Living Annuity Income Solutions

Questions & Answers

1. How confident will the discretionary fund managers be about beating negative returns when markets are in turmoil?

A more diversified portfolio is always more efficient. But ultimately, if capital markets don't provide the performance, it becomes more difficult to get good returns. Fortunately, alternative assets are expected to generate returns independent of the movements within the publicly traded market and are therefore very likely to provide above average returns compared to their public market counterparts. Manager due diligence and manager diversification are considered to be key in alternative asset classes.

2. Are all the new portfolio construction tools available right now?

All the Glacier Invest Living Annuity Income Solutions will employ hedge funds as well as smoothing techniques. Alternative assets will be added in the near future.

3. Do you compare the return profile of these solutions to top quartile funds?

The funds used in the comparison were some of the largest, most reputable balanced and equity funds in the country - consistent performers that offered the longest available track records for comparison purposes.

4. How will tax work within the Glacier Invest Living Annuity Income Solutions?

Because the Living Annuity Income Solutions are housed within an Investment-Linked Living Annuity, tax will only affect income withdrawals. The income tax will be deducted within the Living Annuity and paid over to the South African Revenue Services on the investor's behalf. Interest and dividends received are not subject to income tax, and capital gains tax is not applicable.

5. Are the Living Annuity Income Solutions available on the approved fund list for advisers?

Yes, while the individual underlying funds and asset classes may not all be available on the approved fund list, the solutions in their entirety are available.

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6. Why have alternative assets not been used until now, seeing as they add so much value?

Our solutions are considered revolutionary. While alternative assets have been available in institutional investor portfolios, retail investors are now getting the opportunity to benefit from them for the first time through Glacier Invest. This is made possible by our scale and the life wrapper of the Living Annuity.

Hedge Funds

7. What does short-selling mean?

Short-selling is when hedge fund managers borrow shares of a stock that they believe will decrease in value. They then sell these borrowed shares to buyers willing to pay the market price. When the price decreases, they can buy back the shares at a lower price. But if the value of those shares increases, the manager needs to buy them back at a higher price, leading to losses.

8. Will you offer hedge funds outside the Living Annuity Income Solutions?

Yes, but in a limited capacity at first. Hedge funds will be available in Living Annuities, but unfortunately regulatory challenges do not currently allow us to make them available in discretionary or pre-retirement investments. We are in the process of addressing these challenges.

9. What is the difference between a Hedge Fund and a Standard Investment Fund?

Collective Investments (Unit Trusts) are generally medium to long-term investments, but a hedge fund may also incorporate short-term strategies and practices not utilised by conventional Collective Investments.

Hedge funds can utilise leveraging, allowing them to take on higher levels of risk than typical investment funds, which may result in higher than usual volatility. Hedge funds can also engage short-selling (see question 7) as well as invest in traditionally illiquid instruments which require longer time horizons and are not subject to the same regulations as conventional asset classes.

Smoothing Techniques

10. Does the fee for the smoothed fund include the underlying fund costs as well?

The fee shown (1.2%) includes the fees of the underlying managers as well as the smoothing fee, which is 0.2%.

11. Does this include Glacier's fee?

It includes the wrap management fee; however, the normal platform fee is not included.

12. Can the return be negative on the book value of the smoothed fund?

Yes. The book value grows in line with declared bonuses (the bonuses are added to the book value). Bonuses can be negative when the portfolio is underfunded*. Negative bonuses can be declared up to a cumulative loss of 50% of the book value. It would only happen during very extreme events, for instance during the Global Financial Crisis and the recent sell-off. In each event, however, only a -10% bonus was declared, whereafter the fund immediately started paying positive bonuses again.

*The funding level: The book value (the guaranteed fund price) can be greater or smaller than the market value (the amount obtainable by selling the underlying assets in the market), or equal to it. The ratio of the market value to book value is known as the "funding level" of the portfolio. If the funding level is greater than 100%, the portfolio is "fully funded". This means that the market value is greater than the book value. If the funding level is less than 100%, the portfolio is "underfunded". This means that the market value is less than the book value.

13. Is there a meaningful track record showing that it is in fact beneficial for a client to use these "smoothed funds", considering the higher costs?

Our back tested modelling, based on performance that dates back to 2005, shows that it would have been to a client's advantage to have had exposure to a smoothing fund within their Living Annuity portfolio. The fee of 1.25% is also competitive, considering that the smoothing fund is a multi-managed high equity fund consisting of quality asset managers, with the addition of the smoothing bonus function.

14. Why don't presenters use more current scenarios in their graphs? Please use graphs for the period ending say 2020, and not for the period 2006 - 2010. It seems that they are specifically using periods with better returns

The two graphs you are referring to were drawdown graphs (not graphs showing returns), reflecting the maximum losses that occurred. The graph shown for the period 2006 to 2010 contained the Global Financial Crisis, which is still one of the most severe drawdowns we have experienced and an entirely relevant period to see how funds reacted. The second drawdown graph contained the recent market drawdown and was up to April 2020.

15. How liquid are the private equity funds?

Private equity funds tend to not be very liquid. They are predominantly invested in by institutional investors who are contributing to a pension fund and not drawing an income from the investment. This liquidity problem may be problematic for living annuities, and it is one of the challenges we are in the process of solving.

16. How risky are private equity funds?

The private equity funds used go through a stringent due diligence process, and we ensure that we create a diversified private equity portfolio.

17. When investing in private equities, do you actually buy into an investor company?

Private equity: High-net-worth investors or institutions invest money in new companies or start-ups that have great growth potential. These investors are expected to invest in the new company for several years, as start-up companies take time to generate earnings. This makes it more difficult for investors to get in or out of the investment in private equities. The potential success of these start-up companies may also have been overestimated by the investors, and they could fail, leading to losses for those who invested in them.

Private equity asset managers build a portfolio of unlisted companies in different industries and sectors.

18. How well are private equity funds organised and how does one find out what is available for investment?

Private equity funds are not available to individual investors, as minimum investment amounts are in the hundreds of millions. Your partnership with us, however, makes it possible for your clients to invest in these, as Glacier Invest and Sanlam Investments have the scale to invest in private equities as institutional investors. We also have the capacity and skill for the significant fund manager research and due diligence required to ensure that undue risk is mitigated.

19. Are private equity funds regulated?

Yes, they are regulated by the Financial Sector Conduct Authority (FSCA). There is also an industry body called the Southern African Venture Capital and Private Equity Association (SAVCA), to which most participants in the private equity space subscribes for credibility.

20. Do passive funds invest in private equities?

Not at the moment, as passive investments usually require large volumes of liquidity, which is a significant challenge for alternative investments which have lock-up periods.

21. With debt leverage, will it be problematic when something like the current pandemic forces companies to close down?

Yes, which is why thorough research is conducted and stringent due diligence processes are in place to find companies whose revenue will remain strong to fund the debt repayment.

22. How is the price of a private equity fund determined?

With regard to private equity, many of the calculations are based on assumptions and estimations, which may vary significantly from the actual outcomes. Because of this, the valuation methodology is generally very conservative. This means that private equity investments are generally valued at a significant premium compared to their book value. At the end of the day, these assets have to be sold at some point, and their true value will be known, so there is no advantage in inflating their valuation within the fund.

23. Which fund gives us exposure to both alternative and traditional asset classes?

All the Glacier Invest Living Annuity Income Solution portfolios will contain both alternative and traditional asset classes. While alternative assets in general are not included at the moment (but will be in the near future), hedge funds are included.

24. In what region will infrastructure alternatives be looked at?

Global infrastructure alternatives will be considered.

25. Wouldn't Section 12J investments form part of private equity? The client gets a tax deduction, so in a living annuity would there then be no capital gains tax on growth?

Within a Living Annuity, clients are only taxed on the income they draw. Their investments would be tax-free in the life wrapper of the Living Annuity.

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