



The journey

momentum
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Update on Prescribed Assets for Retirement Funds

Introduction

Following the release of the ANC policy paper “Reconstruction, Growth and Transformation: Building a New, Inclusive Economy” on 10 July 2020 in which there is the suggestion that an amendment to Regulation 28 could lead to greater investment in infrastructure, speculation has arisen about the real intention of the amendment. As a reminder, Regulation 28 of the Pension Funds Act places limits on the various asset classes that funds may invest in and sets out what funds could be required to invest in.

Due to questions from the market following the release of the paper, the ANC has responded as follows:

- At a webinar arranged by the ANC aligned Progressive Business Forum on 17 August, the ANC’s economic policy chief, Enoch Godongwana, stated that the ANC was moving to create an environment where trustees could invest in infrastructure projects as long as these projects were profitable. He dismissed the claim that pension fund assets would be used to bail out SOEs or fund a state bank.
- Deputy Finance David Masondo, responding to questions in the National Assembly on 26 August 2020, stated that there was no intention from Government to oblige pension funds to invest in certain assets and that amendments to Regulation 28 were purely to broaden the scope of investments fund trustees could consider. He further stated that trustees had a fiduciary duty to their members.

What is the problem being solved?

The economic consequences of the COVID 19 lockdown have been dire on South Africa. It is particularly essential that projects delivering job creation are found to restart our economy. Investment in our ailing infrastructure creates jobs and the ongoing utilisation of the development creates a revenue stream that can deliver investors a reasonable return for the risk taken.

The investment industry has maintained that there has never been a lack of demand for these projects, but rather the supply of bankable projects to be delivered on time and within budget. Over the last few years, much has been done to remedy the situation and to achieve a better understanding between investors and the government.

One of the stumbling blocks to greater investment in these infrastructure projects has been the maximum limits set in Regulation 28 which resulted in them receiving less focus. The Association of Savings and Investment in South Africa (ASISA) has proposed amendments to alleviate this.

As a result, in the latter part of July 2020, National Treasury, via the Institute of Retirement Funds Africa (IRFA), requested feedback on how Regulation 28 could be amended to better accommodate infrastructure investments. At present, Regulation 28 has an in aggregate restriction of 15% to hedge funds, private equity funds and any other asset not specifically referred to elsewhere in the schedule. National Treasury stated that no policy decisions had been made and that once the scoping paper had been published would there be a formal request for comment from the industry.

It is important to note that the discussion makes no mention of a minimum allocation to any investment class, which would imply prescription, and which would force funds to invest in certain prescribed asset classes.

What role is Momentum playing in representing its clients in this matter?

Momentum remains integrally involved in these discussions and representing the views that protect the interests of our clients while also fulfilling the role of an active and responsible citizen.

- We believe that properly managed infrastructure projects deliver both an improved society and a reasonable market return to investors.
- We continue to be opposed to prescription as this could discourage the appropriate governance surrounding projects and deliver sub-optimal returns.
- We choose to lobby as a collective, in industry bodies such as ASISA and the IRFA where we are engaging with the policymaker and regulator, expressing our opinions according to what we believe to be in the best interests of our clients and broader society.
- Our Group's asset manager, Momentum Investments, continues to invest in real assets, and in a responsible manner. It is also a signatory to the United Nations Principle for Responsible Investment (UNPRI), a supporter of Code for Responsible Investing in South Africa (CRISA), ensures sound governance within their investments, and plays an active role in ensuring the sustainability of the environment.

What must you as an Advisory Body member or Trustee of a retirement fund do?

Importantly, remain invested. A knee jerk reaction may well be to your detriment. In addition, keep making your contributions to your fund. Retirement funds are generally the most cost-effective vehicle for saving for your retirement and it is often difficult to remain disciplined in saving for retirement outside of a formal savings vehicle.

We will keep you updated of any developments in the retirement funding industry, but should you have any additional questions, please feel free to contact your consultant.

Rob Southey
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