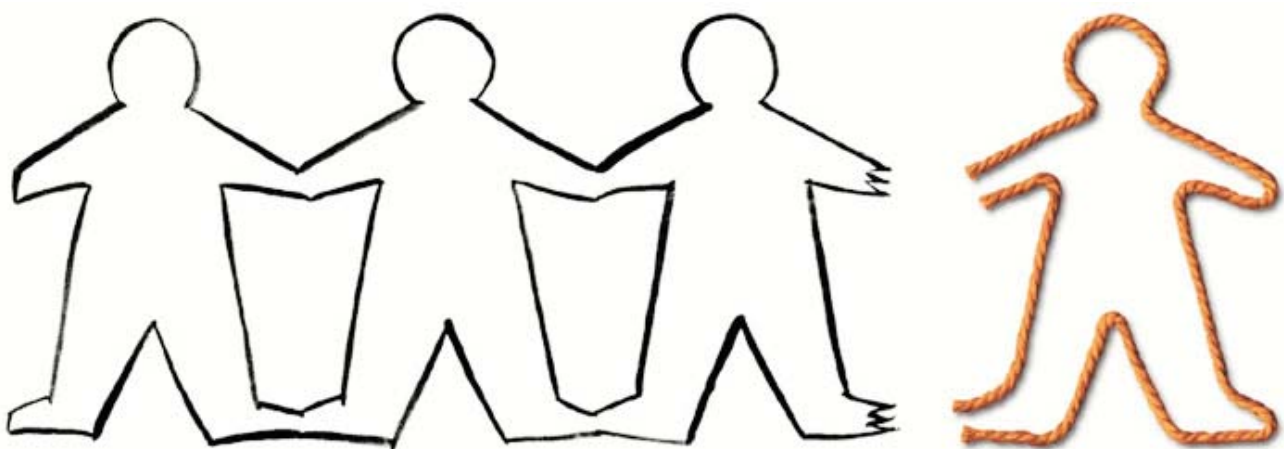


**At RisCura, there is *always* an independent view**



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## FEBRUARY 2008



### Q + A with Jarred

**I love that South Africa:** is so colourful, vibrant and plentiful in its opportunity, and just the most beautiful place in the world.

**I wake up:** to the most awful alarm...but it works!

**I care about:** the intention more than the action...

**2008 is the year I:** get back into shape!

**I drink:** three litres of water a day...or at least I try to!

2008 is going to be a challenge and we expect more conservative returns from the market, but we also think great opportunities will exist for flexible, disciplined investors. 2010 is around the corner; the government is putting a massive amount of spend into infrastructure development and China is on an African spending spree.

### A new landscape

The retirement landscape made some shifts in 2007. Circular PFI 30 issued by the FSB and draft changes to Regulation 28 look to a more regulated, carefully governed industry where retirement funds thoroughly understand their member profile/unique needs and develop an investment strategy directly suited to this.

We have incorporated all of the necessary "tick boxes" from PFI 30 into our consulting processes so clients should feel comforted that they are in line with industry trends. Government is pushing forward with their National Security Reform and we are very positive about the changes this will bring about. Some challenges to all industry players will certainly arise, but what's life without a change and challenge?

Recent increases in interest rates will make retirement funds more aware of the value of their liabilities today. RisCura's liability-cognisant investment approach has played a huge role in the structuring of our clients' funds over the last 7 years, and the benefits to these funds will now become apparent.

### From the fish bowl into the sea

RisCura has grown from 4 individuals at inception in 1999 to over 52 in 2008. It still gives me a thrill to come into our offices and see some of the brightest minds around focused on improving the

## Jarred on the business 2008

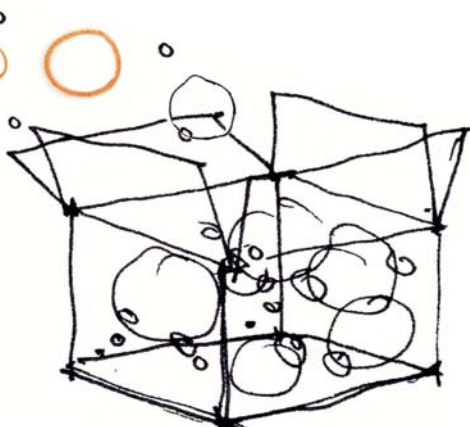
2008 had a shaky start. Markets took a tumble, political uncertainty is plastered over the media and power outages are warning of creaky foundations that need urgent attention.

The last 5 years have been a massive growth opportunity for market investors. The local market averaged a very high 25.4% per annum and retirement funds, depending on their blend of managers, should have done well for their members.

But markets move in cycles and things have changed. A retirement fund's key goal is to meet its commitments to members over the long-term. Tolerating volatility is an important part of long-term investing and disciplined funds that stick to their investment objectives and risk profile will go a long way to ensuring their members' retirement goals are not negatively compromised during this period.

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retirement outcome for ± 2 million fund members whose lives we have an enormous impact on. The asset base we consult to is now over R850 billion. We take this very seriously and each new client poses a massive opportunity and responsibility for us to make a difference. We have become signatories to the UN's Principles of Responsible Investment and believe that if all industry participants commit to investing more consciously and responsibly, we will not only create great investment returns, but a better world for all of us to retire in.

Clients that came on board last year include the Government Employees Pension Fund (GEPF), the biggest pension fund in Africa and South Africa, and the Mandela Rhodes Foundation to which we provide pro-bono services. Our client type is also broadening and we now consult to funds in the medical aid industry.

### International manager selection

One of our growth areas this year has been foreign manager selection and a number of our bigger clients have used our skills here. We have access to a database of over 8000 international managers and conduct regular due diligences on a shortlist of these managers. We spend time abroad each year visiting managers and they also come out to South Africa regularly to present to us. We also perform

extensive due diligences on our local managers' international operations.

### Technology drives the world

Technology at RisCura received a big push in 2007. We worked hard at data security and accuracy (two huge risk areas in our business) and now have a robust, secure data warehouse, which our reporting and consulting teams rely on. We are currently developing a real-time decision support system for retirement funds that will give a snapshot view on a fund's asset and liability profile at any point in time. This will enable Trustees and investment committees to have daily support when making decisions, instead of waiting for their monthly and quarterly reports.

### A thriving business

Investment consulting business models are tricky as fee structures are not always positively influenced by a growing market/fund, as with asset and multi-managers. We are slowly building recognition of the essential part we play in a retirement fund's performance over time, and this should help to improve fee structures.

Despite this, RisCura is a profitable, thriving business that attracts outstanding staff who are motivated by many things, one of which is the unique, hardworking, 'great ideas' culture they experience here.

### People make all the difference

A lot of our growth and success is due to some recent staff restructuring. Malcolm Fair has been appointed Chief Operating Officer and runs a tight ship with efficiency, wisdom and heart. Prasheen Singh is now Head of Consulting. I employed Prasheen 8 years ago fresh out of university and what an inspired decision! Her knowledge, skills and ability to simplify my complexity is a unique gift to our business and clients. Claire Rentzke has now taken over as Head of Manager Research and Selection, allowing Prasheen to focus solely on her consulting responsibilities. This reshuffle frees me up to spend more time consulting to and interacting with our clients. I have also relocated to Joburg so our Joburg clients can expect to see and hear much more of me!

RisCura started a graduate training program in late 2007. We currently have 4 young, exceptionally bright graduates on a mentorship program. I am passionate about research, fresh ideas and sourcing talent, and believe this program will expand our skills and resources into the future.

We look forward to a good year ahead.

Jarred

## Q + A with Given

**South Africa is about:** opportunities and hope.

**I am grateful for:** everything that I am and about to be.

**The last holiday I went on was to:** Limpopo - no better place than home.

**I think the people at RisCura are:** passionate, intelligent and love what they do.

**I drive:** fast!



*By Given Phaladi,  
Quantitative Analyst*

# 360° Snapshot of responsible investing

**T**he Government Employees Pension Fund (GEPF), South Africa and Africa's largest pension fund, recently signed the United Nations Principles of Responsible Investment (UN PRI), thereby setting an example to the South African retirement industry that

SRI should no longer be a secondary investment consideration way down on a long list of priorities 1). Signatories to the UN PRI agree to ensure that all their investment activities incorporate environmental, social and governance (ESG) factors into the decision-making process and in doing so, strive to put an end to business-as-usual investing, which in many cases ignores these factors by claiming that they are not financially material. RisCura also became a signatory to the UN PRI in 2007.

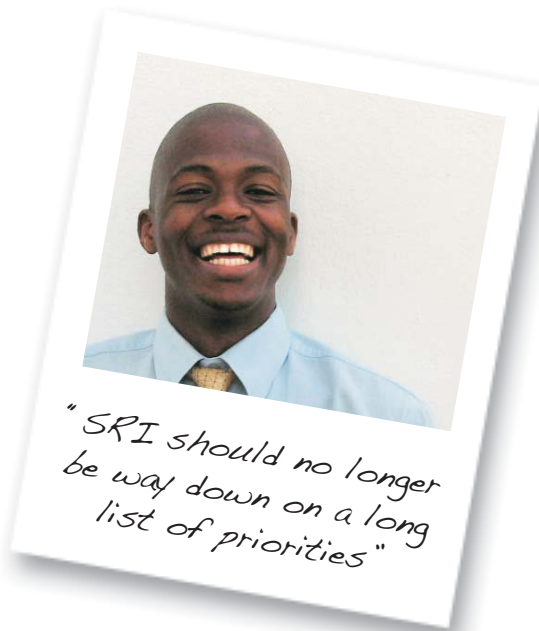
Responsible investing should be high on every South African pension fund's agenda and signing the UN PRI will certainly demonstrate a strong level of commitment. The PRI principles can be summarised as follows 2):

- Integrating ESG issues into investment analysis and decision-making processes;
- Incorporating ESG issues into ownership policies and practices;
- Encouraging greater ESG disclosure in investable companies;
- Including PRI requirements in investment mandates;
- Collaboratively implementing the principles, on either a systematic or ad hoc basis;
- Reporting on activities and progress towards implementing the principles.

A recent progress report indicates that the African continent represents only 2% of the total signatories of the UN PRI, compared to Europe (41%), North America (25%), Latin America (10%), Asia (6%) and Oceania (15%). Our standing is however better than the Middle East countries that represent only 1% of the total 3). In order to benchmark themselves against international standards, South African investors should focus on adopting the principles. Signing up to the UN PRI would commit a fund (and by implication its service providers) to incorporate ESG issues into all its investment decision-making processes.

### So what then is SRI?

Socially responsible investing is an alternative way of addressing responsible



investment and one that has been around in various guises for a while. It is a trend that South African pension funds have picked up from their international counterparts. The definition of SRI remains vague, meaning different things to different people. Definitions also differ between countries. Environmental investing, ethical investing, sustainable investing, socially responsible investing etc., are all different labels that can be attached to the broad SRI banner 4). In essence though, SRI refers to a group of investment mandates and products that in one way or another take into account ESG factors.

Many people believe SRI to be an asset class, when it's really a theme that cuts across many different types of investment mandates, asset classes and investment products. Internationally, the responsible investing concept began with environmental concerns and now includes social issues, such as human rights, employee relations and business ethics. South Africa has unique issues relative to many of our international counterparts and the SRI approach should focus on addressing these specific issues.

### SRI in the South African context

Different countries have different focuses and priorities - for some, environmental changes are important, others are concerned about corporate governance and others have social issues at heart. In South Africa, SRI funds were set up in the 1990's

in response to the government's call for transformation and policies that support it, for example, Masakhane, Reconstruction and Development Program (RDP), Growth Employment and Redistribution (GEAR) and Black Economic Empowerment (BEE). More recently we are starting to integrate environmental concerns into our investment processes to address global warming issues.

In May 2004, South Africa launched the JSE SRI index to promote the sustainability concept. This index includes companies that integrate social, economic and environmental business practices with good corporate governance 5), and complements international benchmark indices like the Dow Jones Sustainable World Index, FTSE4Good, etc.

Most Trustees are fairly cautious about SRI and believe that incorporating the theme into their processes may conflict with their fiduciary duties, one of which is to maximise long-term performance. Some investment managers may argue that incorporating SRI factors into their processes narrows an already limited investment universe thus compromising fund returns.

### Classifying SRI

There are three criteria that SRI investors use globally (including South Africa).

1. The first criterion is the practice of screening or filtering companies based on ethical criteria. Screening can be positive (potential companies are included in an investment universe because they fulfill certain positive criteria), or negative (excluding companies for products or practices that are considered negative). Screening can go as far as screening out emerging market countries with power regimes that investors oppose.

2. The "you can't influence if you don't invest" concept defines the second strategy, which is shareholder activism or engagement.

Shareholders own a piece of companies they invest in, and with that

ownership come both rights and responsibilities. Shareholders can positively influence company behavior and achieve socially responsible outcomes through their ownership stakes and voting rights.

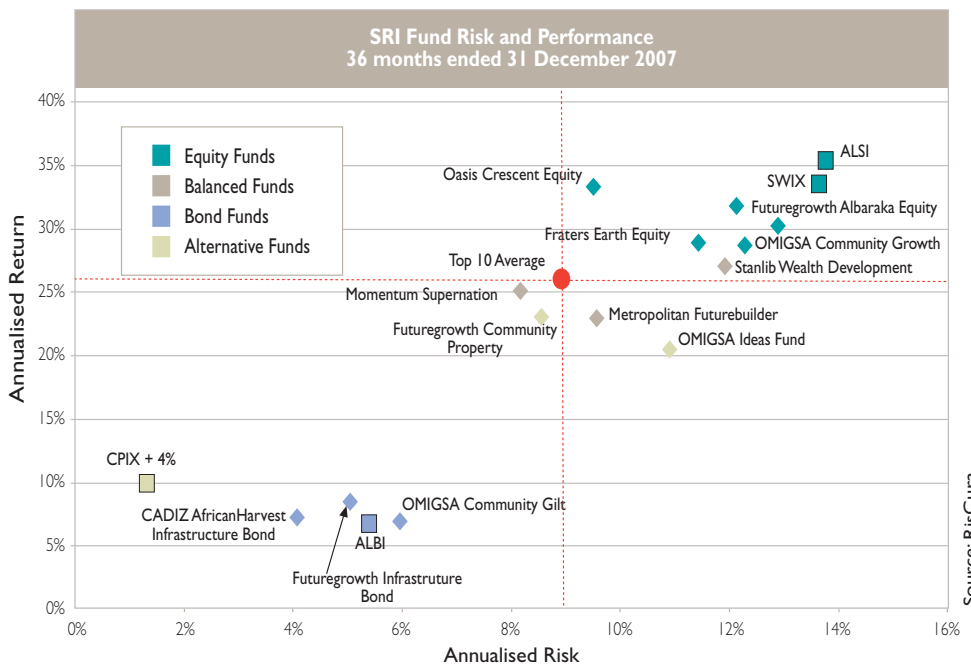
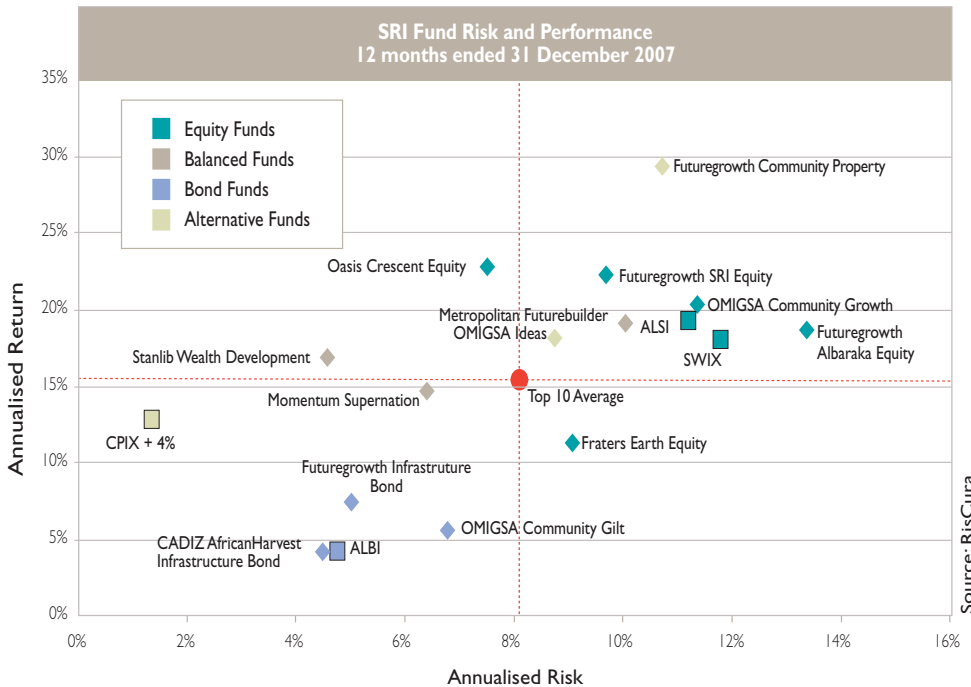
Many pension funds unknowingly hold an enormous amount of clout in this area.

3. Targeted investment or community investment is the third criterion available to SRI investors. This focuses on real economy projects via, e.g. equity or debt financing, which have a direct impact on areas such as

infrastructure development (like energy, telecommunications, education, water and waste management, health facilities, roads etc.), low-income housing, agricultural development and SME's.

### Impact on performance and risk

A number of investment managers offer SRI products. The charts below show the performance of these products as reflected by RisCura's SRI survey, over 12 month and 36 month periods. The charts illustrate that performance of these products is acceptable given the relevant benchmarks for each asset class.



This is a snapshot at a particular time, but what matters for retirement funds that have long-term liabilities, is how companies perform over an extended time period. Incorporating SRI processes or funds into a pension portfolio provides a good opportunity to generate strong returns while at the same time contributing to social, environmental and grassroots economic development in South Africa, resulting in improved economic growth.

### South Africa's challenge

It might not seem that South Africa is doing enough relative to other countries, but in essence it is doing well by addressing its own challenges that fall under the responsible investment umbrella. Once these grassroots challenges are overcome, it will then step up to international challenges.

Proper corporate governance is increasingly becoming a concern, particularly after a Fidentia type event. The Financial Services Board (FSB) is looking to beef up corporate governance and make sure that the laws and principles stipulated in the King II report are implemented. The practice of price discrimination by Mittal Steel South Africa <sup>6)</sup> as a company that has a strong environmental focus, questions the credibility of the process used to categorise companies as part of SRI funds by fund managers and the JSE SRI committee, as this company is a top choice of many SRI fund managers and also a constituent of the JSE SRI index. The process of categorising companies as part of SRI funds needs to be looked at more holistically, reviewing the way ESG factors are weighted individually.

### The challenge for the South African pension fund industry

In his speech at the launch of the UN PRI in South Africa in October, Martin Kuscus, Chairman of the Government Employees Pension Fund (GEPF), challenged fiduciaries, investment managers, consultants and other service providers in the retirement industry to follow in the footsteps of the GEPF and sign the UN PRI. In doing so, these signatories will

be forced to relook at the criteria that constitute "good investments". This will have a knock-on effect of forcing companies to change their way of doing business to accord with "good investment standards", resulting in improved governance, better social and environmental conditions and stronger economic growth for South Africa.

Retirement investing therefore becomes not only about the amount of money that individuals have to retire on, but the state of the world/environment that they will retire into and ultimately leave behind.

**Notes:**

- 1) "State's R700bn pension fund to sidestep PIC", Business Day, 4 October 2007.
- 2) "Global charter puts spotlight on ESG issues",

- Global Pensions, June 2006.
- 3) "PRI: Report on Progress 2007", Principles of Responsible Investment, 2007.
- 4) "Rewards of virtue", Global Pensions, November 2003.
- 5) "Doing well while doing Good? The Investment performance of South African Socially Responsible Equity Unit Trusts", G. Meharchand.
- 6) "Mittal: the choice of ethical investors?", Moneyweb article, September 2007.

# Creating an investment policy statement - a checklist

By Prasheen Singh, Head of Consulting

## Q + A with Prasheen

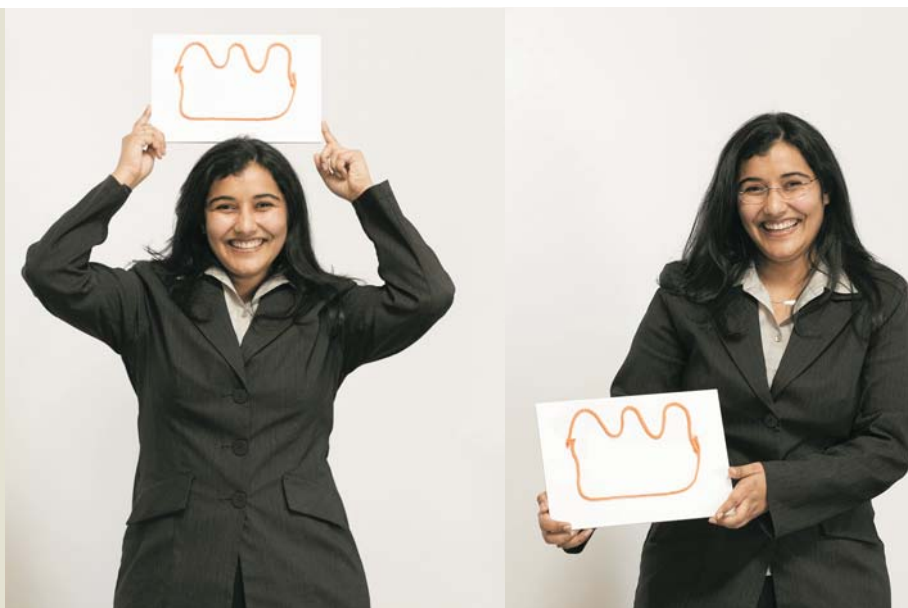
**My work is:** challenging, but rewarding.

**A great thing about living in South Africa is:** the diversity in our fauna, flora and cultures.

**I love:** rainy weekends spent relaxing at home.

**Life drives me crazy when:** there are slow drivers in the fast lane on the highway.

**A good thing to think about is:** my next holiday!



PF130 requires Boards of Trustees to put an investment policy statement (IPS) in place for all funds, no matter the size.

### What is an IPS?

An IPS is a formal statement of the main principles underlying a fund's investment strategy. It is designed to:

- Communicate the investment philosophy to the fund managers and beneficiaries;
- Describe the investment objectives and the overall risk philosophy;

- Define how investment managers will be selected, remunerated and, where necessary, replaced in a manner that encourages compliance to the Investment Policy goals and objectives;
- Communicate the investment strategy for evaluation purposes;
- Identify those involved in the investment process and the expectations of those parties.

### Why use an IPS?

An IPS forces a Board of Trustees to put their investment strategy in writing and consider carefully all issues relevant to the fund's investments. It serves as a long-term guidepost, identifies goals and creates a systematic review process to ensure the fund is on target with its objectives. It's intended to keep funds focused on their objectives during short-term swings in the market and provides a baseline from which to monitor the performance of the whole fund and the individual money managers.

## What should it include?

To include	Consider
✓ <b>Goals of a fund</b>	<ol style="list-style-type: none"> <li>1. Fund return requirements – consider general return goals and after tax benchmark.</li> <li>2. Overall risk tolerance - for example, % above or below benchmark return.</li> <li>3. Resultant asset structure – such as building blocks approach using specialist managers or blend of balanced or other fund types etc.</li> </ol>
✓ <b>Investable asset class, categories and limits</b>	<ol style="list-style-type: none"> <li>1. Constraint or limits on certain asset classes – consider whether there are assets that the fund can't invest in.</li> <li>2. Time horizon for the fund – consider the overall time horizon for fund plus the horizons for asset managers.</li> <li>3. Liquidity constraints – consider the fund's needs in terms of liquidity and how this restricts the amount of investment in a security/asset class.</li> <li>4. Tax considerations – consider how and if the fund's assets will be taxed and current tax legislation.</li> <li>5. Voting policy – consider shareholder activism and how involved trustees want to be in making sure the fund acts as "one".</li> <li>6. Scrip lending policy – consider whether the fund will lend scrip out to enhance returns.</li> <li>7. Legal constraints – consider rules specific to the fund as well as other current legislation and potential changes (Reg 28 and offshore exposure limits etc).</li> <li>8. Offshore investments – consider whether the fund will invest a portion of its asset offshore as a means of diversification and how this will be done.</li> <li>9. Socially responsible investments – consider the fund's view regarding SRI and how to incorporate this into its investment structure.</li> <li>10. BEE investments – consider the importance of BEE investments and how to incorporate into a fund structure.</li> <li>11. Strategic holdings – consider the fund's policy on investments "bound by agreements" and on employer related investments.</li> <li>12. Direct property – consider whether the fund can invest in listed and/or unlisted property.</li> <li>13. Other constraints.</li> </ol>
✓ <b>Risk policy</b>	<ol style="list-style-type: none"> <li>1. Core risks to the fund – list of all the investment risks the fund is exposed to and how these will be monitored/managed.</li> <li>2. Risk tolerance of the fund – state the overall risk tolerance and consider the risk tolerance for each manager.</li> <li>3. Desired levels of volatility – consider for the overall fund and for the individual managers.</li> </ol>
✓ <b>Implementation of investment policy</b>	<ol style="list-style-type: none"> <li>1. Selection of managers – criteria for selection include performance history, experience, team, skills etc.</li> <li>2. Proposed asset manager structure – consider whether specialist blend or mix of balanced and other funds.</li> </ol>
✓ <b>Investment guidelines for investment managers</b>	<ol style="list-style-type: none"> <li>1. Return targets and investment restrictions for managers.</li> <li>2. Manager use of futures and derivatives – consider potential risks to the fund.</li> <li>3. Any regulation requirements governing the investment of fund's assets.</li> </ol>
✓ <b>Performance management criteria</b>	<ol style="list-style-type: none"> <li>1. Short and long-term return and risk targets.</li> <li>2. Intervals over which to assess performance.</li> <li>3. Method of evaluating performance.</li> <li>4. Action to be taken if performance targets not achieved.</li> </ol>
✓ <b>Communication of performance</b>	<ol style="list-style-type: none"> <li>1. Method of communicating performance to the trustees including reports and presentations.</li> </ol>
✓ <b>Review of strategy</b>	<ol style="list-style-type: none"> <li>1. Time period for reviewing strategy.</li> </ol>
✓ <b>Disclosure of conflicts of interests</b>	<ol style="list-style-type: none"> <li>1. Written disclosure from Trustees and all service providers to a fund.</li> <li>2. This should specify all actual or potential conflicts of interest such as financial gain (direct or indirect) to any associated company or individual accruing as a result of the fund's strategy.</li> <li>3. Trustees and all service providers must declare a level of independence in giving advice on an annual basis.</li> </ol>



# Profile

# Malcolm Fair

**Chief Operating Officer**  
**B Bus Sc (Hons)**

Malcolm joined RisCura in 2003 as a consultant. His experience in the investment industry includes working for RMB Asset Management and Futuregrowth where he was involved in specialist fund management, quantitative research and risk and performance analysis. Malcolm left RisCura in 2004 to spend a year at Singita as a game ranger and rejoined RisCura in 2005. He is responsible for managing RisCura's business operations and driving the company's strategic direction.

**My role at RisCura is to** make sure things get done, and that people have some fun doing them.

**I work at RisCura because** I love working with the people.

**My greatest skill at work is** understanding what makes people tick.

**My toughest challenge here is** juggling all the balls.

**The thing I value most about working here is** the challenge of working with people as smart as this.

**My family** comes first.

**I'm at my best when** I've got perspective on things.



good thinking

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