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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Caution...Default Regulations ahead

Next year will be a big year for the South African retirement industry as retirement funds have until 1 March 2019 to comply with the default regulations which have been introduced in the industry. But is the industry prepared for the level of compliance that will be required of them from industry regulators? This was a topic that was recently discussed at a roundtable hosted by Sanlam EB.

A matter of confusion

While there are a lot of pension funds that are putting systems in place to comply with the new Default Regulations, there are some pension funds who are dragging their feet and will be cutting it fine when it comes to compliance.

“My feeling is that Boards of Trustees were just overwhelmed when it comes to the default options part of the Default Regulations,” said Barend la Grange, Head of Individual Member Support at Sanlam EB. “This is something new and not what they would have had to consider in the past. The Draft Criteria for Living Annuities that was issued by the Financial Sector Conduct Authority (FSCA) in November has shed even more uncertainty in the industry regarding drawdown rates which in our view might not be implementable as is,” said La Grange.

The problem seems to be related to Regulation 39 of the Draft Criteria which relates to clients who have living annuities as part of their default annuity strategy. Within the regulation there are tables that split individuals according to specific criteria such as age, gender and marital status. This individualisation will be used to calculate a sustainable income for that individual and that sustainable income will govern the drawdown rate.

“It is this confusion that needs to be clarified with the FSCA,” said La Grange.

Ticking boxes

One of the real dangers that the industry faces is that trustees may very well fall into a tick box approach when it comes to compliance with the new regulation.

“A lot of the Draft Regulation is open to interpretation and trustees have underestimated the amount of work that is involved when it comes to implementation, so there will be a rush. The industry is aware that the FSCA wants to move away from a tick box approach to compliance, but when the backs of trustees are up against the wall and there is only one meeting between now and 1 March 2019, there is the temptation to fall into the tick box approach and then rectify it later,” said David Gluckman, Head of Special Projects at

Sanlam EB. There are significant concerns on the part of trustees that they will be held personally liable if something goes wrong, so tick box may be the order of the day.

Lack of knowledge and understanding

Another problem that we need to take into consideration is that there is a fundamental lack of knowledge and understanding when it comes to compliance with the new regulation. “What we are seeing is that trustees are battling with basic fundamentals such as the difference between a living annuity and a life annuity and the nuances associated with these products. And they will have to make a recommendation on these products under the new regulations. So there needs to be a bit of product training regarding this on the part of insurers who are offering these products,” said Viresh Maharaj, Chief Executive of Sanlam Corporate Sales and Marketing.

“I think that one of the biggest reasons why trustees have postponed the implementation of the new Default Regulations is that they don’t understand post retirement risk as well as they understand pre-retirement risk. During the accumulation phase, an investor is exposed to certain risks, which change once they retire. The biggest of these is longevity risk. There needs to be engagement on the post retirement risk issue,” said La Grange.

While these are pertinent challenges, Maharaj pointed out that the industry needs to remain positive and have one eye on the objective of the Default Regulations, which is to put pensioners into a broader spectrum of annuities which would ultimately benefit them and help them retire comfortably.

Taking centre stage

Advice will take centre stage under the new Default Regulations.

Not only will pre-retirement advice be regulated in a stricter manner, but post retirement advice will also be provided to retirees. Whether this takes the form of a letter, or advice from an adviser, or a trained call centre consult remains to be seen and will differ from insurer to insurer. It will be interesting to see how this develops. At the 2018 IFA Symposium, South Africa’s cultural diversity was highlighted. It was pointed out that because South Africa is so diverse, it is hard to establish a standardised advice model that will suit the industry. This is a challenge that could potentially face the post retirement space. However, Maharaj pointed out that there is plenty of opportunity in this diversity.

“The fact that the country is so diverse is a good thing because it forces the retirement industry (pre and post retirement) to become more resilient. It forces advice models to change, which can only benefit clients. Yes, advice needs to be standardised to a certain degree. However, there needs to be a close enough fit between advice and the client’s individual needs,” said Maharaj.

Don't just plan for retirement, plan for a long life

And let your post-retirement savings get to work for you

Those in the retirement industry bemoan the fact that South Africans are poor savers and are often one emergency away from trashing what savings they have. There are a few immutable truths about retirement savings that are often overlooked:

Start early and put 15% into retirement savings as soon as you start working.

Worry less about which investment house is managing your money than the end goal of maintaining a decent standard of living when you retire.

Never touch your retirement savings for any reason, not even emergencies.

Plan for a long life, well beyond the retirement age of 65.

The graph below illustrates what happens when you invest 15% of your earnings from the age of 25 and keep this going throughout your life, while earning a suitable level of investment return.

The bars in the graph show the person's income throughout their working, as well as their retired, lifetime. The eye-opening insight from the graph is revealed by breaking down where the pension amounts actually come from, as summarised in the table on the left. The amount you will spend in your whole retirement is derived from three sources – (1) the contributions you make, (2) the growth on those contributions up to retirement date and (3) the growth on your investment post-retirement, i.e. when you are drawing out your pension.

A mere 6% of your retirement money comes from the contributions you made while working – the remaining 94% is generated from returns, of which only one third was generated before retirement. A massive two thirds was earned while you were retired. This assumes that you are earning a market return of 5% above inflation in the years prior to retirement, and 3% above inflation post retirement.

“That's the power of investing for the long term and letting compound interest do its thing,” says Andrew Davison, head of advice at Old Mutual Corporate Consultants. “The contributions you make as a proportion of your retirement pot are minute when measured over the long term, but you have to make them early. This also shows how important the post-retirement phase is and hence how important your decisions are in relation to the annuity you use.”

Getting this message across to South Africans is not proving easy. Year after year, Old Mutual publishes its Savings and Investments Monitor which shows how poorly South Africans are saving. The latest survey shows that just one in three 'baby boomers' has any form of formal retirement saving.

There's no easy way around this, says Davison: “We focus on getting people to have a retirement plan in place so they don't get distracted by fads and get-rich-quick schemes that are supposed to get you there

faster. The main thing is to have patience. People want to see quick returns, and this lack of patience can be disastrous. If they save R1 000 a month and at the end of the year they see just R12 500, they start to question why they are putting in all that effort for such little return. But the returns come much further down the road.”

Taking the tortoise route to wealth creation

Davison relates the story of one corporate client who invested in a portfolio in 2006. “I converted their annual return into a rand amount and explained that if they had invested R1 million in 2006, they would have R4 million today. They were quite surprised, but pleasantly so.

Those looking to accelerate the process are drawn into riskier investments, such as cryptocurrencies. While cryptos have made huge profits for some, the record so far this year has been abysmal. “At the height of the crypto-craze in 2017, people started asking why we don’t invest in crypto currencies. Our answer was that we believe in investing, not speculating,” says Davison.

On the other side of the risk ledger, holding cash is also not advisable. It is also risky but for different reasons: it’s not volatile so people perceive it to be low risk but the reality is that it does not generate sufficient return to beat inflation by a wide enough margin, a key requirement for retirement savings.

Three main reasons for saving

Davison says there are three major reasons for people to save:

Retirement (not preserving savings when changing jobs is a problem, even if used to pay off debt).

Education for children (if applicable).

He recommends making sure that all three of these needs are met in one’s financial plan and that the savings are appropriately segregated. This is to ensure that any emergencies that arise do not eat into the retirement or education funds. Many people save diligently for retirement until an emergency arises, then cannibalise their retirement funds. Although this is better than borrowing to handle an emergency, it isn’t advised because it’s so difficult to catch up on retirement savings when they’ve been used for other purposes.

“It is preferable to have separate, short-term savings to deal with emergencies, and to never allow anything to start eating away at your retirement savings.”

Another problem common to South Africans: failing to preserve their retirement savings when they change jobs or retire. There has been some debate in the investment sphere over the wisdom of using retirement savings to pay off debt, such as the mortgage bond.

There are a few reasons why this isn't advisable, says Davison. Firstly, there is tax to be paid when you withdraw from a retirement fund. Even if the interest rate on the debt is slightly higher than the returns you are getting on your savings, the impact of tax could sway this comparison in favour of leaving the savings invested. **Full Report:** <https://www.moneyweb.co.za/mymoney/moneyweb-financial-planning/dont-just-plan-for-retirement-plan-for-a-long-life/>

Moneyweb | 5 December 2018 | Ciaran Ryan

The true cost of delaying your retirement planning

When it comes to financial planning for retirement, the sooner you start saving and investing the more money you'll have. Time, combined with the power of compound interest, is the main ingredient required to realise better retirement success.

If you're already invested in a retirement investment solution, it is better to not assume that your current level of savings will be enough for your retirement nest egg. It is always advisable to revisit your retirement plan with a financial adviser at least once a year, to ensure that you are maximising your money and achieving your retirement goal.

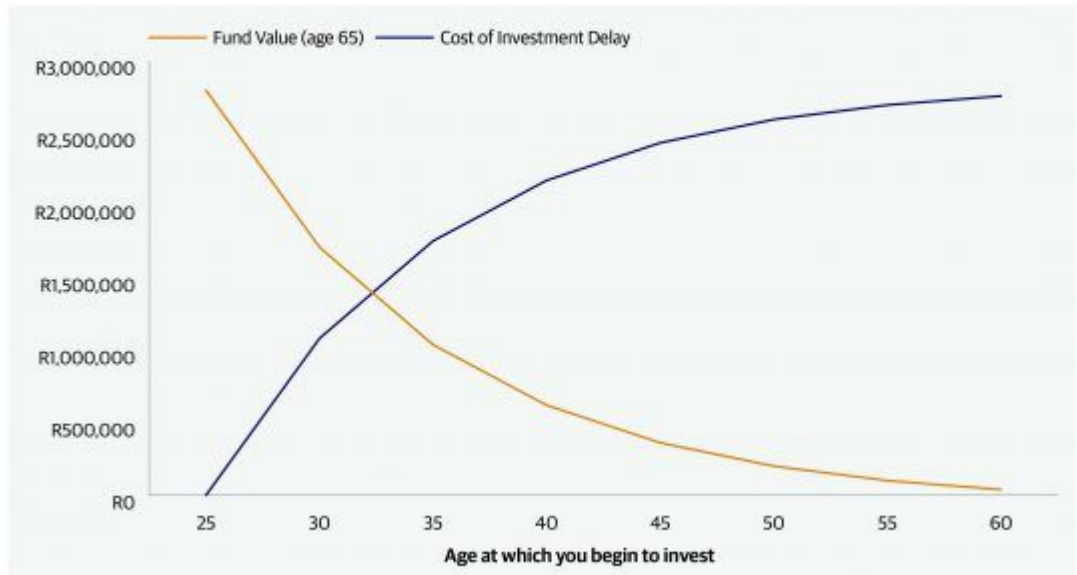
Take advantage of the power of compound interest

Investing a bonus or any additional amount into a retirement annuity (RA) allows you to reap the rewards of compound interest as you can earn growth on growth on the money you would not have had in your hand, meaning the tax-free funds. Conversely, not contributing and delaying your investing into your RA could have a negative long-term knock-on effect. With the potential difference in growth due to investment of less funds, coupled with the benefit of compound interest, this delay can mean the difference between a hassle-free retirement and having to face a lot of limitations in your retirement years.

The true cost of delay

Let's assume that you contribute R500* a month as a recurring RA premium. Let's add 10% after tax annual growth. For simplicity sake, let's assume that there are no fees taken into account.

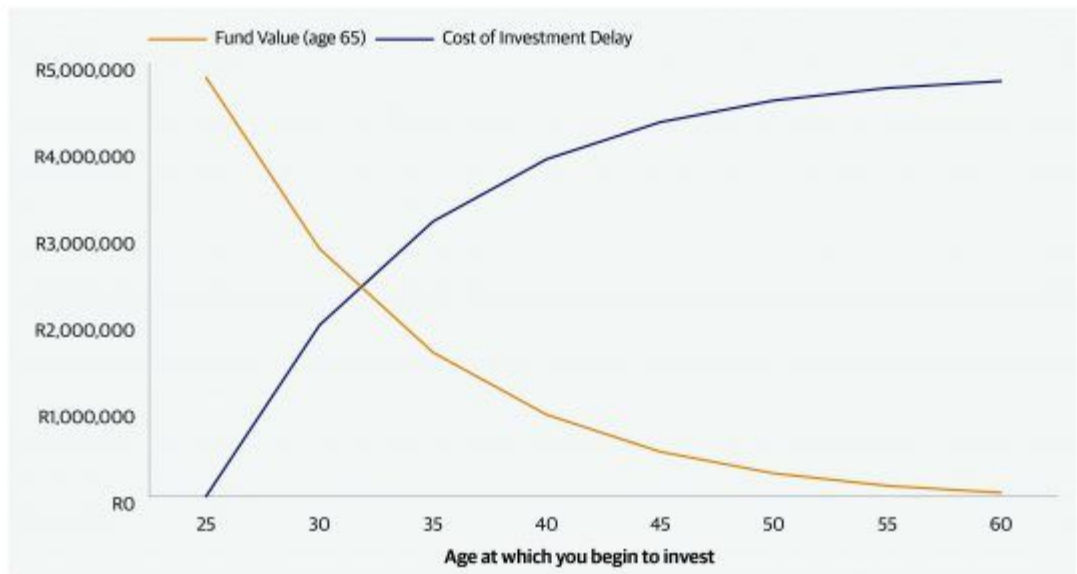
Scenario 1: No annual contribution increase
 Fund Value and Cost of Investment Delay (relative to starting at age 25)



Source: Liberty Investment Proposition calculations

Let's take the same example and add a 5% annual (cost of living) escalation to your retirement contributions. The benefit of increasing contributions annually makes a significant difference to the cost of delay.

Scenario 2: Annual contribution increase (5%)
 Fund Value and Cost of Investment Delay (relative to starting at age 25)



Source: Liberty Investment Proposition calculations

You can see the benefit of increasing premiums and how the cost of delay increases substantially when you add the 5% escalation.

Consider if you can afford to lose out on the large amounts of funds that can be built through compound interest for your retirement. If your answer is no, then contact a financial adviser and take a step to making sure you are financially prepared for your financial future.

Moneyweb | 3 December 2018

In these difficult times should South Africans include the rest of Africa in their retirement savings?

As investors, we are all aware of the need to diversify our exposure. Diversification reduces the volatility of our investment returns and has the benefit of not putting all your eggs in one basket. It is for this reason that the prudential limits for South African (SA) investors allows offshore investments of 30% within a pension fund (or other product managed under Regulation 28) with an additional 10% allowance for Africa excluding SA.

There are many misconceptions about Africa and African investing. One of the common remarks we hear when introducing Africa to potential investors is, "I know, this is a high-risk investment with a high potential return". If we use the MSCI Index for Africa excluding SA and compare the returns and volatility of this Index to a range of other global indices, this is simply not true. Over the long term, African equity markets (excluding SA) have outperformed developed, emerging and frontier markets and the S&P 500 Index. In addition, the volatility of these returns has been similar to those for developed markets and less than that those of emerging markets and the Johannesburg Stock Exchange(JSE).

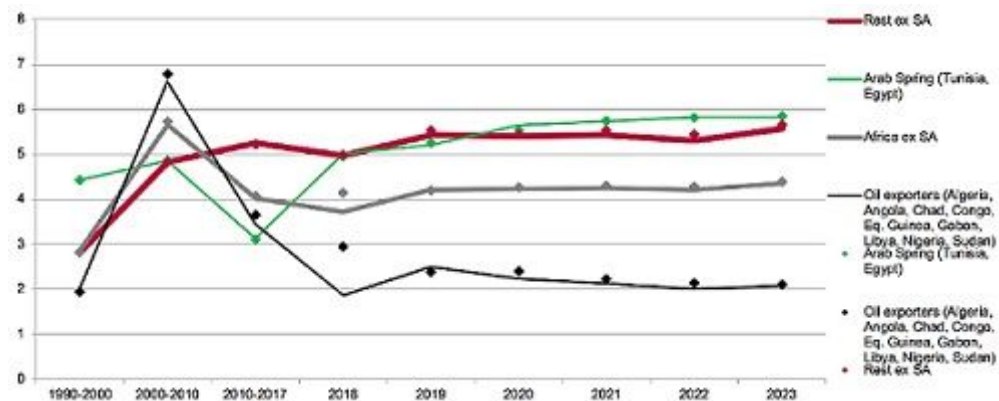
Either the three months to the end of October 2018, the JSE declined 8.8% compared to -1.3% in Africa ex SA and -2% for the MSCI Emerging Markets Index (all returns in rand). Having exposure to Africa would thus have reduced your declines in the period.

Of course, no one would invest in Africa, or any asset for that matter, based on historic returns, even though African returns have been good. Investors need to believe that the continent has improving economic growth, better business environments and more stable politics.

This is another area where misconceptions arise. The news pertaining to Africa typically focus on the worst issues and incidents that occur on the continent. A foreigner whose main source of information is the news media, would conclude that the continent is characterised by violence, political instability and weak governance. However, on the ground and across the continent, growth is continuing and infrastructure and business conditions are improving. As investors who travel across the continent regularly we observe these trends first hand, but these are also clear from surveys and economic measures.

We have seen some recent data releases that confirm our thesis for Africa excluding of SA as a long-term investment destination. As we have said before, the economies on the continent are transforming and it is this transformation that is driving a large portion of the growth. While global growth and higher commodity prices are supportive factors for these economies, they are not a requirement. The International Monetary Fund (IMF) released their latest World Economic Outlook in October 2018. Despite some downgrades to global growth, the outlook for African economies remains largely unchanged. The graph below shows the latest updates, as well as the previous forecasts (shown as dots).

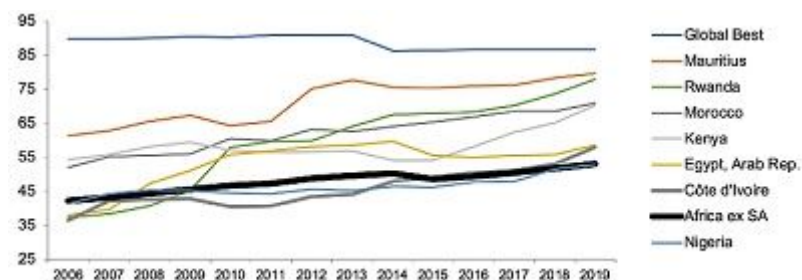
Gross domestic product growth rate (%)



Source: IMF, World Economic Outlook, October 2018 and April 2018 (shown as dots), Ashburton Investments

An even more important release is the World Bank Doing Business 2019 report. The following graph shows selected information and some analysis of the data from their “Doing Business” project that provides objective measures of business regulations for local firms in 190 economies. We use their ease of doing business score, which allows us to assess the level of improvement in the ease of doing business over time.

Ease of doing business



Source: The World Bank Doing Business 2019, Ashburton Investments

The graph shows that our observations of improvements on the ground can be backed up by the World Bank’s detailed analysis that uses 11 indicator sets to measure aspects of business regulation that matter for entrepreneurship. The business environment for Africa excluding SA has on aggregate continued to improve in line with the trend experienced earlier in the century.

According to the World Bank, Sub-Saharan Africa has been the region with the highest number of reforms each year since 2012. More than a third of the reforms that they captured across the globe in the latest release were from 40 economies in Sub-Saharan Africa. As an example, the average time to register a business in the region has declined from 59 days in 2006 to 23 days. They identified 10 economies with the most notable improvements in their latest survey and the list included five African countries, namely, Djibouti, Togo, Kenya, Côte d'Ivoire and Rwanda. Kenya jumped 20 positions to be ranked 61st in the world, while Rwanda gained 11 places and is now ranked 29th ahead of Spain, Russia and France.

In the World Bank's view, Mauritius is the easiest place to do business on the continent and is ranked 20th out of 190 countries, ahead of countries such as Canada, Ireland and Germany. South Africa, which is ranked at 82nd in the world for doing business, is the sixth best on the continent (it was second on the continent in 2013 but has fallen 42 places in the global rankings, while the rest of the continent has generally improved by about three places).

It's evident that there is great potential in Africa and we believe that investors can access this growth through equity investments in domestic African companies that will not only benefit from the anticipated growth, but also from improving infrastructure and business environments as well as better political governance.

Investing in African equity markets can decrease the volatility of a portfolio, even in difficult market periods, and provide significant diversification benefits while generating good returns. Investors should invest a portion of their portfolios over the medium to longer term in African equities to benefit from this strongly growing region.

FA News | 3 December 2018

State pension fund hit by R7.4bn in write-offs

The fund had R7.4bn in impairments for the 2017/18 financial year, compared with R995m the previous year

The pension fund responsible for managing the savings of government employees has written off two of its most controversial investments at a cost of R5.3bn.

The Government Employees Pension Fund's (GEPF) R4.3bn investment in Steinhoff's empowerment shareholder, Lancaster, which is partially owned by Pepkor Holdings chair Jayendra Naidoo, was rendered worthless after the 2017 accounting scandal wiped off about R200bn of the furniture retailer's value.

The GEPF also wrote off about R1bn of loans and investments in companies controlled by Iqbal Surve, the owner of Independent Media, the publisher of The Star newspaper. The fund, which has assets of about R1.8-trillion, had R7.4bn in impairments for the 2017/18 financial year, compared with R995m the previous year, according to its annual report tabled in parliament on Monday.

Lancaster 101 became Steinhoff's strategic black empowerment partner after the Public Investment Corporation (PIC) loaned R9.35bn to Lancaster in 2016 to acquire Steinhoff shares in a bid to drive transformation within the international retailing group. Naidoo, a former trade unionist, resigned as a member of Steinhoff's supervisory board in January.

He shot to prominence as chief negotiator for the notorious arms deal of the late 1990s, which was plagued by corruption allegations, though he was not personally implicated.

Attempts to contact Naidoo for comment on the impairment were unsuccessful.

The GEPF, through the PIC, owned about R28bn of Steinhoff at the end of March 2017, equivalent to about 10% of the company and 1% of the fund's assets. The annual report also revealed that the pension fund had written off a total of R1.06bn in loans and investments in Surve's company Sekunjalo and in Independent News and Media SA due to their failure to honour their payment obligations.

The PIC provided finance to Sekunjalo for it to purchase Independent News and Media SA in 2013 and also acquired a direct 25% equity stake in the media group. Former finance minister Nhlanhla Nene indicated in parliament in July that the PIC was in the process of withdrawing from its investment in the media group.

The PIC decided against investing in another Surve venture, Sagarmatha Technologies, ahead of its aborted listing on the JSE in April 2018. However, it did make an investment in Surve's Ayo Technology Solutions, placing R4.3bn in the initial public offering in December 2017 at a price that was regarded by the market as being too high.

"As a result of declining traditional print and advertising revenue, the Sekunjalo term loan, the INMSA [Independent News and Media SA] shareholder loan and preference shares were impaired as INMSA and Sekunjalo did not honour their payment obligations under the transaction agreements," Renosi Mokate, chair of the GEPF board of trustees, said in her statement.

"Cost containment strategies are being implemented and the investment continues to be closely monitored." In November, Business Day reported that Independent Media had not met its obligation to the PIC to repay a R253m loan in August, as was required by the agreement. Also included in the GEPF's impairments was the R375m investment in VBS Mutual Bank, which collapsed in 2018 amid allegations of massive fraud that saw directors steal about R2bn, as well as R492m in Afagri Poultry.

The fund said its assets managed by the PIC grew 8.3%.

The PIC invests more than R2-trillion on behalf of the GEPF and other social funds, and is the largest single JSE investor. A commission of inquiry into its governance and various transactions that have attracted media scrutiny is about to begin under judge Lex Mpati, the former president of the Supreme Court of Appeal.

Business Day | 3 December 2018 | Linda Ensor

INTERNATIONAL NEWS

Global retirement crisis is main threat to investment industry, warn chiefs

Bosses at Russell Investments and Morningstar voice concern over savings gap

The impending global retirement crisis is one of the chief threats to face the investment industry, warn two leading figures. Too many poorly funded people are retiring while too few young workers are saving. Michelle Seitz, chief executive of Russell Investments, the \$287bn Seattle asset manager, said the world faced huge challenges to fund the retirement of billions of people. She ranked this as a bigger threat to the industry than the issues of fee compression and the rise of passive funds.

The savings gap — the difference between what has been set aside for retirement compared with what is needed — will balloon from \$70tn in 2015 to \$400tn by 2050, according to data from the World Economic Forum. The US is forecast to have the largest shortfall, rising from \$28tn to \$137tn. Kunal Kapoor, chief executive of Morningstar, the data and fund rating company, said solving the US pensions crisis would be difficult. “It is a quandary. People are not saving enough and are saving too late in life.” Funding levels at pension funds have suffered since the financial crisis because of record-low interest rates, disappointing fixed income yields and an ageing population.

“A lot of people talk about the big challenges, such as passive funds and zero-fee funds, but I think the pensions gap is the biggest issue,” Ms Seitz told FTfm. Politicians, policymakers and companies are grappling with how to tackle the pension time-bomb. Big deficits have contributed to the bankruptcy of several US cities, including Detroit. UK retailer BHS collapsed in 2016 with a large pension deficit, while UK outsourcing group Carillion collapsed this year, leaving an £800m funding hole in its pension scheme. Ms Seitz said that to tackle underfunding employees had to work longer, politicians had to consider lower benefits or higher taxes and the asset management industry had to invest retirement pots “in the right

ways". She said the pensions system in many countries was built to fund retirement for only 15 years per individual but people were living for 30 or 40 years after finishing work. At the same time, more employees than ever are retiring.

According to figures from Deutsche Bank, about 10,000 people retire each day in the US, up from about 5,000 in 2000. It forecast this number would rise to 12,000 a day by 2050. Globally, the population of over-65s will rise from about 600m in 2017 to 2.1bn in 2050, according to the WEF. "The headwinds are significant. We have gone from a savings environment where people were saving more and more. As demographics change, the developing world is changing from accumulation [of retirement savings] to decumulation. This means there is less money to manage [for the fund industry]," Ms Seitz said. "Our industry is only as good as the health of the underlying participants we are servicing." According to research last year by Joshua Rauh at Stanford Graduate School of Business, US public pension funds lack \$3.85tn that is needed to pay the retirement benefits of current and retired workers.

Another study by index and analysis company MSCI, looked at 9,000 businesses. It found that the US and Europe are home to the worst-funded corporate pension schemes in the world. Mr Kapoor said younger workers needed to take advantage of retirement savings plans, known in the US as 401ks, "straight away". On whether America should force workers to invest in pensions he said: "There is a strong belief that individuals get to make their own choices. But if people are getting to retirement age and don't have enough money and others have to share that burden, that raises some important questions." Many countries are trying to shift responsibility for saving for retirement to individuals rather than have employees rely on corporate or state pension funds.

Ms Seitz said she believed the retirement gap could be solved but urgent action was needed. "It has been easy to kick the can [when it comes to tackling the pensions gap]. It is not a popular thing [for a politician] to say we have a benefit problem. It's not easy to fix. People do not get elected by telling the truth," she said. "It is easy to ignore until we can't. And once we can't ignore it, it will become almost too difficult to solve."

Financial Times News | 2 December 2018 | Attracta Mooney and Peter Smith

Pension schemes to provide online data 'dashboards' for UK savers

Pension providers and schemes will be compelled to supply data for millions of customers to a groundbreaking new service that will help savers see all their pension pots in one online hub. On Monday, the government unveiled plans to compel participation in the new "Pensions Dashboard", set to be offered to savers in the UK from next year. Currently, it is difficult for savers to keep track of all their pension pots, including personal, state and workplace pensions, as there is no way for them to see this in one single view

online. Government plans will see industry delivering a range of pension dashboards, which will integrate private and state pension data into an online service.

“Pensions dashboards will give consumers information about their pensions savings from multiple sources through an online service,” said Guy Opperman, parliamentary under secretary of state for pensions & financial inclusion. “Consumers will be empowered by the presentation of information, helping them to engage with their pensions savings. It will support informed decisions and prepare the consumer for the transition between working age and retirement.”

The Government expects industry will start to supply data for the dashboards, on a voluntary basis, from 2019. However, it would seek to legislate to facilitate industry in delivering dashboards, including compelling schemes to provide their data for dashboards, when “parliamentary time allows”. “This will result, we expect, in the industry-led dashboard facilitated by the Single Financial Guidance Body being introduced from 2019/20,” said the Department for Work and Pensions, in a consultation on the Dashboard, launched on Monday. The government said it was considering exempting very small schemes from handing their data to the dashboard service.

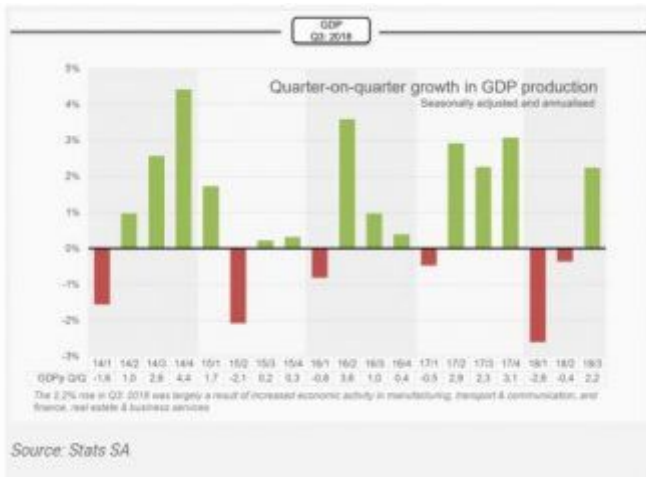
Financial Times News | 2 December 2018 |

OUT OF INTEREST NEWS

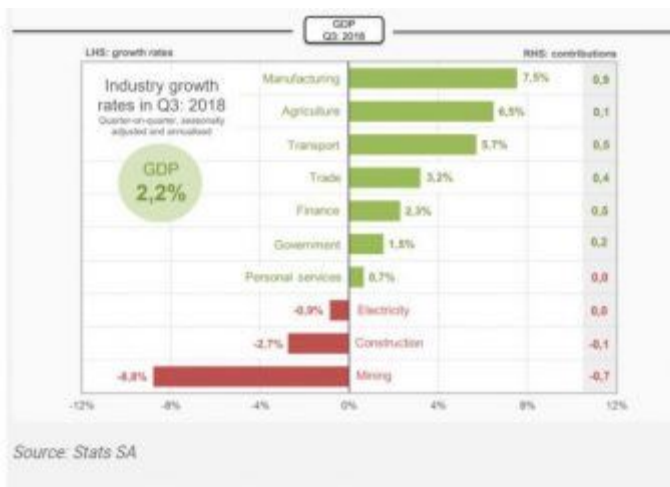
SA escapes recession, but ...

Despite improved outlook, risks remain.

The economy is off life support but weak confidence, electricity supply constraints and uncertainty in the run-up to next year’s election may conspire to keep economic growth below levels that will appease ratings agencies or support meaningful job creation in the short to medium term. South Africa officially emerged from a technical recession in the third quarter after gross domestic product (GDP) climbed 2.2%, data from Statistics South Africa showed on Tuesday. The second quarter slump was revised from 0.7% to 0.4%.



The manufacturing industry, which grew 7.5%, was the main driver of growth and experienced its largest jump in production since the second quarter of 2016.



Despite the improvement, the economy remains weak and economists are predicting growth of between 0.7% to 0.9% for 2018, lower than the 1.3% recorded in 2017.

“It is still pretty dismal,” says Johann Els, chief economist at the Old Mutual Investment Group. “We expect growth to continue to pick up on a cyclical basis next year and then, after the elections – as policy certainty hopefully comes through – some better growth to come through eventually.”

Business Unity South Africa (Busa) president Siphon Pityana says while any bit of growth is welcome, the organisation would caution against an unrealistic reading of what is an urgent situation in the economy.

“We know what the issues are, and the time for talking is over – we have entered a phase where we need to act swiftly and decisively and make the necessary changes, reforms and interventions required on the economy,” Pityana says. Els says that while South Africans expect more to be done, there has been some steady progress on many fronts, including improvements to the cabinet, commissions of inquiry into state capture and the South African Revenue Service, new boards at Eskom, Transnet and Denel, as well as a new mining charter. All these factors will work together to stabilise confidence.

President Cyril Ramaphosa on Tuesday [appointed advocate Shamila Batohi](#) as the new national director of public prosecutions. Better growth prospects and a low inflation environment will also help, but these things take time, Els says.

The confidence factor

“Often you can see a sharp turnaround in confidence. We are not there yet – we probably need to wait till after the elections [in 2019].” If policy certainty returns and confidence improves, economic growth could recover to 2% in 2019 and 2.5% in 2020. Although lots needs to happen to get growth sustainably above 3%, an improved outlook, relatively low inflation and a stable to stronger currency should help to improve confidence, he says.

“We need confidence and once it comes through in terms of consumer, business [and] investor confidence, things should start improving.” Reza Hendrickse, portfolio manager at PPS Investments, says that while third quarter data presents a solid foundation to build on, they remain circumspect around future growth prospects.

“The short-term impetus we are currently seeing is encouraging, but may be negatively impacted by Eskom’s power generation capacity affecting economic output.” Eskom has implemented rotational load shedding daily since November 29. Els says that while load shedding is a risk to the economic outlook, it is difficult to ascertain the extent thereof. “We don’t know what industries are being impacted on a daily basis, but we have to assume that it is going to pull down growth.”

Eskom

Busa CEO Tanya Cohen says they are “particularly perturbed” about the situation at Eskom – not only the negative economic impact of power outages, but also its dire financial situation.

“We cannot afford a repeat of 2008,” Cohen says. “There is no fiscal space to bail out Eskom, or any other SOE, amid rising public sector debt levels and a runaway state wage bill. We are extremely concerned about National Treasury’s ability to contain the budget.”

Hendrickse says forecasts are currently expecting growth to accelerate towards 2% in 2019, but with global growth having plateaued, the backdrop for accelerating domestic growth could prove challenging.

Jabu Mabuza, co-convenor of the CEO Initiative, says while the positive performance in the third quarter is welcome, they are cognisant that a lot of work remains to be done before the country can achieve the level of growth that would sustainably improve the lives of its most vulnerable citizens.

Investor-friendliness required

“As such, we urge the government and its social partners to continue with effecting the required reforms the country needs to perform at its optimal level. A more investor-friendly environment, along with the impact of

the government's stimulus efforts and recovery plan, should result in a sustainable economic improvement over the medium term," Mabuza says. Els says Moody's has been willing to give South Africa the benefit of the doubt, but if growth does not reach at least 2-3% over the next few years, the country will face another credit rating downgrade.

"At this pace, we can't make any inroads in the deficit unless we cut [expenditure] significantly," he says.

Cosatu spokesperson Sizwe Pamla says that unfortunately, the government is continuing to adopt regressive and contractionary policies that only focus on cutting social expenditure and thus weaken the capacity of the state. "The deceleration of fiscal spending since 2014 in an environment of depressed private sector investment and household spending will continue to keep this economy on its knees."

The Citizen | 5 December 2018 | Ingé Lamprecht

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