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**retirement funds**



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## IN THIS ISSUE:

<b>LOCAL NEWS.....</b>	<b>3</b>
<b>BUSINESSMAN LASHES OUT AT REGULATORS TO DEFLECT ATTENTION.....</b>	<b>3</b>
<b>FSB TO CLAMP DOWN ON HOW ADVISERS ARE PAID.....</b>	<b>7</b>
<b>HEDGE FUNDS OUTPERFORM EQUITIES IN VOLATILE THIRD QUARTER .....</b>	<b>12</b>
<b>WHY WE SHOULD WORRY ABOUT EURO WOES.....</b>	<b>13</b>
<b>RETIREMENT: HOW TO PROTECT CAPITAL IN YOUR GOLDEN YEARS .....</b>	<b>15</b>
<b>INTERNATIONAL NEWS .....</b>	<b>18</b>
<b>PENSION FUNDS HIDE £3.1BN COSTS, SAYS STUDY.....</b>	<b>18</b>
<b>RETIREEES FACE HARD TIMES AS FUNDS SHRINK BY 9 PER CENT .....</b>	<b>19</b>



## Local News

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### Businessman lashes out at regulators to deflect attention

For the past six months, an extraordinary campaign of vilification and disinformation has been orchestrated by Johannesburg businessman Simon Nash, who is currently standing trial on charges of theft, fraud and contravening the Prevention of Organised Crime Act, stemming from the stripping of surpluses (about R100 million in current values) from the Sable Industries Pension Fund and the Power Pack Pension Fund (later the Cullinan Group Pension Fund).

And aligned with him is Arthur J Brown, who is facing criminal charges relating to his days as chief executive of Fidentia, who claims he, like Nash, has been framed. Brown has laid a complaint with the public protector and criminal charges against Dube Tshidi, the chief executive of the Financial Services Board (FSB), and four of his staff.

Nash has employed a public relations practitioner to spread allegations against Tshidi and Tony Mostert, the curator of the Sable and Power Pack funds and also the provisional curator of the Cadac Pension Fund – a fund sponsored by Nash’s engineering company, Cadac (Pty) Ltd – which was placed under provisional curatorship at the beginning of this year. Nash was chairman of the fund at the time.

He has also lashed out at the National Prosecuting Authority and the FSB in general. Nash repeated his wild accusations against Tshidi and Mostert during financial journalist Bruce Whitfield’s evening business programme on Radio 702 and CapeTalk 567 last week. When challenged by Whitfield to produce evidence to support his claims, he could not do so.



And when Whitfield challenged Nash as to why he had not taken legal action against Tshidi and Mostert, Nash replied: “Because we need to find the link between Mostert and Mr Tshidi and we need to find the link between Mr Mostert and any other individuals who might be involved in this.” In other words, Nash simply makes wild accusations without any basis.

Apart from the criminal charges Nash faces, he is also trying to orchestrate a campaign to have Mostert removed as the provisional curator of the Cadac fund. Mostert was appointed provisional curator in January following an application by the FSB. Nash initially opposed the curatorship but now only opposes having Mostert as the curator.

In an affidavit supporting the Cadac application, Tshidi said he had prima facie evidence that Nash had used about R10 million of the Cadac fund assets to pay for his criminal trials and that there were other transactions involving loans and property purchases that needed to be investigated. In the radio programme, Nash’s campaign of vilification also backfired on him when two former Cadac directors and Cadac fund trustees called in to make serious accusations of wrongdoing against Nash.

While vilifying others, Nash is also attempting to make out that he is facing criminal charges simply because of a change in the law in 2001. One of the more interesting claims being made by Nash is that the removal of surpluses from retirement funds by employers was perfectly legal when it happened in the 1990s.

It is for the court to decide whether what Nash did was legal or illegal and I do not intend to proclaim on his guilt or otherwise. But I do think it is worth recording that Nash is being a bit disingenuous.

A little bit of background first.

The 2001 amendment to the Pension Funds Act allowed for the distribution of surpluses that had built up in retirement funds mainly as a result of inequitable and unfair withdrawal benefits being given to people who withdrew from the funds before retirement and because there had been sound investment returns.



Prior to the legislation, the only legal ways for a retirement fund surplus to be accessed was to reduce or halt contributions (take a “contribution holiday”) or to liquidate the fund and transfer the members to new funds (mainly from defined benefit to defined contribution funds), while outsourcing pensions by buying pensions from a life assurance company.

When funds were liquidated, the split of any surplus was normally agreed on by the members and pensioners, normally through elected trustees. Many employers, who wanted to keep their retirement funds going, took contribution holidays. The amended legislation, however, stated that, where a contribution holiday had been taken, the money had to be paid back into the surplus for a negotiated division. These contribution holidays were categorised as “improper use” in the Pension Funds Second Amendment Act of 2001, and the amounts had to be added back into any fund surplus for division among employers, members, former members and pensioners.

Importantly, these contribution holidays were not criminalised in any way, and the charges against Nash do not relate to any contribution holiday. What the criminal charges relate to was an elaborate scheme designed by a former senior executive at Finansbank (a subsidiary of Nedbank, which is owned by Old Mutual), Peter Ghalvas, which resulted in surpluses being removed by employers from retirement funds.

There was no allocation of any portion of the surpluses to members or pensioners; the money was simply ploughed back into their own businesses. Nash told Whitfield that Ghalvas “developed a system or a mechanism where the pension fund surplus was accessible on a quick basis rather than a slow basis...”

Ghalvas has since pleaded guilty for his role. In a plea bargain to avoid going to prison, he was sentenced to 15 years in prison, suspended for five years, and a R6-million fine, suspended for six years on a conviction of fraud. He also had to repay R18.6 million he had received in commissions.

## HOW THE SURPLUS-STRIPPING WORKED

The story of the surplus stripping is told in many thousands of pages of court papers. Here it is in brief, with some variations:



- \* Members of the targeted funds with surpluses were transferred to an associated retirement fund to isolate them from the surplus.
- \* The payment of pensions to pensioners was outsourced. The affected pension fund would purchase pensions from a life assurance company. This effectively excluded the pensioners from any surplus entitlement.
- \* The affected pension fund then applied to the Financial Services Board (FSB) for what is called a section 14 transfer (in terms of the Pension Funds Act) to amalgamate with the Lifecare Pension Fund, the retirement fund of the Lifecare Hospital group. The ostensible reason given to the FSB for seeking the amalgamation was that the sponsoring employers of the funds would be merging through the purchase of shares. This, in fact, was allegedly never intended or happened.

The section 14 applications, which the National Prosecuting Authority, the FSB and funds curator Tony Mostert have claimed were fraudulent, were made by Alexander Forbes, which administered the Lifecare fund.

Alexander Forbes pleaded guilty earlier this year to six counts of contravening the Financial Institutions (Investment of Funds) Act arising from the transactions. The firm, which never benefited from the transactions, was fined R10 000 and ordered to pay R5.49 million to the affected funds for distribution to pensioners.

Alexander Forbes reached a R342-million civil claim settlement with Mostert last year.

Alexander Forbes has also not opposed a High Court application by the FSB to have the section 14 applications set aside on the basis that they were obtained fraudulently. Nash and another criminally accused in the case, Aubrey Wynn-Jones, have opposed the application. **Full Report:** <http://www.iol.co.za/business/personal-finance/retirement/businessman-lashes-out-at-regulators-to-deflect-attention-1.1181855>

**Personal Finance**

**20 November 2011**

**By Bruce Cameron**



## FSB to clamp down on how advisers are paid

The Financial Services Board (FSB) has given the financial services industry and financial advisers notice that it intends to impose stricter commission/fee regulations because of continued mis-selling of financial products and poor outcomes for consumers.

The main aim of the FSB is to ensure that financial advisers who call themselves independent do, in fact, provide you with independent advice, unfettered by any obligations to product providers.

The FSB wants to build a brick wall between independent advisers and product providers to ensure that you receive the best advice and products for your needs.

This will include cutting product providers out of the payment structure, either by requiring that you pay your adviser directly or by granting a product provider permission to pay an agreed advice fee on your behalf. In effect, it means banning commissions paid by product providers and changing to a structure where you pay your adviser a negotiated advice fee.

By moving to an advice-fee structure, financial advisers will not be under pressure to sell you products that you do not really need, in much the same way as you pay a doctor to check on your health without the doctor being dependent on your buying medicines.

At the upper end of the market, financial advisers are already moving towards advice-fee structures rather than commissions, but they report that there is consumer resistance because consumers incorrectly believe this fee is charged in addition to the commission.

In a first step, the FSB has sent out a letter to the financial services industry advising it that a review process is under way and that it wants the industry's responses to the proposed new structure. In the letter, the



Registrar of Short- and Long-term Insurance, Dube Tshidi, who is also the chief executive of the FSB, says the FSB is reviewing remuneration structures for financial advisers to:

- \* Promote appropriate, affordable and fair advice and services to potential and existing policyholders; and
- \* Support a sustainable business model for independent financial advice.

The FSB's main focus is on the life assurance industry, where consumers continue to be sold high-cost products with confiscatory penalties by advisers who are incentivised with extravagant sign-on packages that can exceed R1 million, upfront commissions and other indirect payments (see "Product providers side-stepping the rules", below).

Also under the spotlight in the FSB's review are linked-investment services providers (Lisps) and their fee structures for advisers (see "Attention also on Lisp fees", below). Tshidi says that, currently, intermediary services are not defined in the same way in the Long and the Short Term Insurance Acts and the Financial Advisory and Intermediary Services (FAIS) Act.

He says there needs to be clarity on the financial services provided by intermediaries.

The FSB has identified four services that advisers may provide to policyholders and product providers. These are:

- \* Product-specific advice and other intermediary services to consumers, where the adviser is paid a regulated commission or a negotiated advice fee;
- \* Services provided to policyholders that fall outside services as an intermediary, such as completing tax forms, where a fee could be negotiated with a client;
- \* Services provided to a product provider through binder agreements, in which there is a separate payment to the intermediary from the product provider; and
- \* Outsourced services apart from binder agreements, provided to or on behalf of the financial product provider.

Tshidi says there have been significant improvements in protection for consumers after the introduction of the FAIS Act in 2002, which requires financial advisers to act in your best interests, placing your interests ahead of



theirs; the transparent disclosure of what they earn from you; and requirements to increase their knowledge and competency.

The FSB wants to achieve:

- \* A remuneration structure for financial advisers that strikes a balance between giving you ongoing advice and adequately compensating your adviser;
- \* A situation where your adviser is paid the same way for whatever product you are sold, removing the incentive to mis-sell you a product because of a better commission deal; and
- \* Full awareness on your part of what you are paying your adviser.

To achieve these goals, the FSB is proposing that:

- \* Your financial adviser, whether independent or a company representative, must negotiate a fee for advice with you that must be disclosed in a clear manner.
- \* Advice fees will be separate from and on top of payments for selling you a product.
- \* The fee-based regime should not prevent you from agreeing to the advice fees being deducted from your investment. But the product provider may not set the fee.
- \* The amounts you pay should reflect the services you receive, and ongoing charges should apply where you receive ongoing advice.
- \* Financial advisers must disclose to you whether they provide independent advice or restricted advice or both.
- \* The fee-based model must apply equally to all investment products and sales channels.

## **RELOOK AT COMMISSIONS ON LIFE PRODUCTS**

The Financial Services Board (FSB) is considering further changes to the commission regulations on life assurance products because of the continued bad behaviour of financial advisers selling these products.

The main proposal is to scrap the payment of all upfront commissions on life assurance products, both investment and risk (cover against death and disability, for example).

The regulated commission structures were revised in the 2005 storm over the confiscatory penalties imposed by life assurance companies on policyholders and retirement annuity fund members who reduce or stop paying premiums/contributions.



At the time, the then Finance Minister, Trevor Manuel, intervened, forcing the industry into a new regime that has seen the capping of the penalties at 15 percent of assets on life assurance savings products.

One reason for the now-reduced confiscatory penalties is that commissions on life assurance savings products are paid upfront and not as and when you pay premiums, as happens in the unit trust industry. If you stop paying premiums or contributions, the life companies recoup the commissions from your savings.

On investment products, the upfront commission was reduced to 50 percent of the total commission, but it remains at 100 percent of the total on risk products, such as assurance against death and disability.

The FSB's chief executive, Dube Tshidi, says the commission on risk products was not changed because no penalties can be levied on consumers when they cancel these products. But, he says, recent experience has shown that financial advisers have switched from selling the investment products with reduced upfront commissions to selling the risk products with 100-percent upfront commissions.

And on top of this there has been a "significant uptick" and "worryingly high level of churn" of risk products. Churn occurs where advisers get policyholders to cancel their policy from one company after two years and take out a new policy, generating another 100-percent upfront commission.

Tshidi says the 100-percent upfront commission on life assurance risk products "puts upward pressure on overall costs ... which ultimately leads to higher premiums for consumers". The upfront commission structure does not incentivise ongoing service, and the introduction of a fee-based advice model could further aggravate the pattern of switching to selling products that do pay an upfront commission, Tshidi says.

The life assurance commission review is also being driven by an Appeal Court judgment handed down last year that in effect limits payment to regulated commissions and does not allow the direct payment of fees, even where the commissions are rebated or are not paid at all.



## PRODUCT PROVIDERS SIDE-STEPPING THE RULES

The Financial Services Board (FSB) has launched an investigation into the new ways life assurance companies have found to pay financial advisers amounts in excess of those laid down in commission regulations.

The side-stepping of commission regulations is part of a major market-share war that is under way, and consumers are often the victims because they receive tainted, commission-driven advice. This advice can cost you money because you may have to pay penalties for early surrenders or receive inferior products, which on the face of it may be cheaper but will be more expensive in the long term.

Earlier this year, Personal Finance revealed that some life assurance companies were offering generous sign-on packages to financial advisers to join their sales staff. The packages, which include cash and share options, were initiated by Discovery but have now spread to other companies.

However, the packages often come with tough sales targets, which may encourage mis-selling and the churning of products as advisers jump from one company to the next. The FSB is now also investigating a practice where life assurance companies indirectly pay advisers for vague “administration” duties.

The FSB investigations have been confirmed by FSB deputy executives Jonathan Dixon, who is in charge of insurance, and Gerry Anderson, who is in charge of market conduct.

In simple terms, financial advisers or financial advice companies, such as bank brokerages, set up separate companies that ostensibly undertake administrative duties on behalf of a life assurance company, for which the company, and therefore the financial adviser, receives payment. **Full Report:**

<http://www.iol.co.za/business/personal-finance/financial-planning/investments/fsb-to-clamp-down-on-how-advisers-are-paid-1.1181857>

**Personal Finance**

**20 November 2011**

**By Bruce Cameron**



## Hedge funds outperform equities in volatile third quarter

*Is a high weighting towards risky assets justified?*

*The Blue Ink Composite (BIC), which tracks the performance of around 100 Hedge Funds in South Africa, reported a steady increase of 0.9% for the third quarter of 2011.*

The BIC outperformed the JSE All Share Total Return Index (ALSI) by more than 6%, which returned -5.39% over the same period. According to Eben Karsten, portfolio manager at Blue Ink Investments, the third quarter of 2011 was another difficult quarter for the local equity market.

"The Rand depreciated by as much as 13% as foreigners liquidated risk positions, in particular in equities. In US dollar terms, the ALSI was down more than 20% over the third quarter." He says that the ALSI recorded its third consecutive negative month in September, closing weaker by 3.16%.

"In contrast, local hedge funds were able to protect investor capital in volatile markets and generate steady returns. Year-to-date the BIC is 5.58% higher, in comparison with the ALSI's unimpressive 0.51% over the same period." Over the past three years the BIC has returned 33.64% versus 35.78% of the ALSI. However, the three-year volatility of the BIC is just 2.38% versus the 18.27% of the ALSI.

Karsten says that high levels of volatility mean that equity investors who enter and exit the market at the wrong time can suffer extensive capital losses.

He believes that markets will continue to be characterised as extraordinarily volatile and investors will need to ask themselves whether the risk associated with a high weighting towards risky assets is justified. "There are enough commentators on both sides of the divide to suggest that no one really knows, however there is a strong argument for persisting with more conservative investment strategies as they offer positive real returns with much less risk."



He says that Long-Short Conservative hedge funds recorded a 0.93% increase over the third quarter of 2011, while Long-Short Aggressive hedge funds recorded a 1.25% decrease. Fixed Income hedge funds on average gained 3.76% over the same period.

Karsten says that there is little room for complacency and investors concerned about downside risk are urged to diversify their portfolios to protect themselves in the event of further market stress.

"There is a growing realisation that developed market economies are in the midst of a prolonged period of sluggish growth, supported only by low interest rates and quantitative easing, and that there still exists a number of varied risks that could cause equity market returns, in particular to be far less than what market participants expect."

### *Insurance Times & Investment News*

*16 November 2011*

*By Janine Noble*

## Why we should worry about euro woes

THE eurozone debt crisis continues unabated with French, Spanish and Belgian bonds suffering and signs that the Netherlands, Austria and Finland could soon be sucked in.

South Africans who have capital invested in one way or the other on the JSE should be worried, because their investments would be negatively affected by ongoing mayhem on the markets. These investments, held through pension and retirement funds on the JSE, have gone down in value as markets make losses. Anyone who is financially stretched and hoping to cash in on their investments may be unable get any value from them.



And this terrible state of affairs does not appear to be ending, as South African equity markets are not showing signs of making strong gains anytime soon. Anybody with a pension, those considering retirement and savers will be distressed by the hammering equity markets have received in the past few months.

According to the National Treasury, pension fund money invested in equities amounts to R1.87 trillion while research recently released by Investment Solutions and Alexander Forbes indicates South African pension fund members have lost an estimated R121bn between the JSE's highs and lows this year.

This shows how many South Africans are directly affected by the uncertainty in global share markets.

### **Crisis continues**

Eben Karsten, portfolio manager at Blue Ink Investments, says the third quarter of 2011 was another difficult quarter for local equity markets due to the crisis in Europe. "The rand depreciated by as much as 13% as foreigners liquidated (cancelled) risk positions, particularly in equities. In US dollar terms, the ALSI (All Share [JSE:J203] index) was down more than 20% over the third quarter." He says the ALSI recorded its third consecutive negative month in September, closing 3.16% weaker.

In addition, the eurozone crisis will have a negative impact on banks, hitting anyone wanting a loan or mortgage. This week, chief executives of South Africa's big four banks - Absa Group [JSE:ASA], Standard Bank Group [JSE:SBK], FirstRand [JSE:FSR] and Nedbank Group [JSE:NED] - admitted they feared they could also suffer from the contagion effect of default in the eurozone because South Africa's economy is closely entwined with that of Europe.

They attributed this to a possible surge in risk aversion. Insurance companies also invest in the stock market, so there will eventually be an increase in the cost of premiums and the products available.

Anyone who receives a bonus in shares may well find these do not carry value as much as anticipated.

### **Trade ties**

Eurozone contagion will not only affect equity markets, but will hit the entire South African economy as the European Union as a bloc is the country's single largest trading partner. European consumers acquire a great



deal of South African goods, and South Africa has strong economic connections with major European economies such as Germany and France.

According to the European Commission, the EU exported goods worth €21.507m to South Africa last year. EU goods imported from South Africa were worth €17.912m in 2010. South Africa's primary exports to the EU are fuels and mining products (27%), machinery and transport equipment (18%) and other semi-manufactured goods (16%).

EU exports to South Africa are dominated by machinery and transport equipment (50%), chemicals (15%) and other semi-machinery (10%). As eurozone governments cut back on expenditure, business conditions would deteriorate globally and increase unemployment in trading partner countries like South Africa.

This will be followed by less demand from historically strong countries and dampen trade levels in South Africa.

Paul Stewart, the managing director of Plexus Asset Management, says as a result South African farmers exporting fruit and other products to Europe will experience declining prices, volumes and demand which will hit profitability. **Full Report:** <http://www.fin24.com/Money/Money-Clinic/Why-we-should-worry-about-euro-woes-20111118>

**Fin24**

**18 November 2011**

**By Mzwandile Jacks**

## Retirement: How to protect capital in your golden years

During your working years you should, ideally, be building up your retirement capital by making continuous contributions from your earnings.



Once you retire, that cash flow will almost certainly reverse: you will draw your income from that capital for the rest of your life.

This can be scary, because now we live for longer thanks to modern medicine - and while trying to stretch our retirement savings, stock markets can plunge, inflation can erode that capital and choosing the wrong asset class can mean the difference between a comfortable or an uncomfortable standard of living.

### **So what's the best way to protect your capital?**

Lourens Coetzee, investment professional at Marriott Asset Management, said employees should save as much as possible in their working years to build a big enough capital base to live off the income produced after retirement.

"This philosophy of spending only the income and not the capital will ensure your investment will last through your retirement years," Coetzee said.

"Most retirees are stuck in a position where they haven't saved enough and are drawing too much income from their investment. The more income you draw from an investment, the less that income can grow ... growth in income in line with inflation is necessary to maintain the purchasing power of your income stream over time."

Coetzee said that of the four main asset classes - equities, property, bonds and cash - equities offered the least income, but the most potential capital growth. "By contrast, property offers income growth close to inflation, while bonds and cash do not grow income."

Coetzee said that for an investor needing a 6% income level, it is possible today to reach that by investing in a portfolio of 40% equities and 60% bonds. "Through bonds [income funds] you're likely to get a yield of 8% and a 3% yield from equities, but while your income from those bonds may not grow, the income from equities may grow by 9% to 10%. This asset allocation will create an overall portfolio that will deliver the initial 6% income



level required, and grow that income at approximately 4% per year ... to help keep up with inflation," Coetzee said.

Brian Butchart, director and senior financial planner at Brenthurst Wealth Management, said that once on pension, investors became responsible for investing their own retirement capital - and the most popular way of doing so was through a living annuity. But pensioners were often terrified of managing this capital themselves.

Butchart said: "You can invest your post-retirement capital from which your income will be generated into any asset class available to South African investors - including offshore investments. "We have come across many instances where investors have been trying to grow their capital - and hence their future income - as rapidly as possible by investing in high-risk funds. In most cases these attempts have been disastrous, particularly over the past few years.

"At the other end of the spectrum we find nervous investors not wanting to take on any risk at all. Instead, they opt to invest their living annuity capital into money-market or high-income funds, which have no risk attached to the capital at all - but ... over the medium to long term, money-market funds are not ideal as they do not offer the investor any chance of capital growth."

Butchart said interest rates were at all-time lows and inflation was running at levels above the average money-market return, resulting in negative real returns after withdrawals. "In terms of current legislation, an investor in a living annuity has to draw an income of between 2.5% and 17.5% of capital. With interest rates as low as they are and the average withdrawal rate between 6% and 8%, this means that capital in a money-market account earning less than 6% will deplete capital over time. Deduct from these gross returns the cost to the investment house and adviser, anything between 1% and 2%, as well as inflation and the investor is left with substantial negative real returns.

***The Times Live***

***20 November 2011***

***By Brendan Peacock***



## International News

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### Pension funds hide £3.1bn costs, says study

Pension funds are hiding £3.1bn in annual costs from investors through “excessive” trading that creates little performance improvements, new research claims.

The study by SCM Private, a wealth management company, has found out that UK pension funds hold their assets for only nine months on average before they sell them on, creating 0.7 per cent in yearly costs that are not shown to investors and that come on top of actually disclosed fees.

“The lack of transparency is simply appalling and this situation needs to be addressed,” Alan Miller, SCM Private’s co-founder and chief investment officer, told the Financial Times. “In every other industry this would be considered as fraud.”

SCM Private’s research is based on an analysis of 1,287 individual pension funds in the UK that have been in existence for over 10 years and manage £392.5bn in savings. It shows that the average individual pension fund has a portfolio turnover of 128 per cent each year, thus incurring extensive costs from the price difference for buying and selling an asset as well as from taxes and commissions.

The pension funds analysed by SCM Private have disclosed an average 1.34 per cent annual management fee, on top of which typically comes a custody fee of around 0.3 per cent. The findings are likely to add fresh fuel to an already heated debate about high charges levied by pension funds.

The sector has long been under attack from consumer groups over the high levels of their disclosed fees and Steve Webb, the UK pensions minister, said two months ago that the government was seriously looking into



the possibility of capping excessive charges. Last month Mark Hyde Harrison, chairman of the National Association of Pension Funds, called for a “radical rethink” in the sector.

In his inaugural speech, he pointed to a lack of information about costs and charges in the sector. He said at the time he aimed to bring together consumer groups, industry leaders, employer bodies and employee groups to develop a code of practice around charges. The pension funds examined by SCM Private returned 4.2 per cent annually on average over 15 years.

“So saving much of the needless dealing costs can increase returns substantially; typically by 20 per cent,” it said in its report. Mr Miller called on the Financial Services Authority and fund management trade bodies to force funds to reveal the full costs of their trading activities.

A FSA spokeswoman said: “Greater clarity for consumers regarding the effect of charges on their likely pension fund underpins a lot of the work we have been doing around pension scheme disclosure.”

SCM Private, which has around £100m in assets under management, is hoping to win market share by promising lower costs and a more transparent fee structure.

**Financial Times**

**20 November 2011**

**By Daniel Schäfer**

## Retirees face hard times as funds shrink by 9 per cent

Kenyans retiring in the next one year will take home less pension following underperformance of assets invested at the Nairobi Securities Exchange.



Fund managers said recovery is not expected until the second half of 2012. A survey involving 128 pension schemes that control 28.4 per cent of the Sh451 billion pension assets revealed that they lost nine per cent in value in the year ending September 30, 2011.

However, performance over three years ending on the same date was 7.2 per cent up.

“One would hope that we have seen the worst of the market and that things should not get much worse now,” said Mr Sundeep Raichura, the managing director of Alexander Forbes Financial Services which carried out the survey.

The findings indicates that assets invested in equities performed poorest with a loss of 22.9 per cent of the value, followed by assets invested in fixed income like Treasury bonds and bills with a loss of 8.9 per cent.

The loss on assets invested in equities was attributed to a drop in the value of some of the shares that have been traditionally popular with the pension funds.

These include KCB, which has lost 34 per cent of its value in the year to November 2011, followed by East African Breweries which shed 27.88 per cent. Bamburi Cement lost 17.69 per cent of its value in the same period.

Assets invested offshore returned 7.6 per cent while those invested in the property market returned 3.8 per cent. The survey indicates that most managers in the participating schemes allocated 67.4 of their assets in fixed-income investments that have a guaranteed return, indicating a cautious approach to the market.

Another 25.4 per cent of the assets were invested in equities while 3.9 per cent and 3.3 per cent were allocated to property and offshore investments respectively. Fund managers said that while they did not expect major changes in asset allocation, additional assets may be invested in fixed income, especially bonds, because of the anticipated higher yield as a result of high interest rate compared to last year.

“I do not expect fund managers to offload their equity investments or make new buys because the market is still uncertain. I expect better returns from the bonds in the next one year because the new offers have higher



yields that will give return of just below 10 per cent by end of next year,” said Joshua Njiru, the general manager of Madison Asset Management.

But while there is opportunity in the new bonds with higher interest rates, some fund managers have funds that are tied in the old bonds and any sale to raise new money will result in a loss.

**Business Daily Africa News**

**20 November 2011**

**By Steve Mbogo**

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