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

MoneyMarketing

First for the professional personal financial adviser

Should retirement savings be used as a piggy bank?

JANICE ROBERTS
Editor, Money*Marketing*

Should South Africans be able to get their hands on a large chunk of the money in their pension funds at any time and for any purpose? The opposition Democratic Alliance thinks so, and in late September, it announced that it would be tabling a private member's Bill to amend the Pension Funds Act.

Martin Teubes, Head: Consultants and Actuaries, Alexander Forbes

DA MP, Dr Dion George, explains that his party's aim is to enable pension fund members to access a percentage of their pension fund before retirement as guarantee for a loan.

"The unfortunate outbreak of COVID-19 in South Africa has dealt a crippling blow to our country's economy and has left many South African families in financial ruin. A lifeline such as this would save many families."

Section 19 of the Pension Funds Act, 1956 currently enables pension fund members to access a loan, where the pension fund asset acts as security for such a loan, in order to obtain a home mortgage. The Act, however, does not permit pension fund members to obtain a loan for any other purpose.

"The draft Bill therefore seeks to amend the Act in order to allow for pension fund members to obtain a loan, secured by a guarantee from a registered pension fund, to alleviate financial pressure during the COVID-19 emergency or any other emergency similar to the coronavirus pandemic," George says.

The DA's draft Bill provides for a registered pension fund to offer a guarantee to a pension fund member of a maximum of 75% of their share in the value of the fund.

"By enabling a member to access a pension-backed loan, that member will be able to leverage their pension fund investment prior to their retirement date, without eroding their provision for eventual retirement," George adds. "Lending institutions will be enabled to offer loans to pension fund members at competitive interest rates and over extended or deferred payment periods, given that the loan is fully guaranteed."

Industry experts are less than enthusiastic about the draft bill. Rowan Burger, Head of Strategy at Momentum Investments, agrees that COVID-19 has highlighted the dire state of many people's finances. However, he doesn't think that allowing funds to offer loans on benefits will solve this problem.

"While we are sympathetic to the needs of our consumers, retirement funds were designed for long-term savings. They cannot easily cater for short-term financial emergencies. Tax-free savings funds were introduced to fill this gap, allowing a significant tax incentive with the ability to access the cash in times of need," Burger told Money*Marketing*.

Rowan Burger, Head: Strategy, Momentum Investments

At present, when a fund uses its assets to provide a loan directly, the fund as loan provider needs to register in terms of the National Credit Act (NCA) and comply with those terms.

In terms of the Pension Funds Act, these loans may only be extended for housing purposes (purchases, renovations). "As the NCA registration is onerous, most funds simply contract with a bank (who is registered) and then the fund balance may be used as surety (or guarantee) for the loan."

Continued on page 3

Continued from page 1

The DA's proposal to drop the requirement that the loan is for housing purposes and allow it for any use is concerning.

"The loan must be repaid prior to retirement, or the outstanding balance is settled once the benefit becomes payable (normally on termination of employment). Many in the industry are worried that the proposal will lead to assets being encashed due to these loan arrangements. Should the employee default, the bank may claim settlement from the fund benefit. This would be unlikely while the employee continues to receive a salary."

Furthermore, Burger says that many new small loans may be applied for by members for whatever need they may have, rather than building the discipline to save before they spend.

"The reality is that the NCA provisions are strict. Members approach funds generally after being declined by banks – and then are declined by funds whose underlying bank provider applies the same NCA lending rules and underwriting. The consequence of the legislation without any change to the NCA will then be a significant expectation from members of access to loans with an equal number of rejections of the loans. This will lead to frustrated members and unnecessary expenditure on the part of funds, particularly because there would be many small applications for help."

Burger believes that it is important for members to seek financial planning advice in order to craft a holistic investment plan that looks to solve short- and long-term needs. "The reality is that a plan should build up short-term relief first. As these plans generally do not carry incentives for advisers to sell or are not part of a compulsory arrangement provided by an employer, savings go to longer-term needs without addressing the immediate ones."

Martin Teubes, Head of Consultants and Actuaries at Alexander Forbes, is equally unimpressed with the DA's plan, but he does acknowledge the depth of financial stress that COVID-19 and the lockdown has placed on many South Africans.

"We don't want to be seen as unsympathetic with any position that we take, but our position right now is to act in the best interest of the fund," Teubes says. "The retirement fund is a long-term savings vehicle. When we design funds and when we model outcomes for retirement funds, we structure them on the basis of a 35- to 40-years savings period. If there is any disruption during that period, the objective won't be achieved. You have to keep on contributing and you should not cash in your benefits somewhere along the way, otherwise you're not going to be able to retire."

While, presently, pension fund members may use their fund as security to obtain a home loan, it has to be remembered that this is a long-term issue, Teubes says. "Over the long term, you repay that loan; you end up with the house and you end up not affecting your fund credit."

RETIREMENT FUNDS WERE DESIGNED FOR LONG-TERM SAVINGS

He believes that those with bad budgeting habits could use the money for consumption funding and not necessarily emergency relief.

"I assume that the individuals who would want to take out this sort of loan are in financial distress, and when they do take the loan, there's interest to be paid, adding to their financial hardship."

The situation would also present difficulties for trustees because they have a fiduciary responsibility to protect the fund as well as its members. "We have more than 900 000 active members in our funds and imagine if just half of those members wanted a loan. How would trustees process this amount of loan applications? What rules would they apply for the levels of distress? Who gets a loan and who doesn't?"

Money*Marketing* understands that the draft Bill is to be put before parliament early next year. Comment from members of the Association for Savings and Investment South Africa has been submitted to the DA. It is understood that trade union federation, Cosatu, and the Banking Association of SA support the draft Bill.

WANT TO STAY INFORMED? FOLLOW US!
Follow @MMMagza on Twitter and @MoneyMarketingSA on Facebook and Linkedin.

EDITOR'S NOTE

I was unable to include an overview of both SA's Medium Term Budget Policy Statement and the US election in this edition of Money*Marketing* due to our print deadline. Fortunately, our website will carry this information. Placing up-to-date, informative content in our print editions and on our website is something to which I'm deeply committed. Having a passion for both current affairs and market moving news drives me throughout my busiest of days – and it's always been that way.

I was alone in the newsroom of the South African Press Association on New Year's Day in 2009. Somebody had to be there in case anything important happened. Around mid-morning, I received a call from the family of Helen Suzman, informing me that the 91-year-old, anti-apartheid activist and former politician had died in her sleep earlier that day. It was important that the country be told of her passing. Back then, the SA Press Association was the only round-the-clock newswire in the country. We all had to take turns at doing the midnight, weekend and public holiday shifts. There was an understanding that, if news broke during those times, that we would contact journalists from other newsrooms to inform them.

I was deeply saddened about Suzman's death, but I immediately set to work, putting one-liners on the newswire about her passing and informing other news organisations.


Congratulating Helen Suzman at her 90th birthday party.

At lunchtime, I was joined in the newsroom by an intern who assisted in putting Suzman's obituary out. It had been written quite a few years previously by one of my parliamentary colleagues. I had only to edit it – newsrooms were very organised places back then. When the tributes to Suzman came streaming in, we worked frenetically until the journalist on the evening shift arrived.

News, both good and bad, underlines that there is so much more to life than just us, and that being informed and educated is vital. That's why I'll always be passionate about my job.

Janice
janice.roberts@newmedia.co.za
@MMMagza
www.moneymarketing.co.za

Subscribe to our NEWSLETTER
bit.ly/2XzZiMV

PROFILE

CHARLES VAN DER MERWE
CEO, CREDO WEALTH

How did you get involved in financial services – was it something you always wanted to do?

As a boy growing up in Upington, my earliest ambition was to grow grapes along the Orange River. Obviously, that changed when I was a student at Stellenbosch, and my interest in numbers led me down the accountancy route. It was when I was doing my articles with PWC in Johannesburg that I was really exposed to banking and investments. Deciding that this was my chosen direction, I later joined Standard Bank, and from then on, I was involved full-time in the financial services industry. So no, I didn't always know that I wanted to work in financial services, but I am very happy with the choices I've made to get me here.

What was your first investment – and do you still have it?

My first investment was a property in Johannesburg because I liked the idea of an asset-backed security with regular income and a decent return. I no longer have it: the house was sold as part of a move to London to work for JPMorgan. I made a decent return on that sale, though, and used the proceeds to buy into a new adventure. In this case, the "new" was the exciting opportunity to be part of the City, where I found a South African 'can do' attitude goes far. Nothing beats an early morning coffee in historic London, feeling the buzz of the city coming to life.

What have been your best – and worst – financial moments?

The worst moment was being a DIY trader during the dotcom period – and subsequently not investing in those tech companies that managed to survive. What did I learn? Running a financial business is different from being an investment guru. I realised that I needed to play to my strengths and delegate investment decisions to the experts to manage. I have had no regrets since learning this life lesson back in 2000. The best moments have been since I joined Credo.

What do you tell investors who are worried about their investments due to SA's current economic environment and COVID-19?

South Africans have always understood the need to diversify internationally, if only to gain exposure to different markets. Most of our in clients in South Africa work with Credo to solve that exact problem. I would offer a bullish view over the longer term. I firmly believe that the largest and best companies in the world will continue to adapt and thrive in a post-COVID-19 environment. Stay invested!

What's the best book on investing that you've ever read – and why would you recommend it to others?

I often discuss this with Deon Gouws, our Chief Investment Officer, because many of the books out there seem to contradict each other! *Fooled by Randomness* by Nassim Taleb is highly recommended, as it debunks many of the myths that are prevalent in the world of investing. In a line, the message of the book is that one should pay scant regard to the opinions and forecasts put forward by commentators and strategists, as much of it really boils down to noise. Again, stay invested!

"I FIRMLY BELIEVE THAT THE LARGEST AND BEST COMPANIES IN THE WORLD WILL CONTINUE TO ADAPT AND THRIVE IN A POST-COVID-19 ENVIRONMENT

VERY BRIEFLY

Roy Ettlinger, the CEO of Credo Wealth, has announced that after 16 years in the role, he is stepping down and handing over to his successor Charles van der Merwe. "This has been part of Credo's long-term planning, which should ensure that the succession will be seamless," Ettinger says. Van der Merwe has been with the group since 2013, serving as the Managing Director of the Wealth Solutions business. Ettinger adds that in February 2005, when he took on the role of CEO, Credo had around £200m of Assets under Administration, which today has grown to circa £3.75bn. He will be taking on the role of Chairman and will continue working for the group. "My new position will allow me to have an even greater focus on the Credo Growth Fund, which I have managed since inception in July 2017, as well as managing clients, which I have always enjoyed doing."

Tanya van Lill

The Southern African Venture Capital and Private Equity Association (SAVCA) – the industry body for private equity and venture capital in Southern Africa – welcomes two new directors to its board, following the virtual SAVCA Annual General Meeting (AGM) held last month. SAVCA CEO, Tanya van Lill, says that the new appointees – Natalie Kolbe, Partner at Actis, and Sthembile Nkabinde, Founder and CEO of Khulasande Capital – are both leading industry professionals who have been elected by their peers to continue driving the association's strategic objectives. "Natalie and Sthembile each bring with them a unique skill set that will complement those of our existing board members, while bringing new perspectives and ideas to the table. Notably, the new board composition includes seven women and six men – six black and seven white members – which mirrors the advances being made by the broader industry within the area of transformation."

Dephine Berquand

Allianz Global Corporate & Specialty SE (AGCS), the corporate insurance carrier of Allianz Group, has announced the appointment of Delphine Berquand as Regional Head of Global Client Service and Multinational for Mediterranean & Africa and IberoLatam effective October 19, 2020. Berquand is based in Paris and will report to AGCS Global Head of Multinational, Nigel Leppit, and AGCS Regional Managing Director for Mediterranean & Africa, Corinne Cipière.

JUANITA VAN DER MERWE
Head: Tax Compliance,
AJM Tax

Headaches for taxpayers using pre-populated assessments

COVID-19 tax relief has been well received by businesses and individuals, and innovations by the South African Revenue Service (SARS) to digitise many services to ease the compliance burden is a step in the right direction. But a rising tide of disputes with SARS also points to many difficulties on the ground for people who now face unexpected penalties through no fault of their own.

For instance, many taxpayers would have received notifications from SARS in July of automatic assessments issued in relation to their 2020 year of assessment, indicating amounts due, or to be refunded. Yet we have seen multiple instances where the automatic assessments contain incorrect and incomplete information.

For instance, the system is not coded properly for interest exemptions as relates to non-residents, so these amounts are pre-populated as normal SA taxable income. This cannot be deleted as these fields are pre-populated – so these taxpayers now cannot claim the exemption. This assumption was supposed to have been made available, with the result that the omission is causing massive headaches.

One of the other significant errors we have noted, which results in significant undue tax refunds, is where retirement funds have been transferred to other approved funds. SARS now regards those transfers as an additional contribution to a retirement fund, in respect of which a deduction is allowable. This is clearly a processing error, which results in an undue benefit to which taxpayers are not entitled. For example, someone withdraws R100 000 from one retirement fund to reinvest in

WE HAVE SEEN MULTIPLE INSTANCES WHERE THE AUTOMATIC ASSESSMENTS CONTAIN INCORRECT AND INCOMPLETE INFORMATION

another investment company – this is not taxable and there is no deduction. The taxpayer extracts the R100 000 and reinvests, only to see the R100 000 as a deduction on their pre-populated return. They then think they received a R20 000 refund and accept the assessment.

Furthermore, the automatic assessments do not take into account other sources of income that third parties have not provided to SARS, or deductions/allowances that taxpayers are entitled to and of which SARS currently has no record.

The problem is these pre-populated assessments are not providing enough detail and are presented as summaries, which many taxpayers are incorrectly accepting.

Abuse of the process by certain taxpayers is, of course, a concern if they try and use the mechanism to not declare tax. This is never recommended and will result in penalties. Taxpayers need to ensure they do proper 'hygiene' checks, as failures now could come back to bite them later. For instance, we are seeing how those wanting to leave SA need tax clearance, only to find they have missed returns in the past and now sit with administrative penalties. Remember, penalties for late submissions range from R250 to R16 000 for being in default for one month, up to a total of 36 months.

We have, as a result, advised all our clients not to accept automatic assessments at face value and to ensure that a proper overview of the income tax return is undertaken before final submission.

Another major area leading to disputes is VAT, and the fact that refunds were not expedited as expected. Numerous cases to have refunds released have been referred to the Tax Ombud.

We are even aware of some foreign investment applications done in January that are not yet finalised.

Resolving these disputes is not easy – the Tax Ombud is an important step, but it is clear referrals are mounting, and we often see these case-by-case assessments being postponed. Unfortunately, most people do not have the time and resources to approach the High Court – and that is in itself a lengthy process.

The rise in tax uncertainty is leading to long waits at SARS call centres. Taxpayers facing these problems – or their advisers – are phoning SARS and are having to wait for hours, only to be told the problem is being attended to, but then not receiving a call back.

It is all highly frustrating and a better solution is needed. At a minimum, SARS should be proactively fixing pre-populated errors and not leaving it all to taxpayers, under threat of penalty. An improved approach to dealing with call-ins is desperately needed as each case is different and requires a follow-up. By limiting unnecessary disputes, SARS will then be able to focus on proper cases of genuine abuse by a taxpayer.

FRANCOIS DU TOIT
Founder, PROpulsion Learning and Technology

Inaugural Financial Planning Summit 'well organised and run to near perfection'

Experts and industry specialists from South Africa and across the globe brought their best content and insights to the discussions.

Our inboxes and lives have been invaded by virtual seminars, webinars, and meetings of all kinds. We quickly reached a point where it felt like it was all just 'more of the same' – an overload of information and very little context or information on how to apply the relevant aspects to our financial planning businesses.

And this is exactly what I expected when I saw the upcoming virtual Financial Planning Summit organised and hosted by The Collaborative Exchange, the same team that brings us events such as the Investment Forum, Meet the Managers and the Alternative Investments Forum.

> **THERE IS NOTHING OUT THERE THAT MATCHES THE VALUE OFFERED BY THE FINANCIAL PLANNING SUMMIT**

The agenda

My mind changed when I saw the agenda. The summit was run over three consecutive days, with each day having a clear theme and consisting of keynote and panel discussions. The summit ran for three hours each day, which I feel was a great approach. The sessions were mostly 30 minutes each, which meant that speakers and panellists got to the point quickly and only focused on the most important and relevant aspects of their topics.

The themes

The theme for each day was topical, relevant, and addressed issues that are on everyone's minds:

- Day 1: Global trends shaping financial planning post-COVID-19
- Day 2: The search for the ultimate financial planning model
- Day 3: Creating equity value for succession

A clear indication for me around the relevance of the themes and topics, was the level of engagement that took place during each session via the chat functionality.

The speakers and panellists

Experts and industry specialists from South Africa and across the globe brought their best content and insights to the discussions. A good mix of independent and tied advice players took part in the discussions, which led to some good debate.

The sessions that stood out for me personally were:

- Sebastian Dovey, an entrepreneur and global client experience strategist who spoke about *Winning and managing the client of the future. Are financial advisers ready for what wealth needs next?*
- Bronwyn Williams from Fluxtrends who discussed *The business of disruption: Futurenomics edition.*
- The panel discussion with Callie Nel (Discovery), Peter Hewett (Hewett Wealth) and Johan Minnie (Liberty) exploring the question: *What are the competing financial planning models available for advisers in SA today and which one is for me?* Ray Mhere from Momentum, who moderated the discussion, asked great questions, keeping panellists on their toes.
- The panel discussion with Kobus Kleyn (Kainos Wealth), Mark Jurgens (Jurgens Finance) and Mandy Stratfold (Precept Wealth Solutions) moderated by Zama Zulu Molai from RMI Investment Managers exploring the topic *Selling your practice and/or joining a national network*. What made this discussion so relevant for me is that we always talk about building a business of value with the aim of selling it one day at the right price. The panellists all did this, for different reasons – and with different approaches. To hear the practical side of selling a practice was invaluable.

A summary of the panels I moderated

I was fortunate to have moderated two of the panel discussions during the three-day summit.

The first was themed *Client Acquisition and Servicing Technology in Financial Advice Practices today.* The panel consisted of Emily Chen (Product Executive Wealth Management at Iress), Daniel Micali (Director at Silica), and Stuart Porrill (Executive: Partner Services at Adviceworx).

The main take-aways from this discussion were:

- Data is where the gold is. Great care must be taken in curating relevant information, maintaining the data, and protecting it. Some aspects of data can be automated through the likes of feeds and aggregators, while others are still being collected manually.
- Clients may need access to data for different reasons – to transact with or to track progress. Clients' needs are different and speaking directly to clients is critical in understanding what their expectations are from financial planning businesses.
- The right technology can create operational efficiencies not possible in traditional processes.
- There were mixed feelings with regards to client portals. Some of the panellists felt that client portals weren't of any value and that clients are not looking for these portals. Others felt that portals have the potential to enhance the overall client experience and value delivered. One thing is for sure: what clients experience in other industries will spill over to what they expect from financial services providers, no matter your size.
- Advisers and financial planning business owners do not take sufficient time to determine their business's needs and to research the different technologies at their disposal to enable efficient delivery of their value proposition. Too often, technology is chosen based on price and what others say, rather than a proper analysis of the business and a thorough due diligence process.
- There is no one system. Choosing different technologies that can integrate and speak to one another is key. But beware not to over-integrate. Keep it simple.

The second panel discussion that I moderated concerned *Valuation models for Financial Planning Practices in SA*. This panel consisted of Heiko Weidhase (CEO of the Efficient Group) and Peter Armitage (CEO of Anchor Capital).

The main take-aways from this discussion were:

- We start too late thinking about selling our practice or business.
- Many businesses are run as a lifestyle business, incorporating many of the owner's personal and lifestyle expenses in the business. This reduces the value of the business.
- To maximise the value of the business, owners should ideally separate themselves from the business and the brand.
- Predictable recurring revenue drives up the value. Upfront or once-off fees add no value to the business valuation.
- A strong team, solid and documented processes, and a track record of client retention are all key components to increase the value of a financial planning business.
- Although we like to refer to a multiple of revenue, these multiples vary widely based on all the above-mentioned factors.
- Blood, sweat, tears and sacrifices made by the business owner to build his or her business has no bearing or impact on the value.
- Be clear on wanting to build succession internally, or wanting to partner with someone external to ensure clients are looked after once you exit your business.
- Selling your practice or business is often a three- to four-year process.

What could be better?

- At the next summit, I'd like to see a couple of extra sessions around technology for financial planning.
- Although the agenda ran smoothly and everything happened on time, a five- to ten-minute break between sessions would have been good (apart from the comfort break).
- Each day could have closed with a summation of the day's events, encouraging reflection from participants.

To ensure the event ended on a high note, it would have been good to have had a motivational keynote address.

Overall experience

I must congratulate the organisers on an event that was well organised, run to near perfection, and for bringing a breath of fresh air to the industry and profession with their approach.

I must also say something about the technology used to run and deliver the summit. What an experience! Easy to navigate. Easy to interact. Easy to know where to go next. Clean interface. High-quality video production that works on any device. The best I have seen yet.

In my opinion, for the price of only R575 and CPD included, there is nothing out there that matches the value offered by the Financial Planning Summit.

Editor's note: I must agree with Francois that the Summit was hugely informative and a resounding success!

RIANA GROBLER
Compliance Officer,
Compli-Serve SA

Good governance tips in challenging times

Looking at the different responses to COVID-19 and the lockdown earlier this year has been interesting. While certain organisations were able to adapt, others struggled to come to terms with what needed to happen.

The Governing Body's role suddenly became key and everybody in the organisation would look to it for guidance and direction. Obviously, the size and complexity of an organisation plays an important role in how quickly the Governing Body is able to respond to unforeseen challenges, and any risks it may be faced with while focusing on short-, medium- and long-term goals. Having a proper governance system in place puts an organisation in a far better position to deal more effectively with unforeseen challenges and risks.

The King IV™ Report on Corporate Governance contains 16 Governance Principles that should be applied proportionately, depending on the type and complexity of an organisation. These principles are summarised below in no particular order, and can be used to assess the effectiveness of an organisation's Governing Body and whether a healthy governance system is indeed in place:

The Governing Body should…

1. Comprise appropriate skills, knowledge, experience, diversity, and objectivity to govern the organisation effectively.
2. Exercise effective leadership with suitable governance structures in place throughout the organisation.
3. Proactively identify and timeously respond to risks with clear goals, direction and steering of the organisation.
4. Set the direction for good corporate citizenship, including compliance with laws, policies and procedures, and ensure proper oversight of these.
5. Have suitable delegation structures to promote independent judgement and the effective discharge of its duties.
6. Delegate its functions in a clear and effective way to its management, who in return should be able to support the Governing Body's roles and responsibilities.
7. Have effective assurance functions and services for an effective control environment in place, e.g. risk, compliance, auditors, safety assessors, fraud examinators together with regulatory inspectors.
8. Balance the needs, interests and expectations of material stakeholders in the best interests of the organisation when executing its governance roles and responsibilities.
9. Govern compliance with applicable laws in a way to support the organisation as an ethical and good corporate citizen.
10. Govern risks in a way that supports the organisation in achieving its strategic objectives.
11. Govern technology and information in a way that supports the organisation in achieving its strategic objectives.
12. Ensure fair, responsible, and transparent remuneration structures are in place that promote the achievement of objectives and outcomes.
13. Set an example to lead ethically and effectively.
14. Ensure an ethical culture has been established throughout the organisation.
15. Have an annual integrated report to enable stakeholders to make an informed assessment of the organisation's performance and goals.
16. Perform an evaluation of the Governing Body's performance (including the Chair, members, and any committees).

Once the above Governance Principles are embedded in an organisation, it may not only lead to a healthy governance system but may also contribute to the success (or in some instances, survival) of an organisation during these challenging times.

Investing in the low-carbon transition in a volatile world

Deirdre Cooper, Co-Portfolio Manager, Ninety One Global Environment Fund, shares the how and why of investing in the low-carbon economy, especially in 2020, when the only constant is change.

Why invest in the low-carbon transition?

The world is currently only investing around 20% of the US$2-3tn needed annually to decarbonise the global economy. Because governments and private equity funds can't make up the shortfall by themselves, it's vital that listed companies spend significantly more on evolving to a lower-carbon model. Investors play a valuable role by engaging with listed businesses, as shareholders, to encourage them to accelerate spending on transitioning the global economy.

When we're doing our analysis, we look particularly closely at the 'carbon avoided' metric. This is a measure of the extent to which a company's products or services have a lower carbon footprint than the alternative. It's not a very well-known concept now, but we believe it is the best measure of how a company's products and services contribute to decarbonisation.

Decarbonisation fuels growth – and returns

There are three main pathways to a low-carbon future, and decarbonisation will fuel growth for businesses along the supply chains in each of those pathways.

- **Renewable energy:** Complete change in how we generate electricity, moving away from fossil fuels towards renewable energy, mainly wind and solar
- **Electrification:** Increased electrification, including an overhaul of ground transportation, making the fleet more autonomous and efficient, and ultimately moving away from internal combustion engines to self-driving electric vehicles powered by renewable energy
- **Resource efficiency:** More efficient use of resources, including achieving higher standards of efficiency in many domestic and industrial processes, and in buildings and appliances.

Consequently, the universe of decarbonisation-exposed companies is hugely diverse and spread across regions and sectors.

At Ninety One, we're repeatedly asked how we reconcile investing sustainably with our fiduciary goals. This, in our opinion, shows a misunderstanding that there needs to be a trade-off between the two. We believe you have a higher probability of outperforming if you understand a company in the context of all of its stakeholders – which is what a fundamental investment approach that incorporates sustainable investing helps you to do. Simply put, to fulfil your fiduciary duty to provide long-term returns to investors, we believe you absolutely have to understand a company's sustainability performance. We have been able to put this philosophy to the test through different market environments, and were recently recognised as Global Environment Fund of the Year by Environmental Finance for delivering both returns and impact.

Of course, sustainability data is generally less available in emerging markets so, as an active manager, the way to overcome this is to visit companies. We spend a lot of time with management teams in both emerging and developed countries, to try to understand companies from both a financial and a sustainability perspective.

That's worth doing, because a significant amount of the growth potential linked to decarbonisation resides in emerging markets. This is especially true for China, which supplies more of the world's solar panels and lithium-ion batteries than anyone else, and is a leader in several of the technologies that are key to decarbonisation.

Is there a trade-off between decarbonising and rebuilding the economy?

Interestingly, this year's market turmoil taught us two things about investing in decarbonisation.

First, we learned that the decarbonisation sector lends itself to diversification. In the brutal global equity sell-off in the first quarter of this year, the defensive utilities in our universe – that is, providers of renewable energy – did their risk-mitigating job, helping to offset the heavy falls in cyclically exposed companies, such as auto-sector businesses that are enabling the shift to electrified transport.

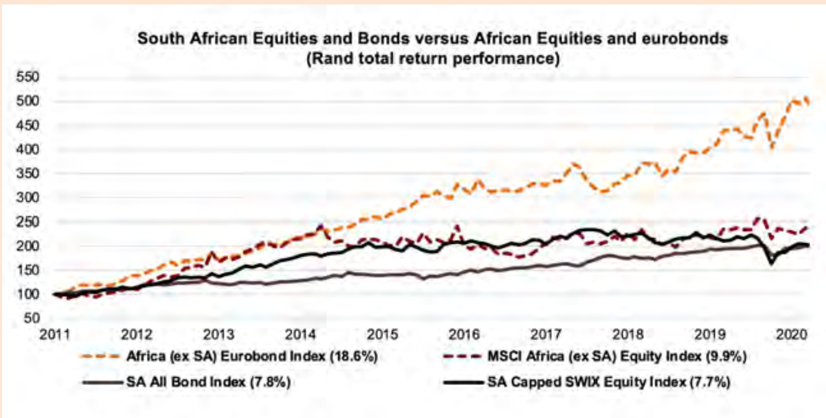
Secondly, it was encouraging to see the resilience of the businesses we invest in. The Ninety One Global Environment strategy launched in 2018, but as portfolio managers we have been holding many of the companies we are currently invested in for a long time. We were with them through the 2008 Global Financial Crisis, and their results in the immediate aftermath of the Q1 sell-off showed they are generally stronger this time around.

Even so, market conditions are extremely tough and a careful approach to building a portfolio is essential. As McKinsey has pointed out, the coronavirus and climate change are both 'risk multipliers', in that they exacerbate existing vulnerabilities in the economy. To us, that argues more than ever for an active and selective approach to investing in the decarbonisation growth opportunity – one that focuses on quality businesses with competitive advantages and strong, defensible market positions.

Deirdre Cooper, Co-Portfolio Manager, Ninety One Global Environment Fund

MICHAEL TITLEY
Business Development
Fund Manager,
Laurium Capital

Africa, so close, yet (perceived as) so far...



Source: Bloomberg. Per annum performance illustrated in the legend after each index.

In 2005, the former South African president, Thabo Mbeki, opened the doors for South African pension funds to invest 5% outside of our borders within the African continent. At the time, the limit on offshore investments was 15%, hence increasing one's non-SA portfolio allowance to 20% including the African allocation. A further increase to the offshore allowance was announced in the February 2018 budget speech. The African allowance was increased to 10% and the offshore allowance was increased from 25% to 30%. By definition, investors could effectively invest their full 40% non-South African SARB allowance in Africa.

Over the past decade, many investors have become increasingly bearish on the prospects of what South African risk assets can offer them in terms of real returns. Up until March this year, it was possible to generate real returns in the safe haven of cash, money market and income funds while yields exceeded inflation. This all changed in the past few months as the SARB cut interest rates by 3%, reducing the repo rate to 3.5%. Headline CPI last printed at the lower end of the 3% to 6% inflation band, well below the 4.5% inflation target sought by the SARB. Lower reported inflation, combined with the low growth environment in SA, could see interest rates held lower for longer.

THE AFRICAN CONTINENT REMAINS UNDER-RESEARCHED AND, IF YOU KNOW WHERE TO LOOK, FULL OF OPPORTUNITY AND POTENTIAL

So where does one find these real returns going forward? The South African listed equity market has morphed over the last decade into a reflection of international earnings rather than South African earnings. Based on the underlying earnings of the companies of the FTSE/JSE All Share Index, only 21% of the market is driven by South Africa, 26% by other emerging markets, 48% by the world's developed markets and, interestingly, only 3% by the rest of the African continent. This highlights the fact that one's investments offshore have a greater overlap with our overall equity market than investing in our neighbours.

African markets are by no means homogenous, nor are they efficient. We do understand that the African market is a volatile space, but the African continent remains under-researched and, if you know where to look, full of opportunity and potential. Many African markets still present frequent inefficiencies, offering profitable investment opportunities, especially in times of heightened volatility.

The general perception around African investments is one of volatility and illiquidity. Most Regulation 28 portfolios have held very little direct exposure to Africa since the introduction of the 5% and then 10% allowance. The chart above illustrates how the African Equity market and eurobond market have outperformed the SA equity and bond markets in Rand terms since the inception of the FTSE JSE Capped SWIX (TR) in 2011.

African-listed equities have experienced some very strong periods of outperformance over time (MSCI Africa ex-South Africa TR Index (ZAR) annualised 12% from November 2006 to November 2008, 31% annualised between December 2011 and December 2014, and almost 10% annualised from December 2016 to December 2019), but African markets do not go up in a straight line.

While right now poses an attractive entry point into the asset class, given current valuations and relatively resilient macro during COVID-19, investors need to have a long-term view and be able to handle some volatility along the way. In order to take advantage of the full opportunity in the inefficient African equity markets, the limited liquidity needs to be managed. This means limiting flows to at least monthly and incorporating the asset class in the long-term holdings portion of a strategy.

African eurobonds, on the other hand, have produced consistent returns for investors, both in USD and rand terms, with minimal volatility. African eurobonds are denominated in hard currency (USD/Euros) and settled daily via the Euroclear market in Europe. With up to $500m a day of trade and outstanding issuance of over $100bn spread across 20 different African countries' sovereigns, the African eurobond asset class offers a liquid, relatively low volatility access point to Africa. The Laurium Capital Africa USD Bond Prescient Fund is a daily traded unit trust that has generated 15.2% year-to-date (30 September 2020) and is currently yielding above 8% in US dollars. The Fund forms part of the 10% Africa allowance for Regulation 28 portfolios, offering investors a building block to diversify their portfolio and access additional international exposure.

African eurobonds offer significant diversification benefits to a South African multi-asset portfolio. As can be seen in the matrix below, the asset classes have low, if not negative, correlations to the likes of SA equity, bonds, cash and property. Based on historic performance, the inclusion of Africa most often results in lower overall volatility and higher returns over time.

There is a significant benefit of being a smaller, nimble boutique investment firm in Africa. Laurium Capital has developed what we call the 'alpha' narrative regarding investing on the continent. In essence, Africa's markets are incredibly inefficient, and in this inefficiency lies the prize. We are able to use our unique research and operational capabilities to fully capitalise on opportunities in the African markets. We have to be nimble and adaptable, which is something our larger competitors are unable to do. Our on-the-ground, deep research and tireless approach truly has made a high-yielding formula for investments into the great African opportunity.

	SA EQUITIES	SA BONDS	SA PROPERTY	SA CASH	FOREIGN EQUITIES	FOREIGN BONDS	FOREIGN CASH	AFRICA BONDS
SA EQUITIES								
SA BONDS	0.23							
SA PROPERTY	0.48	0.54						
SA CASH	-0.12	-0.06	-0.15					
FOREIGN EQUITIES	0.46	-0.33	0.00	-0.10				
FOREIGN BONDS	-0.16	-0.51	-0.40	-0.01	0.52			
FOREIGN CASH	-0.11	-0.15	0.07	0.11	-0.06	0.14		
AFRICA BONDS	**0.21**	**-0.12**	**0.13**	**-0.08**	**0.61**	**0.59**	**0.22**	

Source: Bloomberg. Period: 10 years to 31 July 2020

MoneyMarketing

OFFSHORE

SPECIAL SUPPLEMENT

DEON GOUWS
Chief Investment Officer,
Credo Wealth

BULLISH ABOUT THE LONGER TERM

An eventful year of investing is drawing to a close: after the most dramatic collapse in stock prices ever (as measured both by the speed and the extent of the March decline), we also saw the quickest recovery on record. Who would have ever expected such a rapid rise in share prices, given a global economy in effective shutdown?

The simplistic explanation for this turnaround is that equity prices reflect consensus 'guessing' about a future state of reality. Moreover, the stock market is but a narrow representation of the real economy. Only the largest and strongest businesses in the world are members of stock exchanges, and while some of them may suffer for an extended period in a post-coronavirus world, a company like Microsoft will get through the crisis with an even stronger business than before. And the Microsoft share price reflects this: it has been one of the strongest performing equities this year.

Also bear in mind the impact of the US Federal Reserve, which has been acting in financial markets as a buyer of last resort. How the role of this institution has evolved over time is a topic for another day, but suffice it to say that it has never been a good idea to fight the Fed.

Just as well then that we never try to 'time' the market at Credo; for if we did, chances are we might have also blinked near the bottom in March this year, trying to 'keep powder dry' until there was more clarity about the pandemic playing out, as well as its economic consequences. We are only human, after all, affected by the same psychology of greed and fear as others.

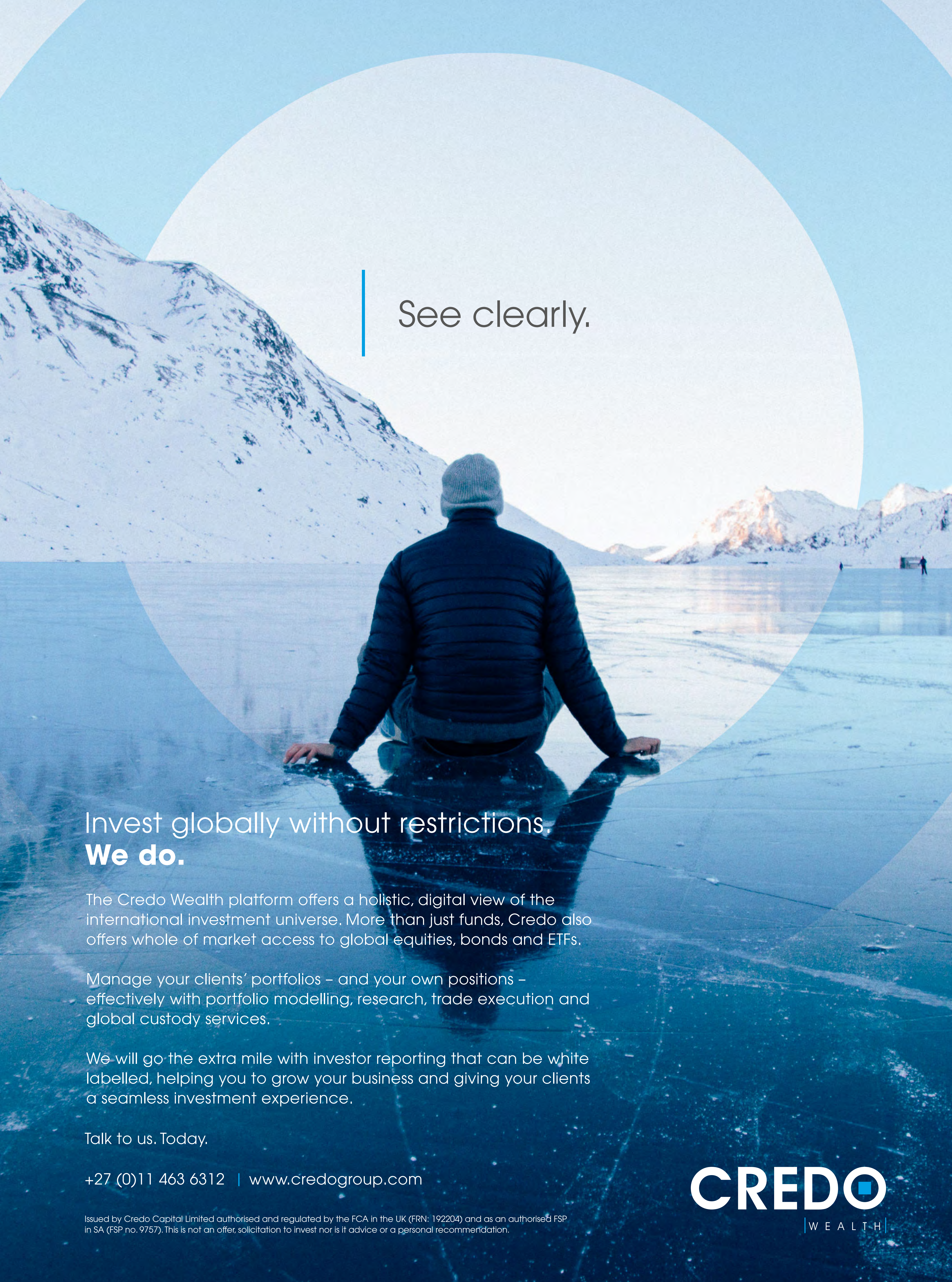
What next, you might ask. While I have no view about how stocks might perform over the next year or two, I will always be optimistic about the prospects for equities over a longer timeframe.

What does equity investing really mean, after all? Unless you're a day trader, buying a share should never be seen as a simple 'bet' on the price going up; as Warren Buffett famously teaches us, we should always think about investing in terms of acquiring a piece of a business.

Stock markets enable you to invest alongside the founders of the greatest businesses in the world: if you buy into their companies, you effectively get the likes of Bill Gates and Elon Musk (and the teams reporting to them) to work for you on a 24/7 basis. You thus stand to benefit from all their creativity – and foresight, and hunger, and drive, and long hours, and business acumen, and management skills.

By investing in equities, you back the forces of human endeavour, animal spirits, free markets, and entrepreneurship. Over time, this powerful cocktail will always lead to economic growth and positive returns (even if some drawdowns occur along the way).

Which is why I will always be bullish about the longer term.


See clearly.
Invest globally without restrictions.
We do.
The Credo Wealth platform offers a holistic, digital view of the international investment universe. More than just funds, Credo also offers whole of market access to global equities, bonds and ETFs.
Manage your clients' portfolios – and your own positions – effectively with portfolio modelling, research, trade execution and global custody services.
We will go the extra mile with investor reporting that can be white labelled, helping you to grow your business and giving your clients a seamless investment experience.
Talk to us. Today.
+27 (0)11 463 6312 | www.credogroup.com
CREDO
WEALTH
Issued by Credo Capital Limited authorised and regulated by the FCA in the UK (FRN: 192204) and as an authorised FSP in SA (FSP no. 9757). This is not an offer, solicitation to invest nor is it advice or a personal recommendation.

MARTIENS BARNARD
Marketing Actuary,
Momentum Investments

USING GLOBAL DIVERSIFICATION TO REDUCE RISK

Investing offshore can yield great benefits for an investor. Even though we expect this to be true, our mental biases make it difficult for us to do it. We tend to stick to what we know and ignore the benefits of spreading our eggs across the different baskets of foreign markets.

By only investing locally, an investor is missing out on a significant portion of the global economy. International markets give you access to countries with different currencies and economic cycles, as well as asset classes and industries that are not available locally. A good example of this is global technology and entertainment companies like Apple and Netflix.

In addition to these benefits, diversification is an important principle in reducing investment risk, and global diversification is a powerful tool to limit the effect of volatility on your investment portfolio.

By investing offshore, an investor also reduces emerging market risk. International investors are more likely to invest in emerging markets while the good news lasts, but can quickly disinvest when investment sentiment sours. This rapid change in demand and supply for shares and bonds brings about greater volatility in emerging markets, including South Africa.

If you or your clients are considering living abroad, be it permanently or only for a while, one of your greatest risks is rand depreciation. The growth on local investments may not be enough to make up for a weakening rand, and by having offshore investments, you can maintain the offshore currency's spending power.

> **SITUS TAX AND PROBATE COULD HAVE SIGNIFICANT CONSEQUENCES UPON DEATH OF THE INVESTOR WHEN THE INVESTMENT IS NOT STRUCTURED CORRECTLY**

If you are investing as a South African individual older than 18, you have a yearly discretionary allowance of R1m and an offshore investment allowance of R10m to exchange rand for foreign currency, which you can invest abroad directly.

Momentum Wealth International is a world-class platform that administers the International Endowment Option and the International Investment Option. The International Endowment Option provides South African investors with a tax-efficient insurance product to invest their money in. The International Investment Option is designed for investors who require maximum flexibility and easy access to their offshore investment portfolio whenever they need it.

There are also other ways to invest offshore without having to use your yearly offshore allowance, particularly for local trusts and companies, which do not have an offshore allowance. This can be done by investing rand into rand-denominated international funds, or funds denominated in a foreign currency (using the allowance of the investment company where you are investing, e.g. by using a local endowment to invest into dollar-denominated funds).

Getting to grips with offshore investing

The definition of an international finance centre (IFC) is a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy. Some of the well-known ones are Guernsey, Jersey, Hong Kong, Isle of Man, Luxembourg and Switzerland. International investment platforms conduct their business from these IFCs and the jurisdiction in question is an essential part of any due diligence when choosing an investment platform. The Momentum Wealth International platform is a Guernsey-based entity as opposed to a South African-based entity. The Guernsey jurisdiction offers an effective regulatory and fiscal framework, together with investor protection policies through trustee and nominee company structures.

Two additional aspects to keep in mind are situs tax and probate. Situs tax is a type of tax equivalent to South African estate duty. Probate is a procedure where a will is approved by a legal authority as the valid and last will of a deceased testator.

Situs tax and probate could have significant consequences upon the death of the investor when the investment is not structured correctly, e.g. situs tax of up to 40% can apply. For example, if an investor bought 53 shares in Amazon for $100 000 at the start of the year, the value would have grown to over $165 000 at the end of September.

If the investor died and situs tax of 40% was charged on the $165 000, the remaining value would be less than the original $100 000 invested. As part of your investment journey, it is imperative that you partner with the right experts who have a combination of global reach and local presence, as well as deep industry expertise across markets.

To cut through all the complexity, we have a world-class portal at momentum.co.za to address your offshore investment concerns and challenges. Visit our Global Matters portal for independent views on offshore investment advice, legislation and top-of-mind matters to structure your clients' investments and get them to their investment goals.

RIDING THE WAVES OF GLOBAL EQUITY MARKET VOLATILITY

In these turbulent markets, many investors are looking at broad, global benchmarks for their investments and to reduce their stock selection risk by tracking indices. According to research by Investec Structured Products, only 50% of global funds outperformed a Global Diversified World Price Only Index after fees, over the last five years to July.

In response, Investec Structured Products is launching a new investment, called Advanced Investment Holdings Limited. The investment offers participation across four of the world's leading markets by region, namely the US, Europe, Japan and emerging markets, but with 100% downside protection. The investment is linked to the S&P 500 (40%), the Eurostoxx 50 (30%), the Nikkei 225 (15%) and the MSCI Emerging Market Index (15%).

"The investment offers participation in all of the major global equity investment themes – from US tech to Asian tech, and from European recovery to commodity strength," says Japie Lubbe, Structured Products Consultant at Investec Bank.

One of the concerns for investors right now is the impact of second waves of COVID-19 on many of the world's leading economic regions, such as Europe and the US. Thanks to improved treatments, better testing and tracking methodologies, it's unlikely governments will have to resort to the draconian measures introduced earlier this year. However, the second wave has created enough doubt about the feasibility of a synchronised recovery across the world.

While equities have generally been the best option for investors over the long run, it is difficult to call, against an uneven backdrop, which geographies and sectors will offer the best returns. However, many investors will still prefer this asset class in an environment of very low prevailing and expected interest rates. A globally diversified equity portfolio is generally regarded as the best strategy over a long-term horizon. Diversification across geographies and sectors can also offer good risk-adjusted returns over the short and medium-term, but investors will still face some degree of volatility.

Advanced Investment Holdings Limited is a five-year investment, with 100% downside protection if the investor remains invested for the full term. The investment is in US dollars, with a minimum investment of $13 000.


BRAVE/6373/MOM/E
Your clients' investments
and the world we live in.
Why not grow
both together?

ERIK OLWAGEN
Head: Sales & Distribution, International Personal Banking, Standard Bank, Isle of Man

DIVERSIFY YOUR PORTFOLIO WITH DIRECT OFFSHORE INVESTMENT FUNDS

Investing offshore used to be a daunting endeavour suited to sophisticated investors. Adding an international flavour to any investment portfolio makes sense on many levels, and is far easier today than many investors may realise.

Gaining exposure to global markets is appealing largely because it helps to diversify risk and open up new growth opportunities. This move often makes most sense for investors who wish to preserve their wealth by moving assets into major global currencies that offer greater stability.

Considerations over why and when to invest offshore may differ according to personal circumstances, but generally boil down to one simple question: should I invest directly abroad, or through a locally-domiciled feeder fund that offers exposure to global markets?

There are some material differences between the two choices that need to be considered.

A feeder fund, sometimes called an asset swap fund, allows you to invest in global markets without needing to make foreign exchange purchases. So, although these funds invest in global markets and shares in the relevant foreign currency, your investment, reporting and returns are always in your local currency.

> **CONSIDERATIONS OVER WHY AND WHEN TO INVEST OFFSHORE MAY DIFFER ACCORDING TO PERSONAL CIRCUMSTANCES**

This means your performance is still directly linked to the fortunes of your local currency, and therefore still contains a greater element of risk than if you'd invested directly abroad.

If you choose to invest directly, your exposure to the vagaries of international exchange rates is limited to only when you transfer funds overseas, and then again if you repatriate your money. Depending on your local laws, you may also benefit from tax advantages as you might be taxed only on the investment gain, instead of the investment returns plus any currency gains.

Irrespective of the route you choose, it's always advisable to confer with a financial adviser or investment professional to explore the options that best suit your circumstances.

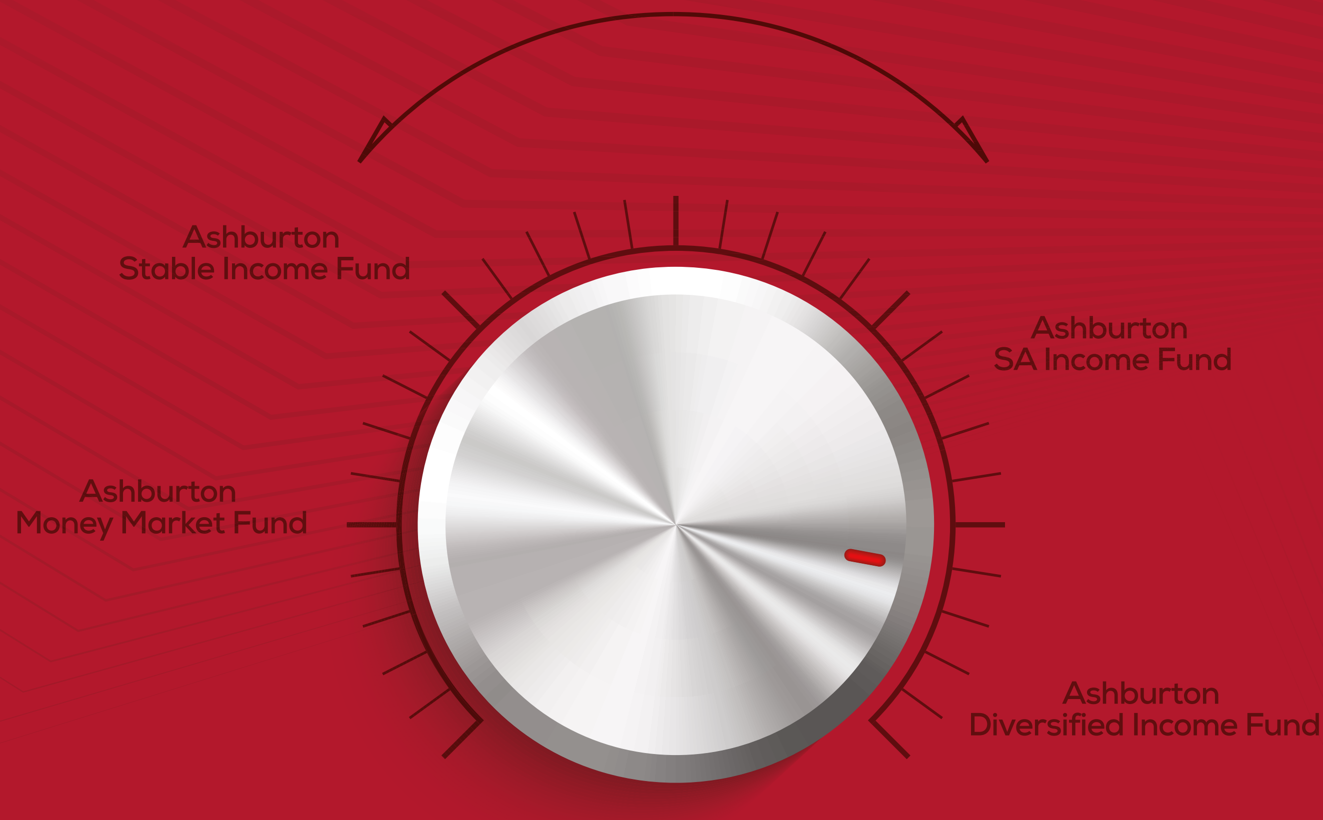
As with any investment strategy, adopting a long-term approach delivers optimum results. This is clear when you look at the long-term growth of markets around the world that show that, despite downturns and crises, the overall trend is upward.

It makes sense, therefore, to commit to a sustained programme of offshoring money on a regular basis. Not only does this build discipline, but it also lowers the risk posed by currency fluctuations if you make larger, occasional deposits.

Standard Bank Wealth International has advised us that they have seen interest in offshore funds grow exponentially over the past few years. This interest has been driven by awareness of options like the Global Equity Fund and Global Balanced Fund that offer direct exposure to global markets and assets.

And even though the world economy has taken a knock from 2020's global pandemic, there are clearly still investment opportunities with solid growth prospects.

The best way to take advantage of these opportunities is to adopt a calm and calculated approach that is focused on the long-term results, rather than short-term, knee-jerk reactions.



IN EVER CHANGING ENVIRONMENTS, **ADJUST AS NECESSARY.**

In uncertain times, one type of investment most certainly does not fit all.

Being fully invested in giving your clients choices that would work for them, Ashburton Investments has a range of fixed income solutions that suit different risk profiles and yield requirements. From the safe Ashburton Money Market Fund with competitive returns and a highly liquid Ashburton Stable Income Fund (with a solid track record over the last decade), the Ashburton SA Income Fund (focusing on higher interest-bearing investments) to the Ashburton Diversified Income Fund (which puts multiple asset categories to work for you). Ashburton Investments has the experience and solutions to help advisors and their clients make the most of the changing global and local fixed income environment.

Visit www.ashburtoninvestments.com to find out more.

FULLY INVESTED /

ASHBURTON
INVESTMENTS

ashburtoninvestments.com

Ashburton Fund Managers (Proprietary) Limited (Reg. No 2002/013187/07) is an authorised financial services provider (FSP number 40169) in terms of the FAIS Act 37 of 2002. Ashburton Management Company RF (Pty) Ltd is an approved CIS manager in terms of the Collective Investment Schemes Control Act 45 of 2002, and is a full member of the Association for Savings and Investment SA (ASISA), regulated by the Financial Sector Conduct Authority (FSCA).

WHERE WOULD INVESTMENT MANAGERS PUT THEIR MONEY FOR A FIVE-YEAR RETURN?

If you had R1m right now and a five-year time horizon, what would you do with the money?

This was one of the questions posed to a panel of investment experts at the recently held Allan Gray Offshore Exchange. The two-day offshore investing webinar brought together local and global investment managers to share their views on current opportunities.

"I would take most of the R1m offshore, given that there are several risks in the local market. South Africa is not offering much value across asset classes now. I would look at a mix of currencies offshore, and a global balanced fund would give me exposure to different asset classes," said Kevin Lings, chief economist at STANLIB.

Lings added that South Africa's fiscal position was dire, with recent statistics showing a contraction of economic activity, a surge in government debt and a sharp rise in unemployment. He expects the South African economy to contract by close to 9% by the end of 2020.

"The best way to stimulate the economy is through public-private partnerships, especially in infrastructure investment.

THE PACE OF THE RETURN TO NORMAL ... WILL DEPEND ON WHEN AND HOW INTERNATIONAL TRADE RECOVERS

Our government is focusing on infrastructure, but the right projects need to be identified that will, if done together with the private sector, uplift the economy and create jobs," explained Lings.

Sandy McGregor, portfolio manager at Allan Gray, said he would approach investing R1m right now with the future in mind.

"I would own shares or gold, both of which offer some protection against the possible adverse consequences of imprudent government intervention," said McGregor.

He added that while much of the world is looking at the rapidly and highly profitable FANGAM stocks (Facebook, Amazon, Netflix, Google (Alphabet), Apple and Microsoft), these tech stocks are very expensive.

"To capitalise on a five-year time horizon, the future is in emerging markets. For emerging markets, such as South Africa, global trade is a key driver of economic growth. The pace of the return to normal following COVID-19 will depend on when and how international trade recovers. My sense is that it will probably take at least two years to get back to where we were at the end of 2019, and possibly much longer."

Nicholas Purser – who leads the team of currency analysts at Orbis, Allan Gray's offshore investment partner – suggested that with value and growth stocks performing so divergently, it might be valuable to consider investments in these separately rather than thinking of equities as a single asset class.

Given that government bonds in developed market economies are offering negative expected real returns, these are difficult to find attractive, Purser added. From a currency perspective, he noted that of the major currencies, the British pound looks moderately attractive, whereas the US dollar looks a little expensive.

Kevin Lings, Chief Economist, STANLIB

Sandy McGregor, Portfolio manager, Allan Gray

Nicholas Purser, Currency analyst, Orbis

KIM RASSOU
Portfolio Manager,
Tailored Fund Portfolios,
Old Mutual Wealth

IT PAYS TO PLAN IF YOU'RE LOOKING OFFSHORE

Incorporating an offshore component into an investment portfolio makes sense for every investor; doing so provides exposure to the world's leading economies and high growth industries while spreading the investment risk.

Amid forecasts of declining domestic growth and extreme uncertainty, when offshore investing seemed the obvious choice, the past few weeks have shown that no economy is immune to a global crisis.

Many will be enticed by projected returns, the buzz around tech stocks, or the sense of security of having dual citizenship that comes with investing in international property. However, in my professional experience, decisions that are influenced by fear, vanity or greed are the worst an investor can make.

Do-it-yourself investors tend to focus on the markets, the economy, the asset manager's performance and even individual stocks and property. Without a plan, they tend to build their portfolios from the bottom up, focusing on investments piecemeal rather than on how the portfolio as a whole is serving the investment objective.

The possibility that these decisions are based on an irrational assessment is exceptionally high. Nonprofessional investors tend to 'trust their gut' – and generally don't understand market valuations, nor the underlying forces driving the performance of Facebook, Apple, Amazon, Netflix and Google (the FAANG companies), for example.

It follows that these investors wouldn't necessarily understand, for example, the full impact of COVID-19 on the FAANGs, whether these stocks are currently trading at fair value, or if they're overpriced or in bubble territory.

Nor do investors realise that owning offshore property often comes with a massive cash obligation, leaving them at the mercy of changes in legislation, economic instability, tax implications and ongoing costs that are often US dollar-euro hedged.

It is important to point out that these asset classes are not a problem in themselves, as they are essential components in principle. However, without guidance, investors may inadvertently expose themselves to an unnecessary gamble.

In my experience, going offshore requires some strategic thought and planning on behalf of both the client and the financial adviser to ensure that the journey that is meant to lower risk doesn't result in the exact opposite. Without guidance, investors can easily make ill-advised decisions unless they follow fundamental investment principles.

> **GOING OFFSHORE REQUIRES SOME STRATEGIC THOUGHT AND PLANNING ON BEHALF OF BOTH THE CLIENT AND THE FINANCIAL ADVISER**

The first rule, in my view, is to set a clear goal that will guide the client's offshore investment strategy. With the help of an expert, this way, the client is in a better position to build a portfolio that's appropriately structured to meet their specific goals, and not the other way around.

However, allowing the strategy to deliver on the investment goal through asset allocation, diversification and rebalancing the portfolio requires the client to stick to the plan. The adviser adds value by helping clients to avoid reacting to the news, and to continue to make the best long-term investment decisions despite market volatility.

The second principle is to manage risk through the choice of markets invested in. Developed and emerging markets, for instance, have different risk profiles and characteristics that influence whether certain markets are more or less of a risk.

The way this may influence investment decisions is that developed markets tend to be highly competitive, efficient and highly liquid in such a scenario. A low-cost index strategy might be more suitable for capturing global market performance because of the broad exposure and lower fees.

Emerging markets, by contrast, tend to have more risk concentration and are generally less efficient. Given these risks, stocks that score highly in environmental, social and corporate governance (ESG) criteria are good investment targets. Incorporating ESG considerations could even become a source of outperformance, as there is some guidance on how to avoid potential bad apples.

The pros and cons of different geographies considered, the next guiding principle investors need to bear in mind is asset allocation.

A well-structured offshore portfolio should be based upon reasonable expectations for risk and returns, and diversified sufficiently to limit exposure to unexpected events. The asset allocation exercise is a fine balancing act that aims to escape volatility and short-term losses, while still growing faster than inflation.

Should a portfolio lack investment with higher growth potential, it's likely to fall short of long-term financial goals. What people often forget is that inflation can be particularly damaging, because its effects compound over longer time horizons.

The final fundamental principle that investors need to bear in mind when planning their offshore portfolio is the management and transaction costs involved. Costs create an inevitable gap between what the markets return and what investors earn, but keeping expenses down can help narrow that gap.

Markets are unpredictable and cannot be controlled. However, you can manage your costs. Failure to do so can significantly depress a portfolio's growth over the long term.

In conclusion, successful investing is often about discipline and patience and having the control not to panic or change an investment strategy based on market volatility.

Whether you are bearish on South Africa or not, the reality is that South Africa represents less than 1% of global investable assets, which means that limiting your investment universe to pure South African investments, limits your opportunity. However, regardless of the market, following some fundamental principles could help manage key risks, as financial advisers strive to help clients reach their financial goals.

For more information, contact Kim Rassou at Kim.Rassou@omwealth.co.za or Evan Andreou at evan.andreou@omwealth.co.za

Tailored Fund Portfolios is the Discretionary Fund Management offered by Old Mutual Wealth. We create and manage a range of solutions that provide a consistent, reliable approach to investment. Through our consistent process of asset allocation, manager selection and investment philosophy, we have designed a range of solutions to meet your clients' investment objectives.

WHAT THE CHALLENGES FACING EUROPEAN CITIES MEAN FOR INVESTORS

COVID-19 and the subsequent lockdowns around the world have had a devastating effect on global economic growth. However, some challenges facing cities in Europe were present before the pandemic, in the form of long-term demographic trends. We spoke to Schroders fund manager Tom Walker, Co-Head of Global Real Estate Securities, to find out more.

What factors have led to a declining population in some European countries?

The population of Western Europe is predicted to peak in 2033 before declining by more than 20% by the end of the century. The study, by the University of Washington (and part-funded by the Gates Foundation), found that while the US population remained stable, population declines had been seen in a number of eastern European countries since the early 1990s. A number of Western European countries had already passed their population peak. These countries include Italy, Spain, Greece and Portugal.

This population decline, particularly in Europe's southern and eastern regions, is predominantly due to low birth rates, lack of economic dynamism and political aversion to immigration. These trends raise a number of questions over the long-term economic prospects for Europe. Real estate is simply a proxy for GDP, therefore real estate investors may find it harder to achieve rental income and capital growth in these locations. As an investor with a global opportunity set, I believe other regions such as Asia or the Americas will offer higher levels of growth.

What impact will an ageing population have on these countries?

With fewer younger people, Europe's total dependency ratio – the number of people aged under 15 years or above 64 years of age per 100 people – is projected to rise to 73.9% in 2050 from the current level of 54.3%. Fewer younger people in the key 25-39 age group, which typically drives economic growth, could spell trouble for the continent's economic prospects.

How will global cities be affected by these trends?

Despite the gloomy predictions, many global cities will be less affected by this trend than at national levels. The most important global cities (for example, London or New York) always attract young people at the start of their careers from within their own country, and also from abroad, with the better opportunities on offer. As a result, we believe that rental income from the assets situated within these dynamic cities will be less affected by these broad trends.

What does this mean for investors?

While declining populations will undoubtedly have serious consequences for economic growth, the data suggests Europe is most at risk when compared to Asia or the Americas. Fewer people mean lower productivity, although increased use of automation may partly offset this.

Which global cities will continue to thrive?

Despite these challenges, we continue to believe that certain cities will continue to thrive and be the main drivers for economic growth in the country or region they are located in. Cities remain the most efficient way for humans to live, and urbanisation will continue to expand.

Global cities will undoubtedly adapt to the 'new normal' and the way we use buildings in global cities will change. However, this is nothing new. In London, for example, old warehouses by the side of the Thames that were once used for storing commodities brought to the city's port by ship, have now been repurposed as high-end luxury housing. And data centres and warehouses are now replacing shopping malls as consumer habits change.

Why are global cities so resilient?

One of the key advantages of global cities is the ability for industries to cluster together, thereby boosting efficiency by sharing knowledge and expertise. This attracts external capital, creating a self-fulfilling prophecy of investment and returns.

The expertise of some global cities may become even more concentrated in the future, for example in areas such as finance, media and technology. As people travel less, the need to be based in the hub of their professional field will increase.

The views and opinions contained herein are those of the authors.

Tom Walker, Co-Head of Global Real Estate Securities, Schroders

DEALING WITH OFFSHORE ESTATES CAN BE COMPLICATED

Many investors are unaware of the unforeseen tax and fiduciary hurdles associated with ownership of foreign assets, according to Mandy Dix-Peek, Head of Old Mutual Wealth Fiduciary Services.

"This is more than simply an annoyance in the case of deceased estates. Complications can easily hold up processes when multiple jurisdictions are involved, effectively jeopardising the financial well-being of dependants and affected family members," she explains.

Currently, by law, South Africans don't need more than one will if they have assets locally and elsewhere in the world. However, a South African executor is only permitted to manage matters and assets that are held domestically.

An offshore will would, therefore, have to be handled by an executor in that jurisdiction, or permission would have to be sought for the South African executor to administer the estate. This can take time and can draw out the process further.

Other potential pitfalls lie in regulatory differences between countries. For instance, in SA people have the right to choose in a will who receives proceeds from the estate, whereas in many European countries this is dictated by law. "So, you might want to choose carefully where you hold certain assets if you have a favourite niece to whom you want to bequeath certain heirlooms," Dix-Peek says.

Inheritance tax is another case in point. For example, in the US inheritance tax of 40% is levied on inheritance assets of more than USD60 000, while in England inheritance tax of 40% is levied on assets worth more than GBP325 000.

However, Dix-Peek cautions that South Africans with assets in these countries above these thresholds can expect that estate duty will increase by 20% to 25% more.

"If properly advised, clients will be aware that they can claim a credit from SARS if they've paid inheritance tax abroad by virtue of the global Double Tax Agreements South Africa has signed."

Of the many traumas that families have to endure when a loved one passes on, it helps to ensure the estate is properly settled. And preferably in as short a time as possible.

"Complications and delays often add unnecessary stress, including financial strain, if an estate cannot be settled quickly, with proceeds being used for estate taxes and fees," she says.

"When an estate has to account for assets across borders, matters become even more complicated, unless the right processes have been followed."

ROBIN HARTSLIEF
Investment Professional, Marriott

HIGH-QUALITY, DIVIDEND-PAYING COMPANIES: A PLATFORM FOR INNOVATION

The uncertainty stemming from the COVID-19 pandemic has increased the relative attractiveness of investments offering more consistent and predictable outcomes. At Marriott, we strive to achieve this by applying a robust filter process to ensure that the companies we choose for our portfolios are high-quality ones. We only invest in companies that have the ability to sustainably grow their dividends (the long-term driver of capital growth), making them an ideal place to be invested for the long term.

At first glance it may appear that many of the companies that make it through our filter could be categorised as 'stodgy' or 'boring'. However, these companies often sell a wide range of established products all around the world, and have done so over many decades.

In addition to the core components of resilience and longevity, it is the established nature of these companies, and their diverse revenue streams, that also allows them to focus on innovation in their respective fields. Below, we look at three of these examples: Colgate, Abbott Laboratories, and Microsoft.

Colgate

Colgate is the largest toothpaste manufacturer in the world. As at the end of 2019, it held over 41% of the global market share in toothpaste, and almost 32% of the global manual toothbrush market. As a company that has been around for over 200 years, and has sustainably grown its dividends for the past 57 years, it is considered a stable and mature company.

Beneath the surface, though, it continues to innovate. For example, at the start of 2020, it launched a new 'Smile for Good' brand. The toothpaste is not only certified by the Vegan Society, but is "packaged in Colgate's first-of-its-kind recyclable plastic tube". Importantly, Colgate has also offered to freely share the tube technology with competitors to help reduce waste going forward.

Abbott Laboratories

Abbott Laboratories, which was founded in 1888, sells a range of medical devices, diagnostics, nutritional products and medicines in more than 160 countries. The cash flow created by its successful product range allows the company to continually invest in new innovations and ensure it remains at the forefront of its industry.

Recent successes include Freestyle Libre – a continuous glucose monitoring system that enables diabetic persons to continuously monitor their glucose from their smart phone – and the release of a new COVID-19 test. This test, which will be distributed to 133 countries and costs just $5, is expected to transform the virus tracking in low- and middle-income countries.

Microsoft

Microsoft is perhaps best known for its Windows operating system and Microsoft Office product suite. Twenty-five years after the Windows 95 operating system was first released, Windows is the most installed operating system, with over 75% market share globally.

The success of its mainstream products has allowed Microsoft to continually innovate and diversify its revenue streams. In 2019, for example, the company's Intelligent Cloud made up 31% of total revenue. This segment grew 21% compared to the prior year, driven by Microsoft Azure's revenue growth of 72%, and is very well positioned to take advantage of the structural changes currently being expedited by the COVID-19 virus. In addition to its cloud offering, Microsoft is also leading the way to scalable, accessible quantum computing. The relevance of the company going forward, coupled with diverse and recurring revenue streams, makes Microsoft an attractive investment proposition.

> **WE ONLY INVEST IN COMPANIES THAT HAVE THE ABILITY TO SUSTAINABLY GROW THEIR DIVIDENDS**

Overall, while Marriott focuses on established, high-quality, dividend-paying companies, the innovative nature of companies is an important component of ensuring they remain relevant into the future. This focus has allowed us to construct international investment portfolios that are positioned to deliver more predictable investment outcomes for investors.

TWO AWARDS FOR MGIM

Momentum Investments has been recognised by the International Investment Awards for its international investment and asset management arm, Momentum Global Investment Management (MGIM), which was awarded Best International Fund Group in the virtual ceremony held last month. Now in its 21st year, this esteemed awards ceremony for fund groups offering an offshore range available in the UK, is the longest-running event of its kind.

Ferdi Van Heerden, MGIM CEO, says that receiving this award highlights the value of taking an outcome-based investment philosophy and engaging closely with clients and partners. "Our long-term investment view has proved, time and time again, to keep our clients focused on what matters, and we are honoured to be recognised at an event that celebrates excellence across the full spectrum of the industry – from fintech to IPMI, and trusts to private banking."

Andrew Hardy, portfolio manager and co-head of research at MGIM, says that the team is delighted to have won an award in such a highly competitive category. "Our team always strives to provide a truly world-class investment offering and so are proud to have received such strong validation from our peers and clients. Such recognition is particularly valuable in a challenging year like this, when we have all had to rapidly adapt to new ways of working together whilst navigating volatile markets."

This coveted award is last month's second big win for MGIM. The first was at the annual Africa Property Investment (API) Awards – the leading pan-African real estate summit – where the Momentum Africa Real Estate Fund (MAREF) won the 2020 Landlord of the Year award. MAREF is a joint venture between sister companies MGIM in London and Eris Property Group in South Africa.

David Lashbrook, Head of Africa Real Estate at MGIM, says that he is incredibly proud of this accolade, especially considering the challenging COVID-19 landscape. "This recognition affirms the leasing success that we have had in Ghana this year, despite the COVID-related challenges and a tough market pre-COVID."

During 2020, MAREF signed leases in Ghana with the following international tenants:

- MODEC, a Tokyo-headquartered owner and operator of floating production systems in the oil industry
- Deloitte USA, who are overseeing the provision of international aid to Ghana
- US Pharmacopeia, a US-based NGO that sets and monitors the standards of pharmaceutical drugs manufactured across the African continent.

"These commercial lease deals can easily take up to a year to close, so we are very pleased that they have been signed. Much credit must be given to fellow Momentum subsidiary, Eris Property Group, who has developed all of MAREF's properties, and to its subsidiaries Eris Properties Ghana and Eris Properties Mauritius, who manage our properties," says Lashbrook.

He notes that this latest award sits nicely with the two awards that MAREF won at last year's API Annual Awards Summit. "Coming off the back of being awarded the Best Green Building for our Mon Tresor Business Gateway in Mauritius, and the Best Commercial Building for our SU Tower in Accra, Ghana, it is great to be acknowledged as the best landlord of 2020."

Ferdi Van Heerden, CEO, MGIM

MICHAEL SUMMERTON
Head: Proposition, INN8

OFFSHORE PLANNING: BEGINNING WITH YOUR END IN MIND

In 1716, the British actor and dramatist Christopher Bullock first penned the phrase: "Tis impossible to be sure of any thing [stet] but Death and Taxes." Three centuries later, it seems that Bullock was right, as his phrase still rings true today.

In a globally interconnected and networked world, the complexity is especially clear where these two concepts meet: the taxes and duties applicable on your assets when you pass away.

The global COVID-19 pandemic and subsequent economic turmoil in South Africa has many investors once again looking offshore to domicile some of their wealth. Finding the right destination and vehicle to do this has become even more challenging, as the pandemic's economic influence stretches across borders and cash-strapped governments are scrambling to find remaining pockets of income through taxation.

Probate is the legal process of administering a person's estate after their death. It is typically focused around the existence of a will. Keeping this process in mind as a starting point for estate planning could simplify the process quite a bit for those left behind.

In South Africa, there are various options available to investors, but the first step will always be to find a highly specialised fiduciary services expert to help you navigate the waters and to help you think of the inevitable implications that your death may have on different types of investment products and applicable probate processes.

One or more wills?

It is important to have a will in place that can be easily authenticated in the relevant jurisdiction.

Some offshore investment vehicles remove the requirement for a Grant of Representation or probate (the equivalent of a Letter of Executorship in South Africa). Not having a will in place will lead to unnecessary delays and complications.

In addition to your South African will, it may be beneficial to have a second will in place that is legally recognised in the jurisdiction where your offshore assets are officially domiciled. For example, it is generally recommended that you maintain a Jersey will for any assets held via a Jersey investment platform. The implications and requirements for probate are not uniform across jurisdictions and your fiduciary services provider should clearly set out the consequences for your individual circumstances.

> **THE PANDEMIC'S ECONOMIC INFLUENCE STRETCHES ACROSS BORDERS**

What are my investment options?

For the purpose of this article, we will not be focusing on immovable assets, but very briefly look at three investment vehicles that specifically relate to the tax regime in Jersey and Guernsey. INN8's offshore investment accounts are held in Jersey. Many other service providers also offer products in Jersey and Guernsey.

When contemplating investing offshore, the following options may be considered:

- **Investment account**
  - This is an investment vehicle that allows a client to invest directly in various underlying investment portfolios, such as collective investments or a range of ETFs. Returns are taxed in the hands of the investor in the form of capital gains tax and income tax on income distributions.
  - If there is only one account holder, the account comes to an end upon the death of that investor and is then subject to the Grant of Probate process in Jersey if the value is higher than GBP10 000. If there are multiple account holders, the investment is passed on to the remaining account holders jointly or equally.
- **Endowments**
  - An endowment is a policy of insurance (sometimes called an endowment wrapper) issued by a life insurance company, providing certain tax and estate planning benefits. Investment returns on the underlying assets that back the policy are taxed in the hands of the insurer, which makes the product attractive in terms of ease of tax administration for the investor. Upon the death of an investor, the proceeds can be distributed immediately to any nominated beneficiaries. If no beneficiary has been nominated, the proceeds of the policy are paid out to the deceased owner's estate and a Grant of Probate process will apply if the value of the endowment is more than GBP10 000.
- **'40(ee)' Retirement Annuity Trusts**
  - These are unapproved Guernsey-based multi-member retirement annuity trusts incorporated under the tax regulations in Guernsey. They allow flexibility and can be regarded more as retirement savings plans than a pension plan in the traditional sense.
  - These structures can house an investor's offshore investments and provide legacy planning and flexibility on drawdown, subject to certain conditions.
  - Generally, no Grant of Probate process applies upon the death of a member. Several options are available, e.g. a lump sum of the residual amount in the member account can be paid to nominated beneficiaries, or the assets can be transferred to a discretionary trust.

The different taxes

Under all circumstances, some estate taxation or fees will apply. If your international estate is not structured carefully, double taxation could also be a very real possibility.

In South Africa, estate duty on a person's worldwide assets is applicable to anyone that lived in South Africa at the date of death. It is payable at a rate of 20% on the first R30m of the dutiable value of the estate, and at 25% above the R30m. Whether or not offshore assets form part of an estate is dependent on the vehicle in which the assets are held. There are certain assets that qualify for a deduction from estate duty in terms of the Estate Duty Act. One of these is an inheritance from a person who was not ordinarily resident at the date of their death.

It is important to also discuss possible situs taxes, fees (executor and Grant of Probate fees) as well as applicable duties (e.g. stamp duties) with your fiduciary services provider when structuring your estate. Situs taxes (*situs* means site in Latin) are often applicable if assets in an estate (for example shares on a stock exchange) are directly owned in those countries.

Plan and remain informed

Keeping up to date on changes in regulation in all jurisdictions where you own assets is important as these are subject to change. Currently, for example, both Guernsey and the UK have stamp duty holidays or reductions in order to stimulate economic activity after the impact of the COVID-19 pandemic.

Finding pockets of security and stability for a diversified portfolio has never been more important. Take the first step today and start planning for your legacy.

FINDING GROWTH OPPORTUNITIES IN AN UNCERTAIN WORLD

JANICE ROBERTS
Editor: Money*Marketing*

The world is now facing a long period of structurally lower growth, meaning that more and more companies will simply not grow, says Erik Mermet, Senior Associate Partner and South Africa Market Head at London-based Sarasin and Partners. "We actually expect to see a scenario where an average of 28% of companies will see shrinking profits, compared to just 17% before," he told last month's BCI Global Investment Conference.

The firm is well-known for its global, multi-thematic approach, running one core fundamental process that integrates Environmental, Social, and Corporate Governance (ESG) factors and climate analysis with a very strong focus on stewardship and active engagement with companies. "This process underpins all of our offerings, including the equity allocation within our GlobalSar multi-asset funds."

Mermet adds that equity investing remains the core of what the firm does – and is the core performance engine within the GlobalSar fund range.

"We need a strong framework to help us find compelling and long-term growth opportunities." The firm's investment philosophy entails following a multi-thematic approach, "which is really to help us understand where the world is going over the long run, but most importantly, what companies can actually benefit in the future.

He believes that growth rates are going to be a lot lower going forward, even more so now with COVID-19. "This may seem obvious – and you'll hear it from everyone – but the truth is that if you add demographics, the debt, the potential for deflation that we're facing, the reality is that nominal growth is actually never going to be as high as it used to be."

The amount of companies that have sought-after return dynamics is becoming smaller. "It's an environment of fewer winners than in the past, but one in which the winners are substantially more valuable… and the current volatility actually provides incredible opportunities for stock pickers like us."

As weak companies will inevitably fail, and great companies will adapt, Mermet believes that it's essential to understand the long-term themes that are driving broad systemic change. "We look for sources of growth that reach across sectors and are more permanent, such as the move to electronic payments or the use of cloud computing, for example. And we try to move away from shrinking industries that rely more on the exploitation of natural capital, which are not only unsustainable but will also be subject to higher regulation, taxation and consumer backlash risks."

The firm's multi-thematic framework helps to narrow the global equity universe down to about six hundred businesses. Its team of analysts then carries out a rigorous, bottom-up stock-picking process to find not only those companies that are interesting from a thematic point of view, but those that are also genuinely good investments, to form the firm's global buy list of about 100 stocks.

"We narrow it down to five mega-themes that are designed to be very broad and consistent over time, lasting over the next 10 to 30 years."

MULTI-THEMATIC IDEA GENERATION

Source: Sarasin

The first mega theme – aging – is observed across all major economies as it has huge consequences for health and pharmaceuticals, "particularly now, given the statistics related to COVID-19", says Mermet.

The second is evolving consumption, where the focus is on how patterns of consumption are changing, for example, how millennials consume differently to baby boomers.

The third mega-theme – automation – concerns how the drop in the cost of robotics is allowing what used to be done by people to move to machines at an ever-greater rate. "We've actually heard from industry contacts that fully autonomous factories are being increasingly considered as a response to current social distancing rules, but also as a way to prepare for potential new pandemics in future," Mermet says.

> **WEAK COMPANIES WILL INEVITABLY FAIL, BUT GREAT COMPANIES WILL ADAPT**

The fourth mega-theme, digitalisation, concerns the shift from analogue to digital. "We think that's far from done yet, and this creates a huge amount of opportunities – which are only exacerbated as the world shifts to more permanent patterns of working from home and online shopping."

The final mega-theme is climate change, which is seen as an enormous and increasing force affecting companies as the world moves to a greener economy, and Sarasin analysts fully integrate climate considerations into their fundamental analysis of stocks across all of the five themes.

In endeavouring to meet the challenges that climate change presents us with, Mermet believes that a broad range of investment opportunities will emerge, from renewable energy and electric vehicles to smart buildings and agriculture. Climate change and the move to a greener economy provides many opportunities.

"We have no doubt that any upcoming stimulus will be heavily biased towards the green economy, like the European Commission Next Generation EU recovery plan. "At his recent speech at the UN general assembly, Chinese president Xi announced the country's intention to achieve carbon neutrality by 2060, which was a big surprise and is significant given that the country accounts for a third of global emissions. "We expect to see a wave of investment in climate-related industries on the back of this, providing us with even further opportunities."

Each of the five mega-themes has a series of more specific trends or subfields, Mermet explains. "For example, under digitalisation we look at cloud computing or digital media, but we also look at much more niche industries that maybe less people have heard of, such as food-chain technology under the automation theme. These subthemes evolve constantly, depending on where our analysts' research takes us, and they often overlap."

As growth is scarce, gaining an in-depth understanding of ESG factors allows for, at the very least, a significant reduction of tail risk. "Our themes are founded on environmental and societal change, and the weaker global GDP is, the more relevant it becomes to integrate ESG considerations into one's fundamental analysis, allowing us to avoid companies that are structurally challenged in terms of how they plan to deploy capital. We are also believers in active ownership – once we own a company, we engage with it on issues where we want to see positive change."

Potential threats to shareholder capital or the materiality of ESG factors are assessed using a traffic light system across 15 ESG criteria. "The key point of how we integrate ESG in our process and our thinking is that we don't just focus on the highest rated companies. We actually try to capture the upside from potential ESG upgrades, as we truly believe there's a great deal of value to be found in the transition to a more sustainable economy."

Sarasin's GlobalSar multi-asset fund range has posted consistent strong performance, with, as an example, the flagship GlobalSar Dynamic fund – the one with the highest equity component – up 8.4% annualised over five years in USD (as of the end of September, P shares, net of fees).

Erik Mermet, Senior Associate Partner & South Africa Market Head, Sarasin and Partners

AHMED ZAMAN
Index Strategist, EII Investment and Product Strategy team, BlackRock

The rise of indexing

Indexing has grown considerably across equities and fixed income over the last decade, not only in terms of assets, but also in terms of the number of products available – so investors now have more choice than ever when implementing asset allocation decisions.

Index investing has been shown to increase portfolio efficiency through shortening due diligence processes, increasing control over managing risk, and curbing costs. This means investors can access market beta more efficiently and dedicate more of their time and risk budget on selecting true alpha sources – in other words, there is room for both active and index strategies in portfolios. Despite this growth, ETF penetration still remains at early stages across asset classes – and has plenty of room to grow. Alpha-seeking strategies still account for roughly twice as much AUM in equities and four times as much in fixed income (Sources: World Federation of Exchange Database, BIS, HFR, iShares GBI, Dec 2018).

GROWTH IN INDEXING BRINGS GREATER CHOICE FOR INVESTORS

Growth in indexing brings greater choice for investors, but with so many indices available, selecting the right index has become crucial. Indices have their own characteristics and nuances in construction, coverage, and risk drivers, which can have a significant impact on performance and can expose investors to unintended risk – so every investment decision really is an active decision.

Taking the example of European indices over a 10-year return period, we notice significant levels of dispersion in returns driven by a number of factors (for example, sector constraints and/or the investable universe). Differences can also be found in index construction methodologies across providers – EM country classifications, for example, are not consistent across index providers, leading to regional exposures that can vary from one EM index to another.

With the index landscape expanding at a rapid pace, it is crucial for investors to develop expertise across the investment journey, including a thorough due diligence process for index selection as you navigate the index landscape.

SA large-cap stocks relatively strong vs small and mid-caps

S&P Dow Jones Indices have been the de facto scorekeeper of the ongoing active versus passive debate since the first publication of the S&P Indices Versus Active (SPIVA) US Scorecard in 2002. The SPIVA South Africa Scorecard measures the performance of actively managed South African equity and fixed income funds denominated in South African rand against their respective benchmark indices over six-month and one-, three- and five-year investment horizons.

South African equity

According to the latest SPIVA Scorecard released last month and compiled by Andrew Innes, Head of EMEA, Global Research & Design, and Andrew Cairns, Associate Director, Global Research & Design, over 73% of South African equity funds underperformed the S&P South Africa 50 over the first six months of the year. Comparing the same funds with a broader benchmark, namely the S&P South Africa Domestic Shareholder Weighted Capped Index, only 36% of funds underperformed.

The contrast in fortunes of the two benchmarks continued to highlight the relative strength of South African large-cap stocks when compared with small and mid-caps. The large-cap benchmark, the S&P South Africa 50, returned 4.5% more in the first six months of 2020 than South African equity funds measured on an asset-weighted basis. This large-cap benchmark dominance is also reflected over the five-year period, when 95% of South African equity funds underperformed. On an asset-weighted basis, these funds underperformed by 3.3% annually.

Fiscal stimulus was passed in April 2020 to help stave off the threat of a deepening economic contraction and interest rates were slashed by 2.75%. Despite these efforts to spur the economy, South African equity funds struggled to recover from the COVID-19-related drawdowns of 2020.

FISCAL STIMULUS WAS PASSED IN APRIL 2020 TO HELP STAVE OFF THE THREAT OF A DEEPENING ECONOMIC CONTRACTION

Global Equity

The continued weakening of the South African rand versus other major currencies helped global equity funds return an impressive 14.8% over the six-month period on an asset-weighted basis. Despite this, 68% of global equity funds failed to keep pace with the S&P Global 1200 over the first six months of the year. This figure increased to 90% when measured over the five-year period. On an asset-weighted basis, global equity funds were 2% below the benchmark over the six-month period and 2.6% worse off over the five-year period.

Fixed Income

Over the first six months of 2020, 31% of funds in the Diversified/Aggregate Bond category failed to beat the S&P South Africa Sovereign Bond 1+ Year Index. The same funds outperformed the benchmark by 1.2% on an asset-weighted basis. When extended to the five-year period, 49% of funds underperformed the benchmark.

In the Short-term Bond fund category, 54% of managers were unable to outperform the South Africa Short-term Fixed Interest Composite over the first six months of the year. When compared with the longer-term five-year period, when 85% of funds outperformed the benchmark, it becomes clear that Short-term Bond managers struggled to capitalise on the increased volatility and difficult market conditions brought on by the global COVID-19 pandemic.

Comparing fixed income and equity funds, the H1 2020 market turmoil took a greater toll on the latter. Except for the S&P South Africa 50, the gains over the five-year period were completely eroded by the global COVID-19 crisis, whereas both the fixed income benchmarks and average fund managed to keep their head above water during the first six months of 2020.

Andrew Innes, Head: EMEA, Global Research & Design, S&P Dow Jones Indices

Andrew Cairns, Associate Director, Global Research & Design, S&P Dow Jones Indices

JOHAN GOUWS
Head of Advice,
Sasfin Wealth

Prescribed assets: No need to panic

Recent discussions in the media have once again raised concerns about the possible introduction of a policy of prescribed assets by government. The implementation of such a policy could force South African retirement funds to invest some of the assets of retirement fund members in state-owned assets and infrastructure projects. The prospect of a change to Regulation 28 to make prescribed assets a reality has left trustees and management committees, as well as members of retirement funds, with a sense of discomfort and uncertainty about what the future could hold.

Why consider a policy of prescribed assets?

The COVID-19 pandemic laid bare the vulnerability of the South African economy, resulting from years of weak economic policy and corruption, and led to government's fiscal situation continuing to deteriorate. As a result, the risk of South Africa experiencing a debt crisis continues to rise. The only way for South Africa to avoid the dire consequences of a debt trap would be for government to take the necessary and urgent steps to kickstart the local economy. Government will need to find the political will and capital required to develop the necessary infrastructure, as a growing economy will once again allow government to balance the books. Recent proposals by the ANC's Economic Transformation Committee have been included in the Economic Reconstruction and Recovery Plan. One of the objectives of the proposed policies is to boost the funding of infrastructure projects through state-owned development finance institutions. An option government could consider for obtaining the necessary funding for long-term infrastructure would be to change Regulation 28 of the Pension Funds Act.

Regulation 28

The main purpose of Regulation 28 of the Pensions Fund Act is to protect fund members' retirement provision from the effects of poorly constructed investment portfolios. Section 7 of the Pension Funds Act requires retirement fund trustees to ensure that the Fund's assets are invested in line with the regulations of the Act. This means that if the law requires the funds to invest in certain instruments, then the trustees have to abide by those laws. However, considering any changes to Regulation 28 to include a policy on prescribed assets will not be a quick or easy process. The necessary regulatory processes would have to be followed, which would require consultation with various stakeholders. This includes the investment industry and retirement funds through representative industry bodies, such as the Association for Savings and Investments South Africa (ASISA) and the Council for Retirement Funds (BATSETA). Trustees will have to stay abreast of any developments and ensure that the concerns and views of fund members are properly represented.

An alternative solution

While the implementation of a policy of prescribed assets in some shape or form can never be completely ruled out, alternatives exist for securing the funds required to address the economic challenges facing the country. A change to Regulation 28 to allow retirement funds greater leeway to invest in infrastructure development projects and non-listed instruments could be a first step in obtaining funding from retirement funds. The Sustainable Infrastructure Development Symposium (SIDS) could go a long way to avoiding the need for a draconian measure such as prescribed assets. SIDS has been engaging with ASISA and BATSETA and is looking to attract both local and foreign investors to invest in infrastructure and developmental projects. Approaching international lenders such as the IMF, World Bank and New Development Bank for concessional finance to reinvigorate parastatals would be another alternative. In order for any of these alternative funding methods to become a reality, government would have to create a stable, transparent and investor-friendly market environment.

A key concern of investors to date has been the lack of available and suitable infrastructure projects. A sufficient number of viable investment opportunities need to be identified and created. They should be well governed, relatively liquid in nature and must not require members to settle for sub-optimal investment returns.

Fixing broken state-owned enterprises involved in infrastructure, and reshaping them with the necessary level of governance and skills, should be one of the first options to consider as an investment opportunity.

Looking ahead

South Africa finds itself in a very difficult space from a fiscal and economic perspective. The mismanagement of state assets and corruption over the past decade have resulted in low levels of trust in government. It is therefore understandable that suspicion exists around any possible initiatives considered by government to find the necessary funding for much-needed socio-economic development. There is currently no firm intention by government to implement a policy of prescribed assets on retirement funds. Enoch Godongwana, the ANC's Head of Economic Transformation, recently confirmed this. Identifying viable developmental investment opportunities would be the focus for government, rather than resorting to a policy of prescribed assets. It is important that trustees, management committees and members of retirement funds avoid making any emotionally driven decisions based purely on speculation that could be to the detriment of members during retirement.

SA's pension system ranks 27th in Global Pension Index report

Last month, Mercer released the results of the Mercer CFA Global Pension Index Survey that compares pension plans across the world. According to the survey, South Africa had an overall index value of 53.2 among the countries analysed, scoring better than countries like Austria, Italy, Indonesia and South Korea.

The index highlights key strengths of retirement pension systems around three sub-indexes: adequacy, sustainability and integrity, where South Africa scored 43.0, 46.7 and 78.3 respectively.

Craig Bentley, head of Multinational Consulting at Alexander Forbes, Mercer's strategic partner in Africa commented: "It is pleasing to see the improvement for adequacy and sustainability. The integrity index, while reducing marginally when compared to the prior year, still remains a strong indicator of the integrity of the South African pensions industry. The SA pensions system has some good features; however, there is still room for improvement to ensure long-term adequacy and sustainability."

In South Africa, the report suggests improving the minimum level of support for the lowest earning group, as well as introducing preservation requirements when members withdraw from occupational funds under the adequacy sub-index. In terms of sustainability, it recommends increasing the coverage for employees in occupational pension schemes, thereby increasing the level of contributions and assets, as well as introducing a minimum level of mandatory contributions into a retirement savings fund.

Globally, the Netherlands had the highest index value (82.6), thereby retaining its top position in the overall rankings, notwithstanding the significant pension reforms occurring in that country. Thailand had the lowest index value (40.8).

For each sub-index, the highest scores were the Netherlands for adequacy (81.5), Denmark for sustainability (82.6) and Finland for integrity (93.5). The lowest scores were Mexico for adequacy (36.5), Italy for sustainability (18.8) and the Philippines for integrity (34.8).

More saving needed after lockdown's desperate pension raids

Ultimately, a vaccine may banish COVID-19, but a more resolute attitude toward saving and more robust pension fund contributions will be needed to cure the serious gaps left in many South Africans' retirement savings accounts. The COVID-19 pandemic forced many to abandon their dreams of an idyllic retirement in order to survive, after being retrenched or having their income reduced.

The feverish panic of trying to make it through the uncertainty of lockdown caused thousands of South Africans to raid all – or parts of – their accumulated retirement savings just to get through 2020.

"Many people who previously had a well-established retirement plan went into survival mode as a result of being retrenched, and cashed in what money they had built up in their retirement savings in an attempt to cope with the uncertain events brought about by the global health crisis," says Alisha Corbett, head of Liberty Corporate Umbrella Fund Solutions.

She points out that the concept of retirement preservation, which is keeping one's retirement savings invested when moving jobs, is almost an unknown one in South Africa. It has been common practice to cash in some or all of one's retirement savings when leaving an employer, either due to resignation, retrenchment or dismissal.

This practice coincides with figures that indicate that only around 6% of people in this country are in a realistic enough position to retire comfortably, given the state of their savings.

"It is highly detrimental to your retirement plans when you access your savings for whatever reason. You're looking at people in their 40s or 50s, for example, who must start their retirement planning all over again due to non-preservation on retrenchment. This has been even more difficult in this economic environment, given the low returns in markets caused by the COVID-19 pandemic," she says.

Some large pension fund managers have reported losing thousands of retirement fund members due to the economic contraction and the pandemic in 2020. It is also worth noting that over 20% of Liberty's Umbrella Fund client base took up contribution relief options to alleviate financial strain this year.

The pandemic and recession had an added impact in that many people cashed out their retirement savings during a lower market cycle, further exacerbating losses. Corbett says there is remedial action that can still be taken – it's arguably a tough route, but with the right long-term attitude, much can be achieved to reverse these circumstances.

By this she means saving as much as you possibly can when income returns, and maybe even considering plans to delay retirement if your employer allows, or supplementing your income by continuing to work after retirement in a part-time job, for example.

"We are encouraging members to make additional voluntary contributions to their funds when they can – if not today, then in a year or two when affordability allows. "South Africans need to develop a culture of adding to existing savings, which is now more important than ever, in light of the COVID-19 pandemic.

"Markets will recover," she adds, "and we must avoid making financial decisions that are emotional and will have a negative and long-term effect on our retirement savings. We must ensure we stick to a long-term investment strategy."

As mentioned, Liberty offered short-term contribution relief options to its members earlier this year, and with the move to Alert Level One of the lockdown, the company is now seeing more businesses coming back to full contributions.

"Investment returns are already improving – it is therefore important to remain invested for the long term, and avoid the flight attitude in tough times," Corbett concludes.

The information contained in this document does not constitute financial, tax, legal or accounting advice by Liberty. This information is made available without any representation or warranty, either express or implied. Any legal, technical or product information contained in this document is subject to change from time to time at the discretion of Liberty. Whilst every attempt has been made to ensure the accuracy of the information contained herein, Liberty cannot be held responsible for any errors that may occur. Any recommendations made must take into consideration your special needs and unique circumstances, please speak to your Liberty Financial Adviser or Broker.

Alisha Corbett, Head: Umbrella Fund Solutions, Liberty Corporate

How do your clients' employees return to work successfully after a disability?

"We should not underestimate the physical, mental and financial health challenges of overcoming a disability and successfully returning to work," says Elna Van Wyk, National Head of Disability Management and Technical Underwriting at Momentum Corporate. "While a speedy and successful return to work after disability minimises workplace disruption and is good for productivity, returning employees often need a professional helping hand to facilitate their successful reintegration."

Unfortunately, overflowing job jars mean that your clients and their HR staff don't always have the time and resources to facilitate a smooth, seamless return to the workplace for those returning from disability. This is more evident in the current environment, where the focus is on core business plans to survive the COVID-19 economic fallout.

Van Wyk points out that group disability solutions have evolved into far more than simply a financial pay out for a valid claim.

"Find out what services your client's disability insurance provider offers to help insured employees return from a disability and successfully integrate back into the workplace. A good example of holistic disability management to address the range of challenges associated with disability and returning to work, is Momentum Corporate's wellness care centre."

GROUP DISABILITY SOLUTIONS HAVE EVOLVED INTO FAR MORE THAN SIMPLY A FINANCIAL PAY OUT FOR A VALID CLAIM

Van Wyk explains that Momentum Corporate's holistic approach to disability insurance includes an in-house wellness care centre to help clients' employees on disability with rehabilitation and recovery. This facilitates quick, safe and effective integration into the workplace, reducing both the direct and indirect costs associated with disability.

The stigma associated with mental health disorders makes it particularly important to make sure individuals recovering from a mental-health-related disability feel supported when returning to work. Momentum Corporate reports that, on average, 9% of all disability claims are as a result of mental health claims. This is a lot higher for younger employees, with 26% of disability claims for younger employees less than 35 related to mental health. Van Wyk says they expect claims related to mental health to increase in the future, due to the impact of the pandemic and lockdown.

According to the World Health Organisation, workplaces that promote mental health and support people with mental disorders are more likely to reduce absenteeism, increase productivity and benefit from associated economic gains.

Van Wyk also believes that there will be an increase in the number of employers unable to accommodate disability claimants returning to the workplace. "This is another area where our wellness centre will try to help. Where the employee is unable to return to the workplace, we may assist with reskilling and the search for a new position, thereby reducing risk to the employer."

She concludes, "Helping an employee who has suffered a disability return to productive work generates multiple wins. The employer benefits from a speedy return to productive work and minimal disruption. The employee wins by returning to work which, if under the right conditions, strengthens the rehabilitation process. And the insurer and industry benefits from claims of shorter duration, which ultimately reduces the price of disability insurance."

For practical tips on how your clients can assist their employees returning from disability, visit https://bit.ly/37eXX5w

Elna Van Wyk, National Head: Disability Management and Technical Underwriting: Momentum Corporate


LIBERTY
In it with you
Just because it's too late for your client to become the youngest gamer millionaire, doesn't mean it's too late to help them take control of their retirement.
Although many of your clients are still far from retirement age, they need to be financially prepared for their post-work life.
Speak to your clients about the retirement they really want, and get them to consider Liberty's Retirement Range.
For more details about benefits, income definitions, guarantees, fees, tax, limitations, charges, premiums, or other conditions and associated risks, please call us on 011 588 4923 or visit www.liberty.co.za
Liberty Group Ltd is the licensed Insurer of the Liberty Retirement Range and an Authorised Financial Services Provider (no. 2409). Terms and Conditions, risks and limitations apply.

KENNY RABSON
CEO, Discovery Invest & Discovery Employee Benefits

Harnessing the power of shared value for employees

How Discovery is combining over 20 years of shared-value innovation to deliver a comprehensive solution to inspire both physical and financial health among employees.

Discovery's unique shared-value model has evolved and spread rapidly over the two decades since it was first introduced as a disruptive proposition in the life insurance industry.

The model emerged in the wake of a ground-breaking actuarial accomplishment that unlocked the economic potential created when people are inspired to be healthier.

Healthier people not only enjoy happier and more productive lives, but they also benefit from a substantially reduced risk of suffering from early or preventable life-changing events such as a dread disease, permanent disability or, tragically, an untimely death.

From the perspective of a life insurer, this reduced risk among its clients results in an 'actuarial surplus' due to lower-than-expected policy claims. When leveraged carefully, this surplus can be transformed into powerful incentives – using rewards and benefits – to inspire healthier behaviour.

As these behaviours unlock more value, this creates a positive feedback loop, which allows for a continuous process of innovation. By incorporating advances in behavioural economics, technology and data-driven insights, we are able to adapt to the evolving needs of people and deliver more refined incentives.

> **AS THIS VIRTUOUS CIRCLE REPEATS, OUR CLIENTS BENEFIT, OUR BUSINESSES BENEFIT, AND IN A MOST PROFOUND WAY, SOCIETY BENEFITS**

As this virtuous circle repeats, our clients benefit, our businesses benefit and, in a most profound way, society benefits as there is unquestionably a grand social imperative to reduce the incidences of premature death and preventable diseases. Independent research has shown that Discovery Vitality clients live longer, healthier lives than the wider insured population.

I am proud to say that the principle of shared value has grown to become a central concept among some of the most forward-thinking businesses and leading business theorists internationally. This theory seeks to find ways for enterprises to co-exist in harmonious and mutually constructive relationships with the societies in which they are built to serve.

The principle "involves creating economic value in a way that also creates value for society by addressing its needs and challenges", as trail-blazing academics Michael Porter and Mark Kramer wrote in their seminal 2011 paper *Creating Shared Value – how to reinvent capitalism and unleash a wave of innovation.*

"Businesses must reconnect company success with social progress. Shared value is a new way to achieve economic success. It is not at the margin what companies do but at the centre."

Integrating shared value for employees

Perhaps the most remarkable thing about shared value is its potential to address a wide range of societal challenges that cut across multiple industry sectors.

In the space of life insurance, the behaviours we try to influence are related to physical wellbeing and this has translated into our clients enjoying longer, healthier lives than the wider insured population. In short-term insurance, we are using incentives to help people become better drivers, with the result that our clients experience less harsh road incidents. In banking, we are helping to inspire the right kinds of personal finance behaviours that prevent social problems, such as over-indebtedness. In investing, we are helping investors adopt the behaviours that keep them on track to achieve their long-term financial goals.

As CEO of both Discovery Invest and Employee Benefits, it has been my pleasure and privilege to help translate the combined 20 years of shared-value innovation that has been developed across Discovery's businesses into a holistic solution for employers to help their staff achieve both physical and financial wellbeing.

In doing so, we are not only enabling employers to benefit from a happier, healthier, and more productive workforce while ensuring that their staff members are appropriately insured for the risks that life presents, but we are also helping to tackle another major social challenge.

The dire reality is that the vast majority of South Africans do not retire with enough savings to live out the rest of their lives comfortably. This reality, referred to as the 'retirement savings gap', is both well documented and alarming, and, as medical technology advances and people live longer, the problem will continue to grow.

When people do not save enough for retirement, not only does this place them in a situation of often acute distress, but their families, and ultimately the wider society, also take a toll. As parents become dependent on their children for financial security, these overburdened people, known as the 'sandwich generation', carry double the financial strain of providing for both their parents and their own children.

To address this problem, we have leveraged the power of shared value to develop an integrated system of behavioural incentives that encourage employees to adopt the right kinds of long-term savings behaviours. Powerful boosts and rewards have proven to help employees invest much more into their retirement funds, while avoiding the temptation to withdraw from those savings too early or too fast.

Our retirement benefits are often bought together with our group risk benefits that encourage healthier living through shared value, including life cover, local and international cover for the education of employees' children, severe illness cover, lump-sum and monthly disability protection, and funeral cover.

This can all be supported by our Healthy Company initiative, which is a digitally enabled, comprehensive employee assistance programme and wellness solution. It identifies and proactively supports at-risk employees in managing the four key dimensions of their wellbeing through screening and risk classification, proactive tailored interventions, and data-driven insights.

I am incredibly proud of the work our teams have done to develop this combined shared-value suite of solutions to help employees achieve good physical, financial and emotional health.

NO TWO SAMS ARE THE SAME.

SO WHY SHOULD THEIR LIFE INSURANCE BE?

No two families are the same. That's why we let you build the life insurance that's right for your life and your family's unique needs – from the premium you pay to the extras you choose. So, whether it's how much you want to leave for your loved ones or how they'll receive the payout – the choice is yours.

The time is now to get Life Insurance that's just for you.

Call 0860 60 60 60, visit oldmutual.co.za or speak to your financial adviser.

175 YEARS OF DOING GREAT THINGS

Old Mutual Life Assurance Company (South Africa) Limited is a licensed FSP. Terms, conditions and product rules apply.

Personal cover reinvented

Old Mutual launches new intuitive and customised insurance proposition

The evolution of financial advice is centred around targeted solutions where the needs and behaviour of customers take centre stage. For advisers, this presents the opportunity for new ways of doing business that will enable them to improve operational efficiencies and boost their value offering to customers.

This is the view of Lizl Budhram, Head of Advice at Old Mutual Personal Financial Advice. She shared her insights following the recent launch of Old Mutual's new insurance proposition, which offers a range of personal and business cover solutions.

These solutions are backed by sophisticated systems that provide advisers with a seamless online sales and servicing experience.

According to Budhram, Old Mutual believes its brand new personal cover range is a real game changer and is evidence of how the company's culture of innovation enables it to respond to the needs of customers, while recognising the important role of financial advisers in the process.

No two insurance needs are the same

"Customers' needs are rapidly evolving, and as an insurer that holds the customer at the heart of everything we do, we felt it was important to design this solution around them and their ever-changing needs," says Budhram.

"Today, people are following non-linear career paths, enjoying non-traditional and blended families, as well as re-assessing parenting and gender role norms. Our current reality highlights the need for personal cover that is comprehensive, modular and allows flexibility for our fast-changing circumstances. This is exactly what our new proposition offers."

"ADVISERS CAN THINK OF OUR NEW PROPOSITION AS HAVING YOUR PRACTICE IN YOUR POCKET

She adds that the first step in choosing the right cover is understanding customers' needs, what type of cover will help them to address those needs, and how much they need.

"There is no 'one-size-fits-all' approach. For example, the insurance needs of a single working professional are different to that of a new parent," she explains. "To help customers establish what's best for them, financial advisers play a critical role in doing a financial needs analysis to assess what they need, and then work through a solution recommendation process to structure the most appropriate solution with them, based on their needs and budget."

Building a market-leading personal cover proposition

Budhram says that when Old Mutual designed this proposition, it took its learnings and market insights, coupled those with some of the best product features in the industry, added smart technology and integrated its Rewards offering, giving financial advisers a competitive edge.

"We picked only the best features to include in the products that make up the range so that our customers could enjoy cover that is comprehensive. We then used the insights we got from the extensive market research we conducted to inform the modularity of the proposition so our customers could choose and only pay for the cover they need, making it truly customisable and affordable.

"And because we understand that circumstances, goals and ambitions change, we ensure that customers have the option to add and remove modules or extras as their needs and budget shift."

At the heart of the new solution lies modularity – giving advisers the ability to help customers build what is relevant to them in terms of cover and any extra benefits they wish to add – and flexibility, meaning cover can be changed as the needs of the customer change.

This is particularly relevant for cash-strapped consumers wanting to reduce their insurance costs amid COVID-19-induced financial strain.

A seamless digital experience

By introducing the new proposition, Old Mutual also acknowledges that consumers have become more technology savvy and easily connect with many providers across multiple devices. They are well informed, expect high-quality, personalised service and want access to information at their fingertips, anytime.

Therefore, Old Mutual is introducing new technology that makes doing business with them much easier, quicker, safer and more seamless, all the way from quote to claim stage.

This means that customers will now be able to approve their quotes on a mobile phone on the spot, or anywhere else, via USSD – so no more going back and forth to acquire physical signatures. Customers will also have their cover issued quicker than before due to a smart underwriting system that uses reflexive questions, get a copy of their advice record straight after interacting with their financial adviser, and be able to receive their claim pay-out quicker than before – and even quicker still if they have an Old Mutual Money Account.

"While our new range is primarily a digital proposition, it is critical that it blends seamlessly with the physical world and especially the immensely valuable role advisers play in dealing with customers. Integrating a customer's financial plan with relevant financial education, making simple and modular solutions available and then monitoring their financial behaviour so that you can nudge them back on track – and then rewarding them for doing what they need to do to achieve their financial goals – can greatly improve a customer's financial well-being."

Enhanced online capabilities

Budhram explains that the ease of the digital process allows for online needs analysis and a 'Solution Recommendation' (see information box), which is set to result in a more informed customer and improved efficiencies.

"Advisers can think of our new proposition as having your practice in your pocket – you are able to access customers' information anywhere, anytime and on any device. Furthermore, it is easy to use as there is only one dashboard, you can execute New Business (eg. a quote, application or underwriting) and access existing business, such as claims. You are also able to upload documents – so no more faxing, emailing or posting … so think of the time saving here! And finally, you can even track sales and all servicing

New kid on the block ... Old Mutual's Solution Recommendation tool

Old Mutual understands that when customers purchase financial solutions, they effectively invest in peace of mind.

"Every financial adviser carries a huge responsibility in performing his or her advice functions. As we know, customers trust you with their most crucial life decisions because they know that only you have the expertise to help them make the right ones. The experiences you share at a human level also makes them know that you truly get them and will always make the best decisions for them."

With FAIS requiring a Suitability Analysis, it remains key to choose the most appropriate solutions ... but this is easier said than done, given that there are so many options and choices.

"To support you and back the decisions you make for your customers, we're introducing the Solution Recommendation tool – which is one of the most exciting developments with our new proposition," explains Budhram.

HOW IT WORKS

- The Solution Recommendation tool seamlessly collects the information of a customer and the financial needs analysis that an adviser performed on Old Mutual's XPlan.
- You have a number of options:
  - ✓ you can connect to XPlan
  - ✓ choose the IFA version of XPlan
  - ✓ do your own Financial Needs Analysis (FNA) and enter the Solutions Recommendation manually.
- It will ask you a few simple questions based on this information and then recommend a suitable solution. This is achieved by using algorithms that tap into Old Mutual's house views and intelligent defaults.
- Every step of the Solution Recommendation process is documented, including the reasons for selecting or de-selecting certain benefits or features for your customers.
- After this quick process, you will receive a Solution Recommendation Report.
  - ✓ Briefly, the report is a quote and a Customer Advice Record, all in one.
  - ✓ It fully details the needs identified in the FNA, as well as any deviations from this and the reasons (e.g. affordability).
  - ✓ It also explains the rationale or reasons for the recommendation in plain and simple language.
- And it is quick! From leaving XPlan, you should be able to comfortably complete the Solution Recommendation step in less than five minutes.

"Think of it as a robot in your hands. You tell it what it needs to know about your customer and it recommends solutions based on the information provided. You can use its recommendation as a soundboard to verify your own recommendation, which means you can either proceed with the tool's recommendation, or you can change it as you deem necessary given your customer's circumstances."

Budhram explains that unlike with robo-advice, financial advisers and the Solution Recommendation tool are not performing the same function.

"It is key to understand that the Solution Recommendation tool is really there to support you during the advice process and ensure that you meet the necessary compliance requirements. It gives you and your customer peace of mind that you've considered all your customer's needs – and the information will be stored online for you to revisit at a later stage, if needed."

requests online – which means you are always in the know.

"Besides the legal requirements to keep a record of all financial advice conversations, online access and storage of documents makes it easier for financial advisers to conduct business on the go and thus improve their own turnaround times and all-round customer service," she says.

ADVISERS CAN NOW FOCUS ON ENGAGING IN MEANINGFUL CONVERSATIONS WITH CUSTOMERS

The seamless experience – from the solution recommendation stage, to quote and the issuing of the policy – means that advisers can focus on engaging in meaningful advice conversations with their customers.

"We're introducing systems that will save our advisers' time by, for example, pre-populating personal information, saving advice records securely in a cloud for them to access easily, and making quick underwriting decisions," Budhram says.

Funeral policies can now be issued on the same day, and life policies and severe illness policies can be issued much quicker than ever before.

The wide range of benefits ensure that a comprehensive range of customer needs are addressed. "What we have now is essentially cover that evolves with the customer's ever-changing life needs, ensuring that what matters most to them is always protected," says Budhram.

"We are confident that Old Mutual's new insurance proposition is intuitive and intelligent, and it has been designed with the needs of customers and financial advisers in mind. The dynamic quote process, choice of modular benefits and automated solution recommendation will help advisers to design individually tailored plans that meet customers' financial needs in one journey," she concludes.

Lizl Budhram, Head: Advice, Old Mutual Personal Financial Advice

Old Mutual's Personal Cover offering includes Life, Funeral, Disability, Illness and Future insurance, and extra features which can be added such as Cashback and Premium Protection.

- **Life insurance** pays out the cover amount, tax-free, when the insured person dies. You can choose whether you want to leave your family with a once-off sum of money or a regular monthly income, or both. Your beneficiaries can choose how to spend the money. You also get cover for up to 30 days before you pay your first premium.
- With **Funeral insurance**, you can cover up to 22 family members and an unlimited number of dependent children. If an insured person dies, Old Mutual will pay out the cover amount tax-free and within hours of receiving a valid claim. You can also choose what expenses you spend it on.
- With **Disability insurance**, depending on which product you choose, Old Mutual will pay out a single tax-free amount or a monthly tax-free payment, if, due to an illness or injury, you are impaired, unable to work or take care of yourself.
- With **Illness insurance**, Old Mutual will pay out a single tax-free amount if you're suffering from a severe illness to help with your recovery or day-to-day expenses.
- With **Future Insurance**, you get underwritten at your current age, the younger and healthier the better, so you can get cover in the future without going for medical tests and you pay a premium that's based on your current good health. This way, you circumvent potentially higher premiums or exclusions if your health deteriorates.
- And lastly, all customers who are signed up to **Old Mutual Rewards** will get a percentage of their premiums back in points every month for simply having cover. They can invest, donate or spend their points with any of the wide range of partners on the Rewards programme.

NIC SMIT
Head of Product and Pricing, FMI (a Division of Bidvest Life Ltd)

Innovation in income protection

Traditional income-protection risk assessment models are outdated as they do not sufficiently cater for the growing number of gig workers (like freelancers, independent contractors and those earning from multiple income sources), who are often not working consistently, have no formal contracts in place, or who are unable to define what their anticipated income will be at any given point.

At FMI, we've come up with a solution where these individuals can now qualify for cover to protect their income against the risk of injury or illness. How we've done this is by separating a person's occupation from how they earn their income, which we call 'occupation status'. By having clear definitions, rules and procedures around occupation status, we can widen the range of people who can now qualify for income protection, and include more of those who choose to earn their income in a different way.

Independent contractors: We define an independent contractor as someone who is employed to work for an employer under a fixed-term, temporary or project employment contract. The traditional approach to underwriting contract workers results in a binary outcome – either full income protection cover is granted, or cover is declined. This results in any contract worker that doesn't fit neatly into the insurer's definition of good risk being unable to take out cover. At FMI, through our clear underwriting process, we can assess a contract worker across multiple scenarios, as well as offer a range of different cover solutions, which opens up cover to a wider range of contract workers than ever before.

WE ARE BRINGING CHANGE AND INNOVATION TO A RECEPTIVE MARKETPLACE

Freelancers: Much of the confusion that arises when freelancers apply for cover is that the term 'freelancer' means different things to different people. Freelancers may be those who have signed a temporary or fixed-term employment contract with one or more employers. In these cases, a freelancer would fall into the independent contractor occupation status. But what about freelancers who haven't signed a non-permanent employment contract, but rather quote for business and invoice for time spent working? In these cases, these freelancers would fall into the self-employed occupation status. There is often an incorrect perception that these lives work inconsistently, which introduces risk to any income protection cover offered to them. But compare someone who works like this against a self-employed electrician who visits homes to repair and install wiring and lighting. These two lives perform very different occupations, but from an occupation status perspective they are very similar – both only work when they have jobs to perform, and the risk of inconsistent work for both lives is almost identical.

Multiple income streams: Many South Africans today desperately need the additional income that a side hustle brings them. We have designed clear rules that we use to determine how significant and consistent the work is, and we have different solutions that allow your clients to protect that income even where it is inconsistent.

We are bringing change and innovation to a receptive marketplace, and will continue to do so in order to remain relevant in our ever-evolving employment landscape.

JOSUA JOUBERT
Chief Executive & Principal Officer: CompCare

CompCare brings value to healthcare in stressed economy

CompCare will be entering 2021 in a strong financial position, armed with a comprehensive range of 15 products, all with added benefits.

While 2020 will go down in history as the year when everything changed, it has been a productive and successful year for the scheme, with the Selfmed merger with CompCare successfully concluded, allowing CompCare to almost double its size to approximately 33 000 lives.

At 47%, the solvency ratio of CompCare is well in excess of the 25% required by the CMS, thereby living up to its independent ranking as one of the most financially sustainable schemes on the market. This takes the accumulated funds per principal member to more than R21 000, which is precisely for eventualities such as COVID-19.

Affordability challenges have become a fact of life the world over, with many healthcare consumers focused on finding lasting value. In response to this, we will be implementing a weighted average contribution increase of 4.6% across all options in 2021, along with a host of enhanced benefits. In certain instances, our contribution increase is a low 3.5%. On the popular UniSave, the increase is 4.8%, while on NetworX it ranges between 3.5% and 5.1%, in line with salary bands.

We have developed an array of benefit options that fit every need and pocket. Our efficiency discounted, or 'ED', options offer exceptional value when using Netcare hospitals for elective planned procedures, and Dis-Chem pharmacies for chronic medication. This saving can amount to as much as 25% of the normal contribution rate. For corporates, we have an option for everyone, from top-ranking executives to the lowest income employee, all within one scheme.

> **IN CERTAIN INSTANCES, OUR CONTRIBUTION INCREASE IS A LOW 3.5%**

Millennials and recently qualified graduates are looking for maximum flexibility with a focus on lifestyle benefits. In response to this, we have re-designed the SelfNet option to address both financial and healthcare benefits. At a contribution rate of just below R1 700, the newly revamped SelfNet – with its wide array of attractive benefits – provides great value for money.

UniSave stands head and shoulders above similar products in the market in terms of its savings component and value for money. It provides comprehensive unlimited hospital cover, a flexible savings account for day-to-day healthcare requirements, and acute medicines are covered at full cost without the need for co-payments.

MedX and MedX ED are highly cost-effective, market-leading hospital plans that protect members and their families from sudden and unforeseen medical emergencies. They also offer preventative care benefits, active lifestyle programmes including fitness assessments, exercise prescription benefits, nutritional assessments and healthy eating plans, as well as post-rehabilitation benefits.

The NetworX Option is ideally suited to international students, and corporate clients looking for an affordable, quality benefit package for lower earning employees. The NetworX Option provides exceptional value as an entry-level medical scheme option, targeting members earning below R10 000 monthly for whom affordability is a priority.

For 2021, CompCare has added a COVID-19 benefit to all but one of its benefit packages, which extend well beyond the PMB requirements.

Long-term success in the South African healthcare arena requires flexibility, an innovative approach, expert skill and the willingness to challenge the status quo. CompCare has all of these credentials. While our systems are state-of-the-art, as they should be after 42 years in healthcare funding, it is the personal touch and the care we provide that makes a real and lasting difference to the members whose lives we touch.

EDITOR'S BOOKSHELF

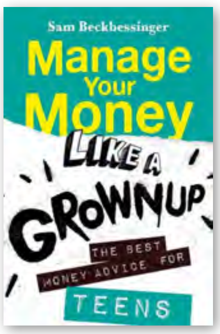
SO, FOR THE RECORD: BEHIND THE HEADLINES IN AN ERA OF STATE CAPTURE

BY ANTON HARBER

Veteran journalist Anton Harber brings all his investigative skills to bear on his very own profession, the media. For two years he conducted dozens of interviews with politicians, journalists, policemen and 'deep throats', before piecing together two remarkable tales.

The first is a chilling story of police death squads, rogue units and renditions, and how South Africa's leading newspaper was duped into doing the dirty work of corrupt politicians. The second starts with a broken and discarded hard drive and evolves, with many near misses, into the exposure of the depths of the Guptas' influence over the ruling party.

Harber's two tales reveal the lows and highs of journalism during an era of state capture. His book is both a disquieting exposé of how easily the media can be duped by a conniving cabal for its own selfish ends, and a celebration of brilliant investigative reporting by brave and ethical journalists.



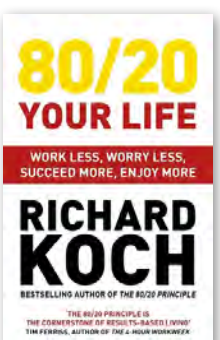
MANAGE YOUR MONEY LIKE A GROWNUP: THE BEST MONEY ADVICE FOR TEENS

BY SAM BECKBESSINGER

You're never too young to start saving and learning about money. *Manage Your Money Like A Grownup*, by bestselling author Sam Beckbessinger, aims to get younger readers thinking about the basics of money – laying the solid foundation in financial education that most grownups today never had.

With illustrations, jokes and fun facts designed to appeal to even the most easily bored reader, this book covers all the basics South African teenagers need to know about money, such as the relationship between earning, saving and spending; how investing works; why compound interest is a superpower; why we pay taxes; and the ethics of money.

Informed by discussions with teens and their parents, the book aims to equip readers with practical tips for earning and investing money at any age, as well as questions to spark lively dinner-table conversations.



80/20 YOUR LIFE: WORK LESS, WORRY LESS, SUCCEED MORE, ENJOY MORE

BY RICHARD KOCH

Richard Koch's original bestseller, *The 80/20 Principle,* gave millions of highly effective businesspeople around the world a serious advantage in the pursuit of success. In *80/20 Your Life,* Koch shows how to use this powerful tool in all areas of your life.

The book highlights how working out the few things that are really important, and the few methods that will give you those things, leads to increased happiness and greater success. Readers will discover why 'less is more' isn't just a saying, but a sure-fire method to achieve your goals and live your best life.

ALL RISE

BY DIKGANG MOSENEKE

At the young age of 15, Dikgang Moseneke was imprisoned for participating in anti-apartheid activities. During his ten years of incarceration, he completed his schooling by correspondence and earned two university degrees. Afterwards, he studied law at the University of South Africa.

Practising law during apartheid in South Africa brought unique challenges, especially to professionals of colour within a fraught political climate. After some years in general legal practice and at the Bar, and a brief segue into business, Moseneke was persuaded that he would best serve the country's young democracy by taking judicial office.

All Rise covers his years on the bench, with particular focus on his 15-year term as a judge at SA's apex court, the Constitutional Court, including as the deputy chief justice. As a member of the team that drafted the interim Constitution, Moseneke was well placed to become one of the guardians of its final form. His insights into the Constitutional Court's structures, the personalities peopling it, the values it embodies, the human dramas that shook it and the cases that were brought to it make for fascinating reading.

All Rise offers a unique insider's view of how the judicial system operates at its best and how it responds when it is under fire. From the Constitutional Court of Arthur Chaskalson to the Mogoeng Mogoeng era, Moseneke's understated but astute commentary is a reflection on the country's ongoing but not altogether comfortable journey to a better life for all.

SUDOKU

ENTER NUMBERS INTO THE BLANK SPACES SO THAT EACH ROW, COLUMN AND 3X3 BOX CONTAINS THE NUMBERS 1 TO 9.

			7	9	1		3	
	7	6		2				4
				3				7
		9			3	2		
6			4		2			1
		7	1			5		
8				1				
1				8		7	2	
	9		3	4	6			

EDITORIAL

EDITOR: Janice Roberts
janice.roberts@newmedia.co.za
LAYOUT & DESIGN: Julia van Schalkwyk
SUB EDITOR: Anita van der Merwe

ADVERTISING

ADVERTISING SALES EXECUTIVE:
Mildred Manthey
Direct: +27 (0)11 877 6195
Cell: +27 (0)72 832 5104
mildred.manthey@newmedia.co.za

DISTRIBUTION & SUBSCRIPTION

Felicity Garbers
felicity.garbers@newmedia.co.za

PUBLISHING TEAM

GENERAL MANAGER: Dev Naidoo
PUBLISHING MANAGER:
Sandra Ladas
sandra.ladas@newmedia.co.za
PRODUCTION MANAGER:
Angela Silver
angela.silver@newmedia.co.za
ART DIRECTOR: David Kyslinger

MANAGEMENT TEAM

CEO NEW MEDIA: Aileen Lamb
COMMERCIAL DIRECTOR:
Maria Tiganis
BRAND STRATEGY DIRECTOR:
Andrew Nunneley
CHIEF FINANCIAL OFFICER:
Venette Malone
CEO MEDIA24: Ishmet Davidson

Published by New Media, a division of Media24 (Pty) Ltd.

JOHANNESBURG OFFICE: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092
Postal Address: PO Box 784698, Sandton, Johannesburg, 2146
Tel: +27 (0)11 877 6111 | Fax: +27 (0)11 877 6198
HEAD OFFICE: New Media House, 19 Bree Street, Cape Town, 8001
Postal Address: PO Box 440, Green Point, Cape Town, 8051
Tel: +27 (0)21 417 1111 | Fax: +27 0)11 877 6198
newmedia@newmedia.co.za

Printed by *novus print*, a division of Novus Holdings