

Wathinta Umfazi wathinta imbhokodo

*Celebrating the strength of women
across South Africa and the world.
From our mothers who marched to protest
the pass laws on 9 August 1956 to those who
marched again on 1 August 2018 to
protest gender based violence.*

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Dear Subscriber

The Problem with Transformation



According to the recent Alexander Forbes Manager Watch Survey, 50% of institutional investor assets are invested amongst the five largest asset managers, none of which are black-owned. This confirms numerous other industry surveys which have highlighted that black-owned asset managers only manage between 4% and 8% of all the money managed on behalf of retirement funds and other institutional investors.

Applying the Herfindahl Index, which measures the market concentration of an industry's top 50 companies to identify sectors where monopolies exist, to the South African Asset Management industry, suggests strong monopolistic trends supported by artificial structural barriers to entry. The transformation of the industry remains highly topical and has been widely debated at industry conferences and in written material. Without a clear definition of what transformation means and how or when it is achieved we run the risk that 'transformation' will become just another buzzword. As one man said, "we cannot change what we cannot define, or control what we cannot measure".

Against the backdrop of South Africa's history and the structure of the industry as highlighted by the Herfindahl Index, let me be bold and offer a definition for what transformation means. *Transformation is a deliberate and policy-driven emphasis on*

realigning the ownership, influence and control of the value chain in line with national population demographics. For the Asset Management industry, this includes the transformation of who makes investment decisions, investment patterns, employment patterns, and pay applicable to investment professionals.

It is important to note that transformation has never been meant to be exclusionary. Its purpose is to redress and correct artificial structural barriers in order to create a new balanced system where previously disadvantaged professionals are pro-actively enabled to gain access to ownership, influence and control of investment decisions and investment patterns.

Below are some extracts from a Huffington Post article dated 29 June 2017, on the proposed policy for transformation and economic development in South Africa, and how to achieve it.

1. Strict enforcement of competition legislation aimed at eliminating monopolistic behaviour is required, including bringing legislation to Cabinet to strengthen the Competition Act. We must also set transformation targets that match the national demographics on a fundamental basis and be cognisant of the fact that this needs to go beyond government but must also speak to Investment Policy Statements of Asset Owners.
 2. Priority must be given to generating black ownership in emerging new and old sectors of the economy including financial services, mining, agriculture, and manufacturing. Certain sectors drive the economy and are able to create jobs. New entrants can take advantage of amongst other things delivering products built to meet the cultural and social needs and expectations of the majority of the population who historically have been excluded from the economy.
 3. Targeted financial support, such as tax breaks and improved market access, for black entrepreneurs and small business is a crucial step towards equitable growth. Whether these are directed at the companies being transformed, the funders, or more importantly the investors that are investing into the company, these would accelerate the rate of transformation and would also drive a real economic return to the Investors, particularly if these are structured to enhance the benefit of transformation to the investor.
 4. The country must sever its old growth path which was largely dependent on exporting raw materials. Instead, the government should create conditions which allow the economy to industrialise through manufacturing, beneficiation of minerals, or processing of raw materials. It must use industrial policy, such as providing incentives for manufacturers to promote a more diverse economy and generate mass employment.
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Summit Africa is a majority black owned and managed, specialist Alternatives Investment Manager with a focus on investing in Private Equity and unlisted Real Estate that delivers above-benchmark risk-adjusted financial returns and contributes meaningfully and measurably to the Social and Economic transformation and development of the local community and South Africa as a whole.

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