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FINANCIAL SERVICES BOARD REGULATIONS

Pension funds will 'up private equity allocation if rules changed'

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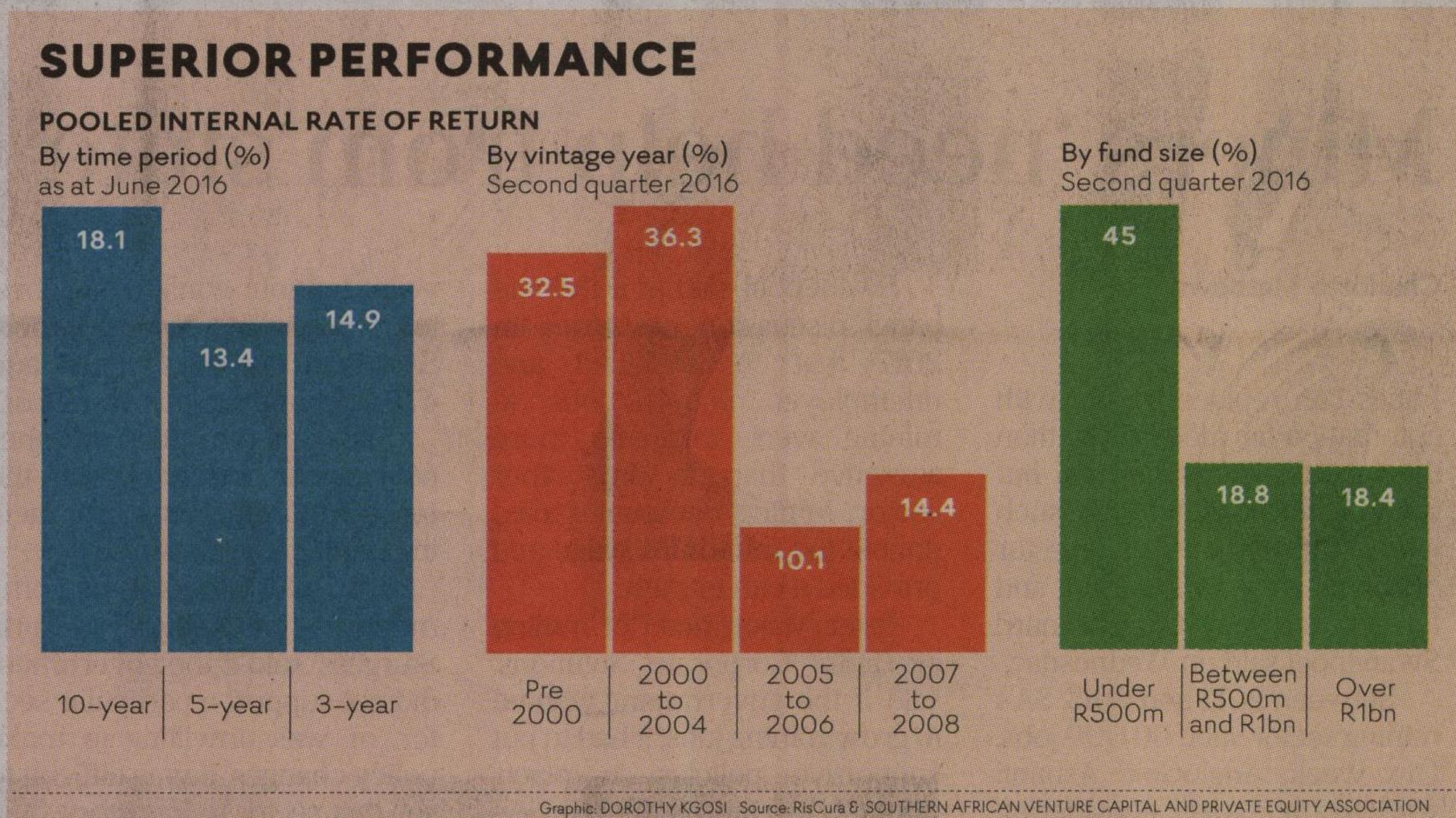

Graphic: DOROTHY KGOSI Source: RisCura & SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

Pension funds would increase their participation in private equity in Africa if the Financial Services Board (FSB) relaxed regulations, an industry player said on Wednesday.

Local participation in private equity had been somewhat crowded out by international investors and development finance institutions, said Vuyo Ntoi, an investment director at African Infrastructure Investment Managers.

Regulation 28, which regulated retirement funds, was amended in 2011 to raise limits on allocations to alternative investments, such as private equity and hedge funds, from 2.5% to 15% of funds under management. Retirement funds can allocate 10% to private equity, but only 2.5% to any single private-equity investment. Infrastructure assets were ideal matches for pension fund liabilities, due to cash flow stability after construction, said Ntoi.

Private equity in emerging markets also boosted economic growth and job creation, said David Cooke, a partner at Actis. "There is not as much financial engineering as in developed markets. [Funds] earn returns by growing companies."

The FSB was drafting changes to guidance on alternative asset classes, said Wilma Mokupo, head of pensions prudential supervision at the FSB.

Once the Twin Peaks legislation, that will create a prudential authority and a market conduct regulator, came into effect, the FSB would consider a code of conduct for private equity, said Adri Messerschmidt, a senior policy adviser at the Association for Savings and Investment SA.

Private equity delivered annualised rand returns of 18.1% over the decade to June 2016, compared with the 12.6% generated by the listed market, according to a report by RisCura and the Southern African Venture Capital and Private Equity Association.

Despite these returns, a recent study by RisCura shows that, at 2.3%, South African pension funds have the second-lowest allocation among 10 African markets to alternative assets. Private equity offered pension funds exposure to compelling sectors and businesses that were not represented in listed markets, with returns that were uncorrelated to public equity, the association said.

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