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MOTSWEDI
Economic Transformation Specialists

Mark's musings

Retirement Fund trustees - drivers of economic transformation

I was chatting the other day to the Board of Trustees of a rather big Retirement Fund about them allocating a portion of their assets to emerging asset managers as part of their long-term investment strategy. The idea identified was to purposefully accelerate the growth trajectory of carefully selected emerging managers – ultimately changing the face of the asset management industry. As we unpacked this idea what I felt was genuine interest from this group of trustees who expressed their desire to back these emerging managers.

The challenge here was to find the way forward, specifically the how and the where to start. During the conversation, as expected there were TWO key questions which came up. Questions I would expect any Board of Trustees to ask when it comes to wanting to do the right thing in the face of poor information.

1) What is the risk?
2) Will we sacrifice investment performance?

What is the Risk?

Risk exists with every asset manager, whether large or small. What is important to understand is where the risks are higher and where lower and how they can be mitigated. In the ensuing discussion the Trustees and I delved into the kind of risks which should be focused on with emerging asset managers and in turn the risks which we should focus on with the larger asset managers.

Together we further interrogated the different aspects of the due-diligence questionnaire and the vital aspect of the proverbial "look-the-entrepreneur-in-the-eye" and understand how they believe their investment philosophy and process will translate into growth for their business. What came through in the discussion was that entrepreneurial business models are constantly being tested and that the entrepreneurs are looking to refine these business models to find the formula for growth. By its nature this process brings risk and thus walking this road with a partner who has expertise makes all the difference.

Will we sacrifice investment performance?

Trustees do not like underperformance. This was the crux of the matter. The trustees want to do the right thing, but they cannot do so at the expense of sacrificing performance. My response was unequivocal, there are no special favours for underperformance which is not expected. We then proceeded to unpack the performance of the traditional managers relative to those of the emerging asset managers... As expected across the spectrum of managers there were managers above average and managers below average and managers which we expected to underperform in this environment and a few which we did not. Good asset managers will deliver good returns.

The trustees made it clear to me that they understand that asset managers invest using different styles and approaches but under performance translates into unhappiness and unhappiness translates into pain and pain translates into the termination of asset manager appointments.

In this writers experience however there are one or two large asset managers which are exceptions to this rule and have been known to be given a general under-performance free pass, but for all other asset managers it's a case of no special favours.

Trustees have the power

Understanding the risk and possible returns of investing outside of the traditional names in asset management may well be the answer to finding innovative ways and means to growth the South African financial services industry. More of the same is not what is needed. Trustees have the power to make decisions which drive the growth South Africa needs.

This is why I'm so passionate about the role that the retirement fund industry can play in fostering true economic transformation in South Africa. Imagine a future where investment decisions are made through a lens that considers the socio-economic landscape, where diverse voices are heard, and where opportunities are abundant for all South Africans to thrive.