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Navrae/Enq.:

Verw./Ref.: 12/12

October 1991

CIRCULAR PF NO 75

(To all self-administered pension funds and insurers who underwrite pension funds)

PENSION FUNDS ACT, 1956: AMENDMENT OF REGULATION 28 UNDER THE ACT

1. You are hereby informed that Government Notice No R.2361, published in Government Gazette No 13536 of 27 September 1991 contains the amendments of regulation 28 of the Regulations made under the Act. The amendments of the regulations came into operation on 30 September 1991.

2. The effect of the most important amendments are briefly elucidated hereunder:-

   (a) the investment limit of 85% in respect of immovable property and shares, referred to in items 6 and 7 in column 1 of the Annexure has been increased to 90%: Provided that the limit in respect of the abovementioned immovable property has been decreased from 30% to 25% and the limit in respect of shares has been increased from 65% to 75% and that in respect of investments in the shares of a single company with a market capitalisation greater than R2000 million, the limit has been increased from 10% to 15%;

   (b) the investment limit in respect of assets, referred to in items 6 up to and including item 9 (with the inclusion of (a), (c) and (d)) in column 1 of the abovementioned Annexure, has been increased from 90% to 95%;

(c) doubt which exists that funds which are exempted in terms of section 2(3)(a)(ii) of the Act, from certain provisions of the Act (so called underwritten funds) do not have to comply with the provisions of regulation 28, has been removed and such funds, where applicable, must obtain a certificate from the insurer indicating the reasons why the fund has not complied with the distribution requirements of assets specified in the Annexure.

(d) if membership of a fund is not compulsory, the insurer must only in regard to his net liabilities against such funds, comply with the requirements of regulation 34 of the regulations made under the Insurance Act, 1943 (Act No 27 of 1943).

(e) the categories of assets in paragraph 1 of column 1 of the said Annexure have been extended in order to provide for investments in the Post Office Savings Bank.

(f) the investment limit in Krugerrands has been decreased from 15% to 10%.

(g) debentures, which can be converted into shares, whether voluntarily or compulsorily, must now be shown as shares against item 7 in column 1 of the said Annexure.

(h) the limit in respect of claims against any individual mentioned in paragraph 8(a) in column 1 of the said Annexure has been increased from 0,10% to 0,25%; and

(i) the registrar's authority to only grant unconditional exemption in respect of an application for exemption to comply with the provisions of the regulations has been substituted by an authority to grant conditional exemption.

3. Statement 14 which has been adapted to provide for the amendments accordingly, is attached hereto.

4. A document, drawn up by the Actuarial Society of South Africa concerning investment guidelines, is attached for your attention. The document touches on various investment guidelines but pension funds will benefit to study the guidelines in greater detail than contained in the document. This document does not subsititute any statutory requirements or regulations but must be seen as an aid thereto.

3/....

5. Kindly acknowledge receipt of this circular and confirm that a copy has been handed to the fund's auditor and valuator (if applicable) by signing and returning the attached acknowledgement to this Office.

REGISTRAR OF PENSION FUNDS
(Circular PF No 74 was addressed to all self-administered pension funds and insurers who underwrite pension funds)

(Afrikaans agterop)

401/pch

SCHEDULE G

..................................FUND YEAR ENDED .../.../19..

STATEMENT 14 ASSETS HELD IN COMPLIANCE WITH REGULATION 28

			R '000
A.	Total assets of the Fund per Balance Sheet		....
	Less: (i) Assets held outside Republic to cover liabilities there	....	
	(ii) Value of insurance policies held by and included in total assets to be excluded in terms of paragraphs 2 and 3 of Regulation 28	....	
	(iii) Balance Sheet Items:		
	6. Sundry debtors	....	
	7. Payments in advance	....	
	9. Other (specify)	....	....
B.	Total assets for purpose of Column 2 of Annexure		....
C.	Market Value of assets for purpose of Column 2 of Annexure		....

CATEGORY OF ASSETS	%	MARKET VALUE	% OF MV
1. Fixed deposits with and balances in current and savings accounts in the Republic with an office of a deposit taking institution or a mutual building society, including negotiable deposits and money market instruments in terms of which such a deposit taking institution or building society is liable including the paid up shares of a mutual building society or deposits and savings acounts with the Post Office Savings Bank	100 %	....	....
• Per Banking Institution	20 %		
• Per Building Mutual Society	20 %		
• Post Office Savings Bank	20 %		
2. Krugerrands	10 %	....	....
3. Bills, bonds and securities issued or guaranteed by and loans to or guaranteed by -			
a. Local Authorities in RSA authorised by law to levy rates upon immovable property	100 %	....	....
• Per Local Authority	20 %		
b. Development Boards established by section 4 of the Black Communities Development Act	20 %	....	....
c. Rand Water Board	20 %	....	....
d. Eskom	20 %	....	....
e. Land and Agricultural Bank of South Africa	20 %	....	....
f. Local Authorities Loans Fund Board	20 %	....	....
4. Bills, bonds and securities issued by and loans to an institution in the RSA approved by the Registrar in terms of section 19(1)(h) of the Act, also bills, bonds and securities issued by and loans to an institution in the RSA, which bills, bonds securities and loans the Registrar has likewise approved	100 %	....	....
• Per Institution	20 %		
5. Bills, bonds and securities issued by the Government of or local authority in a territory other than the RSA, approved by the Registrar in terms of section 19(1)(i) of the Act	100 %	....	....
• Per Institution	20 %		
6. Immovable property, units in unit trust schemes in property shares, and shares in, loans to and debentures of property companies in the RSA	25 %	....	....
• Investment in any one single property development project.	5 %		
Subtotal carried forward	.....	....	....

..................................FUND

Subtotal brought forward	.....	....	....
7. Preference and ordinary share in companies (excl shares in property companies) and units in unit trust schemes (excl units in unit trust scheme in property shares and unit trust schemes referred to in par(e))	75 %	....	....
a. Unlisted shares and shares listed in the Development Capital Sector of the JSE	5 %		
b. Listed shares and convertable debentures in any one company on the JSE, other than above, with			
(i) a market capitalization of R2 000 m or less	10 %		
(ii) a market capitalization of R2 000 m and over	5 %		
Limitations for investments in items 6 and 7	90 %	....	....
8. Claims secured by mortage bonds on immovable property in the RSA, debentures and any other secured claims against individuals (excl loans referred to in par 9(c)) and companies (excl loans and debentures of property companies)	25 %	....	....
a. claims against any one individual	0.25%		
b. claims against any one company	5 %		
9. Any other assets not referred to in this Annexure, but excl	2.5 %	....	....
a. Money in hand in the Republic	95 %	....	....
c. Loans granted to members in accordance with -			
(i) provisions of section 19(5); and			
(ii) exemptions granted to the Fund in terms of section 19(6) of the Act	Exmpt	....	....
d. investments in business of participating employer allowed by exemptions in terms of -	Exmpt	....	....
(i) the provisions of sections 19(4); or			
(ii) exemptions granted to the Fund in terms of section 19(6) of the Act			
Limitations for investment in items 6-9, and items 9(a),(c) and (d	95 %	....	....
b. bills, bonds or securities issued or guaranteed by the Government of the Republic or Provincial Administration	100 %	....	....
e. units in a unit trust scheme as defined in the Unit Trust Control Act, 1981, of which the underlying assets may consist only of:	100 %	....	....
(i) assets referred to in item 9(b); or			
(ii) assets referred to in item 3			
TOTAL (equal to item C)	100 %	....	....

REMARKS

1. Bank balance in current account must be included in Item 1.
2. Blocked figures must be excluded in the computation of the totals.

....FUND

EXEMPTIONS GRANTED BY THE REGISTRAR

ITEM	MAXIMUM %	DATE OF LETTER	EXPIRATION DATE
....	....	....	....
....	....	....	....
....	....	....	....

SPECIAL REPORT BY THE AUDITOR OF THE FUND TO THE REGISTRAR OF PENSION FUNDS

I/We have examined Statement 14, which was completed in terms of Regulation 28 relating to the year ended .... 19....

I/We have initialled the Statement for identification purposes.

My/Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such auditing procedures as we considered necessary in the circumstances.

My/Our examination included an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence that supports the amounts used in the calculations, an assessment of the reasonableness of significant estimates made by the trustees, a test of the clerical accuracy of the calculations made and a review of the adherence by the Fund to the provisions of section 19(4), 19(5) and 19(5B)(b) of the Pension Funds Act, 1956.

In my/our opinion the return fairly presents the actual percentage of the assets to the total assets of the Fund.

This report is for the use of the Registrar of Pension Funds only.

....
AUDITOR

....
DATE

GUIDELINES FOR PRUDENT INVESTMENT MANAGEMENT TO AID TRUSTEES, OFFICIALS AND THEIR ADVISORS PREPARED BY THE ACTUARIAL SOCIETY OF SOUTH AFRICA

SOUND INVESTMENT PRINCIPLES FOR PENSION FUNDS

1. GENERAL

The term Pension Fund is used here to denote Pension Funds, Provident Funds and Retirement Annuity Funds. The term Trustee is used to denote the Trustees or responsible officials as the case may be.

(a) A Pension Fund is a Trust set up for the benefit of present and future members and beneficiaries of the Fund.

(b) The Trustees of a Pension Fund have a fiduciary duty to exercise their powers of administration and investment in the best interests of present and future members and beneficiaries of the Fund, holding the scales impartially between different classes of members and beneficiaries of the Fund.

(c) Pension Fund investment should be governed by the norms of Trust investment. The standard required of a Trustee in exercising his powers of investment is that "he must take such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide".

(d) Investments must at all times be made within the laws and regulations applicable to investments by Pension Funds, but further, investments must also be made within the terms of the Rules, Trust Deed or other instrument governing the particular Fund. If the Rules are too restrictive for effective investment then Trustees should question whether the Rules should be amended.

(e) In many instances, Pension Funds are established by employers for the benefit of employees and their dependents. In these cases the employer, therefore, has a special interest in the Pension Fund and generally the level of his contributions are affected by the success or otherwise of the investments made. Special arrangements between employer and Pension Fund, eg. interest rate guarantees, must also be taken into consideration in the investment of the funds.

(f) Investments in the business of the employer through direct lending of money to the employer or purchases of buildings in which the employer operates or investment in debentures or shares issued by the employer should be viewed as exposing the members and beneficiaries of the Fund to an additional risk in that, if the employer's business fails, contributions to the Pension Fund will cease and the investment in the employer's business will be adversely affected. Hence any investment with or in the employer's business should be avoided or severely limited . The term, employer's business, includes any subsidiary or associated businesses that are material to the employer's business.

2. OBJECTIVE OF INVESTMENT

(a) The objective of the investment of Pension Fund monies is to enable the Fund to meet its current and future liabilities by obtaining the best possible overall real return at an acceptable level of risk.

(b) Where the Trustees choose to make investments for reasons other than investment merit e.g. for socially desirable purposes the Trustees should estimate and record the anticipated cost thereof and separately designate such investments and set limits on them.

3. INVESTMENT PRINCIPLES

(a) Trustee Role

Pension Funds are Trusts in respect of the savings for old age, disability and death of their members and beneficiaries. Therefore, Pension Fund managers are Trustees in respect of the monies they invest for and on behalf of their Pension Funds. It is incumbent on them to exercise utmost good faith in the investment and handling of Pension Fund monies.

All Pension Fund investments should be made in a professional manner applying sound business principles and with proper diligence. Investments in fields where special expertise is required should only be made with the help of such expertise.

Investments should be reviewed at regular and frequent intervals. There should be a flexible approach to investments as rigid rules lead to underperformance in the investment field. Regular and timeous investment performance reviews are essential to ensure that good investment results are regularly achieved.

(b) Long Term

Pension Funds are, in general, long term entities. Therefore, stability and continuity of existence are of paramount importance to the members and beneficiaries of such Pension Funds. All Pension Funds should hold appropriate investments to cover their specific liabilities and any mismatch of term or currency should be evaluated in relation to the risks inherent in such a mismatch.

(c) Risk

All investments carry a degree of risk. The greater the degree of risk, the higher the expected yield must be to compensate for the additional risk. However, there is a degree of risk that should not be exceeded in the case of serious investment, especially Trustee investment.

No one investment should exceed a given percentage of the total funds of each portfolio. The maximum for any one investment should normally be set at a level where the failure of that investment would not be ruinous for the Pension Fund. Investment levels should take into consideration the difference in probability of failure between a major mining, financial or industrial group and a new venture, for example.

Where a currency risk is taken, in order to increase diversification or for some other reason, it should be limited in extent so that the stability of the Fund is not jeopardised.

(d) Inflation

The liabilities of Pension Funds are often directly or indirectly affected by inflation. Hence there is a need to choose forms of investment that are similarly affected by inflation, so that a Fund's assets will continue to match the liabilities whatever the actual inflation experience.

(e) Spread

It is essential to risk management that an investment portfolio be adequately diversified. A portfolio should be so constructed and maintained that it is not excessively or unduly exposed to any one share or to any one investment variable.

4. INVESTMENT FUNDAMENTALS

(a) Asset mix

Changes in the environment alter the relative attractiveness of different categories of investment requiring changes in the asset mix from time to time. These changes should be made with due regard to prevailing market conditions and to a Fund's anticipated cash flows.

(b) Selection

Before an investment is made, a diligent and thorough examination should be made to ensure that the investment is sound, that there is every prospect of the investment meeting its obligations and anticipated payments and that the expected return is in line with or better than investments of similar quality.

(c) Timing

Good timing of investments is very important. This applies equally to the acquisition and the disposal of investments.

(d) Disposal

Where it becomes apparent that an investment has acquired an unacceptable degree of risk it should be disposed of immediately. Attempts to optimize the position by seeking to time the disposal precisely may be irresponsible, as delays could add to the investment risk and constitute speculative behaviour which is inappropriate.

5. INVESTMENT GUIDELINES

(a) Liquidity

Under normal circumstances, liquidity does not constitute a problem in a Pension Fund of a continuing business and does not have to be allowed for in the investment strategy. However, there may be circumstances where liquidity could be an issue and where it should be taken into consideration, for example in the case of a closed Pension Fund or a Provident Fund or Retirement Annuity Fund. Cash should be considered as one of the investment avenues available and attractive at certain times.

(b) Property

Where a direct property investment is made due regard should be paid to the special features of property investments e.g. the fact that a property is location bound, property frequently requires continuing management and it is frequently indivisible and not easily traded.

(c) Particular Risks

Care should be exercised where investments are made in avenues that have a limited appeal or which can be handled only by a limited number of specialist organisations, e.g. power stations, oil refineries and hotels. The percentage of the Fund's investment in such areas should be strictly limited to avoid serious consequences for the Fund concerned should such an investment fail or merely fail to perform as a good investment.

(d) Unusual Investments

Collectibles such as stamps and works of art etc. have restricted appeal and require expertise and timing that is not usually associated with serious Pension Fund investment. Most of these investments are by their very nature not income producing which limits their yield to any increase in value while their valuation can often present problems.

(e) Derivative Instruments

Informed and judicious use of options, futures and other derivative instruments can materially limit portfolio risk and enhance investment returns. However, injudicious use of these instruments can also increase risk significantly and lead to losses or underperformance. Trustees must bear in mind that simple or mechanical compliance with any set of rules is no substitute for the wise judgement required for prudent investment management.

It is essential that Trustees appreciate the very large gearing effect of derivatives, the true nature of the counterparty risk accepted and the extreme risk inherent in naked or uncovered derivatives. To this end they should constantly monitor the potential effect of derivatives on the portfolio.

The total potential exposure of a Fund at all times should be limited. In particular, no Fund should ever accept an unlimited risk, no matter how small the probability that any particular consequence may occur. For example, where a Fund sells or accepts an option which may require the Fund to deliver a particular asset to another party at a future date, the Fund should ensure that it holds the underlying asset for the duration of that exposure. Otherwise, the Fund could find itself in a position where it is obliged to deliver an asset which may not be readily or economically available. Similarly, no future should be sold by a Fund on any index unless the Fund holds within its portfolio sufficient shares or other assets whose performance matches the performance of that index.

(f) Trading

Excessive trading is expensive and should be guarded against.