

## US Fed will affect investment business in 2014

The business of investing will continue to be markedly affected by both the talk and actions of the US Federal Reserve in the New Year. The key to success for investment managers lies in pursuing opportunities to expand assets under management and diversify revenue streams.



Johan van der Merwe, Head of Sanlam Investments (SI)

According to Johan van der Merwe, head of Sanlam Investments (SI), the 2014 priority list includes Africa passive investing and the South African retail market. Van der Merwe says it will be difficult for investment managers with an emerging market bias to sidestep the quantitative easing (QE) juggernaut. "We know the QE tapering is on the table and have already witnessed the ripple effect of its announcement on emerging markets. But we are limited with regard to the steps we can take to mitigate the inevitable fallout."

Sanlam Investments is aware of the correlation between investment managers' profits and market performance and has identified various opportunities to soften the blow as global markets transition from a period of 'fed speak' to one of 'fed action'. "First and foremost it is vital for investment management companies to have an investment philosophy that they stick to," says Van der Merwe. "This philosophy is their anchor during periods of market turmoil." SI applies a value investment philosophy regardless of what stage of the market cycle they are in.

### Three trends

From an operational perspective, Van der Merwe singles out three trends that South African investment managers can leverage over the next few years.

The first is that South Africa is behind the international curve where passive investments are concerned. "Passive investment will continue to take off locally, especially in a low income and return environment where the cost of managing funds becomes an issue," he says. This belief is borne out by SI's decision to acquire 100% of exchange traded fund provider Satrix in May 2012 and to launch a range of new index funds in the latter part of 2013 and early 2014.

The second trend is the rise of the financial services consumer and the potential for investment managers to tap into a more savvy retail investor. SI sees a lot of upside in the retail segment as South Africa addresses its rather lacklustre savings culture.

Investment managers will have to tread carefully in the retail space in order to comply with South Africa's

stringent pro-consumer financial regulations. "While investment managers are not subject to the strict capital requirements that banks and insurers are, there is a massive obligation on us to ensure compliance with pro-consumer regulation such as the pending treating customers fairly (TCF) regime," says Van der Merwe.

#### Exposure to Africa

The third and perhaps most lucrative trend is that Africa is once again 'top of mind' for international investors. The Sanlam Group has made moving into Africa part of its strategy and through Sanlam Emerging Markets has direct business exposure to 13 African countries (excluding South Africa). The group has enjoyed great success through joint ventures and partnerships with established financial services players in each of these markets.

"From an investment perspective we have also leveraged the African reawakening via a range of Pan African funds," says Van der Merwe. The group's Pan African Equity Fund and Pan African Property Fund have been well received, with a Pan African Credit Fund set for launch in the coming year.

"We have been investing in African credit over the last four years off our own balance sheet and have a very good track record," he says. "This experience, coupled with our 13 country African footprint, makes for a powerful argument when approaching investors to support our Pan African funds."

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