

Subject: Government Investment Policy Recommendations

A media release from Cabinet Chambers today, announced that Cabinet has given the Ministry of Finance approval to introduce the following policy recommendations:

- Reducing the percentage of investment in dual dual-listed companies by institutional investors that qualifies as domestic investment to 10% over five years.
- To prescribe to all institutional investors a 5% minimum investment in unlisted Namibian companies; and
- To introduce legislation to subject Unit Trust Management Companies to a domestic asset requirement and to withdraw the tax free status of returns on unit trusts.

As you may be aware, retirement funds are required to invest at least 35% in Namibia. For the purpose of this requirement, shares in a company incorporated outside Namibia that were acquired on the Namibian Stock Exchange, were hitherto regarded to be invested in Namibia. This meant that the full 35% could have been invested in companies incorporated outside Namibia such as FNB, Anglos, Standard Bank, Investec, Old Mutual, Transhex, Afrox, Kolosus, Shoprite etc. This concession is to be downscaled to 10% over 5 years. A minimum investment of 5% in unlisted Namibian investments will become a new requirement.

Considering that the initial euphoria about the first listings of the 'cream' of Namibian companies on the NSX has all but disappeared amongst the investment community, at considerable cost to the Namibian retirement fund member, one may question whether the new requirements will benefit retirement fund members. Of course, if this leads to the development of the Namibian economy and job creation, the fund member may be quite happy to sacrifice a portion of prospective investment returns for this noble course. With regard to unlisted Namibian investments, the press release refers to 'companies' and it remains to be seen whether other entities may also be considered. Many funds invest a considerable portion of their assets in housing loans to members. We hope, or perhaps have to lobby, that this will qualify too!

Most retirement funds probably have already been approached by investment houses to consider investing in still to be launched portfolios that should be regarded as true Namibian investment, such as Old Mutual with its Medina fund and IJG/ pointBreak with the Stimulus Private Equity Fund. To our knowledge, Sanlam too is about to launch a private equity fund in Namibia. Some of these products still have to be 'packaged' in an investor friendly manner so that funds can invest without having to go through a lengthy process of legal scrutiny, assessment of security, project evaluation etcetera. In addition, Namfisa could assist in paving the way for investment in such products by excluding the investment from fund assets in terms of the prudential investment guidelines set out in Regulation 28 of the Pension Funds Act and its equivalent of the Long-term Insurance Act.

As regards the tax free status of income from unit trust, this has been on the cards for a while and is nothing new, and nothing but fair vis-à-vis other investment vehicles. Individuals that have been investing in unit trusts in the past without even thinking about it, due to their tax free status, will now have to spend a lot more time on evaluating alternative investment opportunities in terms of their after tax returns.