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/ ASSET MANAGEMENT

Draft Reg 28 amendments – supportive but some concerns
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National Treasury released its draft amendments to Regulation 28 of the Pension Funds Act on 26 February 2021. The purpose of the proposed amendments is to make it easier for pension funds to invest in infrastructure.

Futuregrowth supports the aim of this initiative and believes it is important to highlight the active role the pension fund industry can play in assisting economic growth through infrastructure investment.

However, we do not agree with three aspects of the draft amendments, which we outline below.

1. **Work towards an all-encompassing definition of infrastructure**
   The draft amendments use the definition for infrastructure set out in the Infrastructure Development Act of 2014. This is very restrictive as it excludes all non-government infrastructure initiatives - and would mean that that no private infrastructure initiatives would be recognised as infrastructure. We therefore believe that the proposed definition is to a degree tantamount to prescription.

   Our proposal
   We have been involved in funding various privately led initiatives over the past two decades, which have ensured tangible returns for both the country and pension funds. Our proposal on the draft definition is therefore that it includes both government and private infrastructure initiatives, and is an adaptation of the ASISA definition.

   Our proposed definition of "infrastructure" is:
   "The basic physical structures and systems (e.g. buildings, roads, power supplies, water supplies and communication networks) for the provision of utilities or services and constructed for public use, benefit or enjoyment. This includes both public and private infrastructure."

2. **Limit of 45% on combined infrastructure investment across all asset classes**
   The draft amendments include an overarching limit of 45% to domestic infrastructure exposure. It is our view that this is too low and could potentially be breached at the onset.

   Our proposal
   We believe that the overall limit should either be increased meaningfully or deleted in its entirety, thereby allowing the individual asset class limits to dictate the level of risk that a pension fund is able to take - without the creation of another limit.

3. **Unnecessary infrastructure sub-limits**
   The draft amendments also propose sub-limits to infrastructure exposure within the existing asset classes defined in Regulation 28.

   We believe there to be no real benefit to be derived from having sub-limits per asset class, as has been suggested. This will likely create confusion and potentially result in onerous reporting requirements for pension funds.

   Our proposal
   It is our view that the underlying risks that National Treasury needs to manage are already well catered for in the existing and well-defined asset class limits of Regulation 28, in terms of

preventing over exposure and ensuring adequate liquidity levels. It is therefore unnecessary to stipulate further sub-limits for infrastructure investment.

The way forward

Some pension funds already make meaningful investments in infrastructure and related investments but are willing to invest further, with some not having invested at all both due to lack of understanding and/or fear.

We are well aware of the infrastructure funding shortfall over the next two decades and pension funds can play a meaningful role in that regard - particularly those that haven't made much investment in this sector. This, however, needs to be done within the constraints of simplified and straight-forward legislation that is not obfuscated and places onerous obligations on pension funds.

We therefore believe that the straight-forward solution to creating meaningful investment in infrastructure is to allow for an all-encompassing definition, and also create some relaxation in terms of the over-arching limits to unlisted assets. We are moving towards a world where JSE listings are declining and don't really offer any meaningful protections - and where alternative assets are deemed suitable replacements for the long-term needs of pension funds.

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