Manager Pulse

Autumn Edition - April 2021

Insights on developments within the asset management industry

MOVERS AND SHAKERS

Prudential - Corporate and equity team changes

Prudential has announced that their global parent company, M&G Investments, will increase their ownership in Prudential from 49.99% to 50.12%, thus giving them a majority shareholding. This will result in Prudential becoming a subsidiary of M&G Investments and no longer an associate. The Prudential Staff Investment Company will also increase its shareholding from 28.01% to 28.08%.

To facilitate the above transactions, Prudential's black empowerment partner, the Thesele Group, will reduce their shareholding from 22.0% to 21.8%. The proposed change in ownership levels will have no impact on Prudential's BBBEE rating, which is currently at Level 2. This rating is expected to improve to Level 1 during 2021.

These changes do not affect the current management structure or the local investment team.

Equity team

The House View Equity portfolio will be managed by Ross Biggs, Chris Wood, Leonard Krüger and Aadil Omar. This portfolio is the underlying model for all multi-asset mandates, as well as the *Prudential SA Equity Fund*. Simon Kendall will no longer have direct responsibilities for the *Prudential SA Equity Fund* and will focus on mandates specific to resources.

The *Prudential Equity Fund* will continue to be managed by Chris Wood and Yusuf Mowlana. Aadil Omar will no longer have direct responsibilities with regards this fund and will instead focus on his role as Head of Equity Research and Co-Portfolio Manager of the House View Equity portfolio.

The *Prudential Dividend Maximiser Fund* will continue to be managed by Ross Biggs and Kaitlin Byrne. Prudential's Select Equity institutional client portfolios will be managed by Leonard Krüger, Ross Biggs and Kaitlin Byrne. In addition to being a member of Prudential's Asset Allocation Committee, Leonard Krüger is also Co-Portfolio Manager of the *Prudential Balanced Fund*, the *Inflation Plus Fund*, the *Target Income Funds*, and various institutional multi-asset mandates.

Prescient – CIO to swap roles

Prescient Investment Management announced that Guy Toms will be giving up his role as Chief Investment Officer to take up a new role as Strategist. This role will allow him to have additional capacity to develop talent within the company. He will continue to have oversight of Prescient's process and philosophy.

Bastian Teichgreeber will take over as Chief Investment Officer. He is currently the Head of Asset Allocation and Investment Research and will continue as Co-Portfolio Manager on the Prescient Balanced fund. He has been with Prescient for six years and has 16 years' of industry experience.

STANLIB
MULTI-MANAGER

Other changes in the team include:

- Reza Ismail appointed as Head of Bonds
- Henk Kotze appointed as Head of Income and Cash
- Conway Williams appointed as Head of Credit
- Rupert Hare appointed as Co-Head of Multi-Asset Strategies.

Allan Gray – another senior portfolio manager departs

Ruan Stander resigned from his portfolio manager role, effective 28 February 2021, to focus on personal interests. He joined Allan Gray in 2008, became a portfolio manager in 2012 and started to manage a portion of the Balanced and Equity funds in 2015. Allan Gray's investment process relies on multiple portfolio managers, each making individual decisions. This multi-councillor model facilitates succession and a seamless transition of responsibilities. Ruan's responsibilities will be allocated across the existing portfolio managers – Duncan Artus, Jacques Plaut, Rory Kutisker-Jacobson and Tim Acker.

Futuregrowth – staff departures

Conway Williams, the joint-Head of Unlisted Credit, left to join Prescient Investment Management as Head of Credit. He is be joined at Prescient by a previous colleague, Michelle Green, who joins as a Credit Analyst.

Cannon Asset Managers – CEO resignation

At the end of March, Adrian Saville left Cannon Asset Managers, a company he founded in 1998 as an independent investment house. Adrian has joined Genera Capital. Over the years, Cannon has undergone several ownership changes. This saw Adrian's controlling stake being reduced and ultimately, Cannon being wholly owned by Bidvest Financial Services. In addition to his role as Chief Executive of the company, Adrian was responsible for managing local and global active and passive mandates.

Adrian handed over his leadership role to Samantha Steyn who has been with Cannon since 2013, having previously worked at Atlantic Asset Management as a fixed income analyst. She joined Cannon Asset Managers as a portfolio manager and became the company's Chief Investment Officer in 2017.

Counterpoint Asset Management – investment team changes

Sam Houlie, Chief Investment Officer and Portfolio Manager for various equity and multi-asset class funds, left Counterpoint Asset Management at the end of March. Sam joined Counterpoint in November 2016. His departure comes after two acquisitions by Counterpoint in 2020. Paul Stewart will act as both Chief Executive Officer and Chief Investment Officer. Paul took on the role of CEO at Counterpoint after it acquired Bridge in 2020. The full integration of the combined businesses – Counterpoint, Bridge and RECM – is expected to be finalised by the end of the first half of 2021. The company manages approximately R8 billion in assets.

Denker Capital – founding member left for Switzerland

Ricco Friedrich, one of the founders of Denker Capital as well as portfolio manager of the Denker Global Equity Fund, left the company in February 2021. He relocated to Switzerland for personal reasons and has joined 2Xideas as an equity analyst. Jacobus Oosthuizen has taken over as the lead portfolio manager of the Denker Global Equity Fund. He was previously a senior equity analyst within the global team.

Element Team Update

Shamier Khan left Element in January 2021. He was Co-Portfolio Manager on Element's range of Shari'ah unit trusts. He has joined the client servicing team at NinetyOne. Shamier joined Element as a Shari'ah Portfolio Manager in October 2013, having previously worked at various investment and banking institutions. Terrence Craig, founder of Element, and Andrew Bishop, Portfolio Manager, have assumed Shamier's responsibilities. Both have been at Element for more than ten years.

Melville Douglas – Head of research resigns

Mervin Naidoo resigned as Head of Research to join the stockbroking arm of the business as Head of Advisory Business. His responsibilities have been allocated to the Head of South African Equities, Paolo Senatore, while they search for a suitable replacement.

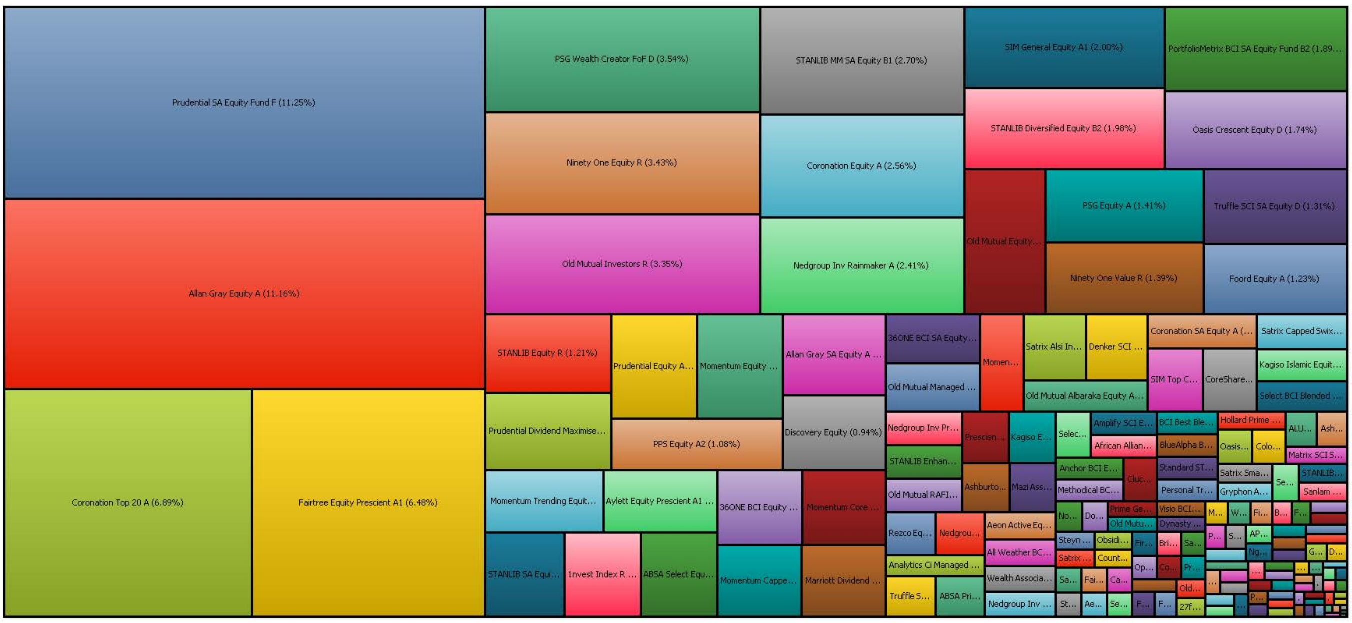
GAINERS AND LOSERS

- After losing 36% from its peak in 2020, the JSE Capped SWIX recovered materially and delivered 54.2% for the 12 months to the end of March 2021. We noted in the previous Manager Pulse that the Multi-Asset Income sector experienced significant inflows during the 12 months to December 2020. In times of crisis, investors typically flee to conservative funds after experiencing a write down. This can destroy value in their portfolios.

- While managers in the South African EQ General category (SA EQ) on average returned almost 50% for the 12 months, net flows into retail class funds were muted (+R2.8 billion), with Prudential and 1NVEST gaining the most. Allan Gray and Coronation Top 20 were among those managers that experienced larger AUM losses.

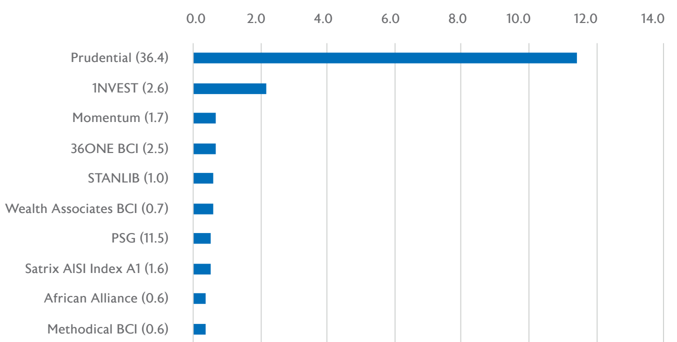
- The block chart illustrates the market share within the SA EQ category. This is a competitive category with the top four managers making up approximately 35% of the total category.

South African EQ General Category – Market Share

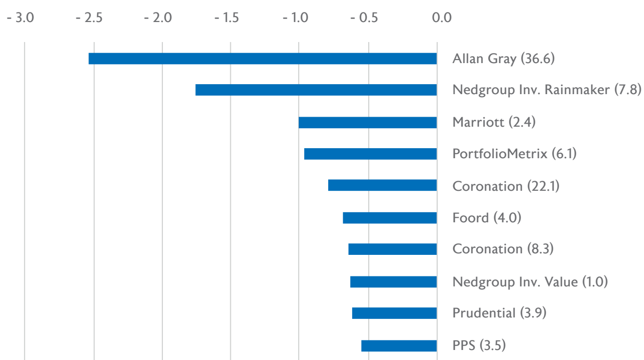


Source: Morningstar, STANLIB Multi-Manager analysis

Top 10 AUM gainers (R billion)



Top 10 AUM losses (R billion)



Closing AUM as at 31 March provided in brackets. Source: Morningstar, STANLIB Multi-Manager analysis.

RESEARCH FOCUS:
REMUNERATION STRUCTURES SURVEY

During the first quarter of 2021, 32 managers, representing R6.2 trillion in assets under management, participated in a STANLIB Multi-Manager incentivisation survey in which we delved into structures used to remunerate investment professionals. As part of our due diligence process, remuneration structures form an important component of manager analysis. We believe incentivisation structures should align with clients' interests and be appropriate to retain and grow investment talent.

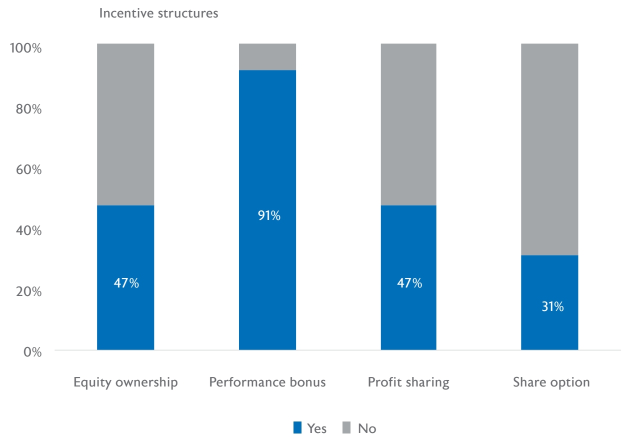
Of the respondents, 59% described their business as boutique, 22% as medium and 19% as large. Interestingly, 66% noted that they believe they pay in line with average market salaries, 19% feel they pay below average and 13% feel they pay above the perceived market average. Most managers (53%) rely on data supplied by a third-party remuneration survey to inform their salary packages and 22% rely on internal research. From our many years of experience with due diligences we have noted that managers who pay below market-related salaries usually consider frequent bonuses or profit share as a better incentive.

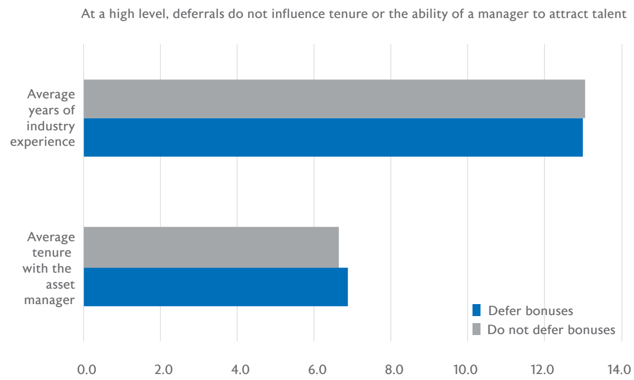
Additional incentive structures have four common components, regardless of the size or type of business. These components are i) a performance bonus; ii) equity ownership; iii) share options; and iv) profit sharing. Generally, managers use a combination of incentives and only three of the managers surveyed used all four types.

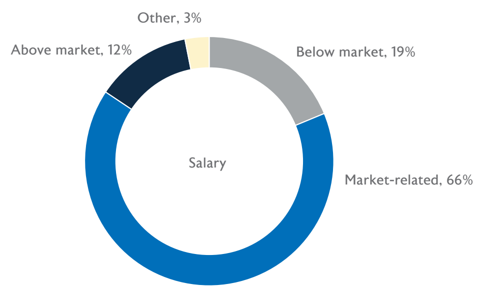
More than 90% of managers who participated pay performance bonuses, which are generally paid annually. We highlight that 55% of the managers that pay performance bonuses, do not defer any portion of the bonus. We believe that this could create a focus on short-term performance and would most likely, not align with the interestes of clients. Where there are bonus deferrals, a weighted average of 39% is deferred for between two and three years. Our high-level assessment indicates that bonus deferrals do not influence the average tenure of 6.7 years, nor the average investment experience in the team – approximately 13 years.

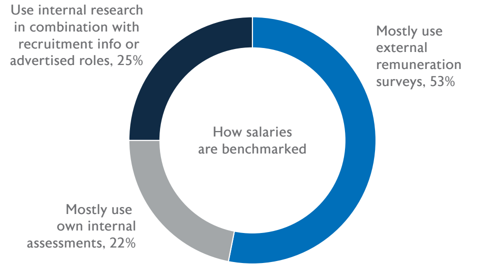
Of the respondents, 47% allow for equity ownership and/or profit sharing. Of those that allow for some degree of equity ownership (excluding staff share trusts), 73% are boutique managers. Share options were the least popular incentive structure, with only 28% of managers offering this and of which 22% are large managers. There are various tenures required for ownership or share options to vest, with the most common being three years.

It is pleasing that almost 47% of respondents allow for equity ownership, which we believe could promote long-term team stability. We will investigate further to pick up any trends relating to staff retention.









STANLIB Multi-Manager Research Team
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