OPENING TO INTERNATIONAL INVESTMENT: EXPERIENCE FROM OTHER MARKETS

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AGENDA

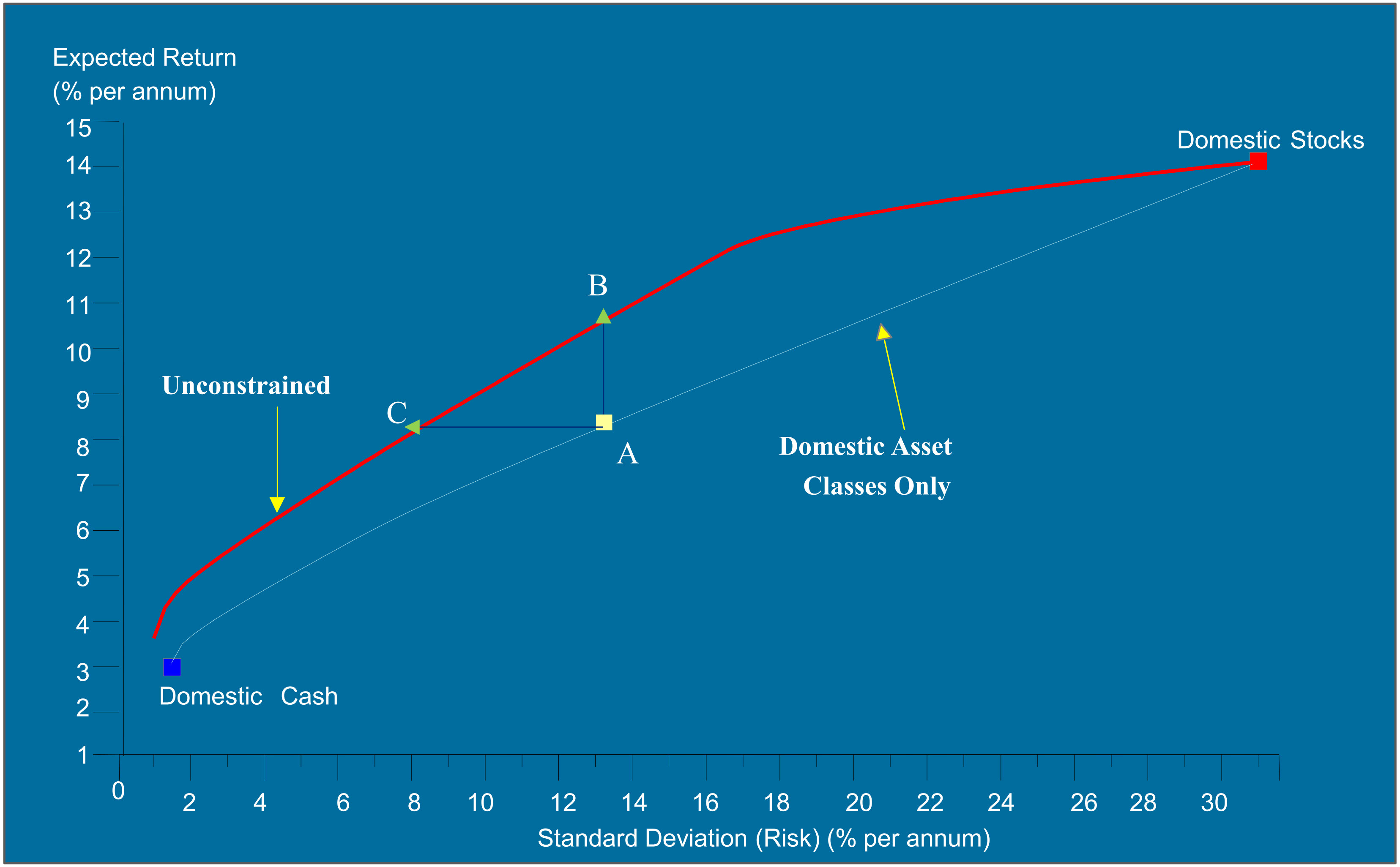
- Why invest internationally
- Best practice for asset allocation
- Currency exposure
- South Africa case study
- Other considerations

WHY INVEST INTERNATIONALLY

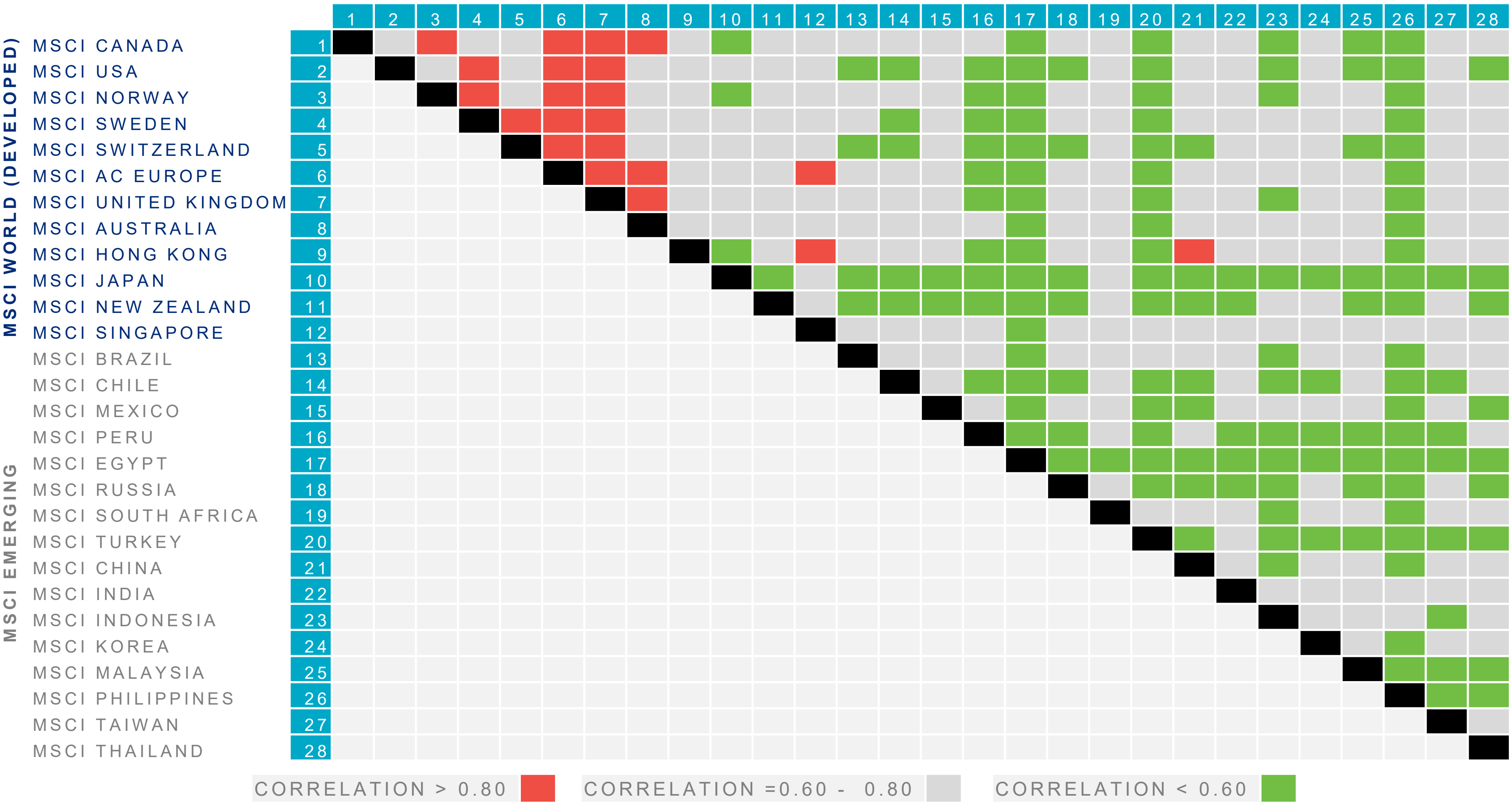
- Greater diversification
  - Stock, sector and market risk
  - Across asset classes, private and public markets
  - Access different investment strategies and styles

- Opportunities for enhanced returns through:
  - Growth economies exposure
  - Favourable demographics
  - Broader market segments
  - Active management
  - Specialist asset managers

IMPROVE RISK/RETURN PROFILE
BEWARE UNINTENDED CONSEQUENCES



MARKET DIVERSIFICATION IS GREATER FOR EMERGING MARKET INVESTORS



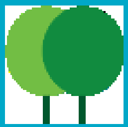
SOURCE: THOMSON REUTERS DATASTREAM, ALL INDICES IN USD

EXCLUDES QATAR AND UAE DUE TO INSUFFICIENT DATA. EUROPEAN COUNTRIES REPRESENTED BY MSCI AC EUROPE (NOTE THIS CONTAINS 6 EMERGING COUNTRIES THAT MAKE UP 3.4% OF THE INDEX)

GLOBAL EQUITIES BEST PRACTICE

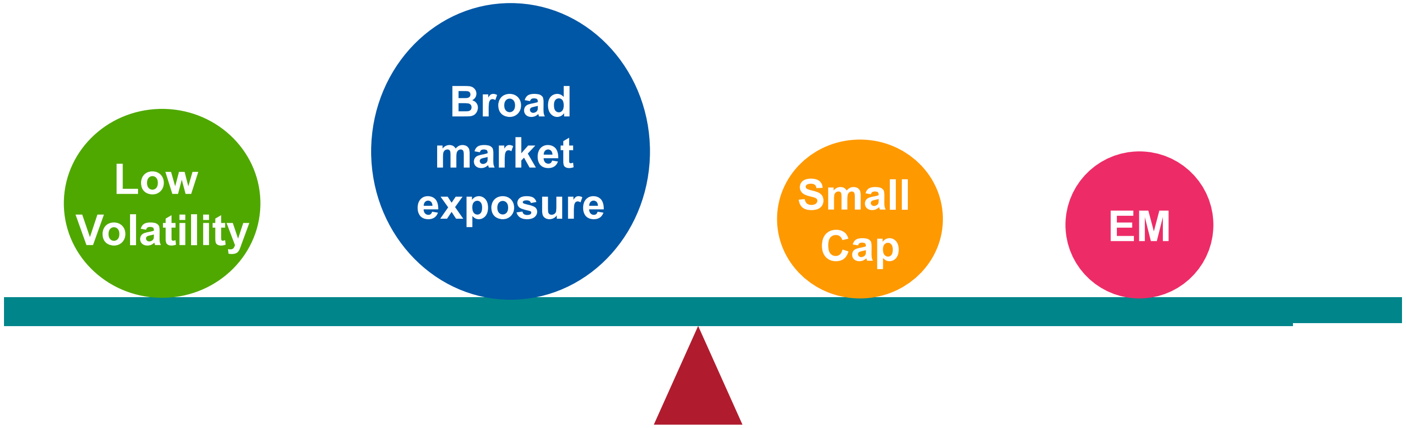
INVEST ACROSS THE BROADEST POSSIBLE UNIVERSE

INVEST SUSTAINABLY



INVEST IN A BALANCED RANGE OF RETURN DRIVERS

INVEST ACTIVELY WHERE APPROPRIATE



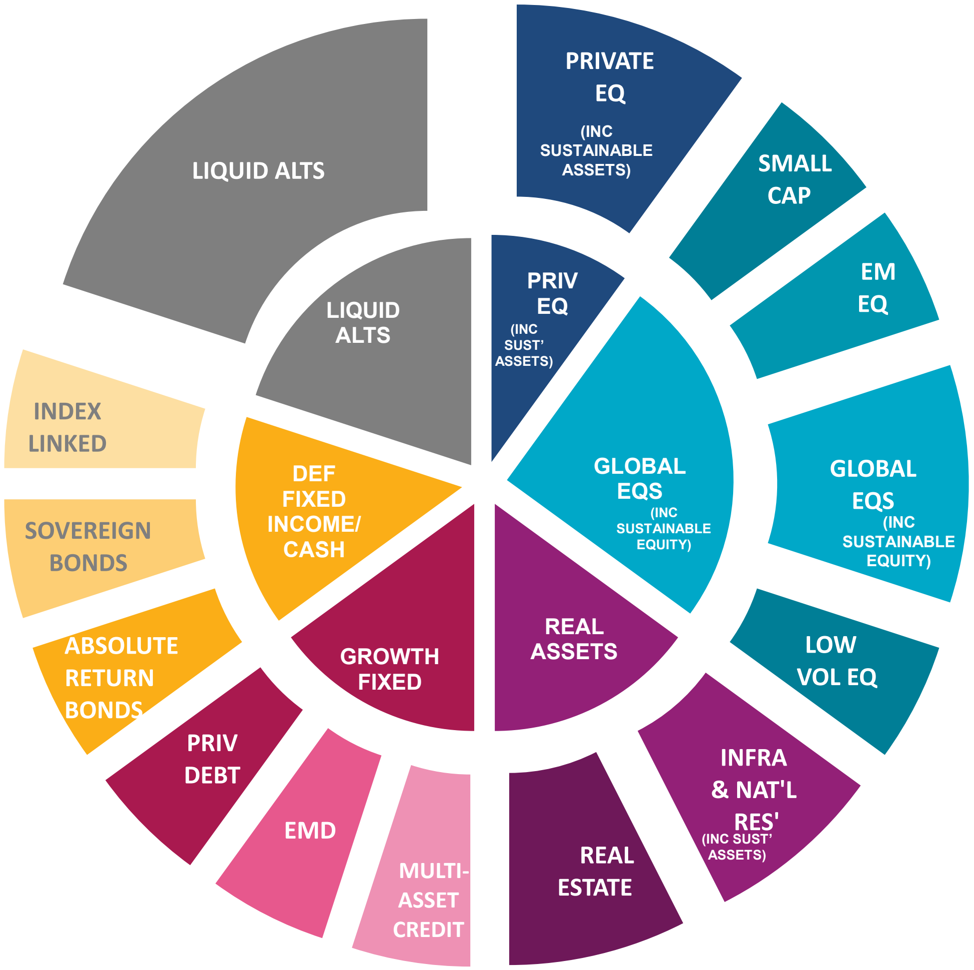
BEST PRACTICE FOR LONG TERM INVESTORS

Equity like returns with half downside risk

Diversified across multiple sources of growth:

- Private markets
- Liquid and illiquid alternatives
- Growth fixed income

Actual portfolio depends on investor objectives and domicile



CURRENCY EXPOSURE

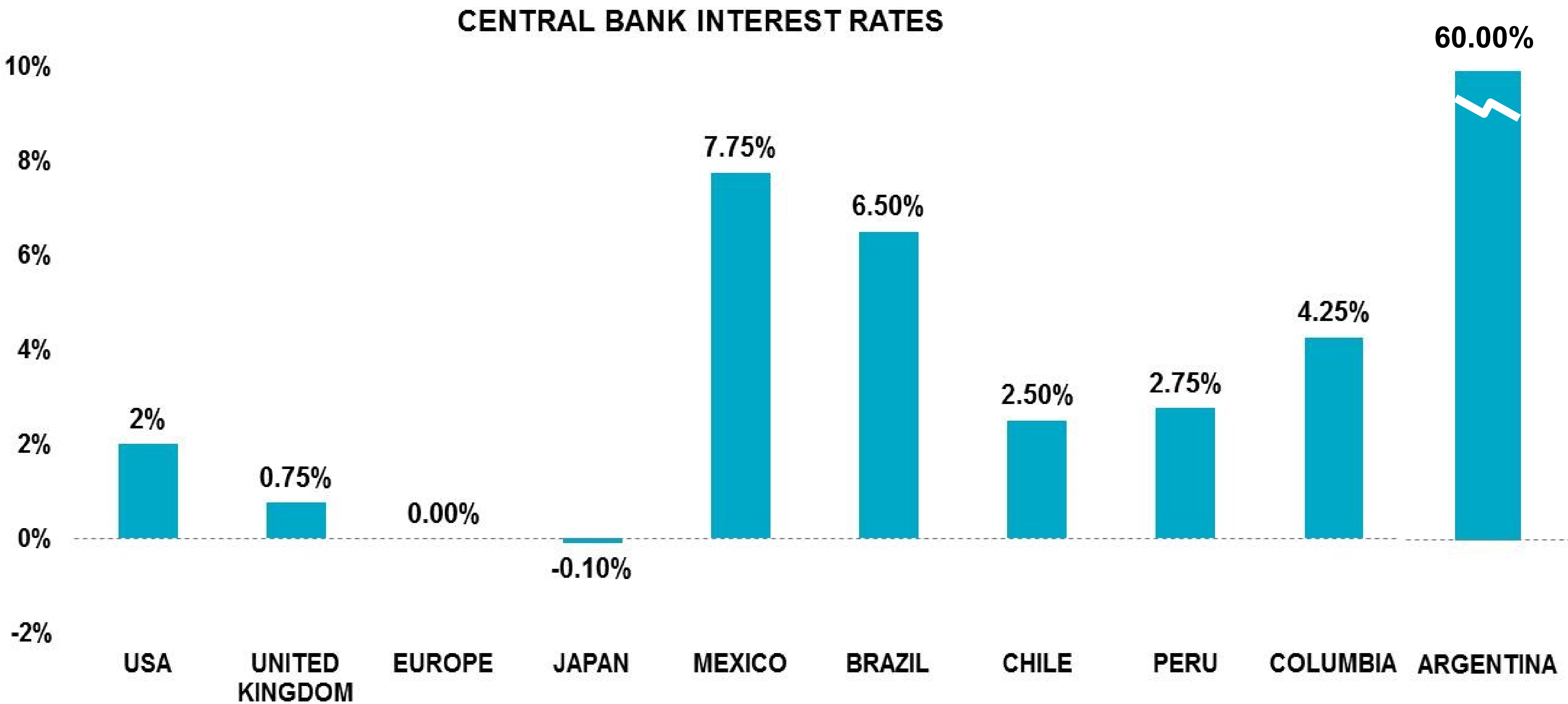
- No single answer
- Approach is investor specific

- Quantitative analysis highly time and currency dependent

- **Need** to consider:
  - Scale of exposure
  - Objectives & nature of liabilities
  - Cost of hedging & implementation complexities

- **May** consider
  - Timeframe and beliefs
  - Valuation levels
  - Nature of investment and asset managers

CURRENCY HEDGING – IMPACT OF INTEREST RATE DIFFERENTIALS CAN BE SIGNIFICANT



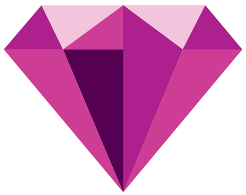
DEALING WITH CURRENCY EXPOSURE IN PRACTICE

FIXED INCOME

- Generally fully hedged, as currency volatility dominates

GLOBAL EQUITES

- Fully hedging exposure unusual, even when potential for higher returns
- Unhedged exposure can provide diversification, and inflation protection
- Partial hedge provides compromise between these positions

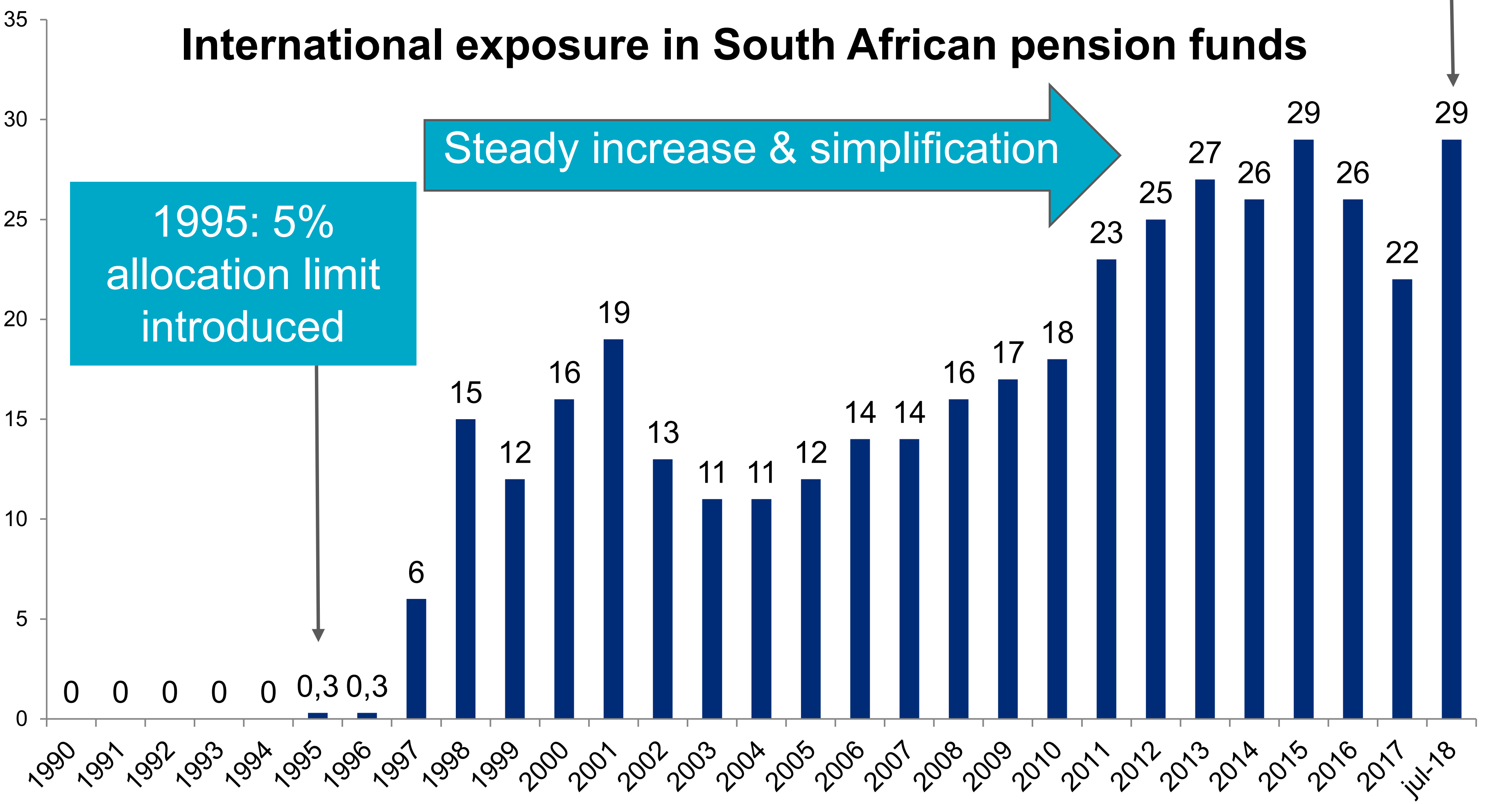


ABSOLUTE RETURN MANDATES

- Typically fully hedged to preserve nature of investment

SOUTH AFRICA AS A CASE STUDY

2018: Increase to 30% limit + 10% Africa



Source: Alexander Forbes Large Manager Watch and Old Mutual Investment Group

SOUTH AFRICA'S EXPERIENCE

- Pension funds are primarily defined contribution investors, objective of international exposure is to diversify growth assets
- Started with listed equity, but allocations to private markets, hedge funds, illiquid alternatives and multi-asset credit are growing
- Investors have accepted currency volatility and benefited from being unhedged
- Generally viewed as a success, by investors and regulators
- Supported development of capital markets, increased product innovation and competition in asset management

OTHER CONSIDERATIONS FROM OPENING MARKETS

Asset Owners

Governance

- Capacity for increased complexity
- Broader range of skills required
- Managing costs and ability to retain scale

Asset Managers

Capabilities

- Access to new markets
- Need to develop skills, resources and talent
- Product innovation and structure decisions

Policy Makers

Speed

- Macroeconomic concerns
- Investment discipline, transparency and liquidity promotes greater long-term domestic saving
- Growth of mandatory pension savings potentially greater than local capital market

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