

## PRESS RELEASE

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### Reg 28 enhances pension fund flexibility, but asset managers urge caution

Regulation 28 enables pension funds to invest more heavily in corporate debt, allowing greater opportunities and potentially enhancing returns, but with increased credit risk.

"The limits now bestowed on retirement funds in respect of non-guaranteed Government debt (essentially corporate credit) have been increased from 25% to as much as 75%," says Jason Lightfoot, a portfolio manager at Futuregrowth Asset Management.

This is in line with the limit that exists for equities, and makes sense as debt is inherently a lower risk and less volatile investment, says Lightfoot.

However, a significant change from the previous legislation, from a sector point of view, is the increased allocation to bank long term debt from 25% to 75%, and up to 100% in bank deposits, with a 25% single borrower limitation.

Treasury is of the opinion that this will give banks more flexibility in capital structuring, thus improving the stability of the financial system. But some asset managers believe this limit may be too high.

"In aggregate a pension funds could be fully exposed to the banking sector," says Lightfoot, "and that represents a high degree of concentration to a volatile sector."

The limits ascribed to other corporate debt (both listed and unlisted) have also been increased substantially. "We'll need to ensure that sufficient issuer and sector limits are built into mandates based on the underlying risk of the borrower," says Lightfoot.

"The changes necessitate greater focus by retirement funds in designing risk limits, as well as more vigilance by fund managers to ensure the credit worthiness of these new categories of assets," says Lightfoot.

"Reg 28 could result in enhanced returns for pension funds, but the fiduciary responsibility bestowed on a retirement fund's board is more important than ever in ensuring that a prudent investment approach is adopted."

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