at the Vineyard Hotel in Newlands, Cape Town, the Hedge News Africa Symposium will discuss the regulatory environment in South Africa and around the world, and what fund managers needed to do as they built their businesses in challenging times. Also on the agenda was corporate governance – much in the spotlight after a series of corporate scandals in South Africa – as well as the role activist investors, can and do play in the corporate world.

BLUE CHIP

On the money

Making waves this quarter

Milestone investment alliance

JSE and ADB join hands to spur cross-border investments

The Johannesburg Stock Exchange (JSE), working with seven African exchanges, the African Development Bank and the African Securities Exchanges Association (ASEA), hosted the African Exchange Linkage Project (AELP) Engagement Forum, designed to bolster investments into the continent.

The joint initiative will facilitate cross-border trading and settlement of securities across participating exchanges in Africa. It also seeks to unlock Pan-African investment flows, promote the diversification needs of investors and address the lack of depth and liquidity in Africa's financial markets.

In his opening remarks, Emmanuel Diarra, Manager of Capital Markets and Development at the African Development Bank, stated: "The African Development Bank has a long history and partnership with the African Securities Exchanges Association. This partnership complements the Bank's interventions toward the development of deep and resilient capital markets in Africa.

"The Bank will continue to enhance its work with regulatory institutions, institutional investors, stock exchanges and other capital market stakeholders to strengthen regulatory frameworks, broaden market participation and product offerings, as well as improve the dissemination of capital markets data for transparent pricing mechanisms," Diarra said.

Anne Clayton, Head of Public Policy at the JSE, said: "The AELP is a great addition to many collaborative initiatives around Africa. As the JSE, our focus is to enable sustainable and inclusive growth and development, not only in South Africa but on the continent as well. There is great interest within Africa for investment, and the AELP provides an opportunity for alignment of exchanges within the continent, therefore collaborations with key stakeholders will continue to be at the centre of securing a growth path for Africa."

A community investment milestone

Sanlam continues to invest heavily in South African communities

Africa's largest financial services group, Sanlam, has invested R540-million into communities in South Africa over the past decade, the third-biggest corporate social investment (CSI) by a business in South Africa. It has invested R3.5-billion in black economic empowerment deals to date and every year 450 000 children benefit from Sanlam's literacy projects.

The group believes firmly in the role corporates can play in uplifting the country's economy and its people. It is looking forward to doing a lot more good as we enter the "20s" and believes firmly that positivity will be key to securing a great future for our nation.

Sydney Mbhele, CEO of Sanlam Brand – who joined the group early in 2019 – says while there have been setbacks over the past few years, the lives of countless South Africans have been improved since 1994, many through corporate social investment activities.

"Unfortunately, the narrative in South Africa is often very negative. But at Sanlam, we retain our optimism and fresh focus as we greet the new decade. We see it as a time to redouble our efforts across the board. We truly believe that every life touched through a CSI project or empowerment initiatives or through initiatives which foster economic growth, has made South Africa a better place."

Mbhele believes there needs to be a rallying cry for businesses to be bastions of social good and enforcers of positive change. "We need to do what we can to re-anchor ourselves; to appreciate what we have while coming up with real solves to the challenges South Africans face. In 1994, we negotiated a new South Africa. Since then, there are many times we've come together to move this country to the next level of growth. There has never been a better time to do this."

Turning to specifics, Mbhele says Sanlam is firmly focused on education – giving people the tools to help themselves. "Literacy remains a critical concern for our country's youth and as big business, we need to continue our efforts at addressing this hands-on. Maths literacy is a key part of this because a nation that is proficient in maths literacy, is better equipped to economically prosper," says Mbhele. Sanlam Foundation benefits nearly half a million children each year through literacy projects that also capacitate teachers.

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We pay claims FAST

87% Funeral claims paid within **4 hours**

75% Maturity claims paid within **5 days**

On a three month average

15 700 Death claims
= R280 million

145 Disability claims
= R5 million

250 Hospital claims
= R1.8 million

11 400 Maturity claims
= R403 million

5 500 Early Retirement claims
= R283 million

Total: 33 000 claims = **R947 million**

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metropolitan.co.za website

OR

call centre

"We want to build a magnetising employee experience that attracts, grows and retains high-performing employees"

Employee Experience

At Metropolitan, EX is about creating meaningful moments that matter

Lyn Muzondo was appointed as Metropolitan's Human Capital Executive (HCE) on 1 June 2018. As HCE, her highest priority is to ensure that Metropolitan attracts the right calibre of talent – the kind of people capable of supporting the high-performance culture required to deliver on an ambitious business strategy. It's a challenge, but Muzondo and her skilled and enthusiastic team of Human Capital specialists have a winning formula. By influencing the Metropolitan work climate through a unique Employee Value Proposition (EVP), they provide an Employee Experience (EX) second to none – one that simultaneously takes care of employees and drives the organisation's vision of helping clients reach their financial life goals.

The people agenda

Muzondo is no stranger to the culture. In 2010, she joined MMI Holdings Limited as an Organisation Development Consultant charged with facilitating change within the organisation at the time of the merger between Metropolitan and Momentum.

Six years later, she rose to become Human Capital Executive (HCE) for Life Insurance at Momentum, only to be named HCE at Metropolitan one year later. This experience left her with a deep appreciation for what makes Metropolitan such a special place to work.

At the same time, on stepping into her new role in 2018, Muzondo was fully aware that the people agenda contained a number of challenges that she and her team had to address.

"I feel very blessed to be part of this organisation. Metropolitan has amazing people who connect in meaningful ways to enable the business to succeed while building profound relationships. It is a safe space to work and grow," she says.

"However, we had to find a way to orchestrate the business to the same tune. We felt it was important to create an environment where sales and non-sales employees alike felt that we truly understood and cared for their ongoing growth at different stages of their tenure. We realised that if we grew and nurtured our talent, the talent would grow and nurture the business.

Working in such a fast-paced and competitive industry, we had to find ways to embed a culture of 'Together we can' and 'disciplined execution' to achieve some ambitious targets on a daily, weekly and monthly basis."

EX-ray vision

Metropolitan has consistently achieved high ratings for service excellence in the South African Customer Satisfaction Index (SAcsi) and the Ask Afrika Orange Index Awards, but since the implementation of its Reset and Grow strategy, the organisation has also surged ahead in performance and profitability, with a consistent improvement in headline earnings over the past two financial years. These results indicate that the client-centric approach which has made the Metropolitan brand so popular among clients is also working its magic on the company's internal clients – the employees.

"Employees are at the core of any organisation," says Muzondo. "They are the ones who make things happen. At Human Capital, our employees are our biggest clients. Without them we cannot deliver on our business goals."

Consequently, Muzondo and her team's first critical step in creating an EX was to see the organisation through the employees' eyes in the context of an organisational culture of high performance and zero excuses.

By unpacking every moment of engagement throughout the employee life cycle from entry through to exit, it was possible to better understand the reasons for engagement – the how, the where and the why – and develop a simpler, intuitive and empowering means of engaging with employees at each point.

"We grappled with questions such as does our business vision drive the employee experience?

Do we understand what a great employee experience is for our employees? Are we clear about where our employee journey begins? Metropolitan's EVP statement of intent – 'your growth matters to Metropolitan' – would of course be an empty statement unless we are intentional about how we bring it to life for every aspiring and current employee. Your growth matters must be embedded within the culture, the leadership philosophy and all practices of the organisation," says Muzondo.

Moments that matter

One proven method of motivation is to establish deep human connections with employees in the moments that matter to them, as encapsulated in Metropolitan's Eight Steps of the Employee Experience. Muzondo explains: "From when you start as an employee at a company until you leave, there are critical moments that shape your experience and ultimately have a huge impact on your life. Your first job at a workplace sets the tone, so onboarding becomes important. Another meaningful moment would be when you are rewarded for your achievements. That's why we take rewards and recognition seriously, whether big or small."

When employees know that their growth matters to the organisation – that together they can achieve the goals of both the organisation and the individual – the result is a magnetising EX that attracts, grows and retains high-performing employees. It's a positive feedback loop of productivity – the ultimate win-win.

Muzondo sums up: "In addition to our brand slogan of 'Together we can', we share a message – in all our interactions with clients – that 'what matters to you, matters to us!' To confidently keep on sharing this message with clients, it's imperative that our employees know that they matter to us."

Reaching clients through employees

By empowering employees to achieve their own goals at work, Metropolitan furthers its vision of enabling the people in the communities it serves to achieve their financial life goals.

"We serve the emerging market, and for this reason, our branches and advisors are rooted in the many communities across South Africa, rural and urban, that we serve. Our advisors are usually members of the communities in which they operate, so they know their clients on a more personal level. Our vision is to help people reach their financial life goals and through our advisor force we get closer to our goal one client at a time," says Muzondo.

"Our service awards are testimony to the fact that our employees are engaged and are performing to meet our vision. Our excellent service track record remains an important indicator of how our clients and our employees feel about our brand – and it points to the fact that Metropolitan employees are truly living our values of integrity, diversity, innovation, teamwork, accountability and excellence."

> "Metropolitan has amazing people who connect in meaningful ways to enable the business to succeed while building profound relationships"

An ongoing journey

"Metropolitan's EX remains a journey in the fast-paced financial services environment, and not a destination," Muzondo explains. "It's not a once-off – it's ongoing and demands continuous improvement. The employee workforce isn't stagnant – our offering must be reviewed and evolved to remain relevant and ensure that we are constantly catering to the needs of our employees as their careers progress. Everyone has different needs and goals in terms of growth, career, and work/life balance – so we focus on the individual and their needs at the different levels of their career path, and we partner with them to attain their goals and aspirations."

The partnering process is a matter of continuous engagements with employees. Some engagements are embedded in the Performance Excellence process, others arise during personal development plan discussions, while others take place more informally in the course of one-on-one conversations between employees and their manager.

"It's all about remaining close to employees and their aspirations," says Muzondo. "Some of the initiatives we have implemented to help realise employees' needs are moving away from the 8-5 workday in favour of more flexible work arrangements. By working from home, parents can meet their professional goals without sacrificing the joy of watching their children play sport. Employees can bring their children to work in difficult times. We allow employees to take sabbaticals to take care of family. People can take time off for their studies. We offer bursaries, internships and learnerships so that we can empower our employees and inspire them to give back.

"Ultimately, we realise that our staff are multi-dimensional people with whole lives beyond work, and we allow them the opportunity to make both worlds work harmoniously."

The proof is in the pudding. Despite the fierce competition for skills and talent in the broader market, more and more advisors are choosing to partner with Metropolitan.

"Our talent chooses us because we value them," concludes Muzondo. "We nurture and grow our talent and allow them to spread their wings. Sometimes they leave, but many return to Metropolitan because there's no place like home." ■

Eight key steps in the employee life cycle

Together we can

Employer Marketing – bringing to life an Employee Experience

In the words of Sir Richard Branson, "Clients do not come first, employees come first. If you take care of the employee, they will take care of your clients." At Metropolitan, employees are the life force of business. When your company's biggest asset is your staff, attracting and retaining the right staff and supporting their engagement becomes a business imperative. Siphokazi Madlingozi, Marketing Manager: Employer at Metropolitan, tells us more about how Employer Brand Marketing is helping Metropolitan achieve these goals.

What is Employer Marketing?

"Employer Brand Marketing is the process of promoting an organisation to existing and potential employees to position the company as the employer of choice.

"It communicates with the purpose of solving employee engagement, employee retention and other staff challenges that the Human Capital/Human Resources function identifies. It further provides strategies to solve," says Madlingozi.

The pay-off: a strong employer brand enables an organisation to increase the number of quality applicants, to reduce recruitment costs and to stand out from competitors. Employer Marketing therefore directly affects the bottom line, making it vital to the business.

The purpose of employee engagement

As today's workforce becomes ever more complex, finding the right fit is critical in curbing churn and improving productivity. According to the *Harvard Business Review*, engaged employees are more motivated and productive than their counterparts – but what is engagement and what does it really mean? "Employee engagement is an approach that seeks to motivate employees to stay committed to their goals and to do their best at work. It is the extent to which people want to come to work, understand their jobs, and know how their work contributes to the success of the company," says Madlingozi.

Engagement factors include mobility, flexibility, work-life balance, growth, meaningful work and feeling valued, among others. Employees must be clear on the company vision but equally important is for the business to understand the employee growth plans and develop strategies that align in order to deliver on the business objective.

The style in which the organisation communicates and interacts with employees is also key to engagement.

The importance of collaboration

In many companies, it's debatable whether Employer Marketing is owned by HR, Marketing or the CEO's office. For Madlingozi, however, there is no one-size-fits-all solution.

"Employee engagement is an intricate dance which in my view cannot be done well without all functions playing their part harmoniously," she says.

Collaboration is critical. "HR or Human Capital owns the people agenda, creating an attractive Employee Experience – salary, benefits, growth, etc – for potential and current employees.

"The CEO has to champion the Employee Experience through culture. Culture is leader led, so the CEO must ensure employees are aligned to his strategic vision and set the tone for the culture of high-performance delivery he would like to create. Marketing's responsibility is to consolidate the business and Human Capital objectives to create clear messaging in a simple, meaningful and innovative way that resonates with employees," Madlingozi clarifies.

Building the Metropolitan Employer Brand

The Metropolitan employer brand marketing team has the advantage of enjoying a clearly defined Employee Value Proposition and a well-thought-out strategy for the employee experience.

"Our Employee Experience is routed in our brand proposition of 'What Matters to You, Matters to Us'. We are there to support them to succeed because their success is our success. The challenge however is creating EVP comms that speak to a diverse range of staff. The advisors who operate in the field and the indoor staff, who are primarily office based. The solution: building an employer brand through promoting the idea of reciprocity. By reinforcing a clear, consistent message of togetherness (Together We Can) we begin to ease the complexity created by the duality.

"This idea of Together We Can is also aligned to the consumer proposition – ensuring uniformity across the brand. "Building a world-class employer brand is no easy feat, nor can it be done overnight. But with a solid EVP offering and a unique brand proposition, it's only a matter of time," Madlingozi concludes. ■

Siphokazi Madlingozi – Marketing Manager: Employer, Metropolitan

Progressive proposition

PORTFOLIOMETRIX

PortfolioMetrix – Investment Management by Design

PortfolioMetrix (PMX) was founded on the principle that portfolios need to be constructed on needs, not wealth. According to CEO and Chief Investment Officer, Brandon Zietsman, "We recognised the potential in partnerships, and the value of integrating the specialisations of investment management and advice. "PMX pioneered the use of in–house technology to give advisors the ability to customise client portfolios on a fully scalable basis.

Zietsman says that PMX creates a more robust link between the professional advisor and client outcomes. "We multiply the effectiveness of advisors by giving them unprecedented control over the design of clients' investment mandates. Our proposition produces precision-engineered portfolios that reliably meet expectations."

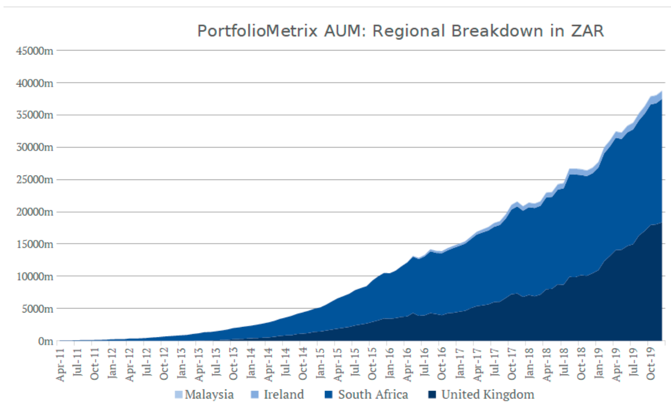
Add to that a suite of proprietary advice and reporting tools and the whole focus is on efficiency. PMX was launched in South Africa in 2010 and immediately expanded its services abroad.

It now employs over fifty people in offices in London, Dublin, Stockholm, Johannesburg and Cape Town. PMX was voted Best Discretionary Fund Manager in the UK in 2019 by Professional Advisor and Best DFM for Greater London in the Citywire Regional Awards for 2017, 2018 and 2019. It further won three of the seven categories up for grabs at the Citywire Annual Investment Performance Awards in 2019 and received a "Gold" award for digital innovation from Portfolio Advisor in the UK for its technology.

The DFM market in South Africa is broad, with value propositions ranging from asset consulting, where the DFM collaboratively creates different portfolios with each advisor firm they work with (even though they may have similar mandates), to outright discretionary management. PMX has chosen the latter route, preferring to compete with the big asset management brands based on the quality of its investment proposition and supporting technology.

"The firms we deal with earn their fees and add immense value through their advice proposition, preferring to leave investment decisions to us." According to Zietsman, "You can't be everything to everyone. "Strategists will tell you that you can compete on cost, quality, flexibility, lead time or service, but only effectively on one or maybe two of these criteria. We choose to compete on quality and service, which resonates well with the calibre of advisors we deal with." PMX has opted for a "narrow" distribution model, partnering with only around one hundred advisory firms globally.

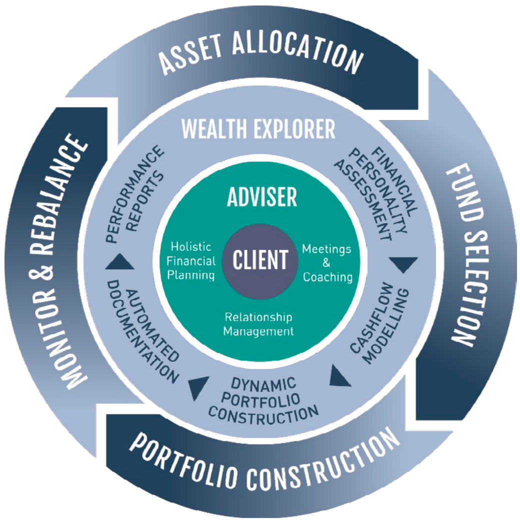
This has not prevented it from accumulating almost R40-billion in assets under full discretionary management, attracting net flows of more than R2-billion per quarter.



"Our strategy was built around the ongoing professionalisation of advice and the opportunities associated with it. We avoided getting seduced by approaches that disintermediate the advisor and manage to dodge vertically integrated one-stop-shop business models. While others were trying to 'purchase' distribution, we focussed on voluntary associations with independent advisors who shared our strategic vision and values."

Investment proposition

PMX has developed a highly specialised, multi-management approach to investing, with a significant capability in portfolio optimisation, risk-management and manager selection. According to Zietsman, "Our process is more about engineering than art or theoretical dogma. Pragmatism allows you to leverage sound theory while retaining the sensibility checks and ability to deal with real-world noise.



"When it comes to selecting underlying managers, we avoid being 'boxed' and rely as much on quantitative techniques as we do on qualitative engagement. We are not being paid to swing for the fences, but to produce well-constructed portfolios that will weather a wide range of market conditions. These have a habit of producing more consistent performance over time." On the importance of performance, Zietsman contends that, "Outright performance is one dimension of success.

> "Our process is more about engineering than art or theoretical dogma."

Portfolios are simply tools in an advisor's toolbox – they need to do the job assigned to them without producing unexpected surprises. Long-term results are important, as is patience, but the ride matters. Big performance swings are a distraction."

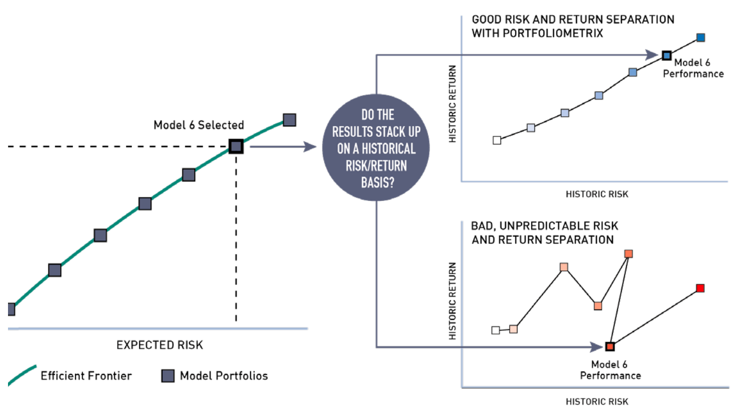
Competitiveness

Challenged on how PMX competes from a pure investment perspective with larger, well-established asset managers, Zietsman replied, "We have more structure to our portfolio construction, are better resourced, often cheaper and have a more compelling investment track record.

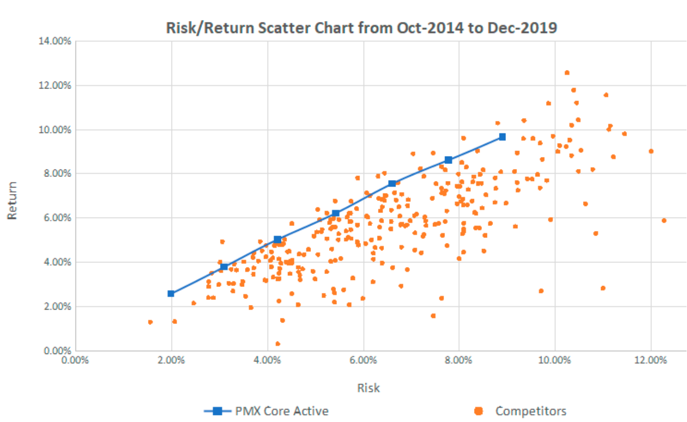
It is counterintuitive because those are exactly the challenges and criticisms often thrown at DFMs in general."

Portfolio construction

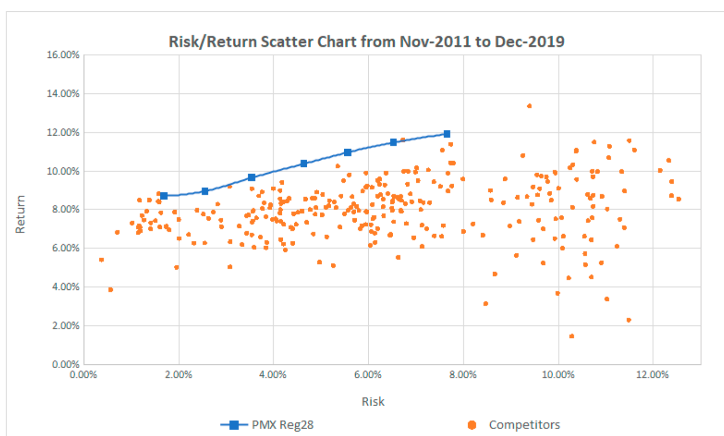
PMX approaches asset allocation differently to most managers. "We don't obsess with single portfolios, but instead apply our modelling to a full spectrum of risk-profiled funds in a single exercise – the same goes for fund implementation. It starts with engineering, not gut feel or your economic outlook. Industry brochureware tends to depict portfolios neatly arranged and spaced along an efficient frontier, while real-world performance seldom produces similar results. Portfolios should fly in formation – if they don't, they can render the advice process worthless."



The theory is only good when executed in practice as can be seen in the PMX portfolios detailed below.



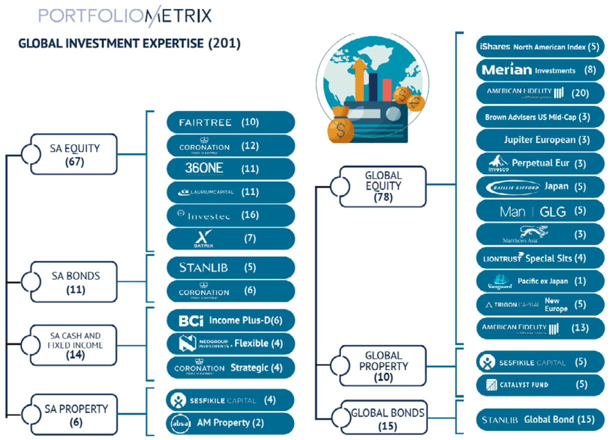
PMX UK PERFORMANCE



PMX SA PERFORMANCE

Resourcing

Creating the case for superior resourcing, Zietsman argues that, "In the true multi-asset space, traditional asset managers need to employ equity analysts in each sector, property specialists, credit and fixed interest teams – both locally and offshore. As the world becomes more 'global', it becomes increasingly hard to support the idea of one investment team making all these decisions. Blending five under-resourced multi-asset teams doesn't solve the problem either. We select specialist managers across the globe in 15 asset classes, including the smaller ones. For example, teams run mandates in emerging Europe, Asia and Latin America. Different managers cover global sovereign bonds, inflation-linkers, corporate, high yield and emerging market debt. In SA, we have great single asset class managers to choose from. PMX's investment team of 10 focus on asset allocation and finding top managers. Over 200 investment professionals work directly in the underlying portfolios selected by the PMX team."



Fees

Zietsman says that, "The arguments around 'extra layers of fees' is disingenuous. The rational person will simply add up the layers and look at the total. The combination of our fee, the underlying CIS manco, plus the weighted average fee to the underlying managers comes to around 1% on a balanced profile, which is very competitive.

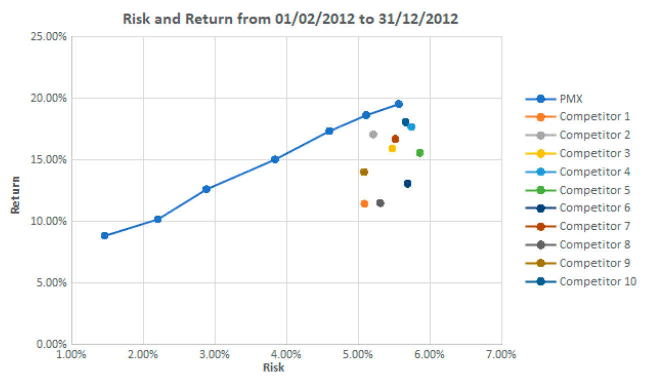
"It's all about the efficiencies we get through scale. Investment management fees are a cost of production – assuming you can evidence performance."

Performance

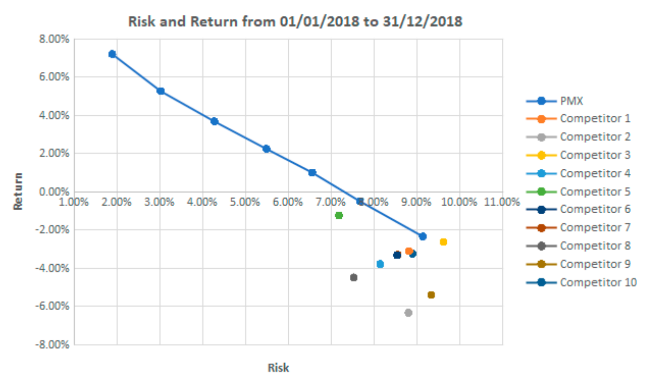
The visibility of model portfolio performance has been an issue for advisors. "This is a problem in the industry that we hope will be rectified soon," says Zietsman. "It is in the interests of advisors and consumers that discretionary services get reported on consistently."

For due diligence purposes, PMX runs performance tracker portfolios on the Investec platform to allow advisors to audit and reconcile returns, which PMX is happy to make available. Since inception, PMX has produced compelling investment results. Depicted in the previous charts are PMX's standard Reg 28 compliant risk-profiled models since their inception versus well-known balanced funds. "Profile 6" has a typical exposure to risk assets for a balanced profile. "What gives us great satisfaction is that our performance track record has been achieved in up and down markets. In SA, we generated great relative performance in the strong markets of 2012 as well as the weak markets in 2018. Most importantly, in neither instance did we have a strong directional view, which illustrates the power of intelligent diversification – we also didn't follow the herd."

IN RISING MARKETS



IN DECLINING MARKETS



The Technology Edge

PortfolioMetrix understood the importance of proprietary technology and the role a new generation of tools could play in linking advice and investment management.

According to London-based Mike Roberts, Chief Proposition Officer at PMX, "We were highly cognisant of the processes that need to take place in an advisor's office before any recommendation can be made.

We evaluated the tools available to advisors and discovered significant shortcomings."

A better mousetrap

PMX tech "smarts" are packaged in a proprietary system called WealthExplorer™. PMX does not market its technology separately, which it sees as a competitive advantage. According to Roberts, "Designing advice and efficiency tools commercially for the mass advisor market means playing to the lowest common denominator.

"Dealing exclusively with top advisors allowed us to incorporate a degree of sophistication often absent in similar toolkits."

PMX places great emphasis on value proposition, both its own and that of the advisors it partners with. "Everything one builds needs to be consistent with a value proposition.

" To conduct a risk-profiling exercise just to make the regulator happy adds little real benefit. However, if the purpose of a tool is real information for the advisor and to provide a client engagement and coaching tool, then this talks to value proposition." That it leaves a regulator satisfied is a bonus, it seems.

Integration

Many toolkits are available to address willingness and ability to take risk, capacity for loss and a host of business efficiency tools. In Roberts' view, the edge lies in integration.

"In the UK, especially, it is quite common for an advisor to purchase a third-party cash flow modelling package from one vendor, a risk-profiler from yet another, while outsourcing investment management to an unrelated DFM.

"There is no connection whatsoever between the underlying assumptions of each party and the outputs can often end up misaligned.

Yet the regulator has made it clear that the responsibility for 'calibrating' these different tools to portfolios lies with the advisor."

At PMX, the integration work is done in-house, and assumptions are aligned.

PMX – quo vadis?

For an innovative company, the obvious question is where to from here? Zietsman says, "We don't believe in innovation for innovation's sake.

We will obviously continue to refine and improve our proposition and a key strategic objective is to drive our expansion in Europe and get a presence in the US in 2020, where Mike Roberts will be relocating. In SA, we are very excited about our offshore proposition, having recently launched a range of UCITS funds in Dublin, which carry on from where our offshore models left off.

They are S65 approved and on all the mainstream offshore platforms available in SA.

They are different in that they are optimised specifically for SA investors to a global currency basket."

More than that, we have an amazing team culture and a vibrant community that includes our IFA partners. If we can hold on to and nurture that, we will consider the business a great success.

Brandon Zietsman

Brandon has a busy life outside the office. Much of his youth was spent rock climbing, diving and flying gliders. He is a qualified field guide and yacht skipper, has a passion for South African history, loves the bush and recently completed a professional photography course. He is an avid cyclist and occasional, reluctant runner. Brandon spent the last year and a bit learning Swedish and is happiest fishing offshore from his kayak or tinkering in his astronomical observatory at home. Brandon is married to Inge, a clinical microbiologist, and has two sons, Michael and Ryan. The family is happy to call Jozi home!

Brandon Zietsman

Tel: +27 11 568 3400
Email: info@portfoliometrix.co.za
www.portfoliometrix.com

South Africa
United Kingdom
Sweden
Ireland

The DFM dilemma

Should a financial advisor use a Discretionary Fund Manager or not?

Over the past five years there has been unprecedented growth in the popularity and influence of Discretionary Fund Managers (DFMs) in South Africa. At last count, there were more than 40 DFMs up and running.

The surge in popularity has been driven by a range of factors, including:

- The release of the first discussion paper on the Retail Distribution Review (RDR) which proposed increased scrutiny on an advisor's investment process and the associated compliance requirements;
- More platforms (LISPs) developing the capability to administer model portfolios and communicating that to advisors in the market; and
- Fees dropping for DFM services to levels more palatable for advisors and their clients.

Why would an advisor outsource their investment process to a DFM?

The key benefit of outsourcing the investment process is to introduce an additional level of investment expertise into an advisor's process. A DFM would be expected to provide detailed fund manager research to enable appropriate fund selection, portfolio construction skills, the continuous monitoring of portfolios, and rebalancing of portfolios when needed. The aim is to deliver consistent investment outcomes for clients over time.

Clearly, there are advisors who have the skills and experience to be able to implement their investment process themselves. However, another benefit of outsourcing this specialist requirement is that it allows the advisor to focus on building their core business and to have more time to service their clients.

A third benefit of outsourcing to a DFM is to provide administrative and implementation simplicity across the

advisor's business. The advisor has the ability to consistently and efficiently implement their investment advice across their client base by using a range of portfolios through a Discretionary Category II licence, either that of the DFM, or their own.

A fourth benefit of outsourcing to a DFM is one of governance and compliance. The DFM should be able to ensure that similar clients are treated consistently (and therefore reduce TCF concerns), that the advisor has a documented investment process, and that comprehensive due diligence is provided on the funds used.

The RDR discussion paper led to many claims that independent financial advisors (IFAs) would struggle to survive and thrive once RDR is implemented, and that IFAs would need to either sell their business to a corporate or outsource to a DFM.

We do not agree with that assertion. We believe that the majority of investment IFAs do not have to make material changes in their business to comply with RDR, and we do not believe that this should be the reason for using a DFM. It is an added benefit but should not be the key driver.

In summary, the services of a quality DFM can benefit a financial advisor in the following ways:

- An evidence-based investment philosophy and process that aligns with the business's advice framework
- A sustainable investment range that is able to cater to different client needs
- Consistently managed portfolio solutions across the client base
- Access to a dedicated team of investment specialists
- Consistent and cost-effective implementation across different investment platforms
- Constant compliance with the various regulatory requirements.

All DFMs are not created equal

Advisors are clearly spoilt for choice given all the DFMs now operating in South Africa. However, because they are still a relatively new concept to many advisors, choosing a DFM can be overwhelming. The right DFM has the potential to be a transformative, long-term business partner to an advisory business.

We believe that the two most important factors that advisors need to consider when choosing a DFM are:

- Understand the unique value proposition of the DFM given how different the various DFMs' offerings are, and how this value proposition complements the advice process.
- Make sure that there is a good culture and philosophy fit between the advisor and the DFM.

Meeting these considerations will decrease the probability of "buyer's remorse" from an advisor who is getting something different from what they expected, and ensures that when differences of opinion emerge, there is common ground and respect between the parties to allow for a compromise that does not disadvantage the client.

Key factors to investigate when carrying out your due diligence on the DFM options include:

- Whether the DFM is independent and how important independence is to the advisor.
- The investment philosophy and performance history of the DFM.
- The depth of the DFM's global and local research capabilities.
- Global and local portfolio construction capabilities.
- The skill and relevant experience of the core investment team.
- The DFMs back-office compatibility with the advisor's current processes.
- The scale of the business.
- The fee structures.

In our opinion, DFMs do have an important role to play in helping advisors to professionalise and grow their businesses; ensure consistent investment outcomes; improve communication to clients and enable advisors to focus on their core role of giving comprehensive financial advice to clients. ■

Ian Jones, CEO, Fundhouse

Boosting professionalism

How a Discretionary Fund Manager can assist financial advisers

Partnering with a Discretionary Fund Manager (DFM) stands to benefit financial advisers in a number of ways that translates into a higher degree of professionalism and client satisfaction. For further insight, Blue Chip spoke to Florbela Yates, Head of Momentum Investment Consulting at Momentum Investments.

Being able to call on a DFM helps financial advisers to create investment solutions aligned with their advice process so that they are better able to match their clients to the desired outcomes. Yates elaborates: "Often the partnership with the DFM creates focus and provides the catalyst for the adviser to review the offering and to consolidate clients into more suitable funds.

"In almost all instances, when we initially partner with a financial adviser, they tend to have an investment book with hundreds of different underlying funds. By reviewing their needs, we usually come up with a range of solutions that is better suited to the current market and aligned with the goals that the adviser is solving for clients. The end result is that the adviser is left with a smaller range of funds. We provide detailed information on the funds regularly (their main holdings, how they are positioned and expected to perform in different market conditions as well as information about performance). With fewer funds, the advisers get to know the funds better."Another benefit is time saving. Under the Fais Act, advisers with a Category I licence need the investor's permission to make changes to their investment portfolio – a very time-intensive process. DFMs, on the other hand, operate under a Category II (asset management) licence.

"The adviser would get their client to sign a discretionary investment mandate with the DFM when they initially move into the DFM solution. This allows us to make changes across portfolios using our investment discretion as asset managers. We don't need to get a client's signature every time. We rebalance our funds more regularly taking into account both the current and future market environment. In addition, we can make changes across all the investors in each fund simultaneously," says Yates.

Florbela Yates

"This frees up advisers' time and allows them to focus their time on giving advice while we focus on managing the assets. All the reporting is provided by the DFM, so advisers no longer need to consolidate information from multiple sources to determine how each client's portfolio has done. Advisers now have more time available to focus on growing their practice and finding new clients. They also have more time with existing clients providing a more professional service," she adds.

Partnering with a DFM makes administration and implementation processes much simpler.

"The DFM becomes responsible for all the functions related to the adviser's clients' investments. This DFM will liaise with each of the chosen platforms to make sure that all the necessary funds are available and that the adviser's solutions are uploaded. They perform all the rebalancing and Regulation 28 checks, ensure that all changes are implemented and do all the necessary reporting. The DFM produces and consolidates all fact sheets and quarterly reports," Yates explains.

Furthermore, the services of a DFM allow for improved governance and compliance while ensuring consistent investment outcomes."The DFM does the investment and operational due diligence as well as the fund construction and ongoing monitoring. It is their responsibility to make sure that the managers do not breach any mandates and that the platforms execute instructions accurately and timely. This removes the governance and compliance burden of managing the assets from the adviser. The DFM monitors any changes in legislation and it is their responsibility to make sure that necessary changes are made whenever necessary," says Yates. The DFM is required to monitor the funds regularly and ensure that they maximise the probability of delivering on the investment outcomes promised to clients."

Yates points out that the client whose adviser partners with a DFM will benefit from much improved communication.

"The DFM uses their tools and skills to provide all information about the funds. This allows for much more detailed information. All changes are communicated to clients with detailed explanations for these. Where an event affects a fund, this is also done immediately. Clients can have the peace of mind that a professional investment team is actively monitoring and managing their investments. Examples are where a share loses significant value over a day or two, or where a portfolio manager (or a team) leave an investment house. The DFM will immediately assess how this could affect the fund and whether they need to make any changes," Yates concludes.

Greg Penfold

Keep things simple to stay the course

When multi-asset investing makes sense

Pieter Koekemoer
Head of Personal Investments

Most investors who've decided to invest some of their savings internationally will find it easier to achieve their financial goals if they stay committed – and it's easier to stay committed if you choose a multi-asset fund that invests across different asset classes. This approach provides the reassurance that the investor has tasked the fund manager with the responsibility to reposition the portfolio as circumstances change.

The more time you give your investment to grow, the more likely you are to do well thanks to both market outcomes and the value that can be added through active management.

However, many South African investors do not invest for long enough to experience the full benefit of staying the course in their long-term investment programme. The average unit trust investor holds their investment for less than the recommended five-year minimum investment period before withdrawing. This is largely due to our instinctive urge to "do something" in response to recent market or fund outcomes. Constantly selling the most recent losers and buying the most recent winners is a near certain way to achieve sub-optimal results.

It's easier to remain committed with a multi-asset fund

Investors who make their own asset allocation decisions may find it difficult to make consistently good decisions over time. They may be tempted to switch into or out of an asset class at the wrong time for emotional reasons.

Good asset allocation often requires you to do the opposite as you tend to achieve better results when you sell after a period of above-average returns (as prices have gone up) and buy after a period of below-average returns (and prices have fallen). It is a skill that requires considerable experience and discipline, so it makes sense to leave it to professionals who spend every day focused on identifying the best long-term opportunities available in global markets.

By giving your fund manager a broader mandate by way of a multi-asset fund, they also have more tools at their disposal with which to achieve the investor's desired result.

Good years and bad years cannot be predicted

Local and global risk assets performed poorly over calendar 2018 with local equities returning -8.5% in rands and global equities returning 5.0% in rands (-9.4% in US dollars). Conversely, 2019 has been a good year for risk assets, with local equities up 11.2% in rands and global equities up 21.5% in US dollars for the year to date at the time of writing. Yet many investors continued to invest conservatively, as though they were still experiencing 2018 returns, thereby missing out on the more recent strong returns from local and global risk assets.

But it isn't advisable to try to time the markets or switch between asset classes to capture returns in the short term. The good news is that you don't have to implement regular extreme portfolio movements to get the best results. When investing in a multi-asset fund, you may not capture all of the market upside in any given year, but over time, the highs and lows smooth, and you benefit from positive returns across asset classes while spreading the risk of possible underperformance in any one asset class. The smoother path makes it easier for investors to stay the course over the long term.

Meeting investors' offshore needs

Coronation offers three rand-denominated multi-asset funds for investors who want more international exposure as part of their long-term investment programmes: Coronation Optimum Growth, Coronation Global Managed and Coronation Global Capital Plus. The funds have track records ranging between 10 and 20 years and allocate across all or most assets to international investments, while remaining easy to use and access, being established in South Africa.

Coronation Optimum Growth has the longest track record and can invest in any of the listed asset classes anywhere in the world. The fund benefits from our wide research coverage across local, developed and emerging markets.

This makes it a sound multi-asset class solution for long-term investors who are not subject to retirement fund investment restrictions and are looking for larger exposure to offshore assets but still require their fund manager to decide on the allocation between domestic and foreign assets.

Since inception in March 1999, the fund has delivered a return of 14.4% p.a*. The benefit of wider diversification and judicious portfolio management is reflected in the outcome that this return was achieved at significantly less downside risk than both the local and global equity markets.

To find out more about our multi-asset funds visit Coronation Offshore.

*The information contained in this article is not based on the individual financial needs of any specific investor. To find out more, speak to your financial adviser. *Returns are quoted as at end-October 2019. For more detail about this fund, please download its comprehensive factsheet from our website.*


DUKE/1071

Investing in China – caveat emptor?

Understanding Variable Interest Entities

The success that Naspers has enjoyed ever since investing $32-million in Tencent in 2001 – then a relatively small Chinese Internet company – has been the stuff of legend: this single investment has gone up approximately 4 000 times to an overall valuation in excess of $100-billion in less than 20 years, explaining most of the market capitalisation of Naspers (as well as its recent offshoot, Prosus) today.

Some investors may not, however, realise that Naspers doesn't actually own its stake in Tencent directly. Instead, the group enjoys its lucrative exposure to the Chinese business through a structure known as a Variable Interest Entity (VIE). The same is also true for investors in Alibaba, Baidu, Meituan and all other foreign-listed Chinese Internet firms.

In a nutshell, this structure involves setting up two entities: the listed entity as well as the VIE itself. The latter is wholly owned by Chinese citizens, typically the tech firm's founders, and holds the operating licences required to do business in China. Crucially, however, all the VIE's economic benefits are transferred to the listed entity via contractual agreements – effectively sidestepping China's restrictive foreign investment laws (without transferring the "normal" equity or voting rights).

VIEs have questionable legal standing in China and they do not give shareholders the rights typical of direct ownership – as such, they entail a very different level of investment risk. In a column entitled "A legal vulnerability at the heart of China's big Internet firms", *The Economist* magazine described VIEs as "the weakest link" as far back as September 2017, for example.

Most investors take a relatively sanguine view of the situation in the belief that neither Chinese companies nor the country's government will compromise the integrity of VIEs: any serious abuse of the structure will clearly damage China's reputation among international investors.

Rob Vinall, founder of asset manager RV Capital, had this to say about VIEs in a recent newsletter: "The structure is elegant in that it squares the apparent circle of China's insistence on local ownership, Chinese companies' need for capital and foreign expertise, and overseas investors' desire to profit from the growth in Chinese companies' earnings."

> In a nutshell, this structure involves setting up two entities: the listed entity as well as the VIE itself

It should, however, be noted that there has been at least one case where VIEs were found to have violated Chinese contract law (just Google the "Alibaba Yahoo spat").

Further, over time it is likely to become increasingly difficult for Beijing to explain to domestic investors why it is that foreigners are deriving most of the economic benefits of China's most dynamic sector; at the very least, investors need to be mindful of this risk.

Notably, VIEs are absent from China's brand-new Foreign Investment Law – legislation indicating that the country is moving to become a more open, rules-based economy. It comes into effect in January 2020 and seeks to level the playing field for foreign investors, while providing certainty on issues such as the protection of intellectual property rights. The devil will be in the detailed implementing rules expected later, but the law is certainly a sign of positive reform.

It would thus appear that investors in Naspers (and/or Prosus) probably don't need to lose too much sleep over their exposure to a somewhat quirky capital structure. It does, however, continue to be a potential risk that one should not lose sight off completely – especially if you happen to have an "index" exposure to the group (or more particularly, an overweight one), given its increasing dominance of the South African equity market over the past few years. ■

Deon Gouws, Chief Investment Officer, Credo Wealth, London

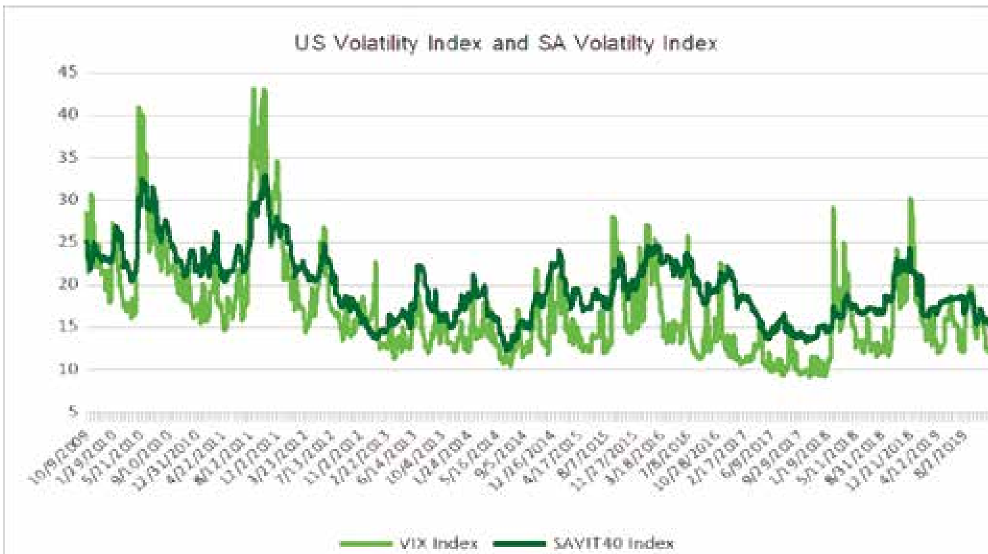
Rising above the hype

2019: A year to remember – but will you remember it as it truly was?

As I sat down to reflect on 2019, I felt, frankly, overwhelmed thinking about everything that has happened in the past 11 months. I was reminded about a book I recently read: *Factfulness* by the late Swedish medical doctor, Hans Rosling. This insightful book talks about the 10 behavioural instincts that distort our perspectives on the world – two of which particularly resonated with me given how I had been reviewing the year:

A single perspective where we rely on media to form our world view and, secondly, the negativity instinct where we notice the bad more than the good, believing that things are getting worse when things are actually getting better. There has certainly been no lack of negative news in 2019 to feed both behavioural instincts to formulate a world view. Internationally, every time President Trump tweets, there is an apocalyptic media storm; the US/China trade wars subside and escalate almost weekly; the Brexit saga keeps finding new chapters to write. Closer to home, we are bombarded with public stories about President Ramaphosa's inaction, the teetering SA economy with its high and rising unemployment, Eskom loadshedding woes, and the likelihood of prescribed assets, to name a few headline-grabbers.

One only has to attend a social event or scroll through social media to get a sense of how these stories are formulating opinion and perspectives. Negative news headlines have created uncertainty and scepticism for investors and a sense of impending doom. South African investors have responded by investing in money market and income unit funds due to poor equity and balanced fund returns over the past five years. But is this a balanced perspective? Actually, no. Let's look at the facts. Had investors remained invested in a globally diversified portfolio, like the Nedgroup Investments Balanced Fund, they would have experienced a 12.4% return compared to the average money market fund return of 5.6% or average income fund of 8.4%.* As at the end of November, global equities were up 22.5%** in US dollars for the year to date, despite all the news covering US/China trade wars. Meanwhile, SA equities*** were up 8.5%, albeit concentrated in the performance of the platinum and gold stocks. South Africa's euro bond issue was 2.7 times oversubscribed. What do they know that we don't? Another misconception is that the markets have been extremely volatile. In reality, it has been close to a multi-year low as shown by the US Volatility Index (VIX) and South African Volatility Index (SAVI) in the chart below. Rugby World Cup and securing R365bn of investment pledges from domestic and international corporations at the second annual South African Investment: Conference in the same week. This sends a positive signal to investors that corporate South Africa is becoming less negative on their expected return on investment. Of course, ignoring the prevailing headwinds and uncertainty would be unbalanced. However, during these periods we encourage clients to remain invested in globally diversified portfolios, not to get distracted by the headlines, focus on reducing costs and demand transparency from their service providers. According to Dr Hans Rosling, the world is improving much faster than the mainstream media



Source: Bloomberg based on weekly data to from 2 October 2000 to 15 November 2019

Clearly, we need to nurture a more balanced, fact-based view of our environment. The endless criticism of President Ramaphosa's inaction was put to rest by political analyst JP Landman. In his recently published research note he highlighted all the positive developments and initiatives undertaken by the President including the challenges. None were widely reported in the mainstream media. Recently, national pride was bolstered by winning the 2019 would have us believe. Investors who stay poised amidst the hype and noise will benefit in the longer term. ■

Quaniet Richards, Head of Institutional at Nedgroup Investments

* *Source Morningstar calculated from 31 December 2018 to 31 November 2019. All performance is quoted net of all fees with all income reinvested*

** *As measured by the MSCI All Countries World Index GR*

*** *As measured by the FTSE/JSE All Share Index TR*

The intergenerational wealth challenge

Ensuring that financial advisors continue to be of value to succeeding generations

I am sure that there are many CFP® professionals reading this article, and they will be divided by this topic. Those who target the older generation and, as a result, wealthier clients might see this subject as a hack. Younger advisors who are working hard in the Millennial and Gen-X space will be far more enthusiastic. This split demonstrates the demographics of the advice space; the average advisor's age must be getting closer to 60. They are thinking that they will be retired when these younger clients come through.

Change

This is one of the hardest things all of us have to deal with socially and professionally. Currently we're witnessing the disruption of many industries and professions and we know that "those that ignore history are doomed to repeat it".

Change is typically brought on by a new generation. As the Baby Boomers age, their children and grandchildren will be entering the advice market. Ignoring generational differences will cause your own efforts to be futile. The youth are more educated, inquisitive, well informed, tech savvy and, even at times, suspicious and not afraid to challenge and question.

What will never change?

Trust. We believe that this is the first thing that we need to understand. We believe that advice is about the ability to build trust through competence and character initially, followed by an understanding of the communication platforms on which best to engage.

The differentiator will be your ability to interact with whichever generation you are reaching out to. Finally, we think the ability to interact smoothly and efficiently electronically will continue to improve. We must go with it, but we do not think this will differentiate us.

Successful practices vs the rest

Practices that set you apart:
- Ability to build trust
- Ability to interact one to one
- Wisdom

Common practices, probably legislated:
- Good technical skills
- Great technology, communications and admin
- Information.

You will notice that neither product nor price is mentioned. Product will continue to become less and less important as we move forward and as new product providers enter the market and probably disrupt the ability of existing product providers to hold their prices.

What advisors need to be aware of is that they must not confuse price with value. As an advisor you need to understand where your value lies. It is not in either product, reporting or administration. It is in our ability to work alongside our clients to first and foremost ensure that they

can get money to work for them instead of the other way around. It is the ability to help them steer their way through the information overload and show them what all the various options ultimately will mean to them – beyond their bank balances.

How do you hold on to the next generation of your client base?

Listening. Giving the impression that you are saying to a young client "Now listen here boy" ain't going to cut it. You need to listen to the client and treat him or her with respect. Energy levels. Speaking to a young client who has still not inherited assets can be difficult. If you feel you are unable to relate to a younger client or lack the empathy and energy to do so, you need to bring in someone who is more suited to this role. A younger advisor, someone doing their CERTIFIED FINANCIAL PLANNER® certification, would help.

Learn a different approach. See it as a challenge to understand this generation and how you can be on the cutting edge in your interactions. Go out and understand how the 22seven app works. Read Sam Beckbessinger's *Manage Your Money like a F*ckin Grownup* to give you an insight into how this generation is thinking and approaching money. It also shows you the tools available out there. More importantly, this sense that you yourself are growing is empowering. That enthusiasm will be endearing to the younger generation.

Fee income. Consider charging a monthly service fee payable by debit order for the advice you give them until they grow their asset base with you.

Administration. We are witnessing how more and more product providers are moving towards electronic, paperless implementation of advice… Hallelujah! Don't make the mistake of doing this yourself; it is not your business. Let others spend the money and the time on this, then choose the best solutions as they emerge.

Family offices and family constitutions

I am aware of a trend in which wealthy families are advised to create a family constitution which spells out the values of the family as the patriarch or matriarch sees them and sets certain rules for future management of wealth.

I have a personal bias against holding adults and future generations to a particular course of action and conduct that denies them the freedom to make their own choices. I support the values of the constitution, but economically tying people together is where my issue lies. Bring them up as best you can and then set them free!

Multi-generational planning is a highly creative activity and should energise you and your team. If it doesn't, then the end is nigh! ■

Barry O'Mahony, CERTIFIED FINANCIAL PLANNER® professional and founder of Veritas Wealth Management

When property goes soft

You can't beat the market but you can still win

The residential property market in South Africa remains weak as our economy struggles to come to terms with underperforming SOEs, growing unemployment and poor business confidence. South Africa has been here before and while most are confident that our economy will recover, it's not helping sellers in the short term.

Property, not unlike most markets, behaves in a rational manner and no matter what your aspirations are as a seller, you generally can't beat the market as it responds to supply and demand and sets prices based on economic realities.

For those seniors needing to sell the family home in order to scale down, liberate capital, or move into a retirement village, this isn't good news.

Sellers are holding onto the aspirational price for their homes, even though the market is giving them clear evidence that they are overpriced by 10-20%. Those who can afford to wait tend to take their homes off the market. There are others who face challenges other than financial ones, such as needing to move for family, health or other reasons, which make the sale of the family home even more stressful.

Here is some advice to help seniors win in the face of a soft property market.

Manage uncertainty

No-one knows how long the market will take to recover, so if your intention is to wait for a price lift, make sure that the non-financial consequences of your delay do not outweigh the benefits. Your perception of the value of your family home is often driven by emotion rather than reality, and you could end up far worse off by waiting. Make sure that you are advised by a trustworthy real-estate agent.

Strive for a neutral outcome

If you are planning to sell and buy in the same market, you should strive for a neutral outcome. In other words, if you need to accept a 15% discount on your family home you need to match this as best you can with a discount on the home you purchase. It is difficult to get this right if you are buying down as the price adjustment of more expensive homes will be greater than the smaller home you are scaling down to. Nevertheless, the possibility of a relatively neutral outcome is possible.

Consider the Life Right option

Life rights models are an alternative option to having to buy traditionally. In accord with the property dip, leading retirement developer Evergreen has recently introduced a pricing option that allows purchasers to emerge cash neutral. It is one way to win in a depressed property market.

Many purchasers who do not wish to wait for the soft market to strengthen are finding Evergreen's flexible pricing extremely valuable. Being able to purchase an Evergreen Life Right at a reduction of 10-20% of the list price will enable you to reduce the selling price of your family home by 10-20% and remain cash neutral.

This is achieved by offering reduced prices on new Evergreen homes, offset against a reduction in the terminal capital due to your estate when the Life Right terminates.

So, while you probably can't beat the property market, you can still win if you consider an Evergreen Life Right, and our partnership for life promise of great physical security, financial peace of mind, continuous care facilities and a sense of community.

Arthur Case, Brand Marketing Director for Evergreen Lifestyle Villages

Financial planning as a profession

An overview after 50 years of financial planning in SA

On 12 December, 1969, 13 men met in Chicago and outlined the first steps needed to establish these integrated practices as a new profession called financial planning. In this 50th anniversary year of the profession, we will examine how the profession is doing in South Africa.

Characteristics of a profession

At the FPI convention in 2007, the late Charles Pillay, who was at that time the Ombud for Financial Service Providers, presented on the state of the profession. In his presentation, he highlighted the characteristics of a profession to be:

- A specialised and well-defined body of knowledge;
- Membership of a professional association acting as a spokesperson for the profession;
- Devotion to public service;
- A code of ethics; and
- Status is recognised by the community you serve.

We will examine these in more detail below.

A specialised and well-defined body of knowledge

The development of professional qualifications in the financial industry in South Africa is led by several role-players, one of which is the Financial Planning Institute of Southern Africa (FPI). The education standards are set in FPI's Financial Planner Competency Profile and Financial Planner Curriculum Framework. FPI's standards are benchmarked against Financial Planning Standards Board's (FPSB) standards and localised to the South African territory. It is against these standards that FPI, as an affiliate of FPSB and recognised SAQA professional body, recognises the qualifications of education providers within South Africa. The recognition indicates that the qualification as developed by the education provider meets the professional standards as set by FPI.

From a humble beginning of one education provider, there are now six education providers who provide a qualification recognised against the Financial Planner competency profile.

Membership of a professional association acting as a spokesperson for the profession

FPI originally started out as the Institute of Life and Pension Advisors (ILPA) within the life insurance industry. ILPA was formed through engagements between the Life Offices Association (LOA); the Life Underwriters Association of South Africa (LUASA); the Institute for Pension Consultants and Administrators

(IPCA); and the South African Insurance Brokers Association (SAIBA). In May 1980, discussions began between these parties on the need to develop a professional qualification for the life insurance industry. The parties felt that the academic level for financial planners should be at a university level, and that the qualification must have a combination of academic as well as practical components.

Years later, in 1996, it was agreed that there was a need to professionalise financial planning and to recognise ILPA's qualifications internationally. It also became clear that there was a pathway needed to raise professional standards, as there was no longer just a focus on life and pension advisors, but holistic financial planning that included retirement planning, risk planning, as well as other disciplines such as estate planning and investment planning.

When ILPA was authorised to grant the CERTIFIED FINANCIAL PLANNER® designation in South Africa in 1998, the institute started drawing a much wider range of industry players that included lawyers, accountants, actuaries and employee benefits advisors; financial planning was in the process of becoming a profession. A name change was needed as the institute no longer just dealt with Life and Pension funds. The name of ILPA was subsequently officially changed to the Financial Planning Institute of Southern Africa in March 2000.

Today FPI is recognised as a professional body under the National Qualifications Framework Act and represents its professional members to government, the industry and consumers.

Devotion to public service

In FPI's 2010 paper "Skills-Based Volunteering – the mark of True Professionalism", we observed that our country remains beset by poverty and suffers the dubious reputation of having a virtually non-existent savings culture. But all is certainly not lost. As professional financial planners, we are in the privileged position of being able to make a real and lasting positive difference in the lives and futures of so many of our people – simply by being willing to freely give of our time, talents and knowledge for the benefit of others.

These sentiments still hold true today and since 2012, as a profession, through our volunteer members, we have touched countless lives with the FPIMYMONEY123™ programmes, which is a combination of a workshop and one-on-one consultations.

In addition to the pro bono work, the first principle in the FPI Code of Ethics and Professional Responsibility is Client First. Placing the client's interests first is a hallmark of professionalism and is a core value of any profession. It requires FPI members to act honestly at all times and not place personal interest or advantage, in any form, before their clients' interests.

A code of ethics

Professions play an important role in ensuring an ordered society. As such, a profession will publish a code of ethics to protect its clients and society at large by guiding its members to conduct themselves ethically. This contributes to the reputation and credibility of the profession and its members. It also guarantees sustainable development of the profession.

The FPI Code of Ethics is intended to promote ethical behaviour and prevent unethical behaviour by its members. The guidelines provided in the code instil confidence in members by providing them with clear conduct boundaries. The code also stimulates ethical awareness and decision-making.

Status is recognised by the community you serve

As seen above, most of the characteristics of a profession are firmly entrenched in the financial planning industry in South Africa. As with any young profession, the public recognition is still one area that needs some focus.

We do believe that one of the elements to support this recognition is legal protection. As long as anybody is allowed to call themselves a financial planner, whether they meet the professional requirements or not, the consumer will remain confused about what a financial planner is, and the professional will be painted with the same brush as a non-professional.

This will hopefully change soon. In the December 2019 Adviser Categorisation paper, the FSCA proposed that the title of financial planner for individuals become a professional designation. The CFP® designation was recognised as a standard for this.

Conclusion

In a short period of 50 years, financial planning has come a long way in becoming a profession, with many of the characteristics already being met. I, for one, am excited for the next 50 years in this profession. ■

David Kop CFP®,
Executive Director of Relevance, FPI

Ten reasons why face-to-face conferences still matter

As the Fourth Industrial Revolution gathers pace, you might be starting to wonder whether face-to-face conferences are still relevant. Not so fast, says conference veteran Adele Whyte, HOD: Membership Hub at the Financial Planning Institute.

As data connections get ever faster and network coverage grows ever broader, it's possible to conduct virtual meetings from Vladivostok to Vanderbijlpark – and everywhere in between. So, why should we bother to spend precious time and money attending professional conferences?

1. The gold is in the hallways
Keynote speakers and panel discussions are all very well, but the most important reason to attend a conference is to grow your professional network. Your network, as they say, is your net worth – and when it comes to building a network, the Internet and social media can never compete with face-to-face interaction. The chap you meet at the coffee machine might just be your next friend, confidant or mentor; that competitor from the other side of the country could even become a collaborator or business partner.

2. A change is as good as a holiday
To keep abreast of the rapidly changing marketplace, it's important to escape your comfort zone every so often. Spending all your time in the same office, surrounded by the same people, podcasts and websites is a sure-fire way of stagnating and losing track of the changes in the investment arena, the new technology we can use to assist the financial planning process, and the psychology behind giving advice. It's impossible to underestimate the importance of getting away from the computer screen and having new and different conversations with people who challenge your thinking.

3. Gift of the gab
Whether it's selling yourself to prospective clients or building relationships with new suppliers, conversations skills are a vital part of any profession. Some people are born to communicate – but for others, superior communication skills only come with practice. Conferences are a great place to hone these skills as there's a seemingly endless supply of new people for you to practice your elevator pitch on. As Gary Player said, "The harder I practice, the luckier I get."

4. Give back to your community
In our hyper-competitive world, it's easy to fall into the trap of only thinking about events, activities or relationships in terms of what you stand to gain from them. Truly successful people have learned that what you get out of a situation is directly proportional to how much you put into it. Your ideas, opinions and experiences are valuable and they do count. Whether it's

engaging in high-level debates or partaking in some altruistic business matchmaking, giving back is vital to both your own personal growth and that of the industry.

5. Reignite the flame

No matter how exciting you find your career, you will inevitably have periods when you feel like you're simply going through the motions. There's no better way of rekindling your passion for what you do than by spending time with people who share your interests and have found solutions for the same problems you face. Change is all around us, and the one sure-fire way to position yourself for success is to feed off the irresistible energy that comes from spending time with like-minded people.

6. Hone your presentation skills

It's impossible to build a successful career without giving the occasional presentation – and there's no better place to garner presentation tips than a conference where you'll be exposed to dozens of speakers with varying skillsets. While you're sitting in the audience, pay close attention to how the speaker uses the stage, how they speak, what visuals and technology they use, how they engage with the audience, how they use notes, and how they manage questions at the end. This will give you a very good idea of what works and what doesn't and will assist you in developing a presentation style that matches your personality.

7. Meet industry media

One of the best ways of building your reputation is to establish a media presence by giving up your time as an interview source and even penning articles of your own. But breaking into the inner circle is easier said than done. Editors and journalists – like all of us – get loads of unsolicited emails and tend to stick with their tried and trusted contributors. You've got a far better chance of forging relationships with media decision-makers by having real conversations at conferences.

8. Rediscover the value of CPD

While many financial planners complain about having to earn CPD points, the system is actually there for a very good reason. The CPD programme is designed to ensure that you have all the knowledge you need to do your job to the best of your abilities, taking into account the constant changes in products, markets and client expectations. If you find earning CPD points boring, this is probably because of your inherent confirmation bias (we're all human!) which results in you choosing CPD topics on subjects you're already familiar with. At conferences, you're forced to break out of your comfort zone by learning new information on a wide range of relevant topics.

9. Gain a global perspective

To make a success of your business, you have to understand how the world works – and there's no better way of doing this than exposing yourself to international trends and ideas. Conferences are a great opportunity to hear from international voices without having to fork out on overseas flights. These days, most conferences boast at least one international speaker, and this year's FPI conference is set to have no fewer than three international speakers. Watch this space!

10. The fun factor

Finally, it's impossible to underestimate the importance of letting down your hair every once in a while.

You might think you're neglecting your clients by attending a conference, but nothing could be further from the truth. Au contraire, sitting in front of a computer screen 24-seven has a detrimental effect on your performance and motivation levels. Industry conferences are a great way of reminding yourself that you actually like what you do and ensuring that you hit the desk with renewed vigour on Monday morning.

Save the date

Put theory into practice by attending the 2020 FPI Professionals Convention on 8 and 9 June 2020 at the Sandton Convention Centre in Johannesburg. Prepare to be wowed by the calibre of speakers and the range of topics. For more information about our generous early bird discounts, please contact me, Adele Whyte, on academy@fpi.co.za

Adele Whyte, HOD: Membership Hub, FPI

Financial Planning
Institute of Southern Africa
THE PROFESSIONAL STANDARD

Continuous Professional Development at FPI

Start planning your CPD hours now

FPI changed its CPD cycle during 2018 to assist members in complying with both the FSCA and FPI's CPD requirements. Members, therefore, need to comply with the 2019 CPD cycle requirements by 31 May 2020.

Member renewal (recertification) must though be completed by no later than 31 March 2020 (pay full membership fee and complete the Ethics declaration). Members do have the option to take up a debit order.

More about CPD at FPI

FPI updated its CPD policy during last year. Some of the significant changes are:

- CPD points have been updated to CPD hours (to eliminate the confusion between the two).
- Members can no longer transfer CPD hours from the one cycle to the other.
- The CPD cycle now runs from 1 June – 31 May.
- Professional members (CFP®, FSA™ and RFP™) must complete 35 CPD hours: 20 Technical CPD hours (knowledge CPD hours); 10 General CPD hours (Skills and Abilities) and five Ethics and Practice Standards CPD hours. Out of the 35 CPD hours, 20 must be verifiable CPD hours.
- Affiliate members (CPD affiliates and candidates) must complete 20 CPD hours of which 18 must be verifiable CPD hours, and two must be Ethics and Practice Standards CPD hours.
- Not completing your CPD hours can lead to a disciplinary enquiry as per the CPD policy and updated Disciplinary Regulations.

**Please read the full CPD policy on www.fpi.co.za

CPD offerings at FPI

Members of FPI have access to face-to-face events, online courses and over 50 webinars. Face-to-face events and online courses are CPD activities members have to register and pay for, whereas webinars come as a free membership benefit.

Some of the face-to-face events to look forward to this year:

- February 2020: Budget Review Trilogy
- March 2020: Estate and Tax
- June 2020: FPI Professionals Convention (8 & 9 June 2020 – Sandton Convention Centre)
- August 2020: Retirement and Investments (R&I)
- October-November 2020: Annual Refresher
  - 22 October: Polokwane
  - 27 October: Pretoria
  - 3 November: Johannesburg
  - 5 November: Nelspruit
  - 10 November: Free state
  - 12 November: Durban
  - 17 November: Port Elizabeth
  - 19 November: East London
  - 24 November: George and
  - 26 November: Cape Town

FPI webinars offer the following number of CPD hours in the various financial planning components:

FP component	Sum of CPD hours
Asset Planning	22
Estate planning	7.5
Ethics	14
Practice Management	11
Practice standards	5
Retirement Planning	6.5
Risk Planning	24
Tax planning	13.5

**FPI plans to make more webinars available for Estate planning and Retirement planning during 2020.

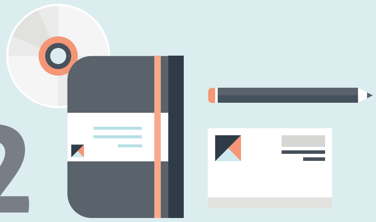
FPI also offers various online courses to choose from.

To make use of the mention CPD activities, be sure to visit www.fpi.co.za for more information or contact academy@fpi.co.za

10 Reasons to become an *FPI Approved Professional Practice™*

1 

By displaying the *FPI Approved Professional Practice™* brand, your business will be recognised as a professional financial planning practice offering financial services of the highest standard.

2 

You'll get higher community recognition among your peers and consumers by actively promoting and using *FPI Approved Professional Practice™* branding in your business.

3

You will have increased exposure through advertising and article opportunities on various FPI platforms, many times at no cost to your practice.

4 

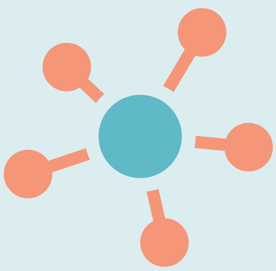
Your practice will be listed on the FPI website as an *FPI Approved Professional Practice™*, giving you more than R50 000 worth of free advertising.

5

You will benefit from participating in FPI consumer awareness campaigns that will create a demand for your practice and the professionals employed by you.

6

You will become an employer of choice; your commitment to the highest standards will help you attract the industry's top talent. You can advertise for potential employees through FPI on various platforms, at a reduced rate.



7

You and your staff can network in professional forums, creating the opportunity to showcase your practice to other like-minded professionals.

8

By upholding the rigorous standards of this brand, you will play a pivotal role in transforming the standards of financial planning in South Africa.

9

Your practice will be an FPI Mentorship Centre by mentoring new financial planning employers and students. Your practice will receive free mentorship training to enable you to incorporate the FPI Mentorship programme into your supervision practices.

10

By partnering with us through co-branding initiatives, we will promote your business to your clients, confirming your professional practice status and approval.

Who can become an FPI Approved Professional Practice™?

FPI Approved Professional Practice™ qualifying criteria

1. Business	i.	The core business of your practice must be financial planning.
	ii.	Your business must have a defined process for financial planning that meets the FPI's 6 Step Financial Planning process and must be offered to your clients as a default part of your service.
	iii.	Your practice must confirm that the structures reflect a clear fiduciary responsibility to your clients.
	iv.	Your practice must follow a clear investment philosophy which is well documented and visible to your clients.
	v.	Your practice must confirm that your clients, or a percentage of them, receive cashflow modelling.
	vi.	Your practice must have a clear quality assurance function to ensure quality financial planning to your clients.
2. Financial Planners	i.	Your practice must have a minimum of two full time employed financial advisors or planners.
	ii.	50% of your full time financial advisors must be CFP® professionals.
	iii.	An additional 25% of your financial advisors must be studying towards attaining their CFP® designation or hold another FPI designation.
	iv.	The remainder of your financial advisors must become affiliates of FPI.
	v.	You must submit a staff development plan to confirm your commitment to train and qualify staff appropriately.
3. Key Individuals	i.	Your practice must have a minimum of two key individuals who are also CFP® professionals.
4. Solvency	ii.	Your practice must confirm that it is solvent and that it does not anticipate any change to that status in the foreseeable future.
5. Ethics	iii.	Your practice must agree to adhere to the FPI Code of Ethics and Professional Responsibility and agree that your policies and procedures will be consistent with the Code within six months of approval.
6. Pro Bono Work	iv.	Your practice must agree to participate in FPI pro bono or volunteering programmes from time to time.
7. Mentorship Centre	v.	Your practice will act as an FPI Mentorship Centre and mentor at least one mentee per annum.

Who should apply?

- Small to medium independent financial service providers
- In the case of an *FPI Corporate Partner™*, a franchise, branch or division of the corporate partner may apply

Evaluation process

Each application will be evaluated in three stages:

Stage one:	Desktop evaluation to determine if the basic criteria are met.
Stage two:	An in-depth evaluation on financial soundness, company registration, financial planning philosophy etc.
Stage three:	An on-site evaluation.

Fees Involved

Each application will carry an evaluation fee. If approved, every *FPI Approved Professional Practice™* firm will be subject to annual licensing fee.

Contact FPI on 011 470 6000 for the current fee structure.

Quantifying value in the knowledge-based economy

Innovation is everywhere but beware, it's not only about technology

Any management consultant worth their salt would probably tell you that, in the 21st century, innovation must be a core competency of your business. After all, as we are constantly reminded, change is the only constant. To keep up, you need to innovate. But often when we think of innovation, we think of technology.

Robo-advice. Straight-through processing. Automated rebalancing. Artificial intelligence. Take your pick. They are all already here. From drones doing deliveries to cars driving themselves, technological innovation is happening in all industries.

The good news? Financial planners will adapt to technological change or go out of business. How do we know? Uber. Netflix. Airbnb. Take your pick. They have shown us the way. In the US, over 70% of people under 35 want technology to be at the core of their engagement with a financial planner.

When it comes to people, however, the story is not as clear.

Financial planning is a people business, and people are the greatest resource in delivering that service – yet a refrain I hear repeatedly from financial planners is: "I can't find good people, and when I do, I can't keep them."

Technology will solve this problem, to an extent. Robots are already replacing humans. But for some time to come, we anticipate every person, at some stage in their life, will want to talk to a human being about their money. This doesn't solve the good people challenge. Innovation may be everywhere – except perhaps when it comes to people.

Stuck in the Industrial Revolution

One of the biggest problems large cities face is traffic congestion, particularly where there is inadequate public transport. The obvious solution to this is to encourage businesses to allow their employees to operate with more flexible hours. This dilutes peak traffic times. A couple of years ago Cape Town ran a media campaign to this effect. At the time a local radio talk show encouraged businesses to share how they enable employees to work flexible hours. Very few creative contributions emerged.

The best on offer were a few businesses that have core hours, which for example require employees to be in the office from 10h00 till 14h00. They can then make up their hours on either side of that, either by coming in early, or leaving later. Not ingenious suggestions. In fact, the solutions offered were remarkable for their lack of innovation and creativity. And Cape Town peak traffic now seems to just start earlier and end later.

This lack of innovation suggests a lack of insight into how people work most effectively. We live in an increasingly knowledge-based global and local economy, yet in South Africa, the approach to managing people remains largely premised on that emerging from an Industrial Revolution. The only time a person was productive was on the production line.

Doing stuff with your head

In an article titled "The advantage of being a little underemployed", Morgan Housel

suggests that to realise how outdated the five-day, 40-hour work week is, you have to know where it came from. He points out that the average American worker in 1900 was working on average 10 hours a day, six days a week. Railroad unions demanded a change to five-day, 40-hour weeks to reduce accidents caused by fatigue. Their demand was resisted and the rail system virtually came to a halt as workers went on strike. In 1916, President Woodrow Wilson pushed through the Adamson Act legislating the change that the unions demanded, and then 20 years later as part of the New Deal, the same working conditions were extended to all industries.

Eighty years later, these conditions remain standard across most industries. This is crazy, given as Housel points out: "The biggest employment change of the last century is the number of careers that shifted from physically exhausting to mentally exhausting. From doing stuff with your arms to doing stuff with your head."

Financial planning definitely involves doing stuff with your head. The advantage of this, and the disadvantage, is that you carry your head with you wherever you go – and research suggests that having a nap, going for a run or doing yoga is better for your head than sitting at your desk all day.

When I started my career in financial services, my first job was in asset manager research. I recall one of my early asset manager due diligence interviews when a colleague and I asked a highly rated and successful fund manager where he got his investment ideas. We expected a variation on the usual "rigorous screening process", followed by "lots of reading and analysis" and of course "meeting company management". His response? "Eh… mmm… let me think about that… eh… on the golf course… sometimes in the shower… " And he wasn't joking.

The brain doesn't keep office hours

Neuroscientists like Dr David Rock say these "aha" moments come when we least expect them, and invariably not at work. Speaking at the FPI Convention in 2012, Dr Rock quoted research of 6000 people who were asked when they do their best thinking. Only 10% of respondents said it was at work. More disconcertingly, the research asked how many hours of quality work people felt they did per week, while at work. The number was strikingly low, at fewer than five hours per week.

This highlights that jobs which involve your head don't keep office hours. Particularly the type of office hours designed for railroad workers at the turn of the 20th century.

As Mohammed Chahdi, director of global human resources at Dell, says in Samantha McLaren's article about four companies embracing flexible work practices: "Work is what you do and not a place you go." In his role he says, "Our value proposition is clear and simple: To enable our team members to do their best work regardless of where and when."

Value out rather than time in

When you are doing stuff with your head, the value that you can add to a client also has no correlation to the time spent. It is

no surprise, then, that Ricardo Semler, a highly successful, innovative industrialist and entrepreneur from Brazil, wrote a book entitled *The Seven Day Weekend*. He encourages employers to think differently about how they manage their people, and more importantly, how to get the best out of people. He argues that technology that was supposed to make life easier such as laptops, cellphones and email, has actually encroached on people's free time.

But as he says, this can be a good thing if you have the autonomy to get your work done on your own terms and to blend your work life and personal life. He suggests that innovative employers will eventually realise that people may be more productive if they have the flexibility to decide for themselves when to work and play, rather than the employer deciding. Rather than time in, employers ideally should focus on value out.

The importance of value was highlighted for me recently when I met with a financial planner who related how they helped a potential client resolve a dilemma about their future retirement. They helped the client assess retirement options in a more rigorous and creative way than if the client had simply tried to do it on their own. No doubt the experience and thinking that this planner had done over many years made this meeting very impactful.

When it came to discussing the financial planning fee, the planner mentioned that the upfront financial planning fee was R20k, and that the process usually involved four meetings. The potential client had experienced so much value in just one aspect of the first meeting that they were moved to ask if this was R20k per meeting – not because they didn't want to pay the fee but because they thought given the value they had already experienced, this was a possibility.

The value in people

In a knowledge-based economy, when you are providing a professional service based on knowledge, experience, thinking and interpersonal skills, to quantify anything in terms of time – be it your employees' working hours or the time spent with a client – is a disservice to the value that financial planners and their staff potentially can add to their clients' lives.

So the opportunity is ripe for the picking to innovate with respect to how you get and keep people and make them more productive. LinkedIn's 2019 Global Talent Trends Report indicates that over 30% of job-seekers will turn down a job if there are not flexible work arrangements. Computer giant Dell implemented flexible work practices in 2009. US healthcare company Humana did the same in 2016, using technology to enable call-centre workers to work from home.

More recently Microsoft in Japan experimented with a four-day week for their employees. Without an adjustment in remuneration. The result? Productivity improved by 40%. Operational costs fell, with 23% less electricity and 90% less paper used.

Perpetual Guardian, a New Zealand-based financial services firm, moved to a four-day week in late 2018. Productivity improved 20% over an eight-week period; an independent survey showed staff stress levels reduced and work-life balance improved from dramatically.

As you think about innovating to keep up with constant change, don't get stuck on technology and forget about your people. They may just end up working for a business that has found a real way to make a dent in traffic congestion! ■

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A holistic, lifelong plan

Invest in your career as a financial planner

Financial planning is the profession of identifying the needs and goals of clients and building a holistic and lifelong plan to address those needs to achieve the financial goals of the client.

It deals with all the aspects of ensuring that financial matters are well managed on a month-to-month basis – thus making sure that clients have sufficient cash flow to meet financial obligations. It specifically focuses on long-term planning, such as ensuring enough funds for retirement, estate planning, and any other aspects around financial planning for the client and their loved ones. Financial planning also looks at the manner in which businesses are structured and the continuity of business interests within a corporate structure.

Financial planning has evolved over the years from salesman to advisor to trusted planner and has become a highly regulated profession with the focus being predominantly on technical, technological and product advances. However, the world is rapidly changing and what worked up until now will not necessarily work in the future.

The School of Financial Planning Law (SFPL) in the Faculty of Law at the University of the Free State prides itself on its qualities of excellence and integrity in providing holistic financial planning education since 2001. The school is educating financial planners who are theoretically and practically trained to meet the unique needs of each client through postgraduate and undergraduate programmes.

The Advanced Diploma in Estate and Trust Administration offers students the unique opportunity to acquire the necessary academic qualification and skills to become fiduciary practitioners. This is the only qualification that is currently endorsed by the Fiduciary Institute of Southern Africa (FISA) as the academic requirement in the process to be awarded the Fiduciary Practitioner of South Africa® (FPSA®) designation. Rising above the rest, UFS is not only proud to be the first South African accredited education partner of STEP, but to also be one of the only three universities globally with this accreditation. The Diploma puts graduates on the road to become full members of this global professional association as Trust and Estate Practitioners (TEP).

The South African public is always being encouraged to plan for the future in the form of investments. Different kinds of investments exist, and it is up to the individual to make the right decisions on the types of investments relevant to their purpose. The Postgraduate Diploma in Investment Planning provides individuals with the necessary academic qualification and skills to become experts in the field of investment planning, who will be able to provide leadership and expert advice within a multitude of financial and legal contexts.

The UFS Postgraduate Diploma in Estate Planning provides students with an academic qualification and the necessary skills to become experts in the field of estate planning. This programme intends to deliver practitioners who can act ethically and professionally, think analytically, communicate with relevant role-players in the industry, interact effectively with members of the public and evaluate and apply relevant information in legislation, literature and secondary data sources to specific practical scenarios.

Applications are open for all SFPL programmes. For more information, contact the School via email on SFPL_Appl@ufs.ac.za or visit the www.ufs.ac.za/sfpl

Profits in the pipeline

UIGC forges ahead with exciting initiatives

Dr John Mudau

Since calling out for partnerships with private-sector companies, Univen Innovative Growth Company (UIGC) has gone from strength to strength with an exciting array of new ventures and projects in the pipeline. These profitable initiatives are good news for students at the University of Venda, because the additional funds translate into more educational opportunities for the youth. Chief Executive Officer John Mudau updates us with UIGC's exciting progress.

To what extent has UIGC attracted further funding in the past years?
As the accounting officer I am happy with the performance of my team. When I joined the team five years ago, the revenue was just over R200 000. I am happy that today UIGC is a multi-million-rand company.

We have received a lot of support from both the government and entities of government especially the Sector Education and Training Authorities of South Africa (SETAs). Our partnership with the private sector on joint programme offerings was phenomenal. We are a point of reference in the sector on how a public institution can partner with the communities for the good of local people.

How has UIGC grown?
The growth of UIGC is currently characterised by the establishment of entities. The company can congratulate itself on having grown into a group/holding status. The company boasts of the following entities: Security (Pty) Ltd; UIGC Travel (Pty) Ltd; Garcle (Pty) Ltd and a 45% shareholding at the Barotta commercial farm. The growth in the entities is phenomenal. The company has created more than 400 sustainable, permanent jobs to date.

To what extent is UIGC succeeding in partnering with the private sector?
Our partnership with private-sector companies has yielded great results. Among the success stories are the following partnerships:

- UIGC and Duisend partnership. This resulted in a joint venture which is involved in processing and crushing aggregates in Lebowakgomo. The partnership has resulted in a waste rock crushing plant in Lebowakgomo via a joint venture with Duisend (Pty) Ltd. UIGC owns 70% of the entire plant.
- UIGC and NAC-SA-NPC. This partnership has resulted in a shareholding of a joint venture which won the bid to manage and run Polokwane International Airport from Gateway Airports Authority Limited (GAAL). This is an exciting multi–billion-rand project which is due to be rolled out in the 2020 financial year.
- Musina Spirulina plant. In partnership with the Musina Local Municipality UIGC has been given the right to revitalise and start production at of the spirulina projects. This is another great opportunity which is a product of the partnership between UIGC and other sectors of the economy.
- UIGC and Tshakhuma Barotta farm. The partnership between the Tshakhuma CPA and UIGC has taken another giant step. The partners have agreed to increase the participation of UIGC into farms owned by the Tshakhuma Community Trust.

This is a great step forward considering the good work done when revitalising the Barotta farm, which today is equal to any commercial farm in the area.

What makes UIGC an attractive investment?
We provide hope where none exists. Whenever you partner with us or invest in us, know that you are partnering with a company that provides hope to the many who are in distress. We use all our company sites as training sites for students from both the University of Venda and Vhembe TVET College. The profits generated from our businesses are used to fund students at the University of Venda, particularly those who are considered as the missing middle.

What are UIGC'S plans for the next year?
As Chief Executive Officer of the company I am honoured to be part of these developments and growth of the company. In the next five to 10 years the company aims to be able to provide 50% of the university budget as funding towards bursaries. It is our plan to provide funding for 50% of the students enrolled at the University of Venda regardless of the family background. We think the future looks bright.

Contacts:
Dr John Mudau (Chief Executive Officer)
Email: John.mudau@univen.ac.za

Khathutshelo Ligege
(Personal Assistant to CEO)
Email: Khathutshelo.ligege@univen.ac.za
015 962 8754 / 61

Building value

A financial planning business is more than a client list

Many financial planners who are owner-managers struggle to successfully sell their businesses when they decide to retire. Usually potential buyers are not willing to offer an attractive price unless the owner is prepared to sell to a product house that will simply direct all client assets into their products. The low valuations of financial planning practices relate to three main issues:

- Operational sustainability
- Type of income generated
- Breadth of client relationships.

Owner-managers are not great managers

I consulted to a business that bought a small financial planning "business" from a wonderful man who was warm, friendly and great with clients. After getting to understand his business, the buyers realised that he was so client-focused that his business processes were virtually non-existent. Every client was advised, serviced and charged in a unique way.

This was great for clients but terrible for the business.

After some coaxing, they agreed to implement some standardised ways of working with clients, data and staff.

It was at this point that I realised the scale of the problem. The financial planner was happy to sell his "business", but he was not happy to change … anything! The problems only worsened when we tried to get the planner to hire another financial planner within his business so that clients could get to meet more than one planner. This plan failed dismally as the original owner-manager was convinced that his clients only ever wanted to deal with him. Nevertheless, he was tired of doing all the work himself and wanted to do less. So, they forged ahead with the plan to hire additional financial planners.

The turnover of staff was horrendous. Every new planner resigned or left by mutual agreement. After the fifth person left, everyone realised that the original owner was never going to change. The buyers realised that they had bought a list of names but not a sustainable business. It has been many years since I was involved in that sorry affair, but I don't think anything has changed and the staff turnover continues.

Build a business not a client list

The core to building a sustainable financial planning business is the employment and retention of financial planners. Many owner-managed financial planning businesses struggle to recruit new financial planners. That is why many of these businesses consist of the founder and two or three administrative staff. This is not a sustainable business because the clients would leave if the owner were to die suddenly. Any prospective buyer would only own a list of names. That is why the recruitment and retention of financial planners is the key to building a sustainable enterprise. Most owner-manager financial planners make some fundamental errors in their recruitment strategies. They recruit young financial planners and tell them to "grow their own client base" or they offer them a commission structure but no salary.

In this regulatory environment, it is nearly impossible for young financial planners to start from scratch. My suggestion is to recruit high-quality financial planning graduates and get them to start servicing existing clients. For this role, a business owner can pay a proper monthly salary. This frees up the business owner to get more clients and it builds financial planning depth within the company. If the business owner recruits

people who focus on service rather than sales, it lifts the quality of the whole business. It also has the effect of creating more relationships to advisors within the business. If the owner-manager were to die suddenly, there is a better chance that clients will stay as they know there are other financial planners and they have a relationship with them already.

Focus on annuity income

I have not heard of any reputable buyers of financial planning businesses who are happy to pay a seller for a business that generates income via life assurance commission or other upfront commissions. Buyers want to purchase annuity income which has the least chance of disappearing once the seller has moved on. If owner-managers only want to focus on maximising income in the short term, they should be prepared to get very little value for their business when they sell as they don't really own a business!

Focus on operations

Once a business has more than two planners, operational capacity is key. It is important that all clients are serviced properly, and all planners have a similar approach to clients. It is pointless to get new clients if you're not servicing existing clients correctly. Referrals are still the best way to grow and this is only possible if you provide good service.

I suggest owner-managers pay their financial planners a market-related salary with bonuses that are linked to the performance of a team that is responsible for a group of clients. The greatest weighting in the bonus calculation should be given to client service. It is worth noting that new business spikes once financial planners focus on improving service.

Sustainability requires work by the founders and cannot simply be outsourced to new staff. I suggest owner managers take the time to make themselves obsolete! ■

Warren Ingram is a CPF professional and is a co-founder of Galileo Capital. He was the FPI Financial Planner of the Year in 2011.

Tipped for success

A tale of transformation and unprecedented achievement

From the dusty streets of Mahikeng to the boardrooms of Johannesburg, Kagisho Mahura, CFP® has made history as co-founder of Gradidge-Mahura, the first black-managed firm to be accredited as an FPI Approved Professional Practice™. Along with fellow co-founder Craig Gradidge, CFP®, Mahura has blazed a trail for black financial professionals and opened up the financial planning space for meaningful transformation. *Blue Chip* spoke to him to find out more about this remarkable journey.

Kagisho Mahura had already been thinking about establishing his own company when he bumped into Craig Gradidge in the corridors of Old Mutual in 2007. Having worked in the financial services sector since 1995 – learning the ropes of risk, life and disability, investment and marketing at Old Mutual, switching to marketing at Coronation, and returning briefly to Old Mutual in 2006 – Mahura already knew a thing or two about financial planning, so when he started looking for financial planners to advise him on his personal portfolio, he realised that the calibre of advice available to him was incommensurate with his needs as a black professional. Then he and Gradidge discussed why the public was not investing in public BEE deals that were happening at the time like MTN Asonge and MultiChoice's Phuthuma Nathi, even though they represented great value.

"I just couldn't understand why only some 85 000 people subscribed for what at the time was quite a deep discount on the MTN share – but we quickly realised that people were not investing not because they didn't want to but because they just didn't understand how the deals actually worked," says Mahura. From the combination of these two insights, Gradidge Mahura was conceived.

"We were part of the growing black professional market, and we knew that there were not really people who were speaking to the needs of that particular market. We also knew that in order to get there, we had to get into the market and really bring different forms of advice to what was then a growing black professional market," Mahura explains.

Client-centric values

What set Gradidge-Mahura apart from the very beginning was their determination to put the client at the centre of the business.

"Our first value that we wrote down is we are never going to do anything that is not good for the client. One of the first principles that we applied was that we were never going to sell any up-front-commission investment products to our clients – retirement annuities that people are locked into for 27 years and people get great upfront commissions because intrinsically those products are terrible for our clients. People still sell them to this day," says Mahura.

"The second value arose from a major problem that most people had, namely that you see a financial advisor once and you never see them again. We decided to create an environment where our clients get to interact with us – even if it's not on a level where we are talking specifically about their portfolio, we will create avenues where we will see them often."

Beyond inviting clients to attend investment conferences and listen to commentators talk shop, Gradidge-Mahura devises different touch points such as golf days, spa days and family days where they can spend an entire day taking care of clients, partners and children included. Of course, these events do not replace the critical annual investment portfolio review.

"The third value," Mahura continues, "is that we are never going to sell products – we want to give advice. We are very analysis driven, so very often we see our clients three or four times before they sign anything on the dotted line. We gather information, we analyse, we call back and talk to the client, we change their perspective and then only go on to implement. Those three key areas have been the places where we've done things differently."

In addition to these core values, Gradidge-Mahura has made a point of building its knowledge of BEE shares and related products into its advice process for the black professional market.

"Today, if anybody wanted commentary around public BEE deals, they would normally phone Gradidge-Mahura Investments. Craig Gradidge in particular has really created a niche for himself in terms of knowledge of those products in the market."

Independence and professionalism

Being independent is a great help in putting clients first. "Throughout the last 11 years, the one thing we said we will never compromise on is our independence, no matter what kind of deals we find ourselves in. Because we are not driven by allegiance to any one company, we always go into the market to give our clients the best deal that is available out there for them.

It also allows us to do what we call best of breed, where we combine different products from different companies for the best solution.

Sometimes the investment may be great on one platform but the risk is better on another platform – so we combine all of those elements to give the client the best solution. Then of course we manage all of that on behalf of the client."

The promise of quality advice is backed up by professional post-graduate qualifications of the highest calibre. "Craig, wealth manager Wynand Gouws and myself are MBA graduates and CFP® professionals, while wealth manager Phala Modise, CFP® and our risk specialist Virath Juggai, CFP® both have an Advanced Diploma in Financial Planning – so the qualifications of our members is much higher than the industry average. That, coupled that with the fact that the members have more than 20 years' experience, is a huge advantage to our clients because you are not only getting highly qualified advisors with a great knowledge base, you're getting experienced advisors that have been in the market for a long time."

Unprecedented achievements

This combination of knowledge, professionalism and experience secured for Gradidge-Mahura an accolade of which Mahura is justly proud – being accredited by the Financial Planning Institute of Southern Africa (FPI) as a FPI Approved Professional Practice™.

"The accreditation was a huge feather in our cap. The FPI is the custodian of financial planning in the country and does incredible due diligence to give you that accreditation. They have only accredited 15 companies out of over 5 000 financial planning institutions across the country, and we are the only black-managed business out of those 15," says Mahura.

"For a body like the FPI to come into our business, scrutinise us to the level that they did and decide that we deliver the goods is a huge boost of confidence for us, for our staff and for people looking to work in the business – and we have been able to maintain the accreditation since 2016. It has a huge impact on our marketing side to be able to give confidence to our clients. On the staff side, it was a huge positive, considering the amount of work that they do to give the service and quality of advice that they are actually giving to our clients. Now more importantly it puts pressure on us to continue to deliver, which means we have to keep up the levels of excellence that we have been giving."

Capping this achievement, Gradidge-Mahura celebrated its 10th birthday on 25 June 2018 with four major awards at the annual Top Private Banks & Wealth Managers Survey: the overall Top Wealth Manager award, the People's Choice award (for the second year running) and the overall award in the Passive Lump Sum Investor and Young Professional categories.

"We were competing against the top private wealth managers and top private banks in the country.

This was the first time in the history of the awards that a small wealth management boutique won the overall award of Top Wealth Manager," Mahura says. A third achievement of note is that Gradidge-Mahura has been awarded the FAIS Seal of Compliance by Masthead, the national supplier of risk management and compliance services to financial advisors and other licensed financial services providers.

Kagisho Mahura

This significant accolade is awarded for consistent compliance audit scores of 85% or more.

Triple diversification

The investment philosophy at Gradidge-Mahura is strongly based on the principle of diversification. "We are not asset managers, we are wealth managers – we advise our clients at a global level. Our principle is always that the client's money must be diversified in three ways. First, it must be diversified across currencies onshore and offshore, so all of our clients' portfolios have a standard component of money in the country and money outside the country. Second, it is going to be diversified across asset classes, so you will find a little bit of cash, bonds, property and equities. "Third, it will be diversified across managers. You are never going to find any of your money or a lot of it sitting with one particular asset manager – we will combine different asset managers to manage our clients' portfolios. For really high net-worth clients, we will add a lot of alternatives into their space, so we will put a little bit of private equity, a little bit of hedge funds, a little bit of Section12J into their portfolios. At the end of the day, our clients' portfolios are diversified across different areas, markets and currencies but also still paying allegiance to the nature of their risk profile. If you're a conservative investor, we will tweak the asset allocation to be a little less risk averse, whereas the higher-risk investors will get the same diversification but different proportions skewed towards the riskier assets. The second pillar of the company's philosophy is capital preservation. "We don't take risks with our clients' money for the sake of taking risks; we want to make sure that our clients don't lose money unnecessarily.

"We would rather tweak a client's portfolio to make sure that there's a level of conservatism in it to protect them on the downside than chase the upside at all cost," says Mahura.

Managing the managers

Because asset allocation is done at a manager level, due diligence on the asset managers is critically important.

"We try to pick asset managers that are the least correlated as possible in terms of strategy. We look at how managers achieve their returns and we try to piece together in our portfolios those that get the same results without necessarily following the same process," says Mahura.

"We have created our own model portfolios with discretionary mandates that we are able to change without the client having to sign a piece of paper any more. We have a monthly portfolio committee meeting where we analyse those managers quite deeply. We look at their deviations from their benchmarks and carry out attribution analysis on where they are making their returns from. We do interviews with asset managers whenever it is necessary.

"We work with a company called Analytics Consulting which helps us with the analysis for our model portfolios."

TIP at the top

A new and exciting role that Mahura finds himself in is that of director of Transformation Investment Portfolio (TIP) One, which listed on the ZAR X stock exchange in November with the stated aim of enabling investors "to easily access the transformation investments asset class through a listed empowerment investment holding company that invests in B-BBEE schemes that own stakes in listed companies".

"The idea behind TIP One is really to get an aggregation of all these BEE shares and create a little bit of liquidity. One of the issues that investors have had with BEE shares in the past is that because you are locked in for a certain period of time, you end up with no liquidity. Because of that liquidity constraint, the price is often pushed down quite a bit. TIP One is going to change the public BEE space because the underlying portfolio that investors are buying into will be diversified," Mahura concludes. ■

Avoid value destruction

Investment trends to watch out for in 2020


Andrew Duvenage, Managing Director at NFB Private Wealth Management

South Africa's declining fiscal position is likely to impact all South Africans in the year ahead. According to the South African Reserve Bank's Financial Stability Review released at the end of November 2019, the country's worsening fiscal position has been exacerbated by struggling state-owned entities such as Eskom and SAA, which is pushing up contingent liabilities. The result, says the Reserve Bank, will be increased taxes, lower corporate and household income and investment, and a protracted period of low economic growth.

A sluggish economy and ballooning government debt makes it highly likely that tax payers, particularly high-net-worth individuals, should expect increased personal tax pressure in 2020. In order to minimise the impact of these tax increases, it will be essential to utilise all possible strategies to optimise individual tax positions via a combination of retirement products, tax-free investments, Section 12J investments and endowments. Furthermore, use of strategies like Section 42 transfers, where applicable, could be considered. In addition to this, estate planning is key.

The rand, traditionally one of the most volatile currencies globally, remains vulnerable in the current environment. Somewhat ironically, further credit downgrades – which are looking increasingly likely – are only part of the problem for South Africa. While a full downgrade will cause downward pressure on the currency as index-based bond funds become forced sellers of the ZAR, a downgrade is potentially the canary in the mineshaft, pointing towards bigger structural issues. A massive budget deficit coupled with a lack of any decisive action taken by government makes it possible that South Africa is heading towards an IMF bailout.

This will pose a significantly bigger problem to the country than a credit downgrade, as the terms and conditions associated with a bailout are imposed on the country.

Given that neither the Eskom behemoth nor any other state-owned entity has been sufficiently – and decisively – dealt with, there will be continue to be a risk around rand weakness. As such, investment portfolios should be structured to mitigate this risk.

A further trend to watch out for in the year ahead is global geopolitical events including the US-China trade war, Brexit, US-Iranian tensions which threaten to destabilise the Middle East, and a slowdown in global economic growth, among others. South Africans tend to easily become somewhat myopic about local problems, forgetting that the global investment arena is also currently very fluid. Global risk sentiment and, from a South African perspective, specifically sentiment towards emerging markets, is a powerful force.

Notwithstanding local developments, the global tide of money can change and this can influence a currency like the ZAR either positively or negatively. As such, it's a good idea for investors to be cautious of taking a binary position without factoring in macro influences, or considering their ability to absorb an outcome if their positioning proves to be wrong.

Poor investment portfolio returns for an extended period of time mean that many investors, particularly those close to retirement, are gravitating towards opposite ends of the risk spectrum, either to cash or to high-risk strategies. While a portion of cash should form part of a diversified portfolio, excessive allocations expose investors to the risk of tax inefficiency and sub-inflationary returns, particularly with the prospect of interest rate cuts going forward.

Conversely, adopting high-risk strategies – whether intentionally or inadvertently – in order to generate higher returns, has to take downside risk and volatility into account. Given the uncertain nature of local and global economics, investors must consider whether they can absorb the volatility to which they are potentially exposing themselves. Our advice is always to adopt a more disciplined investment approach rather than deviating from your investment strategy in desperation (or fear), which all too often results in value destruction. Long-term investment principles continue to make more sense than knee-jerk emotional decisions.

As issues like asset prescription continue to concern investors, we're seeing more and more people accessing their retirement funds early in order to avoid prescription, and to simultaneously avoid the provisions of regulation 28 of the Pension Funds Act, specifically around limited offshore allocations. What investors need to be aware of is that this can influence their retirement provisions and as such, needs to be carefully considered. Accessing retirement products early is not necessarily a negative and may in certain instances make sense, but make sure clients understand the consequences, specifically around tax and the impact on long-term retirement planning.

Offshore investments have become the flavour of the year as investors seek to mitigate against uncertainty and low growth in the local market. However, not only are offshore investments complex, but global markets are fraught with their own set of risks. Many markets are trading at extended multiples as the world enters a lower growth period, and this is typically not supportive of equity markets. Add to this geopolitical issues and it is clear that offshore investing is not a one-way bet. Make sure clients understand the tax implications of offshore investments in 2020 and are cognisant of the risks prevalent in global markets, and that their offshore portfolios are structured with their risk tolerance in mind.

As a result of changing tax legislation coming into effect in 2020 regarding tax residency, financial emigration has come under the spotlight. It's important to bear in mind that financial emigration comes with its own complexities and tax implications making it more important than ever for investors to get good financial advice before deciding to embark on this route.

We're currently seeing significant investment flows towards international investments. Bear in mind that this enhances tax complexity and has consequences for estate planning, including ensuring that wills are correctly structured and lodged for different jurisdictions, and that issues such as SITUS and probate are understood.

As a longer-term trend, with a shrinking number of counters on most exchanges and evidence of money being made pre-listing, it's likely that private equity will become more retail orientated and will increasingly be included in portfolios.

It is at times like these when emotions run high. Fear and greed are the enemy of any investment strategy and at the moment, most people are operating in a heightened state of fear, fuelled by incessant bad news and elevated levels of uncertainty. It is within this heightened state of fear that investors are more likely to make poor investment decisions.

It is imperative to ensure that your clients understand the full implications of any decisions and don't fall victim to knee-jerk and fear-driven actions in order to avoid value destruction and to ensure that their investment portfolios are optimally structured.

Tracking performance

Indexed Balanced Funds – are they worth the low fees?

The media both locally and globally is constantly telling us how ETFs and index tracking products are the fastest-growing products out there. The narrative is that active managers have lost their way and because so few of them are able to outperform a market index over the long term, investors should give them a wide berth and only invest in index trackers.

While this may be true in many global markets, there are still many active South African managers who do manage to outperform and no more so than in the so-called balanced space or Multi-Asset High Equity unit trust category.

But these funds often come at quite a hefty price although we have seen a shift lower in fees over the years.

One should be careful however not to overlook the many passive or rules-based balanced funds now available as Reg 28 vehicles.

These funds tend to have a static asset allocation, maximum allowable equity exposure and materially lower fees than their active counterparts. All this and with no performance compromise. So how should you think about including them in a portfolio?

Below we've constructed three basic, but effective portfolios of South African Multi-Asset High Equity Funds. We simply used the average of the top quartile of funds over one, three and five years up to end September 2019; the average fund over one, three and five years up to end September 2019 and the Satrix Balanced Index Fund in the constructed portfolios.

Years	33% Top quartile average 34% Average 33% Satrix Balanced Index	50% Top quartile 50% Average	50% Top quartile average 50% Satrix Balanced Index
1	3.96%	3.61%	4.95%
3	5.25%	4.75%	5.99%
5	5.99%	5.83%	6.51%
Years	**TER**	**TER**	**TER**
1	1.18%	1.54%	0.96%
3	1.17%	1.52%	0.94%
5	1.19%	1.55%	0.94%

Source: Satrix Managers, Morningstar data periods to end 30 September 2019.

The results clearly show that by including the Satrix Balanced Index Fund in a portfolio of actively managed peers, you are not only able to reduce costs, but in fact performance is enhanced too. A common misperception when using indexed balanced funds is that there must necessarily be a performance compromise. This is in fact not the case. As the name implies, the Satrix Balanced Index fund is an index tracking Reg 28 balanced fund. It is a well-diversified portfolio which invests across asset classes (ie equities, bonds, property and cash) both locally and globally. This means you don't have to decide which passive fund to invest in, the fund does it for you.

The fund invests in local assets (75%) and international assets (25%); 70% of the fund is invested in equities (49% domestic and 21% international), giving it a moderate-aggressive risk profile.

What really differentiates it from other rules-based balanced funds is the local equity exposure (49%) of the fund which tracks the Satrix SmartCore™ Index.

The Satrix SmartCore™ Index is designed to offer a diversified equity portfolio with the objective to enhance the returns relative to the FTSE/JSE Capped SWIX Index. This is achieved by targeting stocks with positive exposures to multiple desired attributes, such as Momentum, Value and Quality. These attributes are rewarded drivers of returns, and when combined using a multi-factor approach, offers strong overall exposure to the desired risk factors, while simultaneously mitigating unintended exposures to unrewarded risk factors.

So next time you are building a portfolio for a client it may be worth your while to include a rules-based balanced fund. The numbers really would support this decision.

Kingsley Williams, CIO, Satrix

For further information related to the applicable tracking error and the performance of a specific fund please refer to the MDD of the fund on Satrix.co.za website.