

Abbreviations:

- **AUM:** Assets under management
- **CIS:** Collective Investment Scheme
- **NAV:** Net asset value

What are alternative assets?

- An asset that does not fall into the conventional investment categories (shares, bonds and cash)
- Offers investors the opportunity to generate optimal risk-adjusted returns
- Results in either: beating the returns of traditional asset classes, or reducing risk associated with traditional asset classes



Private equity funds

Invest in a small number of unlisted equities for a fixed period – often 10 years.

Closed funds operating as a partnership. Limited partners (LPs) invest with a general partner (GP), who actively manages the fund.

Manager earns:

- Management fee of 1% to 2% on AUM
- Percentage (usually 20%) of overall profit after expenses, fees and hurdle rates

Regulation 28 of the Pension Funds Act currently limits retirement fund investment into PE funds to a maximum of 10% of capital



Hedge funds

Use an array of investment strategies suited for rising and falling market conditions – often investing across various asset classes

Similar to unit trusts using CIS trust arrangements. Have an independent management company that appoints a specialist hedge fund investment manager, who operates under a specified mandate.

Manager earns:

- 1% of AUM
- Performance fees between 15% and 20%
- Incentives if fund exceeds its high-water mark (highest NAV in any prior year)

Regulation 28 of the Pension Funds Act currently limits retirement fund investment into hedge funds to a maximum of 10% of capital



Infrastructure funds

Long-term investments in assets that generally elevate the living standards of a society. Aim to achieve large-scale social and economic impact.

Globally, there are different ways to access infrastructure investments, examples being through direct investment, publicly listed funds, private infrastructure funds or private infrastructure fund of funds. Examples of infrastructure projects can include social projects, transportation projects, communication projects; or energy focused projects.

The size of the infrastructure fund has a clear impact on the management fee charged, with larger funds generally charging less than smaller funds.

- Mean management fee is approximately 2% of AUM for most private equity-style fund strategies
- At 1.5% of AUM, unlisted infrastructure funds have some of the lowest management fees of any private equity-style investment strategy

There is no specific allocation to infrastructure investments as per Regulation 28 of the Pension Funds Act, but retirement funds may have exposure to these types of investments through different asset classes, such as unlisted or listed debt or private equity. Currently, Reg 28 allows retirement funds to allocate 10% of their investment portfolio to private equity investments, for example. **In early 2021 National Treasury announced draft amendments to Reg 28 to encourage investment in infrastructure, which seek to make it easier for retirement funds to invest in infrastructure.**

What are they?

Operational structure

Fee structure

Regulation 28 limits