

# Survey on Effective Management of South African Retirement Funds\*

March 2007



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# We are delighted to introduce the findings of the PricewaterhouseCoopers Survey on Effective Management of South African Retirement Funds.

Our retirement funds industry specialist group developed the survey, which we believe considers and addresses the key areas of fund management.

Effective management remains a topical issue and hence high on the agenda of many trustee boards.

We conducted a survey of the views of chairpersons on the workings of their trustee boards with particular focus on management practices. We compared the results with an equivalent PricewaterhouseCoopers survey, released in the United Kingdom ("UK") in March 2006, to identify trends or differences.

Our aim was to identify key issues, shed light on best practice and highlight actions trustees can take to enhance the management of their funds.

With 110 participants covering a wide spread of funds from the very large to the fairly small, the survey is representative of existing practices. It offers a benchmark against which trustees can compare various aspects of their fund's workings and strategies with those of their peers, both in South Africa and in the UK.

The recent PF circular 130 which sets out a suggested governance framework for South African retirement funds, as well as the recent "Risk Assessment Questionnaire" sent out to funds by the Financial Services Board, highlights the significance of proper fund management in the eyes of the Regulator. The mere existence of these documents means that trustees will appear negligent if they do not grasp the key issues relating to the effective management of their funds and do not take action to

ensure that key risks are adequately mitigated.

Findings of particular interest in this survey include the following:

- There are remarkable similarities in trends between the management of South African funds and UK funds in the majority of the areas surveyed, with South African funds outperforming UK ones on occasion;
- The extent to which trustees have adopted key governance tools over the last two years suggests a sharper focus on enhancing proper fund management;
- There remains a general lack of focus on self assessment in most areas, including conflicts of interest;

## Foreword (continued)

- The advisers are not properly assessed and selected;
- The commitment and skills levels of trustees require improvement.

The insights we have gained through conducting this survey, enable us to provide practical advice to funds on where they stand on the road to effective management and what next steps are likely to be the most pertinent.

This survey canvasses the actual status of funds' management rather than views and opinions on, say, the future direction of governance.

The time spent by funds completing the questionnaire and in some cases participating in discussions with us is greatly appreciated. Individual responses will be kept totally confidential. We would like to thank all the participants for their time and views. We would also welcome feedback on the survey and suggestions as to additional issues to cover in future.



# Actions for trustees

Based on our survey findings we believe there are a number of steps trustees can take to enhance the management of their funds. Here are some recommendations for boards to consider:

1. Recognise that good governance is a regular topic for the trustee agenda and see it as a continually evolving process. Benchmark your fund against best practices in governance;
2. Develop a governance policy for your fund and use it as a basis for managing the trustees' activities in an effective and efficient way;
3. Undertake an assessment of the skills and knowledge of the trustees individually and collectively, covering analytical and decision-making skills as well as technical knowledge. Design and implement a learning and development programme to close any identified skills and knowledge gaps;
4. Introduce collective and individual objectives for trustees, to seek to enhance trustee performance;
5. Develop and implement a performance measurement process for advisers and delegates, to ensure advisers really are meeting the needs of the trustees;
6. Develop principles for recognising and addressing conflicts of interest, especially for negotiating with the employer on funding and investment policy.
7. Trustees of defined benefit funds in deficit need to adopt the mindset of an unsecured creditor and act accordingly;
8. Formalise a risk evaluation and review it regularly;
9. Monitor compliance with the Pension Funds Act and other legislative developments; and
10. Increase the transparency of how governance operates in communications with members and other stakeholders.



# About the survey

## The Questions

The survey consisted of 31 in-depth questions covering the key aspects of pension fund management. The questions focused on the principles, processes and trustees' behaviour necessary to implement sound management.

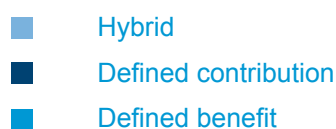
For each question, chairpersons were asked to identify which statements from 1 to 5 most closely represented the operation of their trustee board. On this scale, 1 represents the lowest standard of governance and 5 represents the highest standard of governance. The individual responses to each question were structured to be as objective as possible to enable us to draw quantitative conclusions. In some instances it is a matter of debate whether, for example, answer 5 is 'better' than answer 4, it is not always clear cut.

The survey questions were grouped within the following key areas:

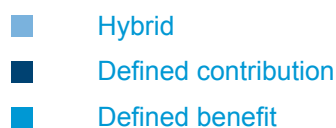
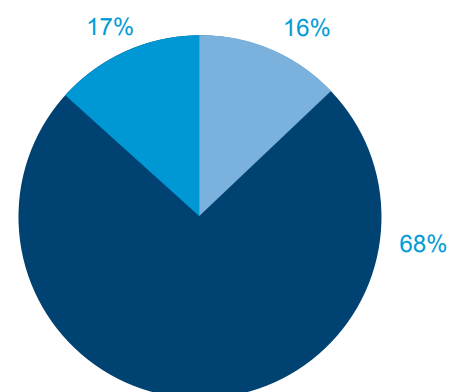
- Compliance;
- Decision-making;
- Roles and responsibilities;
- Governance and objectives;
- Delegates and advisers;
- Knowledge and understanding;
- Risk management;
- Conflicts of interest;
- Accountability to members;
- Progress made with Surplus Apportionment Act, 2001;
- Level of comfort with and enhancement of governance.

Some specific questions were asked for each of defined benefit and defined contribution arrangements.

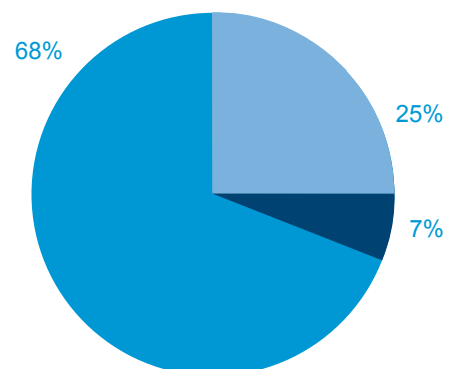
We also collected fund data including: fund type, status, age, industry, asset size and the number of members. Where specific characteristics of the fund resulted in distinct differences in responses, we have highlighted these differences. However, we did find that, generally speaking, the results were not particularly differentiated by fund characteristics such as size and maturity.



### Scheme type SA



### Scheme type UK



**Fig 1 Respondents by fund type**

# About the survey (continued)

## The population

Our survey was sent to 310 pension funds of varying size during November 2006. The top 100 funds by asset size were included in the population. In total 110 responses were received representing a response rate of 35%. The responses were spread approximately one third each across small, medium and large funds (measured by asset value) (Refer Fig 2: 35% >R1bn; 38% > R100m and 27% <R100m) Large funds that responded included 27 of the top 100 funds (according to FSB information) by asset value. Other interesting statistics were:

- 70% of funds have less than 5000 members
- 76% of funds are older than 10 years
- Total assets of the 107 respondents were in excess of R80 billion.

In November 2005 a similar survey was sent to 185 large UK pension funds. Of these, 81 Chairpersons completed the survey questionnaire. This represents a response rate of over 43% –and a clear indication that governance is a topic that is also high on the agendas of UK funds. The total population from which the sample was selected was dominated by the top 250 UK pension funds by asset size.

We compared the results of the two surveys and commented on areas where the response was either different or similar trends could be seen. In general, the trend between South African and UK funds were remarkably similar, as can be seen from the graphs per question.

Keeping in mind that 68% of the UK funds surveyed were defined benefit funds, whereas the majority of South African funds (68%) were defined contribution funds (see fig 1), we commented on those questions where the type of fund would be expected to influence the answers. Generally the principles of management remains the same regardless of type of fund and a meaningful comparison could be made.

Given the high response rate in

both surveys, reliable conclusions can be drawn about the governance of pension funds of medium to large size.

In this report we provide an overview of the survey findings and the key themes that emerged. We also provide our own commentary and interpretation of the results.

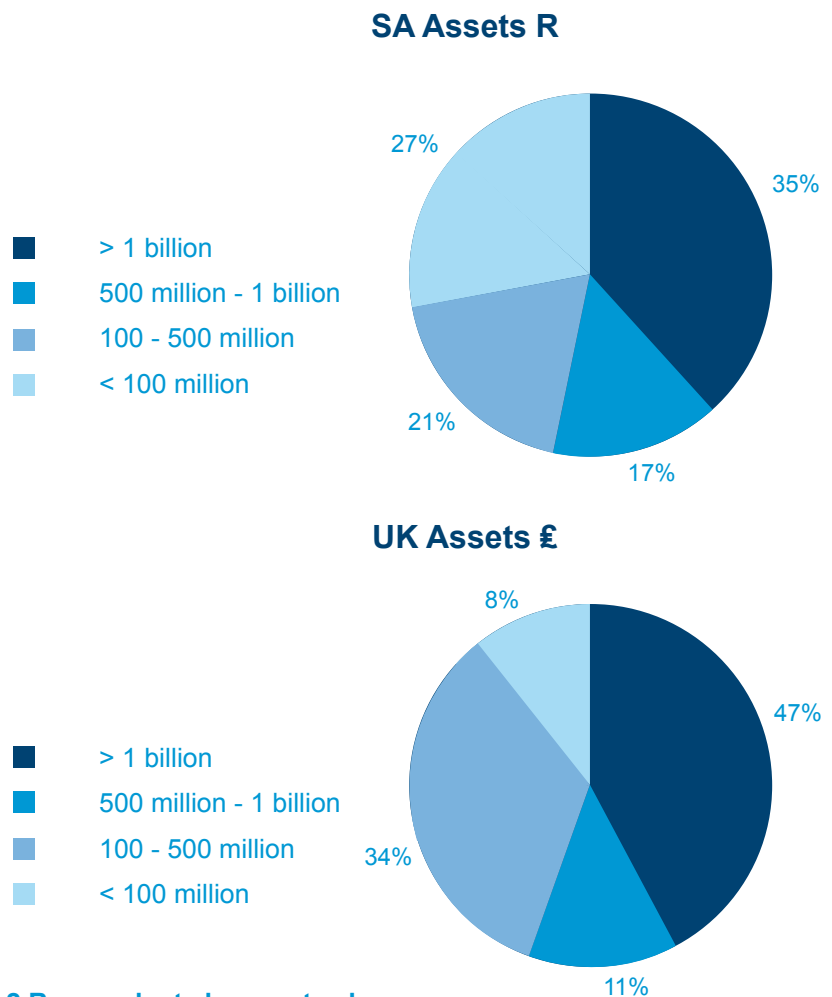



Fig 2 Respondents by asset value

# Survey messages


Trends between South African and UK funds are similar 

Compliance to King II principles can be improved 

Decision making processes are effective 

Trustees can improve on preparation ahead of meetings. Mechanisms for communication with the employer are not 100% in place yet 


Governance needs to be added to the agenda urgently. Evaluation of trustee and board performance is lacking 

Advisers are not being properly assessed, and the selection process for advisers can improve 

There is a lack of emphasis on appointing skilled trustees 

Conflicts of interest are identified but not formally managed, especially by smaller funds 

Member communication is generally adequate, but the process for seeking feedback from members can be improved 

Investment strategy is well managed for both defined benefit and defined contribution funds. The financial stability of the defined benefit employer is often not assessed 

# Key survey findings

- ▶ UK funds outperform South African funds in the areas of business planning, setting of governance policies, evaluating of trustee effectiveness and knowledge and addressing conflicts of interest. South African funds perform better in the areas of linking decisions to fund rules and legislation, communication to members and investment strategy in the defined contribution environment.
- ▶ Funds are managed well in accordance with the fund rules and legislation. 89% of trustee boards indicated that they are up to date with legislative requirements. However 29% of funds confirmed that no assessment of King II principles have been made, with a further 60% having only considered it and only 18% having integrated principles into all aspects of fund activities. Clearly an area for improvement.
- ▶ 45% of funds debate and challenge external advice. A further 46% seeks advice from a variety of sources and all trustees take part in informal debate. 63% of funds believe they have appropriate processes for researching and making decisions.
- ▶ Although 94% of trustee boards meet at least quarterly, 29% of trustee meetings are either not fully attended or not all trustees have read the papers in advance. For 28% of the funds, the agenda is not always set with input from the trustees. Although 83% of funds have formal mechanisms in place for dialogue with the employer, there are still 17% of funds who only have minimal ad hoc communication with the employer.
- ▶ 83% of funds are aware of the importance of good governance. But only 32% of funds have a formal governance mandate that is used for management processes and decision making. 56% of funds have done a formal risk analyses in the last two years. However, 72% of trustees have no formal objectives. 81% of boards have never evaluated their own effectiveness or put mechanisms in place to do so, lagging significantly behind UK funds. 26% of funds either do not have a mechanism in place to manage risks or have not taken any steps to manage those risks that have been identified.
- ▶ Although 85% of funds have considered the performance assessment of their advisers, the process of assessment can be improved. 37% of funds assess performance of advisers on an ad hoc basis only that is not standardised. 9% of funds do not assess their advisers at all. 55% of advisers are selected either on criteria that are subjective, or after informal debate and without any review.
- ▶ 41% of funds have not made any assessment of trustees' knowledge and understanding for example of the Pension Funds Act. Only 37% of employer-nominated and 18% of member-nominated trustees have had to demonstrate they are suited for the role. 48% of member elected trustees are appointed with no consideration of knowledge and skills. 48% of employer trustees are appointed if they merely appear to fit generic knowledge and skill requirements.
- ▶ Only 14% of funds have not considered conflicts of interest. However, only 15% have a formal policy in place to identify conflicts. 75% of funds with assets under R500 million each have not considered a process for managing conflicts of interest.
- ▶ 78% of funds communicate major items of news to members as they arise, although 19% are not going beyond the minimum legal requirements. Only 35% of funds have a formal communication strategy. 23% of funds have no mechanism in place to seek members' views and 24% only deal with members' views on an ad hoc basis.
- ▶ 47% of defined benefit fund boards can demonstrate that they have achieved the best available package of contributions, security and investment strategy combined. 50% of defined contribution funds have selected investment options for their members that fully reflect the range of member needs. 74% of trustees provide sufficient information to members, including risk/return relationships. Less than half (42%) of defined benefit fund trustee boards receive regular updates from the sponsoring employer on its financial strength. 52% of boards pay little attention to the financial strength of the sponsoring employer.

# Detailed survey findings

In the earlier section “Survey messages and key findings” we highlighted the main conclusions that could be drawn from the survey results overall. In this section we look in detail at the specific results for each section of the questionnaire.

## Compliance

In the area of compliance with fund rules, trustee boards are generally performing quite well. 85% (UK 98%) of the respondents confirmed that the Fund Rules are followed, ensuring they are compliant with legislation. A surprising high proportion (37%) confirmed that they link all decisions undertaken by the board to the fund rules. This is remarkable given the fact that only 7% of UK boards confirmed to be doing this.

A further 49% of funds declared that trustees regularly consulted the Rules and were able to clearly distinguish between their duties and discretionary powers.

In our view, South African trustees appear to be wary of the threat of personal liability in case of losses due to deviations from or incorrect application of fund rules, a message that our Adjudicator has delivered in recent years.

The number of respondents confirming that they only refer to the Rules occasionally (14%)

came as a surprise. Perhaps some trustees are finding that the volume of current changes in the regulatory environment and their general workloads are having an impact on the time spent monitoring the Rules. If so, this is a development of concern.

The results of question 2 are quite interesting. Only 11% of funds responded that their boards took no account of legislative requirements except when specifically drawn to their attention by an adviser, possibly countering a common perception that South African trustees place over reliance on their advisors for legislative updates. 89% of trustee boards are up to date with main legislative requirements. (UK 98%)

45% of these trustees could explain the main legislative requirements and their impact (27% for UK funds) presumably reflecting the commitment by South African trustees in keeping fully up to date with the impact of legislative changes. This implies that trustees

are taking more responsibility for decision-making.

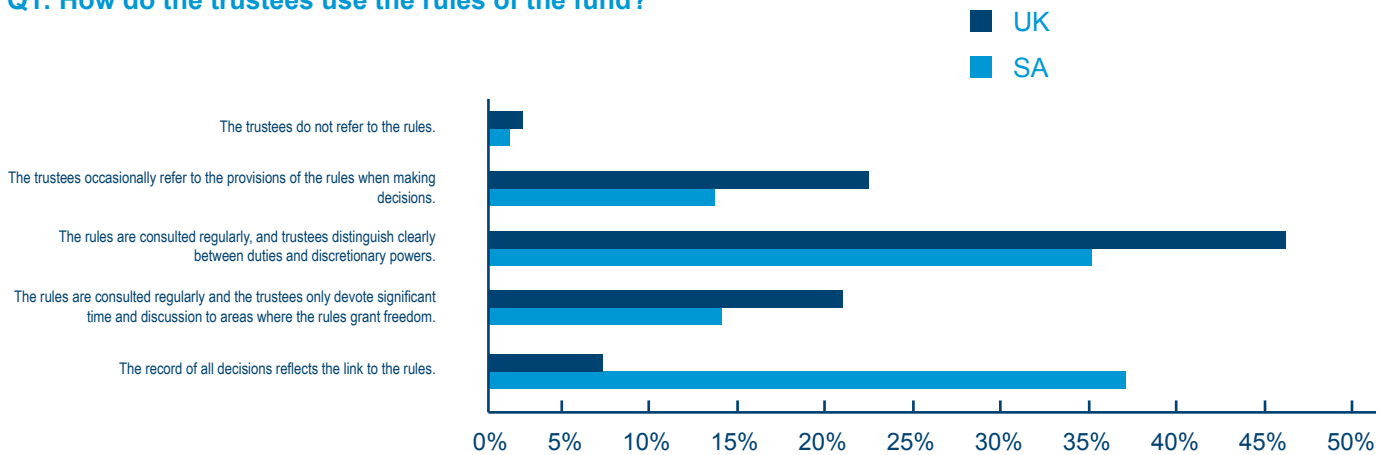
On compliance with King II principles, 29% of funds confirmed that no compliance assessment has been undertaken. 60% have considered King II principles, but only 18% have fully integrated the principles into all aspects of their funds' activities. The UK outperforms South Africa with 92% having considered compliance with the Mynors report, 23% having fully integrated all principles and no funds who have not performed a compliance assessment.

In summary on compliance as a whole, responses indicate that less than half of the funds (45%) believe there is strong compliance in respect of the use of the fund rules, keeping up to date with legislative changes and considering King II compliance principles. It is clear from the results that the biggest area for improvement is for funds to start assessing their compliance with King II principles.

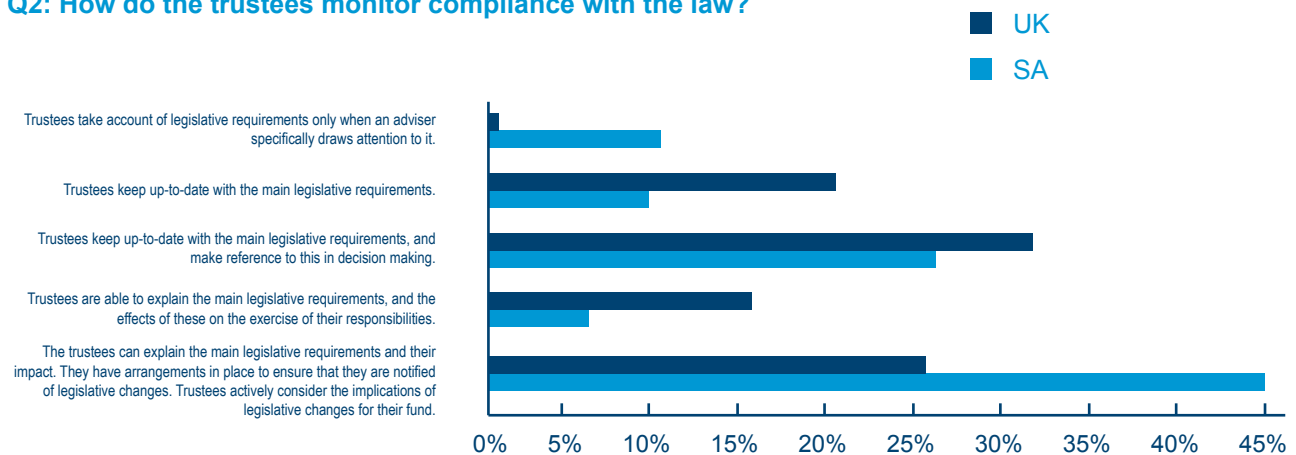
# On compliance to King II principles, 29% of funds confirmed that no compliance assessment has been undertaken.

# Detailed survey findings (continued)

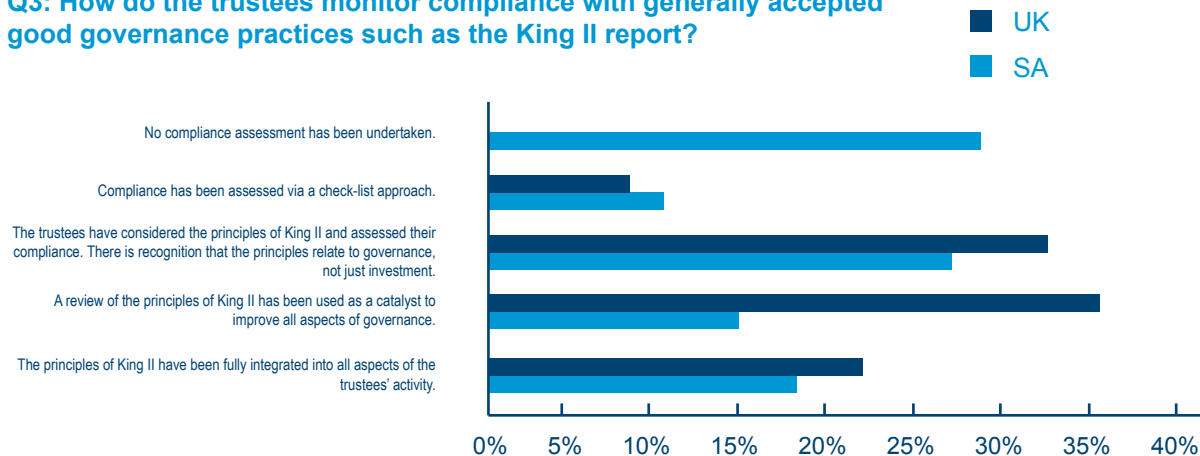
## Q1: How do the trustees use the rules of the fund?



## Q2: How do the trustees monitor compliance with the law?



## Q3: How do the trustees monitor compliance with generally accepted good governance practices such as the King II report?



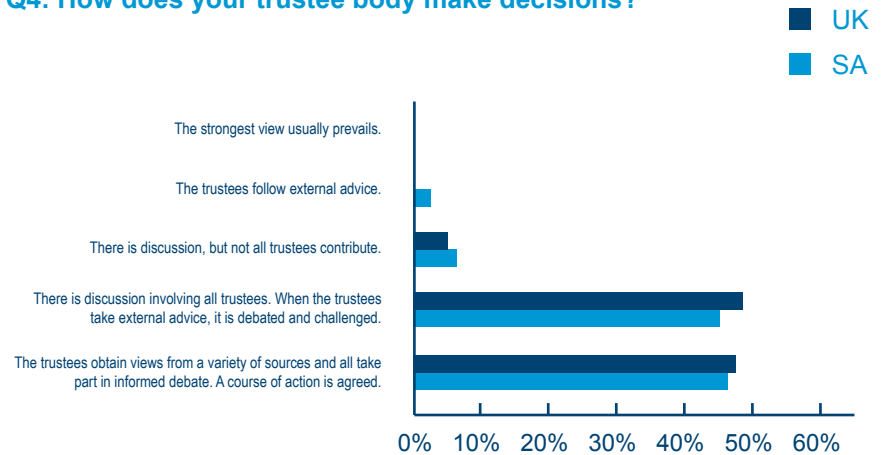
# Decision-making

The majority of funds believe that their boards are performing well in the area of decision-making, with almost all boards discussing advice received (only 2% relied purely on external advisors). In all cases, decision-making involving discretionary powers is based on relevant information. 45% (UK 48%) of funds reported that the advice was debated and challenged with a further 46% (UK 47%) reporting that advice was sought from a variety of sources and all trustees took part in informed debate, with a course of action being agreed.

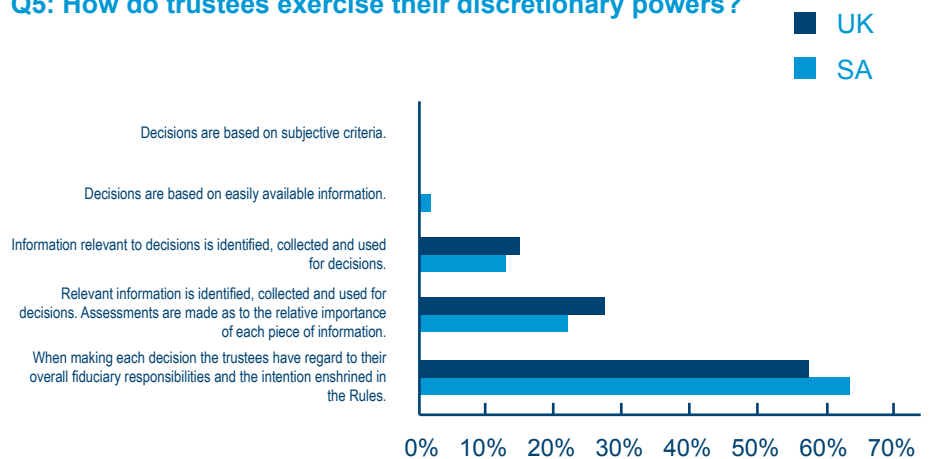
In the exercising of their discretionary powers almost two thirds (63%) of funds believe that their trustees have implemented appropriate processes in researching and making decisions. (UK 58%)

It is clear that trustee boards believe they are effective in the decision-making. One has to hope that enough emphasis is placed on also recording the thought process on all discretionary decisions.

## Q4: How does your trustee body make decisions?



## Q5: How do trustees exercise their discretionary powers?



# Trustees believe they are effective in their decision making.

# Roles and responsibilities

The survey indicates that trustee boards are allocating reasonable time to their duties and the arrangements of trustee meetings. However only 58% of trustees are properly prepared for meetings, compared to 85% in the UK. Given that many larger funds are well resourced in terms of their running and management, this is an area of concern.

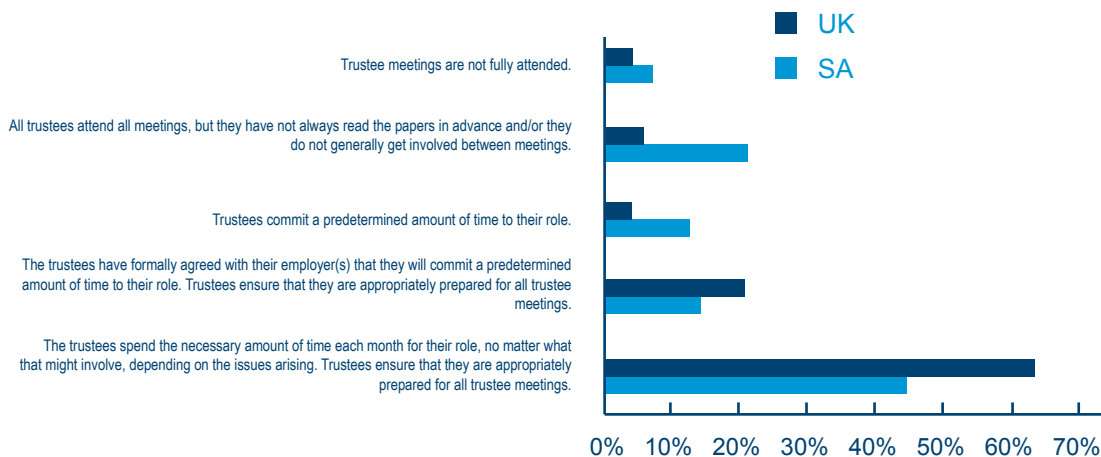
A further worrying finding is that there are 29% (UK only 10%) of funds where meetings were

either not fully attended or, if fully attended, not all trustees had read the papers in advance. With the average number of trustees in office for the funds surveyed being 8, this means that at least 2 trustees per trustee meeting made no or little contribution.

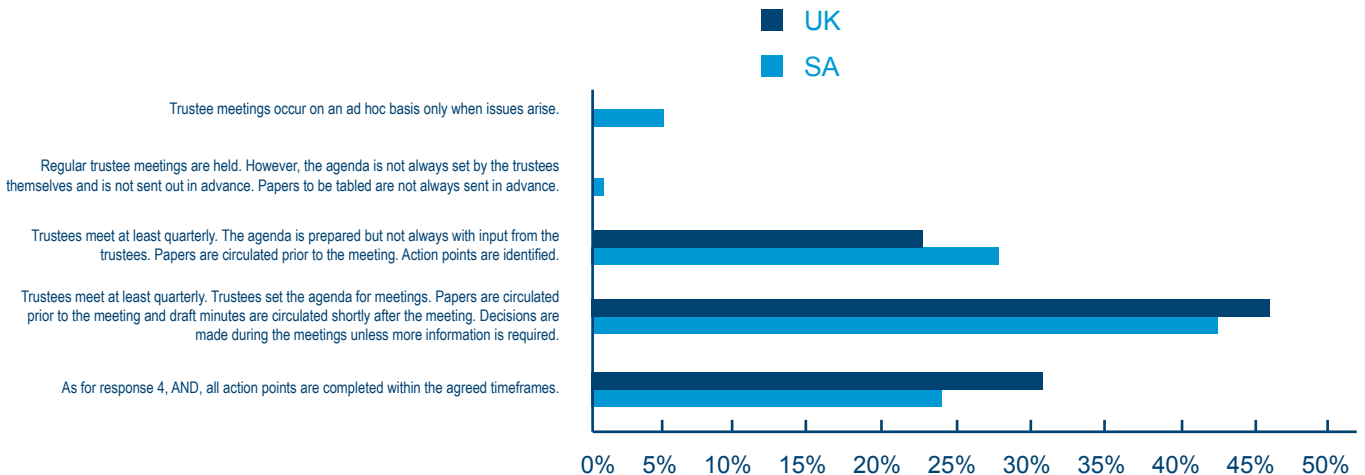
On the positive side, 94% of boards meet at least quarterly (UK 100%) with proper agendas and action points as result. An interesting observation is that the agenda is not always set with input from the

trustees for 28% of the funds (22% in the UK) indicating the role that the fund advisors still play in many funds, normally the smaller ones as expected. Surprisingly there are still 5% of small funds who only meet on an ad hoc basis.

## Q6: How much time do the trustees allocate to their duties?



## Q7: What are the arrangements for trustee meetings?



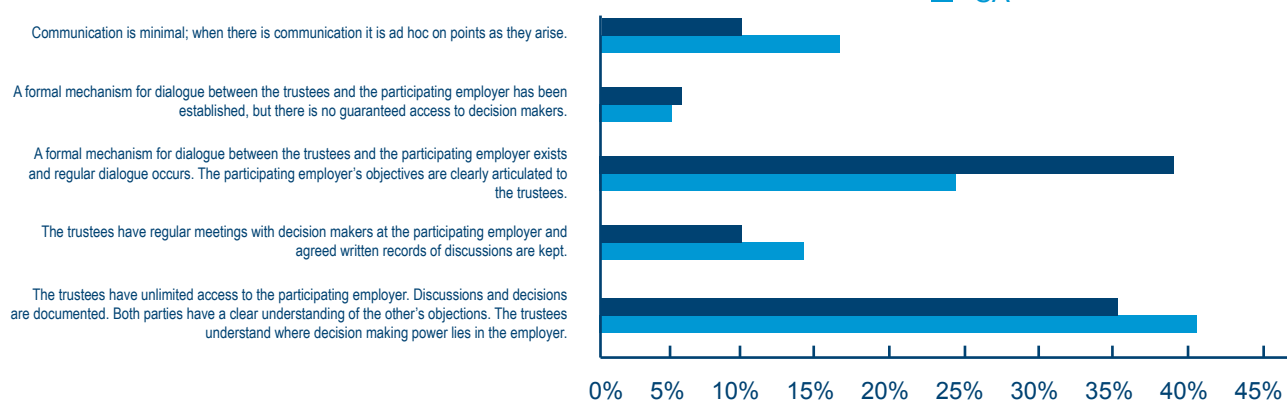
## Roles and responsibilities (continued)

On the topic of interaction with the participating employer, we were encouraged to note that the majority of funds (83%), albeit lagging behind the UK's 90%, had formal mechanisms in place for dialogue with the employer. We would expect the need in the UK to be greater given the defined benefit environment.

41% of funds confirmed that trustees have unlimited access to the employer (UK 36%) and that both parties had a clear understanding of the other's objectives. However, we noted that 17% of funds had no or only ad hoc communication with the employer (UK 10%) which is expected in the predominantly defined contribution environment in South Africa.

### Q8: How do the trustees interact with the participating employer?

■ UK  
■ SA



For 29% of funds trustee meetings are either not fully attended or not all trustees have read the papers in advance.

# Governance and objectives

61% of Funds (UK 16%) confirmed that they had either not considered establishing a governance policy or, where governance priorities had been discussed, they had not been formalised.

7% of trustees have a formal policy (UK 38%), but it is not used as a template for management. 32% of other funds formally use their policy for management processes

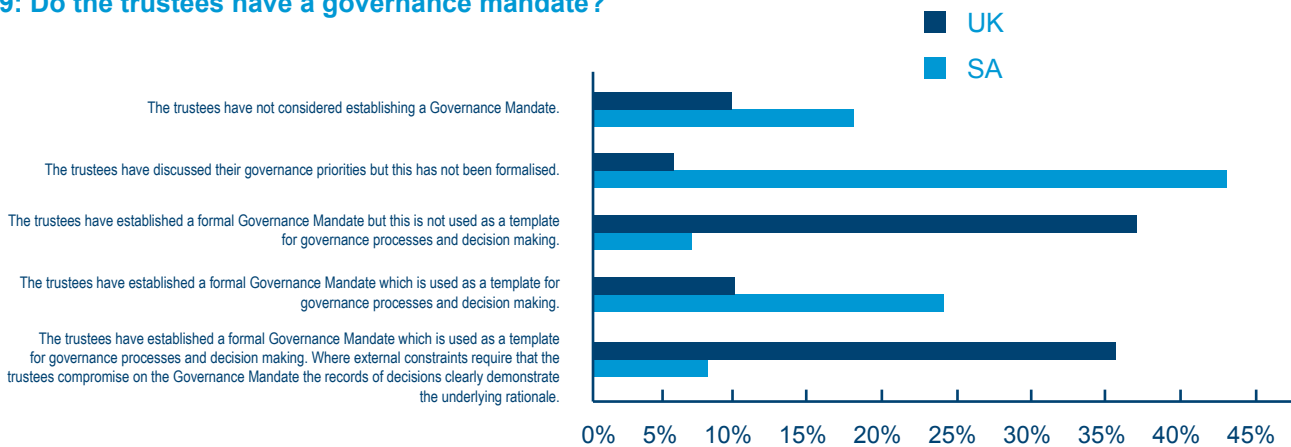
and decision-making, which falls far behind the UK's 46%. Overall it is clear that governance issues are higher on the UK agenda and SA funds need to take serious action to catch up.

On the question of whether trustees have individual objectives, the overwhelming response in both South Africa (72%) and the UK (84%), was negative. Given the

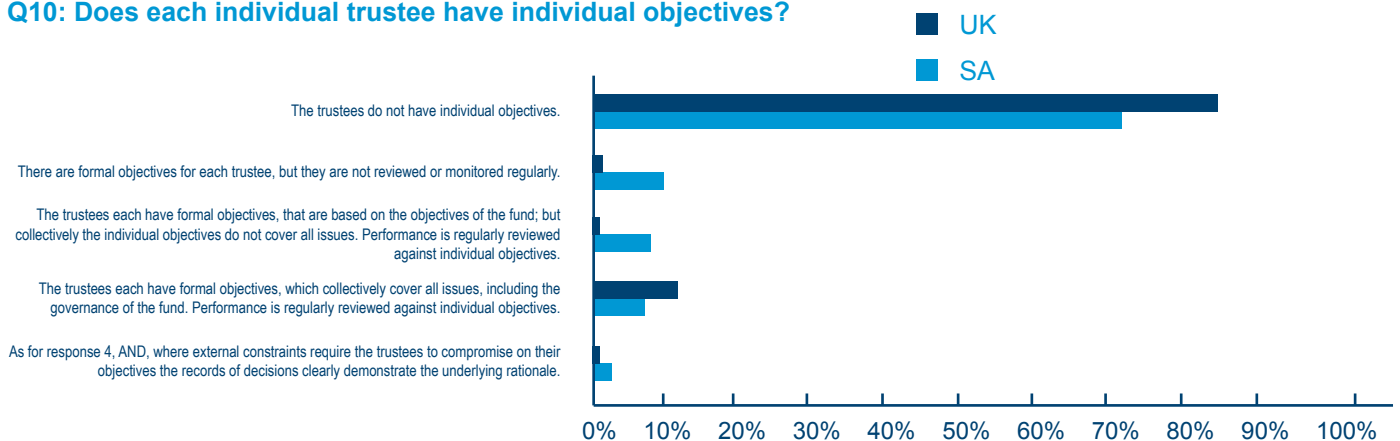
voluntary nature of trusteeship, only professional trustees who are remunerated, would reasonably be expected to be measured against specific objectives.

However one would expect boards of trustees to then at least measure their own effectiveness as a collective body, and here South African funds seem to fall short with 81% of boards who have never

## Q9: Do the trustees have a governance mandate?



## Q10: Does each individual trustee have individual objectives?

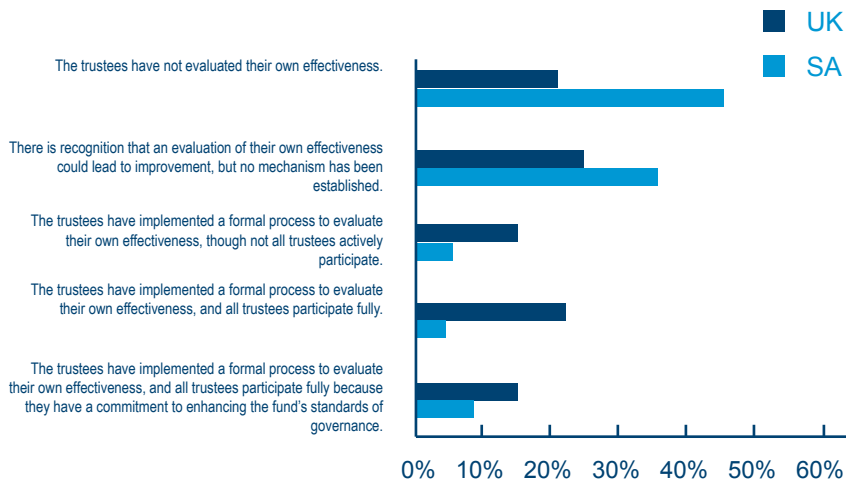


# Governance and objectives (continued)

evaluated their own effectiveness or did not establish any mechanism to do so. In contrast 54% of UK funds are at various stages in the process of implementing a formal evaluation process, including 16% fully implemented.

Overall, in conclusion, 74% of South African funds gave “1” or “2” answers for this section, indicating low standards of governance in respect of objective setting and measurement.

## Q11: How do the trustees evaluate their own effectiveness?



**81% of boards have never evaluated their own effectiveness or put mechanisms in place to do so.**

# Delegates and advisers

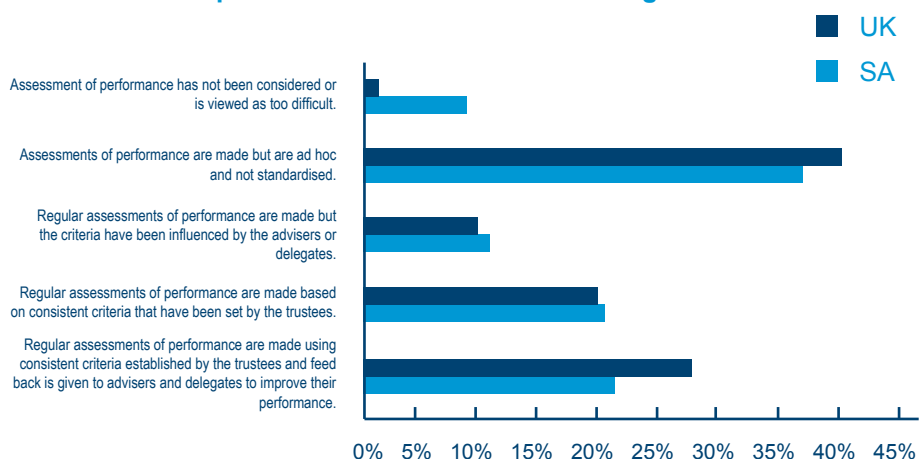
## 37% of funds do only ad hoc performance assessments.

The survey indicated that Chairpersons felt the performance of their boards was average for both the assessment and selection of advisers. When asked about performance assessment of advisers and delegates, 37% of funds responded that assessment of performance was undertaken but that it was ad hoc and not standardised (UK 41%). One would hope that at least the quality and reputation of service providers were looked at as a minimum during this assessment. Overall only 43% of respondents (UK 48%) could claim to assess the performance of advisers and delegates using consistent criteria set by the trustees. A rather disturbing 9% of South African trustees do not assess the performance of their advisers. (UK 1%)

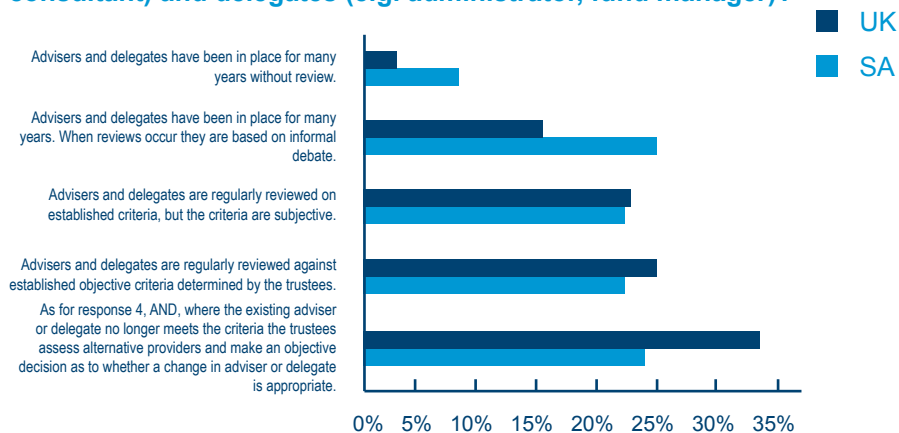
On the selection of advisers, 46% regularly reviewed advisers against established objectives determined by the trustees (UK 58%) still leaving a large percentage (54%) where either criteria are subjective, or little review takes place.

The question on the use of advisors had an excellent response. Trustee boards question their advisers, make a clear distinction when they want technical expertise or facilitation or seek advice from a range of sources for 94% of funds in both countries.

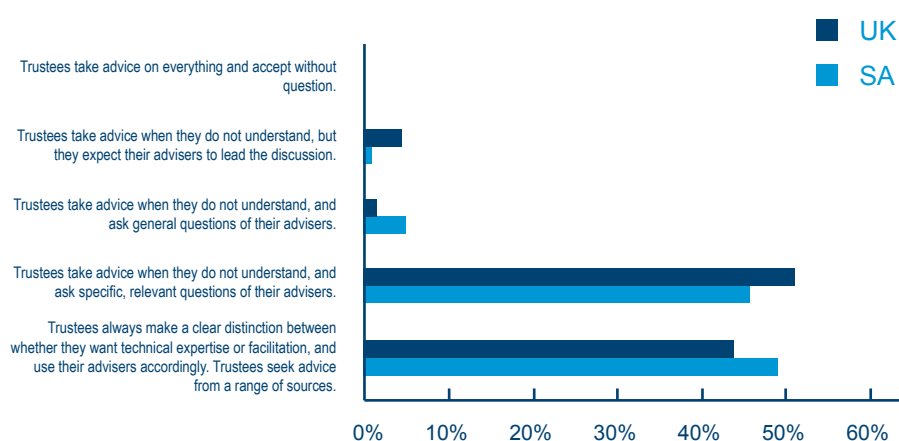
**Q12: How is the performance of advisers and delegates assessed?**



**Q13: How do trustees select advisers (e.g. actuary, investment consultant) and delegates (e.g. administrator, fund manager)?**



**Q14: How do the trustees use their advisers?**



# Knowledge and understanding

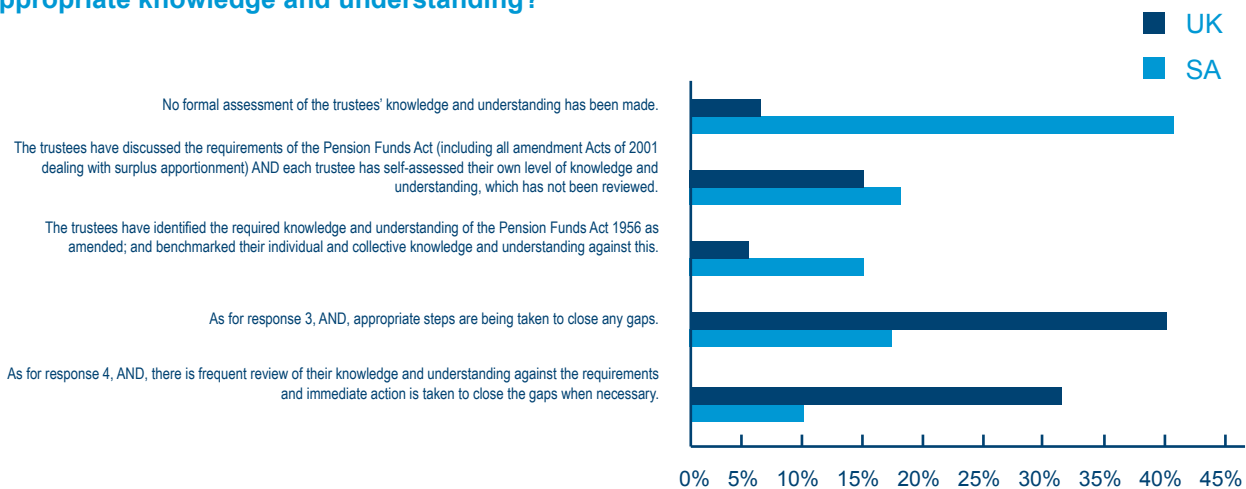
The response to the question on trustee knowledge was alarmingly negative. It can be seen clearly from the graph that South African funds have made no or little assessment of trustee knowledge and understanding of the Pension Funds Act. Trustees of UK funds review their knowledge and understanding more than three times more than their South African counterparts (32% vs 10%) while 41% of South African funds (UK 7%) have never done

a formal assessment of trustees' knowledge. On this point it must be mentioned that the requirements of the new UK Pensions Act, 2004 influenced those trustees to action, as it legislated greater knowledge and understanding of matters relating to their funds. A previous UK survey, before the effect of the 2004 change in legislation, showed similar negative results and this only improved after legislation. Perhaps the time has come in South Africa to take a serious look at trustee

knowledge requirements and to consider legislation as the means to achieve the required outcome.

On the appointment of employer trustees, 48% of funds (UK 57%) confirmed that new trustees were appointed 'who appeared to fit the generic knowledge and skill requirements'. There seems to be only average emphasis on the appointment of skilled trustee representatives. Only 37% of employer-nominated and 18% of

## Q15: How does the trustee body assess whether they have the appropriate knowledge and understanding?

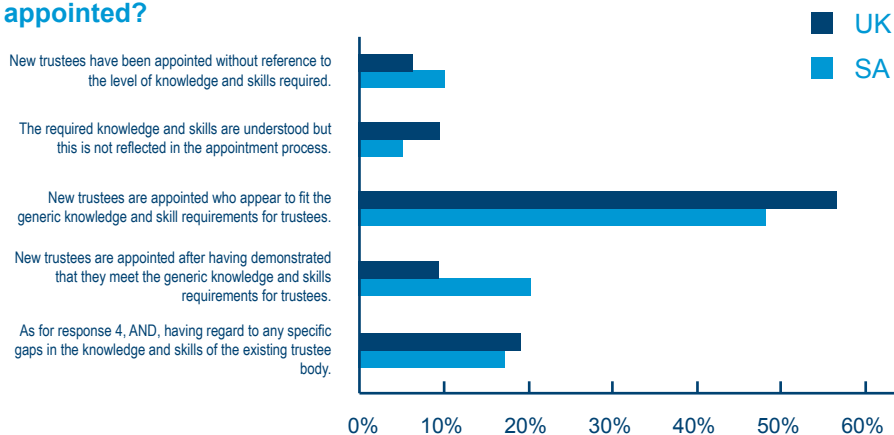


41% of funds have not made any assessment of trustees' knowledge and understanding.

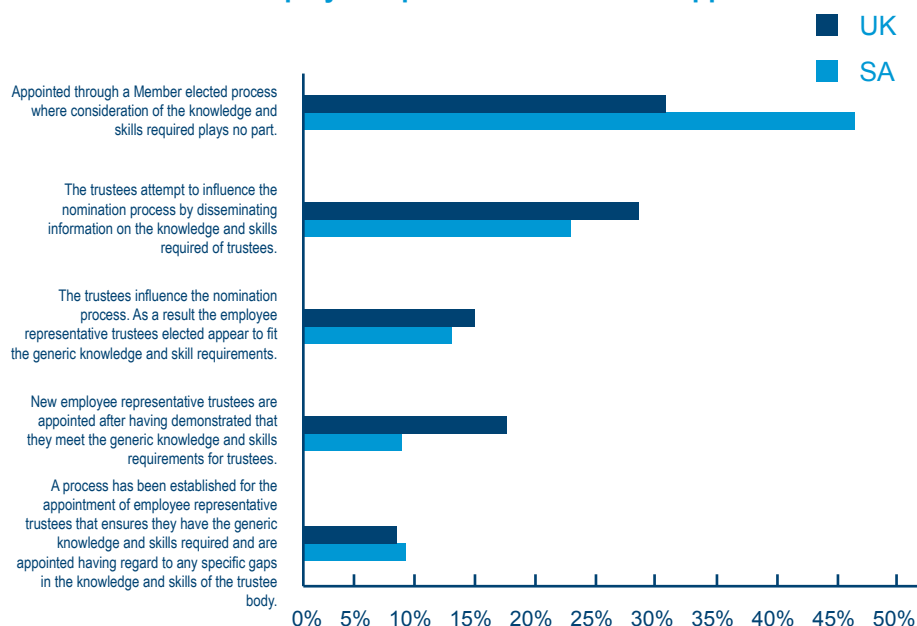
# Knowledge and understanding (continued)

member-nominated trustees have had to demonstrate they are suited to the role (UK 28% and 25%). We are somewhat surprised by this, given the continued raising of the bar as to what is expected of a trustee. But it is interesting to note the similar appointment trends in both countries, with employee elected trustees being elected with no consideration of knowledge and skills, and employer trustees being elected who merely appear to have generic knowledge and skills, for the majority of the funds. The question must be asked whether the industry should start to set minimum skills criteria and implement some form of skills assessment before trustees can accept office, especially if it is serious about demonstrating to members that proper, skilled management of their retirement savings is taking place. The great divide between employer and employee skills and knowledge remains a concern and the representation model would have to be revisited before finding a practical solution.

## Q16: How are new employer representative trustees identified and appointed?



## Q17: How are new employee representative trustees appointed?



# Risk management

Funds performed well in this area and there appears to be a strong awareness of risk management amongst 74% of funds (UK 82%). South African funds seem to be monitoring the major risks via exception reporting and follow up, slightly better than their UK counterparts. Overall, in both countries, there is however still a lack of follow up of exceptions in the risk management process, with

just over one fifth of funds taking appropriate action. It is somewhat surprising to find that 26% of funds (UK 18%) either do not have any mechanism in place to manage risk or have not taken any steps to manage those risks that have been identified.

It is normally relatively easy to identify key risks in any organisation, but more difficult to

develop a culture whereby time is spent on formally following up on exceptions identified. The challenge to trustees is to embed a culture of risk management into each trustee meeting, to link fund matters to the risks in the overall context of the fund's activities and to take appropriate follow up action on those exceptions identified in the risk monitoring process.

## Q18: How are risks identified and managed? (Where risk covers operational, financial, investment etc)



# There is a lack of follow up of risk exceptions in both countries.

# Conflicts of interest

## Only 15% of funds have a formal policy in place to identify conflicts of interest.

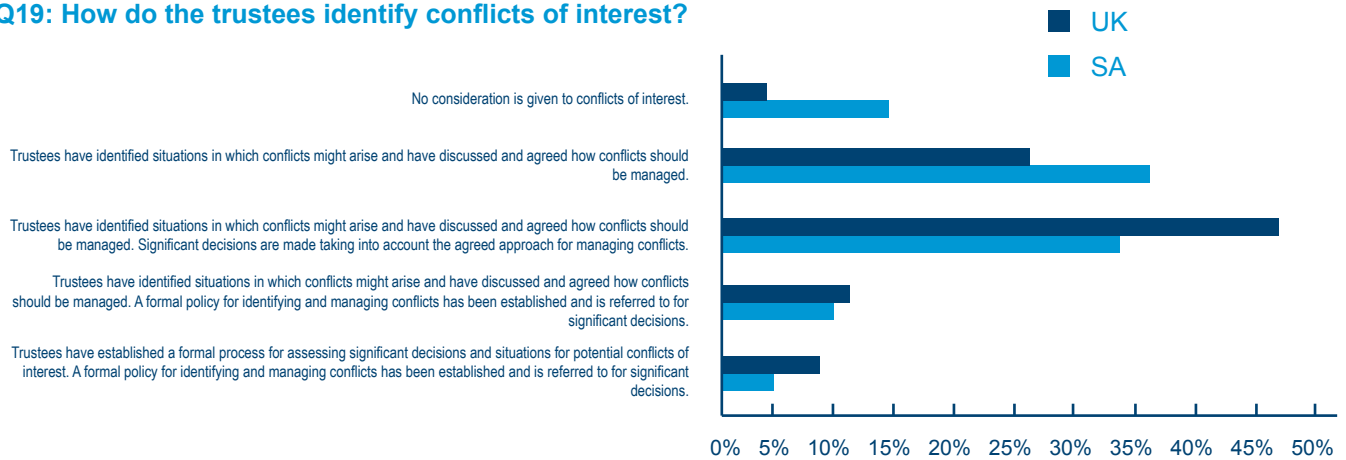
The survey demonstrates that trustees are rising to the challenge of addressing this often controversial subject, with only 14% (UK 5%) not having given consideration to conflicts of interest. Nevertheless, although decision-making is having regard to conflicts, relatively few trustees have progressed to the next stage of the formalisation of a conflicts policy, or any reference to such a policy when taking decisions. In fact only 15% have a formal policy in place

to identify conflicts of interest (UK 21%) It will be interesting to see how boards take this area forward.

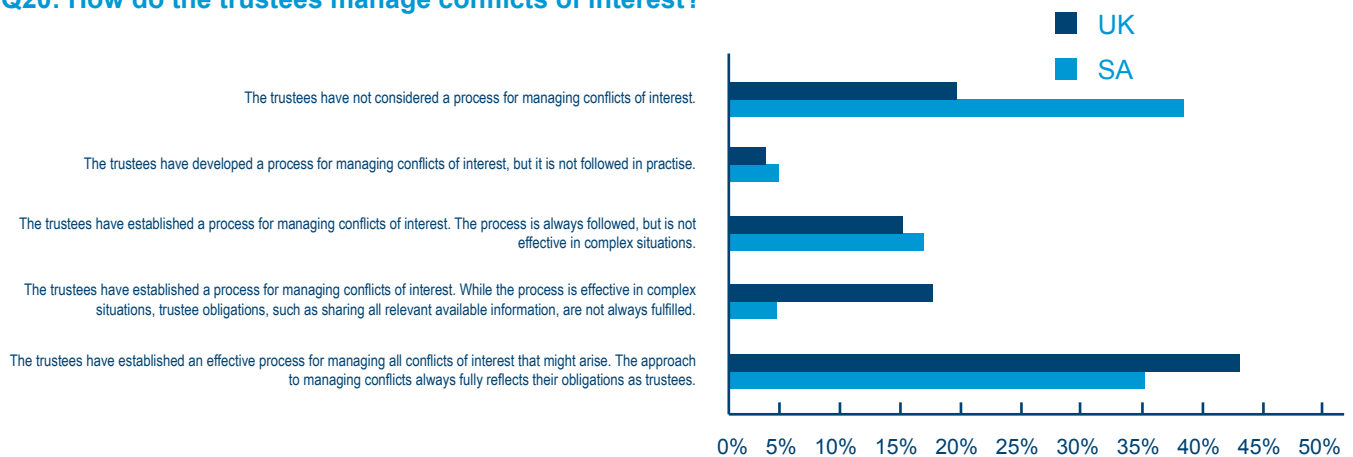
On the management of conflicts, a significant 38% of trustees have not considered a process for managing conflicts of interest (UK 20%). Although South African funds seem to lag behind the UK overall, the picture is slightly skewed by the inclusion of the smaller funds, as 75% of funds with assets less than R500 million are responsible for

the negative result. It is interesting to note that 7 funds with assets in excess of R1 billion have not considered a conflict management policy. It is encouraging to see that there are 35% of the funds (UK 43%) on the complete opposite side of the scale, who are in fact properly managing conflicts (60% of this positive trend is attributable to the larger funds). This divided response on the subject demonstrates that the priorities of trustee boards of smaller funds are not properly focussed on the subject yet.

### Q19: How do the trustees identify conflicts of interest?



### Q20: How do the trustees manage conflicts of interest?



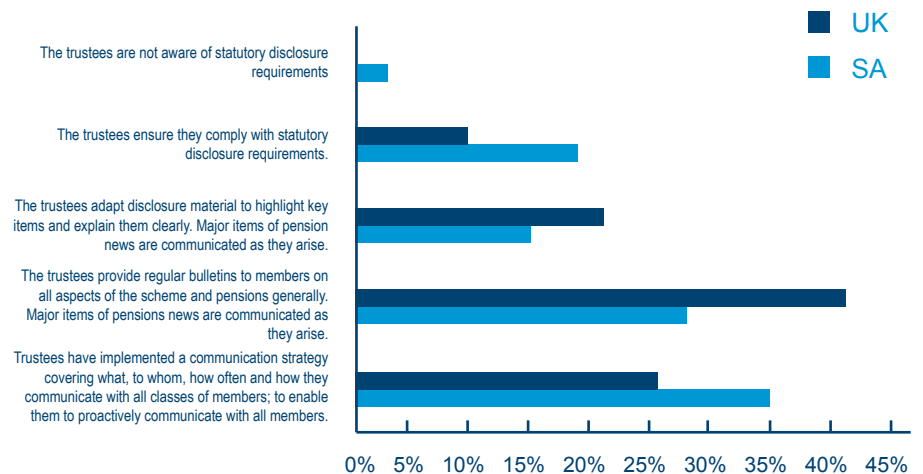
# Accountability to members

Only 35% of funds have a formal communication strategy. 23% of funds have no mechanism in place to seek members' views.

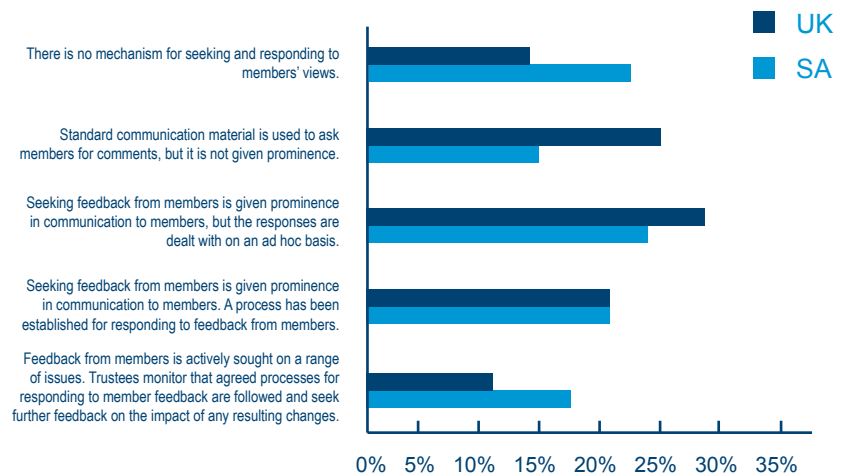
It is pleasing to note that 78% of funds (UK 90%) at least communicate major items of pension news as they arise, although 19% are not going beyond the minimum legal requirements (UK 10%). Only 35% of funds (UK 26%) have a formal communication strategy for members, an area requiring attention in both SA and the UK.

There is a wide disparity in the ways members provide feedback to the trustee board and this is an area which does not seem to differ between countries. This is perhaps surprising given the prominence of pension funds in the press and the drive for transparent communication between stakeholders in recent years. 23% of funds have no mechanism in place to seek members' views and 24% only deal with members' views on an ad hoc basis (UK 14% and 29%). Member activism clearly remains an area for improvement in the industry.

## Q21: How do the trustees communicate to members?



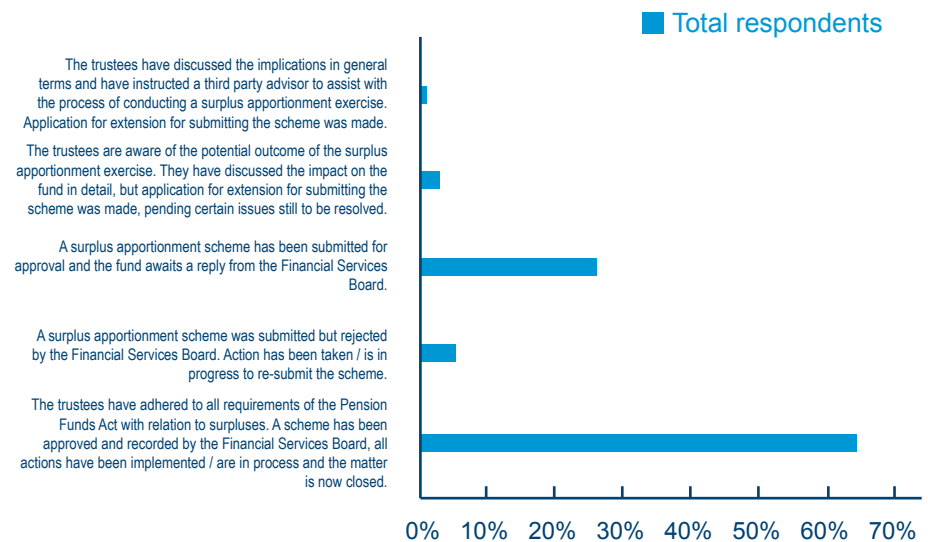
## Q22: How do the trustees obtain feedback from members?



# Progress made with surplus apportionment Act, 2001

96% of funds have either submitted surplus apportionment schemes, are in the second round of submitting revised schemes or have finalised their schemes. 64% of funds saw the matter as closed requiring no further attention. Full completion should have been 100%, given that more than 5 years has passed since the Act was first promulgated. In the UK, after the issue of the new Pensions Act in 2004, 56% of funds put in place a process to assess the impact of the new act and areas of non compliance within the first two years of the Act. 37% of these funds had a planned programme of changes implemented by December 2006. Although it can be argued that the surplus requirements were more complicated, South African funds can nevertheless learn from the UK and improve on their reaction time to new legislation.

## Q23: How have the trustees responded to the requirements to submit a surplus apportionment scheme as set out in the Pension Funds Amendment Act, 2001?



# 64% of funds see the matter as closed requiring no further attention.

# Level of comfort with and enhancement of governance

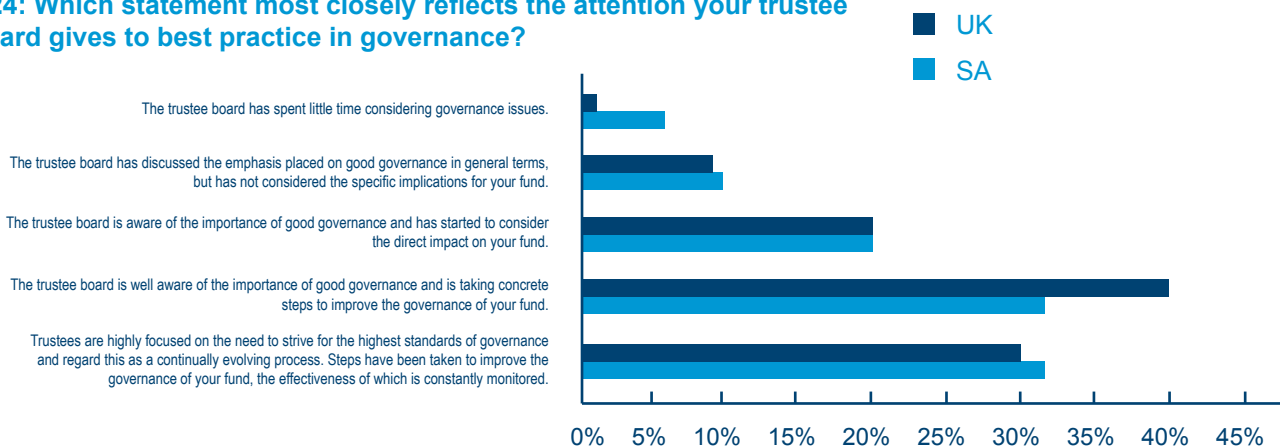
Funds are aware of the importance of good governance, but there is a lack of self assessment. 61% of boards have no process in place to evaluate trustee effectiveness.

The extent to which trustees have adopted key governance tools over the last two years suggests a sharper focus on enhancing/improving fund management:

- 83% of funds (90% in the UK) indicated that they are aware of the importance of good governance and have either started to consider the impact on their funds or have taken concrete steps to address the issue
- 76% of funds have taken action to analyse fund risks. 56% of them have done a formal risk analyses in the last two years and 15% are in the process of doing so.
- 84% of funds have considered performance assessment of advisors and delegates. Of these 62% have done so in the last two years and another 18% are in the process of doing so.
- 60% of defined benefit funds surveyed have formally reviewed the funding commitment of their sponsoring employers.
- 55% have done forward business planning such as budgeting and setting of future objectives.

The above results reflect the same positive trend as that of the UK survey. It is interesting to note that more than 20% of funds in both

## Q24: Which statement most closely reflects the attention your trustee board gives to best practice in governance?



# Level of comfort with and enhancement of governance (continued)

countries have not done a risk analysis.

UK funds seemed to be further ahead with business planning, with 71% (30% more than SA) having done business plans by December 2005. This could be attributable to the larger defined benefit environment, where future planning for potential under funding has become essential.

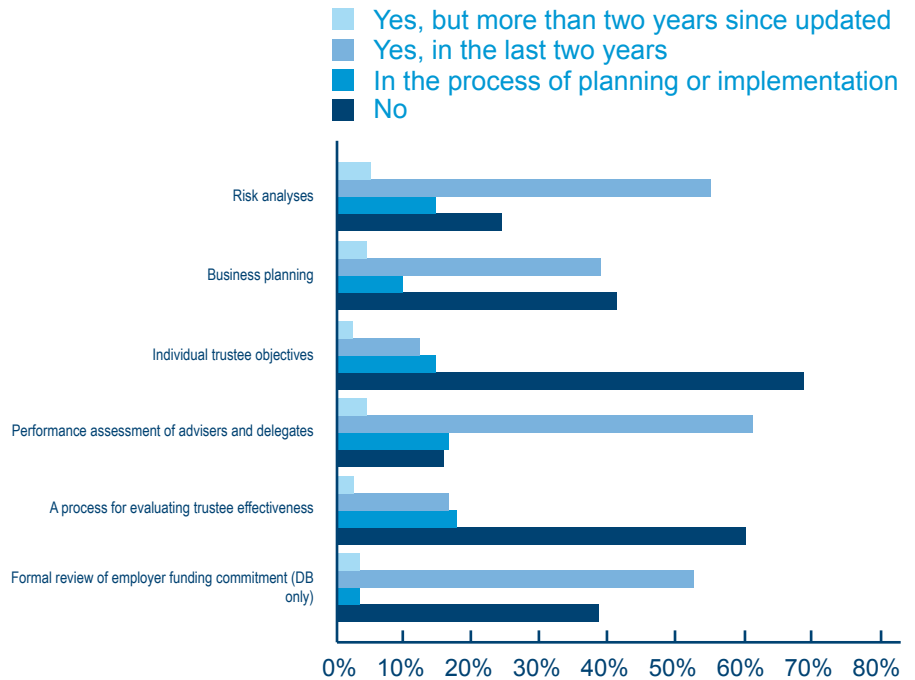
Areas of concern are the lack of self-assessment:

- Only 32% of funds (UK 30%) regard themselves as highly focussed on governance, measuring effectiveness and taking steps for improvements.
- 70% of boards in both countries have not set individual trustee objectives.
- 61% of boards have no process in place to evaluate trustee effectiveness.
- 39% of defined benefit funds have not done a formal review of their employer’s funding commitment.

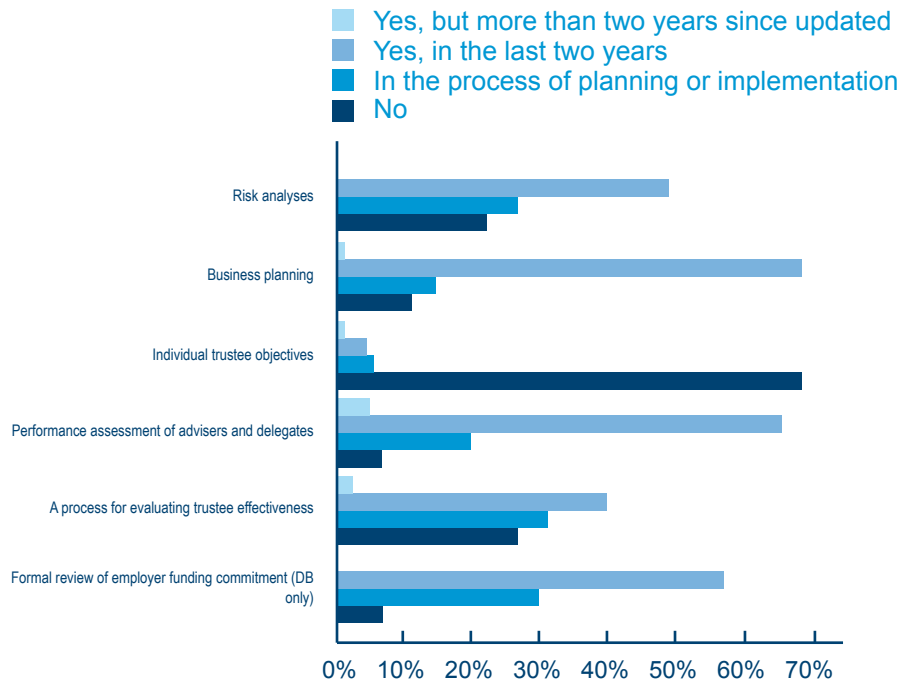
Only 27% of UK boards have not put a process in place to evaluate trustee effectiveness, and South Africa is clearly behind in this area.

Funds score themselves high on being aware of good governance, but lack focus on measurement of steps taken to date.

## South Africa Q25: In the last two years have the trustees implemented the following?



## United Kingdom Q25: In the last two years have the trustees implemented the following?



# Defined benefit funds

## 52% of funds pay little regard to the financial strength of the sponsoring employer.

Due to the nature of this type of fund, one would expect that trustees would assess the financial strength of the participating employer on a regular basis as members' benefits depend on the continued financial strength and existence of the employer.

However, less than half of trustee boards (42%) receive regular updates from the sponsoring employer and spend time discussing and considering the implications for the future of the fund (UK 63%).

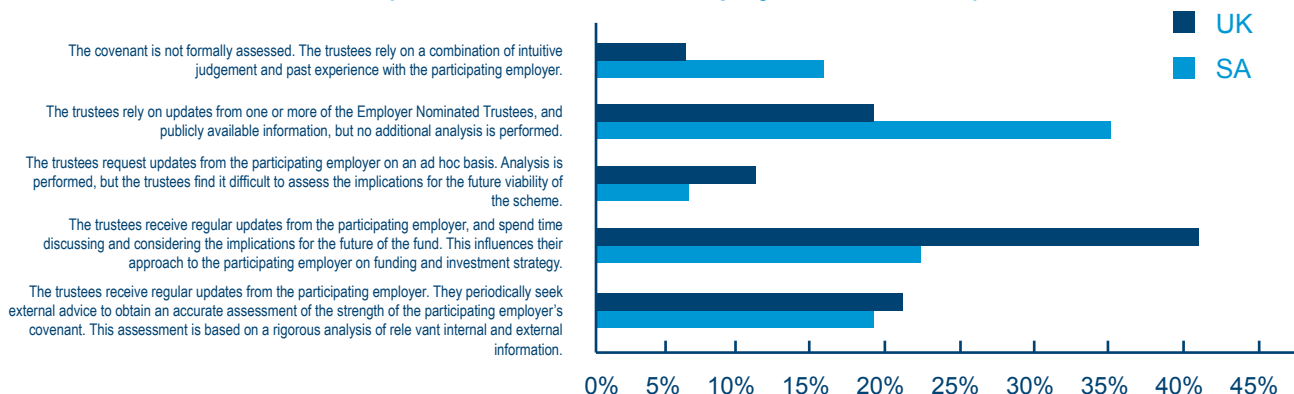
It is interesting to note that 35% of funds rely on information provided by the employer trustees without performing any additional analyses (UK 19%), while a further 16% make no assessment (UK 7%) at all. Thus 52% of funds pay little regard to the strength of the funding source, which is worrying.

On the positive side, 81% of trustee boards seem to discuss and understand the funding basis and consider the sensitivity of the contribution rates to the actuarial assumptions (UK 96%). Yet 13%

still rely fully on the actuary to determine the contribution rate (UK 0%).

On the question of investment strategy (Q28), South African boards rate themselves higher with 47% having achieved the best available contribution package for their members, taking into account the security required and setting the optimum investment strategy (UK 34%). Funds in the UK are known to have deficits in many cases, and one would expect their investment strategy to focus more

### Q26: How do the trustees assess the strength of the Participating employer's funding commitment towards the fund? (also referred to as the employer's "covenant")



# Defined benefit funds (continued)

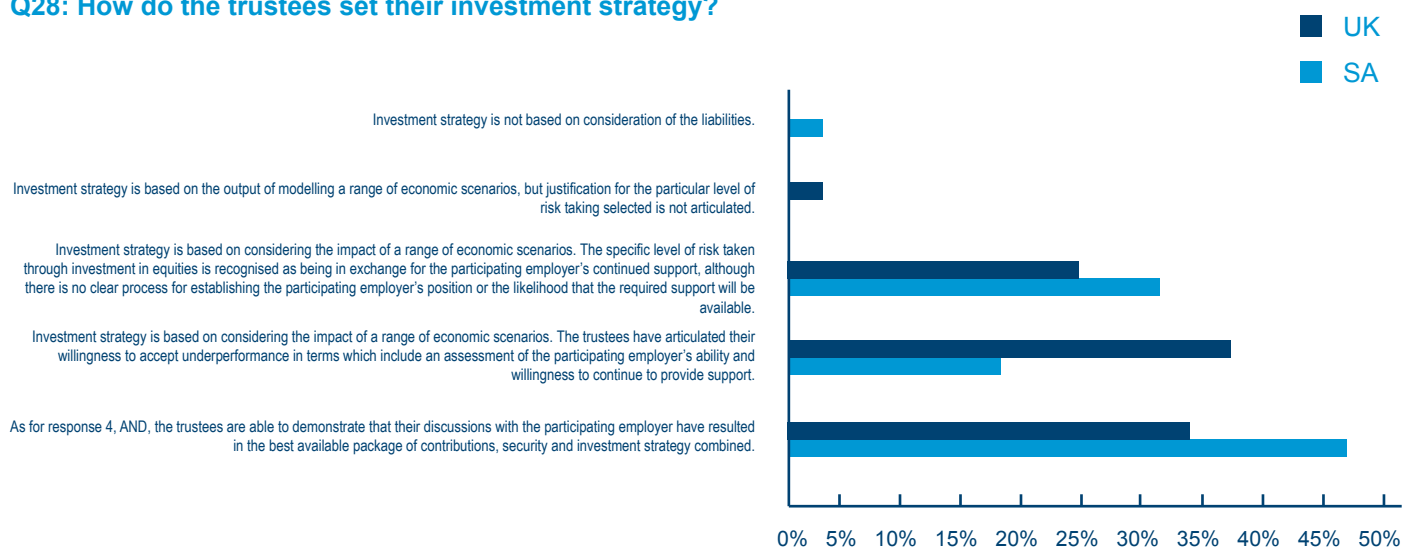
on the employers' financial position and continued support, as indicated by sub-questions "3" and "4" on the graph.

In summary, trustee boards appear to pay enough attention to considering contribution rates and setting of investment strategy. However the question must be asked whether South African trustee boards need to refocus on also assessing the financial stability of their sponsoring employers.

## Q27: How are contribution rates set?



## Q28: How do the trustees set their investment strategy?

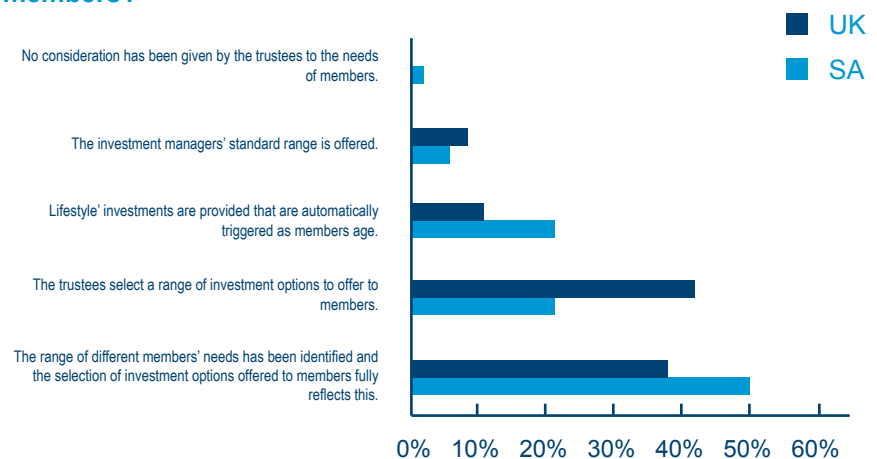


## Defined contribution funds

# South African funds outperform their UK counterparts, indicating a more mature stage of management of this type of fund.

The results are as expected for a country that has been converting to defined contribution funds since the early 1990's and has reached a more mature stage of management of this type of fund. Trustees of defined contribution funds are giving considerable thought to the range of investment options to offer to members. They are putting in considerable effort in communicating to members and providing sufficient information, including risk/return relationships. They are also identifying the needs of members during the process taking into account their risk profiles and advice from experts. This appears to be the case for both funds with member investment choice and funds where trustee investment choice prevails.

### Q29: How do the trustees select the investment options to be offered to members?

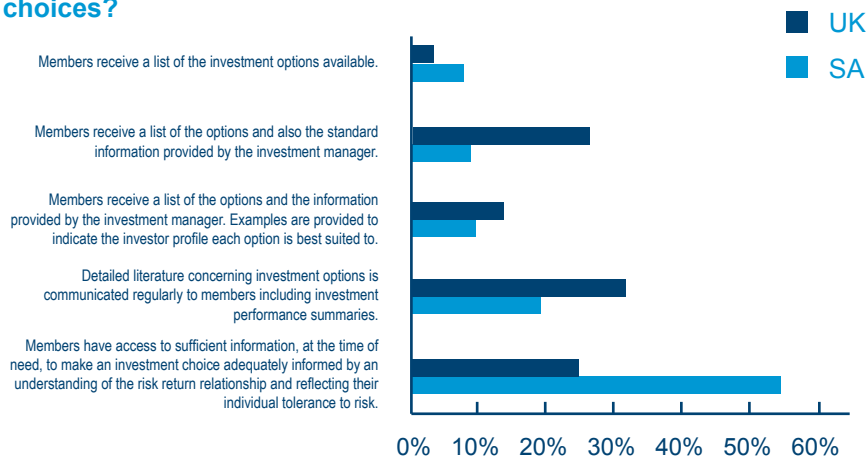


# Defined contribution funds (continued)

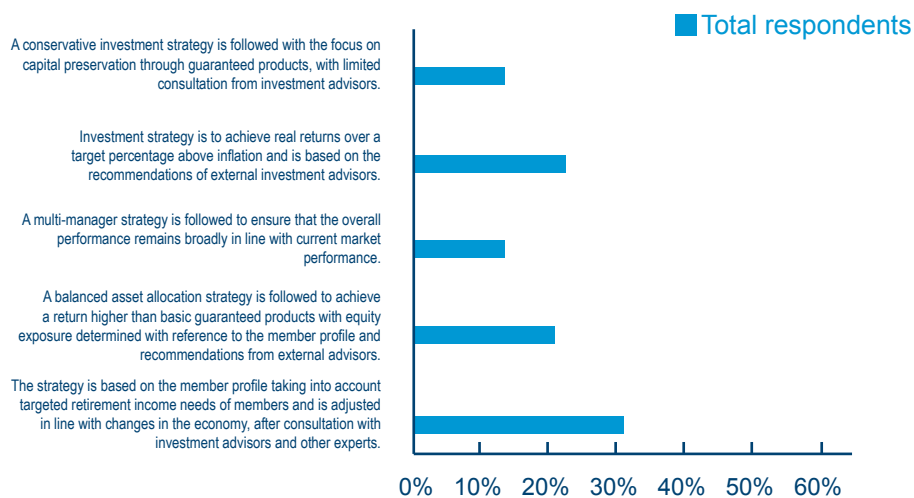
UK funds lag behind with 11% having an automatic life stage model (SA 21%) Furthermore, 27% of those UK funds offering member investment choice only supply members with the standard information provided by the asset manager without examples, investment performance and risk /return details (SA 9%) (Perhaps an indication of a defined benefit mindset where trustees still have to make all the decisions).

On investment approach, it is interesting to note that the use of guaranteed products or a multi-manager strategy are the least preferred choices.

## Q30: What information is given to members about their investment choices?



## Q31: What is the trustees' approach to investment strategy where there is no member investment choice?



## Who to contact

To find out more about how PricewaterhouseCoopers works with pension funds to improve their governance please contact one of the following pension fund governance specialists:



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