FAIRTREE Atleha-edu

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ASISA FOUNDATION

SHORT ARTICLE SERIES

Our purpose at Atleha-edu is to help ordinary South Africans save and invest for a better tomorrow.

We do this through Financial Sector Code (FSC)-compliant awareness and interactive education programmes focused on retirement fund trustee, management committee member; and fund member awareness and education initiatives, such as this short article.

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HOW CHANGES TO REGULATION 28 HAVE CREATED AN ALTERNATIVE FOCUS

National Treasury has finalised amendments to Regulation 28 of the Pension Funds Act to, among other things, encourage infrastructure investment by retirement funds. In light of these changes, Atleha-edu has partnered with Fairtree Asset Management and the ASISA Foundation to take an in-depth look at the implications, as well as the opportunities presented by alternative assets.

> "The changes in Regulation 28 signal an increased focus on real assets - in other words physical assets, such as real estate, energy and infrastructure."

Why is Regulation 28 of the Pension Funds Act in place?
Regulation 28 protects retirement fund member savings by limiting the extent to which funds may invest in a particular asset or in particular asset classes, and prevents excessive concentration risk.

What has changed?
In February 2021, National Treasury published draft amendments to Regulation 28 of the Pension Funds Act. After receiving public comment, the second draft amendments were published in November 2021.

These amendments, which widen the scope of investment for retirement funds, will come into effect on 3 January 2023.

While there are several changes to Regulation 28, some of the key points of interest are around infrastructure, offshore investment, and private equity.

- Ultimately, the amendments are aimed at making it easier for retirement funds to invest in **infrastructure**. The definition of this asset class has been expanded, as well as the overall investment limit. **Retirement funds can now invest 45% in respect of domestic exposure (previously 35%) and an additional limit of 10% in respect of the rest of Africa.**
- **Offshore exposure** limits have also increased. This change already took effect in February 2022. The offshore limit of 30% was increased to 35%, with a further 10% in the rest of Africa (the 10% limit on Africa has not changed). **Retirement funds used to be limited to a maximum of 30% offshore exposure, which has now been increased to 45%.**
- **Private equity, hedge funds and other assets** have been delinked. **The investment limit in private equity has been increased from 10% to 15%.** Hedge funds and other assets remain unchanged at 10% and 2.5%, respectively.

While these new prudential limits widen the scope of potential investments for retirement funds, the final decision on any investment remains with the trustees of each fund, who determine the investment policy for any fund.

From Wall Street to Main Street
The changes in Regulation 28 signal an increased focus on real assets – in other words physical assets, such as real estate, energy and infrastructure.

In the South African context, ramping up investment in infrastructure is paramount to boosting our economy. The energy crisis we are facing in particular provides opportunities for renewable energy, for example. Furthermore, the increase in the exposure limit to private equity also opens up opportunities in **private markets** (see block) – where investors can get access to alternative investments that not only provide better potential returns, but that can also unlock economic potential.

> **Public vs. private markets**
> The key difference between public and private markets is that public markets are financial markets where stocks and bonds are traded on public exchanges, while private markets are financial markets where investments are not traded on public exchanges.

Globally, this shift from Wall Street (public markets) to Main Street (private markets) is already taking place.

Given this backdrop and the increased focus on real assets that has been brought about by the Regulation 28 amendments, we are producing educational content under the theme "From Wall Street to Main Street". The aim of this theme is to take an in-depth look at alternative asset classes, such as private equity and soft commodities, for example.

How can these assets diversify a portfolio and realise returns? Should retirement funds necessarily be increasing exposure simply because the new prudential limits allow for it? What are the opportunities that this type of investment presents for South Africa's economy?
These are some of the themes we will be unpacking in this Fairtree-funded educational series.

What you can expect:

- **Full-length education publication** focusing on alternative assets
- **Infographics focusing** on **soft commoditiesand private equity**
- Animated **video series**
- **Short article series,** including translations and audio recordings

> **Learning bits**
> You can access our infographics on these two assets classes on our website, or by clicking on the image below.

References
National Treasury. Available at: https://tinyurl.com/v2dtw5ma

To learn more about Atleha-edu NPC and our CFE funders and partners, please download our info brochure here.
Do you have a question that you would like us to address in a subsequent article?
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