MINUTES OF THE INVESTMENT COMMITTEE OF THE INVESTMENT ANALYSTS' SOCIETY

HELD VIA MS TEAMS ON FRIDAY 11TH JUNE 2021 AT 13H00

PRESENT	MIKE BROWN (MB)
	MARK HODGSON (MH)
	KEITH MCLACHLAN (KM)
	EBEN MARE (EM)
	ARTHUR THOMPSON (ADT)
	ANN MARIE WOOD

1. Welcome – MB welcomed those present
2. Presentation by Asset Manager

   MB had prepared a comprehensive report to the Sub Committee with slides sent to attendees and presented on screen. The main purpose of the presentation was to highlight the changes he believed were necessary in the strategic asset allocation of the portfolio.

   The key changes were:

   The rand exchange rate had staged a strong recovery and there were a number of factors that he pointed to relative rand strength for some time ahead;

   Helped by the firmer currency the local equity market had performed better than global equities in recent quarters;

   Relative valuations indicated that local equities offered extremely good value compared with US equities;

   Thematic investment driven by global mega- trends was a key trend in world markets. ETFs were given exposure to such industries, sustainability, ESG, Low carbon footprints etc were the fastest growing sector in financial markets.

   MH interrupted MB during the presentation stating that the Sub Committee did not have time to listen to the total presentation and that we should move on to discussing the poor performance of the portfolio and especially an appropriate portfolio benchmark. The rest of the Committee asked that the asset manager should continue with the presentation, so MB skimmed through the rest of the slides, but the opportunity to gauge the input of the Committee members on the changing investment parameters was lost.

MH felt that the portfolio had underperformed the JSE All share index and not providing great returns over the past two year. MB acknowledged that the total returns has been below the All Share, but this was a balanced portfolio and not a 100% equity portfolio. The critical factor was the consistent outflows of capital from the portfolio.

MB referred to the cash outflows of around R1-m. MH queried this amount – these details were on the statements submitted by MB but for clarification this has been noted below

PORTFOLIO CASH FLOWS

		RANDS
Investment inflows since inception June 2019		3 775 127
Withdrawals / Transfers Out	Client Cashflows 11/10/2019	(100 000)
**	CSPD Transfer 27/02/2020	(337 050)
	Client Cashflows 16/07/2020	(500 000)
	Client Cashflows 01/06/2021	(120 000)
	Total Outflows	(1 057 050)
	Net Retained Capital	2 718 077
	Current Portfolio Value	3 100 113
	Total Gain	382 036
	2 Year Return	6.11%pa
	1 Year Return	8.39%

** this is the staff investment fund which was incorrectly allocated by ETFSA to the IAS investment account and subsequently transferred out of the investment to staff account

It should be noted that the table above does not include R500,000 transferred by the IAS to the ETFSA investment on 5 December 2019.

MH suggested specific risk parameters be put in place and proposed a higher exposure to local equities. In his view a moderate risk profile is more appropriate and a balanced fund allocation mix would make sense at 70% equities and 30% bonds. The other committee members agreed to this board assets allocation.

KM suggested that before allocating substantially in any fund that:

1. Maintain our purchasing power
2. Maintain our liquidity

ADT supported the allocation and suggested one third should be reasonably liquid – i.e. One third fixed interest (which can be used for liquidity; one third SA Equity and one third international equity. If a commodity exposure was needed this could form a part of the allocation to SA or international equity.

EM felt there was fairly good growth prospects in CPI+3% to 4% target. He agreed that once we had established the portfolio targeted composition and risk profile, then the appropriate underlying ETF investments would more easily make sense as a targeted allocation.

MB stated that the strategy currently is over 40% global equities and 6% commodities. KM felt commodities exposure did not match IAS risk profile. One Third could be held in bonds and rest in equity (not commodities, nor property).

MH queried a UBS ETN investment made in March 2021 in the main IAS investment account which was sold a month and a half later at a 25% loss. MB indicated this was a technology investment which didn't work out.

EM noted the following

1. The current portfolio is a best-investment view balanced fund.
2. Given the current asset allocation, the risk/returns of the portfolio would be in the order of a CPI+6% objective, i.e., "high risk/high return".
3. We agreed that our liabilities – implicit or explicit – are closer aligned with a CPI+4% return objective and this will lower the effective risk in the portfolio as well.
4. We agreed to bear careful consideration on factor risks in the portfolio – USD/ZAR exposure being a significant risk/investment view at present.

Discretion was given to the asset manager to operate the portfolio within the risk parameters and broad asset allocation provided by the subcommittee. **The risk parameters were agreed to a CPI +4% target return and, within the confines of the IAS's liquidity requirements, the portfolio's performance would be measured against this at subsequent meetings."**

MH referred to the staff fund which he felt had performed especially poorly – this should be looked at with a view to lower risk but better performance. MB indicated that actions to reposition the portfolios by ETFSA had been inadvertently delayed.

MB stated that the staff fund had never had withdrawals, but this was looking to happen going forward and required liquidity to be available. AMW was in consultation with the legal broker regarding Maria's retrenchment and would meet on the 17th. AMW had provided estimate costs which were R58 807 and an estimated R74K (20pc) from staff investment. The tax situation was to be discussed with legal broker and AMW had touched base with Ransome Russouw on the figures which they confirmed were in order.

CASH MANAGEMENT

With the portfolio likely to require cash withdrawals on a consistent basis to meet the running expenses of the Society, as well as staff restructure and other development costs for the Investment Portal etc, it was agreed that a cash management system be introduced where funds would remain invested in the portfolio and only one month's expenditure be withdrawn. AMW, in conjunction with the treasurer, would advise MB by the 17th of each month, so that the securities could be sold and settled to allow payment to the society bank account before the 24th of each month.