PSSPF maintains good returns for members

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One of the sound achievements by the Private Security Sector Provident Fund (PSSPF) under the present market conditions was attaining a 14,98 per cent average annualised return on investment for its members over the last four years.

The investment approach by the Private Security Sector Provident Fund involves employing assets liability modelling which first looks at what the PSSPF's obligations in monetary terms are towards its members.

"Can we today, in theory satisfy everyone needing their monies from the fund? Would the fund be able to meet that commitment financially? Is there enough money available to pay out each individual's share of the investment? That is the first test the fund applies to make sure that it is always financially sound.

"That process is not as simple as choosing some investment portfolios and expecting a return. The PSSPF starts by analysing a few aspects with implications on its stakeholders, such as certain demographics of member's age and how many years do they have left until retirement," said **Costa Diavastos**, chairperson of the PSSPF Investment Committee.

According to Mr Costa, members must be paid out proper retirement benefits upon reaching the age of 65. The fund's approach is to look at how many years members have until retirement. This is also with the realisation that at least 90 per cent of all the members existing on the fund leave the industry long before retirement and only a few remain invested until retirement.

"The above impacts on the decision of how long should the fund invest members' monies, bearing in mind that a retirement fund has a long-term view on investment. The fund is not investing to make quick money in a short period of 6-12 months. The aim is to achieve real positive returns to the members over 10, 15 and 20-year periods. But if members leave the fund after three or five years, that changes the way the fund decides to invest, monies or should it rather take a short-term investment approach? Those are the odds with the principles of retirement funding, he said.

He indicated that the fund is proactive in dealing with the fund's asset managers and considering sound advice. The investment sub-committee moves quickly in identifying a particular asset manager or class that is not doing so well and advise the board accordingly, so that immediate action is taken in moving to a better performing investment portfolio.

He added that the fund prefers broadening its asset portfolio by investing in stock,

Costa Diavastos

shares, cash and cash-like products when making investment choices.

"By doing so, the fund minimises the risk and in getting a combination of local and off-shore investments, it capitalises on benefits inside and outside the country," he added.

He highlighted that the fund maintains a balance in considering local and off-shore investments.

"There are five good reasons why the fund also invests off-shore, namely asset and liability matching, tactical asset allocation, diversification, access to unrestricted currency and sovereign risk," he said.

Mr Costa also revealed that the past 12 to 18 months have been an exciting chapter for the PSSPF, as the fund has been exploring investment opportunities in property and diversification across Africa.

"Africa's perceived attractiveness has improved dramatically over the years. The continent has moved from third from the bottom position in 2011 to become the second most attractive investment destination in the world. We have commenced with the selection of property asset managers in Africa, and as a result there has been real good performance over the past three years," he said.

He emphasised that the fund focuses on environmental and social issues with regards to social responsible investing and Black Economic Empowerment (BEE). He indicated that BEE comes into the framework on various levels, i.e. when the fund selects the service providers and asset managers who should have BEE credentials before being considered to render services to the fund.

"The asset manager companies have portfolios where the fund can see their top 10 clients and top 20 holdings companies in which they are investing in. The fund ascertains if the asset managers from a BEE perspective invest responsibly in those companies to ensure that there is true transformation, corporate governance and social ethics. We do not want to be entrusting members' monies to asset managers who will deal with unethical companies. We make it our business to keep track of everything that is happening," he added.

Mr Costa said the new retirement reform from the National Treasury, if not managed properly, may have an impact on monies that have been invested. That is, if a considerable number of members decide to leave the fund. With the existing regulation, members are able to access their monies as and when they need to. Whereas when the T-Day comes into effect, members' access to their funds is limited until retirement.

However, the new developments will have a nominal effect on PSSPF members. Some members will not be required to annuitise their retirement benefit as it will be less than the R150 000 threshold stipulated by the National Treasury when they reach retirement, he highlighted.

He further stated that the fund ensures that any investment decision made is understood and endorsed by the board. This happens in various stages, firstly by making certain that the overarching strategy gets the buy-in, and then the investment committee formulates its mandate to guide how the fund will approach any investment activity.

The second process is finding the best category of investment that the fund can invest in. The latter is brought to the consideration of the board for ratification. Once this is attained, the process of monitoring kicks in. This includes monthly reporting to the board on how each manager is performing and also identity areas of under-performance. This strategy is reviewed annually to ascertain if the committee is still on a correct path.

"Considering how well the fund has performed from an investment point of view, the challenge will be maintaining the *status quo* and remaining in that position for the next three-year cycle.

Another challenge is non-compliance and some of the bottlenecks in the administration of the fund. This has an effect on the frequency and the amount that has to be invested. Despite these issues, PSSPF has performed well in realising good returns for its members," said Mr Costa.

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