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LEGAL AND TECHNICAL

- Members of occupational retirement funds emigrating after implementation of the two-pot retirement system.
- Incorrect information on tax directive applications for savings withdrawal benefits could lead to SARS levying penalties.

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- Workplace burnout and financial stress - a holistic approach to employee health and retirement well-being.

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Is portable alpha the comeback kid investors can count on today?

Nompumelelo Khumalo, Principal Investment Consultant

Portable alpha strategies date as far back as 1982, when Bill Gross and Myron Scholes combined S&P 500 futures with an active fixed income portfolio. The result would be portable alpha – a strategy that helps investors enhance performance by separating the two main types of returns in their portfolios:

- i. **Beta**, which is the return from simply following the overall market, like owning a broad stock index; and
- ii. **Alpha**, which is the extra return earned through skilled active management, like picking stocks or bonds that outperform the market.

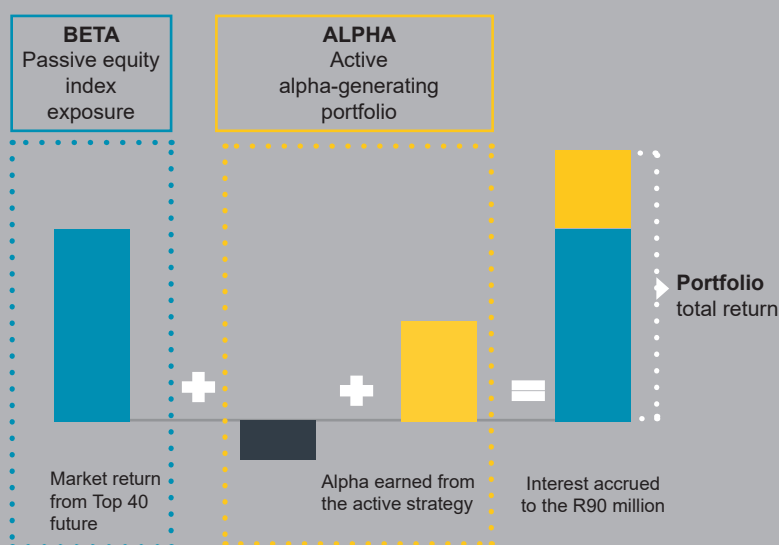
The beta exposure is accessed using low-cost tools such as futures or swaps on broad stock indices. The alpha exposure is invested in active strategies aiming to generate alpha or returns above the market.

This strategy enables investors to enjoy the steady returns of passive investing (beta), while adding the potential for extra gains from active investing (alpha), without needing to change their core portfolio structure.

Implementation

If an investor wants exposure to the JSE Top 40, instead of buying R100 million worth of each Top 40 stock directly, s/he might use futures contracts to get the same market exposure. But the investor only needs to put up a fraction of that money as margin. The remaining cash is invested in an active strategy that aims to outperform the cost of financing the futures, thus generating alpha. This is illustrated in the figure below:

1. You have R100 million and want to have exposure to the JSE Top 40. Obtain exposure by buying a JSE future with a notional amount of R100 million.
2. You do not pay the full R100 million at the inception of the contract. Derivative exchange rules only require an initial margin (plus collateral and fees) of approximately R10 million leaving R90 million to invest elsewhere.
3. If you have the expertise, the R90 million can be invested in short-duration fixed income investments which you believe will yield positive returns.
4. When the futures expire, you will earn the market return (from the future) plus the return from the alpha strategy. You will also pay the R90 million plus any money market interest that would have accrued to the R90 million. This is paid to the counterparty in the futures agreement. The result is an enhanced market return (illustrated in the figure on the right).



The rationale for using portable alpha

There is a debate around whether active management has a role to play in developed offshore markets. The supporting critique is that it is challenging to find managers who consistently outperform their benchmarks and can justify charging active management fees. That offshore managers struggle to outperform their indices is understandable. Developed market global equity indices consistently fall within the first quartile when ranked against benchmark-cognisant equity managers. This presents a challenge for investors seeking offshore exposures that deliver returns in excess of the index. In addition, any alpha earned by active managers can be eroded by fees. Similarly, after fees, the return earned on passive management is lower than the index return. A skilfully managed portable alpha strategy will deliver net-of-fee returns in excess of the selected benchmark. Investors can lock in the return that comes from market exposure, while accessing an alpha component whose outperformance is not eroded by fees.

Portable alpha in retirement funds

When portable alpha solutions are implemented in retirement funds, a combination of short- and long-term derivatives is utilised. The short-term derivatives provide liquidity for periodic retirement fund requirements such as member benefit payments. However, to access this liquidity, a three-month notice period can be required. To circumvent this three-month notice requirement, it is possible to allocate a proportion of the overall portable

alpha strategy to a cash reserve, or to reduce the portable alpha exposure and invest a portion in listed, highly liquid assets. However, the effects of cash drag on performance must then be considered.

Not without challenges

While portable alpha can be a powerful tool, its risks must be managed diligently. Naturally, market crises and significant shifts in market conditions can destabilise a portable alpha strategy, as seen in 2008. With global risks intensifying over time, an investor implementing this strategy must remember that portable alpha does not eliminate market risk entirely. Secondly, for the strategy to be successful, the selected alpha source must yield a higher return than the cost of financing. In addition, the alpha source must provide sufficient liquidity to support an investor's overall portfolio. Finally, execution complexity can be very challenging for investors with no experience in managing derivatives-based exposures.

This solution is appropriate for institutional investors with robust governance structures and risk management frameworks. Overall, there is a possibility of compounding risk in unexpected ways. This highlights the importance of investors entrusting experts with this process. For retirement funds that are unwilling to bear the complexities of portable alpha, there are a number of well-established firms that have successfully afforded clients exposure to these solutions.

The bottom line

Portable alpha is not a “set and forget” strategy. It offers a smart way to combine steady market returns with the potential for extra gains from active management and, in certain markets, could provide more consistent returns than traditional active investing alone. However, it requires skill and experience to manage.



Artificial intelligence in asset management: Enhancing judgement, not replacing it

Marian Gordon, Regional Head and Principal Investment Consultant

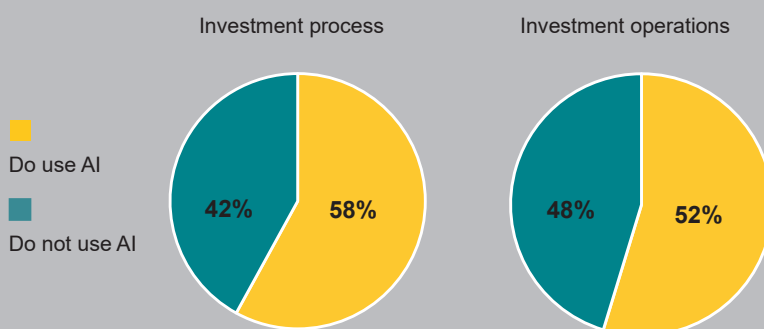
Rushil Kalidas, Investment Consultant

Artificial intelligence (AI) is no longer a distant frontier. It's a present-day force reshaping industries and driving transformation. According to CNBC, companies are investing significantly in AI-related data infrastructure and technologies, with megacap tech firms expected to spend as much as USD320 billion on AI technologies and datacentre expansions in 2025. But in the investment industry, where competitive edge and human judgment are paramount, the question remains: Is AI a game changer or does it merely represent another tech trend?

To explore this, Simeka surveyed a broad group of 31 investment service providers to assess how AI is being integrated into investment processes and operations. While the findings offer thematic insights, they are not intended to be exhaustive.

Current adoption

Of the 31 investment service providers surveyed, 11 reported no current use of AI. These were predominantly private market and boutique firms, suggesting that AI adoption may be influenced by scale, resources and strategic priorities. Of the remaining 20 managers which use AI, **58%** use AI in their investment processes and **52%** use AI in their operations.

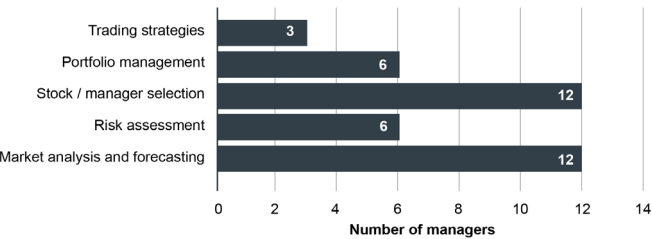


Among adopters, AI is beginning to play a more strategic role across the investment value chain. In market analysis, natural language processing is used to interpret the tone of central bank commentary, helping analysts distinguish between hawkish and dovish signals. For risk assessment, machine learning techniques such as K-means clustering are applied to categorise stocks based on behavioural and risk characteristics. In stock and manager selection, AI helps summarise vast volumes of data and converts written research into audio formats like podcasts, making insights more accessible and digestible.

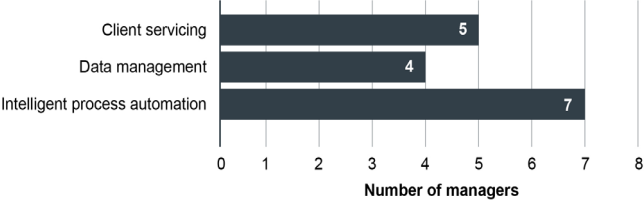
Our survey highlighted that on the trading front, AI analyses macroeconomic indicators and formulates yield curve perspectives that can automatically trigger trades. These examples illustrate that AI is not just enhancing efficiency, it is actively shaping how investment professionals interpret data and execute strategies.

Beyond investment functions, AI is streamlining operations and enhancing productivity. Tools like Microsoft 365 Copilot are widely used to summarise meeting notes/documents and facilitate collaboration. Intelligent process automation is handling tasks such as invoice processing with minimal human intervention. Chatbots are assisting users with product and process-related queries, significantly reducing call volumes and improving service delivery. Workflow management has also evolved, with AI now capable of allocating tasks from email requests based on content and team expertise, ensuring faster turnaround and better resource alignment.

The use of AI in investment processes



The use of AI in investment operations



Enhancing human capability

AI is also supporting analysts in consuming research more efficiently, significantly speeding up the review and synthesis of complex information. Rather than replacing expert judgment, AI enhances human capabilities, allowing professionals to focus on higher-order decision-making while routine tasks are automated. This has led to measurable gains in productivity, reinforcing AI’s role as a strategic enabler rather than a disruptive force.

Future plans

As AI continues to advance rapidly, staying informed about its developments is crucial. While some organisations foresee limited impact on foundational investment philosophies, others expect AI to significantly enhance data analysis and the overall portfolio management process.

Despite this optimism, there is a broad consensus that AI is not a substitute for human expertise. Rather, it is viewed as a powerful tool that complements and amplifies human judgment. While some firms have integrated AI into their core operations, others are still experimenting.

However, the path to integration is not without its challenges. Concerns around data quality and security persist. These issues highlight the need for a measured and responsible approach to AI adoption.

Conclusion

The survey reveals a clear trend: AI is steadily gaining traction in the investment industry. Whether used for operational efficiency or analytical enhancement, its impact is becoming increasingly visible. For investment service providers, staying informed and adaptable is essential.



Members of occupational retirement funds emigrating after implementation of the two-pot retirement system

Anita Roodman, Senior: Legal and Technical Specialist

A South African tax resident is an individual who is resident in South Africa for tax purposes, either by way of being ordinarily resident (the place where the person resides in the ordinary course of life) or by way of physical presence. The landscape for occupational retirement fund members ceasing to be SA tax residents post implementation of the two-pot retirement system looks as follows:

Emigration where a member leaves service prior to retirement

Component	Payment of benefit	Taxation if taxable in South Africa
Vested	Members remain entitled to full withdrawal of their vested component upon leaving service prior to retirement.	Taxed in accordance with the lump sum withdrawal tax tables.
Retirement	Members are only entitled to receive their retirement component as a withdrawal benefit after an uninterrupted period of three years of not being a tax resident.	Taxed in accordance with the lump sum withdrawal tax tables.
Savings	Amounts in the savings component remain accessible as a savings withdrawal benefit.	Included in the member's gross income and taxed at their marginal tax rate.

When a person leaves employment and emigrates, the ordinary resignation benefit rules apply. Amounts in the vested component and savings component remain accessible as either a withdrawal benefit or a savings withdrawal benefit and are taxed accordingly. The retirement component will have to be preserved in the fund and utilised towards providing an annuity upon retirement.

If a member ceases to be a tax resident for a period of at least three years, full withdrawal of the retirement component will be allowed, similar to the emigration rule for preservation and retirement annuity funds. Such members will therefore no longer be forced to purchase an annuity with the retirement component. In this instance, the retirement component withdrawal is taxed in accordance with the lump sum withdrawal tax tables.

Emigration after retirement from employment

Retiring members cannot purchase a pension directly from an insurer abroad. Deferred retirees who are emigrating and do not wish to receive an annuity in South Africa, have the following options:

Component	Payment of benefit	Taxation if taxable in South Africa
Vested	The vested component will still need to be annuitised unless the benefit is transferred to a retirement annuity fund or preservation fund, where the three-year non-tax resident rule may apply.	Lump sums as a result of the three-year non-tax resident rule will be taxed in accordance with the lump sum withdrawal tax tables.
Retirement	Deferred retirees may be entitled to receive their retirement component as a withdrawal lump sum benefit after an uninterrupted period of three years of not being a tax resident.	It will be taxed in accordance with the lump sum withdrawal tax tables despite it being after retirement from employment.
Savings	The savings component remains accessible as a savings withdrawal benefit.	Included in the member's gross income and taxed at their marginal tax rate.

The three-year non-tax resident rule was not introduced for the vested component and the vested component cannot be transferred in isolation to another fund. In practice, this means that deferred retirees who do not wish to receive a retirement benefit in South Africa, will have to transfer their retirement component and vested component to either a retirement annuity fund or a preservation fund, where the three-year non-tax resident rule may apply. These members must be aware that the transferred amount will be taxed as a withdrawal benefit should the three-year non-tax resident rule be applied in the retirement annuity or preservation fund, thus not qualifying as a retirement benefit taxed at a more favourable rate.

A large portion, or in some cases the entire portion, of a provident fund member's vested component may still qualify to be taken as a lump sum at retirement. However, the dilemma is that if those members also have a retirement component, this component must be taken as an annuity when they elect to retire from the fund, unless it is less than the *de minimis* amount. Members will not be able to elect retirement from one component while the other components are treated as deferred retirement benefits, with a view to applying the three-year non-tax resident rule. The election to retire from the fund is considered one tax event.

Emigrating deferred retirees will have to do careful planning before they decide what to do with their retirement benefit.

Double taxation agreements

When it is established that tax is payable on any retirement fund benefit, the double taxation agreement between South Africa and the person's country of residence should also be considered to determine which country has the taxing rights on the retirement fund benefits. If the retirement fund benefit is subject to tax in the country of residence and not in South Africa, there would not be an obligation on the fund to withhold/deduct any taxes in respect of such member.

Incorrect information on tax directive applications for savings withdrawal benefits could lead to SARS levying penalties

William Donachie,
Legal and Technical Specialist

In its 2025 Budget Review, National Treasury noted that revenue collected from savings withdrawals benefits surpassed its initial estimate of R5 billion for 2024/2025. The tax collected as at the end of February 2025 amounted to R11.6 billion. In a media statement released by SARS on 31 January 2025, the SARS Commissioner expressed his concern that 213 654 taxpayers have been identified who understated their taxable income with a view to having a more favourable tax rate applied to their savings withdrawal benefits. "If a taxpayer understates their income, they are intentionally involved in evading their tax obligation," the Commissioner said. He added that "taxpayers should refrain from this unbecoming conduct that borders on criminality". This begs the question, what is tax evasion?

Distinction between tax avoidance and tax evasion

In simple terms, tax avoidance can be described as a situation where the taxpayer arranged their affairs in such a legal manner that they have either reduced their income or have no income on which tax is payable. However, this will only be acceptable if there is nothing in tax legislation that prevents the specific avoidance or the reduction in the final tax liability. The best pronouncement in this regard can be found in the case of *Duke of Westminster v IRC* (1936) AC 1 where the court stated that:

"Every man is entitled if he can to order his affairs so, that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow-taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax."

By contrast, tax evasion refers to activities deliberately undertaken by a taxpayer to escape a tax burden – for example, making incorrect statements in income tax returns, such as not disclosing all income or inflating expenditure claimed as a deduction, and sham or disguised transactions.

Requirements for making a savings withdrawal

Members who want to take a savings withdrawal benefit, have to be registered for tax. Since contributions to retirement funds are not taxed, tax is deducted from the amount withdrawn at the rate applicable to the specific member (their marginal tax rate). Depending on the member's income this rate can vary between 18% and 45%. In addition, the member should not have any outstanding tax returns. An unpaid tax debt will not prevent a member from making a withdrawal, but the debt will first be deducted from the savings withdrawal benefit before any payout can be made.

Determining the final tax rate to be applied to the savings withdrawal benefit requires the fund administrator to apply for a tax directive from SARS, indicating to the fund how much tax to deduct from the withdrawal. According to the SARS Guide, where the reason for the directive is a savings withdrawal benefit, a nil amount will be accepted. Although no explanation was provided for this, it can be inferred that the intention may have been to cater for members who did not have any employment income during the tax year at the time of applying for a savings withdrawal benefit or, for example, members who were in receipt of a disability income only. Disability income is tax exempt, but if the member was in receipt of say rental income in addition to the disability income, the rental income should have been declared to determine the taxpayer's taxable income and the rate to be applied.

Most members making a withdrawal would have been in employment and, as a result, they should have declared their remuneration on the directive application. Failing to declare such remuneration may lead to tax penalties imposed by SARS on assessment, potentially causing financial hardship for the employee.

Tax evasion in the context of savings withdrawal benefits

Members who have been identified as underreporting their annual remuneration would have received a letter from SARS notifying them of this. In terms of the Tax Administration Act, underreporting of income *inter alia* means any prejudice to SARS or the fiscus as a result of submitting false information to SARS – including any statement made to SARS or in a document submitted to SARS that is not true. Underreporting of a taxpayer's remuneration on the tax directive application falls within this category and may therefore be punishable. If committed with the intention of obtaining a tax benefit, this behaviour will be seen as tax evasion. Members will then have to explain to SARS why an understatement penalty should not be levied.

Conclusion

When applying for a savings withdrawal benefit, members of retirement funds must make sure that the directive application is completed accurately and truthfully, as any misrepresentation may be deemed as tax evasion even if their actions were unintentional. A lack of tax knowledge is not a defence. Members should take note that when submitting the directive application they acknowledge that the information provided to SARS is true and correct in every respect. Any false information causing prejudice to SARS may result in the imposition of understatement penalties potentially leading to further financial hardship for the member.



Workplace burnout and financial stress - a holistic approach to employee health and retirement well-being

Mbali Khumalo, Managing Director, Simeka Health

Contributed by Simeka Health / This article was first published in Sanlam Benchmark Insights 2025

Workplace burnout and financial stress have emerged as critical challenges in organisations, affecting employees' well-being, engagement, and long-term retirement security. This paper explores the interrelated nature of chronic conditions caused by these stresses and their long-term impacts and offers a holistic framework to enhance overall employee health and retirement well-being.

Burnout trends

Sanlam Corporate Wellness 2024/2025 data shows that burnout is primarily driven by personal stressors such as stress, anxiety, partner/spouse issues, and bereavement, as well as workplace challenges. High workloads, combined with presenteeism and work dissatisfaction, leave employees with little opportunity to rest and recover. This excessive workload makes them feel as if they have no control, leading to mental disengagement, growing negativity and cynicism, which ultimately intensify exhaustion and erode the joy of

working. Burnt-out employees reported a range of negative outcomes, including diminished creativity and innovation, increased errors due to reduced attention, and heightened conflict and cynicism in interpersonal interactions. They also experienced lower productivity, suffered from poor physical and mental health, faced disruptions in personal and family life, encountered financial strain from inadequate support, and often neglected their own personal needs.

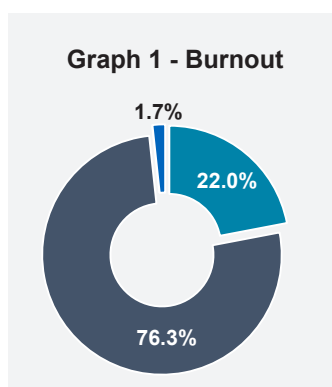
Financial stress as a compounding factor

Financial stress amplifies workplace dissatisfaction and overall well-being issues. It contributes to mental health decline, fuelling anxiety, depression, and sleep disorders – triggering physical ailments such as hypertension and heart disease. Moreover, it reduces productivity by diverting focus from work and heightening absenteeism, which exacerbates retirement insecurity by undermining financial planning and savings.

Sanlam Corporate Wellness data analysis reveal a stark contrast between burnout and financial stress

According to **Graph 1**, 98% of burnout issues have a severe-to-significant impact on productivity, affecting individual well-being, as well as team performance and overall organisational success.

In contrast, **Graph 2** illustrates that 91% of financial issues are rated as having only a moderate-to-negligible impact on productivity. However, financial stress still led to significant personal challenges. These included low self-esteem, despair, insomnia, depression, anxiety, relationship difficulties, social withdrawal, various medical concerns, and unhealthy coping mechanisms, such as high alcohol consumption.

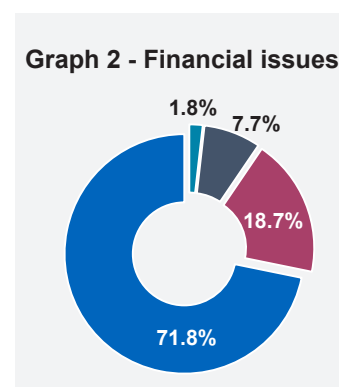


● Severe

● Significant

● Moderate

● Negligible/Proactive



Thriving at work defined as growing, developing, and feeling energised, depends on removing obstacles that hinder meeting basic needs. Financial problems, particularly debt, adversely impact mental health by fostering anxiety, depression, and reduced resilience, especially when employees face constant pressure from collectors. Moreover, the burden of debt can make accessing mental healthcare more challenging, leading to untreated disorders. Although managing debt is difficult, seeking both emotional and financial support can improve one’s mental state and lower the risk of suicidal thoughts.

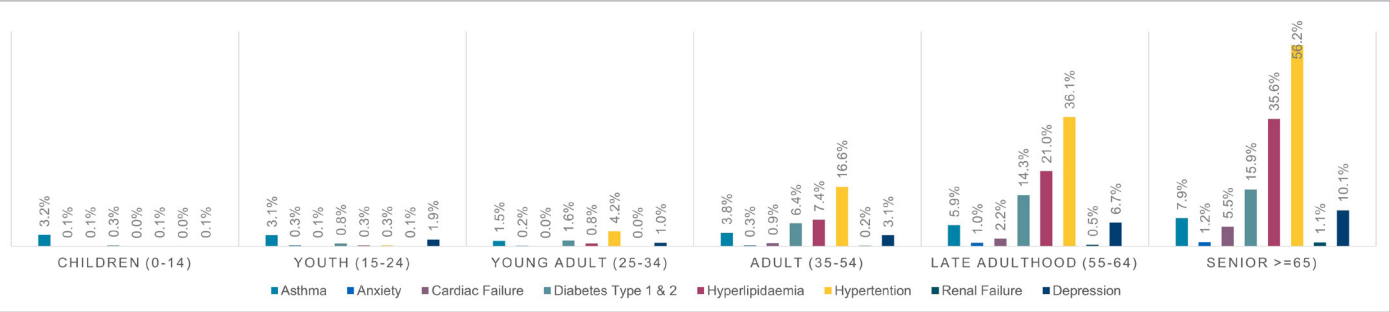
The intersection of burnout and financial stress

When workplace burnout combines with financial stress, the impact on employee well-being is severe. This dual strain makes employees feel trapped in unsustainable work environments, depleting their energy to combat burnout. Consequently, organisations face increased turnover, lower employee engagement, and accelerated deterioration

in physical and mental health, all of which drive up costs and reduce overall productivity. Chronic workplace burnout and financial stress can lead to a range of both mental and physical health conditions. Some of the key chronic conditions and issues that have been linked to these stresses include mental health disorder, cardiovascular diseases, metabolic issues, musculoskeletal disorders and immune system dysfunction.

Medscheme’s Medical Scheme data analysis to investigate the potential impact of burnout and financial stress on the population, highlights that the age group 35-54 has the largest increase in chronic prevalence, and in the age group 65 and over, 3 out of 4 individuals have a chronic disease. **Graph 3** indicates that although hypertension is most common in individuals over 65, many cases begin during the key working years (ages 25-34 and 35-54). This suggests that workplace burnout and financial stress may significantly contribute to the development of hypertension over the course of one’s career. For chronic individuals between the ages of 55 and 64, 50% of this population have had a chronic condition for longer than five years.

Graph 3: Chronic profile (Registered - Prevalence)



What is more interesting is that during the work-life stage, 31% have had a chronic condition for longer than five years. Post-Covid observations indicate that stroke admissions have risen notably in the 20-34 and 35-54 age groups, likely due to the compounded effects of the Covid-19 aftermath, workplace, and financial stress. Among main members aged 20-34, there was a substantial spike in stroke events post-Covid-19, with only a slight decrease in 2023 and 2024, suggesting sustained stress impacts even in populations without traditional chronic conditions. Meanwhile, the 35-54 age group has experienced consistent growth in stroke rates, with a 5.1% increase in 2024, emphasising that stroke events can act as catalysts for developing chronic conditions.

A holistic approach: Strategies for enhancing employee health and retirement well-being

A holistic approach to bolstering employee health and retirement well-being requires tackling both the symptoms and root causes of stress and burnout. This strategy involves financial wellness initiatives, mental health and stress management, organisational culture and systemic change and integration of health and financial benefits. Together, these measures create a supportive environment that addresses both immediate needs and long-term well-being.

Implications for retirement well-being

Workplace burnout and financial stress keep the body in constant “fight or flight” mode, exposing it to prolonged levels of stress hormones that damage various bodily systems over time. This not only reduces quality of life but also undermines long-term retirement well-being. Addressing these issues is essential for both immediate health improvements and for preventing chronic conditions in the future.

Organisations that invest in comprehensive wellness strategies demonstrate a commitment to the long-term prosperity of their workforce, which is crucial for attracting and retaining top talent. A holistic approach integrating mental health support, physical well-being strategies, and financial literacy can mitigate these risks. Such a strategy not only boosts current employee health, but also encourages proactive retirement planning, helping employees save and maintain the health needed for a productive post-retirement life. In doing so, both employees and organisations stand to benefit from a more engaged, resilient, and financially secure workforce. By addressing these issues in unison, organisations can create a supportive work environment that not only mitigates present challenges but also fosters long-term well-being and retirement readiness.