Today's Trustee

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June/August 2023

R400BN LEFT SA IN THE PAST YEAR — what does this mean for *your* retirement fund?

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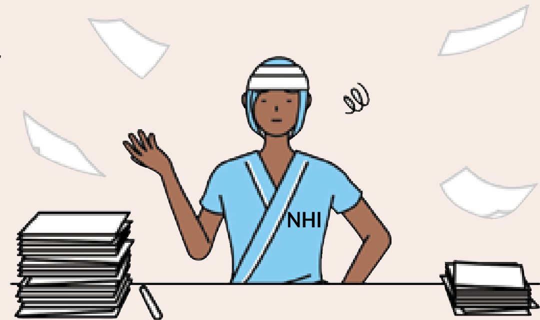

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Offshore exodus can be reversed

For years, finance institutions like the International Monetary Fund (IMF) and ratings agencies like Moody's have given South Africa the benefit of any doubt there might have been on the economic front.

Now, however, rainbow optimism seems to have given away to pessimism.

Last month, the IMF said that it expected South Africa's growth rate to fall to 0.1% this year, before rebounding to some extent, to post 1.5% over the medium-term. The reasons are obvious: an energy utility that can't power the economy, only 38 of our 257 municipalities getting clean audits, and a government that has gone AWOL when it comes to vital reforms, and is courting the global pariah that is Russia.

It is in this rather bleak context that *Today's Trustee* has reported that over the past year, an alarming R400bn has flowed offshore from our investment funds, much of this from our pension funds.

As our cover story illustrates, the spur for this has been finance minister Enoch Godongwana's decision to hike the offshore ceiling for local funds to 45%. And funds have reacted, shifting large amounts of money offshore to chase "superior risk-adjusted returns", as Ninety One's Natalie Phillips told Phakamisa Ndzamela in this edition.

Not all of this should be cause for concern — some fund managers have shifted money to get access to a wider investable universe, like technology firms, of which there are precious few listed on the JSE. In other cases, however, it's an instinctive reaction to South Africa's dimmer prospects, as underscored by the IMF's report.

Clearly, this isn't great. It implies there will be, at least for now, less capital available locally to invest in emerging companies that need money to grow, and less money to support new listings on our stock exchange.

It is in this rather bleak context that Today's Trustee *has reported that over the past year, an alarming R400bn has flowed offshore from our investment funds, much of this from our pension funds.*

Capital, of course, tends to reach for the greatest opportunity for growth. So, in a struggling local economy, it's hardly surprising that money has flowed out the country.

And yet, partly because of our

arduous last few years, there are signs the narrative might be changing. The energy prospects for 2024 are looking, for the first time in ages, surprisingly positive, with a few units at Kusile now fixed and a host of renewable energy projects about to begin delivering what they promised.

On the investment front, there are also glimmers of hope.

BofA Securities does a monthly survey of South African fund managers, and their most recent findings in June were that 72% of them believe local equities are undervalued, and a record 94% say the same of local bonds.

This, BofA Securities says, is "supportive" of valuations, with the number of fund managers who plan to *"buy"* equities now at the highest level since 2009. Critically, none of the managers are planning to sell stocks.

Don't be mistaken: this *doesn't* mean they all expect the South African economy to suddenly take a U-turn and grow sharply — 39% still expect it to weaken over the next year — but what this does suggest is that at the right price, South African assets can still be attractive. In other words, local assets have been beaten down so terribly in recent times, investors are eyeing a turnaround story.

All of this becomes quite important now that there's been some sort of clarity over the new two-pot system, which is due to be implemented from March. Not everyone thinks that deadline is realistic, as Laura du Preez reports in this edition: there's a lot to do, from tweaking administration systems to figuring out new investment strategies.

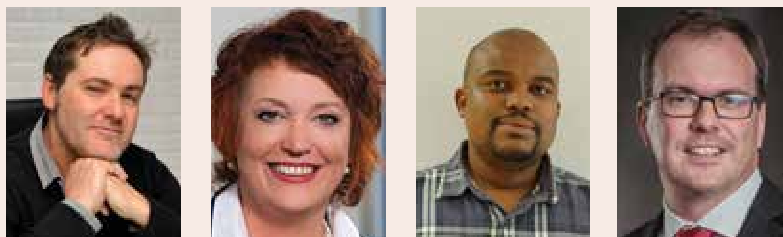
But the fact is, this legislation speaks to South Africa's strengths, which are often discounted by investors — including a world-class National Treasury that is able to implement a nuanced law like this, and a highly-sophisticated retirement fund system, headed by some of the smartest people around.

Not all doom and gloom

These are attributes of the country many have discounted in their rush to shunt assets offshore, often indiscriminately. Inevitably the narrative will shift back towards South Africa at some point — hopefully, this will happen sooner rather than later, if the government can get its act together and begin implementing the reforms it promised.

What the country needs right now are a few solid months of good news, a political willingness to stop scoring own goals, and energy security. When *that* happens, you can expect a chunk of the R400bn that has flowed overseas to return.

The Editorial Team



Today's Trustee **editorial team from left to right: Rob Rose, Rosemary Hunter, Phakamisa Ndzamela and Rowan Burger**

When the best laid pensions plans go awry ...

In a rather grim corroboration of what *Today's Trustee* has warned about repeatedly, the inaugural Retirement Insights survey from banking group First National Bank (FNB) has revealed that 89% of people plan to keep working after retirement as they don't have enough money saved.

The survey, conducted among 1069 people earlier this year, found that while 74% of the respondents said they had a "plan in place" for retirement, a large number weren't confident this plan would deliver what they needed. And the findings underscored that for all but the wealthy, the respondents were "highly unlikely to maintain their current lifestyle in retirement".

To Sizwe Nxedlana, CEO of FNB private segment, the results highlighted the lack of a proper savings culture; rather than retirement savings beginning from the first day of work, the average age at which respondents began saving was 28 years old.

Says Nxedlana: "There is an urgent need to provide consumers with accessible solutions and education to help them better plan for retirement. We must also start retirement conversations."

Some of the more interesting findings related to the views of those older than 60, who'd already passed retirement age. For one thing, very few of this demographic could afford to stop working entirely — with only 21% fully retired.

Of this group, FNB said many expressed a real sense of regret.

"Lower- and middle-income customers rate their retirement planning knowledge and confidence as low. They also express limited ability to execute retirement plans, struggling to save enough each month, and failing to be on track for a comfortable retirement. Many respondents express feelings of regret for not preserving their retirement funds and cashing out prematurely," the bank noted.

Nxedlana ... lack of a proper savings culture

This research underscores other recent findings. Four months ago, for example, a Sanlam survey of 5200 people found that only 7.2% felt "well-prepared" for retirement, with 14.7% saying they were "somewhat prepared". Perhaps more worrying, only 36% of those who responded even had a retirement fund — a figure which rises only marginally to 52% for those aged between 55 and 59.

Seen holistically, these surveys ought to sound the alarm for policymakers, given that many of those who'd like to work after retirement age will likely be forced out of their jobs. And in that case, it may fall to the state to care for them.

As it is, those without a pension who responded to the FNB survey said they plan to rely on "alternative sources of income" for retirement — but this mainly involved either selling assets, relying on family, or applying for a government old age grant.

Many simply didn't get the imperative to save.

Of those who haven't saved for retirement, 65% cited specific "barriers", including that they couldn't afford it.

As one said: "We just make it with our combined salaries, there just isn't any extra money for anything"; another said he'd "consider taking a retirement plan when I am close to 50 years because now I'm not even 30 yet."

Lytania Johnson, CEO of FNB personal segment, said it was "extremely concerning to see the statistics indicating that a large proportion of respondents who have not planned for retirement may rely on social grants as part of their retirement."

One step closer to an NHI car crash

It's time for the hundreds of trustees overseeing South Africa's 72 open medical aid schemes to sit up and pay attention: both houses of Parliament this month gave the green light to the controversial National Health Insurance (NHI) Bill.

The bill itself lays the platform for a new healthcare dispensation in South Africa, in which medical aids as we know them will be largely sidelined, marginalised to a position where they're only able to offer "complementary services."

Critics cite many problems with the bill, but perhaps the central one is that it's simply a financing system (which creates a central fund that will have the monopoly to buy healthcare services from healthcare professionals) rather than a much-needed overhaul of the entire mismanaged public healthcare apparatus.

The ANC parliamentarians who voted for the NHI Bill have no idea how it'll be funded, though economists say the only real way to do this would be through an immense tax hike across the board. On this score, the health department has mooted a new payroll tax, a VAT hike or new general taxes.

But, as SA Medical Association chair Mvuyisi Mzukwa has pointed out, the "misappropriation of funds in various state-owned entities casts doubt on government's ability to handle the healthcare budgets responsibly."

Photo: https://www.parliament.gov.za/person-details/307

Phaahla ... has chosen to play politics

Others point out that pretty much every central fund run by government — from the Road Accident Fund to the Guardian's Fund — has been riddled with corruption. Why would this centralised NHI Fund be any different, they ask.

As author Anthony Butler wrote in *Business Day*, the bill is a "deeply disappointing product for a decade or more of deliberation," as it entirely fails to address the rot at the heart of South Africa's healthcare system.

"It will not divert resources from ineffectual treatment programmes towards prevention and health-building initiatives" and "basic and appalling problems of mismanagement and corruption in the public health system will not be addressed."

Government leaders have entirely ignored this criticism. Health minister Joe Phaahla, in particular, has chosen to play politics, rather than deal with the legitimate complaints around the bill. Weeks ago, he said opposition to the bill comes only from those with "narrow interests" who fear "losing some of the super profits and privileges which they currently enjoy."

Yet Phaahla has failed to provide clarity on the funding, nor how the NHI Bill will address the current plague of mismanagement in public hospitals and clinics.

As Busi Mavuso, CEO of Business Leadership SA, put it, this version of NHI "will leave all South Africans worse off, in a system in which state provision becomes impossible and private health

provision is effectively closed down."

NHI is also one of the few points on which opposition parties agree.

The EFF describes it as a "scam", while the Democratic Alliance's Michele Clarke says that "once the NHI is implemented, the nine million people [on medical aids] will have to be accommodated at an already overburdened public health system."

And yet Phaahla hasn't been able to explain any of it — how NHI will work practically, how it will be funded, or why the full rollout would work any better than the NHI "pilot projects", which failed dismally.

It's time medical scheme trustees woke up to what they stand to lose.

Red flags raised on "greenwashed" pensions

In pension fund circles, "sustainable" investment strategies are the flavour of the hour. Every fund falls over itself to assure members that they're implementing sound "environmental, social and governance (ESG)" principles in their funds.

In practice, this is far from the case. In May, the London-based environmental thinktank, The Carbon Tracker Initiative, reported that despite pledging support for initiatives designed to limit global temperature increases to 1.5-degrees, asset managers had invested $376bn in oil and gas firms, according to *The Guardian*.

More pointedly, 160 funds which have a "green label" held $4,6bn in 15 fossil fuel firms, including ExxonMobil, Chevron and TotalEnergies, the newspaper reported.

This would appear to fall firmly into the category of "greenwashing" — pretending to be "eco-friendly" in order to solicit investment, while doing precisely the opposite.

To counter this practice, the European Union is now drawing up a list of mandatory ESG disclosures that funds will have to make. But regulators in the region say greenwashing is rife amongst banks, which often claim false ESG credentials.

"Cherry-picking, omission, ambiguity, empty claims including exaggeration, misleading use of ESG terminology such as naming and irrelevance, are seen as the most widespread misleading qualities," the European Securities and Market Authority said.

With this sort of duplicity now common, pension fund trustees have been warned that they'll have to quickly learn what truly passes muster when it comes to ESG.

Last month, the UK's pensions regulator said that while trustees seem to think that addressing the climate crisis is a "matter for government and policymakers," this isn't the case.

For too long, too few trustees focused on climate, ESG and wider sustainability issues in any significant detail. However, trustees can no longer ignore the elephant in the room," wrote Louise Davey, the regulator's director of policy.

While this has become an imperative for South African pension funds too, the Eskom-induced energy crisis has provided cover for some asset managers to keep investing in fossil fuel companies.

In May, the environmental non-profit group Urgewald named the Government Employees Pension Fund (GEPF), the largest pension fund in Africa with R2.3 trillion in assets, as the biggest investor in fossil fuel projects on the continent.

Urgewald said that R135bn of the GEPF's portfolio was invested in oil, coal and gas companies, including R103bn in bonds issued by the country's largest greenhouse gas emitter, Eskom.

When asked about this by *News24*, however, the GEPF brushed it off, saying that South Africa's carbon emissions are "relatively small" compared to first world countries.

"As such, we believe that those countries that emit the most need to do much more to reduce their carbon footprint," it said.

This obvious attempt to pass the buck has found little favour with the likes of Just Share, a locally based non-profit shareholder activism organisation. Last month, Just Share attended the AGMs of Absa and Nedbank, putting pressure on both the banks to "walk their talk" by cutting back on their lending to fossil fuel companies. ■

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As floodgates open, R400bn in SA cash heads offshore

While a large amount of capital has left the country, leaving a smaller pool that can be deployed to revive the South African economy, it has helped boost pension returns.

By Phakamisa Ndzamela

More than R400bn has left South Africa since February 2022, following government's decision to hike the amount of money local retirement funds can invest offshore.

Research by Navigare Securities, a South African stock broking firm, showed that in the 15 months between February 2022 and May 2023, local asset managers showed a net outflow in shares worth R223bn on the Johannesburg Securities Exchange (JSE). Much of these proceeds were then invested abroad.

Ruanne Foster, head of data science at Navigare Securities, said the R223bn included cash flows from newly listed and delisted companies on the JSE. If these newly listed and delisted companies are excluded, the amount of JSE shares sold by local asset managers reduced to R181bn.

Foster said that R223bn was largely from pension funds, but also included life insurers and unit trusts.

However, in addition to the JSE-listed shares that were sold, Foster said South African asset managers *also* sold R202bn worth of local bonds — and the proceeds from this were also largely used to invest offshore.

Taken together, this shows that more than R400bn has headed offshore after the landmark decision by finance minister Enoch Godongwana, who hiked the overall ceiling for retirement funds to invest offshore to 45% during his budget speech in February 2022. Before this, funds could only invest a maximum of 30% offshore, with another 10% for investments on the African continent.

Godongwana's move was widely hailed at the time, as it gave institutional investors the chance to boost returns in overseas markets. The flipside, as we now see, is that a large amount of capital has left the country.

"There has been an acceleration of externalisation of wealth," says Navigare Securities CEO Semadi Motau. "We have not had a boom of new economy stocks listings in the last 10 years. Naspers and Prosus are our biggest story around new economy stocks. So if you are a South African investor seeking exposure to the Teslas of this world then diversification into offshore holdings is the way to go."

It's a valid point, since many South African investors felt they were missing out on the returns accruing to new-era technology companies, such as Elon Musk's electric vehicle manufacturer, whose share price has risen 1022% over the past five years in the US.

This illustrates, as the Old Mutual Investment Group told *Today's Trustee*, that the South African equity market is competing increasingly with global equity for attention, as you'd expect in an increasingly interconnected global marketplace.

Natalie Phillips, deputy MD for the Africa

Phillips ... the appetite for new listings will diminish

Moodley ... risky currency mismatch

client group at asset manager Ninety One, said Godongwana's loosening of the rules last year broadened the opportunity for South African savers.

Phillips noted that since South Africa constitutes less than 1% of global indices, the greater flexibility to invest abroad gives investors the chance to get superior risk-adjusted returns over time.

But, she stressed, there are other potential knock-on impacts, including that there's a smaller pool of capital left in the country which can be deployed to revive the South African economy — money desperately needed to support local firms.

"The impact on local markets is that we are going to be left with a reduced local listed opportunity set," she said. "The appetite for new listings will diminish, given that almost half of a retirement fund can deploy capital [outside] Africa. The bigger challenge is retaining local investment talent given that the pool of assets for which they can manage money in the local market has diminished."

Still, as Navigare's Motau pointed out, the rule change was necessary to give local investors more options, and boost their savings for retirement. He cited the oil industry: outside Sasol, there aren't a lot of avenues in the domestic stock market to benefit from the oil price rally.

"So, when Russia invaded Ukraine and energy was all the rage, you needed to be able to play energy stocks. You want to be able to buy BP and Royal Dutch Shell and Exxon Mobile and all other related companies. But you can't do that — all you had in South Africa was Sasol," Motau said.

Stopping short of the ceiling

In *Today's Trustee's* survey of six asset managers, it seems most investment managers grabbed Godongwana's opportunity with both hands, and have increased their offshore exposure to just under 40% of their portfolios (see page 14).

In Ninety One's case, its Opportunity Fund used the money from the JSE delisting of beverages company Distell to invest abroad. Equally, Ninety One also took profits made from their shareholdings in Richemont and BHP and allocated the proceeds to global equities. Phillips said that last year Ninety One initiated new positions in four global equity stocks.

One of the bigger questions was whether the South African asset managers would ramp up their overseas exposure right up to the 45% ceiling. However, those managers polled by *Today's Trustee* all suggested they'd stop short of this, somewhere between 38% to 40%.

Motau said one of the reasons for this reluctance is the need to manage unpredictable shifts in the rand. For example, if an asset manager has close to the 45% limit of its money offshore, and the rand weakens (such as it did recently, falling from R16/$ to R19.50/$), it could mean the fund would breach its investment limits.

Joelene Moodley, the newly appointed principal officer of the Sanlam Umbrella Fund, said another reason for the reluctance to hit the ceiling is that many pension fund members have a short-term investment horizon. So, in a case where people are set to retire soon and need to use their rand savings to buy a guaranteed annuity, it would be too risky to have such a currency mismatch.

Encouragingly, the picture isn't entirely negative. This is because, while local asset managers have used Godongwana's opening to shunt money offshore, the good news is that foreign investors have been ploughing money into South African shares too.

Foster said Navigare's research showed there has been R45bn worth of inflow by foreigners into South African companies since February 2022 — a large chunk of which came from overseas passive exchange traded funds.

To get this data, Navigare uses information from Strate, the share depository responsible for holding digital records of ownership for all securities such as equities, bonds and money markets.

"This allows us to decipher types of investors — for example, passive investors versus active, the origin of that particular shareholder, are they South African, are they offshore, where are they placed offshore," Motau said.

Back in 2016, Navigare invested heavily in machine learning, betting that big data would become ever more crucial in investment analysis and understanding market flows. "One of the products that came out of that process is this particular product, around shareholder analysis and fund positioning," Motau noted.

To get a meaningful picture, Navigare is also able to drill-down to distinguish investment flows between dual-listed SA companies and non-dual listed companies.

Typically, he said, local asset managers have been selling their most liquid South African shares to raise cash to invest overseas — with the banking stocks, some telecommunications shares, and retail counters the easiest to liquidate. Highly liquid dual-listed companies were also sold.

"They will sell a British American Tobacco, or they will sell Anglo, BHP, Richemont, because that is the easiest way or quickest way to raise money without impacting on the value of the portfolio adversely," Motau said.

The US, tech shares, the big winners

The question is, where is all this offshore money going exactly? And which regions are benefitting from these flows?

Solly Tsie, head of investment strategy at Sanlam Corporate Investments, said his company has maintained a broad exposure across various regions, in line with widely used global benchmarks such as the MSCI All Country Index.

Tsie said this index has a weighting of about 60% exposure to the US, but is also exposed to other developed country stock markets including that of Japan, the UK and Canada. Only about 13% of the MSCI All Country Index is allocated to emerging markets, including China.

Mike Adsetts, the deputy chief investment officer at Momentum Investments, said his company's offshore strategy rests mostly on an allocation to developed markets, as well as to the US dollar and medium-duration bonds (as interest rates have increased globally).

Momentum has also deepened its collaboration with Robeco, an investment and asset management company in the Netherlands.

Coronation's offshore exposure is similar — also being weighted towards developed markets such as the US.

Ninety One said that towards the end of last year, it hiked its exposure to developed market bonds, as countries were thought to be nearing a peak of their interest rate hiking cycle.

But, for its balanced fund, Phillips said Ninety One has now increased its exposure to Chinese equities, as that country's growth prospects have appeared to brighten in recent months.

In Ninety One's Opportunity Fund, Phillips said Ninety One owned stocks predominantly based in developed markets with exposure to key long-term themes — such as data and digitisation, nutrition, health and beauty, and travel and luxury goods.

In Allan Gray's case, its overseas allocation is done through its offshore partner Orbis.

Says Earl Van Zyl, head of product development at Allan Gray: "Looking through Orbis' equity exposure, the largest sector allocation was to financials (insurers, banks and holding companies), basic materials (mining and oil) and consumer staples (tobacco, alcohol and food retailers)."

Quite clearly, this wider exposure to global assets has helped boost pension returns, at a time when the South African economy is looking anaemic. But as Navigare's figures lay bare, it has come at the cost of a large outflow of capital. The hope is that once South Africa's growth prospects turn for the better, some of this capital will return home. ■

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What should be the offshore ceiling?

The search for bigger returns overseas is a tightrope act for retirement fund managers. So, what are their strategies?

By Phakamisa Ndzamela

It's clear that the pension savings of South Africans are increasingly being invested in overseas markets, as retirement fund managers sell out of JSE-listed companies, real estate and domestic bonds in search of bigger returns overseas.

This follows the announcement by finance minister Enoch Godongwana in February 2022 to allow funds to invest up to 45% of their capital offshore — up sharply from 30% previously.

The question is: did the local asset managers immediately push their overseas allocation up to this ceiling, or not? And if not why?

Today's Trustee polled six large South African asset managers for the answer. This revealed that while most had hiked their percentage of offshore investments from below 30% previously, they've settled at just below 40% offshore exposure.

Natalie Phillips, deputy MD of the Africa client group at Ninety One, said that in their Balanced Fund, they'd hiked the allocation of offshore assets from 26% to about 38% over the last year — with most of that increase happening in the first quarter of 2023.

To do this, they cut their exposure to South African shares on the JSE, local real estate, and domestic bonds. In Ninety One's Opportunity Fund, it also received cash from the buy-out of drinks maker Distell — money it then invested offshore.

Ninety One said that by the end of March, it managed almost R500bn on behalf of SA institutional investors, of which about 40% represents retirement fund savings. "Approximately R50bn of these assets are invested offshore through a combination of multi-asset and specialist mandates, as well as dedicated offshore strategies," Phillips said.

Asked if there was a maximum amount they'd invest offshore, Phillips said there's no explicit limit.

But when it came to the Balanced Fund specifically, Phillips said Ninety One didn't believe it was optimal to have a fixed 45% offshore allocation. Rather, based on their "strategic asset allocation optimisation modelling, built around long-term historic asset class return, risk and correlation data," they believed their typical offshore allocation will be around 38% over time.

On the Opportunity Fund, Phillips said about 36% is invested offshore, though "we have increased our global allocation since the regulation change".

The trajectory was similar at Sanlam Corporate Investments, where offshore investments now account for just under 40% of the R120bn in retirement fund assets — up sharply from under 30% the year before. Even in the less aggressive portfolios, the allocation to offshore investments has risen.

Solly Tsie, head of investment strategy at Sanlam

Adsetts ... delivery against specific mandates

Van Zyl ... diversified exposure

Tsie ... flexibility to invest more offshore is welcome

Corporate Investments, said the business has sold South African inflation-linked bonds, equities and domestic property assets to finance the purchase of offshore assets.

Tsie said Sanlam's long-term target in its aggressive portfolios was for around 38% offshore assets. For the allocation to be lifted to the 45% offshore limit, Tsie stressed there'd have to be a "very compelling case" in terms of risk-adjusted returns and a strong rand.

But while Sanlam hasn't touched the limit, Tsie said the flexibility to invest more offshore is welcome, and retirement fund members have benefited from this move.

Momentum Investments, which manages about R130bn in retirement assets, said 35% of this is invested offshore — also up markedly from last year.

Mike Adsetts, the deputy chief investment officer at Momentum Investments, said their most aggressive portfolios now have about 38% offshore exposure, compared to between 28% and 30% previously.

Adsetts stated: "The increases in offshore exposure have been driven by two primary factors – direct allocations, where we have allocated about R3bn, and currency and market movements. The rand to dollar was around R15/$ at the start of the process and reached its weakest level of R19.82/$ on 25 May 2023. This had quite a material impact."

Even SA-based shares have strong global flavour

But as asset managers accelerated their offshore allocation, questions have begun to mount about how trustees can hold investment managers accountable for their overseas positions, given all the new variables that come into play.

Said Adsetts: "Trustees will need to have a stronger view [on] how portfolios match their liability profiles and allocate mandates based on this, rather than general market performance. Trustees will need to focus on delivery against specific mandates."

He noted it's unlikely that Momentum Investments will hit that 45% offshore ceiling — even in their higher risk portfolios, this only reaches about 41%, and this level only reduces as the mandate becomes more conservative.

The Old Mutual Investment Group has a strong offshore component, but its mix has changed: over the past year, it cut its exposure to global equities, but now holds more US bonds. About 26% of the Old Mutual Balanced Fund consists of offshore assets.

Earl Van Zyl, head of product development at Allan Gray, said the offshore exposure of its funds rose from an average of 30% in March 2022 to an average of 37% by May 2023.

Remarkably, the top 10 shares in Allan Gray's

balanced fund at the end of March 2022, and at the end of April this year, were all listed in South Africa — many of them being multinational companies which earn their revenue in global markets.

"Our estimates suggest that up to 80% of the shares held in our equity portfolios across our funds have economic exposure to markets outside South Africa," stated Van Zyl. "South African investors therefore get very diversified exposure [locally and to] global markets, even when they are investing in South African listed shares."

Allan Gray administers about R200bn in retirement savings, including living annuities, preservation funds and retirement annuities. Their average offshore exposure in living annuities is close to 40%, while in the retirement products, the average is 34%.

Van Zyl said Allan Gray has long argued for a steady loosening of foreign investment limits for South Africans. The asset manager's analysis indicated that the optimal long-term allocation for the average multi-asset fund is between 30% and 50%.

"The current 45% offshore limit is within the optimal range for most South African investors, whereas the previous limit of 30% did not provide sufficient flexibility to diversify offshore. We would not be supportive of lowering the foreign investment limit," Van Zyl said.

45% offshore exposure is too much

Over at Coronation, its rising offshore exposure isn't purely due to the higher ceiling. Still, this change in the law did allow Coronation to take advantage of the sell-off in global assets — and it increased its offshore exposure in its flagship global balanced funds.

Coronation manages over R400bn on behalf of South African investors, but its offshore exposure varies depending on the fund. For instance, the offshore exposure of its Coronation Global Houseview Strategy is currently close to the 45% limit.

"Our flagship Coronation Global Houseview Strategy had [about] 22% offshore exposure when the changes to the limit were announced. The increase in the … limit came at a good time, allowing us to increase our actual offshore exposure in the portfolio more than we would have been able to in the past, following the aggressive sell-off in global markets in 2022," it said.

It funded its offshore exposure by lowering its holdings in local equities and bonds. Coronation noted that while domestic stocks still offer attractive stock-picking opportunities, this must be balanced against the value and diversification available in offshore markets.

Nonetheless, Coronation doesn't believe South African retirement funds should have as much as 45% of their portfolio allocated to offshore assets permanently, regardless of valuations.

"The current 45% offshore limit is within the optimal range for most South African investors, whereas the previous limit of 30% did not provide sufficient flexibility to diversify offshore. We would not be supportive of lowering the foreign investment limit." – Van Zyl

"The new limit of 45% is a maximum and should be seen in this context. It is important to remember that a number of risks are introduced through increased foreign exposure, particularly given that the performance of retirement funds and, ultimately, the income that they provide to members, is measured and payable in rands," it stated.

Should the rand strengthen, for example, this could then hurt returns. As would an extended period of sub-par investment returns.

This, in other words, highlights the tightrope act entailed in hiking the ability of local pension funds to invest in overseas stocks. While this strategy has worked a treat this year so far — thanks to the frail rand — these gains could just as swiftly be reversed. ■

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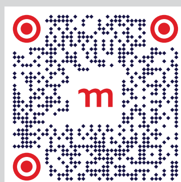

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Two pots: can it be done by March?

So, do we finally have some clarity? March 1, 2024 will be the deadline for implementation of the new two-pot retirement system. But that's less than a year away — and the industry is putting out mixed messages about whether it's even possible to lay the table for the new system in time.

By Laura du Preez

The implementation date for SA's new pension regime — the two-pot system — has now been officially confirmed in draft legislation: March 1, 2024.

But quite how ready the industry will be for the big switchover is very much in the air. Not least because of a raft of conflicting messages.

Days before the official announcement, Lorraine Mekwa, managing executive for client experience at Sanlam Corporate, boldly said at the release of Sanlam's annual Benchmark Survey that Sanlam will be ready.

And yet, shortly after, Allan Gray was quoted in *Business Day* as saying it would be "impossible" to be ready in time.

So, which is it? Can the industry actually do it, or not?

Perhaps working backwards might illuminate this picture.

The industry, speaking through the Association for Savings and Investment SA, has been consistent on one thing: it will need 18 months after the legislation is finalised to implement the new system.

Now, the final legislation is not expected to be ready before December (shortly before most businesses close for the better part of a month), which will leave just a few weeks to prepare for an expected flood of applications to withdraw money from the new savings pots on March 1.

Marian Gordon, principal investment consultant at Simeka Consultants and Actuaries, says the latest draft legislation definitely takes a step forward by clarifying what's required — but March 1 is still a tight deadline.

Many don't realise quite what levers need to be pulled behind the scenes to make this happen.

As it stands, the bulk of what administrators are busy with now is ensuring contributions and investment returns are channelled to the different pots, and automating payment systems to allow members to request withdrawals directly, where these previously came through employers.

Leanne van Wyk, pension lawyer and

Gordon ... different investment strategies for the different pots

Van Wyk ... large administrators are giving mixed messages

director at ICTS Legal Services, says large administrators are giving mixed messages: the industry bodies are telling National Treasury the new system simply *cannot* be implemented by March 2024, but the administrators themselves are telling their clients they can do it.

Blessing Utete, managing executive at Old Mutual Corporate Consultants, says Old Mutual is doing everything it can to make sure its administration systems are ready to effect the payments.

Stephen Walker, head of actuarial and actuary to the Old Mutual commercial umbrella fund, says he has no reason to doubt the umbrella funds will be ready. And for getting retirement annuity (RA) funds ready, the exemption for legacy retirement annuities has resolved a major issue.

And yet, some are ready ...

When it comes to funds to which Old Mutual consults, Walker says his team will be speaking to trustees, telling them what needs to be done.

And it's not as if *everything* needs to be ready by March 1st anyway – benefit statements, for example, only need to be redesigned in time for the funds to send out the annual statements. While the big administrators may be sending out mixed messages, three self-administered funds told *Today's Trustee* they will be ready.

One is the Sentinel Retirement Fund, which is administered in-house by an operations team of 40 people.

Mike Mitchley, chief operations officer of the fund, says their system changes have been specified, the changes in the draft law will now be done, and he doesn't see any problems in meeting the March deadline.

However, Mitchley concedes there are serious issues that still need to be resolved — for one thing, you really ought to have all the requirements *before* you start building or enhancing a system. If there are any small late changes, this could mean changes are needed elsewhere — a big risk to any system.

Nor is there absolute clarity on every aspect of the new law. For example, it isn't clear yet how much people will be allowed to withdraw when they're retrenched. On this point, Mitchley is hoping Treasury will share its thinking when it releases this year's Medium Term Budget Policy Statement in October.

Nor is there absolute clarity on every aspect of the new law. For example, it isn't clear yet how much people will be allowed to withdraw when they're retrenched.

Of course, it's not *just* about putting in place the legislation; after that, changes to funds' rules have to be put in place, and approved by the regulator, the Financial Sector Conduct Authority (FSCA). And, says Mitchley, if the FSCA can't approve the rules in time, funds can't do anything.

The National Fund for Municipal Workers (NFMW) will also be ready for the two-pot system by March next year, says Leslie Ndawana, the fund's principal officer.

Ndawana says the fund does about 70% of its own administration, with a core team of 30 staff using Sanlam's platform. The fund expects to be ready to handle payment requests, as Sanlam has committed that its system will be ready by March 1, 2024.

Mitchley ... serious issues still need to be resolved

Phakgadi ... solid communications plan

Of course, it's one thing to implement the systems, another to communicate this to the pensioners themselves, and ensure they understand what's going on.

Ndawana says that since municipal workers are generally not technology-savvy, withdrawal applications will be managed through the fund's communication consultants, who visit different municipalities.

Human resources officials will upload the claims documents on a portal for the administration team to process. Sanlam will manage the tax directives, bank account verifications and payments, Ndawana says.

The Mineworkers' Provident Fund (MWPF) will also be prepared to fully implement the changes on March 1, 2024 — but full implementation depends heavily on when we get certainty around the final legislation, says Frans Phakgadi, the principal officer and acting CEO of the fund.

The MWPF, which is a self-administered fund, isn't too concerned about system changes, as it has already automated most processes — including claims that will in future cover withdrawals from the savings pot, Phakgadi says.

Bracing for a barrage of withdrawals

Claims start at the employer, which works for 96% of the fund members who are actively contributing, he says. Phakgadi says benefit statements, reporting and a new exit claim form will all be changed in time.

Most administrators are anticipating high volumes of withdrawals in March next year, when the new system kicks off. Old Mutual, for one, expects to process one million claims.

Mitchley says Sentinel currently handles 4000 withdrawals a year, but under the two-pot system, that number could increase fivefold. This is why developing their member platform is a vital part of the bigger picture.

These sorts of numbers are intimidating, but Ndawana says the NFMW processed a high number of death claims during Covid, so it is comfortable it can manage the two-pot withdrawals. To ease this pressure, he says Sanlam has committed extra resources for this project to help deal with a rush of withdrawal applications.

Even if the *funds* are ready, it's not entirely clear if everyone else in the ecosystem will be as prepared.

Ndawana says he is worried about any late adjustments to the rules — if that happens, there may not be enough time for every fund to get rule amendments approved by the FSCA and SARS to ensure the tax directives are in place.

For instance, Mitchley says he hopes that the SA Revenue Service (SARS) will have its systems ready to cope with the additional tax directives; if it doesn't, the sheer volume of withdrawals suggests administrative chaos may ensue.

Another issue that members need to understand is that getting a directive depends on someone's tax affairs being up to date – and not all fund members have their affairs in order, he says.

Ndawana says he is worried about any late adjustments to the rules — if *that* happens, there may not be enough time for every fund to get rule amendments approved by the FSCA and SARS to ensure the tax directives are in place.

It's a common worry: if any part of the ecosystem isn't ready – rule amendments aren't registered or tax directives not issued – it means the fund cannot pay, he says.

Then, of course, there's the ever-present spectre of fraud. Sentinel will be implementing a Whatsapp platform but the risks around identifying the clients remains high — the fund will probably require additional proof of identity and bank account detail confirmation from the employer, Mitchley says.Sentinel is also concerned about what these new rules will do to the liquidity of the fund. As it stands, the Sentinel Retirement Fund's average fund credit is around R700 000 to R800 000, and so most of the 39 000 active members will have the full R25 000 available to withdraw, Mitchley says.

But how do you estimate what the uptake will be, he asks? If you get it wrong, the fund may be liquidating assets at a time when the markets are very volatile and not looking good, he says.

Ndawana, however, says the municipal workers fund isn't worried about liquidity: municipal workers tend to stay in their jobs, and so most members have larger amounts saved.

Anyway, most municipal workers will qualify for the maximum withdrawal of R25 000, but if they've saved, say, R1m, this is only 2.5%. Overall, the fund estimates it only needs about 5% of members' savings to be liquid for the two-pot withdrawals.

Different investment strategies needed

There's another unresolved issue. Simeka's Gordon says she'll be very surprised if administrators will be able to handle different investment strategies for the different pots by March 1. Yet this is an important issue that must be considered.

The Sentinel fund offers members investment choice, and it may require a lower risk, more liquid investment strategy for the savings pot.

Mitchley believes members should be given the option to opt out of any investment strategy from day one, to prevent their savings being impacted by the more conservative investment strategy.

Utete ... make sure administration systems are ready

Ndawana ... not worried about liquidity

Ndawana says a separate investment strategy will need to be considered for the savings pot, that is effectively a bank account — but probably not immediately.

This highlights another crucial element to the new system: the need for proper communication to fund members.

Gordon says funds can start drafting their new strategies, but no member communication can go out until the legislation is finalised, she says.

This is a problem since you can't have roadshows to prepare members for the new system, and you can't adequately educate them — which isn't great since, as soon as people see that they can withdraw from their funds, they probably will. Without sufficient education and communication, this might be driving the wrong behaviour from day one, she says.

Sentinel will also only communicate with members when the details are final. On this front, Mitchley is worrying about how to effectively inform and educate members about the impact of withdrawing from the savings pot to be sure they understand the implications of this.

Taxing withdrawals at the marginal rates will not be enough to stop them, he says.

"This is really a fundamental change to the manner in which South Africans save for retirement. The game is changing [but] many people do not even understand what their fund credit is — now they need to understand different pots, the different tax treatment of the

pots and the need for and potential impact of higher liquidity on the savings pot," he says.

Ndawana is also concerned that members will withdraw from the savings pot without appreciating that the effect of the new system is to reduce their contribution rates.

The two-pot system may increase preservation rates overall, but if members are contributing 12% on average to their funds and one-third can be withdrawn, their contribution rates will effectively reduce to 8%, he says.

Regardless of how you invest the 8%, it will never give you the desired outcome of a pension that maintains your standard of living, but members are not getting this message, Ndawana says.

The pension system should be augmented by other initiatives to address socio-economic issues, such as debt problems, he adds.

Both Ndawana and Mitchley are also worried that besides being able to withdraw from their savings many members will continue to access their vested pots when they resign from a job.

It will only be in around 25 years' time, when the vested pots have been worked out of the system, that members will start reaping the intended benefits of the retirement component, Mitchley says.

Nonetheless, Walker says the two-pot system must happen. Administrators, funds, trustees and actuaries must just do what is required to get it done. They must burn the midnight oil and make it happen,

The MWPF reckons it has a solid communications plan, Phakgadi says.

Besides mass-generated SMSs, it issues formal communications translated into several languages, uses organised labour platforms, member training initiatives, its website, a mobile app and a call centre, he says.

Burning the midnight oil

In the final analysis, there's a lot to do before March next year. And if there are any major hiccups between now and then, it puts the entire system at risk.

Nonetheless, Walker says the two-pot system must happen. Administrators, funds, trustees and actuaries must just do what is required to get it done. They must burn the midnight oil and make it happen, he says.

Only closer to the time will it probably become apparent that some funds won't be ready.

It is not that we can't do this, Mitchley says. And if it wasn't at all possible, Treasury would have been savvy enough to realise this and postpone.

Which may be true. But irrespective, it's going to be a challenging few months ahead for the industry – watch this space. ■

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The 10 big unknowns of the two-pot system

The two-pot system involves a lot more than just splitting future contributions between two pots. There are many new rules, knock-on effects, rethinks and redesigns that will be required. Here are some of the big issues causing headaches right now.

By Laura du Preez

The forced preservation that comes with the new two-pot system is a dream come true for the retirement industry – it gets to manage more money in the future, when members are prevented from withdrawing two-thirds of their savings in the retirement pot.

But before it gets there, the industry has to deal with the nightmare of implementing the system in a very short space of time (see page 18).

The two-pot system is the most complex legislation that the retirement fund industry has ever dealt with. David Gluckman, chairman of the Sanlam Umbrella Fund, said at the release of the insurer's recent Benchmark Survey that it's way more complex than the legislation around pension surpluses, for example.

In that Benchmark Insights, Johan Prinsloo, Sanlam Corporate's head of retirement fund administration services, says that not only is this the most complex change to administration processes yet, it will "go live" on the same day as the legislation's effective date.

As it is, the legislation is likely to only be finalised weeks before the "go-live" date. The period for comment on that legislation only closes in mid-July. The final legislation is expected to be introduced to parliament in October, and it's unlikely to be signed into law before December.

Little wonder there's no certainty it'll all be done on time. So, here are the big issues occupying the headspace of administrators and asset managers in the run-up to the "go live" date.

1 Administration systems

In the next few months, administrators will be furiously creating systems to cater for the accounting of the three pots — the retirement pot, the savings pot, and the preservation pot.

Leanne van Wyk, director of ICTS Legal Services and Nicolette van Vuuren, a senior associate at law firm Webber Wentzel, told the Pension Lawyers Association Conference in February that a lot of work lies ahead.

Besides the fund rules that will need to be amended and approved by the Financial Sector Conduct Authority (FSCA) before March, new processes, forms, communications, complaints procedures and member communication will need to be set up.

Van Wyk and Van Vuuren say administrators will need to consult on these new processes before they can be written and finalised. And after that, training will be needed.

Behind the scenes, systems first need to be set

up to ensure future contributions and investment returns are allocated to the correct pots and fees deducted proportionately.

Second, the amounts to be seeded to the savings pot – the proposed 10% of savings up to R25 000 – must be determined and transferred from the vested pot to savings pot.

2 Systems for withdrawals

Marian Gordon, principal investment consultant at Simeka Consultants and Actuaries, expects that with unemployment and living costs where they are, a lot of members will withdraw whatever they can.

But administrators' systems will have to ensure that only those with the minimum withdrawal amount of R2000 in their savings pot can withdraw — and only in the current tax year.

Blessing Utete, the managing executive of Old Mutual Corporate Consultants, says that 350 000 members out of 650 000 on Old Mutual's corporate administration book will be able to withdraw — and a high percentage of them are expected to do so. Across all Old Mutual funds, one million members are expected to withdraw money.

Sanlam's Prinsloo says that to deal with these volumes, administrators need to set up digital platforms for members to make withdrawal requests. As it is, many employer-sponsored funds are currently set up to receive withdrawal requests through employers only.

Right now, preservation funds and retirement annuity funds are geared for minimal withdrawals: only one withdrawal is allowed before retirement from a preservation fund, while retirement annuities only pay out on disability, emigration or when members stop contributing, and fund values are below R15 000.

Prinsloo says trustees will have to decide whether members can make these withdrawal requests directly, or if they must also be routed via the employer. If members submit requests directly, there is a greater risk of fraudulent claims.

There are other reasons as to why withdrawals may need to go via employers, Van Wyk says.

One is when an employer has given a pension-backed home loan and needs to ensure that the guarantee for that loan remains intact. (The legislation proposes that housing loans are, in future, restricted to 65% of savings in all the pots.)

The other is when an employer has obtained a judgment against an employee to recover damages from misconduct.

3 Tax directives, or not?

The draft legislation says that withdrawals from the savings pot will be taxed at that fund member's marginal tax rate. But experts are divided on whether this will require a tax directive from the SA Revenue Service (SARS) before withholding and paying over the tax.

Van Wyk, for example, believes that tax directives will be required for *all* withdrawals and transfers, including between pots, and some transactions will require three different directives.

Either way, clarity is needed.

4 What about provident funds?

The legislation provides for provident fund members who were 55 years old on March 1, 2021 to be included in the new system.

They will be obliged to preserve two-thirds of all contributions made after March 2024, and to buy an annuity with those savings at retirement, Van Wyk told *Today's Trustee*.

These members can, however, opt-out and continue to enjoy their exemption from

Gluckman ... way more complex than the legislation around pension surpluses

compulsory annuitisation. Van Wyk says it's likely the industry will ask that these members be automatically excluded from the new system, unless they want to opt-in.

Either way, these members need to be informed of their right to choose. Administrators will need to have systems to record this decision and to treat these members' future contributions accordingly, while retaining their right to withdraw in full from their vested pot at retirement.

5 And defined benefit funds?

Van Wyk says the draft legislation is "light on detail", but it suggests members of defined benefit funds will participate in the two-pot system by dividing their pensionable years of service between the three pots.

Stephen Walker, head of actuarial services at Old Mutual, says the vested pot will be based on the defined benefit fund's benefit formula, using pensionable years of service up to March 2024. A typical formula is a pension equal to 2% of final salary for each year of pensionable service.

In that case, the retirement pot will be based on the defined benefit fund's formula using two-thirds of pensionable years of service after March 1, 2024, he says. The savings pot will be based on the formula using one-third of the pensionable years of service after March 2024. However, the years of service applicable to this pot will be reduced proportionately for any withdrawals taken.

Walker says the fact that some of the biggest defined benefit funds in the public sector are governed by their own legislation creates difficulties.

The Government Employees Pension Fund (GEPF), for example, provides for a lump sum that members can take at retirement, but it is not exactly one-third of the benefits – it's 27%, Walker says.

The Actuarial Society of South Africa and the GEPF's actuaries are consulting with National Treasury to resolve this problem, hopefully without having to amend the legislation.

6 New rules for deductions

Administrators will also have to update their systems to deal with deductions from the retirement and vested pots, Utete and Van Wyk say.

The legislation says administrators will need processes to check with non-member spouses and other life partners in the throes of a dissolution of their relationship that a withdrawal from the savings pot can go ahead.

Funds also need to be sure their systems are able to flag maintenance orders. The legislation proposes that funds prevent withdrawals from the savings pot when members don't have enough to cover their maintenance obligations. Clarity on this aspect is needed.

7 Ongoing transfers

The legislation details the transfers that will be allowed, both between funds and within funds. For example, members transferring their savings to a new fund will have to transfer all three pots and can't leave one behind.

But Van Wyk says transfers processed under section 14 of the Pension Funds Act will also need to change to accommodate this, as well as transfers from the savings and vested pots to the retirement pot. New rules will be needed to ensure this can happen.

8 Benefit statements

One of the biggest changes will be to benefit statements, which will need to show the three pots, while complying with the conduct standard on benefit projections.

It's no small task: Prinsloo says that in Sanlam's case, more than one million member records will have to be updated.

In addition, all physical, digital and portal "forms" for all processes affected by the new system will have to be redrafted and approved. And communication policies and member booklets will also need to be updated.

9 An overhaul of investment strategies?

Trustees will need to rethink the fund's investment strategy and the liquidity required to pay out the seeding savings pot and future contributions to it.

Simeka's Gordon says there was a lot of concern around liquidity, but the cap of R25 000 on the seeding for each member means most funds won't have that issue. She says only some funds that have invested aggressively in private equity (where investments are harder to sell) could face liquidity issues.

Trustees may, however, want to consider a separate investment strategy for the savings pot to ensure it is more liquid, and members who plan to withdraw aren't hurt by an underperforming investment strategy. A lower-risk strategy is likely to lead to lower investment returns for members — with severe consequences for their retirement savings in the long run.

Gordon says someone on a R122 000 a year salary, who contributes 11% a year and stays fully invested for 30 years, will retire with R19m. But if one-third of her savings are invested more conservatively to provide liquidity for withdrawals, she will retire with only R16m. And, if that member continues to withdraw throughout their working life, they'll only get R14.8m.

Member choice portfolios for assets in the savings pot, coupled with a "default" savings strategy for members who don't wish to choose their own portfolios, may be the answer, she adds.

Van Wyk says about 70% of her investment consultant clients will not offer different

Utete ... one of the biggest jobs will be educating members

investment strategies for the different pots — but Treasury's decision to allow seeding could change that. She thinks that once the initial seeded amounts have been paid out, funds will reassess.

Utete believes that investment strategies will remain as they are until funds have some data about how this will all play out.

10 The education imperative

Van Wyk, Gordon, Utete and Walker all agree that one of the biggest jobs will be educating members about whether they *should* withdraw, whether they *can* withdraw, how *much* to withdraw, and what the tax implications are.

Members need to know about the tax they will pay at their marginal rate if they withdraw, relative to the tax-free amount (potentially R550 000) they could enjoy at retirement.

Gordon says retirement benefits counselling – another service that will need extensive updating – will be vital, and trustees should consider extending this beyond providing counselling only when members leave a fund. ■

Joelene Moodley — the woman heading up Sanlam's R91bn fund

After a career spanning many of South Africa's key pensions industry bodies, Joelene Moodley is focused on delivering value.

By Phakamisa Ndzamela

The daughter of a factory worker and a housewife, Joelene Moodley now heads one of the country's largest umbrella funds, which manages retirement assets worth R91bn.

Moodley's appointment in April as principal officer of the Sanlam Umbrella Fund illustrates a number of things: besides the value of training, hard work and experience, it also underscores the vitality of SA's democratic system, which has opened up unimaginable career paths for many people who were previously disadvantaged.

As the principal officer, Moodley's role is akin to that of a company CEO. Responsible for the day-to-day running of the Sanlam Umbrella Fund, she's accountable to the board of trustees, and tasked with ensuring the fund's strategy, policies and rules are implemented as they should be.

In an interview with *Today's Trustee*, Moodley explains how her upbringing emphasised that the route to achievement lies in education.

Born in 1974 in the small KwaZulu-Natal town of Merebank — where her late father was a factory worker at the paper company Mondi — Moodley is the eldest of three siblings.

"We lived in a small council home that had the basic living amenities. Life at home was humble but always filled with love and a sense of security. Growing up, we did not have much, but my parents always instilled in us the importance of having a good education. They encouraged us to break out of the cycle of poverty and lack that was prevalent in our community."

"We lived in a small council home that had the basic living amenities," she says. "Life at home was humble but always filled with love and a sense of security. Growing up, we did not have much, but my parents always instilled in us the importance of having a good education. They encouraged us to break out of the cycle of poverty and lack that was prevalent in our community."

Financially, they didn't have much, but it was a happy time. Among her fondest memories are

family trips to the beaches on the south coast — the household would wake up in the wee hours of the morning, prepare sandwiches, pack the car, and head off to spend the day at the sea.

At Alipore Primary School and then the Ganges Secondary School in Merebank, she was something of an all-rounder. She played netball, swam and was involved in church activities and youth programmes. After school, it was off to study law at the University of Durban Westville (which today is known as the University of KwaZulu-Natal).

Law was an obvious move — as a child, she'd soaked up legal shows such as *Law & Order*, and would frequently picture herself in a court of law, fighting for justice and human rights.

Still, her acceptance to university elicited a lot of excitement from her parents, since she was one of the few in her family who'd gone this far. Not that it was easy: coming from a less well-off family meant she struggled to pay her fees.

First democratic election

In 1994 — South Africa's landmark first democratic election — Moodley was struggling to find the money to pay her way in her second year of studying law, when she caught a break.

"I was offered an opportunity to be part of the 1994 election counting and monitoring process. That two-week period not only allowed me to be part of an historic and memorable process, but I also managed to earn income towards my tuition fees," she says.

She didn't stop there. After graduating, she completed a master's degree in law from the University of Pretoria, before moving into the corporate sector.

Moodley learnt quickly there — not least from the 2008 global financial crisis, which was spawned, in large part, by various governance weaknesses in the global banking system. It was a revelation that led her to study risk management. Here, she learnt about the value of having solid governance, compliance and risk management embedded into company operations.

She quickly implemented these skills at a number of entities she worked for during those years. Moodley has worked at the Centre for Human Rights, at the Auditor General of SA where she operated as a compliance manager, and as head of legal and compliance at Africa's largest pension fund, the Government Employees Pension Fund (GEPF).

Moodley ... the route to achievement lies in education

At the GEPF, her rise was steep. From compliance, she was soon promoted to the head of corporate services and, for a year, she acted as the fund's principal executive officer.

The GEPF was an eye-opener, and Moodley's experience was bolstered by her participation on various industry bodies at the time — including the Association for Savings and Investment SA (ASISA), the Council for Retirement Funds of South Africa (BATSETA), the Institute of Retirement Funds Africa, the Pension Lawyers Association and the Financial Sector Conduct Authority (FSCA).

She says she bent the ear of many industry

experts over that time, to ensure she'd fully grasped the concepts. Even today, she cites her time at the GEPF as a career highlight.

She recalls how she was tasked to take the lead in the project to overhaul the GEPF's administration arm in 2010, which entailed transferring staff and setting up the Government Pensions Administration Agency (GPAA). "It was a difficult but successful 24-month project," says Moodley.

From there, she went back to law, working for a spell as a commercial lawyer at Rooth Wessels Attorneys. In 2017, she then went the entrepreneurial route as an executive director of Vision Focus — a company that offers pension fund services, risk and compliance management and governance services.

After five years at Vision Focus, Moodley decided she needed to bolster her understanding of leadership, and its relationship with strategic thinking, so she enrolled in an MBA.

She might not be working in law right now, but she says the legal training still comes in useful — albeit that she now sees herself fighting for her fund members in a boardroom, rather than for clients in a courtroom.

Never give in to fear

But if it sounds like Moodley's career has been an uninterrupted rise, she says it's far from that. One of her biggest mistakes, she says, was underestimating just how tough going into business can be.

"There are days that can be dark, and you often question whether you've done the right thing," she says. "The lesson that I took from those early days in business was: make sure that you do not rely only on *commitments* of possible work — it's best to have those commitments clearly set out in formal agreements and signed contracts."

Persistence became a characteristic she relied on repeatedly to get through the toughest periods, as well as the networks she'd built within the industry.

So what would she tell her younger self? First, never give in to fear, and second, stay committed and persevere, even if you first get a firm "no".

"The church was, and still is, a strong pillar in my life, and growing up we often spent most of our weekends engaged in church activities. I recall over Christmas how we used to go around the community singing Christmas carols and bringing joy to our neighbours, although I was not the best of singers," she says.

Those times illustrated the value of community, where families would make sure every house had *something* for Christmas. "I believe our young people of today are not used to this, and thus cannot grasp the benefits of community," she says.

Today, as a mother and wife, she's often up at 5am, where she starts her day in prayer and, if she can fit it in, a morning run. From there, it quickly gets busy: in-person and digital meetings frequently start at 8 30am, but she tries to tackle the daily tasks that require her attention first. Given her line of work, much of that involves interacting with the administrators or investment managers of the various funds she's involved with.

"[Then I] must accommodate the unexpected 'urgent' issue that often crops up. My day ends around 6pm, after which I must hit my study books," says Moodley.

For fun, she runs — and enjoys cooking up a good curry.

> ***"There are days that can be dark, and you often question whether you've done the right thing. The lesson that I took from those early days in business was: make sure that you do not rely only on commitments of possible work — it's best to have those commitments clearly set out in formal agreements and signed contracts."***

So, what advice would she give to people eyeing a career in the retirement fund industry?

First, she says, you have to expect that it's fast-paced, and rewarding financially and personally, but it is also highly regulated. "It is a sector that is not devoid of its challenges, but I do believe it has made significant strides and needs millennials to take the industry forward," she says.

Moodley cites a book by Samuel Chand called *Leadership Pain*, the core message of which is that growth equates to change, which leads to loss and pain. "If you remain committed, passionate and determined, you will overcome the challenges and grow to experience a rewarding career," she says.

Umbrella fund governance in spotlight

Those are useful skills, given that she's taken on the role of principal officer at Sanlam at quite an auspicious time. In the past year, the governance of umbrella funds has been placed under a microscope by the National Treasury and the FSCA.

A little over a year ago, Treasury issued a paper titled *Governance of umbrella funds*, which raised the concern that umbrella fund board members may be overdependent on product providers for financial advice. It's a worry since Treasury doesn't want the funds to be beholden to specific service providers, nor does it want pension fund members to be forced to remain in certain funds, when they'd be better served switching.

Another red flag raised by Treasury was that boards of trustees often feel conflicted by their loyalty to umbrella fund members, as well as the people who appoint those board members. It's a point raised by the FSCA too, which has said it's uncomfortable with the sponsors of umbrella funds appointing their employees as the principal officers of those funds.

In this context, truly *independent* trustees are vital, and the FSCA's guideline for umbrella funds is that at least 50% of the members of the boards of trustees ought to be independent.

It's a spotlight that's only likely to intensify over the coming years. In its 2022 annual report, the FSCA wrote in-depth about the need to ensure the governance of umbrella funds improves, and that the interests of workers be represented on boards of trustees.

Moodley says that the governance of the Sanlam Umbrella Fund is top-rate, with 11 board committees and a track record exceeding 100 years.

"I do believe that the significant growth of the fund over the past five year is testimony to its ability to embrace the opportunities within the industry," she says.

The wider goal, she says, is to ensure the fund can play a meaningful role in promoting growth, investment and empowerment within the country — and the board of trustees has a transformation committee specifically mandated to ensure this happens.

"Our primary role involves managing the most significant financial assets of our close to 300 000 members, which probably directly impacts more than one million South Africans, considering our members' families, and that is significant."

Yet juggling all these imperatives mustn't come at the expense of the fund's performance. Says Moodley: "Our primary role involves managing the most significant financial assets of our close to 300 000 members, which probably directly impacts more than one million South Africans, considering our members' families, and that is significant."

So what would she consider "success" in her role as principal officer?

Moodley says she wants the Sanlam fund to become the "leading umbrella fund in the market", and wants to make a positive impact in the industry by honing in on the issues most relevant for members.

It's all about delivering value, she says, and no-one can afford to forget that. ■

Leaving steady hands on the rudder

Industry veteran Kobus Hanekom bows out, having seen umbrella funds launch and become the big gorilla in the retirement industry.

By Jaco Visser

"South Africa has an excellent retirement fund system," says Kobus Hanekom, an attorney and longtime professional in South Africa's retirement fund industry. "This is evident from feedback when colleagues and I travel to other countries."

Until his retirement this year, Hanekom served as the principal officer of the Sanlam Umbrella Fund, which has more than R90bn under management. He has been replaced by Joelene Moodley, whom *Today's Trustee* profiles on page 28.

But Hanekom's insight into the retirement industry is illuminating, given that he's seen so much change during his years at the apex of the sector. Of all these changes, Hanekom says the origin of umbrella funds stands out most for him.

When umbrella funds were first launched, about two decades ago, they filled a critical gap in South Africa's retirement system. At the time, employers had only two choices: either sign up staff (who fell under a labour bargaining council) in a sectoral retirement fund, or set up an employer-specific fund, which was expensive and time-consuming.

Umbrella funds changed the game, pooling the contributions of various employers under one fund, which is managed as a single legal entity. It's more cost-effective than having various, individually governed funds too.

Today, the likes of Sanlam, Old Mutual, Liberty, Momentum and Sygnia, among others, offer participation in umbrella funds to employers.

"Back in the day, there was no provision in the legislation to allow for the establishment and development of umbrella funds. They were allowed to start organically within the existing legal framework." – **Hanekom**

"Back in the day, there was no provision in the legislation to allow for the establishment and development of umbrella funds," Hanekom says. "They were allowed to start organically within the existing legal framework."

The member representatives on the boards of these funds must have the appropriate qualifications and experience and be independent in the fund, according to Hanekom.

"That has to do with how umbrella funds are structured, with half of their trustees being independent experts and the other half appointed by the sponsor of the umbrella fund, usually the large insurance houses," he says.

> ***With the focus on investment experts, commercial umbrella funds are well managed and "have a low chance of corruption."***

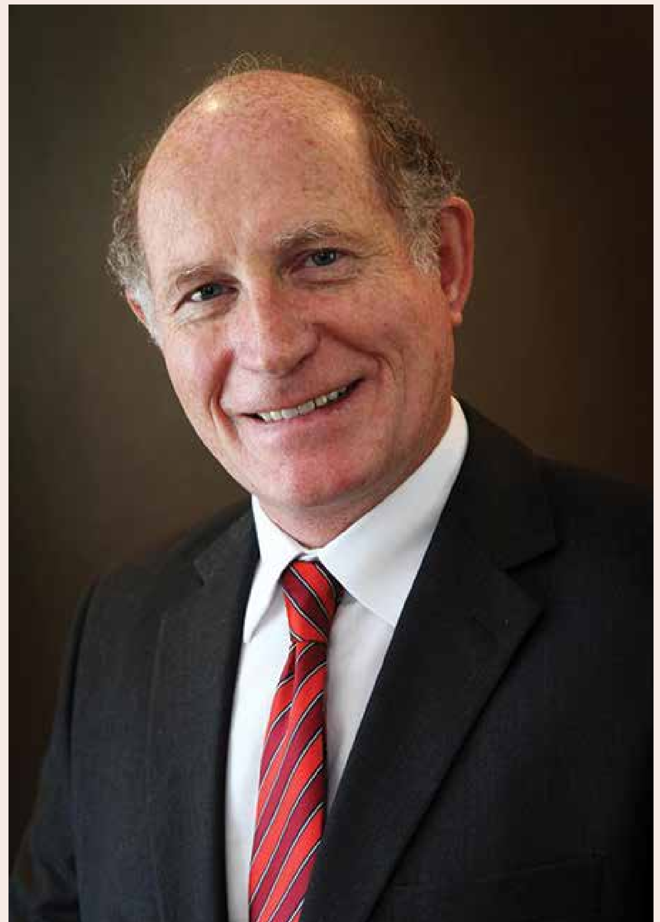
With the focus on investment experts, Hanekom says commercial umbrella funds are well managed and "have a low chance of corruption."

That's important, considering the last couple of years' travails at the Private Security Sector Provident Fund (PSSPF). Such was the state of affairs at that fund that the Financial Sector Conduct Authority (FSCA) had to take charge of the fund after allegations that trustees – appointed by employers, labour unions and employees – had helped themselves to members' funds. It was only in April this year that the "statutory management" of the PSSPF came to an end.

However, there are numerous other funds where the governance at the board of trustees has led to the regulator getting involved. This includes the Vrystaat Munisipale Pensioenfonds, the Municipal Councillors Pension Fund and the Saccawu National Provident Fund.

And such is the attraction of umbrella funds that, according to Hanekom, they dominate all new business flows.

Among the other big industry innovations he has seen, which changed the game for retirees, was National Treasury's decision to implement regulations 37 to 39 of the Pension Funds Act,



Hanekom ... umbrella funds changed the game

which created the "default regulations".

"For a long time, the boards of trustees of retirement funds were merely focused on giving effect to the rules of the fund," he says. "[With] the default regulations, trustees are required to investigate and find solutions that will provide the best possible outcomes for fund members."

In particular, the default regulations allowed those members of funds who reached the compulsory retirement age of 60 to remain as paid-up members should they decide to continue working.

After two-pots, auto-enrolment?

"It pulled trustees out of their comfort zones," says Hanekom. "The default regulations also allowed for better investment outcomes for those members who elect to remain in the fund after the termination of employment (as

paid-up members) and when they retire from employment."

Hanekom is passing on the baton at an auspicious time for the industry, however, as the new two-pot system is on the verge of being implemented.

"I think the two-pot system is a very good idea," he says. "But it is a complex one and is never going to be easy."

Treasury's plan to split a member's contribution into a savings pot (one-third) and retirement pot (two-thirds) comes on top of the already complex differentiation between vested and unvested rights that were implemented two years ago.

This won't be easy to explain to pension fund members. As it is, the rules around an individual's out-of-employment contributions to retirement annuities, as well as those around the preservation of provident or pension funds from previous employers, aren't exactly simple.

"South Africa has a formidable retirement system. The problem isn't with compliance and governance; it is the failure to preserve benefits when members change jobs, or to annuitise when they retire"

Still, Hanekom says, "South Africa has a formidable retirement system. The problem isn't with compliance and governance; it is the failure to preserve benefits when members change jobs, or to annuitise when they retire".

The two-pot system deals with this, by giving workers the flexibility to dip into their savings if they need it, while preserving the rest.

There's still much to do to implement the two-pot system (see story on page 18), but once that's done, the discussion can shift to auto-enrolment — where workers are automatically enrolled in the workplace pension scheme.

"Auto-enrolment will turn the retirement industry on its head," says Hanekom. "However, not everything that works overseas will necessarily work in South Africa."

Since auto-enrolment of employees was introduced in a phased manner in the UK in 2012, about 11 million people have gained access to retirement savings, according to the British government. The way it works there is that all employees older than 22 and earning above £10 000/year must be enrolled for pension contributions.

Unemployment and the gig economy

Since 2018, the minimum contribution by both the employer and employee has been 8% of remuneration between £5772 and £41 865 a year.

In South Africa, however, Hanekom says that if the government implements auto-enrolment, where all employers are required to sign employees up for retirement savings, some realities need to be taken into account.

First, South Africa has a high and sticky unemployment rate. At the last count, almost a third of South Africans able to work didn't have a job. That will mean a large chunk of citizens will continue to rely on the state's old peoples' grants when they retire.

Second, the way in which South Africa's economy is structured makes auto-enrolment tricky. "The self-employed and those in the informal sector are not likely to be caught in the net," Hanekom says. "It would be very difficult to incorporate the millions operating in our South African gig-type economy in auto-enrolment."

This will take some intelligent design work to make it happen. Still, Treasury has shown it has the skills to implement nuanced retirement rules.

Says Hanekom: "We have a good retirement system in place. My colleagues returning from overseas conferences and workshops attest to this when they compare us with other nations." ■

The importance of having a healthy emergency fund in place

In a world full of uncertainty, having a back-up plan along with access to emergency funds is a necessity. Darshana Kooverjee, technical marketing actuary at Liberty Corporate, explains why.

In today's times, with common occurrences of economic turbulence, it is of vital importance to have an emergency fund in place to ensure that you and your dependents are financially protected against unexpected, adverse events that may impact your short-term financial wellbeing and stability. These events may be a loss in employment, an incurrence of major health expenses, or the need for car or home repairs. As reported in *Old Mutual's Savings & Investment Monitor 2022* survey, only 39% of South Africans have enough money saved up to last for at least three months if they were to be retrenched or lose their job. 40% have had to borrow money from friends or family when needed.[1] These statistics indicate that many South Africans suffer financial strain when faced with an emergency, as they are not financially prepared for it.

An emergency fund can allow for financial cushioning if you were to experience an unexpected pause in income or a spike in expenses for a short period of time. This allows you to avoid outsourcing funds through loans, where you may be subject to a high cost associated with borrowing due to the interest charged. It also helps prevent the need to withdraw money from your long-term savings such as your retirement fund, which is an important savings vehicle created for the purpose of saving towards a comfortable retirement.

Consider a scenario where Kiara, a 30-year-old individual earning R10 000 per month, starts to contribute R500 towards her short-term emergency fund every month. The account earns 8% interest per year. Three years later, at 33 years old, her emergency fund amounts to R20 313*. At this time, an emergency event occurs where she needs R20 000. Kiara is able to immediately access her savings and use it towards this emergency.

In an alternate scenario, Kiara has not saved towards an emergency fund and is in immediate need of R20 000 for an emergency. She is considering taking out a personal loan for this amount. She considers paying the balance over five years with monthly repayments of R500 starting immediately. At an interest rate of 20% per year, this would ultimately lead to Kiara paying back a total amount of R20 000 (ie, the original loan amount) ***plus*** additional interest of R10 414 over the term of the loan (ie, the total repayments amounted to R30 414).** This would result in Kiara not only being in debt, but she may also pay a significant amount of interest due to the high cost associated with borrowing while incurring additional fees during the process.

Kiara is also considering the option of resigning from her work to immediately access her accumulated retirement fund savings (currently at R60 000 at age 33), instead of taking out a loan. If she withdraws R20 000, she remains with a total of R40 000, which she could then transfer into a new retirement fund with her new employer, if she is employed by a new employer and chooses the option to transfer her benefit. Her projected retirement savings at her planned retirement age would now be estimated to be R295 782, whereas it could have been R328 911 if she did not resign from her initial employer and withdraw from her retirement savings fund.*** This is a difference of R33 129, which means that Kiara could be set back from reaching her retirement savings goals, leading to a negative impact on her income in retirement. If she was not able to immediately find another place of employment after resignation, this impact would be exacerbated. She may also be taxed on withdrawing her savings as a cash lump sum, further negatively impacting her long-term retirement outlook.

It is generally recommended to start saving towards an emergency fund as soon as possible. To enable this, you should aim to reduce unnecessary expenses as far as reasonably possible and set aside a portion of your income on a regular basis (eg, monthly) for this purpose – an amount that is affordable given your own personal circumstances. This will allow for funds to gradually build up over time, which will help ensure that you are better positioned to meet unexpected expenses, should they arise. This emergency fund should be kept in an easily accessible, low-risk and low-fee account and the fund should ideally amount to at least three to six months' worth of living expenses[2]. The amount of money in an emergency fund should be sufficient to meet your needs depending on your lifestyle, monthly expenses, income and dependents.

Look to start building up a healthy emergency fund today to help protect you and your loved ones from financial strain in the event of an emergency.

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* *The effect of tax and charges are ignored. Payments are made monthly in advance. The account allows for immediate access of funds.*

** *Charges and other related fees are ignored. The loan is repaid monthly in advance.*

*** *Calculations are based on the following assumptions: 33-year-old female, earning R12 250 per month after tax at this age, retirement age 60, R500 monthly contribution, 8% net nominal return p.a., employer makes no contribution towards retirement savings, retirement contributions are assumed to increase yearly with salary inflation until retirement age, tax not accounted for, calculation done in arrears and assumes that the exact same contribution pattern is made at her new job. Projected retirement savings fund values are shown in today's money.*

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1 Old Mutual Savings and Investment 2022 survey
2 https://www.wellsfargo.com/financial-education/basic-finances/manage-money/cashflow-savings/emergencies/

A slip in compliance

Instances like that of the Mafube municipality illustrate how some officials couldn't be bothered to pay over the pension contributions they deduct from salaries. But they're breaking the law — something trustees need to bear in mind by holding the companies to account.

By Jaco Visser

Employers' compliance with the law, when it comes to paying their staff's retirement fund contributions, is slipping. This continues a grim downward trajectory which has become disturbingly evident in recent years.

Muvhango Lukhaimane, South Africa's pension funds adjudicator, sketched a grim picture of compliance with section 13A of the Pension Funds Act at the recent conference of the Council of Retirement Funds for SA (Batseta), held at Sun City.

"We are back to normal issues with complaints," she told conference attendees. "We received more than 9000 complaints last year. Compliance issues are a concern. In more than 90% of complaints, we find in favour of [fund members]."

This in itself is a concern, illustrating that it's the members who are, more often than not, being ill-treated.

Lukhaimane said that "82% of complaints have to do with [benefit] withdrawal issues. A substantial amount has to do with employers not paying contributions over."

While many employers seem to think this is merely a technical obligation, it's far more serious than that — with serious criminal implications.

According to section 13A, a member's contributions to retirement funds, in terms of the rules, must be paid to the fund "not later than seven days after the end of the month for which such a contribution is payable".

You wouldn't think that'd be too hard a rule to follow. Yet many employers — particularly municipalities — regularly flout this.

With such parlous fiscal knowledge, it's probably not a coincidence that municipalities are, in the words of Naheem Essop, the senior legal advisor at the pension funds adjudicator, "broke".

Take the protracted fight between Mafube Local Municipality and its retirement fund creditors.

On May 2, Free State High Court acting judge Rudie Cronjé came down hard on the municipality. Cronje was blunt: "In failing to pay, the municipality, through the municipal manger, is committing a criminal offence and it has to stop. The municipal manager has to be called to account for the municipality's unlawful conduct."

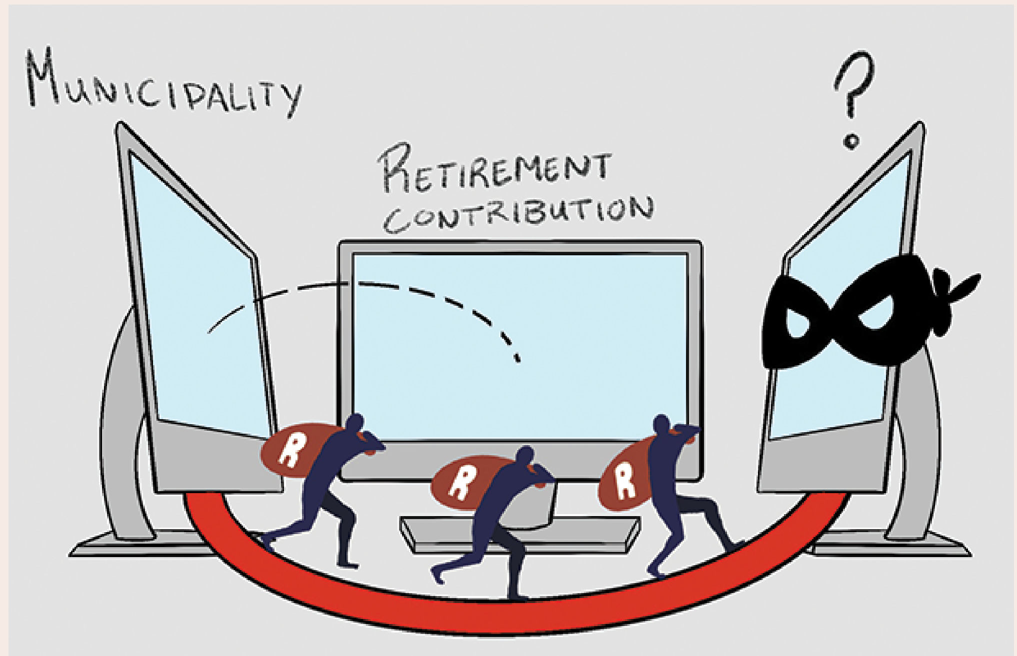
The backstory is that in September 2021, the Municipal Workers' Retirement Fund obtained a judgment for R37.8m against the local municipality for unpaid retirement contributions stretching all the way back to 2011.

But despite that judgment, the municipality failed to pay the outstanding contributions (and interest) over to the fund. It was only when the

fund asked the sheriff of Heilbron to execute based on the judgement debt that the municipality sprang into some action.

Then things took an even more disturbing twist. First, the municipality tried to appeal the granting of the R37.8m judgement debt – which another judge dismissed.

Then Mafube pled poverty and, in terms of section 153 of the Local Government Municipal Finance Management Act, asked the Free State High Court to stay the execution of the debt. This is an extraordinary piece of legislation, seldomly used.



But Cronjé didn't have much sympathy with the municipality and the "continued defiance of the municipality towards complying with its statutory obligations towards the pensioners, their dependents and beneficiaries".

This was especially the case after it came to light that, anticipating that one of its bank accounts might be attached by the sheriff, it surreptitiously moved that money, shifting almost R40m from its Absa account to an FNB account, while the case was being argued.

It's a damning indictment of the standards of ethical behaviour you'd want from people ostensibly working for the taxpayer.

Trade unions push for accountability

Cronjé was scathing of this behaviour, dismissing the municipality's section 153 application and even referred the matter to the National Director of Public Prosecutions for criminal prosecution.

Referring to the shifting of money between accounts, Cronjé said: "Can the word of the municipality be trusted when it says that all the monies in the FNB account is protected? Clearly not. History showed how it surreptitiously transferred R39.9m between accounts."

It seems scandalous, and speaks to the lengths to which some delinquent municipal officials will resort to avoid complying with their legal obligations. But it's par for the course when it comes to the sort of case that is lodged at the adjudicator's office every month.

According to Lukhaimane, her office "needs to do the work that the funds must do".

This sort of brazen behaviour is all the more surprising given that the Pension Funds Act does actually have teeth. Section 37 of that act allows for criminal penalties of up to R10m, or 10 years' imprisonment, for employers not paying over members' contributions.

In fact, the Financial Sector Conduct Authority (FSCA) last year issued a conduct note on how retirement funds, and their trustees, should go about addressing errant payment of contributions.

When a pension fund doesn't get its members' contributions from an employer, it must, within 30 days, inform its members at that company that the money hasn't been paid. Then, if the employer continues to ignore its obligations after a period of 90 days, the board of trustees must report the matter to the police within 14 days of that 90-day period lapsing.

This is to ensure that the police have enough detail and evidence to arrest the employer representative for contravening the Pension Funds Act.

That FSCA conduct note also provided procedural certainty as to how section 37 of the Pension Funds Act – the penalty clause – could actually be enforced.

The multiple incidents of non-compliance suggest that many trustees don't know of their obligations to report this matter to the criminal authorities.

If anything, it's the labour unions at municipalities that are the first to pounce when it comes to enforcing compliance.

At Mafube, the Independent Municipal and Allied Trade Union laid charges against wayward municipal officials. And for good measure, the union followed this up with criminal charges against officials at the !Kheis, Mantsopa and Kai !Garib municipalities late last year.

Post Office loses pensions in the mail

Municipalities might be repeat offenders, but they're not the only ones breaking the law by failing to pay over pension contributions.

The technically insolvent Post Office had a retirement obligation of R876m at the end of March last year, when it last reported its financial statements. The Post Office's failure to pay over members' contributions to the Post Office Retirement Fund triggered an 18-month long legal battle.

While it's welcome that the trustees of that fund took the battle to the company for failing to follow the law, it's unfortunately a rare case of trustees fulfilling their fiduciary duties

In May 2020, the Post Office failed to pay members' contributions, valued at R40m a month, to the retirement fund.

Initially, judge Mamoloko Kubushi, in the North Gauteng High Court, found in favour of the Post Office, accepting its reasoning — that it just didn't have the money — for not paying over any contributions to the retirement fund.

It was a baffling judgment and thankfully, Kubushi's ruling was soon overturned by a full bench of the Supreme Court of Appeal. The judges, led by judge Clive Plasket, had harsh words for the Post Office.

"Not only was [the Post Office's] approach to this matter opportunistic, but it was also cynical: while claiming to be concerned about the fundamental rights of social grant beneficiaries and its customers, it infringed the rights of its employees and sought, through transparent legal sophistry, to place itself above the law," Plasket wrote in the judgment.

An organ of state, he said euphemistically, "ought not to act this way".

And then, in words that others who ignore their obligations to pay over pension contributions would do well to heed, Plasket said that the Post Office, "like any other debtor, cannot choose which debts to pay. If it is trading in insolvent circumstances, its board's obligation is to place it in liquidation, not to pick and choose which of its debts to honour."

At last count, the Post Office still hadn't paid its debt, according to Suzie Khumalo, spokesperson for the Post Office.

Still, the pointed criticism of the judges, in both the Mafube and Post Office case, underscores a deep frustration with flagrant breaches of the law. Perhaps it'll only change when nonchalant municipal officials are charged criminally.

As Essop told congress attendees, in the end it is pensioners who suffer when trustees fail to fulfil their fiduciary duties and act against non-paying employers.

And, to the contrary, trustees at the Post Office Retirement Fund and Municipal Workers' Retirement Fund ought to be lauded for acting.

In most cases of complaints lodged with the adjudicator's office, it only becomes clear after a member has left an employer that their benefits are far smaller than they thought — and smaller than they should be.

"Funds *must* take action against employers [who don't pay over contributions]," Essop stressed.

In the end, he said, retirement fund trustees should ask themselves: "Are we providing value for money? Why aren't members staying in our products [when they leave employment]?"

Introspection is clearly required. And a few criminal cases against delinquent company officials wouldn't hurt either. ■

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