Media Release
Association for Savings and Investment South Africa (ASISA)
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ASISA: Threat of prescription is overstated

The Association for Savings and Investment South Africa (ASISA) has taken note of the most recent attempt by the South African Institute of Race Relations (IRR) to once again draw ASISA members into the prescription debate.

Leon Campher, CEO of ASISA, says this seems to be a deliberate endeavor by the IRR to stir up panic amongst South African investors during a time when calm and rationality is needed more than ever.

Campher points out that in recent months the various social partners of the National Economic Development and Labour Council (Nedlac), namely government, labour, business and community, tabled their economic recovery plans and not a single one mentioned the prescription of assets as a possible solution.

"It needs to be noted that not even the ANC discussion document on economic recovery mentioned prescription of assets as an option that should be considered," says Campher.

He explains that proposals to amend Regulation 28 of the Pension Fund Act to include a separate category for retirement funds to invest in infrastructure assets does not equate to prescription.

Campher describes as disingenuous the most recent accusation by the IRR, sent to a number of ASISA members, that "initial attempts at constructive and frank engagement have been less than satisfactory, raising concerns as to whether financial and corporate entities are taking the matter of asset prescription as government policy seriously".

He points out that ASISA, on behalf of its members, provided the IRR with a comprehensive written response in July last year addressing the same concerns about prescription that are now being raised again.

ASISA response to the IRR on prescription

For the public record, and for the benefit of all concerned South Africans, ASISA would like to summarise the points raised with the IRR on 24 July 2019.

1. While ASISA has repeatedly made it clear that its members are opposed to the prescription of assets, we do not believe that there is an imminent threat of this happening. The fact that we do not believe that there is an imminent threat does not equate to ignorance.

2. It is important to note that asset managers are not the owners of the assets that could be prescribed. The bulk of the assets that could be prescribed are owned by the retirement fund on behalf of its members. It also needs to be noted that roughly half of these assets are held by the Government Employees Pension Fund (GEPF), which is a defined benefit fund. These assets would therefore need to be carefully managed to ensure that there are

sufficient funds to cover liabilities, namely the benefits payable to public servants on retirement.

3. All retirement funds have a board of trustees (50% of the trustees are elected by members). Retirement fund trustees are tasked with making asset allocation decisions that are in the best interest of the members. The trustees in turn consult with asset consultants before appointing asset managers to invest in line with a mandate from the retirement fund. This mandate from the trustees determines the asset classes that a fund can be exposed to, which must comply with Regulation 28 of the Pension Funds Act.

4. ASISA and its members have consistently maintained that prescription would jeopardise this fiduciary duty of retirement fund trustees.

5. ASISA has engaged extensively on the issue of prescribed assets with the appropriate stakeholders in government to create awareness of the risks associated with prescription of assets.

6. Retirement funds have an important role to play in the development of any country through their investments. For this reason, pension funds worldwide invest in real assets. ASISA has always maintained that the problem in South Africa is not the lack of willingness of capital markets to invest, but rather the absence of viable infrastructure projects. Where there have been viable projects, funding has been made available by the private sector. A good example is the Independent Power Producer (IPP) Project, which attracted funding in excess of R200 billion from the private sector.

ASISA's views on Regulation 28

Regulation 28 exists to prevent an undue concentration of assets and illiquid assets from being included in the investment portfolios of retirement funds, thereby placing the long-term investment outcomes for retirement fund members at risk.

Since 2011, Regulation 28 has permitted retirement fund to invest up to 35% of their portfolios in unlisted assets within the following limitations:

- Up to 10% in unlisted equity;
- Up to 25% of debt instruments listed on an exchange by a company without listed equity and 15% if the debt instrument is not listed;
- Up to 10% in private equity; and
- Up to 2.5% in "other" assets.

Campher explains that ASISA is of the view that the above limits do not prevent increased investment in infrastructure. He adds that the following considerations have been raised with National Treasury for further discussion:

- Since investable retirement fund assets belong to members, infrastructure projects must offer a competitive risk adjusted return.
- Since provident funds by their contractual design have a need for more liquid investments, listed and liquid project bonds would make it easier for them to invest in infrastructure.

- Infrastructure projects tend to be unlisted. Direct infrastructure investing is best suited to large defined benefit funds. However, the largest defined benefit retirement funds namely the Government Employees Pension Fund (GEPF), Transnet Pension and Provident Funds, and the Telkom Pension Fund, are not regulated by the Pensions Funds Act and so are not subject to Regulation 28.
- A pipeline of viable infrastructure projects with contractually reliable sources of income must be available, which is currently not the case.

Campher points out that retirement funds are not the only investors in infrastructure projects. He explains that seed funding for infrastructure projects is generally provided by the banks and development finance institutions (DFIs), who take their return and exit once a project is up and running. If the project is viable and attractive, life insurers and other investors come in by buying equity and providing additional loan capital to replace the money provided by the banks.

Developing investable infrastructure projects

Campher says ASISA and its members have always maintained that they are willing to support bankable infrastructure projects. "To this end ASISA has been engaging with various parts of government over the past eight years towards creating an enabling environment for the private sector to assist government in the financing of infrastructure."

He says the formation of the Investment and Infrastructure Office (IIO) in the Presidency (soon to become Infrastructure South Africa), headed by Dr Kgosientsho Ramokgopa, has been able to remove many of the blockages that previously hampered infrastructure investment in South Africa. The first tangible delivery has been the recent gazetting of strategic infrastructure projects worth R340 billion.

Campher says that for the first time infrastructure projects are being coordinated from one central point, which has facilitated a streamlined and efficient process. He adds that ASISA and the banks are working closely with the IIO to help capacitate the office with skills.

In conclusion, Campher reiterates that:

- ASISA and its members remain strongly opposed to prescription.
- ASISA and its members do not believe that the government is considering bringing in prescription of assets.
- Regulation 28 sets investment limits and amendments to these limits do not equate to prescription.
- ASISA is of the view that the current Regulation 28 provisions do not prevent increased investment in infrastructure.
- The problem in South Africa has been the lack of investable infrastructure projects.
- Retirement funds would consider investing in well-structured viable infrastructure projects. This should not be confused with pumping money into State-Owned Enterprises (SOEs).

For a detailed overview of ASISA's views on prescription as well as insights from the Financial Sector Conduct Authority (FSCA), please visit our website.

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.