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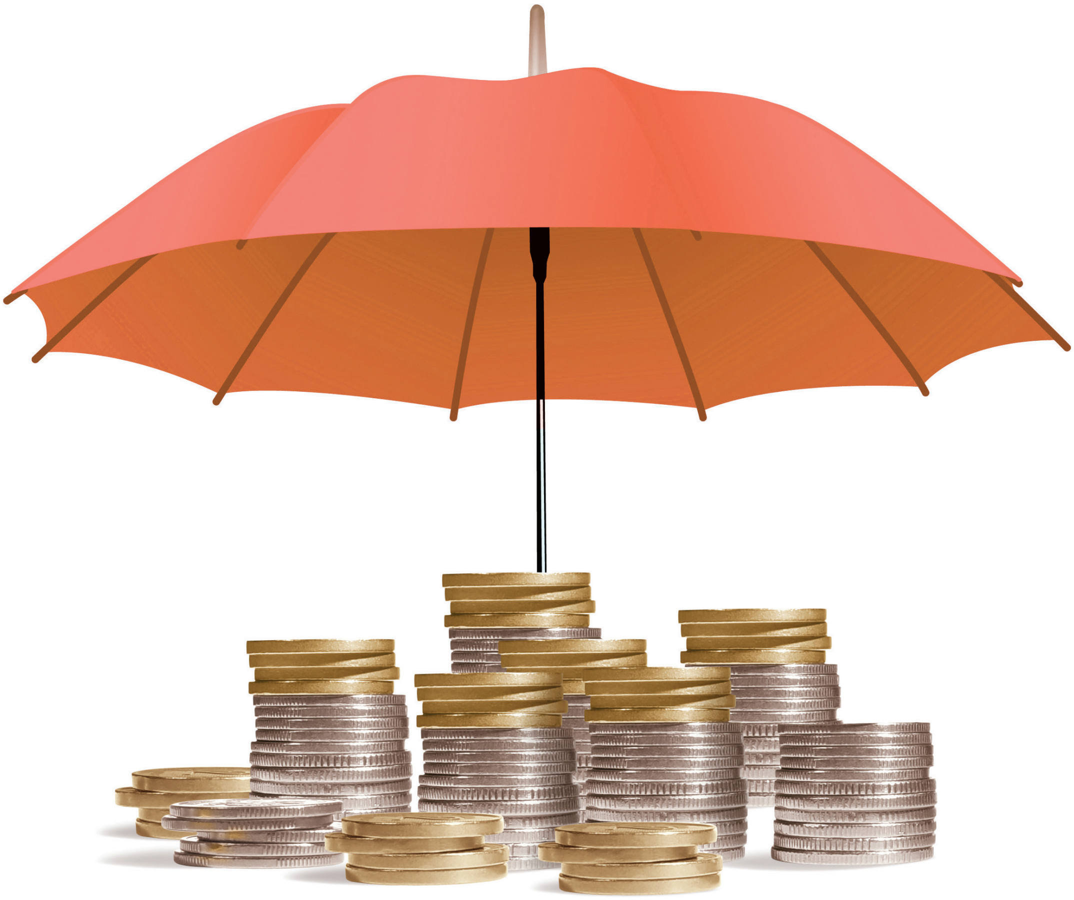
INTRO TO UMBRELLA FUNDS
Retirement funds in South Africa; standalone vs umbrella funds

MANAGEMENT COMMITTEES
An overview of management committees

GOOD GOVERNANCE
An overview of good governance for management committees



UMBRELLA FUNDS
& MANAGEMENT COMMITTEES

VOL.5

ALSO IN THIS ISSUE: MANAGEMENT COMMITTEES' ROLES AND RESPONSIBILITIES; ADDRESSING CONFLICTS OF INTEREST AND DIRECTIVE 8 OF 2018

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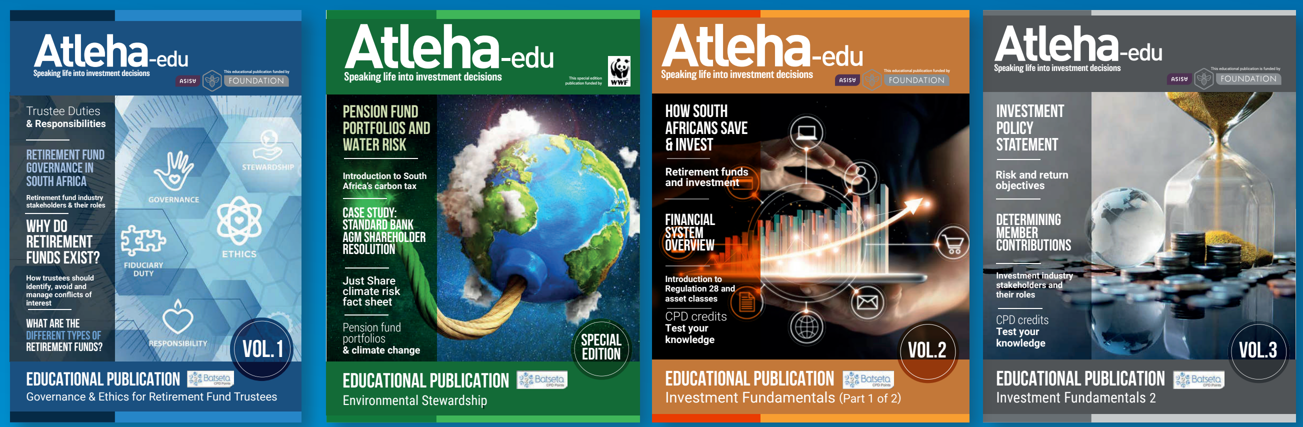

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- Investment Fundamentals 2, Vol. 3
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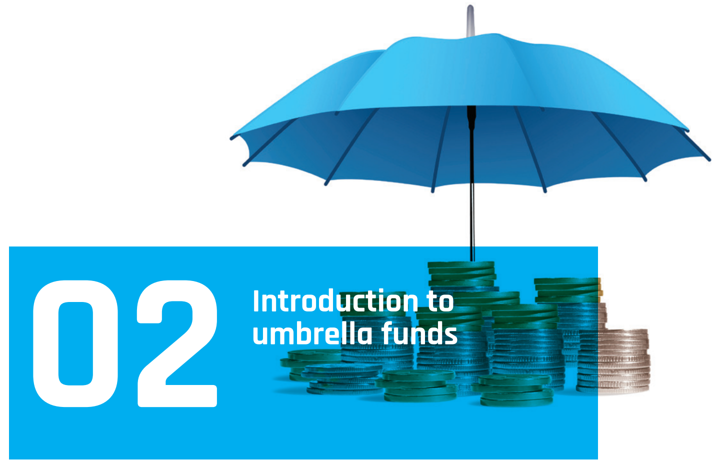
CONTENTS



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INTRODUCTION TO UMBRELLA FUNDS

An introduction to umbrella retirement funds in South Africa

IN THIS ARTICLE

- What is an umbrella fund?
- Types of umbrella funds
- Difference between standalone funds and umbrella funds
- Purpose of umbrella funds
- Regulatory drivers behind the transition to umbrella funds

Standalone vs umbrella funds

There are two main types of retirement funds in South Africa at present, with fund members either belonging to a standalone fund or an umbrella fund. These may include vocational or bargaining council and commercially sponsored funds. There are both advantages and disadvantages to be taken into account when an employer is considering whether to opt for a standalone or umbrella fund to see to their employees' retirement needs.

A standalone fund is a retirement fund set up for employees by their employer. This type of fund needs to be managed by a board of trustees consisting of both employer and member-elected representatives.

An umbrella fund, consisting of multiple participating employers, is set up by a sponsor, such as a life insurer, and is designed to allow more than one employer to participate (and offer membership to their employees). These funds are managed by a board of trustees and offer various levels of involvement and control for the various participating employers within the fund. Retirement contributions from participating employers, and their employee members, are pooled together and contribute into this umbrella fund – the result is a larger fund with members from a number of unrelated employers. Umbrella funds are also regulated by the Pension Funds Act.

Sponsor: The financial institution that has established and registered the umbrella fund.
Participating employer: An employer who joins an umbrella fund and whose employees are members of that umbrella fund.
Sub-fund: Each participating employer and its members (and their portion of the total fund assets) make up a sub-fund within the overall umbrella fund.

Why do umbrella funds exist?

Umbrella funds were first introduced in South Africa in the mid-1980s. Over the last few years, there has been a drive to consolidate standalone funds into umbrella funds – a move supported by the Financial Sector Conduct Authority (FSCA).

The benefits of consolidation generally include cost and resource efficiencies; improved fund governance; and compliance capabilities due to increased resources available to umbrella funds compared to standalone funds.

Types of umbrella funds

- **Type A umbrella fund:**
  Type A umbrella funds are managed by an independent management board (trustees) and each employer operates a sub-fund within the umbrella fund. General rules can be set up at the fund level to guide the benefits structures, investments, etc. Special rules can then be drawn up at employer level for their specific sub-fund within the parameters set out by the general rules. These would be specific to that employer and its employee members, and each participating employer can have their own set of special rules. Administration, accounting and actuarial services take place at the main fund level and are usually provided by the sponsor and paid for by the members.

- **Type B umbrella fund:**
  In a Type B umbrella fund, the main rules set up at the fund level govern the retirement savings and benefit structures for all the members of the fund, irrespective of their diffrent employers. All participating employers are then linked in some way – such as at an industry or union level. Only employers who are linked in this way are eligible to participate. The fund rules clearly outline how trustees are appointed and elected to make sure members and employers are well represented.

Cost benefits:

In the case of standalone funds the administration and investment management services are usually outsourced to various service providers, which can prove costly for small- and mid-sized employers and fund members. They can therefore benefit from more resources and cost efficiencies by providing retirement fund benefits for their employees through an umbrella fund.

Examples of cost and resourcing benefits may include:

- Lower investment management fees – all the assets in the umbrella fund are combined and the fund can negotiate competitive investment management and administration costs from appointed service providers;
- Lower operational costs, such as fund administration and professional fees – all costs are shared by all participating employers, and their fund members, instead of a single employer.

Examples of governance and compliance benefits may include:

- Smaller standalone funds may struggle with the increased burden of regulatory compliance. Due to their typically larger size, umbrella funds generally have more resources in place than standalone funds.
- Similarly, umbrella funds will have a professional and independent trustee board in place ensuring that the fund complies with all regulatory requirements.

Umbrella funds and employer requirements
Customisation vs one-size-fits-all

- Standalone funds can tailor benefits and investment strategies to the needs and configuration of their employees. It is important that employers participating in the umbrella fund have a management committee (MANCO) in place to assist with the management of the umbrella fund to insure that members interests are represented and communicated.

Management Committee / MANCO: An employer-level management committee set up to manage the interests of the participating employer and its employees who are members of an umbrella fund.

Management board: The board of management appointed by the sponsor or fund to oversee the management of the fund.

The role of each MANCO will depend on the fund rules and the board of trustees of the umbrella fund. The functions of the MANCO could include member communication, member education, benefit decisions or cost analysis and ongoing performance reviews.

Disclosure and breakdown of fees

- Transparency around the costs of umbrella funds has come under scrutiny over time. It has been argued that fees differ significantly across funds and that costs are disclosed in different ways, making fund comparisons difficult. This challenge has been addressed by ASISA's introduction of the Retirement Savings Cost Standard (RSCS) in 2019, which is applicable to all ASISA members. The recent disclosure standard encourages umbrella fund providers to disclose a breakdown of umbrella fund costs in the same format, making it easier for an umbrella fund's existing and potential clients to understand and compare costs on a like-for-like basis.

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1. www.oldmutual.co.za
2. www.sanlam.co.za
3. www.allangray.co.za

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INTRODUCTION TO MANAGEMENT COMMITTEES

An overview of management committees – MANCOs

IN THIS ARTICLE

What is a management committee?

A management committee (MANCO) is constituted by an employer to manage the retirement solution on its behalf for the benefit of its employees. This committee usually consists of members, employer representatives and sometimes financial advisers. Member-elected representatives are there to ensure that the members' voices are heard.

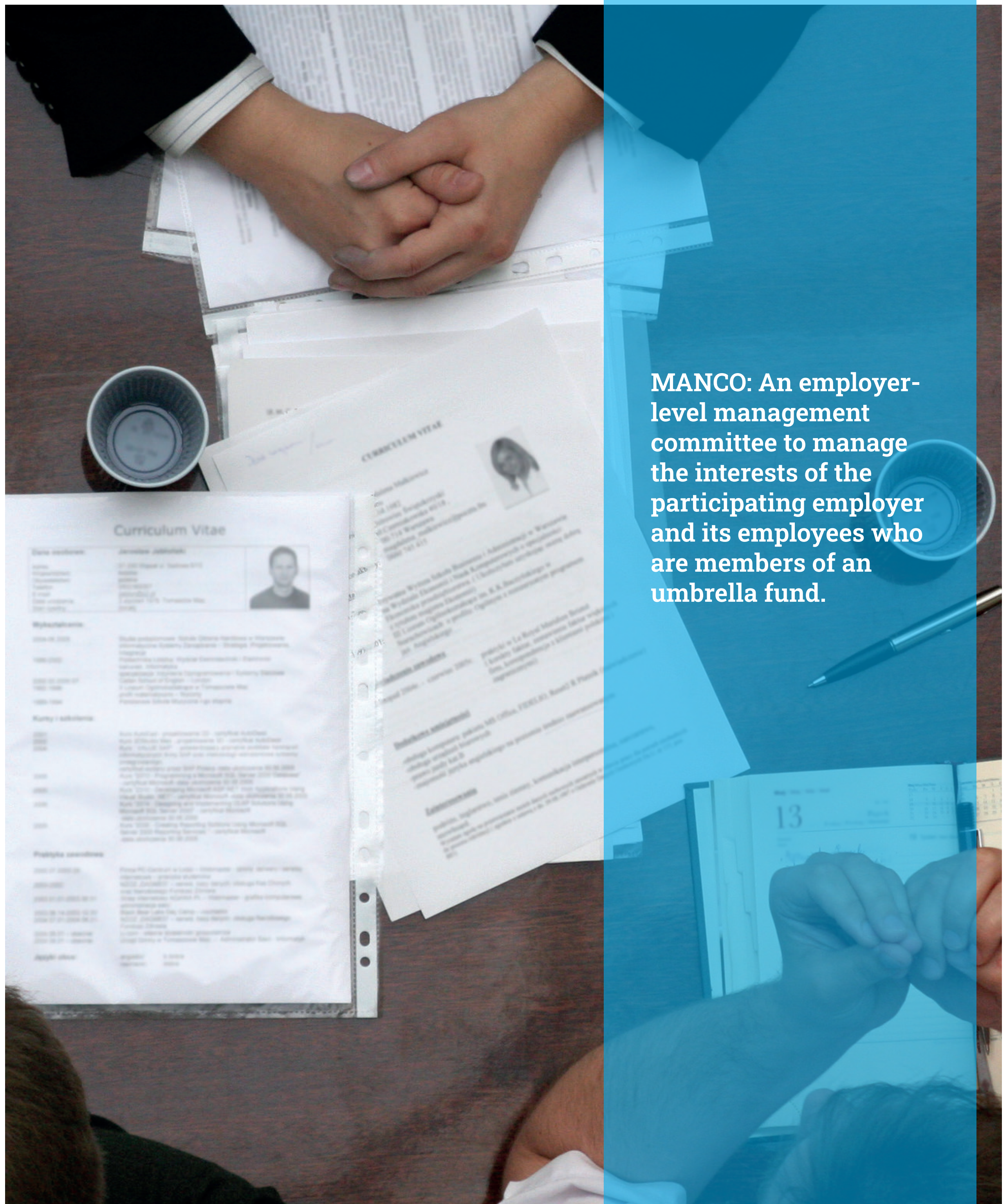
Legally, the ultimate responsibility for the umbrella fund lies with the board of trustees of the umbrella fund and not with the MANCO. The MANCO, however, makes a number of decisions on behalf of the participating employer and its members.

Why the need for a MANCO?

When an employer joins an umbrella fund, a key concern is whether or not the employer will have any input into the fund on behalf of its members going forward. The MANCO therefore acts as the link between the umbrella fund and the employer's members. Ultimately, the objective of such a MANCO is to ensure that its members' interests are represented and communicated to the umbrella fund and that the fund is well managed and governed. MANCOs therefore play a significant role in ensuring that the employer stays close to all matters affecting members, with the input from members.

How should a MANCO be constituted?

MANCOs should have representation from both the employer and employees. The size of the MANCO depends on the number of members from the participating employer in the umbrella fund. It might not be practical to set up a MANCO for a small participating employer, given the need to have employee representation on the MANCO. For very small employers, the employer representative, usually the HR manager, may be sufficient to manage the affairs of the employer's participation. The MANCO usually consults with a financial adviser who is paid from the members' retirement contributions. The employer representative is responsible for day-to-day administration of the retirement solution, it is therefore essential for them to be standing members of the MANCO.



MANCO: An employer-level management committee to manage the interests of the participating employer and its employees who are members of an umbrella fund.

It would also be good guidance for the responsible person, i.e. the director responsible for the retirement solution, to form part of the MANCO, because the MANCO guides the employer in making risk and investment decisions.

From the outset, a chairperson of the MANCO should be elected from MANCO members and setting up a code of conduct is considered best practice for such committees. A set term of office should also be agreed upon for those sitting on the MANCO. It is also important that meetings are scheduled regularly and that a pre-set agenda, which determines the structure of the meeting, is followed to ensure that the MANCO operates optimally. In addition, the sponsor needs to ensure that the financial adviser, the employer and the various representatives have a framework within which to operate and manage the MANCO. Sponsors should also provide the necessary templates, such as a meeting agenda and minutes.

What is the mandate of a MANCO?

The mandate of the MANCO needs to be agreed on with the employer upfront. This will ensure there is alignment when decisions are made, and that the retirement solution is run efficiently for the benefit of the participating employer's members.

The MANCO is the voice of the employer and the fund's members to the board of trustees of the umbrella fund. It is a platform where negotiations with the financial adviser take place in terms of appropriate solutions for the particular participating employer. Some of the main decisions the MANCO will make are the selection of appropriate risk benefits, investment portfolio, structuring of the member groupings within the participating employer's business, as well as the extent of member choice.

The umbrella fund board determines the full range of portfolios available for selection, but it is the MANCO that will choose the appropriate solution for the participating employer in the umbrella fund. The MANCO also provides oversight for the responsibilities of the employer representative and responsible person. This will ensure that the duties of these parties are discharged as expected. The MANCO also has a role to play in member education, particularly where member choice of investment portfolios is involved.

The functions of the MANCO should therefore include:

- Reviewing benefit decisions and analysis to ensure members have a good understanding of the benefits available to them;
- Investment portfolio analysis, which allows members to understand who their funds are being invested with, how their portfolios are positioned, and how those managers have performed over time from a risk/return perspective;
- Member communication to ensure that members are kept up to date with how their funds are being invested;
- Member education to ensure that members understand all relevant aspects relating to their retirement investments and risk benefits;
- Assisting with the processing of death benefits is also an important role of the MANCO.

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1. www.oldmutual.co.za
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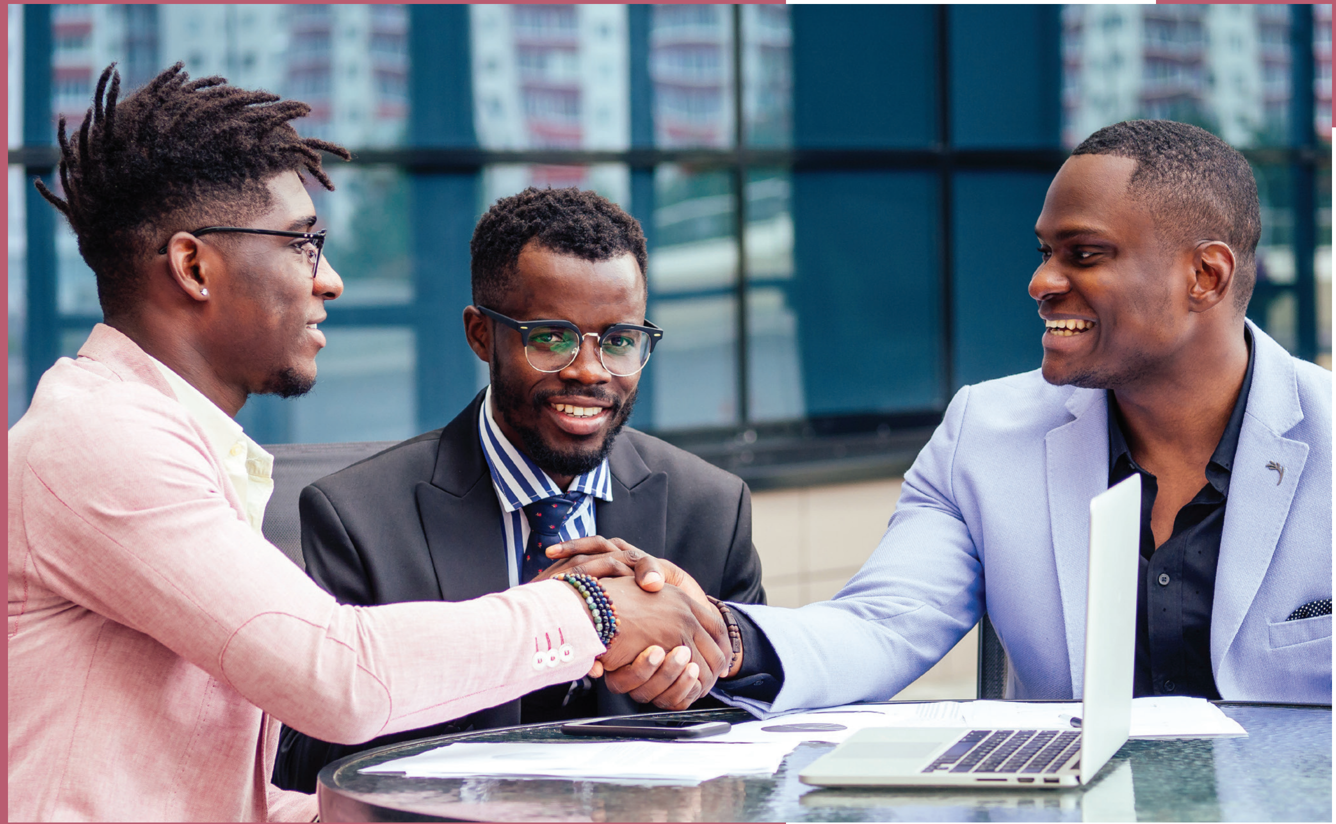
MANAGEMENT COMMITTEE ROLES AND RESPONSIBILITIES

An overview of a management committee's roles and responsibilities

IN THIS ARTICLE



Introduction

The management committee (MANCO) of an employer paticipating in an umbrella fund is not legally required, nor does it have any fiduciary responsibility to ensure the performance of the fund. However, MANCOs serve an important role. The MANCO, usually via the fund's administrator, acts as a link between the board of trustees of the umbrella fund and the paticipating employer, ensuring that the participating employer has a voice, a means of representation, a means to ensure accountability, and a way to communicate with and educate the ultimate beneficiaries.

MANCOs serve a critical role in ensuring a good match between the participating employer and its members' underlying needs and the fund's offering. This can include access to information, transparency of costs, cost efficiency, investment choice and/or range of available funds and service levels, for example.

Governance and oversight of the MANCO

A MANCO should be constituted of participating employer and member-elected representatives. Although there is no legislation in place determining the ratio of such, it is considered best practice to have equal representation from both. This ensures contributions from different people within the organisation. A management committee may also include an independent asset consultant or financial adviser.

There are no regulations relating to the size of the MANCO, but it is advised that – in line with a move towards cost efficiencies and the limited resources and/or capability to manage standalone funds – MANCOs should be sized according to the participating employer size, allowing for efficiency from both a size and cost perspective.

Although there is no minimum requirement in terms of training or qualifications for members of the MANCO, many industry experts believe that a certain level of relevant technical expertise should be achieved within the committee to ensure its effectiveness.

To promote good governance and consistent and effective management, the MANCO should meet at least annually to discuss and review its retirement fund. The annual meeting should include an agenda, feedback and updates from the underlying insurer and investment consultants and a review of previous minutes and action items. Minutes should be taken and distributed to committee members within a few days following the meeting. Apart from reviewing the fund, this meeting could also be used to put together intended member education initiatives for the ensuing year.

Although MANCOs aren't regulated, there are industry guidelines that may be relevant to them in order for them to act in the best interest of their members. The Pension Funds Act regulates pension and retirement funds, including umbrella funds and, as such, MANCOs need to ensure compliance with the act's requirements.

Risk benefits

Retirement saving incorporates both investing (via Regulation-28-compliant funds), as well as risk benefits. Group life assurance is typically part of both standalone and umbrella retirement funds. In addition to life cover, there are other types of cover that may be obtained, depending on an individual's needs, including: death, disability, dread disease, education benefits or funeral cover. This cover can provide a lump-sum benefit and/or income protection over a certain period. MANCOs can therefore play an important role in obtaining suitable group risk benefits within the umbrella fund for its members.

In the current environment, participating employers may have both risk and investment components provided as a full service offering from the umbrella fund. →

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Default investment strategies, which must be approved by the board of trustees, are for those members unwilling or unable to make their own selection. These strategies take into account the member's age and number of years to retirement and will invest accordingly.

A life-stage model adjusts asset allocation as one moves towards retirement. For example, the focus will be on capital preservation the closer one moves to retirement, as opposed to the focus being on capital growth for younger members.

It is, however, also possible to have the umbrella fund only provide the investment component, with the risk benefits being obtained through an external life insurer. The MANCO's role is to ensure that the members are getting the best possible rates on the risk cover (i.e. cost of cover); that the underlying risk benefits from the insurer are matched to the needs and requirements of the underlying members; and that this risk cover is reviewed on an annual basis. MANCOs should also ensure that members receive a high standard of service from all service providers on an ongoing basis.

Investment choice

Umbrella funds will have certain investment objectives that underpin their investment strategies. Asset manager selection and the creation of risk-profiled strategies rests with the umbrella fund board of trustees. There are different strategies that may be available to members, as well as certain regulations that may be applicable. For example, Regulation 37 of the Pension Funds Act requires that the board of trustees must offer a default investment portfolio to contributing members who do not exercise any choice as to how their savings should be invested. With reference to Regulation 37, all defined contribution funds are required to have a default investment portfolio that is appropriate for the member.

The member choice option allows the member to elect alternative portfolios within the umbrella fund's list of available funds. Their ultimate fund selection would need to be Regulation 28 compliant. Regulation 28 of the Pension Funds Act limits the amount of exposure allowed to certain asset classes. In short, these limits are as follows: equity 75%; listed property 25%; offshore assets 30%; and hedge funds 10%. If electing to consider alternative portfolios within the umbrella's list of available funds, members should be encouraged to seek independent financial advice – another aspect the MANCO can educate and inform members about on an ongoing basis.

The MANCO should monitor whether the underlying investment strategies are indeed meeting the investment objectives of the members. This can be done at an annual or biannual review meeting with the umbrella fund and/or investment consultants.

Member education

It is the MANCO's function to ensure that its members are always well informed. The committee should seek to educate members on all relevant aspects relating to their retirement investments and risk benefits (if applicable). This can be done by means of ongoing workshops, webinars, email communication or one-on-one sessions – should there be more specific questions relating to the member's retirement savings.

Regulation 39 of the Pension Funds Act states that members must be given access to retirement benefit counselling not less than three months prior to their normal retirement age, as determined in the rules of the fund. This can be implemented in different ways, including face-to-face or telephonic engagements, workshops or webinars. The MANCO can inform members that they have access to the services of a benefit counsellor and encourage them to utilise these services – irrespective of their age or term to retirement.

Member education can also be broader than solely focusing on the retirement savings aspect. Other issues, such as beneficiary nominations, are of vital importance and are often overlooked by many members. It is advisable that the MANCO regularly communicates to members that their nominated beneficiary details are correct and up to date and/or that their retirement fund and risk benefit selections are updated.

MANCOs should help members retire comfortably

It is a well-known fact that less than 10% of South Africans can afford to retire comfortably. Against this backdrop, a MANCO can play an important role in helping individuals achieve their retirement goals over the long term. Members of a MANCO, who are also members of the umbrella fund, naturally have a vested interest and would then want to ensure a professionally managed and efficient retirement fund for themselves and their colleagues.

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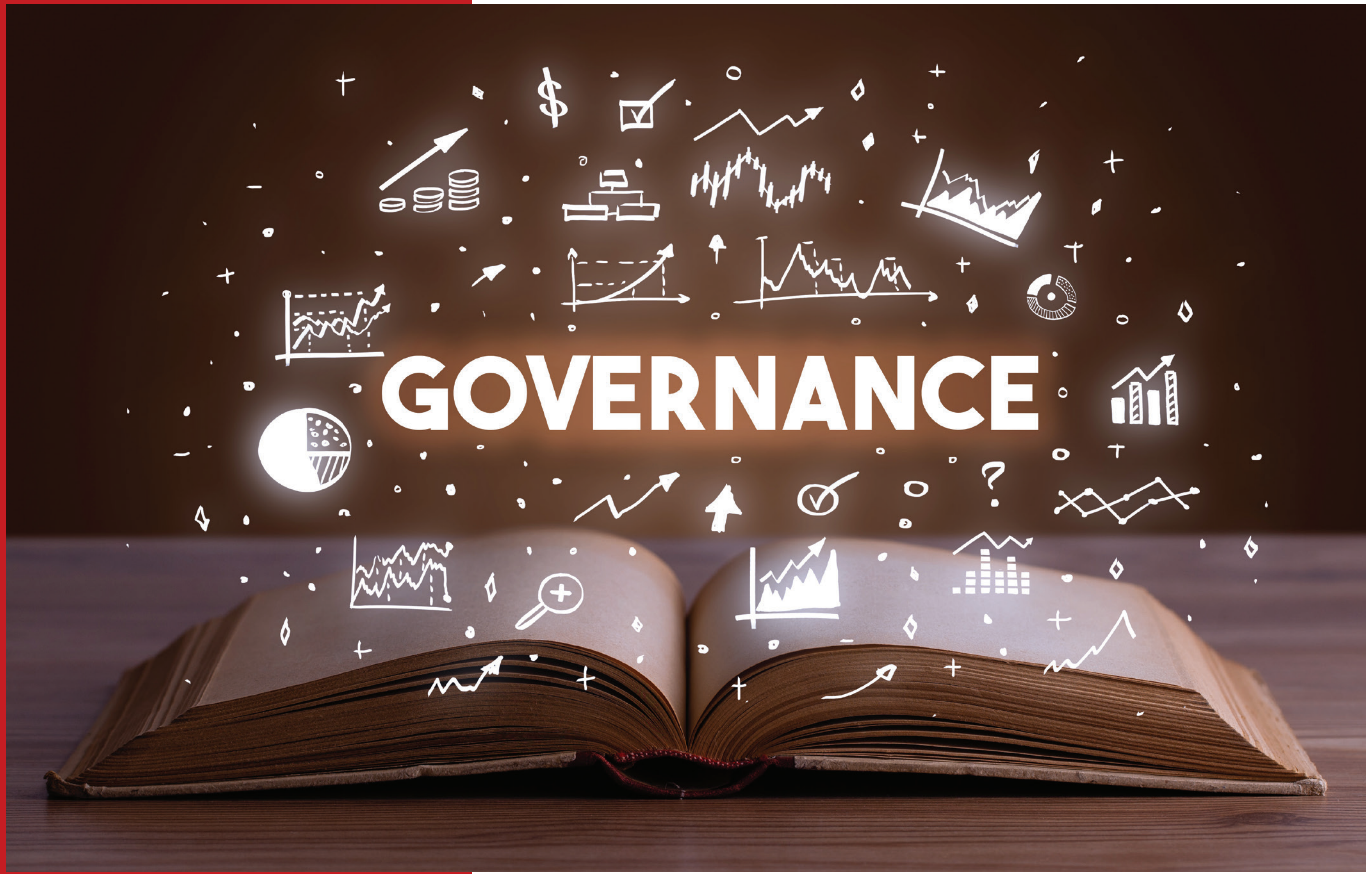
Overview of main differences between umbrella funds and standalone funds

CHARACTERISTIC	STANDALONE FUND	UMBRELLA FUND
Governance structure	**Management board or board of trustees:** Every fund must have a board consisting of at least four board members, at least 50% of whom the members must elect.	**Management board:** Type A Retirement funds are usually exempted by the FSCA from having to comply with the requirement of member-elected trustees for at least 50% of the board. However, the FSCA sets out specific exemptions requiring specific governance structures, such as an increased number of independent trustees. To avoid any possible conflicts of interest with the sponsor and to provide the fund with comprehensive management expertise, it is recommended that there are a number of independent trustees. MANCO: Participating employers may be required by the fund's rules to establish a MANCO. The participating employer will need to mandate the terms of reference and assist with a constitution that will stipulate requirements in terms of representation.
Administration	Administrator appointed by the board of trustees.	Administrator appointed by the board of trustees. Very often this is to performed by the sponsor of the umbrella fund.
Actuarial	Actuary appointed by the board of trustees	Actuary appointed by the board of trustees. Sub-funds do not require an actuary.
Investments	Strategy decided by the board of trustees.	The board of trustees determines the range of options available to the members as well as the default investments. Depending on the desired level of control, some umbrella funds may allow MANCOs to design their own investment strategies.
Risk benefits	Decided by the board of trustees. Associated unapproved benefits may be arranged in conjunction with the employer. Very flexible in terms of levels of cover and insurer selection.	The level of risk cover varies between different umbrella funds.
Member communication	Board of trustees responsible for all communication.	The board of trustees is responsible for the communication required to comply with FSCA guidelines. Additional communication at employer level may be provided at the instance of the employer or MANCO (especially where own investment strategy is implemented).

Reference: Old Mutual Corporate Consultants Umbrella Fund Guide
Available: https://www.oldmutual.co.za/docs/default-source/corporate/products-services/employee-benefits/om-superfund/rsc/omcc-umbrella-fund-guide.pdf



GOOD GOVERNANCE
FOR MANAGEMENT COMMITTEES

An overview of regulatory complaince and best practise principles

IN THIS ARTICLE

Introduction

The regulation governing retirement funds is the Pension Funds Act. One of its key objectives is to protect the rights of retirement fund members through the application of standards, limits, and guidelines. Section 7C of the Pension Funds Act states that, "The board of trustees must protect the interests of the fund's members at all times."

Against this backdrop, MANCOs have been described as the "guardians of their members' interests". It is therefore important that MANCOs are aware of all applicable regulation and other best practice guidelines for ensuring the effective governance and management of their retirement fund savings. These guidelines include, among others, King IV, Pension Fund Circular 130 (PF 130); the Code for Responsible Investing in South Africa (CRISA); and the more recently issued Financial Sector Conduct Authority (FSCA) Guidance Note 1 of 2019: Sustainability of investments and assets.

King IV

The King IV Report on Corporate Governance for South Africa came into effect on 1 April 2017. The report is a set of voluntary principles and guidelines for the governing bodies of all types of organisations, irrespective of the type of organisation: i.e. for-profit companies, NPOs, state-owned entities and even retirement funds should apply the principles.

King IV specifically included a supplement focusing on retirement funds, given that retirement funds play such a significant role in the economic and governance landscape of South Africa. The King IV report provides a list of 17 principles of good governance that should be implemented on an "apply and explain" basis.

PF 130

The Financial Services Board (FSB), the FSCA's predecessor, issued PF 130 in June 2007. The main objective of the circular was to introduce good governance for retirement funds.

PF 130 requires that all boards of trustees put in place a documented code of conduct, which outlines their duties and obligations, a fund-specific investment policy statement and a communication strategy to members. In addition, it compels all retirement funds to have a formal performance appraisal system for its trustees. All these need to be reviewed annually, as well as be available for regulatory inspections and communicated to members.

In addition, PF 130 emphasises the roles and responsibilities of a board of trustees, and addresses the issue of how to deal with conflicts of interest. PF 130 places an obligation on new trustees to receive comprehensive training. It also requires that all board members maintain an up-to-date understanding of risk management, investment risks and strategies, benefit structures, legal issues, regulatory and compliance requirements, taxation, and actuarial and reform issues. While a MANCO does not have the same fiduciary responsibility of the umbrella fund board of trustees, it would be prudent for MANCOs to incorporate as many of the PF 130 and other regulatory good practice principles, as is practical for each MANCO.

Responsible investing – CRISA

Responsible investment and its alignment with good governance and stewardship principles has received increased attention in South Africa over the last decade. This is driven by a number of factors, including new regulatory requirements, client demand and environmental, social and governance (ESG) factors having increased financial implications for companies and their investors.

The Code for Responsible Investing in South Africa (CRISA), launched in July 2011, is a voluntary code that has five underlying principles. The code provides guidelines on how institutional investors should execute investment analysis and activities and exercise investor rights to promote sound governance. CRISA is aligned to the United Nation's Principles for Responsible Investment (UN PRI), which provide a global standard when it comes to responsible investing. These principles relate to the integration of ESG factors within investment decision-making, active ownership (through proxy voting and engagement), management of conflicts of interest, industry collaboration in implementing the principles, and reporting and transparency on the application of the principles within an organisation's governance and investment processes.

Guidance Note 1 of 2019: Sustainability of investments and assets

From a regulatory perspective, ESG factors are addressed in Regulation 28 of the Pension Funds Act. Regulation 28(2)(b) requires all funds to have an investment policy statement, while Regulation 28(2)(c)(ix) requires boards of funds to consider ESG. The FSCA Guidance Note 1 of 2019 (GN 1 of 2019) expands on Regulation 28 requirements. The guidance note provides further guidance in terms of what the FSCA expects to be disclosed in an investment policy statement in order to comply with Regulation 28.

GN 1 of 2019 highlights the requirement for funds to show – in their investment policy statement – how their investment process ensures the sustainable long-term performance of their assets. Among other things, the investment policy statement should describe "how the fund intends to monitor and evaluate the ongoing sustainability of the asset which it owns and/or which it is intending to acquire, including the extent to which ESG factors have been considered by the fund, and the potential impact thereof on the assets of the fund and its active ownership policy". The fund should also address how it monitors compliance with these factors.

Importantly, MANCOs should understand the process of asset manager and product selection and monitoring by the umbrella fund, as well as its approach to understanding how underlying fund managers and financial product providers incorporate ESG issues within their investment process.

Increasingly, it is argued that the consideration of ESG issues within the investment process results in improved long-term financial performance and more sustainable risk-adjusted returns for investors over the long term. Given the importance of these domestic and international responsible investment principles – i.e. UN PRI and CRISA – MANCOs should understand how these best practice principles and requirements are applied with respect to their retirement fund savings in the umbrella fund context.

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ADDRESSING CONFLICTS OF INTEREST AND DIRECTIVE 8 OF 2018

An overview of how conflicts of interest should be managed by retirement funds

IN THIS ARTICLE

Boards of trustees and management committees (MANCOs) should establish ethical standards in a code of conduct that should guide them in their duties of governing and managing the affairs of the retirement fund. This is a vital aspect of building and maintaining trust with the fund's members, beneficiaries and broader stakeholders. Ethical standards should at all times include how conflicts of inflict are managed by the retirement fund at both board and executive levels.

Conflicts of interest

In the context of a retirement fund, a conflict of interest takes place when a person has competing interests or loyalties that are, or could be, at odds with one other. A conflict of interest causes a trustee to experience a struggle between two different interests, points of view, or allegiances (being loyal to someone or something) – when they should at all times act in the interest of the fund, its members and beneficiaries.

Conflicts of interest should be covered in the fund's code of conduct, and trustees should be regularly made aware of this code. Trustees should be sensitised to the exact types of issues that may present as a conflict of interest.

The board of trustees and MANCO should regularly discuss possible conflicts of interest and decide on appropriate ways to manage such conflicts, when such conflicts are unavoidable. This requires boards and MANCOs to determine and differentiate between conflicts of interest that may be structural in nature, and are thus unavoidable, and those which can be avoided. At all times, boards and MANCOs should be mindful that unmanaged conflicts of interest will undermine the credibility of the fund's governance and jeopardise the benefit promise and obligations to the fund's members.

Serious consequences will arise when conflicts of interest are not appropriately managed and disclosed. As such, in each instance where a conflict of interest is recognised, the conflict must be disclosed. Conflicts – real or perceived – should be declared in writing to the board on an annual basis. Board trustees are obligated to disclose any interest that they might have in relation to any agenda point at every meeting. Any potential or perceived conflict of interest should be treated with the same gravity as an actual conflict of interest, which is often best assisted by a discussion by the board or MANCO with respect to the conflict or potential issue that has been identified.

Trustees or MANCO members should recuse themselves from taking part in any part of a board or MANCO meeting when a meeting agenda item presents the trustee or member with a potential conflict of interest. Such conflicts of interest, once declared, should be clearly recorded in the board or MANCO meeting minutes, with full details of the manner in which the board has decided to resolve the matter.

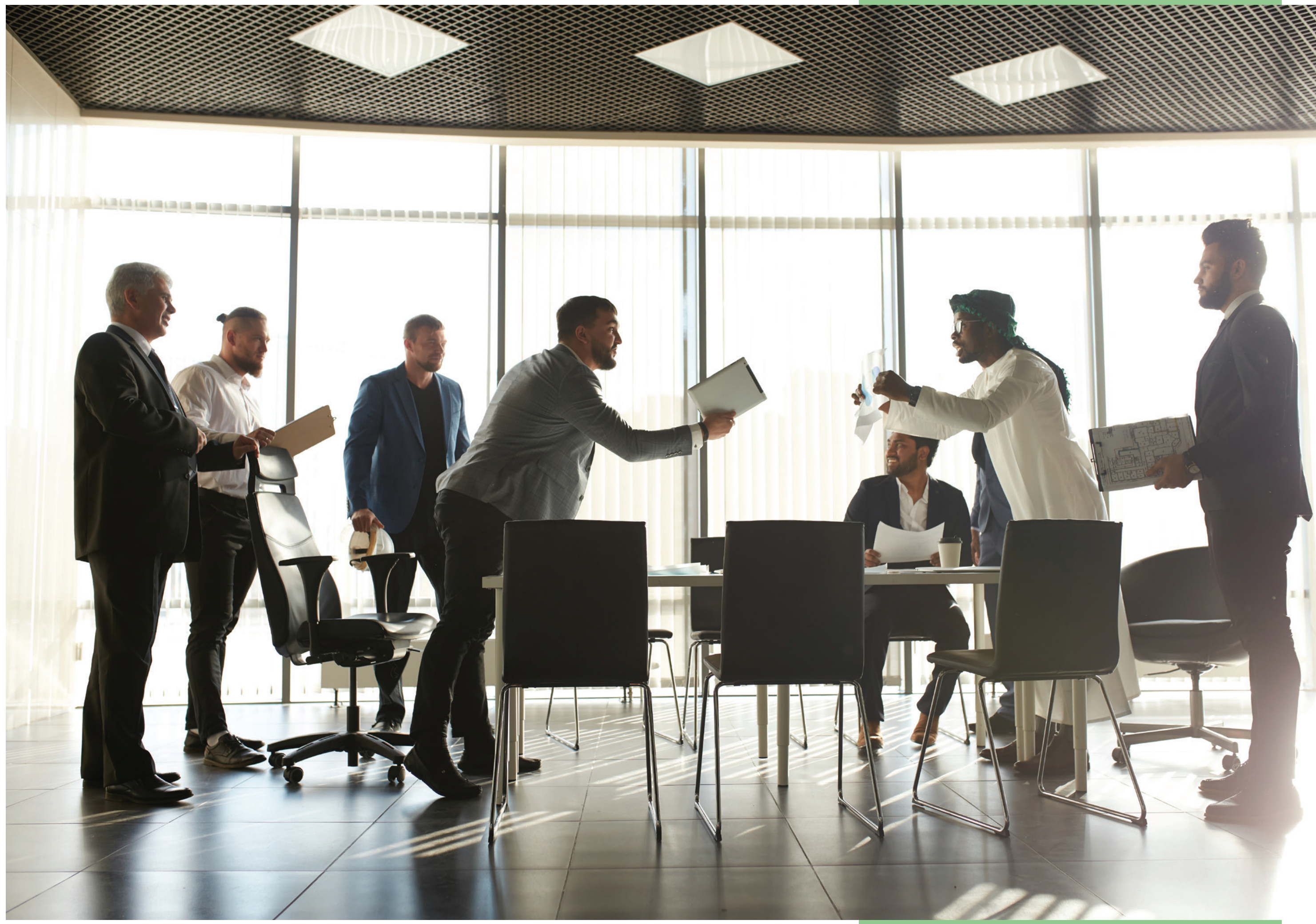
FSCA Directive 8 of 2018

The Financial Sector Conduct Authority (FSCA) issued Directive 8 on 8 March 2018, which aims to "assist in combatting corruption and corrupt activities in the retirement fund industry". Directive 8 prescribes the prohibition of the acceptance of gratification.

Directive 8 is based on the general principle that a board member; principal officer; employee of a retirement fund; auditor; valuator; administrator; employee of an administrator; or service provider to a retirement fund should not be involved in any conduct constituting corruption or corrupt activities. The involvement in conduct that constitutes corruption will have a bearing on the person's fitness to hold office and/or provide a service.

Directive 8 specifies the types of gratification that are forbidden, and these include:

- Any gratification, which, objectively viewed, creates a conflict of interest with their fiduciary duty towards the fund.
- Token gift/s that exceed/s the annual limit set by the board in terms of the fund's gift policy. This annual limit shall not be more than R500 per annum in aggregate from any one service provider.
- All gifts received within the R500 per annum in aggregate limit from any one service provider should be recorded in the fund's gift registry.
- Any gratification relating to local or international due diligence including, but not limited to, subsistence, travel or accommodation.
- Any gratification relating to local or international entertainment or sporting events including, but not limited to, subsistence, travel or accommodation.
- Conferencing costs or board of fund expenses.



FSCA Guidance Note 2 of 2018

The FSCA has released Guidance Note 2 of 2018 to clarify the practical application of Directive 8 to further assist funds with the implementation of Directive 8. The new guidance notice does not replace Directive 8 and where there is any practical inconsistency between the guidance notice and Directive 8, preference must be given to the provisions of Directive 8.

Reporting

It is important to note that Directive 8 places a reporting obligation on all persons affected by the directive. Any person who fails to report a matter will be in breach of Directive 8. In this regard, even a potential breach of Directive 8 must be reported to the FSCA.

Directive 8 requires the reporting of non-compliances immediately upon becoming aware of a breach or potential breach. Such reports should preferably be made in writing. The FSCA's Information Circular 1 of 2018 provides guidance on the manner in which a person may make a report or protected disclosure to the FSCA.

Training

The FSCA has clarified that Directive 8 was not intended to stop training being provided by service providers – or attendance at training sponsored by service providers. However, it is intended to prevent corruption and corrupt activities being perpetrated under the guise of training. In order to strike a balance by still supporting genuine training of board members while prohibiting corruption and corrupt activities, the FSCA prefers that all costs for the training, travel and accommodation be paid for by the retirement fund. In instances where training is offered for free by a service provider to a retirement fund, the fund should at least bear the costs relating to the training (e.g. travelling and accommodation costs) but not the costs of the actual training.

Where a service provider intends to provide training or to present topics relevant to the retirement fund industry at no cost, which may also include refreshments and beverages, such an event must be open for registration to the general public or to a general category of persons. The actual costs of such training, whether paid by the fund or offered for free by the service provider, must still be reasonably justifiable.

Business-related meals and similar considerations

The guidance note states that it is not impermissible under Directive 8 for a service provider to pay for business-related meals, provided that such meals are legitimately for the purpose of conducting the business of the fund. Such activities should, however, be kept to the minimum level necessary to maintain →

effective business relationships and should not be exorbitant.

Retirement fund officers are required to declare any business meals paid for by a service provider in the fund's gift register, which must include the value of such meals.

Entertainment

Retirement fund officers may not accept invitations to entertainment events paid for by service providers. This includes, but is not limited to, breakfasts, lunches, dinners, coffee, drinks, sporting events, hunting, jazz festivals and concerts. Service providers must act responsibly and not attempt to justify an entertainment event as a legitimate event in order to circumvent the provisions of Directive 8. Concomitantly, the FSCA expects of retirement fund officers to apply their minds as to whether an invitation to an event is for a legitimate purpose or actually for the purposes of providing entertainment.

Token gifts

Token gifts serve as a token of goodwill and are usually given at year-end. Such gifts may include pens, diaries, desk calendars, calendars, mugs and other indulgences, such as chocolates, biscuits or beverages. The annual limit from any one service provider is R500.00 (five hundred rand). The FSCA's purpose of limiting this amount is to prohibit a concession for goodwill to be converted into corruption and corrupt activities.

Due diligences and other retirement-fund-related activities

If it is necessary for a retirement fund officer to conduct a due diligence or other fund-related-activity, the FSCA requires that all costs related to such due diligence or activity – including travel and accommodation – must be carried by the retirement fund. A service provider is not permitted to pay for such costs.

A due diligence or any fund-related-activity should not be an excuse for a retirement fund officer to go on a holiday at the expense of the retirement fund, and boards of retirement funds must exercise their discretion sparingly after proper motivation has been given for the due diligence or activity. This should include due consideration of the number of officer(s) required to attend to the due diligence or activity and whether the relevant officer(s) concerned possess the necessary skill and experience to conduct the due diligence or fund-related-activity. After a due diligence or activity has been conducted, the retirement fund officer(s) concerned should produce a written report to the board.

Sponsored Funds

Directive 8 permits sponsor-appointed trustees to be remunerated by the sponsor of a retirement fund – this includes trustees appointed in terms of section 26(2) of the Pension Funds Act. Such remuneration will be interpreted to include the expenses of the fund's board of trustees.

Gratification that objectively viewed creates a conflict of interest

As far as is reasonably possible, a retirement fund should bear its own expenses – unless circumstances dictate otherwise – and when objectively viewed, there should be no conflict of interest. The FSCA advises that substance will take precedence over form in all such instances.

Where a section 26(2) trustee is appointed to a dormant fund or a shell fund and the section 13B administrator pays the expenses for the cancellation or liquidation of the retirement fund because the fund has either little or no assets of its own, this will not constitute a breach of Directive 8.

In an underwritten fund, payment of the expenses of the fund's board of trustees by the administrator does not objectively create a conflict of interest and would not be a breach of Directive 8. This does not mean that the board of such funds will not be expected to exercise their minds independently and fulfil their objectives and duties as required in applicable legislation.

Where a retirement fund officer has an interest in a service provider to the retirement fund concerned, and there are no circumstances that dictate that the retirement fund cannot reasonably appoint another service provider, this will constitute a breach of Directive 8.

As an example, the principal officer or trustee of a retirement fund may not also be a director or employee of the law firm appointed by the retirement fund for legal services. Objectively viewed this would create an avoidable conflict of interest.

REFERENCES
FSCA Directive 8 of 2018, www.fsca.co.za
FSCA Guidance Note 2 of 2018, www.fsca.co.za
FSCA PF 130, www.fsca.co.za

To learn more about this topic, please visit our website www.atleha-edu.org or contact us on 021 851 0091 to find out more about our educational workshops and events.

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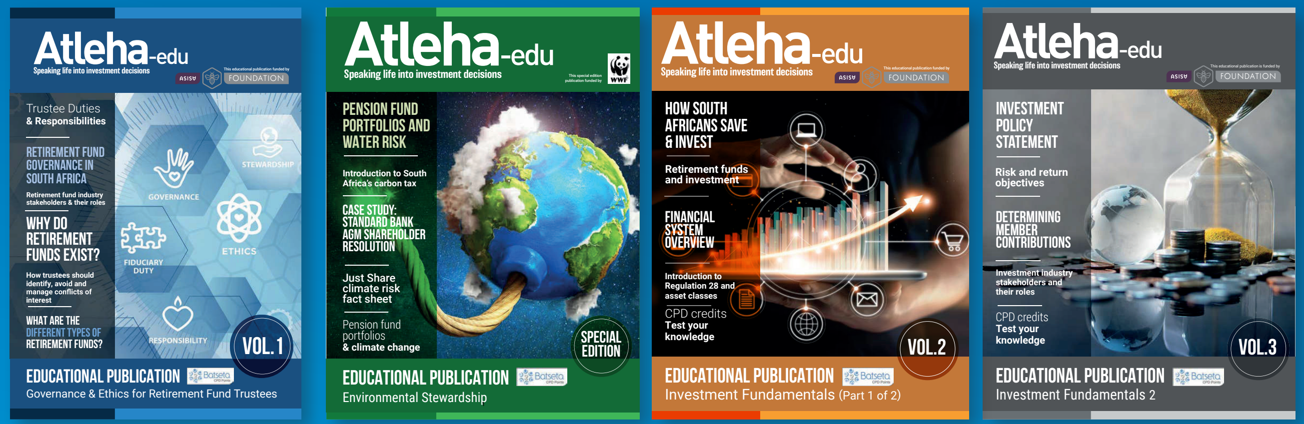

The majority of savers in South Africa can be reached through retirement fund trustee and member education, making this the primary focus of our work at Atleha-edu. Please visit our website at www.atleha-edu.org to read our educational publications for retirement fund trustees, principal officers and MANCO members.

- Governance & Ethics For Retirement Fund Trustees Vol. 1
- Investment Fundamentals 1, Vol. 2
- Investment Fundamentals 2, Vol. 3
- Special Edition: Environmental Stewardship Vol. 1

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MANCO member of umbrella fund ☐

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Please select the correct answer by marking the correct box below each question.

True or False? Directive 8 of 2018 deals with the prohibition of the acceptance of gratification.

- [x] True
- [ ] False

Introduction to management committees
Q1: What is the objective of a management committee (MANCO)? Choose the correct answer.

- [ ] MANCOs are responsible for all decisions relating to umbrella funds.
- [ ] The objective of a MANCO is to ensure that its members' interests are represented and communicated to the umbrella fund and that the fund is well managed and governed.
- [ ] A MANCO is mandated by the Pension Funds Act to act on behalf of its members.
- [ ] The objective of the MANCO is to manage all underlying retirement savings for its members.

Q2: How are MANCOs regulated? Choose the correct answer.

- [ ] MANCOs are regulated by the Pensions Funds Act.
- [ ] MANCOs are regulated by King IV.
- [ ] MANCOs are governed by PF 130.
- [ ] MANCOs are not regulated – the regulatory and fiduciary duties reside with the board of trustees of the umbrella fund.

Introduction to umbrella funds
Q3: What is an umbrella fund? Choose the correct answer.

- [ ] An umbrella fund is a standalone retirement fund offered by an employer to its employees.
- [ ] An umbrella fund is a portfolio of equity unit trusts with the objective of capital growth.
- [ ] An umbrella fund is a large, established retirement fund that is comprised of several standalone retirement funds that have been consolidated into a single fund.
- [ ] An umbrella fund is an expensive retirement vehicle.

Q4: What is the main benefit of an umbrella fund? Choose the correct answer.

- [ ] Lower investment fees and good governance
- [ ] Standardisation of fees
- [ ] Higher operational costs
- [ ] There are no benefits

Good governance for MANCOs
Q5: What regulation is applicable to umbrella funds? Choose the most appropriate option.

- [ ] King IV
- [ ] PF 150
- [ ] CRISA
- [ ] Pension Funds Act

Q6: What is the purpose of the Code for Responsible Investing in South Africa? Choose the correct answer.

- [ ] The Code for Responsible Investing (CRISA) in South Africa has 17 underlying principles relating to corporate governance.
- [ ] CRISA provides retail investors with guidelines on how to consider environmental investment risks in an investment process.
- [ ] CRISA provides guidelines on how institutional investors should execute investment analysis and activities and exercise rights to promote sound governance.
- [ ] CRISA regulates how institutional investors integrate ESG factors in their investment process.

MANCO roles and responsibilities
Q7. True or False? The governing or managing body with whom the fiduciary duty resides in an umbrella fund is the MANCO.

- [ ] True
- [ ] False

Q8: MANCOs should concern themselves with the following aspects as it relates to their members. Choose the incorrect option below.

- [ ] Risk benefits
- [ ] Investment choice
- [ ] Member choice
- [ ] The fund's actuary
- [ ] Member education

Conflicts of interest and FSCA Directive 8 of 2018
Q9. True or False? Directive 8 prevents boards of trustees from accepting free training workshops from service providers.

- [ ] True
- [ ] False