ACRAVEST QUARTERLY BULLETIN

2ND ISSUE - DECEMBER 2021

IMPORTANT NOTICE: BENEFIT PAYMENTS MADE TO THE ESTATE AND ADVANCING PAYMENTS

Please note that the definition of beneficiary has recently been amended in the Long Term Insurance Act, which impacts the payment of Unapproved Death and Funeral benefits. An employer may no longer determine the beneficiary and benefits cannot be paid directly to the employer. This means that an insurer may not accept an employer resolution instructing them who to pay, nor may an employer advance a payment and ask the insurer to reimburse them. Where no beneficiary has been specified on the beneficiary nomination form or where no beneficiary nomination form has been completed, the insurer will pay the Death Benefit and/or the Funeral Benefit to the Insured Person's estate. It is, therefore, critical that each member completes an updated insurer beneficiary nomination form and that this is kept up to date and on record with the employer. The most recent and updated insurer beneficiary nomination form must be presented to the insurer in the event of a claim.

THE RETIREMENT FUND LANDSCAPE, A QUICK OVERVIEW OF MAIN DEVELOPMENTS

Access for members, to their retirement savings: The minister of finance announced the government's intention to provide access for members of retirement funds to their savings in cases of financial hardship. Although the amount of money collectively governed by retirement funds seems high, members of these funds are not covered adequately in terms of ability to retire. It takes a long time for an employee (40 years) to accumulate savings that will provide an income at retirement at a reasonable level relative to the last salary from employment at date of retirement. Research shows that the average member of a retirement fund only saves enough to replace 25-30% of that final retirement salary, mainly due to leakage when members change employers and gain access to their funds. Providing further access to this nest egg prematurely, will not support the main purpose of retirement funds.

Warning: Members should utilise the Acravest mobile APP, where each member can view how much of their expected salary at retirement they can expect to replace with income from their retirement capital at that point, if continuing with current strategy, before considering the early utilisation of this critical asset.

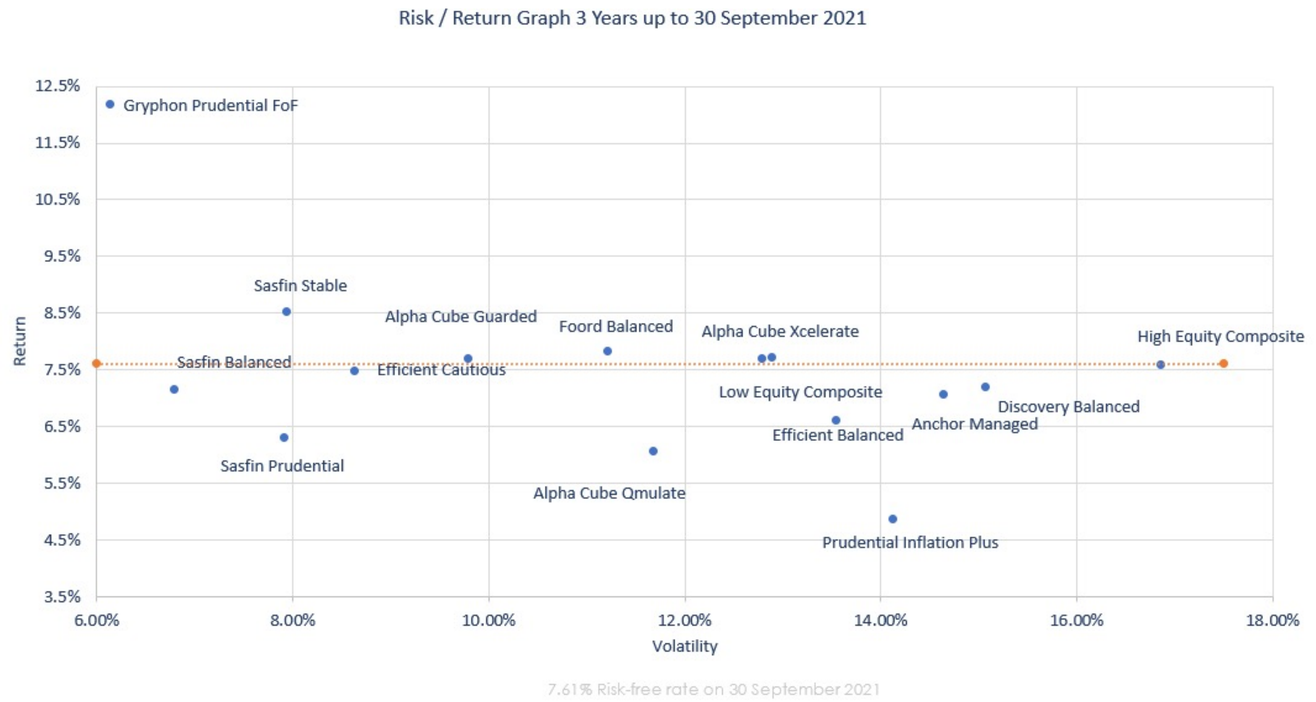
Provident fund retirement benefits restrained: The restrictions on retirement benefits introduced for provident funds (1 March 2021), deserve to be mentioned here. These restrictions will reduce leakage of money from a highly tax incentivised system. Incentives here, of course are funded by the tax payer. The long term aim of the incentives is to reduce the burden that the aged put on the State's balance sheet. This change also opened the door for the consolidation of pension funds and provident funds, enhancing the opportunity to unlock benefits for members from the economies of scale that will flow from such a consolidation.

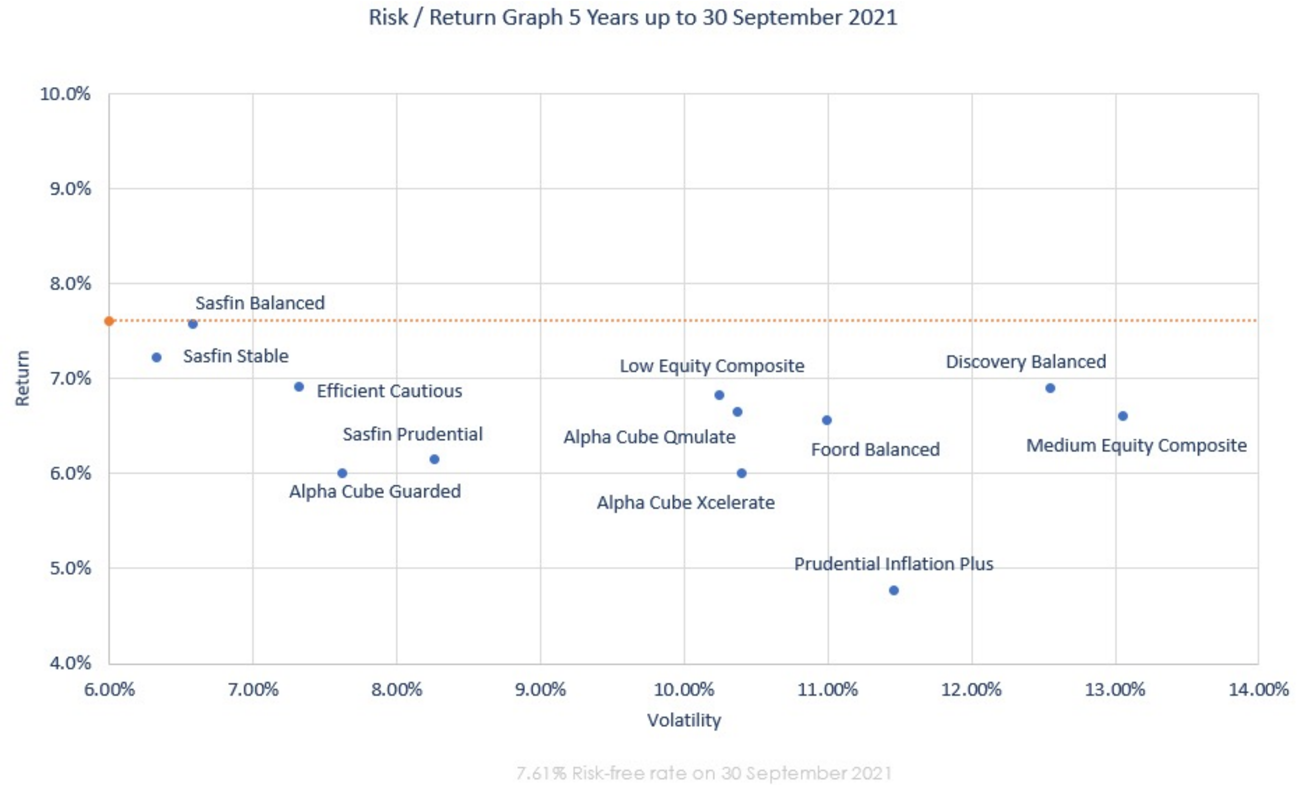
Financial Sector Restructure: The restructuring of the whole of the financial sector in South Africa is happening in the background. The so-called twin peaks model was introduced and are progressing well in terms of implementation. The latest step forward is a new piece of legislation consolidating concepts and components that is already applied via multiple codes and pieces of legislation across the financial sector. This piece of legislation is called the Conduct of Financial Institutions Bill (It will soon become an Act). A second draft has been published for comment in September 2020. The aim here is to have the whole of the financial sector subjected to one conduct standard. The act specifically includes retirement funds. From a very broad perspective, the act is very much about governance and treating customers fairly but it also includes matters such as transformation and standardizing licensing for providers.

National savings Strategy: Lastly, the government wants to implement a national saving strategy, which has the good intention of ensuring every employed person becomes a member of a retirement fund. The design features however includes that current members of retirement funds will also be obliged to join this strategy for a defined component of their salary. Within this design, there are strong cross subsidisation features between members which could have the outcome that some of the burden to provide benefits to all, will be placed on the shoulders of a component of the membership in this strategy.

INVESTMENT FEEDBACK

Scatterplots showing the last 3 year & 5 year statistics:





As usual, we reflect on the performance of investment strategies on our investment platform. We are seeing on-risk strategies moving above the risk free rate (the dotted line around the 7.5% return mark) on the 3 year scatter plot. We are emerging from a long period in which we experienced to not being remunerated for taking on investment risk.

Investment discussion:

Navigating investment portfolio strategies and making sense of how current events across the world will influence variables that drives financial market valuations is becoming increasingly challenging.

On the positive side of considerations, the world is recovering from the COVID pandemic and the demand side of economies are showing resilience on the back of substantial fiscal stimulation from developed world governments, with more still planned. Together with this, interest rates are kept low by central banks, which further stimulate economic activity.

On the negative side of considerations, Government debt burdens are growing as a % of economic output (moving the cost of current strategies to future generations), prices of goods and services are increasing as a result of supply chain bottlenecks as well as an increase in the cost of energy which is driven by an increase in oil and gas prices. There is also the trade tensions between the USA and China, with the battle for the independence of Taiwan introduced into that mix.

From a South African perspective, we have structural shortcomings and ideological policies that hamper fixed investment into the economy, resulting in a low potential for sustainable economic growth and sustained high unemployment.

It is important for investment professionals to seek assets that will sustain through these conditions to ensure long term growth in the portfolios. The emphasis here is long term. Members need to view their investment strategies from a long term perspective, as the real value of quality assets may take time to realise. A short term view in these conditions may lead to value destruction.