M&G Investments
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Including infrastructure investments in your retirement funds

If you're saving for retirement either through formal pension funds, retirement annuities or via a Regulation 28-compliant unit trust, you should be aware that from 3 January 2023, your funds are now able to invest in infrastructure assets, and will have a higher private equity limit.

Regulation 28 (or Reg 28) of the Pension Funds Act stipulates what investments a retirement fund can invest in, and in what proportions. Its primary function is to protect investors from exposure to risky investments that could lose them money. It 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 Reg 28 Compliant, and asset managers must regularly report on their holdings in these retirement funds to remain compliant.

What are the current limits?

Until now, the main asset classes covered in Regulation 28 have been cash, debt instruments, equities, offshore assets, property, commodities, hedge funds and private equity. 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) is 75%, the property limit is 25%, the commodities limit is 10%, and for hedge funds it is 10%. There is also a limit of 45% across all types of offshore assets (which came into effect in July last year).

As equities have outperformed all other asset classes over time, limiting retirement funds to a maximum 75% exposure to equities has been criticized, especially by younger investors with larger risk appetites and longer 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.

What are the changes?

The biggest change is that retirement funds are now allowed to invest in infrastructure, up to a total limit of 45% across all asset classes. However, any debt issued by or guaranteed by the SA government is excluded. The definition of "infrastructure" is quite broad, including assets with the main objective of developing, constructing, or maintaining physical assets and technology to provide utilities, services, or facilities to the benefit of the economy, business, or the public. It includes private sector developments as well as the more traditional public sector projects.

Another change that came into effect on 3 January was an increase in the limit for private equity exposure from 10% to 15%. Previously, private equity and hedge funds, together with a category called "other excluded assets" were combined with a collective limit of 15%. This collective limit has now fallen away, and the new limits for hedge funds and excluded assets are 10% and 2.5% respectively.

Why is infrastructure exciting?

Investing in infrastructure offers investors income, diversification, and inflation protection, and given its long-term nature is a good match with retirement savings. Traditionally, individual investor access to this asset class has been restricted by its complicated nature – for example, it previously was not listed directly on an exchange. Now the South African government has included it among its permissible investments for the first time, following the development of investment vehicles that now allow safer, easier, and cheaper access for individuals. Rather than investing in only a single

infrastructure project, or a private equity fund focused on infrastructure, investors can now gain exposure through well-regulated unit trusts that invest in listed infrastructure, with all of the flexibility offered by these funds.

Far from being a boring asset class focused on traditional energy, transport, and utility projects, these days listed infrastructure includes health, educational and civic facilities, as well as an array of 'evolving infrastructure' needed for the digital economy. This can include cellphone towers, data centres, satellite infrastructure, and optical networks, among others. Infrastructure assets can offer investors steady, longer-term payment or income streams that typically grow at rates above inflation. These more defensive characteristics are particularly suitable for retirement funds, especially if they are publicly listed, as this makes them much more tradeable and subject to public scrutiny, compared to private equity assets.

Why 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 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 Reg 28 unit trust fund. This is because rather than investing directly into the markets, many retirement funds invest in a selection of underlying unit trusts as a way to ensure their employees' savings is appropriately invested and stays within the prudential limits.

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.

For more information on investing with M&G Investments, feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.

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