



THE NEW REG 28

WHATS IN IT?

MICKEY LOWTHER

TRUSTEE ALERT

MUITHERI WAHOME



- PRINCIPLES
- RULES
- BOARD NOTICES

TIMELINE

- FEB 2010 1ST DRAFT
- APR 2010 EXTENSIVE COMMENT
- DEC 2010 2ND DRAFT
- JAN 2011 TECHNICAL COMMENT
- FEB 2011 3RD DRAFT
- 1 JUL 2011 EFFECTIVE

TREASURY POLICY

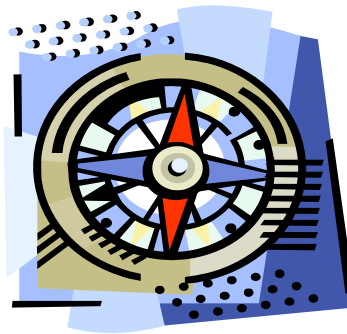
- MEMBER PROTECTION
- LEVERAGE RETIREMENT SAVINGS
- REDUCE STATE FUNDING



WHY UPDATE?

GOVERNANCE TREND AWAY
FROM RULES – EG KING 3

GUIDANCE ON
ROLES &
RESPONSIBILITIES



REFLECT CHANGES
IN INVESTMENT
LANDSCAPE

MAKE INVESTMENT POLICY
STATEMENT MANDATORY

PRINCIPLES

- SUSTAINABILITY & COMPLIANCE
- ASSETS APPROPRIATE FOR LIABILITIES
- MANAGE INVESTMENT RISKS
 - DUE DILIGENCE
 - DIVERSIFICATION
 - TRANSPARENCY
 - OPERATIONAL RISKS
- TRUSTEE EDUCATION
- BBBEE SERVICE PROVIDERS

RULES

- MEMBER LEVEL COMPLIANCE
- BREACHES
- LOOK THROUGH TO UNDERLYING ASSETS
- UPDATED DEFINITIONS



RULES

- BORROWING
- EXCLUDED ASSETS
- SECURITIES LENDING
- DERIVATIVES



REVISED LIMITS (%)

	PER ENTITY	TOTAL	OLD TOTAL
CASH	25	100	100
DEBT-GOVT		100	100
DEBT-BANK	25/15/10/5	75/25	
DEBT-CORP	10/5	50/25	25
EQUITY	15/10/5/2,5	75/10	75
PROPERTY	15/10/5	25/15	25

REVISED LIMITS (%)

	PER ENTITY	TOTAL	OLD TOTAL
COMMODITIES	10/5	10	10
EMPLOYER		5/10	5/10
HOUSING		95	
HEDGE FUNDS	5/2,5	10	
PRIVATE EQ'TY	5/2,5	10	
OTHER		2,5	2,5

REVISED LIMITS (%)

- HEDGE FUNDS + PRIVATE EQUITY + OTHER = 15%
- UNLISTED SHARES + PRIVATE EQUITY = 15%
- UNLISTED + HEDGE FUNDS + PRIVATE EQUITY + OTHER = 35%
- OFFSHORE = AS REGULATED BY SARB

DRAFT BOARD NOTICES

- SECURITIES LENDING
- DERIVATIVE INSTRUMENTS
- INVESTMENT POLICY STATEMENT
- PART GUARANTEED INSURANCE POLICIES
- HEDGE FUNDS
- PRIVATE EQUITY VALUATIONS
- [CREDIT RATING AGENCIES]

SO WHAT DOES IT MEAN FOR TRUSTEES, PO'S, AND ADVISERS?



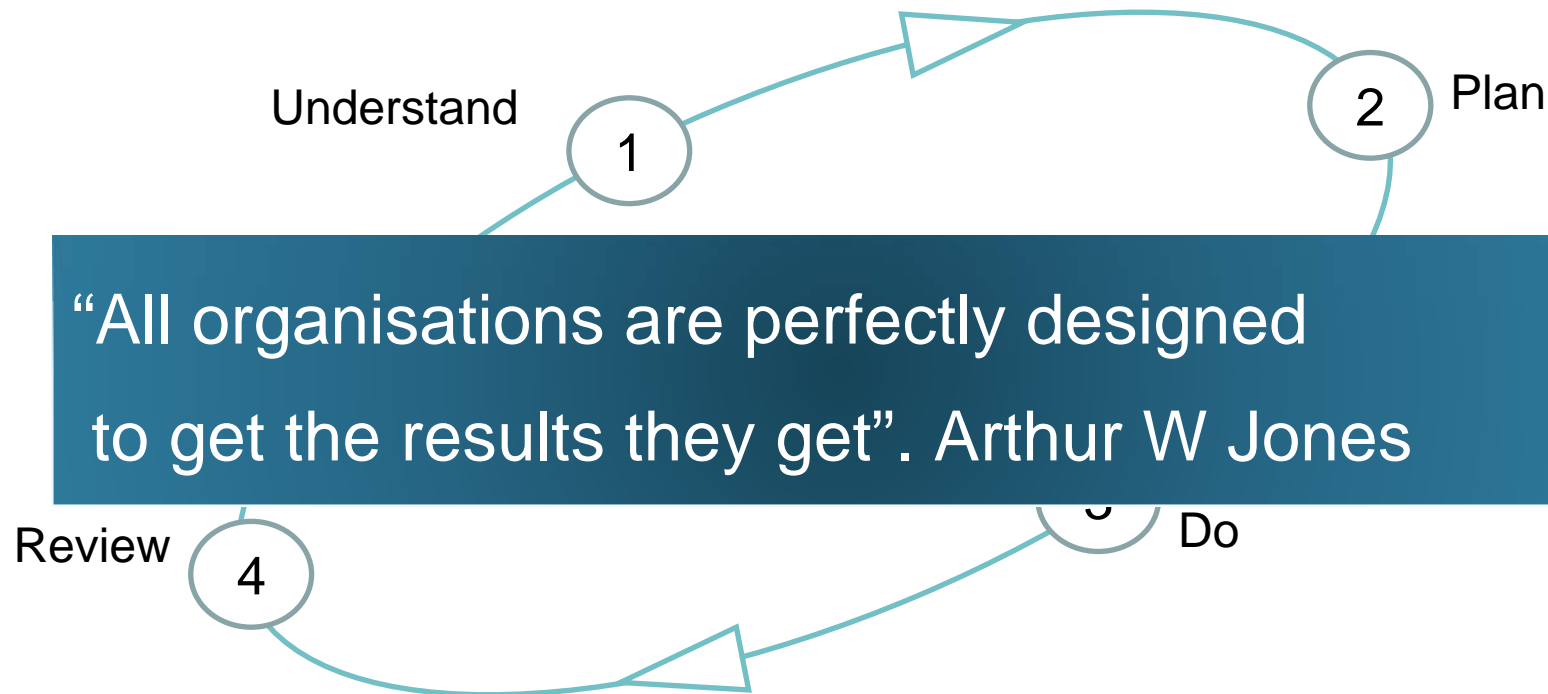
MUITHERI WAHOME

BARRIERS TO EXCELLENCE

<u>Rank</u>	<u>Barrier</u>	<u>Cited (%)</u>
1.	Poor process (decision making, investment policy setting and communication)	98%
2.	Inadequate resources and guidance	48%
3.	Lack of clear mission or focus	43%
4.	Trustees too conservative	35%
5.	Trustees had insufficient skills	35%

Source : Pension Fund Excellence, Keith Ambachtsheer

- Subsequent studies confirmed qualitative findings by quantitatively correlating rankings of pension fund governance with those of risk-adjusted fund performances
 - Significant cost of poor governance confirmed
 - Good-bad governance spread of 1% p.a.



“All organisations are perfectly designed to get the results they get”. Arthur W Jones

Governance

Objective Setting

Asset Allocation

Investment Strategy

Manager Structure

Trustees need to revisit decision process in light
of new Reg. 28

Performance Measurement

Performance Evaluation

TRUSTEE CONSIDERATIONS

	Implications	Comment
Member protection	Trustees	<ul style="list-style-type: none"> ▪ <i>What is in the best interests of the member?</i> ▪ Fiduciary responsibility to act in the best interest of members ▪ Benefits depend on responsible management of assets ▪ Trustees can delegate but accountability remains
Meeting client needs	Default options Member choice	<ul style="list-style-type: none"> ▪ <i>What is likely to help members reach the retirement goals?</i> ▪ Choice of default option ▪ Guided choices ▪ Flexibility ▪ Member education and communication

TRUSTEE CONSIDERATIONS

	Implications	Comment
Meeting investment performance needs	Strategic asset allocation	<ul style="list-style-type: none"> ▪ Liability focused ▪ Bespoke solutions vs. Peer solutions ▪ Use of alternatives to improve diversification ▪ Global multi-asset class <ul style="list-style-type: none"> ▪ Assets appropriate ▪ Extent of diversification ▪ Manage investment risks
Implementation	Decision-making structures	<ul style="list-style-type: none"> ▪ Impact of speed ▪ Consider what decisions are outsourced to Investment Committee or third party <ul style="list-style-type: none"> ▪ Clarity of objectives/mandates ▪ Accountability ▪ Discretion (full, partial, minimal) ▪ Fee basis

TRUSTEE CONSIDERATIONS

	Implications	Comment
Governance structure	Trustees Governance Budget	<ul style="list-style-type: none"> ▪ <i>What is a sensible model of governance to execute the Fund's investment strategy?</i> ▪ Build or outsource ▪ Fund structure ▪ Time and Expertise ▪ Reasonable due diligence
General	Look through at member level Revised Limits	<ul style="list-style-type: none"> ▪ Formulate/update written policies ▪ New monitoring requirements/reports ▪ Systems capability at service providers ▪ Investigate whether current structures breach new limits ▪ Training programme for Trustees

IN SUMMARY QUESTIONS TO CONSIDER?

- What is in the best interests of the member?
- What is likely to help members reach the retirement goals?
- What is a sensible governance model to execute the Fund's investment strategy?
- How does new Reg. 28 affect the Fund decisions and what do we need to revise in light of new requirements?
- Do we have adequate expertise to execute our responsibilities in light of new requirements?
- Do trustees have the expertise and time to satisfy the condition for reasonable due diligence?

IN SUMMARY QUESTIONS TO CONSIDER?

- Is there clarity of roles and responsibilities?
- To reduce the likelihood of making poor decisions that are reactive, have trustees anticipated future actions in order to pre-commit to an approach or process?
- Have trustees spent sufficient time investigating current managers' offshore capabilities and portfolio structure?
 - Mandates need to be reviewed



A paradigm shift
IN CONSUMER PROTECTION

Good ideas are worthless without good execution

PENSION LAWYERS ASSOCIATION
SOUTH AFRICA