Investment Policy Statements (IPS)

Founding principles when appointing a multi-manager

This Investment Policy document is a formal statement of the main principles underlying the investment strategy of pension plans. It is intended to provide a framework within which the management, Investment Committee and Board of Trustees of a pension plan can make investment decisions.

Pension plans may want to consider the following investment beliefs when compiling their IPSs.

Investment belief 1: the multi-manager approach is an optimal way of investing

Taking diversification one step further
Diversification goes beyond asset classes and strategies. A multi-managed blend of managers provides additional diversification as members are not fully exposed to a single manager that may be going through a period of underperformance. This assists members in reducing investment risk and delivers more consistent outcomes.

Reduce complexity
Selection of managers/funds part of the 'package' Quite simply, more choice creates complexity. Multi-managers research the universe of asset managers/funds for new opportunities and potential replacements. Through this asset managers/funds are subject to rigorous screening processes involving both quantitative and qualitative analysis, in order to fully understand their philosophies and processes. Through this, a view is formed on which managers are likely to outperform over the medium to long-term and which managers should be avoided.

Expertise – how to put it all together
In terms of portfolio construction, members benefit from the investment experience, resources, and knowledge of various managers. Different managers, styles, teams and investment approaches are blended into a single solution.

Consistency – less likely to be last or first
Performance consistency is key to the multi-manager value proposition. A better and more consistent outcome for members promotes longer relationships and contributes to performing in line with client expectations. It also aligns better with a goals-based advisory approach.

Monitoring – single entry point
Multi-manager portfolios enable members to track an extensive range of asset manager investments through a single solution. Members have peace of mind in the knowledge that their appointed multi-manager continuously monitors the underlying investments and manages the associated risk.

Governance – audit trail
Multi-managers provide a detailed audit trail on decision-making processes, thus helping trustees to mitigate some of their (investment) advice risk. The multi-manager performs the manager due diligence, fund selection and creates construction frameworks for their respective solutions. In effect, the trustees have mandated the multi-manager to be responsible for more than just asset allocation and stock selection decisions – they also select the right managers and combine them is such a way so as to meet the longer-term goals of members.

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Investment belief 2: asset allocation must be consistent with a portfolio's objectives

A portfolio that targets a real return of say 5% p.a. will need to have a high exposure to growth assets (i.e. equities and property) in order to meet the objective. These asset classes are volatile, particularly over short measurement periods, as their valuation depends on multiple factors which extend a long way into the future and are therefore, uncertain. Accordingly, the investment objective for a portfolio that has a high exposure to growth assets should also reference a long investment horizon.

To achieve the abovementioned, the multi-manager performs internal Strategic Asset Allocation (SAA) modelling to set SAA guidelines for the portfolios.

Investment belief 3: risks and returns are inextricably linked and as such, investment risk management forms an integral part of the multi-manager's investment process

A risk management framework emphasises the circular relationship of the four main components of the risk management process –

- Risk monitoring and control
- Risk identification
- How to mitigate the risk; and
- Risk measurement

A risk management framework is therefore, well documented and used as a tool to assess the success of the investment strategy implemented.

> ***Click here** to view our risk management document*

Investment belief 4: Member Investment Choice – suitable life stage model

In general terms, over the short term, members are too focused in decision-making and tend to be vulnerable to the emotions of fear and greed. The bias often results in poor outcomes where members are allowed frequent investment choice. The Board of Trustees makes a default life stage model available for those members that do not wish to exercise their member choice.

> ***Click here** to view an effective life stage model for consideration*

Investment belief 5: ESG factors

Environmental, Social and Governance (ESG) factors can have a material impact on investment returns. Accordingly, ESG considerations need to be integrated into the investment strategy of a pension plan.

> ***Click here** to view STANLIB Multi-Manager's policy as possible reference in your IPS*

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