M&G **Insights**

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Regulation 28 and your investments

Imagine you're saving for retirement and you suddenly see that the value of your savings has fallen 35% overnight because your offshore equity investments (which accounted for 60% of your portfolio) have tanked. Your savings weren't in a retirement-related vehicle, but you thought they were "safe" offshore. As we all know, successfully saving for retirement is a long-term endeavour, so such a drop due to unwise asset allocation can have a devastating impact on your plans. This is a situation that Regulation 28 of the Pensions Fund Act seeks to protect you from.

Put simply, Regulation 28 sets asset allocation limits on investments held in retirement annuities (RAs), pension funds and provident funds. Investment managers managing retirement funds for individual investors and collective corporate pensions alike are restricted in their decisions to allocate to riskier assets, but at the same time they include unlisted and more complex options such as hedge funds, private equity and infrastructure assets. This helps these funds achieve sensible asset allocation for long-term savers and avoid undue risk.

Regulation 28 imposes combined limits on riskier assets such as local and foreign equity, local and foreign property and hedge funds, and a separate overall limit for offshore assets. Unit trusts that comply with these limits are classified as Regulation 28 Compliant, and asset managers must regularly report on their holdings in these retirement funds to remain compliant.

From time to time National Treasury modifies Regulation 28 in response to changes in the investment environment. For example, in July 2022 Treasury announced that it had made further amendments to the regulations, some of which come into effect in early January next year. A significant adjustment also occurred in February this year when the total offshore asset limit was increased from 30% to 45% of a portfolio.

What are the current limits?

The main asset classes covered in Regulation 28 are cash, debt instruments, equities, offshore assets, property, commodities, hedge funds and private equity.

Currently up to 100% of a portfolio can be invested in cash, or in debt instruments issued by or guaranteed by the South African government; otherwise, the limit for debt assets is 75%. The limit for total equities (both foreign and local) in a portfolio is 75%, the property limit is 25%, the commodities limit is 10%, and for hedge funds it is 10%. From 3 January next year, the limit for private equity will be increased to 15%, and another important change will allow investors to include infrastructure investments, up to a maximum of 45%.

Why should you invest in a Regulation 28-compliant unit trust?

You can either invest directly into a Regulation 28-compliant unit trust, or you can do so via a retirement annuity (RA) or a retirement fund such as a pension or provident fund offered by your employer. In fact, if you're currently saving for retirement through any of these vehicles, you may find that you're already invested in a Regulation 28-compliant unit trust fund. This is because rather than investing directly into equity or bond markets, for example, many companies' pension and provident funds invest into a selection of underlying unit trust funds. And by simply investing in Regulation 28-compliant unit trusts, they can ensure that their employees' savings is appropriately invested and stays within the prudential limits. Other, very large companies may opt for a stand-alone (segregated) retirement fund managed uniquely for their staff.

Why is only 75% allowed into equities?

As equities have outperformed all other asset classes over time, limiting retirement funds to a maximum 75% exposure to equities has been criticised, especially by young investors with larger risk appetites and long-term investment horizons. However, the rule was not introduced to simply force investors from one financial strategy into another - it aims to protect a wider spread of shareholders in both bull and bear equity markets.

South African shares can and do take large knocks in the shorter term, and the required thresholds have certainly provided some value protection for individuals nearing retirement age. Global equities also experience significant volatility, so spreading funds across borders and asset classes is a responsible investment strategy and does provide good downside protection for your savings.

Investors in Regulation 28-compliant unit trusts like the M&G Balanced, Inflation Plus and Enhanced Income Funds can be assured of appropriate asset allocation strategies for long-term retirement savings that are actively managed to achieve the best possible risk/return balance over time.

Are you interested in investing towards retirement? Speak to a financial adviser or find out more about our Regulation 28-compliant funds by contacting our Client Services Team on 0860 105 775 or at info@mandg.co.za for more information.

https://www.mandg.co.za/insights/articlesreleases/regulation-28-and-your-investments/