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Can you or can't you increase the offshore exposure in your Pension Fund to 100%?

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The market is alight with speculation over a statement which quietly crept into the Mid Term Budget Policy Statement issued by Minister Mboweni last month. National Treasury has made a decision to reclassify all inward-listed debt and derivative instruments as well as exchange traded funds (ETFs) referencing foreign assets as domestic, where previously they were classified as foreign.

Saving in a South African registered retirement fund means that investment choices are limited in terms of Regulation 28 of the Pension Funds Act. Simply put, only 30% of your pension, provident, preservation fund or retirement annuity can be invested in offshore assets. The remaining 70% must be invested in assets classified as domestic (South African).

Growing dissatisfaction over pedestrian returns from particularly domestic assets over the past six years, coupled with decreasing trust in government economic policies, has resulted in many investors wanting to increase the offshore allocation in their portfolios. This desire includes pre-retirement vehicles – which to many is a sizable portion of their savings – only to be constrained by Regulation 28.

What this reclassification could mean is that investors can invest 100% of their retirement savings in global assets by investing in rand-denominated offshore ETFs (now classified as domestic) of which Satrix has eight different global funds on offer.

What needs to be clarified though, is whether, in fact, this new classification will be adopted into Regulation 28 by the Financial Sector Conduct Authority. Regulation 28 falls under their jurisdiction and they have issued a communication stating that they are considering the impact of the reclassification and will revert to the industry, once a decision has been reached.

They (the FSCA) have been very clear in their request for no presumptive action to be taken by industry players until they have clarified their position.

It would be the sincere wish of many South Africans saving for retirement for the classification to pertain to Regulation 28, but for the moment, the jury is still out.

It is no secret that many South Africans are already considering prematurely liquidating their retirement savings where possible and paying the consequent punitive tax rates, with the sole purpose of increasing their offshore exposure. Some have even gone so far as to cease paying retirement annuity contributions (which are also subject to Regulation 28) forgoing the very rich tax benefits in favour of taking their money offshore.

This is completely understandable as investors try to protect their capital from the vagaries of the rand and want to invest in growth industries which have no representation on the JSE. Furthermore, in a country with a dwindling tax base and a severely financially challenged consumer, it is hard for SA-based companies to grow their earnings.

The intent of the National Treasury message seems to be that they recognise the problem and they are taking steps to help investors preserve their retirement savings for their intended use (income during retirement), by giving them greater flexibility and choice as to where the assets may be invested. There is no doubt that a nation's retirement savings does become a rich source of income tax as members retire and start drawing down into retirement. It is this pool which National Treasury must also be seeking to protect. This is all good news and bodes well for investors.

So, perhaps Christmas will come early this year as we sincerely hope that the FSCA rules in favour of the new classification applying to Regulation 28. This will certainly be some good news in what has been a very challenging year for everyone.

Glacier Research would like to thank Kingsley Williams for his contribution to this week's Funds on Friday.

Kingsley Williams

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Kingsley Williams is CIO of Satrix, the leading provider of index-tracking products in South Africa. Satrix is a wholly-owned subsidiary of the Sanlam Group.

As CIO, Kingsley heads up the Satrix investment team which has unrivalled experience in index-tracking portfolio management and solutions and currently manages assets in excess of R100 billion. Satrix has built up a formidable offering of both vanilla and factor index products which are available in the retail and institutional markets across ETFs, unit trusts, life pools, segregated mandates and UCITS.

Before joining Satrix in November 2017, Kingsley spent almost 10 years at Old Mutual Investment Group where he became the CIO of their indexation capability. He has vast experience in quantitative research, product development and index-tracking portfolio management, servicing South African and global institutional clients. Over his 20 year career Kingsley has also held positions at Stanlib Asset Management and Merrill Lynch, which included positions in London and New York.

Kingsley holds an MBA in Finance from Wits Business School (with electives completed at the University of Chicago Booth School of Business), a BSc Honours degree (cum laude) in Computer Science as well as a BSc degree (cum laude) with a major in Mathematical Statistics. He is regularly invited to talk at investment forums.