

The RisCura approach

Setting the Strategy

The retirement goal

You should have a stable income to maintain your standard of living throughout your retirement



Drawing up the Investment Policy Statement

- ▶ Requirements of Client / Law
- ▶ Provides the foundation for all investment decisions - guidepost, identifies goals and creates a systematic review process
- ▶ We ensure your investment strategy and IPS document is in line with Fund and industry requirements
- ▶ Review and re-evaluate over time given the Fund's changing liability structure, market circumstances etc.
- ▶ The OECD Core Principles bring in to focus the need for Trustees to adopt and operationalize a robust Investment Policy Statement (IPS).
- ▶ the IPS is a requirement under the Retirement Funds Act, and the PFR 2 guidelines



NBFIRA IPS considerations

- ▶ NBFIRA requires that the Trustees should draw up an Investment Policy.
- ▶ To be implemented by the Fund's Investment Committee
- ▶ Trustees to review the Investment Policy annually

NBFIRA REQUIREMENT

Issues relating to liquidating

Prudential norms

Exposure limits

Stop loss limits in securities trading

Management of all investment and market risks

Management of Assets and Liabilities matching

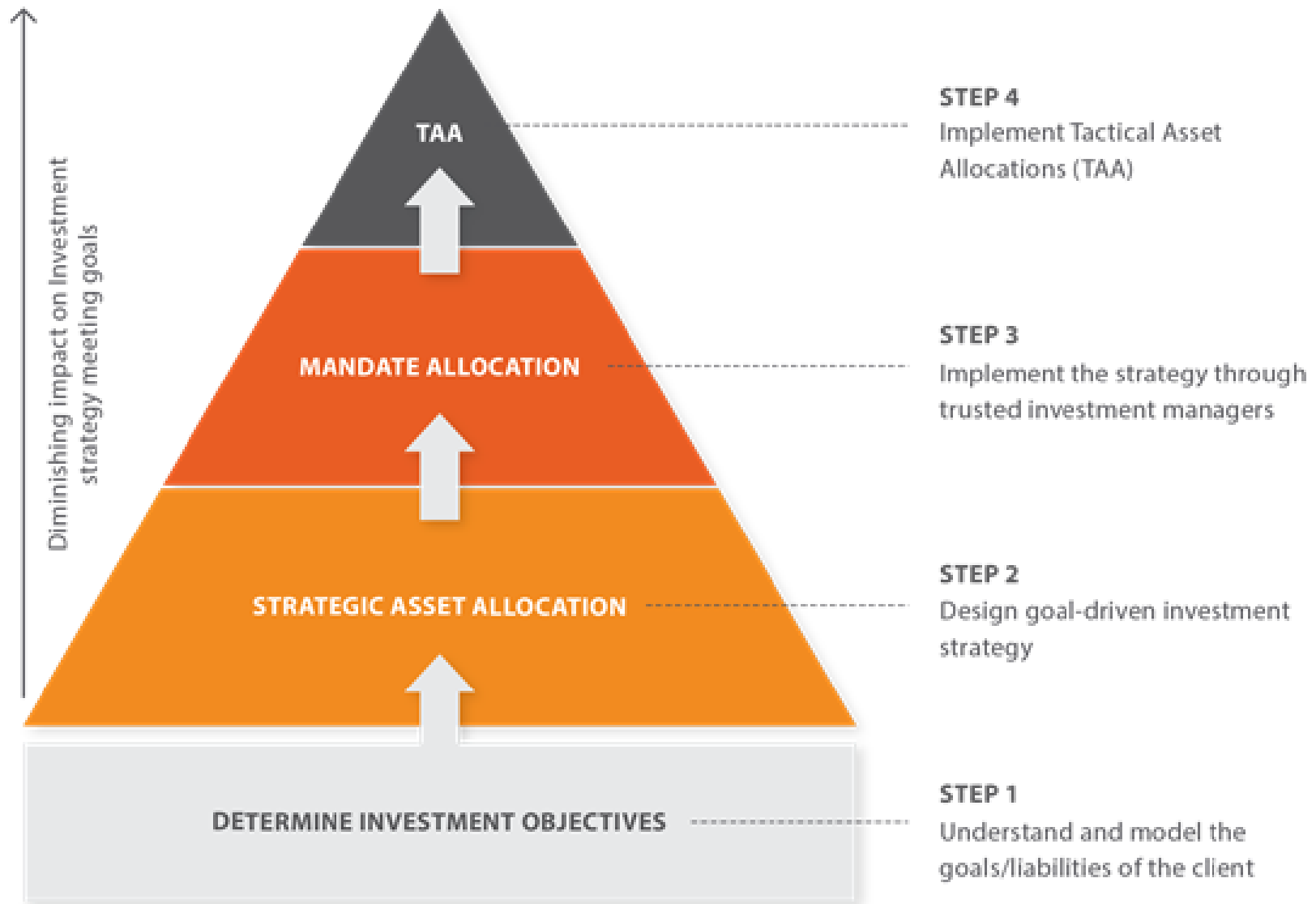
Investment audits and statistics

Critical IPS considerations

- ▶ The Fund's stakeholders and role players
- ▶ Investment philosophy
- ▶ Investment strategy
- ▶ Asset allocation and ALM process
- ▶ Rebalancing policy
- ▶ Structure of mandates
- ▶ Management fees and compensation
- ▶ Risk management
- ▶ Diversification
- ▶ Pledging and borrowing (script-lending) policy
- ▶ Voting policy
- ▶ Responsible Investing policy
- ▶ Citizens Empowerment policy
- ▶ Communication policy
- ▶ Risk policy



Different layers of investment strategy



Objectives

S

SPECIFIC

It should answer What? Why? And How?

M

MEASURABLE

Establish a manner to measure your progress

A

ATTAINABLE

Should not be far out of reach

R

REALISTIC

Represent things which you are willing to commit

T

TIMELY

Have a time frame for achievement

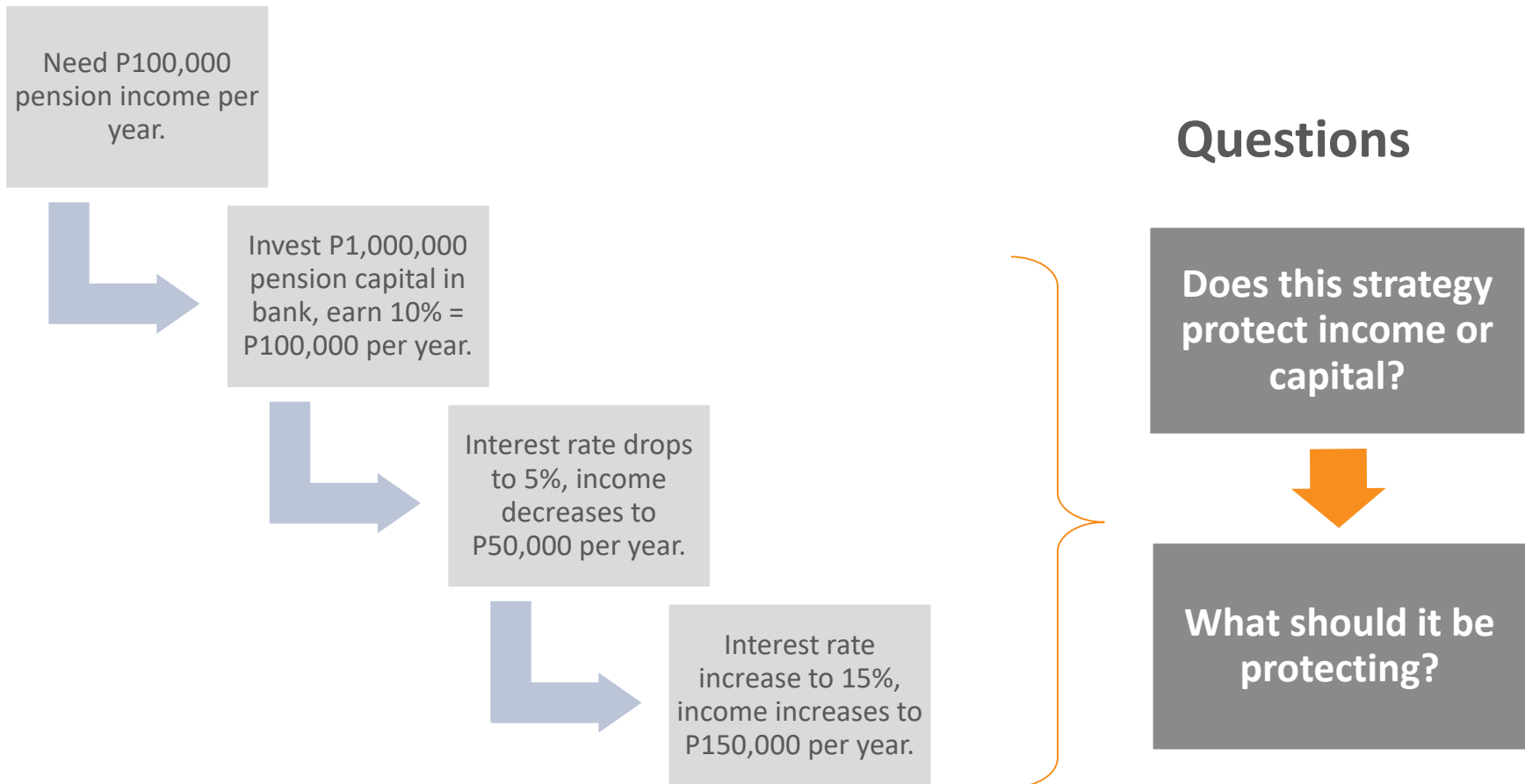
Source: <http://indestri.com/tag/crossfit-blue-mountains/>

Investment Objectives

	Protection	Growth
Capital objective	Protect capital	Grow capital
Income objective	Protect income	Grow income by inflation

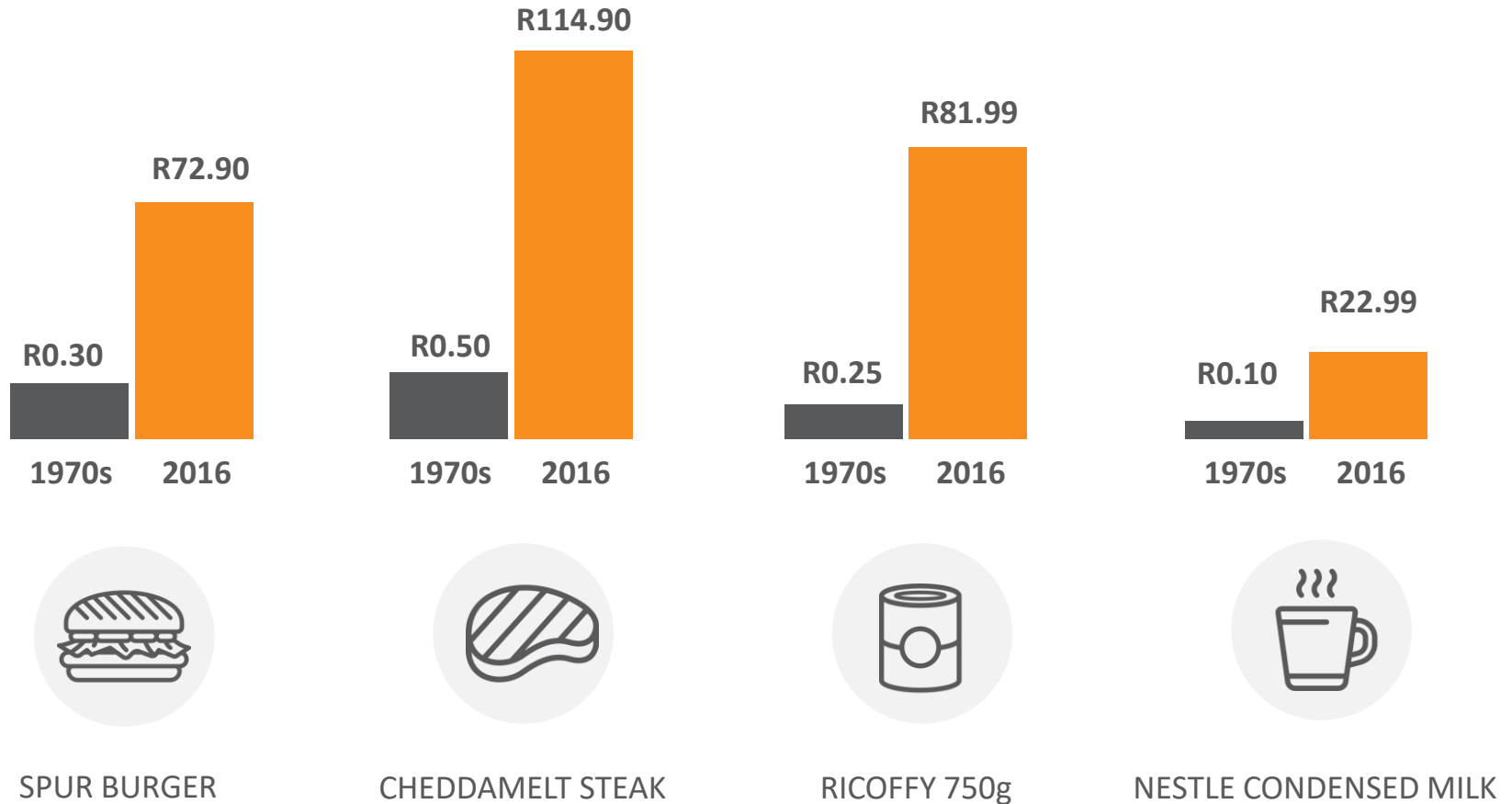


Example: Income protection vs. capital protection



Example: Impact of inflation

Inflation of 13% per year across all these products.



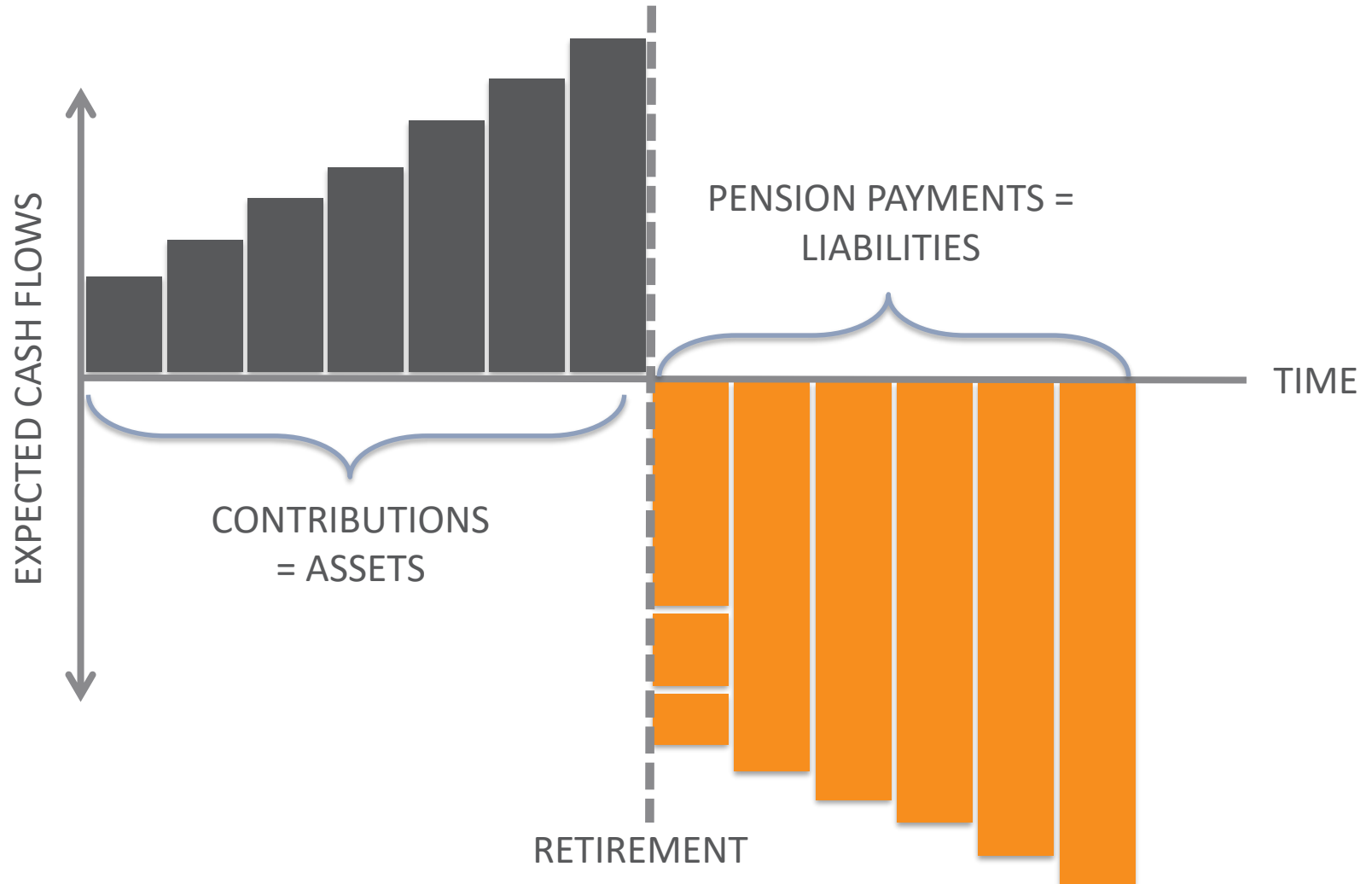
Investment Objectives for retirement



Ensure that your members retire with sufficient income to maintain their standard of living.

“A pension fund should protect pension income, not pension capital”

What do members want in retirement?



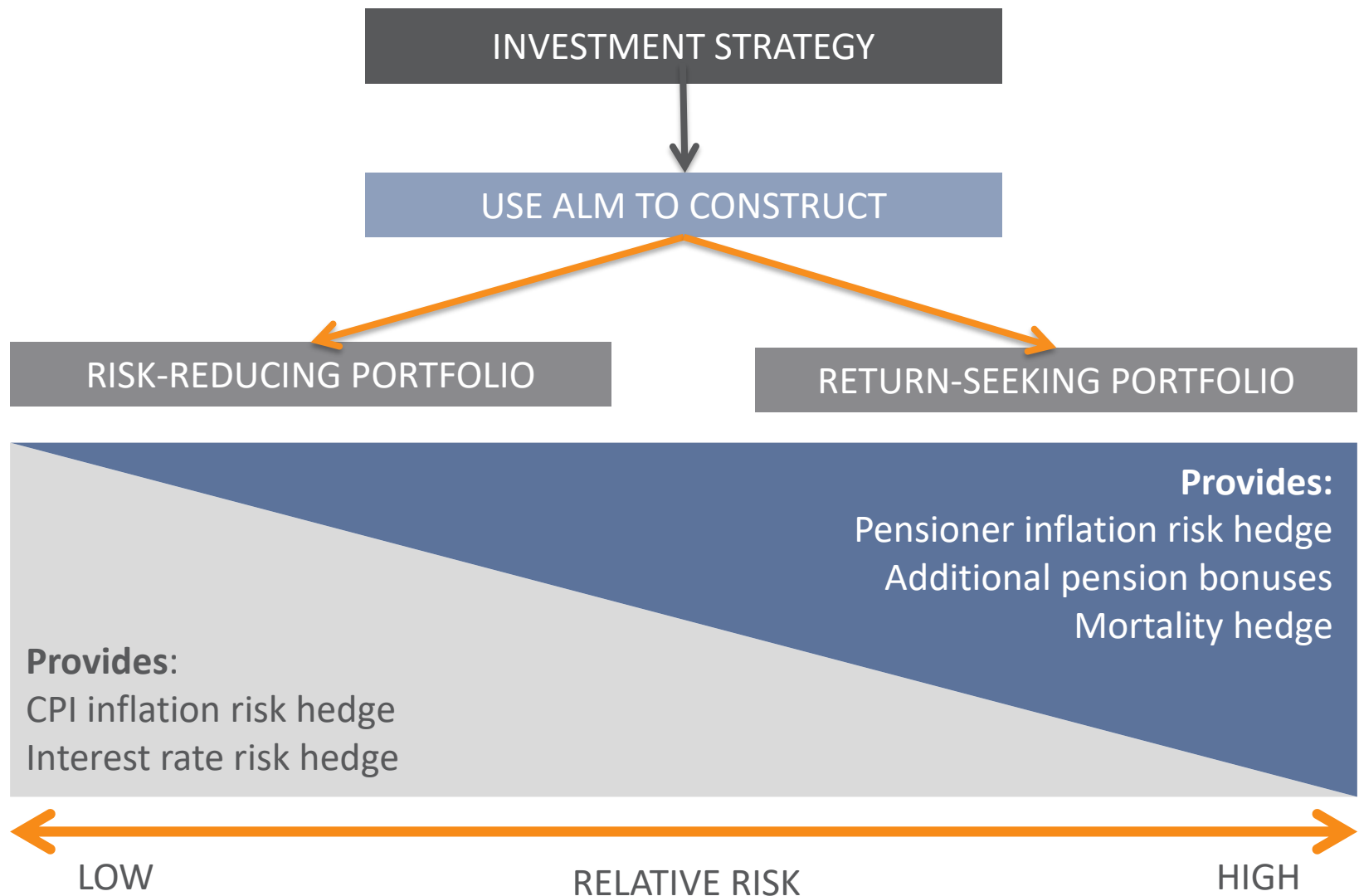
The balance sheet view

Like a bank, look at asset and liabilities in a balance sheet view.

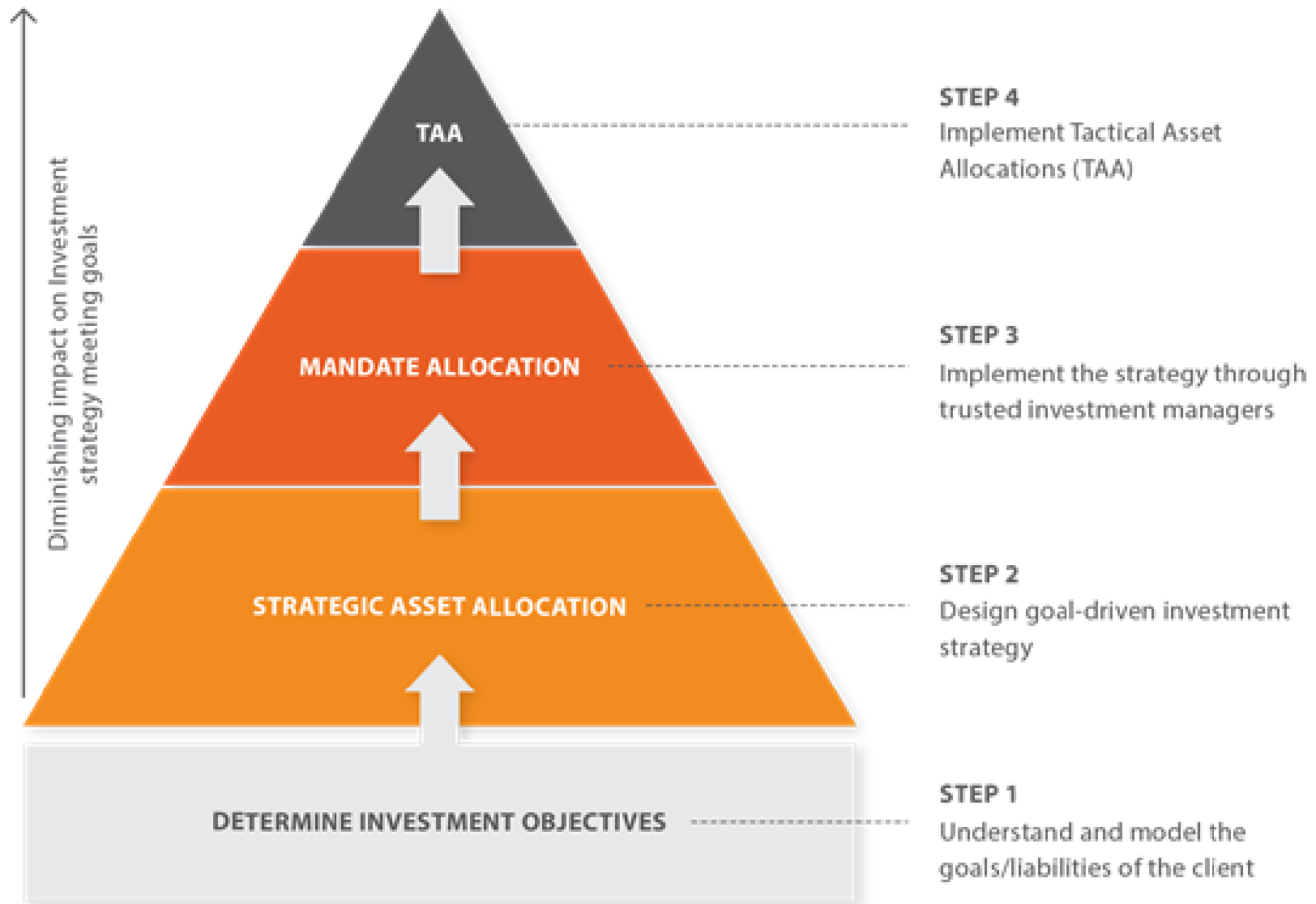
Opposite sides of balance sheet linked by funding level or surplus/deficit.

ASSETS	LIABILITIES
INVESTMENTS	SURPLUS
	RESERVES
	PENSIONER LIABILITIES

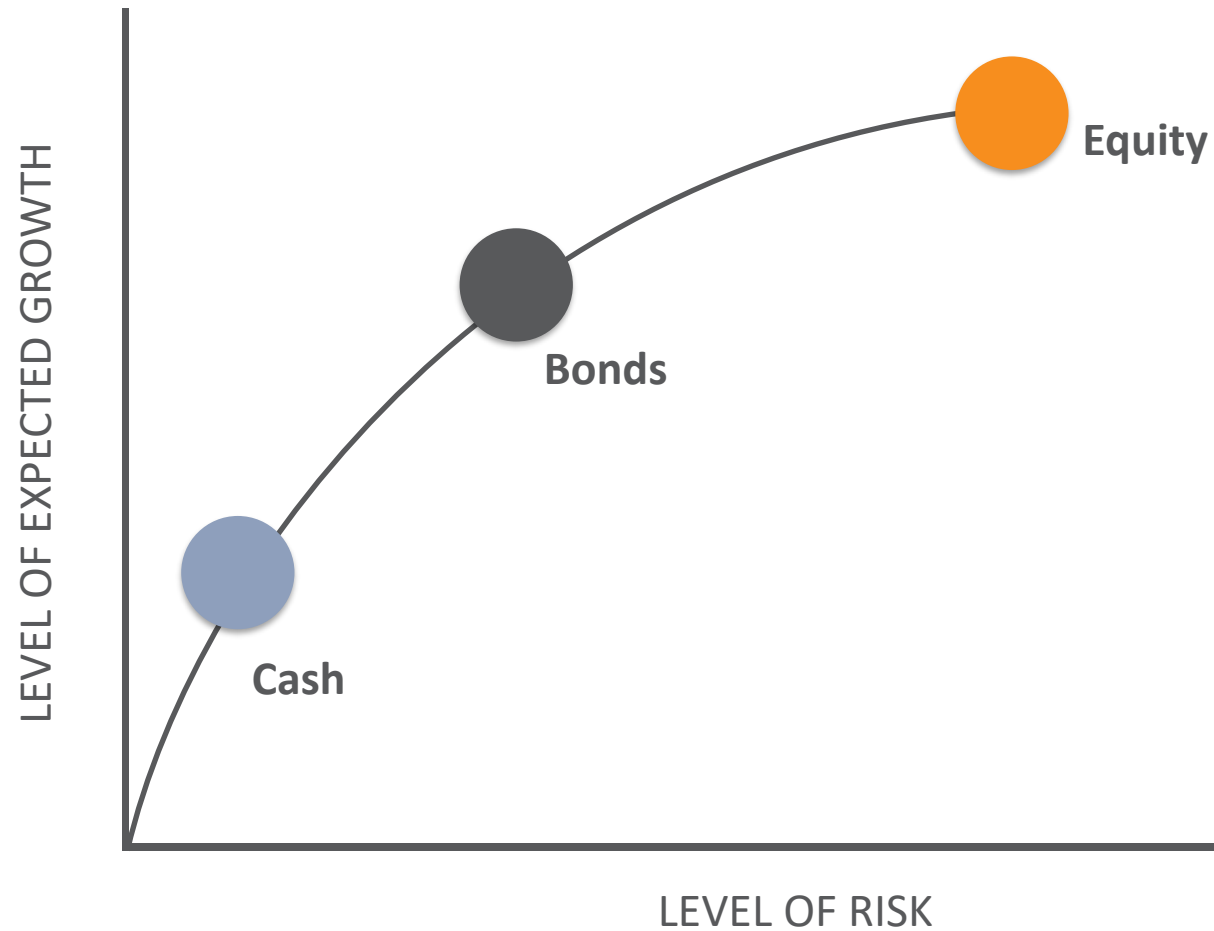
Framework for a Liability Driven Investment strategy



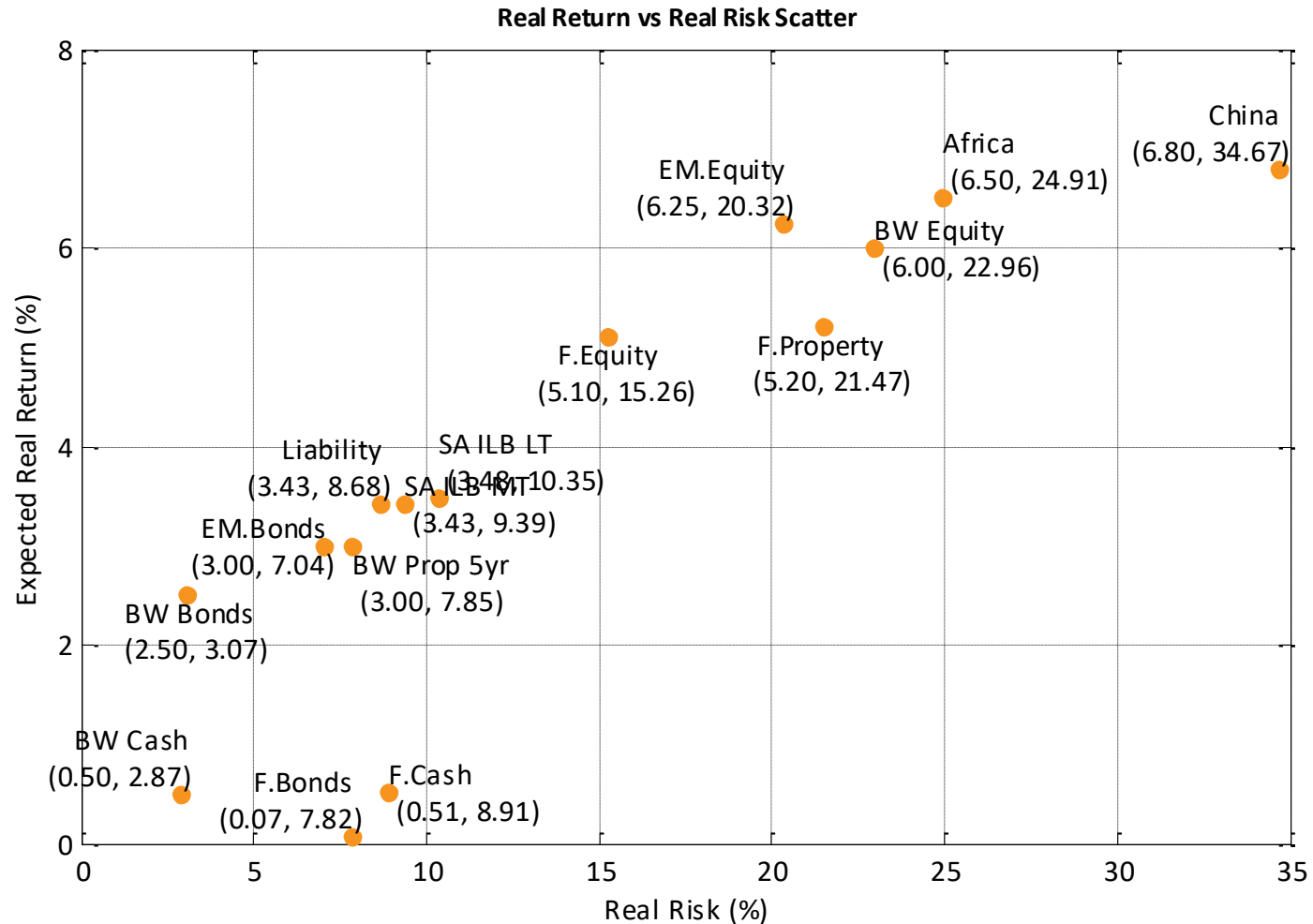
Different layers of investment strategy



Risk/reward trade-off

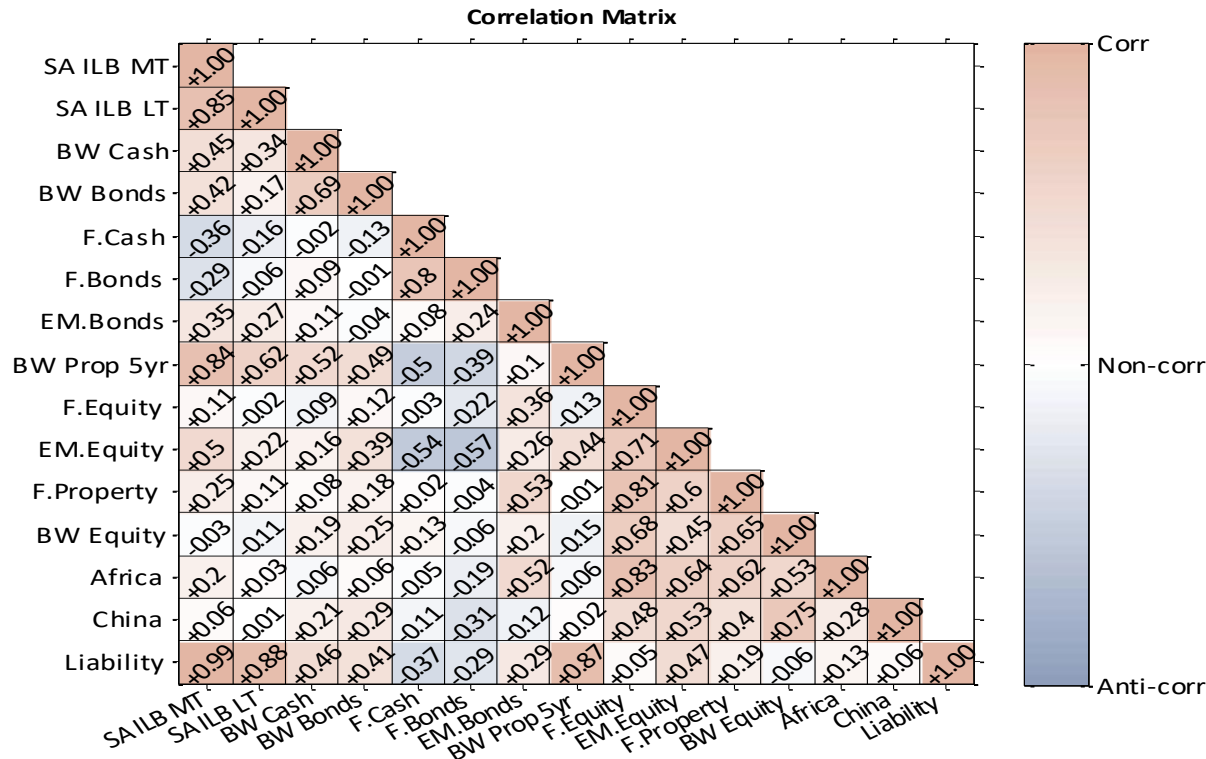


How do we expect these asset classes to perform vs risk ?



How do these asset classes correlate?

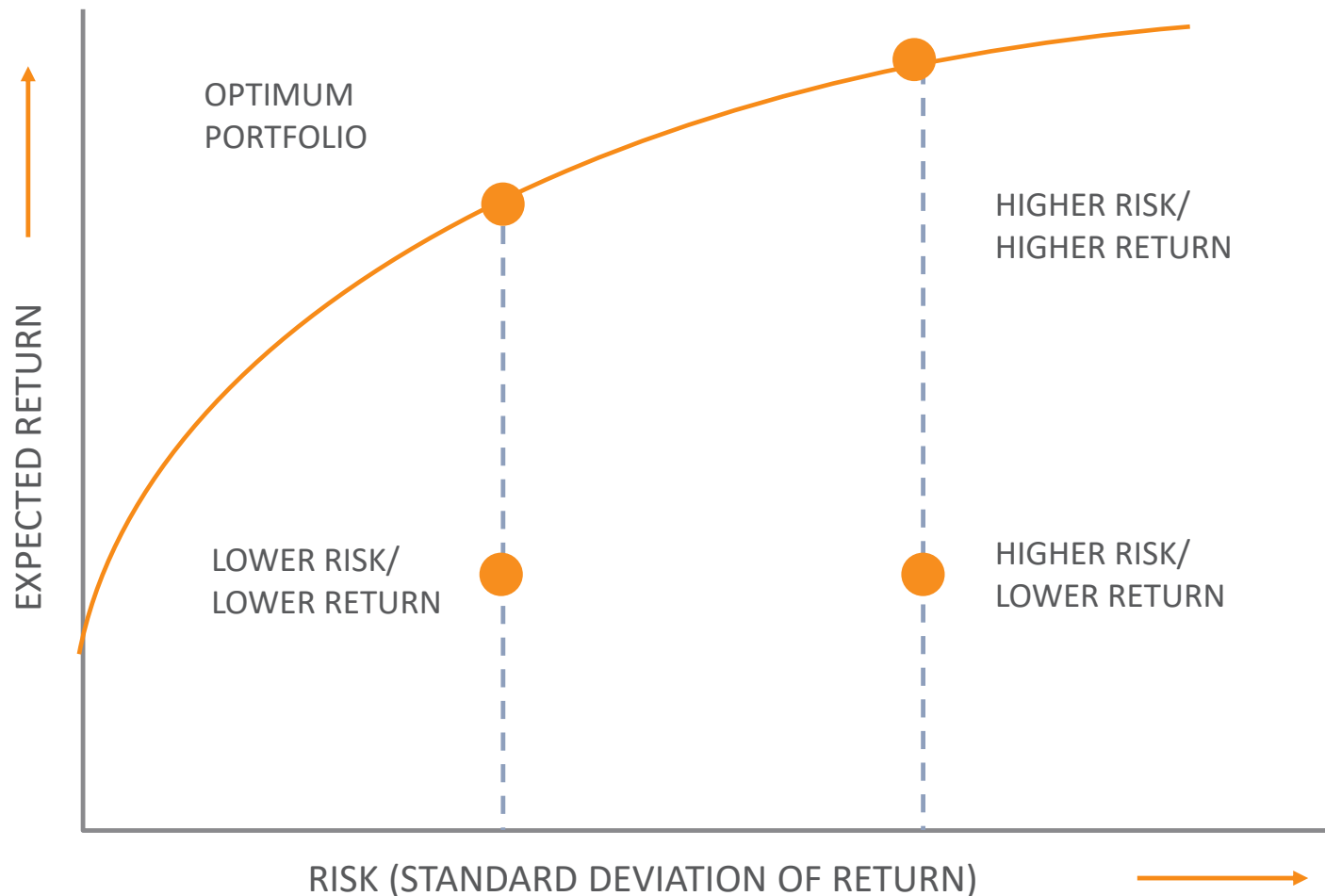
- ▶ All expectations are forward looking
- ▶ Do not use historical estimates but rather forecasted and current market observed quantities (forecasted dividend/earnings yields, yields curves etc.)



“ In forming portfolios some of the risk inherent in the individual asset classes can be reduced or eliminated.”

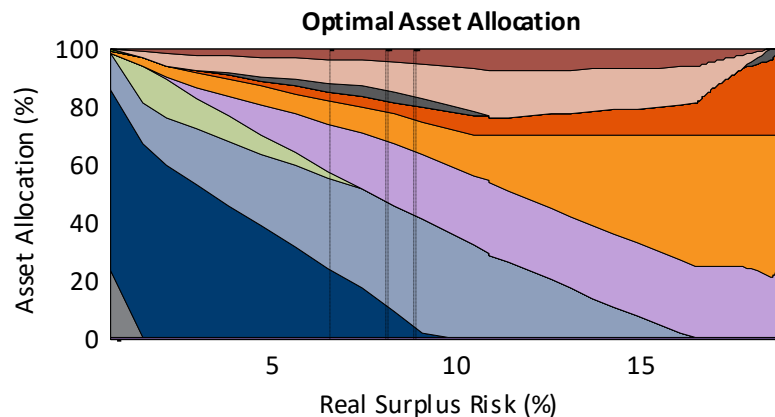
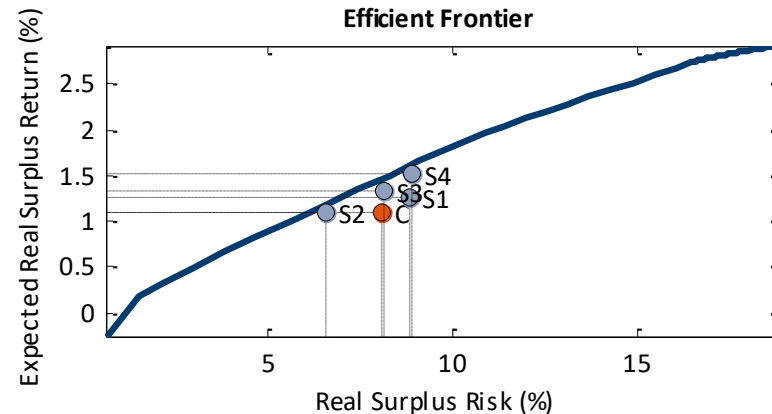
Spread of optimal portfolios = efficient frontier

The efficient frontier represents set of portfolios that will give the highest return at each level of risk or the lowest risk for each level of return.



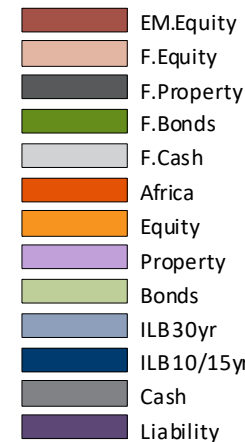
Determining Optimal Asset Allocation

Portfolio in Real Liability Space
(excl Liabilities as AC & with constraints)



Portfolio Allocation

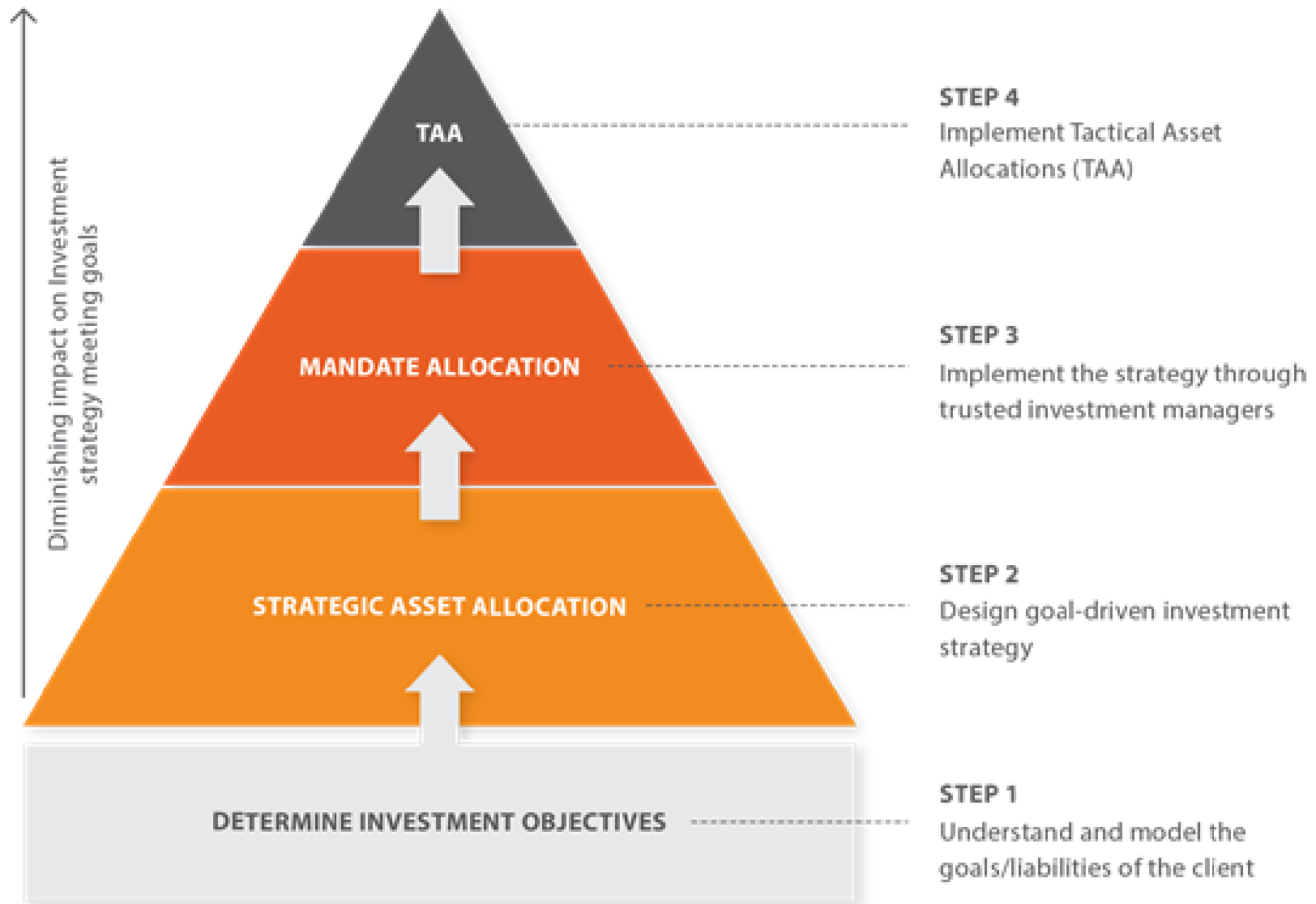
	C	S1	S2	S3	S4
Cash	16.2%	15.0%	5.0%	15.0%	5.0%
ILB10/15yr	0.0%	0.0%	22.0%	5.0%	0.0%
ILB30yr	21.1%	20.0%	23.0%	25.0%	32.0%
Bonds	16.3%	15.0%	10.0%	10.0%	10.0%
Property	0.0%	0.0%	8.0%	8.0%	8.0%
Equity	23.1%	20.0%	13.0%	18.0%	16.0%
Africa	1.5%	5.0%	4.0%	0.0%	5.0%
F.Cash	0.0%	0.0%	0.0%	0.0%	0.0%
F.Bonds	0.0%	0.0%	0.0%	0.0%	0.0%
F.Property	0.0%	0.0%	3.0%	3.0%	3.0%
F.Equity	21.8%	25.0%	8.0%	15.0%	14.0%
EM.Equity	0.0%	0.0%	4.0%	6.0%	7.0%
Liability	0.0%	0.0%	0.0%	0.0%	0.0%



C = current asset allocation (CAA), S1 = strategic asset allocation (SAA), S2 = lower risk option, S3 = more optimal than C option, S4 = more optimal than SAA option,

“ The process of blending together the broad classes so as to obtain return with minimum risk is called PORTFOLIO CONSTRUCTION. ”

Different layers of investment strategy



Picking Managers

BUSINESS

- Structure
- Incentives
- Size and product mix

PHILOSOPHY

- Over time
- Theory vs actual

INVESTMENT PROCESS

- Differentiating factor
- Portfolio construction, liquidity & risks

INVESTMENT TEAM

- Decision makers
- Breadth and experience
- Turnover
- Key-man risk

Investment manager monitoring



The final outcome

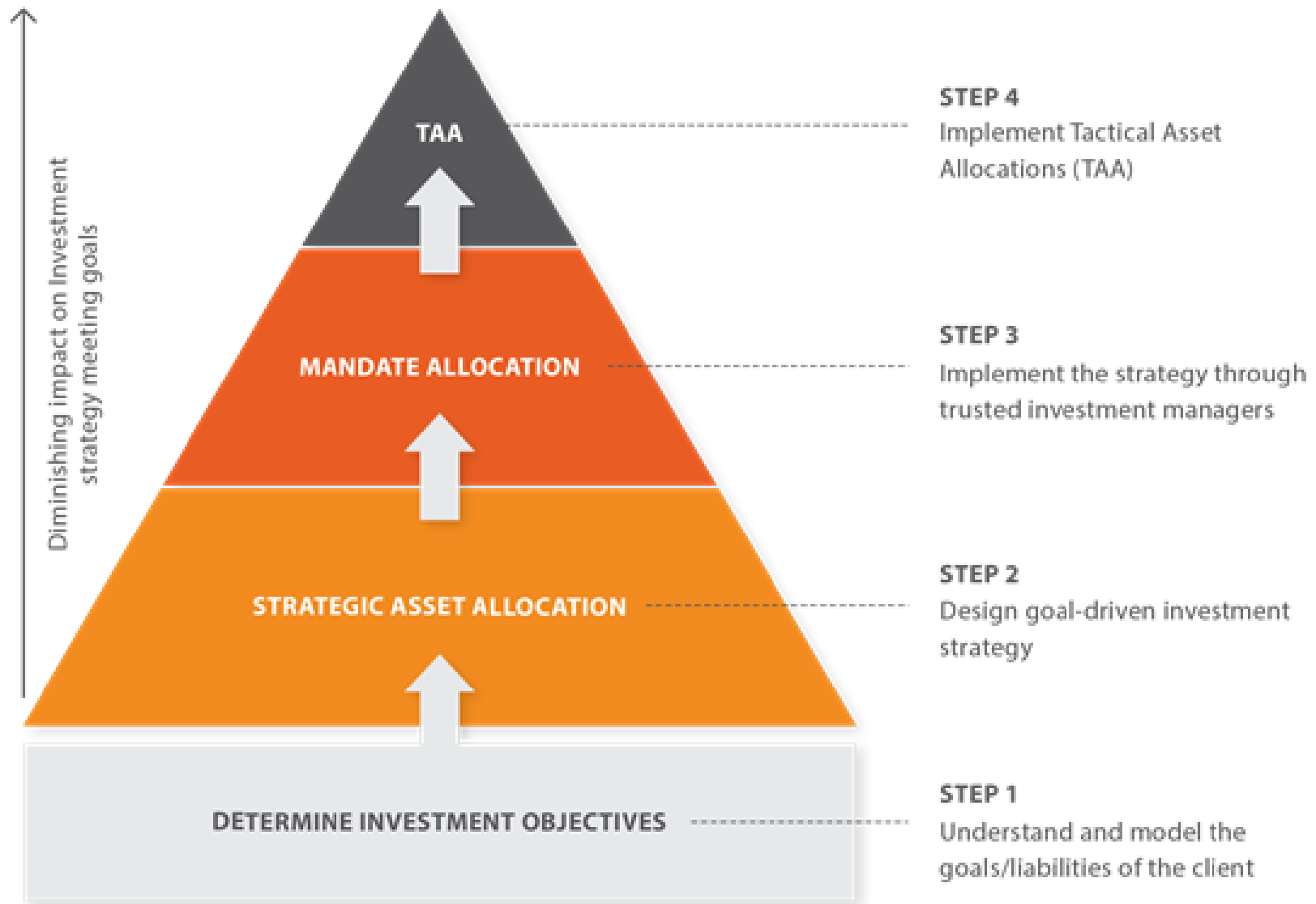
Look through the marketing and establish:

- Integrity of the asset manager/product
- Understanding the philosophy and process within expectations of the asset class and universe
- Ability of the manager to deliver consistently to expectations within the mandate and risk framework
- Consider specialised versus balanced mandates



EXPERIENCE OF RESEARCH TEAM | DEDICATED RESOURCES | TIME | MACRO VIEW

Different layers of investment strategy



Thank you

Questions?

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The logo for RISCURA, with 'RIS' in grey and 'CURA' in orange, set against a light orange rectangular background.

RISCURA

More information?

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