

UNDERSTANDING REGULATION 28



What is Regulation 28?

Regulation 28 is issued under the *Pension Funds Act* (the Act) and gives effect to Section 36(1) (bB) of the Act. It aims to set limits on the extent that retirement funds can be invested across different categories of asset classes such as equities and offshore assets. It applies to pension, provident and retirement annuity funds, and limits the maximum exposure to asset classes that pose inherent risk in fund selection.



What is its purpose?

Its main purpose is to ensure that the savings that South Africans contribute towards their retirement are invested sensibly and are not overly exposed to risky assets. Regulation 28 protects against the potential consequences of sub-optimal risk-return investment portfolios to ensure a sufficient income at retirement for investors. It plays a fundamental role in the protection of assets by imposing restrictions on the allocation of assets. However, it also plays a vital role in the diversification of assets in that it allows for more investment options within asset classes to be utilised, such as alternative investments.

In an ever-evolving investment environment, Regulation 28 will, as observed in the past, continue to adapt and evolve in tandem. As a result, discussions relating to it will remain a key topic for some time to come.



Regulation 28: An evolving guidance framework

Regulation 28 was first introduced in 1962. From then, the industry had to wait more than a decade for its first review, which took place. Since then, it has undergone several changes that have led to the version we have today. While clear in its stipulation of broad asset limits and actions institutions were prohibited from, the previous version of Regulation 28 was largely silent on what could be done. In other words, the regulation lacked a framework which would effectively guide investment strategy.

The continuous review process sought to remedy this by providing overarching principles such as asset-liability matching, improved trustee education, black economic empowerment, sustainable investing, due diligence, and the management of foreign exposure risk, themes which have grown both in coverage as well as implementation across the investment industry.

In addition, the regulation has also seen several tweaks to asset limits that are outlined in the table below:

Asset class	Original limits	Revised limits (2020)
Equity	Listed shares on an exchange (75%) Unlisted shares (10%)	Introduced per issuer sublimits based on share market capitalisation* . Large (15%), Medium (10%), Small (5%)
Property	25%	Introduced a clear distinction between listed (25%) and unlisted property (15%). Similar to equity, sublimits based on market capitalisation now apply to listed property.
Debt	SA government bonds (100%) Foreign government bonds limited by exchange controls Other debt (25%)	Category significantly expanded with the introduction of limits to debt issued by listed and unlisted South African banks, listed and unlisted quasi government entities as well as listed and unlisted corporate debt.
Cash	100%	Revised definition for cash to only include assets that are very short dated (have less than a 7-day maturity). Removed the 5% limit for cash held in a margin account.
Offshore	15%, with the actual imposed limit being 20% applied by the register of retirement funds on an application basis.	Increase in overall allocation limit to 30%, in line with foreign investment limits set out by the South African reserve bank (SARB).
Africa	5%, applied by the register of retirement funds on an application basis.	Increase in overall limit to 10%, to reflect existing foreign investment limits imposed by the SARB.
Hedge funds Private equity Other alternative assets	2.5% per asset	Increased limits for both hedge funds and private equity (10%). Combined exposure for hedge funds, private equity and other alternative assets (15%).
Commodities	10% - limit only applied to Kruger rands.	Expanded the category to include exchange-traded commodities.

Definition:

*Share market capitalisation or share market cap for short is the product of both a company's total issued shares and its share price.

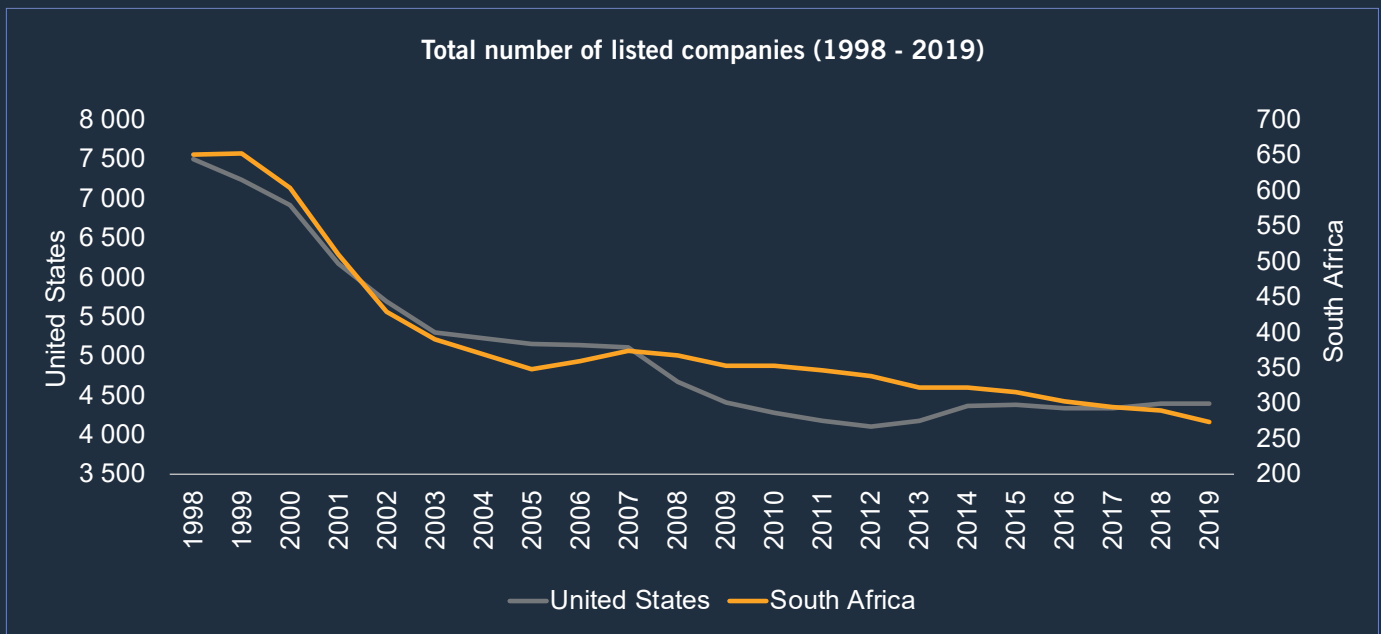


Our commitment

Investment regulations are not new and as they evolve over the years their mission remains the same: to protect investors, their assets and their income. They are aimed at protecting your financial well-being, like we do.

Our investment approach and philosophy is aimed at providing consistent returns over the long term for investors. We believe that success is measured by how well we are able to meet the investment goals of our clients.. However, this has become a challenge in an environment that has seen its investable universe shrink considerably over time.

Chart 1 – A shrinking universe



Source: Alexander Forbes Investments

This is why we believe that the incorporation of hedge funds and private market assets in our solutions not only demonstrates our commitment to ensuring that clients reach meaningful investment outcomes but also highlights our role in contributing to Regulation 28's broader objective, which is achieving economic growth and development through the effective channelling of investment funds.

For more information on how Regulation 28 may impact you and your investment, please speak to your financial adviser.

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