

# JSE Power Hour

Under the hood of a passive Robo-Advisor



[www.outvest.co.za](http://www.outvest.co.za)



## Presenters:

Grant Locke – Head of OUTvest



Presenter

# Agenda

1. Under the hood of automated advice, and how it helps clients get to OUTcomes
2. Designing investment exposures to help clients reach their OUTcomes, it's anything but passive





# About OUTvest

We are an authorised FSP (47234), CAT I (Automated Advice), CAT III Administrative FSP, Section 13b Administrator (administration for pension funds). We are the sponsors and administrators of the OUTvest Retirement Annuity, OUTvest Pension Preservation and Provident Preservation Funds

# Automated advice systems

It's all about OUTcomes...

# How do you design OUTcomes?



# The philosophy of automated advice at OUTvest

- We are OUTcomes focused
- Automated advice translates client objectives into a language a machine can understand
- Ask questions that a client can answer as accurately as possible
- Keep advice simple and easy to understand
- Disclosures are vital, and should be customized for each client
- Upfront advice is just the start, ongoing advice is more critical, but much harder to do.

# Regulation

- OUTvest is regulated as an automated advice provider,

Category Description	Advice Automated	Advice Non-automated	Intermediary Scripted	Intermediary Other
CATEGORY I				
Long-Term Insurance subcategory B1	X	X	X	X
Long-term insurance subcategory B2	X	X	X	X
Long-term Insurance subcategory B2-A	X	X	X	X
Long-term Insurance subcategory B1-A	X	X	X	X
Long-Term Insurance subcategory C	X	X	X	X
Retail Pension Benefits	X	X	X	X
Pension Funds Benefits	X	X	X	X
Shares	X	X	X	X
Participatory interests in a collective investment scheme	X	X	X	X



# How we develop and govern automated advice algorithms

## Step 1: Algorithm development

Actuarial, investment, legal, financial planning, tax, UX



## Step 2: Advice committee

Approval and recordkeeping

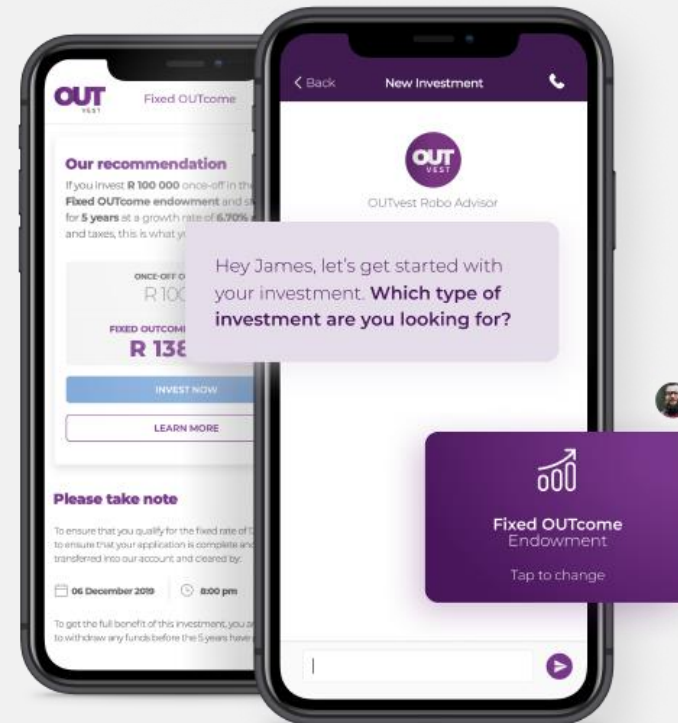


## Step 3: IT implementation

Development against prototype and automatic testing

# Core principles of every advice system

- Time horizon, Willingness and Ability to tolerate investment risk are key factors in developing all algorithms



# Fund selection and administration

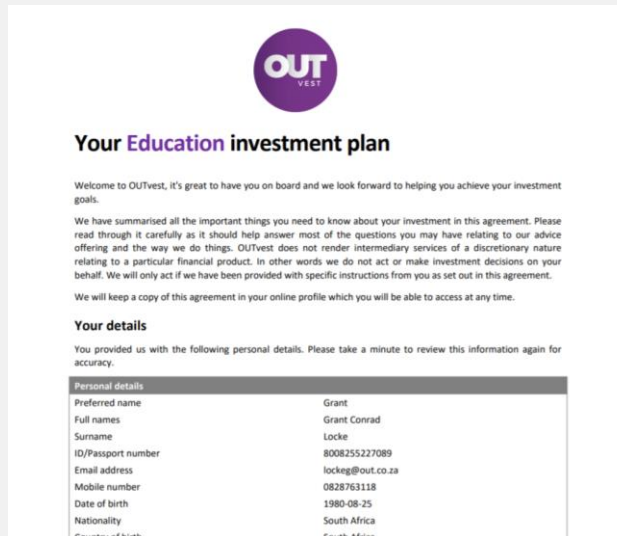
- Each algorithm recommends only one fund, of the five available, depending on product and advice system outputs, except Fixed OUTcome

**Probability of outperforming CPI by time horizon and index (based on 115 years)**

Return target	<1 year	1 - 2 years	2 <=3 years	>3 to 4 years	4 to 5 years	5 to <= 6 years	>6 to 7 years	7 to <= 8 years	>8 to 9 years	9 to 10 years
CPI + 0	59%									
CPI + 1										
CPI + 2		60%	62%							
CPI + 3				62%	63%	64%				
CPI + 4							63%	64%		
CPI + 5									61%	61%
	OUT Money Market Index	OUTcautious Index		OUTstable Index			OUTmoderate Index		Outaggressive Index	

# What happens if you disagree with the automated advice?

- You can override recommendations made by our automated advice algorithms, but will need to create a brief addendum to the Record of Advice and ensure you store this appropriately.



**OUT VEST**

## Your Education investment plan

Welcome to OUTvest, it's great to have you on board and we look forward to helping you achieve your investment goals.

We have summarised all the important things you need to know about your investment in this agreement. Please read through it carefully as it should help answer most of the questions you may have relating to our advice offering and the way we do things. OUTvest does not render intermediary services of a discretionary nature relating to a particular financial product. In other words we do not act or make investment decisions on your behalf. We will only act if we have been provided with specific instructions from you as set out in this agreement.

We will keep a copy of this agreement in your online profile which you will be able to access at any time.

### Your details

You provided us with the following personal details. Please take a minute to review this information again for accuracy.

Personal details	
Preferred name	Grant
Full names	Grant Conrad
Surname	Locke
ID/Passport number	8008255227089
Email address	lockeg@out.co.za
Mobile number	0828763118
Date of birth	1980-08-25
Nationality	South Africa
Countrv of birth	South Africa

# A gearbox approach to investing

The returns from the capital markets are the engines of return, the asset allocation is the gearbox...

# Overview

Calculated by  
**S&P Dow Jones  
Indices**

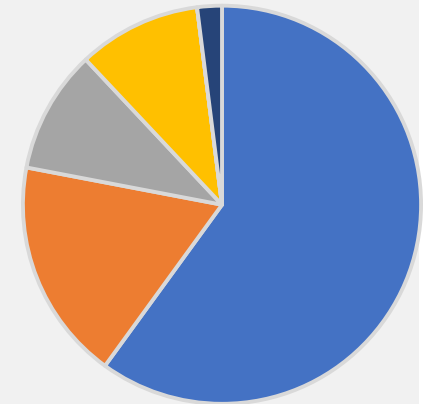
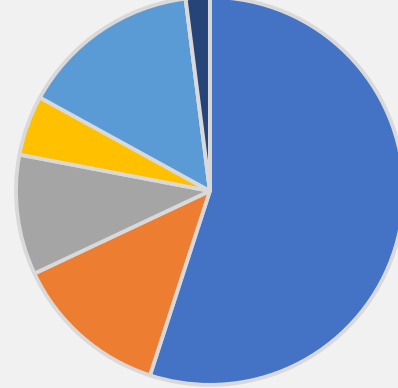
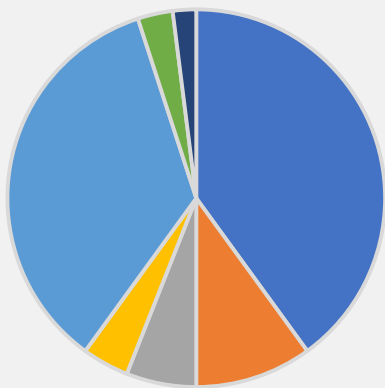
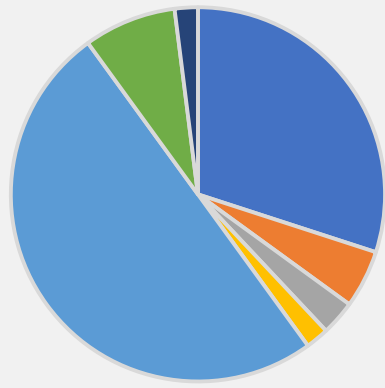
Money Market

OUTcautious Index

OUTstable Index

OUTmoderate Index

OUTaggressive Index



Investment Products



# How does digital advice influence portfolio construction?

An advice algorithm requires a set of investment exposures that:

1. Use asset allocation as the dominant driver of returns
2. Are well diversified, preferably multi-asset
3. Are suitable for a broad range of client objectives
4. Take into account the intended investment administration
5. Fund performance

# Our core investment beliefs

1. Historical evidence suggests that the greatest probability of outperforming inflation over longer investment periods can be provided by an allocation to listed equities.
2. Diversification of investment types helps reduce the impact of short term price movements in the underlying investments, and will reduce the impact of a permanent capital loss.
3. Cost is a very important determinant of what an investor gets out
4. Use evidence to select between a passive (rules-based) or active approach to portfolio construction.



# A suitable investment spectrum for retail clients

**Local**

Cash

**International**

Government Bonds

Preference shares

**Listed Property**

**Equities**

Implemented through indices / S&P SA Top 50

# Principles of portfolio construction

1. Aim to create a set of graduated investment risk exposures through portfolio construction
2. Keep investment administration simple
3. Factor diversification is as critical as stock diversification, but difficult to do
4. Cost is a very important determinant of what an investor gets out
5. Use evidence to select between a passive (rules-based) or active approach to portfolio construction. (Active works in cash, Passive works in Equities – at the moment)
6. Asset allocation is the primary driver of returns

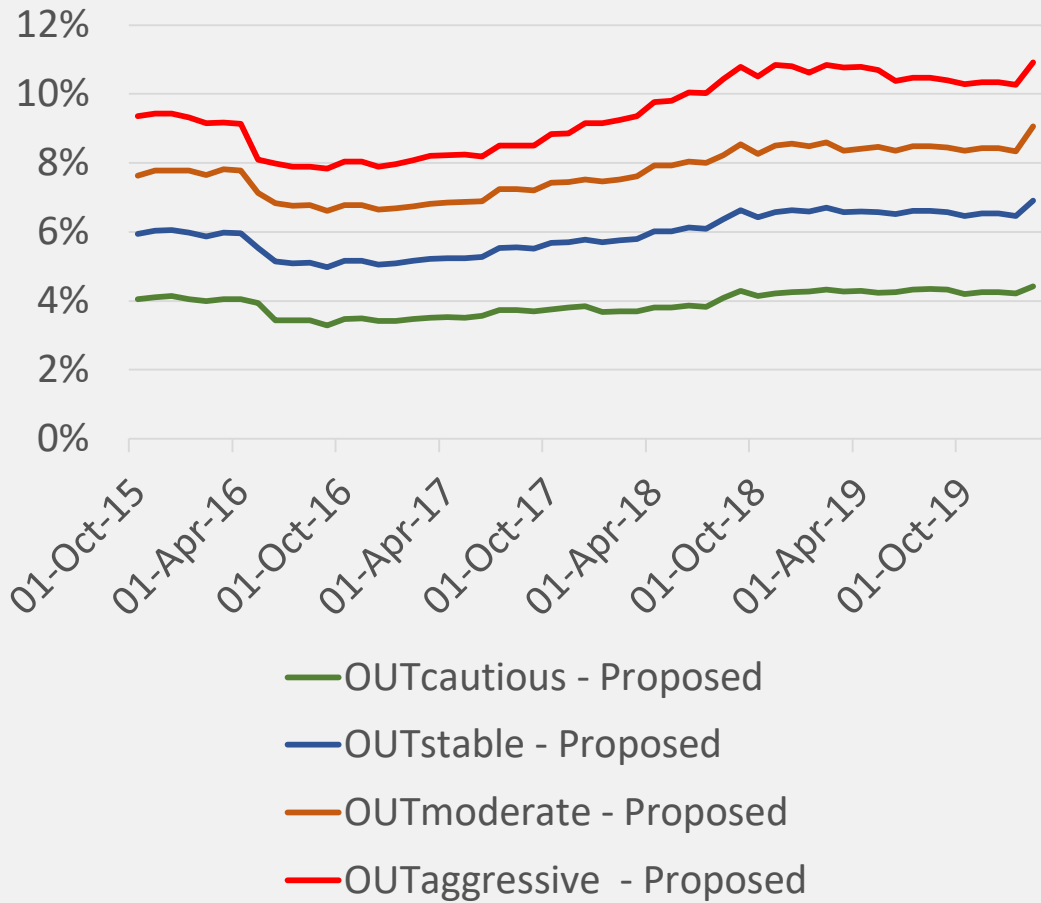


# What are the underlying allocations?

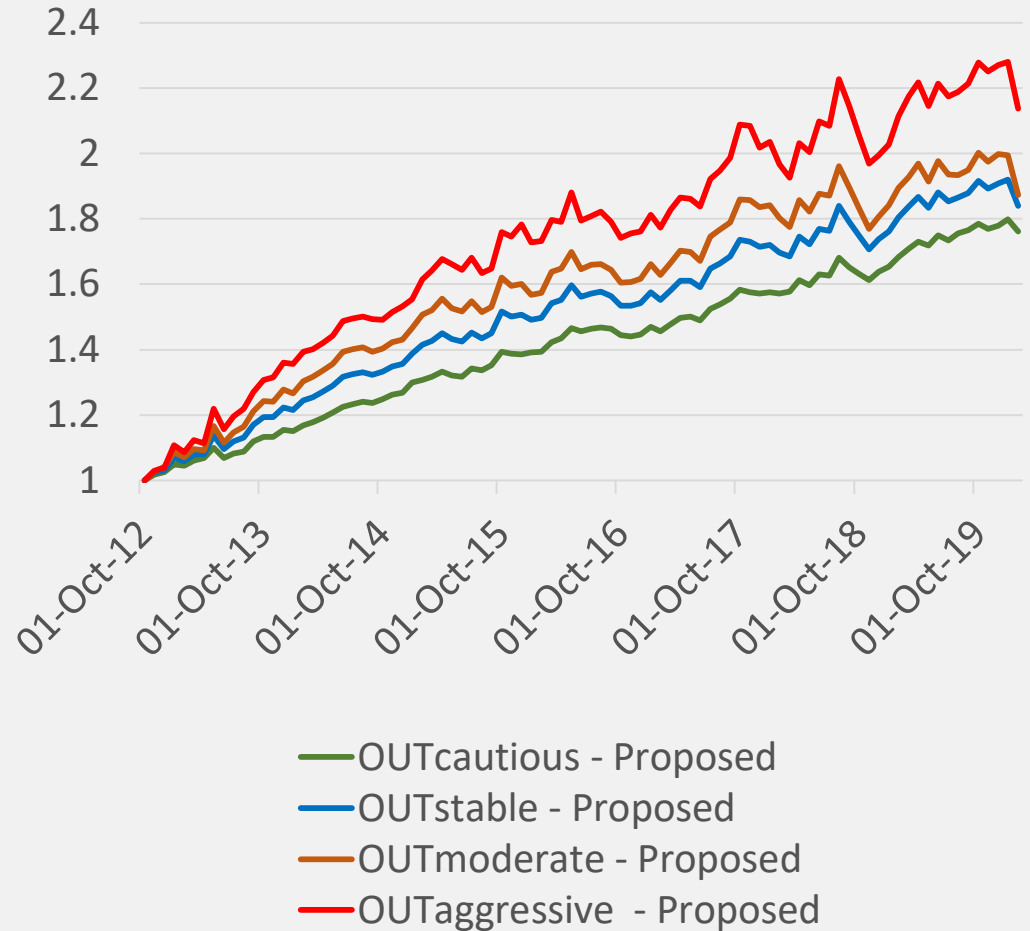
Underlying Indices	Money Market	Coreshares OUTcautious	Coreshares OUTstable	Coreshares OUTmoderate	Coreshares OUTaggressive
S&P South Africa 50		25%	35%	55%	60%
S&P South Africa Composite Property Capped		3%	6%	10%	10%
S&P South Africa Preference Share Index		5%	5%		
S&P South Africa Sovereign Bond Index		15%	10%		
S&P South Africa Sovereign Inflation-Linked Bond		30%	20%	10%	
South African Short Term Fixed Income Rate Index		8%	3%		
S&P 500		3%	6%	8%	11%
S&P Global Ex-U.S. BMI		2%	4%	5%	7%
S&P Global Property 40		2%	4%	5%	10%
S&P Global Developed Sovereign Bond		5%	5%	5%	
Cash	100%	2%	2%	2%	2%

# Core investment beliefs

Back tested standard deviation – rolling 36 months.



Return profile is a result.



# Fund performance to 30 June 2020

Group/Investment	Morningstar Rating Overall	1 Month 30/06/2020		3 Months 30/06/2020		6 Months 30/06/2020		12 Months 30/06/2020		2 Years 30/06/2020		3 Years 30/06/2020	
		Return (Cumulative)	% of Peer Group Beaten	Return (Cumulative)	% of Peer Group Beaten	Return (Cumulative)	% of Peer Group Beaten	Return (Annualized)	% of Peer Group Beaten	Return (Annualized)	% of Peer Group Beaten	Return (Annualized)	% of Peer Group Beaten
<b>Aggressive</b>													
Coreshares OUTAggressive Index O	★★★★	5.33	30	18.35	31	-3.19	79	-2.43	74	1.18	79	5.06	87
<i>Peer Group: ASISA Sector (South Africa) = (ASISA) South African EQ General</i>			796		792		790		738		688		623
<b>Moderate</b>													
Coreshares OUTModerate Index O	★★★	5.03	94	16.71	87	-2.76	41	-2.54	25	0.95	34	4.40	62
<i>Peer Group: ASISA Sector (South Africa) = (ASISA) South African MA High Equity</i>			692		686		675		648		606		551
<b>Stable</b>													
Coreshares OUTStable Index O	★★★	3.25	89	13.36	79	-1.34	40	-0.53	29	2.81	40	4.91	64
<i>Peer Group: ASISA Sector (South Africa) = (ASISA) South African MA Medium Equity</i>			339		336		334		325		297		261
<b>Cautious</b>													
Coreshares OUTCautious Index O	★★	2.00	81	10.71	83	-0.53	32	0.22	17	3.34	28	4.83	35
<i>Peer Group: ASISA Sector (South Africa) = (ASISA) South African MA Low Equity</i>			512		507		503		474		433		399
<b>Money Market</b>													
Granate SCI Money Market B		0.48	90	1.58	88	3.37	70	7.18	53	7.42	46	7.53	45
<i>Peer Group: ASISA Sector (South Africa) = (ASISA) South African IB Money Market</i>			185		185		184		166		161		147

Source: Morningstar, to 30 June 2020. Past performance is not a guarantee of future returns

# Governance

## Quarterly meeting cycle

### Index Advisory Committee

S&P Dow Jones  
Indices

A Division of S&P Global



- Reporting by S&P Dow Jones
- Index performance
- **Design and construction**
- Regulation
- Attribution

### OUTvest Investment Committee

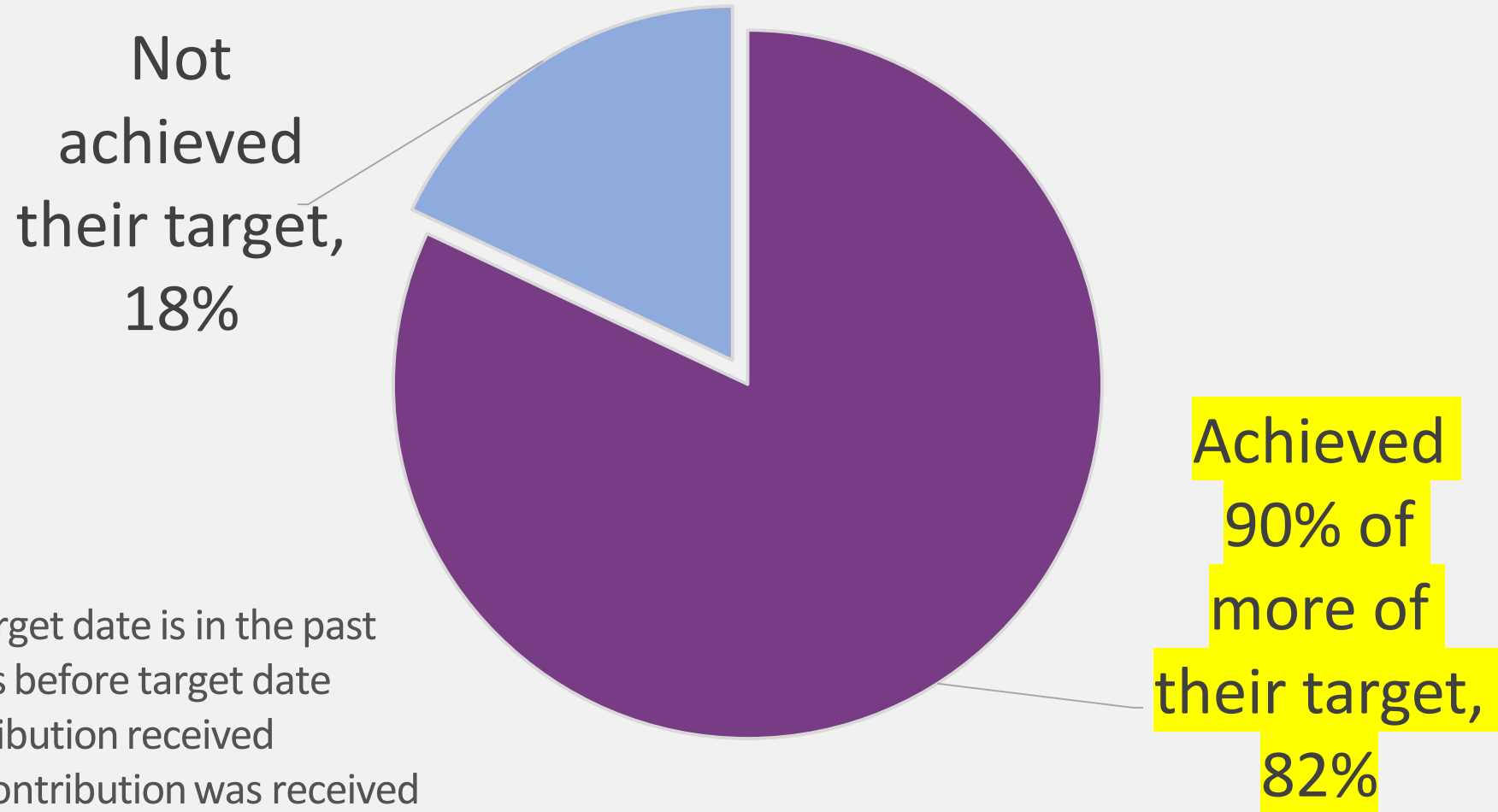


- Economic
- Market performance
- Fund performance (incl peer groups)
- **Are we still happy to recommend to our clients?**



Does OUTcomes based  
investing work?

# Does OUTcomes based investing work?



- Goals where target date is in the past
- No withdrawals before target date
- At least 1 contribution received
- First monthly contribution was received as indicated on signup



Thank you.