SOUTH AFRICA:
A GUIDE TO
INTERNATIONAL
FUND DISTRIBUTION
Established in 1991 the Irish Funds Industry Association (Irish Funds) is the representative body of the international investment fund community in Ireland. We represent the fund promoters / managers, administrators, custodians, transfer agents and professional advisory firms involved in the international funds industry in Ireland, with more than 14,000 funds and net assets of more than €5.2 trillion.

The objective of Irish Funds is to support and complement the development of the international funds industry in Ireland, ensuring it continues to be the location of choice for the domiciling and servicing of investment funds. Through its work with governmental and industry committees and working groups, Irish Funds contributes to and influences the development of Ireland’s regulatory and legislative framework. Irish Funds is also involved in defining market practice through the development of policy and guidance papers and the promotion of industry-specific training.
INTRODUCTION

South Africa’s funds industry assets under management in June 2019 totalled over 2.4tn Rand which represented a 6% growth in the 12 months from June 2018.

88% of assets are held in domestic funds. The domestic market has a 37% retail vs 63% institutional split.

A breakdown by asset type is included below, with flows over the last 12 months moving towards interest bearing products.

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>ZAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>556,671</td>
<td>23%</td>
</tr>
<tr>
<td>Multi Asset</td>
<td>1,215,411</td>
<td>49%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>73,197</td>
<td>3%</td>
</tr>
<tr>
<td>Interest Bearing</td>
<td>628,135</td>
<td>25%</td>
</tr>
</tbody>
</table>


Funds are generally distributed in South Africa via the usual channels, ie, banks, insurance companies, pension funds and independent financial advisors.

More detail on the main distribution channels is included on Page 9.
The below provides a view of the managers which have obtained Section 65 approval for their Irish funds in South Africa.

<table>
<thead>
<tr>
<th>Manager</th>
<th>Number of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackrock Asset Management Ireland Limited</td>
<td>28</td>
</tr>
<tr>
<td>Carne Global Fund Managers (Ireland) Limited</td>
<td>7</td>
</tr>
<tr>
<td>Coronation Global Fund Managers (Ireland) Limited</td>
<td>6</td>
</tr>
<tr>
<td>FIL Fund Management (Ireland) Limited</td>
<td>3</td>
</tr>
<tr>
<td>FundRock Management Company SA</td>
<td>3</td>
</tr>
<tr>
<td>KBA Consulting Management Limited</td>
<td>3</td>
</tr>
<tr>
<td>Canaccord Genuity Management Company Limited</td>
<td>6</td>
</tr>
<tr>
<td>Marathon Asset Management (Ireland) Limited</td>
<td>2</td>
</tr>
<tr>
<td>Oasis Global Management Company (Ireland) Limited</td>
<td>7</td>
</tr>
<tr>
<td>PGF Management Company (Ireland) Limited</td>
<td>9</td>
</tr>
<tr>
<td>PineBridge Investments Ireland Limited</td>
<td>4</td>
</tr>
<tr>
<td>Prescient Fund Services (Ireland) Limited</td>
<td>26</td>
</tr>
<tr>
<td>Saniam Asset Management (Ireland) Limited</td>
<td>26</td>
</tr>
<tr>
<td>Sarasin Funds Management (Ireland) Limited</td>
<td>9</td>
</tr>
<tr>
<td>SEI Investments Global, Limited</td>
<td>13</td>
</tr>
<tr>
<td>Self Managed Investment Companies (SMIC)</td>
<td>35</td>
</tr>
</tbody>
</table>

Source data: based on Financial Sector Conduct Authority (South Africa) [https://www.fsca.co.za](https://www.fsca.co.za)
Information contained in this section is accurate as at May 2020
FOREIGN FUNDS APPROVED BY SOUTH AFRICA REGULATOR FOR DISTRIBUTION IN SOUTH AFRICA

* Since 2012, Ireland has consistently remained the domicile with the most funds approved by the South African Financial Sector Conduct Authority.
The Collective Investment Schemes Control Act (CISCA) regulates the management and distribution of Collective Investment Schemes in South Africa. The Financial Sector Conduct Authority (FSCA) is responsible for supervision of this act.

Below are the types of schemes that you can register under CISCA:

- Collective Investment Scheme in Securities
- Collective Investment Scheme in Participation Bonds
- Collective Investment Scheme in Property
- Collective Investment Scheme in Qualified Investor Hedge Funds
- Collective Investment Scheme in Retail Hedge Funds

Section 65

The key section of CISCA governing the registration and marketing of foreign collective investment schemes is Section 65 of the Act.

As outlined in the bar chart on page 3, there has been a reasonably steady increase in the number of Irish funds registered for sale in South Africa, here is why:

- Local asset consultants require a fund to be S65 approved before they will consider adding it to their approved funds list for allocations.
- South Africa is often seen as the gateway to the rest of Africa for international fund managers.
- More rigorous compliance regimes worldwide are driving funds that may already have South African investors to officially register these funds in South Africa.
Representative Office
The Manager applying for approval of a scheme must either enter into a representative agreement with a South African entity already approved by the FSCA or establish and maintain a representative office in South Africa. This is applicable to all foreign funds registered in South Africa.

The representative office:
- Is responsible for using its reasonable endeavors to ensure compliance by the Manager with the provisions of Section 65 and any applicable board notices;
- Provides an undertaking to compensate the investor for any loss suffered which is attributable directly to non-compliance by the Manager with the provisions of Section 65, provided the investor has no other recourse or legal remedy against the Manager.

Ongoing obligations
Below are some of the ongoing obligations by the Foreign Manager (Operator), on which the Representative Office provides guidance and assistance:
- Quarterly statistics need to be furnished to the FSCA within 30 days of each quarter end.
- Any changes to the prospectus or supplementals need to be notified to the FSCA.
- All marketing material used in soliciting investments from members of the public in South Africa needs to conform to the requirements determined by the FSCA and be submitted to the FSCA. This includes the Minimum Disclosure Document.

A Minimum Disclosure Document (or MDD as it is generally referred to) needs to be made available at least quarterly and contain certain disclosures, including but not limited to:
- Full disclosure of fees associated with the most expensive class marketed
- Distributions over the last 12 months and frequency, if applicable
- Highest and lowest actual annualised performance figures since inception
- Asset allocation
- Certain mandatory disclaimers
Application needs to be made to the FSCA for all foreign collective investment schemes who wish to “solicit investments” into their funds from members of the public in South Africa. There are certain conditions set out by the FSCA for approval of these schemes.

The Manager of the scheme must be authorised and supervised by a regulator which has a regulatory environment of similar standing as the regulatory environment of South Africa.

The scheme must be available for investment in its domicile of registration; and be promoted in South Africa to the same type of investors under the same or substantially similar requirements and conditions relating to the type of investors as in its domicile of registration.

The FSCA needs to be satisfied that
- the scheme is sufficiently liquid to meet investor redemptions;
- the scheme does redemptions at regular intervals;
- the scheme does not permit investment in an instrument that compels the acceptance of physical delivery of a commodity and the scheme particulars or prospectus prohibits it from accepting physical delivery;
- the assets of the relevant fund are properly protected by application of the principle of segregation and identification.

Cost of Registration

**Initial***

**Registration fee**

For the scheme (incl 1 portfolio)  
R 73,560

For an additional portfolio  
R 20,980

**Ongoing quarterly levy***

per stand alone fund / umbrella fund  
R 11,594  
per scheme

R 6,288  
each portfolio

0.00031231%  
of net assets managed on behalf of South African Investors

**Representative Office**

Indicative only  
R 153,000 – R 286,000  
per annum

* Costs effective as at November 2019
Financial Advisors
South Africa has a well-developed financial services market with the majority of investors making use of financial advisors.

Insurance Companies
Offshore funds can be accessed via endowment policies issued by some of the offshore branches of South African Insurance Companies.

Linked Investment Services Providers (LISPs)
Some South African platform providers have also created platforms specifically to house offshore funds.

Asset Consultants
Access to the South African Pension Fund market is generally gained through a select number of institutional consultants.

Local CIS funds
Many of the multi asset domestic funds which are managed according to prudential guidelines invest up to 30% of their underlying assets in offshore funds.
Managers of UCITS and RIAIF seeking to market in South Africa will need to apply to FSCA for permission to do so as outlined earlier in this document. If for funds applying as Collective Investment Schemes in Securities, the FSCA may require changes to the relevant prospectus to demonstrate consistency and compliance with its own local rules, for example, it may require that the prospectus provide that:

- A fund may not, in aggregate, invest more than 20% of its net assets in any one collective investment scheme.

Where the fund may invest into other collective investment schemes, the investment objectives, policies and restrictions of any underlying collective investment scheme must be consistent with those of the relevant fund.

Use of FDI by the fund is restricted to efficient portfolio management and hedging only.

The fund is restricted to long only investment strategies. All FDI are required to be fully covered either by cash or by similar securities.

The use of OTC FDI is limited to unlisted forward currency, interest rate or exchange rate and index swap transactions.

The fund may not be geared or leveraged through investment in any security, including but not limited to FDI.

The fund will not invest in securities that compel the fund to accept physical delivery of a commodity.

Naturally, changes to the prospectus can impact on approval timelines and speed to market and so should be discussed with a local advisor in the early stages of the FSCA application process.
Considerations when selling to Retail Investors:

The FSCA is open to approving UCITS compliant schemes as in general the UCITS regulations are somewhat aligned to those of the Collective Investments Schemes Control Act. However, they are cautious of permitting investments in UCITS compliant schemes with extended investment powers and accordingly will look to ensure that the UCITS fund offering documents precludes the use of leverage, ensures derivatives are covered at all times and does not permit investment in synthetic instruments.
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