

# think tank

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## Jarred Glansbeek

Managing Director

B Bus Sc (Hons)

Jarred worked for RMB Asset Management for 9 years and became the executive director responsible for the quantitative services of FirstRand's asset management divisions. He then set up Mercury Risk Managers, which became RisCura after a management buyout in 2000. He has significant experience in risk management, quantitative portfolio management as well as product and systems development.



# jarred on the business

## contents

- jarred on the business - 2003
- portfolio transitions - a tricky business
- what's new: RisCura systems
- hedge funds - pros and cons for pension funds
- profile: mandisa mbilini

## 2003

proved to be challenging and rewarding with significant growth in both our staff and client base. Our Johannesburg office in particular, grew substantially and due to space constraints, the office was moved to Melrose Arch mid-2003. The Johannesburg staff focus predominantly on consulting and new business development, while the Cape Town staff concentrate on business support functions like reporting, technology, marketing, special projects and research.

## Winning new business

2003 ended on a high note with us winning a number of tenders including Telkom, a R12 billion fund, as well as a large transition management tender. We are now well established as the largest investment consultant in South Africa in terms of asset size, and consult to 8 of the 10 largest funds, as well as a range of smaller funds. We have also gained a number of technology clients for our systems.

Due to increased awareness of our business and services in the market, we are now being invited to tenders whereas in the past, new business was won via word of mouth or active marketing. We have also had a very high success rate with our tenders, winning over 90%, which I believe affirms our superior product and service offering.

## Passion for empowerment

Our passion for empowerment is becoming increasingly entrenched in our corporate culture. We were excited about the finalisation of the Financial Services Charter in late 2003 and believe it will be highly beneficial in the long term to both our industry and country.

Accordingly our employment practices are committed to ensuring that our staff are representative of South Africa's population demographics.

## Improved client experience

An area where we were most challenged during 2002 and for the first part of 2003, was client service. We believe this has turned around due to :-

- The growth of our Johannesburg office and consulting base which has ensured more regular contact and interaction with our clients.
- Ensuring that all teams remain focused on their specialist areas of business so that our products and services are of the highest standard.
- Improved project and time management with the aim of meeting our commitments to clients timeously and efficiently.
- Exciting developments in our technology systems, which allows for increased automation of our services.

We hope 2004 will see the augmentation of these improvements and that clients will continue to benefit from our ongoing efforts in this area.

## Intellectual capital

2003 saw the bedding down of our research function and the team has become integrally involved in technology, reporting, consulting

“Our passion for empowerment is becoming increasingly entrenched in our corporate culture.”

Ongoing training allows for significant skills development and promotion opportunities for previously disadvantaged staff. In addition to our staff ownership structure, we are exploring potential empowerment partnerships, but due to potential conflicts of interest, are forced to be very prudent in this regard.

We will be sponsoring our first student at Luhlaza Comprehensive School in Khayelitsha this year and hope to extend this bursary program as our business develops. In terms of enterprise development, we have completed our second research report in conjunction with Legae Securities, which was recently released into the market. These research reports involve a significant amount of time with absolutely no financial benefit to RisCura. Our key aim is to help develop Legae's research process and reputation, which will allow them to grow their brokerage base. It also enables us to showcase our intellectual capital in a more public arena as well as extend our brand value. We will continue to pick suitable partners who require assistance and development in this area.

and other business areas, providing added intellectual capital and innovation.

## Focused on transition management

This process is usually conducted by an asset consultant and aims to reduce a pension fund's risk when swapping managers or making structural changes to a portfolio. It is a potentially costly exercise for pension funds if the risks are not managed efficiently.

In the last two years, RisCura has completed the two largest pension fund transitions in the market as well as some smaller ones. We believe this area is an important growth point in our business and have a dedicated team in Johannesburg focused only on transition management. The success of this division can be attributed to our strong understanding of explicit and implicit costs, ability to manage, analyse and report on costs, well developed skills, systems and processes as well as refined risk procedures.

## **Keeping clients in the know**

One of our goals in 2003 was to ensure clients remain informed about our business and the industry in general. We have received an excellent response to our monthly performance surveys, RisCView, as well as our newsletter, thinktank, which is released quarterly.

## **Looking forward**

A key goal for 2004 is to drive the technology side of our business. We have already finalised and released a number of systems into the market and to date, sales have been extremely encouraging. We also want to develop our transition and marketing/communication divisions

as businesses in their own right. Our goal is for all divisions within RisCura to perform internal services but also have a number of external clients to ensure their continued motivation and excellence.

During the first part of 2004, we will focus on consolidating processes and services to new and existing clients so as to ensure continued improvement of service levels with all work being completed to spec and on time. We wish you all the best for 2004 and look forward to an exciting challenging year.

# **what's new? an update on our systems**

## **RisCInsight**

### **qualitative and quantitative database on product providers**

Version 1 of this system is completed and being marketed to industry participants. Currently we have 6 clients as users, with another 5 finalising their contractual arrangements. The system provides asset managers with the ability to market their business efficiently and with a high degree of data accuracy. It allows pension funds to test the managers and their investment performance according to a variety of qualitative and quantitative factors so as to facilitate an appropriate short list of managers. The system also contains a number of performance surveys with extended functionality in terms of performance/risk calculations and displays.

## **RisCStation**

### **securities lending risk management system**

Version 1 is already being used by a number of market participants. The finalisation of Version 2 is expected in February and entails significant enhancements to the current system.

## **RisCReturn**

### **performance measurement and attribution system**

Innovative additions to this system are currently being developed such as factor attribution models. A fixed interest performance attribution model, which will contribute to the effective risk management of this asset class, will also be added. Our performance attribution model now allows for the inclusion and exclusion of derivative performance in effective exposure terms. We have also improved the reporting tool (which now provides highly customised screens and analyses) and the user-friendliness of the system.



## Niël van der Merwe

Consultant - Head of Transition Management

BCom Econometrics; SAIFM

Dip in the Mathematical Modeling in Derivatives (UNISA)

Niël joined RisCura in August 2002, and forms part of the Transaction Services team. Niël helps drive the promotion and development of transition management. Prior to this, he worked for Alexander Forbes Asset Consultants where he headed the Transition Management unit. He also has stockbroking experience having previously worked for a brokerage company.

# Managing

# Portfolio Transitions

a tricky business

**A** portfolio transition can be defined as the process of implementing change to a portfolio or fund structure. In order to successfully make changes, retirement funds should be aware of any likely costs and risks involved in this process. A transition process should be effectively managed in order to reduce costs and risks so as to minimise the potential impact on the fund and its members.

In February 2003's issue of thinktank, we focused on how transition managers can help reduce the costs involved in any transition, a

primary reason for employing a transition manager as opposed to having the fund, stockbroker or investment manager manage this process.

In this issue, we compare the skills of the relevant parties in effecting a fund transition and motivate why we believe employing the services of an experienced transition manager is the best possible choice for a fund.

	<b>Fund</b>	<b>Investment Manager</b>	<b>Stockbroker</b>	<b>Transition Manager</b>
<b>Costs</b>	Able to manage explicit costs such as brokerage and taxes but generally not aware of, or do not have, the strategies in place to manage implicit costs such as opportunity, implementation and market impact costs.	Usually requests a "performance holiday" while effecting a transition. Costs incurred by the manager for the transition are not reported or analysed. This is not in line with Global Best Practice as a manager's performance should be monitored at all times.	Must ensure trades are carried out at optimal cost and that individual trades are finessed in terms of timing, liquidity, spread and impact costs.	Distinguishes between implicit and explicit costs. Costs are reduced by using specialist strategies and brokers. Able to collate a strategy of transactions across a number of brokers which one broker cannot achieve alone.
<b>Experience</b>	Transitions are done infrequently and therefore the fund lacks suitable skills and experience.	Focused on individual portfolios and therefore cannot manage an overall fund transition taking into account overall asset allocation and benchmark issues.	Limited experience in dealing with large transitions. No specialist function exists to manage the entire transition project.	Specialist consultancy with highly developed skills and systems built through experience.
<b>Systems</b>	Systems are proprietary. The fund will therefore need to develop its own systems and incur the necessary costs.	No access to specialist transition systems.	Have trading systems designed to optimise trading across a number of clients on a per stock basis. Systems are required that not only focus on trading costs but also on broader portfolio risks involved in the transition.	Developed proprietary systems including information, risk, performance measurement and cost attribution systems. These are unique to a transition manager and not available in the market.
<b>Relationships</b>	May experience difficulties co-ordinating all parties effectively in order to achieve overall objectives.	Termination of an investment manager by a fund may have a negative impact on their efficiency regarding trading, settlement and other administrative issues.	Do not have a direct relationship with pension funds making it difficult for them to understand the Fund, objectives of a transition, investment strategy or manager selection process.	Independent to all parties and has ongoing relationships with them (even outgoing managers).

## RisCura Transition Services

The RisCura Transition Management Division was established in 2002. The team has an average of 5 years experience in transition management and manages around R10-R12 billion of transaction trades per annum, making us the largest transition manager in the country. The team provides services to RisCura's consulting clients as well as non-consulting clients who only require transition management services.

The team has a strong understanding of the market and all players involved in the transition process. Their excellent relationship with the JSE, ability to analyse and report on transaction costs and in-depth knowledge of securities lending ensures that most transition business tendered for, has been won.

The division is also very active regarding empowerment and on average 25%-35% of all trades are allocated to empowerment brokers.

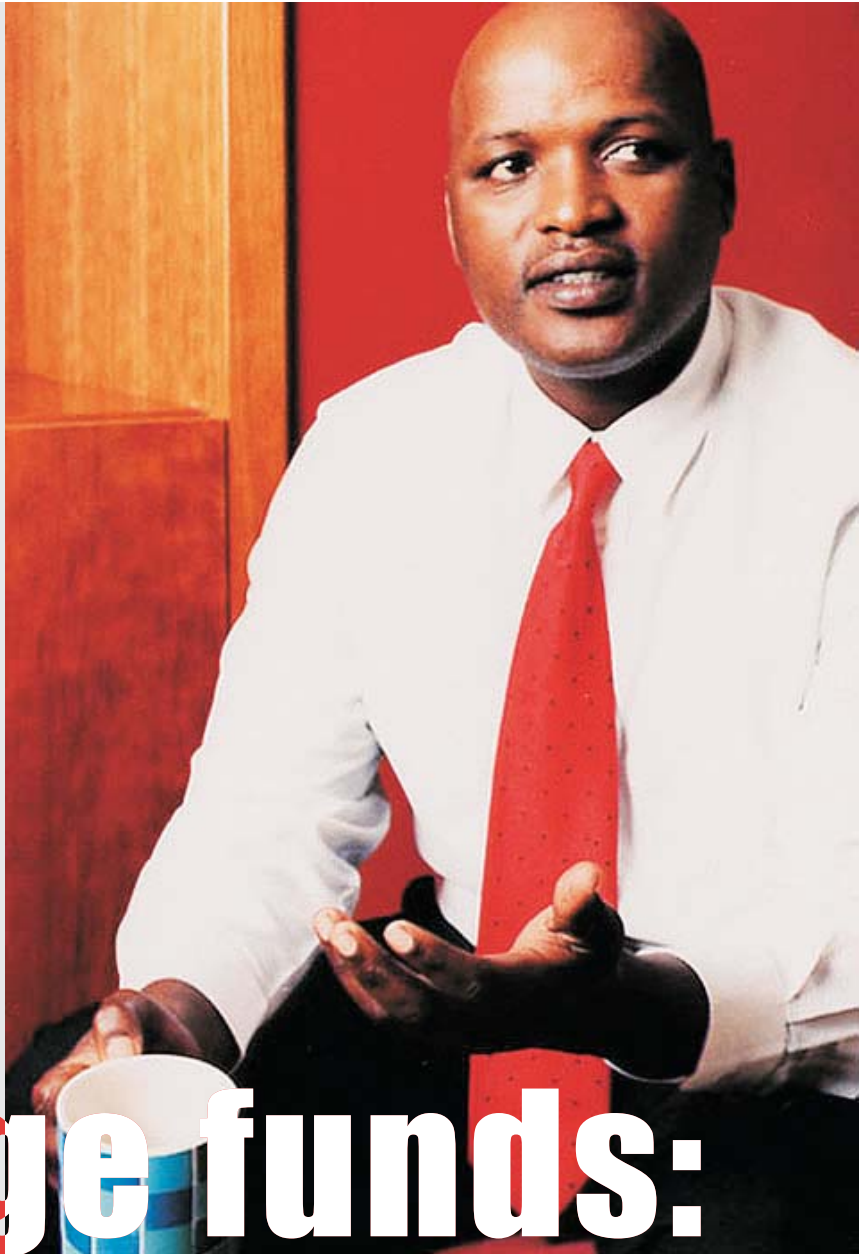
- Cutting-edge specialist systems developed in-house;
- Reputation for excellence in risk management, quantitative techniques, compliance and performance measurement;
- Real time pre-trade analytics including real time monitoring and compliance technology;
- Total asset/portfolio risk analysis;
- Dynamic analysis and planning for compound transactions;
- Detailed post-trade reporting and client feedback;
- Considerable experience with brokers – but independent to all parties;
- Dedicated team;
- All information totally confidential and not used for any other purposes than fund restructuring;
- Potentially lowest transition costs.

## **Mxolisi Mbekwa**

Director and Pension Fund Consultant

Currently studying Quantitative Management through Unisa

Mxolisi joined RisCura in February 2000. Prior to this he worked for Old Mutual Actuaries and Consultants (which later became Fifth Quadrant) on the investment reporting and quantitative analysis side. Mxolisi completed 2 years of his BSc Engineering degree but changed to study quantitative management through Unisa. Mxolisi manages the consultants, who are responsible for research, as well as interacts and communicates with clients about products and research. One of Mxolisi's skills is his ability to communicate many complex fund issues to trustees simply and effectively.



# Hedge funds:

## **pros & cons for retirement funds**

**T**he most important thing for a retirement fund to determine prior to setting a portfolio structure is the fund's liabilities. This will be the key determinant of asset allocation and once well defined risk budgets have been set in accordance with these liabilities, appropriate products and managers can be found to achieve outperformance within the asset classes.

It's important to note that hedge funds generally do not form a separate asset class to equities, bonds, cash and property. They offer diversification away from the traditional investment strategies employed to manage these assets, but not from the assets themselves. They therefore offer a valuable form of diversification within an asset class but should not be regarded as a separate asset class altogether.

Hedge funds aim to extract alpha or outperformance within an asset class through a stable return series and are useful for retirement funds wanting to enhance outperformance or protect against potential downside performance within an asset class.

They can be very effective in reducing the volatility of portfolio returns without compromising the expected returns.

Within a broad multi-asset manager structure, hedge funds are not designed to replace traditional fund managers or asset classes, but to complement them.

**R**etirement funds wanting to include a hedge fund investment in their portfolio structure should consider the following issues: -

#### **disclosure**

Hedge fund managers are reluctant to reveal their strategies or fund structure to investors or the public. This relates particularly to their short positions, which may subject them to unlimited loss potential. Lack of disclosure makes including hedge funds in a retirement fund structure difficult in terms of ensuring that they comply with the fund's desired asset liability model and risk budgets.

Formal performance measurement surveys in South Africa have only recently been developed and the objective monitoring of these funds' performance and risk profiles is still problematic.

#### **liquidity**

The ability to move in and out of hedge funds may be limited and it's very important for retirement funds to establish how quickly they can liquidate their assets should they wish to make withdrawals from the fund.

#### **costs**

In general, hedge funds charge high fees, both flat and performance-related. It is important for funds to assess whether these fees prejudice the potential for outperformance.

#### **riskiness of investment strategy**

Hedge funds are not constrained from using innovative investment strategies that are not well understood or researched by the industry. This complexity may increase the risk for retirement funds if they don't understand their fund's potential exposure to securities and asset classes. These strategies are often very low risk strategies, but the key is to make sure they are well understood.

#### **regulation**

Although prudential guidelines do allow retirement funds to invest a portion of their assets in absolute return orientated vehicles, hedge funds themselves have not been regulated by the Financial Services Board. There are however ways to include them in a retirement fund via appropriate structuring and/or limiting the investment activities employed by the hedge fund. Because of lack of regulation, retirement funds must take all reasonable steps to ensure that their selected hedge fund managers are competent, knowledgeable and experienced.

There has been substantial growth in the popularity of hedge funds in offshore markets and we have seen strong growth, particularly on the supply side, in the local market over the last couple of years. Many retirement funds remain reluctant to include these funds in their portfolio structures due to perceptions that they are too risky.

We believe their continued growth in popularity over the next couple of years will depend in part on market conditions. If markets perform well globally, investors' preference for open products (i.e. where the

performance upside is not limited) will be stronger than it is for hedge funds.

We believe the inclusion of hedge funds, even in small doses, will have a positive impact on most pension funds' risk return profiles. The inclusion however is potentially complex and needs to be well considered. RisCura has developed a number of proprietary techniques to ensure that the inclusion of hedge funds in a fund structure is optimal and risks are carefully managed.

# profile

# mandisa



## Mandisa Mbilini

Client Service Consultant

**Job description:** Joined RisCura in 2003 as an assistant to Duncan Theron but my role has expanded to include client relations and marketing.

**Education:** Diploma in Library & Information Science. I am currently studying a BBA (Bachelor of Business Administration) through Unisa.

**Experience:** I worked as a librarian for Cape Town City Council for six years and managed the Crossroads Library for one year. My career highlight here was facilitating the publication of a book by adult learners, entitled "Our Stories".

**Passionate about:** Life, positive human spirit - the ability of people to laugh, smile and treat a total stranger with respect.

**Dislike:** Poverty - it leads to desperation and takes away pride.

**Spend my spare time:** With friends and loved ones and reading.

**Favourite book:** I am an avid reader and some of my favourites are "I Know Why the Caged Bird Sings" by Maya Angelou and "Memoirs of a Geisha" by Arthur Golden.

**Best thing about living in South Africa:** Democracy and cultural diversity. Our country is so full of opportunities which provide challenges to those who are willing to seize them.

**What motivates you?** Believing in myself, knowing I have control over my future and the strength I get from my family.

**Where do you see RisCura going?** Our innovative minds and passion for excellence will enable us to hold our place as one of the leading companies in South Africa, and hopefully one day among the world's best.

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