

Our mission this afternoon:

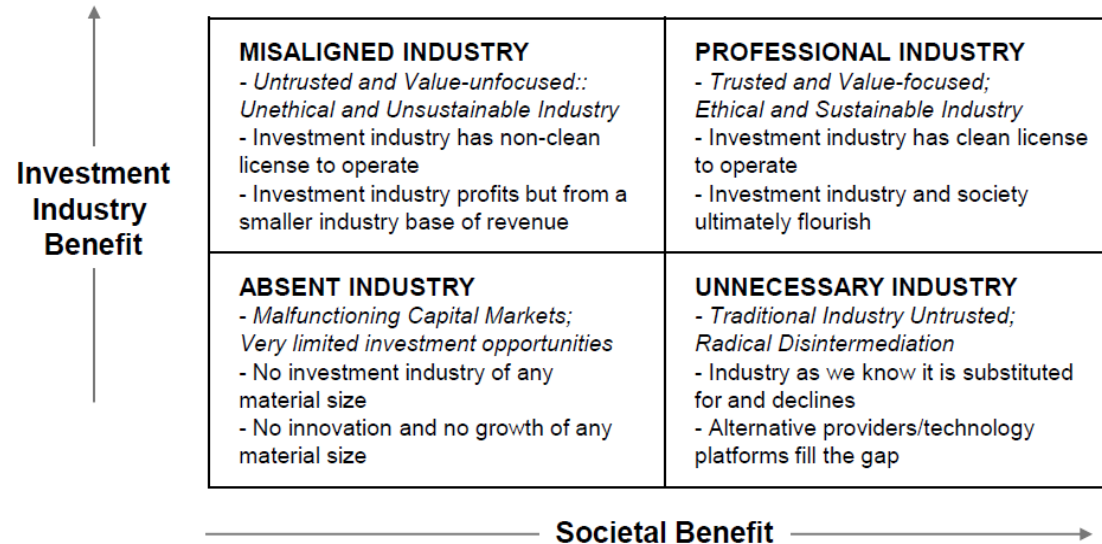
- **Can we find a way of changing “alternative investments” to something more core and not “alternate”?**
- **Let’s stop thinking of “impact investing” as a separate asset class by focusing on the impact of all our investments**
- **Let’s get pension fund management back to its roots: funding members’ long term liabilities**
- **Investing is a powerful tool – getting it to work for us is what South Africa needs most**
- **So let’s stop the horse race and get back to basics.....by understanding where the future of finance needs to go**

The Future of Finance

A challenge to the actuaries of South Africa
from **the** CFA Institute
and the Alexander Forbes Research Institute



THE FINANCIAL ECOSYSTEM – THE INDUSTRY SOCIETY PAY-OFF MODEL



- The investment management industry in most countries and with most capital markets sit in an area more than half-way up the vertical and somewhere towards the center of this diagram in the horizontal.
- The potential to go in any direction from here

A profession at the crossroads: What's at the root of the problem

The spirit of competition and proprietary advantage has created an industry mindset where we are no longer fiduciaries serving our clients needs ...

Rather...we are participants in a race for the “gold” that has spawned all the wrong incentives and attracted a mindset of winning at all costs.

Should alpha even be the “life force” for estimating of our value as professionals when we are failing to meet the funding needs of our clients?

Are benchmarks even meaningful when we can now create targeted solutions?

The greatest evolution in investing over the last two decades has been more about discovering what really drives outcomes for investors than discovering new sources of alpha.

Much of the alpha in “alternative investments” can be replicated synthetically or is simply an aggregation of different existing betas

Risk diversification may be less “real” over the long term if one considers economic risk embedded

As technology evolves can we now address problems where we previously had sub-optimal answers?

A profession at the crossroads: What are the new questions we need to start considering?

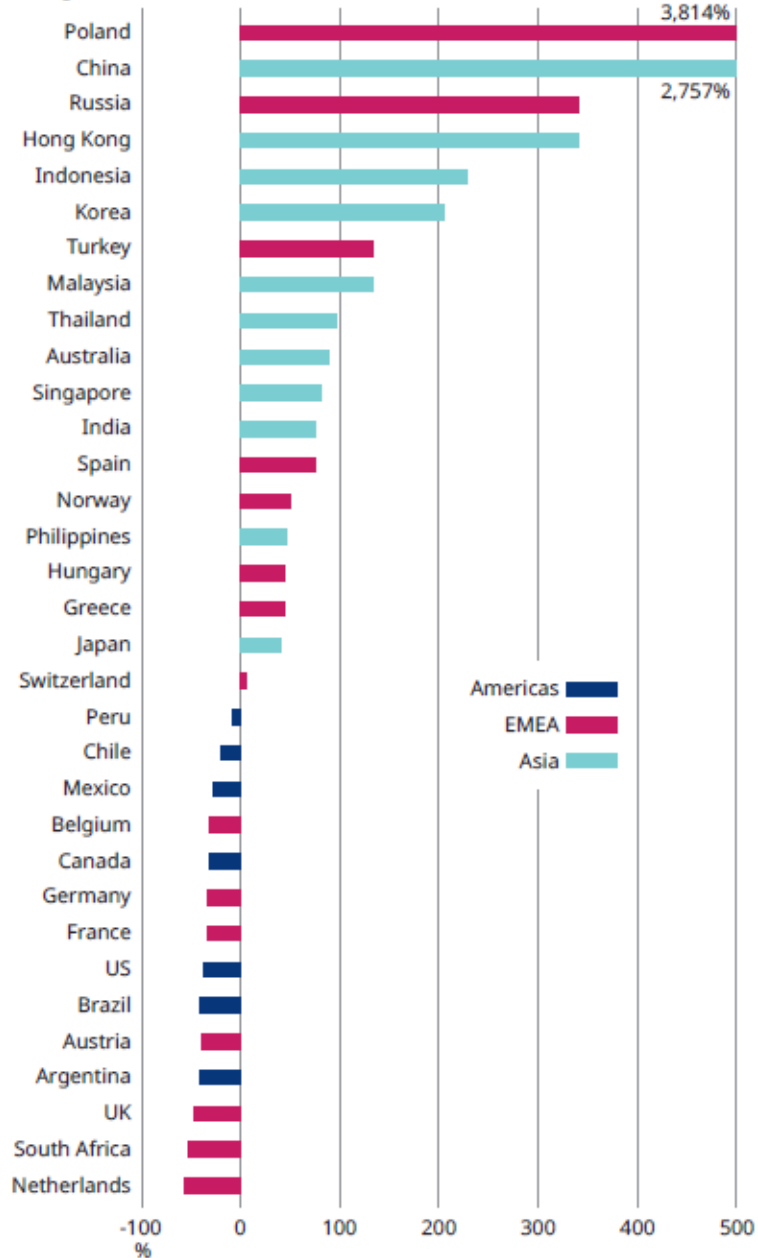
Finance caters to an interconnected ecosystem. Every investment has an impact and consequences.

Are we paying enough attention to measuring those consequences?

Capital markets are evolving

Are they actually achieving what they were intended to achieve for our economies and their development?

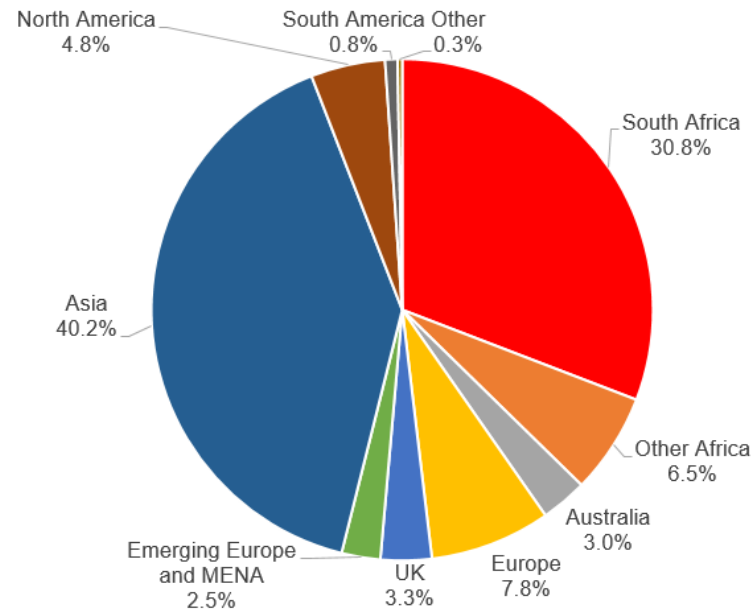
Change in number of stocks 1993-2017



South Africa is starting to behave like a developed market – it's shrinking and...

More importantly.... It's becoming less... South African

Geographical exposure of the JSE Top 40:
these large caps offer much greater offshore exposure



Source: Company data, RMB Morgan Stanley

A profession at the crossroads: What are the new questions we need to start considering?

Finance caters to an interconnected ecosystem. Every investment has an impact and consequences.

Are we paying enough attention to measuring those consequences?

Do we understand what the real liability of our clients is that we are solving for?

Capital markets are evolving

Are they actually achieving what they were intended to achieve for our economies and their development?



Expected Outcomes

More Than Just Risk and Return

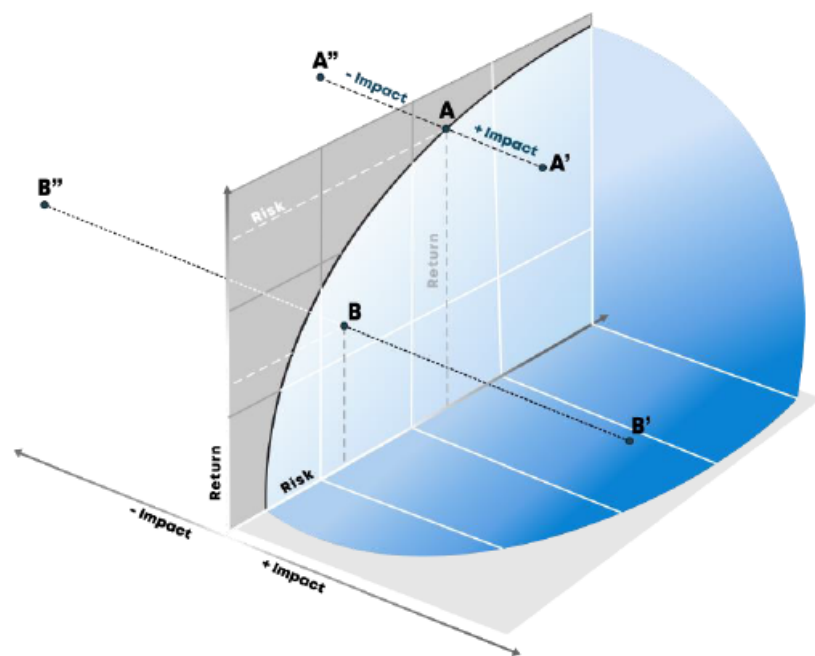


Diagram Source: Housing Europe, *From blind gambling to visible impact*, 2017

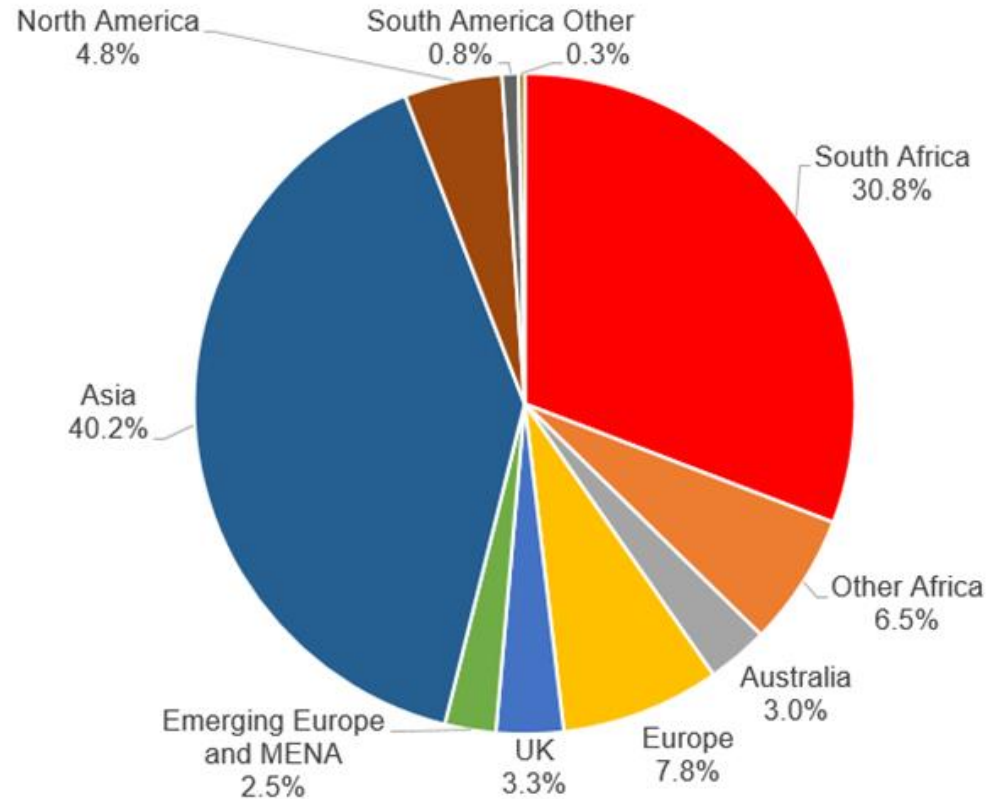
Conventional investment behaviors & biases continue to treat social and environmental outcomes as **byproducts of an investment process**; measured at the end and treated as a hope or a feature of an investment strategy

Balancing impactful outcomes with expected returns (within risk tolerances) bakes these non-financial outcomes into an investment portfolio, responding to the demands of a growing number of purpose driven investors

**This is the
exciting work
we want to
introduce to
you today**

Targeting impact is not new, but there is now **greater capability and higher demand**

Geographical exposure of the JSE Top 40:
these large caps offer much greater offshore exposure



Source: Company data, RMB Morgan Stanley

**Do you know what sort of
impact your fund is having on
creating a better world for
you?**

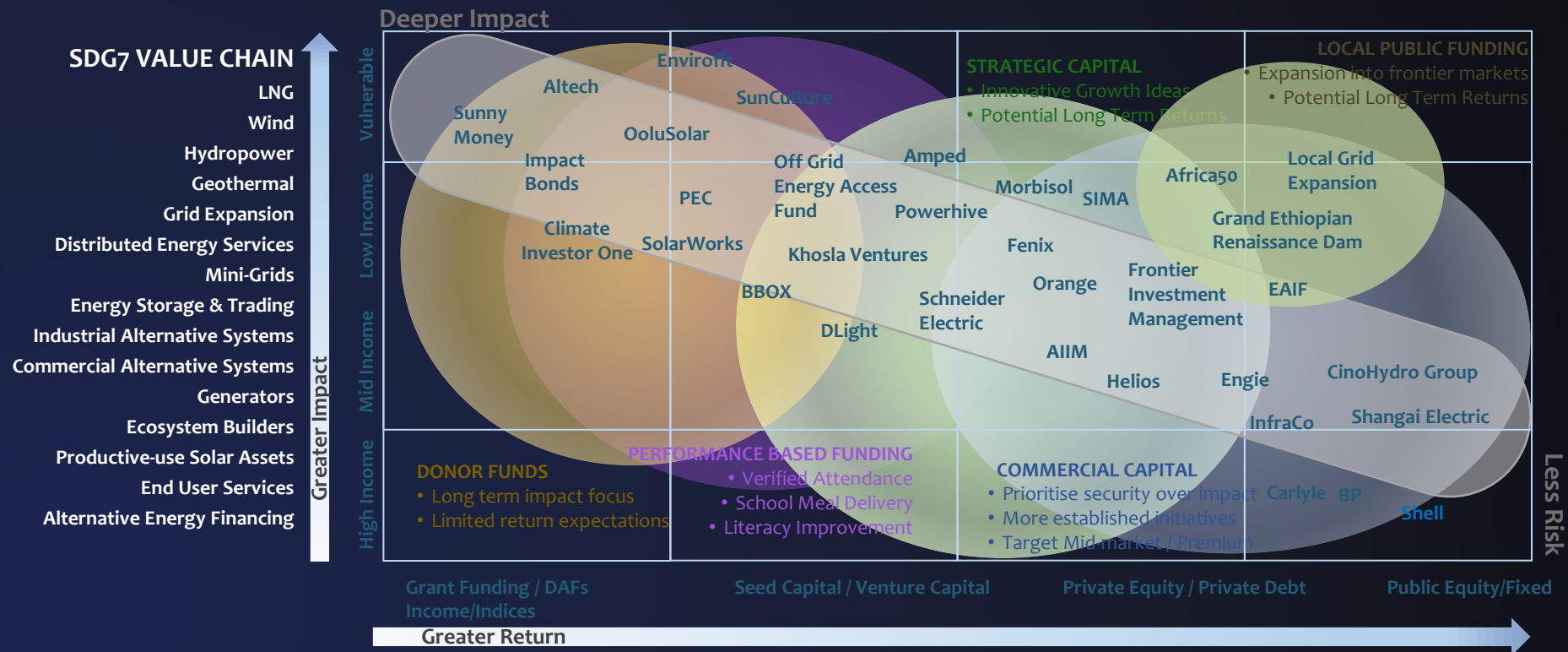
**How could your asset
modelling create a solution
that provide real value to the
world you will live in?**



SDG Vertical Illustrations

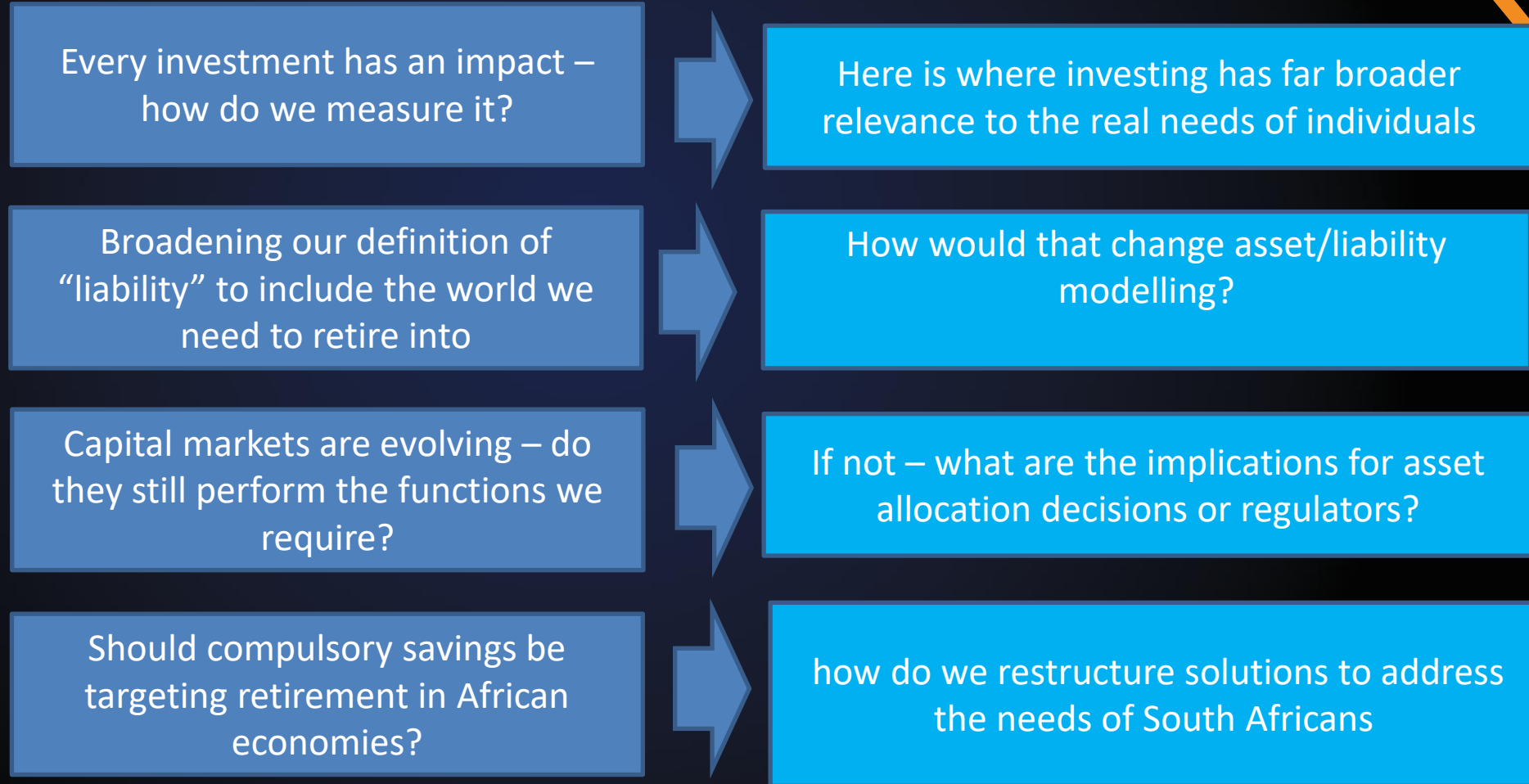
The Energy Transition

SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all



Illustrative example of an energy transition value chain from which an 'Inverted portfolio' can be constructed

Where are the real research challenges for investments?



So why haven't we been able to get there?

1. First world finance solutions are not addressing the funding requirements for South Africans/Africans

- Africa needs its own solutions and to get this right will require an interdisciplinary effort from asset owners, actuaries, asset consultants and asset managers

2. The upside-down value chain

- Those who can make the most money for their owners get the best toys to play with: asset managers vs. asset consultants and actuaries
- It's easier to solve the short term problems but in finance, the consequences of not solving for long term are massive.

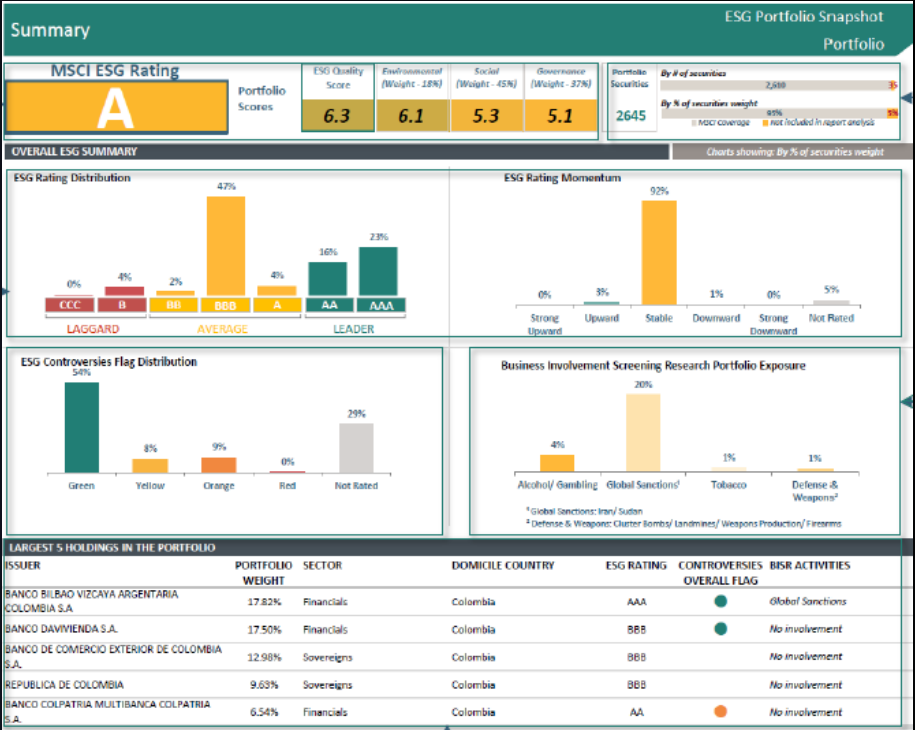
3. "Consulting" has evolved into a production line format

- Lobbying for change involves more than changing a mindset – it means changing the whole factory

Alexander Forbes Survey 2020 | Why we need a whole new way of selecting managers



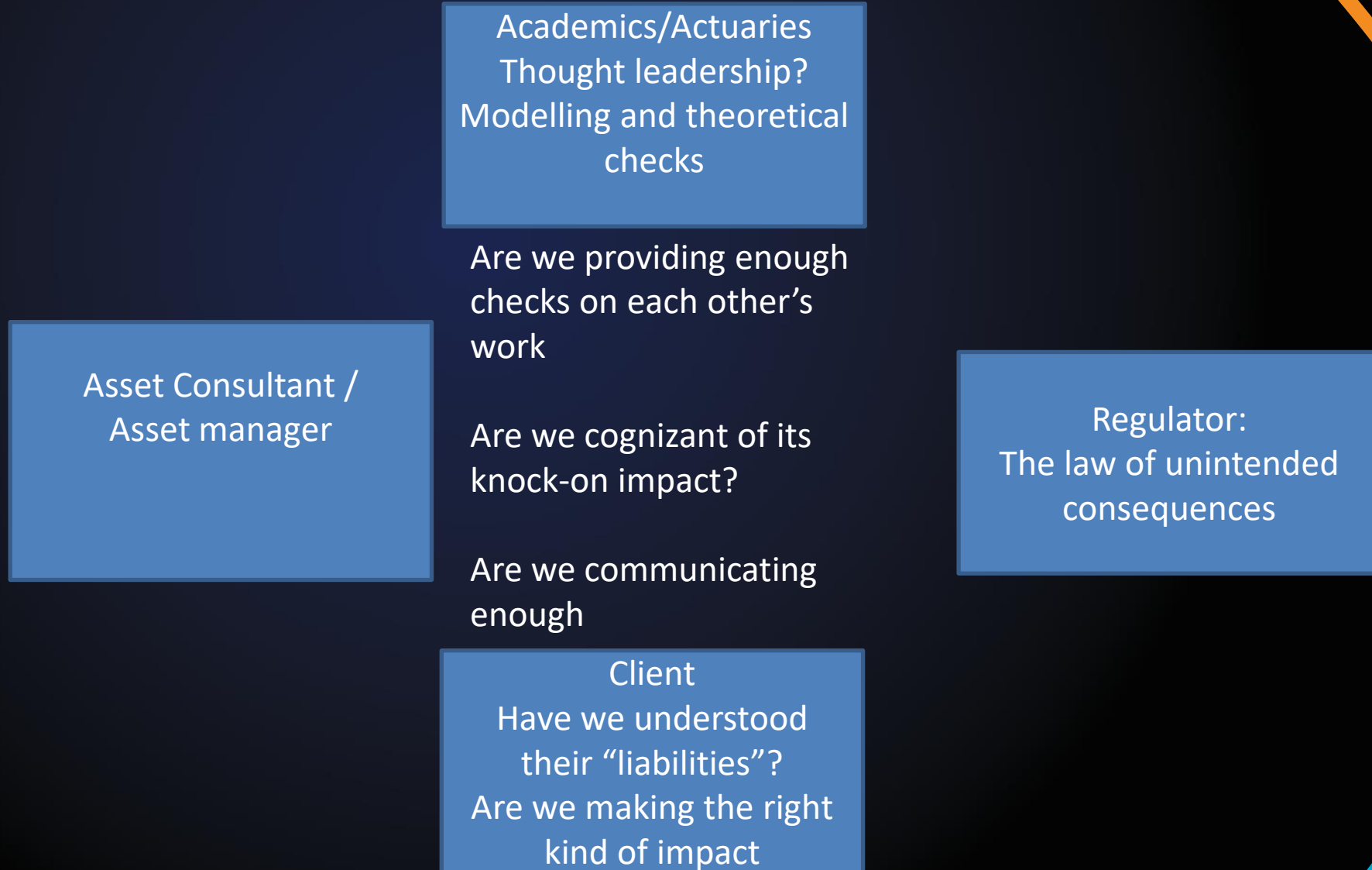
For our managers employing listed assets we will apply the criteria that we plan on using in our new survey template



What will need to change:

- A mindset that sees “alternative investments” and impact investing as “tack-on” asset classes – not worthy of modelling
- An agreed-upon set of metrics that allow us to measure and model all investment opportunities (listed and unlisted) on a similar basis
- An asset allocation and asset liability modelling framework that trades-off risk and return and impact
- A far more diverse set of skills for asset managers
- A new framework for benchmarking “success”.

Getting this right will demand a collaborative – not competitive environment



From the CFA Institute*



- Investment industry is struggling to deliver on promises: managing wealth creation & risk to meet goals, & mobilizing capital to create growth & employment
 - The industry has overwhelmed the profession
-
- Risks abusing the “license to operate” that society grants
 - Need to reconnect with client purpose to strengthen value proposition & trustworthiness

Money may make money – but money does not create value