

# INVESTMENTS

The past year has been one of the most confusing and chaotic years for many of us. While our way of doing work has changed, our business continuity plans enabled us to withstand economic and social disruption. We have also made substantial strides as a business during this time, creating an environment with greater flexibility to best serve our clients.

When the global health crisis unfolded, it left many uncertain and anxious about the impact it would have in just about every aspect of their lives. Many were worried about their own health and that of their loved ones. Many were worried about the state of the global and South African economy, the impact on their businesses and their savings. The widespread uncertainty negatively affected investment markets, which had a direct impact on the retirement and personal savings of South Africans. It was during this difficult time that we ensured our clients were kept informed and comforted. At the time, there was no downplaying the impact of these environments on investment performance. It is almost impossible for investment portfolios to come out unscathed. Although, the risks that come with investing in financial markets cannot be eliminated, the extent of their impact on your savings and investments can be managed.

Given the relatively defensive nature of the way we construct our portfolio solutions, we were able to safeguard clients' savings and investments when it mattered most by not participating fully in the market falls. While we had experienced negative returns in the beginning of the year, following a multi-management investment approach has meant that the extent of the impact on our portfolios was more muted.

#### **Our proactive response to uncertainty**

2020 saw the fastest financial market decline and rebound on record. Yet, despite the uptick witnessed across financial markets, it is clear that underlying economies have been dealt a significant setback by the Covid-19 pandemic.

While the full extent of Covid-19 and other risks on financial markets is not yet known, we do expect heightened levels of market volatility to persist, which not only presents investors with risk, but also opportunities.

The benefit of our multi-management investment approach is that we have the necessary levers to purposefully spread risk and reduce the impact of this environment. By deploying different asset classes, investment strategies and asset managers at different times, we are able to strike the right balance between protecting against inherent risks and quickly modifying investments to take advantage of growth opportunities, where appropriate. Most of our tactical actions have worked well. The responsiveness and agility of multi-management is a valuable approach for clients to have on their side.

Our clients have trusted us with their hard-earned savings and our stewardship over assets these assets is a responsibility that we do not take lightly. Our portfolio solutions are closely monitored by a team of knowledgeable and experienced investment professionals who maintain high quality investment oversight on behalf of clients, irrespective of market or economic conditions. We continue to allocate capital with risks in mind, seeking out the differentiated returns in non-traditional portions of the market, through private market and hedge fund allocations, maintaining maximum offshore exposures as well as positions in defensive domestic cash and bonds. In this environment, diversifying investment is key. Portfolios that spread investments across multiple investment opportunity sets are responsive to market changes are better positioned to respond strongly enough to participate in market opportunities or protect during extreme conditions.

Successful investment managers are those that stick to a tried and tested investment philosophy. Clients are reassured of our firm commitment to a multi-management investment approach that has allowed us to weather many market conditions in the past and still continue to deliver on our long-term promise to clients.

## Prescribed assets and impact investment

In 2020, we also saw the regeneration of the prescribed assets debate - whether there should be a legislative directive to invest a specified proportion of retirement fund savings and investments into specified assets or investable opportunities. The ANC's 2019 manifesto listed the investigation of the introduction of prescribed assets that would directly impact pension funds.

Although there has been no official decision made to instate the proposal, the speculation around the debate immediately raises concern about the possible implications for investment choices and portfolio outcomes of more than 16 million members of South African retirement funds. On 25 August 2020, Alexander Forbes took the opportunity to engage with Mr Enoch Godongwana, the ANC's Head of Economic Transformation, to get clarity and perspective on the issue in relation to the ANC's developmental agenda and prescribed assets.

The key takeaway from our discussion with Mr Godongwana was that it is not the ANC's intention to instate a policy of prescription if there are alternative, commercially viable sources of funds to invest into the country's infrastructure and developmental objectives. There are currently several prominent initiatives seeking to engage public and private resources to mobilise funds for infrastructure investment in South Africa. In support of this approach, it has been confirmed that Regulation 28 of the *Pension Funds Act* will be amended to expressly define infrastructure as a specific asset class and to separate private equity, hedge funds and any other asset classes not listed in the schedule as standalone asset classes. This allows for specific limits to each of these asset classes.

The success of the infrastructure investment is reliant on having attractive, well-run investible opportunities, which in turn will attract investment. These development impact initiatives bring real hope that government and industry bodies will be able to better coordinate and harmonise further successful initiatives aimed at igniting social and economic development, without the

need for prescription. This is good news for panicked investors. Alexander Forbes exists to help our clients achieve a lifetime of financial well-being, where fiduciary duty requires that retirement fund members' savings be safeguarded and grown. We do not believe that there is a need for prescribed assets – any decision taken to implement this directive could result in sub-optimal investment outcomes for investors. We are, however, highly supportive of the efforts within the investment industry to drive the voluntary mobilisation of savings which can go at least some way in addressing the funding needs of our country while providing a new and differentiated investment proposition for investors. Current circumstances call for it – the Covid-19 pandemic has exacerbated the economic challenges our country faces.

## An Investment Framework for Responsible Investing

There are numerous initiatives that Alexander Forbes undertakes in responsible investment, transformation, employee well-being and development, and corporate social investment. These initiatives are fundamental to sustainability and the creation of stakeholder value.

At Alexander Forbes Investments, we have incorporated responsible investing considerations into our multi-managed portfolios for more than a decade now. In September, we launched our Investment Framework for Responsible Investing - a more focused, forward-thinking approach that allows clients invested in our multi-managed portfolios to understand and identify where responsible investment considerations sit within our investment process. The framework follows a transparent and practical four-pillar approach - beliefs, policy, process and portfolio, outlining how these pillars are incorporated into each of our multi-managed portfolio solutions.

Alexander Forbes will continue to engage with Government and the relevant industry bodies to give commentary on the proposed changes.



For more information on our Investment Framework for Responsible Investing, **please visit** [www.alexanderforbesinvestments.co.za](http://www.alexanderforbesinvestments.co.za)