Today's Trustee

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HOW SOUTH AFRICANS SAVE & INVEST

Retirement funds and investment

FINANCIAL SYSTEM OVERVIEW

Introduction to Regulation 28 and asset classes

CPD credits
Test your knowledge

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EDUCATIONAL SUPPLEMENT

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Investment Fundamentals 1

INTRODUCING TODAY'S TRUSTEE EDUCATIONAL SUPPLEMENTS

We're proud to present the second volume of the Today's Trustee quarterly education supplement, particularly because this is the first supplement to go out in print to the full *Today's Trustee* readership base. Our first volume explored [Governance & Ethics for Retirement Fund Trustees](https://www.totrust.co.za/otherpublications) and is available electronically via the TT website (https://www.totrust.co.za/otherpublications/)

What does this supplement offer trustees and fund members?

Other than investments in tangible assets like a house, jewellery and livestock, most people prefer to entrust their hard-earned savings to financial intermediaries, such as retirement funds, who invest on their behalf. By doing so, investors aim to generate returns that will allow them to maintain their living standard at retirement – and to realise everyone's desire for a comfortable retirement.

This supplement is the first in a two-part 'Investment Fundamentals' series, the objective being to assist trustees and fund members in understanding the foundational concepts of retirement savings and investment. Topics covered in this supplement include the role retirement funds play in the financial system and how regulation, specifically Regulation 28, is used to guide sound investment decision-making. It also looks at different asset classes available to South African retirement funds. Part two of this series will expand on each of the asset classes and the various role-players in the investment industry.

We invite trustees and fund members to let us know what other retirement related topics they would like covered in these quarterly supplements. Please send suggestions to education@totrust.co.za.

Lastly, please don't forget to complete the CPD 'test your knowledge' questions at the end of the supplement. If you return the completed CPD quiz to education@totrust.co.za you'll qualify for 2 Batseta CPD points.

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HOW DO SOUTH AFRICANS SAVE AND INVEST?

IN BRIEF:

According to Trading Economics research, at the start of 2019, the ratio of household savings to disposable income in South Africa stood at 0.15%. Against the backdrop of South Africa's savings culture, this article seeks to illustrate the importance of education around *saving for retirement* – and indeed also *preserving retirement fund savings* when changing jobs.

The context

It's widely accepted by economists and policymakers that a high savings rate is critical for any country to meet its growth and development objectives. For South Africa, with its high levels of unemployment and inequality, the topic of savings and investment should remain a national priority.

Ideally, retirement savings are intended to provide individuals with the financial means to continue their lives after retirement with a reasonable standard of living, while not becoming a burden to the fiscus and/or their family. As longevity increases, such savings become more important to help prevent pensioners from outliving their retirement savings and from becoming a burden on the state (by drawing the SASSA Old Age Pension grant), or by having to depend on their families.

South Africa's poor savings culture

Data from the *Investec GIBS Savings Index* shows that South Africa's savings levels are at their lowest level since 1990 and have declined for eight years in a row[1]. Although the *2018 Schroders Global Investor Study* has indicated that the trend globally has been that there is an increasing gap between retirement expectations and the financial realities of life post retirement, the survey found that this issue is particularly dire for South Africans[2]. Among G20 countries, South Africa ranks lowest in the household savings rate. At the start of 2019, the ratio of household savings to disposable income was at 0.15%[3].

A road to (un)comfortable retirement

Comfortable retirement is generally accepted as when a pensioner retires on approximately 70% of their pre-retirement salary. At present, only 6% of South Africa's population is on track to retire comfortably, according to National Treasury[4]. A survey by 10X Investments found that around 41% of economically active (individuals with a monthly income of R7 600 or more) South Africans are estimated not to have any formal retirement plan in place. Furthermore, the survey estimates that more than 40% of economically active women, across all demographics, have no investments or savings in any form[5].

Various research studies have indicated that the poor savings culture of the average South African citizen is a complex issue, linked to cultural, behavioural, and economic issues[6].

Why savings and investment are important to retirement fund members:

1. Savings and investments provide individuals with financial security and independence as they retire from work – or find themselves unemployed due to disability, retrenchment etc.;
2. Savings can reduce the burden of care on government and society (taxpayers), especially considering that people are increasingly living longer;
3. Savings and investment by ordinary workers play a crucial role in the economy. As such, long-term savings can fuel economic growth;
4. Regular saving and investing throughout an individual's working life contributes to wealth creation, which in turn can contribute to a more prosperous and equal society;
5. Retirement fund savings are, in the overwhelming majority of cases, the only form of savings for working South Africans.

Making provision for Inflation

The 10X Investments survey reports that a lack of understanding about key financial concepts, such as the need for retirement savings to keep up with inflation, has in part contributed to South Africa's current retirement crisis[7]. **Inflation is a measure of how fast the prices of goods and services are rising[8].**

If your retirement income – whether you buy a guaranteed* or living annuity[9] or draw from investments – does not grow in line with inflation, you will either experience a decline in your living standard or your money will be insufficient to last into retirement.

This highlights the importance of careful planning around one's investment and savings strategy for retirement[10]. Consequently, simply putting money aside for retirement without due consideration for inflation risk is insufficient. If you, for example, place your long-term savings – such as savings intended for later use in retirement – in a traditional bank account in an inflationary environment, your money is actually shrinking. The consequence is that in your future retirement years – when this money will be most needed – it will be able to buy less than it would today.

** A guaranteed annuity secures you a pre-determined income for the rest of your life. There are different types of guaranteed annuities.*

How South Africans save and invest for retirement?
There are a number of different savings and investment vehicles available for savings and investments[10] , all of which serve a unique purpose:

1. **Short-term deposits:** Investments are made into an interest-bearing deposit account at banks or other financial institutions. Although the minimum investment amounts vary from institution to institution, entry level savings and investment amounts are quite low in comparison to other forms of investing. There is also generally speaking less investment risk (being loss of capital) to the investor when compared to investing in equities or shares for example.

2. **Unit Trusts:** Unit trusts, or collective investment schemes, are a unitised portfolio of investments which are managed by a fund manager according to a specific investment mandate detailing the objectives of the portfolio. Unit trusts / collective investment schemes allow the retail investor access to various asset classes with varying levels of risk and investment term. A unit trust investor can invest via a monthly debit order or a lump sum deposit, following which the unit trust management company buys underlying asset classes such as shares, bonds or property[11] .

3. **Retirement / Pension fund:** A member employee and their employer pay monthly contributions during the employee's working life. At retirement, the money invested (including the income earned on it) allows the member to purchase an annuity (also called a pension) from a life insurer which will pay them for the remainder of their life (if a guaranteed annuity) in monthly or quarterly instalments, or until the funds are depleted (if a living annuity). It may also pay an annuity to the surviving spouse or child, if applicable. The law allows a member who is about to retire to, take up to one third of the capital value of their pension savings at retirement in the form of a lump sum, with the remaining balance to be used to purchase an annuity as described earlier. This lump sum will be taxed if it exceeds R500,000.

4. **Provident Fund:** A member employee and their employer pay monthly contributions during the employee's working life. Upon retirement, however, the law permits a member of a provident fund to access a lump sum benefit of all their retirement savings capital (instead of purchasing an annuity). This lump sum will be taxed if it exceeds R500,000.

5. **Retirement Annuity Fund:** This is a retirement fund usually used by members who are typically not employed by an employer and to which a member may make a single or several contributions during their working life. Like a pension fund, it allows the member to elect to take up to one third of the capital value of their pension savings at retirement as a lump sum, with the balance used to purchase an annuity. This lump sum will be taxed if it exceeds R500,000.

6. **Preservation Fund:** This is a fund to which a 'contribution' is transferred by a member from their existing retirement savings, after leaving their place of employment due to resignation or termination of employment. These retirement savings are then invested by the preservation fund for the member until they reach retirement age (any date after the member reaches

Defined Benefit vs Defined Contribution:

Important to note is that the calculation of the final pension benefit a fund member will receive upon retirement will be determined, to a large extent, by whether the retirement fund they contributed to was a defined benefit fund or a defined contribution fund.

Defined benefit fund: Provides a guaranteed pension benefit on retirement which is calculated based on the member's final average salary multiplied by the years of their fund membership as an employee. The rate at which the employed member contributes to the fund is usually fixed as a percentage of their remuneration. The employer's rate of contributions is usually calculated by the fund's valuator who works out the rate at which the employer will need to contribute to the fund to enable the fund to pay the member their guaranteed pension benefit after retirement. The employer carries the investment risk of the fund having to guarantee the member's pension after retirement.

Defined contribution fund: Provides a pension benefit on retirement which is calculated based on the accumulated contributions made to the fund by the member (and/or, if applicable, the member's employer). The returns earned on the investment of those contributions, less deductions of the costs of running the fund and providing for death and disability benefits, are added to the pension benefit. The rates at which the member and employer contribute to the fund are fixed or defined as a percentage of the member's remuneration. Importantly, the amount of the member's pension is not guaranteed, but is rather determined by the contributions made by member and employer, combined with the fund's investment performance. This means that the member carries the risks and rewards of their final pension amount.

Continues on pg.4

55 years of age) in the same way as a pension or provident fund although the rules may allow a member to make one withdrawal (which they will pay tax on if it exceeds R500,000) from their retirement savings before they reach retirement age.

7. **Beneficiary fund:** Should a member of a retirement fund die and there is no parent or guardian to look after the financial interests of the member's minor children, their fund can make a distribution of that deceased member's pension savings into a beneficiary fund which will invest those savings and pay for the child's education, healthcare, clothing and household expenses until they reach the age of 18. Any remaining funds will then be paid out to the child.

THIS TOPIC IS COVERED IN TODAY'S TRUSTEE **MAGAZINE:**

1. https://www.totrust.co.za/volume-1/pension-provident-retirement-annuity-beneficiary-preservation-funds/
2. https://www.totrust.co.za/article/savings-edition-june-august-2017/
3. https://www.totrust.co.za/article/first-word-editorials-edition-march-may-2017/

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RETIREMENT FUNDS AND INVESTMENT

IN BRIEF:

If managed correctly, retirement fund investing is not only beneficial for investors, but will contribute to the local economy as well. This article provides a high-level overview of some of the key elements in the retirement fund investment process that help facilitate these outcomes.

Retirement funds and financial markets

Well-performing financial markets have the potential to generate and stimulate economic growth and development. Where surplus capital – like that of long-term savings in a retirement fund investment portfolio – is invested prudently into appropriate asset classes, it can have the added benefit of earning investment returns for retirement fund members and pensioners (to pay pensions) while also developing the local economy (the latter being achieved through job creation, improved infrastructure, social well-being etc.).

The purpose of investment

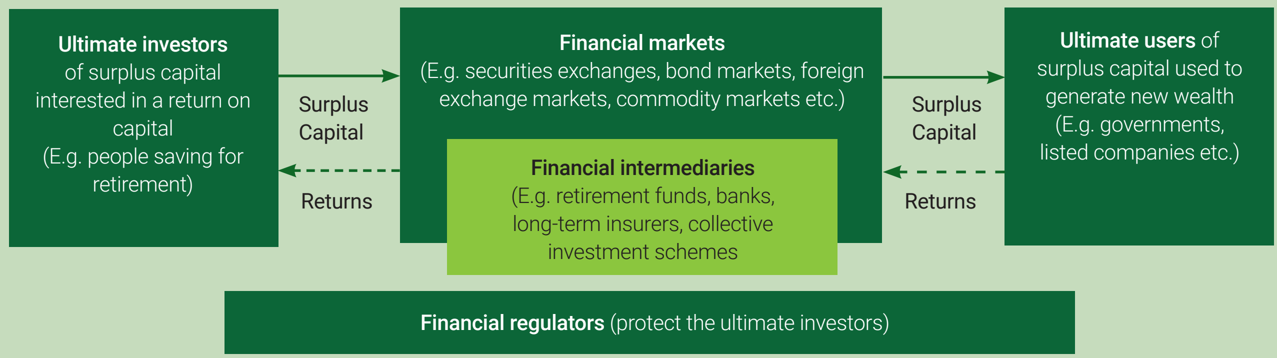
The financial system's purpose is to allocate capital from those entities where investment capital is in surplus (such as investors and savers), to those in deficit – or where investment capital is needed for growth (such as lenders/beneficiaries of investor capital) – who in turn make use of the investor capital productively to earn appropriate returns for investors.

Financial markets therefore facilitate access to investment opportunities that can optimise an investor's expected returns over a period of time with consideration of the investor's appetite for risking their invested capital.

The examples below illustrate:

1. **Earning better returns:** An asset manager sets up an investment fund that invests in a selection of companies. The asset manager aims to generate higher returns than the benchmark returns offered in the market. To achieve this, the fund might take on more risk.

A simplified overview of financial markets



2. **Protecting against losses:** An asset manager sets up a fund that diversifies risk by investing in less risky assets classes, such as money markets and government bonds, in addition to equity shares in companies. In this case, if the shares in the companies are not producing the expected returns, or are making losses, the investor's capital and returns should, to an extent, be protected from potential losses on higher-risk investments such as equity. This would be as a result of more predictable (less risky) returns available via fixed returns on government bonds and money markets. Essentially, the investor does not "have all their eggs in one basket". Less risky investment portfolios such as these are generally expected to yield lower returns.

Regulating retirement fund investment

South Africa's National Treasury has opted through Regulation 28 of the Pension Funds Act to limit the maximum percentage exposure which a retirement fund may invest in a specific asset class. The aim is to reduce the risk of over-concentrating a retirement fund's investment portfolio into either a single asset class or any single investment.

Regulation 28, which acts in conjunction with the South African Reserve Bank's (SARB's) exchange control regulations, limits the amount of retirement fund capital available to be invested outside of South Africa. Regulation 28 was first introduced in 2011, and is amended as necessary so that its regulatory objectives keep pace with market developments in South Africa and internationally. The most recent update to Regulation 28 took place in February 2018, based on the SARB's Exchange Control Circular No. 7/2018, enabling retirement funds to invest internationally up to the revised limit of 30% in respect of foreign portfolio investments, and an additional 10% in respect of foreign portfolio investments in Africa.

***See the the link on the www.totrust.co.za website for more information on prudential limits per Regulation 28.**

Understanding liability driven investment

Regulation 28 requires that a retirement fund board must at all times apply a number of key principles, including:

"Ensure that the fund's assets are appropriate for its liabilities."
-Principle 2(c)(iv)

Traditionally, liability driven investing (LDI) has been used for managing the risks of defined benefit pension funds or insurance company obligations, which have liability obligations that they have to meet. The institution's actuaries or accountants will place a value on this liability (a statutory obligation), which will change due to fluctuating factors like interest rates or inflation, for example. Even if the obligations in rand terms are known in advance, the value placed on these liabilities can be extremely volatile.

The primary goal of any corporate defined benefit retirement fund is to be able to pay all current and future pensions to their members when they fall due (pension liabilities), and to provide annual pension increases in line with the needs of their pensioners – typically linked to inflation. These are the promises a fund makes to its members.

In the case of a corporate defined benefit fund, the employer carries the financial burden of having to pay any shortfall in assets relative to these promises; and the extent to which the employer is willing and able to meet the shortfall becomes important when considering a liability driven investment approach. For this reason, a close matching of assets to liabilities has become increasingly important. This is especially important in today's environment of volatile markets and unpredictable returns, where pension portfolios are exposed to inflation and interest-rate risk, which could push them into hard-to-manage deficits. If a fund's investment portfolio experiences disappointing returns, pensioners generally receive reduced or no pension increases. In addition, if there are deficits, the sponsoring company (which carries the risk) will have to make up the deficit in the fund.

Given its focus on both assets and liabilities, LDI is an essential investment tool for trustees. Importantly, it helps pension funds meet the pension promises made to its pensioners. A properly executed LDI strategy will play a significant role in enabling a fund to manage its risks better; more confidently meet its long-term goals; and, ultimately, keep its promises to its members and pensioners.

THIS TOPIC IS COVERED IN TODAY'S TRUSTEE MAGAZINE:

1. **https://www.totrust.co.za/volume-1/why-do-retirement-funds-exist/**
2. **https://www.totrust.co.za/article/investment-strategy-editorials-edition-april-june-2016/**
3. **https://www.totrust.co.za/article/riscura-expert-opinions-edition-april-june-2019**

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2. National Treasury, [Online]: http://www.treasury.gov.za/publications/other/Reg28/
3. FSCA, [Online]: https://www.fsca.co.za/Regulated%20Entities/Pages/UI-Retirement-Fund.aspx

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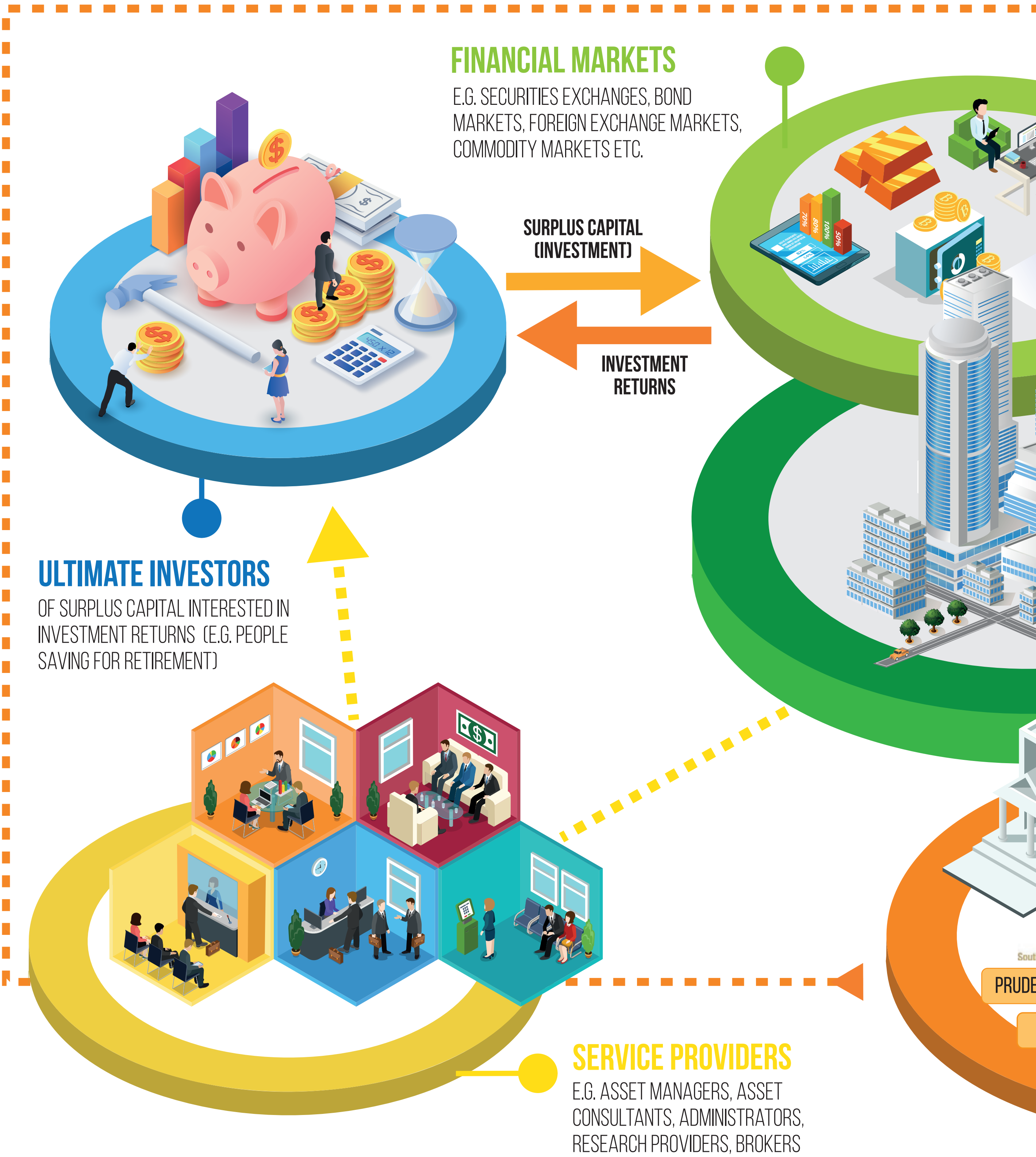
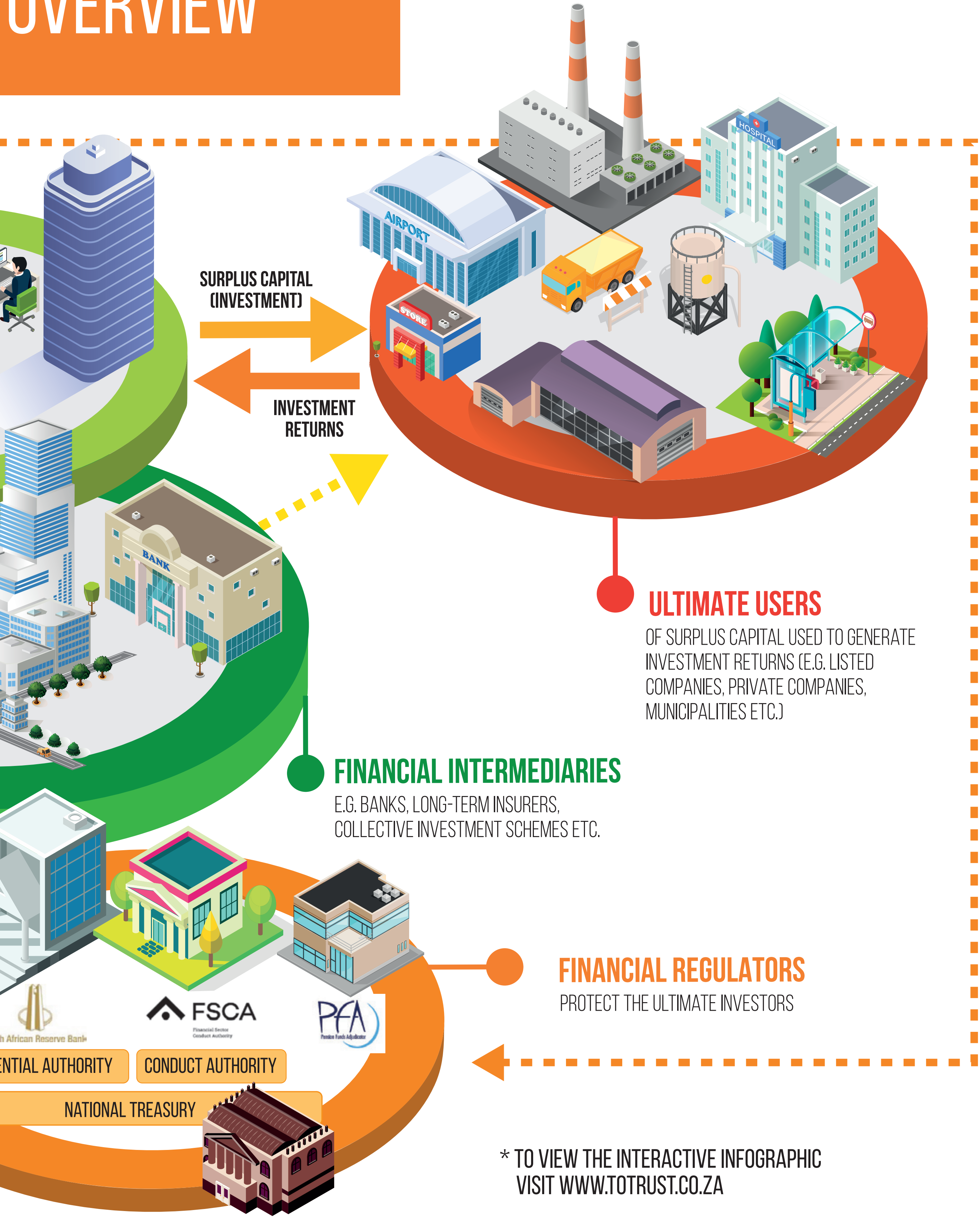


OVERVIEW



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INTRODUCTION TO REGULATION 28

IN BRIEF:

This article looks at the purpose of Regulation 28 of the Pension Funds Act, as well as its Principles.

Why the need for investment regulation?

The aim of retirement fund investment regulation is to ensure that the savings South Africans contribute towards their retirement is invested in a prudent manner that not only protects the retirement fund member, but is channelled in ways to achieve economic development and growth.

To achieve this, rules governing retirement fund investment should allow for inflation-beating capital growth for younger members and inflation-matching income for older and retired members. This can be reflected through the right mix of low risk-return "safe" assets with higher risk-return innovative products. The rules should likewise strike a balance between regulatory paternalism and empowering those entrusted with the management of retirement fund assets to do due diligence and make decisions of what investments are most appropriate for their fund's particular liability and liquidity profile.

Fiduciary duties and the importance of the Investment Policy Statement

An important consideration is the level of expertise on boards of trustees and their ability not only to make investment decisions, but also to delegate certain tasks (but never their ultimate responsibility) to advisers like asset managers, asset consultants and risk consultants. To the extent that trustees are inadequately informed of investment and liquidity requirements, governance, and risk management, the regulation provides strong direction through rules rather than guiding principles.

Regulation 28 is both rules-based and principles-based

Regulation 28 is primarily rules-based. However, principles were also introduced to strengthen the investment decision-making processes and improve the transparency and accountability by retirement funds to a retirement fund's members and the Registrar of Pension Funds at the FSCA (Financial Sector Conduct Authority). In effect, these principles – as captured through an Investment Policy Statement (IPS) – should inform a fund's investment approach related to the aspects identified in the regulation.

Regulation 28 principles include:

- Promoting relevant trustee education;
- Monitoring compliance by the fund and its agents;
- Ensuring asset/liability matching by the fund;
- Performing appropriate due diligence on investments, making sure not to rely wholly on credit rating agencies for assessing credit risk;
- Taking into account the long-term sustainability of investments, in particular considering the impact of environmental, social and governance (ESG) aspects;
- The IPS should also contain other details relevant to investment policy, including, for example, asset mix and rate-of-return calculations.

A fund may only invest in assets specified in the regulation and within the issuer and aggregate limits defined. Provision is, however, made for involuntary breaches that fall beyond the control of the board, brought about for example by market movements or corporate actions.

Investing in the best interests of the fund and its members

In making investment decisions, a retirement fund should be guided first and foremost by what is best for the fund and its members, and should

invest accordingly; indeed, what is enabled through the Regulation 28 limits may not be in the best interest of each and every fund or member. On the other hand, asset limits imposed should not prevent a fund from achieving its optimal investment allocation. Where funds begin to meet limits and think it prudent to exceed them, in such instances the board should engage the registrar on possible exemption. The National Treasury has in some instances taken a more conservative view on the limits in Regulation 28 with the idea that these can (and should where appropriate) be tested by market participants in the future.

Regulation 28 compliance at both fund and member level
Mindful that individual member protection is as important as ensuring the sustainability of the fund as a whole, retirement products should be compliant not only at a fund level, but also at member level. Significantly tighter limits apply to unregulated and unlisted products, relative to those that are regulated and/or listed. In addition to the category and issuer limits that are identified, overarching limits are applied to unlisted and alternative assets.

The regulation does not prescribe what assets a fund should be invested in as this would counter the principles guiding the fund to act in its best interests. Instead, as explained, the regulation requires a fund to explicitly consider its approach to ESG issues (with respect to its investments) and transformation (with respect to services provided to a fund). Moreover, economic development is more strongly supported by increased flexibility afforded to investment into private equity funds and public debt.

Regulation 28 Principles

2 (a) A fund must all at times comply with the limits as set out in this regulation.
b) A fund must have an investment policy statement which must be reviewed at least annually.
c) A fund and its board must at all times apply the following principles:
(i) promote the education of the board with respect to pension fund investment, governance and other related matters;
(ii) monitor compliance with this regulation by its advisers and service providers;
(iii) in contracting services to the fund or its board, consider the need to promote broad-based black economic empowerment of those providing services;
(iv) ensure that the fund's assets are appropriate for its liabilities;
(v) before making a contractual commitment to invest in a third-party managed asset or investing in an asset, perform reasonable due diligence taking into account risks relevant to the investment, including but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange;
(vi) in addition to (v), before making a contractual commitment to invest in a third party managed foreign asset or investing in a foreign asset, perform reasonable due diligence taking into account risks relevant to a foreign asset including but not limited to currency and country risks;
(vii) in performing the due diligence referred to in (v) and (vi), a fund may take credit ratings into account, but such credit ratings should not be relied upon in isolation for risk assessment or analysis of an asset, should not be to the exclusion of a fund's own due diligence, and the use of such credit ratings shall in no way relieve a fund of its obligation to comply with all the principles set out in paragraph 2(c);
(viii) understand the changing risk profile of assets of the fund over time, taking into account comprehensive risk analysis, including but not limited to credit, market, liquidity and operational risk, and currency, geographic and sovereign risk of foreign assets; and
(ix) before making an investment and while invested in an asset consider any factor which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an environmental, social and governance character.
(d) With the appointment of third parties to perform functions which are required to be performed in order to comply with the principles in (c) above, the fund retains the responsibility for compliance with such principles.

INTRODUCING ASSET CLASSES PER REGULATION 28

Preamble to Regulation 28

"A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach deploying capital into markets that will earn adequate risk-adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment."

The preamble highlights the fiduciary responsibility of a retirement fund's board to invest members' savings in a way that promotes the long-term sustainability of the asset values when taking into account environmental, social and governance (ESG) issues. Read together with the principles, the preamble serves as a guide to trustees to consider what investment strategy would be appropriate for the specific nature and obligations of their fund. Recognition is given to the fact that an overly conservative investment strategy (dominated for example by cash and non-inflation linked bonds) can be as damaging to long-term savings as one that is overly exposed to perceived risky assets.

The following asset classes form the building blocks for creating a retirement fund's diversified investment portfolio, with each asset class having distinct risk and return expectations. The Principles contained in Regulation 28 are to be applied by the board of a fund before it makes any new investment or change to its investment portfolio.

The typical assets classes available for investment by retirement funds:

1. ***Cash, which includes:***
   - Notes and coins;
     Any balance or deposit in an account held with a South African bank;
   - A money market instrument issued by a South African bank, including an Islamic liquidity management financial instrument;
   - Any positive net balance in a margin account with an exchange; and
   - Any positive net balance in a settlement account with an exchange, operated for the buying and selling of assets.

2. ***Debt instruments (including Islamic debt instruments), which include:***
   - Debt instruments issued by or guaranteed by the Republic;
   - Debt instruments issued by a foreign country;
   - Debt instruments issued or guaranteed by a South African bank against its balance sheet;
   - Debt instruments listed and not listed on an exchange; and
   - Debt instruments issued or guaranteed by an entity that is listed on an exchange. The investment limits are in accordance with the market capitalisation of the listed entity.

3. ***Equities (South African and foreign), which include:*** preference and ordinary shares in companies, excluding shares in property companies, listed on an exchange. Limits are imposed relative to the market capitalisation of the issuer. There is also a limit on the amount that may be invested in preference shares and ordinary shares not listed on an exchange.

4. ***Immovable property (South African and foreign), which include:*** preference shares, ordinary shares and linked units comprising shares linked to debentures in property companies, or units in a collective investment scheme in property, listed on an exchange. The limits are in line with the market capitalisation of the company.

5. ***Commodities (South African and foreign), which include:*** Kruger Rands and other commodities listed on an exchange, including exchange-traded commodities. Gold exposure can be more than other commodities.

6. ***An investment in the business of a participating employer*** in terms of section 19(4) of the Pension Funds Act.

7. ***Housing loans granted to members*** in accordance with provisions of section 19(5) of the Act.

8. ***Hedge funds, private equity funds.*** There are limits on funds operating in South Africa and in foreign countries. In addition, exposure per fund is limited.

9. ***Other assets not included in this schedule.*** Retirement funds are limited to an exposure of 2.5%.

Typically, fund managers would sub-divide these Regulation 28 defined asset classes further:

- **Cash:** local and foreign; and
- **Equities:** domestic and foreign industrial, domestic and foreign resources, domestic and foreign financials;
- **Bonds:** long bonds, medium-term bonds, short-term bonds, government, parastatal (such as Eskom and Transnet) and commercial paper;
- **Property,** which is invested in sub-groupings whose fundamentals are not driven entirely by the same factors. A distinction is made between retail, industrial and commercial property. Further, a prudent regional spread is sought and concentration risk is avoided.

For each asset class, there would typically be a strategy pertaining to each sub-group such as:

- **Overweight:** a tactical recommendation to hold more of the asset class than specified in the strategic asset allocation.
- **Neutral:** a tactical recommendation to hold the asset class in line with its weight in the strategic asset allocation.
- **Underweight:** a tactical recommendation to hold less of the asset class than specified in the strategic asset allocation.

***Part 2 of this series will explain each asset class in more detail.**

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2. **https://www.totrust.co.za/article/alternative-assets-editorials-edition-december-2015-february-2016/**
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2. FSCA, [Online] Available: https://www.fsca.co.za/Regulated Entities/Pages/UI-Retirement-Fund.aspx

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4. EMPLOYEE BENEFITS

*½ DAY WORKSHOPS - 3 CPD POINTS**

5. ANNUAL FINANCIAL STATEMENT ANALYSIS
6. INVESTMENT POLICY STATEMENT REVIEW
7. SECTION 37C DEATH BENEFITS
8. INVESTMENT MANAGEMENT COSTS & FEES
9. DEFAULT REGULATIONS
10. PRIVATE EQUITY

> “*Brilliant, thank you. I learned so much and would definitely be reading up a bit more to try and further my understanding on investments.*”

> “*The workshop was an eye-opener for understanding the markets. I will be able to make informed contributions as well as informed decisions in the trustee meetings.*”

CONTACT ASISA ACADEMY
David Morris: 021 673 1627
dmorris@asisaacademy.org.za
http://tinyurl.com/asisa-rfte

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Please select the correct answer by marking the correct box below each question.

Example: Which regulator regulates retirement funds in South Africa?

- ☐ Council for Medical Schemes
- ☐ National Treasury
- ☒ Financial Sector Conduct Authority (FSCA)
- ☐ Pension Funds Adjudicator (PFA)

Q1: 1. Which of the statements about the savings culture in South Africa is **NOT** true?

- ☐ South Africa's household savings rate is the worst of the G20 countries.
- ☐ The reasons for South Africans having a poor savings culture are not complicated, we should simply start saving.
- ☐ South Africa's savings levels are at their lowest level since 1990 and have declined for eight years in a row.
- ☐ Comfortable retirement is generally accepted as when a pensioner retires on approximately 70% of their pre-retirement salary.

Q2: Which of the following statements about inflation holds true?

- ☐ Inflation will not have any impact on how much I need to save for retirement.
- ☐ Inflation is a measure of how fast the prices of goods and services are rising.
- ☐ Investors generally don't consider inflation when making investment decisions.
- ☐ None of the above

Q3: Which of the following savings will only see you earn interest on your savings?

- ☐ Bank savings
- ☐ Unit trusts
- ☐ Retirement annuity fund
- ☐ Preservation fund

Q4: The role of the financial regulator in any financial system is primarily to:

- ☐ Protect the ultimate investor of surplus capital
- ☐ Protect the ultimate borrower of capital
- ☐ Ensure the financial market optimises return on investment all the time
- ☐ Ensure that surplus capital is channelled to the best developmental projects in the region

Q5: A liability driven investment (LDI) approach aims to ensure that:

- ☐ Investment returns are maximised
- ☐ Investment risks are minimised
- ☐ A fund's assets cover the fund's liabilities
- ☐ None of the above

Q6: Diversification is a strategy used by asset managers whereby funds are invested into different asset classes (e.g. equity, debt, property) in order to reduce investment risk.

- ☐ True
- ☐ False

Q7: A fund can hold 100% of its assets in the following asset class:

- ☐ Private equity
- ☐ Unlisted property
- ☐ Hedge funds
- ☐ Cash

Q8: Retirement funds may now acquire foreign exposure (invest in offshore assets) up to the revised limit of X% in respect of foreign portfolio investments:

- ☐ 5%
- ☐ 30%
- ☐ 50%
- ☐ 85%

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