

Making the Call on Where to Invest

By Johan Botha



As members enjoy the upswing that their investments have had over the last couple of months during which nearly all, if not all their previous losses have improved, it is the trustees of their funds who should be commended for persevering with the investment strategies which they believed would best satisfy members' expectations.

Trustees know that there are times such as in 2008 when their investment decisions were not popular, but they knew that things usually change for the better. Members will find that historically when they add the good and the bad investment performance years together, it's the good years that would have won thus provided them with returns exceeding the inflation rate.

Managing millions (sometimes billions) worth of assets, operating within the confines of mandates and restrictions, as well as being expected by members to at least predict when the markets are going to crash or grow (something that no-one has ever been able to control), are ongoing pressures that impact on the decisions taken by trustees.

In this article, we shed light on the role of the trustees when making the call regarding investments.

On investing members' benefits, trustees are expected to:

- Draw up an investment strategy on which the investment decisions will be based;

- Ensure that the contributions and current assets in the fund are invested with an asset manager in accordance with the rules of the fund;
- Evaluate investment managers and the products and services on offer;
- Select the investment product (or products) that they believe will be best suited for the current membership of the fund;
- Ensure that the investments provide adequate (above inflation) returns; and
- Manage the investment managers to ensure that they stay within the investment mandate.

The trustees must also be aware of a number of factors when selecting an investment manager and the actual investment product (or products) where the contributions and assets will be invested. Grant Robertson outlines these factors in his book, "Investment Management for South African Retirement Funds":

- Cost – What management fees are charged to manage the product and how does it compare with other products;
- Pricing – How frequently are prices available and does this suit the trustees' needs;
- Termination conditions – What are the conditions for terminating the product (this is important for guaranteed and structured products);
- Minimum period – What is the minimum investment period;
- Performance restrictions – Is the performance limited in any way (e.g. structured products can 'cap' upside performance);
- Liquidity – How easy is it to convert to cash if the need arises;
- Minimum investment – Most products have a minimum level of investment in Rand terms;
- Communication – What feedback is given to the fund on the performance of the product;
- Switching restrictions – What restrictions apply to the product for member investment choice;
- Risks – Various risks may exist in the product or underlying investment. These need to be examined in some detail; and
- Administration – Is the fund's administrator capable of administering the product adequately.

