

Performance fee policy



Paid to underlying asset managers of the investment portfolios underlying our linked policies

Introduction

Clients of Alexander Forbes Investments Limited hold investment-linked policies issued by us, as a registered long-term insurer. Clients nominate underlying investment portfolios (for example, Performer), in specific weightings, to comprise their linked policy. Clients pay us policy fees, for this financial service. The policy fees include the investment management fees, payable to the underlying asset managers, for managing the investment portfolios. The policy fees are calculated and accrued daily, as a percentage of the client's interest in each nominated investment portfolio and are levied monthly.

In some cases, we pay an underlying asset manager for specific underlying investment portfolios, a performance fee, in addition to the investment management fee, if the performance of the investment portfolio outperforms a pre-determined benchmark. High-water mark provisions may also be applicable, meaning that the underlying asset manager will only receive performance fees when the value of the outperformance is greater than the previous peak. The performance fees are designed to align the interests of asset managers and clients, by rewarding an active asset manager's skill in generating outperformance, relative to the pre-determined benchmark.

Performance fees are also paid as a percentage of the assets under management, with the percentage determined as a share of the outperformance generated.

Performance fees are paid to the underlying asset managers in addition to the policy fees. We deduct the performance fee from the relevant investment portfolio before calculating the unit price. Therefore, clients will not see a deduction of performance fees from their assets.

We do not participate in, levy, or earn, any performance fees.

Portfolios where underlying asset managers may earn performance fees

As mentioned above, performance fees are only levied by certain underlying asset managers, for specific underlying investment portfolios. Generally, performance fees are only levied within investment mandates with longer time horizons, where the investment universe is broad enough to warrant an asset manager's skill being rewarded. An investment portfolio underlying the investment-linked policies will include performance fees, if there are underlying asset manager portfolios within the portfolio structure, where performance fees are levied by the asset manager.

Appendix 2 summarises some of our more widely used portfolios and indicates the percentage of these portfolios that are subject to performance fees.

Appendix 1

Glossary

The glossary below contains common definitions and terminology that applies to performance fee elements and the principles of best practice.

Glossary	
Performance fee benchmark	This is the performance measure the portfolio is measured against, such as the FTSE/JSE Shareholder Weighted Index (SWIX). Asset managers are only entitled to performance fees when portfolio performance exceeds this measure.
Fee hurdle	This is the level of outperformance (absolute performance above the performance fee benchmark) required before performance fees can be earned (for example, SWIX+3%).
Cap	The limit of performance fees any asset manager can earn, stated as an annual percentage (%). Cap: (with no fee hurdle) = Portfolio performance less performance fee benchmark * Cap% Cap: (with fee hurdle) = Portfolio performance less (performance fee benchmark + hurdle) * Cap%
Participation/Sharing rate	The percentage of outperformance the asset manager is entitled to have a share of (applied after the annual Cap). The asset manager would be entitled to earn: Portfolio outperformance * Participation/Sharing rate %, subject to Cap%
Performance fee measurement period	The period over which the asset manager's performance against the benchmark (and fee hurdle, where applicable) is measured, to determine if a performance fee is payable.
High-water mark	The high-water mark ensures that the asset manager only earns performance fees once it has achieved outperformance levels greater than the highest level achieved in the previous calculation period.
Performance fee payment frequency	This is the frequency at which provisions are made in the unit prices, to make an allowance for fees payable (usually monthly).
Performance fee payment frequency	This is the period (usually at the end of the performance fee measurement period) where the provisions made for fees are transferred from the portfolio to the asset manager (usually quarterly).
Crystallisation period	Once performance fees due are transferred to the asset manager (as mentioned in the performance fee payment frequency), the performance fee measurement period resets and asset manager performance is once again monitored against the applicable benchmark and hurdle.
Investment management fee	The ongoing cost of managing the portfolio. Sometimes referred to as the 'basic' or 'fixed' fee, it is incurred regardless of portfolio performance.
Total expense ratio (TER)	A measure of the total cost associated with managing and operating the portfolio. These costs primarily include investment management fees, administration fees, bank charges and auditor fees. The ratio is obtained by dividing the total costs of the portfolio by the total assets managed in the portfolio.
Total investment charge (TIC)	The TIC is made up of the portfolio's TER plus the portfolio's transactional costs, which typically comprise the cost of buying and selling assets in the portfolio (brokerage costs), and Securities Transfer Tax.

Appendix 2

Investment portfolios where a performance fee may be paid to underlying asset managers

The table below illustrates the change in total asset allocation (%) per portfolio subject to performance fee charges, from 31 January 2014 to 31 March 2023.

Investment portfolio	Performance fees payable to underlying asset managers	
	At 31 January 2014	At 31 March 2023
Multi-asset class portfolio range		
Conservator	40.00%	11.60%
Performer	100.00%	68.70%
Spectrum	91.00%	49.70%
Pure Equity portfolio range		
Pure Equity Local	100.00%	56.80%
Accelerator Equity	100.00%	32.50%
Pure Fixed Income portfolio range		
Banker	0.00%	0.00%
Inflation-linked Bond	0.00%	0.00%
Pure Fixed Interest - Local	100.00%	32.20%
Enhanced Income	0.00%	0.00%
Real Return portfolios		
Real Return Focus - Local	60.00%	14.40%
Stable Focus	60.00%	15.20%
Global portfolio range		
Global Equity	42.00%	0.00%
Global Cash	0.00%	0.00%
Global Flexible	45.00%	0.00%
TAA (tactical asset allocation) portfolios		
TAA 1,2,3	100.00%	0.00%
Passive range		
All Passive portfolios	0.00%	0.00%
AF Invest Hedge Fund range		
All Hedge Fund portfolios	100.00%	100.00%

We use the above portfolios to construct various risk-profiled portfolio ranges. The table below indicates the percentage of assets within each of the risk-profiled portfolios that are subject to performance fees. The performance fee exposures are based on the strategic asset allocation of each risk-profiled portfolio at 31 January 2014 versus 31 March 2023.

AF LifeStage range

	AF Balanced range	
	31 January 2014	31 March 2023
AF High Growth	100.00%	38.50%
AF High/Medium Growth	92.00%	40.70%
AF Medium Growth	84.00%	34.70%
AF Medium/Conservative Growth	76.00%	30.90%

AF Specialist range

	AF Specialist range	
	31 January 2014	31 March 2023
High Equity	69.00%	39.20%
62.5% Equity	66.00%	40.20%
Medium Equity	60.00%	42.20%
37.5% Equity	51.00%	34.80%
Low Equity	42.00%	30.20%

AF Profile range

	AF Profile range	
	31 January 2014	31 March 2023
AF Aggressive	66.00%	31.40%
AF Long-term Growth	64.00%	35.40%
AF Balanced	59.00%	31.30%
AF Moderate	54.00%	24.00%
AF Conservative	45.00%	22.00%

Key performance fee parameter

Investment portfolio	Performance fee benchmark	Fee hurdle	Participation/ Sharing rate	Cap	Cumulative (Y/N)	Crystallisation period
Multi-asset class range						
Conservator		0.00% - 12.00%	10.00% - 25.00%	4.00%	N	Rolling 12 months
Performer Domestic Balanced Manager	LLMW ¹	0.00% - 0.25%	10.00% - 12.00%	10.00% - 15.00%	Y	Annual
Spectrum / Single Global Balanced Managers	GLMW ²	0.00% - 0.25%	10.00% - 22.50%	6.00% - 24.00%	Y	Annual
Pure Equity portfolio						
Pure Equity Local	Capped SWIX & ALSI	0.00% - 4.00%	10.00% - 12.00%	9.50% - 15.00%	Y	Annual
Accelerator Equity	Capped SWIX & ALSI	0.00% - 4.00%	12.00% - 17.50%	15.00% - 24.00%	Y	Annual
Pure Fixed Income portfolio range						
Pure Fixed Interest Local	ALBI	0.00%	15.00%	10.00%	Y	Annual
Hedge funds						
AF Invest QI Hedge FOHF	We don't earn a performance fee. However, the underlying asset managers earn performance fees which are included in the unit prices.					

1. LLMW - Alexander Forbes Local Large Manager Watch™

2. GLMW - Alexander Forbes Global Large Manager Watch™

Appendix 3: Examples

Hypothetical asset manager portfolio	
Performance fee methodology	
Benchmark	Local LMW*
Fee hurdle	0.35%
Share rate (a)	11.00%
Cap (b)	10.00%
Maximum fee (a) x (b)	1.10%
Fee accrual frequency	Monthly
Fee payment frequency	Annually

- LMW is the Alexander Forbes Local Large Manager Watch™ Median, with its constituent being the 12 largest balanced fund portfolio managers in South Africa.
- All rates quoted above are annual rates.

Hypothetical asset manager portfolio	Performance fee methodology				
How much performance fees will I pay? (Based on the parameters in the table above)					
	-10.00%	-5.00%	At benchmark	+5.00%	+10.00%
1 Year	0.00%	0.00%	0.00%	0.55%	1.10%
2 Years	0.00%	0.00%	0.00%	0.28%	0.55%
3 Years	0.00%	0.00%	0.00%	0.18%	0.37%

- Please note that the figures represented in the table above are approximations and should be used as a guide to understanding the mechanics of the performance fee calculations for a hypothetical asset manager portfolio.
- Fees for periods greater than one year are annualised.

It is important for fiduciaries and investors alike to understand how investment fees are charged as well as the implications of these fees on investment outcomes.

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