TUESDAY, 1 SEPTEMBER 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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Prescribed assets will not pull South Africa Inc from the economic abyss

As the extent of the financial carnage caused by pandemic and subsequent national lockdowns becomes apparent, governments around the world are looking for ways to conjure up money to plug every manner of funding shortfall. The South African government is already making noises about dusting off the Apartheid era prescribed assets handbook to force private investors to queue up for its government and state-owned entity (SOE) bonds. Many financial services firms are opposed to the reintroduction of this policy, as evidenced by comments made by Dawie de Villiers, CEO at Alexander Forbes, during a webinar titled 'partnering for better financial wellbeing outcomes'.

Hands off my retirement assets

The webinar explored the possibility of using alternative developmental investments into the South African economy rather than resorting to tighter state control of retirement funding assets. "We are opposed to any regulations, including prescribed assets, that could lead to sub-optimal investment outcomes by our members," said De Villiers, who warned that a reintroduction of the policy could compromise the financial wellbeing of millions of South African retirement fund members. The solution, according to De Villiers, was to tweak existing investment models to allow for easier access to attractive investment opportunities that offer higher economic and social benefits.

Isaah Mhlanga, executive chief economist at Alexander Forbes, took to the podium to address the question: Can the private sector shift the narrative from financial returns towards economic development? "A new focus will allow us to address the return objective of pension fund members while simultaneously meeting the developmental needs of the country," he said. The difficult debate will take place against the backdrop of an economy ravaged by decades of political mismanagement before being dealt a death blow courtesy of COVID-19.

V-shaped recovery to Nike-swish

"South Africa is a small open economy that gets impacted by what happens in the rest of the world," said Mhlanga. The International Monetary Fund (IMF) has forecast a 4.9% contraction in global growth through 2020, and a recovery of 5.4%, from a lower base, in 2021. "What is clear is that we should not expect the promised V-shaped recovery; the economy is now more likely to follow a U-shape or Nike-swish recovery, especially because the underlying health condition is still unresolved," he said. South Africa faces a range of possible post-pandemic growth trajectories, starting with the South African Reserve Bank (SARB) forecast of a 10% slump in GDP growth this year, and culminating in National Treasury's worst-case prediction of a 16% collapse.

Mhlanga used the country's 10-year historic annual GDP growth 'average' to illustrate the impact of pandemic over the coming decade. Assuming the pandemic had not happened, the SA economic would have grown to R3.8 trillion by 2030. Under the SARB growth scenario the country would only recover to its year-end 2019 position by the end of 2025, growing to around R3.5 trillion by the end of the decade. The Treasury scenario sees the country clawing back to its 2019 GDP by end-2027, growing to R3.3 trillion by 2030. In either scenario we face rising levels of inequality, poverty, and unemployment. Alexander Forbes proposed a six pillar policy strategy to create the political and social environment to mitigate the various ills that arise consequent the economic malaise we face.

Playing a familiar growth refrain

These pillars have been trotted out before, beginning with pillar one, macroeconomic reforms, and followed by microeconomic reforms; the role of the private sector and long-term savings; reform of trade and industry; reform of the education sector and skills development; and social policy reform. We will only comment on the role of long term savings, given our focus on prescribed assets. "Our third pillar [deals with] the role of the private sector in reigniting South Africa's economic growth going forward," opined Mhlanga. "It is important for the domestic private sector to be confident before we can expect inflows of foreign direct investment". He mentioned the various public / private growth initiatives currently under discussion, before adding that the Public Investment Corporation (PIC) would need to lead by increasing its investment in strategic sectors.

One way to identify investment imbalances is to consider South Africa's sectoral economic structure compared to that of other emerging markets (EMs). A quick analysis suggests that we lag our EM peers in investment in sectors such as agriculture, construction, energy, and manufacturing. "These are the underlying sectors that really drive EM economic growth; but they are underrepresented domestically," noted Mhlanga. Upon expanding this analysis to the JSE he observed that each of these important economic drivers were underrepresented there too. The result is a systemic issue with the allocation of private sector capital in the broader South African context. Why? Because the long term savings sector invests predominantly in the listed sector, and in a benchmark cognisant way. ***Full Report:*** ***https://www.fanews.co.za/article/talked-about-features/25/straight-talk/1146/prescribed-assets-will-not-pull-south-africa-inc-from-the-economic-abyss/30080***

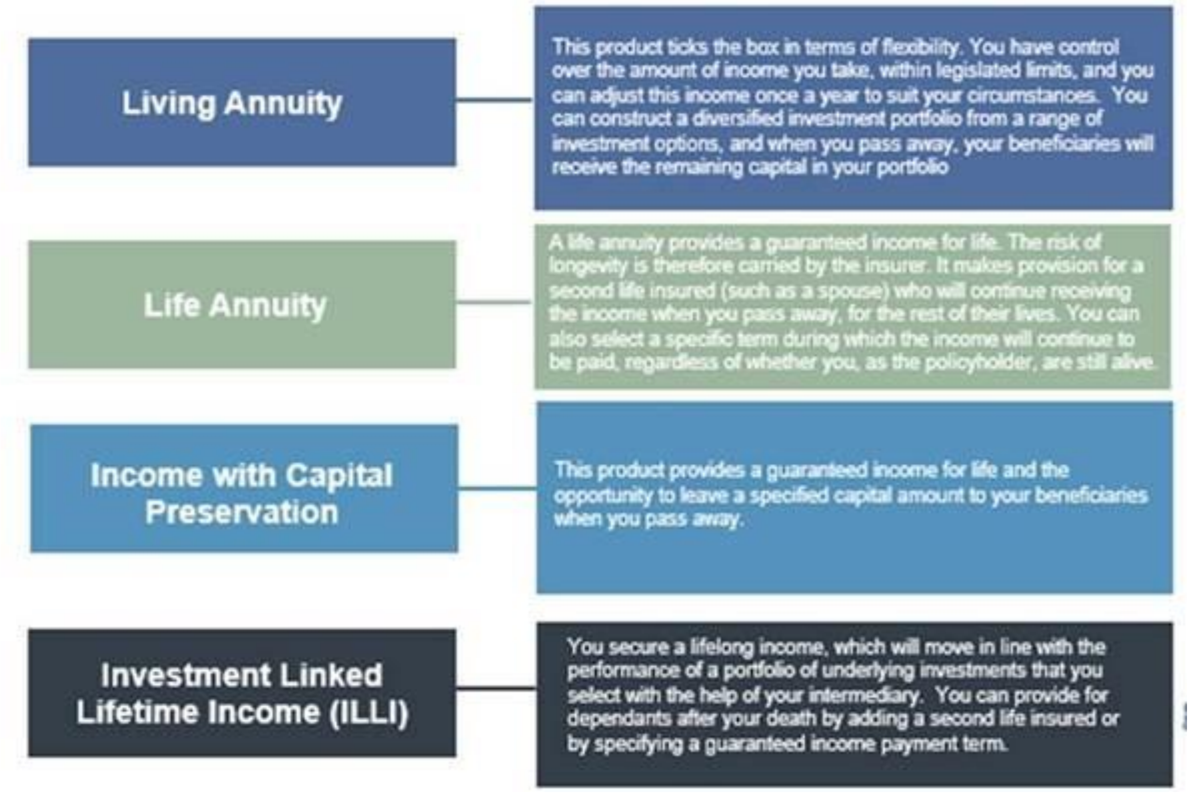
FA News | 31 August 2020

How to have your retirement cake and share it, too

In these financially trying times when many people are retiring or being offered early retirement, investors are faced with financial choices that could affect them quite significantly during their retirement. It's reasonable that as an investor, you are looking for certainty regarding your future income. You've worked hard for your retirement savings. You want peace of mind knowing that you have a sustainable retirement income and that you could leave some capital for your family when you pass away. It's a lot to ask for, but all of it is possible. In this article we unpack how having your cake and eating it is well within reach, even in this time of economic turmoil.

Decisions, decisions

A single product or solution will not tick every box for you. So, combining retirement income products and features is absolutely the way to ensure the best outcome for your retirement. First, let's consider some of the individual retirement income solutions on offer (see the image below)



It's in the blend

An investor's requirements for a guaranteed retirement income, income growth and the need to leave capital for their loved ones, have forced intermediaries to look at multiple solutions that work together in a well-rounded, diversified retirement income portfolio. This is a sure-fire way to ensure the best retirement outcome.

No one-size-fits-all solution

Retirees are as diverse as their taste in shoes. So, there really isn't a one-size-fits-all product or solution when it comes to your retirement income. Your financial intermediary will blend a solution based on financial goals that are unique to you. Here are two examples of possible combination solutions:

Combo Solution 1
Sanlam Income with Capital Preservation, which offers: • a guaranteed lifelong income; and • the opportunity to leave a specified capital amount to your beneficiaries when you pass away; **PLUS** A ***Living Annuity***, which offers: • an opportunity for your capital to grow due to market exposure; • flexibility in terms of investment choice and income choice; and • the opportunity to leave your remaining capital to your beneficiaries when you pass away.
Combo Solution 2
A ***Living Annuity***, which offers: • an opportunity for your capital to grow due to market exposure; • flexibility in terms of investment choice and income choice; and • the opportunity to leave your remaining capital to your beneficiaries when you pass away. **PLUS** a ***Life Annuity***, which offers a guaranteed lifelong income.

In every combination solution, as in every financial plan, the investor's unique personal circumstances and financial needs are taken into account along with their income and legacy aspirations for the future. Getting to the custom-made solution takes time and skill. Here are a few things you should consider if you are at this particular life-stage.

Five things to consider when you are facing retirement:

1. Get help. Don't make these decisions on your own. If you don't already have a financial intermediary, it's not too late to appoint one. Check that they are qualified to advise about investments and all tax implications that affect you. Appointing an intermediary can save you money and future hardship due to bad financial decisions.

2. Manage your expectations regarding your retirement income.

A financial intermediary will design a retirement income plan with the savings you've accumulated. Be realistic about your financial ambitions into retirement.

3. Now more than ever, it's important to have a budget. It will improve your peace of mind and lessen your stress about money in your golden years. Also, calculating your budget will help you avoid spending too much of your nest egg too soon – a mistake many retirees continue to make. A good, detailed budget helps you live within your means, enjoy your life, and make your savings last as long as possible.

4. You might have a spouse, partner, parents or a disabled child who is **financially dependent** on your income after you die. This can impact how your retirement savings will be structured and the combination of solutions that will need to work together to provide an income or lump sum for your dependants after your death.

5. Leaving a legacy for your family is generous of you, but the reality is that most South Africans start saving too little too late for their retirement and often it's not possible to leave one at all. Remember, your retirement savings were meant to be a nest egg for you after many years of hard work, so your retirement savings providing a comfortable life for you, should be your first priority.

FA News | 27 August 2020

The Struggle for the RDR to Find its Regulatory Footing

The Twin Peaks regulatory model (Twins Peaks) was implemented in April of 2018, fundamentally changing the South African financial regulatory system into two regulatory streams, primarily the Prudential Authority (PA) and Financial Services Conduct Authority (FSCA). The Prudential Authority will be responsible for oversight of the soundness and financial safety of financial institutions (incl. banks, insurance, and financial services). While the FSCA's mandate be required to protect financial services customers and improve the way providers do business. The Treat Customer Fairly (TCF) is a new legislation in the financial services sectors (banking, insurance, investments, etc) supported by 6 consumer outcomes that ensure fair treatment of customers.

It is this TCF approach, which the Retail Distribution Review (RDR) is a prominent example of, focuses on the regulated financial institutions delivery of fair outcomes for financial customers and requires proactive measures by regulators and policymakers for dealing with market conduct failures. The FSCA published its RDR discussion document in November 2014 where it seeks to improve professional standards in the Financial Services industry, ensuring that clients are treated fairly when purchasing financial products. It ensures that each financial advisor-client is offered a transparent fee structure, can understand the services the advisor provides and knows that they are being advised by a respected professional. The RDR is linked to one of the TCF outcomes namely TCF outcome 4 which states that "Where advice is given, it is suitable and takes account of customer circumstance." In Addition, RDR is designed to increase confidence in customers when purchasing of financial products.

The regulatory body and the RDR

The current regulatory framework, through the FAIS Act, places less accountability on product suppliers. This will change when the review is enacted placing more responsibility on advisers to demonstrate the value of their services. The review will additionally limit the opportunity for regulatory discrepancies by ensuring consistent supervisory measures are in place to identify misconduct, current and emerging risks. The RDR will change the approach to market conduct regulation and supervision, placing more responsibility on suppliers and advisors to provide more comparable products and activities across sectors. The review will form the basis for adequate supervision on inherent product advice risks. Placing financial customers in a position to better understand the kind of advice or services they are getting. Clients will become aware of the costs along the entire value chain. It will show how much these services will cost and how they will be paid while instilling confidence that their adviser is sufficiently qualified to provide useful advice and is acting in their best interests.

Yet, the RDR doesn't factor in global shocks like COVID-19. The current global pandemic has brought to light economic risks, not only to ensure fair customer outcomes but also to facilitate intermediary sustainability and supervisory effectiveness. This means that product suppliers may try to give up all risks responsible for mitigating unfair customer treatment by contracted intermediaries. Why? They might see such risk mitigation as being the sole responsibility of the regulator. For example, FAIS licensing, compliance, and dispute resolution frameworks. So, what needs to be done? There need to be clear obligations placed on regulated financial institutions to treat their customers fairly in the context of the RDR. Structural interventions are necessary to change incentives, relationships, and business models where existing regulatory frameworks do not consistently support the delivery of desired outcomes.

This complicates supervision and undermines the regulator's effectiveness in achieving fair customer outcomes. Truth be told, the regulator should not be the first line of defence in ensuring fair outcomes when it comes to advising and distribution models. Product suppliers, who are closer to the intermediary force and have a clear interest in the effective and appropriate distribution of their products, are in a better position than the regulator to monitor advice and distribution outcomes. This should be done while putting reasonable controls in place to promote fair treatment and mitigate mis-selling risks. In doing so, customers who are unwilling or unable to pay direct advice fees up-front are exempted from the risks of commission-led products and adviser bias.

Additionally, we should take into account the **Conduct of Financial Institutions Bill**, which states that "a financial product provider must ensure that their financial customers are provided with products that perform as that provider has led its customers to expect, through the information, representations and advertising provided by or on behalf of the financial product provider". Achieving RDR transparency requires that no single regulatory intervention can work in isolation. Similarly, this places obligations on financial advisers to provide appropriate advice should they be torn between the obligations on product suppliers to ensure the distribution models are appropriate for the customers targeted, and the products concerned. The goal that all should be working towards, however, remains quite simple: mutually reinforcing product information to create value for the customer.

FA News | 27 August 2020

How local asset management has changed in 20 years

Allan Gray's outgoing CIO Andrew Lapping reflects: 'It has been about outperforming Naspers.'

After two decades with Allan Gray, Andrew Lapping will be stepping down as the firm's CIO at the end of August. Duncan Artus will take over the role. As the head of the investment team at South Africa's largest asset manager, Lapping has been a significant figure in the local industry. And he has some noteworthy insights into how it has shifted since the turn of the century. 'The market is definitely more competitive,' said Lapping. 'There are far more players now, and 20 years ago the big players were still the life companies. The weight of active money has definitely shifted to independent asset management firms.'

A new approach

The second big change is the recognition of the significance of ESG (environmental, social and governance factors). 'Twenty years ago we didn't even vote at AGMs unless it was a controversial issue,' said Lapping. 'How seriously we take voting now, and how we think about engagement with boards, is a big change. The whole interaction between asset managers and companies around governance initially, and more recently the social and environmental aspects, has become far more important.' This trend has, however, come with its challenges, particularly when social and environmental issues are at play. 'People have different opinions on what's right or wrong,' said Lapping. 'People can get angry about the way you vote. 'Thus far, we have held the line and vote what we think is right for the business and our clients. Looking after our clients is our first priority. Don't forget that being long-term investors we want the businesses we invest in to be sustainable. If the business is acting in an unsustainable way, there is no point in investing in it.'

Passives on the rise

A big shift that has not yet come to South Africa to the same extent that it has in some other markets is passive investing. Lapping expects that passives will gain more market share locally, and that it will be interesting to see how the dynamic between active and passive plays out. 'I think what you will find is that the world will go full circle,' said Lapping. 'You will see passives getting ever more market share, fees will come down further, and it will be harder and harder to be an active manager. 'But because passive funds are not allocating capital in a way that sells expensive stocks and buys cheap stocks, you will get bigger distortions in the market. Those discrepancies will become huge, and you will see huge outperformance by active managers when the market readjusts.

'When that happens, the money will flow back to active managers, and you will get this cycle.' Finding the balance between the two, both for investors and the market more broadly, will be an interesting trend to watch. 'There's definitely a balance,' said Lapping. 'On average, passives beat the average manager – especially managers who are benchmark-cognisant. So, I think passives will find some kind of market share. I think that could be somewhere between 40% and 60%, and then you have a share of active to keep the market honest. But you can't have passives going to 100% because then the free-rider concept stops working.'

The Naspers effect

Active equity managers in South Africa may not yet have had to define themselves against passives as much as managers elsewhere have, but there has nevertheless been a clear benchmark for performance over the past 20 years. 'It has been about outperforming relative to Naspers,' said Lapping. 'You've had this situation where Naspers has gone from zero to 25% of the market. If you didn't own it, that's a very steep hill to climb.'

This has business implications too

'Overall, the big rand hedges – not just Naspers, but also stocks like Richemont and BHP – have done really well, and the small stocks have done terribly,' said Lapping. 'Naturally active managers are looking for the smaller stocks. And, unfortunately, you are going to see some managers who specialise in those small stocks coming under pressure, which is sad.' There are already signs of this impact. At the end of June, boutique mid- and small-cap specialist Electus closed its doors due a decline in assets under management.

Seeing value

Lapping nevertheless believes that the current environment presents a genuine opportunity for value-oriented managers in the South African market. 'If you are a manager of money, I think you need to be able to keep conflicting concepts in your mind and not let one overwhelm the other,' said Lapping. 'It's easy to become extremely negative, but usually we rely on other people doing that – selling stocks down so that we can take advantage. 'Unfortunately, what happened with us is that sentiment last year towards South Africa was extremely negative and you saw aggressive selling pressure on local stocks, and financials in particular. We started accumulating stocks into that negativity, and then the Covid crisis hit. 'What would have happened if we didn't have the pandemic, I don't know, but I think we would have found exceptional value in those companies,' said Lapping. 'And I think there's still opportunity now if you look at the discrepancies between local and offshore valuations.'

Safe hands

Looking ahead, he believes Allan Gray is well positioned to benefit from this in the shorter-term. And over the longer-term he is extremely confident in the team he will be leaving in place. 'Duncan is extremely passionate about the business and value investing,' said Lapping. 'The portfolio managers we have promoted are all people who believe in the process and philosophy, and that is going to stay very much intact. 'That said, it is going to be hard,' said Lapping. 'It's only going to get more competitive, and it's only going to get harder. But, as a business, you have to continually, incrementally improve.'

Moneyweb | 27 August 2020

Here are a few saving tips for you no matter your age

Planning for retirement is all about setting the right savings goals for each stage of your life, and starting as early as possible. Most South Africans only start saving for retirement at 28 when they should ideally start at 23. Most are also saving less than they should. Here are the honest conversations Ryno Oosthuizen, Business Development Manager at Glacier by Sanlam, and André Wentzel, Solutions Manager at Sanlam Savings, suggest you should be having with yourself at every age.

When you're in your 20s

Start saving, especially if you're one of the 38% of millennials with no formal retirement plan or tax-free savings. You'll thank yourself in an emergency or when you need to put down a deposit on a car or a house, for example. Invest aggressively. Even saving small amounts like R150 a month can earn you worthwhile compound interest. There's a huge difference between having 45 years vs 20 years to save. As you start to earn more, don't let your expenses ratchet up. Rather skim off a bigger portion every month for your retirement annuity (RA) and tax-free savings.

When you're in your 30s

Preserve: if you're considering changing jobs, don't cash out your retirement savings. Rather preserve them in a suitable vehicle, like a preservation fund. Be smart about bonuses and promotions. Use the extra money to kick-start an emergency fund, pay off debts or boost your retirement savings. Don't be afraid of risk: in your 30s, you should have time to recover from short-term fluctuations if you invest in a high-risk investment portfolio. High risk potentially equals high returns. Also, try not to chop and change between investment portfolios – a well thought out investment strategy and financial plan should weather market volatility.

When you're in your 40s

If you haven't started saving for retirement, you're going to have to make some drastic compromises according to advice from a financial planner. Pick the right type of risk profile investment vehicle to prepare for what you plan to do once you retire. Check in with your planner regularly to ensure you're on track. In your 40s, you're often 'sandwiched' between saving for your kids and their education and supporting your parents. Take stock of your finances and make sure you have other avenues aside from your retirement savings to draw from, now and in the future. Maximise what you earn: now's the time to negotiate a promotion and raise.

Invest the extra funds in a tax-efficient savings vehicle such as a retirement annuity or tax-free investment plan or alternatively, an endowment if you have made use of all your other tax concessions. Also, consider monetising your passion by starting a side hustle you can continue into retirement. Health is wealth. Taking your family history into account, are you saving sufficiently for your prospective medical expenses now and post-retirement? Invest in your physical and mental wellbeing.

When you're in your 50s

Start thinking about what you want your retirement – ideally and realistically – to look like and do the sums so you know what you need to achieve this. Don't leave this process too late. From a pre-retirement perspective, now's the time to look at what you have under a microscope – things like your investment and estate planning. A common issue at retirement is to try and solve the pre-retirement issue of not splitting your assets appropriately between formal retirement savings and discretionary savings.

For example, if you want to travel a lot in retirement, you'll need to frequently draw ad-hoc capital, which means having sufficient discretionary savings available. That's where an investment plan could be your match. Again, it comes back to the goals you set. Start thinking about this now – preferably even earlier. Combining different income solutions may be the better option for your circumstances. Keep looking after your health – financially, physically and psychologically.

When you're in your 60s

You'll need to carefully manage your money to ensure you have sufficient income for the rest of your life. Follow the 'draw 4%' rule and you should be fine. In a tough market of limited returns of 3-9%, drawing an income of 9-10% means you're depleting your capital. It's about knowing what you want: money in the bank or a great lifestyle? Keep working towards your priorities with your financial planner. Many people want to leave a legacy but are still supporting dependants and drawing on their retirement savings to do so. There are other ways to leave a legacy – like life insurance. While it is always advisable to start saving for your retirement as early as possible, as the saying goes, "It's never too late to start". If you do find yourself saving for retirement later in life, make it a priority to give yourself the best chance of meeting your retirement goals", concludes Wentzel.

IOL | 27 August 2020

INTERNATIONAL NEWS

More than 800,000 UK employees short-changed on pensions

Agency workers and low paid among those at risk of exclusion from schemes, study finds

One in 20 employees are not receiving the pension they are due, according to new research showing that agency workers, part time and temporary staff and the low paid are at much greater risk of being excluded from workplace schemes that would boost their earnings in retirement. More than 10m workers have been automatically enrolled in a pension scheme since 2012 under a policy that obliges employers to enrol all those eligible and to pay contributions towards it. But the Resolution Foundation, a think-tank, estimates that more than 800,000 employees — close to one in 20 of those eligible — have either not been enrolled or are receiving contributions below the legal minimum.

This is in addition to the 9 per cent of employees who have chosen to opt out and the 19 per cent who are not eligible for auto-enrolment because of their age or low earnings. The problem is especially prevalent in parts of the labour market where other breaches of the rules — such as failing to pay the minimum wage, offer paid holiday or provide a payslip — are common, the think-tank's analysis found. Overall, 2.9 per cent of permanent employees were not enrolled at all, it found, but this rose to 10.5 per cent among agency workers, 7.4 per cent for temporary workers and 8.6 per cent for those earning close to the minimum wage.

"These groups are also more likely than average to be short-changed even when they are enrolled," according to the study. The estimates may well understate the extent of the problem since the analysis is based on data from an Office for National Statistics survey of employers — who may be unlikely to admit to breaking the rules when speaking to government researchers. The figures underline the need for tougher enforcement of employment rules, already exposed by the failure to tackle apparently longstanding labour abuses in Leicester's textiles industry. Hannah Slaughter, the report's author, said the Pensions Regulator needed to take a more proactive approach to enforcement in high risk sectors and to collaborate more with other enforcement bodies when they were already investigating a business for other labour market violations.

She also warned that breaches of the rules could become more widespread against a backdrop of rising unemployment. Antony Arter, the pensions ombudsman, underlined one such risk last month, telling a parliamentary committee that the Covid-19 crisis could lead small employers to try to cut costs by persuading staff to opt out of auto-enrolment. Steve Webb, a partner at the actuarial consultancy Lane Clark & Peacock (LCP), said this risk of "the quiet word by the water cooler" was always "very hard to detect", adding that he also saw an increase in the number of employers holding back pension payments rather than paying in to the scheme.

Mr Webb also warned that some large companies could face “six- or seven-figure increases” in the levy they pay to the Pension Protection Fund (PPF), in order to ensure that the fund could continue to step in and pay defined benefit pensions even if there is a wave of big corporate insolvencies. LCP published analysis on Thursday showing that the PPF would be able to cope without cutting payments to pensioners even if insolvencies among its members doubled and it suffered a £10bn hit over six years.

In a deeper downturn, which led to several large companies with big pension deficits failing — and a £20bn hit over six years — it could still avoid cutting benefits, but only by increasing the levies paid by its members, taking on more risk in its investments, or putting back the date at which it aimed to reach “self-sufficiency”, LCP said. But “more extreme measures” could be needed if some giant schemes with big deficits entered the PPF in swift succession, LCP said, urging the government to leave open the option of cutting benefits as a last resort. “The way this pandemic is hitting some of the older, more established industries like high street retail, transportation and leisure business is completely different to the global financial crisis . . . making the failure of some of the biggest pension schemes more likely,” it warned.

Financial Times | 27 August 2020

OUT OF INTEREST

Shun equities at your peril

The most recent **figures released** by the Association for Savings and Investments South Africa (ASISA) show a historic influx of investment into local unit trusts over the last quarter. In fact, according to ASISA, this is the highest net quarterly inflow on record, at R88 billion. Of this amount, around R44 billion was invested by individual investors, and a big portion of that was brand new money that had not been invested before. “This influx of investment may come as a surprise to many, in light of the Covid-19 pandemic, but it’s important to look at what kind of investment has gained the most ground,” says Anet Ahern, CEO at PSG Asset Management. “South African Interest-Bearing Money Market portfolios attracted by far the biggest share of investment.

This reflects a highly defensive mindset, which is in line with what we would expect given the impact of Covid-19 on markets and the economy as a whole,” said Ahern. Many investment portfolios have been severely bruised in 2020, and it is understandable that investors are looking for perceived safe havens, such as money market investments. However, Ahern believes investors need to understand that while these investments may have fared better during the pandemic, they are highly unlikely to help investors rebuild their wealth over the long term. “Investors seeking a smoother ride by switching to cash or buying popular stocks at any cost may find that this ‘safe’ approach will in fact prove to be more risky over the long term,” says Ahern.

Governments across the globe have slashed interest rates to counteract the impact of Covid-19 on their economies. "As a result of this, 'safe' assets have become even less likely to outperform inflation for the foreseeable future," says Ahern. "Equities remain the place to build your long-term wealth, despite the discomfort investing in them can cause from time to time, due to higher volatility." Ahern says that for those who are concerned about their retirement savings, and who have more than 10 years to go until retirement, investing part of their overall portfolio into equities remains crucial. "Although the overall message from the ASISA figures is that investors are in defensive mode, there are some signs of optimism in the SA equity space," says Ahern.

In the last quarter, investors moved out of SA Multi Asset High Equity, Medium Equity and Low Equity portfolios resulting in net outflows for these sectors, and instead favoured investing in the SA Equity General portfolios. Locally registered foreign portfolios recorded net outflows for the second consecutive quarter. These foreign currency denominated portfolios are only accessible once the necessary clearance to invest has been obtained from authorities, and investors have bought the necessary foreign currency. "This might show investors perceive the rand to be undervalued, with it having weakened considerably during the early stages of the pandemic," Ahern says.

However, international diversification remains an important consideration for investors. "Analysis shows the rand has been undervalued relative to other currencies for some time. While it may reverse course, there is no certain way to predict when this is likely to happen. Investors should therefore ensure their portfolios are diversified appropriately in line with their risk profiles." "The market is currently presenting some incredible opportunities for investors who are focused on the long term, and who understand that the price they pay for a share is a critical component of its ultimate returns," says Ahern.

FA News | 28 August 2020

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