

# South African Collective Investment Scheme

## Performance Fees

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## **Abstract**

This paper is an analysis of the South African Collective Investment Schemes (CIS) performance fee structure. The paper looks at the methods used in the calculation of performance fees and provides a detailed breakdown of their implementation in the South African CIS industry. With the aim to show and explain the various performance fee structures that are currently in place in the South African CIS market and then to highlight differences in structures between so-called “similar funds”.

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# Part One

## 1. Research Question

This research paper attempts to explain and demonstrate the numerous performance fee methods and structures currently used by South African Collective Investment Schemes industry (CIS). A thorough analysis has been performed and presented. With the research question being:

1. Which South African CIS have elected a form of performance fee compensation?
2. Of those that have elected to do so, what structure of calculation have they put in place?

The question of whether a performance fee structure is fair to an investor will be considered and analysed and a discussion on the use of performance fees as options for an investor on the funds performance will also be provided.

## 2. Literature review

Performance fee incentives in Mutual Funds<sup>1</sup> have a number of aspects that require careful consideration when assessing, not just their relevance, but also their implementation into these funds. Should a performance-based incentive be present in mutual funds? If so, which form should it take? There have been a number of academic discussions looking at both of these aspects.

### Performance Fee Incentives and Mutual Funds.

The most significant discussion regarding performance fees and mutual funds is the paper titled "*Incentive Fees and Mutual Funds*", by E.J. Elton, M.J. Gruber and C.R. Blake, published in *The Journal of Finance* (2003). The paper concludes that mutual funds that employ performance fees do not, on average, earn positive (or negative) performance fees as they do not consistently outperform their benchmarks, however it was found that mutual funds with performance fee structures in place had lower Total Expense Ratios (TER) than those mutual funds without a performance fee structure. They also found that mutual funds with performance fee structures exhibited better stock picking abilities, as well as better risk-adjusted returns, which is concluded to be higher because of better fund management performance as the performance fee incentive results in attracting managers who are more skilled or who will exert more effort than those who are attracted to funds without performance fees.

The paper found that on average, performance fee funds take on more risk than non-performance fee funds and that a fund manager will increase risk after a period of poor performance and decrease it after a period of good performance. They concluded that a sophisticated investor is better off buying funds with performance fees than buying funds with no performance fees (Elton, 2003).

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<sup>1</sup> Known in South Africa as Collective Investment Schemes (CIS)

In Danilo Drago, Valter Lazzari & Marco Navone's 2010 paper *Mutual Fund Incentive Fees: Determinants and Effects* they highlight that the American mutual fund industry is not an ideal data set to study as the Investment Company Act of 1970 made it illegal for a mutual fund to charge asymmetrical fees. Asymmetrical fee structures are one sided bonus incentives where only upside performance is received. With this structure there would be no reduction in fees should the fund manager underperform their benchmark. This fee structure takes the form on an option on positive performance of the fund and can ultimately be seen as a bonus on positive performance. The alternative structure of symmetrical fees is more commonly known as a Fulcrum fee structure. As the take up by American mutual fund managers to use any form of incentive based fee is significantly small, a more conclusive study needed to be performed on an alternative market. Drago, Lazzari and Navone argue that this is that of Italian mutual fund market, as they are "free from relevant regulatory constraints on any compensation scheme fund managers might set" and as a result provide an environment where asymmetrical incentive fee structures are "a typical element of mutual fund compensation." (Drago, 2010)

Their study on the Italian mutual fund industry finds that there is no evidence to support the hypothesis that incentive fee provisions serve as a signaling tool to differentiate strong managers from under or poor performing managers. This result was supported by a 2007 Grant Thornton study of United Kingdom mutual funds, which concluded that the inclusion of a performance fee compensation method provided little evidence of manager outperformance compared to those funds with fixed fees. (Grant Thornton, 2008)

Drago et al, finds that performance fee structures tend to be elected by the Investment Companies<sup>2</sup> (ICs) as strategic pricing policies rather than as an independent fund decision and that funds that are established in periods of strong market performance are more likely to have a performance fee structure in place. Which they assume to be due to the investor being less concerned about the cost structure of the funds. (Drago, 2010). In a further study by Apa and Griffith (1998) they further provide results that the selling expense of a mutual fund does not have a significant correlation with excess return or total return of that fund.

Other important discussions on performance fees include the paper "Performance Fees for Investment Management", by L.E. Davanzo and S.L. Nesbitt, published in *The Financial Analysts Journal* (1987), which discusses the history of performance fees and the general concepts thereof. In a South African context, J.C. Schreuder's 2006, paper titled "Performance-Based Investment Management Fees, A South African Perspective", examines basic performance fee concepts and applies them to a South African environment. He analyses methods of calculating performance fees for single strategy and fund of funds investors. Lastly, he examines the issue of performance fee valuation. Schreuder concludes his paper by providing his thoughts on performance fee fairness

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<sup>2</sup> Also know as Asset Management Firms

between investors and fund managers, he states that “it would be difficult to prove that performance fees offer greater fairness than fixed rate fees” but that they do attempt to “charge an investor for the fund managers skill in a more efficient way.” The level of fairness according to Schreuder is based on symmetry, in particular symmetry of knowledge and the transparency of all the methods of fee calculation. (Schreuder, 2006)

L.T. Starks, in *The Journal of Financial and Quantitative Analysis* (1987), titled “Performance Incentive Fees: An Agency Theoretic Approach”, published an in-depth study focusing on performance fees and their alignment of interests between fund managers and investors. She found that when the performance benchmark is the market portfolio, optimal symmetric performance fee schedules eliminate potential agency problems. When the manager’s only decision is to select the portfolio’s risk level, the optimal symmetric performance contract will provide the appropriate incentives for selecting the investors desired risk level. On the other hand, if the manager’s decisions include the amount of resources to expend on managing the portfolio, the agency problem is not eliminated by the symmetric performance fee schedule. The portfolio manager will always choose a lesser of resources amount than the individual investor would desire (Stark, 1987). The promotion of performance fees as method to provide shared incentives between fund managers and investors is therefore flawed in the vast majority of performance fee structures as will be demonstrated in this paper.

## **Measurement of Mutual Fund Performance**

Performance fees are an attempt to provide an investor with the best possible returns (risk adjusted returns), through incentivizing a fund manager. It is therefore important to be able compare a fund’s performance to that of other possible investment opportunities. For mutual funds a benchmark is an important tool to compare a fund’s performance to that of its peers (these would be considered funds that have similar investment and risk mandates). As mutual funds are grouped into numerous investment classifications a suitable benchmark allocated to each specific classification allows for a comparable measurement of performance to be established. A benchmark index allows investors to see the passive or market return of a mutual fund.

There are a number of measurement models that look at comparing the returns of a Mutual Fund to that of a benchmark index. A number of these methods of assessment are based on the Capital Asset Pricing Model (CAPM), which looks at the relationship between risk and expected return of an asset.

The Treynor model (1965) looks at the volatility of the funds returns with respect to the market return. This measures the excess return that has been earned by the fund portfolio compared to the market portfolio adjusting for risk. The Sharpe model (1966) builds on to the Treynor model idea of excess return however this model looks at the excess return per unit of total risk compared to the benchmark return. The Jensen model or Jensen’s alpha (1968) is concerned with the difference between the actual portfolio returns and the benchmark returns.

These three methods of evaluation are seen as the core evaluation tools for mutual funds. There are however a number of other methods of evaluation, such as Multi Beta Models like the Arbitrage Pricing Model and the Multifactor model, which are both expansions on the CAPM model. Market Price based models and Accounting Information models are other such methods of portfolio theory assessment tools.

Studies however have found that there is a high correlation between the multi-factor models and the three CAPM models, US market (Simons 1998), Italy (Basso and Funari 2001). This indicates that for a basic understanding of relative return performance the CAPM methods, particularly Jensen's alpha can still provide the best method of assessment.

The ability to compare the risk-adjusted performance of a fund to that of a benchmark and other similar funds allows investors to ascertain the true value added the fund manager has provided. A conclusion on a fund managers compensation based on this performance is more easily digested when a suitable benchmark is available.

## **Benchmark Selection for Performance Fees**

As performance fees are based on a fund's returns relative to a specified benchmark it is important that the impact of a benchmark to the fees received is evaluated (Horan, 2008). In Jeffery Baileys paper *Evaluating Benchmark Quality* he lists several criteria to evaluate a benchmarks suitability:

- *The Benchmark should contain a high proportion of the securities represented in the managed portfolio*
- *The proportion of the benchmarks market value allocated to purchases during rebalancing, should be low*
- *The manager's active position as defined by the benchmark (the managed portfolios allocation to a security less the weight of the security in the benchmark) should be mostly positive.*
- *The benchmarks percentage allocations to securities should represent investable position sizes, given the managers total assets*
- *The variability of the managers active return as measured against the benchmark should be lower than the active return as measured against a market portfolio*
- *The correlation between the extra-market returns of the managed portfolio and those of the benchmark, which relates the managers performance adjusted for the market to the benchmarks performance measured against the market, should be significantly positive, at the same time*
- *The correlation between the extra-market returns of the benchmark and the managed portfolio returns adjusted for the benchmarks returns should be close to zero*

- *The style exposures of the managed portfolio and the benchmark as defined by a multifactor risk model should be the similar (Bailey 1992).*

It is important that the benchmark not only incorporates those assets the manager invests but also the risk characteristics of the assets. Performance evaluation theory stresses the importance of using good benchmarks (Holmstrom 1979) and as a consequence in the US funds are required by the SEC to provide their returns alongside the returns of a passive benchmark index (Sensoy 2008). The same is true with South African CIS who provide a benchmark index as detailed by The Association for Savings and Investment South Africa (ASISA). In both these countries and around the world it is not the regulating body that chooses which benchmark is used, but rather up to the manager to select the most suitable index. The suitability of the performance indicator can be questioned and whether or not they are actually suitable. Fama and French (1992) discuss how a benchmark must be defined by value/growth as they are associated with average returns and return covariances. Therefore for a funds benchmark to be maximally useful it needs to match the funds exposure to size and value/growth factors, however this is not often the case. (Sensoy, 2008)

The use of an inappropriate or even just a poorly suited performance benchmark allows for strategic advantages, such as improving investor flows (Sensoy 2008). In this paper looking at performance fees it is also important to consider the performance fee benchmark (also known as the fee hurdle) alongside the benchmark. The use of a poorly fitting fee benchmark will allow a manager to receive compensation for a real return that was not accurate. If the chosen fee benchmark were too low this would reward the fund manager for average returns. A performance fee is the reward of a funds alpha (return above the benchmark), so a poorly fitted benchmark would provide an inaccurate alpha and ultimately reward the fund manager for returns that did not accurately capture the true value added.

An example of this might be a fixed interest fund, where the benchmark might be the all bond index, and yet the mandate of the fund allows the fund manager to invest in more high-risk credit instruments, thus earning a performance fee for performance attained by holding riskier off benchmark investments.

The chosen benchmark is too low: which encourages the fund manager to take on extra risk in order to earn performance fees. Ultimately, too much risk will be disallowed by regulatory authorities, or the extra risk may implode, leading to capital loss. However, very few managers actually take on too much risk, as investors will sell out. Furthermore, the high water mark (discussed further on) shortfall will be much higher and it will take longer to recover. Knowing this, performance fees are more likely to encourage fund managers to be more conservative as they are afraid to lose much more ground versus the high water mark (Still, 2009).

It is therefore important to highlight that the performance relative to a benchmark is not necessarily an indicator of manager skill, as the construction of assets may differ between the fund and the stated benchmark. (Admati, 1997).

It is important to note that benchmarks do not include fees, expenses and trading costs, which are incurred by mutual funds. (Daniel, 1997)

## Valuing Performance Fees as an Option

In Drago (et al) paper *Mutual Fund Incentive Fees: Determinants and Effects* they mention how asymmetrical performance fees can be seen as an option on a mutual fund's performance. This concept was studied by Mark Kritzman in the Financial Analysis Journal titled "Incentive Fees: Some Problems and Some Solutions" (1987). He describes how the manager has the luxury of receiving the upside of performance through the payment of the performance fee and the protection of the downside with the security of the base fee. Kritzman based his article on the ideas of W. Margrabe, who first discussed the possibility of valuing performance fees as an option; Kritzman, however, removed the idea that the fund manager would have to reimburse fees to the client, should the portfolio underperform the benchmark. Kritzman makes two distinctions between the standard Black-Scholes option valuation method, and the valuation of performance fees as an option:

Firstly, the value of the option does not depend on the risk of the portfolio, but rather the net risk of the portfolio and the benchmark. It is important to measure not only the variance of the portfolio but also the variance of the benchmark and the correlation between the two.

Secondly, normal option pricing utilises the risk-free rate; however for a performance fee to occur, the benchmark must be achieved, therefore in this case there is no risk-free rate. Kritzman then proposed an adjusted formula for the pricing of a performance fee as an option, in which the risk-free rate is removed and the variance of the portfolio now consists of the variance of the portfolio and the hurdle (known as the tracking error), as well as the correlation between the two. Hence, he arrives at the following formulation for pricing performance fees as options, where:

$$V = \delta [X_1 N(d_1) - X_2 N(d_2)]$$

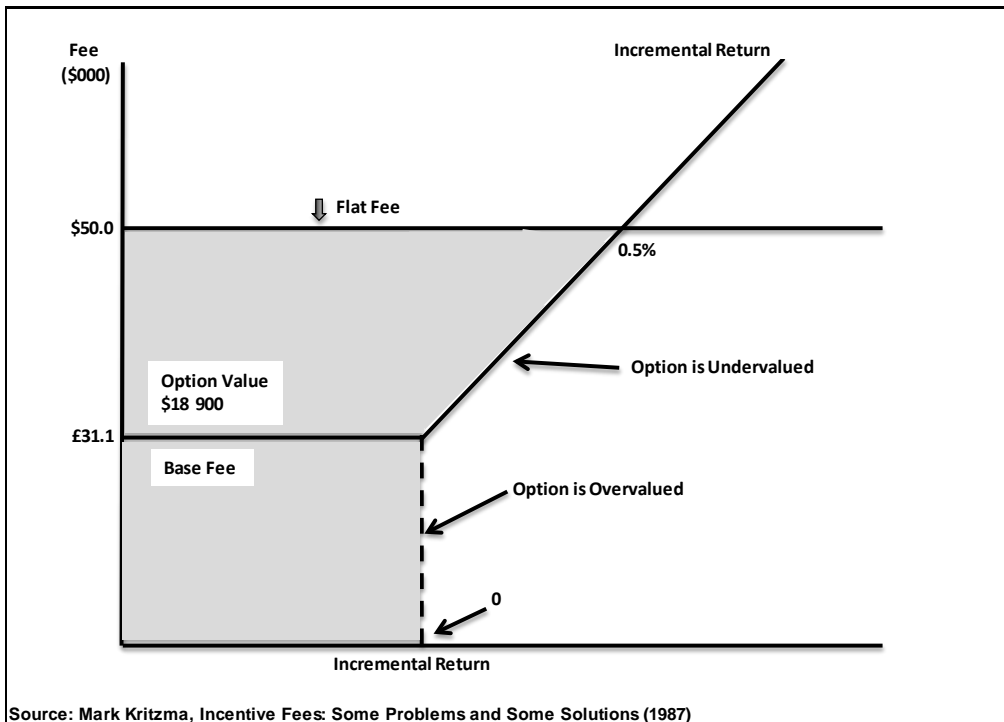
$$d_1 = \frac{\ln\left(\frac{X_1}{X_2}\right) + \frac{1}{2}(\sigma_1^2 + \sigma_2^2 - 2\rho\sigma_1\sigma_2)T}{(\sigma_1^2 + \sigma_2^2 - 2\rho\sigma_1\sigma_2)^{1/2}\sqrt{T}}$$

$$d_2 = d_1 - (\sigma_1^2 + \sigma_2^2 - 2\rho\sigma_1\sigma_2)^{1/2}\sqrt{T}$$

$V$  = value of incentive fee  
 $\delta$  = participation in incremental return  
 $X_1$  = value of portfolio  
 $X_2$  = value of benchmark  
 $\sigma_1$  = standard deviation  
 $\sigma_2$  = standard deviation  
 $\rho$  = correlation between portfolio and benchmark  
 $T$  = measurement period  
 $N(\cdot)$  = cumulative normal density function

In Kritzman's paper, he gives an example using the following diagram to highlight whether the option of the performance fee was under or overvalued, and hence whether the manager should charge a higher base fee, or a lower fee with the performance fee option:

Flat Fee versus Base Fee plus Option Value of Incentive Fee



Kritzman described a fund with a value of \$10 million, and calculated using the Black-Scholes option valuation method the value of the option to be 0.189%, or roughly \$18 900. He then calculates that if a manager usually charges \$50 000 (0.5%) for the base fee, then the base fee adjusted for the performance fee option should be reduced to \$31 100. It is with this value as the base that we can evaluate if the fund manager under or overvalues the option. In his example he states that, should the manager set the base fee higher than the \$31 100, he would then be undervaluing the option as he would look to be receiving a total fee higher than that of the flat fee (i.e. no performance fee); the converse is obviously when the manager charges a base fee below the standard \$31 100 level, as in this instance, the manager is overvaluing the performance fee option.

Martin Lee Director of Quantitative Fixed Income Research at Citigroup presented a short report *Simulation Analyses of Performance-Based Fees* in this report he discussed the further complications with valuing performance fees as options. When valuing performance fees as an option the volatility of returns is captured as the tracking error of the fund to that of the fee benchmark. Therefore the higher the tracking error the higher the volatility and ultimately the higher the value of the option will be. Lee then explains that because the downside volatility of performance fees are protected by the minimum base fee charged. There are a very small number of funds that do provide a fee rebate should the fund underperform however this is not the norm both in South Africa and internationally. A limit to downside volatility therefore incentivises the manager to increase his risk.

It is common for funds to offer a maximum performance fee, the inclusion of a “fee cap” results in is equivalent to selling the investor a call option, with the strike at the maximum fee level. The incentive for a manager to increase his portfolio risk is therefore reduced. As an option moves closer to maturity

or termination, there will be an incentive for a manager already operating “in the money” to not increase the portfolios risk.

Lee runs a number of models based on specified parameters<sup>3</sup> Please see below for his results<sup>4</sup> for the average annual fee base for funds with A) No performance fee, B) Performance fee but no cap, C) Performance fee with an 80bps fee cap.

## Valuing PBF Formulas

### Valuation of the Specific Base Case

| Evaluation Metric                                   | Asset-Based Fee Regime | PBF Regime (no fee cap & w/o termination) | PBF Regime (80bps fee cap & w/o termination) |
|---|------------------------|---|--|
| <b>10-Year Horizon Stats</b>                        |                        |   |  |
| Avg Annual Fee (%)                                  | 0.40                   | 0.54                                      | 0.43   |
| Avg. Annual Fee (PV) (in % of initial value)        | 0.38                   | 0.58                                      | 0.46   |
| Std Dev PV Fee                                      | 0.0                    | 0.17                                      | 0.10   |
| <b>1-Year Horizon Stats (excluding termination)</b> |                        |   |  |
| Avg Annual Fee (%)                                  | 0.40                   | 0.54                                      | 0.43   |
| Std Dev Avg. Fee (%)                                | 0.0                    | 0.48                                      | 0.30   |

When assessing performance fees as options it is important to consider managers acting in their own interest and “gaming” risks in order to either lock in profit when performance is good, or increase risk when performance has been poor in an attempt to make some form of performance fee. Lee has looked at this factor assigning weighted risk factors depending on positive or negative returns as well as how long these returns continue. Based on this factor the average fee charged increases by 3%.

## PBF Formula and Manager Gaming

### Impact of Manager Gaming the PBF

| Evaluation Metric           | PBF w/ All Gaming (%) | PBF w/ Gaming in Up Periods (%) | PBF w/ Gaming in Down Periods (%) |
|-----------------------------|-----------------------|---------------------------------|-----------------------------------|
| Percent of Periods Gamed    | 54                    | 38                              | 20                                |
| <b>Stats With Gaming</b>    |                       |                                 |                                   |
| Avg. Excess Return          | 2.0                   | 4.5                             | -2.1                              |
| Average Fee                 | 0.42                  | 0.57                            | 0.12                              |
| <b>Stats Without Gaming</b> |                       |                                 |                                   |
| Avg. Excess Return          | 2.2                   | 4.1                             | -2.4                              |
| Average Fee                 | 0.39                  | 0.54                            | 0.09                              |

Finally he looked at funds that ran with High water mark structures, this he found had the most significant impact on average fee calculations with the probability of only being paid the base fee increasing from 32% to 38%

<sup>3</sup> Please see appendix 1.1 for breakdown.

<sup>4</sup> Other assumptions made: excess returns are normally distributed, No manger gaming, No HWM.

## PBF Formula and High Water Mark

### Impact of High Water Mark Condition on PBF Formula

| Evaluation Metric                                 | PBF<br>(w/o termination<br>& no fee cap) | PBF<br>(w/o termination<br>& 80bps fee cap) | PBF<br>(w/ termination<br>& no fee cap) | PBF<br>(w/ termination<br>& 80bps fee cap) |
|---|--|---|---|--|
| <b>Without High Water Mark</b>                    |  |   |   |  |
| Avg. Annual Fee (PV)<br>(in bps of initial value) | 0.58                                     | 0.46  | 0.41                                    | 0.33                                       |
| Yearly Avg. Fee (%)<br>(non-terminated periods)   | 0.54                                     | 0.43  | 0.54                                    | 0.43                                       |
| Std Dev Yearly Fee (%)                            | 0.48                                     | 0.29  | 0.48                                    | 0.29                                       |
| % Prob. of Base Fees Only                         | 32                                       | 32  | 32                                      | 32   |
| <b>With High Water Mark</b>                       |  |   |   |  |
| Ann Avg PV of Fees<br>(in bps of initial value)   | 0.47                                     | 0.39  | 0.36                                    | 0.30                                       |
| Year Avg. Fee (%)<br>(non-terminated periods)     | 0.44                                     | 0.36  | 0.48                                    | 0.39                                       |
| Std Dev Yearly Fee (%)                            | 0.47                                     | 0.29  | 0.47                                    | 0.29                                       |
| % Prob. of Base Fees Only                         | 38                                       | 38  | 38                                      | 38   |

## Part Two

### 1. Collective Investment Schemes (CIS)

A Collective Investment Scheme (CIS) is a trust based scheme that comprises of a pool of assets that are managed by a CIS fund manager. CIS are a popular form of investment, as they are easily accessible to all investors. Each investor has a proportional stake in the CIS portfolio based on how much money he or she has contributed. In South Africa CIS are also commonly referred to as Unit trusts. The word “unit” refers to the portion or part of the CIS portfolio that is owned by the investor. The “trust” is the financial instrument that is created in order to manage the investment. The trust structure enables financial experts known as fund managers to invest the money on behalf of the CIS investor. CIS provide a relatively secure means of investing in a securities exchange, or other financial instruments. An individual investing in the securities exchange or money markets is faced with a number of expense barriers. With a CIS, the money or funds from a group of investors are pooled or collected together to form a CIS portfolio and ultimately spread the cost of investing. (ASISA – Facts on Collective Investment portfolios, 2012)

Currently there are five different types of CIS<sup>5</sup>:

- *CIS in securities (the portfolio consists mainly of securities and includes all local and foreign funds registered with the Financial Services Board (FSB). Most collective investment schemes fall in this category.)*
- *CIS in properties (The portfolio consists mostly of property shares)*
- *CIS in participation bonds (The portfolio consist mainly of participation mortgage bonds.)*
- *Declared CIS (Any scheme the Finance Minister declares a CIS)*
- *Foreign CIS (Foreign schemes that solicit investments from South Africans and are not registered with the FSB)*

CIS consist of a pool of various individual investors funds, it is then through the CIS that the fund manager purchases an investment portfolio. An investment portfolio consists of a wide a variation of financial instruments such as bonds, equities, money market securities, etc.

### 2. Classification of Collective investment schemes

CIS funds are placed into specific classifications in order to (ASISA 2012):

- promote investor awareness and understanding of the various fund types;

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<sup>5</sup> According to the Collective Investment Schemes Control act no 45 of 2002 (Republic of South Africa - Government Gazette, Vol 450 December 2002, No. 24182)

- assist investors in selecting funds;
- facilitate the comparison of funds both across and within categories;
- facilitate the analysis of different types of funds.

Once a fund is classified it is required to follow a set of investment rules, known as the investment mandate, which dictate the class of assets the fund is allowed to hold, these are usually defined in percentage terms, for example an equity fund is required to always hold at least 80% of its portfolio value in equity.

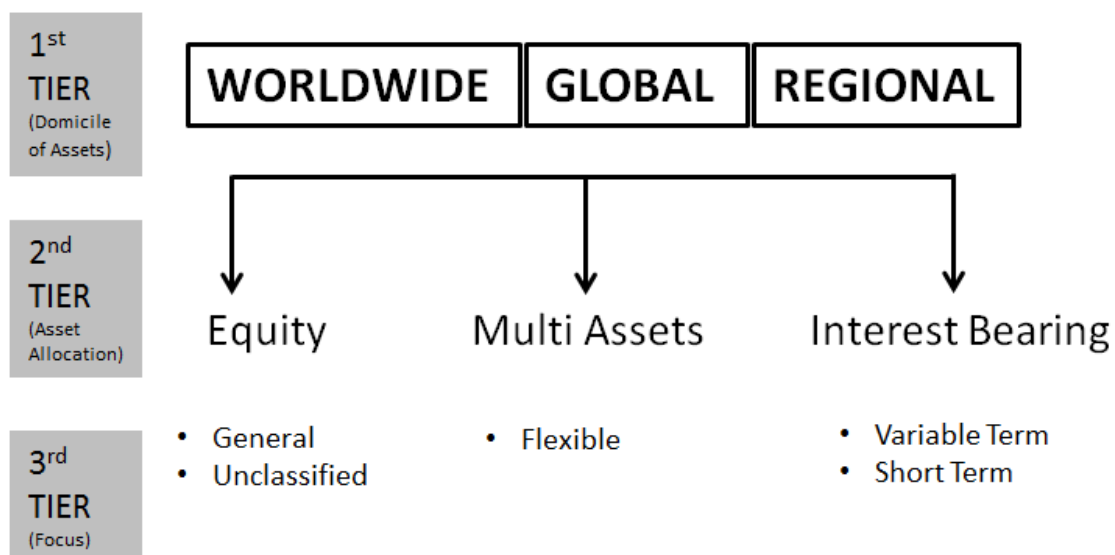
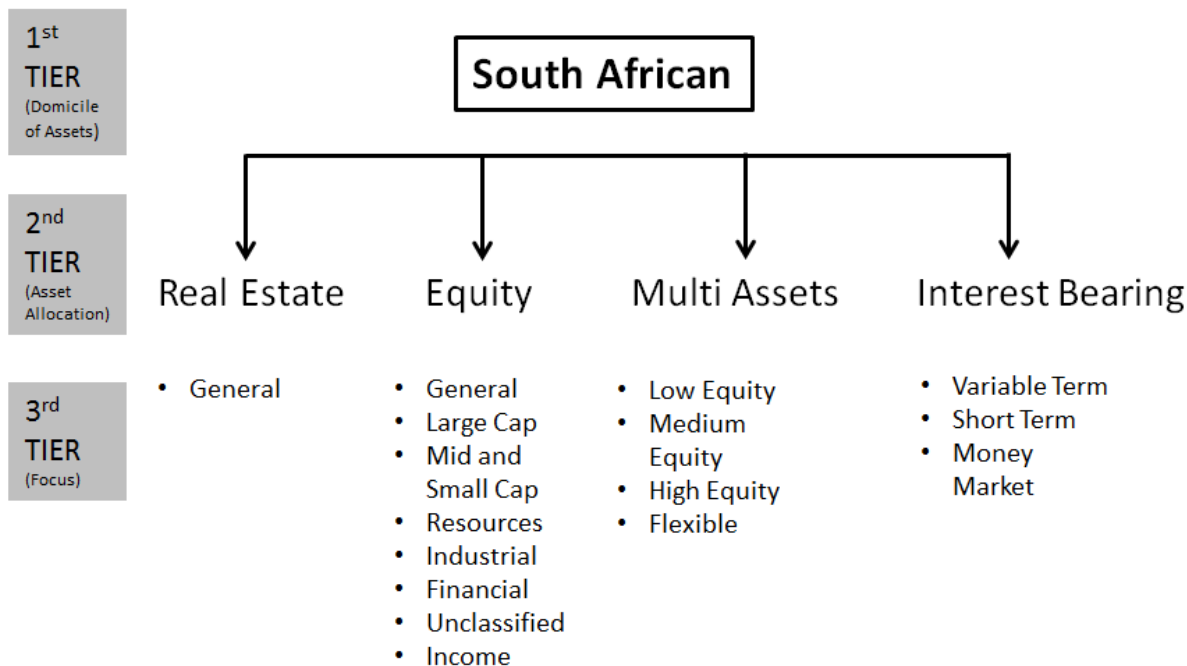
For South African CIS classification the first criteria of classification is the domicile of the fund's assets. This is split between South African, Worldwide, Global and Regional portfolios.

- South African CIS* are deemed as those that hold a minimum of 70% investment in South African assets.
- Worldwide CIS* are funds that invest across borders; there is no limit to geographical exposure for these funds.
- Global CIS* have 80% of their investments outside of South Africa, with no more than 80% of their exposure to assets to a specific geographical region.
- Regional CIS* have 80% of their investments outside of South Africa, in one specific geographical region.

The second criteria is based on the asset allocation of the portfolio investments. CIS are split into four investment categories:

- Equity portfolios* are CIS that invest in equity shares through the Johannesburg Securities exchange (JSE). Equity CIS must hold a minimum of 75% of their market value of their portfolio in equity shares.
- Multi asset Portfolios* are able to invest across the board and create portfolios holding equity, bonds, money market and property holdings.
- Interest bearing Portfolios* may only invest in bonds, money market securities or fixed income earning securities
- Real Estate Portfolio* are schemes that make investments in listed property shares, they must hold at least 50% exposure to real estate securities at all times.

The third tier of investment mandate further classifies funds according to their investment focus based on the following: sector; equity holding; return objectives or more specific instrument holdings. The table below gives a breakdown of the three ASISA classification tiers.



For a further detailed breakdown of each fund classification please see Appendix 2.

## CIS schemes Benchmarks

The JSE makes use of the Industry Classification Benchmark (ICB), a worldwide but not fully standard approach to benchmark classification. The ICB sets out a specific benchmark portfolio based on the sector of investment. The aim of this is to be able to compare similar funds to one another as well as providing a standard base level of expected performance (the benchmark). In South Africa specific benchmarks are provided for each of the CIS classifications. This is also shown in Appendix 2.

## Classes of CIS investment units

There are two distinct types of CIS investors: retail investors and institutional investors. A retail investor is usually an individual who invests for his or her own personal account. Whereas an institutional investor is a financial institution such as a bank, pension fund, another CIS, etc. Who makes large investments on behalf of their clients.

Due to the size of institutional investments they are usually able to receive a discount on the fees charged by the CIS, it is for this reason that separate classes of investment units are established. Which are most often based on investment size. Currently funds can have two types of units or classes<sup>6</sup> (ASISA – Facts on Collective Investment portfolios, 2012).

- **Class A:** retail class of investments for the sale of new or additional CIS units.
- **Class B:** institutional class, specifically for new or additional investments by large institutional investors, with stringent entry criteria.

The different fee structures for the two classes are clearly defined in the fund fact sheet as well as the initially fee disclosure form provided by the asset manager.

## Single Strategy and Funds of Funds

CIS that invest direct into the instruments available to them through their mandate are known as Single Strategy funds (SS). CIS that invest into a number of CIS are known as Funds of Funds, as the name makes mention these CIS are comprised of a number of underlying single strategy funds that are then used as a portfolio.

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<sup>6</sup> Any fund launched prior to June 1998 was not allowed to charge more than a 1% annual fee and 5% initial fee, these funds are now classified as Class R. (R stands for regulated)

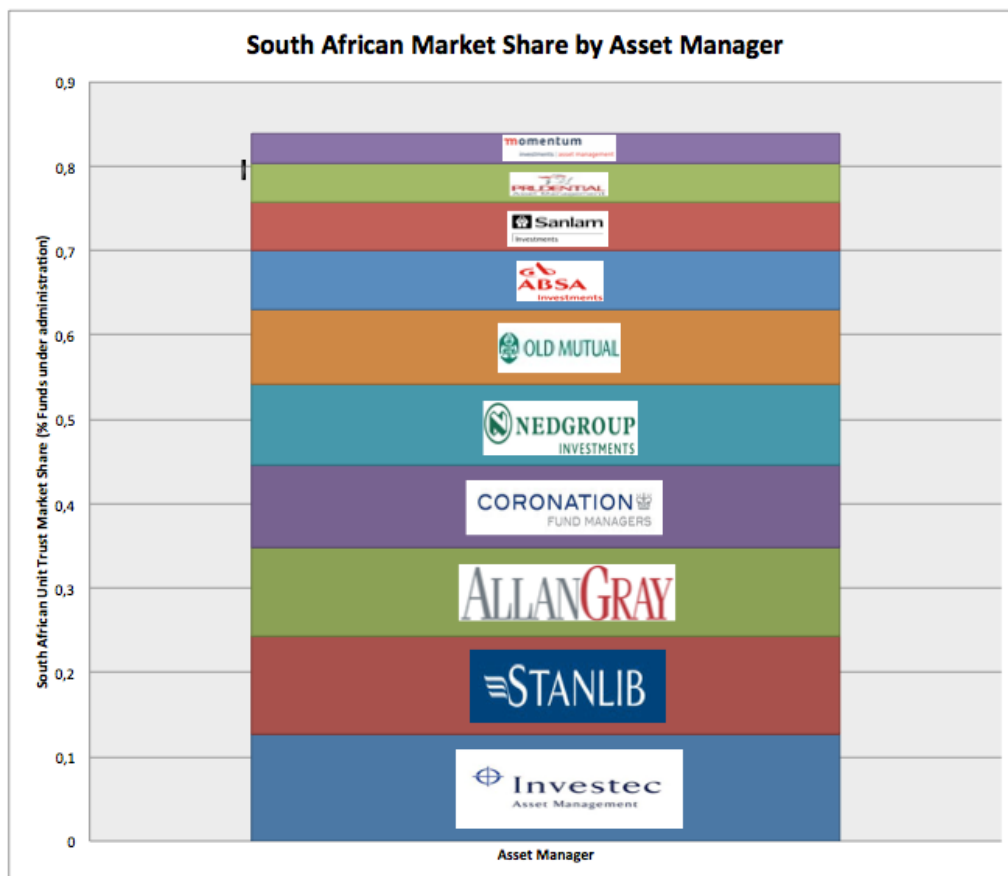
### 3. The South African Environment

The South African Collective Investment industry was established in June 1965 with the launch of the South African growth equity fund (SAGE), which had an initial Net Asset Value of R600 000 (Petit, 2007).

#### Asset Management Firms

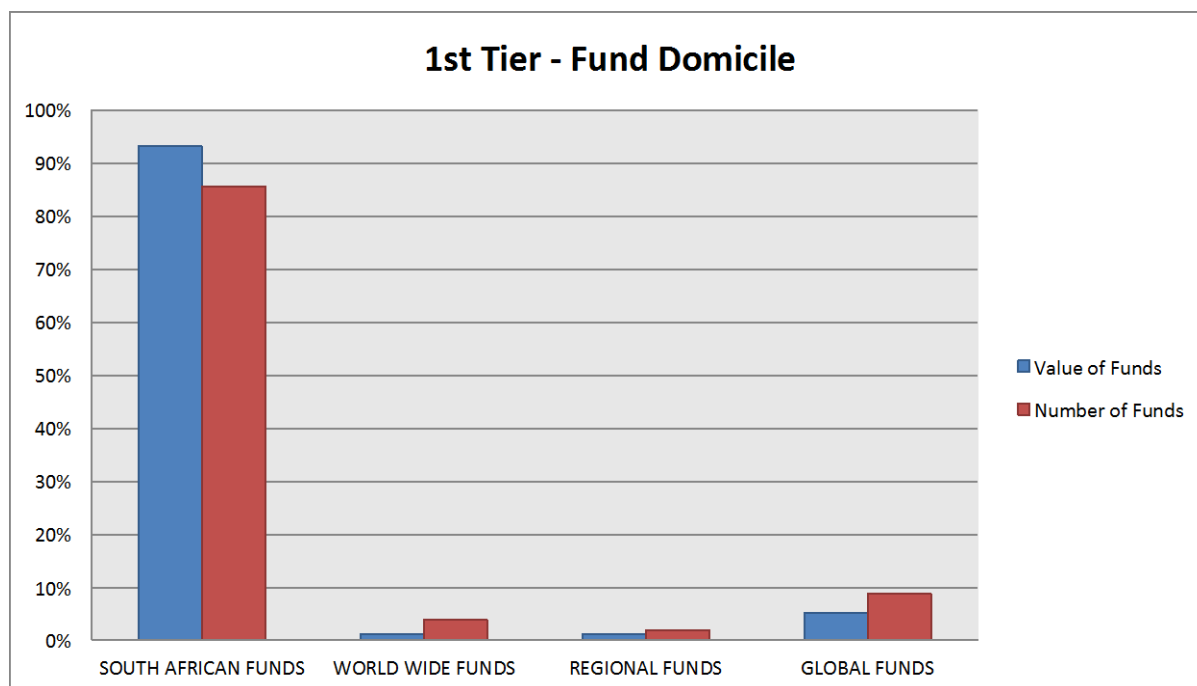
The South African CIS industry has a large number of Investment Companies (IC's), as of June 2013 there were 43 unique CIS managers offering between them 1023 retail and institutional funds, with an asset value of R1.3 trillion. The large number of IC's does however not translate into a large spread of assets. The top 20 Asset managers hold a little over 97% of the assets under administration for CIS, leaving 23 asset managers looking at sharing the remaining 3%.

The ten largest IC's by funds size and market share percentage are, Investec (R172bn, 12.68%), Stanlib (R157bn, 11.59%), Allan Gray (R142bn, 10.46%), Coronation (R133bn, 9.78%), Nedgroup (R130bn, 9.57%), Old Mutual (R120bn, 8.89%), Absa (R95bn, 7.00%), Sanlam (R80bn, 5.84%), Prudential (R60bn, 4.43%) and Momentum (R34bn, 3.88%).



## 1<sup>st</sup> Tier – Domicile of Assets

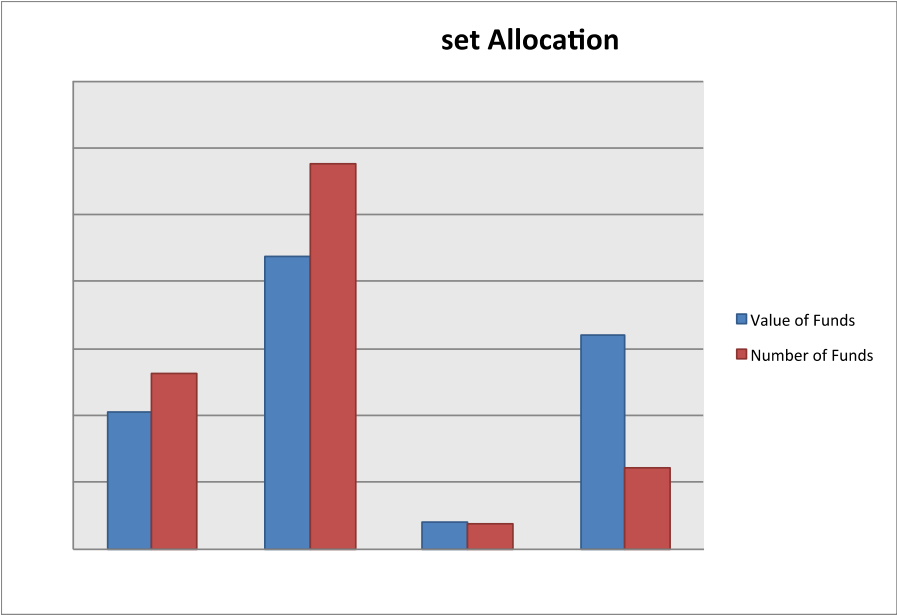
According to the geographical classification, there are 873 funds (86%) that are considered domestic, 41 funds (4%) worldwide, 20 funds regional (2%) and 87 (8%) global. So the vast majority of CIS based in South Africa invest in South African assets. In terms of asset value the split is even higher in favour of domestic investments R1 238bn (93%), worldwide R15bn (1%), regional R13bn (1%) and foreign R66bn (5%).



## 2<sup>nd</sup> Tier - Asset Allocation

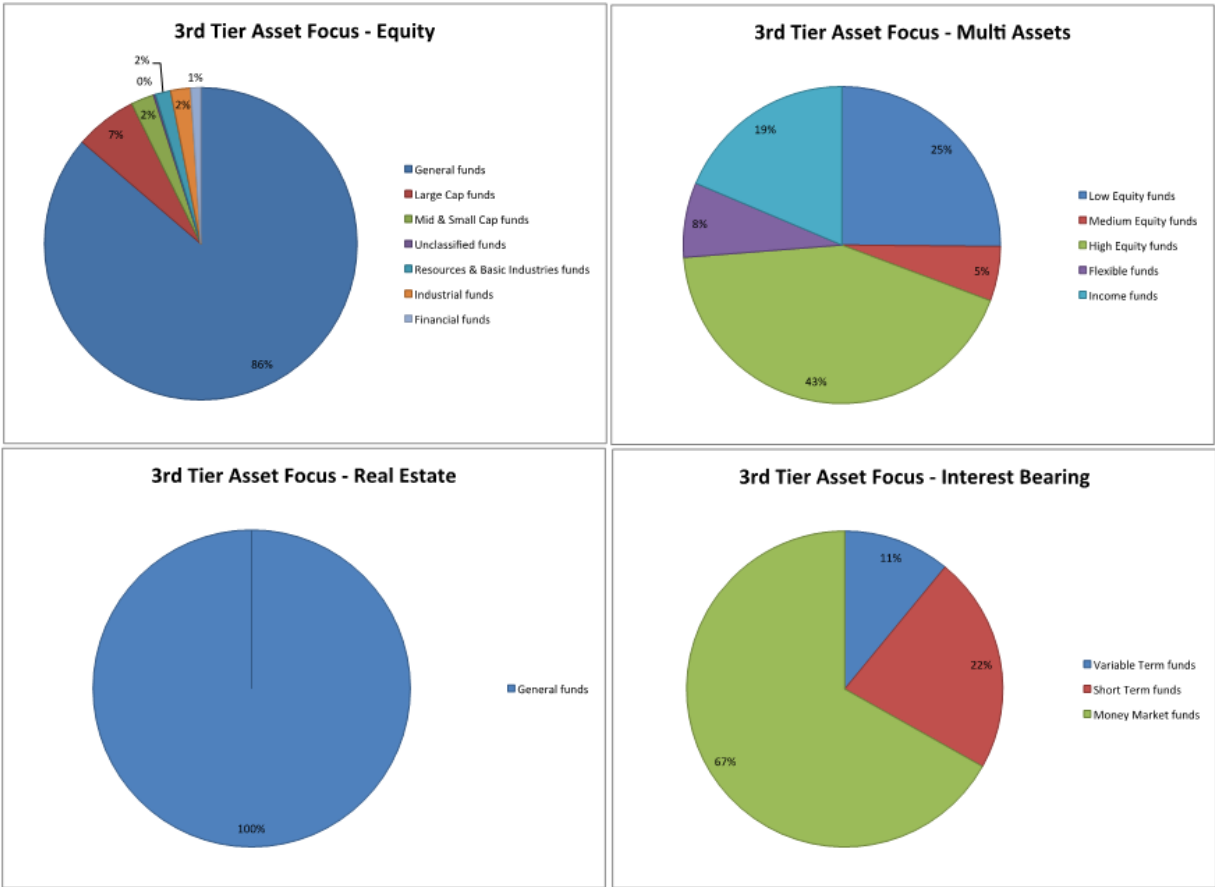
In terms of asset type of investment the South African CIS split according on number of funds is: Equity funds (26%), Multi Asset funds (58%), Interest Bearing funds (12%)<sup>7</sup> and Real estate funds (4%). Based on asset value: Equity funds (20%), Multi Asset funds (43%), Interest bearing funds (32%) and Real estate funds (4%). The larger proportion held by Interest bearing funds based on asset value rather than number of funds is due to the large capital investments needed in interest bearing funds.

<sup>7</sup> This includes money market funds.



### 3<sup>rd</sup> Tier – Asset Focus

The third tier of CIS classification splits funds according to their sector, equity holding, return objectives or specific instrument holdings. Based on this classification the asset values of the four sectors are show in the graphs below.



For a more detailed analysis of the breakdown of the CIS industry please see appendix 3.

## **4. Regulation of Collective Investment Schemes**

### **Financial Services Board (FSB)**

The regulatory body for South African Collective Investment schemes is the Financial Services Board (FSB). The FSB is an independent institution that oversees the non-banking financial services industry in South Africa. The function of the board is as follows:

- 1. to supervise the compliance with laws regulating financial institutions and the provision of financial services;*
- 2. to advise the Finance Minister on matters concerning financial institutions and financial services, either of its own accord or at the request of the Minister; and*
- 3. to promote programs and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services. (FSB, 2012)*

CIS companies are required to send details of their portfolios to the FSB, every three months, as well as an annual report. The purpose of this monitoring is to check that management companies are not falsifying their performance, that fund managers are investing within their mandates, and that liquidity levels are not breached for prolonged periods of time. Management companies are therefore accountable to their investors, their trustees and the FSB.

The FSB has passed a number of acts which consolidate statutory and legal requirements across the financial services sector, and which extend the FSB's regulatory powers to many investment 'schemes' that previously escaped the regulatory net. Namely:

**FAIS** – The Financial and Intermediary Services Act: This regulates any person or company who sells, gives advice on, or manages any investment product.

**CISCA** - The Collective Investment Schemes Act: This regulates any investment scheme, which seeks to attract multiple investors into a single managed vehicle.

**FICA** – The Financial Intelligence Act: Policed by the Treasury as opposed to the FSB, this act requires any financial services provider to satisfactorily identify and 'know' their clients, and obliges them to report any (even possibly) suspicious activity that might contravene SA's money laundering and tax laws. (Equinox 2010)

## **The Association for Savings and Investment South Africa (ASISA)**

The Association for Savings and Investment South Africa (ASISA) was formed in 2008. It is an amalgamation of four former associations: the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Provider Association (LISPA) and the Life Offices' Association (LOA). ASISA represents the majority of South Africa's asset managers, collective incentive scheme management companies, linked investment service providers, multi-managers, and life insurance companies. (ASISA, 2010) Compliance with the ASISA Guidelines is voluntary but strongly encouraged.

The ASISA is responsible for the collective investment industry standards of transparency and accountability, mandates, fund classification and reporting standards for collective investments<sup>8</sup>. ASISA is also responsible for the lobbying for needed changes to existing financial services legislation (ASISA, 2010).

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<sup>8</sup> The original codes, standards and guidelines for Collective Investment Schemes have been inherited from the Association of Collective Investments (ACI).

## 5. Fees for CIS

As CIS have two investor classes based on the investor type (Class A: retail and Class B: institutional). The specific fees charged by the asset manager are dependent on the class of the investment. CIS are required to fully disclose all the fees charged. There are three different charges an investor can incur when entering a fund.

### Asset Manager Costs

- A. Once-off Entry Costs:** also known as initial fees, are charged to an investor when they enter into a fund. This can be a specific fixed lump sum or a certain percentage of the initial investment. The entry fee is normally accredited to the asset manager's administration and marketing costs.<sup>9</sup> The fee is charged in the form of reduced units of purchase.<sup>10</sup> Internationally the trend is not to charge an initial fee and a number of South African CIS's follow this.
- B. Annual Costs:** are charged as a percentage of the value of the investment. They can be a standard fixed yearly percentage of the investor's holdings, alternatively, as per the topic of this paper, they can fluctuate according to the fund's performance.

### Intermediary Costs

If the investor has purchased units in the fund indirectly through a third party, they may be liable to pay a fee to this third party. This can be a once-off entry fee or a continual yearly fee.

### Financial Advisors Costs

A financial advisor may charge a fee as compensation for his advice, A fee for advising the investor which fund to invest into. This again can be a percentage of the investment, usually only a once-off charge however.

## 6. Total Expense Ratio (TER)

Collective Investments are required to disclose their Total Expense Ratios (TER's) in order to provide full transparency of fund expenses as well as evaluate the effect of expenses on an investment. The TER measure is used globally to measure the impact of management and operating expenses deducted from a fund's portfolio. It gives an indication of the drag effect these expenses have on the

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<sup>9</sup> Note that a 14% VAT is levied on top of all the fee charges

<sup>10</sup> The fee is charged in the form of reduced units of purchase, i.e. if 1 unit of the fund costs R1 and there is an initial charge of R100. Should the investor spend R1 000 he would receive 900 units.

return you ultimately receive from your investment. Expressed as a percentage, a fund's TER is calculated by dividing the portfolio costs by the market value of the fund<sup>11</sup>.

According to ACI Standard<sup>12</sup> the following costs must be included in the TER calculation:

- Management fees (including performance fees)
- Fixed operating costs:
  - Custody and Trustee fees
  - Audit fees
  - Bank charges, other than those charged by an investor's bank
- Value Added Taxes
- Liquidity costs:
  - Net negative interest charges (this is applicable in the unlikely event of a fund owing interest to a bank as a result of temporary liquidity pressure)
- For investments in other funds:
  - Weighted portion of the underlying portfolio's TER (for funds of funds)
  - Upfront fees
  - Exit fees or reduction of redemption
- Where income is earned by the providers of scrip lending services and if this income is not passed back to the portfolio, such an amount that is retained by the provider must be included.

Charges not included in a TER are generally of a once-off nature and deducted from a client's investment as opposed to the underlying portfolio, these include: initial charges (including commission); annual adviser fees agreed upon by the adviser and client; stockbroker fees; expenses relating to the settling of transactions and taxes associated with these.

Subject to the provisions of the ACI Standard on TER's, the actual performance fee earned by the manager in each period must be reflected in the TER for that class, while the performance fee must be disclosed separately. This is to enable investors to distinguish between costs that may be charged to a portfolio regardless of its performance and a performance fee that may vary significantly from one year to the next. The cost of the performance fee, in rand terms, will be disclosed as a percentage of the average net asset value of the portfolio. In addition, for uncapped performance fees, the highest total TER since the inception of TER must be disclosed.

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<sup>11</sup> The fund's market value (total assets) is the daily average value of the portfolio over a specific period (e.g. financial year).

<sup>12</sup> This standard is now overseen by ASISA, however it is still known as the ACI Standard.

## Part Three

### 1. Performance Fees

According to the National Treasury's technical discussion paper *Charges in South African retirement funds* (July 2013) roughly 20% of South African unit trusts have some form of performance fee structure in place. Those in favour of performance fees promote to investors that such a structure will align their returns with that of the Asset Managers and will result in a "win-win" situation for both parties.

As professional Fund Managers actively manage CIS, in theory they should be able to generate greater fund returns than those of passive funds that follow indices and benchmarks (Rusconi, 2008). The excess return a Fund Manager provides to that of the benchmark index is known as alpha. The core concept of performance fees is to provide a structure to reward a Fund Manager for the alpha they have returned to the investor, ultimately providing a performance sharing incentive. The majority of South African CIS have a fixed rate fee structure, which is driven by the total funds assets under administration (AUM) rather than the funds performance.

As the incentive for excess return is diminished for fixed fee funds they can become asset gatherers who focus on total asset growth rather than fund performance (Cameron, 2007) and although past performance plays a significant role in determining future investor flows this is not the only criteria used by investors when they are evaluating a CIS, such as:

- *The IC brand and reputation, rather than the underlying CIS selection.*
- *Financial Advisor and IC collaboration*
- *Cross product selling. An investor with a retail bank account may be more likely to purchase their CIS through that bank as they are offered easy payment methods. (Less FICA responsibilities, direct debit set up already)*

Performance fees provide a means to ensure that CIS are not solely driven by investor flows and that there is some form of shared performance incentive. The use of shared incentives through a quantifiable method (performance fees) provides investors assurance that the asset manager is acting in their own best interest. A performance fee allows the manager to earn superior compensation should they provide returns to the investor over an agreed upon benchmark. (Rusconi, 2008)

Performance based fees are promoted by investment managers as a means to align investor and manager interests, however the structure of the incentive fee may result in a number of negative incentive effects. The *Charges in South African retirement funds* (July 2013) working paper highlights that the performance fees can reward luck rather than skill, once off periods of outperformance can be

rewarded, where prior or future periods of underperformance can be ignored. The structure of the performance fee calculation is the main issue when deciding whether performance fees favour a particular party or if they have a win-win scenario for both. Starks in her 1987 paper discusses how the structure can all too often favour the asset manager, and that a mutual beneficial arrangement can only be established where the measure of performance (Benchmark) is suitable. (Stark, 1987)

For the Asset Manager a performance fee structure can add a substantial amount of revenue through to the bottom line of the company, Allan Gray announced that it earned a third of its annual income in 2008 from performance fees (Still, 2009). Structured correctly performance fees encourage fund managers to act in the best interests of their clients by focusing on generating investment performance rather than chasing growth in fund size; and the performance fee period, usually set for periods of between one and three years, can best enable the fund manager's investment ideas to be realised, thus creating the best chance for outperformance (Still, 2009).

## **2. Performance fee requirements**

The structure of performance fees can vary widely from fund to fund based on a number of different characteristics. The method of implementation of performance fees is entirely up to the fund manager. It is however stipulated by Section 93(1)(d) of the Collective Incentive Schemes Act that:

*“The manager may only recoup a service fee from the fund should the service fee have been disclosed prior by the manager to the prospective client (i.e. prior to investment), and the client agreed to the fee”*

It is the responsibility of the fund manager prior to the investor entering the CIS to ensure that specific elements of the fee calculation have been disclosed and agreed upon. They are as follows:

- A. Standardised terminology
- B. Standardised compulsory disclosure on all marketing material
- C. Frequently asked questions (FAQ's) available in a public domain
- D. Total Expense Ratio (TER)

### **Standardised Terminology**

A fund manager must disclose the following details of his performance fee calculation, it is also required that he refer to each aspect in the standardised terminology and not by any other (ASISA, 2012).

**Minimum Fee:** *This is the annual management fee charged regardless of performance.*

**Maximum Fee:** This is the maximum annual management fee that may in any instance be recovered from the fund by the manager. This fee includes the minimum fee and all performance fee elements.

**Benchmark:** This is the yardstick the fund is managed to. Each fund may only have one benchmark.

**Fee Hurdle:** This is the level of performance the fund must enjoy, prior to a fee higher than the Minimum Fee being charged. A fee hurdle refers to the absolute hurdle (e.g. ALSI + 2% per annum) and not only the threshold (e.g. 2% per annum).

**Sharing Rate:** The percentage of outperformance in excess of the fee hurdle the manager is entitled to share in with the client.

**High Water Mark:** The highest level of out-performance the fund has reached since the previous Fee Payment Date.

**Fee Accrual Frequency:** This is the frequency at which provisions are made in fund prices in order to allow for fees in excess of the Minimum Fee.

**Fee Payment Frequency:** This is the frequency at which the amounts provided in the fund in respect of fees in excess of the Minimum Fee are transferred from the fund to the manager.

**Performance Fee Measurement Period:** The length of the period for which the fund performance is compared to the fee hurdle, each time the fee is accrued.

## **Standardised compulsory disclosure on all marketing material**

According to the Collective Incentive Schemes act the fund manager is required to present the calculation of the performance fee in a defined manner to ensure that each CIS performance fee structure be compared.

## **Frequently asked questions (FAQ's)**

It is also required that the fund manager provide a number of detailed explanations to Frequently asked questions (FAQ's) regarding the calculation of the performance fee, including scenario discussions (e.g. what happens if the fund returns 10%, -10% or 0%, etc.). Please see appendix 4 for the exact questions that must be answered in the FAQ section.

## **Total Expense Ratio (TER)**

According to the collective schemes act the actual performance fee earned by the manager in each period must be reflected in the TER. For uncapped fees the act requires the highest TER since inception to be used. It is important to consider that the TER disclosed will not fully disclose the possible charge on investor, due to the performance fee portion charge being uncertain.

### 3. Performance Fee Structures

#### Fee hurdles

Performance fee hurdles act as the level of performance the fund must achieve in order to be eligible to receive a performance fee. Fee hurdles can be different to the fund's performance benchmark, which acts as a risk profile on the fund. Ideally a performance fee hurdle should match the benchmark, but this is not always the case.

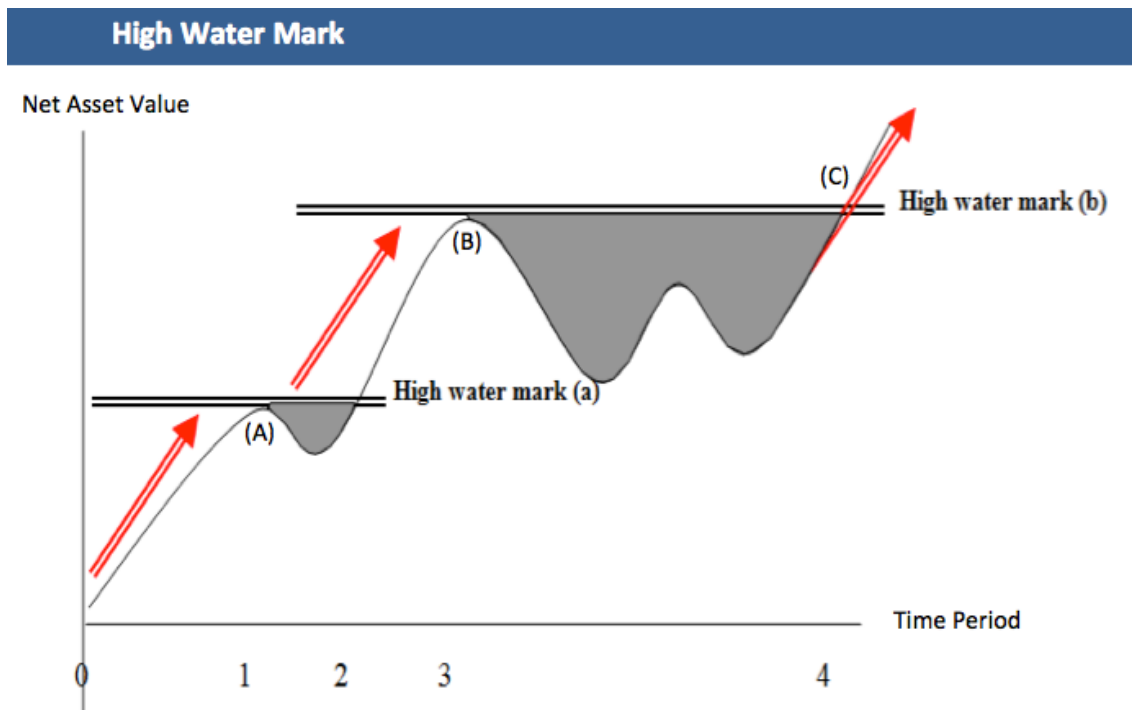
#### Sharing Rate

The sharing rate or participation rate is the percentage of performance the manager receives on the performance above the benchmark. The sharing rate is usually set between 10% and 20%. The value of the fund above the benchmark is then multiplied by the participation rate in order to calculate the final performance fee charged to the investors.

#### Measurement Period

##### 1. High Water Mark (HWM)

"A high water mark can be thought of as a measurement period since inception" (Schreuder, 2006). A HWM is the highest value a fund has reached in terms of return, you can look at high water marks on a per investor units scale, if any performance is lost the fund needs to make up that performance before any performance fees can be claimed.



(Schreuder, 2006)

Above is a simple explanation of a vanilla HWM<sup>13</sup>. From time period 0 to 1 the fund Net Asset Value (NAV) is growing, the fund will earn a performance fee in this period.

- At point (A) the value of the fund reaches a maximum and starts to decline. At this point (A) a high water mark (a) is established.
- Between time periods 1 and 2 the fund NAV is below the *High water mark (a)*, the grey area. No performance fee will be earned.
- Between time periods 2 and 3 the fund NAV improves and exceeds the NAV established at *High water mark (a)*. A performance fee will be earned.
- At point (B) the NAV of the fund again begins to diminish, now establishing a new HWM, *High water mark (b)*.
- From time period 3 to 4 the fund NAV declines and improves but does not reach the original HWM NAV value, shown in the grey area. No performance fee is earned.
- Finally at point (C), the NAV surpasses the *High water mark (b)* and the manager will again be able to claim a performance fee.

It is important to note that although the fund went through periods of positive performance the fund was not able to charge a performance fee as the HWM had not been surpassed.

In practice a fee hurdle is applied along with a HWM, this results in the HWM moving with the fee hurdle rate. For example, in the diagram above should High Water mark (a) be 100 if applied with a fee hurdle returning 5% between time period 0 and 1 then the adjusted HWM would be 105. Should the benchmark return a negative performance the high water mark would be adjusted downwards.

A HWM ensures that any losses made by the fund manager must be made up before they can again receive a performance fee (Still, 2009), this is seen as more investor focused as it ensures that that only real positive growth is liable for a performance fee charge.

There are few issues however when applying the HWM method of fee calculation, particularly when a fund is operating well below its HWM. A HWM that is not reset, i.e. taken back to more recent level of NAV, can result in the fund manager “losing interest” or more specifically acting in a more passive investment style. A fund manager who sees that there is a strong likelihood of not receiving a performance fee may be tempted to follow the benchmark or market portfolio. This would allow him to focus his attention elsewhere. The result would be that the investor would be paying a fund manager a fee (albeit excluding performance fee) for an actively managed portfolio, or alpha positive fund, whereby the fund would just be following a passive portfolio. Even without the performance fee the base charge on an actively managed portfolio is substantially higher than that of a passive index tracker fund. (Still 2009).

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<sup>13</sup> This is excluding the hurdle rate and any subscriptions and redemptions; the level of performance is based solely on the net asset value of the fund.

A fund manager that is underperforming their HWM may be enticed to “swing for the fences”. As standard trading at the predetermined risk levels will most likely not return a result significant enough to outperform the HWM, a fund manager may take on one or more risky trades in order to find an exceptional return that will allow them to beat the HWM. As the fund manager has no aligned incentive he is not concerned with the increased downside risk and the possibility of a blow out of the fund's performance.

There have been examples where funds have decided to reset their HWM, in 1994 Michael Steinhardt lost a third of his \$4.5bn portfolio, considering bankruptcy he elected to reset his HWM to the new \$3bn level, allowing him to profit \$300m on the \$1.5bn he would need to return to take the fund back to its original HWM (Zuckerman, 1995). The resetting of a HWM could be crucial for fund manager to stay in business, should investors still have faith in their manager and see the large gap in actual return and the HWM as only temporary, allowing this reset may be a sensible option in order to avoid the behavioral effects that can occur.

The market for well-established fund managers is very competitive. A fund manager who has a small chance of receiving a performance fee may be incentivised to move to another fund/asset management firm. Where they can receive a performance bonus again. The burden of this performance bonus pay-out then falls on the investment company, do they pay a manager a bonus in order to keep them?

## **2. The Rolling Return Method**

The standard HWM looks at the fund performance since inception, an alternative method of HWM implementation is to only consider the performance of the fund over a defined period, be it one year, three or five years. The rolling period method allows prior periods of poor performance to be removed from the performance fee calculation (Still, 2009). It looks at the return of the fund compared to the return of the fee hurdle over a defined period<sup>14</sup>.

Schreuder discusses in his 2006 paper *Performance-Based Investment Management Fees - A South African Perspective* that the measurement period of the rolling return has an important effect on the performance of the fund to that of the fee hurdle. He explains that out-performance of the fund can be considered a random variable. The mean of return will have a lower standard deviation, the longer the measurement period. The greater the number of samples (years), the lower the standard deviation, which reduces the chance of a “lucky” short term return. The less likely a short-term strategy is to return a performance fee, the more likely a longer-term valuation-based investment strategy will be utilised by the fund manager (Cameron, 2008).

It is therefore important that should a rolling return method of performance fee be used a suitable period of observation be used, which is considered to be a three year period as this would suit long

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<sup>14</sup> The period starts from the last performance fee crystallisation period.

term investing, any period less would allow for short term investment strategies, any longer leaving the manager trapped with long forgotten poor performance.

## **Crystallisation Periods**

High Water marks and Rolling period returns deal with the performance of the fund compared to the fee hurdle. A crystallization period is the specific time period, be it yearly, quarterly or monthly that the actual performance fee outperformance is measured. In accounting terminology it is the point at which the performance fee becomes an expense and not an accrual. In other words a liability the investor

## **Fee caps**

Fee capping is most often referred to as the maximum total fee percentage that a manager may receive from fund performance; “it is the rate at which the manager no longer participates” (Schreuder, 2006). A fee cap is the point at which the fund’s performance exceeds its fee hurdle in excess so that the total fee charged on the investor reaches a predetermined maximum percentage. Once the fee cap has been reached the fund manager will no longer participate in any excess performance.

A fee cap is much more likely to occur in a rolling measurement rather than a standard high water mark measurement, as the manager is forgiven more easily for a period of poor performance. A fee cap is of more concern to the investor when the measurement period is short (usually less than one year), as there is more likelihood of lucky short term performance profits being made. The longer the measurement period the less likely the need for a fee cap. Fee caps can also provide managers with an incentive to follow a more passive strategy. Once the maximum fee is reached, a manager can follow a more passive strategy to ensure that he locks in his fee (Still, 2009).

## **Fee Reductions**

Should the fund return negative performance; there are instances where a base fee reduction can occur, as is the case in the United States with Fulcrum fees. Should a fund perform poorly and return negative performance or underperform its fee benchmark, there may be a fee structure in place where this results in the base fee being reduced in order to compensate the investor for this lost performance.

However in South Africa, it is the exception rather than the norm if performance fee contracts include a clause whereby base fees are reduced during periods of under-performance. Fee reductions must not be confused with the practice where any negative performance is carried forward to offset any future over-performance. Ideally both these practices should exist in some form when performance fee structures are established in order to to punish the manager for under-performance, as it may not

be considered fair for the manager to partake in only upside performance with no form of penalty for periods of under-performance.

## **Series accounting, equalisation**

Equalisation refers to an accounting methodology and ensures that the investment manager is paid the correct incentive, performance or profit sharing fee (Equalisation, S Flynn). This process allows fees to be fairly allocated between each investor in the fund. It is a calculation applied to subscriptions that is designed to equalize the fund manager and new investors coming in to a fund with regards to the payment of performance fees. With equalisation, the manager administers only one fee class, but a correction is made to the number of units allocated to joiners, and to the value of units bought back from leavers. Under-charging is avoided by awarding fewer units to investors who join while the fund is below a high-water mark. Over-charging can be avoided by awarding more units to investors who join while the fund is above a cap. Leavers are treated in a similar way, for example, by awarding more or less cash on leaving. Equalisation can be very costly to administer, given the additional information required for each and every cash-flow. Also, as for multiple fee classes, it can prove difficult to explain and to understand (Schreuder).

There are three main components referred to. They are:

- The High Water Mark (HWM) - the highest NAV at which performance fees have been paid.
- Gross NAV (GNAV) - The absolute value of the NAV, after adding back the cumulative performance fee accrual since the last time performance fees were paid.
- Subscription NAV- The published NAV after deduction of paid and accrued performance fees.

Typically only funds that are subject to high levels of volatility or funds where performance fees can have a significant impact on the NAV will put an equalisation policy in place. The equalisation policy should be documented in the offering documents. The following give examples of equalisation problems:

### **A. The Free Ride**

The Free Ride was the original reason and justification for the introduction of equalization. It can be explained with the following example:

Assume there are only two investors: investor A and investor B. Initially, investor A buys one share at R100. At the end of four months, the stock has risen to R110. This is the new high water mark. At the end of month five, the stock falls to R100. Investor B then buys one share for R100. If the NAV rises to R110 again, investor B will have a free ride of R2, which is 20% of the R10 profit. He would not be

paying a performance fee on his profit. Equalization attempts to eliminate this by charging an incentive fee to investor B.

| Free ride |     |              |              |     |
|-----------|-----|--------------|--------------|-----|
|           |     | Investor A   | Investor B   | HMW |
| 1st Month | 100 | Buys 1 share |              |     |
| 2nd Month | 104 |              |              |     |
| 3rd Month | 108 |              |              |     |
| 4th Month | 110 |              |              | 110 |
| 5th Month | 100 |              | Buys 1 share |     |

Custom House Group (2000)

### B. Rising Share Price:

Initially, investor A buys one share at R100. The NAV per share rises in the second month to R110. The NAV per share is then published at R108, net of 20% performance fee accrual. Investor B buys one share at R108. At quarter end, the GNAV per share has risen to R120. The gross profit is therefore R32, calculated as follows: investor A invested R100, and investor B invested R108. The total invested is R208. The GNAV at the end of the quarter is R240. The performance fee at 20% of R32 = R6.40 gross, or R3.20 per share. Therefore: investor A effectively pays a R3.20 fee on R20 profit, which equals 16.4% of the profit made by investor A, whereas investor B effectively pays R3.20 fee on a profit of R12, which equals 26.66% of the profit made by investor B. To be equitable, the profits should be allocated as R20 to investor A, and R12 to investor B who bought at R108, through equalisation.

### C. Claw Back Syndrome:

Equalisation is necessary to avoid the Claw Back Syndrome. For example, investor A buys one share for R100 at launch. Initially, the GNAV rises to R110, i.e. R108 net of performance fee accrual. Investor B now buys one share at R108. The NAV of the fund is now R218 excluding performance fee accrual. At the end of the month the NAV per share falls back to R96. Given that the fund loss is R13 per share (total fund loss of R26), the fair value of investor A's investment would be R97 (R110 – R13) whereas the fair value for investor B would be R95 (R108 – R13). The actual loss to investor A is R14 (R110 – R96), whereas the loss to investor B is actually R12 (R108 – 96).

The performance fee accrual made at the end of the second month would now revert back to the fund. Without equalisation, that accrual would benefit all shareholders, including the new investor, whereas the original incentive fee accrual was only accrued in respect of investor A's investment and not investor B's investment. Thus, the value of investor A's holding has dropped not to R97, but to

R96, a loss of R14, whereas investor B benefits from an allocation from part of investor A's performance fee accrual, to the value of R1, so that the NAV per share of his investment is now R96, a loss of only R12, instead of R95. Equalisation will eliminate this anomaly by reimbursing the accrued performance fee to investor A, who already "paid" for it.

The following gives a description of equalisation methods for the above problems:

#### **D. Multi Series Method:**

This method is user-friendly and the simplest of all equalisation methods to understand. It requires the fund to issue a new series of units when new subscriptions are made. When calculating the NAV per share, the correct performance fee accruals are applied to each of the series separately.

**First Series:** This is issued when fund is launched and known as the lead / initial series. The objective is to consolidate each of the subsequent series issued into the lead series at the end of every performance period. When a lead series does not pay a performance fee, the series that paid the performance fee will consolidate into the lead series. It is worth noting the following about this method: it is not possible to publish a single NAV per share as every series has their own NAV. The issue price of new series is determined between the investor and the fund. This can either be a fixed price or the GAV of the lead series.

#### **E. Other methods include:**

**Equalisation Credits (when subscription NAV is > HWM):** where credits are applied to new subscriptions – the amount of the subscription is reduced by the equalisation credit. The credit is applied to any subscriptions where the subscription NAV is higher than the HWM NAV. New shareholders compensate the existing shareholders for the performance fees already paid by them. At the next crystallisation date, the credit will be used to issue new shares to the investor who owns the credit. If the NAV is below the HWM the credit will dissolve into the fund as realised gains to the benefit of all the shareholders. The equalisation credit belongs to the new shareholders but sits on the balance sheet – usually called equalisation credit.

**Performance Fee Reserve (when subscription NAV is < HWM):** The subscriber below HWM will pay a deposit upon subscription that pays potential performance fees up to the HWM NAV level. In this case, the deposit is calculated as the difference between the HWM NAV and the current subscription NAV multiplied by the performance fee rate. If the NAV returns to HWM, the deposit is paid to the manager as a performance fee. If the NAV remains below the HWM at the next performance fee payment date, the deposit remains as a provision or reserve on the balance sheet of the fund. It remains there until it is used fully in payment of performance fees to the manager. If the investor redeems before the provision is fully utilised (i.e. whilst the NAV is still below the HWM), a pro-rata adjustment may be made to the reserve for the difference between the redemption NAV and the original subscription NAV, one part being paid to the manager and the other part being paid to the

investor as part of the redemption proceeds (Flynn, 2006).

Many absolute return funds don't make use of equalisation, due to the high numbers of subscriptions and redemptions, so it is common that an investor will pay a higher performance fee from the outset – a fee they are effectively paying for past performance. There are times when new investors come into the fund after a period of underperformance and pay a lower fee at the outset. This may not be equitable over the short term, however, over the long term and with the impact of variations in performance, fees normalize and long-term investors are treated fairly. If managers use a rolling return method of performance fee calculation, this can lead to a flaw: if the period is too long, there is an increasing chance that new investors pay performance fees for performances from which they have not benefitted, or exiting investors escape performance fees (time cross subsidisation effect); and if it is too short, this may encourage undue risk taking and a short-term investment strategy. Therefore, the period over which the manager's performance is evaluated should be long enough that true skill is not obscured by short-run variability (Still, 2009).

## **Investor Awareness**

With regards to the above concepts, an investor needs to be aware of the structure of performance fees. If an investor has decided to invest in a fund that charges performance fees, they need to ask themselves a number of important questions (Maguire, 2008):

1. The managers chosen hurdle must be high enough to represent a superior performance when it is achieved.
2. The base fee charged must be low and based on the managers actual costs. Poor performance must not be profitable, but neither should it force the asset manager out of business.
3. Consider the performance benchmark. Does it truly reflect the manager's universe of investible stocks and the limits imposed on his ability to invest?
4. The managers and shareholders' interests should be symmetrically aligned, on both the upside and downside. Managers should refund fees at the same rate when underperforming the hurdle.
5. The nature of the performance fee should encourage a long-term investment perspective.
6. An investor should not be charged fees for historic performance (there should be equalisation).
7. The fees should not be based on fixed periods, as it encourages risk-taking and allows the manager to "wipe the slate clean". They should instead be based on perpetual rolling returns from the date of initial investment.
8. Performance fees should be gradually built up and not immediately drawn by the manager, i.e. the crystallization period should be over at least one year.

## Fund Manager Awareness

The establishment of a performance fee is an important consideration for any investment company and fund manager. Grant Thornton's 2008 presentation *Performance Fees a Question of Purpose* suggest a number of important concepts that must be considered before a fund should implement a performance fee structure, these included:

1. Have the fund objectives clear before you start, understand what is meant by performance? Understand what shareholders expect as to style, risk, volatility and performance?
2. Consider the performance benchmark. Does it truly reflect the universe of investible stocks and the limits imposed on investments?
3. A relative fee related to an index may well pay a performance fee in a falling market. Is that accepted? Can you explain that convincingly to retail shareholders? Or would shareholders appreciate an absolute floor?
4. Will the structure of the fee reflect performance, risk and fair manager reward? Does the company get value for money?
5. How far might you want a truly symmetrical fee – negative as well as positive?
6. Try to keep the performance fee fairly simple – or at least express the underlying principles clearly. What are you trying to achieve and what are your expectations of the manager?
7. Model major out or underperformances. Model high watermarks and caps. Contrast rolling and annual calculations.
8. Do you mean arithmetic or geometric performance?
9. Try setting it out graphically so that members of the board feel comfortable with the idea.
10. Keep the lawyers under control: huge agreements with lots of formulae cause headaches. Building an agreement out of concrete bricks may suit static mathematicians, but may not reflect purpose. The accompaniment of a simple English explanation of what was intended is a good idea.
11. Find out specifically how your ideas, or the management company's ideas, will benefit your fund manager and his or her support team.
12. Watch out for wrinkles: for example, performance might best be measured on the excess after charging rather than before charging the performance fee. Do you always want performance on net assets per share? Base fee on gross assets per share? Excluding buy-backs? Fully diluted?
13. Consider whether some element of share price return or discount level could (or should) be included in the calculations. A pure share price related fee has attractions for the shareholder, but it is not relevant to the manager's efforts. On the other hand, an element of the fee related to the discount – for example, a reduction applied to the payable value of the fee if the discount widened in some way – might stimulate the manager's marketing.
14. Explain in the report and accounts how the performance fee is being earned and what the manager did well to earn that fee. Relate it to attribution and risk.

15. Will the structure of the fee reflect performance and reward the manager fairly? Will the company get value for money? Consider if:

- The manager should be required to make good underperformance before a further outperformance fee is paid
- A cap may not be necessary, unless some 'blow out' can be envisaged
- Would an underlying absolute hurdle help to reflect the required risk return for investors?
- Would an annual or a rolling basis of calculation of the fee best fit the fund's objectives?

## Part Four

### *Data and Methodology*

South African unit trusts are required by the Collective Incentive Schemes Act to disclose their performance fee methodology; I have used the fund fact sheets and the asset manager FAQ as a means of obtaining the data required for assessing the structure of South African performance fees. As the South African CIS market is dominated by a few number of large asset managers, all performance fee research has been based on the 15 largest asset managers. This translates into 555 CIS or R1.2 trillion. I have looked at only South African domiciled funds.<sup>15</sup>

### *Results and Analysis*

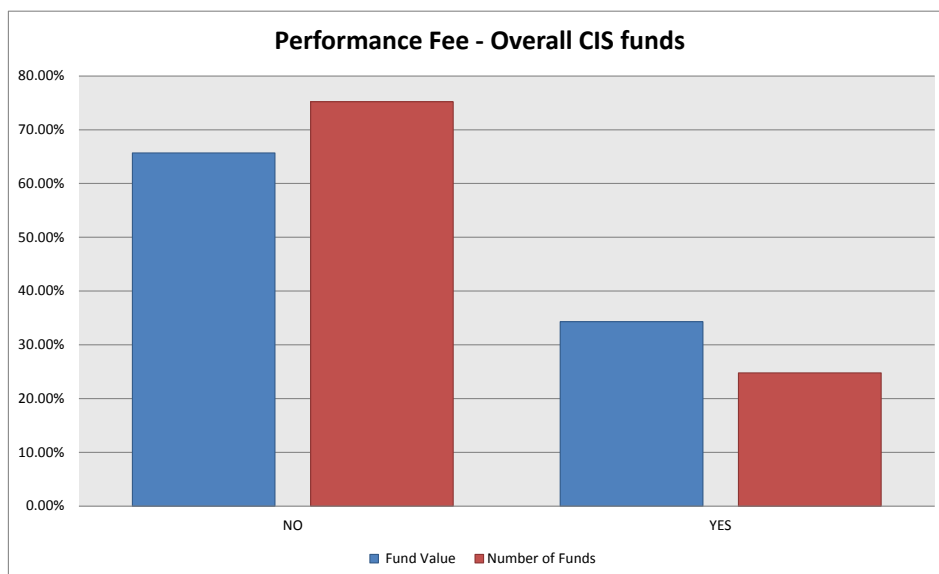
#### Performance Fee – Total

A fund manager can elect to either charge an investor a fixed percentage fee or fees can be linked to the CIS performance. The first level of analysis looked at is whether a fund charges some form of performance fee. In order to get a clearer understanding for the analysis both the actual number of funds identified and the value of the assets held in the funds have been looked at.

Based on the top 15 fund managers in the South African tier one domicile, the results are as follows:

**Fund Value:** 34%<sup>16</sup> of the assets under administration are subject to some form of performance fee charge.

**Number of Funds:** 25%<sup>17</sup> of the funds are subjected to some form of performance fee



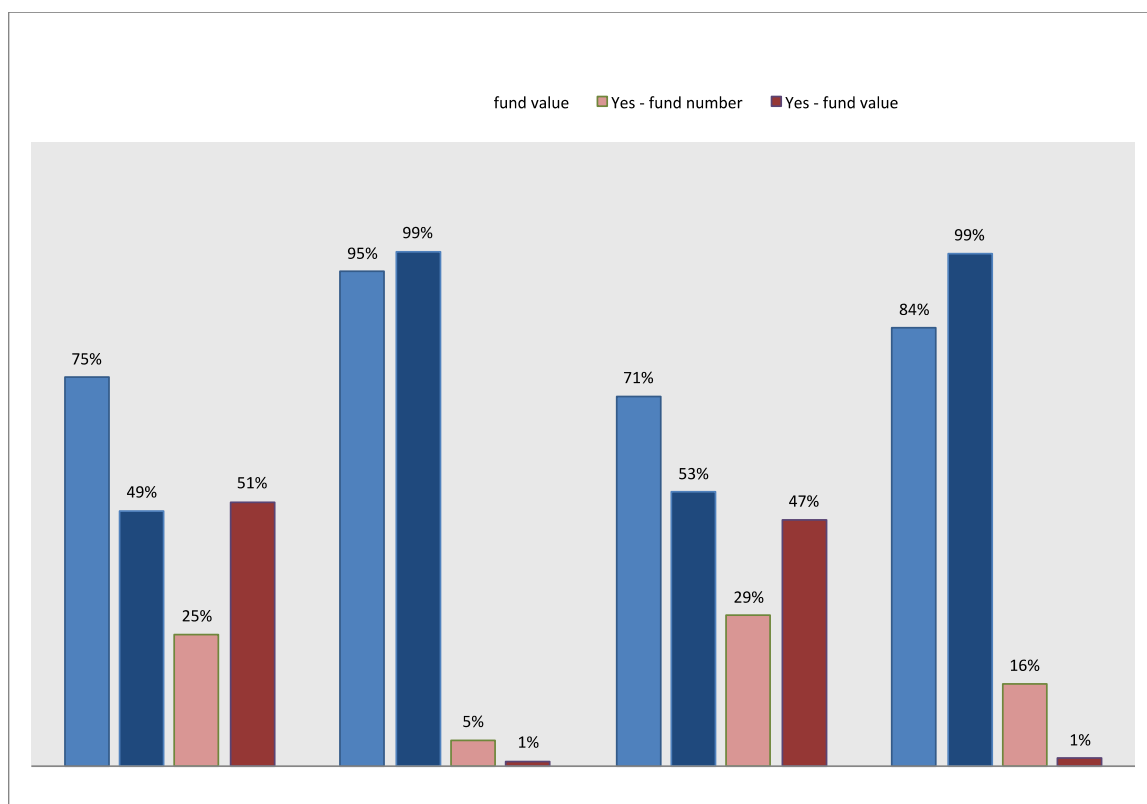
<sup>15</sup> Worldwide, global and regional funds have been excluded for this analysis.

<sup>16</sup> This is R425m of the R1 237m assets applicable to this classification

<sup>17</sup> This is 137 of the 555 funds applicable to this classification

This is slightly higher than the 20% quoted by the National Treasury's estimation of South African unit trusts (*Charges in South African retirement funds*, July 2013). The number of CIS that charge a performance fee in the South African market is significantly higher than both the United States (3.7%<sup>18</sup>) and United Kingdom (3%<sup>19</sup>)

Using the entire South African CIS market is a good starting point, but in order to gain a more valuable understanding of performance fees in South African CIS's it is useful to follow a top down approach and look the second tier of fund classification the asset allocation. The figure below gives us a breakdown of the percentage of CIS that charge performance fees based on the ASISA tier two classifications (Equity, Interest bearing, Multi Asset and Real estate). The results are shown as a percentage of CIS listed funds per sector and total asset value the total sector.<sup>20</sup>



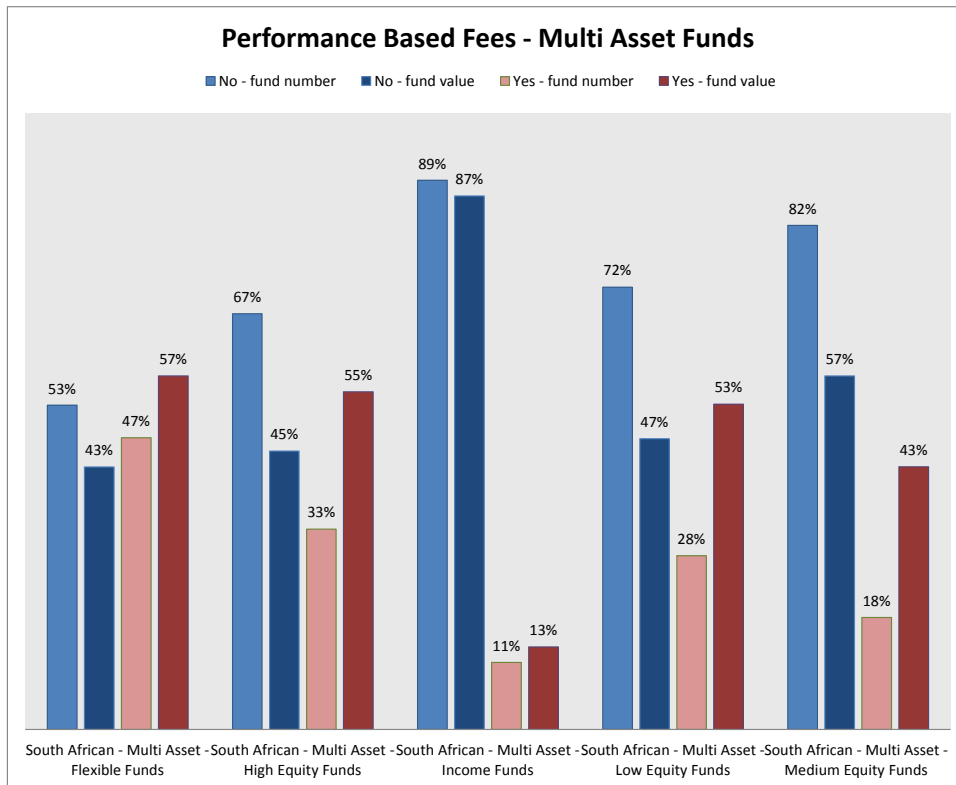
Based on the results Interest bearing and Real estate CIS's have almost no funds that charge a performance-based fee. However, for the number of Equity and Multi Asset Funds the split is more equally shared between fixed and performance based fees. The interesting observation from the above result is that those funds that are not exposed to equity investments do not look to construct any form of performance fee based compensation.

<sup>18</sup> Kim, 2011

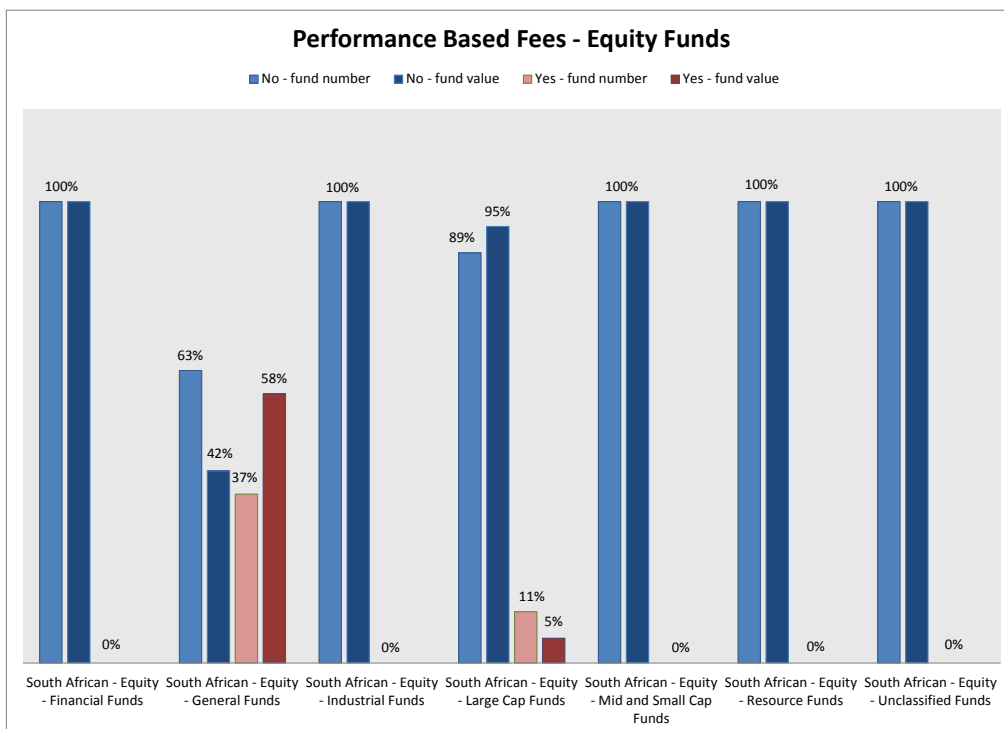
<sup>19</sup> Moisson 2012

<sup>20</sup> Asset value taken as of the 10<sup>th</sup> of May 2013. Source: Sharenet

Performance fees received by Multi Asset Funds are almost entirely as a result of the General Equity Funds who charge performance fees, with 37% of funds and 58% of assets in this sector charging a performance fee.

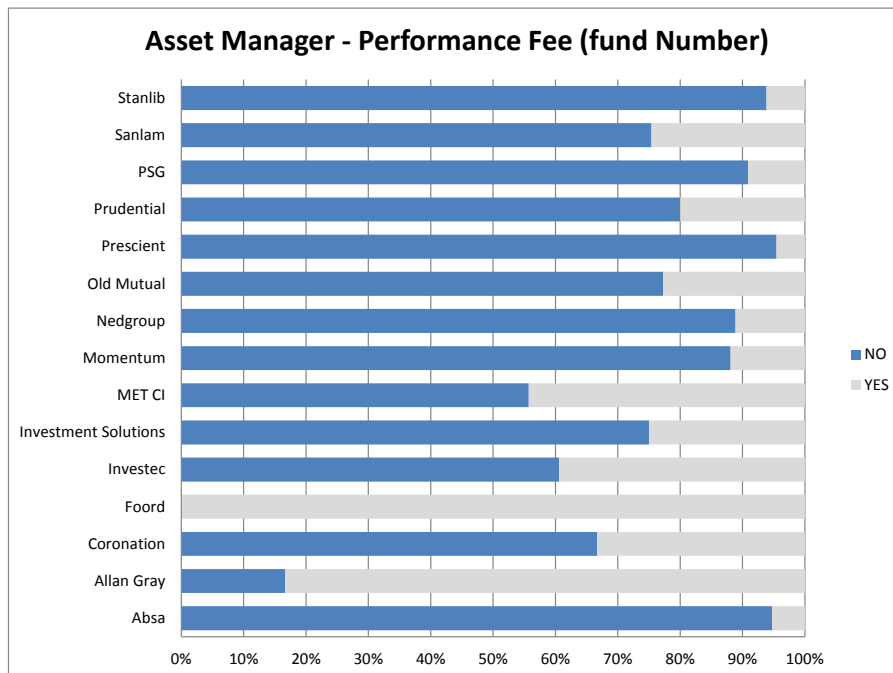


The South African equity sector has a more dispersed performance fee showing with most of the equity portfolios having a high level of performance based fees, the highest being Flexible funds and High equity funds.



## Performance Fee – Asset Manager

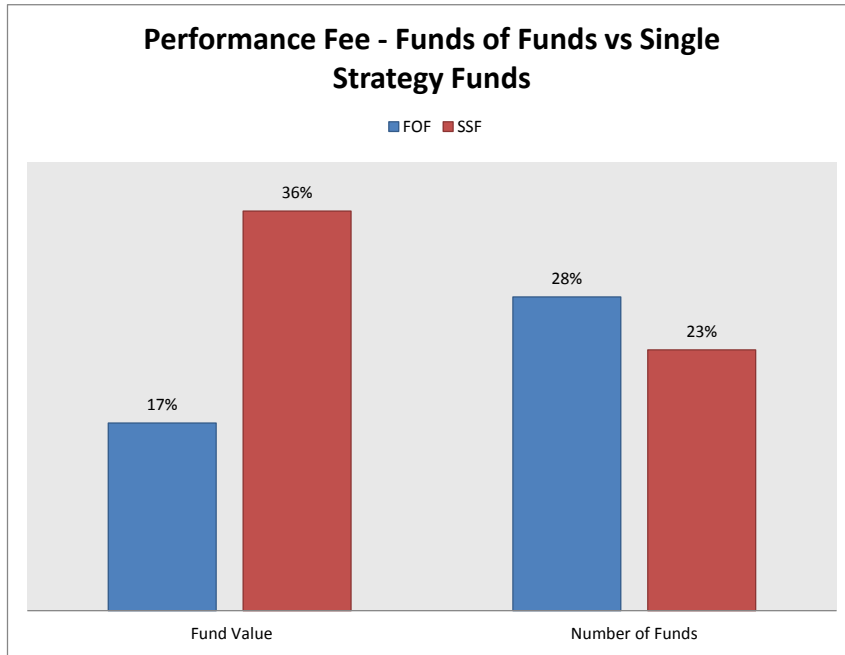
The selection of a performance fee is the responsibility of the fund manager with the guidance of the asset management firm. Of the top 15 asset managers in South Africa only Foord and Allan Gray have greater than 50% of their funds with performance fee structures in place. This is a strong indication that the adoption of performance fees is not widespread across all asset managers, but rather on a sector basis.



\*See appendix 5.1 for the breakdown for Asset value

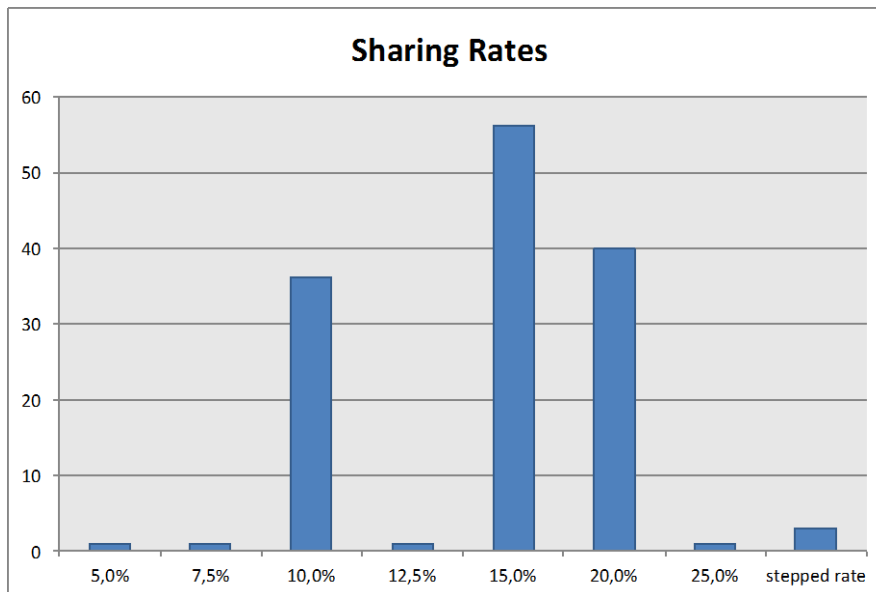
## Performance Fee for Single Strategy and Funds of Funds

The table below shows the take up of performance fees based on whether they are direct investment, known as Single Strategy Funds (SSF) or Funds of Funds (FoF). The split based on number of funds choosing a performance fee is relatively similar with 23% and 28% respectively. For the value of the funds the split is far more uneven with SS funds holding 36% (not far from the total value) but FoF have a far lower 17%. This is an indication that the large asset FoF have a preference for non-performance fee funds.



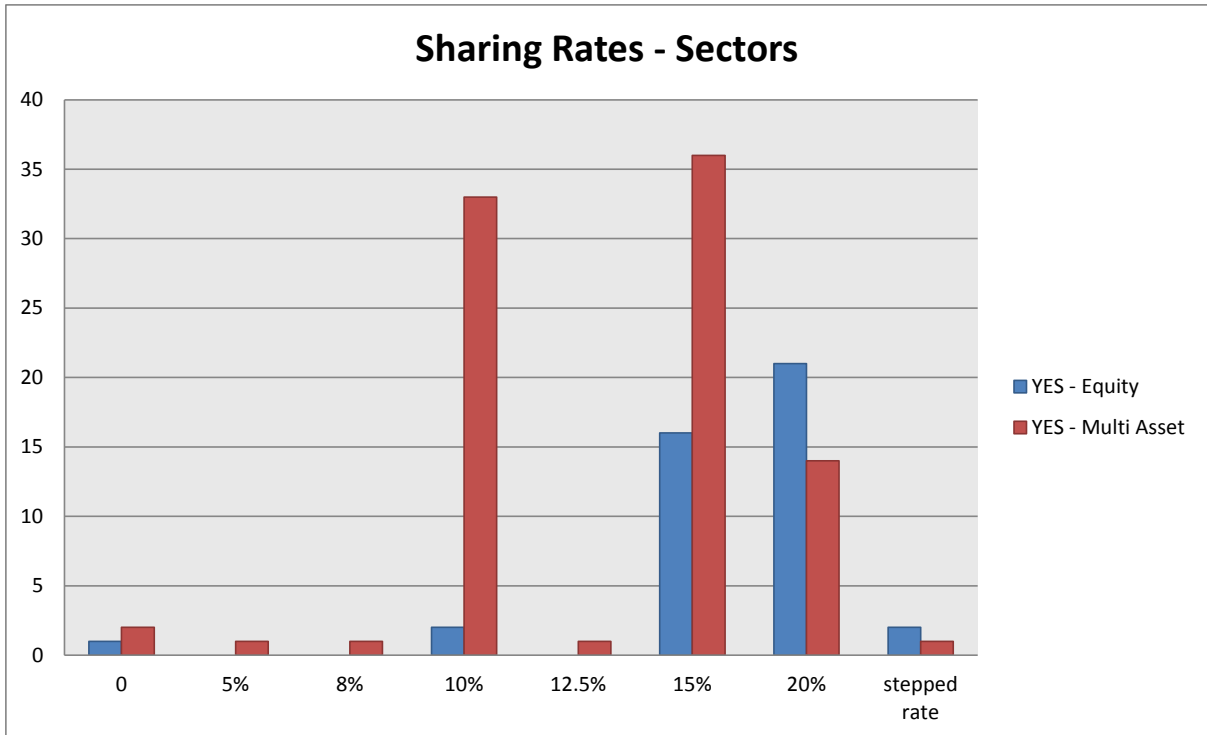
## Sharing Rates

Once a performance fee has been elected a sharing or participation rate is selected. Based on the 137 funds that have performance fee structures in place the most common being that of 15%<sup>21</sup> with 56 of the total funds.



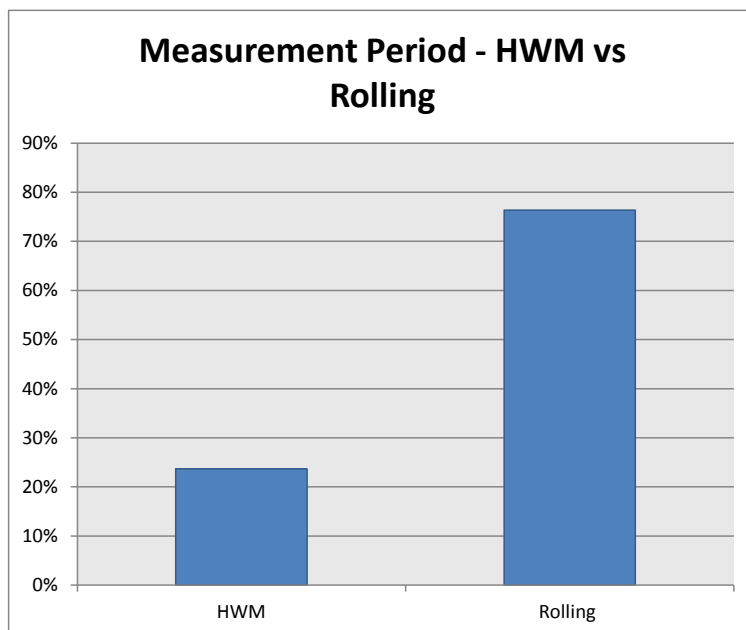
As the Equity and Multi Asset sectors are the two significant performance fee electors a more appropriate analysis is of just these two sectors. This show the Multi Asset funds tend towards a lower sharing rate with 83% of this category electing a sharing rate of 15% or lower. Compared to Equity funds of which only 45% have a sharing rate below 15%.

<sup>21</sup> Excluding VAT



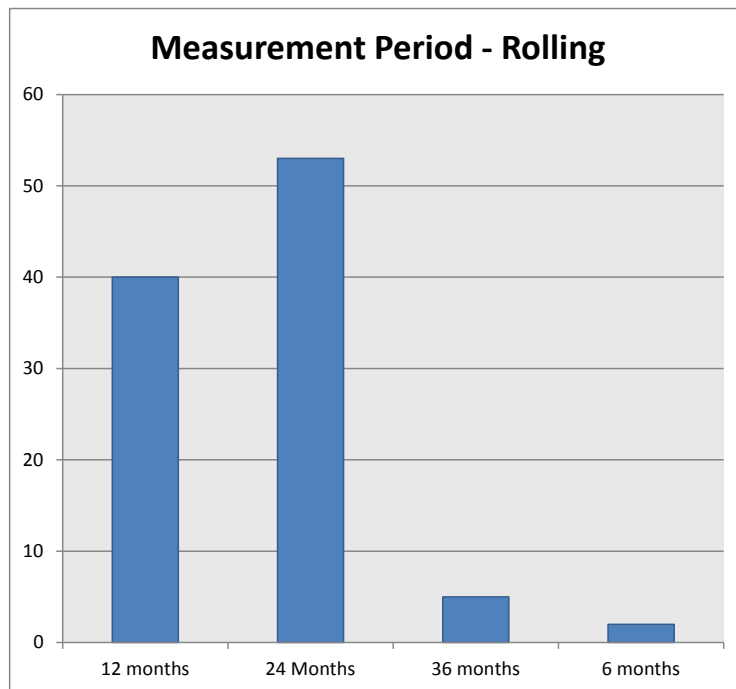
## Measurement Period

The period of measurement used for comparing the fee hurdle to that of the actual performance of the CIS can either take the form of a rolling method or a HWM structure. For the South African CIS industry a rolling period measurement is the preferred method with over 75% of funds electing to take a defined time scale of performance evaluation.



Of the 100 funds that elected a rolling period of measurement 53 chose to have their performance based on the previous 24 months, where 40 chose a shorter 12 month period. It is important to note

that with the exception of 5 funds the suggested period of 36 months (3 years) has not been followed. This would suggest that South African CIS have the ability to be rewarded for short-term “lucky” performances. As well as clean off any poor performance from prior periods relatively quickly.



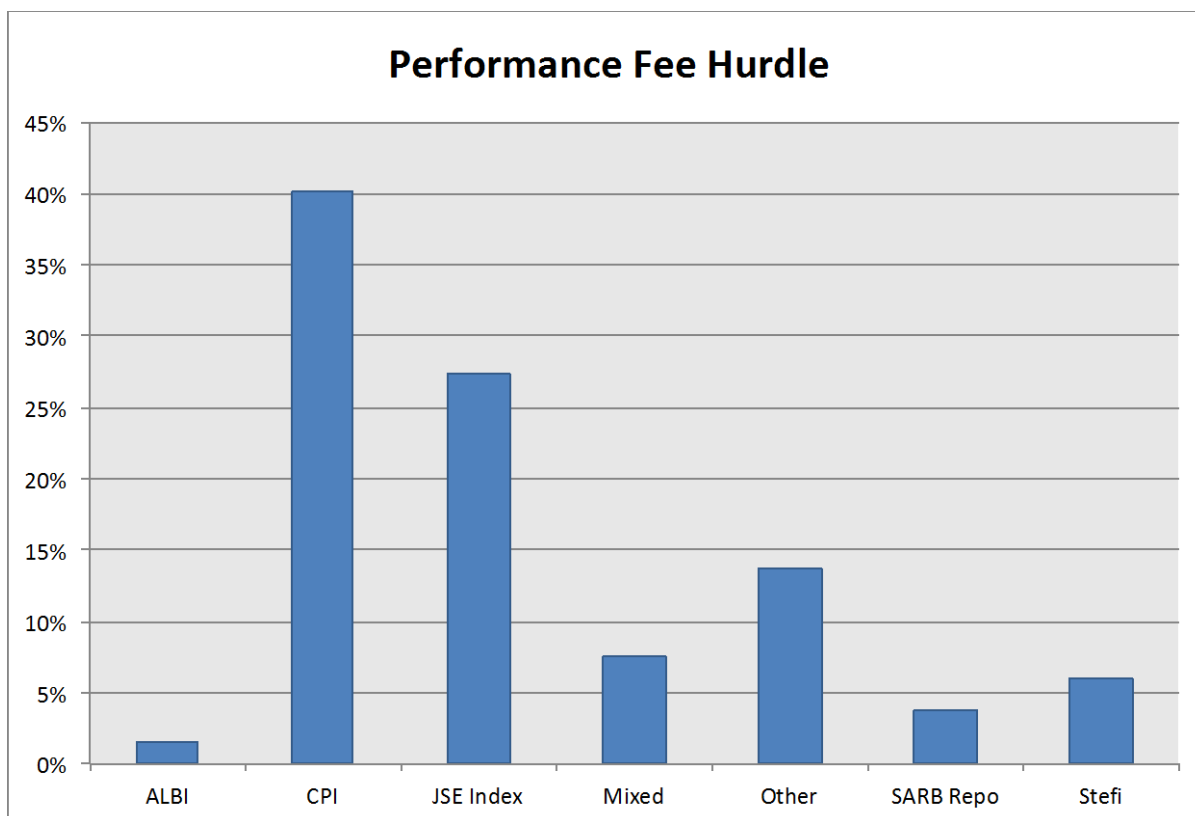
A breakdown of the rolling measurement periods per the fund classification is provided in appendix 5.2. This highlights that the vast majority of the funds that have short term rolling measurement periods are those of the Equity – General Funds.

## Performance Fee Hurdle

Performance fee hurdles should be based on a funds benchmark of performance. This benchmark should capture the market that the fund is investing into. For South African CIS these markets are based on the following market indices, South African All Bond Index (ALBI), South African Consumer Price Inflation (CPI), South African Reserve Bank Repo rate (SARB Repo), Short Term Fixed Interest composite index (Stefi) and the Johannesburg Securities Index<sup>22</sup> (JSE).

For South African CIS benchmarks nearly all are driven by at least one of these market indices in some form, be it directly or through a benchmark of mixed indices. The most common being that of CPI with 40% of the funds tested having some direct form of CPI in their performance fee hurdle.

<sup>22</sup> This includes all JSE All Share linked indices such as the ALSI top 40, JSE SWIX, JSE Property Indices.



As CPI is an index that tracks inflation it can be thought of as a measure of zero economic growth. A fund that returns only CPI would be considered to have not provided the investor with any added value. Considering this hurdle is applied before fees an investor would be earning a negative real return should their portfolio only return that of the CPI index. In the case of South African CIS however nearly all the funds (97%) have some form of CPI + and addition fixed percentage in place, 93% have a fixed percentage greater than 2%.

Appendix 5.6 gives a breakdown of the fee hurdles presented for each CIS alongside there recommended ASISA

## Fee Hurdle vs CIS Benchmark

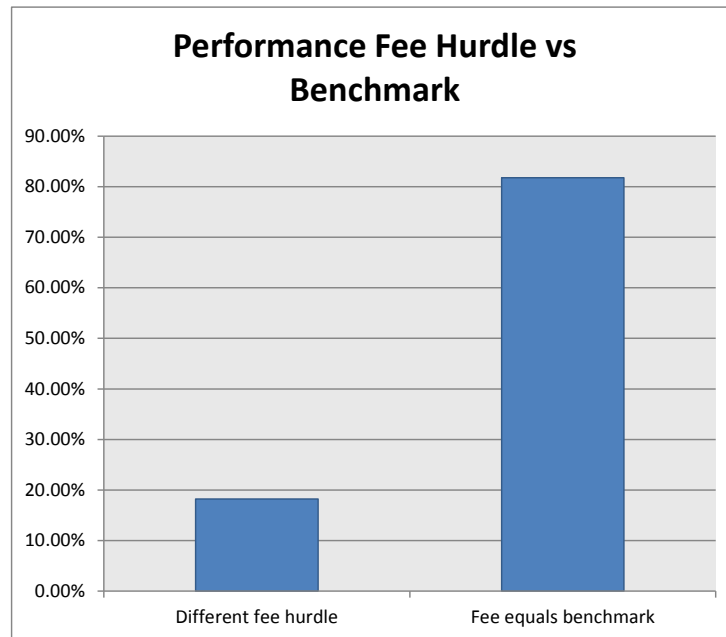
Performance fees are an attempt to align the fund manager's incentives with that of the investor. It is a compensation structure that allows a fund manager to be rewarded for the gains they provide to the investor.

In the case of funds having a performance fee hurdle that does not match that of its benchmark, a fund manager may be rewarded for performance even though they have not added any true gains<sup>23</sup>. As already discussed, a measure of the risk adjusted returns is the alpha of a fund. As the alpha of a fund is based on the excess returns to that of the funds benchmark a fund having a performance

<sup>23</sup> Gains must be adjusted for risk

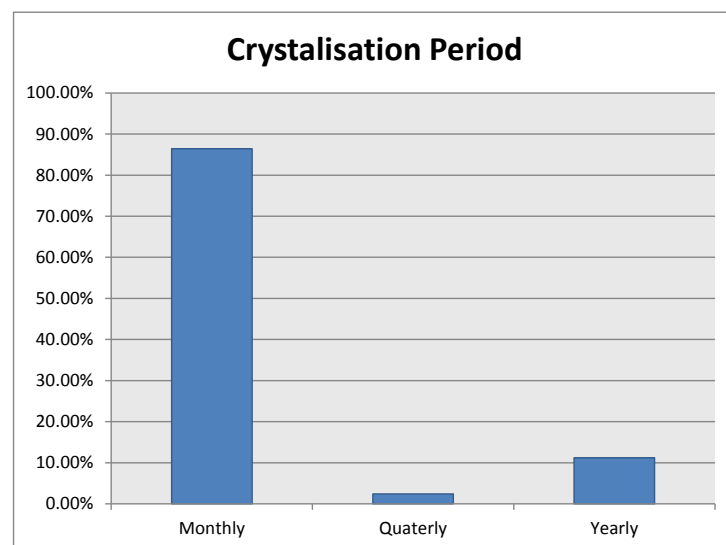
hurdle that is less than that of the benchmark allows the fund manager to receive compensation even when the fund adds no value (a negative alpha).

South African CIS that charge performance fees mostly follow the acceptable convention of having a performance hurdle that matches that of their benchmarks, with 81% of the funds studied. There are however 25 funds that have performance fee hurdles that do not match that of their benchmark. These funds are shown in appendix 5.3.



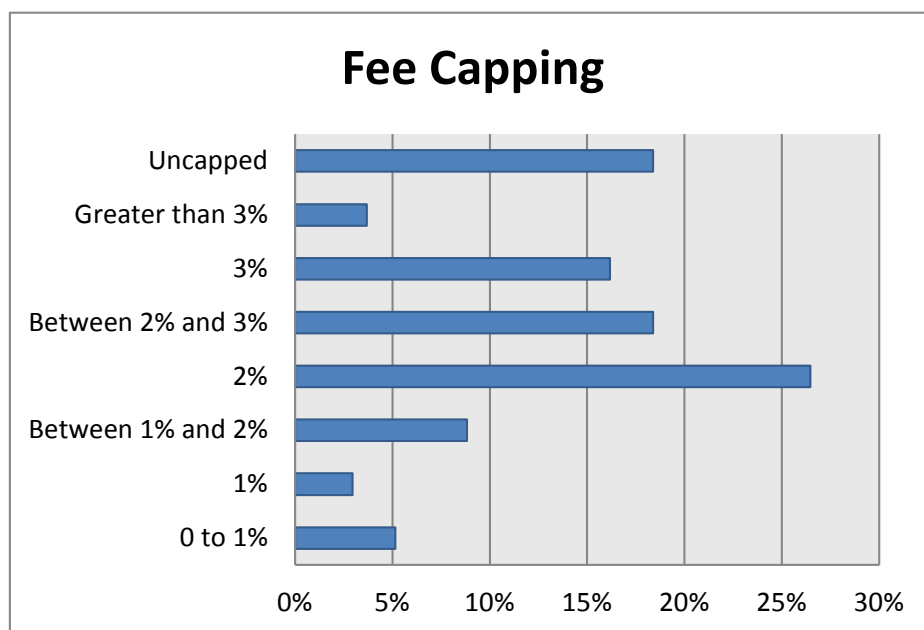
### Crystallization Period

The crystallisation of a performance fee can either be on monthly, quarterly or yearly basis. In South Africa over 85% of funds choose to have their performance fees crystallise on a monthly basis.



## Fee Capping

A performance fee gives the fund manager the potential to earn a larger TER. A fee cap is established at a certain percentage where a TER fee is maximized and the fund can no longer charge more than this. A large number of South African CIS (83%) have some predetermined maximum fee, the table below shows the Fee capping levels found in across the South African CIS



## Conclusion

South African CIS are a popular form of investment not only as they provide an individual investor a platform to have their investment actively managed by a professional fund manager but also allow the investor to pool their funds to reduce the high barrier cost to trading, that would be experienced should they attempt to recreate their own portfolio. In return a CIS will charge the investor a number of fees in order to receive compensation for the management of the investment. One such fee structure is that of a performance based fee, in which the investor will pay a certain portion of their fee based on the performance of their investment. The logic being that this will ensure that both parties have aligned interests and that the fund manager will have a tangible incentive to ensure that they provide the best possible returns to his investors.

This paper has focused on two questions regarding South African CIS:

- Has the CIS elected a Performance Fee?
- If so, what structure has been used for this fee calculation?

From the research done the results show that the South African CIS industry is dominated by funds that do not charge a variable fee percentage, with only 25% of funds and 34% of asset in the entire

regulated South African CIS industry having a performance fee structure. The Equity (General), Multi Asset (Flexible), Multi Asset (High Equity) and Multi Asset (Low Equity) being the four categories showing the largest take up of a performance fee. The trend for accepting a performance fee compensation structure is therefore based on the fund having a nonspecific industry mandate that is equity based.

As performance fees can vary in their structure significantly a situation may arise where two funds can provide exactly the same returns but based on their performance fee structure, after fee returns can differ significantly. This paper has looked at the differing sharing rates, performance fee hurdles, measurement periods, crystallisation periods and total fee caps. By providing a catalogue for which each CIS performance fee structure can be analysed and compared to others, this research hopes to help promote the issue that a fund manager can act in a negative manner in arranging their performance fee structure so as to disadvantage their investors. This would include fee hurdles that do not match their benchmarks, short periods of performance evaluation, no maximum fee and high sharing rates.

The disclosure of a Total Expense ratio (TER) for CIS is well established in all CIS marketing information. A TER with a performance fee component is also included in the disclosure, however it is the actual performance fee structure and potential performance fee return that is not transparent to investors. The ASISA guidelines on fund disclosure attempt to clarify this with their compulsory FAQ on performance fees, but it has been my experience writing this paper that although compulsory to provide, a number of fund managers have made little effort to provide this information in a transparent and user-friendly manner. It would therefore be reasonable to assume that any unsophisticated investor would not be able to interoperate or even discover the performance fee structure of their CIS.

It would be my recommendation that the South African CIS industry with the management of ASISA have more stringed regulation regarding the structure of performance fees. Funds should not be left to establish their own set of rules regarding the fee hurdle, in particular a fee hurdle should not be allowed to fall below that of the funds publicised benchmark. As funds differ considerably between asset classifications it would be my recommendation that those funds that follow sector specific mandates have standardised structures, while those who operate in more general investment classes have their structures assessed and compared to funds of like investment mandates (risk characteristics and investment universe).

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ASISA: <http://www.asisa.co.za/>

Equinox: <http://www.equinox.co.za/>

FSB : <http://www.fsb.co.za/>

Satrix: <http://www.satrix.co.za>

# Appendix

## Appendix 1.1 – Performance fee Options, Lee base case parameters.

| Item  | Base Case Parameters  |
|---|---|
| Performance Objective                         | Excess return = 1.6% per annum, tracking error 3.2% per annum   |
| Base Fee                                      | 10 basis points   |
| Bonus Formula                                 | 20 basis points per 1% net excess return (after threshold equal to base fee)  |
| Fee Maximum                                   | 80 bps  |
| Risk Penalty Rate                             | None  |
| Performance Period                            | Simple 1-year excess return   |
| Discount Rate                                 | 7%. For calculating annualized expected PV of fees.   |
| Benchmark Performance                         | Return: 8% per annum, volatility: 12% per annum   |
| Excess Return Correlation to Benchmark Return | 0   |
| Excess Return Autocorrelation                 | Autocorrelation is the correlation returns between two subsequent periods. It is a measure of “trends” in the excess portfolio return |
| Number of Simulations                         | 10 000  |
| Simulation Period                             | 10 Years  |

## Appendix 1.2 – Performance fee option valuation, Simulation Analysis of Performance based fees. Further results.

### Valuing PBF Formulas

#### Valuation of the Specific Base Case

| Evaluation Metric                                   | Asset-Based Fee Regime | PBF Regime (no fee cap & w/o termination) | PBF Regime (80bps fee cap & w/o termination) | PBF Regime (no fee cap & w/ termination) | PBF Regime (80bps fee cap & w/ termination) |
|---|------------------------|---|--|--|---|
| <b>10-Year Horizon Stats</b>                        |                        |   |  |  |   |
| Avg Annual Fee (%)                                  | 0.40                   | 0.54                                      | 0.43   | 0.38                                     | 0.31  |
| Avg. Annual Fee (PV) (In % of initial value)        | 0.38                   | 0.58                                      | 0.46   | 0.41                                     | 0.33  |
| Std Dev PV Fee                                      | 0.0                    | 0.17                                      | 0.10   | 0.27                                     | 0.19  |
| <b>1-Year Horizon Stats (excluding termination)</b> |                        |   |  |  |   |
| Avg Annual Fee (%)                                  | 0.40                   | 0.54                                      | 0.43   | 0.54                                     | 0.43  |
| Std Dev Avg. Fee (%)                                | 0.0                    | 0.48                                      | 0.30   | 0.48                                     | 0.30  |
| <b>Termination Stats</b>                            |                        |   |  |  |   |
| Termination Prob.                                   | 0.0                    | 0.0                                       | 0.0  | 62                                       | 62  |
| Avg. Life of Portfolio (years)                      | 10.0                   | 10.0                                      | 10.0   | 7.3                                      | 7.3   |

## PBF Formula and Revenue Stability

### PBF and Revenue Stability – Working With a Menu of PBF Formulas

| Evaluation Metric             | PBF (w/10bps floor & 80bps fee cap) | PBF (w/15bps floor & 69bps fee cap) | PBF (w/20bps floor & 52bps fee cap) | PBF (w/25bps floor & 42bps fee cap) |
|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Avg. Annual Fee (%)           | 0.43                                | 0.43                                | 0.43                                | 0.43                                |
| Median Avg. Annual Fee (%)    | 0.40                                | 0.45                                | 0.49                                | 0.53                                |
| Std. Dev. Avg. Annual Fee (%) | 0.30                                | 0.24                                | 0.19                                | 0.15                                |

#### Appendix 2 – South African CIS Fund Classifications.

##### 2.1 Equity Portfolios:

These portfolios invest a minimum of 80% of the market value of the portfolios in equities and generally seek maximum capital appreciation as their primary goal.

**2.1.1 Equity – General portfolios** - These portfolios invest in selected shares across all industry groups as well as across the range of large, mid and smaller cap shares. While the managers of these portfolios may subscribe to different investment styles or approaches, their intent is to produce a risk/return profile that is comparable with the risk/return profile of the overall JSE equities market. The portfolios in this category offer medium to long-term capital growth as their primary investment objective.

**SA Benchmark:** FTSE/JSE All Share index (J203T)

**2.1.2 Equity – Large cap portfolios** – These portfolios invest at least 80% of the market value of the portfolios in large market capitalisation shares which have a market capitalisation greater than or equal to the company with the lowest market capitalisation in the FTSE/JSE Top 40 Index, or an appropriate foreign index published by an exchange. 100% of share purchases must be in this investable universe at time of purchase.

**SA Benchmark:** FTSE/JSE Top 40 index (J200T)

**2.1.3 Equity – Mid & Small cap portfolios** – These portfolios invest at least 80% of the market value of the portfolios in shares which have a market capitalisation smaller than the company with the lowest market capitalisation in the FTSE/JSE Top 40 Index, or an appropriate foreign index published by an exchange. 100% of share purchases must be in this investable universe at time of purchase. Due to both the nature and focus of these portfolios, they may be more volatile than portfolios that are diversified across the broader market.

**SA Benchmark:** FTSE/JSE Mid Cap index (J201T)

**2.1.4 Equity - Resources portfolios** – These portfolios invest at least 80% of the market value of the portfolios in shares listed in the FTSE/JSE Oil & Gas and Basic Materials industry groups or in a similar sector of an international stock exchange. Up to 10% of a portfolio may be invested in shares outside the defined sectors in companies that conduct similar business activities as those in the defined sectors. Due to both the nature and focus of these portfolios, they may be more volatile than portfolios that are diversified across a wider range of FTSE / JSE industry groups.

**SA Benchmark:** FTSE/JSE Resources index (J258T)

**2.1.5 Equity – Financial portfolios** - These portfolios invest at least 80% of the market value of the portfolios in shares listed in the FTSE/JSE Financials industry group or in a similar sector of an international stock exchange. Up to 10% of a portfolio may be invested in shares outside the defined sectors in companies that conduct similar business activities as those in the defined sectors. Due to both the nature and focus of these portfolios they may be more volatile than portfolios that are diversified across a wider range of FTSE / JSE industry groups.

**SA Benchmark:** FTSE/JSE Financials index (J580T)

**2.1.6 Equity – Industrial portfolios** – These portfolios invest at least 80% of the market value of the portfolios in industrial shares listed on the Johannesburg Stock Exchange or in a similar sector of an international stock exchange. Industrial shares include all companies listed on the JSE other than those shares listed in the FTSE / JSE Oil & Gas, Basic Materials, and Financials industry groups.

**SA Benchmark:** FTSE/JSE All Share Industrials index (J257T)

**2.1.7 Equity – Unclassified portfolios** - These portfolios invest in a single industry or sector or in companies that share a common theme or activity as defined in their respective mandates. Due to both the nature and focus of these portfolios, they may be more volatile than portfolios that are diversified across the broader market. The performance of these portfolios cannot be compared to others in this category. Should it be considered appropriate, where five or more portfolios focus on a particular theme a new category will be created and the funds transferred.

## **2.2 Multi Asset Portfolios:**

Multi Asset portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money and property markets to maximise total returns (comprising capital and income growth) over the long term.

**2.2.1 Multi Asset – Flexible portfolios** - These portfolios invest in a flexible combination of investments in the equity, bond, money and property markets. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy. These portfolios may be aggressively managed with assets being shifted between the various markets and asset classes to reflect changing economic and market conditions and the manager is accorded a significant degree of discretion over asset allocation to maximise total returns over the long term.

**2.2.2 Multi Asset - High Equity portfolios** - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to have an increased probability of short term volatility, aim to maximise long term capital growth and can have a maximum effective equity exposure (including international equity) of up to 75% and a maximum effective property exposure (including international property) of up to 25% of the market value of the portfolio. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy.

**2.2.3 Multi Asset - Medium Equity portfolios** - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to display average volatility, aim for medium to long term capital growth and can have a maximum effective equity exposure (including international equity) of up to 60% and a maximum effective property exposure (including international property) of up to 25% of the market value of the portfolio. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy.

**2.2.4 Multi Asset - Low Equity portfolios** - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to display reduced short term volatility, aim for long term capital growth and can have a maximum effective equity exposure (including international equity) of up to 40% and a maximum effective property exposure (including international property) of up to 25% of the market value of the portfolio. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolios mandate and stated investment objective and strategy.

**2.2.5 Multi Asset – Income portfolios** – These portfolios invest in a spectrum of equity, bond, money market, or real estate markets with the primary objective of maximising income. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolios mandate and stated investment objective and strategy. These portfolios can have a maximum effective equity exposure (including international equity) of up to 10% and a maximum effective property exposure (including international property) of up to 25% of the market value of the portfolio.

### **2.3 Interest Bearing Portfolios:**

Interest Bearing Portfolios are collective investment portfolios that invest exclusively in bond, money market investments and other interest earning securities.

These portfolios may not include equity securities, real estate securities or cumulative preference shares.

**2.3.1 Interest Bearing - Variable Term portfolios** – These portfolios invest in bonds, fixed deposits and other interest-bearing securities. These portfolios may invest in short, intermediate and long-dated securities. The composition of the underlying investments is actively managed and will change over time to reflect the manager’s assessment of interest rate trends. These portfolios offer the potential for capital growth, together with a regular and high level of income. These portfolios may not include equity securities, real estate securities or cumulative preference shares

**SA Benchmark:** JSE/ASSA All Bond index (ALBI)

**2.3.2 Interest Bearing – Short Term portfolios** – These portfolios invest in bonds, fixed deposits and other interest earning securities which have a fixed maturity date and either have a predetermined cash flow profile or are linked to benchmark yields, but exclude any equity securities, real estate securities or cumulative preference shares. To provide relative capital stability, the weighted average modified duration of the underlying assets is limited to a maximum of two. These portfolios are less volatile and are characterised by a regular and high level of income.

**SA Benchmark:** STeFI Composite index

**2.3.3 Interest Bearing - Money market portfolios** - These portfolios seek to maximise interest income, preserve the portfolio’s capital and provide immediate liquidity. This is achieved by investing in money market instruments with a maturity of less than thirteen months while the average duration of the underlying assets may not exceed 90 days and a weighted average legal maturity of 120 days. The portfolios are typically characterised as short-term, highly liquid vehicles.

**SA Benchmark:** STeFI 3-month index

### **2.4 Real Estate Portfolios:**

**Real Estate - General portfolios** – These portfolios invest in listed property shares, collective investment schemes in property and property loan stock and real estate investment trusts. The objective of these portfolios is to provide high levels of income and long-term capital appreciation. These portfolios invest at least 80% of the market value of the portfolio in shares listed in the FTSE / JSE Real Estate industry group or similar sector of an

international stock exchange and may include other high yielding securities from time to time. Up to 10% of a portfolio may be invested in shares outside the defined sectors in companies that conduct similar business activities as those in the defined sectors.

**SA Benchmark:** FTSE/JSE SA Listed Property index (J253T)

**Appendix 3.1 - June 2013 CIS ASISA data (Tier 2 classifications)**

|                            | TOTAL ASSETS     |            |                  |            |                  |            |                  |            | NO OF FUNDS |            |            |            |            |            |            |            |
|----------------------------|------------------|------------|------------------|------------|------------------|------------|------------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|
|                            | 30/06/2013       |            | 31/03/2013       |            | 31/12/2012       |            | 30/09/2012       |            | 30/06/2013  |            | 31/03/2013 |            | 31/12/2012 |            | 30/09/2012 |            |
|                            | Rm               | %          | Rm               | %          | Rm               | %          | Rm               | %          | #           | %          | #          | %          | #          | %          | #          | %          |
| <b>SOUTH AFRICAN FUNDS</b> |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |
| Equity                     | 252 824          | 20         | 258 873          | 22         | 249 044          | 22         | 231 384          | 22         | 229         | 26         | 223        | 26         | 216        | 26         | 214        | 26         |
| Multi Asset                | 541 232          | 44         | 510 996          | 43         | 383 045          | 34         | 352 229          | 33         | 503         | 58         | 491        | 58         | 416        | 50         | 418        | 51         |
| Real Estate                | 49 271           | 4          | 48 837           | 4          | 46 236           | 4          | 44 668           | 4          | 34          | 4          | 32         | 4          | 31         | 4          | 31         | 4          |
| Interest Bearing           | 395 426          | 32         | 376 162          | 31         | 451 895          | 40         | 435 935          | 41         | 107         | 12         | 101        | 12         | 168        | 20         | 163        | 20         |
| <b>SUB TOTAL</b>           | <b>1 238 753</b> | <b>100</b> | <b>1 194 868</b> | <b>100</b> | <b>1 130 220</b> | <b>100</b> | <b>1 064 215</b> | <b>100</b> | <b>873</b>  | <b>100</b> | <b>847</b> | <b>100</b> | <b>831</b> | <b>100</b> | <b>826</b> | <b>100</b> |
| <b>WORLD WIDE FUNDS</b>    |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |
| Equity                     | 447              | 3          | 393              | 3          | 360              | 4          | 350              | 5          | 3           | 7          | 2          | 5          | 2          | 6          | 2          | 6          |
| Multi Asset                | 14 714           | 97         | 12 972           | 97         | 7 384            | 86         | 6 353            | 85         | 37          | 90         | 34         | 92         | 30         | 91         | 30         | 91         |
| <b>SUB TOTAL</b>           | <b>15 209</b>    | <b>100</b> | <b>13 401</b>    | <b>100</b> | <b>8 591</b>     | <b>100</b> | <b>7 439</b>     | <b>100</b> | <b>41</b>   | <b>100</b> | <b>37</b>  | <b>100</b> | <b>33</b>  | <b>100</b> | <b>33</b>  | <b>100</b> |
| <b>REGIONAL FUNDS</b>      |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |
| Equity                     | 3 483            | 25         | 2 921            | 23         | 0                | 0          | 0                | 0          | 11          | 55         | 11         | 55         | 0          | 0          | 0          | 0          |
| Multi Asset                | 8 980            | 65         | 8 545            | 67         | 0                | 0          | 0                | 0          | 1           | 5          | 1          | 5          | 0          | 0          | 0          | 0          |
| Real Estate                | 61               | 0          | 56               | 0          | 0                | 0          | 0                | 0          | 1           | 5          | 1          | 5          | 0          | 0          | 0          | 0          |
| Interest Bearing           | 1 307            | 9          | 1 230            | 10         | 0                | 0          | 0                | 0          | 7           | 35         | 7          | 35         | 0          | 0          | 0          | 0          |
| <b>SUB TOTAL</b>           | <b>13 832</b>    | <b>100</b> | <b>12 752</b>    | <b>100</b> | <b>0</b>         | <b>0</b>   | <b>0</b>         | <b>0</b>   | <b>20</b>   | <b>100</b> | <b>20</b>  | <b>100</b> | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>0</b>   |
| <b>GLOBAL FUNDS</b>        |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |
| Equity                     | 42 477           | 65         | 38 193           | 65         | 32 124           | 53         | 29 012           | 51         | 50          | 57         | 48         | 57         | 47         | 46         | 46         | 43         |
| Multi Asset                | 26 014           | 40         | 22 926           | 39         | 26 425           | 43         | 25 203           | 44         | 40          | 46         | 39         | 46         | 37         | 36         | 38         | 36         |
| Real Estate                | 3 040            | 5          | 2 827            | 5          | 0                | 0          | 0                | 0          | 7           | 8          | 6          | 7          | 0          | 0          | 0          | 0          |
| Interest Bearing           | 2 076            | 3          | 1 918            | 3          | 2 451            | 4          | 2 464            | 4          | 16          | 18         | 16         | 19         | 19         | 18         | 22         | 21         |
| <b>SUB TOTAL</b>           | <b>65 715</b>    | <b>100</b> | <b>58 830</b>    | <b>100</b> | <b>61 001</b>    | <b>100</b> | <b>56 679</b>    | <b>100</b> | <b>87</b>   | <b>100</b> | <b>84</b>  | <b>100</b> | <b>103</b> | <b>100</b> | <b>106</b> | <b>100</b> |
| <b>TOTAL</b>               | <b>1 333 508</b> | <b>100</b> | <b>1 279 851</b> | <b>100</b> | <b>1 199 811</b> | <b>100</b> | <b>1 128 333</b> | <b>100</b> | <b>1021</b> | <b>100</b> | <b>988</b> | <b>100</b> | <b>967</b> | <b>100</b> | <b>965</b> | <b>100</b> |

Appendix 3.2 - June 2013 CIS ASISA data (Tier 3 classifications)

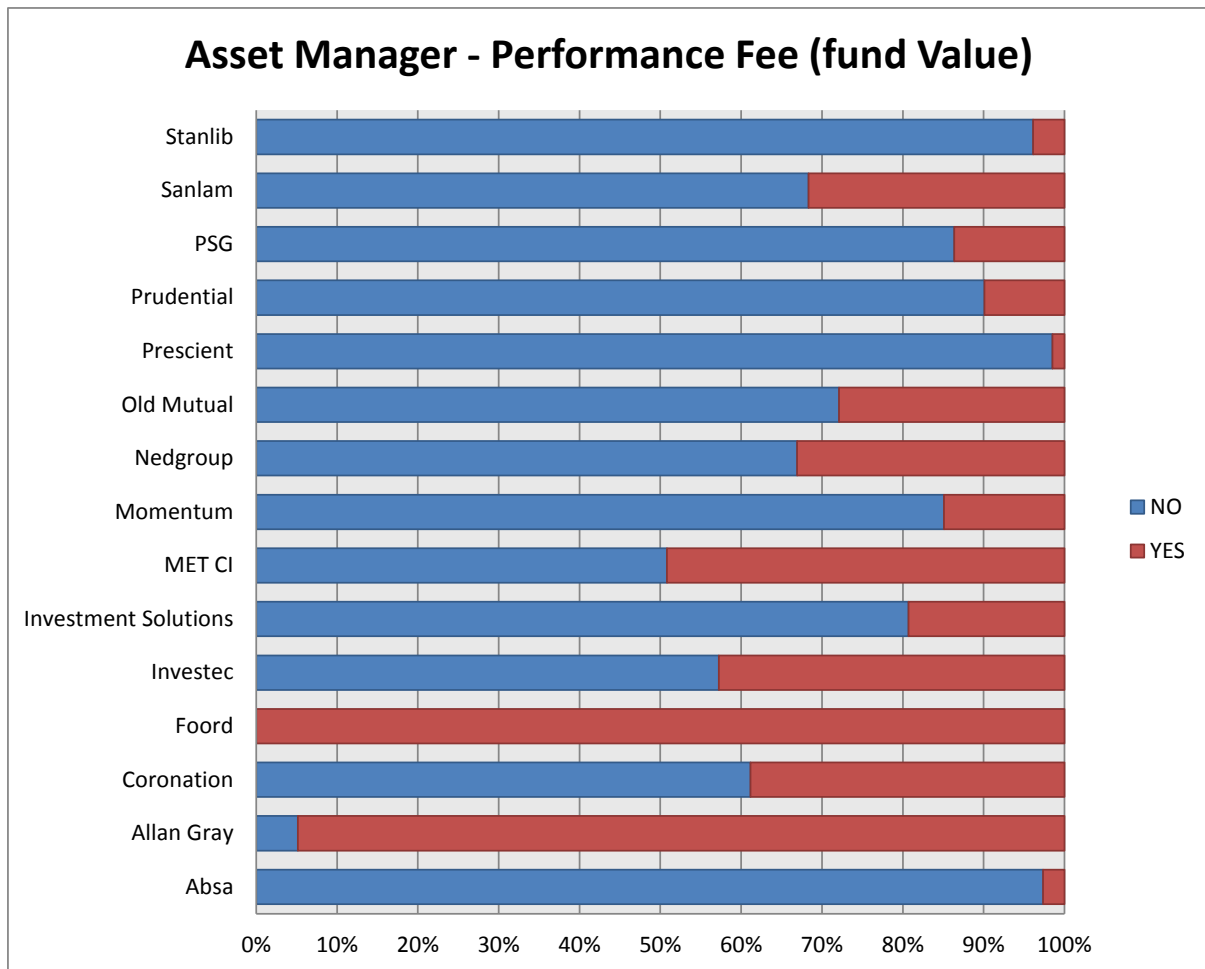
|                                   | TOTAL ASSETS     |            |                  |            |                  |            |                  |            | NO OF FUNDS |            |            |            |            |            |            |            |  |  |
|-----------------------------------|------------------|------------|------------------|------------|------------------|------------|------------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|--|--|
|                                   | 30/06/2013       |            | 31/03/2013       |            | 31/12/2012       |            | 30/09/2012       |            | 30/06/2013  |            | 31/03/2013 |            | 31/12/2012 |            | 30/09/2012 |            |  |  |
|                                   | Rm               | %          | Rm               | %          | Rm               | %          | Rm               | %          | #           | %          | #          | %          | #          | %          | #          | %          |  |  |
| <b>EQUITY FUNDS</b>               |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |  |  |
| General funds                     | 218 184          | 18         | 223 333          | 19         | 160 824          | 14         | 149 159          | 14         | 171         | 20         | 165        | 19         | 130        | 16         | 128        | 15         |  |  |
| Growth funds                      | 0                | 0          | 0                | 0          | 6 849            | 1          | 6 455            | 1          | 0           | 0          | 0          | 0          | 7          | 1          | 7          | 1          |  |  |
| Value funds                       | 0                | 0          | 0                | 0          | 28 357           | 3          | 27 609           | 3          | 0           | 0          | 0          | 0          | 18         | 2          | 18         | 2          |  |  |
| Large Cap funds                   | 16 192           | 1          | 16 806           | 1          | 30 539           | 3          | 27 402           | 3          | 20          | 2          | 20         | 2          | 21         | 3          | 21         | 3          |  |  |
| Mid & Small Cap funds             | 6 059            | 0          | 6 017            | 1          | 5 542            | 0          | 5 328            | 1          | 9           | 1          | 9          | 1          | 9          | 1          | 9          | 1          |  |  |
| Unclassified funds                | 500              | 0          | 521              | 0          | 5 147            | 0          | 4 641            | 0          | 3           | 0          | 3          | 0          | 5          | 1          | 5          | 1          |  |  |
| Resources & Basic Industries      | 4 033            | 0          | 4 683            | 0          | 4 892            | 0          | 4 642            | 0          | 11          | 1          | 11         | 1          | 11         | 1          | 11         | 1          |  |  |
| Industrial funds                  | 5 273            | 0          | 4 834            | 0          | 4 295            | 0          | 3 766            | 0          | 7           | 1          | 7          | 1          | 7          | 1          | 7          | 1          |  |  |
| Financial funds                   | 2 582            | 0          | 2 680            | 0          | 2 599            | 0          | 2 381            | 0          | 8           | 1          | 8          | 1          | 8          | 1          | 8          | 1          |  |  |
| <b>SUB TOTAL</b>                  | <b>252 824</b>   | <b>20</b>  | <b>258 873</b>   | <b>22</b>  | <b>249 044</b>   | <b>22</b>  | <b>231 384</b>   | <b>22</b>  | <b>229</b>  | <b>26</b>  | <b>223</b> | <b>26</b>  | <b>216</b> | <b>26</b>  | <b>214</b> | <b>26</b>  |  |  |
| <b>MULTI ASSET FUNDS</b>          |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |  |  |
| Low Equity funds                  | 136 185          | 11         | 122 947          | 10         | 90 988           | 8          | 81 563           | 8          | 114         | 13         | 110        | 13         | 89         | 11         | 89         | 11         |  |  |
| Medium Equity funds               | 30 074           | 2          | 31 045           | 3          | 5 878            | 1          | 5 552            | 1          | 66          | 8          | 66         | 8          | 45         | 5          | 44         | 5          |  |  |
| Prudential High Equity funds      | 0                | 0          | 0                | 0          | 1 438            | 0          | 1 322            | 0          | 0           | 0          | 0          | 0          | 17         | 2          | 16         | 2          |  |  |
| High Equity funds                 | 232 997          | 19         | 221 509          | 19         | 176 329          | 16         | 160 569          | 15         | 144         | 16         | 138        | 16         | 114        | 14         | 112        | 14         |  |  |
| Flexible funds                    | 41 201           | 3          | 41 727           | 3          | 57 484           | 5          | 54 988           | 5          | 105         | 12         | 103        | 12         | 83         | 10         | 85         | 10         |  |  |
| Targeted Absolute and Real R      | 0                | 0          | 0                | 0          | 50 928           | 5          | 48 234           | 5          | 0           | 0          | 0          | 0          | 68         | 8          | 72         | 9          |  |  |
| Income funds                      | 100 775          | 8          | 93 767           | 8          | 0                | 0          | 0                | 0          | 74          | 8          | 74         | 9          | 0          | 0          | 0          | 0          |  |  |
| <b>SUB TOTAL</b>                  | <b>541 232</b>   | <b>44</b>  | <b>510 996</b>   | <b>43</b>  | <b>383 045</b>   | <b>34</b>  | <b>352 229</b>   | <b>33</b>  | <b>503</b>  | <b>58</b>  | <b>491</b> | <b>58</b>  | <b>416</b> | <b>50</b>  | <b>418</b> | <b>51</b>  |  |  |
| <b>REAL ESTATE FUNDS</b>          |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |  |  |
| General funds                     | 49 271           | 4          | 48 837           | 4          | 46 236           | 4          | 44 668           | 4          | 34          | 4          | 32         | 4          | 31         | 4          | 31         | 4          |  |  |
| <b>SUB TOTAL</b>                  | <b>49 271</b>    | <b>4</b>   | <b>48 837</b>    | <b>4</b>   | <b>46 236</b>    | <b>4</b>   | <b>44 668</b>    | <b>4</b>   | <b>34</b>   | <b>4</b>   | <b>32</b>  | <b>4</b>   | <b>31</b>  | <b>4</b>   | <b>31</b>  | <b>4</b>   |  |  |
| <b>INTEREST BEARING FUNDS</b>     |                  |            |                  |            |                  |            |                  |            |             |            |            |            |            |            |            |            |  |  |
| Variable Term funds               | 43 299           | 3          | 44 179           | 4          | 16 728           | 1          | 16 122           | 2          | 32          | 4          | 32         | 4          | 29         | 3          | 27         | 3          |  |  |
| Short Term funds                  | 87 813           | 7          | 82 688           | 7          | 39 186           | 3          | 35 334           | 3          | 36          | 4          | 32         | 4          | 15         | 2          | 14         | 2          |  |  |
| Varied Specialist funds           | 0                | 0          | 0                | 0          | 150 453          | 13         | 141 855          | 13         | 0           | 0          | 0          | 0          | 87         | 10         | 87         | 11         |  |  |
| <b>SUB TOTAL</b>                  | <b>131 113</b>   | <b>11</b>  | <b>126 867</b>   | <b>11</b>  | <b>206 368</b>   | <b>18</b>  | <b>193 310</b>   | <b>18</b>  | <b>68</b>   | <b>8</b>   | <b>64</b>  | <b>8</b>   | <b>131</b> | <b>16</b>  | <b>128</b> | <b>15</b>  |  |  |
| <b>TOTAL (excluding Money Mar</b> | <b>974 440</b>   | <b>79</b>  | <b>945 573</b>   | <b>79</b>  | <b>884 692</b>   | <b>78</b>  | <b>821 591</b>   | <b>77</b>  | <b>834</b>  | <b>96</b>  | <b>810</b> | <b>96</b>  | <b>794</b> | <b>96</b>  | <b>791</b> | <b>96</b>  |  |  |
| Money Market funds                | 264 313          | 21         | 249 295          | 21         | 245 528          | 22         | 242 625          | 23         | 39          | 4          | 37         | 4          | 37         | 4          | 35         | 4          |  |  |
| <b>TOTAL (Including Money Mar</b> | <b>1 238 753</b> | <b>100</b> | <b>1 194 868</b> | <b>100</b> | <b>1 130 220</b> | <b>100</b> | <b>1 064 215</b> | <b>100</b> | <b>873</b>  | <b>100</b> | <b>847</b> | <b>100</b> | <b>831</b> | <b>100</b> | <b>826</b> | <b>100</b> |  |  |

#### Appendix 4.1 - Performance fee FAQ for CIS as per the ASISA standard on Collective investment Scheme Performance fees.

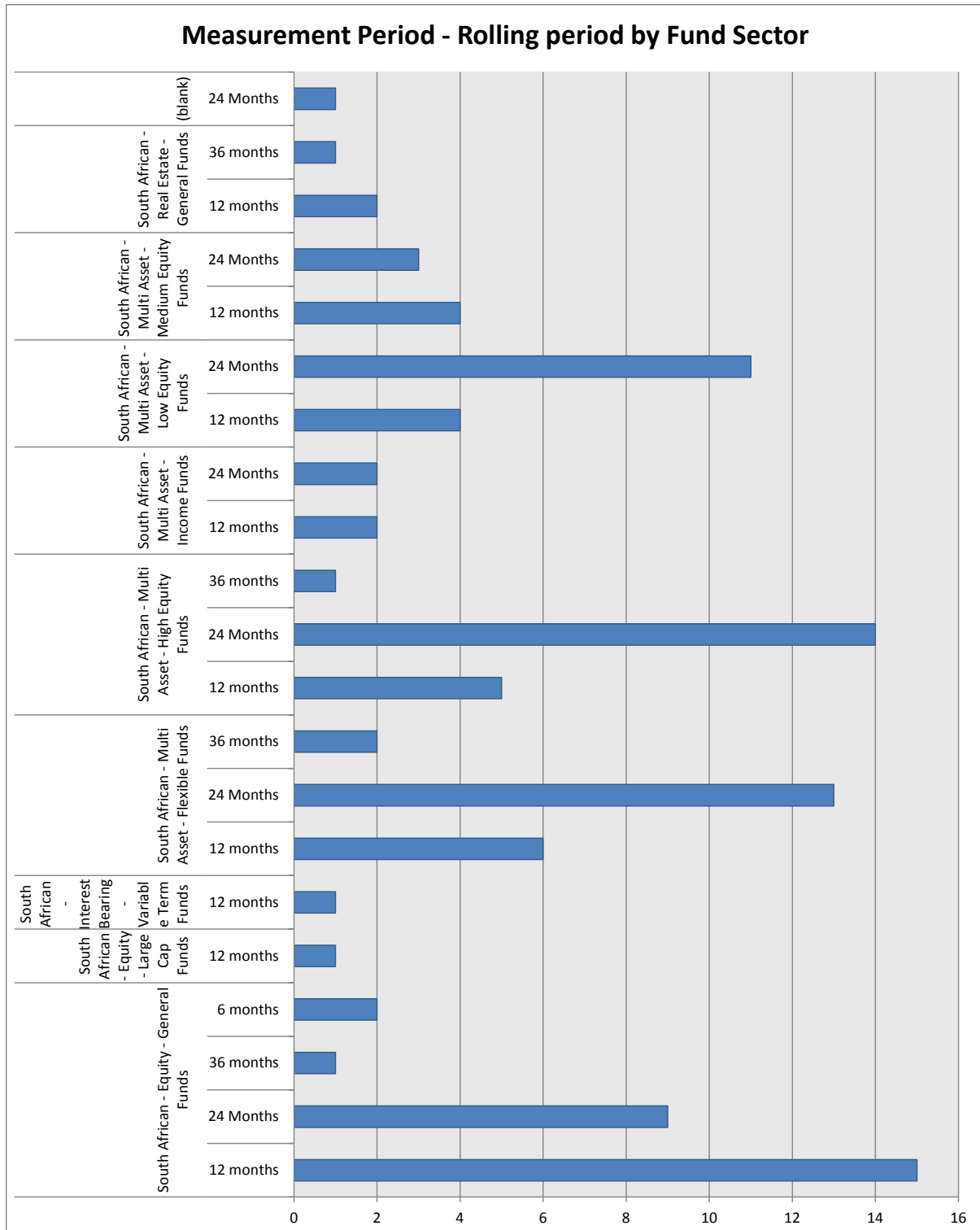
- What are the minimum fees for the relevant funds and classes?
- What are the maximum fees for the relevant funds and classes?
- At which performance levels (also called the fee hurdles) will the Manager charge more than the minimum fees?
- Are the fee hurdles the same as the relevant fund benchmarks? If not, explain any differences and the reason for this.
- Will more than the minimum fee be charged regardless of whether the fund is experiencing positive or negative performance?
- What portion of the funds' performances will the Manager be entitled to share, should the funds perform above their fee hurdles (also called the sharing rate)?
- When fund performance is considered, are fees included or excluded (net of fees or gross of fees)?
- What fee rate will be charged under the following conditions:
  - the funds perform 10% pa less than Benchmark
  - the funds perform 5% pa less than Benchmark
  - the funds perform in line with Benchmark
  - the funds perform 5% pa more than Benchmark
  - the funds perform 10% pa more than Benchmark
- Do any other classes of the funds charge fixed fees instead of performance fees?
- Are the performance fees accrued daily (also called the Fee Accrual Frequency)? *If not, disclose the accrual frequency, together with the following "Where fees are not accrued daily, certain unit holders may carry a lower proportion of the performance fee relative to performance enjoyed, whilst other investors may carry a higher proportion of the performance fee relative to performance enjoyed."* \_
- Do performance fee accruals pertain to performance periods more than a month prior to accrual? *If so disclose the accrual lag, together with the following: "Where fee accrual is lagged, certain unit holders may carry a lower proportion of the performance fee relative to performance enjoyed, whilst other investors may carry a higher proportion of the performance fee relative to performance enjoyed."*
- Is a rolling measurement period used? *If so disclose the rolling period, together with the following "Where rolling measurement periods are used, certain unit holders may carry a lower proportion of the performance fee relative to performance enjoyed, whilst other investors may carry a higher proportion of the performance fee relative to performance enjoyed."*
- How often is the performance fee paid to the Manager (also called the "Fee Payment Frequency")?
- Should the fund experience under-performance to the fee hurdle, how long is that under-performance held against the Manager? In particular, at what point would that under-performance be written off from a fee calculation point of view? This "write off" may be the consequence of a reset provision in the High Water Mark, the length of the rolling period, or another implication of the mechanics of the performance fee basis and method.

- Does performance in excess of the hurdle need to overcome prior under-performance (also called a High Water Mark system)? If so, explain whether fee accruals are simply suspended or whether past fee accruals are refunded. Also, disclose the circumstances under which the High Water Mark expires, if at all.
- Do any underlying funds charge implicit performance fees? If so, include the following: “Where underlying funds charge implicit performance fees (i.e. implicit in their unit prices), unit holders may carry these performance fees regardless of whether the top tier fund or mandate has outperformed its own benchmark.”

**Appendix 5.1 – CIS Performance fees per Asset Manager (Fund Value)**



**Appendix 5.2 – Rolling measurement period by Tier 3 classification**



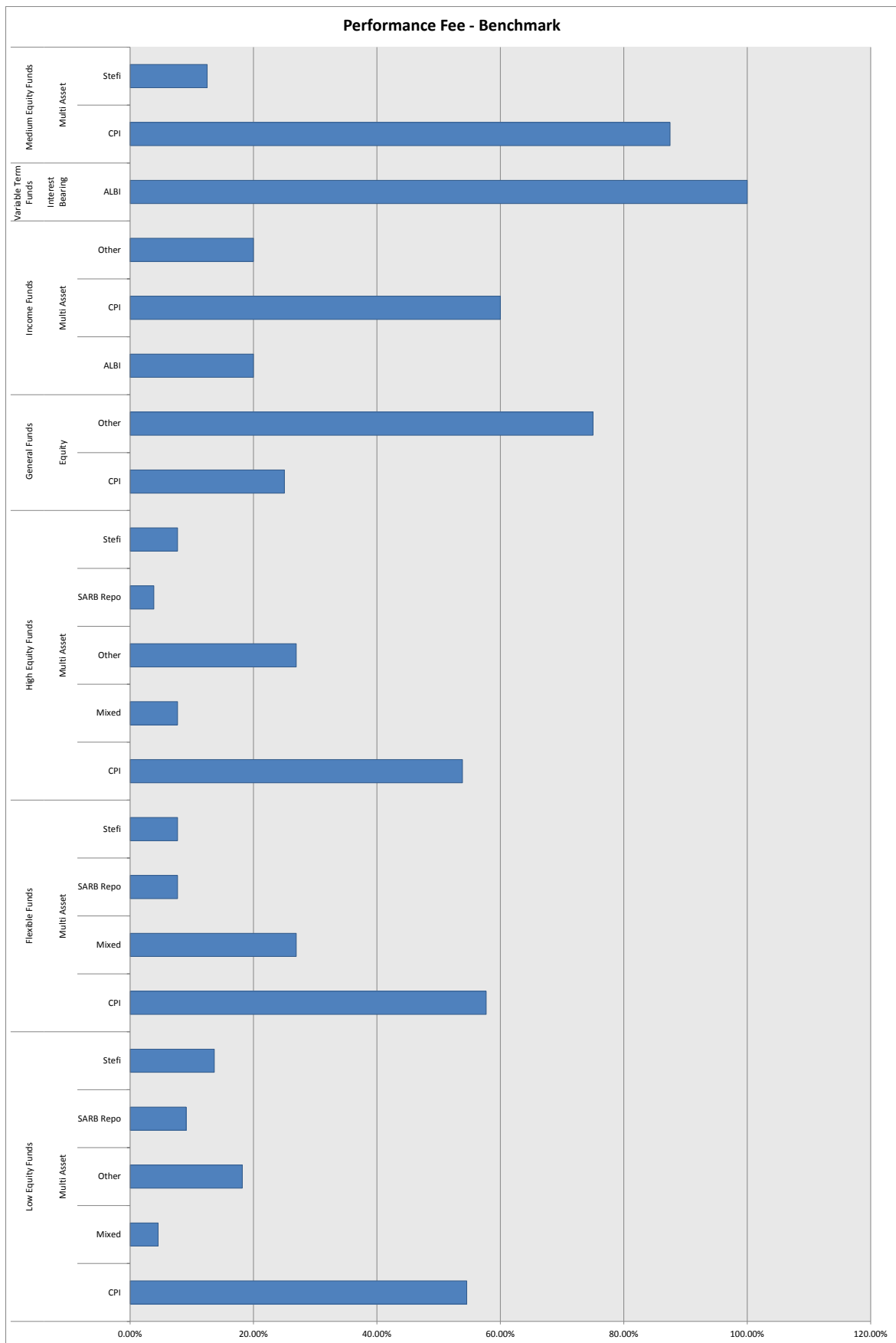
### Appendix 5.3 - Benchmark Hurdle vs. Performance Hurdle ( Funds that have different Hurdles).

| Fund Name                                  | Performance Benchmark   | Fee Hurdle  |
|--|---|---|
| Absa Select Equity                         | FTSE/JSE All Share Index (J203T)  | Benchmark + 2%  |
| Allan Gray Balanced - A                    | AVG (market value weighted) of Domestic - Asset   | Benchmark - 5%  |
| Allan Gray Equity - A                      | FTSE/JSE All Share Index (J203T)  | Benchmark - 15%   |
| Allan Gray Stable - A                      | return of call deposits (for amounts greater than R5m) with FNB + 2% after tax of 25%                                   | Return of call deposits (for amounts greater than R5m) with FNB + 2% after tax of 25%]- 5%  |
| AS Forum MET Moderate FoF                  | CPI + 5%  | CPI + 3%  |
| BJM Multi-Manager Equity - B1              | FTSE/JSE All Share Index (J203T)  | ACI Domestic General Equity category  |
| BJM Multi-Manager Prudential Flexible - B1 | Median of the Domestic Prudential Variable Equity Fund Sector   | average of the ACI Domestic Asset Allocation Prudential Variable Equity   |
| Clarus MET Optimal - A                     | FTSE JSE Top 40 J200T   | CPI+ 5%   |
| Clarus MET Property - A                    | J254  | J254 less 5%  |
| Clarus MET Real Income - A                 | CPI+1.5%  | CPI+1%  |
| Clarus MET Value - A                       | FTSE JSE All Share Index (J203T)  | CPI + 2.5%  |
| GFA MET Stable FoF                         | CPI + 5%  | CPI + 3%  |
| Investec Active Quants - A                 | FTSE/JSE SWIX (J403T)   | FTSE/JSE All Share Index (J203T)  |
| Investec Active Quants - R                 | FTSE/JSE SWIX (J403T)   | FTSE/JSE All Share Index (J203T)  |
| Investec Equity - A                        | FTSE/JSE SWIX (J403T)   | FTSE/JSE All Share Index (J203T)  |
| Investec Opportunity - R                   | Headline CPI + 6%   | Headline CPI + 2%   |
| Nedgroup Inv Flexible Income - A           | 110% of stefi call index  | total positive performance  |
| Nedgroup Inv Stable - A1                   | CPI + 4%  | total positive performance  |
| Old Mutual Active Quant Equity - A         | FTSE/JSE SWIX (J403T)   | Benchmark - 2%  |
| Old Mutual Growth - A                      | FTSE/JSE SWIX (J403T)   | Benchmark - 2%  |
| Old Mutual Investors - A                   | FTSE/JSE SWIX (J403T)   | Benchmark - 2%  |
| Old Mutual Top Companies - A               | FTSE/JSE SWIX (J403T)   | Benchmark - 2%  |
| STANLIB Balanced - A                       | 60% FTSE/JSE All Share Index, 25% BEASSA All Bond Index, 9% MSCI World Index, 6% JP Morgan Global Government Bond Index | performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index) |
| STANLIB Growth - A                         | FTSE/JSE All Share Index (J203T)  | Performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index) |
| STANLIB Value - A                          | FTSE/JSE All Share Index (J203T)  | Performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index) |

## Appendix 5.4 – Uncapped Performance fee CIS

| Fund Manager         | Fund Name                                  | Main Sector      | Sector                           |
|----------------------|--|------------------|----------------------------------|
| Absa                 | Absa Select Equity                         | Equity           | General Funds                    |
| Sanlam               | BJM Multi-Manager Equity - B1              | Equity           | General Funds                    |
| Foord                | Foord Equity - R                           | Equity           | General Funds                    |
| Investment Solutions | Investment Solutions M-M Equity FoF        | Equity           | General Funds                    |
| MET CI               | Lion of Africa MET Equity                  | Equity           | General Funds                    |
| Sanlam               | Lynx Opportunities FoF - A1                | Equity           | General Funds                    |
| PSG                  | PSG Equity - A                             | Equity           | General Funds                    |
| Stanlib              | STANLIB Growth - A                         | Equity           | General Funds                    |
| Stanlib              | STANLIB M-M All Stars Equity FoF - A       | Equity           | General Funds                    |
| Stanlib              | STANLIB Value - A                          | Equity           | General Funds                    |
| MET CI               | Centaur MET Flexible                       | Multi Asset      | Flexible Funds                   |
| MET CI               | Insight Capital MET Flexible FoF           | Multi Asset      | Flexible Funds                   |
| Prescient            | Prescient Private Clients Flexible - A1    | Multi Asset      | Flexible Funds                   |
| PSG                  | PSG Flexible                               | Multi Asset      | Flexible Funds                   |
| MET CI               | Visio MET Actinio                          | Multi Asset      | Flexible Funds                   |
| Sanlam               | BJM Multi-Manager Prudential Flexible - B1 | Multi Asset      | High Equity Funds                |
| Foord                | Foord Balanced - R                         | Multi Asset      | High Equity Funds                |
| Investment Solutions | Investment Solutions Real Return Focus     | Multi Asset      | High Equity Funds                |
| Sanlam               | Lynx Balanced FoF - A1                     | Multi Asset      | High Equity Funds                |
| Stanlib              | STANLIB Balanced - A                       | Multi Asset      | High Equity Funds                |
| Allan Gray           | Allan Gray Optimal - A                     | Multi Asset      | Low Equity Funds                 |
| Sanlam               | Lynx Cautious FoF - A1                     | Multi Asset      | Low Equity Funds                 |
| Investment Solutions | Investment Solutions Income                | Interest Bearing | Short Term Funds                 |
| Investment Solutions | Investment Solutions Pure Fixed Interest   | Interest Bearing | Variable Term Funds <sup>2</sup> |
| Sanlam               | BJM Multi-Manager Property - B1            | Real Estates     | General Funds                    |

## Appendix 5.5 – Performance fee Benchmarks per tier 3 classification



## Appendix 5.6 – CIS Hurdle vs ASISA benchmark recommendation

| Main Sector                   | Sector              | Fund Manager | Fund Name                                  | Hurdle Group                     | Performance Fee Hurdle   | ASISA Benchmark                  |
|-------------------------------|---------------------|--------------|--|----------------------------------|--|----------------------------------|
| Equity                        | General Funds       | Sanlam       | BJM Multi-Manager Equity - B1              | Other                            | ACI Domestic General Equity category   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Allan Gray   | Allan Gray Equity - A                      | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T) - 15%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | Clarus MET Value - A                       | CPI                              | CPI + 2.5%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | Clarus MET Optimal - A                     | CPI                              | CPI+5%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Stanlib      | STANLIB M-M All Stars Equity FoF - A       | Other                            | Domestic Equity General Micropal Sector Mean   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Coronation   | Coronation Equity - A                      | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T)  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Coronation   | Coronation Equity - R                      | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T)  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Old Mutual   | Old Mutual Active Quant Equity - A         | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T) - 2%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Old Mutual   | Old Mutual Growth - A                      | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T) - 2%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Old Mutual   | Old Mutual Investors - A                   | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T) - 2%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Old Mutual   | Old Mutual Top Companies - A               | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T) - 2%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Old Mutual   | Old Mutual Value - A                       | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX (J403T) - 2%   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | Verso MET SA Equity                        | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX J403T  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | 360NE MET Equity                           | FTSE JSE SWIX (J403T)            | FTSE JSE SWIX J403T Index  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Active Quants - A                 | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Active Quants - R                 | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Equity - A                        | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Equity - R                        | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Growth - A                        | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Growth - B                        | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Growth - R                        | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Value - A                         | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Investec     | Investec Value - R                         | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | Lion of Africa MET Equity                  | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | Select Manager MET Equity FoF              | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | PSG          | PSG Equity - A                             | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Sanlam       | Lynx Opportunities FoF - A1                | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Sanlam       | SIM General Equity - A                     | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Sanlam       | SIM Value                                  | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Sanlam       | SIM Top Choice Equity - A1                 | FTSE JSE SWIX (J403T)            | FTSE/JSE SWIX (97%), Stefi (3%)  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Momentum     | Momentum Equity - A                        | FTSE JSE SWIX (J403T)            | FTSE/JSE SWIX Index  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | MET CI       | N-e-FG MET Equity                          | FTSE JSE SWIX (J403T)            | FTSE/JSE SWIX J403T  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Momentum     | Momentum Value - A                         | FTSE JSE SWIX (J403T)            | FTSE/JSE SWIX J403T  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Prudential   | Prudential Dividend Maximiser - A          | Other                            | General equity Unit trust mean return  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Prudential   | Prudential Equity - A                      | Other                            | General equity Unit trust mean return  | FTSE/JSE All Share Index (J203T) |
|                               |                     |              |  |                                  | Performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index                   |                                  |
| Equity                        | General Funds       | Stanlib      | STANLIB Growth - A                         | Other                            | Performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index                   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Stanlib      | STANLIB Value - A                          | Other                            | Performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index                   | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Absa         | Absa Select Equity                         | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T) + 2%  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Coronation   | Coronation Top 20 - A                      | FTSE/JSE Top 40 Index (J200)     | FTSE/JSE Top 40 Index  | FTSE/JSE All Share Index (J203T) |
| Equity                        | General Funds       | Foord        | Foord Equity - R                           | FTSE/JSE All Share Index (J203T) | FTSE/JSE All Share Index (J203T)   | FTSE/JSE All Share Index (J203T) |
| Equity                        | Large Cap Funds     | MET CI       | Saffron MET Top 20 - A                     | FTSE JSE SWIX (J403T)            | FTSE/JSE SWIX40 J400T  | FTSE/JSE Top 40 index (J203T)    |
| Interest                      |                     |              |  |                                  |  |                                  |
| Bearing                       | Variable Term Funds | Allan Gray   | Allan Gray Bond - A                        | ALBI                             | JSE/ASSA All Bond index (ALBI)   | JSE/ASSA All Bond index (ALBI)   |
| Multi Asset Flexible Funds    |                     | MET CI       | Centaur MET Flexible                       | Mixed                            | 15% Resi J258, 65% Findi J250, 20% Repo  | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Insight Capital MET Flexible FoF           | Mixed                            | 50% FTSE JSE ALSI J203 & 50% SARB Repo Rate  | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | 4i MET Opportunity - A                     | Mixed                            | 70% FTSE/JSE AISI J203T  | None Given                       |
| Multi Asset Flexible Funds    |                     | Prescient    | Prescient Private Clients Flexible - A1    | Mixed                            | 75% FTSE/JSE Shareholder Weighted All Share Index (SWIX) Total Return + 25% Cash (Stefi)   | None Given                       |
| Multi Asset Flexible Funds    |                     | Prescient    | Bateleur Flexible Prescient - A1           | CPI                              | CPI  | None Given                       |
| Multi Asset Flexible Funds    |                     | Sanlam       | SIM Managed Conservative FoF - A1          | CPI                              | CPI + 2%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Kanaan MET Flexible FoF - A                | CPI                              | CPI + 3%   | None Given                       |
| Multi Asset Flexible Funds    |                     | Sanlam       | SIM Managed Cautious FoF - A1              | CPI                              | CPI + 3%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Dotport MET Flexible FoF                   | CPI                              | CPI + 3.5%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | RCI MET Flexible Managed - A               | CPI                              | CPI + 4%   | None Given                       |
| Multi Asset Flexible Funds    |                     | Old Mutual   | Old Mutual Flexible - A                    | CPI                              | CPI + 4%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | BlueAlpha MET All Seasons                  | CPI                              | CPI + 5%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Celtis MET Flexible FoF - A                | CPI                              | CPI + 6%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | N-e-FG MET Flexible                        | CPI                              | CPI + 6%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Simplisiti MET Flexible FoF                | CPI                              | CPI + 6%   | None Given                       |
| Multi Asset Flexible Funds    |                     | Momentum     | Momentum Flexible - A                      | CPI                              | CPI + 6%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Stringfellow MET Flexible FoF              | CPI                              | CPI + 7%   | None Given                       |
| Multi Asset Flexible Funds    |                     | Coronation   | Coronation Absolute - A                    | CPI                              | CPI + 6%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Imalvest MET Flexible                      | CPI                              | CPI + 6%   | None Given                       |
| Multi Asset Flexible Funds    |                     | Sanlam       | SIM Managed Moderate FoF - A1              | Mixed                            | FTSE/SWIX (37%), ALBI (25%), STEFI (17.5%), MSCI World Equity (7.5%), USD Libor (7.5%) SA listed property (5%)   | None Given                       |
| Multi Asset Flexible Funds    |                     | Sanlam       | SIM Managed Moderate Aggressive FoF - A1   | Mixed                            | FTSE/SWIX (45%), ALBI (30%), STEFI (15%), MSCI   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | 360NE MET Flexible Opportunity             | SARB Repo                        | Repo rate + 2%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | GCI MET Flexible FoF                       | SARB Repo                        | SARB Repo + 2%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Visio MET Actinio                          | Stefi                            | Stefi+2%   | None Given                       |
| Multi Asset Flexible Funds    |                     | MET CI       | Skyblue MET Solar Flexible FoF             | Stefi                            | Stefi+5%   | None Given                       |
| Multi Asset Flexible Funds    |                     | Sanlam       | SIM Managed Aggressive FoF - A1            | Mixed                            | SWIX 45%   ALBI 12.5%   SteFi 17.5%   MSCI World Equity 10%   JPMorgan GBI 10%   SA Listed Property 5%   | None Given                       |
| Multi Asset High Equity Funds |                     | MET CI       | Ankh Prudential                            | Mixed                            | 60% FTSE ALSI (J203) 25% ALBI 15% Stefi  | None Given                       |
| Multi Asset High Equity Funds |                     | MET CI       | Southern Charter MET Growth FoF            | Mixed                            | 60% FTSE JSE Swix<br>15% ALBI index<br>10% FTSE JSE Listed Property<br>0% SteFi<br>5% JPM INT Bond Index<br>10% MSCI World index   | None Given                       |
| Multi Asset High Equity Funds |                     | Sanlam       | BJM Multi-Manager Prudential Flexible - B1 | Other                            | average of the ACI Domestic Asset Allocation Prudential Variable Equity  | None Given                       |
| Multi Asset High Equity Funds |                     | Allan Gray   | Allan Gray Balanced - A                    | Other                            | AVG (market value weighted) of Domestic - Asset allocation - prudential medium equity category and Domestic - Asset Allocation - prudential variable equity (excluding Allan Gray Balanced) - 5% | None Given                       |

## Appendix 5.6 – CIS Hurdle vs ASISA benchmark recommendation (continued)

| Main Sector | Sector              | Fund Manager | Fund Name                                  | Hurdle Group                             | Performance Fee Hurdle  | ASISA Benchmark                        |
|-------------|---------------------|--------------|--|--|---|--|
| Multi Asset | High Equity Funds   | Investec     | Investec Opportunity - R                   | CPI                                      | CPI + 2%  | None Given                             |
| Multi Asset | High Equity Funds   | Old Mutual   | Old Mutual Balanced - A                    | CPI                                      | CPI + 2%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Kanaan MET Balanced FoF - A                | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Olympiad MET Managed FoF                   | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Dotport MET Prudential FoF                 | CPI                                      | CPI + 3.5%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Brackenhams MET Managed                    | CPI                                      | CPI + 4%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Simplisiti MET Managed Protector FoF       | CPI                                      | CPI + 4%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Warwick MET Managed FoF - A                | CPI                                      | CPI + 4%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | GFA MET Managed FoF                        | CPI                                      | CPI + 5%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Northstar MET Managed                      | CPI                                      | CPI + 5%  | None Given                             |
| Multi Asset | High Equity Funds   | Momentum     | Momentum Balanced - A                      | CPI                                      | CPI + 5%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Sasfin MET Prudential                      | CPI                                      | CPI + 6%  | None Given                             |
| Multi Asset | High Equity Funds   | Sanlam       | Lynx Balanced FoF - A1                     | CPI                                      | CPI + 6%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | AS Forum MET Aggressive FoF                | CPI                                      | CPI + 7%  | None Given                             |
| Multi Asset | High Equity Funds   | Sanlam       | SIM Balanced - A                           | Other                                    | Mean of ASISA asset allocation prudential variable equity   | None Given                             |
| Multi Asset | High Equity Funds   | Investec     | Investec Managed - A                       | Other                                    | Peer Median   | None Given                             |
| Multi Asset | High Equity Funds   | Investec     | Investec Managed - R                       | Other                                    | Peer Median   | None Given                             |
|             |                     |              |  |  | performance exceeds the performance median in the particular ACI Portfolio Classification Category and outperforms money market returns (measured by the SteFI Composite Index) |  |
| Multi Asset | High Equity Funds   | Stanlib      | STANLUB Balanced - A                       | Other                                    |   | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | GCI MET Balanced FoF                       | SARB Repo                                | SARB Repo + 2%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Select Manager MET Flexible Growth FoF - A | Stefi                                    | Stefi + 4%  | None Given                             |
| Multi Asset | High Equity Funds   | MET CI       | Skyblue MET Cumulus Moderate FoF           | Stefi                                    | Stefi+3%  | None Given                             |
| Multi Asset | High Equity Funds   | Foord        | Foord Balanced - R                         | Other                                    | The market value weighted average   | None Given                             |
| Multi Asset | Income Funds        | Sanlam       | SIM Active Income - A1                     | ALBI                                     | BEASSA ALBI (1-3)   | None Given                             |
| Multi Asset | Income Funds        | MET CI       | Simplisiti MET Income Plus FoF             | CPI                                      | CPI + 2%  | None Given                             |
| Multi Asset | Income Funds        | Momentum     | Momentum Positive Return - A               | CPI                                      | CPI + 2%  | None Given                             |
| Multi Asset | Income Funds        | MET CI       | Clarus MET Real Income - A                 | CPI                                      | CPI+1%  | None Given                             |
| Multi Asset | Income Funds        | Nedgroup     | Nedgroup Inv Flexible Income - A           | Other                                    | total positive performance  | None Given                             |
| Multi Asset | Low Equity Funds    | Allan Gray   | Allan Gray Stable - A                      | Other                                    | Return of call deposits (for amounts greater than R5m) with FNB + 2% after tax of 25% - 5%  | None Given                             |
|             |                     |              |  |  | 42.5% FTSE JSE Swix<br>12.5% ALBI index<br>10% FTSE JSE Listed Property<br>20% SteFI<br>7.5% JPM INT Bond Index   |  |
| Multi Asset | Low Equity Funds    | MET CI       | Southern Charter MET Defensive FoF         | Mixed                                    | 7.5% MSCI World index   | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Dotport MET Cautious FoF                   | CPI                                      | CPI   | None Given                             |
| Multi Asset | Low Equity Funds    | Old Mutual   | Old Mutual Stable Growth - A               | CPI                                      | CPI + 1%  | None Given                             |
| Multi Asset | Low Equity Funds    | Investec     | Investec Cautious Managed - A              | CPI                                      | CPI + 2%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | AS Forum MET Cautious FoF                  | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Celtis MET Conservative FoF - A            | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | GFA MET Stable FoF                         | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | N-e-FG MET Income Provider FoF             | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Stringfellow MET Stable FoF                | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Verso MET Secure Growth FoF - A            | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | Sanlam       | Lynx Cautious FoF - A1                     | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Low Equity Funds    | Nedgroup     | Nedgroup Inv Stable - A                    | CPI                                      | CPI + 4%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | S BRO MET Defensive FoF                    | CPI                                      | CPI + 6%  | None Given                             |
| Multi Asset | Low Equity Funds    | Allan Gray   | Allan Gray Optimal - A                     | Other                                    | return of call deposits (for amounts greater than R5m) with FNB   | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Dinamika MET Conservative FoF              | SARB Repo                                | SA Repo rate + 2%   | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Ankh Stable - A                            | SARB Repo                                | SARB Repo plus 2%   | None Given                             |
| Multi Asset | Low Equity Funds    | Old Mutual   | Old Mutual Capital Builder - A             | Other                                    | SBK call rate (>1mil)   | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | AIMS MET Real Income FoF                   | Stefi                                    | Stefi   | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | GCI MET Stable FoF - A                     | Stefi                                    | Stefi + 1%  | None Given                             |
| Multi Asset | Low Equity Funds    | MET CI       | Skyblue MET Kimberlite Cautious FoF        | Stefi                                    | Stefi+1%  | None Given                             |
| Multi Asset | Low Equity Funds    | Nedgroup     | Nedgroup Inv Stable - A1                   | Other                                    | total positive performance  | None Given                             |
| Multi Asset | Medium Equity Funds | Old Mutual   | Old Mutual Dynamic Floor - A               | CPI                                      | CPI + 2%  | None Given                             |
| Multi Asset | Medium Equity Funds | MET CI       | AS Forum MET Moderate FoF                  | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Medium Equity Funds | MET CI       | Southern Charter MET Balanced FoF          | CPI                                      | CPI + 3%  | None Given                             |
| Multi Asset | Medium Equity Funds | Coronation   | Coronation SA Capital Plus - A             | CPI                                      | CPI + 3.5%  | None Given                             |
| Multi Asset | Medium Equity Funds | Coronation   | Coronation Capital Plus - A                | CPI                                      | CPI + 4%  | None Given                             |
| Multi Asset | Medium Equity Funds | MET CI       | S BRO MET Balanced FoF                     | CPI                                      | CPI + 6%  | None Given                             |
| Multi Asset | Medium Equity Funds | MET CI       | Baroque MET Moderato FoF                   | CPI                                      | CPI+5%  | None Given                             |
| Multi Asset | Medium Equity Funds | MET CI       | Foster MET Moderate FoF                    | Stefi                                    | Stefi + 4%  | None Given                             |
| Real Estate | General Funds       | MET CI       | Altre MET Real Return Property - B         | FTSE/JSE SA Listed Property index        | FTSE/JSE SA Listed Property index J253  | FTSE/JSE SA Listed Property index      |
| Real Estate | General Funds       | Sanlam       | BJM Multi-Manager Property - B1            | FTSE/JSE SA Listed Property index (J253) | FTSE/JSE SA Listed Property TR  | FTSE/JSE SA Listed Property index J253 |
| Real Estate | General Funds       | MET CI       | Clarus MET Property - A                    | FTSE/JSE Capped Property Index (J254)    | FTSE/JSE Capped Property Index - 5%   | FTSE/JSE SA Listed Property index J253 |

# Appendix 5.7 – CIS Performance fee data

| Fund Size (RmM) | Fund Manager         | Fund Name                                  | TER | Ref Fee | FOF or SIF | Sector  | Performance Participation (Months) | Performance hurdle                    | FEE-HORIZON                               | MAX.FEE  | MIN.FEE | crystallization | Fee equals benchmark |                      |
|-----------------|----------------------|--|-----|---------|------------|---|------------------------------------|---------------------------------------|---|----------|---------|-----------------|----------------------|----------------------|
| 2,572.89        | Abba                 | Abba Select Equity                         | 1.7 | 0.0     | SSF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE All Share Index (2023)       | Performance hurdle - 2%                   | Uncapped | 0.00%   | Yearly          | Different fee hurdle |                      |
| 34,522.27       | Allan Gray           | Allan Gray Equity - A                      | 2.5 | 0.1     | SSF        | South African - Multi Asset - Flexible Funds              | 10%                                | FTSE/JSE All Share Index (2023)       | BENCHMARK - 2%                            | 1.50%    | 0.00%   | Monthly         | Different fee hurdle |                      |
| 60,010.25       | Allan Gray           | Allan Gray Balanced - A                    | 1.4 | 0.14    | SSF        | South African - Multi Asset - High Equity Funds           | 10%                                | FTSE/JSE All Share Index (2023)       | BENCHMARK - 2%                            | 1.50%    | 0.50%   | Monthly         | Different fee hurdle |                      |
| 99,235.9        | Allan Gray           | Allan Gray Original - A                    | 1.2 | 0.12    | SSF        | South African - Multi Asset - Low Equity Funds            | 20%                                | FTSE/JSE All Share Index (2023)       | Return with FIB - 2%                      | uncapped | 1.00%   | Monthly         | Fee equals benchmark |                      |
| 29,771.62       | Allan Gray           | Allan Gray Stable - A                      | 1.6 | 0.43    | SSF        | South African - Multi Asset - Low Equity Funds            | 20%                                | Return with FIB - 2% after tax of 25% | the return with FIB - 2% after tax of 25% | 2.00%    | NONE    | Monthly         | Different fee hurdle |                      |
| 819.54          | Allan Gray           | Allan Gray Bond - A                        | 0.3 | 0.0     | SSF        | South African - Interest Bearing - Flexible Term Funds II | 15%                                | BASISA total return all bond index    | FTSE/JSE SWIX (4023)                      | 3.00%    | 0.25%   | 0.00%           | Monthly              | Fee equals benchmark |
| 15,117.9        | Comanet              | Comanet Equity - A                         | 1.3 | 0.0     | SSF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE SWIX (4023)                  | FTSE/JSE SWIX (4023)                      | 2.75%    | 0.00%   | Monthly         | Fee equals benchmark |                      |
| 15,519.22       | Comanet              | Comanet Top 20 - A                         | 1.7 | 0.5     | SSF        | South African - Equity - General Funds                    | 20%                                | TOP40 index                           | TOP40 index                               | 3.75%    | 0.00%   | Monthly         | Fee equals benchmark |                      |
| 1,498.75        | Comanet              | Comanet Absolute - A                       | 2.3 | 0.79    | SSF        | South African - Multi Asset - Flexible Funds              | 20%                                | CPH - 4%                              | CPH - 4%                                  | 2.75%    | 0.00%   | Monthly         | Fee equals benchmark |                      |
| 16,547.34       | Comanet              | Comanet Capital Plus - A                   | 1.8 | 0.19    | SSF        | South African - Multi Asset - Flexible Funds              | 10%                                | CPH - 4%                              | CPH - 4%                                  | 2.75%    | 0.00%   | Monthly         | Fee equals benchmark |                      |
| 3,714.49        | Ford                 | Ford Equity - R                            | 2.2 | 1.0     | SSF        | South African - Multi Asset - Medium Equity Funds II      | 15%                                | Total return of the FTSE/JSE          | Total return of the FTSE/JSE              | 2.75%    | 0.00%   | Monthly         | Fee equals benchmark |                      |
| 974.28          | Invesco              | Invesco Active Quants - A                  | 1.6 | 0.6     | SSF        | South African - Multi Asset - High Equity Funds           | 10%                                | The market value weighted average     | FTSE/JSE All Share Index (2023)           | uncapped | 0.50%   | Monthly         | Fee equals benchmark |                      |
| 4,521.46        | Invesco              | Invesco Equity - A                         | 1.1 | 0.2     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE SWIX (4023)                  | FTSE/JSE All Share Index (2023)           | 3.00%    | 0.85%   | Yearly          | Different fee hurdle |                      |
| 4,521.46        | Invesco              | Invesco Equity - R                         | 1.1 | 0.2     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE SWIX (4023)                  | FTSE/JSE All Share Index (2023)           | 3.00%    | 0.85%   | Yearly          | Different fee hurdle |                      |
| 1,298.34        | Invesco              | Invesco Growth - A                         | 1.4 | 0.4     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE All Share Index (2023)       | FTSE/JSE All Share Index (2023)           | 3.00%    | 0.85%   | Yearly          | Fee equals benchmark |                      |
| 1,298.34        | Invesco              | Invesco Growth - B                         | 1.2 | 0.4     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE All Share Index (2023)       | FTSE/JSE All Share Index (2023)           | 3.00%    | 0.85%   | Yearly          | Fee equals benchmark |                      |
| 5,211.2         | Invesco              | Invesco Value - A                          | 1.2 | 0.0     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE All Share Index (2023)       | FTSE/JSE All Share Index (2023)           | 3.00%    | 0.85%   | Yearly          | Fee equals benchmark |                      |
| 5,211.2         | Invesco              | Invesco Value - R                          | 1.2 | 0.0     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE All Share Index (2023)       | FTSE/JSE All Share Index (2023)           | 3.00%    | 0.85%   | Yearly          | Fee equals benchmark |                      |
| 5,944.78        | Invesco              | Invesco Managed - A                        | 1.3 | 0.14    | SSF        | South African - Multi Asset - High Equity Funds           | 20%                                | Peer Median                           | Peer Median                               | 3.00%    | 0.95%   | Yearly          | Fee equals benchmark |                      |
| 31,713.35       | Invesco              | Invesco Managed - R                        | 1.3 | 0.5F    | SSF        | South African - Multi Asset - High Equity Funds           | 20%                                | Peer Median                           | Peer Median                               | 3.00%    | 0.95%   | Yearly          | Fee equals benchmark |                      |
| 4,884.20        | Invesco              | Invesco Opportunity - R                    | 1.9 | 0.5F    | SSF        | South African - Multi Asset - High Equity Funds           | 20%                                | Headline CPH + 2%                     | CPH - 2%                                  | 3.00%    | 0.95%   | Yearly          | Different fee hurdle |                      |
| 372.52          | Investment Solutions | Investment Solutions Pure Fixed Interest   | 1.2 | 0.03    | SSF        | South African - Multi Asset - Low Equity Funds            | 20%                                | CPH + 2%                              | CPH + 2%                                  | 3.00%    | 0.95%   | Yearly          | Fee equals benchmark |                      |
| 1,541.05        | Investment Solutions | Investment Solutions Real Return Focus     | 0.9 | 0.06    | SSF        | South African - Interest Bearing - Variable Term Funds II | 0%                                 | 0                                     | 0   | uncapped | 0.00%   | Monthly         | Fee equals benchmark |                      |
| 691.33          | METCI                | 360NE MET Equity                           | 1.9 | 0.6     | SSF        | South African - Equity - General Funds                    | 20%                                | FTSE/JSE SWIX MIBT index              | FTSE/JSE SWIX MIBT index                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 801.53          | METCI                | Cirus MET Optimal - A                      | 1.5 | 0.0     | SSF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE Top 40 Index                 | CPH 5%                                    | 3.25%    | 1.25%   | Monthly         | Different fee hurdle |                      |
| 88.34           | METCI                | Cirus MET Value - A                        | 2.6 | 1.1     | SSF        | South African - Equity - General Funds                    | 15%                                | (2023)                                | CPH + 2%                                  | 2.00%    | 2.00%   | Monthly         | Different fee hurdle |                      |
| 27.05           | METCI                | Lin of Africa MET Equity                   | 1.6 | 0.0     | SSF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE All Share Index (2023)       | FTSE/JSE All Share Index (2023)           | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 45.97           | METCI                | N-e-FG MET Equity                          | 1.4 | 0.0     | SSF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE SWIX MIBT                    | FTSE/JSE SWIX MIBT                        | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 105.15          | METCI                | Select Manager MET Equity Fof              | 2.6 | 0.0     | FOF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE All Share Index (2023)       | FTSE/JSE SWIX (4023)                      | 1.50%    | 3.00%   | Monthly         | Fee equals benchmark |                      |
| 1,375.24        | METCI                | Verio MET SA Equity                        | 1.4 | 0.5F    | SSF        | South African - Equity - General Funds                    | 15%                                | FTSE/JSE SWIX (4023)                  | FTSE/JSE SWIX (4023)                      | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 256.39          | METCI                | Saffron MET Top 20 - A                     | 1.1 | 0.5F    | SSF        | South African - Equity - Large Cap Funds                  | 20%                                | FTSE/JSE SWIX (4023)                  | FTSE/JSE SWIX (4023)                      | 1.50%    | 3.00%   | Monthly         | Fee equals benchmark |                      |
| 1,810.78        | METCI                | 360NE MET Flexible Opportunity             | 4   | 2.54    | SSF        | South African - Multi Asset - Flexible Funds              | 13%                                | Repo rate + 2%                        | Repo rate + 2%                            | None     | N/A     | Monthly         | Fee equals benchmark |                      |
| 300.08          | METCI                | 4I MET Opportunity - A                     | 1.9 | 0.5     | SSF        | South African - Multi Asset - Flexible Funds              | 10%                                | 70% FTSE/JSE ASI (2023)               | 70% FTSE/JSE ASI (2023)                   | 2.00%    | N/A     | Monthly         | Fee equals benchmark |                      |
| 242.13          | METCI                | BlueAlpha MET All Seasons                  | 3.6 | 2.14    | SSF        | South African - Multi Asset - Flexible Funds              | 20%                                | CPH + 5%                              | CPH + 5%                                  | 3.00%    | 3.00%   | Monthly         | Fee equals benchmark |                      |
| 171.29          | METCI                | Celtis MET Flexible Fof - A                | 2.5 | 2.14    | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | CPH + 6%                              | CPH + 6%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 446.35          | METCI                | Centaur MET Flexible                       | 2.3 | 0.82    | SSF        | South African - Multi Asset - Flexible Funds              | 20%                                | HWM                                   | 15% Resi (258, 65% Fndi (250, 20% Repo    | uncapped | 2.00%   | 2.00%           | Monthly              | Fee equals benchmark |
| 212.70          | METCI                | Doport MET Flexible Fof                    | 2.7 | 2.14    | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | 24 months                             | CPH + 3.5%                                | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 85.98           | METCI                | GCI MET Flexible Fof                       | 1.9 | 0       | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | 24 months                             | SARB Repo + 2%                            | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 68.59           | METCI                | Imalvest MET Flexible                      | 1.2 | 0       | SSF        | South African - Multi Asset - Flexible Funds              | 20%                                | HWM                                   | SARB Repo + 2%                            | 1.16%    | 1.16%   | Monthly         | Fee equals benchmark |                      |
| 79.42           | METCI                | Insight Capital MET Flexible Fof           | 1.9 | 0       | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | HWM                                   | 50% FTSE/JSE ASI (203                     | uncapped | 2.00%   | 2.00%           | Monthly              | Fee equals benchmark |
| 42.62           | METCI                | Kaanam MET Flexible Fof - A                | 1.9 | 1.83    | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | HWM                                   | 8.50% SARB Repo Rate                      | 3.00%    | 3.00%   | Monthly         | Fee equals benchmark |                      |
| 265.83          | METCI                | N-e-FG MET Flexible                        | 2.2 | 0.41    | SSF        | South African - Multi Asset - Flexible Funds              | 15%                                | CPH + 3%                              | CPH + 3%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 24,518          | METCI                | RI-MET Flexible Manager - A                | 1.6 | 0.3F    | SSF        | South African - Multi Asset - Flexible Funds              | 10%                                | CPH + 6%                              | CPH + 6%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 136.59          | METCI                | Simplisid MET Flexible Fof                 | 2.3 | 2.1     | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | 24 months                             | CPH + 6%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 8,729           | METCI                | Simplisid MET Flexible Fof                 | 2.3 | 2.1     | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | 24 months                             | CPH + 6%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 71.05           | METCI                | Simplisid MET Flexible Fof                 | 2.3 | 0.6F    | FOF        | South African - Multi Asset - Flexible Funds              | 15%                                | HWM                                   | CPH + 2%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 873.76          | METCI                | Verio MET Activo                           | 5.2 | 3.83    | SSF        | South African - Multi Asset - Flexible Funds              | 20%                                | SIBF (2%                              | CPH + 2%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 32.45           | METCI                | Verio Prudential                           | 2.4 | 0       | SSF        | South African - Multi Asset - Flexible Funds              | 10%                                | 24 months                             | SIBF (2%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 273.32          | METCI                | AS Forum MET Aggressive Fof                | 2.7 | 2.37    | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 24 months                             | 60% FTSE/JSE ASI (203) 25% ALBI 15% SIBF  | 1.00%    | 1.00%   | Monthly         | Fee equals benchmark |                      |
| 310.55          | METCI                | Bonham MET Prudential Fof                  | 2.2 | 0.21    | SSF        | South African - Multi Asset - High Equity Funds           | 10%                                | 24 months                             | CPH + 4%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 211.70          | METCI                | GCI MET Balanced Fof                       | 1.9 | 0       | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 24 months                             | SARB Repo + 2%                            | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 55.86           | METCI                | GFA MET Managed Fof                        | 3.2 | 2.83    | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 24 months                             | SARB Repo + 2%                            | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 94.99           | METCI                | Kaanam MET Balanced Fof - A                | 1.9 | 0       | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | HWM                                   | CPH + 3%                                  | 2.50%    | 2.50%   | Monthly         | Fee equals benchmark |                      |
| 206.19          | METCI                | Northstar MET Managed                      | 1.5 | 0       | SSF        | South African - Multi Asset - High Equity Funds           | 20%                                | 24 months                             | CPH + 5%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 35.51           | METCI                | Opimlad MET Managed Fof                    | 2.3 | 1.99    | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 24 months                             | CPH + 3%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 159.87          | METCI                | Safin MET Prudential                       | 2.5 | 1.02    | SSF        | South African - Multi Asset - High Equity Funds           | 10%                                | 24 months                             | CPH + 6%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 396.37          | METCI                | Select Manager MET Flexible Growth Fof - A | 2.3 | 0       | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 36 months                             | SIBF + 4%                                 | 1.00%    | 1.00%   | Monthly         | Fee equals benchmark |                      |
| 168.20          | METCI                | Simplisid MET Managed Protector Fof        | 2.3 | 2.26    | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 24 months                             | CPH + 4%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 433.00          | METCI                | Skyblue MET Cumulus Moderate Fof           | 2.2 | 2.13    | FOF        | South African - Multi Asset - High Equity Funds           | 10%                                | 24 months                             | SIBF (3%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 379.25          | METCI                | Southern Charter MET Growth Fof            | 2.7 | 0       | FOF        | South African - Multi Asset - High Equity Funds           | 15%                                | 24 months                             | 15% ALBI index                            | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |
| 17.62           | METCI                | Winwick MET Managed Fof - A                | -   | -       | FOF        | South African - Multi Asset - High Equity Funds           | 10%                                | HWM                                   | CPH + 4%                                  | 2.00%    | 2.00%   | Monthly         | Fee equals benchmark |                      |

## Appendix 5.7 – CIS Performance fee data (continued)

| Fund Size<br>(€ mil) | Fund Manager | Fund Name                                  | TER | Perf<br>Fee | Perf<br>Portion                             | Perf<br>SF  | Perf<br>or<br>SF | Scor                                  | Performance hurdle  | FEE-HURDLE  | MAX FEE       | MIN FEE       | Cap/valuation        | Rev. equals benchmark |                      |
|----------------------|--------------|--|-----|-------------|---|---|------------------|---------------------------------------|---|---|---------------|---------------|----------------------|-----------------------|----------------------|
| 226.34               | MET CI       | Clarus MET Real Income - A                 | 1.5 | 0.35        | SF  | South African - Multi Asset - Income Funds        | 10%              | 24 months                             | CPI+1.5%  | CPI+1.5%  | 1.75%         | 1.00%         | Monthly              | Different fee hurdle  |                      |
| 104.60               | MET CI       | Simplifit MET Income Plus Fof              | 1.9 | 1.0         | FOF   | South African - Multi Asset - Income Funds        | 10%              | 24 months                             | CPI+2%  | CPI+2%  | 5.00%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 57.51                | MET CI       | AIMS MET Real Income Fof                   | 1.9 | 1.7         | FOF   | South African - Multi Asset - Low Equity Funds    | 3%               | N/A                                   | Stef Composite Index  | Stef Composite Index  | 0.50%         | 2.28%         | Monthly              | Fee equals benchmark  |                      |
| 157.02               | MET CI       | Advis Stable - A                           | 1.9 | 0.5F        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | S&P 500 Index   | S&P 500 Index   | 2.00%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 62.34                | MET CI       | AS Forum MET Cautious Fof - A              | 2.7 | 2.34        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | CPI+3%  | CPI+3%  | 1.00%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 304.04               | MET CI       | Clarus MET Conservative Fof - A            | 2.2 | 1.94        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | CPI+3%  | CPI+3%  | 1.00%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 193.22               | MET CI       | Clarus MET Conservative Fof - A            | 2.2 | 2.51        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | SA Repo rate + 2%   | SA Repo rate + 2%   | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 95.08                | MET CI       | Dorpat MET Cautious Fof                    | 2.4 | 0           | FOF   | South African - Multi Asset - Low Equity Funds    | 8%               | 24 months                             | Stef Composite Index + 1%   | Stef Composite Index + 1%   | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 56.61                | MET CI       | GC MET Stable Fof - A                      | 1.9 | 2.42        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | CPI+3%  | CPI+3%  | 2.00%         | 2.00%         | Monthly              | Different fee hurdle  |                      |
| 159.79               | MET CI       | GC MET Stable Fof                          | 2.3 | 1.99        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | CPI+3%  | CPI+3%  | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 444.77               | MET CI       | N-80 MET Income Provider Fof               | 3.2 | 0           | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | CPI+3%  | CPI+3%  | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 167.62               | MET CI       | Skyline MET Kimberlite Cautious Fof        | 2.4 | 2.11        | FOF   | South African - Multi Asset - Low Equity Funds    | 10%              | 24 months                             | Stef+1%   | Stef+1%   | 1.50%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 188.20               | MET CI       | Southern Charter MET Defensive Fof         | 2.8 | 0           | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 24 months                             | 12.5% ALBI Index  | 12.5% ALBI Index  | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 101.93               | MET CI       | Stringfellow MET Stable Fof                | 2.3 | 0           | FOF   | South African - Multi Asset - Low Equity Funds    | 10%              | 24 months                             | CPI+3%  | CPI+3%  | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 1,166.95             | MET CI       | Vestor MET Secure Growth Fof - A           | 1.9 | 0           | FOF   | South African - Multi Asset - Low Equity Funds    | 10%              | 12 months                             | CPI+3%  | CPI+3%  | 0.50%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 394.20               | MET CI       | AS Forum MET Moderate Fof                  | 2.9 | 2.34        | FOF   | South African - Multi Asset - Medium Equity Funds | 15%              | 24 months                             | CPI+5%  | CPI+5%  | 0.75%         | 0.75%         | Monthly              | Different fee hurdle  |                      |
| 156.33               | MET CI       | Baroque MET Moderate Fof                   | 2.2 | 0           | FOF   | South African - Multi Asset - Medium Equity Funds | 15%              | 24 months                             | CPI+5%  | CPI+5%  | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 133.68               | MET CI       | Foster MET Moderate Fof                    | 2.8 | 2.34        | FOF   | South African - Multi Asset - Medium Equity Funds | 10%              | 12 months                             | Stef+1%   | Stef+1%   | 1.46%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 387.40               | MET CI       | S BO MET Balanced Fof                      | 2.5 | 2.26        | FOF   | South African - Multi Asset - Medium Equity Funds | 15%              | HWM                                   | CPI+6%  | CPI+6%  | 2.50%         | 2.50%         | Monthly              | Fee equals benchmark  |                      |
| 189.13               | MET CI       | Southern Charter MET Balanced Fof          | 2.6 | 0           | FOF   | South African - Multi Asset - Medium Equity Funds | 15%              | 24 months                             | CPI+3%  | CPI+3%  | 2.00%         | 2.00%         | Monthly              | Fee equals benchmark  |                      |
| 37.82                | MET CI       | Altire MET Real Return Property - B        | -   | SF          | South African - Real Estate - General Funds | 20%   | 12 months        | FTSE/JSE SA Listed Property Index J23 | FTSE/JSE SA Listed Property Index J23   | 2.57%   | 2.57%         | Monthly       | Different fee hurdle |                       |                      |
| 112.56               | MET CI       | Clarus MET Property - A                    | 1.4 | 0.5F        | SF  | South African - Real Estate - General Funds       | 17%              | 36 months                             | J24   | J24 less 5%   | 3.2%          | 3.2%          | Monthly              | Different fee hurdle  |                      |
| 2,706.17             | Momentum     | Momentum Equity - A                        | 1.4 | 1.4         | SF  | South African - Equity - General Funds            | 10%              | 24 months                             | FTSE/JSE SWIX Index   | FTSE/JSE SWIX Index   | 2.57%         | 2.57%         | Monthly              | Fee equals benchmark  |                      |
| 348.28               | Momentum     | Momentum Value - A                         | 1.5 | 1.4         | SF  | South African - Equity - General Funds            | 10%              | 24 months                             | FTSE/JSE SWIX Index   | FTSE/JSE SWIX Index   | 2.57%         | 2.57%         | Monthly              | Fee equals benchmark  |                      |
| 394.36               | Momentum     | Momentum Value - A                         | 2   | 1.97        | SF  | South African - Multi Asset - Flexible Funds      | 10%              | 24 months                             | CPI+6%  | CPI+6%  | 2.8%          | 2.8%          | Monthly              | Fee equals benchmark  |                      |
| 3,690.35             | Momentum     | Momentum Balanced - A                      | 1.7 | 1.65        | SF  | South African - Multi Asset - High Equity Funds   | 10%              | 24 months                             | CPI+5%  | CPI+5%  | 2.57%         | 2.57%         | Monthly              | Fee equals benchmark  |                      |
| 2,602.21             | Momentum     | Momentum Positive Return - A               | 1.5 | 1.47        | SF  | South African - Multi Asset - Income Funds        | 10%              | 24 months                             | CPI+5%  | CPI+5%  | 2.57%         | 2.57%         | Monthly              | Fee equals benchmark  |                      |
| 6,641.71             | Nedgroup     | Nedgroup Inv Flexible Income - A           | 0.8 | 0.03        | SF  | South African - Multi Asset - Income Funds        | 10%              | 12 months                             | 10% of stef call index  | total positive performance  | 1.43%         | 0.00%         | 0                    | Different fee hurdle  |                      |
| 18,211.37            | Nedgroup     | Nedgroup Inv Stable - A1                   | 1.8 | 0.28        | SF  | South African - Multi Asset - Income Funds        | 10%              | 12 months                             | CPI+4%  | total positive performance  | 2.85%         | 0.00%         | 0                    | Different fee hurdle  |                      |
| 18,211.37            | Nedgroup     | Nedgroup Inv Stable - A1                   | 2.3 | 0.85        | SF  | South African - Multi Asset - Low Equity Funds    | 10%              | HWM                                   | FTSE/JSE SWIX (4Q37) - 2%   | FTSE/JSE SWIX (4Q37) - 2%   | 2.85%         | 0.00%         | 0                    | Different fee hurdle  |                      |
| 371.52               | Old Mutual   | Old Mutual Active Quant Equity - A         | 1.6 | 0.7         | SF  | South African - Equity - General Funds            | 15%              | 12 months                             | FTSE/JSE SWIX (4Q37) - 2%   | FTSE/JSE SWIX (4Q37) - 2%   | 2.85%         | 0.86%         | Monthly              | Different fee hurdle  |                      |
| 1,406.12             | Old Mutual   | Old Mutual Growth - A                      | 1   | 0.0         | SF  | South African - Equity - General Funds            | 15%              | 12 months                             | FTSE/JSE SWIX (4Q37) - 2%   | FTSE/JSE SWIX (4Q37) - 2%   | 2.85%         | 0.86%         | Monthly              | Different fee hurdle  |                      |
| 10,234.57            | Old Mutual   | Old Mutual Investors - A                   | 0.9 | 0.0         | SF  | South African - Equity - General Funds            | 15%              | 12 months                             | FTSE/JSE SWIX (4Q37) - 2%   | FTSE/JSE SWIX (4Q37) - 2%   | 2.85%         | 0.86%         | Monthly              | Different fee hurdle  |                      |
| 1,792.03             | Old Mutual   | Old Mutual Top Companies - A               | 0.9 | 0.0         | SF  | South African - Equity - General Funds            | 15%              | 12 months                             | FTSE/JSE SWIX (4Q37) - 2%   | FTSE/JSE SWIX (4Q37) - 2%   | 2.85%         | 0.86%         | Monthly              | Different fee hurdle  |                      |
| 743.30               | Old Mutual   | Old Mutual Value - A                       | 0.9 | 0.0         | SF  | South African - Equity - General Funds            | 15%              | 12 months                             | FTSE/JSE SWIX (4Q37) - 2%   | FTSE/JSE SWIX (4Q37) - 2%   | 2.85%         | 0.86%         | Monthly              | Fee equals benchmark  |                      |
| 2,738.90             | Old Mutual   | Old Mutual Value - A                       | 1.7 | 0.7         | SF  | South African - Multi Asset - Flexible Funds      | 15%              | 12 months                             | CPI+4%  | CPI+4%  | 2.8%          | 0.86%         | Monthly              | Fee equals benchmark  |                      |
| 9,236.17             | Old Mutual   | Old Mutual Balanced - A                    | 2.2 | 1.23        | SF  | South African - Multi Asset - High Equity Funds   | 15%              | 12 months                             | CPI+2%  | CPI+2%  | 2.8%          | 0.86%         | Monthly              | Fee equals benchmark  |                      |
| 1,539.82             | Old Mutual   | Old Mutual Capital Builder - A             | 1.6 | 0.92        | SF  | South African - Multi Asset - Low Equity Funds    | 15%              | 12 months                             | S&P call rate (5-1ml)   | S&P call rate (5-1ml)   | 2.28%         | 1.03%         | Monthly              | Fee equals benchmark  |                      |
| 2,989.02             | Old Mutual   | Old Mutual Stable Growth - A               | 2.1 | 1.5F        | FOF   | South African - Multi Asset - Low Equity Funds    | 15%              | 12 months                             | CPI+1%  | CPI+1%  | 1.00%         | 2.28%         | Monthly              | Fee equals benchmark  |                      |
| 2,887.47             | Old Mutual   | Old Mutual Dynamic Floor - A               | 1.7 | 0.69        | SF  | South African - Multi Asset - Low Equity Funds    | 15%              | 12 months                             | CPI+2%  | CPI+2%  | 1.00%         | 3.42%         | Monthly              | Fee equals benchmark  |                      |
| 224.64               | President    | Barclay Flexible President - A1            | 1.5 | 0.86        | SF  | South African - Multi Asset - Flexible Funds      | 10%              | 24 months                             | CPI   | CPI   | 3.00%         | 3.00%         | Monthly              | Fee equals benchmark  |                      |
| 28.80                | President    | President Private Clients Flexible - A1    | 1.8 | 0.14        | SF  | South African - Multi Asset - Flexible Funds      | 10%              | 12 months                             | 75% FTSE/JSE Shareholder Weighted All Share Index (SWIX) Total Return + 25% Cash (Stef) | General equity Unit trust mean return   | unappreciated | unappreciated | Monthly              | Fee equals benchmark  |                      |
| 3,828.79             | Prudential   | Prudential Dividend Maximiser - A          | 2.6 | 1.0         | SF  | South African - Equity - General Funds            | 20%              | 6 months                              | General equity Unit trust mean return   | General equity Unit trust mean return   | 2.90%         | 1.25%         | Monthly              | Fee equals benchmark  |                      |
| 2,048.57             | Prudential   | Prudential Equity - A                      | 2.5 | 1.0         | SF  | South African - Equity - General Funds            | 20%              | 6 months                              | General equity Unit trust mean return   | General equity Unit trust mean return   | 2.90%         | 1.25%         | Monthly              | Fee equals benchmark  |                      |
| 833.79               | PSG          | PSG Equity - A                             | 1.7 | 0.0         | SF  | South African - Equity - General Funds            | 20%              | 6 months                              | 0   | FTSE/JSE All Share Index (2037)   | Unappreciated | 0.00%         | 0.00%                | Monthly               | Fee equals benchmark |
| 2,671.86             | PSG          | PSG Flexible                               | 2.1 | 0.96        | SF  | South African - Multi Asset - Flexible Funds      | 0%               | 0                                     | 0   | FTSE/JSE All Share Index (2037)   | Unappreciated | 0.00%         | 0.00%                | Monthly               | Fee equals benchmark |
| 76.42                | Snilam       | BIM Multi-Manager Equity - B1              | 2.5 | 0.7         | SF  | South African - Equity - General Funds            | 20%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | unappreciated | unappreciated | Monthly              | Different fee hurdle  |                      |
| 57.54                | Snilam       | Lynn Opportunities Fof - A1                | 3.3 | 0.5         | FOF   | South African - Equity - General Funds            | 20%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | unappreciated | unappreciated | Monthly              | Fee equals benchmark  |                      |
| 3,811.91             | Snilam       | SIM General Equity - A                     | 1.3 | 0.0         | SF  | South African - Equity - General Funds            | 20%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 534.23               | Snilam       | SIM Top Choice Equity - A1                 | 1.2 | 0.0         | SF  | South African - Equity - General Funds            | 20%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 3,019.28             | Snilam       | SIM Value                                  | 1.6 | 0.0         | SF  | South African - Equity - General Funds            | 20%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 376.04               | Snilam       | SIM Managed Aggressive Fof - A1            | 1.3 | 0.15        | FOF   | South African - Equity - General Funds            | 20%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 1,138.73             | Snilam       | SIM Managed Cautious Fof - A1              | 1.2 | 0.16        | FOF   | South African - Multi Asset - Flexible Funds      | 10%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 374.05               | Snilam       | SIM Managed Conservative Fof - A1          | 1.1 | 0           | FOF   | South African - Multi Asset - Flexible Funds      | 10%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 891.50               | Snilam       | SIM Managed Moderate Aggressive Fof - A1   | 1.1 | 0           | FOF   | South African - Multi Asset - Flexible Funds      | 10%              | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | 3.00%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 2,789.12             | Snilam       | SIM Managed Moderate Fof - A1              | 1.1 | 0           | FOF   | South African - Multi Asset - Flexible Funds      | 10%              | 12 months                             | World Equity (5%), USD Libor (5%)   | World Equity (5%), USD Libor (5%)   | 1.25%         | 0.75%         | Monthly              | Fee equals benchmark  |                      |
| 249.00               | Snilam       | SIM Managed Conservative Fof - A1          | 1.9 | 0.62        | SF  | South African - Multi Asset - Flexible Funds      | 10%              | 12 months                             | World Equity (7.5%), USD Libor (7.5%) SA listed   | MSCI World Equity (7.5%), USD Libor (7.5%) SA listed                                      | 1.25%         | 0.75%         | Monthly              | Fee equals benchmark  |                      |
| 249.00               | Snilam       | BIM Multi-Manager Prudential Flexible - B1 | 1.1 | 0.62        | SF  | South African - Multi Asset - High Equity Funds   | 10%              | 12 months                             | World Equity (7.5%), USD Libor (7.5%) SA listed   | MSCI World Equity (7.5%), USD Libor (7.5%) SA listed                                      | 1.25%         | 0.75%         | Monthly              | Fee equals benchmark  |                      |
| 577.93               | Snilam       | Lynn Balanced - A1                         | 4.1 | 1.34        | FOF   | South African - Multi Asset - High Equity Funds   | 20%              | HWM                                   | CPI+6%  | CPI+6%  | unappreciated | unappreciated | Quarterly            | Different fee hurdle  |                      |
| 5,405.63             | Snilam       | SIM Balanced - A                           | 2   | 0.65        | SF  | South African - Multi Asset - High Equity Funds   | 20%              | 12 months                             | variable equity   | variable equity   | 2.50%         | 1.00%         | Monthly              | Fee equals benchmark  |                      |
| 4,960.45             | Snilam       | SIM Active Income - A1                     | 0.9 | 0.9         | SF  | South African - Multi Asset - Income Funds        | 10%              | 12 months                             | BEASSA ALBI (1-3)   | BEASSA ALBI (1-3)   | 1.00%         | 0.00%         | Monthly              | Fee equals benchmark  |                      |
| 452.56               | Snilam       | Lynn Cautious Fof - A1                     | 2.7 | 0.59        | FOF   | South African - Multi Asset - Low Equity Funds    | 20%              | HWM                                   | CPI+3%  | CPI+3%  | unappreciated | unappreciated | Monthly              | Fee equals benchmark  |                      |
| 467.03               | Snilam       | BIM Multi-Manager Property - B1            | 1.1 | 0.05        | SF  | South African - Real Estate - General Funds       | 20%              | 12 months                             | FTSE/JSE SA Listed Property TR  | FTSE/JSE SA Listed Property TR  | unappreciated | unappreciated | Monthly              | Fee equals benchmark  |                      |
| 714.98               | Stanlib      | STANLIB Growth - A                         | 1.7 | 0           | SF  | South African - Equity - General Funds            | stepped rate     | 12 months                             | FTSE/JSE All Share Index (2037)   | FTSE/JSE All Share Index (2037)   | unappreciated | unappreciated | Quarterly            | Different fee hurdle  |                      |
| 332.94               | Stanlib      | STANLIB M-WAI Stars Equity Fof - A         | 2.4 | 0           | FOF   | South African - Equity - General Funds            | 20%              | 0                                     | Domestic Equity General Microcap Sector Mean  | Domestic Equity General Microcap Sector Mean  | unappreciated | unappreciated | 0.00% daily          | Fee equals benchmark  |                      |
| 1,540.75             | Stanlib      | STANLIB Value - A                          | 1.7 | 0           | SF  | South African - Equity - General Funds            | stepped rate     | 12 months                             | FTSE/JSE All Share Index (2037)   | Performance exceeds the performance median in the particular ACI Portfolio Classification | unappreciated | unappreciated | 0.00% Quarterly      | Different fee hurdle  |                      |
| 3,503.86             | Stanlib      | STANLIB Balanced - A                       | 1.8 | 0           | SF  | South African - Multi Asset - High Equity Funds   | stepped rate     | 12 months                             | Index, 3% MSCI World Index, 6% JP Morgan Global   | Index, 3% MSCI World Index, 6% JP Morgan Global   | unappreciated | unappreciated | 0.00% Quarterly      | Different fee hurdle  |                      |

