Sept
2019

FINANCE MATTERS

Hewett Wealth

PRESCRIPTION OF ASSETS – Over the last couple weeks there has been a lot of media coverage regarding government's intention to introduce prescribed assets, which defines the % of retirement savings (public and potentially private) that have to invest in bonds issued by government and state-owned enterprises, like Eskom.

Analysts and opposition parties have warned against government's plans to investigate the policy of prescribing assets, with the National Assembly debate ending in disarray on Tuesday (10th Sept 2019). There is no clear plan or view from government as of yet; however it is of utmost importance for us as your appointed financial advisor to keep up to date with regulations and the potential impact thereof on our clients assets.

With that in mind we provide you with the view of **The Association for Savings and Investment South Africa (ASISA)** on the prescription of assets and their reasons why

WHAT ARE ASISA's VIEWS ON PRESCRIPTION OF ASSETS AND WHY?

When the term "prescribed assets" is used, it is understood to refer to Government forcing the savings industry to buy Government stock as well as bonds issued by State Owned Enterprises (SOEs) on behalf of investors like retirement funds. This concept was first introduced by the previous Apartheid government and has been raised periodically over the years by various political parties.

It did not work when introduced by the Apartheid government and ASISA and its members maintain that it would have negative effects on the country should it be introduced now.

The savings and investment industry, as represented by ASISA, has engaged extensively with various relevant parties on the potential impact of "prescribed assets", including directly with Government Ministers tasked with infrastructure development, via Business Unity South Africa (BUSA) into the National Economic Development and Labour Council (Nedlac), and via the CEO initiative.

The Government under President Ramaphosa has been very collaborative as evidenced by the various engagements like the Jobs Summit, Investment Summit and the ongoing engagements with the CEO initiative. If "prescribed assets" are again tabled for discussion by Government, we believe engagements with our industry will be equally constructive.

ASISA is empowered by a mandate from members that manage some R6.2 trillion of the nation's savings and investments and is therefore recognised as a significant and relevant partner around Government's negotiation table. We regularly engage on a number of issues regarding policy, regulatory reform and other issues of national priority such as economic transformation and inclusion.

WHY DO WE OPPOSE "PRESCRIBED ASSETS"?

- The concept of "prescribed assets" would force the savings and investment industry to deploy the savings of ordinary South Africans into entities that have over the recent past been mired in State Capture and lack of delivery. As custodians of these savings we have to oppose this.
- Asset managers are not asset owners. The bulk of the assets that could be prescribed are owned by retirement fund members. It also needs to be noted that roughly half of these assets are held by the GEPF and are therefore owned by public servants. As the owners of these assets, ordinary South Africans elect and appoint trustees to make asset allocation decisions that are in their best interest. Prescription would jeopardise this fiduciary duty.
- Prescription of assets interferes with the capital allocation function of the capital markets, which should always be objective and driven by performance. Forcing the market to invest in low yielding and/or high risk projects could have two direct consequences:
    - The incentive for these projects to compete would be removed as funding would no longer be incentivised by performance.
    - Given that capital is a finite resource, deserving projects could be deprived of funding. These projects that would otherwise have driven growth and created sustainable employment would now not happen anymore.
- Prescription would have a negative impact on the country's credit rating. If South Africa loses its investment grade rating, foreign investors, many of whom are pension funds, would be forced to withdraw their money from South Africa. This is something the country can ill afford.

WORKING WITH GOVERNMENT ON INFRASTRUCTURE FINANCE?

ASISA has always maintained that the problem is not the lack of willingness of capital markets to invest, but rather the absence of viable projects. We are engaging with Government to address this with urgency.
ASISA and its members believe that many of our country's challenges can be overcome through effective public private partnerships (PPPs).

ASISA was therefore represented by several of its Board members as well as senior policy advisers at President Cyril Ramaphosa's Investment Conference last year, which took place under the theme "Accelerating Growth by Building Partnerships".

ASISA is actively involved in working with Government on infrastructure finance for water, energy and student accommodation. We are also looking at collaborative delivery mechanisms with Government and the Development Bank of Southern Africa (DBSA) for programmatic financing solutions.

ASISA members have already deployed more than R1.3 trillion in support of Government, Local Authorities and State Owned Companies.

In addition, our industry has made direct investments of R200 billion into the following projects:

- Renewable energy
- Township development
- Affordable housing
- Urban regeneration
- Student accommodation
- Water
- Roads
- Agriculture (emerging farmers)

Source: The Association for Savings and Investment South Africa (ASISA)

You can obtain advice and more detailed information from Hewett Wealth directly by calling 010 597 7506 or by emailing enquiries@hewettwealth.co.za

+27 (0)10 597 7506

enquiries@hewettwealth.co.za
www.hewettwealth.co.za

Block 16 B | Willowbrook Office Park
Van Hoof Street | Ruimsig | Johannesburg | 1724