INVESTING OUTSIDE SOUTH AFRICA
LIMIT CHANGES

In the budget it was announced that South African retirement funds would be permitted to invest more of their assets outside the country.

The changes have been implemented and are already effective.

The limit for offshore investment is raised from 25% to 30% of assets.

The additional allocation to African investments is raised from 5% to 10%.

BACKGROUND

South African retirement funds are constrained to invest in line with asset class allocation limits set out in the Pension Funds Act (contained in Regulation 28 of that Act).

The amount allowed to be invested outside South Africa is decided from time to time by the Reserve Bank. In practice, changes are driven by government policy such as happened in the 2018 budget process.

Over the years there has been a steady increase in the offshore limit and the latest change continues this pattern.

DETAILS

The limit for offshore investment is raised from 25% to 30% of assets, and the additional allocation to African investments increases from 5% to 10% of assets.

The overall asset class limits, such as having no more than 75% in equities or 10% in private equity funds and so on, still apply to each fund's total holdings.

By way of an example, a fund having 65% of its assets in South African equities can only invest a further 10% in offshore equities; although a further 20% of assets could be taken offshore and invested in another asset class.

COMMENT

Your fund's asset managers will be reviewing each portfolio's exposure to offshore and African assets and adjusting portfolio composition accordingly.

The merits of diversification are well-documented, so the ability to invest more offshore is welcomed. This allows portfolios to be exposed to industries and companies that are not available in South Africa, and to economies that are at different stages of the economic cycle.

The fundamental principles of investing still apply, however, and investment managers would be expected to take advantage of the increased limits after considering key issues such as the availability of investment opportunities that complement the targeted risk profile and of course the attractiveness of the price at which they can be bought.

WHAT DOES THIS MEAN FOR YOU?

Actions to be taken by boards of funds:

> *Review your investment mandate to ensure that the permitted offshore component of portfolios is in line with your objectives and risk profile. Amend this if necessary.*
>
> *Keep in touch with your investment managers so you remain informed about what actions they take.*

Your Robson Savage consultant will be glad to provide any further input you might require, and will ensure the matter is raised for discussion at a future board meeting.

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