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Investors 'on cusp of boom'

'Pension funds should cash in on the trillion-rand infrastructure investment opportunity'

Limited funding is inhibiting the government's ability to roll out infrastructure projects. In response, it has announced it would be pursuing partnerships with the private sector as well as global development agencies to enable faster progress.

It's estimated that more than R6-trillion will be required to deliver infrastructure that meets the development objectives of the National Infrastructure Plan 2050, with energy and transport accounting for most of this spend.

Vuyo Ntoi, co-MD of African Infrastructure Investment Managers (AIIM), a division of Old Mutual Alternative Investments, believes the South African investment community and pension funds, in particular, are sitting on the cusp of an infrastructure boom. He sees this as an excellent opportunity for diversifying portfolios and supports the development of critical infrastructure for the country.

He says pension funds should strongly consider the opportunity created by the government's ambitious investment drive.

"Under its Infrastructure South Africa programme, the government is committed to raising more than R1-trillion over the next five years. However, it is looking for more support from pension funds, which have been slow to invest in the country's infrastructure compared with similar pension fund participation in Europe and the US," he says.

According to the Organisation for Economic Co-operation & Development's 2022 report on long-term investing of large pension funds and public pension reserve funds, pension funds invested $211.8bn in infrastructure in 2021.

Investing in alternative assets, such as infrastructure, private equity, hedge funds and real estate, can help diversify pension fund portfolios. Alternative assets make up only 8% of pension fund investments in South Africa now, compared with 18% in Europe and 24% in the US.

To make it easier for pension funds to invest, the National Treasury has amended regulation 28 of the Pension Funds Act which introduced a definition of infrastructure and set a limit of 45% for exposure to infrastructure investment.

While the overall allocation limit for alternative assets is capped at 27.5% under regulation 28, pension funds are free to invest in a range of asset types, including bonds and listed and unlisted entities.

"Though there is no specific infrastructure sector instrument, pension funds can invest in a range of asset types to diversify their portfolios," says Ntoi. "Not only will these investments help to create jobs and stimulate economic growth, but they will also improve the country's critical infrastructure, which will benefit all South Africans."

He believes the government is committed to working with the private sector to achieve its infrastructure goals, presenting "an incredible opportunity for investors".

South Africa's infrastructure backlog is substantial, culminating in a number of infrastructure crises for the country. The most visible of these is the electricity crisis. The Steel & Engineering Industries Federation of Southern Africa estimates that load-shedding has destroyed R2.64bn in investment and expansion plans of its members. The South African Reserve Bank says stage 3 load-shedding costs the economy about R204m a day, while stage 6 load-shedding costs it R899m a day.

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Load-shedding has a knock-on effect, impairing water delivery and distribution infrastructure, and causing a backlog in the development of new bulk water sources across the country. Much of the country's infrastructure is not fit for purpose.

"Some key institutions in the logistics sector are crumbling from an operational performance perspective as a result of poor maintenance of existing infrastructure and reduced or flawed investment in new capital stock. As a result, many businesses were not able to take full advantage of a commodity boom immediately before and after Covid," says Ntoi.

He says investment opportunities range from the development and construction of greenfield projects to investing in upgrades and refurbishing of brownfield projects.

"These assets are long-term good yield providers, and pension funds can participate either by buying debt through bank syndications, buying bonds that relate to a specific infrastructure project, or participating in private equity funds, publicly listed equity or listed infrastructure equity funds."

Taking advantage of this opportunity, Ntoi says, could drive a shift in the steady decline in investment in fixed capital by the government and private businesses since 2012, when the National Development Plan set targets for this measure, none of which have been met.

"The amendments of regulation 28 and the investment power of pension funds are critical to reverse the funding decline that has in part led to the crises we now face," he says. ✖