

INVESTING

Dreadful performance

SA retirement investors get a raw deal

SOUTH AFRICA SCORED the second worst of 22 countries in the *Morningstar Second Global Investor Experience Study*, which evaluates investor-friendly practices in fund markets worldwide. This comes as no surprise to Steven Nathan, Chief Executive of 10X Investments (pronounced tenex).

"The South African retirement investment market has a lot to answer for. It simply isn't serving investors," he remarks.

Morningstar, Inc. is a provider of independent investment research. It released the results of its second study that measures the experiences of mutual fund (unit trust) investors in 22 countries in North America, Europe, Asia, and Africa. Countries were evaluated in four categories: Regulation and Taxation, Disclosure, Fees and Expenses, and Sales and Media. The study helps investment companies, distributors, and regulatory bodies worldwide to focus on and enhance best practices for investors.

Morningstar's evaluation identified the United States and Singapore as the best markets for fund investors based on such criteria as investor protection, transparency, fees, taxation, and investment distribution.

SA was included in the evaluation of

investor experiences for the first time this year, together with Belgium, India, Norway, Sweden, and Thailand. SA scored at the bottom of the new countries evaluated, and second worst overall, with a C-.

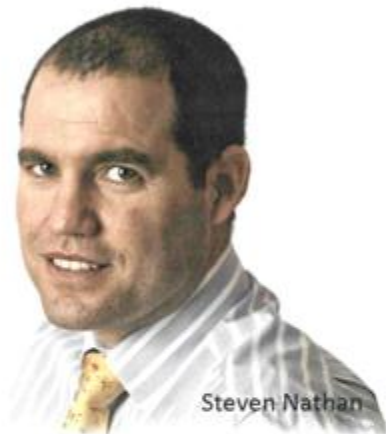
Morningstar revealed that SA scored poorly for disclosure: "Historical expense ratio information, detailed fees, trading costs, and portfolio holdings were generally lacking or difficult to obtain." It further noted that "funds in South Africa rarely include an example of the impact of fees.

"Simple, meaningful, easy-to-understand reporting is in short supply in SA. The industry's reporting is incomplete and lacks transparency," says Nathan. "Investors need to monitor the performance of their investment, be aware of the fees charged and the long-term impact fees have on their investment, and they are not getting any of this."

The research also pointed out that SA is one of only two countries that permit the practice of directed brokerage, which can lead to high trading costs for funds. Alarming the Morningstar study notes that "sales incen-

tives and sales contests are common in SA – thereby putting investors at risk of being put into funds that might not be right for them."

Nathan says that it is these retirement industry practices that lead to



Steven Nathan

high fees and inappropriate investment choices for the investor.

"These practices comprise hundreds of investment choices, active fund managers and commission driven brokers. All these add cost to the investment but do not increase the investment return. The result is low investor returns in an industry where fees are the most dependable indicator of a fund's future performance. "On average in South Africa, aggregate fees reduce the real (after-inflation) investment return by approximately 75%," says Nathan.

He is passionate about changing this, using direct low-cost index investing. He says 10X has low fees – around half the industry average. This is large-