Nedgroup dumps balanced fund manager

After standing by RE:CM and its contrarian deep-value investment approach for more than a decade, Nedgroup Investments found the losses in its Managed Fund too much to bear, writes **Mark Bechard**.

Nedgroup Investments has dropped RE:CM as the manager of its massively under-performing Managed Fund and awarded the contract to Truffle Asset Management.

Nedgroup Investments says it intends to merge – subject to regulatory and unitholder approval – the Managed Fund with the Truffle MET Balanced Fund after the Truffle fund has been transferred to Nedgroup Investments.

Nedgroup has a "best of breed" approach to fund management: it outsources the management of its funds to managers that it believes will produce the best performance over the long term.

The Managed Fund has been the worst performer in the South African multi-asset high-equity sub-category over various periods to September 30. According to ProfileData, the fund returned minus 12.37 percent over three months, minus 21.34 percent over a year, minus 0.53 percent over three years, 2.23 percent over five years, 5.4 percent over seven years and seven percent over 10 years (returns are annualised).

The average returns of the fund's peers were: minus 0.84 percent over three months, 6.34 percent over a year, 12.6 percent over three years, 11.88 percent over five years, 11.59 percent over seven years and 11.47 percent over 10 years.

The fund's under-performance is partly the result of the deep-value, contrarian investment style of its manager, Piet Viljoen, the founder and chairman of RE:CM.

A value, or valuation-based, manager selects shares that are priced below the value of the company, as determined by the manager, in the belief that the share price will return to fair value. A deep-value manager follows the same principles as a value manager, but looks for the cheapest shares and holds them for long periods. A contrarian manager goes against the trends in the market, buying assets that are not liked by the market and selling them when they are popular.

Viljoen's investment style has seen the fund investing heavily in commodity shares: its top three holdings at September 30 were Impala Platinum (5.4 percent), Anglo Platinum (4.8 percent) and Anglo American (4.5 percent). Over the past year, Impala's share price has fallen by 51 percent, Anglo Platinum's by 31 percent and Anglo American's by 49 percent, according to ProfileData.

The Managed Fund is the only fund of Nedgroup's 19 funds that qualify for a PlexCrown rating to receive the lowest rating of one PlexCrown in the ratings to the end of September.

Nedgroup was rated the top manager of both South African-domiciled funds and offshore funds in the third quarter, based on the risk-adjusted performance of its funds as assessed by PlexCrown Fund Ratings, and 12 of its 19 funds received an above-average rating of four or more PlexCrowns.

Nic Andrew, the head of Nedgroup Investments, says the decision to replace RE:CM was a difficult one. He says Nedgroup assesses a manager's performance over the full investment cycle and in relation to a fund's long-term objectives. It has made a judgment call based on what it believes are the long-term interests of its clients, Andrew says.

Nedgroup communicated regularly with investors and financial advisers in the run-up to the decision, he says.

Nedgroup Investments recognised that RE:CM's investment philosophy would result in periods of under-performance, and it has stood by RE:CM for more than 10 years. However, it did not expect the Managed Fund to under-perform, in relative and absolute terms, to the extent that it has, he says.

As a result of under-performance and outflows, the assets under management in the fund have halved over the past two years, Andrew says. According to the fund's fact sheet, it had a market value of R2.95 million at September 30.

The fund's under-performance was only partly the result of RE:CM's investment style; RE:CM had also make investment mistakes, Andrew says.

The resignation of RE:CM's chief investment officer, Daniel Malan, in March also influenced Nedgroup's decision, Andrew says.

RE:CM'S STYLE 'WON'T CHANGE'

Viljoen says he was "disappointed" by Nedgroup's decision, which he said was a business decision, not an investment one. However, the loss of the Managed Fund will definitely not result in RE:CM changing its investment process or style.

The decision will have a "fairly substantial" impact on the company, but, as a result of its conservative business approach, RE:CM will withstand the loss, and there is no need for investors to be concerned about the future of RE:CM.

In a letter to investors in March, RE:CM said the main reason its funds have under-performed is that "South African markets have been driven higher by expensive assets becoming even more expensive, whereas the attractively priced assets keep getting cheaper. This is typical of the late stages of a bull market, as we've had for the past six years."

It says past market cycles have shown that "a disciplined strategy of consistently avoiding over-priced assets and investing in those trading at far less than they're worth will ultimately deliver good returns over the full cycle. However, the evidence of this has not yet come through in the current cycle."

In the equity portfolios it manages, "the resources sector – to which we have significant exposure – has lagged and the financial and industrial sectors have continued to out-perform, despite starting from already high valuations. We believe that this is precisely the time to capitalise on one of the most extreme market dislocations in history and allocate capital to a value manager ... We're confident under-performance will be recovered and our investment philosophy will prove itself again over time," the RE:CM newsletter says.

Cape Town-based financial adviser Gregg Sneddon told Personal Finance that he was bitterly disappointed by Nedgroup's decision to replace RE:CM. It was known that Viljoen was a contrarian manager and he has been buying cheap, under-performing shares, including commodities, for some time. Sneddon said he had advised his clients to stay in the fund until the market cycle turned – as it inevitably will — because their losses were only on paper.

However, the decision by Nedgroup Investments to change managers will result in investors realising their losses, he says, because the new manager will sell out of the cheap, under-performing shares and buy expensive shares that are performing better. Effectively, Nedgroup has done what investors are told never to do: sell out of under-performing shares when they are cheap.

Andrew says the assumption that the fund will automatically sell all its cheap, under-performing assets is incorrect. Truffle's mandate is to position the fund to reflect where it assesses greatest value going forward, taking into consideration current valuations.

Andrew says Truffle was chosen to manage the fund because it exhibits the qualities that Nedgroup looks for in a manager. In particular, it has a "robust" investment process that focuses on downside risk, portfolio construction and risk management.

❑ *For a longer version of this article, visit www.persfin.co.za*

TAKE CARE WHEN CHOOSING A FUND

Wouter Fourie, the chief executive of Ascor Independent Wealth Managers and the 2015 Financial Planner of the Year, says the biggest mistake investors make is to select a fund solely on its latest returns, without understanding the risk the fund manager takes to achieve those returns.

When investing, it is important to have a thorough understanding of a fund's mandate, its consistency of returns, and the philosophy and investment style adopted by the manager. This is why it is in your interests to consult a qualified financial adviser who has insight into how a manager works.

He says Ascor has never offered the Managed Fund to its clients, because of the fund's level of volatility. However, he says, if the fund were still managed according to RE:CM's investment style, it could have been a good buy now – when the shares favoured by RE:CM are very cheap – provided you were prepared to wait for possibly five years before the market cycle turned.

Fourie says he believes Nedgroup's decision to replace RE:CM was influenced by the need to protect its brand and its position as the leading fund manager. The Managed Fund's PlexCrown rating of one has been a drag on Nedgroup's overall rating.

Insurance brokers censured in report

Short-term insurance brokers who recommend you switch your policy to one with a cheaper premium without considering whether the new policy is suitable are one of the main sources of complaints to the financial advice ombud.

"There is still a belief that providers of short-term insurance do not need to provide advice to their clients," Noluntu Bam, the Ombud for Financial Services Providers, says in her annual report for the year to March 31, which was released this week.

As in previous years, short-term insurance topped the list of complaints sent to Bam's office, comprising 2 940 of the 9 003 complaints submitted.

Bam says that, when recommending that a client changes policies, many brokers focus only on the cost of the premium, but fail to disclose how a higher excess, more stringent conditions or enhanced exclusions may affect claims.

There has also been an increase in complaints about commercial insurance policies, often where brokers have not properly understood the nature of their client's business.

Other trends highlighted by Bam in the complaints her office received in 2014/15 were:

◆ **Disability products.** The number of complaints about disability insurance is growing. In some cases, there is "clear evidence" that consumers are being sold cover they do not need, Bam says.

◆ **Funeral assistance.** Bam says there has been "an unrelenting" increase in complaints about funeral businesses, adding that the many complaints reflect a "clear unwillingness" by providers to comply with the law.

◆ **Post-retirement planning.** Advisers do not adequately advise clients of their post-retirement product options and how essential it is that they preserve their capital so that it can generate an annuity for life, Bam says. – Mark Bechard.

❑ *For a longer version of this article, visit www.persfin.co.za*

ANNUITY RATES TO 6/11/2015

These rates for a level annuity are based on a **compulsory** purchase price of R100 000 for people born on 01/01/1955 payable monthly in arrears, guaranteed for 10 years.

Male		Female	
Discovery	R733.63	Discovery	R695.46
Liberty Life	R774.80	Liberty Life	R723.94
Metropolitan	R823.18	Metropolitan	R759.03
Momentum	R801.04	Momentum	R760.02
Old Mutual	R802.48	Old Mutual	R751.24
Sanlam	R808.61	Sanlam	R761.47

These rates are based on a **voluntary** purchase price of R100 000.

Male		Female	
Discovery	R733.63	Discovery	R695.46
Liberty Life	R774.80	Liberty Life	R723.94
Metropolitan	R778.30	Metropolitan	R724.07
Momentum	R791.37	Momentum	R752.22
Old Mutual	R802.48	Old Mutual	R751.24
Sanlam	R808.61	Sanlam	R761.77

These rates are valid on a daily basis. E&OE

Source: Computerised Pension Bureau. Telephone 011 482 3625

SPONSORED FEATURE

Beware impact of inflation on retirement costs

LAURA DU PREEZ

Younger South Africans who spent time with retirees as part of the Glacier by Sanlam #FutureFWD campaign have contemplated the effects of inflation on the cost of living in retirement.

In the project, Thoban Jappie, 42, a social media businessman, was paired with retired doctor Tommy Blake, 65, Bailey Schneider, 32, a radio and television presenter, with Sarah Ravenhill, 56, who formerly ran her own tourism business, and Candice Bresler, 29, a public relations executive, with former restaurateur, Michael Olivier, 69.

On a shopping trip with Blake and his wife Sakina, Sakina told Jappie that when she started buying ostrich steak 20 years ago, it cost R6.99 a kilogram. It now costs over R60 a kilogram.

"This exercise made me starkly aware of the cost of living and the impact of rising inflation. My immediate thoughts are: what will the cost of food be in my retirement, and will I have saved enough to sustain my standard of living?" Jappie writes in an Instagram post.

Inflation is an important factor to consider when you plan your retirement, but you need to focus less on how many times the cost of your grocery basket will increase over your working life, and more on how your savings match your retirement needs and grow at an inflation-beating return.

The earlier you start to save, the better your chances are of your savings meeting your retirement needs.

As you save for retirement, your aim should be to save enough to generate a decent income, and you will typically achieve this by targeting a certain income replacement ratio, which is your pension as a percentage of your final salary.

Employer-sponsored retirement funds aim for target income replacement ratios of between 60 and 80 percent if you save for between 30 and 40 years. But there are problems with these targets, and self-employed people need to create their own targets. For these reasons, you should regularly check that what you are saving (your contributions) and the growth on your savings are on track to deliver your income needs in retirement.

Here are the things you, or your financial adviser, should regularly check and consider:

◆ What percentage of your income you will need to live on in retirement. Give some thought to:

❑ What you want to do in retirement (see "Retirement can be fun");

❑ Your potential medical needs;

❑ Who you will be supporting. The younger #FutureFWD participants discovered that retirees often support dependants – Ravenhill supports a sister with Down's syndrome and Blake supports his 95-year-old mother.

◆ How your retirement income will increase. Considering how long you may live, especially with increasing longevity, your income must at least keep up with inflation. Providing for an income that increases with inflation will require more savings than providing for a level income. The inflation you experience in retirement will differ from that which you experience as a working South African (see below).

◆ What you will accumulate at your current savings rate. Check that your savings returns are beating inflation by a sufficient margin.

◆ The income your savings will provide at retirement. If you are not on track, there are only three things you can do to improve matters:

❑ Save more;

❑ Save for longer (delay your retirement); or

❑ Take more risk by exposing your savings to a higher level of growth assets, such as listed equities. But bear in mind your own tolerance for risk, the prudential guidelines in the Pension Funds Act for retirement savings (Regulation 28) and the fact that exposure to higher-risk assets is a long-term strategy and may work against you in the short term.

RETIREMENT INFLATION

The inflation you are exposed to in retirement may differ from that in your working life. According to Glacier, the reasons are:

◆ The older you are, the more comprehensive your medical cover needs to be. Comprehensive cover costs more, will consume a larger portion of your budget and will increase each year at a higher rate than inflation – on average, four percentage points above inflation.

◆ You may be less affected by transportation costs, as you are unlikely to commute as much as someone who is working.

◆ You may be less affected by the prices of electronic goods, take-away foods and other luxuries, as pensioners typically spend less on these goods.

◆ You should ideally have paid off your home loan and vehicle and other asset finance, which means you shouldn't be exposed to changes in lending rates.

◆ As a pensioner, you will most likely spend a larger portion of your budget on electricity – and be affected by increases in energy costs.

◆ *Go to www.glacier.co.za/personal/retirement for more on the #FutureFWD campaign and for links to the participants' blog sites.*

Retired physician Tommy Blake stocks up on groceries.

Food fundi Michael Olivier selects a 2011 vintage, the year in which he retired.

Advice retirees would have given their younger selves

◆ **Tommy Blake:** Devote more time to the things that really matter – family and personal well-being.

◆ **Michael Olivier:** Save more and, as Candice Bresler puts it, "cut down on frills".

◆ **Sarah Ravenhill:** Most of the challenges I encountered came from inadequate financial and investment knowledge. Meet with a financial planner who is not out to make a quick buck. Learn about how retirement funding is based on financial calculations. Learn about inflation. Make sure you have good medical cover and that you can afford the increases.

Lessons learned from #FutureFWD

Candice Bresler says she has realised her current spending habits and financial health need a rethink: "I tend to sometimes live outside my means in order to maintain the lifestyle I enjoy."

She realises she needs to divert money to saving for retirement: "Not only will my retirement be more expensive, but it will possibly last for a decade longer than previous generations."

Thoban Jappie has also realised he needs to reassess his spending, as Tommy Blake has always led a frugal lifestyle, which now enables him to live comfortably in retirement without cutting back. "In comparison, my treats seem rather extravagant. Last year I bought myself an old motorbike, and this year a new camera," Jappie says.

Summing up the lessons he has learned, he says he has two key take-home messages: "Start exercising – good health is the best investment! And I've just started actually putting a fixed amount aside to contribute towards my retirement, in an account that will remain untouched."

Bailey Schneider admits #FutureFWD forced her to think about retirement for the first time. "I'm definitely not being an ostrich anymore and sticking my head in the sand. I have set up a proper savings account that earns better interest. I am looking into retirement annuities and I'd really love to invest in property. I feel proud of myself for being adult about my finances – it's a great sense of achievement and accomplishment. I've also upped my exercise regime. I'm looking at exercise in a whole new light now. I want to be fit and healthy forever ... not just when I'm young.

"I'm really excited for retirement," she says, adding that she will "spend time with my husband, future children and even grandchildren, as well as find time to travel or take up hobbies."

Glacier by Sanlam provides financial solutions to the affluent market, in partnership with financial intermediaries. Endorsed by Sanlam, the company offers a wide range of financial solutions, designed to assist clients to create and preserve their wealth throughout their lifetime. These solutions include local and international investments, stockbroking, as well as comprehensive short-term insurance and risk cover for both personal and business assurance. For retirement, Glacier provides solutions to save for retirement, to preserve retirement benefits and to provide a retirement income. For more information, please visit www.glacier.co.za or contact your financial adviser.

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Retirement can be fun

Don't put your head in the sand and refuse to think about retirement because you view it as a sad time of life for old people. This is a key lesson the three younger participants in Glacier by Sanlam's #FutureFWD campaign have learnt.

In fact, they have realised that planning for retirement can ensure you have enough money to make retirement the time you do all the things you never had time to do when you were working.

"Chatting to Michael [Olivier] – and seeing how busy his diary is – has changed my idea of retirement. It's not just staring out of the window or polishing golf clubs. I can well believe that Michael is busier now than he was while he was 'working'," Candice Bresler says. "Michael's wine collection has inspired me. When I'm 69 I would love to have a good few hundred bottles stored at home. He kindly showed me some bottles from 2011 – the year he retired. I wonder which vintage I'll retire in!"

Thoban Jappie and Thomas Blake attended Blake's church, art classes and Grandparents' Day at Blake's grandson's school during their time together.

"Tommy is amazing! He's very active – working within his church community, as an online doctor dispensing medical advice, and he's very involved with his family and grandkids, plus doing things around the house. He's made me realise that retirement is the start of a great period of your life, where you'll be able to do things on your terms," Jappie says.

After witnessing Sarah Ravenhill's active life, and sharing a paragliding experience together, Bailey Schneider comments: "Sarah has absolutely opened my eyes to a world after work. I'm so career focused, but I'm also looking forward to that chapter … I'll only be able to look forward to it if I plan financially. I've stopped spending frivolously and now, more than ever, I want to invest wisely and really save properly. I've also looked at my health from a fresh perspective. For so long it was about losing weight … but now it's about being healthy and fit so that I can hopefully do all the things I want to as I get older."