Access to more solutions

ASHBURTON INVESTMENTS

Focused Insight

A part of the FirstRand Group

Ashburton Investments is the FirstRand Group's investment management business. We are a new generation Africa-based investment manager that places our clients at the centre of our thinking.

The strength of our investment proposition is our unique ability to leverage investment thinking and capability across the FirstRand Group to provide investors with access to more sources of return, broader investment capabilities and greater risk management.

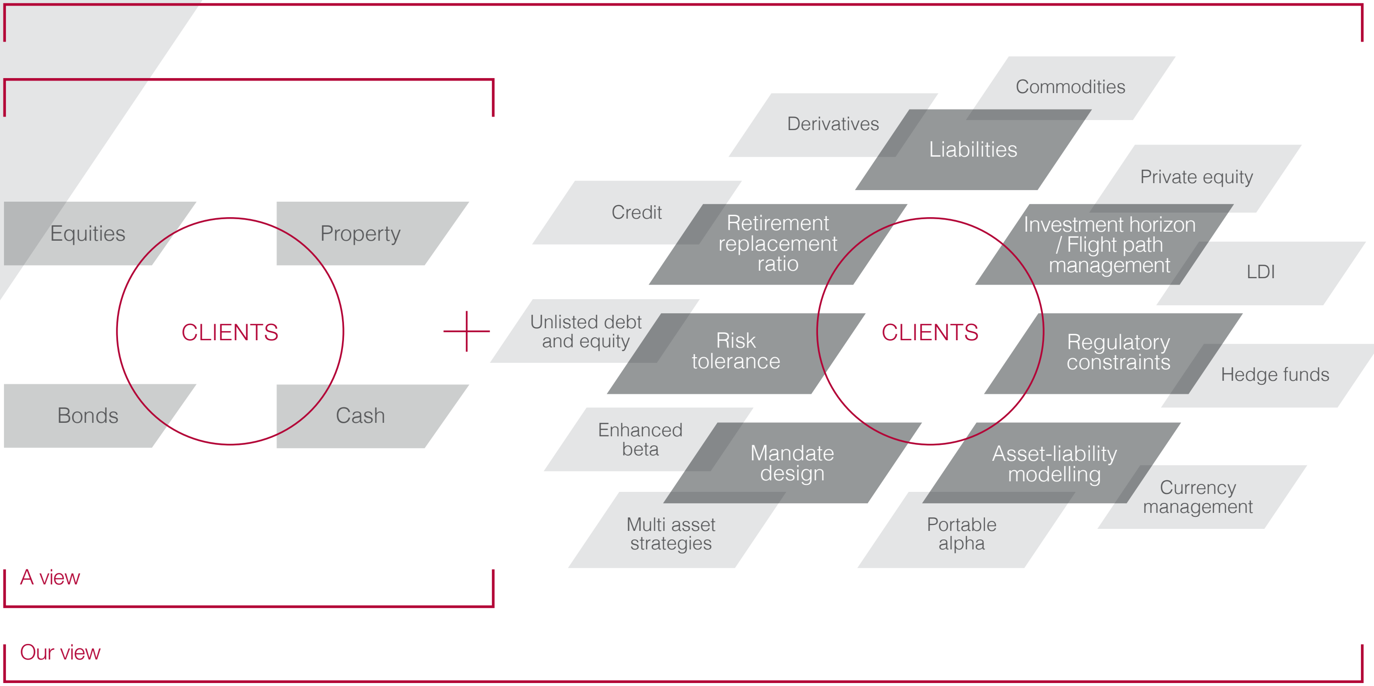
Our integrated investment approach blends traditional and non-traditional investment expertise with innovative alternative and customised solutions.

Our assets under management exceed R135 billion* and we have extensive geographical reach with offices in South Africa, the United Kingdom, Channel Islands and United Arab Emirates.

* As at March 2016

Our view of solutions

Traditional investment management focusing on traditional asset classes forms the core building block of any investment strategy. However, an increasingly complex financial environment demands a broader perspective on the risk management techniques and investments that can provide clients with a complete solution.



Source: Ashburton Investments

A constantly changing regulatory environment has also increased the complexity of investment management and the variety of investment options and solutions applicable to clients. The result is an increasing overlap in the manner in which regulators, from different but related industries, are dealing with risk management.

One example of this is the risk-based approach originally developed for banks and which is now being adopted by insurance regulators in developing new solvency regimes and capital adequacy requirements.

Investment managers that wish to remain relevant will have to respond to these changes.

Current themes with clients

Theme 1: Liability Driven Investing (LDI)

We work with defined benefit pension plans, post-retirement medical aid funds and mining rehabilitation schemes to implement and manage investment portfolios designed to protect against the key risks related to meeting their liabilities. There are two main approaches which we categorise as Level 1 and Level 2 LDI.

- **Level 1 LDI**

  This is about constructing a purely physical bond portfolio that helps trustees and sponsors protect their fund's solvency level against changes in long-term interest rates (referred to as interest rate risk) and future inflation expectations (inflation risk). This bond portfolio is dynamically adjusted to take into account changes in the projected liability cash flows. As an asset manager skilled in a variety of asset classes, we offer clients access to strategies to enhance the yield of these bond portfolios such as the selective inclusion of credit where we work closely with our credit portfolio managers and analysts.

- **Level 2 LDI**

  Clients who are comfortable awarding us discretion to use a wider toolkit are able to take advantage of opportunities to further diversify their asset allocation. The use of portable alpha strategies has been widely recognised as effective in allowing clients to retain their exposure to yield enhancing assets, such as credit, while at the same time protecting their funding levels against interest rate and inflation risk.

Theme 2: Post-retirement medical aid solutions

Many sponsors with post-retirement medical aid liabilities are considering their options for funding and investing to meet these future liabilities.

For clients who have already set aside assets and are relatively well funded, the LDI themes outlined above are relevant.

Other clients have not set aside sufficient funds and may require a plan to reach full funding over a period of time. Here Ashburton Investments uses our modelling tools to help clients evaluate different approaches to funding the liability by considering:

- Sponsor affordability;
- Timing of contributions; and
- An appropriate investment strategy to help reduce the contribution burden on the sponsor, having regard to traditional and non-traditional sources of return.

Beyond the investment implications, we have established relationships with leading insurance experts and are able to offer our clients efficient implementation. This can include the use of insurance wrappers where appropriate.

Theme 3: Increasing exposure to assets with explicit inflation linkage

A common theme amongst South African pension funds and insurers is increasing their exposure to those long-dated bonds which offer an explicit link to inflation. Unfortunately those bonds, due to their relative scarcity, trade at a premium and so offer low real yields. Natural issuers of inflation-linked bonds will tend to be governments and other entities whose future revenue streams can be expected to increase in line with inflation over the long term like utilities (eg Eskom) and infrastructure projects (eg the N3 toll road).

More recently South Africa's renewable energy projects have resulted in the origination of CPI-linked debt. Ashburton Investments has the only CPI-linked debt offering that can provide clients exposure to long-dated, inflation-linked assets at attractive yields relative to government bonds, even after adjusting for the extra risk.

Theme 4: Reducing the risk of portable alpha strategies

With their large holdings in relatively low yielding government bonds, many pension funds and insurers use portable alpha strategies to enhance the yield on these portfolios. These strategies introduce risks linked to the use of derivatives. One of the key risks is the lack of certainty with which this 'alpha' can be efficiently transported for the duration of the strategy. This is especially true in turbulent markets.

The recent past has been characterised by relatively benign market conditions, so many clients have not questioned how these portable alpha strategies would perform in times of market stress. However, interrogating the sustainability of strategies and mitigants that can be put into place to manage risk is essential. This is in line with international best practice. A good example of international best practice is the UK government's pension guarantee scheme, which insures pension savings against the risk of a company defaulting on its pension obligations, which has implemented some of these strategies Ashburton Investments offers our clients access to a range of risk management strategies designed to specifically enhance the long-term sustainability of these portable alpha strategies.

Theme 5: Holistic balance sheet investing for insurers

We partner with insurers to manage portions of their investment portfolios that are tailored to the nature of the insurer's liabilities as well as to the regulatory environment. Solvency Assessment and

Management (SAM) is a new regulatory regime for South African insurers modelled on regulatory changes for European insurers known as Solvency II. South African insurers may be faced with increased regulatory capital requirements in instances where the risk profile of their assets is not well aligned with that of their liabilities. Ashburton Investments has the experience, knowledge and tools to design investment portfolios for insurers taking into account the capital efficiency of that portfolio in addition to conventional risk and return metrics.

Examples of investment portfolios we manage for insurers include:

- Unlisted debt: The unlisted debt market presents attractive opportunities for insurers to add yield enhancement to their investment portfolios. Unlisted debt tends to be senior in the capital structure of the borrower and can be secured, thereby allowing insurers to benefit from lower capital charges relative to traditional debt investments that are typically listed and unsecured.
- Cash management solutions: We manage bespoke money market investment portfolios for insurers aligned with the liquidity profile of their liabilities. We consider diversification of credit risk as well as any security that may be provided by borrowers to provide insurers with increased certainty that they can meet their liability payments as they fall due.
- Capital efficient equity exposure: SAM allows insurers to maintain their equity exposure under certain prescribed circumstances. We use equity protection strategies as an overlay to traditional equity portfolios (active or passive) to mitigate the risk of extreme losses. By further tailoring these protection strategies to suit the requirements of SAM we can assist insurers who wish to reduce their regulatory capital charges on equity investments.

Our Solutions team

Our clients' investment goals and liability considerations can't always be met by investing solely in off-the-shelf investment products.

Our Solutions team is able to understand our clients' investment objectives and then customise investment strategies to meet these objectives. Because of their multi-disciplinary expertise, they can take full responsibility for the initial implementation as well as the ongoing management of clients' customised investment strategies.

The strength of our Solutions team lies in their diverse backgrounds across a variety of financial disciplines, including:

- Fund management across public and private markets
- Actuarial
- Asset-liability modelling
- Investment consulting
- Cross-asset derivatives trading and structuring
- Systematic strategies across assets
- Tail-risk hedging
- Commodities
- Index tracking
- Hedge funds
- Alternative investments
- Principal investments including credit, real estate and infrastructure.

Our Solutions team has experience in implementing de-risking mandates across the globe, including Europe, North America and Africa. This experience includes:

- Client engagement experience ranging from R20m to R200bn, as measured by the size of the LDI programmes.
- Experience of low governance, low cost bond only solutions designed to dynamically track the change in the value of the liabilities.
- Experience of complex, customised solutions including portable alpha.
- Experience in navigating LDI strategies through turbulent markets including the default of Lehman Brothers while managing LDI strategies for UK pension funds.
- Our team members' largest single engagement using swaps and bonds was for R120bn.

Contact us to access more

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A part of the FirstRand Group

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