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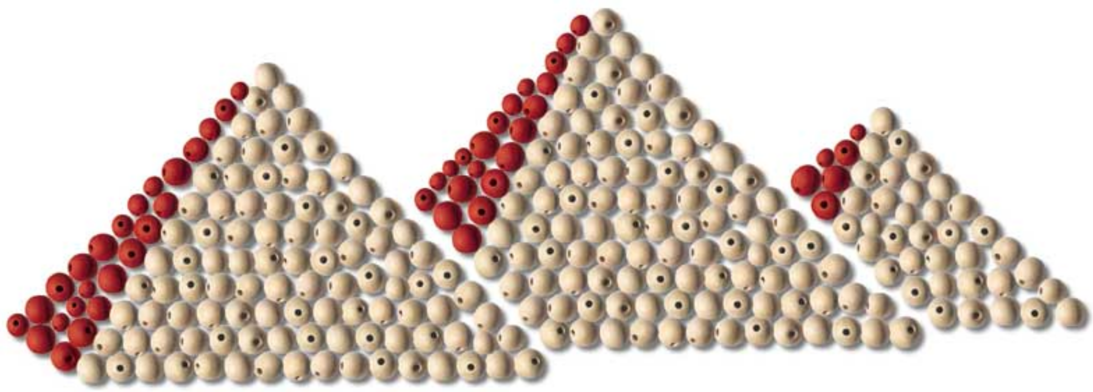


Fatima Vawda reflects on 2010, looks forward to 2011 and considers the challenges faced in a complex world

I closed the year, 2010, with a trip to Cairo, as part of my mission to learn more about this vast continent of emerging opportunities. Throughout my experience in Egypt, I was struck by the preoccupation of the ancient Pharaohs with their own legacies. Behind the vast and intricate tombs and the great pyramids of Giza, lies a single-minded and desperate desire to be remembered, to cheat death and to exert influence beyond the grave.

By comparison, the leaders of the early 21st century seem to have a whole lot more on their minds. The financial crisis of 08/09 was a turning point and the global issues emerging in 2010 can be viewed in the context of a world adjusting to a new order. The crisis has accelerated the power shift from the established west, to the giant emerging economies in the east. GDP growth in the US for 2011 is estimated at 3%, while China will grow at 8%. The actions of the western governments are aimed at rescuing their sagging economies, to bolster their positions within the new world order.

Having exhausted the interest rate lever, the US has embarked on a second phase of quantitative easing to stimulate economic activity and growth. The Fed announced in November, that it would buy $600 billion of Treasury securities by the end of the 2nd quarter 2011. From an optimistic point of view, this aggressive approach should lead to a slow but steady recovery in the US. The first phase of quantitative easing is widely believed to have prevented a complete meltdown.

"In the west, we see interventionist policies replacing *laissez-faire* capitalism..."

The economic turmoil in the US has taken its toll on the US president, whose inspiring election campaign of 2008 was based on optimism and hope. In Egypt, I learned of Rameses II, the great Pharaoh who reigned for more than 60 years. While there are still a few leaders who cling to extended-term power in the modern world, our evolved democratic institutions make this less common. Nowhere is the efficiency of the modern democratic process more apparent than in the US. After failing on his promises to the average American, Obama was sorely punished in the mid-term elections, relinquishing control of the House and only just hanging on to the Senate. Unhappiness over corporate bail-outs and continued unemployment is behind this massive backlash, which has also seen the rise of the Tea Party movement in the US.

In Europe, a sovereign debt crisis has emerged concerning the PIGS states (Portugal, Ireland, Italy, Greece and Spain). Austerity measures have been put in place across Europe and the Eurozone extended a €110 billion loan to Greece. The story will, no doubt, continue to play out in 2011, with painful debt control measures leading to public outcry.

As a result of the interventions by western governments, emerging economies currencies have strengthened against the dollar. This resulted from capital inflows to emerging economies as investors take advantage of interest rate differences. In response, emerging economies have intervened to weaken their currencies, in order to remain competitive. This has sparked a so-called currency war, with nations accusing each other of protectionist behavior.

The overall picture emerging in the latter part of the first decade of the 21st century is one of irony. In the west, we see interventionist policies replacing *laissez-faire* capitalism, while the east emerges as a powerhouse, as a result of adopting free market policies. To me, this reflects the complexity of the world, where single-minded idealism must make way for pragmatism. The picture is also one of where the world's great economies are struggling to maintain their legacies in a changed world.

Add to this complexity, the global issue of climate change. Short-term economic battles must be mediated by the common need to sustain the planet on which they are played out. Throw in some wildcards, such as earthquakes, volcanic ash and an oil spill. One can only wonder what the god-like Pharaohs of ancient Egypt, whose primary source of volatility was the seasonal level of the Nile, would have made of all this.

Unpacking the 2nd Draft **Regulation 28**

by Vic du Preez

On 2 December 2010, the National Treasury released a suite of documents:

- (i) Second draft of Regulation 28;
- (ii) A response to public comments received following the first draft of Regulation 28;
- (iii) An explanatory memorandum on the 2nd draft Regulation 28;
- (iv) Draft notices on securities lending transactions, investment and disclosure of derivative instruments and credit rating agencies issued by the Registrar of Pension Funds in terms of Regulation 28.

What follows is a summary review of all of the above documents and includes direct extractions of relevant material in an effort to provide the reader with a summary of the proposed legislation. For detailed information, we recommend that you refer directly to the above mentioned documents.

What is Regulation 28?

It is the law limiting the amount and the extent to which a pension fund may invest in particular assets or in particular kinds or categories of assets, prescribing the basis on which the limit shall be determined and defining the kinds or categories of assets to which the limit applies.

Timelines

- Regulation 28 was first promulgated in 1962 and last amended in 1998.
- The first draft of Regulation 28 was published as part of the 2010 Budget in February 2010.
- Thirty-one industry comments were received following the release of the first draft.
- The second draft of Regulation 28 was released on 2 December 2010 for a further round of comment and engagement.
- Comments of a technical nature only can be submitted to the National Treasury on or before 28 January 2011.
- The regulations are expected to be finalised following the receipt of public comment.

Industry size

According to the National Treasury, the total size of household savings in South Africa is R5.2 trillion, of which the private pension fund industry constitutes an estimated R1.1 trillion, representing 7 000 retirement funds. Regulation 28 applies to all private pension funds.

The current regulation

Investment limits	Exclusions
• Not more than 75% may be invested in equities. • Not more than 25% may be invested in property. • Not more than 90% may be invested in a combination of equities and property. • Not more than 5% may be invested in the sponsoring employer. • Not more than 15% may be invested in a listed equity with a defined large market capitalisation, and not more than 10% in any single other equity stock. • Not more than 20% may be invested with any single bank. • Not more than 15% may be invested off-shore (additional allowances, due to changes in exchange control limits, are available on application to the Registrar of Pension Funds. This brings the off-shore limit to 25%, of which 5% is earmarked for African investments). • Not more than 2.5% may be invested in "other assets", which are not specified.	• No restrictions on investments into bank issued money market instruments or RSA Government issued bonds. • Derivative instruments are not defined, leaving them to fall within the category of "other assets". No guidance is given as to how derivatives may be employed. • Does not employ a "look through" principle to report on underlying assets backing an investment.

The new regulation

Main amendments

1. Retain the rules-based approach to regulation with the introduction of principles to guide and inform investment decision makers at each stage of the investment process:

a. The following principles should be given effect through an Investment Policy Statement (IPS):

i. Asset liability matching ensuring that the fund's assets are appropriate for its liabilities

ii. Promote trustee education

iii. Perform reasonable due diligence before making an investment into and while invested in an asset

iv. Perform reasonable due diligence before making an investment into and while invested in a foreign asset

v. Funds may use ratings issued by recognised rating agencies as part of its broad due diligence process

vi. Take into account environmental, social and governance factors before buying an asset

vii. Promote BEE service providers to the fund

2. Application of the "look-through" principle:

a. To be applied for calculation exposures. A pension fund should report on the underlying assets backing its investments and not just the legal structures.

3. Member level compliance:

a. Individual member choice portfolios should be Regulation 28 compliant at member level.

4. The exemption of long-term insurance policies with a guarantee:

a. Only long-term policies with a full guarantee remain exempt from Regulation 28.

b. All linked policies must now invest within Regulation 28 limits, including retirement annuities which were previously exempt.

5. Limits:

a. Irrespective of the individual limits imposed across unlisted and unrated assets in different asset classes, an overarching 30% limit is imposed across all unlisted/unrated assets. This would include the allocation to unlisted debt, unlisted equities, unlisted property and private equity and hedge funds.

b. The sum exposure to unlisted equity and private equity should not exceed 10% of the value of the total assets of the fund.

c. The sum exposure to an issuer or entity by the fund in cash and debt instruments should not exceed 25% of the total assets of the fund.

d. A pension fund may invest in an investment fund that is not registered and regulated as a fund by the FSB, including a hedge fund and a private equity fund, but such investments by the fund may not comprise of more than 10% of the investment funds total assets.

6. Foreign exposure:

a. To be aligned with exchange control policy governed by the South African Reserve Bank (SARB).

b. Current SARB limits allow for foreign exposure of 20% with an additional 5% for Africa.

c. Listed equities refer to equities listed on a South African exchange or an exchange that is a full member of the World Federation of Exchanges (WFE).

d. A pension fund may invest in an asset listed on an exchange that is NOT a full WFE member, but such will be subject to tighter limits and in effect, combined into the unlisted equity treatment (i.e. will be considered as unlisted equity and therefore contribute to its 10% limit).

7. Socially responsible investments:

a. It is not agreed that ESG (environmental, social, governance) investments constitute an asset class in their own right. The National Treasury sees these rather as a subset in each asset category, like equities or debt.

b. Because of the difficulty in defining such investments, it is not considered sensible to constrain a definition in the regulation. Rather, in terms of its IPS, a pension fund is required to define for itself what ESG means and by what criteria it will apply ESG principles in assessing existing and future investments made.

c. Islamic financial services are not necessarily considered ESG in the context of Regulation 28. A pension fund should define ESG investments as it sees appropriate and this may or may not accommodate Islamic-compliant instruments.

"...the total size of household savings in South Africa is R5.2 trillion, of which the private pension fund industry constitutes an estimated R1.1 trillion..."

8. Securities lending:

a. The regulation now provides for securities lending. A separate draft securities lending notice was released for public comment together with the revised draft Regulation 28.

9. Derivatives:

a. The regulation now provides for the use of derivatives. A separate draft derivatives notice was released for public comment together with the revised draft Regulation 28.

b. Derivatives do not constitute an asset class. Derivatives are to be "looked-through" to the underlying asset exposure to assess Regulation 28 compliance.

c. Derivatives will not be allowed for gearing or leverage purposes but must be used for the purposes of hedging and efficient portfolio management.

d. Derivatives must be covered - the fund must either hold an amount equivalent to the notional value of the derivative in cash, or the actual underliers.

10. Islamic compliant investment instruments:

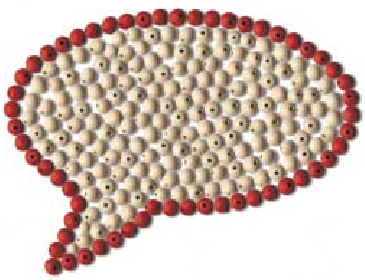
a. Provisions have been made under the debt asset category.

11. Asset classes and investment limits, including notes to the amendments:

ITEM	CATEGORIES OF ASSETS	PER ISSUER/ ENTITY	FOR ALL ISSUERS/ ENTITIES	NOTES TO AMENDMENTS
1.	**CASH**			
1.1	Inside SA	25%	100%	• Includes "true" cash, like bank deposits and cash held in margin accounts. • Excludes money market instruments which, as short-dated debt, are moved to the debt category.
1.2	Foreign	5%	As per SARB	
2.	**DEPT INSTRUMENTS, INCLUDING MONEY MARKET AND ISLAMIC DEBT INSTRUMENTS**			
2.1	Inside SA and foreign			
	Issued or guaranteed by the government of SA		100%	• Money market instruments now included into this debt asset category. • Bank debt issued against its balance sheet is given a significantly higher limit of 75% as opposed to the current corporate debt allowance of 25%. • Up to 25% in quasi-government entities. • A tighter limit of 15% is applied for unlisted debt in the corporate debt category subject to strict investment and valuation requirements. • Credit rating agencies must be approved by the Registrar.
	Issued or guaranteed by the government of a foreign country	10%	As per SARB	
	Issued or guaranteed by an SA bank against its balance sheet: (i) Market cap > = R20 Billion (ii) Market cap between R2 Billion and R20 Billion (iii) Market cap < R2 Billion	 25% 15% 10%	75%	
	Issued by or guaranteed by a wholly owned state owned entity, provincial government or local government of SA	5%	25%	
	Other:		25%	
	Listed:	5%	25%	
	Unlisted:	5%	15%	
3.	**EQUITIES**			
3.1	Inside SA and foreign			
	Preference and ordinary shares in companies, excluding shares in property companies, listed on an exchange: (i) Market cap > = R20 Billion (ii) Market cap between R2 Billion and R20 Billion (iii) Market cap < R2 Billion	 15% 10% 5%	75%	• The pre-issuer limits for listed equities are divided into three categories - small (5%), medium (10%), and large (15%). The Registrar is empowered to adjust these limits to maintain their relevance (prevent becoming outdated). • The limit for unlisted equities, whether held directly or through a private equity vehicle, is increased to 10%, subject to strict investment and valuation requirements.
	Preference and ordinary shares in companies, excluding shares in property companies, not listed on an exchange:		10%	
	(i) Incorporated in SA	2.5%	10%	
	(ii) Not incorporated in SA	2.5%	5%	

4.	**IMMOVABLE PROPERTY**			
4.1	Inside SA and foreign			
	Preference and ordinary shares in property companies, or units in a Collective Investment Scheme in Property, listed on an exchange: (i) Market cap > = R10 Billion (ii) Market cap between R3 Billion and R10 Billion (iii) Market cap < R3 Billion	 15% 10% 5%	25%	• Distinguishes between listed and unlisted property. • Unlisted property is given a lower aggregate limit than listed property. • Listed property is divided into three sub-categories - small (5%), medium (10%) and large (15%).
	Immovable property and claims secured by mortgage bonds thereon, preference and ordinary shares in property companies not listed on the exchange, secured loans and debentures.	5%	15%	
5.	**COMMODITIES**			
5.1	Inside SA and foreign			
	Kruger Rands and other commodities listed on an exchange, including exchange traded commodities.		10%	• The Kruger Rand category is expanded to also include listed exchange-traded commodities but remains subject to the 10% limit.
6.	**INVESTMENTS IN THE BUSINESS OF A PARTICIPATING EMPLOYER INSIDE SA**			
	Section 19(4) of the Pension Funds Act		10%	
	To the extent it has been allowed by an exemption in terms of section 19(4A) of the Pension Funds Act		5%	
7.	**HOUSING LOANS GRANTED TO MEMBERS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 19(5)**		**95%**	
	Loan granted to member by the fund		5%	
	Guarantee given by the fund for a housing loan to a member by a South African bank		95%	
8.	**HEDGE FUNDS, PRIVATE EQUITY FUNDS AND ANY OTHER ASSET NOT REFERRED TO IN THIS SCHEDULE**		**15%**	
8.1	Inside SA and foreign			
	Hedge funds: (i) Fund of hedge funds (ii) Hedge funds	 5% per fund 2.5% per fund	10%	• Other assets to include alternative investments. • Raised to 15%. • Private equity and hedge funds now explicitly defined. • It is also proposed that the FSB be given the authority to, in future, impose other rules specific to these investment categories that would deal with specific regulatory risks. • Hedge funds are expected not to be looked-through to the underlying instruments - the hedge fund itself may be seen as the asset and be subject to a 10% limit.
	Private equity funds: (i) Fund of private equity funds (ii) Private equity funds	 5% per fund 2.5% per fund	10%	
	Other assets not referred to in this schedule and excluding a hedge fund or private equity fund.	2.5%	5%	

After a long wait, significant progress has been made by the National Treasury with the release of the latest draft. The amendments ultimately should lead to closing any loopholes that exist for service providers to circumvent and in the long-term lead towards the reduction of systemic risk and the protection of our pensioners. We look forward to final amendments which we hope will be released during 2011.



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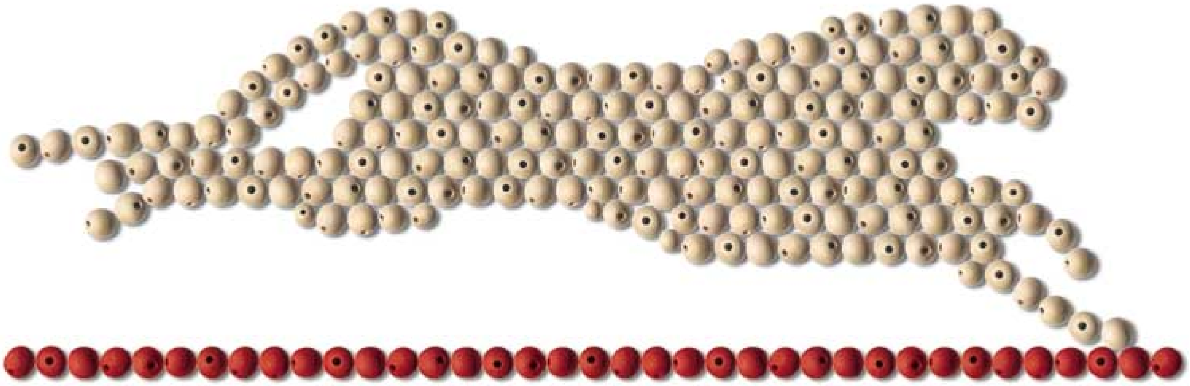

Vuyo's **African Adventure**

1. Which countries did you visit?

I went to Nairobi, Kenya in September and Lagos, Nigeria in November.

2. Was this your first time outside of South Africa?

No. I have been to Zambia and Mozambique before, but this was my first trip outside of the SADC (Southern African Development Community) region.

3. Which airlines did you use?

I flew South African Airways to Nairobi and Arik Airlines to Lagos. I was sceptical of flying on Arik Airlines as I didn't know what to expect, but my perspective changed completely the second I stepped into an Airbus. It's the national carrier of Nigeria and also flies to New York and London.

4. What was your first impression when you landed?

Both airports are really small compared to O.R Tambo International. What came as a real shock, though, was the traffic from the airport to the hotel.

5. Why? How bad was the traffic?

I live in Midrand, so I think traffic on the M1 on a Monday morning is hectic, but I don't think motorists in Nairobi would agree. Lagos, on the other hand, is a completely different story. If you have ever seen what the Bree Street taxi rank looks like at month end, then you only have a faint idea of the chaos on the roads of Lagos.

6. Where did you stay?

In both cities I stayed at the Crowne Plaza hotel.

7. On a more serious note, how did your meetings go?

Overall, I think they went well. I saw 12 managers in each city and each one was slightly different. There were things that took a while to get used to, for example, only one or two managers had a PowerPoint presentation and handouts for us. In the other meetings, you are just expected to listen and ask questions. In a few meetings we just stared at each other for a while. It is an interesting method of doing business; very different to South Africa.

8. What were the offices like?

This is another aspect that is very different from what we have in South Africa. A few of the offices were really nice and actually had decent furniture and a general sense of order. Others, however, were confusing and it was difficult to figure out what was actually going on. In some cases, multiple companies operate out of a single office space.

9. Despite this, what was the level of competency?

The people I met with were well educated and have, in many cases, studied further in institutions in Europe and the US. I also get the sense that they have a strong desire to be more involved in the global asset management arena.

10. What was the highlight of your trip?

Both these trips gave me incredible insight into cultural and business practices outside of South Africa. It is difficult pinpointing just one "highlight" in each city. But I would have to say that the Johnnie Walker party and partying in Electric Avenue in Nairobi would be rated as one of them and waking up at 5am to the hustle and bustle of the streets of Lagos would be another.

11. What was your overall view of the trips?

I think that in South Africa, we are unaware of a lot of the business practices going on in the rest of Africa. Of course, there is what we see in the papers and we can read up about it, but the small amount we hear doesn't nearly give justice to the actual practices that I experienced on these trips. This continent is alive with opportunities and isn't as bad as the media makes it out to be. Kenya opened my eyes to a new cultural experience. There is so much potential for growth and development. Nairobi is the second most populous city in East Africa and is financially prominent and stable. There is already an established CBD and the infrastructure development is underway.

Lagos, however, is the second most populous city in Africa, next to Cairo and, according to the UN-2008, is the fastest growing city in Africa. I have never, in my entire life, seen so many people – there are just people everywhere. As with Nairobi, the development going on is phenomenal. Although the business practices, in both cities, are different from South Africa, they have their merits and I look forward to see what comes out of these countries, and the rest of Africa, in the near future.

Vuyo Mvulane

10 years
in the 21st century

by Kim Callender-Easby

The last decade proved to be nothing less than overwhelming. Time Magazine (November, 2009) called it the "Decade from Hell" and who could blame them? With disasters, both natural and man-made, such as the bombings of the World Trade Centre, the South East Asia Tsunami, Hurricane Katrina and a Mexican oil spill, to name only a few. But there were a lot of positives, which include the election of the first African American President in the United States and a telecommunications boom, changing the face of global communication that includes Google, smartphones, iPods and even Facebook.

Although, one thing looming fresh in our minds is the 2008/2009 World Recession. Many businesses didn't make it through at all and others barely scraped by, but 2010 led to a strong upswing and the building of better and stronger organisations, which strengthened the economy across the globe.

Let's take a look at just a few of the changes through the last 10 years, to gain perspective on the rise of the emerging economies setting the stage for the new world order.

Facts and figures	Year 2000	Year 2010
World population	6.1 Billion	6.9 Billion
Africa population	819 Million	1 Billion
Chinese investment in Africa	$1.6 Billion	$17 Billion (2009)
Internet users in China	22 Million	420 Million
Internet users in Africa	4.5 Million	110 Million
Mobile phone users in India	2 Million Handsets	545 Million Handsets
Mobile phone users in Africa	38 Million	300 Million
World – Mobile users	3 Billion	5 Billion handsets
World - Facebook users	1 Million (2004)	580 Million
World – iPods sold	381 000 (2002)	52.3 Million
US GDP	$10 Trillion	$15.8 Trillion
US National debt	$5.7 Trillion	$14.7 Trillion
US Unemployment	4%	9.6%
ZAR/USD	7.56	6.62
Gold	$272.60	$1421.40
Oil	$23.80	$94.75

Data sources include: World Bank, Xinhua, Dow Jones, CIA World Factbook, Reuters, IMF, Time, I-Net, Apple, and Facebook.

27four
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INSPIRED BY CHANGE

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