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RAs AND REGULATION 28: WHAT NEXT?

By Rocco Van Zyl, Financial Advisor at Brenthurst Wealth Sandton

REGULATION 28 HAS BEEN AMENDED TO INCREASE THE OFFSHORE LIMIT. HERE IS WHAT IT MEANS FOR THE RETIREMENT SAVINGS OF ORDINARY SOUTH AFRICANS.

News headlines were dominated by global events in recent weeks, in particular Russia's invasion of Ukraine, and the subsequent pullback of global markets. Although the current tension in Europe cannot be ignored and will continue to drive market volatility, there is also local news that investors should take note of.

In South Africa it often feels as if good news is hard to find, but there is one very important bit of news which local investors should pay attention to. In fact, we should be proclaiming the recent announcement from the mountain tops that Regulation 28 of the Pension Funds Act has been amended.

Here is what it means for the retirement savings of ordinary South Africans and the action to be taken by future retirees.

All retirement annuities, provident funds and pension funds are governed by Regulation 28 of the Pension Funds Act which, amongst other things, stipulates that one's respective investment is subject to a maximum offshore exposure of 30%, with an additional 10% for Africa (which, in any event, nobody really used in the past). A few weeks ago, it was announced that the limit of 30% would be increased to 45%, with the Africa component falling away entirely.

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JHB (SANDTON)	+27 (0) 10 035 1391
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This, therefore, means a 50% increase from the previous 30% limit to the new 45% limit in offshore exposure for those who wish to increase their exposure to markets outside South Africa (and Africa for that matter), particularly to developed markets such as the US, Europe and the UK. Although 45% is a far cry from the 100% limit available through living annuities, the increase is certainly welcome. Below is a table comparing the returns from the past 10 years of the JSE Index with the returns of the MSCI World Index and the S&P 500 Index.

INDEX	10 YEAR ANNUALISED RETURNS (ZAR)
FTSE/JSE All Share total return (ZAR)	11.64%
MSCI World total return (ZAR)	19.48%
S&P 500 total return (ZAR)	20.64%

The new limit is a breath of fresh air for those who plan to meticulously contribute towards their retirement savings throughout their working lives. The new limit not only enables investors to further diversify their current retirement saving investments, but also enables them to further hedge their future savings against the rand and the local economy, should they underperform relative to their global peers over the long-term.

What to do next will depend on many factors and, although there is no ‘one size fits all’ approach when it comes to investments, I would strongly advise that all those in Regulation 28 investments should consider their options and take advantage of the new limits.

The troubles of the local economy will continue for a while longer, which makes it imperative for local investors to diversify away from these risks, especially with retirement savings.

As with all investment decisions or financial planning strategies, it is advisable to navigate it with the assistance of a qualified and experienced advisor who can offer the appropriate financial advice best suited to your personal circumstances. Read more about planning for retirement.

ADVISOR PROFILE | **Rocco Van Zyl, Financial Advisor at Brenthurst Sandton**

EMAIL: rocco@brenthurstwealth.co.za | PHONE: **+27 (0) 10 035 1391** | MOBILE: **+27 71 883 2078**