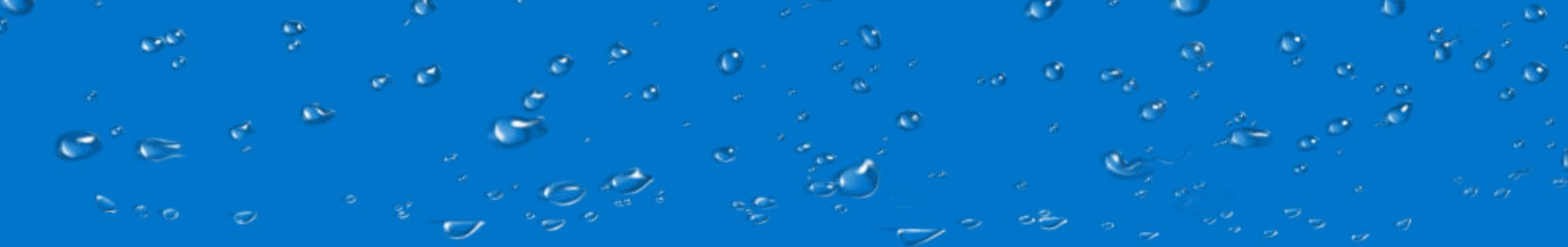




Big Refresh 2015





Why Refresh ?

Why Refresh?



- Sanlam Umbrella Fund = 2008 + tweaks
- Massive environmental pressures
 - ✓ RDR, TCF, T-Day, defaults
 - ✓ Consolidation, standardisation, mandation, governance
 - ✓ Cost disclosures and EAC
 - ✓ Institutional v Retail pressures
 - ✓ FSB focus on umbrella funds
- Desire to lead retirement reform debate
- Market feedback

= IT'S TIME TO STAND UP !



Our Aims



- A better product
- Attract more large employers
- Lead the industry
- Empower intermediaries
- Respect existing commitments



Benchmark Symposium

-forthcoming attractions before end 2015



- ⊗ default investment strategies
- ⊗ default preservation strategies
- ⊗ default annuitisation strategies
- ⊗ employer level replacement ratio reports
- ⊗ mini-fund governance model
- ⊗ asset based pricing options
- ⊗ lower charges
- ⊗ large fund customisation

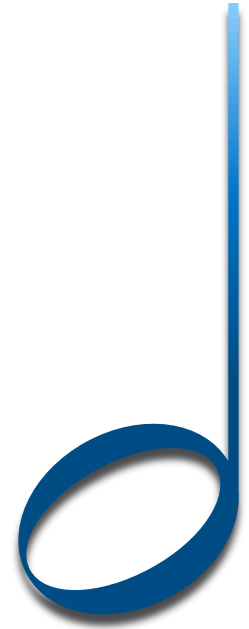
1. Summarise product enhancements
 - a. minima, governance, group risk & retirement planning tools
 - b. investments
2. Optimal product option
3. Default preservation & annuitisation

Revised Minima

(Treating Customers Fairly)



- 20 members or R300 000 API
- Minimum 5% of salaries towards retirement funding





“Perhaps there needs to be a simplified legislative/regulatory solution created within the existing commercial umbrella funds i.e. a two tier structure within the same legal entity (e.g. a mini-fund definition for to-be-defined smaller employers with more streamlined administration services, consulting requirements, intermediary servicing requirements and governance in order to drive down costs and charges).”

Gluckman & Esterhuysen

A critique of the Umbrella Retirement Fund Charging Model

2011

Mini-fund



- ⑤ <50 members and <R5 million assets
- ⑤ Centralised training for member representatives in major centres
- ⑤ Joint Forum requirement relaxed

Risk Insurers

>= 300 member sub-funds



- ⑤ Sanlam & Capital Alliance remain the trustee approved insurers
- ⑤ Other insurers permitted where cheaper provided on identical terms & conditions
- ⑤ Risk Management Fee reduced by 50%

Group Replacement Ratio Tool

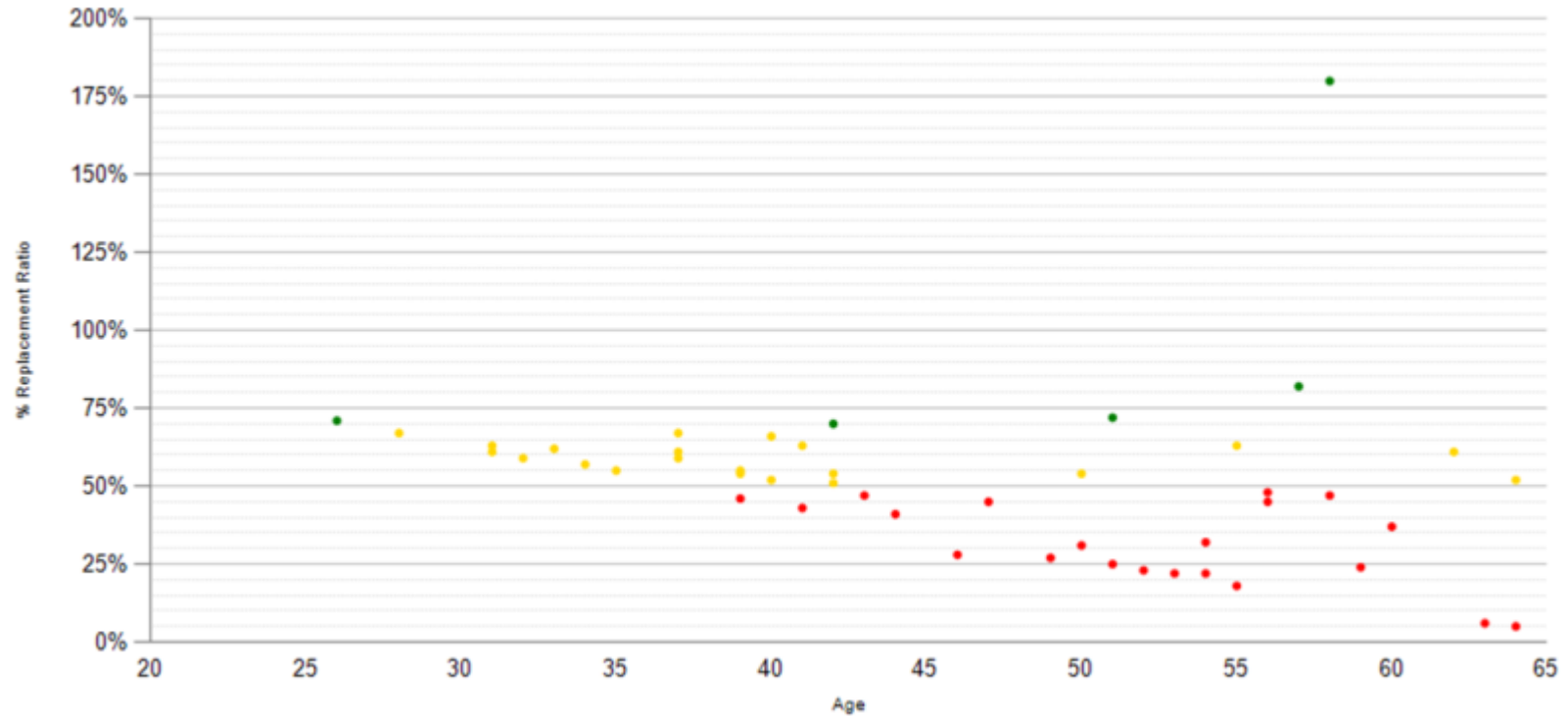


Replacement Ratio Report on 28/05/2015 for Sanlam Umbrella Provident Fund : Benchmark Enterprises

	Member No	Employer Branch	Name	Date of birth	Gender	Member Age	Planned Retirement Date	Pension Salary	Total Gross Contribution %	Total Net Contribution %	Current Member Share	Low Estimate %	Best Estimate %	Optimistic %
●	30151173	Benchmark Enterprises	Amy	15/06/1956	Male	58	30/06/2021	R 30,263	22.50	20.39	R 766,148	166	180	195
●	30150783	Benchmark Enterprises	Benjamin	07/09/1957	Female	57	30/09/2022	R 274,841	22.50	20.58	R 2,903,235	74	82	90
●	30150807	Benchmark Enterprises	Colin	09/09/1963	Female	51	30/09/2028	R 369,903	22.50	20.59	R 2,585,609	61	72	84
●	36823385	Benchmark Enterprises	Duma	22/03/1989	Male	26	31/03/2054	R 272,822	22.50	20.58	R 55,207	53	71	97
●	30150840	Benchmark Enterprises	Erica	27/03/1973	Female	42	31/03/2038	R 283,995	22.50	20.58	R 1,177,302	55	70	89
●	30226348	Benchmark Enterprises	Floppy	03/06/1977	Female	37	30/06/2042	R 229,843	22.50	20.58	R 593,488	51	67	87
●	34173933	Benchmark Enterprises	Leah	31/12/1981	Female	33	31/12/2046	R 104,462	22.50	20.54	R 86,480	48	62	82
●	30150896	Benchmark Enterprises	Mxoli	09/05/1953	Male	62	31/05/2018	R 765,566	22.50	20.60	R 6,779,344	58	61	63
●	30151431	Benchmark Enterprises	Neil	29/09/1977	Female	37	30/09/2042	R 440,392	22.50	20.59	R 789,500	48	61	79
●	35815001	Benchmark Enterprises	Oscar	06/06/1983	Male	31	30/06/2048	R 51,440	22.50	22.16	R 2,180	47	61	78
●	35452995	Benchmark Enterprises	Paul	26/04/1983	Female	32	30/04/2048	R 69,859	22.50	20.50	R 36,688	45	59	77
●	30201440	Benchmark Enterprises	Susan	29/10/1975	Male	39	31/10/2040	R 56,990	22.50	22.19	R 62,144	44	55	69
●	34700273	Benchmark Enterprises	Tigger	22/08/1979	Female	35	31/08/2044	R 65,811	22.50	20.50	R 56,133	43	55	71
●	33108579	Benchmark Enterprises	Conrad	11/04/1972	Female	43	30/04/2037	R 109,650	22.50	20.54	R 189,148	38	47	57
●	35856846	Benchmark Enterprises	David	13/01/1976	Male	39	31/01/2041	R 126,185	22.50	20.55	R 54,392	38	46	57
●	34964687	Benchmark Enterprises	Maggie	04/04/1966	Female	49	30/04/2031	R 51,043	22.50	20.47	R 33,635	23	27	31
●	33640409	Benchmark Enterprises	Roland	26/03/1961	Female	54	31/03/2026	R 115,023	22.50	20.54	R 130,093	20	22	24
●	34926690	Benchmark Enterprises	Siyabonga	22/06/1959	Male	55	30/06/2024	R 240,000	22.50	20.58	R 200,099	17	18	20
●	35161671	Benchmark Enterprises	Tal	30/11/1951	Male	63	30/11/2016	R 82,968	22.50	20.52	R 56,027	6	6	7

Calculations based on information as at: 2015/05/28 08:26:08 AM

Spread of Replacement Ratios



Member Replacement Ratio per band



Member Age Band	Number of Members in the Age Band	Average Low Estimate %	Average Best Estimate %	Average Optimistic %
<20				
20-29	2	52.0	69.0	93.5
30-39	12	45.5	58.3	75.1
40-49	12	39.6	48.9	60.5
50-59	16	44.2	49.3	54.8
>=60	5	31.2	32.2	33.2

Investments

External Manager Range



- Allan Gray
- Coronation
- Foord
- Investec
- Prudential

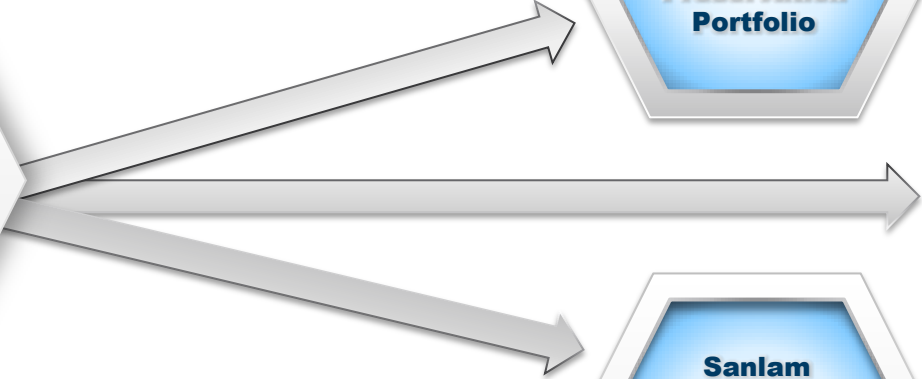
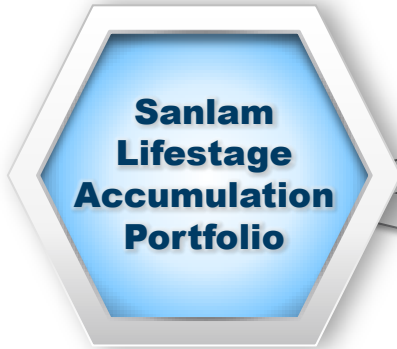
Why Sanlam Lifestage?



More than 6 years from normal retirement age or planned retirement age

Systematic automated monthly transition

23 months and less from normal retirement age or planned retirement age



Sanlam Lifestage

investment management fees reduced from flat 1% p.a.



Portfolio	Sanlam Lifestage
Sanlam Lifestage Accumulation Portfolio	Sliding scale dependent on investment size
First R50m	1.000% p.a.
Next R50m	0.900% p.a.
Next R200m	0.775% p.a.
Next R200m	0.700% p.a.
Above R500m	0.650% p.a.
Sanlam Lifestage Capital Protection Portfolio	0.425% p.a.
Sanlam Lifestage Inflation-linked Preservation Portfolio	0.700% p.a.
Sanlam Lifestage Living Annuity (ILLA) Preservation Portfolio	0.800% p.a.

Reduced asset based administration fees for large clients



Product Feature	Basis Points Fee
Tailored Default Investment Strategy	10 bps + VAT reduces to 5 bps + VAT if assets > R 100m
Comprehensive Plus	20 bps + VAT reduces to 15 bps + VAT if average assets per portfolio > R 100m reduces to 10 bps + VAT if average assets per portfolio > R 200m reduces to 5 bps + VAT if average assets per portfolio > R 300m
Investment Exceptions (if approved)	20 bps + VAT if < R 50m – R 100m assets 15 bps + VAT if R 100m – R 300m 10 bps + VAT if R 300m – R 500m 5 bps + VAT if > R 500m assets

Glacier minima

(first review since 2011)



Lump Sum Amount	Minimum Required Monthly Contribution
R 0 to R 200 000	R 7 500
R 200 000 to R 400 000	R 5 000
R 400 000 to R 600 000	R 3 500
R 600 000 to R 800 000	R 2 000
R 800 000 to R 1 000 000	R 1 000
Above R 1 000 000	Any contribution (or zero)

Institutional Implemented Consulting

(>R300 million sub-funds)



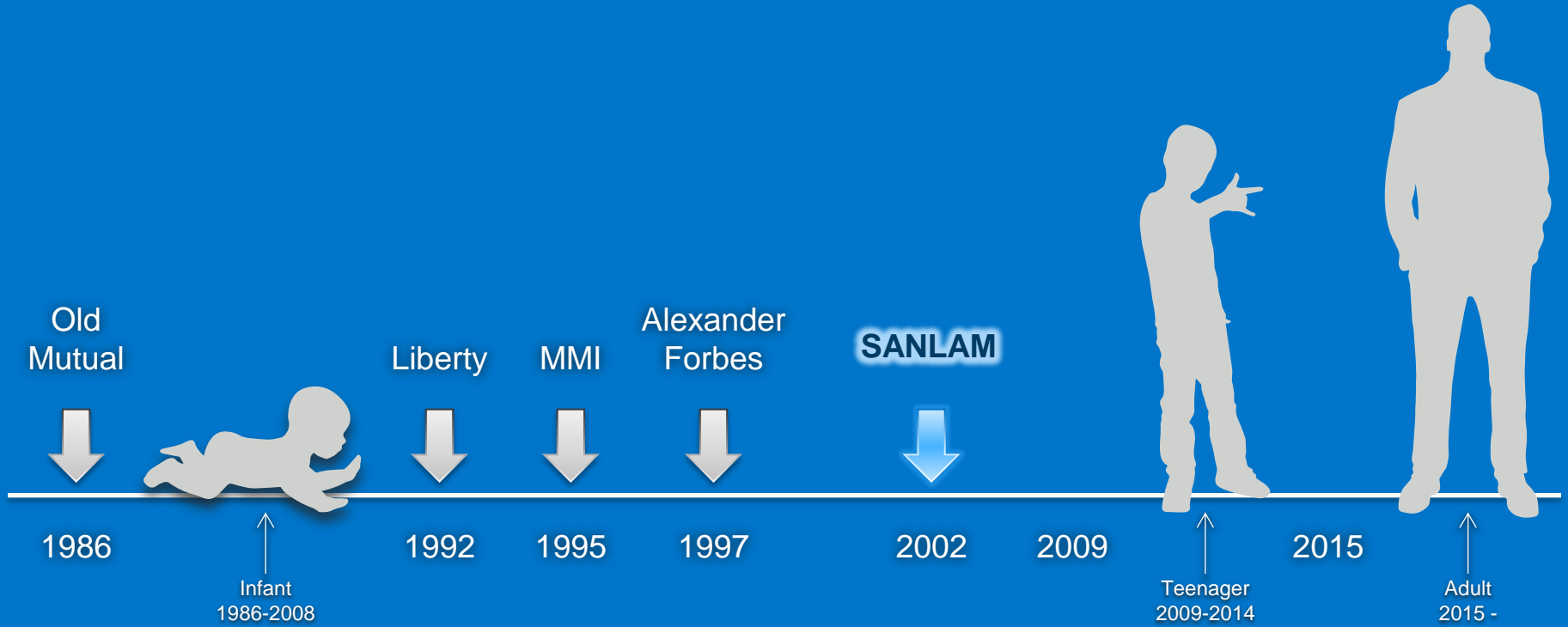
- ⊗ Intermediary Participation
- ⊗ Customisation & Flexibility
- ⊗ Investment Professionals
- ⊗ Investment Philosophy & Process
- ⊗ Monitoring
- ⊗ Legal & Compliance
- ⊗ Market and Manager Research
- ⊗ Investment Administration Platform
- ⊗ Competitive Pricing
- ⊗ Comprehensive Reporting

Matching needs of clients - best possible solution – competitive pricing

Optimal

Product Option

Evolution of Umbrella Funds



Main Reasons For Joining Umbrella Funds



	2015
Cost saving	57%
Better / Easier administration	46%
Less fiduciary responsibility	45%
Better investment expertise	21%

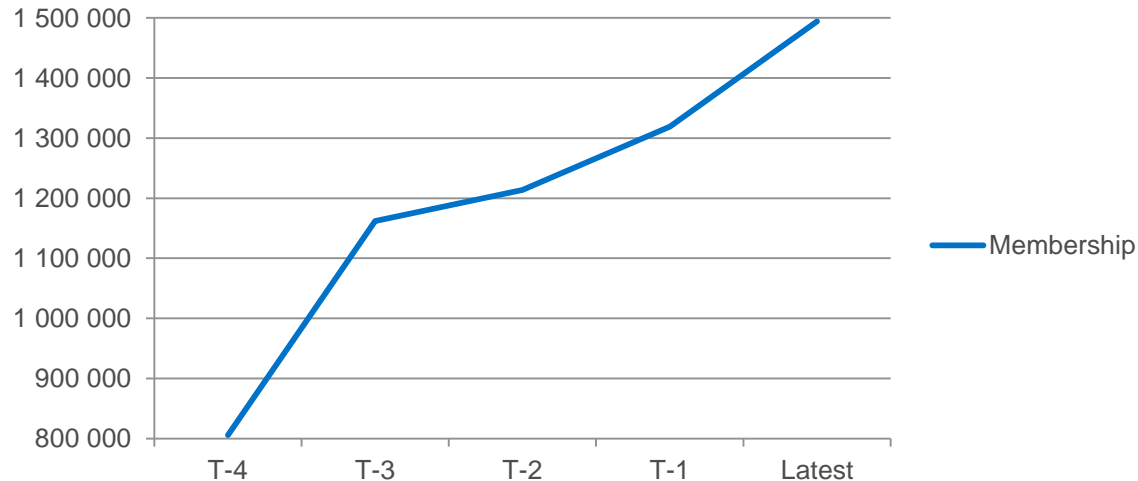


RETIREMENT REFORM

MANDATORY MEMBERSHIP WILL INCREASE THE SIZE OF THE MARKET AND REDUCE UNIT COSTS, ESPECIALLY IN UMBRELLA ARRANGEMENTS

- Umbrella schemes need to grow, in order to spread the largely fixed costs and investment in infrastructure
 - The current membership of around 786,000 needs to grow to around 1.6m in order to optimise the current infrastructure

Membership



Umbrella Fund v New Generation Group RA



- ⊗ Umbrella Fund is legal entity
- ⊗ Employer is contracting party
- ⊗ Better tax deductibility pre T-Day
- ⊗ Joint Forum governance & communication structure
- ⊗ FAIS – pension funds benefit
- ⊗ FAIS – employer level advice
- ⊗ Approved risk benefits
- ⊗ + Unapproved risk benefits
- ⊗ umbrella fund economies of scale might help risk rates
- ⊗ % salary & R pm pm & basis points pricing
 - complicated and hence non-transparent pricing?
 - performance fees not as common?
- ⊗ Encashment possible upon withdrawal
 - Small balances can be encashed
- ⊗ Provident Fund retirement pay-out possibility
- ⊗ Employee benefits administrator
- ⊗ Flexible contributions within employer-agreed limits
- ⊗ Condition of employment – membership compulsory
- ⊗ Must cater for all eligible staff
- ⊗ Limited choice institutional investment options
 - default option selected by employer
 - arguably overly restrictive for affluent members
- ⊗ Seamless transfer might be possible

- ⊗ Same legal entity as retail RA product offering
- ⊗ Member is contracting party
- ⊗ Worse tax deductibility pre T-Day
- ⊗ No employer-level governance & communication structure
- ⊗ FAIS – retail products
- ⊗ FAIS – employee level advice
- ⊗ No approved risk benefits
- ⊗ + Unapproved risk benefits
- ⊗ each employer negotiates own risk rates
- ⊗ basis points pricing
 - simpler more understandable pricing?
 - performance fees very common?
- ⊗ No encashment before age 55
 - Small balances must be administered
- ⊗ Pension Fund retirement pay-out only
- ⊗ LISP administrator
- ⊗ Flexible contributions as determined by employee
- ⊗ Not necessarily a condition of employment – voluntary
- ⊗ Some staff might be excluded
- ⊗ Wide range of collective investment schemes
 - investment choice under advice
 - arguably more suitable for affluent members
- ⊗ Seamless transfer to LISP's preservation fund and ILLA

Criticisms of Umbrella Funds



- ⑤ Governance requirement overly restrictive
- ⑤ Complicated and hence non-transparent pricing
- ⑤ All members pay for the investment choice but few use the facility
- ⑤ Affluent members prefer greater flexibility

■ 'COULD UNDERMINE THE ENTIRE PRIVATE-SECTOR RETIREMENT-FUNDING

'Employer RAs don't benefit all members of retirement'



Employers typically offer group retirement annuities to middle- and high-income earners, with the result that their contributions no longer subsidise the costs and group risk benefits of low-income earners who remain in umbrella or employer-sponsored funds. As Bruce Cameron reports, this undermines the social solidarity principle of the retirement-funding system.

"Group" retirement annuities (GAs), which an increasing number of employers are offering as an alternative to umbrella retirement funds and employer-sponsored funds, have serious structural problems and undermine the social solidarity in retirement funds.

David Clarkson, the head of special projects at London Employee Benefits, is most recently a practitioner on the London Employee Benefits Benchmark Survey, that, over the long term, the "group" RA structure could undermine "the entire private-sector retirement funding system".

Umbrella retirement funds pool the savings of employees who work for different employers but who belong to a certain trade union or work in a particular industry. Commercial umbrella funds are sponsored by life insurance companies and retirement fund administrators that give the savings to the funds.

People join RA funds in their own right capacity. Group RAs have no legal status in terms of the Pension Funds Act; they are merely an administrative arrangement that enables employers to pool employees' contributions in bulk into the fund.

"New generation" RAs, which issued in such trust funds and do not have protection of your change or stop your contributions, are typically being offered in group RAs.

Group RAs pose a threat to social solidarity in retirement funds, mainly because they are offered to middle- and high-income earners and are not an alternative to commercial umbrella funds.

"Social solidarity means that higher income earners, who contribute larger amounts to retirement funds, cross-subsidise the funds' costs and the group life assurance benefits to the benefit of lower income earners.

The government's policy is to expand the retirement-funding system to include all employed people and to reinforce the principle of social solidarity so that cross-subsidisation will make retirement funds and group annuities benefits available to all employed people.

Umbrella funds were introduced to high and open tiers, and government's objective of cross-subsidisation by employers and product providers, and administration follows by product providers.

However, umbrella funds have changed up their act, and the use of these funds has increased rapidly, particularly over the past six years.

According to the website of the Financial Services Board (FSB), in 2014 there were about 1.3 million members of umbrella funds, with savings of almost £28 billion.

The FSB has data on RAs, but nothing specific on group RAs. Clarkson told Personal Finance

that although there are no better products than umbrella funds, he does not believe that group RAs are a suitable replacement.

Clarkson sees the dangers of retirement saving arrangements that undermine social solidarity, such as group RAs, to be:

• Members tend to be charged as if they had taken out an individual retail fund rather than as members of a group fund.

• The cross-subsidy is eroded. This is "more severe as when group risk insurance is factored into the equation", Clarkson says.

• Employees can choose whether they want to join the retirement-funding system or opt out. Clarkson says many employees will opt out, which will undermine the government's objective of every employed person belonging to a retirement fund.

• The more affluent retirement fund members are charged higher for the group RAs. Clarkson says he is concerned that this can be done by the potentially higher income earners that financial advisers can more easily group RAs.

"I regard the widely publicised underlying the current employer-sponsored retirement fund system as a warning. Any alternative system that abandons this principle is, in my opinion, the number one



Can without

by

PERSONAL FINANCE

SATURDAY, JULY 11, 2015

'EMPLOYER RAs DON'T BENEFIT ALL MEMBERS'

SATURDAY EDITION
Weekend Argus

PERSONAL FINANCE

SATURDAY, JULY 11, 2015

'EMPLOYER RAs DON'T BENEFIT ALL MEMBERS'

SATURDAY EDITION
Weekend Argus

There is no clear-cut argument for employees of middle- and high-income earners to choose a commercial umbrella fund instead of a group RA.

Group RA or umbrella fund? What

cross-subsidisation policies ... can EB learn from retail?

% assets charges offer many potential benefits

- ✓ Better cross subsidies
- ✓ Alignment of interests between product providers, intermediaries and consumers
- ✓ Consistency between institutional and retail markets
- ✓ Easier for consumers to determine total charges
- ✓ Significantly reduced financial benefit to shift charges between different elements

	% of assets
administration	0.10%
advice	0.25%
investment management	0.75%
other	0.02%
total RiY	1.12%

← So much easier to understand?

← The only important charge measure?

Effective Annual Cost (“EAC”) measure is coming!



Element	Charge
Administration	0.40%
Advice	0.30%
Investment management	1.00%
Other	0.10%
Total	1.80%



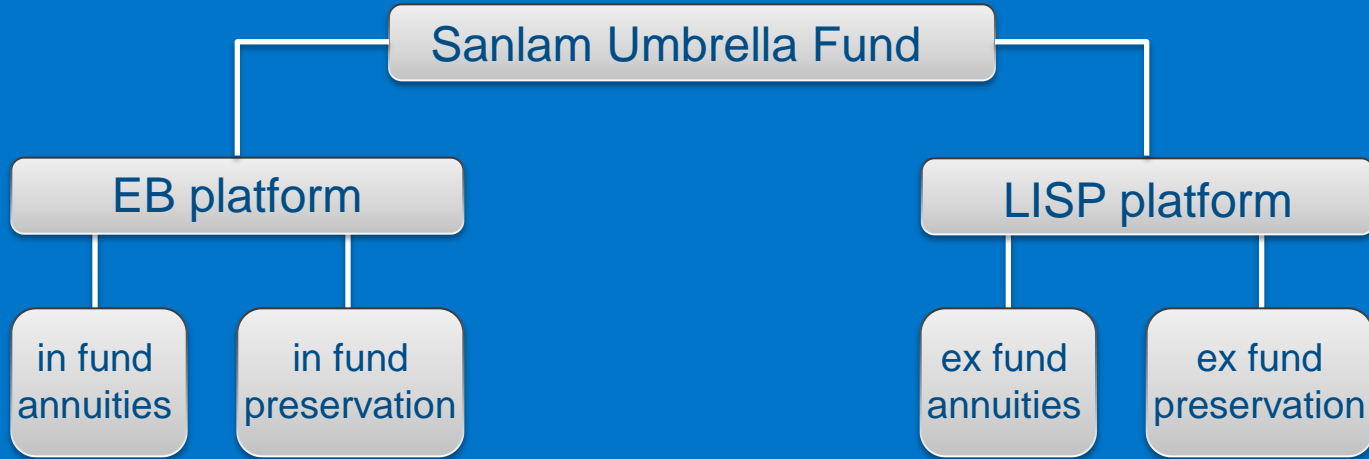
asset based pricing pressures escalating!



1. Retail v Institutional
2. EAC
3. Disclosure regulation & systems implications
4. Costs in default investment strategies under increasing scrutiny
5. Increasing focus on member outcomes

the best of both worlds!

... institutional partnering with retail



ordinary members

- economies of scale
- default strategies
- virtual tax haven
- solidarity

affluent members

- > 1000 collective investment schemes
- stockbroking services
- virtual tax haven

Bold vs. Cautious

Knowing when to be which is
what makes us Wealthsmiths™

op – ti - mal

/'ɒptɪm(ə)l/ [op-tuh-mahl] IPA verb, -mized, miz · ing.

1. to make as effective, perfect, or useful as possible
2. to make the best of

Optimal Product Option is the solution!



1. Strictly >R5m sub-funds where Joint Forum governance is an advisable
2. Basis points pricing model
3. Members in default do not pay for investment choice
 - ❖ member level advice usually not affordable
4. Affluent members enjoy full investment flexibility via Glacier LISP platform
 - ❖ member level advice critical and affordable

Optimal positioning



Product Option	Target Market / Client Characteristics
Sanlam Futura	low earners
Standard	conventional pricing + no investment choice
Optimal	new generation pricing + limited investment choice
Comprehensive	conventional pricing + extensive investment choice
Comprehensive Plus	conventional pricing + customised investments
Standalone funds	full control



“**default investment portfolio**” means an investment portfolio in which the retirement funding contributions of a member of a fund must be invested unless the fund has been instructed by the member in writing to invest them in another investment portfolio and which portfolio

- a) at least complies with the requirements set out in regulation 37; and
- b) ...
- c) any conditions that may be prescribed.

Investment default strategy

– desired features



- ✓ Trust Sanlam
- ✓ Best of Sanlam
- ✓ Value simplicity
- ✓ Cost effective and value-for-money
- ✓ Regulation 28 compliant
- ✓ Pooled investment vehicle
- ✓ Zero performance fees
- ✓ Minimum 3 year track record
- ✓ Satisfactory performance

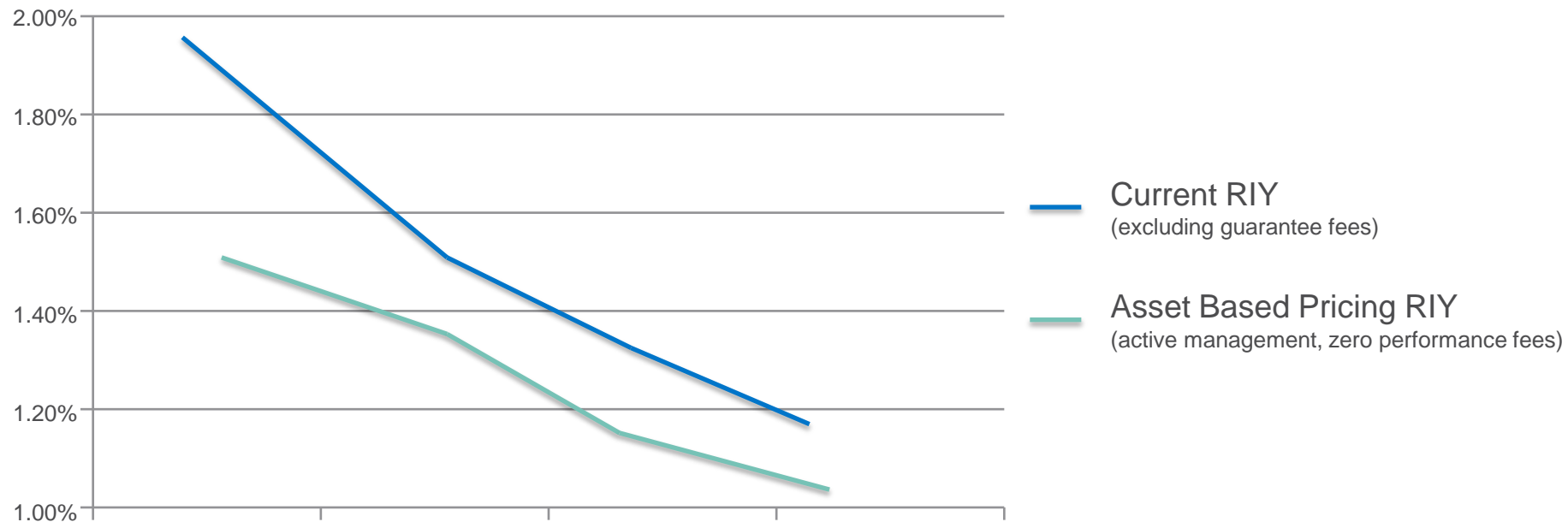
Sanlam Blue default investment strategy



- ❖ Only available under Optimal product option
- ❖ Regulation 28 global balanced fund representing best Sanlam houseview
 - ✓ SIM Balanced Fund
 - ✓ Pleasing historic performance
- ❖ **75 bps all-in investment management fee and zero performance fees**
 - ✓ **Use portion of investment fees for increased asset based administration fee discount**
 - ✓ **Maximum 50 bps + VAT administration fee**
 - ✓ **Maximum 50 bps + VAT consultancy fee (negotiable)**
 - ✓ **Zero fees for Glacier members as charged on Glacier platform**
- ❖ Trustees can review choice underlying Sanlam Blue at any time
 - ✓ communicate to investors but not consult with investors
- ❖ Risk averse members can switch some or all moneys into Volatility Protection Strategy
 - ✓ one free switch
- ❖ Affluent members enjoy full investment flexibility via Glacier LISP platform
 - ✓ some or all moneys
 - ✓ Glacier minima being increased (not reviewed since 2011)

Asset Based Production Option

sample of 238 actual sub-funds



Illustrative pricing

No of Members	150
Assets	R 30,000,000
Annual Salary	R 60,000,000
Average Member Share	R 200,000
Average Annual Salary	R 400,000

	Comprehensive	Standard	Optimal
Total Administration Fee pm (Excl. VAT)	R 6,300	R 3,745	R 0
Administration Fees - % salary	0.13%	0.07%	0.00%
Administration Fees - R pmpm	R 42.00	R 24.97	R 0.00
Administration Fees - % assets			0.00%

% of assets



So much easier to understand?

administration

0.00%

advice

0.18%

investment
management

0.75%

total RiY

0.93%



The only important charge measure?

Is Optimal better than Standard & Comprehensive?



- ❖ **No – horses for courses!**
- ❖ **Closer to Retail than traditional EB offerings**
 - ❖ Contracted Financial Adviser v Contracted Benefit Consultant roles
- ❖ **Better aligned to anticipated future developments**
 - ❖ Lowering costs for members in default investment strategy
 - ❖ Increasing focus on member outcomes
 - ❖ Opt out of default investment strategy under advice
- ❖ **The future of advice?**
 - ❖ how can we help our supporting intermediaries position for the future?

Benchmark Symposium

- forthcoming attractions before end 2015



- ✓ default investment strategies
- ? default preservation strategies
- ? default annuitisation strategies
- ✓ employer level replacement ratio reports
- ✓ mini-fund governance model
- ✓ asset based pricing options
- ✓ lower charges
- ✓ large fund customisation



Phase 2

Default Preservation & Annuitisation

default preservation and portability



- a) If members are enrolled into a retirement fund as a condition of employment, the rules of that fund must make provision for paid-up members.
- b) When members leave the service of the participating employer, such members
 - i. must be made paid-up members of the fund until the fund is instructed by the member in writing to pay out the benefits due to the member in terms of the rules, and
 - ii. must be presented with a paid-up membership certificate within one (1) calendar month of leaving the service of the participating employer, provided that the aggregate value of their retirement savings is greater than an amount which may be prescribed.

"default annuity strategy"

means the terms on which a member's retirement savings are...



"**default annuity strategy**" - means the terms on which a member's retirement savings are used to provide an annuity or pension income after the member has retired, unless the fund has been otherwise instructed by the member in writing, which annuity product or set of rules at least -

- a) complies with the requirements of regulation 39(2);
- b) comprises a combination of one or more of the options described in regulation 39(3) to (5);
- c) may be made conditional on any or all of
 - i. the aggregate value of each individual member's retirement savings when they retire
 - ii. the amount of each individual member's pre-retirement pensionable salary over the year before they retire, and
 - iii. the health status of each individual member when they retire, and
- d) complies with any conditions that may be prescribed from time to time.

"retirement benefits counsellor"

means an individual who:



- i. has qualifications as may be prescribed;
- ii. explains the default annuity strategy, and assists individuals whose retirement savings are used to provide an income in retirement in terms of the default annuity strategy,
- iii. explains the default preservation policy, and assists individuals whose retirement savings are preserved in the fund in terms of the default preservation policy, and
- iv. may not receive income either directly or indirectly in respect of any choices the individuals who are members of the fund may make as a direct or indirect consequence of their retirement or withdrawal from the fund, other than any income paid to them by the retirement fund.

Sanlam Umbrella Fund approach



- trustees have approved new default strategies
 - consistent with regulatory direction
 - seamless and cost effective
 - embed both guidance and advice
- rule amendments being prepared
- monitor draft regulation developments
- aim to launch by year end

