



Sanlam employee benefits
investment product administration:
a solution for the administration of investment portfolios
and daily pricing

Insurance

Financial Planning

Retirement

Investments

Wealth

about retirement fund administration

You might think that retirement fund administration is all about collecting contributions and paying benefits.

At Sanlam it's far more than that! For us, it is about designing and managing retirement fund administration solutions for over 350 000 members, providing a cost-effective and secure IT platform and communicating with members and trustees in a way that is easy to understand.





We strive to administer retirement funds

in such a way that each fund member understands the reason for retirement savings, financial goal-setting and investment strategies to ensure financial independence at retirement.

Retirement fund members have increasingly become responsible for planning their own retirement. As a result, they need appropriate solutions and regular encouragement to assess their retirement benefits and other investments.

Sanlam Employee Benefits' retirement fund administration team takes care of every aspect of fund administration – from member communication to death benefit distribution.



investment › product administration

Investment Product Administration (IPA) is the component within our administration model responsible for unitising member investments and daily pricing of investment portfolios. (Please note that unitisation of assets does not amount to pooling of these assets under a life license.)

IPA forms the link between member administration and the funds' asset managers - monitoring and managing cash flows between these areas. In addition, IPA collects market values of the retirement fund's investment portfolios, calculates a unit price and sends this to member administration, which then transacts using the given unit price.





Pricing

The pricing team ensures that portfolios are priced accurately on a daily basis. The team prices over 2 500 portfolios across the globe - covering all asset classes - and does extensive reasonability testing on received market values and calculated prices.

The pricing function includes:

- ④ Updating market values of funds and matching cash flows with asset managers daily
- ④ Reconciliation with member administration
- ④ Rebalancing instructions of multi-managers and/or consultants
- ④ Processing member administration instructions and non-member related transactions.



Technical support

The technical support team checks to ensure that prices are correct. For added security there is segregation of duties between this team and the pricing team.

Part of the team's daily responsibilities is to do reasonability testing of market values and prices against benchmarks, as well as comparing test results to other funds with similar asset allocations. This is done both on a daily and monthly basis.



Treasury

The treasury team is responsible for the investment, disinvestment and switch instructions to the asset managers as well as the payment instructions regarding investments. They also reconcile portfolios on a weekly basis to ensure that instructions are processed and confirmed by the asset managers. The treasury team allows for a turn-around time of less than three days to follow-up on long outstanding trades.



Implementation

The implementation team is responsible for setting up client investment structures and changes to these structures according to a client's investment mandate.

This includes:

- ② Creating fixed cash flow templates for investments and disinvestments
- ② Setting up strategic asset allocation
- ② Arranging for market value data from asset managers
- ② Building product benchmark data for the particular investment structure.



Investment accounting

The investment accounting team reconciles investment manager monthly reports to values carried on the IPA's unitisation and pricing system, called Interlink. This is done on a per-portfolio basis.

This team is also responsible for preparing and submitting quarterly asset allocation reports (These are called D427 reports) and any surveys to the South African Reserve Bank (SARS). In this regard the investment accounting team will also compile and submit Regulation 28 reports to the Financial Services Board (FSB).

> Reporting

IPA can provide a number of reports (for a specified period) on a monthly basis, such as:

- ② Detailed client holdings report – This report provides client holdings by product
- ② Period portfolio performance report – This report displays the period performance values for the selected portfolios
- ② Portfolio attribution analysis report – This report displays the attribution analysis for the selected portfolios
- ② Client activity report – This report provides client details, including movement and balances per product
- ② Unit pricing tracking report – This report shows the selected portfolio prices, per selected monthly price
- ② Day-end values summary report – This report shows the day-end values for the selected portfolios.



frequently asked questions

1 What does Investment Product Administration do?

The Investment Product Administration department is responsible for the daily monitoring of all employee benefit clients' investments. This includes the investment of member or reserve account money.

The system used by IPA to monitor the investments is called Interlink - a multi-manager investment unitisation system used throughout the investment industry in South Africa.

IPA offers a highly specialised and unique service consisting of the following supporting teams performing specific functions:

- Implementation
- Technical support
- Pricing
- Treasury
- Investment accounting



implementation and technical support

② What information is required to set up a client's investment structure on Interlink?

The following documentation is required by IPA's implementation team in order to set up the client's investment structure:

- ① **A trustee resolution:** Authorising Sanlam Employee Benefits to obtain information from the asset managers and authorising us to invest and disinvest monies daily.
- ① **For private funds, a trustee resolution:** Indicating which portfolio the trustees have selected as the exit product for pending exits.
- ① **An investment mandate:** Indicating which investment products the trustees have authorised for the members' use and where reserves will be invested.
- ① **A cash flow mandate:** To indicate how daily investments and disinvestment should be processed.
If the fund appoints an investment consultant, it should provide the investment structure set-up documentation. The implementation team will request that the investment consultant sign-off on the set-up done on Interlink.
- ① **Warrant document:** Indicating which trustees are authorised to give instructions on investment mandate changes.





3 What is required to change a client's investment structure?

In order for us to change a client's investment structure, we will require a revised investment mandate document signed by the authorised trustees.

4 Are there any cost implications of changing a client's investment structure?

Based on the type of changes required, a once-off ad hoc fee is charged.

5 What process is followed to release the first price on a new client fund?

The following is a short explanation of the process followed to release the first price on a fund once it is set up on Interlink:

- ① A first member trade from the member administration platform (MIP-EB) is provided by the MIP-EB implementation team. This indicates the member values converted to units using a price of R1,00.
- ② The member trade is matched with the assets of the fund at the take-on date.
- ③ Any assets exceeding member values and reserve account values will remain with the individual asset managers. These funds will then be ring-fenced on Interlink as 'unallocated assets at migration'. The standard pricing procedures are then followed to calculate the first price.

daily pricing

6 What process is followed to calculate daily prices?

The daily pricing process can be summarised as follows:

1. Market values and cash flow confirmations per portfolio are obtained directly from the asset manager.
2. Cash flow confirmations are matched with transactions previously loaded on Interlink to determine the accuracy of the data provided by the asset manager.
3. Member trades and reserve account trades are captured.
4. The system calculates the price as follows:
$$\text{Price} = (\text{MV} + \text{CF}) / \text{U}$$

where:
MV = Market value received
CF = Adjustments for transactions on Interlink not yet confirmed by the asset manager
U = Unit holding in portfolio

A price reasonability test is performed to indicate which portfolios have no market movement compared to the previous day, or have market movements above or below the benchmark of the portfolio. Variances are investigated and corrected
5. The technical team performs a second review of all prices and provides a query list to the pricing team indicating portfolios with 'out of tolerance' price movements.
6. The pricing team provides reasons for 'out of tolerance' movements and in conjunction with the technical team, then considers which prices should be held back.
7. A price list with approved prices is released to member administration.
8. All prices not released are followed up and corrected before the next day-end process, where possible.



7 How are member trades and reserve account trades captured on Interlink?

Member trades are captured on the system manually. IPA is working on a direct import solution. Reserve account trades are captured manually as well.

8 How do we calculate internal unit prices?

Unit prices are calculated as follows:
(Market value from asset manager + trades for the day - previous day's outstanding cash flow)
Previous day closing units + units for today's trades.

9 Does IPA use forward or historic pricing?

Historic pricing is used to price member portfolios. Units are created or cancelled based on historic market values.

10 What controls are in place to ensure accurate prices are released?

IPA has two teams dedicated to this process. The pricing team has several controls to ensure that the information received is correct and that it is imported correctly and timeously.

As a completely separate function the technical review team reviews all prices on a daily basis before the prices are released. All prices which are outside set tolerance levels are held back and movements are queried with the asset

manager. All our controls are based on actual versus benchmark performance and we rely on accurate information provided by the asset manager.

11 What prices are reflected on the Retirement Fund Web?

The price reflected on the web is delayed by two business days. For example, the price displayed on the web on Monday will be the closing price as at the previous Thursday.

12 Does IPA use the unit price provided by the external manager?

IPA does not use external prices received from asset managers, but rather the market value, divided by the number of units on the member administration system. The price calculated is referred to as an 'internal price'.

13 Is IPA able to view the daily prices for each portfolio, as well as the history of the prices?

IPA keeps a complete history of prices on the Interlink system. Queries regarding the movement or history of a price should be sent to: ipa_instructions@sanlam.com.za.

technical review

14 What quality control processes are in place with regard to pricing?

While IPA cannot guarantee the quality of information received from asset managers, in order to ensure data integrity, IPA tests and measures the data against acceptable norms, like benchmarks or other portfolios. Each month, asset manager details are reconciled against the monthly statements received from the asset managers. Transactions are also matched to information on files.

IPA has implemented the following risk controls on the platform to ensure daily pricing is effectively managed:

- ① Benchmarks are set up within Interlink. These are monitored and changed according to market conditions.
- ② Actual daily performance is monitored against benchmark movement, with a built in tolerance level. Tolerances provide a range of acceptable performance around the benchmark performance, based on historical standard deviation.
- ③ This is a reasonability test performed on a daily basis and it provides a way of testing the integrity of the data received.
- ④ Daily cash flow data, as confirmed by the asset managers, is tested against actual market value data provided. This ensures that market value movements take the correct cash flows into account.

- ⑤ Performances of similar portfolios across clients are compared on a daily and monthly basis to identify any discrepancies.
- ⑥ Actual versus benchmark performance comparisons are done on a weekly and monthly basis to identify variances and to determine if the benchmarks used are correctly.
- ⑦ Control checks are performed to monitor price releases for accuracy and completeness.
- ⑧ Quality control on the platform is further controlled by user-defined access levels within Interlink, to ensure segregation of duties between teams and individuals who have access to the system.



treasury

15 How is cash flow allocated between asset managers?

Protocols pre-defined by the fund: The protocols are defined by an investment mandate signed and authorised by the trustees of the fund. The system automatically allocates to the various underlying managers the daily member withdrawals or contributions as set out by the investment/daily cash flow mandate. This allows the fund to limit daily trading on certain offshore or illiquid portfolios. These portfolios form part of member products and trade on a cash portfolio to limit fund expenses and ensure speedy payment of member claims.

Target Allocation: The fund can also define a target allocation. This functionality will automatically allocate new monies in the target proportion (also set out by an authorised investment mandate).





16 How are investments and disinvestments instructed?

The treasury team will instruct the total of all investments, disinvestments and switches captured for a portfolio on the previous day. For example, member admin processes the following transactions for fund X on Monday:

Contribution for Member A in Portfolio 1 R1 000

Withdrawal for Member B from Portfolio 2 R2 000

Withdrawal for Member C from Portfolio 1 R2 000

Switch for Member D from Portfolio 1 to Portfolio 2 R3 000

These transactions will be detailed on Monday's trade report for fund X, which is sent to investment product administration for processing by 7:00am the following morning.

Trade reports are captured and allocated in line with the daily cash flow mandate. The treasury team will instruct the following on Tuesday:

Portfolio 1 net withdrawal R4 000

Portfolio 2 net investment R1 000

The instructions are sent to the asset manager via email or fax, on a company letterhead (pre-defined and automatically populated instruction template) signed by two authorised signatories. The authorised signatory list is regularly updated and approved by the chief operations officer.



17 How long does it take for withdrawal instructions to reflect in the fund's bank account?

On equity portfolios it can take between two to five days after the instruction has been received by the asset manager. It may take longer for large withdrawals depending on liquidity in the portfolio. Disinvestments from cash portfolios normally reflect within one to two days.

For the termination or partial termination (less than 15%) of a portfolio, the asset manager generally requires one month's notice to liquidate the portfolio. This is, however, negotiated on an ad hoc basis.

For Section 14 transfers or terminations, IPA generally arranges asset transfers, or where possible, transfer of ownership of a portfolio to the new fund (if the new fund has the same portfolio available on its platform). The asset manager is then usually able to waive notice periods, allowing guaranteed portfolio assets (especially Sanlam managed guaranteed portfolios) to be transferred without penalties. This also ensures that members stay in the market during the Section 14 transfer process.

18 How are multi-manager structures rebalanced? Rebalancing and tactical asset allocation:

Rebalancing of portfolios will take place through a specific instruction from the fund or asset consultant, backed up by a service level agreement in terms of timelines. The fund or asset consultant can instruct IPA to rebalance to the target allocations set up on the system or can provide a specific instruction with the required switches to be processed.



19 How are offshore portfolios administered?

Offshore portfolios are generally priced and managed in USD/EUR/GBP. IPA is able to assist the fund in opening offshore bank accounts in the name of the fund to assist with investments in and disinvestments from offshore portfolios. These offshore portfolios, including offshore bank accounts, are generally set up under the fund's offshore building block (offshore product underlying the member product). Should the fund wish to increase the fund's or product's offshore exposure, an authorised switch or rebalancing instruction can be sent to IPA. IPA will process a switch from the local product to the offshore product or building block, arrange to purchase USD/EUR/GBP and transfer it to the offshore bank account or portfolio for investment.

20 What controls are in place with regard to instructions and payments?

Asset manager bank accounts are confirmed when the portfolio is set up on Interlink. The implementation team is responsible for loading bank accounts on Interlink, while the treasury team, using a daily audit trail, will confirm that all bank accounts have been loaded. Daily payment instructions to the fund accountants are automatically populated from Interlink. The bank details are checked and the payment instruction is signed by two authorised signatories. Asset managers are loaded as authorised beneficiaries or creditors on the internet banking profile. New creditors' bank details are also independently verified by fund accounting before the credit is authorised and loaded.

All instructions to asset managers are automatically populated from Interlink with bank details, reference numbers and contact details etc. The instruction is checked against the daily cash flow report and signed by two authorised signatories. The authorised signatory list is regularly updated and approved by the chief operations officer.

21 Taking into account that the asset manager generally only processes an instruction two days after it has been captured on the member admin system on a historic price, what processes are in place to ensure that remaining members are not impacted in any way?

The member exits the fund at the unit price on the day that their exit is processed on the member administration system. This ensures that the application to SARS for a directive can be lodged immediately using the fixed rand value of the member benefit. This helps ensure speedy payment of member claims. Therefore, should the market value of the portfolio drop during this period, the remaining members will carry the loss. The benefit from rand value instructions exceeds the cost associated with it (in the form of cross subsidisation which is generally small and insignificant) as long as the daily trade values are small in comparison with the portfolio holding.

To eliminate cross subsidisation, which can have a significant impact on the remaining members, large disinvestments (larger than 10% of the portfolio value) will be instructed in units or percentages of the portfolio market value. The exiting member's benefit is then adjusted to reflect the actual amount received for the disinvestment of their units. The application for the directive is then lodged only after the final benefit value has been confirmed.

22 What is the purpose of monthly reconciliations?

The reconciliation document consists of three sections:

1. The purpose of the first reconciliation is to match the information on Interlink (the system used to administer the assets) with the monthly statements received directly from the asset managers. The closing market value at Interlink's month-end is then reconciled with the market value reflected on the asset manager's statements.
2. A second reconciliation is done to match the contributions and withdrawals according to IPA's records with that of the asset manager statements. Any differences are investigated and reported to the relevant parties for correction.
3. The third stage is the investment analysis. This is a summary of all income, expenses and capital flows for the month.

This three-tier process is carried out for each and every portfolio and fund on Interlink.

The daily market value movements on the investments are journalised to the market value clearing account in the fund's general ledger. Fund accounting uses the monthly reconciliations received from IPA to journalise market value movements (dividend, interest etc.) from the market value clearing account to the relevant general ledger accounts. The reconciliation and investment analysis is prepared by an investment accounting officer. A team leader reviews the reconciliation before it is saved together with the supporting documentation.

23 What is the purpose of the annual reconciliations?

Audit documentation consists of four sections:

1. **Audit reconciliation.** The main purpose here is to reconcile the information on Interlink (the system used to administer the assets) with the annual audit certificates received directly from the asset managers.
2. **Market value reconciliation.** At Interlink's year-end, closing market value is reconciled with market value according to the audit certificates.
3. **Audit certificate reconciliation.** A further reconciliation matches the contributions and withdrawals on record to those of the audit certificates. Any differences are investigated and reported to the relevant parties for correction.
4. **Investment analysis.** This is a summary of all income, expenses and capital flows for the fund's financial year.

Any differences in the market value clearing accounts are picked up and re-allocated. Interest, dividends and profits or losses on the investments for the year are confirmed. The appropriate journals are posted before the year-end close.

These annual reconciliations are carried out for each and every portfolio on Interlink and for each and every fund.

24 What is the purpose of Regulation 28?

A registered fund may only invest in assets that comply with Regulation 28 of the Pension Funds Act. The annexure to Regulation 28 details the maximum allowable investment in the relevant categories (expressed as a percentage of the total fair value of the assets of the fund). In compliance with the annexure, the Regulation 28 certificate summarises the fair value of the investments, expressed as a percentage of the total fair value of the assets of the fund.

The annual Regulation 28 is included as an annexure in the financial statements of the fund, to be audited and submitted to the Financial Services Board (FSB).

Each retirement fund must also monitor compliance on at least a quarterly basis and report any breaches to the FSB.





25 What is the purpose of the submission of the quarterly asset allocation returns to the South African Reserve Bank (SARS)?

Institutional investors are required to submit quarterly reports of their asset holdings as at the end of each calendar quarter. In the case of retirement funds, the administrator must submit quarterly reports for each fund under its administration, unless otherwise instructed by the retirement fund.

Reporting involves the submission of a quarterly report from all institutional investors.

In reporting on asset allocations, a 'look-through' principle is applied to investments in collective investment schemes, long-term insurance policies and other investment products. This principle ensures the consistent classification of foreign asset exposure, whether acquired directly in foreign currency or indirectly through a domestic intermediary. For example, a retirement fund holding foreign equities through a collective investment scheme registered locally should record such an investment as a rand-denominated foreign asset.

26 What are the implications should an institutional investor hold more than the maximum permitted exchange control limits on foreign portfolio investments?

The foreign exposure of assets may not exceed 30% in the case of retirement funds. It should be noted that compliance with the exchange control limits on foreign portfolio investments does not prevent an institution from also having to comply with any relevant prudential regulations as administered by the FSB.

Institutions that hold more than the maximum permitted exchange control limits on foreign portfolio investments should provide:

1. An explanation for the contravention
2. A clear indication of how and by when the institution intends to adjust its foreign asset holdings to fall within the exchange control limit on foreign portfolio investments.

Where relevant, this information must be submitted to Exchange Control as part of the quarterly report on asset holdings.

Should the administrator identify a contravention on the quarterly asset allocation, the multi-manager, investment consultant or principal officer - depending on the arrangement of the fund - will be contacted in order to obtain sufficient information on the how and by when the fund intends to resolve the contravention.

27 When are quarterly asset allocation reports due for submission to the SARS?

Institutional investors are required to submit quarterly reports of their asset holdings as at the end of each calendar quarter, following the previous quarter. The 30 June returns, for example, will be submitted at latest by 30 September that year.

In the case of retirement funds, the administrator must submit quarterly reports for each fund under its administration, unless otherwise instructed by the retirement fund.

Proof of submission from the SARS must be obtained.

28 Additional survey requests from the SARS

Additional survey requests received from the SARS, regarding investments, can also be prepared.





call us 

More Information

This document summarises the options available from Sanlam Employee Benefits' Retirement Fund Administration. You may find more information in the individual brochures on specialised services or you can contact us at:

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