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## **Regulation 28 changes 'not well communicated'**

By Janice Roberts

**Imminent changes to Regulation 28 of the Pension Funds Act have not been well communicated to individuals, according to Roland Grabe, chief investment officer at Symmetry Multi-Manager, a specialist investment business wholly owned by Old Mutual.**

"Besides pension funds, individual investors also need to be aware of the imminent changes to Regulation 28 because the changes will probably have a significant impact on the way they save and invest," Grabe told a media briefing in Johannesburg on Tuesday.

The main goal of Regulation 28 - the changes to which were set to come into effect from July 1 - was to force diversification by limiting a pension fund's exposure per asset class and issuer, he added.

"The regulation tries to force pension funds to diversify their investments so that these funds can't take a big hit - you don't want a pension fund to drop 20% to 50% in value and so by law they're trying to prevent this.

"You wouldn't think this was necessary but you can take Enron as an example."

Grabe explained that, around the time of Enron's collapse in the US, it was possible for pension funds there to invest most or all of their assets in their own company stock.

"Enron staff had significant exposure - in some cases 100% - to Enron shares and these individuals lost their jobs and retirement savings when Enron collapsed.

"On liquidation, Enron was ordered to set aside \$321 million to fund four pension funds."

Grabe said that Regulation 28 applied to all pension funds except those excluded by law. "The Government Employees Pension Fund, which makes up 1.0 trillion rand, is excluded by law at present, but it is possible that pretty soon it'll be treated like the other pension funds."

While there were many proposed changes, the most important one was that the restrictions on asset-class investing would now be applied down to fund member level, and to private retirement savings vehicles like retirement annuities.

"This means that within a company pension fund, individual members will need to ensure their contributions are invested according to the limits.

"Previously, they could exceed the limits as long as the fund as a whole was compliant, so certain members could, for example, have higher allocations to equity or property where they wished - as long as this was offset by other members holding lower holdings."

Furthermore, individuals would have to make sure their extra savings in new retirement annuities and preservation funds created after July 1 complied.

Previously, an investor using a retirement annuity could put his cash in whatever assets he preferred, such as 100% equities or 100% offshore, so long as the investment vehicle complied at the top level.

The industry, it must be noted, would not expect existing retirement annuities to comply with the new regulations, as long as they remained unchanged, but if an investor wanted to make a change or transaction on an existing investment, the fund would have to comply with the new limits.

An important change in the Regulation 28 asset allocation limits was to increase the permitted allocations to alternative investments like hedge funds and private equity from 2.5% to 10%. "We believe this change will be beneficial for investors," Grabe said.