

**Sanlam Umbrella Fund**  
**2018 TRUSTEE REPORT**

EVERYTHING  
IT TAKES TO  
BRING YOU  
OUR



COMMITMENT | PERSEVERANCE | STRATEGY | VISION



# A GAME

**Successful athletes know it:** Their talent and innate abilities will only take them so far. To achieve true stardom, to rise to the top and stand head and shoulder above the rest, you need to sweat it until it happens. With all the determination, perseverance and never-say-die attitude you can muster – day after day, year in and year out.

**At Sanlam Umbrella Fund we have all the ingredients for success:** the most talented people who understand our clients' needs and the best solutions for their circumstances. But to us that's just half the story. We believe in sweating it until everything is perfect – bringing our A-game to work day after day, year in and year out. That is what makes us leaders in the industry.



Cecil Afrika



Kevin Anderson



Caster Semenya



Gary Player



Ryk Neethling

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# Principal Officer's Message

**2018 will be remembered as the year in which the Twin Peaks model of financial sector regulation was launched in South Africa. On 1 April 2018 South Africa's financial regulatory system changed fundamentally, as two new regulators come into operation – being the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA).**

Over the next three years the Pension Funds Act will be replaced with the Conduct of Financial Institutions (CoFI) Act. This Act will incorporate a number of aspects such as the principles of Treating Customers Fairly, the Retail Distribution Review, the Policyholder Protection Rules, the provisions of the FAIS Act and the new fit and proper requirements.

New terminology every trustee had to become familiar with included the terms:

- ④ FSCA not the FSB
- ④ The Authority not the Regulator
- ④ The Commissioner not the Registrar
- ④ Regulatory Standards not PF circulars

The retirement industry has and will continue to be confronted with significant change over the next three years. The Board of Trustees of the Sanlam Umbrella Fund are excited about the possibilities and have taken significant measures to adjust and make sure that the Fund will not only be compliant, but will be in a position to lead our members, participating employers, intermediaries and other stakeholders through the change and uncertainty.

As we approach the next three years of change and uncertainty we take comfort in the fact that we share one common desire with National Treasury. That is the desire to continue to find more effective ways to help ensure “good retirement outcomes for our members”.

## Allocation of members' death benefits

From October 2018 the adjudicator will have an equity mandate in terms of the new Financial Services Regulation Act. That means that she will be guided by the law but can make any

determination that she thinks is equitable and fair. This development has the potential to cause major disruptions and possibly losses for retirement funds in relation to the process of allocating death benefits. The best way to negotiate such a dispensation is to ensure that the processes and procedures gather all the relevant information and that the allocation process is robust. In order to ensure compliance going forward we had to revise our death benefit calculator, allocation of death benefit protocol, the forms and procedures and the standard communications.

## Default Regulations and the Sanlam Umbrella Fund

The default regulations were gazetted on 25 August 2017 and will have an effect on all existing retirement funds. This is the most significant new legislation since the surplus legislation of 2001, arguably since the enactment of the Pension Funds Act in 1956. The regulations have an impact on systems, processes, communication, governance, reporting and advice. The Sanlam Umbrella Fund will have to be fully compliant with the new regulations by 1 March 2019. A number of questions and answers aim to inform stakeholders of the Fund's strategy in this regard.

## Counselling service for members of the Sanlam Umbrella Fund

The Fund's counselling service that has been in operation for the last year provides all members of the Fund with access to Retire-mate, an online self-help option to assist members in every step of their retirement savings journey. It's aimed at helping members

understand the choices and implications of their retirement savings decisions.

Members also have access to a telephonic support option giving members the opportunity to speak to one of our Retirement Benefit Counsellors. This service offers information to members, enabling them to make well-informed decisions about their retirement savings and meets the requirements of the new Default Regulations in terms of assistance to members on retiring or withdrawing from the Fund.

Participating employers may also choose to select the Premium Service at an additional cost. This service goes a step further in securing good retirement outcomes for members.

## New legislation: the need to review Fund membership services

The Sanlam Umbrella Fund has always strived to design our benefit structures in such a way as to serve the special needs of each and every member and to help ensure good retirement outcomes for our members. Until now however, we have not always achieved a high level of direct access to our members.

One of the solutions we had to develop in response to the new legislation is a revision of our fund membership services. As part of this project we are in the process of finalising a review of the roles and responsibilities of each stakeholder. The new model will be finalised in consultation with stakeholders and will be rolled out in various stages over a period of time.

One such new development is **Electronic Fund membership services**. These services will in future be provided directly to members, using their personal contact details. A number of initiatives have already been identified, such as:

- 1 Alerting members to the fact that their employer failed to make contribution payments.
- 2 Providing members/dependants with relevant fund information, the alternatives available to them and the implications thereof, when a benefit event is triggered.
- 3 Providing member counselling services at certain predefined events or on request.
- 4 Tracking and advising on the progress of any benefit payment procedures.
- 5 Advising members who are invested in the Lifestage strategy when key phasing strategies will commence.
- 6 Inviting member representatives to participate and vote in the trustee election.

## Member education - Financial Literacy initiative

The Sanlam Umbrella Fund has embraced and implemented default benefits long before the draft default regulations were published. The reason for that is that our objective as a fund is to help ensure good retirement outcomes for our members.

Our focus for the next year will be to align our member education aspirations with our Treating Customers Fairly (TCF) responsibilities. The draft of the TCF proposals published by the FSCA places much emphasis on the complaints filed against a fund and the way in which they are resolved.

The member education initiative will aim to align our education efforts with the topics that members enquire about more often.

## Sound investment strategies continue to pay dividends for our members

The past 12 months proved a very busy time for the Investment Committee as significant time and effort had to be devoted to monitoring global and domestic political, economic and legislative developments that all impact our members' investments.

Sluggish market performance has not made the past few years an easy period for investments. Nonetheless our philosophy of trying to make available to our members the very best managers all operating in a diversified Regulation 28 compliant environment has meant that our members have continued to enjoy inflation-beating returns measured over 1, 3 and 5 years to 30 June 2018 (see performance graphs on page 36).

In the report that follows we reflect in more detail on the achievements during the past year and give you a glimpse at the future developments for the Fund and retirement industry at large.

This reporting encompasses the five separate legal entities that make up *The Sanlam Umbrella Fund*:

- ⦿ The Sanlam Umbrella Pension Fund
- ⦿ The Sanlam Umbrella Provident Fund
- ⦿ The Sanlam Futura Umbrella Retirement Fund
- ⦿ The Sanlam Plus Pension Preservation Fund
- ⦿ The Sanlam Plus Provident Preservation Fund

### Kobus Hanekom

*Principal Officer, The Sanlam Umbrella Fund*

# Fund Governance and Management Structure

The Sanlam Umbrella Fund's sound and comprehensive governance structure ensure that members' best interests are maintained. The Fund was the first umbrella fund to implement a governance structure that includes:

- › a Board of Trustees with 50% member elected independent trustees
- › a formal structure that includes Committees
- › Joint Forum management committees with member representatives
- › an Annual General Meeting held in more than one region (now called the Sanlam Umbrella Fund Symposium)
- › implementation of the King IV Code of Governance

Members elect the **independent trustees** that serve on the Board. They are:

*Independent trustees*



*Joelene Moodley*



*Alex Paterson*



*Jolly Mokorosi*



*Freddy Muswede*

*Alternate Independent trustee*

Sanlam appoints **trustees** to serve on the Board. They are:

*Sanlam-appointed trustees*



*Derek Smorenburg*



*Marius Jönas*



*Azola Zuma*



*Marius Saayman*

*Alternate Sanlam-appointed trustee*

**Fund Officers** manage the day-to-day operations of the Fund. They are:

*Principal Officer*

*Deputy Principal Officer and  
Head of the Fund Secretariat*



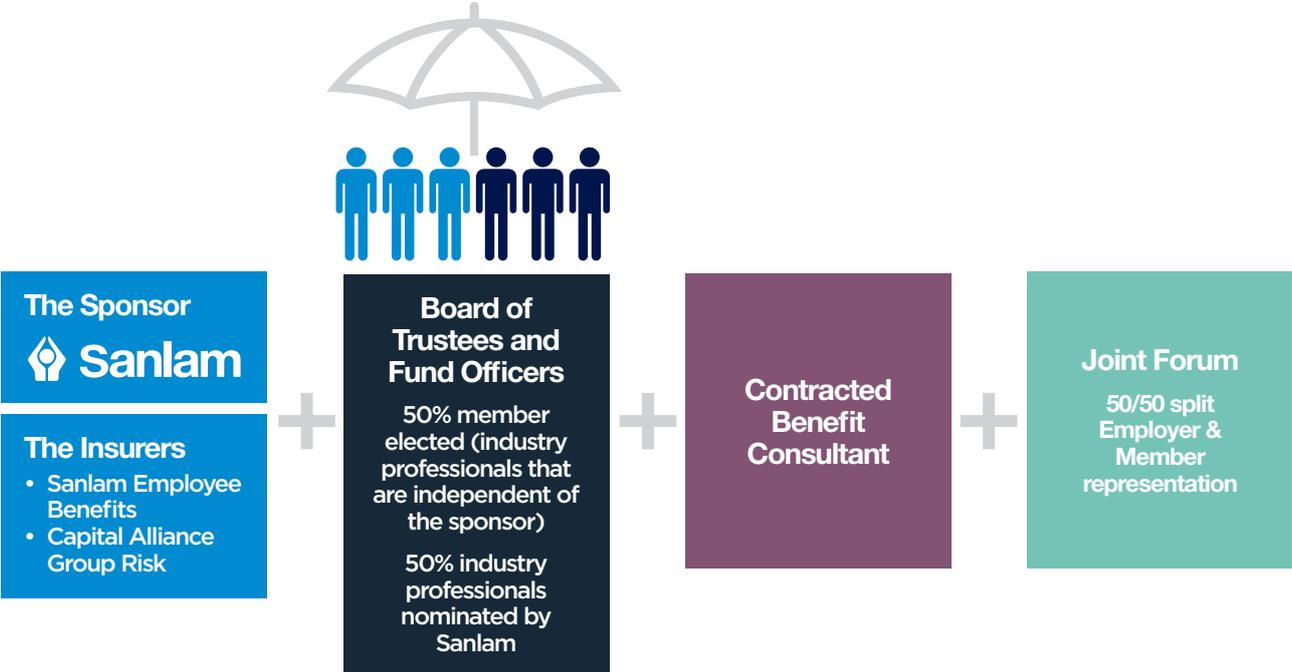
*Kobus Hanekom*



*Erina le Grange*

See  
annexure A  
for more details  
on the current  
Board of  
Trustees

# The Fund's formal structure



The Board of Trustees and Fund Officers are supported by eight Committees that:

- take care of specific day-to-day issues
- formally report to the full Board which remains responsible for taking final decisions

**The Committees are:**

Administration	Audit
Communications	Complaints
Death Benefits Allocation	Governance & Risk
Insured Benefits Management	Investments

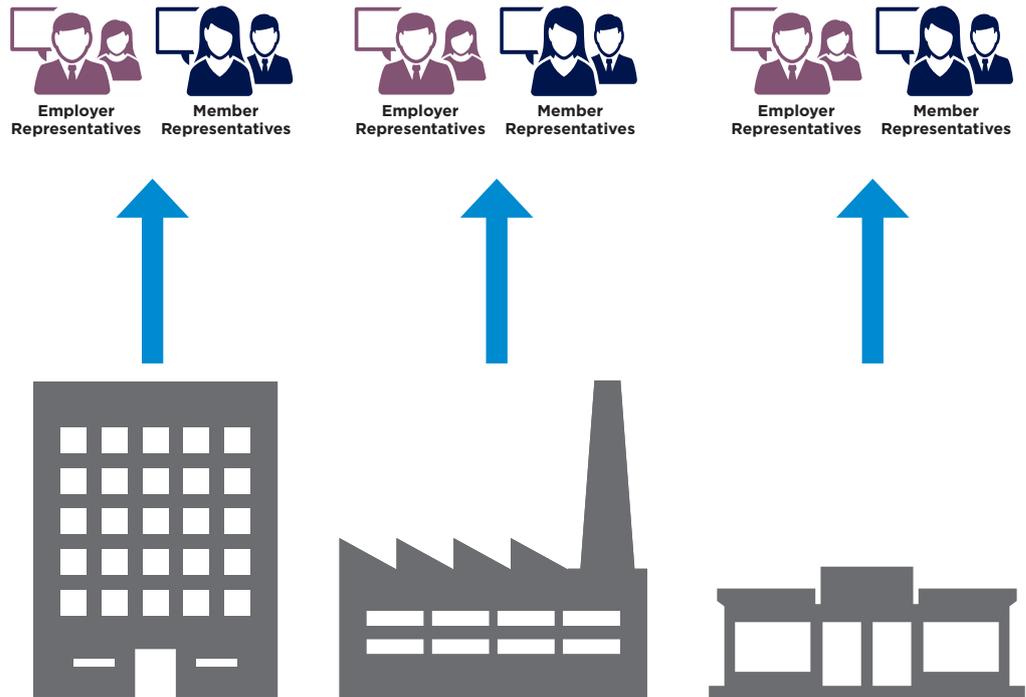
The individuals who chair and make up these Committees have a wealth of experience in the retirement fund industry and manage the Committees according to specific guidelines. Members of the Board of Trustees serve on each of these Committees.



## Joint Forums

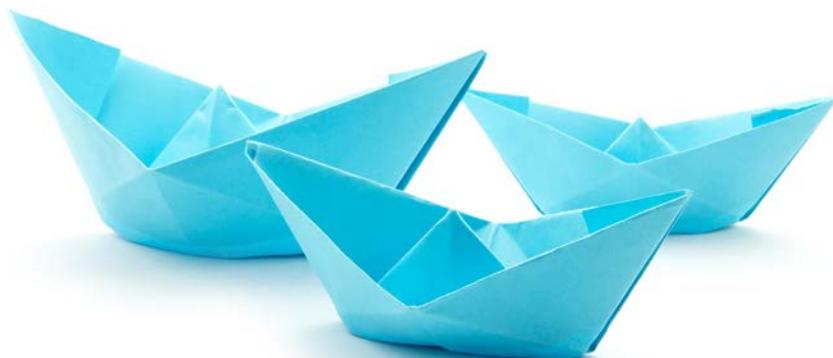
Joint Forum committees provide the platform for members and employers to consult (within the spirit of the Labour Relations Act, No. 66 of 1995) and decide on their group retirement benefits. Every participating employer within the Sanlam Umbrella Fund is required to establish a Joint Forum and this forum should meet at least once a year.

### Joint Forums



For Mini-funds (participating employers with fewer than 50 members and less than R5 million assets) it might be cost-effective to

- ① meet every two years, or
- ① attend Centralised Joint Forum meetings organised by the Board of Trustees for multiple Mini-funds



# Trustee Approved Investment Menu

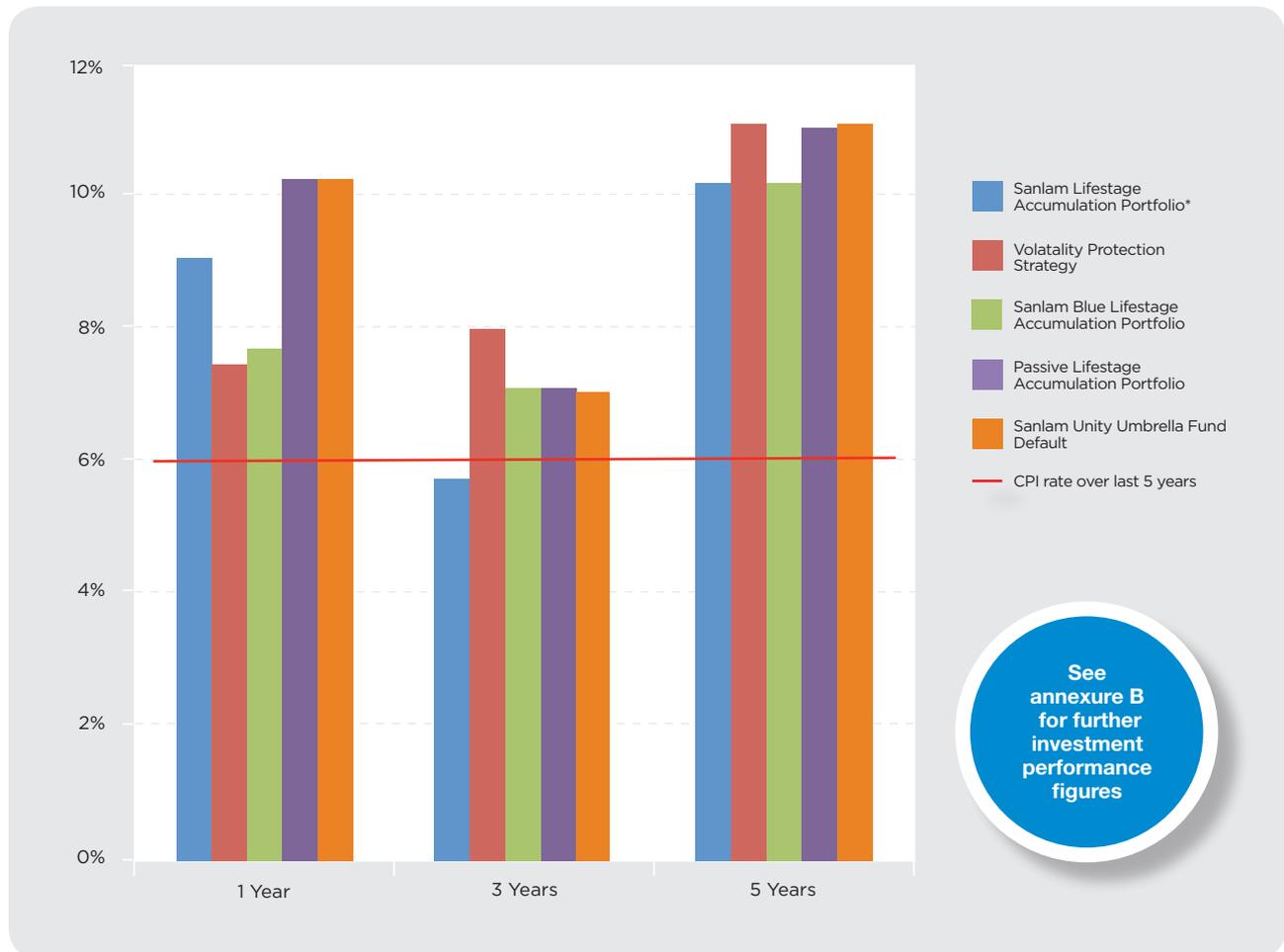
The Fund's full range of investment portfolios includes the following:

Investment Strategy / Portfolio	Standard Option	Optimal Option	Comprehensive Option	In-Fund Preservation Members / Phased Retirees / In-Fund Living Annuitants
Sanlam Lifestage	√		√	√
Volatility Protection Strategy	√		√	√
Passive Lifestage Strategy	√		√	√
Sanlam Blue Lifestage Strategy	√	√	√	√
SIM Balanced Fund			√	√
SIM Moderate Absolute Fund			√	√
SIM Cash Fund			√	√
SMM70			√	√
SMM50			√	√
SMM30			√	√
SMM Moderate Absolute Fund			√	√
SMM NUR Balanced Fund			√	√
The Most Aggressive Portfolio			√	√
Sanlam Accumulation Portfolio			√	√
Allan Gray Global Balanced Portfolio			√	√
Coronation Houseview Portfolio			√	√
Investec Balanced Fund			√	√
Sanlam Foord Balanced Fund			√	√
Sanlam Prudential Balanced Fund			√	√
Sanlam Allan Gray Global Balanced Portfolio			√	
Sanlam Coronation Houseview Portfolio			√	
Sanlam Monthly Bonus Fund		√	√	√
Sanlam Stable Bonus Fund			√	√
Sanlam Progressive Smooth Bonus Fund			√	√
Satrix (SWIX) Balanced Tracker Fund			√	√
Glacier		√	√	

## Performance on trustee-approved default investment strategies

All trustee-approved default investment strategies have comfortably outperformed inflation over the review period, ending 30 June 2018.

### Performance on trustee-approved default investment strategies



\* The composite returns are shown taking into account the change in the underlying investment strategies during July 2013.

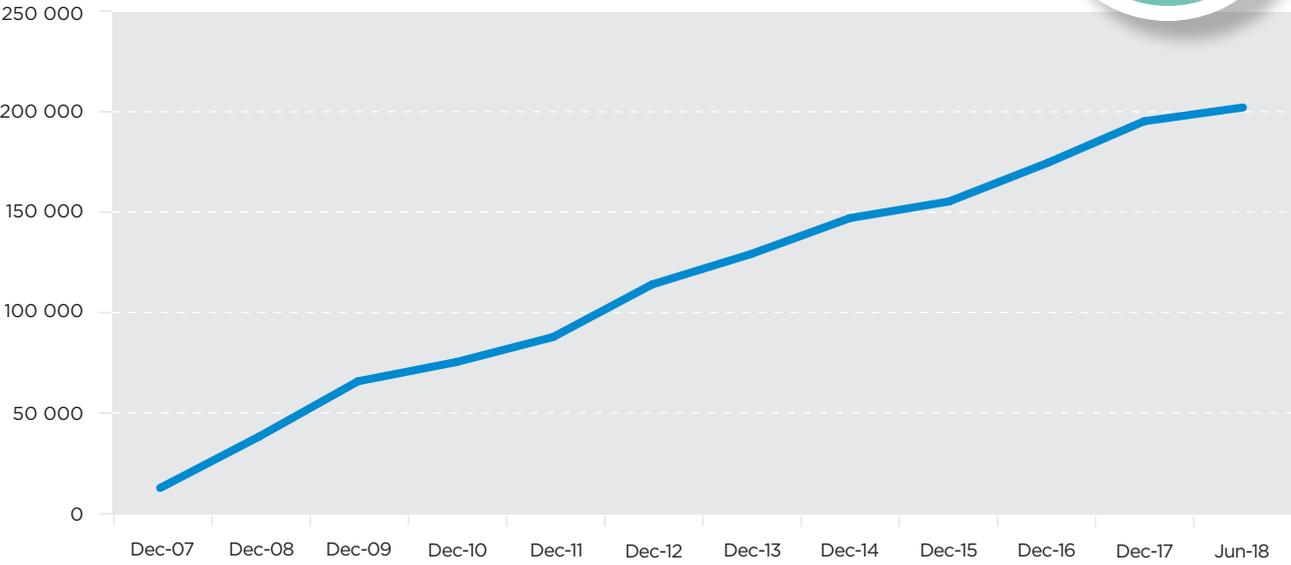


# Strong fund growth

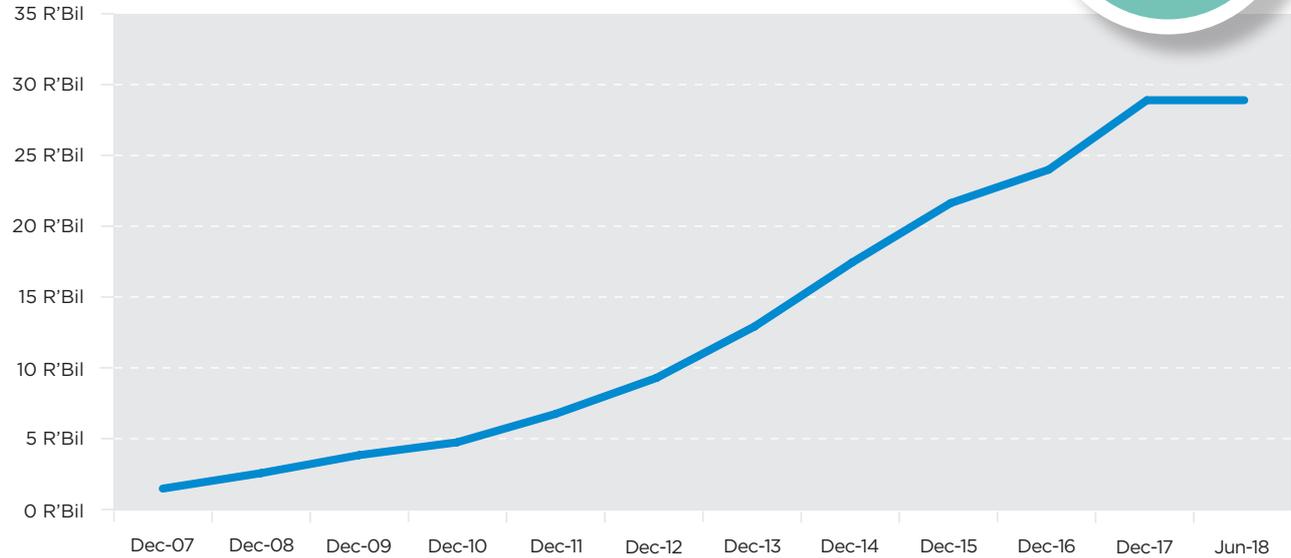
The Fund's growth remains on the same strong path that has been evident since its launch in 2008. The number of participating employers in the Fund has grown to a total of 4 411 by the end of June 2018. This growth ensures economies of scale that ultimately benefits our members.

The figures below represent the combined growth in membership numbers and assets under management for the five separate legal entities that make up the Sanlam Umbrella Fund.

**Sanlam Umbrella Fund combined membership numbers as at 30 June 2018**



**Sanlam Umbrella Fund combined assets under management as at 30 June 2018**



# Allocation of Members' Death Benefits

## Adjusted processes and procedures

### Recent developments

After many years during which we had no significant determinations against the Fund in respect of the allocation of death benefits, the Adjudicator seems to have reallocated us to a new team in her office and as a result we have had no less than three determinations against us earlier this year. The strategy the Pension Fund Adjudicator follows is to determine that the board fettered its discretion in one or another respect, to set the entire decision aside and to order the Fund to make a fresh allocation. In one of these cases, the allocation was made and paid in 2016. Any adjustment made by the Fund at this stage will therefore constitute a loss.

In October 2018 the Adjudicator will have an equity mandate in terms of the new Financial Services Regulation Act. That means that she will be guided by the law, but can make any determination that she thinks is equitable and fair. This development has the potential to cause major disruptions and possibly losses for retirement funds in relation to the process of allocating death benefits. The best way to negotiate such a dispensation is to ensure that the processes and procedures gather all the relevant information and that the allocation process is robust. Any outliers in the allocation process that can generate a complaint are best massaged into alignment. The Fund therefore had little choice but to adjust its practices and procedure to be able to deal with such an equity jurisdiction.



### What is different or new?

The issues to date can be summarised as follows:

- ④ The Adjudicator took issue with the fact that the allocation to a child born out of wedlock, who lived with his mother and received a monthly maintenance payment, was significantly less than the allocation to a child of the same age that lived in the household.

The Fund's approach is to calculate the maintenance needs of each dependant, primarily based on the situation that existed at the time of the deceased's death. The trustees then consider the big picture and may make adjustments to ensure an equitable result. In doing so the trustees are mindful of the dangers of social engineering – that is an attempt to correct the unequal distribution of funds by the deceased after his or her death. Equalising the amount that goes to households or to children of the same age, without taking all their circumstances into account, will almost always have undesirable consequences.

- ⤵ She also took issue with an allocation made to a major child who was studying at the time and felt that, that child deserved an additional benefit.

The Fund's approach is to treat children in an equal way as far as possible. If circumstances are such that one child would attend tertiary education we would allow all the children the same privilege. It would be inappropriate for the Fund to suggest that one or more children are not as bright and can therefore not benefit.

- ⤵ She also took issue with the allocation made to children out of wedlock, for not identifying that the other biological parent of the child was unemployed and where the Fund failed to enhance the benefit in order compensate the child for her greater need.

This is a valid point and the Fund will in future consider the position of the other parent as well.

- ⤵ Even though some determinations are arguable, the cost of taking them on appeal is prohibitive. One such instance is where the Adjudicator determined that the R9 000 cost of a private investigator the Fund contracted to investigate contradictory claims between the life partner, the spouse and the rest of the family, was not warranted and could not be deducted from the benefit.

On the whole we believe that a more detailed explanation of the process and the special considerations taken into account by the Fund should improve the resolution of concerns of this nature.

## Specific solutions implemented

In order to address these concerns we have taken the following measures:

In the context of free education we will consider making provision for further education in respect of a child. As a result of the high unemployment rate among the youth, the Fund has for a number of years now, made provision for an extra 3 years for children who leave school to find a job. In effect it means that reasonable maintenance is no longer calculated to age 18 (end of school going term) but to age 21 and possibly age 24.

In order to align the allocations of children who lived in the household versus those who stayed with the other parent and received a maintenance payment, we flag outliers and take measures to bring the allocation into closer alignment by increasing the amount of the maintenance payment that we feed into our calculators or to increase the maintenance age to 24 as set out above. We also adjusted our forms to gather information on the other parent or other sources of maintenance iro such children.

In order to ensure compliance going forward we had to revise our

- ⤵ death benefit calculator,
- ⤵ allocation of death benefit protocol
- ⤵ the forms and procedures and
- ⤵ the standard communications.



# The following **Questions and Answers** aim to inform stakeholders on the **Fund's strategy** in this regards

The default regulations were gazetted on 25 August 2017 and will have an effect on all existing retirement funds. This is the most significant new legislation since the surplus legislation of 2001, arguably since the enactment of the Pension Funds Act in 1956. The regulations have an impact on systems, processes, communication, governance, reporting and advice. The Sanlam Umbrella Fund will have to be fully compliant with the new regulations by 1 March 2019.



**What are the Fund's default strategies and do these comply with Regulation 37?**



Sanlam Umbrella Fund has 4 available default investment strategies available to all clients - these are:

- Sanlam Lifestage
- Passive Lifestage
- Sanlam Blue Lifestage and
- Volatility Protection Strategy

The first three are broadly similar in design with the key difference being the investment approach in the accumulation phase. A multi-managed approach combining active and passive strategies is the primary default and is the most popular of the available strategies. The Fund also has options for those clients

who strongly believe in a pure passive asset management approach or who desire Sanlam Investment Management to manage all assets. Volatility Protection Strategy is the second most popular available default investment strategy and is aimed at those clients whose members have a strong aversion to volatility and short term downside risk.

There are a number of other default investment strategies in place for specific clients who have the scale and professional expertise to design customised investment strategies. The Fund has around 25-30 default investment strategies on the Fund in total. The trustees (represented by their Investment Committee) are responsible for monitoring the Fund's default strategies as well as the client specific strategies on a quarterly or bi-annual basis. The default regulations add additional requirements, as all the conditions pertaining to default investment strategies as per the new regulations must be satisfied for each of the available default investment strategies.

Q

**Why did the trustees choose to implement an in-fund living annuity? And how are the trustees ensuring compliance with Regulation 39?**

A

In 2015 the Fund became the first commercial umbrella fund in South Africa to launch an institutionally priced in fund living annuity as an option for our retiring members. The reasoning was as follows:

- 1 The popularity of living annuities versus other annuities – Approximately 90% of retiring South Africans purchasing annuities opt for living annuities.
- 2 The Fund believes that members are more likely to take up this option.
- 3 An in-fund living annuity saves members as much as 1% per annum in administration and investment management fees whilst still facilitating appropriate advice via our supporting consultants.
- 4 This option allows members a seamless process of opting into an in fund living annuity – contributions cease one month and an annuity starts the next month with the same investment strategy, administration platform, technology and tools.

In order for the Fund to comply with Regulation 39 they need to make changes. Regulation 39 imposes a legal limit of 4 portfolios for all members enrolled in this trustee-endorsed annuity strategy. So we did a lot of modelling (as presented at the 2018 Sanlam Benchmark event) and thereafter decided to opt for an even simpler approach – a combination strategy of 2 portfolios consistent with the Sanlam Lifestage model. We really are trying to make the pre- and post-retirement investment journey as seamless and simple as possible for our members. A big emphasis in this modelling was how best to manage investment returns sequencing risk post-retirement which is a big issue when monthly disinvestments are being made to pay pensions. The modelling shows that a combination of Sanlam Lifestage Accumulation Portfolio and Capital Protection Preservation Portfolio works well.

With regards to Regulation 39, the one key change the Fund has to make is that the annuity strategy will no longer be permitted to offer more than 20 investment portfolios. Regulation 39 imposes a legal limit of 4 portfolio

for all members enrolled in this trustee-endorsed annuity strategy. A combination strategy of 2 portfolios consistent with the Sanlam Lifestage model. The modelling shows that a combination of Sanlam Lifestage Accumulation Portfolio and Capital Protection Preservation Portfolio works well.

The other annuity options will be available, but are out of the annuity strategy in terms of Regulation 39. An in-fund living annuity with a wider range of investment options will still be available. Retiring members can select any annuity of their choice whether it be part of the Sanlam Umbrella Fund, offered by Sanlam or any other provider.

Q

**Is the requirement for benefit counsellors, and the Default legislation, going to impact members' retirement savings?**

A

It will have an impact only in the long term, as these regulations and other planned regulatory measures will accelerate the consolidation of the industry into fewer, bigger and better governed retirement funds such as the Sanlam Umbrella Fund. There will be cost savings which will benefit members. The real win will be if the Fund can convince members to start saving earlier, preserving their money upon changing jobs and possibly also working longer as longevity dramatically improves retirement savings.

Q

**What is Individual Member Support?**

A

The Fund believes that human support is the best way to help. Although mobile apps and the planning tools and written communication material works as well. The full blown retail advice model is just not affordable for every member and nor is it economically viable for financial advisers. The concept of an Individual Member Support team staffed with emotionally intelligent and compassionate and capable humans is the way to go, and will address a genuine member need.

# New legislation: the need to review Fund Membership Services

## Background

The Sanlam Umbrella Fund has always considered the member as the ultimate or end client. As a result we strived to design our benefit structures in such a way as to serve the special needs of each and every member and to help ensure good retirement outcomes for our members.

Up till now however, we have not always achieved a high level of direct access to our members. Group solutions are predominantly implemented and managed on the direction of the employer, based on the advice of the contracted benefit consultant and members are supported by a contracted financial advisor.

This situation is about to change fairly significantly, not just as a result of the need to provide individual members with counselling services in accordance with the default regulations. There is a range of other requirements and developments.

## Legislative requirements

**The Default Regulations:** The Default Regulations that will become effective for all existing funds on 1 March 2019, not only require trustees to identify and implement defaults that will be appropriate for the unique profile of their membership, it also requires each fund to provide members with counselling services when they withdraw and retire.

**Information Circular 2 of 2016:** The Financial Services Conduct Authority asserts that it is the legal duty of retirement funds to communicate effectively with their members and that each fund must take steps to obtain the latest contact details of members and update and maintain them accordingly.

**The revised policy holder protection rules,** issued in terms of the Long-term Insurance Act late in 2017, will make it a legal requirement that an insurer who underwrites a group life policy, approved and unapproved, have access to the names, identity numbers and contact details of all its policyholders by December 2019. This includes the mobile numbers and e-mail addresses of the members, to the extent that they have them. For these purposes, “policyholder” is deemed to include a member of a fund or group scheme.

**SARS requirements on section 14 transfers:**

The South African Revenue Service issued a requirement in terms of which benefits cannot be transferred from one fund to another unless the Fund provides SARS with the Tax number of each member (minor exceptions are allowed).

**Draft PF Circular on communication of benefit projections to members:**

In February 2018 the FSCA issued a draft Notice on projection statements to compel retirement fund to include a projection statement in the annual benefit statement, which must be explained in a simple and clear manner. A projection statement should also be provided to members when joining a fund, so that they can make a proper decision about contribution rates and investment choice, where relevant.

**The Financial Sector Code:** This code will require the top 100 funds (at this point it is voluntary) to prepare a balanced scorecard relating to the makeup of its management structure and its procurement. Retirement funds are classified as mandated investors in B-BBEE legislation and in addition all large funds are encouraged to report annually on the proportion of fund liabilities attributable to black male members and black female members, based on the principals of the Financial Sector Code.

**Treating Customers Fairly (TCF) Approach:**

The TCF approach launched by the FSCA reminds retirement fund trustees why occupational retirement funds were established

in the first place - not just to ensure good governance and compliance but to assist and support the financial wellbeing of each member.

This wave of new legislation will bring about far reaching changes to the business processes of retirement funds. We have done a great amount of planning and restructuring to be able to comply with these requirements in the most effective way and to be able to connect directly with each one of our members. We are happy to report that the Fund is well positioned to do so. The biggest hurdle we experience at this point is not the technology, it is getting access to the personal contact details of our members - primarily cell phone and email addresses.

## Fund membership services

One of the solutions we had to develop in response to the new legislation is a revision of our fund membership services. As part of this project we are in the process of finalising a review of the roles and responsibilities of each stakeholder. The new model will be finalised in consultation with stakeholders and will be rolled out in various stages over a period of time.

One such new development is **Electronic Fund membership services**. These services will in future be provided directly to members, using their personal contact details. Where appropriate the Fund will copy the CBC or CFA.

These may include -

- 1 Alerting members to the fact that their employer failed to make contribution payments
- 2 Providing members / dependants with relevant fund information, the alternatives available to them and the implications thereof, when a benefit event is triggered.
- 3 Providing member counselling services at certain predefined events or on request
- 4 Tracking and advising on the progress of any benefit payment procedures.
- 5 Advising members who are invested in the Lifestage strategy when key phasing strategies will commence.
- 6 Inviting member representatives to participate and vote in the trustee election.

## Duties and responsibilities

To ensure a holistic approach, we are amending the fund rules and will phase in conditions of participation in terms of which -

- ⌚ Employers are required to provide HR support to assist members to gather and maintain "fund information", view the Day One fund induction audio visual, run a retirement calculation and retain a copy for future reference.
- ⌚ Members are required to maintain their "fund information", submit a schedule of dependants as well as a beneficiary nomination form.
- ⌚ Contracted Benefit Consultants have somewhat more detailed duties to assist and support employers to comply in all stages of development, and
- ⌚ The position of Contracted Financial Advisors are clarified

## Confidentiality and or Anti-spam and electronic communication commitment:

The Fund adopted a commitment in terms of which it agrees to:

- ⌚ Manage and maintain member's personal information in accordance with the requirements of the Protection of Personal Information Act, and
- ⌚ Observe a social media protocol in terms of which the fund will only contact members to provide legal and other important information relating to the benefits and services of the fund.

# Member education

## Financial Literacy initiative



**The Sanlam Umbrella Fund embraced and implemented default benefits long before the draft default regulations were published. Our objective as a fund is to help ensure good retirement outcomes for our members.**

Another matter that we feel strongly about is making an ongoing contribution to the level of financial literacy of our members. The Sanlam group has over the last few years made significant contributions to member education and the development of the next generation of trustees and principal officers. The Sanlam Umbrella Fund will in the next few months build and leverage off these successes to help educate its membership.

Our focus when it comes to member education tends to be on outcomes that we are able to measure and manage. In many ways our approach is closer to member training than member education.

Member education is a massive undertaking with a longer term horizon. If you want good retirement outcomes, it is more effective in the immediate to shorter term, to train people to do the right thing when they reach a certain point

Our focus for the next year will be to align our member education aspirations with our Treating Customers Fairly (TCF) responsibilities. The draft of the TCF proposals published by the FSCA places much emphasis on the complaints filed against a fund and the way in which they are resolved.

The complaints statistics of the Sanlam Umbrella Fund tells us that our approach thus far has been very effective. The complaints filed against the Fund aligns broadly with the type of complaints filed with the Pension Funds Adjudicator. Around 60% relates to withdrawal benefits and around 15% relates to the allocation of death benefits.

However, the statistic that we do not share with the industry is that 70% of complaints are determined in favour of the complainant. In our case 95% are determined in favour of the fund, so we are working off a good base.

More than 90% of the cases we process in terms of our complaints procedure are no more than enquiries made by members. For the 2017 reporting period, 62% of the complaints we received via the Adjudicator and the FSCA were also merely enquiries made by members – not full blown complaints.

We consider these enquiries as an important measure of member satisfaction that helps identify areas where we can improve our communication and training. To refresh and invigorate our member education programme we will therefor focus on those issues that our members complained about in past 12 months.

The 12 most prevalent complaints in the past year:

- 1 Withdrawal benefits: the amount, timeline and process of payment
- 2 Withdrawal benefits: not payable because the sub-fund is being liquidated
- 3 Withdrawal benefit: subject to a claim by the employer ito Section 37D
- 4 Death benefits: Amounts allocated questioned
- 5 Death benefits: Person nominated did not receive a benefit
- 6 Divorce orders
- 7 Contribution receipting: Employer fails to make contributions to the Fund (section 13A)
- 8 Section 14 transfers: in and out of the Fund
- 9 Benefit statements
- 10 Maintenance claims made against members
- 11 Disability benefits: When cover is declined
- 12 Medical requirements

We will make sure our documentation, in each one of these areas is clear, that our explanations are complete and easy to understand. Once this is done the challenge will be to get and keep members engaged and acting on the messages.

We already have a very comprehensive website. It allows members access to a wide range of information and even allows online transactions.

The problem is that most members do not visit the website. We developed a number of member tools including a member app in the last few years. After more than 18 months of the active marketing of the app less than 10% of our members are registered and use the app.

To connect with members and get them to pay attention to the member education publications, we plan to run an SMS / WhatsApp campaign. In order not to overwhelm members we will send them just one educational message a month, over 12 months, with a link to the information on the topic of the month. If the topic is of interest to a member at that point, he or she can open it right away. If not - they can merely take note and move on. The information will be available on the website should they ever need it in future.

We find that most members are so averse to being spammed that they are quick to swipe left and delete the message. We hope to be able to address these concerns in a campaign in which we tell employers and members that the Fund has a legal obligation to establish the network, and will assure members that the Fund's interaction with them will be strict in terms of the rules of the Fund and the member privacy protocol we adopted. We will not only protect their personal information ito the POPI Act, we will also honour and respect their privacy and will only make contact when it is necessary to do so.

**Personal information commitment:** We respect members' personal information and have taken special measures to ensure compliance with the provisions of the Protection of Personal Information Act. In particular, we will not pass your personal contact details on to anyone outside the agreed fund infrastructure, other than as may be required ito the rules or the law.

**Anti-spam and electronic communication commitment:** We respect members' privacy and will manage the number of communications accordingly. We will only communicate information that the Fund is legally required to convey and information in relation to your fund membership.





# A glimpse into the future of the Retirement Fund Industry



by

**Shakeel Singh**

*Chief Executive Officer:  
Sanlam Umbrella Solutions*

**The future is uncertain but if you look closely at current trends, what the competition and regulators are doing, you have a pretty good idea of what the future may look like.**

At Sanlam Umbrella Solutions we continually look at trends, what our competitors are doing, and what the draft legislation is saying, and try to adapt our offering based on this. Importantly, you have to add value in everything you do. We must deliver a superior service to the competition and instill trust in our clients. Service providers will not survive into the future if they cannot do this on a consistent basis.

As an industry, we need to ensure that we provide the right tools to enable our members to achieve a dignified retirement. Retirement fund members are still no closer to moving towards their desired financial outcomes, where they are able to maintain their pre-retirement standard of living. The 2018 Sanlam Benchmark Survey showed us that the proportion of members thought to be able to maintain their standard of living in retirement continues to drop and is estimated at just 19% of members in stand-alone funds and 14% of members in umbrella funds. Not all fund members have access to advice or benefit counselling.

The default Regulations coming into effect from March 2019 is government's way to address some of the challenges of providing some sort of counselling to the under-served lower income market. This change will result in a significant number of members staying in the Fund long after they have left their employer. This will pose a new challenge to a market traditionally servicing an institutional client. Our focus as an umbrella fund going forward is to ensure that we are able to provide these retail members easy access to meaningful information and tools.

The "retailisation" of the traditional institutional space that retirement funds belong to has long legs and will have far reaching consequences on the industry as a whole. Leveraging of the scale of the institutional market, great economies of

scale can be achieved which will place additional pressure on traditional retail offerings like preservation funds and living annuities.

We have in the past invested heavily into our systems and processes and will continue to do so into the future. At Sanlam we view the threat cyber risk poses to clients' data, technology and information and brand in a very serious light. We view it as the type of risk that threatens the very continuity of business and one that is quite unique in nature: it comes from humans, is forever adapting and changing and has the ability to move beyond the physical barriers used to contain traditional catastrophic risks. As the industry continues to move towards a digital world, the Administrator's ability to protect members from cyber-attacks becomes ever more important.

The cost of data protection and the ever increasing governance burden should result in the larger administrators only getting bigger with many smaller players falling away.

The Retirement Cost Disclosure Standard is also coming into effect in 2019 for all ASISA members with commercial umbrella funds. This means we will have a more uniformed way of disclosing costs to our clients which should ensure better transparency and easier cost comparisons. This should result in intermediaries and employers changing focus and no longer just focusing on costs but the overall value add that the umbrella fund can provide for its members.



# Annexures

and further information



# Sanlam Umbrella Fund Trustees and Fund Officials

## **Derek Smorenburg**

*Chairman and Sanlam-appointed trustee (first appointed 1 July 2007)*



Derek Smorenburg has been a Sanlam-appointed trustee since July 2007 and is the current elected chairman of the Board of Trustees of the Sanlam Umbrella Fund. He has more than 40 years' experience in the financial services industry. In 1986 he registered the Reinforced Pension and Provident Funds as the first commercial multi-employer umbrella funds in South Africa. He later sold the associated administration business to Sanlam, and then headed Sanlam's specialist umbrella fund business for many years. Derek is recognised as a pioneer in the retirement fund industry, and has been widely acclaimed in the press for some of the innovative ideas he has introduced over the years, with a particular focus on strong governance and client service delivery.

## **Marius Jönas**

*Sanlam-appointed trustee (first appointed 1 August 2009)*



Marius Jönas is the chief executive officer of Futura SA Administrators and has more than 20 years' experience in the financial services industry (specifically as a financial adviser, fund trustee, principal officer and chairperson). Marius established the Futura Umbrella Retirement Fund in 1998 (changed to Sanlam Unity Umbrella in 2017). Under his management and leadership, and as a result of his keen understanding of this specific segment of the market, the fund membership has expanded drastically and continues to grow. Marius has served as an executive consultant within Sanlam Umbrella Solutions since February 2009, and is the chairman of the Sanlam Unity Umbrella Retirement Fund.

## **Marius Saayman**

*Alternate Sanlam-appointed trustee (first appointed 1 July 2007)*



Marius Saayman serves as alternate Sanlam-appointed trustee since July 2007 and is currently chairing the Audit committee and the Death Benefits Allocation committee. He has vast experience in the financial services industry since 1980 when he joined Sanlam's the group finance department and subsequently hold the position of chief financial officer of various business units - including Sanlam Employee Benefits. Apart from serving as trustee on the Sanlam Umbrella Funds, he also severed on the boards of trustees of 7 other retirement funds. Marius retired from Sanlam at the end of 2014 and was since then still involved in the financial services industry on a consulting basis. Marius completed a BCom Accounting (Honours) and served his articles with Brink, Roos & Du Toit, before qualifying as a CA (SA). He also completed a BCom (Honours) in financial management and advanced management programs at the business schools of UNISA and Manchester.

Jolly Mkorosi was elected as an alternate independent trustee on 1 January 2016. A short while thereafter on 1 March 2016 she accepted an appointment as a Sanlam-appointed trustee on the Sanlam Umbrella Fund. One of the Independent trustees resigned on 22 June 2017, and then Jolly took up the role as elected member trustee. Jolly is the chairman of the Board of Trustees of Moriting Retirement Fund and a trustee of the Legal Provident Fund. She holds a BComm degree and has 17 years' experience in retirement funds, with various fiduciary positions held, including that of the principal executive officer of the Municipal Councillors Pension Fund, trustee of the Road Freight and Logistics Provident Fund, Chairman of Sasol Coal Provident Fund and South African Dental Technicians Employees Umbrella Fund.

**Jolly Mkorosi**

*Independent trustee  
(appointed 1 March 2016)*



Joelene Moodley has been newly elected as an independent trustee. She has 10 years retirement fund experience in various positions at the Government Employees Pension Fund (GEPF) and served as the acting principal executive officer of the GEPF for 18 months. Joelene holds a Masters degree in Law, BProc and an LLB degree. She was a director in the corporate and commercial division of Rooth and Wessels Attorneys and has extensive employee benefits industry experience. Joelene currently runs her own consultancy practice assisting retirement funds with their corporate governance, risk management and employee benefits matters.

**Joelene Moodley**

*Independent trustee  
(elected 1 January 2016)*



Alex Paterson has been appointed as an independent trustee of the Sanlam Futura Umbrella Retirement Fund since 2004 and was elected as an independent trustee of the Sanlam Umbrella Fund since August 2009. He holds a master's degree in human resource management and industrial relations and runs his own management consultancy firm. As a registered master's human resource practitioner and a fellow of the Institute of People Management, Alex is widely involved in consulting, training and development, and has developed a range of programmes in this field.

**Alex Paterson**

*Independent trustee  
(re-elected 1 January 2016)*



Freddy Muswede has been newly elected and became the alternate independent trustee on the Sanlam Umbrella Fund from 1 March 2016. Freddy has 17 years' experience in actuarial, investments and employee benefits consulting. He holds an Advanced Post Graduate diploma majoring in investments and is also a Certified Financial Planner. Muswede Financial Solutions is the company that he owns which specialises in offering group retirement fund solutions to small and medium size companies.

**Freddy Muswede**

*Alternate independent trustee  
(elected 1 March 2016)*



### **Azola Zuma**

*Sanlam-appointed trustee  
(appointed 20 September  
2017)*



Azola Zuma has been appointed as trustee of the Sanlam Umbrella Fund as of 20 September 2017. She holds the position of Chief Executive Officer of the Sanlam Investment Management business, which includes Equities, Fixed Income, Balanced and Absolute Return. Azola has 12 years industry experience prior to joining Sanlam, where she worked as an Executive Director and Head of Development and also co-ran Vunani Fund Managers. She holds a B.BusSci (Finance Honours), an MA (International Business) and an MBA (International Business & Management). She served on the Group EXCO, was a member of the Social & Ethics Committee, a sub-committee of Vunani Capital, and chaired the Vunani Foundation, the Group's CSI vehicle.

### **Kobus Hanekom**

*Principal Officer*



Kobus Hanekom is the executive principal officer of the Sanlam Umbrella Fund, he served as the head of strategy, governance and compliance at Simeka Consultants & Actuaries for many years. He studied Law, and completed B.lur. and LLB degrees, and was admitted as an attorney, conveyancer and notary in 1983. He also successfully completed the Professional Principal Executive Officer qualification through Batseta. Kobus is a qualified Certified Financial Planner and was a founding member of the Pensions Lawyers Association of South Africa. He served as that organisation's president for its first two years. Kobus authored volume 1 of *The Manual on South African Retirement Funds* (currently in its 24th edition) and is a regular speaker at industry conferences and workshops.

### **Erina le Grange**

*Deputy Principal Officer*



Erina le Grange is the deputy principal officer of the Sanlam Umbrella Fund and heads the Fund secretariat based in the Sanlam Head Office in Bellville. Erina has been active in the retirement fund industry since 1985, with a specific emphasis on managing administration service delivery for some of Sanlam's largest retirement fund administration clients. She obtained her diploma in retirement fund management in 2004, a certificate in business management in 2006 and she successfully completed the Professional Principal Executive Officer qualification through Batseta.

# Committees

## and their feedback reports

The following Committees are active for the Funds

COMMITTEE	FUND	CHAired BY	TITLE
Administration Committee	All funds	Mike O'Donovan	Chief Executive Officer Sanlam Employee Benefits: Core Operations
Audit Committee	All funds	Marius Saayman	Retiree
Communications Committee	All funds	Dalene Bennett	Head: Communications Sanlam Employee Benefits
Complaints Committee	All funds	Kobus Hanekom	Independent Principal Officer, Sanlam Umbrella Fund
Death Benefits Allocation Committee	All funds	Marius Saayman	Retiree
Governance & Risks Committee	All funds	Kobus Hanekom	Independent Principal Officer, Sanlam Umbrella Fund
Insured Benefits Management Committee	All funds	Elsie Swart	Quotations Manager: Sanlam Umbrella Solutions
Investments Committee	All funds	David Glückman	Head: Special Projects Sanlam Employee Benefits

## Administration Committee feedback

The activities and responsibilities of the Administration committee is governed by the Fund's terms of reference document. In addition to the nominated subject matter experts, the committee has three trustees, the principal officer and fund secretariat appointed to it. In addition to the general governance responsibilities, the committee monitors and reports on the performance of the administrator against the formal service level agreement between the Fund and the Administrator and monitors the Fund's expenses and budget.

The regulatory governance and compliance of the Fund is sound. This is evidenced not only by the measurement and monitoring of our service level agreements, but also from general feedback received from our participating employers and their consultants. The Administrator has continued with their annual ISAE Type II external audit, the latest being completed for the year ended September 2017 which has provided the Fund with the comfort of sound administration processes and governance.

The Administrator has continued to make a considerable investment in technology to further improve service delivery, governance, reporting and client experience. This has been positively received by employers, intermediaries and members alike. The digital portals specific to the needs of each of these three groups continues to be enhanced allowing greater access to information, transparency, tools and functionality tailored to their needs, complementing the existing face-to-face and telephonic support provided.

The committee has been working closely with the Administrator in respect of the practical implementation of the various regulatory changes. These include the default regulation, access to counselling, direct member communication, cost disclosure standards and treating customers fairly.

While the provision of member contact details is improving as well as the number of members starting to use both digital and traditional channels to access information and engage with the Fund, this has been off a relatively low base. There is still a general apathy among some employers to provide members direct access to the Fund's engagement channels, whether this be via representation on their own Joint-Forum Committees or website, app or SMS.

With the increased drive towards automation and digitisation this committee has also been monitoring the Administrator's proactive stance and preparedness in respect of cyber security, information governance, business continuity, crisis management and protection of personal information and has the requisite assurance that the Fund's and its member's interests are being met.

## Audit Committee feedback

The Audit Committee is a committee of the Board and is responsible for the specific duties assigned to it by the Board in addition to those duties and responsibilities that they may have as members of the board. The deliberations of the Committee do not reduce the individual and collective responsibilities of board members regarding their fiduciary duties and responsibilities regarding the financial affairs of the Fund, and they continue to exercise due care and judgement in accordance with their legal obligations.

The Committee comprises four members appointed by the Board of Trustees - the chairman of the Governance and Risk Committee is an ex officio member of this Committee. The members of the Committee are suitably qualified, skilled and experienced.

The key responsibility of the Audit Committee is to verify the accuracy of the Fund's annual financial statements and other related financial reports and aspects. The Committee confirmed that, in their opinion, the administrator keeps proper books and records of the Fund's activities and has employed sufficient internal control procedures.

They also confirmed that the status of the audited financial statements for the respective funds is as follows:

- ④ Sanlam Umbrella Pension and Provident Funds – for the year ending 31 December 2017 reflect all financial transactions undertaken by the Fund and that it provides a fair reflection of the status and the activities of the Fund. The Board approved the Annual Financial Report on 19 June 2018.

The external auditors issued an unqualified audit report and confirmed that the Fund complies to all relevant legislation and regulations.

- ⤵ Sanlam Unity Umbrella Fund - for the year ending 31 May 2017 reflect all financial transactions undertaken by the Fund and that it provides a fair reflection of the status and the activities of the Fund. The Board approved the Annual Financial Report on 8 November 2017. The external auditors issued an unqualified audit report and confirmed that the Fund complies in all material aspects to all relevant legislation and regulations. The accountants are currently busy finalising the Annual Financial Report for the year ending 31 May 2018.
- ⤵ Sanlam Plus Preservation Pension and Provident Pension Funds - the audited financial statements for the year ending 31 December 2017 reflect all financial transactions undertaken by the Fund and that it provides a fair reflection of the status and the activities of the Fund. The Board approved the Annual Financial Report on 19 June 2018. The external auditors issued an unqualified audit report and confirmed that the Fund complies with all relevant legislation and regulations.

During the second half of 2017 the trustees called for tenders for prospective fund auditors. The tenders of all the audit firms that tendered were measured against a set of criteria. RSM Incorporated was re-appointed as auditor, but with the requirement for partner rotation. That was implemented for the 2017-audit.

The tenders of all the audit firms that tendered were measured against a set of criteria. Following the tender process, PWC was re-appointed as auditor.

## Communication Committee feedback

The Communication Committee is responsible for delivering communication to all stakeholders of the Fund. It is this Committee's duty to research, recommend and implement solutions that would ensure the Fund complies with its communication duties in terms of the principles laid down in King IV.

In recent years we have seen many digital transformations of other industries and specifically the financial services sector with online banking becoming the norm. This has resulted in members of the Fund now expecting to have similar access to their retirement information in an engaging, easy to understand format. With 95% of people employed in South Africa, retiring on less than 40% of their final salary, this new trend may well be the breakthrough the retirement industry needs to get members engaged with their retirement planning from an early age.

In 2017, we switched the Sanlam Umbrella Fund members to the much improved member online portal, with the option to also download the free mobile app. Information on the member online portal and mobile app is aligned which means that members have the same experience regardless of which digital medium they choose.

Even though we have had some success, this project is facing a number of challenges that are hampering its successful roll-out.

- ⤵ It appears that most members are not yet aware of this service available to them. A very small number of members (approx. 6%) have thus far registered to view their retirement information online. The fact of the matter is that these new digital facilities provide essential information that will ultimately empower members to make informed decisions regarding their retirement planning. We simply must persuade more members to act.
- ⤵ The personal contact details for many members are not on record with the Administrator. As a result, the Fund is not able to make contact with these members to make them aware of the new digital facilities. For security reasons, members whose personal contact details are not on record with the Administrator, will also find it difficult to register.

The FSCA now requires that all retirement funds obtain and maintain the personal contact details of each and every member of the Fund. The new policyholder protection rules, issued in terms of the Long-term Insurance Act, lay down even stricter measures for insurers of approved and unapproved group life policies with effect from December 2019. In less than two years, insurers will not be allowed to insure the life of a retirement fund member that they do not have the personal contact details of.

Although the Fund and the Administrator have run a number of projects where employers were requested to assist with the gathering of member contact details in the last year, we are not making the kind of progress required by the regulator.

While we will continue to engage and work with Participating Employers to obtain member contact details, the trustees resolved to implement the following special measures in order to fast track this process:

## Obtaining members' cellular numbers

The trustees have obtained member cell numbers via a data search service provider in those cases where we were not able to obtain members' cell phone numbers directly from their employers. These numbers will be used to communicate with members and encourage them to register for online view of their retirement fund information.

## Assurance: Protection of personal information

The Fund has adopted a code of conduct to ensure the protection of personal information as well as the protection of member privacy when it comes to electronic communications. The personal contact details of members will only be used by the Fund to communicate essential fund member services. It will not be made available to any other service provider for the purpose of marketing their services or products. This means we will not flood members with irrelevant SMS's and communication.

## Sanlam's new member online facilities

The Administrators' online facilities provide Fund members with quick and easy access to important information regarding their retirement savings and benefits like:

- ⤵ A retirement income projection that will assist members in determining how much they should be saving to live comfortably in retirement.
- ⤵ A view of their current retirement savings and group risk benefits.
- ⤵ Information on where their money is being invested and the option to make investment choices.
- ⤵ The facility to update their beneficiary information.
- ⤵ Easy access to educational content to make saving for retirement easier.

## How can members get access to their online information?

The process is quick and easy via the following steps:

- ⤵ Go to <https://cp.sanlam.co.za/>
- ⤵ Select Register and insert an identity number - click Search
- ⤵ Confirm a cell number and e-mail address - click Next, and choose.
- ⤵ A temporary password will be sent to the cell phone number provided.
- ⤵ Enter the temporary password that was sent and change this to own password

## A complete view of all Sanlam products

Once members have registered, they will land on Sanlam's web page that gives a summary of all their Sanlam products. By clicking on "View detail" under a product, more detail on that product will be shown. When clicking on "View your retirement fund detail", members will see their projected retirement income.

## Download the free mobile app

Members may view their information online or download the "Sanlam My Retirement" mobile app from the Google Play Store or Apple App Store.

**This Committee regularly reviews and recommends changes to relevant processes and procedures to ensure greater operational efficiency, cost effectiveness and compliance with the Fund's commitment to Treating Customers Fairly and ethically. But most importantly, the energies of this Committee remains aligned with the common goal for the Fund - good retirement outcomes for our members.**

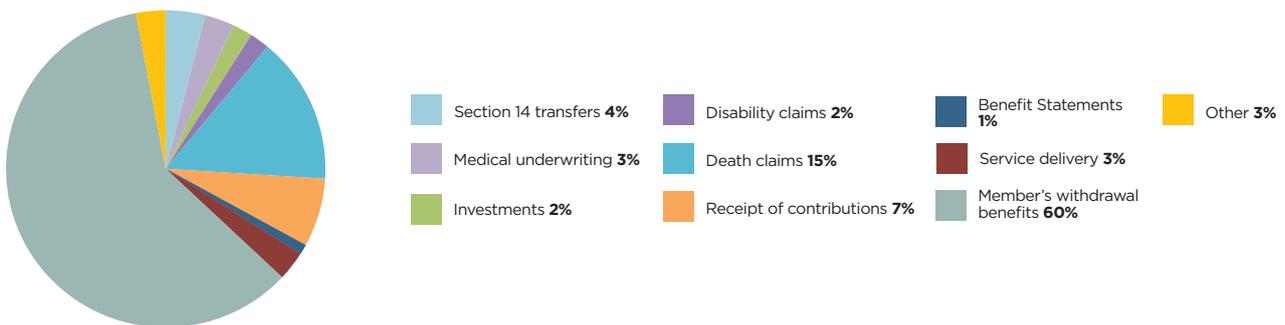
# Complaints Committee feedback

The Fund has a formal complaints procedure in terms of which each administrative enquiry, formal complaint and each “client relationship management exercise” is logged and managed. During the course of 2018 the fund rolled out protocols on the submission and management of withdrawal documentation by employers and the withholding of benefits in terms of Section 37D (losses suffered by employer as a result of theft, fraud, and dishonesty). It is the duty of this committee to investigate and resolve all these enquires.

Many of the complaints attended to during the reporting period were first filed with the Pension Funds Adjudicator or the Financial Services Conduct Authority (FSCA). 62% of these complaints, however, were in the nature of administrative enquiries which could have been explained and resolved by the administration enquiry desk or could have been dealt with much more efficiently in terms of the Fund’s internal complaints procedure.

The biggest area of concern remains members’ withdrawal claims (around 60%) and thereafter death benefits (around 15%). This trend aligns with the national statistics of the Pension Funds Adjudicator. One statistic that we do not share with the industry is that 70%, of complaints are determined in favour of the complainant. In our case more than (94.6) 95% are determined in favour of the fund – just the other way around. So we are working off a good base.

## Analysis of types of complaints received



The Fund’s Administrator has over the past year implemented sophisticated new IT programmes which tracks and processes withdrawal claims efficiently on a monthly basis. These measures significantly reduced enquiries but unfortunately a sizable number of our participating employers have not yet implemented all the electronic data capturing procedures. The fund has developed and is rolling out information and training material to make sure that employers and members understand the process and that their expectations are properly managed.

In respect of the Sanlam Unity Umbrella Fund, no more than a handful of formal complaints were received during the review period, all of which were resolved with little to no impact on the Fund or its members. Almost all of them were withdrawal related.

The Sanlam Umbrella Pension and Provident Funds, after many years of very little to no activity had a more eventful time.

During the reporting period the PFA made two compensation orders. One was in relation to the delay on the part of an employer to complete and process a withdrawal benefit. The PFA ordered the employer and the administrator of the fund to pay an amount of R5 000 to the member as compensation for the indignity suffered in the process.

In the other matter the PFA made a R15 000 compensation order against the employer and the fund for failing to make payment of a withdrawal benefit for a period during which time the National Prosecuting Authority sought to secure a court order against the member. Even though the employer was adamant that he had a prima facie case and was prepared to pursue a private prosecution, the delay was considered unreasonable by the Adjudicator. The employer agreed to pay the compensation order.

Early in 2018 the PFA made three determinations against the fund’s in terms of allocations of death benefits. Although these decisions could have been taken on appeal, the fund took a strategic

decision to adjust and make sure that its processes, procedures and calculations are sufficiently robust to the master documentation, the fund's responses to members as well as the Adjudicator will contain much more detailed information. The information will however also be desensitised to protect dependant's personal information in compliance with POPIA. The committee will seek to achieve greater alignment between the allocations made to children in and outside the household and, in respect of the latter, will take into account the position of both parents to provide support in future.

## Death Benefits Allocation Committee feedback

The payment of death benefits to the dependents of members (in the event of their untimely death in service) is an important function of the Board of the Fund. This role is handled by the Death Benefits Allocation Committee of the Board according to the powers and responsibilities delegated to it to ensure that it is distributed as quickly as possible and in the fairest and most reasonable manner. The collection and assessment of the information gathered by the Fund administrators and the application of the complex provisions of section 37C of the Pension Funds Act which governs the allocation of benefits, is carried out by our dedicated 37C Specialist team in the Fund Secretariat. The Administrator and the HR department of the employer assist with gathering of the information. They interact directly with the deceased member's employer and family in order to ensure that all potential beneficiaries are identified and that all the relevant information about them that may influence the allocation are gathered.

The relevant information gathered is presented at a meeting to the Committee in a standard and easy to understand format. The 37C Specialist and the committee determined from the list of potential beneficiaries those that were dependents and in fact were dependent on the deceased member as well as the extent of dependency. Should the amount available from the member's retirement savings and the in-fund group life assurance exceeds the calculated dependency needs, other factors such as nominations are considered for the allocation of the balance. The minutes of this meeting are distributed to all the trustees for their comments and approval, but before any payments are made all potential beneficiaries are informed of the proposed allocation for their comment within 30 days.

The biggest challenge for the Committee is to determine whether how complete and how reliable the information is that the potential beneficiaries provide.

We are constantly reviewing our procedures to ensure that we maintain the very high standards we set for ourselves. During the last couple of months, we improved, amongst other things, the forms requesting information from the potential beneficiaries, the format in which the 37C Specialists present the information to the Committee and the content of the communication to the potential beneficiaries of the proposed allocation. We also meet with three Senior Adjudicator Assistants to ensure that our interpretation of the legislation and theirs is aligned.

No complaints were filed against the Sanlam Plus Preservation Funds during the review period.

## Governance and Risk Committee feedback

**The Integrated Governance Assurance Approach** implemented by the Fund to govern and manage compliance consists of the following elements:

### A Fund Governance and Risk Management plan

This plan identifies all the duties and responsibilities of the Board of Trustees, tracks the progress made and identifies any outstanding matters. It also identifies the risks and helps manage the measures introduced to deal with those risks. It not only ensures compliance with the Act but also the good governance principles set out in PF 130 and the King IV Code of Corporate Governance. In addition, the Fund adopted a range of protocols to formulate important procedures relating to matters such as the non-payment of contributions and the election of trustees. These processes are presided over by the Principal Officer supported by the Head of the Fund Secretariat and the Governance and Risk Committee.

### A governance assurance approach

In terms of King IV the Board of Trustees should receive assurance on the effectiveness of the controls around compliance with laws, rules, codes and standards. In terms of this approach the Governance and Risk Committee monitors a number of key indicators and controls, and prepares and presents the Board of Trustees with an assessment of the effectiveness of the Fund's systems and processes of compliance and risk management.

### Fund Delegation Framework

In 2017 the Fund developed and implemented a delegation framework. On studying the new King IV report and its recommendations on effective delegation, the Board of trustees was comfortable that the affairs of the Fund received the priority attention of the specialist Committees populated with industry professionals. The Board of Trustees had to find more effective ways to align the operational efficiency of the Committees with the duties and responsibilities (and the potential personal liability) of each one of the trustees. The delegation framework implemented by the Fund over a period of just more than six months consists of the following important building blocks:

#### ➤ **Authorisation Protocol**

All the persons or committees who were authorised to take decisions on behalf of the Fund were identified. The terms and thresholds of each authorisation were reviewed to align with the operational needs of the Fund.

#### ➤ **Terms of reference of Committees**

The Board of Trustees reviewed the terms of reference of each one of the eight Committees. The first step was to empower each Committee by expanding its terms of reference and by requiring them to take charge, manage the risks, and provide the Board of Trustees with an assurance that the relevant practices and procedures of the Fund are effective. The second step was to make sure that the information they provide to the Board of Trustees is of such a nature that the Board of Trustees is able to monitor and manage the outcomes efficiently in the context of the standard meeting procedures.

What the Fund gained in operational efficiency did not directly translate into reduced liability for individual board members. The Board of Trustees can never abdicate its responsibility. Every trustee is required to study and act on the reports provided by the committees. However, with appropriate reporting on the key issues (in various layers of complexity and depth), the biggest gain is the level of comfort with which the "green flagged items" in the dashboard report can be accepted as taken care of and the "yellow and orange flagged items" can be investigated in more detail. The new duties of each Committee include the duty to:

- Identify any shift in the risks faced by the Fund and recommend ways in which these risks should be managed and mitigated.
- Prepare a dashboard report/an executive summary report as well as a detailed operational report for each Board of Trustees meeting. The objective is to provide trustees with the

appropriate high-level information that will enable them to monitor and manage the outcomes and dig deeper where they have reason for concern.

- Assess the performance of the identified service providers.
- Prepare a governance assurance report in accordance with the Fund's integrated governance assurance strategy.
- Regularly review and recommend changes to relevant processes and procedures to ensure greater operational efficiency, cost effectiveness and compliance with the Fund's commitment to Treating Customers Fairly and ethically.

#### 🔍 **Dashboard report**

When the Board of Trustees sit down to prepare for a trustee meeting they will, as a first order of business, consider the integrated dashboard report. This report contains the key management information as well as the governance assurances provided by each Committee. This report is integrated and finalised by the Governance and Risk Committee. The Board of Trustees considers the report a breakthrough in the level of reporting.

The Committee is happy to report that the Fund is in compliance with its duties and responsibilities and have not received any penalties or fines during the reporting period. The Fund has not had any compliance inspections by environmental regulators.

## External reports: Governance Assurance

In addition to the assurance reports provided to the Board of Trustees by each Committee, integrated by the Principal Officer and the Governance and Risk Committee, the audit report in terms of Section 13B, the pleasing results of the Treating Customers Fairly assessment, the following significant external reports were prepared:

#### 🔍 **ISAE 3402 Type II report: IT system: Access controls and Disaster recovery**

Ernest and Young conducted an ISAE 3402 type II audit on the Administrator during the period October 2015 to September 2016. Included in this audit were the following information technology control objectives:

- Control Objective 11 - Physical access control
- Control Objective 12 - INTERLINK logical access
- Control Objective 13 - MIP logical access
- Control Objective 14 - Change Control
- Control Objective 15 - Backups

These control objectives cover 32 separate control checks and all of these received an unqualified audit for the last reporting period.

#### 🔍 **Governance Assessment Instrument - King IV**

The Fund achieved a near perfect score in respect of compliance with King III in terms of this self-assessment tool. Because King IV is aspirational in nature the instrument does not prepare a score. It is important to note however that the Fund only reported a non-compliance in respect of two items. The first is in relation to the independence of the chairperson of the audit Committee. The current incumbent may not technically qualify as dependant as he retired from Sanlam three years ago. The Board of Trustees however asserted that he is the best person for the job and renewed his appointment. The second is in relation to the appointment of a lead independent trustee. The Board of Trustees, and especially the three independent trustees, were of the view that the appointment of a lead independent trustee has a greater likelihood of inhibiting rather than enhancing the active role they already play in the Board of Trustees.

#### 🔍 **Integrity of the Assurance**

The governance assurances provided to the Board of Trustees on a regular basis are prepared by professionals who deal with the Fund data on an on-going basis, or by independent professionals in terms of recognised disciplines. The Board of Trustees is satisfied that when all these indicators

and controls are positive it provides them with a very high level of certainty and comfort that the systems and procedures deployed are effective.

## Principal Officer

The Fund appointed Kobus Hanekom as the Principal Officer for a three-year term with effect 1 April 2017. He works for his own account. He is also contracted to provide services to Simeka Consultants and Actuaries. The Fund appointed Erina le Grange as the Deputy Principal Officer. She is in the permanent service of the fund and heads up the fund secretariat. Both Kobus and Erina successfully completed the Professional Principal Officer qualification offered by Batseta. Given the rich resources of the Sanlam Group, the close working relationships with the deputy Principal Officer and the SEB legal team, the Board of Trustees has a number of succession options. The Principal Officer provides the Fund with professional corporate governance services. He has over a number of years developed, implemented and maintained a very effective governance framework that has proven to be very effective.

## Risk management

The Fund governs and manages risks as follows. Each one of the eight Committees are required to identify the risks faced by the Fund and rate them and prioritise them in terms of the Fund's governance and risk management plan read with the risk schedule. The Board of Trustees review the top risks on a regular basis and ensures that appropriate action is taken to manage or contain these risks. The nature and extent of the risks and opportunities the Board of Trustees is willing to take is set out in the Fund's risk schedule. Special care is taken to consider undue, unexpected or unusual risks and risks taken and to determine a risk tolerance level.

The Board of Trustees is satisfied that the authorisation protocol it adopted, provides role clarity, summarises and identifies all those individuals and Committees who are authorised to act on behalf of the Fund.

During the past year all the top risks identified were comfortably within the tolerance levels and the Board of Trustees were satisfied that the measures taken to manage them were effective. The focus during the reporting period was to ensure that that the Committees review the risks from their perspective as subject specialists and take ownership of the measures implemented by the Board of Trustees to reduce or avoid losses.

The Fund has a particular future focus on risks that has disaster potential in an uncertain socio-economic environment.

## Ethical leadership

The Fund (in terms of its rules) offers membership of an umbrella retirement fund where:

- ④ The fund management, governance and compliance duties are undertaken by a professional representative Board of Trustees, comprising a balance of power as required by King IV.
- ④ The benefit structures/offerings align with the needs of (various groups of) members and employers, are easy to understand, convenient to use, offer outstanding value, are transparent and cost effective.
- ④ All the offerings are reviewed on a regular basis to help ensure good retirement outcomes for its members.

The energies of the Board of Trustees, the Sponsor and its service providers are aligned behind one common goal or reason for doing business – good retirement outcomes for our members. This business objective is measured on the actual outcomes for members. The Fund has launched a number of online calculators, tools and a counselling service to assist members in this regard. The planned future focus is to measure progress and use these success stories to inspire to encourage the right behaviour.

## Insured Benefits Management Committee feedback

This Committee is responsible for performing all functions as is necessary to provide participating employers with the most competitive insurance products as set out in the Fund in Detail.

### Sanlam Umbrella Pension and Provident Funds

Insurance premium rates were reviewed as part of the 1 April 2018 annual revision exercise. The Committee reported that the overall claims experience of the Sanlam Umbrella Fund continues to be managed well. Premium rate increases have been contained satisfactorily over the last few years.

### Sanlam Unity Umbrella Fund

Insurance premium rates are revised annually based on the claims experience of the risk pool. The Insured Benefits Management Committee continues to look at ways to improve this experience, through prudent management of pricing and risks so as to protect against anti-selection and by engaging with the trustees' appointed insurer in order to optimise the insurance spend on behalf of our members.

## Investment Committee feedback

The Investment Committee is responsible for the ongoing review and evaluation of the Fund's entire investment offering.

The past 12 months proved a very busy time for the Investment Committee as significant time and effort had to be devoted to monitoring global and domestic political, economic and legislative developments that all impact our members' investments. Some key words that highlight matters discussed within Investment Committee deliberations include 'Ramaphosa', 'Trump', 'China', 'Brexit', 'Tencent', 'Steinhoff' not to mention 'unprecedented volatility'.

Good governance is the foundation upon which all the Sanlam Umbrella Fund investment decisions are made. The composition of the Investment Committee must naturally be reviewed from time to time, and this was once again done. The current Investment Committee comprises four trustees, two sponsor representatives and the principal officer. The Investment Committee is naturally supported by technical experts such as professional investment consultants.

Sluggish market performance has not made the past few years an easy period for investments. Nonetheless our philosophy of trying to make available to our members the very best managers all operating in a diversified Regulation 28 compliant environment has meant that our members have continued to enjoy inflation-beating returns measured over one, three and five years to 30 June 2018 (see performance graphs).

A lot of work over the year went into refining and tweaking the available investment menu to better serve our members. Some new investment portfolios were introduced and there was an ongoing focus on achieving cost reductions for the benefit of our members. Two new portfolios that are particularly worth highlighting are:

- The Sanlam Progressive Smooth Bonus Fund which represents our efforts to channel money to black asset managers whilst at the same time backed by Sanlam guarantees. The product is aimed at investors that regard economic empowerment as a national priority.
- The Most Aggressive Portfolio is a Sanlam portfolio aimed at members who desire the most aggressive possible investment strategy within the constraints of Regulation 28 specifically investment-savvy younger members that can tolerate significant volatility in return for potentially higher long term investment returns.

The well-publicised Steinhoff saga resulted in significant panic amongst our members, participating employers and consultants and required significant communication efforts on behalf of the Investment Committee to reassure all these important stakeholders. Fortunately our continued focus on diversification of risks and quality managers resulted in the quantum of losses to our members being negligible in the context of the long term picture (around 1% once off loss depending upon portfolio selections), but this did serve a useful reminder to all of the importance of good risk management and appropriate diversification.

A related risk that has required significant time and effort from the Investment Committee has been single stock risk and specifically the relatively high exposure to Naspers in some portfolios. Whilst such exposure has added significant value in the past (e.g. for our default investment strategy, this value added was measured as + 1.5% over the 12 months to 31 March 2018 and +4% for 2017), we are all too aware that markets can quickly move in the opposite direction. Very significant engagement has taken place with our various asset managers and investment consultants, and with the recent benchmark change for our key Satrix Enhanced Balanced Tracker Fund effective 1 August 2018 (considered together with benchmark changes already made to other portfolios), we are now at the point where the Investment Committee feels the risk has been appropriately mitigated though naturally monitoring will continue.

The Steinhoff saga also served as a useful reminder of the critical importance of appropriately pitched investor communication material, and a lot of effort has gone into further improving the standard of our communication material (which had previously been assessed as good enough to win a number of industry communication awards). We are very proud of our new Member Investment Guide which can only further aid our members to better appreciate their retirement fund investments and make improved investment decisions. The 2018 Sanlam Umbrella Fund Symposium will also feature a dedicated investment feedback slot that we trust will prove highly beneficial to attending member representatives, participating employers and Contracted Benefit Consultants.

Last year we reported on the significant work that had gone into enhancing the investment construction of Sanlam Lifestage, the Fund's default investment strategy. This work culminated in the Sanlam Umbrella Fund winning the highest industry award for investment excellence at the 2017 Institute of Retirement Funds Africa annual awards ceremony.

We have continued work to improve and refine the Fund's available default investment strategies. This past year, we have concentrated on transitioning via cash flows towards an improved construction for our second most popular default investment strategy being Volatility Protection Strategy. This transition work is now close to conclusion as the portfolio approaches the desired long term 75% Sanlam Monthly Bonus Fund and 25% Satrix Enhanced Balanced Tracker Fund combination. This also represents the investment strategy for the Sanlam Unity Umbrella Fund, and we believe a smoothed investment return slightly in excess of 11% per annum over 5 years represents an outstanding outcome for these members.

The trustees and Investment Committee are continually working at enhancing the Risk Reporting in respect of investment matters that gets formally reviewed at each trustee meeting. Our Principal Officer has been a key driver here, and we thank him for his continued diligence to protect our members' interests.

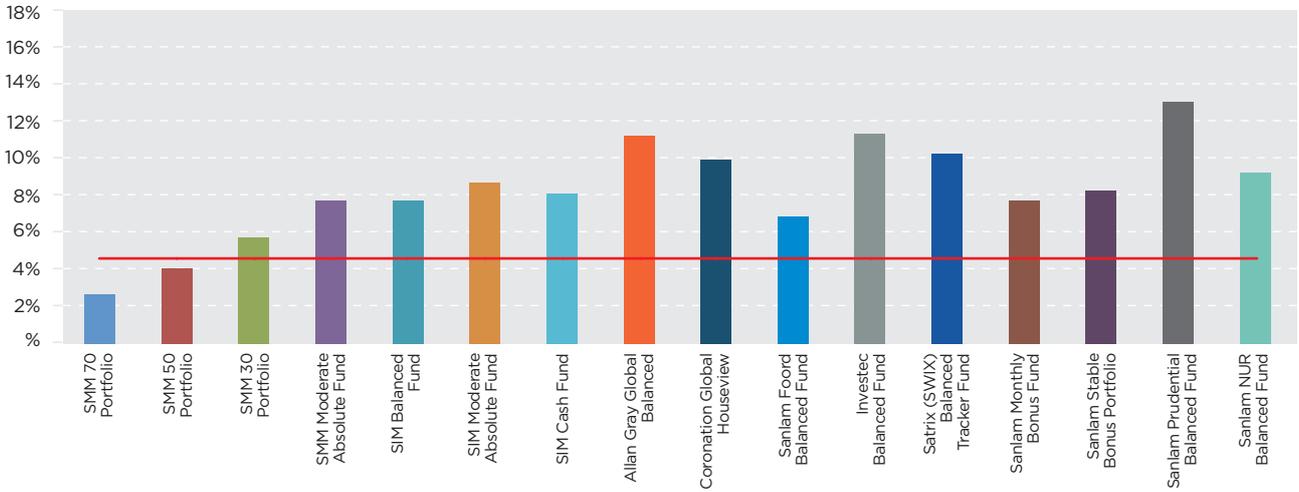
Legislative changes, particularly the impending defaults legislation which applies for this Fund as from 1 March 2019, have also required significant time and effort. Whilst the default regulations go beyond investment matters, the Investment Committee has had to make significant inputs as regards various aspects of these new regulations including the default preservation and trustee-endorsed annuity strategy requirements.

We also have devoted significant attention to the topics of sustainable investing and responsible investing. There are no simple solutions here given the Fund's strategy (because of client demand, risk management, regulation, scale, liquidity constraints, daily valuation requirements and other factors) to invest via Regulation 28 compliant pooled investment vehicles alongside other retirement fund investors. Nonetheless this is an area that the Investment Committee foresees will require increasing attention over the years to come.

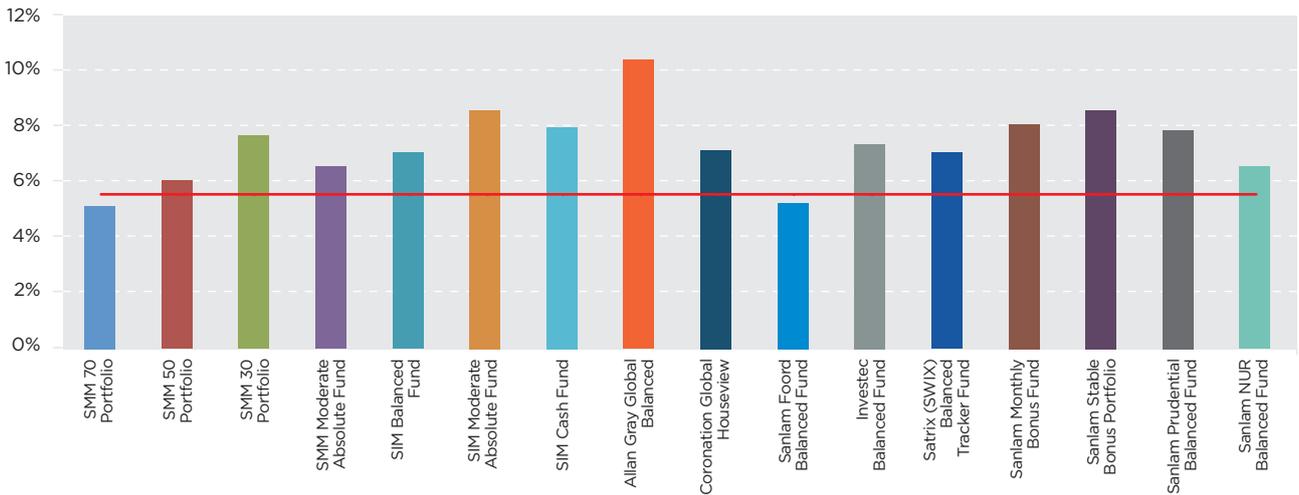
In summary, the past year has been both challenging and rewarding from an Investment Committee perspective. We are clear on our mandate, and will continue to focus our efforts within the sphere of investments to further improving retirement outcomes for our members.

# Investment returns for Trustee-approved portfolios

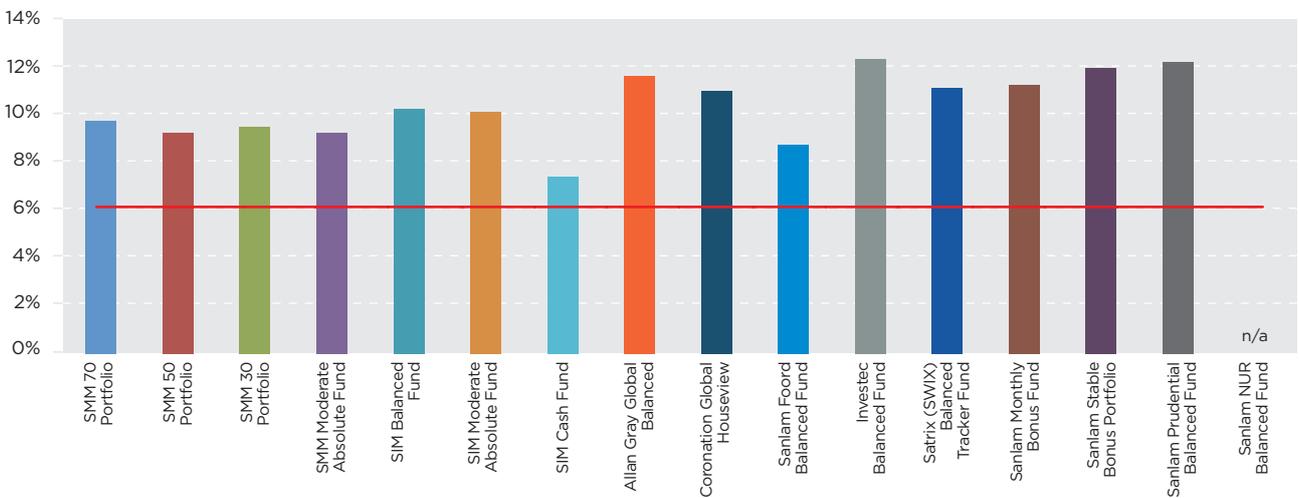
## 1 Year Returns



## 3 Year Returns



## 5 Year Returns



— CPI Rate



# Annual rate revision

## Annual Revision process for **Sanlam Umbrella Pension Fund** and **Sanlam Umbrella Provident Fund**

The administration fee changes have on average been kept well below the official inflation rate, however it is important to note that each participating employer experienced either increases or decreases depending on their own unique circumstances.

The underlying principle was that a consistent formulae was applied across the Sanlam Umbrella Pension and Provident Funds regarding every fee and every insurance premium i.e. we tried as best as possible to be fair to all our members and participating employers, and to charge fees that reflect the actual workload and the actual underlying insurance risks. As part of the revision process, we also obtained quotations for every insured benefit from the two Trustee-approved insurers being Sanlam and Capital Alliance. In cases where savings could be achieved by changing insurers, and where such a change was in the best interests of the members, we made arrangements to change the insurers.

Consulting fees are not subject to an automatic review as part of the annual revision process.

Consulting fees can be reviewed at any time by negotiation and agreement between the Contracted Benefit Consultant/Contracted Financial Adviser and the participating employer. A change in consulting fees is implemented via the Fund's formal amendment process.

The contingency reserve account levy as from 1 March 2018 reduced to R3.00 per member per month (including VAT).

## Annual Revision process for **Sanlam Unity Umbrella Fund**

The monthly administration fee for existing participating employers remained unchanged. The administration fee is subject to participating employers utilising the Retirement Fund Web facility and failure to adhere to this will result in an additional administration fee being levied. There were no changes to the Group Life, Disability and Funeral Aid insurance premiums or to investment management fees. There were no changes to the consulting fees. These fees are not revised as part of the annual revision process. The contingency reserve account levy remained unchanged at 0.25% of assets per annum including VAT, levied monthly.

# Rules **revision**

**The rules changes approved in 2018 are as follow:**

## **Amendment number 8 registered on 1 March 2018:**

- ④ An error in the Rules is rectified, as Rule 4.1(2) should also include reference to the premiums of the Unapproved Risk Benefits.
- ④ The Rules are amended to provide clarity regarding the provisions that will apply in the event of a transfer of Members in terms of Section 197 of the Labour Relations Act, both with regard to the situation where the Section 197 transfer is to another participating Employer, or to provide that in some instances the Member may be allowed to receive his/her benefit in cash.
- ④ To update the Rules to provide for the requirements of Information Circular PF No. 3 of 2016 regarding the filling of a vacancy on the Board during the prescribed period and the validity of Board decisions during the prescribed period.
- ④ The Rules are amended to align with the administrative process in this regard, i.e. the claim is submitted to the Administrator and not to the Board.

## **Amendment number 9 registered on 28 March 2018:**

- ④ To facilitate the Fund's expansion of its employer base into other especially African jurisdictions.

## **Amendment number 10 registered on 17 July 2018:**

- ④ To enable the Employer Surplus Account to be credited with amounts allocated in terms of the Rules or Special Rules as well as amounts allocated in terms of the ACT
- ④ To provide the Board with discretion to extend the term of office of the elected member representative Board members for periods not exceeding a term of five years. The reason for this is to allow the Fund, in the interest of continuity and the general effectiveness of the Board, to extend the term of member representative Board members for a limited period.
- ④ To rectify an omission in the Rules to allow a Board member to be re-elected or re-appointed when his term of office has expired.

# General Fund information

## Regulatory Information for Sanlam Umbrella Pension Fund and Sanlam Umbrella Provident Fund

STATUTORY ALTERNATIVES	FUND STATUS	
<b>Registered name</b>	Sanlam Umbrella Pension Fund Sanlam Umbrella Provident Fund	
<b>Registered as an</b>	Commercial Umbrella Pension and Provident Fund with representative management structures	
<b>Umbrella Sponsor</b>	Sanlam Life Insurance Ltd	
	<b>Pension Fund:</b>	<b>Provident Fund:</b>
<b>Registration date</b>	19/09/2001	19/09/2001
<b>Approval date</b>	06/02/2002	06/02/2002
<b>Registration number</b>	12/8/36828	12/8/36813
<b>Approval number</b>	18/20/4/41146	18/20/4/41147
<b>Funding model</b>	Defined Contribution Funds	
<b>The Fund's financial reporting period</b>	From 1 January to 31 December	
<b>Fund exemptions</b>	Valuation exempt, not audit exempt. Received valuation exemption up to 31 December 2019.	
<b>The Fund's registered postal address</b>	PO Box 1, Sanlamhof, 7532	
<b>The Fund's registered physical address</b>	2 Strand Road, Bellville, Cape Town, 7535	
<b>Separate bank accounts are being maintained for each fund</b>	<b>Pension Fund:</b> ABSA, Centurion Acc no: 4067972456	<b>Provident Fund:</b> ABSA, Centurion Acc no: 4067972383

## Regulatory Information for Sanlam Unity Umbrella Fund

STATUTORY ALTERNATIVES	FUND STATUS
<b>Registered name</b>	Sanlam Unity Umbrella Fund
<b>Registered as an</b>	Umbrella Provident Fund
<b>Umbrella Sponsor</b>	Sanlam Life Insurance Ltd
<b>Registration date</b>	27/07/2010
<b>Approval date</b>	02/08/2010
<b>Registration number</b>	12/8/36634
<b>Approval number</b>	18/20/4/41148
<b>Funding model</b>	Defined Contribution Funds
<b>The Fund's financial reporting period</b>	1 June to 31 May
<b>Fund exemptions</b>	Valuation exempt, not audit exempt. Received valuation exemption until 31 May 2020.
<b>The Fund's registered postal address</b>	PO Box 1, Sanlamhof, 7532
<b>The Fund's registered physical address</b>	2 Strand Road, Bellville, Cape Town, 7535
<b>Bank account detail</b>	ABSA, Sanbel Acc no: 4074118518

## Regulatory Information for Sanlam Plus Pension Preservation Fund and Sanlam Plus Provident Preservation Fund

STATUTORY ALTERNATIVES	FUND STATUS	
<b>Registered name</b>	Sanlam Plus Pension Preservation Fund Sanlam Plus Provident Preservation Fund	
<b>Registered as an</b>	Pension Preservation Fund and a Provident Preservation Fund (identical benefit and management structures)	
<b>Umbrella Sponsor</b>	Sanlam Life Insurance Ltd	
	<b>Pension Fund:</b>	<b>Provident Fund:</b>
<b>Registration date</b>	15/01/2012	28/01/2012
<b>Approval date</b>	22/02/2012	21/02/2012
<b>Registration number</b>	12/8/30343	12/8/30342
<b>Approval number</b>	18/20/4/35399	18/20/4/35399
<b>Funding model</b>	Defined Contribution Funds	
<b>The Fund's financial reporting period</b>	1 January to 31 December	
<b>Fund exemptions</b>	Valuation exempt, not audit exempt. Received valuation exemption until 31 December 2020.	
<b>The Fund's registered postal address</b>	PO Box 1, Sanlamhof, 7532	
<b>The Fund's registered physical address</b>	2 Strand Road, Bellville, Cape Town, 7535	
<b>Separate bank accounts are being maintained for each fund</b>	<b>Pension Fund:</b> ABSA, Sanbel Acc no: 4075042057	<b>Provident Fund:</b> ABSA, Sanbel Acc no: 4075042031

**Fund Officers for Sanlam Umbrella Pension Fund / Sanlam Umbrella Provident Fund / Sanlam Unity Umbrella Fund / Sanlam Plus Pension Preservation Fund / Sanlam Plus Provident Preservation Fund**

	PRINCIPAL OFFICER	RESPONSIBLE PERSON
<b>Full name</b>	Kobus Hanekom	Erina le Grange
<b>Company</b>	Independent	Sanlam Umbrella Solutions
<b>Postal address</b>	PO Box 350, Sanlamhof, 7532	PO Box 1, Sanlamhof, 7532
<b>Physical address</b>	2 Strand Road, Bellville, Cape Town, 7535	2 Strand Road, Bellville, Cape Town, 7535
<b>Telephone number</b>	082 490 5727	(021) 947 6504
<b>Email address</b>	kobus@kobushanekom.co.za	erina.legrange@sanlam.co.za

**Professional service providers**

	INDEPENDENT EXTERNAL AUDITOR	
<b>Fund</b>	Sanlam Umbrella Pension and Provident Funds	Sanlam Unity Umbrella Fund / Sanlam Plus Pension and Provident Preservation Funds
<b>Company</b>	RSM South Africa Inc.	Price Waterhouse Coopers
<b>Postal address</b>	PO Box 1734, Randburg, 2194	PO Box 2799, Cape Town, 8000
<b>Physical address</b>	Cross Street & Charmaine Avenue, President Ridge, Randburg, 2194	No 1 Waterhouse Place, Century City, 7441
<b>Telephone number</b>	(011) 329 6000	(021) 529 2000

## Appointments for Sanlam Umbrella Pension Fund / Sanlam Umbrella Provident Fund / Sanlam Unity Umbrella Fund / Sanlam Plus Pension Preservation Fund / Sanlam Plus Provident Preservation Fund

	ADMINISTRATOR	SPONSOR
<b>Company</b>	Sanlam Life Insurance Ltd (Business unit: Sanlam Umbrella Solutions)	Sanlam Life Insurance Ltd (Business unit: Sanlam Umbrella Solutions)
<b>Postal address</b>	PO Box 1, Sanlamhof, 7532	PO Box 1, Sanlamhof, 7532
<b>Physical address</b>	2 Strand Road, Bellville, Cape Town	2 Strand Road, Bellville, Cape Town
<b>Telephone number</b>	(021) 947 9111	(021) 947 1125
<b>Reg number S13B / FAIS</b>	24/85	n/a

	DEPUTY PRINCIPAL OFFICER	CONSULTANT: GOVERNANCE & COMPLIANCE
<b>Responsible person</b>	Erina le Grange	Kobus Hanekom
<b>Company</b>	Sanlam Umbrella Solutions	Independent
<b>Postal address</b>	PO Box 1, Sanlamhof, 7532	3 Heide Close, Platteklouf, 7500
<b>Physical address</b>	2 Strand Road, Bellville, Cape Town	3 Heide Close, Platteklouf, 7500
<b>Telephone number</b>	(021) 947 6504	082 490 5727
<b>Email address</b>	erina.legrange@sanlam.co.za	kobus@kobushanekom.co.za
<b>Reg number S13B / FAIS</b>	n/a	Simeka FAIS Licence No. 13900

**Appointments for Sanlam Umbrella Pension Fund / Sanlam Umbrella Provident Fund / Sanlam Unity Umbrella Fund / Sanlam Plus Pension Preservation Fund / Sanlam Plus Provident Preservation Fund (continued)**

<b>SPECIALIST INVESTMENT CONSULTING</b>	<b>SANLAM UMBRELLA PENSION AND PROVIDENT FUNDS / SANLAM UNITY UMBRELLA FUND / SANLAM PLUS PENSION AND PROVIDENT PRESERVATION FUNDS</b>	
<b>Responsible person</b>	Willem Le Roux	Victor Faria
<b>Company</b>	Simeka Consultants & Actuaries	Independent Actuarial Consultants
<b>Postal address</b>	PO Box 350, Sanlamhof, 7532	PO Box 1172, Cape Town, 8000
<b>Physical address</b>	Simeka House, Farm 2, Vineyards Office Estate, 99 Jip de Jager, Bellville, 7535	6th Floor, Wale Street Chambers, 38 Wale Street, Cape Town, 8000
<b>Telephone number</b>	(021) 912 3324	(021) 422 4373
<b>Email address</b>	willem@simekaconsult.co.za	victor@iac.co.za
<b>Reg number FAIS</b>	Simeka FAIS Licence No. 13900	IAC FAIS Licence No. FSP: 6832

<b>RISK INSURER</b>	<b>SANLAM UMBRELLA PENSION AND PROVIDENT FUNDS</b>	<b>SANLAM UNITY UMBRELLA FUND</b>	
<b>Company</b>	Sanlam Life Insurance Ltd	Capital Alliance Life Ltd	Sanlam Life Insurance Ltd
<b>Postal address</b>	PO Box 1, Sanlamhof, 7532	PO Box 10499, Johannesburg, 2000	PO Box 1, Sanlamhof, 7532
<b>Physical address</b>	2 Strand Road, Bellville, 7530	3rd Floor, Libridge Building, 25 Ameshoff Street, Braamfontein, Johannesburg, 2017	2 Strand Road, Bellville, 7530
<b>Telephone number</b>	(021) 947 9111	(021) 526 1395	(021) 947 9111
<b>FSB approval number</b>	24/185	17404	24/185
<b>Type of risk</b>	Group Life, Disability, Funeral, Accident, Spouses and Trauma Assurance	Group Life, Disability, Funeral, Spouses and Trauma Assurance	Group Life, Disability, Funeral and Accident

## Board of Trustees for Sanlam Umbrella Pension Fund / Sanlam Umbrella Provident Fund / Sanlam Unity Umbrella Fund / Sanlam Plus Pension Preservation Fund / Sanlam Plus Provident Preservation Fund

Trustee Member	Derek Smorenburg	Azola Mayekiso (Zuma)	Marius Jönas	Jolly Mokorosi	Joelene Moodley	Alex Paterson
<b>Date appointed</b>	1 July 2007 / 1 August 2009 / 1 January 2013 / 1 January 2016	20/09/2017	1 August 2009 / 1 January 2013 / 1 January 2016	1 January 2016	1 January 2016	1 August 2009 / 1 January 2013 / 1 January 2016
<b>End of term</b>	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018
<b>Compliance with Trustee Training Protocol</b>	Fully compliant	Newly appointed	Fully compliant	Fully compliant	Fully compliant	Fully compliant
<b>Compliant with Governance Procedures (PF130)</b>	Fully compliant	Newly appointed	Fully compliant	Fully compliant	Fully compliant	Fully compliant
<b>Sponsor appointed</b>	Yes	Yes	Yes	n/a	n/a	n/a
<b>Member elected</b>	n/a	n/a	n/a	Yes	Yes	Yes
<b>Status relative to the Sponsor</b>	Non-Executive Entrepreneur with extensive experience in the administration of an umbrella fund.	Executive with extensive experience in investments.	Non-Executive Entrepreneur with extensive experience in the administration of an umbrella fund.	Independent	Independent	Independent
<b>Trustee Fee</b>	Contracted and remunerated by the Sponsor	Employed by sponsor	Contracted by the Sponsor. Agreed trustee fee	Agreed trustee fee	Agreed trustee fee	Agreed trustee fee
<b>Performance Assessment</b>	Exceeds job requirements	n/a	Exceeds job requirements	Exceeds job requirements	Exceeds job requirements	Exceeds job requirements
<b>Attendance at Trustee meeting: 2 Nov 2017</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Additional meeting 8 Nov 2017</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>15 February 2018</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Attendance of 2017 AGM</b>	Yes	Yes	Yes	Yes	Yes	Yes

**Agreed Trustee Fee:** The standard trustee fee payable in respect of the meetings of the 5 related funds (8:30 to 17:00) is R27 772 plus VAT. The fee consists of an attendance fee of 50% and a preparation fee of 50% of the agreed fee. Fees for the attendance of the AGM are R10 723 plus VAT and travel costs. Committees' participation and additional research is remunerated at an hourly fee of R1 568. This is a very small percentage of the fees paid to independent trustees.

# Umbrella funds research overview



by

**Shakeel Singh***Chief Executive Officer:  
Sanlam Umbrella Solutions*

**This is the tenth consecutive year that we have undertaken a separate study on umbrella funds. As a result, sufficient history has been accumulated to meaningfully analyse the emerging trends. Once again, we surveyed 100 employers who participated in umbrella funds.**

This research overview will cover the following topics:

## **Contributions**

After four years of steady increases, provisioning for retirement funding appears to have dropped to 2014 levels this year due to a reduction in contribution rates. This might be an indication that members are experiencing a financially challenging period. It also highlights the fact that cost savings can only marginally improve retirement funding provision. The main contributor remains actual contribution rates.

## **Investments**

There has been a gradual decrease of investment in employers' default investment options from 80% in 2016 to the current level of 75%. This indicates that members are increasingly making use of investment choices.

Lifestage, as a default investment strategy, has decreased in popularity, although it remains the preferred choice of most employers. Passive balanced funds have gained some traction as a default investment strategy.

## **Insured Benefits**

Risk benefits can be provided via the umbrella fund, a separate scheme or a combination of both. Employers seem to be more in favour of providing risk benefits either through the umbrella fund or the scheme solution, and are less interested in a combination of the two options.

## **Benefit Consulting and Advice**

More participating employers have a formalised strategy in place for rendering financial advice to members. The favoured strategy is to refer members to a preferred financial adviser, as opposed to last year when members were referred to the umbrella fund administrator for factual information as a first port of call.

## **Retirement**

Respondents believed that fewer retirees would be able to maintain their current standard of living in retirement. This is probably as a result of the reduction in contribution rates observed.

## Understanding the Participating Employers surveyed

Approximately 86% (2017: 92%) of employers (in line with overall industry trends) participated in one of the “Big 5” commercial umbrella funds sponsored by Alexander Forbes, Liberty, Momentum, Old Mutual and Sanlam.

They were mainly operating in one of the following business sectors: Manufacturing 30% (2017: 27%), Wholesale and retail 15% (2017: 21%), Agriculture, forestry or fishing 10% (2017: 9%), Transport or Logistics 8% (2017: 7%), Hospitality 6% (2017: 5%) and Professional or business services 5% (2017: 9%).

The average membership was 533 (2017: 500), with 59 (2017: 55) of the participating employers having a membership of between 20 and 300. The remaining 41 employers had more than 300 members.

The average value invested in an umbrella fund by a participating employer was R200 million (2017: R257 million), with 41 (2017: 33) employers having less that R50 million invested.

Fifty-nine per cent (2017: 50%) of the employers had a total monthly pensionable salary bill of between 1 and 10 million rand and 52% (2017: 49%) of the employers had a total membership ranging from 40 to 300 members.

- The average employee contribution, as a percentage of PEAR, was 5.5% (2017: 7.3%).
- The average employer contribution, as a percentage of PEAR, was 8.4% (2017: 10%).

## Cost of administration

The average cost of administration, expressed as a percentage of salary, decreased to 0.6% (2017: 0.7%). This is most likely the result of increased competition, improved technologies and economies of scale in the bigger commercial umbrella funds. There is significant downward pressure in this segment of the market, especially when new business is tendered. Thus this figure is moving in line with expectations. There is an ever-increasing regulatory burden placed on retirement funds, which will probably have the opposite effect and may prove to reduce (or even reverse) the cost savings achieved in the past. Overall, as the umbrella fund industry achieves economies of scale, the model seems to be working well for consumers. Similar to the BENCHMARK Surveys conducted in 2017, 2016, 2015, 2014 and 2013, this figure is lower than the comparable cost for stand-alone funds.

## Contributions

A decrease in total provisioning for retirement of 3.5% (2017: increase of 0.7%) from last year was recorded.

There was a significant reduction in total contributions from 17.3% in 2017 to 13.9% in 2018. This could be partially attributed to the changes in the tax treatment of retirement fund contributions effective 1 March 2016. Some employers might have increased the pensionable earnings (PEAR), which might have been a portion of total guaranteed package (TGP), to equate to TGP. This could have resulted in the same R/c contribution, but a reduction in the percentage of PEAR.

The other obvious (and possibly the largest) contributor to this reduction in contribution percentage was the employees’ choice to contribute less towards retirement savings.

	2018	2017	2016	2015	2014	2013
Employer contributions	5.5%	7.3%	7.1%	6.4%	5.6%	5.6%
Employee contributions	8.4%	10%	9.5%	8.8%	8.5%	8.1%
<b>Total contributions</b>	<b>13.9%</b>	<b>17.30%</b>	<b>16.60%</b>	<b>15.20%</b>	<b>14.10%</b>	<b>13.70%</b>
Death benefit premiums	(1.5%)	(1.3%)	(1.3%)	(1.3%)	(1.6%)	(1.6%)
Disability benefit premiums	(1.1%)	(1.1%)	(1.1%)	(1.2%)	(1.2%)	(0.9%)
Operating costs	(0.6%)	(0.7%)	(0.7%)	(0.8%)	(0.8%)	(0.8%)
<b>Total provision for retirement</b>	<b>10.7%</b>	<b>14.2%</b>	<b>13.5%</b>	<b>11.9%</b>	<b>10.5%</b>	<b>10.4%</b>

## Investments

The most prevalent investment strategy utilised by sub-funds is a default investment portfolio, plus member choice, 61% (2017: 62%). Trustees Choice, i.e. no choice for members, was used by 29% (2017: 36%).

The majority of employers surveyed (71%) offered a member investment choice. This figure has increased since last year, after decreasing for a period of three years, from 80% in 2015 to 64% in 2017.

### Investment choice

An average of 15 investment options (2017: 6) were offered to members, which is significantly more than what was observed in previous years.

On average, 75% (2017: 78%) of assets were invested in the default investment option. There seems to be a gradual downward trend from the 80% recorded in 2016, when this question was introduced. This may indicate that more members are gradually starting to invest outside the default investment strategies.

The table below shows the trustee choice/default portfolio classification and utilisation over the past years:

	2018	2017	2016	2015
Lifestage	49%	60%	52%	59%
Guaranteed/Smoothed bonus	20%	22%	26%	23%
Balanced active	19%	10%	14%	15%
Balanced passive	10%	4%	3%	5.3%
Cash/Money market	1%	3%	4%	3%

There has been a significant move towards balanced funds as a trustee choice/default portfolio from 14% in 2017 to 29% in 2018.

### Lifestage investing

The majority (49%) of the default investment portfolios (2017: 60%) can be described as a lifestage vehicle. In a lifestage vehicle members are switched to a less volatile portfolio during the period just prior to normal retirement age (pre-retirement phase). The most common pre-retirement phase was 5 years (for 64% of respondents in 2018 and 50% in 2017) and less than 5 years for 17% (2017: 28%) of respondents.

This year there was some uncertainty (26% vs 10% in 2017) among respondents about whether their lifestage investment strategy was explicitly aligned to their post-retirement annuity strategy. However, 43% (2017: 60%) stated that their lifestage investment strategy was aligned. The uncertainty might indicate that some communication is needed regarding the role of a lifestage strategy and how it fits in with a post-retirement annuity strategy.

Thirty per cent of respondents (2017: 43%) indicated that they had more than one end-stage portfolio intended to align with members' annuity selection.

Most popular annuities allowed for in the pre-retirement phase	2018	2017	2016	2015
Guaranteed annuity (level or increasing)	49%	60%	52%	59%
Guaranteed/Smoothed bonus	20%	22%	26%	23%
Balanced active	19%	10%	14%	15%

It is interesting to note the shift in popularity of the Living annuity (ILLA) from most popular in 2017 to the least popular compared to Guaranteed and Inflation-linked annuities. However, this might just be a result of the uncertainty observed this year.

Seventy-five per cent of participating employers provided members with retirement advice and 13% provided retirement benefit counselling when members entered the pre-retirement phase of the lifestage model.

Other instances where employers (using lifestaging) would provide advice or counselling were when members switched investment portfolios (68%), at withdrawal (when members need to decide whether to preserve or withdraw) (55%) and at life events (marriage, divorce, etc.) (38%).

## Insured Benefits

Most participating employers (68%) provided risk benefits as part of the umbrella fund package (2017: 67%), and 25% (2017: 17%) provided risk benefits by way of a separate scheme. Some (6%) (2017: 16%) provided risk benefits as a combination of the umbrella fund package and a separate scheme. The growth in preference for a separate scheme seems to have come only from the combined offering.

### Risk Benefits – Umbrella Funds

The most popular risk benefits provided as part of the umbrella fund package were death benefits at 99% (2017: 96%), disability benefits at 96% (2017: 93%) and funeral benefits at 68% (2017: 45%).

- The average lump-sum death benefit was 3.0 times (2017: 3.1 times) annual salary.
- The average lump-sum disability benefit was 2.4 times (2017: 2.4 times) annual salary.

These benefits were fairly consistent with last year's figures.

### Risk Benefits – Separate Schemes

- The average lump-sum death benefit was 3.5 times (2017: 2.9 times) annual salary.
- The average lump-sum disability benefit was 2.5 times (2017: 1.9 times) annual salary.

There has been an increase in the cover provided via a separate scheme since last year.

## Benefit Consulting and Advice

Twenty-five per cent of consultants/brokers (2017: 25%) were remunerated based on statutory commission, while 61% (2017: 62%) negotiated a fee with the participating employer. The percentage of consultants/brokers who negotiate a fee with the participating employer has been increasing every year since 2014, from 24% to the current level where it seems to have remained stagnant since last year.

Of the 100 participating employers, 31 selected consultants or brokers based on company brand, 27 based on price and 13 based on the range of advice offered.

A significant portion (64%) (2017: 62%) of participating employers had a formalised strategy in place for rendering financial advice to members. When asked to describe this strategy, 34% (2017: 21%) indicated that they referred members to preferred financial advisers. A further 27% (2017: 42%) indicated that the umbrella fund administrator provided factual information about available options and only then, if members required further advice, were they referred to the fund's financial adviser. Twenty-two per cent (2017: 26%) indicated that the participating employer offered advice services to members by way of an adviser paid for or subsidised by the participating employer.

## Retirement

Respondents estimated that, on average, only 14% of their retirees (2017: 18%) would be able to maintain their current standard of living in retirement.

Only 50% (2017: 62%) believed the use of Net Replacement Ratio (NRR) was a suitable measure for determining whether a member was on track for retirement. A number of respondents (22%) (2017: 19%) believed members did not understand this measure.

Twenty-five per cent of participating employers (2017: 36%) had a target NRR towards which the trustees were actively working. Of these participating employers 72% (2017: 83%) indicated a default employer and employee contribution rate that was aligned with the stated target NRR. These participating employers had an average replacement ratio target of 68% (2017: 74%).

A consistently increasing number of respondents believed the trustees of their umbrella funds had implemented an appropriate default annuity strategy for members. This figure has increased from only 15% in 2014 to the current level of 33%. The most popular default annuity products selected were as follows:

	2018	2017	2016	2015	2014
Combination of different annuities	27%	0%	11%	28%	13%
Guaranteed annuity (level or increasing)	18%	17%	22%	32%	40%
Guaranteed annuity (level or increasing)	18%	17%	22%	8%	-
Living annuity	12%	45%	26%	8%	47%

A further 16% (2016: 13%) of participating employers stated that the trustees of the umbrella fund were in the process of putting a default annuity strategy in place within the next 24 months and 21% (2017: 23%) believed this was not being considered at all. Seventeen per cent (2017: 9%) were participating under a provident fund and believed a default annuity strategy was not applicable to them.

The most important factors in selecting a default annuity provider were identified as security of the product (33%) (2017: 45%), cost of the product (30%) (2017: 24%) and a smooth transition from pre- to post-retirement (21%) (2017: 21%).

When annuity product features were considered, participating employers indicated the following to be the most important:

	2018	2017	2016
Longevity projections (income for life)	30.0%	25.0%	24.0%
Allowing for pensioners to maintain their pre-retirement lifestyle as long as possible (even if not for the full duration of retirement)	28.0%	32.0%	20.0%
Annuity income that keeps pace with inflation	24.0%	30.0%	43.0%





**2 Strand Road, Bellville, Cape Town | PO Box 1, Sanlamhof 7532, South Africa**

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Licensed Financial Services and Registered Credit Provider (NCRCP43).

T +27 (0)21 947 9111  
F +27 (0)21 947 8066

[www.sanlam.co.za](http://www.sanlam.co.za)

