Meeting change head-on: post-election operational strategies for South African investment managers

Enfusion's Joel Burnette helps assess the uncertain implications presented by the ANC/DA coalition, the first such government of the post-apartheid era

The South African political environment has just experienced a generational shift. The coalition government between the African National Congress (ANC) and its largest critic, the Democratic Alliance (DA), could reset the investment environment. The DA now controls several key cabinet appointments, including agriculture and home affairs. Despite the political complexity, many in the South African investment community feel optimistic about the change.

Joel Burnette

Our clients at Enfusion – traditional equity long-only managers and hedge funds – reflect cautious optimism. In 2023, favourable adjustments to local regulations (Regulation 28 of the Pensions Act) began to help them capitalise on alternative and international strategies. More liberalisation may follow.

However, the increasing demand for asset, domicile, and client diversification also raises the bar on what they need from service providers, whether technology providers like Enfusion or service providers. A longer cycle of fee pressure from investors further emphasises optimising investment operations while embracing technology.

These factors underscore the need to embrace a smart investment management operating model both internally and with partners. Providers must adapt swiftly or risk holding investment managers back.

The watchword in this evolving environment is "agility".

Navigating market volatility and policy shifts

Many Enfusion clients believe that uncertain implications of an ANC/DA coalition could lead to sustained market volatility and policy shifts. Both traditional equity long-only managers and hedge funds must navigate change with precision, building on their expertise to identify and capitalise on market dislocations.

In the face of market volatility, investment managers need robust risk management strategies to protect portfolios. They seek to explore diversification across multiple asset classes and geographies to mitigate risks associated with the South African market. In turn, they need reliable data and models for robust risk analytics.

In addition, managers are scrutinising potential economic **policy shifts**, fiscal changes, and market reforms. For instance, shifts in monetary policy could influence interest rates, affecting equity valuations and portfolio construction decisions.

Finally, managers are monitoring the impact on South Africa's regulatory environment. Core changes are already under way. The Financial Sector Conduct Authority (FSCA) has put forward a three-year regulation plan from April 1, 2024 to March 31, 2027[1]. Most notably, the Conduct of Financial Institutions (COFI) Bill aims to consolidate the regulatory framework[2] for governance and risk management. Potential new disclosure and reporting requirements may result from the changes, contingent on the COFI Bill's progress in parliament.

Local regulations are also adapting to investor demand for **diversified investments across Africa and beyond**, showing openness to allocations to alternative and offshore assets. In addition, managers are exploiting opportunities in credit spanning the range from investment-grade international bonds to mezzanine debt to bi-lateral direct. There is also a growing focus on sustainability, comparable to the rest of EMEA.

Looking through an operational lens

The investment management market in South Africa has long been highly competitive, posing significant challenges for equity managers and hedge funds. As investors become more cost-conscious, they gravitate towards low-cost index funds and ETFs, leading to declines in fees for active managers. With South African risk-free rates above 8%, managers face pressure to justify fees for equivalent return. This trend is reshaping the investment management landscape, prompting managers to rethink their **fee structures and value propositions.**

Operations can play a vital part in reducing costs. The South African market is already technologically advanced, supported by industry bodies like the Association for Savings and Investment South Africa (ASISA)[3], which provides industry-wide reporting templates to facilitate data sharing. Many equity managers and hedge funds are using **technology and automation** to find savings.

For example, advanced data analytics, artificial intelligence, and software-as-a-service platforms can enhance investment decision-making and operational efficiency. The market continues to embrace technology to optimise international processes, like the US moving to T+1 settlement and the increased demand for accurate cash and P&L for complex assets such as private credit. In 2024, more managers than ever want to apply technology to **eliminate manual processes** in data consolidation, reconciliation, and P&L reporting, improving efficiency and data accuracy.

Additionally, some managers are **outsourcing non-core functions** like compliance and IT services to focus on core investment activities. These approaches help asset managers navigate the challenging fee environment while delivering value to their clients. However, only a few administrators cover most of the onshore fund market. The acquisition of local administrators by large international groups has created a near-monopoly, often resulting in higher costs, reduced service quality, and fewer alternatives for high-service needs.

Finally, new regulations on outsourcing[4] and governance of outsourcing contracts may also move forward. If that happens, investment managers relying on external providers and outsourced services will need to review and potentially revise existing arrangements.

Conclusion: change demands flexibility

As South Africa's investment landscape evolves, success will hinge on the ability to adapt to political, regulatory, and market changes. Investment managers who embrace operational efficiency, leverage technology, and maintain flexibility will be best positioned to thrive in this new era. By optimising processes, managers can navigate operational pressures and fee challenges effectively, ensuring they remain competitive and capable of seizing opportunities in the evolving market landscape.

But there is an additional consideration. Are investment service and platform providers ready to evolve? Platform flexibility enables (or, in some cases, hinders) the flexibility that allows managers to adjust quickly.

Joel Burnette is executive director of sales for EMEA at Enfusion, whose investment management software-as-a-service platform improves operational efficiency and lowers costs by uniting front-, middle- and back-office teams on one system. Burnette has significantly bolstered Enfusion's EMEA footprint, particularly Africa and the GCC. Over the past 18 years, he has helped alternative and traditional asset managers across EMEA achieve their growth goals by leveraging state-of-the-art buy-side technology and services.

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2. *https://www.iol.co.za/business-report/economy/cofi-bill-set-to-shake-up-local-finance-sector-inject-much-needed-competition-56729335-a828-4ca2-9891-521aa493c576*
3. *https://www.asisa.org.za/*
4. *https://connectedworld.clydeco.com/post/102jcea/south-africas-fsca-releases-its-latest-regulatory-actions-report-and-its-3-year*