

IDENTIFYING, PARTNERING AND GROWING WORLD-CLASS ASSET MANAGERS

RMI Investment Managers (RMI IM) first launched its affiliate business model in 2015, the first of its kind in South Africa. Through this distinctive model, the firm acts as a non-interfering, patient and long-term shareholder that provides financial, strategic, operational and distribution support to boutique investment managers, so they can focus on what's really important – protecting and growing client money.

This fresh approach was implemented as a means of challenging South Africa's highly concentrated asset management industry by growing the next tier of successful managers, but also as a way to ensure the longevity of early-stage asset managers. RMI IM has observed that an alarming percentage of new investment management firms in South Africa typically failed within five years. A combination of a lack of shareholder support, poor business models, misaligned staff incentivisation, inadequate differentiation and unsatisfactory investment performance were listed as the top five reasons for failure.

A non-interfering shareholder

RMI IM's business model centres on addressing the first four aspects to help independent investment managers succeed, while the last is left entirely up to the investment managers themselves.

"We don't seek to influence investment philosophy or performance; this falls entirely within the skill set of the managers themselves, and we believe that's where their focus should be," says CEO Alida de Swardt. "We want our affiliates to maintain their independence in terms of their investment decision-making and process; where we add real value is by offering business support on the strategic, distribution and operational side. We want to help shoulder the burden of running the business, so the managers have more time to dedicate to managing money for their clients."

Identify, partner, grow

RMI IM's purpose is to identify, partner and grow world-class asset managers. From the affiliate model's launch in 2015 until the end of 2017, the team were primarily focused on the 'identify' phase – looking for the best investment talent in South Africa to include as part of their portfolio of affiliate managers. As 2018 drew to a close, the portfolio was largely in place with 12 managers and combined assets under management in excess of R153bn across various investment styles and asset classes, including active, passive, traditional and alternative investments.

“WE ARE NOW VERY MUCH IN THE ‘PARTNER’ AND ‘GROW’ PHASES OF OUR BUSINESS MODEL

ASSET CLASS	RMI INVESTMENT MANAGERS						ROYAL					
	CoreShares	Granate	Northstar	Perpetua	Polar Star	Sentio	Tantalum	Truffle	Ethos	Balondoloi	Sesfikile	Visio
SA Equity	●		●	●	●	●	●	●	●	●		●
SA Cash	●	●								●		
SA Bonds	●	●	●				●			●		
SA Credit	●	●						●				
SA Multi-Asset	●		●	●		●	●	●		●		●
SA Listed Property	●							●			●	
Hedge Funds	●				●	●	●	●				●
Other Alternatives (e.g. Private Equity)				●					●			
Global	●		●	●	●						●	
Shar'ah						●						●
● Passive ● Active ● Alternatives ● Capability												

"We are now very much in the 'partner' and 'grow' phases of our business model, although we are still able to consider new opportunities that will complement our existing portfolio," says de Swardt. "To articulate the exact areas where we can have a meaningful impact on our affiliates' businesses, we have created a shareholder value map. This includes six strategic focus areas where our team is able to assist with the successful growth of our affiliates, depending on their particular life stage and requirements." The six areas include strategic support, asset raising, thought leadership, marketing, digital transformation and operational support.

How RMI IM adds value as a shareholder

De Swardt likens the value map to a menu that enables the affiliates to pick and choose as and when they need support, specific skills and/or insights with different business aspects and challenges. She emphasises that the shareholder value map is not a prescriptive model; rather, it is a partnership-based approach that enables the individual affiliates to benefit from the RMI IM team's expertise as and when required.

"We understand that each business is unique; different cultures, different ambitions and different strengths and weaknesses," she says. "So a one-size-fits-all approach, where we dictate how an affiliate should be running their business, is never going to work. Instead, we work together with our affiliates to fully understand their growth ambitions and how we can play our part in assisting them achieve their goals."

Specialist support

De Swardt explains, "Given RMI's well-established and credible entrepreneurial brand, we are able to offer our affiliates comprehensive strategic assistance across a number of business areas including, among others, financial support, board representation and assisting with succession planning and talent management."

As most of the affiliates in the stable are either early- or mid-stage managers, portfolio executives Zamazulu Molai and Anthony Moore, together with associate Takalani Mashau, provide strategic advice and support to assist affiliates to increase their probability of successfully raising assets.

"We offer strategic advisory support to assist the affiliates in achieving retail readiness, as well as coverage support

where we facilitate direct retail client engagements and open doors to new relationships," says Molai.

"Our partnership with Momentum, which has a long and successful distribution track record, especially in the retail market, along with our own efforts, provides additional support to our affiliates' own distribution capabilities," says Moore.

Patently building a trusted and well-recognised brand is paramount to the long-term success and sustainability of investment management firms. "In the asset management industry, branding was once considered a topic reserved mainly for large mutual fund providers, but that perspective has changed dramatically since the global

financial crisis and today, branding is emerging as a top priority for asset managers," say Paige Robertson, Head of Marketing. "We offer our affiliates strategic brand advice and support assisting with the refinement of value propositions and key differentiators, as well as advice on implementing design and digital best practice."

The RMI IM team also ensures that affiliates have access to relevant, quality thought leadership and analysis on important industry issues in a world dominated by content overload. "Our thought leadership is centred around helping our affiliates stay on top of industry trends by providing access to insightful and

thought-provoking content, whether that's boutique industry studies, client surveys or our Leading Insights events," says Moore.

RMI IM recognises the need to stay digitally relevant against a competitive backdrop of disruptive technological capabilities. "We provide support for our affiliates' digital transformation and innovation plans, and introduce them to technological, platform and joint venture opportunities," says Andre Rousseau, Chief Operating Officer. "We are able to assist affiliates to find economies of scale and cost

efficiencies and give advice on operating models," he adds. Rousseau mentions further that RMI IM also provides compliance, risk and regulatory support, assists in generating finance and management accounts, and helps with service provider research and selection.

The proof is in the pudding

By offering access to this comprehensive set of strategic business support services, the RMI IM team believes it can help increase the affiliates' probability of success. Although still in the early years of the business model, the team is encouraged by the continued strengthening of the investment and operational capabilities across the affiliates.

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Anthony Moore and Zamazulu Molai, Portfolio Executives



* Equity stake held by Royal Investment Managers
** Equity stake held but RMI Investment Managers and Royal Investment Managers



Alida de Swardt, CEO



In addition, many of the managers across the main categories (equities, fixed income, listed property, offshore and balanced funds) were able to post top-quartile investment performance and attract new assets under management during 2018, despite very tough market conditions.

Patience is a virtue

Building enduring investment management businesses is a long-term endeavour that requires patience, humility and stamina. Looking ahead, de Swardt believes that RMI IM's patience and long-term outlook will stand the team in good stead to navigate what is likely to be another tough few years.

"Our partnership model was truly put to the test in 2018 during what was a trying year for everyone in the market," she says. "However, we are patient providers of long-term capital and business support and

while we don't expect the investment backdrop to get any easier in the next few years, we are confident in our ability to stay the course and continue backing management teams that we truly believe have what it takes to succeed."

Transforming asset management in South Africa

Importantly, there is still investor appetite to allocate assets to boutique managers and the success of the RMI IM affiliate portfolio is testament to this. The association with a trusted brand like the Rand Merchant group, together with the RMI IM team's business acumen and strategic insight, will go a long way to helping independent South African investment managers access and

benefit from this demand.

"Our goal is to transform the asset management landscape in South Africa by providing a full suite of business support services to boutique managers without interfering with or unduly influencing them in any way," says de Swardt. "Our portfolio represents a world-class collection of businesses with the potential to become top-tier investment managers in South Africa." It's no secret that the South African market is sorely lacking proper choice in managers, given the high concentration of assets in the hands of the larger managers. RMI IM's ambition is to challenge this status quo, and the success they've enjoyed thus far in doing so bodes well

for a much more even playing field, which will undoubtedly be highly beneficial for the industry as a whole.

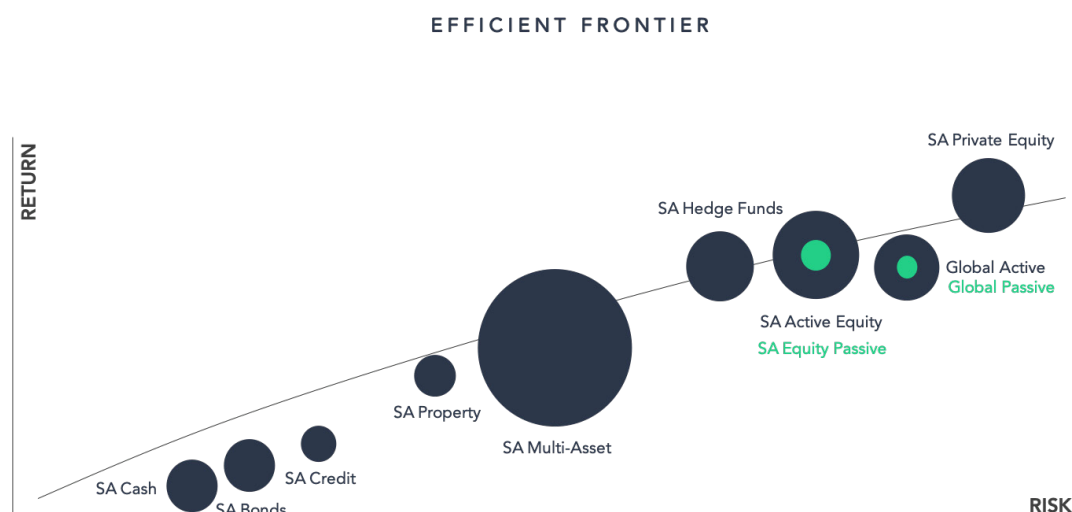
WE ASSIST AFFILIATES FIND ECONOMIES OF SCALE AND COST EFFICIENCIES



Andre Rousseau,
Chief
Operating
Officer



Paige Robertson,
Head of
Marketing



* Note: Size of bubble represents estimated revenue pool in each category for SA asset management industry.

There was a time when investment management was about more than just business.

We pride ourselves in bringing back these values by investing in and partnering with South Africa's best investment talent.

IDENTIFY. PARTNER. GROW.

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