GRAYISSUE

Working with the new retirement fund regulations

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Regulation 28 of the Pension Funds Act sets out the maximum exposures that retirement funds may have to various asset classes. Previously this was monitored at retirement fund level, meaning that investors could invest in unit trusts of their choice, provided that the retirement fund's total holdings complied with the regulation. Recent revisions require members to comply with these asset class limits at an individual account level.

Impact on member choice

Despite these changes, at Allan Gray we believe that members of our Retirement Annuity, Pension Preservation and Provident Preservation funds (our retirement funds) will still be able to select underlying investments which best suit their risk profile and investment objectives. As a result, we are not planning to alter the selection of unit trusts available on our investment platform; rather we are offering investors and their advisers tools to help them correctly balance their accounts.

We have several different types of investors: there are those who prefer to opt for 'solution' unit trusts, where all the asset allocation is handed over to the portfolio manager. These investors may opt for a balanced fund or a similar asset allocation type fund that is fully Regulation 28 compliant. But there are other investors who, often with the help of a financial adviser, may prefer to select individual asset class funds, such as equity or bond funds, and use these as 'building blocks' to create their own portfolios. These investors who are members of our retirement funds will need to ensure that their accounts are Regulation 28 compliant.

The most important asset class limits in Regulation 28 are as follows:

- 75% in equities
- 25% in property
- 25% in foreign assets

Investors can use our calculator to create compliant accounts

To help investors balance their accounts we have built a calculator, available via the Regulation 28 button under 'Quick links' on www.allangray.co.za. The calculator is easy to use:

- Simply input your selection of unit trusts and percentage allocation to each
- The calculator will validate your account by looking at the investment mandate of the individual unit trusts
- If your asset allocation meets the Regulation 28 limits, the calculator will indicate this with a 'yes'; if it does not, the calculator will indicate 'no', and display the areas where your investment does not comply and by how much

Important implications for all our retirement fund investors

1. 1 April 2011

From 1 April all new members in our retirement funds will need to ensure that their investment accounts are compliant. This means that within the Allan Gray Retirement Annuity Fund, for example, each monthly contribution must be Regulation 28 compliant.

2. Investment accounts opened before 1 April 2011

Members who opened an account before 1 April 2011 may maintain their account as is and only need to comply with the new limits when they 'transact'.

What constitutes a transaction?

- Setting up or amending a debit order for the first time
- Increasing or decreasing an existing debit order (this is not the same as an annual escalation)
- Contributions made through the Allan Gray Group Retirement Annuity system
- Additional contributions
- Switches
- Transfers of units in

What does not constitute a transaction?

- Annual escalations of debit orders
- Distributions which are re-invested
- Cancellations of debit orders
- Existing phase-in arrangements
- Withdrawals from preservation funds
- Divorce order payments

It is unclear whether or not members who transact between 1 April 2011 and 1 July 2011 will have to make their accounts comply with the new limits. Members are allowed to direct new contributions into a new account if they prefer to maintain their existing accounts as is.

3. Transacting after 1 July 2011

When a member transacts after 1 July 2011, regardless of when the account was opened, the account must comply with the new limits.

Commentary by Christo Terblanche, Allan Gray