Sanlam Benchmark 2021: Standalone retirement funds indicate they will invest on average 6.6% in infrastructure investments – but is this enough?

Ageing and inadequate infrastructure remain a major obstacle preventing South Africa from realising its economic growth potential. Proposed regulatory changes will allow retirement funds to increase their investment in infrastructural projects - but are funds planning to do so?

The 40th Annual Sanlam 2021 Benchmark Survey, found that standalone retirement funds anticipate investing 6.6% of their assets, on average, in infrastructure. This figure was just 4.7% for Umbrella Funds. With the current infrastructure funding gap sitting at an estimated R1.7 trillion over the next 10 to 15 years, the question is, are these allocations enough to make a real impact?

"While 6.6% may appear to be a relatively small allocation, we must consider that retirement funds hold R4.5 trillion in assets, this translates to almost R300bn in direct infrastructure investments which is fairly substantial – but unfortunately still well short of plugging the R1.7 trillion funding gap," says Darryl Moodley, Head of Tailored Investments at Sanlam Corporate Investments.

Over the past few years, there have been numerous reasons custodians of capital might consider shifting to investments that can provide superior investment returns, while addressing the social challenges and megatrends of the future. One of those reasons is that the number of companies available on listed markets is shrinking, both locally and globally, and this means that the opportunity set for retirement funds to invest in listed assets continues to diminish. Adding to this, the property sector, a favoured asset class for retirement funds, has come under significant pressure as a result of the global pandemic.

"Over the last 20 to 30 years South Africa has not invested enough in infrastructure to keep up with the demands of an emerging economy. And unlike investing in listed stocks or bonds, the amazing characteristic about infrastructure investments is the opportunity to build something tangible, it's about procuring land, sourcing materials, and most importantly, job creation. Investing in infrastructure really is at the core of improving society's productive capacity and espousing confidence."

Historically, retirement funds have been reticent to invest in infrastructure mainly due to its seemingly complex nature. The asset class is largely illiquid and unlisted. The large quantum and long-term nature of the contracts - with the government often a central role player - make these investments complicated to structure and they have limited flexibility post-investment.

But Moodley believes that with the proposed changes to Regulation 28 of the Pension Funds Act, more visibility has been generated around this asset class and trustees need to engage deeply on incorporating infrastructure assets into fund portfolios. "The general philosophy has been 'If you don't understand it, don't invest in it' and yes, investment in infrastructure requires higher levels of skill, due diligence and governance - but it can have significant rewards especially to early investors in developmental projects, where brand new infrastructure is being developed." He adds that government and regulators need to create a conducive regulatory environment with policy certainty to ensure that the millions being poured into infrastructure will be into productive assets in high impact sectors of the economy, and not simply white elephants.

Moodley says retirement funds must begin to view infrastructure investing from a two-pronged approach and that the key is being able to invest with purpose, while also generating good financial outcomes. “We need to ask ourselves, can I invest with purpose and achieve something that is required in SA and at the same time can I still achieve superior investment returns from my portfolio? In reality, performance and purpose are two sides of the same coin,” he adds.

He believes we all have a responsibility to build a world we can all live in and retire in. “While having an adequate pot of assets at the end of the rainbow provides financial peace of mind, one also wants to retire and be happy in a viable environment – What’s the point of a retirement system if you’re going to retire in a place that is devoid of essential infrastructure? If the right steps are not made soon, this could potentially be the next pandemic waiting for us in the next 40 years.”

He concludes by encouraging retirement funds to look at retirement from a more holistic point of view. “What is the impact of our investment on the environment, on the climate, on the society we live in? What are you going to do to ensure that your investments and those of your clients are on the right side of history?”

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Darryl Moodley, Head: Tailored Investments, Sanlam Corporate Investments