

## RETIREMENT FUND INDUSTRY OVERVIEW

JUNE 2010

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## MARKET UPDATE – June 2010

 <b>Sanlam</b> Multi Manager International		PERFORMANCE					
ECONOMIC GROUP	SECTOR	DIV YIELD	JUNE	3 MONTHS	6 MONTHS	12 MONTHS	YTD
<b>ALL SHARE</b>		2.37	-3.17%	-8.17%	-4.06%	21.78%	-4.06%
	TOP 40	2.17	-3.52%	-9.39%	-5.93%	19.92%	-5.93%
	MID CAP	3.44	-1.01%	-0.70%	7.98%	33.93%	7.98%
	SMALL CAP	3.26	-2.34%	-3.60%	1.69%	24.88%	1.69%
	FLEDG	2.76	0.84%	1.42%	2.76%	27.41%	2.76%
<b>DERIVATIVE</b>							
	RES 20	1.66	-4.18%	-11.87%	-10.02%	16.72%	-10.02%
	IND 25	1.88	-2.44%	-5.06%	-1.62%	24.77%	-1.62%
	FIN 15	4.03	-3.65%	-9.05%	-0.09%	22.20%	-0.09%
	FIN 30	2.59	-2.98%	-7.01%	-1.68%	23.03%	-1.68%
<b>ALL SHARE ECONOMIC GROUP</b>							
	RESOURCES	1.66	-4.18%	-11.87%	-10.02%	16.68%	-10.02%
	OIL & GAS	3.20	-1.85%	-8.45%	-6.99%	4.84%	-6.99%
	BAS MAT	1.49	-4.31%	-12.08%	-9.82%	18.86%	-9.82%
	INDUST	2.70	-4.09%	-7.03%	-1.29%	20.61%	-1.29%
	CON GDS	1.90	1.96%	-2.45%	1.34%	44.23%	1.34%
	HEALTH	0.78	-1.73%	-2.44%	2.52%	39.18%	2.52%
	CON SRV	2.13	-3.87%	-3.59%	5.67%	40.33%	5.67%
	TELECOMS	2.33	-5.69%	-5.85%	-10.35%	-9.93%	-10.35%
	FINAV	4.35	-3.14%	-7.78%	1.33%	24.28%	1.33%
	TECHNOL	1.50	-7.88%	0.21%	15.60%	44.16%	15.60%
<b>ALL SHARE SHARE SECTOR</b>							
	OIL PRD	3.20	-1.85%	-8.45%	-6.99%	4.84%	-6.99%
	CHEMICALS	1.12	-2.08%	3.50%	7.43%	32.25%	7.43%
	FORESTRY	1.34	-0.75%	-10.93%	-1.36%	32.56%	-1.36%
	IND MET	2.78	-3.28%	-11.47%	-5.57%	2.71%	-5.57%
	MINING	1.45	-4.49%	-12.32%	-10.42%	18.51%	-10.42%
	CONSTRUCTION	4.77	-4.05%	-7.64%	-8.77%	-0.31%	-8.77%
	GENERAL IND	1.87	-2.07%	-3.97%	7.45%	26.16%	7.45%
	ELECTRONIC	4.22	3.48%	-3.68%	-1.54%	23.08%	-1.54%
	IND ENG	4.03	0.32%	-4.26%	9.93%	42.92%	9.93%
	IND TRN	3.18	-7.58%	-9.85%	-1.19%	43.80%	-1.19%
	SUPPORT	0.32	-7.49%	-9.99%	-3.41%	31.56%	-3.41%
	AUTOMOBILES	1.77	-0.12%	11.95%	63.70%	114.22%	63.70%
	BEVERAGES	2.11	1.70%	0.31%	-0.69%	40.31%	-0.69%
	FOOD PR	4.19	-0.90%	-3.08%	3.48%	21.38%	3.48%
	HEALTH	0.83	-2.09%	-1.81%	-2.32%	38.18%	-2.32%
	PHARMACEUTIC	0.75	-1.46%	-2.88%	5.40%	39.27%	5.40%
	DRG RET	2.72	5.58%	11.86%	22.51%	55.04%	22.51%
	GEN RET	2.94	0.26%	4.13%	21.95%	50.07%	21.95%
	MEDIA	0.94	-13.07%	-17.44%	-12.81%	27.84%	-12.81%
	TRAVEL	1.87	-3.63%	-7.04%	-7.62%	14.02%	-7.62%
	FIX LN	3.05	2.03%	10.54%	0.80%	8.83%	0.80%
	BANKS	3.55	-5.26%	-9.92%	1.11%	23.55%	1.11%
	N/L INS	4.17	4.56%	9.05%	5.89%	37.76%	5.89%
	LIFE IN	4.37	-2.57%	-6.54%	-0.08%	28.74%	-0.08%
	REAL ESTATE	7.82	0.90%	0.89%	11.11%	N/A	11.11%
	GEN FIN	4.30	-2.10%	-9.86%	4.25%	29.19%	4.25%
	EQ INV	0.20	1.12%	-6.75%	-4.01%	15.86%	-4.01%
	SOFTWARE	1.50	-7.88%	0.21%	15.60%	44.16%	15.60%
<b>ALL SHARE SUB SECTOR</b>							
	GOLD MN		0.08%	16.55%	7.00%	12.10%	7.00%
	DIAMONDS		0.00%	0.00%	0.00%	0.00%	0.00%
	PLATINUM		-5.89%	-11.04%	-9.19%	17.82%	-9.19%
	GEN MIN		-5.35%	-18.18%	-14.54%	20.29%	-14.54%

 <b>Sanlam</b> Multi Manager International		<b>PERFORMANCE</b>					
<b>ECONOMIC GROUP</b>	<b>SECTOR</b>	<b>DIV YIELD</b>	<b>JUNE</b>	<b>3 MONTHS</b>	<b>6 MONTHS</b>	<b>12 MONTHS</b>	<b>YTD</b>
<b>SECONDARY MARKETS</b>							
	<i>DEV CAP</i>		-13.13%	-19.08%	-15.48%	-34.37%	-15.48%
	<i>VEN CAP</i>		-15.65%	-27.55%	10.58%	21.25%	10.58%
<b>SPECIALIST</b>							
	<i>SA FIN</i>	2.83	-2.49%	-5.57%	0.20%	25.17%	0.20%
	<i>SAPY</i>	7.98	1.06%	0.64%	10.57%	29.02%	10.57%
	<i>PROP UNIT TRUST</i>	8.43	1.53%	0.83%	9.94%	29.61%	9.94%
	<i>PROP LOAN STOCK</i>	7.82	0.89%	0.56%	10.71%	28.84%	10.71%
	<i>INDUST &amp; FINAN</i>	2.09	-2.17%	-4.45%	-0.24%	25.85%	-0.24%
<b>CAPPED INDICES</b>							
	<i>CAP TOP 40</i>	2.18	-3.40%	-8.29%	-4.82%	20.33%	-4.82%
	<i>CAP ALL SHARE</i>	2.36	-3.15%	-7.58%	-3.42%	22.26%	-3.42%
<b>SHAREHOLDER WEIGHTED</b>							
	<i>SH WE TP 40</i>	2.36	-3.88%	-8.64%	-4.64%	18.34%	-4.64%
	<i>SH WE ALL SHARE</i>	2.61	-3.28%	-7.03%	-2.24%	21.32%	-2.24%
<b>CREDIT MARKETS</b>							
			<b>JUNE</b>	<b>3 MONTHS</b>	<b>6 MONTHS</b>	<b>12 MONTHS</b>	<b>YTD</b>
	BONDS 1-3 YEARS	6.97	0.70%	1.75%	4.38%	8.44%	4.38%
	BONDS 3-7 YEARS	8.01	0.82%	1.94%	5.98%	10.92%	5.98%
	BONDS 7-12 YEARS	8.91	0.10%	0.83%	6.50%	10.82%	6.50%
	BONDS 12+ YEARS	9.21	-0.10%	0.54%	4.18%	7.95%	4.18%
	ALL BOND	8.86	0.27%	1.12%	5.61%	9.91%	5.61%
	BARCLAYS SA INFLATION BOND INDEX		1.30%	5.13%	5.11%	6.84%	5.11%
	STEFFI Composite		0.56%	1.73%	3.55%	7.54%	3.55%
<b>INTERNATIONAL MARKETS</b>							
		<b>DIV YIELD</b>	<b>JUNE</b>	<b>3 MONTHS</b>	<b>6 MONTHS</b>	<b>12 MONTHS</b>	<b>YTD</b>
	DOW JONES \$		-3.58%	-9.97%	-6.27%	15.71%	-6.27%
	FTSE £		-4.85%	-12.60%	-7.87%	17.10%	-7.87%
	MSCI WORLD \$		-3.56%	-13.26%	-10.88%	8.02%	-10.88%
	JPM GLOBAL BONDS \$		2.10%	1.46%	0.38%	4.31%	0.38%
	MSCI EMERGING MARKET(\$)		-0.91%	-9.14%	3.69%	-20.22%	3.69%
<b>CURRENCY</b>							
			<b>JUNE</b>	<b>3 MONTHS</b>	<b>6 MONTHS</b>	<b>12 MONTHS</b>	<b>YTD</b>
	RAND vs US\$		-0.07%	-4.93%	-3.50%	0.62%	-3.50%
	RAND vs EURO		0.61%	4.97%	12.04%	15.43%	12.04%
	RAND vs GBP		-2.76%	-3.44%	3.72%	10.86%	3.72%

## LEGAL UPDATE – June 2010

### 1. FSB Levies

The levies on retirement funds (other than retirement annuity funds) for the year 1 April 2010 to 31 March 2011 were published in the Government Gazette on 28 May 2010 and are as follows (the levies for the previous year are indicated in brackets):

The lesser of

- (a) R1 138 (R1 053) plus R9,40 (R8,70) per member and every person receiving regular periodic payments from the fund (excluding a member or person whose benefit remained unclaimed or who is a beneficiary in a beneficiary fund); or
- (b) R1 883 628 (R1 744 100).

In case of an umbrella fund an additional levy of R535 (R495) is payable in respect of each participating employer.

Each fund is also liable for a levy for the Pension Funds Adjudicator of an amount per member and every person receiving regular periodic payments (excluding a member or person whose benefit remained unclaimed). This levy has increased from R3,35 to R3,85.

### 2. Information Circular PF 3/2010: Approval of administrator

The circular clarifies when an entity or person must obtain approval in terms of section 13B of the Pension Funds Act as an administrator of benefits and/or investments of retirement funds.

According to the circular, benefit administration includes the administration of membership data, contributions, benefits, expenses and financial reporting. Investment administration pertains to entities or persons approved as a category I (non-discretionary) or II (discretionary) financial services provider in terms of the FAIS Act and appointed to perform the investment management or other intermediary functions relating to the investments of a retirement fund.

### 3. ASISA Standard on living annuities

ASISA has posted a set of industry standards on its website ([www.asisa.co.za](http://www.asisa.co.za)) with a view to ensuring responsible marketing and administration of living annuities.

The Standard requires that various disclosures be made to clients, including that –

- the underlying investments selected should be appropriate from a risk/return perspective;
- drawdown rates should be carefully managed to ensure a sustainable income for life.

The ASISA standard is effective from 31 March 2010 and ASISA members must fully comply with all provisions by no later than 30 September 2010.

## INDUSTRY NEWS

### THE HARSH REALITY OF RETIREMENT

Gareth Stokes FA News Editor

Retirement savers are stuck between a rock and a hard place. Nowhere is this comment better illustrated than in post-crisis Europe, where savers have been hit by the double-edged sword of record low interest rates and plummeting equity markets. The crisis and subsequent recession has hit sentiment among European retirement savers. In fact, the *Aon Consulting European Employee Benefits Benchmark* – a survey among more than 7 500 workers from across Belgium, Denmark, France, Germany, Ireland, The Netherlands, Norway, Spain, Switzerland and the UK – concludes 55% of Europeans are ready to delay their retirement savings!

Levels of pessimism vary from country to country – with the most pessimistic workers in France (74%) and Germany (73%). The Irish (65%), Swiss (67%) and British (60%) aren't too far behind. And more than 80% of workers in Ireland and Britain believe they will have to delay retirement by at least two years. The latest survey shows a significant sentiment shift from previous years, where one in three European workers indicated they would rather retire earlier with less income, opposing moves by various governments to extend the minimum retirement age.

#### Understanding negative sentiment

Why the pessimism? The financial crisis and subsequent recession has raised awareness of the link between markets and retirement savings among ordinary citizens. Thanks to the prominence of consumer journalism through the recession, Joe Average knows his pension fund has taken a hit. Oliver Rowlands, head of retirement, Europe Middle East and Africa, at Aon Consulting observes: "Recent events have shown the value of defined contribution pension funds can go down sharply in a recession, which has come as a shock to many people used to gold-plated defined benefit pensions and generous state benefits."

The shift from defined benefit to defined contribution has hit individual savers hard. As a result of this change the risk associated with retirement saving has shifted from corporations and governments to land squarely in the hands of the individual. "People are realising they need to take an active interest [in their retirement savings plan, including taking steps, such as delaying retirement, to make sure they are financially secure," says Rowlands.

Apart from the usual advice Rowlands suggests shopping around when purchasing annuities. "The price of annuities can shift from day to day and vary significantly depending on the provider, so shopping around is a must, in order to get the most out of a lifetime's worth of saving," he says. South Africans have had loads of time to deal with the defined benefit concept.

#### Planning for a successful retirement

We already know that saving for retirement is a long-term undertaking! And we also know that to retire comfortable we must achieve a replacement ratio – retirement salary expressed as a percentage of your final salary – of 75% or more by age 65. The retirement recipe is available from any of South Africa's professional financial advisers.

Ingredient number one is to start saving for retirement as soon as possible. Compound interest – which is the interest earned on interest – needs time to work for you. For example, a person saving from age 35 and retiring at 65 will have only two thirds of capital available to a person who started saving at age 25. You should contribute 15% of your gross annual retirement salary for a full 40 years! The second ingredient for a successful retirement is to preserve, preserve, and preserve! Resist the temptation to use your retirement benefits for non-retirement purposes when changing jobs, whether due to job hopping or retrenchment. If you religiously save 15% of your gross salary over 40-years you should comfortably achieve an 80% replacement ratio.

If you job hop three times – and preserve only half of your benefits each time – you will achieve closer to 30%! And the final ingredient is to seek out the services of a professional financial advisor. A trusted professional can assist you with the important financial decisions leading up to and during your retirement – ensuring your mix of retirement savings instruments correctly reflects your life stage at all times.

## **REAPING THE REWARDS OF FINANCIAL SERVICES DIVERSIFICATION**

**Gareth Stokes FA News Editor**

One of the country's top life insurers, Sanlam Limited, continues to reap the benefits of its diversification strategy. The group has expanded its product offering from its traditional life book to include investments, asset management, employee benefits and short-term insurance among others. Sanlam is also carving a foothold in one of the world's most populous regions - India. What will the financial services giant achieve in the current year? Last week Wednesday the company published a trading update for the first four months of 2010.

The update begins rather ominously with a paragraph on the challenging business environment. It's nothing you haven't already heard. They warn the global economic recovery remains fragile, mired by the sovereign debt crisis ravaging much of the European Union. As investors question the sustainability of the recent economic turnaround markets have exhibited increasing levels of volatility, and European risk margins have gone through the roof.

### **South Africa cannot escape the pain**

Local equities gained just 3.5% in the year to 30 April 2010, as reflected by the FTSE/JSE All Share index. Although this compares favourably with the 4% loss suffered over the similar period in 2009 - most index trackers are already 5% down on the best levels experienced between October and December last year. Prospects for the domestic recovery vest with South Africa's stressed consumer. Sanlam notes: "Pressure on consumers' disposable income and discretionary spending remains." This has contributed to declining deal flows and business activity at a number of Sanlam's institutional businesses.

Of greater concern is the apparent economic lag in commodity-rich African countries. These economies are only now feeling the full impact of the global slowdown. An unnaturally high rand isn't helping matters. "The reported results from most of our international businesses are also negatively impacted by the relative strengthening of the South African rand," observes Sanlam. Analysts say the rand should be trading at around R8.50/\$ on purchasing price parity (PPP) measures. The final drag for domestic insurers is the sharp reduction

in short-term interest rates. Interest earned on working capital and investment income on shareholder funds have come under pressure as the Reserve Bank repeatedly cut rates. The prime interest rate is 550 basis points softer than the 15.5% prevailing at 1 December 2008.

### **Small victories in life space**

Has Sanlam risen to the challenge? The group says its new life insurance business volumes increased by 21% at sustained margins, while overall net business inflows amounted to R6.8 billion. But a strong performance from its life business wasn't enough to rescue the period under review. Instead, total new business volumes were 6% lower than for the first four months of FY2009.

Sanlam understandably focuses on the impressive new life business number. Volumes were driven by Sanlam Personal Finance's 15% increase in new life business sales, with both the Glacier and Topaz South African showing a strong improvement over 2009 results. "Growth was achieved consistently in both new recurring and single premium volumes," says Sanlam. We briefly mentioned Sanlam's foray into India in the opening paragraphs. The group reports strong activity at its Shriram Life operation and also achieved 39% increase in its UK-based new life business volumes. Both persistency and life net flows remain within acceptable levels.

Risk underwriting business was up 17% while the Sanlam Developing Markets division reported 10% growth in new business, including an excellent 27% improvement in new business premiums from the combined Sanlam Sky / Channel Life South African operations. Sanlam Employee Benefits leveraged its small base to record a threefold increase, with new single premium flows of R277 million and a 15% spike. But Africa disappointed. "New business volumes reported by the African operations are 12% down on 2009."

### **Investments taking strain**

Gross investment business inflows are 11% lower than in 2009, reports Sanlam. There was a 3% reduction at Sanlam Personal Finance's new investment business, offset by strong unit trust sales in Namibia. But gross investment flows to Sanlam Investments were down 17%! Net investment inflows of some R4.5 billion (excluding white label) for the four months, versus R260 million in 2009, are however particularly satisfactory in the current environment.

Sanlam remains well capitalised, with identified discretionary capital of some R3.5 billion at the end of December 2009. The group utilised excess capital to invest in value adding growth opportunities (some R100m year-to-date 30 April) and to buy back Sanlam shares on the open market (some R460m to acquire 19.2 million Sanlam shares at around R24/share). What will the first half of FY2011 deliver for shareholders? The group's half year audited results (to 30 June 2010) will only be released on 9 September 2010; but the four-month trading update points to a conservative 12% improvement in the net result and an 8% improvement in core earnings per share. Management will have its work cut out to maintain this performance given the gloomy outlook for the global (and South African) economy.

## **REGULATOR GETS TOUGH ON INSIDER TRADER**

**Gareth Stokes FA News Editor**

The Insider Trading Act was promulgated in 1999. This law governs how directors (and ordinary citizens) should approach stock market transactions - their buy and sell decisions - when they possess 'sensitive' information about a listed company. People who contravene the Act could run foul of the Financial Services Board (FSB), which investigates 'insider trading' and similar allegations through its Directorate of Market Abuse department. The FSB states: "If a person becomes an insider, the Act prohibits him/her dealing in the securities that the inside information relates to, encouraging another to deal, and disclosing the inside information."

### **Punishing insider traders**

The Enforcement Committee of the Financial Services Board (Committee) is responsible for ruling on insider trading infringements. Last week they announced the finalisation of their case against Johan Pieterse, managing director of Scharrighuisen Drilling (Pty) Ltd, a subsidiary of JSE-listed Sentula Mining Limited. In 2008, Pieterse became aware of a large impairment in the assets of the subsidiary and used this 'inside' information to trade beneficially in the company's shares. Pieterse admitted the allegations and tendered a penalty of R1m, which was duly imposed by the Committee. The case against Nicolaas van der Merwe (accused of similar transgressions) is ongoing.

Ordinary Sentula Limited shareholders found out about the impairment the hard way. And they could only watch as their investments plummeted when the information was made public. On Friday, 30 May 2008 shares in the general mining company closed at 1585c. By the time the dust had settled on Monday, 2 June 2008, its shares were worth a mere 1190c. Investors lost 385c/share (or 24.92%) of their investment in a matter of hours. The share selling frenzy was triggered by the contents of a trading update (the insider information) which was distributed via the JSE SENS system at 08:56 Monday, four minutes before the market opened. The update - to which certain Scharrighuisen directors were already privy - mentioned a disappointing outlook for earnings for the 2008 financial year and some accounting errors that would require restatement of its 2007 results. These accounting errors proved extremely serious! The massive single day price movement prompted the FSB insider trading investigating just mentioned.

### **Meanwhile in the United States**

International insider trading rules vary from country to country. The United States, for example, distinguishes between legal and illegal insider trading. Illegal insider trading occurs when an individual completes a market transaction armed with privileged corporate information not yet in the public domain. The argument is that such a person has an unfair advantage over the rest of the market because of this knowledge, thus violating the essential transparency requirement of an efficient capital market.

US website investopedia.com continues: "Inside information is not only unfair but disruptive to a properly functioning market. If insider trading were allowed, investors would lose confidence in their disadvantaged position (in comparison to insiders) and would no longer invest." There are dozens of activities a director or connected person might know about that qualify as inside information. These include: knowledge of an upcoming merger or acquisition, knowledge of an earnings announcement, knowledge of a new discovery or innovation, an unreleased recommendation from a share analyst and knowledge of an imminent exclusive in a financial news column.

Although tightly regulated, directors of companies can purchase and sell shares in their companies. We refer to this activity as director's dealings, while the US classifies it as legal insider trading. They refer to legal insider trading as "the trading of a corporation's stock or other securities by individuals with potential access to non-public information about the company." American investors are so intent on benefiting from this form of 'insider' trading that they've created the Claymore Sabrient Insider Exchange Traded Fund (AMEX:NFO) that tracks an index of 100 US-listed shares selected (from around 6,000) largely on the strength of which companies show "a trend of insider buying."

**Fair trading**

Insider trading situations occur on a daily basis. They are fairly difficult to identify, and even more difficult to successfully prosecute. The best way to mitigate insider trading risk is to ensure everyone receives important information at the same time, and to punish directors and connected persons who act on 'inside' information.

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# CONTACT DETAILS

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