

RETIREMENT FUND INDUSTRY OVERVIEW

FEBRUARY 2010

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MARKET UPDATE – February 2010

		PERFORMANCE					
ECONOMIC GROUP	SECTOR	DIV YIELD	February	3 MONTHS	6 MONTHS	12 MONTHS	YTD
ALL SHARE		2.25	0.37%	-0.31%	8.21%	48.30%	-3.14%
	TOP 40	2.01	-0.18%	-1.39%	7.84%	48.19%	-3.96%
	MID CAP	3.62	3.87%	6.08%	10.45%	50.40%	1.72%
	SMALL CAP	3.22	1.43%	5.96%	9.45%	43.10%	0.94%
	FLEDG	2.77	-1.14%	1.91%	8.88%	41.17%	-1.21%
DERIVATIVE							
	RES 20	1.73	-0.98%	-4.99%	7.53%	41.42%	-7.33%
	IND 25	1.89	1.17%	1.31%	8.30%	51.25%	-1.88%
	FIN 15	3.12	0.61%	5.06%	7.97%	61.72%	2.11%
	FIN 30	2.27	0.61%	2.37%	7.86%	55.17%	-0.52%
ALL SHARE ECONOMIC GROUP							
	RESOURCES	1.73	-0.98%	-4.98%	7.54%	41.44%	-7.33%
	OIL & GAS	3.01	-1.76%	-3.04%	-1.73%	15.26%	-5.39%
	BAS MAT	1.62	-0.45%	-4.12%	9.27%	47.46%	-6.54%
	INDUST	2.96	1.34%	2.86%	3.61%	43.75%	-1.25%
	CON GDS	1.99	-3.21%	-1.41%	14.78%	53.60%	-3.99%
	HEALTH	0.69	3.30%	7.35%	21.90%	55.39%	-2.16%
	CON SRV	2.35	6.60%	9.10%	18.24%	64.60%	2.15%
	TELECOMS	1.76	1.73%	-5.96%	-11.63%	29.58%	-5.18%
	FINAN	3.53	1.09%	5.32%	8.77%	57.98%	2.35%
	TECHNOL	1.42	9.96%	16.01%	36.57%	104.54%	17.13%
ALL SHARE SHARE SECTOR							
	OIL PRD	3.01	-1.76%	-3.04%	-1.73%	15.26%	-5.39%
	CHEMICALS	1.95	0.03%	-0.73%	4.98%	40.43%	-1.21%
	FORESTRY	1.22	-4.04%	0.42%	1.30%	66.88%	-3.46%
	IND MET	2.93	11.13%	14.85%	2.99%	58.38%	15.44%
	MINING	1.56	-0.88%	-5.24%	8.92%	46.08%	-7.59%
	CONSTRUCTION	4.93	0.39%	-3.17%	-9.30%	22.87%	-7.32%
	GENERAL IND	2.07	-0.87%	1.63%	-0.20%	36.41%	1.20%
	ELECTRONIC	4.68	-4.77%	0.31%	2.79%	45.17%	-5.11%
	IND ENG	4.48	5.22%	1.48%	14.58%	48.37%	3.89%
	IND TRN	2.98	12.39%	8.98%	21.26%	86.62%	2.03%
	SUPPORT	1.04	1.15%	9.96%	18.86%	65.08%	2.70%
	AUTOMOBILES		-4.76%	-10.71%	15.21%	-3.66%	-5.66%
	BEVERAGES	2.29	-5.08%	-8.44%	12.20%	40.87%	-8.50%
	FOOD PR	4.10	0.09%	9.57%	11.52%	33.88%	3.38%
	HEALTH	0.79	1.65%	10.19%	23.78%	43.51%	-2.75%
	PHARMACEUTIC	0.62	4.35%	5.53%	20.75%	64.53%	-1.80%
	DRG RET	2.95	5.05%	14.89%	26.74%	52.68%	8.47%
	GEN RET	3.32	9.24%	13.46%	19.19%	58.29%	6.46%
	MEDIA	0.85	6.52%	3.96%	14.21%	84.54%	-3.68%
	TRAVEL	4.75	-0.19%	1.66%	10.67%	33.19%	-1.72%
	FIX LN	3.43	1.08%	-10.10%	-22.71%	2.15%	-10.41%
	BANKS	3.37	-1.83%	8.24%	9.69%	65.18%	2.42%
	N/L INS	4.14	3.46%	8.65%	17.75%	35.68%	-4.17%
	LIFE IN	1.85	5.03%	0.63%	13.19%	77.65%	2.80%
	REAL ESTATE	7.68	6.66%	7.46%	N/A	N/A	6.01%
	GEN FIN	4.25	1.74%	3.43%	3.15%	74.05%	2.37%
	EQ INV	0.14	1.69%	8.49%	17.63%	37.96%	1.45%
	SOFTWARE	1.42	9.96%	16.01%	36.57%	104.54%	17.13%
ALL SHARE SUB SECTOR							
	GOLD MN		-0.99%	-15.47%	-6.61%	-17.56%	-9.28%
	DIAMONDS		0.00%	0.00%	0.00%	0.00%	0.00%
	PLATINUM		-3.94%	3.27%	4.72%	70.42%	-8.24%
	GEN MIN		-0.16%	-4.52%	13.86%	67.08%	-7.08%

Sanlam Multi Manager International		PERFORMANCE					
ECONOMIC GROUP	SECTOR	DIV YIELD	February	3 MONTHS	6 MONTHS	12 MONTHS	YTD
SECONDARY MARKETS							
	<i>DEV CAP</i>		17.58%	24.70%	-11.57%	-28.77%	11.97%
	<i>VEN CAP</i>		2.09%	32.78%	40.17%	65.58%	45.90%
SPECIALIST							
	<i>SA FIN</i>	2.60	1.33%	2.97%	8.43%	53.13%	-0.19%
	<i>SAPY</i>	7.93	5.75%	7.14%	12.00%	25.19%	5.48%
	<i>PROP UNIT TRUST</i>	8.67	3.14%	6.17%	12.52%	27.36%	3.95%
	<i>PROP LOAN STOCK</i>	7.68	6.65%	7.44%	11.80%	24.48%	5.97%
	<i>INDUST & FINAN</i>	2.13	1.42%	2.02%	8.49%	51.00%	-1.30%
CAPPED INDICES							
	<i>CAP TOP 40</i>	2.01	-0.19%	-1.00%	7.43%	47.96%	-3.60%
	<i>CAP ALL SHARE</i>	2.25	0.39%	-0.11%	8.17%	48.91%	-2.95%
SHAREHOLDER WEIGHTED							
	<i>SH WE TP 40</i>	2.21	0.32%	1.12%	6.83%	48.00%	-2.47%
	<i>SH WE ALL SHARE</i>	2.53	1.01%	2.15%	7.59%	48.14%	-1.64%
CREDIT MARKETS							
			February	3 MONTHS	6 MONTHS	12 MONTHS	YTD
BONDS 1-3 YEARS		7.32	0.87%	2.25%	4.21%	7.65%	1.55%
BONDS 3-7 YEARS		8.27	1.57%	3.15%	4.25%	7.74%	2.31%
BONDS 7-12 YEARS		8.97	2.31%	4.11%	4.01%	7.54%	3.03%
BONDS 12+ YEARS		9.19	2.28%	3.28%	1.73%	4.59%	1.34%
ALL BOND		8.91	2.02%	3.52%	3.47%	6.80%	2.29%
STEFI Composite			0.51%	1.75%	3.63%	8.40%	1.13%
INTERNATIONAL MARKETS							
			February	3 MONTHS	6 MONTHS	12 MONTHS	YTD
DOW JONES \$			2.56%	-0.19%	8.73%	46.19%	-0.99%
FTSE £			2.87%	3.34%	8.57%	41.82%	-0.87%
MSCI WORLD \$			1.23%	-1.36%	4.40%	50.94%	-3.01%
JPM GLOBAL BONDS \$			0.25%	-4.26%	1.07%	10.32%	0.76%
MSCI EMERGING MARKET(\$)			-0.25%	1.84%	-10.31%	-46.65%	5.72%
CURRENCY							
			February	3 MONTHS	6 MONTHS	12 MONTHS	YTD
RAND vs US\$			-0.97%	-3.74%	1.01%	30.92%	-3.80%
RAND vs EURO			0.71%	6.06%	6.22%	20.46%	0.10%
RAND vs GBP			3.80%	4.01%	7.80%	21.46%	1.18%

LEGAL UPDATE – February 2010

1. Draft replacement of regulation 28

2. Draft Board Notice on statutory valuations

3. Budget 2010/2011

- 3.1 Retirement and social security reform
- 3.2 Retrenchment package merger
- 3.2 Group life insurance schemes

1. Draft replacement of regulation 28

The Minister of Finance published for public comment the proposed replacement of regulation 28 of the Pension Funds Act, which deals with the investments of retirement funds. An explanatory memorandum was also published.

According to the explanatory memorandum the key reasons for the proposed replacement of regulation 28 include the following:

- The recent global financial crisis;
- Updating of references to other legislation that have changed;
- Alignment with the definitions, asset categories and structure of limits in other relevant investment regulations;
- Accommodating derivatives, structured products and foreign investments;
- Ensuring that insurance policies providing guarantees comply with prudential limits;
- Enabling Islamic-compliant retirement funds (that may not invest in interest generating instruments) to diversify risk.

The proposed regulation 28 will include, among others, the following:

- Where a fund allows individual members to elect investments, regulation 28 compliance will be required on member level;
- The exemption of retirement annuity fund policies will be removed;
- Credit rating bands have been created for asset categories exposed to credit risk and the maximum exposure thereto depends on the credit rating band;
- Provisions on borrowing by a retirement fund for bridging purposes have been inserted – borrowing in order to make investments will not be allowed;
- Foreign exposure of up to 20% of assets will be allowed as well as an additional 5% in African investments;
- Securities lending will be permitted to generate income for the fund and promote capital market liquidity;
- Investments in derivatives will be permitted for purposes of efficient portfolio management and hedging, but not for gearing and leverage;
- The look-through principle will apply for calculating exposure to asset classes.

Comments on the draft new regulation 28 may be submitted before 16 April 2010.

Coris via Sanlam will provide comments via industry bodies.

2. Draft Board Notice on statutory valuations

A draft Board Notice has been published for comment, prescribing the particulars to be included in a statutory actuarial valuation report. The intention is that the Board Notice will replace the current regulation 15. The Board Notice will be effective for valuation reports submitted to the Registrar from a date 3 months after publication of the Board Notice.

3. Budget 2010/2011

3.1 Retirement and social security reform

The Minister of Finance confirmed the need for an appropriate and affordable savings mechanism for low-income earners. Government is considering the design of a standard, basic retirement saving and income protection scheme that is affordable, simple, cost-effective and available to low-income employees and those with irregular earnings. Such a plan needs to allow for income assurance in the event of unemployment, death or disability. It must also combine assured minimum benefits with a reasonable return on accumulated savings. According to the Minister the basic social security arrangement could be a common, pooled fund to which all employed persons contribute.

However, allowing accredited private funds to operate alongside a statutory default arrangement could grant workers access to affordable and secure savings arrangements, while allowing existing provident and pension funds time to adapt to more stringent minimum standards. Accreditation of private funds would cover standards of proper fund governance, benefit protection and cost efficiency, allowing better-run, more efficient retirement funds to continue to operate.

A ministerial committee on social security reform, supported by an inter-departmental task team, will give consideration this year to the design standards that a default arrangement and accredited funds should meet. This committee will also investigate and formulate proposals for a national health insurance system.

3.2 Retrenchment package merger

The R30 000 tax exemption for retrenchment packages will be merged into the retirement lump sum exemption.

3.3 Group life insurance schemes

Steps will be taken to ensure that where the employer pays the premiums to these “unapproved” schemes (providing lump sum benefits upon death or permanent disability), the premiums are taxed as fringe benefits in the hands of employees.

Where the employees are liable to pay the premiums to such schemes, the premiums must be deducted by the employer from the employees’ after-tax salaries.

INDUSTRY NEWS

HOLD THUMBS FOR ANOTHER INTEREST RATE CUT

Gareth Stokes FA News Editor

Is there a link between growth, inflation and interest rates? Given enough time you could structure a thesis on the interplay between these measures. Some will argue growth and inflation cannot exist separately – others that interest rates determine growth – and no two views will be the same. South Africa’s central bank has been criticised for ignoring growth concerns and sticking to its inflation targeting policies through recession. Analysts believed aggressive interest rate cuts would revitalise the hard-pressed consumer and boost the faltering economy.

Their apprehension might have been misplaced. The reason is the bank cut interest rates by 500 basis points between December 2008 and August last year. The central bank did exactly what these analysts advocated, cutting interest rates aggressively both before and after Statistics SA confirmed the country’s technical recession. As a result South Africa’s GDP growth rate returned to positive territory in the final two quarters of that year. The problem: this growth is off a low base and comes against a backdrop of soaring unemployment. It’s little wonder the trade unions want the central bank to intervene more in the economy.

A new inflation strategy

Trade union demands and calls from various sectors to 'nationalise' the Reserve Bank must have haunted finance minister Pravin Gordhan as he penned his 2010 budget speech. The minister had to balance the interests of the overall economy with the demands from the left to abolish inflation targeting. Gordhan quoted from Section 224 (1) of the Constitution as his starting point: "The primary objective of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic." Gordhan said the bank should pursue this mandate independently and without fear, favour or prejudice. But he wasn't afraid to mix things up a bit.

"The global financial crisis has illustrated the need for central banks to take a broader view of the economy in managing inflation; including growth, employment trends, asset prices, financial sector stability and competitiveness of the exchange rate," he said. Investment solutions economist, Chris Hart, believes Gordhan's speech could signal a significant change in central bank behaviour. "At the end of the day [the budget] was highly significant in the sense that employment and growth are now expected outcomes of monetary policy," said Hart. In other words, the Reserve Bank could deviate from its inflation target in response to economic shocks. Hart says this 'change' could benefit consumers by way of one or two unexpected interest rate cuts in 2010.

Addressing union concerns

Gordhan went out of his way to address union concerns. He noted that a credible monetary policy framework focused on managing inflation was crucial to reducing long term borrowing costs and providing confidence about the future. "Monetary policy is necessary to stimulate investment, employment and competitiveness – particularly among exporters and import-competing industries," said Gordhan. He also stressed that low and stable inflation was essential to protect the living standards of workers and the poor!

Growth could get in the way

One of the popular arguments in support of further interest rate cuts is the poor state of the domestic economy. Interest rate cuts can be used to stimulate consumer activity, thereby boosting overall economic activity. Trade union organisations believe they can create jobs by simply cutting rates. Unfortunately it is not that simple. A prudent central bank strategy is aimed at smoothing the business cycle over time. The latest macroeconomic measures suggest that interest rate cuts since December 2008 have finally filtered to the economy. How do we measure this improvement?

A good proxy for the state of the economy is the South Africa leading economic indicator, compiled by the Reserve Bank from 13 sub-indicators. The indicator improved in December 2009. "This is the fifth consecutive monthly rise in the leading indicator, which pushed the annual rate of change to an impressive 13.1% year-on-year, compared with 10.7% in November and 5.0% in October," said Kevin Lings, economist at Stanlib. He expects annualized quarter-on-quarter growth for Q4 2009 to equal market consensus of around 3%. And that should create enough momentum to lift 2010 GDP to between 2.3% and 3%.

IT'S TIME TO GET YOUR TAX AFFAIRS IN ORDER

Gareth Stokes FA News Editor

There are some busy weeks in store for National Treasury and its income collecting arm, the South African Revenue Services (SARS). On Wednesday, 17 February 2010, ex-SARS Commissioner and current Minister of Finance, Pravin Gordhan, will present the toughest budget in the last decade. Seven working days later the deadline for your second provisional payment for the 2009/10 tax year looms.

You should know how provisional tax works by now. Payments are made based on your estimated taxable income for a particular year and calculated using the relevant Tax Tables. SARS allows you to fulfill your obligation by making three payments. For the 2009/10 tax year the first provisional period deadline is 31 August 2009, at which point you must pay half of your full-year taxable income estimate, less employee's tax deducted in the first six months, and less any allowable foreign tax credits. The second provisional deadline is 26 February 2010. You have to pay the total estimated tax for the full year less employee's tax paid for the full year, less any allowable foreign tax credits for the full year, and less the amount of provisional tax paid for the first period. A top up payment is allowed in the third period, ending 30 September 2010.

Tough rules demand closer attention

Due to changes in the rules governing provisional tax payments, Barnard Jacobs Mellet (BJM) Private Clients bills the event as a *New-style day of reckoning for provisional taxpayers*. Under the 'old' system you would estimate the amount of tax due by referring to your previous year assessment and then make a top-up payment at a later stage. This leniency has been done away with.

In the current tax year SARS has decided to create two tiers or classes of taxpayer for the purposes of provisional tax. Tier one is for individuals with taxable incomes of less than R1 million, and tier two for those whose income exceeds that mark. The rules dictate how each of these classes should make their provisional tax payment. The tier one taxpayer "may base their estimate for the second provisional tax payment on the lesser of the last assessment or 90% of their actual taxable income," notes BJM Private Clients. If you do not have your latest assessment then you need to increase the 'payment' by 8% each year from the last available assessment. "Tier two taxpayers must base their estimate for the second provisional tax payment on at least 80% of their actual taxable income for the 2010 tax year!"

Tony Barrett, CEO (Wealth) at BJM Private Clients, explains: "In practice, this means taxpayers have to accurately estimate what their taxable income will be for the 2010 tax year before the completion of the tax year." Taxpayers will have to include capital gains in their calculations. The risk to taxpayers is in underpaying their provisional tax. In the event they have to top up by too much, SARS will be able to levy penalties for late payment. "Provisional taxpayers may find it in their best interest to seek specialist advice on the new system and how to address the challenge of making accurate forecasts at such an early stage," said Barrett.

A record 2009

SARS enjoyed a record season last year. They received in excess of four million returns from individuals and trusts by the 20 November 2009 deadline, beating the 2008 number by 800 000 returns. "At a time when our economy contracted into recession and within the context of a global economic meltdown, SARS views the breakthrough of the 4 million mark as a major step towards improved to tax compliance in this country," says SARS. The 4.06m total includes 3.9 million individual taxpayer returns of which 2.17 million were submitted electronically.

In an effort to reduce non-compliance, SARS has also announced penalties against repeat offenders with multiple outstanding returns. SARS will levy a minimum penalty of R250 per return outstanding per month until the outstanding returns are submitted. In their assessment of 2009 taxpayer activity SARS concludes that taxpayers are driven by fear rather than moral conscience. The penalty system proves they're happy to go the fear route in improving the overall state of revenue collection in South Africa.

INSURANCE COMPANIES FEEL RED TAPE BURDEN TOO

Gareth Stokes FA News Editor

If you thought your financial services practice was the only business struggling with the regulatory and statutory burden then it's time to think again. In their January 2010 Bulletin the South African Insurance Association (SAIA) published details of the Financial Services Board (FSB) proposal for a new Solvency Assessment and Management (SAM) regime for short- and long-term insurers.

According to SAIA: "Late in 2009 the FSB [said it intended to] implement a new regime relating to solvency assessment and management of short- and long-term insurers." Although we usually cover issues relevant to financial intermediaries and their clients **FAnews Online** decided to take a quick look at what SAM means for the insurance industry.

The evolution of financial regulation

Our first point of call is to determine why the FSB is pursuing a new regime? The primary reason is to bring the South African insurance industry in line with its international peers. *The FSB aims to promote the soundness of insurance companies through the effective application of international regulatory and supervisory standards.*

The regime will be built around the principles contained in the European Solvency II Directive, adopted by the European Parliament on 22 April last year. The FSB says this directive will be adapted to suit South African circumstances where required. It will also be developed and implemented with due consideration to inputs from all industry stakeholders. The implementation date for EU countries is October 2012 and if everything goes to plan the new SAM regime will follow in South Africa soon after that date.

Three pillars of Solvency II

What will insurance companies have to grapple with? The European Solvency II standard is built on three pillars. The first addresses quantitative requirements, including the valuation of assets and liabilities and the setting of capital requirements. These requirements would be presented in a standardised model prescribed by the industry regulator – or by an insurer's internal model subject to regulatory approval. The second pillar focuses on qualitative requirements, namely standards and guidance on governance, internal controls, risk management and supervisory processes. Pillar three deals with reporting and disclosure.

Committing to tough timelines

Local stakeholders have sunk a great deal of time and effort into creating standardised approaches for short-term insurers through the Financial Condition Reporting (FCR) project. Work on the revised capital regime for short-term insurers completed under the FCR banner will be incorporated in (and superseded by) the SAM project. Short-term insurers have been encouraged to continue working on their own internal models.

SAIA notes that the proposed implementation for the standardized approach for short-term insurers is January 2012. The target date for implementation of the internal model approach for short-term insurers, and both the standardized and internal model approach for long-term insurers is January 2014.

The requirements of the SAM regime will become effective for all insurers from the date of implementation.

The recommendations arising from the SAM project should meet the requirements of a third country equivalence assessment under Solvency II. The FSB makes the following appeal in its correspondence: These are challenging timelines; successful achievement of the target dates will require a co-operative process and the active participation of experts from industry and other stakeholders. If you require additional information you can find it in the [FSB Information Letter 08/2009](#).

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