Understanding Umbrella Funds

GRAYSWAN

2022

Understanding Umbrella Funds

GRAYSWAN

A little more than a year ago, GraySwan embarked on a journey to simplify the South African Umbrella Fund landscape by launching the GraySwan Umbrella Fund Default Investments Survey.

Together with Allan Gray, we realised that for any employer considering membership of an Umbrella Fund, it is currently a daunting task to go through the intense and intricate process of analysing the numerous Umbrella Fund Default Investment Options available.

We welcome this opportunity and responsibility at GraySwan as our ethos has always been to actively manage risk. Our focus is on risk management and not merely the outperformance of any benchmark, which makes empowering employers – with a tool to help them select a suitable service provider for their employees – a task we take seriously.

As an independent consultant, GraySwan conducts ongoing reviews of Umbrella Funds available in the market. We focus our research on the key aspects of each Umbrella Fund provider, such as assets & fund growth, membership requirements, investment strategies, risk benefits, costs & fees, governance & representation, service providers & conflicts of interest and member communication. GraySwan currently consults on assets of more than R20bn.

As the first phase of the Survey, we analyse the investment component of retail Umbrella Fund offerings quarterly, with a specific focus on the Default Accumulation Portfolios and a short section on the Preservation Portfolios. The Survey sets out the Default Accumulation Portfolios available, their returns, asset allocation, fees and other important information of some of the most prominent Umbrella Funds (with an AUM in excess of R2 billion each) in South Africa, who opted to participate.

We have recently published the fourth edition of the Survey (with data as at the end of December 2021) and will continue to do so quarterly, updating the relevant information as at the end of every quarter.

It is exciting to see the list of participants in the survey being 10X, Alexander Forbes, Allan Gray, Discovery, Momentum, NMG and Sanlam. We aim to expand the list of participants as we welcome and encourage more Umbrella Funds to take part.

WHAT IS AN UMBRELLA FUND?

An Umbrella Fund is a Retirement Fund that allows multiple employers to use a single pension- or provident fund structure to help their employees save for retirement, while being managed by a professional board of trustees. Each Umbrella Fund's trustees decide on, and approve, a Default Investment Strategy which member-employers will utilise unless they opt out and build their own strategy from the available components under the Umbrella Fund.

Umbrella Funds have evolved substantially over the past decade and can cater for most employer needs, ranging from standard, cost-effective solutions to more sophisticated and complex investment options and risk benefits.

WHAT CAN BE EXPECTED FROM THE SURVEY?

Although there are numerous factors impacting an employer's ultimate decision, as already mentioned, the Survey's focus lies on the Default Investment Options of each participating Umbrella Fund, specifically the Accumulation Portfolios, i.e., the most aggressive investment fund options utilised for long-term investment growth as this is typically where the majority of an employer's members' monies are invested.

We start with a summary section, looking at the size of each fund's assets under management (AUM), and the number of employers and employees. We also stipulate whether the default strategy is a LifeStage Strategy (where the closer a member gets to retirement, the more their investment funds are de-risked), and then the AUM, annual fees, and asset allocation of the Default Accumulation Portfolio.

Section B, C & D consists of more detail about the LifeStage Strategies, the Default Accumulation Portfolios, and the fee structure of these Portfolios.

Section E dives deeper into the detailed performance figures and investment returns of the Default Accumulation Portfolio over different periods, while Section F focuses on these Portfolios' risk & return statistics over the same time periods.

Lastly, Annexure A & B gives a short biography of each participant and a summary of the Default Preservation Portfolio (i.e., the most conservative investment fund offered).

As already mentioned, this Survey is not a tool that can be used in isolation to compare different Umbrella Funds with each other as there are several aspects, other than those covered as part of the Survey, that needs to be considered before choosing the best fit Umbrella Fund for an employer.

The road less travelled

“If you keep doing what you always do, you’ll just get what you always get.” – Albert Einstein.

When we decided to take the road less travelled, we knew the road would get bumpier and steeper as lesser souls travel on it, hence the importance to change gears. We become more diligent in ensuring that everyone who takes that road does not run into further complexity. Factors like transparency regarding communication, fees, service providers’ track record, online administration capabilities and risk cover are crucial to consider on the journey to choose a suitable Umbrella Fund.

GraySwan has often articulated willingness to take the road less travelled. The launch of the Umbrella Fund Default Investments Survey is a step that further demonstrates our desire to do so in presenting a premium, measurable and world-class survey.

In our determination to simplify decision making, we provide a regular, easily understandable, independent and factual Survey to the market to empower decision-makers to stay well-informed.

Charles Ellis shares the following sentiment in his book ‘Winning the loser’s game’: if an investment consultant does not understand his client’s investment objectives and requirements, it becomes irrelevant whether the selected investment managers outperform their set benchmarks or not.

We echo this sentiment and highlight that it is crucial to ensure that the Umbrella Fund provider addresses your company’s requirements and that it can be tailored according to your specific needs.

Every layer of your entire Umbrella Fund structure must be optimally structured to ensure the best possible outcome for your employees.

GraySwan has a long, successful history of assisting several clients with the review of their Umbrella Fund offering through our independent consulting services.

We pride ourselves on our independence, ensuring our clients receive advice that solely focuses on their needs without any compromise.

CONCLUSION

Since the launch of the Survey, we have received tremendously positive feedback from various role players in the industry. Therefore, from here on forward, we are constantly reviewing the Survey to ensure that the information provided is of the highest quality.

We believe that our years of experience as Retirement Fund consultants together with our continual in-depth, proprietary research, puts us in the best position to provide employers with meaningful information, and ultimately the freedom to make the right decisions for their members.

We look forward to building on a fantastic start, and together with the Survey participants continue to enhance this value-added service to employers considering Umbrella Fund membership and improving transparency across the Umbrella Fund landscape.

FIND YOUR FREEDOM

GRAYSWAN

Find your Freedom at: www.grayswan.co.za

Johannesburg	(011) 431 0141
Somerset West	(021) 852 9092
Stellenbosch	(082) 336 8615