Confusion over retirement funds remain

When it comes to investment products for retirement, the terminology has often confused investors and even intimidated them.

The Association for Savings and Investment South Africa (Asisa) received approval for a simplified fund-classification standard, which came into effect on from January this year.

It includes collective investment schemes such as unit trusts and is aimed at helping potential investors to compare the performance of various funds and make an informed selection.

From now on, funds must be classified according to their geographical exposure (where the fund is invested) and underlying assets (such as equities, bonds, cash or property).

Fund names must truly reflect their geographical holding and what they are invested in. They must also disclose whether they are funds-of-funds, an index tracker, a money-market portfolio or a feeder fund.

For example, you will now be able to choose from portfolios that are South African (minimum 70% local), worldwide (all regions of the world - no restrictions) or regional (minimum 80% global, maximum 20% South African). From there you can choose between funds that hold equities, are multi-asset funds, interest-bearing funds or invested in real estate.

Wade Witbooi, investment analyst at Glacier by Sanlam, said instead of investors being presented with a confusing description such as *Domestic - Asset Allocation - Prudential Variable Equity*, the new descriptions will be more helpful: *South African - Multi-Asset - High Equity*. This, it is hoped, will demystify the retirement investment sector.

"One of the changes sees the fixed-interest varied specialist category being discontinued. The new classification system will see the majority of those funds move to the multi-asset income category, whereby they may now hold a maximum of 10% equity and 25% property exposure. This new category will enable investors who seek a fund with a majority holding in interest-bearing instruments to benefit from the diversification of a maximum holding of 10% in equities and 25% in property," Witbooi said.

Categorisation based on investment style or methodology - such as value or growth - will be dropped in favour of focusing on the underlying investment instruments, whereas funds with both value or growth strategies will be classified as general.

"Other noticeable changes include the amalgamation of the asset allocation high and the asset allocation variable equity portfolios. These funds will continue in the new multi-asset high equity category, with the same investment limit imposed of a maximum weighting of 75% in equities (including international equity) and 25% in property (including international property).

"The real estate general category will continue under the same name, but the minimum exposure to property will change. Previously, funds had to have only a minimum exposure of 50% in listed property but now the minimum exposure will be increased to 80%. In addition, these funds may now invest up to 10% in companies that conduct similar property-related business activities," said Witbooi.

He says that if you are already invested in a fund, nothing in its investment policy will change, so you need not worry about your investment mandate changing without you knowing.

"If the management company would like to make changes to the investment mandate to better position the fund in its new category, it would need to ballot all investors in the fund. The outcome of the ballot will depend on whether the majority of investors are in favour of, or against, the proposed changes.

"Asisa has taken a step in the right direction, seeking to align our fund-classification system with international definitions and has done so primarily with the investor in mind. An important consideration for investors to note is that even though the categories are now more understandable, it doesn't imply that one can assume a *one size fits all methodology* when investigating the constituents. Although the category name is the same, it does not mean the funds are all managed the same way.

"Investment houses, portfolio managers and investment analysts all do research with a robust investment philosophy entrenched in their valuations and processes. It is important to understand the philosophy of a fund, especially when investing within a category that could contain various investment styles," Witbooi added.

Source: *Sunday Times* via I-Net Bridge