



Chapter 2

COLLECTIVE INVESTMENT MANAGERS

Overview To understand how the collective investment schemes industry operates it is important to understand what a Manager does and how it operates.

In this section The following topics are covered in this section:-

	Topic	See Page
2.1	The structure of a Manager	2
2.2	Departments of a Manager	5
2.3	Workflow of a Manager	11



The Structure of a Manager

Overview This section focuses on the basic structure of a Manager. Obviously not all collective investment scheme managers are structured, as in this section, however the model used will provide one with the most common Manager profile.

Learning outcomes By the end of this section the learner must be able to:

- Illustrate the basic structure of a Manager.
 - Identify the various departments within a Manager.
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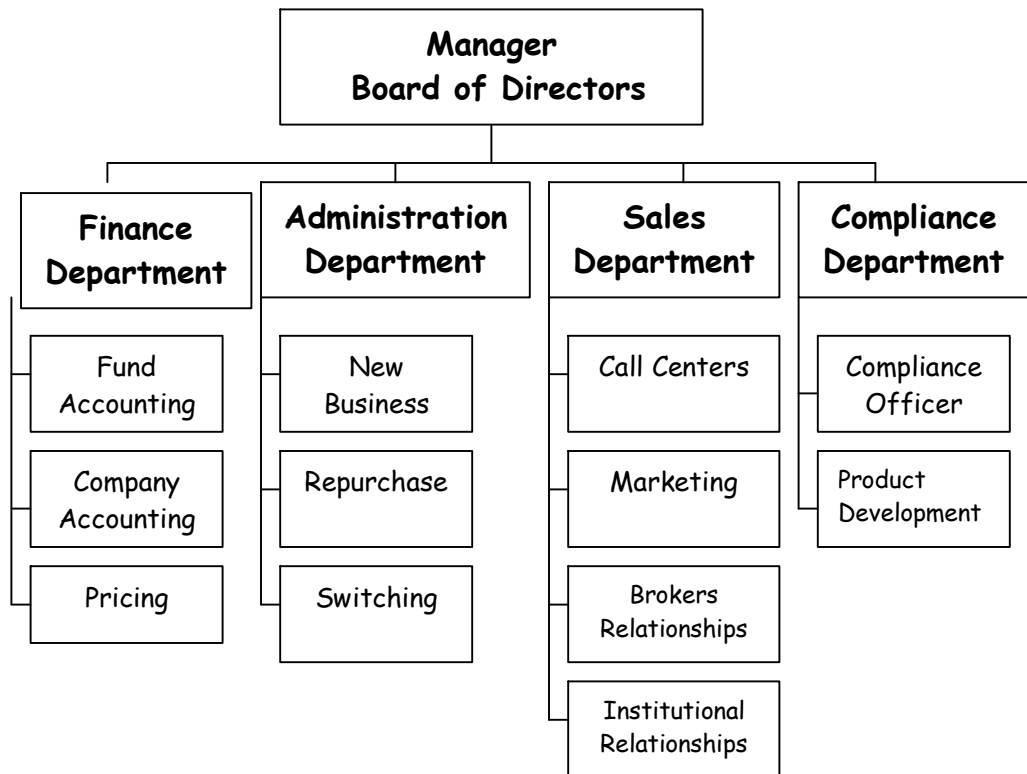
Assessment criteria By the end of this section the learner must be able to:

- An organogram is used to illustrate the structure of a specific CIS Manager.
 - The various departments with its role players is illustrated graphically
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The Structure of a Manager

Background Many collective investment companies are either a business unit or part of a company where the core business is either banking or insurance. There are a few independent collective investment scheme managers although this is not the norm. The structure of a Manager will differ depending on the size of a Manager and the type of core business that it is affiliated to





2.2 Departments of a Manager

Manager Board of Directors The board of directors of a Manager manages and runs the Manager. Normally each director on a board is in charge and responsible for a certain area of the business. It is at this forum where strategic business objectives are discussed.

Finance Department The finance department is responsible for all the financial issues in a Collective Investment Scheme Manager. Normally it is structured into three areas:-

- Fund accounting;
- Company accounting and;
- Pricing.

Fund Accounting Each collective investments fund has a set of accounts that have to be maintained. The fund accounting department is responsible for the maintenance of the various fund accounts. In general each fund has a capital account and an income account. The **capital account** shows the following details:-

- The value of the fund at the start of the period;
- The amount of cash received on the issue or creation of new units;
- The amount of cash paid out on the buying back of units and the cancellation of units;
- The increase/decrease in value of the fund;
- Any charges and expenses charged to capital;
- A statement of profits and losses for the period;
- Information about dealing commissions incurred and;
- The value of the fund at the end of the period.



Fund Accounting
(continue)

The **income account** shows the following details:-

- The total income from the assets of the scheme;
- The total of any other income e.g. underwriter fees;
- Charges paid to the manager for its services;
- The audit fees;
- The amount of cash paid out when dividends are paid;
- Total amount of tax deducted before distribution to unitholders;
- Any balance brought forward from the last period and;
- Any balance carried forward to the next period.

Company Accounting

The company accounting department is responsible for the general accounting function of the Manager. Basically this department administers the books for the company such as paying debtors and creditors.

Pricing

The pricing department is responsible for the:-

- valuation of the Collective investments Companies various fund portfolios;
- calculation, accrual and distribution of daily income earned on financial instruments in a fund portfolio and;
- calculation of daily unit prices.

Administration Department

The administration department is responsible for all the administration issues in a Collective investments Manager. This area is also known as Operations. Normally it is structured into three areas:-

- New business;
- Repurchases and;
- Non standard transactions.



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- New Business** This department is responsible for administration of all the new business that comes to the Manager. The basic function of this department is:-
- To receive applications for purchasing of collective investments;
 - To capture the applications onto the company system;
 - To process the application i.e. open an account for the investor; process the payment, etc.

Some collective investments companies have two separate sections in the new business area, one for new offshore investments and one for new local investments. The two areas have similar functions but are governed by different legislation. For example someone who works in the offshore new business needs to know about Exchange Control Rulings and blocked rands. Whereas someone who worked in the new local business area would not have to know this.

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- Repurchases** This department is responsible for administration of all repurchases (the buying back of units from unitholders) business that comes to the Manager. The basic function of this department is:-
- Receiving and verifying of unitholder's repurchase request;
 - Capturing the details of the repurchase request on the Company system;
 - Processing the unitholder's repurchase request i.e. calculating the value of the repurchase; crediting the unitholder's bank account, etc.
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Non standard transactions This department is responsible for the administration of all non standard collective investments transactions such as switches, transfers, changes to deceased estates, register cessions and general problem solving.

Sales Department The sales department of a Manager is the area of the business that is responsible for the promotion and attaching of new business. This function takes place in various areas to accommodate for the various target market preferences such as:-

- Call centre;
- Marketing;
- Broker Relationships and;
- Institutional Relationships.

Call Centre The call centre department usually serves two purposes:-

1. **Client relations** meaning it assist existing unitholder with queries such as statements; balances; unit prices; information about fund performance, etc.
2. **Product marketing** meaning it when required, promotes the various funds of the Manager and shares product knowledge with potential investors.



Marketing

The Marketing department of a Manager is the department responsible for creating an awareness of the company's collective investments funds and attracting new business. Marketing collective investments is quite similar to marketing any product except there is legislation that controls what Collective investments Companies are permitted to advertise. For example, all collective investments marketing material needs to have a health warning. The Marketing department of a Manager develops adverts for various mediums, produces sales aids for brokers/financial advisors, drafts editorials, etc.

Broker Relationships

Most Collective investments either employ their own brokers/financial advisors or use independent brokers/financial advisors to sell their products. The department that is responsible for broker relationships has various functions:-

- Training brokers/financial advisors on new products;
 - Providing brokers/financial advisors with sales support like distribution of brochures, application forms, etc;
 - Organising events for brokers/financial advisors to attract clients like golf days;
 - Getting answers from fund managers for the brokers/financial advisors and;
 - Assisting brokers/financial advisors with their client queries.
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Institutional Relationships

The institutional relationship department is responsible for developing good relationships with institutional investors such as Wrap fund Managers, Linked Investment Service Providers (LISPs) and Fund of Fund Managers. This type of customer is well informed about the market and invests a lot of money in collective investments. Therefore this type of customer requires a different type of service to a normal unit holder or broker. Most of the institutional customers are very knowledgeable about the markets and require extensive fund information. These customers also bring in the most business for Collective Investments Companies so this department has to ensure that they do not lose the client's business.

Compliance Department

The Collective Investments industry has various Acts that need to be adhered to by Collective Investments Companies. Normally a compliance officer is appointed who has a legal and technical background of the business. A compliance officer is responsible for ensuring that the Manager manages its funds in accordance to the fund mandates, the pricing of unit prices, interpretation of new legislation and any other compliance issues.

New Product Development

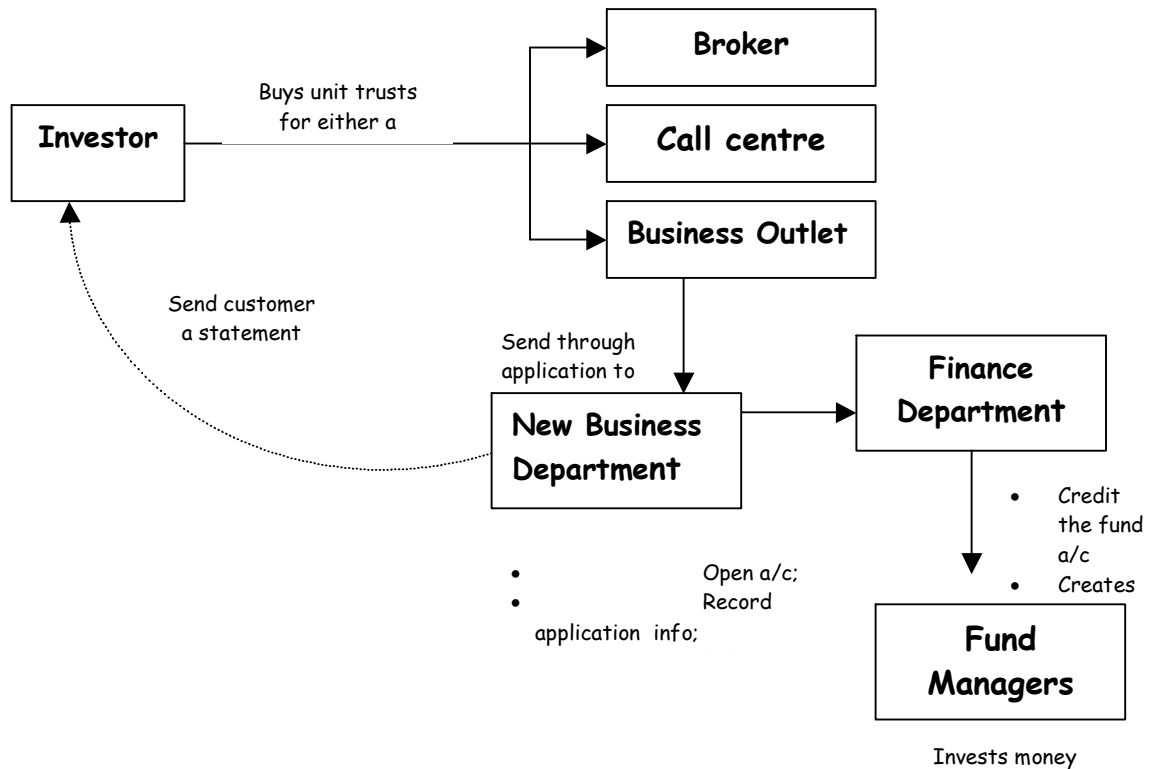
In some collective investments companies there are compliance officers and actuaries whose main purpose is to interpret legislation and examine market trends to propose ideas for new products.



2.3 Workflow in a Manager

Overview This section focuses on the workflow within a Manager. This is a basic overview and does not focus on each department workflow, instead it concentrates on the broad workflow of the Manager, fund managers and trustees.

Flow of work within a manager





ACTIVITY SHEET 10



If the company you work for is a *Collective investments Manager*, find out what the companies organogram looks like and illustrate its different departments.

OR

If you do not work for a collective investments manager, interview an employee from a collective investments company and find out what their company organogram looks like and illustrate its different departments.



CRITICAL CROSS FIELD AND DEVELOPMENTAL OUTCOMES

1. **Identify and solve problems** - learners can analyse information on the structure of a manager and do graphical illustration
2. **Demonstrate an understanding of the world as a set of related systems by recognising that problem-solving contexts do not exist in isolation** - learners must know the workflow of a manager and the importance of each division in this productive chain, and that, at the end of the day SCI staff must work as a team to make this business a success.