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## To invest or not to invest

A view of pension fund investment  
into private equity instruments

2018

There is no  
private equity  
from a traditional  
point of view and  
(there) hasn't  
been for the  
past year.

- Leon Black, founder of  
Appollo Management

# Introduction

A retirement fund's main objective is to provide adequate benefits to its members at the time of retirement. To achieve this strategic objective, it is the responsibility of the Boards of Funds to ensure that the assets of the funds are invested wisely to earn sufficient returns to pay out benefits. Private Equity is a recognised investment class that can be part of a fund's investment policy for earning returns and thereby meeting the funds strategic objective. Regulation 28 of the Pension Funds Act also allows 10% of a fund's assets to be invested in private equity.

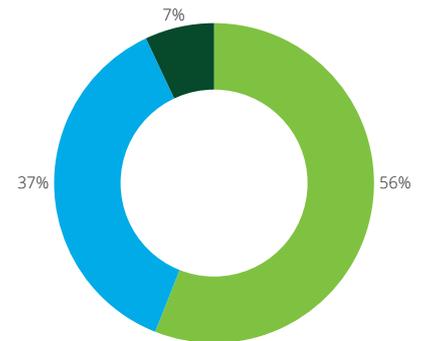
We conducted a short online survey with principal officers of a sample of 150 privately administered active retirement funds in the South African market to understand what influences retirement funds to either elect to invest or not invest in private equity. 27 principal officers responded in respect of 40 funds constituting 26.67% of the funds surveyed. The total privately registered active pension funds on the FSB website as at 2017 had an investment value of approximately R 2.4 trillion. We further obtained investment value and analysis for approximately 100 funds out of the 150 funds surveyed. This value totalled approximately 148 billion thereby constituting 6% of the total FSB's list of privately registered active pension funds.

Out of the approximately 148 billion investments, we observed that private equity only constituted 0.4882% of the total investment value. Majority of the direct investments were in cash and debt instruments constituting 57% of the total investment value with Insurance policies and equities constituting 23% and 9% respectively.



## Analysis of results

**Does the fund that you are the principal officer of, invest in pooled portfolios only (i.e. insurance policies or collective investment schemes), in segregated portfolios (i.e. the underlying investments are held in the name of the fund), or in a combination of both pooled and segregated portfolios?**



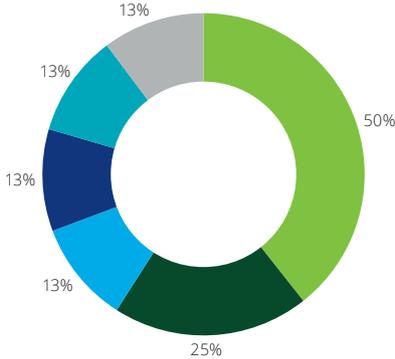
- Pooled portfolios only
- Segregated portfolios
- A combination of pooled and segregated portfolios

**Does your retirement fund(s) invest directly in private equity instruments?**



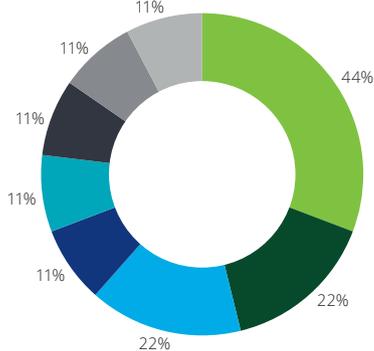
- Yes
- No

**What are your reasons for investing in private equity?**



- Good returns
- Allowed by investment policy statement
- Market dynamics
- The investment was inherited
- The fund is large enough to accommodate diversification
- Investment advisors input

**What are your reasons for not investing in private equity?**



- Lack of understanding
- Prohibited by investment policy statement
- Complexity of portfolio management
- Cost considerations
- Membership structure
- Unreliable valuation criteria
- Viewed as a riskier investment and liquidity restrictions
- Private equity is not currently part of the investment strategy (This may change)

# Conclusion

From the analysis of survey findings, there appears to be a general lack of understanding of the private equity market by the industry. Further, cost considerations and prohibition of these investments by the funds' investment policy statements are also playing a role in hampering investments in private equity.

There is an opportunity for private equity funds to play a more significant role in the retirement funds investment space by educating boards of funds about the risks and rewards of private equity fund investment.

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