

# USING NEW TOOLS TO SOLVE OLD PROBLEMS

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**HEAD OF IMPLEMENTED CONSULTING, GLACIER INVEST**

THINK WORLD CLASS

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by Sanlam

# AGENDA

What is asymmetry?

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Absolute return as a foundation

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What about portfolio construction?

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Need for uncorrelated volatility managers and enhancers

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Conclusion

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# THE REALITIES OF POST-RETIREMENT LIVING

**51%**

of South Africa's  
retirees can't  
make ends meet.

**33%**

of retirees don't have enough  
funds to cover medical  
expenses (second  
biggest expense).

**61%**

of retirees are unable  
to save for a 'rainy day'  
after retirement  
due to pressures  
of expenses.

**33%**

of South African's  
enter retirement  
with debt.

**53%**

of retirees still  
have adult dependants  
to support.

Source: Sanlam Benchmark Symposium (2019)

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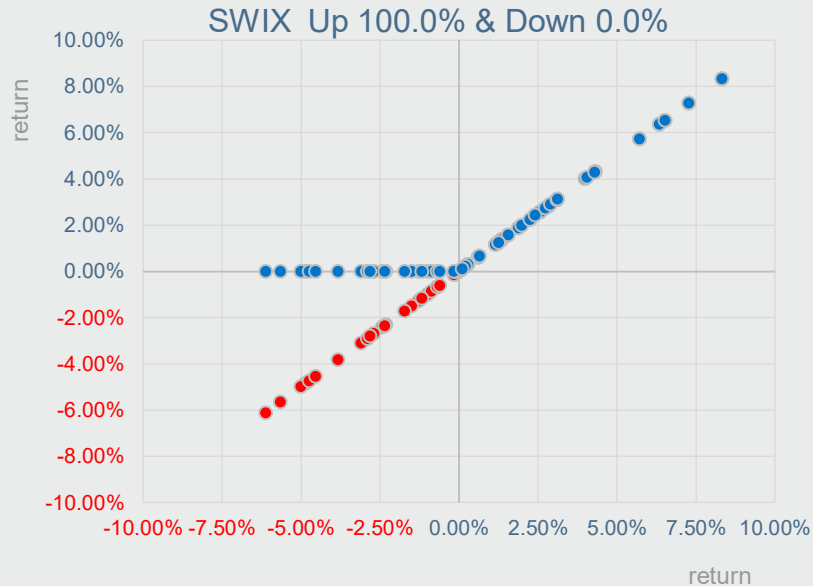
# WHAT IS ASYMMETRY?

Asymmetry is the **appearance** that something has when its two sides or **halves** are different in shape, size, or style

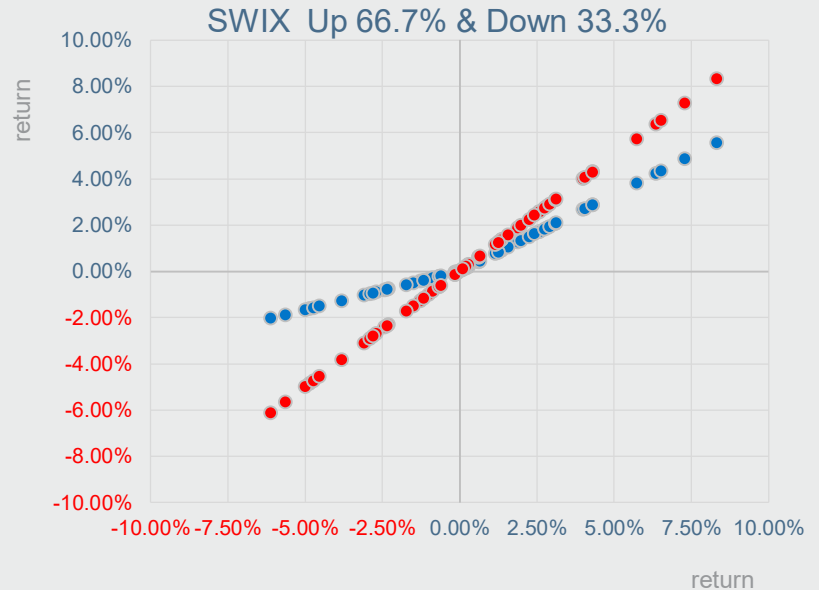
Something **asymmetrical** has two sides that **don't match** — it's uneven. If you know that symmetrical means that both sides of something **are** identical, then it **should** be easy to learn that **asymmetrical** means the opposite: the two sides **are** different in some way.

# WHAT IS ASYMMETRY?

## PERFECT ASYMMETRY



## COST OF ASYMMETRY - REALISTICALLY



# RISKS

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IF YOU NEVER TRY ANYTHING NEW,  
YOU'LL MISS OUT ON MANY OF LIFE'S  
GREAT DISAPPOINTMENTS

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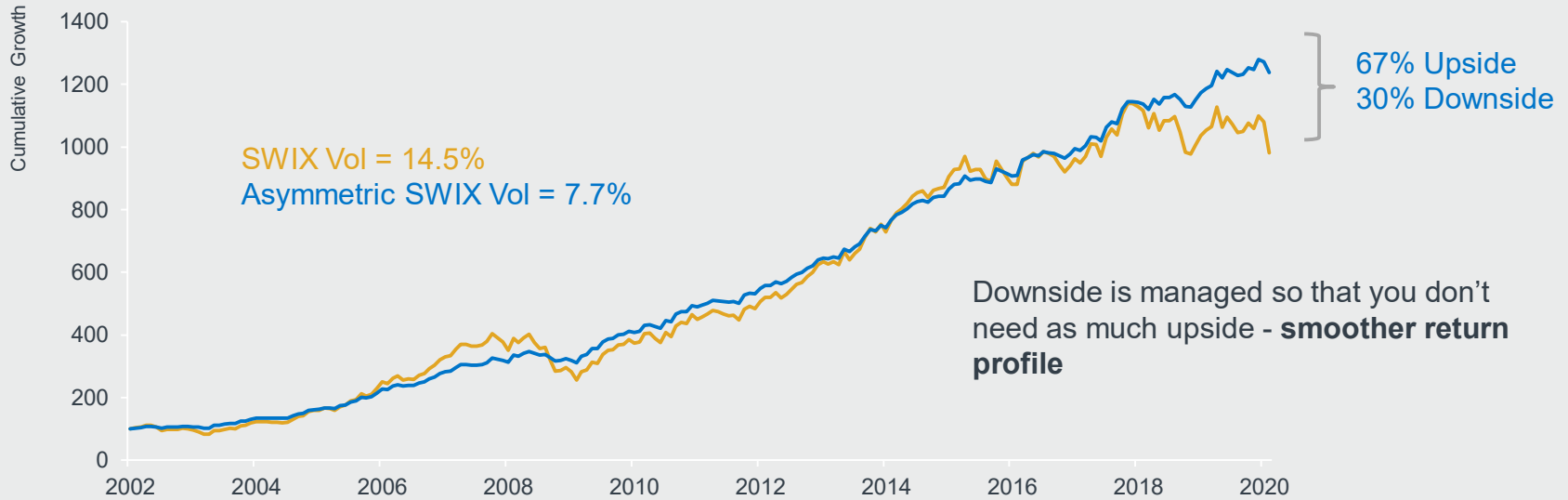


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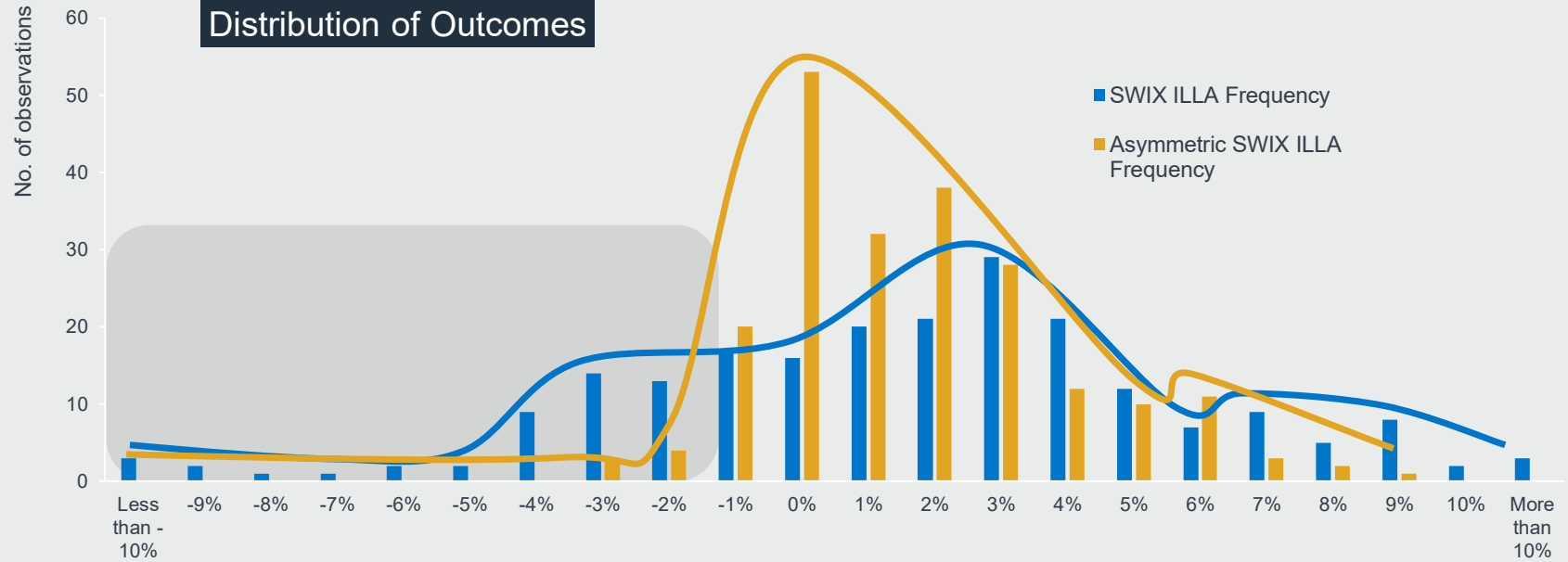
# MANAGING RISK

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# ABSOLUTE RETURN PHILOSOPHY



# THE SECRET SAUCE



Source: Iress, Sanlam Investments Multi-Manager (2020)



# TRADITIONAL ASSET CLASSES/ STRATEGIES

Active Tactical Strategy Allocation  
and Risk Management



	ASYMMETRIC OR PURE BETA	ASYMMETRY TARGET	DESIRED OUTCOME
Flexible Equity Strategies	Asymmetric	30% downside capture and 67% upside capture	Equity returns at half the volatility
Flexible Property	Asymmetric	30% downside capture and 67% upside capture	Property returns at half the volatility
Flexible Income	Asymmetric	25% downside capture and 75% upside capture	Bond returns at half the volatility
Foreign Equity, Bonds or cash	Beta or Asymmetric	Downside focused managers	Rand provides a natural asymmetry
Inflation-linked Bonds	Beta	-	Assist in matching liability, particularly in low CPI target portfolios
Cash	Beta	-	Used as protection and to wait for opportunities
Pure equity, bonds or property	Beta	-	Used only for special opportunities

Source: Sanlam Investments Multi-Manager (2011)

# ADDING UNCORRELATED SOURCES OF RETURN

	Strategies	Typical Exposure
Traditional strategies – Typically invested in listed instruments	Passive – Dynamic Factor Exposure	50.0%
	Flexible Equity – Quality Bias	
	Flexible Equity – Value Bias	
	SAA/TAA – High Beta	
	Fixed Interest Absolute Return	
	Multi Asset – Capital Protection Focus	
	SAA/TAA – Low Beta (Aggressive TAA)	
	Flexible Equity – Growth Bias	
	Flexible Equity – Growth/Quality Bias	
Uncorrelated sources of return	Hedge Funds	10.0%
	Smoothing Portfolio	25.0%
	Other Alternatives (Private Equity, Unlisted Credit, Unlisted Property)	15.0%

# PORTFOLIO CONSTRUCTION



Cp  
Capital Protect

Sr  
Sequence Risk

Dc  
Decumulation

Hf  
Hedge Fund

Ar  
Average Return

Th  
Time Horizon

Lg  
Longevity

Lg  
Longevity

Sr  
Seq Returns

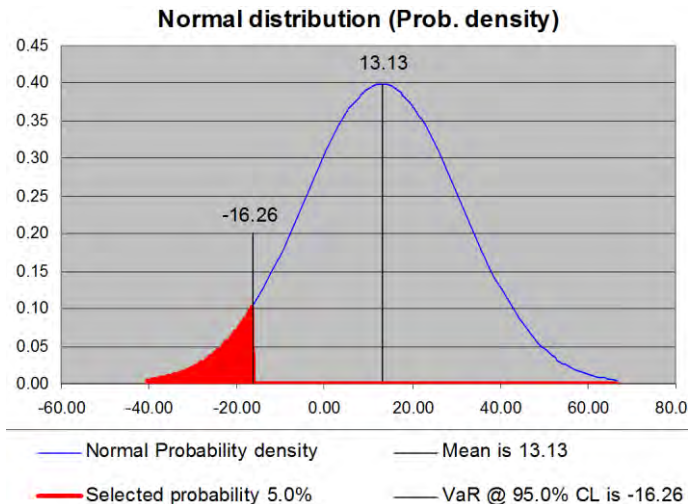
Pc  
Portfolio Construction

Lg  
Longevity Risk

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## WHAT IS VALUE AT RISK (VAR)?

# THEORY



1

## Value at Risk (VaR)

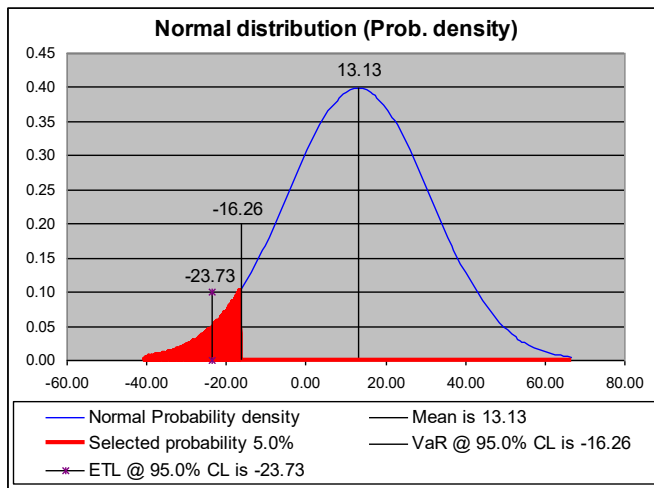
is a statistic that measures and quantifies the level of financial risk within a firm, portfolio or position over a specific time frame.

2

This metric is most commonly used by **investment and commercial banks** to determine the extent and occurrence ratio of potential losses in their institutional portfolios.

# WHAT IS CONDITIONAL VALUE AT RISK (VAR)?

# TAKING IT A STEP FURTHER



## 1 Conditional Value at Risk (CVaR)

also known as the **expected shortfall**, is a risk assessment measure that quantifies the amount of tail risk an investment portfolio has

2 CVaR is derived by taking a **weighted average of the 'extreme' losses** in the tail of the distribution of possible returns, beyond the value at risk (VaR) cut-off point

3 CVAR is used in **portfolio optimisation** for effective risk management.

# STRATEGIC STRATEGY ALLOCATION:

GLACIER INVEST MODERATE SSA

Style/Factor	Funds	Moderate	
Short duration/yield	Coronation Strategic Income	10.00%	} <b>Out of category Conservative = 25%</b>
Defensive Value	SIM Inflation Plus	10.00%	
Uncorrelated	Hedge Funds	5.00%	
BM Cognisant	Prudential Inflation Plus	10.00%	} <b>The Core = 30%</b>
Quality	Ninety One Opportunity	10.00%	
Core	Amplify SCI Absolute (Matrix)	10.00%	} <b>Out of category Aggressive = 45.0%</b>
Value	PSG Flexible	10.00%	
Core	Satrix Balanced Index	20.00%	
Quality/Value	Truffle Flexible	7.50%	
Growth	Amplify SCI Flexible Equity (ABAX)	7.50%	
<b>TOTAL</b>		<b>100.00%</b>	
<b>20% Passive</b>			

# STRATEGIC STRATEGY ALLOCATION:

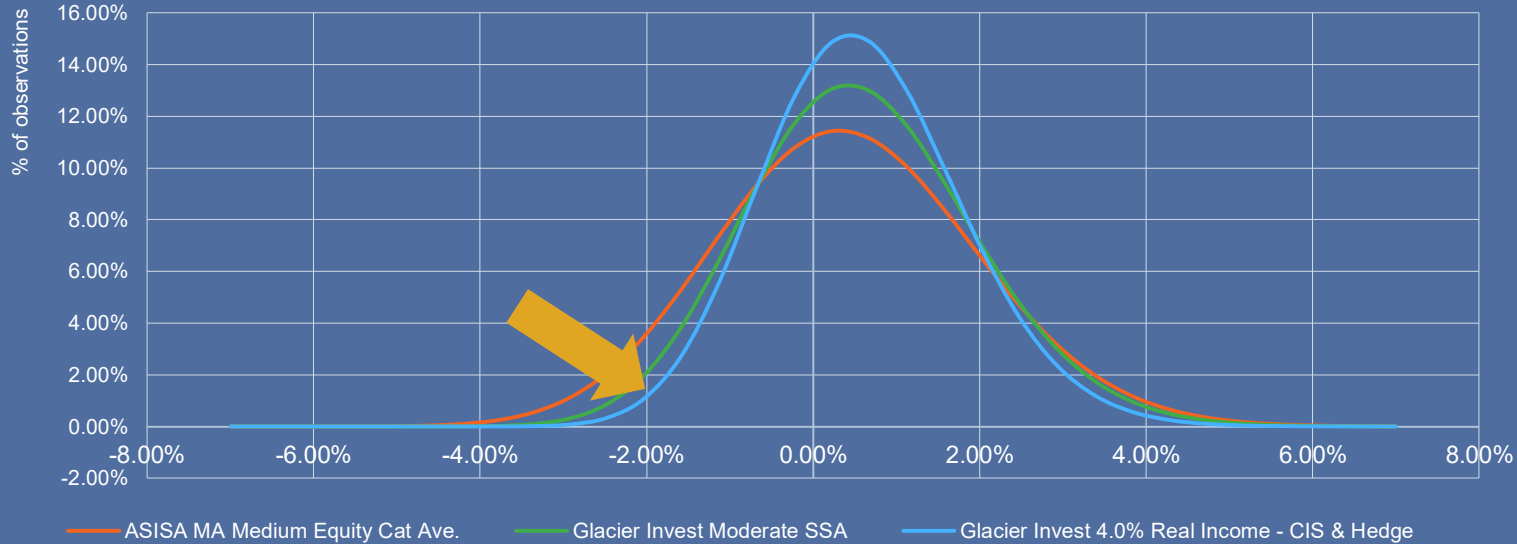
GLACIER INVEST MODERATE SSA VS GLACIER INVEST 4.0 REAL INCOME SOLUTION

Style/Factor	Funds	Moderate ILLA	
Short duration/yield	Coronation Strategic Income	14.1%	} <b>Out of category Conservative = 50.9%</b>
Short duration/yield	Amplify SCI Strategic Income (Terebinth)	14.1%	
Defensive Value	SIM Inflation Plus	9.4%	
Uncorrelated	Hedge Funds	13.5%	
Quality	Ninety One Opportunity	14.1%	} <b>The Core = 18.8%</b>
Core	Amplify SCI Absolute (Matrix)	4.7%	
Value	PSG Flexible	4.7%	} <b>Out of category Aggressive = 30.1%</b>
Core	Satrix Balanced Index	6.6%	
Quality/Value	Truffle Flexible	14.1%	
Growth	Amplify SCI Flexible Equity (ABAX)	4.7%	
<b>TOTAL</b>		<b>100.00%</b>	
<b>6.6% Passive</b>			

# HALF THE WORK DONE!

CUTTING OFF THE LEFT TAIL

## IMPORTANCE OF ASSYMETRY



Source: Sanlam Investments Multi-Manager (2019)

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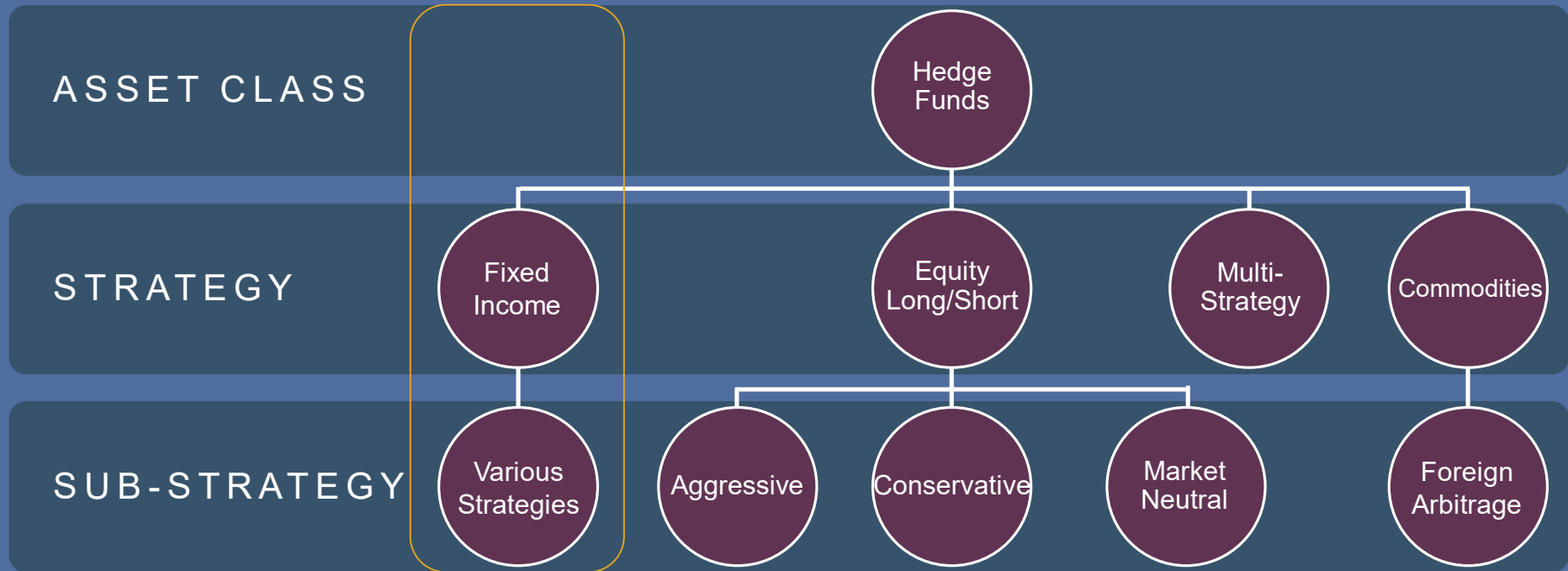




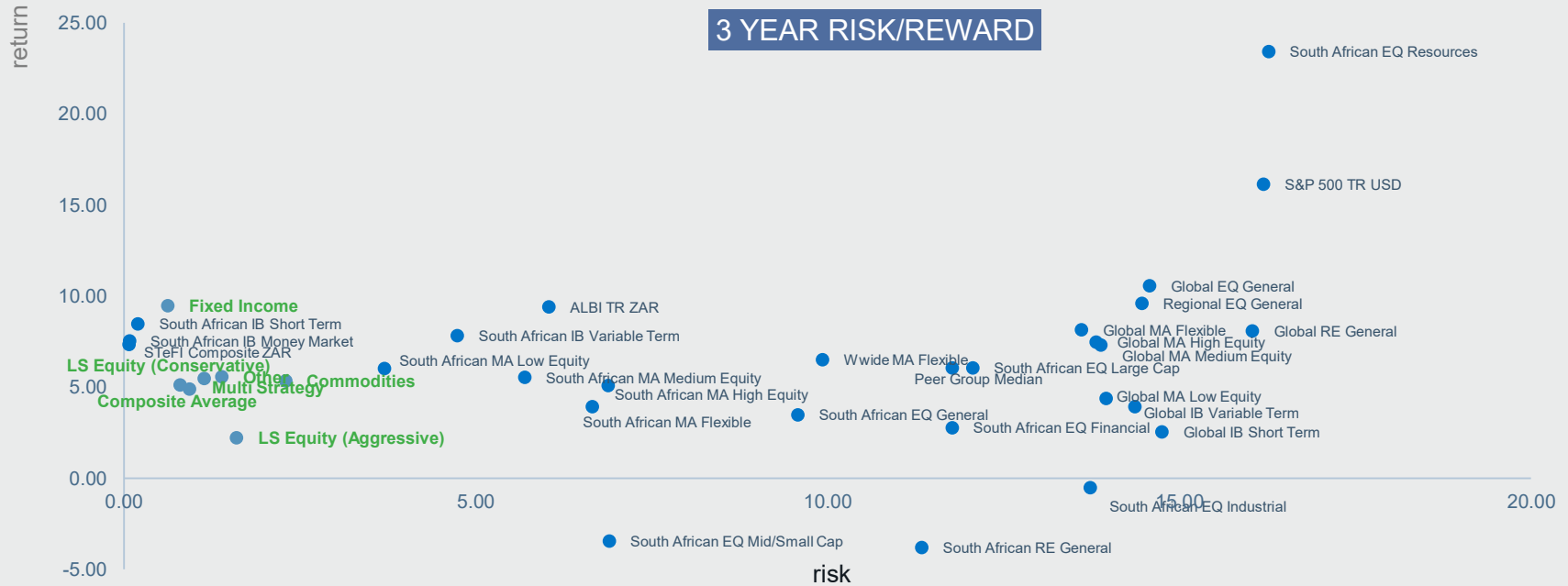
THE NEED FOR  
UNCORRELATED  
VOLATILITY  
MANAGERS AND  
ENHANCERS

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# NEED: ABSOLUTE-FOCUSED HEDGE FUNDS



# INDEPENDENT ACTORS TO MARKET FLUCTUATION

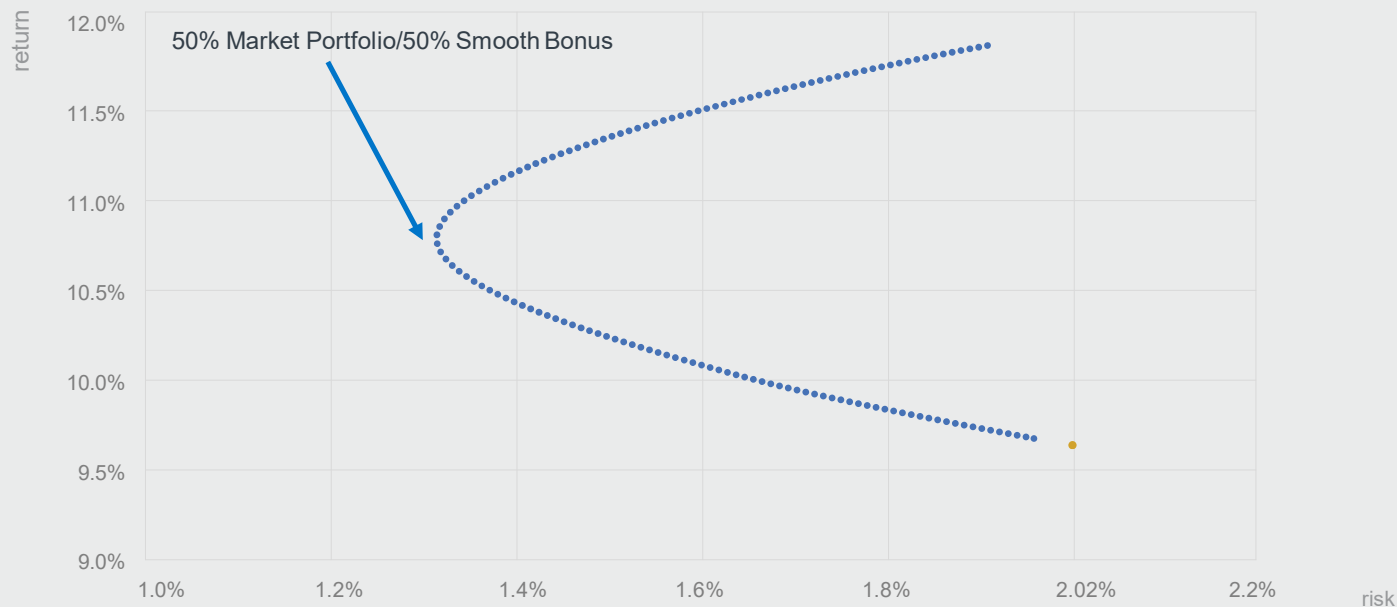


Source: Sanlam Investments Multi-Manager (2019)

# WHAT IF WE COULD ARTIFICIALLY LOWER VOLATILITY?

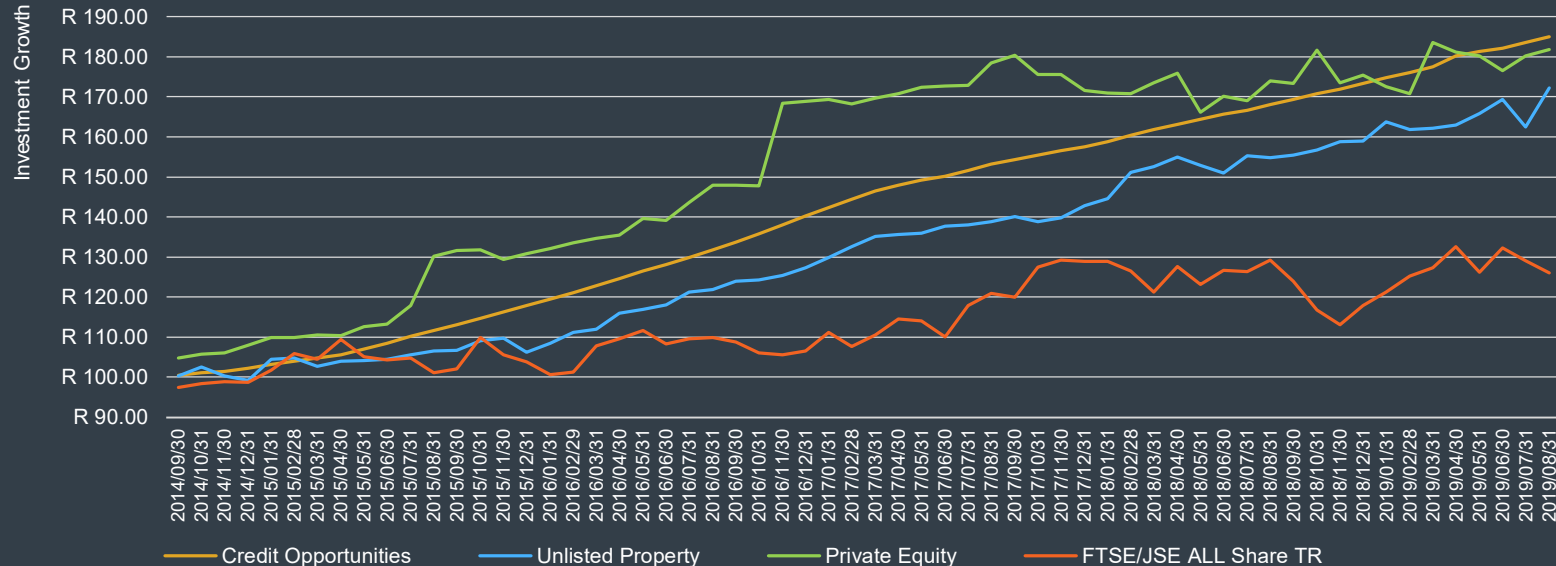
15 YEAR PERIOD

EFFICIENT FRONTIER OF COMBINATION PORTFOLIOS VS CONSERVATIVE CATEGORY



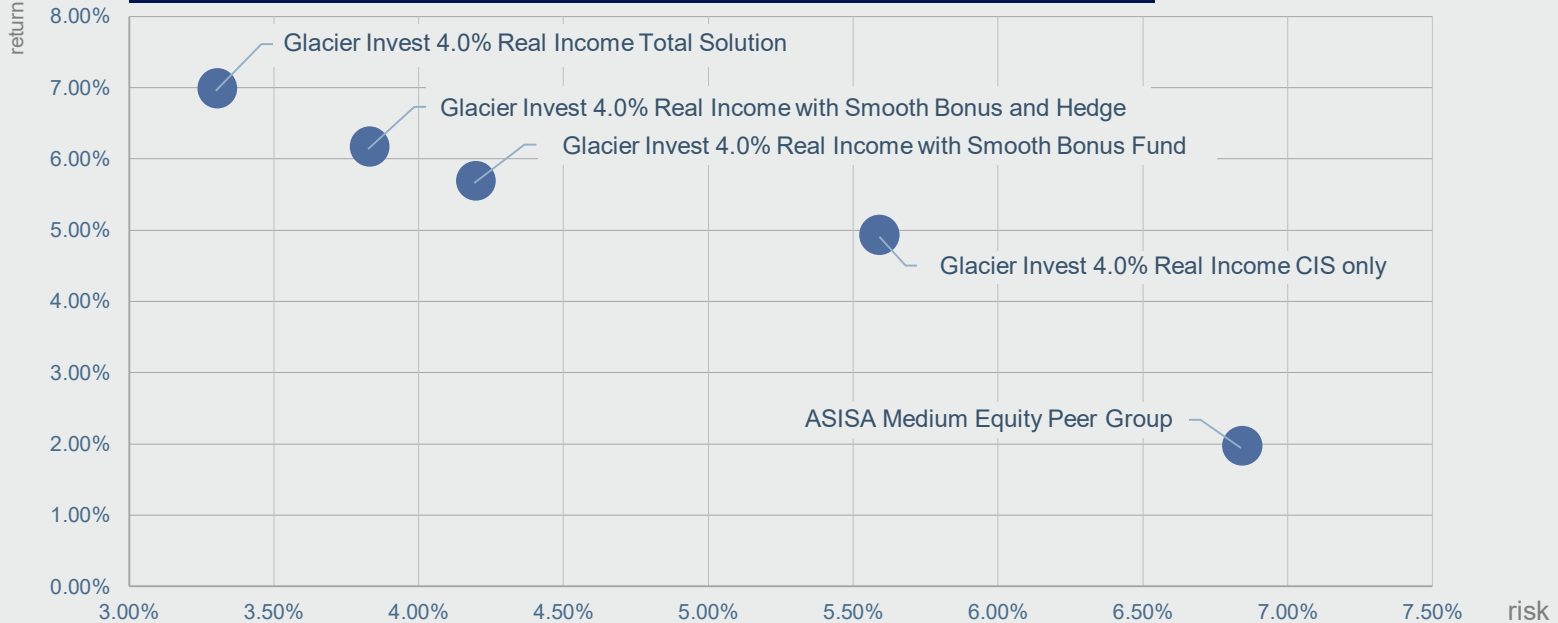
# UNLISTED RETURN ENHANCERS

## ALTERNATIVES VS SA LISTED EQUITY - 5 YEARS



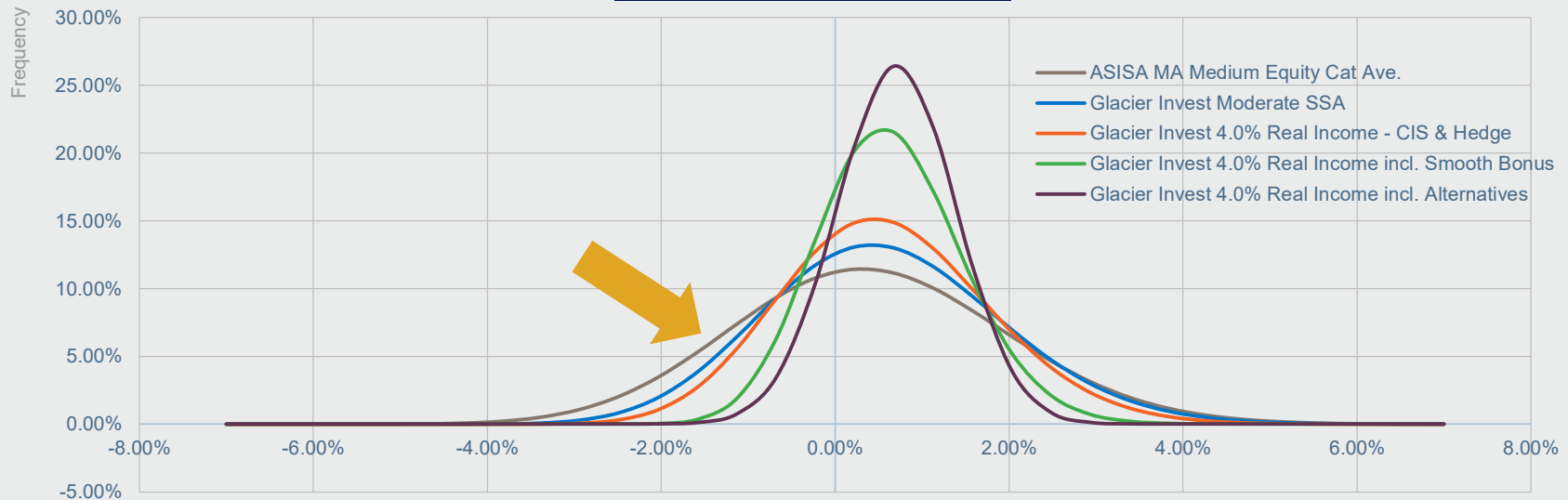
# FOCUSING ON RISK-ADJUSTED PORTFOLIO CONSTRUCTION

5 Year Risk/Return Scatter vs Peer Groups to 31 March 2020

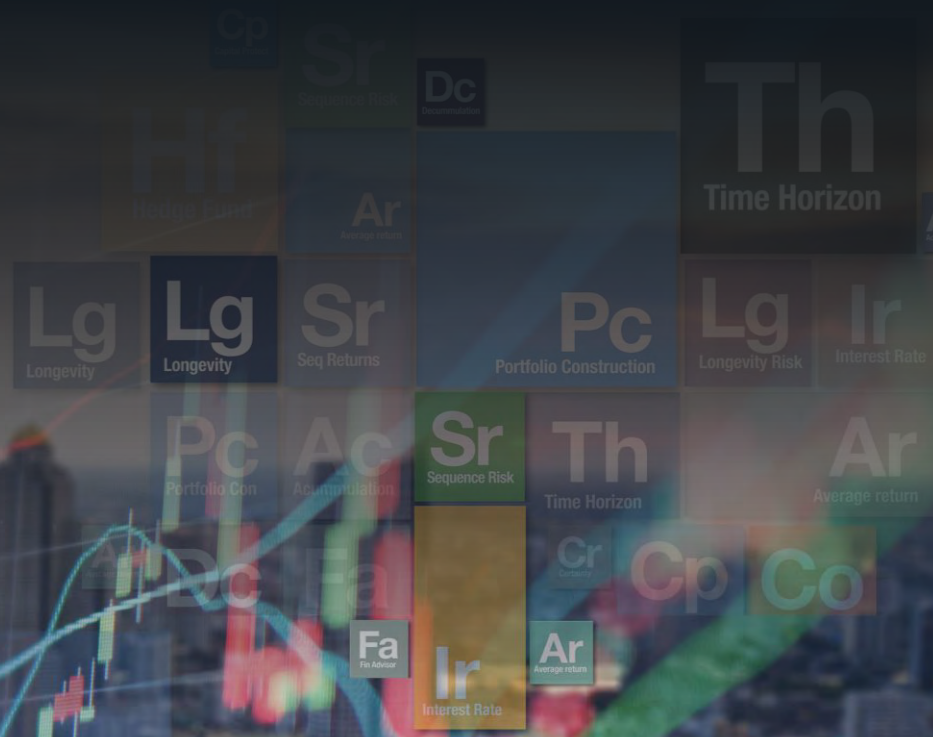


# PUTTING IT ALL TOGETHER – CUTTING OFF THE TAILS!

## Importance of Assymetry



# CONCLUSION





# RELEVANT THINKING

1

Next five years could still see **low returns** from traditional assets.

2

Need to be **deliberate** about what you want to achieve.

3

Solving sequencing risk can improve odds of making **money last longer**.

4

**Absolute-return hedge funds and alternative** exposure is the additional performance needed in a low-return environment.

5

Sanlam has a distinctive advantage as a result of its **strong** balance sheet.

6

We're striving to bring the **best solution** needed, BUT working on practicalities.

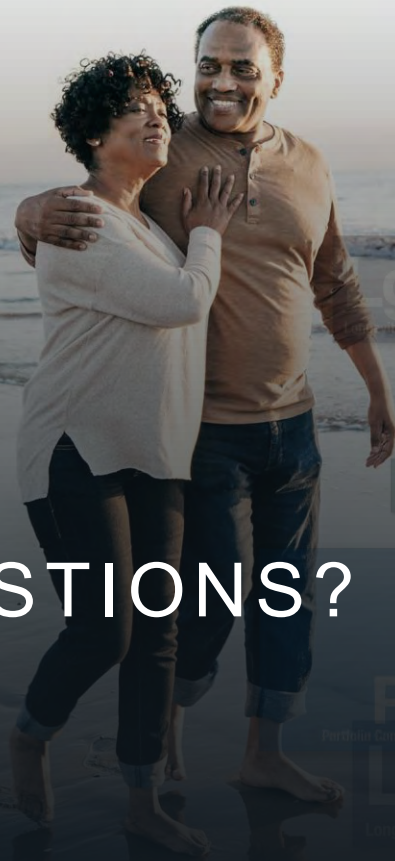


WE CONTINUE TO  
BELIEVE THIS  
TO BE VERY  
IMPORTANT!

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THANK  
YOU

QUESTIONS?



A collage of various financial terms and risk factors, each enclosed in a colored box. The terms include: Cp (Capital Protect), Sr (Sequence Risk), Dc (Decumulation), Th (Time Horizon), Ac (Asset Class), Hf (Hedge Fund), Ar (Average Return), Lg (Longevity), Sr (Seq Returns), Pc (Portfolio Construction), Lg (Longevity Risk), Ir (Inflation Rate), Pc (Pension), Ac (Asset Class), Sr (Sequence Risk), Th (Time Horizon), Dc (Decumulation), Cp (Capital Protect), Fa (Fixed Asset), Ir (Interest Rate), Ar (Average Return), Hf (Hedge Fund), Ar (Average Return), Pc (Portfolio Construction), Lg (Longevity), Sr (Seq Returns), Pc (Portfolio Construction), Lg (Longevity Risk), Ir (Interest Rate), Lg (Longevity), Sr (Seq Returns), Pc (Portfolio Construction), Lg (Longevity Risk), Ir (Interest Rate), Sr (Sequence Risk), and the word 'glacier' in a large, light font at the bottom.

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