Building value

Strategic and emerging issues in South African asset management 2012

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Contents

Foreword

Ilse French

Welcome to the inaugural edition of PwC's survey of strategic and emerging issues in South African asset management. This first edition comes at a time when the South African and global economies have been experiencing volatile equity markets, which impacts directly on valuations, assets under management and margins.

In addition the industry continues to face market challenges arising from geopolitical instability in the Middle East and North Africa as well as the unresolved Eurozone sovereign debt crisis, the implementation of regulatory reform initiatives, competition for clients and talent together with new expectations from investors, regulators, industry partners and other stakeholders. The low savings culture and the proposed introduction of the National Social Security Fund make the future role of the industry more uncertain.

Under such circumstances, asset managers are attempting to generate improved performance results, rebuild profitability, manage risk, compete for talent and achieve the operational excellence that will drive future growth.

Meanwhile, social changes such as changing customer behaviours, fuelled by social networking, new customer expectations for speed and simplicity in an increasingly mobile internet environment and increasing risk awareness, are shifting the balance of power from investment advisors to customers.

Demographic shifts, including changing middle-class dynamics, ageing populations in the developed world and changes in dependency ratios are among the social trends that are shaping the future of asset management.

Economic uncertainty and recession in the Eurozone combined with sluggish growth in the rest of the developed world have resulted in the rise of economic influence and power of emerging market countries, including South Africa and the rest of Africa. The attraction of relatively higher GDP growth rates and prospects of higher margins all point to a new push for geographic expansion on the continent.

Some of the more significant challenges affecting the asset management industry are coming from regulatory changes. In addition to the revisions to Regulation 28 of the Pension Funds Act and the Solvency Assessment and Management data requirements, South African asset managers also have to prepare for Treating Customers Fairly reforms among other regulatory changes. These all require significant resources and are seen by some as stifling growth.

It is against this background that we have conducted this survey and we trust that it will achieve its primary goal, which is to help industry executives see beyond the current environment and inform how they shape their own future. The survey includes the views of South African asset management CEOs on emerging trends and issues, which we trust you will find useful to your organisation.

The key objectives of the survey are to:

- Raise the awareness of asset managers to emerging issues and trends in the South African asset management industry;
- Understand the views of industry CEOs about these issues;
- Provide insight into how the industry may evolve over the next few years; and
- Assist South African CEOs to shape their organisation's futures.

I would like to thank all the executives who participated in this survey and appreciate the openness, insight and the vision they provided on various topics. I would also like to thank Dr Brian Metcalfe for the time and effort he put into the interviews, analysing the survey results and assisting in producing this report.

I trust that you will find the survey useful. Should you like to discuss any of the issues addressed in more detail, contact your usual PwC contact or those listed at the end of the report. We would also appreciate your honest feedback to help us develop future surveys.

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About the author

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Previous reports have examined strategic and emerging issues in corporate, investment and private banking, life, property and casualty insurance, insurance broking and wealth management.

In 2011, he authored Strategic and Emerging Issues in South African Banking and this year Strategic and Emerging Issues in South African Insurance 2012.

Other recent reports have covered foreign banks in China, foreign joint venture fund management companies in China and foreign insurance companies in China.

He has consulted for a wide range of organisations, including the Royal Bank of Canada, the Bank of Nova Scotia, Barclays Bank, Sun Life Asset Management Company, Equitable Life of Canada and several major consulting firms.

He has also taught an executive management course on financial services marketing at the Graduate School of Business at the University of Cape Town.

Information presented here, while obtained from sources believed to be reliable, is not guaranteed as to its accuracy or completeness.

PwC South Africa's asset management industry specialist group developed the survey, which we believe considers and addresses the challenges facing the industry.

This report has been commissioned and distributed through PricewaterhouseCoopers Inc., Johannesburg.

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Executive summary

Executive summary *continued*

Background

This survey focuses on strategic and emerging issues in the South African asset management industry. While this is the first survey of its type in the asset management market done by PwC, similar surveys have been published for the banking and insurance industries over a number of years.

The survey attempts to provide an industry-wide perspective. The survey is based on personal interviews with managing directors and senior executives of 14 asset management companies.

The one-hour interviews were conducted in Johannesburg and Cape Town during June 2012.

Participants

- Absa Investments (division of Absa Financial Services)
- Allan Gray
- Coronation Fund Managers
- Investec Asset Management SA
- Investment Solutions Fund Managers
- Momentum Investments
- Nedgroup Collective Investments
- Old Mutual Investment Group SA (OMIGSA)
- Prescient Investment Management
- Prudential Portfolio Managers SA
- PSG Asset Management Holdings
- Public Investment Corporation (PIC)
- Sanlam Investment Management
- Stanlib Asset Management

Main findings

A fast changing environment

In common with other parts of the financial sector, asset managers are being subject to a raft of new regulations. Some examples include reforms of the distribution system, qualification of investment advisors and Regulation 28 of the Pension Fund Act (classification and regulatory limits on asset classes). At the same time, the National Social Security Fund (NSSF) is also currently under government review.

Simultaneously, consumers are becoming better informed, more technologically savvy and more demanding. This global trend in the financial services sector is particularly pronounced in South Africa and has driven far-reaching regulatory initiatives such as Treating Customers Fairly (TCF).

Other changes in the marketplace include adjustment to a low-return environment, a renewed interest in balanced funds and more interest in offshore investing. At the asset manager level there is pressure on margins and a need to lower costs.

A strong asset management industry

Participants believe that they operate in a world-class industry that possesses skilled and competent managers. They contend that consumers think more positively about asset managers than other financial service players, including banks and insurance companies.

At the same time, they feel threatened by excessive government intervention and are challenged by the weak domestic investment culture.

Performance is all important

Although service, technology, a clear strategy and trust are all critical parts of the asset management offering, participants believe performance is paramount.

The collective investment sector is intensively competitive and asset managers are continually making changes to strategy.

In contrast, exchange-traded funds (ETFs) and alternatives such as hedge funds and private equity are not seen as areas of aggressive competition.

Collective investment schemes and traditional asset management are expected to remain the two key markets over the next three years.

Future competition

The source of future competition will be from the large financial institutions and niche players. None of the participants feel that there will be threats from foreign players or new entrants with a technological edge (such as the mobile phone companies that recently entered the insurance market).

Strategic focus

Three common focus areas were identified by participants:

- Investment performance;
- Strengthening distribution relationships; and
- Branching out into new geographies.

Technology

Technological improvements over the next three years are expected to reflect increased use of smartphones and tablets, but participants expressed concern about the availability of 4G and security. Mobile technology was cited as an important part of client service in the future. Weaknesses were identified in legacy systems (particularly between the intermediary advisors and clients), inability to keep up with the regulatory changes and the cost associated with technology overhauls.

Outsourcing

Outsource providers were complimented by some participants, but seen as a weakness by others. The need to control, protect and leverage client data was cited by some as a reason to in-source. Nevertheless, the majority of participants appear well satisfied with their current outsource relationships and identify cost as the key driver of outsourcing.

One participant suggested that by outsourcing they gained access to technology that they would not otherwise have been able to afford. Another participant suggested that the established players might outsource to overcome older technology issues, whereas the more innovative players could deploy state-of-the-art technology.

Improved performance and assets under management (AUM) growth by 2015

Most participants predict fee revenue growth in 2012 in the 10-15% range. The overall average was 10.6% in 2012, rising to 12.4% by 2015.

AUM is expected to grow by less than 10% in 2012, but by 2015 the majority of participants predicted annual growth of 10-20%.

Three companies predict AUM growth above 20% by 2015.

Immediate challenges

The three top challenges in the next year were identified as:

- Compliance and regulation;
- Sourcing skilled personnel; and
- Product competitiveness.

Cost cutting

While asset managers will seek to reduce controllable costs, personnel, IT and distribution costs remain areas of concern.

Other costs that will also warrant attention include advisor fees, compliance and regulation, client communications, trading costs and staff incentives.

Most participants think they can reduce operating costs by 'up to 5%' over the next three years.

Staffing issues

None of the participants said that they had made changes to remuneration based on recent global developments.

A number of participants have tied remuneration to performance and some are reviewing its link to level of risk. Several participants have amended remuneration structures by adding a deferred component. The most difficult positions to fill are portfolio managers, executive directors, compliance, risk management and information technology specialists.

Into Africa

Participants believe that asset managers should expand into the rest of Africa. Expansion into India and South America ranked ahead of China.

In terms of investing in Africa, the most important considerations were:

- The size of the market;
- Margins/profitability; and
- The quality of local management.

Peer ranking overview

This table displays a peer ranking of the top three companies in each business line. A more detailed set of results is shown later in the report.

	First	Second	Third
Traditional asset management	Coronation	Allan Gray	Investec
Multi-management	Investment Solutions	Sygnia/SYmmETRY	
Property	Growthpoint/Stanlib	Catalyst	
Collective investment schemes	Coronation	Allan Gray	Investec
Exchange traded funds	Satrix	Absa	
Hedge funds	Caveo/Peregrine/ TriAlpha/ViaCapital		
Private equity	Ethos	Brait	RMB Private Equity

Market environment

Background

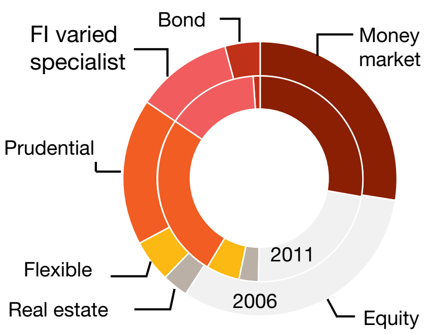
Interviews were conducted with 13 asset managers and the PIC, which predominantly manages the Government Employee Pension Fund.

The CIS market share of the 13 managers exceeded 76% of the total CIS funds under management (R1.01 trillion) at the end of June 2012. (See appendix). The 13 companies managed 643 (68%) of the total of 951 funds at the end of June 2012.

There have been some pronounced changes in the split across different asset classes over the last five years. In 2006, equities made up 31% of total assets, but decreased to 22% by 2011.

At the same time, prudential funds have increased from 17% to 25%.

Figure 1: Collective investment schemes' changing mix of fund assets



Source: ASISA

Employment

The 14 companies interviewed employed 4 405 people in 2012 and expect this to grow by 11.4% to 4 907 by 2015. Three companies expect zero increase in head count.

Assets under management by 2015

Only 11 participants were able to estimate assets under management by 2015. From the 2012 total of R3.135 trillion, provided by the participants, the 13 companies are expected to have R3.96 trillion AUM by 2015 which equates to a 26.3% increase over the three years. This excludes the PIC.

Distribution of funds

According to the Association for Savings & Investment SA (ASISA) in the 12 months to March 2012, investment advisors accounted for 35% of new business into the CIS industry, 18.9% came from direct investors, 20.4% from LISPS (linked investment services providers) and 25.2% from institutional investors.

Collective investment assets

As the accompanying chart indicates, collective investments' total assets have increased more than 800% in the period 2000-2011.

In this period, the number of managers increased from 29 to 42.

The number of funds has tripled since 2000 and now totals close to 1 000.

Figure 2: Collective investment schemes – Total assets

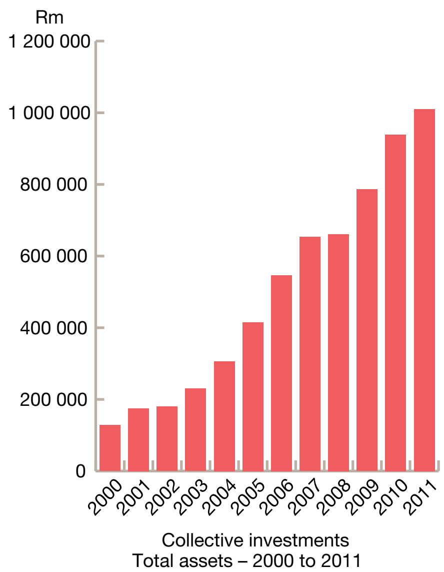


Figure 3: Collective investment schemes – Number of managers

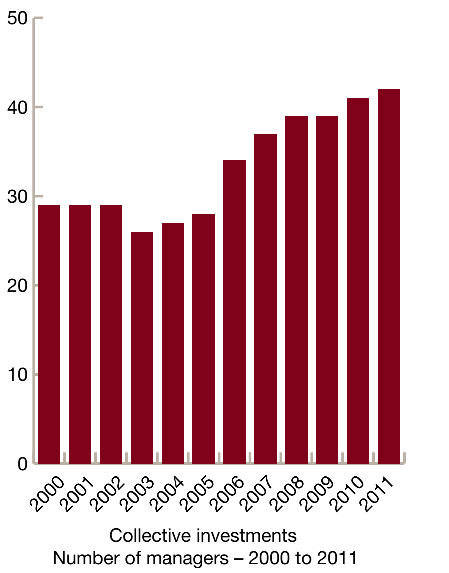
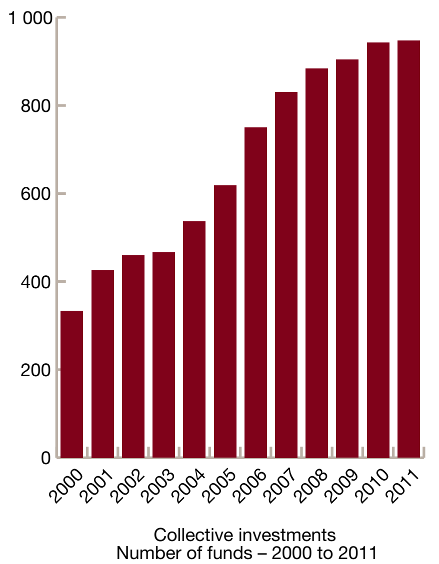


Figure 4: Collective investment schemes – Number of funds



Source: ASISA

Q What, in your opinion, are the most important changes taking place in the South African asset management market at present?

Regulatory changes

The most commonly cited change relates to the regulatory environment. This includes reference to a plethora of changes associated with pension fund reform.

New regulations associated with tax, the distribution system, the skill sets of the investment advisors (including their need to obtain recognised qualifications) and the future form of the NSSF were mentioned repeatedly.

Special attention was also given to changes in Regulation 28 of the Pension Funds Act, which regulates the allocation of pension fund investments into different asset classes. In particular, it outlines the extent to which pension funds can invest in alternative investments such as private equity and hedge funds.

Consumerism

The trend in the market towards increased awareness of consumer rights and the need to better address the needs of clients is also seen as an important area of change. This is closely aligned to other changes mentioned by participants, including better corporate governance, better-designed products and more-educated and professional financial planners.

Other important changes

The following changes were also cited by participants:

- Increased pressure on margins, which is driving the need to cut costs;
- A divergence between fund managers with an institutional focus and those with a retail focus;
- A trend away from introducing more specialised funds towards more balanced funds;
- The challenge of being able to provide value in a low-yield environment. One participant predicted that the next 15 years may be characterised by low absolute returns;
- Increasing fragmentation of the industry with the growth in the variety of funds on offer. This has led to commoditisation and has resulted in further pressure on costs;
- An increased focus on offshore investment; and
- Increased talent shortages in both the front and back offices.

Q Can you identify the major strengths and weaknesses of the South African asset management industry at present?

The following strengths and weaknesses were identified by participants.

Strengths

- A high level of skilled professionals, including portfolio managers that can be considered world class;
- An industry where the top 10 to 12 players are sound and have delivered consistent performance;
- A sound regulatory environment that has historically displayed good governance;
- A steady supply of small, innovative entrants;
- South Africa has been difficult to penetrate by foreign asset managers. Only one sizeable foreign player exists, and one respondent commented that this asset manager has effectively 'localised' their brand. The absence of foreign competition means that domestic providers have developed strong capabilities; and
- Relative to insurance companies, asset managers have offered superior levels of service. As a result, respondents say they are preferred by consumers over insurance companies and banks.

Weaknesses

- The threat of excessive government intervention;
- South Africa lacks a savings and investment culture;
- Deeper compentency levels should probably exit at regulatory level;
- An oversupply of asset managers as a result of low barriers to entry, which has in turn led to industry fragmentation;
- Although there is an adequate supply of talented portfolio managers at present, the future pipeline is insufficient. This problem is perceived to be exacerbated by affirmative action. The industry needs to better address these weaknesses; and
- An inadequate level of investment in brand development by the larger players.

Q In view of changing demographics, and the rise of mobile technologies and other changes, how will the asset management needs of South Africans in the retail market of 2015 differ from those of today?

Participants suggested the following outcomes of these changes:

- The increased use of technology will encourage more direct relationships between clients and their asset managers. Inadequate service levels and excessive fees charged by financial advisors will fuel this trend;
- Lower levels of mortality and a growing population should result in growth in the overall savings pool;
- As the bulge at the lower end of the age pyramid moves upward, there will be a move from consumption to savings. This will lead to further growth in the industry;
- Industry growth will lead to an increased interest by participants in brand building;
- More new products will include guaranteed returns;
- Asset managers will migrate away from their traditional market (white middle class) to the emerging black middle class. The target will also shift further into the retail sector; and
- Mobile technology will be an important part of client servicing.

Q How will asset managers differentiate and drive sustainable competitive advantage in the future?

Participants offered a wide variety of ways in which they believe they can differentiate their services and create a sustainable competitive advantage.

Although a superior investment performance was cited most frequently, the following list of differentiators does not reflect the importance or frequency of the response:

- Strong investment performance;
- Electronic interface;
- Efficient administration;
- Superior service;
- A clear investment strategy;
- Ability to attract and retain talented personnel; and
- Trusted relationships.

Q In your view, what is the level of intensity of competition in the following markets, and how do you expect this to affect your competitive response?

Market competition

The accompanying charts in this section illustrate how asset management companies perceive the level of competition in seven different sectors, and then how they have organisationally responded to that competition.

Where segments have attracted responses from more than 20% of respondents, they have been shaded in grey.

Figure 5: Traditional asset management – Responses to competition

Competition level \ Competitive response	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive	21.4%	14.3%	21.4%	21.4%
Moderate		7.2%	14.3%	
Light				
None				

Based on responses from 14 asset managers

Traditional asset management

The traditional asset management sector was considered to be intensively competitive. Over half the participants have made significant or fundamental changes to their strategies in the last year.

Figure 6: Multi-management – Responses to competition

Competition level \ Competitive response	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive	18.1%		27.3%	
Moderate	9.1%		27.3%	9.1%
Light	9.1%			
None				

Based on responses from 11 asset managers

Multi-management (Manager of managers)

This sector was viewed as moderately competitive. While four companies indicated they had made no changes to strategy, the remaining seven said they had made significant or fundamental changes.

Figure 7: Hedge funds – Responses to competition

Competition level	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive			10.0%	
Moderate	30.0%	20.0%		10.0%
Light	10.0%	20.0%		
None				

Competitive response

Based on responses from 10 asset managers

Alternatives (hedge funds)

Most companies view hedge funds as having either moderate or light levels of competition.

Eight of the 10 respondents have made only minor change or no change to their strategies.

Figure 8: Private equity – Responses to competition

Competition level	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive	10.0%		10.0%	
Moderate	10.0%	30.0%	10.0%	
Light	20.0%		10.0%	
None				

Competitive response

Based on responses from 10 asset managers

Alternatives (private equity)

Only two companies believe private equity to be intensively competitive. Five companies consider it moderately competitive and three companies believe competition is light. Six participants recorded minor or no change to strategy.

Figure 9: Property – Responses to competition

Competition level	No change	Minor change	Significant operational and organisational change	Fundamental change in strategy and positioning
Intensive	11.1%		22.3%	11.1%
Moderate	11.1%	11.1%	11.1%	11.1%
Light	11.1%			
None				

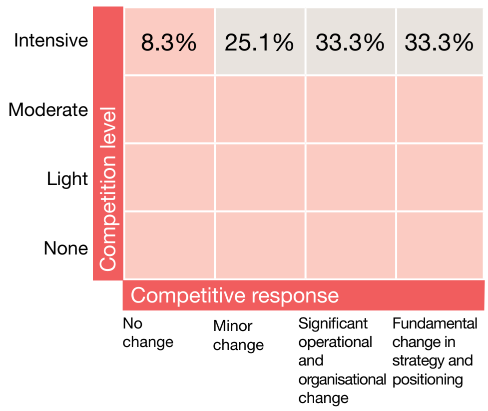
Competitive response

Based on responses from 9 asset managers

Property (real estate)

Four participants believe property reflects intensive competition and over half the group have made significant or fundamental changes to strategy.

Figure 10: CIS – Responses to competition



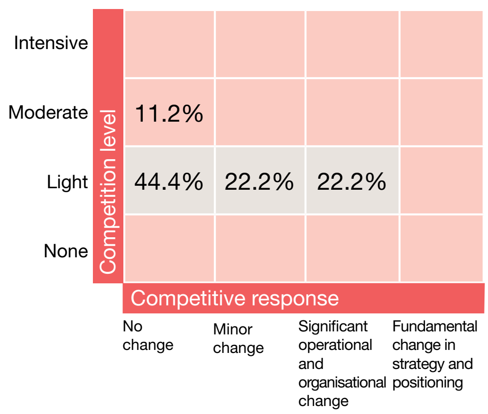
Based on responses from 12 asset managers

Funds (CIS)

Collective investment schemes (CIS) was the only group to unanimously classify competition as intensive. Two-thirds of respondents said they had made significant or fundamental changes to strategy.

Only one of the 12 companies indicated they had made no changes.

Figure 11: ETFs – Responses to competition



Based on responses from 9 asset managers

Funds (ETFs)

Exchange-traded funds (ETFs) are characterised by light competition. Only two companies indicated that they have made significant changes to strategy.

Q What are the major drivers of change in the asset management industry today?

Two major drivers of change were generally recognised. These were regulatory and legislative change, and pressure on investment performance.

Much lower scores were attributed to opportunities in Africa, the uncertain economic environment, consumerism, disintermediation and recruitment.

Figure 12: Major drivers of change

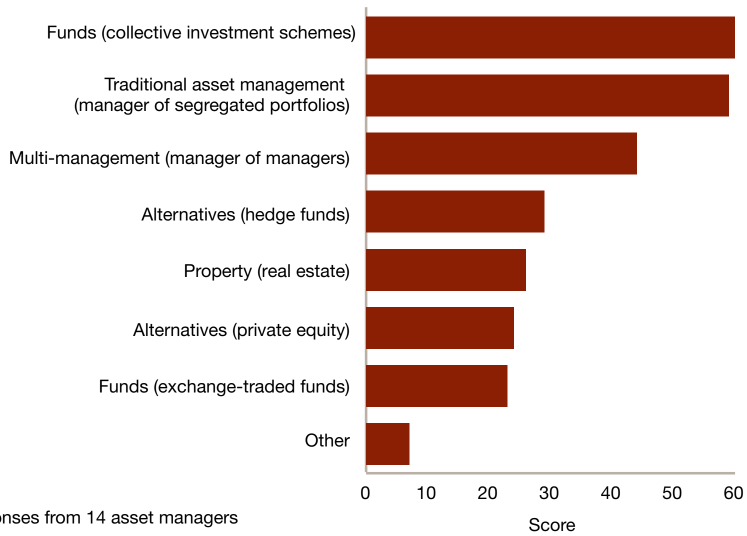
Based on responses from 14 asset managers

Q On a scale of 1 (most important) - 5 (least important), rank the importance of each of the following markets for your organisation over the next three years.

Participants identified collective investment schemes and traditional asset management as the two most important markets over the next three years. In third place was the multi-management market.

These three markets were followed by specific asset classes, including hedge funds, real estate, private equity and ETFs.

Figure 13: Most important markets over the next three years



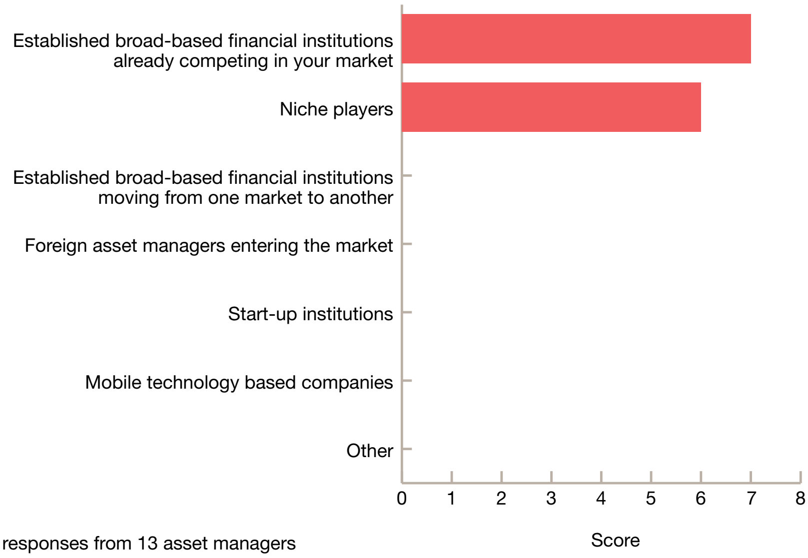
Based on responses from 14 asset managers

Q Which category of institutions will present the most significant competitive threat to your organisation over the next five years? Choose one answer only.

Participants identified only two types of competitors in their marketplaces. These are broad-based financial institutions already active in asset management and, at the other extreme, the narrowly-focused niche players.

Other potential competitors such as foreign entrants, start-ups and technology companies such as mobile phone companies were not identified as competitive threats.

Figure 14: Most significant competitive threats over the next five years



Based on responses from 13 asset managers

Emerging issues

Q What are currently the top three strategic objectives/focus areas for your organisation?

Participants identified a number of different strategic objectives. Those most commonly referenced were:

- Superior investment performance;
- Building strong distribution relationships; and
- Geographic expansion

Other important objectives

In addition, the following strategic objectives were also mentioned:

- Providing packaged reliable advice;
- Differentiation as a global player and not only a domestic player;
- Growing market share;
- Developing new markets;
- Product operational stability;
- Building an emerging market capability;
- Retaining staff and clients;
- Meeting or exceeding clients' expectations; and
- Becoming a BEE asset manager.

Q What do you see as the key factors considered by an investor when selecting an asset manager? Please rank in importance from 1 (most important) to 3 (least important).

The top three factors considered by investors in selecting an asset manager were identified as:

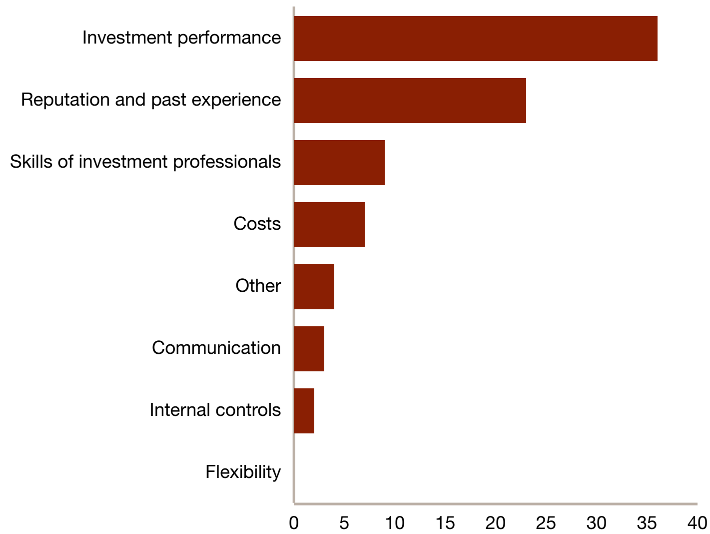
- Investment performance;
- Reputation and past experience; and
- Skills of the investment professionals.

Investment performance was also identified in a previous question as the primary means of differentiating managers and creating a sustainable competitive advantage.

Several additional factors were also mentioned by participants, including costs, communication and internal controls.

Participants also cited two other influential factors, the investment process and trust. Trust resonates well with the second most-important factors mentioned, being reputation and past experience.

Figure 15: Factors considered by an investor when selecting an asset manager



Based on responses from 14 asset managers

Q Can you identify the major technology weaknesses in the South African asset management industry?

While several asset managers reported that there were no technology weaknesses in the industry, a sizeable majority pointed to a variety of weaknesses across a range of areas.

Weaknesses identified:

- Proliferation of legacy systems, particularly in relation to the interface between clients and their advisors;
- Weak linkages between the trading engine (stock brokers), asset manager and clients;
- Weakness at the client level reflecting the client's limited ability to access products electronically;
- One asset manager indicated that internal cost pressures had prevented their company from making adequate investment in technology since 2009;
- Another asset manager suggested that the industry's systems were unable to keep up with the volume of reporting changes; and
- While one participant complimented the capability of outsource providers, several others criticised the outsourcers and said they deployed outdated technology, which could not be appropriately customised to the needs and requirements of South African asset managers.

Q Identify three major technology innovations that will have a significant impact on the South African asset management industry over the next three years?

Most suggestions about technology innovations over the next three years centred on the application of mobile technology and the use of smartphones and tablet devices.

Concerns were raised about the availability of 4G and data security.

One suggestion was to develop online financial planner tools .

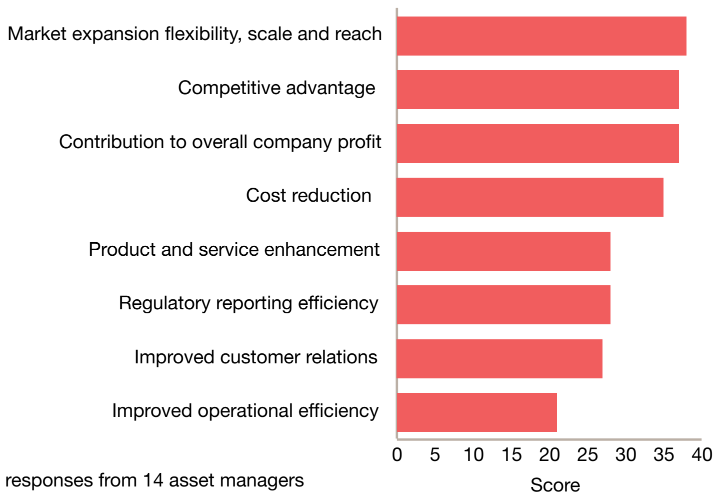
Q What do you envisage to be the key benefits of your IT investment in the next three years? Please score them 1 (least benefit) to 5 (greatest benefit).

Four key benefits from IT investments were identified. These are, in order of importance:

- Market expansion – flexibility, scale and reach;
- Establish a competitive advantage;
- Contribution to overall profit; and
- Reduction in costs.

IT was seen as a relatively less important contributor to regulatory reporting, customer relations and improving overall operational efficiency.

Figure 16: Benefits of IT investment in the next three years



Based on responses from 14 asset managers

Q How will the developments in the internet, mobile technologies and social media affect your business model and strategy over the next three years?

Although in a previous question participants recognised mobile technology as an area of future innovation, many believe that it is still difficult to see mobile technologies adding value in the asset management industry.

One participant suggested mobiles' impact on their business model would be minimal over the next three years, but would instead have an impact in the next five to 10 years.

An asset manager said that mobile technology was unexploited and that currently only one cell phone company and two banks were pushing savings products via the mobile channel.

Another participant believed that asset managers were a couple of years behind the banks with mobile and that the channel was an excellent way to deliver information to clients.

One participant indicated that they were currently recruiting a head of social media, but said he remained unconvinced of the value of social media.

The opposite view was expressed by another participant, who believes that more vigorous client segmentation based on needs and preferences would show that social media can be used to effectively communicate with some client segments.

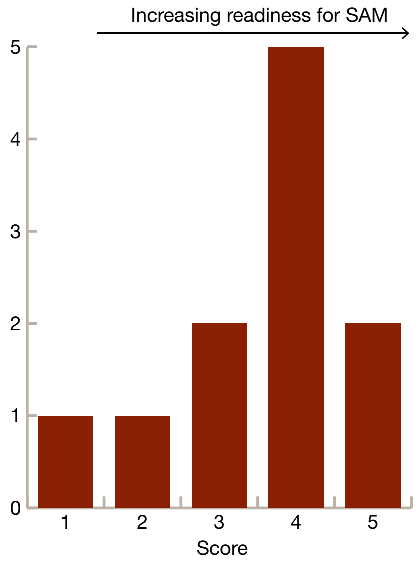
Q How ready is your organisation to deal with the implications for asset managers around the provision of investment data, advice and systems assurance to your insurance clients on adoption of Solvency and Assessment Management? Please rank readiness from 1 (consider implications) to 5 (already gearring up).

Figure 17 suggests that most asset managers are well organised in their preparation of investment data, advice and systems assurance for insurers' adoption of Solvency and Assessment Management (SAM).

Seven of the 11 respondents scored '4' or '5' on a scale of 1 to 5.

Four companies suggested they were not yet adequately prepared.

Figure 17: Readiness to deal with the implications of SAM



Based on responses from 11 asset managers

Outsourcing

Q Do you outsource any of the operations within your organisation? If yes, please provide details of the functions outsourced.

Only two of the 14 participants said that they did not outsource at present. One of these said it had outsourced in the past.

The outsourcers used included JP Morgan, Maitland, State Street and Silica. Statpro was also used by at least one participant for portfolio pricing.

Areas covered by outsourcers ranged from general administration, to daily pricing, to fund accounting and IT.

Q If no, have you given any consideration to outsourcing any of your operations in the future?

When asked if they had given consideration to outsourcing in the future, most companies said 'No'. Several participants stressed that it was important to control all client relationships in-house. One participant indicated that if some products became commoditised and had sufficient scale, it would consider outsourcing.

Another said outsourcing was always under review. However, one participant said it planned to do more in-sourcing in the future.

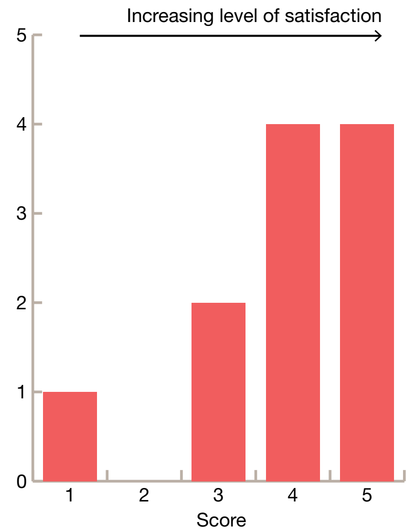
One participant with strong insurance links noted that because of their business model and the competitive nature of the data, along with new SAM rules they had no plans to outsource.

Q How satisfied are you with the quality of the service provided by the outsourcing entity? Please rank your satisfaction 1 (dissatisfied) to 5 (very satisfied).

The majority of participants appear to be well satisfied with the level of service provided by outsourcers.

Eight of the 11 respondents scored '4' or '5' on a scale where 5 represents 'very satisfied'.

Figure 18: Level of satisfaction with the service of outsourcing entities



Based on responses from 11 asset managers

Q From your perspective, what are some of the disadvantages of outsourcing part of your operations to another organisation?

The most widely viewed disadvantage of outsourcing was that it entailed a loss of control.

One participant indicated that there have been service issues in the past. Another said outsourcing had two disadvantages, firstly others have access to your data and secondly, there is an ongoing risk of a pricing error.

Outsourcing is also seen to have a negative impact on relationship management and the ability of the asset manager to quickly implement change.

Q What are some of the key drivers for the selection of service providers? Please rank in importance from 1 (most important) to 3 (least important).

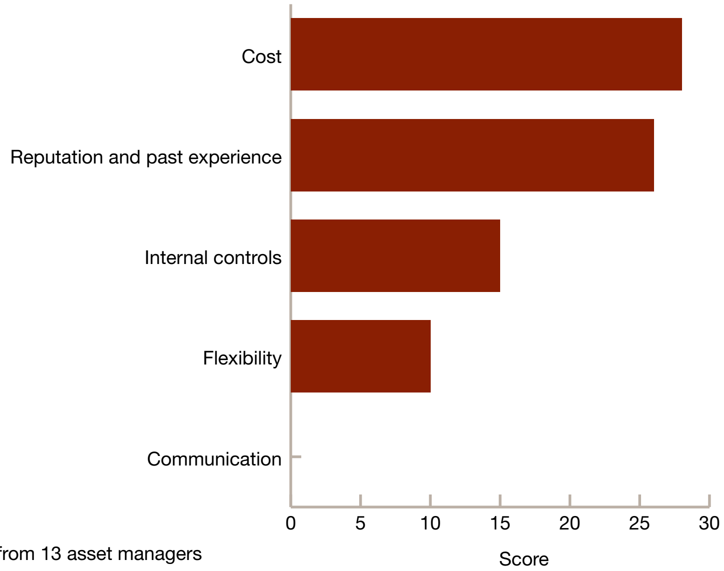
Four drivers were identified by participants that they use to select outsource providers.

Cost was seen as the most important driver ahead of reputation and past experience, internal controls or flexibility.

This confirms that outsourcing is largely driven by cost management and service quality is a secondary consideration.

The trend towards increased consumer sophistication and demands on service will place the outsourcing model under pressure.

Figure 19: Key drivers for the selection of service providers



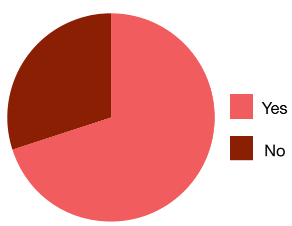
Based on responses from 13 asset managers

Q Has the outsourcing of operations resulted in cost savings for your organisation?

The previous question identified cost as the most important factor in choosing an outsourcing service provider. This factor is confirmed by Figure 20, which shows that almost three-quarters of participants have received cost savings as a result of outsourcing.

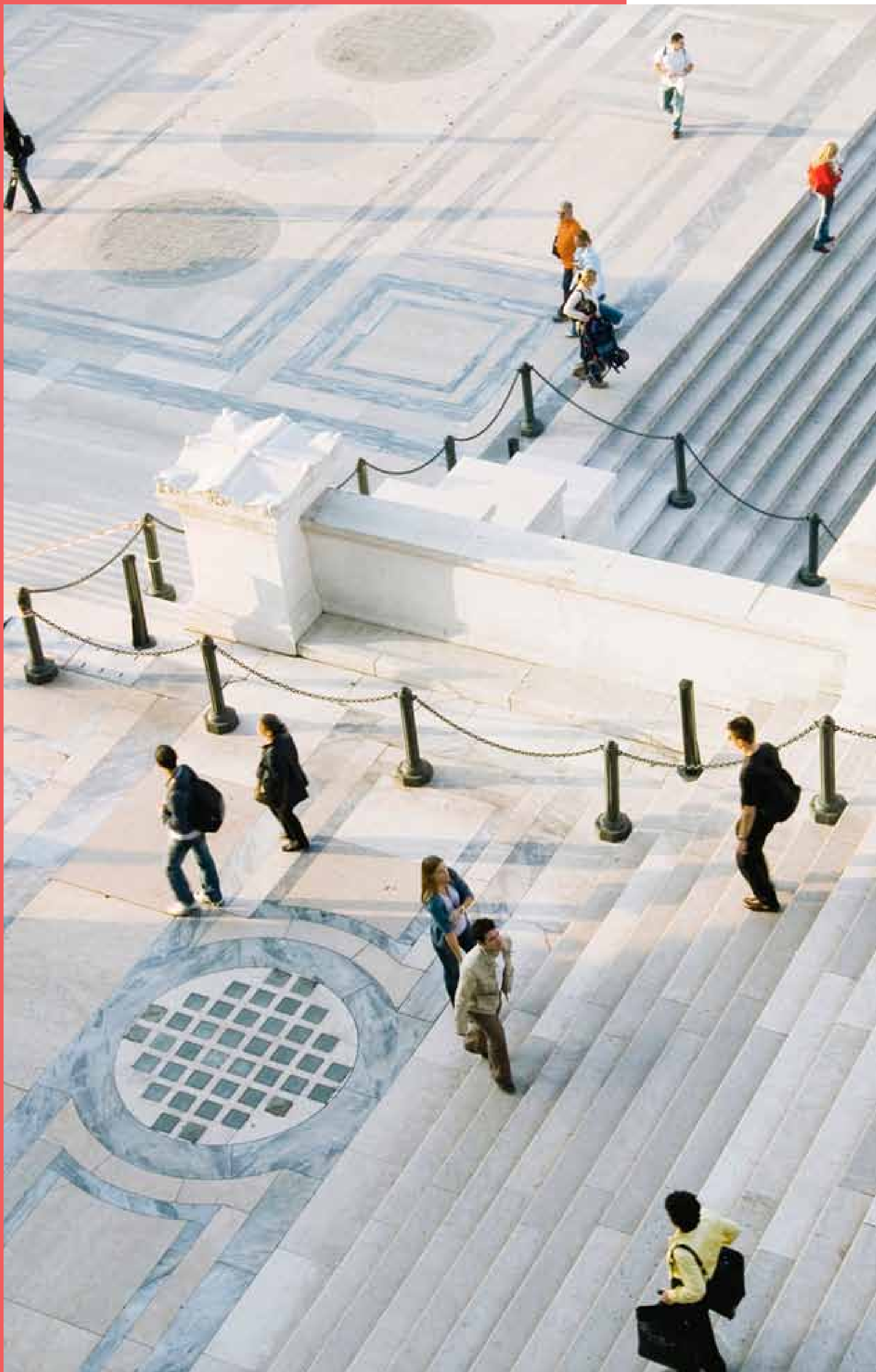
One participant indicated that the older, established asset managers are most likely to outsource, while more recent entrants may choose to build their own systems in-house.

Figure 20: Outsourcing of operations has resulted in cost savings



Based on responses from 10 asset managers

Performance



Q What is your estimate of the annual growth in fee revenue in your business for 2012 and in 2015?

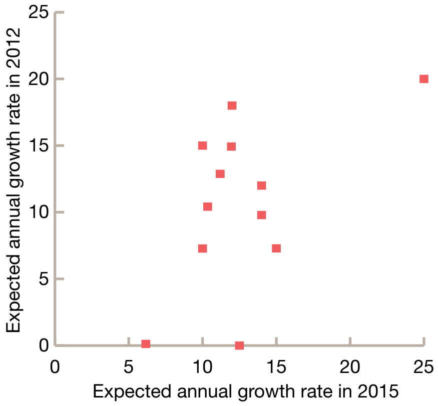
Thirteen asset managers provided data on their expected annual growth in fee revenue in 2012 and in 2015.

The overall average in 2012 was 10.6%, increasing to an average growth of 12.4% in 2015.

One asset manager predicts a 30% decline in fee revenue in 2012 and was omitted from the average calculation. However, by 2015 that asset manager expects to increase revenue annually by 10%.

Figure 21: Expected annual growth in fee revenue for 2012 and 2015

2012 Survey



Based on responses from 12 asset managers

Most asset managers fall in the 10-15% range, but one asset manager anticipates 20% fee revenue growth in 2012 and 25% in 2015.

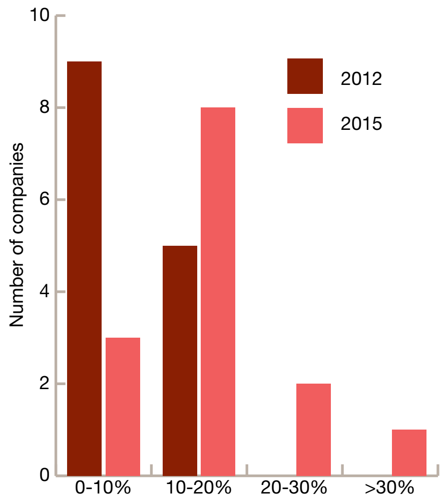
Q What is your expected growth in assets under management for the next 12 months and then in three years?

Figure 22 demonstrates that the majority of participants expect 0-10% growth in assets under management in 2012.

However, this expectation changes for 2015, when the majority of participants expect assets under management to grow by 10-20% over the prior year.

Two companies expect to grow assets by 20-30% and one by 30-40% over the prior year in 2015.

Figure 22: Expected growth in assets under management for the next 12 months and in three years?



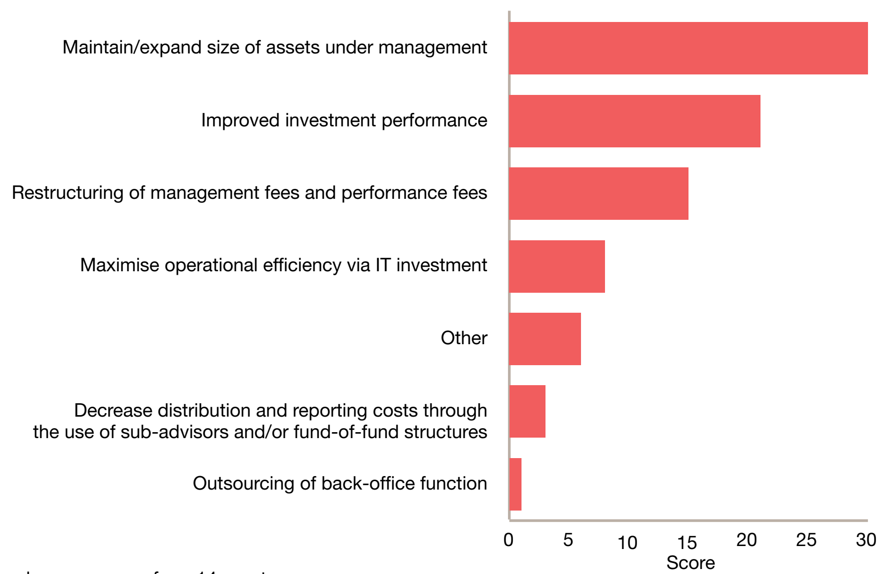
Based on responses from 14 asset managers

Q Which of the following drivers are seen to be crucial in improving the margin within your organisation? Please rank in importance from 1 (most important) to 3 (least important).

Participants believe that the best way to improve margins is to grow the assets under management. A growth in assets was followed by improved investment performance and restructuring of fees.

The other categories referenced include adding new products with higher fee structures and improvements in operations efficiency.

Figure 23: Drivers to improving margins



Based on responses from 14 asset managers

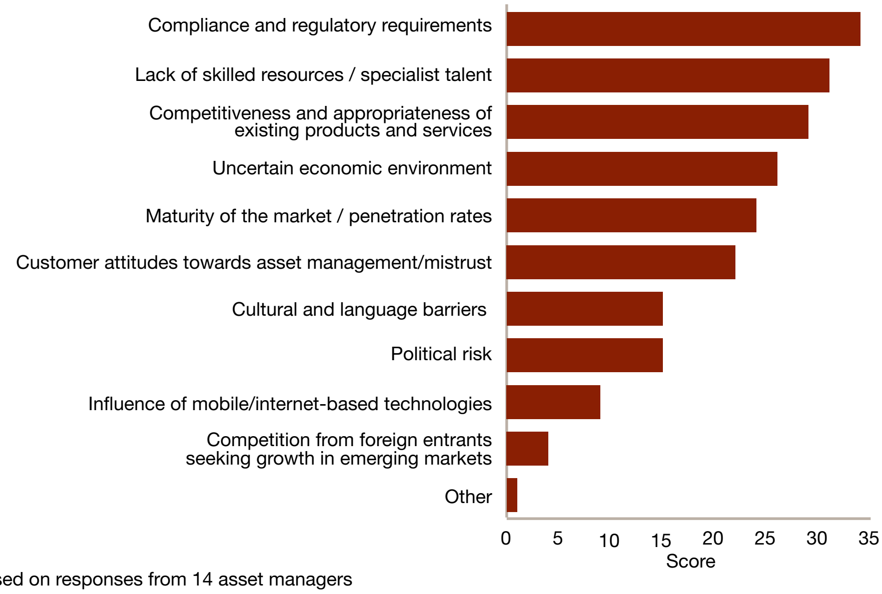
Q What do you regard as the principal challenges that your organisation will face over the coming year in your key growth markets? Please rank the top five, with 1 being the most important.

The top three challenges in key growth markets over the next year were identified as follows:

- Compliance and regulatory issues;
- Lack of skilled resources; and
- Competitiveness of existing products.

These three challenges were closely followed by the uncertain economy, penetration rates and customer attitudes towards asset management.

Figure 24: Principal challenges facing organisations in key growth markets over the coming year



Based on responses from 14 asset managers

Q Are the investment returns and performance reported by your entity verified in terms of the requirements of the Global Investment Performance Standards (GIPS)?

GIPS standards are a globally accepted methodology for calculating and presenting investment firms' performance history and ensuring consistency of investment firms' results. They are widely relied upon by investment firms, their clients and prospective clients. In recent years, GIPS compliance has gained more attention globally, most recently in emerging markets.

A narrow majority of participants indicated that they are compliant with the GIPS. However, one participant yet to comply observed that GIPS was more suited to 'pure' asset managers. ASISA is the country sponsor for GIPS in South Africa. It promotes the adoption of GIPS standards in South Africa and represents South Africa on the GIPS Executive Committee.

A recent global survey of GIPS compliance among asset managers and consultants found that Africa and Europe (excluding the UK) were at the bottom of the scale with 50% compliance. Asia had 67% compliance and the highest level was in the Australia with 81%. In this survey, the compliance rate among the 14 participants was 56% in line with the global survey.

Figure 25: Percentage of companies applying GIPS

Source: "The value of GIPS® compliance: 2012 manager and consultant survey", May 2012.

Based on responses from 339 worlwide asset managers within a total of 2 193 contacted

Q Where do you believe the greatest focus will be on cost management for the next three years in the South African asset management industry? Please comment.

Over half the participants suggested that personnel would warrant the greatest focus over the next three years. Several participants cited 'back-office' costs, which overlap with people costs.

Two other areas identified are IT costs and distribution costs.

Advisor fees will also be subject to review and one asset manager said it would attempt to disintermediate financial advisors.

Other areas mentioned were compliance and regulation, client communication, staff incentive structures and fund management trading costs.

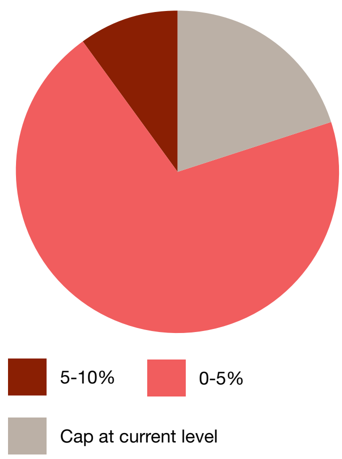
Q By what percentage can you reduce operating costs over the next three years?

Most participants believe they can reduce operating costs by 0-5% over the next three years.

One participant indicated that 70% of costs relate to personnel.

Two asset managers believe they can hold costs at the current level, while one asset manager optimistically predicted a reduction of between 5-10%.

Figure 26: Predicted reduction in operating costs over the next three years



Based on responses from 10 asset managers

Regulation and governance

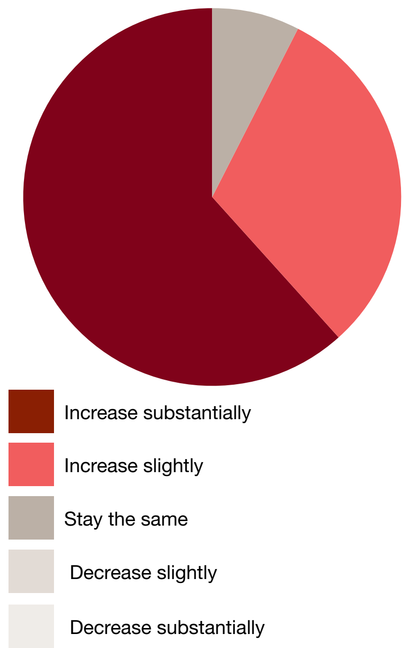
Q How do you see the intensity of regulation of the asset management industry changing over the next three years?

Most participants predict a substantial increase in regulation over the next three years.

Two companies noted the proliferation of new regulations in the UK market and indicated South Africa normally follows steps taken there. A further four companies contend that there will be a slight increase in regulation.

None of the participants predicted a decrease in regulation.

Figure 27: Expected changes in regulation over the next three years



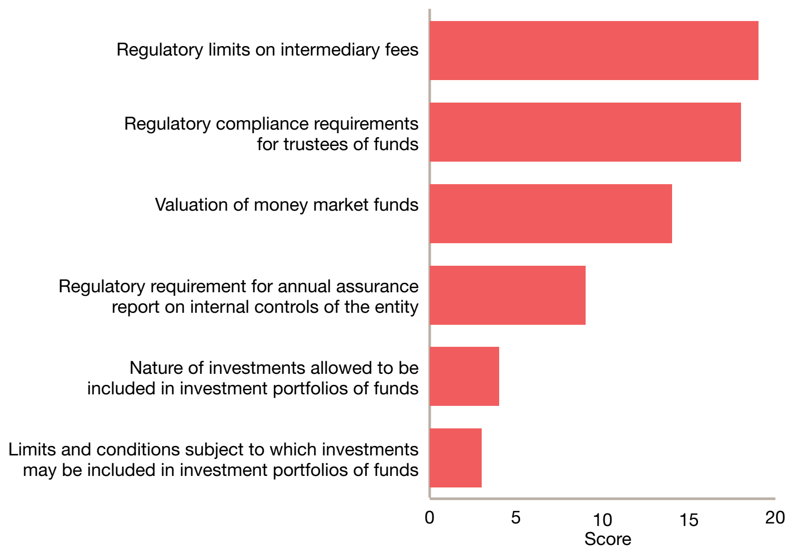
Based on responses from 13 asset managers. The PIC did not respond

Q Notwithstanding any existing proposals around regulatory changes, in your view, where is there still the greatest need for increased regulation? Please rank in importance from 1 (most important) to 3 (least important).

The top three areas for future regulation were identified as:

- Intermediary fees;
- Compliance requirements for fund trustees; and
- Valuation of money market funds.

Figure 28: Areas requiring greater regulation



Based on responses from 12 asset managers

Q Do you believe the separation of prudential and market conduct aspects of regulation under the 'twin peaks' proposals will result in the following benefits?

The Twin Peaks approach to financial regulation divides regulation into prudential supervision and market conduct regulation.

In this context, participants were asked to agree or disagree with statements that outlined the possible benefits of a Twin Peaks approach.

They agreed that this regulation will:

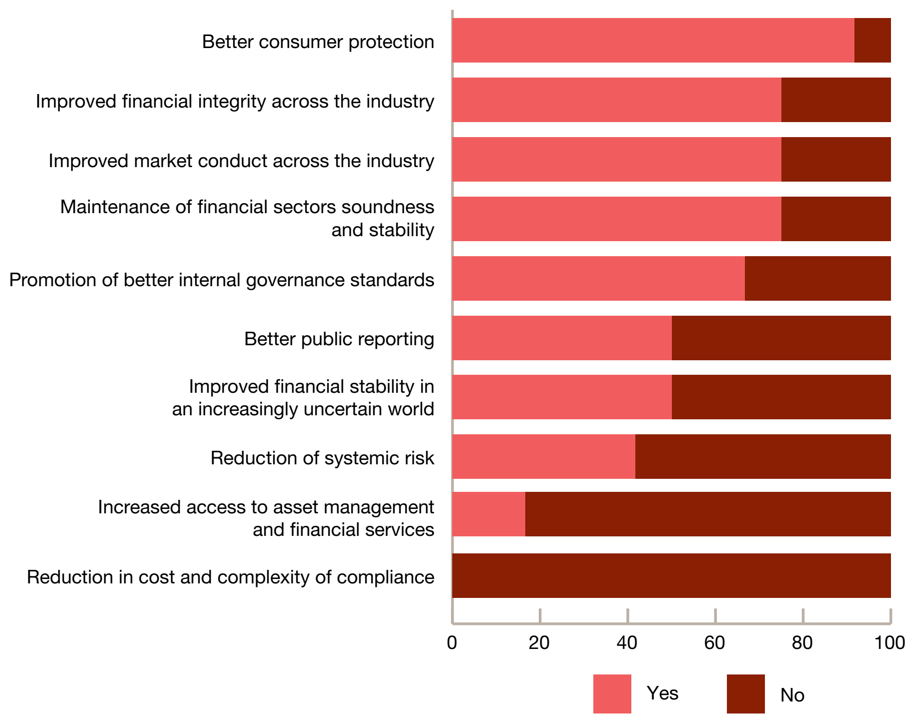
- Provide better consumer protection;
- Improve market conduct;
- Improve financial integrity;
- Maintain soundness and stability; and
- Promote better internal governance.

They did not agree that Twin Peaks will:

- Increase access to asset management services;
- Reduce cost and complexity of compliance; or
- Reduce system risk.

Finally, they were ambivalent on two proposed benefits, better public reporting and improved financial stability.

Figure 29: Perceived benefits of Twin Peaks approach



Based on responses from 12 asset managers

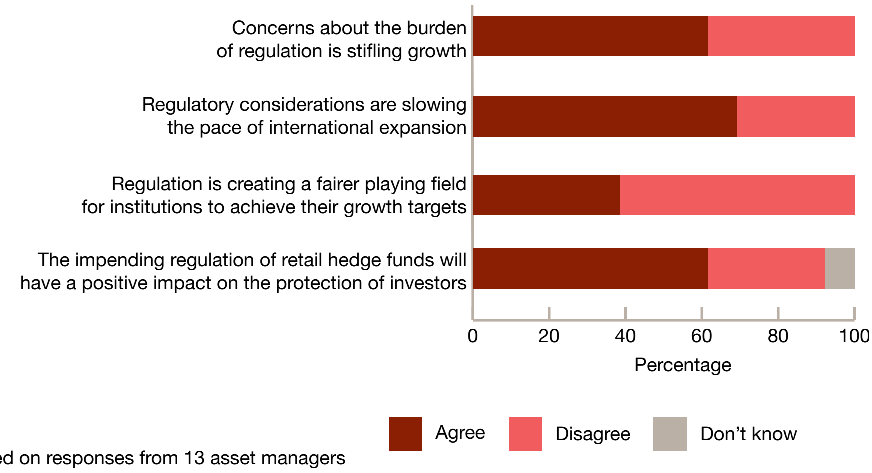
Q Do you agree or disagree with the following statements?

The majority of participants agree that regulation stifles growth (62%) and slows the pace of international expansion (69%).

They also contend that new legislation on hedge funds will enhance investor protection (62%).

However, they disagreed that regulation levelled the playing field and helped institutions achieve growth targets.

Figure 30: Views around aspects of regulation



Based on responses from 13 asset managers

Q Do you believe it is appropriate for collective investment schemes and other investment funds to move from reporting under an entity-specific basis of accounting (accounting policies) to full International Financial Reporting Standards (IFRS) in the future?

Participants did not view the transition to IFRS as a positive move. Only two of the ten respondents that commented were supportive.

Other participants viewed IFRS as unhelpful and contended that most will have difficulty understanding it. One asset manager asked the question, "Will an investment advisor be able to explain it to their client?"

Notwithstanding the above survey findings, the FSB has recently issued Circular 17, which makes it mandatory for collective investment schemes with financial year ends after the 1 December 2012 to report in terms of IFRS.

Q How will the proposed social security and retirement fund reforms impact the South African asset management industry?

National Social Security Fund

The Government plans to introduce a National Social Security Fund (NSSF) to encourage more people to save for retirement at an earlier age. National Treasury has stated that only 10% of South Africans are able to maintain their pre-retirement level of consumption after retirement. This is caused by a lack of preservation of retirement fund assets when members leave their jobs.[1]

One participant commented that the creation of the NSSF fund will increase access to the broader population and has the potential to increase savings and investments.

Uncertainty among participants centred on the future role of government in the retirement savings market. Will the sector's assets be taken in-house and managed by government or will they be farmed out to the asset managers?

Several participants believe it could cause the demise of a number of smaller asset managers. They believe that consolidation will lead to a lowering of costs for retirement fund members. One asset manager suggested it will cause realignment in the value chain and it is still uncertain who will benefit most.

One participant hypothesised that if the NSSF was spread across a number of asset managers, it might include a social mandate for investment.

[1] National Treasury, "Strengthening Retirement Savings", 12 May 2012)
[2] Business Report, 6 March 2012

Q What will the impact of the Treating Customers Fairly proposals on the South African asset management industry be?

Treating Customers Fairly

The Treating Customers Fairly (TCF) initiative seeks to help customers better understand the features, benefits, costs and risks of financial services. Under Twin Peaks, the Financial Services Board (FSB) will fulfil the role of market conduct regulator and therefore monitor how well asset managers serve their customers.

Participants were asked how TCF will impact the asset management industry. Most responses viewed TCF in a very positive light. However, concerns were expressed about the future costs of applying TCF. Participants believe that their larger counterparts with greater compliance resources were poised to handle TCF more cost effectively.

Participants also expressed concern because TCF is not restricted to just the asset manager, but to the full length of the financial services supply chain, including product design and distribution.

The TCF policy is based on six defined outcomes[2]:

- Consumers can be confident that they are dealing with companies where the fair treatment of customers is central to the corporate culture;
- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Consumers are given clear information and are kept appropriately informed before, during and after the point of sale; where consumers receive advice, it is suitable and factors in their circumstances;
- Consumers are sold products that perform as a provider has led them to expect, and the associated service is of an acceptable standard and meets expectations; and
- Consumers do not face unreasonable post-sale barriers to changing a product, switching a provider, submitting a claim or making a complaint.

The TCF policy seeks to regulate:

- Financial product design;
- The marketing of financial products;
- The information provided to consumers;
- Aspects of financial advice;
- After-sale support of consumers; and
- The complaint procedure.

Q How different do you believe the provision of financial advice in the asset management industry will be in the next five years?

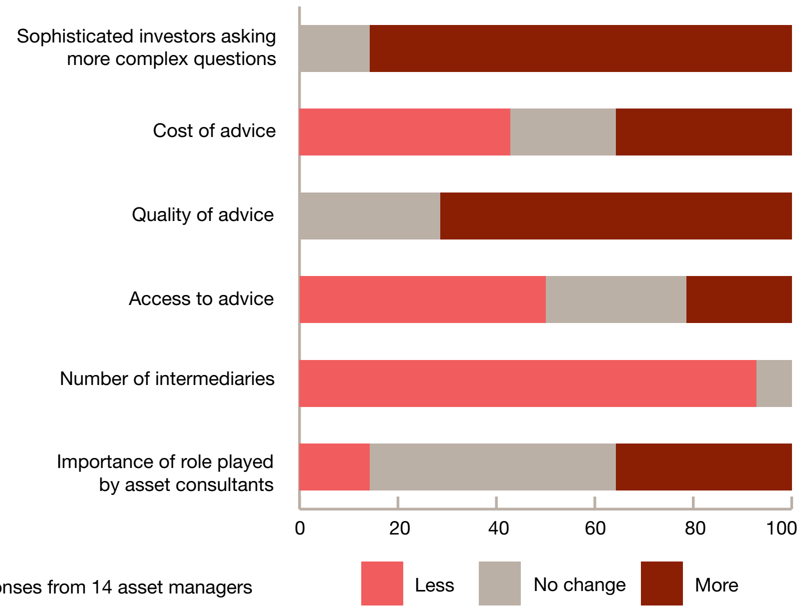
Participants predict major changes in the nature and delivery of financial advice over the next five years. They recognise that concerns such as retirement planning and events such as the global financial crisis underscore the need for quality advice.

Figure 31 illustrates the following trends.

- More sophisticated investors asking more complex questions;
- An improvement in the quality of advice;
- Fewer investment advisors; and
- An increased role for asset consultants.

Less clear is how the cost of advice might change. Those anticipating an increase were matched by those predicting a decrease. Almost half the participants expect there to be less access to advice as a result of the likely changes in the role of the investment advisor. A number of investment advisors have not passed the necessary FAIS exams to date and are thus choosing to get out of the industry. Participants also made mention of advisors not charging for advice at present, but likely changes in commission regulations may lead to a fee-for-advice model becoming more prevalent in the future; in which case availability of advice might again be reduced.

Figure 31: Emerging trends in the next five years



Based on reponses from 14 asset managers

Risk management

Q Below is a list of asset management-related risks. Please rate them in importance from 1 (most important) to 5 (least important).

The greatest risk identified is a decline in investment performance.

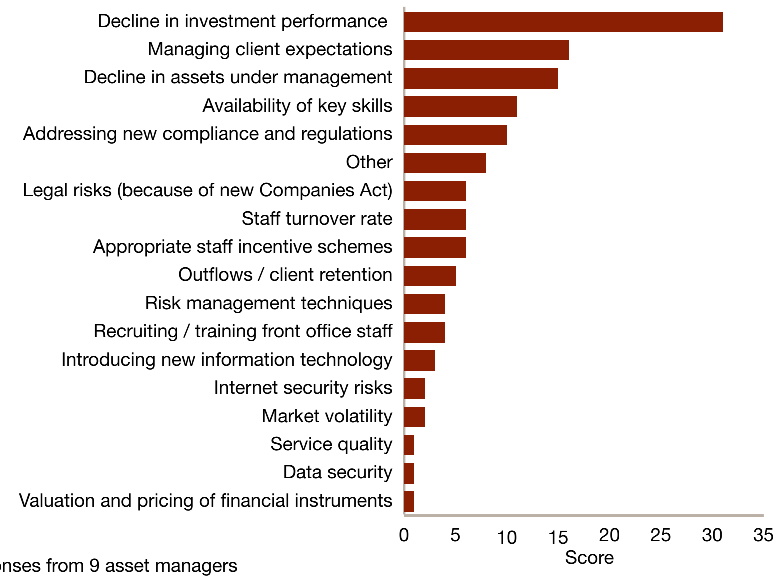
Unsatisfactory investment performance is closely linked to the second most important risk, which is being able to manage client expectations.

In third place is a decline in assets under management.

Skill shortages and compliance and the regulatory environment were also seen as important risks.

In the 'other risks' category participants suggested the risk of fraud, fraud syndicates and a rapid escalation in costs.

Figure 32: Asset management-related risks



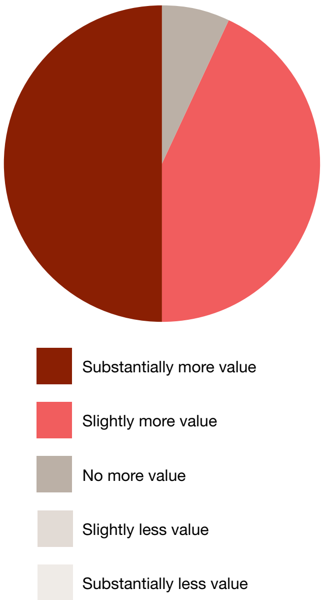
Based on responses from 9 asset managers

Q Is the risk management function in your organisation adding more value to your business now compared to three years ago? Select one.

Participants strongly endorsed the value of risk management in their organisations over the last three years.

Half the group believe it had added 'substantially more value'; one asset manager said it had added 'no more value' and the remainder recorded 'slightly more value'.

Figure 33: Value added by the risk management function now compared to three years ago



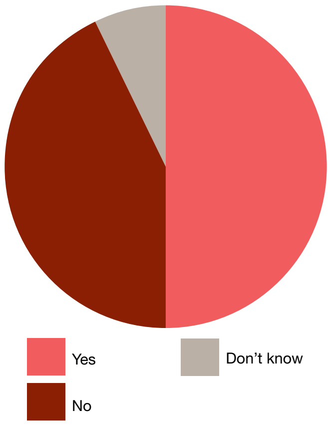
Based on responses from 14 asset managers

Q Do you believe South African asset managers' risk management systems are sufficiently robust?

Participants were divided on the level of robustness of asset managers' risk management systems. One half believe they are sufficiently robust, while most of the others believe the opposite.

Some suggested that asset managers with an insurance connection were likely to be more robust. Others commented that smaller and less-established asset managers may not have made the same investment in risk management systems.

Figure 34: Risk management systems sufficiently robust



Based on responses from 14 asset managers

Risk management *continued*

Q In which areas could there be improvements in your asset management risk management systems?

Areas identified for improvement include:

- More real-time monitoring;
- Consideration of data related to SAM;
- Over-the-counter trades;
- Derivatives; and
- Accuracy of valuations.

One participant also noted that asset managers' compliance processes tend to be 'regulator focused'. Because they respond to different regulatory bodies this may undermine a holistic view of risk.

People and remuneration

Q Have you made any changes to your remuneration structures given the global developments and regulation e.g. EU Capital Requirements Directive (CRD III) in this area?

None of the participants has made changes to remuneration as a result of the EU Directive (CRD III – which had an implementation deadline of 31 December 2011) or other recent developments. However, several have amended remuneration structures by adding a deferred component. One participant said they initiated this change in 2005. Several others indicated that their remuneration package had performance components.

One participant described a three-year deferral component that is linked to risk.

An asset manager emphasised their entrepreneurial culture and said they have a peer review system.

Another participant indicated that performance contracts were based on a balanced scorecard.

Another asset manager said that their senior executives' remuneration was linked to the dividends paid to shareholders.

Key remuneration elements of the Capital Requirements Directive

- Applicable to 2010 bonuses but with "proportionality" provisions
- Potential restriction on cash bonuses to a maximum of 30% of total variable pay
- Requirement that at least 50% of variable compensation be delivered in a mix of shares and contingent capital
- Requirement to pay certain "discretionary pensions" as contingent capital
- Ban on guarantees, other than on recruitment and for at most one year
- Committee of European Banking Supervisors to develop guidance on the appropriate ratio between fixed and variable pay
- Risk and compliance officer remuneration to be independent of the performance of business areas they control, and remuneration of senior risk and compliance officers to be directly overseen by the remuneration committee
- Aggregated public disclosure requirements for senior managers and risk-takers

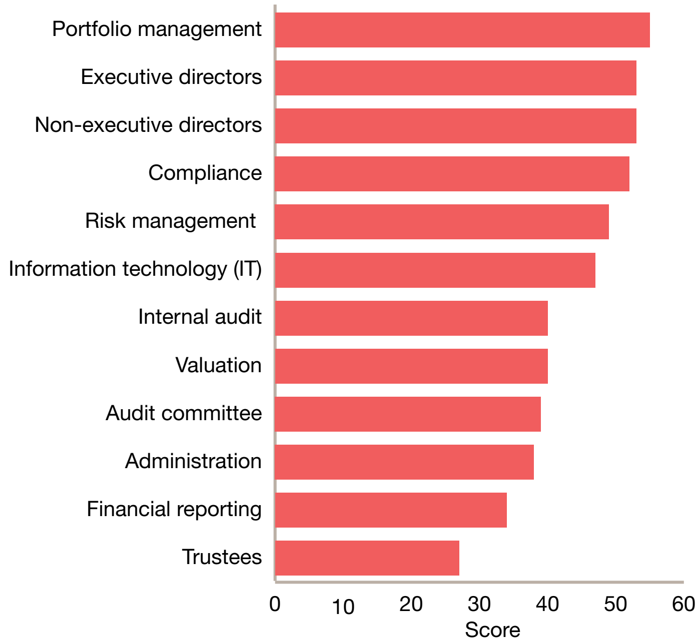
Source: www.pwc.be

Q In which functions are you currently experiencing the greatest difficulties in sourcing talent? Please score 1 (low) to 5 (high).

Participants identified portfolio management, executive directors and non-executive directors as the three most difficult areas for sourcing talent.

These were followed by compliance, risk management and IT. All six of these positions exceeded a score above three on the 1 to 5 scale, suggesting they are all difficult to fill.

Figure 35: Functions presenting the greatest difficulties in sourcing talent



Based on responses from 14 asset managers

Strategies

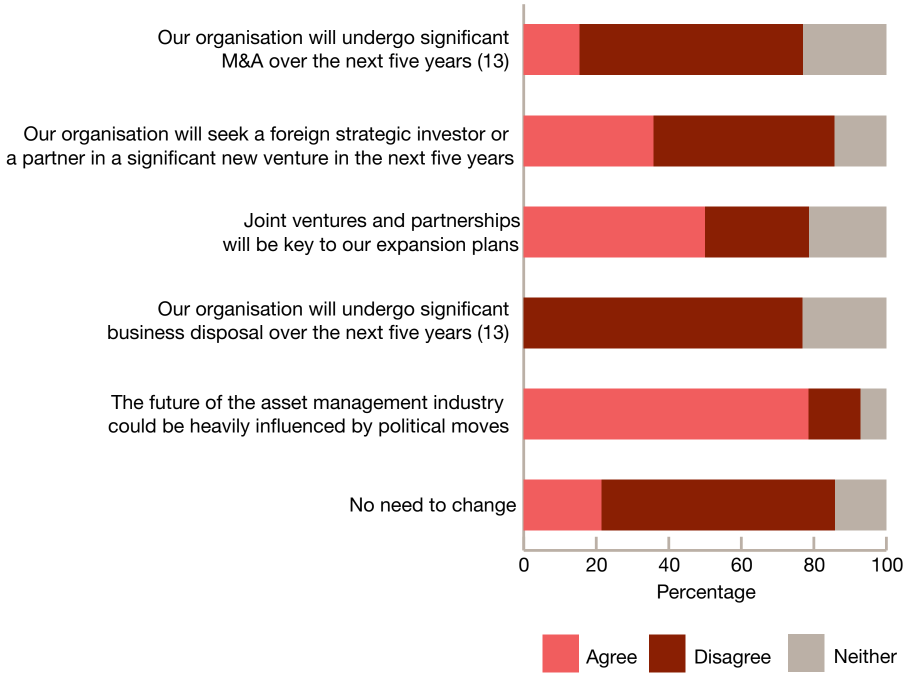
Q Do you agree or disagree with the following statements

Regarding future strategies, more than half of respondents agreed with two statements, firstly that the asset management industry will be influenced by political moves and secondly, that joint ventures and partnerships will play a part in future expansion.

In contrast, most do not expect to make business disposals or engage in mergers and acquisitions.

Only a third will seek a foreign partner in a new venture over the next five years and almost two-thirds believe they will need to make changes to strategy in the future.

Figure 36: Future strategies likely to be adopted



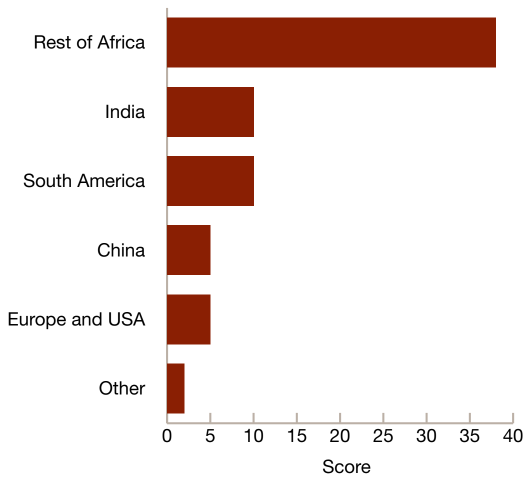
Based on reponses from 14 asset managers unless noted in parentheses

Q Which geographic expansion strategies do you believe South African asset managers should pursue? Rank the top 3 with 1 being the most important.

Participants overwhelmingly believe that South African asset managers should expand into the rest of Africa.

India and South America were ranked ahead of China, while the developed markets of Europe and the United States were at the bottom of the list. There were, however, also exceptions to these findings. For example, one asset manager said it wanted to extract from deep pools of assets in New York and London.

Figure 37: Most strategic areas for geographic expansion



Based on responses from 13 asset managers

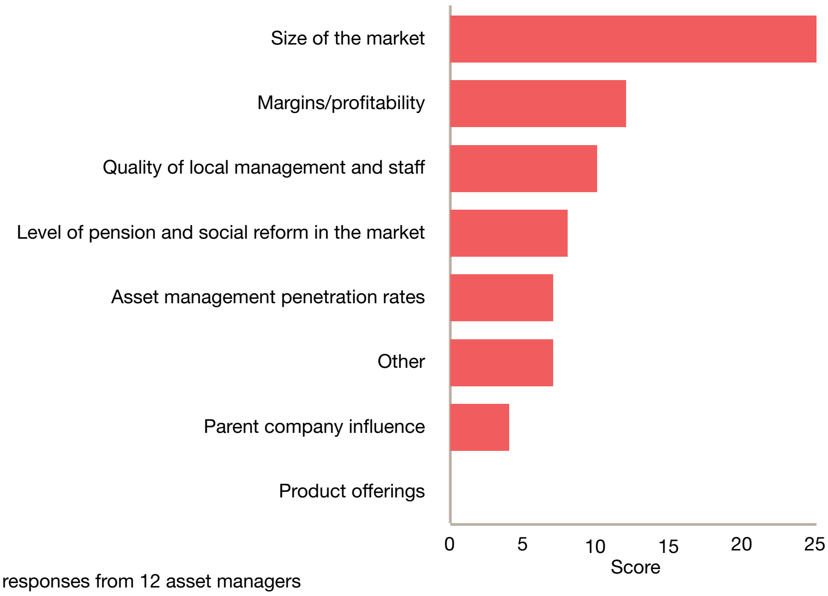
Q Please rank your top three considerations in investing in the rest of Africa, with 1 being the most important consideration.

In considering investments in the rest of Africa, the most important factor to consider was the overall size of the market.

This was followed by the margins and profitability of the investment and thirdly, the quality of local management and staff.

Some of the 'other' considerations included the development of the banking sector, the size of an emerging middle class and level of pension fund reform.

Figure 38: Top considerations when investing in the rest of Africa



Based on responses from 12 asset managers

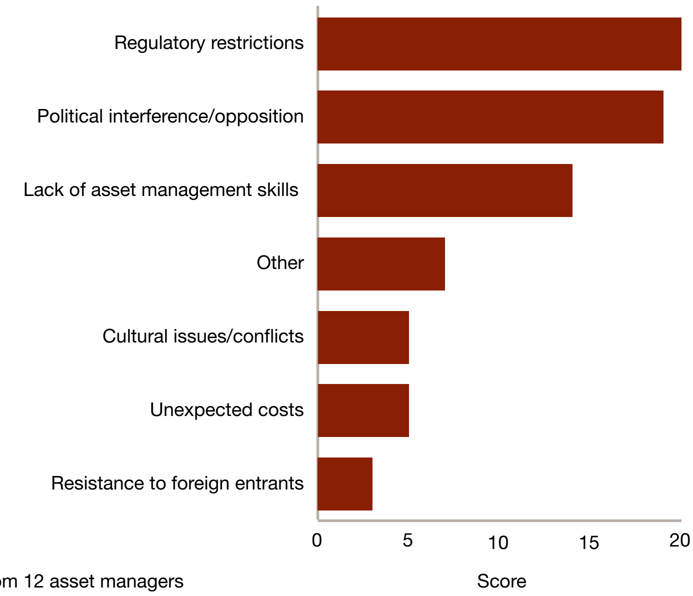
Q Please rank your top three challenges to investing in the rest of Africa, with 1 being the greatest challenge.

Three important challenges confront South African asset managers investing in the rest of Africa:

- Local regulatory restrictions;
- Political interference; and
- A lack of local management skills.

Another important challenge identified is the appearance of previously unexpected costs. The level of market transparency and thus the ability to understand how it works was also seen as a challenge.

Figure 39: Most common challenges to investing in the rest of Africa



Based on responses from 12 asset managers

Q *Which key diversification strategies will see the most growth over the next three years? Please rate them on a scale of 1-5 with 1 being the most important.*

Participants plan to broaden their mix of investments within portfolios in the future and introduce more new products. Participants did not envisage any more 'fund proliferation' as there are clearly more collective investment schemes in South Africa than JSE securities, which may result in future simplification or rationalisation of schemes.

Three participants showed significant interest in hedge funds and four in private equity.

With one exception, asset managers were neutral on ETFs. Pension fund administration was a strong area of future interest to some asset managers.

Other diversification strategies noted by participants were geographic diversification, asset administration and organic growth.

Figure 40: Key diversification strategies expected to see the most growth over the next three years

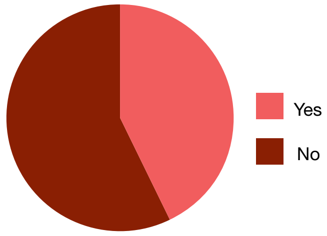
Based on responses from 14 asset managers

Q Has your organisation given any consideration to making greater investment in funds/products/classes of assets backed by investment in infrastructure development? If yes, what do you see as the current barriers to increasing investment in infrastructure?

More than half the participants said they were not interested in participating in infrastructure developments.

Most recognised that liquidity represented a challenge and that, as one participant noted, "this is not a well-understood asset class". Another participant asked "why can government not simply borrow and we will buy the bonds?"

Figure 41: Consideration of investing in assets backed by infrastructure development



Based on responses from 14 asset managers

Q Is appropriate consideration given to the requirements of the Code for Responsible Investment in South Africa in the development of your entity-wide investment strategies and portfolio construction i.e. 'house view'?

Only two participants said they had not given full consideration to the Code for Responsible Investment in South Africa (CRISA). Most participants are already CRISA signatories. One commented that it is more about the asset owner rather than the asset manager.

Another asset manager indicated that most trustees ask that they report on CRISA.

One asset manager said they were very supportive and were using it to solidify their reputation.

CRISA is a voluntary code that aims to encourage retirement funds and insurance companies as asset owners, along with asset managers and consultants, to consider sustainability issues in their investment decisions.

Institutional investors and service providers are to adopt the principles and practice recommendations contained in CRISA on an 'apply or explain' basis in line with the recommendations of King III.

CRISA requires institutional investors to fully and publicly disclose to stakeholders at least once a year to what extent the code has been applied. If an institutional investor has not fully applied one of the principles of CRISA, such reasons should be disclosed. CRISA therefore requires that institutional investors be transparent about the content of their policies, how the policies are implemented and how CRISA has been applied in order to enable stakeholders to make informed assessments. Institutional investors are required to publicly report on their application of CRISA from 1 February 2012.

Source: Institute of Directors Southern Africa, 2011

Prospects for growth — The African Infrastructure Investment Fund

The African Infrastructure Investment Fund 2 (AIIF2) has finally closed with commitments of $500m (ZAR3.6bn) from institutional investors. The fund is promoted and advised by $1.1bn African Infrastructure Investment Managers (AIIM), a joint venture between Australian firm Macquarie's Infrastructure and Real Assets business and Old Mutual Investment Group South Africa (OMIGSA).

AIIF2, which reached its first close of $320m in March 2010, is focused on infrastructure equity investment in sub-Saharan Africa, targeting core infrastructure investments including roads, airports, power, telecommunications, rail, ports, social infrastructure and related investments in capital-intensive developmental assets. "The strong investor support for AIIF2 demonstrates that Africa is climbing up the agenda of investors," said AIIM CEO Andrew Johnstone.

"We have a strong pipeline of potential opportunities under detailed review, primarily in the transport and energy sectors, and we are pleased that AIIF2 has already committed 24% of its capital to investments in the transport sector.

"We are now building on the momentum of this successful fundraising and will look to launch a parallel fund initiative in West Africa," he said.

Paul Boynton, head of OMIGSA Alternative Investments, added: "Many international institutions have been keen to participate in AIIF2, and we are very pleased that AIIM has raised a significantly sized fund despite the difficult fundraising environment."

AIIM has established offices in Lagos and in Nairobi and AIIF2 capital is expected to be directed largely at West and East Africa, in addition to the SADC (Southern African Development Community) countries.

Source: Africa Asset Management, 21 October 2011

Actis targets $300 million a year in Africa deals

Emerging markets private equity firm Actis is looking to invest around $300 million annually in Africa, with much of that earmarked for bigger markets such as South Africa, the firm's co-head for the region said on Tuesday.

John van Wyk also told the Reuters Africa Investment Summit that even with increasing competition in African private equity; the fast-growing continent still offered strong returns.

"I tell our investors that I think Africa is still probably the best-kept secret because we continue to make superior returns," he said in an interview in Reuter's offices in Johannesburg.

Actis aims for individual investments of $50 million or more, meaning it focuses on Africa's biggest economies – South Africa, Egypt and Nigeria – where there are more opportunities for bigger deals.

"We only really have to do probably two to three transactions a year. If we do a sizable deal in South Africa – call it $150 to $200 million dollars – and we do two $50 million deals elsewhere in Africa, that's a good investment pace for us."

Actis is known for sizeable deals in South Africa, the continent's biggest economy and its most developed private equity market.

Actis, which has about $1.5 billion deployed in Africa, last year led a $434 million buy-out of South African firm Tracker, which makes vehicle tracking equipment.

Given the lack of liquidity in Africa's public capital markets, investors are increasingly turning to private equity to tap into the continent's average economic growth rate of around 6 percent.

The head of South Africa's $125 billion government pension fund told Reuters last week it could invest as much as $3.8 billion in African private equity, as it seeks higher returns beyond its home market.

Exiting investments still remains a challenge for private equity firms in Africa, van Wyk said, although they increasingly see interest from Brazilian and Chinese buyers looking to get a foothold in Africa.

"Exit is one of the biggest questions we ask ourselves at the time we enter into a deal. We try and invest in businesses that will have strategic appeal to a trade buyer," he said.

"If you've made the right acquisition initially, there's no shortage of potential trade buyers when you come to sell."

Source: Reuters, 17 April 2012

Mobius: Africa fund could grow to $1bn

Templeton Emerging Markets Group's new Templeton Africa Fund has the potential to grow up to $1bn, according to the firm's executive director Mark Mobius, who is lead manager of the fund.

Mobius told Africa FM that liquidity in Africa is not as dire as many people believe, with the key markets boasting many large companies and IPOs continuing to increase.

"We could grow the fund up to $1bn, although this is not a target. We will take things step by step," he said in an interview. "But there is certainly enough liquidity out there [in Africa] to justify a large fund."

The Africa Fund, which launched this month with seed capital of around $20m, invests in African equities or companies that derive their business from Africa.

Mobius identified telecoms and the consumer sector as two of the fund's biggest focuses, and added that the fund would also access Africa's natural resources sector primarily through firms listed outside of the continent.

The Luxembourg-domiciled fund is available to both retail and institutional investors. Mobius said the firm is seeing demand for Africa exposure from institutions in Europe, particularly Scandinavia and the UK, but also from other emerging markets as foreign reserves grow in these countries.

Templeton already has around $250m invested in Africa through its various emerging and frontier market portfolios. According to Mobius, the firm recently made significant allocations to Nigeria, Kenya, South Africa and Ghana. Mobius added that the firm also intends to make its first private equity investments in Africa soon, again targeting consumer sectors.

Source: Africa Asset Management, 8 May 2012.

Peer review

Ranking of peer companies by participants

Q Can you name the top three asset management companies in terms of success (performance, presence and momentum) across a variety of different markets?

The 14 participants provided a peer assessment of companies in the industry. A simple scoring method awarded three points to first place, two points to second and one point to third place. This allowed the asset management companies to be ranked according to a cumulative total score.

Asset management companies were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance, presence and momentum) as opposed to mere size.

They were not permitted to rank their own institution. In some instances, respondents only nominated companies for first and second place.

Traditional asset management

Ranking	First	Second	Third	Score
Coronation	6	5	2	30
Allan Gray	5	6	2	29
Investec	1	3	5	14
Foord	2		2	8
Prescient			2	2

* Based on responses from 14 asset managers

Multi-management

Ranking	First	Second	Third	Score
Investment Solutions	10	1		32
Sygnia	1	3	1	10
SYmmETRY	1	3	1	10
Momentum		3	2	8
Sanlam Investment		1	2	4
PSG		1		2
mCubed			1	1
Resona			1	1

* Based on responses from 12 asset managers

Hedge funds

Ranking	First	Second	Third	Score
Caveo	1			3
Peregrine	1			3
TriAlpha	1			3
Via Capital	1			3
Edge Capital		1		2
Prescient		1		2
Visio		1		2
Momentum			1	1

* Based on responses from 4 asset managers

Private equity

Ranking	First	Second	Third	Score
Ethos	3	1		11
Brait	2	2		10
RMB Private Equity	1			3
Macquarie		1		2
Medu Capital		1		2
Investec			1	1
Sphere Private Equity			1	1
Vantage Risk Capital			1	1

* Based on responses from 6 asset managers

Property

Ranking	First	Second	Third	Score
Growthpoint	4			12
Stanlib	3	1	1	12
Catalyst		2	1	5
Redefine		2		4
Prudential	1			3
Investec		1		2

* Based on responses from 8 asset managers

Collective investment schemes

Ranking	First	Second	Third	Score
Coronation	7	3	1	28
Allan Gray	5	5	1	26
Investec	1	3	3	12
Nedgroup		2	4	8
Foord			1	1
Stanlib			1	1

* Based on responses from 13 asset managers

Exchange traded funds

Ranking	First	Second	Third	Score
Satrix	4			12
Absa	1	3		9

* Based on responses from 5 asset managers

Appendices
Methodology and participants

Methodology

Previous experience in the financial services sector has shown that personal interviews with senior executives using a standard questionnaire offers the best research approach.

The questionnaire was administered during interviews of approximately one hour. The author conducted all interviews during June 2012 in Johannesburg and Cape Town.

Responses have not been attributed to individual asset management companies, but rather collectively to all participants.

The time commitment and support by all asset management companies invited to participate in this survey was outstanding and sincerely appreciated.

Terminology

Traditional asset management (manager of segregated portfolios)

Multi-management (manager of managers)

Alternatives (hedge funds)

Alternatives (private equity)

Property (real estate)

Funds (collective investment schemes)

Funds (exchange-traded funds)

Participants

Name	Position	Asset management company
Allan Miller	Managing Director, Investment cluster	Absa Investments (division of Absa Financial Services)
Rob Dower	Chief Operating Officer	Allan Gray
Anton Pillay	Chief Executive Officer	Coronation Fund Managers
Thabo Khojane	Managing Director - Africa	Investec Asset Management SA
Derrick Msibi	Chief Executive Officer	Investment Solutions Fund Managers
Morris Mthombeni Susie Haywood	Chief Executive Officer Business Strategist	Momentum Investments
Catherine Sevenoaks	Chief Operating Officer	Nedgroup Collective Investments
Diane Radley Henki Beets	Chief Executive Officer Chief Operating Officer (Acting)	Old Mutual Investment Group SA (OMIGSA)
Eldria Fraser	Chief Executive Officer	Prescient Investment Management
Bernard Fick	Chief Executive Officer	Prudential Portfolio Managers SA
Adrian Clayton	Chief Executive Officer	PSG Asset Management Holdings
Petro Dekker Maghawe Dlamini	General Manager, Corporate Services General Manager, Listed Equities	Public Investment Corporation (PIC)
Cora Fernandez	Managing Director	Sanlam Investment Management
Thabo Dloti	Chief Executive Officer	Stanlib Asset Management

Background data

Collective Investment Schemes

	Funds under management as at 30/06/2012 (Rm)	No. of Funds as at 30/06/2012
Absa Fund Managers Ltd	81 730	32
Advantage AM Collective Investments (Pty) Ltd	11 660	15
Allan Gray Unit Trust Management Ltd	135 476	9
ALUSI	0	1
Ayanda Collective Investment Solutions Ltd	0	1
Cadiz Collective Investments Ltd	8 085	7
Community Growth Management Company Ltd	3 358	3
Coris Capital Collective Investment Managers Ltd	745	5
Coronation Management Company Ltd	91 613	35
DB X-Trackers (Pty) Ltd	1 998	5
Discovery Life Collective Investments (Pty) Ltd	9 802	17
Efficient Collective Investments (Pty) Ltd	1 025	13
Element	1 626	7
Foord Unit Trusts Ltd	13 788	5
Glacier Management Company Ltd	3 398	2
Grant Thornton Capital Management Company Limited	2 288	11
Grindrod	1 263	8
Investec Fund Managers SA Ltd	117 632	33
Investment Solutions Unit Trusts Ltd	13 756	25
IP Management Company	2 215	25
Kagiso	1 408	8
Marriott Unit Trust Management Company Ltd	8 092	14
Metropolitan Collective Investments Ltd	10 928	153
Momentum Unit Trusts Ltd (previously RMB Unit Trusts Limited)	40 329	51
Nedgroup Beta Solutions	163	2
Nedgroup Collective Investments Ltd	63 424	44
NewFunds (Pty) Ltd	350	13
Oasis Crescent Management Company Ltd	9 967	15
Old Mutual Unit Trust Managers Ltd	94 273	59
Personal Trust International Management Company (Pty) Ltd	3 065	7
Prescient Management Company Ltd	21 318	47
Prime Collective Investments Schemes Management Company (Pty) Ltd	1 366	17
Property Index Tracker Managers (Pty) Ltd	182	2
Prudential Portfolio Managers Unit Trusts Ltd	37 474	14
PSG Collective Investments Ltd	9 213	26
Regarding Capital Collective Investments Ltd	4 504	6
Rezco Collective Investments Ltd	268	2
RMB CIS Manco (Pty) Ltd	1 502	2
Sanlam Collective Investments Ltd	68 026	110
Satrix Collective Investment Scheme	11 460	7
Stanlib Collective Investments Ltd	146 765	78
Strategic Investment Services Ltd	20 197	15
Total	1 055 732	951

Source: ASISA

About PwC

A world-leading professional services firm

PwC is truly a global organisation committed to helping our clients meet the challenges posed by the global economy. We are one of the largest knowledge businesses in the world – a leader in every market in which we operate. Worldwide, we possess an enviable breadth and depth of resources, yet we work locally, bringing appropriate local knowledge and experience to bear – and using the depth of our resources to provide a professional service, specifically tailored to meet our clients' needs.

The service we offer to clients is underpinned by our extensive coverage and breadth of skills. When PwC was formed on 1 July 1998, it immediately became the largest professional services firm ever created. This marked a quantum leap in global professional services, bringing together thousands of people all over the world possessing considerable collective expertise and sharing a single goal of enhancing client value.

Servicing our markets

The objectives of our service offering are to build trust and enhance value for our clients and stakeholders. To meet the requirements of our clients, as well as regulators, our services are grouped into three distinct service lines, namely Assurance, Advisory and Tax.

We continue to operate as a multicompetency organisation offering a range of high-quality services to clients. In our business change is the only constant and we are continually adapting our range of services to ensure our sustainability and that of our clients and stakeholders. As market needs change, so will our service offering.

Assurance

Our Assurance group provides audit assurance to clients through PwC Incorporated on their financial performance and operations, as well as helping them improve their external financial reporting and adapt to new regulatory requirements.

The true value of an audit is not solely in ensuring compliance with exacting rules, regulations and standards. Instead it lies in our focus on substance over form and on progressing toward a reporting and audit model that communicates better information about a company's long-term value and the risks that are being taken to achieve such value.

Our leading-edge audit approach can be tailored to meet the needs of any size organisation, as evidenced by our appointment as auditor to some of the largest organisations as well as to thousands of small and mid-sized businesses. In every case, our service offering is underpinned by our deep industry knowledge, wide international experience, and global network of skilled professionals.

This deep industry knowledge is one of the foundations of our success. Our teams are aligned to the industry groupings in which they have the most expertise, enabling them to deliver tailored solutions to complex issues in these sectors. Our traditional core competency has been augmented over the years by the development of additional services that address our clients' requirements.

Our audit clients include many of the top performing companies on the JSE Securities Exchange SA, as well as many small and mid-sized businesses. In addition to audit, other services provided include accounting and regulatory advice, and attest and attest related services.

Contact person

Brendan Deegan at 011 797 5473 or brendan.deegan@za.pwc.com.

Advisory

Advisory provides advice and assistance based on financial, analytical and business process skills to corporations, government bodies and intermediaries in the implementation of strategies relating to:

- Creating/acquiring/financing businesses
- Integrating them into current operations
- Enhancing performance
- Improving management and control
- Dealing with crises
- Restructuring and realising value

Offered by trained professionals specialising in their respective fields and industries, we provide advisory services in an objective manner that help our advisory clients create stakeholder value, build trust and communicate with the marketplace.

To best serve our advisory clients and build new businesses, we understand their needs through each stage of what we call the business lifecycle.

To this end, our advisory services are built around four key client priorities: transactions; performance improvement; governance, risk and compliance; and crisis management.

Our competencies span the breadth of these priorities, and we bring them to our clients in a variety of service offerings.

Transactions

Comprehensive services related to financial transactions, including financial due diligence, valuations, financial modelling, negotiating and structuring acquisitions and disposals, raising finance, and developing exit strategies.

Performance Improvement

Services to assist our clients in identifying and implementing cost saving initiatives, and improving management, control and quality.

Risk Advisory Services

Services to assist our clients in measuring and monitoring ongoing governance, sustainability and compliance infrastructures, and the efficiency and effectiveness of financial, non-financial and information technology controls and systems.

Comprehensive services related to business recovery, restructuring, dispute analysis and forensic investigations.

Contact person

Jacques Louw at 011 797 4400 or jacques.louw@za.pwc.com

Tax

Taxation is one of the biggest cost items in any business, yet it is one of the most manageable. Using state-of-the-art methodologies and technology, coupled with specialist skills, our national team of advisers can assist clients to manage their tax risk and where possible, minimise their tax burden by providing innovative, often proven, practical tax and business solutions.

Our advice covers all aspects of Southern African direct and indirect taxes, exchange control regulations and employee-related issues. Through our extensive network of offices we are also able to provide advice on structuring international business operations and investments.

Corporate Tax

Corporate Tax provides specialist advice to assist South African corporates to manage taxation costs and cash flows. Our specialists are informed on current regulatory and business developments, and use this knowledge to maximise the return to our clients through corporate tax planning.

Human Resource Services

We have an established human resource practice delivering solutions to the people-related issues encountered by our clients.

By combining our human resource and tax professionals, we are able to offer our clients breadth and depth of expertise in employment tax, reward, equity incentives, personal tax, social security and employment benefit services.

Our experts providing expatriate tax services examine all aspects of deploying people globally, from creating non-standard assignment programmes to managing costs through effective tax planning, process improvements and outsourcing. They are supported by highly experienced immigration specialists in South Africa and worldwide, providing advice on the immigration law and various permit categories.

Indirect Tax

Encompassing value-added tax (VAT), and customs and excise duties, indirect tax is an increasingly complex area; every transaction in a business is affected. Our Indirect Tax team advises corporate clients on local and cross-border issues, utilising our global expertise and networks. Our clients operate across the full spectrum of industry, and we use our expertise to advise them on the best solution to their local, regional, and international issues, often utilising our global network to bring best practice to our clients.

International Tax Structuring

We provide business solutions to specific, complex client needs that serve to manage global tax risk and, where possible, minimise the global tax burden, taking into account exchange control as appropriate. We work as part of an integrated local and international industry-focused team of business advisers, to provide specialist international tax and exchange control services.

Transfer Pricing

We develop transfer pricing policies that are practical, defensible and consistent with our client's overall business strategy. Our services include transfer pricing risk assessments and full transfer pricing studies. We also provide advice on current and proposed transfer pricing legislation in South Africa and abroad.

Tax Compliance Centre

We provide specialist income tax compliance services to companies, based on global best practice models. The Centre runs state-of-the-art income tax compliance processes, and has a dedicated compliance manager responsible for each outsourcing contract to ensure the timely and efficient delivery of tax returns. Tailored electronic tax data collection applications and robust risk management and quality control procedures ensure the delivery of high quality tax returns.

Contact person

Paul de Chalain at 011 797 4260 or paul.de.chalain@za.pwc.com

Private Company Services

Business leaders regard business as personal. Our past and continued involvement with business leaders gives us a broad understanding of the unique demands and challenges facing private companies today. Our response is simple – to develop professionals who understand these challenges and rise to them. These Trusted Business Advisers (TBAs) work closely with our industry experts to provide tailormade solutions specifically geared to adding value in the private company environment. A TBA acts as a gateway to all the knowledge and expertise of our entire organisation, combined with comprehensive knowledge of local markets and industries. Through our TBAs, clients have access to an integrated service delivery approach encompassing any combination of our firm's services.

Trust and excellence are the foundations of our relationships. We foster those relationships by engaging our clients in conversations around the issues, risks and opportunities of the day, in order to ensure that their businesses continue on the road to sustainable profitability and growth. We also know that life is about more than business. It is also about individuals. We therefore extend our involvement to offering advice on personal finances, taxation, succession, estate and retirement planning. We assist clients with every facet of their business in order to add real value, and help them achieve their business goals and dreams.

Contact person

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About PwC *continued*

A focus on industries

One of the foundations of our success is our ability to adapt our services to meet the needs of our clients. Internationally, teams are aligned to the industry groupings in which they have the most expertise, enabling them to deliver tailored solutions to problems in these sectors.

The depth of our industry expertise, like our international perspective, is an attribute that our clients value highly. We invest significant resources in building and sharing such expertise.

We have organised ourselves around industries to:

- Share the latest research and points of view on emerging industry trends;
- Locate individual experts on each issue, wherever they are based;
- Develop industry-specific performance benchmarks, based on global best practices;
- Share methodologies and approaches in complex areas such as financial instruments and tax provisioning; and
- Collaborate on accounting or technical issues unique to a particular industry, especially when interpretive guidance is needed.

Our clients range from the country's largest and most complex organisations to some of its most innovative entrepreneurs – we are privileged to work with such an unrivalled client base. We serve many of the leading businesses in every sector on which we focus; those businesses value our rigorous, practical approach, characterised by a detailed understanding of individual client issues and by deep industry knowledge and experience.

Our industry groups are:

- Financial Services
- Consumer and Industrial Products and Services (CIPS)
- Technology, InfoComm, Entertainment and Media (TICE)
- Mining
- Public Sector
- Health Care
- Higher Education
- Agribusiness

Financial Services

The financial services industry landscape is continually changing and increasing in complexity, causing firms to face a diverse array of challenges and concerns. Corporate governance, risk management and regulatory issues continue to impact the industry. Firms have expanded international operations around the globe to tap into new markets as a source of growth, increase their competitiveness, satisfy demand and better leverage their expertise. To assist our clients, our professionals have in-depth knowledge of the issues driving change in the various sectors of the financial services industry.

This knowledge, combined with our specialised skills, enables us to design and implement cost-effective multidisciplinary solutions to meet the challenges and opportunities facing our clients.

We act as auditors to more financial services companies in South Africa than any other professional services firm.

The leadership of our Southern African Financial Services practice would be pleased to hear from you.

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