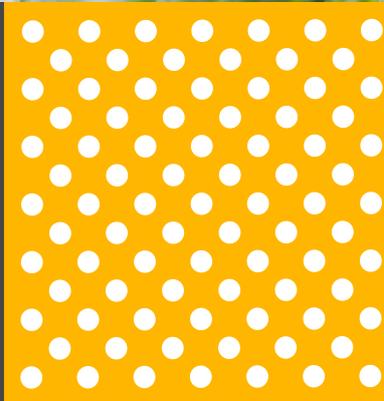


Sustainability of retirement funds



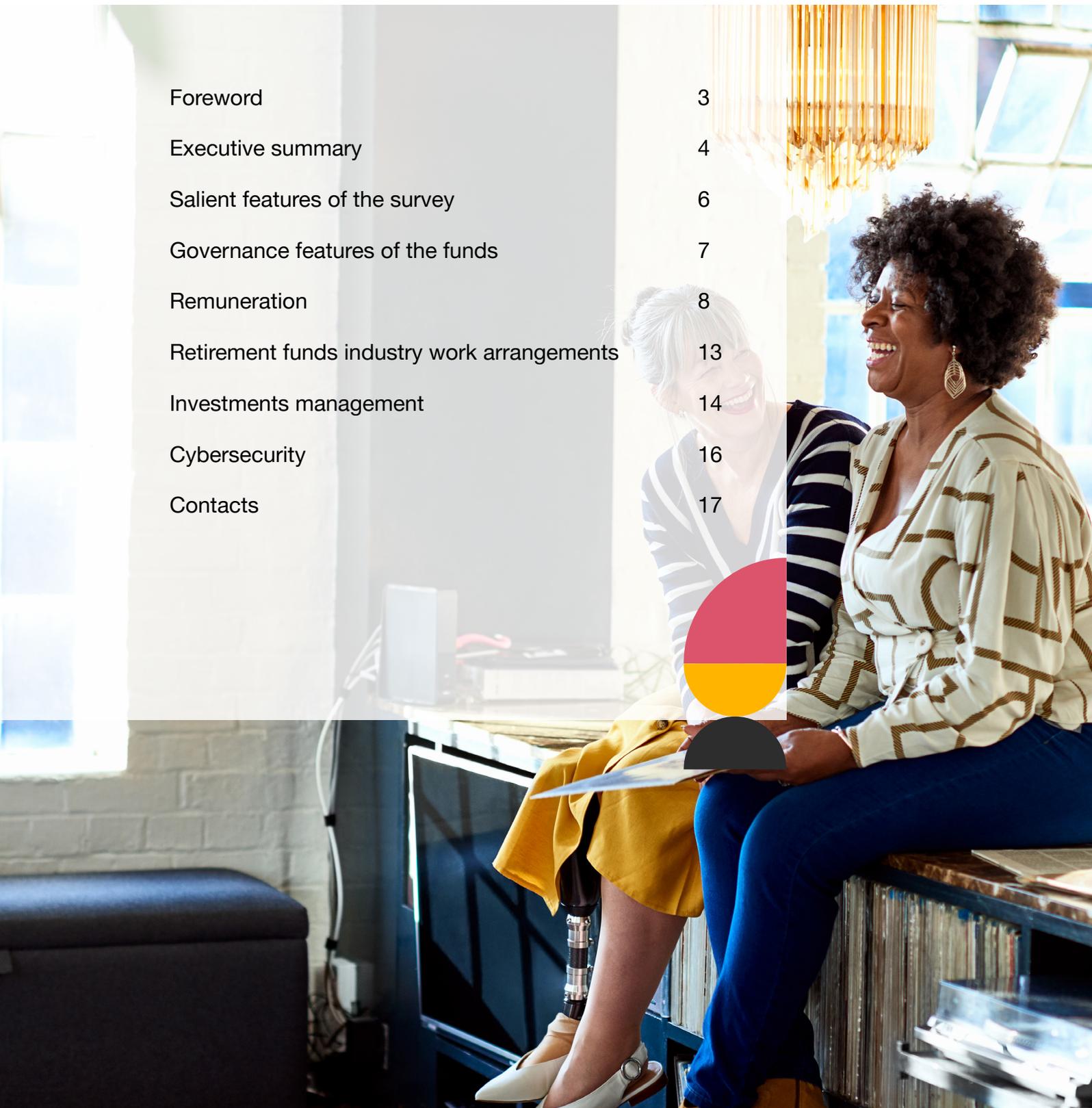
Retirement Funds Survey | Seventh edition

April 2023



Table of contents

Foreword	3
Executive summary	4
Salient features of the survey	6
Governance features of the funds	7
Remuneration	8
Retirement funds industry work arrangements	13
Investments management	14
Cybersecurity	16
Contacts	17



Foreword

We are delighted to present the results of our seventh Retirement Funds Survey. The findings of the survey are based on responses received from 60 funds, 25% of which have assets greater than R10bn, 68% have assets greater than R50m but less than R10bn and the remainder were funds with assets less than R50m.

Our retirement fund specialist group designed and conducted the survey. Many of the questions were retained from previous surveys to enable us to identify and benchmark unfolding trends, and new questions were introduced in order to understand how funds are reacting to changes in the industry.

This report covers the following focus areas:

- fund officials' activities, their remuneration, and work arrangements;
- investments management; and
- cyber security.

I wish to thank all respondents for their generous contribution of time, information, and insights, which have made this report possible. As with previous surveys, individual responses will remain confidential.

However, if there are any aspects of the data and our analysis that are of special interest to you, please contact us. Where possible, we will gladly extract such information for you on an aggregate basis.



Julanie Basson

Retirement Funds Leader
PwC South Africa
11 April 2023

Executive summary

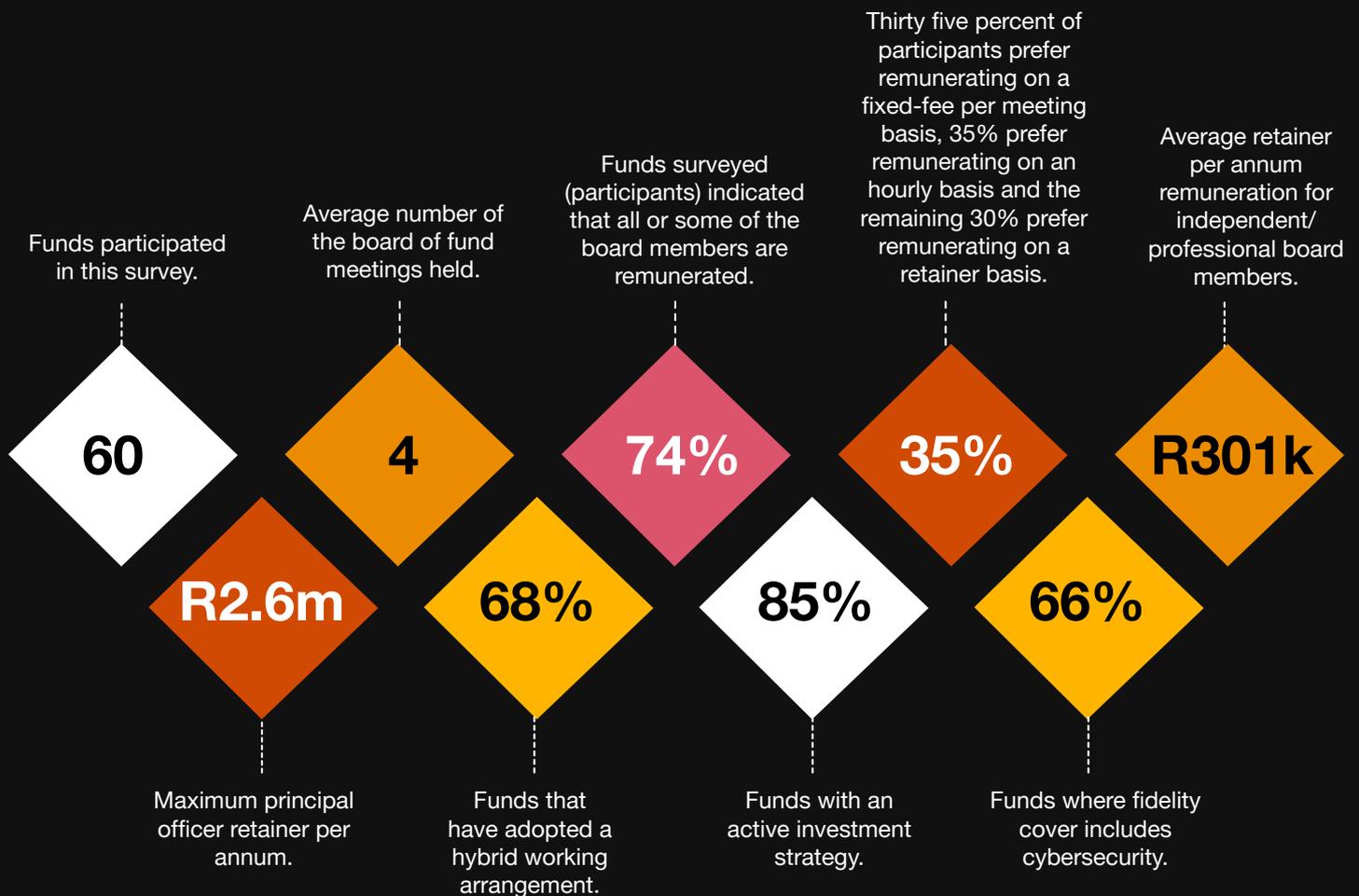
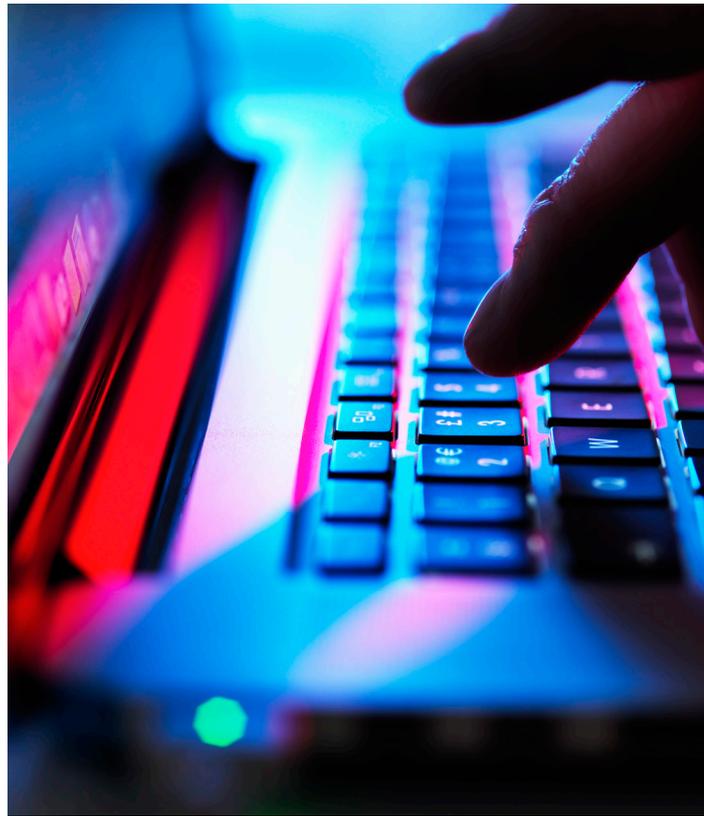
Sustainability of retirement funds

The retirement funds industry has experienced significant regulatory changes over the past couple of years. It is important for the Board of Fund (“board”) to stay abreast of changes in the industry while at the same time addressing the needs and well-being of their members. The sustainability of a retirement fund requires a knowledgeable and well-equipped board, supporting sub-committees and service providers that best suit the needs of the fund. Interestingly, the number of board members has on average decreased compared to the 2020 survey from nine to eight and independent board members have also decreased from an average of three to two. Proper governance comes at a price. We noted an increase in the number of respondents who indicated that their board members are remunerated, from 47% in our 2020 survey to 74% in our 2023 survey. We also observed a steady increase in the average remuneration paid to board members from our 2020 survey. In line with the previous survey findings, specialised funds all remunerate their boards.

Service providers to a fund include, among others, fund administrators and asset managers. We noted that more than 32% of respondents indicated that the fund’s investments are managed by more than 20 asset managers and more than 95% are administered by a professional service provider. Only 25% of funds have less than 10 asset managers. One of the board’s responsibilities is to ensure that proper internal control systems are employed by or on behalf of the fund. Outsourcing a service to a service provider does not eliminate the board’s responsibility regarding the maintenance of proper internal control systems. Obtaining and reviewing International Standard on Assurance Engagements 3402 reports of professional service providers can provide the board with valuable insights into the control environments of both the asset managers, where the fund invests members’ retirement savings and administrators, who perform the day-to-day operations of the fund.



Advancement of technology comes with the risk of cyber-attacks/threats and the need for the fund to have cyber security/data protection cover. We noted that some respondents have included this cover in the fidelity insurance policy, but 34% of funds had no cybersecurity cover. The maximum level of cover observed was R5m.



Salient features of the survey

Our seventh Retirement Fund Survey is based on responses received from 60 funds, 25% of which have assets greater than R10bn, 68% of which have assets greater than R50m but less than R10bn, and the remainder were funds with assets less than R50m.

Of the 60 participants, 27 were stand-alone funds and 33 were made up of specialised funds (umbrella, preservation, and retirement annuity funds).

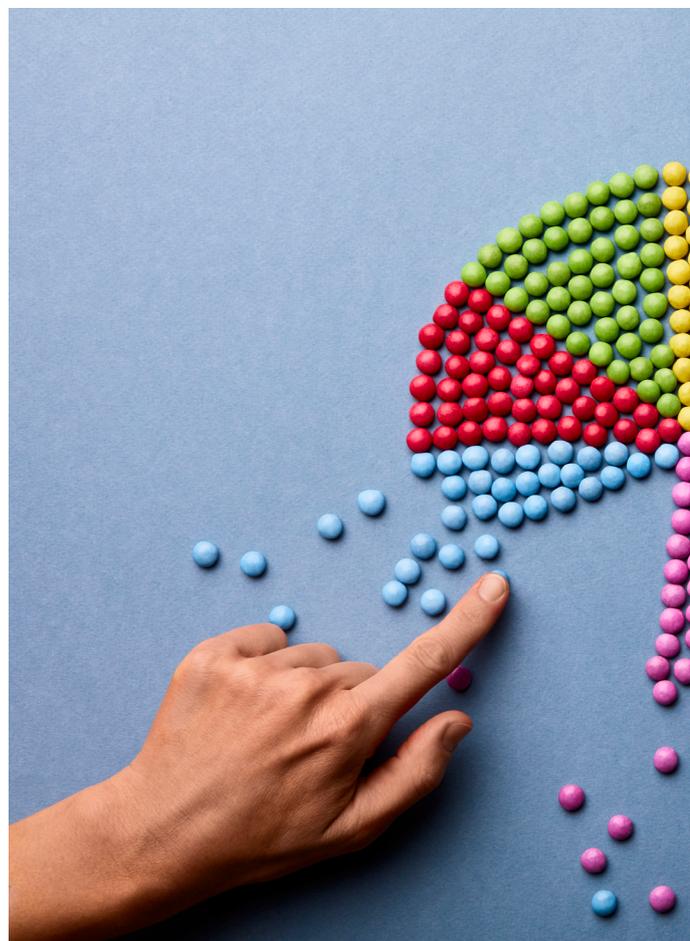


Table 1: Participating funds (count)

	2023	2020
Stand-alone funds (funds that serve a single employer)	27	21
Specialised funds	33	29

Table 2: Asset base of respondents (count)

	2023	2020
Large public interest entity funds (assets greater than R10bn)	15	13
Large non-public interest entity funds (assets greater than R50m but less than R10bn)	41	37
Medium funds (assets greater than R6m but less than R50m)	3	-
Small funds (assets less than R6m)	1	-

Governance features of the funds

Number of board members

Boards have on average eight members compared to an average of nine members in 2020. An average of two of those members are independent compared to three in 2020.

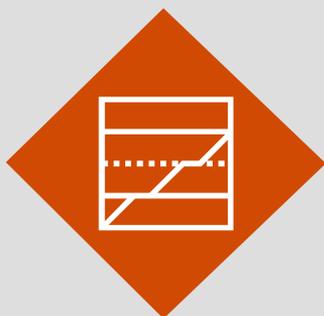
Sub-committees

Majority of the participants have the following sub-committees:

- audit and risk;
- investments;
- benefits;
- death; and
- communication.

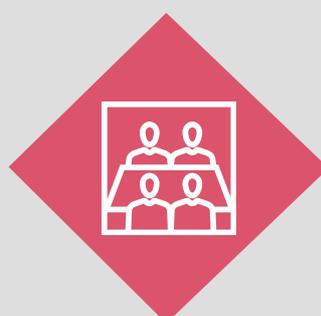
One fund has established an environmental, social, and governance sub-committee.

These sub-committees meet on average four times a year for three hours per meeting.



Administration

Ninety-five percent of the funds surveyed are administered by a professional service provider and the remaining 5% are self-administered.



Number of board meetings

On average four board of fund meetings are held during the year by the boards and those meetings run for an average of six hours per meeting.

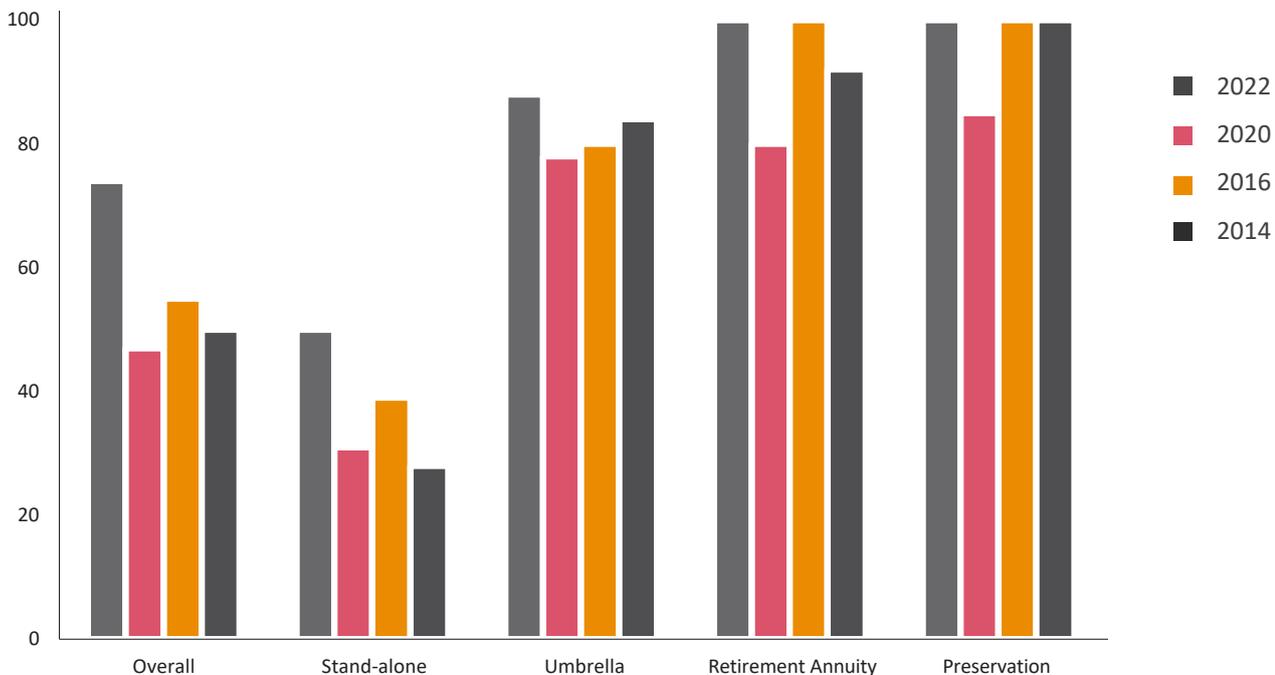


Remuneration

Remuneration of board members

According to the survey conducted in 2020, 47% of the participants reported that some or all members of the board were compensated. In 2023, this figure increased to 74%, 58% of which indicated only for independent or professional board members, while 16% reported compensation for all board members. Meanwhile, 26% of participants reported that no board members received compensation. As with previous surveys, if respondents indicated that board members were not remunerated, we asked them to indicate why not. In most cases the reason given was that board members were already employed by the employer or the sponsor and no additional remuneration was considered necessary.

Figure 1: Remuneration of board members by fund type (% remunerated)



Source: PwC analysis

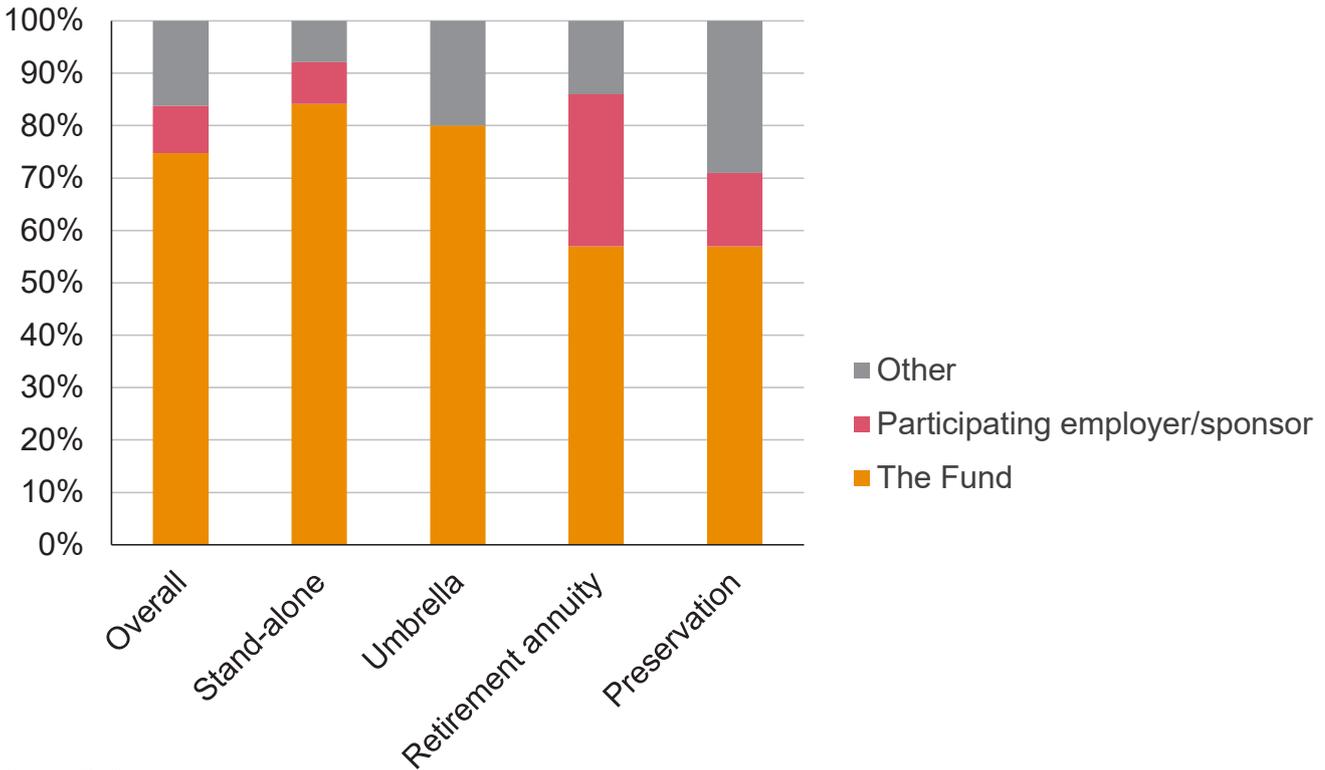
Responsibility for setting remuneration

The board or board sub-committee is responsible for setting the level of remuneration for 49% of the participants that indicated that their board members are remunerated. For 51% of the funds, the level of remuneration is set by the participating employer or sponsor.

Responsibility for paying remuneration

Seventy-five percent of the participants indicated that the fund is responsible for paying the remuneration of board members, and 9% indicated that the remuneration is paid by the participating employer/sponsor. Sixteen percent indicated a combination of responsibility for paying remuneration between the fund for independent board members and the sponsor for sponsor-appointed members. One participant indicated that board members are remunerated using an employer surplus account.

Figure 2: Responsible party for paying remuneration to the board



Source: PwC analysis

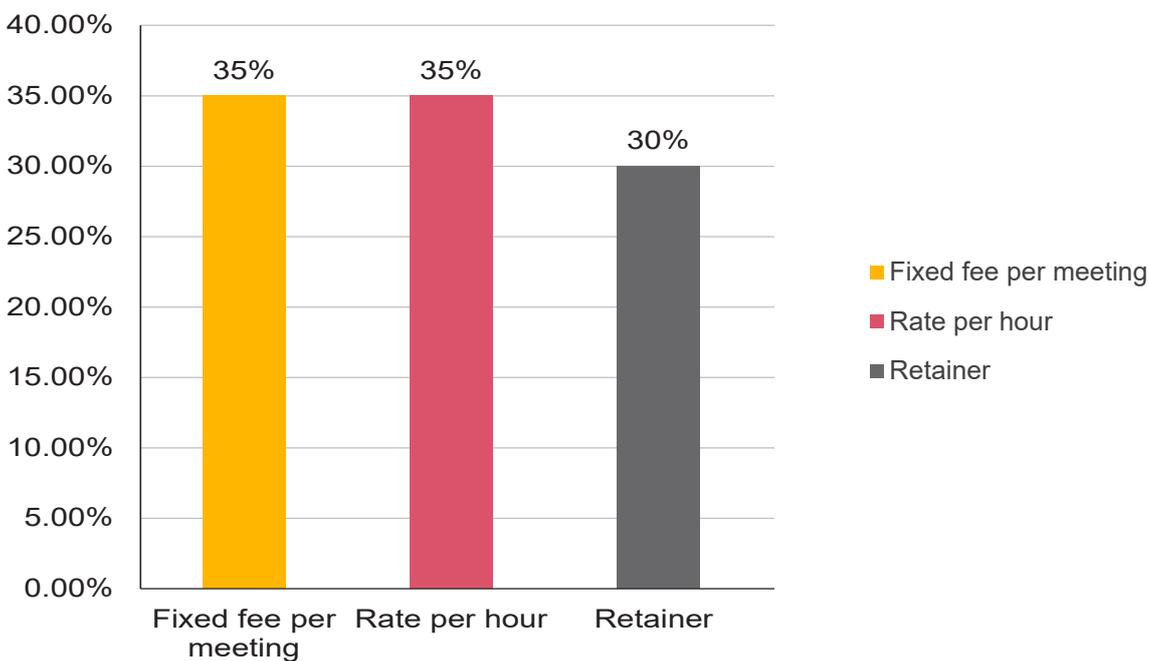
Frequency of remuneration review

In line with the findings from previous surveys, an annual review or benchmarking of remuneration takes place in most cases (88%).

Basis of remuneration of board members

We noted an equal split between funds remunerating on a fixed-fee per meeting basis and an hourly basis. The remaining 30% of the participants remunerate board members on a retainer basis.

Figure 3: Basis of remuneration of the board members



Source: PwC analysis

Average remuneration for board members

The table below depicts the average and maximum remuneration earned by chairpersons, independent/professional, employer and member elected board members for serving on the board.

Table 3.1: Average and maximum remuneration of board members for serving on the board

Chairperson	2023				2020			
	Stand-alone funds		Specialist funds		Stand-alone funds		Specialist funds	
	Average	Maximum	Average	Maximum	Average	Maximum	Average	Maximum
Retainer per annum	R375,550	R612,800	R422,463	R683,600	R337,333	R600,000	R387,351	R670,000
Fixed fee per meeting	R7,970	R15,000	R8,237	R15,000	R5,583	R11,625	R6,904	R11,500
Rate per hour	R3,782	R3,800	R3,909	R5,275	R3,500	R3,550	R3,452	R3,650
Increase of the rate per hour (3 years)	8.1%		13.3%					

Independent/ professional board member	2023				2020			
	Stand-alone funds		Specialist funds		Stand-alone funds		Specialist funds	
	Average	Maximum	Average	Maximum	Average	Maximum	Average	Maximum
Retainer per annum	R301,046	R499,992	R301,190	R410,159	R294,000	R550,000**	R274,363	R402,432
Fixed fee per meeting	R7,066	R9,600	R7,300	R10,000	R5,545	R9,590	R6,894	R9,460
Rate per hour	R3,178	R3,200	R4,503	R4,748	R3,000	R3,100	R4,270	R4,500
Increase of the rate per hour (3 years)	5.9%		5.5%					

Employer/member elected	2023				2020			
	Stand-alone funds		Specialist funds		Stand-alone funds		Specialist funds	
	Average	Maximum	Average	Maximum	Average	Maximum	Average	Maximum
Fixed fee per meeting	R6,133	R11,000	R6,950	R10,400	R3,191	R4,800	R3,323	R4,690
Rate per hour	R1,922	R2,750	R2,083	R3,467	R1,850	R2,200	*	*
Increase of the rate per hour (3 years)	3.9%							

* No amount indicated by any of the participants

** The 2020 comparative relates to a specific fund which did not participate in the 2023 survey.

Source: PwC analysis

In the 2023 survey, we asked participants to indicate the level of remuneration paid to pensioners representatives. The average and maximum remuneration for pensioner representatives for serving on the board are indicated below.

Table 3.2: Average and maximum remuneration of pensioner representative for serving on the board

Pensioner representative board member	2023	
	Stand-alone funds	
	Average	Maximum
Fixed fee per meeting	R7,950	R13,700
Rate per hour	R2,013	R3,425

Average remuneration for serving on sub-committees

The table below depicts the average fee per meeting earned by chairpersons, independent/professional, and employer and member elected board members for serving on sub-committees.

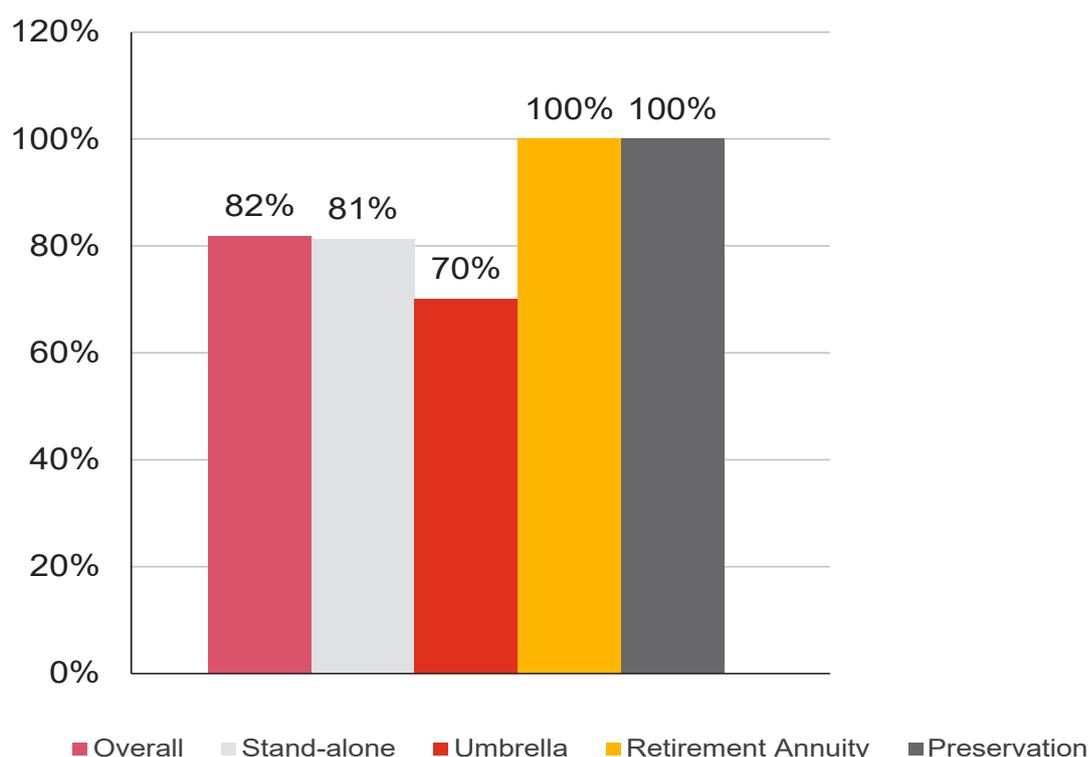
Table 4: Average fee per meeting earned by board members for serving on sub-committees

Fee per meetings	2023				2020			
	Stand-alone funds		Specialist funds		Stand-alone funds		Specialist funds	
	Average	Maximum	Average	Maximum	Average	Maximum	Average	Maximum
Chairperson	R6,197	R12,020	R7,015	R13,500	R5,842	R11,625	R5,264	R8,555
Increase of the rate per hour (3 years)	6.1%		33.3%					
Independent/ professional board member	R5,525	R9,595	R6,846	R9,600	R5,113	R9,590	R6,746	R8,500
Increase of the rate per hour (3 years)	8.1%		1.5%					
Employer/member elected	R3,733	R5,400	R6,170	R10,000	R2,850	R4,800	R3,050	R4,600
Increase of the rate per hour (3 years)	31.0%		102.3%					

Remuneration of principal officers

Eighty two percent of the respondents indicated that the principal officer of the fund is remunerated. In instances where the principal officer is not remunerated, this was a result of the principal officer being an employee of the participating employer. The principal officers remuneration is determined by the board 52% of the time, by a participating employer 46% of the time, and delegated to a sub-committee 2% of the time. Ninety percent of the time the principal officer's remuneration is reviewed annually.

Figure 4: Remuneration of principal officer by fund type (% remunerated)

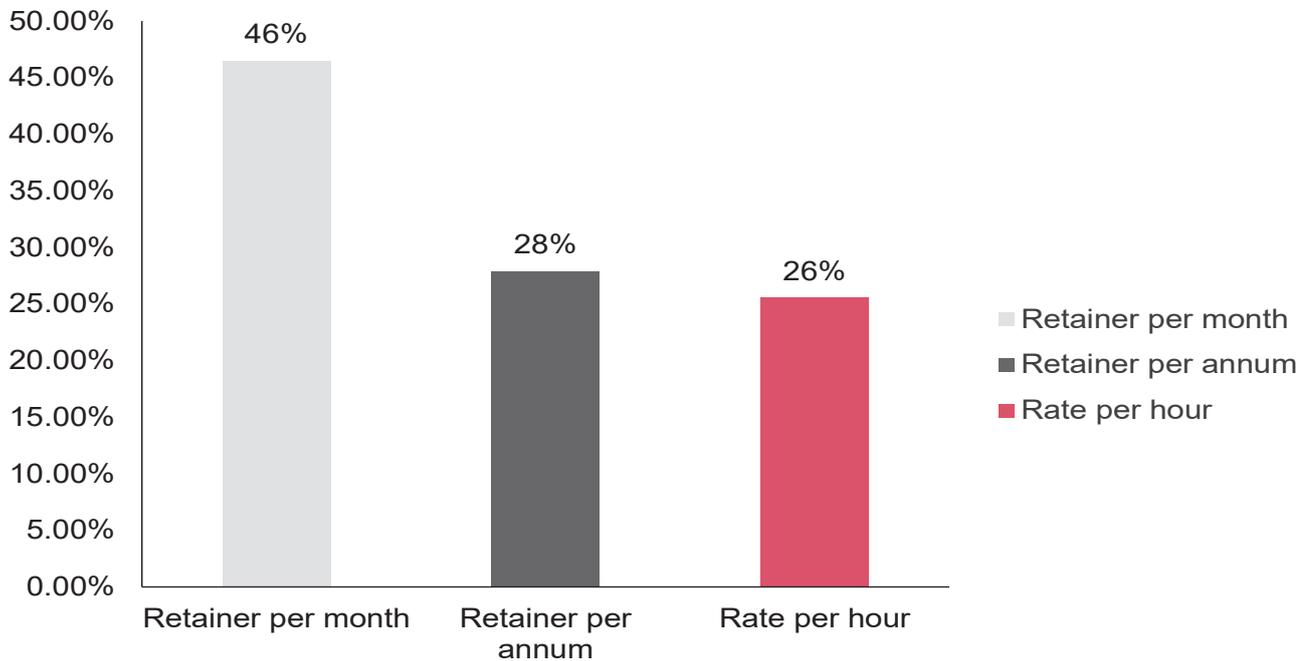


Source: PwC analysis

Basis of remuneration of the principal officer

The majority of the respondents prefer remunerating the principal officer using a retainer per month.

Figure 5: Basis of remuneration of the principal officer



Source: PwC analysis

Average remuneration for a principal officer

The table below depicts the remuneration earned by a principal officer

Table 5: Remuneration for principal officer

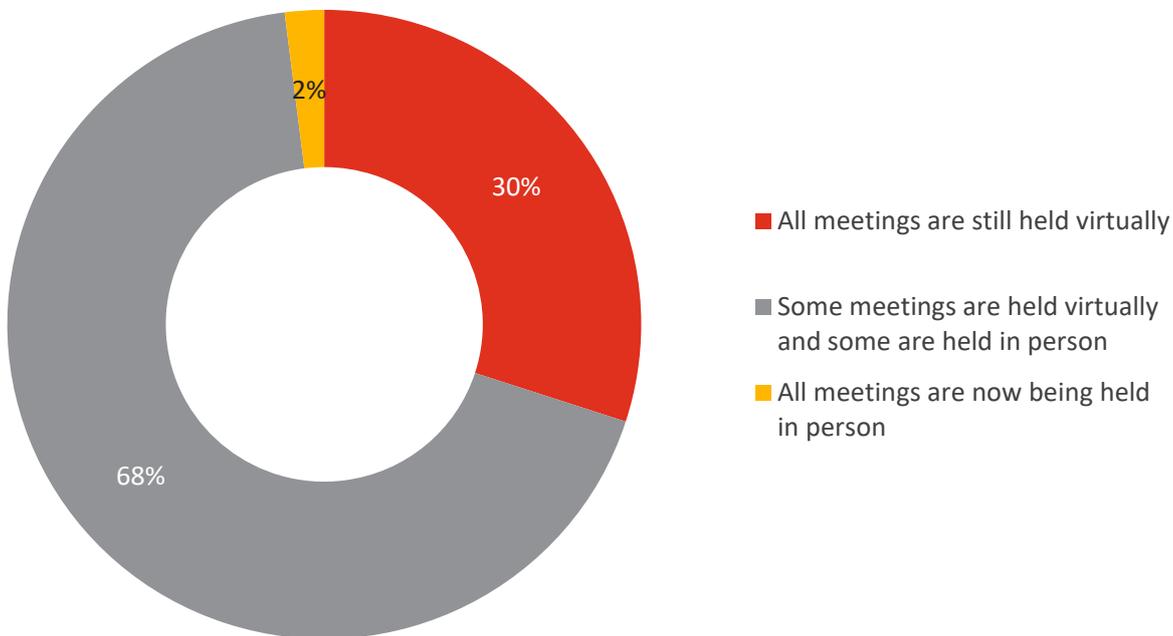
Remuneration type	2023				2020			
	Stand-alone funds		Specialist funds		Stand-alone funds		Specialist funds	
	Average	Maximum	Average	Maximum	Average	Maximum	Average	Maximum
Retainer per annum	R730,904	R2,000,000	R1,043,721	R2,649,908	R594,339	R1,846,000	R1,543,759	R2,600,000
Rate per hour	R1,465	R1,950	R1,675	R3,050	R1,266	R1,500	R1,318	R1,353
Increase of the rate per hour (3 years)	15.7%		27.1%					

Source: PwC analysis

Retirement funds industry work arrangements

The COVID-19 pandemic has certainly had an impact on the way we do business. Adoption of hybrid working arrangements is visible in the retirement funds industry with 68% of respondents indicating that some meetings are held virtually and some are held in person. Only 2% indicated that all meetings are now once again being held in person.

Figure 6: How are meetings being held since 1 January 2022?



Source: PwC analysis



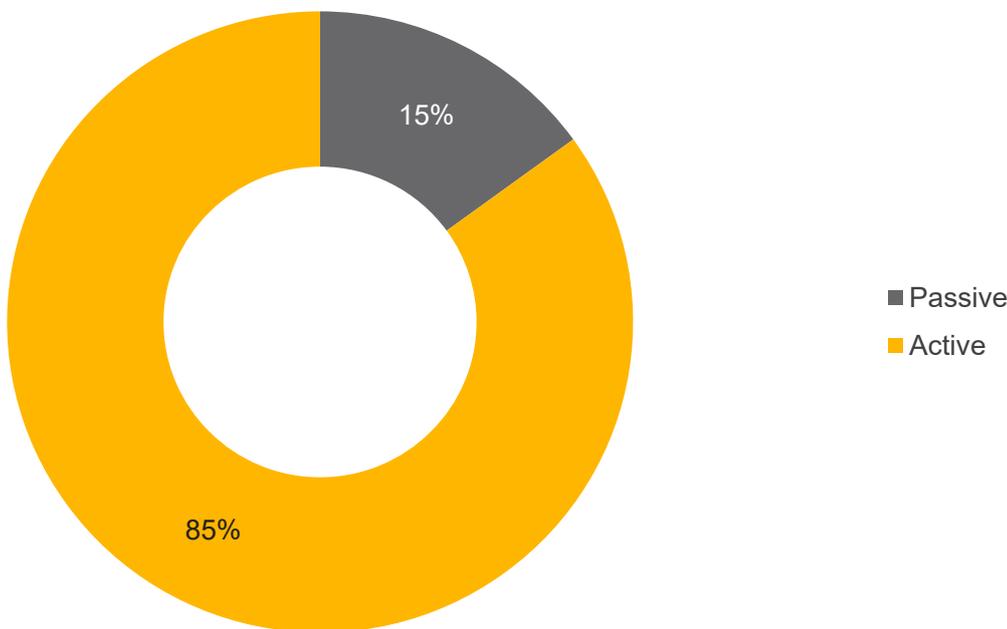
Investment management

Investment strategy

In terms of Regulation 28, a fund must have an investment policy statement, which must be reviewed at least annually. This investment policy statement, among others, describes the fund's general investment philosophy and objectives as determined by its

liability profile and risk appetite. Among the survey respondents, the active investment strategy is favoured over the passive investment strategy, with 85% of the participants indicating that the active strategy best describes their fund's investment strategy. We noted that the majority of the participants with a passive investment strategy have less than five asset managers.

Figure 7: Which strategy best describes the fund's investment strategy?

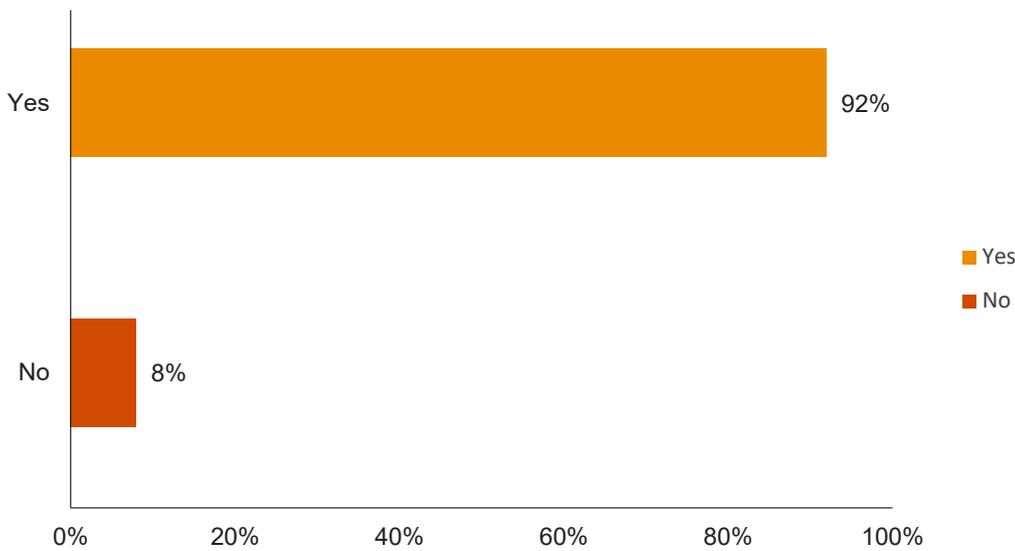


Source: PwC analysis

Regulation 28(2)(c)(ix) requires boards to consider environmental, social, and governance (ESG) factors before investing in an asset. In 2019 the Financial Sector Conduct Authority published Guidance Notice: Sustainability of investments and assets in the context of a retirement fund's investment policy statement.

The primary purpose of the guidance notice is to provide insight into how a fund's investment philosophy and objectives, as reflected in its investment policy statement, should seek to ensure the sustainability of its investments and assets. Ninety-two percent of respondents indicated that their fund's latest investment strategy took into account ESG principles.

Figure 8: Has the latest investment strategy of the fund taken into account the environmental, social, and corporate governance (ESG) principles?



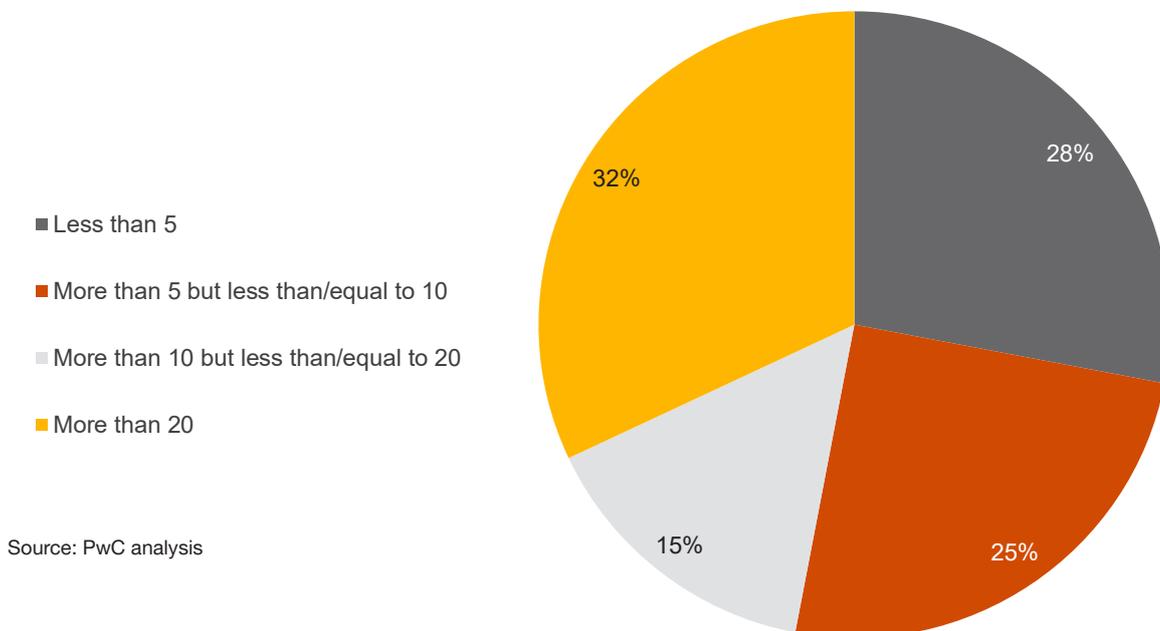
Source: PwC analysis

Investments of a fund are in most cases managed by asset managers. We asked respondents to indicate the number of asset managers that manage investments of the fund. More than 32% of respondents indicated that the fund’s investments are managed by more than 20 asset managers. It can be questioned whether diversity can be achieved more efficiently through changes in mandates with fewer asset managers, with reduced asset manager costs, rather than employing more than 20 asset managers. This increasing number of asset managers places greater responsibility on the board to ensure that the control environments of the underlying asset managers remain appropriate. This could be performed through the review and monitoring of the underlying asset managers’ International Standard on Assurance Engagements 3402 reports (ISAE 3402

reports) and/or internal audit reports.

There are two different types of ISAE 3402 reports. These are referred to as Type I and Type II reports. A Type I ISAE 3402 report covers the evaluation (existence and design) of controls in operation at a point in time and is considered to be of limited use as it does not cover the operating effectiveness of the controls over a period of time. Alternatively, a Type II report covers the evaluation and operating effectiveness of controls for a period of time (generally not less than 6 months and not more than 12 months). Obtaining the ISAE 3402 reports from a fund’s asset manager can provide the board with valuable insights into the control environment of the asset manager where the fund invests members’ retirement savings.

Figure 9: Number of asset managers managing the investments of the fund

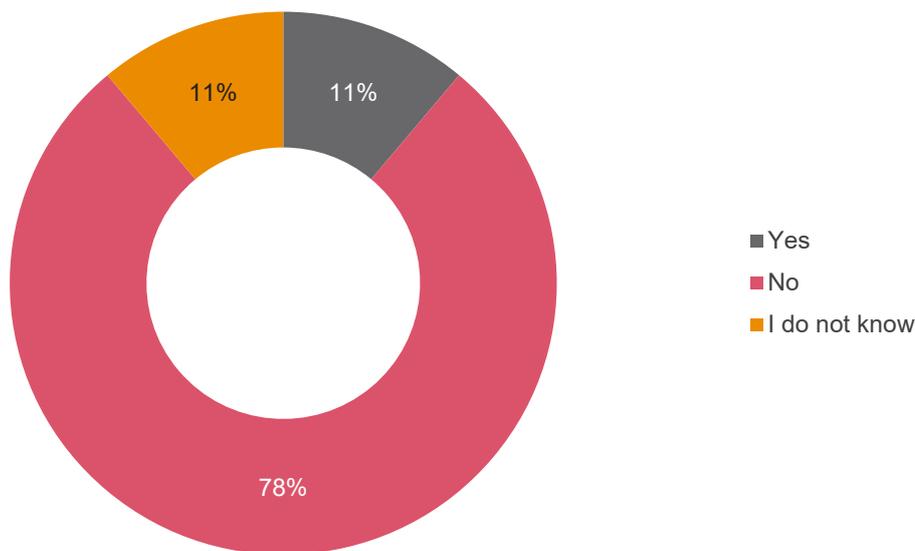


Source: PwC analysis

Cybersecurity

Given that most entities have significant integration between their business model and information technology, cybersecurity threats and/or attacks have been on the rise. We asked participants if their funds and/or service providers of the fund have had a cybersecurity threat and/or attack during the most recent financial year. Eleven percent of the participants indicated that their fund and/or service provider has had a cybersecurity threat and/or attack during the most recent financial year of the fund whilst 11% did not know.

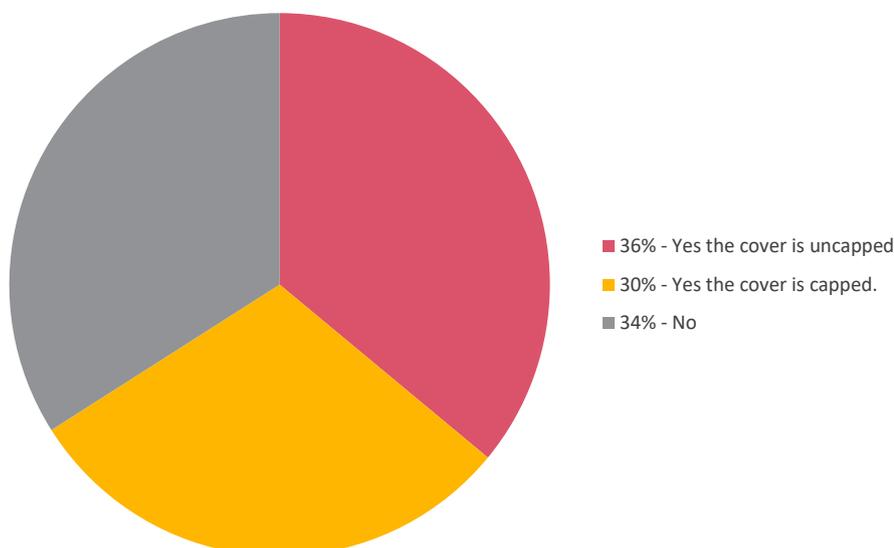
Figure 10: Participants who indicated that the fund/or a service provider of the fund had a cybersecurity threat and/or attack during the most recent financial year



Source: PwC analysis

Cybersecurity threats and/or attacks have resulted in an increasing need to have cybersecurity cover. This is an insurance policy which helps manage the impact of cyberattacks on the operations of an entity. Sixty-six percent of the participants indicated that the fund's fidelity cover includes cyber security/data protection. Thirty-six indicated that the cover is uncapped while 30% indicated that the cover is capped. Where the cover is capped, the cap amount ranged from R100,000 to a maximum of R5m.

Figure 11: Does the fund's fidelity cover include cybersecurity/data protection cover



Contacts



Nolwazi Radebe

PwC Associate Director
Mobile: +27 (0) 61 433 9960
Email: nolwazi.radebe@pwc.com



Julanie Basson

PwC Partner/Director
Mobile: +27 (0) 82 467 5944
Email: julanie.basson@pwc.com



Verwey Wiese

PwC Partner/Director
Mobile: +27 (0) 83 232 3149
Email: verwey.wiese@pwc.com



Clinton Mitchelson

PwC Partner/Director
Mobile: +27 (0) 82 490 1315
Email: clinton.mitchelson@pwc.com



Johannes Grove

PwC Partner/Director
Mobile: +27 (0) 82 466 9776
Email: johannes.grove@pwc.com



Paul Liedeman

PwC Partner/Director
Mobile: +27 (0) 83 457 9509
Email: paul.liedeman@pwc.com

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