



Use of Alternatives within a Retirement Fund – Case Study

10 September 2019

Shainal Sukha
Zikho Godana





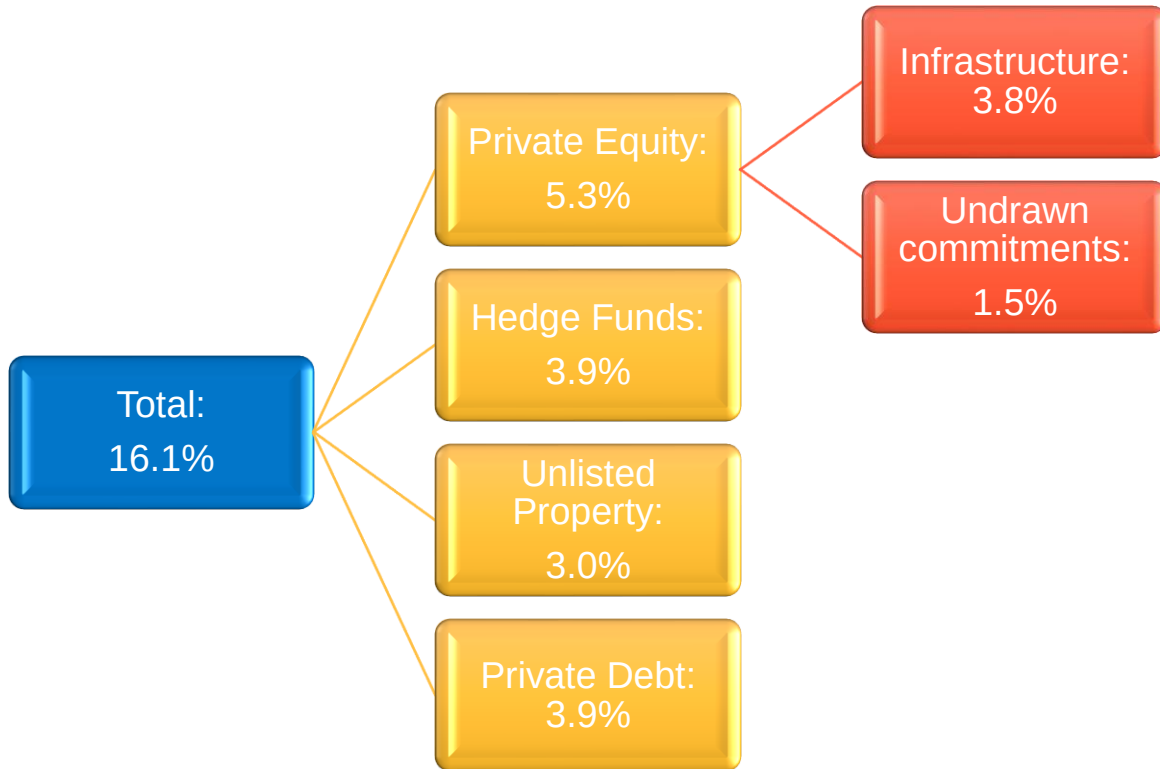
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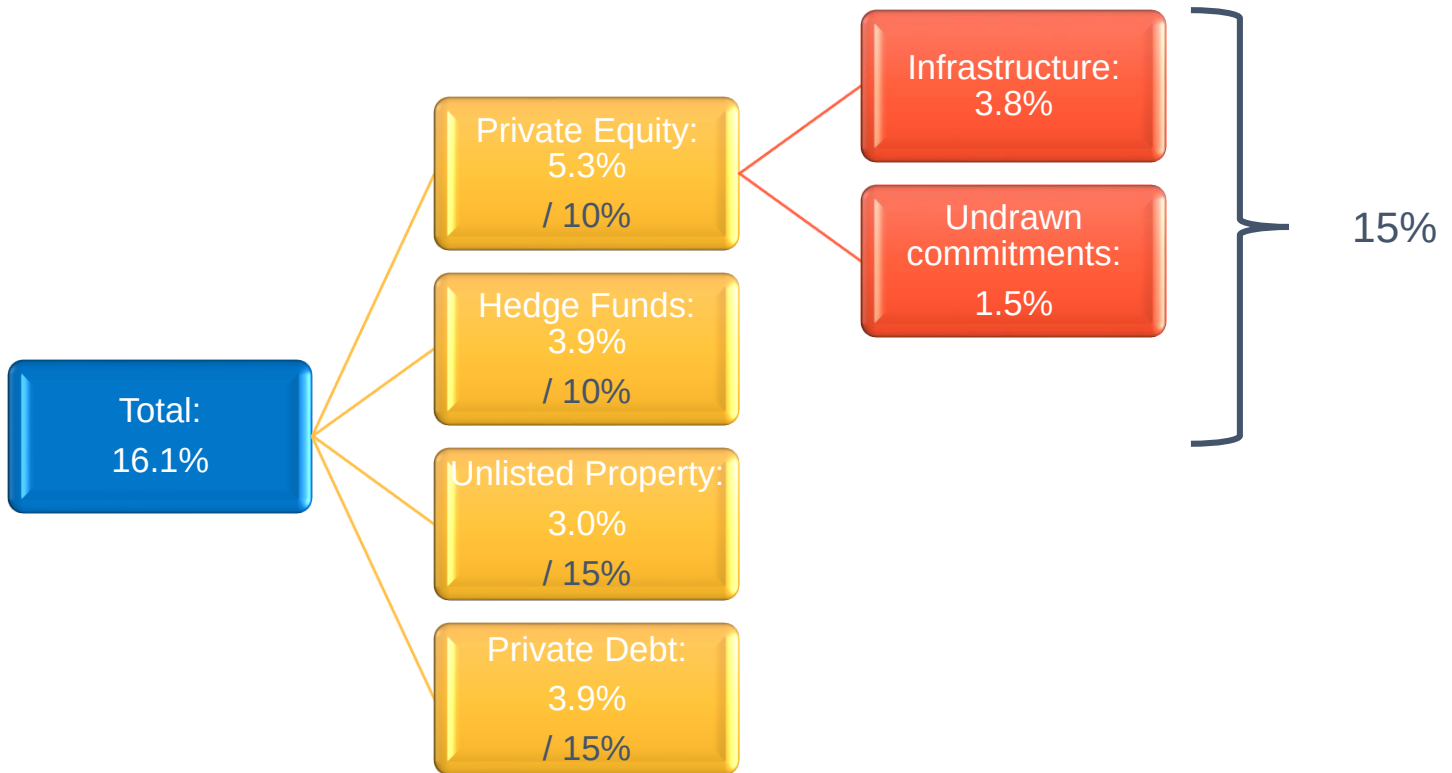
CRF's Allocation to Alternatives

16.1%

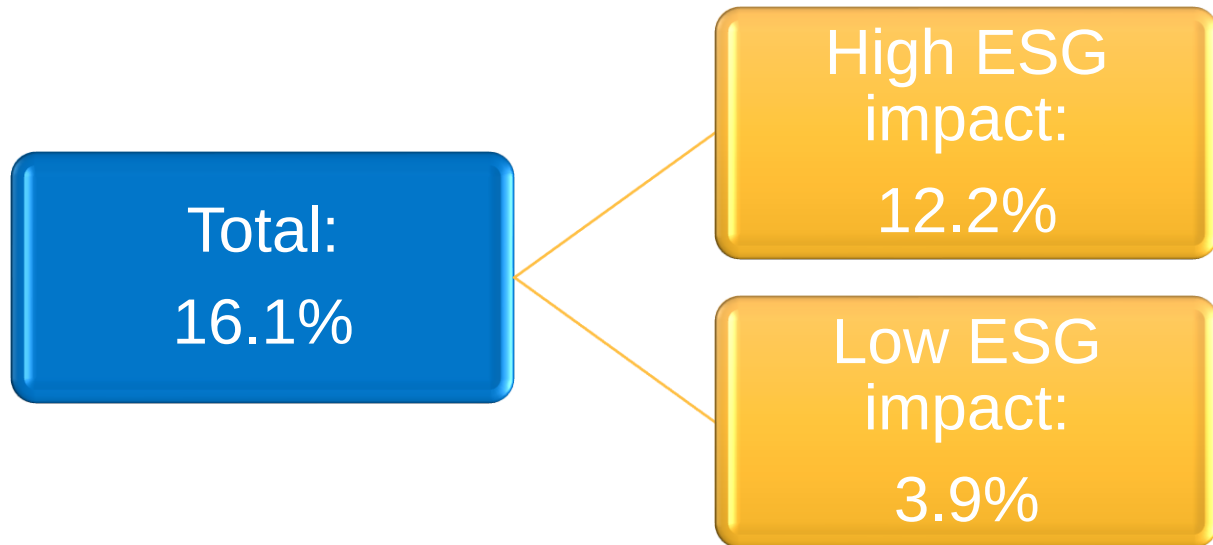
CRF's Allocation to Alternatives



Regulation 28 Limits



ESG Impact



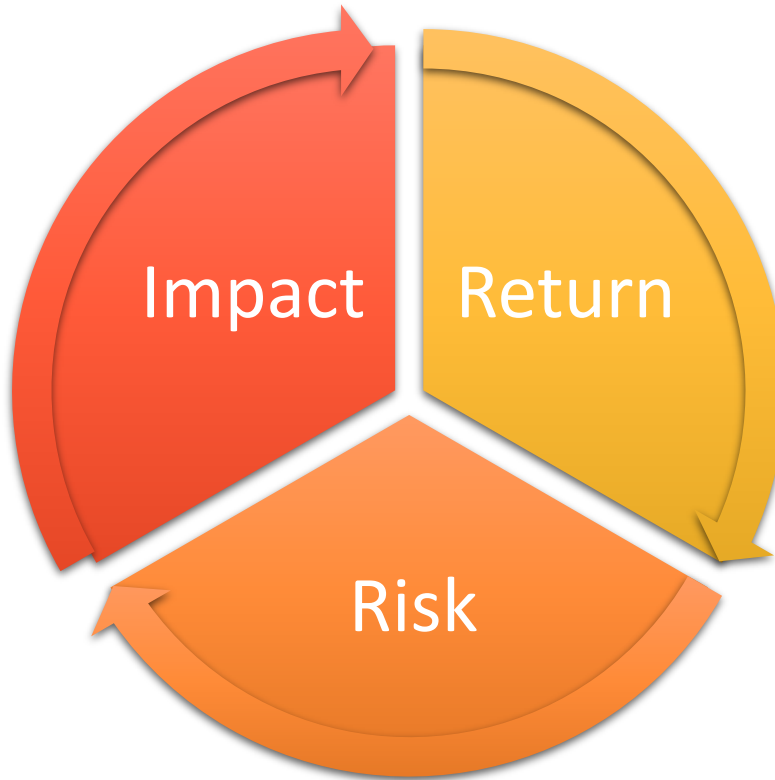
ANC Election Manifesto



Transform and Diversify the Financial Sector (ANC's election manifesto)

“Investigate the introduction of **prescribed assets on financial institution funds** within a regulatory framework for socially productive investments (including housing, infrastructure for social and economic development and township and village economy) and job creation whilst considering the risk profiles of the affected entities”.

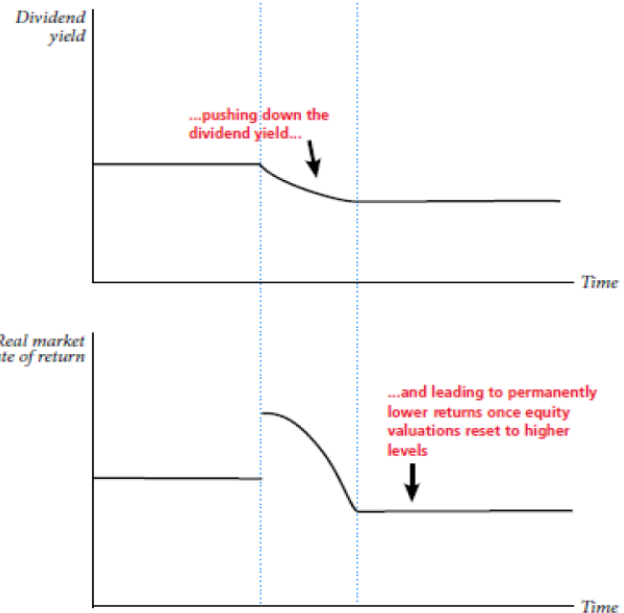
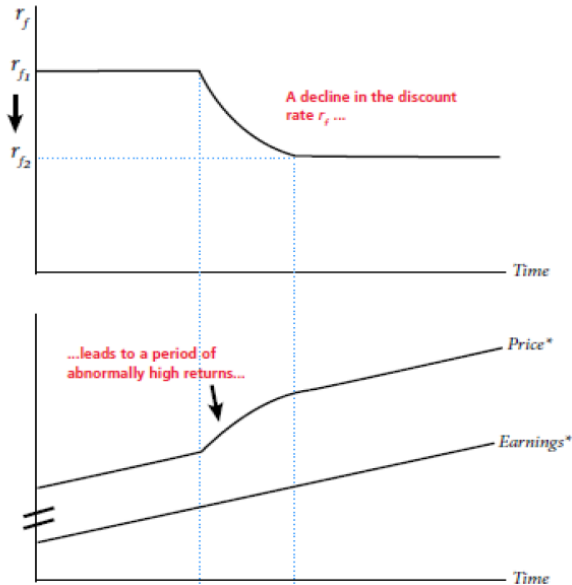
Why Alternatives?



QE and Falling Interest Rates

CHART 8

Lower Discount Rates Will Eventually Erode Shareholder Returns



* SHOWN AS A NATURAL LOGARITHM.

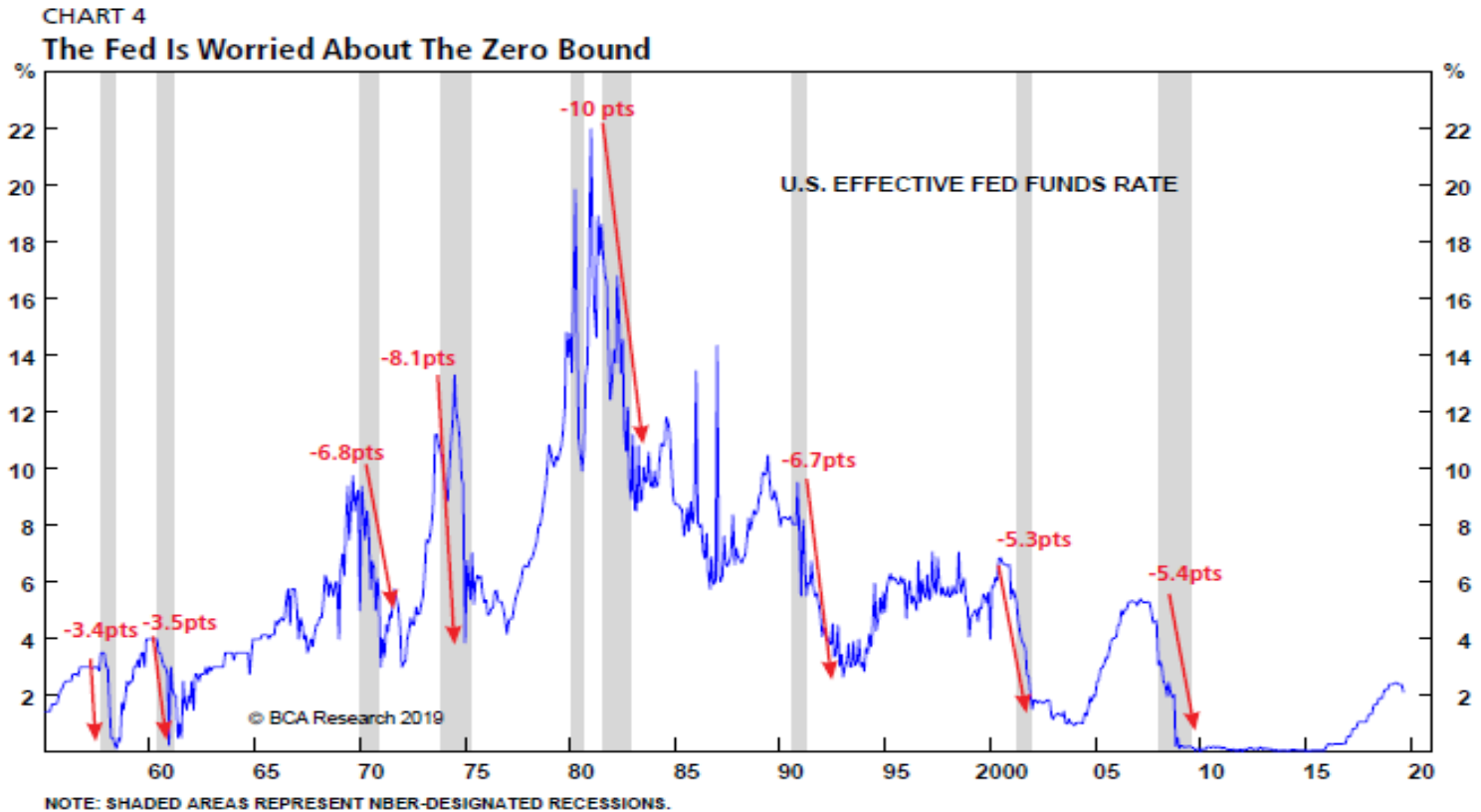
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A decline in the discount rate will increase the present value of future earnings, thus leading to a temporary period of abnormally high returns. However, once equity valuations have reset to a higher level, returns will be permanently lower. In other words, falling interest rates simply shift returns from the future into the present (Chart 8).

The key question for investors is where we are in this process. If stock valuations have yet to fully adjust to the decline in interest rates, near-term returns could still be quite strong, even if they do come at the expense of subsequent returns.



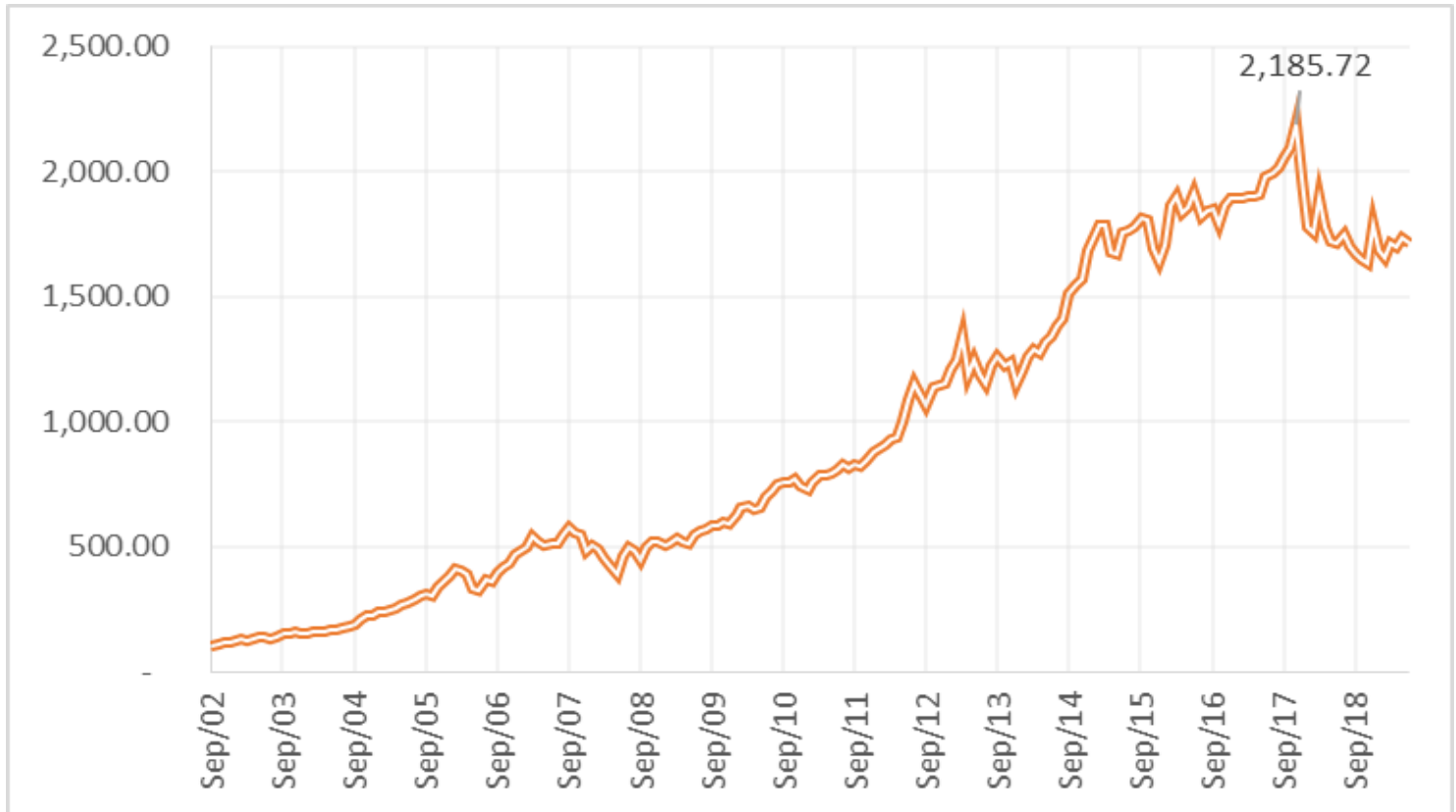
QE and Falling Interest Rates



Local Equity



Listed Property

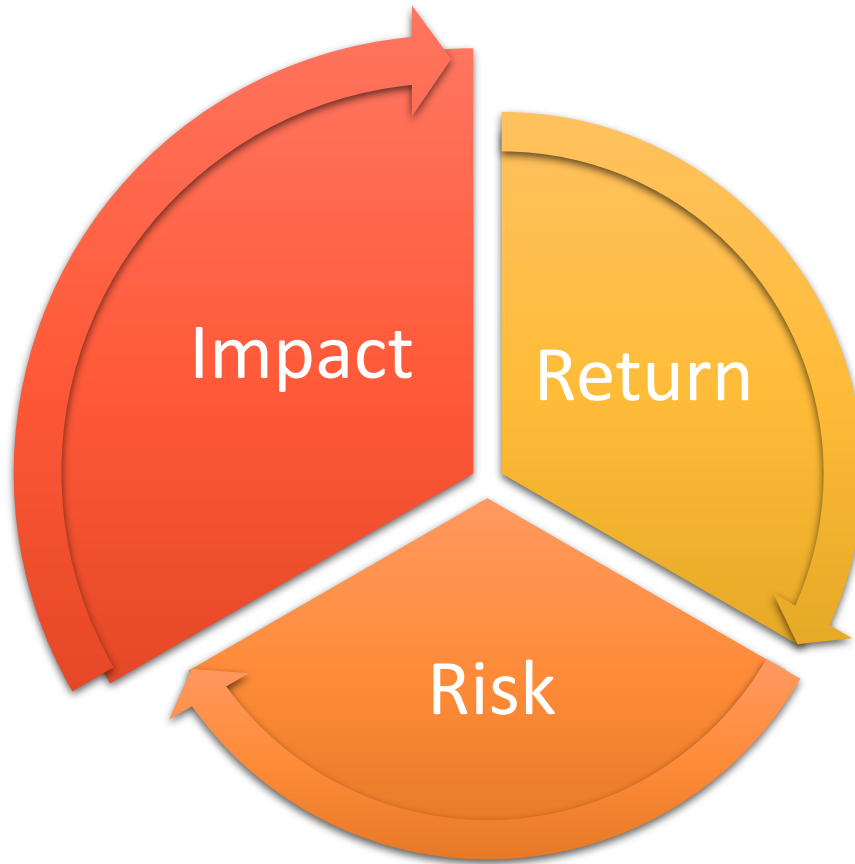


Local Bonds

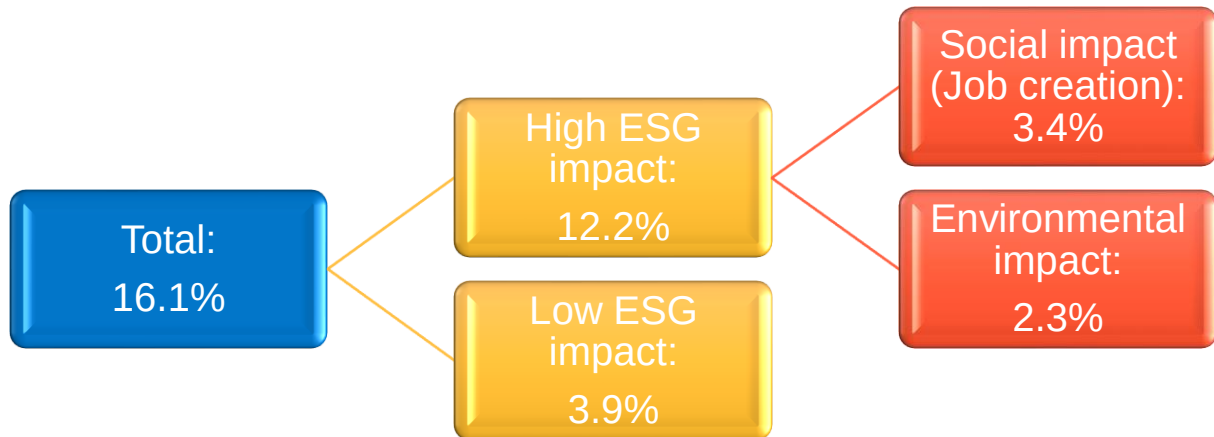
		Yield	Weight	MD
R208	Republic of South Africa	6.63	3.0%	1.41
ES23	Eskom Holdings Limited	8.41	1.1%	2.81
DV23	Development Bank of South Africa	8.24	0.6%	2.90
R2023	Republic of South Africa	7.21	6.4%	3.00
TN23	Transnet SOC Limited	8.59	0.5%	3.23
TN25	Transnet SOC Limited	9.59	0.4%	4.44
ES26	Eskom Holdings Limited	9.31	1.7%	4.79
R186	Republic of South Africa	8.09	16.2%	5.09
R2030	Republic of South Africa	8.79	8.7%	6.79
R213	Republic of South Africa	9.00	5.7%	7.42
R2032	Republic of South Africa	9.17	6.4%	7.25
ES33	Eskom Holdings Limited	10.69	1.6%	7.39
R2035	Republic of South Africa	9.45	5.9%	8.13
R209	Republic of South Africa	9.45	4.7%	8.72
R2037	Republic of South Africa	9.58	7.0%	8.51
R2040	Republic of South Africa	9.71	5.3%	8.84
R214	Republic of South Africa	9.70	4.0%	9.64
ES42	Eskom Holdings Limited	11.04	0.9%	8.27
R2044	Republic of South Africa	9.76	7.6%	9.31
R2048	Republic of South Africa	9.75	12.3%	9.68
Total		9.00	100.0%	7.13

SOC Exposure	
Eskom Holdings Limited	5.3%
Transnet SOC Limited	0.9%
Development Bank of South Africa	0.6%
Total SOC	6.8%
Republic of South Africa	93.2%
Total RSA and SOC	100.0%

Why Alternatives?



CRF's Allocation to Alternatives



FSCA Weighing in on Prescribed Assets



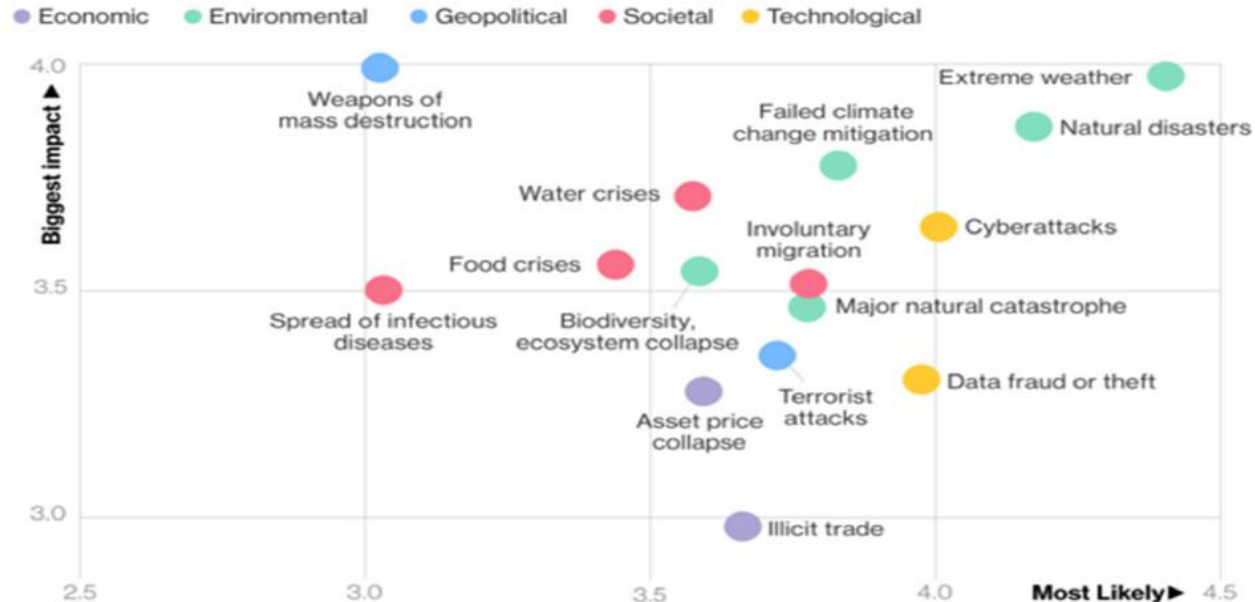
Funds, through their trustees, should be the ones making the decisions, difficult as they might be, on how best to constitute their portfolios based on the demographics and needs of their members and pensioners. This allows the FSCA to hold them accountable for bad decisions.

It is also fair to say that there is no point in ensuring that workers have decent retirement benefits only for them to retire in wastelands, under- or undeveloped areas and societies plagued by extreme inequality and social ills. As a result, society has also appealed to large drivers of capital, such as retirement funds, to contribute towards addressing these socioeconomic challenges. This is not only a South African issue but a global one.

Does this, therefore, mean prescription is the solution to these challenges? The FSCA does not think so. Instead, the FSCA would like to continue nudging the industry into doing what is right and good for the environment and society as this responsibility falls on all who live in SA. The FSCA would also like to encourage the market to continue providing scalable projects and investable instruments.

Long Term Risks

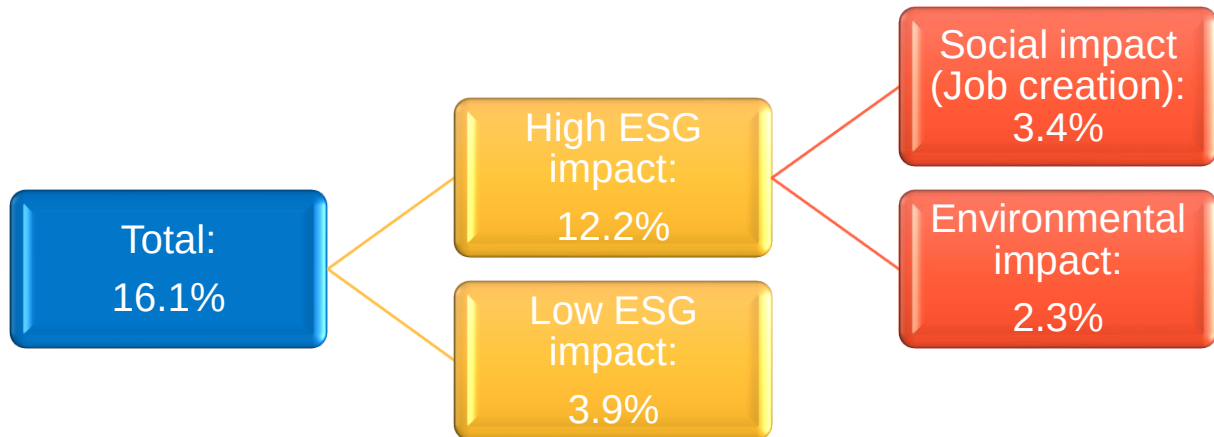
The World Economic Forum's top 10 risks, ranked by likelihood and impact



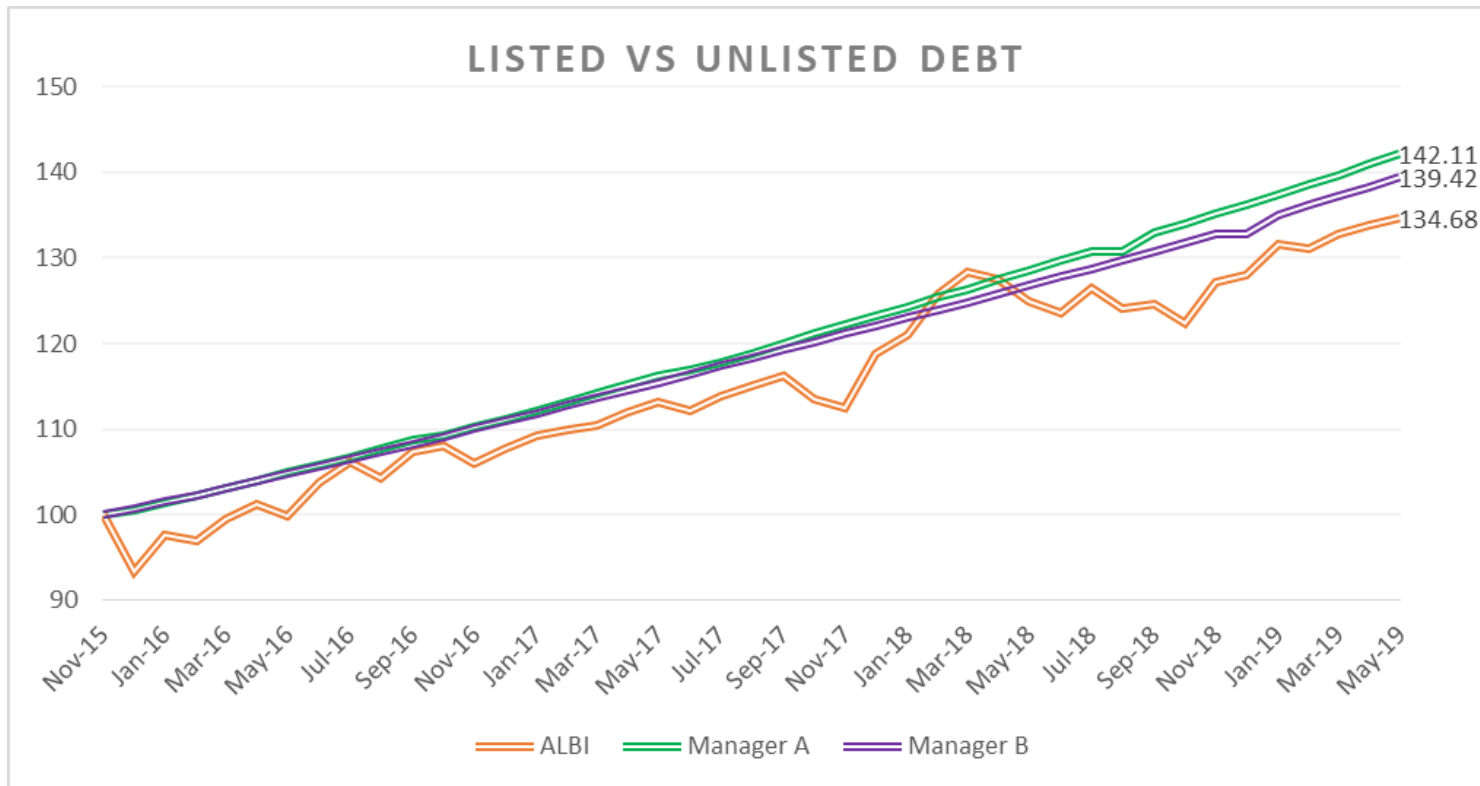
Source: World economic forum



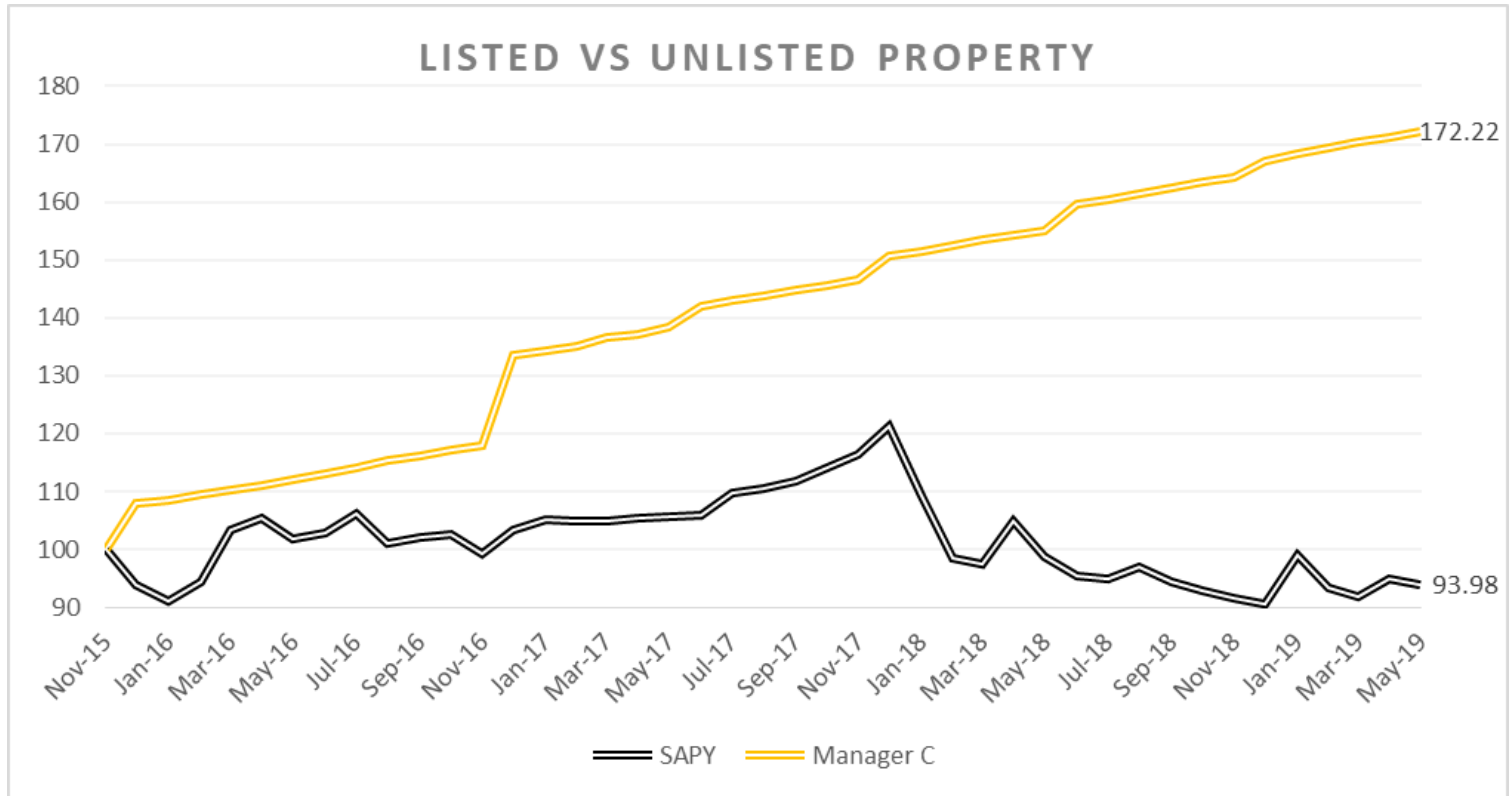
CRF's Allocation to Alternatives



Returns of Impact Funds

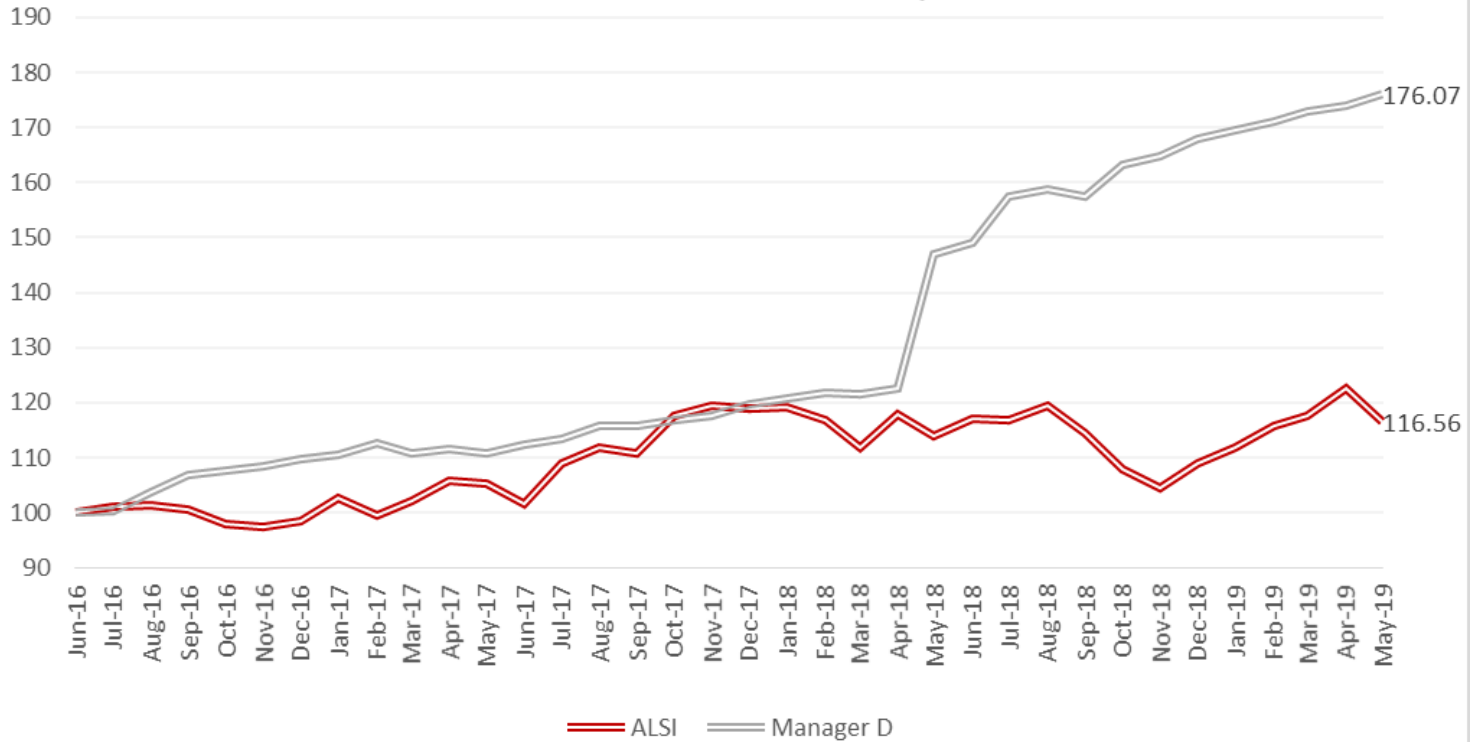


Returns of Impact Funds

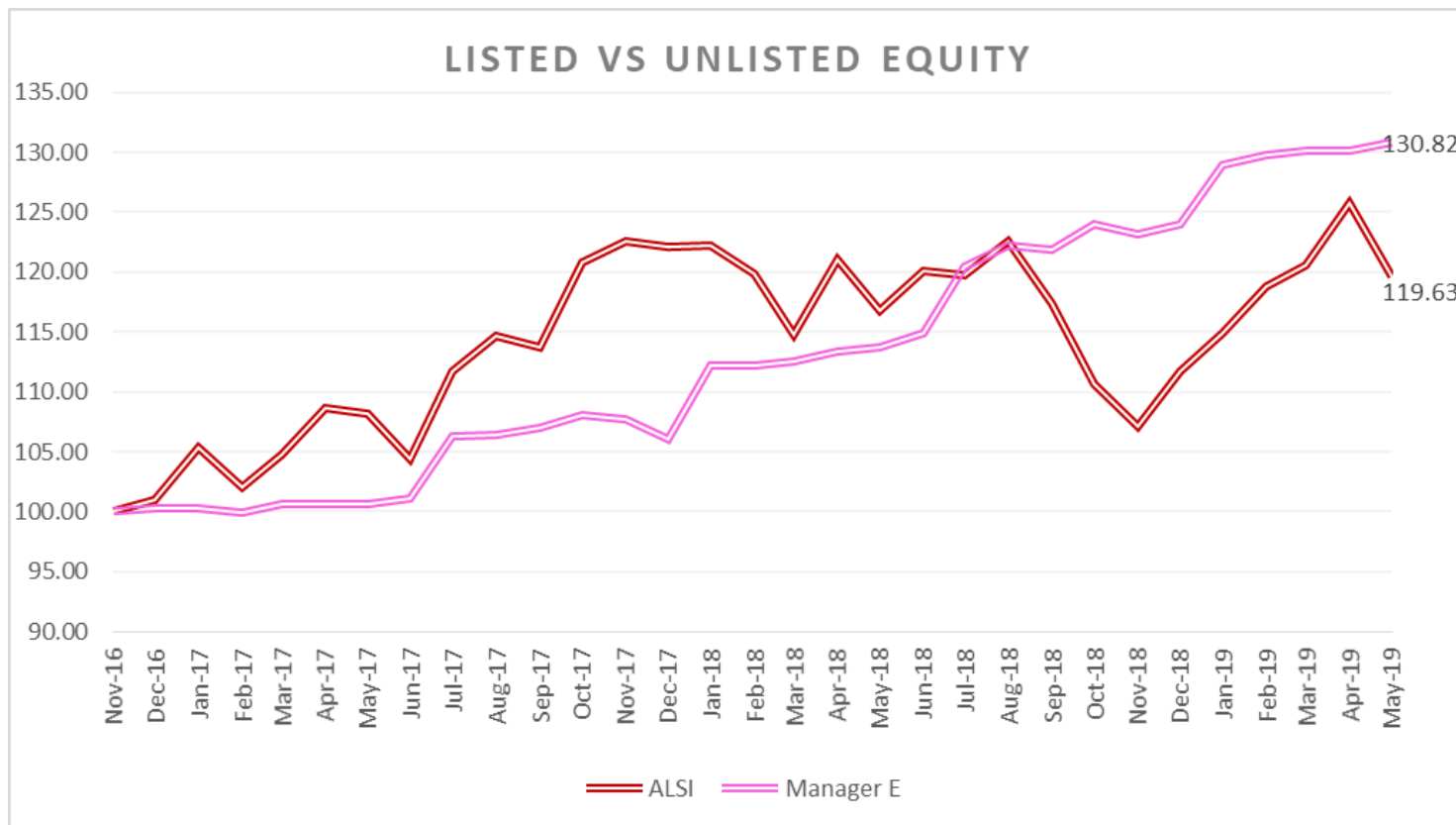


Returns of Impact Funds

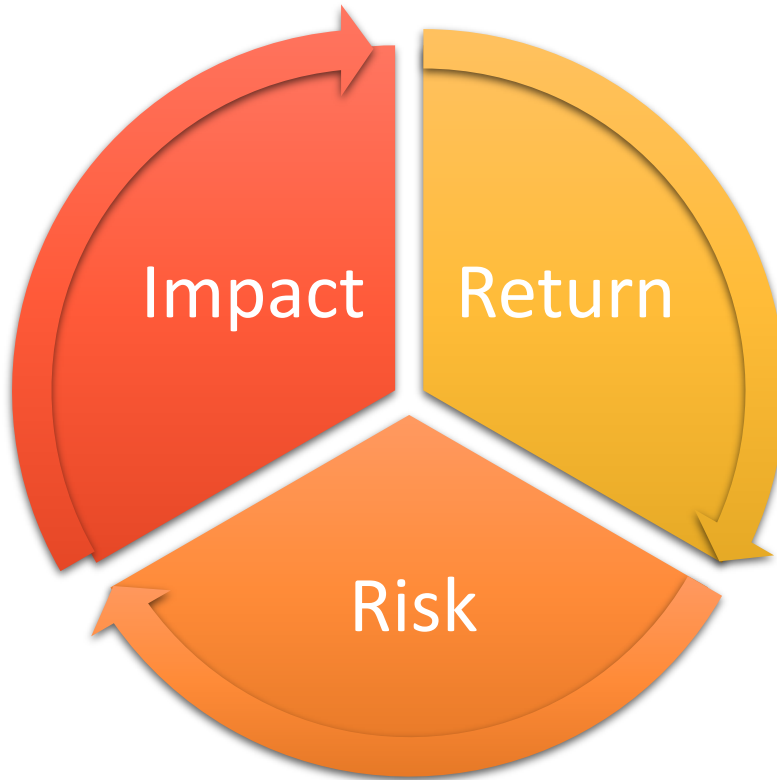
LISTED VS UNLISTED EQUITY



Returns of Impact Funds



Why Alternatives?



“ Do not follow where the path may lead.
Go instead where there is no path and
leave a trail.

An ounce of action is worth a ton of theory. ”

— Ralph Waldo Emerson





Thank You



4th Floor, Sunclare Building, 21 Dreyer
Street, Claremont, Cape Town, 7708



shainal@sukha.co.za
021 003 9275



www.sukha.co.za